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Consolidated Financial Results for the Six Months Ended January 31, 2020 (Japan GAAP)



March 13, 2020

Company name: Ateam Inc.
Stock exchange listing: Tokyo Stock Exchange
Securities code: 3662
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Scheduled date of filing securities report: March 13, 2020
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 Six Months Ended January 31, 2020 (August 1, 2019 - January 31, 2020)

(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	%
Six months ended January 31, 2020	16,014	-13.5	342	-70.9	350	-70.0	126	-82.9
Six months ended January 31, 2019	18,524	2.5	1,177	-42.8	1,168	-43.7	741	-48.2

Note: Comprehensive income (million JPY)

Six months ended January 31, 2020: 139 [-81.2%]

Six months ended January 31, 2019: 741 [-48.3%]

	Net income per share-basic	Net income per share-diluted
	JPY	JPY
Six months ended January 31, 2020	6.49	6.48
Six months ended January 31, 2019	38.03	37.94

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million JPY	Million JPY	%
As of January 31, 2020	16,794	12,379	73.2
Fiscal Year ended July 31, 2019	17,273	12,511	71.9

Note: Shareholders' equity (million JPY)

As of January 31, 2020: 12,293

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	—	0.00			
Fiscal year ending July 31, 2020 (forecast)			—	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	%	
Full-year	35,000	-5.8	1,000	-64.4	1,000	-64.4	500	-66.1	JPY 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 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 (4) Notes on Quarterly Consolidated Financial Statements, Change in Company Policy” on page 12 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 January 31, 2020	19,758,000	As of July 31, 2019	19,756,200
As of January 31, 2020	205,562	As of July 31, 2019	228,762
Six months ended January 31, 2020	19,547,339	Six months ended January 31, 2019	19,507,148

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 5 of the attachments to this financial results report.

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1. Qualitative Information Regarding Results for the Six 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 six months ended January 31, 2020, although the Lifestyle Support Business and the E-Commerce Business showed growth from the same quarter of the previous fiscal year, the Entertainment Business decreased, resulting in overall revenue to decrease year on year. As for operating income, ordinary income and net income attributable to shareholders of parent company, the expensed development cost for the new game within the Entertainment Business and the additional investment towards new services of the Lifestyle Support Business resulted in a significant decrease from the same quarter of the previous fiscal year.

Because of the above, during the six months ended January 31, 2020, Ateam posted revenue of 16,014 million JPY (down 13.5% year on year), operating income of 342 million JPY (down 70.9% year on year), ordinary income of 350 million JPY (down 70.0% year on year), and net income attributable to shareholders of parent company of 126 million JPY (down 82.9% year on year).

The operating performance by segment for the six months ended January 31, 2020 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).

Considering 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 six months ended January 31, 2020, we announced the production of a new smartphone game development in collaboration with Crypton Future Media, INC. on January 24, 2020. This new smartphone game will be a casual game consisting of the virtual singer “Hatsune Miku”, and that can be enjoyed by a wide market audience. This game is expected to release around the Spring of 2020 and will be distributed globally.

Regarding existing games, although revenue for a portion of the year-end holiday events were strong, overall existing titles continue on a downward trend, resulting in a decrease in revenue year on year. Segment profit showed significant decline compared to the same quarter of the previous fiscal year due to the expensed development costs

for the large-scale IP game currently under development. This upcoming game will also be the first to support multi-device, along with global distribution.

As a result, during the six months ended January 31, 2020, the Entertainment Business posted revenue of 4,101 million JPY (down 43.4% year on year) and operating income of 240 million JPY (down 72.8% 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 “hub” 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”, an 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 six months ended January 31, 2020, overall revenue showed a slight increase year on year. In the “Digital Marketing Support business”, the number of users for the cash loan comparison website “NaviNavi Cashing” and the car appraisal website “Navikuru” decreased. In addition, the withdrawal of the air-conditioning sales service, which developed as a moving-related peripheral service, resulted in an overall decline in business growth rate year on year. Despite the launch of several new services, their contribution is still limited in comparison to the revenue volume of our matured services. Profit, on the other hand, declined from the same quarter of the previous fiscal year due to preceding investment costs for several new services.

As a result, during the six months ended January 31, 2020, the Lifestyle Support Business posted revenue of 10,669 million JPY (up 2.9% year on year) and operating income of 952 million JPY (down 25.9% 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 overseas 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 six months ended January 31, 2020, we continued to focus on improving operations. Along with improving operational efficiency through inventory optimization, revision of shipping costs and delivery before the holidays resulted in an increase of revenue year on year.

As a result, during the six months ended January 31, 2020, the E-Commerce Business posted revenue of 1,243 million JPY (up 36.5% year on year) and operating loss of 104 million JPY (compared with an operating loss of 131 million JPY in the previous fiscal year).

(2) Explanation of Financial Position

(i) Assets

As of the end of the second quarter under review, we posted total assets of 16,794 million JPY, a decrease of 479 million JPY compared with the previous fiscal year. This was due to a decrease of 943 million JPY in cash and deposits, despite an increase of 476 million JPY in investment securities.

(ii) Liabilities

As of the end of the second quarter under review, we posted liabilities of 4,414 million JPY, a decrease of 346 million JPY compared with the previous fiscal year. This was mainly due to a decrease of 240 million JPY in current liabilities – other along with a decrease of 202 million JPY in non-current liabilities – other.

(iii) Net Assets

As of the end of the second quarter under review, we posted net assets of 12,379 million JPY, a decrease of 132 million JPY compared with the previous fiscal year. This was mainly due to a decrease of 185 million JPY in retained earnings.

(iv) Cash Flows

During the six months ended January 31, 2020, cash and cash equivalents (“cash”) increased to 5,770 million JPY (up 8.2% year on year).

The respective status of cash flows during the six months ended January 31, 2020 and their contributing factors are as follows:

Cash Flows from Operating Activities

Cash provided by operating activities during the six months ended January 31, 2020 was 80 million JPY (compared to 1,202 million JPY in the previous fiscal year). This was mainly due to income before income taxes of 302 million JPY, depreciation of 244 million JPY and a decrease in trade receivables of 186 million JPY, despite income tax payments of 391 million JPY, a decrease in guarantee deposits received of 200 million JPY, and a decrease in other of 410 million JPY.

Cash Flows from Investing Activities

Cash used in investing activities during the six months ended January 31, 2020 was 714 million JPY (compared

to 1,035 million JPY in the previous fiscal year). This was mainly due to spending of 486 million JPY of acquired investment securities.

Cash Flows from Financing Activities

Cash provided by financing activities during the six months ended January 31, 2020 was 312 million JPY (compared to 816 million JPY in the previous fiscal year). This was due to dividend payments of 312 million JPY.

(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.

As for the six months ended January 31, 2020, overall business is progressing in-line with forecast.

Regarding revenue, although the Entertainment Business and Lifestyle Support Business were slightly behind initial forecasts due to internal and external factors, the E-Commerce Business outperformed due to improved operations, thus overall revenue has been generally in line with expectations.

Operating income, ordinary income and net income attributable to shareholders of parent company landed slightly higher than initial forecasts as a result of untouched advertising expenses of the Entertainment Business, in addition to steady efforts such as reviewing new hire strategies and various other expenses within the entire group.

Due to the nature of the Lifestyle Support Business and E-Commerce Business, the third quarter of each fiscal year is considered the busy season, and we expect revenue contribution to weigh heavily in the latter half of the year. Thus, the overall operating income, ordinary income and net income attributable to shareholders of parent company is also expected to be higher in the second half.

Furthermore, the impact of the new coronavirus infection on business activities is somewhat expected. Within our bridal-related business which operates a wedding venue comparison website, “Hanayume”, regularly scheduled wedding events have been canceled, along with a drop in number of direct visits to our consultation desks. To compensate, we are currently switching to online support. Due to delays of bicycle imports from China, securing a sufficient inventory to meet future demand has also been a challenge for our online bicycle store “cyma”. We plan to counteract this with the current inventory that we have secured for the upcoming busy season, along with strengthening purchases from manufacturers and trading companies, and adjust accordingly until import is resumed.

We find it is also extremely difficult to calculate a reasonable estimate of the coronavirus impact on business due to the postponement of weddings and house moving as of present.

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 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 January 31, 2020
Assets		
Current assets		
Cash and deposits	6,713	5,770
Notes and accounts receivable - trade	3,503	3,316
Inventories	360	385
Other	997	1,094
Allowance for doubtful accounts	-31	-27
Total current assets	11,543	10,540
Non-current assets		
Property, plant and equipment		
Buildings, net	1,323	1,276
Other, net	387	396
Total property, plant and equipment	1,711	1,673
Intangible assets		
Goodwill	978	913
Other	543	533
Total intangible assets	1,522	1,446
Investments and other assets		
Investment securities	1,232	1,709
Leasehold and guarantee deposits	795	811
Other	477	621
Allowance for doubtful accounts	-10	-9
Total investments and other assets	2,495	3,134
Total non-current assets	5,729	6,254
Total assets	17,273	16,794

	As of July 31, 2019	As of January 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	285	341
Accounts payable - other	2,380	2,454
Income taxes payable	472	332
Provision for bonuses	—	50
Provision for sales promotion expenses	189	256
Provision for share-based remuneration	40	18
Provision for share-based remuneration for directors (and other officers)	—	11
Other	661	421
Total current liabilities	4,031	3,885
Non-current liabilities		
Asset retirement obligations	488	490
Other	241	39
Total non-current liabilities	730	529
Total liabilities	4,761	4,414
Net assets		
Shareholders' equity		
Share capital	836	836
Capital surplus	830	830
Retained earnings	11,223	11,037
Treasury shares	-438	-397
Total shareholders' equity	12,452	12,307
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-26	-16
Foreign currency translation adjustment	-0	3
Total accumulated other comprehensive income	-26	-13
Share acquisition rights	85	85
Total net assets	12,511	12,379
Total liabilities and net assets	17,273	16,794

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (Cumulative)

(Million JPY)

	Six months ended January 31, 2019	Six months ended January 31, 2020
Revenue	18,524	16,014
Cost of sales	3,643	3,595
Gross profit	14,881	12,419
Selling, general and administrative expenses	13,704	12,077
Operating income	1,177	342
Non-operating income		
Interest and dividend income	0	1
Commission income	3	3
Subsidy income	9	4
Other	22	5
Total non-operating income	36	14
Non-operating expenses		
Interest expenses	0	0
Foreign exchange losses	36	5
Commission expenses	7	—
Other	0	1
Total non-operating expenses	45	6
Ordinary profit	1,168	350
Extraordinary losses		
Impairment loss	—	47
Total extraordinary losses	—	47
Profit before income taxes	1,168	302
Income taxes	426	176
Net income	741	126
Net income attributable to shareholders of parent company	741	126

Quarterly Consolidated Statements of Comprehensive Income (Cumulative)

(Million JPY)

	Six months ended January 31, 2019	Six months ended January 31, 2020
Net income	741	126
Other comprehensive income		
Valuation difference on available-for-sale securities	—	9
Foreign currency translation adjustment	-0	3
Total other comprehensive income	-0	12
Comprehensive income	741	139
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	741	139

(3) Quarterly Consolidated Statements of Cash Flow

(Million JPY)

	Six months ended January 31, 2019	Six months ended January 31, 2020
Cash flows from operating activities		
Income before income taxes	1,168	302
Depreciation	313	244
Impairment loss	—	47
Amortization of goodwill	65	65
Increase (decrease) in allowance for doubtful accounts	-3	-5
Increase (decrease) in provision for bonuses	50	50
Increase (decrease) in provision for sales promotion expenses	2	66
Increase (decrease) in provision for share-based remuneration	-23	-22
Increase (decrease) in provision for share-based remuneration for directors (and other officers)	11	11
Interest and dividend income	-0	-1
Interest expenses	0	0
Subsidy income	-9	-4
Decrease (increase) in trade receivables	-202	186
Decrease (increase) in inventories	222	28
Increase (decrease) in trade payables	-5	58
Increase (decrease) in accounts payable - other	404	47
Increase (decrease) in guarantee deposits received	—	-200
Other, net	70	-410
Subtotal	2,063	466
Interest and dividends received	0	1
Interest paid	-0	-0
Income taxes paid	-865	-391
Proceeds from subsidy income	4	4
Net cash provided by (used in) operating activities	1,202	80
Cash flows from investing activities		
Purchase of property, plant and equipment	-109	-86
Proceeds from sales of property, plant and equipment	0	—

Purchase of intangible assets	-263	-134
Purchase of investment securities	-600	-486
Other, net	-62	-7
Net cash provided by (used in) investing activities	-1,035	-714
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-100	—
Repayments of long-term borrowings	-86	—
Dividends paid	-630	-312
Other, net	0	0
Net cash provided by (used in) financing activities	-816	-312
Effect of exchange rate change on cash and cash equivalents	-4	2
Net increase (decrease) in cash and cash equivalents	-652	-943
Cash and cash equivalents at beginning of period	5,984	6,713
Cash and cash equivalents at end of period	5,331	5,770

(4) 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

Six months ended January 31, 2019 (from August 1, 2018 to January 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	7,249	10,364	911	18,524	–	18,524
Inter-segment sales and transfers	–	–	–	–	–	–
Total	7,249	10,364	911	18,524	–	18,524
Segment profit (loss)	885	1,285	-131	2,039	-862	1,177

(Notes)1. Adjustment of negative 862 million JPY for segment 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.

Six months ended January 31, 2020 (from August 1, 2019 to January 31, 2020)

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	4,101	10,669	1,243	16,014	–	16,014
Inter-segment sales and transfers	–	–	–	–	–	–
Total	4,101	10,669	1,243	16,014	–	16,014
Segment profit (loss)	240	952	-104	1,089	-746	342

(Notes)1. Adjustment of negative 746 million JPY for segment 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

(Significant Impairment Loss on Fixed Assets)

The development of an intangible fixed asset within the Lifestyle Support Business segment has been discontinued, setting the recoverable amount to zero and the entire book value recorded as an impairment loss. The amount recorded for the impairment loss was 47 million JPY in the first half of the fiscal year under review.