& and factory

Translation

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Summary of Non-Consolidated Financial Results for the Fiscal Year Ended August 31, 2024 (Based on Japanese GAAP)

October 16, 2024

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 of General Meeting of Shareholders:		November 26, 2024
Scheduled date to file annual securities report:		November 27, 2024
Scheduled date to commence dividend payments:		—
Preparation of supplementary material on annual financial results:		Yes
Holding of annual financial results meeting:		No

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

1. Non-Consolidated financial results for the Fiscal Year ended August 31, 2024 (From September 1, 2023 to August 31, 2024)

(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	%
Fiscal Year ended August 31, 2024	5,024	68.7	(317)	—	(344)	—	88	11.6
Fiscal Year ended August 31, 2023	2,979	5.1	146	121.1	113	—	79	—

	Earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal Year ended August 31, 2024	7.90	7.90	7.6	(8.7)	(6.3)
Fiscal Year ended August 31, 2023	7.25	7.25	9.6	2.2	4.9

Notes: Although dilutive shares exist, diluted earnings per share are not stated as earnings per share were negative.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of August 31, 2024	2,627	1,209	46.0	107.41
As of August 31, 2023	5,275	1,120	21.2	99.51

(Reference) Equity capital: August 31,2024: ¥1,209 million August 31,2023: ¥1,120 million

(3) Non-consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal Year ended August 31, 2024	1,826	1,662	(2,851)	1,563
Fiscal Year ended August 31, 2023	(71)	131	385	925

2. Cash dividends

	Annual dividends per share					Total dividends	Payout ratio	Net assets dividend ratio
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended August 31, 2023	—	0.00	—	0.00	0.00	—	—	—
Year ending August 31, 2024	—	0.00	—	0.00	0.00	—	—	—
Year ending August 31, 2025 (Forecast)	—	0.00	—	0.00	0.00		—	

3. Forecast of consolidated financial results for the year ending August 31, 2025 (From September 1, 2024 to August 31, 2025)

Percentages indicate year-on-year changes.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	3,650	(27.4)	(100)	—	(100)	—	(103)	—	(9.15)

Notes: Since the fiscal year ending August 2025 is the first year for consolidated financial statements, we have not provided year-on-year change rates.

(1) 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

(2) Number of issued shares (common stock)

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

As of August 31, 2024	11,261,970 shares	As of August 31, 2023	11,261,970 shares

Number of treasury shares at the end of the period

As of August 31, 2024	257 shares	As of August 31, 2023	257 shares

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

Fiscal year ended August 31, 2024	11,261,713 shares	Fiscal year ended August 31, 2023	10,991,599 shares

Notes: This financial report is exempt from the 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 results may differ significantly from projections due to a variety of factors. For information regarding the assumptions underlying the Company's earnings forecast and cautionary notes concerning the use of the forecast, please refer to “1. Overview of Operating Performance (4) Outlook " on page 5 of the attachments to this summary.

(Method of obtaining supplementary financial results materials)

The financial results briefing materials will be posted on the Company's website.

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1. Overview of Operating Performance

(1) Overview of Business Results.

The e-book market, the Company's main business category, had a value of ¥644.9 billion in fiscal 2023, up 7.0% from ¥602.6 billion in the previous year. Comics accounted for 87.6% of the total, or ¥564.7 billion, and this ratio also increased from 86.3% in the previous year. Although the overall market is growing, the growth rate was in the single digits in both fiscal 2022 and fiscal 2023, indicating that the market is transitioning into a mature phase.

The growth rate in fiscal 2024 is projected to be about 5%, and the market is expected to continue expanding slowly, with average annual growth of 4.5% through fiscal 2028, when it will be worth approximately ¥800 billion, according to the eBook Marketing Report 2024 by Impress Research Institute.

In this environment, with the mission of "providing a little something extra to people's daily lives," the Company mainly focused on growing earnings from smartphone manga apps developed in collaboration with major publishers in the core Apps segment.

In the fiscal year ended August 31, 2024, in the Apps segment, the Company released multiple updates of existing apps in the mainstay manga apps business, and sales from contract work increased. On the other hand, the Mecha Comic app, which offers daily installments of manga content, saw a decrease in sales from in-app purchases due to the termination of an outsourcing contract with Amutus Corporation. In the entertainment business, fortune-telling performed well, and sales for the Apps segment as a whole rose year on year.

In the RET segment, the occupancy rates of &AND HOSTEL remained high, owing to a steady number of inbound tourists against a backdrop of the yen depreciation. While sales increased sharply due to the sale of a property purchased and held for the purpose of developing &AND HOSTEL, an operating loss was recorded due to a write-down.

As a result of these activities, in the fiscal year ended August 31, 2024, the Company generated net sales of ¥5,024,345 thousand (up 68.7% year on year), an operating loss of ¥317,527 thousand (operating income of ¥146,093 in the previous fiscal year), an ordinary loss of ¥344,873 thousand (ordinary income of ¥113,671 thousand in the previous fiscal year), and a net income of ¥88,940 thousand (up 11.6% year on year).

Results by segment were as follows.

(Apps business)

In the fiscal year ended August 31, 2024, the Company promoted continued use by existing users and worked to acquire new users for the seven manga apps under its operation, by distributing new content and adapting popular works into different media, and by efficiently investing in advertising and conducting campaigns. In addition, we recorded fees for the development of multiple additional functions aimed at expanding the apps' service offerings. Meanwhile, due to the end of the joint operation of the Mecha Comic app, which offers daily installments of manga content, and a decrease in stay-at-home demand with the declining impact of COVID-19, ARPU for in-app purchases (*1) and MAU (*2) declined for the first time in three fiscal years.

As a result, during the fiscal year ended August 31, 2024, the Apps segment reported sales of ¥3,010,906 thousand (+2.8% year on year) and segment profit of ¥303,746 thousand (-45.4% year on year).

*1 The average amount of revenue generated per person

*2 The number of people who use an app at least once in a month

Of the smartphone apps the Company operates in the Apps business, the following table outlines average MAUs by quarter for the manga apps.

(Thousands of people)

Year	Average MAUs	Year	Average MAUs
May 31, 2017	310	February 28, 2021	10,540
August 31, 2017	650	May 31, 2021	10,560

November 30, 2017	1,080	August 31, 2021	11,010
February 28, 2018	1,500	November 30, 2021	10,460
May 31, 2018	2,040	February 28, 2022	10,440
August 31, 2018	2,380	May 31, 2022	11,210
November 30, 2018	2,790	August 31, 2022	11,520
February 28, 2019	3,620	November 30, 2022	11,290
May 31, 2019	4,300	February 28, 2023	11,050
August 31, 2019	5,320	May 31, 2023	11,400
November 30, 2019	6,410	August 31, 2023	11,610
February 29, 2020	7,200	November 30, 2023	11,260
May 31, 2020	9,060	February 29, 2024	9,720
August 31, 2020	9,940	May 31, 2024	9,710
November 30,2020	10,260	August 31, 2024	9,430

Note: the average MAUs shown above are quarterly averages.

(RET business)

In the fiscal year ended August 31, 2024, the occupancy rate and ADR for &AND HOSTEL, a lodging facility brand operated by the Company, remained high, thanks to an increase in inbound visitors against a backdrop of the weak yen.

In addition, with the sale on August 30, 2024, of a property the Company had been operating, the disposition of all properties purchased for development under the &AND HOSTEL brand has been completed. We recorded proceeds from sale of non-current assets under extraordinary income for properties previously held for our own operation, and recorded sales when selling the properties purchased and held for development. At the same time, we booked a valuation loss and a one-time brokerage commission fee for the sale, causing the segment to fall deeper into the red despite a sharp year-on-year increase in sales.

As a result, in the fiscal year ended August 31, 2024, the RET segment reported sales of ¥2,004,117 thousand (+3,858.6% year on year) and segment loss of ¥286,174 thousand (loss of ¥68,006 thousand in the previous fiscal year).

(Other business)

In the fiscal year ended August 31, 2024, Other businesses reported sales of ¥9,321 thousand (No reportable information in the previous fiscal year) and segment loss of ¥2,906 thousand (loss of ¥628 thousand in the previous fiscal year).

(2) Overview of Financial Condition

(Assets)

As of August 31, 2024, total assets amounted to ¥2,627,362 thousand, down ¥2,648,011 thousand from August 31, 2023. This was mainly attributable to a ¥638,496 thousand increase in cash and deposits and to the reclassification of real estate for sale of ¥1,092,857 thousand to buildings (¥757,914 thousand), structures (¥1,196 thousand), land (¥424,058 thousand), and accumulated depreciation (¥90,311 thousand) due to a change in the purpose of holdings. The real estate for sale was subsequently sold. Other factors behind the decline in total assets include the recording under cost of sales of ¥310,726 thousand in loss on valuation of real estate for sale, a decrease of ¥1,706,036 thousand in real estate for sale due to property sales, and a decrease of ¥142,187 thousand in investment securities.

(Liabilities)

Total liabilities amounted to ¥1,417,756 thousand as of August 31, 2024, down ¥2,736,951 thousand from August 31, 2023.

This mainly reflected an increase of ¥156,920 thousand accrued consumption taxes, while long-term loans payable (including current portion of long-term loans payable) decreased by ¥2,796,282 thousand and short-term loans payable decreased by ¥55,000 thousand.

(Net assets)

As of August 31, 2024, net assets totaled ¥1,209,605 thousand, up ¥88,940 thousand from August 31, 2023. This was mainly due to an increase in retained earnings of ¥88,940 thousand.

The equity ratio came to 46.0% (compared with 21.2% as of August 31, 2023).

(3) Overview of Cash Flows

As of August 31, 2024, cash and cash equivalents amounted to ¥1,563,860 thousand, up ¥638,496 thousand from August 31, 2023.

The status of each cash flow and their factors are as follows.

(Cash flows from operating activities)

In the fiscal year ended August 31, 2024, funds provided by operating activities amounted to ¥1,826,797 thousand (¥71,012 thousand used in the previous fiscal year). This was mainly due to ¥402,425 thousand gain on sales of investment securities, while there was ¥2,046,722 thousand decrease in inventories and ¥156,920 thousand increase in accrued consumption taxes.

(Cash flows from investing activities)

Net cash provided by investing activities in the fiscal year ended August 31, 2024, amounted to ¥1,662,980 thousand, compared with ¥131,669 thousand in these activities in the fiscal year ended August 31, 2023. This was mainly due to an expenditure of ¥38,391 thousand for the acquisition of intangible fixed assets, while there was an income of ¥1,167,092 thousand from the sale of tangible fixed assets and ¥547,617 thousand yen from the sale of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities in the fiscal year ended August 31, 2024, amounted to ¥2,851,282 thousand, compared with ¥385,575 thousand used in these activities in the fiscal year ended August 31, 2023. This was mainly due to proceeds from long-term borrowings payable of ¥2,796,282 thousand and proceeds from short-term borrowing payable of ¥55,000 thousand.

(4) Outlook

In the areas in which we operate, the speed of technological innovation, such as AI (artificial intelligence), is rapid and the market is moving into a mature phase, so it is important to flexibly adapt to changes in the market environment in the future.

To further expand its field of business and achieve growth and development, the Company's management team recognizes the need to address various issues in its fast-changing business environment. We aim to maximize corporate value by continuing to develop high-value services and invest aggressively in growth initiatives and sustaining efforts to achieve growth and profitability.

From the fiscal year ending August 31, 2025, we will continue to secure profits in the existing manga business, expand the scope of business through further growth of the entertainment and RET businesses, and improve profitability by creating new businesses.

In the Apps segment, the existing manga apps, which are approaching maturity, will move into a phase of steadily generating profits. We will balance business operations between the growth of the manga apps themselves and investment in new businesses.

Furthermore, we will seek to expand into new areas in the manga business. Specifically, we will work with large publishers to develop new businesses that utilize IP and consider developing systems to improve the efficiency of information management, and deepening our expertise through the commissioned production of vertical scroll comics. By establishing a business model that includes the creation of original IP, we are committed to driving future growth.

We will also focus on expanding earnings in the entertainment business, which includes "uraraca" and "Hoshi Hitomi's Fortune Telling". In particular, for fortune-telling services, which have been performing steadily since their launch, we aim to further grow existing services through proactive advertising and other investments, and to expand the business scale by developing new services in the fortune-telling area.

In the RET segment, we will monetize through the management of "&AND HOSTEL" on consignment and utilization of lodging facilities. In addition, we will endeavor to secure revenue sources in the areas of real estate brokerage and consulting.

In light of these plans, for the fiscal year ending August 31, 2025, we forecast net sales of ¥365 million (down 27.4% year on year), operating loss of ¥100 million (operating loss of ¥317 million in the fiscal year ended August 31,2024), ordinary loss of ¥100 million(ordinary loss of ¥344 million in the fiscal year ended August 31,2024), and net loss of ¥103 million (net income of income ¥88 million in the fiscal year ended August 31, 2024).

As announced in the "Notice of Basic Agreement on the Acquisition of Shares (Subsidiary Acquisition) of SouthWorks Co., Ltd." dated May 17, 2024, we will transition to consolidated financial statements from the fiscal year ending August 2025, following the consolidation of SouthWorks Co., Ltd. as a subsidiary.

2. Fundamental Perspective on the Selection of Financial Standards

We plan to prepare our financial statements according to Japanese GAAP for the foreseeable future to enable comparison of the financial statements between fiscal years.

With regard to the application of IFRS, we will respond appropriately after giving due consideration to various circumstances in Japan and overseas.

3. Non-Consolidated Financial Statements

(1) Non-Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2023	As of August 31, 2024
Assets		
Current assets		
Cash and deposits	925,363	1,563,860
Accounts receivable - trade	547,279	629,571
Work in process	49,720	19,953
Real estate for sale	3,109,620	-
Advances paid	230,609	220,230
Other	132,980	95,614
Allowance for doubtful accounts	(17,627)	(19,674)
Total current assets	4,977,946	2,509,555
Non-current assets		
Property, plant and equipment		
Buildings	11,640	11,333
Tools, furniture and fixtures	69,124	72,874
Accumulated depreciation	(54,457)	(59,987)
Total property, plant and equipment	26,307	24,220
Intangible assets		
Software	38,022	25,283
Software in progress	18,873	3,505
Total intangible assets	56,896	28,788
Investments and other assets		
Investment securities	165,607	23,419
Deferred tax assets	2,536	-
Leasehold and guarantee deposits	42,648	41,168
Other	3,429	209
Total investments and other assets	214,222	64,797
Total non-current assets	297,426	117,806
Total assets	5,275,373	2,627,362

(Thousands of yen)

	As of August 31, 2023	As of August 31, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	120,035	115,915
Short-term borrowings	205,000	150,000
Current portion of long-term borrowings	677,136	80,924
Accounts payable - other	580,747	537,057
Income taxes payable	11,933	4,701
Accrued consumption taxes	34,975	191,896
Provision for bonuses	21,144	1,725
Provision for bonuses for directors (and other officers)	7,770	-
Provision for shareholder benefit program	6,983	24,557
Other	60,822	85,978
Total current liabilities	1,726,547	1,192,756
Non-current liabilities		
Long-term borrowings	2,425,070	225,000
Long-term guarantee deposits	100	-
Other	2,989	-
Total non-current liabilities	2,428,159	225,000
Total liabilities	4,154,707	1,417,756
Net assets		
Shareholders' equity		
Share capital	801,818	801,818
Capital surplus		
Legal capital surplus	800,460	800,460
Total capital surplus	800,460	800,460
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(481,040)	(392,100)
Total retained earnings	(481,040)	(392,100)
Treasury shares	(572)	(572)
Total shareholders' equity	1,120,665	1,209,605
Total net assets	1,120,665	1,209,605
Total liabilities and net assets	5,275,373	2,627,362

Non-Consolidated Statements of Income

(2) Non-Consolidated Statements of Income

(Thousands of yen)

	For the fiscal year ended August 31, 2023	For the fiscal year ended August 31, 2024
Net sales	2,979,047	5,024,345
Cost of sales	1,217,694	3,632,439
Gross profit	1,761,353	1,391,905
Selling, general and administrative expenses	1,615,259	1,709,432
Operating profit (loss)	146,093	(317,527)
Non-operating income		
Interest income	13	145
Subsidy income	4,217	5,830
Other	86	338
Total non-operating income	4,317	6,314
Non-operating expenses		
Interest expenses	31,556	29,897
Other	5,183	3,762
Total non-operating expenses	36,739	33,660
Ordinary profit (loss)	113,671	(344,873)
Extraordinary income		
Gain on sale of non-current assets	265	101,207
Gain on sale of investment securities	-	402,425
Total extraordinary income	265	503,633
Extraordinary losses		
Loss on sale of non-current assets	12,593	-
Impairment losses	20,428	41,573
Loss on retirement of non-current assets	0	0
Settlement payments	-	11,077
Non deducted consumption tax	-	9,327
Total extraordinary losses	33,022	61,977
Profit before income taxes	80,914	96,781
Income taxes - current	3,780	5,305
Income taxes - deferred	(2,536)	2,536
Total income taxes	1,244	7,841
Profit	79,670	88,940

(3) Non-Consolidated Statements of Changes in Equity

Fiscal year ended August 31, 2023 (September 1, 2022, to August 31, 2023)

	Shareholders' equity							Total net assets
	Share capital	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity	
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings			
				Retained earnings brought forward				
Balance at beginning of period	551,819	550,460	550,460	(560,710)	(560,710)	(572)	540,995	540,995
Changes during period								
Issuance of new shares	249,999	249,999	249,999				499,999	499,999
Profit				79,670	79,670		79,670	79,670
Total changes during period	249,999	249,999	249,999	79,670	79,670	-	579,670	579,670
Balance at end of period	801,818	800,460	800,460	(481,040)	(481,040)	(572)	1,120,665	1,120,665

Fiscal year ended August 31, 2024 (September 1, 2023, to August 31, 2024)

(Thousands of yen)

	Shareholders' equity							Total net assets
	Share capital	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity	
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings			
				Retained earnings brought forward				
Balance at beginning of period	801,818	800,460	800,460	(481,040)	(481,040)	(572)	1,120,665	1,120,665
Changes during period								
Profit				88,940	88,940		88,940	88,940
Total changes during period	-	-	-	88,940	88,940	-	88,940	88,940
Balance at end of period	801,818	800,460	800,460	(392,100)	(392,100)	(572)	1,209,605	1,209,605

(4) Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	For the fiscal year ended August 31, 2023	For the fiscal year ended August 31, 2024
Cash flows from operating activities		
Profit before income taxes	80,914	96,781
Depreciation	54,785	75,866
Impairment losses	20,428	41,573
Loss (gain) on sale of non-current assets	12,327	(101,207)
Loss on retirement of non-current assets	0	0
Share issuance costs	2,288	-
Loss (gain) on sale of businesses	-	(402,425)
Loss (gain) on sale of investment securities	5,280	2,046
Loss (gain) on valuation of investment securities	20,840	(19,419)
Increase (decrease) in allowance for doubtful accounts	7,770	(7,770)
Increase (decrease) in provision for bonuses	(29,481)	17,574
Interest and dividend income	(13)	(146)
Increase (decrease) in provision for shareholder benefit program	(4,217)	(5,830)
Increase (decrease) in provision for provision for loss on cancellation	31,556	29,897
Interest income	(22,502)	(82,291)
Subsidy income	(65,290)	17,561
Interest expenses	(49,912)	2,046,722
Rent	(28,394)	16,074
Decrease (increase) in trade receivables	(33,830)	10,379
Decrease (increase) in accounts receivable - other	19,962	(4,119)
Decrease (increase) in inventories	68,702	(53,176)
Decrease (increase) in prepaid expenses	7,172	156,920
Decrease (increase) in advances paid	41,546	27,089
Increase (decrease) in trade payables	139,934	1,862,100
Increase (decrease) in accounts payable - other	(162,455)	-
Increase (decrease) in accrued consumption taxes	13	146
Other, net	(33,039)	(27,039)
Subtotal	5,393	4,589
Cancellation penalty paid	(17,079)	-
Interest and dividends received	(3,780)	(12,998)
Interest paid	(71,012)	1,826,797

(Thousands of yen)

	For the fiscal year Ended August 31, 2023	For the fiscal year ended August 31, 2024
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,770)	(10,233)
Purchase of intangible assets	(47,042)	(38,391)
Proceeds from sale of intangible assets	1,000	-
Payments of leasehold and guarantee deposits	(3,000)	-
Proceeds from refund of leasehold and guarantee deposits	196,645	-
Purchase of investment securities	-	(3,004)
Proceeds from sale of property, plant and equipment	283	1,167,092
Proceeds from sale of investment securities	-	547,617
Other	(6,445)	(100)
Net cash provided by (used in) investing activities	131,669	1,662,980
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(60,000)	(55,000)
Proceeds from long-term borrowings	225,000	-
Repayments of long-term borrowings	(277,136)	(2,796,282)
Proceeds from issuance of shares	497,711	-
Net cash provided by (used in) financing activities	385,575	(2,851,282)
Net increase (decrease) in cash and cash equivalents	446,232	638,496
Cash and cash equivalents at beginning of period	479,131	925,363
Cash and cash equivalents at end of period	925,363	1,563,860

(5) Notes to the Non-Consolidated Financial Statements

(Notes Related to the Going Concern Assumption)

Not applicable

(Segment Information, etc.)

[Segment Information]

1. Overview of reportable segments

(1) Method of determining reportable segments

The Company's reportable segments are those constituent units for which separate financial information is available, and which the Board of Directors regularly examines to determine the allocation of management resources and assess performance.

We have established independent reportable segments, as the segments handle products with different characteristics and have different earnings and financial structures and sales strategies.

(2) Categories of products and services belonging to the reportable segments

The Apps business mainly involves the development and operation of smartphone apps. We also sell mobile ad space within these apps.

In the RET business, we engage mainly in the planning and development of the &AND HOSTEL brand of smart hostels, and real estate advisory services.

2. Methods for determining amounts of sales, profits or losses, assets, and other items for individual reportable segments

Methods of accounting treatment for reportable business segments are generally the same as the methods of accounting treatment used in preparing the financial statements. Profit from reportable segments is based on operating income or operating losses.

3. Information related to sales, profits or losses, assets, liabilities and other items for each reportable segment

Fiscal year ended August 31, 2023 (from September 1, 2022 to August 31, 2023)

(Thousands of yen)

	Reportable segments			Other (Note)	Total
	APPs	RET	Total		
Net Sales					
Manga apps	2,287,991	―	2,287,991	―	2,287,991
Fortune	606,650	―	606,650	―	606,650
&AND HOSTEL	―	11,651	11,651	―	11,651
RET	―	13,362	13,362	―	13,362
Other	33,777	906	34,683	―	34,683
Revenue from contracts with customers	2,928,420	25,920	2,954,341	―	2,954,341
Other revenue	―	24,706	24,706	―	24,706
Sales to external customers	2,928,420	50,627	2,979,047	―	2,979,047
Intersegment sales or transfer	―	―	―	―	―
Total	2,928,420	50,627	2,979,047	―	2,979,047
Segment profit (loss)	556,510	(68,006)	488,504	(628)	487,875
Segment assets	1,071,823	3,163,339	4,235,162	303	4,235,465
Other items					
Depreciation	38,202	10,004	48,206	―	48,206
Increase in property, plant and equipment and intangible assets	51,962	―	51,962	―	51,962

Note:1. The “Other” category, a business segment not included in the reportable segments, mainly involves the internet advertising agency business.

2 . 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 Apps segment, of the software held by the Company, we reduced to a recoverable amount the book value of software from which the profit originally estimated could no longer be expected, recognizing the amount of the reduction as impairment loss. The amount of the impairment loss recorded was ¥20,428 thousand.

Fiscal year ended August 31, 2024(from September 1, 2023 to August 31, 2024)

(Thousands of yen)

	Reportable segments			Other (Note)	Total
	APPs	RET	Total		
Net Sales					
Manga apps	2,218,629	—	2,218,629	—	2,218,629
Fortune	761,312	—	761,312	—	761,312
&AND HOSTEL	—	162,240	162,240	—	162,240
RET	—	1,840,819	1,840,819	—	1,840,819
Other	30,963	—	30,963	9,321	40,285
Revenue from contracts with customers	3,010,906	2,003,060	5,013,966	9,321	5,023,287
Other revenue	—	1,057	1,057	—	1,057
Sales to external customers	3,010,906	2,004,117	5,015,023	9,321	5,024,345
Intersegment sales or transfer	—	—	—	—	—
Total	3,010,906	2,004,117	5,015,023	9,321	5,024,345
Segment profit (loss)	303,746	(286,174)	17,571	(2,906)	14,664
Segment assets	1,009,179	113,962	1,123,141	10,976	1,134,118
Other items					
Depreciation	33,104	36,906	70,010	76	70,087
Increase in property, plant and equipment and intangible assets	57,264	—	57,264	—	57,264

Note: The “Other” category, a business segment not included in the reportable segments, mainly involves businesses related to the entertainment field using new technologies.

2: Information related to losses on the impairment of fixed assets or goodwill for each reportable segment

(Significant impairment losses related to fixed assets)

In “Apps business” of the total software held by the Company, for software from which profit originally estimated could no longer be expected, the Company reduced the book value of the software to the recoverable amount and recognized the amount of the reduction as an impairment loss.

The amount of the impairment loss recorded was ¥41,573 thousand.

4. Total amounts for reportable segments and the main reasons for discrepancies between these values and figures stated in the non-consolidated financial statements (matters related to the adjustment of discrepancies)

(Thousands of yen)

Net sales	Fiscal year ended August 31, 2023	Fiscal year ended August 31, 2024
Subtotal for reportable segments	2,979,047	5,015,023
Sales from “Other” businesses (loss)	—	9,321
Net sales in the financial statements	2,979,047	5,024,345

(Thousands of yen)

Income	Fiscal year ended August 31, 2023	Fiscal year ended August 31, 2024
Subtotal for reportable segments	488,504	17,571
Income (losses) from “Other” businesses	(628)	(2,906)
Company-wide expenses (Note)	(341,782)	(332,192)
Operating income (losses) in the financial statements	146,093	(317,527)

Note: Company-wide expenses are mainly general and administrative expenses not attributable to reportable segments.

(Thousands of yen)

Assets	Fiscal year ended August 31, 2023	Fiscal year ended August 31, 2024
Subtotal for reportable segments	4,235,162	1,123,141
Assets categorized as “Other”	303	10,976
Company-wide assets (Note)	1,039,907	1,493,243
Total assets in the financial statements	5,275,373	2,627,362

Note: Company-wide assets are mainly cash and deposits not attributable to reportable segments.

(Thousands of yen)

Other items	Subtotal for reportable segments		Other		Adjustment		Amount presented in the financial statements	
	Fiscal year ended August 31, 2023	Fiscal year ended August 31, 2024	Fiscal year ended August 31, 2023	Fiscal year ended August 31, 2024	Fiscal year ended August 31, 2023	Fiscal year ended August 31, 2024	Fiscal year ended August 31, 2023	Fiscal year ended August 31, 2024
Depreciation	48,206	70,010	—	76	6,579	5,778	54,785	75,866
Increase in property, plant and equipment and intangible assets	51,962	27,171	—	—	10,617	11,205	62,579	38,376

Note: Adjustments to increases in property, plant and equipment and intangible assets are mainly the costs of acquiring headquarters buildings and software not attributable to reportable segments.

(Equity-Method Gains and Losses.)

Not applicable

(Per-Share Information)

	Fiscal year ended August 31, 2023	Fiscal year ended August 31, 2024
Net assets per share	¥99.51	¥107.41
Basic earnings per share	¥7.25	¥7.90
Diluted net income per share	¥7.25	¥7.90

Notes: 1. The basis for calculating net income per share and diluted net income per share is as follows

	Fiscal year ended August 31, 2023	Fiscal year ended August 31, 2024
Basic earnings per share		
Profit (thousands of yen)		
Amount not attributable to common shareholders (thousands of yen)	79,670	88,940
Profit attributable to common shareholders (thousands of yen)	—	—
Average number of shares of common stock during the period (shares)	79,670	88,940
Overview of potential shares not included in the calculation of diluted earnings per share as they have no dilutive effect	10,991,599	11,261,713
Diluted net income per share		
(Basis for calculation)		
Net income adjustment (thousands of yen)	—	—
Increase in common stock (shares)	2,752	2,466
Of which, stock acquisition rights (shares)	(2,752)	(2,466)
Summary of potential stock not included in the calculation of diluted net income per share due to the absence of dilutive effects	—	—

(Significant Subsequent Events)

(Business Transfer)

At a meeting held on August 14, 2024, the Board of Directors resolved to acquire the "Sokuyomi e-book store" business of Digital Catapult Inc. and entered into a business transfer agreement on August 14, 2024. Based on the business transfer agreement, the transfer of the business was completed on October 1, 2024.

(1) Name and business of the company to be acquired

① Name Digital Catapult Inc.

② Business Sokuyomi e-book store business

③ Purpose of Business Transfer

With the mission of "providing a little something extra to people's daily lives," the Company has focused on growing earnings from smartphone manga apps developed in collaboration with publishers in the core Apps segment. The e-book market, the Company's main business domain, is projected to continue expanding. In this business environment, we believe that to expand our market share and accelerate business growth in our core Apps segment, in addition to the ongoing growth of existing manga apps, we need to establish new earnings sources that go beyond the development and operation of manga apps.

As part of this effort, the Company acquired some shares of Digital Catapult on October 13, 2023, with the aim of deepening our collaboration as partners in the medium and long term and have continued discussions regarding the utilization of the expertise of both parties. As a result, we decided to conclude a business transfer agreement with the aim of integrating Digital Catapult's Sokuyomi e-book store business into our own existing business. This will enable us to transfer to our service more than 600,000 titles currently distributed on Sokuyomi, thereby expanding the number of titles we have available. Combined with the recent launch of a Webtoon production studio and the acquisition of a subsidiary with expertise in translation functions and overseas expansion, we will utilize the technology and operations expertise we have cultivated to accelerate content production, the optimization of distribution through technology, and overseas expansion. This will allow us to realize the early monetization of new businesses and ensure stable profit, thereby expanding our share of the e-book market and increasing our corporate value.

④ Date of business transfer

October 1, 2024

⑤ Legal form

Business transfer with cash or other assets as the only consideration

(2) Items and amounts of assets and liabilities of the transferred business

To be determined

(3) Summary of Accounting Procedures Implemented

The business acquisition is expected to be classified as an "acquisition" under the accounting standards for business combinations (ASBJ Statement No. 21, January 16, 2019). The allocation of acquisition costs and the amount of goodwill associated with this transaction are currently under scrutiny.

(Business combination through acquisition)

At a meeting held on May 17, 2024, the Board of Directors resolved to acquire shares of SouthWorks Co., Ltd. to make it a subsidiary, and on the same day, concluded a memorandum of understanding for the share acquisition. Based on the memorandum, the Company acquired 80% of the voting rights in SouthWorks, with September 1, 2024, as the execution date of share transfer.

Share acquisition will be carried out in three phases, with the second and third acquisitions roughly scheduled for August 2025 and August 2026, respectively, on specific dates to be agreed separately. Through the three share acquisitions, the Company plans to make SouthWorks a wholly owned subsidiary.

1. Outline of business combination

(1) Name and business of the company to be acquired

Name	SouthWorks Co., Ltd.
Business	Overseas entertainment content development support Translation of content into English and traditional/simplified Chinese Website production, web marketing, etc.

(2) Main reasons for business combination

Under the second medium-term management plan spanning the three years from the fiscal year ending August 2024 to the fiscal year ending August 2026, with the slogan, “Turn the Gear,” we are accelerating the launch of new core businesses by shifting into a high gear. As one of our long-term policies set forth in the plan, we plan to expand our business into the rapidly growing and large overseas markets.

By making SouthWorks, which has expertise in content translation and distribution in overseas markets, we intend to expedite our expansion into overseas markets.

SouthWorks operates the localization business in which it provides localization services for games and manga through translation, and the publishing business on overseas platforms in collaboration with domestic game developers. In the localization business, native target language speaking staff with a thorough understanding of the target content provide translations that maximize the appeal of the content. The publishing business focuses on English-speaking markets, offering a one-stop service from interactions with overseas platforms to user support.

Through this business combination, we will leverage SouthWorks’ translation technology and overseas publishing expertise to enhance the service offerings of our manga app business for international markets. By expanding our reach beyond Japan to overseas markets, we aim to increase our share in the e-book market and enhance corporate value.

(3) Timeline of business combination

First share acquisition: September 1, 2024
Second share acquisition: Around August 2025 (scheduled)
Third share acquisition: Around August 2026 (scheduled)

(4) Legal form of business combination

Acquisition of shares with cash consideration

(5) Name of the company to be acquired after business combination

SouthWorks Co., Ltd.

(6) Voting rights ratio after share acquisition (scheduled)

Voting rights ratio after the first share acquisition	80%
Voting rights ratio after the second share acquisition	-% - 20%
Voting rights ratio after the third share acquisition	

On September 1, 2024, the Company plans to acquire 112 shares in SouthWorks, corresponding to 80% voting rights, for

¥42,000 thousand. The Company plans to acquire additional shares at later dates for the maximum value of ¥120,000 thousand. The two companies will negotiate to determine the feasibility and acquisition price of the additional acquisitions around August 2025 and August 2026.

The acquisition price will be set at a fair and reasonable amount, following appropriate due diligence.

(7) Basis for determining the acquiring company

The Company acquired the shares for a cash consideration.

2. Acquisition cost of the company to be acquired and breakdown by type of consideration (scheduled)

Type of consideration	Cash and deposits	First acquisition	¥42,000 thousand
		Second acquisition	¥- thousand - ¥78,000 thousand
		Third acquisition	
Acquisition cost			¥42,000 thousand – ¥120,000 thousand

3. Details and the amount of major acquisition-related costs

Due advisory costs, etc. (estimate): ¥5,000 thousand

4. The amount, cause, and amortization method and period of goodwill

To be determined

5. Assets and liabilities transferred on the date of business combination and their main components

To be determined

6. Funding for the acquisition

The Company plans to fund the acquisition with its own funds.