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Summary of Non-consolidated Financial Results for the Fiscal Year ended March 31, 2020 (Japanese GAAP)

May 12, 2020

Company name: Digital Media Professionals Inc.

Listing: Tokyo Stock Exchange

Code number: 3652

URL: <https://www.dmpref.com/en>

Representative: Tatsuo Yamamoto, President and CEO

Contact person: Tsuyoshi Osawa, General Manager, Corporate Planning Department

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Scheduled date of General Meeting of Shareholders: June 19, 2020

Scheduled date of payment of cash dividends: -

Scheduled date of filing Securities Report: June 19, 2020

Supplementary materials for the financial results: No

Briefing session on the financial results: Yes

1. Non-consolidated financial results for the fiscal year ended March 31, 2019 (April 1, 2019 through March 31, 2020)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended March 31, 2020	1,328	22.2	82	185.6	85	155.4	65	86.0
Fiscal year ended March 31, 2019	1,086	11.6	28	△58.5	33	△49.9	35	△67.8

	Net income per share	Net income per share-diluted	Return on equity	Return on assets	Operating margin
	yen	yen	%	%	%
Fiscal year ended March 31, 2020	21.21	—	2.4	2.7	6.2
Fiscal year ended March 31, 2019	12.54	12.53	1.8	1.5	2.7

Reference) Equity in earnings of affiliates: - million yen as of March 31, 2020; - million yen as of March 31, 2019

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2020	3,841	3,543	92.2	1131.88
As of March 31, 2019	2,383	1,998	83.8	710.70

Reference) Shareholders' equity: 3,543 million yen as of March 31, 2020; 1,998 million yen as of March 31, 2019

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended March 31, 2020	84	△958	1,428	1,995
Fiscal year ended March 31, 2019	△97	△2	31	1,442

2. Cash dividends

	Annual dividends per share					Total Dividends	Payout ratio	Dividends on equity
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	yen	yen	yen	yen	yen	Millions of yen	%	%
Year ended March 2019	-	0.00	-	0.00	0.00	-	-	-
Year ended March 2020	-	0.00	-	0.00	0.00	-	-	-
Year ending March 2021 (Forecast)	-	0.00	-	0.00	0.00	-	-	-

3. Forecasts of non-consolidated operating results for the year ending March 31, 2020 (April 1, 2019 through March 31, 2020)

Forecasts of non-consolidated operating results for the year ending March 31, 2020 are undecided because it is difficult to reasonably calculate the impact of the new coronavirus infection on such as gaming machine industry and customers' investments in development at this stage. They will be disclosed as soon as reasonably predictable.

For more details, please refer to "1. Overview of Business Results (3) Future Outlook".

Notes:

1. Changes in accounting policies/estimation and restatement

(1) Changes in accounting policies resulting from revisions of accounting standards: None

(2) Changes in accounting policies except (1): None

(3) Changes in accounting estimation: None

(4) Restatement: None

2. Number of shares issued

(1) Number of shares issued at the end of the period (including treasury shares)

As of March 31, 2020	3,131,700 shares	As of March 31, 2019	2,811,700 shares
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(2) Number of treasury shares at the end of the period

As of March 31, 2020	1,069 shares	As of March 31, 2019	369 shares
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(3) Average number of shares issued during the period

Year ended March 31, 2020	3,081,761 shares	Year ended March 31, 2019	2,802,934 shares
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This summary of the non-consolidated financial results is not subject to the audit by the auditing firm.

Note: Explanation regarding the appropriate use of business forecasts and other special notes

The forward-looking statements such as business forecast in this document are based on information currently available to the Company and on certain assumptions deemed to be reasonable. The Company does not guarantee the achievement of the forecasts. Actual results may differ significantly for a number of reasons. For the conditions and notes on the use of business forecast, please refer to "1. Overview of Business Results (3) Future Outlook".

1. Overview of Business Results

(1) Overview of Business Results for the Current Fiscal Year

The Japanese economy up until the third quarter in the current fiscal year was on a moderate recovery track backed by the improvements of employment and income environment despite negative impacts of the consumption tax hike and frequent natural disasters. However, there were growing concerns about the economic decline and the downturn in corporate performance due to the impact of the spread of the new coronavirus infection on economic activities in the fourth quarter. In addition, the world economy has deteriorated rapidly due to the global pandemic of new coronavirus infection in addition to the prolonged US-China trade friction, the Brexit, and the geopolitical risk of the Middle East and East Asia.

In the semiconductor industry to which the Company belongs, the prolonged friction between the US and China over advanced technologies has given negative impacts in specific fields. However, businesses related to Internet of things (IoT), AI (artificial intelligence), big data, next generation high-speed communication standard, and autonomous driving are steadily expanding, and are booming due to strong demand in these fields.

In the AI / visual computing field, which is the business area of the Company, there has been a competitive environment where entries from different industries and the movement of existing players to strengthen the business are remarkable due to the expansion of the AI-related market. Accordingly, in addition to technological advantages, it is required to develop products and services that accurately capture market needs and to bring them to market quickly.

Under such circumstances, the Company aims to evolve into the world's leading "AI Computing Company" that solves social problems such as a declining birthrate, an aging population, and an accompanying increase in medical expenses, and realizes a safe and secure society by providing AI solutions that leverage the Company's strength of having a consistent development system of AI algorithm, software and hardware.

As concrete efforts and results of the current fiscal year, firstly, the Company concluded a business capital alliance agreement with Yamaha Motor Co., Ltd. on May 10, 2019 and has accelerated collaborations in the final commercialization process from developing algorithms by applying AI technology through to mounting on products and in the process of developing automatic / autonomous driving systems in the low-speed field, which has led to the improvement of the Company's technological capabilities. In the AI products field, in addition to upgrading edge AI processor IP cores and improving their performances, the Company realized an expansion of its product lineup and adoptions by customers. It is exemplified by a provision of the license to and adoptions by customers of software "ZIA™ Plate" that recognizes vehicle license plates, an adoption of the image recognition engine "ZIA™ Classifier" for drive recorders manufactured by DENSO TEN Limited, and a provision of "ZIA™ SAFE", an AI platform that evolves from "ZIA™ Classifier" and is systematized as a collection of necessary functions and modules to realize safe driving support systems. In addition, the image processor "RS1" has successfully realized supporting multi-platforms through adoptions not only by ZEEG Co. Ltd., a joint venture company of Sammy Corporation and Universal Entertainment Corporation, for its game machine units/parts but also by Bandai Namco Amusement Inc. for its arcade machines, and shipments for mass production are making good progress. Moreover, the Company applied and was successfully adopted for the commissioned project "Survey of issues for finding ideas regarding Technology Development for AI Chip and Next-generation Computing for High-efficiency and High-speed Processing" led by the New Energy and Industrial Technology Development Organization (NEDO), and has started the operation of "AI Edge Contest", in addition to carrying out NEDO's subsidized projects on the development of "AI Platform for Artificial Intelligence (AI): An Energy Efficient AI Engine" and "Research and development of AI hardware for AI pathology imaging system for cancer companion diagnostics."

In the current fiscal year, mass production shipments of the image processor "RS1" have been steady in the LSI product

business. In the IP core license business, although running royalties mainly from game consoles decreased, revenues of new GPU / AI related licenses grew. In the professional service business, there was an increase in sales of contract development services for Yamaha Motor Co., Ltd., drive recorder-related customers, license plate-related customers, and industrial machinery customers, in addition to NEDO's edge AI contest operating entrusted revenue, despite the fall-off of NEDO commissioned revenue (172 million yen in the same period of the previous year) related to "An Energy Efficient AI Engine and an Integrated Cloud of Heterogeneous AI engines".

As a result, net sales for the current fiscal year grew to 1,328 million yen (up 22.2% year on year). In terms of profits, operating income grew to 82 million yen (up 185.6% year on year) as the increase in sales and the growth in the highly profitable IP licensing business absorbed the increase in personnel expenses for strengthening the development system. As a result of recording subsidy income of 57 million yen as non-operating income regarding the NEDO projects and recording share issuance cost of 56 million yen as non-operating expenses regarding the business and capital alliance with and the implementation of the third-party allotment to Yamaha Motor Co., Ltd., ordinary income grew to 85 million yen (up 155.4% year on year). Net income grew to 65 million yen (up 86.0% year on year).

Although the Company has a single business segment, each business result is shown below in order to show business trends.

1) IP core license business

Net sales were 380 million yen attributable to new GPU and AI IP license fee, running royalty income from existing customers and revenue from maintenance support.

2) LSI product business

Net sales were 553 million yen attributable to the sales of RS1 for mass production and AI FPGA module "ZIA™ C3".

3) Professional service business

Net sales were 394 million yen attributable to the revenues of AI-related commissioned development and NEDO's entrusted development.

(2) Overview of Financial Position for the Current Fiscal Year

(Assets)

Total assets at the end of the current fiscal year amounted to 3,841 million yen, up 1,458 million yen from the end of the previous fiscal year mainly attributable to increases in cash and deposits (up 853 million yen), securities (up 99 million yen), and investment securities (up 499 million yen) and a decrease in intangible assets (down 52 million yen) due to a depreciation of the software for sale.

(Liabilities)

Current liabilities and noncurrent liabilities at the end of the current fiscal year amounted to 298 million yen, down 87 million yen from the end of the previous fiscal year mainly attributable to a decrease in accounts payable (down 154 million yen) associated with purchase of image processors.

(Net assets)

Net assets at the end of the current fiscal year amounted to 3,543 million yen, up 1,545 million yen from the end of the previous fiscal year mainly attributable to increases in capital stock (up 742 million yen) and capital surplus (up 742 million yen) as a result of receiving payment for the third-party allotment of new shares from Yamaha Motor Co., Ltd. on May 27, 2019 as well as an increase in retained earnings due to the recording of net income (up 65 million yen).

As a result, the equity ratio was 92.2%.

(3) Overview of Cash Flows for the Current Fiscal Year

The balance of cash and cash equivalents at the end of the current fiscal year increased by 552 million yen from the end of the previous fiscal year to 1,995 million yen.

Net cash provided by operating activities was 84 million yen (97 million yen used in the same period of the previous year), mainly attributable to positive factors such as income before income taxes of 84 million yen, depreciation of 92 million yen, and new stock issuance cost of 56 million yen, and negative factors such as a decrease in notes and accounts payable - trade of 154 million yen and an increase in notes and accounts receivable - trade of 45 million yen. Net cash used in investing activities was 958 million yen (2 million yen used in the same period of the previous year), mainly attributable to proceeds from redemption of securities of 300 million yen and purchase of securities and investment securities of 1,203 million yen.

Net cash provided by financing activities was 1,428 million yen (31 million yen provided in the same period of the previous year), attributable to proceeds from issuance of common shares of 1,428 million yen.

(Reference) Changes in cash flow indicators

	March 2016	March 2017	March 2018	March 2019	March 2020
Equity ratio (%)	88.9	93.6	88.2	83.8	92.2
Equity ratio on market value (%)	238.0	392.9	834.8	548.5	162.3
Interest-bearing debt to cash flows ratio (year)	-	-	-	-	-
Interest coverage ratio (times)	-	-	-	-	-

Equity ratio: $\text{Equity} / \text{Total assets}$

Equity ratio on market value: $\text{Market value} / \text{Total assets}$

Interest-bearing debt to cash flows ratio: $\text{Interest-bearing debt} / \text{Cash flows}$

Interest coverage ratio: $\text{Cash flows} / \text{Interest payment}$

(Note 1) Market value is calculated based on the number of issued shares excluding treasury stock.

(Note 2) Cash flows from operating activities are used for cash flows.

(Note 3) Since there is no interest-bearing debt balance or interest payment in each period, interest-bearing debt to cash flows ratio and interest coverage ratio are not stated.

(4) Future Outlook

The future of Japan and the world economy is expected to remain severe due to the global pandemic of new coronavirus infections.

In the semiconductor industry to which the Company belongs, negative impacts of the economic downturn are inevitable in the short term, but in the medium term, demands for semiconductors for AI / IoT fields are expected to grow. In addition, an evolution of technology such as AI is expected to overcome the current difficulties.

Under such circumstances, the Company will continue to focus on increasing the sales volume of its main product "RS1" in line with the generational change of gaming machines, to accelerate the establishment of a profit base in the AI field, by further enhancing AI solutions that leverage the Company's strength of having a consistent development system of AI algorithm, software and hardware, and to contribute to the solutions of social problems and the realizations of a safe and secure society. In addition, in order to maintain and improve technological competitiveness in the AI field and strengthen the development system, the Company will continue to allocate management resources to recruit and train excellent engineers.

As for business environments surrounding the Company, although the shipment of "RS1" is expected to accelerate toward the complete removal of the old standard gaming machines by January 2021, the impact of the decrease in the occupancy rate of the halls due to the declaration of a state of emergency should be scrutinized. In the AI business, although domain-specific customers projects are expected to accelerate, trends of customers' investments in development should be assessed. As just described, the business forecast for the fiscal year ending March 2021 is undecided because it is difficult to reasonably calculate the impact of the new coronavirus infection at this stage. It will be disclosed as soon as reasonably predictable.

2. Non-consolidated financial statements

(1) Non-consolidated balance sheets

	(Yen thousand)	
	Previous year (As of Mar 31, 2019)	Current year (As of Mar 31, 2020)
Assets		
Current assets		
Cash and deposits	1,096,810	1,950,078
Accounts receivable - trade	566,997	612,944
Securities	345,372	444,947
Finished goods	5,232	4,351
Work in progress	-	1,080
Raw materials and supplies	2,239	11,857
Prepaid expenses	42,980	43,320
Other	3,406	9,299
Total current assets	2,063,041	3,077,880
Non-current assets		
Property, plant and equipment		
Buildings	52,926	51,243
Accumulated depreciation	△34,798	△36,346
Buildings, net	18,127	14,896
Tools, furniture and fixtures	113,557	112,351
Accumulated depreciation	△103,935	△99,382
Tools, furniture and fixtures, net	9,622	12,969
Total property, plant and equipment	27,750	27,865
Intangible assets		
Software	204,937	152,812
Other	25	25
Total intangible assets	204,963	152,837
Investments and other assets		
Investment securities	-	499,200
Shares of subsidiaries and associates	3,916	15,596
Long-term prepaid expenses	31,698	14,533
Leasehold deposits	51,990	53,598
Total investments and other assets	87,604	582,928
Total non-current assets	320,318	763,632
Total assets	2,383,359	3,841,512

(Yen thousand)

	Previous year (As of Mar 31, 2019)	Current year (As of Mar 31, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	293,237	138,536
Accounts payable - other	20,376	59,041
Accrued expenses	7,554	8,941
Income taxes payable	2,252	32,153
Accrued consumption taxes	27,728	29,862
Deposits received	9,417	7,103
Unearned revenue	6,193	3,783
Total current liabilities	366,761	279,423
Non-current liabilities		
Deferred tax liabilities	1,932	1,675
Asset retirement obligations	16,656	16,905
Total non-current liabilities	18,588	18,580
Total liabilities	385,350	298,004
Net assets		
Shareholders' equity		
Capital stock	1,062,032	1,804,592
Capital surplus		
Legal capital surplus	1,081,243	1,823,803
Total capital surpluses	1,081,243	1,823,803
Retained earnings		
Other retained earnings		
Retained earnings brought forward	△141,191	△75,840
Total retained earnings	△141,191	△75,840
Treasury shares	△1,482	△1,482
Total shareholders' equity	2,000,603	3,551,074
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	△2,594	△7,566
Total valuation and translation adjustments	△2,594	△7,566
Total net assets	1,998,008	3,543,507
Total liabilities and net assets	2,383,359	3,841,512

(2) Non-consolidated statements of income

(Yen thousand)

	Previous year (From Apr 1, 2018 To Mar 31, 2019)	Current year (From Apr 1, 2019 To Mar 31, 2020)
Net sales	1,086,713	1,328,494
Cost of sales		
Beginning merchandise and finished goods	-	5,232
Cost of products manufactured	376,374	310,921
Cost of purchased merchandise and finished goods	265,652	345,673
Total	642,026	661,827
Transfer to other account	495	220
Ending merchandise and finished goods	5,232	4,351
Total cost of sales	636,298	657,256
Gross profit	450,415	671,238
Selling, general and administrative expenses	421,470	588,562
Operating profit	28,945	82,676
Non-operating income		
Interest income	835	504
Interest on securities	707	2,158
Foreign exchange gains	4,403	-
Subsidy income	-	57,041
Miscellaneous income	-	65
Total non-operating income	5,946	59,769
Non-operating expenses		
Share issuance cost	1,592	56,162
Foreign exchange losses	-	1,249
Miscellaneous loss	3	-
Total non-operating expenses	1,596	57,411
Ordinary profit	33,295	85,034
Extraordinary income		
Gain on reversal of share acquisition rights	2,964	-
Total extraordinary income	2,964	-
Extraordinary losses		
Loss on retirement of non-current assets	-	180
Total extraordinary losses	-	180
Profit before income taxes	36,259	84,854
Income taxes - current	1,420	19,760
Income taxes - deferred	△296	△257
Total income taxes	1,123	19,502
Profit	35,136	65,351

Manufacturing statement

Classification	Note	Previous year (From Apr 1, 2018 To Mar 31, 2019)		Current year (From Apr 1, 2019 To Mar 31, 2020)	
		Amount (Yen thousand)	Composition (%)	Amount (Yen thousand)	Composition (%)
1) Labor cost		171,675	45.6	144,113	46.2
2) Overhead costs	*1	204,698	54.4	167,888	53.8
Total manufacturing costs		376,374	100.0	312,001	100.0
Beginning work in progress		-		-	
Total		376,374		312,001	
Ending work in progress		-		1,080	
Cost of products manufactured		376,374		310,921	

Cost accounting is based on a job cost system.

*1 Major breakdown is as follows.

(Yen thousand)

Account	Previous year (From Apr 1, 2018 To Mar 31, 2019)	Current year (From Apr 1, 2019 To Mar 31, 2020)
Office rent	24,492	17,925
Subcontract processing cost	69,441	45,369
Software usage fee	15,417	11,721
Depreciation	56,712	70,957

(3) Statements of shareholders' equity

Previous fiscal year (from April 1, 2018 to March 31, 2019)

(Yen thousand)

	Shareholders' equity						
	Capital stock	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
Balance at beginning of current period	1,016,400	1,035,611	1,035,611	△176,327	△176,327	△291	1,875,392
Changes of items during period							
Restricted stock payment	28,532	28,532	28,532				57,065
Issuance of new shares - exercise of share acquisition rights	17,100	17,100	17,100				34,200
Profit				35,136	35,136		35,136
Purchase of treasury shares						△1,190	△1,190
Net changes of items other than shareholders' equity							
Total changes of items during period	45,632	45,632	45,632	35,136	35,136	△1,190	125,210
Balance at end of current period	1,062,032	1,081,243	1,081,243	△141,191	△141,191	△1,482	2,000,603

	Valuation and translation adjustments		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	△4,508	△4,508	2,964	1,873,847
Changes of items during period				
Restricted stock payment				57,065
Issuance of new shares - exercise of share acquisition rights				34,200
Profit				35,136
Purchase of treasury shares				△1,190
Net changes of items other than shareholders' equity	1,914	1,914	△2,964	△1,049
Total changes of items during period	45,632	1,914	△2,964	124,161
Balance at end of current period	△2,594	△2,594	-	1,998,008

Current fiscal year (from April 1, 2019 to March 31, 2020)

(Yen thousand)

	Shareholders' equity						
	Capital stock	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
Balance at beginning of current period	1,062,032	1,081,243	1,081,243	△141,191	△141,191	△1,482	2,000,603
Changes of items during period							
Issuance of new shares	742,560	742,560	742,560	-	-	-	1,485,120
Profit				65,351	65,351		65,351
Net changes of items other than shareholders' equity							
Total changes of items during period	742,560	742,560	742,560	65,351	65,351	-	1,530,471
Balance at end of current period	1,804,592	1,823,803	1,823,803	△75,840	△75,840	△1,482	3,551,074

	Valuation and translation adjustments		Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	△2,594	△2,594	1,998,008
Changes of items during period			
Issuance of new shares	-	-	1,485,120
Profit			65,351
Net changes of items other than shareholders' equity	△4,972	△4,972	△4,972
Total changes of items during period	△4,972	△4,972	1,545,498
Balance at end of current period	△7,566	△7,566	3,543,507

(4) Statement of cash flows

(Yen thousand)

	Previous year (From Apr 1, 2018 To Mar 31, 2019)	Current year (From Apr 1, 2019 To Mar 31, 2020)
Cash flows from operating activities		
Income before income taxes	36,259	84,854
Depreciation	61,424	92,551
Share-based compensation expenses	6,348	21,212
Interest income	△835	△2,662
Subsidy income	-	△57,041
Gain on reversal of share acquisition rights	△2,964	-
Loss on retirement of non-current assets	-	180
Decrease (increase) in notes and accounts receivable - trade	△333,503	△45,947
Decrease (increase) in inventories	△6,340	△9,816
Increase (decrease) in notes and accounts payable - trade	162,029	△154,700
Share issuance cost	1,592	-
New share issuance cost	-	56,162
Increase (decrease) in unearned revenue	△1,543	△2,409
Decrease (increase) in prepaid expenses	10,966	△4,387
Increase (decrease) in accounts payable - other	△30,646	39,301
Increase (decrease) in accrued consumption taxes	19,884	2,133
Other, net	△7,692	7,803
Subtotal	△85,019	27,231
Interest income received	835	2,584
Income taxes paid	△13,516	-
Income taxes refund	-	2,772
Proceeds from subsidy income	-	51,798
Net cash provided by (used in) operating activities	△97,700	84,386
Cash flows from investing activities		
Purchase of securities	-	△600,000
Proceeds from redemption of securities	-	300,000
Purchase of investment securities	-	△603,696
Purchase of property, plant and equipment	△553	△40,856
Purchase of intangible assets	△750	△500
Purchase of shares of subsidiaries and associates	-	△11,679
Payments for leasehold deposits	△1,330	△1,959
Collection of lease deposits	-	351
Net cash provided by (used in) investing activities	△2,633	△958,341
Cash flows from financing activities		
Proceeds from issuance of common shares	-	1,428,957
Purchase of treasury shares	△1,190	-
Proceeds from issuance of shares resulting from exercise of share acquisition rights	34,200	-
Payments for issuance of common shares	△1,592	-
Net cash provided by (used in) financing activities	31,416	1,428,957
Effect of exchange rate change on cash and cash equivalents	6,426	△2,091
Net increase (decrease) in cash and cash equivalents	△62,490	552,912
Cash and cash equivalents at beginning of period	1,504,674	1,442,183
Cash and cash equivalents at end of period	1,442,183	1,995,095