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On **October 15, 2020**, and factory, inc. announced earnings results for full-year FY08/20.

Cumulative (JPYmn)	FY08/18				FY08/19				FY08/20				FY08/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	255	612	1,014	1,916	470	995	1,531	3,917	802	1,485	2,217	2,946	103.0%	2,861
YoY	45.7%	84.3%	109.0%	178.3%	84.1%	62.6%	51.1%	104.4%	70.9%	49.2%	44.8%	-24.8%		-27.0%
Gross profit	-	-	729	1,114	261	586	889	1,567	466	841	1,208	1,574		
YoY	-	-	-	120.0%	-	-	22.0%	40.7%	78.3%	43.6%	35.9%	0.4%		
GPM	-	-	71.9%	58.1%	55.6%	58.8%	58.1%	40.0%	58.1%	56.6%	54.5%	53.4%		
SG&A expenses	141	336	520	748	219	483	734	1,054	429	892	1,254	1,776		
YoY	193.8%	253.7%	202.2%	165.0%	55.2%	43.6%	41.2%	40.9%	95.9%	84.8%	70.9%	68.5%		
SG&A ratio	55.3%	54.9%	51.3%	39.1%	46.6%	48.5%	47.9%	26.9%	53.4%	60.1%	56.6%	60.3%		
Operating profit	46	122	209	365	42	103	155	512	37	-51	-46	-203	-	-248
YoY	-48.9%	-21.8%	13.2%	63.2%	-7.8%	-15.6%	-25.7%	40.3%	-12.3%	-	-	-	-	-
OPM	18.0%	19.9%	20.7%	19.1%	9.0%	10.3%	10.2%	13.1%	4.6%	-	-	-	-	-
Recurring profit	-	-	206	361	37	82	131	484	37	-86	-89	-260	-	-300
YoY	-	-	-	61.5%	-	-	-36.4%	34.2%	-1.6%	-	-	-	-	-
RPM	-	-	20.3%	18.8%	7.9%	8.2%	8.6%	12.4%	4.6%	-	-	-	-	-
Net income	-	-	134	261	25	55	89	328	20	-64	-102	-362	-	-220
YoY	-	-	-	49.9%	-	-	-33.7%	25.8%	-20.9%	-	-	-	-	-
Net margin	-	-	13.2%	13.6%	5.3%	5.6%	5.8%	8.4%	2.5%	-	-	-	-	-

Quarterly (JPYmn)	FY08/18				FY08/19				FY08/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	255	357	402	903	470	526	536	2,386	802	682	732	729
YoY	45.7%	127.4%	162.4%	343.3%	84.1%	47.2%	33.5%	164.3%	70.9%	29.8%	36.6%	-69.4%
Gross profit	-	-	729	384	261	324	304	677	466	375	367	365
YoY	-	-	-	-24.1%	-	-	-58.3%	76.2%	78.3%	15.7%	20.9%	-46.1%
GPM	-	-	181.6%	42.6%	55.6%	61.7%	56.7%	28.4%	58.1%	55.0%	50.2%	50.1%
SG&A expenses	141	195	184	228	219	264	251	320	429	463	363	522
YoY	193.8%	314.9%	138.7%	106.9%	55.2%	35.3%	36.7%	40.2%	95.9%	75.5%	44.3%	62.9%
SG&A ratio	55.3%	54.6%	45.8%	25.3%	46.6%	50.2%	46.9%	13.4%	53.4%	67.8%	49.5%	71.6%
Operating profit	46	76	87	156	42	61	52	357	37	-88	5	-157
YoY	-48.9%	15.2%	201.2%	302.2%	-7.8%	-20.3%	-39.9%	129.0%	-12.3%	-	-91.0%	-
OPM	18.0%	21.3%	21.8%	17.3%	9.0%	11.5%	9.8%	15.0%	4.6%	-	0.6%	-
Recurring profit	-	-	206	155	37	44	49	353	37	-123	-2	-171
YoY	-	-	-	-30.7%	-	-	-76.1%	128.0%	-1.6%	-	-	-
RPM	-	-	51.3%	17.2%	7.9%	8.5%	9.2%	14.8%	4.6%	-	-	-
Net income	-	-	134	127	25	30	34	239	20	-84	-37	-260
YoY	-	-	-	-27.1%	-	-	-75.0%	88.7%	-20.9%	-	-	-
Net margin	-	-	33.3%	14.0%	5.3%	5.7%	6.3%	10.0%	2.5%	-	-	-

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

Cumulative (JPYmn)	FY08/18				FY08/19				FY08/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	255	612	1,014	1,916	470	995	1,531	3,917	802	1,485	2,217	2,946
YoY	45.7%	84.3%	109.0%	178.3%	84.1%	62.6%	51.1%	104.4%	70.9%	49.2%	44.8%	-24.8%
Smartphone Apps	203	466	758	1,099	394	814	1,229	1,789	650	1,218	1,859	2,530
YoY	23.0%	51.8%	72.7%	82.0%	94.1%	74.7%	62.1%	62.8%	64.9%	49.6%	51.2%	41.4%
Composition	79.6%	76.1%	74.8%	57.4%	83.9%	81.8%	80.3%	45.7%	81.0%	82.0%	83.8%	85.9%
IoT	38	134	240	800	66	152	251	2,056	124	207	287	337
YoY	3700.0%	1118.2%	757.5%	1179.6%	74.0%	13.1%	4.4%	157.0%	86.8%	36.7%	14.4%	-83.6%
Composition	14.9%	21.9%	23.7%	41.7%	14.1%	15.2%	16.4%	52.5%	15.4%	14.0%	12.9%	11.4%
Other	14	27	29	17	9	29	52	72	29	59	72	79
YoY	55.6%	0.93	61.1%	-22.8%	-33.5%	8.6%	78.3%	320.4%	212.4%	102.4%	38.5%	10.7%
Composition	5.5%	4.4%	2.9%	0.9%	2.0%	2.9%	3.4%	1.8%	3.6%	4.0%	3.2%	2.7%
Operating profit	46	122	209	365	42	103	155	512	37	-51	-46	-203
YoY	-48.9%	-21.8%	13.2%	63.2%	-7.8%	-15.6%	-25.7%	40.3%	-12.3%	-149.2%	-129.6%	-139.5%
OPM	18.0%	19.9%	20.7%	19.1%	9.0%	10.3%	10.2%	13.1%	4.6%	-3.4%	-2.1%	-6.9%
Smartphone Apps	93	193	303	480	124	264	390	600	128	180	310	352
YoY	-25.6%	-12.3%	-1.5%	65.0%	33.8%	36.5%	28.7%	25.0%	3.2%	-31.8%	-20.4%	-41.4%
Composition	202.2%	158.2%	144.9%	131.3%	293.6%	255.9%	251.0%	117.0%	345.2%	-	-	-
OPM	45.8%	41.4%	40.0%	43.6%	31.6%	32.4%	31.8%	33.5%	19.8%	14.8%	16.7%	13.9%
IoT	-7	32	69	142	-24	-35	-43	194	-14	-65	-112	-187
YoY	-	-	-	-	-	-	-	36.7%	-	-	-	-
Composition	-	26.2%	33.2%	39.0%	-	-	-	37.9%	-	-	-	-
OPM	-	23.9%	28.9%	17.8%	-35.6%	-23.1%	-17.2%	9.5%	-11.2%	-31.4%	-39.1%	-55.6%
Other, company-wide expenses	-40	-103	-163	-256	-59	-126	-192	-282	-77	-165	-244	-367

Quarterly (JPYmn)	FY08/18				FY08/19				FY08/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	255	357	402	903	470	526	536	2,386	802	682	732	729
YoY	45.7%	127.4%	162.4%	343.3%	84.1%	47.2%	33.5%	164.3%	70.9%	29.8%	36.6%	-69.4%
Smartphone Apps	203	263	292	341	394	420	415	560	650	568	641	672
YoY	23.0%	85.2%	121.4%	106.6%	94.1%	59.7%	41.9%	64.4%	64.9%	35.3%	54.5%	19.8%
Composition	79.6%	73.7%	72.8%	37.8%	83.9%	79.9%	77.3%	23.5%	81.0%	83.3%	87.5%	92.1%
IoT	38	96	106	560	66	85	99	1,805	124	84	80	50
YoY	3700.0%	860.0%	524.1%	1522.0%	74.0%	-11.0%	-6.6%	222.5%	86.8%	-2.0%	-19.7%	-97.2%
Composition	14.9%	26.9%	26.4%	62.0%	14.1%	16.3%	18.5%	75.7%	15.4%	12.3%	10.9%	6.8%
Other	14	13	2	-12	9	20	22	20	29	30	12	8
YoY	55.6%	-	-50.0%	-394.5%	-33.5%	53.8%	1019.4%	-266.1%	212.4%	51.2%	-45.2%	-61.4%
Composition	5.5%	3.6%	0.5%	-	2.0%	3.8%	4.2%	0.8%	3.6%	4.4%	1.7%	1.1%
Operating profit	46	76	87	156	42	61	52	357	37	-88	5	-157
YoY	-48.9%	15.2%	200.0%	300.0%	-7.8%	-20.3%	-39.7%	128.8%	-12.3%	-245.1%	-91.0%	-143.9%
Smartphone Apps	93	100	110	176	124	139	127	209	128	51	131	41
YoY	-25.6%	5.3%	25.3%	105.1%	33.8%	39.0%	14.9%	18.8%	3.2%	-63.1%	3.2%	-80.3%
Composition	202.2%	131.6%	126.7%	113.1%	293.6%	229.5%	241.3%	58.7%	345.2%	-	-	-
OPM	45.8%	38.0%	37.7%	51.7%	31.6%	33.1%	30.5%	37.4%	19.8%	9.0%	20.4%	6.1%
IoT	-7	39	37	73	-24	-12	-8	238	-14	-51	-47	-75
YoY	-	-	-	-	-	-	-	226.5%	-	-	-	-131.5%
Composition	-	51.3%	43.1%	46.7%	-	-	-	66.6%	-	-	-	-
OPM	-	40.6%	35.3%	13.0%	-	-13.5%	-8.2%	13.2%	-11.2%	-61.3%	-59.3%	-150.5%
Other, company-wide expenses	-40	-63	-60	-93	-59	-67	-66	-90	-77	-88	-79	-123

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods. In Q1 FY08/19, the "Other, corporate" row under "Operating profit" was renamed "Other" (and will no longer include companywide expenses).

Quarterly (mn)	FY08/18				FY08/19				FY08/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Monthly active users (MAU)												
Smartphone Apps	2.00	2.20	2.57	2.85	3.30	4.01	4.60	5.61	6.68	7.36	9.19	10.03
YoY	239.0%	150.0%	152.0%	115.9%	65.0%	82.3%	79.0%	96.8%	102.4%	83.5%	99.8%	78.8%
Gamer-forum apps	0.92	0.70	0.53	0.47	0.51	0.39	0.30	0.29	0.27	0.16	0.13	0.09
YoY	55.9%	0.0%	-25.4%	-29.9%	-44.6%	-44.3%	-43.4%	-38.3%	-47.1%	-59.0%	-56.7%	-69.0%
Composition	46.0%	31.8%	20.6%	16.5%	15.5%	9.7%	6.5%	5.2%	4.0%	2.2%	1.4%	0.9%
Manga apps	1.08	1.50	2.04	2.38	2.79	3.62	4.30	5.32	6.41	7.20	9.06	9.94
YoY	-	733.3%	558.1%	266.2%	158.3%	141.3%	110.8%	123.5%	129.7%	98.9%	110.7%	86.8%
Composition	54.0%	68.2%	79.4%	83.5%	84.5%	90.3%	93.5%	94.8%	96.0%	97.8%	98.6%	99.1%
ARPU (Monthly sales / MAU; JPY)												
Gamer-forum apps	37	61	60	73	40	34	52	59	78	92	90	184
YoY	-50.7%	16.4%	57.1%	52.9%	6.8%	-43.9%	-12.6%	-19.8%	95.1%	168.1%	71.8%	214.0%
Manga apps	19	20	22	25	25	27	26	24	22	23	21	21
YoY	-	452.0%	45.4%	39.7%	33.9%	32.0%	18.6%	-5.8%	-14.4%	-13.2%	-19.0%	-12.5%

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

Full-year FY08/20 results

Overview

- ▷ In FY08/20, the company reported sales of JPY2.9bn (-24.8% YoY), an operating loss of JPY203mn (from operating profit of JPY512mn in FY08/19), a recurring loss of JPY260mn (from recurring profit of JPY484mn), and a net loss of JPY362mn (from net income of JPY328mn). Sales, operating loss, and recurring loss improved from the revised company forecast announced on June 2, 2020 by JPY85mn, JPY46mn, and JPY41mn, respectively, but the net loss was JPY142mn lower. This is mainly due to an impairment loss on head office fixed assets (approximately JPY21.9mn), an impairment loss on some software (JPY28.6mn), and reversal of deferred tax assets in Q4.
- ▷ Sales of JPY2.9bn were down 24.8% YoY, with the Smartphone Apps business reporting sales of JPY2.5bn (+41.4% YoY) and the IoT business reporting sales of JPY337mn (-83.6% YoY).
- ▷ The operating loss of JPY203mn was down from operating profit of JPY512mn in FY08/19, with the Smartphone Apps business reporting operating profit of JPY337mn (-41.4% YoY) and the IoT business reporting an operating loss of JPY187mn (from operating profit of JPY194mn in FY08/19).
- ▷ Accounting estimates: The company made accounting estimates, such as evaluation of real estate for sale, as well as determining whether to record impairment losses on fixed assets and assessing the recoverability of deferred tax assets, based on information available at the time of the preparation of financial statements, and the assumption that the economic impact of the COVID-19 pandemic will continue through FY08/21 and gradually subside in FY08/22.
- ▷ Full-year FY08/21 forecast: For FY08/21, the company forecasts sales of JPY3.5bn (+20.2% YoY), an operating loss of JPY27mn (versus JPY203mn operating loss in FY08/20), a recurring loss of JPY177mn (JPY260mn loss), a net loss of JPY182mn (JPY362mn loss), and EPS of -JPY18.66 (-JPY37.01). For details regarding the revised forecast, please refer to the Full-year company forecast for FY08/21 section.
- ▷ Policy for in-house developed &AND HOSTEL properties: The company indicated that it would not be starting any new in-house development projects going forward. The company is continuing sales activities for self-developed &AND HOSTEL properties, but it is not factoring them into its earnings forecast because of the uncertainty of outlook. The company says it will disclose without delay any property sale that is agreed in FY08/21.

Results by business

Smartphone Apps business

In FY08/20, sales in the Smartphone Apps business were JPY2.5bn (+41.4% YoY), and operating profit was JPY352mn (-41.4% YoY).

- ▷ The gains were driven by strong growth at existing apps such as Manga UP!, Manga Park, and Manga Mee, where a combination of aggressive advertising and promotion, new series launches, and stay-at-home demand led to an increase in monthly active users (MAUs). Extending the availability of popular content and new manga additions also contributed to growth. Additionally, MAUs for manga apps Young Jump! (jointly developed with Shueisha Inc.) released in April 2020 and Mecha Comics Daily Serial Manga (jointly developed with Amutus Corporation) released in May 2020, have steadily grown since release. Quarterly average MAU of and factory's manga apps grew 86.8% YoY to 9.94mn users.
- ▷ Meanwhile, ARPU was flat, and advertising revenue declined due to lower unit price of reward advertising for some advertisers and an overall decline in advertising market conditions due to the COVID-19 outbreak. The downward trend in advertising ARPU bottomed out in June and has been improving since July. In-app fees ARPU remained flat thanks to efforts to step up app operation by using return on advertising spend (ROAS), attract more paying users by providing content with a high purchase rate, and take steps to raise average revenue per paying user (ARPPU).

IoT business

In FY08/20, sales in the IoT business were JPY337mn (-83.6% YoY), and the operating loss was JPY187mn (operating profit of JPY194mn in FY08/19).

- ▷ Although the company continued the planning and development of &AND HOSTELS smart hostels (lodging facilities operated by the company that offer experiences made possible through IoT), all in-house development projects were either delayed or cancelled due to the COVID-19 outbreak, and the company closed some facilities due to ownership changes resulting in brand transfers. The company did not open any new hostels, keeping a total of eight hostels. Due to the declaration of a state of emergency by the Japanese government, all hostels were temporarily closed, and after they reopened, they were impacted by the slump in overseas visitors who were their main target, resulting in a YoY decline in operating profit for each hostel.
- ▷ With regard to its guest room tablet service, tabii, the company worked to strengthen relations with partner companies (such as H.I.S. Hotel Holdings and TEPCO Energy Partners), expand its sales teams, and actively develop new functions aimed at boosting operating efficiency and increasing value-added. However, sales activities were less than usual due to the worsening business conditions of target lodging facilities caused by the COVID-19 outbreak. As a result, the total number of tabii tablets in operation at end-Q4 FY08/20 came to 4,460 (up 1,607 from end-FY08/19 and up 210 from end-Q3 FY08/20).
- ▷ As of end-Q4 FY08/20, the number of facilities using the company's innto lodging management system came to 272 (up 40 facilities from end-FY08/19, up four facilities from end-Q3 FY08/20).

Other businesses

In FY08/20, sales in Other businesses were JPY79mn (+10.7% YoY), and operating profit was JPY31mn. The majority of earnings under this segment come from the company's internet advertising agency services.

Full-year company forecast for FY08/21

(JPYmn)	FY08/18			FY08/19			FY08/20			FY08/21
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	FY Est.
Sales	612	1,304	1,916	995	2,922	3,917	1,485	1,461	2,946	3,540
YoY	-	-	178.3%	62.6%	124.0%	104.4%	49.2%	-50.0%	-24.8%	20.2%
Cost of sales	154	649	803	410	1,941	2,350	644	729	1,372	
Gross profit	458	656	1,114	586	981	1,567	841	733	1,574	
GPM	74.8%	50.3%	58.1%	58.8%	33.6%	40.0%	56.6%	50.1%	53.4%	
SG&A expenses	336	412	748	483	572	1,054	892	885	1,776	
SG&A ratio	54.9%	31.6%	39.1%	48.5%	19.6%	26.9%	60.1%	60.5%	60.3%	
Operating profit	122	243	365	103	409	512	-51	-152	-203	-27
YoY	-	-	63.2%	-15.6%	68.3%	40.3%	-	-	-	-
OPM	19.9%	18.6%	19.1%	10.3%	14.0%	13.1%	-	-	-	-
Recurring profit	na	na	361	82	403	484	-86	-174	-260	-177
YoY	-	-	61.5%	-	-	34.2%	-	-	-	-
RPM	-	-	18.8%	8.2%	13.8%	12.4%	-	-	-	-
Net income	na	na	261	55	273	328	-64	-298	-362	-182
YoY	-	-	49.9%	-	-	25.8%	-	-	-	-
Net margin	-	-	13.6%	5.6%	9.3%	8.4%	-	-	-	-

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

Initial company forecast for FY08/21 (out October 15, 2020)

For FY08/21, and factory forecasts sales of JPY3.5bn (+20.2% YoY), an operating loss of JPY27mn (versus JPY203mn operating loss in FY08/20), a recurring loss of JPY177mn (JPY260mn loss), a net loss of JPY182mn (JPY362mn loss), and EPS of -JPY18.66 (-JPY37.01).

- ▷ The company is continuing sales activities for self-developed &AND HOSTEL properties, but it is not factoring them into its earnings forecast because of the uncertainty of outlook. The company says it will disclose without delay any property sale that is agreed in FY08/21.
- ▷ The business alliance with Mirror Fit Co., Ltd., which was announced at the same time as the FY08/21 forecast, has been factored into the company forecast.
- ▷ Directors' pay cut (also announced at the same time as the FY08/21 forecast) has been factored into the company forecast.
- ▷ Although the company expects operating loss to contract, having decided not to relocate its head office, it plans to book rent payable on the property it had planned to relocate to as a non-operating expense. The company is considering canceling the rental agreement for this property, and commented that it would disclose without delay any decision that will make a significant impact on FY08/21 earnings.

Smartphone Apps business

The company targets 30% CAGR for manga apps sales. It plans to continue MAU expansion and maintain high levels of ARPU by turning around the downward trend of advertising ARPU and maintaining FY08/20 in-app-fees ARPU levels.

- ▷ The company plans to continue acquiring new manga app development projects and continue aggressive spending on promotions while taking profitability into consideration amid the expansion of the e-book market. It also plans to focus on creating new businesses to establish an earnings base other than manga apps.

IoT business

- ▷ &AND HOSTEL: The company thinks that recovery of occupancy rates to pre-COVID 19 levels is not possible in the short term given that foreign visitors accounted for the majority of users and restrictions on foreign visitors entering Japan remain in place. As well as taking steps for switching its target to domestic demand to improve occupancy rates in the short term, the company

plans to rebrand and develop the business into new areas to secure earnings in the longer term. It also announced that it did not plan to hold any more properties for development.

- ▷ Room reservation system innto and guest room tablet service tabii: The company will continue to invest in enhancing features, as well as putting these businesses on a growth trajectory to expand earnings in response to heightened demand amid the COVID-19 pandemic.
- ▷ Tenant communication app totono: The company will build an earnings base through aggressive sales activities and by developing features to expand the service.

This note is the most recent addition to the [full report](#).

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