

First Half 2020 Results Briefing

August 28, 2020
AUCNET INC.

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1 . First Half 2020 Results

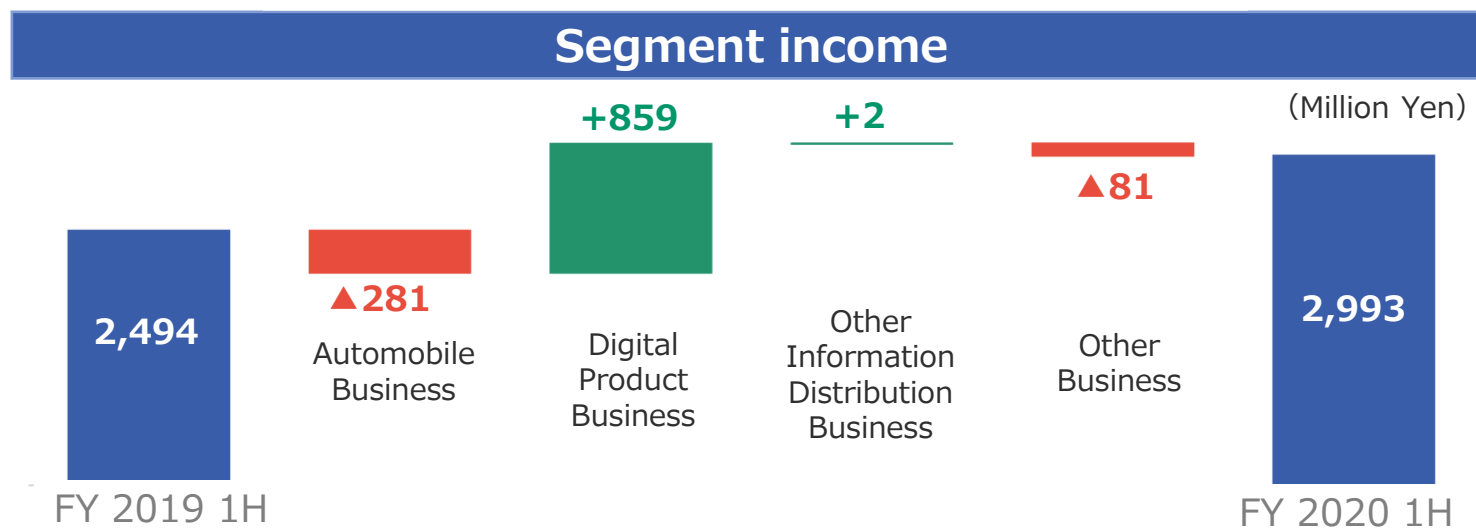
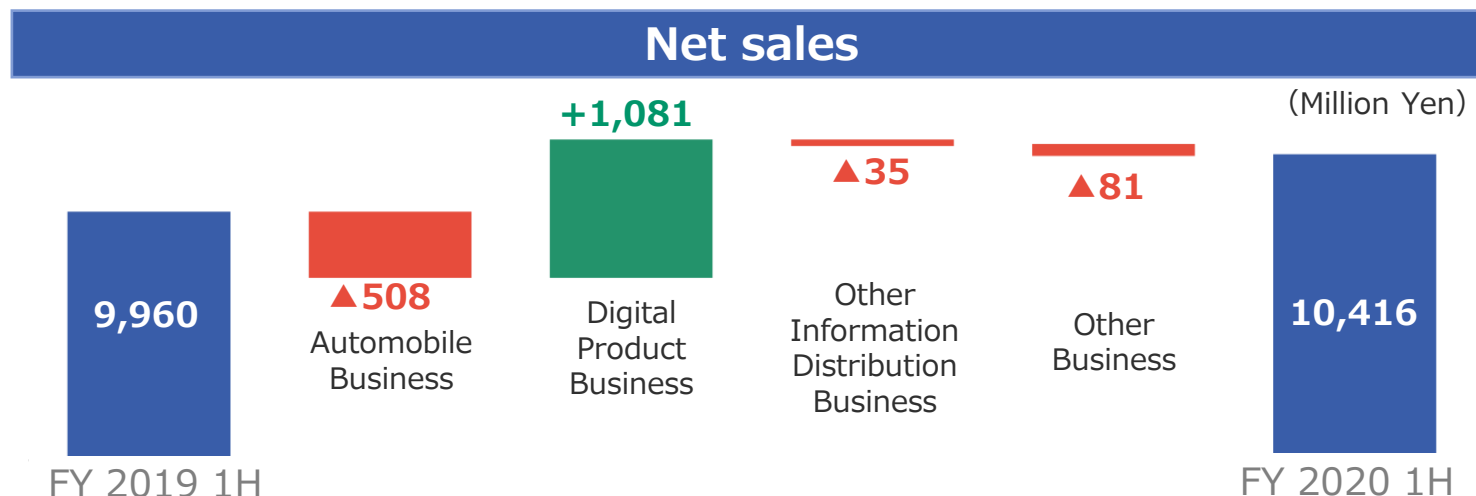
Consolidated Performance Summary



(Million Yen)

	FY2019 1H	FY2020 1H		FY2019
	Results	Results	Year-on-year	Results
Net sales	9,960	10,416	+4.6%	19,672
Operating profit	1,331	1,768	+32.9%	2,525
Operating profit margin	13.4%	17.0%	+3.6pt	12.8%
Ordinary profit	1,320	1,803	+36.5%	2,630
Profit attributable to owners of parent	659	1,059	+60.6%	1,404
Basic earnings per share	23.97 Yen	38.33 Yen	+14.36Yen	50.94 Yen
Dividend per share	13.00 Yen	10.00 Yen	△3.00 Yen	26.00 Yen
Dividend payout ratio	54.2%	26.1%	△28.2pt	51.0%

※ Note: Amounts are rounded down to the nearest whole unit; percentages are rounded to two decimal places.



※ Note: Sales in each segment exclude inter-segment internal revenue and transfers.

2. Forecast of Full Year 2020 Results

Forecast of Consolidated Full Year Performance

(Forecast announced at the beginning of period is unchanged.)



- Although the results in the first half was in good shape, the influence of COVID-19 is still unpredictable. Thus, the forecast announced on February 14, 2020 is unchanged.

(Million Yen)

	FY2019	FY2020	
	Results	Forecast	Year-on-year
Net sales	19,672	20,328	+3.3%
Operating profit	2,525	2,582	+2.3%
Operating profit margin	12.8%	12.7%	△0.1pt
Ordinary profit	2,630	2,681	+1.9%
Profit attributable to owners of parent	1,404	1,430	+1.9%
Basic earnings per share	50.94 Yen	51.77 Yen	+0.83 Yen
Dividend per share	26.00 Yen	20.00 Yen	△6.00 Yen
Dividend payout ratio	51.0%	38.6%	△12.4pt

※ Note: Amounts are rounded down to the nearest whole unit; percentages are rounded to two decimal places.

3 . Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

Other Business

3 . Segment Information

Automobile Business

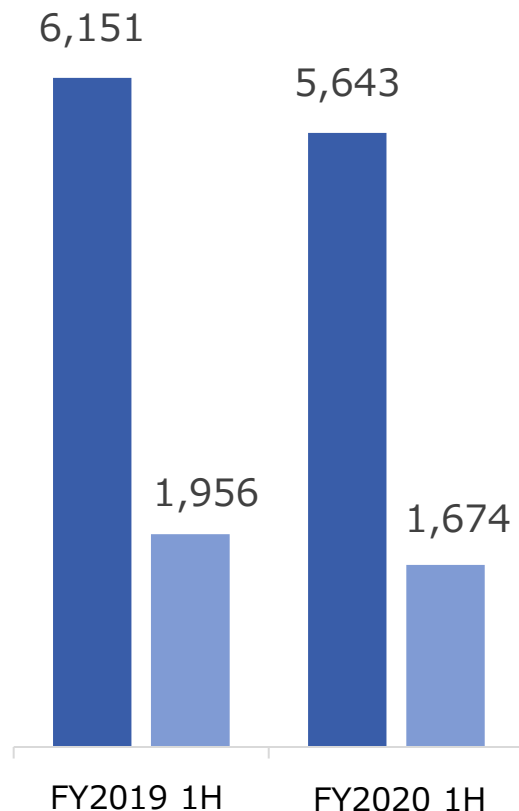
Digital Product Business

Other Information Distribution Business

Other Business

➤ Year-on-year decrease in sales and income

- Net sales (Million Yen)
- Segment income (Million Yen)



Used vehicle auctions

- The number of vehicles listed and sold concluded decrease year-on-year due to the impact of the COVID-19 on the retail market as a whole, despite the implementation of measures such as free listing fees for premium members as a countermeasure against the COVID-19.

Shared inventory market

- In addition to the impact of the sluggish market due to the COVID-19, the slump in lot sales, which were strongly linked to export sales, resulted in a year-on-year decline in the number of vehicles sold, but after the state of emergency was lifted, there was a gradual recovery trend.

Live-linked auctions

- Despite the impact of partial restrictions on exports to export-controlled countries due to the spread of the COVID-19 since March, demand to participate in auctions remotely increased, and after the state of emergency was lifted, there was a recovery in some exports as well as a growing need to buy used vehicles in anticipation of retail demand.

Proxy bidding service

- Continued to provide services despite the impact of COVID-19, which led to an increase in new members and met the need for remote auction participation, particularly from smaller shops, resulting in a year-on-year increase in the number of vehicle sold.

Used vehicle inspection service (AIS)

- Sluggish sales by COVID-19 led to sluggishness in inspections at physical auction sites and inspections for used vehicle listing platforms' certified vehicle programs, resulting in a year-on-year decline in inspection volume.

※ Note: Sales in each segment exclude inter-segment internal revenues and transfers.

Automobile Business (1H KPI Results)



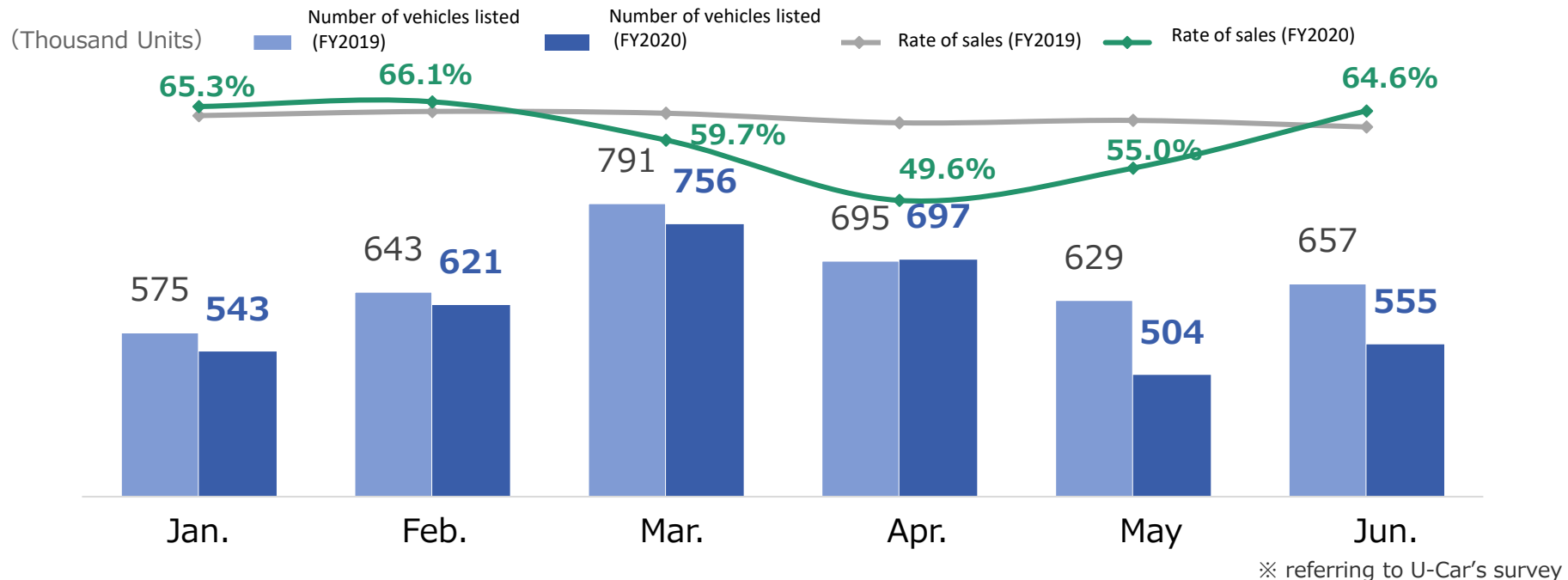
		FY2020 1H	
		Results	Year-on-year
Automobile Business (Total)	Number of sold items	205,255 units	△5.8%
	Sales share ※1	9.3%	+0.7pt
	Total number of members	14,104	△0.1%
Used vehicle auctions	Total number of listed items	27,760 units	△13.0%
	Number of sold items	8,152 units	△8.6%
	Rate of sale ※2	30.9%	+1.0pt
Shared inventory market	Number of sold items	5,754 units	△18.4%
Live-linked auctions	Listed units	2,176,739 units	△4.6%
	Sold units	136,493 units	△8.7%
Proxy bidding service (i-Auc)	Sold units	54,856 units	+4.3%
Used vehicle inspection service (AIS)	Total inspected units ※3	482,333 units	△3.1%

※1 Aucnet's total sales units (including Used vehicle auctions, Shared inventory market, Live linked auctions and Proxy bidding service) as a percentage of 2,200,002 total used vehicle sales units at auction nationwide (based on U-Car Full Data Book and Export Quotation Book).

※2 Rate of sale = sold items / (total listed items – canceled items)

※3 Includes Used motorcycles inspections.

Number of vehicles listed and rate of sales in the domestic used vehicle market



- The used vehicle market saw a year-on-year decline in the number of vehicles listed due to the tax hike in October in 2019 and the slump in new car sales due to the impact of COVID-19.
- On the other hand, with the unclear market trend due to the impact of the COVID-19, the rate of sales declined markedly as buyers held off on buying, but it bottomed out in April and showed a recovery trend afterwards.

➤ **In the first half of 2020, the number of vehicle listed and rate of sales decreased due to the impact of the tax hike from last year and the sluggish market for COVID-19.**

Total number of vehicles sold and vehicles listed in Automobile Business

(Units)

217,993

205,255

FY2019 1H

FY2020 1H

Used vehicle auctions and Shared inventory

- In March to May, the number of vehicles purchased by exporters and dealers handling high-priced vehicles dropped significantly, and the measures taken to support remote work could not make up for the negative effects.

Live-linked auctions

- The number of vehicles sold was increased Year-on-year in January-February, and also increased in June due to a partial recovery in exports and increased demand for used vehicles, resulting in a slight year-on-year decline in the first half of 2020.
- The number of auction sites where buyers can use the "Omatome Service" to collectively process land transport and payment for vehicles purchased at multiple auction sites has increased by four.

Proxy bidding service

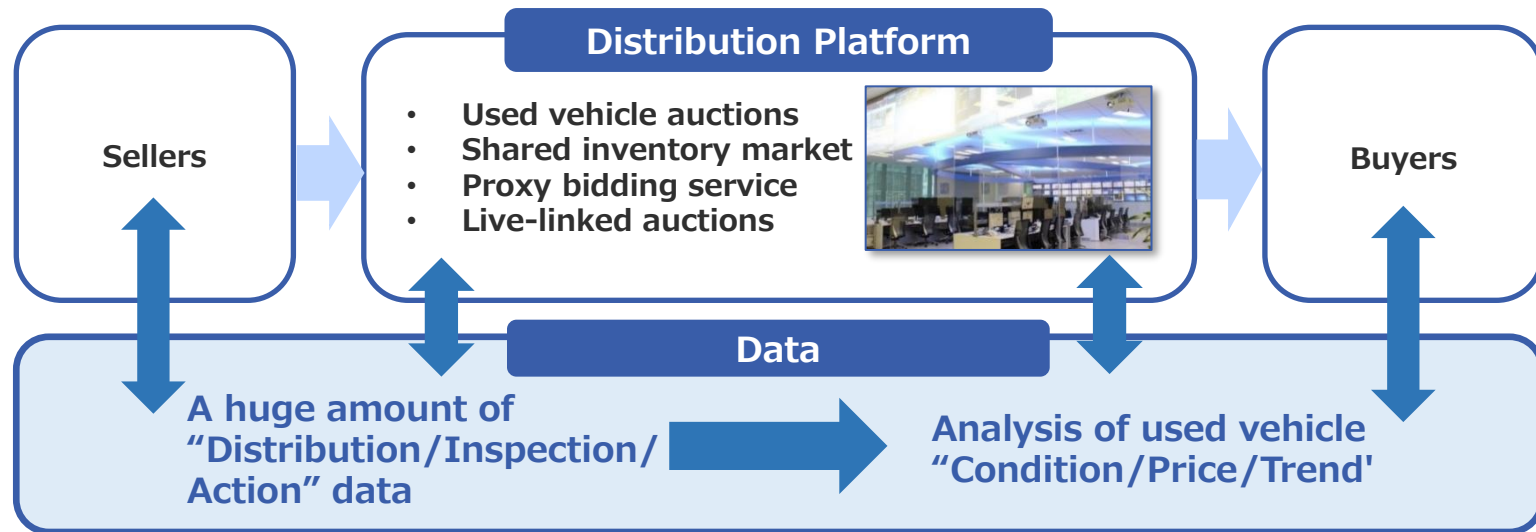
- New members increased as we continued to provide services while other companies were forced to suspend their business.
- Also, the use of new services launched in May 2019 increased and the revised fees for certain services from January 2020 was succeeded, resulting in a 4.3% increase in the number of vehicles sold compared to the same period last year

Vehicle inspection service

- In addition to a significant decrease in the number of inspections at physical auction sites, the number of inspections for used vehicle listing platforms' certified vehicle programs, which had been performing well, also slowed down from April due to the impact of the COVID-19, resulting in a year-on-year decline in the number of inspections.

➤ **Despite the negative trend as in the market, the diversified services of the Automobile Business helped diversify risk and minimize the impact of the stagnant used vehicle market.**

Progress on the Distribution Platform based on Data Intelligence



1H Results and Initiatives onward

- The switch to inside sales, which was planned from the beginning, will be further accelerated by the COVID-19.
- Start providing market trend information to members through inside sales, depending on their vehicles in stock
- In addition to further expanding the accuracy and structure of data analysis, Aucnet is planning to strengthen its Distribution Platform Service based on Data Intelligence with an eye toward business partnerships with other companies.

- **The importance of distribution without direct contact has been increasing in these days, and we will provide more convenient online distribution by building the Distribution Platform based on Data Intelligence and enhancing data linkage.**

3. Segment Information

Automobile Business

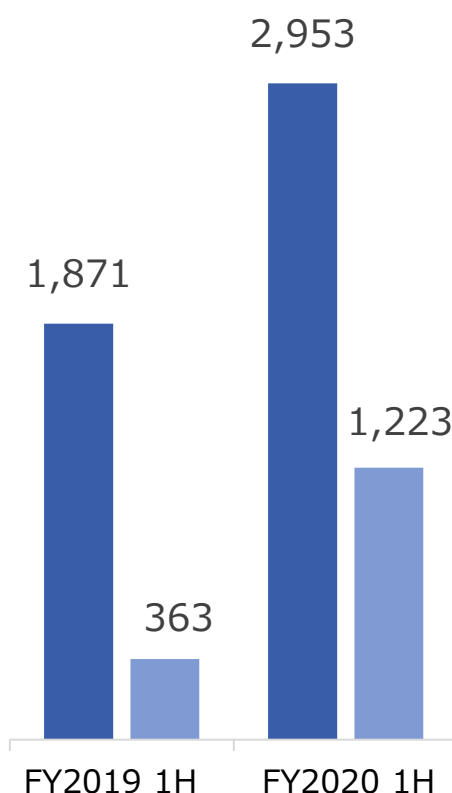
Digital Product Business

Other Information Distribution Business

Other Business

➤ Year-on-year increase in sales and income

- Net sales (Million Yen)
- Segment income (Million Yen)



Domestic Business

- Favorable market conditions and strong sales of new smartphones both in Japan and overseas led to a significant year-on-year increase in the number of sales units, as well as an increase in the percentage of items with higher unit prices due to the shift to new models, resulting in a year-on-year increase in transaction amount.
- Cost of goods sold, selling, and general and administrative expenses were reduced by improving business efficiency, which we have been working on since last year.
- Increased demand for used PCs due to the replacement of Windows 7 and increased remote work, resulting in favorable distribution of used PCs.

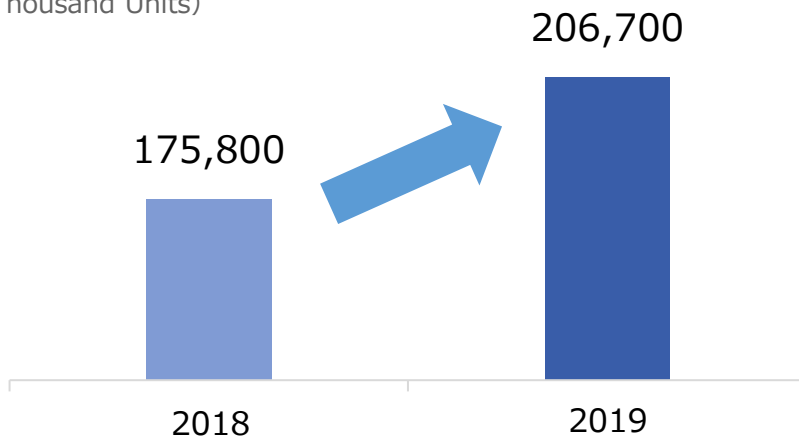
Overseas Business

- Just as the business was launched in earnest, the impact of the COVID-19 widened, and overall business flow continued to be sluggish.

		FY2020 1H	
		Results	Year-on-year
All Digital Product Business	Total transaction amount	¥17,166 million	+51.2%
	Total sales units	1,112,526 units	+41.8%
	Total number of members	707	+33.4%

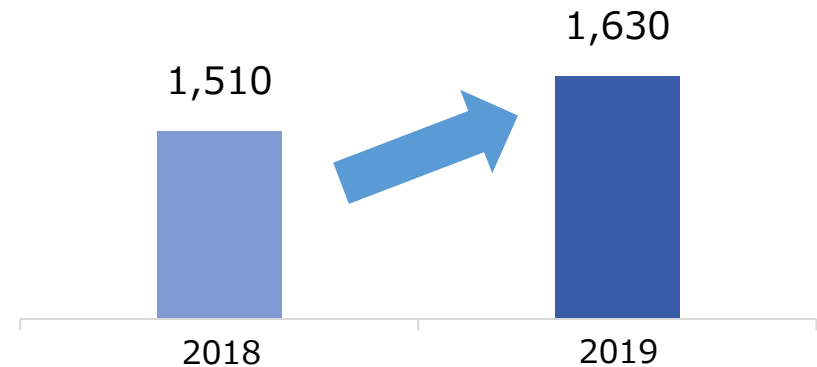
Sales units of used smartphone in the world ※1

(Thousand Units)



Domestic sales units of used smartphone ※2

(Thousand Units)



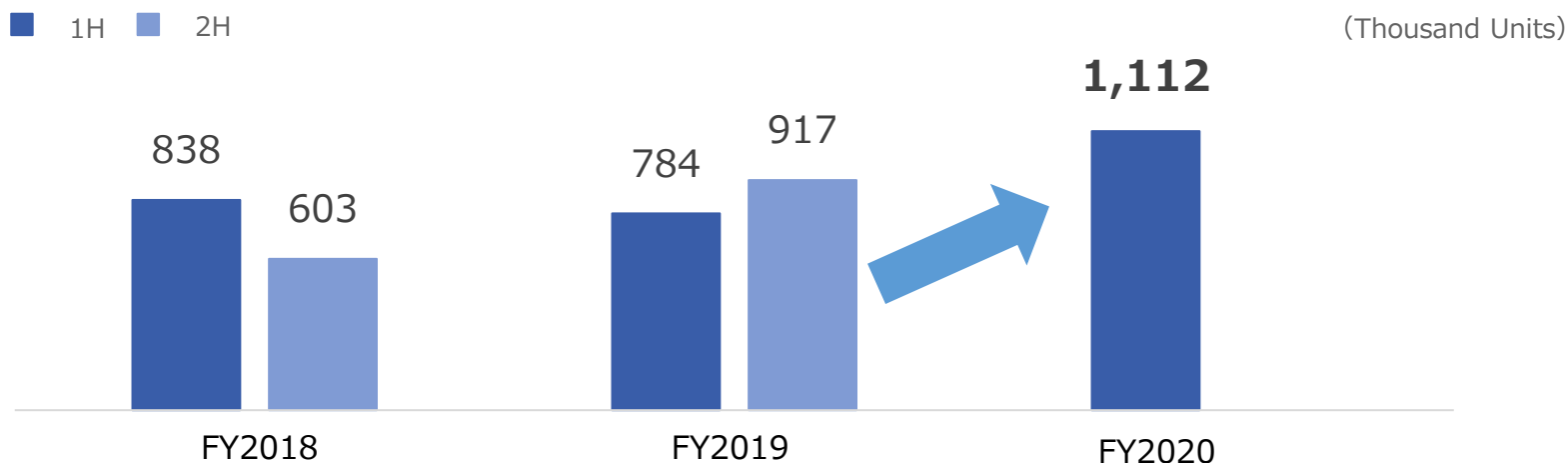
※1 Referring to IDC survey

※2 Referring to MM Research Institute

- In the global and Japanese smartphone markets, the sales units of new smartphones has been flat, while the sales units of used smartphones has been increasing significantly.
- Demand for used smartphones, which are cheaper than new phones and do not differ greatly in function, is on the rise, and the move to reduce monthly communication costs through the use of low-cost SIMs is one of the factors behind the increase in demand for used smartphones.
- Impact of COVID-19 is only temporary, and the market remains strong.

➤ **The upward trend in the used smartphone market in Japan and overseas has had a positive impact on the Digital Products Business's performance, with the market for used smartphones remaining strong even in the COVID-19 whirlpool.**

Sales Units in Digital Product Business

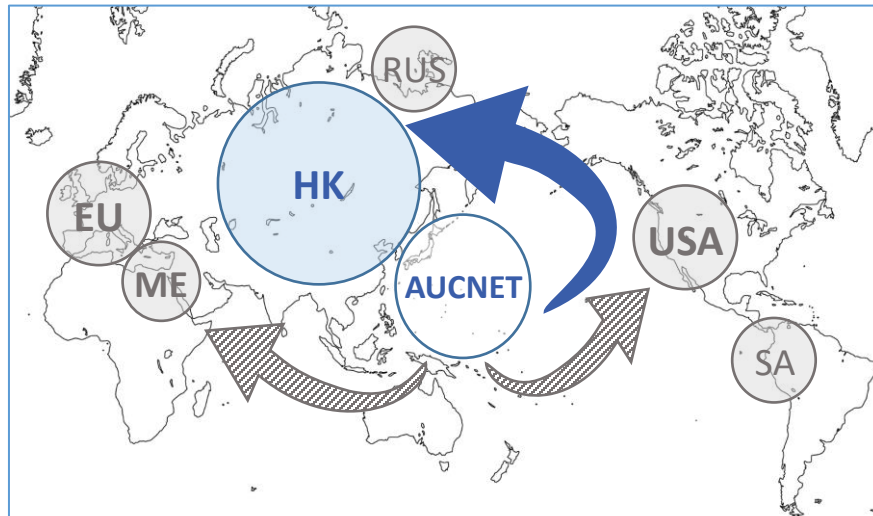


- A strong global market for used smartphones provided a tailwind for the Digital Products Business, which targets buyers in Japan and overseas, and the sales units were increased more than expected.
- From April onwards, the new low-cost models of smartphones matched the market trend for cheaper smartphones, resulting in higher-than-expected sales and an increase in the sales units.
- Demand for used PCs increased due to the replacement of Windows 7 from last year. While new PCs were in short supply due to a surge in demand for remote work PCs during the COVID-19 whirlpool, demand for inexpensive used PCs also increased, leading to an increase in the sales units of PCs.

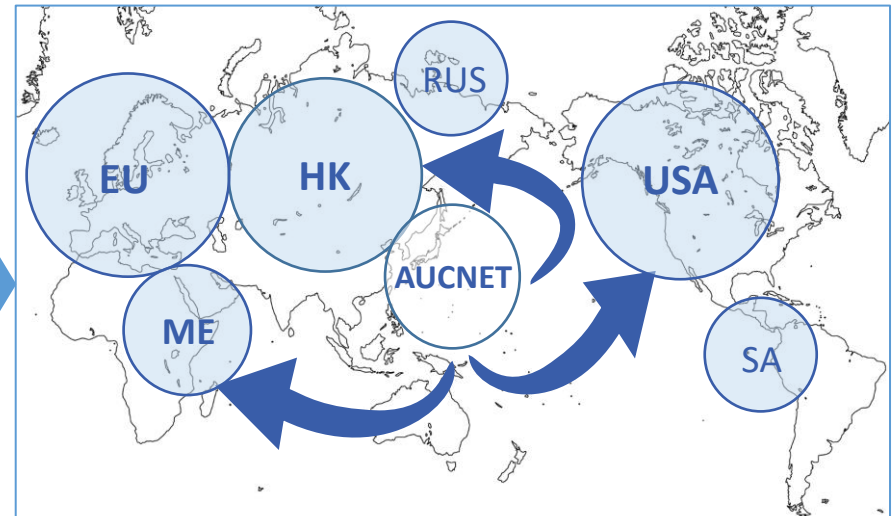
➤ **Efforts to strengthen distribution, which we have been working on since last year, have paid off, with the digital products business returning to significant growth against the backdrop of a favorable market.**

Diverse overseas buyer network contributes to stable distribution.

- In April and May, the Hong Kong area, which has been gaining a large number of members, supported the number of used smartphones sold amid the ongoing urban lockdown in Europe and the US.
- Since the beginning of June, the trend toward economic resumption has become apparent in many parts of the world, and the development of more than 100 new customers globally since last year has been a success, and sales have been brisk, supported by strong demand from various countries.
- More than 60 new global buyers were acquired in the first half of 2020, and further diversification is expected in the future.



April-May Purchase from Hong Kong is underpinned



June Purchase from a wide range of regions, mainly in Europe and the US.

- A diverse global network that is not confined to a single region has greatly reduced the negative impact of the COVID-19 and stabilized the market price and distribution volume.

U.S. Facility operational Status

1H 2020

- The U.S. subsidiary ADP USA was affected by the suspension of economic activity due to the stay-at-home orders, and was forced to slow down immediately after full-scale operations.
- There is a new business opportunity with business partners with whom we have been negotiating



Future Initiatives

- Continued negotiations with manufacturers, carriers, major mobile-related companies, retail businesses, etc., to consolidate the foundation for monetization as a business office in the second half of 2020.
- Aiming to handle smartphone-related products that are expected to be in high demand due to the spread of 5G

- **We will continue to expand the commercialization business to stabilize our business base and consider handling products for which demand is expected to grow in the future, with the aim of starting full-scale distribution in the U.S.**

3 . Segment Information

Automobile Business

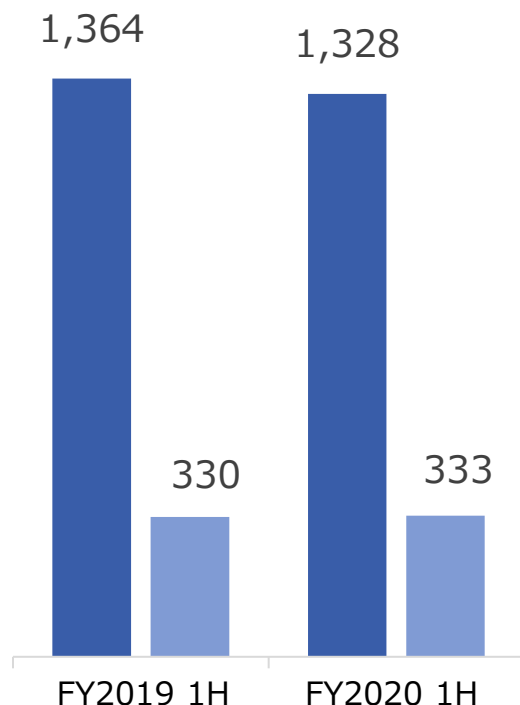
Digital Product Business

Other Information Distribution Business

Other Business

➤ Year-on-year decrease in sales and increase in income

- Net sales (Million Yen)
- Segment income (Million Yen)



Pre-owned luxury brand items

- Greatly increased the transaction volume as the use of online auctions was activated while domestic physical auction sites were forced to be closed.
- Year- on- year increased in both overseas successful bids and transaction volume as a result that overseas buyer development with a focus on Europe led members' proactive participation to our auctions and the increase of bidding numbers.

Used motorcycles

- Despite the measures to acquire members to compensate for the decline in auction listings, the number of vehicles listed decreased year-on-year as the measures could not be made up for the drop in the number of members due to the impact of the COVID-19 from March onwards.
- In the rental service, the impact of the COVID-19 disaster caused a slowdown in operations during April and May, but after the declaration of the state of emergency was lifted, operations were again strong and the number of units in use increased year-on-year.

Flowers (cut and potted)

- Although the company promoted the acquisition of new members through the active use of digital marketing and online advertising, the transaction volume decreased year-on-year due to a significant drop in domestic demand for flowers for ceremonial occasion including weddings, funerals, and other events as a result of impact of COVID-19.

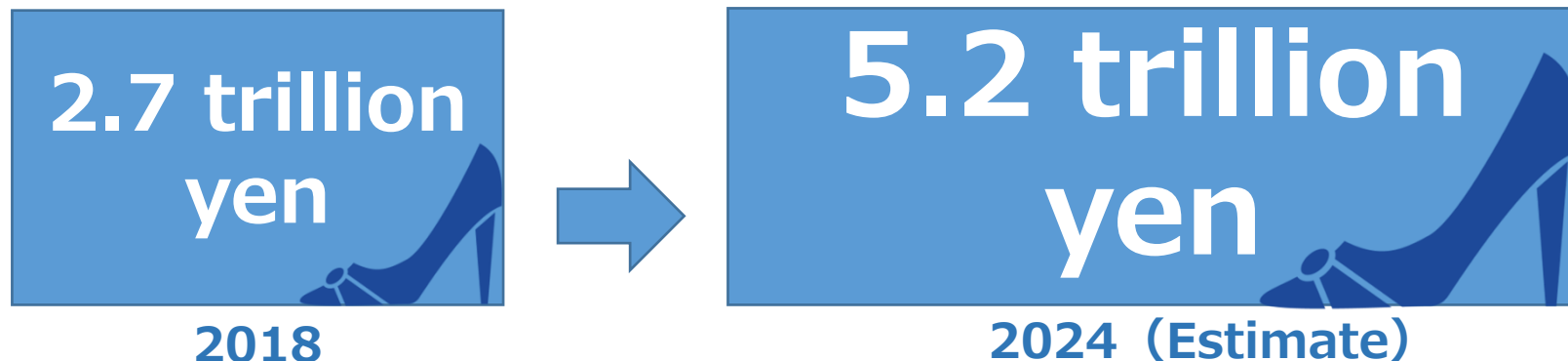
Other Information Distribution Business (1H KPI Results)

		FY2020 1H	
		Results	Year-on-year
Pre-owned luxury brand items	Total transaction amount	¥6,488million	+21.2%
	Total number of listed items	260,177items	+9.2%
	Rate of sale	73.9%	+2.3pt
	Total number of members	1,943	+12.7%
Used motorcycles	Total transaction amount	¥3,085million	△9.0%
	Total number of listed items	24,322units	△11.9%
	Rate of sale※	53.0%	+2.9pt
	Total number of members	4,629	+2.0%
Flowers (cut and potted)	Total transaction amount	¥2,488million	△16.3%
	Total number of members (buyers)	1,091	+1.2%
	Total number of members (growers)	3,189	+3.7%

※ Rate of sale = sold items / (total listed items – canceled items)

Global market size of pre-owned luxury brand items

- Global market size of pre-owned luxury brand items is estimated to grow significantly at an average of 12% per year.



※1 Referring to KD Market Insights “Pre-owned Luxury Goods Market Insights, Trends, Opportunity & Forecast”

※2 Calculated as US\$1=¥100

Market trends of Japanese resale fashion

- Japan's resale fashion market, including reused luxury brand items, is worth JPY 720 billion in 2019, but it is estimated to be worth JPY 990 billion in 2022, as C2C service operators are expected to take new measures in secondary distribution. ※ Referring to Yano Research Institute's survey
- In the first half of 2020, many of the physical auction sites selling luxury brand items were closed due to the COVID-19.

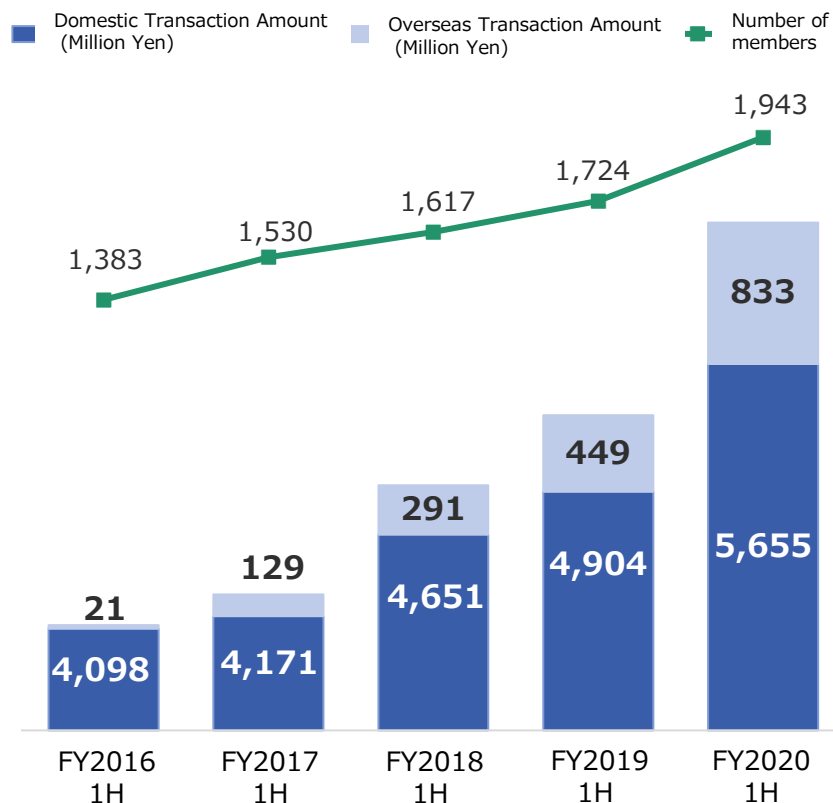
➤ **The global market for reused luxury brand items is expected to grow steadily in both Japan and the rest of the world.**

Other Information Distribution Business

Pre-owned luxury brand items (Changes in Results)



Trends in transaction volume and number of members of pre-owned luxury brand items



Overseas

- Bids from European buyers who we have developed increased.
- Overseas transaction amount increased due to the winning bids from Chinese buyers through domestic companies in Japan.
- In the U.S., successful bidding price have increased steadily, partly due to the impact of the business alliance with LePrix.

Japan

- Amidst the absence of physical auction sites in Japan, use of our auctions has become more active and transaction amount has increased significantly.
- A decrease in the number of items listed from buy-out shops was offset by an increase in the number of items listed from distributors and affiliated auction sites, resulting in an increase in transaction amount.

➤ **By demonstrating its superiority as online auctions, pre-owned luxury brand item auctions led the industry both in Japan and overseas during the COVID-19 whirlpool.**

Strengthen cooperation with physical auction sites

- Business collaboration using our auction system respectively with Tokyo Pawnshop Association since July and RK GLOBAL AUCTION since November
- While many physical auction sites were closed in the first half of 2020, Aucnet contributed to the industry by listing and selling items instead of the affiliated auction sites.

Business model for business collaboration

Tokyo Pawnshop
Association



Listing
Once a month



Distribution Platform



Listing
Twice a month



RK GLOBAL
AUCTION



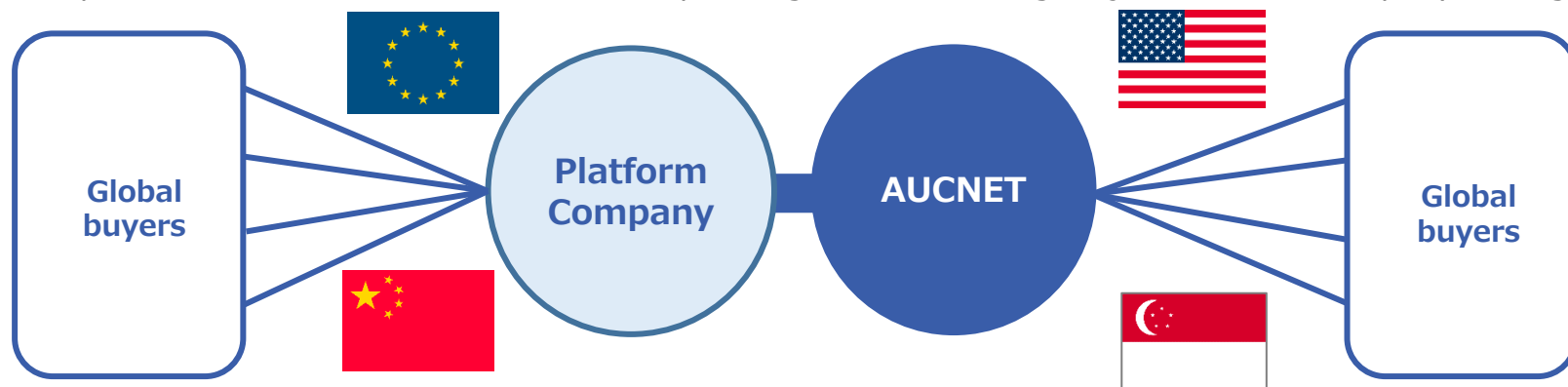
Physical auction sites : Online auctions can be held immediately using Aucnet's platform.

Aucnet : Increase in the number of items available and provide more items for members to bid on.

- As a leader in the online auction of pre-owned luxury items, we will continue to strengthen cooperation with physical auction sites and promote the provision of a highly convenient platform.

Building Global Platform Network

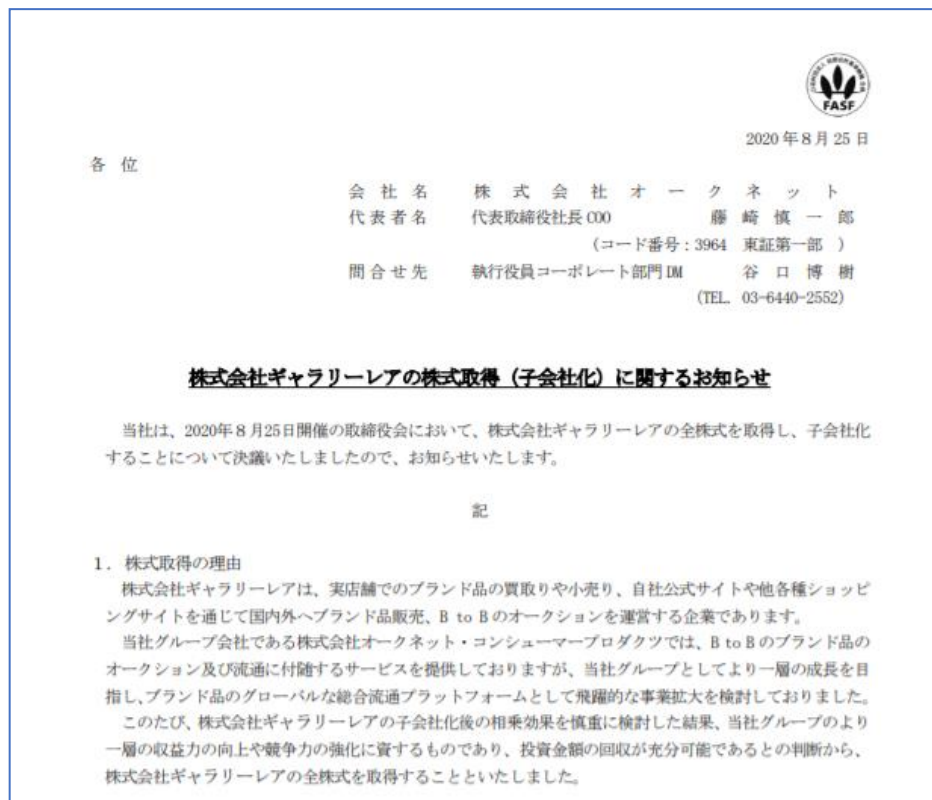
- By auction data linkage with platform companies and cross-border EC companies in Europe and China, and connecting with overseas buyers, we will dramatically expand our global network.
- In addition to increasing the number of buyers through the above-mentioned business alliance, we are building a more diversified global sales network by developing more than 350 unique overseas buyer companies in more than 30 countries and operating auctions through a joint venture company in Singapore.



The U.S. business slowed down due to the COVID-19

- AUCNET CONSUMER PRODUCTS USA, LLC, a U.S. subsidiary established in January 2020, delays the start of operations due to the impact of COVID-19.
 - The U.S. business is scheduled to begin in the fourth quarter, depending on the status of the infection.
- **Aiming to grow as one of the world's leading Network Orchestrators in the reused luxury brand item industry through expansion of the overseas buyer network and overseas development through a joint venture company in Singapore and a U.S. subsidiary.**

Resolution to acquire all of the shares of GALLERY RARE Ltd. was passed and made it a subsidiary (August 25, 2020)



※ The impact on financial results is currently under review.

- By making Gallery Rare, a company that buys out goods at physical stores and operates an overseas e-commerce site, a subsidiary, a synergistic effect will be generated for both companies, strengthening their profitability and competitiveness.

Expanding business partnerships through the Shared Inventory Market

- MOTO BAZAR," the Shared Inventory Market, utilizes a network of used motorcycle members to share and trade information about their in-store inventory with other members, similar to the services offered by the Automobile Business.
- A dedicated Shared Inventory Market will be opened for group members to share information with each other, as well as to activate transactions among group members by providing settlement agent service and other services and vehicle inspections by AIS, a third-party organization.
- Started business partnership with Kawasaki Motors Corporation Japan on June 1, 2020 to support further expansion of distribution by the Shared Inventory Market.



Started a subscription service

- On May 7, 2020, "ME:RIDE" a subscription service of used motorcycle was launched.
- Due to the impact of COVID-19, no aggressive promotion was conducted in the first half of the year, but we will provide good quality used motorcycles for lease with a wide range of customers through advertising and other promotional activities.



- **In order to develop and revitalize the industry, we are expanding the Shared Inventory Market through data linkage among companies, while at the same time developing a subscription service for users that is an evolution of our existing rental business.**

Other Information Distribution Business Flowers (cut and potted) (Growth Initiatives)

Making KinutaFlowerAuction CO.LTD a subsidiary

- Acquired 100% ownership of KinutaFlowerAuction CO.LTD on July 1, 2020
- Transaction amount of flowers is now over 10 billion yen and expanded to one of the largest markets in the industry.

Name	KinutaFlowerAuction CO.LTD
Location	1-4-1, Okura, Setagaya-ku, Tokyo
Establishment	July 6, 1998
Business	wholesale business focusing on potted flowers
Capital	100 million yen
Transaction Amount	4.27 billion yen (2019)



Estimates for the future

- In addition to Aucnet's web auction and distribution focusing on cut flowers, we aim to create an efficient market that leverages the strengths of the Internet and the physical market by tapping into KinutaFlowerAuction, which has strengths in high quality and wide variety of potted flowers such as orchids, ornamental plants and gardening materials.
- By combining the strengths of the KinutaFlowerAuction, which has a collection service, and Aucnet, which has a delivery service, we will be able to offer an optimal delivery route from farmers to retailers in the future.

- **By combining the strengths of AUCNET and KinutaFlowerAuction of cut and potted flowers, and online distribution and the physical market, we aim for new growth and expansion of the flower business from a different dimension.**

3 . Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

Other Business

Initiatives of MENERGIA

- MENERGIA Inc. (The business name has been changed from “iryoo.com INC.” since April 1, 2020) operates a service for healthcare professionals that allows users to share videos within a closed community.

Medical video viewing management service 「iryoo.com」



- Service that can improve the convenience of work in medical institutions, such as learning medical knowledge and committee management using videos
- Transcription of video contents, testing, issuance of certificates, and information sharing using the viewing management function are available.

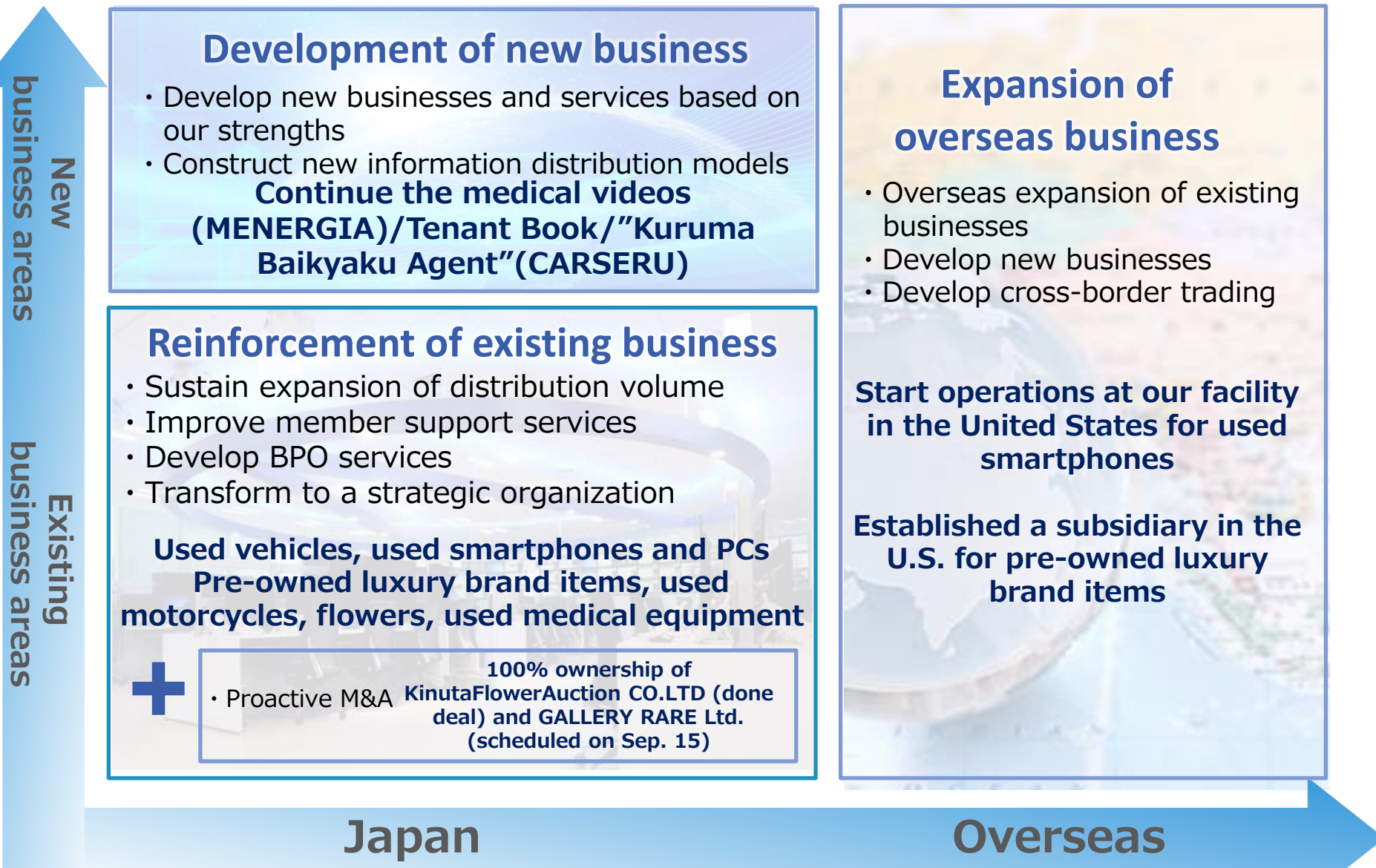
Academic conference service 「Web TV」



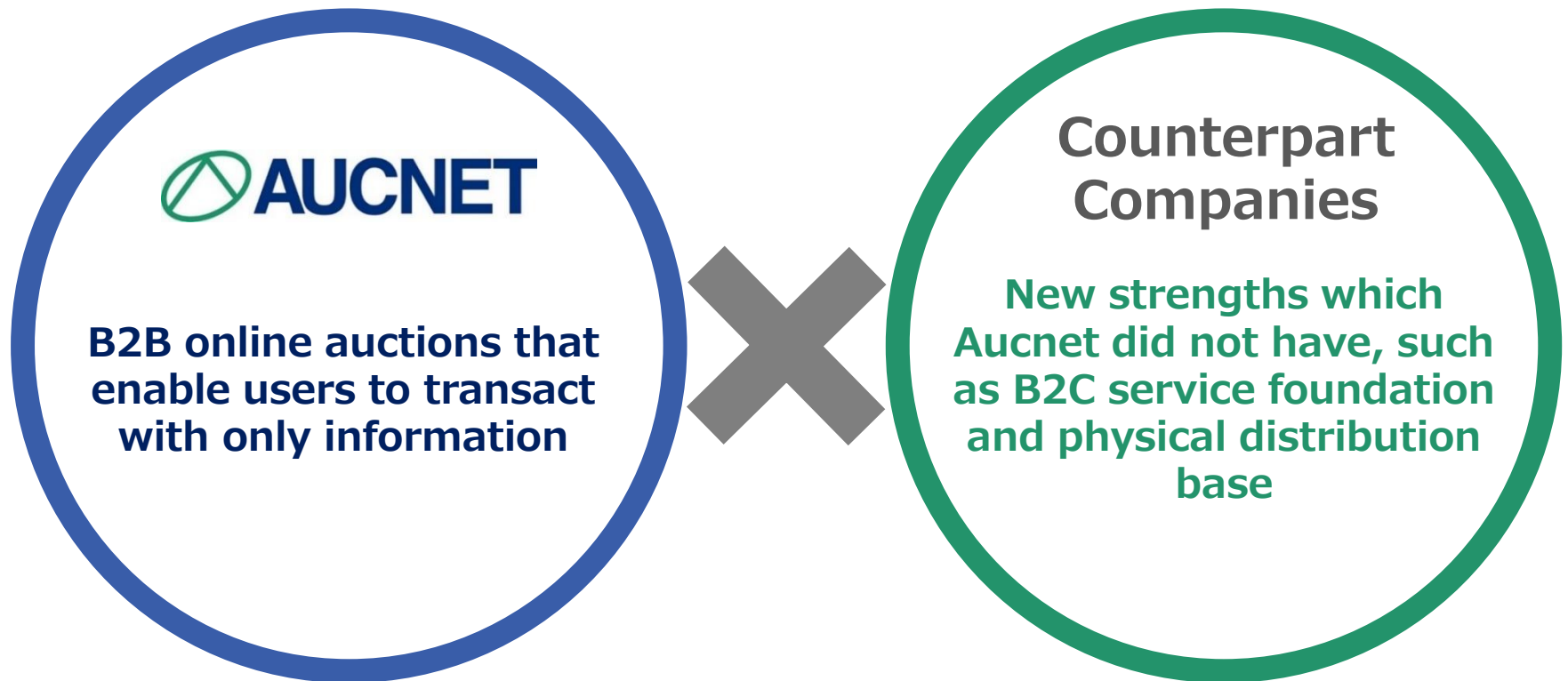
- Providing online access to conferences held in distant locations
- Live and on-demand conference videos can be streamed and administrators can manage attendance.

➤ **Demands for online information sharing in medical industry has been accelerated by the influence of COVID-19, and the number of users of the service that MENERGIA offers are expected to increase.**

4. Strategy for Growth



Amidst the accelerated adoption of IT due to the impact of the COVID-19, Aucnet will link its strength in online distribution with other businesses by promoting M&A, aiming to dramatically expand business and strengthen competitiveness through synergies.





Shaping the Future of Commerce

At AUCNET Group, we provide cutting edge distribution and inspection systems that add the value of “trust” to various types of information. Our online platforms deliver valuable services and meaningful information to our customers, and create a highly efficient distribution ecosystem with minimal impact on the environment. We continuously innovate to provide new services that are tailored to customer needs and exceed their expectations.



5 . Reference

Balance Sheets



(Million Yen)

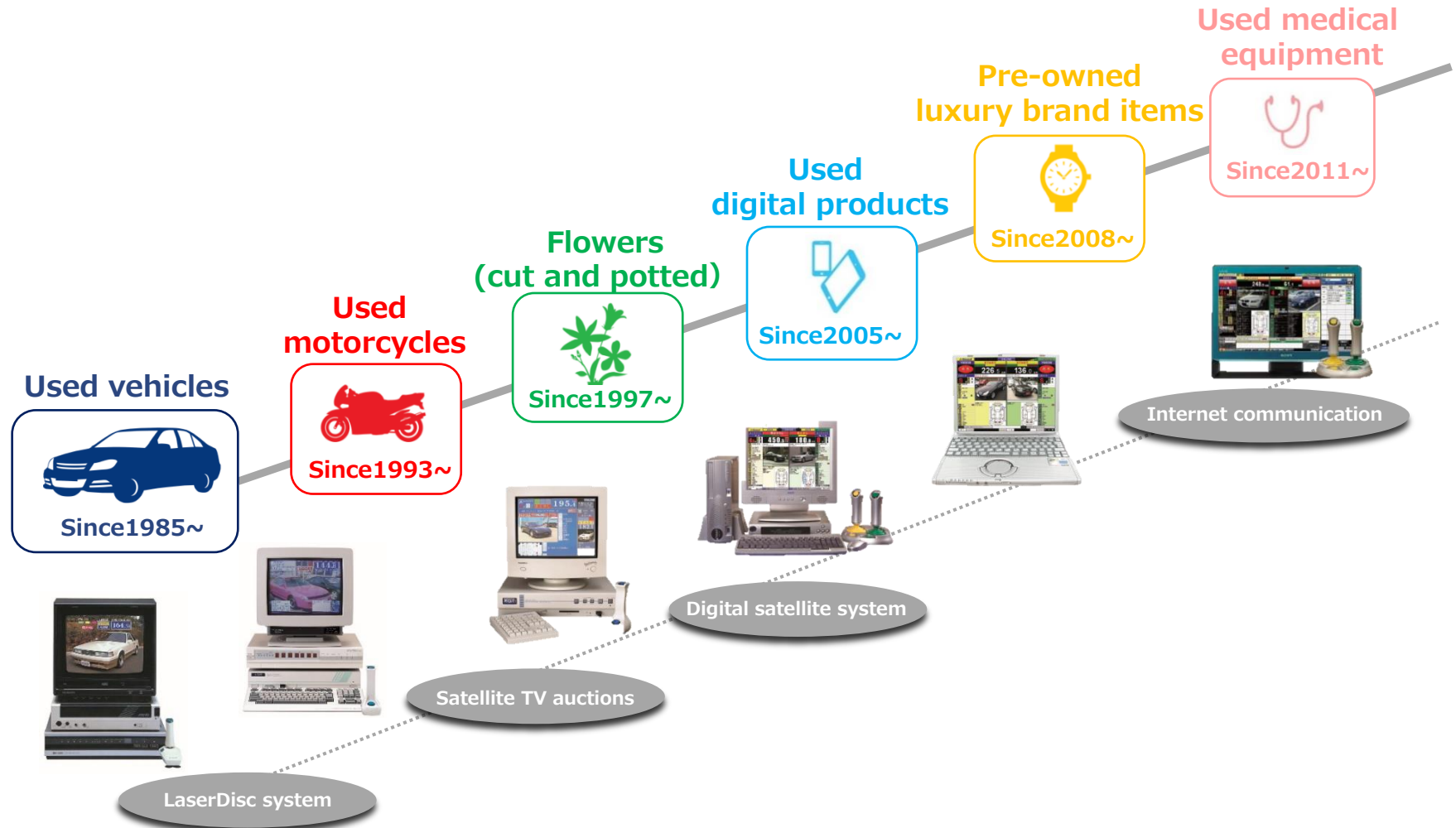
Assets	As of December 31, 2019	As of June 30, 2020		Liabilities and net assets	As of December 31, 2019	As of June 30, 2020	
	Amount	Amount	Increase /Decrease		Amount	Amount	Increase/ Decrease
Current assets	22,450	24,084	+1,633	Current liabilities	8,455	9,018	+562
Cash and deposits	14,701	16,434	+1,732	Due from auction members	6,040	6,480	+440
Due from auction members	3,589	3,518	△71	Other	2,415	2,537	+121
Other	4,159	4,132	△27	Non-current liabilities	2,535	2,654	+119
Non-current assets	6,873	6,624	△249	retirement benefit liability	1,620	1,656	+35
Property, plant and equipment	1,482	1,463	△18	Other	914	998	+83
Intangible assets	1,513	1,425	△88	Total liabilities	10,991	11,672	+681
Other	3,878	3,736	△142	Total net assets	18,333	19,036	+703
Total assets	29,324	30,709	+1,384	Total liabilities and net assets	29,324	30,709	+1,384

(Million Yen)

	FY2019 1H	FY2020 1H	
	Results	Results	Year-on-year
Cash flows from operating activities	673	2,348	+1,675
Cash flows from investing activities	△1,045	△ 329	+715
Cash flows from financing activities	△370	△ 362	+7
Cash and cash equivalents at end of period	14,894	15,444	+549

Started business with auctions of used vehicles

Aucnet has developed its auction business by consistently employing cutting-edge technologies





Total transaction amount

¥357.5 billion



Total number of members

25,421 Companies

Automobile Business

Transaction Amount

¥309.1 billion



Digital Product Business

Transaction Amount

¥24.5 billion



Other Information Distribution Business

Pre-owned luxury brand items

Transaction Amount

¥10.5 billion



Used motorcycles

Transaction Amount

¥6.9 billion



Flowers (cut and potted)

Transaction Amount

¥6.3 billion



※ Note: Transaction Amount : Total value of the products distributed through the services provided by AUCNET in each business
Total number of members: Members who use multiple services of the same business are counted as one (FY19)

Provide total support for used vehicle distribution, primarily through auctions
Aucnet operates its auction business **without any physical auction sites**

Key aspect of used vehicle distribution

Used vehicle inspection service (AIS)

- Expanding nationwide vehicle inspection and evaluation provided at customer sites with 190 qualified inspectors *



※As of June 30, 2020

Used vehicle distribution hosted by AUCNET

Used vehicle auctions

- High proportion of late model, low mileage vehicles
- Can sell at auction while vehicle remains at retail premises

Shared Inventory Market

- Auction members share information of approximately 45,000 vehicles* in stock and facilitating negotiation and trading



※As of June 30, 2020

Used vehicle distribution networks with other sites

Proxy bidding service (i-Auc)

- Auction agency services for
- vehicle listing and bidding at
- 111* physical auction sites
- nationwide.

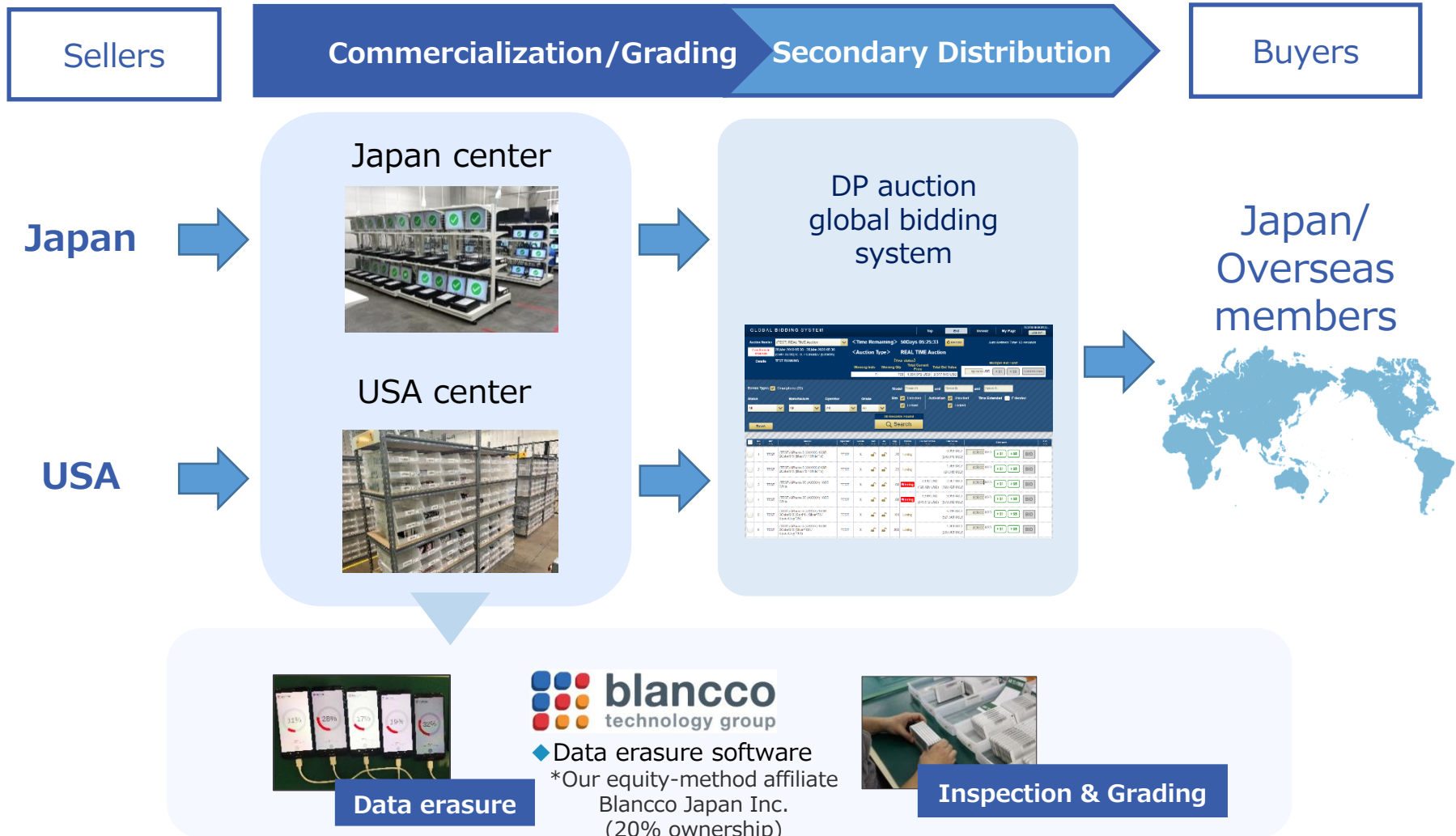
Live linked auctions

- Real-time access to 77*
- physical auction sites
- nationwide.



※As of June 30, 2020

Provide a distribution market for used PCs, smartphones and such other digital devices

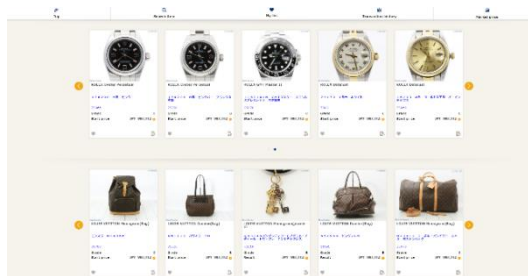


Facilitate the distribution of various products through online auctions Aiming further expansion of services for customer

Pre-owned luxury brand items



AUC Marketplace



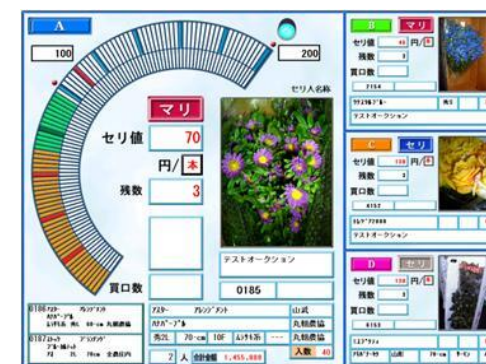
Used motorcycles



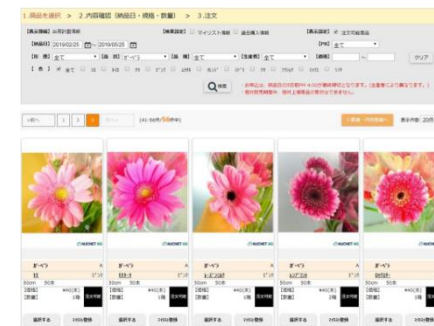
Rental Bikes



Flowers (cut and potted)



Otoriyose Torihiki



- The information and data in this presentation materials contain forward-looking statements about us, our plan for the future, and so forth.
- Any forward-looking statements are determined and assumed based on information available as of August 28, 2020. Please be aware that actual performance is subject to influence from diverse factors and may differ from the forecast presented herein.