Media Do / 3678

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Research Coverage Report by Shared Research Inc.

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary

Business overview

- **Top share of e-books wholesaling:** Media Do Holdings is Japan's leading wholesaler of e-books by market share. According to the company's own research, it has a share of around 80% of the market for e-book distribution through wholesalers on a gross merchandise value basis. With e-books, "wholesaling" refers to the process of obtaining content-use permission from publishers, storing e-book data on company servers, and delivering e-book data to e-bookstores. The company simplifies operations and reduces headaches for publishers and e-bookstores by mediating contracts, providing systems, managing campaigns, and summarizing data as an e-book wholesaler. The e-book wholesaling framework is unique to Japan and in high demand as the nation has a large number of relatively small publishers and less oligopoly by foreign e-bookstores such as Kindle in the Japanese e-book market. This situation creates a strong need for the wholesaling of e-books.
- **Value chain:** The company's total purchases in FY02/19 were JPY43.7bn. Of this amount, it purchased JPY19.9bn, or 45.4%, from the top three suppliers of e-book content. Shared Research understands these three companies are Kodansha Ltd., Shogakukan Inc., and Shueisha Inc. (each of which is a major manga publisher and a major shareholder of Media Do Holdings). Total purchases from the top three providers of e-book content and share breakdown for FY02/20 are not disclosed in annual securities reports, but they contain a comment that the share of the top three providers remains at a high level. The company mainly sells to LINE Corporation (TSE1: 3938), which as a group accounted for 20.9% of total sales in FY02/20. Next was Amazon.com, Inc. (NASDAQ: AMZN) and its group companies at 12.8%, followed by BookLive Co., Ltd. (shareholders include TSUTAYA Co., Ltd. and Toppan Printing Co., Ltd.) at 11.5%. These three groups account for around 45% of the company' sales. Media Do Holdings also does business with more than 99% of other publishers that supply e-books, including all of the top 20 by readership (2019 survey on the e-book business, by Impress Corporation, of the top 20 e-bookstores where customers had made purchases in the past six months). The company says its wholesaling business has a share of around 34% of the overall Japanese e-book distribution market in FY02/20 (including cases in which publishers and e-bookstores transact business with each other directly) in terms of the gross merchandise value (GMV) of e-books.
- **Income statement (FY02/20):** Sales were JPY65.9bn, and operating profit was JPY1.9bn, with the eBook Distribution business accounting for essentially all of both. Since FY02/14, the company's sales have grown at around 30–40% per year except in FY02/18, when pirate websites affected performance significantly. Royalties are variable costs, and the company's contribution margin is approximately 14%. Cost of sales other than royalties amounted to JPY7.1bn, and were mostly fixed costs.
- **Expanding Japanese market for e-books:** In FY2019, the market for e-books was worth JPY347.3bn (+22.9% YoY), with manga accounting for approximately 86.1% of the total (2020 survey on the e-book business, by Impress Corporation). The same survey suggests the e-book publishing market (including e-magazines) will grow to JPY566.9bn by FY2024. To date, Media Do Holdings' growth has benefited from a market shift from paper to e-books and from people spending more time on their smartphones. In the future, the company aims for growth in the gross merchandise value of e-books through a secondary e-book market using blockchain technology. Shared Research thinks the company's approach is novel in that it aims to apply to content an approach like markets for secondhand cars (using money from trade-ins for new purchases) or flea market apps. The company thinks it can parlay technologies and expertise from the eBook Distribution business, along with its business and capital relationships with publishers into a secondary market for e-books.

Blockchain
A type of database using encryption technology for the distributed handling and storage of transaction logs among directly connected terminals over a communication network. Decentralized management using blockchain technology has three advantages over the conventional approach of centralized management: more resilient to system failure, enables traceability and makes forgery difficult, and transactions are low-cost. Blockchain technology has inherent scalability issues, however, as processing time increases as the number of transactions rises.

Earnings trends

- **FY02/20 performance:** Sales were JPY65.9bn (+30.2% YoY), operating profit was JPY1.9bn (+26.2% YoY), recurring profit was JPY1.8bn (+18.0% YoY), EBITDA was JPY2.7bn (+11.3% YoY), and net income attributable to owners of the parent was

JPY884mn (net loss of JPY1.2bn in FY02/19). Sales in the mainstay eBook Distribution business expanded 28.6% YoY, driven by robust market growth. For the shares the company holds in three companies (one overseas listed and two unlisted), it recorded a JPY180mn loss on valuation of shares (extraordinary losses) and a JPY114mn loss from equity-method investments due to loss on valuation of shares (operating loss), considering the impact of the further spread of the new coronavirus infection on their businesses and the decline in stock prices.

- **FY02/21 company forecast (revised):** Along with the release of 1H FY02/21 results on October 13, 2020, the company issued a revised forecast for the full year and indicated its dividend payment plans. The revised forecast calls for full-year consolidated sales of JPY85.0bn (versus previous estimate of JPY77.0bn), operating profit of JPY2.8bn (versus JPY2.2bn), recurring profit of JPY2.8bn (versus JPY2.0bn), net income of JPY1.5bn (versus JPY1.1bn), and EPS of JPY102.77 (versus JPY77.60). Explaining the upward revision, the company said it continues to benefit from changes in the operating environment in the wake of the pandemic as more people working from home and otherwise limiting trips outside their homes due to concerns about possible infections has left more time available for in-home leisure and entertainment activities, which has in turn prompted the stay-at-home crowd to increase related spending, including spending on books, thereby accelerating the shift from paper books to e-books and leading to faster growth in the e-book market. The company's planned dividend payment of JPY20.5 per share at the end of the fiscal year represents a total dividend payout of JPY299mn, an amount the company says was determined after taking into consideration a number of factors, including its outlook for FY02/21 earnings, the prospective operating environment, and investment spending plans.
- **Medium-term management plan (revised):** With its mainstay eBook Distribution business performing favorably, Media Do now expects even further growth. Accordingly, in January 2020 the company extended its planned investment period from FY02/20 to FY02/22 and revised its medium-term management plan through FY02/23. Post-revision targets for JPY02/23 are gross merchandise value of JPY165.0bn (up JPY35.0bn from the pre-revision target), sales of JPY90.0bn (up JPY10.0bn), operating profit of JPY5.0bn (unchanged), EBITDA of JPY60.0bn (unchanged), and EPS of JPY135 (unchanged). In April 2020, the company revised up its sales forecast for FY02/21, but left FY02/23 targets unchanged. Given that Q1 results showed faster-than-expected progress versus its full-year forecast and sales of JPY100.0bn in FY02/23 were now within range, the company commented that it would begin revising its medium-term management plan targets.

Strengths and weaknesses

Media Do Holdings' strengths are:

- Its having the top share of the Japanese market for wholesaling e-books, a proof that its services provide high levels of convenience in transactions with publishers and e-bookstores;
- Strengthening of its presence in wholesaling through exclusive agreements with large e-bookstores, such as LINE Manga; and
- Its major business partners including large publishers, which have long business relationships with and capital investments in the company.

Shared Research thinks the company's weaknesses include:

- Its having the top share of the market for e-book wholesaling preventing it from competing with large publishers and large e-bookstores, as this would be a conflict of interest;
- Lower reliance on wholesaling for e-books compared to paper books, with direct transactions between publishers and e-bookstores comprising around 50% of e-book sales; and
- Its reliance on the eBook Distribution business for most of its sales and profit, making it vulnerable to impacts of pirate websites and other external factors.

Key financial data

Income statement (JPYmn)	FY02/14 Parent	FY02/15 Parent	FY02/16 Parent	FY02/17 Parent	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Est.
Sales	**5,545**	**8,075**	**11,243**	**15,533**	**37,213**	**50,568**	**65,860**	**85,000**
YoY	35.7%	45.6%	39.2%	38.2%	139.6%	35.9%	30.2%	29.1%
Gross profit	**1,021**	**1,142**	**1,306**	**1,638**	**4,618**	**5,738**	**6,691**	
YoY	31.5%	11.8%	14.4%	25.4%	182.0%	24.3%	16.6%	
Gross profit margin	18.4%	14.1%	11.6%	10.5%	12.4%	11.3%	10.2%	
Operating profit	**252**	**413**	**552**	**656**	**930**	**1,468**	**1,853**	**2,800**
YoY	562.1%	63.7%	33.7%	18.9%	41.7%	57.8%	26.2%	51.1%
Operating profit margin	4.6%	5.1%	4.9%	4.2%	2.5%	2.9%	2.8%	3.3%
Recurring profit	**228**	**413**	**553**	**657**	**831**	**1,492**	**1,761**	**2,800**
YoY	623.2%	81.0%	33.8%	18.8%	26.5%	79.5%	18.0%	59.0%
Recurring pofit margin	4.1%	5.1%	4.9%	4.2%	2.2%	3.0%	2.7%	3.3%
EBITDA	**491**	**616**	**724**	**854**	**1,777**	**2,388**	**2,389**	
YoY	49.6%	25.4%	17.6%	17.9%	108.1%	34.4%	0.0%	
EBITDA margin	8.9%	7.6%	6.4%	5.5%	4.8%	4.7%	3.6%	
Net income	**176**	**240**	**335**	**415**	**358**	**-1,243**	**884**	**1,500**
YoY	-	36.0%	39.5%	23.9%	-13.6%	-	-	69.7%
Net margin	3.2%	3.0%	3.0%	2.7%	1.0%	-	1.3%	1.8%
Per-share data (split-adjusted; JPY)								
Shares issued (year-end; '000)	4,460	9,665	9,939	10,050	11,389	12,341	14,175	
Treasury shares ('000)	-	-	-	-	-	-	2	
EPS	44.5	25.5	34.1	41.7	32.6	-106.0	64.6	102.8
EPS (fully diluted)	38.6	23.7	33.0	38.7	27.0	-	60.9	
Dividend per share	-	2.0	7.2	8.8	10.5	10.5	13.0	20.5
Book value per share	322	192	225	270	360	354	409	
Balance sheet (JPYmn)								
Cash and cash equivalents	1,277	1,740	2,325	2,057	5,686	7,747	8,089	
Total current assets	**2,482**	**3,712**	**4,791**	**5,360**	**14,587**	**21,217**	**25,094**	
Tangible fixed assets	85	66	157	423	499	510	341	
Investments and other assets	171	193	341	2,628	4,248	3,045	2,849	
Intangible fixed assets	169	149	196	273	7,365	6,190	5,777	
Total assets	**2,908**	**4,121**	**5,486**	**8,683**	**26,700**	**30,963**	**34,062**	
Short-term debt	54	-	-	157	2,448	1,323	1,662	
Total current liabilities	**1,458**	**2,256**	**3,247**	**4,576**	**13,490**	**17,562**	**21,396**	
Long-term debt	5	-	-	1,303	8,938	8,740	6,578	
Total fixed liabilities	**13**	**9**	**1**	**1,340**	**8,991**	**8,940**	**6,828**	
Total liabilities	**1,471**	**2,265**	**3,247**	**5,916**	**22,481**	**26,502**	**28,224**	
Shareholders' equity	1,437	1,852	2,234	2,717	4,096	4,369	5,791	
Net assets	**1,437**	**1,856**	**2,238**	**2,767**	**4,219**	**4,461**	**5,838**	
Total interest-bearing debt	58	-	-	1,460	11,387	10,063	8,240	
Cash flow statement (JPYmn)								
Cash flows from operating activities	757	608	1,031	950	1,470	2,458	1,928	
Cash flows from investing activities	-255	-564	-793	-2,083	-7,961	-481	-77	
Cash flows from financing activities	614	119	47	1,465	9,944	-364	-1,506	
Financial ratios								
ROA (RP-based)	10.4%	11.8%	11.5%	9.3%	4.7%	5.2%	5.4%	
ROE	20.0%	14.6%	16.4%	16.8%	10.5%	-29.4%	17.4%	
Financial leverage (equity multiplier)	2.5	2.1	2.4	2.9	5.2	6.8	6.4	
Total asset turnover	2.5	2.3	2.3	2.2	2.1	1.8	2.0	
Net margin	3.2%	3.0%	3.0%	2.7%	1.0%	-2.5%	1.3%	

Source: Shared Research based on company data; per-share data adjusted for stock split

Impact of making Digital Publishing Initiatives Japan a subsidiary

Digital Publishing Initiatives Japan became a subsidiary in April 2017, so has been included in the scope of consolidation since FY02/18.

Recent performance at Digital Publishing Initiatives Japan (before becoming part of Media Do Holdings)

(JPYmn)	FY02/18	FY02/19
Sales	20,609	29,535
Recurring profit	1,037	1,675
Net income	741	1,028

Source: Shared Research based on company data

Recent updates

Highlights

On October 19, 2020, Media Do Co., Ltd. announced that it had determined the terms and conditions of the private placement of warrants (with provisions to revise exercise price and grant permission to exercise).

The company announced the terms and conditions regarding the private placement of the No. 18 series warrants approved at a board of directors meeting held on October 13, 2020, which had previously been left undetermined. Initial exercise price is JPY8,460, and the minimum exercise price is set at JPY5,901; estimated proceeds (net of expenses) are JPY10.1bn.

On October 13, 2020, the company announced earnings results for 1H FY02/21; see the results section for details.

On the same day, the company also issued a revised forecast for the full-year consolidated results for FY02/21 and indicated its dividend payment plans for the year, as detailed below.

Revised company forecast for FY02/21

Sales:	JPY85.0bn (versus previous estimate of JPY77.0bn)
Operating profit:	JPY2.8bn (versus JPY2.2bn)
Recurring profit:	JPY2.8bn (versus JPY2.0bn)
Net income:	JPY1.5bn (versus JPY1.1bn)
EPS:	JPY102.77 (versus JPY77.60)

Explanation of revisions to forecast

Explaining the upward revision to its estimate for full-year consolidated sales, the company said that its mainstay eBook Distribution business continues to benefit from changes in the operating environment in the wake of the pandemic, including more people working from home and otherwise limiting trips outside their homes due to concerns about possible infections. With this increasing the amount of time people have available for in-home leisure and entertainment activities, the stay-at-home crowd has increased related spending, including spending on books, and this in turn has accelerated the shift from paper books to e-books, leading to faster growth in the e-book market as a whole than the company had initially expected.

Along with the upward revision to its full-year estimate for sales, the company raised its outlook for earnings at all levels despite planned increases in spending and investments to support future growth. More specifically, the company said it plans to spend more on advertising/promotion, personnel (including the hiring additional software engineers and managers), and on the development of new applications and systems, including the development of additional functions for its e-book agency system and a new, blockchain technology-based platform in anticipation of continued growth in the e-book market in FY02/22 and beyond.

The revised forecast also reflects the expected contributions to sales and earnings from its planned acquisition of a majority stake in Nagisa, Inc., as detailed below.

Dividend forecast

The company had not previously indicated its dividend payment plans for FY02/21, but offered guidance in this regard at the time of its 1H results announcement, indicating its plans to pay a fiscal year-end dividend of JPY20.50 per share (for a total dividend payout of JPY299mn). The company indicated that this dividend was set after taking into consideration a wide range of factors, including its needs to maintain internal reserves, its financial position, trends in sales and earnings, and the operating environment, and was in keeping with its policy calling for the return of at least 20% of net income to shareholders in the form of dividends or share buybacks, with the split of the payout between dividends and share buybacks depending in part on the level of the company's share price.

On the same day, the company announced the acquisition of shares in Nagisa, Inc., making it a subsidiary.

At the board of directors meeting held on October 13, 2020, the company had approved the acquisition of a majority stake in Nagisa, Inc. Plans call for the company to acquire a 68.8% in Nagisa, leaving Nagisa President/CEO Yoshiyuki Yokoyama, which will retain his 31.2% stake, as the only other shareholder in Nagisa. The acquisition price was not disclosed. The acquisition is scheduled to be executed on October 30, 2020. Following the acquisition, Nagisa will be treated as a consolidated subsidiary of Media Do.

- ▷ Nagisa operates a Manga business, under which it develops and operates "freemium" apps for manga (Japanese-style comics) and also a FanTech business, under which it operates an on-demand video streaming service that specializes in 2.5-D/voice content. With its prowess in application development and business plan execution, and market track record of more than 40,00,000 downloads of its apps, Nagisa promises to further enhance the competitive position of Media Do in the app market. More specifically, post-acquisition plans call for working together on the development, distribution, and promotion of platforms and solutions that will help Media Do maximize the market reach of its digital content, re-examining distribution channels used for apps and other digital content, making better use of customer data, and finding new ways to market manga content.
- ▷ For the most recent fiscal year (FY03/20), Nagisa reported sales of JPY510mn, an operating loss of JPY180mn, and a net loss of JPY169mn, leaving it with negative equity of JPY9mn.
- ▷ Plans call for Nagisa to be included in consolidated results starting in Q4. As for the impact of the acquisition on FY02/21 financial results, the company said the acquisition was already included in revised forecast issued separately on October 13, 2020.

On the same day, the company announced the signing of a basic agreement for acquisition of Firebrand Group.

The company's board of directors approved a basic agreement under which Media Do would acquire Massachusetts-based Firebrand group (including Quality Solutions Inc. and NetGallery LLC), making it a wholly owned subsidiary. Media Do entered into negotiations with a bid price of JPY1.5bn for all the shares of Firebrand Group, and will announce the final acquisition price and the number of shares acquired once the deal is finalized.

- ▷ Firebrand group has two main businesses, its Firebrand business and NetGallery business. The Firebrand business includes publication bibliography information management, information distribution, and e-book distribution. The NetGallery business is a web service business that supports book promotion by delivering digital publication galley proofs to professional readers.
- ▷ The acquisition of Firebrand group will help Media Do in its efforts to promote the switch to digital among publishers in Japan by allowing it to point to successful examples of the North American publishing industry. The acquisition is also aimed at aiding Media Do's expansion overseas, as it will allow Media Do to tap into the client network of the Firebrand group in North America.
- ▷ The company did not disclose any details with respect to the financials of Firebrand group at the time of the announcement, but did say that the acquisition would not have a material impact on its sales and earnings in FY02/21.

On the same day, the company announced that its board of directors had approved plans to raise new equity capital through a private placement of warrants.

Overview of No. 18 series warrant issue

The terms and conditions of the No. 18 series warrant issue allow future adjustments to the exercise price and subject the exercise of the warrants to prior approval by the issuer. The number of the shares into which the warrants can be converted will remain fixed, however, and thus the number of new shares that can be issued as a result of the exercise of the warrants will be no more than 1,186,300 shares, representing dilution potential of 8.13%. The issuing terms also give the company the right to buy back any unexercised warrants at the issuing price should it determine that it no longer needs the additional capital.

Key issuing terms and conditions

- ▷ Expected proceeds: Approximately JPY10.0bn, assuming exercise price is the same as closing price of company's common shares on the trading day immediately prior to the day the warrant issue was approved. Actual proceeds may differ depending on trends in underlying share price.
- ▷ Number of warrants to issued: 11,863 (each convertible into 100 shares)
- ▷ Dilution potential: 1,186,300 shares or 8.13%
- ▷ Exercise period: Two-year period running from November 5, 2020 through November 4, 2022
- ▷ Exercise price: The initial exercise price will be the higher of (a) the closing price of JPY8,430 for the company's common stock on the trading day immediately prior to the board of director's approval of the warrant issue on October 13, 2020, or (b) the closing price on the trading day immediately prior to the date the issuing terms are finalized, which be either October 19 or October 20, 2020. There is no upper limit on the exercise price. The lower limit on the exercise price will be the higher of (a) 70% of the closing price of the company's common stock on the trading day immediately prior to the board of director's approval of the warrant issue, or (b) 60% of the closing price on the trading day immediately prior to the date the issuing terms are finalized. The warrants allow the holder to buy the company's common shares at a price equal to 92% of the closing price on the trading day immediately prior to the date a request to exercise warrants is submitted, provided that the exercise price calculated in that manner is not lower than the minimum exercise price, as defined above.
- ▷ Exercise permission clause: The warrants may not be exercised by the holder (Mizuho Securities) without prior permission from the issuer.
- ▷ Right to repurchase: The company reserves the right to buy back any unexercised warrants at the issuing price after giving at least two weeks advanced notice of its intension to do so.

Use of proceeds

With respect to the use of the proceeds from the issue, the company said it was allocating JPY7.5bn for spending in connection with future acquisitions and business/capital alliances and JPY2.5bn for spending to help grow existing businesses and services by making investments that will help sustain or improve their competitive position. The expenditures in both cases are to be undertaken over the course of the next two years (between November 2020 and October 2022).

On August 19, 2020, Shared Research updated the report following interviews with the company.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Cumulative	FY02/19				FY02/20				FY02/21		FY02/21	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	10,708	23,218	36,175	50,568	15,454	31,881	47,967	65,860	20,292	41,734	49.1%	85,000
YoY	38.2%	30.3%	32.5%	35.9%	44.3%	37.3%	32.6%	30.2%	31.3%	30.9%		29.1%
Gross profit	1,261	2,619	4,102	5,738	1,599	3,306	4,947	6,691	1,925	3,929		
YoY	21.5%	9.3%	12.6%	24.3%	26.8%	26.2%	20.6%	16.6%	20.4%	18.8%		
Gross profit margin	11.8%	11.3%	11.3%	11.3%	10.3%	10.4%	10.3%	10.2%	9.5%	9.4%		
SG&A expenses	1,074	2,083	3,143	4,270	1,164	2,378	3,581	4,837	1,193	2,399		
YoY	20.9%	8.3%	6.9%	15.8%	8.4%	14.2%	13.9%	13.3%	2.5%	0.9%		
SG&A ratio	10.0%	9.0%	8.7%	8.4%	7.5%	7.5%	7.5%	7.3%	5.9%	5.7%		
Operating profit	187	536	959	1,468	434	928	1,366	1,853	732	1,529	54.6%	2,800
YoY	25.4%	13.5%	36.5%	57.8%	132.1%	73.0%	42.4%	26.2%	68.7%	64.8%		51.1%
Operating profit margin	1.7%	2.3%	2.7%	2.9%	2.8%	2.9%	2.8%	2.8%	3.6%	3.7%		3.3%
Recurring profit	189	534	944	1,492	456	851	1,244	1,761	734	1,583	56.5%	2,800
YoY	104.8%	32.1%	51.2%	79.5%	141.1%	59.4%	31.7%	18.0%	61.0%	86.0%		59.0%
Recurring profit margin	1.8%	2.3%	2.6%	3.0%	3.0%	2.7%	2.6%	2.7%	3.6%	3.8%		3.3%
Net income	62	-692	-489	-1,243	265	484	888	884	450	910	60.7%	1,500
YoY	-	-	-	-	326.4%	-	-	-	69.8%	88.0%		69.7%
Net margin	0.6%	-	-	-	1.7%	1.5%	1.9%	1.3%	2.2%	2.2%		1.8%

Quarterly	FY02/19				FY02/20				FY02/21	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	10,708	12,510	12,956	14,393	15,454	16,427	16,086	17,893	20,292	21,442
YoY	38.2%	24.2%	36.8%	45.1%	44.3%	31.3%	24.2%	24.3%	31.3%	30.5%
Gross profit	1,261	1,359	1,483	1,636	1,599	1,707	1,641	1,744	1,925	2,004
YoY	21.5%	0.0%	18.9%	67.9%	26.8%	25.7%	10.6%	6.7%	20.4%	17.4%
Gross profit margin	11.8%	10.9%	11.4%	11.4%	10.3%	10.4%	10.2%	9.7%	9.5%	9.3%
SG&A expenses	1,074	1,009	1,061	1,127	1,164	1,214	1,203	1,256	1,193	1,206
YoY	20.9%	-2.6%	4.2%	51.0%	8.4%	20.3%	13.4%	11.5%	2.5%	-0.7%
SG&A ratio	10.0%	8.1%	8.2%	7.8%	7.5%	7.4%	7.5%	7.0%	5.9%	5.6%
Operating profit	187	349	423	509	434	494	438	487	732	797
YoY	25.4%	8.0%	83.9%	123.6%	132.1%	41.4%	3.6%	-4.3%	68.7%	61.3%
Operating profit margin	1.7%	2.8%	3.3%	3.5%	2.8%	3.0%	2.7%	2.7%	3.6%	3.7%
Recurring profit	189	345	410	548	456	395	393	517	734	849
YoY	104.8%	10.5%	86.5%	164.8%	141.1%	14.5%	-4.3%	-5.5%	61.0%	114.9%
Recurring profit margin	1.8%	2.8%	3.2%	3.8%	3.0%	2.4%	2.4%	2.9%	3.6%	4.0%
Net income	62	-755	204	-754	265	219	404	-4	450	460
YoY	-	-	46.7%	-	326.4%	-	98.5%	-	69.8%	110.0%
Net margin	0.6%	-	1.6%	-	1.7%	1.3%	2.5%	-	2.2%	2.1%

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

Impact of pirate websites
Pirate websites had a negative impact on sales in 2H FY02/18 and Q1 FY02/19.

Seasonality of sales

Sales growth tends to be higher during Q2 (which includes August summer vacations) and Q4 (winter vacations in December and January). This increase is because young students and office workers read more manga during these times, and because e-bookstores tend to run more sales.

1H FY02/21 results (out October 13, 2020)

Overview

For the six-month period through Q2 FY02/21, the company reported consolidated sales of JPY41.7bn (+30.9% YoY), operating profit of JPY1.5bn (+64.8% YoY), recurring profit of JPY1.6bn (+86.0% YoY), and net income of JPY910mn (+88.0% YoY).

- At the company's mainstay eBook Distribution segment, sales for the six-month period were up 32.0% YoY. The market growth was attributed to an increase in the amount of discretionary time available as people worked from home and refrained from going out to prevent the spread of the new coronavirus infection, which led to an increase in entertainment demand for "stay-at-home" consumption, and the ongoing shift from paper-based books to e-books.
- Along with the release of 1H FY02/21 results on October 13, 2020, the company also issued a revised forecast for the full year and indicated its dividend payment plans. The revised forecast calls for full-year consolidated sales of JPY85.0bn (versus previous estimate of JPY77.0bn), operating profit of JPY2.8bn (versus JPY2.2bn), recurring profit of JPY2.8bn (versus JPY2.0bn), net income of JPY1.5bn (versus JPY1.1bn), and EPS of JPY102.77 (versus JPY77.60). The company's planned dividend payment of JPY20.5 per share at the end of the fiscal year represents a total dividend payout of JPY299mn, an amount the company says was determined after taking into consideration a number of factors, including its outlook for FY02/21 earnings, the prospective operating environment, and investment spending plans. (For further details, see subsequent discussion under "Company Forecast for FY02/21" section).
- Compared with its upwardly revised forecast for the full year, 1H results left the company with 49.1% of its full-year target for consolidated sales, 54.6% of its full-year target for operating profit, 56.5% of its full-year target for recurring profit, and 60.7% of its full-year target for net income.
- Also announced on October 13, 2020, were the company's plans to raise new equity capital through a private placement of warrants.
  - Assuming the exercise price is the same as the closing price of the company's common shares on the trading day immediately prior to the day the warrant issue was approved, the exercise of the warrants issued will bring in approximately JPY10.0bn in new capital.
  - The terms and conditions of the issue allow for future adjustments to the exercise price and subject the exercise of the warrants to prior approval from the issuer. The number of the shares into which the warrants can be converted will remain fixed, however, and thus the number of new shares that can be issued as a result of the exercise of the warrants will be no more than 1,186,300 shares (representing dilution potential of 8.13%). In addition to the company having to give its permission before any of the warrants can be exercised, the issuing terms also give the company the right to buy back any unexercised warrants at the issuing price should it determine that it no longer needs the additional capital.
  - With respect to the use of the proceeds from the issue, the company said it was allocating JPY7.5bn for spending in connection with future acquisitions and business/capital alliances and JPY2.5bn for spending to help grow existing businesses and services by making investments that will help sustain or improve their competitive position, with the expenditures in both cases to be undertaken over the course of the next two years (between November 2020 and October 2022).

Overview of results by business segment

Starting in Q1 FY02/20, the company changed its reporting segments from eBook Distribution, Media Promotion, and Other, to eBook Distribution and Other, leaving it with two reporting segment instead of three. The segment sales and earnings figures in the table below have retroactively adjusted to reflect the changes in the company's segmentation scheme.

New segments (from FY02/20)

By segment	FY02/19				FY02/20				FY02/21	
Cumulative (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	10,708	23,218	36,175	50,568	15,454	31,881	47,967	65,860	20,292	41,734
YoY	38.2%	30.3%	32.5%	35.9%	44.3%	37.3%	32.6%	30.2%	31.3%	30.9%
eBook Distribution	10,629	23,044	35,869	50,164	15,127	31,208	46,896	64,529	20,064	41,206
YoY	-	-	-	-	42.3%	35.4%	30.7%	28.6%	32.6%	32.0%
Other	92	175	286	403	326	673	1,071	1,329	228	528
YoY	-	-	-	-	255.8%	285.3%	275.0%	229.8%	-30.1%	-21.5%
Adjustments	-12	-54	-81	-123	-19	-66	420	-147	-50	-89
Operating profit	187	536	959	1,468	434	928	1,366	1,853	732	1,529
YoY	25.4%	13.5%	36.5%	57.8%	132.1%	73.0%	42.4%	26.2%	68.7%	64.8%
Operating profit margin	1.7%	2.3%	2.7%	2.9%	2.8%	2.9%	2.8%	2.8%	3.6%	3.7%
eBook Distribution	243	607	1,054	1,618	408	896	1,401	1,861	688	1,442
YoY	-	-	-	-	67.7%	47.6%	32.9%	15.0%	68.6%	60.9%
OPM	2.3%	2.6%	2.9%	-	2.7%	2.9%	3.0%	2.9%	3.4%	3.5%
Other	-48	-100	-134	-148	-71	-177	-239	-286	-69	-97
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-52.0%	-57.2%	-47.0%	-	-21.8%	-26.3%	-22.3%	-21.5%	-30.3%	-18.4%
Adjustments	-9	29	39	-1	97	209	203	279	113	184
By segment	**FY02/19**				**FY02/20**				**FY02/21**	
Quarterly (JPYmn)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Sales	10,708	12,510	12,956	14,393	15,454	16,427	16,086	17,893	20,292	21,442
YoY	38.2%	24.2%	36.8%	45.1%	44.3%	31.3%	24.2%	24.3%	31.3%	30.5%
eBook Distribution	10,629	12,415	12,826	14,295	15,127	16,081	15,688	17,633	20,064	21,142
YoY	-	-	-	-	42.3%	29.5%	22.3%	23.4%	32.6%	31.5%
Other	92	83	111	117	326	347	398	258	228	300
YoY	-	-	-	-	255.8%	317.9%	258.7%	119.9%	-30.1%	-13.5%
Adjustments	-12	-42	-26	-42	-19	-47	486	-567	-50	-39
Operating profit	187	349	423	509	434	494	438	487	732	797
YoY	25.4%	8.0%	83.9%	123.6%	132.1%	41.4%	3.6%	-4.3%	68.7%	61.3%
Operating profit margin	1.7%	2.8%	3.3%	3.5%	2.8%	3.0%	2.7%	2.7%	3.6%	3.7%
eBook Distribution	243	364	447	564	408	488	505	460	688	754
YoY	-	-	-	-	67.7%	34.2%	13.0%	-18.5%	68.6%	54.5%
OPM	2.3%	2.9%	3.5%	-	2.7%	3.0%	3.2%	2.6%	3.4%	3.6%
Other	-48	-52	-34	-14	-71	-106	-62	-47	-69	-28
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-52.0%	-63.0%	-30.8%	-	-21.8%	-30.5%	-15.5%	-18.4%	-30.3%	-9.3%
Adjustments	-9	38	10	-40	97	112	-6	76	113	71

Source: Shared Research based on company data.
Segment breakdowns for FY02/19 have been retroactively adjusted to the post-revision segments, effective from FY02/20.

> Adjustments refer to sales and profits/losses not attributable to any segment. Media Do Holdings receives business advisory fees from subsidiaries based on the previous year's sales in each subsidiary. In FY02/20, the company generated profits not attributable to any segment as sales including business advisory fees exceeded its expenses.

eBook Distribution segment

For the six-month period through Q2 FY02/21, the eBook Distribution segment reported sales of JPY41.2bn (+32.0% YoY) and a segment operating profit of JPY1.4bn (+60.9% YoY)

Other business segment

For the six-month period through Q2 FY02/21, the Other business segment reported sales of JPY528mn (-21.5% YoY) and a segment operating loss of JPY97mn (versus a loss of JPY177mn in the same period the previous year). The decline in sales at the segment reflected the dropout of revenues from Tokushima Data Service Co., Ltd. following its sale in October 2019. Sales at its Flier, MyAnimeList, and Imprint businesses all finished higher, having benefited from the changes in demand trends in the wake of the pandemic.

Sales progress vs. initial forecast

% of Initial FY Est.	FY02/19				FY02/20				FY02/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total sales	23.8%	51.6%	80.4%	112.4%	25.8%	53.1%	79.9%	109.8%	26.4%	54.2%
eBook Distribution	-	-	-	-	25.9%	53.3%	80.2%	110.3%	26.5%	54.5%

Source: Shared Research based on company data

1H FY02/21 sales were comfortably in line with the company's initial estimates and also compared favorably with where the company was at this time last year and the year before.

Seasonality of sales

Sales growth tends to be higher during Q2 (which includes August summer vacations) and Q4 (winter vacations in December and January). This increase is because young students and office workers read more manga during these times, and because e-bookstores tend to run more sales.

Effect of pirate websites

Pirate websites caused sales to drop in 2H FY02/18 and Q1 FY02/19. As of April 2018, the company believed the closure or invalidation of pirate websites was imminent, and so refrained from disclosing a performance forecast for FY02/19. The company announced its forecast in July 2018, once it considered performance was likely to rebound following the closure of pirate websites.

Impact of making Digital Publishing Initiatives Japan (DPIJ) a subsidiary

For FY02/18, the rate of progress toward full-year sales reflected DPIJ becoming a subsidiary in April 2017. In Q1 FY02/18, the rate of progress was low because March sales did not reflect DPIJ's contribution, as DPIJ had not yet been included in the scope of consolidation.

Reference

Payments by LINE Manga (Media Do Holdings' customer)

LINE Corporation, one of Media Do Holdings' largest customers, discloses the transaction volume of LINE Manga. The LINE group, centered on LINE Corporation (TSE1: 3938), accounted for 20.9% of the company's total sales in FY02/20.

- LINE Corporation announced that it will sell 70% of its stake in LINE Digital Frontier, which operates LINE Manga, to US-based Webtoon Entertainment Inc. As a result, LINE Digital Frontier will become a wholly owned subsidiary of Webtoon Entertainment. Webtoon Entertainment Inc. operates e-comic service WEBTOON in South Korea and the United States. Line Corporation plans to use the proceed from the sale of its stake in LINE Digital Frontier to acquire shares in Webtoon Entertainment and expects to have a 33.4% stake. The sale is scheduled for early August 2020 and the sale price is undisclosed. As LINE Digital Frontier will no longer be a consolidated subsidiary of LINE Corporation, the company expects that LINE Corporation will no longer disclose the transaction volume of LINE Manga.
- LINE Manga's growth in transaction volume was sluggish in Q4 FY12/17 and Q1 FY12/18, when the industry was strongly affected by pirate websites. Transaction volume rebounded in Q2 FY12/18, as pirate websites were closed, and its growth has accelerated since then. We understand that LINE Manga, which has many young users, was particularly affected by pirate websites.
- LINE Manga's growth rate has leveled off since April–June 2019, falling below the overall market growth rate. Media Do attributes this slower growth to LINE Manga running fewer campaigns than other e-bookstores.

LINE Manga's transaction volume and Media Do Holdings' sales

LINE Manga	FY12/18				FY12/19				FY12/20	
(JPYmn)	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar	Apr–Jun
Transaction volume	2,800	3,600	4,900	5,300	6,000	6,300	6,200	6,400	6,800	
YoY growth	2.9%	25.9%	59.1%	89.3%	114.3%	75.0%	26.5%	20.8%	13.3%	
QoQ growth	0.0%	28.6%	36.1%	8.2%	13.2%	5.0%	-1.6%	3.2%	6.3%	
Media Do		FY02/19				FY02/20				FY02/21
(JPYmn)	**Dec–Feb**	**Mar–May**	**Jun–Aug**	**Sep–Nov**	**Dec–Feb**	**Mar–May**	**Jun–Aug**	**Sep–Nov**	**Dec–Feb**	**Mar–May**
Sales	9,920	10,708	12,510	12,956	14,393	15,454	16,427	16,086	17,893	20,292
YoY growth	130.0%	38.2%	24.2%	36.8%	45.1%	44.3%	31.3%	24.2%	24.3%	31.3%
QoQ growth	4.7%	8.0%	16.8%	3.6%	11.1%	7.4%	6.3%	-2.1%	11.2%	13.4%

Source: Shared Research based on company data

LINE

This communication app commenced service in June 2011. In addition to one-on-one and group chat functions (like WhatsApp), LINE offers free telephony, and via a news tab the app disseminates breaking news, weather, fortune telling, and rail transit information. The LINE app can also be used for payments, delivery, shopping, manga, and other services. Monthly active users in Japan number 81mn (as of June 2019). Although LINE and LINE Manga are independent, the LINE app can be used for some LINE Manga services, and LINE can guide users toward LINE Manga.

LINE's earnings announcements

LINE's fiscal year ends in December. Media Do Holdings and LINE's quarterly earnings typically have one month difference (as we refer to LINE's January–March quarter when we look at the company's December–February quarter, for example). LINE usually announces quarterly results two weeks after the company's announcement, due to the difference in timing of earnings announcements by the two companies after each quarter ends.

For details on previous quarterly and annual results, please refer to the Historical financial statements section.

Company forecast for FY02/21

	FY02/19			FY02/20			FY02/21		
(JPYmn)	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
Sales	**23,218**	**27,350**	**50,568**	**31,881**	**33,979**	**65,860**	**41,734**	**43,266**	**85,000**
Cost of sales	20,599	24,230	44,829	28,574	30,594	59,168	37,805		
Gross profit	**2,619**	**3,120**	**5,739**	**3,306**	**3,385**	**6,691**	**3,929**		
Gross profit margin	11.3%	11.4%	11.3%	10.4%	10.0%	10.2%	9.4%		
SG&A expenses	2,083	2,188	4,271	2,378	2,459	4,837	2,399		
SG&A ratio	9.0%	8.0%	8.4%	7.5%	7.2%	7.3%	5.7%		
Operating profit	**536**	**932**	**1,468**	**928**	**925**	**1,853**	**1,529**	**1,271**	**2,800**
Operating profit margin	2.3%	3.4%	2.9%	2.9%	2.7%	2.8%	3.7%	2.9%	3.3%
Recurring profit	**534**	**958**	**1,492**	**851**	**910**	**1,761**	**1,583**	**1,217**	**2,800**
Recurring profit margin	2.3%	3.5%	3.0%	2.7%	2.7%	2.7%	3.8%	2.8%	3.3%
Net income	**-692**	**-551**	**-1,243**	**484**	**400**	**884**	**910**	**590**	**1,500**
Net margin	-3.0%	-2.0%	-2.5%	1.5%	1.2%	1.3%	2.2%	1.4%	1.8%

Source: Shared Research based on company data

Revised company forecast for FY02/21 (October, 13,2020)

Revised company forecast for FY02/21

Sales: JPY85.0bn (versus previous estimate of JPY77.0bn)
Operating profit: JPY2.8bn (versus JPY2.2bn)
Recurring profit: JPY2.8bn (versus JPY2.0bn)
Net income: JPY1.5bn (versus JPY1.1bn)
EPS: JPY102.77 (versus JPY77.60)

Explanation of revisions to forecast

Explaining the upward revision to its estimate for full-year consolidated sales, the company said that its mainstay eBook Distribution business continues to benefit from changes in the operating environment in the wake of the pandemic, including more people working from home and otherwise limiting trips outside their homes due to concerns about possible infections. With this increasing the amount of time people have available for in-home leisure and entertainment activities, the stay-at-home crowd has increased related spending, including spending on books, and this in turn has accelerated the shift from paper books to e-books, leading to faster growth in the e-book market as a whole than the company had initially expected.

Along with the upward revision to its full-year estimate for sales, the company raised its outlook for earnings at all levels despite planned increases in spending and investments to support future growth. More specifically, the company said it plans to spend more on advertising/promotion, personnel (including the hiring additional software engineers and managers), and on the development of new applications and systems, including the development of additional functions for its e-book agency system and a new, blockchain technology-based platform in anticipation of continued growth in the e-book market in FY02/22 and beyond.

The revised forecast also reflects the expected contributions to sales and earnings from its planned acquisition of a majority stake in Nagisa, Inc., as detailed below.

Dividend forecast

The company had not previously indicated its dividend payment plans for FY02/21, but offered guidance in this regard at the time of its 1H results announcement, indicating its plans to pay a fiscal year-end dividend of JPY20.50 per share (for a total dividend payout of JPY299mn). The company indicated that this dividend was set after taking into consideration a wide range of factors, including its needs to maintain internal reserves, its financial position, trends in sales and earnings, and the operating environment, and was in keeping with its policy calling for the return of at least 20% of net income to shareholders in the form of dividends or share buybacks, with the split of the payout between dividends and share buybacks depending in part on the level of the company's share price.

Revised forecast issued at time of Q1 FY02/21 results annoucement (July 15, 2020)

The company commented that it would begin revising its full-year earnings forecast, because Q1 results showed faster progress versus its full-year forecast than expected.

Initial full-year company forecast (April 10, 2020)

For FY02/21, the company forecasts consolidated sales of JPY77.0bn (+16.9% YoY), operating profit of JPY2.2bn (+18.7% YoY), recurring profit of JPY2.0bn (+13.5% YoY), EBITDA of JPY2.6bn (JPY2.4bn), and net income attributable to owners of the parent of JPY1.1bn (+24.3% YoY). The company revised up its sales forecast of JPY75.0bn (announced at end-Q3 FY02/20) by JPY2.0bn on the back of recent robust performance in the eBook Distribution business. Its forecasts for operating profit and EBITDA remain unchanged within the range shown at end-Q3.

▷ The company forecasts eBook Distribution business sales of JPY75.6bn (+17% YoY), and operating profit of JPY2.6bn (+40% YoY). It expects continued growth in the domestic e-book market due to the increasing number of users of smartphone and other electronic devices, the development of high-speed communication networks, the diverse formats to offer content, the expansion of sales campaigns and promotions by e-bookstores and publishers, and the increasing adoption of e-books by users.

▷ Additionally, as more people work from home and refrain from going out to prevent the spread of the new coronavirus infection, the company thinks disposable time will increase and e-books may be adopted more widely in the form of so-called stay-at-home consumption.

▷ However, the company comments it is difficult to predict the impact of the outbreak. Given that the company's core business is positioned in the middle of the distribution channels, its performance may be affected if the outbreak further restricts or slows down the activities of authors and publishers, or if there is a sudden change in user consumption behavior.

▷ The company aims to achieve sustainable growth through additional investments in further improvement of new e-book wholesale systems, advertising and service improvements for its e-bookstore Comic Navi, R&D to realize a new platform using new technologies, and organizational streamlining to strengthen the foundations of group companies. Additionally, the company will continue to strive to expand the overall publishing market by promoting the Imprint business to help the digital transformation of small and medium-sized publishers that are facing the challenges of e-book adoption and digitization.

▷ For Other business, by excluding the eBook Distribution business from overall figures, we obtain projected sales of JPY1.4bn and a projected operating loss of JPY400mn.

▷ The company plans to allocate dividend payouts and share repurchases based on share prices, with a total shareholder return of at least 20% in FY02/21.

Extent of reflection of new coronavirus impact in FY02/21 forecast

The company said that it has not factored the impact of new coronavirus spread into its earnings or expenses forecasts. While the sales forecast announced in April 2020 after the government emergency declaration was revised up by JPY2.0bn from the forecast announced in January 2020 when infection spread was not considered serious, its forecast for operating profit remained within the previously announced range, giving some numeric backing to this.

▷ If the spreading of new coronavirus infections is prolonged, the company will benefit from stay-at-home demand for a longer period. As of April 30, 2020, the emergency declaration announced on April 7, 2020 by the government of Japan was effective until May 6, 2020, but, as there had not been a sufficient decrease in infection numbers, it was reported that the government intended to extend the emergency declaration period by approximately one month.

▷ As of April 2020, the company had basically shifted to teleworking, and it also indicated the possibility of adopting a work style of working a few days of the week at the office and a few days at home even after the emergency declaration is lifted. In this case, there will be shift in the cost structure such as a reduction of office lease expenses. The newly implemented telework allowance is not expected to impact earnings as the amounts previously allocated for commuting allowances will be used for that.

▷ Reduced advertisement investment caused by the new coronavirus pandemic has resulted in a sharp drop in advertising prices, through which the company could conduct more efficient ad campaigns, however, it has not factored this into its forecasts.

Cost reduction from moving to a new system

The company plans to finish migrating to a cloud-based system in 2020 and to shut down the old system by the end of February 2021. It states that the shift to cloud will reduce infrastructure costs by approximately half. While the coronavirus pandemic is not impacting the timing of decommissioning the old system, the company expects it will delay some client migrations. Delays at Media Do in transferring some operations to subsidiary Media Do Tech Tokushima are also expected. As a result, the company expects cost reductions in FY02/21 to be lower than initially forecast. The company says it expects cost savings of approximately JPY100mn in FY02/21 (including the effect of eliminating duplicated costs such as training related to transfer of operations to a subsidiary) and approximately JPY350mn in FY02/22.

Revisions to follow-on investment plans

With an increase in stay-at-home demand, and firm growth in the core eBook Distribution business, the company revised its follow-on investment plans announced in Q3 FY02/20. The revised plans put greater emphasis on new system development. The plans call for pro-active client-by-client system customization aimed at increasing exclusive contracts with e-bookstores and market share. The total revised additional investment amounts to JPY900mn, broken down as follows:

- ▷ New system development: JPY300mn (JPY150mn in previous plan)
- ▷ Ad investment in Comic Navi (Manga Do's e-bookstore): JPY260mn (JPY400mn in previous plan)
- ▷ Block chain related investment: JPY150mn (unchanged)
- ▷ Flyer advertisement, imprint business setup, follow-on investments in MyAnimeList, LLC. and other subsidiaries: JPY140mn (JPY250 in previous plan)
- ▷ Others including emphasis on recruitment: JPY50mn (new item)

Medium-term outlook

Announcement made with Q1 FY02/21 results

Given that Q1 results showed faster-than-expected progress versus its full-year forecast and sales of JPY100.0bn in FY02/23 were now within range, the company commented that it would begin revising its medium-term management plan targets. The current medium-term management plan targets sales of JPY90.0bn in FY02/23.

- ▷ Progress of developing a new content delivery service harnessing blockchain technology is on schedule for release in Q3 FY02/21. The company has completed development of the basic platform and about 50% of service applications. It is also developing products related to content other than e-books.
- ▷ The company started providing audiobooks through Amazon Group service Audible by paying publishers to convert content to audiobooks. Although Media Do does not hold copyright on e-books, the company can hold part of the copyright of audiobooks by paying the cost of producing audio content.
- ▷ Sales management and stamp duty management related to e-books have become increasingly complex, presenting a challenge to many small and medium-size publishers. Stamp duty management: For printed books, stamp duty is levied based on the print run, but for e-books, stamp duty is levied based on sales volume. E-books also do not go out of print. Therefore, the number of e-book titles to be managed will continue to increase. Sales management: E-books can be sold in various formats not available with printed books, such as installments and composite volumes, and subscription model (unlimited volume). More alternative sales models are likely to appear going forward. The company therefore plans to begin joint development of a Software as a Service (SaaS) sales and stamp duty management service primarily for small and medium-size publishers. The company has formed an alliance with Kowa Computer Co., Ltd., which has extensive experience in system integration for printed books, and the two companies will share revenue from system usage fees. The company plans to cultivate new customers and increase distribution share by providing solutions that help streamline business processes and improving the features of its e-book wholesale system.

Plan and target of the medium-term management plan revised in April 2020

Medium-term management plan Business targets (JPYmn)	FY02/20	FY02/21 Plan	FY02/23 Target
Gross merchandise value	120,000	140,000	165,000
Sales	65,860	77,000	90,000
Operating profit	1,853	2,200	5,000
EBITDA	2,659	3,000	6,000
EPS (JPY)	64.6	77.6	135

Source: Shared Research based on company data. The figure of FY02/20 gross merchandise is the planned value announced in Q3 FY02/20.

Gross merchandise value (GMV)
The total retail value paid by users through business partners' e-bookstores

Revisions to the medium-term management plan (revised in April 2020)

With its mainstay eBook Distribution business performing favorably, Media Do is now targeting further business growth. To this end, it has extended its planned investment period from FY02/20 to FY02/22 and revised its medium-term management plan through FY02/23. Further, in April 2020, the company revised up its sales forecast for FY02/21, but left FY02/23 targets unchanged. The company mentioned that based on the current strong performance in the eBook Distribution business, the probability of achieving FY02/23 targets has increased from January 2020.

- ▷ Targets revised in April 2020 for JPY02/23 are gross merchandise value of JPY165.0bn (up JPY35.0bn from the pre-January 2020 revision), sales of JPY90.0bn (up JPY10.0bn), operating profit of JPY5.0bn (unchanged), EBITDA of JPY6.0bn (unchanged), and EPS of JPY135 (unchanged). The company says these targets are based on conservative investment results. Although a target for gross merchandise value was not included in FY02/20 earnings briefing materials, the company noted that this does not indicate that the target was withdrawn.

- The e-book market has recovered from the impact of pirate websites more swiftly than Media Do had initially expected, and performance is solid. As a result, the company met its target for gross merchandise value ahead of schedule and in January 2020 it revised upward its forecasts for FY02/21 planned and FY02/23 target gross merchandise values. Meanwhile Media Do is concentrating its resources on the mainstay eBook Distribution business, so it now expects that business to make up a larger proportion of sales than previously planned. Although the eBook Distribution business generates high gross merchandise value and sales, margins are thin. Accordingly, the company has left its profit forecast for FY02/23 unchanged.
- The shift to a cloud-based structure is scheduled to be completed in 2020. The company plans to completely shut down its former system in February 2021. By transitioning to the cloud, the company expects to reduce infrastructure costs by half. Media Do expects these costs to fall by around JPY100mn in FY02/21 and a further JPY350mn in FY02/22. The revised medium-term management plan reflects these cost savings.
- The company explains that its numerical targets reflect investments and expenses, but not blockchain-related sales.
- Compared with actual performance in FY02/20, reaching FY02/23 targets would amount to CAGR of around 11% for gross merchandise value, CAGR of approximately 11% for sales, and CAGR of some 31% for EBITDA.
- By FY2022, one forecast suggests the e-book market will be worth around JPY414.8bn, which is CAGR from FY2018 of around 10% (2019 survey on the e-book business, by Impress Corporation). Calculated as a percentage of this figure, the company's targeted gross merchandise value for FY02/23 represents a 40% market share. The company's own research indicates it had a market share of around 34% in FY02/20. The forecast therefore represents a 6pp increase over FY02/20.
- The company has designated figures for FY02/23 as "targets" and those for FY02/21 as "plans" to highlight a difference in precision.

Blockchain
A type of database using encryption technology for the distributed handling and storage of transaction logs among directly connected terminals over a communication network. Decentralized management using blockchain technology has three advantages over the conventional approach of centralized management: more resilient to system failure, enables traceability and makes forgery difficult, and transactions are low-cost. Blockchain technology has inherent scalability issues, however, as processing time increases as the number of transactions rises.

Company strategies

Media Do has a market share corresponding to approximately 80% of the gross merchandise value that flows through wholesaling. For this reason, rather than competition with other wholesalers, the company's strategically important considerations are growth of the e-book market as a whole and expansion of the share of gross merchandise value that flows through wholesaling.

- To date, Media Do' growth has benefited from a market shift from paper to e-books and from people spending more time on their smartphones. In the future, the company aims for growth in the gross merchandise value of e-books by creating a secondary e-book market employing a new framework using blockchain technology. The company believes that growth in the e-book market should allow it to expand sales by boosting its share of the e-book wholesaling market. The company also thinks it can increase market share in e-book wholesaling if the secondary market adopts its technology.
- A secondary market facilitates the shift of content from consumption by users at the point of purchase to one based on assets that have a disposal value. By selling content on to others after they are done using the content, customers can recoup part of the cost of purchase, using the money to buy other content. The company believes such changes in user behavior will lead to increases in the gross merchandise value of content. Shared Research thinks the company's approach is novel in that it aims to apply to content an approach like that in the markets for secondhand cars (where money received from trading in an old car is used toward the purchase of a new model) or flea market apps. That said, we see the model as more akin to finance than used cars, because digital content does not deteriorate over time as a car would. Also, distribution costs are essentially nil.
- The company thinks it can leverage technologies and expertise related to its digital distribution and infrastructure in the eBook Distribution business, as well as the business and capital relationships it has built with almost all domestic publishers including major ones over the years, into attaining a leading position in the secondary market for e-books.

- The framework of a secondary market for e-books could be used for other digital content as well. Over the long term, the company aims to evolve as a digital content distributor.

Reference: Scale of Mercari's Japan business
The Japan business of Mercari, a flea market app, had a gross merchandise value of JPY490.0bn in FY06/19. In that period, monthly active users numbered 13.5mn.

Medium-term management vision

Mission and vision

The company's mission, and also its business policy, are "establishing a cycle to create sound copyrighted works." This cycle refers to distributing copyrightable works in keeping with their fair use and returning the proceeds to the authors. In this way, the company says it intends to facilitate the development of culture around the world and help create social affluence.

The company's management vision is to "deliver more content for everybody to enjoy." It believes that copyrighted content contributes to cultural development, and an environment for providing access to anyone around the world is emerging. To enable delivery of all sorts of content to people all around the world, the company aims to support all stakeholders, including content creators, producers, sellers, and users.

Transitioning from an e-book wholesaler to a publishing platform operator

The company aims to transition from an e-book wholesaler to a publishing platform operator. It thinks of a publishing platform operator as an entity that underpins the entire e-book distribution market including wholesaling, and also has the following functions:

- Possesses a database that consistently connects publishers, e-bookstores, and readers;
- Provides an infrastructure to help publishers with production, management, and sales promotion;
- Helps e-bookstores attract users, and sparks demand through media operations;
- Establishes a desk to assist in content export; and
- Develops new services that encourage the market to grow by incorporating new technologies.

Business domains

The company thinks of its current business domains as "books" and "digital." It plans to use frameworks that have contributed to its success into the "non-book content" and "digital" domains.

Priority measures in existing businesses

Build a content distribution platform

The company temporarily had two organizations and distribution systems in place, following the merger between Media Do and Digital Publishing Initiatives Japan (DPIJ). After total integration of the two organizations in March 2019, it expects to have a fully integrated system in place in 2020.

- The integrated distribution system combines the best features of each of the two former systems. It is based on the system used by DPIJ, which had numerous connections, and includes the Contents Agency System (CAS) functionality of Media Do's former system.
- By integrating its multiple content submission and distribution systems, the company expects to reduce content distribution costs and build its content submission and distribution system into a consistent publishing-industry database.
- By integrating submission operations and making royalty distribution more efficient, the company intends to help publishers improve operating efficiency. It thinks that helping publishers concentrate on production will let them focus on creating and digitizing more content. Using the new database to connect to all publishers and e-bookstores will help the company ascertain sales conditions instantaneously, facilitating more sophisticated marketing efforts at both publishers and e-bookstores.

▷ The company also aims to make the system compatible with the new distribution framework using blockchain technology it is planning.

Invigorate the media promotion business

The company plans to enhance the media promotion business, which supports marketing at e-bookstores. Through marketing measures targeting publishers and e-bookstores that are based on sales data obtained from e-bookstores, the company aims to boost e-bookstores' sales and create a virtuous cycle for itself, publishers, and e-bookstores.

Step up marketing for Comic Navi, Media Do's e-bookstore

In response to market expansion, Media Do is pursuing system development and augmenting marketing at its e-bookstore, Comic Navi. Previously, Comic Navi allowed the company to ascertain trends among end-customers (consumers), but the revised medium-term plan positions the e-bookstore's role as a way to leverage system development in response to client needs. Whereas Comic Navi's systems were previously built for e-book stores with monthly turnover of JPY100–200mn, it is enhancing the system's recommendation function to handle larger bookstores, with monthly turnover of JPY500mn to JPY1.0bn. As well as meeting the needs of existing e-bookstores, Media Do plans to use the system to encourage new clients to make the switch to its own services.

▷ The company also expects Comic Navi's turnover to increase because the e-book market itself is in a growth phase. Comic Navi allows the company to generate profit on sales through both the wholesaling and the e-book store functions, and while Media Do expects losses in FY02/21 and FY02/22 due to the impact of investments, it expects to recoup its investment by FY02/32. It targets sales of JPY1.2bn, JPY1.4bn, JPY 2.0bn, and JPY3.0bn in FY02/20, FY02/21, FY02/22, and FY02/23 respectively, ramping up to expected monthly sales of JPY250mn by FY02/23—a profit level several times higher than that of FY02/20.

Priority measures for new businesses

For new businesses, the company is considering acquisitions, as well as capital and business alliances.

Leverage advanced technologies to create services and deploy new services across publishers (utilize blockchain technology)

The company says the blow pirate websites dealt to the publishing industry made the industry more receptive to new service initiatives, and points to signs that set-rate monthly services, free trial readership, audiobooks, and AR/VR compatibility are becoming entrenched. As a "publishing platform operator," the company says it feels responsible for inspiring new service developments across the publishing industry. The company says it is taking on the role of promoting technological development across the industry.

▷ The company is particularly focused on blockchain technology. It says the technology is well-suited to digital content because it enables traceability, is difficult to forge, and can control supply. Through the control of supply (by having the concept of a fixed number of issues), a service offering an asset model capable of achieving a premium such as that which exists on limited editions becomes a possibility. Through a new distribution format using blockchain technology, the company plans to create a secondary market for e-books. This would boost the gross merchandise value for e-books and help expand the e-book market. The company says the prospects are good on the technology front. Issues include building an infrastructure that accommodates the scale of transactions and negotiating with publishers about rights.

▷ Shared Research thinks the added value individual participants (authors, publishers, e-bookstores, and users) perceive in the asset model and the new secondary distribution market for e-books will determine the success of the company's new distribution framework using blockchain technology. The company's new framework would have to provide enough added value to compensate for the additional hassle participants are likely to incur. Key considerations, therefore, are whether author royalties will increase, whether the gross merchandise value for publishers and e-bookstores will rise (or generate higher profits for them), and whether user convenience will improve.

▷ With respect to users, the company is creating a browser viewer (e-book viewing software) that will be easier to use than e-book apps. If users embrace this browser viewer and use it to purchase e-books, the company can avoid the 30% commission on e-book sales that currently goes to platforms (e.g., Apple and Google). An increasing flow of cash through the browser viewer should therefore improve the company's gross margin.

- As of FY02/20, the existing eBook Distribution business accounted for most of the company's sales. In the future, the company aims to reduce that ratio to less than one-third. Rather than by lowering sales from eBook Distribution business, over the long term the company plans to increase sales in other fields, centering on secondary distribution while at the same time increasing sales from the existing eBook Distribution business.
- Development of the new blockchain-based platform was completed in Q3 FY02/20. The company expects to complete this development by Q3 FY02/21, and launch the platform in the production environment in cooperation with the first participating publishers. Media Do has indicated plans for additional investment of around JPY300mn for such items as a store management system, a browser viewer that is available even when offline, and data analysis tools (reflected in the revised medium-term management plan).
- Media Do intends to use a consortium blockchain, considering the balance of both speed and security. The system will be able to process transactions at a rate of 5,555 tps (transactions per second), or 480mn tps per day. According to the company, assuming an average transaction value of JPY10, the system can handle JPY1.7tn of transactions per year. Amazon Managed Blockchain will make up the infrastructure, which—according to the company—is both cost-effective and can flexibly respond to the required business styles in several companies.
- There are other companies that are also attempting to provide a similar service using Ethereum's blockchain platform. However, the company thinks that the Ethereum's platform will be limited to high value content that is not traded frequency (such as some artworks), because the platform's processing speed is not sufficient for frequently traded items with a large transaction volume like e-books and cost per transaction is high.

Provide metadata marketing (under development as a new blockchain-based platform function)

Artificial intelligence can be used to crawl through large quantities of data, conduct marketing that elicits books' keywords (metadata), and create book summaries instantaneously. Rather than using bibliographic data (such as genre, author, release date, and publisher) to manage books, books can be linked through related keywords. The company thinks this approach has the potential to boost product sales.

Business

Business description

Media Do is Japan's leading wholesaler of e-books by market share. The company holds a share of around 80% of the gross merchandise value flowing through wholesaling.

▷ With e-books, "wholesaling" refers to the process of obtaining content-use permission from publishers, storing e-book data on Media Do' servers, and delivering e-books to users (readers) on behalf of e-bookstores. The e-book wholesaling framework is unique to Japan. Overseas, e-bookstores tend to be oligopolies and use Kindle-like reader formats. Japan has a large number of smaller publishers, and many e-books are manga (comics), so have pictorial content that is ill-suited to Kindle-like readers.

▷ In its role as a broker between publishers and e-bookstores, Media Do benefits publishers by serving as an efficient, single transaction point representing numerous e-bookstores. This arrangement gives even small-scale publishers the clout to negotiate prices with e-bookstores. Conversely, the company benefits e-bookstores by serving as an efficient, single transaction point for multiple publishers, enabling them to handle more e-books.

▷ Media Do has two business segments, eBook Distribution and Other. Most sales and operating profit come from the eBook Distribution business.

▷ Payments the company receives from e-bookstores include its own commission and the portion paid to publishers (which includes author royalties). These payments equate to Media Do' sales. The company then pays the publishers their portion, which it refers to as royalties and other costs (part of cost of sales). From the company's disclosure documents, we calculate the percentage of royalties for FY02/19 at around 86%, indicating that the company's contribution margin (sales minus royalties) was approximately 14%. Regarding the impact of the sale of Tokushima Data Service Co., Ltd. in October 2019, the company explained that while the overall figure for percentage of royalties increased to 87.1% in Q4 FY02/20, the percentage of royalties in the eBook Distribution business remained unchanged.

Resale price maintenance system

The Japanese publishing industry features a resale price maintenance system that allows publishers to determine the prices bookstores charge. This system is maintained for paper books, but not applied to e-books. As a result, prices on e-books can be set freely. Even if the content is the same, paper and electronic books can have different prices, and e-book prices typically change depending on timing.

Role and function of e-book wholesaling

Through wholesaling, Media Do simplifies operations and reduces labor for publishers and e-bookstores by mediating contracts, providing systems, managing campaigns and data, and tallying totals. E-book wholesalers are called upon to fulfill different functions than wholesalers of paper books.

▷ Contract mediation: The company sources content from multiple publishers and provides that content to multiple e-bookstores. The greater the number of suppliers (publishers) and selling destinations (e-bookstores), the more convenience the company's mediation function provides.

▷ System provision: The company stores on its servers the content data it receives from publishers, ensuring the content is handled appropriately and delivered swiftly to readers; e-bookstores need only link with the server. Rating systems (regulations on what expressions may be used) differ by sales route. Wholesaling sometimes requires revision of inappropriate content. To customers of the Alliance service model (see Service models under the eBook Distribution business section), the company may also provide a viewer (e-book reader software) and other system elements.

▷ Campaign management: E-books present numerous marketing possibilities. For example, to expand the customer base the first volume in an e-book series might be offered for free, with charges assessed for later volumes. Content may be offered for free for a limited period, or apps can divide up stories and allow readers to purchase individual stories. Sales campaigns can facilitate flexibility in price-setting. Wholesalers are required to accurately manage a diverse range of marketing measures on behalf of numerous publishers and e-bookstores. Media Do also makes campaign suggestions.

- Data management and tallying: These office functions include monitoring daily sales, managing and tallying lists of the content readers download and readers' usage history, and outputting this data for publishers and e-bookstores.

Flow of cash through the value chain

Of cash from sales to readers, e-bookstores typically receive around 40%, wholesalers 10%, and publishers 50% (with author royalties paid out of this portion). Shared Research calculates Media Do' contribution margin (sales minus royalties) to be 16–17% (10%÷60%). From the company's disclosure documents, we calculate the percentage of royalties for FY02/19 at around 86%, indicating that the company's contribution margin (sales minus royalties) was approximately 14%. Regarding the impact of the sale of Tokushima Data Service Co., Ltd. in October 2019, the company explained that while the overall figure for percentage of royalties increased to 87.1% in Q4 FY02/20, the percentage of royalties in the eBook Distribution business remained unchanged.

- Some of the company' contracts with large e-bookstores stipulate that the company's percentage sales commission decreases gradually as the sales amount increases.
- Under its Alliance service contract (see Service model under the eBook Distribution business section), e-bookstores receive 70% of the amount paid through apps, as 30% of what readers pay goes to platform operators (e.g., Apple and Google). That 70% is then divided among publishers, wholesalers, and e-bookstores.
- Although e-bookstores have the right to set the prices at which e-books are sold to end-customers, publishers do influence price-setting to a certain degree, for several reasons. Shared Research thinks possible reasons include that the selling prices of paper books, which are based on resale prices, provide a starting point for setting prices on e-books; that under the Japanese publishing industry's resale price maintenance system, it is customary for content producers to set prices; and that e-bookstores need publishers to cooperate with them, for the e-bookstores to roll out campaigns while maintaining a certain level of profit margins.
- For e-books, author royalties typically represent a fixed percentage of sales at e-bookstores. By comparison, royalties for paper books are determined at a fixed percentage of the number of books printed. Publishers pay the author royalties in both cases.

Cost structure

Royalties are variable costs; most other expenses are fixed costs.

- From Media Do' disclosure documents, we calculate the percentage of royalties for FY02/19 at around 86%, indicating that the company's contribution margin (sales minus royalties) was approximately 14%. Regarding the impact of the sale of Tokushima Data Service Co., Ltd. in October 2019, the company explained that while the overall figure for percentage of royalties increased to 87.1% in Q4 FY02/20, the percentage of royalties in the eBook Distribution business remained unchanged. Some of the company's contracts with large e-bookstores stipulate that its percentage sales commission decreases gradually as the sales amount increases. However, as the percentage of royalties the company pays to publishers does not change based on sales amount, higher sales reduce the company's contribution margin.
- In FY02/20, expenses other than royalties totaled JPY7.1bn. Based on the company's percentage of royalties, Shared Research assumes the company's breakeven point would have been around JPY51.0bn in FY02/20
- We understand that increasing the portion of the value chain allocated to wholesalers is not the company' intention, nor would publishers and e-bookstores easily agree to such a proposal. For this reason, to increase its profit margin the company needs to boost the gross merchandise value while preventing fixed costs from rising.

How the company forecasts performance

Media Do' forecasts are comprehensive, incorporating an assumed rate of growth for the overall e-book market and sales fluctuations at individual e-bookstores.

Wholesaling (Media Do)

Domestic share

In FY2018, the market for e-books was worth JPY282.6bn (2019 survey on the e-book business, by Impress Corporation). Of this amount, the company estimates it accounted for JPY95.0bn flowing through wholesaling. Based on this assumption, the company's share of the wholesaling market in FY02/20 accounted for around 34% of the gross merchandise value in Japan (including the gross merchandise value from direct transactions between publishers and e-bookstores). As of FY02/20, the company handled more than 2mn titles.

- ▷ The main reason publishers and e-bookstores use the wholesaling route for e-books is to avoid complexity (engaging in direct, one-on-one business with numerous publishers and e-bookstores, mediating contracts, and managing campaigns). Accordingly, wholesaling becomes more convenient as the number of publishers and e-bookstores grows. Japan has many publishers rather than a few large ones. Also, oligopoly by foreign e-bookstores such as Kindle has not been prevalent in the Japanese e-book market. This situation creates a strong need for the wholesaling of e-books. Media Do estimates that it has the top share of the market (at around 80%) for gross merchandise value via wholesaling. This figure suggests the company's e-book wholesaling services therefore offer the highest level of convenience to publishers and e-bookstores.
- ▷ Media Do made Digital Publishing Initiatives Japan Co., Ltd. (DPIJ) a subsidiary in April 2017. As DPIJ's shareholders included a publishers' alliance and the Innovation Network Corporation of Japan, the subsidiary had a large share of the market for wholesaling text-based content. This area of Media Do' business had been lacking; merging with DPIJ allowed it to overcome this weakness. The company also avoided the risk of a commission war by making Digital Publishing Initiatives Japan Co., Ltd. a subsidiary.
- ▷ E-books present numerous marketing possibilities. For example, to expand the customer base the first volume in an e-book series may be offered for free, with charges assessed for later volumes. Content may also be offered for free for a limited period, or apps can divide up stories and allow readers to purchase individual stories. Flexibility in price-setting can facilitate sales campaigns. Wholesalers are required to accurately manage the diverse range of marketing measures on behalf of numerous publishers and e-bookstores. Managing campaigns appropriately requires personnel as well as systems. As of FY02/20, the company had 350 employees, 3.5 times the 100 people employed at MobileBook.jp, a competing e-book wholesaler. In FY02/20, the company managed more than 10,000 campaigns and says it is the only wholesaler with the personnel to handle that sort of volume.

Agreements with publishers and e-bookstores

E-bookstores usually choose which wholesaler they wish to use, but in some cases publishers designate the wholesaler.

- ▷ Under exclusive agreements, all transactions flow through Media Do, so wholesaling volume (gross merchandise value) is large. At the same time, commission rates are advantageous to publishers and e-bookstores, so the arrangements benefit all parties.
- ▷ Media Do suggests exclusive agreements for new e-bookstores with growth potential. In case of small e-bookstores, publishers sometimes suggest the e-bookstores conduct business through wholesalers.
- ▷ Text-based content has a lower sales volume than manga, and publishers tend to be smaller in scale. Accordingly, at e-bookstores that primarily handle text-based content or those that provide a comprehensive range of content, the company's share of wholesaling tends to be higher than at e-bookstores specializing in manga.

Selling destinations (e-bookstores)

The company does business with more than 150 bookstores, including all of those ranked in the top 20 by user frequency (Impress Corporation, 2019 survey on the e-book business indicating the top 20 stores where customers had made purchases in the past six months).

- ▷ Main selling destinations in FY02/20 were the LINE Corporation (TSE1: 3938), whose group companies accounted for 20.9% of total sales; Amazon.com, Inc. (NASDAQ: AMZN) and its group companies at 12.8%; and BookLive Co., Ltd. (shareholders include

TSUTAYA Co., Ltd. and Toppan Printing Co., Ltd.) at 11.5%. The top three selling destinations accounted for around 45% of total sales.

- The LINE group includes LINE Manga, BookLive’s service is Booklive, and the Amazon.com group has the Kindle app and operates an e-bookstore.
- Large e-bookstores have high growth rates, and Media Do’ sales have risen at around 30–40% per year since FY02/14 except for FY02/18, when performance was significantly affected by pirate websites.
- LINE Corporation announced that it will sell 70% of its stake in LINE Digital Frontier, which operates LINE Manga, to US-based Webtoon Entertainment Inc. As a result, LINE Digital Frontier will become a wholly owned subsidiary of Webtoon Entertainment. Webtoon Entertainment Inc. operates e-comic service WEBTOON in South Korea and the United States. Line Corporation plans to use the proceed from the sale of its stake in LINE Digital Frontier to acquire shares in Webtoon Entertainment and expects to have a 33.4% stake. The sale took place in August 2020 and the sale price was undisclosed. As LINE Digital Frontier will no longer be a consolidated subsidiary of LINE Corporation, the company expects that LINE Corporation will no longer disclose the transaction volume of LINE Manga.
- There was concern about the LINE Group switching transactions with the company to Z Holdings group company eBook Initiative Japan (TSE1: 3658), because LINE Corporation is planning a merger with Z Holdings Corporation (TSE1: 4689). However, the risk has faded following the transfer of LINE Digital Frontier shares to Webtoon Entertainment Inc., as stated earlier. The company believes this development has expanded its overseas business expansion opportunities.

Suppliers (publishers)

Media Do receives permission from publishers and other content holders to use their content, paying royalties in exchange. Publishers are therefore analogous with “suppliers” in general corporate transactions. The company has accounts with more than 2,200 publishers, of which 1,530 are non-manga publishers. The company says it does business with all major publishers (members of the Japan Book Publishers Association, excluding publishers of non-print media, such as audiobooks). The company says it conducts business with more than 99% of domestic publishers that supply e-books.

- In FY02/19, total purchases from the top three providers of e-book content (cost of sales less production and content amortization expenses) amounted to JPY19.9bn. This figure equated to 45.4% of the Media Do group’s total purchases of JPY43.7 million. Total purchases from the top three providers of e-book content and share breakdown for FY02/20 are not disclosed in annual securities reports, but they contain a comment that the share of the top three providers remains at a high level.
- Shared Research assumes these three companies are Kodansha Ltd., Shogakukan Inc., and Shueisha Inc. (all prominent publishers of manga). Media Do’ distribution agreements with these companies are one-year contracts that renew automatically if neither party objects.

Systems and infrastructure

Content distribution system, e-bookstore system

The company had two distribution systems in place for a time after merging with Digital Publishing Initiatives Japan (DPIJ), but plans to have a fully integrated distribution system in place in 2020.
The integrated distribution system combines the best features of each of the two former systems. It is based on the system used by DPIJ, which had numerous connections, and includes the Contents Agency System (CAS) functionality of the company’s former system.

Previous system: CAS

The company previously used the CAS solution, which it had developed. The new integrated distribution system has the same basic functionality as CAS.

▷ CAS comprised a content distribution system, called md-dc, and an e-bookstore system, MDCMS.

▷ md-dc, the content distribution system, was used to store and distribute e-book data files digitalized from the various types of books publishers provided (comics, text-based books, magazines, and photo collections). This system also handled the tallying of sales and royalties due to individual publishers, and produced reports. Media Do says its system has been 99.999% utilized and is capable of handling up to 6.0bn downloads per month. Having access to Media Do' distribution system means e-bookstores have no need to store content on their own servers. This ability to handle an increased access volume benefited e-bookstores.

▷ MDCMS, the e-bookstore system the company developed, included all the key functionality of other e-commerce sites, such as member management, ranking, point, and payment functions. The system was also equipped with data analysis functionality to facilitate sales management (graphing), track the ongoing status of members and performance throughout their membership periods, analyze access, and manage advertising results.

Infrastructure

In March 2019, the company began moving its system infrastructure from an on-premise structure onto the cloud.

▷ The shift to a cloud-based structure is scheduled to be completed in 2020. The company plans to completely shut down its former system in February 2021. With certain exceptions, the company expects to eliminate the doubling up of server and operations outsourcing costs. The company also expects to reduce infrastructure costs by half with the shift to the cloud.

▷ The company's cloud infrastructure uses Amazon Web Services.

▷ In the past, the company opted for on-premise infrastructure, believing it provided the better security needed for handling copyrighted material. With cloud servers having become more secure, the decision to move to the cloud was based on the need for redundancy in response to a surge in campaign demands and the use of blockchain technology, more expandability, and strong preference by engineers.

End-customer information

In cases where Media Do provides its e-bookstore system, end-customer information is stored on its system. However, the company cannot use end-user information without permission, as it belongs to e-bookstores (the exception being information related to its own bookstore). When it needs to analyze end-customer sales information related to marketing measures, the company obtains permission from e-bookstores before extracting this information from its system and analyzing it. The company uses sales information on books it handles itself to determine which items are selling well across the e-book market, as well as strong-selling titles at individual e-bookstores.

Industry organizations

Media Do is a member of the World Wide Web Consortium (W3C), a global standardizing body for internet technology. W3C manages EPUB, the international standard for e-books. The company discusses future international standards for e-books with the Digital Publishing Business Group, a body established within W3C. The company is the Group's only Asian co-chair.

As international standards for e-books significantly affect e-publishing's creative environment, as well as distribution platforms in general, in April 2017 the company jointly established the Advanced Publishing Laboratory (APL) with the Keio Research Institute at SFC, Kadokawa Corporation, Kodansha Ltd., Shueisha Inc., and Shogakukan Inc. APL makes recommendations for future publishing-related research, including international e-book standards for the publishing of Japanese text (such as the use of vertical script and annotative glosses to indicate pronunciation).

Segments

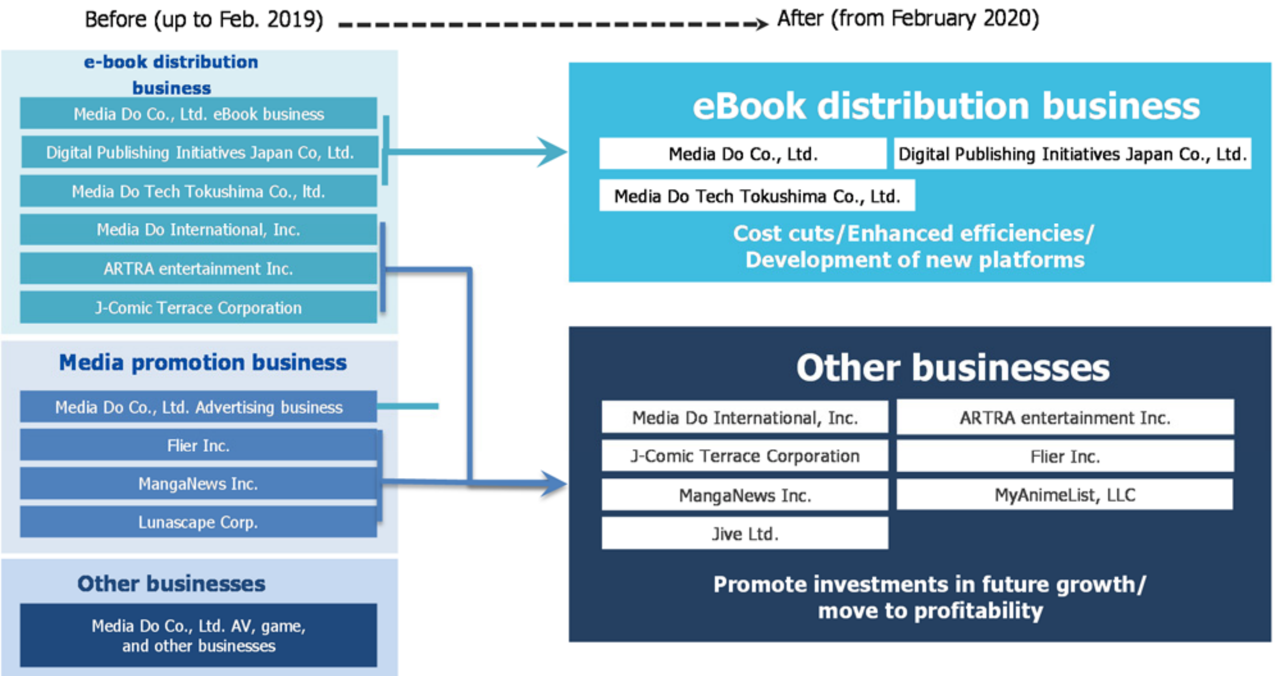
Media Do has two business segments, eBook Distribution and Other. Most sales and operating profit come from the eBook Distribution business.

Change in business segments

On March 1, 2019, Media Do Co., Ltd. merged with Digital Publishing Initiatives Japan Co., Ltd., a consolidated subsidiary. At that time, the company revised its former three business segments (eBook Distribution, Media Promotion, and Other) into two (eBook Distribution and Other).

- In the eBook Distribution business, the company aims to build new platforms to handle expansion in the e-book publishing market through efficient wholesaling and leveraging blockchain and other cutting-edge technologies. The new Other business segment includes the media business which handles investment in areas aimed at invigorating the publishing industry, and peripheral businesses. The company aims to further clarify the purpose of individual businesses going forward.
- The company aims to boost profitability in its mainstay eBook Distribution business by reducing costs and increasing efficiency.
- The company sees the Other business segment as an area for up-front investment.
- The figure below shows the relationship between business segments up through FY02/19, and that from FY02/20. Although the Other business segment has the same name as before, investors should be aware that the segment's business content has changed significantly.

Previous and new segments



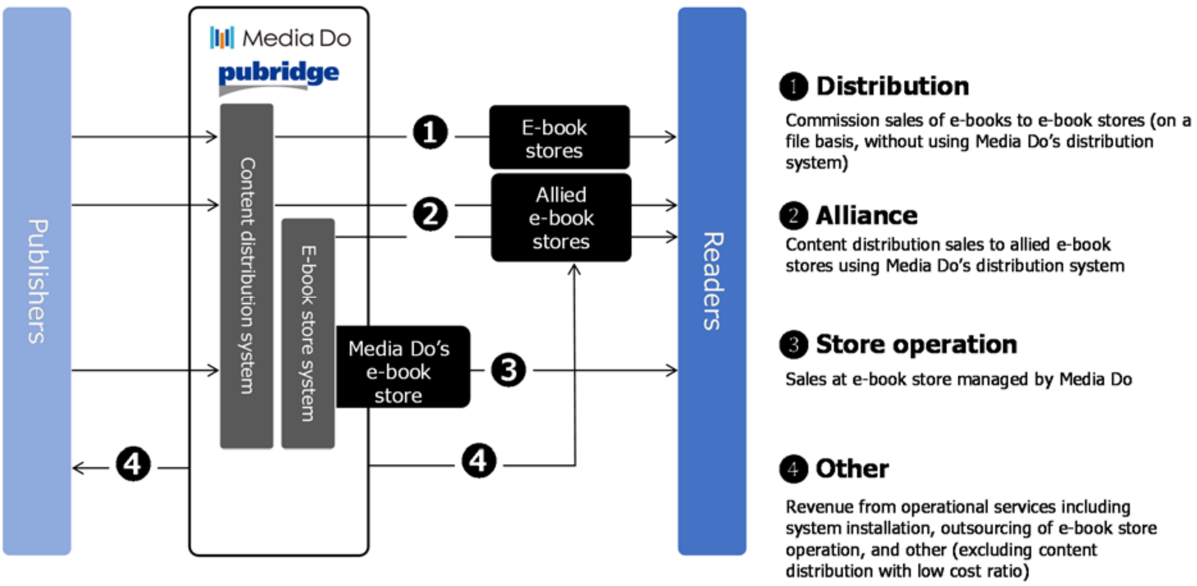
Source: Shared Research based on company data

eBook Distribution business

In the eBook Distribution business, Media Do handles e-book content on behalf of publishers and other content holders, uses its systems to wholesale the content to e-bookstore clients, and also distributes e-books for sale at e-bookstores the company operates itself. In addition to systems, the company creates sales and support structures, provides strategic planning and e-book business consulting, and produces and provides operational support for e-bookstore sites.

- ▷ Specifically, this business focuses on three service models: Distribution, Alliance/Platform provision, and Store operation. The composition of sales by service model in Q1 FY02/20 was around 72% for Distribution (file-based transactions), approximately 26% for Alliance (transactions that include the provision of e-bookstore systems, mainly LINE Manga), and around 2% for Store operation and other models.
- ▷ Under the Distribution and Alliance/Platform provision models, the company acts as a one-stop provider by offering customers a service package that includes e-book content, an e-book distribution system, an e-bookstore system, and expertise in e-bookstore operation.
- ▷ Under all service models, publishers pay author royalties. The company says, however, that in the future it would like to handle agency payments of author royalties, and announced with Q1 FY02/21 results that it would begin joint development of a Software as a Service (SaaS) sales and stamp duty management service.

eBook Distribution business flow



Source: Shared Research based on company data

Sales by service model

Sales by service model	FY02/18				FY02/19			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
eBook Distribution	7,446	9,831	9,247	9,699	10,510	12,325	12,806	-
Distribution	4,926	7,208	6,674	7,258	7,849	8,856	9,020	
% of total	66.2%	73.3%	72.2%	74.8%	74.7%	71.9%	70.4%	-
Alliance	1,881	2,000	1,879	1,809	2,022	2,736	3,027	
% of total	25.3%	20.3%	20.3%	18.7%	19.2%	22.2%	23.6%	-
Store operation	357	351	318	297	321	346	339	
% of total	4.8%	3.6%	3.4%	3.1%	3.1%	2.8%	2.6%	-
Other	281	271	374	335	316	386	419	
% of total	3.8%	2.8%	4.0%	3.5%	3.0%	3.1%	3.3%	-
Royalties as % of eBook Distribution sales	83.0%	83.7%	83.4%	84.0%	84.9%	85.9%	85.7%	-
Distribution	87.3%	87.3%	88.2%	88.1%	-	-	-	-
Alliance	91.9%	89.9%	90.9%	90.8%	-	-	-	-
Alliance/Platform	82.1%	80.3%	78.2%	78.9%	-	-	-	-
Own e-book store	39.1%	39.1%	37.3%	37.0%	-	-	-	-

Source: Shared Research based on company data; disclosed through Q3 FY02/19

Disclosure of sales by service model
The company discontinued this disclosure in Q4 FY02/19, citing two reasons. First, conditions have changed, with distribution making up a higher share of the total due to the merger with Digital Publishing Initiatives Japan. Second, the percentage of LINE Manga in Alliance service has grown.

Service models

Distribution

Under this service model, the company wholesales e-book content to e-bookstores. Principal customers include BookLive Co., Ltd. (shareholders include TSUTAYA Co., Ltd. and Toppan Printing Co., Ltd.), and the group companies of Amazon.com (NASDAQ: AMZN).

▷ Content owners (such as publishers), permit Media Do to use their content.

▷ The company uses its content distribution system to provide content to e-bookstores, and end-customers (readers) can read the content via each e-bookstore.

▷ End-customers (readers) pay e-bookstores for the use of content.

▷ E-bookstores pay royalties and wholesaling fees to Media Do. The company then pays royalties to publishers.

▷ E-bookstores or publishers typically bear advertising expenses.

Alliance

This service model involves wholesaling, based on the provision of an e-book distribution system. Media Do also operates e-bookstores with Alliance service partners. This arrangement benefits Alliance partners because they can leave e-book infrastructure up to Media Do and dedicate themselves to marketing. The Alliance model also benefits the company because having Alliance partners with strong marketing capabilities makes it easier to boost gross merchandise value (GMV). A major client under this service model is the LINE Digital Frontier (LINE Manga). As LINE Manga uses a system provided by Media Do, nearly 100% of the GMV for LINE Manga is through wholesaling by the company.

▷ Content owners (such as publishers), permit Media Do to use their content.

▷ The company uses its content distribution system and e-bookstore system to distribute content to end-customers (readers).

▷ End-customers (readers) pay allied e-bookstores for the use of content.

▷ Allied e-bookstores pay royalties to the company, which pays content owners (such as publishers).

▷ The company and Alliance partners divide up earnings.

▷ Alliance partners or publishers typically bear advertising expenses.

Store operation

The company operates Comic Navi, its own bookstore site for distributing e-book content. Previously, Comic Navi allowed the company to ascertain trends among end-customers (consumers), but the revised medium-term plan positions the e-bookstore's role as a way to leverage system development in response to client needs. Whereas Comic Navi's systems were previously built for e-book stores with monthly turnover of JPY100–200mn, it is enhancing the system's recommendation function to handle larger bookstores, with monthly turnover of JPY500mn to JPY1.0bn. Comic Navi bills readers monthly and provides access to the manga available within their scope of allocated points, which depends on service level. Media Do attributes Comic Navi's low cancellation rate to this framework. Being a wholesaler allows Media Do to offer many types of products. Operating a store does put the company into competition with some clients (e-bookstores). However, Comic Navi is relatively small in scale, and clients tend to think the benefits Comic Navi provides (functional enhancements via its systems) outweigh any competitive concerns.

▷ Content owners (such as publishers), permit Media Do to use their content.

▷ The company uses its content distribution system and e-bookstore system to distribute content to end-customers (readers).

▷ End-customers (readers) pay the company's e-bookstore for the use of content.

▷ The company pays royalties to content owners (such as publishers).

Other business

Subsidiaries handle Other business.

Media Do International, Inc.

This company's role is to spread the Media Do group's business mission overseas and increase business opportunities for rights owners including authors and publishers.

ARTRA entertainment Inc.

This subsidiary provides e-comic coloring and other services to assist with drawing comics. Although recruiting is below targets, Media Do says demand for the subsidiary's services is high and performance is improving.

J-Comic Terrace Corporation

This company operates Manga Library Z, a free e-comic service, and distributes other e-books. As of September 2019, this subsidiary's sales were below its initial target due to a downturn in advertising market conditions and an increase in similar free services.

Flier Inc.

This company provides the Flier service, offering book summaries aimed at promoting book sales. Monthly fees are set according to service level. The number of members has increased by 2.5x since Media Do Holdings acquired the company, and capital was increased in September 2018 to boost growth further. Members numbered 490,000 as of end-November 2019. The company targets a membership of 1 million by FY02/23.

MangaNews Inc.

This company runs MangaNews, which provides manga-related information, centering on manga review articles. Although the company aims to promote manga sales through review articles, it has fallen short of initial targets, and Media Do Holdings declared a goodwill impairment loss on the company in FY02/19.

MyAnimeList, LLC

This company runs MyAnimeList, a type of community media based around one of the world's largest collections of Japanese anime and manga. Accesses to the service are mainly from overseas. As of FY02/20, PVs were not generating sufficient ad revenue.

Jive Ltd.

This company handles the imprint business.

- ▷ Profit margins are usually lower for paper books than for e-books, due to costs of printing, returns, and disposal. As a result, profit margins are higher at publishers that have transitioned more fully to e-books, and the margins are improving at large publishers in particular. (According to research by Media Do Holdings, in 2015 three large publishers—Shueisha, Shogakukan, and Kodansha—had net margins of 1.26%. That figure had improved to 4.63% by 2018.) Resources are one reason small and medium-sized publishers find the transition to e-books difficult. Small and medium-sized publishers do not possess adequate personnel or expertise to grow e-book sales. Cash flow is another reason. With paper books, publishers are paid when they deliver books to wholesalers. When sales are via e-bookstores, publishers receive payment about two months after the books are sold. This float makes the transition to e-books difficult from the standpoint of cash flow.
- ▷ The company thinks small and medium-sized publishers can improve profit margins in three ways: by supporting cash flow while promoting a transition to e-books, by using print on demand (POD) to lower return rates on unsold paper books, and by standardizing and increasing the efficiency of marketing, systems, and back-office functions.
- ▷ Media Do Holdings aims to grow by expanding the overall distribution of publications, including the two main types that form the basis of publishing culture in Japan: the producer-driven approach typical of paper books and the market-oriented approach

used with e-books and POD. Jive Ltd. was Media Do Holdings' first acquisition in the imprint business, followed by receipt of the Next F label business.

▷ Media Do explains that the imprint business is low-risk, as digital printing makes small-lot reprinting possible, and web marketing allows the number of copies to be determined accurately.

*Imprint
Among Western publishers, "imprint" refers to a publishing label or brand name. Large Western publishers may own multiple imprints. The sharing of management organizations, expertise, inventory management, and production management systems across imprints helps make the publishing process more efficient. Companies keep imprints unique through editorial independence.

Overseas sales

Overseas sales ratio

Japan accounts for more than 90% of Media Do Holdings' sales. In FY02/20 overseas sales accounted for less than 1% of the total. The company attributes this situation to differences between the Japanese and overseas e-book business environments.

▷ The company explains that wholesaling is a rational approach in Japan, which has large numbers of publishers and bookstores. The need for wholesaling is relatively low overseas, where publishing and bookstores both tend to be oligopolistic.

▷ Japanese and overseas markets also differ in content handled. Manga accounts for most of the Japanese market for e-books, whereas text-based content makes up most overseas e-book markets.

Media Do Holdings' initiatives

The company established Media Do International, Inc. in San Diego, California, in 2016 to promote its business in overseas markets. The company had intended to distribute Japanese content (manga) to e-bookstores, as it did in Japan, but the overseas business has not expanded as it had anticipated. The company attributes this to a small body of content being translated for overseas markets and the fact that wholesaling barely exists overseas.

▷ The company is utilizing grants and working to increase the volume of translated content in other ways. It also intends to boost content export by creating networks with local publishers and e-bookstores.

▷ The company is leveraging MyAnimeList, LLC, which it acquired via Media Do International in March 2019, to gain direct access to end-customers and allow it to boost content recognition and buying motivation.

Market and value chain

Japan's e-book market

Market scale and composition

E-book market scale

In FY2019, the market for e-book publishing was estimated to be worth JPY375.0bn, up 20.1% YoY (2020 survey on the e-book business, by Impress Corporation).

- ▷ The FY2019 e-books market turned out to be larger than the previous estimate of JPY332.0bn. Impress speculates that the growing public attention to the issue of internet piracy may have helped raise awareness of e-books, leading to an increase in readership and higher average user fees. The FY2020 projection was also significantly upgraded to JPY444.2bn (from JPY393.5bn previously). This is likely a reflection of shelter-in-place demand resulting from the COVID-19 pandemic.
- ▷ Japan's e-book publishing market is set to keep growing in FY2020 onward, although the pace of growth may level off. By FY2024, Impress expects the e-book publishing market to have a value of around JPY566.9bn.
- ▷ This survey projects a value of JPY539.8bn for the e-book publishing market in FY2023. This figure represents a 24.7% upward revision from JPY433.0bn in its 2019 survey.

Survey on the e-book business, by Impress Corporation
This survey does not include e-magazines within e-books; "e-publishing" includes both e-magazines and e-books.

E-book market scale

(JPYbn)	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020 Forecast	FY2021 Forecast	FY2022 Forecast	FY2023 Forecast	FY2024 Forecast
e-books	62.9	72.9	93.6	126.6	158.4	197.6	224.1	282.6	347.3					
e-magazines	2.2	3.9	7.7	14.5	24.2	30.2	31.5	29.6	27.7					
Total	65.1	76.8	101.3	141.1	182.6	227.8	255.6	312.2	375.0	444.2	481.2	512.4	539.8	566.9
YoY	-	18.0%	31.9%	39.3%	29.4%	24.8%	12.2%	22.1%	20.1%	18.5%	8.3%	6.5%	5.3%	5.0%

Source: Shared Research, based on "Results of 2020 Survey on E-Books" by Impress Corporation

Manga as a percentage of e-books

Of the FY2019 e-book market, manga accounted for JPY298.9bn (86.1% market share), with text-based and other content (e.g., literature, practical guides, and photo collections) accounting for JPY48.4bn (13.9%), according to a 2020 survey on the e-book business by Impress Corporation. Media Do Holdings thinks the market for text-based e-book content will increase as people who are more accustomed to reading text electronically grow.

Manga as a percentage of e-books

(JPYbn)	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Comics	51.4	57.4	73.1	102.4	127.7	161.7	184.5	238.7	298.9
Text-based	11.5	15.5	20.5	24.2	30.8	35.9	39.6	43.9	48.4
Total	62.9	72.9	93.6	126.6	158.5	197.6	224.1	282.6	347.3
Comic ratio	81.7%	78.7%	78.1%	80.9%	80.6%	81.8%	82.3%	84.5%	86.1%

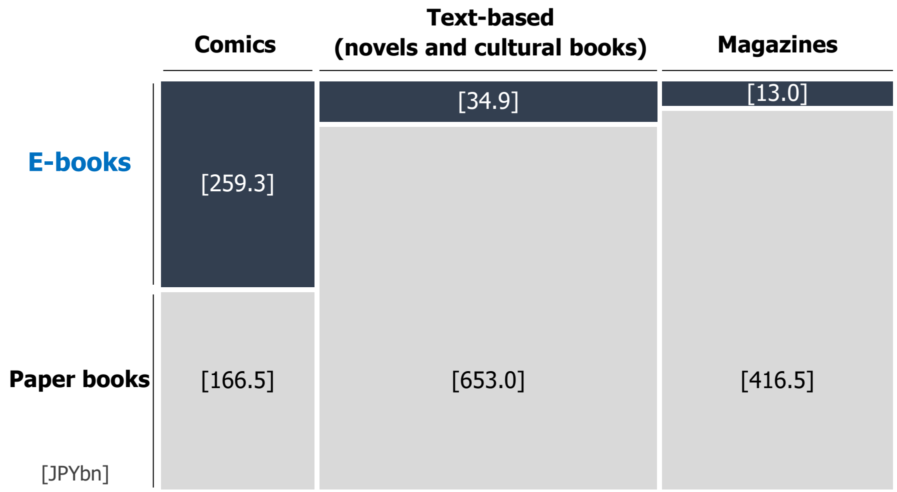
Source: Shared Research, based on "Results of 2020 Survey on E-Books" by Impress Corporation

Size of market for manga (including printed manga)

In 2014, the manga market had a total value of JPY313.8bn, with paper manga making up JPY225.6bn (72% market share) and e-manga JPY88.2bn (28%). In 2019, the market for paper manga had a value of JPY166.5bn (39.1% market share), and the e-manga market size was JPY259.3bn (60.9%) according to Research Institute for Publications.

- ▷ The company summarizes that the growing popularity of smartphones has increased the number of reader contact points and prompted growth in the e-manga market. Also, the overall market for manga is increasing, and e-manga demand is replacing demand for paper manga, to some degree.

Market structure for e-books and printed books (2019)



Source: Research Institute for Publications
Note: Manga is included in Comics and comic magazine included in Magazines.

Why manga represent a high percentage of e-books

The company says manga are better suited to e-books than text-based books for the following reasons.

- ▷ According to the company, people tend to read e-books in segments of around 30 minutes, and that manga are better suited to this type of consumption than text-based books, which take longer to read.
- ▷ The company says it can use marketing measures for manga that work only with e-books, making sales easier for publishers. For example, to expand the customer base the first volume in an e-book series may be offered for free. Content may also be offered for free for a limited period, or apps can divide up stories and allow readers to purchase individual stories.
- ▷ Manga can be digitized less expensively than Japanese text-based books: several thousand Japanese yen per volume versus JPY20,000–100,000 for text-based books. This difference arises because manga can be treated as images, whereas digitizing Japanese text is complicated as it includes a vertical writing mode and combination of syllabaries (Chinese characters, plus the two phonetic readings of katakana and hiragana for pronunciation guides). Because the profitability of text-based books is falling in Japan, publishers are limiting the scope of digitization. By comparison, books written in alphanumerics like English can be digitized for around JPY1,000, making them less expensive and more profitable than Japanese e-books.
- ▷ According to an in-house study by Media Do, text-only works account for only around 5% of e-publications in Japan, compared with around 30–40% of the e-publishing markets in the United States and China.

Differences from the music industry

The publishing and music industries have some similarities. Both have been affected by a shift in content provision from physical to digital offerings, but the number of players differs. The publishing industry is characterized by numerous small and medium-sized entities, and even major publishers have a relatively small market share. By comparison, the music industry is dominated by a small number of labels with a high market share.

The issue of pirate websites

The popularity of pirate websites, which offered content free of charge and without the need for user registration, started spreading by word of mouth from around September 2017. Media Do Holdings' performance was affected, with the gross merchandise value (GMV) decreasing notably among manga targeting younger readers.

Impact, damage

Although accurately assessing the impact and damage of pirate websites is difficult, Media Do Holdings gauges the impact by looking at fluctuations in YoY growth at manga stores targeting young readers, which were most notably affected. Sales at these stores rose at an annual pace of around 40% both before pirate websites became popular and after they were shut down. During the period when pirate websites were most prevalent (November 2017 to March 2018), these stores had annualized growth of around 10%. Also, sales of the newest episodes of certain popular titles at e-bookstores were more than 30% lower than for previous episodes among customers aged 15–19. Among the 20–24 age group, these sales were down more than 20%. From this data, the company estimates that in the hardest-hit e-book categories pirate websites depressed sales by around 30%.

▷ According to assumptions by the Content Overseas Distribution Association quoting urgent measures to counter pirate websites (April 2018 meeting of cabinet ministers responsible for anti-crime measures at Intellectual Property Strategy Headquarters), the damage was assessed at approximately JPY300.0bn, based on GMV. These same assumptions note that 96% of access to these sites was from Japan, and that most of the damage was to the domestic market.

▷ The company's sales in 2H FY02/18 and Q1 FY02/19 were also affected by pirate websites. Although an accurate impact assessment is difficult, company estimates that pirate sites may have reduced sales by around 10% during this period, extrapolating from Q2 FY02/19 sales of JPY12.3bn (after the pirate websites had closed), compared with sales of JPY9.7bn in Q4 FY02/18 (before the pirate sites had closed). If quarterly sales were affected by JPY1.0bn and the company's percentage of royalties was 86%, Shared Research estimates that quarterly operating profit was reduced by around JPY140mn.

▷ Media Do Holdings says it became aware of pirate websites' impact around September 2017. Rumors of pirate websites had begun circulating around then, and the company says they were beginning to have a clear negative impact on sales growth rates.

The problem's development

The Japanese government began considering measures for blocking access to pirate websites, announcing Emergency Measures for Countering Pirate Websites in April 2018. The emergency measures called for internet service providers to block the three most malicious sites. Access to pirated content on the three sites was blocked at around that time, so the industry assumed the pirate website issue was ending. However, internet service providers had not actually blocked the sites. Around July 2019, overseas authorities detained a suspected operator. As similar pirate websites emerged after that point, it became evident that the authorities had not actually resolved the underlying problem.

▷ The procedures that rights holders must follow to make takedown requests under the US Digital Millennium Copyright Act (DCMA) presents a language barrier for Japanese authors. Also, once a manga artist makes a takedown request, pirate websites may target his or her works in retaliation.

▷ Also, pirate websites used Cloudflare's content delivery network (CDN). Acting as a reverse proxy for websites, this CDN prevents outside access to servers, with information about the original servicer and operators of pirate websites shrouded by Cloudflare. Furthermore, the pirate websites used non-US providers between themselves and Cloudflare, complicating access to original servers by rights holders wishing to make takedown requests.

Blocking
Service providers or carriers cut off access forcibly to prevent viewing of illegal content on the internet, such as child porn or pirated content.

CDN
Content delivery network (CDN) services facilitate smooth user access to content with concentrated access. Through decentralized management at numerous large-scale servers located around the world and by placing copies of websites on these servers, this framework optimizes content distribution speed and facilitates distributed, high-volume access.

Hurdles to blocking (pirate websites)

Blocking must be conducted with caution to avoid infringing on the "secrecy of communication" (Article 21-2 of the Constitution of Japan, Article 4-1 of the Telecommunications Business Act).

▷ The emergency measures apply to cases in which (1) the number of content uploads is such that they clearly infringe the legitimate interests of the copyright holder, (2) takedown, arrests, or other methods do not effectively protect those rights, (3) methods and practices do not infringe the secrecy of communication more than necessary, and (4) the infringement on the copyright holder's rights via the site is extremely clear. Also, the measures indicate that if conditions for emergency evacuation (Article 37 of the Penal Code) are satisfied, the claim of illegality may be rejected.

▷ In addition to secrecy of communication, blocking could be perceived as hindering freedom of expression (Article 21 of the Constitution of Japan), and technically viewers could be inadvertently prevented from browsing a variety of content across the board. These factors made it difficult to block pirate websites other than those that were particularly malicious and caused particularly serious damage, to avoid abusing measures for preventing the browsing of illegal and harmful information in general.

▷ The proposed emergency measures, which were enacted as extraordinary emergency measures until legal systems could be put into place, were limited to the blocking of the three sites through voluntary initiatives of the private sector. The measures also provided that the blocking be performed under an appropriate administrative structure supervised by the private sector. If new, particularly malicious pirate websites emerged, the measures called for the necessary systems to be established quickly, with a deliberative assembly comprising the related company and experts swiftly convened under the Intellectual Property Strategy Headquarters. After that point, a review session was held to discuss measures for addressing pirated content on the internet, but opinions on stepping up blocking methods were non-cohesive, and the interim guidelines were abandoned.

Government's perspective on blocking domains hosting websites that infringe copyrights

In the Emergency Measures for Countering Pirate Websites, the government outlined its perspective with respect to domains designated for blocking and indicating that blocking be conducted carefully.

▷ We recognize that some or all sites on the target domains were established to distribute manga, anime, films, and other copyrighted material over the internet.

▷ Some sites on the target domains contain a considerable amount of content that clearly infringes on the rights of the copyright holders, and the sites have been accessed a considerable number of times from Japan.

▷ Where multiple sites exist within the target domains, the administrators of the individual sites are considered to be the same party.

▷ Taking into overall consideration a variety of factors, such as that (1) sites included in the target domains do not respond sincerely to the exercise of copyright holders' rights or takedown requests, (2) the infringing parties and the operators cannot be identified, hindering the exercise of rights and takedown requests, and (3) the sites were not taken down even when criminal prosecution was threatened, we recognize that no other option exists than to block the target domains.

Criminal penalties against users who download pirated content

Music and video (movies)

Since 2010, Japan's Copyright Act has forbidden the downloading of pirated content, including music and video (movies). October 2012 revisions to the Copyright Act assigned a punishment of "imprisonment for two years or less or a fine of JPY2mn or less (or both)" to parties who, knowing both that the music or video was available for sale or paid delivery and that the content was distributed illegally, stored (downloaded) such music or video on their own personal computers.

Books

▷ Revisions to the Copyright Act were enacted in June 2020, which assigned penalties for users who download printed book content.

▷ In January 2020, Japan's Agency for Cultural Affairs summarized a report by an investigative commission for Copyright Act reform on the downloading of manga and other pirated content, despite being aware that the content was illegal. The report suggested that negligible downloads, such as smartphone screenshots or copying a single frame from a manga running to dozens of pages should not be considered illegal. The report included a recommendation on introducing criminal penalties for so-called "leech sites," which lead internet users to pirate sites. Although its initial proposal called for regulating against all forms of download, including screenshots, the commission subsequently narrowed its proposed scope of regulation following repeated criticism that the original proposal would cause internet use to atrophy. Copyright Act reform is scheduled to be implemented in January 2021, while the regulations on leech sites was implemented in October 2020.

E-book characteristics

From the perspective of readers (customers) and publishers

E-books differ from paper books in several ways.

Readers' (customers') perspective

Advantages of e-books

- ▷ E-books make it easy to change fonts, enlarge text, change background colors, and otherwise improve readability for each reader. Accessibility to e-books is also high.
- ▷ E-books having the same content as paper books are often less expensive. E-books present opportunities for making free content available or lowering prices significantly through campaigns.
- ▷ As long as readers can access the internet, they can buy e-books whenever, wherever they like. Paper books are becoming available at fewer locations as the number of physical bookstores decreases. If purchased on the internet, readers pay delivery charges, and the books take time to arrive.
- ▷ Readers can move about easily with numerous e-books, whereas the number of paper books that can be carried is limited by the space they take up and their weight.
- ▷ E-books do not deteriorate, whereas paper books are affected by moisture and other factors.

Disadvantages of e-books

- ▷ E-books generally cannot be lent to others, whereas paper books can be rented or used in conjunction with diverse service models, such as manga coffee shops.
- ▷ Paper books can be read even if a bookstore closes, whereas e-books cannot.
- ▷ Some sort of device is needed to read e-books. For paper books, such terminals are unnecessary.
- ▷ When books include drawings or complicated typesetting, those books tend not to be digitized, so can only be read in paper form. Even if digitized, e-books are usually released after paper books go on sale.

Publishers' perspective

Advantages of e-books

- ▷ E-books make diverse marketing measures possible, while the marketing of paper books centers on trial readings. For example, to expand the customer base the first volume in an e-book series may be offered for free, with charges assessed for later volumes. Content may also be offered for free for a limited period, or apps can divide up stories and allow readers to purchase individual stories. Flexibility in price-setting can facilitate sale campaigns.
- ▷ Different from paper books (for which royalties are paid based on the number of copies printed in most cases in Japan), on e-books author royalties are paid based on the number of e-books sold.
- ▷ Paper books involve printing and storage costs; e-books do not. E-books are preferable from the perspective of inventory risk and working capital.
- ▷ Paper books are generally sold on a consignment basis in Japan, whereas e-books are not returned. Under the consignment system, return rates are high, at around 40% by value (2018 study by the Research Institute for Publications).

Japan's systems for reselling and setting prices

The Japanese publishing industry has a resale price maintenance system for paper books, but this system does not apply to e-books. Because e-book prices can be set freely, prices on paper books and e-books with the same content tend to differ, with e-book prices fluctuating according to timing.

- Under the resale price maintenance system, publishers set selling prices, which bookstores uphold.
- Although the Antitrust Act generally prohibits retail price maintenance agreements, certain exceptions are allowed. Paper books are granted such an exception, based on the perspective that they promote culture and education. The resale price maintenance system guarantees that a book has the same price at all locations across Japan, signifying that readers have equal-opportunity access to published works.
- The resale price maintenance system applies only to tangible objects including physical books, therefore e-books are exempt.

Consignment sales system for paper books

This system is used widely for paper books. Under this system, three-way agreements among publishers, wholesalers, and bookstores state that books that remain unsold at a bookstore may be returned within a specific period. For bookstores, this arrangement has the benefits of reducing inventory risk and allowing storefront displays to show a diverse variety. The advantage to publishers is that it ensures that even books that are not selling well will be put on display. Like the resale price maintenance system, the consignment sales system helps ensure a diversity of paper books. However, the system encourages publishers to supply more quantity than bookstores can sell and tends to reduce the quality of publishers' planning, so return rates on paper books are high. The consignment system is unnecessary for e-books, which exist as electronic data and represent no inventory risk to bookstores.

E-book value chain in Japan

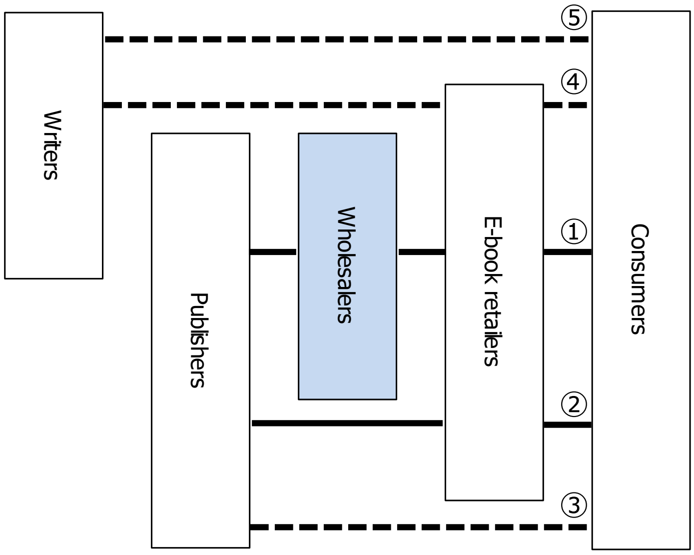
Sales routes

Principal sales routes

E-books are sold through five routes, with sales channels (1) and (2) shown below being the main routes. Media Do Holdings indicates that as of September 2019, around 40% of e-books sold in Japan went through wholesale routes, or sales channel (1), while some 50% are sold through direct transactions between publishers and e-bookstores, or sales channel (2). Around 10% went through sales channel (3), where publishers sell to consumers through directly managed e-bookstores. Sometimes, e-bookstores use an advertising model (free content that generates advertising revenue) rather than a sales model. Content may also go through multiple sales channels. In such cases, even if the name under which it is sold remains the same the flow of data (a server which stores data for users to download) differs.

- ▷ Sales channel (1): Publishers sell e-books to wholesalers, who sell them on to retailers, who sell them on to consumers (readers).
- ▷ Sales channel (2): Publishers sell e-books to retailers, who sell them on to consumers.
- ▷ Sales channel (3): Publishers sell e-books directly to consumers. In particular, large publishers build and operate their own e-book delivery sites to sell directly to consumers.
- ▷ Sales channel (4): Authors sell e-books to retailers, who sell them on to consumers.
- ▷ Sales channel (5): Authors sell e-books directly to consumers via websites the authors operate.

Main distribution routes for e-books



Source: Shared Research, based on data from the Japan Fair Trade Commission (Case 12 of FY2016), on the acquisition by Media Do Co., Ltd., of shares in Digital Publishing Initiatives Japan Co., Ltd.

Flow of data

In sales channel (1), e-book data and metadata produced by publishers themselves or consigned third parties is sent to wholesalers. Wholesalers convert the content they receive from publishers into appropriate formats and send it on to e-bookstores.

In sales channel (2), the publishers themselves or consigned third parties may provide data in formats suited for each e-bookstore and send this data to the e-bookstores. Alternatively, the e-bookstores may convert data they receive from publishers into the necessary formats.

Sales channel (2), which bypasses wholesaling

Unless wholesalers have exclusive agreements in place with publishers, e-bookstores may purchase content from other wholesalers. Publishers may also sell content directly, unless prohibited by contract. Sales routes that do not pass through wholesaling exist for several reasons.

Based on historical business practices

E-book wholesaling did not exist before 2006, when Media Do Holdings entered the eBook Distribution business, so e-bookstores and publishers conducted business directly.

Business between large publishers and large e-bookstores

Unlike for paper books, the wholesaling of e-books requires no physical logistics, so e-bookstores and publishers may see no major benefit in using wholesalers. Large publishers and large e-bookstores may enter direct agreements that cut out wholesalers.

Media Do Holdings explains that agreements that involve wholesaling are not based on content by content but on content varieties (separating manga from text-based books, for instance). The company says such agreements prevent companies from engaging in direct sales, rather than wholesaling, for specific content likely to sell many copies.

Transactions with special distribution formats

The wholesaling system generally assumes a certain distribution format. If e-bookstores wish to use a special sales method, publishers and e-bookstores may enter direct agreements.

Differences from sales routes overseas

In Japan, around 40% of e-books are sold via the wholesale route. Wholesaling exists because bookstores stock numerous items and Japan has many publishers and bookstores, so wholesaling is more efficient than publishers and bookstores handling transactions directly.

- Overseas markets tend to be dominated by a few large publishers. Japan has many publishers, and Media Do Holdings has accounts with more than2,200 of them. The company says Japan's four largest publishers have a total market share of only around 30%. It attributes this situation to an environment that makes it easy even for small publishes to enter the market.
- Other than Amazon (Kindle), many e-bookstores such as LINE Manga also have a high share of the market in Japan. The company says this may be because Kindle is better suited to text-based content than to manga and has focused on text-oriented devices and apps. For manga, however, users tend to prefer other sites and apps better suited to manga.

E-bookstores selling their content directly

E-bookstores may seek to differentiate themselves by offering proprietary content.

- The trend toward e-bookstores offering proprietary content is particularly pronounced with manga apps, and Media Do Holdings thinks this tendency will grow going forward. That said, it is unusual for large publishers to provide their main content only to specific e-bookstores, and such cases only comprise a small portion of the overall market. With manga apps, sometimes content is offered in advance only to specific e-bookstores for a certain period.
- For text-based content, the company explains that e-bookstores may bear the cost of digitizing books in exchange for exclusive sales rights arrangements.

Stamp duty management and sales management issues

Sales management and stamp duty management related to e-books have become increasingly complex, presenting a challenge to many small and medium-size publishers.

- Stamp duty management: For printed books, stamp duty is levied based on the print run, but for e-books, stamp duty is levied based on sales volume. E-books also do not go out of print. Therefore, the number of e-book titles to be managed will continue to increase.
- Sales management: E-books can be sold in various formats not available with printed books, such as installments and composite volumes, and subscription model (unlimited volume). More alternative sales models are likely to appear going forward.

End-customers (readers)

Individuals are the end-customers (readers) for e-books and e-book apps.

- Usage is high among people aged 10–39 (2020 survey on the e-book business, by Impress Corporation).
- People aged 10–19 are less likely than other groups to use paid content, but access to free content is high (ditto), likely because this age group has low disposable income.

E-book consumption by gender and age

		10s		20s		30s		40s		50s		60s or older	
		2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Male	Paid	14.6%	20.6%	24.7%	25.2%	27.0%	27.2%	22.0%	22.6%	18.5%	19.2%	14.9%	15.0%
	Free	30.3%	30.8%	26.8%	28.2%	25.4%	27.6%	24.3%	22.6%	19.5%	20.9%	17.1%	19.7%
Female	Paid	14.3%	14.5%	20.6%	21.4%	25.1%	23.6%	19.9%	18.8%	13.1%	15.3%	9.9%	10.3%
	Free	36.2%	38.9%	31.6%	29.2%	25.1%	25.0%	21.7%	25.0%	21.1%	22.3%	13.5%	15.8%

Source: Shared Research, based on "Results of 2020 Survey on E-Books" by Impress Corporation

Trends at competitors

A competitor in e-book wholesaling is MobileBook.jp Inc., a subsidiary of Dai Nippon Printing Co., Ltd. (TSE1: 7912).

- In March 2017, Media Do Holdings gained the largest share of the Japanese market for e-book wholesaling when it acquired Digital Publishing Initiatives Japan Co., Ltd. The company says it had a market share of around 80% in e-book wholesaling in FY02/19.
- Now that it has an 80% share of the gross merchandise value (GMV) that flows through wholesaling, rather than competition with other wholesalers the company's strategically important considerations are growth of the e-book market as a whole and expansion of the share of GMV accounted for by wholesaling.
- The company says that while competitors outsource system development, it gains a technological advantage by developing its own systems.
- The company is also larger than competitors in terms of employee numbers. This scale allows the company to handle more campaigns.

(JPYmn)	Fiscal year	Net income	Employees
Media Do Holdings	FY02/19	884	350
MobileBook.jp	FY09/19	293	110

Source: Shared Research based on company data
As MobileBook.jp is unlisted, only information on net income and number of employees is available.

Products that compete for consumer contact time in a broad sense

As manga accounts for more than 75% of the e-books sold in Japan, Shared Research thinks most Japanese e-books are accessed for an entertainment purpose. E-books are usually read on mobile devices, such as smartphones, tablets, and dedicated e-book readers, making e-books akin to mobile amusement, a category where competing products scramble for a share of consumer contact time. In this sense, the company competes with Facebook, Twitter, Instagram, and other social media, as well as mobile games, music, and movies.

Since the closure of pirate websites, the e-book market has grown thanks to the consumer exposure to manga those pirate websites encouraged, helping to entrench a manga consumer base (rather than a base for products that compete in a broad sense).

Strengths and weaknesses

Strengths

The company has the top share of the Japanese market for wholesaling e-books, providing high levels of convenience in transactions with publishers and e-bookstores.

The main reason publishers and e-bookstores use the wholesaling route for e-books is to avoid complexity (engaging in direct, one-on-one business with numerous publishers and e-bookstores, mediating contracts, and managing campaigns). Accordingly, wholesaling becomes more convenient as the number of publishers and e-bookstores grows. Overseas markets tend to be dominated by a few large companies, but Japan has many smaller publishers and few oligopolistic foreign e-bookstores such as Kindle in its e-book market. This situation creates a strong need for the wholesaling of e-books. Media Do Holdings estimates that it has the top share of the market (at around 80%) in terms of gross merchandise value (GMV) that flows through wholesaling.

The company is strengthening its presence in wholesaling through exclusive agreements with large e-bookstores, such as LINE Manga.

Some of the agreements Media Do Holdings has in place with e-bookstores and publishers are exclusive—meaning they must conduct business through the company. One such e-bookstore is LINE Manga (accounting for 20.9% of the company's total sales in FY02/20). The company also has exclusive agreements with numerous small and medium-sized publishers. Exclusive agreements with e-bookstores strengthen its position with publishers, and the reverse is also true. As a result, even if not bound by exclusive agreements companies are incentivized to use Media Do Holdings for wholesaling.

Major business partners include large publishers, which have long business relationships with and capital investments in Media Do Holdings.

Three prominent manga publishers, Kodansha Ltd., Shogakukan Inc., and Shueisha Inc., are major shareholders of Media Do Holdings. These publishers are also major business partners, accounting for 45.4% of the company's total purchases (of JPY43.7bn) in FY02/19. Total purchases from the top three providers of e-book content and share breakdown for FY02/20 are not disclosed in annual securities reports, but they contain a comment that the share of the top three providers remains at a high level. The company's competitiveness and market share in wholesaling are attributable to the trust-based relationships it has built with these large publishers over years of business with them and through their investment in the company. Shared Research thinks the company plans to leverage these relationships when it rolls out services for the secondary market, slated for Q3 FY02/21.

Weaknesses

Having a top share of the market for e-book wholesaling means competing with large publishers and large e-bookstores would be a conflict of interest.

Media Do Holdings has the top share of its market, accounting for 80% of the GMV that flows through wholesaling (company estimate). The company attributes this share to the high level of convenience it provides and solid relationships built over years with its suppliers (large publishers) and selling destinations (large e-bookstores). The flip side of this arrangement is that it takes away the company's leeway to engage in any large-scale business that would endanger its position in wholesaling or relationships with large publishers and large e-bookstores. The company is constrained from entering businesses that would allow it to grow vertically, such as creating content or selling content directly to end-customers.

Because some logistics functions are non-essential for e-books, reliance on wholesaling is lower, and publishers and e-bookstores conduct around 50% of transactions directly.

For paper books, around 80% of the GMV flows through wholesaling (*The New and Easy-to-Understand Framework for the Distribution of Publications*, 2019–20 edition, Media Pal). Media Do Holdings estimates that as of September 2019, wholesaling accounted for only around 40% of the GMV for e-books in Japan, with approximately 50% of GMV occurring as direct sales between publishers and e-bookstores. E-books can be downloaded as digital data, rendering unnecessary some distribution functions handled as part of wholesaling, such as physical distribution and returns of unsold books. Conversely, publishers and e-bookstores can easily engage in direct transactions, without requiring wholesaling. The main reason publishers and e-bookstores employ wholesaling in their e-book transactions is to reduce complexity: decreasing the need to engage in direct, one-on-one business with numerous other publishers and e-bookstores, mediating contracts and managing campaigns. That said, large publishers and large e-bookstores may deal directly with other large publishers and large e-bookstores if they consider the advantage of wholesaling to be relatively low.

The company relies on the eBook Distribution business for most of its sales and profit, so is vulnerable to pirate websites and other external factors.

The eBook Distribution business accounted for most of Media Do Holdings' sales and profit as of FY02/20, making the company vulnerable to outside factors affecting the e-book market. Pirate websites are one such example. The company says the emergence of pirate sites had caused the overall market for e-books to shrink at one point, reducing its sales by around 10% at the time of maximum impact.

Historical performance and financial statements

Income statement

Income statement (JPYmn)	FY02/13 Parent	FY02/14 Parent	FY02/15 Parent	FY02/16 Parent	FY02/17 Parent	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Sales	**4,086**	**5,545**	**8,075**	**11,243**	**15,533**	**37,213**	**50,568**	**65,860**
YoY	-	35.7%	45.6%	39.2%	38.2%	139.6%	35.9%	30.2%
Cost of sales	3,310	4,524	6,933	9,937	13,895	32,596	44,829	59,168
Gross profit	**776**	**1,021**	**1,142**	**1,306**	**1,638**	**4,618**	**5,738**	**6,691**
Gross profit margin	19.0%	18.4%	14.1%	11.6%	10.5%	12.4%	11.3%	10.2%
SG&A expenses	738	769	729	754	981	3,688	4,270	4,837
SG&A ratio	18.1%	13.9%	9.0%	6.7%	6.3%	9.9%	8.4%	7.3%
Operating profit	**38**	**252**	**413**	**552**	**656**	**930**	**1,468**	**1,853**
YoY	-	562.1%	63.7%	33.7%	18.9%	41.7%	57.8%	26.2%
Operating profit margin	0.9%	4.6%	5.1%	4.9%	4.2%	2.5%	2.9%	2.8%
Non-operating income	0	1	2	2	3	37	83	42
Non-operating expenses	7	25	1	1	3	136	58	134
Recurring profit	**32**	**228**	**413**	**553**	**657**	**831**	**1,492**	**1,761**
YoY	-	623.2%	81.0%	33.8%	18.8%	26.5%	79.5%	18.0%
RPM	0.8%	4.1%	5.1%	4.9%	4.2%	2.2%	3.0%	2.7%
Extraordinary gains	3				1		110	296
Extraordinary losses	8	14	6	30	12	20	2,312	458
Income taxes	22	38	167	188	231	431	539	724
Implied tax rate	83.0%	17.8%	41.0%	36.0%	35.8%	53.1%	-75.9%	45.3%
Net income attributable to non-controlling interests						22	-5	-8
Net income attributable to owners of the parent	**4**	**176**	**240**	**335**	**415**	**358**	**-1,243**	**884**
YoY	-	-	36.0%	39.5%	23.9%	-13.6%	-	-
Net margin	0.1%	3.2%	3.0%	3.0%	2.7%	1.0%	-	1.3%

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

Cost of sales

Media Do Holdings' cost of sales includes royalties and cost of production (mainly engineers' labor costs and system costs).

Royalties

Royalties are rising as a percentage of sales, for two main reasons.

- ▷ Royalties make up a higher percentage of sales for general books (other than manga), and general books make up a growing share of the company's product mix.
- ▷ Some of the company' contracts with large e-bookstores stipulate that the company's percentage sales commission decreases gradually as the sales amount increases, but the royalties paid to publishers do not vary with sales amount. Therefore, the company's margins fall as sales amount rises.

SG&A expenses

SG&A expenses (JPYmn)	FY02/14 Parent	FY02/15 Parent	FY02/16 Parent	FY02/17 Parent	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
SG&A expenses	769	729	754	981	3,688	4,270	4,837
Advertising	458	391	354	346			
Provision for doubtful accounts	14	9	5	5			
Bad debt expenses							
Directors' compensations	102	62	57	86			
Salaries and allowances	68	91	138	168	957	959	1,189
Depreciation	4	19	19	50			
Commission fees	47	69	85	113	756	745	966
Retirement benefit expenses					24	29	30
Amortization of goodwill					441	781	462
Bonuses and provision for bonuses					168	257	330

Source: Shared Research based on company data

Commissions paid

These payments are mostly for the use of servers and other distribution system infrastructure.

Non-operating income (expenses) and extraordinary gains (losses)

FY02/19 extraordinary losses

System impairment loss: JPY480mn

The company posted an impairment loss on parts of a system it was developing prior to the merger with Digital Publishing Initiatives Japan (software in progress) that became unnecessary after the merger.

Lunascape Corp.: JPY260mn

This company originally anticipated browser-based sales of new e-books, but it is currently handling subcontracted development for Media Do Holdings. This change in business direction resulted in a valuation loss.

Loss on valuation of investment securities

Internet Research Institute Ltd.: JPY540mn

Media Do Holdings recorded a valuation loss due to a decline in this company's share price after its listing in the Tel Aviv Stock Exchange in Israel.

Creatubbles Pte. Ltd.: JPY760mn

Media Do Holdings recorded a valuation loss on this company due to slower-than-expected business expansion stemming from insufficient public awareness of its services.

FY02/20 equity-method losses and extraordinary losses

For the shares the company holds in three companies (one overseas listed and two unlisted), it recorded a JPY180mn loss on valuation of shares (extraordinary losses) and a JPY114mn loss from equity-method investments due to loss on valuation of shares, considering the impact of the further spread of the new coronavirus infection on their businesses and the decline in stock prices. A total of JPY152mn loss from equity method investments (the above-mentioned loss and a JPY38mn loss from other equity-method investments) was partially offset by JPY84mn equity-method investment profit. As a result, the income statement shows a JPY67mn equity-method investment loss. The overseas listed company's valuation was reduced to its market price, and the valuations of the two unlisted companies were reduced to nearly zero, assuming a heavy negative impact from the new coronavirus pandemic.

FY02/20 Extraordinary gains

Gain on sale of investment securities

In Q3 FY02/20, the company posted a JPY290mn gain on sale of investment securities when it sold some of its holdings in Amazia, inc. (TSE Mothers: 4424), a business partner.

Balance sheet

Balance sheet (JPYmn)	FY02/13 Parent	FY02/14 Parent	FY02/15 Parent	FY02/16 Parent	FY02/17 Parent	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Assets								
Cash and deposits	160	1,277	1,740	2,325	2,057	5,686	7,747	8,089
Notes and accounts receivable	949	1,141	1,910	2,401	3,201	8,469	12,313	16,022
Inventories	0	6	0	1	0	-	-	-
Prepaid expenses	41	45	42	39	56			
Deferred tax assets	16	27	25	32	36			
Other	9	7	8	5	21	434	1,158	983
Allowance for doubtful assets	-20	-20	-13	-10	-11	-2	-0	-0
Total current assets	**1,156**	**2,482**	**3,712**	**4,791**	**5,360**	**14,587**	**21,217**	**25,094**
Buildings and structures	11	7	43	31	191	260	349	330
Tools, furniture, and fixtures	16	29	24	124	226	676	778	368
Machinery, equipment, and vehicles					6			
Construction in process		49		2				
Other						69	20	14
Accumulated depreciation						-506	-637	-372
Total tangible fixed assets	**27**	**85**	**66**	**157**	**423**	**499**	**510**	**341**
Goodwill						6,588	5,807	5,416
Software	157	85	97	141	102	210	193	261
Software in progress	0	33	13	32	155	461	99	37
Content	63	51	39	22	15			
Other	3	0	0	1	1	106	89	61
Total intangible assets	**223**	**169**	**149**	**196**	**273**	**7,365**	**6,190**	**5,777**
Investment securities		-	-	33	1,754	3,739	2,902	2,958
Shares in subsidiaries and affiliates			72	72	648			
Long-term loans receivable			15	15				
Long-term loans to associates					28			
Long-term prepaid expenses	4	3	1	3	30	24	13	4
Deferred tax assets	38	96	74	68	4	120	131	59
Guarantee deposits	44	72	31	151	165	365	334	322
Other						0	0	1
Allowance for doubtful assets							-337	-497
Investments and other assets	86	171	**193**	**341**	**2,628**	**4,248**	**3,045**	**2,849**
Total fixed assets	**336**	**426**	**408**	**694**	**3,324**	**12,113**	**9,746**	**8,967**
Total assets	**1,491**	**2,908**	**4,121**	**5,486**	**8,683**	**26,700**	**30,963**	**34,062**
Liabilities								
Accounts and notes payable	613	1,029	1,929	2,890	3,998	9,856	14,480	18,247
Short-term debt	295	54	-	-	157	2,448	1,323	1,662
Accounts payable–other	108	192	127	133	160			
Accrued expenses	-	2	5	1	13			
Income taxes payable	18	104	96	130	129	376	356	519
Consumption taxes payable	26	19	51	26	17			
Deposits received	5	5	4	4	50			
Provision for loyalty points	35	45	44	44	49	41	44	46
Asset retirement obligations		6		14				
Provision for bonuses						122	195	202
Provision for directors' bonuses							4	
Provision for loss on business consolidation								15
Provision for loss on office closure							14	
Other	0	0		5	4	647	1,142	701
Total current liabilities	**1,100**	**1,458**	**2,256**	**3,247**	**4,576**	**13,490**	**17,562**	**21,396**
Long-term debt	58	5	-	-	1,303	8,938	8,740	6,578
Provision for directors' retirement benefits							39	-
Net defined benefit liability							54	
Asset retirement obligations	4	8	9	1	37			
Deferred tax liabilities							31	177
Other						53	76	77
Total fixed liabilities	**62**	**13**	**9**	**1**	**1,340**	**8,991**	**8,940**	**6,828**
Total liabilities	**1,162**	**1,471**	**2,265**	**3,247**	**5,916**	**22,481**	**26,502**	**28,224**
Net assets								
Capital stock	311	776	864	897	912	928	1,650	1,899
Capital surplus	14	480	567	601	616	1,831	2,545	2,778
Retained earnings	4	181	421	736	1,080	1,273	-90	665
Treasury stock						-0	-0	-0
Accumulated other comprehensive income	-	-	-	-	109	65	261	448
Subscription rights to shares			4	4	50	100	72	48
Non-controlling interests						22	20	-1
Total net assets	**329**	**1,437**	**1,856**	**2,238**	**2,767**	**4,219**	**4,461**	**5,838**
Working capital	336	117	-19	-488	-796	-1,387	-2,167	-2,225
Total interest-bearing debt	353	58	-	-	1,460	11,387	10,063	8,240
Net debt	193	-1,219	-1,740	-2,325	-597	5,701	2,316	151

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

Impact of acquiring Digital Publishing Initiatives Japan (DPIJ) (FY02/18)

Goodwill

Media Do Holdings acquired DPIJ's shares in March 2017, making it a subsidiary. The acquisition put JPY5.1bn in goodwill on the balance sheet.

▷ The amortization period is 20 years, so goodwill amortization amounts to JPY254mn per year. The company explains that the amortization period is relatively long because wholesaling operates like infrastructure for the distribution of publications.

▷ Goodwill exceeded net assets as of FY02/19, but Media Do Holdings believes it has enough operating cash flow to recover this goodwill. The company has no intention of financing to balance this equation, as goodwill will decrease through amortization, while net assets can grow through the accumulation of profits.

Recent performance at DPIJ (before merging with Media Do)

(JPYmn)	FY02/18	FY02/19
Sales	20,609	29,535
Recurring profit	1,037	1,675
Net income	741	1,028

Source: Shared Research based on company data

Long-term debt, capital surplus

Media Do Holdings acquired DPIJ by purchasing shares (JPY7.8bn) and through a share exchange (JPY3.1bn in common stock).

▷ The company raised some of these funds through long-term debt. As a result, interest-bearing long-term debt rose in FY02/18.

▷ The company issued new shares in the share exchange, causing its capital surplus to increase in FY02/18.

Cash conversion cycle

Media Do Holdings pays publishers after it receives payments from e-bookstores, so its cash conversion cycle (working capital) is usually slightly negative.

▷ The company maintains no inventories in principle as its mainstay business is eBook Distribution business.

▷ The company's typical collection cycle for accounts receivable is 60 days from month-end.

▷ Agreements with publishers determine the company's obligation to pay publishers if e-bookstores go bankrupt. Under some agreements, the company must shoulder some of the obligation; in other cases, it has no obligation to pay publishers unless receivables are collected.

Cash conversion cycle

	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Accounts receivable turnover	4.3	5.3	5.3	5.2	5.5	6.4	4.9	4.6
Days in accounts receivable	84.8	68.8	68.9	70.0	65.8	57.2	75.0	78.5
Accounts payable turnover	5.4	5.5	4.7	4.1	4.0	4.7	3.7	3.6
Days in accounts payable	67.6	66.3	77.9	88.5	90.5	77.6	99.1	100.9
Cash conversion cycle (days)	17.2	2.5	-8.9	-18.5	-24.6	-20.3	-24.1	-22.4

Source: Shared Research based on company data

Cash flow statement

Cash flow statement (JPYmn)	FY02/13 Parent	FY02/14 Parent	FY02/15 Parent	FY02/16 Parent	FY02/17 Parent	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Cash flows from operating activities (1)	415	757	608	1,031	950	1,470	2,458	1,928
Pre-tax profit	26	215	407	523	646	811	-709	1,599
Depreciation	297	263	203	171	198	406	401	344
Impairment losses	3	3				12	484	55
Amortization of goodwill						441	781	462
Gain on negative goodwill							-85	
Change in allowances for doubtful accounts	8	-0	-7	-2	1	-9	336	160
Change in working capital	4	233	136	465	308	230	855	-44
Cash flows from investing activities (2)	-180	-255	-564	-793	-2,083	-7,961	-481	-77
Purchase of tangible/intangible fixed assets	-201	-216	-212	-311	-497	-551	-495	-327
Acquisition of shares in subsidiaries affecting the scope of consolidation						-4,454		-27
Purchase of investment securities		-11		-62	-1,564	-688	-68	-85
Free cash flow (1+2)	234	503	44	238	-1,133	-6,491	1,977	1,851
Cash flows from financing activities	-179	614	119	47	1,465	9,944	-364	-1,506
Net increase in short-term borrowings	-150	-210						
Net increase in long-term borrowings	-29	-85	-58	-	1,460	9,908	-1,323	-1,821
Dividends paid				-19	-72	-88	-120	-129
Increase (decrease) in cash and cash equivalents	55	1,117	163	285	332	3,463	1,618	342

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

Cash flows in FY02/18

Media Do Holdings purchased Digital Publishing Initiatives Japan (DPIJ)'s shares, then conducted a share exchange, making DPIJ a subsidiary.

- As a result, the company recorded JPY4.5bn in payments for the acquisition of shares of subsidiaries resulting in a change in the scope of consolidation as cash flows from investing activities.
- Also, as cash flows from financing activities the company generated JPY9.9bn in proceeds from long-term debt.

Historical performance

Q1 FY02/21 results

Overview of performance

In Q1 FY02/21, sales were JPY20.3bn (+31.3% YoY), operating profit was JPY732mn (+68.7% YoY), recurring profit was JPY734mn (+61.0% YoY), and net income attributable to owners of the parent was JPY450mn (+69.8% YoY).

- ▷ Sales in the mainstay eBook Distribution business expanded 32.6% YoY. The market grew due to an increase in the amount of discretionary time available as people worked from home and refrained from going out to prevent the spread of the new coronavirus infection, which led to an increase in entertainment demand for "stay-at-home" consumption. Also, further progress in the shift from paper-based books to e-books also contributed to market growth.
- ▷ E-book sales grew around 20% YoY in March 2020. The growth rate surged to around 30% YoY in April, when a state of emergency was declared by the Japanese government, and to about 40% YoY in May. The growth rate since June has slowed from May, but sales remain at high levels. The company analyzes this trend as partly due to a one-time spike in online entertainment demand, but also an accelerating shift from printed books to e-books. Aggressive advertising and promotions by e-bookstores in Q1 also had a positive effect on the company's earnings. Comic sales recorded particularly strong growth.
- ▷ Although costs increased due to payment of working-from-home allowances (+JPY700mn versus Q4 FY02/20), SG&A expenses in Q1 were JPY116mn less than the previous quarter due to factors such as a JPY13mn saving from reduced travel and meeting expenses, JPY47mn expense cut associated with the transfer of the Lunascape business, and JPY37mn reduced fees paid by JIVE Ltd. to writers on scaling down printed publications. OPM was 3.6%, a marked improvement from the 2% range up to Q4 FY02/20, thanks to sales growth and cost reduction.
- ▷ For the full-year FY02/21 earnings forecast, the company maintained its forecast announced on April 14, 2020. The company noted that Q1 results were above initial plans. Q1 progress versus forecast was 26.4% for sales, 33.3% for operating profit, 36.7% for recurring profit, and 40.9% for net income. The company commented that it would begin revising its full-year earnings forecast, because Q1 results showed faster progress versus its full-year forecast than expected.
- ▷ The company commented that a sales target of JPY100.0bn in FY02/23 was now within range, and that it would begin revising its medium-term management plan targets. The current medium-term management plan targets sales of JPY90.0bn in FY02/23.
- ▷ In June 2020, the company went ahead with an absorption-type merger of wholly owned subsidiary Media Do Co., Ltd., and changed its name from Media Do Holdings Co., Ltd. to Media Do Co., Ltd.

Performance by business segment

In Q1 FY02/20, the company revised its reportable segments from three (eBook Distribution, Media Promotion, and Other) to two (eBook Distribution and Other). Below, YoY comparisons have been retroactively adjusted to the post-revision segments.

New segments (from FY02/20)

By segment	FY02/19				FY02/20				FY02/21
Cumulative (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	10,708	23,218	36,175	50,568	15,454	31,881	47,967	65,860	20,292
YoY	38.2%	30.3%	32.5%	35.9%	44.3%	37.3%	32.6%	30.2%	31.3%
eBook Distribution	10,629	23,044	35,869	50,164	15,127	31,208	46,896	64,529	20,064
YoY	-	-	-	-	42.3%	35.4%	30.7%	28.6%	32.6%
Other	92	175	286	403	326	673	1,071	1,329	228
YoY	-	-	-	-	255.8%	285.4%	275.0%	229.8%	-30.1%
Adjustments	-12	-54	-81	-123	-19	150	420	-147	-50
Operating profit	187	536	959	1,468	434	928	1,366	1,853	732
YoY	25.4%	13.5%	36.5%	57.8%	132.1%	73.0%	42.4%	26.2%	68.7%
Operating profit margin	1.7%	2.3%	2.7%	2.9%	2.8%	2.9%	2.8%	2.8%	3.6%
eBook Distribution	243	607	1,054	1,618	408	896	1,401	1,861	688
YoY	-	-	-	-	67.7%	47.6%	32.9%	15.0%	68.6%
OPM	2.3%	2.6%	2.9%	-	2.7%	2.9%	3.0%	2.9%	3.4%
Other	-48	-100	-134	-148	-71	-178	-239	-286	-69
YoY	-	-	-	-	-	-	-	-	-
OPM	-52.0%	-57.2%	-47.0%	-	-21.8%	-26.4%	-22.3%	-21.5%	-30.3%
Adjustments	-9	29	39	-1	97	210	203	279	113

By segment	FY02/19				FY02/20				FY02/21
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	10,708	12,510	12,956	14,393	15,454	16,427	16,086	17,893	20,292
YoY	38.2%	24.2%	36.8%	45.1%	44.3%	31.3%	24.2%	24.3%	31.3%
eBook Distribution	10,629	12,415	12,826	14,295	15,127	16,081	15,688	17,633	20,064
YoY	-	-	-	-	42.3%	29.5%	22.3%	23.4%	32.6%
Other	92	83	111	117	326	347	398	258	228
YoY	-	-	-	-	255.8%	318.1%	258.5%	119.9%	-30.1%
Adjustments	-12	-42	-26	-42	-19	169	270	-567	-50
Operating profit	187	349	423	509	434	494	438	487	732
YoY	25.4%	8.0%	83.9%	123.6%	132.1%	41.4%	3.6%	-4.3%	68.7%
Operating profit margin	1.7%	2.8%	3.3%	3.5%	2.8%	3.0%	2.7%	2.7%	3.6%
eBook Distribution	243	364	447	564	408	488	505	460	688
YoY	-	-	-	-	67.7%	34.2%	13.0%	-18.5%	68.6%
OPM	2.3%	2.9%	3.5%	-	2.7%	3.0%	3.2%	2.6%	3.4%
Other	-48	-52	-34	-14	-71	-107	-61	-47	-69
YoY	-	-	-	-	-	-	-	-	-
OPM	-52.0%	-63.0%	-30.8%	-	-21.8%	-30.7%	-15.3%	-18.4%	-30.3%
Adjustments	-9	38	10	-40	97	113	-6	76	113

Source: Shared Research based on company data
Segment breakdowns for FY02/19 have been retroactively adjusted to the post-revision segments, effective from FY02/20.

> Adjustments refer to sales and profits/losses not attributable to any segment. Media Do receives business advisory fees from subsidiaries based on the previous year's sales in each subsidiary. In FY02/20, the company generated profits not attributable to any segment as sales including business advisory fees exceeded its expenses.

eBook Distribution business

Sales were JPY20.1bn (+32.6% YoY), and segment profit was JPY688mn (+68.6% YoY).

- ▷ Own e-bookstore Comic Navi performed well, with the number of new members up 36% YoY thanks to the effect of investing in advertising and offer of free loyalty points. The segment also benefited from demand for "stay-at-home" consumption as consumers avoided going out as much as possible to prevent the spread of COVID-19. Sales grew 13% YoY and ARPU was up 8% YoY in May.

Other business

Sales were JPY228mn (-30.1% YoY), and the segment loss was JPY69mn (segment loss of JPY71mn in Q1 FY02/20).

- ▷ Sales were down YoY due to the sale of Tokushima Data Service Co., Ltd.
- ▷ The number of Flier subscribers topped 600,000.
- ▷ MyAnimeList recorded robust growth, with 190mn monthly PVs (+43% YoY) and 13mn MAU (+25% YoY) in May 2020. The company will continue to work on ways to make the increase in PV and MAU translate into ad revenue growth.
- ▷ JIVE Ltd., which handles the imprint business, recorded brisk growth of e-comics.

> *Imprint

Among Western publishers, "imprint" refers to a publishing label or brand name. Large Western publishers may own multiple imprints. The sharing of management organizations, expertise, inventory management, and production management systems across imprints helps make the publishing process more efficient. Companies keep imprints unique through editorial independence.

Previous segments (through FY02/19; provided for reference)

By segment	FY02/18				FY02/19			
Cumulative (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,747	17,819	27,294	37,213	10,708	23,218	36,175	50,568
YoY	127.2%	147.5%	143.3%	139.6%	38.2%	30.3%	32.5%	35.9%
eBook Distribution	7,447	17,279	26,526	36,226	10,511	22,837	35,643	49,913
YoY	-	-	-	-	41.1%	32.2%	34.4%	37.8%
Media Promotion	214	373	520	660	131	252	340	408
YoY	-	-	-	-	-38.6%	-32.3%	-34.7%	-38.2%
Other	86	168	247	327	66	130	192	248
YoY	-	-	-	-	-23.1%	-22.9%	-22.2%	-24.4%
Adjustments	-0	-1	-5	-26	-9	-54	-81	-123
Operating profit	149	473	702	930	187	536	959	1,468
YoY	-22.8%	55.2%	62.2%	41.7%	25.4%	13.5%	36.5%	57.9%
Operating profit margin	1.9%	2.7%	2.6%	2.5%	1.7%	2.3%	2.7%	2.9%
eBook Distribution	156	499	710	915	196	539	966	1,525
YoY	-	-	-	-	25.7%	8.0%	36.1%	66.7%
OPM	2.1%	2.9%	2.7%	2.5%	1.9%	2.4%	2.7%	3.1%
Media Promotion	-23	-56	-97	-118	-22	-72	-92	-99
YoY	-	-	-	-	-	-	-	-
OPM	-10.6%	-15.1%	-18.7%	-17.9%	-16.7%	-28.6%	-27.0%	-24.3%
Other	16	30	44	59	21	40	46	44
YoY	-	-	-	-	36.2%	33.9%	4.8%	-26.7%
OPM	18.1%	17.6%	17.6%	18.1%	32.0%	30.7%	23.8%	17.6%
Adjustments		0	46	74	-9	29	39	-1
By segment	FY02/18				FY02/19			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,747	10,072	9,474	9,920	10,708	12,510	12,956	14,393
YoY	127.2%	165.7%	135.7%	130.0%	38.2%	24.2%	36.8%	45.1%
eBook Distribution	7,447	9,832	9,248	9,700	10,511	12,326	12,806	14,270
YoY	-	-	-	-	41.1%	25.4%	38.5%	47.1%
Media Promotion	214	159	148	140	131	121	88	68
YoY	-	-	-	-	-38.6%	-23.8%	-40.6%	-51.3%
Other	86	82	79	80	66	63	63	55
YoY	-	-	-	-	-23.1%	-22.7%	-20.8%	-31.0%
Adjustments	-0	-0	-4	-21	-9	-45	-26	-42
Operating profit	149	324	230	228	187	349	423	509
YoY	-22.8%	190.2%	78.6%	2.0%	25.4%	8.0%	83.9%	123.7%
Operating profit margin	1.9%	3.2%	2.4%	2.3%	1.7%	2.8%	3.3%	3.5%
eBook Distribution	156	343	210	205	196	343	426	559
YoY	-	-	-	-	25.7%	-0.1%	102.6%	172.6%
OPM	2.1%	3.5%	2.3%	2.1%	1.9%	2.8%	3.3%	3.9%
Media Promotion	-23	-34	-41	-21	-22	-50	-20	-7
YoY	-	-	-	-	-	-	-	-
OPM	-10.6%	-21.3%	-27.5%	-15.0%	-16.7%	-41.5%	-22.4%	-10.6%
Other	16	14	14	16	21	18	6	-2
YoY	-	-	-	-	36.2%	31.4%	-56.8%	-
OPM	18.1%	17.2%	17.7%	19.6%	32.0%	29.2%	9.6%	-4.1%
Adjustments	-	0	46	28	-9	38	10	-41

Source: Shared Research based on company data

Sales progress vs. initial forecast

% of Initial FY Est.	FY02/19				FY02/20				FY02/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total sales	23.8%	51.6%	80.4%	112.4%	25.8%	53.1%	79.9%	109.8%	26.4%
eBook Distribution	-	-	-	-	25.9%	53.3%	80.2%	110.3%	26.5%

Source: Shared Research based on company data

In Q1 FY02/21, the company made solid progress versus its initial sales forecast compared to FY02/20 and FY02/19.

Seasonality of sales

Sales growth tends to be higher during Q2 (which includes August summer vacations) and Q4 (winter vacations in December and January). This increase is because young students and office workers read more manga during these times, and because e-bookstores tend to run more sales.

Effect of pirate websites

Pirate websites caused sales to drop in Q1 FY02/19. As of April 2018, the company believed the closure or invalidation of pirate websites was imminent, and so refrained from disclosing a performance forecast for FY02/19. The company announced its forecast in July 2018, once it considered performance was likely to rebound following the closure of pirate websites.

Reference

Payments by LINE Manga (Media Do' customer)

LINE Corporation, one of the company's largest customers, discloses the transaction volume of LINE Manga. The LINE group, centered on LINE Corporation (TSE1: 3938), accounted for 20.9% of the company's total sales in FY02/20.

- ▷ LINE Corporation announced that it will sell 70% of its stake in LINE Digital Frontier, which operates LINE Manga, to US-based Webtoon Entertainment Inc. As a result, LINE Digital Frontier will become a wholly owned subsidiary of Webtoon Entertainment. Webtoon Entertainment Inc. operates e-comic service WEBTOON in South Korea and the United States. Line Corporation plans to use the proceed from the sale of its stake in LINE Digital Frontier to acquire shares in Webtoon Entertainment and expects to have a 33.4% stake. The sale is scheduled for early August 2020 and the sale price is undisclosed. As LINE Digital Frontier will no longer be a consolidated subsidiary of LINE Corporation, the company expects that LINE Corporation will no longer disclose the transaction volume of LINE Manga.
- ▷ There was concern about the LINE Group switching transactions with the company to Z Holdings group company eBook Initiative Japan (TSE1: 3658), because LINE Corporation is planning a merger with Z Holdings Corporation (TSE1: 4689). However, the risk has faded following the transfer of LINE Digital Frontier shares to Webtoon Entertainment Inc., as stated above. The company believes this development has expanded its overseas business expansion opportunities.
- ▷ LINE Manga's growth in transaction volume was sluggish in Q4 FY12/17 and Q1 FY12/18, when the industry was strongly affected by pirate websites. Transaction volume rebounded in Q2 FY12/18, as pirate websites were closed, and its growth has accelerated since then. We understand that LINE Manga, which has many young users, was particularly affected by pirate websites.
- ▷ LINE Manga's growth rate has leveled off since April–June 2019, falling below the overall market growth rate. Media Do attributes this slower growth to LINE Manga running fewer campaigns than other e-bookstores.

LINE Manga's transaction volume and Media Do Holdings' sales

LINE Manga	FY12/18				FY12/19				FY12/20	
(JPYmn)	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar	Apr–Jun
Transaction volume	2,800	3,600	4,900	5,300	6,000	6,300	6,200	6,400	6,800	7,600
YoY growth	2.9%	25.9%	59.1%	89.3%	114.3%	75.0%	26.5%	20.8%	13.3%	20.6%
QoQ growth	0.0%	28.6%	36.1%	8.2%	13.2%	5.0%	-1.6%	3.2%	6.3%	11.8%
Media Do		FY02/19				FY02/20				FY02/21
(JPYmn)	Dec–Feb	Mar–May	Jun–Aug	Sep–Nov	Dec–Feb	Mar–May	Jun–Aug	Sep–Nov	Dec–Feb	Mar–May
Sales	9,920	10,708	12,510	12,956	14,393	15,454	16,427	16,086	17,893	20,292
YoY growth	130.0%	38.2%	24.2%	36.8%	45.1%	44.3%	31.3%	24.2%	24.3%	31.3%
QoQ growth	4.7%	8.0%	16.8%	3.6%	11.1%	7.4%	6.3%	-2.1%	11.2%	13.4%

Source: Shared Research based on company data

LINE

This communication app commenced service in June 2011. In addition to one-on-one and group chat functions (like WhatsApp), LINE offers free telephony, and via a news tab the app disseminates breaking news, weather, fortune telling, and rail transit information. The LINE app can also be used for payments, delivery, shopping, manga, and other services. Monthly active users in Japan number 81mn (as of June 2019). Although LINE and LINE Manga are independent, the LINE app can be used for some LINE Manga services, and LINE can guide users toward LINE Manga.

LINE's earnings announcements
LINE's fiscal year ends in December. Media Do and LINE's quarterly earnings typically have one month difference (as we refer to LINE's January–March quarter when we look at the company's December–February quarter, for example). LINE usually announces quarterly results two weeks after the company's announcement, due to the difference in timing of earnings announcements by the two companies after each quarter ends.

Full-year FY02/20 results

Overview of performance

In FY02/20, sales were JPY65.9bn (+30.2% YoY), operating profit was JPY1.9bn (+26.2% YoY), recurring profit was JPY1.8bn (+18.0% YoY), EBITDA was JPY2.7bn (+11.3% YoY), and net income attributable to owners of the parent was JPY884mn (net loss of JPY1.2bn in FY02/19). FY02/20 sales and EBITDA results both exceed initial and revised forecasts.

- Sales in the mainstay eBook Distribution business expanded 28.6% YoY, driven by robust market growth.
- For the shares the company holds in three companies (one overseas listed and two unlisted), it recorded a JPY180mn loss on valuation of shares (extraordinary losses) and a JPY114mn loss from equity-method investments due to loss on valuation of shares (operational loss), considering the impact of the further spread of the new coronavirus infection on their businesses and the decline in stock prices. A total of JPY152mn loss from equity method investments (the above-mentioned loss and a JPY38mn loss from other equity-method investments) was partially offset by JPY84mn equity-method investment profit. As a result, the income statement shows a JPY67mn equity-method investment loss. The overseas listed company's valuation was reduced to its market price, and the valuations of the two unlisted companies were reduced to nearly zero, assuming a heavy negative impact from the new coronavirus pandemic.
- In Q3 FY02/20, the company posted a JPY290mn gain on sale of investment securities when it sold some of its holdings in Amazia, inc. (TSE Mothers: 4424), a business partner.
- For FY02/21, the company forecasts sales of JPY77.0bn (+16.9% YoY), operating profit of JPY2.2bn (+18.7% YoY), recurring profit of JPY2.0bn (+13.5% YoY), EBITDA of JPY2.6bn (JPY2.4bn), and net income attributable to owners of the parent of JPY1.1bn (+24.3% YoY). The company revised up its sales forecast of JPY75.0bn (issued at end-Q3) by JPY2.0bn on the back of recent strong performance in the eBook Distribution business. Its forecasts for operating profit and EBITDA remain unchanged within the range shown at end-Q3. For detailed assumptions to the FY02/21 full-year forecasts, refer to the "Full-year company forecasts" section below.
- The company revised its dividend forecast. The revised dividend forecast for FY02/20 is JPY13.0 per share (previously JPY10.5 per share). Regarding shareholder returns including an annual dividend, the company said it will allocate dividend payouts and share repurchases based on share prices and other factors, with a total shareholder return of at least 20% in FY02/21.

New coronavirus impact on Media Do business

Sales impact

As of late February 2020, there was little impact on the company's turnover, however, from March the company's eBook Distribution business experienced higher-than-forecast growth in earnings due to increased so-called stay-at-home consumption, affected by the start of school closures, calls to limit going out, and more companies shifting to telework.

- On April 7, 2020 the government of Japan declared a state of emergency and called on certain business including cinemas to limit operations, further discouraging the general public from going out. In a typical year, turnover in the company's eBook Distribution business would fall from March to April, but according to the company, turnover in April 2020 increased over March 2020 from both new user increase and ARPU growth.
- While most of the company's revenues are generated by purchases, some revenue is generated as a share of ad revenue for free manga at e-bookstores. So while, advertisement revenue has been negatively impacted, across the board, by the new coronavirus and Media Do's ad revenues have also been impacted, as the ad revenue is only a small proportion of the company's sales, the net impact on the eBook Distribution business has been positive.

▷ From a different perspective, the possibility of delays in new publications and distribution has arisen from infection outbreaks and the shift to telework at publishers, which provide content for e-books to the company.

Impact within the company

As of April 17 2020, there have been no reports of infections within the company and the company has not experienced any business continuity issues. Media Do has implemented teleworking and, since the Japanese government emergency declaration on April 7, the percentage of remotely working has been 97%. The company also newly established a telework allowance to cover utility, communication, and working environment setup expenses of employees. Its policy is to assume that telework will continue and is setting up the environment and procedures accordingly. The company mentioned that the telework allowance will have very little impact on earnings as it plans to use allocations intended for the commuting allowance.

Performance by business segment

In Q1 FY02/20, the company revised its reportable segments from three (eBook Distribution, Media Promotion, and Other) to two (eBook Distribution and Other). Below, YoY comparisons have been retroactively adjusted to the post-revision segments.

New segments (from FY02/20)

By segment	FY02/18				FY02/19				FY02/20			
Cumulative (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,747	17,819	27,294	37,213	10,708	23,218	36,175	50,568	15,454	31,881	47,967	65,860
YoY	127.2%	147.5%	143.3%	139.6%	38.2%	30.3%	32.5%	35.9%	44.3%	37.3%	32.6%	30.2%
eBook Distribution	-	-	-	-	10,629	23,044	35,869	50,164	15,128	31,208	46,896	64,529
YoY	-	-	-	-	-	-	-	-	42.3%	35.4%	30.7%	28.6%
Other	-	-	-	-	92	175	286	403	326	673	1,071	1,329
YoY	-	-	-	-	-	-	-	-	256.2%	285.4%	275.0%	229.8%
Adjustments	-	-	-	-	-12	-54	-81	-123	-19	150	420	-147
Operating profit	149	473	702	930	187	536	959	1,468	435	928	1,366	1,853
YoY	-22.8%	55.2%	62.2%	41.7%	25.4%	13.5%	36.5%	57.8%	132.6%	73.0%	42.4%	26.2%
Operating profit margin	1.9%	2.7%	2.6%	2.5%	1.7%	2.3%	2.7%	2.9%	2.8%	2.9%	2.8%	2.8%
eBook Distribution	-	-	-	-	243	607	1,054	1,618	409	896	1,401	1,861
YoY	-	-	-	-	-	-	-	-	67.9%	47.6%	32.9%	15.0%
OPM	-	-	-	-	2.3%	2.6%	2.9%	-	2.7%	2.9%	3.0%	2.9%
Other	-	-	-	-	-48	-100	-134	-148	-71	-178	-239	-286
YoY	-	-	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-52.0%	-57.2%	-47.0%	-	-21.9%	-26.4%	-22.3%	-21.5%
Adjustments	-	-	-	-	-9	29	39	-1	98	210	203	279

By segment	FY02/18				FY02/19				FY02/20			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,747	10,072	9,474	9,920	10,708	12,510	12,956	14,393	15,454	16,427	16,086	17,893
YoY	127.2%	165.7%	135.7%	130.0%	38.2%	24.2%	36.8%	45.1%	44.3%	31.3%	24.2%	24.3%
eBook Distribution	-	-	-	-	10,629	12,415	12,826	14,295	15,128	16,080	15,688	17,633
YoY	-	-	-	-	-	-	-	-	42.3%	29.5%	22.3%	23.4%
Other	-	-	-	-	92	83	111	117	326	347	398	258
YoY	-	-	-	-	-	-	-	-	256.2%	317.6%	258.5%	119.9%
Adjustments	-	-	-	-	-12	-42	-26	-42	-19	169	270	-567
Operating profit	149	324	230	228	187	349	423	509	435	493	438	487
YoY	-22.8%	190.2%	78.6%	2.0%	25.4%	8.0%	83.9%	123.6%	132.6%	41.2%	3.6%	-4.3%
Operating profit margin	1.9%	3.2%	2.4%	2.3%	1.7%	2.8%	3.3%	3.5%	2.8%	3.0%	2.7%	2.7%
eBook Distribution	-	-	-	-	243	364	447	564	409	487	505	460
YoY	-	-	-	-	-	-	-	-	67.9%	34.1%	13.0%	-18.5%
OPM	-	-	-	-	2.3%	2.9%	3.5%	-	2.7%	3.0%	3.2%	2.6%
Other	-	-	-	-	-48	-52	-34	-14	-71	-106	-61	-47
YoY	-	-	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-52.0%	-63.0%	-30.8%	-	-21.9%	-30.6%	-15.3%	-18.4%
Adjustments	-	-	-	-	-9	38	10	-40	98	112	-6	76

Source: Shared Research based on company data
Segment breakdowns for FY02/19 have been retroactively adjusted to the post-revision segments, effective from FY02/20.

Adjustments refer to sales and profits/losses not attributable to any segment. Media Do Holdings receives business advisory fees from subsidiaries based on the previous year's sales in each subsidiary. In FY02/20, the company generated profits not attributable to any segment as sales including business advisory fees exceeded its expenses.

Previous segments (through FY02/19; provided for reference)

By segment	FY02/18				FY02/19			
Cumulative (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,747	17,819	27,294	37,213	10,708	23,218	36,175	50,568
YoY	127.2%	147.5%	143.3%	139.6%	38.2%	30.3%	32.5%	35.9%
eBook Distribution	7,447	17,279	26,526	36,226	10,511	22,837	35,643	49,913
YoY	-	-	-	-	41.1%	32.2%	34.4%	37.8%
Media Promotion	214	373	520	660	131	252	340	408
YoY	-	-	-	-	-38.6%	-32.3%	-34.7%	-38.2%
Other	86	168	247	327	66	130	192	248
YoY	-	-	-	-	-23.1%	-22.9%	-22.2%	-24.4%
Adjustments	-0	-1	-5	-26	-9	-54	-81	-123
Operating profit	149	473	702	930	187	536	959	1,468
YoY	-22.8%	55.2%	62.2%	41.7%	25.4%	13.5%	36.5%	57.9%
Operating profit margin	1.9%	2.7%	2.6%	2.5%	1.7%	2.3%	2.7%	2.9%
eBook Distribution	156	499	710	915	196	539	966	1,525
YoY	-	-	-	-	25.7%	8.0%	36.1%	66.7%
OPM	2.1%	2.9%	2.7%	2.5%	1.9%	2.4%	2.7%	3.1%
Media Promotion	-23	-56	-97	-118	-22	-72	-92	-99
YoY	-	-	-	-	-	-	-	-
OPM	-10.6%	-15.1%	-18.7%	-17.9%	-16.7%	-28.6%	-27.0%	-24.3%
Other	16	30	44	59	21	40	46	44
YoY	-	-	-	-	36.2%	33.9%	4.8%	-26.7%
OPM	18.1%	17.6%	17.6%	18.1%	32.0%	30.7%	23.8%	17.6%
Adjustments		0	46	74	-9	29	39	-1
By segment	FY02/18				FY02/19			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,747	10,072	9,474	9,920	10,708	12,510	12,956	14,393
YoY	127.2%	165.7%	135.7%	130.0%	38.2%	24.2%	36.8%	45.1%
eBook Distribution	7,447	9,832	9,248	9,700	10,511	12,326	12,806	14,270
YoY	-	-	-	-	41.1%	25.4%	38.5%	47.1%
Media Promotion	214	159	148	140	131	121	88	68
YoY	-	-	-	-	-38.6%	-23.8%	-40.6%	-51.3%
Other	86	82	79	80	66	63	63	55
YoY	-	-	-	-	-23.1%	-22.7%	-20.8%	-31.0%
Adjustments	-0	-0	-4	-21	-9	-45	-26	-42
Operating profit	149	324	230	228	187	349	423	509
YoY	-22.8%	190.2%	78.6%	2.0%	25.4%	8.0%	83.9%	123.7%
Operating profit margin	1.9%	3.2%	2.4%	2.3%	1.7%	2.8%	3.3%	3.5%
eBook Distribution	156	343	210	205	196	343	426	559
YoY	-	-	-	-	25.7%	-0.1%	102.6%	172.6%
OPM	2.1%	3.5%	2.3%	2.1%	1.9%	2.8%	3.3%	3.9%
Media Promotion	-23	-34	-41	-21	-22	-50	-20	-7
YoY	-	-	-	-	-	-	-	-
OPM	-10.6%	-21.3%	-27.5%	-15.0%	-16.7%	-41.5%	-22.4%	-10.6%
Other	16	14	14	16	21	18	6	-2
YoY	-	-	-	-	36.2%	31.4%	-56.8%	-
OPM	18.1%	17.2%	17.7%	19.6%	32.0%	29.2%	9.6%	-4.1%
Adjustments	-	0	46	28	-9	38	10	-41

Source: Shared Research based on company data

eBook Distribution business

Sales were JPY64.5bn (+28.6% YoY), and segment profit was JPY1.9bn (+15.0% YoY).

- ▷ The company mainly sells to LINE Corporation (TSE1: 3938), which as a group accounted for 20.9% of total sales in FY02/20. Next was Amazon.com, Inc. (NASDAQ: AMZN) and its group companies at 12.8%, followed by BookLive Co., Ltd. (shareholders include TSUTAYA Co., Ltd. and Toppan Printing Co., Ltd.) at 11.5%. These three groups accounted for around 45% of the company' sales.
- ▷ FY02/20 sales to Line Corporation were up 33% YoY. See “Transaction volume of LINE Manga (Media Do Holdings' customer)” under “Reference” below for details.
- ▷ FY02/20 sales to Amazon were up 36% YoY. The company mentioned there was robust growth in text-based content.
- ▷ FY02/20 sales to BookLive grew by 24% YoY. Media Do mentioned that this growth comes as BookLive conducted aggressive promotional activity including TV commercials.

Other business

Sales were JPY1.3bn (+229.8% YoY), and the segment loss was JPY286mn (segment loss of JPY148mn in FY02/19).

Sales progress vs. initial forecast

% of Initial FY Est.	FY02/18				FY02/19				FY02/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	19.4%	44.5%	68.2%	93.0%	23.8%	51.6%	80.4%	112.4%	25.8%	53.1%	79.9%	109.8%
eBook Distribution	-	-	-	-	-	-	-	-	25.9%	53.3%	80.2%	110.3%

Source: Shared Research based on company data

In FY02/20, the company made solid progress versus its initial sales forecast.

Seasonality of sales

Sales growth tends to be higher during Q2 (which includes August summer vacations) and Q4 (winter vacations in December and January). This increase is because young students and office workers read more manga during these times, and because e-bookstores tend to run more sales.

Effect of pirate websites

Pirate websites caused sales to drop in 2H FY02/18 and Q1 FY02/19. As of April 2018, the company believed the closure or invalidation of pirate websites was imminent, and so refrained from disclosing a performance forecast for FY02/19. The company announced its forecast in July 2018, once it considered performance was likely to rebound following the closure of pirate websites.

Impact of making Digital Publishing Initiatives Japan (DPIJ) a subsidiary

For FY02/18, the rate of progress toward full-year sales reflected DPIJ becoming a subsidiary in April 2017. In Q1 FY02/18, the rate of progress was low because March sales did not reflect DPIJ's contribution, as DPIJ had not yet been included in the scope of consolidation.

Reference

Transaction volume of LINE Manga (Media Do Holdings' customer)

LINE Corporation, one of Media Do Holdings' largest customers, discloses the transaction volume of LINE Manga. The LINE group, centered on LINE Corporation (TSE1: 3938), accounted for 20.9% of the company's total sales in FY02/20.

- ▷ LINE Manga's growth in transaction volume was sluggish in Q4 FY12/17 and Q1 FY12/18, when the industry was strongly affected by pirate websites. Transaction volume rebounded in Q2 FY12/18, as pirate websites were closed, and its growth has accelerated since then. We understand that LINE Manga, which has many young users, was particularly affected by pirate websites.
- ▷ LINE Manga's growth rate has leveled off since 2H FY12/19, falling below the overall market growth rate. Media Do attributes this slower growth to LINE Manga running fewer campaigns than other e-bookstores.
- ▷ In December 2019, LINE announced a merger with Z Holdings Corporation (formerly Yahoo! Japan, TSE1: 4689), which is under the umbrella of Softbank Group Corp. (TSE1: 9984). Media Do notes that as of February 2020, this merger has had no major impact on its own business with LINE.

LINE Manga's transaction volume and Media Do Holdings' sales

LINE Manga	FY12/17			FY12/18				FY12/19				FY12/20
(JPYmn)	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar
Transaction volume	2,860	3,080	2,800	2,800	3,600	4,900	5,300	6,000	6,300	6,200	6,400	6,800
YoY growth	-	38.1%	15.7%	2.9%	25.9%	59.1%	89.3%	114.3%	75.0%	26.5%	20.8%	13.3%
QoQ growth	5.1%	7.7%	-9.1%	0.0%	28.6%	36.1%	8.2%	13.2%	5.0%	-1.6%	3.2%	6.3%

Media Do	FY02/18				FY02/19				FY02/20			
(JPYmn)	Mar–May	Jun–Aug	Sep–Nov	Dec–Feb	Mar–May	Jun–Aug	Sep–Nov	Dec–Feb	Mar–May	Jun–Aug	Sep–Nov	Dec–Feb
Sales	7,747	10,072	9,474	9,920	10,708	12,510	12,956	14,393	15,454	16,427	16,086	17,893
YoY growth	127.2%	165.7%	135.7%	130.0%	38.2%	24.2%	36.8%	45.1%	44.3%	31.3%	24.2%	24.3%
QoQ growth	79.6%	30.0%	-5.9%	4.7%	8.0%	16.8%	3.6%	11.1%	7.4%	6.3%	-2.1%	11.2%

Source: Shared Research based on company data

LINE

This communication app commenced service in June 2011. In addition to one-on-one and group chat functions (like WhatsApp), LINE offers free telephony, and via a news tab the app disseminates breaking news, weather, fortune telling, and rail transit information. The LINE app can also be used for payments, delivery, shopping, manga, and other services. Monthly active users in Japan number 82mn (as of April 2020). Although LINE and LINE Manga are independent, the LINE app can be used for some LINE Manga services, and LINE can guide users toward LINE Manga.

LINE's earnings announcements

LINE's fiscal year ends in December. Media Do Holdings and LINE's quarterly earnings typically have one month difference (as we refer to LINE's January–March quarter when we look at the company's December–February quarter, for example). LINE usually announces quarterly results two weeks after the company's announcement, due to the difference in timing of earnings announcements by the two companies after each quarter ends.

Cumulative Q3 FY02/20 results

Overview of performance

In cumulative Q3 FY02/20, sales were JPY48.0bn (+32.6% YoY), operating profit was JPY1.4bn (+42.4% YoY), recurring profit was JPY1.2bn (+31.7% YoY), and net income attributable to owners of the parent was JPY888mn (net loss of JPY489mn in cumulative Q3 FY02/19). EBITDA was JPY2.0bn (+18.4% YoY).

▷ Sales in the mainstay eBook Distribution business expanded 31% YoY, fueled by robust market growth.

▷ Progress toward year-end targets in the initial forecast for the year (before revision) was 79.9% for sales and 82.3% for EBITDA. This solid performance prompted the company to revise upward its full-year forecast for FY02/20.

▷ In Q3 FY02/20, the company posted a JPY290mn gain on sale of investment securities when it sold some of its holdings in Amazia, inc. (TSE Mothers: 4424), a business partner.

▷ CORVID-19, the coronavirus that originated in Wuhan, China, has spread to Japan, and the Japanese government is promoting teleworking and time-shift commuting in an effort to slow the contagion. As of February 27, 2020, the company said its turnover had not been significantly affected. The company attributes this non-impact to a mix of positive and negative demand factors (higher demand due to people spending more time indoors but lower demand due to less time spent reading on mobile devices while commuting by train), as well as to the fact that few companies had shifted over to teleworking as of February.

Performance by business segment

In Q1 FY02/20, the company revised its reportable segments from three (eBook Distribution, Media Promotion, and Other) to two (eBook Distribution and Other). Below, YoY comparisons have been retroactively adjusted to the post-revision segments.

eBook Distribution business

Sales were JPY46.9bn (+30.7% YoY), and segment profit was JPY1.4bn (+32.9% YoY).

▷ The company transitioned to a cloud-based e-book distribution system and relocated management of operational tasks from Tokyo to Media Do Tech Tokushima. The company explained that the new system will triple its performance and allow significant room for expansion. Media Do also expects to improve operating efficiencies as a result, helping to cut costs from FY02/21. The company noted that the shift was proceeding according to plan.

▷ Media Do is developing the foundations and coordinating with business partners on its new platform using blockchain technology. The company aims to begin service on the platform in Q3 FY02/21.

Other business

Sales were JPY1.1bn (+275.0% YoY), and the segment loss was JPY239mn (segment loss of JPY134mn in cumulative Q3 FY02/19).

▷ The company worked to increase membership by running TV commercials for Flier, a business book summary delivery service. As of end-November 2019, Media Do had 490,000 members.

▷ In Q3, Media Do launched its new imprint* (next-generation publishing) business when it acquired all the shares in Jive Ltd. (formerly a wholly owned subsidiary of Poplar Co., Ltd.), making Jive a subsidiary, and acquired from Ohzora Publishing Co., Ltd. the Next editorial department, which publishes manga for girls.

▷ The company revised its group company structure. For example, Media Do transferred all shares in Tokushima Data Service Co., Ltd., which it had acquired in January 2019.

Other topics

Provision of allowance for doubtful accounts

In cumulative Q3, Media Do Holdings reported a JPY131mn provision of allowance for doubtful accounts as a non-operating expense. This provision was an additional allowance for convertible bonds held by the company. The company has already recorded an impairment loss on investments in this bond issuer.

1H FY02/20 results

Overview of performance

In 1H FY02/20, sales were JPY31.9bn (+37.3% YoY), operating profit was JPY928mn (+73.0% YoY), recurring profit was JPY852mn (+59.5% YoY), and net income attributable to owners of the parent was JPY484mn (net loss of JPY692mn in 1H FY02/19). EBITDA was JPY1.3bn (+30.6% YoY).

Performance by business segment

In Q1 FY02/20, the company revised its reportable segments from three (eBook Distribution, Media Promotion, and Other) to two (eBook Distribution and Other). Below, YoY comparisons have been retroactively adjusted to the post-revision segments.

eBook Distribution business

Sales were JPY31.2bn (+35.4% YoY), and segment profit was JPY896mn (+47.6% YoY). The company completed the development of a new e-book distribution system it embarked on in FY02/19 to substantially increase employee working efficiency and reduce human error. The company says this cloud-based system offers three times the performance and better scalability than its previous system. It has started providing this system for e-bookstores Pixiv comics and Manga Bang! and is gradually rolling out the system to other e-bookstores.

Other business

Sales were JPY673mn (+285.4% YoY), and a segment loss was JPY178mn (segment loss of JPY100mn in 1H FY02/19). The segment loss was due mainly to an increase in expenses such as costs to air TV commercials for Flier and personnel expenses to develop a framework for MyAnimeList.

Flier

The number of members using Flier, a book summary service, reached 430,000 (+59% YoY). The company attributes this increase to TV commercials in May 2019 and the success of its public relations activities. Seeing this steady increase in membership, the company has run additional TV commercials since August 2019.

Start of the imprint business

The company has announced the launch of the imprint* business.

▷ Profit margins are usually lower for paper books than for e-books, due to costs of printing, returns, and disposal. As a result, profit margins are higher at publishers that have transitioned more fully to e-books, and the margins are improving at large publishers in particular. (According to research by Media Do Holdings, in 2015 three large publishers—Shueisha, Shogakukan, and Kodansha—had net margins of 1.26%. That figure had improved to 4.63% by 2018.) Resources are one reason small and medium-sized publishers find the transition to e-books difficult. Small and medium-sized publishers do not possess adequate personnel or expertise to grow e-book sales. Cash flow is another reason. With paper books, publishers are paid when they deliver books to wholesalers. When sales are via e-bookstores, publishers receive payment about two months after the books are sold. This float makes the transition to e-books difficult from the standpoint of cash flow.

- ▷ The company thinks small and medium-sized publishers can improve profit margins in three ways: by supporting cash flow while promoting a transition to e-books, by using print on demand (POD) to lower return rates on unsold paper books, and by standardizing and increasing the efficiency of marketing, systems, and back-office functions.
- ▷ Media Do Holdings aims to grow by expanding the overall distribution of publications, including the two main types that form the basis of publishing culture in Japan: the producer-driven approach typical of paper books and the market-oriented approach used with e-books and POD. Jive Ltd. was Media Do Holdings' first acquisition in the imprint business, followed by receipt of the Next F label business.
- ▷ Although the imprint business launch is unlikely to impact its results in FY02/20, the company believes it will boost performance over the long term.

Other topics

Provision of allowance for doubtful accounts

In Q2, Media Do Holdings reported a JPY86mn provision of allowance for doubtful accounts as a non-operating expense. This provision was an additional allowance for convertible bonds held by the company. The company has already recorded an impairment loss on investments in this bond issuer while another approximately JPY550mn is not set aside as allowance for convertible bonds.

Strengthening IR

To enhance investor relations, the company plans to issue an integrated report in summer of 2020. It is expanding its other IR materials, too, and plans to revamp its website and engage in proactive IR targeting overseas institutional investors.

Other information

History

Date		Description
April	1996	Fuji Techno Limited established in Nagoya
April	1999	Media Do Co., Ltd. established in Nagoya
October	2000	Developed Pake-wari!, a system for reducing packet communication traffic volume
November	2001	Merged with Fuji Techno Co., Ltd. in an absorption-type merger
July	2004	Launched online music distribution service
October	2006	Developed md-dc, a system for content distribution
November		Launched e-book distribution service
February	2007	Launched Contents Agency System (CAS), a platform for content distribution
February	2012	Launched DRM-free MP3 distribution, Japan's first online music distribution for smartphones
May		Launched CAS, a solution for e-book distribution stores
April	2013	Started content agency for LINE Manga (operated by LINE Corporation)
November		Listed on the Mothers market of the Tokyo Stock Exchange (ticker: 3678)
May	2014	Entered into a strategic business partnership with OverDrive, Inc.
October		Established a joint venture for global development of LINE Manga, with LINE, Kodansha, and Shogakukan
May	2015	Launched MD Viewer, a viewing software featuring Universal Flick (which allows vertical or horizontal page turn at will)
February	2016	Listing changed to the First Section of the Tokyo Stock Exchange
June		Established US subsidiary Media Do International, Inc. in San Diego, California
November		Acquired shares in Flier Inc., an operator of book summary services, and made it a subsidiary
March	2017	Acquired shares in Digital Publishing Initiatives Japan Co., Ltd. and made it a subsidiary
June		Acquired remaining shares in Digital Publishing Initiatives Japan Co., Ltd. and made it a wholly owned subsidiary
September		Renamed the company Media Do Holdings Co., Ltd. and transitioned to holding company structure
March	2019	Consolidated subsidiary Digital Publishing Initiatives Japan Co., Ltd. acquired Media Do Co., Ltd, in an absorption-type merger, and renamed to Media Do Co., Ltd.
		Acquired shares in MyAnimeList, LLC, the operator of MyAnimeList.net (world's top community site for anime and manga), and made it a subsidiary
June	2020	Media Do Holdings Co., Ltd. absorbed Media Do Co., Ltd., and renamed it Media Do Co., Ltd.

Source: Shared Research based on company data

Turning points that led to the eBook Distribution business

Three turning points in Media Do Holdings' history led to its current eBook Distribution business:

- ▷ Entering the mobile internet business in 2000,
- ▷ Entering the music distribution business (handling copyrighted material) in 2004, and
- ▷ Launching an eBook Distribution business in 2006, using a wholesaling model.

Establishing the company and entering the mobile internet business

Yasushi Fujita (the current CEO) founded the company with the aim of generating funds he could use to study in the US after graduating from university. After graduating, he decided to continue running the company rather than studying abroad. As his initial working capital was limited, he decided to operate a business that required relatively little capital: the mobile phone sales agency business. However, Fujita began to feel that this business had too many limitations and decided it had little future potential. Instead, he decided to move into the mobile internet business.

Entering the music distribution business

Initially, in the mobile internet business the company offered a service that allowed customers to reduce packet communication fees by accessing the internet via the company's portal site. This business was based on an advertising model rather than paid billing, and was unable to cover server costs and personnel expenses. Pressure mounted for the company to dispose of its mobile phone sales agency business. In 2004, the company moved into the music distribution business, leveraging its expertise from the mobile internet business.

Shifting from music to e-book distribution

The company launched the eBook Distribution business in 2006 to overcome some of the barriers to growth the company had experienced in the music distribution business.

- Barriers to market entry were low in the ringtone business, as anybody could start up a business by paying royalties to the Japanese Society for Rights of Authors, Composers and Publishers (JASRAC). The situation was different for chaku-uta (playing song snippets to alert users of incoming calls), which required businesses to obtain user permissions directly from artists and labels. After obtaining permissions, companies were required to regularly report sales to individual artists and labels. The company built a system to accommodate these requirements and operated a music distribution business.
- The company's share of the music distribution business was around 1%, while the top company in the field had a market share of around 80%. It recognized that becoming the market leader would be difficult, so it focused on niche markets such as reggae and hip-hop, becoming the top company in those categories. Being niche markets, the scope of expansion in these categories was limited, so the company decided to use its knowledge of the music distribution business to enter the e-book distribution business, which had no clear market leader.

Origin of the company name

The company name harks to the ideal of being a company that facilitates the connections society requires (between physical items, among people, and between people and things), as well as the idea of remaining useful to society as time passes. The company aims to implement ("do") the "media" handling this role.

Transition to a holding company, change of company name

On June 1, 2020, the company conducted an absorption-type merger of wholly owned subsidiary Media Do Co., Ltd. The company changed its name from Media Do Holdings Co., Ltd. to Media Do Co., Ltd.

- The company had transitioned to a pure holding company to smooth the process of merging with Digital Publishing Initiatives Japan (DPIJ). The pure holding company's subsidiary, Media Do, then merged with DPIJ to form a single entity. As the post-merger Media Do handled most of the business, the company decided it had little need to maintain a pure holding company structure.

News and topics

April 2020

On April 14, 2020, the company announced a revision to its dividend forecast.

The revised dividend forecast for FY02/20 is JPY13.0 per share (previously JPY10.5 per share).

Corporate governance and top management

Top management

Career history of Yasushi Fujita, representative director and CEO

Year	Description
1996	Representative director of Fuji Techno Limited Company (merged with Media Do in November 2001)
1999	Representative director and CEO of newly established Media Do
2013	Representative director and CEO of newly established FIBC Co., Ltd. (current position)
2017	Representative director and chairman of Digital Publishing Initiatives Japan Co., Ltd. [name changed to Media Do Co., Ltd. in March 2019] (current position)
	Representative director and group CEO of Media Do Holdings
2018	Representative director and chairman of Media Do Co., Ltd. (extinguished in absorption-type merger with Digital Publishing Initiatives Japan Co., Ltd. in March 2019)
	Representative director, president, and CEO of Media Do Holdings
2019	Representative director and CEO of Media Do Holdings (current position)

Yasushi Fujita, representative director and CEO

Source: Company website

Division of the CEO and COO roles

At Media Do Holdings, the CEO is primarily in charge of overall management policy, finance, and new business. The COO’s main role is to manage the existing eBook Distribution business. The CEO is in charge of new business, based on the idea that the founder is in the best position to take on risk.

Clarification of roles of ranking executives by business

After having incurred large investment losses in June 2019, the company decided to entrust all authority to the CEO, and clarify the role of COO as the highest ranking executive in charge of execution. However, with the current strong performance in the eBook Distribution business, from June 2020, the company will establish ranking executives by business function (CXO), and clarify the rolls and authorities of each to enhance management and decision-making speed.

Corporate governance (as of May 31, 2020)

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Board
Controlling shareholder and parent company	None
Directors and Audit & Supervisory Board members	
Number of directors under Articles of Incorporation	8
Number of directors	6
Directors' terms under Articles of Incorporation	1
Chairman of the Board of Directors	President
Number of outside directors	2
Number of independent outside directors	2
Number of members of Audit & Supervisor Board under Articles of Incorporation	4
Number of members of Audit & Supervisor Board	3
Number of outside members of Audit & Supervisory Board	2
Number of independent outside members of Audit & Supervisory Board	2
Other	
Participation in electronic voting platform	Y
Providing convocation notice in English	Y
Implementation of measures regarding director incentives	Stock option
Eligible for stock option	Inside directors and employees; directors and employees at subsidiaries; other
Disclosure of individual director's compensation	None
Policy on determining amount of compensation and calculation methodology	None
Corporate takeover defenses	None

Source: Shared Research based on company data

Dividend policy

Media Do Holdings recognizes the return of profits to shareholders as an important management priority and considers capital expenditure and strengthening of the management base important for achieving sustainable growth. Accordingly, the company's policy is to distribute dividends based on comprehensive decisions that take into account overall management conditions, including financial position and operating performance. In line with this policy, the company aims for a total return ratio of 20% or more and decides on the return of profits through dividends and the acquisition of treasury stock, based on share prices. The company's Articles of Incorporation provide for an interim dividend.

Dividend per share and dividend payout ratio

(JPY)	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Dividend per share	-	2.0	7.2	8.8	10.5	10.5	13.5
Payout ratio	-	7.8%	21.1%	21.1%	33.3%	-	20.1%

Source: Shared Research based on company data
Note: The company booked net loss in FY02/19.

Major shareholders (as of end-February 2020)

Top shareholders	Shares held ('000)	Shareholding ratio
Yasushi Fujita	2,719	19.18%
FIBC Co., Ltd.	1,318	9.30%
Japan Trustee Services Bank, Ltd. (Trust account)	229	1.61%
Shogakukan Inc.	565	3.98%
Kodansha Ltd.	544	3.83%
Kazuyoshi Ohwada	1,873	13.21%
Shueisha, Inc.	424	2.99%
The Master Trust Bank of Japan, Ltd. (Trust account)	477	3.36%
Morgan Stanley MUFG Securities Co., Ltd.	444	3.13%
The Awa Bank, Limited	196	1.38%
SUM	8,789	62.00%

Source: Shared Research based on company data

Yasushi Fujita

Media Do Holdings' representative director and CEO

FIBC Co., Ltd.

CEO Fujita's asset management company

Shogakukan Inc., Kodansha Ltd., and Shueisha Inc.

Large publishers and Media Do Holdings' business partners (suppliers). Although not a top-10 shareholder, Kadokawa Corporation (also a large publisher) is also a shareholder of the company.

Kazuyoshi Owada

Media Do Holdings' standing auditor

Employees

	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
No. of employees (consolidated)					279	362	350
No. of employees (parent)	91	92	100	130	33	45	58
Average age	33.7	34.3	34.4	33.6	37.9	36.7	38.4
Average years of service	4.6	4.3	4.3	3.1	4.0	3.4	3.5
Average annual salary (JPY'000)	4,704	4,828	5,179	4,952	6,721	5,580	5,285

Source: Shared Research based on company data

- The company transitioned to consolidated accounting in FY02/18.
- Parent figures for FY02/18 to FY02/20 are for the pure holding company. For that reason, these figures do not correlate with those for the operating company through FY02/17.

Profile

Company Name	Head Office
Media Do Co., Ltd.	Palace Side Bldg. 5F, 1-1-1 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003, Japan
Phone	**Listed On**
+81-3-6212-5113	The First Section of the Tokyo Stock Exchange
Established	**Exchange Listing**
April 1, 1999	November 2013: Mothers market, Tokyo Stock Exchange February 2016: Listing changed to the First Section of the Tokyo Stock Exchange
Website	**Fiscal Year-End**
https://www.mediado.jp/english/	February
IR Contact	**IR Web**
https://www.mediado.jp/english/contact/	https://www.mediado.jp/english/ir/

About Shared Research Inc.

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at https://sharedresearch.jp.

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AS ONE CORPORATION
Ateam Inc.
Aucfan Co., Ltd.
AVANT CORPORATION
Axell Corporation
Azbil Corporation
AZIA CO., LTD.
AZoom, Co., Ltd.
Base Co., Ltd
BEENOS Inc.
Bell-Park Co., Ltd.
Benefit One Inc.
B-lot Co.,Ltd.
Broadleaf Co., Ltd.
CanBas Co., Ltd.
Canon Marketing Japan Inc.
Career Design Center Co., Ltd.
Carna Biosciences, Inc.
CARTA HOLDINGS, INC
CERES INC.
Chiyoda Co., Ltd.
Chori Co., Ltd.
Chugoku Marine Paints, Ltd.
cocokara fine Inc.
COMSYS Holdings Corporation
COTA CO.,LTD.
CRE, Inc.
CREEK & RIVER Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.
Daiseki Co., Ltd.
Demae-Can CO., LTD
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Digital Arts Inc.
Digital Garage Inc.
DIP Corporation
Doshisha Corporation
Dream Incubator Inc.
Earth Corporation
Edion Corporation
Elecom Co., Ltd.
en-Japan Inc.
Estore Corporation.
euglena Co., Ltd.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
First Brothers Col, Ltd.
FreeBit Co., Ltd.
Fujita Kanko Inc.
Gamecard-Joyco Holdings, Inc.
GameWith, Inc.
GCA Corporation
Good Com Asset Co., Ltd.
Grandy House Corporation
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HENNGE K.K.
Hope, Inc.
HOUSEDO Co., Ltd.
H2O Retailing Corporation
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
Itochu Enex Co., Ltd.
JAFCO Co.,Ltd.
JMDC Inc.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kanamic Network Co.,LTD
Kawanishi Holdings, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
KLab Inc.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
Locondo, Inc.
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Media Do Co., Ltd.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
Micronics Japan Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
Mortgage Service Japan Limited.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net Marketing Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
OHIZUMI MFG. CO., LTD.
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Oki Electric Industry Co., Ltd
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Take and Give Needs Co., Ltd.
Takihyo Co., Ltd.
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Tenpo Innovation Inc.
3-D Matrix, Ltd.
The Hokkoku Bank,Ltd.
TKC Corporation
TKP Corporation
Tsuzuki Denki Co., Ltd.
TOCALO Co., Ltd.
TOKAI Holdings Corporation
Tokyu Construction Co., Ltd.
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
TSURUHA Holdings
VISION INC.
VISIONARY HOLDINGS CO., LTD.
World Holdings Co., Ltd.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
YUMESHIN HOLDINGS CO., LTD.
ZAPPALLAS, INC.

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

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