

Non-Consolidated Financial Results For the Fiscal Year Ended August 31, 2020 [Japanese GAAP]



September 30, 2020

Company name: Strike Co., Ltd.
 Stock exchange listing: First Section, Tokyo Stock Exchange
 Code number: 6196
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 Scheduled date of Annual General Meeting of Shareholders: November 25, 2020
 Scheduled date of commencing dividend payments: November 26, 2020
 Scheduled date of filing annual securities report: November 25, 2020
 Availability of supplementary briefing material on annual financial results: Available
 Schedule of annual financial results briefing session: No physical session planned
 (video of briefing session to be distributed)

(Amounts of less than one million yen are rounded down.)

1. Financial Results for the Fiscal Year Ended August 31, 2020 (September 1, 2019 to August 31, 2020)

(1) Operating Results

(Percentage changes are in comparison with the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
August 31, 2020	6,916	36.2	2,981	58.0	2,983	57.9	2,202	64.1
August 31, 2019	5,077	35.6	1,886	39.5	1,889	39.4	1,342	45.9

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets	Operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
August 31, 2020	115.29	114.72	36.0	38.6	43.1
August 31, 2019	69.86	—	27.8	31.9	37.2

(Reference) Equity in earnings (losses) of affiliates: Fiscal year ended August 31, 2020: ¥— million

Fiscal year ended August 31, 2019: ¥— million

(Note) Diluted earnings per share are not shown for the fiscal year ended August 31, 2019 because there were no shares with a dilutive effect.

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of August 31, 2020	9,045	7,091	78.3	370.98
As of August 31, 2019	6,427	5,162	80.3	270.00

(Reference) Equity: As of August 31, 2020: ¥7,087 million

As of August 31, 2019: ¥5,158 million

(3) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended				
August 31, 2020	2,888	(133)	(277)	7,871
August 31, 2019	1,366	(197)	(693)	5,393

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
August 31, 2019	—	0.00	—	14.50	14.50	277	20.8	5.8
August 31, 2020	—	0.00	—	24.00	24.00	458	20.8	7.5
Fiscal year ending September 30, 2021 (forecast)	—	0.00	—	27.00	27.00		24.9	

3. Earnings Forecasts for the Fiscal Year Ending September 30, 2021 (September 1, 2020 to September 30, 2021)

(Percentage changes are in comparison with the same period of the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	
First half	4,276	21.9	1,818	17.3	1,819	17.2	1,224	3.6	64.09
Full year	8,368	—	3,081	—	3,083	—	2,069	—	108.35

Note: As disclosed in a news release dated today and entitled "Notice of a Change in Our Fiscal Year Closing Date and Partial Revision of the Articles of Incorporation," in 2021 we plan to change our fiscal year closing date from August 31 to September 30, pending approval at the Annual General Meeting of Shareholders on November 25, 2020. Following this change, the fiscal year ending September 30, 2021 will be a 13-month period, from September 1, 2020 to September 30, 2021.

Notes:

(1) Changes in accounting policies, changes in accounting estimates, and retrospective restatement

- 1) Changes in accounting policies due to the revision of accounting standards: None
- 2) Changes in accounting policies other than 1) above: None
- 3) Changes in accounting estimates: None
- 4) Retrospective restatement: None

(2) Total number of issued shares (common shares)

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

August 31, 2020: 19,354,200 shares

August 31, 2019: 19,354,200 shares

2) Total number of treasury shares at the end of the period

August 31, 2020: 250,183 shares

August 31, 2019: 250,036 shares

3) Average number of shares outstanding during the period

Fiscal year ended August 31, 2020: 19,104,095 shares

Fiscal year ended August 31, 2019: 19,214,745 shares

* The financial statements are outside the scope of audit procedures by a certified public accountant or auditing firm.

* Explanation of the proper use of earnings forecasts and other notes

(Caution on forward-looking statements)

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed reasonable by the Company, and are not intended to be construed as assurance that they will be accomplished in the future. Actual results may differ significantly from these forecasts due to a wide range of factors. For the assumptions underlying the forecasts and precautions when using the forecasts, please see "1. Overview of Business Results (4) Future Outlook" on page 6 of the Attached Materials.

(How to obtain an explanation of financial results)

To prevent the COVID-19 pandemic from spreading, rather than holding a physical financial results briefing session as we have done in the past, this year we plan to distribute a video of this explanation on our website (https://www.strike.co.jp/ir/index_en.html). Distribution is slated to commence in mid-October 2020.

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1. Overview of Business Results

(1) Overview of Business Results

During the fiscal year ended August 31, 2020, the Japanese economy recovered modestly, supported by improvements in corporate earnings and employment conditions. However, the outlook remains uncertain due to concerns over economic stagnation triggered by intensifying trade friction between the United States and China and by the global COVID-19 pandemic.

The market for M&A involving small and medium-sized enterprises (SMEs), which is our area of business, is continuing to expand over the medium to long term in part thanks to the success of aggressive measures and promotion by the Japanese government to support SMEs struggling with the search for successors. According to the “2020 White Paper on Small and Medium Enterprises in Japan” published in April 2020 by the Small and Medium Enterprise Agency, bolstering the added value SMEs provide will be essential to increasing their productivity. The paper suggests that options for doing so include moving into new fields of business and leveraging alliances with other companies. Furthermore, of the 43,000 companies that suspended or discontinued operations or were dissolved entirely in 2019, roughly 60% recorded a profit in the immediately preceding fiscal year. This highlights the importance of rapidly passing on businesses to a new generation of motivated managers to ensure they do not close down as a result of a lack of a successor. We believe M&A will continue to gain traction as a way to resolve this situation.

Against this backdrop, during the state of emergency period we instructed all our employees to switch to telework as a rule. This reduced opportunities for meetings with clients and led to delays in securing new contracts and closing deals. With in-person meetings being limited even after the state of emergency was lifted, in our efforts to secure new contracts and close deals we focused on holding online seminars and using online conference systems to meet with clients.

On the sales front, we strengthened our M&A support system through collaboration. We accepted personnel from partner financial institutions and trained them so that they would be able to execute M&A operations with greater effectiveness once they return to their respective companies. From March to May 2020, our partners' operations were similarly constrained by telework and other factors, and this led to a temporary drop in the number of new contract introductions. However, since June these figures have largely returned to pre-pandemic levels.

In terms of recruitment, we added 13 new M&A consultants during the fiscal year to cope with the increase in new contracts and support sustainable growth. In tandem with the personnel increase and growth in the number of trainees from financial institutions, we expanded our Tokyo headquarters a second time in September 2019. As personnel numbers increased, we also relocated our Sapporo sales office in May 2020.

As a result, during the fiscal year the number of new contracts amounted to 340 (versus 289 new contracts in the previous fiscal year). The number of deals closed came to 134 (versus 104 deals closed in the previous fiscal year). Net sales reached ¥6,916 million, up 36.2% year on year, thanks in part to the closure of 16 large deals that generated ¥100 million or more in sales per deal (versus six large deals closed in the previous fiscal year). Cost of sales expanded 25.6% year on year to ¥2,398 million, primarily due to increased performance-linked incentive salaries accompanying higher sales, a rise in contract introduction fees, and higher personnel expenses attributable to an increase in M&A consultants. SG&A expenses grew 20.0% year on year to ¥1,536 million as reductions in advertising expenses caused by cancelled in-person seminars were offset by higher personnel expenses due to an increase in headcount and by higher expenses following expansion or relocation of our offices. Limited sales activities in the face of the COVID-19 pandemic caused expenses to drop temporarily. Profit margins thus rose, pushing operating profit up 58.0% year on year, to ¥2,981 million. Ordinary profit also came to ¥2,983 million, up 57.9% year on year. To improve asset efficiency, we sold a portion of investment securities and booked a ¥225 million gain on sales of investment securities as extraordinary income. At the same time, we recorded a ¥36 million loss on valuation of investment securities as an extraordinary loss. As a result, bottom-line profit rose 64.1% year on year to ¥2,202 million.

The number of deals closed and new contracts during the period under review are provided below, along with our initial targets.

	FY08/20 (actual)	FY08/20 (target)	Achievement of the full-year target
Number of deals closed	134	143	93.7%
Number of new contracts	340	358	95.0%

Business results by segment are omitted, as the Company comprises the single segment of the M&A brokerage business.

(2) Overview of Financial Condition

(Assets)

As of August 31, 2020, current assets stood at ¥8,211 million, up ¥2,281 million from August 31, 2019. This mainly reflected a ¥2,478 million increase in cash and deposits, despite a ¥209 million decline in accounts receivable–trade.

Non-current assets amounted to ¥834 million, up ¥337 million from August 31, 2019. This was mainly attributable to a ¥290 million increase in leasehold deposits.

(Liabilities)

Current liabilities came to ¥1,954 million as of August 31, 2020, up ¥701 million from August 31, 2019. This was mainly the result of a ¥424 million increase in income taxes payable and a ¥114 million rise in accounts payable–other.

Non-current liabilities were down ¥11 million from August 31, 2019.

(Net assets)

Net assets totaled ¥7,091 million as of August 31, 2020, up ¥1,928 million from August 31, 2019. This primarily reflected a ¥2,202 million increase in profit, despite a ¥277 million decline in retained earnings due to the payment of dividends.

(3) Overview of Cash Flows

Cash and cash equivalents (hereinafter, “net cash”) stood at ¥7,871 million as of August 31, 2020, up ¥2,478 million from August 31, 2019. Principal factors are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥2,888 million (compared to ¥1,366 million provided by these activities in the previous fiscal year). This was mainly because of ¥3,172 million in profit before income taxes, despite ¥618 million in income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities totaled ¥133 million (compared to ¥197 million used in these activities in the previous fiscal year). This primarily reflected ¥230 million in proceeds from sales of investment securities, which was offset by ¥301 million in payments of leasehold and guarantee deposits and ¥56 million for the purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities came to ¥277 million (compared to ¥693 million used in these activities in the previous fiscal year). This was mainly attributable to ¥276 million in dividends paid.

(4) Future Outlook

In the fiscal year ending September 30, 2021, the Company aims to further step up proposal activities and expand its business partnerships. In particular, it is stepping up marketing activities targeting SMEs and plans to increase new contracts by conducting proactive advertising activities and holding online seminars. During the year, we began providing pre-marketing services, in which we search for potential sellers on behalf of companies looking to make an acquisition. We will expand this service and strive to enhance our relationships with potential buyers.

The Company will also continue to increase outstanding consultants with the aim of expanding its business, and strive to train human resources and close more deals by enhancing internal training, raising the technical knowledge of its employees, sharing information on laws and regulations and accounting systems, and sharing expertise required in securing contracts and closing deals.

June 2021 marks the fifth anniversary of our initial public offering. We plan to invest aggressively next fiscal year, positioning ourselves for further growth. In addition to stepping up online seminars and other marketing activities and actively recruiting consultants, we plan to relocate our headquarters to accommodate future increases in headcount. Accordingly, we expect relocation and other temporary expenses to rise.

For the fiscal year ending September 30, 2021, the Company forecasts net sales of ¥8,368 million, operating profit of ¥3,081 million, ordinary profit of ¥3,083 million, and bottom-line profit of ¥2,069 million.

Performance for the upcoming fiscal year is difficult to predict, given the uncertainty about when the COVID-19 pandemic might subside. In considering how the pandemic might affect operating performance, we believe a major resurgence in the scale of infections would limit marketing activities while increasing the potential number of new contracts. Either scenario could have a significant impact on operating performance, but at present the Company assumes this impact will be limited. We will continue monitoring the impact of the COVID-19 pandemic. If revisions to our performance forecasts become necessary, we will disclose this information promptly.

2. Basic Policy Regarding Selection of Accounting Standards

The Company applies the Japanese Generally Accepted Accounting Principles (J-GAAP) as its accounting standard to ensure comparability with other companies in the same industry in Japan. With regard to the application of International Financial Reporting Standards (IFRS), the Company's policy is to respond appropriately while considering factors such as shareholder composition and trends of other companies in the same industry in Japan.

3. Financial Statements and Primary Notes

(1) Balance Sheet

(Thousand yen)

	As of August 31, 2019	As of August 31, 2020
Assets		
Current assets		
Cash and deposits	5,393,580	7,871,870
Accounts receivable–trade	502,862	293,725
Prepaid expenses	33,375	47,640
Other	3,236	4,427
Allowance for doubtful accounts	(3,016)	(6,235)
Total current assets	5,930,037	8,211,428
Non-current assets		
Property, plant and equipment		
Buildings	79,118	108,219
Accumulated depreciation	(12,799)	(29,944)
Buildings, net	66,318	78,274
Tools, furniture and fixtures	48,177	72,707
Accumulated depreciation	(21,581)	(34,863)
Tools, furniture and fixtures, net	26,596	37,844
Total property, plant and equipment	92,914	116,118
Intangible assets		
Software	884	5,184
Total intangible assets	884	5,184
Investments and other assets		
Investment securities	163,128	127,536
Deferred tax assets	46,173	100,547
Leasehold deposits	187,291	478,235
Other	6,850	6,850
Total investments and other assets	403,444	713,168
Total non-current assets	497,244	834,471
Total assets	6,427,282	9,045,900

(Thousand yen)

	As of August 31, 2019	As of August 31, 2020
Liabilities		
Current liabilities		
Accounts payable—trade	105,482	110,882
Accounts payable—other	586,712	700,882
Accrued expenses	16,532	15,155
Income taxes payable	368,594	793,203
Deposits received	21,199	14,700
Other	155,272	320,045
Total current liabilities	1,253,794	1,954,870
Non-current liabilities		
Other	11,305	—
Total non-current liabilities	11,305	—
Total liabilities	1,265,100	1,954,870
Net assets		
Shareholders' equity		
Share capital	823,741	823,741
Capital surplus		
Legal capital surplus	801,491	801,491
Total capital surpluses	801,491	801,491
Retained earnings		
Other retained earnings		
Retained earnings brought forward	4,048,506	5,974,078
Total retained earnings	4,048,506	5,974,078
Treasury shares	(518,618)	(519,312)
Total shareholders' equity	5,155,122	7,079,998
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,955	7,122
Total valuation and translation adjustments	2,955	7,122
Share acquisition rights	4,104	3,909
Total net assets	5,162,181	7,091,030
Total liabilities and net assets	6,427,282	9,045,900

(2) Statement of Income

(Thousand yen)

	For the fiscal year ended August 31, 2019	For the fiscal year ended August 31, 2020
Net sales	5,077,679	6,916,705
Cost of sales	1,910,168	2,398,648
Gross profit	3,167,510	4,518,056
Selling, general and administrative expenses	1,280,527	1,536,634
Operating profit	1,886,983	2,981,421
Non-operating income		
Interest income	171	168
Dividend income	3,525	1,870
Other	—	33
Total non-operating income	3,696	2,072
Non-operating expenses		
Commission for purchase of treasury shares	1,037	—
Total non-operating expenses	1,037	—
Ordinary profit	1,889,643	2,983,494
Extraordinary income		
Gain on sales of investment securities	—	225,000
Gain on reversal of share acquisition rights	90	194
Total extraordinary income	90	225,194
Extraordinary losses		
Loss on valuation of investment securities	—	36,598
Total extraordinary losses	—	36,598
Profit before income taxes	1,889,733	3,172,090
Income taxes—current	553,975	1,025,720
Income taxes—deferred	(6,578)	(56,212)
Total income taxes	547,396	969,508
Profit	1,342,336	2,202,581

(3) Statement of Changes in Equity

For the fiscal year ended August 31, 2019

(Thousand yen)

(Thousand yen)

	Shareholders' equity							Valuation and translation adjustments		Share acquisition rights	Total net assets
	Share capital	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings						
				Retained earnings brought forward							
Balance at beginning of period	823,741	801,491	801,491	2,880,358	2,880,358	—	4,505,591	4,058	4,058	4,194	4,513,844
Changes during period											
Dividends of surplus				(174,187)	(174,187)		(174,187)				(174,187)
Profit				1,342,336	1,342,336		1,342,336				1,342,336
Purchase of treasury shares						(518,618)	(518,618)				(518,618)
Net changes in items other than shareholders' equity								(1,102)	(1,102)	(90)	(1,192)
Total changes during period	—	—	—	1,168,148	1,168,148	(518,618)	649,530	(1,102)	(1,102)	(90)	648,337
Balance at end of period	823,741	801,491	801,491	4,048,506	4,048,506	(518,618)	5,155,122	2,955	2,955	4,104	5,162,181

For the fiscal year ended August 31, 2020

(Thousand yen)

(Thousand yen)

	Shareholders' equity							Valuation and translation adjustments		Share acquisition rights	Total net assets
	Share capital	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings						
				Retained earnings brought forward							
Balance at beginning of period	823,741	801,491	801,491	4,048,506	4,048,506	(518,618)	5,155,122	2,955	2,955	4,104	5,162,181
Changes during period											
Dividends of surplus				(277,010)	(277,010)		(277,010)				(277,010)
Profit				2,202,581	2,202,581		2,202,581				2,202,581
Purchase of treasury shares						(694)	(694)				(694)
Net changes in items other than shareholders' equity								4,166	4,166	(194)	3,972
Total changes during period	—	—	—	1,925,571	1,925,571	(694)	1,924,876	4,166	4,166	(194)	1,928,848
Balance at end of period	823,741	801,491	801,491	5,974,078	5,974,078	(519,312)	7,079,998	7,122	7,122	3,909	7,091,030

(4) Statement of Cash Flows

(Thousand yen)

	For the fiscal year ended August 31, 2019	For the fiscal year ended August 31, 2020
Cash flows from operating activities		
Profit before income taxes	1,889,733	3,172,090
Depreciation	16,669	34,956
Loss (gain) on valuation of investment securities	—	36,598
Loss (gain) on sales of investment securities	—	(225,000)
Increase (decrease) in allowance for doubtful accounts	2,103	3,219
Interest and dividend income	(3,696)	(2,038)
Decrease (increase) in trade receivables	(350,674)	209,136
Increase (decrease) in trade payables	29,980	5,399
Increase (decrease) in accounts payable—other	144,478	114,046
Increase (decrease) in accrued consumption taxes	56,920	163,123
Other, net	35,086	(6,257)
Subtotal	1,820,600	3,505,273
Interest and dividends received	3,696	2,038
Income taxes paid	(457,461)	(618,323)
Net cash provided by (used in) operating activities	1,366,835	2,888,988
Cash flows from investing activities		
Purchase of property, plant and equipment	(28,153)	(56,911)
Purchase of intangible assets	—	(5,548)
Purchase of investment securities	(129,998)	—
Proceeds from sales of investment securities	—	230,000
Payments of leasehold and guarantee deposits	(39,768)	(301,725)
Proceeds from refund of leasehold and guarantee deposits	2,493	3,409
Other, net	(2,280)	(2,340)
Net cash provided by (used in) investing activities	(197,707)	(133,116)
Cash flows from financing activities		
Purchase of treasury shares	(519,655)	(694)
Dividends paid	(174,081)	(276,887)
Net cash provided by (used in) financing activities	(693,736)	(277,582)
Net increase (decrease) in cash and cash equivalents	475,391	2,478,290
Cash and cash equivalents at beginning of period	4,918,188	5,393,580
Cash and cash equivalents at end of period	5,393,580	7,871,870

(5) Notes to the Financial Statements
(Notes on going concern assumption)

There is no relevant information.

(Equity in earnings (losses) of affiliates)

There is no relevant information.

(Segment information)

(Segment information)

Business results by segment are omitted, as the Company comprises the single segment of the M&A brokerage business.

(Per share information)

	For the fiscal year ended August 31, 2019	For the fiscal year ended August 31, 2020
Net assets per share	¥270.00	¥370.98
Basic earnings per share	¥69.86	¥115.29
Diluted earnings per share	¥—	¥114.72

(Notes) 1. Diluted earnings per share are not shown for the fiscal year ended August 31, 2019 because there were no shares with a dilutive effect.

2. The basis for calculating basic earnings per share and diluted earnings per share is as follows.

	For the fiscal year ended August 31, 2019	For the fiscal year ended August 31, 2020
Basic earnings per share		
Profit (Thousand yen)	1,342,336	2,202,581
Amount not attributable to common shareholders (Thousand yen)	—	—
Profit relating to common shares (Thousand yen)	1,342,336	2,202,581
Average number of shares outstanding (common shares) during each fiscal year (Shares)	19,214,745	19,104,095
Diluted earnings per share		
Adjustment for profit (Thousand yen)	—	—
Increase in number of common shares (Shares)	—	94,924
(Share acquisition rights included in the above) (Shares)	(—)	(94,924)
Overview of residual shares not included in calculation of diluted earnings per share due to lack of dilutive effect	No. 2 share acquisition rights approved at Board meeting held on November 30, 2017: 1,140 units (common stock: 228,000 shares)	—

(Significant subsequent events)

There is no relevant information.