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On **June 14, 2019**, Ateam Inc. announced earnings results for Q3 FY07/19.

Quarterly earnings (JPYmn)	FY07/17				FY07/18				FY07/19				FY07/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Revenues	7,136	8,147	9,907	9,413	8,904	9,165	10,270	9,336	8,927	9,597	9,504			
YoY	54.8%	50.3%	60.3%	39.3%	24.8%	12.5%	3.7%	-0.8%	0.3%	4.7%	-7.5%			
Gross profit	6,031	6,926	8,235	7,741	7,428	7,515	8,311	7,460	7,162	7,719	7,545			
YoY	56.8%	50.7%	58.6%	35.4%	23.2%	8.5%	0.9%	-3.6%	-3.6%	2.7%	-9.2%			
GPM	84.5%	85.0%	83.1%	82.2%	83.4%	82.0%	80.9%	79.9%	80.2%	80.4%	79.4%			
SG&A expenses	5,738	6,196	6,487	6,435	6,464	6,422	6,558	6,568	6,677	7,027	6,547			
YoY	72.5%	39.2%	47.7%	29.5%	12.7%	3.6%	1.1%	2.1%	3.3%	9.4%	-0.2%			
SG&A ratio	80.4%	76.1%	65.5%	68.4%	72.6%	70.1%	63.9%	70.4%	74.8%	73.2%	68.9%			
Operating profit	293	729	1,748	1,307	964	1,093	1,752	892	484	693	998			
YoY	-43.7%	404.4%	118.9%	74.6%	228.4%	49.9%	0.2%	-31.7%	-49.8%	-36.6%	-43.1%			
OPM	4.1%	9.0%	17.6%	13.9%	10.8%	11.9%	17.1%	9.6%	5.4%	7.2%	10.5%			
Recurring profit	292	779	1,738	1,309	981	1,096	1,776	878	507	661	1,009			
YoY	-40.8%	591.7%	131.2%	77.7%	235.3%	40.8%	2.1%	-32.9%	-48.3%	-39.7%	-43.2%			
RPM	4.1%	9.6%	17.5%	13.9%	11.0%	12.0%	17.3%	9.4%	5.7%	6.9%	10.6%			
Net income	138	538	1,162	741	678	755	1,218	655	257	484	359			
YoY	-52.6%	3043.6%	142.2%	47.0%	390.9%	40.3%	4.8%	-11.6%	-62.1%	-35.9%	-70.5%			
Net margin	1.9%	6.6%	11.7%	7.9%	7.6%	8.2%	11.9%	7.0%	2.9%	5.0%	3.8%			
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Revenues	7,136	15,283	25,190	34,603	8,904	18,069	28,339	37,674	8,927	18,524	28,028		75.8%	37,000
YoY	54.8%	52.4%	55.4%	50.7%	24.8%	18.2%	12.5%	8.9%	0.3%	2.5%	-1.1%			-1.8%
Gross profit	6,031	12,957	21,192	28,933	7,428	14,943	23,254	30,714	7,162	14,881	22,426			
YoY	56.8%	53.7%	53.7%	253.7%	23.2%	53.7%	153.7%	253.7%	-3.6%	-0.4%	-3.6%			
GPM	84.5%	84.8%	84.1%	83.6%	83.4%	82.7%	82.1%	81.5%	80.2%	80.3%	80.0%			
SG&A expenses	5,738	11,934	18,421	24,856	6,464	12,886	19,444	26,012	6,677	13,704	20,251			
YoY	72.5%	53.4%	51.4%	45.0%	12.7%	8.0%	5.6%	4.7%	3.3%	6.3%	4.1%			
SG&A ratio	80.4%	78.1%	73.1%	71.8%	72.6%	71.3%	68.6%	69.0%	74.8%	74.0%	72.3%			
Operating profit	293	1,023	2,771	4,078	964	2,057	3,809	4,701	484	1,177	2,175		76.3%	2,850
YoY	-43.7%	53.7%	89.2%	84.3%	228.4%	101.1%	37.5%	15.3%	-49.8%	-42.8%	-42.9%			-39.4%
OPM	4.1%	6.7%	11.0%	11.8%	10.8%	11.4%	13.4%	12.5%	5.4%	6.4%	7.8%			7.7%
Recurring profit	292	1,071	2,810	4,118	981	2,077	3,853	4,730	507	1,168	2,177		76.4%	2,850
YoY	-40.8%	76.7%	106.9%	96.6%	235.3%	93.9%	37.1%	14.9%	-48.3%	-43.8%	-43.5%			-39.7%
RPM	4.1%	7.0%	11.2%	11.9%	11.0%	11.5%	13.6%	12.6%	5.7%	6.3%	7.8%			7.7%
Net income	138	676	1,838	2,580	678	1,433	2,651	3,306	257	741	1,100		73.3%	1,500
YoY	-52.6%	119.1%	133.2%	99.6%	390.9%	112.0%	44.2%	28.2%	-62.1%	-48.3%	-58.5%			-54.6%
Net margin	1.9%	4.4%	7.3%	7.5%	7.6%	7.9%	9.4%	8.8%	2.9%	4.0%	3.9%			4.1%

Source: Shared Research based on company data
 Figures may differ from company data due to differences in rounding methods.

In order to improve business efficiency and allow for timely and appropriate decision making, Ateam restructured its segments on August 1, 2016, establishing a third segment from FY07/17 by spinning off the E-commerce Business from the Lifestyle Support Business. In addition, on November 8, 2016, it revamped Sugukon Navi (short-notice wedding hall search, reservation, and information website), changing the name to Hanayume.

In line with these changes, in this report when referring to earnings in the current year and earnings forecasts we use the new segmentation comprising the Entertainment Business, the Lifestyle Support Business, and the E-commerce Business, and in all other sections we refer to the old segmentation comprising the Entertainment Business and the Lifestyle Support Business.

Earnings by segment Quarterly (JPYmn)	FY07/17				FY07/18				FY07/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenues	7,136	8,147	9,906	9,412	8,904	9,165	10,270	9,336	8,927	9,597	9,504	
Lifestyle Support	2,653	2,953	3,990	3,746	3,954	4,313	5,581	5,108	5,173	5,191	6,013	
Entertainment	4,089	4,886	5,200	5,082	4,316	4,320	3,877	3,657	3,243	4,006	2,865	
E-commerce	394	308	715	584	635	532	812	571	510	401	624	
Operating profit	293	729	1,748	1,306	964	1,093	1,752	892	484	693	998	
Lifestyle Support	370	327	715	516	551	686	1,077	762	642	643	1,066	
Entertainment	302	807	1,440	1,270	865	885	1,199	639	274	611	372	
E-commerce	-35	-46	-65	-32	-44	-68	-78	-21	-63	-68	-35	
Main expenses												
Advertising	3,432	3,551	3,623	3,410	3,600	3,866	3,730	3,609	3,931	3,980		
Lifestyle Support	1,547	1,728	2,230	2,040	2,302	2,472	2,973	2,637	2,959	2,972		
Entertainment	1,746	1,700	1,220	1,228	1,150	1,244	560	829	835	910		
E-commerce	70	62	117	84	93	79	106	50	54	44		
Personnel and hiring expenses	872	935	931	1,066	1,025	1,089	1,195	1,443	1,435	1,463		
Payment platform fees	1,468	1,779	2,051	2,108	1,588	1,572	1,561	1,395	1,304	1,592		
Outsourcing costs and server fees	254	297	315	331	532	518	620	605	605	646		
Office rents	178	218	238	243	249	251	288	291	292	293		
Other	639	638	1,000	948	947	776	1,123	1,100	876	930		
No. of employees (quarter-end)	605	627	710	718	723	788	898	955	989	1,024		
Lifestyle Support	261	287	308	339	340	391	432	489	510	527		
Entertainment	247	245	258	264	263	268	279	313	327	340		
E-commerce	32	33	41	46	47	52	59	62	60	59		
Other	65	62	103	69	73	77	128	91	92	98		

Source: Shared Research based on company data

Figures may differ from company data due to differences in rounding methods

Outsourcing costs for services such as installation and removal of air conditioners provided by the moving-related business in the Lifestyle Support Business segment had been booked under "fees and commissions paid" up to FY07/17. These costs have been booked as "outsourcing costs" from FY07/18, because the company decided on a reclassification in light of the change in roles of the company and contractors in the transaction. The amount subject to this change was JPY185mn in Q1 FY07/18.

Q3 FY07/19 results (out June 14, 2019)

Overview

- ▷ Consolidated results for Q3 FY07/19 were revenues of JPY28.0bn (-1.1% YoY), operating profit of JPY2.2bn (-42.9% YoY), recurring profit of JPY2.2bn (-43.5% YoY), and net income attributable to parent company shareholders of JPY1.1bn (-58.5% YoY).
- ▷ Forecast for FY07/19: Along with the announcement of Q3 results, the company announced a downward revision of its full year forecasts^{*1}.
- ▷ Revenues down 1.1% YoY: Although the Entertainment and E-commerce Businesses posted declines in revenues, the Lifestyle Support Business performed strongly.
- ▷ Operating profit down 42.9% YoY: The fall in operating profit was attributed to upfront spending in new business areas in the Lifestyle Support Business and the decline in profit contributions from existing game titles in the Entertainment Business.
- ▷ JPY432mn extraordinary loss^{*2}: JPY298mn software impairment, including losses on development costs for *BASSA Warriors*, and JPY134mn valuation loss on investment securities.
- ▷ Progress versus forecasts: Versus revised full-year FY07/19 company forecasts, Q3 revenues reached 75.8% (75.2% of full-year results in Q3 FY07/18), operating profit 76.3% (81.0%), recurring profit 76.4% (81.4%), and net income attributable to parent company shareholders 73.3% (80.2%).

^{*1} Revised company forecasts for FY07/19 (announced on June 14, 2019)

- ◇ Revenues: JPY37.0bn (previous forecast JPY40.0bn)
- ◇ Operating profit: JPY2.9bn (JPY4.0bn)
- ◇ Recurring profit: JPY2.9bn (JPY4.0bn)
- ◇ Net income attributable to parent company shareholders: JPY1.5bn (JPY2.6bn)
- ◇ EPS: JPY76.89 (JPY131.70)
- ◇ Dividend per share: JPY16.00 (JPY32.50)

Note: The company regards returning profits to shareholders as a key management issue and aims to achieve a sustained increase in corporate value and further strengthen the corporate structure. The basic policy is consistent shareholder returns with a payout ratio of around 20%. Following the downward revision to forecast net income attributable to parent company shareholders, the dividend per share has been revised down in line with the shareholder returns policy.

Reasons for the revision

- ✦ Revenues: Although revenues in the Lifestyle Support Business are ahead of initial company forecast, revenues in the Entertainment and E-commerce Businesses are below forecast. Therefore the company expects overall revenues to come in below the original forecast.
- ✦ Operating profit and recurring profit: In addition to the decrease in profits due mainly to the decline in revenues in the Entertainment Business, profits will also be impacted by the increase in personnel for new game development and the company's failure to achieve profitability in the E-commerce Business. As a result, the company anticipates profits will be below the original forecast.
- ✦ Net income attributable to parent company shareholders: In addition, in Q3, as a result of recording extraordinary losses of JPY432mn, mainly relating to software assets such as development costs for *BASSA Warriors*, the company expects net income to fall below initial forecast.

^{*2} Extraordinary losses of JPY432mn

- ✦ Impairment loss on fixed assets: The company recorded an impairment loss of JPY298mn to reflect its view that returns from *BASSA Warriors* (released on May 21, 2018) are unlikely to cover development costs.
- ✦ Loss on valuation of investment securities: The company also recorded a JPY134mn loss on valuation of investment securities to reflect the decline in market value of the assets compared to book value.

Results by segment

Lifestyle Support Business

- ▷ Cumulative Q3 FY07/19 segment revenues were JPY16.4bn (+18.3% YoY) and segment profit was JPY2.4bn (+1.6% YoY).
- ▷ In this segment the company works with businesses that operate services for the individual users in various business areas, including moving-related, automobile-related, bridal-related, and finance media. Based on the mindset of benefiting the seller, buyer, and the community, the company operates various websites, including comparison, information, and e-commerce sites linked to various events and aspects of customers' lives. Individual users generally use these sites for free. The main source of income is commissions for referring potential customers to partner companies and commissions if those customers enter a contract. Subsegments are moving-related, automobile-related, and bridal-related businesses, a financial media business, and others.
- ▷ In Q3 FY07/19, revenues were strong, led by the bridal-related business. Revenues in the bridal-related business increased significantly reflecting steady growth in the number of customer referrals, helped by the business' higher visibility after its name change and the improvement in service reliability. For each of its subsegments, in addition to developing its existing businesses, the company continued to expand its peripheral services and made investments in several new services in their launch phase as planned.

Note: The results of Increments Inc., which was made a subsidiary in December 2017, were included in the Lifestyle Support business from Q3 FY07/18. The Other subsegment includes the results of several Increments services, including Qiita, a technological information sharing service for programmers, Qiita: Team, an easy-to-use information sharing tool for work teams, Lalune, a women's health management and menstrual cycle predicting app, and other new services.

Entertainment Business

- ▷ Cumulative Q3 FY07/19 segment revenues were JPY10.1bn (-19.2% YoY) and segment profit was JPY1.3bn (-57.3% YoY).
- ▷ The segment provides original smart devices game apps developed by Ateam via dedicated platforms for distributing apps such as App Store (Apple Inc.) and Google Play (Google Inc.). The game apps themselves are available for free download, and so the company derives its main source of revenue from in-app purchases by users seeking to advance more efficiently in the game.
- ▷ In Q3 FY07/19, against a backdrop of declines in revenue from existing games, the domestic version of the new game app *Revue Starlight -Re LIVE*, was released in October 2018. The global version was released on April 24, 2019. However, the

contribution to earnings both in Japan and overseas was limited, so revenues and operating profit declined 19.2% YoY and 57.3% YoY respectively.

E-commerce Business

- ▷ Cumulative Q3 FY07/19 segment revenues were JPY1.5bn (-22.4% YoY) and the segment loss was JPY166mn (loss of JPY190mn in Q3 FY07/18).
- ▷ As a result of reviewing its distribution operations, including improvements to shipping efficiency, to achieve profitability over the course of the year, the company saw better trend in performance (e.g. achievement of profit in a single month in the busy March 2019 period). It continues to strengthen fulfillment* to optimize its operations.
- ▷ The company has stockpiled more than 200 models of fully assembled bicycles that were purchased from both overseas and domestic manufacturers. The warehouses employ certified mechanics, and this allows Ateam to sell fully assembled bicycles online, making it the only e-commerce bicycle website in Japan that delivers fully assembled bicycles to consumers' homes.
- ▷ The main source of segment revenue is bicycle sales.
- ▷ The company has been investing in online bicycle store cyma in phases since its opening in December 2013 to strengthen fulfillment. The company continues to strive to strengthen promotions aimed at branding to make cyma a first go-to place to buy bicycles.

*Fulfillment refers to the core process in the mail-order business, including the management of order receipts and inventories, picking, sorting and packaging, shipping, charging, and payment processing. It also includes peripheral work, such as customer support handling complaints, questions, and returns and exchanges of goods, as well as the management of customer data.

On **the same day**, the company announced an extraordinary loss and revised its earnings and dividend forecasts for the year.

Booking of extraordinary losses

Ateam recorded an extraordinary loss of JPY432mn in Q3 FY07/19.

- ▷ Impairment loss on fixed assets: The company recorded an impairment loss of JPY298mn to reflect its view that returns from *BASSA Warriors* (released on May 21, 2018) are unlikely to cover development costs.
- ▷ Loss on valuation of investment securities: The company also recorded a JPY134mn loss on valuation of investment securities to reflect the decline in market value of the assets compared to book value.

Revised company forecasts for FY07/19

- ▷ Revenues: JPY37.0bn (previous forecast JPY40.0bn)
- ▷ Operating profit: JPY2.9bn (JPY4.0bn)
- ▷ Recurring profit: JPY2.9bn (JPY4.0bn)
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- ▷ EPS: JPY76.89 (JPY131.70)
- ▷ Dividend per share: JPY16.00 (JPY32.50)

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Reasons for the revision

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