Summary of Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending June 30, 2020 [IFRS]

November 12, 2019

Listed Company:	MACROMILL, INC.
Stock Exchange:	Tokyo Stock Exchange
Code Number:	3978
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Scheduled date to submit quarterly report:	November 14, 2019
Scheduled date of the start of dividends payment:	–
Supplementary material for quarterly financial results:	Yes
Briefing on quarterly financial results:	Yes (for analysts and institutional investors)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending June 30, 2020 (from July 1, 2019 to September 30, 2019)

(1) Consolidated Business Performance

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

	Revenue		Operating profit		Profit before tax		Profit for the period	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First quarter of the year ending June 30, 2020	9,882	(4.9)	1,212	(23.6)	1,102	(15.6)	753	(16.3)
First quarter of the year ended June 30, 2019	10,388	18.3	1,586	13.4	1,306	(11.5)	900	(7.2)

	Profit attributable to owners of the parent		Total comprehensive income for the period		Basic earnings per share	Diluted basic earnings per share
	Million yen	%	Million yen	%	Yen	Yen
First quarter of the year ending June 30, 2020	723	(8.5)	602	(38.7)	18.03	17.79
First quarter of the year ended June 30, 2019	790	(14.3)	981	(5.3)	19.91	19.29

(Reference)

	EBITDA		EBITDA margin
	Million yen	%	%
First quarter of the year ending June 30, 2020	1,888	(1.6)	19.1
First quarter of the year ended June 30, 2019	1,920	16.3	18.5

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
	Million yen	Million yen	Million yen	%
As of September 30, 2019	79,026	32,433	30,124	38.1
As of June 30, 2019	78,321	32,282	29,726	38.0

2. Dividends

	Dividend per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended June 30, 2019	–	0.00	–	9.00	9.00
Year ending June 30, 2020	–				
Year ending June 30, 2020 (forecast)		0.00	–	11.00	11.00

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

3. Forecast of Consolidated Financial Results for the Year Ending June 30, 2020 (from July 1, 2019 to June 30, 2020)

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

	Revenue		Operating profit		Profit before tax		Profit for the year		Profit attributable to owners of the parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	46,000	3.9	7,600	(2.0)	7,100	(2.5)	4,900	(6.9)	4,400	(6.4)	110.30

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

(Reference)

	EBITDA		EBITDA margin
	Million yen	%	%
Full year	10,400	13.4	22.6

* Notes

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

New: –

Exclusion: –

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

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

(3) Number of shares outstanding (common stock)

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

As of September 30, 2019	40,287,500 shares	As of June 30, 2019	39,996,600 shares

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

As of September 30, 2019	135 shares	As of June 30, 2019	135 shares

(iii) Average number of shares during the period

Three months ended September 30, 2019	40,126,039 shares	Three months ended September 30, 2018	39,727,336 shares

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

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

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

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

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

(4) EBITDA margin = EBITDA / revenue

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

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

Accompanying Materials - Contents

1. Qualitative Information about Consolidated Financial Results for the Quarter

(1) Explanations about operating results

MACROMILL, INC. (the “Company”) and its consolidated subsidiaries (together the “Group") implemented IFRS 16 Leases at the beginning of the consolidated first quarter. With the adoption of IFRS 16 for all lease contracts, in principle, the lessee shall recognize the right to use an underlying asset over the lease period and the obligation to make a lease payment as a right-of-use asset and a lease liability, respectively. Under the former standard, IAS 17, lease payments for operating leases used to be expensed as rent, but under IFRS 16, the lessee recognizes the depreciation of right-of-use assets and interest costs for lease liabilities. As a result, with the adoption of IFRS 16, rents decrease while the depreciation of right-of-use assets increases, so EBITDA will rise. The effects of the implementation of IFRS 16 were negligible on each line of our consolidated statements of operations, namely revenue, operating profit, profit before tax and profit for the period. (For details, please refer to (6) Notes to Summarized Quarterly Consolidated Financial Statements.)

During the first quarter (July 1, 2019 to September 30, 2019), the global economy continued to experience a moderate recovery, despite intensifying trade friction between the US and China, uncertainty in overseas economic trends including China and global policies, rising crude oil prices and the impact of fluctuations in financial capital markets. Meanwhile, the Japanese economy, despite weakness in certain sectors, continued its path of moderate economic recovery thanks to the improving employment as well as individual income level.

Looking specifically at the marketing research sector, the total global marketplace reached an estimated value of $47.3 billion, with online marketing research accounting for $19.4 billion (*1). In Japan, the size of the marketing research sector reached 219.0 billion yen for the sector overall, with online marketing research at 70.5 billion yen (*2). Both the global and domestic market research sectors are growing moderately, with online marketing research notably outpacing the growth rate of the overall market.

Given the economic and market situation mentioned above, it appears that the Group is beginning to undergo a significant change in its business environment. More specifically, clients are confronted with more sophisticated and diversified challenges in their marketing activities, including more touchpoints with customers, and progress in the use of a range of big data, AI and marketing tools. Particularly in the area of the digital technology sector, the business environment often experiences rapid changes. For instance, currently it seems that the leading online platformers are maintaining a more careful approach when handling personal data. This has been triggered by a personal data security breach by a major US-based social media company, along with the enforcement of the General Data Protection Regulation (GDPR) in the EU. As a result, there are some cases where the online distribution or management of digital advertisements at client companies has been impacted.

In the short term, these changes in the business environment create challenges for the Group performance. However, we see the shift to digital marketing activities by our client companies as an unstoppable trend in the medium- to long-term. The Group maintains an active approach in supporting the digitization of marketing activities undertaken by client companies. We have strong relationships with our own consumer panels and we believe these will continue to provide added value in the age of digitization. The Group has undertaken initiatives to comprehensively handle a huge amount of diverse data points, including attribution, purchase and consumption data, behavioral, awareness and biological data all of which are generated by our consumer panels. The Group aims to continue to adapt to the changes in the business environment by proactively offering new consumer insights obtained through these initiatives as its proprietary services to client companies.

Consequently, the Group recorded revenue of 9,882 million yen (down 4.9% year-on-year), earnings before interest, taxes, depreciation and amortization (EBITDA) (*3) of 1,888 million yen (down 1.6% year-on-year), operating profit of 1,212 million yen (down 23.6% year-on-year), profit before tax of 1,102 million yen (down 15.6% year-on-year) and profit attributable to owners of the parent of 723 million yen (down 8.5% year-on-year) for the quarter. Return on equity (ROE: calculated using the data over the preceding 12 months) stood at 16.6% (down 2.9 points year-on-year). The interest coverage ratio (*4: calculated in the last 12 months) improved to 19.43 times (from 9.33 times in the same period of the previous fiscal year).

The results by segment are shown below.

(Japan and Korea Business)

In the Japan and Korea Business segment, overall revenue decreased year-on-year, reflecting the impact of large clients, in particular, implementing strict spending control or cutting expenses on marketing research activities. Steady sales of the digital marketing products, including DMP solution (*5), was partially offset by these clients spending control. The Company conducted a strict cost control plan. For instance, based on current business performance, the Company suppresses employee expenses, which have significantly increased by hiring new graduates in the fourth quarter of the last fiscal year. As a result, although operating expenses slightly decreased a year-on-year basis, operating profit decreased significantly, which is mostly impacted by a decrease in revenue. Consequently, the Japan and Korea Business segment recorded revenue of 7,593 million yen (down 6.3% year-on-year), EBITDA of 1,584 million yen (down 3.2% year-on-year), and operating profit of 1,077 million yen (down 23.8% year-on-year). The decrease in EBITDA is significantly lower than the decrease in operating profit, which is due to the application of IFRS 16 described above.

(Overseas Business (ex-Korea))

In the Overseas Business (ex-Korea) segment, which is operated in North America, Europe, Latin America, the Middle East, and Asia, excluding Japan and Korea, revenue remained the same level as the corresponding period of the previous fiscal year. This reflects the negative impact of exchange rate, which offset steady sales of the mainstay advertising pre-test product conducted for the Global Key Accounts (*6). Furthermore, efforts have been made to achieve organizational restructuring with region-specific managers reassigned while aiming to enhance the research workforce to improve service quality. Consequently, on a local currency basis, although employee expenses related to these and costs due to the opening of new business offices increased, the effects of exchange rates almost offset the increase the same as the revenue. As a result, operating expenses increased only slightly year-on-year.

As a result, the Overseas Business (ex-Korea) segment recorded revenue of 2,313 million yen (flat year-on-year), EBITDA of 304 million yen (up 7.3% year-on-year), and operating profit of 134 million yen (down 22.3% year-on-year).

Financial results including revenue of MACROMILL EMBRAIN CO., LTD. in the Japan and Korea Business segment are prepared based on the Korean won, while revenue and other financial results of the Overseas Business (ex-Korea) are prepared based on the Euro. The exchange rates used for each are below.

Computation period (3 months)	Three months ended September 30, 2018	Three months ended September 30, 2019	Change (%)
JPY/EUR (yen)	129.55	119.69	(7.6%)
JPY/KRW (yen)	0.0995	0.0906	(8.9%)

Notes:

(1) Reference: ESOMAR Global Market Research 2019, announced by European Society for Opinion and Marketing Research (ESOMAR) in September 2019.

(2) Reference: JMRA 44th Annual Business Management Survey, announced by Japan Marketing Research Association (JMRA) in July 2019.

(3) EBITDA: Earnings before interest, tax, depreciation and amortization. The Company defines it as operating profit + depreciation and amortization + loss on retirement of non-current assets + impairment loss. The Company uses it as a major management indicator to measure the profitability of each business as it enables us to calculate the size of cash flow generated from each business more accurately.

(4) Interest Coverage Ratio = (operating profit + interest income + dividends income) / interest expense

(5) DMP: Data Management Platform, a technology platform used for collectively managing and analyzing big data accumulated on online servers and log data in a company's website and ultimately optimizing an action plan of marketing activities for online advertising campaigns and product development. DMP Solutions are a series of services aimed at enhancing a customer’s DMP, including support for establishing DMP, consumer panel data supplied regularly to the customer’s DMP, and additional research to augment or compensate for the data stored on DMP.

(6) Global Key Accounts: Corporate groups operating globally by leveraging their large research and marketing budgets that the Company considers as key accounts for the Group to grow further. The Group seeks to increase sales to such accounts on a global basis.

(2) Explanations about financial position

① State of assets, liabilities and equity

At the end of the first quarter, assets totaled 79,026 million yen, an increase of 704 million yen from the end of the previous fiscal year. This was mainly due to increases in right-of-use assets of 2,914 million yen.

Liabilities stood at 46,592 million yen, up 553 million yen from the end of the previous fiscal year. The increase primarily reflected a rise in lease liability of 2,934 million yen.

Equity was worth 32,433 million yen, an increase of 151 million yen from the end of the previous fiscal year. The increase was largely attributable to profit for the period of 753 million yen, which offset dividends paid of 584 million yen.

② State of cash flow

Cash and cash equivalents ("cash") at the end of the first quarter decreased 2,138 million yen from the end of the previous fiscal year, to 7,963 million yen. The status of each of the cash flow segments and contributing factors in the first quarter are as follows.

(Cash flow from operating activities)

Net cash used in operating activities amounted to 82 million yen (down 1,216 million yen year on year).

The cash outflow was mainly due to a decrease in trade and other receivables of 647 million yen and income taxes paid of 699 million yen, partially offset by profit before tax of 1,102 million yen and depreciation and amortization of 676 million yen.

Trade receivable turnover in days and trade payable/panel point reserves turnover in days stood at 87.4 days (up 5.3 days year-on-year) and 43.6 days (down 0.6 days year-on-year), respectively.

(Cash flow from investing activities)

Net cash used in investing activities came to 644 million yen (up 221 million yen year on year).

This was mainly due to cash outflow in the acquisition of a tangible fixed asset of 217 million yen and an intangible asset of 467 million yen.

(Cash flow from financing activities)

Net cash used in financial activities was 1,368 million yen (down 553 million yen year on year).

The cash outflow primarily reflected 825 million yen for repayments of non-current borrowings, 326 million yen for repayments of leas liabilities, and 354 million yen for dividends paid, partially offset by 138 million yen for proceeds from the issue of shares.

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

The Group makes no change to its forecast of consolidated financial results for the fiscal year ending June 30, 2020 announced on August 7, 2019 at the present point.

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

2. Summarized Quarterly Consolidated Financial Statements and Significant Notes

(1) Summarized Quarterly Consolidated Statement of Financial Position

(Millions of yen)

	As of June 30, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and cash equivalents	10,102	7,963
Trade and other receivables	7,717	7,664
Contract asset	1,860	1,952
Other financial assets	6	6
Other current assets	948	1,281
Total current assets	20,634	18,869
Non-current assets		
Property, plant and equipment	1,370	1,309
Right-of-use asset	—	2,914
Goodwill	46,886	46,626
Other intangible assets	7,244	6,994
Investments accounted for using equity method	32	31
Other financial assets	1,341	1,293
Deferred tax assets	810	834
Other non-current assets	0	152
Total non-current assets	57,687	60,156
Total assets	78,321	79,026
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	1,651	1,651
Lease liability	—	1,178
Trade and other payables	3,698	2,632
Contract Liabilities	406	466
Other financial liabilities	394	547
Income taxes payable	971	604
Provisions	1,197	1,219
Other current liabilities	1,829	1,543
Total current liabilities	10,150	9,844
Non-current liabilities		
Bonds and borrowings	33,963	33,175
Lease liability	—	1,755
Other financial liabilities	148	89
Retirement benefit liability	313	316
Provisions	264	267
Deferred tax liabilities	1,189	1,133
Other non-current liabilities	9	9
Total non-current liabilities	35,888	36,747
Total liabilities	46,039	46,592
Equity		
Share capital	971	1,040
Capital surplus	11,507	11,636
Treasury shares	△0	△0
Other components of equity	△248	△418
Retained earnings	17,496	17,865
Total equity attributable to owners of parent	29,726	30,124
Non-controlling interests	2,556	2,309
Total equity	32,282	32,433
Total liabilities and equity	78,321	79,026

(2) Summarized Quarterly Consolidated Statement of Operations

(Millions of yen)

	Three months ended September 30, 2018	Three months ended September 30, 2019
Revenue	10,388	9,882
Operating expenses	△8,812	△8,666
Other operating income	28	6
Other operating expenses	△18	△9
Share of profit of investments accounted for using equity method	0	0
Operating profit	1,586	1,212
Finance income	49	23
Finance costs	△329	△133
Profit before tax	1,306	1,102
Income tax expense	△405	△348
Profit	900	753
Profit attributable to		
Owners of parent	790	723
Non-controlling interests	109	30
Profit	900	753
Earnings per share		
Basic earnings per share	19.91	18.03
Diluted earnings per share	19.29	17.79

(3) Summarized Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended September 30, 2018	Three months ended September 30, 2019
Profit	900	753
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	△59	△0
Total of items that will not be reclassified to profit or loss	△59	△0
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	140	△150
Total of items that may be reclassified to profit or loss	140	△150
Other comprehensive income	81	△151
Comprehensive income	981	602
Comprehensive income attributable to		
Owners of parent	883	613
Non-controlling interests	98	△11
Comprehensive income	981	602

(4) Summarized Quarterly Consolidated Statement of Changes in Equity

Three months ended September 30, 2018

	Equity attributable to owners of parent					
				Other components of equity		
	Share capital	Capital surplus	Treasury shares	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Exchange differences on translation of foreign operations
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at beginning of period	880	11,312	△0	64	－	△356
Cumulative effect of accounting change	－	－	－	－	－	－
Restated balance	880	11,312	△0	64	－	△356
Profit	－	－	－	－	－	－
Other comprehensive income	－	－	－	△30	－	123
Comprehensive income	－	－	－	△30	－	123
Issuance of new shares	37	56	－	－	－	－
Share-based remuneration transactions	－	－	－	－	－	－
Dividends	－	－	－	－	－	－
Changes in ownership interest in subsidiaries	－	△0	－	－	－	－
Increase (decrease) by business combination	－	－	－	－	－	－
Total transactions with owners	37	56	－	－	－	－
Balance at end of period	918	11,368	△0	34	－	△233

	Equity attributable to owners of parent					
	Other components of equity					
	Share acquisition rights	Total	Retained earnings	Total	Non-controlling interests	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at beginning of period	195	△96	13,165	25,262	2,205	27,468
Cumulative effect of accounting change	－	－	△93	△93	△89	△182
Restated balance	195	△96	13,071	25,168	2,116	27,285
Profit	－	－	790	790	109	900
Other comprehensive income	－	92	－	92	△10	81
Comprehensive income	－	92	790	883	98	981
Issuance of new shares	△18	△18	－	75	－	75
Share-based remuneration transactions	7	7	－	7	－	7
Dividends	－	－	△277	△277	△230	△507
Changes in ownership interest in subsidiaries	－	－	－	△0	2	2
Increase (decrease) by business combination	－	－	－	－	322	322
Total transactions with owners	△11	△11	△277	△194	94	△100
Balance at end of period	184	△15	13,585	25,857	2,309	28,166

Three months ended September 30, 2019

	Equity attributable to owners of parent					
				Other components of equity		
	Share capital	Capital surplus	Treasury shares	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Exchange differences on translation of foreign operations
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at beginning of period	971	11,507	△0	△4	—	△441
Profit	—	—	—	—	—	—
Other comprehensive income	—	—	—	8	—	△118
Comprehensive income	—	—	—	8	—	△118
Issuance of new shares	69	112	—	—	—	—
Share-based remuneration transactions	—	—	—	—	—	—
Dividends	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	△6	—	—
Changes in ownership interest in subsidiaries	—	△0	—	—	—	—
Other Changes	—	16	—	—	—	—
Total transactions with owners	69	129	—	△6	—	—
Balance at end of period	1,040	11,636	△0	△1	—	△559

	Equity attributable to owners of parent				Non-controlling interests	Total
	Other components of equity		Retained earnings	Total		
	Share acquisition rights	Total				
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at beginning of period	196	△248	17,496	29,726	2,556	32,282
Profit	—	—	723	723	30	753
Other comprehensive income	—	△109	—	△109	△41	△151
Comprehensive income	—	△109	723	613	△11	602
Issuance of new shares	△43	△43	—	138	—	138
Share-based remuneration transactions	6	6	—	6	—	6
Dividends	—	—	△359	△359	△224	△584
Transfer from other components of equity to retained earnings	—	△6	6	—	—	—
Changes in ownership interest in subsidiaries	—	—	—	△0	1	0
Other Changes	△16	△16	△0	△0	△11	△12
Total transactions with owners	△53	△59	△354	△215	△235	△450
Balance at end of period	142	△418	17,865	30,124	2,309	32,433

(5) Summarized Quarterly Consolidated Statements of Cash Flow

(Millions of yen)

	Three months ended September 30, 2018	Three months ended September 30, 2019
Cash flows from operating activities		
Profit before tax	1,306	1,102
Depreciation and amortization	333	676
Finance income	△49	△23
Finance costs	329	133
Share of loss (profit) of investments accounted for using equity method	△0	0
Decrease (increase) in trade and other receivables	△708	△143
Increase (decrease) in trade and other payables	△39	△647
Other	△633	△393
Subtotal	538	704
Interest and dividends received	11	1
Interest paid	△212	△88
Income taxes paid	△1,635	△699
Net cash provided by (used in) operating activities	△1,298	△82
Cash flows from investing activities		
Purchase of property, plant and equipment	△186	△217
Proceeds from sale of property, plant and equipment	—	5
Purchase of intangible assets	△551	△467
Proceeds from acquisition of subsidiaries	328	—
Purchase of investments	△8	—
Proceeds from sale and redemption of investments	—	53
Other	△4	△17
Net cash provided by (used in) investing activities	△422	△644
Cash flows from financing activities		
Proceeds from short-term borrowings	49	—
Repayments of short-term borrowings	△423	—
Repayments of long-term borrowings	△11,059	△825
Proceeds from issuance of bonds	9,947	—
Repayments of lease obligations	—	△326
Proceeds from issuance of shares	75	138
Dividends paid	△274	△354
Dividends paid to non-controlling interests	△230	△1
Other	△5	0
Net cash provided by (used in) financing activities	△1,921	△1,368
Net increase (decrease) in cash and cash equivalents	△3,642	△2,094
Cash and cash equivalents at beginning of period	9,124	10,102
Effect of exchange rate changes on cash and cash equivalents	△5	△44
Cash and cash equivalents	5,476	7,963

(6) Notes to Summarized Quarterly Consolidated Financial Statements

(Notes regarding the premise of a going concern)

Non applicable

(Changes in accounting policies)

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

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

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

IFRS		Description of New Standards/Amendments
IFRS 16	Leases	Amendments in accounting and disclosure for leases

The Group determines that a contract contains a lease when the right to control the use of an identified asset is transferred for a period of time in exchange for consideration at the start of the contract.

The Group has also elected the exemptions that allow a lessee not to recognize right-of-use assets and lease liabilities for short-term leases within 12 months in duration and for leases of low-value assets.

Right-of-use asset is initially measured at cost, which comprises restoration costs of the underlying asset required by the lease contract as well as the initial measurement of the lease liabilities. Lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the lease contract. In case the discount rate is not readily available for the present value calculation, a lessee’s incremental borrowing rate will be used in place of the discount rate.

After the initial measurement, a right-of-use asset is depreciated over the useful life of the asset or its lease period on a straight-line basis, whichever is shorter. Each lease payment is allocated to a finance cost and a repayment of the relevant lease liability in accordance with the interest method. The finance cost is recognized on the summarized quarterly consolidated statement of operations. Repayment of lease liabilities is recorded as a reduction in cash flow from financing activities in the condensed quarterly consolidated statement of cash flows.

When implementing IFRS 16, in accordance with the transitional provisions, the Group applied this standard retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. The Group chose the practical expedient when determining whether an arrangement contains a lease in applying IFRS 16, and follows the criteria as set forth in IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease.

The Group recognizes right-of-use assets and lease liabilities at the date of initial application for lessee’s leases that had been previously classified as operating leases under IAS 17.

The Group recognized right-of-use assets and lease liabilities in the amount of 3,073 million yen each at the date of initial application of IFRS 16.

Lease liabilities are measured at the present value of the lease payments that are not paid at the date of initial application of IFRS 16. The lessee’s weighted average of incremental borrowing rate used to measure lease liabilities was 2.4% at the date of the initial application.

Differences in value between non-cancellable operating leases as of the end of the preceding consolidated fiscal year and lease liabilities recognized in the consolidated statement of financial position at the date of the initial application are primarily attributable to the cancellable operating leases worth 3,068 million yen recognized under IFRS 16.

The Group uses the following practical expedients in the application of IFRS 16:

- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Leases ending within 12 months of the date of initial application are treated the same as short-term leases
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Hindsight may be applied, such as in determining the lease term if the contract contains an option to extend or terminate the lease

(Segment information)

(1) Overview of reportable segments

The reportable segments of the Group are a constituent unit of the Company whose financial information is available separately, subject to regular review by the Board of Directors for the purpose of determining the allocation of management resources and the evaluation of business results. The major business of the Group is online marketing research on a global basis. Accordingly, the Group consists of regional segments based on the corporate group. There are two reportable segments. One is the Japan and Korea Business and the other is the Overseas Business (ex-Korea), which operates in North America, Europe, Latin America, Middle East and Asian sales territories, excluding Japan and Korea.

The "Japan and Korea Business" consists of the Company and its subsidiaries, including a joint venture with the advertising agencies DENTSU MACROMILL INSIGHT, INC., and H.M. Marketing Research, Inc., and the Korean business, MACROMILL EMBRAIN CO., LTD.,

"Overseas Business (ex-Korea)" consists of subsidiaries in North America, Europe, Latin America, Middle East and Asian sales territories, excluding Japan and Korea.

(2) Revenues and business results by segment

Financial results including revenue of MACROMILL EMBRAIN CO., LTD. in the Japan and Korea Business segment are prepared based on the Korean won, while revenue and other financial results of the Overseas Business (ex-Korea) are prepared based on the euro. The rate of exchange is below.

Computation period (Three months)	Three months ended September 30, 2018	Three months ended September 30, 2019	Change (%)
JPY/EUR (yen)	129.55	119.69	(7.6%)
JPY/KRW (yen)	0.0995	0.0906	(8.9%)

Three months ended September 30, 2018

Millions of yen

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

Three months ended September 30, 2019

Millions of yen

	Reportable segments			Reconciliations	Consolidated
	MACROMILL Group	MetrixLab Group	Total		
Revenue					
External	7,583	2,298	9,882	–	9,882
Intersegment	9	14	24	(24)	–
Total	7,593	2,313	9,906	(24)	9,882
Segment profit (loss) (Operating profit (loss))	1,077	134	1,212	–	1,212
Finance income					23
Finance costs					(133)
Profit before tax					1,102
(Other profit and loss items)					
Depreciation and amortization expense	506	169	676	–	676

(Operating expenses)

The breakdown of operating expenses is as follows:

	Three months ended September 30, 2018	Three months ended September 30, 2019
	Millions of yen	Millions of yen
Employee expenses	4,061	4,022
Panel expenses	1,363	1,596
Outsourcing expenses	1,327	1,154
Depreciation and amortization	333	676
Other	1,726	1,216
Total	8,812	8,666