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Summary of Non-Consolidated Financial Results for the Three Months Ended November 30, 2021 (Based on Japanese GAAP)

January 14, 2022

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 annual securities report: January 14, 2022
 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 three months ended November 30, 2021

(From September 1, 2021 to November 30, 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	%
Three months ended November 30, 2021	667	(7.2)	25	—	(25)	—	(23)	—
Three months ended November 30, 2020	718	(10.4)	(130)	—	(155)	—	(156)	—

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended November 30, 2021	(2.36)		—	
Three months ended November 30, 2020	(15.96)		—	

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 November 30, 2021	5,175	869	16.8
As of August 31, 2021	5,376	888	16.5

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, 2021	—	0.00	—	0.00	0.00
Year ending August 31, 2022	—				
Year ending August 31, 2022 (Forecast)		0.00	—	0.00	0.00

Notice concerning Revision of the Financial Forecasts : No

3. Forecast of non-consolidated financial results for the year ending August 31, 2022

(From September 1, 2021 to August 31, 2022)

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	0.2	170	—	(47)	—	(40)	—	(4.06)

Notice concerning Revision of the Financial Forecasts : No

4. Notes

(1) Application of special accounting treatment for quarterly financial reporting: Yes

Note: For details, please refer to “2. Quarterly Non-Consolidated Financial Statements and Notes (3) Notes to the Quarterly Non-Consolidated Financial Statements (Application of Special Accounting Treatment for Quarterly Financial Reporting)” on page 8 of the attachments to this summary.

(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: Yes

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)

As of November 30, 2021	9,853,520 shares	As of August 31, 2021	9,827,120 shares
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Number of treasury shares at the end of the period

As of November 30, 2021	257 shares	As of August 31, 2021	257 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Three months ended November 30, 2021	9,843,689 shares	Three months ended November 30, 2020	9,826,863 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 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 “(3) Operating Performance Forecast” on page 4 of the attachments to this summary.

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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 2021 by Impress Research Institute. According to this report, the e-book market had a value of ¥482.1 billion in fiscal 2020, up 28.6% from the previous year's figure of ¥375 billion. Comics accounted for 83% of the total, or ¥400.2 billion. The same institute's report for the previous year, the eBook Marketing Report 2020, had forecast that the e-book market would reach a value of ¥444.2 billion in fiscal 2020. The actual figure exceeded this forecast. By fiscal 2025, the institute forecasts that the e-publishing market (including e-books) will grow by approximately 1.4 times larger of fiscal 2020, to ¥674.7 billion.

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 Apps business, the Company has focused mainly on expanding earnings from smartphone manga apps developed in collaboration with large publishers.

In the Apps business segment, price per advertisement in the Company's mainstay manga apps business trended upward, and the Company's acquisition of new users slowed down as it cut back on promotional investment. Consequently, sales remained on par with those generated during the three months ended November 30, 2020. Meanwhile, operating income was significantly higher year on year due to the efficiency of the Company's promotional investment.

In the RET business segment, profitability related to the operation of &AND HOSTEL facilities improved significantly as a result of business structure reforms. At the same time, the occupancy rates at these facilities were on the rise thanks to changes in targets and concepts associated with &AND HOSTEL.

In the Other businesses segment, sales decreased year on year because the Company transferred lodging and rental property services during the fiscal year ended August 31, 2021, as part of its efforts to adjust its business portfolio. However, operating income improved due to the Company's withdrawal from unprofitable businesses.

As a result of these activities, in the three months ended November 30, 2021, the Company generated net sales of ¥667,348 thousand (down 7.2% year on year), an operating income of ¥25,042 (operating loss of ¥130,700 thousand in the corresponding period of the previous fiscal year), an ordinary loss of ¥25,375 thousand (ordinary profit of ¥155,939 thousand in the corresponding period of the previous fiscal year), and a net loss of ¥23,247 thousand (net income of ¥156,882 thousand in the corresponding period of the previous fiscal year).

It should be noted that we recategorized our reportable segments during the quarter under review. Accordingly, comparisons and analysis for the three months ended November 30, 2021, are based on the revised segmentation.

(1) Apps business

The Company has observed strong performance from existing manga apps, such as Manga UP!, Manga Park, and Manga Mee, since their launch. This strong performance continued during the three months ended November 30, 2021, thanks to the extended availability of popular content and the addition of new titles.

Earnings contribution also came from the steady increases in monthly active users (MAUs*1) 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).

At the same time, the COVID-19 pandemic's impact on the overall advertising market took a turn for the worse, and advertising revenue declined amid a downward trend in ARPU*2 from in-app ads.

As a result, in the three months ended November 30, 2021, sales in the Apps business were ¥627,860 thousand (down 0.9% year on year). Segment profit came to ¥138,502 thousand (up 207.8% 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 Apps business, the following table outlines average MAUs by quarter for the manga apps.

(Thousands of people)

Date	Average MAUs	Date	Average MAUs
May 31, 2017	310	November 30, 2019	6,410
August 31, 2017	650	February 29, 2020	7,200
November 30, 2017	1,080	May 31, 2020	9,060
February 28, 2018	1,500	August 31, 2020	9,940
May 31, 2018	2,040	November 30, 2020	10,260
August 31, 2018	2,380	February 28, 2021	10,540
November 30, 2018	2,790	May 31, 2021	10,560
February 28, 2019	3,620	August 31, 2021	11,010
May 31, 2019	4,300	November 30, 2021	10,460
August 31, 2019	5,320		

Note: the average MAUs shown above are quarterly averages.

(2) RET business

In the three months ended November 30, 2021, occupancy rates trended toward recovery for &AND HOSTEL, the Company's mainstay brand of smart hostels (lodging facilities offering experiences made possible through IoT). These positive results compared with the fiscal year ended August 31, 2020, when performance was substantially affected by the COVID-19 pandemic, were a result of changing targets and concepts at some stores and promoting the acquisition of new customer bases, the occupancy rate has been on a recovery trend. However, although the average spend per customer is on a recovery trend, it is still at a low level, and the operating revenue of each store remained flat compared to the same period of the previous year.

The Company made adjustments to agreements associated with a portion of the &AND HOSTEL locations during the fiscal year ended August 31, 2021, and these adjustments resulted in a decrease in rents and other fixed costs stemming from loss-generating locations. Accordingly, losses in the &AND HOSTEL business declined year on year.

Meanwhile, the Company generated real estate-related sales, reporting cases of revenue generated through brokerage fees associated with property sales and an ongoing stream of rental revenue from properties.

Consequently, in the three months ended November 30, 2021, sales in the RET business came to ¥37,526 thousand (up 5.5% year on year), with segment losses of ¥15,068 thousand (loss of ¥52,245 thousand in the previous year).

(3) Other businesses

Sales in the Other businesses segment declined year on year because the Company transferred service operations in the lodging and rental property fields, which were included under the IoT business segment until the fiscal year ended August 31, 2021, to other organizations. However, operating income increased as the Company withdrew from unprofitable businesses.

Meanwhile, the Company continued its ongoing review of plans within the field of entertainment that utilize new technologies not being applied in other business segments.

In the first three months ended November 30, 2021, Other businesses reported sales of ¥1,961 thousand (down 96.1% year on year) and segment losses of ¥10,514 thousand (loss of ¥17,949 thousand in the previous year).

(2) Analysis of Financial Conditions

(Assets)

As of November 30, 2021, total assets amounted to ¥5,175,553 thousand, down ¥200,996 thousand from August 31, 2021.

This decline in total assets was primarily due to decreases of ¥98,131 thousand in accounts receivable—trade and ¥13,915 thousand in advances paid, as well as a downturn of ¥64,999 thousand in investment securities stemming from sale of unlisted

shares held by the Company.

(Liabilities)

Total liabilities amounted to ¥4,306,311 thousand as of November 30, 2021, down ¥181,946 thousand from August 31, 2021. Major decreases were trade accounts payable, down ¥13,114 thousand, short-term borrowings, down ¥15,000 thousand and long-term borrowings (including the current portion of long-term borrowings), which decreased ¥69,284 thousand.

(Net assets)

As of November 30, 2021, net assets totaled ¥869,241 thousand, down ¥19,050 thousand from August 31, 2021. This was the result of the posting of a net loss, causing retained earnings to fall ¥23,247 thousand.

The equity ratio came to 16.8% (compared with 16.5% as of August 31, 2021).

(3) Operating Performance Forecast

At present, the Company maintains its forecast for the fiscal year ending August 31, 2022, as announced on October 15, 2021.

The forecast is based on information available to management as of the date of this announcement. Actual performance may vary substantially from the forecast for a variety of reasons.

2. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2021	As of November 30, 2021
Assets		
Current assets		
Cash and deposits	774,726	817,038
Accounts receivable–trade	542,419	444,288
Work in process	19	—
Real estate for sale	3,148,397	3,141,033
Advances paid	228,061	214,145
Other	49,547	43,890
Allowance for doubtful accounts	(9,830)	(10,803)
Total current assets	4,733,342	4,649,592
Non-current assets		
Property, plant and equipment		
Buildings	11,599	11,269
Machinery and equipment	1,088	—
Tools, furniture and fixtures	58,788	54,225
Accumulated depreciation	(37,356)	(34,542)
Total property, plant and equipment	34,118	30,952
Intangible assets		
Software	68,836	62,613
Total intangible assets	68,836	62,613
Investments and other assets		
Investment securities	257,295	192,296
Leasehold and guarantee deposits	281,658	239,253
Other	1,298	844
Total investments and other assets	540,252	432,394
Total non-current assets	643,207	525,961
Total assets	5,376,550	5,175,553

(Thousands of yen)

	As of August 31, 2021	As of November 30, 2021
Liabilities		
Current liabilities		
Accounts payable–trade	121,095	107,981
Short-term borrowings	325,000	310,000
Current portion of long-term borrowings	277,136	277,136
Accounts payable–other	468,268	458,556
Income taxes payable	8,354	4,783
Provision for shareholder benefit program	35,783	20,279
Other	89,289	35,970
Total current liabilities	1,324,928	1,214,707
Non-current liabilities		
Long-term borrowings	3,154,342	3,085,058
Other	8,987	6,545
Total non-current liabilities	3,163,329	3,091,603
Total liabilities	4,488,258	4,306,311
Net assets		
Shareholders' equity		
Share capital	549,720	551,819
Capital surplus	548,361	550,460
Retained earnings	(210,331)	(233,578)
Treasury shares	(572)	(572)
Total shareholders' equity	887,177	868,127
Share acquisition rights	1,114	1,114
Total net assets	888,292	869,241
Total liabilities and net assets	5,376,550	5,175,553

(2) Quarterly Non-Consolidated Statements of Income

(Thousands of yen)

	Three months ended November 30, 2020	Three months ended November 30, 2021
Net sales	718,751	667,348
Cost of sales	358,380	295,751
Gross profit	360,371	371,596
Selling, general and administrative expenses	491,071	346,554
Operating profit (loss)	(130,700)	25,042
Non-operating income		
Interest income	0	0
Subsidy income	10,528	893
Other	677	135
Total non-operating income	11,206	1,029
Non-operating expenses		
Interest expenses	7,529	7,702
Rent	28,858	43,289
Other	57	455
Total non-operating expenses	36,445	51,446
Ordinary loss	(155,939)	(25,375)
Extraordinary income		
Gain on sale of businesses	—	0
Gain on sale of investment securities	—	10,020
Total extraordinary income	—	10,020
Extraordinary losses		
Impairment losses	—	964
Loss on retirement of non-current assets	—	983
Loss on valuation of investment securities	—	4,999
Total extraordinary losses	—	6,946
Loss before income taxes	(155,939)	(22,302)
Income taxes	942	945
Loss	(156,882)	(23,247)

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to the Going Concern Assumption)

Not applicable

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

Not applicable

(Application of Special Accounting Treatment for Quarterly Financial Reporting)

(Calculation of Tax Expenses)

When computing tax expenses, the Company has rationally estimated the effective tax rate following the application of tax-effect accounting to profit before income taxes for the fiscal year that includes the three months ended November 30, 2021. The Company then calculated tax expenses by multiplying the profit (loss) before income taxes by this rate. However, if the tax expenses calculated using the estimated effective tax rate yield unreasonable results, the statutory effective tax rate may be used.

(Changes in Accounting Policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

Effective from the beginning of the quarter under review, the Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Revenue Recognition Standard") and related implementation guidance. In accordance with this change, the Company recognizes revenue at the time control over promised goods or services is transferred to the customer, in the amount expected to be received in exchange for the goods or services. The Company's application of the Revenue Recognition Standard is compliant with transitional treatment prescribed in the proviso to Paragraph 84 of the Revenue Recognition Standard. The change had no impact on the balance of retained earnings at the beginning of the quarter under review. In addition, the adoption of the Revenue Recognition Standard had no effect on the net sales, gross profit, operating income, ordinary loss, or loss before income taxes recorded during the three months ended November 30, 2021.

(Application of Accounting Standard for Fair Value Measurement, etc.)

Effective from the beginning of the quarter under review, the Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the "Fair Value Measurement Standard") and related implementation guidance. In accordance with transitional treatment prescribed in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Company will progressively apply policies set forth by the Fair Value Measurement Standard. The application has no impact on its quarterly financial statements.

(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 sales per customer at the &AND HOSTEL locations the Company operates are affecting operating performance.

The Japanese government declared a state of emergency on July 8 2021 and lifted it on 30 September 2021, and it is difficult to predict with any accuracy when these conditions could improve. However, based on the information available at the time these financial statements were prepared, for the purposes of making accounting estimates (such as the valuation of real estate for sale, decisions on whether to post impairment losses on fixed assets, and decisions on the recoverability of deferred tax assets), we have assumed that the effect will gradually diminish from the fiscal year ending August 31, 2022.

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.

(Segment Information, etc.)

[Segment Information]

Three months ended November 30, 2020(September 1, 2020 to November 30, 2020)

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

(Thousands of yen)

	Reportable segments			Other	Total
	APPs	RET	Total		
Net Sales					
Sales to external customers	633,367	35,581	668,949	49,802	718,751
Intersegment sales or transfer	—	—	—	—	—
Total	633,367	35,581	668,949	49,802	718,751
Segment profit (loss)	45,005	(52,245)	(7,239)	(17,949)	(25,189)

Note : “Other” refers to businesses not included within the Company's reportable segments and mainly comprises lodging and rental property services, as well as internet advertising agency services.

2. Total profits or losses for reportable segments and the primary reasons for discrepancies between these values and corresponding figures 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	(7,239)
Income from “Other” businesses	(17,949)
Company-wide expenses (Note)	(105,510)
Operating profit (loss) in the quarterly non-consolidated statements of income	(130,700)

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

3. 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

Three months ended November 30, 2021 (September 1, 2021 to November 30, 2021)

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

(Thousands of yen)

	Reportable segments			Other (Note)	Total
	APPs	RET	Total		
Net Sales					
Manga apps	546,266	—	546,266	—	546,266
Fortune	66,112	—	66,112	—	66,112
&AND HOSTEL	—	9,053	9,053	—	9,053
RET	—	9,031	9,031	—	9,031
Other	15,481	865	16,346	1,961	18,307
Revenue from contracts with customers	627,860	18,950	646,811	1,961	648,772
Other revenue	—	18,576	18,576	—	18,576
Sales to external customers	627,860	37,526	665,387	1,961	667,348
Intersegment sales or transfer	—	—	—	—	—
Total	627,860	37,526	665,387	1,961	667,348
Segment profit (loss)	138,502	(15,068)	123,433	(10,514)	112,919

Notes : “Other” refers to businesses not included within the Company's reportable segments and mainly comprises entertainment related business operations that utilize new technologies.

2. Total profits or losses for reportable segments and the primary reasons for discrepancies between these values and corresponding figures stated in the quarterly non-consolidated statements of income (matters related to the adjustment of discrepancies)

(Thousands of yen)

Income or Loss	Amount
Subtotal for reportable segments	123,433
Income from “Other” businesses	(10,514)
Company-wide expenses (Note)	(87,876)
Operating profit (loss) in the quarterly non-consolidated statements of income	25,042

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

3. Information related to changes in reportable segments

The Company has adjusted its classification of reportable segments in line with reforms to the structure of its former IoT business. Accordingly, effective from the beginning of the quarter under review, the Company has changed the reportable segments from “Apps business” and “IoT business” to “Apps business” and “RET business.”

In addition, effective from the beginning of the three-month period ended May 31, 2021, the Company has implemented organizational changes to put its internet advertising agency service operations related to the Apps business under the control of the Apps business segment. Segment information for the three months ended November 30, 2020 has been prepared in accordance with the new segment 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)

Not applicable