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## Summary of Non-Consolidated Financial Results for the Nine Months Ended May 31, 2024 (Based on Japanese GAAP)

July 12, 2024

Company name:	and factory, in	
Stock exchange listing:	Tokyo	
Stock code:	7035	URL <a href="https://andfactory.co.jp/">https://andfactory.co.jp/</a>
Representative:	Rinji Aoki, President and Representative Director	
Contact:	Tomoki Hasumi, Director	Phone: +81-3-6712-7646
Scheduled date to file annual securities report:		July 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 nine months ended May 31, 2024 (From September 1, 2023, to May 31, 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	%
Nine months ended May 31, 2024	4,231	98.7	(249)	—	(273)	—	(65)	—
Nine months ended May 31, 2023	2,128	3.8	71	154.9	47	—	45	—

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended May 31, 2024	(5.78)		—	
Nine months ended May 31, 2023	4.16		4.16	

Notes: Although dilutive shares exist, diluted earnings per share for the nine months ended May 31, 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 May 31, 2024	3,187	1,055	33.1
As of May 31, 2023	5,275	1,120	21.2

(Reference) Equity capital: As of May 31, 2024: ¥1,055 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)	—	31	(61.1)	2.93

Notice concerning Revision of the Financial Forecasts : No

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, 2024” announced today (July 10, 2024).

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: 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 May 31, 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 May 31, 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)

Nine months ended May 31, 2024	11,261,713 shares	Nine months ended May 31, 2023	10,900,572 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.

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## 1. Qualitative Information on Quarterly Financial Results

### (1) Analysis of Operating Performance

The size of the e-book market, the Company's main business domain, was valued at ¥551.0 billion in fiscal 2021, with comics accounting for 84.6% of the market. In fiscal 2022, the market grew 9.4% year-on-year to ¥602.6 billion, of which comics comprised 86.3%, corresponding to ¥519.9 billion. As such, the comics market has continued to expand in recent years.

According to Impress Research Institute's "eBook Marketing Report 2023," by fiscal 2027 the e-book market is projected to expand to ¥806.6 billion, about 1.3 times the size of the market in fiscal 2022. The Company expects the market to continue growing going forward.

In this environment, with the mission of "providing a little something extra to people's daily lives," the Company mainly focused on growing earnings from smartphone manga apps developed in collaboration with major publishers in the core Apps segment.

During the nine months ended May 31, 2024, the Apps segment reported higher sales year-on-year. The sales growth was attributed to strong performance of the manga app business, the mainstay of the segment, driven by the continued roll out of promotional campaigns and the media adaptation of popular works. In the entertainment business, the fortune-telling service performed well, also contributing to segment sales.

In the RET segment, the occupancy rates of &AND HOSTEL remained high, owing to a steady number of inbound tourists against a backdrop of the yen depreciation. Sales increased sharply, due to the sale of properties purchased and held for the purpose of developing &AND HOSTEL, but the segment posted an operating loss due to a valuation loss.

As a result of the above, in the nine months ended May 31, 2024, the Company reported net sales of ¥4,231,123 thousand (+98.7% year-on-year), operating loss of ¥249,011 thousand (profit of ¥71,812 thousand in the same period of the previous fiscal year), ordinary loss of ¥273,671 thousand (profit of ¥47,668 thousand in the same period of the previous fiscal year), and net loss of ¥65,121 thousand (profit of ¥45,308 thousand in the same period of the previous fiscal year).

Results by segment were as follows.

#### (1) Apps business

During the nine months ended May 31, 2024, the Company worked to acquire new users for the seven manga apps under its operation, by distributing new content and adapting popular works into different media, as well as by efficiently investing in advertising and rolling out campaigns. Retention among existing users improved owing to measures to promote continued use, helping to keep MAU\* for the seven manga apps at a high level. The Company also received fees for the development of functions aimed at expanding the apps' service offerings.

Meanwhile, segment profit declined due to the end of the joint operation of the Mecha Comic app, which offers daily installments of manga content, and a rise in the cost of operating Ponta Manga after its release.

As a result, in the nine months ended May 31, 2024, the Apps segment posted sales of ¥2,315,304 thousand (+10.8% year-on-year) and segment profit of ¥298,989 thousand (-18.8% year-on-year).

Note: Monthly active users; the number of users who have used the app at least once in a given 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	February 28, 2021	10,540
August 31, 2017	650	May 31, 2021	10,560
November 30, 2017	1,080	August 31, 2021	11,010
February 28, 2018	1,500	November 30, 2021	10,460
May 31, 2018	2,040	February 28, 2022	10,440
August 31, 2018	2,380	May 31, 2022	11,210
November 30, 2018	2,790	August 31, 2022	11,520
February 28, 2019	3,620	November 30, 2022	11,290
May 31, 2019	4,300	February 28, 2023	11,050
August 31, 2019	5,320	May 31, 2023	11,400
November 30, 2019	6,410	August 31, 2023	11,610
February 29, 2020	7,200	November 30, 2023	11,260
May 31, 2020	9,060	February 29, 2024	9,720
August 31, 2020	9,940	May 31, 2024	9,710
November 30, 2020	10,260		

Note: the average MAUs shown above are quarterly averages.

### (2) RET business

During the nine months ended May 31, 2024, the occupancy rate and ADR for &AND HOSTEL, a brand of lodging facilities operated by the Company, remained high, thanks to an increase in inbound visitors against a backdrop of the weak yen.

Further, during the period under review, the Company recorded a gain on sales of some of the properties it purchased and held for the purpose of developing &AND HOSTEL. At the same time, it booked a valuation loss and a one-time brokerage commission fee for the sale, causing the segment to fall deeper into the red despite a sharp year-on-year increase in sales.

As a result, during the nine months ended May 31, 2024, the RET segment reported sales of ¥1,915,818 thousand (+4,684.2% year-on-year) and a segment loss of ¥315,974 thousand (loss of ¥50,732 thousand in the same 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.

In the nine months ended May 31, 2024, the segment reported sales of ¥0 thousand (no year-on-year change available) and a segment loss of ¥2,763 thousand (profit of ¥374 thousand in the same period of the previous fiscal year).

## (2) Analysis of Financial Conditions

### (Assets)

As of May 31, 2024, total assets amounted to ¥3,187,797 thousand, down ¥2,087,575 thousand from August 31, 2023. This was mainly attributable to the reclassification of real estate for sale of ¥1,092,857 thousand to buildings (¥757,914 thousand), structures (¥1,196 thousand), land (¥424,058 thousand), and accumulated depreciation (¥90,311 thousand) due to a change in the purpose of holdings. Other factors behind the decline in total assets include the recording of ¥310,726 thousand in 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 due to property sales.

### (Liabilities)

As of May 31, 2024, total liabilities stood at ¥2,132,253 thousand, down ¥2,022,454 thousand from August 31, 2023. This was primarily due to decreases of ¥528,456 thousand in the current portion of long-term borrowings and ¥1,461,694 thousand in long-term borrowings, offsetting the increase of ¥93,045 thousand in other current liabilities.

### (Net assets)

As of May 31, 2024, net assets totaled ¥1,055,544 thousand, down ¥65,121 thousand from August 31, 2023. This mainly reflected a decrease of ¥65,121 thousand in retained earnings due to the recording of a net loss.

The equity ratio was 33.1% (versus 21.2% as of August 31, 2023).

## (3) Operating Performance Forecast

The Company revised the full-year earnings forecast released on December 14, 2023. For details, please see the “Revision of the Earnings Forecast for the Fiscal Year Ending August 31, 2024,” dated July 10, 2024.

## 2. Quarterly Non-Consolidated Financial Statements

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

	(Thousands of yen)	
	As of August 31, 2023	As of May 31, 2024
<b>Assets</b>		
Current assets		
Cash and deposits	925,363	1,034,765
Accounts receivable - trade	547,279	475,000
Work in process	49,720	42,187
Real estate for sale	3,109,620	-
Advances paid	230,609	214,333
Income taxes refund receivable	-	1,777
Other	132,980	115,456
Allowance for doubtful accounts	(17,627)	(20,636)
Total current assets	4,977,946	1,862,884
Non-current assets		
Property, plant and equipment		
Buildings	11,640	769,554
Structures	-	1,196
Tools, furniture and fixtures	69,124	76,405
Land	-	424,058
Accumulated depreciation	(54,457)	(180,951)
Total property, plant and equipment	26,307	1,090,263
Intangible assets		
Software	38,022	72,930
Software in progress	18,873	-
Total intangible assets	56,896	72,930
Investments and other assets		
Investment securities	165,607	119,913
Deferred tax assets	2,536	-
Leasehold and guarantee deposits	42,648	41,538
Other	3,429	266
Total investments and other assets	214,222	161,718
Total non-current assets	297,426	1,324,912
Total assets	5,275,373	3,187,797

(Thousands of yen)

	As of August 31, 2023	As of May 31, 2024
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	120,035	139,489
Short-term borrowings	205,000	160,000
Current portion of long-term borrowings	677,136	148,680
Accounts payable - other	580,747	531,863
Income taxes payable	11,933	-
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	188,844
Total current liabilities	1,726,547	1,168,877
Non-current liabilities		
Long-term borrowings	2,425,070	963,376
Long-term guarantee deposits	100	-
Other	2,989	-
Total non-current liabilities	2,428,159	963,376
Total liabilities	4,154,707	2,132,253
<b>Net assets</b>		
Shareholders' equity		
Share capital	801,818	801,818
Capital surplus	800,460	800,460
Retained earnings	(481,040)	(546,161)
Treasury shares	(572)	(572)
Total shareholders' equity	1,120,665	1,055,544
Total net assets	1,120,665	1,055,544
<b>Total liabilities and net assets</b>	<b>5,275,373</b>	<b>3,187,797</b>



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

(Thousands of yen)

	Nine months ended May 31, 2023	Nine months ended May 31, 2024
Net sales	2,128,912	4,231,123
Cost of sales	889,619	3,208,383
Gross profit	1,239,293	1,022,739
Selling, general and administrative expenses	1,167,480	1,271,750
Operating profit (loss)	71,812	(249,011)
Non-operating income		
Interest income	8	45
Subsidy income	3,065	4,678
Other	6	338
Total non-operating income	3,081	5,061
Non-operating expenses		
Interest expenses	23,778	25,089
Share issuance costs	2,288	-
Other	1,158	4,632
Total non-operating expenses	27,224	29,722
Ordinary profit (loss)	47,668	(273,671)
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	0
Total extraordinary losses	0	0
Profit (loss) before income taxes	47,895	(59,751)
Income taxes	2,586	5,370
Profit (loss)	45,308	(65,121)

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

(Notes on the going concern assumption)

No applicable matters to report.

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

Nine months ended May 31, 2023 (September 1, 2022 to May 31, 2023)

On November 10, 2022, the Company received payments for the third-party allotment of its shares from Septeni Holdings Co., Ltd. As a result, share capital and capital surplus both increased by ¥249,999 thousand in the nine months ended May 31, 2023, and share capital and capital surplus stood at ¥801,818 thousand and ¥800,460 thousand, respectively, as of May 31, 2023.

Nine months ended May 31, 2024 (September 1, 2023 to May 31, 2024)

No applicable matters to report.

(Application of Special Accounting Treatment for Quarterly Financial Reporting)

(Calculation of Tax Expenses)

In calculating tax expenses, the Company has rationally estimated the effective tax rate after applying tax effect accounting to profit before income taxes for the fiscal year that includes the third quarter under review. The Company then multiplied profit (loss) before income taxes by the estimated effective tax rate to calculate tax expenses. However, if using the estimated effective tax rate to calculate tax expenses yield significantly unreasonable results, we may use the statutory effective tax rate instead.

(Additional Information)

(Change in purpose of holding)

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

(Business combination through acquisition)

At the Board of Directors meeting held on May 17, 2024, the Company resolved to acquire shares of SouthWorks Co., Ltd. to make it a subsidiary, and on the same day, concluded a memorandum of understanding for the share acquisition. Based on the memorandum of understanding, the Company plans to acquire 80% of the voting rights in SouthWorks with September 1, 2024 as the execution date of share transfer.

The share acquisition will be carried out in three phases, with the second and third acquisitions scheduled for around August 2025 and August 2026, respectively, on dates to be separately agreed upon. Through the share acquisition, the Company plans to make SouthWorks a wholly owned subsidiary.

#### 1. Outline of business combination

(1) Name and business of the company to be acquired

Name	SouthWorks Co., Ltd.
Business	Overseas entertainment content development support Translation of content into English and traditional/simplified Chinese Website production, web marketing, etc.

(2) Main reasons for business combination

Under the second medium-term management plan spanning the three years from the fiscal year ending August 2024 to the fiscal year ending August 2026, with the slogan, "Turn the Gear," we are accelerating the launch of new core businesses by shifting into a high gear. As one of our long-term policies set forth in the plan, we plan to expand our business into the rapidly growing and large overseas markets.

By making SouthWorks, which has expertise in content translation and distribution in overseas markets, we intend to expedite our expansion into overseas markets.

SouthWorks operates the localization business in which it provides localization services for games and manga through translation, and the publishing business on overseas platforms in collaboration with domestic game developers. In the localization business, native target language speaking staff with a thorough understanding of the target content provide translations that maximize the appeal of the content. The publishing business focuses on English-speaking markets, offering a one-stop service from interactions with overseas platforms to user support.

Through this business combination, we will leverage SouthWorks' translation technology and overseas publishing expertise to enhance the service offerings of our manga app business for international markets. By expanding our reach beyond Japan to overseas markets, we aim to increase our share in the e-book market and enhance corporate value.

(3) Timeline of business combination

First share acquisition: September 1, 2024 (scheduled)

Second share acquisition: Around August 2025 (scheduled)

Third share acquisition: Around August 2026 (scheduled)

(4) Legal form of business combination

Acquisition of shares with cash consideration

(5) Name of the company to be acquired after business combination

SouthWorks Co., Ltd. (scheduled)

(6) Voting rights ratio after share acquisition (scheduled)

Voting rights ratio after the first share acquisition	80%
Voting rights ratio after the second share acquisition	-%–20%
Voting rights ratio after the third share acquisition	

On September 1, 2024, the Company plans to acquire 112 shares in SouthWorks, corresponding to an 80% voting rights, for ¥42,000 thousand. The Company plans to acquire additional shares at later dates for the maximum value of ¥120,000 thousand. The two companies will negotiate to determine the feasibility and acquisition price of the additional acquisitions around August 2025 and August 2026.

The acquisition price will be set at a fair and reasonable amount, following appropriate due diligence.

2. Acquisition cost of the company to be acquired and breakdown by type of consideration (scheduled)

Type of consideration	Cash and deposits	First acquisition	¥42,000 thousand
		Second acquisition	¥- thousand–¥78,000 thousand
		Third acquisition	
Acquisition cost			¥42,000 thousand – ¥120,000 thousand

3. Details and the amount of major acquisition-related costs

Due advisory costs, etc. (estimate): ¥1,000 thousand

4. The amount, cause, and amortization method and period of goodwill

To be determined

5. Assets and liabilities to be transferred on the date of business combination and their main components

To be determined

6. Funding for the acquisition

The Company plans to fund the acquisition with its own funds.

(Segment Information, etc.)

[Segment Information]

Nine months ended May 31, 2023(September 1, 2022 to May 31, 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	1,641,190	—	1,641,190	—	1,641,190
Fortune &AND HOSTEL	421,774	—	421,774	—	421,774
RET	—	4,420	4,420	—	4,420
Other	—	10,630	10,630	—	10,630
Other	25,903	867	26,770	—	26,770
Revenue from contracts with customers	2,088,868	15,917	2,104,785	—	2,104,785
Other revenue	—	24,127	24,127	—	24,127
Sales to external customers	2,088,868	40,044	2,128,912	—	2,128,912
Intersegment sales or transfer	—	—	—	—	—
Total	2,088,868	40,044	2,128,912	—	2,128,912
Segment profit (loss)	368,365	(50,732)	317,633	374	318,007

Note : "Other" segment is a business segment not included in the reportable segments and is mainly related to the entertainment area using new technologies, etc.

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	317,633
Income from "Other" businesses	374
Company-wide expenses (Note)	(246,195)
Operating profit in the quarterly non-consolidated statements of income	71,812

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

3. Information on impairment loss on non-current assets or goodwill by reporting segment

(Significant impairment loss on non-current assets)

No applicable matters to report.

Nine months ended May 31, 2024 (September 1, 2023 to May 31, 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	1,724,307	—	1,724,307	—	1,724,307
Fortune	567,592	—	567,592	—	567,592
&AND HOSTEL	—	119,739	119,739	—	119,739
RET	—	1,795,065	1,795,065	—	1,795,065
Other	23,405	—	23,405	—	23,405
Revenue from contracts with customers	2,315,304	1,914,804	4,230,109	—	4,230,109
Other revenue	—	1,014	1,014	—	1,014
Sales to external customers	2,315,304	1,915,818	4,231,123	—	4,231,123
Intersegment sales or transfer	—	—	—	—	—
Total	2,315,304	1,915,818	4,231,123	—	4,231,123
Segment profit (loss)	298,989	(315,974)	(16,985)	(2,763)	(19,748)

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	(16,985)
Losses in the “Other” businesses	(2,763)
Company-wide expenses (Note)	(229,262)
Operating loss in the quarterly non-consolidated statements of income	(249,011)

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

(Significant subsequent events)

(Sale of investment securities)

At the Board of Directors meeting held on July 10, 2024, the Company resolved to sell a portion of its investment securities. The Company expects to record a gain on the sale of the investment securities as extraordinary income in the fourth quarter of the fiscal year ending August 31, 2024.

(1) Reason for the sale of investment securities

To increase asset efficiency by reviewing cross shareholdings

(2) Outline of the sale of investment securities

- i. Shares to be sold: Shares in one unlisted company
- ii. Date of the sale of investment securities: July 31, 2024 (scheduled)
- iii. Gain on the sale of investment securities: ¥188,504 thousand