

English Translation

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FY2020 Second Quarter Consolidated Financial Results [Japanese GAAP]

April 22, 2020

Listed company name: CyberAgent, Inc.

Listed stock exchange: TSE 1st section

Code No.: 4751

URL <https://www.cyberagent.co.jp/en/>

Representative: President

Susumu Fujita

Inquiries: Managing Director

Go Nakayama

Tel +81-3-5459-0202

Quarterly report submission date: April 23, 2020

Dividend payment start date

—

Preparation of Supplementary Materials for Quarterly Financial Results: Yes

Presentation of Quarterly Financial Results: Yes (live stream only)

(Amounts less than ¥1 million rounded down)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending September 2020

(1) Consolidated results of operations (cumulative)

(% = Year-on-Year Change.)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to shareholders of parent | |
|-----------|-----------|------|------------------|--------|-----------------|--------|---|--------|
| | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % |
| 2Q FY2020 | 244,853 | 7.3 | 20,231 | 45.0 | 20,234 | 47.4 | 4,760 | 337.9 |
| 2Q FY2019 | 228,184 | 10.0 | 13,949 | (29.3) | 13,729 | (26.1) | 1,087 | (74.4) |

(Note) Comprehensive income 2Q FY2020 ¥6,731 million (168.2%) 2Q FY2019 ¥2,509 million (-62.8%)

| | Basic earnings per share | Diluted earnings per share |
|-----------|--------------------------|----------------------------|
| | ¥ | ¥ |
| 2Q FY2020 | 37.76 | 35.55 |
| 2Q FY2019 | 8.63 | 7.91 |

(2) Consolidated financial position

| | Total assets | Net assets | Shareholders' equity ratio |
|-----------------|--------------|------------|----------------------------|
| | ¥ million | ¥ million | % |
| As of 2Q FY2020 | 241,118 | 114,482 | 32.9 |
| As of FY2019 | 224,876 | 110,352 | 35.2 |

(Reference) Equity capital: As of 2Q FY2020 ¥79,401 million As of FY2019 ¥79,169 million

2. Dividends

| | Annual dividends | | | | |
|-------------------|------------------|------|----|----------|-------|
| | 1Q | 2Q | 3Q | Year end | Total |
| | ¥ | ¥ | ¥ | ¥ | ¥ |
| FY2019 | — | 0.00 | — | 33.00 | 33.00 |
| FY2020 | — | 0.00 | — | — | — |
| FY2020 (Forecast) | — | — | — | 33.00 | 33.00 |

(Note) Revisions to most recent dividend forecast: None

3. Forecast of the Consolidated Results for the Fiscal Year Ending September 2020

(October 1, 2019 - September 30, 2020)

(% = Year-on-Year Change.)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to shareholders of parent | | Basic earnings per share |
|-----------|-----------|-----|-------------------|--------------|-------------------|--------------|---|-----------------|--------------------------|
| | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % | ¥ |
| Full year | 465,000 | 2.5 | 28,000 ~32,000 | △9.2 ~3.8 | 28,000 ~32,000 | △8.2 ~4.9 | 8,000 ~10,000 | 372.1 ~490.1 | 63.44 ~79.30 |

(Note) Revisions to most recent consolidated earnings forecast: None

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*Notes

(1) Changes in Significant Subsidiaries during the Period: None

(Changes in specified subsidiaries due to changes in the scope of consolidation)

New : —(Company name: —)

Excluded : —(Company name: —)

(2) Application of simplified accounting methods and/or special accounting methods: None

(3) Changes in accounting policies, changes in accounting estimates, restatements

i) Changes associated with revisions of accounting standards: None

ii) Changes other than those included in i) : None

iii) Changes in accounting estimates: None

iv) Restatements: None

(4) Number of shares issued

| | |
|---|-------------------------------|
| (1) Number of shares issued and outstanding at end of period (including treasury stock) | |
| 2Q FY2020: 126,426,600 shares | FY2019: 126,426,600 shares |
| (2) Number of shares of treasury stock issued and outstanding at end of period | |
| 2Q FY2020: 333,942 shares | FY2019: 434,142 shares |
| (3) Average number of shares during the period (cumulative quarterly period) | |
| 2Q FY2020: 126,037,335 shares | 2Q FY2019: 125,922,858 shares |

*The Consolidated Financial Results is not subject to audit.

*Appropriate Use of Earnings Forecast and Other Matters

The forecast of performance is based on our expectations and assumptions as of the date the forecast was made. Our actual results could differ materially from those listed in this forecast because of various risks and uncertainties. For information related to the forecast indicated above, please refer to “1. Qualitative Information on the Quarterly Financial Summary (3) Forecast” on page 3.

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1. Qualitative Information on the Quarterly Financial Summary

(1) Overview of Consolidated Financial Results

The scale of the internet ad market focusing on smartphones is estimated to increase steadily by 11.0% to 1,845.9 billion yen (Note 1) in 2020. Especially, the video ad market is expected to grow. Its scale is estimated to be 328.9 billion yen in 2020, up 26.9% from the previous term, and will reach 506.5 billion yen by 2023 (Note 2).

Seizing on this trend, the CyberAgent Group has taken advantage of the growth of the smartphone market. At the same time, the group has been investing in "ABEMA", to grow it in the medium to long-term mainstay.

As a result, during the cumulative consolidated second quarter, net sales grew 7.3% year on year to ¥244,853 million, and operating income amounted to ¥20,231 million (45.0% increase). Ordinary income amounted to ¥20,234 million (47.4% increase), and profit attributable to shareholders of parent came in at ¥4,760 million (337.9% increase).

(Note 1) Source: Dentsu Inc./ Cyber communications Inc./ D2C / Dentsu Digital Inc., Advertising Expenditures in Japan 2019, Detail analysis of Internet Advertising Medium Expenditures

(Note 2) Source: CyberAgent/ Digital Infact, The Survey on Japanese video advertising market trends

Earnings by business segments are discussed below.

As of the first quarter of the consolidated accounting period, the division of the reporting segments has been changed, so for comparisons to the same period of the previous year the values from the previous year have been changed to follow the new segment divisions.

(a) Media Business

The Media Business includes "ABEMA", "Ameba" and "Tapple", etc.

While investing in "ABEMA", net sales grew and amounted to ¥26,043 million for the period, a 12.9% year-on-year increase. Operating loss amounted to ¥9,288 million, compared to operating loss of ¥9,036 million for the same period in the prior fiscal year.

(b) Game Business

The Game Business includes Cygames, Inc., Craft Egg, Inc., Sumzap, Inc., etc.

Driven by the successes on anniversary events of major existing titles and new titles, it reported net sales amounting to ¥80,103 million, a 5.0% year-on-year increase. Operating income was posted ¥15,560 million, a 45.9% year-on-year increase.

(c) Internet Advertisement Business

The Group's Internet Advertisement Business includes Internet Advertisement Division, CyberZ, Inc., etc.

Driven by the success on strategies to grow newly developed advertisers, this segment recorded ¥140,110 million in net sales, up 8.7% year on year. Operating income gained 28.1%, reaching ¥12,389 million.

(d) Investment Development Business

The Investment Development Business consists of the CyberAgent corporate venture capital business and the fund operations of CyberAgent Capital, Inc. The Investment Development Business recorded net sales of ¥3,380 million (32.8% year-on-year decrease) and operating operating income of ¥2,735 million (a year-on-year decrease of 32.5%).

(e) Other Businesses

The Other Businesses segment includes CAM Inc., Makuake, Inc., Zelvía Co., Ltd. and others.

This segment reported net sales of ¥9,611 million, a 2.9% year-on-year increase. Operating income amounted to ¥755 million (a year-on-year increase of 252.2%).

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(2) Overview of Consolidated Financial Position

(Financial position)

Total assets at the end of this consolidated second quarter have increased by ¥16,242 million compared to the end of the previous fiscal year and amounted to ¥241,118 million. It is mainly due to an increase in Accounts receivable-trade to sales and business scale increase.

Total liabilities have increased by ¥12,113 million compared to the end of previous fiscal year and amounted to ¥126,636 million. This increase is mainly due to an increase in Accounts payable-trade to sales and business scale increase.

Total net assets have increased by ¥4,129 million compared to the end of the previous fiscal year and amounted to ¥114,482 million. It is mainly due to increase in Non-controlling interests.

(Cash flows)

As of the end of the consolidated second quarter, cash and cash equivalents increased by ¥395 million from the end of the previous fiscal year to ¥84,959 million.

The following is a summary of the major factor affecting the cash flow in the cumulative consolidated second quarter.

i) Cash flow from operating activities

Net cash provided by operating activities was ¥11,574 million of inflow (¥398 million of inflow in the same period of the previous fiscal year). The major inflow included net income gains, and the major outflow included income tax payments.

ii) Cash flow from investing activities

Net cash used in investing activities was ¥8,789 million of outflow (¥8,261 million of outflow in the same period of the previous fiscal year). Major outflow included acquisition of fixed assets.

iii) Cash flow from financing activities

Net cash provided by financing activities was ¥2,419 million of outflow (¥4,284 million of outflow in the same period of the previous fiscal year). Major outflow included dividend payment to investment partners.

(3) Forecast

Forecast of FY2020 has not been revised from its original publication on October 30, 2019.

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2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: ¥ million)

| | FY2019 (As of September 30, 2019) | 2Q FY2020 (As of March 31, 2020) |
|---|--------------------------------------|-------------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 84,565 | 84,960 |
| Accounts and notes receivable-trade | 54,917 | 69,160 |
| Inventories | 924 | 1,676 |
| Sales investment securities | 14,239 | 12,572 |
| Other | 14,093 | 15,230 |
| Allowance for doubtful accounts | (77) | (75) |
| Total current assets | 168,662 | 183,524 |
| Non-current assets | | |
| Property, plant and equipment | 12,998 | 13,625 |
| Intangible assets | | |
| Goodwill | 1,196 | 1,105 |
| Other | 23,192 | 24,050 |
| Total intangible assets | 24,388 | 25,156 |
| Investments and other assets | | |
| Other | 18,806 | 18,778 |
| Allowance for doubtful accounts | (20) | (18) |
| Total investments and other assets | 18,785 | 18,759 |
| Total non-current assets | 56,172 | 57,542 |
| Deferred assets | 41 | 52 |
| Total assets | 224,876 | 241,118 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 38,151 | 46,201 |
| Short-term loans payable | 940 | 880 |
| Income tax payable | 7,014 | 8,660 |
| Other | 24,643 | 27,052 |
| Total current liabilities | 70,749 | 82,795 |
| Non-current liabilities | | |
| Convertible bonds | 40,434 | 40,382 |
| Long-term loans payable | 83 | 27 |
| Accrued long service rewards for employees | 1,409 | 1,510 |
| Asset retirement obligations | 1,795 | 1,885 |
| Other | 50 | 34 |
| Total non-current liabilities | 43,774 | 43,841 |
| Total liabilities | 114,523 | 126,636 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 7,203 | 7,203 |
| Capital surplus | 6,181 | 8,136 |
| Retained earnings | 61,090 | 61,685 |
| Treasury stock | (459) | (353) |
| Total shareholders' equity | 74,015 | 76,671 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 5,000 | 2,587 |
| Foreign currency translation adjustments | 152 | 142 |
| Total other comprehensive income | 5,153 | 2,730 |
| Subscription rights to shares | 925 | 884 |
| Non-controlling interests | 30,258 | 34,195 |
| Total net assets | 110,352 | 114,482 |
| Total liabilities and net assets | 224,876 | 241,118 |

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(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Income (Cumulative consolidated second quarter)

(Unit: ¥ million)

| | 2Q FY2019 (October 1, 2018 - March 31, 2019) | 2Q FY2020 (October 1, 2019 - March 31, 2020) |
|--|--|--|
| Net sales | 228,184 | 244,853 |
| Cost of sales | 160,297 | 171,366 |
| Gross profit | 67,887 | 73,487 |
| Selling, general and administrative expenses | 53,938 | 53,255 |
| Operating income | 13,949 | 20,231 |
| Non-operating income | | |
| Interest income | 68 | 68 |
| Dividends received | 59 | 65 |
| Other | 186 | 126 |
| Total non-operating income | 314 | 260 |
| Non-operating expenses | | |
| Interest expenses | 4 | 7 |
| Equity in losses of affiliates | 401 | 197 |
| Other | 127 | 53 |
| Total non-operating expenses | 533 | 258 |
| Ordinary income | 13,729 | 20,234 |
| Extraordinary income | | |
| Gain on sales of subsidiaries and affiliates' stocks | 749 | 78 |
| Other | 168 | 1 |
| Total extraordinary gain | 917 | 80 |
| Extraordinary loss | | |
| Impairment loss | 3,000 | 1,652 |
| Other | 1,563 | 831 |
| Total extraordinary loss | 4,564 | 2,484 |
| Income before income taxes and non-controlling interests | 10,083 | 17,830 |
| Income taxes-current | 7,386 | 9,055 |
| Income taxes-deferred | (199) | (395) |
| Total income tax | 7,186 | 8,660 |
| Net income | 2,896 | 9,169 |
| Profit attributable to non-controlling interests | 1,809 | 4,409 |
| Profit attributable to shareholders of parent | 1,087 | 4,760 |

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Quarterly Consolidated Statements of Comprehensive Income (Cumulative consolidated second quarter)

(Unit: ¥ million)

| | 2Q FY2019 (October 1, 2018 - March 31, 2019) | 2Q FY2020 (October 1, 2019 - March 31, 2020) |
|---|--|--|
| Net income | 2,896 | 9,169 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (332) | (2,771) |
| Foreign currency translation adjustment | (49) | (9) |
| Share of other comprehensive income of associates accounted for using equity method | (5) | 342 |
| Total other comprehensive income | (387) | (2,438) |
| Comprehensive income | 2,509 | 6,731 |
| (Comprehensive income attributable to) | | |
| Shareholders of the parent | 819 | 2,337 |
| Non-controlling interests | 1,689 | 4,393 |

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(3) Quarterly Consolidated Statements of Cash Flows

(Unit: ¥ million)

| | 2Q FY2019 (October 1, 2018 - March 31, 2019) | 2Q FY2020 (October 1, 2019 - March 31, 2020) |
|--|--|--|
| Cash flow from operating activities | | |
| Income before income taxes and non-controlling interests | 10,083 | 17,830 |
| Depreciation | 4,967 | 4,273 |
| Impairment loss | 3,000 | 1,652 |
| Decrease (increase) in notes and accounts receivable-trade | (9,240) | (14,241) |
| Increase (decrease) in accounts payable-trade | 3,551 | 8,048 |
| Increase (decrease) in accounts payable-other | (1,020) | 1,194 |
| Increase (decrease) in accrued consumption taxes | (2,218) | 699 |
| Other, net | (138) | 74 |
| Sub-total | 8,983 | 19,531 |
| Interest and dividends income received | 76 | 77 |
| Interest expenses paid | (4) | (7) |
| Income taxes paid | (8,656) | (8,027) |
| Net cash provided by (used in) operating activities | 398 | 11,574 |
| Cash flow from investing activities | | |
| Purchase of property, plant and equipment | (1,919) | (3,007) |
| Purchase of intangible assets | (5,960) | (5,203) |
| Other, net | (380) | (578) |
| Net cash provided by (used in) investing activities | (8,261) | (8,789) |
| Cash flow from financing activities | | |
| Cash dividends paid | (4,024) | (4,155) |
| Purchase of treasury shares of subsidiaries | — | (1,500) |
| Proceeds from share issuance to non-controlling shareholders | 244 | 1,964 |
| Proceeds from the sales of subsidiaries' shares without a change in the scope of consolidation | 180 | 1,875 |
| Other, net | (685) | (604) |
| Net cash provided by (used in) financing activities | (4,284) | (2,419) |
| Effect of exchange rate change on cash and cash equivalents | (28) | 29 |
| Net increase (decrease) in cash and cash equivalents | (12,175) | 395 |
| Cash and cash equivalents at beginning of period | 92,379 | 84,563 |
| Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation | 42 | — |
| Cash and cash equivalents at the end of period | 80,247 | 84,959 |

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(4) Notes to Quarterly Consolidated Financial Statements

(Notes Regarding the Going Concern Assumption)

No applicable items.

(Notes Regarding Significant Changes in Shareholders' Equity)

No applicable items.

(Segment Information)

I. Cumulative Second Quarter of the Fiscal Year Ended September 2019 (October 1, 2018 to March 31, 2019)

1. Sales and Income (Loss) by Reportable Segment

(Unit: ¥ million)

| | Reportable Segment | | | | | | Adjustments [*] | Quarterly Consolidated Statements of Income |
|----------------------------------|--------------------|--------|------------------------|------------------------|-------|---------|--------------------------|---|
| | Media | Game | Internet Advertisement | Investment Development | Other | Total | | |
| Net sales | | | | | | | | |
| Sales to external customers | 17,732 | 76,057 | 120,768 | 5,027 | 8,599 | 228,184 | — | 228,184 |
| Inter-segment sales or transfers | 5,338 | 214 | 8,176 | — | 738 | 14,467 | (14,467) | — |
| Total | 23,070 | 76,271 | 128,944 | 5,027 | 9,337 | 242,652 | (14,467) | 228,184 |
| Segment income (loss) | (9,036) | 10,663 | 9,672 | 4,054 | 214 | 15,568 | (1,619) | 13,949 |

*Adjustment of ¥ -1,619 million represents corporate general and administrative expenses not allocable to a reportable segment.

II. Cumulative Second Quarter of the Fiscal Year Ending September 2020 (October 1, 2019 to March 31, 2020)

1. Sales and Income (Loss) by Reportable Segment

(Unit: ¥ million)

| | Reportable Segment | | | | | | Adjustments [*] | Quarterly Consolidated Statements of Income |
|----------------------------------|--------------------|--------|------------------------|------------------------|-------|---------|--------------------------|---|
| | Media | Game | Internet Advertisement | Investment Development | Other | Total | | |
| Net sales | | | | | | | | |
| Sales to external customers | 21,726 | 79,966 | 131,102 | 3,380 | 8,677 | 244,853 | — | 244,853 |
| Inter-segment sales or transfers | 4,317 | 136 | 9,007 | — | 934 | 14,395 | (14,395) | — |
| Total | 26,043 | 80,103 | 140,110 | 3,380 | 9,611 | 259,249 | (14,395) | 244,853 |
| Segment income (loss) | (9,288) | 15,560 | 12,389 | 2,735 | 755 | 22,152 | (1,920) | 20,231 |

*Adjustment of ¥ -1,920 million represents corporate general and administrative expenses not allocable to a reportable segment.

2. Matters Concerning Changes of Reporting Segment

(Change of segment category)

From the first quarter of the consolidated fiscal year, we transferred a part of the businesses from “Internet Advertisement business” to “Media business” to describe the actual management approach and business conditions of the Group.

As for the segment information for the second quarter of the previous consolidated fiscal year, the figures are calculated based on the new segment category.