



Report for the 14th Business Term

January 1, 2021 – December 31, 2021

The highest profit was recorded in FY2021 due to the penetration of online auctions. We will continue to make progress towards the realization of sustainable distribution.

President & COO

藤崎 慎一郎



Since our company's listing on the TSE, it recorded the highest sales and operating profit in FY2021, breaking the previous year's record.

For the fiscal year ended December 31, 2021, Aucnet Group's net sales were ¥36,710 million (up 52.5% from the previous fiscal year), operating profit was ¥5,846 million (up 57.8% from the previous fiscal year), which broke the highest record 2 years in a row.

Both sales and profit increased significantly due to transitory factors(*1) such as the impact of COVID-19, yen depreciation and high market prices, and organic growth(*2) caused by the expansion of the sales and membership network, as well as operational efficiency improvements.

Demand for online auctions that is one of our strengths have continued to increase, and we have been able to capture the needs of these auctions successfully.

(*1) Non-sustainable growth and profitability factors that are caused by changes in the market environment, such as a weakening of the yen or soaring market prices

(*2) Growth through corporate efforts such as strengthening the sales network and improving operational efficiency

In the Automobile Business, despite a worsening supply shortage of used vehicles, strong performance was maintained due to favorable vehicle inspection services and other factors.

In the Automobile Business, a major segment, both sales and profit increased year-on-year.

While the supply shortages of used vehicles became even more obvious influenced by prolonged delivery lead times for new vehicles due to a shortage of semiconductors and insufficient supply of new vehicles mainly stemming from reduced production by automakers from the third quarter onward, the number of vehicles sold in AUCNET-hosted auctions was strong. Also, the number of vehicles inspected for a used vehicle listing platform was favorable, thus contributing to expansion of segment results.

The Digital Product Business had a great growth due to such as buyer network expansion.

Both sales and profit increased year-on-year in the Digital Product Business.

In the domestic business, we worked to strengthen our sales capabilities by expanding our buyer network and to reduce costs by improving operational efficiency. On the other hand, the U.S. business faced with significant changes in the business environment, including travel restrictions due to the spread of COVID-19 and soaring business maintenance costs, and so the current

business was temporarily reviewed at the end of October 2021 and withdrawal from the current business in the U.S. has been completed within the same year. Looking ahead, the Digital Product Business will focus on increasing the number of members. We will continue to strive to maintain the unit price of devices by expanding our buyer network and procurement sources, aiming for stable growth.

The Consumer Product Business continues to grow strongly as the "Third Earnings Pillar".

Both sales and profit in the Consumer Product Business significantly increased year-on-year, and the business continues to grow strongly as our "Third Earnings Pillar". In the B2B business, transaction amount expanded not only in Japan but also overseas, mainly in the U.S. and Europe, due to the expansion of our overseas network. Also, regarding to the business targeting consumers, segment sales increased significantly due to favorable business at GALLERY RARE Ltd., which became a consolidated subsidiary in October 2020.

In addition, profit margins improved as a result of enhanced product management including focusing on high-margin items, and strict cost control.

Management resources will continue to be invested in new businesses and R&D. Repurchase of shares was determined.

We intend to actively invest our management resources in new businesses and R&D.

We will build an organization that can keep up with changes in the market environment and move forward to realize a sustainable distribution system, which we are aiming for.

To take our efforts in the flower business as an example, we are promoting the establishment of an efficient distribution system utilizing ICT by collaborating with group companies. Each company will leverage its strengths to take on the challenge of creating a new flower distribution market. (Please see Special Feature "Creating Efficient Markets Through the Integrated Strength of the Group")

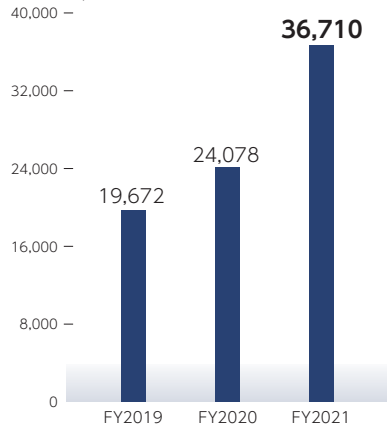
Also, as announced in a release dated February 14, 2022, AUCNET decided to repurchase up to 600 million yen of its own shares for the repurchase period from February 17, 2022 to April 30, 2022 as part of its capital policies.

Moreover, the company plans to announce its mid-term management plan in May. We hope that our shareholders will continue to look forward to our growth.

Consolidated Financial Highlights

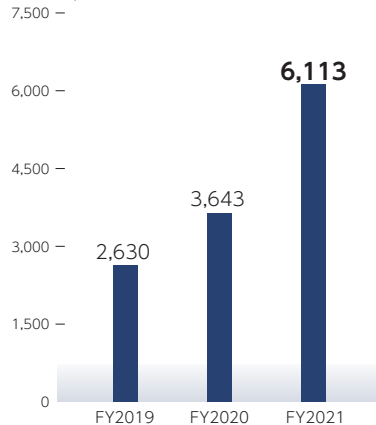
Net Sales

(Millions of yen)



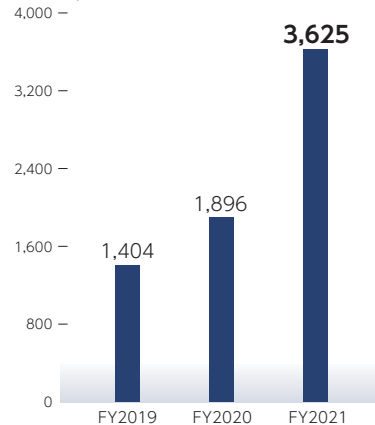
Ordinary Profit

(Millions of yen)



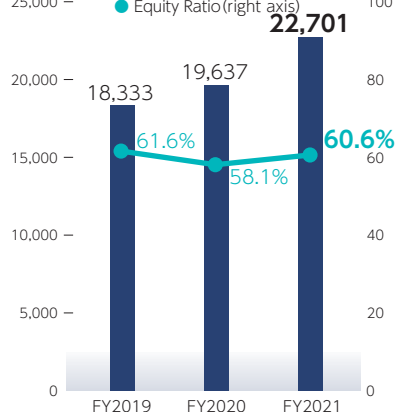
Profit Attributable to Owners of Parent

(Millions of yen)



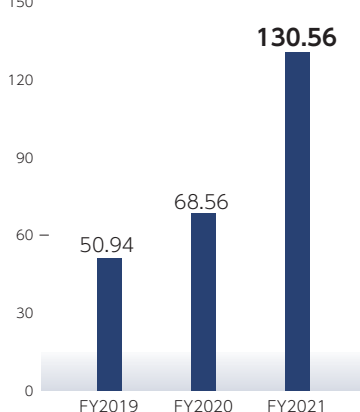
Net Assets / Equity Ratio

(Millions of yen) ■ Net assets (left axis) (%) ● Equity Ratio (right axis)



Basic Earnings per Share

(Yen)

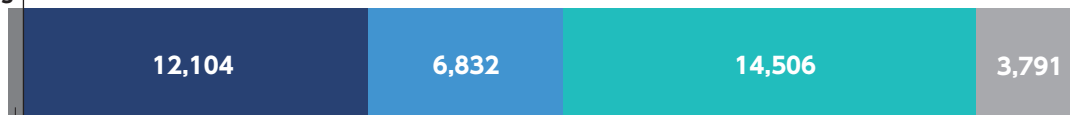


A Note Concerning Shareholder Returns

At AUCNET, we view the return of profits to shareholders as one of management's highest priorities. While continuing to maintain sufficient internal reserves on hand to fund future business development, enhance management structure and fund 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 a year-end dividend of ¥21 (¥2 increased from the latest projection) per share (full-year dividend: ¥40). The interim and year-end dividend forecast for FY2022 is ¥22 per share (full-year dividend: ¥44).

Information by Business Segment (Millions of yen)

Net Sales



Operating Profit



- Automobile Business
- Digital Product Business
- Consumer Product Business
- Others
- Adjustment

Note: "Others" is the segment which is not included in reportable segments, including such businesses as auctions for used motorcycles and flowers, medical-related businesses, and overseas businesses.

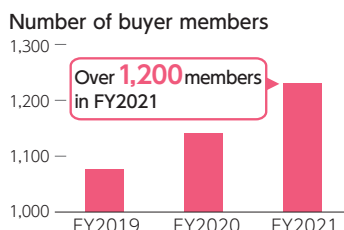
Creating Efficient Markets Through the Integrated Strength of the Group

The Challenge of Building a New Flower Distribution System

Aucnet's flower business was launched in 1997, and since then, we have been pursuing the ease of selling and buying by connecting growers and retailers through online flower auctions and information distribution. Currently, we are taking on the challenge of building a new flower distribution system. We aim to create an efficient market by integrating the physical market, which handles quality products, and Aucnet's information distribution.

■ Aucnet's Flower Business Strengths and Features

Aucnet's online flower market allows customers to purchase flowers remotely, enabling the efficient delivery of fresh flowers from the growers' hands to retailers' storefronts. This remote purchasing system has become widely recognized amid the spread of COVID-19, and the number of members has been growing rapidly.



■ Making "Grand Bouquet Otaki" a Subsidiary Ensures Stable Production and Shipments

In September 2021, GRAND BOUQUET OTAKI LIMITED. ("Grand Bouquet Otaki") became a subsidiary. It has facilities utilizing ICT to efficiently cultivate high-quality phalaenopsis orchids. Taking advantage of its convenient location near Tokyo, the company produces and ships approximately 60,000 pots of orchids annually, mainly to supply the central wholesale market.

In the future, we will pursue and promote the realization of efficient information distribution reflecting the balance of supply and demand together with the company by utilizing our online auction system.

■ System Renewal Proceeding at "Kinuta Flower Auction"

Kinuta Flower Auction CO.LTD ("Kinuta Flower Auction" , which became a subsidiary in July 2020) is a physical market whose customers include some of the best producing areas and high-end gardening stores in Japan. It is aiming to seamlessly connect from purchase to delivery by reviewing and sharing operational systems as well as expanding our services and products.



GOAL

Distribution That Conveys Consumer Needs to Growers

The current flower distribution system is a product-out mechanism in which product prices are determined by the market after shipment, and is prone to causing mismatches with the needs of retailers and consumers.

In response to this, Aucnet aims for a market-in distribution system in which consumer needs are reflected in the market.

Aucnet, which has been connecting growers, retailers, and consumers through the online flower market for many years, Grand Bouquet Otaki, which has expertise in ICT-based production management, and Kinuta Flower Auction, which has a record of excellent potted flower sales, will leverage their respective strengths to build a more efficient distribution system.

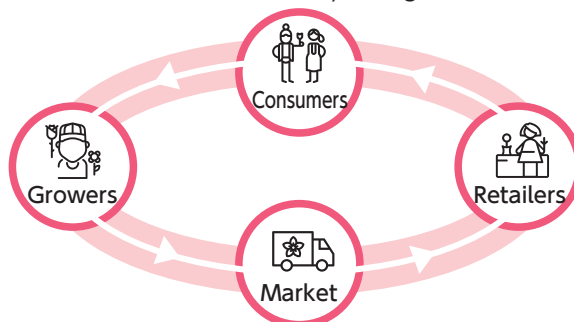
<Current Distribution>

One-way that is hard to reflect consumer needs



<Pursued Distribution>

Consumer needs will be conveyed to growers



Initiatives in Group Companies

Kinuta Flower Auction

A New Online Auction System Was Introduced.

A new auction system developed by Aucnet was introduced in January 2022. Since auctions will be held online, members of Kinuta Flower Auction will be able to participate in auctions at home starting in February. In the future, it will also be possible to link with Aucnet's online auctions. The company aims to expand the market by encouraging more growers and retailers to flexibly participate in its auctions.



A National Flower Fair Was Held for the Purpose of Improving Quality and Expanding Consumption.

In November 2021, the "21st Kinuta Flower Auction National Flower Fair" was held to motivate growers to improve production and quality, as well as to expand consumption.

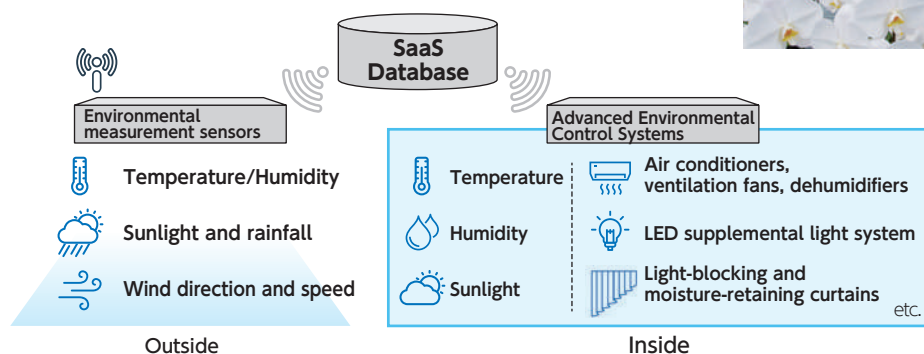
A total of 444 entries were exhibited from all over Japan, and awards were given out, including the "Minister of Agriculture, Forestry and Fisheries Award" and the "Aucnet Chairman's Award," which was newly established this year.

Grand Bouquet Otaki

Efficient and Stable Production of High-Quality Orchids Through the Use of the SaaS Database, etc.

Phalaenopsis orchids, which are in steady demand as business gifts, are said to be one of the most difficult plants to grow in horticulture.

Grand Bouquet Otaki manages the cultivation environment 24 hours a day in its vast 1.5 hectare production facility by using SaaS databases etc., to produce phalaenopsis orchids efficiently and stably.



The advanced environmental control system provides growth promotion management using LEDs and watering of plants.

Implemented "HANA-IKU" as a Contribution to the Local Community Amid the Spread of COVID-19

From July to October 2021, Aucnet conducted a "HANA-IKU" program at the school festival of Tokai University Takanawadai Senior High School.

"HANA-IKU" means the rebuilding of local communities through flowers and greenery, and hands-on education that brings people into contact with agriculture. The school planned an event at the school festival to express their gratitude to those close to them using fresh flowers. Aucnet agreed with the purpose of the event, and provided support for hands-on education, fresh flowers, materials, and equipment.



Left: Providing an opportunity to learn about "flower distribution" at Aucnet's headquarters
Right: School festival day at Tokai University Takanawadai Senior High School

Company Overview

(As of December 31, 2021)

| | |
|---|---|
| Name | AUCNET INC. |
| Establishment | June 29, 1985 |
| Capital | ¥1,806 million |
| Number of employees (consolidated) | 858 |
| 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: +81-3-6772-0675 |

Executive Officers

(As of March 29, 2021)

| | |
|--|----------------------------|
| Chairman & CEO | Kiyotaka Fujisaki |
| President & COO | Shinichiro Fujisaki |
| Director, Senior Management Executive Officer | Masayasu Takigawa |
| Director, Managing Executive Officer & CCO | Shunji Sato |
| Director, Managing Executive Officer & CFO | Hiroki Taniguchi |
| Outside Director | Seiichiro Umeno |
| Outside Director | Toshio Maki |
| Director (Audit & Supervisory Committee member) | Hisanao Nagashima |
| Outside Director (Audit & Supervisory Committee members) | Ikuo Kaminishi |
| Outside Director (Audit & Supervisory Committee members) | Michi Handa (Michi Sasano) |

Stock Information

(As of December 31, 2021)

| | |
|--|--------------------|
| Total number of shares authorized be issued | 110,000,000 shares |
| Total number of shares outstanding | 27,957,100 shares |
| Number of shareholders | 10,670 |

Major Shareholders

| Name | Number of Shares | Shareholding ratio |
|--|------------------|--------------------|
| FLEX CORPORATION | 11,198,800 | 40.1% |
| NAMAI ASSET MANAGEMENT INC | 1,850,000 | 6.6% |
| GOLDMAN SACHS INTERNATIONAL | 1,332,117 | 4.8% |
| Custody Bank of Japan, Ltd. as trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account re-entrusted by Orient Corporation. | 1,296,000 | 4.6% |
| Orient Corporation | 1,296,000 | 4.6% |
| GOLDMAN SACHS & CO. REG | 1,154,800 | 4.1% |
| NORTHERN TRUST CO.(AVFC)RE FIDELITY FUNDS | 938,437 | 3.4% |
| The Master Trust Bank of Japan, Ltd.(Trust Account) | 883,900 | 3.2% |
| FLEX CO., LTD. | 844,800 | 3.0% |
| Shinichiro Fujisaki | 824,800 | 3.0% |
| Masahiro Fujisaki | 824,800 | 3.0% |

Note: Shareholding ratio is calculated after deducting treasury shares (216 shares).

Shareholder Memo

(As of December 31, 2021)

| | |
|---|---|
| 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 | https://ir.aucnet.co.jp/ja/announcement.html |

| | |
|---|--|
| 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 |

Introduction of an Aucnet Group Company

Used Car Sales Support Service for Consumers Utilizing Aucnet's Used Vehicle Distribution Know-How

CARSERU, INC., an Aucnet Group company, provides an online service called "Carseru" for consumers to support the sale of used cars.

"Carseru" is an agent service that leverages Aucnet's expertise in used vehicle distribution support and the Aucnet Group's network to provide the best selling method based on the appropriate market price, solving various questions and concerns that users may have when selling their cars.

The vehicle information of users is disclosed simultaneously to the industry's largest auction network of approximately 13,000 companies through Carseru. It helps users find the highest-priced buyers nationwide.

You can do a quick and easy appraisal of your used car. Just scan the QR code on the right and your appraisal is done in 45 seconds!
<https://www.carseru.co.jp/>

