

KADOKAWA CORPORATION

9468

Tokyo Stock Exchange First Section

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FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

<https://www.fisco.co.jp>

■ Index

■ Summary	01
1. FY3/21 results	01
2. FY3/22 outlook	01
3. Mid-term management policy	01
■ Business overview	02
1. Publication business	03
2. Video business	03
3. Game business	04
4. Web Services business	04
5. Others	06
■ Results trends	06
1. Overview of the FY3/21 results	06
2. Trends by business segment	07
3. Financial condition and management indicators	11
■ Outlook	13
1. FY3/22 outlook	13
2. Outlook by business segment	14
■ Mid-Term Management Strategy	17
1. Basic strategy and management indicators	17
2. Priority measures	18
3. State of preparations for operations at the digital manufacturing and distribution plant	20
■ SDGs initiatives	21
■ Shareholder return policy	22

Summary

Results are entering a new growth stage by progressing a global media mix strategy with IP as the starting point

KADOKAWA CORPORATION <9468> (hereinafter, also “the Company”) is a comprehensive entertainment company that operates Publication, Video and Game, Web Services, and Others businesses including education business globally and has an operating holding company format with various group companies, including DWANGO Co., Ltd., which runs one of Japan’s largest video services niconico, game developers FromSoftware, Inc. and Spike Chunsoft Co., Ltd.

1. FY3/21 results

In the FY3/21 consolidated results, net sales increased 2.6% year-on-year (YoY) to ¥209,947mn and operating profit grew 68.5% to ¥13,625mn, and both were new record highs. The main factors were that due to the impact of the novel coronavirus pandemic (hereafter, COVID-19), net sales declined approximately ¥19bn in the Group as a whole, centered on the Video business, Web Services business, and experiential business. However, income increased significantly in the Publication business, including as the sales growth of highly profitable e-books accelerated and the effects of the improvement to the return rate of paper books, while earnings also grew greatly in the animation business and the Game business.

2. FY3/22 outlook

For the FY3/22 full year consolidated results outlook, based on the high degree of uncertainty about the market environment due to the further spread of the novel coronavirus pandemic, the Company has set forecasts in a range format (net sales of ¥218,000 to ¥228,000mn, up 3.8% to 8.6% YoY, and operating profit of ¥10,000 to ¥14,000mn, down 26.6% to up 2.8%). It is aiming for operating profit of ¥14,000mn but has set a lower limit of ¥10,000mn based on the sense of uncertainty due to the possibility of COVID-19 further worsening. Even at the upper limit, the outlook is for the profit margin to decline, and this is mainly because income is forecast to decrease in the Publication business and the Game business. The reasons for this are that in the Publication business, it will invest in development and in human resources in order to build a foundation for growth, while in the Game business, it is expected that repeat demand will contract for previously released titles that contributed to the increase in profits in FY3/21. Conversely, it is thought that the double-digit growth will continue in businesses such as e-books, animation, and education.

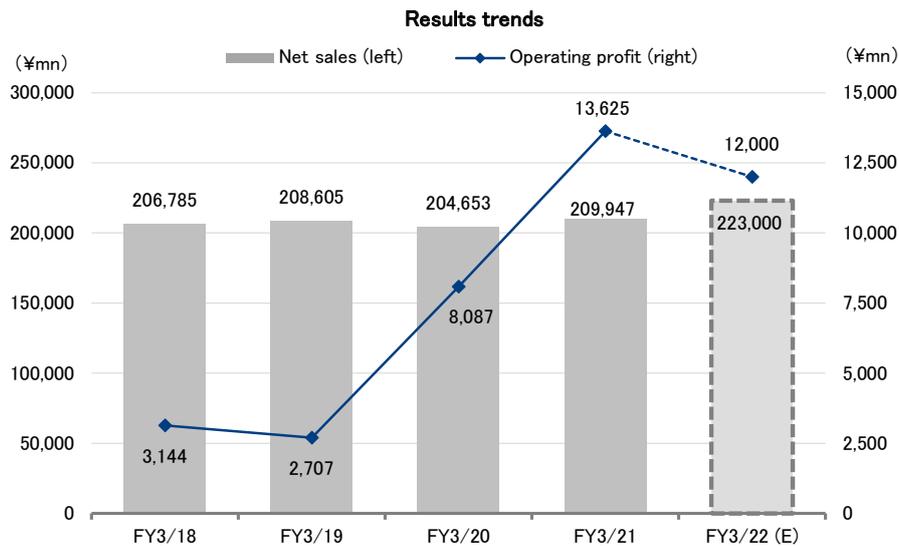
3. Mid-term management policy

In its mid-term management policy, the Company has set a global media mix strategy. It is maximizing the value of IP through the global deployment of the media mix, of its abundant and diverse IP, centered on e-books, animation and games, and by integrating the digital and the real to provide a world view of IP through new UX. By progressing a growth strategy on three dimensions of “IP cultivation” x “Media mix” x “Global rollout” it is targeting net sales of ¥240bn and operating profit of ¥16bn in FY3/23. As the priority measures for the four businesses positioned as the growth businesses (books, animation, Game, education), for the books business, it will expand new IPs, accelerate DX, globally expand e-books; in the animation business, it will strengthen the production system and increase licensing income; in the Game business, it will launch new big titles; and in the education business, it is aiming to be the leading company domestically. All four businesses contributed to earnings growth in FY3/21, and going forward also, they are expected to drive growth.

Summary

Key Points

- In FY3/21, books, animation, and games performed strongly, and net sales and operating profit were new record highs
- For the FY3/22 results, has announced range forecasts on taking into consideration the negative impact of COVID-19
- Is aiming for sustainable growth through the global media mix strategy



Note: The FY3/22 forecasts are the median values of the Company's range forecasts
 Source: Prepared by FISCO from the Company's financial results

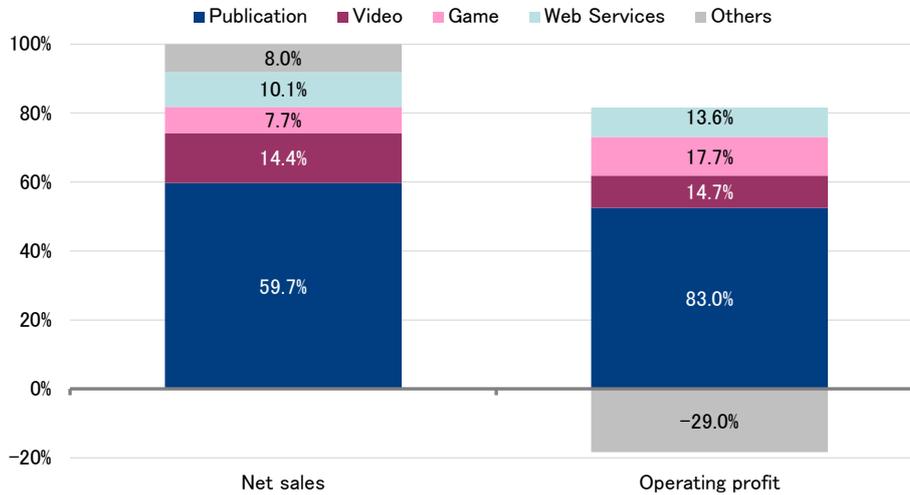
Business overview

A comprehensive entertainment company group developing four main businesses; Publishing, Video, Game, and Web Services

The Company is a comprehensive entertainment corporate group that operates both in Japan and overseas, with four main businesses: the Publication business, the Video business, the Game business, and the Web Services business. The breakdown of 1H FY3/21 net sales by segment shows the Publication business at a majority with 59.7%, Video business at 14.4%, Web Services business at 10.1%, Game business at 7.7%, and Others (including education, CDs, goods, and other merchandising, and inbound-related business) at 8.0%. The operating loss in the Others business was covered by operating profit in the four main businesses, particularly the Publication business. While Publication business is currently the primary source of sales and profits, the Company hopes to increase sales and improve profitability in the Video and Game businesses with a media mix strategy utilizing its own IP and achieve renewed growth in Web Services business, which restored profitability in FY3/20, by building the fan community and developing and providing new services.

Business overview

Composition of net sales and operation profit (loss) by business segment (FY3/21)



Note: The composition of operating profit is before deductions from internal adjustments.
 Source: Prepared by FISCO from the Company's financial results

1. Publication business

In this business, which is KADOKAWA's main business, the Company publishes and sells paper-based books, separate volumes, light novels, and comics, as well as e-books and magazines. A wealth of title archives (110,000 paper-based books and 60,000 e-books) is a driving force of the KADOKAWA Group's growth. In addition to magazines including "The Television" (TV information), "Famitsu" (game information), and "Lettuce Club" (lifestyle information) and mooks (magazine-style books) in this business, the Company also produces custom media as well as selling advertisements on the Internet.

For sales of paper books, the Company has strength in developing works through its media mix strategy, and it continuously publishes new titles at a rate of 5,000 a year. The Company has worked on optimizing production and shipments based on marketing results from many years and utilization of digital technology. Its book return rate in FY3/21 was in the 27% range, which is lower than the industry average.

Conversely, in e-books, the Company sells its own and other companies' works on BOOK☆WALKER, which is its directly managed e-books distribution platform, and also on the e-book stores of other companies, like Amazon <AMZN> and Rakuten, Inc. <4755>. For e-magazines, it provides and manages content in collaboration with NTT DoCoMo, Inc. for d magazine, which is an all-you-can-read magazine service. Sales of e-books and e-magazines continue to grow at double-digit rates, partly reflecting expansion of the overall market, while sales of e-books and e-magazines as a percentage of overall sales of books and magazines increased to just under 50% in FY3/21.

2. Video business

The Video business includes planning, production, and distribution of movies; sales of package software; sales of copyrights to overseas versions of anime; and video distribution. In addition, Kadokawa Daiei Studio Co., Ltd. and Glovision Inc. are developing the studio business, while MOVIE WALKER Co., Ltd., operates the digital movie ticket service, Movieticket. The segment focuses on developing a mix of media, such as creating video from the Group IP generated in the Publication and Game businesses and producing anime and live-action films.

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Business overview

3. Game business

In the Game business, KADOKAWA CORPORATION, FromSoftware, Inc., Spike Chunsoft Co., Ltd., and KADOKAWA GAMES, LTD. carry out the planning, development, and sales of packaged game software, network games, and app games. Previous hit titles include “DARK SOULS,” “Bloodborne,” “SEKIRO: SHADOWS DIE TWICE” (FromSoftware), “GOD WARS” (KADOKAWA GAMES), “Kenka Bancho,” “Danganronpa,” and “ARK: Survival Evolved” (Spike Chunsoft).

4. Web Services business

DWANGO handles the Web Services business and mainly operates a portal business (running the niconico video services, etc.). It also implements live business that plans and manages various events as niconico advertising and promotion as well as mobile business (music distribution service for mobile phones).

The Company provides various services on its mainstay portal business, including the niconico Douga, niconico Live, and niconico Channel. Sales include net sales from monthly fees (¥550/month) obtained from niconico premium members, which enables them to watch videos and live broadcasts comfortably; advertising net sales, such as from website banners and video; and net sales from points used to watch pay-to-view videos. As of March 31, 2021, the number of valid members*1 was 85.49 million people, while 1.53 million of these were premium members (down 100,000 people from March 31, 2020), as the downward trend since 2017 continues. The usage conditions from January to March 2021 were that MAU (monthly active users), including non-log-in unique users (UU)*2, was 19.26 million people.

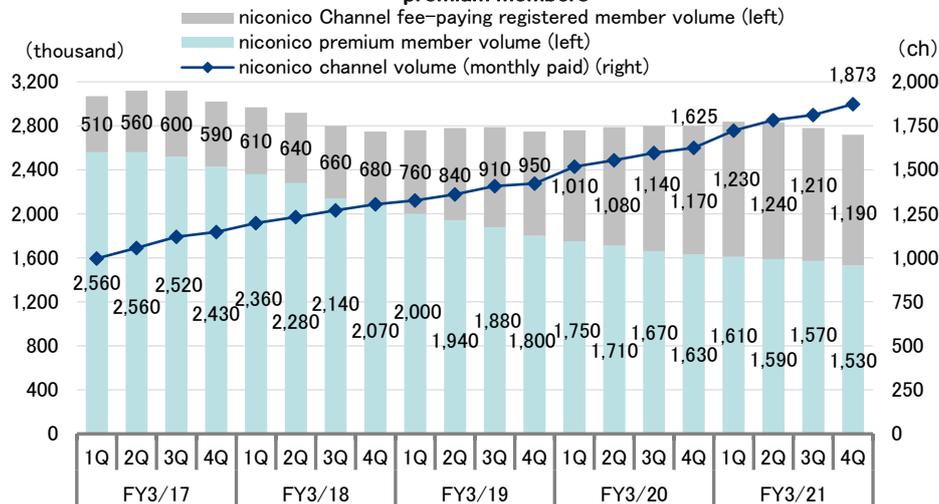
*1 Number of members obtained by subtracting cancellations and unauthorized IDs from ID issuance volume.

*2 From the end of February 2018, it became possible to view without logging-in.

On the other hand, the niconico Channel is a platform where companies, organizations, and users can distribute video and live broadcasts. At the end of March 2021, it had a total of 9,825 channels (up 609 channels from March 31, 2020), 1,873 monthly-fees channels (up 248 channels), and 1,190,000 monthly fee-paying registered members (up 20,000 people), and all of the indicators continue to increase. A growing number of companies and individuals are engaging in business using SNS video, and communications network quality has substantially improved with the version upgrade in 2018. We think the ability to view high-quality video smoothly even on a smartphone is helping increase the number of fee-paying registered members.

Business overview

Volume trends in niconico monthly fee-paying registered members and premium members



Source: Prepared by FISCO from the Company's results briefing materials

In the live business, the Group plans and manages live events, including niconico Chokaigi*1, Tokaigi*2, and Animelo Summer Live*3. Also, the Hareza STUDIO (Ikebukuro), which opened in November 2019, distributes a wide-range of contents, including live performances using virtual characters based on the concept of integrating the real and virtual worlds, and also anime- and game-related stage events.

*1 The largest niconico event held at Makuhari Messe with the concept of "recreating all of niconico onsite." It involves the planning of various events that integrate the real and virtual worlds in which "all the participating users become the lead actors." Due to the impact of COVID-19, niconico net Chokaigi 2021 was held only online (April 24 to May 1, 2021), the same as in 2020. The total number of online event visitors was approximately 17.96 million people, which is more than the total number of online event visitors to niconico net Chokaigi 2020 Summer (approximately 17.73 million people). In 2022, the event is scheduled to be held at Makuhari Messe for the first time in three years.

*2 Japan's largest "user participation" game event that features games from analogue to digital and old and new games from all over the world. Continuing on from 2020, net Tokaigi 2021 was held online and was jointly held with niconico net Chokaigi 2021. It is contributing to the expansion of the Japanese game market and the e-sports market.

*3 This is the world's largest Anison live event held in August and September of each year. It was cancelled in 2020, and instead Animelo Summer Night in Billboard Live was held online. In 2021, the in-person event is scheduled to be held from the 27th to the 29th of August.

The mobile business operates dwango.jp, which distributes single songs, ring tones, and so forth, as well as animelo mix, which distributes digital contents. The mobile business still generates a decent level of profit margin, despite the continuing downward trend in the number of members due to changes in the market environment in the music distribution business.

Business overview

5. Others

The others business includes the education business and the MD business, as well as planning and operation of a museum, an anime hotels, restaurants, and events, etc., inside Tokorozawa Sakura Town,* one of Japan's largest pop-culture hubs, which had a grand opening in November 2020. The education business is centered on Vantan Inc., which operates multiple schools focused on creative fields, and DWANGO Co., Ltd., which provides educational systems characterized by interactivity from the integration of the online and real worlds, to schools including N High School (KADOGAWA DWANGO Campus), an online-based, distance-learning high school. In the MD business, Chara-Ani Corporation engages in the planning and sales of character goods and CDs linked to event participation.

* This is the centerpiece site of the COOL JAPAN FOREST Vision (Joint project between the Company and Tokorozawa City), which aims to generate cutting-edge culture and industry in a location with rich greenery and disseminate them to the world. It includes a book manufacturing and logistics plant, new office space, event space, an anime hotel, shops, restaurants, and commercial facilities operated by the Company, and Kadokawa Culture Museum, a cultural multifaceted facility, managed and operated by Kadokawa Culture Promotion Foundation. The total budget is ¥39.5bn.

Results trends

In FY3/21, books, animation, and games performed strongly, and net sales and operating profit were new record highs

1. Overview of the FY3/21 results

In the FY3/21 consolidated results, net sales increased 2.6% YoY to ¥209,947mn, operating profit rose 68.5% to ¥13,625mn, ordinary profit grew 63.5% to ¥14,369mn, and profit attributable to owners of parent increased 18.4% to ¥9,584mn. The results were excellent, with both net sales and operating profit achieving new record highs.

The negative impact of COVID-19 on the net sales of the Group as a whole was approximately ¥19bn. However, the main factor behind the increases in net sales and profit was the strong performances of the books, animation, and games, which are a focus area with high growth potential and profitability. Also, even since before COVID-19, the Group has been progressing improvements to work efficiency through working on DX management, including workstyle reforms based on ABW*, while it has also created a structure that can stably create IP, and these were also factors behind the significant increase in earnings.

* ABW (Activity Based Working) is a style of working autonomously without being restricted by time or place.

FY3/21 consolidated results

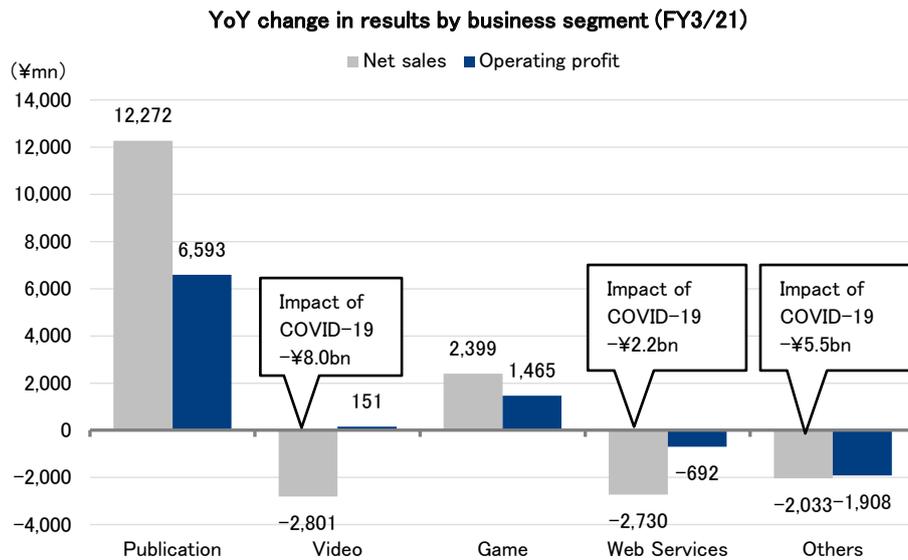
	FY3/20			FY3/21			
	Results	% of net sales	Company forecast*	Results	% of net sales	YoY	vs. forecast
Net sales	204,653	-	206,000	209,947	-	2.6%	1.9%
Operating profit	8,087	4.0%	14,000	13,625	6.5%	68.5%	-2.7%
Ordinary profit	8,787	4.3%	14,000	14,369	6.8%	63.5%	2.6%
Profit attributable to owners of parent	8,098	4.0%	9,500	9,584	4.6%	18.4%	0.9%
EBITDA	12,948	6.3%	18,700	18,154	8.6%	40.2%	-2.9%

* The Company forecasts are those announced in February 2021
 Source: Prepared by FISCO from the Company's financial results

KADOKAWA CORPORATION | 1-Jul.-2021
 9468 Tokyo Stock Exchange First Section | <https://group.kadokawa.co.jp/global/ir/>

Results trends

Looking by business segment, net sales increased in the Publication business and the Game business, which covered for the declines in the businesses that were severely negatively affected by COVID-19; namely, the Video business, the Web Services business, and the Others business. In profits also, the increases in the Publication business and Game business covered the decreases in the Web Services business and the Others business.



Source: Prepared by FISCO from the Company's results briefing materials

Results grew significantly in the Publication business and were strong in the animation and Game businesses

2. Trends by business segment

Results by business segment

	FY3/20		FY3/21		YoY	
	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Consolidated total	204,653	8,087	209,947	13,625	2.6%	68.5%
Publication	117,303	6,248	129,576	12,841	10.5%	105.5%
Video	34,116	2,122	31,314	2,274	-8.2%	7.1%
Game	14,237	1,278	16,636	2,744	16.9%	114.6%
Web Services	24,739	2,788	22,008	2,096	-11.0%	-24.8%
Others	19,497	-2,583	17,463	-4,491	-10.4%	-
Eliminations/Corporate	-5,240	-1,768	-7,053	-1,839	-	-

* In conjunction with the integration of KADOKAWA CORPORATION into KADOKAWA CORPORATION holding company in July 2019, for the 3-month period (April – June 2020), there was a cost transfer from the Corporate/Eliminations segment to business segments of approximately ¥300mn (of this, approximately ¥200mn to the Publication segment).

Source: Prepared by FISCO from the Company's results briefing materials

Results trends

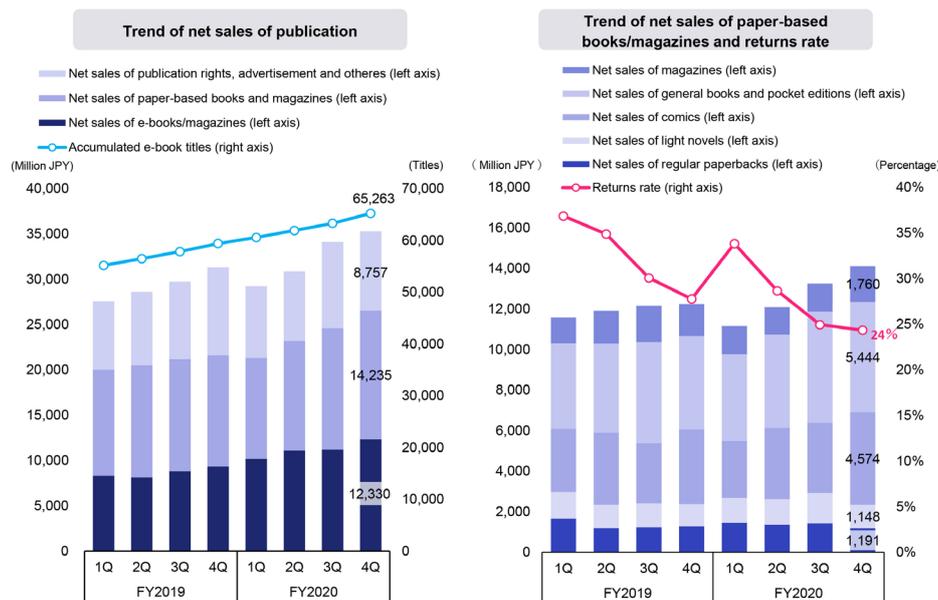
(1) Publication business

In the Publication business, net sales increased 10.5% YoY to ¥129,576mn and operating profit grew significantly, rising 105.5% to ¥12,841mn. For paper books, although the decline was only small for the industry as a whole* and being amid the COVID-19 pandemic, the Group was able to maintain the number of new publications at around the same level as in the previous period. Due to the strong sales, including of popular series of comics, light novels, and children’s books, net sales increased 6.8% YoY. By genre, net sales increased in every genre, in general books by 19%, in comics by 6%, in light novels by 13%, and in paperback books by 1%.

* According to a survey by the All Japan Magazine and Book Publisher’s and Editor’s Association, the sales total of paper books declined 0.9% YoY in 2020.

In profits, in addition to the effects of the higher sales, the return rate declined significantly, from 32.3% in the previous period to 27.4%, which also contributed to the major increase in profits. There were two main reasons for the improvement in the return rate. The first reason is that for a number of years, the Group has been working to digitize the orders reception system to reduce excess orders by bookstores, and the number of stores deploying the automatic dispatch system and the direct order tablets for bookstores (DOT) has increased. The second reason is that sales via e-commerce stores, which do not hold stock, grew greatly, up 30% YoY.

Publishing business results



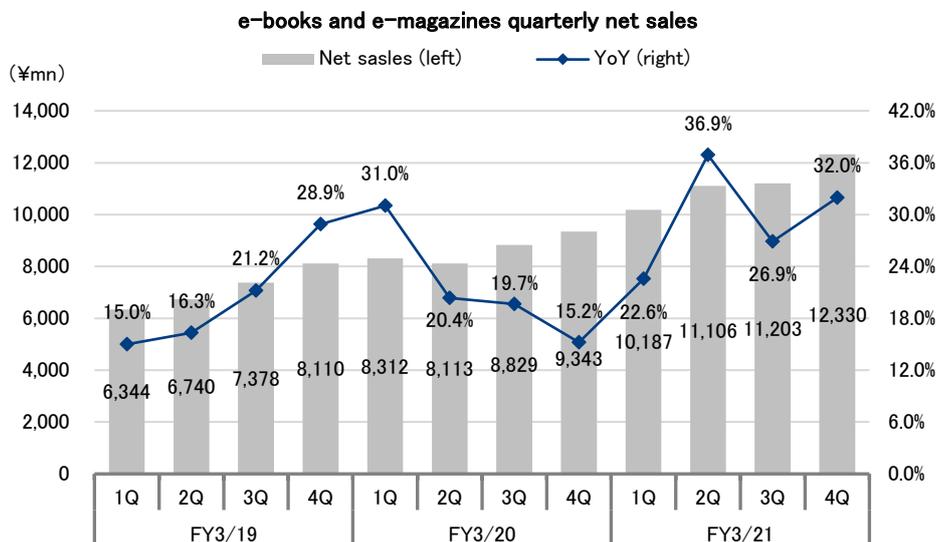
Source: The Company’s results briefing materials

Conversely, for e-books and e-magazines, net sales increased 29.6% YoY to ¥44,827mn and growth accelerated. In addition to the growth of the market as a whole*, the main factors included that in order to acquire new users of BOOK☆WALKER, the Company’s own store, it actively conducted marketing measures, and that overseas sales, although still only small scale, also grew steadily, increasing 22%. In addition, in publications for women, sales were strong in the Isekai Tensei (otherworld transportation) genre of comics. Looking at how sales trended by sales channel, the percentage of total sales via BOOK☆WALKER was approximately 20% and the sales increase rate was 29% YoY, and sales via external channels such as Amazon were around 60% and the sales increase rate was 46%. The remainder of sales were via d magazine, a collaboration with NTT DoCoMo.

* According to a survey by the All Japan Magazine and Book Publisher’s and Editor’s Association, the e-books sales amount increased 28.0% YoY in 2020.

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Results trends



Source: Prepared by FISCO from the fact sheet

(2) Video business

In the Video business, net sales decreased 8.2% YoY to ¥31,314mn, but operating profit increased 7.1% to ¥2,274mn. The main reason for the lower sales was the decline in sales of Movieticket, an electronic ticket service for movie theaters, because some movie theaters were forced to temporarily close or to restrict the number of seats due to COVID-19, and also the decline in sales of the studio business. The Company estimates that COVID-19 had a negative impact on net sales of approximately ¥8bn.

Conversely in profits, the media mix strategy in the animation business was a success and profits increased. The main reasons for the higher profits were the increases in international licensing revenue of the Company's own IP and of domestic licensing revenue, in conjunction with online games distributed by other providers using the IP of the Company. For North America and China, games such as "Re: ZERO-Starting Life in Another World" and "DECA-DANCE," and for other companies in Japan, games including "SWORD ART ONLINE: Alicization War of Underworld" and "God's Blessing on This Wonderful World! Fantastic Days," each contributed.

(3) Game business

In the Game business, net sales increased 16.9% YoY to ¥16,636mn, and operating profit increased 114.6% to ¥2,774mn. Growth in sales and profits was due to repeat sales of the "Pokémon Mystery Dungeon: Rescue Team DX," the "SEKIRO: SHADOWS DIE TWICE" and the "DARK SOULS" series in response to global expansion of the game market and favorable progress in collaborative/contracted development businesses, along with growth in international licensing revenue.

Looking only at the 4Q (January to March 2021), net sales increased 4.6% compared to the same period in the previous fiscal year to ¥4,261mn and the operating loss was ¥202mn (a loss of ¥201mn in the previous fiscal year), and growth was sluggish. The main factors included that in sales, repeat sales slowed down, while in profits, personnel costs increased reflecting the previous strong results (causing incentive costs to increase).

Results trends

(4) Web Services business

In the Web Services business, net sales decreased 11.0% YoY to ¥22,008mn and operating profit declined 24.8% to ¥2,096mn. In the niconico-related business, the downward trend in sales was halted, because although the number of premium members decreased (down 100,000 people) from the end of the previous period to 1.53 million people, multifaceted charging opportunities increased, including from paid live broadcasting and the niconico Channel. Therefore, net sales was basically unchanged YoY. However, in costs, the Company invested in updating the website to improve user convenience and in producing and acquiring content with the aim of increasing sales.

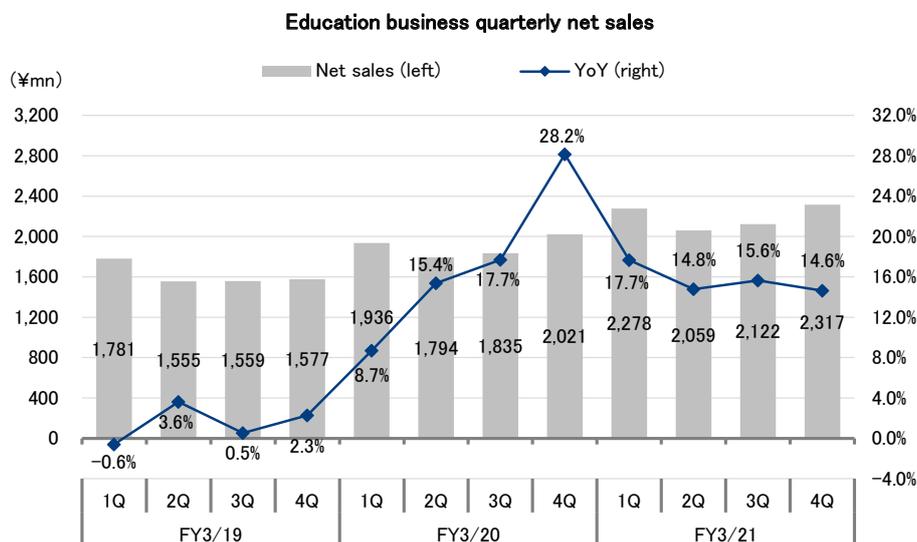
Conversely, in the live business, the main factor was that net sales decreased approximately ¥2.2bn due to the impact of in-person events being cancelled or changed to being held online due to COVID-19. However, as this business is positioned as having a promotional role, its impact on profits was negligible. The events held online, including niconico net Chokaigi 2020, niconico net Chokaigi 2020 Summer, and Animelo Summer Night in Billboard Live, were favorably received. Net sales and profits decreased in the mobile content delivery business, but it still secured profits.

(5) Others

In the Others business, net sales decreased 10.4% YoY to ¥17,463mn and the operating loss was ¥4,491mn (a loss of ¥2,583mn in the previous period). In the education business, the number of students in N High School, the online-based distance-learning high school, has been steadily increasing, and the provision of educational contents through DWANGO, including to this school, has grown. The number of students in Vantan, the creative field school, also trended steadily, and therefore net sales increased 15.7% YoY to ¥8,777mn for a new record high. Profits also trended steadily due to the contribution from the N High School business despite higher investment, including to establish a new school building for Vantan.

In the experiential business, in November 2020 Tokorozawa Sakura Town (Tokorozawa City, Saitama Prefecture) had its grand opening and the sales from its new businesses, including an anime hotel, contributed. However, results slumped in the other inbound-related businesses due to COVID-19. In the MD business as well, net sales declined significantly due to the impact of COVID-19, including as sales launches of CDs linked to event participation were postponed. The amounts that COVID-19 negatively impacted net sales were approximately ¥1bn in the experiential business and around ¥4.5bn in the MD business. In profits also, the costs of launching Tokorozawa Sakura Town were added to the decline in gross profit due to the lower sales, and these were the main reasons for the higher loss.

Results trends



Source: Prepared by FISCO from the Company's fact sheet

Greatly strengthened the financial foundation through growing earnings and a capital increase through an issuance of new shares through a third-party allotment

3. Financial condition and management indicators

Looking at the financial condition at the end of FY3/21, total assets have increased by ¥26,652mn from the end of the previous fiscal year to ¥269,648mn. Breaking this down, there were increases of ¥9,985mn in current assets and ¥16,668mn in non-current assets. Looking at the main change factors, in current assets cash and deposits increased by ¥4,162mn due to growth in earnings and financing conducted through an issuance of new shares through a third-party allotment. In addition, notes and accounts receivable – trade increased by ¥3,541mn, and inventories increased by ¥1,783mn. In non-current assets, property, plant and equipment increased ¥11,763mn due to the grand opening of Tokorozawa Sakura Town, while intangible assets increased by ¥949mn, primarily software. In addition, investment securities increased by ¥6,800mn due to an increase in the fair value of shareholdings, while deferred tax assets decreased by ¥2,066mn.

Total liabilities were up ¥4,503mn from the end of the previous fiscal year to ¥140,123mn. Current liabilities increased ¥14,171mn, but non-current liabilities decreased ¥9,668mn, mainly because long-term borrowing of ¥10,000mn was transferred to current liabilities. Also in current liabilities, there were increases in notes and accounts payable-trade of ¥689mn, advances received of ¥1,750mn, and provision for bonuses of ¥954mn. Total interest-bearing debt declined ¥65mn on the end of the previous fiscal period to ¥65,459mn.

Total net assets increased ¥22,149mn from the end of the previous fiscal period to ¥129,524mn. In addition to retained earnings rising ¥7,696mn following a capital increase through issuance of new shares through a third-party allotment and the cancellation of treasury shares, share capital and capital surplus increased ¥6,021mn and treasury shares decreased ¥4,102mn (an increase factor). Also, due to the increase in the market capitalization of held shares, the valuation difference on available-for-sale securities increased ¥4,738mn.

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Results trends

In management indicators, the Company's equity ratio, which reflects soundness, climbed by 3.9pp from the end of previous fiscal year to 47.2%, and the D/E ratio (interest-bearing debt/capital) declined by 0.11pp to 0.51x. Net cash (cash and deposits – interest-bearing debt) expanded from ¥9,356mn at the end of the previous fiscal year to ¥13,583mn, which can be taken as progress on strengthening the Company's financial base. Based on the fact that large investment has already peaked, the Company's financial health is expected to continue improving from FY3/22 onward.

Consolidated balance sheet

	FY3/19	FY3/20	FY3/21	Amount of change	Main change items
					(¥mn)
Current assets	148,975	143,919	153,904	9,985	Cash and deposits +4,162, Trade receivables +3,541, Inventories +1,783
(Cash and deposits)	73,597	74,880	79,042	4,162	
Non-current assets	91,096	99,076	115,744	16,668	Property, plant and equipment +11,763, Intangible assets +949, Investment securities +6,800, Deferred tax assets -2,066
Total assets	240,072	242,995	269,648	26,652	
Current liabilities	65,325	65,176	79,347	14,171	Borrowings +9,935, Trade payables +689, Advances received +1,750, Provision for bonuses +954
Non-current liabilities	71,335	70,444	60,776	-9,668	Long-term borrowings -10,000
Total liabilities	136,660	135,620	140,123	4,503	
(Interest-bearing debt)	65,518	65,524	65,459	-65	
Net assets	103,411	107,375	129,524	22,149	Retained earnings +7,696, Share capital +4,999, Treasury shares +4,102, Valuation difference on available-for-sale securities +4,738

Source: Prepared by FISCO from the Company's financial results

Cash flow statement

	FY3/19	FY3/20	FY3/21
Cash flow from operating activities	5,864	16,516	15,586
Cash flow from investing activities	-13,058	-29,908	-5,931
Cash flow from financing activities	-4,236	-4,359	7,933
Cash and equivalents at the end of the period	56,123	38,151	55,887
Net cash	8,079	9,356	13,583

Source: Prepared by FISCO from the Company's financial results

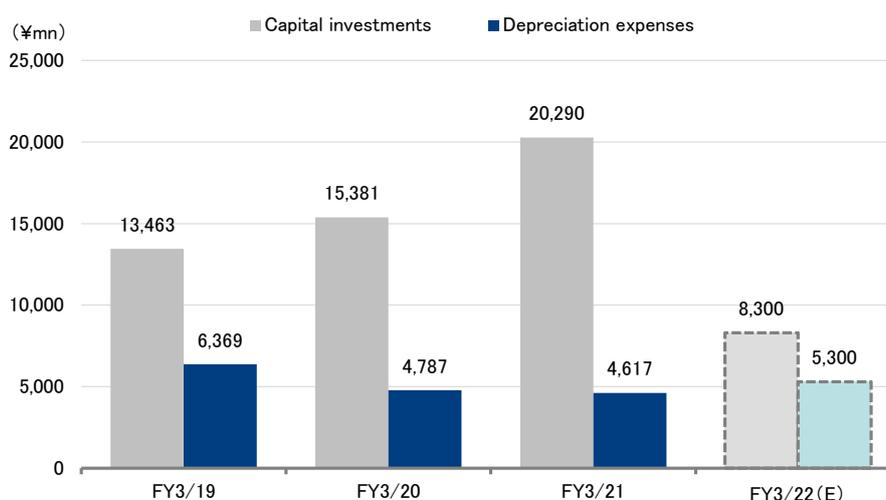
Management indicators

	FY3/19	FY3/20	FY3/21
<Financial soundness>			
Current ratio	228.1%	220.8%	194.0%
Equity ratio	42.2%	43.3%	47.2%
D/E ratio	0.63	0.62	0.51
<Profitability>			
ROE	-3.9%	7.8%	8.2%
ROA	1.8%	3.6%	5.6%
Operating margin	1.3%	4.0%	6.5%

Source: Prepared by FISCO from the Company's financial results

Results trends

Capital investment (on a cash basis) peaked at ¥20,290mn in FY3/21 following the completion of Tokorozawa Sakura Town, and the outlook is that it will decrease to ¥8,300mn in FY3/22. Breaking down the investment amount, investment in intangible assets, such as software development, will constitute the majority at ¥6,400mn (¥3,259mn in the previous period). Conversely, depreciation is expected to increase ¥683mn YoY to ¥5,300mn in FY3/22 due to the full-year depreciation of Tokorozawa Sakura Town.

Trends in capital investment and depreciation expenses


Note: Capital investment is the amount based on cash. On the consolidated statement of cash flows, the total of "purchase of property, plant and equipment" and "purchase of intangible assets" includes the value of non-current assets acquired in the previous period (n-1 period) and for which the expenditure was made in the current period (n period).

Source: Prepared by FISCO from the Company's results briefing materials

■ Outlook

For the FY3/22 results, has set forecasts in a range format in consideration of the negative impact of COVID-19

1. FY3/22 outlook

For the FY3/22 full year consolidated results outlook, the Company has set forecasts in a range format based on the high degree of uncertainty about the market environment due to the further spread of the novel coronavirus pandemic. It is forecasting net sales of ¥218,000 to ¥228,000mn (up 3.8 to 8.6% YoY) operating profit of ¥10,000 to ¥14,000mn (down 26.6% to up 2.8%), ordinary profit of ¥10,500 to ¥14,500mn (down 26.9% to up 0.9%), and profit attributable to owners of parent of ¥6,900 to ¥9,600mn (down 28.0% to up 0.2%).

The lower limits are the values on taking into consideration the possibility that the COVID-19 pandemic will worsen. Even for the upper limit, the operating profit margin is forecast to be lower than in FY3/21. This is mainly because the Company will continue to invest in growth in the future and also as depreciation will increase. EBITDA (operating profit + depreciation + amortization of goodwill) is forecast to be from ¥15,300 to ¥19,300mn (down 15.7% YoY to up 6.3%), and the upper limit is a profit margin of around the same level as in the previous fiscal year.

KADOKAWA CORPORATION | 1-Jul.-2021
 9468 Tokyo Stock Exchange First Section | <https://group.kadokawa.co.jp/global/ir/>

Outlook

FY3/22 results outlook

	FY3/21 Results	FY3/22	
		Company forecast	YoY
Net sales	209,947	218,000~228,000	3.8%~8.6%
Operating profit	13,625	10,000~14,000	-26.6%~2.8%
Ordinary profit	14,369	10,500~14,500	-26.9%~0.9%
Profit attributable to owners of parent	9,584	6,900~9,600	-28.0%~0.2%
EBITDA	18,154	15,300~19,300	-15.7%~6.3%
Profit per share (¥)	154.84	107.05~148.94	-

Source: Prepared by FISCO from the Company's financial results

In the mainstay Publication business, the forecasts are for higher net sales but lower operating profit due to investment in growth

2. Outlook by business segment

Results outlook by business segment

		FY3/21 Results	FY3/22 Company forecast	YoY	
				Amount of change	Percentage change
Publication	Net sales	129,576	133,000~136,400	3,423~6,823	2.6%~5.3%
	Operating profit	12,841	10,600~12,400	-2,241~-441	-17.5%~-3.4%
Video	Net sales	31,314	35,000~37,100	3,685~5,785	11.8%~18.5%
	Operating profit	2,274	2,500~3,400	225~1,125	9.9%~49.5%
Game	Net sales	16,636	14,000~14,800	-2,636~-1,836	-15.8%~-11.0%
	Operating profit	2,744	1,300~1,800	-1,444~-944	-52.6%~-34.4%
Web Services	Net sales	22,008	21,400~22,200	-608~191	-2.8%~0.9%
	Operating profit	2,096	2,100~2,500	3~403	0.2%~19.3%
Others	Net sales	17,463	22,400~25,300	4,936~7,836	28.3%~44.9%
	Operating profit	-4,491	-4,600~-4,200	-108~291	-
Eliminations/Corporate	Net sales	-7,053	-7,800	-746	-
	Operating profit	-1,839	-1,900	-60	-

Source: Prepared by FISCO from the Company's results briefing materials

(1) Publication business

In the Publication business, the forecasts are for net sales of ¥133,000 to ¥136,400mn (up 2.6% to 5.3% YoY) and operating profit of ¥10,600 to ¥12,400mn (down 17.5% to 3.4%). Sales of e-books will continue to grow, while sales of paper books are also expected to trend strongly. It is assumed that the paper books' return rate will be around the same level as in the previous fiscal year, but if the percentage of total sales via e-commerce stores rises and the number of stores deploying the direct order tablets increases, this rate may further improve. However, in FY3/21 sales of paper books grew more than expected during the COVID-19 pandemic, and the forecasts appear conservative.

Outlook

In this situation, the four reasons for forecasting that the profit margin will decline are as follows; the Company will increase the recruitment of editors to enhance the ability to create IPs, it will invest in developing vertical scrolling comics that are becoming increasingly popular overseas, it will invest in strengthening collaborations for the niconico Channel, and it will increase advertising expenses. For the increased recruitment of editors, it plans to recruit them over the next few years at an increase rate of 20% YoY to a structure of approximately 600 people. Vertical scrolling comics are drawn assuming that they will be read on a smartphone, and the Company is progressing IP creation and platform development with a view to their market growth in the future, and the outlook is that their sales will start during FY3/22. Also, for collaborations with niconico Channel, it will invest in order to generate earnings from books' IP on the niconico Channel.

As the assumptions for the results forecasts' lower limits, the forecasts incorporate factors including delays to and cancellations of new publications and paper books and e-books, the temporary closures of stores, and the negative impact on rights sales.

(2) Video business

In the Video business, the forecasts are for net sales of ¥35,000 to ¥37,100mn (up 11.8% to 18.5% YoY) and operating profit of ¥2,500 to ¥3,400mn (up 9.9% to 49.5%). The outlook is that, continuing from the previous period, results will be driven by the animation business, and that for the live-action, Movieticket, and studio businesses, results will be basically at the same level as in the previous fiscal year due to COVID-19. In the animation business, the forecast is for licensing revenue to increase in Japan and overseas, including from game creation. Also, in order to respond to the growth in animation demand, the Company plans to invest in increasing the number of titles and in improving production capabilities.

As the assumptions for the results forecasts' lower values, the forecasts incorporate the negative effects including on film releases in movie theaters, on the video studio, and on the Movieticket business. In late April 2021, the third declaration of a state of emergency was issued for 4 prefectures, and on entering May, the targets of this declaration were expanded to 10 prefectures. Movie theaters in these targeted areas are required to temporarily closed, and the negative effects of this are gradually starting to appear.

(3) Game business

In the Game business, the forecasts are for declines in net sales and income, of net sales of ¥14,000 to ¥14,800mn (down 15.8% to 11.0% YoY) and operating profit of ¥1,300 to ¥1,800mn (down 52.6% to 34.4%). The main factor is that the Company assumes a slowdown in repeat demand for previously released titles, which contributed to earnings in the previous period. As previously stated, signs of this started to appear from 4Q FY3/21. The assumptions made for the results forecasts' lower values include the delays in developing new games due to COVID-19.

The sales-launch timing of ELDEN RING*, which is being developed by FromSoftware to be the largest scale game so far, has not yet been determined. This title is an action RPG that will be the evolutionary version of DARK SOULS, which has recorded total sales of more than 27 million copies around the world, and it is a title that is attracting an extremely large amount of attention overseas as well. So once its sales begin, it is expected to have a major impact on earnings, but it seems that because the launch timing has not yet been decided, its impact has basically not at all been incorporated into the forecasts. SEKIRO: SHADOWS DIE TWICE is a recently released title by FromSoftware that was a major hit, and in the 10 days following its launch in March 2019, it sold more than 2 million copies (and more than 5 million copies in total).

* January 21, 2022 has been decided as the sales launch date for ELDEN RING.

Outlook

(4) Web Services business

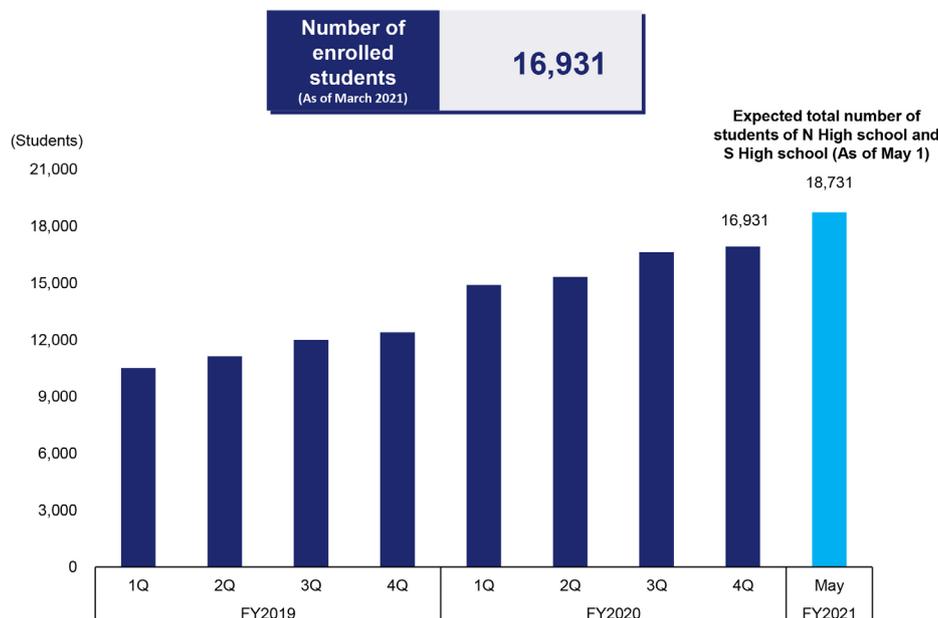
In the Web Services business, the forecasts are for net sales of ¥21,400 to ¥22,200mn (down 2.8% YoY to up 0.9%) and operating profit of ¥2,100 to ¥2,500mn (up 0.2% to 19.3%). In the niconico-related business, the outlook is that net sales will be at the same level as in the previous fiscal year, but that operating profit will increase as promotions costs and other costs will be kept down. Even though the number of niconico Douga premium members has decreased, this business continues to stably generate earnings by diversifying the sources of earnings, including from paid live broadcasting and the niconico Channel.

In the live business, events such as niconico net Chokaigi will continue to be held online, but the Company plans to hold Animelo Summer Live as an in-person event. The results forecasts' lower values assume event cancellations.

(5) Others

In the Others business, the forecasts are for net sales of ¥22,400 to ¥25,300mn (up 28.3% to 44.9% YoY) and an operating loss of ¥4,200 to ¥4,600mn (a loss of ¥4,491mn in the previous period). In the education business, by May 1, 2021, the number of students in the online-based distance-learning schools, including N High School, had increased by approximately 20% to 18,731 students compared to on April 1, 2020, and student numbers are steadily growing. Therefore, the outlook is for net sales to increase by double digits. In particular, the premium version of the general academic course that was launched in April 2021 is the first fully fledged course in Japan to utilize VR technology, and going forward, the extent to which students' learning capabilities are changed by utilizing VR will attract attention as a development for the future. As of May 2021, approximately 3,000 students were taking this course.

Trend in the number of students in N High School in the education business



Source: The Company's results briefing materials

Conversely, in the MD business, the forecasts are for results to be basically unchanged YoY, and in the experiential business, for net sales to increase significantly from the full year contribution of Tokorozawa Sakura Town. But in profits, the forecast is for a loss of around the same amount as in the previous period. As the assumptions for the results forecasts' lower values, the forecasts incorporate COVID-19's negative effects on the MD business and the experiential business.

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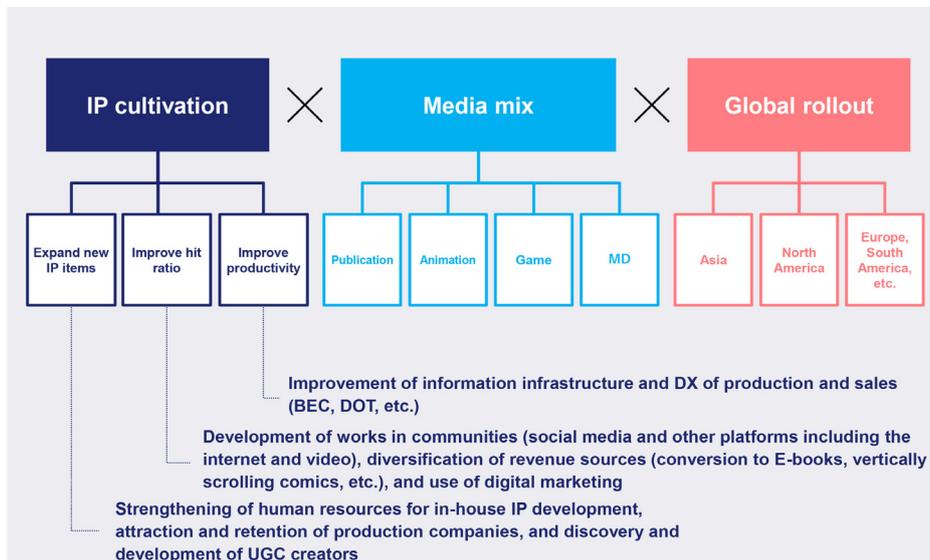
Mid-Term Management Strategy

Aim for sustainable growth through a global media mix strategy

1. Basic strategy and management indicators

The Company has set a global media mix strategy as the basic strategy in the mid-term management policy announced in 2020. It is aiming for sustainable earnings growth by working to maximize the value of IP through the global development of the media mix of its abundant and diverse IP, centered on e-books, anime and games, and by integrating the digital and the real to provide a world view of IP through new UX.

Growth model originating from IP cultivation



Source: The Company's results briefing materials

The numerical management targets for FY3/23 are net sales of ¥240bn, operating profit of ¥16bn, and EBITDA of ¥25bn. The three-year annual average growth rates, with FY3/20 as the base year, are increases of 5.5% for net sales and 25.5% for operating profit. In FY3/21, the first fiscal year, profits grew more than expected and the Company made a smooth start. As previously stated, in FY3/22 it will conduct investment in order to build a foundation for growth, so it is expected that the growth of operating profit will temporarily slow down. However, at FISCO, we think that the FY3/23 numerical financial targets are at fully achievable levels if the results of these investments are actualized.

The Company has identified four fields as important businesses: books, animation, games, and education. These will become growth drivers. The Company expects total net sales in these four businesses to increase by ¥25bn over the three years that started in FY3/20. This would account for approximately 70% of the entire increase in net sales for the Company. Similarly, the Company forecasts operating profit from these four businesses to increase by a total of ¥8bn, which is the same as the companywide increase over a three-year period.

Mid-Term Management Strategy

Management numerical goals

	FY3/20 Results	FY3/21 Results	FY3/22 Target	Annualized average growth rate*
Net sales	204,653	209,947	240,000	5.5%
Operating profit	8,087	13,625	16,000	25.5%
EBITDA	12,948	18,154	25,000	23.4%
EBITDA margin	6.3%	8.6%	10.4%	

* Annual growth rate from FY3/20 to FY3/23

Source: Prepared by FISCO from the Company's results briefing materials

Is building a foundation for growth with the books, animation, Game, and education businesses as the focus fields

2. Priority measures

The Company's policy is to work on the following six priority measures in order to achieve the mid-term management targets.

(1) Expand new IPs

Through the growth of the e-commerce and e-books markets, it is considered that the Publication business has entered a new growth trajectory by progressing DX for both development and sales. The Company is aiming to increase the number of new IPs from approximately 5,000 a year to around 6,000 a year. As the measures to achieve this increase, it will recruit additional editorial human resources (from a structure of around 500 people to around 600 people), and in addition, it will strengthen the discovery of new talent online. Specifically, it is progressing digital marketing measures including discovering new authors on the currently growing Kaku-Yomu and Maho-no-i-land novel-posting websites, and growing name recognition of new works on ComicWalker, a free comics website. Recently, the works posted on novel-posting websites like Kaku-Yomu have been converted not only into books, but into TV anime also, and going forward, the aim is to increase the number of IPs while creating this sort of virtuous circle. Also, for the policy of focusing on increasing new genres, the Company is focusing on measures including launching new comic labels, such as the new manga Aokishi*, developing vertical scrolling comics, and developing works that use video distribution.

* Launched in April 2021. A comprehensive manga magazine published every other month in which readers can encounter new works by the Company's hit authors that have been brought together in one publication.

(2) Acceleration of DX

As "Aggressive DX," the Company is working on measures including improving the return rate by progressing deliveries that are based on the digitalization of bookstores' ordering system (deploying direct order tablets) and on demand. It is also conducting marketing measures that integrate online and offline and on improving the hit rate through utilizing SNS data to develop works.

Mid-Term Management Strategy

For the direct order tablets, since 2015 the return rate has steadily improved at the stores that have introduced it (2015, 36.5%→2020, 27.8%), and going forward, the aim is to further improve sales efficiency by increasing the number of stores introducing the tablet. Also, the Company is utilizing SNS data to progress the systemization of editors' expertise, from the discovery of authors through to planning, promotional announcements, and hit analysis, while it is also aiming for successive improvements based on data. In FY3/21, sales of newly launched books in the lifestyle and practical fields were strong, increasing 35% YoY, so the results of these measures can already be seen, and it is aiming to further improve the hit rate in the future as well.

Conversely, for "Defensive DX," the Company has established an information infrastructure and worked to improve the remote working rate. In order to not only strengthen the information security system, but also to facilitate smooth communication within the Group even with teleworking, online chat rooms for business purposes have been introduced into 24 Group companies. Currently, the Group's remote working rate has reached approximately 70% and it is considered that it will promote remote working in the future as well.

(3) Global expansion of e-books

The Company is strengthening investment in the web comics field, which is a global growth market, and progressing global business development. Specifically, it is investing in the production of vertical scrolling comics in multiple languages, and also in sales and platform development, with the aim of developing BOOK☆WALKER a globally leading bookstore for vertical scrolling comics by five years' time. It is also conducting joint research with the University of Tokyo toward realizing translations of comics by utilizing AI technology, and automated frame divisions.

Also, awareness of Japanese anime is spreading globally and the light novel market is growing, and in this situation, the global development of text content, such as light novels, is accelerating. Therefore, in April 2021, J-Novel Club LLC (hereafter, JNC), which is a North American publishing company providing subscription services in an English-language publication business centered on Japanese light novel works, was made a subsidiary. JNC's business model is to distribute chapters first and then sell e-books through major online stores in the English-speaking market to keep up with new publications in Japan. In the future, through the collaboration with JNC, sales of e-books on BOOK☆WALKER Global, which is an English-language e-books store, will grow, while the U.S. subsidiary Yen Press LLC will publish translated versions. It is considered that by growing sales of light novels overseas as well, the Company will progress the media mix strategy of creating IP of comics or of anime, so overseas net sales growth is expected to accelerate. BOOK☆WALKER Global's net sales in FY3/21 was still small, on the scale of hundreds of millions of yen, but it has plenty of room to grow in the future.

(4) Strengthen animation business

In the animation business, the Group is building a structure able to produce 40 new animation titles a year (result in the previous period, 33 works). It will thereby increase revenue from licensing and also grow game royalties from anime IP, including from game creation and game collaborations.

The number of animation titles that the Group produces is already on a globally leading scale, but going forward it intends to further expand its production capabilities. It is also considering establishing a 3DCG production studio that would bring together world-class editors from around the globe. The outlook is that licensing revenue will grow in the future alongside the increase in the number of works handled, including newly created works and hit works. Game royalties from anime IP are realizing high growth, increasing 65% YoY in FY3/21, and it appears that steady progress is being made for earnings growth through the media mix strategy.

Mid-Term Management Strategy

In February 2021, to strengthen measures with CyberAgent, Inc. <4751> and the Sony Group Corporation <6758>, the Company issued shares through a third-party allocation to both companies and raised funds of approximately ¥10bn. Since the past it has had a wide-ranging business partnership and transaction relations with CyberAgent, and this capital partnership is to further strengthen these relations. Going forward, they will progress their partnership in order to further strengthen the global media mix strategy by combining CyberAgent's development and management capabilities for games for smartphones with the Company's strength in content.

Also, the Company entered-into a capital partnership with the Sony Group with the aim of strengthening long-term relations. Going forward, they will progress the partnership in order to further strengthen the global media mix strategy by combining the Sony Group's global development capabilities for anime and consumer games with the Company's strength in content.

From the funds raised, the plan is to utilize ¥5bn to create, develop, and acquire new IP and to use the remaining ¥5bn as business funds toward maximizing the utilization of existing IP (the scheduled expenditure period is up to March 2023). To maximize the utilization of existing IP, the aim is to maximize earnings through IP multimedia development, centered on the anime and game areas, and from global business development (in the English-language area, the Chinese-language area, etc.)

(5) Launch big titles in the game business

The plan is to launch ELDEN RING*, which is an action RPG being developed by FromSoftware, although the launch timing has not yet been determined.

| * January 21, 2022 has been decided as the sales launch date for ELDEN RING. |

(6) Aim to become a leading EdTech company

The aim is to be an Edtech leading company by proving education that utilizes ICT, including at N High School, in which student numbers are steadily increasing; at S High School, which was newly established in April 2021; and at Vantan, which conducts an education business specializing in developing human resources with the skills to be deployed immediately in the creative fields.

N High School and S High School are progressing cutting-edge measures within their provision of remote-type educational services. This includes providing the two-way education and learning services developed independently by DWANGO, and experiential learning services that use VR. In the current situation requiring a 'new normal' social style during the COVID-19 pandemic, it is forecast that the number of students in N High School and S High School, which match the needs of the times, will continue to trend upward in the future. Also, if the effects of experiential learning using VR are confirmed, it is considered fully possible that earnings will increase from external sales of systems, including of content, so we will be paying attention to developments in the future.

3. State of preparations for operations at the digital manufacturing and distribution plant

The state of preparations for operations at the Tokorozawa Plant, which is a digital manufacturing and distribution plant that is the centerpiece of the manufacturing and distribution reforms in the books business, is the same as was announced in November 2020, and there has been no change to the schedule of starting fully fledged operations in FY3/24. However, the outlook is that the timing of the installations of manufacturing line equipment and the completion of the new distribution system will be slightly later than initially planned. For the manufacturing lines, the transfer of one line that had been operating at a separate plant within Japan has already been completed, but it is expected that the installation of the additional equipment will be delayed due to the impact of COVID-19. This is because the engineers needed to install the printing equipment cannot come to Japan from overseas. Therefore, the plan is to install the additional equipment quickly once the COVID-19 pandemic settles down.

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Mid-Term Management Strategy

On the other hand, for the new distribution system, there were found to be improvement points necessary in order to increase the degree of precision, so the timing of its completion has been pushed-back by approximately one year from the initial plan of January 2021. This system, which is currently being developed, is a highly precise distribution system able to deliver products in two days from the order, and once it is completed, the Company will have built a manufacturing and distribution system able to realize mass production on the optimal timing.

The investment amount has not been changed due to the revised outlook. It will have no effect on profit-loss in FY3/22, as although depreciation and related costs with regards to the construction of the new distribution system will increase, this will be cancelled-out by the delay in the timing of the recording of deprecation for the entire plant.

The items targeted for manufacturing at the new Tokorozawa Plant are replicas of publications (comics, paperback books, etc.) excluding hard covers, which constitute approximately 25% of all products. According to the Company's estimates, it will be possible to reduce costs by approximately 10% on a net shipment count basis, so it is expected to contribute to improving profitability in the future.

SDGs initiatives

The Company also pursues management practices that factor in SDGs. SDGs is the acronym for Sustainable Development Goals that consist of 17 development goals needed to realize a sustainable society adopted at the United Nations Summit in 2015. Themes cover a wide range of issues that include poverty, health, education, energy, and the environment. The Company's SDGs-related efforts are consistent with the Company's management philosophy of "Continuity and Change." The Company's SDGs are summarized as "Realize the sustainability of content," which take two themes: 1) Deliver deeper knowledge, value and excitement to people by globally sharing constantly created IPs and handing them down to future generations; and 2) Contribute to society and the environment by considering sustainability in the aspects of the production, distribution, and sales of products.

The specific initiatives and their results are described below.

(1) Reduced excessive paper consumption and conserved forests by reforming production and logistics of publication business

By introducing automatic dispatch system and direct order tablets at bookstores, the Group is working to improve the return rate and to optimize production numbers. The rate of net shipments to production (based on the number of items)* improved from 75.0% in FY3/20 to 77.2% in FY3/21. The number of items was 3,394,000 units, and 1,557.7 tons of excess paper resources were reduced.

* Ratio of the net number of shipped copies of books (shipped copies – returned copies) to the number of total production of copies of books

(2) Provide many people with opportunities to receive higher education/specialized education

The number of students in N High School had increased from 1,482 students in April 2016 to around 18,731 students (including in S High School) in May 2021. Also, the total number of students in KCA (KADOKAWA Contents Academy) was 4,726 students (in the Taiwan and Thai schools), while Vantan provides 15 SDG-related classes (in FY3/21).

SDGs initiatives

(3) Address the COVID-19 pandemic by promoting ABW and consider gender, diversity, and other elements

The Company has established an environment that is easier to work in for the child-raising and nursing generation of employees through its high remote working rate (the teleworking rate in KADOKAWA and DWANGO is approximately 70%). It is also increasing appointments of executives from overseas and females, and recruitment of people with disabilities. In Tokorozawa Sakura Town, it has installed gender-free toilets and is contributing to regional creation through the consumption of local produce, while it is also working on correcting unfairness through eliminating pirated versions of works.

Shareholder return policy

The planned dividend per share for FY3/22 is level YoY at ¥50.0

The Company's basic policy is to continuously distribute profits to shareholders while at the same time bolstering internal reserves to strengthen the corporate structure on the assumption of business longevity and to prepare for unforeseen situations and future business expansion. In addition, the Company will continue to execute share buybacks, as necessary. Regarding the per-share dividend for FY3/22, the Company plans to pay ¥50.0, which is level YoY (dividend payout ratio 33.6% – 46.7%). For FY3/21, the Company paid an ordinary dividend of ¥40.0 with an added commemorative dividend of ¥10.0 (75th anniversary commemorative dividend). Therefore, on an ordinary dividend basis, the planned dividend for FY3/22 represents an increase of ¥10.0 YoY.

The Company's shareholder gift program covers shareholders who own 100 or more shares for at least a year*¹. Qualified shareholders select one of the gift items from a catalog*². The program offers additional gifts to shareholders for three years or longer (recorded in the shareholder register at least seven straight times under the same shareholder number) as a long-term special incentive.

^{*1} For example, the requirement for shareholders to receive the shareholder gift as of March 31, 2021, is to, at a minimum, have their shares recorded in the shareholder registry under the same shareholder number at the end of March 2020, September 2020, and March 2021.

^{*2} Choices for shareholder gifts at the end of FY3/21: books (three books), a DVD or BD (one), Movieticket advanced ticket gift cards (two cards), BOOK☆WALKER gift card (two gift cards), Kadogawa paperback/light novel all-you-can-read card that can be used at BOOK☆WALKER (three months' worth), Kadogawa Shinjigen – revised edition (one copy), Animalium (one copy), and a Terebichan cushion (one).



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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp