

Translation

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Summary of Financial Results for the Six Months Ended September 30, 2020 (Based on Japanese GAAP)

November 13, 2020

Company name: kaonavi, inc.
Listed stock exchange: Tokyo
Stock code: 4435 URL <https://corp.kaonavi.jp/en>
Representative: Representative Director, President & CEO Hiroki Yanagihashi
Inquiries: Director & CFO Kimitaka Hashimoto TEL 03(5775)3823
Scheduled date to file Quarterly Securities Report: November 13, 2020
Scheduled date to commence dividend payments: —
Supplementary materials: Yes
Meeting for institutional investors and analysts: Yes

(Figures are rounded to the nearest million yen)

1. Financial results for the six months ended September 30, 2020 (April 1, 2020 - September 30, 2020)

(1) Operating results (cumulative)

(Percentages show the change from the same period of previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Net profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2020	1,575	30.1	161	—	159	—	86	—
Six months ended September 30, 2019	1,211	—	(4)	—	(5)	—	(7)	—

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2020	7.68		6.93	
Six months ended September 30, 2019	(0.61)		—	

Note: "Diluted earnings per share" for six months ended September 30, 2019 is not presented because of the current net loss.

Note: On January 1, 2020, the Company conducted a two-for-one stock split of common stock. "Earnings per share" and "Diluted earnings per share" calculated assuming the stock split was conducted at the beginning of the previous fiscal year.

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2020	2,853	1,144	40.1
As of March 31, 2020	2,398	995	41.5

Reference: Shareholders' equity

September 30, 2020: 1,144million yen

March 31, 2020: 995 million yen

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2020	—	0.00	—	0.00	0.00
Year ending March 31, 2021	—	0.00			
Year ending March 31, 2021 (forecast)			—	0.00	0.00

Note: Amendments to dividend forecast compared with the most recent disclosure: None

3. Forecast for the fiscal year ending March 31, 2021 (April 1, 2020 - March 31, 2021)

(Percentages show the change from the same period of previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Net profit		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	3,340	27.2	(210)	—	(216)	—	(330)	—	(29.28)
	~3,400	~29.5	~90	~—	~84	~—	~(30)	~—	~(2.69)

Note: Revisions of most recent financial results forecast: Yes

Note: The figures are shown in a range.

Note: The full-year financial forecast for the fiscal year ending March 31, 2021 is now presented after reviewing the recent business trends which we could not foresee before due to the spread of COVID-19.

The spread of COVID-19 had an impact on our business activities, including sluggish lead generation and prolonged lead time to closing, however, the business environment surrounding the Company has been improving since late May when the state of emergency was lifted. Net sales are expected to increase by between 27.2 and 29.5% YoY. This forecast reflects the outlook that the pace of new customer acquisition will recover steadily, and that churn will go up as the business conditions of existing customers in certain industries deteriorate along with economic contraction. Gross profit is expected to be between 2,390 and 2,490 million yen, with the ratio from 71.6 to 73.2%.

Considering the solid results of lead generation since the end of the first quarter, the Company plans to invest in advertising proactively in the second half year. In addition, the Company plans to intensively hire sales reps and engineers along with its business expansion. Those lead to considerable increase of operating cost. The Company also expects to record expenses associated with headquarters relocation of 178 million yen, of which 108 million yen will be recorded as extraordinary loss.

From the mid-to-long term perspective of enhancing corporate value, the Company focuses more on future business growth than immediate profitability. The Company intends to balance disciplined expense management with flexible growth investments in line with the business surroundings while working to ensure stable business and financial operations to cope with the uncertainty of external environment.

4. Notes

- (1) Application of special accounting methods for preparing quarterly financial statements: Yes

(Calculation of tax expenses)

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after application of tax-effect accounting to profit before income taxes for the fiscal year including the first half of the fiscal year under review, with quarterly profit before income taxes then multiplied by the estimated effective tax rate.

However, in the event that this tax expense calculation using estimated effective tax rate results in a significantly improbable figure, a method using the statutory effective tax rate may be adopted.

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

- 1) Changes in accounting policies due to revisions to accounting standards and other regulations: None
- 2) Changes in accounting policies due to other reasons: None
- 3) Changes in accounting estimates: None
- 4) Restatement of prior period financial statements: None

- (3) Number of shares outstanding (common shares)

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

As of September 30, 2020: 11,308,800 shares As of March 31, 2020: 10,945,000 shares

- 2) Number of treasury stock at the end of period

As of September 30, 2020: 208 shares As of March 31, 2020: 134 shares

- 3) Average number of shares outstanding during the period

Six months ended September 30, 2020: 11,233,369 shares Six months ended September 30, 2019: 10,837,000 shares

Note: On January 1, 2020, the Company conducted a two-for-one stock split of common stock. "Total number of issued shares at the end of the period", "Number of treasury stock at the end of period" and "Average number of shares outstanding during the period" calculated assuming the stock split was conducted at the beginning of the previous fiscal year.

This quarterly report of financial results is out of scope of quarterly review procedures conducted by independent auditors.

*** Cautionary statement with respect to forward-looking statements**

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

Quarterly Financial Statements

1. Balance Sheets

(Thousands of yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	1,634,775	1,926,439
Accounts receivable - trade	173,650	165,532
Prepaid expenses	55,436	86,276
Other	59	2,110
Allowance for doubtful accounts	(681)	(379)
Total current assets	1,863,239	2,179,978
Non-current assets		
Property, plant and equipment		
Buildings	7,765	7,765
Accumulated depreciation	(7,765)	(7,765)
Buildings, net	—	—
Tools, furniture and fixtures	32,543	33,708
Accumulated depreciation	(17,628)	(21,694)
Tools, furniture and fixtures, net	14,916	12,014
Construction in progress	—	85,800
Total property, plant and equipment	14,916	97,814
Intangible assets		
Software	18,583	16,330
Total intangible assets	18,583	16,330
Investments and other assets		
Investment securities	20,600	53,918
Guarantee deposits	480,178	480,178
Long-term prepaid expenses	130	24,885
Claims provable in bankruptcy, claims provable in rehabilitation and other	97	97
Allowance for doubtful accounts	(97)	(16)
Total investments and other assets	500,908	559,061
Total non-current assets	534,406	673,205
Total assets	2,397,645	2,853,183

(Thousands of yen)

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	30,746	33,771
Current portion of long-term loans payable	122,066	112,346
Accounts payable - other	133,661	199,403
Accrued expenses	120,807	163,589
Income taxes payable	16,174	54,989
Deposits received	13,807	9,811
Deferred revenue	599,925	776,949
Provision for share-based compensation	—	10,714
Other	24,513	58,722
Total current liabilities	1,061,699	1,420,294
Non-current liabilities		
Long-term loans payable	340,590	288,450
Total non-current liabilities	340,590	288,450
Total liabilities	1,402,289	1,708,744
Net assets		
Shareholders' equity		
Capital stock	1,018,269	1,049,820
Capital surplus		
Legal capital surplus	1,008,269	1,039,820
Total capital surplus	1,008,269	1,039,820
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(1,030,761)	(944,448)
Total retained earnings	(1,030,761)	(944,448)
Treasury stock	(422)	(792)
Total shareholders' equity	995,356	1,144,399
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	—	40
Total Valuation and translation adjustments	—	40
Total net assets	995,356	1,144,439
Total liabilities and net assets	2,397,645	2,853,183

2. Statements of Income (cumulative)

(Thousands of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net sales	1,211,252	1,575,436
Cost of sales	288,585	393,312
Gross profit	922,667	1,182,124
Selling, general and administrative expenses	926,632	1,021,028
Operating profit (loss)	(3,965)	161,096
Non-operating income		
Interest income	8	10
Miscellaneous income	81	693
Total non-operating income	89	703
Non-operating expenses		
Interest expenses	800	1,849
Share issuance cost	—	819
Other	—	2
Total non-operating expenses	800	2,670
Ordinary profit (loss)	(4,676)	159,128
Extraordinary losses		
Headquarters relocation expenses	—	30,395
Total extraordinary losses	—	30,395
Profit (loss) before income taxes	(4,676)	128,734
Total income taxes	1,891	42,421
Net Profit (loss)	(6,567)	86,313

3. Statements of Cash Flows

(Thousands of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Cash flows from operating activities		
Profit (loss) before income taxes	(4,676)	128,734
Depreciation	7,257	6,320
Interest income	(8)	(10)
Interest expenses	800	1,849
Share issuance cost	—	819
Miscellaneous income	(1)	(3)
Increase (decrease) in allowance for doubtful accounts	(155)	(383)
Increase (decrease) in provision for share-based compensation	—	10,714
Decrease (increase) in accounts receivable - trade	(12,633)	8,118
Decrease (increase) in prepaid expenses	(23,192)	(17,179)
Increase (decrease) in accounts payable - trade	8,690	3,025
Increase (decrease) in accounts payable - other	20,884	68,616
Increase (decrease) in accrued expenses	(11,942)	42,781
Increase (decrease) in deferred revenue	64,720	177,024
Other, net	(24,212)	31,335
Subtotal	25,533	461,761
Interest received	8	10
Interest expenses paid	(790)	(1,806)
Income taxes paid	(3,806)	(4,513)
Net cash provided by (used in) operating activities	20,944	455,452
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,584)	(89,839)
Purchase of intangible assets	(3,163)	—
Purchase of investment securities	—	(33,278)
Proceeds from guarantee deposits	271	—
Net cash provided (used in) investing activities	(7,476)	(123,117)
Cash flows from financing activities		
Repayments of long-term loans payable	(22,860)	(61,860)
Purchase of treasury shares	—	(372)
Proceeds from issuance of common shares	—	21,561
Listing related expenses	(4,091)	—
Other, net	(1,012)	—
Net cash provided (used in) financing activities	(27,963)	(40,671)
Net increase (decrease) in cash and cash equivalents	(14,494)	291,663
Cash and cash equivalents at beginning of period	1,786,143	1,634,775
Cash and cash equivalents at end of period	1,771,649	1,926,439