

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



May 15, 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: May 15, 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 First Quarter of the Fiscal Year Ending December 31, 2018 (January 1, 2018 - March 31, 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	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2018	5,205	0.4	1,127	1.5	1,151	4.8	605	(1.5)
March 31, 2017	5,182	(3.8)	1,111	(14.8)	1,097	(17.9)	614	(19.9)

(Note) Comprehensive income: Three months ended March 31, 2018: ¥563 million [-12.2%]

Three months ended March 31, 2017: ¥641 million [-10.7%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2018	22.04	21.64
March 31, 2017	25.44	24.58

- (Notes) 1. Regarding the results for the three months ended March 31, 2016, the Company did not compile consolidated financial statements under the Financial Instruments and Exchange Act of Japan, but figures for the percentage changes in comparison with the results for the three months ended March 31, 2017 have been indicated above for reference purposes.
2. 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 first 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 March 31, 2017, the last day of the first 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 March 31, 2018	28,885	16,987	58.2
As of December 31, 2017	27,644	16,759	60.0

(Reference) Equity: As of March 31, 2018: ¥16,806 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	—				
Year ending December 31, 2018 (Forecast)		13.00	—	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	81.08

(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):

March 31, 2018:	27,484,000 shares
December 31, 2017:	27,447,000 shares
 - 2) Total number of treasury shares at the end of the period:

March 31, 2018:	– shares
December 31, 2017:	– shares
 - 3) Average number of shares during the period:

Three months ended March 31, 2018:	27,464,013 shares
Three months ended March 31, 2017:	24,166,778 shares

* 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 three months ended March 31, 2018, the Japanese economy showed modest recovery with continuing improvement in corporate earnings and in the employment and income picture, against a backdrop of the government's economic policies. In addition, although the overseas economy is expected to remain in a modest recovery, economic prospects overseas remained unclear, and it is necessary to pay close attention to economic outlook in the emerging economies of Asia including China, uncertainties surrounding political policies, the effects of fluctuations in financial and capital markets, and other factors.

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.

The Automobile Business in particular continued to perform strongly in difficult market conditions to deliver improved results compared to the same period in the previous year. However, the results in the Digital Product Business were lower compared to the same period in the previous year due to a decrease in transaction commissions for used mobile phones and other factors.

For the three months ended March 31, 2018, net sales were ¥5,205,009 thousand (up 0.4% from the same period of the previous year), operating income was ¥1,127,318 thousand (up 1.5% from the same period of the previous year) and ordinary income was ¥1,151,071 thousand (up 4.8% from the same period of the previous year). Profit attributable to owners of parent was ¥605,399 thousand (down 1.5% from the same period of the previous year) due to recording of loss on valuation of investment securities of ¥44,967 thousand in extraordinary losses.

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), online sales of automotive accessories (*6), and other services.

In the Japanese automotive sector, which has close connections with our business, total new-vehicle registrations (*7) declined 2.3% year-on-year to 1.54 million units in the three months ended March 31, 2018. The total number of used-vehicle registrations (*8) declined 2.2% year-on-year to 1.96 million units and the number of vehicles exhibited (*9) at auctions around Japan declined 4.2% year-on-year to 1.90 million units. The total number of vehicles sold at auction (*9) rose 0.3% year-on-year to 1.26 million units. Although the number of vehicles exhibited in our used vehicle auctions remained almost unchanged in a slight downturn in market trends, the total number of vehicles sold at auction and the rate of sale both rose, and the total number of vehicles sold in the shared inventory market also rose, owing to various measures undertaken.

As a result, for the three months ended March 31, 2018, net sales of the Automobile Business (including inter-segment net sales) were ¥3,108,869 thousand (down 0.5% from the same period of the previous year), and operating income was ¥1,058,282 thousand (up 15.2% 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) Online sales of automotive accessories for members is provided by RUNMART INC.
- (*7) Based on statistics compiled by Japan Automobile Dealers Association
- (*8) Based on statistics compiled by Japan Automobile Dealers Association and Japan Light Motor Vehicle and Motorcycle Association
- (*9) Based on U-Car Full Data Book

2) Digital Product Business

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

Although distribution volume demonstrated higher levels compared to the same period last year owing to replacement demand coming from phased sales of new mobile phone models, the unit price of used mobile phones and transaction commissions declined due to the effect of instability in the used mobile phone market in part of the Asian region.

As a result, for the three months ended March 31, 2018, net sales of the Digital Product Business were ¥1,178,819 thousand (down 9.0% from the same period of the previous year), and operating income was ¥707,892 thousand (down 5.4% 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, we strengthened promotion of retail support services and began new sales methods aimed at distribution reform. For flowers (cut and potted), we focused on expanding distribution of branch plants, and also commenced full scale operation of our flower gifts business to reach to customers outside the traditional industry. For pre-owned luxury brand items, owing to the increase in new members both domestically and overseas, and with the effect of promotions to existing members, the number of listed items, sold items and transaction volume all increased significantly compared to the same period of the previous year.

As a result, for the three months ended March 31, 2018, net sales of the Other Information Distribution Business were ¥668,498 thousand (up 4.3% from the same period of the previous year), and operating income was ¥167,997 thousand (down 26.7% 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 three months ended March 31, 2018, net sales of the Other Business (including inter-segment net sales) were ¥446,272 thousand (up 57.9% from the same period of the previous year), and operating loss was ¥55,063 thousand (the operating loss for the same period of the previous year was ¥8,536 thousand).

(2) Explanation of Financial Position

Total assets as of the end of the first quarter of the current fiscal year amounted to ¥28,885,536 thousand, an increase of ¥1,241,019 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥139,126 thousand increase in accounts receivable - trade, a ¥2,642,816 thousand increase in amounts due from

auction members and a ¥7,173 thousand increase in investments and other assets, despite a ¥1,265,591 thousand decrease in cash and deposits, a ¥19,119 thousand decrease in property, plant and equipment and a ¥173,369 thousand decrease in intangible assets.

Total liabilities amounted to ¥11,897,661 thousand, an increase of ¥1,012,530 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥58,845 thousand increase in accounts payable – trade, a ¥836,445 thousand increase in amounts due to auction members, a ¥107,156 thousand increase in other provision and a ¥26,380 thousand increase in net defined benefit liability, despite a ¥209,543 thousand decrease in income taxes payable.

Total net assets amounted to ¥16,987,875 thousand, an increase of ¥228,489 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥6,833 thousand increase in capital stock, a ¥6,833 thousand increase in capital surplus, a ¥256,689 thousand increase in retained earnings and a ¥9,414 thousand increase in non-controlling interests, despite a ¥41,190 thousand decrease in valuation difference on available-for-sale securities and a ¥11,303 thousand decrease in foreign currency translation adjustment.

(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 March 31, 2018
Assets		
Current assets		
Cash and deposits	15,785,711	14,520,120
Accounts receivable - trade	855,862	994,989
Due from auction members	3,594,272	6,237,088
Other	1,328,780	1,241,493
Allowance for doubtful accounts	(44,818)	(47,547)
Total current assets	21,519,808	22,946,144
Non-current assets		
Property, plant and equipment	1,539,404	1,520,284
Intangible assets		
Goodwill	480,776	240,388
Other	1,177,449	1,244,468
Total intangible assets	1,658,226	1,484,856
Investments and other assets	2,927,078	2,934,251
Total non-current assets	6,124,708	5,939,392
Total assets	27,644,516	28,885,536
Liabilities		
Current liabilities		
Accounts payable - trade	678,435	737,280
Due to auction members	5,894,808	6,731,253
Income taxes payable	675,416	465,873
Other provision	120,205	227,362
Other	1,083,103	1,300,166
Total current liabilities	8,451,969	9,461,936
Non-current liabilities		
Net defined benefit liability	1,600,829	1,627,210
Other	832,331	808,514
Total non-current liabilities	2,433,161	2,435,725
Total liabilities	10,885,130	11,897,661
Net assets		
Shareholders' equity		
Capital stock	1,672,777	1,679,611
Capital surplus	6,763,112	6,769,946
Retained earnings	7,814,198	8,070,887
Total shareholders' equity	16,250,089	16,520,445
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	334,983	293,792
Foreign currency translation adjustment	20,219	8,915
Remeasurements of defined benefit plans	(18,202)	(16,989)
Total accumulated other comprehensive income	336,999	285,718
Non-controlling interests	172,297	181,711
Total net assets	16,759,385	16,987,875
Total liabilities and net assets	27,644,516	28,885,536

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended March 31, 2017 and 2018

(Thousand yen)

	For the three months ended March 31, 2017	For the three months ended March 31, 2018
Net sales	5,182,065	5,205,009
Cost of sales	1,791,795	1,937,999
Gross profit	3,390,270	3,267,009
Selling, general and administrative expenses	2,279,212	2,139,691
Operating income	1,111,057	1,127,318
Non-operating income		
Interest income	2,025	1,896
Dividend income	5,940	4,573
Share of profit of entities accounted for using equity method	23,765	40,468
Other	3,352	8,092
Total non-operating income	35,083	55,031
Non-operating expenses		
Interest expenses	1,644	1,295
Foreign exchange losses	44,950	26,028
Other	1,702	3,955
Total non-operating expenses	48,298	31,279
Ordinary income	1,097,843	1,151,071
Extraordinary income		
Gain on sales of non-current assets	–	3,650
Total extraordinary income	–	3,650
Extraordinary losses		
Loss on valuation of investment securities	–	44,967
Other	2,202	5,545
Total extraordinary losses	2,202	50,513
Profit before income taxes	1,095,640	1,104,208
Income taxes	465,028	489,395
Profit	630,611	614,813
Profit attributable to non-controlling interests	15,700	9,414
Profit attributable to owners of parent	614,911	605,399

Quarterly Consolidated Statements of Comprehensive Income
Three Months Ended March 31, 2017 and 2018

(Thousand yen)

	For the three months ended March 31, 2017	For the three months ended March 31, 2018
Profit	630,611	614,813
Other comprehensive income		
Valuation difference on available-for-sale securities	18,808	(41,190)
Foreign currency translation adjustment	(9,202)	(11,303)
Remeasurements of defined benefit plans, net of tax	1,526	1,213
Total other comprehensive income	11,132	(51,281)
Comprehensive income	641,744	563,531
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	626,044	554,117
Comprehensive income attributable to non-controlling interests	15,700	9,414

(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.

(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 income before income taxes for the fiscal year (consolidated) including the first quarter of the fiscal year under review, with quarterly income 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.

(Segment information, etc.)

[Segment information]

For the three months ended March 31, 2017 (from January 1, 2017 to March 31, 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	3,086,097	1,295,040	640,833	5,021,971	160,094	5,182,065	–	5,182,065
Inter-segment net sales or transfers	39,372	–	–	39,372	122,605	161,977	(161,977)	–
Total	3,125,469	1,295,040	640,833	5,061,343	282,699	5,344,043	(161,977)	5,182,065
Segment income (loss)	918,927	748,182	229,233	1,896,343	(8,536)	1,887,806	(776,748)	1,111,057

(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 ¥776,748 thousand includes goodwill amortization of negative ¥240,388 thousand, and corporate expenses of negative ¥536,360 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 three months ended March 31, 2018 (from January 1, 2018 to March 31, 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	3,070,575	1,178,819	668,498	4,917,893	287,115	5,205,009	–	5,205,009
Inter-segment net sales or transfers	38,293	–	–	38,293	159,156	197,450	(197,450)	–
Total	3,108,869	1,178,819	668,498	4,956,186	446,272	5,402,459	(197,450)	5,205,009
Segment income (loss)	1,058,282	707,892	167,997	1,934,172	(55,063)	1,879,108	(751,790)	1,127,318

(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 ¥751,790 thousand includes goodwill amortization of negative ¥240,388 thousand, and corporate expenses of negative ¥511,401 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 first quarter of the 2017 fiscal year has been compiled and disclosed based on the reportable segment classification after the change.