Consolidated Financial Results for Fiscal 2020
(August 1, 2019 to July 31, 2020) [Japanese GAAP]

September 4, 2020

Company name: I'll Inc.
Stock listing: Stock exchange listing: Tokyo Stock Exchange, First Section
Code number: 3854
URL: https://www.ill.co.jp
Representative: Tetsuo Iwamoto, Representative Director & President
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Scheduled date of Ordinary General Meeting of Shareholders: October 29, 2020
Scheduled date for dividend payment commencement: October 30, 2020
Scheduled date of filing annual securities report: October 29, 2020
Availability of supplementary briefing material on annual financial results: Yes
Financial results briefing session: No

(Amounts less than ¥1 million rounded down)

1. Consolidated Financial Results for the Fiscal 2020 (August 1, 2019 to July 31, 2020)

(1) Consolidated Operating Results (% indicates change from previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
Fiscal 2020	12,679	20.5	1,700	78.8	1,715	76.3	1,189	91.5
Fiscal 2019	10,522	11.8	951	80.8	972	78.2	621	84.4

(Note) Comprehensive income: Year ended July 31, 2020: ¥1,175 million [79.6%] Year ended July 31, 2019: ¥654 million [84.3%]

	Net profit per share	Diluted net profit per share	Return on equity	Ordinary profit to total assets ratio	Operating income margin
	¥ Million	¥ Million	%	%	%
Fiscal 2020	47.55	-	36.2	24.1	13.4
Fiscal 2019	24.81	-	23.7	15.7	9.0

(Reference) Equity in net income of affiliates: Year ended July 31, 2020: - ¥ million Year ended July 31, 2019: - ¥ million

(Notes) 1. The Company conducted a 2-for-1 stock split for common stock effective November 1, 2019.
Net profit per share is calculated assuming the stock split occurred at the beginning of the previous fiscal year.
2. Diluted net profit per share is not shown because there are no dilutive shares.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ Million	¥ Million	%	yen
Fiscal 2020	7,585	3,713	49.0	148.33
Fiscal 2019	6,646	2,851	42.9	113.87

(Reference) Shareholders' equity: July 31, 2020: ¥3,713 million July 31, 2019: ¥2,851 million

(Note) The Company conducted a 2-for-1 stock split for common stock effective November 1, 2019. Net assets per share is calculated assuming the stock split occurred at the beginning of the previous fiscal year.

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	¥ Million	¥ Million	¥ Million	¥ Million
Fiscal 2020	2,088	(587)	(663)	2,194
Fiscal 2019	1,006	(600)	(420)	1,356

2. Dividends

	Annual dividends					Total dividends	Dividend payout ratio (consolidated)	Dividend to net assets ratio (consolidated)
	End of first quarter	End of second quarter	End of third quarter	End of year	Total			
	yen	yen	yen	yen	yen	¥ Million	%	%
Fiscal 2019	—	6.00	—	10.00	16.00	200	32.3	7.6
Fiscal 2020	—	7.00	—	8.00	15.00	375	31.5	11.4
Fiscal 2021 (estimate)	—	6.00	—	6.00	12.00		38.3	

(Notes) 1. The Company conducted a 2-for-1 stock split for common stock effective November 1, 2019. Fiscal 2019 shows actual dividend amounts before the stock split.

2. Fiscal 2019 year-end dividends comprised an ordinary dividend of ¥6 per share and a commemorative dividend of ¥4 per share.

3. Consolidated Financial Forecasts for Fiscal 2021 (August 1, 2020 to July 31, 2021)

(% indicates change from previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net profit per share
	¥ Million n	%	¥ Million	%	¥ Million	%	¥ Million	%	yen
First half	6,467	(7.1)	792	(35.4)	802	(34.9)	521	(35.7)	20.81
Full year	12,350	(2.6)	1,200	(29.4)	1,226	(28.5)	784	(34.0)	31.35

(Note) Earnings forecasts for fiscal 2021 reflect current assumptions about the impact from the COVID-19 pandemic. If the need to revise earnings forecasts arises, the Company will promptly disclose the revisions.

***Notes**

(1) Changes in significant subsidiaries during the period under review (changes in specific subsidiaries resulting in changes in scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: None
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting estimates: Yes
4) Retrospective restatement: None

(Note) For details, see page 17 of the attached documents “4. Consolidated Financial Statements (5) Notes to Consolidated Financial Statements (Changes in Accounting Estimates)

(3) Total number of issued shares (common stock)

1) Total number of issued shares at the end of the period (including treasury stock):
Fiscal 2020 25,042,528 shares Fiscal 2019 25,042,528 shares
2) Total number of treasury stock at the end of the period:
Fiscal 2020 5,094 shares Fiscal 2019 - shares
3) Average number of shares during the period:
Fiscal 2020 25,020,636 shares Fiscal 2019 25,042,533 shares

(Note) The Company conducted a 2-for-1 stock split for common stock effective November 1, 2019. The total number of issued shares at the end of the period and the average number of shares during the period are calculated assuming the stock split occurred at the beginning of the previous fiscal year.

(Reference) Summary of Non-Consolidated Financial Results
Non-Consolidated Financial Results in Fiscal 2020 (August 1, 2019 to July 31, 2020)

(1) Non-Consolidated Operating Results (% indicates change from previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Net profit	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
Fiscal 2020	12,278	21.2	1,636	84.6	1,670	80.2	1,155	91.1
Fiscal 2019	10,132	12.4	886	99.6	926	89.3	604	90.1

	Net profit per share	Diluted net profit per share
	yen	yen
Fiscal 2020	46.19	-
Fiscal 2019	24.15	-

(Notes) 1. The Company conducted a 2-for-1 stock split for common stock effective November 1, 2019. Net profit per share is calculated assuming the stock split occurred at the beginning of the previous fiscal year.
2. Diluted net profit per share is not shown because there are no dilutive shares.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ Million	¥ Million	%	yen
Fiscal 2020	7,293	3,584	49.1	143.15
Fiscal 2019	6,352	2,744	43.2	109.60

(Reference) Shareholders' equity: Fiscal 2020: ¥3,584 million Fiscal 2019: ¥2,744 million
(Note) The Company conducted a 2-for-1 stock split for common stock effective November 1, 2019. Net assets per share is calculated assuming the stock split occurred at the beginning of the previous fiscal year.

* This consolidated financial results report is exempt from audit procedures.
* Explanation of the proper use of financial results forecast and other notes

(Notice regarding future statements)

The financial forecasts stated in this document are based on information available as of the date of this document. These forecasts should not be construed as a promise by the Company to achieve. Actual results may differ from these forecasts due to uncertain factors, such as economic trends. For notes about assumptions behind the financial forecasts and how to use these financial forecasts, refer to page 2 of the attached document “1. Qualitative Information Regarding Operating Results.”

Contents

1. Qualitative Information Regarding Operating Results

(1) Analysis of operating results

In the fiscal year under review (August 1, 2019 to July 31, 2020), the Japanese economy moderately recovered with continued improvement in employment and income conditions, despite the consumption tax increase in October 2019. However, the COVID-19 virus became a global pandemic in early 2020, and the Japanese government declared a state of emergency. As a result, consumer spending dropped, and employment and income conditions were also adversely affected. Corporate earnings have also deteriorated due to COVID-19. The information service industry in which the I'll Group belongs might be affected by COVID-19 in the context of weaker investment in software.

The CROSS-OVER Synergy strategy is an initiative to increase business efficiency and strengthen the sales capabilities of customers, by proposing a combination of real and online products and services through the I'll Group's unique value proposition style. This strategy not only gives the I'll Group a competitive edge during negotiations, but also enhances the satisfaction of its customers. As a result of this strategy, the I'll Group anticipates firm growth in sales of recurring business in products and services, an area of focus, and a stronger profit structure.

In the real world, I'll has continued to enhance its product offerings in its mainstay Aladdin Office software package for each sector, while collaborating with its partners on the sales front. The Company held sector-specific seminars about Aladdin Office in Tokyo, Osaka and Nagoya. Orders have held steady, thanks to proposals for optimal system utilization for each customer based on the Company's abundant experience installing systems for each sector. Net sales, profits and orders increased considerably, reflecting factors that include the consumption tax increase in October 2019 and end of official support for Windows 7 in January 2020.

In the online world, I'll continued collaborative development with new online shopping malls on CROSS MALL, software that integrates the management of multiple online stores. The Company will continue to enhance its functionality with the cooperation of several online malls, and also rapidly reflect the opinions of existing customers about the features they want or desire in new functionality, with the objective of improving the attractiveness of the product offering and expanding sales. Furthermore, the Company aims to increase sales of CROSS POINT, software that integrates the management of loyalty points and customers for both online and bricks-and-mortar stores.

In the fiscal year under review, I'll continued to concentrate on product development, spending ¥40,804,000 on R&D in a bid to sharpen its market competitiveness through the development of new technologies in the future. At the I'll Matsue Laboratory, the Company's R&D center in Matsue City, Shimane Prefecture, researchers are using the Ruby programming language to enhance systems. The Company plans to increase the number of R&D staff and bolster R&D activities.

As a result, in fiscal 2020, net sales increased 20.5% year on year to ¥12,679,627,000, operating profit grew 78.8% to ¥1,700,135,000, ordinary profit expanded 76.3% to ¥1,715,496,000 and profit attributable to owners of parent rose 91.5% to ¥1,189,639,000.

(2) Summary of Financial Position

As of the end of the fiscal year under review, current assets were ¥4,993,879,000, a year on year increase of ¥584,105,000. This is mainly attributable to an increase in cash and cash equivalents of ¥837,712,000, despite decreases of ¥198,106,000 in notes and accounts receivable, trade and ¥115,456,000 in merchandise. Non-current assets amounted to ¥2,591,485,000, an increase of ¥354,877,000 compared with the end of the previous fiscal year, owing mainly to an increase of ¥574,375,000 in software, while software in progress decreased ¥454,496,000. As a result, total assets were ¥7,585,364,000, which is ¥938,983,000 higher than the end of the previous fiscal year. Current liabilities expanded ¥31,083,000 year on year to ¥2,366,478,000, reflecting an increase of ¥25,200,000 in provision for bonuses. Non-current liabilities totaled ¥1,505,152,000, a year on year increase of ¥45,763,000. Long-term debt decreased ¥176,632,000, alongside increases of ¥100,831,000 in retirement benefit liabilities, ¥58,062,000 in provision for retirement benefits for directors, and ¥63,502,000 in asset retirement obligations. As a result, total liabilities increased ¥76,847,000 year on year to ¥3,871,631,000.

Total net assets amounted to ¥3,713,732,000, an increase of ¥862,135,000 from the end of the previous fiscal year. This primarily reflected a decrease of ¥300,019,000 in dividends of surplus, and an increase of ¥1,189,639,000 in profit attributable to owners of parent.

(3) Summary of Cash Flows

As of the end of the fiscal year under review, cash and cash equivalents (hereinafter, "cash") increased ¥837,712,000 compared with the end of the previous fiscal year to ¥2,194,666,000. Cash flow during the fiscal year under review, and factors that affected cash flow, were as follows.

(Cash flow from operating activities)

Net cash provided by operating activities totaled ¥2,088,207,000, compared with ¥1,006,810,000 a year ago. The primary factors were profit before income taxes of ¥1,713,488,000, depreciation of ¥352,925,000, and decreases in trade receivables of ¥198,106,000, in inventories of ¥117,850,000, in trade payables of ¥126,236,000, and in accounts payable – other of ¥105,370,000.

(Cash flow from investing activities)

Net cash used in investing activities was ¥587,158,000, compared with ¥600,833,000 last year. The main activities were expenditures for purchase of property, plant and equipment of ¥108,656,000, purchase of investment securities of ¥100,078,000, and purchase of intangible assets of ¥396,409,000.

(Cash flow from financing activities)

Net cash used in financing activities stood at ¥663,335,000, compared with ¥420,379,000 in the previous fiscal year. This mainly reflected ¥142,880,000 in expenditures for purchase of treasury stock, ¥220,008,000 in expenditures for repayments of long-term borrowings, and ¥300,447,000 in dividend payments.

(Reference) Cash flow indicators

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Equity ratio (%)	38.1	38.7	41.9	42.9	49.0
Equity ratio based on market value (%)	104.3	159.7	227.2	315.9	467.5
Debt repayment period (years)	1.5	0.9	2.9	0.4	0.1
Interest coverage ratio (times)	209.5	201.5	51.5	304.3	913.2

Equity ratio: Equity / total assets
Equity ratio based on market value: Market capitalization / total assets
Debt repayment period (years): Interest-bearing debt / operating cash flow
Interest coverage ratio: Operating cash flow / interest expenses
(Note) Market capitalization is calculated as the product of the closing share price at the end of the fiscal year and the number of outstanding shares.

(4) Outlook for fiscal 2021

In fiscal 2021, the COVID-19 pandemic should start coming to an end, despite uncertain conditions in the future. COVID-19 may adversely affect the performance of the I'll Group by restricting marketing activities to win new orders for projects, delaying individual orders and the inspection of delivered goods, reducing opportunities for face-to-face negotiations, and postponing business discussions.

Under these circumstances, the I'll Group will propose solutions that effectively deploy IT to enhance the corporate capabilities of its mid-tier and small/medium-size company customers. The Company is advancing its CROSS-OVER Synergy strategy that combines the real and online worlds by strengthening the sector-specific functionality of its mainstay Aladdin Office package software, and by enhancing the product capabilities of its online products and services, such as CROSS MALL, a solution for managing multiple online shops, and CROSS POINT, an integrated solution for managing loyalty points. Through this strategy, the Company aims to increase net sales, improve profitability and enhance customer satisfaction.

Using this approach and reasonable deductions based on currently available information, the Company has compiled consolidated financial forecasts for fiscal 2021. I'll forecasts consolidated net sales of ¥12,350 million (down 2.6% year on year), ordinary profit of ¥1,226 million (down 28.5%) and profit attributable to owners of parent of ¥784 million (down 34%).

(5) Basic Policy for Profit Allocation, Dividends for Fiscal 2020 and Fiscal 2021

I'll has positioned the return of profits to shareholders as an important management issue. The Company’s basic policy is to comprehensively consider the balance between retained earnings for maintaining and strengthening its competitiveness in the industry, return on equity (ROE), and the dividend payout ratio when allocating profits. While aiming to reinforce its financial position and improve earning power, I'll is making every effort to earn the support of its shareholders.

At the 30th Ordinary General Meeting of Shareholders scheduled to be held in October 2020, the Company will propose a resolution to increase planned year-end dividends per share from ¥7 to ¥8 in recognition of the support it has received from shareholders. Combined with the already distributed interim dividend of ¥7 per share, this will bring the annual dividend to ¥15 per share.

For fiscal 2021, the I'll Group intends to distribute an annual dividend of ¥12 per share, comprising an interim dividend of ¥6 per share and a year-end dividend of ¥6 per share, in light of the uncertain economic environment and based on its financial forecasts for the fiscal year.

(6) Business Risks

Below is a description of the risks that may have a significant impact on the I'll Group’s business performance, financial position and share price. The descriptions of risks below are based on judgements made by the Group as of the end of the fiscal year under review, and should not be construed to encompass all risks pertaining to investments in the Company’s shares.

1) Scope of I'll Group Operations

Since its founding, the I'll Group has provided products and services to mid-tier and small/medium-size corporate clients that help solve their management issues. The total solutions the Group provides through IT include building core systems, support & maintenance services, network construction, security, content provision, e-commerce website creation, software for integrating the management of multiple online shops, software for integrating the management of loyalty point programs and customers, website assistance, and human resource training.

Accordingly, economic trends and changes in the business environments of mid-tier and small/medium-size companies may adversely affect the performance of the I'll Group. Furthermore, the I'll Group’s performance and business development may be negatively affected if the Group were unable to continue providing products and services that satisfy the needs of mid-tier and small/medium-size companies.

2) Risks in the System Solutions Business

(a) Reliance on Specific Products

In the System Solutions Business, one of the Group’s core products is the Aladdin Office Series, its original core business package software. In the IT industry, needs have been growing for package software, resulting in fiercer competition as rivals constantly improve functionality. The I'll Group also intends to continuously enhance the features of its package software. However, the Group’s performance and business development may be negatively affected if rivals strengthen the performance of their package software or release more affordable package software onto the market.

(b) Reliance on Leasing Companies

In some cases, the I'll Group enters into contracts with leasing companies to reduce credit risk when selling systems. In these cases, the Group is directly selling to the leasing company, increasing the ratio of sales to leasing companies in total sales. If the business policies of leasing companies change due to economic trends, for example, the Group’s performance and business development may be negatively affected. Moreover, the Group’s performance and business development may be negatively affected if lease transactions decrease as a result of changes in accounting systems and the tax code for lease transactions.

3) Risks in the Web Solutions Business

(a) Infringement of Intellectual Property Rights, including Websites

In the Web Solutions Business, the I'll Group enters into binding contracts to create websites, for example. The Group's performance and business development may be negatively affected in the event that these products infringe for some reason on a third parties' patent rights, utility model rights, design rights, trademarks, copyrights or other intellectual property rights, requiring the Group to compensate its clients for any damages incurred.

(b) System Troubles

The I'll Group depends on computers, computer systems and telecommunications networks, including cloud-based services. Accordingly, the Group's operations and financial performance may be negatively affected by unforeseen factors, such as disconnections in telecommunications networks caused by natural disasters and accidents, the temporary overloading of servers due to a rapid surge in users accessing websites, and power outages that cause its computer systems to go down. The Group's computer systems are actively protected against unauthorized access by external parties through appropriate security measures. However, the Group's operations and financial performance may be adversely affected by damage to its systems caused by computer viruses and hackers.

4) Risk of Obsolescence in I'll Group's Services due to Rival Companies and Technological Innovation

In the information service industry in which the I'll Group belongs, the pace of technological innovation is rapid. To keep up with these rapid changes, the Group's development department modifies existing products and engages in R&D. However, if new technologies and services take hold as a result of faster-than-expected innovation in technologies, the Group's software and services could become obsolete. This could have a negative impact on the Group's performance and business development. Furthermore, the Group's performance and business development may be negatively affected if tougher competition with rivals leads to lower product prices, or if rivals enhance the features of their products.

5) Performance Gap Between First Half and Second Half

The I'll Group's earnings tend to be higher in the second half than the first half of the fiscal year. The table below shows the Group's performance since fiscal 2019. In fiscal 2020, earnings concentrated in the first half, owing in part to the consumption tax increase in October 2019 and the end of official support for Windows 7 in January 2020.

In response to these aforementioned trends, the Group is working to change this tendency for sales recognition to concentrate in one half of the fiscal year by evening out order receipts and increasing orders for ongoing maintenance services. The Group is also in a position to eliminate variances in development efficiency by proactively hiring engineers throughout the year with the objective of raising the technological level of its engineers.

(¥ Thousand, %)

	Fiscal 2019				Fiscal 2020			
	First half		Second half		First half		Second half	
	Value	Ratio	Value	Ratio	Value	Ratio	Value	Ratio
Net sales	4,561,221	45.0	5,571,672	55.0	6,765,791	55.1	5,513,109	44.9
Ordinary profit	350,584	37.8	576,296	62.2	1,202,412	72.0	468,213	28.0
Net profit	229,929	38.0	374,761	62.0	779,277	67.4	376,534	32.6

(¥ Thousand, %)

	Fiscal 2019				Fiscal 2020			
	First half		Second half		First half		Second half	
	Value	Ratio	Value	Ratio	Value	Ratio	Value	Ratio
Net sales	4,732,541	45.0	5,790,008	55.0	6,957,780	54.9	5,721,847	45.1
Ordinary profit	380,769	39.1	592,070	60.9	1,232,422	71.8	483,074	28.2
Profit attributable to owners of parent	246,013	39.6	375,194	60.4	809,971	68.1	379,668	31.9

6) Management of Confidential Information

In the natural course of its business, the Group obtains highly confidential information, such as personal information and information about the business partners of its clients. To properly manage this highly confidential information, the Group has obtained ISMS (ISO 27001) certification and the Privacy Mark (ISO 15001), and makes concerted efforts to strengthen its information management system for employees while ensuring in-house rules are well understood about information management based on internal rules about information security and standards for protecting personal information. Personnel dispatched to the Group are also required to individually sign confidentiality agreements as part of measures to prevent the leaking of confidential information. However, in the event of unauthorized access by external parties, system failure or damage, human error in handling confidential information, and information leaks, destruction or unauthorized use by malicious employees, depending on how the Group responds, these events could lead to a loss of credibility and claims for damage compensation. In this case, the Group's performance and business development may be negatively affected.

7) COVID-19 pandemic

The COVID-19 pandemic may have an impact on the Group's business activities. In order-related risks, in the event that customers' business conditions change or they make major revisions to their information system investment plans, customers may decide to not renew their contracts with the Group. If customers scale back their investment appetites, the Group may not be able to acquire as many new customers as it anticipates. In production-related risks, the Group's employees are being encouraged to work at home during the pandemic. This situation may hinder the Group's ability to provide high-quality services in line with customer expectations, or lead to delays in the provision of consulting services and systems development. As a result, the Group's performance and financial position may be negatively affected. Forward-looking statements in this document are based on the Group's judgment as of the date of publication for this document. It is unclear when COVID-19 will end, and there are potential risks not discussed herein.

2. Status of Corporate Group

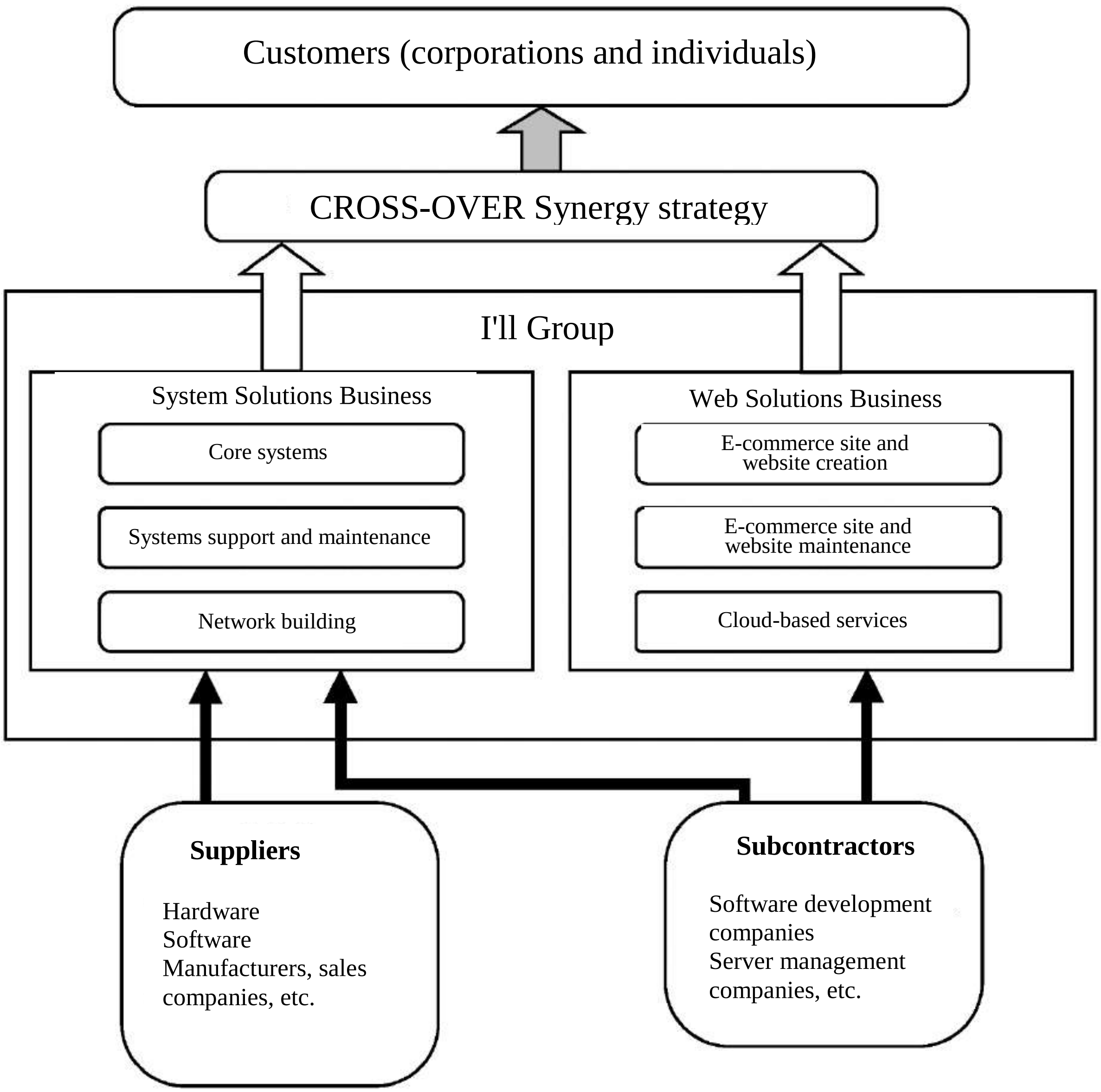
As of the end of the fiscal year under review, the I'll Group comprises the Company (I'll Inc.) and its consolidated subsidiaries (web-base.co.). The Group has two main segments: the System Solutions Business and the Web Solutions Business.

(1) System Solutions Business

The System Solutions Business provides system-related services to customers, including core system building, hardware maintenance, system operational support, network construction, and security management. In this business, consolidated subsidiary web-base.co. develops and maintains systems for retail stores in the fashion industry.

(2) Web Solutions Business

The Web Solutions Business provides services and software that help customers promote their sales, such as corporate website creation and operational support, consulting services for business analysis and strategies for customers, sales promotions, e-commerce website creation, software for integrating the management of multiple online shops, and software for integrating the management of loyalty point programs and customers.



3. Basic Approach to Selection of Accounting Standards

The I'll Group has adopted Japanese GAAP as its accounting standard for the purpose of facilitating comparability to other companies and over time.

4. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheets

(Thousands of yen)

	Fiscal 2019 (As of July 31, 2019)	Fiscal 2020 (As of July 31, 2020)
Assets		
Current assets:		
Cash and cash equivalents	1,356,953	2,194,666
Notes and accounts receivable - trade	1,400,546	1,202,439
Merchandise	412,280	296,824
Work in process	1,173,927	1,171,533
Other	68,133	130,422
Allowance for doubtful accounts	(2,068)	(2,007)
Total current assets	4,409,773	4,993,879
Non-current assets:		
Plant, property and equipment:		
Buildings and structures	297,843	371,952
Accumulated depreciation	(38,478)	(47,341)
Buildings and structures (net)	259,364	324,611
Tools, furniture and fixtures	339,712	394,346
Accumulated depreciation	(211,257)	(255,822)
Tools, furniture and fixtures (net)	128,454	138,524
Total plant, property and equipment	387,819	463,135
Intangible assets:		
Software	247,056	821,432
Software in progress	663,554	209,057
Other	1,739	1,739
Total intangible assets	912,350	1,032,229
Investments and other assets:		
Investment securities	173,744	225,351
Guarantee deposits	398,390	400,073
Deferred tax assets	361,179	368,721
Other	4,631	104,900
Allowance for doubtful accounts	(1,507)	(2,926)
Total investments and other assets	936,437	1,096,120
Total non-current assets	2,236,607	2,591,485
Total assets	6,646,381	7,585,364

(Thousands of yen)

	Fiscal 2019 (As of July 31, 2019)	Fiscal 2020 (As of July 31, 2020)
Liabilities		
Current liabilities:		
Accounts payable – trade	510,571	384,335
Current portion of long-term loans payable	220,008	176,632
Accounts payable – other	360,168	236,043
Deposits received	246,223	237,465
Income taxes payable	346,732	359,556
Provision for bonuses	44,800	70,000
Reserve for product warrantees	30,830	26,104
Other	576,060	876,341
Total current liabilities	2,335,395	2,366,478
Non-current liabilities:		
Long-term borrowings	191,632	15,000
Retirement benefit liabilities	905,356	1,006,187
Provision for retirement benefits for directors	254,368	312,430
Asset retirement obligations	108,032	171,534
Total non-current liabilities	1,459,389	1,505,152
Total liabilities	3,794,784	3,871,631
Net assets		
Shareholders' equity:		
Capital stock	354,673	354,673
Capital surplus	319,673	319,673
Retained earnings	2,176,379	3,062,544
Treasury shares	—	(9,872)
Total shareholders' equity	2,850,727	3,727,019
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(3,354)	(4,709)
Remeasurements of defined benefit plans	4,223	(8,577)
Total accumulated other comprehensive income	869	(13,287)
Total net assets	2,851,596	3,713,732
Total liabilities and net assets	6,646,381	7,585,364

(2) Consolidated statements of income and consolidated statements of comprehensive income
(Consolidated Statements of Income)

(Thousands of yen)

	Fiscal 2019 (From August 1, 2018 to July 31, 2019)	Fiscal 2020 (From August 1, 2019 to July 31, 2020)
Net sales	10,522,550	12,679,627
Cost of sales	6,099,760	7,014,885
Gross profit	4,422,789	5,664,741
Selling, general and administrative expenses	3,471,742	3,964,606
Operating profit	951,046	1,700,135
Non-operating income:		
Commission income	12,511	12,419
Subsidy income	7,273	8,284
Penalty income	4,550	1,962
Other	814	1,217
Total non-operating income	25,149	23,883
Non-operating expenses:		
Interest expenses	3,308	2,286
Commission expenses	—	6,119
Other	47	115
Total non-operating expenses	3,356	8,522
Ordinary profit	972,840	1,715,496
Extraordinary income:		
Gain on sales of non-current assets	805	—
Reversal of allowance for doubtful accounts	1,875	—
Total extraordinary income	2,680	—
Extraordinary losses:		
Loss on retirement of non-current assets	213	872
Loss on sale of investment securities	—	1,136
Total extraordinary losses	213	2,008
Profit before income taxes	975,307	1,713,488
Income taxes – current	416,085	525,746
Income taxes – deferred	(61,986)	(1,897)
Total income taxes	354,098	523,848
Net Profit	621,208	1,189,639
Profit attributable to owners of parent	621,208	1,189,639

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Fiscal 2019 (From August 1, 2018 to July 31, 2019)	Fiscal 2020 (From August 1, 2019 to July 31, 2020)
Net Profit	621,208	1,189,639
Other comprehensive income:		
Valuation difference on available-for-sale securities	2,885	(1,355)
Remeasurements of defined benefit plans, net of tax	30,347	(12,801)
Total other comprehensive income	33,233	(14,156)
Comprehensive income	654,441	1,175,483
(Breakdown)		
Comprehensive income attributable to owners of parent	654,441	1,175,483
Comprehensive income attributable to non-controlling interests	–	–

(3) Consolidated Statements of Changes in Net Assets

Fiscal 2019 (From August 1, 2018 to July 31, 2019)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	354,673	319,673	1,755,539	–	2,429,887
Changes of items during period					
Dividends of surplus			(200,340)		(200,340)
Profit attributable to owners of parent			621,208		621,208
Purchase of treasury shares				(27)	(27)
Retirement of treasury stock			(27)	27	–
Disposal of treasury stock					–
Transfer of net loss on disposal of treasury stock					–
Net changes of items other than shareholders' equity					
Total changes in items during period	–	–	420,840	–	420,840
Balance at end of period	354,673	319,673	2,176,379	–	2,850,727

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	(6,240)	(26,124)	(32,364)	2,397,522
Changes of items during period				
Dividends of surplus				(200,340)
Profit attributable to owners of parent				621,208
Purchase of treasury shares				(27)
Retirement of treasury stock				–
Disposal of treasury stock				–
Transfer of net loss on disposal of treasury stock				–
Net changes of items other than shareholders' equity	2,885	30,347	33,233	33,233
Total changes in items during period	2,885	30,347	33,233	454,073
Balance at end of period	(3,354)	4,223	869	2,851,596

Fiscal 2019 (From August 1, 2019 to July 31, 2020)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	354,673	319,673	2,176,379	—	2,850,727
Changes of items during period					
Dividends of surplus			(300,019)		(300,019)
Profit attributable to owners of parent			1,189,639		1,189,639
Purchase of treasury shares				(142,880)	(142,880)
Retirement of treasury stock					—
Disposal of treasury stock		(3,455)		133,008	129,552
Transfer of net loss on disposal of treasury stock		3,455	(3,455)		
Net changes of items other than shareholders' equity					
Total changes in items during period			886,164	(9,872)	876,292
Balance at end of period	354,673	319,673	3,062,544	(9,872)	3,727,019

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	(3,354)	4,223	869	2,851,596
Changes of items during period				
Dividends of surplus				(300,019)
Profit attributable to owners of parent				1,189,639
urchase of treasury shares				(142,880)
Retirement of treasury stock				—
Disposal of treasury stock				129,552
Transfer of net loss on disposal of treasury stock				—
Net changes of items other than shareholders' equity	(1,355)	(12,801)	(14,156)	(14,156)
Total changes in items during period	(1,355)	(12,801)	(14,156)	862,135
Balance at end of period	(4,709)	(8,577)	(13,287)	3,713,732

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal 2019 (From August 1, 2018 to July 31, 2019)	Fiscal 2020 (From August 1, 2019 to July 31, 2020)
Cash flows from operating activities:		
Profit before income taxes	975,307	1,713,488
Depreciation	268,779	352,925
Increase (decrease)in provision for bonuses	4,500	25,200
Increase (decrease) in allowance for doubtful accounts	(3,204)	1,358
Increase (decrease) in reserve for product warrantees	(1,043)	(4,726)
Increase (decrease) in retirement benefit liabilities	126,765	82,386
Increase (decrease) in provision for retirement benefits for directors	55,230	58,062
Loss (gain) on sale of non-current assets	(805)	—
Loss on retirement of non-current assets	213	872
Loss (gain) on sale of investment securities	—	1,136
Share-based payment expenses	—	11,148
Interest and dividends income	(27)	(110)
Interest expenses	3,308	2,286
Decrease (increase) in trade receivable	(47,852)	198,106
Decrease (increase) in inventories	(477,528)	117,850
Decrease (increase) in trade payable	157,343	(126,236)
Increase (decrease) in accounts payable - other	96,233	(105,370)
Increase (decrease) in deposits received	18,422	(8,757)
Increase (decrease) in accrued expenses	11,109	(31,867)
Other	24,895	315,467
Subtotal	1,211,647	2,603,219
Interest and dividends received	27	110
Interest paid	(3,095)	(2,071)
Income taxes paid	(201,768)	(513,051)
Net cash provided by (used in) operating activities	1,006,810	2,088,207
Cash flows from investing activities:		
Net decrease (increase) in time deposits	50,264	—
Purchase of property, plant and equipment	(69,897)	(108,656)
Proceeds from sales of property, plant and equipment	805	—
Purchase of investment securities	—	(100,078)
Proceeds from sale of investment securities and dividends	1,713	16,868
Purchase of intangible assets	(569,140)	(396,409)
Payment of guarantee deposits	(14,886)	(1,900)
Proceeds from refund of guarantee deposits	309	218
Other	(1)	2,799
Net cash provided by (used in) investing activities	(600,833)	(587,158)
Cash flows from financing activities:		
Repayments of long-term borrowings	(220,008)	(220,008)
Purchase of treasury shares	(27)	(142,880)
Dividends paid	(200,344)	(300,447)
Net cash provided by (used in) financing activities	(420,379)	(663,335)
Net increase (decrease) in cash and cash equivalents	(14,402)	837,712
Cash and cash equivalents at beginning of period	1,371,355	1,356,953
Cash and cash equivalents at end of period	1,356,953	2,194,666

(5) Notes to Consolidated Financial Statements

(Notes on the Premise of an Ongoing Concern)

No applicable matters.

(Significant Matters That Serve as the Basis for the Presentation of the Consolidated Financial Statements)

1. Matters related to the scope of consolidation

(1) Number of consolidated subsidiaries: 1

Name of consolidated subsidiary: web-base.co.

(2) Names, etc. of major non-consolidated subsidiaries

No applicable matters.

2. Matters related to application of the equity method

No applicable matters.

3. Fiscal years of consolidated subsidiaries

The settlement date for the consolidated subsidiary is March 31 of every year. In preparing the consolidated financial statements, the financial statements reflect the results of the consolidated subsidiary as of the date of the consolidated results.

4. Matters related to accounting policies

(1) Valuation standards and valuation methods for significant assets

1) Securities

Other available-for-sale securities

Securities with quoted market value

The market value basis, based on market prices as of the end of the consolidated fiscal year, has been adopted (all valuation differences are treated as a component of net assets, and cost of securities sold is calculated using the moving average method).

Securities without quoted market value

Cost basis, using the moving average, has been adopted.

2) Inventories

Merchandise

Cost basis, using the identified cost method, is applied (figures shown on the balance sheet are calculated using the book value write-down method based on reduction in profitability).

Work in progress

Cost basis, using the identified cost method, is applied (figures shown on the balance sheet are calculated using the book value write-down method based on reduction in profitability).

(2) Depreciation/amortization method for significant depreciable/amortizable assets

1) Property, plant and equipment

The declining balance method is applied. However, buildings (excluding building fixtures and equipment) acquired after April 1, 1998, as well as building fixtures and equipment and structures acquired after April 1, 2016, are depreciated using the straight-line method.

The useful life is as follows.

Buildings and structures: 8-50 years

Tools, furniture and fixtures: 4-20 years

2) Intangible assets

Software for in-house use

The straight-line method is applied based on a useful life of five years inside the company.

Software for sale on the market

Software for sale is amortized in the larger of either the amount calculated based on the estimated sales revenue or the amount evenly distributed over the anticipated sales period (no longer than three years).

(3) Standards for recognition of significant allowance

1) Allowance for doubtful accounts

Allowances for doubtful accounts for non-specific purposes such as trade receivables, etc. are provided in amounts based on the historical loss rates, and further provisions for specific claims, including loans to borrowers with a high probability of business failure, are made in amounts deemed necessary based on individual assessments of the collectability of claims.

2) Provision for bonuses

For the payment of employees' bonuses, of the estimated payment amount, the amount to be paid in the consolidated fiscal year under review is posted.

3) Reserve for product warrantees

Reserves for product warranties are provided in amounts estimated to arise in the future based on historical rates to prepare for free-of-charge repairs to products.

4) Provision for retirement benefits for directors

Provision for retirement benefits for directors are provided in amounts deemed necessary at the end of the period based on internal rules for retirement benefits for directors.

(4) Accounting method for retirement benefits

1) Attribution method for projected retirement

The calculation of retirement benefit liabilities is based on the attribution of projected retirement benefits through the end of the fiscal year, using the standard method for benefit calculation.

2) Method of accounting for expensing actuarial differences

Actuarial differences are expensed in the following consolidated fiscal year in an amount distributed using the straight-line method over a certain number of years (up to three years) within the average remaining years of service of employees as of the fiscal year when the actuarial differences arise.

(5) Important standards for revenue and cost recognition

Standards for revenue and cost recognition for ordered production of software

For contracts on which progress can be verifiably made by the end of the fiscal year, the percentage of completion method (cost-to-cost method for projected rate of progress) is applied, and for other contracts, the completed contract method is applied.

(6) Scope of funds on consolidated statement of cash flows

Funds on the consolidated statement of cash flows consist of cash on hand, deposits that can be easily withdrawn and converted to cash, and short-term investments with redemption dates within three months of the acquisition date that have insignificant value fluctuation risk.

(7) Other significant matters for the presentation of the consolidated financial statements

Accounting treatment of consumption taxes

Consumption taxes are excluded from accounting practices and recorded separately.

(Change in Accounting Estimates)

(Change in estimates for asset retirement obligations)

In the fiscal year under review, upon obtaining new information about the cost of restoring sites to their original conditions, the Company changed its estimates for asset retirement obligations that had been recorded as obligations for restoring sites to their original conditions based on its real estate leasing agreements. This change in estimates increased the balance of asset retirement obligations by ¥62,254,000 compared with the figure before this change. This change in estimates had an insignificant impact on operating profit, ordinary profit and profit before income taxes in the fiscal year under review.

(Additional Information)

(Accounting estimates for impact from COVID-19 pandemic)

The Group's accounting estimates assume the impact from the COVID-19 pandemic will fade during fiscal 2021. The Company currently believes that the impact from COVID-19 on its accounting estimates, such as for the valuation of inventories, will be insignificant, but if the situation changes in the future, this impact could increase.

(Segment Information)

The Group treats its operations as a single segment, so this section is omitted.

(Per-share information)

	Fiscal 2019 (From August 1, 2018 to July 31, 2019)	Fiscal 2020 (From August 1, 2019 to July 31, 2020)
Net assets per share (yen)	113.87	148.33
Net profit per share (yen)	24.81	47.55

Notes: 1. The Company conducted a 2-for-1 stock split for common stock effective November 1, 2019.
Net assets per share and net profit per share are calculated assuming the stock split occurred at the beginning of the previous fiscal year.

2.Diluted net profit per share is not shown because there are no dilutive shares.

3. The basis for calculating net assets per share is as follows.

	Fiscal 2019 (As of July 31, 2019)	Fiscal 2020 (As of July 31, 2020)
Total of net assets (Thousands of yen)	2,851,596	3,713,732
Amount deducted from total of net assets (Thousands of yen)	—	—
Net assets attributable to common stock at end of period (Thousands of yen)	2,851,596	3,713,732
Number of common stock at end of period used to calculate net assets per share (shares)	25,042,528	25,037,434

4. The basis for calculating net profit per share is as follows.

	Fiscal 2019 (As of July 31, 2019)	Fiscal 2020 (As of July 31, 2020)
Profit attributable to owners of parent (Thousands of yen)	621,208	1,189,639
Amounts not attributable to ordinary shareholders (Thousands of yen)	—	—
Profit attributable to owners of parent for common stock (Thousands of yen)	621,208	1,189,639
Average number of common stock during period (Shares)	25,042,533	25,020,636

(Important subsequent events)

No applicable matters.

5. Other

(1) Changes in directors

For information about changes in directors, refer to the Notification Regarding Directors and Executive Officers disclosed on the same date.

(2) Other

No applicable matters.