AUCNET

AUCNET GROUP

Shaping the Future of Commerce

AUCNET INC.

Full Year 2017 Results Briefing

Contents

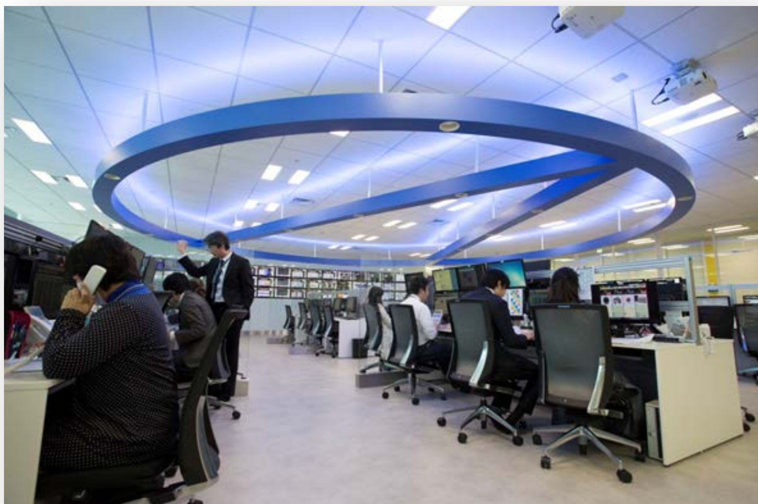
Ⅰ.　Company Overview

AUCNET

Features of Aucnet’s business

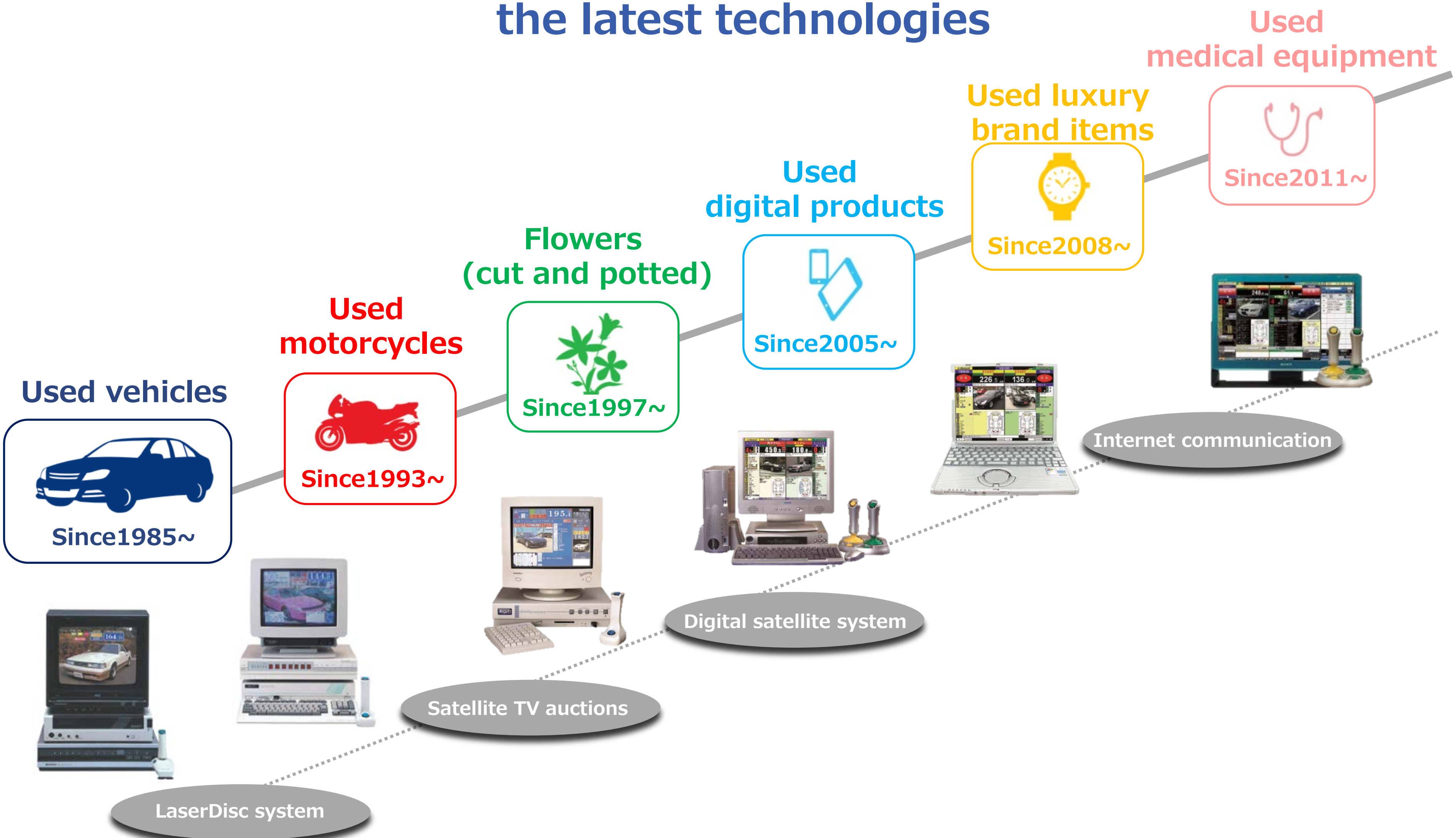
Online real-time auctions

B to B distribution business



History of Aucnet

Started business with auctions of used vehicles
Aucnet has developed its auction business by consistently adopting the latest technologies



Scale of Aucnet's Distribution Operations

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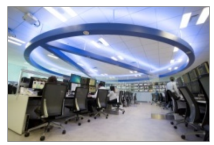
Total transaction amount (annual) **¥370.3 billion**

Total members **25,093 companies**

Automobile Business

Transaction Amount (annual)

¥320.5 billion



Digital Product Business

Transaction Amount (annual)

¥26.6 billion

Other Information Distribution Business

Used luxury brand items

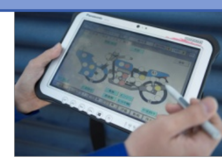
Transaction Amount (annual)

¥8.9 billion

Used motorcycles

Transaction Amount (annual)

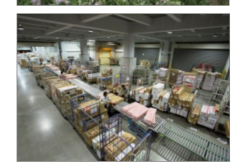
¥7.6 billion



Flowers (cut and potted)

Transaction Amount (annual)

¥6.4 billion



Note: Transaction Amount: Total value of transactions for completed auctions in each business .(FY17)
Membership number : Unique members. (FY17)

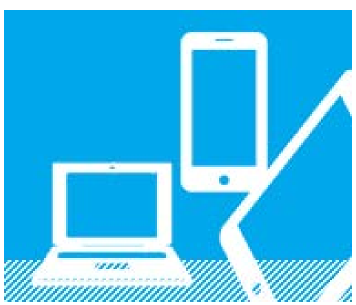
Business Segment

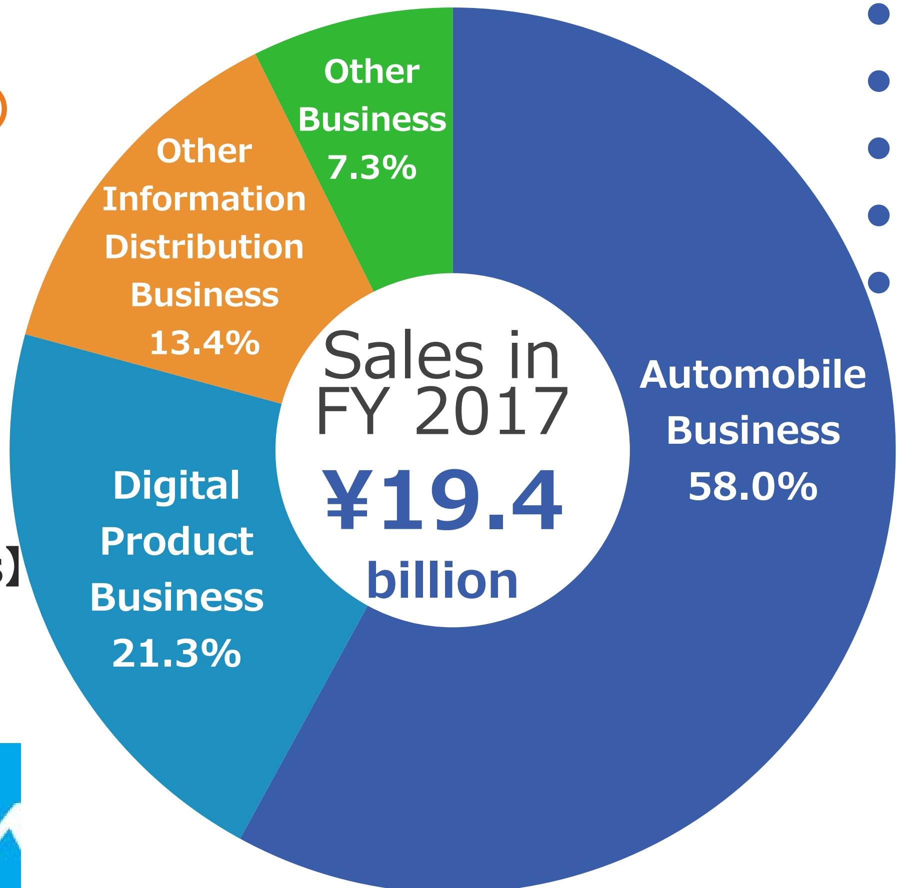
【Other Information Distribution Business】

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

【Digital Product Business】

- Used smartphones
- Used PCs etc.





【Automobile Business】

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

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

Ⅱ．　Consolidated Results

Consolidated Performance Summary

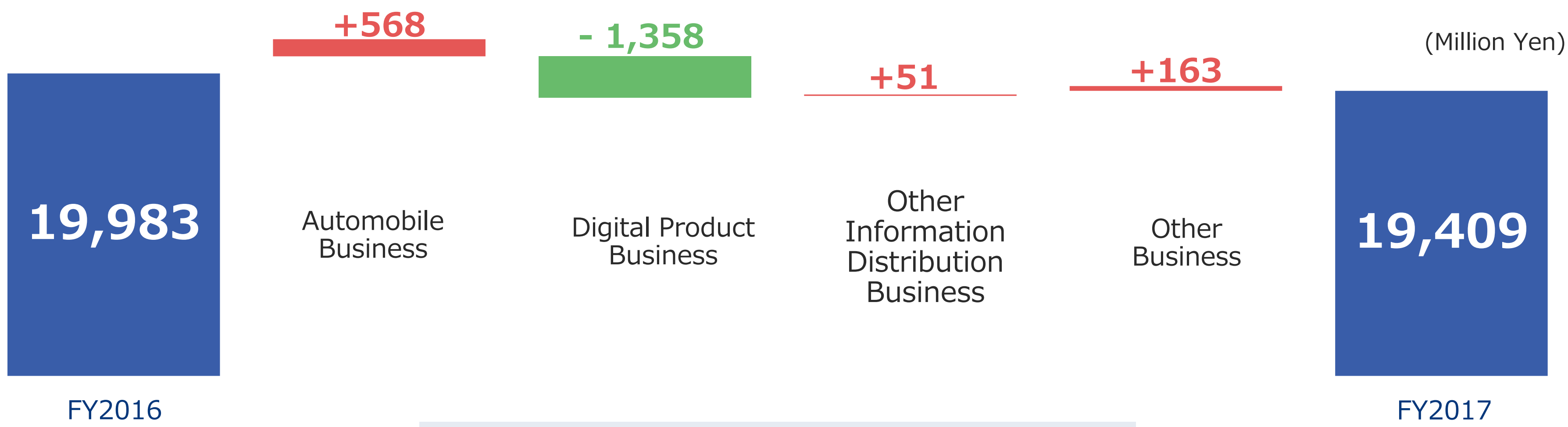
(Million Yen)

	FY2016		FY2017		
	Performance	Margin	Performance	Margin	Year-on-year
Net sales	19,983	100.0%	**19,409**	**100.0%**	**-2.9%**
Operating income	4,041	20.2%	**3,245**	**16.7%**	**-19.7%**
Ordinary income	4,115	20.6%	**3,321**	**17.1%**	**-19.3%**
Profit attributable to Owners of parent	2,183	10.9%	**1,767**	**9.1%**	**-19.0%**
Basic earnings per share	90.77 Yen	–	**66.97 Yen**	**–**	**-23.80 Yen**
Dividend per share	–	–	**26.00 Yen**	**–**	**26.00 Yen**

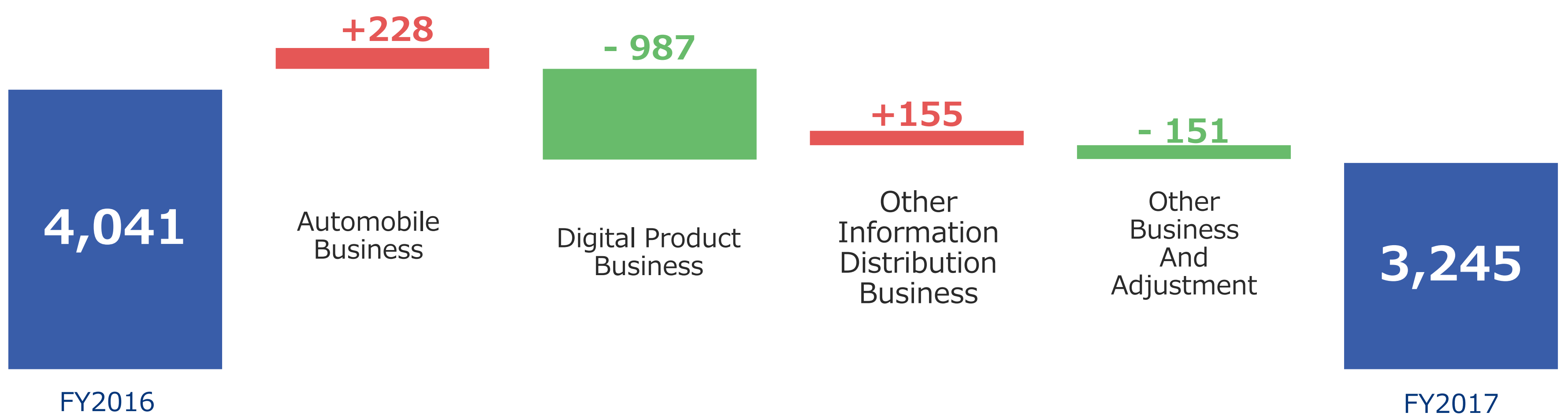
Note: Amounts are rounded down to the nearest whole unit; percentages are rounded to two decimal places.

Segment Increase/Decrease

Net sales



Segment income



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.

Ⅲ.　Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

New Businesses

Ⅲ. Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

New Businesses

Automobile Business (Overview)

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)

- Rigorous and fair inspection and evaluation system for vehicles listed at auction performed by AIS Inc., an Aucnet subsidiary.
- Nationwide vehicle inspection and evaluation provided at customer sites.
- Six centers, 18 service blocks, approximately 180 qualified inspectors*.

※As of December 31,2017

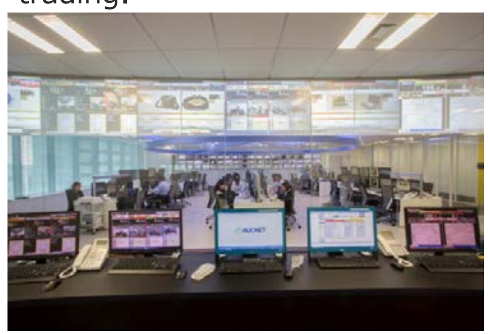
Aucnet's own used vehicle distribution

Used vehicle auctions*

- All vehicles are inspected by AIS, ensuring confidence in quality.
- 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 on approximately 40,000 vehicles* in stock, facilitating negotiation and trading.



※As of December 31,2017

Used vehicle distribution networks with other sites

Live linked auctions (Network Auto Auction)

- Real-time access to 76 physical auction sites nationwide.

Proxy bidding service (i-Auc)

- Auction agency services for vehicle listing and bidding at 122 physical auction sites nationwide.

＊About used vehicle auctions:

Real-time auctions for members held online by the Company.

Automobile Business (Segment Performance)

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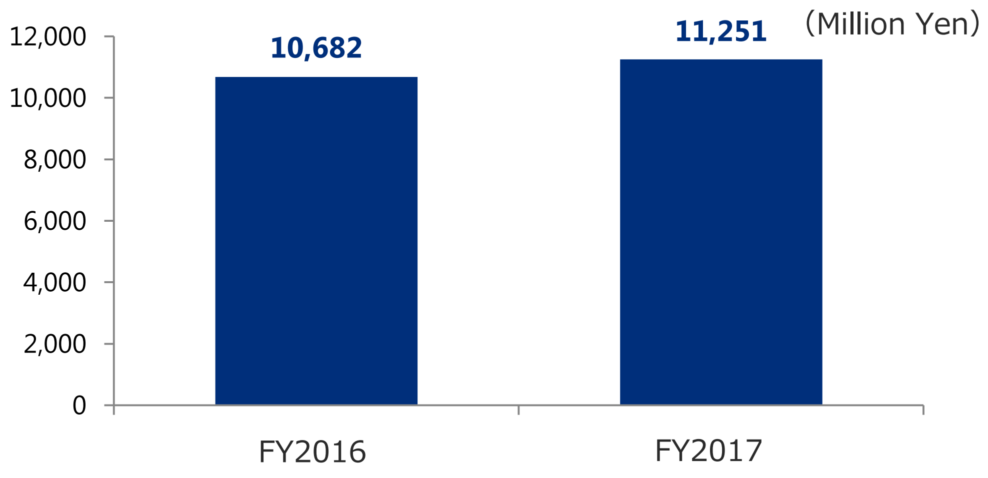
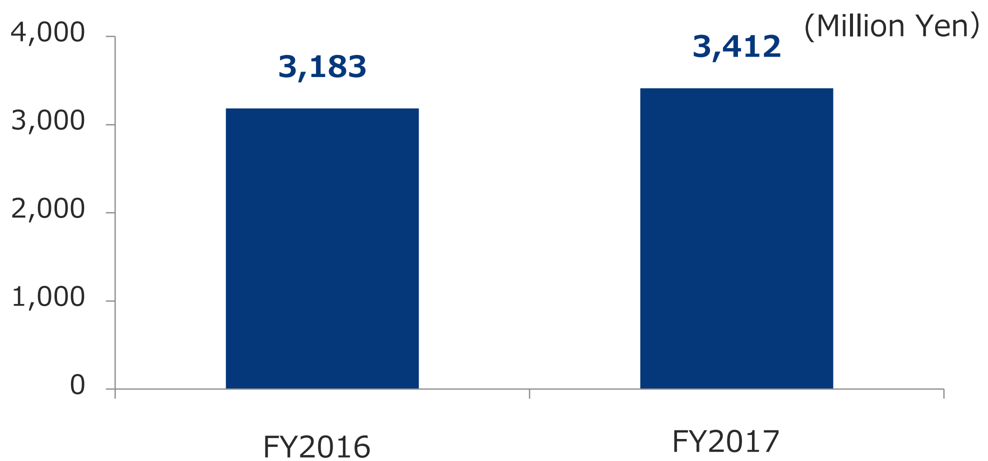
Net sales



Segment income



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

Year-on-year increase in sales and 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

- Decrease in sold vehicles year-on-year. However, efforts to attract large-scale members led to signs of recovery from the second half of the year.

Live-linked auctions

- An increase in the number of vehicles listed at partner physical auction sites and an increase in purchases by export-focused members contributed to an increase in the number of vehicles purchased through live-linked auctions.

The proxy bidding service

- The number of vehicles purchased through the proxy bidding service increased, mainly due to an increase in purchasing by export-focused members.

Used vehicle inspection service

- Increase in number of vehicles inspected due to increase in vehicle listings at physical auction sites and demand from large used vehicle sales platforms.

Automobile Business (Segment Performance)

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Business	KPI	FY2017	Year-on-year
Automobile Business (Total)	Number of sold items	417,650units	106.0%
	Sales share ※1	8.8%	0.1Point up
	Total members	14,447	100.4%
Used vehicle auctions	Total number of listed items	58,556units	101.6%
	Number of sold items	17,414units	107.8%
	Rate of sale	31.8%	1.8Point up
Shared inventory market	Number of sold items	11,488units	97.9%
Live linked auctions	Listed units	4,811,383units	104.1%
	Sold units	278,658units	106.5%
The proxy bidding service (i-Auc)	Sold units	110,090units	105.4%
Used vehicle inspection service (AIS)	Total inspected units ※2	843,841units	115.0%

※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 Includes Used motorcycles inspections.

Automobile Business（Priority Initiatives）

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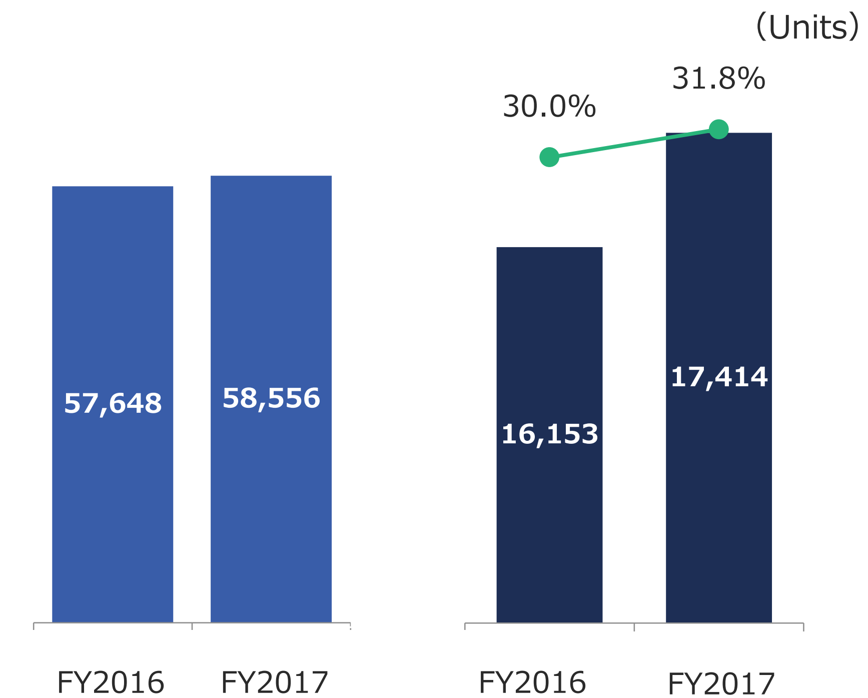
Used vehicle auctions

Scale of Used Vehicle Auction Distribution Operations

Total Number of Listed Items

Rate of Sale and Number of Sold Items



“Value Up” Strategy

- Attracted high value listings, through targeting dealers, rental and lease companies and traders. Increased participation and sales ratio at auctions.
- Establish and monetize BPO services anchored by the “Value Up Center” (VUC) ※

※Value UP Center

Pre-auction processing centers, with 7 sites nationwide.

VUC’s provide vehicle storage and auction preparation BPO services from the time the vehicle is traded-in until it is listed at auction. Services include AIS inspections, minor repairs, vehicle cleaning, etc.

Automobile Business（Priority Initiatives）

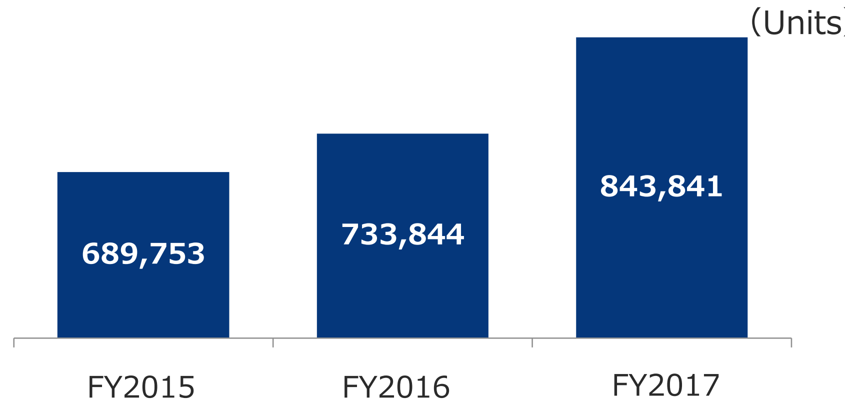
Shared inventory market

Increase transaction volumes

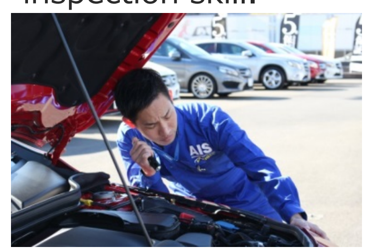
- Increase repeat business of large clients and introduce more competitive fees.
- Analyse transaction data to effectively target promotions to increase use of the service.

Used vehicle inspection service（AIS）

Increase Used vehicle inspection



- Increased inspections for key market players such as Certified Pre-Owned inspections for a large used vehicle sales platform, and inspections and BPO for large auto manufacturer-based used vehicle group.
- Expanding training business such as AIS used vehicle inspection skill.



Ⅲ.　Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

New Businesses

Digital Product Business（Overview）

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

Expansion of BPO Services from receipt to distribution

Used PCs etc. Auctions

Sellers

Send used PCs

Received at Aucnet’s center

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

Used PCs auction run by Aucnet every Friday.

Product delivered to buyers

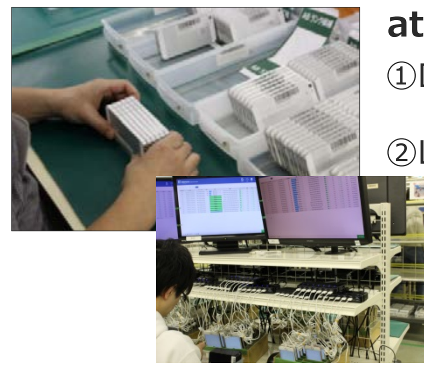
Mainly sold to domestic buyers.

Used smartphone distribution

Sellers

Send used smartphones

Products prepared for sale at Aucnet’s center



①Devises inspected, data erased and graded
②List for sale

blancco technology group

◆Data erasure software

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

Online distribution

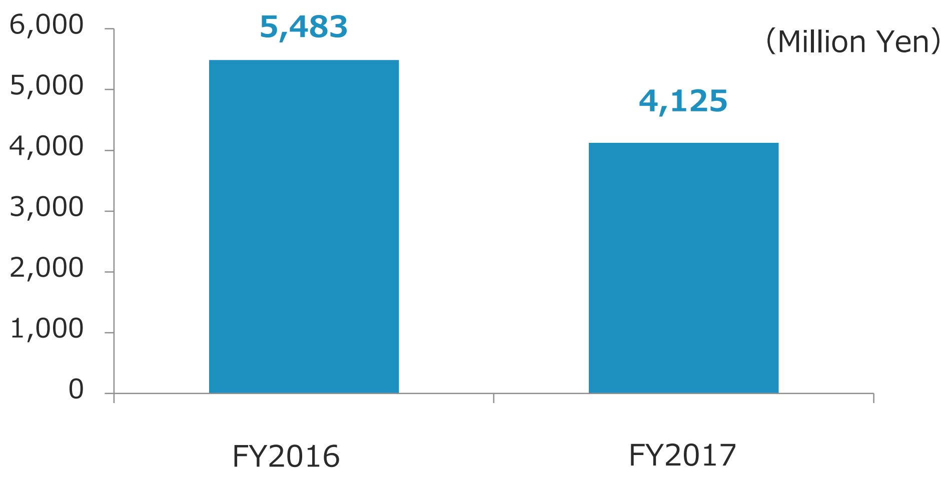
Product delivered to buyers

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

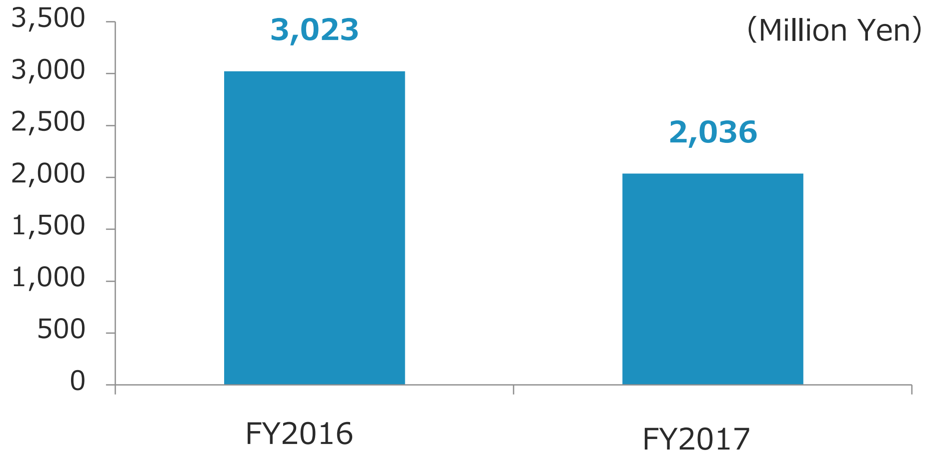
Digital Product Business（Segment Performance）

AUCNET

Net sales



Segment income



Year-on-year decrease in sales and income

Used smartphones distribution business

- Demand for newly released smartphones in the fourth quarter did not match expectations, due to the staggered release strategy of the manufacturer which differed from previous years. As a result, the volume of used smartphones was below forecast.
- In the fourth quarter, the market price dropped sharply due to the the supply of a large number of devices from the United States. As a result, the commission rate decreased more than expected.
- The number of used smartphones processed for the year increased overall, due to the increase in trade-in volume of major models, but the commission rate per unit declined.

Used PCs and other used digital equipment distribution business

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

Business	KPI	FY2017	Year-on-year
All of Digital Product Business	Total transaction amount	¥ 26.6 billion	116.5 %
	Total members	455	127.5 %
	Total sales units	1,707,195 units	95.3 %

Digital Product Business（Priority Initiatives）

AUCNET

Used smartphones

● Increase distribution volume

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

● Increase acquisition of new overseas buyers.

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

Used PCs etc.

● Strengthen distribution of used PCs and used digital equipment overseas

- Strengthen promotion of bidding by foreign buyers.

Ⅲ. Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

New Businesses

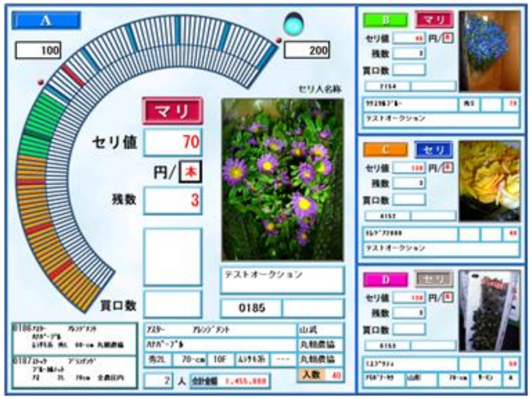
Other Information Distribution Business and Other Business（Overview）

Facilitating the distribution of various products through online auctions

Used luxury brand items

Used motorcycles

Flowers (cut and potted)



Other

Used medical equipment auction

Other Information Distribution Business (Segment Performance)

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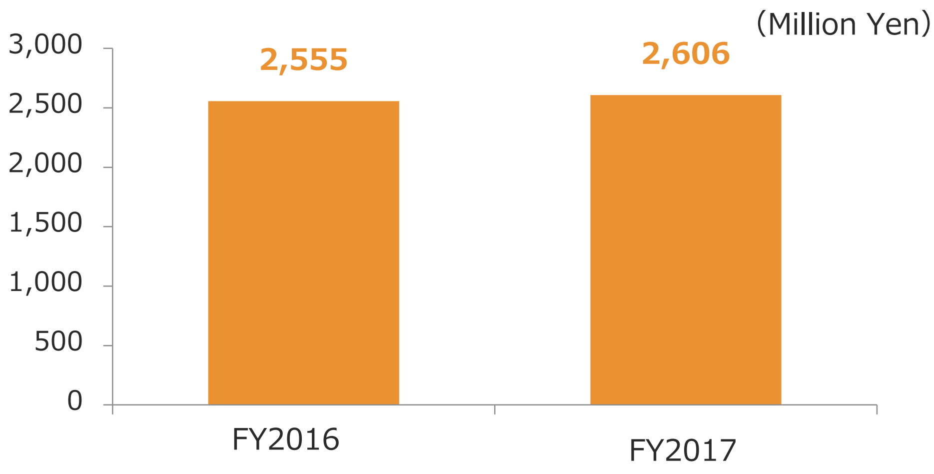
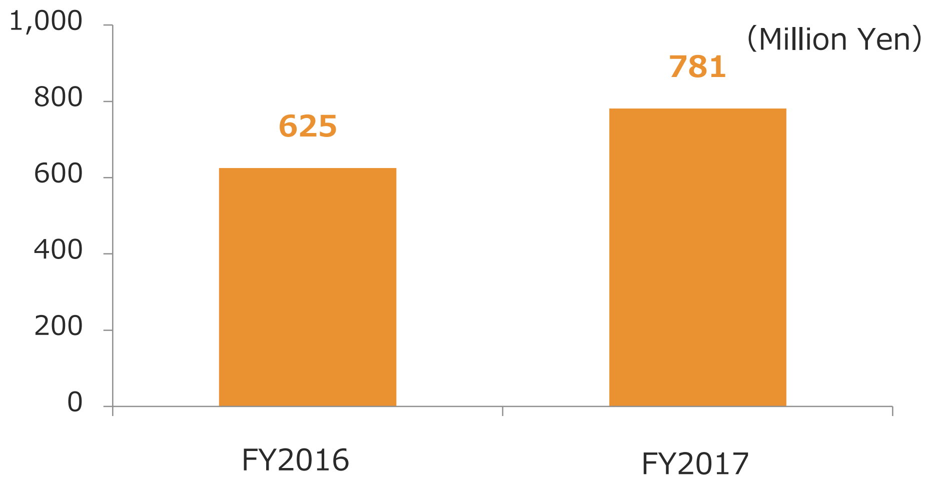
Net sales



Segment income



Year-on-year increase in sales and income

Used luxury brand items

- Transaction amount and total number of listed items increased by targeting franchise store traders to increase auction participation and by expanding the variety of merchandise at auctions.

Used motorcycles

- Intensified efforts to increase units listed by large members and those in regional cities, and increased the total number of units listed. But the rate of sale decreased slightly. However operating profit was maintained due to cost reductions.

Flowers (cut and potted)

- Total transaction amount declined as a result of a market price decline due to weather conditions and increased imports.

Business	KPI	FY2017	Year-on-year
Used Luxury brand items	Total transaction amount	8.9 billion	113.4 %
	Total number of listed items	374,089 units	109.5 %
	Rate of sale	76.9 %	0.8 point up
	Total members	1,545	107.6 %
Used motorcycles	Total number of listed items	63,912 units	100.9 %
	Rate of sale	48.1 %	2.1 point down
	Total members	4,532	103.7 %
	Total transaction amount	7.6 billion	97.4 %
Flowers (cut and potted)	Total transaction amount	6.4 billion	94.3 %
	Total members (buyers)	1,081	98.4 %
	Total members (growers)	3,033	103.8 %

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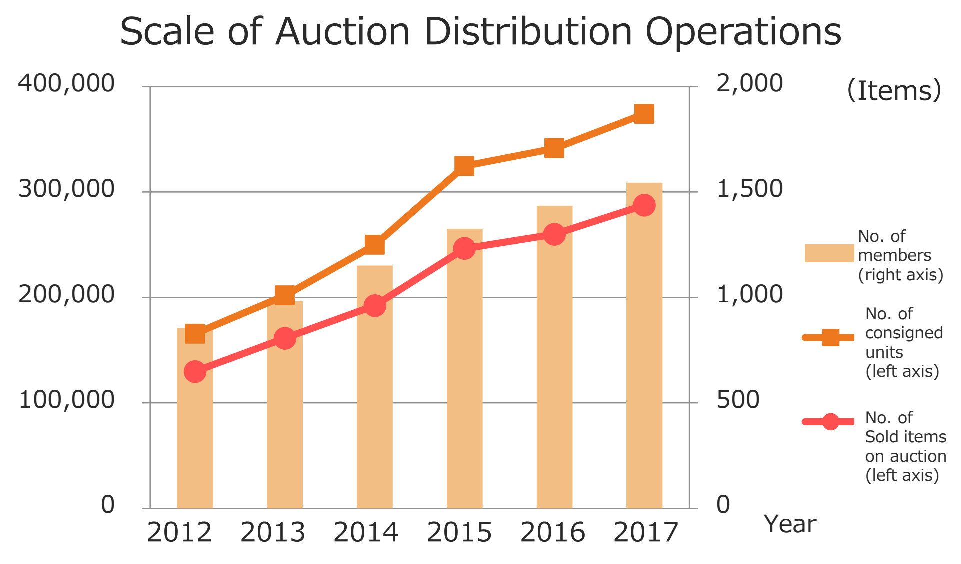
Used luxury brand items

Increase Distribution Volume in Domestic Market



- Increase membership base and nationwide market share by targeting franchise chains that buy used products.
- Transfer payment to successful sellers the day after auction, to facilitate highly liquid markets.
- Started a shared inventory market of used luxury brand items.

Expand Overseas Distribution

- Distributing used luxury brand items to more than 50 buyers in Hong Kong.

- Established a joint venture with a major corporation in Singapore. Further expand distribution of used luxury brand items in Southeast Asia, centered on Singapore.

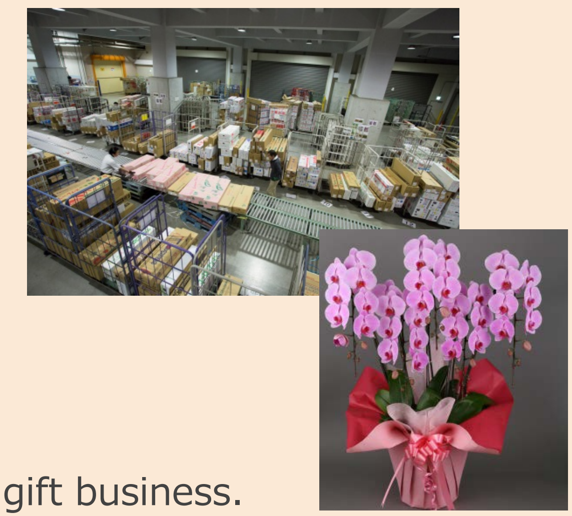
Other Information Distribution Business (Priority Initiatives)

Used motorcycles

● **Increase distribution volume with emphasis on the sales rate.**

- Focus on listing models that have a high sales rate
- Expansion of Depots (distribution centers) to major cities.

Flowers (cut and potted)



● **Increase distribution volume by enhancing the logistics service.**

- Expansion of the distribution network area and increase member acquisition
- Strengthen logistics services to suit each member's needs.
- Increase volume and improve profitability of potted flower gift business.

Ⅲ.　Segment Information

Automobile Business

Digital Product Business

Other Information Distribution Business

New Businesses

New Businesses（Priority Initiatives）

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Medical equipment distribution

- Expand distribution in domestic auctions.
- Distribution of automatic reception and payment terminals for medical clinics. (KIOSK)

Re-Marketing business

- Liquidation services for surplus inventories from e-commerce businesses.

Distribution of refurbished devices

- Distribution service for refurbished used smartphones, etc.

Connected vehicle fleet management

- Internet-based fleet management system.

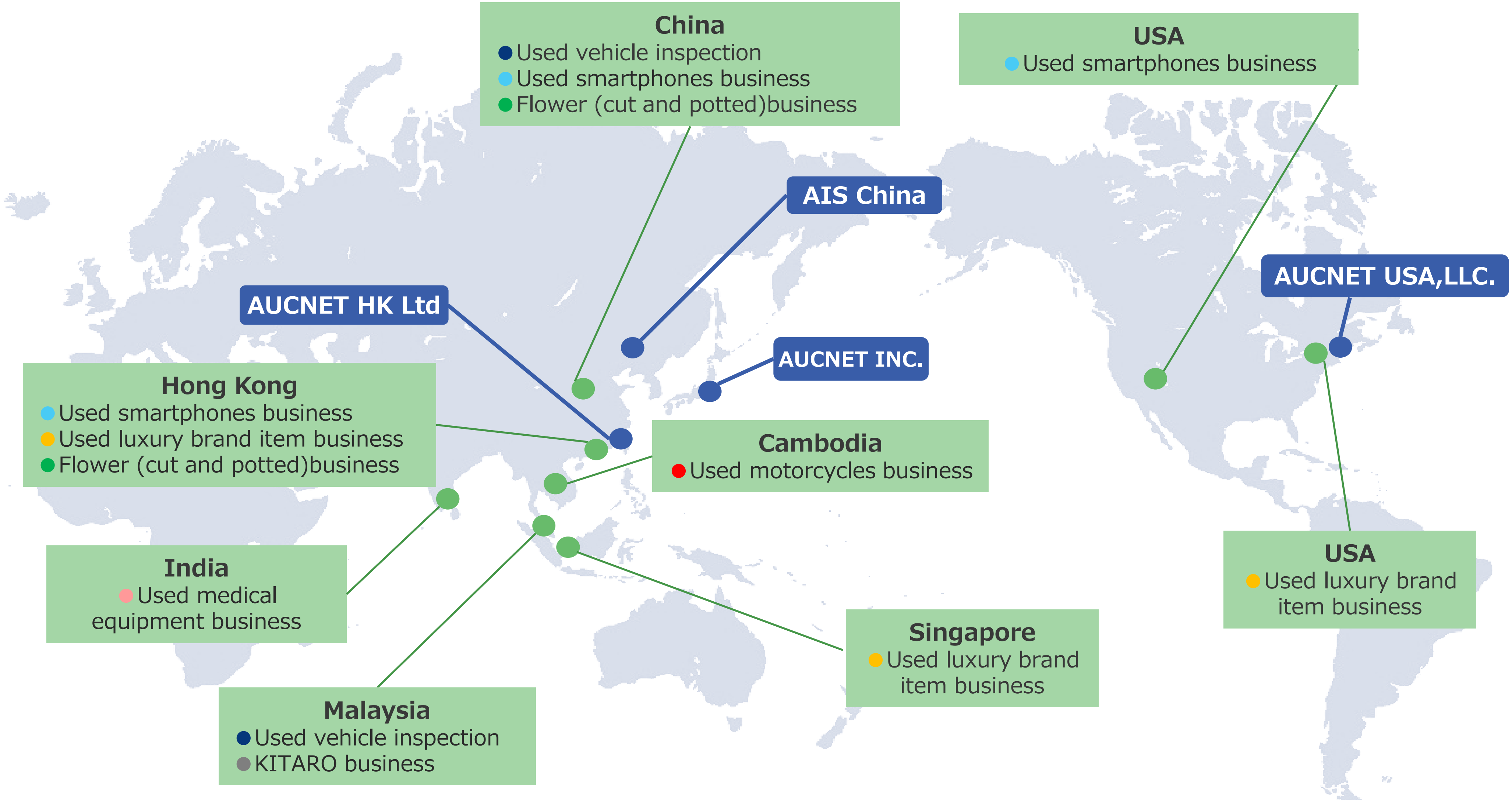
Real estate-related business

- Property information matching service for the hospitality industry.

Implement a Global Strategy

AUCNET

Expansion of new business , particularly in South East Asia



Growth Roadmap

AUCNET

INNOVATION

Launch fundamentally different approaches, products, services and businesses to address the issues and needs of new and existing customers.

New business fields

Existing business fields

Expand into new business fields

Distribution Business Areas

×

6 Business Solutions

①IT Auction Business Solutions
②Inspection and Evaluation Business
③Industry Network Business
④Financial Services Business
⑤BPO Support Business
⑥IT Platform Provision Business

Expand existing business fields and solutions overseas, focusing on Asia.

Japan | Overseas

Ⅳ. Forecast of Consolidated Results

Year ending December 31, 2018 Forecast of Consolidated Results

AUCNET

(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	–	**81.25 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 eco-system, with minimal impact on the environment. We continuously innovate to provide new services that are tailored to customer needs and exceed their expectations.

INNOVATION