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**Summary of Non-Consolidated Financial Results  
for the Nine Months Ended May 31, 2021  
(Based on Japanese GAAP)**

July 15, 2021

Company name:	and factory, ink	
Stock exchange listing:	Tokyo	
Stock code:	7035	URL <a href="https://andfactory.co.jp/">https://andfactory.co.jp/</a>
Representative:	Rinji Aoki, President and Representative Director	
Contact:	Tomoki Hasumi, Director	Phone: +81-3-6712-7646
Scheduled date to file annual securities report:		July 15, 2021
Scheduled date to commence dividend payments:		—
Preparation of supplementary material on quarterly 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 nine months ended May 31, 2021 (From September 1, 2020 to May 31, 2021)

(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, 2021	2,247	1.4	(136)	—	(247)	—	(268)	—
Nine months ended May 31, 2020	2,217	44.8	(45)	—	(88)	—	(101)	—

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended May 31, 2021	(27.34)		—	
Nine months ended May 31, 2020	(10.42)		—	

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
	Millions of yen	Millions of yen	%
As of May 31, 2021	5,516	1,181	21.4
As of August 31, 2020	6,343	1,449	22.8

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, 2020	—	0.00	—	0.00	0.00
Year ending August 31, 2021	—	0.00			
Year ending August 31, 2021 (Forecast)			—	0.00	0.00

3. Forecast of non-consolidated financial results for the year ending August 31, 2021 (From September 1, 2020 to August 31, 2021)  
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	3,050	3.5	(90)	—	(253)	—	(540)	—	(55.21)

4. Notes

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

Note: In calculating tax expenses for the current fiscal year, including the first quarter under review, income taxes were estimated rationally, using the effective tax rate after applying tax effect accounting multiplied by income before income taxes, to estimate the appropriate effective tax rate. However, if the tax expenses calculated using the estimated effective tax rate yield unreasonable results, the statutory effective tax rate may be used.

(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, 2021	9,827,120 shares	As of August 31, 2020	9,827,120 shares
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Number of treasury shares at the end of the period

As of May 31, 2021	257 shares	As of August 31, 2020	257 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended May 31, 2021	9,826,863 shares	Nine months ended May 31, 2020	9,768,339 shares
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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 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

The e-book market (the Company's main business category) continued to grow, according to the eBook Marketing Report 2020 by Impress Research Institute. According to this report, the e-book market had a value of ¥347.3 billion in fiscal 2019, up 22.9% from the previous year's figure of ¥282.6 billion. Comics accounted for 86.1% of the total, or ¥298.9 billion. The same institute's report for the previous year, the eBook Marketing Report 2019, had forecast that the e-book market would reach a value of ¥333.2 billion in fiscal 2019. The actual figure exceeded this forecast. By fiscal 2024, the institute forecasts that the e-publishing market (including e-books) will grow by approximately 50% from fiscal 2019, to ¥566.9 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 50% from approximately 22.7 billion items in 2018 to some 34.8 billion items in 2022 (source: 2020 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 has focused mainly on expanding earnings from smartphone manga apps developed in collaboration with large publishers. In the IoT business, in line with the business policy of promoting technology in the lodging market, the Company has worked on the development and operation of &AND HOSTEL smart hostels, and the provision of other IoT solution services for lodging facilities such as a lodging management system (innto) and a guest room tablet service (tabii). Additionally, in the rental property market, the Company is developing and operating a communication app (totono) to connect management companies and residents.

In the Apps business, sales and operating profit increased year on year as a result of an upturn in ARPU (\*1) for some manga apps, driven by the implementation of user acquisition measures to raise profitability and a resumption of the serialization of popular titles that had been temporarily suspended, and thanks to efficient spending on advertising.

At the same time, the business environment surrounding the primary target markets of the IoT business—namely, the lodging and rental property markets—underwent major changes due to the COVID-19 pandemic, and maintaining financial health and securing profit in the foreseeable future have become pressing issues. Having determined that it needs to focus its management resources on its strongest businesses and on the creation of new businesses to drive medium- to long-term business growth, the Company has announced it will implement structural reforms in the IoT business.

As a result of the above, in the nine months ended May 31, 2021, the Company reported net sales of ¥2,247,583 thousand (up 1.4% year on year), an operating loss of ¥136,238 thousand (operating loss of ¥45,949 thousand in the corresponding period of the previous fiscal year), an ordinary loss of ¥247,018 thousand (ordinary loss of ¥88,654 thousand in the corresponding period of the previous fiscal year), and a net loss of ¥268,660 thousand (net loss of ¥101,785 thousand in the corresponding period of the previous fiscal year). In addition, on June 25, 2021, the Company announced a revision to its earnings forecast for the fiscal year ending August 31, 2021, mainly to account for the booking of expenses associated with the structural reforms in the IoT business. It forecasts an improvement in profit levels and expects to generate steady operating profit from the fiscal year ending August 31, 2022.

#### (1) Apps business

In the nine months ended May 31, 2021, the existing manga apps, such as Manga UP!, Manga Park, and Manga Mee, have continued to enjoy favorable performances since their service launch, thanks to proactive advertising efforts, new series launches, offering of popular content in series, and new manga additions. Earnings contribution also came from the steady increases in monthly active users (MAUs\*2) at Young Jump, a manga app jointly developed with SHUEISHA Inc. (released April 2020), and Mecha Comic's Mainichi Rensai, a manga app jointly developed with Amutus Corporation (released May 2020).

Meanwhile, ARPU temporarily declined for some apps on a change in user acquisition measures, but sales increased as overall

ARPU improved in the nine months ended May 31, 2021 supported by a review of the user acquisition policy and by growth in the user retention rate attributable to a resumption of the serialization of popular titles that had been temporarily suspended. In addition, the operating profit margin improved thanks to efficient spending on advertising.

As a result, in the nine months ended May 31, 2021, sales in the Apps business were ¥2,027,337 thousand (up 8.3% year on year). Segment profit came to ¥355,100 thousand (up 9.7% 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)				
	Average MAUs		Average MAUs	
	Manga apps		Manga apps	
May 31, 2017	310		August 31, 2019	5,320
August 31, 2017	650		November 30, 2019	6,410
November 30, 2017	1,080		February 29, 2020	7,200
February 28, 2018	1,500		May 31, 2020	9,060
May 31, 2018	2,040		August 31, 2020	9,940
August 31, 2018	2,380		November 30, 2020	10,260
November 30, 2018	2,790		February 28, 2021	10,540
February 28, 2019	3,620		May 31, 2021	10,560
May 31, 2019	4,300			

Note: the average MAUs shown above are quarterly averages.

## (2) IoT business

In the nine months ended May 31, 2021, occupancy rates trended toward recovery for &AND HOSTEL, our mainstay brand of smart hostels (lodging facilities offering experiences made possible through IoT). The uptrend compared with the fiscal year ended August 31, 2020, when performance was substantially affected by the COVID-19 pandemic, was a result of our efforts to cultivate a new customer base by shifting to new targets and concepts at some hostel branches. However, spending per customer, although improving, remained low, and operating revenue at each location was flat year on year.

In the guest room tablet service (tabii), adoption expanded despite the impact of the COVID-19 pandemic as the Company stepped up sales activities, and sales generated from initial setup fees increased modestly. In the lodging management system (innnto), sales and operating profit declined as the sales recorded in connection with the development of new functions in the corresponding period of the previous fiscal year dropped out of the picture.

Consequently, in the nine months ended May 31, 2021, sales in the IoT business came to ¥220,246 thousand (down 23.2% year on year), with segment losses of ¥204,923 thousand (loss of ¥112,279 thousand in the corresponding period of the previous year).

## (2) Analysis of Financial Conditions

### (1) Assets, liabilities, and net assets

#### (Assets)

As of May 31, 2021, total assets amounted to ¥5,516,541 thousand, down ¥827,307 thousand from August 31, 2020. Key decreases included cash and deposits, down ¥204,353 thousand; accounts receivable, down ¥106,881 thousand, advance payments, down ¥190,449 thousand, income taxes receivable, down ¥128,403 thousand due to an income tax refund; and consumption taxes receivable, down ¥213,333 thousand due to a consumption tax refund.

#### (Liabilities)

Total liabilities amounted to ¥4,335,517 thousand as of May 31, 2021, down ¥558,646 thousand from August 31, 2020. This mainly reflected decreases of ¥237,883 thousand in accounts payable–trade, ¥140,648 thousand in accounts payable–other, and ¥196,480 thousand in long-term borrowings (including the current portion of long-term borrowings).

#### (Net assets)

As of May 31, 2021, net assets totaled ¥1,181,023 thousand, down ¥268,660 thousand from August 31, 2020. This was the result of the Company's posting of a net loss, causing retained earnings to fall ¥268,660 thousand.

The equity ratio came to 21.4% (compared with 22.8% as of August 31, 2020).

## (3) Operating Performance Forecast

Based on recent performance, the Company has revised its forecast for the fiscal year ending August 31, 2021, announced on October 15, 2020. The revisions mainly reflect the booking of expenses associated with the structural reforms in the IoT business. The Company forecasts an improvement in profit levels and expects to generate steady operating profit from the fiscal year ending August 31, 2022. For more details, please refer to the "Notice of Recording of Extraordinary Losses and Revisions to Earnings Forecast," released on June 25, 2021.

## 2. Quarterly Non-Consolidated Financial Statements

### (1) Quarterly Non-Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2020	As of May 31, 2021
Assets		
Current assets		
Cash and deposits	1,028,320	823,967
Accounts receivable—trade	622,887	516,006
Work in process	7,366	7,397
Real estate for sale	3,163,946	3,155,761
Advances paid	417,388	226,939
Income taxes receivable	128,403	—
Consumption taxes receivable	213,333	—
Other	80,293	112,036
Allowance for doubtful accounts	(15)	(8,161)
Total current assets	5,661,925	4,833,948
Non-current assets		
Property, plant and equipment		
Buildings	47,356	11,599
Machinery and equipment	1,088	1,088
Tools, furniture and fixtures	52,618	55,629
Accumulated depreciation	(79,903)	(32,879)
Total property, plant and equipment	21,159	35,436
Intangible assets		
Software	131,778	97,817
Software in progress	—	9,290
Total intangible assets	131,778	107,108
Investments and other assets		
Investment securities	228,781	257,295
Leasehold and guarantee deposits	289,486	281,792
Other	10,717	959
Total investments and other assets	528,984	540,047
Total non-current assets	681,922	682,593
Total assets	6,343,848	5,516,541

(Thousands of yen)

	As of August 31, 2020	As of May 31, 2021
<b>Liabilities</b>		
Current liabilities		
Accounts payable–trade	358,975	121,091
Short-term borrowings	515,000	490,000
Current portion of long-term borrowings	270,608	277,136
Accounts payable–other	662,348	521,699
Income taxes payable	—	6,173
Provision for bonuses	3,375	—
Provision for shareholder benefit program	38,527	1,244
Other	9,257	85,558
Total current liabilities	1,858,092	1,502,903
Non-current liabilities		
Long-term borrowings	3,026,634	2,823,626
Other	9,437	8,987
Total non-current liabilities	3,036,071	2,832,613
Total liabilities	4,894,163	4,335,517
<b>Net assets</b>		
Shareholders' equity		
Share capital	549,720	549,720
Capital surplus	548,361	548,361
Retained earnings	351,061	82,400
Treasury shares	(572)	(572)
Total shareholders' equity	1,448,569	1,179,909
Share acquisition rights	1,114	1,114
Total net assets	1,449,684	1,181,023
Total liabilities and net assets	6,343,848	5,516,541



## (2) Quarterly Non-Consolidated Statements of Income

(Thousands of yen)

	Nine months ended May 31, 2020	Nine months ended May 31, 2021
Net sales	2,217,073	2,247,583
Cost of sales	1,008,815	1,020,055
Gross profit	1,208,258	1,227,528
Selling, general and administrative expenses	1,254,207	1,363,767
Operating loss	(45,949)	(136,238)
Non-operating income		
Interest income	24	5
Subsidy income	—	25,991
Surrender value of insurance policies	743	2,411
Other	154	1,833
Total non-operating income	921	30,242
Non-operating expenses		
Interest expenses	13,098	21,917
Commission expenses	30,529	—
Rent	—	115,432
Other	—	3,671
Total non-operating expenses	43,627	141,022
Ordinary loss	(88,654)	(274,018)
Extraordinary losses		
Losses due to the temporary suspension of operations	28,696	—
Impairment loss	23,256	18,611
Loss on retirement of non-current assets	—	196
Total extraordinary losses	51,952	18,808
Loss before income taxes	(140,606)	(265,827)
Income taxes	(38,821)	2,833
Loss	(101,785)	(268,660)

### (3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to the Going Concern Assumption)

Not applicable

(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. Lower occupancy rates and spending per customer at the &AND HOSTEL locations we operate are affecting operating performance. The Japanese government declared a fourth state of emergency on July 8, 2021, which is expected to be lifted on August 22, 2021. Nevertheless, it remains difficult to predict when the pandemic will be contained and how conditions will evolve. In compiling accounting estimates to value real estate for sale, gauge the necessity of recording impairment losses on non-current assets, determine the recoverability of deferred tax assets, and make other decisions, the Company has assumed that the impact of the pandemic will persist in the fiscal year ending August 31, 2021 and gradually ease in the fiscal year ending August 31, 2022. These assumptions are predicated on information available at the time these financial statements were prepared.

As it is difficult at present to accurately estimate when the pandemic will subside, our financial condition and operating performance could be affected should there be changes in the assumptions mentioned above.

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

Not applicable.

(Application of Special Accounting Treatment for Quarterly Financial Reporting)

(Calculation of Tax Expenses)

For tax expenses, the Company has rationally estimated the 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, 2021. The Company then calculated tax expenses by multiplying the profit (loss) before income taxes by that rate. However, if the tax expenses calculated using the estimated effective tax rate yield unreasonable results, the statutory effective tax rate may be used.

(Segment Information, etc.)

[Segment Information]

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
	APP business	IoT	Total		
Net Sales					
Sales to external customers	1,872,011	286,858	2,158,869	58,203	2,217,073
Intersegment sales or transfer	—	—	—	—	—
Total	1,872,011	286,858	2,158,869	58,203	2,217,073
Segment profit (loss)	323,677	(112,279)	211,397	9,701	221,099

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	211,397
Income from "Other" business	9,701
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, 2021, 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 App 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.

Nine months ended May 31, 2021 (September 1, 2020 to May 31, 2021)

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

(Thousands of yen)

	Reportable segments			Other	Total
	APP business	IoT	Total		
Net Sales					
Sales to external customers	2,027,337	220,246	2,247,583	—	2,247,583
Intersegment sales or transfer	—	—	—	—	—
Total	2,027,337	220,246	2,247,583	—	2,247,583
Segment profit (loss)	355,100	(204,923)	150,176	—	150,176

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	(150,176)
Income from “Other” business	—
Company-wide expenses (Note)	(286,415)
Operating profit (loss) in the quarterly non-consolidated statements of income	(136,238)

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

3. Information related to changes in reportable segments

From the accounting period ended May 31, 2021, the Company reconsidered the business area in the Smartphone APP business and made organizational change to provide APP services not limited to Smartphones. Consequently, the Company changed the name for the segment from “Smartphone APP business” to “APP business”. Also, the Company made organizational change for the APP business segment to take charge of internet advertising agency service related to its business area. Segment information for the nine months ended May 31, 2021, is categorized using the new classification.

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 IoT business, the Company recorded an impairment loss of ¥18,611 thousand on software in which profit originally estimated was no longer expected. The company cut down the book value to its recoverable value and recorded equivalent amount as an impairment loss.

(Significant Subsequent Events)

(Structural reforms in IoT business)

At its Board of Directors meeting held on June 15, 2021, the Company adopted a basic policy of implementing structural reforms in its IoT business. At its Board of Directors meeting held on July 15, 2021, it resolved to conclude an agreement to transfer a portion of the business as part of the structural reforms.

#### 1. Background to structural reforms in IoT business

The Company has created new value by pursuing innovative initiatives via the application of technology to various fields as a “smartphone idea company.” In its IoT business, which focuses on lodging operations, the Company designs and produces the &AND HOSTEL smart hostels that utilize its IoT platform app (&IoT), and provides IoT solution services for lodging facilities (such as innto and tabii). In addition, as a service for rental property, the Company operates an app that connects management companies and residents (totono). Since its launch in 2016, the IoT business has provided IoT-powered services geared toward lodging facilities, and it has continued to expand with the support of its many stakeholders. However, the business environment surrounding the Company today has changed dramatically due to the COVID-19 pandemic, and the Company realizes it has reached a turning point. It has therefore determined it needs to focus its management resources on its strongest businesses and on the creation of new businesses in order to maintain financial health and secure profit in the foreseeable future and to achieve medium- to long-term business growth. On this occasion, it resolved to implement structural reforms in the IoT business. Based on a stance that is consistent with its long-term vision, the Company will appropriately allocate its management resources, and aim to transition to an earnings structure capable of generating steady profit from the fiscal year ending August 31, 2022.

#### 2. Outline of the structural reforms

##### (1) Review of rental contracts in &AND HOSTEL business

In the &AND HOSTEL business, the Company will review rental costs at certain locations and renew contracts to reduce expenses from the fiscal year ending August 31, 2022. In conjunction with these changes, it plans to record a penalty for contract renewals of ¥244,291 thousand as an extraordinary loss in the fourth quarter of the fiscal year ending August 31, 2021.

##### (2) Transfer of IoT solution services for lodging facilities and rental property service

The Company is negotiating the transfer of its innto and tabii IoT solution services for lodging facilities with third party operators on condition that both services will continue to be provided. At its Board of Directors meeting held on July 15, 2021, it resolved to transfer its rental property service (totono).

###### a. Name of buyer

The totono business will be transferred to Sumasapo Inc.

###### b. Transfer agreement date

The agreement to transfer the totono business was concluded on July 15, 2021.

###### c. Transfer execution date

August 31, 2021

#### Earnings impact

In conjunction with the aforementioned implementation of structural reforms, the Company will record a total extraordinary loss of ¥289,185 thousand in the fourth quarter of the fiscal year ending August 31, 2021.

(Borrowing of funds to finance structural reforms of IoT business, etc.)

At its Board of Directors meeting held on June 25, 2021, the Company resolved to borrow funds as outlined below.

1. Use of funds

The Company will borrow the funds needed to finance structural reforms in the IoT business, particularly penalties associated with a review of rental costs for some &AND HOSTEL locations, and to implement strategies that will drive future growth.

2. Outline of the earnings impact

(1) Lender	SHUEISHA Inc.
(2) Loan amount	¥350,000 thousand
(3) Loan execution date	June 25, 2021
(4) Loan interest rate	1%
(5) Repayment period	3years
(6) Provision of security	Yes

(1) Lender	Hakusensha Inc.
(2) Loan amount	¥50,000 thousand
(3) Loan execution date	June 25, 2021
(4) Loan interest rate	1%
(5) Repayment period	3years
(6) Provision of security	Yes