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May 10, 2024

Consolidated Financial Results for the Three Months Ended March 31, 2024 (Under Japanese GAAP)

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Listing: Tokyo Stock Exchange
Securities code: 3663
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Scheduled date of filing quarterly securities report: May 14, 2024
Scheduled date of commencing dividend payments: —
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results briefing: None

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

1. Consolidated financial results for the three months ended March 31, 2024 (from January 1, 2024 to March 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	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2024	2,011	(9.1)	565	3.1	604	8.3	552	38.6
March 31, 2023	2,211	21.0	548	20.1	558	20.5	398	39.1

Note: Comprehensive income For the three months ended March 31, 2024: ¥520 million [33.0%]
For the three months ended March 31, 2023: ¥391 million [35.5%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2024	17.04	—
March 31, 2023	11.41	—

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 March 31, 2024	8,854	6,786	75.3
As of December 31, 2023	8,551	6,660	76.1

Reference: Equity
As of March 31, 2024: ¥6,666 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 ended December 31, 2024	—				
Fiscal year ended December 31, 2024 (Forecast)		10.00	—	10.00	20.00

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)

(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
First half	3,816	(10.3)	664	(8.9)	641	(12.9)	254	-	7.00
Full year	7,723	(4.5)	1,655	22.3	1,611	14.7	744	18.8	20.51

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

*** Notes**

- (1) Changes in significant subsidiaries during the period: None
- (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 March 31, 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 March 31, 2024	3,827,991 shares
As of December 31, 2023	3,827,970 shares

- (iii) Average number of shares outstanding during the period

Three months ended March 31, 2024	32,443,202 shares
Three months ended March 31, 2023	34,947,549 shares

* Quarterly financial results reports are exempt from review by certified public accountants or an audit corporation.

* 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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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 DC3 Solution and e-book distribution services.

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 three months ended March 31, 2024, the Group's net sales amounted to ¥2,011,471 thousand (down 9.1% year-on-year), and operating profit amounted to ¥565,494 thousand (up 3.1% year-on-year). The three months ended March 31, 2023 includes ¥297,538 thousand in net sales from the UI/UX business, which was sold off on August 1, 2023.

In addition, ordinary profit amounted to ¥604,595 thousand (up 8.3% year-on-year) due to factors such as ¥39,459 thousand in foreign exchange gains being recorded as non-operating income. Profit attributable to owners of parent amounted to ¥552,876 thousand (up 38.6% year-on-year) due to factors such as the recording of ¥83,471 thousand in income taxes. The progress rates on the plan for the fiscal year under review are 26.0% for net sales and 34.2% 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, and as part of this, as disclosed in "Notice Regarding Decision to Acquire Treasury Shares" on March 22, 2024, the Company intends to acquire ¥1,000,000 thousand of treasury shares (4.93% of the total number of issued shares) by June 30, 2024, aiming to execute flexible capital policy that can respond to further enhancement of capital efficiency and the management environment, and to further improve shareholder returns. Shareholder returns will also be strengthened in the fiscal year ending December 31, 2024, and forecast for the fiscal year ending December 31, 2024, are an interim dividend of ¥10 and a year-end dividend of ¥10, for a total of ¥20 (an increase of ¥8 in dividends).

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 the highest ever increase in dividends, including interim dividends, in addition to the acquisition of ¥2,000,000 thousand of treasury shares to be implemented by March of the next year, 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 toward joint development of AI technology. Based on this alliance, the Company acquired ¥914,726 thousand of Axell Corporation's shares. Axell Corporation is slated to acquire approximately the same amount of the Company's shares through an open market purchase by the end of May 2024.

Progress is being made on the capital and business alliance agreements with each company, as the Company is advancing into the field of AI and promoting utilization, etc., of the content distribution platform solution, DC3, with WEBTOON Entertainment and LINE Digital Frontier, working on various projects in collaboration with Wacom Co., Ltd. for Wacom products, which are essential for creative production, and is engaging in joint development of AI technology with Axell Corporation.

In addition, as disclosed in "Notice Regarding Preparations to Apply to Change Listing to the Prime Market of the Tokyo Stock Exchange" on August 19, 2022, preparations are currently being made to apply to change the stock listing to the Prime Market of the TSE, and as of March 31, 2024, the main formal requirements for listing on the Prime Market as required by the TSE have been satisfied.

Furthermore, to continue strengthening corporate governance and further strengthen the business alliance, Mr. Masamine Takahashi from LINE Digital Frontier Corp. was appointed as an Outside Director. Furthermore, Ms. Maki Ikeda, a member who contributes to ensuring the diversity of the Board of Directors and will demonstrate strength in sustainable enhancement of corporate value of the Group through globalization of the Company, promoting corporate alliances, etc., was appointed as a female Director.

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, Version 3.0 of CLIP STUDIO PAINT, a software product for producing illustrations,

manga, Webtoon, and animation, with improved features resulting from ongoing investment in development, was released. Furthermore, prices for subscriptions to provide CLIP STUDIO PAINT as a 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 going forward, regular updates are planned, with a major update planned for the fiscal year ending December 31, 2025.

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.

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

Cumulative shipments of CLIP STUDIO PAINT reached 38.91 million units (up 37.8% year-on-year) by March 2024, and exceeded 40.00 million units by May 2024. The Annual Recurring Revenue (ARR) for the SaaS service provided by the CLIP STUDIO PAINT subscription model in March 2024 was ¥3.43 billion (up 25.2% year-on-year), a record high.

The churn rate of CLIP STUDIO PAINT in March 2024 amounted to 7.8%. The payment system used for subscription fees for Windows and macOS was changed in May 2023 in order to strengthen security, and although the churn rate temporarily increased, the number of new contracts continued to steadily increase, and proceeded to stabilize from July 2023. The number of subscription contracts in March 2024 increased to 0.972 million (up 19.7% year-on-year), and worldwide membership of CLIP STUDIO Creator, a community for creators in the fields of illustrations, manga, Webtoon, and animation, reached 8.58 million people (up 19.2% 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.

Also, CLIP STUDIO PAINT came bundled with the Samsung Galaxy Book4 Pro 360 laptop worldwide in January 2024 and was preinstalled on the Android tablet NEC LAVIE Tab in February 2024. Bundled and pre-installed 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. In addition, an increase in overseas users is expected to result from being bundled with products worldwide.

As a result of the above, net sales amounted to ¥1,749,998 thousand (up 5.0% year-on-year) and operating profit amounted to ¥751,605 thousand (down 6.2% year-on-year).

Although operating profit decreased due to an increase in personnel expenses related to establishing structures to apply to change the stock listing to the Prime Market, the ARR of subscription contracts for CLIP STUDIO PAINT, which represents approximately 50% of earnings, is expected to steadily increase, and year-on-year indicators for both sales and profit are expected to improve in the future.

<Content Distribution Solutions business>

The Content Distribution Solutions business is centered on &DC3, Inc.

DC3, a platform to realize the distribution of digital content through treating all digital data as unique "things," released a major update in March 2024, which further improved the convenience of the platform through enhancements such as improved features in DC3 My Room and support for selling listed content. In addition, CLIP STUDIO PAINT Version 3.0 has improved compatibility with DC3, making registering content even easier.

Furthermore, investments to continue enhancing the quality of solutions, including improving the quality of the core program, DC3 Module, enhancing the 3D display in DC3 My Room, and strengthening functions to allow service providers to conduct business smoothly on DC3.

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, the Company has been collaborating on the animation “Astro Note,” which started broadcasting from 2024, and the game “El Shaddai,” and will also be providing collaboration through the use of DC3 with several other IPs in this period. Sales and promotional activities to facilitate use of solutions continue to be promoted.

The DC3 player “Hive Ticket Player,” which makes it so that cards, tickets, and other rights and licenses can be made into DC3 content, was released in March 2024. The ticket issuing service “Ticket-tier” was released in conjunction with this development, which provides e-ticket businesses a way to easily handle tickets as DC3 content.

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.

As a result of the above, net sales amounted to ¥261,473 thousand (up 5.1% year-on-year) and operating loss amounted to ¥186,108 thousand (operating loss of ¥157,495 thousand in the previous fiscal year).

(2) Explanation of financial position

Total assets at the end of the first quarter under review amounted to ¥8,854,754 thousand, up ¥303,229 thousand from the end of the previous fiscal year. The main factors include a decrease of ¥1,536,010 thousand in cash and deposits due to payment of dividends and deposits of expenses for the acquisition of the Company’s own shares, and increases of ¥908,936 thousand in investment securities and ¥1,000,000 thousand in deposits paid.

Liabilities at the end of the first quarter under review amounted to ¥2,068,258 thousand, up ¥176,850 thousand from the end of the previous fiscal year. The main factors include increases of ¥48,298 thousand in income taxes payable and ¥60,294 thousand in provision for bonuses.

Net assets at the end of the first quarter under review amounted to ¥6,786,496 thousand, up ¥126,379 thousand from the end of the previous fiscal year. The main factors include an increase of ¥163,558 thousand in retained earnings. The equity-to-asset ratio was 75.3%.

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

The consolidated financial forecast for the fiscal year ending December 31, 2024 remains unchanged from the financial results forecast announced on February 9, 2024.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Unit: thousands of yen)

	Previous consolidated fiscal year (December 31, 2023)	Three months under review (March 31, 2024)
Assets		
Current assets		
Cash and deposits	5,601,095	4,065,085
Accounts receivable - trade	339,623	336,255
Finished goods	3,481	8,036
Raw materials and supplies	78,533	89,717
Deposits paid	-	1,000,000
Accounts receivable - other	526,165	503,183
Other	381,021	315,717
Allowance for doubtful accounts	(144)	(140)
Total current assets	6,929,776	6,317,854
Non-current assets		
Property, plant and equipment		
Buildings	185,650	185,650
Accumulated depreciation	(74,671)	(78,162)
Buildings (net)	110,979	107,488
Tools, furniture and fixtures	270,961	265,441
Accumulated depreciation	(204,942)	(194,620)
Tools, furniture and fixtures (net)	66,019	70,821
Total property, plant and equipment	176,998	178,309
Intangible assets		
Software	893,415	898,115
Software in progress	68,288	68,288
Other	90,494	89,117
Total intangible assets	1,052,197	1,055,520
Investments and other assets		
Investment securities	32,050	940,987
Leasehold and guarantee deposits	129,364	129,364
Deferred tax assets	231,136	232,717
Total investments and other assets	392,551	1,303,069
Total non-current assets	1,621,748	2,536,900
Total assets	8,551,524	8,854,754

(Unit: thousands of yen)

	Previous consolidated fiscal year (December 31, 2023)	Three months under review (March 31, 2024)
Liabilities		
Current liabilities		
Accounts payable - trade	130,321	157,623
Accounts payable - other	122,535	135,214
Advances received	829,975	858,825
Accrued expenses	87,472	77,947
Income taxes payable	35,168	83,467
Provision for bonuses	61,600	121,894
Other	165,371	157,682
Total current liabilities	1,432,444	1,592,655
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	159,027	167,097
Retirement benefit liability	278,983	287,553
Other	20,953	20,953
Total non-current liabilities	458,963	475,603
Total liabilities	1,891,407	2,068,258
Net assets		
Shareholders' equity		
Share capital	3,076,576	3,076,576
Capital surplus	2,627,828	2,627,828
Retained earnings	3,977,650	4,141,208
Treasury shares	(3,186,624)	(3,186,641)
Total shareholders' equity	6,495,431	6,658,972
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,796	7,690
Total accumulated other comprehensive income	12,796	7,690
Share acquisition rights	78,880	74,240
Non-controlling interests	73,009	45,592
Total net assets	6,660,116	6,786,496
Total liabilities and net assets	8,551,524	8,854,754

(2) Quarterly consolidated statements of income and comprehensive income
(Quarterly consolidated statement of income)
Three months ended March 31, 2024

(Unit: thousands of yen)

	Previous three-month period (from January 1, 2023 to March 31, 2023)	Three months under review (from January 1, 2024 to March 31, 2024)
Net sales	2,211,963	2,011,471
Cost of sales	1,046,661	907,321
Gross profit	1,165,302	1,104,150
Selling, general and administrative expenses	616,564	538,656
Operating profit	548,738	565,494
Non-operating income		
Interest income	483	30
Foreign exchange gains	9,489	39,459
Other	0	1
Total non-operating income	9,973	39,490
Non-operating expenses		
Loss on patents	465	325
Other	64	64
Total non-operating expenses	530	389
Ordinary profit	558,181	604,595
Extraordinary income		
Gain on reversal of share acquisition rights	-	4,640
Total extraordinary income	-	4,640
Extraordinary losses		
Loss on valuation of investment securities	-	303
Total extraordinary losses	-	303
Pre-tax net profit	558,181	608,932
Income taxes	159,249	83,471
Profit	398,932	525,460
Profit (loss) attributable to non-controlling interests	-	(27,416)
Profit attributable to owners of parent	398,932	552,876

(Quarterly consolidated statement of comprehensive income)

Three months ended March 31, 2024

(Unit: thousands of yen)

	Previous three-month period (from January 1, 2023 to March 31, 2023)	Three months under review (from January 1, 2024 to March 31, 2024)
Profit	398,932	525,460
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,086)	(5,106)
Foreign currency translation adjustment	(3,516)	-
Total other comprehensive income	(7,603)	(5,106)
Comprehensive income	391,329	520,354
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	391,329	547,770
Comprehensive income attributable to non-controlling interests	-	(27,416)

(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)

Not applicable.

(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]

Three months ended March 31, 2023 (from January 1, 2023 to March 31, 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
	Content Production Solutions business	Content Distribution Solutions business	UI/UX business	Total		
Net sales						
Net sales to external customers	1,666,098	248,326	297,538	2,211,963	—	2,211,963
Inter-segment net sales and transfers	—	12,000	—	12,000	(12,000)	—
Total	1,666,098	260,326	297,538	2,223,963	(12,000)	2,211,963
Segment profit (loss) (Note)	800,894	(157,495)	(94,661)	548,738	—	548,738

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.

Three months ended March 31, 2024 (from January 1, 2024 to March 31, 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	1,749,998	261,473	2,011,471	—	2,011,471
Inter-segment net sales and transfers	—	2	2	(2)	—
Total	1,749,998	261,476	2,011,474	(2)	2,011,471
Segment profit (loss)	751,605	(186,108)	565,496	(2)	565,494

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 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)

Not applicable.

(Significant changes in amount of goodwill)

Not applicable.