

Consolidated Financial Statements for the Fiscal Year Ended December 31, 2017 [Japanese GAAP]



February 13, 2018

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 Executive Officer, General Manager of Corporate Management Division

Phone: +81-3-6440-2500

Scheduled date of general shareholders meeting: March 28, 2018

Scheduled date of commencing dividend payments: March 7, 2018

Scheduled date of filing securities report: March 29, 2018

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, 2017

(January 1, 2017 - December 31, 2017)

(1) Consolidated Operating Results (cumulative) (% 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, 2017	19,409	(2.9)	3,245	(19.7)	3,321	(19.3)	1,767	(19.0)
December 31, 2016	19,983	3.6	4,041	(3.8)	4,115	(3.5)	2,183	16.8

(Note) Comprehensive income: Year ended December 31, 2017: ¥1,824 million [-15.5%]

Year ended December 31, 2016: ¥2,159 million [5.9%]

	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, 2017	66.97	65.64	12.4	12.5	16.7
December 31, 2016	90.77	—	20.0	17.1	20.2

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

Year ended December 31, 2017: ¥54 million

Year ended December 31, 2016: ¥58 million

- (Notes) 1. On July 31, 2016, the Company carried out a 20-for-1 stock split of its common shares. “Basic earnings per share” is calculated assuming that the stock split had occurred at the beginning of the fiscal year ended December 31, 2016 (consolidated).
2. Regarding “Diluted earnings per share,” the Company reports that there were potential shares in the fiscal year ended December 31, 2016, but these were not reported because it is impossible to have a clear idea of the average share price during the period as the Company’s shares were not listed then. Furthermore, because the shares of the Company were listed on the First Section of the Tokyo Stock Exchange on March 29, 2017, 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 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, 2017	27,644	16,759	60.0	604.33
As of December 31, 2016	25,446	12,139	47.2	498.83

(Reference) Equity: As of December 31, 2017: ¥16,587 million

As of December 31, 2016: ¥12,006 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, 2017	2,087	(791)	1,174	14,925
December 31, 2016	5,771	(1,475)	(1,546)	12,460

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, 2016	—	0.00	—	0.00	0.00	—	—	—
Year ended December 31, 2017	—	13.00	—	13.00	26.00	707	38.8	4.7
Year ending December 31, 2018 (Forecast)	—	13.00	—	13.00	26.00		—	

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	81.25

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: Yes
(Changes in specified subsidiaries resulting in changes in scope of consolidation)
New: – Excluded: One, company name: Print Vision Inc.
- (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, 2017: 27,447,000 shares
December 31, 2016: 25,569,000 shares

2) Total number of treasury shares at the end of the period:
December 31, 2017: – shares
December 31, 2016: 1,500,000 shares

3) Average number of shares during the period:
Year ended December 31, 2017: 26,391,070 shares
Year ended December 31, 2016: 24,055,885 shares
(Note) On July 31, 2016, the Company carried out a 20-for-1 stock split of common shares. The total number of issued and outstanding shares (common shares) is calculated assuming that the stock split had occurred at the beginning of the previous fiscal year (consolidated).

(Reference) Summary of Non-consolidated Results

1. Non-consolidated Results for the Fiscal Year Ended December 31, 2017

(January 1, 2017 - December 31, 2017)

(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, 2017	9,401	0.2	(842)	—	832	66.0	752	534.9
December 31, 2016	9,385	(6.6)	(657)	—	501	(57.7)	118	(57.6)

	Basic earnings per share	Diluted earnings per share
Year ended	Yen	Yen
December 31, 2017	28.53	27.96
December 31, 2016	4.93	—

- (Notes) 1. On July 31, 2016, the Company carried out a 20-for-1 stock split of its common shares. “Basic earnings per share” is calculated assuming that the stock split had occurred at the beginning of the fiscal year ended December 31, 2016.
2. Regarding “Diluted earnings per share,” the Company reports that there were potential shares in the fiscal year ended December 31, 2016, but these were not reported because it is impossible to have a clear idea of the average share price during the period as the Company’s shares were not listed then. Furthermore, because the shares of the Company were listed on the First Section of the Tokyo Stock Exchange on March 29, 2017, 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 the last day of the fiscal year ended December 31, 2017.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2017	15,730	9,985	63.5	363.79
As of December 31, 2016	14,829	6,419	43.3	266.73

(Reference) Equity: As of December 31, 2017: ¥9,985 million

As of December 31, 2016: ¥6,419 million

* These financial results are outside the scope of audit procedures.

* 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 page 3 of the attachments.

Table of Contents - Attachments

1. Analysis of Operating Results and Financial Position	2
(1) Analysis of Operating Results	2
(2) Analysis of Financial Position	4
2. Basic Policy on Selecting Accounting Standards	5
3. Consolidated Financial Statements	6
(1) Consolidated Balance Sheets	6
(2) Consolidated Statements of Income and Comprehensive Income	8
(3) Consolidated Statements of Changes in Equity	10
(4) Consolidated Statements of Cash Flows	12
(5) Notes to Consolidated Financial Statements	13
(Notes on going concern assumption)	13
(Segment information, etc.)	13
(Per share information)	15
(Significant subsequent events)	17

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, 2017 (from January 1, 2017 to December 31, 2017), the Japanese economy showed modest recovery, including continuing improvement in corporate earnings and in the employment and income picture, against a backdrop of the government's economic policies and the monetary easing policy by the Bank of Japan. However, economic trends remained unclear, and it is necessary to pay close attention to overseas political conditions and fiscal policies, the effects of heightened geopolitical risk in East Asia, and other factors.

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) thoroughly upgrading services for greater convenience, (2) increasing the speed of transactions (distribution and settlements) and (3) ensuring competitive service usage fees and other reforms.

Although the results were favorable in the Automobile Business and Other Information Distribution Business demonstrating higher levels compared to the previous fiscal year, in the Digital Product Business, the Company was unable to secure initially expected distribution volumes and transaction commissions due to effects of various external circumstances and other factors. As a result, for the fiscal year ended December 31, 2017, net sales of the Company were ¥19,409,333 thousand (down 2.9% from the previous fiscal year), operating income was ¥3,245,387 thousand (down 19.7% from the previous fiscal year), ordinary income was ¥3,321,609 thousand (down 19.3% from the previous fiscal year), and profit attributable to owners of parent was ¥1,767,535 thousand (down 19.0% from the previous fiscal year).

Performance results by business segment are as follows.

(i) Automobile Business

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

In the automotive sector, which has close connections with our business, total new-vehicle registrations (*6) rose 5.3% year-on-year to 5.23 million units in the fiscal year ended December 31, 2017. Total used vehicle registrations (*7) rose 2.7% year-on-year to 6.93 million units and the number of vehicles exhibited (*8) at used-vehicle auctions around Japan rose 4.3% year-on-year to 7.52 million units. The total number of vehicles for which contracts (*8) were completed rose 5.2% year-on-year to 4.74 million units. In each category, results were up year-on-year. In addition to this pickup in market trends, the contract completion rate for Aucnet's used vehicle TV auctions increased, owing to successful attempts to encourage dealers, rental and leasing firms, large car buyers, etc., to list vehicles. For our live linked auctions and proxy bidding service, the number of vehicles sold at auction increased in line with the promotion to export business members to participate.

As a result, net sales of the Automobile Business (including inter-segment net sales) were ¥11,429,032 thousand (up 5.2% from the previous fiscal year), and operating income was ¥3,412,350 thousand (up 7.2% from the previous fiscal year).

(*1) Used vehicle TV auctions are real-time auctions for members held online by the Company.

(*2) A shared inventory market is a market that facilitates transactions by utilizing the members' network of the Company to share information about members' used vehicle store inventories between members.

(*3) A live linked auction is a service for broadcasting auctions hosted at physical auction sites, through tie-ups between the Company and physical auction sites for transactions between used vehicle business operators.

(*4) The proxy bidding service is an agency service provided by i-Auc, Inc. for bidding, vehicle listing, settlement, and transportation of used vehicles exhibited at physical auction sites, etc., for

transactions between used vehicle business operators.

- (*5) The vehicle inspection service is a service provided by AIS Inc. for used vehicle inspections and related inspection skills training.
- (*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

(ii) Digital Product Business

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

Acquisitions of new overseas buyers were promoted, resulting in a rise in buying power for expanding auction distribution. However, transaction commission rates were significantly below initial projections, because in the fourth quarter (1) replacement demand for new smartphones was below initial projections and (2) the market price of used smartphones declined as a large number of such devices was supplied from the U.S.

As a result, net sales of the Digital Product Business were ¥4,125,376 thousand (down 24.8% from the previous fiscal year), and operating income was ¥2,036,384 thousand (down 32.6% from the previous fiscal year).

(iii) Other Information Distribution Business

The Other Information Distribution Business comprises used motorcycles, flowers (cut and potted), used luxury brand item auctions, and services pertaining to distribution.

For used motorcycles, we implemented measures to capture demand mainly from major members and those in regional cities and strengthened measures to encourage members to list items. For flowers (cut and potted), we took measures to strengthen distribution services to match the needs of member customers and enhance membership acquisition by implementing new membership levels. For used luxury brand items, we promoted measures to encourage participation from franchise member stores, and expanded the number of items bought and sold, in addition to focusing on capturing overseas members, resulting in transaction volume increasing.

As a result, net sales of the Other Information Distribution Business were ¥2,606,757 thousand (up 2.0% from the previous fiscal year), and operating income was ¥781,077 thousand (up 24.9% from the previous fiscal year).

(iv) Other Business

Other Business comprises online sales of automotive accessories, system development and provision, communications and operation and maintenance service provision, used medical equipment auctions and overseas businesses.

Net sales of the Other Business (including inter-segment net sales) were ¥1,951,364 thousand (up 1.0% from the previous fiscal year), and operating loss was ¥170,650 thousand (¥19,597 thousand of operating loss for the previous fiscal year).

2) Future outlook

Regarding the outlook for the next fiscal year, although a modest recovery is expected to continue on the back of the government's economic policies and the monetary easing policy by the Bank of Japan, economic trends will remain unclear, as it is necessary to pay close attention to overseas political conditions and fiscal policies, the effects of heightened geopolitical risk in East Asia, and other factors.

Under such an environment, the Company will focus on distribution expansion in used vehicle TV auctions and the shared inventory market to increase share for the Automobile Business; expand auction distribution further by promoting acquisitions of new overseas buyers for the Digital Product Business; and expand distribution volume of used motorcycles, placing importance on the contract completion rate,

strengthen expansion of distribution volume of flowers (cut and potted) by enhancing the distribution service, and expand distribution volume of used luxury brand items by promoting acquisitions of new overseas buyers and increasing the number of items bought and sold for the Other Information Distribution Business.

Based on the above, for the forecast of the full fiscal year ending December 31, 2018, the Company expects net sales of ¥21,142 million (up 8.9% year-on-year), operating income of ¥3,748 million (up 15.5% year-on-year), ordinary income of ¥3,822 million (up 15.1% year-on-year) and profit attributable to owners of parent of ¥2,227 million (up 26.0% 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 ¥21,519,808 thousand (up 13.3% from the end of the previous fiscal year). This is mainly attributable to a ¥2,451,842 thousand increase in cash and deposits, a ¥238,674 thousand increase in due from auction members, despite a ¥75,834 thousand decrease in deferred tax assets and a ¥95,755 thousand decrease in income taxes receivable.

Non-current assets amounted to ¥6,124,708 thousand (down 5.1% from the end of the previous fiscal year). This is mainly attributable to a ¥35,626 thousand decrease in buildings and structures, net and a ¥961,553 thousand decrease in goodwill, despite a ¥238,293 thousand increase in other, net under property, plant and equipment, a ¥307,087 thousand increase in other under intangible assets, a ¥22,266 thousand increase in investment securities, and a ¥206,307 thousand increase in other under investments.

(Liabilities)

Current liabilities as of the end of the fiscal year under review amounted to ¥8,451,969 thousand (down 22.3% from the end of the previous fiscal year). This is mainly attributable to a ¥592,804 thousand decrease in due to auction members, a ¥1,400,000 thousand decrease in short-term loans payable, a ¥313,558 thousand decrease in income taxes payable, a ¥107,279 thousand decrease in provision for point card certificates, and a ¥221,689 thousand decrease in other under current liabilities, despite a ¥203,470 thousand increase in accounts payable - trade.

Non-current liabilities amounted to ¥2,433,161 thousand (up 0.2% from the end of the previous fiscal year). This is mainly attributable to a ¥102,636 thousand increase in net defined benefit liability, despite a ¥97,547 thousand decrease in other under non-current liabilities.

(Net assets)

Net assets as of the end of the fiscal year under review amounted to ¥16,759,385 thousand (up 38.1% from the end of the previous fiscal year). This is mainly attributable to a ¥1,533,989 thousand increase in capital stock, a ¥1,097,727 thousand increase in capital surplus, a ¥1,416,639 thousand increase in retained earnings, ¥16,387 thousand increase in valuation difference on available-for-sale securities, ¥12,393 thousand increase in remeasurements of defined benefit plans and a ¥39,029 thousand increase in non-controlling interests, despite a ¥515,032 thousand decrease in treasury shares and a ¥11,329 thousand decrease in foreign currency translation adjustment.

2) Overview of Cash Flows

Cash and cash equivalents as of the end of the fiscal year under review amounted to ¥14,925,711 thousand, an increase of ¥2,464,873 thousand from the end of the previous fiscal year. The status of cash flows by activity in the fiscal year ended December 31, 2017, 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 ¥2,087,664 thousand. As a main breakdown of inflows, profit before income taxes was ¥3,339,012 thousand, depreciation was ¥495,154 thousand, amortization of goodwill was ¥961,553 thousand, increase in allowance for doubtful

accounts was ¥109,489 thousand, increase in notes and accounts payable – trade was ¥203,470 thousand, and increase in net defined benefit liability was ¥120,537 thousand. As a main breakdown of outflows, increase in due from auction members was ¥238,674 thousand, decrease in due to auction members was ¥592,804 thousand, decrease in provision for point card certificates was ¥107,279 thousand, and income taxes paid was ¥1,793,960 thousand.

(Cash Flows from Investing Activities)

Cash used in investing activities during the fiscal year under review amounted to ¥791,481 thousand. As a main breakdown of inflows, proceeds from withdrawal of time deposits was ¥683,030 thousand and proceeds from sales of investment securities was ¥115,580 thousand. As a main breakdown of outflows, payments into time deposits was ¥670,000 thousand, purchase of property, plant and equipment was ¥111,856 thousand, and purchase of intangible assets was ¥605,699 thousand.

(Cash Flows from Financing Activities)

Cash provided by financing activities during the fiscal year under review amounted to ¥1,174,356 thousand. As a main breakdown of inflows, proceeds from issuance of common shares was ¥1,612,249 thousand and proceeds from sales of treasury shares was ¥1,534,500 thousand. As a main breakdown of outflows, net decrease in short-term loans payable was ¥1,400,000 thousand, repayments of finance lease obligations was ¥221,637 thousand, and cash dividends paid was ¥350,792 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, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	13,333,868	15,785,711
Accounts receivable - trade	854,244	855,862
Due from auction members	3,355,597	3,594,272
Deferred tax assets	218,465	142,631
Income taxes receivable	104,514	8,759
Other	1,168,888	1,177,389
Allowance for doubtful accounts	(40,848)	(44,818)
Total current assets	18,994,729	21,519,808
Non-current assets		
Property, plant and equipment		
Buildings and structures	604,297	544,721
Accumulated depreciation	(211,755)	(187,805)
Buildings and structures, net	392,542	356,916
Land	797,076	797,076
Other	1,037,942	1,325,102
Accumulated depreciation	(890,823)	(939,690)
Other, net	147,118	385,411
Total property, plant and equipment	1,336,736	1,539,404
Intangible assets		
Goodwill	1,442,330	480,776
Other	870,362	1,177,449
Total intangible assets	2,312,692	1,658,226
Investments and other assets		
Investment securities	1,151,404	1,173,670
Deferred tax assets	331,031	333,295
Other	1,399,063	1,605,370
Allowance for doubtful accounts	(79,591)	(185,258)
Total investments and other assets	2,801,907	2,927,078
Total non-current assets	6,451,336	6,124,708
Total assets	25,446,066	27,644,516

(Thousand yen)

	As of December 31, 2016	As of December 31, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	474,965	678,435
Due to auction members	6,487,612	5,894,808
Short-term loans payable	1,400,000	—
Income taxes payable	988,974	675,416
Provision for bonuses	75,467	80,820
Provision for point card certificates	146,664	39,385
Other	1,304,793	1,083,103
Total current liabilities	10,878,478	8,451,969
Non-current liabilities		
Net defined benefit liability	1,498,192	1,600,829
Other	929,878	832,331
Total non-current liabilities	2,428,071	2,433,161
Total liabilities	13,306,549	10,885,130
Net assets		
Shareholders' equity		
Capital stock	138,788	1,672,777
Capital surplus	5,665,384	6,763,112
Retained earnings	6,397,559	7,814,198
Treasury shares	(515,032)	—
Total shareholders' equity	11,686,700	16,250,089
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	318,595	334,983
Foreign currency translation adjustment	31,549	20,219
Remeasurements of defined benefit plans	(30,596)	(18,202)
Total accumulated other comprehensive income	319,548	336,999
Non-controlling interests	133,267	172,297
Total net assets	12,139,516	16,759,385
Total liabilities and net assets	25,446,066	27,644,516

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

(Thousand yen)

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 2017
Net sales	19,983,859	19,409,333
Cost of sales	7,002,682	7,239,870
Gross profit	12,981,176	12,169,462
Selling, general and administrative expenses	8,940,017	8,924,075
Operating income	4,041,159	3,245,387
Non-operating income		
Interest income	8,589	7,900
Dividend income	28,904	37,549
Share of profit of entities accounted for using equity method	58,160	54,699
Other	83,998	44,471
Total non-operating income	179,653	144,620
Non-operating expenses		
Interest expenses	41,747	4,400
Foreign exchange losses	59,694	31,712
Provision of allowance for doubtful accounts	—	30,472
Other	3,457	1,813
Total non-operating expenses	104,899	68,398
Ordinary income	4,115,913	3,321,609
Extraordinary income		
Gain on sales of investment securities	1,656	86,240
Gain on sales of shares of subsidiaries and associates	386	95,503
Other	42	661
Total extraordinary income	2,084	182,404
Extraordinary losses		
Loss on retirement of non-current assets	14,057	21,791
Loss on valuation of shares of subsidiaries and associates	—	33,558
Provision of allowance for doubtful accounts	—	109,057
Other	—	594
Total extraordinary losses	14,057	165,001
Profit before income taxes	4,103,939	3,339,012
Income taxes - current	1,853,730	1,471,615
Income taxes - deferred	46,516	60,830
Total income taxes	1,900,247	1,532,446
Profit	2,203,692	1,806,565
Profit attributable to non-controlling interests	20,237	39,029
Profit attributable to owners of parent	2,183,455	1,767,535

Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 2017
Profit	2,203,692	1,806,565
Other comprehensive income		
Valuation difference on available-for-sale securities	(22,327)	16,387
Foreign currency translation adjustment	8,574	(11,329)
Remeasurements of defined benefit plans, net of tax	(30,596)	12,393
Total other comprehensive income	(44,349)	17,451
Comprehensive income	2,159,343	1,824,016
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,139,106	1,784,986
Comprehensive income attributable to non-controlling interests	20,237	39,029

(3) Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2016 (from January 1, 2016 to December 31, 2016)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	100,000	6,828,338	4,255,609	(1,716,775)	9,467,173
Changes of items during period					
Issuance of new shares	38,788	38,788			77,577
Profit attributable to owners of parent			2,183,455		2,183,455
Retirement of treasury shares		(1,201,742)		1,201,742	—
Change in retained earnings from merger of consolidated and unconsolidated subsidiaries			(40,833)		(40,833)
Change in retained earnings from newly consolidated subsidiary			(672)		(672)
Net changes of items other than shareholders' equity					
Total changes of items during period	38,788	(1,162,953)	2,141,949	1,201,742	2,219,527
Balance at end of current period	138,788	5,665,384	6,397,559	(515,032)	11,686,700

	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	340,923	22,974	—	363,897	113,030	9,944,101
Changes of items during period						
Issuance of new shares						77,577
Profit attributable to owners of parent						2,183,455
Retirement of treasury shares						—
Change in retained earnings from merger of consolidated and unconsolidated subsidiaries						(40,833)
Change in retained earnings from newly consolidated subsidiary						(672)
Net changes of items other than shareholders' equity	(22,327)	8,574	(30,596)	(44,349)	20,237	(24,112)
Total changes of items during period	(22,327)	8,574	(30,596)	(44,349)	20,237	2,195,415
Balance at end of current period	318,595	31,549	(30,596)	319,548	133,267	12,139,516

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

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 2017
Cash flows from operating activities		
Profit before income taxes	4,103,939	3,339,012
Depreciation	438,633	495,154
Amortization of goodwill	961,553	961,553
Increase (decrease) in allowance for doubtful accounts	(41,383)	109,489
Interest and dividend income	(37,494)	(45,450)
Interest expenses	41,747	4,400
Share of (profit) loss of entities accounted for using equity method	(58,160)	(54,699)
Loss (gain) on sales and retirement of non-current assets	14,057	21,791
Loss (gain) on sales of investment securities	(1,656)	(86,240)
Loss on valuation of shares of subsidiaries and associates	—	33,558
Loss (gain) on sales of shares of subsidiaries and associates	(386)	(95,503)
Decrease (increase) in notes and accounts receivable - trade	(83,381)	(3,345)
Decrease (increase) in due from auction members	(15,202)	(238,674)
Increase (decrease) in notes and accounts payable - trade	184,483	203,470
Increase (decrease) in due to auction members	1,980,625	(592,804)
Increase (decrease) in provision for bonuses	10,778	5,360
Increase (decrease) in provision for point card certificates	2,742	(107,279)
Increase (decrease) in net defined benefit liability	(990)	120,537
Other, net	(141,068)	(372,109)
Subtotal	7,358,835	3,698,219
Interest and dividend income received	66,254	81,545
Interest expenses paid	(46,174)	(2,655)
Income taxes paid	(1,988,722)	(1,793,960)
Income taxes refund	381,232	104,514
Net cash provided by (used in) operating activities	5,771,425	2,087,664
Cash flows from investing activities		
Payments into time deposits	(910,000)	(670,000)
Proceeds from withdrawal of time deposits	270,000	683,030
Purchase of property, plant and equipment	(38,384)	(111,856)
Purchase of intangible assets	(598,305)	(605,699)
Proceeds from sales of investment securities	1,656	115,580
Purchase of shares of subsidiaries and associates	(141,869)	(89,729)
Other, net	(58,946)	(112,806)
Net cash provided by (used in) investing activities	(1,475,850)	(791,481)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,400,000	(1,400,000)
Repayments of long-term loans payable	(2,959,000)	—
Proceeds from issuance of common shares	77,577	1,612,249
Cash dividends paid	—	(350,792)
Repayments of finance lease obligations	(64,728)	(221,637)
Proceeds from sales of treasury shares	—	1,534,500
Other, net	—	38
Net cash provided by (used in) financing activities	(1,546,151)	1,174,356
Effect of exchange rate change on cash and cash equivalents	20,097	(5,666)
Net increase (decrease) in cash and cash equivalents	2,769,521	2,464,873
Cash and cash equivalents at beginning of period	9,664,737	12,460,837
Increase in cash and cash equivalents resulting from merger	20,096	—
Increase in cash and cash equivalents from newly consolidated subsidiary	6,482	—
Cash and cash equivalents at end of period	12,460,837	14,925,711

(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)

Since all shares in Print Vision Inc. held by the Company were sold during the fiscal year under review, it has been excluded from the scope of consolidation.

(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 used vehicle TV auctions, a shared inventory market, live linked auction, the proxy bidding service and vehicle inspection service, etc. 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 used motorcycles, flowers (cut and potted), used luxury brand item auctions, and services pertaining to distribution.

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

For the fiscal year ended December 31, 2016 (from January 1, 2016 to December 31, 2016)

(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	10,682,230	5,483,905	2,555,071	18,721,206	1,262,652	19,983,859	—	19,983,859
Inter-segment net sales or transfers	177,105	—	—	177,105	669,259	846,364	(846,364)	—
Total	10,859,335	5,483,905	2,555,071	18,898,311	1,931,911	20,830,223	(846,364)	19,983,859
Segment income (loss)	3,183,531	3,023,440	625,610	6,832,583	(19,597)	6,812,985	(2,771,826)	4,041,159

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as online sales of automotive accessories, system development and provision, communications and operation and maintenance service provision and overseas new businesses.

2. Adjustment of segment income (loss) of negative ¥2,771,826 thousand includes goodwill amortization of negative ¥961,553 thousand, and corporate expenses of negative ¥1,810,272 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, 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	11,251,076	4,125,376	2,606,757	17,983,211	1,426,122	19,409,333	—	19,409,333
Inter-segment net sales or transfers	177,956	—	—	177,956	525,242	703,198	(703,198)	—
Total	11,429,032	4,125,376	2,606,757	18,161,167	1,951,364	20,112,531	(703,198)	19,409,333
Segment income (loss)	3,412,350	2,036,384	781,077	6,229,812	(170,650)	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 online sales of automotive accessories, system development and provision, communications and operation and maintenance service provision and overseas new 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.

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

For the fiscal year ended December 31, 2016 (from January 1, 2016 to December 31, 2016)

Not applicable.

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

Not applicable.

(Per share information)

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 2017
Net assets per share	¥498.83	¥604.33
Basic earnings per share	¥90.77	¥66.97
Diluted earnings per share	—	¥65.64

- (Notes) 1. Regarding diluted earnings per share for the fiscal year ended December 31, 2016, the Company reports that there were potential shares, but these were not reported because it is impossible to have a clear idea of the average share price during the period as the Company's shares were not listed then.
2. On July 31, 2016, the Company carried out a 20-for-1 stock split of its common shares. Basic earnings per share is calculated assuming that the stock split had occurred at the beginning of the fiscal year ended December 31, 2016 (consolidated).
3. Regarding diluted earnings per share for the fiscal year ended December 31, 2017, because the shares of the Company were listed on the First Section of the Tokyo Stock Exchange on March 29, 2017, calculations are based on the average share price during the period between the day of listing and the last day of the fiscal year ended December 31, 2017 (consolidated).
4. Basis of calculation of basic earnings per share and diluted earnings per share is as follows:

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 2017
Basic earnings per share		
Profit attributable to owners of parent (Thousand yen)	2,183,455	1,767,535
Amount not attributable to common stockholders (Thousand yen)	—	—
Profit attributable to owners of parent relating to common stock (Thousand yen)	2,183,455	1,767,535
Average number of shares of common stock outstanding during the period (Shares)	24,055,885	26,391,070
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
Overview of residual shares not included in calculation of diluted earnings per share due to lack of dilutive effect	—	—

(Significant subsequent events)
Not applicable.