Translation

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

July 14, 2020

Company name:	and factory, inc	
Stock exchange listing:	Tokyo	
Stock code:	7035	URL https://andfactory.co.jp/
Representative:	Rinji Aoki, President and Representative Director	
Contact:	Tomoki Hasumi, Director	Phone: +81-3-6712-7646
Scheduled date to file quarterly securities report:		July 14, 2020
Scheduled date to commence dividend payments:		―
Preparation of supplementary material on quarterly financial results:		Yes
Holding of quarterly financial results meeting:		No

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

1. Non-Consolidated financial results for the nine months ended May 31, 2020 (From September 1, 2019 to May 31, 2020)

(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	%
Nine months ended May 31, 2020	2,217	44.8	(45)	―	(88)	―	(101)	―
Nine months ended May 31, 2019	1,531	51.1	155	(25.7)	130	(36.4)	88	(33.7)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended May 31, 2020	(10.42)	―
Nine months ended May 31, 2019	9.44	9.03

Notes:
1. The Company's shares were listed on the Mothers market of the Tokyo Stock Exchange on September 6, 2018. For that reason, the average share price between the listing date and May 31, 2019 is used to calculate average diluted earnings per share for the nine months ended May 31, 2019.
2. The Company conducted a two-for-one split of common stock on August 1, 2019. However, earnings per share and diluted earnings per share are calculated as if the stock split had occurred on September 1, 2018.
3. Although dilutive shares exist, diluted earnings per share are not stated for the nine months ended May 31, 2020, 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 May 31, 2020	5,807	1,709	29.4
As of August 31, 2019	3,040	1,798	59.1

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, 2019	―	0.00	―	0.00	0.00
Year ending August 31, 2020	―				
Year ending August 31, 2020 (Forecast)		0.00	―	0.00	0.00

3. Forecast of non-consolidated financial results for the year ending August 31, 2020 (From September 1, 2019 to August 31, 2020)

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	2,861	(27.0)	(248)	—	(300)	—	(220)	—	—

4. Notes

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

Note: For tax expenses, the Company has rationally estimated its effective tax rate after the application of tax-effect accounting to profit before income taxes for the fiscal year that includes the nine months ended May 31, 2020. The Company then calculated tax expenses by multiplying its profit (loss) before income taxes by that rate.

(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 May 31, 2020	9,824,720 shares	As of August 31, 2019	9,494,640 shares

Number of treasury shares at the end of the period

As of May 31, 2020	214 shares	As of August 31, 2019	189 shares

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

Nine months ended May 31, 2020	9,768,339 shares	Nine months ended May 31, 2019	9,410,644 shares

Note: The Company conducted a two-for-one split of common stock on August 1, 2019. The average number of shares during the nine months ended May 31, 2019 is calculated as if the stock split had occurred on September 1, 2018.

Notes: This quarterly financial report is exempt from the quarterly 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

In the nine months ended May 31, 2020, the Japanese economy continued to experience gradual recovery, buoyed by improvements in the employment and income environments. However, concerns about a stagnation in economic activity mounted and the outlook grew increasingly uncertain as the novel coronavirus disease (COVID-19) spread, both in Japan and globally. The outlook is further clouded by fears about a second and third wave of the disease.

Against this backdrop, the e-book market (the Company's main business category) continued to grow, according to the eBook Marketing Report 2019 by Impress Research Institute. According to this report, the e-book market had a value of ¥282.6 billion in fiscal 2018, up 26.1% from the previous year's figure of ¥224.1 billion. Comics accounted for 84.5% of the total, or ¥238.7 billion. The same institute's report for the previous year, the eBook Marketing Report 2018, had forecast that the e-book market would reach a value of ¥255.0 billion in fiscal 2018. The actual figure exceeded this forecast. By fiscal 2023, the institute forecasts that the market will grow by approximately 50% from fiscal 2018, to ¥433.0 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 60% from approximately 27.4 billion items in 2017 to some 44.7 billion items in 2021 (source: 2019 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 is focusing on expanding earnings from smartphone manga apps, mostly developed in collaboration with large publishers. In the IoT business segment, the Company is promoting the adoption of technology in the lodging business. In line with this business policy, we are concentrating on the launch of &AND HOSTEL smart hostels, a lodging management system (innto), a guest room tablet service (tabii), and the provision of other IoT solution services for lodging facilities. As new initiatives in the rental property market, we are developing a communication app (totono) to connect management companies and tenants.

However, the spread of COVID-19 led to deterioration of the advertising market, and advertising revenue from manga apps declined. Also, in the &AND HOSTEL business the Company decided to postpone or discontinue planning and development projects that were underway. Furthermore, following the government declaration of a state of emergency we suspended operation of &AND HOSTEL locations to halt the spread of the disease, prompting a decline in profits.

As a result of these activities, in the nine months ended May 31, 2020, the Company generated net sales of ¥2,217,073 thousand (up 44.8% year on year), an operating loss of ¥45,949 thousand (operating income of ¥155,457 thousand in the corresponding period of the previous fiscal year), an ordinary loss of ¥88,654 thousand (ordinary profit of ¥130,944 thousand in the corresponding period of the previous fiscal year), and a net loss of ¥101,785 thousand (net income of ¥88,800 thousand in the corresponding period of the previous fiscal year).

We also posted extraordinary losses stemming from fixed costs generated by individual hostels during the period operations were suspended (such as personnel and depreciation expenses), as well as other losses related to the temporary suspension of operations.

(1) Smartphone Apps business

In the nine months ended May 31, 2020, the Company conducted proactive advertising for existing manga apps, such as Manga UP!, Manga Park, and Manga Mee, conducted new series launches, and saw a rise in demand as people exercised voluntary self-isolation. As a result, the number of monthly active users (MAUs*1) increased. Extending the availability of popular content and new manga additions, resulted in the favorable post-launch performance of services. Additionally, MAUs have been increasing steadily, contributing to earnings, since the release in April 2020 of Young Jump, a manga app jointly developed with Shueisha Inc., and the release in May 2020 of Mecha Comic's Mainichi Rensai, a manga app jointly developed with Amutus Corporation.

However, average revenue per user (ARPU*2) was flat, due in part to the reduction in unit reward prices by some advertisers and partly because of the deleterious overall effect of COVID-19 on the advertising market.

As a result, in the nine months ended May 31, 2020, sales in the Smartphone Apps business were ¥1,858,627 thousand (up 51.2% year on year). Segment profit came to ¥310,450 thousand (down 20.4% 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 Saikyo series and manga apps.

(Thousands of people)

	Average MAUs	
	Saikyo series	Manga apps
November 30, 2015	260	—
February 29, 2016	250	—
May 31, 2016	250	—
August 31, 2016	260	—
November 30, 2016	590	—
February 28, 2017	700	180
May 31, 2017	710	310
August 31, 2017	670	650
November 30, 2017	920	1,080
February 28, 2018	700	1,500
May 31, 2018	530	2,040
August 31, 2018	470	2,380
November 30, 2018	510	2,790
February 28, 2019	390	3,620
May 31, 2019	300	4,300
August 31, 2019	290	5,320
November 30, 2019	270	6,410
February 29, 2020	160	7,200
May 31, 2020	130	9,060

Note: the average MAUs shown above are quarterly averages.

(2) IoT business

In the nine months ended May 31, 2020, the Company made progress on ongoing planning and development work for its mainstay &AND HOSTEL brand of smart hostels (lodging facilities offering experiences made possible through IoT). However, we decided to suspend or halt all planning and development work, due to the impact of COVID-19. Other locations closed to rebrand following a change in ownership, while no new locations opened, bringing the number of facilities in operation to eight.

Furthermore, in line with the government's declaration of a state of emergency we temporarily suspended operations of all &AND HOSTEL locations. Operating revenue at each location fell year on year accordingly.

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 Partners Inc., expanded sales teams, and engaged in active development efforts to create new functions aimed at boosting operating efficiency and increasing added value. Even so, sales activities were down from usual levels as

COVID-19 caused the operating environment to deteriorate among the facilities we target with this service. As a result, the total number of tabii tablets in operation stood at 4,250 (up 1,397 from August 31, 2019).

The Company brought the number of facilities using its lodging management system (innto) up to 268 as of May 31, 2020 (up by 36 facilities from August 31, 2019).

Consequently, in the nine months ended May 31, 2020 sales in the IoT business came to ¥286,858 thousand (up 14.4% year on year), with segment losses of ¥112,279 thousand (loss of ¥43,173 thousand in the same period of the previous year).

(3) Other businesses

The majority of earnings in this segment comes from the Company's internet advertising agency services. In the nine months ended May 31, 2020, Other businesses reported sales of ¥71,587 thousand (up 38.5% year on year) and segment profit of ¥22,928 thousand (up 121.7% year on year).

(2) Analysis of Financial Conditions

(1) Assets, liabilities, and net assets

(Assets)

As of May 31, 2020, total assets amounted to ¥5,807,846 thousand, up ¥2,767,610 thousand from August 31, 2019. Key increases included trade accounts receivable, up ¥148,242 thousand; real estate for sale, up ¥1,183,169 thousand; real estate for sale in process, up ¥1,358,141 thousand; and advances paid, up ¥318,315 thousand. In addition, investment securities corresponding to the acquisition of shares in unlisted companies rose ¥130,144 thousand, while cash and deposits decreased ¥681,592 thousand.

(Liabilities)

Total liabilities amounted to ¥4,098,251 thousand as of May 31, 2020, up ¥2,856,138 thousand from August 31, 2019. Major increases included short-term borrowings, up ¥469,147 thousand, and long-term borrowings (including the current portion of long-term borrowings), which rose ¥2,425,717 thousand due to borrowings to fund the acquisition of real estate for sale. Meanwhile, income taxes payable decreased ¥108,757 thousand due to the payment of taxes.

(Net assets)

As of May 31, 2020, net assets totaled ¥1,709,594 thousand, down ¥88,528 thousand from August 31, 2019. Notably, share capital rose ¥6,265 thousand, and the capital surplus expanded ¥5,996 thousand due to the exercise of share acquisition rights. At the same time, the Company posted a net loss, causing retained earnings to fall ¥101,785 thousand.

The equity ratio came to 29.4% (compared with 59.1% as of August 31, 2019).

(3) Operating Performance Forecast

The Company's operating performance forecast is unchanged from the figures announced in the June 2, 2020 release entitled "Notice of Revised Operating Performance Forecast."

The forecast is based on judgments believed to be rational and made on the basis of currently available information. Actual figures may differ substantially due to subsequent changes in circumstances.

Quarterly Non-Consolidated Financial Statements
Quarterly Non-Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2019	As of May 31, 2020
Assets		
Current assets		
Cash and deposits	1,352,934	671,342
Accounts receivable–trade	484,044	632,286
Real estate for sale	―	1,183,169
Work in process	7,880	5,755
Real estate for sale in process	276,102	1,634,243
Prepaid expenses	20,902	41,265
Advances paid	278,451	596,766
Income taxes receivable	―	71,804
Other	32,521	189,664
Allowance for doubtful accounts	―	(18)
Total current assets	2,452,838	5,026,279
Non-current assets		
Property, plant and equipment		
Buildings	64,992	57,478
Machinery and equipment	―	1,088
Tools, furniture and fixtures	44,838	59,978
Construction in progress	1,922	―
Accumulated depreciation	(35,249)	(81,892)
Total property, plant and equipment	76,503	36,652
Intangible assets		
Software	129,520	149,015
Software in progress	807	15,776
Total intangible assets	130,327	164,792
Investments and other assets		
Investment securities	78,597	208,741
Deferred tax assets	28,194	69,431
Other	273,775	301,949
Total investments and other assets	380,566	580,121
Total non-current assets	587,398	781,567
Total assets	3,040,236	5,807,846

(Thousands of yen)

	As of August 31, 2019	As of May 31, 2020
Liabilities		
Current liabilities		
Accounts payable–trade	98,301	185,021
Short-term borrowings	65,000	534,147
Current portion of long-term borrowings	339,093	144,211
Accounts payable–other	400,872	405,741
Income taxes payable	108,757	―
Provision for bonuses	―	35,995
Provision for shareholder benefit program	10,296	―
Other	72,396	15,703
Total current liabilities	1,094,717	1,320,820
Non-current liabilities		
Long-term borrowings	147,395	2,767,994
Other	―	9,437
Total non-current liabilities	147,395	2,777,431
Total liabilities	1,242,112	4,098,251
Net assets		
Shareholders' equity		
Share capital	543,263	549,529
Capital surplus	542,174	548,170
Retained earnings	713,138	611,352
Treasury shares	(452)	(572)
Total shareholders' equity	1,798,123	1,708,479
Share acquisition rights	―	1,114
Total net assets	1,798,123	1,709,594
Total liabilities and net assets	3,040,236	5,807,846

Quarterly Non-Consolidated Statements of Income
Quarterly Non-Consolidated Statements of Income (First Nine Months)

(Thousands of yen)

	Nine months ended May 31, 2019	Nine months ended May 31, 2020
Net sales	1,531,227	2,217,073
Cost of sales	641,897	1,008,815
Gross profit	889,329	1,208,258
Selling, general and administrative expenses	733,871	1,254,207
Operating profit (loss)	155,457	(45,949)
Non-operating income		
Interest income	29	24
Gain on transfer of business	2,000	－
Surrender value of insurance policies	－	743
Other	50	154
Total non-operating income	2,079	921
Non-operating expenses		
Interest expenses	5,341	13,098
Share issuance cost	5,238	－
Loss on valuation of investment securities	1,009	－
Commission expenses	14,404	30,529
Other	598	－
Total non-operating expenses	26,592	43,627
Ordinary profit (loss)	130,944	(88,654)
Extraordinary losses		
Losses due to the temporary suspension of operations	－	※ 28,696
Impairment loss	－	23,256
Total extraordinary losses	－	51,952
Profit (loss) before income taxes	130,944	(140,606)
Income taxes	42,144	(38,821)
Profit (loss)	88,800	(101,785)

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to the Going Concern Assumption)

Not applicable

(Notes in the Event of Significant Changes in Shareholders' Equity)

Not applicable

(Application of Special Accounting Treatment for Quarterly Financial Reporting)

For tax expenses, the Company has rationally estimated its effective tax rate after the application of tax-effect accounting to profit before income taxes for the fiscal year that includes the nine months ended May 31, 2020. The Company then calculated tax expenses by multiplying its profit (loss) before income taxes by that rate.

(Segment Information, etc.)

[Segment Information]

Nine months ended May 31, 2019 (September 1, 2018 to May 31, 2019)

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

(Thousands of yen)

	Reportable segments			Other	Total
	Smartphone APPs	IoT	Total		
Net Sales					
Sales to external customers	1,228,851	250,679	1,479,530	51,696	1,531,227
Intersegment sales or transfer	—	—	—	—	—
Total	1,228,851	250,679	1,479,530	51,696	1,531,227
Segment profit (loss)	390,166	(43,173)	346,993	10,344	357,338

Note: "Other" refers to businesses not included in the reportable segment, mainly comprising internet advertising agency services and production of articles.

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	346,993
Income from "Other" businesses	10,344
Company-wide expenses (Note)	(201,880)
Operating profit (loss) in the quarterly non-consolidated statements of income	155,457

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 nine months ended May 31, 2019, assets in the IoT business segment increased by ¥1,556,281 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)

Not applicable

Nine months ended May 31, 2020 (September 1, 2019 to May 31, 2020)

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

(Thousands of yen)

	Reportable segments			Other	Total
	Smartphone APPs	IoT	Total		
Net Sales					
Sales to external customers	1,858,627	286,858	2,145,485	71,587	2,217,073
Intersegment sales or transfer	—	—	—	—	—
Total	1,858,627	286,858	2,145,485	71,587	2,217,073
Segment profit (loss)	310,450	(112,279)	198,170	22,928	221,099

Note: “Other” refers to businesses not included in the reportable segment, mainly comprising internet advertising agency services.

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	198,170
Income from “Other” businesses	22,928
Company-wide expenses (Note)	(267,048)
Operating profit (loss) in the quarterly non-consolidated statements of income	(45,949)

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 nine months ended May 31, 2020, assets in the IoT business segment increased by ¥2,541,310 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 Smartphone Apps business, of the software owned by the Company, for those software from which we judged that we could no longer expect to generate the originally anticipated level of earnings, we reduced the recoverable amount to zero and recognized the entire book value as an impairment loss.

This impairment loss amounted to ¥16,847 thousand.

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.

(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. Due to the declaration of a state of emergency, we have temporarily suspended operations at the &AND HOSTEL locations we operate and delayed development of hostels, affecting operating performance. Accurately forecasting the end of these conditions is difficult. However, based on the information available at the time these financial statements were prepared, for the purposes of making accounting estimates (such as decisions on whether to post impairment losses on fixed assets and decisions on the recoverability of deferred tax assets) we have assumed that conditions will begin to gradually normalize from July 2020.

Actual results may differ from the forecast due to differences from these estimates and assumptions.

(Notes to the quarterly non-consolidated statements of income)

* Losses due to the temporary suspension of operations

When the Japanese government declared a state of emergency due to the spread of COVID-19, we temporarily suspended operations at our hostel locations.

As a result, we posted extraordinary losses stemming from fixed costs generated by individual hostels during the period operations were suspended (such as personnel and depreciation expenses), as well as other losses related to the temporary suspension of operations.

(Subsequent events)

(Substantial borrowings)

Based on a Board of Directors resolution on June 12, 2020, the Company borrowed the following funds.

(1) Use of funds	Business operations
(2) Lender	Mizuho Bank, Ltd.
(3) Amount borrowed	¥300,000 thousand
(4) Date borrowed	June 30, 2020
(5) Interest rate	One-month TIBOR +0.5%
(6) Term	Five years
(7) Collateral	Unsecured