

Consolidated Financial Statements for the Second Quarter of the Fiscal Year Ending December 31, 2019 [Japanese GAAP]



August 9, 2019

Company name: **AUCNET INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3964

URL: <https://www.aucnet.co.jp/>

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Scheduled date of filing quarterly report: August 9, 2019

Scheduled date of commencing dividend payments: September 2, 2019

Preparation of supplementary explanatory materials: None

Quarterly financial results meeting: Yes (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Results for the Second Quarter of the Fiscal Year Ending December 31, 2019 (January 1, 2019 – June 30, 2019)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2019	9,960	(0.7)	1,331	(25.9)	1,320	(28.4)	659	(31.1)
June 30, 2018	10,033	0.0	1,796	(4.2)	1,843	(4.2)	957	(8.6)

(Note) Comprehensive income: Six months ended June 30, 2019: ¥781 million [-11.0%]

Six months ended June 30, 2018: ¥877 million [-21.2%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2019	23.97	23.71
June 30, 2018	34.85	34.23

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2019	28,964	17,851	60.8
As of December 31, 2018	27,257	17,413	63.1

(Reference) Equity: As of June 30, 2019: ¥17,615 million

As of December 31, 2018: ¥17,205 million

2. Cash Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2018	—	13.00	—	13.00	26.00
Year ending December 31, 2019	—	13.00			
Year ending December 31, 2019 (Forecast)			—	13.00	26.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2019 (January 1, 2019 - December 31, 2019)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
Full year	20,624	5.8	3,512	9.1	3,679	11.2	2,157	26.3
								78.42

(Note) Revision to the forecast of consolidated results announced most recently: None

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: Yes
(Changes in specified subsidiaries resulting in changes in scope of consolidation)
New: – Excluded: 1 (Company name: AUCNET DIGITAL PRODUCTS INC.)
(Note) For details, please see “2. Quarterly Consolidated Financial Statements and Primary Notes (4) Notes to Quarterly Consolidated Financial Statements (Changes in significant subsidiaries during the period under review)” on page 10 of the attachments.
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: None
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting estimates: None
4) Retrospective restatement: None
- (4) Total number of issued and outstanding shares (common shares)
1) Total number of issued and outstanding shares at the end of the period (including treasury shares):
June 30, 2019: 27,716,100 shares
December 31, 2018: 27,667,500 shares
2) Total number of treasury shares at the end of the period:
June 30, 2019: 151,969 shares
December 31, 2018: 151,902 shares
3) Average number of shares during the period:
Six months ended June 30, 2019: 27,522,515 shares
Six months ended June 30, 2018: 27,471,290 shares
* The Company has introduced Board Benefit Trust (BBT). The Company’s shares which the said BBT holds are included in the treasury shares to deduct in calculation of “Total number of treasury shares at the end of the period” and “Average number of shares during the period.”

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of performance forecast and other notes

The earnings forecast and other forward-looking statements herein are based on the information currently available and certain assumptions deemed reasonable by the Company, and the Company does not guarantee their achievement. In addition, actual results may differ significantly from these forecasts due to a wide range of factors. For cautionary notes on assumptions that form the basis of the performance forecast and the use of performance forecast, please see “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information” on page 5 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

Forward-looking statements herein are based on the judgement by the Group (the Company and its consolidated subsidiaries) as of the end of the second quarter of the fiscal year under review.

During the six months ended June 30, 2019, the Japanese economy continued to show modest recovery with an improvement in corporate earnings and in the employment and income picture, against a backdrop of the government's economic policies, despite weak results in exports and production of industrial products. On the other hand, the global economic trends remain unclear under the influence of the trade friction between the United States and China and slowdown of the Chinese economy, etc.

In these circumstances, in line with our brand statement, "Shaping the Future of Commerce," the Company has worked to further improve its social and economic value, by (1) creating next-generation information distribution services, (2) thoroughly upgrading services to outperform competitors, and (3) establishment and development overseas business models.

As a result, for the six months ended June 30, 2019, net sales were ¥9,960,721 thousand (down 0.7% from the same period of the previous fiscal year), operating income was ¥1,331,423 thousand (down 25.9% from the same period of the previous fiscal year), ordinary income was ¥1,320,798 thousand (down 28.4% from the same period of the previous fiscal year), and profit attributable to owners of parent was ¥659,600 thousand (down 31.1% from the same period of the previous fiscal year).

Performance results by business segment are as follows.

1) Automobile Business

The Automobile Business comprises the Company's mainstay used vehicle auctions (*1), shared inventory market (*2), live linked auctions (*3), the proxy bidding service (*4), used vehicle inspection service (*5), and other services.

In the Japanese automotive sector, which has close connections with our business, total new-vehicle registrations (*6) increased 0.8% year-on-year to 2.75 million units in the six months ended June 30, 2019. The total number of used-vehicle registrations (*7) increased 0.1% year-on-year to 3.64 million units, and the number of vehicles exhibited (*8) at auctions around Japan increased 3.9 % year-on-year to 3.99 million units. The total number of vehicles sold at auctions (*8) increased 1.4 % year-on-year to 2.52 million units. Meanwhile, in our used vehicle auctions, the number of vehicles listed increased year-on-year, owing to our sales efforts in addition to the improvement in market conditions, but the total number of vehicles sold at auctions decreased from the same period of the previous fiscal year due to a decline in the number of vehicles listed by imported car dealer members, whose rate of sales is outstanding. In the shared inventory market, the total number of vehicles listed as well as vehicles sold at auction rose due to an increase in the number of inter-group transactions between dealers and rental and lease companies, despite the influence from exporters weakened by a decline in the number of vehicles exported. In the used vehicle inspection service, the number of vehicles inspected rose from the same period of the previous fiscal year due to the favorable performance of vehicle inspections for consumers.

As a result, for the six months ended June 30, 2019, net sales (including inter-segment net sales) were ¥6,226,815 thousand (up 1.7% from the same period of the previous year), and operating income was ¥1,956,503 thousand (down 0.7 % from the same period of the previous year).

(*1) Used vehicle auctions are real-time, members-only online auctions run by the Company.

(*2) The shared inventory market is a system that allows Aucnet Group member sellers to share inventory with other members online. The inventory remains at the seller's premises while other members access it via the online system.

- (*3) Live-linked auctions use an online live-link system that enables real-time remote access to participate at physical auction sites, through partnerships between AUCNET and the physical auction sites.
- (*4) The proxy bidding service is an agency service provided by i-Auc, Inc. to buy, sell, settle payment for and transport used vehicles at auctions on behalf of its members.
- (*5) The used vehicle inspection service and related inspection skills training services are provided by AIS INC.
- (*6) Based on statistics compiled by Japan Automobile Dealers Association
- (*7) Based on statistics compiled by Japan Automobile Dealers Association and Japan Light Motor Vehicle and Motorcycle Association
- (*8) Based on U-Car Full Data Book and Export Quotation Book

2) Digital Product Business

The Digital Product Business comprises auctions for used digital equipment including used smartphones and used PCs, and services pertaining to distribution.

While the distribution volume in overall smartphone market is declining due mainly to slow domestic sales, we expanded the scope of business consignment from major customers from April and made substantial changes to the contract details in an effort to stabilize and increase the distribution volume. Overseas, while preparing to start operations at our facility established in the United States last year, we also started to acquire smartphones for listing at our auctions using the purchase method in certain areas in addition to the conventional consignment method in domestic sales. Furthermore, from the perspective of stabilizing product procurement in the United States, we have taken various measures such as a capital alliance with a company that provides smartphone trade-in systems, etc., mainly in the United States. However, our distribution volume decreased from the same period of the previous fiscal year. Moreover, operating expenses are increasing partly due to the preparation cost to start operations at our facility in the United States as well as to relocate domestic centers.

As a result, for the six months ended June 30, 2019, net sales were ¥1,871,979 thousand (down 10.5% from the same period of the previous year), and operating income was ¥363,957 thousand (down 69.4% from the same period of the previous year).

3) Other Information Distribution Business

The Other Information Distribution Business comprises auctions for pre-owned luxury brand items, used motorcycles, and flowers (cut and potted), and services pertaining to distribution.

For pre-owned luxury brand items, as a result of efforts to strengthen marketing centering around watches and jewelry, both the transaction volume and the number of sold items increased compared to the same period of the previous fiscal year. In addition, the development of overseas buyers proceeded smoothly, and the number of overseas successful bids greatly rose from the same period of the previous fiscal year. In used motorcycles, while the market conditions continued to remain severe, the rate of sales in auction exceeded the level of the same period of the previous fiscal year owing to success of sales activities and various measures. However, the number of motorcycles sold decreased from the same period of the previous fiscal year due to difficulties in securing the number of motorcycles listed. On the other hand, rental services remained steady with the number of motorcycles in operation increased from the same period of the previous fiscal year. For flowers (cut and potted), we have promoted various measures to increase the membership, including digital marketing activities and the addition of the order mix function to the “Otoriyose Torihiki” web purchase service for florists which allows them to purchase only necessary flower materials in small lots. In addition, the “Zoto no Madoguchi” service arranging flower gifts was well received. These measures all contributed to the increase in the transaction volume from the same period of the previous fiscal year.

As a result, for the six months ended June 30, 2019, net sales were ¥1,364,375 thousand (up 3.0% from the same period of the previous year), and operating income was ¥330,595 thousand (up 11.8% from the same period of the previous year).

4) Other Business

Other Business comprises system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

For the six months ended June 30, 2019, net sales (including inter-segment net sales) were ¥860,029 thousand (down 5.3% from the same period of the previous year), and operating loss was ¥156,411 thousand (the operating loss for the same period of the previous year was ¥104,716 thousand).

(2) Explanation of Financial Position

1) Overview of Assets, Liabilities, and Net Assets

Total assets as of the end of the second quarter of the fiscal year under review amounted to ¥28,964,061 thousand, an increase of ¥1,706,885 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥1,932,364 thousand increase in due from auction members, a ¥3,329 thousand increase in intangible assets and a ¥746,014 thousand increase in investments and other assets, despite a ¥744,937 thousand decrease in cash and deposits, a ¥11,210 thousand decrease in accounts receivable – trade and a ¥53,001 thousand decrease in property, plant and equipment.

Total liabilities amounted to ¥11,112,374 thousand, an increase of ¥1,268,899 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥1,741,544 thousand increase in due to auction members and a ¥20,344 thousand increase in provision for stocks payment, despite a ¥19,503 thousand decrease in accounts payable – trade, a ¥311,571 thousand decrease in income taxes payable and a ¥131,917 thousand decrease in net defined benefit liability.

Total net assets amounted to ¥17,851,686 thousand, an increase of ¥437,986 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥299,924 thousand increase in retained earnings, an ¥8,359 thousand increase in capital stock, an ¥8,359 thousand increase in capital surplus, an ¥87 thousand increase in treasury shares, a ¥108,135 thousand increase in remeasurements of defined benefit plans and a ¥27,958 thousand increase in non-controlling interests, despite a ¥1,559 thousand decrease in valuation difference on available-for-sale securities and a ¥13,103 thousand decrease in foreign currency translation adjustment.

2) Overview of Cash Flows

Cash and cash equivalents as of the end of the second quarter of the fiscal year under review amounted to ¥14,894,763 thousand, a decrease of ¥734,933 thousand from the end of the previous fiscal year. The status of cash flows by activity in the six months ended June 30, 2019, and the main factors affecting cash flows are as follows.

(Cash Flows from Operating Activities)

Cash provided by operating activities amounted to ¥673,003 thousand. As a main breakdown of inflows, profit before income taxes was ¥1,235,474 thousand, depreciation was ¥300,974 thousand, increase in due to auction members was ¥1,741,544 thousand and income taxes refund was ¥233,190 thousand. As a main breakdown of outflows, increase in due from auction members was ¥1,932,364 thousand, increase in inventories was ¥154,133 thousand and income taxes paid was ¥846,240 thousand.

(Cash Flows from Investing Activities)

Cash used in investing activities amounted to ¥1,045,297 thousand. This is mainly attributable to payments into time deposits of ¥290,000 thousand, proceeds from withdrawal of time deposits of ¥300,003 thousand, purchase of intangible assets of ¥308,026 thousand, purchase of investment securities of ¥795,269 thousand, and collection of loans receivable of ¥136,381 thousand, etc.

(Cash Flows from Financing Activities)

Cash used in financing activities amounted to ¥370,226 thousand. This is mainly attributable to cash dividends paid by parent company of ¥359,562 thousand.

(3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information

There are no changes to the performance forecast announced on February 14, 2019.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	16,489,700	15,744,763
Notes and accounts receivable - trade	861,503	850,292
Due from auction members	2,639,122	4,571,487
Other	1,400,004	1,233,118
Allowance for doubtful accounts	(68,094)	(66,882)
Total current assets	21,322,235	22,332,779
Non-current assets		
Property, plant and equipment	1,551,928	1,498,927
Intangible assets	1,393,462	1,396,792
Investments and other assets	2,989,547	3,735,561
Total non-current assets	5,934,939	6,631,281
Total assets	27,257,175	28,964,061
Liabilities		
Current liabilities		
Accounts payable - trade	599,991	580,488
Due to auction members	4,692,847	6,434,392
Income taxes payable	673,211	361,639
Other provision	91,330	175,965
Other	1,262,182	1,056,646
Total current liabilities	7,319,563	8,609,132
Non-current liabilities		
Provision for stocks payment	40,139	60,484
Net defined benefit liability	1,705,599	1,573,682
Other provision	5,679	7,737
Other	772,491	861,338
Total non-current liabilities	2,523,911	2,503,242
Total liabilities	9,843,475	11,112,374
Net assets		
Shareholders' equity		
Capital stock	1,711,335	1,719,694
Capital surplus	6,801,669	6,810,028
Retained earnings	8,815,791	9,115,716
Treasury shares	(248,596)	(248,683)
Total shareholders' equity	17,080,200	17,396,755
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	161,323	159,763
Foreign currency translation adjustment	10,187	(2,916)
Remeasurements of defined benefit plans	(45,979)	62,155
Total accumulated other comprehensive income	125,531	219,003
Non-controlling interests	207,968	235,927
Total net assets	17,413,699	17,851,686
Total liabilities and net assets	27,257,175	28,964,061

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended June 30, 2018 and 2019

(Thousand yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Net sales	10,033,770	9,960,721
Cost of sales	3,826,793	4,545,259
Gross profit	6,206,976	5,415,461
Selling, general and administrative expenses	4,410,440	4,084,038
Operating income	1,796,535	1,331,423
Non-operating income		
Interest income	3,876	3,759
Dividend income	11,874	11,917
Share of profit of entities accounted for using equity method	37,537	27,570
Reversal of allowance for doubtful accounts	—	19,548
Other	17,938	27,074
Total non-operating income	71,227	89,870
Non-operating expenses		
Interest expenses	1,909	1,082
Foreign exchange losses	12,110	82,076
Other	10,022	17,336
Total non-operating expenses	24,042	100,495
Ordinary income	1,843,719	1,320,798
Extraordinary income		
Gain on sales of investment securities	—	10,000
Other	6,405	157
Total extraordinary income	6,405	10,157
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	5,770	73,244
Other	45,178	22,238
Total extraordinary losses	50,948	95,482
Profit before income taxes	1,799,176	1,235,474
Income taxes	823,744	547,915
Profit	975,431	687,558
Profit attributable to non-controlling interests	18,125	27,958
Profit attributable to owners of parent	957,306	659,600

Quarterly Consolidated Statements of Comprehensive Income
Six Months Ended June 30, 2018 and 2019

(Thousand yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Profit	975,431	687,558
Other comprehensive income		
Valuation difference on available-for-sale securities	(96,403)	(1,559)
Foreign currency translation adjustment	(3,991)	(13,103)
Remeasurements of defined benefit plans, net of tax	2,426	108,135
Total other comprehensive income	(97,968)	93,472
Comprehensive income	877,462	781,031
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	859,337	753,073
Comprehensive income attributable to non-controlling interests	18,125	27,958

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Cash flows from operating activities		
Profit before income taxes	1,799,176	1,235,474
Depreciation	291,213	300,974
Increase (decrease) in allowance for doubtful accounts	13,449	6,217
Increase (decrease) in provision for bonuses	4,029	86,193
Increase (decrease) in net defined benefit liability	49,533	23,952
Increase (decrease) in provision for stocks payment	17,813	20,344
Interest and dividend income	(15,750)	(15,676)
Interest expenses	1,909	1,082
Share of loss (profit) of entities accounted for using equity method	(37,537)	(27,570)
Gain on sales of investment securities	—	(10,000)
Loss on valuation of shares of subsidiaries and associates	5,770	73,244
Decrease (increase) in notes and accounts receivable - trade	9,988	3,415
Decrease (increase) in due from auction members	(726,156)	(1,932,364)
Decrease (increase) in inventories	8,503	(154,133)
Increase (decrease) in notes and accounts payable - trade	(41,776)	(20,576)
Increase (decrease) in due to auction members	(649,593)	1,741,544
Decrease (increase) in consumption taxes refund receivable	275,074	81,843
Other, net	616,854	(142,671)
Subtotal	1,622,501	1,271,295
Interest and dividend income received	15,747	15,537
Interest expenses paid	(1,909)	(779)
Income taxes paid	(726,295)	(846,240)
Income taxes refund	8,759	233,190
Net cash provided by (used in) operating activities	918,804	673,003
Cash flows from investing activities		
Payments into time deposits	(260,000)	(290,000)
Proceeds from withdrawal of time deposits	280,000	300,003
Purchase of property, plant and equipment	(37,515)	(13,478)
Purchase of intangible assets	(380,616)	(308,026)
Purchase of investment securities	—	(795,269)
Proceeds from sales of investment securities	142	10,000
Collection of loans receivable	28,161	136,381
Other, net	(144,399)	(84,907)
Net cash provided by (used in) investing activities	(514,228)	(1,045,297)
Cash flows from financing activities		
Proceeds from issuance of common shares	23,175	16,718
Cash dividends paid	(357,203)	(359,562)
Other, net	(118,758)	(27,382)
Net cash provided by (used in) financing activities	(452,787)	(370,226)
Effect of exchange rate change on cash and cash equivalents	(2,132)	7,587
Net increase (decrease) in cash and cash equivalents	(50,344)	(734,933)
Cash and cash equivalents at beginning of period	14,925,711	15,629,697
Increase in cash and cash equivalents from newly consolidated subsidiary	51,847	—
Cash and cash equivalents at end of period	14,927,214	14,894,763

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in amount of shareholders' equity)

Not applicable.

(Changes in significant subsidiaries during the period under review)

AUCNET DIGITAL PRODUCTS INC., which was a consolidated subsidiary of the Company, is excluded from the scope of consolidation because it ceased to exist by the absorption-type merger with the Company as the surviving entity during the second quarter of the fiscal year under review.

In addition, although not applicable to changes in specified subsidiaries, Assist Inc., which was a consolidated subsidiary of the Company, is excluded from the scope of consolidation because it ceased to exist by the absorption-type merger with JBTV, Inc. as the surviving entity, which is also a consolidated subsidiary of the Company during the second quarter of the fiscal year under review.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

(Calculation of Tax Expenses)

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after application of tax-effect accounting to profit before income taxes for the fiscal year (consolidated) including the second quarter of the fiscal year under review, with quarterly profit before income taxes then multiplied by the estimated effective tax rate.

However, in the event that this tax expense calculation using estimated effective tax rate results in a significantly improbable figure, a method using the statutory effective tax rate may be adopted.

(Business combinations, etc.)

Transactions under common control, etc.

1. Absorption-type Merger with Consolidated Subsidiary

The Company resolved at the meeting of the Board of Directors held on February 21, 2019 that it would absorb and merge with its wholly owned subsidiary, AUCNET DIGITAL PRODUCTS INC. The absorption-type merger was implemented on May 1, 2019.

(1) Outline of the Transaction

1) Name and Business Description of the Combining Entities

Name of the Acquiring Entity: AUCNET INC.

Business Description: Automobile Business, Digital Product Business, Other Information Distribution Business and Other business

Name of the Acquired Entity: AUCNET DIGITAL PRODUCTS INC.

Business Description: Global auction distribution, inspections and data erasure of smartphones and other digital devices, and provision of other related solutions.

2) Date of the Business Combination

May 1, 2019

3) Statutory Type of the Business Combination

Absorption-type merger where the Company is the surviving entity and AUCNET DIGITAL PRODUCTS INC. is the absorbed entity.

4) Name of the Entity after the Business Combination

AUCNET INC.

5) Allotment upon the Merger

Since this is a merger with a wholly owned subsidiary of the Company, there is no payment of any consideration.

(2) Outline of the Accounting Procedures Implemented

For accounting purposes, this merger was treated as a transaction under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

2. Absorption-type Merger between Consolidated Subsidiaries

JBTv, Inc., a wholly owned subsidiary of the Company resolved at the General Shareholder Meeting held on March 20, 2019 that it would absorb and merge with Assist Inc., another wholly owned subsidiary of the Company. The absorption-type merger was implemented on May 1, 2019.

(1) Outline of the Transaction

1) Name and Business Description of the Combining Entities

Name of the Acquiring Entity: JBTv, Inc.

Business Description: Provision of communication and operation and maintenance services.

Name of the Acquired Entity: Assist Inc.

Business Description: System design and creation, and provision of comprehensive BPO services.

2) Date of the Business Combination

May 1, 2019

3) Statutory Type of the Business Combination

Absorption-type merger where JBTv, Inc. is the surviving entity and Assist Inc. is the absorbed entity.

4) Name of the Entity after the Business Combination

JBTv, Inc.

5) Allotment upon the Merger

Since this is a merger between wholly owned subsidiaries of the Company, there is no payment of any consideration.

(2) Outline of the Accounting Procedures Implemented

For accounting purposes, this merger was treated as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).

(Additional Information)

(Performance-Linked Stock Compensation Plan)

Based on the resolution by the 10th Annual General Shareholders Meeting held on March 28, 2018, the Company has introduced a performance-linked stock compensation plan in the form of a Board Benefit Trust (BBT) (the “Plan”), aiming to raise the motivation for contributing to improving performance and increasing corporate value over the medium- to long-term by further clarifying the link between the compensation of Directors and Executive Officers (the “Directors, etc.”) and the performance and stock value of the Company.

The Company has conformed to the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (ASBJ Practical Issues Task Force (PITF) No. 30 on March 26, 2015) with respect to the accounting methods of the aforementioned trust agreement.

(1) Outline of the Transaction

The Plan is a performance-linked stock compensation plan whereby shares in the Company are acquired through a trust using money contributed by the Company as funds (hereinafter, the trust established pursuant to the Plan is referred to as the “Trust”), and shares in the Company and cash equivalents of such shares at their market value (collectively, the “Company Shares, etc.”) are delivered through the Trust to Directors, etc. pursuant to the Officer Stock Delivery Regulations established by the Company. The time for Directors, etc. to receive delivery of Company Shares, etc. shall in principle be the date on which the Directors, etc. retire.

(2) Shares of the Company Held by Trust

Shares of the Company held by Trust are recorded as treasury shares under the category of net assets at book value in the Trust (excluding accompanying expenses). Book value and the number of aforementioned treasury shares as of the end of the second quarter of the fiscal year under review were ¥248,430 thousand and 151,800 shares, respectively.

(Adoption of the “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.”)

In addition, the Company has adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.” (ASBJ Statement No. 28, February 16, 2018), etc. since the beginning of the first quarter of the fiscal year under review. As a result, deferred tax assets are now presented in the “investments and other assets” section.

(Segment information, etc.)

[Segment information]

For the six months ended June 30, 2018 (from January 1, 2018 to June 30, 2018)

1. Information on net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	6,036,058	2,090,979	1,324,757	9,451,796	581,974	10,033,770	—	10,033,770
Inter-segment net sales or transfers	84,103	—	—	84,103	326,293	410,396	(410,396)	—
Total	6,120,161	2,090,979	1,324,757	9,535,899	908,267	10,444,166	(410,396)	10,033,770
Segment income (loss)	1,969,936	1,187,940	295,579	3,453,456	(104,716)	3,348,739	(1,552,204)	1,796,535

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥1,552,204 thousand includes goodwill amortization of negative ¥481,675 thousand, and corporate expenses of negative ¥1,070,528 thousand not allocated to specific reportable segments. Corporate expenses chiefly comprise general and administrative expenses not allocated to specific reportable segments.

3. Adjustments are made to reconcile segment income (loss) with operating income reported on the quarterly consolidated statements of income.

2. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.

Not applicable.

For the six months ended June 30, 2019 (from January 1, 2019 to June 30, 2019)

1. Information on net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	6,151,448	1,871,979	1,364,375	9,387,803	572,918	9,960,721	—	9,960,721
Inter-segment net sales or transfers	75,367	—	—	75,367	287,111	362,478	(362,478)	—
Total	6,226,815	1,871,979	1,364,375	9,463,170	860,029	10,323,200	(362,478)	9,960,721
Segment income (loss)	1,956,503	363,957	330,595	2,651,056	(156,411)	2,494,644	(1,163,220)	1,331,423

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as

system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥1,163,220 thousand is corporate expenses, which chiefly comprise general and administrative expenses not allocated to specific reportable segments.
3. Adjustments are made to reconcile segment income (loss) with operating income reported on the quarterly consolidated statements of income.

2. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.

Not applicable.