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Summary of Non-Consolidated Financial Results for the Six Months Ended February 29, 2024 (Based on Japanese GAAP)

April 12, 2024

Company name:	and factory, in	
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:		April 12, 2024
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 six months ended February 29, 2024

(From September 1, 2023, to February 29, 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	%
Six months ended February 29, 2024	3,437	142.6	(190)	—	(210)	—	(0)	—
Six months ended February 28, 2023	1,416	6.4	42	284.4	26	—	24	—

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended February 29, 2024	(0.06)		—	
Six months ended February 28, 2023	2.28		2.28	

Notes: Although dilutive shares exist, diluted earnings per share for the six months ended February 29, 2024 are not stated because the Company posted a net loss per share for the quarter.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of February 29, 2024	3,393	1,119	33.0
As of August 31, 2023	5,275	1,120	21.2

(Reference) Equity capital: As of February 29, 2024: ¥1,119 million As of August 31, 2023: ¥1,120 million

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
Year ended August 31, 2023	Yen —	Yen 0.00	Yen —	Yen 0.00	Total 0.00
Year ending August 31, 2024	—	0.00	—	—	—
Year ending August 31, 2024 (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, 2024

(From September 1, 2023 to August 31, 2024)

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	5,000	67.8	(338)	—	(364)	—	0	—	—

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 (4) Notes to the Quarterly Non-Consolidated Financial Statements (Application of Special Accounting Treatment for Quarterly Financial Reporting)” on page 10 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: 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)

As of February 29, 2024	11,261,970 shares	As of August 31, 2023	11,261,970 shares
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Number of treasury shares at the end of the period

As of February 29, 2024	257 shares	As of August 31, 2023	257 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended February 29, 2024	11,261,713 shares	Six months ended February 28, 2023	10,717,009 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 business forecasts and other forward-looking statements presented in this document are based on information that is currently available to the Company and on certain assumptions deemed reasonable, and the Company does not guarantee their achievement. In addition, actual results may differ significantly from projections due to a variety of factors. For assumptions underlying the Company’s business forecasts and cautionary notes concerning the use of the forecasts, please refer to “(3) Operating Performance Forecast” on page 4 of the attachments to this summary.

Content of Attachments

1. Qualitative Information on Quarterly Financial Results	2
(1) Analysis of Operating Performance	2
(2) Analysis of Financial Conditions	4
(3) Operating Performance Forecast	4
2. Quarterly Non-Consolidated Financial Statements and Notes	5
(1) Quarterly Non-Consolidated Balance Sheets	5
(2) Quarterly Non-Consolidated Statements of Income	7
(3) Quarterly Non-Consolidated Statements of Cash Flows	8
(4) Notes to the Quarterly Non-Consolidated Financial Statements	10
(Notes Related to the Going Concern Assumption)	10
(Notes in the Events of Significant Changes in Shareholders' Equity)	10
(Application of Special Accounting Treatment for Quarterly Financial Reporting)	10
(Additional Information)	10
(Segment Information, etc.)	11

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 2023 by Impress Research Institute. According to this report, the e-book market had a value of ¥602.6 billion in fiscal 2022, up 9.4% from ¥551 billion in the previous year. Comics accounted for 86.3% of the total, or ¥519.9 billion. The same institute's reports for the previous year, "e-book Marketing Report 2021," showed that comics accounted for 84.6% of the e-book market size, indicating that the comics market is growing.

The actual figure exceeded this forecast. By fiscal 2027, the institute forecasts that the e-publishing market (including e-books) will grow by approximately 1.3 times larger of fiscal 2022, to ¥806.6 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 six months ended February 29, 2024, in the manga apps business, which is the mainstay of the Apps segment, performed well, driven by aggressive campaigns and popular titles that have been made into media. In the entertainment business, fortune-telling showed strong performance, and both sales and operating income for the Apps segment as a whole landed higher than in the same period of the previous year.

In the RET segment, the occupancy rates of "&AND HOSTEL" is gradually recovering as easing restrictions on immigration drove up the number of foreign guests, and the average unit price has recovered to the level before the Covid19. From September 2023, the Company resumed operations at "&AND HOSTEL SHINSAIBASHI EAST", a self-operated facility that had been closed for a long time, which led to an increase in accommodation sales. The completion of the sale of a property purchased and held for the development of "&AND HOSTEL" resulted in a significant increase in net sales due to the recording of sales from the sale of this property, while an operating loss was recorded due to a valuation loss.

As a result, in the six months ended February 29, 2024, the Company generated net sales of ¥3,437,731 thousand (up 142.6% year on year), operating loss of ¥190,769 thousand (loss of ¥42,637 thousand in the corresponding period of the previous fiscal year), ordinary loss of ¥210,212 thousand (loss of ¥26,057 thousand in the corresponding period of the previous fiscal year), and net loss of ¥717 thousand (loss of ¥24,394 thousand in the corresponding period of the previous fiscal year).

By segment, earnings performance was as follows.

(1) Apps business

In the six months ended February 29, 2024, the MAU* and sales from in-app purchases fell as the joint operation of the Mecha Comic app, which offers daily instalments of manga content, came to an end due to the termination of the business consignment agreement between the Company and Amutus Corporation.

Meanwhile, the Company made progress in acquiring new users for the seven manga apps it currently operates, as the efforts to roll out popular works in other media forms, invest in efficient advertising, and run campaigns bore fruit. Additionally, the Company implemented measures to promote retention of existing users, and the success of such measures has kept the MAU counts of the seven manga apps at high levels. Further, the Company also posted under sales the revenue from developing additional functions in line with the apps' service offering expansions.

As a result, in the six months ended February 29, 2024, sales in the Apps segment came to ¥1,573,162 thousand (up 13.1% year on year) and segment profit was ¥277,112 thousand (up 12.3% year on year).

* 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)

Date	Average MAUs	Date	Average MAUs
May 31, 2017	310	November 30, 2020	10,260
August 31, 2017	650	February 28, 2021	10,540
November 30, 2017	1,080	May 31, 2021	10,560
February 28, 2018	1,500	August 31, 2021	11,010
May 31, 2018	2,040	November 30, 2021	10,460
August 31, 2018	2,380	February 28, 2022	10,440
November 30, 2018	2,790	May 31, 2022	11,210
February 28, 2019	3,620	August 31, 2022	11,520
May 31, 2019	4,300	November 30, 2022	11,290
August 31, 2019	5,320	February 28, 2023	11,050
November 30, 2019	6,410	May 31, 2023	11,400
February 29, 2020	7,200	August 31, 2023	11,610
May 31, 2020	9,060	November 30, 2023	11,260
August 31, 2020	9,940	February 29, 2024	9,720

Note: the average MAUs shown above are quarterly averages.

(2) RET business

In the six months ended February 29, 2024, the occupancy rates and average spendings at all of the &AND HOSTEL lodging facilities operated by the Company have trended upward, thanks to a boost in reservations from foreign guests owing in part to the easing of restrictions on immigration.

Further, among the real estate purchased and held for developing &AND HOSTEL facilities, upon completion of the sale of some properties, the Company recorded the proceeds as sales while also posting a valuation loss. With the additional contribution of one-off brokerage fees emerging from property sales, overall sales in this segment grew significantly year on year.

As a result, in the six months ended February 29, 2024, sales in the RET segment stood at ¥1,864,569 thousand (up 7,037.5% year on year), with a segment loss of ¥312,302 thousand (segment loss of ¥35,991 thousand in the corresponding period of the previous fiscal year).

(3) Other businesses

In this segment, the Company operates a business that mainly utilizes manga IPs for advertising and other purposes.

As a result, in the six months ended February 29, 2024, sales in the Other segment came to ¥0 thousand (–% year on year). Segment loss came to ¥1,834 thousand (profit of ¥278 thousand in the corresponding period of the previous year).

(2) Analysis of Financial Conditions

(1) Assets, liabilities, and net assets

As of February 29, 2024, total assets amounted to ¥3,393,701 thousand, down ¥1,881,671 thousand from August 31, 2023. This was mainly attributable to the transfer of ¥1,092,857 thousand in total from real estate for sale to buildings (¥757,914 thousand), structures (¥1,196 thousand), land (¥424,058 thousand), and accumulated depreciation (¥90,311 thousand) to reflect the change in the purpose of holdings. Other factors behind the decline in total assets included the recording of ¥310,726 thousand as loss on valuation of real estate for sale under cost of sales, and a decrease of ¥1,706,036 thousand in real estate for sale owing to the sale of properties.

(Liabilities)

Total liabilities stood at ¥2,273,753 thousand as of February 29, 2024, down ¥1,880,954 thousand from August 31, 2023. Contributing factors included the decreases of ¥1,431,750 thousand in long-term borrowings and ¥518,258 thousand in the current portion of long-term borrowings, offsetting the increase of ¥152,120 thousand in other current liabilities.

(Net assets)

As of February 29, 2024, net assets totaled ¥1,119,948 thousand, down ¥717 thousand from end of the August 31, 2023. This was due to a decrease of 717 thousand yen in retained earnings due to the net loss for the quarter. The equity ratio came to 33.0% (21.2% in the end of the August 31, 2023).

(2) Cash flows

As of February 29, 2024, cash and cash equivalents totaled ¥1,193,791 thousand, up ¥268,427 thousand from August 31, 2023. The status of each cash flow and their factors are as follows.

(Cash flows from operating activities)

Net cash from operating activities amounted to ¥2,027,416 thousand. This was mainly due to a decrease in inventories of ¥1,987,835 thousand and an increase in accrued consumption taxes of ¥80,472 thousand, while there was a gain on sales of investment securities of ¥213,920 thousand.

(Cash flows from investing activities)

Net cash from investing activities amounted to ¥221,019 thousand. This was mainly due to expenditure of ¥34,049 thousand for the acquisition of intangible fixed assets, while there was a revenue of 262,618 thousand yen from the sale of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities totaled ¥1,980,008 thousand. This was mainly due to an outflow of ¥1,950,008 thousand in repayments of long-term borrowings, and ¥30,000 thousand for the repayment of short-term loans payable.

(3) Operating Performance Forecast

At the present time, the Company has made no changes to its full-year forecast announced on December 14, 2023.

The forecast above is based on information available as of the date of this release, and actual results may differ from projections due to various factors in the future.

2. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2023	As of February 29, 2024
Assets		
Current assets		
Cash and deposits	925,363	1,193,791
Accounts receivable trade	547,279	485,535
Work in process	49,720	78,722
Real estate for sale	3,109,620	-
Advances paid	230,609	198,979
Other	132,980	105,890
Allowance for doubtful accounts	(17,627)	(11,302)
Total current assets	4,977,946	2,051,618
Non-current assets		
Property, plant and equipment		
Buildings	11,640	769,554
Structures	-	1,196
Tools, furniture and fixtures	69,124	73,890
Land	-	424,058
Accumulated depreciation	(54,457)	(168,505)
Total property, plant and equipment	26,307	1,100,194
Intangible assets		
Software	38,022	74,695
Software in progress	18,873	4,050
Total intangible assets	56,896	78,745
Investments and other assets		
Investment securities	165,607	119,913
Deferred tax assets	2,536	-
Leasehold and guarantee deposits	42,648	41,908
Other	3,429	1,321
Total investments and other assets	214,222	163,143
Total non-current assets	297,426	1,342,083
Total assets	5,275,373	3,393,701

(Thousands of yen)

	As of August 31, 2023	As of February 29, 2024
Liabilities		
Current liabilities		
Accounts payable–trade	120,035	114,133
Short-term borrowings	205,000	175,000
Current portion of long-term borrowings	677,136	158,878
Accounts payable–other	580,747	581,937
Income taxes payable	11,933	1,570
Provision for bonuses	21,144	-
Provision for bonuses for directors (and other officers)	7,770	-
Provision for shareholder benefit program	6,983	-
Other	95,798	247,918
Total current liabilities	1,726,547	1,279,436
Non-current liabilities		
Long-term borrowings	2,425,070	993,320
Long-term guarantee deposits	100	-
Other	2,989	996
Total non-current liabilities	2,428,159	994,316
Total liabilities	4,154,707	2,273,753
Net assets		
Shareholders' equity		
Share capital	801,818	801,818
Capital surplus	800,460	800,460
Retained earnings	(481,040)	(481,757)
Treasury shares	(572)	(572)
Total shareholders' equity	1,120,665	1,119,948
Total net assets	1,120,665	1,119,948
Total liabilities and net assets	5,275,373	3,393,701

(2) Quarterly Non-Consolidated Statements of Income

(Thousands of yen)

	Six months ended February 28, 2023	Six months ended February 29, 2024
Net sales	1,416,976	3,437,731
Cost of sales	598,121	2,752,080
Gross profit	818,855	685,651
Selling, general and administrative expenses	776,217	876,420
Operating profit (loss)	42,637	(190,769)
Non-operating income		
Interest income	8	44
Subsidy income	1,914	3,527
Other	6	338
Total non-operating income	1,929	3,910
Non-operating expenses		
Interest expenses	15,801	20,370
Share issuance costs	2,288	-
Other	419	2,983
Total non-operating expenses	18,510	23,353
Ordinary profit (loss)	26,057	(210,212)
Extraordinary income		
Gain on sale of non-current assets	227	-
Gain on sale of investment securities	-	213,920
Total extraordinary income	227	213,920
Extraordinary losses		
Loss on retirement of non-current assets	-	0
Total extraordinary losses	-	0
Profit (loss) before income taxes	26,284	3,707
Income taxes	1,890	4,425
Profit (loss)	24,394	(717)

(3) Quarterly Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended February 28, 2023	Six months ended February 29, 2024
Cash flows from operating activities		
Profit before income taxes	26,284	3,707
Depreciation	28,090	36,995
Loss(gain) on sale of non-current assets	(227)	-
Loss on retirement of non-current assets	-	0
Share issuance costs	2,288	-
Loss(gain) on sale of investment securities	-	(213,920)
Increase(decrease) in allowance for doubtful accounts	2,011	(6,325)
Increase(decrease) in provision for bonuses	615	(21,144)
Increase(decrease) in provision for bonuses for directors (and other officers)	-	(7,770)
Increase(decrease) in provision for shareholder benefit program	(28,270)	(6,983)
Interest income	(8)	(44)
Subsidy income	(1,914)	(3,527)
Interest expenses	15,801	20,370
Decrease(increase) in trade receivables	37,568	61,744
Decrease(increase) in accounts receivable-other	(43,526)	18,488
Decrease(increase) in inventories	(10,210)	1,987,835
Decrease(increase) in prepaid expenses	(19,031)	6,424
Decrease(increase) in advances paid	21,471	31,630
Increase(decrease) in trade payables	(1,763)	(5,902)
Increase(decrease) in accounts payable-other	(10,454)	552
Increase(decrease) in accrued consumption taxes	(7,929)	80,472
Other, net	(3,369)	73,281
Subtotal	7,423	2,055,886
Cancellation penalty paid	(162,455)	-
Interest and dividends received	8	44
Interest paid	(13,779)	(18,280)
Subsidies received	1,914	2,919
Rent paid	(17,079)	-
Income taxes paid	(3,780)	(13,153)
Net cash provided by (used in) operating activities	(187,747)	2,027,416

	Six months ended February 28, 2023	Six months ended February 29, 2024
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,221)	(4,445)
Proceeds from sale of property, plant and equipment	227	-
Purchase of in tangible assets	(16,216)	(34,049)
Proceeds from refund of lease hold and guarantee deposits	196,140	-
Purchase of investment securities	-	(3,004)
Proceeds from sale of investment securities	-	262,618
Other, net	(6,445)	(100)
Net cash provided by (used in) investing activities	170,484	221,019
Cashflows from financing activities		
Net increase(decrease) in short-term borrowings	(30,000)	(30,000)
Proceeds from long-term borrowings	225,000	-
Repayments of long-term borrowings	(138,568)	(1,950,008)
Proceeds from issuance of shares	497,711	-
Net cash provided by (used in) financing activities	554,143	(1,980,008)
Net increase(decrease)in cash and cash equivalents	536,879	268,427
Cash and cash equivalents at beginning of period	479,131	925,363
Cash and cash equivalents at end of period	1,016,011	1,193,791

(4) 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)

Six months ended February 28, 2023 (September 1, 2022 to February 28, 2023)

On November 10, 2022, the Company received payment for a third-party allotment of shares to Septeni Holdings Co., Ltd. As a result, share capital and capital surplus both increased by ¥249,999 thousand in the six months ended February 29, 2024. As of February 29, 2024, share capital and legal capital surplus stood at ¥801,818 thousand and ¥800,460 thousand, respectively.

Six months ended February 29, 2024 (September 1, 2023 to February 29, 2024)

Not applicable

(Application of Special Accounting Treatment for Quarterly Financial Reporting)

(Calculation of Tax Expenses)

Tax expenses are calculated by first estimating rationally the effective tax rate after applying tax effect accounting to the profit before income taxes for the fiscal year that includes the six months ended February 29, 2024. 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.

(Additional Information)

(Change in purpose of holding)

In the three months ended November 30, 2023, ¥1,092,857 thousand from real estate for sale was transferred to buildings (¥757,914 thousand), structures (¥1,196), land (¥424,058 thousand) and to accumulated depreciation (¥90,311 thousand) due to a change in the purpose of holding.

(Segment Information, etc.)

[Segment Information]

Six months ended February 28, 2023 (September 1, 2023 to February 28, 2023)

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	1,096,056	—	1,096,056	—	1,096,056
Fortune	277,419	—	277,419	—	277,419
&AND HOSTEL	—	1,659	1,659	—	1,659
RET	—	600	600	—	600
Other	17,377	688	18,066	—	18,066
Revenue from contracts with customers	1,390,853	2,948	1,393,801	—	1,393,801
Other revenue	—	23,175	23,175	—	23,175
Sales to external customers	1,390,853	26,123	1,416,976	—	1,416,976
Intersegment sales or transfer	—	—	—	—	—
Total	1,390,853	26,123	1,416,976	—	1,416,976
Segment profit (loss)	246,718	(35,991)	210,726	278	211,004

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 or Loss	Amount
Subtotal for reportable segments	210,726
Income from “Other” businesses	278
Company-wide expenses (Note)	(168,366)
Operating profit (loss) in the quarterly non-consolidated statements of income	42,637

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

Six months ended February 29, 2024 (September 1, 2023 to February 29, 2024)

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	1,169,321	—	1,169,321	—	1,169,321
Fortune	388,014	—	388,014	—	388,014
&AND HOSTEL	—	68,832	68,832	—	68,832
RET	—	1,794,765	1,794,765	—	1,794,765
Other	15,826	—	15,826	—	15,826
Revenue from contracts with customers	1,573,162	1,863,597	3,436,760	—	3,436,760
Other revenue	—	971	971	—	971
Sales to external customers	1,573,162	1,864,569	3,437,731	—	3,437,731
Intersegment sales or transfer	—	—	—	—	—
Total	1,573,162	1,864,569	3,437,731	—	3,437,731
Segment profit (loss)	277,112	(312,302)	(35,189)	(1,834)	(37,024)

Notes : “Other” refers to businesses not included within the Company's reportable segments and mainly comprises the use of manga IP for advertising and other purposes..

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)

Loss	Amount
Subtotal for reportable segments	(35,189)
Losses in the “Other” businesses	(1,834)
Company-wide expenses (Note)	(153,744)
Operating loss in the quarterly non-consolidated statements of income	(190,769)

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