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## Summary of Non-Consolidated Financial Results for the Fiscal Year Ended August 31, 2020 (Based on Japanese GAAP)

October 15, 2020

Company name: and factory, inc  
 Stock exchange listing: Tokyo  
 Stock code: 7035 URL <https://andfactory.co.jp/>  
 Representative: Rinji Aoki, President and Representative Director  
 Contact: Tomoki Hasumi, Director Phone: +81-3-6712-7646  
 Scheduled date of General Meeting of Shareholders: November 25, 2020  
 Scheduled date to file annual securities report: November 26, 2020  
 Scheduled date to commence dividend payments: —  
 Preparation of supplementary material on annual financial results: Yes  
 Holding of annual financial results meeting: Yes

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

### 1. Non-Consolidated financial results for the Fiscal Year ended August 31, 2020 (From September 1, 2019 to August 31, 2020)

#### (1) Non-consolidated operating results (cumulative)

Percentages indicate year-on-year changes.

	Net sales		Operating income		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year ended August 31, 2020	2,946	(24.8)	(202)	—	(259)	—	(362)	—
Fiscal Year ended August 31, 2019	3,916	104.4	512	40.3	484	34.2	327	25.8

  

	Earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal Year ended August 31, 2020	(37.01)	—	(22.3)	(5.5)	(6.9)
Fiscal Year ended August 31, 2019	34.77	33.33	29.1	22.2	13.1

- Notes: 1. The Company's shares were listed on the Mothers market of the Tokyo Stock Exchange on September 6, 2018. For that reason, the average share price between the listing date and August 31, 2019 is used to calculate average diluted earnings per share for the fiscal year ended August 31, 2019.
2. Although dilutive shares exist, diluted earnings per share are not stated for the fiscal year ended August 31, 2020, as earnings per share were negative.

#### (2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of August 31, 2020	6,343	1,449	22.8	147.41
As of August 31, 2019	3,040	1,798	59.1	189.39

#### (3) Non-consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal Year ended August 31, 2020	(3,282)	(316)	3,274	1,028
Fiscal Year ended August 31, 2019	(114)	(415)	1,211	1,352

## 2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Total
Year ended August 31, 2019	—	0.00	—	0.00	0.00
Year ending August 31, 2020	—				
Year ending August 31, 2021 (Forecast)		0.00	—	0.00	0.00

## 3. Forecast of non-consolidated financial results for the year ending August 31, 2021 (From September 1, 2020 to August 31, 2021)

Percentages indicate year-on-year changes.

	Net sales		Operating income		Ordinary profit		Profit		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	3,540	20.2	(27)	—	(177)	—	(182)	—	(18.66)

## 4. Notes

### (1) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: No

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

### (2) Number of issued shares (common stock)

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

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

As of August 31, 2020	9,827,120 shares	As of August 31, 2019	9,494,640 shares
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Number of treasury shares at the end of the period

As of August 31, 2020	257 shares	As of August 31, 2019	189 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Fiscal year ended August 31, 2020	9,782,799 shares	Fiscal year ended August 31, 2019	9,430,227 shares
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Note: The Company conducted a two-for-one split of common stock on August 1, 2019. The average number of shares during the fiscal year ended August 31, 2019 is calculated as if the stock split had occurred on September 1, 2018.

Notes: This financial report is exempt from the review.

Explanation about appropriate usage of business forecasts and other special notes:

The forecasts above are based on the judgments made on the basis of currently available information. Forecasts therefore include risks and uncertainties. Actual figures may differ from these forecasts due to subsequent changes in circumstances.

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## 1. Overview of Operating Performance

### (1) Overview of Business Results

In the fiscal year ended August 31, 2020, the Japanese economy continued to experience gradual recovery, buoyed by improvements in the employment and income environments. However, concerns about a stagnation in economic activity mounted and the outlook grew increasingly uncertain as the novel coronavirus disease (COVID-19) spread, both in Japan and globally. Going forward, we will continue to monitor the impact of COVID-19 on our business, as we recognize the need to mount countermeasures at an early stage.

The e-book market (the Company's main business category) continued to grow, according to the eBook Marketing Report 2020 by Impress Research Institute. According to this report, the e-book market had a value of ¥347.3 billion in fiscal 2019, up 22.9% from the previous year's figure of ¥282.6 billion. Comics accounted for 86.1% of the total, or ¥298.9 billion. The same institute's report for the previous year, the eBook Marketing Report 2019, had forecast that the e-book market would reach a value of ¥333.2 billion in fiscal 2019. The actual figure exceeded this forecast. By fiscal 2024, the institute forecasts that the e-publishing market (including e-books) will grow by approximately 50% from fiscal 2019, to ¥566.9 billion.

The IoT business, another area of focus for the Company, is also attracting attention. This field involves adding communication functionality to physical items around the world (not just to computers and other information and telecommunication equipment), enabling them to connect and communicate over the internet. Given the advances that are occurring in internet technologies, as well as various types of sensor technologies, the number of items connected over the internet (IoT devices) is projected to grow by around 50% from approximately 22.7 billion items in 2018 to some 34.8 billion items in 2022 (source: 2020 White Paper on Information and Communications in Japan, Ministry of Internal Affairs and Communications).

In this business environment, the Company pursues a mission to make people's lives more fulfilling by bringing a little "something extra" to their daily lives. In the Smartphone Apps business, the Company has focused mainly on expanding earnings from smartphone manga apps developed in collaboration with large publishers. In the IoT business segment, the Company is promoting the adoption of technology in the lodging business. In line with this business policy, we are concentrating on the launch of &AND HOSTEL smart hostels, a lodging management system (innto), a guest room tablet service (tabii), and the provision of other IoT solution services for lodging facilities. As a new initiative in the rental property market, we have released a communication app (toto) to connect management companies and residents.

However, the spread of COVID-19 led to deterioration of the advertising market, and advertising revenue from manga apps declined. Also, in the &AND HOSTEL business the Company decided to postpone or discontinue planning and development projects that were underway. Furthermore, following the government declaration of a state of emergency we suspended operation of &AND HOSTEL locations to halt the spread of the disease, prompting a decline in profits.

As a result of these activities, in the fiscal year ended August 31, 2020, the Company generated net sales of ¥2,946,007 thousand (down 24.8% year on year), an operating loss of ¥202,589 thousand (operating income of ¥512,352 thousand in the corresponding period of the previous fiscal year), an ordinary loss of ¥259,767 thousand (ordinary profit of ¥484,200 thousand in the previous fiscal year), and a net loss of ¥362,077 thousand (net income of ¥327,918 thousand in the previous fiscal year).

#### (1) Smartphone Apps business

In the fiscal year ended August 31, 2020, the Company implemented proactive advertising for existing manga apps, such as Manga UP!, Manga Park, and Manga Mee, conducted new series launches, and saw a rise in demand as people exercised voluntary self-isolation. As a result, the number of monthly active users (MAUs\*<sup>1</sup>) increased. Extending the availability of popular content and new manga additions resulted in the favorable post-launch performance of services. Additionally, MAUs have been increasing steadily, contributing to earnings, since the release in May 2020 of Young Jump, a manga app jointly developed with SHUEISHA Inc., and the release in May 2020 of Mecha Comic's Mainichi Rensai, a manga app jointly developed with Amutus Corporation.

However, average revenue per user (ARPU\*<sup>2</sup>) was flat, due in part to the reduction in unit reward prices by some advertisers and partly because of the deleterious overall effect of COVID-19 on the advertising market. Overall, sales continue to grow solidly, and we are investing aggressively in advertising.

As a result, in the fiscal year ended August 31, 2020, sales in the Smartphone Apps business were ¥2,530,187 thousand (up 41.4% year on year). Segment profit came to ¥351,684 thousand (down 41.4% year on year).

\*1 The number of people who use an app at least once in a month

\*2 The average amount of revenue generated per person

Of the smartphone apps the Company operates in the Smartphone Apps business, the following table outlines average MAUs by quarter for the Saikyo series and manga apps.

(Thousands of people)

	Average MAUs	
	Saikyo series	Manga apps
November 30, 2015	260	—
February 29, 2016	250	—
May 31, 2016	250	—
August 31, 2016	260	—
November 30, 2016	590	—
February 28, 2017	700	—
May 31, 2017	710	310
August 31, 2017	670	650
November 30, 2017	920	1,080
February 28, 2018	700	1,500
May 31, 2018	530	2,040
August 31, 2018	470	2,380
November 30, 2018	510	2,790
February 28, 2019	390	3,620
May 31, 2019	300	4,300
August 31, 2019	290	5,320
November 30, 2019	270	6,410
February 29, 2020	160	7,200
May 31, 2020	130	9,060
August 31, 2020	90	9,940

Note: the average MAUs shown above are quarterly averages.

## (2) IoT business

In the fiscal year ended August 31, 2020, the Company made progress on ongoing planning and development work for its mainstay &AND HOSTEL brand of smart hostels (lodging facilities offering experiences made possible through IoT). We opened four new facilities, and sales from consulting related to hostel development grew steadily. However, from the third quarter we decided to suspend or halt all planning and development work, due to the impact of COVID-19. Other locations closed to rebrand following a change in ownership, bringing the number of facilities in operation as of August 31, 2020 to eight.

Furthermore, in line with the government's declaration of a state of emergency, from April 8, 2020 we sequentially and temporarily suspended operations of all &AND HOSTEL locations. We recommenced operations on July 1, after the state of emergency was lifted. However, we faced a lack of demand from our main target customers—inbound tourists. Accordingly, operating revenue at each location fell year on year, lowering segment sales.

For our guest room tablet service (tabii), we strengthened relations with partner companies such as H.I.S. Hotel Holdings Co., Ltd. and TEPCO Energy Partner, Inc., expanded sales teams, and engaged in active development efforts to create new functions aimed at boosting operating efficiency and increasing added value. Even so, sales activities were down from usual levels as COVID-19 caused the operating environment to deteriorate among the facilities we target with this service. As a result, the total number of tabii tablets in operation as of August 31, 2020 stood at 4,460 (up 1,607 from August 31, 2019). The

Company brought the number of facilities using its lodging management system (innto) up to 272 as of August 31, 2020 (up by 40 facilities from August 31, 2019). Moving toward the end of the fiscal year, tabii and innto businesses both began to recover, benefiting from a rise in demand associated with increased operational efficiency and a desire to avoid the “3Cs” (closed spaces, crowded places, and close-contact settings).

Consequently, in the fiscal year ended August 31, 2020, sales in the IoT business came to ¥336,563 thousand (down 83.6% year on year), with segment losses of ¥187,064 thousand (profit of ¥194,434 thousand in the previous year).

### (3) Other businesses

The majority of earnings in this segment comes from the Company’s internet advertising agency services. In the fiscal year ended August 31, 2020, Other businesses reported sales of ¥79,257 thousand (up 10.7% year on year) and segment profit of ¥30,593 thousand (up 128.0% year on year).

## (2) Overview of Financial Condition

### (Assets)

As of August 31, 2020, total assets amounted to ¥6,343,848 thousand, up ¥3,303,611 thousand from August 31, 2019. Key increases included real estate for sale, which rose ¥3,163,946 thousand, and investment securities, which increased ¥150,184 thousand due to the acquisition of shares in unlisted companies.

### (Liabilities)

Total liabilities amounted to ¥4,894,163 thousand as of August 31, 2020, up ¥3,652,050 thousand from August 31, 2019. Major increases included short-term borrowings, up ¥450,000 thousand, and long-term borrowings (including the current portion of long-term borrowings), which rose ¥2,810,754 thousand.

### (Net assets)

As of August 31, 2020, net assets totaled ¥1,449,684 thousand, down ¥348,438 thousand from August 31, 2019. Notably, the Company posted a net loss, causing retained earnings to fall ¥362,077 thousand.

The equity ratio came to 22.8% (compared with 59.1% as of August 31, 2019).

## (3) Overview of Cash Flows

As of August 31, 2020, cash and cash equivalents amounted to ¥1,028,320 thousand, down ¥324,613 thousand from August 31, 2019.

### (Cash flows from operating activities)

In the fiscal year ended August 31, 2020, net cash used in operating activities came to ¥3,282,905 thousand, up from ¥114,945 thousand used in these activities in the fiscal year ended August 31, 2019. Specifically, a pretax loss used ¥388,483 thousand, and an increase in inventories used ¥2,908,499 thousand.

### (Cash flows from investing activities)

Investing activities used net cash of ¥316,099 thousand, up from ¥415,747 thousand used in these activities in the previous fiscal year. Major uses of cash included ¥91,353 thousand for the acquisition of intangible assets, ¥45,881 thousand for payments of leasehold and guarantee deposits, and ¥160,144 thousand for the acquisition of investment securities.

### (Cash flows from financing activities)

Net cash provided by financing activities was ¥3,274,392 thousand, up from ¥1,211,132 thousand provided by these activities in the fiscal year ended August 31, 2019. This figure was chiefly due to ¥2,931,702 thousand in proceeds from long-term borrowings to fund the acquisition of real estate for sale.

#### (4) Outlook

The Company engages in the Smartphone Apps and IoT businesses, which are characterized by rapid technological innovation. In addition, the market environment is changing swiftly due to a new influx of companies anticipating market growth.

To further expand its field of business and achieve growth and development, the Company's management team recognizes the need to address various issues in its fast-changing business environment. We aim to maximize corporate value by continuing to develop high-value services and invest aggressively in growth initiatives and sustaining efforts to achieve growth and profitability.

In the fiscal year ending August 31, 2021, in the Smartphone Apps business we will continue working to acquire new manga app development projects. We will also continue to invest proactively in promotions, taking profitability into consideration in line with growth in the e-book market. In addition to manga apps, we will focus on business development initiatives as we seek to create new sources of earnings.

In the IoT business, &AND HOSTEL operations are being affected by restrictions on overseas travel to Japan, as foreign visitors make up the majority of customers. As this situation persists, we doubt these operations will recover to pre-COVID-19 levels any time soon. We are working to restore short-term occupancy rates by shifting our focus to domestic demand. Alongside this effort, we are working to secure earnings over the long term by rebranding and pursuing business development in new areas. We will continue investing to expand functions for innto (a reservation management system) and tabii (a guest room tablet service). The COVID-19 pandemic is driving up demand in these categories, and we are working to expand earnings by leveraging this growth trajectory. We will also move forward with initiatives to create a new revenue base through totono (a communication app to connect management companies and residents) through active sales by developing functions to expand the service.

As a result of these efforts, in the fiscal year ending August 31, 2021, we forecast net sales of ¥3,540 million (up 20.2% year on year), an operating loss of ¥27 million (compared with an operating loss of ¥202 million in the fiscal year ended August 31, 2020), an ordinary loss of ¥177 million (ordinary loss of ¥259 million), and a net loss of ¥182 million (net loss of ¥362 million).

These forecasts are based on information available to management as of the date of this announcement. Actual performance may vary substantially from these forecasts for a variety of reasons.

## 2. Fundamental Perspective on the Selection of Financial Standards

We plan to prepare our financial statements according to Japanese GAAP for the foreseeable future to enable comparison of the financial statements between fiscal years.

With regard to the application of IFRS, we will respond appropriately after giving due consideration to various circumstances in Japan and overseas.

### 3. Non-Consolidated Financial Statements

#### (1) Non-Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2019	As of August 31, 2020
Assets		
Current assets		
Cash and deposits	1,352,934	1,028,320
Accounts receivable—trade	484,044	622,887
Work in process	7,880	7,366
Real estate for sale in process	276,102	—
Real estate for sale	—	3,163,946
Advances paid	278,451	417,388
Income taxes receivable	—	128,403
Consumption taxes receivable	—	213,333
Other	53,424	80,293
Allowance for doubtful accounts	—	(15)
Total current assets	2,452,838	5,661,925
Non-current assets		
Property, plant and equipment		
Buildings	64,992	47,356
Machinery and equipment	—	1,088
Tools, furniture and fixtures	44,838	52,618
Construction in progress	1,922	—
Accumulated depreciation	(35,249)	(79,903)
Total property, plant and equipment	76,503	21,159
Intangible assets		
Software	129,520	131,778
Software in progress	807	—
Total intangible assets	130,327	131,778
Investments and other assets		
Investment securities	78,597	228,781
Leasehold and guarantee deposits	262,763	289,486
Deferred tax assets	28,194	—
Other	11,011	10,717
Total investments and other assets	380,566	528,984
Total non-current assets	587,398	681,922
Total assets	3,040,236	6,343,848



(Thousands of yen)

	As of August 31, 2019	As of August 31, 2020
Liabilities		
Current liabilities		
Accounts payable–trade	98,301	358,975
Short-term borrowings	65,000	515,000
Current portion of long-term borrowings	339,093	270,608
Accounts payable–other	400,872	662,348
Income taxes payable	108,757	—
Provision for bonuses	—	3,375
Provision for shareholder benefit program	10,296	38,527
Other	72,396	9,257
Total current liabilities	1,094,717	1,858,092
Non-current liabilities		
Long-term borrowings	147,395	3,026,634
Long-term guarantee deposits	—	9,437
Total non-current liabilities	147,395	3,036,071
Total liabilities	1,242,112	4,894,163
Net assets		
Shareholders' equity		
Share capital	543,263	549,720
Capital surplus		
Legal capital surplus	542,174	548,361
Total capital surpluses	542,174	548,361
Retained earnings		
Other retained earnings		
Retained earnings brought forward	713,138	351,061
Total retained earnings	713,138	351,061
Treasury shares	(452)	(572)
Total shareholders' equity	1,798,123	1,448,569
Share acquisition rights	—	1,114
Total net assets	1,798,123	1,449,684
Total liabilities and net assets	3,040,236	6,343,848

# Non-Consolidated Statements of Income

## (2) Non-Consolidated Statements of Income

(Thousands of yen)

	For the fiscal year ended August 31, 2019	For the fiscal year ended August 31, 2020
Net sales	3,916,746	2,946,007
Cost of sales	2,350,170	1,372,426
Gross profit	1,566,576	1,573,581
Selling, general and administrative expenses	1,054,224	1,776,170
Operating profit (loss)	512,352	(202,589)
Non-operating income		
Interest income	35	28
Gain on transfer of business	2,000	—
Surrender value of insurance policies	—	743
Other	50	132
Total non-operating income	2,085	903
Non-operating expenses		
Interest expenses	8,207	20,448
Share issuance cost	5,238	—
Loss on valuation of investment securities	1,009	—
Commission expenses	14,954	37,634
Other	828	—
Total non-operating expenses	30,237	58,082
Ordinary profit (loss)	484,200	(259,767)
Extraordinary losses		
Temporary closure loss	—	44,916
Impairment loss	—	73,839
Loss on valuation of investment securities	—	9,959
Total extraordinary losses	—	128,715
Profit (loss) before income taxes	484,200	(388,483)
Income taxes—current	148,982	(54,600)
Income taxes—deferred	7,299	28,194
Total income taxes	156,281	(26,406)
Profit (loss)	327,918	(362,077)

## (3) Non-Consolidated Statements of Changes in Equity

Fiscal year ended August 31, 2019 (September 1, 2018 to August 31, 2019)

(Thousands of yen)

	Shareholders' equity							Total net assets
	Share capital	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity	
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings			
				Retained earnings brought forward				
Balance at beginning of period	34,420	33,420	33,420	385,220	385,220	—	453,060	453,060
Changes during period								
Issuance of new shares	508,346	508,346	508,346				1,016,692	1,016,692
Issuance of new shares (exercise of share acquisition rights)	497	407	407				905	905
Acquisition of treasury shares						(452)	(452)	(452)
Profit				327,918	327,918		327,918	327,918
Total changes during period	508,843	508,753	508,753	327,918	327,918	(452)	1,345,063	1,345,063
Balance at end of period	543,263	542,174	542,174	713,138	713,138	(452)	1,798,123	1,798,123

Fiscal year ended August 31, 2020 (September 1, 2019 to August 31, 2020)

(Thousands of yen)

	Shareholders' equity							Share acquisition rights	Total net assets
	Share capital	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings				
				Retained earnings brought forward					
Balance at beginning of period	543,263	542,174	542,174	713,138	713,138	(452)	1,798,123	—	1,798,123
Changes during period									
Issuance of new shares (exercise of share acquisition rights)	6,456	6,187	6,187				12,643		12,643
Acquisition of treasury shares						(120)	(120)		(120)
Profit (loss)				(362,077)	(362,077)		(362,077)		(362,077)
Net changes in items other than shareholders' equity							—	1,114	1,114
Total changes during period	6,456	6,187	6,187	(362,077)	(362,077)	(120)	(349,553)	1,114	(348,438)
Balance at end of period	549,720	548,361	548,361	351,061	351,061	(572)	1,448,569	1,114	1,449,684

## (4) Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended August 31, 2019	Fiscal year ended August 31, 2020
Cash flows from operating activities		
Profit (loss) before income taxes	484,200	(388,483)
Depreciation	44,843	132,788
Share issuance costs	5,238	—
Impairment loss	—	73,839
Losses due to the temporary suspension of operations	—	44,916
Loss (gain) on sale of businesses	(2,000)	—
Loss (gain) on valuation of investment securities	1,009	9,959
Increase (decrease) in allowance for doubtful accounts	(567)	15
Increase (decrease) in provision for bonuses	(24,078)	3,375
Increase (decrease) in provision for bonuses for directors (and other officers)	(15,621)	—
Increase (decrease) in provision for shareholder benefit program	10,296	28,231
Interest income	(35)	(28)
Interest expenses	8,207	20,448
Decrease (increase) in trade receivables	(181,791)	(138,843)
Decrease (increase) in inventories	(267,164)	(2,908,499)
Decrease (increase) in prepaid expenses	(7,182)	(5,515)
Decrease (increase) in advances paid	(192,416)	(138,937)
Decrease (increase) in consumption tax refunds receivable	—	(213,333)
Increase (decrease) in trade payables	35,711	260,673
Increase (decrease) in accounts payable - other	112,979	261,632
Other, net	31,195	(83,845)
Subtotal	42,823	(3,041,605)
Interest and dividends received	35	28
Interest paid	(8,134)	(22,358)
Payments related to the temporary suspension of operations	—	(44,916)
Income taxes paid	(149,670)	(183,167)
Income tax refunds	—	9,114
Net cash provided by (used in) operating activities	(114,945)	(3,282,905)
Cash flows from investing activities		
Purchase of property, plant and equipment	(19,446)	(23,108)
Purchase of intangible assets	(108,491)	(91,353)
Payments of leasehold and guarantee deposits	(217,698)	(45,881)
Proceeds from refund of leasehold and guarantee deposits	—	2,821
Purchase of investment securities	(68,637)	(160,144)
Proceeds from sale of businesses	2,000	—
Other, net	(3,473)	1,565
Net cash provided by (used in) investing activities	(415,747)	(316,099)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	—	450,000
Proceeds from long-term borrowings	1,668,297	2,931,702
Repayments of long-term borrowings	(1,469,071)	(120,949)
Proceeds from issuance of shares	1,011,453	—
Other, net	453	13,638
Net cash provided by (used in) financing activities	1,211,132	3,274,392
Net increase (decrease) in cash and cash equivalents	680,439	(324,613)
Cash and cash equivalents at beginning of period	672,495	1,352,934
Cash and cash equivalents at end of period	1,352,934	1,028,320

## (5) Notes to the Non-Consolidated Financial Statements

### (Notes Related to the Going Concern Assumption)

Not applicable

### (Changes in Presentation Method)

#### (Non-Consolidated Balance Sheets)

For the fiscal year ended August 31, 2019, “prepaid expenses” were presented as an independent line item within “current assets.” However, due to their reduced financial importance, these expenses were included in “other” within “current assets” in the fiscal year ended August 31, 2020. The financial statements for the fiscal year ended August 31, 2019 have been restated to reflect this change in presentation method.

As a result, in the non-consolidated balance sheets for the fiscal year ended August 31, 2019, the ¥20,902 thousand amount in “prepaid expenses” has been restated to ¥20,902 thousand in “other” within “current assets.”

### (Additional Information)

#### (Accounting Estimates)

The spread of COVID-19 continues to impact the economy, and the Company’s business activities are being affected, as well. Advertising revenue from manga apps is shrinking as the advertising market deteriorates. Due to the declaration of a state of emergency, we have temporarily suspended operations at the &AND HOSTEL locations we operate and delayed development of hostels, affecting operating performance. Accurately forecasting when these conditions might improve is difficult. However, based on the information available at the time these financial statements were prepared, for the purposes of making accounting estimates (such as the valuation of real estate for sale, decisions on whether to post impairment losses on fixed assets, and decisions on the recoverability of deferred tax assets) we have assumed that the pandemic will continue to affect performance in the fiscal year ending August 31, 2021 and that the effect will gradually diminish from the fiscal year ending August 31, 2022.

As it is difficult at present to accurately estimate when the pandemic will subside, our financial condition and operating performance could be affected due to changes in the assumptions mentioned above.

### (Related to the Non-Consolidated Statements of Income)

#### \* Losses due to the temporary suspension of operations

When the Japanese government declared a state of emergency due to the spread of COVID-19, we temporarily suspended operations at our hostel locations. As a result, we posted extraordinary losses stemming from fixed costs generated by individual hostels during the period operations were suspended (such as personnel and outsourcing expenses), as well as other losses related to the temporary suspension of operations.

(Segment Information, etc.)

[Segment Information]

1. Overview of reportable segments

(1) Method of determining reportable segments

The Company's reportable segments are those constituent units for which separate financial information is available, and which the Board of Directors regularly examines to determine the allocation of management resources and assess performance.

We have established independent reportable segments, as the segments handle products with different characteristics and have different earnings and financial structures and sales strategies.

(2) Categories of products and services belonging to the reportable segments

The Smartphone Apps business mainly involves the development and operation of smartphone apps. We also sell mobile ad space within these apps.

In the IoT business, we engage mainly in the planning and development of the &AND HOSTEL brand of smart hostels, as well as the provision of IoT solution services for lodging facilities.

2. Methods for determining amounts of sales, profits or losses, assets, and other items for individual reportable segments

Methods of accounting treatment for reportable business segments are generally the same as the methods of accounting treatment used in preparing the financial statements.

Profit from reportable segments is based on operating income or operating losses.

3. Information related to sales, profits or losses, assets, liabilities and other items for each reportable segment

Fiscal year ended August 31, 2019 (from September 1, 2018 to August 31, 2019)

	Reportable segments			(Thousands of yen)	
	Smartphone APPs	IoT	Total	Other	Total
Net Sales					
Sales to external customers	1,789,329	2,055,838	3,845,167	71,579	3,916,746
Intersegment sales or transfer	—	—	—	—	—
Total	1,789,329	2,055,838	3,845,167	71,579	3,916,746
Segment profit (loss)	599,641	194,434	794,076	13,418	807,494
Segment assets	797,381	452,374	1,249,755	13,223	1,262,979
Other items					
Depreciation	27,629	12,921	40,551	—	40,551
Increase in property, plant and equipment and intangible assets	114,517	11,311	125,829	—	125,829

Note: The "Other" category, a business segment not included in the reportable segments, mainly involves the internet advertising agency business.

Fiscal year ended August 31, 2020 (from September 1, 2019 to August 31, 2020)

(Thousands of yen)

	Reportable segments			Other	Total
	Smartphone APPs	IoT	Total		
Net Sales					
Sales to external customers	2,530,187	336,563	2,866,750	79,257	2,946,007
Intersegment sales or transfer	—	—	—	—	—
Total	2,530,187	336,563	2,866,750	79,257	2,946,007
Segment profit (loss)	351,684	(187,064)	164,620	30,593	195,213
Segment assets	1,438,442	3,705,829	5,144,272	16,994	5,161,266
Other items					
Depreciation	75,283	47,034	122,318	—	122,318
Increase in property, plant and equipment and intangible assets	80,522	27,832	108,354	—	108,354

Notes: 1. The “Other” category, a business segment not included in the reportable segments, mainly involves the internet advertising agency business.

2. Information related to losses on the impairment of fixed assets or goodwill for each reportable segment

(Significant impairment losses related to fixed assets)

In the Smartphone Apps business segment, the Company recorded an impairment loss of ¥44,354 thousand on fixed assets for business use.

In the IoT business segment, the Company recorded an impairment loss of ¥7,657 thousand on fixed assets for business use.

In company-wide assets and eliminations, the Company recorded an impairment loss of ¥21,826 thousand on company-wide fixed assets that belong to no individual segment.

4. Total amounts for reportable segments and the main reasons for discrepancies between these values and figures stated in the non-consolidated financial statements (matters related to the adjustment of discrepancies)

(Thousands of yen)

Net sales	Fiscal year ended August 31, 2019	Fiscal year ended August 31, 2020
Subtotal for reportable segments	3,845,167	2,866,750
Sales from “Other” businesses	71,579	79,257
Net sales in the financial statements	3,916,746	2,946,007

(Thousands of yen)

Income	Fiscal year ended August 31, 2019	Fiscal year ended August 31, 2020
Subtotal for reportable segments	794,076	164,620
Income (losses) from “Other” businesses	13,418	30,593
Company-wide expenses (Note)	(295,142)	(397,802)
Operating income (loss) in the financial statements	512,352	(202,589)

Note: Company-wide expenses are mainly general and administrative expenses not attributable to reportable segments.

(Thousands of yen)

Assets	Fiscal year ended August 31, 2019	Fiscal year ended August 31, 2020
Subtotal for reportable segments	1,249,755	5,144,272
Assets categorized as “Other”	13,223	16,994
Company-wide assets (Note)	1,777,257	1,182,581
Total assets in the financial statements	3,040,236	6,343,848

Note: Company-wide assets are mainly cash and deposits not attributable to reportable segments.

(Thousands of yen)

Other items	Subtotal for reportable segments		Other		Adjustment		Amount presented in the financial statements	
	Fiscal year ended August 31, 2019	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2019	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2019	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2019	Fiscal year ended August 31, 2020
Depreciation	40,551	122,318	—	—	4,291	10,470	44,843	132,788
Increase in property, plant and equipment and intangible assets	125,829	108,354	—	—	15,425	6,900	141,254	115,254

Note: Adjustments to increases in property, plant and equipment and intangible assets are mainly the costs of acquiring headquarters buildings and software not attributable to reportable segments.

(Equity-Method Gains and Losses)

Not applicable



## (Per-Share Information)

	Fiscal year ended August 31, 2019	Fiscal year ended August 31, 2020
Net assets per share	¥189.39	¥147.41
Basic earnings (losses) per share	¥34.77	¥(37.01)
Diluted earnings per share	¥33.33	—

Notes: 1. Based on a resolution passed at a Board of Directors meeting on July 12, 2019, a two-for-one split on common stock was conducted on August 1, 2019. Net assets per share, basic earnings (losses) per share, and diluted earnings per share are calculated as if the stock split had occurred at the beginning of the fiscal year ended August 31, 2019.

2. Although dilutive shares exist, diluted earnings per share are not calculated for the fiscal year ended August 31, 2020, as the Company recorded a loss for the year.

3. The basis for calculating basic earnings (losses) per share and diluted earnings per share is as follows.

	Fiscal year ended August 31, 2019	Fiscal year ended August 31, 2020
Basic earnings (losses) per share		
Profit (loss) (thousands of yen)	327,918	(362,077)
Amount not attributable to common shareholders (thousands of yen)	—	—
Profit (loss) attributable to common shareholders (thousands of yen)	327,918	(362,077)
Average number of shares of common stock during the period (shares)	9,430,227	9,782,799
Diluted earnings per share		
Adjusted profit (thousands of yen)	—	—
Increase in common stock (shares)	408,696	—
Overview of potential shares not included in the calculation of diluted earnings per share as they have no dilutive effect	—	—

4. The basis for calculating net assets per share is as follows.

	August 31, 2019	August 31, 2020
Total net assets (thousands of yen)	1,798,123	1,449,684
Deductions from total net assets (thousands of yen)	—	1,114
(Of which, share acquisition rights (thousands of yen))	(—)	(1,114)
Net assets for common stock at year-end (thousands of yen)	1,798,123	1,448,569
Number of shares of common stock at year-end used in calculating net assets per share (shares)	9,494,451	9,826,863

(Significant Subsequent Events)

Not applicable