

Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending December 31, 2017 [Japanese GAAP]



November 14, 2017

Company name: **AUCNET INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3964

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

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Scheduled date of filing quarterly report: November 14, 2017

Scheduled date of commencing dividend payments: —

Preparation of supplementary explanatory materials: None

Quarterly financial results meeting: None

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

1. Consolidated Results for the Third Quarter of the Fiscal Year Ending December 31, 2017

(January 1, 2017 - September 30, 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	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2017	14,680	1.1	2,610	(7.4)	2,668	(5.4)	1,449	3.0
September 30, 2016	14,517	—	2,819	—	2,821	—	1,407	—

(Note) Comprehensive income: Nine months ended September 30, 2017: ¥1,464 million [9.4%]

Nine months ended September 30, 2016: ¥1,338 million [—%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2017	55.64	54.39
September 30, 2016	58.52	—

- (Notes) 1. Regarding the results for the nine months ended September 30, 2015, since the Company did not compile quarterly financial statements, percentage changes for the nine months ended September 30, 2016 in comparison with the previous corresponding period have not been indicated above.
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,” the Company reports that there were potential shares in the third quarter of 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 third quarter of the fiscal year ending December 31, 2017 are based on the average share price during the cumulative period between the day of listing and September 30, 2017, the last day of the third quarter of the fiscal year ending December 31, 2017 (consolidated).

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2017	27,399	16,368	59.1
As of December 31, 2016	25,446	12,139	47.2

(Reference) Equity: As of September 30, 2017: ¥16,205 million

As of December 31, 2016: ¥12,006 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, 2016	—	0.00	—	0.00	0.00
Year ending December 31, 2017	—	13.00	—		
Year ending December 31, 2017 (Forecast)				13.00	26.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2017 (January 1, 2017 - December 31, 2017)

(% 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	21,346	6.8	4,044	0.1	4,114	(0.0)	2,309	5.8	87.52	

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

*** 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) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of issued and outstanding shares (common shares)
- 1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

September 30, 2017:	27,356,400 shares
December 31, 2016:	25,569,000 shares
 - 2) Total number of treasury shares at the end of the period:

September 30, 2017:	– shares
December 31, 2016:	1,500,000 shares
 - 3) Average number of shares during the period:

Nine months ended September 30, 2017:	26,056,553 shares
Nine months ended September 30, 2016:	24,051,482 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).

* These quarterly consolidated financial results are outside the scope of quarterly review

* Explanation of the proper use of performance forecast and other notes

The earnings forecast and other forward-looking statements herein are based on the information currently available and certain assumptions deemed reasonable by the Company, and the Company does not guarantee their achievement. In addition, actual results may differ significantly from these forecasts due to a wide range of factors. For cautionary notes on assumptions that form the basis of the performance forecast and the use of performance forecast, please see “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information” on page 4 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended September 30, 2017, the Japanese economy showed modest recovery, including continuing improvement in corporate earnings and in the employment and income picture. 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 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 demonstrating higher levels compared to the same period of the previous fiscal year, in the Digital Product Business, the Company was unable to secure the same distribution volumes for used smartphones and transaction commissions as the same period of the previous fiscal year. As a result, for the nine months ended September 30, 2017, net sales were ¥14,680,701 thousand (up 1.1% from the same period of the previous year), operating income was ¥2,610,040 thousand (down 7.4% from the same period of the previous year), ordinary income was ¥2,668,062 thousand (down 5.4% from the same period of the previous year), and profit attributable to owners of parent was ¥1,449,755 thousand (up 3.0% from the same period of the previous year).

Performance results by business segment are as follows.

1) Automobile Business

The Automobile Business comprises mainstay used vehicle TV auctions (*1), a shared inventory market (*2), live linked auction (*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 7.5% year-on-year to 4.06 million units in the nine months ended September 30, 2017. Total used-vehicle registrations (*7) rose 2.4% year-on-year to 5.28 million units and the number of vehicles exhibited (*8) at used-vehicle auctions around Japan rose 5.8% year-on-year to 5.76 million units. The total number of vehicles for which contracts (*8) were completed rose 6.3% year-on-year to 3.61 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 proxy bidding service, member convenience was enhanced via revisions to the search system. Meanwhile in vehicle inspection services, the number of vehicles inspected for physical auction sites and large used car information magazines increased. As a result, for the nine months ended September 30, 2017, net sales were ¥8,615,564 thousand (up 5.9% from the same period of the previous year), and operating income was ¥2,610,152 thousand (up 8.2% from the same period of the previous 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

2) 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 and distribution volumes and transactions of used smartphones trended well. However, replacement demand for new smartphones was below initial projections due to restrained spending on new devices in the third quarter stemming from expectations for a new smartphone which will be released in the fourth quarter. The main used smartphone devices distributed tended to be good quality, high-price units, meaning that transaction commission rates declined. As a result, for the nine months ended September 30, 2017, net sales were ¥3,162,100 thousand (down 13.6% from the same period of the previous year), and operating income was ¥1,667,588 thousand (down 16.1% from the same period of the previous year).

3) 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 for 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 transaction volume to increase. As a result, for the nine months ended September 30, 2017, net sales were ¥1,946,610 thousand (up 1.6% from the same period of the previous year), and operating income was ¥579,528 thousand (up 27.7% from the same period of the previous year).

4) 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.

For the nine months ended September 30, 2017, net sales were ¥1,487,468 thousand (up 6.4% from the same period of the previous year), and operating loss was ¥116,407 thousand (the same period of the previous year was ¥28,692 thousand of operating income).

(2) Explanation of Financial Position

Total assets as of the end of the third quarter of the fiscal year under review amounted to ¥27,399,262 thousand, an increase of ¥1,953,195 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥849,181 thousand increase in cash and deposits, a ¥1,228,863 thousand increase in due from auction members, a ¥198,978 thousand increase in property, plant and equipment, and a ¥55,057 thousand increase in investments and other assets, despite a ¥19,486 thousand decrease in accounts receivable - trade and a ¥514,035 thousand decrease in intangible assets.

Total liabilities amounted to ¥11,030,807 thousand, a decrease of ¥2,275,741 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥384,708 thousand decrease in due to auction members, a ¥1,400,000 thousand decrease in short-term loans payable and a ¥598,376 thousand decrease in income taxes

payable, despite a ¥89,517 thousand increase in accounts payable - trade, a ¥134,238 thousand increase in other provision, a ¥78,238 thousand increase in net defined benefit liability.

Total net assets amounted to ¥16,368,454 thousand, an increase of ¥4,228,937 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥1,518,405 thousand increase in capital stock, a ¥1,082,144 thousand increase in capital surplus, a ¥1,098,859 thousand increase in retained earnings and a ¥29,360 thousand increase in non-controlling interests, despite a ¥515,032 thousand decrease in treasury shares and a ¥11,708 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 March 29, 2017.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2016	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	13,333,868	14,183,049
Accounts receivable - trade	854,244	834,758
Due from auction members	3,355,597	4,584,460
Other	1,491,868	1,650,193
Allowance for doubtful accounts	(40,848)	(44,537)
Total current assets	18,994,729	21,207,924
Non-current assets		
Property, plant and equipment	1,336,736	1,535,715
Intangible assets		
Goodwill	1,442,330	721,165
Other	870,362	1,077,492
Total intangible assets	2,312,692	1,798,657
Investments and other assets	2,801,907	2,856,964
Total non-current assets	6,451,336	6,191,337
Total assets	25,446,066	27,399,262
Liabilities		
Current liabilities		
Accounts payable - trade	474,965	564,483
Due to auction members	6,487,612	6,102,904
Short-term loans payable	1,400,000	-
Income taxes payable	988,974	390,597
Other provision	222,132	356,370
Other	1,304,793	1,198,220
Total current liabilities	10,878,478	8,612,576
Non-current liabilities		
Net defined benefit liability	1,498,192	1,576,430
Other	929,878	841,800
Total non-current liabilities	2,428,071	2,418,231
Total liabilities	13,306,549	11,030,807
Net assets		
Shareholders' equity		
Capital stock	138,788	1,657,194
Capital surplus	5,665,384	6,747,529
Retained earnings	6,397,559	7,496,418
Treasury shares	(515,032)	-
Total shareholders' equity	11,686,700	15,901,141
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	318,595	310,859
Foreign currency translation adjustment	31,549	19,841
Remeasurements of defined benefit plans	(30,596)	(26,016)
Total accumulated other comprehensive income	319,548	304,684
Non-controlling interests	133,267	162,627
Total net assets	12,139,516	16,368,454
Total liabilities and net assets	25,446,066	27,399,262

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended September 30, 2016 and 2017

(Thousand yen)

	For the nine months ended September 30, 2016	For the nine months ended September 30, 2017
Net sales	14,517,766	14,680,701
Cost of sales	5,117,157	5,341,120
Gross profit	9,400,609	9,339,581
Selling, general and administrative expenses	6,581,053	6,729,541
Operating income	2,819,555	2,610,040
Non-operating income		
Interest income	7,142	5,807
Dividend income	24,204	35,549
Share of profit of entities accounted for using equity method	34,438	47,997
Other	78,307	29,729
Total non-operating income	144,093	119,084
Non-operating expenses		
Interest expenses	32,979	3,322
Foreign exchange losses	108,858	25,573
Provision of allowance for doubtful accounts	—	30,364
Other	742	1,801
Total non-operating expenses	142,580	61,062
Ordinary income	2,821,068	2,668,062
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	375	95,503
Gain on sales of investment securities	—	86,240
Other	22	—
Total extraordinary income	397	181,743
Extraordinary losses		
Provision of allowance for doubtful accounts	—	108,799
Loss on valuation of shares of subsidiaries and associates	94,717	33,019
Other	10,390	21,787
Total extraordinary losses	105,108	163,606
Profit before income taxes	2,716,357	2,686,199
Income taxes	1,298,275	1,207,084
Profit	1,418,081	1,479,115
Profit attributable to non-controlling interests	10,487	29,360
Profit attributable to owners of parent	1,407,594	1,449,755

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended September 30, 2016 and 2017

(Thousand yen)

	For the nine months ended September 30, 2016	For the nine months ended September 30, 2017
Profit	1,418,081	1,479,115
Other comprehensive income		
Valuation difference on available-for-sale securities	(63,497)	(7,735)
Foreign currency translation adjustment	(16,346)	(11,708)
Remeasurements of defined benefit plans, net of tax	—	4,580
Total other comprehensive income	(79,844)	(14,864)
Comprehensive income	1,338,237	1,464,251
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,327,750	1,434,890
Comprehensive income attributable to non-controlling interests	10,487	29,360

(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)

The Company increased capital through a public offering of 700,000 shares with March 28, 2017 as payment date, and disposal of 1,500,000 shares of treasury shares, and capital stock increased by ¥716,100 thousand, capital surplus increased by ¥1,019,467 thousand, and treasury shares decreased by ¥515,032 thousand. In addition, the Company issued 723,000 new shares by a paid-in capital increase through third-party allotment (capital increase through third-party allotment connected with a secondary offering by way of over-allotment) with payment date of April 25, 2017, and capital stock increased ¥739,629 thousand. In addition, the Company issued new shares by the exercise of stock acquisition rights, and capital stock and capital surplus each increased by ¥62,676 thousand.

As a result, as of September 30, 2017, capital stock amounted to ¥1,657,194 thousand, capital surplus amounted to ¥6,747,529 thousand, and treasury shares amounted to ¥— thousand.

(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 third quarter of the fiscal year under review, it has been excluded from the scope of consolidation.

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

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after application of tax-effect accounting to income before income taxes for the fiscal year (consolidated) including the third 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 nine months ended September 30, 2016 (from January 1, 2016 to September 30, 2016)

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

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	8,002,808	3,659,489	1,915,172	13,577,470	940,295	14,517,766	–	14,517,766
Inter-segment net sales or transfers	134,850	–	–	134,850	458,319	593,169	(593,169)	–
Total	8,137,658	3,659,489	1,915,172	13,712,320	1,398,615	15,110,936	(593,169)	14,517,766
Segment income	2,413,097	1,988,494	453,850	4,855,441	28,692	4,884,134	(2,064,578)	2,819,555

(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, used medical equipment auctions and overseas businesses.

2. Adjustment of segment income of negative ¥2,064,578 thousand includes goodwill amortization of negative ¥721,165 thousand, and corporate expenses of negative ¥1,343,413 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 with operating income reported on the quarterly consolidated statements of income.

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

Not applicable.

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

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

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	8,480,999	3,162,100	1,946,610	13,589,710	1,090,991	14,680,701	–	14,680,701
Inter-segment net sales or transfers	134,564	–	–	134,564	396,476	531,041	(531,041)	–
Total	8,615,564	3,162,100	1,946,610	13,724,274	1,487,468	15,211,742	(531,041)	14,680,701
Segment income (loss)	2,610,152	1,667,588	579,528	4,857,269	(116,407)	4,740,861	(2,130,821)	2,610,040

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

2. Adjustment of segment income (loss) of negative ¥2,130,821 thousand includes goodwill amortization of negative ¥721,165 thousand, and corporate expenses of negative ¥1,409,656 thousand not allocated to specific reportable segments. Corporate expenses chiefly comprise general and administrative expenses not allocated to specific reportable segments.

3. Adjustments are made to reconcile segment income (loss) with operating income reported on the quarterly consolidated statements of income.

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

Not applicable.