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## Summary of Non-Consolidated Financial Results for the Three Months Ended November 30, 2020 (Based on Japanese GAAP)

January 14, 2021

Company name: and factory, inc  
Stock exchange listing: Tokyo  
Stock code: 7035 URL <https://andfactory.co.jp/>  
Representative: Rinji Aoki, President and Representative Director  
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Scheduled date to file annual securities report: January 14, 2021  
Scheduled date to commence dividend payments: —  
Preparation of supplementary material on quarterly financial results: Yes  
Holding of annual financial results meeting: No

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

### 1. Non-Consolidated financial results for the three months ended November 30, 2020 (From September 1, 2020 to November 30, 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	%
Three months ended November 30, 2020	718	(10.4)	(130)	—	(155)	—	(156)	—
Three months ended November 30, 2019	802	70.9	37	(12.3)	36	(1.6)	19	(20.9)

  

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended November 30, 2020	(15.96)		—	
Three months ended November 30, 2019	2.05		2.02	

Notes: Although dilutive shares exist, diluted earnings per share are not stated for the three months ended November 30, 2020, as earnings per share were negative.

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

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of November 30, 2020	5,848	1,292	22.1
As of August 31, 2020	6,343	1,449	22.8

### 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, 2020	—	0.00	—	0.00	0.00
Year ending August 31, 2021	—				
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) Application of special accounting methods for preparing quarterly non-consolidated financial statements: Yes

Note: In calculating tax expenses for the current fiscal year, including the first quarter under review, income taxes were estimated rationally, using the effective tax rate after applying tax effect accounting multiplied by income before income taxes, to estimate the appropriate effective tax rate. However, if the tax expenses calculated using the estimated effective tax rate yield unreasonable results, the statutory effective tax rate may be used.

(2) 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

(3) 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 November 30, 2020	9,827,120 shares	As of August 31, 2020	9,827,120 shares
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Number of treasury shares at the end of the period

As of November 30, 2020	257 shares	As of August 31, 2020	257 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Three months ended November 30, 2020	9,826,863 shares	Three months ended November 30, 2019	9,678,635 shares
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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. Qualitative Information on Quarterly Financial Results

### (1) Analysis of Operating Performance

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, in line with the business policy of promoting technology in the lodging market, the Company has worked on the development and operation of &AND HOSTEL smart hostels, and the provision of other IoT solution services for lodging facilities such as a lodging management system (innto) and a guest room tablet service (tabii). Additionally, in the rental property market, the Company is developing and operating a communication app (totono) to connect management companies and residents.

In the fiscal year ended August 31, 2020, the IoT business was significantly affected by the COVID-19 pandemic. By comparison, during the three months under review, occupancy rates at &AND HOSTEL facilities gradually recovered. Furthermore, the innto and tabii businesses (solution services for lodging facilities) saw growth in the number of tablets in operation and the number of facilities using the services. These increases stemmed from a rise in demand associated with the desire to avoid the "3Cs" (closed spaces, crowded places, and close-contact settings) amid the pandemic.

At the same time, sales were down in the Smartphone App business, due to the outflow of existing users and a decline in in-app fees. The Company assumes that the increased use of websites offering pirated manga content is a contributing factor.

As a result of these activities, in the three months ended November 30, 2020, the Company generated net sales of ¥718,751 thousand (down 10.4% year on year), an operating loss of ¥130,700 thousand (operating income of ¥37,201 thousand in the corresponding period of the previous fiscal year), an ordinary loss of ¥155,939 thousand (ordinary profit of ¥36,595 thousand in the same period of the previous fiscal year), and a net loss of ¥156,882 thousand (net income of ¥19,863 thousand in the corresponding period of the previous fiscal year).

#### (1) Smartphone Apps business

In the three months ended November 30, 2020, the existing manga apps, such as Manga UP!, Manga Park, and Manga Mee, have continued to enjoy favorable performances since their service launch, thanks to proactive advertising efforts, new series launches, offering of popular content in series, and new manga additions. Earnings contribution also came from the steady increases in monthly active users (MAUs\*1) at Young Jump, a manga app jointly developed with SHUEISHA Inc. (released April 2020), and Mecha Comic's Mainichi Rensai, a manga app jointly developed with Amutus Corporation (released May 2020).

However, average revenue per user (ARPU\*2) from in-app purchases trended downward, due primarily to reward points offered in exchange for short-term failures affecting some of the Company's apps and expansion in the use of websites offering pirated editions of manga. Nevertheless, ARPU remained flat overall, as the unit price of reward advertising rose thanks to the addition of a targeted ad network.

As a result, in the three months ended November 30, 2020, sales in the Smartphone Apps business were ¥625,920 thousand (down 3.7% year on year). Segment profit came to ¥37,557 thousand (down 70.8% 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
November 30, 2020	110	10,260

Note: the average MAUs shown above are quarterly averages.

## (2) IoT business

In the three months ended November 30, 2020, occupancy rates trended toward recovery for &AND HOSTEL, the Company's mainstay brand of smart hostels (lodging facilities offering experiences made possible through IoT). These positive results compared with the fiscal year ended August 31, 2020, when performance was substantially affected by the COVID-19 pandemic, were a result of promoting the business use of lodging facilities to remote workers, as well as to the success of long-term stay plans. However, spending per customer remained low, and operating revenue at each location fell year on year.

For the guest room tablet service (tabii), the Company 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. The total number of tabii tablets in operation as of November 30, 2020 stood at 4,933 (up 473 from August 31, 2020). The Company brought the number of facilities using its lodging management system (innto) up to 285 as of November 30, 2020 (up by 13 facilities from August 31, 2020). The tabii and innto business were both in a recovery phase, 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 three months ended November 30, 2020, sales in the IoT business came to ¥85,353 thousand (down 30.9% year on year), with segment losses of ¥70,224 thousand (loss of ¥13,814 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 first three months ended November 30, 2020, Other businesses reported sales of ¥7,477 thousand (down 74.3% year on year) and segment profit of ¥7,477 thousand (up 10.2% year on year).

## (2) Analysis of Financial Conditions

### (Assets)

As of November 30, 2020, total assets amounted to ¥5,848,664 thousand, down ¥495,183 thousand from August 31, 2020. Key decreases included trade accounts receivable, down ¥109,582 thousand; advances paid, down ¥83,643 thousand; and consumption taxes receivable, down ¥213,333 thousand due to a consumption tax refund.

### (Liabilities)

Total liabilities amounted to ¥4,555,862 thousand as of November 30, 2020, down ¥338,301 thousand from August 31, 2020. Major decreases were trade accounts payable, down ¥231,463 thousand, and long-term borrowings (including the current portion of long-term borrowings), which decreased ¥52,360 thousand.

### (Net assets)

As of November 30, 2020, net assets totaled ¥1,292,802 thousand, down ¥156,882 thousand from August 31, 2020. This was the result of the posting of a net loss, causing retained earnings to fall ¥156,882 thousand.

The equity ratio came to 22.1% (compared with 22.8% as of August 31, 2020).

## (3) Operating Performance Forecast

At present, the Company maintains its forecast for the fiscal year ending August 31, 2021 as announced on October 15, 2020.

The forecast is based on information available to management as of the date of this announcement. Actual performance may vary substantially from the forecast for a variety of reasons.

## 2. Quarterly Non-Consolidated Financial Statements

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

(Thousands of yen)

	As of August 31, 2020	As of November 30, 2020
Assets		
Current assets		
Cash and deposits	1,028,320	933,177
Accounts receivable–trade	622,887	513,304
Work in process	7,366	7,566
Real estate for sale	3,163,946	3,156,991
Advances paid	417,388	333,745
Income taxes receivable	128,403	127,712
Consumption taxes receivable	213,333	—
Other	80,293	98,570
Allowance for doubtful accounts	(15)	(9)
Total current assets	5,661,925	5,171,058
Non-current assets		
Property, plant and equipment		
Buildings	47,356	47,356
Machinery and equipment	1,088	1,088
Tools, furniture and fixtures	52,618	55,351
Construction in progress	—	5,555
Accumulated depreciation	(79,903)	(82,246)
Total property, plant and equipment	21,159	27,105
Intangible assets		
Software	131,778	121,655
Total intangible assets	131,778	121,655
Investments and other assets		
Investment securities	228,781	228,781
Leasehold and guarantee deposits	289,486	289,404
Other	10,717	10,659
Total investments and other assets	528,984	528,845
Total non-current assets	681,922	677,606
Total assets	6,343,848	5,848,664

(Thousands of yen)

	As of August 31, 2020	As of November 30, 2020
<b>Liabilities</b>		
Current liabilities		
Accounts payable–trade	358,975	127,511
Short-term borrowings	515,000	512,222
Current portion of long-term borrowings	270,608	279,910
Accounts payable–other	662,348	628,289
Provision for bonuses	3,375	—
Provision for shareholder benefit program	38,527	12,559
Other	9,257	20,959
Total current liabilities	1,858,092	1,581,452
Non-current liabilities		
Long-term borrowings	3,026,634	2,964,972
Other	9,437	9,437
Total non-current liabilities	3,036,071	2,974,409
Total liabilities	4,894,163	4,555,862
<b>Net assets</b>		
Shareholders' equity		
Share capital	549,720	549,720
Capital surplus	548,361	548,361
Retained earnings	351,061	194,178
Treasury shares	(572)	(572)
Total shareholders' equity	1,448,569	1,291,687
Share acquisition rights	1,114	1,114
Total net assets	1,449,684	1,292,802
Total liabilities and net assets	6,343,848	5,848,664



## (2) Quarterly Non-Consolidated Statements of Income

(Thousands of yen)

	Three months ended November 30, 2019	Three months ended November 30, 2020
Net sales	802,311	718,751
Cost of sales	336,476	358,380
Gross profit	465,834	360,371
Selling, general and administrative expenses	428,633	491,071
Operating profit (loss)	37,201	(130,700)
Non-operating income		
Interest income	17	0
Subsidy income	—	10,528
Surrender value of insurance policies	743	—
Other	265	677
Total non-operating income	1,026	11,206
Non-operating expenses		
Interest expenses	964	7,529
Commission expenses	606	—
Rent	—	28,858
Other	61	57
Total non-operating expenses	1,632	36,445
Ordinary profit (loss)	36,595	(155,939)
Extraordinary losses		
Impairment loss	6,409	—
Total extraordinary losses	6,409	—
Profit (loss) before income taxes	30,186	(155,939)
Income taxes	10,322	942
Profit (loss)	19,863	(156,882)

### (3) Notes to the Quarterly Consolidated Financial Statements

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

Not applicable

#### (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. Lower occupancy rates and sales per customer at the &AND HOSTEL locations the Company operates are affecting operating performance. Furthermore, the Japanese government issued a state of emergency declaration on January 8, 2021, and 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 should there be changes in the assumptions mentioned above.

#### (Notes in the Event of Significant Changes in Shareholders' Equity)

Not applicable.

#### (Application of Special Accounting Treatment for Quarterly Financial Reporting)

##### (Calculation of Tax Expenses)

For tax expenses, the Company has rationally estimated the effective tax rate after the application of tax-effect accounting to profit before income taxes for the fiscal year that includes the three months ended November 30, 2020. The Company then calculated tax expenses by multiplying the profit (loss) before income taxes by that rate. However, if the tax expenses calculated using the estimated effective tax rate yield unreasonable results, the statutory effective tax rate may be used.

(Segment Information, etc.)

[Segment Information]

Three months ended November 30, 2019 (September 1, 2019 to November 30, 2019)

1. Information related to sales, profits or losses for each reportable segment

(Thousands of yen)

	Reportable segments			Other	Total
	Smartphone APPs	IoT	Total		
Net Sales					
Sales to external customers	649,684	123,530	773,214	29,096	802,311
Intersegment sales or transfer	—	—	—	—	—
Total	649,684	123,530	773,214	29,096	802,311
Segment profit (loss)	128,409	(13,814)	114,594	6,785	121,380

Note: "Other" refers to businesses not included in the reportable segment, mainly comprising internet advertising agency services and production of articles.

2. Total profits or losses for reportable segments and the main reasons for discrepancies between this value and the figure stated in the quarterly non-consolidated statements of income (matters related to the adjustment of discrepancies)

(Thousands of yen)

Income	Amount
Subtotal for reportable segments	114,594
Income from "Other" businesses	6,785
Company-wide expenses (Note)	(84,179)
Operating profit (loss) in the quarterly non-consolidated statements of income	37,201

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

3. 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 IoT business, the Company decided to close &AND HOSTEL UENO when its fixed-term lease expired. Accordingly, the Company reduced the book value of that asset group to its recoverable value and recognized that reduction as an impairment loss.

This impairment loss totaled ¥6,409 thousand.

Three months ended November 30, 2020 (September 1, 2020 to November 30, 2020)

1. Information related to sales, profits or losses for each reportable segment

(Thousands of yen)

	Reportable segments			Other	Total
	Smartphone APPs	IoT	Total		
Net Sales					
Sales to external customers	625,920	85,353	711,273	7,477	718,751
Intersegment sales or transfer	—	—	—	—	—
Total	625,920	85,353	711,273	7,477	718,751
Segment profit (loss)	37,557	(70,224)	(32,667)	7,477	(25,189)

Notes: “Other” refers to businesses not included in the reportable segment, mainly comprising internet advertising agency services.

2. Total profits or losses for reportable segments and the main reasons for discrepancies between this value and the figure stated in the quarterly non-consolidated statements of income (matters related to the adjustment of discrepancies)

(Thousands of yen)

Income	Amount
Subtotal for reportable segments	(32,667)
Income from “Other” businesses	7,477
Company-wide expenses (Note)	(105,510)
Operating profit (loss) in the quarterly non-consolidated statements of income	(130,700)

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

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

(Significant impairment losses related to fixed assets)

Not applicable.