

Report for
the **12th** Business Term

January 1, 2019 – December 31, 2019



AUCNET

AUCNET INC. Investors' Notes

With 35 years in business as a key turning point, we initiated a new framework designed to further strengthen management structure and promote faster decision-making

Kiyotaka Fujisaki
CHAIRMAN & CEO

Shinichiro Fujisaki
PRESIDENT & COO



Launch of a new framework to strengthen management structure and promote faster decision-making

Following resolutions from the 12th Annual General Shareholders Meeting and a meeting of the Board of Directors on March 27, 2019, Mr. Kiyotaka Fujisaki was appointed Chairman & CEO of AUCNET, with Mr. Shinichiro Fujisaki appointed President & COO of the Company. This step was taken to further strengthen management structure and to promote faster decision-making. In 2020, AUCNET will celebrate its 35th year in business. Under this new framework, AUCNET is set to contribute both to improvements in convenience across all categories of member support services and to a boost in member profitability.

In the Automobile Business, leveraging massive data to develop new distribution systems

During the December 2019 fiscal year, in the Automobile Business, net sales and operating income both improved over the previous year, lifted by increased the number of vehicles sold in the shared inventory market, as well as extensive growth in the number of qualification inspections for the used vehicle magazines. In particular, the Automobile Inspection System (AIS) saw its full-year total number of vehicles inspected surpass 1million for the first time since the service began. Going forward, anchored by SATEROKU, our used vehicle appraisal support system, we intend to spur the evolution of a "Distribution Platform based on Data Intelligence," a model connecting our previous distribution platform to data in new and unique ways. Along with using an enormous amount of accumulated data related to distribution, inspections, behavior and other points to analyze the condition, price and trend related to used vehicles, we seek to expand distribution amount by offering all of this as a unique AUCNET service.

In the Digital Product Business, more stable domestic distribution and expanded business lines in overseas business

In the Digital Product Business, while distribution volume was higher year on year atop significant changes in the contract details with major customers, we were still unable to secure the volume

necessary to achieve the level of profit we were striving for. This situation notwithstanding, now that changes in the contract details with major customers is on track, we are aiming for a turnaround in performance owing both to the stable supply of devices we expect to receive into inventory, as well as cost reductions from facility integration in Japan. As for achieving further growth, our focus is on overseas business. In addition to aiming for deeper expansion of our global network by attracting new buyers outside of Japan, U.S.-based subsidiary AUCNET DIGITAL PRODUCTS USA, LLC. is involved in ongoing negotiations with manufacturers and carriers in a bid to further expand business in the United States.

Eyeing continued distribution market expansion in the Other Information Distribution Business, as well

In pre-owned luxury brand items, one of the operations under the Other Information Distribution Business, performance domestically and abroad remains brisk, with total transaction amount topping ¥10 billion annually. Going forward, we remain focused on attracting more members on a continuous basis, while looking to expand distribution of goods handled by pushing aggressively ahead with overseas expansion focused on the U.S. market, where the pre-owned market is much more robust. For used motorcycles, we launched a new subscription service, while in flowers (cut and potted), as in the previous year, we will promote "Otoriyose Torihiki," a Web purchase service for florists that allows buyers to choose flowers in advance from listing information.

In used medical equipment, found under the Other Business, we hope to contribute meaningfully to the increasingly challenging medical industry by energizing the market distribution of these products.

Guided by our brand statement "Shaping the Future of Commerce," our goal at AUCNET is to continue providing customers in Japan and beyond with information distribution services that enable them to conduct transactions with peace of mind. To our shareholders, I ask for your continued support of our efforts as we look ahead.

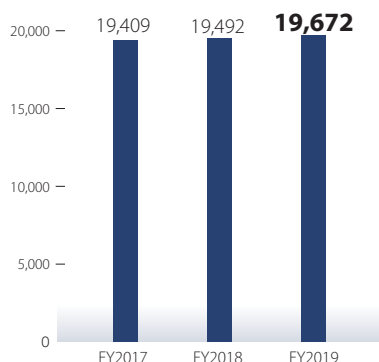
Profile of New President & COO – Shinichiro Fujisaki

Born in 1975. Joined AUCNET INC. in January 2011. In 2013, became Deputy General Manager of the Automobile Business Headquarters. Following stints as Director and other roles from 2014, in 2016, became Representative Director and President of AUCNET DIGITAL PRODUCTS INC. Following a move to Managing Executive Officer of AUCNET in 2017, and Senior Managing Executive Officer and Division Manager of the Automobile Business Division in 2019, was appointed PRESIDENT & COO of AUCNET in March 2020.

Consolidated Financial Highlights

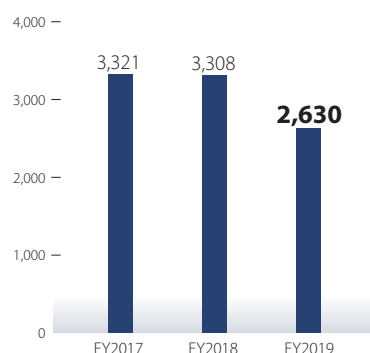
Net Sales

(Millions of yen)
25,000 —



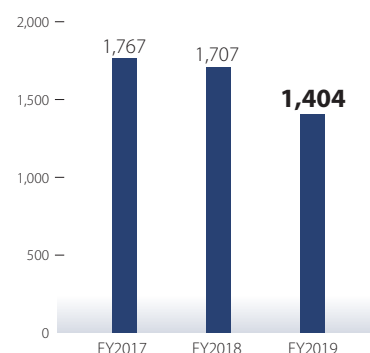
Ordinary Income

(Millions of yen)
5,000 —



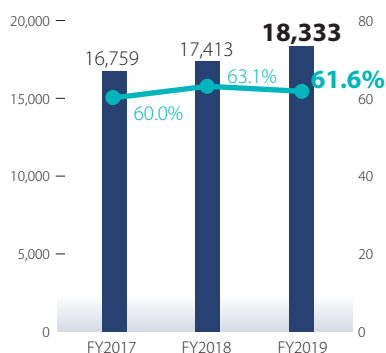
Profit Attributable to Owners of Parent

(Millions of yen)
2,500 —



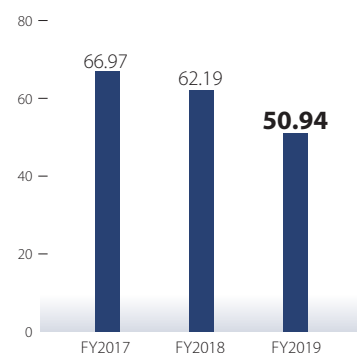
Net Assets/Equity Ratio

(Millions of yen) ■ Net Assets (left axis) (%)
25,000 — ● Equity Ratio (right axis) 100



Basic Earnings per Share

(Yen)
100 —



A Note Concerning Shareholder Returns

At AUCNET, we view the return of profits to shareholders as one of management's highest priorities. Based on this policy, AUCNET paid a year-end dividend of ¥13 per share (full-year dividend: ¥26), the same amount as the interim dividend. 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%. For the coming fiscal year, we are projecting interim and year-end dividends of ¥10 per share (projected full-year dividend: ¥20).

Information by Business Segment

* Figures in parentheses are year-on-year comparison

Automobile Business

Net sales
¥12,174 million (up 3.0%)
Segment income
¥3,754 million (up 3.7%)

Digital Product Business

Net sales
¥3,863 million (down 4.4%)
Segment income
¥915 million (down 52.6%)

Other Information Distribution Business

Net sales
¥2,719 million (up 1.9%)
Segment income
¥677 million (up 7.2%)

Comparison of Net Sales Composition



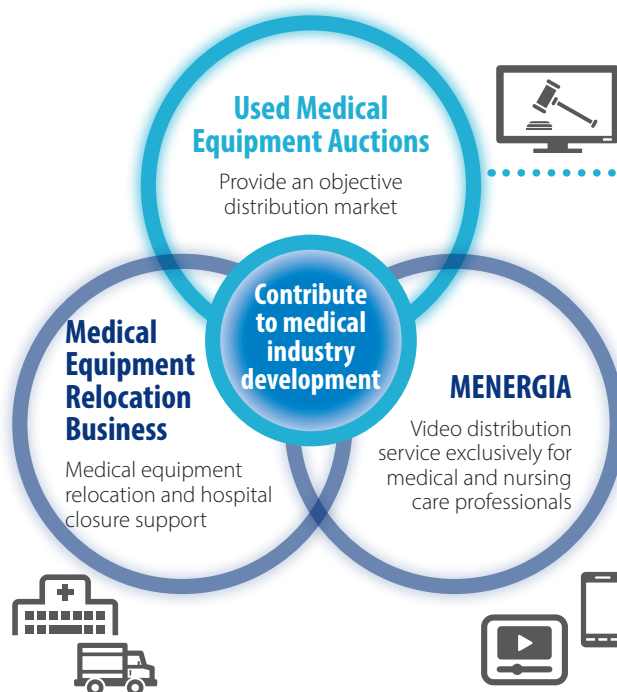
(Other Business)

Learn More! AUCNET Medical Business

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 Medical Business, part of the Other Business.

What is AUCNET's Medical Business?

The Medical Business is where AUCNET engages in a variety of businesses adjacent to the medical industry. These include Used Medical Equipment Auctions designed to answer the specific trading needs of medical companies; a Medical Equipment Relocation Business, which sells medical equipment when hospitals relocate; and "MENERGIA," a video service platform exclusively for clients involved in medical and nursing care. Because information reliability is critical in this field, we plan to expand the Medical Business going forward.



Aims of the Medical Business

"Ease strain in the medical industry and help improve operational efficiency by providing an objective market for used equipment distribution"

Launched in 2011, the Medical Business is a relatively new entry in AUCNET's history as a company. The environment surrounding the medical industry is a challenging one. On the one hand, physicians and other medical professionals have an overwhelming desire to do everything possible to care for their patients. On the other, due to a variety of factors, many medical institutions today are inevitably being forced to operate at a deficit. Here, AUCNET has searched for options for leveraging its years of expertise in online auctions to ease the strain of capital investment through the distribution in an appropriate manner of high-demand used medical equipment. Similarly, we provide a video service platform for medical and nursing care professionals, reflecting our own desire to contribute to the medical industry's ongoing development in terms of improved operational efficiency, as well.

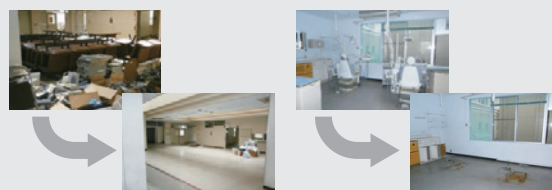


Masahiro Fujisaki
Executive Officer,
Medical Business Division

Medical Business Initiatives

(1) Medical Equipment Relocation Business

This business assists in hospital and clinic relocation and closure. Unneeded medical equipment within the facility is converted to cash in AUCNET's distribution market, which can greatly reduce the enormous disposal costs such moves typically require. AUCNET also fully handles disposal of the massive amounts of appliances and furnishings found inside these facilities, becoming a single point of contact that minimizes a facility's clerical burden in terms of contracts, approvals and completion of related paperwork.



(2) MENERGIA

Designed exclusively for users with medical and nursing care certifications, MENERGIA is a video service platform built around the theme "Transforming medicine with video and creativity." This service distributes and provides a range of learning-driven content suitable for physicians and a host of other medical and nursing care professionals. Plans going forward call for additional functionality, allowing users to share videos and form connections as a team, and to use videos in ways that spark greater operational efficiency. In this way, we will upgrade service content in ways that transform videos from something to watch into tools to be used.

* MENERGIA Inc. renamed iryoo.com INC. on March 19, 2020.

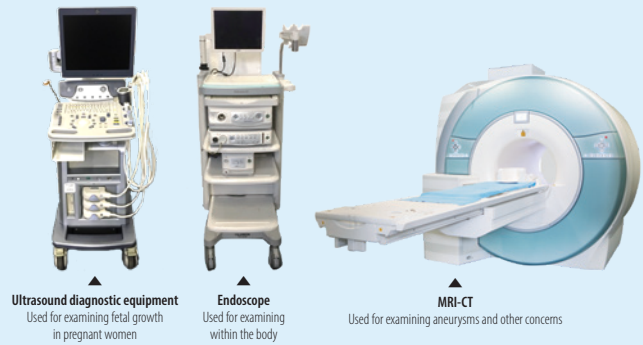


Up Close! Used Medical Equipment Auctions

What are Used Medical Equipment Auctions?

Exclusively for AUCNET members, these auctions specializing in used medical equipment answer needs arising from those seeking to sell and to buy medical equipment. As in our other business, a defining trait of these auctions is that members can bid on the actual goods without seeing them in person, based on inspection data from expert examiners.

In the used medical equipment market, any distribution channel not fully known to the original manufacturer is viewed as a problem. To better clarify distribution, those interested in participating in our auctions must first obtain approval to sell medical equipment in Japan as a condition of membership. In compliance with Japan's Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices, AUCNET only handles medical equipment approved by the respective manufacturers for distribution.



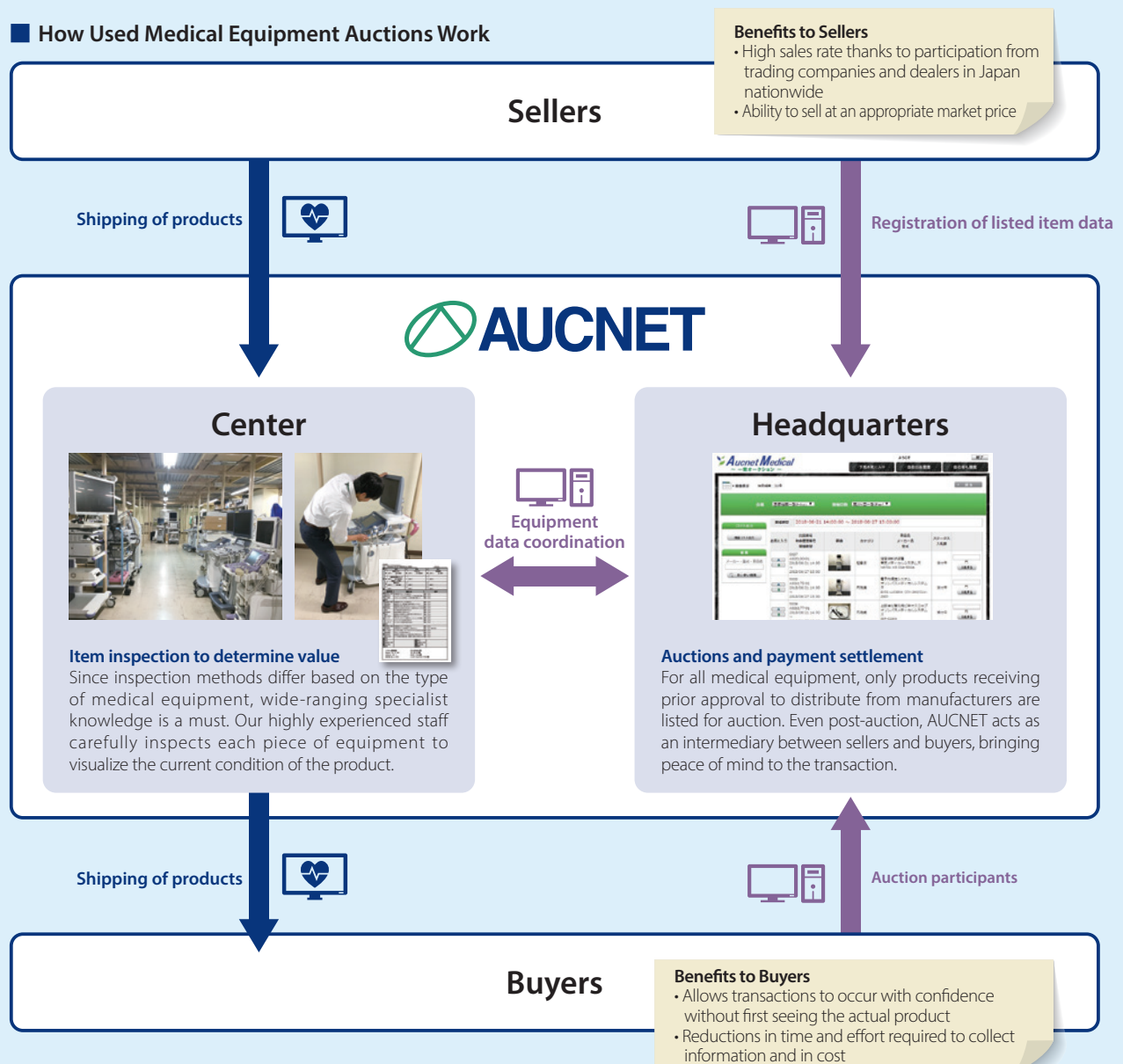
We even handle this type of equipment!

Endoscopes and other diagnostic imaging equipment are especially popular. With a wide range of products for trade each week, our reputation is growing strongly.

Hiroshi Kuroda
Group Leader for Used Medical Equipment



How Used Medical Equipment Auctions Work



Company Overview

(As of December 31, 2019)

Name	AUCNET INC.
Establishment	June 29, 1985
Capital	¥1,729 million
Number of employees (consolidated)	664
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, 2020)

CHAIRMAN & CEO	Kiyotaka Fujisaki
PRESIDENT & COO	Shinichiro Fujisaki
Directors	Chiaki Fujino Shunji Sato
Outside Directors	Seiichiro Umeno Ikuo Kaminishi
Director (Audit & Supervisory Committee member)	Hisanao Nagashima
Outside Directors (Audit & Supervisory Committee members)	Masaaki Ayukawa Ryoza Ushioda

Stock Information

(As of December 31, 2019)

Total number of shares authorized to be issued	110,000,000 shares
Total number of shares outstanding	27,769,300 shares
Number of shareholders	3,481
Major Shareholders	

Name	Number of Shares	Shareholding Ratio
FLEX CORPORATION	11,448,800	41.2%
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	2,174,190	7.8%
NAMAI ASSET MANAGEMENT INC	1,950,000	7.0%
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account re-trusted by Orient Corporation.	1,296,000	4.7%
Orient Corporation	1,296,000	4.7%
JP MORGAN CHASE BANK 380634	1,291,300	4.7%
FLEX CO., LTD.	844,800	3.0%
Shinichiro Fujisaki	821,800	3.0%
Masahiro Fujisaki	821,800	3.0%
GOLDMAN, SACHS & CO. REG	502,100	1.8%

Note: Shareholding ratio is calculated by excluding the treasury shares (216 shares).

Shareholder Memo

(As of December 31, 2019)

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 (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

Notice Regarding Upgrades to Shareholder Benefits

AUCNET has previously introduced a system of shareholder benefits. In addition to serving as an expression of appreciation to shareholders for their steadfast support, this system is designed to enhance the Company's profile as an attractive target for investment, and to encourage ownership of AUCNET shares by a wider range of investors. The purpose of the current upgrades to the system is to thank shareholders for their long-term ownership of AUCNET shares, and to encourage continuous share ownership by a larger number of shareholders. Consequently, this upgrade will involve changes to eligibility for shareholder benefits, presently entitled to shareholders listed in the shareholder registry as of the date of record (December 31, 2019) or shareholders listed as owning one tange (100 shares) or more shares.



Details of Benefits

A QUO Card will be awarded once annually based on the categories described below. The card is scheduled to be bundled with the Notice of Resolutions sent following conclusion of the Annual General Shareholders Meeting held annually in March.

Period of continuous ownership	Shareholder benefit	Date of record
Less than one year	¥1,000 QUO Card	December 31 annually
One year or more	¥2,000 QUO Card	December 31 annually

Notes:

1. A QUO Card with a prepaid card that you can use in certain shops in Japan.
2. Continuous ownership of "one year or more" is defined as one year or more of uninterrupted listing or registration as a shareholder under the same shareholder number as of the date of record.