

Consolidated Financial Statements for the Fiscal Year Ended December 31, 2018 [Japanese GAAP]



February 14, 2019

Company name: **AUCNET INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3964

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

Representative: Mr. Kiyotaka Fujisaki, Representative Director and President

Contact: Mr. Nobukazu Tajima, Director and Managing Executive Officer, DM, Corporate Management Division

Phone: +81-3-6440-2552

Scheduled date of general shareholders meeting: March 27, 2019

Scheduled date of commencing dividend payments: March 6, 2019

Scheduled date of filing securities report: March 28, 2019

Preparation of supplementary explanatory materials: None

Financial results briefing: Yes (for institutional investors and analysts)

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

1. Consolidated Results for the Fiscal Year Ended December 31, 2018

(January 1, 2018 - December 31, 2018)

(1) Consolidated Operating Results

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2018	19,492	0.4	3,219	(0.8)	3,308	(0.4)	1,707	(3.4)
December 31, 2017	19,409	(2.9)	3,245	(19.7)	3,321	(19.3)	1,767	(19.0)

(Note) Comprehensive income: Year ended December 31, 2018: ¥1,532 million [-16.0%]

Year ended December 31, 2017: ¥1,824 million [-15.5%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
Year ended	Yen	Yen	%	%	%
December 31, 2018	62.19	61.41	10.1	12.1	16.5
December 31, 2017	66.97	65.64	12.4	12.5	16.7

(Reference) Share of profit (loss) of entities accounted for using equity method:

Year ended December 31, 2018: ¥66 million

Year ended December 31, 2017: ¥54 million

(Note) Regarding "Diluted earnings per share," the shares of the Company were listed on the First Section of the Tokyo Stock Exchange on March 29, 2017, so calculations for the fiscal year ended December 31, 2017 are based on the average share price during the cumulative period between the day of listing and December 31, 2017, the last day of the fiscal year ended December 31, 2017 (consolidated).

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2018	27,257	17,413	63.1	625.31
As of December 31, 2017	27,644	16,759	60.0	604.33

(Reference) Equity: As of December 31, 2018: ¥17,205 million

As of December 31, 2017: ¥16,587 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year-end
	Million yen	Million yen	Million yen	Million yen
Year ended December 31, 2018	2,848	(1,239)	(947)	15,629
December 31, 2017	2,087	(791)	1,174	14,925

2. Cash Dividends

	Annual dividends					Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended December 31, 2017	—	13.00	—	13.00	26.00	707	38.8	4.7
Year ended December 31, 2018	—	13.00	—	13.00	26.00	717	41.8	4.2
Year ending December 31, 2019 (Forecast)	—	13.00	—	13.00	26.00		33.2	

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

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: None
(Changes in specified subsidiaries resulting in changes in scope of consolidation)
New: – Excluded: –
- (2) 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
- (3) 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):
December 31, 2018: 27,667,500 shares
December 31, 2017: 27,447,000 shares

2) Total number of treasury shares at the end of the period:
December 31, 2018: 151,902 shares
December 31, 2017: – shares

3) Average number of shares during the period:
Year ended December 31, 2018: 27,463,529 shares
Year ended December 31, 2017: 26,391,070 shares

* The Company has introduced Board Benefit Trust (BBT) from the fiscal year ended December 31, 2018. 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."

(Reference) Summary of Non-consolidated Results

1. Non-consolidated Results for the Fiscal Year Ended December 31, 2018

(January 1, 2018 - December 31, 2018)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income	
Year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2018	9,487	0.9	(572)	—	1,013	21.8	821	9.1
December 31, 2017	9,401	0.2	(842)	—	832	66.0	752	534.9

	Basic earnings per share	Diluted earnings per share
Year ended	Yen	Yen
December 31, 2018	29.90	29.52
December 31, 2017	28.53	27.96

(Note) Regarding "Diluted earnings per share," the shares of the Company were listed on the First Section of the Tokyo Stock Exchange on March 29, 2017, so calculations for the fiscal year ended December 31, 2017 are based on the average share price during the period between the day of listing and December 31, 2017, the last day of the fiscal year ended December 31, 2017 (consolidated).

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2018	14,989	9,745	65.0	354.20
As of December 31, 2017	15,730	9,985	63.5	363.79

(Reference) Equity: As of December 31, 2018: ¥9,745 million

As of December 31, 2017: ¥9,985 million

* These financial results are outside the scope of audit procedures 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 on page 4 of the attachments.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

1) Operating results for the fiscal year under review

During the fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018), the Japanese economy continued to show modest recovery with continuing improvement in corporate earnings and in the employment and income picture, against a backdrop of the government's economic policies. However, economic trends remained unclear, and it is necessary to pay close attention to implications of frequently occurring natural disasters in Japan, movements of the trade friction caused by the trade policy of the United States, and other factors.

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 of overseas business models.

As a result, net sales decreased but income increased in the Automobile Business amid tough market conditions. Net sales and income decreased in the Digital Product Business due to a significant decrease in distribution volume from the previous fiscal year caused by various external factors. For the fiscal year ended December 31, 2018, net sales of the Company were ¥19,492,679 thousand (up 0.4% from the previous fiscal year), operating income was ¥3,219,003 thousand (down 0.8% from the previous fiscal year), ordinary income was ¥3,308,749 thousand (down 0.4% from the previous fiscal year), and profit attributable to owners of parent was ¥1,707,941 thousand (down 3.4% from the previous fiscal year).

Performance results by business segment are as follows.

From the fiscal year under review, the online sales of automotive accessories which was previously included in the "Other" segment, is now included in the "Automobile Business" segment, due to the revision of business management practices.

For the following comparison with the previous year, the figures are compared by restating the figures of the previous year to match the new segment classification.

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 0.7% year-on-year to 5.27 million units in the fiscal year ended December 31, 2018. The total number of used-vehicle registrations (*7) increased 0.2% year-on-year to 6.95 million units, and the number of vehicles exhibited (*8) at auctions around Japan declined 2.1% year-on-year to 7.36 million units. The total number of vehicles sold at auction (*8) increased 0.9% year-on-year to 4.78 million units.

For our used vehicle auctions, the number of vehicles listed, the number of vehicles sold at auction and the rate of sales all increased as we took measures to encourage dealers, rental and lease companies, major purchasing stores, etc. to list more vehicles and promoted the use of our "Value Up Centers," one-stop facilities that provide services ranging from inspections and repairs to auction listing of traded-in vehicles. For our live linked auctions, the number of vehicles sold at auction increased as a result of the promotion of "Omatome Service," a service that arranges land transportation for purchased vehicles and consolidates multiple payments for different physical used car auctions. However, in the proxy bidding service, the number of vehicles sold at auction decreased, mainly due to the termination of a business alliance with a major physical auction site and effects of typhoons and other natural disasters.

As a result, for the fiscal year ended December 31, 2018, net sales of the Automobile Business (including inter-segment net sales) were ¥11,814,994 thousand (down 2.2% from the same period of the previous year),

and operating income was ¥3,620,486 thousand (up 6.5% 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.

We raised demand by acquiring new overseas buyers and expanding overseas sales channels, while taking measures to increase transaction commissions, such as review of the method to evaluate device quality. However, the distribution volume significantly dropped as replacement demand for new smartphones fell from the previous fiscal year.

As a result, net sales of the Digital Product Business were ¥4,040,863 thousand (down 2.0% from the previous year), and operating income was ¥1,931,579 thousand (down 5.1% from 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 various measures to improve convenience for member customers and efforts to enhance demand from active overseas bidders, such as through a new business partnership with a U.S. entity, the number of listed items and transaction volume each increased significantly compared to the previous year. In used motorcycles, although total number of vehicles exhibited maintained the level of the previous fiscal year owing to our sales efforts, total number of vehicles sold at auction declined due to the effect of poor retail sales under continuing sluggish market conditions. For flowers (cut and potted), our sales efforts successfully increased the number of member customers, but the transaction amount dropped due to typhoons and other natural disasters, which resulted in difficulty in securing items for listing.

As a result, net sales of the Other Information Distribution Business (including inter-segment net sales) were ¥2,668,993 thousand (up 2.4% from the previous year), and operating income was ¥631,246 thousand (down 19.2% from 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.

Net sales of the Other Business (including inter-segment net sales) were ¥1,817,916 thousand (up 52.6% from the previous year), and operating loss was ¥269,306 thousand (the operating loss for the previous year was ¥156,642 thousand).

2) Future outlook

Regarding the outlook for the next fiscal year, although a modest recovery is expected on the back of the continuation of the government's economic policies and other factors, economic trends will remain unclear due to uncertainty of international situations.

Under such an environment, in the Automobile Business, the Company will seek to increase its market share through distribution expansion with "SATEROKU Premium," a system that allows our members to appraise their used vehicles, as well as through active use of our "Value Up Centers," one-stop facilities that provide services ranging from inspections and repairs to auction listing of traded-in vehicles. In the Digital Product Business, we will expand distribution volume by actively pursuing overseas business development and focusing on securing new suppliers of items, both domestic and overseas. In the Other Information Distribution Business, we will expand distribution volume of pre-owned luxury brand items by carrying out full-scale overseas business development, such as continuously acquiring new overseas buyers, to increase the number of items bought and sold; expand distribution volume of used motorcycles by redoubling efforts to acquire new members; and expand distribution volume of flowers (cut and potted) by enhancing cooperation with growers.

Based on the above, for the forecast of the full fiscal year ending December 31, 2019, the Company expects net sales of ¥20,624 million (up 5.8% year-on-year), operating income of ¥3,512 million (up 9.1% year-on-year), ordinary income of ¥3,679 million (up 11.2% year-on-year) and profit attributable to owners of parent of ¥2,157 million (up 26.3% year-on-year).

(2) Analysis of Financial Position

1) Assets, liabilities, and net assets

(Assets)

Current assets as of the end of the fiscal year under review amounted to ¥21,434,738 thousand (down 0.4% from the end of the previous fiscal year). This is mainly attributable to a ¥955,149 thousand decrease in due from auction members, and a ¥30,128 thousand decrease in deferred tax assets, despite a ¥703,988 thousand increase in cash and deposits, a ¥5,640 thousand increase in accounts receivable – trade and a ¥224,431 thousand increase in income taxes receivable.

Non-current assets amounted to ¥5,822,436 thousand (down 4.9% from the end of the previous fiscal year). This is mainly attributable to a ¥43,011 thousand decrease in other, net under property, plant and equipment, a ¥480,776 thousand decrease in goodwill, and a ¥256,699 thousand decrease in investment securities, despite a ¥55,535 thousand increase in buildings and structures, net, a ¥216,013 thousand increase in software, a ¥96,519 thousand increase in deferred tax assets, and a ¥113,873 thousand increase in other under investments and other assets.

(Liabilities)

Current liabilities as of the end of the fiscal year under review amounted to ¥7,319,563 thousand (down 13.4% from the end of the previous fiscal year). This is mainly attributable to a ¥78,443 thousand decrease in accounts payable – trade, a ¥1,201,960 thousand decrease in due to auction members, a ¥2,205 thousand decrease in income taxes payable, an ¥8,174 thousand decrease in provision for bonuses, and a ¥20,700 thousand decrease in provision for point card certificates, despite a ¥179,078 thousand increase in other under current liabilities.

Non-current liabilities amounted to ¥2,523,911 thousand (up 3.7% from the end of the previous fiscal year). This is mainly attributable to a ¥40,139 thousand increase in provision for stocks payment, and a ¥104,770 thousand increase in net defined benefit liability, despite a ¥54,160 thousand decrease in other under non-current liabilities.

(Net assets)

Net assets as of the end of the fiscal year under review amounted to ¥17,413,699 thousand (up 3.9% from the end of the previous fiscal year). This is mainly attributable to a ¥38,557 thousand increase in capital stock, a

¥38,557 thousand increase in capital surplus, a ¥1,001,592 thousand increase in retained earnings, a ¥248,596 thousand increase in treasury shares, and a ¥35,671 thousand increase in non-controlling interests, despite a ¥173,659 thousand decrease in valuation difference on available-for-sale securities, a ¥10,032 thousand decrease in foreign currency translation adjustment, and a ¥27,776 thousand decrease in remeasurements of defined benefit plans.

2) Overview of Cash Flows

Cash and cash equivalents as of the end of the fiscal year under review amounted to ¥15,629,697 thousand, an increase of ¥703,985 thousand from the end of the previous fiscal year. The status of cash flows by activity in the fiscal year ended December 31, 2018, and the main factors affecting cash flows are as follows.

(Cash Flows from Operating Activities)

Cash provided by operating activities during the fiscal year under review amounted to ¥2,848,538 thousand. As a main breakdown of inflows, profit before income taxes was ¥3,134,417 thousand, depreciation was ¥609,138 thousand, amortization of goodwill was ¥481,675 thousand, loss on valuation of shares of subsidiaries and associates was ¥106,890 thousand, and decrease in due from auction members was ¥955,149 thousand. As a main breakdown of outflows, decrease in due to auction members was ¥1,201,960 thousand, and income taxes paid was ¥1,614,604 thousand.

(Cash Flows from Investing Activities)

Cash used in investing activities during the fiscal year under review amounted to ¥1,239,948 thousand. As a main breakdown of inflows, proceeds from withdrawal of time deposits was ¥1,030,000 thousand and proceeds from transfer of business was ¥100,000 thousand. As a main breakdown of outflows, payments into time deposits was ¥1,020,000 thousand, purchase of property, plant and equipment was ¥201,751 thousand, purchase of intangible assets was ¥780,567 thousand, purchase of shares of subsidiaries and associates was ¥195,407 thousand, and repayments of loans was ¥165,500 thousand.

(Cash Flows from Financing Activities)

Cash used in financing activities during the fiscal year under review amounted to ¥947,908 thousand. As a main breakdown of inflows, proceeds from issuance of common shares was ¥77,114 thousand. As a main breakdown of outflows, purchase of treasury shares was ¥248,596 thousand, and cash dividends paid was ¥714,694 thousand.

2. Basic Policy on Selecting Accounting Standards

The Company continues to prepare consolidated financial statements in accordance with the Japanese standards for the time being, taking into account comparability of consolidated financial statements over different accounting periods and between companies.

The Company will appropriately respond to the adoption of the international accounting standards considering various conditions in Japan and overseas.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2017	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	15,785,711	16,489,700
Accounts receivable - trade	855,862	861,503
Due from auction members	3,594,272	2,639,122
Deferred tax assets	142,631	112,502
Income taxes receivable	8,759	233,190
Other	1,177,389	1,166,813
Allowance for doubtful accounts	(44,818)	(68,094)
Total current assets	21,519,808	21,434,738
Non-current assets		
Property, plant and equipment		
Buildings and structures	544,721	627,293
Accumulated depreciation	(187,805)	(214,841)
Buildings and structures, net	356,916	412,452
Land	797,076	797,076
Other	1,325,102	920,948
Accumulated depreciation	(939,690)	(578,547)
Other, net	385,411	342,400
Total property, plant and equipment	1,539,404	1,551,928
Intangible assets		
Software	1,171,332	1,387,345
Goodwill	480,776	—
Other	6,117	6,117
Total intangible assets	1,658,226	1,393,462
Investments and other assets		
Investment securities	1,173,670	916,971
Deferred tax assets	333,295	429,814
Other	1,605,370	1,719,244
Allowance for doubtful accounts	(185,258)	(188,985)
Total investments and other assets	2,927,078	2,877,044
Total non-current assets	6,124,708	5,822,436
Total assets	27,644,516	27,257,175

(Thousand yen)

	As of December 31, 2017	As of December 31, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	678,435	599,991
Due to auction members	5,894,808	4,692,847
Income taxes payable	675,416	673,211
Provision for bonuses	80,820	72,646
Provision for point card certificates	39,385	18,684
Other	1,083,103	1,262,182
Total current liabilities	8,451,969	7,319,563
Non-current liabilities		
Net defined benefit liability	1,600,829	1,705,599
Provision for stocks payment	—	40,139
Other	832,331	778,171
Total non-current liabilities	2,433,161	2,523,911
Total liabilities	10,885,130	9,843,475
Net assets		
Shareholders' equity		
Capital stock	1,672,777	1,711,335
Capital surplus	6,763,112	6,801,669
Retained earnings	7,814,198	8,815,791
Treasury shares	—	(248,596)
Total shareholders' equity	16,250,089	17,080,200
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	334,983	161,323
Foreign currency translation adjustment	20,219	10,187
Remeasurements of defined benefit plans	(18,202)	(45,979)
Total accumulated other comprehensive income	336,999	125,531
Non-controlling interests	172,297	207,968
Total net assets	16,759,385	17,413,699
Total liabilities and net assets	27,644,516	27,257,175

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statements of Income

(Thousand yen)

	For the fiscal year ended December 31, 2017	For the fiscal year ended December 31, 2018
Net sales	19,409,333	19,492,679
Cost of sales	7,239,870	7,735,252
Gross profit	12,169,462	11,757,426
Selling, general and administrative expenses	8,924,075	8,538,423
Operating income	3,245,387	3,219,003
Non-operating income		
Interest income	7,900	7,935
Dividend income	37,549	36,174
Share of profit of entities accounted for using equity method	54,699	66,957
Other	44,471	28,073
Total non-operating income	144,620	139,141
Non-operating expenses		
Interest expenses	4,400	3,416
Foreign exchange losses	31,712	23,993
Provision of allowance for doubtful accounts	30,472	20,029
Other	1,813	1,955
Total non-operating expenses	68,398	49,394
Ordinary income	3,321,609	3,308,749
Extraordinary income		
Gain on sales of non-current assets	661	5,497
Gain on sales of investment securities	86,240	—
Gain on sales of shares of subsidiaries and associates	95,503	2,140
Total extraordinary income	182,404	7,638
Extraordinary losses		
Loss on transfer of business	—	17,062
Loss on valuation of investment securities	384	44,967
Loss on valuation of shares of subsidiaries and associates	33,558	106,890
Other	131,058	13,049
Total extraordinary losses	165,001	181,969
Profit before income taxes	3,339,012	3,134,417
Income taxes - current	1,471,615	1,367,333
Income taxes - deferred	60,830	23,471
Total income taxes	1,532,446	1,390,804
Profit	1,806,565	1,743,613
Profit attributable to non-controlling interests	39,029	35,671
Profit attributable to owners of parent	1,767,535	1,707,941

Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the fiscal year ended December 31, 2017	For the fiscal year ended December 31, 2018
Profit	1,806,565	1,743,613
Other comprehensive income		
Valuation difference on available-for-sale securities	16,387	(173,659)
Foreign currency translation adjustment	(11,329)	(10,032)
Remeasurements of defined benefit plans, net of tax	12,393	(27,776)
Total other comprehensive income	17,451	(211,468)
Comprehensive income	1,824,016	1,532,144
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,784,986	1,496,472
Comprehensive income attributable to non-controlling interests	39,029	35,671

(3) Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2017 (from January 1, 2017 to December 31, 2017)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	138,788	5,665,384	6,397,559	(515,032)	11,686,700
Changes of items during period					
Issuance of new shares	1,533,989	78,260			1,612,249
Dividends of surplus			(350,896)		(350,896)
Profit attributable to owners of parent			1,767,535		1,767,535
Disposal of treasury shares		1,019,467		515,032	1,534,500
Net changes of items other than shareholders' equity					
Total changes of items during period	1,533,989	1,097,727	1,416,639	515,032	4,563,388
Balance at end of current period	1,672,777	6,763,112	7,814,198	—	16,250,089

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	318,595	31,549	(30,596)	319,548	133,267	12,139,516
Changes of items during period						
Issuance of new shares						1,612,249
Dividends of surplus						(350,896)
Profit attributable to owners of parent						1,767,535
Disposal of treasury shares						1,534,500
Net changes of items other than shareholders' equity	16,387	(11,329)	12,393	17,451	39,029	56,480
Total changes of items during period	16,387	(11,329)	12,393	17,451	39,029	4,619,869
Balance at end of current period	334,983	20,219	(18,202)	336,999	172,297	16,759,385

Fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,672,777	6,763,112	7,814,198	—	16,250,089
Changes of items during period					
Issuance of new shares	38,557	38,557			77,114
Dividends of surplus			(714,449)		(714,449)
Profit attributable to owners of parent			1,707,941		1,707,941
Change in retained earnings from newly consolidated subsidiary			8,100		8,100
Purchase of treasury shares				(248,596)	(248,596)
Net changes of items other than shareholders' equity					
Total changes of items during period	38,557	38,557	1,001,592	(248,596)	830,110
Balance at end of current period	1,711,335	6,801,669	8,815,791	(248,596)	17,080,200

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	334,983	20,219	(18,202)	336,999	172,297	16,759,385
Changes of items during period						
Issuance of new shares						77,114
Dividends of surplus						(714,449)
Profit attributable to owners of parent						1,707,941
Change in retained earnings from newly consolidated subsidiary						8,100
Purchase of treasury shares						(248,596)
Net changes of items other than shareholders' equity	(173,659)	(10,032)	(27,776)	(211,468)	35,671	(175,796)
Total changes of items during period	(173,659)	(10,032)	(27,776)	(211,468)	35,671	654,314
Balance at end of current period	161,323	10,187	(45,979)	125,531	207,968	17,413,699

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	For the fiscal year ended December 31, 2017	For the fiscal year ended December 31, 2018
Cash flows from operating activities		
Profit before income taxes	3,339,012	3,134,417
Depreciation	495,154	609,138
Amortization of goodwill	961,553	481,675
Increase (decrease) in allowance for doubtful accounts	109,489	36,060
Increase (decrease) in provision for bonuses	5,360	(8,128)
Increase (decrease) in net defined benefit liability	120,537	64,756
Increase (decrease) in provision for stocks payment	—	40,139
Increase (decrease) in provision for point card certificates	(107,279)	(20,700)
Interest and dividend income	(45,450)	(44,109)
Interest expenses	4,400	3,416
Share of loss (profit) of entities accounted for using equity method	(54,699)	(66,957)
Gain on sales of noncurrent assets	(652)	(5,497)
Loss (gain) on valuation of investment securities	384	44,967
Loss on valuation of shares of subsidiaries and associates	33,558	106,890
Loss (gain) on sales of shares of subsidiaries and associates	(95,503)	(2,140)
Loss (gain) on transfer of business	—	17,062
Decrease (increase) in notes and accounts receivable - trade	(3,345)	(10,778)
Decrease (increase) in due from auction members	(238,674)	955,149
Increase (decrease) in notes and accounts payable - trade	203,470	(24,475)
Increase (decrease) in due to auction members	(592,804)	(1,201,960)
Other, net	(436,290)	278,924
Subtotal	3,698,219	4,387,849
Interest and dividend income received	81,545	69,950
Interest expenses paid	(2,655)	(3,416)
Income taxes paid	(1,793,960)	(1,614,604)
Income taxes refund	104,514	8,759
Net cash provided by (used in) operating activities	2,087,664	2,848,538
Cash flows from investing activities		
Payments into time deposits	(670,000)	(1,020,000)
Proceeds from withdrawal of time deposits	683,030	1,030,000
Purchase of property, plant and equipment	(111,856)	(201,751)
Purchase of intangible assets	(605,699)	(780,567)
Purchase of shares of subsidiaries and associates	(89,729)	(195,407)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	47,361
Repayments of loans	(61,530)	(165,500)
Proceeds from transfer of business	—	100,000
Other, net	64,304	(54,082)
Net cash provided by (used in) investing activities	(791,481)	(1,239,948)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,400,000)	—
Proceeds from issuance of common shares	1,612,249	77,114
Purchase of treasury shares	—	(248,596)
Proceeds from sales of treasury shares	1,534,500	—
Cash dividends paid	(350,792)	(714,694)
Other, net	(221,599)	(61,732)
Net cash provided by (used in) financing activities	1,174,356	(947,908)
Effect of exchange rate change on cash and cash equivalents	(5,666)	(8,542)
Net increase (decrease) in cash and cash equivalents	2,464,873	652,138
Cash and cash equivalents at beginning of period	12,460,837	14,925,711
Increase in cash and cash equivalents from newly consolidated subsidiary	—	51,847
Cash and cash equivalents at end of period	14,925,711	15,629,697

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Changes in scope of consolidation or scope of the application of equity method)

Assist Inc., which was a non-consolidated subsidiary, is included in the scope of consolidation due to the increase of its significance from the fiscal year under review. AUCNET DIGITAL PRODUCTS USA, LLC, a newly established subsidiary is also included in the scope of consolidation. Meanwhile, RUNMART INC., which was a consolidated subsidiary, is excluded from the scope of consolidation, since all the shares of the subsidiary held by the Company were transferred..

(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 (PITE) 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 fiscal year under review were ¥248,430 thousand and 151,800 shares, respectively.

(Segment information, etc.)

[Segment information]

1. Overview of reportable segments

The Company’s reportable segments are components of the Company about which separate financial information is available. These segments are subject to periodic examinations to enable the Board of Directors to decide how to allocate management resources and assess performance.

The Company mainly organizes and conducts auctions via the Internet and provides various related information. Its business segments are based on items handled and consist of “Automobile Business,” “Digital Product Business,” and “Other Information Distribution Business” as reportable segments.

The Automobile Business comprises the Company's mainstay used vehicle auctions, shared inventory market, live linked auction, the proxy bidding service, used vehicle inspection service, and other services. The Digital Product Business comprises auctions of used digital equipment including used smartphones and used PCs, and services pertaining to distribution. The Other Information Distribution Business comprises auctions of pre-owned luxury brand items, used motorcycles, and flowers (cut and potted), and services pertaining to distribution.

2. Matters on the changes, etc. of reportable segments

From the fiscal year under review, the online sales of automotive accessories which was previously included in the “Other” segment, is now included in the “Automobile Business” segment, due to the revision of business management practices.

The segment information for the fiscal year ended December 31, 2017 has been compiled and disclosed based on the reportable segment classification after the change.

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

For the fiscal year ended December 31, 2017 (from January 1, 2017 to December 31, 2017)

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	11,900,266	4,125,376	2,606,757	18,632,400	776,932	19,409,333	—	19,409,333
Inter-segment net sales or transfers	175,276	—	—	175,276	414,583	589,859	(589,859)	—
Total	12,075,542	4,125,376	2,606,757	18,807,676	1,191,516	19,999,193	(589,859)	19,409,333
Segment income (loss)	3,398,342	2,036,384	781,077	6,215,804	(156,642)	6,059,161	(2,813,774)	3,245,387

(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 ¥2,813,774 thousand includes goodwill amortization of negative ¥961,553 thousand, and corporate expenses of negative ¥1,852,221 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 consolidated statements of income.

For the fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	11,646,610	4,040,863	2,664,954	18,352,427	1,140,251	19,492,679	—	19,492,679
Inter-segment net sales or transfers	168,384	—	4,039	172,423	677,665	850,089	(850,089)	—
Total	11,814,994	4,040,863	2,668,993	18,524,851	1,817,916	20,342,768	(850,089)	19,492,679
Segment income (loss)	3,620,486	1,931,579	631,246	6,183,312	(269,306)	5,914,006	(2,695,003)	3,219,003

(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 ¥2,695,003 thousand includes goodwill amortization of negative ¥481,675 thousand, and corporate expenses of negative ¥2,213,327 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 consolidated statements of income.

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

For the fiscal year ended December 31, 2017 (from January 1, 2017 to December 31, 2017)

Not applicable.

For the fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

Not applicable.

(Per share information)

	For the fiscal year ended December 31, 2017	For the fiscal year ended December 31, 2018
Net assets per share	¥604.33	¥625.31
Basic earnings per share	¥66.97	¥62.19
Diluted earnings per share	¥65.64	¥61.41

- (Notes)
- Regarding diluted earnings per share, the shares of the Company were listed on the First Section of the Tokyo Stock Exchange on March 29, 2017, so calculations for the fiscal year ended December 31, 2017 are based on the average share price during the period between the day of listing and December 31, 2017, the last day of the fiscal year ended December 31, 2017 (consolidated).
 - The shares of the Company held by the Board Benefit Trust ("BBT") recorded as treasury shares under shareholders' equity are included in the treasury shares to be deducted in calculating the number of issued and outstanding shares at the end of the fiscal year and the average number of shares during the fiscal year for the purpose of calculating net assets per share and basic earnings per share. Please note that for the fiscal year under review, the number of shares of the Company held by BBT, which were deducted for the purpose of calculating net assets per share, is 151,800 shares, and the average number of shares of the Company held by BBT during the fiscal year under review, which were deducted for the purpose of calculating basic earnings per share, is 77,509 shares.
 - Basis of calculation of basic earnings per share and diluted earnings per share is as follows:

	For the fiscal year ended December 31, 2017	For the fiscal year ended December 31, 2018
Basic earnings per share		
Profit attributable to owners of parent (Thousand yen)	1,767,535	1,707,941
Amount not attributable to common stockholders (Thousand yen)	—	—
Profit attributable to owners of parent relating to common stock (Thousand yen)	1,767,535	1,707,941
Average number of shares of common stock outstanding during the period (Shares)	26,391,070	27,463,529
Diluted earnings per share		
Adjustment for profit attributable to owners of parent (Thousand yen)	—	—
Increase in number of shares of common stock (Shares)	534,711	350,503
Overview of residual shares not included in calculation of diluted earnings per share due to lack of dilutive effect	—	—

(Significant subsequent events)

Not applicable.