

# Interim Report for the 13th Business Term

(January 1, 2020 ~ June 30, 2020)





## We will build new value of distribution by providing high value-added information.

President & COO Shinichiro Fujisaki

**Needs for the remote distribution has been increased. We will not miss this opportunity and provide highly convenient services.**

—6 months have passed since you became President & COO. What do you think now?

When I assumed the position of President & COO in March, 2020, we were having a tough time because the COVID-19 was rapidly spreading at that time. The core of our business is online auctions and there was a growing need for remote participation in Automobile Business such as the live-linked auctions. We sought out a fine balance to keep the quality of the service and not to suspend it while taking measures to avoid the risk of infection among employees. We now have control of our business operations and are back to normal operations.

—What kind of business were you engaged in before assuming the position of President & COO? Could you share with us your memorable experiences if you have any?

I have a number of experiences that became lessons to learn. When I was a manager, we had an opportunity to consider investing in a company that was planning to introduce auctions for used car dealers overseas. The idea was to develop an online auction business, which we had accumulated expertise since the days when the term "Internet" didn't even exist, in the local market as a "Japanese model" with a company we were investing in. Since the business environment in the region was similar to one in Japan about 30 years ago, we at first planned to introduce our system, which allows customers to complete everything from auctions to purchase, cashing and such other procedures online, and to gradually expand the system. However, the technology used in the local market was completely different from that used in Japan, and the "Japanese

model" did not fit the local market as we had originally envisioned. That experience was a clear demonstration of how a country that was thought to be a technologically emerging country was innovating in a flash, perhaps what is called leapfrogging. Today, in each of our businesses, we have built a system that keeps track of what is happening in the real marketplace and reflects reviews of not only buyers at auctions, but also of consumers and their consumption trends in our services.

—One of the management philosophies is "pursuing genuine service". What would you like to value as a top management?

"Does Aucnet's service really contribute to make society better?" This view is what I would like to value. One of our management philosophies of pursuing genuine service is to contribute to the development of the industry and the improvement of social life. In the words of Aucnet's founder, we do not make decisions based on immediate profit and merit, but do everything in our power to give our customers the best possible experience and do what is helpful for the industry and society. Simple ideas, such as waiving auction listing fees just because it benefits our members, would lead to easy listing and a decline in the quality of items listed, which would result in the decline of the auction industry. We cannot call it a genuine service. Many of our customers are small and middle-sized businesses. We live in an age where digital transformation is necessary, but for small and medium-sized businesses that are unable to invest heavily, they use existing SNS, email services, and payment services compromising on some inconveniences. We would like to support those customers in their digitalization efforts with our services. After becoming President & COO, I am often asked to make decisions from a medium to long term perspective.



When making decisions, I focus on whether or not we have a convincing story to tell. If I can envision the story of how our stakeholders and customers will react to our measures, what they are looking for, and what will happen as a result, I can make adjustments when I face obstacles.

**The essence of Aucnet's businesses is to stay close to customers and provide services that are "half a step ahead" of the times.**

—What do you think the essence of Aucnet's business is?

It is to stay close to customers and provide services that are half a step ahead of the market needs. We had some projects that failed and were too ahead of times to be accepted by the public in the past. What I have learned from it is not to get too ahead of the market needs and not to leave the customers behind. In short, it is important to be "half a step ahead". We are also aware of the need to keep changing our services by reflecting customer feedbacks. For example, our used vehicle appraising app, "SATEROKU" is a service that supports dealers to complete everything from appraisal to auction registration on the spot, and we have been upgrading it by reflecting the opinions of users at the site. Functions such as to easily narrow down the make and grade of cars, and the AI's ability to present the tendency of accident history from our vast amount of appraisal data are based on the real voice of the users who say, "This kind of work is something we are not good at and is often overlooked".

The web service of flower business for purchasing flowers called "Otoriyose Torihiki(Pre-order service)" is another good example of "half-a-step-ahead service". Flower shops say, "We have no choice but to choose from the products that have already arrived at the market, and we cannot find the flowers we want right now," while growers say, "We want a system that allows us to sell the flowers before shipping, and to plan and manage sales on a stable basis.", we then took those voices as a tip and have received good reputations by introducing



a system that enables customers to exchange information of flowers that flower shops want and of price that growers want to sell the flowers for.



**We have reliable data that has been refined over many years of dealing with our professional customers.**

—In closing, could you let us know what Aucnet's vision look like?

Ultimately, we believe that we must improve the quality of our information to the point where customers can say, "I can't have a deal with peace of mind until I see the information provided by Aucnet." . As 5G becomes more widespread, the amount of information distributing will increase and the quality will be mixed both good and bad. For example, in the distribution of used cars, it is not enough to simply view a large number of photos and videos of a car. This can only replace the act of looking at the actual car.

In the distribution of used cars, the information that is really required is the market opinions such as "this car can be sold at a higher price because it has demand in other countries" or "which car tends to sell at a higher price, a car of a lower grade or a car of a higher grade but with noticeable scratches," or information on accident history that is difficult to detect. I believe that the information that helps maximize revenue for the customers participating in auctions is required.

We have accumulated reliable data that has been refined over many years of dealing with professional customers in each of our business areas. Our brand statement is "Shaping the Future of Commerce", and we hope to contribute to the efficient execution of our customers' businesses by providing high value-added distribution information. I really appreciate the continuous support of our shareholders and other stakeholders.

Profile of Shinichiro Fujisaki, new President & COO .....  
January, 2011      Joined AUCNET INC.  
2016      CEO of AUCNET DIGITAL PRODUCTS INC.  
2019      Senior Managing Director of AUCNET INC.  
March, 2020      President & COO of AUCNET INC.  
His hobbies are playing golf and watching foreign TV shows and F1 race. His favorite sayings are "Don't think, feel." from a movie, Enter the Dragon.

## Highlights of the First Half of the Fiscal Year Ending December 31, 2020

### Growing need of remote participation in Automobile Business

Due to the spread of the COVID-19, the number of vehicles listed and sold in the Automobile Business was lower than year on year, mainly due to a decrease in the participation of major members in used vehicle auctions. On the other hand, in the live-linked auctions and proxy bidding services, the number of vehicles bought and our sales share remained at the same level as in the previous fiscal year due to the growing need for remote participation.

Although the impact of the spread of COVID-19 is expected to continue in the second half of this fiscal year, we will continue our efforts to increase the number of vehicles distributed. Focusing on our main service, "SATEROKU", our used vehicle appraisal support system, we will promote the establishment of a "one-of-a-kind distribution system based on data intelligence" that provides information on used vehicle prices and trends analyzed from the vast amount of distribution, inspection and behavioral data we have accumulated.

### Significantly improved results by strengthening the sales network and reforming the business base in Digital Products Business

In the Digital Products Business, our domestic business achieved a significant improvement in performance through efforts we have been making since last year to strengthen our sales network, reduce SG&A expenses, and reform our business base. In the used PC distribution business, both the number of members and transaction volume increased over the same period of the previous fiscal year due to the expansion of telework. In our overseas business, commercial distribution continued to be slow, but we have resumed negotiations to capture new opportunities. In the Other Information Distribution Business, the number of pre-owned luxury brand items sold increased due to a remote work promotion campaign and other factors. In used motorcycles and flower business, we took measures to improve profitability and competitiveness, such as making KinutaFlowerAuction CO.LTD a subsidiary (see below).

## FOCUS

Acquiring 100% ownership of KinutaFlowerAuction CO.LTD

Flower business

**"A wholesale market that has top 10 transaction amount handled in Japan rose up. It is the first step toward new growth for the flower business."**

Aucnet acquired 100% ownership of KinutaFlowerAuction CO.LTD ("Kinuta") in wholesale flower section of Tokyo Metropolitan Central Wholesale Market, Setagaya Market.

Kinuta is a physical marketplace focusing on high quality potted flowers. Aucnet has mainly dealt with cut flowers, but with this acquisition, Aucnet will be able to handle a comprehensive range of cut and potted flowers, and its distribution volume will exceed 10 billion yen which makes the company one of the top 10 companies in the national flower market in terms of volume handled (\*).

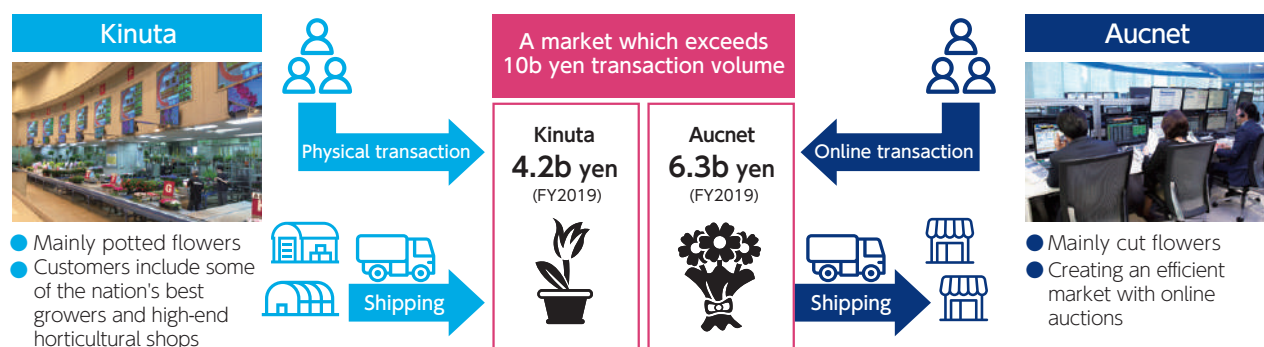
We are aiming to create an efficient market and build a new flower distribution system by leveraging the strengths of Aucnet's Internet market and Kinuta's physical market

(\*)Calculated based on the flower market distribution survey



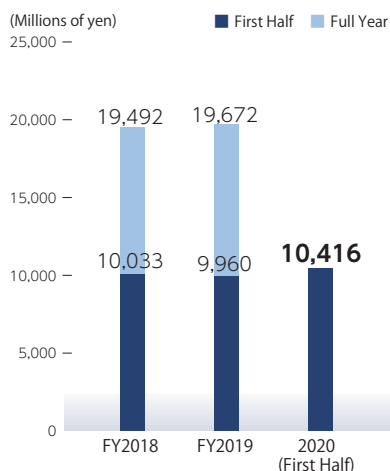
AUCNET AGRI BUSINESS INC.  
President & Representative Director  
KinutaFlowerAuction CO.LTD  
President & Representative Director  
**Susumu Ozaki**

### Image of integration leveraging the strength of both companies

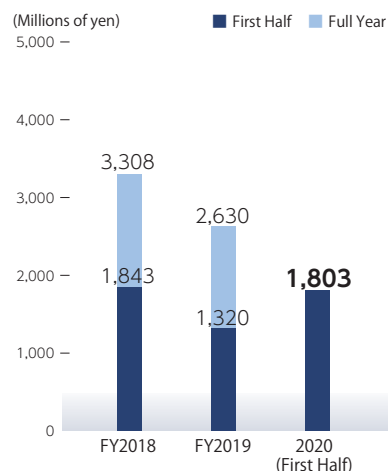


# Consolidated Financial Highlights

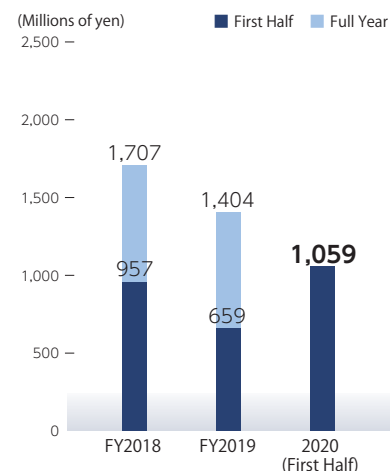
## Net Sales



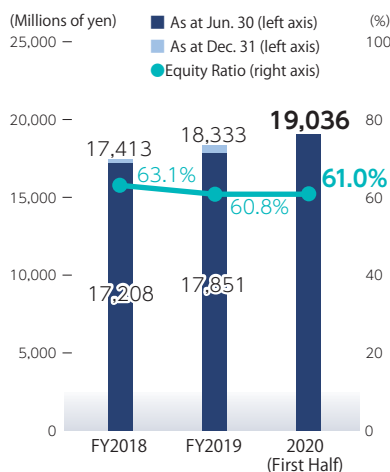
## Ordinary Profit



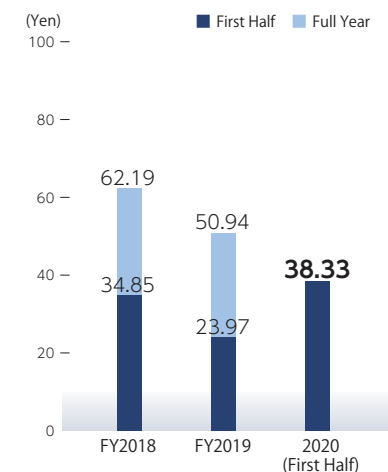
## Profit Attributable to Owners of Parent



## 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 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 an interim dividend this period 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  
**¥5,720 million** (down 8.1%)

Segment income  
**¥1,674 million** (down 14.4%)

### Digital Product Business

Net sales  
**¥2,953million** (up 57.8%)

Segment income  
**¥1,223million** (up 236.1%)

### Other Information Distribution Business

Net sales  
**¥1,328million** (down 2.6%)

Segment income  
**¥333million** (up 0.8%)

Comparison of Net Sales Composition



## Company Overview

(As of June 30, 2020)

<b>Name</b>	AUCNET INC.
<b>Establishment</b>	June 29, 1985
<b>Capital</b>	¥1,758 million
<b>Number of employees (consolidated)</b>	676
<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, 2020)

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

## Stock Information

(As of June 30, 2020)

<b>Total number of shares authorized to be issued</b>	110,000,000 shares
<b>Total number of shares outstanding</b>	27,822,700 shares
<b>Number of shareholders</b>	2,450
<b>Major Shareholders</b>	

Name	Number of Shares	Shareholding Ratio
FLEX CORPORATION	11,448,800	41.1%
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	2,008,690	7.2%
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%
STATE STREET BANK AND TRUST COMPANY 505038	1,241,400	4.5%
FLEX CO., LTD.	844,800	3.0%
Shinichiro Fujisaki	824,800	3.0%
Masahiro Fujisaki	824,800	3.0%
The Master Trust Bank of Japan, Ltd. (Trust Account)	586,900	2.1%

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

## Shareholder Memo

(As of June 30, 2020)

<b>Financial year</b>	January 1 to December 31
<b>Annual shareholders' meeting</b>	Within three months after end of each financial year
<b>Record date for dividends from surplus</b>	Year-end dividends – Dec. 31 Interim dividends – June 30
<b>Number of shares per unit</b>	100 shares
<b>Method of public notice</b>	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).
<b>URL for public notice</b>	<a href="https://ir.aucnet.co.jp/ja/announcement.html">https://ir.aucnet.co.jp/ja/announcement.html</a> (Japanese only)
<b>Administrator of shareholder registry</b>	4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan Mitsubishi UFJ Trust and Banking Corporation
<b>Office of shareholder registry administrator</b>	4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan Stock Transfer Agency Mitsubishi UFJ Trust and Banking Corporation

## Accreditations from external organizations

We are actively engaged in CSR activities to contribute to the development of the industry and the improvement of social life, and have received various accreditation remarks from external organizations for our health management and diversity promotion initiatives.

### Nippon Kenko Kaigi recognition program (large enterprise category)

On February 9, 2020, we received certification from the Ministry of Economy, Trade and Industry (METI) as a corporation practicing excellent health management by implementing various seminars on preventive health care and other topics and promoting initiatives such as reducing overtime.



### Eruboshi (2nd phase)

We have been working on recruitment and career development from the perspective of women, and on December 5, 2019, we were certified by the Minister of Health, Labor and Welfare as a company with an excellent implementation status of efforts to promote women's activities under the certification system based on the Women's Activity Promotion Act.



### Kurumin

We are working to enhance our support system for employees returning to work after childcare leave and to encourage male employees to take childcare leave, and on February 29, 2020, we received the Minister of Health, Labour and Welfare's certification mark called Kurumin based on Act on Advancement of Measures to Support Raising Next-Generation Children as a childcare support company.

