

AUCNET INC.

# Investors' Notes

## Interim Report for the 11th Business Term

January 1, 2018 – June 30, 2018



# “Shaping the future of commerce, we are putting energy into developing our business globally and identifying new domains.”

**Kiyotaka Fujisaki** Representative Director and President



## How would you assess business performance for the first six months of the fiscal year ending December 31, 2018?

In terms of business performance cumulative through June 30, 2018, the AUCNET Group reported net sales of ¥10,033 million, ¥1,796 million in operating income, ordinary income of ¥1,843 million and profit attributable to owners of parent of ¥957 million. While the Automobile Business saw performance

surpass previous-year levels despite adverse market trends, the Digital Product Business saw weaker performance year on year. The outcome largely reflected the impact of lower distribution volume and transaction commissions for used smartphones and other factors.

## Can you describe the Group's growth strategies and your progress in this area?

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 ①creating next-generation information distribution services, ②thoroughly upgrading services to outperform competitors and ③establishment and development of overseas business models. As medium- to long-term growth strategies, we are strengthening and expanding existing businesses, while also putting energy into developing our business globally and identifying new domains.

While the number of new and used vehicles registered in Japan declined year on year during the first six months of this year, AUCNET used vehicle auctions found success in attracting products for auction from target vendors, resulting in growth in the number of vehicles listed, the number of vehicles sold at auction and the rate of sales. Additionally, we undertook measures to provide added convenience for members by releasing “SATEROKU Premium,” a newly developed system that allows our members to appraise trade-in vehicles. The number of vehicles sold through our live linked auctions increased as a result of promoting our “Omatome Service,” a service that arranges land transportation and consolidates payments for

vehicles purchased from multiple physical used vehicle auctions. In the Digital Product Business, from wholesalers to retailers, we looked beyond the domestic market and focused on attracting a wide



variety of overseas buyers. For used motorcycles, we have changed sales methods to aim at distribution reform, reformed inspection and photograph operations, and promoted the use of retail support services. For flowers (cut and potted), we provided greater motivation to attend auctions by organizing events for auction members. We also focused on expanding distribution of branch plants, and on the full-scale operation of our flower gifts business including phalaenopsis orchids. For pre-owned luxury brand items, owing to the increase in new members both domestically and overseas, and with the effect of promotions to existing members, the number of listed items, sold items and transaction volume all increased significantly compared to the same period of the previous year. Additionally, by starting auctions in Singapore with our partner company, we set out to build the online market for pre-owned luxury brand items in Asia.

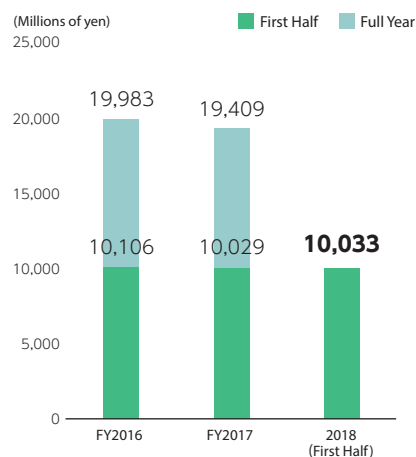
## What future developments are in store and what message do you have for shareholders?

We remain committed to steady expansion in our core businesses and our push to uncover new business fields, with eyes on both sustainable growth and improved corporate

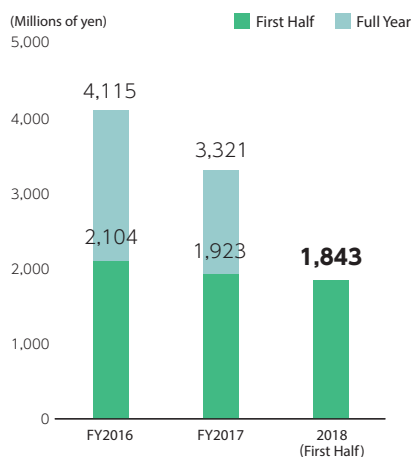
value. To our shareholders, I invite you to expect great things from the AUCNET Group, and ask for your continued support as we look ahead.

# Consolidated Financial Highlights

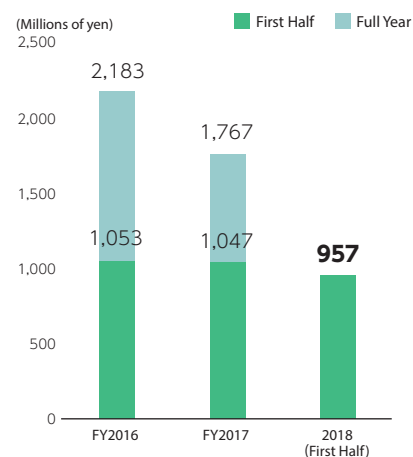
## Net Sales



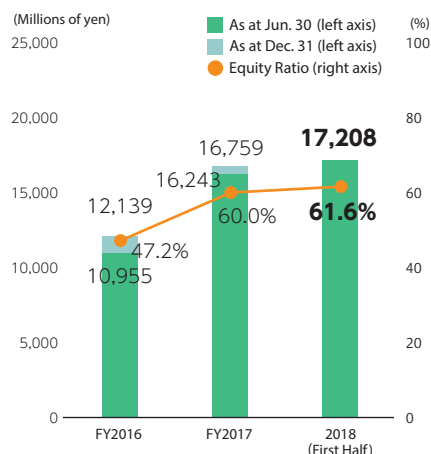
## Ordinary Income



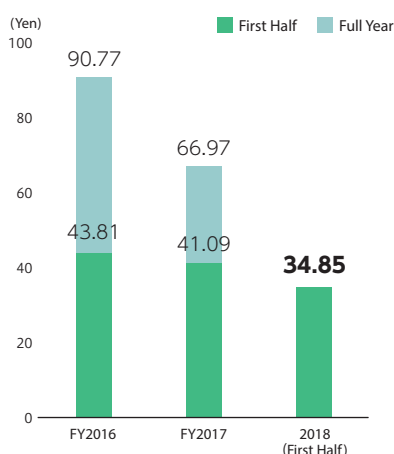
## Profit Attributable to Owners of Parent



## Net Assets/Equity Ratio



## Basic Earnings per Share



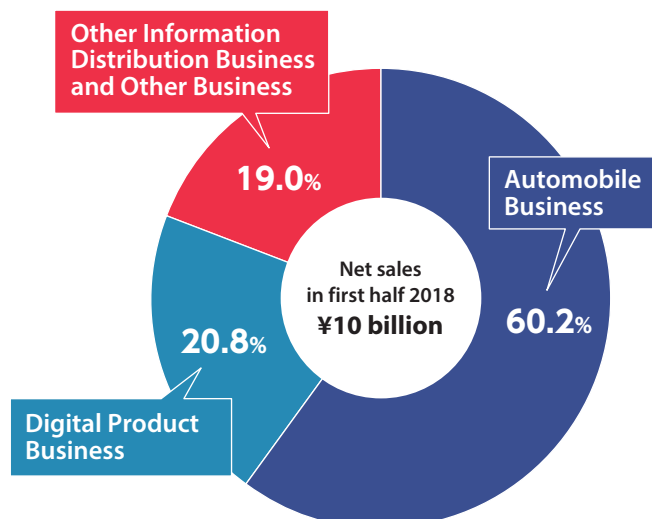
### A Note Concerning Shareholder Returns

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).

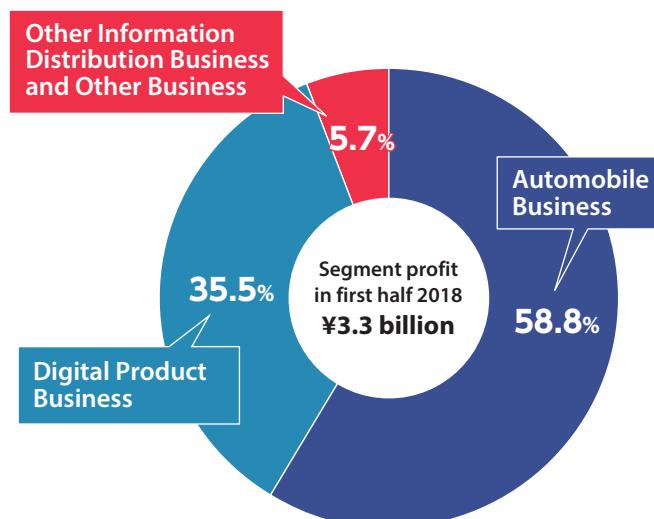
Note:  
On July 31, 2016, the Company conducted a 20-for-1 stock split. Consequently, figures for "Basic Earnings per Share" were calculated as if the stock splits had occurred at the beginning of the December 2016 fiscal year.

## Information by Business Segment

### Comparison of Net Sales Composition by Segment



### Segment Profit Composition Comparison



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

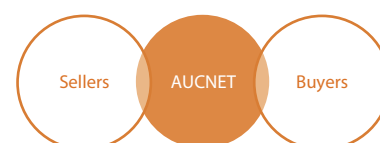
# Learn More! AUCNET

## ► Other Information Distribution Business

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

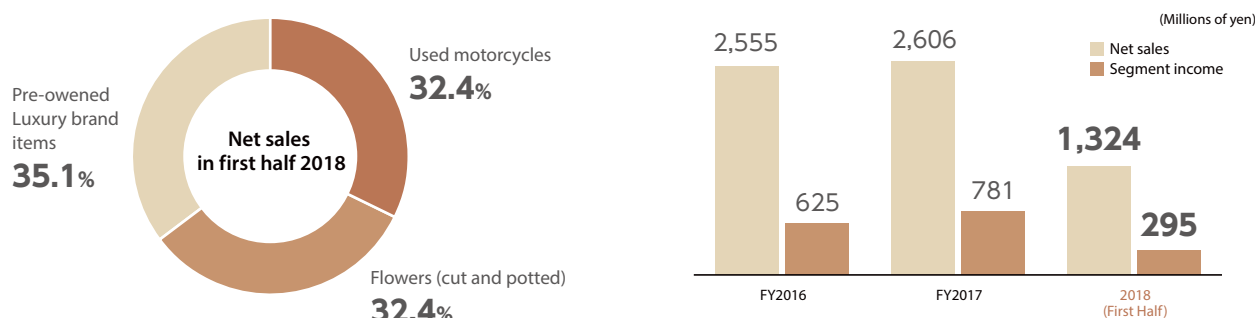
## What is AUCNET's Other Information Distribution Business?

The Other Information Distribution Business is involved in online auctions of products ranging from used motorcycles to flowers (cut and potted) and pre-owned luxury brand items, mainly for the corporate sector. Back in 1985, well before the Age of the Internet, AUCNET leveraged satellite communications technology to begin offering used vehicle TV auctions. Since then, as with the used vehicle market, AUCNET has taken proactive steps to enter a sector once dominated by spot trading between companies, using its proprietary information platform to deliver optimal solutions tailored to the commercial contours of each market. By operating highly efficient auctions that enable dependable transactions based on information alone, allowing members to participate from their offices without ever mobilizing people or goods, AUCNET provides a service beneficial to sellers and Buyers alike.



## ➡ Taking Advantage of Expertise Built in the Automobile Business in Other Fields

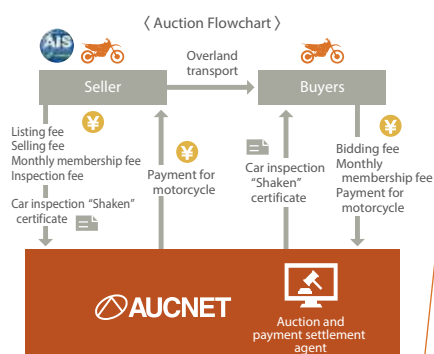
### Comparison of Net Sales Composition and Performance Trends



### 1993 Business Launch

#### Used Motorcycle Business

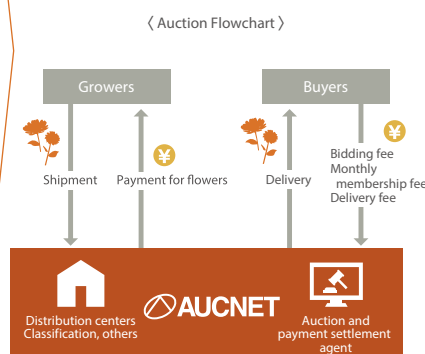
AUCNET introduced TV auctions to the used motorcycle market that was, like the used car market, dominated by physical auction sites. Today, we offer not only auctions but a growing number of products supporting member stores, as we focus on offering total support to our members.



### 1997 Business Launch

#### Flower (Cut and Potted) Business

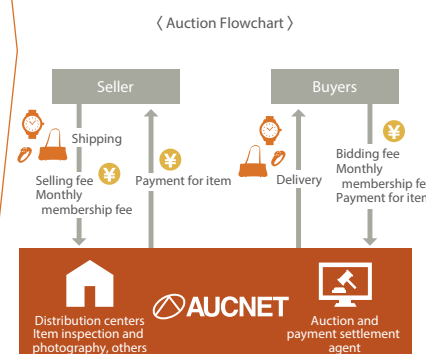
AUCNET provides services in Japan to florists, funerary companies, bridal companies and others nationwide. The early-morning start of competition in the spot trading market is a burden when making daily purchases. Using AUCNET's online auctions makes that purchasing more efficient.



### 2008 Business Launch

#### Pre-owned Luxury Brand Business

Physical auctions are still the norm for trading pre-owned luxury brand items, but AUCNET uniquely and successfully runs online auctions. This is made possible due to our thorough and reliable inspection system, which grades all items before auction.





## The Growing Pre-owned Luxury Brand Business

While increasing C2C transactions in recent years have also triggered expansion in used product-related commerce, growth has been especially strong in the market for pre-owned luxury brand items. AUCNET conducts online distribution of pre-owned luxury brand items in the B2B sector, where it handles a variety of items, ranging from handbags and watches to jewelry, apparel and much more. At AUCNET, by leveraging our unique expertise in areas such as added value through peace of mind, and fast conversion of assets into cash, we make it possible to distribute such a wide array of items. Propelled by increasingly energetised markets, our pre-owned luxury brand business is poised to achieve even greater growth. Below is an in-depth description of the proprietary expertise and growth potential of the pre-owned luxury brand business.

### How the Pre-owned Luxury Brand Business Works

#### Receipt

All items for auction are sent to AUCNET's customer centers.



#### Item inspection and photography

Dedicated staff inspect each item individually upon arrival, and assign each an appropriate quality rating. AUCNET also photographs the items, which are then listed for auction. Once sold, items are shipped out of the same customer centers, allowing members to buy and sell items without ever leaving their own store.

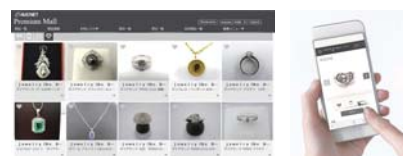


#### Auctions

Auctions are held weekly. Payment for sold items is sent to sellers the following day, making the quick conversion of assets into cash a key strength of this business.



We are also focused on building new markets and strengthening compatibility with smartphones and other devices.



### Business Model for Targeting Sustainable Growth and Future Initiatives

#### Pre-owned Luxury Brand Business Model

Information Distribution Services		
Real time auctions	Share inventory market (Premium Mall)	Fixed time auctions
Operational Expertise		
Item inspection and photography	Web systems	Distribution and payment systems

#### Expand Range of Products Transacted

From premium apparel to paintings and collectable coins and old coins, our goal is to increase transaction volume by expanding the number and types of goods we transact.

#### Diversify Types of Transactions

In addition to auctions, AUCNET has launched "Premium Mall" \* with the aim of enhancing convenience. Furthermore, by making "always-on" bidding possible overseas despite time differences, we seek to make transactions outside of Japan even easier.

\*Premium Mall: Members share and transact inventory with each other online.

#### Develop Fixed Time Style New Auction Marketplaces

AUCNET has launched a new auction designed for relatively low priced items only, to increase efficiency of participation for members as well as our operational efficiency.

Expand Range of Products Transacted  
Diversify Types of Transactions  
Develop Fixed Time Style  
New Auction Marketplaces



Increase Foreign Buyers  
(Hong Kong, Thailand, Korea, Singapore, Taiwan, U.S.A., others)



#### Topic

#### Establishment of Singapore Joint Venture SG e-AUCTION PTE. LTD.

In October 2017, AUCNET partnered with prominent Singapore-based firm MoneyMax Financial Services Ltd. to form a joint venture, which began holding auctions for pre-owned luxury brand items companies in Singapore and Malaysia from the start of the current fiscal year.



# INFORMATION

## Company Overview (As of June 30, 2018)

<b>Name</b>	AUCNET INC.
<b>Establishment</b>	June 29, 1985
<b>Capital</b>	¥1,672 million (As of December 31, 2017)
<b>Number of employees (consolidated)</b>	590 (As of December 31, 2017)
<b>Listing</b>	Tokyo Stock Exchange, First Section
<b>Head office</b>	Aoyama OM Square, 5-8 Kita-Aoyama 2-chome, Minato-ku, Tokyo
<b>Tel. (switchboard)</b>	TEL: +81-3-6440-2500 FAX: +81-3-6440-2510

## Executive Officers (As of June 30, 2018)

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

## Stock Information (As of June 30, 2018)

<b>Total number of shares authorized to be issued</b>	110,000,000 shares
<b>Total number of shares outstanding</b>	27,510,700 shares
<b>Number of shareholders</b>	1,355
<b>Major Shareholders</b>	

Name	Number of Shares	Shareholding Ratio
FLEX CORPORATION	11,548,800	41.98%
NAMAI ASSET MANAGEMENT INC	2,000,000	7.27%
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	4.71%
Orient Corporation	1,296,000	4.71%
JP MORGAN CHASE BANK 380634	1,196,500	4.35%
Shinichiro Fujisaki	931,000	3.38%
Masahiro Fujisaki	915,000	3.33%
THE BANK OF NEW YORK MELLON SA/NV 10	855,500	3.11%
FLEX CO., LTD.	844,800	3.07%
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	763,320	2.77%

### Notes:

- Share holding ratio is calculated by excluding the treasury shares and rounded off to two decimal places.
- 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 by 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 to Mizuho Trust & Banking Co., Ltd. by Orient Corporation for its retirement benefit trust. The right to provide instruction on the exercise of relevant voting rights is reserved by Orient Corporation.

## Shareholder Memo (As of June 30, 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 – Dec. 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

## Visit the Get to know AUCNET Website

AUCNET has a unique business model which can be difficult to grasp at first.

The information on this web site will help you to understand AUCNET's unique features and strengths.

<http://www.aucnet.co.jp/>



<http://ir.aucnet.co.jp/en/story/>



Introducing the features of the business clearly



Get to know AUCNET

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<http://www.aucnet.co.jp/>