

## Non-consolidated Financial Results for the Six Months Ended June 30, 2020

[Japanese GAAP]

August 11, 2020

Company name: sinops Inc. Stock Exchange Listing: Tokyo Stock Exchange, Mothers Market  
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 Scheduled submission of Quarterly Report: August 12, 2020  
 Scheduled date of dividend payment: -  
 Preparation of supplementary materials for quarterly financial results: Yes  
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

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

### 1. Non-consolidated Financial Results for the Six Months Ended June 30, 2020

(from January 1, 2020 to June 30, 2020)

(1) Non-consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended Jun. 30, 2020	342	(5.0)	(101)	-	(113)	-	(79)	-
Six months ended Jun. 30, 2019	360	-	(11)	-	(11)	-	(9)	-

	Net income per share		Diluted net income per share	
	Yen		Yen	
Six months ended Jun. 30, 2020	(13.20)		-	
Six months ended Jun. 30, 2019	(1.52)		-	

Notes: 1. Year-on-year changes for the six months ended June 30, 2019 are not presented because the quarterly financial statements were not prepared in the first half of 2018.

2. sinops conducted a 5-for-1 common stock split effective on August 1, 2019. Net loss per share is calculated as if this stock split had taken place at the beginning of 2019.

3. Diluted net income per share for the six months ended June 30, 2019 and 2020 is not presented since sinops posted a loss although there were outstanding dilutive securities.

(2) Non-consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	Millions of yen		Millions of yen		%	
As of Jun. 30, 2020	1,422		1,233		85.9	
As of Dec. 31, 2019	1,568		1,308		82.7	

Reference: Shareholders' equity (millions of yen) As of Jun. 30, 2020: 1,222 As of Dec. 31, 2019: 1,295

### 2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Dec. 31, 2019	-	0.00	-	0.00	0.00
Fiscal year ending Dec. 31, 2020	-	0.00	-	-	-
Fiscal year ending Dec. 31, 2020 (Forecast)	-	-	-	0.00	0.00

Note: Revisions to the most recently announced dividend forecast: None

### 3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2020

(from January 1, 2020 to December 31, 2020)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit		Net income per share	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	
Full year	1,000	(7.4)	67	(77.7)	33	(88.9)	20	(89.4)	3.39	

Note: Revisions to the most recently announced non-consolidated forecast: Yes

sinops had withdrawn its full-year business forecast announced on February 13, 2020 and left it undecided because the impact of the COVID-19 pandemic on business activities had made it difficult to make a reliable forecast. However, we have now drawn up a business forecast based on the recent supply and demand situation.

The new forecast reflects the likely impact of the spread of the COVID-19 pandemic, on sales that can be expected at this time. Actual sales may vary significantly depending on future trends.

**\* Notes**

(1) Application of special accounting methods for preparing quarterly consolidated financial statements: None

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

1) Changes in accounting policies due to the revision of accounting standards: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatement: None

(3) Number of shares outstanding (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Jun. 30, 2020:	6,064,000 shares	As of Dec. 31, 2019:	6,030,000 shares
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2) Number of treasury shares at the end of the period

As of Jun. 30, 2020:	80 shares	As of Dec. 31, 2019:	45 shares
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3) Average number of shares outstanding during the period

Six months ended Jun. 30, 2020:	6,047,135 shares	Six months ended Jun. 30, 2019:	5,956,646 shares
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Note: sinops conducted a 5-for-1 common stock split on the effective date of August 1, 2019. Number of shares outstanding (common stock) is calculated as if this stock split had taken place at the beginning of 2019.

\* The current financial report is not subject to quarterly review by certified public accountants or auditing firms.

\* Appropriate use of business forecasts; other special items

Cautionary statement with respect to forecasts

In this report, statements other than historical facts are forward-looking statements that reflect the Company's plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results and achievements to differ from those anticipated in these statements. Please refer to "1. Qualitative Information on Quarterly Non-consolidated Financial Performance (3) Explanation of Non-consolidated Forecast and Other Forward-looking Statements" on page 3 for information on preconditions underlying the above outlook and other related information.

How to view supplementary materials for financial results

Supplementary materials for financial results will be disclosed, using the Timely Disclosure network (TDnet), and available on the sinops website.

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## 1. Qualitative Information on Quarterly Non-consolidated Financial Performance

### (1) Explanation Regarding Business Results

#### a. Operating Environment

Retail sales in Japan between June 2019 and May 2020 decreased 1.6% over the prior 12-month period to 143.148 trillion yen, according to the Preliminary Report on the Current Survey of Commerce by the Ministry of Economy, Trade and Industry. The challenging economic environment and sluggish personal consumption are continuing. Most notably, the impact of the spread of the COVID-19 pandemic is now evident on a global scale. Consequently, the retail sector is facing intensifying competition in an environment in which the boundaries between retail sectors and formats are falling. At the same time, personnel costs are rising amid severe labor shortages and logistics costs are soaring. Moreover, the necessity to respond to the No-Foodloss Project campaign and the adoption of Sustainable Development Goals (SDGs) is becoming an ever more urgently pressing social issue.

Given such rapid changes in the operating environment, we have continued our business activities with the vision of “reducing waste in the world by 10%” and with the highest priority on ensuring the safety of our customers and employees. For the retail sector, which is our primary market, we have changed our sales strategy from one centered on conventional “sinops-R6” package sales to asset-based sales that are centered on our “sinops-CLOUD” service. Initially, we are mainly concentrating on marketing “sinops-CLOUD” to our existing users. Then again, there is also growing demand for cloud services that allow customers to select only the functions they require at a low price. Although this has not directly contributed to business performance in the first half, many business negotiations, including those with new users, are already in progress.

The use of “sinops” is climbing steadily. As of June 30, 2020, the number of companies using the “sinops” product increased to 76 (up by 1 company from one year earlier) and the number of operating bases increased to 5,210 (up by 211 from one year earlier). Moreover, the number of operating bases using the cloud service totaled 99 in the first month after the launch of the service. In the first half, net sales decreased 5.0% year-on-year to 342,607 thousand yen, the operating loss was 101,417 thousand yen (compared with a loss of 11,136 thousand yen one year earlier), the ordinary loss was 113,561 thousand yen (compared with a loss of 11,205 thousand yen) and the loss was 79,846 thousand yen (compared with a loss of 9,029 thousand yen).

#### b. Analysis of Operating Results

(Thousands of yen)

	First six months of 2019	First six months of 2020	YoY change (Amount)	YoY change (%)
Net sales	360,748	342,607	(18,140)	(5.0)
Package sales	64,532	22,863	(41,669)	(64.6)
Installation assistance sales	64,435	58,778	(5,656)	(8.8)
Support service sales	107,138	128,570	21,431	20.0
Rental sales	124,641	132,394	7,753	6.2
Gross profit	159,875	89,053	(70,822)	(44.3)
Operating loss	(11,136)	(101,417)	(90,280)	-
Ordinary loss	(11,205)	(113,561)	(102,356)	-
Loss	(9,029)	(79,846)	(70,816)	-

#### i. Net sales

Package sales decreased to 22,863 thousand yen (down 41,669 thousand yen, or 64.6% year-on-year), mainly due to delays in negotiations for new projects caused by the spread of the COVID-19 pandemic. Installation assistance sales were 58,778 thousand yen (down 5,656 thousand yen, or 8.8% year-on-year) mainly because new project starts were delayed due to the impact of the COVID-19 pandemic although continuing projects from the previous fiscal year continued to grow. Support service sales increased to 128,570 thousand yen (up 21,431 thousand yen, or 20.0% year-on-year) mainly because a major existing user switched from a distributor agency contract to a direct contract. Rental sales increased to 132,394 thousand yen (up 7,753 thousand yen, or 6.2% year-on-year) as steady progress was made with further store openings for existing users. As a result, net sales were 342,607 thousand yen (down

18,140 thousand yen, or 5.0% year-on-year).

#### ii. Gross profit

During the first half of 2020, the cost of sales increased 52,681 thousand yen, or 26.2% year-on-year mainly as the result of an increase in the number of employees in the manufacturing department, investment in product development for cloud services, and an increase in amortization costs for software for sale. On the other hand, travel and transportation expenses were lower because all employees were teleworking from home and as we switched more to web conferences. As a result, gross profit was 89,053 thousand yen (down 70,822 thousand yen, or 44.3% year-on-year).

#### iii. Operating profit / Ordinary profit

During the first half of 2020, selling, general and administrative expenses increased 19,458 thousand yen, or 11.4% year-on-year. This was mainly due to a decrease in travel expenses as we shifted more to teleworking, while R&D expenses and costs related to the expansion of the head office increased. As a result, operating loss was 101,417 thousand yen, compared with a loss of 11,136 thousand yen one year earlier.

Ordinary loss was 113,561 thousand yen, compared with a loss of 11,205 thousand yen one year earlier. This was mainly because of an increase in preparation for moving up our stock listing to the First Section of the Tokyo Stock Exchange of 12,280 thousand yen.

#### iv. Loss

Loss was 79,846 thousand yen, compared with a loss of 9,029 thousand yen one year earlier.

No segment-related information is provided because sinops has only a single business segment, which is the “sinops” business.

### **(2) Explanation Regarding Financial Position**

#### i. Assets

Total assets decreased 145,349 thousand yen from the end of 2019 to 1,422,687 thousand yen at the end of the second quarter of 2020. This was mainly due to a decrease of 313,330 thousand yen in notes and accounts receivable-trade, while there were increases of 85,390 thousand yen in cash and deposits, 22,918 thousand yen in property, plant and equipment, 16,258 thousand yen in intangible assets and 34,312 thousand yen in deferred tax assets that was included in the investments and other assets.

#### ii. Liabilities

Total liabilities decreased 69,859 thousand yen from the end of 2019 to 189,442 thousand yen. This was mainly due to decreases of 86,689 thousand yen in income taxes payable and 23,744 thousand yen in accrued consumption taxes that was included in other current liabilities, while there was an increase of 43,298 thousand yen in accounts payable-other that was included in other current liabilities.

#### iii. Net assets

Net assets decreased 75,490 thousand yen from the end of 2019 to 1,233,244 thousand yen mainly due to increases of 3,187 thousand yen each in share capital and capital surplus, while there was a decrease of 79,846 thousand yen in retained earnings.

### **(3) Explanation of Non-consolidated Forecast and Other Forward-looking Statements**

The economic outlook for the current fiscal year has been seriously affected by the rapid deterioration of the economic environment and the decline in personal consumption caused by the spread of the COVID-19 pandemic. Consequently, the outlook for the retail industry is also likely to remain challenging due to factors including the intensification of competition across retail formats, and the dramatic plunge in consumer sentiment.

Given this environment, we have changed in our sales strategy from one centered on conventional “sinops-R6” package sales to a recurring revenue that is centered on our “sinops-CLOUD” based service. Sales and profits for the fiscal year ending December 31, 2020 will decline temporarily compared to the previous fiscal year. But we consider this year as a preparatory period for the transition to a new financial foundation centered on recurring revenue from the fiscal year ending December 2021 onwards. “sinops-CLOUD” is a cloud service that allows our customers to use only the functions and services they need, and this will enable them to reduce their initial investment by anything from tens of millions of yen to hundreds of millions of yen. This will be able us to provide services not just to retailers with sales of 40 billion yen or more, which has been our primary customers to date, but also to retailers and restaurants with sales of less than 40 billion yen. We have started full-scale sales of “sinops-CLOUD” from the first half of this year, and are steadily proceeding with on-site verification tests centered on our existing user base.

For the fiscal year ending December 31, 2020, we forecast a 7.4% decrease in net sales to 1,000,967 thousand yen, a 234,052 thousand yen decrease in operating profit to 67,040 thousand yen, a 267,635 thousand yen decrease in ordinary profit to 33,447 thousand yen and a 172,225 thousand yen decrease in profit to 20,509 thousand yen.

(Thousands of yen)

	2019 results	2020 plan	YoY change (Amount)	YoY change (%)
Net sales	1,081,000	1,000,967	(80,032)	(7.4)
Package sales	465,209	279,026	(186,182)	(40.0)
Installation assistance sales	130,557	118,016	(12,541)	(9.6)
Support service sales	223,359	268,105	44,745	20.0
Rental sales	261,873	335,819	73,945	28.2
Gross profit	651,691	432,562	(219,128)	(33.6)
Operating profit	301,093	67,040	(234,052)	(77.7)
Ordinary profit	301,082	33,447	(267,635)	(88.9)
Profit	192,735	20,509	(172,225)	(89.4)

We have defined the fiscal year ending December 31, 2020 as a transitional period from package sales to sales centered on cloud services, and plan to achieve monthly cloud service-related sales of around 42 million yen by the end of December 2020.

Furthermore, the above business forecast incorporates the impact of the decrease in sales to the end of September 2020 but does not include the impact of the spread of the COVID-19 pandemic because of the difficulty of predicting the prospects for the period from October onward. We will continue to carefully assess the impact of this factor on our business and will promptly disclose any necessary revisions in the future.

**2. Quarterly Non-consolidated Financial Statements and Notes****(1) Quarterly Non-consolidated Balance Sheet**

(Thousands of yen)

	2019 (As of Dec. 31, 2019)	Second Quarter of 2020 (As of Jun. 30, 2020)
<b>Assets</b>		
Current assets		
Cash and deposits	796,570	881,961
Notes and accounts receivable-trade	486,242	172,912
Work in process	14,963	23,582
Other	18,261	19,060
Total current assets	1,316,038	1,097,517
Non-current assets		
Property, plant and equipment	18,885	41,803
Intangible assets	121,633	137,892
Investments and other assets	111,480	145,474
Total non-current assets	251,998	325,170
Total assets	1,568,037	1,422,687
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	7,851	5,820
Current portion of long-term borrowings	5,843	-
Income taxes payable	91,252	4,562
Provision for product warranties	18,245	16,608
Other	132,801	159,010
Total current liabilities	255,994	186,003
Non-current liabilities		
Provision for retirement benefits	3,307	3,439
Total non-current liabilities	3,307	3,439
Total liabilities	259,302	189,442
<b>Net assets</b>		
Shareholders' equity		
Share capital	405,096	408,284
Capital surplus	365,526	368,714
Retained earnings	525,459	445,612
Treasury shares	(99)	(163)
Total shareholders' equity	1,295,983	1,222,448
Share acquisition rights	12,751	10,796
Total net assets	1,308,735	1,233,244
Total liabilities and net assets	1,568,037	1,422,687

**(2) Quarterly Non-consolidated Statement of Income**  
**(For the Six-month Period)**

(Thousands of yen)

	First six months of 2019 (Jan. 1 – Jun. 30, 2019)	First six months of 2020 (Jan. 1 – Jun. 30, 2020)
Net sales	360,748	342,607
Cost of sales	200,872	253,554
Gross profit	159,875	89,053
Selling, general and administrative expenses	171,012	190,471
Operating loss	(11,136)	(101,417)
Non-operating income		
Interest income	2	4
Insurance fee income	20	130
Dividend income of insurance	50	92
Gain on sales of goods	27	-
Other	26	34
Total non-operating income	126	261
Non-operating expenses		
Interest expenses	57	11
Sales discounts	102	82
Going public expenses	-	12,280
Other	34	31
Total non-operating expenses	194	12,405
Ordinary loss	(11,205)	(113,561)
Extraordinary income		
Gain on reversal of share acquisition rights	268	-
Total extraordinary income	268	-
Extraordinary losses		
Loss on retirement of non-current assets	-	42
Total extraordinary losses	-	42
Loss before income taxes	(10,936)	(113,603)
Income taxes-current	555	555
Income taxes-deferred	(2,461)	(34,312)
Total income taxes	(1,906)	(33,757)
Loss	(9,029)	(79,846)

**(3) Quarterly Non-consolidated Statement of Cash Flows**

(Thousands of yen)

	First six months of 2019 (Jan. 1 – Jun. 30, 2019)	First six months of 2020 (Jan. 1 – Jun. 30, 2020)
Cash flows from operating activities		
Loss before income taxes	(10,936)	(113,603)
Depreciation	17,236	32,495
Interest and dividend income	(2)	(4)
Interest expenses	57	11
Decrease (increase) in trade receivables	92,399	313,330
Decrease (increase) in inventories	(429)	(8,619)
Increase (decrease) in trade payables	(4,495)	(2,030)
Share-based remuneration expenses	880	-
Increase (decrease) in provision for bonuses	892	-
Increase (decrease) in provision for product warranties	(6,722)	(1,636)
Increase (decrease) in provision for retirement benefits	132	132
Increase (decrease) in provision for loss on order received	(1,655)	-
Loss on retirement of non-current assets	-	42
Going public expenses	-	12,280
Increase (decrease) in advances received	4,399	10,529
Increase (decrease) in accounts payable-other	(9,482)	36,883
Increase (decrease) in accrued consumption taxes	(11,767)	(23,917)
Increase (decrease) in income taxes payable-factor based tax	(4,350)	(12,878)
Increase (decrease) in deposits received	21,287	(6,334)
Other, net	(4,347)	2,087
Subtotal	83,095	238,765
Interest and dividends received	2	4
Interest paid	(57)	(11)
Income taxes paid	(38,395)	(74,366)
Net cash provided by (used in) operating activities	44,645	164,392
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,936)	(26,647)
Purchase of intangible assets	(36,845)	(44,032)
Payments of guarantee deposits	(178)	-
Proceeds from refund of guarantee deposits	-	64
Net cash provided by (used in) investing activities	(46,960)	(70,614)
Cash flows from financing activities		
Repayments of long-term borrowings	(9,998)	(5,843)
Proceeds from issuance of shares	107,068	-
Purchase of treasury shares	-	(63)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	12,900	4,420
Payments for going public expenses	-	(6,900)
Net cash provided by (used in) financing activities	109,970	(8,386)
Net increase (decrease) in cash and cash equivalents	107,654	85,390
Cash and cash equivalents at beginning of period	810,529	796,570
Cash and cash equivalents at end of period	918,184	881,961

#### **(4) Notes on Quarterly Non-consolidated Financial Statements**

##### **Going Concern Assumption**

Not applicable.

##### **Significant Changes in Shareholders' Equity**

Share capital and legal capital surplus increased 3,187 thousand yen each due to the exercise of share acquisition rights as stock options in the first half of 2020.

As a result, share capital was 408,284 thousand yen and legal capital surplus was 368,714 thousand yen as of the end of the second quarter of 2020.

##### **Additional Information**

###### Accounting Estimates and the Impact of the Spread of the COVID-19 Pandemic

The spread of the COVID-19 pandemic is affecting our business operations. Although there is still some degree of uncertainty, we assume that business activity will recover and normalize from the fourth quarter onwards.

Consequently, on the basis of the above assumptions, sinops is making an estimate of the recoverability of deferred tax assets and the impairment of non-current assets based on the information available at the time of the compilation of the first half financial statements.

*This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*