Summary of Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending June 30, 2019 [IFRS]

November 7, 2018

Listed Company:	MACROMILL, INC.
Stock Exchange:	Tokyo Stock Exchange
Code Number:	3978
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Scheduled date to submit quarterly report:	November 13, 2018
Scheduled date of the start of dividends payment:	–
Supplementary material for quarterly financial results:	Yes
Briefing on quarterly financial results:	Yes (for analysts and institutional investors)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending June 30, 2019 (from July 1, 2018 to September 30, 2018)

(1) Consolidated Business Performance

(Amounts of less than one million yen are rounded off.)
(Percentages calculated on year-on-year basis.)

	Revenue		Operating profit		Profit before tax		Profit for the period		Profit attributable to owners of the parent		Total comprehensive income for the period	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First quarter of the year ending June 30, 2019	10,388	18.3	1,586	13.4	1,306	(11.5)	900	(7.2)	790	(14.3)	981	(5.3)
First quarter of the year ended June 30, 2018	8,779	8.1	1,398	(10.9)	1,475	5.9	970	0.9	922	11.8	1,036	11.7

	Basic earnings per share	Diluted basic earnings per share
	Yen	Yen
First quarter of the year ending June 30, 2019	19.91	19.29
First quarter of the year ended June 30, 2018	23.75	22.77

(Reference)

	EBITDA		EBITDA margin
	Million yen	%	%
First quarter of the year ending June 30, 2019	1,920	16.3	18.5
First quarter of the year ended June 30, 2018	1,651	(7.1)	18.8

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
	Million yen	Million yen	Million yen	%
As of September 30, 2018	73,918	28,166	25,857	35.0
As of June 30, 2018	75,230	27,468	25,262	33.6

2. Dividends

	Dividend per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended June 30, 2018	–	0.00	–	7.00	7.00
Year ending June 30, 2019	–				
Year ending June 30, 2019 (forecast)		0.00	–	9.00	9.00

(Note) Revisions from dividends forecasts announced most recently: No

3. Forecast of Consolidated Financial Results for the Year Ending June 30, 2019 (from July 1, 2018 to June 30, 2019)

(Percentages calculated on year-on-year basis.)

	Revenue		Operating profit		Profit before tax		Profit for the year		Profit attributable to owners of the parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	46,400	15.9	8,900	17.0	8,300	12.6	5,800	12.2	5,260	11.5	132.70

(Note) Revisions from financial results forecasts announced most recently: No

(Reference)

	EBITDA		EBITDA margin
	Million yen	%	%
Full year	10,160	17.3	21.9

* Notes

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries accompanied by a change in the scope of consolidation): No

New: –

Exclusion: –

(2) Changes in accounting policies and changes of accounting assumptions

(i) Changes in accounting policies as required by IFRS:	Yes
(ii) Changes in accounting policies other than (i):	No
(iii) Changes in accounting assumptions:	No

(3) Number of shares outstanding (common stock)

(i) Number of shares issued (including treasury stock) at the end of the term:

As of September 30, 2018	39,784,200 shares	As of June 30, 2018	39,638,700 shares

(ii) Number of shares of treasury stock at the end of the term:

As of September 30, 2018	96 shares	As of June 30, 2018	96 shares

(iii) Average number of shares during the period

Three months ended September 30, 2018	39,727,336 shares	Three months ended September 30, 2018	38,842,364 shares

* Summaries of quarterly consolidated financial statements are not subject to audits conducted by certified public accountants or audit firms.

* Note regarding proper use of results forecasts and other special comments

(1) The Group applies the International Financial Reporting Standards (hereinafter "IFRS") to and after the fiscal year ended June 30, 2016.

(2) The forward-looking statements, such as results forecasts, included in this document are based on information available to the management as of the date of the document and certain assumptions that the management considers reasonable. The Company does not promise that the forecasts will be achieved. Actual results may differ significantly due to a range of factors.

(3) EBITDA = operating profit + depreciation and amortization + loss on retirement of non-current assets + impairment loss

(4) EBITDA margin = EBITDA / revenue

(5) EBITDA and EBITDA margin are not the indicators specified by IFRS, but are the financial indicators that the Group considers useful for investors to evaluate the business results of the Group.

(6) EBITDA and EBITDA margin should not be considered as indicators to replace the other indicators shown in accordance with IFRS because they do not include some of the items that affect the profit for the period, so they are subject to significant restrictions as a means of analysis. EBITDA and EBITDA margin disclosed by the Group may be less useful in comparison with the same or similar indicators of other competitors because they are calculated according to a different method from that of such other companies.

(7) In the summary of consolidated financial statements for the fiscal year ended June 30, 2018, adjusted EBITDA, which was stated as a reference in the forecast of consolidated financial results for the year ending June 30, 2019, was the sum of the EBITDA above and the costs for listing, and it was 1,927 million yen in the first quarter of the fiscal year ending June 30, 2019. Adjusted profit attributable to owners of the parent was the value obtained by adding the costs for listing to profit attributable to owners of the parent and deducting the tax impact for adjustments, and it was 797 million yen in the first quarter of the fiscal year ending June 30, 2019. These adjustments are not the indicators specified by IFRS, but are the financial indicators that the Group considers useful for investors to evaluate the business results of the Group. These financial indicators do not reflect the impact of costs that are not expected to be incurred after listing and the nonrecurring profit and loss items (items not considered to show the results of ordinary business activities or items that do not appropriately show the business results of the Group in comparison with those of competitors). However, the amounts of both adjustments are extremely minor in the fiscal year ending June 30, 2019 and expected to decline further from the fiscal year ending June 30, 2020. Therefore, the Group will terminate the disclosure of these financial indicators with the summary of consolidated financial statements for the fiscal year ended June 30, 2019.

Accompanying Materials - Contents

1. Qualitative Information about Consolidated Financial Results for the Quarter under Review

(1) Explanations about operating results

We implemented IFRS 15 – Revenue from Contracts with Customers - from the beginning of this fiscal year. The effect of this implementation to each line of our consolidated statement of operations namely revenue, operating profit, quarterly profit before tax and profit for the period, were negligible. However, in accordance with the implementation, we have bundled “Cost of Sales” with “Selling, general and administrative expenses” and now report it as one single item called “Operating expenses”. In the past this was detailed separately. Please refer to (6) ‘Notes to the Consolidated Financial Statements’ for details of the change and breakdown of Operating expenses.

During the first quarter of our financial year ending June 30, 2019 (i.e. from July 1, 2018 to September 30, 2018), the global economy experienced a gradual recovery. This was driven by improvements in the US, Europe and China, despite uncertainty in the government administration and volatile emerging financial capital markets. There are on-going concerns about the trade conflict triggered by the protectionist policy in the US administration. Meanwhile, the Japanese economy continued its path of moderate economic recovery thanks to steady consumer spending supported by improved corporate earnings and a favorable employment environment.

Looking at the market research sector specifically, the total global marketplace reached an estimated value of $45 billion, with online accounting for $17 billion of that figure in the 12 months of 2017 (*1). In Japan, the equivalent figures for the 12 months of 2017 were $2.0 billion for the sector overall, and online marketing research at $0.6 billion (*2). We believe that the steady growth of both the global and domestic market research sectors will be beneficial to our business. In particular, we plan to maximize the continued expansion of online marketing research as it outpaces the growth rate of the overall market.

In these conditions, MACROMILL, INC. (the “Company”) and its consolidated subsidiaries (together, the “Group”) continued to pursue stable growth in the domestic business, to strengthen the foundation of the global business, and to focus on business development in the digital marketing industry globally. Simultaneously, by utilizing various data points from our consumer panels, including attribution, purchase and consumption data, behavioral, awareness and biological data, we continued to deliver high quality and innovative insights that support the increasingly diverse marketing challenges our clients face. Of particular note is our digital solutions-related business area which focuses on data delivery to optimize our clients’ digital expenditure. Some may see that the digital-related business environment may have faced a short-term adjustment phase triggered by the enforcement of GDPR in Europe, along with the personal data security breach by a major SNS company based in the US. However, we still see a strong and significant opportunity in the market as our clients digital shift is an unstoppable trend in the mid- to long-term.

In our domestic business, we generated steady growth in sectors including electronics, IT/services, food, financial and automotive. We increased sales of our digital marketing and global research products, expanding our business overall. Also, with majority acquisition of H.M. Marketing Research, Inc. (renamed from Tokyo Survey Research on October 1, 2018, herein after HMM) from Hakuhodo Inc. in July 2018 as a tailwind, our domestic business revenue grew to 7,164 million yen (up 13.5% year-on-year). It’s worth noting this growth was achieved despite the continued softness in the revenue line from a major subsidiary, Dentsu Macromill Insight.

The global operation also experienced steady business expansion with sectors spanning global media and film, alcoholic beverages, cosmetics and Korean government and public sectors, automotive and electronics manufacturers. In addition, the consolidation of the US and UK-based marketing research company Acturus, acquired by MetrixLab in October 2017, contributed positively to our steady double-digit year-on-year global revenue growth, finishing at 3,257 million yen (up 29.6% year-on-year).

Looking at expenditure, despite our efforts to control panel and outsourcing fees in the overseas businesses, operating expenditure rose. This is primarily due to a growth in the number of employees, office floor expansion, and costs incurred in the consolidation of newly acquired subsidiaries both in Japan and globally. These factors increased both employee expenses and operating expenses. Our growing financing costs were the result of increased one-time refinance fees from a foreign currency denominated loan prepayment by bond issuance in July 2018, and increased loan interest payment due to pre-payment timing-related issue.

As a result, the Group recorded revenue of 10,388 million yen (up 18.3% year-on-year), Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) of 1,920 million yen (up 16.3% year-on-year), operating profit of 1,586 million yen (up

13.4% year-on-year), profit before tax of 1,306 million yen (down 11.5% year-on-year) and profit attributable to owners of the parent of 790 million yen (down14.3% year-on-year) in the first three-month period of FY June 2019.

The results by segment are as shown below.

(MACROMILL Group)

The Company, its domestic subsidiaries and Korean subsidiary, achieved strong double-digit growth through a combination of steady domestic business, continued expansion in the Korean business and the organic impact from the acquisition of HMM which we began to consolidate from July 2018. We also saw year-on-year operating expenditure grow from employee and office floor increases due to business expansion along with rising costs related to the consolidation of HMM.

As a result, the MACROMILL Group segment recorded revenue of 8,105 million yen (up 13.7% year-on-year), and EBITDA of 1,636 million yen (up 5.7% year-on-year).

(MetrixLab Group)

With its business primarily operated in Europe, the Americas, Middle East and Asian territories, the MetrixLab Group experienced steady sales of its advertising campaign evaluation and pre-test products to Global Key Accounts*(3) and other global clients in North America, the UK and South East Asian territories. In addition, the consolidation of Acturus generated strong revenue for the MetrixLab segment. However, due to continued effort in global business expansion along with cost increase from consolidation of Acturus team, we saw operating expense increase in the segment. Having said that, we believe this was a positive quarter for the segment as we were able to see strong revenue which had off-set such cost increase, in addition to efficiency improvement in panel and outsourcing fees.

As a result, The MetrixLab Group segment recorded revenue of 2,313million yen (up 36.5% year-on-year), and EBITDA of 283 million yen (up 174.9% year-on-year).

*1. Reference: ESOMAR Global Market Research 2018

*2. Reference: JMRA 43rd Annual Business Management Survey

*3. Global Key Accounts: Customers that are typically multi-national companies with large research and marketing budgets. They have purchased, or we believe have the potential to purchase, market research from us, and we have placed a specific emphasis on them in our sales efforts

(2) Explanations about financial position

(i) State of assets, liabilities and equity

At the end of the first quarter under review, assets totaled 73,918 million yen, a fall of 1,312 million yen from the end of the previous fiscal year. The decrease resulted primarily from a decrease in cash and cash equivalents of 3,647 million yen.

Liabilities stood at 45,751 million yen, declining 2,010 million yen from the end of the previous fiscal year. The decrease mainly reflected a drop in income taxes payable of 1,202 million yen and a fall in other current liabilities of 814 million yen, which offset an increase in retirement benefit liabilities of 158 million yen. There were proceeds from the issuance of corporate bonds of 9,947 million yen, while repayments of borrowings were made in the amount of 11,483 million yen. As a result, the ratio of net interest-bearing debts to adjusted EBITDA came to 3.45 at the end of the first quarter under review.

Equity was worth 28,166 million yen, an increase of 698million yen from the end of the previous fiscal year. The increase was largely attributable to profit for the period of 900 million yen, which offset dividends paid of 507million yen.

(ii) State of cash flow

Cash and cash equivalents (“cash”) at the end of the first quarter under review decreased 3,647 million yen from the end of the previous fiscal year, to 5,476 million yen. The status of each of the cash flow segments and contributing factors in the first quarter under review are as follows.

(Cash flow from operating activities)

Net cash used in operating activities amounted to 1,298 million yen (up 800 million yen year on year)

The cash outflow was mainly due to income taxes paid of 1,635 million yen, an increase in trade and other receivables of 708 million yen and interest paid of 212 million yen, which offset profit before tax of 1,306 million yen and depreciation and amortization of 333 million yen. Income taxes paid increased 1,057 million yen year on year owing to income growth and the completion of the carrying-forward of tax loss.

(Cash flow from investing activities)

Net cash used in investing activities came to 422 million yen (up 212 million yen year on year).

The cash outflow primary reflected acquisition of property, plant and equipment of 186 million yen and acquisition of intangible assets of 551 million yen.

(Cash flow from financing activities)

Net cash used in financial activities was 1,921 million yen (up 1,430 million yen year on year).

The cash outflow resulted mainly from repayments of non-current borrowings of 11,059 million yen and the repayment of short-term borrowings of 423 million yen, which offset proceeds from the issuance of corporate bonds of 9,947 million yen.

(3) Explanations about forward-looking information including forecast of consolidated financial results

The Group makes no change to its forecast of consolidated financial results for the fiscal year ending June 30, 2019 announced on August 7, 2018 at the present point.

The Group prepared the forecast of consolidated financial results based on information accessible as of the date of its announcement. A variety of future factors may cause actual financial results to differ from its forecasts.

2. Summarized Quarterly Consolidated Financial Statements and Significant Notes

(1) Summarized Quarterly Consolidated Statement of Financial Position

(Millions of yen)

	As of June 30, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and cash equivalents	9,124	5,476
Trade and other receivables	8,744	8,076
Contract assets	–	1,412
Other financial assets	4	4
Other current assets	536	886
Total current assets	18,409	15,856
Non-current assets		
Property, plant and equipment	1,152	1,260
Goodwill	46,957	47,347
Other intangible assets	6,605	7,056
Investments accounted for using the equity method	31	32
Other financial assets	1,379	1,473
Deferred tax assets	690	887
Other non-current assets	2	3
Total non-current assets	56,820	58,061
Total assets	**75,230**	**73,918**

(Millions of yen)

	As of June 30, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Borrowings	2,500	1,806
Trade and other payables	3,008	3,115
Contract liabilities	–	375
Other financial liabilities	164	68
Income tax payable	1,756	554
Provisions	1,020	1,090
Other current liabilities	2,439	1,625
Total current liabilities	10,890	8,637
Non-current liabilities		
Bonds and borrowings	34,534	34,683
Other financial liabilities	550	523
Retirement benefit liabilities	190	348
Provisions	208	260
Deferred tax liabilities	1,339	1,287
Other non-current liabilities	48	10
Total non-current liabilities	36,871	37,114
Total liabilities	**47,762**	**45,751**
Equity		
Share capital	880	918
Capital surplus	11,312	11,368
Treasury shares	(0)	(0)
Other components of equity	(96)	(15)
Retained earnings (deficit)	13,165	13,585
Equity attributable to owners of the parent	25,262	25,857
Non-controlling interests	2,205	2,309
Total equity	27,468	28,166
Total liabilities and equity	**75,230**	**73,918**

(2) Summarized Quarterly Consolidated Statement of Operations

[Three months of consolidated fiscal year] (Millions of yen)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Revenue	8,779	10,388
Operating expense	(7,371)	(8,812)
Other operating income	4	28
Other operating expenses	(14)	(18)
Share of the profit on investments accounted for using the equity method	1	0
Operating profit	1,398	1,586
Finance income	313	49
Finance costs	(236)	(329)
Profit before tax	1,475	1,306
Income tax benefit (expense)	(505)	(405)
Profit for the period	970	900
Profit (loss) attributable to:		
Owners of the parent	922	790
Non-controlling interests	47	109
Profit for the period	970	900
Earnings per share		
Basic (Yen)	23.75	19.91
Diluted (Yen)	22.77	19.29

(3) Summarized Quarterly Consolidated Statement of Comprehensive Income

[Three months of consolidated fiscal year] (Millions of yen)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Profit for the period	970	900
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss:		
Financial assets measured at fair value through other comprehensive income (loss)	(67)	(59)
Total items that will not be reclassified to profit or loss	(67)	(59)
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	134	140
Total items that may be reclassified to profit or loss	134	140
Other comprehensive income (loss), net of tax	66	81
Comprehensive income for the period	1,036	981
Comprehensive income for the period attributable to:		
Owners of the parent	1,017	883
Non-controlling interests	18	98
Comprehensive income for the period	1,036	981

(4) Summarized Quarterly Consolidated Statement of Changes in Equity

Three months ended September 30, 2017

(Millions of yen)

	Equity attributable to owners of the parent					
				Other components of equity		
	Share capital	Capital surplus	Treasury shares	Financial assets measured at fair value through other comprehensive income (loss)	Remeasure-ments of defined benefit plans	Exchange differences on translation of foreign operations
Balance as of July 1, 2017	674	11,044	(0)	93	–	(293)
Profit for the period	–	–	–	–	–	–
Other comprehensive income (loss)	–	–	–	(35)	–	130
Total comprehensive income for the period	–	–	–	(35)	–	130
Issue of shares	27	39	–	–	–	–
Purchase of treasury shares	–	–	(0)	–	–	–
Share-based payment transactions	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	–
Changes in ownership interests in subsidiaries without a loss of control	–	(47)	–	–	–	–
Total transactions with owners	27	(8)	(0)	–	–	–
Balance as of September 30, 2017	702	11,036	(0)	57	–	(162)

(Millions of yen)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Other components of equity		Retained earnings (deficit)	Total		
	Warrants	Total				
Balance as of July 1, 2017	200	0	8,627	20,346	2,005	22,352
Profit for the period	–	–	922	922	47	970
Other comprehensive income (loss)	–	95	–	95	(28)	66
Total comprehensive income for the period	–	95	922	1,017	18	1,036
Issue of shares	(11)	(11)	–	55	–	55
Purchase of treasury shares	–	–	–	(0)	–	(0)
Share-based payment transactions	21	21	–	21	–	21
Dividends paid	–	–	(194)	(194)	(231)	(425)
Changes in ownership interests in subsidiaries without a loss of control	–	–	–	(47)	(14)	(61)
Total transactions with owners	9	9	(194)	(164)	(245)	(410)
Balance as of September 30, 2017	210	105	9,355	21,199	1,778	22,978

Three months ended September 30, 2018

(Millions of yen)

	Equity attributable to owners of the parent					
				Other components of equity		
	Share capital	Capital surplus	Treasury shares	Financial assets measured at fair value through other comprehensive income (loss)	Remeasure-ments of defined benefit plans	Exchange differences on translation of foreign operations
Balance as of July 1, 2018	880	11,312	(0)	64	–	(356)
Cumulative effects due to changes in accounting policies	–	–	–	–	–	–
Balance as of July 1, 2018 reflecting changes in accounting policies	880	11,312	(0)	64	–	(356)
Profit for the period	–	–	–	–	–	–
Other comprehensive income (loss)	–	–	–	(30)	–	123
Total comprehensive income for the period	–	–	–	(30)	–	123
Issue of shares	37	56	–	–	–	–
Purchase of treasury shares	–	–	–	–	–	–
Share-based payment transactions	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	–
Changes in ownership interests in subsidiaries without a loss of control	–	(0)	–	–	–	–
Change from business combination	–	–	–	–	–	–
Total transactions with owners	37	56	–	–	–	–
Balance as of September 30, 2018	918	11,368	(0)	34	–	(233)

(Millions of yen)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Other components of equity		Retained earnings (deficit)	Total		
	Warrants	Total				
Balance as of July 1, 2018	195	(96)	13,165	25,262	2,205	27,468
Cumulative effects due to changes in accounting policies	–	–	(93)	(93)	(89)	(182)
Balance as of July 1, 2018 reflecting changes in accounting policies	195	(96)	13,071	25,168	2,116	27,285
Profit for the period	–	–	790	790	109	900
Other comprehensive income (loss)	–	92	–	92	(10)	81
Total comprehensive income for the period	–	92	790	883	98	981
Issue of shares	(18)	(18)	–	75	–	75
Purchase of treasury shares	–	–	–	–	–	–
Share-based payment transactions	7	7	–	7	–	7
Dividends paid	–	–	(277)	(277)	(230)	(507)
Changes in ownership interests in subsidiaries without a loss of control	–	–	–	(0)	2	2
Change from business combination	–	–	–	–	322	322
Total transactions with owners	(11)	(11)	(277)	(194)	94	(100)
Balance as of September 30, 2018	184	(15)	13,585	25,857	2,309	28,166

(5) Summarized Quarterly Consolidated Statements of Cash Flow

(Millions of yen)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Cash flows from operating activities		
Profit before tax	1,475	1,306
Depreciation and amortization	252	333
Finance income	(313)	(49)
Finance costs	236	329
Share of the (profit) loss on investments accounted for using the equity method	(1)	(0)
Decrease (increase) in trade and other receivables	(1,236)	(708)
Increase (decrease) in trade and other payables	112	(39)
Other	(254)	(633)
Sub-total	271	538
Interest and dividends received	7	11
Interest paid	(197)	(212)
Income taxes paid	(578)	(1,635)
Net cash flows provided by (used in) operating activities	(497)	(1,298)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(66)	(186)
Acquisition of intangible assets	(119)	(551)
Acquisition of shares in subsidiaries	(67)	–
Proceeds from acquisition of subsidiary	–	328
Acquisition of investments	(4)	(8)
Proceeds from sale of investments	0	–
Other	46	(4)
Net cash flows provided by (used in) investing activities	(210)	(422)
Cash flows from financing activities		
Proceeds from current borrowings	1,007	49
Repayments of current borrowings	–	(423)
Repayments of non-current borrowings	(1,210)	(11,059)
Proceeds from issue of corporate bonds	–	9,947
Proceeds from issue of shares	55	75
Dividends paid	(186)	(274)
Dividends paid to non-controlling interests	(159)	(230)
Other	2	(5)
Net cash flows provided by (used in) financing activities	(490)	(1,921)
Net increase (decrease) in cash and cash equivalents	**(1,198)**	**(3,642)**
Cash and cash equivalents at the beginning of the year	**8,447**	**9,124**
Effect of exchange rate changes on cash and cash equivalents	48	(5)
Cash and cash equivalents at the end of the period	**7,297**	**5,476**

(6) Notes to Summarized Quarterly Consolidated Financial Statements

(Notes regarding the premise of a going concern)

None applicable.

(Changes in accounting policies)

Excluding the newly-applied standards mentioned below, the Company Group applies significant accounting policies to these summarized quarterly financial statements as applied to the consolidated financial statements for the previous fiscal year.

Income tax expenses for the first quarter under review are calculated based on the estimated average annual effective tax rate.

The Group has been applying the following standards since the beginning of the first quarter under review.

IFRS		Description of New Standards/Amendments
IFRS No.15	Revenue from contracts with customers	Accounting and disclosure for revenue recognition were amended.

The Group retrospectively applies IFRS No.15 to contracts that are incomplete as of the application (July 1, 2018) and recognizes the cumulative effect at the start of the application as an amendment to the balance at the beginning of the year of retained earnings in accordance with transitional measures.

Associated with the application of IFRS No.15, revenue from contracts with customers is recognized based on the following five approaches.

Step 1: Identify contracts with customers.

Step 2: Identify performance obligations in contracts.

Step 3: Calculate transaction prices.

Step 4: Allot transaction prices to performance obligations in contracts.

Step 5: Recognize revenue upon the fulfillment of performance obligations by companies.

The Group provides a variety of services principally for various types of marketing research, including online research. The Group judges that customers are in control of our service and that performance obligations are to be fulfilled and recognizes revenue at the time of service delivery.

Revenue is also recognized at the amount less rebates and consumption taxes.

Furthermore, part of notes and accounts receivable - trade that was previously included in “trade and other receivables” is now presented in “contract assets” with respect to consideration for ongoing marketing research services since the first quarter under review associated with the application of IFRS No.15. Moreover, advances received that were previously stated in “other current liabilities” are now presented in “contract liabilities.”

As a result, the major effects at the beginning of the first quarter under review were as follows: a decrease of 93 million yen in retained earnings, a decrease of 89 million yen in non-controlling interests, a decrease of 1,694 million yen in trade and other receivables, an increase of 1,295 million yen in contract assets, an increase of 164 million yen in other current assets, an increase of 51 million yen in deferred tax assets, an increase of 420 million yen in contract liabilities, and a decrease of 420 million yen in other current liabilities.

The major effects during the first quarter under review include an increase of 1,412 million yen in contract assets, a decrease of 1,412 million yen in trade and other receivables, an increase of 375 million yen in contract liabilities, and a decrease of 375 million yen in other current liabilities.

As a result, compared to the case of adopting the conventional accounting standard, this change had only a minor impact on revenue, operating profit, profit before tax, and profit for the period in the summarized quarterly consolidated statement of comprehensive income for the first quarter under review.

(Change in reporting method)

Previously, “cost of sales” and “selling, general and administrative expenses” were stated separately, but the Group has changed the reporting method and these are now presented in a combined total as “operating expenses.”

The change resulted from a review of our reporting method of the summarized quarterly consolidated statement of comprehensive income for the first quarter under review. As the Group clarified the revenue recognition/measurement methods in the application of

IFRS No.15 “Revenue from contracts with customers (announced in May 2014),” it examined how to manage expenses. As a result, it was found that it is becoming increasingly difficult to make a clear distinction between cost of sales and selling, general and administrative expenses due to the business expansion of the Company Group and the diversification of customer needs and trade methods. Accordingly, the Group changed to a reporting method for managing cost of sales and selling, general and administrative expenses as operating expenses in order to oversee the financial results of the Group as well.

As a result, a combined total of 7,371 million yen comprising 5,063 million yen stated as “cost of sales” and 2,307 million yen stated as “selling, general and administrative expenses” has been reclassified as “operating expenses” in the summarized quarterly consolidated statement of comprehensive income for the first quarter under review.

In addition, other presentations related to the summarized quarterly consolidated financial statements for the first quarter under review have been also changed similarly.

(Segment information)

(1) Overview of reportable segments

The reportable segments of the Group are a constituent unit of the Company whose financial information is available separately, subject to regular review by the Board of Directors for the purpose of determining the allocation of management resources and the evaluation of business results. The major business of the Group is online marketing research on a global basis. Accordingly, the Group consists of regional segments based on the corporate group. There are two reportable segments: the "MACROMILL Group," which is mainly in charge of business in Japan, and the "MetrixLab Group," which is mainly in charge of overseas business.

The "MACROMILL Group" consists of the Company and its subsidiaries including DENTSU MACROMILL INSIGHT, INC. and MACROMILL EMBRAIN CO., LTD and H.M. Marketing Research, Inc..

The "MetrixLab Group" consists of MetrixLab B.V., MetrixLab US, Inc. and other subsidiaries.

(2) Revenues and business results by segment

Three months ended September 30, 2017

Millions of yen

	Reportable segments			Reconciliations	Consolidated
	MACROMILL Group	MetrixLab Group	Total		
Revenue					
External	7,122	1,657	8,779	–	8,779
Intersegment	8	37	45	(45)	–
Total	7,130	1,694	8,825	(45)	8,779
Segment profit (loss) (Operating profit (loss))	1,394	4	1,398	–	1,398
Finance income					313
Finance costs					(236)
Profit before tax					1,475
(Other profit and loss items)					
Depreciation and amortization expense	153	98	252	–	252

Three months ended September 30, 2018

Millions of yen

	Reportable segments			Reconciliations	Consolidated
	MACROMILL Group	MetrixLab Group	Total		
Revenue					
External	8,102	2,286	10,388	–	10,388
Intersegment	3	27	30	(30)	–
Total	8,105	2,313	10,419	(30)	10,388
Segment profit (loss) (Operating profit (loss))	1,413	172	1,586	–	1,586
Finance income					49
Finance costs					(329)
Profit before tax					1,306
(Other profit and loss items)					
Depreciation and amortization expense	222	110	333	–	333

The revenue and other financial results of MACROMILL EMBRAIN CO., LTD. in the MACROMILL Group are recorded in Korean won, and the revenue and other financial results of the MetrixLab Group are recorded in euros. Exchange rates used for their conversion in the previous consolidated cumulative first quarter were 0.0982 yen per Korean won and 130.37 yen per euro, respectively. The revenue and other financial results for the consolidated cumulative first quarter under review are converted at the exchange rates of 0.0995 yen per Korean won and 129.55 yen per euro, respectively.

(Operating expenses)

The breakdown of operating expenses is as follows:

	Three months ended September 30, 2017	Three months ended September 30, 2018
	Millions of yen	Millions of yen
Employee expenses	3,294	4,061
Panel expenses	1,235	1,363
Outsourcing expenses	1,168	1,327
Depreciation and amortization	252	333
Other	1,421	1,726
Total	7,371	8,812