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**Summary of Non-Consolidated Financial Results
for the Nine Months Ended May 31, 2022
(Based on Japanese GAAP)**

July 15, 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:		July 15, 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 nine months ended May 31, 2022

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

(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 month ended May 31,2022	2,051	(8.7)	28	—	(131)	—	(131)	—
Nine month ended May 31,2021	2,247	1.4	(136)	—	(247)	—	(268)	—

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine month ended May 31,2022	(13.31)	—
Nine month ended May 31,2021	(27.34)	—

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 31,2022	4,914	761	15.5
As of August 31,2021	5,376	888	16.5

(Reference) Equity capital: May 31,2022: ¥760 million August 31,2021: ¥887 million

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	—	0.00	—		
Year ending August 31, 2022 (Forecast)				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	2,750	(9.7)	40	—	(178)	—	(178)	—	(18.07)

Notice concerning Revision of the Financial Forecasts : Yes

Regarding the revision to the forecast, please refer to the “Notice Concerning the Revision of the Forecast of Non-Consolidated Financial Results for the Year Ending August 31, 2022” announced today (July 15, 2022).

※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 May 31, 2022	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 May 31, 2022	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)

Nine months ended May 31, 2022	9,850,071 shares	Nine months ended May 31, 2021	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. The definition of the e-book market was revised in the eBook Marketing Report 2021. Previously, e-magazines and e-books were combined under the category of e-publishing. Under the new definition, e-magazines are included in e-books.

The Company's mission is to make people's lives more fulfilling by bringing a little "something extra" to their daily lives. In the core 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, advertising revenue in the Company's mainstay manga apps business was down, reflecting lower advertising ARPU stemming from deterioration in the advertising market. Although in the entertainment business fortune telling performed well, overall sales in the Apps business segment were down slightly from the same period of the previous fiscal year. On the other hand, operating income remained on a par year on year thanks to efficient spending on advertising in the manga apps business.

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 nine months ended May 31, 2022, the Company generated net sales of ¥2,051,474 thousand (down 8.7% year on year), an operating income of ¥28,168 thousand (operating loss of ¥136,238 thousand in the corresponding period of the previous fiscal year), an ordinary loss of ¥131,042 thousand (ordinary profit of ¥247,018 thousand in the corresponding period of the previous fiscal year), and a net loss of ¥131,090 thousand (net income of ¥268,660 thousand in the corresponding period of the previous fiscal year).

It should be noted that we recategorized our reportable segments effective from the three months ended November 30, 2021. Accordingly, comparisons and analysis for the nine months ended May 31, 2022 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 nine months ended May 31, 2022, 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 nine months ended May 31, 2022, sales in the Apps business were ¥1,934,126 thousand (down 4.6% year on year). Segment profit came to ¥344,972 thousand (down 2.8% 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	February 29, 2020	7,200
August 31, 2017	650	May 31, 2020	9,060
November 30, 2017	1,080	August 31, 2020	9,940
February 28, 2018	1,500	November 30, 2020	10,260
May 31, 2018	2,040	February 28, 2021	10,540
August 31, 2018	2,380	May 31, 2021	10,560
November 30, 2018	2,790	August 31, 2021	11,010
February 28, 2019	3,620	November 30, 2021	10,460
May 31, 2019	4,300	February 28, 2022	10,440
August 31, 2019	5,320	May 31, 2022	11,210
November 30, 2019	6,410		

Note: the average MAUs shown above are quarterly averages.

(2) RET business

In the nine months ended May 31, 2022, occupancy rates for the &AND HOSTEL smart hostels operated by the Company trended toward recovery after having been hard hit by COVID-19 in the fiscal year ended August 31, 2021. This reflects efforts by some locations to change targets and concepts to attract new customer bases. Nonetheless, the average spend per customer remained at a low level, although it is on a recovery trend, and operating revenue of each location was flat compared to the same period of the previous year. The Company also made adjustments to agreements associated with some &AND HOSTEL locations during the fiscal year ended August 31, 2021, which resulted in lower rents and other fixed costs at loss-generating locations. Accordingly, losses in the &AND HOSTEL business declined year on year.

Meanwhile, the Company posted real estate-related sales. We continued to generate rental revenue from properties, while deriving one-off earnings from property sales brokerage fees and consulting fees in the &RESIDENCE rental property consulting business.

Consequently, in the nine months ended May 31, 2022, sales in the RET business came to ¥111,712 thousand (up 0.3% year on year), with a segment loss of ¥36,477 thousand (loss of ¥129,848 thousand in the same period of 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 nine months ended May 31, 2022, Other businesses reported sales of ¥5,635 thousand (down 94.8% year on year) and segment losses of ¥20,430 thousand (loss of ¥75,045 thousand in the previous year).

(2) Analysis of Financial Conditions

(1) Assets, liabilities, and net assets

(Assets)

As of May 31, 2022, total assets amounted to ¥4,914,921 thousand, down ¥461,628 thousand from August 31, 2021.

This was primarily due to decreases of ¥249,407 thousand in cash and deposits, ¥100,612 thousand in accounts receivable–trade, ¥64,999 thousand in investment securities, and ¥43,514 thousand in leasehold and guarantee deposits..

(Liabilities)

Total liabilities as of May 31, 2022, amounted to ¥4,153,522 thousand, down ¥334,735 thousand from August 31, 2021. This was primarily due to a decrease of ¥45,000 thousand in short-term borrowings and a decrease of ¥207,852 thousand in long-term borrowings (including the current portion of long-term borrowings).

(Net assets)

As of May 31, 2022, net assets totaled ¥761,399 thousand, down ¥126,892 thousand from August 31, 2021. This was the result of the posting of a net loss, causing retained earnings to fall ¥131,090 thousand.

The equity ratio came to 15.5% (compared with 16.5% as of August 31, 2021).

(3) Operating Performance Forecast

The Company revised the full-year earnings forecast announced on October 15, 2021. For details, please refer to the “Notice Concerning the Revision of the Forecast of Non-Consolidated Financial Results for the Year Ending August 31, 2022” announced today (July 15, 2022).

2. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2021	As of May 31, 2022
Assets		
Current assets		
Cash and deposits	774,726	525,318
Accounts receivable–trade	542,419	441,807
Work in process	19	4,150
Real estate for sale	3,148,397	3,126,304
Advances paid	228,061	253,973
Other	49,547	48,376
Allowance for doubtful accounts	(9,830)	(13,580)
Total current assets	4,733,342	4,386,350
Non-current assets		
Property, plant and equipment		
Buildings	11,599	11,675
Machinery and equipment	1,088	-
Tools, furniture and fixtures	58,788	58,360
Accumulated depreciation	(37,356)	(39,831)
Total property, plant and equipment	34,118	30,203
Intangible assets		
Software	68,836	55,628
Software in progress	-	8,870
Total intangible assets	68,836	64,499
Investments and other assets		
Investment securities	257,295	192,296
Leasehold and guarantee deposits	281,658	238,143
Other	1,298	3,427
Total investments and other assets	540,252	433,867
Total non-current assets	643,207	528,571
Total assets	5,376,550	4,914,921

(Thousands of yen)

	As of August 31, 2021	As of May 31, 2022
Liabilities		
Current liabilities		
Accounts payable–trade	121,095	103,977
Short-term borrowings	325,000	280,000
Current portion of long-term borrowings	277,136	277,136
Accounts payable–other	468,268	496,062
Income taxes payable	8,354	7,776
Provision for shareholder benefit program	35,783	5,895
Other	89,289	29,639
Total current liabilities	1,324,928	1,200,487
Non-current liabilities		
Long-term borrowings	3,154,342	2,946,490
Other	8,987	6,545
Total non-current liabilities	3,163,329	2,953,035
Total liabilities	4,488,258	4,153,522
Net assets		
Shareholders' equity		
Share capital	549,720	551,819
Capital surplus	548,361	550,460
Retained earnings	(210,331)	(341,421)
Treasury shares	(572)	(572)
Total shareholders' equity	887,177	760,284
Share acquisition rights	1,114	1,114
Total net assets	888,292	761,399
Total liabilities and net assets	5,376,550	4,914,921

(2) Quarterly Non-Consolidated Statements of Income

(Thousands of yen)

	Nine months ended May 31, 2021	Nine months ended May 31, 2022
Net sales	2,247,583	2,051,474
Cost of sales	1,020,055	903,057
Gross profit	1,227,528	1,148,417
Selling, general and administrative expenses	1,363,767	1,120,248
Operating profit (loss)	(136,238)	28,168
Non-operating income		
Interest income	5	4
Subsidy income	25,991	893
Surrender value of insurance policies	2,411	-
Other	1,833	240
Total non-operating income	30,242	1,138
Non-operating expenses		
Interest expenses	21,917	22,632
Rent	115,432	129,869
Other	3,671	7,848
Total non-operating expenses	141,022	160,350
Ordinary loss	(247,018)	(131,042)
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	18,611	964
Loss on retirement of non-current assets	196	1,269
Loss on valuation of investment securities	-	4,999
Total extraordinary losses	18,808	7,233
Loss before income taxes	(265,827)	(128,256)
Income taxes	2,833	2,834
Loss	(268,660)	(131,090)

(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 nine months ended May 31, 2022. 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 six months ended February 28, 2022.

In accordance with the transitional treatment prescribed in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12; March 31, 2020), the Company has not presented information on the breakdown of revenue from contracts with customers for the three months ended November 30, 2020.

(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 September 30, 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]

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
	APPs	RET	Total		
Net Sales					
Sales to external customers	2,027,277	111,419	2,138,696	108,886	2,247,583
Intersegment sales or transfer	—	—	—	—	—
Total	2,027,277	111,419	2,138,696	108,886	2,247,583
Segment profit (loss)	355,070	(129,848)	225,221	(75,045)	150,176

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	225,221
Income from “Other” businesses	(75,045)
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 losses on the impairment of fixed assets or goodwill for each reportable segment

(Significant impairment losses related to fixed assets)

In “Other,” 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 ¥18,611 thousand

Nine months ended May 31, 2022 (September 1, 2021 to May 31, 2022)

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	1,618,621	—	1,618,621	—	1,618,621
Fortune &AND HOSTEL	276,359	—	276,359	—	276,359
RET	—	27,169	27,169	—	27,169
Other	—	26,441	26,441	—	26,441
Other	39,145	1,893	41,039	5,635	46,674
Revenue from contracts with customers	1,934,126	55,504	1,989,630	5,635	1,995,266
Other revenue	—	56,208	56,208	—	56,208
Sales to external customers	1,934,126	111,712	2,045,838	5,635	2,051,474
Intersegment sales or transfer	—	—	—	—	—
Total	1,934,126	111,712	2,045,838	5,635	2,051,474
Segment profit (loss)	344,972	(36,477)	308,494	(20,430)	288,063

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	308,494
Income from “Other” businesses	(20,430)
Company-wide expenses (Note)	(259,895)
Operating profit (loss) in the quarterly non-consolidated statements of income	28,168

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 structural reforms to its former IoT business. Accordingly, effective from the beginning of the three-month period ended November 30, 2021, the Company has changed the reportable segments from “Apps business” and “IoT business” to “Apps business” and “RET business.”

Segment information for the nine months ended May 31, 2021 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