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July 15, 2022

Consolidated Financial Results for the Fiscal Year Ended May 31, 2022 (Under Japanese GAAP)

Company name: Gunosy Inc.
 Listing: Tokyo Stock Exchange
 Securities code: 6047
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 Scheduled date of annual general meeting of shareholders: August 26, 2022
 Scheduled date to commence dividend payments: –
 Scheduled date to file annual securities report: August 29, 2022
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for institutional investors and analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the fiscal year ended May 31, 2022 (from June 1, 2021 to May 31, 2022)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

| Fiscal year ended | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|-------------------|-----------------|--------|------------------|--------|-----------------|--------|---|--------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| May 31, 2022 | 8,998 | 1.0 | 412 | (42.5) | 191 | (70.1) | 130 | (66.1) |
| May 31, 2021 | 8,910 | (36.3) | 717 | (16.6) | 642 | (23.4) | 383 | (0.8) |

Note: Comprehensive income For the fiscal year ended May 31, 2022: ¥458 million [1.1%]
 For the fiscal year ended May 31, 2021: ¥453 million [24.2%]

| Fiscal year ended | Basic earnings per share | Diluted earnings per share | Return on equity | Ratio of ordinary profit to total assets | Ratio of operating profit to net sales |
|-------------------|--------------------------|----------------------------|------------------|--|--|
| | Yen | Yen | % | % | % |
| May 31, 2022 | 5.47 | 5.44 | 1.1 | 1.4 | 4.6 |
| May 31, 2021 | 16.32 | 16.09 | 3.5 | 4.9 | 8.0 |

Reference: Share of profit (loss) of entities accounted for using equity method
 For the fiscal year ended May 31, 2022: ¥– million
 For the fiscal year ended May 31, 2021: ¥– million

(2) Consolidated financial position

| As of | Total assets | Net assets | Equity-to-asset ratio | Net assets per share |
|--------------|-----------------|-----------------|-----------------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| May 31, 2022 | 13,518 | 11,934 | 87.3 | 493.56 |
| May 31, 2021 | 13,275 | 11,404 | 85.0 | 479.36 |

Reference: Equity
 As of May 31, 2022: ¥11,804 million
 As of May 31, 2021: ¥11,284 million

(3) Consolidated cash flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of period |
|-------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| Fiscal year ended | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| May 31, 2022 | (33) | (4,064) | 9 | 4,947 |
| May 31, 2021 | 983 | (1,079) | (1) | 8,952 |

2. Cash dividends

| | Annual dividends per share | | | | | Total cash dividends (Total) | Payout ratio (Consolidated) | Ratio of dividends to net assets (Consolidated) |
|--|----------------------------|--------------------|-------------------|-----------------|-------|------------------------------|-----------------------------|---|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Millions of yen | % | % |
| Fiscal year ended May 31, 2021 | – | 0.00 | – | 0.00 | 0.00 | – | – | – |
| Fiscal year ended May 31, 2022 | – | 0.00 | – | 0.00 | 0.00 | – | – | – |
| Fiscal year ending May 31, 2023 (Forecast) | – | – | – | – | – | | – | |

Note: The forecasts of the annual dividends per share for the fiscal year ending May 3, 2023 are currently undetermined.

3. Consolidated earnings forecasts for the fiscal year ending May 31, 2023 (from June 1, 2022 to May 31, 2023)

(Percentages indicate year-on-year changes.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Basic earnings per share |
|---------------------------------|-----------------|-----|------------------|--------|-----------------|---|---|-------|--------------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Fiscal year ending May 31, 2023 | 9,000 | 0.0 | 200 | (51.5) | (312) | – | 547 | 320.5 | 22.88 |

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Note: Although not a change in specified subsidiaries, VIDPOOL Inc., which was a consolidated subsidiary, was excluded from the scope of consolidation for the current fiscal year due to completion of liquidation.

Additionally, Gunosy Capital Inc. and Gunosy Capital Partners were newly established and turned into subsidiaries, and are included in the scope of consolidation for the current fiscal year.

Furthermore, although not a change in specified subsidiaries, GaragePreneurs Internet Pvt. Ltd. (hereinafter “GaragePreneurs”) is included in the scope of application of the equity method starting from the current fiscal year, as a Director of the Company was elected as Director of GaragePreneurs at the GaragePreneurs Board of Directors meeting held on April 29, 2022.

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

Note: For details, refer to “3. Consolidated Financial Statements and Significant Notes Thereto (5) Notes to the Consolidated Financial Statements (Changes in accounting policies)” on page 13 of the attached material.

(3) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

| | |
|--------------------|-------------------|
| As of May 31, 2022 | 24,237,774 shares |
| As of May 31, 2021 | 23,947,774 shares |

(ii) Number of treasury shares at the end of the period

| | |
|--------------------|----------------|
| As of May 31, 2022 | 320,009 shares |
| As of May 31, 2021 | 407,734 shares |

(iii) Average number of shares outstanding during the period

| | |
|--------------------------------|-------------------|
| Fiscal year ended May 31, 2022 | 23,781,658 shares |
| Fiscal year ended May 31, 2021 | 23,508,375 shares |

Note: The number of treasury shares includes shares of the Company held by the stock-granting ESOP trust account (131,367 shares for the fiscal year ended May 31, 2021, and 118,442 shares for the fiscal year ended May 31, 2022).

[Reference] Overview of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended May 31, 2022 (from June 1, 2021 to May 31, 2022)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes.)

| Fiscal year ended | Net sales | | Operating profit | | Ordinary profit | | Profit | |
|-------------------|-----------------|--------|------------------|--------|-----------------|--------|-----------------|--------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| May 31, 2022 | 6,750 | 3.9 | (39) | – | (243) | – | (134) | – |
| May 31, 2021 | 6,498 | (47.6) | 65 | (91.0) | 48 | (93.6) | 72 | (59.7) |

| Fiscal year ended | Basic earnings per share | Diluted earnings per share |
|-------------------|--------------------------|----------------------------|
| May 31, 2022 | Yen (5.66) | Yen – |
| May 31, 2021 | 3.06 | 3.02 |

(2) Non-consolidated financial position

| | Total assets | Net assets | Equity-to-asset ratio | Net assets per share |
|--------------|-----------------|-----------------|-----------------------|----------------------|
| As of | Millions of yen | Millions of yen | % | Yen |
| May 31, 2022 | 11,826 | 10,697 | 89.7 | 443.65 |
| May 31, 2021 | 12,005 | 10,727 | 88.7 | 452.18 |

Reference: Equity

As of May 31, 2022: ¥10,611 million

As of May 31, 2021: ¥10,644 million

2. Non-consolidated earnings forecasts for the fiscal year ending May 31, 2023 (from June 1, 2022 to May 31, 2023)

(Percentages indicate year-on-year changes.)

| | Net sales | | Ordinary profit | | Profit | | Basic earnings per share |
|---------------------------------|-----------------|-------|-----------------|---|-----------------|---|--------------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Fiscal year ending May 31, 2023 | 6,385 | (5.4) | 1 | – | 0 | – | 0.03 |

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

Earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed reasonable, and are not intended to guarantee achievement. Actual results may differ significantly from forecasts due to a wide range of factors. For assumptions underlying earnings forecasts and notes on the use of forecasts, refer to “1. Overview of Business Results, etc. (4) Future Outlook” on page 4 of the attached material.

Attached Material

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1. Overview of Business Results, etc.

(1) Overview of Business Results for the Period Under Review

Regarding the business environment surrounding the Group during the fiscal year ended May 31, 2022, smartphones have continued to become increasingly common, with the percentage of smartphone users rising by 5 percentage points compared to the previous year to 74.3% in 2021 (Source: Ministry of Internal Affairs and Communications). In addition, the impact of COVID-19 continuing from 2020 eased during the second half of the year, helping the advertising market achieve a significant recovery overall, with advertising expenditures of 6,799.8 billion yen (110.4% of the previous year's expenditures) in 2021. Among expenditures, internet advertising expenditures reached 2,705.2 billion yen (121.4% of the previous year) and, for the first time, exceeded the total expenditures of the four traditional media, which amounted to 2,453.8 billion yen (Source: Dentsu Inc.).

Under these circumstances, for the existing media business, the Group has focused on improving profitability at Gunosy, and on au Service Today and NewsPass, which are apps hosted collaboratively with KDDI Corporation, to ensure growth through a closer partnership with KDDI. Gunosy is designed to be a news media for the new era that will serve as an infrastructure for society, and initiatives are implemented to enable optimal delivery of "must-know information" with high social value and "want-to-know information" with high personal value. After the restart of investments in advertising and promotion in the current fiscal year, the retention rate of new users increased significantly, which boosted the profitability per user. Continuing strict ad examinations, we commit to the creation of advertising experiences so that every user can enjoy the news media comfortably. Additionally, game8.jp, which is a game strategy media operated by consolidated subsidiary Game8 Inc., constantly kept monthly page views on a high level and steadily grew its overseas business.

For new businesses, we continue investing in growth opportunities internally and externally. YOU IN, a D2C brand of tea developed to provide "mood pairing," extended its market, such as by opening pop-up stores in Tokyo and even Osaka. For GaragePreneurs Internet Pvt. Ltd. (hereinafter "GaragePreneurs"), an existing investee of the Company, more strategic investments were made in purchasing mandatory convertible preference shares due to the conversion of mandatory convertible bonds in November 2021, and in purchasing additional mandatory convertible preference shares in February 2022. To strengthen the partnership with GaragePreneurs, Yuki Maniwa, Director and CFO of the Company, was elected as Director of GaragePreneurs at the GaragePreneurs Board of Directors meeting held on April 29, 2022, and GaragePreneurs became an equity-method affiliate of the Company.

Regarding revenues, net sales related to Gunosy Ads amounted to 5,582 million yen for the current fiscal year. Net sales related to ad networks amounted to 986 million yen for the current fiscal year while continuing strict ad examinations. Game8 Inc., a consolidated subsidiary, grew its overseas business and achieved stable performance in its domestic business, which greatly contributed to the consolidated financial results.

Regarding expenses, continuing advertising investments for Gunosy's renewed growth resulted in recording advertising expenses of 1,365 million yen (up 75.7% compared with the previous fiscal year), while media costs decreased as a result of a decrease in net sales related to ad networks.

As a result, for the current fiscal year, net sales increased by 1.0% from the previous fiscal year to 8,998 million yen, ordinary profit decreased by 70.1% to 191 million yen, and profit attributable to owners of parent decreased by 66.1% to 130 million yen.

The cumulative number of downloads of all Gunosy, NewsPass, LUCRA, and au Service Today (after its renewal release) in Japan for the current fiscal year increased by 6.21 million from the end of the previous fiscal year to 69.82 million.

Descriptions related to segment information are omitted because the Group has only one major segment, the Media business.

(2) Overview of Financial Position for the Period Under Review

(Assets)

Assets at the end of the current fiscal year increased by 243 million yen from the end of the previous fiscal year to 13,518 million yen. This is mainly attributable to a decrease in cash and deposits (a decrease of 2,459 million yen from the end of the previous fiscal year), a decrease in accounts receivable - trade (a decrease of 103 million yen from the end of the previous fiscal year), an increase in investment securities (an increase of 3,018 million yen from the end of the previous fiscal year), and a decrease in other under investments and other assets (a decrease of 252 million yen from the end of the previous fiscal year).

(Liabilities)

Liabilities at the end of the current fiscal year decreased by 287 million yen from the end of the previous fiscal year to 1,583 million yen. This is mainly attributable to a decrease in accounts payable - trade (a decrease of 172 million yen from the end of the previous fiscal year), a decrease in accounts payable - other (a decrease of 49 million yen from the end of the previous fiscal year), and a decrease in income taxes payable (a decrease of 93 million yen from the end of the previous fiscal year).

(Net assets)

Net assets at the end of the current fiscal year increased by 530 million yen from the end of the previous fiscal year to 11,934 million yen. This is mainly attributable to an increase in retained earnings (an increase of 50 million yen from the end of the previous fiscal year), a decrease in treasury shares (a decrease of 138 million yen from the end of the previous fiscal year), an increase in deferred gains or losses on hedges (an increase of 55 million yen from the end of the previous fiscal year), and an increase in foreign currency translation adjustment (an increase of 241 million yen from the end of the previous fiscal year).

(3) Overview of Cash Flows for the Period Under Review

Cash and cash equivalents (hereinafter referred to as “capital”) for the current fiscal year decreased by 4,004 million yen from the previous fiscal year to 4,947 million yen. The following describes the situation of the current fiscal year details for each type of cash flow.

(Cash flows from operating activities)

Capital used by operating activities during the current fiscal year amounted to 33 million yen (compared with 983 million yen provided during the previous fiscal year). This is mainly attributable to recording profit before income taxes of 232 million yen, a decrease of 103 million yen in trade receivables, a decrease of 172 million yen in trade payables, and income taxes paid of 299 million yen.

(Cash flows from investing activities)

Capital used by investing activities during the current fiscal year amounted to 4,064 million yen (compared with 1,079 million yen used during the previous fiscal year). This is mainly attributable to payments into time deposits of 1,545 million yen and purchase of investment securities of 2,938 million yen.

(Cash flows from financing activities)

Capital provided by financing activities during the current fiscal year amounted to 9 million yen (compared with 1 million yen used during the previous fiscal year). This is mainly attributable to proceeds from disposal of treasury shares of 12 million yen.

(Reference) Changes in indicators related to cash flows

| | Fiscal year ended May 31, 2018 | Fiscal year ended May 31, 2019 | Fiscal year ended May 31, 2020 | Fiscal year ended May 31, 2021 | Fiscal year ended May 31, 2022 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Equity ratio (%) | 75.1 | 77.7 | 84.8 | 85.0 | 87.3 |
| Equity ratio based on fair value (%) | 334.7 | 323.5 | 170.1 | 169.2 | 151.4 |
| Interest-bearing debt to cash flows ratio (Years) | – | – | – | – | – |
| Interest coverage ratio (Times) | 6,219.8 | 16,675.3 | – | 3,487.3 | – |

Equity ratio: Shareholders' equity / Total assets

Equity ratio based on fair value: Total market value of shares / Total assets

Interest-bearing debt to cash flows ratio: Interest-bearing debts / Cash flows

Interest coverage ratio: Cash flows / Interest paid

(Notes) 1. The indicators were calculated using consolidated financial figures.

2. The total market value of shares was calculated based on the number of shares outstanding, excluding treasury shares.
3. In the description above, "Cash flows" represent cash flows from operating activities.
4. Interest-bearing debts include all debts recorded on the Consolidated Balance Sheets for which interest is paid. Interest paid is the interest expenses paid shown on the Consolidated Statements of Cash Flows.
5. The interest coverage ratio was not calculated for the fiscal years ended May 31, 2020 and 2022, as the cash flows from operating activities were negative.

(4) Future Outlook

For the fiscal year ended May 31, 2022, the Company determined how much advertising investment to be made for Gunosy's renewed growth by carefully considering the impact of the COVID-19 pandemic on the Company's business, other macro environments, the retention rate of users, and the situation of advertising revenues. For the fiscal year ending May 31, 2023, although the adoption of smartphones is expected to grow continuously, the Company expects that unclear factors in will remain in macro environments, including the resurgence of COVID-19 caused by new variants, increased geopolitical risk, and changes in financial markets caused by such factors. Therefore, the Company will identify effective investments and carefully make advertising investments in such targets.

Based on these conditions, for Gunosy, the Group will carefully determine how much advertising investment to be made in the next fiscal year while making efforts to improve the retention rate of users and profitability per user. Additionally, for au Service Today, a new collaborative business with KDDI Corporation, and NewsPass, the Group will focus on improving products to increase adoption by au users. For Game8 Inc., a consolidated subsidiary, the Company will help game8.jp, which is a game strategy media, constantly contribute to profits and the subsidiary create drivers for growth through developing overseas and other new businesses. For GaragePreneurs Internet Pvt. Ltd. (hereinafter "GaragePreneurs"), an investee of the Company, the Company will make efforts, such as assigning Directors from the Company, to ensure that GaragePreneurs can grow as an equity-method affiliate to maximize corporate value and strengthen the partnership with the Company. Furthermore, to achieve non-linear growth, the Company will continue active investments and M&A for external start-ups with great potential, while developing new businesses, such as YOU IN, a D2C brand.

Regarding the consolidated financial results forecast for the fiscal year ending May 31, 2023, based on the business factors outlined above, net sales are projected to be 9,000 million yen (an increase of 0.0% from the previous fiscal year), operating profit to be 200 million yen (a decrease of 51.5% from the previous fiscal year), ordinary loss to be 312 million yen (compared with ordinary profit of 191 million yen for the previous fiscal year), and profit attributable to owners of parent to be 547 million yen (an increase of 320.5% from the previous fiscal year).

To make a financial results forecast for the fiscal year ending May 31, 2023, the numbers of downloads, net sales, and expenses for the existing business areas are determined as follows:

(a) Number of downloads

The number of new downloads is calculated based on some factors, such as advertising expenses to be spent, actual past cost per download (Advertising expenses / Number of new downloads), and an expected decrease in the download rate. The financial results forecast is made based on the assumption that the cumulative number of downloads of all Gunosy, NewsPass, LUCRA, and au Service Today (after its renewal release) will reach 74 million at the end of the fiscal year ending May 31, 2023.

(b) Net sales

Net sales related to Gunosy Ads are calculated based on past performance and other factors, such as the number of downloads, the retention rate of users who downloaded apps, and the profitability of retained users. Net sales related to ad networks are calculated based on past performance and other factors. Net sales related to other media are also calculated based on past performance and other factors.

(c) Cost of sales

The calculation is based on labor costs calculated from the human resource plan and actual past costs, such as server costs.

(d) Selling, general and administrative expenses

The calculation takes into account advertising expenses of 718 million yen will be required for the fiscal year ending May 31, 2023, to achieve the expected number of downloads described above, as well as other factors including amortization of goodwill, labor costs calculated from the human resource plan, and actual past costs, such as rent expenses on buildings and other factors.

As GaragePreneurs, an equity-method affiliate of the Company, increased capital through a third-party allocation of newly issued shares in June 2022, a gain on change in equity of 0.98 billion yen is expected to be recorded as extraordinary income on the Consolidated Statements of Income for the first quarter of the fiscal year ending May 31, 2023. For details, refer to “Significant subsequent events” on page 15 of the attached material.

2. Basic Stance Concerning Choice of Accounting Standards

The Group prepares its consolidated financial statements using Japanese GAAP. Carefully observing the trend of introducing International Financial Reporting Standards (IFRS) in the future, the Group will make efforts to establish a system to appropriately adapt to trends.

3. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated Balance Sheets

(Millions of yen)

| | As of May 31, 2021 | As of May 31, 2022 |
|-------------------------------------|--------------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 8,952 | 6,492 |
| Accounts receivable - trade | 876 | 772 |
| Other | 599 | 612 |
| Total current assets | 10,427 | 7,877 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 12 | 15 |
| Other, net | 19 | 10 |
| Total property, plant and equipment | 31 | 26 |
| Intangible assets | | |
| Goodwill | 87 | 63 |
| Other | 70 | 50 |
| Total intangible assets | 157 | 114 |
| Investments and other assets | | |
| Investment securities | 2,162 | 5,180 |
| Deferred tax assets | 166 | 241 |
| Other | 329 | 76 |
| Total investments and other assets | 2,658 | 5,499 |
| Total non-current assets | 2,847 | 5,641 |
| Total assets | 13,275 | 13,518 |

(Millions of yen)

| | As of May 31, 2021 | As of May 31, 2022 |
|---|--------------------|--------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 809 | 637 |
| Accounts payable - other | 346 | 297 |
| Income taxes payable | 166 | 73 |
| Advances received | 349 | 348 |
| Provision for point card certificates | 9 | 7 |
| Provision for share awards | 9 | 13 |
| Other | 171 | 185 |
| Total current liabilities | 1,863 | 1,563 |
| Non-current liabilities | | |
| Provision for share awards | 7 | 3 |
| Deferred tax liabilities | – | 16 |
| Total non-current liabilities | 7 | 20 |
| Total liabilities | 1,870 | 1,583 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 4,094 | 4,099 |
| Capital surplus | 4,094 | 4,099 |
| Retained earnings | 3,659 | 3,709 |
| Treasury shares | (602) | (463) |
| Total shareholders' equity | 11,245 | 11,444 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 23 | 47 |
| Deferred gains or losses on hedges | – | 55 |
| Foreign currency translation adjustment | 15 | 257 |
| Total accumulated other comprehensive income | 38 | 360 |
| Share acquisition rights | 83 | 86 |
| Non-controlling interests | 36 | 43 |
| Total net assets | 11,404 | 11,934 |
| Total liabilities and net assets | 13,275 | 13,518 |

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

(Millions of yen)

| | Fiscal year ended May 31, 2021 | Fiscal year ended May 31, 2022 |
|--|-----------------------------------|-----------------------------------|
| Net sales | 8,910 | 8,998 |
| Cost of sales | 5,077 | 5,007 |
| Gross profit | 3,832 | 3,991 |
| Selling, general and administrative expenses | 3,115 | 3,578 |
| Operating profit | 717 | 412 |
| Non-operating income | | |
| Interest income | 0 | 0 |
| Foreign exchange gains | – | 23 |
| Compensation income | 8 | – |
| Other | 2 | 1 |
| Total non-operating income | 11 | 24 |
| Non-operating expenses | | |
| Interest expenses | 0 | 0 |
| Foreign exchange losses | 29 | – |
| Consumption tax difference | 0 | – |
| Commission expenses | 12 | 13 |
| Idle asset expenses | 34 | 204 |
| Loss on investments in investment partnerships | 5 | 21 |
| Other | 4 | 5 |
| Total non-operating expenses | 86 | 245 |
| Ordinary profit | 642 | 191 |
| Extraordinary income | | |
| Gain on sale of investment securities | 51 | 80 |
| Gain on reversal of share acquisition rights | 13 | 10 |
| Total extraordinary income | 65 | 91 |
| Extraordinary losses | | |
| Loss on valuation of investment securities | 12 | 50 |
| Total extraordinary losses | 12 | 50 |
| Profit before income taxes | 695 | 232 |
| Income taxes - current | 320 | 171 |
| Income taxes - deferred | (36) | (76) |
| Total income taxes | 284 | 95 |
| Profit | 411 | 137 |
| Profit attributable to non-controlling interests | 27 | 6 |
| Profit attributable to owners of parent | 383 | 130 |

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

| | Fiscal year ended May 31, 2021 | Fiscal year ended May 31, 2022 |
|--|-----------------------------------|-----------------------------------|
| Profit | 411 | 137 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 26 | 24 |
| Deferred gains or losses on hedges | – | 55 |
| Foreign currency translation adjustment | 16 | (14) |
| Share of other comprehensive income of entities accounted for using equity method | – | 255 |
| Total other comprehensive income | 42 | 321 |
| Comprehensive income | 453 | 458 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 426 | 451 |
| Comprehensive income attributable to non-controlling interests | 27 | 6 |

(3) Consolidated Statements of Changes in Equity

For the fiscal year ended May 31, 2021

(Millions of yen)

| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | Share acquisition rights | Non-controlling interests | Total net assets |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|---|---|--|--------------------------|---------------------------|------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Total accumulated other comprehensive income | | | |
| Balance at beginning of period | 4,077 | 4,077 | 3,318 | (653) | 10,819 | (2) | (0) | (3) | 89 | 16 | 10,921 |
| Changes during period | | | | | | | | | | | |
| Issuance of new shares - exercise of share acquisition rights | 16 | 16 | | | 33 | | | | | | 33 |
| Profit attributable to owners of parent | | | 383 | | 383 | | | | | | 383 |
| Purchase of treasury shares | | | | (0) | (0) | | | | | | (0) |
| Disposal of treasury shares | | | (22) | 50 | 28 | | | | | | 28 |
| Decrease from liquidation of consolidated subsidiaries | | | (21) | | (21) | | | | | | (21) |
| Net changes in items other than shareholders' equity | | | | | | 26 | 16 | 42 | (5) | 19 | 56 |
| Total changes during period | 16 | 16 | 341 | 50 | 425 | 26 | 16 | 42 | (5) | 19 | 482 |
| Balance at end of period | 4,094 | 4,094 | 3,659 | (602) | 11,245 | 23 | 15 | 38 | 83 | 36 | 11,404 |

For the fiscal year ended May 31, 2022

(Millions of yen)

| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | Share acquisition rights | Non-controlling interests | Total net assets |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|---|------------------------------------|---|--|--------------------------|---------------------------|------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Total accumulated other comprehensive income | | | |
| Balance at beginning of period | 4,094 | 4,094 | 3,659 | (602) | 11,245 | 23 | – | 15 | 38 | 83 | 36 | 11,404 |
| Changes during period | | | | | | | | | | | | |
| Issuance of new shares - exercise of share acquisition rights | 5 | 5 | | | 10 | | | | | | | 10 |
| Profit attributable to owners of parent | | | 130 | | 130 | | | | | | | 130 |
| Disposal of treasury shares | | | (79) | 138 | 59 | | | | | | | 59 |
| Net changes in items other than shareholders' equity | | | | | | 24 | 55 | 241 | 321 | 2 | 6 | 331 |
| Total changes during period | 5 | 5 | 50 | 138 | 199 | 24 | 55 | 241 | 321 | 2 | 6 | 530 |
| Balance at end of period | 4,099 | 4,099 | 3,709 | (463) | 11,444 | 47 | 55 | 257 | 360 | 86 | 43 | 11,934 |

(4) Consolidated Statements of Cash Flows

(Millions of yen)

| | Fiscal year ended May 31, 2021 | Fiscal year ended May 31, 2022 |
|---|-----------------------------------|-----------------------------------|
| Cash flows from operating activities | | |
| Profit before income taxes | 695 | 232 |
| Depreciation | 266 | 28 |
| Amortization of goodwill | 64 | 23 |
| Interest income | (0) | (0) |
| Interest expenses | 0 | 0 |
| Loss (gain) on sale of investment securities | (51) | (80) |
| Loss (gain) on valuation of investment securities | 12 | 50 |
| Decrease (increase) in trade receivables | 151 | 103 |
| Increase (decrease) in trade payables | 70 | (172) |
| Increase (decrease) in accounts payable - other | 122 | (47) |
| Decrease (increase) in prepaid expenses | (59) | 38 |
| Increase (decrease) in advances received | (233) | (1) |
| Increase (decrease) in provision for share awards | 5 | 15 |
| Other, net | 171 | 76 |
| Subtotal | 1,215 | 266 |
| Interest and dividends received | 0 | 0 |
| Interest paid | (0) | (0) |
| Income taxes paid | (231) | (299) |
| Net cash provided by (used in) operating activities | 983 | (33) |
| Cash flows from investing activities | | |
| Payments into time deposits | - | (1,545) |
| Purchase of property, plant and equipment | (6) | (10) |
| Purchase of investment securities | (1,114) | (2,938) |
| Proceeds from sale of investment securities | 111 | 233 |
| Payments of leasehold and guarantee deposits | (19) | (5) |
| Proceeds from refund of leasehold and guarantee deposits | 1 | 201 |
| Other, net | (51) | 0 |
| Net cash provided by (used in) investing activities | (1,079) | (4,064) |
| Cash flows from financing activities | | |
| Proceeds from short-term borrowings | 3,500 | 1,000 |
| Repayments of short-term borrowings | (3,500) | (1,000) |
| Purchase of treasury shares | (0) | - |
| Proceeds from disposal of treasury shares | 5 | 12 |
| Proceeds from issuance of shares | 33 | 9 |
| Payments from liquidation of consolidated subsidiaries | (24) | - |
| Other, net | (15) | (12) |
| Net cash provided by (used in) financing activities | (1) | 9 |
| Effect of exchange rate change on cash and cash equivalents | (26) | 83 |
| Net increase (decrease) in cash and cash equivalents | (123) | (4,004) |
| Cash and cash equivalents at beginning of period | 9,075 | 8,952 |
| Cash and cash equivalents at end of period | 8,952 | 4,947 |

(5) Notes to the Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition and relevant ASBJ regulations)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, hereinafter “Revenue Recognition Accounting Standard”) and relevant ASBJ regulations from the beginning of the current fiscal year.

Accordingly, for some transactions of services the Group provides, whereas previously revenue was recognized as the total amount of the consideration received from the customer, now it is recognized as the net amount, which is calculated by deducting payments to third-parties from the total amount of the consideration, for transactions in which the Group acts as an agent. As a result, net sales and cost of sales decreased by 115 million yen for the current fiscal year.

The application of the Revenue Recognition Accounting Standard and relevant ASBJ regulations is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Revenue Recognition Accounting Standard, but there is no effect on the opening balance of retained earnings of the current fiscal year.

In accordance with the transitional treatment provided for in paragraph 89-2 of the Revenue Recognition Accounting Standard, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation.

(Application of the Accounting Standard for Fair Value Measurement and relevant ASBJ regulations)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, hereinafter “Fair Value Measurement Accounting Standard”) and relevant ASBJ regulations from the beginning of the current fiscal year, and it has applied the new accounting policy provided for by the Fair Value Measurement Accounting Standard and relevant ASBJ regulations prospectively in accordance with the transitional measures provided for in paragraph 19 of the Fair Value Measurement Accounting Standard and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019).

As a result of the application, whereas previously corporate bonds and other receivables that are considered financial instruments whose fair values are very difficult to measure were recorded on the Consolidated Balance Sheets at their historic costs, now they are recorded on the balance sheets at their fair values that are measured by using unobservable inputs based on the best information available even if no observable input is available.

(Changes in presentation)

(Consolidated Statements of Cash Flows)

For the previous fiscal year, “Loss (gain) on valuation of investment securities” was included in “Other, net” under “Cash flows from operating activities.” The Company decided to present it separately starting from the current fiscal year because its financial importance increased. To reflect the presentation change, a reclassification is made to the consolidated financial statements for the previous fiscal year.

As a result, on the Consolidated Statements of Cash Flows for the previous fiscal year, the amount of 183 million yen recorded in “Other, net” under “Cash flows from operating activities” is reclassified into “Loss (gain) on valuation of investment securities” with an amount of 12 million yen and “Other, net” with an amount of 171 million yen.

For the previous fiscal year, “Proceeds from disposal of treasury shares” was included in “Other, net” under “Cash flows from financing activities.” The Company decided to present it separately starting

from the current fiscal year because its financial importance increased. To reflect the presentation change, a reclassification is made to the consolidated financial statements for the previous fiscal year.

As a result, on the Consolidated Statements of Cash Flows for the previous fiscal year, the amount of (10) million yen recorded in “Other, net” under “Cash flows from financing activities” is reclassified into “Proceeds from disposal of treasury shares” with an amount of 5 million yen and “Other, net” with an amount of (15) million yen.

(Segment information, etc.)

[Segment information]

Segment information is omitted because the Group has only one major segment, the Media business.

[Related information]

For the fiscal year ended May 31, 2021

1. Information by product and service

Omitted because net sales to outside customers in the single product/service category account for more than 90% of net sales on the Consolidated Statements of Income.

2. Information by geographical area

(1) Net sales

Omitted because net sales to outside customers in Japan account for more than 90% of net sales on the Consolidated Statements of Income.

(2) Property, plant and equipment

There is no relevant information because there is no property, plant, or equipment owned outside Japan.

3. Information by major customer

Omitted because any customer who constitutes net sales to outside customers does not account for 10% or more of net sales on the Consolidated Statements of Income.

For the fiscal year ended May 31, 2022

1. Information by product and service

Omitted because net sales to outside customers in the single product/service category account for more than 90% of net sales on the Consolidated Statements of Income.

2. Information by geographical area

(1) Net sales

Omitted because net sales to outside customers in Japan account for more than 90% of net sales on the Consolidated Statements of Income.

(2) Property, plant and equipment

There is no relevant information because there is no property, plant or equipment owned outside Japan.

3. Information by major customer

| Customer name | Net sales (Million yen) | Related segment |
|---------------|-------------------------|-----------------|
| Google LLC | 942 | Media business |

[Information about impairment losses on non-current assets by reportable segment]

For the fiscal year ended May 31, 2021

There is no relevant information.

For the fiscal year ended May 31, 2022

There is no relevant information.

[Information about amortization amount and unamortized balance of goodwill by reportable segment]

For the fiscal year ended May 31, 2021

Segment information is omitted because the Group has only one major segment, the Media business.

For the fiscal year ended May 31, 2022

Segment information is omitted because the Group has only one major segment, the Media business.

[Information about gain on bargain purchase by reportable segment]

There is no relevant information.

(Per share information)

(Yen)

| | For the fiscal year ended May 31, 2021 | For the fiscal year ended May 31, 2022 |
|----------------------------|---|---|
| Net assets per share | 479.36 | 493.56 |
| Basic earnings per share | 16.32 | 5.47 |
| Diluted earnings per share | 16.09 | 5.44 |

- (Notes) 1. In the calculation of net assets per share, the Company's shares that are recorded as treasury shares under the shareholders' equity and held by the stock-granting ESOP trust account are included in treasury shares that are excluded from the total number of outstanding shares at the end of the period. In the calculation of basic earnings per share and diluted earnings per share, they are included in treasury shares that are excluded when calculating the average number of shares during the period.
2. In the calculation of net assets per share, the number of the treasury shares excluded from the total number of outstanding shares at the end of the period is 131,367 shares for the previous fiscal year and 118,442 shares for the current fiscal year. In the calculation of basic earnings per share and diluted earnings per share, the number of the treasury shares excluded from the average number of shares during the period is 136,402 shares for the previous fiscal year and 124,677 shares for the current fiscal year.
3. The basis for the calculation of basic earnings per share and diluted earnings per share is as follows:

| | For the fiscal year ended May 31, 2021 | For the fiscal year ended May 31, 2022 |
|--|---|---|
| Basic earnings per share | | |
| Profit attributable to owners of parent (Million yen) | 383 | 130 |
| Amount not attributed to common shareholders (Million yen) | — | — |
| Profit attributable to owners of parent related to common shares (Million yen) | 383 | 130 |
| Average number of shares of common shares outstanding during the period (Shares) | 23,508,375 | 23,781,658 |
| Diluted earnings per share | | |
| Adjustment for profit attributable to owners of parent (Million yen) | — | — |
| Increase in number of shares of common shares (Shares) | 335,894 | 127,308 |
| (Share acquisition rights) (Shares) | (335,894) | (127,308) |

| | For the fiscal year ended May 31, 2021 | For the fiscal year ended May 31, 2022 |
|--|---|---|
| Overview of residual shares not included in calculation of diluted earnings per share due to lack of dilutive effect | | 7th share acquisition rights 48,000 units (48,000 common shares) Issued on July 29, 2016 |
| | 7th share acquisition rights 73,000 units (73,000 common shares) Issued on July 29, 2016 | 9th share acquisition rights 1,600 units (1,600 common shares) Issued on July 29, 2019 |
| | 8th share acquisition rights 40,000 units (40,000 common shares) Issued on July 27, 2018 | 10th share acquisition rights 14,100 units (14,100 common shares) Issued on September 14, 2020 |
| | 9th share acquisition rights 12,400 units (12,400 common shares) Issued on July 29, 2019 | 11th share acquisition rights 123,200 units (123,200 common shares) Issued on June 2, 2021 |
| | 10th share acquisition rights 16,800 units (16,800 common shares) Issued on September 14, 2020 | 12th share acquisition rights 17,000 units (17,000 common shares) Issued on September 30, 2021 |
| | | 13th share acquisition rights 23,000 units (23,000 common shares) Issued on May 2, 2022 |

4. The basis for calculating net assets per share is as follows:

| | As of May 31, 2021 | As of May 31, 2022 |
|---|--------------------|--------------------|
| Total net assets (Million yen) | 11,404 | 11,934 |
| Amount deducted from total net assets (Million yen) | 120 | 129 |
| (Share acquisition rights) (Million yen) | (83) | (86) |
| (Non-controlling interests) (Million yen) | (36) | (43) |
| Year-end net assets related to common shares (Million yen) | 11,284 | 11,804 |
| Number of common shares at year-end used to calculate net assets per share (Shares) | 23,540,040 | 23,917,765 |

(Significant subsequent events)

Capital increase through a third-party allocation of newly issued shares by an equity-method affiliate GaragePreneurs Internet Pvt. Ltd. (hereinafter “GaragePreneurs”), the Company’s equity-method affiliate with headquarters in India, increased capital through a third-party allocation of newly issued shares in June 2022. The following describes the outline.

1. Overview of the equity-method affiliate that increases capital

| | |
|---|---|
| (1) Name | GaragePreneurs Internet Pvt. Ltd. |
| (2) Address | 747, Pooja Building, 80ft Road, 4th Block, Koramangala, Bangalore – 560034, India |
| (3) Name and position of representative | Rajan Bajaj (Founder) |
| (4) Business | Digital credit business |

2. Overview of capital increase through a third-party allocation of newly issued shares

| | |
|---|-------------------------------------|
| (1) Increased capital | Approximately 50 million US dollars |
| (2) Date of closing | June 29, 2022 |
| (3) The Company’s ownership ratio before capital increase | 18.46% |
| (4) The Company’s ownership ratio after capital increase | 17.77% |

3. Effects on the consolidated profits and losses for the next fiscal year

After the transaction described above, the Company still owns 15% or more of all outstanding shares of GaragePreneurs, and a Director assigned from the Company remains. Therefore, the transaction described above is considered a capital increase through a third-party allocation of newly issued shares by an equity-method affiliate. Accordingly, a gain (loss) on change in equity caused by the capital increase is expected to be recorded as extraordinary income on the Consolidated Statements of Income of the Company’s consolidated financial statements for the next fiscal year.

Based on the amount paid until June 29, 2022, the gain on change in equity is estimated to be about 0.98 billion yen. However, the gain on change in equity may change due to some reasons, such as a change in the ownership ratio until the end of the first quarter of the fiscal year ending May 31, 2023.