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September/10/2024

Consolidated Financial Results for the Six Months Ended July 31, 2024 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 4334
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 Scheduled date to file semi-annual securities report: September 13, 2024
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for analysts)

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

1. Consolidated financial results for the six months ended July 31, 2024 (from February 1, 2024 to July 31, 2024)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
July 31, 2024	1,621	(20.2)	35	(78.3)	56	(76.4)	21	(88.0)
July 31, 2023	2,032	(4.8)	164	(67.6)	238	(63.5)	177	(66.8)

Note: Comprehensive income For the six months ended July 31, 2024: ¥25million (85.8)%
 For the six months ended July 31, 2023: ¥182million (66)%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
July 31, 2024	2.53	—
July 31, 2023	21.18	20.89

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
July 31, 2024	3,034	2,403	76.1
January 31, 2024	3,253	2,434	72.8

Reference: Equity

As of July 31, 2024: ¥2,308 million
 As of January 31, 2024: ¥2,367 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended January 31, 2024	—	0.00	—	10.00	10.00
Fiscal year ending January 31,2025	—	0.00			
Fiscal year ending January 31,2025 (Forecast)			—	10.00	10.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Forecast of consolidated earnings for the fiscal year ending January 31, 2025 (from February 1, 2024 to January 31, 2025)

(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 January 31, 2025	3,392	(17.0)	110	(38.3)	113	(59.7)	68	—	8.12

Note: Revisions to the forecast of earnings most recently announced: None

*** Notes**

(1) Significant changes in the scope of consolidation during the period: None

Newly included: None

Excluded: None

(2) Adoption of accounting treatment specific to the preparation of semi-annual consolidated financial statements:
Yes

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

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

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

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

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

As of July 31,2024	11,096,000 shares
As of January 31, 2024	11,096,000 shares

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

As of July 31,2024	2,692,480 shares
As of January 31, 2024	2,692,480 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended July 31,2024	8,403,520 shares
Six months ended July 31,2023	8,396,275 shares

* Semi-annual financial results reports are exempt from review conducted by certified public accountants or an audit firm.

* Proper use of earnings forecasts, and other special matters

This summary of financial results includes forward-looking statements such as our forecasts.

These forward-looking statements are based on judgments and assumptions that are based on information currently available to us, and may differ materially from our actual results in the future in light of the uncertainties inherent in judgments and assumptions and the possibility of fluctuations due to future business operations and changes in internal and external conditions.

Please refer to "Explanation of Consolidated Earnings and Other Forecasts" on page 2 of the accompanying materials for the judgments and assumptions that form the basis for the forecasts.

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1. Qualitative Information on the Current Interim Financial Results

(1) Management's discussion

During the current interim consolidated accounting period, the Japanese economy is expected to continue to recover moderately as the employment and income situation improves, and the effects of various policies are expected to bear fruit. However, the downturn in overseas economies poses the risk of downward pressure on our economy, such as the impact of continued high interest rates in Europe and the United States and concerns about the outlook for the Chinese economy. In addition, due attention should be paid to the effects of price increases, developments in the Middle East, and changes in financial markets.

In the entertainment industry related to our group, while each company in the game industry reported a decrease in sales compared to the previous year, there were moves such as the announcement of new software for launch this autumn. In addition, on June 28, 2024, the U.S. Apple Inc. announced the launch of XR head-mounting display "Apple Vision Pro" that its proprietary in Japan.

Under such circumstances, our commissioned software "Square Earth is under attack again! EARTH DEFENSE FORCE: WORLD BROTHERS 2 EARTH DEFENSE FORCE: WORLD BROTHERS" (marketer: D3PUBLISHER INC.) was launched on May 23, 2024. In addition, at "GAME CREATORS CONFERENCE'2024" which was large-scale study group for game developers held on April 5, 2024, our development staffs attended in session of "Tales of ARISE – Beyond the Dawn". Furthermore, on August 7, 2024, we announced that we are in charge of the development of "DOUBLE DRAGON REVIVE" (from ARK SYSTEM WORKS CO., LTD.), which is scheduled to be launched within 2025.

In XR business field, we participated in CG production of all 12 public performances of "ENSEMBLE STARS!! DREAM LIVE - 8th Tour "Praesepe #Cancer" -"provided by Happy Elements K.K held in INTEX OSAKA and Makuhari Messe in April and May 2024. In addition, on June 29, 2024, we participated in CG production of "PolaPoriPosuPo 1st CG STAR LIVE FORM IS EMPTINESS, EMPTINESS IS FORM" (sponsored by Bandai Namco Amusement Inc.), which is a debut live for PolaPoriPosuPo. In this live show, one of ARP character "Leon" was opening act for this live as a guest-star.

In the Pachinko and Pachislot field, development is proceeding steadily as the Group continues to contract with video development projects for multiple titles.

In the mobile content field, several projects are being developed.

As a result of the above, for the interim consolidated accounting period, net sales were 1.621 million yen (down 20.2% year on year), ordinary income was 56 million yen (down 76.4% year on year), and interim net income attributable to owners of the parent was 21 million yen (down 88.0% year on year).

Since our Group is a single segment of the Digital Contents Business, the disclosure of business results by segment is omitted.

(2) Explanation of Financial Position

Total assets at the end of the current interim consolidated accounting period decreased by 218 million yen from the end of the previous consolidated accounting year to 3,034 million yen. The main factors were a 196 million yen increase in cash and deposits and a 354 million yen decrease in accounts receivable and contract assets.

Liabilities decreased by 187 million yen from the end of the previous fiscal year to 631 million yen. This was mainly due to a decrease of 300 million yen in short-term loans payable.

Net assets decreased 30 million yen from the end of the previous fiscal year to 2,403 million yen. Major factors included an interim net income attributable to owners of the parent of 21 million yen, dividends of surplus of 84 million yen, and an increase in subscription rights to shares of 27 million yen.

Regarding cash flows during the current interim consolidated accounting period, funds of 583 million yen were acquired in operating activities (funds of 183 million yen were acquired in the same period of the previous fiscal year), funds of 6 million yen were used in investing activities (funds of 423 million yen were used in the same period of the previous fiscal year), and funds of 383 million yen were used in financing activities (funds of 361 million yen were used in the same period of the previous fiscal year).

As a result, cash and cash equivalents increased by 196 million yen from the end of the previous fiscal year to 1,380 million yen.

(3) Explanation of Consolidated Earnings and Other Forecasts

The full-year earnings forecasts announced in the fiscal year ending January 2024 (announced on March 8, 2024) have been revised. For details, please refer to the "Notice Regarding Revisions to Earnings Forecasts and Dividend Forecasts" announced on September 6, 2024.

Earnings forecasts are forward-looking statements based on currently available information. Actual results may differ from forecasts due to changes in business conditions or other factors.

2. Interim Consolidated Financial Statements and Main Notes

(1) Semi-annual consolidated balance sheet

(Thousands of yen)

	As of January 31, 2024	As of July 31, 2024
Assets		
Current assets		
Cash and deposits	1,183,933	1,380,856
Trade receivables and contract asset	1,115,386	760,538
Merchandise	0	-
Work in process	11,172	22,783
Prepaid expenses	34,031	38,792
Other	49,303	3,935
Allowance for doubtful accounts	(235)	(222)
Total current assets	2,393,592	2,206,684
Non-current assets		
Property, plant and equipment	34,690	36,508
Intangible assets	1,701	2,471
Investments and other assets		
Investment securities	404,815	412,412
Other	520,868	478,759
Allowance for doubtful accounts	(102,052)	(102,052)
Total investments and other assets	823,632	789,119
Total non-current assets	860,024	828,100
Total assets	3,253,617	3,034,785
Liabilities		
Current liabilities		
Short-term borrowings	300,000	-
Accounts payable - other	239,961	236,375
Income taxes payable	9,557	34,174
Contract liabilities	77	48,282
Provision for bonuses	92,639	79,598
Provision for loss on orders received	2,700	5,990
Other	50,037	98,681
Total current liabilities	694,972	503,103
Non-current liabilities		
Long-term accounts payable - other	200	200
Retirement benefit liability	123,886	127,844
Other	250	250
Total non-current liabilities	124,336	128,294
Total liabilities	819,308	631,397
Net assets		
Shareholders' equity		
Share capital	412,902	412,902
Capital surplus	510,822	510,822
Retained earnings	2,437,623	2,374,850
Treasury shares	(1,060,229)	(1,060,229)
Total shareholders' equity	2,301,118	2,238,345
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	65,949	70,553
Total accumulated other comprehensive income	65,949	70,553
Share acquisition rights	67,239	94,488
Total net assets	2,434,308	2,403,387
Total liabilities and net assets	3,253,617	3,034,785

(2) Interim Consolidated Statements of Income and Interim Consolidated Statements of Comprehensive Income
(Semi-annual consolidated statement of income)
(Interim Consolidated Accounting Period)

(Thousands of yen)

	Six months ended July 31, 2023	Six months ended July 31, 2024
Net sales	2,032,760	1,621,627
Cost of sales	1,318,298	1,216,977
Gross profit	714,461	404,649
Selling, general and administrative expenses	549,974	368,900
Operating profit	164,486	35,749
Non-operating income		
Interest income	6,859	3,394
Dividend income	1,344	1,796
Foreign exchange gains	61,972	15,878
Other	4,629	5,544
Total non-operating income	74,805	26,614
Non-operating expenses		
Interest expenses	156	146
Commission for purchase of treasury shares	499	-
Commitment fees	-	5,950
Total non-operating expenses	656	6,096
Ordinary profit	238,636	56,267
Extraordinary income		
Gain on reversal of share acquisition rights	4,600	-
Total extraordinary income	4,600	-
Profit before income taxes	243,236	56,267
Income taxes	65,409	35,005
Profit	177,826	21,261
Profit attributable to owners of parent	177,826	21,261

(Semi-annual consolidated statement of comprehensive income)
(Interim Consolidated Accounting Period)

(Thousands of yen)

	Six months ended July 31, 2023	Six months ended July 31, 2024
Profit	177,826	21,261
Other comprehensive income		
Valuation difference on available-for-sale securities	4,758	4,603
Total other comprehensive income	4,758	4,603
Comprehensive income	182,584	25,865
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	182,584	25,865
Comprehensive income attributable to non-controlling interests	-	-

(3)Semi-annual consolidated statement of cash flows

(Thousands of yen)

	Six months ended July 31, 2023	Six months ended July 31, 2024
Cash flows from operating activities		
Profit before income taxes	243,236	56,267
Depreciation	4,187	4,156
Increase (decrease) in retirement benefit liability	735	3,958
Increase (decrease) in provision for bonuses	(19,840)	(13,040)
Increase (decrease) in allowance for doubtful accounts	(2,768)	(12)
Increase (decrease) in provision for loss on orders received	-	3,290
Share-based payment expenses	28,841	37,778
Interest and dividend income	(8,203)	(5,190)
Interest expenses	156	146
Foreign exchange losses (gains)	(22,876)	(3,326)
Gain on reversal of share acquisition rights	(4,600)	-
Decrease (increase) in trade receivables	(35,221)	354,847
Decrease (increase) in inventories	52,433	(10,911)
Increase (decrease) in accounts payable - other	46,111	(3,585)
Increase (decrease) in contract liabilities	7,220	48,205
Other, net	9,150	36,771
Subtotal	298,563	509,354
Interest and dividends received	6,640	4,230
Interest paid	(156)	(146)
Subsidies received	10,000	-
Payments for commitmentline expense	-	(5,950)
Proceeds from insurance income	-	43,742
Income taxes paid	(131,738)	(5,283)
Income taxes refund	-	37,725
Net cash provided by (used in) operating activities	183,309	583,673
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,964)	(5,776)
Purchase of intangible assets	(415,925)	(968)
Net cash provided by (used in) investing activities	(423,890)	(6,744)
Cash flows from financing activities		
Proceeds from exercise of employee share options	16,634	-
Dividends paid	(251,164)	(83,332)
Purchase of treasury shares	(126,110)	-
Increase (decrease) in short-term borrowings	-	(300,000)
Other, net	(499)	-
Net cash provided by (used in) financing activities	(361,139)	(383,332)
Effect of exchange rate change on cash and cash equivalents	22,876	3,326
Net increase (decrease) in cash and cash equivalents	(578,843)	196,922
Cash and cash equivalents at beginning of period	1,888,164	1,183,933
Cash and cash equivalents at end of period	1,309,320	1,380,856

(4)Notes to Interim Consolidated Financial Statements

(Notes on the Going Concern Assumption)

Not applicable.

(Notes on Substantial Changes in the Amount of Shareholders' Equity)

Not applicable.

(Adoption of Special Accounting Methods for Preparation of Interim Consolidated Financial Statements)

(Calculation of Tax Expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of tax effect accounting to income before income taxes for the consolidated fiscal year, including the current interim consolidated accounting period, and multiplying the interim income before income taxes by this estimated effective tax rate. However, if the calculation of tax expense using the estimated effective tax rate results in a significantly irrational outcome, the Company uses the statutory tax rate.

(Notes on Segment Information)

[Segment Information]

Previous interim consolidated accounting period (from February 1, 2023 to July 31, 2023) and current interim consolidated accounting period (from February 1, 2024 to July 31, 2024)

Since the business of our group is a single segment of the digital content business, the description is omitted.