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## Summary of Non-Consolidated Financial Results for the Three Months Ended November 30, 2022 (Based on Japanese GAAP)

January 13, 2023

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 13, 2023  
 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, 2022

(From September 1, 2022 to November 30, 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	%
Three months ended November 30, 2022	709	6.3	25	1.0	15	—	14	—
Three months ended November 30, 2021	667	(7.2)	25	—	(25)	—	(23)	—

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended November 30, 2022	1.42		1.42	
Three months ended November 30, 2021	(2.36)		—	

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, 2022	5,490	1,055	19.2
As of August 31, 2022	4,855	540	11.1

(Reference) Equity capital: November 30, 2022: ¥1,055 million August 31, 2022: ¥540 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, 2022	—	0.00	—	0.00	0.00
Year ending August 31, 2023	—				
Year ending August 31, 2023 (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, 2023

(From September 1, 2022 to August 31, 2023)

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	3,140	10.8	100	51.3	68	—	64	—	6.50

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 5 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, 2022	11,261,970 shares	As of August 31, 2022	9,853,520 shares
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Number of treasury shares at the end of the period

As of November 30, 2022	257 shares	As of August 31, 2022	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, 2022	10,178,289 shares	Three months ended November 30, 2021	9,843,689 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) Notes to the Quarterly Non-Consolidated Financial Statements	8
(Notes Related to the Going Concern Assumption)	8
(Notes in the Events of Significant Changes in Shareholders' Equity)	8
(Application of Special Accounting Treatment for Quarterly Financial Reporting)	8
(Changes in Accounting Policies)	8
(Additional Information)	8
(Segment Information, etc.)	9

## 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 2022 by Impress Research Institute. According to this report, the e-book market had a value of ¥551 billion in fiscal 2021, up 14.3% from the previous year's figure of ¥482.1 billion. Comics accounted for 84.6% of the total, or ¥466 billion. The same institute's report for the previous year, the eBook Marketing Report 2021, comics accounted for 83.0% of the total e-book market size, indicating that the comics market is growing. The actual figure exceeded this forecast. By fiscal 2026, the institute forecasts that the e-publishing market (including e-books) will grow by approximately 1.5 times larger of fiscal 2021, to ¥804.8 billion.

In the Apps segment, advertising revenue in the mainstay manga apps business was down, reflecting lower advertising ARPU (\*1) stemming from deterioration in the advertising market. However, sales from in-app purchases increased, driven by robust performance of apps with high in-app purchase rates and of popular titles. In the entertainment business, fortune-telling services were strong, and this contributed to year-on-year growth in overall sales in the Apps segment. However, operating income for the period declined slightly year on year due to aggressive spending on advertising to attract more customers for the fortune-telling services.

In the RET segment, profitability related to the operation of &AND HOSTEL facilities improved significantly as a result of business structure reforms, and occupancy rates at the facilities gradually recovered as easing restrictions on immigration drove up the number of foreign guests.

As a result, in the three months ended November 30, 2022, the Company generated net sales of ¥709,102 thousand (up 6.3% year on year), operating income of ¥25,284 thousand (up 1.0% year on year), ordinary profit of ¥15,169 thousand (loss of ¥25,375 thousand in the corresponding period of the previous fiscal year), and net income of ¥14,453 thousand (loss of ¥23,247 thousand in the corresponding period of the previous fiscal year).

By segment, earnings performance was as follows.

#### (1) Apps business

In the three months ended November 30, 2022, the seven manga apps operated in collaboration with publishers and Amutus Corporation registered strong MAU (\*2) mainly as a result of the acquisition of new users supported by efficient spending on advertising, and the implementation of measures to promote continued use by existing users. Sales from in-app purchases rose thanks to factors such as the release of popular content and new manga additions.

However, advertising revenue fell on a downtrend in advertising ARPU (\*1) amid widespread deterioration in the advertising market driven by the COVID-19 pandemic.

As a result, in the three months ended November 30, 2022, sales in the Apps segment were ¥688,477 thousand (up 9.7% year on year). Segment profit came to ¥128,850 thousand (down 7.0% 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)

Date	Average MAUs	Date	Average MAUs
May 31, 2017	310	May 31, 2020	9,060
August 31, 2017	650	August 31, 2020	9,940
November 30, 2017	1,080	November 30, 2020	10,260
February 28, 2018	1,500	February 28, 2021	10,540
May 31, 2018	2,040	May 31, 2021	10,560
August 31, 2018	2,380	August 31, 2021	11,010
November 30, 2018	2,790	November 30, 2021	10,460
February 28, 2019	3,620	February 28, 2022	10,440
May 31, 2019	4,300	May 31, 2022	11,210
August 31, 2019	5,320	August 31, 2022	1,1520
November 30, 2019	6,410	November 30, 2022	1,1290
February 29, 2020	7,200		

Note: the average MAUs shown above are quarterly averages.

## (2) RET business

In the three months ended November 30, 2022, occupancy rates at all of the &AND HOSTEL smart hostels operated by the Company recovered on an increase in reservations from foreign guests, helped in part by the impact of easing restrictions on immigration. The Company also adjusted agreements associated with some &AND HOSTEL locations, which drove up sales generated from such locations while lowering expenses. As a result, losses from the &AND HOSTEL business contracted year on year. Despite ongoing rental revenue from properties, real estate-related sales declined year on year because the one-off earnings from property sales brokerage fees recorded in the corresponding period of the previous year dropped out of the picture.

Consequently, in the three months ended November 30, 2022, sales in the RET segment came to ¥20,624 thousand (down 45.0% year on year), with a segment loss of ¥12,024 thousand (loss of ¥15,068 thousand in the corresponding period of the previous fiscal year).

## (3) Other businesses

Until the previous fiscal year, the Company planned, explored, and gathered information on operations in the entertainment field that involved the application of new technologies and solutions unrelated to its other segments. However, it has decided to discontinue such activities from the current fiscal year as it does not expect to generate earnings from related operations.

As a result, in the three months ended November 30, 2022, sales in the Other segment came to ¥0 thousand (down 100.0% year on year). Segment profit came to ¥670 thousand (loss of ¥10,514 thousand in the corresponding period of the previous year).

(2) Analysis of Financial Conditions

(Assets)

As of November 30, 2022, total assets amounted to ¥5,490,812 thousand, up ¥635,414 thousand from the end of August 31, 2022. This was primarily due to decreases of ¥196,510 thousand in lease and guarantee deposits on the other hand, increases ¥848,502 thousand in cash and deposits.

(Liabilities)

Total liabilities amounted to ¥4,435,364 thousand as of November 30, 2022, up ¥120,961 thousand from August 31, 2022. This mainly reflected declines of ¥134,054 thousand in accounts payable-other and ¥179,534 thousand in allowance for cancellation loss, being offset by increases of ¥320,566 thousand in deposits received and ¥155,716 thousand in long-term borrowings (including current portion of long-term borrowings).

(Net assets)

As of November 30, 2022, net assets totaled ¥1,055,448 thousand, up ¥514,452 thousand from end of the August 31, 2022.

This was due to ¥14,453 thousand increase in retained earnings from the posting of net income for the quarter, ¥249,999 thousand increase in capital stock and ¥249,999 thousand increase in capital surplus from the allocation of new shares to a third party.

The equity ratio came to 19.2% (compared with 11.1% as of August 31, 2022).

(3) Operating Performance Forecast

At the present time, the Company has made no changes to its full-year forecast announced on October 14, 2022.

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, 2022	As of November 30, 2022
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	479,131	1,327,633
Accounts receivable–trade	524,777	503,560
Work in process	—	2,038
Real estate for sale	3,118,940	3,111,576
Advances paid	196,779	166,577
Other	37,932	75,339
Allowance for doubtful accounts	(12,347)	(13,489)
<b>Total current assets</b>	<b>4,345,213</b>	<b>5,173,238</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings	11,640	11,640
Tools, furniture and fixtures	64,646	65,135
Accumulated depreciation	(46,546)	(47,376)
<b>Total property, plant and equipment</b>	<b>29,740</b>	<b>29,399</b>
<b>Intangible assets</b>		
Software	55,317	76,768
Software in progress	18,375	1,223
<b>Total intangible assets</b>	<b>73,692</b>	<b>77,992</b>
<b>Investments and other assets</b>		
Investment securities	165,607	165,607
Leasehold and guarantee deposits	237,773	41,263
Other	3,369	3,311
<b>Total investments and other assets</b>	<b>406,750</b>	<b>210,182</b>
<b>Total non-current assets</b>	<b>510,184</b>	<b>317,574</b>
<b>Total assets</b>	<b>4,855,398</b>	<b>5,490,812</b>

(Thousands of yen)

	As of August 31, 2022	As of November 30, 2022
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable–trade	100,073	102,752
Short-term borrowings	265,000	250,000
Current portion of long-term borrowings	277,136	277,136
Accounts payable–other	514,051	379,996
Income taxes payable	13,051	5,205
Provision for bonuses	304	—
Provision for shareholder benefit program	36,464	18,847
Provision for loss on cancellation	179,534	—
Deposits received	8,312	328,879
Other	36,723	33,078
<b>Total current liabilities</b>	<b>1,430,651</b>	<b>1,395,896</b>
<b>Non-current liabilities</b>		
Long-term borrowings	2,877,206	3,032,922
Long-term guarantee deposits	6,545	6,545
<b>Total non-current liabilities</b>	<b>2,883,751</b>	<b>3,039,467</b>
<b>Total liabilities</b>	<b>4,314,402</b>	<b>4,435,364</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Share capital	551,819	801,818
Capital surplus	550,460	800,460
Retained earnings	(560,710)	(546,257)
Treasury shares	(572)	(572)
<b>Total shareholders' equity</b>	<b>540,995</b>	<b>1,055,448</b>
<b>Total net assets</b>	<b>540,995</b>	<b>1,055,448</b>
<b>Total liabilities and net assets</b>	<b>4,855,398</b>	<b>5,490,812</b>



(2) Quarterly Non-Consolidated Statements of Income

(Thousands of yen)

	Three months ended November 30, 2021	Three months ended November 30, 2022
Net sales	667,348	709,102
Cost of sales	295,751	294,921
Gross profit	371,596	414,181
Selling, general and administrative expenses	346,554	388,896
Operating profit	25,042	25,284
Non-operating income		
Interest income	0	0
Subsidy income	893	574
Other	135	6
Total non-operating income	1,029	581
Non-operating expenses		
Interest expenses	7,702	7,850
Share issuance costs	—	2,288
Rent	43,289	—
Other	455	557
Total non-operating expenses	51,446	10,696
Ordinary profit (loss)	(25,375)	15,169
Extraordinary income		
Gain on sale of businesses	0	—
Gain on sale of non-current assets	—	227
Gain on sale of investment securities	10,020	—
Total extraordinary income	10,020	227
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	—
Profit (loss) before income taxes	(22,302)	15,396
Income taxes	945	943
Profit (loss)	(23,247)	14,453

(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)

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

Not applicable

Three months ended November 30, 2022 (September 1, 2022 to November 30, 2022)

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 legal capital surplus both increased by ¥249,999 thousand in the three months ended November 30, 2022. As of November 30, 2022, share capital and capital surplus stood at ¥801,818 thousand and ¥800,460 thousand, respectively.

(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, 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 Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as the "Fair Value Measurement Implementation Guidance"). In accordance with the transitional treatment prescribed in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance, the Company has opted to apply the new accounting policy specified in the Fair Value Measurement Implementation Guidance prospectively.

This change has no impact on the 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.

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, 2023.

(Segment Information, etc.)

[Segment Information]

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

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	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 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, 2022 (September 1, 2022 to November 30, 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	554,793	—	554,793	—	554,793
Fortune	124,788	—	124,788	—	124,788
&AND HOSTEL	—	794	794	—	794
RET	—	300	300	—	300
Other	8,895	405	9,300	—	9,300
Revenue from contracts with customers	688,477	1,500	689,977	—	689,977
Other revenue	—	19,124	19,124	—	19,124
Sales to external customers	688,477	20,624	709,102	—	709,102
Intersegment sales or transfer	—	—	—	—	—
Total	688,477	20,624	709,102	—	709,102
Segment profit (loss)	128,850	(12,024)	116,825	670	117,496

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	116,825
Income from “Other” businesses	670
Company-wide expenses (Note)	(92,211)
Operating profit (loss) in the quarterly non-consolidated statements of income	25,284

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