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Consolidated Financial Results for the Three Months Ended October 31, 2019 (Japan GAAP)



December 6, 2019

Company name: Ateam Inc.
Stock exchange listing: Tokyo Stock Exchange
Securities code: 3662
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Scheduled date of filing securities report: December 6, 2019
Scheduled date of commencing dividend payments: -
Supplementary briefing material for the financial results: Yes
Schedule of financial results briefing: Yes (for institutional investors and analysts)

(Amounts of less than one million JPY are rounded off.)

1. Consolidated Financial Results for the Three Months Ended October 31, 2019 (August 1, 2019 - October 31, 2019)

(1) Consolidated Operating Results

(Percentages indicate year-on-year changes)

	Revenue		Operating income		Ordinary income		Net income attributable to shareholders of parent company	
	Million JPY	%	Million JPY	%	Million JPY	%	Million JPY	%
Three months ended October 31, 2019	8,148	-8.7	149	-69.1	144	-71.6	75	-70.5
Three months ended October 31, 2018	8,927	0.3	484	-49.7	507	-48.3	257	-62.1

Note: Comprehensive income (million JPY)

Three months ended October 31, 2019: 84 [-67.0%]

Three months ended October 31, 2018: 257 [-62.1%]

	Net income per share-basic	Net income per share-diluted
	JPY	JPY
Three months ended October 31, 2019	3.88	3.88
Three months ended October 31, 2018	13.19	13.16

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million JPY	Million JPY	%
As of October 31, 2019	16,964	12,324	72.1
Fiscal Year ended July 31, 2019	17,273	12,511	71.9

Note: Shareholders' equity (million JPY)

As of October 31, 2019: 12,238

Fiscal Year ended July 31, 2019: 12,425

2. Dividends

	Annual dividend per share				
	Q1	Q2	Q3	Q4	Total
Fiscal year ended July 31, 2019	JPY —	JPY 0.00	JPY —	JPY 16.00	JPY 16.00
Fiscal year ending July 31, 2020	—				
Fiscal year ending July 31, 2020 (forecast)		0.00	—	16.00	16.00

Note: Revisions to dividend forecasts: No

3. Forecasts for the Fiscal Year Ending July 31, 2020 (August 1, 2019 - July 31, 2020)

(Percentages indicate year-on-year changes)

	Revenue		Operating income		Ordinary income		Net income attributable to shareholders of parent company		Net income per share
	Million JPY	%	Million JPY	%	Million JPY	%	Million JPY	%	JPY
Full-year	35,000	-5.8	1,000	-64.4	1,000	-64.4	500	-66.1	25.57

Note: Revisions to the forecasts for the fiscal year ending July 31, 2020: No

*Notes

(1) Significant changes in scope of consolidation during the current quarter : No

* Changes in scope of consolidation of specified subsidiaries:
Newly consolidated: (–) Newly excluded companies: (–)

(2) Application of particular account procedures to the preparation of quarterly consolidated financial statements : No

(3) Changes in accounting policies, accounting projections, or restatement

- (i) Changes in accounting policies due to revisions in accounting standards, etc. : Yes
- (ii) Changes in accounting policies other than above (i) : No
- (iii) Changes in accounting projections : No
- (iv) Restatement : No

Note: For details, see “2. Quarterly Consolidated Financial Statements and Significant Notes Thereto (3) Notes on Quarterly Consolidated Financial Statements, Change in Company Policy” on page 10 of the attached document.

(4) Number of shares issued (common stock)

- (i) Number of shares issued at the end of the period (including treasury stock)
- (ii) Number of shares of treasury stock at the end of the period
- (iii) Average number of shares during the period

As of October 31, 2019	19,757,400	As of July 31, 2019	19,756,200
As of October 31, 2019	205,562	As of July 31, 2019	228,762
Three months ended October 31, 2019	19,542,834	Three months ended October 31, 2018	19,502,227

Note: The number of shares of common stock at the end of the period used for the calculation of the net assets per share and the average number of shares during the period that forms the basis for the calculation of net income per share-basic are calculated with the shares owned by The Master Trust Bank of Japan, Ltd. (Stock Grant ESOP (Employee Stock Ownership Plan) Trust account and Board Incentive Plan (BIP) Trust account) under the “Stock Grant ESOP Trust” and “Board Incentive Plan (BIP) Trust” included in the treasury stock deducted.

*Quarterly financial results reports are not required to be subjected to quarterly reviews

*Explanation of the proper use of financial results forecast and other notes

The forward-looking statements including earnings forecasts herein are based on information available to Ateam and certain assumptions deemed reasonable as of the date of publication of this document. They are not intended as the Company's commitment to achieve such forecasts, and actual results may differ significantly from these forecasts due to a wide range of factors. For conditions prerequisite to the financial results forecast, please refer to the “Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements” on page 4 of the attachments to this financial results report.

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1. Qualitative Information Regarding Results for the Three Months

As used herein, “Ateam”, “we”, “our” and similar terms include Ateam Inc. and its subsidiaries, unless indicated otherwise.

(1) Explanation of Operating Results

Ateam Inc. and its consolidated subsidiaries adhere to the corporate philosophy “to produce happiness through business and to grow for the next 100 years”. Operating in various technical and business fields, the corporate officers and employees unite under this corporate philosophy to plan, develop and operate game content, comparison and information websites, and e-commerce sites that are supported and used by individual users via the internet. Specifically, we are operating business in three core segments.

The Entertainment Business engages in the planning, development and operation of game and tool applications primarily for smart devices. The Lifestyle Support Business engages in the planning, development and operation of various online services that allows users to easily gather and compare valuable information. The E-Commerce Business engages in the planning, development and operation of our online bicycle store under the name “cyma”.

During the three months ended October 31, 2019, mainly the Entertainment Business decreased significantly, thus resulting in revenue and operating income to decrease from the same quarter of the previous year.

Because of the above, during the three months ended October 31, 2019, Ateam posted revenue of 8,148 million JPY (down 8.7% year on year), operating income of 149 million JPY (down 69.1% year on year), ordinary income of 144 million JPY (down 71.6% year on year), and net income attributable to shareholders of parent company of 75 million JPY (down 70.5% year on year).

The operating performance by segment for the three months ended October 31, 2019 was as follows:

Entertainment Business

We strive to administer fun to consumers worldwide by providing mobile game and tool applications via platforms specializing in the distributions of such applications (such as App Store and Google Play). Although most of our game and tool products are available for free download, our primary revenue source is through in-app purchases (such as in-game currency, items and bonus content).

In light of recent changes in the global game market environment, user needs and technological advances, the Entertainment Business has decided to move away from specializing only in smartphone games, to focusing on the entire global game market including smartphone games, PC games and console games. We aim for long-term future growth by collaborating with popular IP across the globe while also incorporating multi-device deployment.

In the three months ended October 31, 2019, our existing game titles have continued on a downtrend, resulting in both revenue and profit to decrease year on year. As stated in our new medium- and long-term policy, we have been focusing on new game development.

As a result, during the three months ended October 31, 2019, the Entertainment Business posted revenue of 1,989 million JPY (down 38.7% year on year) and operating income of 43 million JPY (down 84.1% year on year).

Lifestyle Support Business

In the Lifestyle Support Business, we develop various online services to help support individual users throughout their daily lives and specific life events. Made up of several sub-segments, each sub-segment revolves around the same business concept of “Sanpo- Yoshi”, a Japanese saying that means benefiting all three sides involved - the consumer, the partner company and Ateam.

As of FY2020, we have changed our sub-segments to “Digital Marketing Support business” and “Platform business”. The “Digital Marketing Support business” centers on digital marketing support that refers prospective customers to partner companies via our own-medias, and has the potential for speedy horizontal business expansion. This business model accumulates profits by being able to quickly launch and expand services in several different business areas.

Typically, all our services are free of charge for individual users, and the main revenue source comes from the customer referral and contract fees we provide our partner clients.

The previous sub-segments, “Moving-related business”, “Automobile-related business”, “Bridal-related business” and “Financial Media business” fall under the new “Digital Marketing Support business” category.

The “Platform business” provides a “place” where information gathered through applications and websites can not only accumulate, but such user data can be utilized to enhance unique value to build market advantage. This business model aims to increase and improve the value of this data and to provide solutions, thus creating a cycle of value.

The main revenue source is advertising revenue, membership fees, and sales from providing tools and EC solutions.

Currently, the “Platform business” consists of the healthcare field, and the engineering field.

“Lalune”, the healthcare business centering on a women’s health consultation application, and “Qiita”, a online community specializing in engineering technology, was previously considered in the “Other” sub-segment category, but now will make up the new “Platform business”.

In the three months ended October 31, 2019, although both “Digital Marketing Support business” and “Platform business” sub-segment performed well, the upfront investment expense for several newly launched services has increased, resulting in revenue to increase while profit to decrease from the same quarter of the previous fiscal year.

As a result, during the three months ended October 31, 2019, the Lifestyle Support Business posted revenue of 5,521 million JPY (up 6.7% year on year) and operating income of 471 million JPY (down 26.6% year on year).

E-Commerce Business

Our E-Commerce Business was established in 2013, with “cyma” being our first service stemming from this concept. We currently own warehouses in the Tokai, Kanto and Kansai areas, which are stockpiled with bicycles we purchased from both domestic and oversea manufacturers. Each warehouse employs certified mechanical staff, making it possible to deliver fully assembled bicycles directly to the consumer’s doorstep. Our primary revenue source is through bicycle sales and/or related accessories from our online store.

This specialized service enables us to fully enjoy the combined perks of both a local bicycle shop and a comprehensive e-commerce service. Such service is still considered unrivaled territory, and we are determined to stay on top by implementing staggered investment to strengthen fulfillment* and promotion of our service brand.

(Note) Fulfillment refers to the overall aspects of the most important core process in an online shopping business, including the management of orders received, management of inventory, product picking, assortment and packaging of products, dispatch, invoicing of proceeds and settlement. Fulfillment also encompasses peripheral operations such as customer support, which includes complaint handling and inquiry response, returns and exchange response, as well as customer data management.

In the three months ended October 31, 2019, due to operational improvements such as purchasing, logistics, and sales, along with the impact of last-minute demands before the consumption tax hike, resulted in an increase of revenue from the same quarter of the previous year.

As a result, during the three months ended October 31, 2019, the E-Commerce Business posted revenue of 637 million JPY (up 24.8% year on year) and operating loss of 50 million JPY (compared with an operating loss of 63

million JPY in the previous fiscal year).

(2) Explanation of Financial Position

(i) Assets

As of the end of the first quarter under review, we posted total assets of 16,964 million JPY, a decrease of 309 million JPY compared with the previous fiscal year. This was due to a decrease of 812 million JPY in cash and deposits, despite an increase of 420 million JPY in investment securities.

(ii) Liabilities

As of the end of the first quarter under review, we posted liabilities of 4,639 million JPY, a decrease of 122 million JPY compared with the previous fiscal year. This was mainly due to a decrease of 349 million JPY income taxes payable.

(iii) Net Assets

As of the end of the first quarter under review, we posted net assets of 12,324 million JPY, a decrease of 186 million JPY compared with the previous fiscal year. This was mainly due to a decrease of 315 million JPY in profit due to payments of dividends, despite an increase of 75 million JPY in net income attributable to shareholders of parent company.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements

In the fiscal year ending July 31, 2020, Ateam will continue to strengthen and expand each business segment, while pushing forward with upfront investment to create, cultivate and refine new businesses and enhance business portfolio to achieve sustainable growth and improve corporate value over the medium- to long-term.

Currently, regardless of whether it is a new or mature business, all segments are progressing in-line with forecast.

For these reasons mentioned above, no changes will be made to the consolidated financial forecast for the full fiscal year at this time, and if any change in forecast is to occur, a prompt announcement will be made via public notice.

The aforementioned forward-looking statements and the earnings forecasts provided have been prepared based on information readily available to Ateam as of the date of this material's release. Actual results may differ due to the effect of various factors in the future.

Full Year forecast for the fiscal year ending July 31, 2020 (August 1, 2019 - July 31, 2020)

Revenue	35,000 million JPY (down 5.8% year on year)
Operating income	1,000 million JPY (down 64.4% year on year)
Ordinary income	1,000 million JPY (down 64.4% year on year)
Net income attributable to shareholders of parent company	500 million JPY (down 66.1% year on year)

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheets

(Million JPY)

	As of July 31, 2019	As of October 31, 2019
Assets		
Current assets		
Cash and deposits	6,713	5,900
Notes and accounts receivable - trade	3,503	3,539
Inventories	360	297
Other	997	1,044
Allowance for doubtful accounts	-31	-29
Total current assets	11,543	10,751
Non-current assets		
Property, plant and equipment		
Buildings, net	1,323	1,308
Other, net	387	427
Total property, plant and equipment	1,711	1,736
Intangible assets		
Goodwill	978	945
Other	543	561
Total intangible assets	1,522	1,507
Investments and other assets		
Investment securities	1,232	1,653
Leasehold and guarantee deposits	795	789
Other	477	534
Allowance for doubtful accounts	-10	-9
Total investments and other assets	2,495	2,968
Total non-current assets	5,729	6,212
Total assets	17,273	16,964

	As of July 31, 2019	As of October 31, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	285	367
Accounts payable - other	2,380	2,462
Income taxes payable	472	123
Provision for bonuses	—	25
Provision for sales promotion expenses	189	154
Provision for share-based remuneration	40	—
Provision for share-based remuneration for directors (and other officers)	—	5
Other	661	762
Total current liabilities	4,031	3,900
Non-current liabilities		
Asset retirement obligations	488	489
Other	241	248
Total non-current liabilities	730	738
Total liabilities	4,761	4,639
Net assets		
Shareholders' equity		
Share capital	836	836
Capital surplus	830	830
Retained earnings	11,223	10,986
Treasury shares	-438	-397
Total shareholders' equity	12,452	12,256
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-26	-19
Foreign currency translation adjustment	-0	1
Total accumulated other comprehensive income	-26	-17
Share acquisition rights	85	85
Total net assets	12,511	12,324
Total liabilities and net assets	17,273	16,964

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (Cumulative)

(Million JPY)

	Three months ended October 31, 2018	Three months ended October 31, 2019
Revenue	8,927	8,148
Cost of sales	1,765	1,808
Gross profit	7,162	6,340
Selling, general and administrative expenses	6,677	6,190
Operating income	484	149
Non-operating income		
Interest income	0	1
Foreign exchange gains	5	—
Commission income	—	1
Gain on investments in investment partnerships	17	—
Gain on forfeiture of unclaimed dividends	—	1
Other	7	0
Total non-operating income	30	5
Non-operating expenses		
Interest expenses	0	—
Foreign exchange losses	—	4
Commission expenses	7	—
Loss on investments in investment partnerships	—	4
Other	0	2
Total non-operating expenses	8	10
Ordinary profit	507	144
Profit before income taxes	507	144
Income taxes	250	68
Net income	257	75
Net income attributable to shareholders of parent company	257	75

Quarterly Consolidated Statements of Comprehensive Income (Cumulative)

(Million JPY)

	Three months ended October 31, 2018	Three months ended October 31, 2019
Net income	257	75
Other comprehensive income		
Valuation difference on available-for-sale securities	—	7
Foreign currency translation adjustment	0	1
Total other comprehensive income	0	9
Comprehensive income	257	84
Comprehensive income attributable to		
Comprehensive income attributable to shareholders of parent company	257	84

5) Notes on Quarterly Consolidated Financial Statements

Notes on Premise of Going Concern

Not applicable.

Notes on Substantial Changes in the Amount of Shareholder's Equity

Not applicable.

Change in Company Policy

As of the first quarter upon review, Ateam's consolidated subsidiaries located overseas have applied IFRS 16 "Leases".

As a result, for lessee lease transactions, all right-of-use assets and lease obligations are not only recognized, but in addition, depreciation expenses on right-of-use assets and interest expense on lease obligations are also recorded. In applying this standard, we adopt the method of recognizing the cumulative impact of applying this standard on the date of initial application, which is also acknowledged as a transitional measure.

The effect of this application on the quarterly consolidated financial statements for the first quarter of the current fiscal year is insignificant.

Segment Information

Three months ended October 31, 2018 (from August 1, 2018 to October 31, 2018)

1. Information regarding the amounts of revenue, and income or loss by reportable segment

(Million JPY)

	Reportable segment				Adjustment (Note) 1	Amount on the quarterly consolidated statements of income (Note) 2
	Entertainment Business	Lifestyle Support Business	E-Commerce Business	Total		
Revenue						
Outside customers	3,243	5,173	510	8,927	–	8,927
Inter-segment sales and transfers	–	–	–	–	–	–
Total	3,243	5,173	510	8,927	–	8,927
Segment profit (loss)	274	642	-63	853	-368	484

(Notes)1. Adjustment of negative 368 million JPY for segment profit (loss) is corporate expenses not attributable to reportable segments.

2. Adjustments are made between segment profit (loss) and operating income reported in the quarterly consolidated statements of income.

2. Impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

Three months ended October 31, 2019 (from August 1, 2019 to October 31, 2019)

1. Information regarding the amounts of revenue, and income or loss by reportable segment

(Million JPY)

	Reportable segment				Adjustment (Note) 1	Amount on the quarterly consolidated statements of income (Note) 2
	Entertainment business	Lifestyle Support business	E-Commerce business	Total		
Revenue						
Outside customers	1,989	5,521	637	8,148	–	8,148
Inter-segment sales and transfers	–	–	–	–	–	–
Total	1,989	5,521	637	8,148	–	8,148
Segment profit (loss)	43	471	-50	465	-315	149

(Notes)1. Adjustment of negative 315 million JPY for segment profit (loss) is corporate expenses not attributable to reportable segments.

2. Adjustments are made between segment profit (loss) and operating income reported in the quarterly consolidated statements of income.

2. Impairment loss on non-current assets and goodwill by reportable segment

Not applicable.