Translation

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Summary of Financial Results for the Six Months Ended January 31, 2021 (Based on Japanese GAAP)

March 11, 2021

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: March 11, 2021
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 six months ended January 31, 2021 (August 1, 2020 – January 31, 2021)

(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	%
Six months ended January 31, 2021	13,354	19.8	212	–	195	–	124	–
Six months ended January 31, 2020	11,146	48.7	(259)	–	(343)	–	(448)	–

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended January 31, 2021	4.40	3.97
Six months ended January 31, 2020	(16.07)	–

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of January 31, 2021	20,816	7,612	35.4
As of July 31, 2020	19,379	6,801	34.5

Reference: Shareholders' equity January 31, 2021: 7,359 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	–	0.00			
Year ending July 31, 2021 (forecast)			–	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. In January 2021, a state of emergency was again declared for 11 prefectures, including the Tokyo metropolitan area and the Kansai region, but the impact on each business is expected to be limited, and there will be no change to the previously announced forecast figures.

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 January 31, 2021	28,539,020 shares	As of July 31, 2020	28,270,090 shares

2)Number of treasury stock at the end of period

As of January 31, 2021	2,627 shares	As of July 31, 2020	1,171 shares

3)Average number of shares outstanding during the period

Six months ended January 31,2021	28,362,592 shares	Six months ended January 31, 2020	27,891,661 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 January 31, 2021
Assets		
Current assets		
Cash and deposits	15,451,377	12,633,338
Notes receivable - trade	22,915	22,554
Electronically recorded monetary claims - operating	12,452	7,337
Accounts receivable - trade	2,157,262	2,589,796
Raw materials and supplies	36,983	42,354
Prepaid expenses	188,673	363,237
Other	154,246	155,309
Allowance for doubtful accounts	(637)	(607)
Total current assets	18,023,273	15,813,320
Non-current assets		
Property, plant and equipment		
Buildings	207,716	208,031
Accumulated depreciation	(62,411)	(70,967)
Buildings, net	145,305	137,063
Machinery and equipment	751,336	751,336
Accumulated depreciation	(372,851)	(410,418)
Machinery and equipment, net	378,484	340,917
Tools, furniture and fixtures	72,003	76,437
Accumulated depreciation	(41,802)	(47,788)
Tools, furniture and fixtures, net	30,200	28,649
Total property, plant and equipment	553,990	506,630
Intangible assets		
Software	297,625	326,571
Software in progress	47,659	25,894
Total intangible assets	345,285	352,465
Investments and other assets		
Investment securities	124,256	148,138
Shares of subsidiaries and associates	31,683	3,464,421
Long-term prepaid expenses	126,665	374,503
Guarantee deposits	174,662	140,803
Long-term deposits	—	16,000
Total investments and other assets	457,267	4,143,867
Total non-current assets	1,356,543	5,002,963
Total assets	19,379,817	20,816,283

(Thousands of yen)

	As of July 31, 2020	As of January 31, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	1,654,786	2,037,032
Short-term borrowings	40,000	40,000
Current portion of long-term borrowings	—	495,888
Accounts payable - other	500,595	562,533
Income taxes payable	30,902	101,273
Accrued consumption taxes	63,715	141,029
Advances received	70,473	85,603
Other	45,273	69,953
Total current liabilities	2,405,745	3,533,313
Non-current liabilities		
Convertible bond-type bonds with share acquisition rights	5,043,333	5,038,333
Long-term borrowings	5,000,000	4,504,112
Asset retirement obligations	104,495	104,887
Deferred tax liabilities	24,714	23,508
Total non-current liabilities	10,172,543	9,670,841
Total liabilities	12,578,288	13,204,155
Net assets		
Shareholders' equity		
Share capital	2,152,347	2,422,939
Capital surplus		
Legal capital surplus	4,959,686	5,230,277
Total capital surpluses	4,959,686	5,230,277
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(409,078)	(284,296)
Total retained earnings	(409,078)	(284,296)
Treasury shares	(249)	(249)
Total shareholders' equity	6,702,705	7,368,671
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(10,542)	(9,353)
Total valuation and translation adjustments	(10,542)	(9,353)
Share acquisition rights	109,364	252,809
Total net assets	6,801,528	7,612,128
Total liabilities and net assets	19,379,817	20,816,283

Statements of Income (cumulative)

(Thousands of yen)

	Six months ended January 31, 2020	Six months ended January 31, 2021
Net sales	11,146,643	13,354,687
Cost of sales	8,731,341	10,097,633
Gross profit	2,415,301	3,257,054
Selling, general and administrative expenses	2,674,841	3,044,425
Operating profit (loss)	(259,540)	212,629
Non-operating income		
Interest income	1,707	5,081
Dividend income	780	—
Miscellaneous income	2,351	6,005
Total non-operating income	4,839	11,087
Non-operating expenses		
Interest expenses	13,231	16,523
Bond issuance costs	59,719	—
Loss on investments in investment partnerships	341	690
Listing expenses	9,111	—
Loss on extinguishment of stock-based compensation expenses	—	4,641
Miscellaneous loss	6,497	6,262
Total non-operating expenses	88,900	28,118
Ordinary profit (loss)	(343,601)	195,597
Extraordinary losses		
Loss on retirement of non-current assets	906	6,372
Total extraordinary losses	906	6,372
Profit (loss) before income taxes	(344,508)	189,225
Income taxes - current	3,409	65,648
Income taxes - deferred	100,235	(1,205)
Total income taxes	103,645	64,442
Profit (loss)	(448,154)	124,782

Statements of Cash Flows

(Thousands of yen)

	Six months ended January 31, 2020	Six months ended January 31, 2021
Cash flows from operating activities		
Profit (loss) before income taxes	(344,508)	189,225
Depreciation	76,299	96,884
Share-based remuneration expenses	15,275	215,074
Loss (gain) on investments in investment partnerships	341	690
Increase (decrease) in allowance for doubtful accounts	308	(29)
Interest and dividend income	(2,487)	(5,081)
Interest expenses	13,231	16,523
Bond issuance costs	59,719	—
Loss on retirement of non-current assets	906	6,372
Decrease (increase) in trade receivables	(330,767)	(427,058)
Increase (decrease) in trade payables	177,300	382,245
Increase (decrease) in accounts payable - other	60,111	69,872
Other, net	(180,868)	101,031
Subtotal	(455,138)	645,750
Interest and dividends received	820	81
Interest paid	(12,792)	(15,892)
Income taxes paid	(20,319)	(3,627)
Income taxes refund	—	9,655
Net cash provided by (used in) operating activities	(487,430)	635,967
Cash flows from investing activities		
Purchase of shares of subsidiaries and associates	—	(3,432,738)
Purchase of property, plant and equipment	(22,157)	(9,476)
Purchase of intangible assets	(87,327)	(61,345)
Purchase of investment securities	(4,800)	(23,383)
Proceeds from refund of leasehold deposits	—	31,731
Payments of guarantee deposits	(801)	—
Proceeds from refund of guarantee deposits	11,815	1,503
Short-term loan advances	(46,000)	(2,500)
Collection of short-term loans receivable	—	2,500
Payments into long-term deposits	—	(16,000)
Net cash provided by (used in) investing activities	(149,271)	(3,509,709)
Cash flows from financing activities		
Repayments of short-term borrowings	(100,000)	—
Proceeds from long-term borrowings	5,000,000	—
Repayments of long-term borrowings	(91,430)	—
Proceeds from issuance of shares resulting from exercise of share acquisition rights	57,612	55,703
Proceeds from payment of deposit for subscriptions to shares	10,114	—
Proceeds from issuance of bonds with share acquisition rights	4,990,280	—
Net cash provided by (used in) financing activities	9,866,577	55,703
Net increase (decrease) in cash and cash equivalents	9,229,876	(2,818,039)
Cash and cash equivalents at beginning of period	5,904,840	15,451,377
Cash and cash equivalents at end of period	15,134,716	12,633,338

Results by Segment

Six months ended January 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	8,410,582	1,476,075	1,204,188	11,090,845	55,797	11,146,643	—	11,146,643
Transactions with other segments	—	—	—	—	—	—	—	—
Net sales	8,410,582	1,476,075	1,204,188	11,090,845	55,797	11,146,643	—	11,146,643
Operating profit (loss)	534,486	26,999	(231,977)	329,508	19,039	348,547	(608,087)	(259,540)

Six months ended January 31,2021

(Thousands of yen)

	Reportable segments				Other	Total	Reconciling items	Per quarterly financial statements
	Raksul	Novasell	Hacobell	Reportable segments				
Sales								
Revenues from external customers	9,535,542	2,121,156	1,558,055	13,214,753	139,934	13,354,687	—	13,354,687
Transactions with other segments	—	—	—	—	—	—	—	—
Net sales	9,535,542	2,121,156	1,558,055	13,214,753	139,934	13,354,687	—	13,354,687
Operating profit (loss)	923,812	26,795	(15,825)	934,782	51,004	985,787	(773,158)	212,629