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Summary of Non-Consolidated Financial Results for the Six Months Ended February 28, 2021 (Based on Japanese GAAP)

April 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: April 14, 2021
Scheduled date to commence dividend payments: —
Preparation of supplementary material on quarterly 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 six months ended February 28, 2021 (From September 1, 2020 to February 28, 2021)
(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	%
Six months ended February 28, 2021	1,479	(0.3)	(207)	—	(274)	—	(276)	—
Six months ended February 29, 2020	1,484	49.2	(50)	—	(86)	—	(64)	—

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended February 28, 2021	(28.12)	—
Six months ended February 29, 2020	(6.62)	—

Notes: Although dilutive shares exist, diluted earnings per share are not stated 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 February 28, 2021	5,781	1,173	20.3
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	—	0.00			
Year ending August 31, 2021 (Forecast)			—	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 February 28, 2021	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 February 28, 2021	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)

Six months ended February 28, 2021	9,826,863 shares	Six months ended February 29, 2020	9,739,947 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.

At the same time, sales were down in the Smartphone Apps business, due to the outflow of existing users and a decline in in-app fees. We understand that the increased use of websites offering pirated manga content has been a contributing factor.

As a result of these activities, in the six months ended February 28, 2021, the Company generated net sales of ¥1,479,660 thousand (down 0.3% year on year), an operating loss of ¥207,519 thousand (operating loss of ¥50,671 thousand in the corresponding period of the previous fiscal year), an ordinary loss of ¥274,322 thousand (ordinary loss of ¥86,240 thousand in the corresponding period of the previous fiscal year), and a net loss of ¥276,327 thousand (net loss of ¥64,480 thousand in the corresponding period of the previous fiscal year).

It should be noted that we recategorized our reportable segments during the quarter under review. Accordingly, comparisons and analysis for the six months ended February 28, 2021 are based on the revised segmentation.

(1) Smartphone Apps business

In the six months ended February 28, 2021, 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, sales in the Smartphone Apps business for the six months ended February 28, 2021 were basically flat year on year due to the non-recurrence of sales from new-app development generated in the first quarter of the previous fiscal year. There was also a temporary slowdown in sales from in-app purchases due to the measures taken in some apps to attract a wide-range of users. Meanwhile, the unit price of reward advertising rose thanks to the addition of a targeted ad network, and ARPU (*2) remained flat overall.

As a result, in the six months ended February 28, 2021, sales in the Smartphone Apps business were ¥1,315,220 thousand (up 8.0% year on year). Segment profit came to ¥128,904 thousand (down 28.3% 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 manga apps.

(Thousands of people)			
	Average MAUs		Average MAUs
	Manga apps		Manga apps
May 31, 2017	310	May 31, 2019	4,300
August 31, 2017	650	August 31, 2019	5,320
November 30, 2017	1,080	November 30, 2019	6,410
February 28, 2018	1,500	February 29, 2020	7,200
May 31, 2018	2,040	May 31, 2020	9,060
August 31, 2018	2,380	August 31, 2020	9,940
November 30, 2018	2,790	November 30, 2020	10,260
February 28, 2019	3,620	February 28, 2021	10,540

Note: the average MAUs shown above are quarterly averages.

(2) IoT business

In the six months ended February 28, 2021, occupancy rates trended toward recovery for &AND HOSTEL, our mainstay brand of smart hostels (lodging facilities offering experiences made possible through IoT). The uptrend compared with the fiscal year ended August 31, 2020, when performance was substantially affected by the COVID-19 pandemic, was a result of our efforts to cultivate a new customer base by shifting to new targets and concepts at some hostel branches. However, spending per customer, although improving, remained low, and operating revenue at each location was flat year on year.

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. The total number of tabii tablets in operation as of February 28, 2021 stood at 5,181 (up 721 from August 31, 2020). The Company brought the number of facilities using its lodging management system (innto) up to 292 as of February 28, 2021 (up by 20 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 six months ended February 28, 2021, sales in the IoT business came to ¥147,459 thousand (down 28.9% year on year), with segment losses of ¥149,453 thousand (loss of ¥65,124 thousand in the corresponding period of the previous year).

(3) Advertising Agency business

The majority of earnings in this segment comes from the Company’s internet advertising agency services. In the six months ended February 28, 2021, the Advertising Agency business reported sales of ¥16,980 thousand (down 71.4% year on year) and segment profit of ¥15,912 thousand (up 9.4% year on year).

(2) Analysis of Financial Conditions

(1) Assets, liabilities, and net assets

(Assets)

As of February 28, 2021, total assets amounted to ¥5,781,977 thousand, down ¥561,870 thousand from August 31, 2020. Key decreases included cash and deposits, down ¥193,818 thousand; income taxes receivable, down ¥128,403 thousand due to an income tax refund; and consumption taxes receivable, down ¥213,333 thousand due to a consumption tax refund.

(Liabilities)

Total liabilities amounted to ¥4,608,620 thousand as of February 28, 2021, down ¥285,543 thousand from August 31, 2020. Major decreases were trade accounts payable, down ¥221,312 thousand and offsetting a ¥58,509 thousand increase in other accounts payable, and long-term borrowings (including the current portion of long-term borrowings), which decreased ¥122,316 thousand.

(Net assets)

As of February 28, 2021, net assets totaled ¥1,173,357 thousand, down ¥276,327 thousand from August 31, 2020. This was the result of the Company's posting of a net loss, causing retained earnings to fall ¥276,327 thousand.

The equity ratio came to 20.3% (compared with 22.8% as of August 31, 2020).

(2) Cash flows

As of February 28, 2021, cash and cash equivalents totaled ¥834,502 thousand, down ¥193,818 thousand from August 31, 2020.

(Cash flows from operating activities)

Net cash used in operating activities totaled ¥13,153 thousand. This was mainly due to the recording of a ¥274,438 thousand loss before income taxes, a ¥221,312 thousand decrease in trade payables, ¥40,269 thousand in depreciation, a ¥50,808 thousand decrease in trade receivables, a ¥213,333 thousand decrease in consumption taxes receivable, and ¥127,980 thousand in income taxes refund.

(Cash flows from investing activities)

Net cash used in investing activities totaled ¥53,349 thousand. This was mainly due to cash outflows of ¥22,167 thousand in purchase of property, plant and equipment, ¥15,306 thousand in purchase of intangible assets, and ¥28,514 thousand in purchase of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities totaled ¥127,316 thousand. This was mainly due to an outflow of ¥122,316 thousand in repayments of long-term borrowings.

(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 February 28, 2021
Assets		
Current assets		
Cash and deposits	1,028,320	834,502
Accounts receivable—trade	622,887	572,079
Work in process	7,366	7,459
Real estate for sale	3,163,946	3,149,917
Advances paid	417,388	392,354
Income taxes receivable	128,403	—
Consumption taxes receivable	213,333	—
Other	80,293	130,535
Allowance for doubtful accounts	(15)	(7,443)
Total current assets	5,661,925	5,079,403
Non-current assets		
Property, plant and equipment		
Buildings	47,356	11,248
Machinery and equipment	1,088	1,088
Tools, furniture and fixtures	52,618	54,337
Accumulated depreciation	(79,903)	(29,199)
Total property, plant and equipment	21,159	37,473
Intangible assets		
Software	131,778	111,622
Software in progress	—	12,766
Total intangible assets	131,778	124,388
Investments and other assets		
Investment securities	228,781	257,295
Leasehold and guarantee deposits	289,486	282,398
Other	10,717	1,017
Total investments and other assets	528,984	540,711
Total non-current assets	681,922	702,573
Total assets	6,343,848	5,781,977

(Thousands of yen)

	As of August 31, 2020	As of February 28, 2021
Liabilities		
Current liabilities		
Accounts payable–trade	358,975	137,662
Short-term borrowings	515,000	510,000
Current portion of long-term borrowings	270,608	281,302
Accounts payable–other	662,348	720,857
Income taxes payable	—	7,676
Provision for bonuses	3,375	—
Provision for shareholder benefit program	38,527	1,244
Other	9,257	46,815
Total current liabilities	1,858,092	1,705,558
Non-current liabilities		
Long-term borrowings	3,026,634	2,893,624
Other	9,437	9,437
Total non-current liabilities	3,036,071	2,903,061
Total liabilities	4,894,163	4,608,620
Net assets		
Shareholders' equity		
Share capital	549,720	549,720
Capital surplus	548,361	548,361
Retained earnings	351,061	74,733
Treasury shares	(572)	(572)
Total shareholders' equity	1,448,569	1,172,242
Share acquisition rights	1,114	1,114
Total net assets	1,449,684	1,173,357
Total liabilities and net assets	6,343,848	5,781,977

(2) Quarterly Non-Consolidated Statements of Income

(Thousands of yen)

	Six months ended February 29, 2020	Six months ended February 28, 2020
Net sales	1,484,672	1,479,660
Cost of sales	643,751	699,091
Gross profit	840,920	780,569
Selling, general and administrative expenses	891,592	988,088
Operating loss	(50,671)	(207,519)
Non-operating income		
Interest income	22	4
Subsidy income	—	19,834
Surrender value of insurance policies	743	2,411
Other	207	1,446
Total non-operating income	973	23,697
Non-operating expenses		
Interest expenses	6,387	14,748
Commission expenses	30,111	—
Rent	—	72,145
Other	43	3,606
Total non-operating expenses	36,542	90,499
Ordinary loss	(86,240)	(274,322)
Extraordinary losses		
Impairment loss	6,409	—
Loss on retirement of non-current assets	—	116
Total extraordinary losses	6,409	116
Loss before income taxes	(92,649)	(274,438)
Income taxes	(28,168)	1,888
Loss	(64,480)	(276,327)

(3) Quarterly Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended February 29, 2020	Six months ended February 28, 2021
Cash flows from operating activities		
Profit (loss) before income taxes	(92,649)	(274,438)
Depreciation	50,729	40,269
Impairment loss	6,409	—
Loss on retirement of non-current assets	—	116
Increase (decrease) in allowance for doubtful accounts	—	7,428
Increase (decrease) in provision for bonuses	23,996	(3,375)
Increase (decrease) in provision for shareholder benefit program	(10,296)	(37,282)
Interest income	(22)	(4)
Subsidy income	—	(19,834)
Interest expenses	6,387	14,748
Rent	—	72,145
Decrease (increase) in trade receivables	(101,540)	50,808
Decrease (increase) in inventories	(2,282,924)	(4,795)
Decrease (increase) in advances paid	(163,032)	25,033
Decrease (increase) in consumption tax refunds receivable	—	213,333
Increase (decrease) in trade payables	33,851	(221,312)
Increase (decrease) in accounts payable - other	19,493	18,048
Other, net	(205,421)	25,479
Subtotal	(2,715,018)	(93,631)
Interest and dividends received	22	4
Interest paid	(6,990)	(13,633)
Subsidies received	—	19,834
Rent paid	—	(52,715)
Income taxes paid	(90,570)	(994)
Income tax refunds	—	127,980
Net cash provided by (used in) operating activities	(2,812,557)	(13,153)
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,540)	(22,167)
Purchase of intangible assets	(56,456)	(15,306)
Payments of leasehold and guarantee deposits	(45,881)	—
Proceeds from refund of leasehold and guarantee deposits	380	273
Purchase of investment securities	(130,144)	(28,514)
Payments for asset retirement obligations	—	(230)
Other, net	3,961	12,594
Net cash provided by (used in) investing activities	(243,681)	(53,349)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	—	(5,000)
Proceeds from long-term borrowings	2,288,000	—
Repayments of long-term borrowings	(39,614)	(122,316)
Proceeds from exercise of employee share options	12,160	—
Other, net	(2,944)	—
Net cash provided by (used in) financing activities	2,257,601	(127,316)
Net increase (decrease) in cash and cash equivalents	(798,636)	(193,818)
Cash and cash equivalents at beginning of period	1,352,934	1,028,320
Cash and cash equivalents at end of period	554,297	834,502

(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 spending per customer at the &AND HOSTEL locations we operate are affecting operating performance. The Japanese government issued a state of emergency declaration on January 8, 2021, and although the declaration was lifted on March 21, 2021, accurately forecasting when these conditions might improve remains 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 six months ended February 28, 2021. 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]

Six months ended February 29, 2020 (September 1, 2019 to February 29, 2020)

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

(Thousands of yen)

	Reportable segments			
	Smartphone APPs	IoT	Advertising Agency	Total
Net Sales				
Sales to external customers	1,218,060	207,287	59,324	1,484,672
Intersegment sales or transfer	—	—	—	—
Total	1,218,060	207,287	59,324	1,484,672
Segment profit (loss)	179,733	(65,124)	14,543	129,152

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	129,152
Company-wide expenses (Note)	(179,824)
Operating profit (loss) in the quarterly non-consolidated statements of income	(50,671)

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

3. Information related to assets for each reportable segment

During the six months ended February 29, 2020, assets in the IoT business segment increased by ¥2,291,625 thousand due to the acquisition of real estate for sale related to property developed by the Company in the &AND HOSTEL business.

4. 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.

Six months ended February 28, 2021 (September 1, 2020 to February 28, 2021)

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

(Thousands of yen)

	Reportable segments			
	Smartphone APPs	IoT	Advertising Agency	Total
Net Sales				
Sales to external customers	1,315,220	147,459	16,980	1,479,660
Intersegment sales or transfer	—	—	—	—
Total	1,315,220	147,459	16,980	1,479,660
Segment profit (loss)	128,904	(149,453)	15,912	(4,635)

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	(4,635)
Company-wide expenses (Note)	(202,883)
Operating profit (loss) in the quarterly non-consolidated statements of income	(207,519)

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

3. Information related to changes in reportable segments

The Company's internet advertising agency business had been included in the "Other" segment, but due to its increased quantitative importance, the Company switched to a new method of presenting the business as a reportable segment from the quarter ended February 28, 2021.

Segment information for the six months ended February 29, 2020, is categorized using the new classification.

4. 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.