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Summary of Consolidated Financial Results for the Six Months ended September 30, 2020 (Japanese GAAP)

November 10, 2020

Company name: Digital Media Professionals Inc.

Listing: Tokyo Stock Exchange

Code number: 3652

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

Representative: Tsuyoshi Osawa, President and COO

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Scheduled date of filing Quarterly Securities Report: November 12, 2020

Scheduled date of payment of cash dividends: -

Supplementary materials for the quarterly financial results: Yes

Briefing session on the quarterly financial results: Yes

1. Consolidated financial results for the six months ended September 30, 2020 (April 1, 2020 through September 30, 2020)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
6 months ended Sep 30, 2020	533	—	△191	—	△155	—	△156	—
6 months ended Sep 30, 2019	—	—	—	—	—	—	—	—

Reference) Comprehensive income: △156 million yen as of Sep 30, 2020; - million yen as of Sep 30, 2019

	Net income per share	Net income per share-diluted
	yen	yen
6 months ended Sep 30, 2020	△49.84	—
6 months ended Sep 30, 2019	—	—

Since the quarterly consolidated financial statements have been prepared from the first quarter of the fiscal year ending March 2021, the figures for the first quarter of the fiscal year ended March 2020 and the rate of change year on year are not stated.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2020	3,730	3,455	92.6
As of March 31, 2020	—	—	—

Reference) Shareholders' equity: 3,455 million yen as of Sep 30, 2020; - million yen as of March 31, 2020

Since the quarterly consolidated financial statements have been prepared since the first quarter of the fiscal year ending March 2021, the figures as of March 31, 2020 are not stated.

2. Cash dividends

	Annual dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	yen	yen	yen	yen	yen
Year ended March 2020	-	0.00	-	0.00	0.00
Year ending March 2021	-	0.00	-	-	-
Year ending March 2021 (Forecast)	-	-	-	0.00	0.00

Note) Revision of dividends forecast during the period: None

3. Forecasts of consolidated operating results for the year ending March 31, 2021 (April 1, 2020 through March 31, 2021)

(Percentages indicate year-on-year changes.)

	Net Sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	1,500	-	△150	-	△100	-	△100	-	△31.82

Note) Revision of forecasts during the period: Yes

Notes:

1. Changes in significant subsidiaries during the current consolidated cumulative period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None
2. Application of accounting treatments specific to the preparation of quarterly consolidated financial statements: None
3. Changes in accounting policies
 - (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
4. Number of shares issued

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

As of Sep 30, 2020	3,152,400 shares	As of March 31, 2020	3,131,700 shares
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(2) Number of treasury shares at the end of the period

As of Sep 30, 2020	2,289 shares	As of March 31, 2020	1,069 shares
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(3) Average number of shares issued during the period

6 months ended Sep 30, 2020	3,135,280 shares	6 months ended Sep 30, 2019	3,032,891 shares
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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. Qualitative information on quarterly financial results (3) Consolidated financial forecasts and other forward-looking statements."

1. Quarterly financial results

(1) Operating results

Since the Company has prepared quarterly consolidated financial statements from the first quarter of the current consolidated fiscal year, it does not provide a year-on-year comparison of operating results and financial position.

During the six months of the current fiscal year, the Japanese economy was in a difficult situation in terms of corporate earnings and capital investment due to the impact of the new coronavirus infection, although there were signs of a partial recovery in personal consumption and production. The global economy was also in a severe situation due to the impact of the global outbreak of the new coronavirus infection, although there were some signs of recovery. At present, some countries in Europe and the U.S. have started to lock down again, and the situation does not allow for optimism. As for the future, it is necessary to take extremely difficult steps to gradually raise the level of economic activity while taking measures to prevent the spread of infection.

Even in the semiconductor industry to which our group belongs, the impact of the economic downturn is unavoidable at present, but in the medium term, demand is expected to grow for IoT that connects everything to the Internet, artificial intelligence (AI), big data, next-generation high-speed communication standards, and autonomous driving.

In the AI/visual computing field, which is our group's business domain, the acceleration of innovation and the increasing role of AI in solving social issues, including current difficulties, and in realizing a safe and secure society are expected. In such an environment, our group will strive to become the world's leading "AI Computing Company" by contributing to solving social issues through providing AI solutions that leverage the strength of having a consistent development system of AI algorithms, software and hardware.

As concrete measures and results during the second quarter, we firstly launched ZIA™ Cloud SAFE, a SaaS-type safe driving assistance cloud service using Amazon Web Services (AWS) in the safe driving assistance field, a focused area for our group. ZIA™ Cloud SAFE is based on the same technology platform as ZIA™ SAFE, which was announced in November last year and has a proven track record as a safe driving assistance system development platform. ZIA™ Cloud SAFE has already been adopted by major customers, and we expect to generate stable and continuous revenue from the third quarter of the current fiscal year by offering subscription licenses, which are a form of licensing that can more flexibly meet customer needs. In addition, starting from the second quarter of the current fiscal year, we have been recording running royalties based on the safe driving assistance functions installed in customers' equipment and the number of units shipped. As described above, in the AI-related business, we will aim to expand the recurring business in addition to IP license income.

Additionally, we have continued to promote and seek collaborations and alliances in Japan and overseas to expand our business.

Furthermore, as businesses regarding the New Energy and Industrial Technology Development Organization (NEDO) following the previous fiscal year, we not only have continued to operate AI edge contests in the commissioned project of "Survey of issues for finding ideas regarding Technology Development for AI Chip and Next generation Computing for High-efficiency and High-speed Processing" but also have worked on subsidized projects of 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."

Regarding the business results for the six months of the current fiscal year, mass production shipments of the image processing semiconductor "RS1" continued in the LSI product business. In the IP core license business, we acquired new license business for robotics, despite a decline in running royalties for digital equipment. In the professional service business, in addition to the commissioned revenue in NEDO's AI edge contest operation, we got orders for contracted

development services for robotic vehicles.

As a result, for the six months of the current fiscal year, we recorded net sales of 533 million yen, operating loss of 191 million yen, ordinary loss of 155 million yen mainly due to the recording of 37 million yen in subsidy income from NEDO as non-operating income, and net loss attributable to owners of parent of 156 million yen.

Although our group 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 61 million yen attributable to new licenses of GPU and AI, running royalties and revenue from maintenance support.

2) LSI product business

Net sales were 383 million yen attributable to the sales of the "RS1" mass production and AI FPGA module "ZIA™ C3."

3) Professional service business

Net sales were 87 million yen due to the booking of AI-related contracted development sales and NEDO contracted development sales.

(2) Financial position

1) Overview of assets, liabilities and net assets

Current assets at the end of the second quarter of the current consolidated fiscal year were 2,951 million yen, mainly consisting of cash and deposits of 2,051 million yen, securities of 443 million yen and accounts receivable of 295 million yen. Fixed assets amounted to 778 million yen, mainly consisting of software of 131 million yen and investment securities of 500 million yen.

Current liabilities and non-current liabilities at the end of the second quarter of the current consolidated fiscal year totaled 274 million yen, mainly consisting of accounts payable of 208 million yen.

Total net assets at the end of the second quarter of the current consolidated fiscal year were 3,455 million yen, mainly consisting of capital stock of 1,838 million yen, capital surplus of 1,858 million yen and retained earnings of -232 million yen.

As a result, the equity ratio was 92.6%.

2) Overview of Cash Flows

The balance of cash and cash equivalents at the end of the second quarter of the current consolidated fiscal year was 2,094 million yen.

Net cash provided by operating activities was 109 million yen mainly attributable to positive factors such as a decrease in notes and accounts receivable - trade of 317 million yen, an increase in accounts payable - trade of 69 million yen and depreciation of 29 million yen, and negative factors such as loss before income taxes of 155 million yen, an increase in inventories of 58 million yen and subsidy income of 37 million yen.

Net cash used in investing activities was 17 million yen mainly attributable to purchase of property, plant and equipment and intangible assets of 17 million yen.

Net cash used by financing activities was 0 million yen attributable to payments for issuance of shares of 0 million yen.

(3) Consolidated financial forecasts and other forward-looking statements

It is necessary for the Japanese and global economies to take extremely difficult steps to gradually raise the level of economic activity while taking measures to prevent the spread of infection, but the economies are expected to gradually

move toward recovery while repeating ups and downs.

Although the semiconductor industry to which we belong will inevitably be affected by the economic downturn in the short term, demand for semiconductors for AI/IoT is expected to expand in the medium term.

In the amusement market, one of our main markets, the occupancy rate of pachinko parlors is on a recovery trend, and the removal of old regulation machines and their replacement with new regulation machines are expected to be carried out in a systematic manner at the request of the National Police Agency and through the efforts of industry organizations. On the other hand, the low pass rate for new machines and the weak motivation of parlors to purchase machines are affecting the product and production plans of machine manufacturers, and our business results for the current fiscal year are expected to be affected to some extent.

In addition, our focused fields of robotics and safe driving assistance are attracting a lot of attention from customers and inquiries are on the rise. On the other hand, there is a trend of restraint in development investment by some AI-related customers, which is expected to have some impact on our business results for the current fiscal year. However, as there are no major changes in the development roadmaps of our customers, we believe that this impact will be limited.

As described above, we expect that the new coronavirus infection will have a negative impact on consolidated business results in the short term. In the medium term (fiscal year ending March 31, 2022 and beyond) however, we will strive to expand consolidated performance and corporate value by achieving stable earnings in the amusement market through replacement demand for new regulation machines by December 2021 and subsequent market share expansion, as well as diversifying revenue sources and increasing earnings through the acceleration of new initiatives in the fields of robotics and safe driving assistance, our focused fields with growth markets.

Based on the above, for the fiscal year ending March 31, 2021, we forecast consolidated net sales of 1,500 million yen, operating loss of 150 million yen, ordinary loss of 100 million yen, and net loss attributable to owners of parent of 100 million yen.

2. Consolidated quarterly financial statements

(1) Consolidated quarterly balance sheets

	(Yen thousand)
	Current Q2 period (As of Sep 30, 2020)
Assets	
Current assets	
Cash and deposits	2,050,732
Accounts receivable - trade	295,840
Securities	443,787
Finished goods	4,021
Work in process	5,423
Raw materials and supplies	66,464
Other	84,966
Total current assets	2,951,234
Non-current assets	
Property, plant and equipment	41,132
Intangible assets	
Software	131,797
Other	25
Total intangible assets	131,822
Investments and other assets	
Investment securities	500,130
Other	105,743
Total investments and other assets	605,873
Total non-current assets	778,828
Total assets	3,730,063
Liabilities	
Current liabilities	
Accounts payable - trade	208,083
Income taxes payable	11,045
Other	36,635
Total current liabilities	255,764
Non-current liabilities	
Deferred tax liabilities	1,564
Asset retirement obligations	17,031
Total non-current liabilities	18,595
Total liabilities	274,360
Net assets	
Shareholders' equity	
Capital stock	1,838,882
Capital surplus	1,858,093
Retained earnings	-232,103
Treasury shares	-1,525
Total shareholders' equity	3,463,347
Accumulated other comprehensive income	
Valuation difference on available-for-sale securities	-7,541
Foreign currency translation adjustment	-102
Total accumulated other comprehensive income	-7,644
Total net assets	3,455,703
Total liabilities and net assets	3,730,063

(2) Quarterly consolidated statements of income and comprehensive income

Consolidated quarterly statements of income

	(Yen thousand)
	Current Q2 period (YTD)
	(From Apr 1, 2020
	To Sep 30, 2020)
Net sales	533,321
Cost of sales	371,532
Gross profit	161,788
Selling, general and administrative expenses	353,754
Operating loss	-191,966
Non-operating income	
Interest income	1,222
Subsidy income	37,900
Miscellaneous income	4
Total non-operating income	39,126
Non-operating expenses	
Foreign exchange losses	1,804
Share issuance costs	584
Miscellaneous loss	0
Total non-operating expenses	2,390
Ordinary loss	-155,229
Loss before income taxes	-155,229
Income taxes - current	1,145
Income taxes - deferred	-111
Total income taxes	1,033
Loss	-156,263
Loss attributable to owners of parent	-156,263

Consolidated quarterly statements of comprehensive income

	(Yen thousand)
	Current Q2 period (YTD)
	(From Apr 1, 2020
	To Sep 30, 2020)
Loss	-156,263
Other comprehensive income	
Valuation difference on available-for-sale securities	25
Foreign currency translation adjustment	-102
Total other comprehensive income	-77
Comprehensive income	-156,340
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	-156,340
Comprehensive income attributable to non-controlling interests	-

(3) Quarterly consolidated statements of cash flows

	(Yen thousand)
	Current Q2 period (YTD)
	(From Apr 1, 2020
	To Sep 30, 2020)
Cash flows from operating activities	
Loss before income taxes	-155,229
Depreciation	29,757
Share-based remuneration expenses	14,907
Interest income	-1,218
Foreign exchange losses (gains)	2,088
Subsidy income	-37,900
Share issuance costs	584
Decrease (increase) in trade receivables	317,104
Decrease (increase) in inventories	-58,619
Increase (decrease) in trade payables	69,546
Increase (decrease) in accounts payable - other	-44,395
Other, net	-39,654
Subtotal	96,971
Interest received	1,518
Income taxes paid	-19,512
Proceeds from subsidy income	30,242
Net cash provided by (used in) operating activities	109,218
Cash flows from investing activities	
Purchase of securities	-300,000
Proceeds from redemption of securities	300,000
Purchase of property, plant and equipment	-11,650
Purchase of intangible assets	-5,725
Net cash provided by (used in) investing activities	-17,375
Cash flows from financing activities	
Payments for issuance of shares	-584
Purchase of treasury shares	-43
Net cash provided by (used in) financing activities	-628
Effect of exchange rate change on cash and cash equivalents	-3,338
Net increase (decrease) in cash and cash equivalents	87,875
Cash and cash equivalents at beginning of period	2,006,673
Cash and cash equivalents at end of period	2,094,549