

# Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending December 31, 2018 [Japanese GAAP]



November 13, 2018

Company name: **AUCNET INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3964

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

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Scheduled date of filing quarterly report: November 13, 2018

Scheduled date of commencing dividend payments: —

Preparation of supplementary explanatory materials: None

Quarterly financial results meeting: None

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

## 1. Consolidated Results for the Third Quarter of the Fiscal Year Ending December 31, 2018

(January 1, 2018 - September 30, 2018)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2018	14,420	(1.8)	2,521	(3.4)	2,620	(1.8)	1,443	(0.4)
September 30, 2017	14,680	1.1	2,610	(7.4)	2,668	(5.4)	1,449	3.0

(Note) Comprehensive income: Nine months ended September 30, 2018: ¥1,374 million [-6.1%]

Nine months ended September 30, 2017: ¥1,464 million [9.4%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2018	52.58	51.81
September 30, 2017	55.64	54.39

(Note) Regarding "Diluted earnings per share," because the shares of the Company were listed on the First Section of the Tokyo Stock Exchange on March 29, 2017, calculations for the third quarter of the fiscal year ended December 31, 2017 are based on the average share price during the cumulative period between the day of listing and September 30, 2017, the last day of the third quarter of the fiscal year ended December 31, 2017 (consolidated).

**(2) Consolidated Financial Position**

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	26,879	17,238	63.4
As of December 31, 2017	27,644	16,759	60.0

(Reference) Equity: As of September 30, 2018: ¥17,041 million

As of December 31, 2017: ¥16,587 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, 2017	—	13.00	—	13.00	26.00
Year ending December 31, 2018	—	13.00	—		
Year ending December 31, 2018 (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, 2018 (January 1, 2018 - December 31, 2018)**

(% 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	21,142	8.9	3,748	15.5	3,822	15.1	2,227	26.0	81.15

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

**\* 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) 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):

September 30, 2018:	27,616,700 shares
December 31, 2017:	27,447,000 shares
  - 2) Total number of treasury shares at the end of the period:

September 30, 2018:	151,902 shares
December 31, 2017:	– shares
  - 3) Average number of shares during the period:

Nine months ended September 30, 2018:	27,453,245 shares
Nine months ended September 30, 2017:	26,056,553 shares

\* The Company has introduced Board Benefit Trust (BBT) from the second quarter of fiscal year ending 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."

\* 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 4 of the attachments.

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## 1. Qualitative Information on Quarterly Financial Results

### (1) Explanation of Operating Results

During the nine months ended September 30, 2018, the Japanese economy continued to show modest recovery with continuing improvement in corporate earnings and in the employment and income picture, due to the effects of the government's economic policies and the Bank of Japan's monetary policy. However, economic trends remained unclear, and it is necessary to pay close attention to successive natural disasters, trends in trade matters, and the effects on economy brought about by uncertainty in overseas economy.

Under these environment, in line with our brand statement, "Shaping the Future of Commerce," the Company has been working 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.

Owing to such a situation, net sales decreased but income increased in the Automobile Business due to the effects of weakness mainly in proxy bidding service in the continuing difficult market conditions. Net sales and income decreased in the Digital Product Business due to the effects of several factors such as restrained spending on new devices stemming from expectations for a new smartphone and a decrease in distribution volume for used smartphones.

As a result, for the nine months ended September 30, 2018, net sales were ¥14,420,990 thousand (down 1.8% from the same period of the previous year), operating income was ¥2,521,046 thousand (down 3.4% from the same period of the previous year) and ordinary income was ¥2,620,528 thousand (down 1.8% from the same period of the previous year). Profit attributable to owners of parent was ¥1,443,611 thousand (down 0.4% from the same period of the previous year).

Performance results by business segment are as follows.

From the first quarter of the current fiscal year, 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 same period of the previous year, the figures are compared by restating the figures of the same period 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) declined 0.9% year-on-year to 4.02 million units in the nine months ended September 30, 2018. The total number of used-vehicle registrations (\*7) declined 0.8% year-on-year to 5.24 million units, and the number of vehicles exhibited (\*8) at auctions around Japan declined 3.8% year-on-year to 5.54 million units. The total number of vehicles sold at auction (\*8) declined 0.2% year-on-year to 3.61 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, owing to successful attempts to encourage dealers, rental and lease companies, major purchasing stores, etc. to list vehicles. For our live linked auctions, the number of vehicles sold at auction increased as a result of wider promotional campaigns, etc. of "Omatome Service," a service that arranges land transportation for purchased vehicles and consolidates multiple payments for different physical used car auctions to increase convenience for members. However, in the proxy bidding service, the number of vehicles sold at auction decreased due to the termination of a business alliance with a major physical auction site and effects of successive natural disasters such as typhoons and earthquakes, in addition to the cancellation of a major bidding site.

As a result, for the nine months ended September 30, 2018, net sales of the Automobile Business

(including inter-segment net sales) were ¥8,947,114 thousand (down 1.7% from the same period of the previous year), and operating income was ¥2,813,386 thousand (down 8.8% 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

## 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.

Distribution volume and transactions demonstrated lower levels compared to the same period last year owing to restrained spending on new devices stemming from expectations for a new smartphone which is expected to be released this fall, and trends for keeping devices longer term due to the rising prices of devices. In terms of measures taken, in order to prepare for the peak demand period in the fourth quarter, we raised buying power by expanding overseas buyers channel and enhanced distribution quality for ensuring price advantage.

As a result, for the nine months ended September 30, 2018, net sales of the Digital Product Business were ¥2,809,369 thousand (down 11.2% from the same period of the previous year), and operating income was ¥1,533,732 thousand (down 8.0% from the same period of the previous year).

## 3) Other Information Distribution Business

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

In used motorcycles, although total number of vehicles exhibited maintained the level of the same period last year, 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), unit price at auction showed a rising trend with the continuing nationwide shortage due to the effects of natural disasters such as typhoons. However, due to difficulty securing items for listing, distribution volume was at the level of the same period last year. In addition, we created a larger distribution network by acquiring members in the Tohoku area. For pre-owned luxury brand items, as a result of various successful measures and a backdrop of strong market conditions, the number of listed items and transaction volume each increased significantly compared to the same period of the previous year. Additionally, we focused on acquiring new overseas buyers, and revitalized auction distribution by active bidding from overseas.

As a result, for the nine months ended September 30, 2018, net sales of the Other Information Distribution Business were ¥1,983,433 thousand (up 1.9% from the same period of the previous year), and operating income was ¥463,800 thousand (down 20.0% 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 nine months ended September 30, 2018, net sales of the Other Business (including inter-segment net sales) were ¥1,318,058 thousand (up 42.2% from the same period of the previous year), and operating loss was ¥194,528 thousand (the operating loss for the same period of the previous year was ¥92,811 thousand).

## (2) Explanation of Financial Position

Total assets as of the end of the third quarter of the current fiscal year amounted to ¥26,879,146 thousand, a decrease of ¥765,370 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥1,412,642 thousand decrease in cash and deposits, a ¥37,277 thousand decrease in property, plant and equipment, a ¥278,918 thousand decrease in intangible assets, and an ¥8,480 thousand decrease in investments and other assets, despite a ¥680 thousand increase in accounts receivable – trade and a ¥1,206,679 thousand increase in due from auction members.

Total liabilities amounted to ¥9,640,557 thousand, a decrease of ¥1,244,573 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥108,790 thousand decrease in accounts payable – trade, a ¥1,023,389 thousand decrease in due to auction members, and a ¥306,708 thousand decrease in income taxes payable, despite a ¥151,913 thousand increase in other provision, a ¥31,021 thousand increase in provision for stocks payment, and a ¥46,216 thousand increase in net defined benefit liability.

Total net assets amounted to ¥17,238,589 thousand, an increase of ¥479,203 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥29,819 thousand increase in capital stock, a ¥29,819 thousand increase in capital surplus, a ¥737,262 thousand increase in retained earnings, a ¥248,596 increase in treasury shares, and an ¥25,037 thousand increase in non-controlling interests, despite a ¥98,831 thousand decrease in valuation difference on available-for-sale securities.

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

There are no changes to the performance forecast announced on February 13, 2018.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2017	As of September 30, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	15,785,711	14,373,069
Accounts receivable - trade	855,862	856,543
Due from auction members	3,594,272	4,800,951
Other	1,328,780	1,099,060
Allowance for doubtful accounts	(44,818)	(50,510)
Total current assets	21,519,808	21,079,114
Non-current assets		
Property, plant and equipment	1,539,404	1,502,126
Intangible assets		
Goodwill	480,776	—
Other	1,177,449	1,379,308
Total intangible assets	1,658,226	1,379,308
Investments and other assets	2,927,078	2,918,597
Total non-current assets	6,124,708	5,800,031
Total assets	27,644,516	26,879,146
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	678,435	569,645
Due to auction members	5,894,808	4,871,418
Income taxes payable	675,416	368,707
Other provision	120,205	272,119
Other	1,083,103	1,088,007
Total current liabilities	8,451,969	7,169,897
Non-current liabilities		
Provision for stocks payment	—	31,021
Net defined benefit liability	1,600,829	1,647,045
Other	832,331	792,593
Total non-current liabilities	2,433,161	2,470,659
Total liabilities	10,885,130	9,640,557
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,672,777	1,702,597
Capital surplus	6,763,112	6,792,932
Retained earnings	7,814,198	8,551,461
Treasury shares	—	(248,596)
Total shareholders' equity	16,250,089	16,798,395
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	334,983	236,151
Foreign currency translation adjustment	20,219	21,271
Remeasurements of defined benefit plans	(18,202)	(14,563)
Total accumulated other comprehensive income	336,999	242,859
Non-controlling interests	172,297	197,334
Total net assets	16,759,385	17,238,589
Total liabilities and net assets	27,644,516	26,879,146



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

## Quarterly Consolidated Statements of Income

Nine Months Ended September 30, 2017 and 2018

(Thousand yen)

	For the nine months ended September 30, 2017	For the nine months ended September 30, 2018
Net sales	14,680,701	14,420,990
Cost of sales	5,341,120	5,485,865
Gross profit	9,339,581	8,935,124
Selling, general and administrative expenses	6,729,541	6,414,077
Operating income	2,610,040	2,521,046
Non-operating income		
Interest income	5,807	5,915
Dividend income	35,549	34,174
Share of profit of entities accounted for using equity method	47,997	46,780
Other	29,729	23,489
Total non-operating income	119,084	110,359
Non-operating expenses		
Interest expenses	3,322	2,718
Foreign exchange losses	25,573	7,286
Other	32,166	873
Total non-operating expenses	61,062	10,878
Ordinary income	2,668,062	2,620,528
Extraordinary income		
Gain on sales of non-current assets	–	4,871
Gain on sales of shares of subsidiaries and associates	95,503	2,140
Other	86,240	–
Total extraordinary income	181,743	7,012
Extraordinary losses		
Loss on valuation of investment securities	384	44,967
Provision of allowance for loss on business transfer	–	17,062
Other	163,221	212
Total extraordinary losses	163,606	62,243
Profit before income taxes	2,686,199	2,565,297
Income taxes	1,207,084	1,096,648
Profit	1,479,115	1,468,648
Profit attributable to non-controlling interests	29,360	25,037
Profit attributable to owners of parent	1,449,755	1,443,611

## Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended September 30, 2017 and 2018

(Thousand yen)

	For the nine months ended September 30, 2017	For the nine months ended September 30, 2018
Profit	1,479,115	1,468,648
Other comprehensive income		
Valuation difference on available-for-sale securities	(7,735)	(98,831)
Foreign currency translation adjustment	(11,708)	1,052
Remeasurements of defined benefit plans, net of tax	4,580	3,639
Total other comprehensive income	(14,864)	(94,139)
Comprehensive income	1,464,251	1,374,508
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,434,890	1,349,471
Comprehensive income attributable to non-controlling interests	29,360	25,037

## (3) 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)

Not applicable.

From the first quarter of the fiscal year under review, Assist Inc., our non-consolidated subsidiary, is included in the scope of consolidation due to the increase of its significance. This does not fall under the changes in specified subsidiaries. Additionally, since all shares in RUNMART INC., our consolidated subsidiary held by the Company, were transferred during the second quarter of the fiscal year under review, it has been excluded from the scope of consolidation.

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

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 third 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.

(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 third quarter of the fiscal year under review were ¥248,430 thousand and 151,800 shares, respectively.

(Segment information, etc.)

[Segment information]

For the nine months ended September 30, 2017 (from January 1, 2017 to September 30, 2017)

## 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	8,965,663	3,162,100	1,946,610	14,074,374	606,327	14,680,701	–	14,680,701
Inter-segment net sales or transfers	132,604	–	–	132,604	320,442	453,046	(453,046)	–
Total	9,098,268	3,162,100	1,946,610	14,206,978	926,769	15,133,748	(453,046)	14,680,701
Segment income (loss)	2,586,556	1,667,588	579,528	4,833,673	(92,811)	4,740,861	(2,130,821)	2,610,040

(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 ¥2,130,821 thousand includes goodwill amortization of negative ¥721,165 thousand, and corporate expenses of negative ¥1,409,656 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 nine months ended September 30, 2018 (from January 1, 2018 to September 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	8,820,001	2,809,369	1,979,798	13,609,169	811,821	14,420,990	–	14,420,990
Inter-segment net sales or transfers	127,113	–	3,635	130,748	506,237	636,985	(636,985)	–
Total	8,947,114	2,809,369	1,983,433	13,739,917	1,318,058	15,057,975	(636,985)	14,420,990
Segment income (loss)	2,813,386	1,533,732	463,800	4,810,919	(194,528)	4,616,391	(2,095,344)	2,521,046

(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 ¥2,095,344 thousand includes goodwill amortization of negative ¥481,675 thousand, and corporate expenses of negative ¥1,613,668 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.

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

From the first quarter of the current fiscal year, 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 third quarter of the 2017 fiscal year has been compiled and disclosed based on the reportable segment classification after the change.