

Non-Consolidated Financial Results
for the Six Months Ended October 31, 2020
[Japanese GAAP]



December 8, 2020

Company name: Asukanet Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2438
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 Scheduled date of filing quarterly securities report: December 14, 2020
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down.)

1. Non-Consolidated Financial Results for the Six Months Ended October 31, 2020
(May 1, 2020 to October 31, 2020)

(1) Non-Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
October 31, 2020	2,584	(17.8)	(56)	-	(7)	-	(10)	-
October 31, 2019	3,142	7.9	323	5.6	324	4.6	228	8.3

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
October 31, 2020	(0.62)	-
October 31, 2019	13.57	-

(Note) Diluted earnings per share is not presented as there were no potential shares.

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of October 31, 2020	6,302	5,588	88.7
As of April 30, 2020	6,607	5,750	87.0

(Reference) Equity: As of October 31, 2020: ¥5,588 million

As of April 30, 2020: ¥5,750 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended April 30, 2020	Yen -	Yen 0.00	Yen -	Yen 10.00	Yen 10.00
Fiscal year ending April 30, 2021	-	0.00			
Fiscal year ending April 30, 2021 (Forecast)			-	7.00	7.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Non-Consolidated Financial Results Forecast for the Fiscal Year Ending April 30, 2021

(May 1, 2020 to April 30, 2021)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	5,775	(12.2)	200	(71.8)	250	(64.8)	164	(67.2)	9.76

(Note) Revision to the financial results forecast announced most recently: Yes

* Notes:

(1) Accounting policies adopted specially for the preparation of quarterly financial statements: Yes

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

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

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

1) Total number of issued shares at the end of the period (including treasury shares):

October 31, 2020: 17,464,000 shares

April 30, 2020: 17,464,000 shares

2) Total number of treasury shares at the end of the period:

October 31, 2020: 615,057 shares

April 30, 2020: 623,057 shares

3) Average number of shares during the period:

Six months ended October 31, 2020: 16,842,856 shares

Six months ended October 31, 2019: 16,841,001 shares

* These quarterly financial results are outside the scope of quarterly review procedures by a certified public accountant or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company believes are reasonable, and actual results may differ significantly from these forecasts due to a wide range of factors.

4. Overview of Business Results

(1) Overview of Business Results for these Two Quarters of Fiscal Year

Conditions were extremely difficult during the first two quarters of this fiscal year, with the global coronavirus pandemic causing a slowdown in both business activities and personal spending. As the end of the pandemic is still not in sight, the future continues to be uncertain.

Asukanet operates three business areas, each with different positioning and characteristics. They are (1) the memorial design service business, which adds digital processing and remote output services for photos of the deceased to a funeral business that is largely unaffected by economic trends, (2) the personal publishing business, which provides ideas for new photo output methods that allow users to create complete photo collections beginning from just a single book, and (3) the aerial imaging business, which is utilizing unique, recently-developed technologies aiming to create a new market and achieve dreams.

Following is an overview of the business results for each segment. The results figures for each segment include internal inter-segment sales.

(1) Memorial design service business

In this business, funerals continue to be reduced in size due to the coronavirus pandemic, and although there is a trend towards a recovery in income from processing photos of the deceased, conditions remain difficult for videos and other funeral production services. Sales of equipment, frames, and supplies are also struggling, and sales were down from the same period in the previous year. However on the sales front, we saw steady growth in the number of new contracts as a result of efforts to call attention to our focus restoration tool. In addition the “tsunagoo” service is continuing to expand its presence in the market with the addition of condolence gift acceptance functions and development of web services that are available at any time and place. “tsunagoo” was released as one type of our “funeral tech” that has brought extensive use of IT technologies to the funeral market.

In terms of income, despite a reduction in advertising expenses, travel and transportation expenses, the decline in sales, coupled with an increase in personnel costs for image processing operators as well as one-time cost for relocation of Kanto Operation Center due to reduction of fixed expense, resulted in a decline in segment income.

As a result, sales were 1,151,737 thousand yen (94.6% year-on-year), and segment income was 250,342 thousand yen (84.2% year-on-year).

(2) Personal publishing service business

This business operates *AsukaBook* for the professional photography market in Japan, and *MyBook* for the general Japanese consumer market. We are also engaged in OEM supply of photo albums and photo prints based on photos that were taken with smartphones.

In the professional photographer market, although there was steady growth in products for photo studios, sales of our primary service of wedding photo albums were down as it was strongly affected by the many wedding ceremonies which were postponed due to the coronavirus pandemic. Although conditions are difficult, based on expectations for a recovery in demand when the coronavirus pandemic subsides, we continued programs including life-size photo contests and *AsukaBook* seminars conducted via the Internet. As one new program in this area, we added a photo data sales function to the GLAMPiC data delivery service and new product releases.

In the general consumer market, the reduction in opportunities to take photographs due to voluntary restrictions on travel and events has resulted in a temporary drop in demand for photo albums. As a result, sales were down from the same period in the previous year, including in the OEM Division. Under these conditions, we conducted a 20th anniversary campaign for “MyBook” and conducted campaigns integrated with the *MyBookLife* and *Autoalbum* services.

In terms of income, we succeeded in reducing advertising expenses, travel and transportation expenses, delivery expense and also restructured our production workplace personnel. However there were large effects from the declining operating rate that accompanied the drop in sales, and there was a large decrease in segment income.

As a result, sales were 1,378,878 thousand yen (73.5% year-on-year), and segment income was 80,272 thousand yen (20.2% year-on-year).

(3) Aerial imaging business

This business was launched in March 2011, aiming to create a market through new image and video expressions utilizing aerial imaging technologies. We are developing, manufacturing, and selling both glass and plastic “ASKA3D plates” that utilize our original technologies to project images in mid-air.

For glass ASKA3D plates, although the current volume of supply is still not sufficient, we carried out sales for signage and development purposes. Our production system is gradually taking shape, and we plan to strengthen sales during the second half of the year. At the same time at the technical development center that was established to shift to in-house mass production of glass ASKA3D plates, we are constructing a prototype production system and conducting repeated trials aimed at establishing mass production technologies.

For plastic ASKA3D plates, in the environment of the coronavirus pandemic as well as broadcasted by media, much attention is being given to the use of aerial imaging for touchless operations. We received numerous inquiries and proceeded with sample sales to use the plates incorporated into products.

In the area of marketing, although we were unable to promote sales through exhibitions, we carried out marketing through our own activities in the Japan market and established agents in 3 locations in overseas markets, reinforcing our sales system. The number of products installed and the number of verification tests are increasing, as are the numbers of products created by our business partners, and we will continue working to obtain mass-production orders for mid-sized lots.

In terms of sales, sales were higher than the same period in the previous fiscal year due to higher sales of plastic plates.

In terms of profit and loss, despite the reduction of advertizing expense and travel and transportation expense, the higher R&D expenses required for the establishment of a technical development center resulted in a larger segment loss than the same period in the previous fiscal year.

As a result, sales were 54,248 thousand yen (104.5% year-on-year), and segment loss was 123,145 thousand yen (compared to a loss of 109,474 thousand yen in the same quarter of the previous year).

As a result of the above, sales were 2,584,234 thousand yen (82.2% year-on-year). In terms of income, primarily as a result the large decline in segment income in the personal publishing business, ordinary loss was 7,313 thousand yen (compared to ordinary income of 324,855 thousand yen in the first two quarters of the previous fiscal year). and net loss for the quarter was 10,459 thousand yen (compared to net income of 228,604 thousand yen in the first two quarters of the previous fiscal year).

(2) Overview of the Financial Status

1, Assets, liabilities, and net assets

(Assets)

Current assets at the end of this second quarter decreased by 305,068 thousand yen from the end of the previous fiscal year to reach 6,302,620 thousand yen. Despite an increase in tangible fixed assets of 116,710 thousand yen due largely to expansion of production equipment, this decrease was primarily due to the payment of dividends and other expenses that produced a decrease in cash and savings of 348,192 thousand yen.

(Liabilities)

Liabilities at the end of this second quarter decreased by 142,893 thousand yen from the end of the previous fiscal year to reach 714,410 thousand yen. This was primarily due to a decrease in the provision for officer retirement benefits of 100,000 thousand yen and a decrease in income taxes payable of 74,000 thousand yen.

(Net assets)

Net assets at the end of this second quarter decreased by 162,175 thousand yen from the end of the previous fiscal year to reach 5,588,210 thousand yen. This was primarily due to a decrease of 168,409 thousand yen as a result of dividend payments.

2, Overview of cash flows in this fiscal year

The balance of cash and cash equivalents (hereafter referred to as “cash”) at the end of this quarter end declined by 348,192 thousand yen from the end of the previous fiscal year to reach 1,207,624 thousand yen.

(Cash flows from operating activities)

Net cash expended as a result of operating activities during the consolidated first 2 quarters was 73,462 thousand yen (compared to a gain of 260,181 thousand yen in the same period of the previous fiscal year). This was primarily due to a decrease in the provision for officer retirement benefits of 100,000 thousand yen and payment of 72,273 thousand yen in corporate taxes.

(Cash flows from investing activities)

Net cash expended as a result of investing activities during the consolidated first 2 quarters was 104,674 thousand yen (compared to an expenditure of 483,629 thousand yen in the same period of the previous fiscal year). Despite recording income of 108,887 thousand yen from sales of insurance, this was primarily due to payment of 165,908 thousand yen for acquisition of tangible fixed assets.

(Cash flows from financing activities)

Net cash expended as a result of financing activities during the consolidated first 2 quarters was 169,375 thousand yen (compared to an expenditure of 186,052 thousand yen in the same period of the previous fiscal year). This was primarily due to payment of 168,554 thousand yen in dividends.

(3) Future Outlook

Based on the results of the consolidated first 2 quarters of this fiscal year and the future outlook, we have revised the forecast figures that were announced on June 9, 2020 in the results forecast for the fiscal year ending April 30, 2021. For details, please refer to “Notice of Revision to Full-Year Results Forecast” in Japanese that was released on this date.

5. Financial Statements for the First Two Quarters

(1) Balance sheet

(Units: 1,000s yen)

	Previous fiscal year (ended April 30, 2020)	Current 2nd quarter (ended Oct. 31, 2020)
Asset		
Current assets		
Cash and deposits	1,960,817	1,612,624
Accounts receivable-trade	798,034	727,705
Merchandise and products	190,796	176,314
Work in progress	49,083	99,313
Raw materials and supplies	98,238	93,351
Others	29,155	35,004
Allowance for doubtful accounts	(4,351)	(5,424)
Total current assets	3,121,774	2,738,890
Fixed assets		
Tangible fixed assets		
Buildings, net	905,868	954,207
Machinery and equipment, net	448,625	552,298
Land	844,060	844,060
Others, net	236,969	201,667
Total tangible fixed assets	2,435,524	2,552,235
Total intangible fixed assets	221,573	242,746
Total investments and other assets		
Investment securities	523,634	531,347
Others	305,182	237,401
Total investment and others	828,816	768,748
Total fixed assets	3,485,914	3,563,730
Total assets	6,607,688	6,302,620
Liabilities		
Current liabilities		
Accounts payable-trade	167,630	145,855
Accounts payable-other	162,859	273,507
Income taxes payable	87,100	13,100
Provision for bonuses	150,900	149,900
Provision for officer retirement benefit	100,000	—
Others	181,380	126,249
Total current liabilities	849,870	708,612
Fixed liabilities		
Provision for retirement benefits	6,009	5,670
Others	1,423	127
Total fixed liabilities	7,432	5,797
Total liabilities	857,303	714,410
Net assets		
Shareholders' equity		
Capital stock	490,300	490,300
Capital surplus	606,585	606,585
Retained earnings	4,924,463	4,753,332
Treasury stock	(269,031)	(265,577)
Total shareholders' equity	5,752,316	5,584,639
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(1,930)	3,570
Total valuation and translation adjustments	(1,930)	3,570
Total net assets	5,750,385	5,588,210
Total liabilities and net assets	6,607,688	6,302,620

(2) Profit and loss statement for 1st two quarters

(unit:1000s yen)

	First two quarters of the previous fiscal year (May 1, 2019 – Oct. 31, 2019)	First two quarters of the current fiscal year (May 1, 2020 – Oct. 31, 2020)
Net Sales	3,142,930	2,584,234
Cost of sales	1,571,304	1,462,724
Gross profit	1,571,625	1,121,509
Selling, general, and administrative expenses	1,247,931	1,178,063
Operating income	323,694	(56,554)
Non-operating income		
Interest received	517	341
Dividends received	500	675
Commissions received	194	148
Insurance cancellation refund	—	32,600
Subsidy income	—	14,615
Exclusion of unpaid dividend	1,051	—
Others	102	1,582
Total non-operating income	2,365	49,962
Non-operating expenses		
Foreign exchange losses	1,131	722
Others	73	—
Total non-operating expenses	1,204	722
Ordinary income	324,855	(7,313)
Extraordinary income		
Income from sales of fixed assets	—	329
Total extraordinary income	—	329
Extraordinary losses		
Loss from disposed fixed assets	145	2,313
Total extraordinary losses	145	2,313
Net income before taxes	324,710	(9,298)
Income taxes	96,105	1,160
Net income	228,604	(10,459)

(3) Statement of cash flows

(unit:1000s yen)

	First two quarters of the previous fiscal year (May 1, 2019 – Oct. 31, 2019)	First two quarters of the current fiscal year (May 1, 2020 – Oct. 31, 2020)
Cash flows resulting from operating activities		
Net income before taxes	324,710	(9,298)
Depreciation expenses	166,776	188,750
Increase (decrease) in allowance for doubtful accounts	1,134	1,073
Increase (decrease) in provision for bonuses	7,600	(1,000)
Increase (decrease) in provision for officer retirement benefit	—	(100,000)
Increase (decrease) in provision for retirement benefit	—	(339)
Interest and dividends received	(1,017)	(1,016)
Expense to buy back its securities	1	—
Foreign exchange losses (gains)	890	681
Insurance cancellation refund	—	(32,600)
Subsidy income	—	(14,615)
Gain on sales of fixed assets	—	(329)
Loss on disposal of fixed assets	145	2,313
Decrease (increase) in notes and accounts receivable-trade	(2,147)	70,328
Decrease (increase) in inventory assets	(18,047)	(30,861)
Increase (decrease) in accounts payable-trade	(151)	(21,774)
Increase (decrease) in accrued consumption taxes	(52,996)	(42,640)
Others	578	(20,261)
Subtotal	427,476	(11,,590)
Interest and dividends received	949	1,341
Subsidy received	—	9,060
Income taxes paid	(168,243)	(72,273)
Cash flows due to operating activities	260,181	(73,462)
Cash flows due to investing activities		
Payments into time deposits	(405,000)	(405,000)
Proceeds from withdrawal of time deposits	605,000	405,000
Purchase of property, plant, and equipment	(410,447)	(165,908)
Income from sales of tangible assets	—	420
Purchase of intangible fixed assets	(58,741)	(42,007)
Purchase of investment securities	(201,394)	—
Income from sales of insurance	—	108,887
Others	(13,047)	(6,065)
Cash flows due to investing activities	(483,629)	(104,674)
Cash flows due to financing activities		
Cash dividends paid	(184,981)	(168,554)
Expense to buy back its shares	(122)	—
Others	(948)	(820)
Cash flows due to financing activities	(186,052)	(169,375)
Effect of exchange rate on cash and cash equivalents	(890)	(681)
Net increase (decrease) in cash and cash equivalents	(410,392)	(348,192)
Balance of cash and cash equivalents at beginning of year	1,669,763	1,555,817
Balance of cash and cash equivalents at end of quarter	1,259,371	1,207,624

(Additional information)

(Accounting estimate of the effects of the coronavirus pandemic)

The coronavirus pandemic is having an effect on our company's business results for reasons including smaller funeral sizes and reduced orders for wedding photo albums.

In the "(Additional information) (Accounting estimate of the effects of the coronavirus pandemic)" in the financial results report from the consolidated first quarter, we assumed that conditions would begin to return to normal in the memorial design business and personal publishing business (our primary business areas) during the second half of this fiscal year. However based on the information, including external information, available at the time when the second quarter statement of financial results was created, we have reviewed this assumption and now expect that conditions will gradually begin returning to normal in the memorial design service business beginning from the third quarter of this fiscal year, and that conditions will gradually begin returning to normal in the personal publishing business beginning from the fourth quarter of this fiscal year.

This change in assumptions has been applied to the accounting estimate; however there is no change to the estimate conclusions from those announced at the end of the previous fiscal year.

[Segment information]

Cumulative first quarter of the current fiscal year (May 1, 2019 – Oct. 31, 2019)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	1,218,103	1,875,024	49,803	3,142,930	—	3,142,930
Inter-segment internal sales and transfers	—	—	2,100	2,100	(2,100)	—
Total	1,218,103	1,875,024	51,903	3,145,030	(2,100)	3,142,930
Segment income (loss)	297,390	396,453	(109,474)	584,369	(260,675)	323,694

Cumulative first quarter of the current fiscal year (May 1, 2020 – Oct. 31, 2020)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	1,151,737	1,378,878	53,618	2,584,234	—	2,584,234
Inter-segment internal sales and transfers	—	—	630	630	(630)	—
Total	1,151,737	1,378,878	54,248	2,584,864	(630)	2,584,234
Segment income (loss)	250,342	80,272	(123,145)	207,469	(264,023)	(56,554)

This is the summarized translation of released report for your reference.
Please refer to the original Japanese financial document.