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November 8, 2024

Consolidated Financial Results for the Nine Months Ended September 30, 2024 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 3663
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 Scheduled date of commencing dividend payments: —
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: None

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

1. Consolidated financial results for the nine months ended September 30, 2024 (from January 1, 2024 to September 30, 2024)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2024	6,031	(2.5)	1,608	73.9	1,747	84.5	1,224	—
September 30, 2023	6,186	11.6	924	(25.0)	947	(29.3)	68	(92.2)

Note: Comprehensive income For the nine months ended September 30, 2024: ¥863 million [—%]
 For the nine months ended September 30, 2023: ¥4 million [(99.6)%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2024	38.50	—
September 30, 2023	1.98	—

Note: Diluted earnings per share are not stated as there are no potential common shares that have a dilution effect.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of September 30, 2024	8,475	5,758	67.1
As of December 31, 2023	8,551	6,660	76.1

Reference: Equity
 As of September 30, 2024: ¥5,688 million
 As of December 31, 2023: ¥6,508 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 December 31, 2023	—	0.00	—	12.00	12.00
Fiscal year ending December 31, 2024	—	12.00	—		
Fiscal year ending December 31, 2024 (Forecast)				12.00	24.00

Note: Revision to the forecast for dividends announced most recently: None

3. Consolidated financial results forecast for the fiscal year ending December 31, 2024 (from January 1, 2024 to December 31, 2024)

Preface to consolidated financial results forecast

(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
Full year	8,009	(1.0)	1,988	47.0	2,117	50.7	1,340	113.9	36.94

Note: Revision to the forecast for dividends announced most recently: None

*** Notes**

(1) Significant changes in the scope of consolidation during the period: Yes

Newly included: – companies

Excluded: One company (CJ Inc.)

(2) Adoption of accounting methods specific to the preparation of quarterly 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 reasons other than (i) above: 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 September 30, 2024	36,271,180 shares
As of December 31, 2023	36,271,180 shares

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

As of September 30, 2024	5,021,431 shares
As of December 31, 2023	3,827,970 shares

(iii) Average number of shares outstanding during the period

Nine months ended September 30, 2024	31,787,412 shares
Nine months ended September 30, 2023	34,318,253 shares

* Review of the Japanese-language originals of the attached quarterly consolidated financial statements by certified public accountants or an audit corporation: Yes (voluntary)

* Proper use of earnings forecasts, and other special matters

Financial results forecasts and other forward-looking statements provided in these materials are based on information available to the Company and certain other assumptions deemed reasonable as of the date of publication of this document, and do not represent any guarantee that the Company will achieve these results. Actual financial results and other aspects of business performance may differ significantly from these forecasts owing to various factors. Please refer to “1. Qualitative Information on Quarterly Financial Results (3) Explanation of consolidated financial results forecast and other forward-looking information” on page 4 of the attached materials for conditions forming the basis for financial results forecasts, notes regarding the use of financial results forecasts, and other information.

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Interim Review Report

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of operating results

The Group aims to provide an environment that can fully support the creation of digital content, covering each step from production to distribution, operating its business in the two fields of the Content Production Solutions business, which focuses on providing CLIP STUDIO PAINT, a software product for producing illustrations, manga, Webtoon, and animation, and the Content Distribution Solutions business, which concentrates on developing and providing the content distribution platform solution DC3 and e-book distribution services.

On September 25, 2024, the Company changed its stock listing from the Standard Market to the Prime Market of the Tokyo Stock Exchange. As disclosed in the “Notice Regarding Dividends for the Fiscal Year Ending December 31, 2025 (Next Fiscal Year) (Commemorative Dividend for the Change of the Stock Listing to the Prime Market of the Tokyo Stock Exchange)” on the same day, the Company has decided to pay a commemorative dividend for the change of the stock listing to the Prime Market of 10 yen per share at the time of payment of interim dividend, in addition to the regular interim dividend for the fiscal year ending December 31, 2025, as a commemoration of the change of the stock listing to the Prime Market of the Tokyo Stock Exchange.

In the fiscal year under review, focused on efforts to enhance corporate value, management focused on its software IP and strategic investment continued to be prioritized. As a result, for the nine months ended September 30, 2024, the Group’s net sales amounted to ¥6,031,362 thousand (down 2.5% year-on-year), and operating profit amounted to ¥1,608,156 thousand (up 73.9% year-on-year). The nine months ended September 30, 2023 includes ¥1,066,950 thousand in net sales from the UI/UX business, which was sold off on August 1, 2023. Profit increased year-on-year as higher costs associated with preparations for listing and listing on the Prime Market of the Tokyo Stock Exchange were offset by streamlining investment in development with an awareness of the balance of income and expenditures for the entire Group and by implementing cost review measures.

In addition, ordinary profit amounted to ¥1,747,540 thousand (up 84.5% year-on-year) due to factors such as ¥115,690 thousand in foreign exchange gains being recorded as non-operating income. Profit attributable to owners of parent amounted to ¥1,224,044 thousand (up 1,698.3% year-on-year) due to factors such as the recording of ¥594,931 thousand in income taxes. The progress rates on the revised plan for the fiscal year under review disclosed on August 9, 2024 are 75.3% for net sales and 80.9% for operating profit.

The Company is planning for a total one-year spend worth ¥2,000,000 thousand for the acquisition of treasury shares starting from March 1, 2024 to emphasize shareholder returns. As part of this, as disclosed in “Notice Regarding the Status and Completion of Acquisition of Treasury Shares” on June 3, 2024, the Company acquired ¥999,946 thousand of treasury shares (1,202,700 shares) and intends to acquire the remaining treasury shares of ¥1,000,000 thousand within said period. In parallel, as disclosed in the “Notice Regarding Revision to Interim Dividends Forecasts (Increased Dividends)” on June 7, the Company increased the interim dividend for the fiscal year ending December 31, 2024 (paid on September 30, 2024) by ¥2 per share. Furthermore, as disclosed in the “Notice Regarding Revision to Dividends Forecasts (Increased Dividends)” on August 2, 2024, the Company has decided to increase the year-end dividend by ¥2 per share. As a result, the Company expects to pay an interim dividend of ¥12 and a year-end dividend of ¥12, for a total of ¥24 per share (an increase of ¥12 in dividends) for the fiscal year ending December 31, 2024.

As disclosed in “Notice Regarding Decreasing Amounts of Share Capital and Legal Capital Surplus” on February 9, 2024, share capital and legal capital surplus were scheduled to be reduced to prepare for agile and flexible capital policy in the future. As planned, this decision took effect on April 17, 2024, upon which share capital and legal capital surplus were reduced to ¥10,000 thousand and ¥2,500 thousand, respectively. The increased surplus from this capital reduction will be used in providing dividends, in addition to the acquisition of treasury shares, enhancing the shareholder returns policy, and capital policy in the future.

In February 2024, the Company formed a capital and business alliance with Axell Corporation with an aim to strengthen collaborative relationships for AI and Web3 related technologies. Based on this alliance, the Company acquired 464,800 shares of Axell Corporation for ¥914,726 thousand. Meanwhile, Axell Corporation acquired 1,081,000 shares of the Company through an open market purchase.

Progress is being made on the capital and business alliance agreements with each company, as the Company is improving the efficiency of WEBTOON content production and advancing into the field of AI and promoting utilization, etc., of DC3 Solution, with WEBTOON Entertainment Inc. and LINE Digital Frontier Corp., working with Wacom Co., Ltd. through collaboration between our services and Wacom products, which are essential for creative production, and is engaging in joint development of AI technology with Axell Corporation.

LINE Digital Frontier Corp. merged with eBOOK Initiative Japan Co.,Ltd. in an absorption-type merger as of September 1, 2024, and all shares of the Company held by eBOOK Initiative Japan Co.,Ltd. were transferred to LINE Digital Frontier Corp., which became a major shareholder of the Company.

Operating results per section are as follows.

<Content Production Solutions business>

The Content Production Solutions business offers support for creators in the graphics industry and provides SaaS services for content creation worldwide through the illustration, manga, Webtoon and animation app as well as community sites that support creation.

In March 2024, we made a major update of CLIP STUDIO PAINT, a software product for producing illustrations, manga, Webtoon, and animation, with improved features resulting from ongoing investment in development, and Version 3.0 was released. Furthermore, prices for subscriptions to provide CLIP STUDIO PAINT as SaaS and outright purchase license versions were revised to increase profitability and to continuously provide the service. Prices will be revised in the future with the increased value of services.

Version 3.0 is the product's first major update since the release of Version 2.0 in March 2023, and customers that have purchased outright are now on an annual subscription contract or buy the new version on special offer to make use of all the latest functions available. Version 3.0 has been well received since it was released, and furthermore, global promotional campaigns were implemented to acquire new users in parallel with this release. CLIP STUDIO PAINT saw an increase in subscription contracts and improved sales from existing outright purchase users purchasing the new version, and a more stable and consistent revenue stream from service provision is able to be generated.

The major version update push helps to lift net sales and user numbers by raising its profile in the market, and is planned on a regular basis for the fiscal year ending December 31, 2025 onward.

CLIP STUDIO PAINT is offered in 11 languages and has reached approximately 80% for overseas shipments of non-Japanese versions, and particularly in mainland China, the number of subscription contracts is steadily increasing. Ranked as the 7th highest in terms of net sales by country on the App Store, growth is expected in the future.

Cumulative shipments of CLIP STUDIO PAINT reached 44.35 million units by September 2024 (up 31.0% year-on-year), and exceeded 45.00 million units by October 2024. The Annual Recurring Revenue (ARR) for the SaaS service provided by the CLIP STUDIO PAINT subscription model was ¥4.07 billion in September 2024 (up 37.9% year-on-year), and ¥4.15 billion in October 2024, a record high.

Also, global promotions to boost the number of overseas users and subscription contracts have been held.

The churn rate of CLIP STUDIO PAINT in September 2024 amounted to 5.0%. Worldwide membership of CLIP STUDIO Creator, a community for creators in the fields of illustrations, manga, Webtoon, and animation, reached 9.00 million people in July 2024, amounting to 9.29 million people in September 2024 (up 17.4% year-on-year).

For the provision of a license to use CLIP STUDIO PAINT via a subscription model, the Company's focus, subscription plans may lower the barriers to using the software by offering the software at a low price, but the short-term sales effectiveness is lower compared with the one-time purchase versions that collect license fees in lump-sum, one-time payments. That being said, the aim of increasing subscription model contracts will continue, as stable earnings in the medium to long term are expected to be generated with continued use.

In March 2024, the Company launched sales of Clip Studio Tabmate 2, a wireless handheld shortcut device. CLIP STUDIO TABMATE 2 has strengthened the competitiveness of CLIP STUDIO PAINT's operations and functions against competing programs by being the first product that is compatible with iPads and iPhones. CLIP STUDIO TABMATE 2 has been well received since it was released, and the number of shipments is significantly exceeding initial expectations.

In September 2024, CLIP STUDIO PAINT came bundled with Samsung's Galaxy Tab S10 Ultra and Galaxy Tab S10+ and was made available. Bundled versions of CLIP STUDIO PAINT can continue to be used by transferring to a subscription contract after the free trial period runs out, and an increase in subscription contracts is expected. Bundles will be deployed globally, and an increase in overseas users is expected.

In addition, as part of efforts to expand awareness of CLIP STUDIO PAINT and its user base overseas, the Company sponsored events such as Connichi, one of the largest events for Japanese anime and manga enthusiasts in Germany, and Japan's highest CG-related academic research symposium Visual Computing 2024 to strengthen industry-academia collaboration.

As a result of the above, net sales amounted to ¥5,241,630 thousand (up 20.2% year-on-year) and operating profit amounted to ¥2,130,633 thousand (up 37.9% year-on-year).

<Content Distribution Solutions business>

The Content Distribution Solutions business is centered on &DC3, Inc. (hereafter referred to as “&DC3”).

As for DC3, a platform to realize the distribution of digital content through treating all digital data as unique “things,” a major update was released, moving the DC3 platform to Version 2.0 in July 2024, and various updates have been made to enhance the user experience of the DC3 solution, adding a local share function for DC3 My Room, a signature function for master content, and formats compatible with DC3 master registration and editing app.

Furthermore, the DC3 player Hive Ticket Player and the ticket content creation service Ticket-tier have been updated, and a notification function has been added to Hive Ticket Player. The new Ticket-tier enables the issuance of tickets made into DC3 content without the need to build and operate a dedicated server, and the distribution and management of tickets within the service for improved convenience.

In parallel, sales and promotional activities to facilitate use of DC3 Solution have been promoted and use contracts with several service providers that plan to use the DC3 Solution have been signed. Sales functionality of DC3 content was released in January 2024 for the new monthly membership platform Creatia, which connects creators and fans of the Toranoana Group. In addition, as actual examples of DC3 Solution used by IPs, the Company has been collaborating on the TV animations “I Parry Everything: What Do You Mean I’m the Strongest? I’m Not Even an Adventurer Yet!” and “*Hokkai no Maju Azarashi-san* (Beast of the North Sea Azarashi-san),” which started broadcasting from July 2024, and the game “El Shaddai.” The Company intends to continue to collaborate through the use of DC3 Solution with several IPs.

In addition, &DC3, which serves as vice chair of the Technology Promotion Subcommittee of Japan Contents Blockchain Initiative, will participate in the Content NFT Study Group, which conduct pilot experiments and hearings to formulate guidelines for content IP protection as part of the “Pilot Project for Building Digital Public Goods Using Web 3.0 & Blockchain” of the Ministry of Economy, Trade and Industry. &DC3 will work in cooperation with member content-related companies.

For e-book distribution solutions, a range of solutions for e-book production, distribution, and reading that is compatible with multiple devices and platforms, such as the e-book viewer, CLIP STUDIO READER, and e-book authoring software, are provided. Starting in September 2024, these solutions can be compatible with the latest OSs released by Apple, iOS 18 for iPhone and iPadOS 18 for iPad.

As a result of the above, net sales amounted to ¥789,731 thousand (up 4.0% year-on-year) and operating loss amounted to ¥522,474 thousand (operating loss of ¥537,699 thousand in the previous fiscal year).

(2) Explanation of financial position

Total assets at the end of the third quarter under review amounted to ¥8,475,553 thousand, down ¥75,971 thousand from the end of the previous fiscal year. The main factors include decreases of ¥163,456 thousand in cash and deposits due to the acquisition of the Company’s own shares, ¥322,436 thousand in accounts receivable – other and ¥287,812 thousand in other current assets, despite increases of ¥25,057 thousand in software, ¥25,212 thousand in software in progress and ¥622,296 thousand in investment securities.

Liabilities at the end of the third quarter under review amounted to ¥2,717,377 thousand, up ¥825,970 thousand from the end of the previous fiscal year. The main factors include increases of ¥553,905 thousand in income taxes payable, ¥205,874 thousand in advances received, ¥68,979 thousand in provision for bonuses and ¥37,270 thousand in retirement benefits for directors (and other officers), despite a decrease of ¥37,537 thousand in accrued expenses.

Total net assets at the end of the third quarter under review amounted to ¥5,758,175 thousand, down ¥901,941 thousand from the end of the previous fiscal year. The main factors include an increase of ¥992,232 thousand in treasury shares due to the acquisition of the Company’s own shares. The equity-to-asset ratio was 67.1%.

(3) Explanation of consolidated financial results forecast and other forward-looking information

The full-year consolidated financial forecast for the fiscal year ending December 31, 2024 remains unchanged from the financial results forecast announced on August 9, 2024; however, the Company will closely pay attention to business progress in the second half and promptly disclose any revisions as necessary.

The medium-term management plan is scheduled to be disclosed during the fiscal year ending December 31, 2025.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Unit: thousands of yen)

	Previous consolidated fiscal year (December 31, 2023)	Nine months under review (September 30, 2024)
Assets		
Current assets		
Cash and deposits	5,601,095	5,437,639
Accounts receivable - trade	339,623	353,256
Finished goods	3,481	10,875
Raw materials and supplies	78,533	96,604
Accounts receivable - other	526,165	203,729
Other	381,021	93,208
Allowance for doubtful accounts	(144)	(148)
Total current assets	6,929,776	6,195,165
Non-current assets		
Property, plant and equipment		
Buildings	185,650	185,650
Accumulated depreciation	(74,671)	(85,098)
Buildings (net)	110,979	100,552
Tools, furniture and fixtures	270,961	271,695
Accumulated depreciation	(204,942)	(216,687)
Tools, furniture and fixtures (net)	66,019	55,007
Total property, plant and equipment	176,998	155,559
Intangible assets		
Software	893,415	918,472
Software in progress	68,288	93,500
Other	90,494	91,358
Total intangible assets	1,052,197	1,103,331
Investments and other assets		
Investment securities	32,050	654,347
Leasehold and guarantee deposits	129,364	130,364
Deferred tax assets	231,136	236,784
Total investments and other assets	392,551	1,021,496
Total non-current assets	1,621,748	2,280,387
Total assets	8,551,524	8,475,553

(Unit: thousands of yen)

	Previous consolidated fiscal year (December 31, 2023)	Nine months under review (September 30, 2024)
Liabilities		
Current liabilities		
Accounts payable - trade	130,321	129,463
Accounts payable - other	122,535	123,176
Advances received	829,975	1,035,849
Accrued expenses	87,472	49,934
Income taxes payable	35,168	589,073
Provision for bonuses	61,600	130,579
Other	165,371	152,141
Total current liabilities	1,432,444	2,210,219
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	159,027	196,297
Retirement benefit liability	278,983	289,908
Other	20,953	20,953
Total non-current liabilities	458,963	507,158
Total liabilities	1,891,407	2,717,377
Net assets		
Shareholders' equity		
Share capital	3,076,576	10,000
Capital surplus	2,627,828	5,694,936
Retained earnings	3,977,650	4,437,379
Treasury shares	(3,186,624)	(4,178,857)
Total shareholders' equity	6,495,431	5,963,458
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,796	(274,882)
Total accumulated other comprehensive income	12,796	(274,882)
Share acquisition rights	78,880	69,600
Non-controlling interests	73,009	-
Total net assets	6,660,116	5,758,175
Total liabilities and net assets	8,551,524	8,475,553

(2) Quarterly consolidated statements of income and comprehensive income
(Quarterly consolidated statement of income)
Nine months ended September 30, 2024

(Unit: thousands of yen)

	Previous nine-month period (from January 1, 2023 to September 30, 2023)	Nine months under review (from January 1, 2024 to September 30, 2024)
Net sales	6,186,772	6,031,362
Cost of sales	3,293,416	2,719,409
Gross profit	2,893,356	3,311,952
Selling, general and administrative expenses	1,968,516	1,703,795
Operating profit	924,839	1,608,156
Non-operating income		
Interest income	565	436
Dividend income	206	37,925
Foreign exchange gains	65,756	115,690
Other	3	2,172
Total non-operating income	66,532	156,224
Non-operating expenses		
Share issuance costs	6,259	-
Commission expenses	36,210	11,920
Loss on patents	1,311	907
Extra retirement payments	-	3,818
Other	194	194
Total non-operating expenses	43,976	16,840
Ordinary profit	947,395	1,747,540
Extraordinary income		
Gain on reversal of share acquisition rights	-	9,280
Total extraordinary income	-	9,280
Extraordinary losses		
Loss on transfer of shares of subsidiaries and associates	497,792	-
Provision of allowance for loss on transfer of shares of subsidiaries and associates	7,981	-
Loss on valuation of software	386,742	-
Impairment loss	-	10,551
Loss on valuation of investment securities	-	303
Total extraordinary losses	892,517	10,854
Pre-tax net profit	54,877	1,745,966
Income taxes	(9,517)	594,931
Profit	64,395	1,151,034
Loss attributable to non-controlling interests	(3,671)	(73,009)
Profit attributable to owners of parent	68,066	1,224,044

(Quarterly consolidated statement of comprehensive income)

Nine months ended September 30, 2024

(Unit: thousands of yen)

	Previous nine-month period (from January 1, 2023 to September 30, 2023)	Nine months under review (from January 1, 2024 to September 30, 2024)
Profit	64,395	1,151,034
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,069)	(287,679)
Foreign currency translation adjustment	(58,299)	-
Total other comprehensive income	(60,368)	(287,679)
Comprehensive income	4,026	863,355
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	7,698	936,364
Comprehensive income attributable to non-controlling interests	(3,671)	(73,009)

- (3) Notes to quarterly consolidated financial statements
(Note on entity's ability to continue as going concern)
Not applicable.

(Notes in case of significant changes in shareholders' equity)

1. The Company acquired 1,202,700 shares of treasury shares upon the resolution of the Board of Directors meeting held on March 22, 2024. In addition, the Company disposed of 9,300 shares of treasury shares as part of compensation for granting restricted stock to Directors of the Company upon the resolution of the Board of Directors meeting held on March 28, 2024.

As a result, treasury shares increased by ¥992,232 thousand including the increase due to the purchase of shares less than one unit during the third quarter under review, and treasury shares amounted to ¥4,178,857 thousand at the end of the third quarter under review.

2. The Company decreased share capital and legal capital surplus by ¥3,066,576 thousand and ¥2,324,076 thousand, respectively, and transferred these amounts to other capital surplus, upon the resolution of the Annual General Meeting of Shareholders held on March 28, 2024, through which this capital reduction took effect on April 17, 2024.

As a result, including the increase as a result of the disposal of shares, share capital and legal capital surplus amounted to ¥10,000 thousand and ¥5,694,936 thousand, respectively, during the nine months under review.

(Adoption of group tax sharing system)

The Company withdrew from the group tax sharing system as of January 1, 2024, due to the tax sharing parent being the only included tax sharing corporation upon confirmation of the residual assets of the tax sharing subsidiary.

(Adoption of accounting methods specific to the preparation of quarterly consolidated financial statements)

Calculation of tax expenses

The Company calculates tax expenses by multiplying profit before income taxes by a reasonably estimated effective tax rate for profit before income taxes for the fiscal year under review after the application of tax effect accounting.

(Segment information)

[Segment information]

Nine months ended September 30, 2023 (from January 1, 2023 to September 30, 2023)

1. Disclosure of net sales and profit (loss) for each reportable segment

(Unit: thousands of yen)

	Reportable segment				Adjustments	Per quarterly consolidated financial statements (Note)
	Content Production Solutions business	Content Distribution Solutions business	UI/UX business	Total		
Net sales						
Net sales to external customers	4,360,518	759,303	1,066,950	6,186,772	—	6,186,772
Inter-segment net sales and transfers	—	26,500	—	26,500	(26,500)	—
Total	4,360,518	785,803	1,066,950	6,213,272	(26,500)	6,186,772
Segment profit (loss)	1,545,067	(537,699)	(82,527)	924,839	—	924,839

Note: Segment profit (loss) is adjusted with operating profit in the quarterly consolidated statement of income.

2. Information concerning changes, etc. in reportable segments

Not applicable.

3. Disclosure of non-current assets, impairment loss, and goodwill, etc. for each reportable segment

(Significant impairment loss pertaining to non-current assets)

Not applicable.

(Significant changes in amount of goodwill)

Not applicable.

Nine months ended September 30, 2024 (from January 1, 2024 to September 30, 2024)

1. Disclosure of net sales and profit (loss) for each reportable segment

(Unit: thousands of yen)

	Reportable segment			Adjustments (Note 1)	Per quarterly consolidated financial statements (Note 2)
	Content Production Solutions business	Content Distribution Solutions business	Total		
Net sales					
Net sales to external customers	5,241,630	789,731	6,031,362	—	6,031,362
Inter-segment net sales and transfers	—	0	0	(0)	—
Total	5,241,630	789,731	6,031,362	(0)	6,031,362
Segment profit (loss)	2,130,633	(522,474)	1,608,158	(2)	1,608,156

Notes: 1. The adjustment in segment profit (loss) is company-wide expenses not allocated to each business segment.
2. Segment profit (loss) is adjusted with operating profit in the quarterly consolidated statement of income.

2. Information concerning changes, etc. in reportable segments

As a result of the transfer of the UI/UX business in the previous consolidated fiscal year, the reporting segment for the UI/UX business has been discontinued from the first quarter of the consolidated fiscal year under review.

3. Disclosure of non-current assets, impairment loss, and goodwill, etc. for each reportable segment

(Significant impairment loss pertaining to non-current assets)

(Unit: thousands of yen)

	Content Production Solutions business	Content Distribution Solutions business	Total
Impairment loss	—	10,551	10,551

(Significant changes in amount of goodwill)

Not applicable.

(Notes to quarterly consolidated cash flow statements)

The Company has not prepared the quarterly consolidated cash flow statements for the nine months ended September 30, 2024. Depreciation (including depreciation related to intangible assets) for the nine months ended September 30, 2024 is as follows.

	Previous nine-month period (from January 1, 2023 to September 30, 2023)	Nine months under review (from January 1, 2024 to September 30, 2024)
Depreciation	¥560,499 thousand	¥483,794 thousand

Independent Auditor's Interim Review Report on the Quarterly Consolidated Financial Statements

November 8, 2024

To the Board of Directors of
CELSYS, Inc.

Crowe Toyo & Co.
Tokyo Office

Designated and Engagement Partner	Certified Public Accountant	Naoki Nakazato
Designated and Engagement Partner	Certified Public Accountant	Takahisa Tachizawa

Auditor's Conclusion

We conducted an interim review of the quarterly consolidated financial statements of CELSYS, Inc. (the "Company") for the third quarter (from July 1, 2024 to September 30, 2024) and the first nine months (from January 1, 2024 to September 30, 2024) of the fiscal year ending December 31, 2024 (from January 1, 2024 to December 31, 2024) included in the attached materials of the quarterly financial results report, namely, the quarterly consolidated balance sheet, the quarterly consolidated statements of income, the quarterly consolidated statements of comprehensive income, and the notes thereto.

Based on our interim review, nothing has come to our attention that causes us to believe that the aforementioned quarterly consolidated financial statements have not been prepared, in all material respects, in accordance with the Article 4, Paragraph 1 of standards for preparation of quarterly financial statements of Tokyo Stock Exchange, Inc. (the "Tokyo Stock Exchange") and accounting standards for the quarterly financial statements generally accepted in Japan, omitting certain disclosures under the Article 4, Paragraph 2 of the Tokyo Stock Exchange's standards for preparation of quarterly financial statements.

Basis for Auditor's Conclusion

We conducted our interim review in accordance with the interim review standards generally accepted in Japan. Our responsibility under those standards is described in the Auditor's Responsibility for the Interim Review of the Quarterly Consolidated Financial Statements section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the provisions of the code of professional ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that we have obtained the evidence to provide a basis for our review conclusion.

Responsibilities of Management and the Audit and Supervisory Committee for the Quarterly Consolidated Financial Statements

Management is responsible for the preparation of the quarterly consolidated financial statements in accordance with the Article 4, Paragraph 1 of the Tokyo Stock Exchange's standards for preparation of quarterly financial statements and accounting standards for the quarterly financial statements generally accepted in Japan, omitting certain disclosures under the Article 4, Paragraph 2 of the Tokyo Stock Exchange's standards for preparation of quarterly financial statements. This includes designing and operating such internal control, as management determines is necessary, to enable the preparation of the quarterly consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the quarterly consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the quarterly consolidated financial statements in accordance with the premise of a going concern, and disclosing, as applicable, matters related to a going concern in accordance with the Article 4, Paragraph 1 of the Tokyo Stock Exchange's standards for preparation of quarterly financial statements and accounting standards for the quarterly financial statements generally accepted in Japan, omitting certain disclosures under the Article 4, Paragraph 2 of the Tokyo Stock Exchange's standards for preparation of quarterly financial statements.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties related to designing and operating the financial reporting process.

Auditor's Responsibility for the Interim Review of the Quarterly Consolidated Financial Statements

Our responsibility is to express a conclusion on the quarterly consolidated financial statements in our interim review report from an independent standpoint based on our interim review.

In accordance with interim review standards generally accepted in Japan, we exercise professional judgment throughout the interim review, and perform the following with professional skepticism.

- Make inquiries, primarily of management and persons responsible for financial and accounting matters, and apply analytical and other interim review procedures. An interim review is substantially less in scope than an audit of the financial statements for the fiscal year conducted in accordance with auditing standards generally accepted in Japan.
- Conclude whether nothing has come to our attention, based on the evidence obtained, related to a going concern that causes us to believe that the quarterly consolidated financial statements are not prepared in accordance with the Article 4, Paragraph 1 of the Tokyo Stock Exchange's standards for preparation of quarterly financial statements and accounting standards for the quarterly financial statements generally accepted in Japan, omitting certain disclosures under the Article 4, Paragraph 2 of the Tokyo Stock Exchange's standards for preparation of quarterly financial statements, if we conclude that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists related to a going concern, we are required to draw attention in our interim review report to the notes to the quarterly consolidated financial statements or, if such notes are inadequate, to express a qualified or negative conclusion. Our conclusions are based on the evidence obtained up to the date of our interim review report, depending on future events or conditions, an entity may be unable to continue as a going concern.
- Evaluate whether nothing has come to our attention that causes us to believe that the overall presentation and notes to the quarterly consolidated financial statements are not prepared in accordance with the Article 4, Paragraph 1 of the Tokyo Stock Exchange's standards for preparation of quarterly financial statements and accounting standards for the quarterly financial statements generally accepted in Japan, omitting certain disclosures under the Article 4, Paragraph 2 of the Tokyo Stock Exchange's standards for preparation of quarterly financial statements.
- Obtain evidence regarding the financial information of the Company and its consolidated subsidiaries to express a conclusion on the quarterly consolidated financial statements. We are responsible for instructing, supervising, and implementing an interim review of the quarterly consolidated financial statements. We remain solely responsible for our conclusion.

We communicate with the Audit and Supervisory Committee regarding the planned scope and timing of the interim review and significant findings that we identify during our interim review.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with the Committee matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied to reduce threats to an acceptable level.

Conflicts of Interest

Our firm and its engagement partners do not have any interest in the Company and its consolidated subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

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- (Notes) 1. The original copy of the above interim review report is retained separately by the Company (filing company of the quarterly financial results report).
2. XBRL data and HTML data are excluded from the scope of the interim review.