

First Half 2018 Results Briefing

**August 22, 2018
AUCNET INC.**

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1. Company Overview

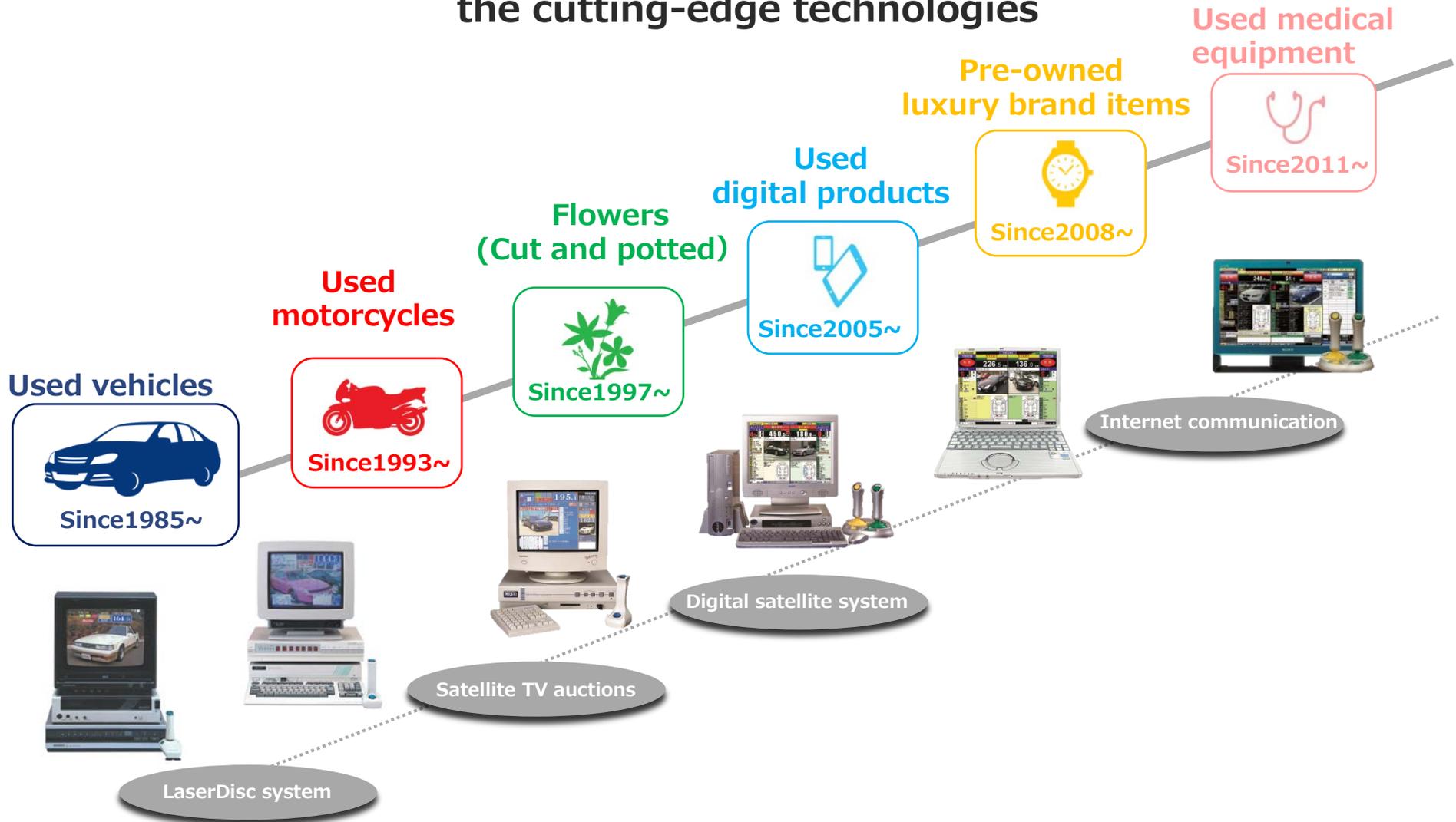
Features of Aucnet's business

Online real-time auctions

B to B distribution business



Started business with auctions of used vehicles
Aucnet has developed its auction business by consistently employing the cutting-edge technologies



Scale of Aucnet's Distribution Operations (annual)



Total transaction amount **¥370.4 billion**

Total number of members **25,093 Companies**

Automobile Business

Transaction Amount

¥320.5 billion



Digital Product Business

Transaction Amount

¥26.6 billion



Other Information Distribution Business

Pre-owned luxury brand items

Transaction Amount

¥8.9 billion



Used motorcycles

Transaction Amount

¥7.6 billion



Flowers (cut and potted)

Transaction Amount

¥6.5 billion



Note: Transaction Amount : Total value of the products distributed through the services provided by AUCNET in each business (FY17)
Total number of members : Members who use multiple services of the same business are counted as one (FY17)

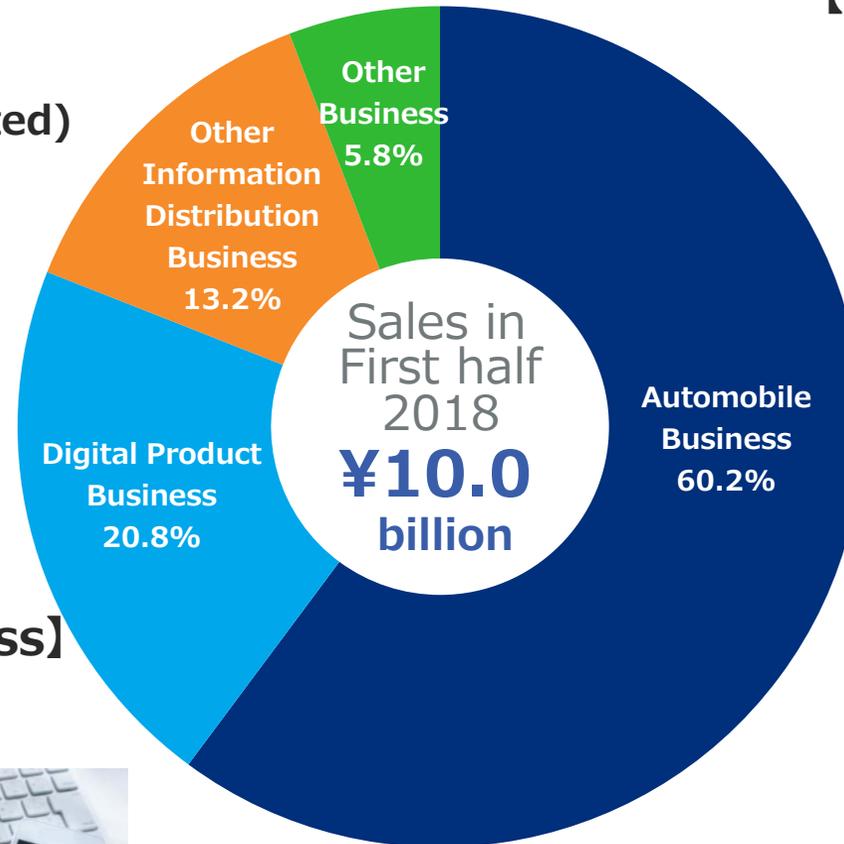
【Other Information Distribution Business】

- Pre-owned luxury brand items
- Used motorcycles
- Flowers (cut and potted)



【Automobile Business】

- Used vehicle auctions
- Shared inventory market
- Live-linked auctions
- Proxy bidding service
- Used vehicle inspections



【Digital Product Business】

- Used smartphones
- Used PCs etc.



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

2. Consolidated Results for First Half

Summary of Consolidated Results



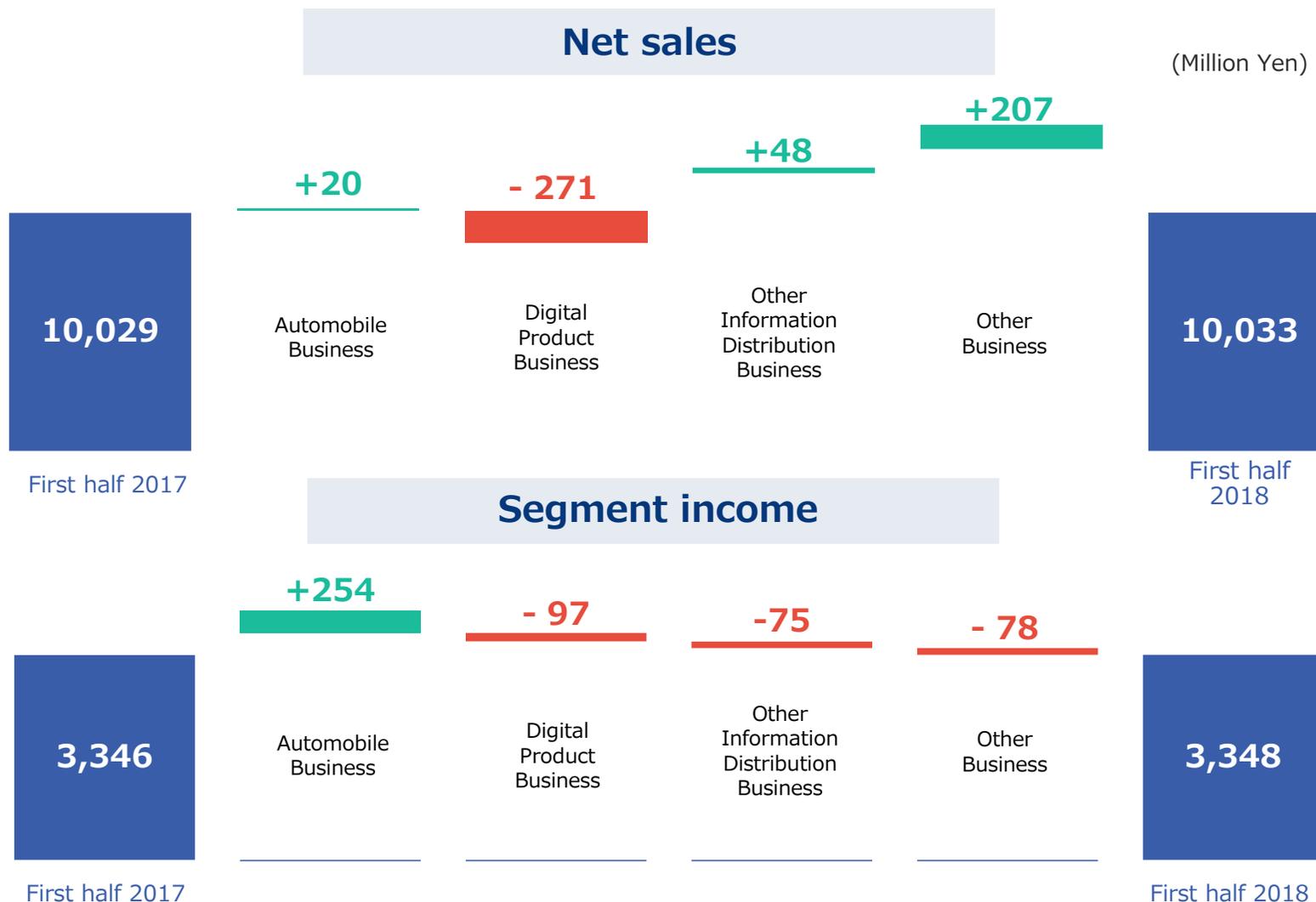
(Million Yen)

	First half 2017		First half 2018		
	Performance	Margin	Performance	Margin	Year-on-year
Net sales	10,029	100.0%	10,033	100.0%	0.0%
Operating income	1,874	18.7%	1,796	17.9%	-4.2%
Ordinary income	1,923	19.2%	1,843	18.4%	-4.2%
Profit attributable to owners of parent	1,047	10.4%	957	9.5%	-8.6%
Basic earnings per share	41.09 Yen	–	34.85 Yen	–	-6.24 Yen
Divided per share	13.00 Yen	–	13.00 Yen	–	0.00 Yen

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

Segment Increase/Decrease

(Million Yen)



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

Adjustment of segment income includes goodwill amortization and corporate expenses not allocated to specific reportable segments.

Corporate expenses chiefly comprise general and administrative expenses not allocated to specific reportable segments.

3 . Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

Other Business

3 . Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

Other Business

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

Key aspect of used vehicle distribution

Used vehicle inspection service (AIS)

- Expanding nationwide vehicle inspection and evaluation provided at customer sites with 180 qualified inspectors *



※As of December 31,2017

Used vehicle distribution hosted by AUCNET

Used vehicle auctions

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

Shared inventory market

- Auction members share information of approximately 40,000 vehicles* in stock and facilitating negotiation and trading.

As of December 31,2017

※As of December 31,2017

Used vehicle distribution networks with other sites

Proxy bidding service (i-Auc)

- Auction agency services for vehicle listing and bidding at 119* physical auction sites nationwide.

Live linked auctions

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



※As of June 30,2018

Year-on-year increase in sales and income (up 14.8% for income)

Used vehicle auctions

- Increased auction listings and sales rate, through the full-scale launch of “Value UP Centers” and targeting dealers, rental/lease companies and traders.

Shared inventory market

- As a result of focusing to attract large-scale clients, the number of sold items increased.

Live-linked auctions

- Despite a decrease in the number of vehicles listed at our partner physical auction sites, the number of vehicles sold through live-linked auctions increased due to increased use of our “Omatome Service”※.

※A service that arranges transportation for purchased vehicles and consolidates multiple payments for different physical auction sites

Proxy bidding service

- The number of sold items decreased as a result of a decrease in bidding by some major customers and the discontinuation of a major auction site.

Used vehicle inspection service

- Number of vehicles inspected grew steadily due to an increase in vehicle listings at physical auction sites and demand from large used vehicle sales platforms.



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

Automobile Business (Segment Performance ②)

Business	KPI	First half 2018	Year-on-year
Automobile Business (Total)	Number of sold items	227,038units	106.4%
	Sales share ※1	9.1%	0.5point up
	Total number of members	14,339	99.6%
Used vehicle auctions	Total number of listed items	30,951units	106.5%
	Number of sold items	9,555units	114.2%
	Rate of sale	33.1%	2.4point up
Shared inventory market	Number of sold items	6,123units	112.2%
Live-linked auctions	Listed units	2,442,613units	96.2%
	Sold units	157,184units	110.9%
Proxy bidding service (i-Auc)	Sold units	54,176units	93.8%
Used vehicle inspection service (AIS)	Total inspected units ※3	442,705units	104.6%

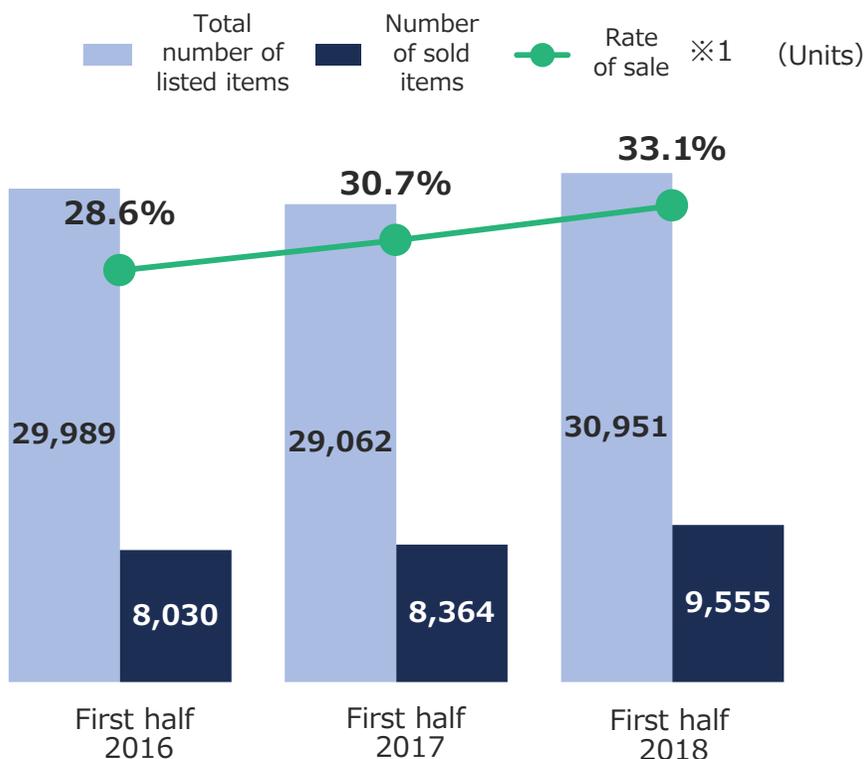
※1 Aucnet's total sales units (including Used vehicle auctions, Shared inventory market, Live linked auctions and Proxy bidding service) as a percentage of 4,745,639 total used vehicle sales units at auction nationwide (based on U-Car Full Data Book).

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

※3 Includes Used motorcycles inspections.

Scale of AUCNET Distribution Operations

Number of used vehicles distributed through auctions



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

Average price of a sold vehicle in used car auctions (First half 2018)

Market average ※2 ¥0.540 million

AUCNET INC. ¥1.059 million



※2 Source : U-Car Full Data Book
The “Market average” indicated the average of the total domestic auction market excluding AUCNET INC..

Expansion of the scale to used vehicle auctions distribution Operations

Promotion of Value Up Centers

- Aiming to increase the number of vehicles sold at auction, this BPO service, which includes minor repairs, etc., reduces hassle for members and improves the vehicle's presentation and therefore its value at auction.

What are VUC's (Value Up Centers)?

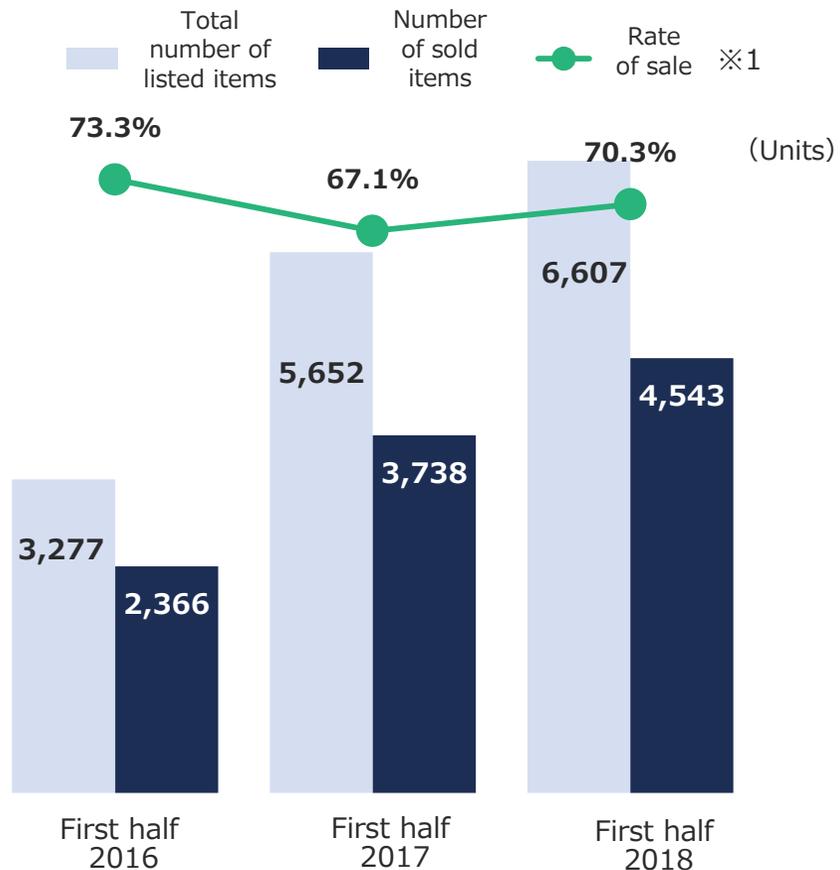
Targeted at trade-in vehicles of large-scale members, VUC's provide vehicle storage and auction preparation services from the time the vehicle is traded-in until it is sold at auction. This includes AIS inspections, minor repairs, cleaning, etc.



7 sites nationwide



Distributed units through Value Up Centers



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

Stimulation of used vehicle distribution:

Support used vehicle trade-in appraisal and inventory registration with SATEROKU Premium

What is SATEROKU Premium ?



A system to support used vehicle appraisal.

App to register used vehicle inventory and support trade-in appraisal

- Check trade-in price for reference
- Detect the grade of the vehicle by reading QR code on a car inspection (“shaken”) certificate
- Share the instructions for trade-in price or current conditions with the sales person

SATEROKU Premium enables members to register used vehicles for stock management and appraise for purchase easily



- Improves customer convenience
- Increases units touched by AUCNET
- Encourages distribution through auction

Stimulation of used vehicle distribution:

Vehicle condition report using OBD2※ diagnostic scan by AIS

What is OBD2 diagnostic scan?



Pinpoints and reports any electronic faults of the vehicle.

If the condition of the vehicle is good it is eligible for Aucnet Platinum Warranty

What is Aucnet Platinum Warranty?



Provided by AUC FINANCIAL PARTNERS INC

A used car warranty covering the latest electronic safety systems and with no exemption period

The vehicle must be a Japanese car and other conditions (mileage, year of use etc.)

Highlight defects of vehicles including mechanical and electronic issues



- Increase trust in used vehicles and contribute to stimulation of the market
- Increase the number of used vehicles inspected by improving the credibility of inspections

※ OBD2 is a self-diagnosis function to check that the functions programmed in a vehicle's ECU's are working normally.

3. Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

Other Business

Providing a distribution market for used PCs, smartphones and tablet devices

Expansion of **BPO Services** from receipt to distribution

Auctions for Used PCs, etc.

Sellers Send used PCs



Received at Aucnet's center

- ① Devices inspected, data erased and graded
- ② Photography
- ③ List for auction



Used PCs auction run by Aucnet every Friday.



Product delivered to buyers

Mainly sold to domestic buyers

Used smartphone distribution

Sellers Send used smartphones



Products prepared for sale at Aucnet's center

- ① Devices inspected, data erased and graded
- ② List for sale



blancco
technology group

◆ Data erasure software

*Our equity-method affiliate
Blancco Japan Inc. (49% ownership)

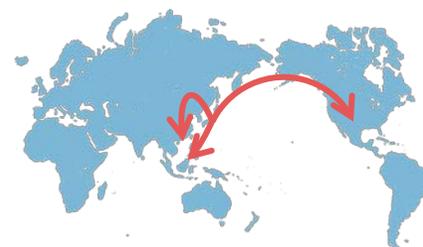


Online distribution



Product delivered to buyers

Mainly sold to overseas buyers.
Southeast Asia, Hong Kong,
USA etc.





Year-on-year decrease in sales and income

Used smartphones distribution business

- Distribution volume was lower owing to declining replacement demand as a consequence of phased sales of new smartphone models in the previous fiscal year and restrained spending on new devices stemming from expectations for a new model smartphone which is expected to be released this fall.
- The unit price of used smartphones and transaction commissions decreased, due to the effect of instability in the used smartphone market in part of the Asian region.
- The transaction amount decreased as the number of smartphones transacted and the unit price decreased.

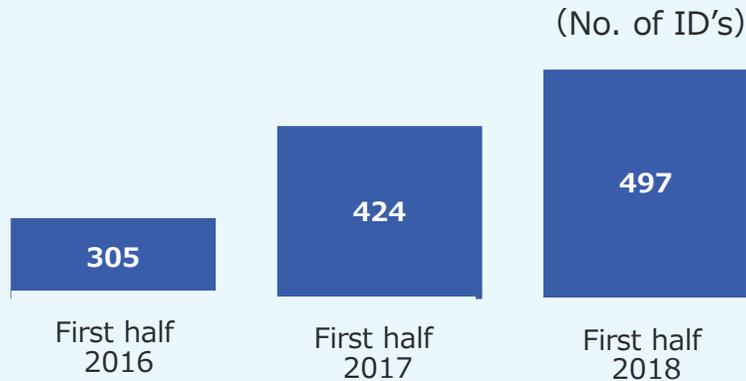
Used PCs and other used digital equipment distribution business

- Retention efforts for large customers succeeded, and the number of transactions grew steadily.

Business	KPI	First half 2018	Year-on-year
All of Digital Product Business	Total transaction amount	¥10.84billion	77.9%
	Total number of members	497	117.2%
	Total sales units	838,657units	96.7%

Increase in acquisition of new overseas buyers

Expanding the total members



- Target buyers not only in Hong Kong and the United States, but all over the world.
- Acquire buyers in a wide range of segments such as wholesalers and retailers



Used smartphones

Expanding distribution volume

- List items from domestic and overseas leasing firms and trade-in programs
- Distribution of smartphone parts.
- Develop cross-border distribution.



Used PCs etc.

Strengthen distribution of used PCs and used digital equipment overseas

- Obtaining rental and lease companies, and major purchase shops to extend BPO distribution.

3. Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

Other Business

Facilitating the distribution of various products through online auctions

Pre-owned luxury brand items



Since 2017~ Premium Mall ※



※ Auction members share information on pre-owned luxury brand items in stock, facilitating negotiation and trading.

Used motorcycles

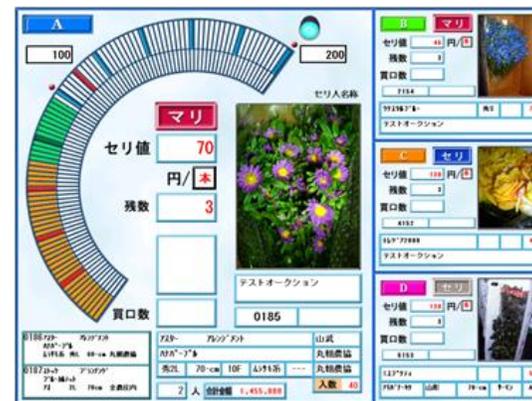


Since 2018~ One price ※



※ Members can buy used motorcycles at any time with one click, 24 hours a day 7 days a week, for a fixed price via the online system.

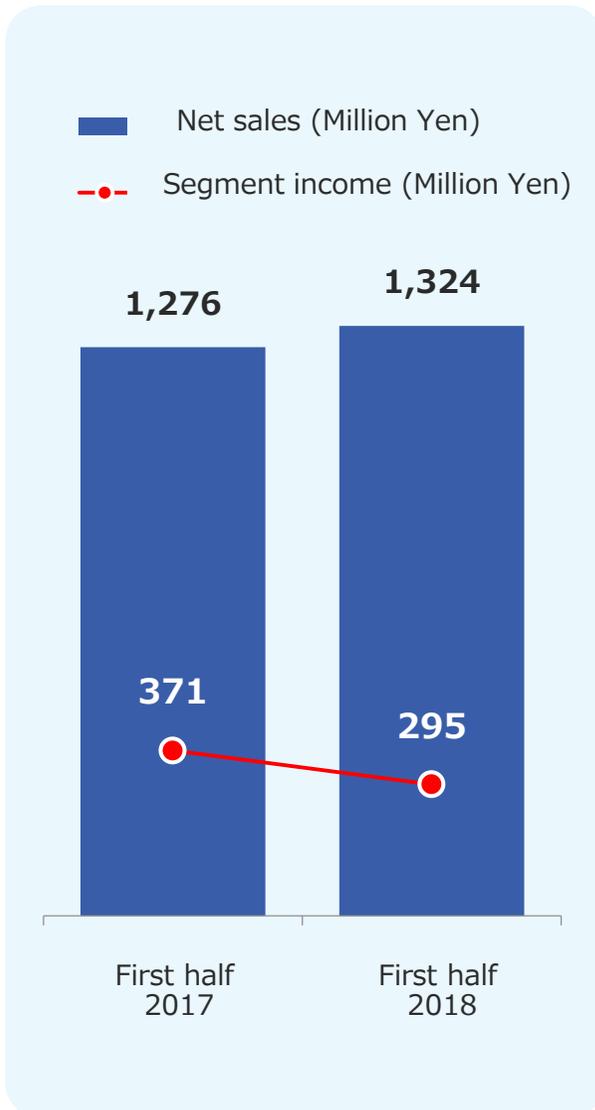
Flowers (cut and potted)



Since 2018~ Zoto no madoguchi ※



“※ Zoto no Madoguchi” is a service to provide gift flowers to companies.



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

Pre-owned luxury brand items

- Transaction amount and total number of listed items increased through enhanced acquisition of both domestic and international new members and promoting participation in auctions targeting franchised purchase shops.

Used motorcycles

- Total listed units increased as a result of enhanced promotion to major members to list items.
- Rate of sale decreased due to the decrease of buying power resulting from a retail slump.

Flowers (cut and potted)

- Low market prices continued from Q1, resulting in a decrease in imported items and lower transaction volumes.

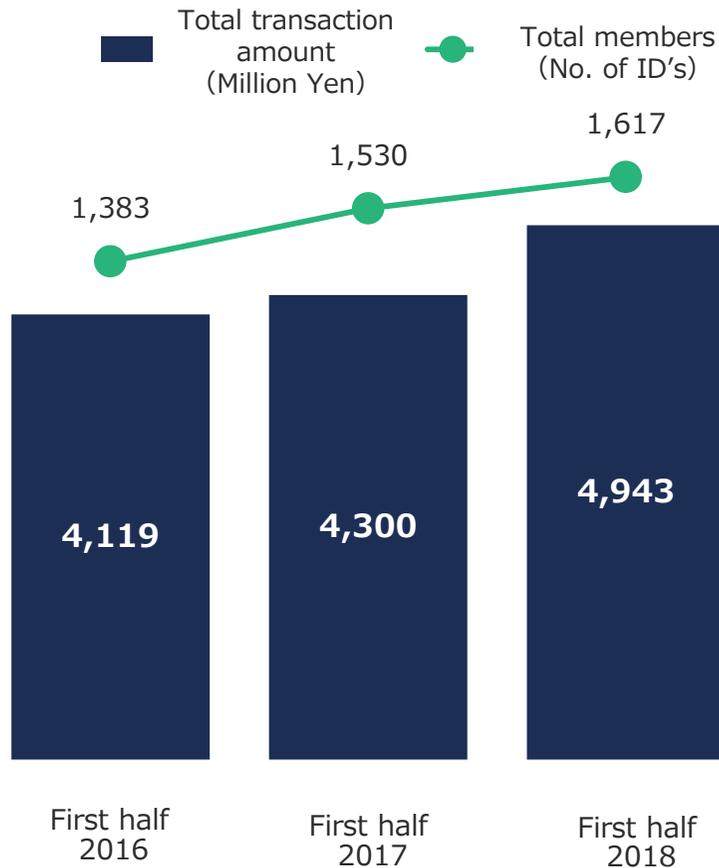
Other Information Distribution Business (Segment Performance)

Business	KPI	First half 2018	Year-on-year
Pre-owned Luxury brand items	Total transaction amount	¥4.94billion	114.9%
	Total number of listed items	206,400units	116.4%
	Rate of sale	75.2%	3.9point down
	Total number of members	1,617	105.7%
Used motorcycles	Total transaction amount	¥3.67billion	93.5%
	Total number of listed items	31,634units	103.8%
	Rate of sale	44.2%	8.0point down
	Total number of members	4,572	103.0%
Flowers (cut and potted)	Total transaction amount	¥2.98billion	98.7%
	Total number of members (buyers)	1,085	99.0%
	Total number of members (growers)	3,140	104.7%

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

Pre-owned luxury brand items

Growth in pre-owned luxury brand items auction distribution



Accelerate overseas distribution

- Transactions by overseas buyers increased to 290 million yen, more than double the same period last year. The number of sold items massively increased to 13,000 which is about 4 times more than the same period last year.

Starting Auction in Singapore

- Established a joint venture “SG E-AUCTION PTE.LTD” with a major corporation in Singapore. Online auctions run in Singapore. Singapore will serve as the base to further expand distribution of pre-owned luxury brand items in Southeast Asia.



Used motorcycles

Increase distribution volume with emphasis on the sales rate.

- Intensified efforts to increase units listed which have a high sales rate.
- Expansion of Depots (distribution centers) to major cities.
- Promote bidding by changing auction inspection evaluation criteria.



Flowers (cut and potted)

Increase distribution volume by enhancing the logistics service.

- Planning to launch an ordering system for businesses such as bridal companies.
- Expansion of the distribution network area and increase member acquisition.
- Contract major companies to expand the potted flowers gift business.



3 . Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

Other Business

Used medical equipment distribution

Bidding online auctions



Distributing medical equipment such as ultrasonic diagnostic equipment for Japanese market.

Real estate-related business

Real estate matching service



Helping to open shops by connecting real-estate companies and restaurant owners

Liquidation

Platform to liquidate companies' excess inventory



Medical equipment related business

Distribution of automatic reception and payment terminals for medical clinics. (KIOSK)



Distribution of refurbished devices

Distribution service for refurbished used smartphones, etc.



Promoting domestic distributions

System development and provision

Facial recognition system using AI technology



Major Movements in first half 2018

Taiwan

- Used vehicle inspection

AIS trademark licensed to a Taiwanese company that runs used vehicle auctions. Expanding used vehicle distribution that gives customers piece of mind.



AUCNET HK Ltd

Hong Kong

- Used smartphones business
- Pre-owned luxury brand item business
- Flower (cut and potted) business

India

- Used medical equipment business

Malaysia

- Used vehicle inspection

China

- Used vehicle inspection
- Used smartphones business
- Flower (cut and potted) business

AIS China

AUCNET INC.

Cambodia

- Used motorcycles business

Singapore

- Pre-owned luxury brand item business

Established a joint venture with a major corporation in Singapore. Singapore will serve as a hub to further expand online auctions of pre-owned luxury brand items.



USA

- Used smartphones business

AUCNET USA, LLC.

USA

- Pre-owned luxury brand item business

4. Forecast of Consolidated Results

Year ending December 31, 2018 Forecast of Consolidated Results



(Million Yen)

	FY2017		FY2018 (Forecast)		
	Performance	Margin	Forecast	Margin	Year-on-year
Net sales	19,409	100.0%	21,142	100.0%	+8.9%
Operating income	3,245	16.7%	3,748	17.7%	+15.5%
Ordinary income	3,321	17.1%	3,822	18.1%	+15.1%
Profit attributable to owners of parent	1,767	9.1%	2,227	10.5%	+26.0%
Basic earnings per share	66.97 Yen	–	81.15 Yen	–	+14.28 Yen
Dividend per share	26.00 Yen	–	26.00 Yen	–	0.00 Yen

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

Shaping the Future of Commerce

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

INNOVATION