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November 13, 2020

Non - consolidated Financial Results for the Fiscal Year Ended September 30, 2020 <under Japanese GAAP>

Company name: Retty Inc.
 Listing: Tokyo Stock Exchange
 Stock code: 7356
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 Schedule date of annual general meeting of shareholders: December 23, 2020
 Schedule date to commence dividend payments: —
 Schedule date to file annual securities report: December 24, 2020
 Preparation of supplementary materials for financial results: Yes
 Holding of financial results presentation meeting: Yes

(All amounts are rounded down to the nearest million yen)

1. Performance for the fiscal year ended September 30, 2020 (from October 1, 2019 to September 30, 2020)

(1) Result of operations

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended								
September 30, 2020	2,215	(2.3)	(283)	—	(274)	—	(324)	—
September 30, 2019	2,268	34.2	100	—	99	—	155	—

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit/ Total asset	Operating profit/ net sales
Fiscal year ended	Yen	Yen	%	%	%
September 30, 2020	(33.23)	—	(58.3)	(21.2)	(12.8)
September 30, 2019	16.68	—	25.8	10.9	4.4

Reference: share of profit (loss) of entities accounted for using equity method

For the fiscal year ended September 30, 2020: ¥—million

For the fiscal year ended September 30, 2019: ¥—million

Note: 1. The company has split one share of common stock into eight shares on March 10, 2020. The earnings per share of the previous fiscal year was accordingly adjusted assuming that the stock split had been effective from October 1, 2018.

2. Diluted net income per share is not shown because the average share price during the period cannot be determined because the Company's stock was listed on the Mothers section of the Tokyo Stock Exchange on October 30, 2020.

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net asset per share
	Million yen	Million yen	%	Yen
As of September 30, 2020	1,533	429	28.0	40.45
As of September 30, 2019	1,055	692	64.7	(120.97)

Reference: Equity

As of September 30, 2020: ¥429 million

As of September 30, 2019: ¥682 million

Note: The company has split one share of common stock into eight shares on March 10, 2020. The net assets per share of the previous fiscal year was accordingly adjusted assuming that the stock split had been effective from October 1, 2018.

(3) 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
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
September 30, 2020	(626)	(36)	731	459
September 30, 2019	46	(11)	76	391

2. Cash dividends

	Annual dividends					Total cash dividends (Total)	Dividend payout ratio	Ratio of dividends to net assets
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
September 30, 2020	—	—	—	0.00	0.00	—	—	—
September 30, 2019	—	—	—	0.00	0.00	—	—	—
Fiscal year ending September 30, 2021	—	0.00	—	0.00	0.00		—	

3. Earnings forecasts for the fiscal year ending September 30, 2021 (from October 1, 2020 to September 30, 2021)

(Percentages indicate year on year changes)

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending September 30, 2021	2,270	2.5	50	—	40	—	140	—	12.26
	~2,380	~7.4	~200	—	~190	—	~340	—	~29.79

Note: 1. Net income per share is calculated taking into account the public offering of 200,000 shares, for which payment was completed on October 29, 2020, and the secondly offering of 722,700 shares in connection with the over-allotment of shares to be paid on December 2, 2020.

2. The earnings forecasts for the fiscal year ending September 30, 2021 is disclosed in a range.

* Notes

(1) Changes in accounting principles and estimates, and retrospective restatement

(a) Changes due to revision of accounting standards: None

(b) Changes other than in (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

(2) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

(b) Treasury shares

(c) Average number of shares outstanding during the year

End of FY9/20	10,612,504	End of FY9/19	9,343,384
End of FY9/20	—	End of FY9/19	—
FY9/20	9,750,371	FY9/19	9,343,384

Note: 1. The company has split one share of common stock into eight shares on March 10, 2020. The shares outstanding, treasury shares and average number of shares outstanding during the year of the previous fiscal year were adjusted assuming that the stock split had been effective from October 1, 2018.

2. Class shares are included in the (a) Shares outstanding and (c) Average number of shares outstanding during the year for the year ended September 30, 2019.

* This report is exempt from the audit procedure by certified public accountants or accounting firms

* Cautionary statement regarding forecasts of operating results and special notes

Forward-looking statements in these materials are based on information available to management at the time this report was prepared and assumptions that management believes are reasonable. Actual results may differ significantly from these statements for several reasons.

Index for Supplementary Information

1. Results of Operations	2
(1) Overview on business performance	2
(2) Financial condition	2
(3) Cash flows.....	3
(4) Outlook.....	3
2. Basic Position concerning Selection of Accounting Standards	5
3. Financial Statements.....	6
(1) Balance sheet.....	6
(2) Statements of income.....	8
(3) Statement of changes in equity.....	9
(4) Statement of cash flows.....	11

1. Results of Operations

(1) Overview on business performance

As for the business environment surrounding the Company, demand for the entire internet advertisement market decreased temporarily immediately after the consumption tax hike but was recovering gradually, and the Company continued to record a solid performance from the previous fiscal year. However, the outbreak of the novel coronavirus (COVID-19) around the end of 2019 and the spread of the pandemic followed by the declaration of a state of emergency by the Japanese government for preventing the spread have seriously affected the Japanese economy. There are signs of certain economic recovery since the lifting of the state-of-emergency declaration in late-May 2020, but it is far from being complete.

Under these circumstances, the restaurant industry, to which the Company belongs, is experiencing an unprecedented business environment. Restaurants have been requested to shorten their open hours and an increasing number of businesses are having difficulty continuing operations because of the sluggish customer turnout. The restaurants are facing an urgent need to develop a structure for expanding regular and fixed customer bases and to enter new business areas, and this has increased the value of solutions provided by the Company. We believe that the demand will continue to grow for digital transformation mainly for enhancing online marketing and entering new business areas and launched a new product aimed to set the new-normal for the restaurant industry.

During the fiscal year, the Company waived monthly fees for the Fun Relationship Management (FRM) service for some of the restaurants that had to suspend their operations during the state of emergency period. The number of Paying Member Restaurants, which form our revenue base, also decreased temporarily, due to unexpected membership cancellations such as for closing of business. However, since the declaration of the state of emergency was lifted, indicators including the number of Paying Member Restaurant applications and the cancellation ratio have been recovering to pre-COVID levels. The amount of orders received for advertisement decreased temporarily due to the sharp decline in the number of users caused by the Declaration of State of Emergency, but this has also been recovering since it was lifted. In the Contents Solution business, the Food Data Platform, a big data-linked platform for food-related data accumulated by Retty, has been launched, but new client acquisition has been limited due to the impact of COVID-19. As a result of the above, net sales for the fiscal year was 2,215 million yen (a 2.3% decrease from the previous fiscal year).

In terms of expenses, measures to control various costs, including server expenses, were implemented at an even tighter level in response to the spread of COVID-19, facilitating optimized business efficiency. On the other hand, we incurred advertisement expenses for television commercials and online promotions to increase exposure of our campaign tied with the government's "Go To Eat" campaign, as well as marketing and advertisement expenses for enhancing the infrastructure and acquiring paying member restaurants. As a result, cost of sales for the fiscal year was 799 million yen (a 0.8% increase from the previous fiscal year), and the selling, general and administrative expenses were 1,699 million yen (a 23.7% increase from the previous fiscal year).

As a result of the above, in the current fiscal year, we reported an operating loss of 283 million yen (an operating profit of 100 million yen for the previous fiscal year); an ordinary loss of 274 million yen (an ordinary profit of 99 million yen for the previous fiscal year), and a net loss of 324 million yen (a net profit of 155 million yen for the previous fiscal year).

(2) Financial condition

(Assets)

Current assets at the end of this fiscal year increased by 434 million yen year-on-year to 1,134 million yen. This was mainly due to an increase of 246 million yen in prepaid expenses for increasing prepayment of sales fees to our sales agents to further promote FRM. Non-current assets at the end of this fiscal year increased by 43 million yen year-on-year to 399 million yen. This was mainly due to an increase of 83 million yen in the long-term prepaid expenses due to increased long-term prepayment of sales fees to our sales agents in addition to the increase in prepaid expenses stated above.

As a result of the above, total non-current assets at the end of this fiscal year increased by 478 million yen year-on-year to 1,533 million yen.

(Liabilities)

Current liabilities at the end of this fiscal year increased by 392 million yen year-on-year to 755 million yen.

This was mainly due to an increase of 268 million yen in short-term borrowings arising from loans from financial institutions mainly for increasing prepayment to our sales agents to further promote sales of FRM. In addition, the non-current liabilities at the end of this fiscal year increased by 348 million yen year-on-year to 348 million yen. This was due to an increase of 348 million yen in long-term borrowings arising from loans from financial institutions in response to the needs for working capital caused by the impact of COVID-19.

As a result of the above, total liabilities increased by 741 million yen year-on-year to 1,104 million yen.

(Net assets)

Net assets at the end of this fiscal year decreased by 263 million yen year-on-year to 429 million yen. The main factors were a 40 million yen decrease in share capital and a 461 million yen decrease in legal capital surplus, and a 501 million yen increase in retained earnings due to capital reduction without compensation and deficit disposition; a 35 million yen increase of shareholders' equity and a 35 million yen increase in legal capital surplus from issuance of new shares from exercise of share warrants; and reporting of a 324 million yen net loss for the fiscal year.

(3) Cash flows

Cash and cash equivalents (hereinafter, "Cash") for the fiscal year increased by 67 million yen year-on-year to 459 million yen at the end of the period.

Status of cash flows for the fiscal year and their cause are described below:

(Cash flows from operating activities)

Cash used for operating activities was 626 million yen (46 million yen provided for the previous fiscal year). This was mainly due to the 265 million yen loss before income taxes and the increase in prepaid expenses by 246 million yen.

(Cash flows from investing activities)

Cash used for investing activities was 36 million yen (an increase of 231.3% from the previous fiscal year). This was mainly due to the 33 million payments for purchase of property, plant and equipment including the renovation of the head office.

(Cash flows from financing activities)

Cash flows from financing activities were 731 million yen (an increase of 854.0% from the previous fiscal year). The main factors were the 268 million yen net increase in short-term borrowings and the 400 million yen proceeds from long-term borrowings.

(4) Outlook

Despite the on-going impact of the COVID-19, the restaurant sector sentiment is currently improving, partly owing to the government's "Go To Eat" campaign. In such a business environment, in response to the digital transformation of restaurants triggered by the COVID-19 pandemic, the Company has implemented online sales activities and review of marketing methods, along with other measures including the launch of new products such as take-out plans and premium bookings. As a result, since July 2020, the number of paying member restaurants acquired has been exceeding the number of membership cancellations, returning to the level prior to COVID-19. However, as the business environment remains uncertain with the prospect for the end of the pandemic yet to be known, earnings estimates for the fiscal year ending September 30, 2021 will be presented in a range of figures. The earnings estimates were calculated under the assumption that the significantly stagnant socioeconomic activities will recover gradually.

For earnings estimates for the fiscal year ending September 30, 2021, we are expecting net sales of 2,270–2,380 million yen (an increase of 2.5%–7.4% year-on-year), operating profit of 50–200 million yen (operating loss of 283 million yen for the current fiscal year), ordinary profit of 40–190 million yen (ordinary loss of 274 million yen for the current fiscal year), and net profit of 140–340 million yen (net loss of 324 million yen for the current fiscal year).

The upper limit of the net sales assumes recovery in the number of new acquisitions and cancellations of FRM trial memberships (the format used for major restaurant corporations to accept a large number of group restaurants as trial members at the same time at a lower fee), and the unit price per user for advertisement/contents business to the level prior to the COVID-19 pandemic. The lower limit of the net sales

assumes delay in the recovery.

For operating profit, in addition to the assumptions of net sales estimates stated above, we are expecting active investments in development resources and salespersons including agents and in new businesses in order to realize medium- to long-term growth. The upper and lower limits of figures vary depending on the assumptions we use.

In recent fiscal years, the Company maintained an approximately 135% annual growth in net sales: 133.3% for the fiscal year ended September 30, 2018 and 134.2% for the fiscal year ended September 30, 2019. For the next fiscal year, however, we expect a year-on-year growth lower than previous levels, at 102.5%–107.4%. The main reason for this is that, although FRM had grown steadily without being affected by COVID-19 until the second quarter of this fiscal year, a temporary increase in cancellations of paying member restaurants caused by the impact of the pandemic resulted in a loss of accumulated net sales, and although the number of new members and the cancellation ratio are recovering to exceed the previous level, it will take time for the number of paying member restaurants to fully recover. The number of users for advertisement/contents business has returned to the previous level, but as we are using a conservative assumption that the demand for advertisement would not fully recover, and as net sales include sales from projects without strong growth prospects and projects of low profitability which were terminated during the fiscal year, the average growth rate for the next fiscal year is expected to be lower than previous levels. Going forward, the Company will aim to achieve a quarterly net sales growth of 107.8% or above (135% or above in annual terms) from the level of net sales for the third quarter of the current fiscal year which decreased due to the impact of COVID-19.

Above earnings estimates were prepared based on available information as of the date of announcement, and the actual earnings may differ from the estimates due to impacts from various factors.

2. Basic Position concerning Selection of Accounting Standards

Since the Company does not prepare consolidated financial statements, the Company has applied Japanese GAAP in consideration of the practical burden of disclosing both financial statements based on Japanese GAAP and financial statements based on international accounting standards at the same time.

3. Financial Statements

(1) Balance sheet

(Thousands of yen)

	As of September 30, 2019	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	391,384	459,205
Accounts receivable	163,484	244,938
Prepaid expenses	147,105	393,856
Other	5,138	74,238
Allowance for doubtful accounts	(6,975)	(37,417)
Total current assets	700,137	1,134,820
Non-current assets		
Property, plant and equipment		
Buildings	88,010	114,520
Accumulated depreciation	(10,404)	(15,804)
Buildings, net	77,605	98,715
Tools, furniture and fixtures	34,091	39,038
Accumulated depreciation	(21,345)	(28,189)
Tools, furniture and fixtures, net	12,745	10,849
Total property, plant and equipment	90,351	109,564
Intangible assets		
Software	5,212	3,496
Total intangible assets	5,212	3,496
Investments and other assets		
Distressed receivables	1,240	1,825
Long-term prepaid expenses	32,078	115,623
Deferred tax assets	58,238	—
Leasehold and guarantee deposits	169,438	170,318
Other	0	10
Allowance for doubtful accounts	(1,240)	(1,825)
Total investments and other assets	259,755	285,951
Total non-current assets	355,319	399,011
Total non-current assets	1,055,457	1,533,832

As of September 30, 2019

As of September 30, 2020

Liabilities		
Current liabilities		
Short-term borrowings	77,500	346,000
Current portion of long-term borrowings	—	44,664
Accounts payable	87,395	201,791
Accrued expenses	16,920	20,531
Income taxes payable	2,290	530
Deposits received	13,335	16,652
Unearned revenue	72,930	42,151
Provision for bonuses	57,179	68,882
Other	35,151	14,431
Total current liabilities	362,702	755,634
Non-current liabilities		
Long-term borrowings	—	348,668
Total non-current liabilities	—	348,668
Total liabilities	362,702	1,104,302
Net assets		
Shareholders' equity		
Share capital	100,000	95,000
Capital surplus		
Legal capital surplus	1,084,612	658,279
Total other capital surplus	1,084,612	658,279
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(501,949)	(324,030)
Total other retained earnings	(501,949)	(324,030)
Total shareholders' equity	682,662	429,249
Share acquisition rights	10,092	280
Total net assets	692,754	429,529
Total liabilities and net assets	1,055,457	1,533,832

(2) Statements of income

(Thousands of yen)

	Fiscal year ended September 30, 2019	Fiscal year ended September 30, 2020
Net sales	2,268,123	2,215,551
Cost of sales	793,345	799,416
Gross profit	1,474,777	1,416,135
Selling, general and administrative expenses	1,374,503	1,699,610
Operating profit (loss)	100,274	(283,474)
Non-operating income		
Interest income	3	19
Foreign exchange gains	21	-
Subsidy income	200	13,761
Other	-	125
Total non-operating income	224	13,906
Non-operating expenses		
Interest expenses	599	3,576
Foreign exchange losses	-	910
Total non-operating expenses	599	4,487
Ordinary profit (loss)	99,899	(274,055)
Extraordinary income		
Gain on reversal of share acquisition rights	-	8,795
Total extraordinary income	-	8,795
Profit (loss) before income taxes	99,899	(265,260)
Income taxes – current	2,289	530
Income taxes – deferred	(58,238)	58,238
Total income taxes	(55,949)	58,769
Profit (loss)	155,849	(324,030)

(3) Statement of changes in equity

Fiscal year ended September 30, 2019

(Thousands of yen)

	Shareholders' equity					
	Share capital	Capital surplus		Retained earnings		Total shareholders' equity
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings	
Balance at beginning of period	100,000	1,084,612	1,084,612	(657,798)	(657,798)	526,813
Changes during period						
Profit				155,849	155,849	155,849
Total changes during period	—	—	—	155,849	155,849	155,849
Balance at end of period	100,000	1,084,612	1,084,612	(501,949)	(501,949)	682,662

	Share acquisition rights	Total net assets
Balance at beginning of period	10,092	536,905
Changes during period		
Profit		155,849
Total changes during period	—	155,849
Balance at end of period	10,092	692,754

Fiscal year ended September 30, 2020

(Thousands of yen)

	Shareholders' equity						
	Share capital	Capital surplus			Retained earnings		Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total other capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings	
Balance at beginning of period	100,000	1,084,612	—	1,084,612	(501,949)	(501,949)	682,662
Changes during period							
Capital reduction	(40,308)	(461,640)	501,949	40,308			—
Deficit disposition			(501,949)	(501,949)	501,949	501,949	—
Issuance of new shares	35,308	35,308		35,308			70,617
Loss					(324,030)	(324,030)	(324,030)
Net changes in items other than shareholders' equity							
Total changes during period	(5,000)	(426,332)	—	(426,332)	177,919	177,919	(253,412)
Balance at end of period	95,000	658,279	—	658,279	(324,030)	(324,030)	429,249

	Share acquisition rights	Total net assets
Balance at beginning of period	10,092	692,754
Changes during period		
Capital reduction		—
Deficit disposition		—
Issuance of new shares		70,617
Loss		(324,030)
Net changes in items other than shareholders' equity	(9,812)	(9,812)
Total changes during period	(9,812)	(263,225)
Balance at end of period	280	429,529

(4) Statement of cash flows

(Thousands of yen)

	Fiscal year ended September 30, 2019	Fiscal year ended September 30, 2020
Cash flows from operating activities		
Profit (loss) before income taxes	99,899	(265,260)
Depreciation	12,711	14,679
Increase (decrease) in allowance for doubtful accounts	(4,745)	31,026
Increase (decrease) in provision for bonuses	9,036	11,702
Interest and dividend income	(3)	(19)
Subsidy income	(200)	(13,761)
Interest expenses	599	3,576
Foreign exchange losses (gains)	(60)	724
Gain on reversal of share acquisition rights	—	(8,795)
Decrease (increase) in trade receivables	44,998	(82,038)
Decrease (increase) in prepaid expenses	(114,844)	(246,126)
Decrease (increase) in long-term prepaid expenses	(31,353)	(83,544)
Increase (decrease) in accounts payable - other	19,123	115,788
Increase (decrease) in accrued expenses	(3,272)	3,611
Increase (decrease) in deposits received	(6,219)	3,317
Increase (decrease) in unearned revenue	20,556	(30,779)
Decrease (increase) in other assets	(2,583)	(69,100)
Increase (decrease) in other liabilities	2,873	(20,719)
Other, net	2,263	2,389
Subtotal	48,778	(633,330)
Interest and dividends received	3	19
Proceeds from subsidy income	200	13,761
Interest paid	(602)	(4,200)
Income taxes (paid) refund	(2,289)	(2,290)
Net cash provided by (used in) operating activities	46,089	(626,039)
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,312)	(33,568)
Payments of leasehold and guarantee deposits	(5,959)	(3,268)
Proceeds from refund of leasehold and guarantee deposits	149	—
Other, net	—	(10)
Net cash provided by (used in) investing activities	(11,122)	(36,847)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	76,674	268,500
Proceeds from long-term borrowings	—	400,000
Repayments of long-term borrowings	—	(6,668)
Proceeds from issuance of shares	—	69,600
Net cash provided by (used in) financing activities	76,674	731,432
Effect of exchange rate change on cash and cash equivalents	60	(724)
Net increase (decrease) in cash and cash equivalents	111,702	67,820
Cash and cash equivalents at beginning of period	279,682	391,384
Cash and cash equivalents at end of period	391,384	459,205