Message from the CEO

Yasushi Fujita
President and CEO

"Having completed the post-merger integration with Digital Publishing Initiatives Japan, the MEDIA DO Group has solidified its position and is poised to pursue new growth. Moreover, we are committed to driving the further development of the publishing industry by leveraging the unique strengths of our position and technologies."

Values of Management

Our management is founded on the principle of pursuing original value that our competitors cannot replicate.

My first foray as an entrepreneur took place 27 years ago. I was still at university at the time and only 20 years old. Looking ahead to the massive life change that joining the workforce represents, I realized that my path differed from others. This realization prompted me to take my first step on the path of entrepreneurship. I had no experience at the time and knew nothing about management. What I did have, however, was the ability to make decisions founded on a firm resolve and a commitment to creating value that others could not replicate. These values, which provide a firm base for making management decisions, live on in the management of MEDIA DO today.

When launching a music business in 2004 and entering into the eBook distribution business in 2006, we also started from zero, with no industry support or experience. In these new undertakings, it was our management values that guided the blazing of new trails. Dedication to these values was also shown in our entry into the eBook distribution business. At the time, we devoted significant energy to formulating the strategies that would allow us to establish a unique position, as well as the business model that would enable us to capture the greatest market share. In the volatile world of business, if a company is unable to secure market share and continue to transform the market, it will eventually fall by the wayside as technological progress advances.

Pondering this challenge, we arrived at a business scheme that brought us to the MEDIA DO of today, a company aiming to develop a unique intermediary platform in the eBook distribution chain through a software as a service (SaaS) business model that is unprecedented in the publishing industry and employs cutting-edge technologies. I am confident that it was this process that led MEDIA DO to carve out a position that sets it apart from any other company in the industry. From the outside, it is easy to see a company's performance figures but not the framework employed to achieve those figures, and companies with similar figures may have radically different frameworks. A core element of management is thus the ability to craft those frameworks and to formulate and implement the strategies that shape a business which cannot be replicated by others.

Climate of the eBook Distribution Market and MEDIA DO's Direction

Market growth that exceeds expectations requires expectation-defying aspirations.

Today, the eBook distribution market is growing at a rate that exceeds even our expectations. This growth is a product of the combined effects of the spread of smartphones and other electronic devices, the resulting changes in user lifestyles, and the increase in content and campaigns offered by eBook distributors and publishers. As a result, eBooks have come to account for more than 60% of the domestic comic market, and this market growth trend is expected to continue in the years ahead. Conversely, eBooks only represent about 5% of the market for non-graphic books, such as novels and self-help books. Given that non-graphic eBooks account for between 30% and 40% of the publishing markets in the United States and China, it can be anticipated that the Japanese eBook market will continue to grow. Furthermore, the transition from paper media is gaining steam as the global COVID-19 pandemic prompts creators and publishers to reassess their paper-centric approach.

However, we are not focused solely on the growth potential of existing eBook distribution frameworks. Rather, we feel that there are still numerous possibilities to speed the evolution of the eBook market through technologies and leadership. The digitization trend has transformed the way in which people in the digital content distribution chain interact with such content. Some, meanwhile, claim that the only change is the platforms used, and that no fundamental shift has been achieved. Nevertheless, MEDIA DO aims to be a company that facilitates the growth of the eBook distribution market. We will accomplish this goal by going beyond what others can imagine, accomplishing through completely new approaches and businesses the things that were previously deemed impossible. In this process, it will also be important to team up with other members of the publishing industry to

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work toward mutual growth. Through our efforts, we hope to grow the eBook distribution market as well as the overall publishing market, while bringing joy to all stakeholders that are touched by the content we handle. This is the vision of a Publishing Platformer described in our medium-term management plan.

Review of the Fiscal Year Ended February 29, 2020
Both our businesses and our organizations are prepared to move to a new stage.

In the fiscal year ended February 29, 2020 (fiscal 2019), we posted consolidated net sales of ¥65,860 million, accomplishing the target of the medium-term management plan formulated in July 2018 a year ahead of schedule, thanks to the impressive growth of our core eBook distribution business. Factors contributing to this feat included the growth of the eBook market and the recovery of sales at our business partners following the closure in April 2018 of a major piracy website that had been impeding their operations. Together with net sales, we achieved substantial growth in operating profit and earnings before interest, taxes, depreciation, and amortization (EBITDA), which reached ¥1,854 million and ¥2,661 million, respectively.

Steady results were also achieved with regard to progress in the priorities defined at the outset of the fiscal year. For example, we completed the long and involved process of developing and transitioning to a core cloud system for eBook distribution for our business in this area. This transition bolstered operational efficiency while heightening the performance and augmentability of our system and improving it in terms of redundancy. We also undertook a new development project aimed at the creation of a revolutionary distribution platform that utilizes blockchain technologies. Preparations advanced steadily, with the goal of launching new services offered through this platform in the third quarter of the fiscal year ending February 28, 2021. In other businesses, we saw massive increases in both private and corporate user numbers for the business book summary service offered by Flier Inc., while steady progress was made in the post-merger integration of MyAnimeList, LLC., which operates a globally top-tier Japanese anime and manga community website, following its acquisition in 2019. In addition, we launched an imprint business that handles the provision of the Group's unique eBook publishing functions. Through ventures such as these, we laid the groundwork for new earnings pillars.

Perhaps one of our most significant successes in the fiscal year ended February 29, 2020 was the completion of the integration of our organizations with those of Digital Publishing Initiatives Japan Co., Ltd., a process that had been proceeding since this company was converted to a subsidiary in March 2017. The result was the birth of a new MEDIA DO Co., Ltd., in June 2020, uniting the organizational structures of the Group. This integration solidified our position to tackle new challenges in the years ahead.

Based on these accomplishments, we undertook a review of and reexamined the medium-term management plan in terms of its progression. In addition, we decided to conduct additional investments to accelerate growth in September 2019, recognizing that the current market climate and our strong performance represented a prime opportunity to expand our business. Through these investments, we expect to be able to achieve more robust growth from a medium- to long-term perspective, looking five to 10 years ahead, while accelerating initiatives to invigorate the publishing industry as a whole. In this way, we aim to live up to the expectations shareholders and of investors and of all stakeholders related to digital content.

Priority Measures for the Fiscal Year Ending February 28, 2021
MEDIA DO will accelerate its transformation into a Publishing Platformer.

Founded on the accomplishments of the fiscal year ended February 29, 2020, and the momentum gained through this preparatory period, the fiscal year ending February 28, 2021 has been positioned as the first year of our full-fledged pursuit of the creation of new value. Even as we embark on this new journey, however, there will be no significant changes to the direction pursued by the MEDIA DO Group. The medium-term management plan defines three policies for capitalizing on the Group's position—its greatest strength—and its technologies. These policies are "stimulate the growth of eBook markets," which entails supporting the growth of the eBook market through existing frameworks; "invent future eBook markets," which will involve utilizing cutting-edge technologies to develop the market; and "aggressively invest in business expansion." By acting in accordance with these three policies, we will accelerate our transformation into a Publishing Platformer.

To stimulate the growth of eBook markets, we will develop additional features for our new wholesaling system, which is currently in full-fledged operation. By incorporating information on user needs pertaining to the operation of this system garnered from publishers and eBook distributors, we will work to improve user convenience and reduce the user burden to secure an even larger share of the eBook distribution market. As for our prior system, which is being operated alongside the new one, we plan to discontinue use of this system in February 2021. This will be done after we confirm that the new system has been implemented effectively. The discontinuation of the prior system is expected to cut costs by ¥350 million. At the same time, we plan to invest aggressively in Comic navi, our directly operated eBook distributor, with the goal of having it generate substantial levels of profit three years from now. This decision was made to respond to the massive growth of the eBook market and our goal of developing systems that reflect the needs of our clientele.

Our efforts to invent future eBook markets will revolve around the construction of new digital content distribution and asset models. Specifically, the MEDIA DO Group is advocating a digital content asset model. The true value of this model comes from its ability to use blockchain technologies to give digital content a concept of finiteness that conventional digital content does not have. Grounded in this newfound concept of finiteness, the wealth of digital content available on the Internet will come to have value as an asset in the same way as automobiles and land.

Currently there are two predominant business models regarding the supply of digital content via the Internet. The first is the content sale model, which involves collecting fees from the provision of specific content or advertisement revenue based on the extent to which this content is accessed. The second is the subscription model, which offers users unlimited access to a provider's content library for a set fee. Both models allow for the provision of services that have significant value for users. However, as the global COVID-19 pandemic limits our ability to engage with the physical world, authors, artists, and other content creators are finding it increasingly difficult to sustain and revitalize conventional monetization and business models. In light of this environment and the currently opaque outlook, the MEDIA DO Group advocates a third digital content model: the digital content asset model. Transforming into actual assets the digital content that, to users, had previously been nothing more than something to be consumed, this model provides a new, third option for digital content businesses to artists and other creators.

Our plans to aggressively invest in business expansion entail investments in the ongoing invigoration of the publishing industry as a whole, centered on the business of Flier and MyAnimeList as well as our imprint business. Flier performed quite well in the fiscal year ended February 29, 2020. We will ramp up advertising activities with the goal of raising user numbers to one million in the fiscal year ending February 28, 2023. At the same time, we will pursue coordination between MyAnimeList and our existing businesses through means such as deploying asset models. Imprint business initiatives, meanwhile, will be aimed at supporting digital transformations at the small to medium-sized publishers that represent 70% of the publishing market in terms of sales. To offer this support, we will develop operational systems, enhance our lineup of imprint labels, and work to accommodate the expression of intellectual property in video, voice, and other media. Through these efforts, we will work to invigorate and fundamentally strengthen the publishing market as a whole.

Reinforcement of the Management Foundation
The MEDIA DO Group has been preparing steadily for its transformation into a Publishing Platformer.

At the MEDIA DO Group, we have been continually reinforcing the organizational capabilities that provide the foundation for our efforts to create value. For example, we undertook a

> "The fiscal year ending February 28, 2021, has been positioned as the first year of our full-fledged pursuit of the creation of new value."

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phased integration with Digital Publishing Initiatives Japan based on our plan of completing the post-merger integration with this company over a three-year period beginning with its conversion into a subsidiary in 2017 and ending in 2020. The three pillars of this integration were management integration, business integration, and awareness integration.

When the prior MEDIA DO Co., Ltd., converted Digital Publishing Initiatives Japan into a subsidiary, both companies had eBook wholesaling as a mainstay business. However, these businesses varied with regard to numerous areas, including corporate cultures, systems, organizations, and IT infrastructure. For this reason, we could not immediately integrate the operations of these business. Rather, we first had to position the former MEDIA DO and Digital Publishing Initiatives Japan as subsidiaries under holding company MEDIA DO HOLDINGS Co., Ltd., so that we could integrate these companies gradually. Following the integration of businesses, systems, and IT infrastructure, these two subsidiaries were merged in 2019. The management integration was eventually completed with the June 2020 merger of MEDIA DO HOLDINGS and the former MEDIA DO, a move that was aimed at expediting management decisions and improving managerial efficiency by cutting operating costs. Also in June, we transitioned to a new management team with a number of chief officers assigned responsibility for specific areas of operation, to accelerate management and decision making and clarify roles and authority in management.

In business integration, the greatest obstacle was maximizing our ability to integrate the IT systems of both companies. Our IT systems are the heart of our eBook distribution operations. Should these systems malfunction, it would have a significant impact on both publishers and eBook distributors. We approached the integration of systems through a process of ongoing discussion between engineers and sales staff. The integration is progressing more or less on schedule, and the end of this process is in sight. In addition to a feeling of relief, I have a clear sense that this process has heightened our organizational capabilities. With this integration of systems nearly complete, we are positioned to dedicate our efforts to our mission of invigorating, to the fullest of our capabilities, the publishing market while using our dominant share in the eBook distribution market to accelerate the growth of this market. Through an ongoing process of self-transformation while providing new services backed by cutting-edge technologies, we will contribute to the realization of a society with increased book readership.

An important part of completing this post-merger integration process was awareness integration. We want everyone at the MEDIA DO Group to be able to unite and create innovation for society, so that we can achieve sustainable growth. Accomplishing this will require that all employees be fully aware of the reason why they are working together to carry out the tasks placed before them and to function as a team with an overarching view of the situation. Concurrently, the rapid growth of our organization has made us aware of the difficulty of entrenching our corporate identity in every corner of the organization. We therefore recognized the need for frameworks that would allow officers to act with a sense of autonomy. It was for this reason that we defined a set of values to serve as the unifying principles of the new MEDIA DO as we approached the final stage of the post-merger integration process. The values were defined through a project team comprising members from a range of backgrounds from the former MEDIA DO and Digital Publishing Initiatives Japan. This team engaged in extensive discussion on the values that would gain the support and understanding of all employees. We also introduced new human resource systems that incorporate these values, including evaluation and compensation systems, and I personally explained to all employees the background of the new systems and the purpose of their introduction. The fiscal year ending February 28, 2021 is the first year of implementation for the new human resource systems, and we are in the process of adapting the systems to match the actual circumstances surrounding their implementation. However, the systems are already becoming fixtures within the organization.

Policies for Sustainability

By fulfilling its mission and working toward its vision, the MEDIA DO Group will contribute to the resolution of social issues and achieve sustainable growth.

As indicated by the 2015 adoption of the United Nations Sustainable Development Goals, companies are expected to contribute to the realization of a sustainable society while practicing creativity and ingenuity to resolve social issues through their businesses. At the same time, there is a need to accurately assess business opportunities and risks from the perspectives of environmental, social, and governance factors and to continue to address these opportunities and risks. We recognize that this approach will be imperative to the sustainable growth of the MEDIA DO Group from a medium- to long-term perspective.

For this reason, it is crucial for us to think about what exactly constitutes a sustainable society and to incorporate this idea into management. Article 1 under Section 1 General Rules of Chapter I General Provisions of the Copyright Act of Japan, which serves as the inspiration for MEDIA DO's corporate philosophy, refers to how authors' rights contribute to cultural development and speaks of ensuring protection for the rights of authors while according attention to the fair exploitation of cultural products. I believe that the essence of these statements speaks to how the development of frameworks which allow the authors, artists, and other creators to maintain a passion for creation, and which make it possible for users to enjoy the fruits of their creativity, helps contribute to the development of fulfilling cultures and societies. Based on this belief, I view MEDIA DO's mission to society to be unleashing a virtuous cycle of literary creation founded on digital technologies.

Furthermore, I believe that the fundamental role of companies is to help resolve the issues faced by society. I think, therefore, that MEDIA DO is tasked with earnestly addressing the issues faced by creators, publishers, eBook distributors, content users, and all other stakeholders that touch digital content. In this quest, we must utilize the strength of our position in the eBook market and our technology. This is something that only MEDIA DO can do, and it is the approach through which we should contribute to the resolution of social issues and achieve sustainable growth.

> "We implemented reforms from the perspective of our management decision-making framework."

In Closing

Having moved to a new growth stage, we see new possibilities that exceed all expectations.

Throughout its history, the MEDIA DO Group has continued to exercise its corporate philosophy by utilizing its information distribution platform to unleash a virtuous cycle of literary creation and to enrich people's lives. In past stages of growth, however, we faced the need to develop MEDIA DO's presence by reinforcing our corporate constitution and financial base. This process, which entailed earning the trust of industry stakeholders and fostering a solid sense of identity, was necessary to build the foundation for making full-fledged strides toward our goal of being a Publishing Platformer. It required to shift toward a more proactive approach. Today, the Group has finally become united as a single MEDIA DO and thus we are poised at the starting line that we have been discussing with internal and external stakeholders for quite some time.

Having moved to this next stage, we see new possibilities that exceed all expectations. The MEDIA DO Group is currently in a position at which I feel it is entirely feasible to target net sales of ¥100.0 billion through growth in our existing businesses. In June 2020, the Company's stock price reached a new record for the first time in six years and four months, and our market capitalization climbed to nearly ¥70.0 billion. Going forward, the Group will work as one in its efforts to boost corporate value and contribute to the development of society. I hope that shareholders, investors, and all of our other stakeholders will look forward to not only our performance growth but also the possibilities to be unlocked through our strategies and services.

June 2020

Yasushi Fujita

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President and CEO