

***Money Forward, Inc.  
and Subsidiaries***

*Consolidated Financial Statements for  
the Year Ended November 30, 2019  
(Unaudited)*

## Money Forward, Inc. and Subsidiaries

### Consolidated Balance Sheet November 30, 2019 (Unaudited)

ASSETS	Thousands of Yen	
	2019	2018
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 3)	¥ 7,192,537	¥ 4,951,530
Trade notes and accounts receivable (Note 3)	890,638	590,982
Allowance for doubtful receivables (Note 3)	(41,953)	(5,404)
Inventories (Note 5)	7,297	8,889
Purchased receivables (Note 3)	2,068,872	362,115
Other current assets	750,749	305,332
Total current assets	10,868,142	6,213,445
<b>PROPERTY AND EQUIPMENT:</b>		
Buildings	321,304	213,178
Tools, furniture and fixtures	183,220	112,466
Total	504,524	325,645
Accumulated depreciation	(117,140)	(37,002)
Net property and equipment	387,384	288,642
<b>INVESTMENTS AND OTHER ASSETS:</b>		
Investment securities (Notes 3 and 4)	1,789,955	825,215
Goodwill	2,621,095	893,407
Software	18,870	9,371
Lease and guarantee deposits (Note 3)	465,730	417,167
Other	174,657	12,918
Allowance for doubtful receivables (Note 3)	(12,619)	
Total investments and other assets	5,057,687	2,158,080
<b>TOTAL</b>	<b>¥ 16,313,216</b>	<b>¥ 8,660,169</b>

## Money Forward, Inc. and Subsidiaries

### Consolidated Balance Sheet November 30, 2019 (Unaudited)

LIABILITIES AND EQUITY	Thousands of Yen	
	2019	2018
<b>CURRENT LIABILITIES:</b>		
Short-term loans (Notes 3 and 6)	¥ 2,000,000	¥ 555,000
Current portion of long-term loans (Notes 3 and 6)	620,776	510,000
Trade accounts payable (Note 3)	184,730	189,917
Other payables (Note 3)	755,661	236,959
Accrued expenses (Note 3)	646,781	428,688
Accrued bonuses	11,641	
Income taxes payable (Note 3)	77,188	29,172
Unearned revenue	872,713	774,649
Other current liabilities	225,189	124,543
<b>Total current liabilities</b>	<b>5,394,682</b>	<b>2,848,930</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-term loans (Notes 3 and 6)	2,809,533	2,425,000
Other long-term liabilities	78,840	2,804
<b>Total long-term liabilities</b>	<b>2,888,373</b>	<b>2,427,804</b>
<b>COMMITMENT (Note 10)</b>		
<b>EQUITY (Notes 7 and 8):</b>		
Capital stock	6,942,818	3,378,155
Capital surplus	4,026,306	726,723
Accumulated deficit	(3,211,257)	(873,822)
Treasury stock	(146)	
<b>Total shareholders' equity</b>	<b>7,757,721</b>	<b>3,231,057</b>
Accumulated other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	120,126	(4,677)
Foreign currency translation adjustment	(6,917)	1,761
<b>Total accumulated other comprehensive income (loss)</b>	<b>113,208</b>	<b>(2,915)</b>
Stock acquisition rights	54,541	60,007
Noncontrolling interests	104,687	95,284
<b>Total equity</b>	<b>8,030,159</b>	<b>3,383,433</b>
<b>TOTAL</b>	<b>¥ 16,313,216</b>	<b>¥ 8,660,169</b>

See notes to consolidated financial statements.

## Money Forward, Inc. and Subsidiaries

### Consolidated Statement of Operations Year Ended November 30, 2019 (Unaudited)

	Thousands of Yen	
	2019	2018
NET SALES	¥ 7,156,784	¥ 4,594,789
COST OF SALES	<u>2,832,672</u>	<u>1,811,910</u>
Gross profit	4,324,112	2,782,878
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	<u>6,770,263</u>	<u>3,579,070</u>
Operating loss	<u>(2,446,151)</u>	<u>(796,191)</u>
OTHER INCOME (EXPENSES):		
Interest income	293	60
Interest expense	(28,524)	(23,927)
Stock issuance costs	(90,735)	(2,271)
Impairment losses (Note 12)	(12,533)	
Loss on business restructuring (Note 12)	(61,395)	
Other—net	<u>(439)</u>	<u>1,733</u>
Other expenses—net	<u>(193,333)</u>	<u>(24,404)</u>
LOSS BEFORE INCOME TAXES	(2,639,484)	(820,595)
INCOME TAXES (Note 9)		
Current	32,381	12,073
Deferred	<u>(51,283)</u>	<u>1,249</u>
Total income taxes	<u>(18,901)</u>	<u>13,322</u>
NET LOSS	<u>(2,620,583)</u>	<u>(833,918)</u>
NET LOSS ATTRIBUTABLE TO:		
Noncontrolling interests	(48,532)	(18,472)
Owners of the parent	<u>¥ (2,572,050)</u>	<u>¥ (815,445)</u>
	<u>Yen</u>	
PER SHARE INFORMATION (Note 2.q)—Basic net loss	¥ (117.89)	¥ (42.34)

See notes to consolidated financial statements.

## Money Forward, Inc. and Subsidiaries

### Consolidated Statement of Comprehensive Income Year Ended November 30, 2019 (Unaudited)

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	Thousands of Yen	
	2019	2018
NET LOSS	¥ (2,620,583)	¥ (833,918)
OTHER COMPREHENSIVE INCOME (LOSS) (Note 13):		
Unrealized gain (loss) on available-for-sale securities	124,803	(4,677)
Foreign currency translation adjustment	(8,679)	1,761
Total other comprehensive income (loss)	<u>116,124</u>	<u>(2,915)</u>
COMPREHENSIVE LOSS	<u>¥ (2,504,458)</u>	<u>¥ (836,833)</u>
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:		
Owners of the parent	¥ (2,455,926)	¥ (818,361)
Noncontrolling interests	(48,532)	(18,472)

See notes to consolidated financial statements.

**Money Forward, Inc. and Subsidiaries**

**Consolidated Statement of Changes in Equity  
Year Ended November 30, 2019 (Unaudited)**

	Thousands of Yen										
	Shareholders' Equity				Accumulated Other Comprehensive Income (Loss)						
	Capital Stock	Capital Surplus	Accumulated Deficit	Treasury Stock	Total Shareholders' Equity	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)	Stock Acquisition Rights	Noncontrolling Interests	Total Equity
BALANCE, DECEMBER 1, 2017	¥ 3,350,697	¥ 1,484,776	¥ (842,814)		¥ 3,992,659				¥ 17,583	¥ 1,500	¥ 4,011,742
Net loss			(815,445)		(815,445)						(815,445)
Exercise of stock options (Notes 7 and 8)	27,458	27,458			54,916						54,916
Disposition of deficit (Note 7)		(784,437)	784,437								
Purchase of shares of consolidated subsidiary		(1,072)			(1,072)						(1,072)
Net change in the year						¥ (4,677)	¥ 1,761	¥ (2,915)	42,424	93,784	133,293
BALANCE, NOVEMBER 30, 2018	3,378,155	726,723	(873,822)		3,231,057	(4,677)	1,761	(2,915)	60,007	95,284	3,383,433
Net loss			(2,572,050)		(2,572,050)						(2,572,050)
Issuance of new shares (Note 7)	3,375,312	3,375,312			6,750,624						6,750,624
Exercise of stock options (Notes 7 and 8)	70,206	70,206			140,413						140,413
Share-based payment—transfer restricted stock	119,143	119,143			238,287						238,287
Purchase of shares of a consolidated subsidiary		(768)			(768)						(768)
Disposition of deficit (Note 7)		(264,310)	264,310								
Effect of change of consolidated subsidiaries' closing date			(29,694)		(29,694)						(29,694)
Purchase of treasury stock (Note 7)				¥ (146)	(146)						(146)
Net change in the year						124,803	(8,679)	116,124	(5,466)	9,403	120,061
BALANCE, NOVEMBER 30, 2019	¥ 6,942,818	¥ 4,026,306	¥ (3,211,257)	¥ (146)	¥ 7,757,721	¥ 120,126	¥ (6,917)	¥ 113,208	¥ 54,541	¥ 104,687	¥ 8,030,159

See notes to consolidated financial statements.

## Money Forward, Inc. and Subsidiaries

### Consolidated Statement of Cash Flows Year Ended November 30, 2019 (Unaudited)

	Thousands of Yen	
	2019	2018
<b>OPERATING ACTIVITIES:</b>		
Loss before income taxes	¥ (2,639,484)	¥ (820,595)
Adjustments for:		
Income taxes—paid	(22,263)	(9,970)
Depreciation and amortization	66,924	51,615
Amortization of goodwill	110,184	90,794
Stock issuance costs	90,735	2,271
Impairment losses	12,533	
Loss on business restructuring	61,395	
Changes in assets and liabilities:		
Decrease (increase) in trade notes and accounts receivable	(175,085)	(231,457)
Decrease (increase) in purchased receivables	(1,706,756)	(358,041)
Increase (decrease) in allowance for doubtful receivables	48,907	1,674
Increase (decrease) in trade accounts payable	(5,186)	102,845
Increase (decrease) in other payables	483,480	46,087
Increase (decrease) in accrued expenses	160,212	263,534
Increase (decrease) in accrued bonuses	11,641	
Increase (decrease) in unearned revenue	98,063	194,689
Other—net	(200,322)	(128,810)
Total adjustments	(965,535)	25,231
Net cash used in operating activities	(3,605,019)	(795,363)
<b>INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(117,549)	(301,554)
Purchase of intangible assets	(13,520)	(73,243)
Purchases of investment securities	(778,611)	(735,591)
Payment for lease and guarantee deposits	(16,302)	(236,425)
Proceeds from collection of lease and guarantee deposits	4,112	60,936
Payment for purchase of newly consolidated subsidiary's stock (Note 14)	(1,836,200)	(1,330)
Proceeds from purchase of newly consolidated subsidiary's stock (Note 14)		6,802
Other—net	(26,309)	(7,607)
Net cash used in investing activities	(2,784,380)	(1,288,012)
<b>FINANCING ACTIVITIES:</b>		
Increase (decrease) in short-term loans	1,445,000	554,119
Proceeds from long-term loans	1,200,000	1,000,000
Repayment of long-term loans	(800,000)	(360,000)
Proceeds from issuance of new shares	6,796,736	51,254
Proceeds from issuance of share acquisition rights		46,992
Proceeds from noncontrolling shareholders		13,500
Other—net	(3,870)	(83)
Net cash provided by financing activities	8,637,865	1,305,783

## Money Forward, Inc. and Subsidiaries

### Consolidated Statement of Cash Flows Year Ended November 30, 2019 (Unaudited)

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	Thousands of Yen	
	2019	2018
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(7,457)	1,768
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,241,006	(775,824)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,951,530</u>	<u>5,727,354</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 7,192,537</u>	<u>¥ 4,951,530</u>

See notes to consolidated financial statements.



# Money Forward, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements Year Ended November 30, 2019 (Unaudited)

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### 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects from International Financial Reporting Standards ("IFRS") as to the application and disclosure requirements.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The Japanese yen amounts in thousands are rounded down to the nearest thousand.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*a. Consolidation*—The consolidated financial statements include the accounts of the Company and its 11 (9 in 2018) subsidiaries (together, the "Group"), namely, Money Forward Fine, Inc. ("MF Fine"), MF KESSAI, Inc. ("MF KESSAI"), MF HOSHO, Inc. ("MF HOSHO"), mirai talk, Inc. ("mirai talk"), Klavis, Inc. ("Klavis"), Money Forward Financial, Inc. ("MF Financial"), Knowledge Labo, Inc. ("Knowledge Labo"), Wakufuri, Inc. ("Wakufuri"), MONEY FORWARD VIETNAM CO., LTD ("MF Vietnam"), Money Forward Synca, Inc. ("MF Synca"), and SMARTCAMP CO., LTD. ("SMARTCAMP") as of November 30, 2019.

During the year ended November 30, 2019, the Company newly established MF Synca and acquired 72.3% of SMARTCAMP's shares.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The Company did not have any unconsolidated subsidiaries or associated companies as of November 30, 2019.

The excess of the acquisition cost over the fair value of the net assets of an acquired subsidiary at the date of acquisition is recognized as goodwill, and amortized by using the straight-line method over 5 to 10 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

For a subsidiary whose closing date is different from that of the Company, certain adjustments necessary for consolidation have been made. MF Vietnam, whose closing date is September 30, provisionally closes its accounts to prepare financial statements to be used in the consolidated financial statements.

During the year ended November 30, 2019, MF KESSAI, MF HOSHO, and mirai talk changed their closing date from September 30 to November 30. The accompanying consolidated financial statements include their operating results for the year ended November 30, 2019. The profit and loss for the two months from October 1, 2018 to November 30, 2018 were directly charged to accumulated deficit.

**b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—In accordance with the Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements,” the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRSs or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

**c. Business Combinations**—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees and professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period, the Group will report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the Group will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The Group recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of a noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

During the year ended November 30, 2019, the Company acquired 72.3% of SMARTCAMP's shares. Details for material transaction are discussed in Note 16.

**d. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include short-term investments which mature or become due within three months of the date of acquisition.

**e. Inventories**—Merchandise and work in process are stated at the lower of cost, determined by the specific identification method, or net selling value. Supplies are stated at the lower of cost, determined by the last purchase method, or net selling value.

**f. Marketable Investment Securities**—Under Japanese GAAP, marketable investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

All the Company's investment securities as of November 30, 2019 and 2018 were available-for-sale securities.

Nonmarketable available-for-sale securities are stated at cost as determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to their net realizable value by a charge to income.

- g. Property and Equipment**—Property and equipment are stated at cost. Depreciation of property and equipment is calculated under the declining-balance method based on the estimated useful lives of the assets, with the exception of buildings, for which the straight-line method is applied.

The range of estimated useful lives is principally from 6 to 50 years for buildings and from 4 to 15 years for tools, furniture and fixtures.

- h. Impairment of Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. Impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- i. Software**—Software for internal use is amortized using the straight-line method over five years based on the estimated useful life of the software.
- j. Allowance for Doubtful Receivables**—The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the outstanding receivables.
- k. Retirement and Pension Plans**—The Group has a defined contribution pension plan and a life planning allowance plan, one of which each employee is entitled to participate in. Employees who select the life planning allowance plan are entitled to receive additions to their salaries instead of receiving benefits from pension plan. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment by the Company, or from one of the consolidated subsidiaries. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain ages specified by the Company or any of the consolidated subsidiaries prior to the mandatory retirement age.

The required amount of contribution to the defined contribution pension plan for the years ended November 30, 2019 and 2018, was ¥72,917 thousand and ¥47,751 thousand, respectively.

- l. Stock Options**—The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as stock acquisition rights, as a separate component of equity, until exercised.

On January 12, 2018, the ASBJ issued PITF No. 36, "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions," which requires transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions to be accounted for in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment." The Company adopted PITF No. 36 on April 1, 2018, and has accounted for the transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions that occurred prior to the application of PITF No. 36 in accordance with the accounting policy previously applied.

- m. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations and comprehensive income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

Effective December 1, 2018, the Company adopted ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting" (the "Partial Amendments," issued on February 16, 2018). Under the amended accounting standard, deferred tax assets and deferred tax liabilities are included within investments and other assets and long-term liabilities, respectively, and related income tax disclosures have been expanded.

- n. Research and Development Costs**—Research and development ("R&D") costs are charged to income as incurred.

R&D costs included in selling, general and administrative expenses for the year ended November 30, 2019, were ¥67,600 thousand. No R&D costs were recorded for the year ended November 30, 2018.

- o. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date and the foreign exchange gains and losses from translation are recognized in the consolidated statement of income (operations). Available-for-sale securities denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date and the foreign exchange gains and losses from translation are recognized in equity.
- p. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate. Differences arising from such translations are shown as "foreign currency translation adjustment" under accumulated other comprehensive income.
- q. Per Share Information**—Basic net income or loss per share is computed by dividing net income or loss attributable to shareholders by the weighted-average number of shares outstanding for the period, retroactively adjusted for stock splits. The weighted-average number of shares for the year ended November 30, 2019 and 2018, was 21,816,545 shares and 19,258,082 shares, respectively.

Diluted net income per share is not disclosed, as it is anti-dilutive, given the Group's net loss position.

**r. New Accounting Pronouncements**

**(1) Revenue Recognition**—On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group expects to apply the accounting standard and guidance for annual periods beginning on December 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

**(2) Fair Value Measurement**—On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement," and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement." The basic policy in developing the accounting standard for fair value measurement by the ASBJ was to incorporate the principles of IFRS 13 to ensure the comparability between financial statements. In addition, alternative accounting treatments are provided for common business practices in Japan to the extent that they do not impair comparability. The core principle of the standard and guidance is that an entity should use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The Group expects to apply the accounting standard and guidance for annual periods beginning on December 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

### **3. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

#### **(1) *Group Policy for Financial Instruments***

The Group raises funds through issuance of new shares and bank loans in accordance with internal funds management plans. The Group's use of its surplus funds is limited to short-term deposits and other low-risk investments. The Group does not enter into any derivative contracts.

#### **(2) *Nature and Extent of Risks Arising from Financial Instruments***

Receivables such as trade notes receivable, trade accounts receivable, and purchased receivables are exposed to credit risks of the debtors and assignors. Investment securities held by the Group mainly consist of equity securities and investments in partnership that are exposed to the issuers' credit risks. Listed securities are exposed to market risks. Lease and guarantee deposits are mainly related to the lease agreement of the headquarter office and exposed to the counterparty's credit risks.

Most payables, such as trade accounts payable and other payables, are due within two months. Loans are utilized for working capital requirements. Payables and loans are exposed to liquidity risks.

#### **(3) *Risk Management for Financial Instruments***

##### *Credit risk management*

As to receivables, in accordance with internal rules of credit control, the Group controls due dates and balances of individual customers and monitors their financial conditions to identify and reduce the default risk of the counterparties at an early stage. As to investment securities, the Group periodically reviews the financial condition of the issuer. As to lease and guarantee deposits, the relevant department monitors the counterparty's financial condition to identify and reduce the default risk of the counterparty at an early stage.

##### *Market risk management*

Investment securities mainly consist of equity securities and investments in partnership. The Group periodically reviews the financial condition of the issuer and relationships with business partners to revise the holding status on a regular basis. Market values of listed equity securities are monitored on a quarterly basis.

##### *Liquidity risk management*

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. In order to control liquidity risks of payables and loans, the relevant department prepares and updates internal funds management plans in a timely manner based on the reports submitted by each department. In addition, the Group maintains a certain level of liquidity on hand.

#### **(4) *Fair Values of Financial Instruments***

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Such valuation techniques include certain assumptions. Results may differ if different assumptions are used in the valuation.

Financial instruments whose fair values are readily determinable as of November 30, 2019 and 2018, are as follows:

November 30, 2019	Thousands of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Assets:			
(1) Cash and cash equivalents	¥ 7,192,537	¥ 7,192,537	
(2) Trade notes and accounts receivable	890,638		
Allowance for doubtful receivables	(41,953)		
	848,685	848,685	
(3) Purchased receivables	2,068,872	2,068,872	
(4) Investment securities—available-for-sale securities	312,648	312,648	
(5) Lease and guarantee deposits	465,730	465,730	
Total	<u>¥ 10,888,473</u>	<u>¥ 10,888,473</u>	
Liabilities:			
(6) Trade accounts payable	¥ 184,730	¥ 184,730	
(7) Short-term loans	2,000,000	2,000,000	
(8) Other payables	755,661	755,661	
(9) Accrued expenses	646,781	646,781	
(10) Income taxes payable	77,188	77,188	
(11) Long-term loans, including current portion	3,100,309	3,102,588	¥ 2,279
Total	<u>¥ 6,764,669</u>	<u>¥ 6,766,948</u>	<u>¥ 2,279</u>
November 30, 2018	Thousands of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Assets:			
(1) Cash and cash equivalents	¥ 4,951,530	¥ 4,951,530	
(2) Trade notes and accounts receivable	590,982		
Allowance for doubtful receivables	(5,404)		
	585,577	585,577	
(3) Purchased receivables	362,115	362,115	
(4) Investment securities—available-for-sale securities			
(5) Lease and guarantee deposits	417,167	417,167	
Total	<u>¥ 6,316,390</u>	<u>¥ 6,316,390</u>	
Liabilities:			
(6) Trade accounts payable	¥ 189,917	¥ 189,917	
(7) Short-term loans	555,000	555,000	
(8) Other payables	236,959	236,959	
(9) Accrued expenses	428,688	428,688	
(10) Income taxes payable	29,172	29,172	
(11) Long-term loans, including current portion	2,605,000	2,604,223	¥ (776)
Total	<u>¥ 4,044,737</u>	<u>¥ 4,043,960</u>	<u>¥ (776)</u>

Notes: (1), (2), (3), (6), (7), (8), (9) and (10)—As these items are settled within one year and have fair values approximately equal to their carrying amounts, they are stated at their carrying amounts.

(4)—Fair value of investment securities is stated at the quoted prices in active markets. Details are discussed in Note 4, "Investment securities."

(5)—Fair value of lease and guarantee deposits is measured at the present value discounted by the corresponding yield of Japanese government bonds over the expected deposit period based on the lease contract. The carrying amount and fair value of lease and guarantee deposits include a portion not expected to be collectible, which is equivalent to the unamortized balance of asset retirement obligations. If the corresponding yield of Japanese government bonds is negative, the discount rate to be used for measurement will be zero.

(11)— Long-term loans with variable interest rates are measured at book value as the interest rate on these loans reflects the market rate in the short term and financial status of the Company has not changed significantly after the transaction and as a result, their market values approximate book values. Long-term loans with fixed interest rates are measured at the present value of the total amount of the principal and interest taken as a whole discounted by an expected rate that would be applied for loans with the same terms and conditions.

Financial instruments which do not have quoted market prices and whose fair values are not reliably determinable are not included in the table above. The carrying amounts of such financial instruments as of November 30, 2019 and 2018, are as follows:

	<u>Carrying Amount</u>	
	<u>Thousands of Yen</u>	
	<u>2019</u>	<u>2018</u>
Investment securities—unlisted equity securities	¥ 1,382,564	¥ 788,997
Investment securities—unlisted share subscription rights	20,000	
Investment securities—investments in partnership	74,742	36,218
Long-term loans	330,000	330,000

Unlisted equity securities, unlisted share subscription rights, and investments in partnership do not have quoted prices. Because it is extremely difficult to determine their fair values, information regarding fair values of such investment securities is not disclosed.

Long-term loans in the preceding table have variable repayment terms and conditions that are subject to the operating results of the Company. Because it is extremely difficult to determine their fair values, fair values of such loans are not presented.

A maturity analysis of financial assets as of November 30, 2019 and 2018, is as follows:

	<u>Due within 1 Year</u>	
	<u>Thousands of Yen</u>	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	¥ 7,192,537	¥ 4,951,530
Trade notes and accounts receivable	890,638	590,982
Purchased receivables	2,068,872	362,115
Total	<u>¥ 10,152,048</u>	<u>¥ 5,904,628</u>

#### 4. INVESTMENT SECURITIES

Investment securities at November 30, 2019 and 2018, consisted of the following:

	Thousands of Yen	
	2019	2018
Marketable equity securities	¥ 312,648	
Unlisted equity securities	1,382,564	¥ 788,997
Unlisted share subscription rights	20,000	
Investments in partnership	74,742	36,218
Total	<u>¥ 1,789,955</u>	<u>¥ 825,215</u>

The carrying amounts and aggregate fair value of marketable equity securities at November 30, 2019 were as follows:

	Thousands of Yen			
	Carrying Amount	Unrealized Gains	Unrealized Losses	Fair Value
November 30, 2019				
Securities classified as available-for-sale equity securities:				
Marketable equity securities	¥ 99,336	¥ 213,312		¥ 312,648

#### 5. INVENTORIES

Inventories at November 30, 2019 and 2018, consisted of the following:

	Thousands of Yen	
	2019	2018
Merchandise		¥ 49
Work in process	¥ 1,658	
Supplies	5,639	8,840
Total	<u>¥ 7,297</u>	<u>¥ 8,889</u>

#### 6. SHORT-TERM AND LONG-TERM LOANS

Short-term loans and long-term loans as of November 30, 2019 and 2018, are as follows:

	Thousands of Yen	
	2019	2018
Short-term loans	¥ 2,000,000	¥ 555,000
Current portion of long-term loans	620,776	510,000
Long-term loans	2,809,533	2,425,000
Total	<u>¥ 5,430,309</u>	<u>¥ 3,490,000</u>

The weighted-average interest rates of short-term loans and long-term loans as of November 30, 2019 and 2018, are summarized as follows:

	2019	2018
Short-term loans	0.5%	0.6%
Current portion of long-term loans	0.8	0.9
Long-term loans	0.8	1.4



Certain long-term loans have variable repayment terms and conditions that are subject to the operating results of the Company. At November 30, 2019 and 2018, such long-term loans amounted to ¥330,000 thousand.

Long-term loans have annual maturities through 2024. The details are as follows:

<u>Year Ending November 30</u>	<u>Thousands of Yen</u>
2020	¥ 620,776
2021	925,776
2022	1,053,673
2023	390,084
2024	<u>440,000</u>
Total	<u>¥ 3,430,309</u>

At November 30, 2019 and 2018, no assets were pledged as collateral for the long-term loans above.

## 7. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). Significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### *a. Dividends*

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends at any time during the fiscal year.

Semi-annual interim dividends may also be paid once a year upon resolution by the Board of Directors if stipulated by the articles of incorporation of the company. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### *b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus*

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred between the accounts within equity under certain conditions, upon resolution of the shareholders.

### *c. Treasury Stock and Treasury Stock Acquisition Rights*

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

On February 26, 2018, the Company carried out reduction of additional paid-in capital and appropriation of other capital surplus in order to dispose of the accumulated deficit as of November 30, 2017. In accordance with Article 452 of the Companies Act, the Company first transferred ¥784,437 thousand of additional paid-in capital to other capital surplus. Subsequently, the Company appropriated ¥784,437 thousand of other capital surplus to offset the deficit. (Additional paid-in capital and other capital surplus are included in "capital surplus" in the consolidated financial statements.)

On December 20, 2018, according to the resolution of the Board of Directors' meeting held on December 5, 2018, the Company issued 2,400,000 shares of its common stock by way of an international offering. The issue price was ¥2,946 per share and the total amount of issuance was ¥7,070,400 thousand. As a result, common stock and capital surplus increased by ¥3,375,312 thousand each.

On February 24, 2019, the Company carried out reduction of additional paid in capital and appropriation of other capital surplus in order to dispose of the accumulated deficit as of November 30, 2018. In accordance with Article 452 of the Companies Act, the Company first transferred ¥264,310 thousand of additional paid in capital to other capital surplus. Subsequently, the Company appropriated ¥264,310 thousand of other capital surplus to offset the deficit. (Additional paid in capital and other capital surplus are included in "capital surplus" in the consolidated financial statements.)

Number of authorized shares of common stock as of November 30, 2019 and 2018, was 44,978,000 shares.

Changes in number of issued shares of common stock and treasury stock for the years ended November 30, 2019 and 2018, are as follows:

	Shares	
	Common Stock	Treasury Stock
Balance, December 1, 2017	19,173,520	
Exercise of stock options	156,120	
Balance, November 30, 2018	19,329,640	
Issuance of new shares (Note 7)	2,400,000	
Exercise of stock options	370,880	
Share-based payments—transfer restricted stock	64,840	
Acquisition of transfer restricted stocks without consideration		1,120
Purchase of treasury stocks that are less than one trading unit		38
Purchase of treasury stock		
Balance, November 30, 2019	22,165,360	1,158

## 8. STOCK OPTIONS

Gain on reversal of stock acquisition rights, which was recorded due to forfeiture of stock options, for the years ended November 30, 2019 and 2018, was ¥1,901 thousand and ¥3,778 thousand, respectively.

Stock options outstanding as of November 30, 2019, are as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
#2	4 directors 12 employees 4 outside consultants	594,000 shares	February 8, 2014	¥200	From February 8, 2016 to February 7, 2024
#3	1 director 5 outside consultants	9,000 shares	April 22, 2015	¥350	From February 8, 2016 to February 7, 2024
#4	4 directors 38 employees	700,000 shares	April 30, 2015	¥350	From February 8, 2016 to February 7, 2024
#5	2 outside directors 3 external statutory auditors 39 outside consultants	51,000 shares	March 23, 2016	¥550	From March 17, 2018 to March 16, 2025
#6	4 directors 55 employees 1 outside consultant	749,000 shares	March 23, 2016	¥550	From March 17, 2017 to March 16, 2025
#7	2 business partners	201,840 shares	March 23, 2016	¥1,500	From March 17, 2018 to March 16, 2025
#8	6 directors 79 employees	342,000 shares	March 15, 2017	¥750	From March 15, 2020 to March 14, 2026
#9	2 outside directors 3 external statutory auditors 6 outside consultants	31,000 shares	March 15, 2017	¥750	From March 15, 2020 to March 14, 2026
#10	1 outside director	4,000 shares	June 23, 2017	¥750	From June 23, 2020 to June 22, 2026
#11	7 directors 1 outside director 1 external statutory auditor 2 outside consultants 61 employees 6 directors of subsidiaries	320,000 shares	February 5, 2018	¥3,155	From February 5, 2019 to February 4, 2025

Note: At the time the options are exercised, the holder of the stock options shall occupy the position of a director or employee of the Company or a director or employee of its subsidiaries or affiliate companies or an outside consultant unless otherwise approved by the Board of Directors of the Company. If the right holder of the stock options is a corporation, the stock options may not be exercised when an order of the following proceedings is made: bankruptcy proceeding, civil rehabilitation proceeding, corporate reorganization proceeding, special liquidation proceeding, and similar proceedings.

Stock option activity is as follows:

	#2	#3	#4	#5	#6	#7	#8	#9	#10	#11
<u>Non-vested (Shares)</u>										
November 30, 2017—Outstanding		6,750	399,600	48,000	558,720	201,840	337,000	31,000	4,000	
Granted										320,000
Forfeited		(2,250)	(29,760)		(93,840)		(66,000)			(7,500)
Vested		(2,250)	(133,200)	(12,000)	(139,680)					
November 31, 2018—Outstanding		4,500	236,640	36,000	325,200	201,840	271,000	31,000	4,000	312,500
Granted										
Forfeited							(15,000)			(10,850)
Vested		(2,200)	(123,440)	(11,920)	(100,480)					(21,950)
November 31, 2019—Outstanding		2,300	113,200	24,080	224,720	201,840	256,000	31,000	4,000	279,700
<u>Vested (Shares)</u>										
November 30, 2017—Outstanding	418,000	2,250	144,200		80,060					
Vested		2,250	133,200	12,000	139,680					
Exercised	(56,000)	(2,500)	(61,200)	(4,740)	(31,680)					
Cancelled	(82,000)		(43,440)		(26,760)					
November 31, 2018—Outstanding	280,000	2,000	172,760	7,260	161,300					
Vested		2,200	123,440	11,920	100,480					21,950
Exercised	(118,000)	(1,480)	(129,000)	(4,300)	(118,000)					(100)
Cancelled			(400)		(2,960)					(1,650)
November 31, 2019—Outstanding	162,000	2,720	166,800	14,880	140,820					20,200
Exercise price (Yen)	¥ 200	¥ 350	¥ 350	¥ 550	¥ 550	¥1,500	¥ 750	¥ 750	¥ 750	¥ 3,155
Average stock price at exercise (Yen)	¥ 3,772	¥ 3,586	¥ 3,472	¥ 4,146	¥ 3,587					¥ 4,250
Fair value at grant date (Yen)										¥ 146.95

### *Assumptions Used to Measure the Fair Value of Stock Options*

Because the Company was an unlisted company at the grant date of stock options #2 through #10, these stock options are measured at their intrinsic values instead of their fair values. The intrinsic value of each stock option is estimated based on the stock price determined under the discounted cash flow method.

### *Estimation of the Number of Vested Stock Options*

Because it is difficult to reasonably estimate the number of options that will expire in the future, actual forfeiture is used.

### *Total Amount of the Intrinsic Values of Stock Options*

The total amount of the intrinsic values of the stock options at November 30, 2019, was ¥5,610,895 thousand. The total amount of the intrinsic values of the stock options, which were exercised during the year ended November 30, 2019, at the date of exercise was ¥1,239,510 thousand.

## 9. INCOME TAXES

The Company and its subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended November 30, 2019 and 2018.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at November 30, 2019 and 2018, are as follows:

	Thousands of Yen	
	2019	2018
Deferred tax assets:		
Enterprise taxes payable	¥ 17,520	¥ 4,284
Business office taxes payable	2,564	1,898
Allowance for doubtful receivables	18,504	2,773
Depreciation and amortization	762,379	463,452
Lease and guarantee deposits	11,444	2,361
Software in progress	89,797	44,755
Unrealized loss on available-for-sale securities	8,533	1,738
Tax loss carryforwards	1,435,507	829,277
Share-based payments—transfer restricted stock	29,311	
Other	11,450	1,030
	<u>2,387,012</u>	<u>1,351,573</u>
Total of tax loss carryforwards and temporary differences		
	<u>2,387,012</u>	<u>1,351,573</u>
Less valuation allowance for tax loss carryforwards	(1,405,671)	
Less valuation allowance for temporary differences	(926,554)	
	<u>(2,332,226)</u>	<u>(1,351,573)</u>
Total valuation allowance		
	<u>(2,332,226)</u>	<u>(1,351,573)</u>
Deferred tax assets	<u>54,786</u>	
Deferred tax liabilities:		
Amortization of goodwill	3,748	1,249
Reserved profit of affiliates	1,004	
Unrealized gains on available-for-sale securities	65,316	440
	<u>70,068</u>	<u>1,690</u>
Total deferred tax liabilities		
	<u>70,068</u>	<u>1,690</u>
Net deferred tax assets (liabilities)	<u>¥ (15,282)</u>	<u>¥ (1,690)</u>

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of November 30, 2019, were as follows:

	Thousands of Yen		
	2019		
	Tax Loss Carryforwards (Note)	Valuation Allowance	Deferred Tax Assets
Assets:			
Due within 2 years	¥ 2,459	¥ (2,459)	
Due after 2 years through 3 years	31,385	(31,385)	
Due after 3 years through 4 years	164,373	(164,373)	
Due after 4 years through 5 years	275,243	(268,197)	¥ 7,045
Due after 5 years	962,045	(939,255)	22,789
Total	<u>¥ 1,435,507</u>	<u>¥ (1,405,671)</u>	<u>¥ 29,835</u>

Note: The amounts above are determined by multiplying the corresponding tax loss carryforwards by the effective statutory tax rate.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operations and comprehensive income for the years ended November 30, 2019 and 2018, is not presented as the Group recorded losses before income taxes.

## 10. COMMITMENT

The Group has bank overdraft agreements with two financial institutions in order to raise funds efficiently. The total amount of the maximum amount of the bank overdrafts, outstanding balance, and remaining balance at November 30, 2019 and 2018, were as follows:

	Thousands of Yen	
	2019	2018
Total amount of the maximum amount of the bank overdrafts	¥ 2,000,000	¥ 1,000,000
Outstanding balance	<u>2,000,000</u>	<u>555,000</u>
Remaining balance		<u>¥ 445,000</u>

## 11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended November 30, 2019 and 2018, are as follows:

	Thousands of Yen	
	2019	2018
Salaries	¥ 2,097,171	¥ 1,209,218
Advertising	1,520,673	450,844
Retirement benefit expenses	56,014	36,451
Provision of allowance for doubtful receivables	5,287	1,701
Allowance for bonuses	7,510	
Amortization of goodwill	110,184	90,794

## 12. OTHER INCOME AND EXPENSES

Impairment losses of ¥12,533 thousand for the year ended November 30, 2019 corresponds to the assets of mirai talk's business that the Company decided to downsize during the year. No such losses were recorded for the year ended November 30, 2018.

Loss on business restructuring of ¥61,395 thousand for the year ended November 30, 2019 corresponds to the postponement of entering into the cryptocurrency business that the Company decided during the year. No such losses were recorded for the year ended November 30, 2018.

For details, please refer to "Presentation Material for FY11/19 1Q Financial Results" and "Q&A Session Summary for FY11/19 1Q Financial Results" announced on April 18, 2019 on the Company's website.

## 13. OTHER COMPREHENSIVE INCOME (LOSSES)

The components of other comprehensive income (loss) for the years ended November 30, 2019 and 2018, were as follows:

	Thousands of Yen	
	2019	2018
Unrealized gain (loss) on available-for-sale securities:		
Gains (losses) arising during the year	¥ 189,679	¥ (4,236)
Amount before income tax effect	189,679	(4,236)
Income tax effect	(64,875)	(440)
Total	<u>124,803</u>	<u>(4,677)</u>
Foreign currency translation adjustments:		
Adjustments arising during the year	<u>(8,679)</u>	<u>1,761</u>
Total other comprehensive income (loss)	<u>¥ 116,124</u>	<u>¥ (2,915)</u>

#### 14. ADDITIONAL CASH FLOW INFORMATION

For the year ended November 30, 2019

The major components of payment for purchase of newly consolidated subsidiary's stock were as follows:

	<u>Thousands of Yen</u> <u>2019</u>
<u>SMARTCAMP</u>	
Current assets	¥ (326,466)
Noncurrent assets	(107,763)
Goodwill	(1,837,872)
Current liabilities	142,755
Noncurrent liabilities	69,533
Noncontrolling interests	<u>61,477</u>
Acquisition costs	(1,998,335)
Cash and cash equivalents acquired	<u>162,134</u>
Payment for purchase of newly consolidated subsidiaries' stocks	<u>¥ (1,836,200)</u>

For the year ended November 30, 2018

The major components of proceeds from purchase of newly-consolidated subsidiary's stock were as follows:

	<u>Thousands of Yen</u> <u>2018</u>
<u>Knowledge Labo</u>	
Current assets	¥ (219,772)
Noncurrent assets	(1,595)
Goodwill	(105,740)
Current liabilities	11,875
Noncurrent liabilities	30,000
Noncontrolling interests	<u>87,233</u>
Acquisition costs	(198,000)
Cash and cash equivalents acquired	<u>204,802</u>
Proceeds from purchase of newly consolidated subsidiaries' stocks	<u>¥ 6,802</u>

#### 15. RELATED PARTY TRANSACTIONS

Transactions of the Group with a related party for the year ended November 30, 2019, consisted of exercises of stock options by the chief executive officer of the Company. Details are as follows:

<u>Name</u>	<u>Position</u>	<u>Ownership Percentage (%)</u>	<u>Thousands of Yen</u>
Yosuke Tsuji	President and Chief Executive Officer	16.21	¥ 94,990

There were no significant transactions between the Company and related parties for the year ended November 30, 2018.



## 16. BUSINESS COMBINATIONS

### *Business Combination by Acquisition*

(1) Outline of the business combination

(a) Name of acquired company and its business outline

Name of acquired company: SMARTCAMP CO., LTD.  
Business outline: Development and operation of BOXIL, a SaaS marketing platform

(b) Major reasons for the business combination

SMARTCAMP provides "BOXIL," one of the largest SaaS marketing platform in Japan with more than 120 thousand registered members as of October 30, 2019, which earns more than 10 million page views per month across media. BOXIL enables users who are considering introduction of SaaS to search the most appropriate one for the user, and also helps SaaS vendors to discover potential customers and to enhance customer recognition. Corresponding to the rapid growths of the SaaS industry, SaaS vendors, including the Company, are required to differentiate them from other companies and to conduct more efficient marketing. Marketing market is expected to further expand in the future. Furthermore, by utilizing know-how cultivated in development and management of BOXIL, SMARTCAMP also offers "BALES," an inside sales agency services, and "Biscuet," a CRM (Customer Relationship Management) SaaS product specialized for inside sales.

Through this acquisition, the Group aims to accelerate acquisition of new customers of Money Forward Cloud by utilizing SMARTCAMP's marketing know-how, and to increase users of BOXIL, BALES, and Biscuet by utilizing the Company's network and customer base.

(c) Date of business combination

November 29, 2019 (deemed date: November 30, 2019)

(d) Legal form of business combination

Share acquisition

(e) Name of the company after the combination

No change

(f) Ratio of voting rights acquired

72.3%

(g) Basis for determining the acquirer

It is based on the fact that the Company acquired 72.3% of the voting rights of SMARTCAMP.

- (2) The period for which the operations of the acquired company is included in the consolidated financial statements

Because the deemed acquisition date was November 30, 2019, operating results of the acquired company are not included in the accompanying consolidated financial statements.

- (3) Acquisition cost of the acquired company and related details of each class of consideration

	<u>Thousands of Yen</u>
Consideration for acquisition—Cash	<u>¥ 1,998,335</u>
Acquisition cost	<u><u>¥ 1,998,335</u></u>

- (4) Major acquisition-related costs

Advisory fee: ¥ 11,790 thousand

- (5) Amount of goodwill, basis of recognizing goodwill, and the method and period of amortization

- (a) Amount of goodwill

¥1,837,872 thousand

- (b) Basis of recognizing goodwill

The acquisition cost exceeded the fair value of the net assets of the acquired company as of the date of the business combination, which resulted in goodwill. Goodwill mainly represents the expected future profitability of the acquired company's business.

- (c) Method and period of amortization

Goodwill is amortized on a straight-line basis over nine years.

- (6) The assets acquired and the liabilities assumed at the acquisition date are as follows:

	<u>Thousands of Yen</u>
Assets:	
Current assets	¥ 326,466
Noncurrent assets	<u>107,763</u>
Total	<u>434,229</u>
Liabilities:	
Current liabilities	142,755
Noncurrent liabilities	<u>69,533</u>
Total	<u><u>¥ 212,288</u></u>

- (7) Pro forma information

The effect on the consolidated statement of operations and comprehensive income for the year ended November 30, 2019, assuming this business combination had been completed as of December 1, 2018, the beginning of the fiscal year, is not presented because the estimated amount is not significant.

## 17. SUBSEQUENT EVENTS

On February 6, 2020, according to the resolution of the Board of Directors' meeting held on January 22, 2020, the Company issued 1,100,000 shares of its common stock by way of an international offering. Details are as follows:

- (1) Class and number of shares issued  
1,100,000 shares of common stock
- (2) Issue price  
¥ 4,577 per share
- (3) Payment amount  
¥ 4,353.12 per share
- (4) Payment date  
February 6, 2020
- (5) Capitalized amount  
¥ 2,176.56 per share
- (6) Total amount of issue price  
¥ 5,034,700 thousand
- (7) Total payment amount  
¥ 4,788,432 thousand
- (8) Total capitalized amount  
¥ 2,394,216 thousand
- (9) Method of offering  
International offering in stock markets mainly in Europe and Asia (except for United States of America and Canada)
- (10) Use of proceeds  
Proceeds are planned to be used for (a) acquisition costs of SMARTCAMP shares and investments in and loans to SMARTCAMP for its further growth and (b) acquisition costs of shares of Mekari Group, an Indonesian company. The remaining amount are planned to be used for repayment of outstanding loans to enhance the financial condition and stable the management base of the Company for further expansion of the Group through M&A activities.

For details, please refer to "Regarding Determination of Issue Price and Other Matters" announced on January 22, 2020 on the Company's website.

## 18. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

Because the Group engages in a single segment, namely, the platform service business, segment information is not presented.

### *Related Information*

#### *(1) Information about sales to customers*

Prior to December 1, 2018, information about sales to customers was presented based on the classification of the Group's services. Effective December 1, 2018, the Group's sales to customers have been classified by business domain.

Sales to customers by business domain for the years ended November 30, 2019 and 2018, were as follows:

	Thousands of Yen	
	2019	2018
Business Domain	¥ 4,165,747	¥ 2,680,794
Home Domain	1,671,162	1,265,899
X Domain	967,510	573,614
Finance Domain	339,312	63,347
Other	13,050	11,133
Total sales to customers	<u>¥ 7,156,784</u>	<u>¥ 4,594,789</u>

#### *(2) Information about goodwill*

Amortization of goodwill and remaining balance of goodwill as of and for the years ended November 30, 2019 and 2018, were as follows:

	Thousands of Yen	
	2019	2018
The platform service business:		
Amortization of goodwill	¥ 110,184	¥ 90,794
Remaining balance of goodwill	¥ 2,621,095	¥ 893,407

\* \* \* \* \*

***Additional Information on the Consolidated Financial Statements***

*All the figures in the accompanying consolidated financial statements are unaudited.*

*The accompanying consolidated financial statements are summarized and translated from the original Japanese version submitted to the Tokyo Securities Exchange with certain rearrangements and reclassifications therein. The consolidated financial statements in the original Japanese Securities Report were audited by Deloitte Touche Tohmatsu whose report, dated February 20, 2020, expressed an unmodified opinion on those consolidated financial statements.*