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# Consolidated Financial Results for the Fiscal Year Ended February 29, 2020
# [Japanese GAAP]

April 14, 2020

Company name Rozetta Corp. Listing Market TSE

Stock Code 6182 URL https://www.rozetta.jp

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Scheduled date of annual general shareholders meeting: May 27, 2020
Scheduled date of commencement of dividend payment: —
Scheduled date of filing of annual securities report: May 28, 2020

Preparation of supplementary materials for financial results: Yes

Holding of financial results briefing: Yes

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended February 29, 2020 (March 1, 2019 to February 29, 2020)

(1) Consolidated Results of Operation (Percentages indicate year-on-year changes.)

| | Net sales | | Operating income | | Ordinary income | | Net income attributable to owners of parent | |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| FY2/20 | 3,910 | 34.5 | 448 | 32.8 | 445 | 32.2 | 308 | 20.5 |
| FY2/19 | 2,908 | 44.9 | 338 | — | 337 | — | 255 | — |

(Note)
Comprehensive income FY2/20 306 Millions of yen (20.0%) FY2/19 255 Millions of yen (—%)

| | Net income per share | Diluted net income per share | Net income to shareholders' equity | Ordinary income to total assets | Operating income to net assets |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| FY2/20 | 29.91 | 29.05 | 22.9 | 13.9 | 11.5 |
| FY2/19 | 25.26 | 24.25 | 24.5 | 14.3 | 11.6 |

(Reference)
Income on equity method investments FY2/20 — Millions of yen FY2/19 — Millions of yen

(2) Consolidated Financial Position

| | Total assets | Net assets | Shareholders' equity ratio | Net assets per share |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | Yen |
| FY2/20 | 3,753 | 1,504 | 40.1 | 145.60 |
| FY2/19 | 2,642 | 1,194 | 45.1 | 115.73 |

(Reference) Shareholders' equity FY2/20 1,503 Millions of yen FY2/19 1,191 Millions of yen

(3) Consolidated Cash Flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalent at the end of the year |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| FY2/20 | 963 | (1,256) | 430 | 989 |
| FY2/19 | 825 | (696) | (232) | 851 |

2. Dividend payment

| | Annual dividend per share | | | | | Total amount of dividends | Payout ratio (Consolidated) | Dividend on equity (Consolidated) |
|---|---|---|---|---|---|---|---|---|
| | End of Q1 | End of Q2 | End of Q3 | Year-end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Millions of yen | % | % |
| FY2/19 | — | 0.00 | — | 0.00 | 0.00 | — | — | — |
| FY2/20 | — | 0.00 | — | 0.00 | 0.00 | — | — | — |
| FY2/21 (Forecast) | — | 0.00 | — | 0.00 | 0.00 | | — | |

3. Consolidated Business Forecasts for FY2/21 (March 1, 2020 to February 28, 2021)

The business forecasts are as follows.

Currently, as the MT business has entered a period of rapid growth since the fourth quarter of the fiscal year ending February 28, 2018, we are concentrating our management policy on maximizing medium-to long-term growth rather than short-term profits. For the time being, we will not disclose the forecast as a fixed value until sales growth of the MT business settles down (roughly 1.5 times the previous year). This is to make decisive choices that best meet its long-term growth objectives on an occasional basis, without adjusting expenses in accordance with earnings forecasts.
For the fiscal year ending February 28, 2021, the Company will disclose only the lowest consolidated earnings forecasts and only disclose record-high net sales (3,910 million yen) or higher and record-high operating income (448 million yen) or higher.

The impact of the Corona calamity on business performance is as follows.

As for the MT business, although there is a risk that events such as exhibitions, which are a means of acquiring new customers, will be cancelled and there will be an impact on new orders received, the overall results, including those of existing customers in March last month, were rather strong, and both orders received and translation usage were record highs. This suggests that the trend toward home work promotion and improvement of business efficiency due to the Corona problem may be consistent with our previous vision.
As for the traditional human resources outsourced HT business, there is a growing trend to cancel interpretations and language training conducted on a face-to-face basis and on a collective basis between client companies, and as a result, as disclosed in the "Notice of the Impact of the New Coronaviruses on Business Results" on February 27, 2020, sales and income are expected to decrease significantly during the period of the impact.
As for the product portfolio, the growth of the MT business, which is the STAR business, is more than the decrease of the HT business, which is shifting from the CASH COW to the DOGS business, we expect to post record-high sales and income on a consolidated basis.
However, the suspension of economic activities at the national level after the government declared a state of emergency in April is another dimension of the problem, and it is impossible to predict the length of the period or the extent of the impact.
Accordingly, the forecasts are based on results and conditions that were actually affected by the Corona calamity to date on April 14. The Company does not make any predictions about when the medical, political and economic future of the Corona calamity will converge.

*Notes

(1) Changes in significant subsidiaries during the period
(changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly consolidated: -

Excluded: Intermedia, Inc. Quicktranslate, Inc.

(Note) For details, please refer to "3. Consolidated Financial Statements, (5) Notes on Consolidated Financial Statements (Changes in Significant Subsidiaries during the Fiscal Year under Review)" on page 11 of the Appendix.

(2) Changes in accounting policies, changes in accounting estimates and restatements

1) Changes in accounting policies due to revisions of accounting standards, etc.: None
2) Changes in accounting policies due to other reasons: None
3) Changes in accounting estimates: None
4) Restatements: None

(3) Number of shares outstanding (common stock)

| | | | | | | |
|---|---|---|---|---|---|---|
| 1) Number of shares outstanding at the end of the period (including treasury stock) | FY2/20 | 10,330,260 | shares | FY2/19 | 10,296,260 | shares |
| 2) Treasury shares at the end of the year | FY2/20 | 422 | shares | FY2/19 | 286 | shares |
| 3) Average number of shares during the period | FY2/20 | 10,309,025 | shares | FY2/19 | 10,127,512 | shares |

(Reference) Summary of Non-consolidated Results of Operation

1. Non-consolidated Financial Results for the Fiscal Year Ended February 28, 2020 (March 1, 2019 to February 29, 2020)

(1) Non-Consolidated Results of Operation (Percentages indicate year-on-year changes.)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| FY2/20 | 2,217 | 66.9 | 200 | 932.5 | 800 | ― | 780 | ― |
| FY2/19 | 1,328 | 54.6 | 19 | ― | 15 | ― | 27 | ― |

(Note) The year-on-year increase (decrease) in ordinary income and net income for the fiscal year ending February 29, 2020 is more than 1,000%, so is indicated by "-."

| | Net income per share | Diluted net income per share |
|---|---|---|
| | Yen | Yen |
| FY2/20 | 75.69 | 73.51 |
| FY2/19 | 2.76 | 2.65 |

(2) Non-consolidated Financial Position

| | Total assets | Net assets | Shareholders' equity ratio | Net assets per share |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | Yen |
| FY2/20 | 3,587 | 1,415 | 39.5 | 137.05 |
| FY2/19 | 2,380 | 630 | 26.5 | 61.22 |

(Reference) Shareholders' equity FY2/20 1,415 Millions of yen FY2/19 630 Millions of yen

*This consolidated financial report is not subject to audit by a certified public accountant or an auditing firm.

*Explanations and other special notes concerning the appropriate use of business forecasts

(Cautionary Statement with Respect to Forward-Looking Statements)

Forecasts regarding future performance in this material are based on information currently available to the Company and certain assumptions that the Company deems to be reasonable at the time this report was prepared. The Company does not make promises about the achievements. Actual results may differ significantly from the forecasts due to various factors. Please refer to "1. Overview of Results of Operation, (2) Consolidated Business Forecasts" on page 3 of the Appendix for the assumptions underlying the forecasts and cautions concerning the use thereof.

(Method of Obtaining Financial Results Briefing Materials)

Supplementary materials for financial results were disclosed on the TDnet on the same date. We also plan to hold a briefing for institutional investors, analysts and long-held individual shareholders online on Tuesday, April 21, 2020. Information about the briefing is available on our website.

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# 1. Overview of Results of Operation and Financial Position.

## (1) Overview of Results of Operation and Financial Position

### 1) Overview of Results of Operation for the Fiscal Year under Review

During the fiscal year under review, sales of T-4OO continued to be strong in the MT business. Accordingly, we continuously increased the staff of all sections, including the marketing and management sections, to fortify our organizational structure before expanding our business rapidly.

As a result, our group posted net sales of 3,910,479 thousand yen (up 34.5% year on year), operating income of 448,860 thousand yen (up 32.8% year on year), ordinary income of 445,904 thousand yen (up 32.2% year on year), and profit attributable to owners of parent of 308,365 thousand yen (up 20.5% year on year) for the current fiscal year.

The performance of each business segment is as follows:

1) MT business

As for the MT business, sales were 2,133,879 thousand yen (up 132.7% year on year) due to continuous strong sales of T-400. Segment income was 236,291 thousand yen (up 89.4% year on year) as a result of a significant increase in SG & A expenses from the sales division to the administration division in preparation for the rapid expansion of the MT business.

2) HT business

As for the HT business, sales were 1,412,858 thousand yen (down 11.3% year on year). Segment income was 328,040 thousand yen (up 26.9% year on year), as a result of a decrease in cost of sales due to a reduction in manufacturing expenses and labor costs, and a decrease in SG & A expenses due to a revision of the ratio of administrative costs to the entire group.

3) Crowdsourcing business

As for the Crowdsourcing business, sales were 363,741 thousand yen (down 8.6% year on year), and segment loss was 45,034 thousand yen (segment income of 80,253 thousand yen in the previous fiscal year), as a result of a decrease in intra-group transactions.

### 2) Overview of Financial Position for the Fiscal Year under Review

(Assets)

Total assets at the end of the fiscal year under review increased by 1,111,055 thousand yen from the end of the previous fiscal year to 3,753,905 thousand yen.

Current assets increased by 321,692 thousand yen from the end of the previous fiscal year to 1,644,950 thousand yen. This was mainly due to an increase of 137,677 thousand yen in cash and deposits.

Non-current assets increased by 789,362 thousand yen from the end of the previous fiscal year to 2,108,955 thousand yen. This was mainly attributable to an increase of 457,396 thousand yen in tools, furniture and fixtures, an increase of 306,335 thousand yen in software, and an increase of 151,638 thousand yen in software in progress due to upfront investment in development costs.

(Liabilities)

Liabilities at the end of the fiscal year under review increased by 801,148 thousand yen from the end of the previous fiscal year to 2,249,833 thousand yen. This was mainly due to an increase of 280,000 thousand yen in short-term borrowings, an increase of 139,912 thousand yen in long-term debt, and an increase of 255,859 thousand yen in advances received.

(Net assets)

Net assets at the end of the fiscal year under review increased by 309,906 thousand yen from the end of the previous fiscal year to 1,504,072 thousand yen. This was mainly due to an increase in retained earnings of 308,365 thousand yen resulting from the recording of net income attributable to owners of parent of 308,365 thousand yen.

### 3) Overview of Cash Flows for the Fiscal Year under Review

Net cash provided by operating activities was 963,581 thousand yen, net cash used in investing activities was 1,256,563 thousand yen, and net cash provided by financing activities was 430,081 thousand yen. As a result, cash and cash equivalents (hereinafter "cash") at the end of the fiscal year under review increased 137,316 thousand yen from the end of the previous fiscal year to 989,128 thousand yen.

(Cash flows from operating activities)
Net cash provided by operating activities was 963,581 thousand yen. Cash inflow was mainly attributable to income before income taxes of 407,215 thousand yen, depreciation and amortization of 412,621 thousand yen, and an increase in advances received of 255,859 thousand yen. Cash outflow was mainly attributable to an increase in notes and accounts receivable-trade of 61,910 thousand yen and a decrease in notes and accounts payable-trade of 52,492 thousand yen.

(Cash flows from investing activities)
Net cash used in investing activities was 1,256,563 thousand yen. Cash outflow included purchase of intangible assets of 742,432 thousand yen, purchase of property, plant and equipment of 501,647 thousand yen, and payment for investments in capital of subsidiaries and associates resulting in change in scope of consolidation of 8,436 thousand yen.

(Cash flows from financing activities)
Net cash provided by financing activities was 430,081 thousand yen. This was mainly attributable to proceeds from long-term debt of 400,000 thousand yen and proceeds from issuance of shares due to the exercise of share subscription rights of 5,542 thousand yen.

(2) Consolidated Business Forecasts

Our two management themes for the future are:

1) Spur the development/sales of T-3MT, which has been newly released as a technological innovation since T-4OO

As for the development, we will further improve the accuracy of translations, and as for the sales, we will greatly expand our sales structure, to accelerate sales growth as we complete our 15 years of upfront investment and enter the investment-return period.

2) Development and marketing of the T-4PO wearable device

In addition to the machine translation service, which translates technical documents for business translation, in FY2/21, the Company will release the first version of T-4PO, a wearable interpretation device, which has been its founding vision, and commence marketing activities.

The business forecasts are as follows.

Currently, as the MT business has entered a period of rapid growth since the fourth quarter of the fiscal year ending February 28, 2018, we are concentrating our management policy on maximizing medium-to long-term growth rather than short-term profits. We will not disclose the forecast as a fixed value until sales growth of the MT business settles down (roughly 1.5 times the previous year). This is to make decisive choices that best meet its long-term growth objectives on an occasional basis, without adjusting expenses in accordance with earnings forecasts. For the fiscal year ending February 28, 2021, the Company will only announce the forecast as the lowest line exceeding the record high net sales (3,910 million yen) and the record high operating income (448 million yen).

The impact of the Corona calamity on business performance is as follows.

As for the MT business, although there is a risk that events such as exhibitions, which are a means of acquiring new customers, will be cancelled and there will be an impact on new orders received, the overall results, including those of existing customers in March last month, were rather strong, and both orders received and translation usage were record highs. This suggests that the trend toward home work promotion and improvement of business efficiency due to the Corona problem may be consistent with our previous vision.

As for the traditional human resources outsourced HT business, there is a growing trend to cancel interpretations and language training conducted on a face-to-face basis and on a collective basis between client companies, and as a result, as disclosed in the "Notice of the Impact of the New Coronaviruses on Business Results" on February 27, 2020, sales and income are expected to decrease significantly during the period of the impact.

As for the product portfolio, the growth of the MT business, which is the STAR business, is more than the decrease of the HT business, which is shifting from the CASH COW to the DOGS business, we expect to post record-high sales and income on a consolidated basis.

However, the suspension of economic activities at the national level after the government declared a state of emergency in April is another dimension of the problem, and it is impossible to predict the length of the period or the extent of the impact.

Accordingly, the forecasts are based on results and conditions that were actually affected by the Corona calamity to date on April 14. The Company does not make any predictions about when the medical, political and economic future of the Corona calamity will converge.

## 2. Basic Approach to Selection of Accounting Standards

In light of the comparability of consolidated financial statements between periods and between companies, our group intends to prepare consolidated financial statements under Japanese GAAP for the time being.

With regard to the application of the International Financial Reporting Standards (IFRS), our policy is to respond appropriately while taking into consideration various circumstances in Japan and overseas.

## 3. Consolidated Financial Statements and Major Notes

### (1) Consolidated Balance Sheets

(Thousands of yen)

| | Previous fiscal year (February 28, 2019) | Current fiscal year (February 29, 2020) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 853,378 | 991,056 |
| Notes and accounts receivable | 360,515 | 427,847 |
| Inventories | 51,237 | 29,045 |
| Other | 66,716 | 210,151 |
| Allowance for doubtful receivables | (8,589) | (13,151) |
| Total current assets | 1,323,258 | 1,644,950 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Building and structure | 16,747 | 80,646 |
| Tools, furniture and fixtures | 351,372 | 808,768 |
| Construction in Progress | 34,476 | — |
| Accumulated depreciation | (166,106) | (333,809) |
| Total property, plant and equipment | 236,489 | 555,605 |
| Intangible assets | | |
| Goodwill | 89,513 | 74,992 |
| Software | 432,361 | 738,697 |
| Software in progress | 423,287 | 574,926 |
| Other | 468 | 446 |
| Total intangible assets | 945,631 | 1,389,062 |
| Investments and other assets | | |
| Long-term loan | 1,009 | 359 |
| Deferred tax asset | 56,796 | 66,001 |
| Other | 86,638 | 106,318 |
| Allowance for doubtful receivables | (6,974) | (8,391) |
| Total investments and other assets | 137,471 | 164,287 |
| Total non-current assets | 1,319,592 | 2,108,955 |
| Total assets | 2,642,850 | 3,753,905 |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 140,961 | 88,469 |
| Short-term borrowings | — | 280,000 |
| Long-term debt due within one year | 231,601 | 237,655 |
| Accounts payable-other | 110,829 | 205,792 |
| Income taxes payable | 111,002 | 34,457 |
| Provision for bonuses | 26,577 | 50,652 |
| Advances received | 440,309 | 696,169 |
| Other | 95,231 | 224,555 |
| Total current liabilities | 1,156,513 | 1,817,750 |
| Non-current liabilities | | |
| Long-term debt | 292,171 | 432,083 |
| Total non-current liabilities | 292,171 | 432,083 |
| Total liabilities | 1,448,684 | 2,249,833 |

(Thousands of yen)

| | Previous fiscal year (February 28, 2019) | Current fiscal year (February 29, 2020) |
|---|---|---|
| Net assets | | |
| Shareholders' equity | | |
| Common stock | 250,794 | 253,565 |
| Capital surplus | 1,230,983 | 1,232,754 |
| Retained earnings | (289,839) | 18,525 |
| Treasury stock | (435) | (861) |
| Total shareholders' equity | 1,191,502 | 1,503,983 |
| Share subscription rights | 458 | 89 |
| Non-controlling interests | 2,206 | — |
| Total net assets | 1,194,166 | 1,504,072 |
| Total liabilities and net assets | 2,642,850 | 3,753,905 |

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated Statements of Income)

(Thousands of yen)

| | Previous fiscal year (From March 1, 2018 to February 28, 2019) | Current fiscal year (From March 1, 2019 to February 29, 2020) |
|---|---|---|
| Net sales | 2,908,042 | 3,910,479 |
| Cost of sales | 1,123,670 | 1,362,244 |
| Gross profit | 1,784,371 | 2,548,234 |
| Selling, general and administrative expenses | | |
| Remuneration for directors | 120,392 | 155,021 |
| Salaries, allowances and bonuses | 511,309 | 672,062 |
| Advertising expenses | 183,932 | 221,115 |
| Provision for doubtful receivables | 247 | 6,129 |
| Provision for bonuses | 19,606 | 24,951 |
| Other | 610,839 | 1,020,094 |
| Total selling, general and administrative expenses | 1,446,327 | 2,099,374 |
| Operating income | 338,044 | 448,860 |
| Non-operating income | | |
| Interest income | 55 | 166 |
| Dividends income | 18 | 19 |
| Subsidy income | — | 1,425 |
| Foreign exchange gain | 10 | — |
| Other | 2,233 | 1,194 |
| Total non-operating income | 2,317 | 2,805 |
| Non-operating expenses | | |
| Interest expenses | 2,723 | 2,084 |
| Settlement | — | 2,400 |
| Foreign exchange loss | — | 72 |
| Other | 321 | 1,204 |
| Total non-operating expenses | 3,045 | 5,761 |
| Ordinary income | 337,316 | 445,904 |
| Special income | | |
| Gain on sale of investment securities | 199 | — |
| Income on sales of non-current assets | 786 | — |
| Surrender value of insurance | 11,513 | — |
| Gain on reversal of share subscription rights | — | 369 |
| Total special income | 12,499 | 369 |
| Special loss | | |
| Loss on retirement of non-current assets | 3,149 | 39,057 |
| Total special loss | 3,149 | 39,057 |
| Income before income taxes | 346,667 | 407,215 |
| Income taxes - current | 116,054 | 110,260 |
| Income taxes - deferred | (24,462) | (9,204) |
| Total income taxes | 91,591 | 101,056 |
| Net income | 255,075 | 306,159 |
| Loss attributable to non-controlling interests | (793) | (2,206) |
| Net income attributable to owners of parent | 255,869 | 308,365 |

(Consolidated Statements of Comprehensive Income)

(Thousands of yen)

| | Previous fiscal year (From March 1, 2018 to February 28, 2019) | Current fiscal year (From March 1, 2019 to February 29, 2020) |
|---|---|---|
| Net income | 255,075 | 306,159 |
| Comprehensive income | 255,075 | 306,159 |
| (Comprehensive income attributable to) | | |
| Owners of parent | 255,869 | 308,365 |
| Non-controlling interests | (793) | (2,206) |

(3) Consolidated Statements of Changes in Shareholders' Equity

Previous fiscal year (From March 1, 2018 to February 28, 2019)

(Thousands of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Opening balance | 230,093 | 1,210,282 | (545,709) | (225) | 894,440 |
| Change during the year | | | | | |
| Issuance of new shares | 20,701 | 20,701 | | | 41,402 |
| Net income attributable to owners of parent | | | 255,869 | | 255,869 |
| Purchase of treasury stock | | | | (210) | (210) |
| Net change in items other than shareholders' equity | | | | | |
| Total changes of items during the year | 20,701 | 20,701 | 255,869 | (210) | 297,061 |
| Ending balance | 250,794 | 1,230,983 | (289,839) | (435) | 1,191,502 |

| | Share subscription rights | Non-controlling interests | Total net assets |
|---|---|---|---|
| Opening balance | 458 | — | 894,898 |
| Change during the year | | | |
| Issuance of new shares | | | 41,402 |
| Net income attributable to owners of parent | | | 255,869 |
| Purchase of treasury stock | | | (210) |
| Net change in items other than shareholders' equity | — | 2,206 | 2,206 |
| Total changes of items during the year | — | 2,206 | 299,267 |
| Ending balance | 458 | 2,206 | 1,194,166 |

Current fiscal year (From March 1, 2019 to February 29, 2020)

(Thousands of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Opening balance | 250,794 | 1,230,983 | (289,839) | (435) | 1,191,502 |
| Change during the year | | | | | |
| Issuance of new shares | 2,771 | 2,771 | | | 5,542 |
| Net income attributable to owners of parent | | | 308,365 | | 308,365 |
| Purchase of treasury stock | | | | (426) | (426) |
| Purchase of investments in consolidated subsidiaries | | (1,000) | | | (1,000) |
| Net change in items other than shareholders' equity | | | | | |
| Total changes of items during the year | 2,771 | 1,771 | 308,365 | (426) | 312,481 |
| Ending balance | 253,565 | 1,232,754 | 18,525 | (861) | 1,503,983 |

| | Share subscription rights | Non-controlling interests | Total net assets |
|---|---|---|---|
| Opening balance | 458 | 2,206 | 1,194,166 |
| Change during the year | | | |
| Issuance of new shares | | | 5,542 |
| Net income attributable to owners of parent | | | 308,365 |
| Purchase of treasury stock | | | (426) |
| Purchase of investments in consolidated subsidiaries | | | (1,000) |
| Net change in items other than shareholders' equity | (369) | (2,206) | (2,575) |
| Total changes of items during the year | (369) | (2,206) | 309,906 |
| Ending balance | 89 | — | 1,504,072 |

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

| | Previous fiscal year (From March 1, 2018 to February 28, 2019) | Current fiscal year (From March 1, 2019 to February 29, 2020) |
|---|---|---|
| Cash flows from operating activities | | |
| Income before income taxes | 346,667 | 407,215 |
| Depreciation | 203,298 | 412,621 |
| Amortization of goodwill | 21,262 | 22,011 |
| Increase (decrease) in allowance for doubtful accounts | 37 | 5,979 |
| Increase (decrease) in accrued bonuses | 6,187 | 24,074 |
| Interest and dividend income | (73) | (186) |
| Loss (gain) on sales of investment securities | (199) | — |
| Loss (gain) on sales of non-current assets | (786) | — |
| Loss on retirement of non-current assets | 3,149 | 39,057 |
| Gain on reversal of share subscription rights | — | (369) |
| Interest expenses | 2,723 | 2,084 |
| Settlement | — | 2,400 |
| Surrender value of insurance | (11,513) | — |
| Increase (decrease) in advances received | 303,508 | 255,859 |
| (Increase) decrease in notes and accounts receivable-trade | (92,414) | (61,910) |
| (Increase) decrease in inventories | (21,251) | 22,191 |
| Increase (decrease) in trade payables | 29,675 | (52,492) |
| Other | 38,160 | 78,534 |
| Sub-total | 828,431 | 1,157,070 |
| Interest and dividends received | 73 | 186 |
| Interest paid | (2,723) | (2,084) |
| Settlement paid | — | (2,400) |
| Income taxes paid | (29,064) | (189,210) |
| Income taxes refund | 28,285 | 20 |
| Cash flows from operating activities | 825,002 | 963,581 |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | (164,223) | (501,647) |
| Proceeds from sale of property, plant and equipment | 786 | — |
| Payments for intangible assets | (573,468) | (742,432) |
| Proceeds from sale of investment securities | 200 | — |
| Payments for investments in capital of subsidiaries and associates resulting in change in scope of consolidation | — | (8,436) |
| Payment for loans receivable | (1,300) | (3,570) |
| Proceeds from loans receivable | 443 | 1,635 |
| Payments into time deposits | (1,238) | (1,001) |
| Proceeds from withdrawal of time deposits | 15,373 | — |
| Payments for lease and guarantee deposits | — | (2,586) |
| Collection of lease and guarantee deposits | — | 1,474 |
| Proceeds from cancellation of insurance funds | 27,164 | — |
| Cash flows from investing activities | (696,262) | (1,256,563) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | (14,940) | 280,000 |
| Proceeds from long-term debt | — | 400,000 |
| Repayment of long-term debt | (261,759) | (254,034) |
| Proceeds from issuance of common stock upon exercise of share subscription rights | 41,402 | 5,542 |
| Purchase of investments in subsidiaries that does not result in change in scope of consolidation | — | (1,000) |
| Purchase of treasury stock | (210) | (426) |
| Proceeds from stock issuance to non-controlling interests | 3,000 | — |
| Cash flows from financing activities | (232,507) | 430,081 |

| | | |
|---|---|---|
| Effect of exchange rate change on cash and cash equivalents | (261) | 216 |
| Net increase (decrease) in cash and cash equivalents | (104,028) | 137,316 |
| Cash and cash equivalents at beginning of the year | 955,840 | 851,811 |
| Cash and cash equivalents at end of the year | 851,811 | 989,128 |

(5) Notes on Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Changes in Significant Subsidiaries during the Fiscal Year under Review)

During the fiscal year under review, we conducted an absorption-type merger of Intermedia, Inc. by GLOVA Corp., our consolidated subsidiary, and an absorption-type merger of Quicktranslate, Inc. by anydooR, Inc. As a result, Intermedia, Inc. and Quicktranslate, Inc. have ceased to exist, and therefore, they have been excluded from the scope of consolidation from the fiscal year under review.

(Changes in Presentation Method)

(Changes due to Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the fiscal year under review. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under non-current liabilities.

As a result, 34,247 thousand yen of "Deferred tax assets" under "Current assets" section has been included in 56,796 thousand yen of "Deferred tax assets" in the previous fiscal year's consolidated balance sheet.

(Consolidated Balance Sheets)

Accounts payable-other, which had been included in "Other" under "Current liabilities" until the previous fiscal year, is presented separately from the current fiscal year due to its materiality. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, 206,061 thousand yen included in "Other" under "Current liabilities" in the previous fiscal year's consolidated balance sheet has been reclassified as 110,829 thousand yen in "Accounts payable-other" and 95,231 thousand yen in "Other."

(Business Combination)

(Business Combination by Acquisition)

At the meeting of the Board of Directors held on August 15, 2019, we resolved to acquire all the equity interest in RPA Consulting LLC with an effective date of September 1, 2019, and make it a wholly owned subsidiary of the Company, and concluded an equity transfer agreement with equity owners, and acquired equity interest.

(1) Overview of the Business Combination

1) Company name and business description of the acquired company

Company name: RPA Consulting LLC

Business description: Consulting, advisory, and development support for RPAs

2) Major reason for the business combination

The precision of machine translation has exceeded the level that had been targeted since the founding of the Company, and as a result of the realization of the goal of "liberate Japan from linguistic impairment," which has been the mission since the founding of the Company, the Company has newly adopted the mission of "releasing humanity from the shackles of manual labor" as Chapter 2 of the Mission. As a specific methodology, we decided to promote the AI RPA, which combines the superior RPA know-how of RPA Consulting LLC and our AI technology to add AI (Artificial Intelligence) to the RPA (Robotic Process Automation).

3) Effective date of the business combination

September 1, 2019

4) Legal form of the business combination

Acquisition of equity interest

5) Company name following the business combination

There is no change.

6) Acquired equity

100%

7) Principal basis for determining the acquirer

This was determined based on the fact that we acquired an equity interest in RPA Consulting LLC in which cash was provided as a consideration.

(2) Period in which the acquired company's business performance is reflected in the consolidated financial statements

From September 1, 2019 to February 29, 2020

(3) Breakdown of the acquisition cost

| | |
|---|---|
| Consideration paid for acquisition | |
| Cash | 21,000 thousand yen |
| Total acquisition cost | 21,000 thousand yen |

(4) Details and amount of major acquisition-related expenses

| | |
|---|---|
| Due diligence expenses | 900 thousand yen |

(5) Amount of goodwill recognized, reason thereof, method and period of amortization

1) Amount of goodwill

7,490 thousand yen

2) Reason

Due to prospective earning power expected from future business development.

3) Method and period of amortization

Straight-line method over 5 years

(6) Breakdown of assets acquired and liabilities assumed on the date of the business combination

| | |
|---|---|
| Current assets | 17,984 thousand yen |
| Total assets | 17,984 thousand yen |
| Current liabilities | 4,475 thousand yen |
| Total liabilities | 4,475 thousand yen |

(7) Estimated amount of impact on the consolidated statements of income for the current fiscal year assuming that the business combination has been completed on the commencement date of the consolidated fiscal year, and the calculation method thereof

| | |
|---|---|
| Net sales | 21,810 thousand yen |
| Operating income | 12,776 thousand yen |
| Ordinary income | 12,776 thousand yen |
| Income before income taxes | 12,776 thousand yen |

(Method of Calculating Approximate Amounts)

The approximate amount of impact is the difference between net sales and income information that was calculated based on the assumption that the business combination had been completed at the beginning of the fiscal year and net sales and income information in the consolidated statements of income of the acquirer.

This note has not been audited.

(Transactions under Common Control)

At the meeting of the Board of Directors held on January 11, 2019, we resolved to conduct an absorption-type merger of Intermedia, Inc. by GLOVA Corp., our consolidated subsidiary, and an absorption-type merger of Quicktranslate, Inc. by anydooR, Inc., and conducted an absorption-type merger on March 1, 2019.

I. Absorption-type merger of Intermedia, Inc. by GLOVA Corp.

Summary of transactions

(1) Company name and business description of the companies subject to the business combination

1) Surviving company

Company name: GLOVA Corp.

Business description: translation, interpretation, and corporate language training

2) Absorbed company

Company name: Intermedia, Inc.

Business description: technical translation, copy writing, DTP, design and printing

(2) Effective date of the business combination

March 1, 2019

(3) Legal form of the business combination

Absorption-type merger in which GLOVA Corp. is the surviving company and Intermedia, Inc. is the absorbed company

(4) Company name following the business combination

GLOVA Corp.

(5) Other matters related to overview of the transaction

Aim of the business combination is to further improve management efficiency.

II. Absorption-type merger of Quicktranslate, Inc. by anydooR, Inc.

Summary of transactions

(1) Company name and business description of the companies subject to the business combination

1) Surviving company

Company name: anydooR, Inc.

Business description: the user-participatory bilingual platform service on the website

2) Absorbed company

Company name: Quicktranslate, Inc.

Business description: translator matching service

(2) Effective date of the business combination

March 1, 2019

(3) Legal form of the business combination

Absorption-type merger in which anydooR, Inc. is the surviving company and Quicktranslate, Inc. is the absorbed company

(4) Company name following the business combination

Xtra, Inc.

(5) Other matters related to overview of the transaction

Aim of the business combination is to further improve management efficiency.

III. Overview of accounting treatment

In accordance with the "Accounting Standards for Business Combinations" and the "Implementation Guidance on Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures," the Company treats these transactions as transactions under common control.

(Segment Information)

1. Overview of Reportable Segments

Our reportable segments are components of the Company for which separate financial information is available and which are regularly reviewed by the Board of Directors in order to determine the allocation of management resources and evaluate business performance. Our business is centered on the machine translation business, while peripheral businesses are the translation outsourcing business and the crowdsourcing business.

(1) MT business

The Machine Translation business provides machine-translation services using artificial intelligence (AI) based on its corporate mission of "liberate Japan from linguistic impairment."

In addition, we have provided Robotic Process Automation (RPA) using knowledge gained from translation, based on the mission of "releasing humanity from the shackles of manual labor," as Chapter 2 of the mission.

(2) HT business

The Human Translation business provides outsourced services, such as traditional human translation, interpretation, and language training.

(3) Crowdsourcing business

The crowdsourcing business provides a crowdsourcing website on which global jobs such as multilingual translation and field surveys can be requested.

2. Method of calculating net sales, income (loss), assets and other items by reportable segment

The accounting methods used for the reportable segments are based on the accounting policies adopted for the preparation of the consolidated financial statements.

Segment income is based on operating income. Intersegment sales and transfers are based on prevailing market prices.

3. Information on net sales, income (loss), assets and other items by reportable segment

Previous fiscal year (From March 1, 2018 to February 28, 2019)

(Thousands of yen)

| | Reportable Segments | | | | Adjustment (Note 1,3) | Amounts on the consolidated financial statements (Note 2) |
|---|---|---|---|---|---|---|
| | MT business | HT business | Crowdsourcing business | Total | | |
| Net sales | | | | | | |
| Net sales to unaffiliated customers | 916,908 | 1,593,020 | 398,113 | 2,908,042 | — | 2,908,042 |
| Intersegment sales or transfer | 4,165 | 171,940 | 245,095 | 421,200 | (421,200) | — |
| Total | 921,073 | 1,764,960 | 643,208 | 3,329,242 | (421,200) | 2,908,042 |
| Segment income (loss) | 124,783 | 258,509 | 80,253 | 463,546 | (125,502) | 338,044 |
| Segment assets | 1,021,436 | 694,349 | 437,128 | 2,152,914 | 489,936 | 2,642,850 |
| Other | | | | | | |
| Depreciation | 188,190 | 6,219 | 8,887 | 203,298 | — | 203,298 |
| Amortization of goodwill | — | 1,076 | 13,475 | 14,552 | 6,709 | 21,262 |
| Increase in property, plant and equipment, and intangible assets | 703,978 | 28,539 | 77,814 | 810,332 | — | 810,332 |

(Note)

1. Adjustments to segment income of (125,502) thousand yen include elimination of inter-segment transactions of (69,796) thousand yen, amortization of goodwill not attributable to reportable segments of (6,709) thousand yen, and corporate expenses of (48,995) thousand yen. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.
2. Segment income (loss) is adjusted with operating income in the consolidated statements of income.
3. Adjustments to segment assets of 489,936 thousand yen are corporate assets not attributable to reportable segments. They mainly consist of surplus operating funds (cash and deposits), goodwill, deferred tax assets, and assets related to the administrative division.

Current fiscal year (From March 1, 2019 to February 29, 2020)

(Thousands of yen)

| | Reportable Segments | | | | Adjustment (Note 1,3) | Amounts on the consolidated financial statements (Note 2) |
|---|---|---|---|---|---|---|
| | MT business | HT business | Crowdsourcing business | Total | | |
| Net sales | | | | | | |
| Net sales to unaffiliated customers | 2,133,879 | 1,412,858 | 363,741 | 3,910,479 | — | 3,910,479 |
| Intersegment sales or transfer | 81,013 | 8,337 | 98,755 | 188,107 | (188,107) | — |
| Total | 2,214,893 | 1,421,196 | 462,496 | 4,098,586 | (188,107) | 3,910,479 |
| Segment income (loss) | 236,291 | 328,040 | (45,034) | 519,296 | (70,436) | 448,860 |
| Segment assets | 2,247,360 | 750,529 | 271,685 | 3,269,575 | 484,330 | 3,753,905 |
| Other | | | | | | |
| Depreciation | 381,433 | 10,594 | 20,592 | 412,621 | — | 412,621 |
| Amortization of goodwill | 749 | 7,786 | 13,475 | 22,011 | — | 22,011 |
| Increase in property, plant and equipment, and intangible assets | 1,188,861 | 1,208 | 54,008 | 1,244,079 | — | 1,244,079 |

(Note)

1. Adjustments to segment income of (70,436) thousand yen include elimination of intersegment transactions of 14,879 thousand yen and corporate expenses not attributable to reportable segments of (85,316) thousand yen. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.
2. Segment income (loss) is adjusted with operating income in the consolidated statements of income.
3. Adjustments to segment assets of 484,330 thousand yen are corporate assets not attributable to reportable segments. They mainly consist of surplus operating funds (cash and deposits), deferred tax assets, and assets related to the administrative division.

(Per share Information)

| | Previous fiscal year (From March 1, 2018 to February 28, 2019) | Current fiscal year (From March 1, 2019 to February 29, 2020) |
|---|---|---|
| Net assets per share | 115.73 yen | 145.60 yen |
| Net income per share | 25.26 yen | 29.91 yen |
| Diluted net income per share | 24.25 yen | 29.05 yen |

(Note) The basis for calculating net income per share and diluted net income per share is as follows.

| | Previous fiscal year (From March 1, 2018 to February 28, 2019) | Current fiscal year (From March 1, 2019 to February 29, 2020) |
|---|---|---|
| Net income per share | | |
| Net income attributable to owners of parent (thousands of yen) | 255,869 | 308,365 |
| Amount not attributable to common shareholders (thousands of yen) | — | — |
| Net income attributable to owners of parent related to common stock (thousands of yen) | 255,869 | 308,365 |
| Average number of shares of common stock outstanding during the period (shares) | 10,127,512 | 10,309,025 |
| | | |
| Diluted net income per share | | |
| Adjustment to net income attributable to owners of parent (thousands of yen) | — | — |
| Increase in number of common shares (shares) | 424,017 | 305,188 |
| (Share subscription rights (shares)) | (424,017) | (305,188) |
| Outline of potential shares that had not been included in the calculation of diluted net income per share because they had no dilutive effect | — | — |

(Significant Subsequent Events)

Not applicable.