January 13, 2023

Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending February 28, 2023 (Nine Months Ended November 30, 2022)

[Japanese GAAP]

Company name: Vector, Inc. Listing: Tokyo Stock Exchange
Securities code: 6058 URL: https://www.vectorinc.co.jp/
Representative: Keiji Nishie, Chairman and Representative Director
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Scheduled date of filing of Quarterly Report: January 13, 2023
Scheduled date of dividend payment: -
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending February 28, 2023 (March 1, 2022 – November 30, 2022)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Nov. 30, 2022	41,163	18.0	5,213	29.3	5,345	30.8	2,868	77.7
Nine months ended Nov. 30, 2021	34,892	-	4,032	-	4,085	-	1,614	-

Note: Comprehensive income Nine months ended Nov. 30, 2022: 3,693 million yen (up 130.6%)
Nine months ended Nov. 30, 2021: 1,601 million yen (-%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Nov. 30, 2022	60.17	-
Nine months ended Nov. 30, 2021	33.87	-

Note: Due to the change in the accounting policies because investing activities became a business segment, no percentage changes from the same quarter of the prior fiscal year are shown for the nine months ended Nov. 30, 2021 because this change in business segments was retroactively applied to this quarter.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Nov. 30, 2022	34,532	15,995	38.1	276.01
As of Feb. 28, 2022	31,575	16,178	39.2	259.38

Reference: Shareholders' equity As of Nov. 30, 2022: 13,158 million yen As of Feb. 28, 2022: 12,365 million yen

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Feb. 28, 2022	-	0.00	-	13.00	13.00
Fiscal year ending Feb. 28, 2023	-	0.00	-		
Fiscal year ending Feb. 28, 2023 (forecast)				18.00	18.00

Note: Revision to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending February 28, 2023 (March 1, 2022 – February 28, 2023)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	53,100	10.3	6,200	20.9	6,100	17.1	3,000	44.8	62.93

Notes: 1. Revision to the most recently announced consolidated forecast: None

2. Due to the change in the accounting policies because investing activities became a business segment, percentage changes from the previous fiscal year are based on figures in the previous fiscal year that have been retroactively adjusted for consistency with this change in business segments.

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly added: MasterVisions Co., Ltd.

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: Yes

Note: Please refer to the section “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements” on page 10 for further information.

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others:	Yes
2) Changes in accounting policies other than 1) above:	Yes
3) Changes in accounting-based estimates:	None
4) Restatements:	None

Note: Please refer to the section “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies” on page 9 for further information.

(4) Number of issued shares (common stock)

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

As of Nov. 30, 2022:	47,936,100 shares	As of Feb. 28, 2022:	47,936,100 shares

2) Number of treasury shares at the end of the period

As of Nov. 30, 2022:	262,061 shares	As of Feb. 28, 2022:	262,061 shares

3) Average number of shares during the period

Nine months ended Nov. 30, 2022	47,674,039 shares	Nine months ended Nov. 30, 2021	47,674,049 shares

* The quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Appropriate use of business forecast and other special items

Forecasts regarding future performance in this material are based on information currently available to Vector and incorporate a variety of uncertainties. Actual performance may differ from these forecasts for a number of reasons including changes in internal or external factors affecting business operations. Please refer to “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecast and Other Forward-looking Statements” on page 4 of the attachments regarding the forecasts shown in this material.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

Forward-looking statements are based on the judgments of Vector as of January 13, 2023.

Vector is applying the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of the current fiscal year. More information is in “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies” on page 9.

(1) Explanation of Results of Operations

During the first nine months of the fiscal year ending February 28, 2023, the Japanese economy began to recover as pandemic restrictions were eased due to progress with vaccinations and as benefits of government measures to support the economy emerge. However, the outlook for the economy remains uncertain because of inflation, due partly to the higher cost of energy because of the Ukraine crisis, the rapid upturn in interest rates, the yen’s depreciation and other reasons.

The Vector Group continued to focus on operating as a “fast company” that is a one-stop source of comprehensive support for marketing strategies with the goal of making people aware of the outstanding products, services and other attributes of our clients. To accomplish this goal, we strengthened our highly effective services, chiefly digital services, and all group companies conducted extensive sales and other activities primarily involving our current clients.

We are using many activities to start and expand new services for supporting marketing strategies that make people aware of the outstanding attributes of our clients. To provide services that look ahead to emerging needs, in March 2022, we established the Kyushu Regional Office for the purpose of strengthening PR support services for companies in Kyushu. INFLUENCER BANK, Inc. (formerly Liver Bank, Inc.), which provides live streaming management services, launched a life commerce tool called “You Can Do Live Commerce Yourself.” This tool allows companies to easily distribute content on SNS channels at the same time and to analyze data. In December 2022, we launched the beta version of JOBTV Tenshoku, a job changing and career support service that uses video content. To strengthen digital marketing services, Vector acquired the digital advertising business of Terminal Co., Ltd. in September 2022. This was followed by the December 2022 acquisition of Keyword Marketing Co., Ltd., which operates an agency business for programmatic advertising.

Due to these activities, sales increased 18.0% to 41,163 million yen, operating profit increased 29.3% to 5,213 million yen, ordinary profit increased 30.8% to 5,345 million yen, and the profit attributable to owners of parent increased 77.7% to 2,868 million yen. The application of the new revenue recognition standard reduced sales by 3,048 million yen and operating profit by 20 million yen.

In our venture capital business, we support companies where we make investments by supplying public relations and investor relations services and in other ways. Mental Health Technologies Co., Ltd., SecondXight Analytica, Inc. and Progrit Inc. were listed on the Growth Market of the Tokyo Stock Exchange on March 28, 2022, April 4, 2022 and September 29, 2022, respectively.

As part of measures to provide support to companies in our venture capital business, we acquired CLOUD BEAUTY inc. (formerly Geobeck Co., Ltd.) on July 29, 2022. This company provides cloud store systems and other digital transformation (DX) services for companies in the beauty parlor and beauty care industries. We also acquired Master Visions Inc. (production and distribution platform for 360-degree perspective videos) on November 18, 2022 and AMY Inc. (matching platform for potential franchisees) on November 21, 2022. We will assist these companies with PR and IR services as well as management and other forms of support to speed up their growth with the goal of an initial public offering.

Business segment performance was as follows.

Beginning with the first quarter of the current fiscal year, the media business has been renamed the media CMS business and the fund business has been renamed the investment business.

In addition, the investment business started using a different accounting method in the first quarter of the current fiscal year. More information is in “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies” on page 9.

Public Relations and Advertising

The main activities of this business segment are strategic PR services centered on consulting and the sale of advertisements by using an IoT signage service, which is mainly for tablets placed in taxis. This business segment conducted a variety of marketing activities, such as services in the digital domain, that match the needs of customers in the current business climate. As a result, sales and operating profit rose to all-time highs for a third quarter as the strong performance of this business in Japan more than offset a downturn in overseas operations caused by the pandemic.

Segment sales increased 14.8% to 21,502 million yen and operating profit increased 47.5% to 2,182 million yen. The new revenue recognition standard reduced sales by 2,655 million yen.

Press Release Distribution

PR TIMES, Inc. distributes and posts press releases by using its PR TIMES website as well as many other websites. Utilization of this service has been very high. In November 2022, the number of companies using PR TIMES surpassed 76,000. As a result, sales rose to an all-time high for a third quarter. This company is using TV commercials and other advertising activities to continue to add new customers.

Segment sales increased 19.5% to 4,313 million yen and operating profit fell 27.8% to 1,098 million yen. The new revenue recognition standard had no effect on this segment’s sales and earnings.

Video Release Distribution

The video release distribution business of NewsTV, Inc. became profitable in the third quarter because of the benefits of a focus during the fiscal year’s first half on activities for capturing new business to increase the number of releases handled.

Segment sales increased 0.4% to 1,048 million yen and there was an operating loss of 28 million yen compared with an operating loss of 42 million yen one year earlier. The new revenue standard reduced sales by 6 million yen.

Direct Marketing

In the direct marketing business of Vitabrid Japan, Inc., the number of new customers was higher than planned because of constant advertising expenditures since the beginning of the fiscal year. As a result, sales of Terminalia First (a supplement for helping reduce the body mass index (BMI)) were strong and sales and operating profit in the third quarter rose to an all-time high.

Segment sales increased 28.2% to 11,162 million yen and operating profit increased 49.3% to 645 million yen. The new revenue standard reduced sales by 296 million yen.

Media CMS

In the media content management system (CMS) business of Smartmedia INC., measures to add new tie-ups that contribute to internal web media advertising revenue were held down in order to build a powerful profit structure that is not vulnerable to changes in the business climate. Personnel in the media business were reassigned to the owned media business and there were other development expenses for strengthening CMS capabilities while reinforcing the infrastructure of the owned media business.

Segment sales increased 6.0% to 702 million yen and there was an operating loss of 10 million yen compared with a 33 million yen loss one year earlier. The new revenue standard reduced sales by 2 million yen.

Human Resources

ASHITA-TEAM Co., Ltd. is reexamining the sales strategies for its human resources business and strengthening the sales team in order to achieve sustained growth. In addition, there are expenditures for advertising to attract new customers and product development activities to reinforce various functions of this company. SaaS products are the primary focus of sales activities.

Segment sales decreased 2.8% to 1,809 million yen and operating profit increased 218.8% to 302 million yen. The new revenue recognition standard reduced sales by 87 million yen.

Investment

Although there were valuation losses on some holdings, sales and earnings increased in part because of gains on sales of some investments.

Segment sales increased 34.4% to 1,385 million yen and operating profit increased 73.2% to 1,007 million yen. The new revenue recognition standard had no effect on this segment’s sales and earnings.

(2) Explanation of Financial Position

Assets

Total assets at the end of the third quarter of the current fiscal year increased 2,956 million yen from the end of the previous fiscal year to 34,532 million yen.

Current assets increased 1,923 million yen to 28,241 million yen. This was mainly due to increases of 1,335 million yen in notes and accounts receivable-trade, and contract assets, 1,176 million yen in operational investment securities, 571 million yen in merchandise and finished goods and 377 million yen in advance payments included in other under current assets, while there was a decrease of 1,951 million yen in cash and deposits.

Non-current assets increased 1,032 million yen to 6,290 million yen. This was mainly due to an increase of 1,463 million yen in goodwill, while there were decreases of 122 million yen in software, 63 million yen in investment securities and 183 million yen in leasehold and guarantee deposits.

Liabilities

Total liabilities at the end of the third quarter of the current fiscal year increased 3,139 million yen from the end of the previous fiscal year to 18,537 million yen.

Current liabilities increased 3,359 million yen to 14,179 million yen. This was mainly due to increases of 718 million yen in accounts payable-trade and 2,926 million yen in short-term borrowings.

Non-current liabilities decreased 219 million yen to 4,357 million yen. This was mainly due to decreases of 382 million yen in long-term borrowings and 231 million yen in bonds payable, while there was an increase of 239 million yen in long-term accounts payable-other included in other under current liabilities.

Net assets

Total net assets at the end of the third quarter of the current fiscal year decreased 182 million yen from the end of the previous fiscal year to 15,995 million yen. This was mainly due to a decrease of 979 million yen in non-controlling interests, while there was an increase of 816 million yen in retained earnings.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

The performance of the core public relations and advertising business and direct marketing business is strong and very close to the plan for the fiscal year. In the investment business, we expect to post valuation losses and plan to further increase the pace of investments in new businesses, such as the JOBTV business. As a result, there are no revisions to the fiscal year forecast that was announced on April 14, 2022.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY2/22 (As of Feb. 28, 2022)	Third quarter of FY2/23 (As of Nov. 30, 2022)
Assets		
Current assets		
Cash and deposits	13,522	11,571
Notes and accounts receivable-trade	6,090	-
Notes and accounts receivable-trade, and contract assets	-	7,426
Operational investment securities	4,180	5,356
Merchandise and finished goods	718	1,290
Costs on service contracts in progress	401	499
Other	1,561	2,284
Allowance for doubtful accounts	(156)	(185)
Total current assets	26,317	28,241
Non-current assets		
Property, plant and equipment		
Buildings and structures	812	847
Machinery, equipment and vehicles	7	7
Tools, furniture and fixtures	914	875
Leased assets	548	74
Construction in progress	0	-
Accumulated depreciation	(1,310)	(889)
Total property, plant and equipment	972	915
Intangible assets		
Goodwill	354	1,817
Software	586	464
Other	136	111
Total intangible assets	1,077	2,393
Investments and other assets		
Investment securities	1,183	1,120
Deferred tax assets	892	893
Leasehold and guarantee deposits	987	803
Other	374	518
Allowance for doubtful accounts	(230)	(354)
Total investments and other assets	3,207	2,982
Total non-current assets	5,257	6,290
Total assets	31,575	34,532

(Millions of yen)

	FY2/22 (As of Feb. 28, 2022)	Third quarter of FY2/23 (As of Nov. 30, 2022)
Liabilities		
Current liabilities		
Accounts payable-trade	1,827	2,545
Short-term borrowings	335	3,261
Current portion of long-term borrowings	1,563	1,895
Current portion of bonds payable	186	215
Lease obligations	63	8
Income taxes payable	1,265	707
Provision for bonuses	649	548
Provision for point card certificates	183	-
Provision for shareholder benefit program	110	16
Provision for loss on business liquidation	13	-
Contract liabilities	-	2,377
Unearned revenue	2,422	-
Other	2,200	2,602
Total current liabilities	10,820	14,179
Non-current liabilities		
Long-term borrowings	3,322	2,940
Bonds payable	309	78
Lease obligations	12	2
Deferred tax liabilities	829	983
Retirement benefit liability	54	43
Other	48	308
Total non-current liabilities	4,576	4,357
Total liabilities	15,397	18,537
Net assets		
Shareholders’ equity		
Share capital	2,880	2,880
Capital surplus	480	-
Retained earnings	7,076	7,893
Treasury shares	(259)	(259)
Total shareholders’ equity	10,176	10,513
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,114	2,464
Foreign currency translation adjustment	74	181
Total accumulated other comprehensive income	2,189	2,645
Share acquisition rights	4	9
Non-controlling interests	3,807	2,827
Total net assets	16,178	15,995
Total liabilities and net assets	31,575	34,532

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(For the Nine-month Period)

(Millions of yen)

	First nine months of FY2/22 (Mar. 1, 2021 – Nov. 30, 2021)	First nine months of FY2/23 (Mar. 1, 2022 – Nov. 30, 2022)
Net sales	34,892	41,163
Cost of sales	12,905	14,215
Gross profit	21,986	26,948
Selling, general and administrative expenses	17,954	21,734
Operating profit	4,032	5,213
Non-operating income		
Interest and dividend income	4	4
Foreign exchange gains	-	21
Gain on investments in investment partnerships	4	103
Share of profit of entities accounted for using equity method	31	5
Other	125	50
Total non-operating income	166	186
Non-operating expenses		
Interest expenses	37	27
Foreign exchange losses	4	-
Provision of allowance for doubtful accounts	18	-
Loss on investments in investment partnerships	18	19
Other	33	7
Total non-operating expenses	113	55
Ordinary profit	4,085	5,345
Extraordinary income		
Gain on sale of non-current assets	0	0
Gain on bargain purchase	-	15
Reversal of provision for loss on business liquidation	-	2
Gain on sale of shares of subsidiaries and associates	-	87
Gain on step acquisitions	-	33
Gain on reversal of share acquisition rights	73	1
Gain on forgiveness of debts	9	-
Total extraordinary income	82	141
Extraordinary losses		
Loss on sale of non-current assets	0	0
Loss on retirement of non-current assets	4	47
Impairment losses	8	280
Loss on liquidation of business	39	-
Loss on valuation of investment securities	-	64
Provision for loss on business liquidation	12	-
Loss on valuation of shares of subsidiaries and associates	32	-
Loss on sale of shares of subsidiaries and associates	-	1
Loss on liquidation of subsidiaries and associates	-	0
Loss on cancellation of outsourcing contracts	3	-
Total extraordinary losses	101	394
Profit before income taxes	4,067	5,092
Income taxes	1,510	1,851
Profit	2,556	3,241
Profit attributable to non-controlling interests	941	372
Profit attributable to owners of parent	1,614	2,868

Quarterly Consolidated Statement of Comprehensive Income

(For the Nine-month Period)

(Millions of yen)

	First nine months of FY2/22 (Mar. 1, 2021 – Nov. 30, 2021)	First nine months of FY2/23 (Mar. 1, 2022 – Nov. 30, 2022)
Profit	2,556	3,241
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,001)	342
Foreign currency translation adjustment	27	87
Share of other comprehensive income of entities accounted for using equity method	18	21
Total other comprehensive income	(954)	451
Comprehensive income	1,601	3,693
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	616	3,324
Comprehensive income attributable to non-controlling interests	984	368

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

In accordance with a resolution approved on August 25, 2022 by the Vector Board of Directors, an additional investment was made in consolidated subsidiary Vitabrid Japan, Inc. in the second quarter of the current fiscal year. In addition, Vitabrid Japan repurchased stock during the second quarter by acquiring stock owned by two shareholders. As a result, the capital surplus decreased 1,661 million yen and became negative. The negative portion of the capital surplus was then deducted from retained earnings.

Changes in Accounting Policies

Application of the Accounting Standards for Revenue Recognition

Vector is applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of the current fiscal year. Based on these standards, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers. The major change resulting from this new standard is that gross payments for products and services are no longer recognized as sales when Vector serves as an agent. Instead, payments minus the amount paid for the procurement of products or services sold are recognized as sales. In addition, for some public relations and advertising services, sales were previously recognized in the month that customers accepted the services. Based on the new revenue recognition standard, sales are now recognized over the period during which the obligation to provide the service is fulfilled.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional measures in the proviso to Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting standard, if it is applied prior to the first quarter of the current fiscal year, is added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year. The new standard is then applied beginning with this amount of retained earnings.

As a result, net sales decreased 3,048 million yen and cost of sales decreased 3,027 million yen in the first nine months of the current fiscal year. Operating profit, ordinary profit and profit before income taxes decreased 20 million yen each. In addition, there was an increase of 28 million yen in retained earnings at the beginning of the current fiscal year.

Due to the application of the Accounting Standard for Revenue Recognition, "Notes and accounts receivable-trade" that was presented in the current assets section of the consolidated balance sheet in the previous fiscal year is, from the first quarter of the current fiscal year, included in "Notes and accounts receivable-trade, and contract assets." In addition, "Provision for point card certificates", "Unearned revenue" and "Advances received" included in other presented in the current liabilities section in the previous fiscal year is, from the first quarter of the current fiscal year, stated as "Contract liabilities." In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the prior year's consolidated financial statements to conform to the new presentation. In addition, in accordance with the transitional treatment set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12 issued on March 31, 2020), disaggregated revenue arising from contracts with customers in the first nine months of the previous fiscal year is not shown.

Application of the Accounting Standards for Measurement of Fair Value

Vector has applied the Accounting Standard for Measurement of Fair Value (ASBJ Statement No. 30, July 4, 2019) and other standards from the beginning of the first quarter of the current fiscal year, and has applied the new accounting policies set forth by the Accounting Standard for Measurement of Fair Value prospectively in accordance with the transitional measures prescribed in Paragraph 19 of the Accounting Standard for Measurement of Fair Value and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019).

There is no effect of the application of these standards on the quarterly consolidated financial statements.

Conversion of investment activities to a business unit

The Vector Board of Directors approved a resolution on April 14, 2022 to change the classification of investment activities from non-operating activities to a business unit.

For many years, the Vector Group has provided a broad range of support to companies in the investment and venture capital business to enable these companies to grow. This includes financial support as well as assistance involving public relations and investor relations. All of these activities were classified as operations that were not a core business of the Vector Group. The reason is that the group's businesses were centered on strategic PR services when investment and venture capital activities started. Currently, investments have become an important element of the Vector Group's businesses, which have the goal of making people aware of the outstanding products, services and other attributes of our clients as we aim to become a "fast company" in the advertising industry. We recruited more people and strengthened the investment business in other ways to make this a significant business unit from the first quarter of the current fiscal year. In conjunction with this plan, the decision was made to change the accounting method used for the investment business.

In prior years, gains and losses on sales of investments, dividend income, fee income and valuation losses were classified as non-operating income and expenses. With investments now classified as a business unit, proceeds from sales of investments and dividend income are classified as sales and the book value of investments sold, fees paid for buying and selling investments, and valuation losses are classified as cost of sales. In addition, in prior years gains and losses on sales of investments and valuation losses at consolidated subsidiaries that do not belong to the investment business were classified as non-operating income and expenses. Following this change, these items instead were classified as extraordinary income and losses. Investments in the investment business that were included in investment securities in the non-current assets section of the balance sheet in prior years are now included in operational investment securities in the current assets section.

The classification of investment activities as a business unit has been retroactively applied to the financial statements for the first nine months of the previous fiscal year and the previous fiscal year. Compared with the financial statements using the previous business segments, this retroactive application increased sales by 598 million yen and cost of sales by 416 million yen and reduced non-operating income by 503 million yen and non-operating expenses by 321 million yen, and increased gross profit and operating profit by 181 million yen each. There was no effect on profit before income taxes. In addition, investment securities, which are part of non-current assets, have decreased by 4,076 million yen from the end of the previous fiscal year and operational investment securities in current assets have increased by the same amount.

Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements

Calculation of tax expense

The tax expense was calculated by first estimating the effective tax rate after the application of tax effect accounting with respect to profit before income taxes during the fiscal year and multiplying that rate by the quarterly profit before income taxes.

However, if the tax expense calculated by using the estimated effective tax rate differs significantly from a reasonable amount of taxes, the statutory effective tax rate is used instead after adjustments for significant differences that are not temporary differences involving quarterly net profit.

Segment and Other Information

Segment information

1. First nine months of FY2/22 (Mar. 1, 2021 – Nov. 30, 2021)

(1) Information related to net sales and profit or loss for each reportable segment (Millions of yen)

	Reportable segment						
	Public Relations and Advertising	Press Release Distribution	Video Release Distribution	Direct Marketing	Media CMS	Human Resources	Investment
Net sales							
External sales	18,595	3,488	805	8,637	476	1,862	1,027
Inter-segment sales and transfers	127	120	238	71	186	0	3
Total	18,722	3,608	1,044	8,709	663	1,862	1,031
Segment profit (loss)	1,479	1,520	(42)	432	(33)	94	581

	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales			
External sales	34,892	-	34,892
Inter-segment sales and transfers	749	(749)	-
Total	35,642	(749)	34,892
Segment profit (loss)	4,032	(0)	4,032

Notes: 1. The minus 0 million yen adjustment to segment profit (loss) is the elimination of intersegment transactions.
2. Segment profit (loss) is adjusted to be consistent with operating profit in the quarterly consolidated statement of income.

(2) Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Significant impairment losses involving non-current assets

In the public relations and advertising segment, there was an impairment loss for software in progress for a project that was terminated. In the first nine months of FY2/22, this impairment loss was 5 million yen.

In the video release distribution segment, there was an impairment loss because the performance of the software business has been consistently below the initial plan. In the first nine months of FY2/22, this impairment loss was 3 million yen.

Significant change in goodwill

Not applicable.

Significant gain on bargain purchase

Not applicable.

2. First nine months of FY2/23 (Mar. 1, 2022 – Nov. 30, 2022)

(1) Information related to net sales and profit or loss for each reportable segment and breakdown of revenue

(Millions of yen)

	Reportable segment						
	Public Relations and Advertising	Press Release Distribution	Video Release Distribution	Direct Marketing	Media CMS	Human Resources	Investment
Net sales							
Revenue from contracts with customers	21,332	4,205	805	11,071	554	1,809	-
Other revenue	-	-	-	-	-	-	1,384
External sales	21,332	4,205	805	11,071	554	1,809	1,384
Inter-segment sales and transfers	169	108	242	91	148	0	1
Total	21,502	4,313	1,048	11,162	702	1,809	1,385
Segment profit (loss)	2,182	1,098	(28)	645	(10)	302	1,007

	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales			
Revenue from contracts with customers	39,779	-	39,779
Other revenue	1,384	-	1,384
External sales	41,163	-	41,163
Inter-segment sales and transfers	761	(761)	-
Total	41,925	(761)	41,163
Segment profit (loss)	5,196	17	5,213

Notes: 1. The 17 million yen adjustment to segment profit (loss) is the elimination of intersegment transactions.
2. Segment profit (loss) is adjusted to be consistent with operating profit in the quarterly consolidated statement of income.

(2) Information related to revisions for reportable segments

Changes in Accounting Policies and Segment Name

Beginning with the first quarter of the current fiscal year, the business that was called the fund business in previous fiscal years has become a reportable segment called investment. In previous fiscal years, the investment and venture capital business was classified as a non-operating activity. As was explained earlier in this report, beginning with the first quarter of the current fiscal year, the accounting policies or the sales and earnings of this business has changed because the investment business has become a significant component of the Vector Group's business operations.

To present business operations in a more suitable manner, beginning with the first quarter of the current fiscal year, the media business has been renamed the media CMS business. The change in the segment name had no effect on segment information.

The segment information for the first nine months of FY2/22 is based on the reportable segment structure after the reclassification of the investment business as a reportable segment.

Application of the Accounting Standards for Revenue Recognition

As described in Changes in Accounting Policies, Vector has applied the Accounting Standard for Revenue Recognition from the beginning of the first quarter of the current fiscal year and changed the accounting method for revenue recognition. Accordingly, the method for calculating segment profit or loss has been changed as well. The effect of this change was to decrease net sales by 2,655 million yen in the public relations and advertising segment, by 6 million yen in the video release distribution segment, by 296 million yen in the direct marketing segment, by 2 million yen in the Media CMS segment, by 87 million yen in the human resources segment in the first nine months of FY2/23. There was no change in segment profit.

(3) Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Significant impairment losses involving non-current assets

In the video release distribution and direct marketing segments, there were impairment losses because of a decline in profitability of non-current assets in the first nine months of FY2/23. This impairment losses were 242 million yen and 38 million yen, respectively.

Significant change in goodwill

In the public relations and advertising segment, Geobeck Co., Ltd. and its affiliated company BeautySpaceGlobal Co., Ltd. were newly consolidated in the second quarter and MasterVisions Co., Ltd. and AMY Inc. were newly consolidated in the third quarter. These new consolidations resulted in goodwill of 119 million yen, 250 million yen, and 236 million yen, respectively.

Consolidated subsidiary Geobeck has absorbed BeautySpaceGlobal. Following the combination of these two companies, Geobeck changed its name to CLOUD BEAUTY inc.

Vector acquired the digital advertising business of Terminal Co., Ltd. and added this business to the operations of the public relations and advertising segment. This acquisition resulted in goodwill of 1,100 million yen.

Significant gain on bargain purchase

A gain on bargain purchase of 15 million yen was recorded in the direct marketing business. This gain is the result of an additional investment in PremiumCosme Inc., which was an equity-method affiliate of Vector, by Direct Tech, Inc.

Subsequent Events

Acquisition of company by purchasing stock

Vector signed a contract on December 15, 2022 to purchase the stock of Keyword Marketing Co., Ltd. and purchased the stock on December 26, 2022.

(1) Objectives of acquisition

Guided by the corporate philosophy of “being a source of ‘Good’ to improve people’s lives,” the Vector Group operates businesses centered on strategic PR services and has the goal of continuing to grow.

To accomplish this growth, the Vector Group is building an infrastructure capable of providing a broad range of marketing services in order to be a one-stop source of services required by clients. There are constant measures for upgrading and expanding services while responding quickly to changes in the business climate. All activities reflect a focus on operating as a “fast company” with comprehensive support for clients’ marketing strategies by making people aware of the attributes of our clients while achieving high levels of effectiveness and the efficient use of expenses.

In Japan’s advertising industry, according to data in “Advertising Expenditures 2021” announced by Dentsu Inc. in February 2022, internet advertising expenditures continue to increase rapidly. In 2021, these expenditures surpassed for the first time total advertising expenditures in the four major media (TV, radio, newspapers, magazines). Internet advertising expenditures are expected to continue to increase.

To reflect these changes in the business climate, Vector is building a more powerful base for the group’s business operations with activities that include mergers and acquisitions in order to strengthen digital marketing services.

Keyword Marketing operates a programmatic advertising agency business that encompasses ads linked to searches, SNS ads, display ads and other types of advertisements. The company’s services help improve short-term conversions and the cost per acquisition (CPA) and provide support for implementing medium and long-term marketing strategies. Keyword Marketing has provided this assistance to more than 300 companies in many industries. By providing digital marketing assistance that matches the requirements of client companies, Keyword Marketing has a consistent annual growth rate of more than 90%.

Acquiring Keyword Marketing will allow Vector to combine PR activities to raise the awareness of client companies' products and services with digital marketing to attract new customers. This capability is expected to create an even more powerful foundation for contributing to the growth of client companies' businesses by maximizing the effectiveness of marketing activities for "making people aware of the outstanding attributes of client companies."

(2) Profile of the company acquired

Name: Keyword Marketing Co., Ltd.

Business: Agent for programmatic advertising, research and education for search engine marketing

Capital: 11 million yen

(3) Date of acquisition

December 26, 2022

(4) Number of shares of Keyword Marketing stock acquired, acquisition cost and ownership

Number of shares acquired: 330 shares

Acquisition cost (note):	Common stock of Keyword Marketing	1,100 million yen
	Advisory fees and other (estimates)	80 million yen
	Total (estimates)	1,180 million yen

Note: The acquisition cost was determined by mutual agreement with the seller based on due diligence concerning accounting, taxes and legal matters performed by a third party.

Ownership after acquisition: 100%

This summary report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.