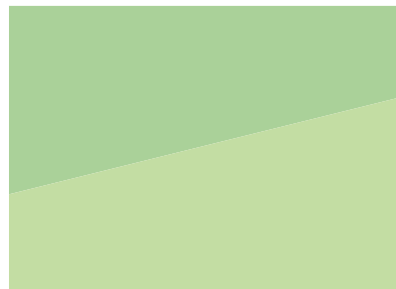
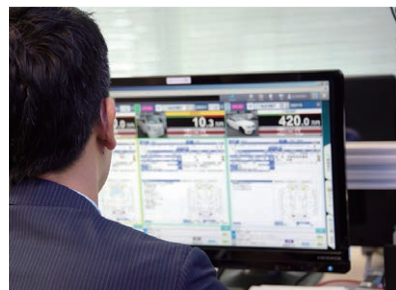
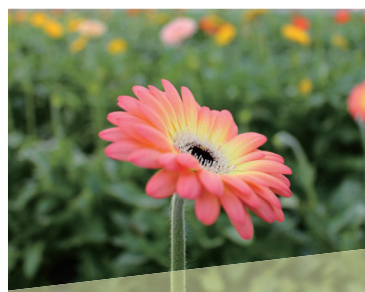




AUCNET INC.

# Investors' Notes Report for the 11th Business Term

January 1, 2018 – December 31, 2018



## We are committed to creating next-generation information distribution services and providing them on a global scale.

**Kiyotaka Fujisaki** Representative Director and President



### How would you assess business performance for the fiscal year ended December 31 2018?

In terms of business performance, the AUCNET Group reported net sales of ¥19,492 million, ¥3,219 million in operating income, and profit attributable to owners of parent of ¥1,707 million. The Automobile Business achieved higher earnings despite lower sales, amid adverse market

trends. The Digital Product Business posted lower sales and earnings year-on-year, due to a number of external factors that significantly reduced distribution volume compared to initial expectations.

### Can you describe the Group's growth strategies and priorities going forward?

In line with our brand statement of "Shaping the Future of Commerce," the AUCNET Group has been working to further improve its social and economic value by ① creating new next-generation information distribution services, ② thoroughly upgrading services to outperform competitors and ③ establishment and development of overseas business models. Our domestic market, Japan, was hit by a string of natural disasters and other issues during the fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018), resulting in a challenging business environment. This adversity notwithstanding, as medium to long-term growth strategies, the AUCNET Group is strengthening and expanding existing businesses, while also putting energy into developing our business globally and identifying new business fields. Going forward, we plan to accelerate the development of new and overseas businesses even further.

In the Automobile Business, along with increased utilization of our "Value Up Centers" (one-stop facilities that provide services ranging from inspections and repairs to auction listing of traded-in vehicles), we are making "SATEROKU Premium" (a system that allows our members to appraise

their used vehicles), the focal point of our distribution expansion efforts as we look to increase market share.

In the Digital Product Business, we will expand distribution volume by bolstering our buying power, namely by attracting new overseas buyers to enlarge our overseas buyer network, and focusing on securing new suppliers of devices, both domestic and overseas. In the Other Information Distribution Business, we will expand distribution volume for pre-owned luxury brand items by increasing the number of items bought and sold. The focus here will be taking steps to continuously acquire new overseas buyers, coupled with full-scale overseas business development. In used motorcycles, our goal is to expand distribution volume by redoubling efforts to acquire new members.

Lastly, in flowers (cut and potted), our push to expand distribution volume will see us enhancing cooperation with suppliers.



### In closing, what message do you have for shareholders?

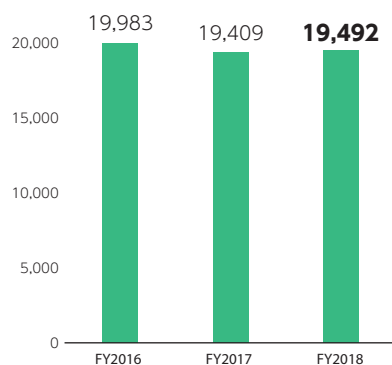
We remain committed to further enhancing our Group business structure, with eyes on both sustainable growth and improved corporate value. To our shareholders, I invite

you to expect great things from the AUCNET Group, and ask for your continued support as we look ahead.

# Consolidated Financial Highlights

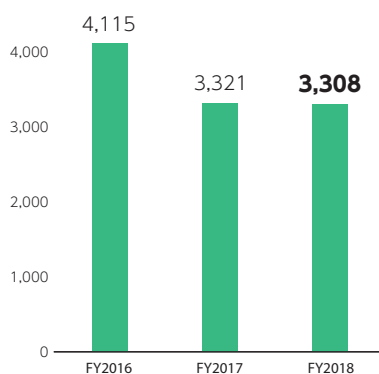
## Net Sales

(Millions of yen)  
25,000



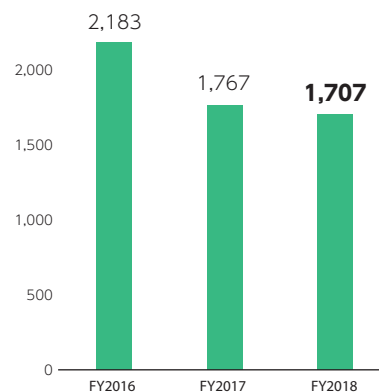
## Ordinary Income

(Millions of yen)  
5,000



## Profit Attributable to Owners of Parent

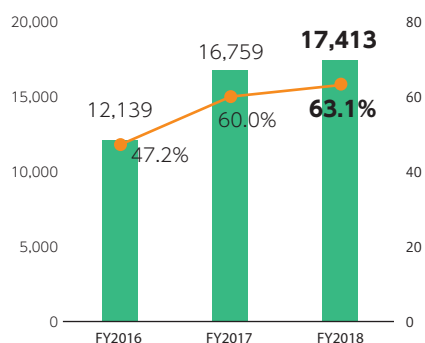
(Millions of yen)  
2,500



## Net Assets/Equity Ratio

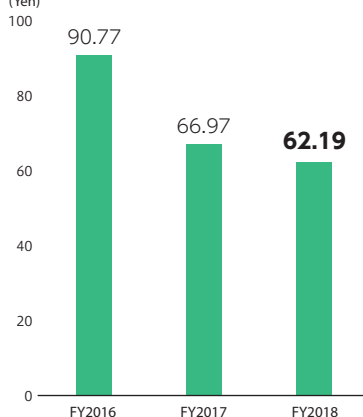
(Millions of yen)

25,000  
Net Assets (left axis) (%)  
Equity Ratio (right axis)



## Basic Earnings per Share

(Yen)



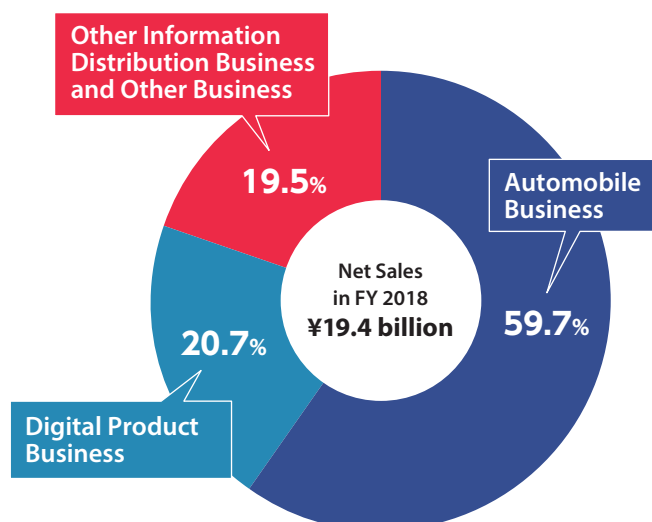
### A Note Concerning Shareholder Returns

At AUCNET, we view the return of profits to shareholders as one of management's highest priorities. While paying close attention to ensuring sufficient internal reserves on hand to fund future business development and capital investment, our basic policy is to maintain a stable dividend and aim for a consolidated payout ratio of 30%. Based on this policy, AUCNET paid an interim dividend this period of ¥13 per share (projected full-year dividend: ¥26).

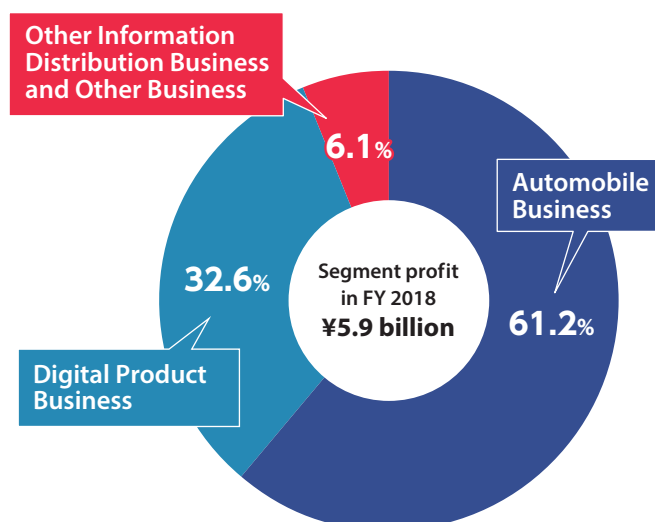
Note:  
On July 31, 2016, the Company conducted a 20-for-1 stock split. Consequently, figures for "Basic Earnings per Share" were calculated as if the stock splits had occurred at the beginning of the December 2016 fiscal year.

## Information by Business Segment

### Comparison of Net Sales Composition by Segment



### Segment Profit Composition Comparison



#### Notes:

1. Net sales in each segment exclude inter-segment internal revenues and transfers.
2. Profits listed for each segment exclude expenses not attributable to any segment and amortization of goodwill.
3. Figures for the segment profit composition comparison are percentages based on the total amount of segment profit accounted for.



The key components of the AUCNET Group are the Automobile Business, which handles used vehicles, the Digital Product Business, responsible for transactions involving used smartphones, PCs and other devices, the Other Information Distribution Business, which trades in pre-owned luxury brand items, used motorcycles and flowers (cut and potted), and Other Business. In this section, we focus on the flower (cut and potted) business, part of the Other Information Distribution Business.

### What is AUCNET's Flower (Cut and Potted) Business?

AUCNET is connecting suppliers to buyers through online flower distribution and auctions. Since debuting in 1997, these services have continued to evolve in ways that make buying and selling easier. While physical flower auction sites have the disadvantage of early morning auctions, AUCNET's platform allows efficient transactions between many suppliers and buyers from a wide geographic area.

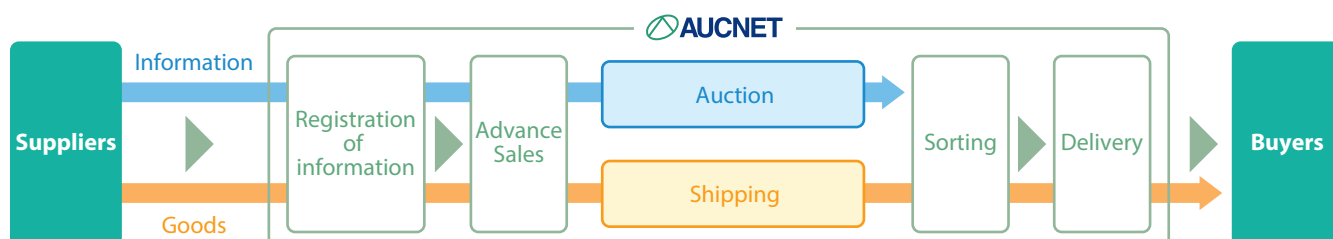
#### Business Model - Flower Business



Through proprietary online information distribution, AUCNET connects farmers, Japan Agricultural Cooperatives (JA) members, importers and other suppliers with buyers, including florists, funeral and bridal companies, and gardening centers. With participants coming from a variety of different regions and industries, we strive to create a highly transparent, stable marketplace that is fair for all involved.

#### Flower Delivery Flow

In a typical market there is no separation of information and physical goods. AUCNET, however, manages and distributes these two components separately. This separation of information from goods, in turn, enables fast and efficient distribution.



#### New Initiatives for Business Expansion

##### ■ Zoto no Madoguchi (Gift Exchange Portal)

This is a service that arranges floral gift exchanges for corporate clients, an indispensable part of corporate culture in Japan. Based on the occasion and budget, we ship moth orchids and a variety of other flowers and arrangements in prime condition to customers.



##### ■ Otoriyose Torihiki (Pre-order service)

This service allows buyers to choose flowers in advance from listing information, rather than the traditional practice of waiting until the flowers are actually available. The introduction of order request transactions offers mutual benefits for suppliers and buyers. Buyers choose the items they want from cataloged data on products available, enabling purchases to be made with more certainty than ever before. For suppliers, cataloging products makes advance sales possible, enabling them to stabilize prices and expand sales.



## The Road to Flower Delivery – Cut Flower Auctions

### Supplier

**JA HAINAN GERBERA** (Makinohara City, Shizuoka Prefecture)

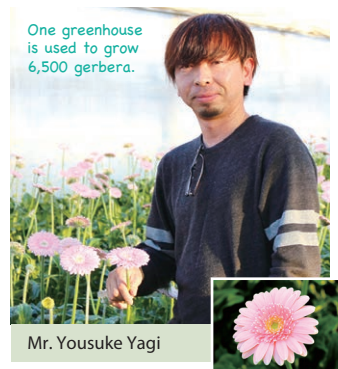


Mr. Masayuki Kawamura



### Deliveries to Florists in Previously Inaccessible Regions

Located in Makinohara City, a nationally recognized site for gerbera production in Japan's Shizuoka Prefecture, the JA HAINAN GERBERA began using AUCNET in 2013. Today, the organization is promoting the establishment of HAINAN GERBERA as a brand. "Until a few years ago, the norm was to ship in lots of 100 flowers each," says Mr. Masayuki Kawamura, "but we decided to start selling in lots of 50 to make it easier for buyers to purchase. This was one reason we started using AUCNET. As a result, we were able to increase our business to regions where before we had no transactions at all. With less time loss and very fresh flowers, we also have a strong reputation among customers, and business is growing steadily." "Thanks to AUCNET, we get likes on Facebook from a broad range of users. Looking ahead, we hope to use input from trendy urban retailers in the development of new gerbera varieties."



One greenhouse is used to grow 6,500 gerbera.

Mr. Yousuke Yagi



### Buyer

**Flower Message Ohanayasan.Inc.** (Meguro-ku, Tokyo)

### Saving Time and Cost of Getting Flowers to Market

Prior to AUCNET auctions, the norm involved heading out to physical markets in the early hours of the morning, then driving back to the store with purchased flowers. This meant flowers could only be displayed in-store from late afternoon. "Today, that's all changed," says Mr. Hisayuki Hokutou, "Now, I purchase from AUCNET's auction, and all I need to do is unload the flowers when they arrive at the store the next morning. For florists, time in the morning is extremely important, so using AUCNET brings big savings in terms of time and delivery cost. Being able to purchase flowers without being away from the shop gives owners the chance to use the time we save more effectively, including for things like developing new flower gift merchandise. I was somewhat resistant at first to the idea of purchasing flowers without seeing them directly, but AUCNET also deals immediately with any problems, making the whole process worry free. That's why now I make most of my purchases through AUCNET."



Mr. Hisayuki Hokutou

# INFORMATION

## Company Overview

(As of December 31, 2018)

**Name** AUCNET INC.  
**Establishment** June 29, 1985  
**Capital** ¥1,711 million  
**Number of employees (consolidated)** 677

**Listing** Tokyo Stock Exchange, First Section  
**Head office** Aoyama OM Square, 5-8 Kita-Aoyama 2-chome, Minato-ku, Tokyo  
**Tel. (switchboard)** TEL: +81-3-6440-2500 FAX: +81-3-6440-2510

## Executive Officers

(As of March 27, 2019)

Representative Director and President	Kiyotaka Fujisaki
Directors	Chiaki Fujino Shunji Sato Shinichiro Fujisaki Nobukazu Tajima
Outside Directors	Seiichi Umeno Ikuo Kaminishi
Director (Audit & Supervisory Committee member)	Koji Sasaki
Outside Directors (Audit & Supervisory Committee members)	Masaaki Ayukawa Ryoza Ushioda

## Stock Information

(As of December 31, 2018)

**Total number of shares authorized to be issued** 110,000,000 shares  
**Total number of shares outstanding** 27,667,500 shares  
**Number of shareholders** 2,865  
**Major Shareholders**

Shareholder Name	Number of Shares	Shareholding Ratio
FLEX CORPORATION	11,448,800	41.38%
NAMAI ASSET MANAGEMENT INC	2,000,000	7.23%
JP MORGAN CHASE BANK 380634	1,321,500	4.78%
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account re-entrusted by Orient Corporation.	1,296,000	4.68%
Orient Corporation	1,296,000	4.68%
FLEX CO., LTD.	844,800	3.05%
BNYM AS AGT/CLTS 10 PERCENT	843,300	3.05%
Shinichiro Fujisaki	821,800	2.97%
Masahiro Fujisaki	821,800	2.97%
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	780,351	2.82%

### Notes:

- Shareholding ratio is calculated after deducting treasury shares (102 shares).
- The Company has introduced the Board Benefit Trust (BBT), and Trust & Custody Services Bank, Ltd. (Trust E account) holds 151,800 shares, which are not included in the treasury shares stated above.
- FLEX CORPORATION is an asset management company of the founding family. NAMAI ASSET MANAGEMENT INC is an asset management company of a relative of Mr. Kiyotaka Fujisaki, Representative Director and President of the Company.
- The 1,296,000 shares held in Trust & Custody Services Bank, Ltd. as trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account re-entrusted by Orient Corporation are trust assets entrusted by Orient Corporation to Mizuho Trust & Banking Co., Ltd. as a retirement benefit trust, and Orient Corporation reserves the right to provide instruction for the exercise of voting rights.
- In the Statement of Large-Volume Holdings (Change Report) made available to the public inspection on March 7, 2018, FMR LLC indicated that it held 2,745,912 shares (shareholding ratio: 10.00%) as of February 28, 2018. However, the Company has not confirmed the actual number of shares held by the entity as of December 31, 2018, and therefore, FMR LLC is not included in the above list of major shareholders.

## Shareholder Memo

(As of December 31, 2018)

**Financial year**  
January 1 to December 31  
**Annual shareholders' meeting**  
Within three months after end of each financial year  
**Record date for dividends from surplus**  
Year-end dividends – December 31  
Interim dividends – June 30

**Number of shares per unit**  
100 shares

**Method of public notice**  
AUCNET INC. publishes its information in electronic public notices. However, in the event that electronic public notices cannot be provided due to accidents or other unavoidable circumstances, the public notices shall be posted in the Nihon Keizai Shinbun (Nikkei).


**URL for public notice**  
<http://ir.aucnet.co.jp/ja/announcement.html> (Japanese only)

**Administrator of shareholder registry**  
4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan  
Mitsubishi UFJ Trust and Banking Corporation

**Office of shareholder registry administrator**  
4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan  
Stock Transfer Agency  
Mitsubishi UFJ Trust and Banking Corporation

## Shareholder Benefit System

The Company has adopted a system of benefits specifically for shareholders. This system serves as both an expression of gratitude to shareholders for their steadfast support and as a means of encouraging medium- to long-term shareholding by more individuals by enhancing the investment appeal of the Company's shares.

<b>Eligible Shareholders</b>	Benefits are offered once annually to shareholders owning at least one unit (100 shares) or more of the Company's shares, and listed in the Registry of Shareholders as of December 31.
<b>Benefit Offered</b>	A Quo card of ¥1,000 (a prepaid card that you can use in certain shops in Japan ) will be gifted to each eligible Shareholder. 
<b>Presentation Date</b>	Benefit is scheduled to be enclosed with the Notice of Annual General Shareholders Meeting, sent in advance of the Annual General Shareholders Meeting held in March.
<b>Start Date</b>	Benefit will first be offered to shareholders of one unit (100 shares) or more of the Company's shares listed in the Registry of Shareholders as of December 31, 2018.



Aoyama OM Square, 5-8 Kita-Aoyama 2-chome, Minato-ku, Tokyo  
<http://www.aucnet.co.jp/>