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Consolidated Financial Results for the Three-month Period of the Fiscal Year Ending February 28, 2021 [Japanese GAAP]

July 14, 2020

Company name



Rozetta Corp.

Listing Market TSE

Stock Code 6182 URL <https://www.rozetta.jp>

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Scheduled date of filing of quarterly report: July 14, 2020

Scheduled date of commencement of dividend payment —

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results briefing: Yes

(Figures are rounded down to the nearest million yen)

1. Consolidated Results of Operation for the Three-month Period Ended May 31, 2021

(March 1, 2020 to May 31, 2020)

(1) Consolidated Results of Operation (Cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Q1 FY2/21	1,067	9.4	181	6.5	181	6.7	121	10.2
Q1 FY2/20	975	49.8	170	279.2	170	268.6	110	208.4

(Note)

Comprehensive income Q1 FY2/21 121 Millions of yen (10.8%) Q1 FY2/20 110 Millions of yen (206.6%)

	Net income per share	Diluted net income per share
	Yen	Yen
Q1 FY2/21	11.80	11.51
Q1 FY2/20	10.75	10.41

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
Q1 FY2/21	3,859	1,626	42.1
FY2/20	3,753	1,504	40.1

(Reference) Shareholders' equity

Q1 FY2/21 1,626 Millions of yen FY2/20 1,503 Millions of yen

2. Dividend payment

	Annual dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2/20	—	0.00	—	0.00	0.00
FY2/21	—	—	—	—	—
FY2/21 (Forecast)	—	0.00	—	0.00	0.00

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

3. Consolidated Business Forecasts for the Fiscal Year Ending February 28, 2021 (March 1, 2020 to February 28, 2021)
The business forecasts are as follows.

At present, the MT business has entered a period of rapid growth since the fourth quarter of the fiscal year ending February 2018, and therefore we are concentrating our management policy on maximizing medium-to long-term growth rather than short-term profits. We will not disclose the forecast as a fixed value until sales growth of the MT business settles down (roughly 1.5 times that of the previous year), in order not to adjust expenses in accordance with earnings forecasts, and therefore we make decisive choices that best meet its long-term growth objectives on an occasional basis. The consolidated business forecasts for the fiscal year ending February 28, 2021 will only be disclosed at the lowest level, with record highs of net sales (3,910 million yen) or higher and record highs of income (operating income of 448 million yen) or higher.

The impact of the COVID-19 on business performance is as follows.

As for the MT business, as disclosed in the "Notice Regarding the Orders Received in the Machine Translation Business in June" on July 8, 2020, orders from existing customers bottomed out in May and continued to be firm in June. However, the acquisition of new customers takes about two months from the start of the business negotiation, and the impacts of the slowdown of business negotiations under the state of emergency in April and May and the delayed face-to-face sales and decision-making by continuing work-from-home policy on the part of client companies remain longer than anticipated. As a result, business activities have not yet been fully recovered and the recovery of orders received is expected to be later than initially assumed.

On the other hand, translation usage by users, which had grown steadily despite the pandemic, continued to increase in June due to the trend toward telecommuting and the streamlining of business operations, and hit a record high (170% compared to the same month of the previous year). This indicates the possibility that the trends toward telecommuting and the streamlining of business operations amid the pandemic will be consistent with our original vision.

As for the number of orders received from July and August, in addition to orders from existing customers, which are trending strongly, we expect that sales activities of sales agents returning to normal and the shift to an online negotiation system, such as through the use of online seminars, will lead to a gradual recovery in orders from new customers. As a result, the recovery trend is expected to become more evident as a whole.

The trend toward the discontinuation of face-to-face and group sessions for interpretation and language training in client companies is growing increasingly severe in the HT business, which undertakes manual tasks. As disclosed in the "Notice Regarding the Impact of the Novel Coronavirus on Business Results" on February 27, 2020, significant declines in revenues and profits are expected as long as the impact lingers.

In terms of the product portfolio, the growth portion of the MT business, which is the "STAR," exceeds the reduction amount of the HT business, which is shifting from "CASH COW" to "DOGS," and therefore consolidated net sales and income are expected to mark record highs.

The forecast is based on the actual results and circumstances that have been affected by the Corona calamity as of July 14, and does not include any prediction as to when the future medical, political and economic situation regarding the Corona calamity will be settled.

*Notes

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

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements, (3) Notes on Quarterly Consolidated Financial Statements (Application of Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements)" on page 6 of the Appendix.

(3) Changes in accounting policies, changes in accounting estimates and restatement

- 1) Changes in accounting policies due to revision of accounting standards, etc.: None
- 2) Changes in accounting policies due to other reasons: None
- 3) Changes in accounting estimates: None
- 4) Restatements: None

(4) Number of shares outstanding (common stock)

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

2) Treasury shares at the end of the year

3) Average number of shares outstanding during the period (cumulative)

Q1 FY2/21	10,332,660 shares	FY2/20	10,330,260 shares
Q1 FY2/21	422 shares	FY2/20	422 shares
Q1 FY2/21	10,330,924 shares	Q1 FY2/20	10,295,933 shares

*This quarterly financial report is not subject to the quarterly review by a certified public accountant or an auditing firm.

*Explanations and other special notes concerning the appropriate use of business forecasts

(Cautionary Statement with Respect to Forward-Looking Statements)

Forecasts regarding future performance in this material are based on information currently available to the Company and certain assumptions that the Company deems to be reasonable at the time this report was prepared. The Company does not make promises about the achievements. Actual results may differ significantly from the forecasts due to various factors. Please refer to "1. Qualitative Information on Consolidated Financial Results (3) Consolidated Business Forecasts" on page 3 of the Appendix for the assumptions underlying the forecasts and cautions concerning the use thereof.

(Method of Obtaining Financial Results Briefing Materials)

Supplementary materials for financial results were disclosed on the TDnet on the same date.

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1. Qualitative Information on Quarterly Financial Results

(1) Results of Operations

During the first quarter of the current fiscal year (March 1, 2020 to May 31, 2020), the MT business continued to perform strongly.

As a result, our group posted net sales of 1,067,438 thousand yen (up 9.4% year on year), operating income of 181,637 thousand yen (up 6.5% year on year), ordinary income of 181,879 thousand yen (up 6.7% year on year), and profit attributable to owners of parent of 121,949 thousand yen (up 10.2% year on year) for the cumulative first quarter of the current fiscal year.

The performance of each business segment is as follows:

1) MT business

As for the MT business, sales were 716,029 thousand yen (up 52.5% year on year), due to continuous strong sales, and segment income was 127,221 thousand yen (up 143.1% year on year).

2) HT business

As for the HT business, sales were 256,444 thousand yen (down 33.8% year on year), and segment income was 60,499 thousand yen (down 45.6% year on year).

3) Crowdsourcing business

As for the Crowdsourcing business, sales were 94,964 thousand yen (down 19.6% year on year). Segment income was 16,267 thousand yen (up 4.7% year on year), mainly due to the rationalization of SG & A expenses, such as a significant reduction of administrative headquarters functions.

(2) Financial Position

(Assets)

Current assets decreased by 7,556 thousand yen from the end of the previous fiscal year to 1,637,394 thousand yen at the end of the first quarter of the current fiscal year. This was mainly due to an increase of 63,238 thousand yen in cash and deposits and a decrease of 102,330 thousand yen in notes and accounts receivable. Non-current assets increased by 112,669 thousand yen from the end of the previous fiscal year to 2,221,625 thousand yen. This was mainly due to an increase of 160,182 thousand yen in intangible assets and a decrease of 41,790 thousand yen in property, plant and equipment.

(Liabilities)

Current liabilities increased by 53,503 thousand yen from the end of the previous fiscal year to 1,871,253 thousand yen at the end of the first quarter of the current fiscal year. This was mainly due to an increase of 179,483 thousand yen in advances received and the repayment of 160,000 thousand yen in short-term borrowings. Non-current liabilities decreased by 70,730 thousand yen from the end of the previous fiscal year to 361,353 thousand yen. This was due to the repayment of long-term debt.

(Net assets)

Net assets increased by 122,340 thousand yen from the end of the previous fiscal year to 1,626,413 thousand yen at the end of the first quarter of the current fiscal year. This was mainly due to an increase of 121,949 thousand yen in retained earnings.

(3) Consolidated Business Forecasts

The business forecasts are as follows.

At present, the MT business has entered a period of rapid growth since the fourth quarter of the fiscal year ending February 2018, and therefore we are concentrating our management policy on maximizing medium-to long-term growth rather than short-term profits. We will not disclose the forecast as a fixed value until sales growth of the MT business settles down (roughly 1.5 times that of the previous year), in order not to adjust expenses in accordance with earnings forecasts, and therefore we make decisive choices that best meet its long-term growth objectives on an occasional basis. With regard to the consolidated business forecasts for the fiscal year ending February 28, 2021, we only announce that they are at least record highs (3,910 million yen) and at least record highs (448 million yen in operating income).

The impact of the COVID-19 on business performance is as follows.

As for the MT business, as disclosed in the "Notice Regarding the Orders Received in the Machine Translation Business in June" on July 8, 2020, orders from existing customers bottomed out in May and continued to be firm in June. However, the acquisition of new customers takes about two months from the start of the business negotiation, and the impacts of the slowdown of business negotiations under the state of emergency in April and May and the delayed face-to-face sales and decision-making by continuing work-from-home policy on the part of client companies remains longer than anticipated. As a result, business activities have not yet been fully recovered and the recovery of orders received is expected to be later than initially assumed.

On the other hand, translation usage by users, which had grown steadily despite the pandemic, continued to increase in June due to the trend toward telecommuting and the streamlining of business operations, and hit a record high (170% compared to the same month of the previous year). This indicates the possibility that the trends toward telecommuting and the streamlining of business operations amid the pandemic will be consistent with our original vision.

As for the number of orders received from July and August, in addition to orders from existing customers, which are trending strongly, we expect that sales activities of sales agents returning to normal and the shift to an online negotiation system, such as through the use of online seminars, will lead to a gradual recovery in orders from new customers. As a result, the recovery trend is expected to become more evident as a whole.

The trend toward the discontinuation of face-to-face and group sessions for interpretation and language training in client companies is growing increasingly severe in the HT business, which undertakes manual tasks. As disclosed in the "Notice Regarding the Impact of the Novel Coronavirus on Business Results" on February 27, 2020, significant declines in revenues and profits are expected as long as the impact lingers.

In terms of the product portfolio, the growth portion of the MT business, which is the "STAR," exceeds the reduction amount of the HT business, which is shifting from "CASH COW" to "DOGS," and therefore consolidated net sales and income are expected to mark record highs.

The forecast is based on the actual results and circumstances that have been affected by the Corona calamity as of July 14, and does not include any prediction as to when the future medical, political and economic situation regarding the Corona calamity will be settled.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (February 29, 2020)	Current first quarter (May 31, 2020)
Assets		
Current assets		
Cash and deposits	991,056	1,054,294
Notes and accounts receivable	427,847	325,517
Inventories	29,045	26,232
Other	210,151	238,039
Allowance for doubtful receivables	(13,151)	(6,689)
Total current assets	1,644,950	1,637,394
Non-current assets		
Property, plant and equipment		
Tools, furniture and fixtures, net	514,666	478,692
Other, net	40,939	35,122
Total property, plant and equipment	555,605	513,815
Intangible assets		
Goodwill	74,992	69,302
Software	738,697	1,038,729
Software in progress	574,926	440,772
Other	446	440
Total intangible assets	1,389,062	1,549,244
Investments and other assets	164,287	158,565
Total non-current assets	2,108,955	2,221,625
Total assets	3,753,905	3,859,019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	88,469	58,616
Short-term borrowings	280,000	120,000
Current portion of long-term debt	237,655	249,103
Income taxes payable	34,457	61,150
Provision for bonuses	50,652	100,088
Advances received	696,169	875,652
Other	430,347	406,642
Total current liabilities	1,817,750	1,871,253
Non-current liabilities		
Long-term debt	432,083	361,353
Total non-current liabilities	432,083	361,353
Total liabilities	2,249,833	2,232,606
Net assets		
Shareholders' equity		
Common stock	253,565	253,761
Capital surplus	1,232,754	1,232,949
Retained earnings	18,525	140,474
Treasury stock	(861)	(861)
Total shareholders' equity	1,503,983	1,626,324
Share subscription rights	89	89
Total net assets	1,504,072	1,626,413
Total liabilities and net assets	3,753,905	3,859,019

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the Three-month Period)

(Thousands of yen)

	Previous first quarter (From March 1, 2019 To May 31, 2019)	Current first quarter (From March 1, 2020 To May 31, 2020)
Net sales	975,364	1,067,438
Cost of sales	329,971	342,014
Gross profit	645,393	725,423
Selling, general and administrative expenses		
Salaries, allowances and bonuses	135,765	163,978
Provision for bonuses	35,054	29,962
Other	304,047	349,845
Total selling, general and administrative expenses	474,867	543,785
Operating income	170,525	181,637
Non-operating income		
Interest income	10	6
Foreign exchange gain	1	64
Difference in consumption tax	—	690
Other	386	293
Total non-operating income	398	1,054
Non-operating expenses		
Interest expenses	480	811
Other	—	1
Total non-operating expenses	480	813
Ordinary income	170,443	181,879
Special loss		
Loss on retirement of non-current assets	0	—
Total special loss	0	—
Income before income taxes	170,443	181,879
Income taxes	60,408	59,930
Net income	110,035	121,949
Income (loss) attributable to non-controlling interests	(638)	—
Net income attributable to owners of parent	110,673	121,949

(Quarterly Consolidated Statements of Comprehensive Income)
(For the Three-month Period)

(Thousands of yen)

	Previous first quarter (From March 1, 2019 To May 31, 2019)	Current first quarter (From March 1, 2020 To May 31, 2020)
Net income	110,035	121,949
Comprehensive income	110,035	121,949
Comprehensive income (loss) attributable to:		
Owners of parent	110,673	121,949
Non-controlling interests	(638)	—

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Significant Subsidiaries during the Period)

Not applicable.

(Application of Accounting Procedures Specific to Preparation of the Quarterly Consolidated Financial Statements)

Tax expenses are calculated by multiplying income before income taxes by a reasonable estimate of the effective tax rate after the application of tax effect accounting to income before income taxes for the fiscal year including the first quarter of the current fiscal year.

(Segment Information)

[Segment Information]

I. Previous first quarter (From March 1, 2019 To May 31, 2019)

1. Information on net sales and income (loss) by reportable segment

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1)	Amounts on the consolidated financial statements (Note 2)
	MT business	HT business	Crowdsourcing business	Total		
Net sales						
Net sales to unaffiliated customers	469,598	387,590	118,175	975,364	—	975,364
Intersegment sales or transfer	28,518	643	51,491	80,653	(80,653)	—
Total	498,116	388,234	169,666	1,056,017	(80,653)	975,364
Segment income	52,337	111,301	15,543	179,182	(8,656)	170,525

(Note)

1. Adjustments to segment income (8,656) thousand yen include elimination of intersegment transactions and amortization of goodwill not attributable to reportable segments, and corporate expenses. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.
2. Segment income is adjusted with operating income in the quarterly consolidated statements of income.

II. Current first quarter (From March 1, 2020 to May 31, 2020)

1. Information on net sales and income (loss) by reportable segment

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1)	Amounts on the consolidated financial statements (Note 2)
	MT business	HT business	Crowdsourcing business	Total		
Net sales						
Net sales to unaffiliated customers	716,029	256,444	94,964	1,067,438	—	1,067,438
Intersegment sales or transfer	7,784	2,106	13,408	23,300	(23,300)	—
Total	723,813	258,551	108,373	1,090,738	(23,300)	1,067,438
Segment income	127,221	60,499	16,267	203,988	(22,350)	181,637

(Note)

1. Adjustments to segment income of (22,350) thousand yen include elimination of intersegment transactions and corporate expenses. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.
2. Segment income is adjusted with operating income in the quarterly consolidated statements of income.

(Per share Information)

The basis for calculating net income per share and diluted net income per share is as follows.

	Previous first quarter (From March 1, 2019 To May 31, 2019)	Current first quarter (From March 1, 2020 To May 31, 2020)
(1) Net income per share	10.75 yen	11.80 yen
(Basis of calculation)		
Net income attributable to owners of parent (thousands of yen)	110,673	121,949
Amount not attributable to common shareholders (thousands of yen)	—	—
Net income attributable to owners of parent related to common stock (thousands of yen)	110,673	121,949
Average number of shares of common stock outstanding during the period (shares)	10,295,933	10,330,924
(2) Diluted net income per share	10.41 yen	11.51 yen
(Basis of calculation)		
Adjustment to net income attributable to owners of parent (thousands of yen)	—	—
Increase in number of common shares (shares)	334,254	261,002
Outline of potential shares that had not been included in the calculation of diluted net income per share because they had no dilutive effect but experienced significant changes from the end of the previous fiscal year	—	—

(Significant Subsequent Events)

At the meeting of the Board of Directors held on July 14, 2020, we resolved to issue new shares (hereinafter "Shares") and the 14th Share Acquisition Rights (hereinafter "Share Acquisition Rights") through a third-party allotment, and to conclude a purchase agreement (hereinafter "Purchase Agreement") related to the Shares and Share Acquisition Rights after the notification under the Financial Instruments and Exchange Act takes effect. The outline is as follows.

(1) Outline of the Issuance of Shares

(1)	Payment date (allotment date)	July 30, 2020
(2)	Number of new shares issued	325,000 shares of common stock
(3)	Issue price	3,260 yen per share (volume-weighted average price for the twenty consecutive business days ending on the business day preceding the date of resolution for share issuance multiplied by 90% (rounded up to the nearest 1 yen))
(4)	Funds to be raised	1,002,304,250 yen (Note)
(5)	Method of offering or allocation	Third-party allocation
(6)	Planned Allottee	CVI Investments, Inc.
(7)	Use of funds	1) M&A to expand market share and strengthen development of document translation
(8)	Other	We plan to enter into this purchase agreement with CVI Investments, Inc. (hereinafter "Planned Allottee") concerning this share after the effective date of the notification under the Financial Instruments and Exchange Act.

(Note) Funds to be raised is the total amount paid in less estimated expenses related to the issuance of shares.

(2) Outline of the Issuance of Share Acquisition Rights

(1)	Allotment date	July 30, 2020
(2)	Number of share subscription rights	12,188 rights
(3)	Issue price	Total amount of 41,146,688 yen (3,376 yen per share subscription right)
(4)	Number of dilutive shares resulting from issuance	Number of dilutive shares: 1,218,800 shares (100 shares per share subscription right) The exercise price will not be revised.
(5)	Funds to be raised (value of assets to be contributed upon exercise of share subscription rights)	4,717,323,156 yen (Note)
(6)	Exercise price and exercise price revision provision	Exercise price of 3,985 yen (volume-weighted average price for the twenty consecutive business days ending on the business day preceding the date of resolution for share issuance multiplied by 110% (rounded up to the nearest 1 yen)) The exercise price will not be revised.
(7)	Method of offering or allocation	Third-party allocation
(8)	Planned Allottee	CVI Investments, Inc.
(9)	Exercise period	From July 31, 2020 to July 30, 2024
(10)	Use of funds	M&A to expand market share and strengthen development of document translation: 1,758 million yen M&A to strengthen the development of speech translation and provide industry-specific solutions for the T-4PO wearable device: 1,500 million yen M&A to expand and strengthen development of the AI RPA business: 1,500 million yen
(11)	Other	The following contents are planned to be determined in this Purchase Agreement. (1) Following conditions shall be met for the issuance of the share subscription rights to be allotted to the Planned Allottee: 1) Our representations and warranties set forth in this Purchase Agreement are accurate in terms of materiality and we comply with significant commitments. 2) The issuance of the share subscription rights has not been subjected to a restraining order, etc. 3) Our stock has not been delisted 4) There have not been any events that would have a material adverse effect on us. 5) We have not communicated any undisclosed material facts about us to the Planned Allottee. (2) Transfer of the Share Acquisition Rights (however, the transfer to Bank of America Merrill Lynch, J.P. Morgan, or Goldman Sachs & Co. and its affiliates is excluded in order to reduce administrative costs at the Planned Allottee) requires approval of our Board of Directors. Even in the case of transfer, the rights and obligations of the Planned Allottee are taken over by transferee.

(Note) Funds to be raised is the sum of the values of assets contributed upon the exercise of the 14th share subscription rights, net of approximate expenses related to the issuance of the first share subscription rights. If the share subscription rights are not exercised during the exercise period, or if we cancel the share subscription rights we acquired, funds to be raised will decrease.

(3) Lockup

- 1) In this Purchase Agreement, we intend to agree that we will not issue our common stock, securities that can be converted into or exchanged for our common stock, or securities that represent the rights to acquire or receive our common stock, etc. (however, excluding cases where there is a request under Japanese law such as the issuance of the share subscription rights, the issuance of our common stock by the exercise of the share subscription rights or our outstanding share subscription rights (however, the number of shares of common stock to be issued upon the exercise of our share subscription rights outstanding shall not exceed 5% of the number of shares outstanding), a stock split, or the granting of stock options to our directors (however, the number of shares of common stock to be issued upon the exercise of such stock options shall not exceed 5% of the number of shares outstanding together with the number of shares of common stock to be issued upon the exercise of our outstanding share subscription rights), etc) during the period from the date of this Purchase Agreement until 180 days after the payment date without the prior written consent of the Planned Allottee.
- 2) In the Purchase Agreement, we intend to agree that we will not issue or dispose of or sell any sort of securities which are issued by us or our subsidiaries and grant acquisition rights of our common stock to holders for which the exercise price or the conversion price, etc. is adjusted in conjunction with the share price of our common stock (A) after the first issuance of such securities or (B) due to the occurrence of events related to our business or our common stock trading market during the period in which the Planned Allottee holds the Share Subscription Rights since the date of this Purchase Agreement without the prior written consent of the Planned Allottee.
- 3) In the event of the issuance of (1) or (2) above with approval of the Planned Allottee, if requested by the Planned Allottee, we intend to agree to issue the securities to the Planned Allottee under the same conditions as the issuance to the other party on the proportion calculated in accordance with the Purchase Agreement.