

# Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending December 31, 2020 [Japanese GAAP]



May 12, 2020

Company name: **AUCNET INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3964

URL: <https://www.aucnet.co.jp/>

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Scheduled date of filing quarterly report: May 12, 2020

Scheduled date of commencing dividend payments: —

Preparation of supplementary explanatory materials: None

Quarterly financial results meeting: None

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

## 1. Consolidated Results for the First Quarter of the Fiscal Year Ending December 31, 2020 (January 1, 2020 - March 31, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2020	5,591	14.8	1,136	34.1	1,184	29.6	723	50.0
March 31, 2019	4,871	(6.4)	847	(24.8)	913	(20.6)	481	(20.4)

(Note) Comprehensive income: Three months ended March 31, 2020: ¥666 million [35.5%]

Three months ended March 31, 2019: ¥491 million [-12.8%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2020	26.17	25.93
March 31, 2019	17.51	17.32

## (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2020	31,963	18,640	57.4
As of December 31, 2019	29,324	18,333	61.6

(Reference) Equity: As of March 31, 2020: ¥18,357 million

As of December 31, 2019: ¥18,063 million

## 2. Cash Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2019	—	13.00	—	13.00	26.00
Year ending December 31, 2020	—				
Year ending December 31, 2020 (Forecast)		10.00	—	10.00	20.00

(Note) Revision to the forecast for dividends announced most recently: None

## 3. Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2020 (January 1, 2020 - December 31, 2020)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
Full year	20,328	3.3	2,582	2.3	2,681	1.9	1,430	51.77

(Note) Revision to the forecast of consolidated results announced most recently: None

**\* Notes:**

- (1) Changes in significant subsidiaries during the period under review: None
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective 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) Retrospective restatement: None
- (4) Total number of issued and outstanding shares (common shares)
- 1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

March 31, 2020:	27,774,700 shares
December 31, 2019:	27,769,300 shares
  - 2) Total number of treasury shares at the end of the period:

March 31, 2020:	147,316 shares
December 31, 2019:	147,316 shares
  - 3) Average number of shares during the period:

Three months ended March 31, 2020:	27,624,201 shares
Three months ended March 31, 2019:	27,515,866 shares

\* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

\* Explanation of the proper use of performance forecast and other notes

The earnings forecast and other forward-looking statements herein are based on the information currently available and certain assumptions deemed reasonable by the Company, and the Company does not guarantee their achievement. In addition, actual results may differ significantly from these forecasts due to a wide range of factors. For cautionary notes on assumptions that form the basis of the performance forecast and the use of performance forecast, please see “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information” on page 4 of the attachments.

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## 1. Qualitative Information on Quarterly Financial Results

### (1) Explanation of Operating Results

Forward-looking statements in this document are based on the judgments of the Group (the Company and its subsidiaries) as of the end of the first quarter of the fiscal year under review.

During the three months ended March 31, 2020, the Japanese economy has been largely depressed due to a decline in inbound tourism demand and continued sluggish exports owing to the impact of the spread of the novel coronavirus (COVID-19) infection. The future outlook is becoming more uncertain as the effects of the requirement for self-restraint in economic activities, etc. are unavoidable.

In these circumstances, in line with our brand statement, “Shaping the Future of Commerce,” the Company has worked to further improve its social and economic value, by providing competitive value-added products and services to promote information distribution in addition to its B2B information distribution intermediary businesses.

As a result, for the three months ended March 31, 2020, net sales were ¥5,591,764 thousand (up 14.8% from the same period of the previous fiscal year), operating income was ¥1,136,737 thousand (up 34.1% from the same period of the previous fiscal year), ordinary income was ¥1,184,361 thousand (up 29.6% from the same period of the previous fiscal year), and profit attributable to owners of parent was ¥723,055 thousand (up 50.0% from the same period of the previous fiscal year).

Performance results by business segment are as follows.

#### 1) Automobile Business

The Automobile Business comprises the Company’s mainstay used vehicle auctions (\*1), shared inventory market (\*2), live linked auctions (\*3), the proxy bidding service (\*4), used vehicle inspection service (\*5), and other services.

In the Japanese automotive sector, which has close connections with our business, total new-vehicle registrations (\*6) decreased 10.2% year-on-year to 1.37 million units in the three months ended March 31, 2020. The total number of used-vehicle registrations (\*7) decreased 3.0% year-on-year to 1.90 million units, and the number of vehicles exhibited (\*8) at auctions around Japan decreased 4.4% year-on-year to 1.92 million units. The total number of vehicles sold at auction (\*8) decreased 5.6% year-on-year to 1.21 million units.

Amid this deterioration in market conditions, for our used vehicle auctions, the number of vehicles listed decreased from the same period of the previous fiscal year due to a significant decline in distribution because of the spread of the novel coronavirus (COVID-19) infection. In order to overcome this situation, we swiftly took initiatives to minimize the decline in distribution, such as setting special prices for transaction fees and subsidizing land transportation costs incurred by listing as urgent industry-wide support measures, and allowing non-members to participate in used vehicle auctions. For our live linked auctions and proxy bidding service, despite a declining trend in the use of exporters due to the partial restriction of exports because of the spread of the novel coronavirus (COVID-19) infection, the number of vehicles bought and our sales share remained at the same level as in the previous fiscal year, due to an increasing need to participate in live linked auctions during telework. In the used vehicle inspection service, as the number of qualification inspections for used vehicle listing magazines remained steady, the number of inspected vehicles rose from the same period of the previous fiscal year.

As a result, for the three months ended March 31, 2020, net sales (including inter-segment net sales) were ¥2,961,871 thousand (down 2.2% from the same period of the previous year), and operating income was ¥926,393 thousand (down 7.7% from the same period of the previous year).

(\*1) Used vehicle auctions are real-time, members-only online auctions run by the Company.

(\*2) The shared inventory market is a system that allows Aucnet Group member sellers to share inventory with other members online. The inventory remains at the seller’s premises while other members access it

via the online system.

- (\*3) Live-linked auctions use an online live-link system that enables real-time remote access to participate at physical auction sites, through partnerships between AUCNET and the physical auction sites.
- (\*4) The proxy bidding service is an agency service provided by i-Auc, Inc. to buy, sell, settle payment for and transport used vehicles at auctions on behalf of its members.
- (\*5) The used vehicle inspection service and related inspection skills training services are provided by AIS INC.
- (\*6) Based on statistics compiled by Japan Automobile Dealers Association
- (\*7) Based on statistics compiled by Japan Automobile Dealers Association and Japan Light Motor Vehicle and Motorcycle Association
- (\*8) Based on U-Car Full Data Book and Export Quotation Book

## 2) Digital Product Business

The Digital Product Business comprises auctions for used digital equipment including used smartphones and used PCs, and services pertaining to distribution.

The number of items traded-in rose significantly from the same period of the previous fiscal year as sales of new smartphones continued to be favorable, and the distribution of used PCs remained steady. In addition, the transaction amount and profit per item rose above the level in the same period of the previous fiscal year due to an increase in the ratio of products with comparatively high unit cost resulting from replacement with new smartphones, while the initiatives taken since last year for cost reduction and further optimization of selling, general and administrative expenses contributed to improvement in profitability of business in the period under review. On the other hand, in the overseas business, the slow pace of activity continued, as overall commercial distribution slumped due to the impact of the spread of the novel coronavirus (COVID-19) infection, just as full-scale business operation commenced.

As a result, for the three months ended March 31, 2020, net sales were ¥1,704,981 thousand (up 96.8% from the same period of the previous year), and operating income was ¥744,600 thousand (up 130.1% from the same period of the previous year).

## 3) Other Information Distribution Business

The Other Information Distribution Business comprises auctions for pre-owned luxury brand items, used motorcycles, and flowers (cut and potted), and services pertaining to distribution.

For pre-owned luxury brand items, we stimulated the active participation in auctions by expanding the number of overseas buyers, mainly in Europe, and increased the number of bids. As a result, the number of items sold and transaction amount each increased compared to the same period of the previous year. For flowers (cut and potted), although we promoted the acquisition of new members by actively utilizing digital marketing and online advertising, the transaction amount decreased from the same period of the previous fiscal year owing to a significant drop in demand for flowers for weddings, funerals and other events in Japan due to the impact of the novel coronavirus (COVID-19) infection. For used motorcycles, despite our measures to acquire members in order to compensate for the decrease in listed motorcycles amid the continuing trend of restrained buying, sales did not reach the level of the same period of the previous fiscal year. On the other hand, in the rental business, sales rose from the same period of the previous fiscal year as motorcycles in operation continued to be favorable.

As a result, for the three months ended March 31, 2020, net sales were ¥685,991 thousand (down 2.2% from the same period of the previous year), and operating income was ¥177,042 thousand (down 1.0% from the same period of the previous year).

## 4) Other Business

Other Business comprises system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

For the three months ended March 31, 2020, net sales (including inter-segment net sales) were ¥403,161

thousand (down 14.1% from the same period of the previous year), and operating loss was ¥102,968 thousand (the operating loss for the same period of the previous year was ¥29,868 thousand).

## (2) Explanation of Financial Position

Total assets as of the end of the first quarter of the current fiscal year amounted to ¥31,963,619 thousand, an increase of ¥2,638,970 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥732,803 thousand increase in cash and deposits, a ¥126,493 thousand increase in notes and accounts receivable - trade, a ¥1,195,773 thousand increase in due from auction members, an ¥810,081 thousand increase in consumption taxes refund receivable, and a ¥7,315 thousand increase in property, plant and equipment, despite a ¥60,186 thousand decrease in intangible assets, and a ¥147,218 thousand decrease in investments and other assets.

Total liabilities amounted to ¥13,322,899 thousand, an increase of ¥2,331,804 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥115,907 thousand increase in accounts payable - trade, a ¥2,178,100 thousand increase in due to auction members, a ¥9,901 thousand increase in provision for stocks payment and a ¥13,764 thousand increase in retirement benefit liability, despite a ¥79,731 thousand decrease in income taxes payable.

Total net assets amounted to ¥18,640,720 thousand, an increase of ¥307,165 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥928 thousand increase in capital stock, a ¥928 thousand increase in capital surplus, a ¥362,057 thousand increase in retained earnings, and a ¥13,954 thousand increase in non-controlling interests, despite a ¥65,431 thousand decrease in valuation difference on available-for-sale securities, a ¥2,742 thousand decrease in foreign currency translation adjustment, and a ¥2,530 thousand decrease in remeasurements of defined benefit plans.

## (3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information

There are no changes to the performance forecast announced on February 14, 2020.

Regarding the spread of the novel coronavirus (COVID-19) infection, we expect a considerable impact on the Group's results. However, it is currently difficult to calculate the exact extent of the impact. We will announce as soon as any revisions to the performance forecast become necessary in consideration of developments in the circumstances and business trends.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2019	As of March 31, 2020
<b>Assets</b>		
Current assets		
Cash and deposits	14,701,608	15,434,412
Notes and accounts receivable - trade	849,107	975,600
Due from auction members	3,589,476	4,785,249
Other	3,333,990	4,125,697
Allowance for doubtful accounts	(23,529)	(31,246)
Total current assets	22,450,654	25,289,713
Non-current assets		
Property, plant and equipment	1,482,512	1,489,827
Intangible assets	1,513,036	1,452,850
Investments and other assets	3,878,446	3,731,227
Total non-current assets	6,873,994	6,673,905
Total assets	29,324,649	31,963,619
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	604,799	720,706
Due to auction members	6,040,109	8,218,210
Income taxes payable	493,100	413,369
Other provisions	118,168	239,616
Other	1,199,558	1,134,821
Total current liabilities	8,455,736	10,726,724
Non-current liabilities		
Provision for share-based remuneration	74,980	84,881
Retirement benefit liability	1,620,592	1,634,357
Other provisions	10,532	11,805
Other	829,251	865,129
Total non-current liabilities	2,535,358	2,596,174
Total liabilities	10,991,094	13,322,899
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,729,168	1,730,096
Capital surplus	6,782,326	6,783,254
Retained earnings	9,484,599	9,846,656
Treasury shares	(241,056)	(241,056)
Total shareholders' equity	17,755,037	18,118,952
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	246,330	180,899
Foreign currency translation adjustment	4,466	1,723
Remeasurements of defined benefit plans	58,106	55,576
Total accumulated other comprehensive income	308,903	238,198
Non-controlling interests	269,613	283,568
Total net assets	18,333,554	18,640,720
Total liabilities and net assets	29,324,649	31,963,619



(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended March 31, 2019 and 2020

(Thousand yen)

	For the three months ended March 31, 2019	For the three months ended March 31, 2020
Net sales	4,871,374	5,591,764
Cost of sales	1,999,357	2,393,914
Gross profit	2,872,017	3,197,850
Selling, general and administrative expenses	2,024,182	2,061,112
Operating profit	847,835	1,136,737
Non-operating income		
Interest income	1,416	17,163
Dividend income	4,616	7,178
Share of profit of entities accounted for using equity method	22,106	6,608
Foreign exchange gains	—	14,254
Other	40,354	2,686
Total non-operating income	68,494	47,891
Non-operating expenses		
Interest expenses	612	267
Other	2,191	0
Total non-operating expenses	2,803	267
Ordinary profit	913,525	1,184,361
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	69,341	5,529
Other	19,566	—
Total extraordinary losses	88,908	5,529
Profit before income taxes	824,617	1,178,832
Income taxes	326,818	441,821
Profit	497,799	737,010
Profit attributable to non-controlling interests	15,916	13,954
Profit attributable to owners of parent	481,882	723,055

Quarterly Consolidated Statements of Comprehensive Income  
Three Months Ended March 31, 2019 and 2020

(Thousand yen)

	For the three months ended March 31, 2019	For the three months ended March 31, 2020
Profit	497,799	737,010
Other comprehensive income		
Valuation difference on available-for-sale securities	(8,539)	(65,431)
Foreign currency translation adjustment	(448)	(2,742)
Remeasurements of defined benefit plans, net of tax	2,848	(2,530)
Total other comprehensive income	(6,138)	(70,705)
Comprehensive income	491,660	666,305
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	475,743	652,350
Comprehensive income attributable to non-controlling interests	15,916	13,954

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in amount of shareholders' equity)

Not applicable.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

(Calculation of Tax Expenses)

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after application of tax-effect accounting to profit before income taxes for the fiscal year (consolidated) including the first quarter of the fiscal year under review, with quarterly profit before income taxes then multiplied by the estimated effective tax rate.

However, in the event that this tax expense calculation using estimated effective tax rate results in a significantly improbable figure, a method using the statutory effective tax rate may be adopted.

(Segment information, etc.)

[Segment information]

For the three months ended March 31, 2019 (from January 1, 2019 to March 31, 2019)

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

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	2,994,908	866,172	701,503	4,562,584	308,790	4,871,374	—	4,871,374
Inter-segment net sales or transfers	34,597	—	—	34,597	160,280	194,877	(194,877)	—
Total	3,029,506	866,172	701,503	4,597,181	469,070	5,066,252	(194,877)	4,871,374
Segment income (loss)	1,003,678	323,584	178,834	1,506,097	(29,868)	1,476,229	(628,394)	847,835

(Notes) 1. "Others" is the segment which is not included in reportable segments, including such businesses as system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥628,394 thousand is corporate expenses, which chiefly comprise general and administrative expenses not allocated to specific reportable segments.
3. Adjustments are made to reconcile segment income (loss) with operating income reported on the quarterly consolidated statements of income.

2. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.

Not applicable.

For the three months ended March 31, 2020 (from January 1, 2020 to March 31, 2020)

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

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	2,922,540	1,704,981	685,991	5,313,513	278,250	5,591,764	—	5,591,764
Inter-segment net sales or transfers	39,331	—	—	39,331	124,910	164,241	(164,241)	—
Total	2,961,871	1,704,981	685,991	5,352,844	403,161	5,756,006	(164,241)	5,591,764
Segment income (loss)	926,393	744,600	177,042	1,848,035	(102,968)	1,745,067	(608,330)	1,136,737

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥608,330 thousand is corporate expenses, which chiefly comprise general and administrative expenses not allocated to specific reportable segments.
3. Adjustments are made to reconcile segment income (loss) with operating income reported on the quarterly consolidated statements of income.

2. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.

Not applicable.

(Significant subsequent events)

(Issuance of New Shares as Restricted Stock Compensation)

The Company resolved at a Board of Directors meeting held on March 27, 2020, to issue new shares as restricted stock compensation (hereinafter the “Share Issuance”), and completed the payment on April 24, 2020. The details are as follows.

1. Outline of the Issuance

(1) Class and number of shares to be issued	45,000 shares of the Company’s common shares
(2) Issue price	¥1,194 per share
(3) Total amount of issuance	¥53,730,000
(4) Allottees, number of allottees and number of shares to be allotted	4 Directors (excluding Directors who are Audit & Supervisory Committee Members or Outside Directors): 12,000 shares 11 Executive Officers: 33,000 shares
(5) Payment date	April 24, 2020

## 2. Purpose and Reason for the Issuance

The Company, at a Board of Directors meeting held on February 21, 2020, resolved to introduce a restricted stock compensation plan (hereinafter the “Compensation Plan”) as a new compensation plan for the Company’s Directors (excluding Directors who are Audit & Supervisory Committee Members or Outside Directors; hereinafter “eligible Directors”) and Executive Officers (hereinafter included in the phrase “eligible Directors, etc.”). The purpose of the Compensation Plan is to provide an incentive to sustainably increase the corporate value of the Company and further share shareholder value. At the 12th Annual General Shareholders Meeting held on March 27, 2020, we gained approval to pay monetary compensation claims of up to ¥80 million per year to eligible Directors as monetary compensation for funds for acquisition of restricted stock (hereinafter “Restricted Stock Compensation”), based on the Compensation Plan, and to limit the transfer restriction period for Restricted Stock Compensation to a period of 3 to 5 years as determined by the Board of Directors.