Translation

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Summary of Non-Consolidated Financial Results for the Six Months Ended August 31, 2020 (Based on Japanese GAAP)

October 15, 2020

Company name: Serverworks Co.,Ltd.
Stock exchange listing: Tokyo
Stock code: 4434 URL https://www.serverworks.co.jp/
Representative: Representative Director, President Ryo Oishi
Inquiries: Director Hiroyuki Oshio TEL 03(5579)8029
Scheduled date to file Quarterly Securities Report: October 15, 2020
Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Non-consolidated financial results for the six months ended August 31, 2020 (from March 1, 2020 to August 31, 2020)

(1) Non-consolidated operating results (cumulative) Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended August 31, 2020	3,777	22.9	159	(20.6)	145	(23.2)	281	71.6
Six months ended August 31, 2019	3,074	–	200	–	190	–	164	–

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 31, 2020	40.87	38.41
Six months ended August 31, 2019	24.45	23.66

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of August 31, 2020	9,978	8,428	84.4
As of February 29, 2020	4,472	3,035	67.9

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended February 29, 2020	–	0.00	–	0.00	0.00
Year ending February 28, 2021	–	0.00			
Year ending February 28, 2021 (Forecast)			–	0.00	0.00

3. Forecast of non-consolidated financial results for the year ending February 28, 2021 (from March 1, 2020 to February 28, 2021)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	8,003	17.5	392	(6.1)	377	(10.4)	448	34.5	62.00

4. Notes

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

(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 shares)

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

As of August 31, 2020	7,491,924 shares	As of February 29, 2020	6,760,380 shares

Number of treasury shares at the end of the period

As of August 31, 2020	340 shares	As of February 29, 2020	224 shares

Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended August 31, 2020	6,892,036 shares	Six months ended August 31, 2019	6,712,212 shares

Quarterly non-consolidated financial statements

Non-consolidated balance sheets

(Thousands of yen)

	As of February 29, 2020	As of August 31, 2020
Assets		
Current assets		
Cash and deposits	1,579,231	6,809,962
Accounts receivable - trade	953,532	972,123
Work in process	49,179	63,805
Other	429,285	128,636
Allowance for doubtful accounts	(6,608)	(2,483)
Total current assets	3,004,621	7,972,043
Non-current assets		
Property, plant and equipment	69,175	77,848
Intangible assets	100,491	97,336
Investments and other assets		
Investment securities	1,186,600	1,705,700
Shares of subsidiaries and associates	50,000	50,000
Other	61,263	75,245
Total investments and other assets	1,297,864	1,830,946
Total non-current assets	1,467,531	2,006,131
Total assets	4,472,152	9,978,175
Liabilities		
Current liabilities		
Accounts payable - trade	633,819	745,938
Income taxes payable	52,135	136,226
Provision for bonuses	43,444	53,881
Provision for loss on order received	9,349	20,776
Other	409,445	143,051
Total current liabilities	1,148,193	1,099,873
Non-current liabilities		
Deferred tax liabilities	274,541	435,334
Asset retirement obligations	14,310	14,310
Total non-current liabilities	288,851	449,644
Total liabilities	1,437,044	1,549,517
Net assets		
Shareholders' equity		
Share capital	609,597	2,980,699
Capital surplus	599,597	2,970,699
Retained earnings	1,109,941	1,391,588
Treasury shares	(900)	(1,866)
Total shareholders' equity	2,318,236	7,341,121
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	716,858	1,081,187
Total valuation and translation adjustments	716,858	1,081,187
Share acquisition rights	12	6,348
Total net assets	3,035,107	8,428,657
Total liabilities and net assets	4,472,152	9,978,175

Non-consolidated statements of income (cumulative)

(Thousands of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020
Net sales	3,074,789	3,777,725
Cost of sales	2,558,786	3,250,847
Gross profit	516,002	526,877
Selling, general and administrative expenses	315,660	367,758
Operating profit	200,341	159,119
Non-operating income		
Foreign exchange gains	–	6,560
Other	65	656
Total non-operating income	65	7,217
Non-operating expenses		
Interest expenses	146	–
Share issuance cost	4,735	14,612
Going public expenses	2,000	–
Foreign exchange losses	3,451	–
Other	37	5,853
Total non-operating expenses	10,371	20,465
Ordinary profit	190,035	145,871
Extraordinary income		
Gain on sales of investment securities	37,943	246,221
Total extraordinary income	37,943	246,221
Profit before income taxes	227,979	392,093
Income taxes	63,894	110,445
Profit	164,084	281,647

Non-consolidated statements of cash flows

(Thousands of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020
Cash flows from operating activities		
Profit before income taxes	227,979	392,093
Depreciation	34,948	34,187
Share-based remuneration expenses	491	245
Increase (decrease) in allowance for doubtful accounts	146	(4,125)
Increase (decrease) in provision for bonuses	5,502	10,437
Increase (decrease) in provision for loss on order received	102	11,427
Interest and dividend income	(6)	(11)
Interest expenses	146	–
Foreign exchange losses (gains)	184	75
Share issuance cost	4,735	14,612
Going public expenses	2,000	–
Loss (gain) on sales of investment securities	(37,943)	(246,221)
Decrease (increase) in trade receivables	(158,223)	(18,590)
Decrease (increase) in deposits paid	(76,920)	319
Decrease (increase) in inventories	21,201	(14,625)
Decrease (increase) in advance payments - trade	186,260	341,750
Increase (decrease) in trade payables	102,395	112,119
Increase (decrease) in accounts payable - other	4,806	(2,735)
Increase (decrease) in advances received	(188,711)	(221,923)
Other, net	(53,934)	(90,441)
Subtotal	75,163	318,591
Interest and dividends received	6	11
Interest paid	(37)	–
Income taxes paid	(173,486)	(37,266)
Net cash provided by (used in) operating activities	(98,354)	281,336
Cash flows from investing activities		
Purchase of property, plant and equipment	(14,458)	(3,116)
Purchase of intangible assets	(24,655)	(26,332)
Proceeds from sales of investment securities	40,954	252,243
Payments of leasehold and guarantee deposits	(11,383)	(10,063)
Other, net	(122)	(122)
Net cash provided by (used in) investing activities	(9,666)	212,607
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(300,000)	–
Proceeds from issuance of shares	871,544	4,669,615
Purchase of treasury shares	(497)	(965)
Going public expenses	(3,000)	–
Proceeds from issuance of share acquisition rights	–	68,212
Net cash provided by (used in) financing activities	568,046	4,736,861
Effect of exchange rate change on cash and cash equivalents	(184)	(75)
Net increase (decrease) in cash and cash equivalents	459,841	5,230,730
Cash and cash equivalents at beginning of period	760,265	1,579,231
Cash and cash equivalents at end of period	1,220,106	6,809,962