

Non-Consolidated Financial Results For the Nine Months Ended May 31, 2021 [Japanese GAAP]



June 30, 2021

Company name: Strike Co., Ltd.
 Stock exchange listing: First Section, Tokyo Stock Exchange
 Code number: 6196
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 Scheduled date of filing quarterly securities report: July 13, 2021
 Scheduled date of commencing dividend payments: None
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: No physical session planned
 (video of briefing session to be distributed)

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

1. Financial Results for the Nine Months Ended May 31, 2021 (September 1, 2020 to May 31, 2021)

(1) Operating Results

(Percentages indicate year-on-year change.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended May 31, 2021	5,597	12.4	2,035	-4.5	2,038	-4.3	1,371	-12.4
May 31, 2020	4,979	45.9	2,130	77.6	2,130	77.5	1,565	95.4

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended May 31, 2021	71.79		71.38	
May 31, 2020	81.96		81.55	

(2) Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of May 31, 2021	9,016	8,049	89.2
As of August 31, 2020	9,045	7,091	78.3

(Reference) Equity: As of May 31, 2021: ¥8,046 million
 As of August 31, 2020: ¥7,087 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended August 31, 2020	—	0.00	—	24.00	24.00
Fiscal year ending September 30, 2021	—	0.00	—	—	—
Fiscal year ending September 30, 2021 (forecast)	—	—	—	27.00	27.00

(Note) Changes in dividend forecast subsequent to most recent announcement: None

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

(Percentages indicate year-on-year change.)

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	8,368	—	3,081	—	3,083	—	2,069	—	108.35

(Note) Changes in earnings forecasts subsequent to most recent announcement: None

Note: Due to a change in fiscal year-end, the fiscal year ending September 30, 2021 is a 13-month period, from September 1, 2020 to September 30, 2021.

Notes:

(1) Application of special accounting treatment in preparing the quarterly financial statements: None

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

1) Changes in accounting policies due to the revision of accounting standards: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

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

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

As of May 31, 2021: 19,354,200 shares

As of August 31, 2020: 19,354,200 shares

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

As of May 31, 2021: 231,983 shares

As of August 31, 2020: 250,183 shares

3) Average number of shares outstanding during the period:

For the Nine months ended May 31, 2021: 19,111,865 shares

For the Nine months ended May 31, 2020: 19,104,111 shares

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

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

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed reasonable by the Company, and are not intended to be construed as assurance that they will be accomplished in the future. Actual results may differ significantly from these forecasts due to a wide range of factors.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Business Results

During the first nine months of the fiscal year ending September 30, 2021, the Japanese economy faced severe conditions due to impact from the COVID-19 pandemic. Economic measures implemented by the Japanese government have led to temporary recovery, but the appearance of COVID-19 variants has also resulted in the virus's further spread, and the economic outlook remains uncertain as the third state of emergency has been declared in parts of Japan.

Strike operates in an M&A market that involves small and medium-sized enterprises (SMEs) and is currently on a medium- to long-term growth path thanks in part to the effective implementation of proactive measures by the Japanese government to address SME owners who are struggling to find successors. According to the "2021 White Paper on Small and Medium Enterprises in Japan," approximately 60% of the 49,000 companies that were shuttered or dissolved in 2020 had reported profits during their most recent financial years. This underlines the importance of facilitating a smooth passage of business into the hands of a subsequent generation of motivated managers to avoid squandering precious management resources for lack of appropriate successors. In April 2021, the Small and Medium Enterprise Agency formulated its "Promotion Plan for M&A among Small and Medium-sized Enterprises" to promote improved production through expansion in the scales of SMEs and encourage the establishment of businesses through the acquisition of third-party management resources. The formulation of this plan demonstrates that efforts to promote M&A among SMEs are underway in both the public and private sectors. Moving forward, M&A will likely play an increasingly prominent role as a solution for management issues facing SMEs.

Against this backdrop, while making effort to prevent the spread of COVID-19, we worked to attract new customers and close deals by hosting online seminars and making use of meetings via online conferencing systems. Our online seminars are designed to unearth a wide range of M&A needs, with different monthly themes, such as seminars for specific industries or seminars for startups. Owing to these efforts, the third state of emergency did not have a large impact on our sales activities. However, the COVID-19 pandemic's prolonged spread has had an impact on the operating results of a growing number of SMEs. This trend has also had an effect on our M&A negotiations, causing an ongoing increase in the number of projects (especially small-scale projects) that require relatively long lengths of time to work out terms and search for appropriate matches. Additionally, we have experienced difficulties in selling businesses according to desired terms, primarily in cases of contracts that we acquired prior to the start of the pandemic. Consequently, we encountered more sale cancellations than we had initially expected. On the other hand, we have also achieved steady progress through many large M&A deals despite incurring impact on business performance, and have consequently seen a rise in sales generated per deal closed.

On the sales front, the Company strengthened its M&A support system through collaboration. We accepted personnel from partner financial institutions and trained them so that they would be able to execute M&A operations with greater effectiveness once they return to their respective companies.

In terms of recruitment, we actively strove to add new employees with the goal of expanding our business performance and successfully recruited 37 new M&A consultants during the first nine months of the fiscal year under review.

As a result, during the nine months ended May 31, 2021, there were 99 deals closed ^(Note 1) (versus 97 a year ago), and 190 contracts closed ^(Note 2) (versus 189). We closed 11 large M&A deals (generating ¥100 million or more in sales per deal) (versus 12 a year ago). Additionally, we accepted 285 new contracts ^(Note 3) (versus 254 a year ago).

(Note 1) Number of deals closed:

Number M&A transactions in which Strike provides brokerage or advisory services (i.e., number of deals).

(Note 2) Number of contracts closed:

Number of contracts on closed M&A deals in which Strike provides brokerage or advisory services (i.e., number of companies). In brokerage services, each deal counts as two contracts (one for the seller and one for the buyer), while in advisory services, each deal counts as one contract.

(Note 3) New contracts:

Number of new brokerage service contracts signed with sellers (or in the case of advisory services, contracts signed and services effectively commenced).

While the number of deals closed was essentially flat year on year, net sales rose to ¥5,597 million, up 12.4% year on year, thanks to an increase in sales generated per deal closed. Cost of sales grew 21.9% year on year to ¥2,073 million due in part to a rise in incentives paid that accompanied the increase in sales, an uptick in introduction fees paid in connection with new contracts, and expansion in personnel expenses caused by the addition of new M&A consultants. SG&A expenses climbed to ¥1,489 million, up 29.8% year on year, due primarily to growth in recruiting expenses caused by the active employment of consultants, an upturn in advertising expenses stemming from a rise in the number of seminars held, an increase in general overhead expenses resulting from sales activity enhancement, and a rise in rent expenses on land and buildings caused by the relocation of our headquarters. Consequently, operating profit fell 4.5% year on year to ¥2,035 million. Ordinary profit came to ¥2,038 million, down 4.3% year on year. In addition, whereas the Company booked a ¥225 million gain on sale of investment securities as extraordinary income a year ago, the absence of that extraordinary income in the nine months ended May 31, 2021 resulted in bottom-line profit of ¥1,371 million, down 12.4% year on year.

Net sales, the number of deals closed, contracts closed, and new contracts recorded during the period under review, as well as the corresponding targets we plan to achieve for the full year, are as follows:

	Cumulative Q3 FY09/21 (actual)	Cumulative Q3 FY09/21 (target)	FY09/21 (target)	Achievement of the full-year target
Number of deals closed	99	134	191	51.8%
Number of contracts closed	190	264	375	50.7%
Number of new contracts	285	322	482	59.1%
Net sales (millions of yen)	5,597	6,334	8,368	66.9%

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

(2) Explanation of Financial Condition

1) Status of assets, liabilities, and net assets

(Assets)

As of May 31, 2021, current assets stood at ¥7,942 million, down ¥268 million from August 31, 2020. This decline occurred despite an uptick of ¥97 million in accounts receivable–trade and primarily reflected a decrease of ¥387 million in cash and deposits.

Non-current assets amounted to ¥1,074 million, up ¥239 million from August 31, 2020. This was mainly attributable to a rise of ¥221 million in property, plant and equipment that stemmed primarily from an increase in buildings and other facilities.

(Liabilities)

As of May 31, 2021, current liabilities came to ¥966 million, down ¥988 million from August 31, 2020. This decline was primarily attributable to a ¥718 million decrease in other current liabilities stemming mainly from the payment of accrued bonuses at the end of the previous fiscal year and a downturn of ¥539 million in income taxes payable, which offset an increase of ¥307 million in provision for bonuses.

(Net assets)

As of May 31, 2021, net assets totaled ¥8,049 million, up ¥958 million from August 31, 2020. This mainly reflected an upward impact of ¥1,371 million on retained earnings that stemmed from bottom-line profit and offset a downward impact of ¥458 million on retained earnings that was inflicted by the payment of dividends.

(3) Explanation of Earnings Forecasts and Other Forward-Looking Information

Our earnings forecasts for the fiscal year ending September 30, 2021 are unchanged from the figures announced on September 30, 2020.

2. Quarterly Financial Statements and Primary Notes

(1) Balance Sheet

(Thousands of yen)

	As of August 31, 2020	As of May 31, 2021
Assets		
Current assets		
Cash and deposits	7,871,870	7,483,893
Accounts receivable–trade	293,725	391,690
Other	52,067	73,762
Allowance for doubtful accounts	(6,235)	(6,823)
Total current assets	8,211,428	7,942,523
Non-current assets		
Property, plant and equipment	116,118	337,204
Intangible assets	5,184	4,709
Investments and other assets	713,168	732,196
Total non-current assets	834,471	1,074,110
Total assets	9,045,900	9,016,634
Liabilities		
Current liabilities		
Accounts payable–trade	110,882	73,662
Income taxes payable	793,203	253,448
Provision for bonuses	—	307,798
Other	1,050,784	331,926
Total current liabilities	1,954,870	966,836
Total liabilities	1,954,870	966,836
Net assets		
Shareholders' equity		
Share capital	823,741	823,741
Capital surplus	801,491	808,776
Retained earnings	5,974,078	6,887,570
Treasury shares	(519,312)	(481,534)
Total shareholders' equity	7,079,998	8,038,554
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	7,122	7,661
Total valuation and translation adjustments	7,122	7,661
Share acquisition rights	3,909	3,582
Total net assets	7,091,030	8,049,798
Total liabilities and net assets	9,045,900	9,016,634

(2) Statement of Income

(Thousands of yen)

	For the nine months ended May 31, 2020	For the nine months ended May 31, 2021
Net sales	4,979,253	5,597,507
Cost of sales	1,701,295	2,073,116
Gross profit	3,277,957	3,524,391
Selling, general and administrative expenses	1,147,719	1,489,364
Operating profit	2,130,238	2,035,027
Non-operating income		
Interest income	112	3,336
Dividend income	230	60
Other	33	185
Total non-operating income	375	3,582
Ordinary profit	2,130,613	2,038,609
Extraordinary income		
Gain on sale of investment securities	225,000	—
Total extraordinary income	225,000	—
Extraordinary losses		
Loss on valuation of investment securities	36,598	—
Total extraordinary losses	36,598	—
Profit before income taxes	2,319,015	2,038,609
Income taxes—current	824,184	680,055
Income taxes—deferred	(70,898)	(13,435)
Total income taxes	753,286	666,620
Profit	1,565,729	1,371,988

(3) Notes to the Quarterly Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes in the event of significant changes in shareholders' equity)

There is no relevant information.