Translation

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Summary of Financial Results for the Three Months Ended October 31, 2020 (Based on Japanese GAAP)

December 10, 2020

Company name: RAKSUL INC.
Listed stock exchange : Tokyo
Stock code: 4384 https://corp.raksul.com/
Representative: Representative Director, President and CEO Yasukane Matsumoto
Inquiries: Director, CFO Yo Nagami
Scheduled date to file Quarterly Securities Report: December 10, 2020
Scheduled date of dividend payments: –
Supplementary materials: Yes
Meeting for institutional investors and analysts: Yes

(Figures are rounded down to the nearest million yen)

1. Financial Results for the three months ended October 31, 2020 (August 1, 2020 - October 31, 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	%
Three months ended October 31, 2020	5,937	10.9	66	–	59	–	42	–
Three months ended October 31, 2019	5,353	56.1	(43)	–	(57)	–	(57)	–

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended October 31, 2020	1.50	1.33
Three months ended October 31, 2019	(2.06)	—

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of October 31, 2020	19,905	6,941	34.0
As of July 31, 2020	19,379	6,801	34.5

Reference: Shareholders' equity October 31, 2020: 6,760 million yen July 31, 2020: 6,692 million yen

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended July 31, 2020	–	0.00	–	0.00	0.00
Year ending July 31, 2021	–				
Year ending July 31, 2021 (forecast)		0.00	–	0.00	0.00

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

3. Forecast for the Fiscal Year Ending July 31, 2021 (August 1, 2020 - July 31, 2021)

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

	Net sales		Operating profit		non-GAAP Operating profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Full year	27,000 ～28,000	25.6 ～30.3	(150) ～50	—	300 ～500	—

Note: Revisions of most recent financial results forecast: None

During the fiscal year ending July 31, 2021, there is no change in the management stance of RAKSUL INC. (the "Company") which is focused on growth and realizing its vision "Better Systems, Better World". The Company will continue to reinvest mainly in variable cost, while maintaining the cost structure optimized in the previous fiscal year. The policies for each business segment are as follows;

In the Raksul Business Segment, the Company sets gross profit and segment profit as the financial focus. The policy for this business segment is to continue to expand segment profit by reinvesting in the business within the scope of profit. In the Novasell Business Segment, the Company sets revenue and gross margin as the financial focus. The policy for this business segment is to invest mainly in profits generated by the business, hence the losses are expected to be limited. In the Hacobell Business Segment, the Company also sets revenue and gross margin as the financial focus, and prioritizes high growth in revenue while executing a certain level of investment governance and loss control. In addition, the Company expects the gross margin to be improved gradually as in the fourth quarter of the fiscal year ending July 31, 2020.

Based on the policies above, the Company expects revenue of ¥27,000 million to ¥28,000 million (up 25.6% to 30.3% from the previous fiscal year) and gross profit of ¥6,450 million to ¥6,900 million (up 30.9% to 40.0% from the previous fiscal year.) With continued improvement in profitability, we believe that we can achieve higher growth in gross profit than in revenue. Operating profit is expected to be between ¥(150) million and ¥50 million, and non-GAAP operating income, which the Company adds back stock-based compensation to, is expected to be between ¥300 million and ¥500 million, as the Company continues to reinvest in each business to be focused on growth. This financial forecast is based on the assumption that a large-scale state of emergency due to a second wave of COVID-19 will not be declared again in the current fiscal year.

4. Others

(1) Application of special accounting methods for preparing quarterly financial statements: None

(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)Number of shares outstanding at the end of period (including treasury stock)

As of October 31, 2020	28,339,490 shares	As of July 31, 2020	28,270,090 shares

2)Number of treasury stock at the end of period

As of October 31, 2020	1,754 shares	As of July 31, 2020	1,171 shares

3)Average number of shares outstanding during the period

Three months ended October 31,2020	28,287,508 shares	Three months ended October 31, 2019	27,809,277 shares

This quarterly report of financial results is out of scope from 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
Balance Sheets

(Thousands of yen)

	As of July 31, 2020	As of October 31, 2020
Assets		
Current assets		
Cash and deposits	15,451,377	14,205,840
Notes receivable - trade	22,915	22,117
Electronically recorded monetary claims - operating	12,452	9,717
Accounts receivable - trade	2,157,262	2,445,618
Raw materials and supplies	36,983	29,984
Prepaid expenses	188,673	218,341
Other	154,246	190,109
Allowance for doubtful accounts	(637)	(468)
Total current assets	18,023,273	17,121,259
Non-current assets		
Property, plant and equipment		
Buildings	207,716	207,716
Accumulated depreciation	(62,411)	(66,687)
Buildings, net	145,305	141,029
Machinery and equipment	751,336	751,336
Accumulated depreciation	(372,851)	(391,634)
Machinery and equipment, net	378,484	359,701
Tools, furniture and fixtures	72,003	72,003
Accumulated depreciation	(41,802)	(44,712)
Tools, furniture and fixtures, net	30,200	27,290
Total property, plant and equipment	553,990	528,021
Intangible assets		
Software	297,625	334,849
Software in progress	47,659	18,099
Total intangible assets	345,285	352,949
Investments and other assets		
Investment securities	124,256	167,200
Shares of subsidiaries and associates	31,683	1,460,925
Long-term prepaid expenses	126,665	101,193
Guarantee deposits	174,662	174,075
Total investments and other assets	457,267	1,903,394
Total non-current assets	1,356,543	2,784,365
Total assets	19,379,817	19,905,625

(Thousands of yen)

	As of July 31, 2020	As of October 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	1,654,786	1,896,562
Short-term borrowings	40,000	40,000
Accounts payable - other	500,595	598,150
Income taxes payable	30,902	32,785
Accrued consumption taxes	63,715	84,951
Advances received	70,473	70,410
Other	45,273	71,959
Total current liabilities	2,405,745	2,794,818
Non-current liabilities		
Convertible bond-type bonds with share acquisition rights	5,043,333	5,040,833
Long-term borrowings	5,000,000	5,000,000
Asset retirement obligations	104,495	104,690
Deferred tax liabilities	24,714	24,111
Total non-current liabilities	10,172,543	10,169,635
Total liabilities	12,578,288	12,964,453
Net assets		
Shareholders' equity		
Share capital	2,152,347	2,163,236
Capital surplus		
Legal capital surplus	4,959,686	4,970,574
Total capital surpluses	4,959,686	4,970,574
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(409,078)	(366,539)
Total retained earnings	(409,078)	(366,539)
Treasury shares	(249)	(249)
Total shareholders' equity	6,702,705	6,767,021
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(10,542)	(6,982)
Total valuation and translation adjustments	(10,542)	(6,982)
Share acquisition rights	109,364	181,132
Total net assets	6,801,528	6,941,171
Total liabilities and net assets	19,379,817	19,905,625

Statements of Income (cumulative)

(Thousands of yen)

	Three months ended October 31, 2019	Three months ended October 31, 2020
Net sales	5,353,789	5,937,211
Cost of sales	4,183,497	4,437,875
Gross profit	1,170,291	1,499,336
Selling, general and administrative expenses	1,213,608	1,432,729
Operating profit (loss)	(43,316)	66,607
Non-operating income		
Interest income	35	2,580
Miscellaneous income	1,759	4,103
Total non-operating income	1,795	6,683
Non-operating expenses		
Interest expenses	4,305	8,163
Listing expenses	9,111	—
Loss on extinguishment of stock-based compensation expenses	—	3,500
Miscellaneous loss	2,641	2,571
Total non-operating expenses	16,058	14,234
Ordinary profit (loss)	(57,580)	59,055
Profit (loss) before income taxes	(57,580)	59,055
Income taxes - current	1,839	17,118
Income taxes - deferred	(2,010)	(602)
Total income taxes	(170)	16,516
Profit (loss)	(57,409)	42,539

Results by Segment

Three months ended October 31,2019

(Thousands of yen)

	Reportable segments				Other	Total	Reconciling items	Per quarterly financial statements
	Raksul	Novasell	Hacobell	Reportable segments				
Sales								
Revenues from external customers	4,028,326	732,971	564,646	5,325,944	27,844	5,353,789	—	5,353,789
Transactions with other segments	—	—	—	—	—	—	—	—
Net sales	4,028,326	732,971	564,646	5,325,944	27,844	5,353,789	—	5,353,789
Operating profit (loss)	329,483	22,459	(102,283)	249,660	9,022	258,683	(302,000)	(43,316)

Three months ended October 31,2020

(Thousands of yen)

	Reportable segments				Other	Total	Reconciling items	Per quarterly financial statements
	Raksul	Novasell	Hacobell	Reportable segments				
Sales								
Revenues from external customers	4,444,926	872,867	553,288	5,871,082	66,128	5,937,211	—	5,937,211
Transactions with other segments	—	—	—	—	—	—	—	—
Net sales	4,444,926	872,867	553,288	5,871,082	66,128	5,937,211	—	5,937,211
Operating profit (loss)	408,135	16,433	(27,624)	396,944	23,843	420,787	(354,180)	66,607