

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



May 15, 2017

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: +81-3-6440-2552

Scheduled date of filing quarterly report: May 15, 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 First Quarter of the Fiscal Year Ending December 31, 2017 (January 1, 2017 - March 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	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2017	5,182	(3.8)	1,111	(14.8)	1,097	(17.9)	614	(19.9)
March 31, 2016	5,384	—	1,303	—	1,337	—	767	—

(Note) Comprehensive income: Three months ended March 31, 2017: ¥641 million [-10.7%]

Three months ended March 31, 2016: ¥718 million [-%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2017	25.44	24.58
March 31, 2016	31.96	—

- (Note) 1. Regarding the results for the three months ended March 31, 2016, the Company did not compile quarterly financial statements under the Financial Instruments and Exchange Act of Japan, but figures for the results as of the end of the said quarter, along with percentage changes in comparison with the results for the three months ended March 31, 2017, have been indicated above for reference purposes.
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 first 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 first 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 March 31, 2017, the last day of the first 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 March 31, 2017	27,364	15,031	54.4
As of December 31, 2016	25,446	12,139	47.2

(Reference) Equity: As of March 31, 2017: ¥14,882 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	—				
Year ending December 31, 2017 (Forecast)		13.00	—	13.00	26.00

(Note) Revision to the forecast for dividends announced most recently: Yes

## 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.)

(% indicates changes from the previous corresponding period.)									
	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	21,346	6.8	4,044	0.1	4,114	(0.0)	2,309	5.8	87.98

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

Based on Board of Directors meetings held on February 23, 2017 and March 9, 2017, the Company calculates basic earnings per share in the consolidated earnings forecasts based on the average number of shares during the period with adjustments in light of the issuance of 723,000 new shares by a capital increase through third-party allotment connected with a secondary offering by way of over-allotment with payment date of April 25, 2017.

**\* 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, 2017: 26,269,000 shares  
December 31, 2016: 25,569,000 shares  
  
2) Total number of treasury shares at the end of the period:  
March 31, 2017: – shares  
December 31, 2016: 1,500,000 shares  
  
3) Average number of shares during the period:  
Three months ended March 31, 2017: 24,166,778 shares  
Three months ended March 31, 2016: 24,016,253 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 3 of the attachments.

## Table of Contents - Attachments

1. Qualitative Information on Quarterly Financial Results .....	2
(1) Explanation of Operating Results .....	2
(2) Explanation of Financial Position .....	3
(3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information .....	3
2. Quarterly Consolidated Financial Statements and Primary Notes .....	4
(1) Quarterly Consolidated Balance Sheets .....	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income .....	5
(3) Notes to Quarterly Consolidated Financial Statements .....	7
(Notes on going concern assumption) .....	7
(Notes in case of significant changes in amount of shareholders' equity) .....	7
(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements) .....	7
(Segment information, etc.) .....	8
(Significant subsequent events) .....	9

## 1. Qualitative Information on Quarterly Financial Results

### (1) Explanation of Operating Results

During the three months ended March 31, 2017, the Japanese economy showed modest recovery amid continuing improvement in corporate earnings and in the employment and income picture, with support by effective government policies. However, economic prospects overseas remained unclear, due to concerns of a loss of momentum in the emerging economies of Asia, and uncertainties surrounding the policies of the new US administration.

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. For the three months ended March 31, 2017, net sales were ¥5,182,065 thousand (down 3.8% from the same period of the previous year), operating income was ¥1,111,057 thousand (down 14.8% from the same period of the previous year), ordinary income was ¥1,097,843 thousand (down 17.9% from the same period of the previous year), and profit attributable to owners of parent was ¥614,911 thousand (down 19.9% from the same period of the previous year).

Performance results by business segment are as follows.

#### 1) Automobile Business

The Automobile Business comprises mainstay network-based used vehicle auction service (TV auto auctions, TVAA) organized by the Company, the proxy bidding service to purchase vehicles from physical auction sites via the Internet, live linked auction that enable to real-time access to the physical auction sites, and used vehicle inspection service and related inspection skills training services.

In the automotive sector, which has close connections with our business, the total of new-vehicle registrations (\*1) rose 7.3% year-on-year to 1.57 million units in the three months ended March 31, 2017. The total number of used-vehicle registrations (\*2) rose 1.2% year-on-year to 2.00 million units and the number of vehicles exhibited (\*3) at used-vehicle auctions around Japan rose 1.5% year-on-year to 1.98 million units. The total of vehicles for which contracts (\*3) were completed rose 2.9% year-on-year to 1.25 million units. In each category, results were up year-on-year. In addition to this pickup in market trends, we are stepping up marketing focused on intake of high-year (recent model) and low-mileage vehicles and on expanding auction sales. For the three months ended March 31, 2017, net sales were ¥2,946,149 thousand (up 7.2% from the same period of the previous year), and operating income was ¥919,146 thousand (up 6.8% from the same period of the previous year).

(\*1) Based on statistics compiled by Japan Automobile Dealers Association

(\*2) Based on statistics compiled by Japan Automobile Dealers Association and Japan Light Motor Vehicle and Motorcycle Association

(\*3) Based on U-Car Full Data Book

#### 2) Digital Product Business

The Digital Product Business comprises auctions of used digital equipment including used smart phones and used PCs. Although transactions stabilized with measures to bring in more overseas buyers, for the three months ended March 31, 2017, net sales were ¥1,295,040 thousand (down 12.7% from the same period of the previous year), and operating income was ¥748,182 thousand (down 18.1% from the same period of the previous year). This was due to a return to regular replacement demand levels in the quarter, compared with distribution volumes for used smart phones traded in for new smart phones in the same period of the previous fiscal year.

#### 3) Other Information Distribution Business

The Other Information Distribution Business comprises used motorcycles, flowers (cut and potted), and

used luxury brand items. We took measures to expand unit sales of used motorcycles by encouraging implementation of retail support services. For flowers (cut and potted), we took measures to strengthen distribution services to match the needs of member customers. We took measures to expand retail volumes for used luxury brand items through marketing policies designed to attract overseas buyers and increase the number of exhibited items. As a result, for the three months ended March 31, 2017, net sales were ¥640,833 thousand (down 1.2% from the same period of the previous year), and operating income was ¥229,233 thousand (up 28.5% from the same period of the previous year).

#### 4) Other Business

Other Business comprises online sales of automotive accessories, system development and provision, satellite communications, used medical equipment auctions and overseas businesses. For the three months ended March 31, 2017, net sales were ¥490,834 thousand (down 15.7% from the same period of the previous year), and operating loss was ¥8,755 thousand (the same period of the previous year was ¥67,196 thousand of operating income).

### (2) Explanation of Financial Position

Total assets as of the end of the first quarter of the fiscal year under review amounted to ¥27,364,368 thousand, an increase of ¥1,918,301 thousand from the end of the previous fiscal year. This is mainly attributable to the ¥28,478 thousand decrease in property, plant and equipment and the ¥149,423 thousand decrease in intangible assets, despite the ¥94,830 thousand increase in cash and deposits, the ¥270,605 thousand increase in accounts receivable - trade, the ¥1,557,494 thousand increase in due from auction members, and the ¥45,326 thousand increase in investments and other assets.

Total liabilities amounted to ¥12,332,507 thousand, a decrease of ¥974,042 thousand from the end of the previous fiscal year. This is mainly attributable to the ¥584,635 thousand decrease in due to auction members and the ¥533,093 thousand decrease in income taxes payable, despite the ¥13,914 thousand increase in accounts payable - trade, the ¥103,841 thousand increase in other provision, and the ¥20,618 thousand increase in net defined benefit liability.

Total net assets amounted to ¥15,031,861 thousand, an increase of ¥2,892,344 thousand from the end of the previous fiscal year. This is mainly attributable to the ¥515,032 thousand decrease in treasury shares, the ¥1,526 thousand decrease in remeasurements of defined benefit plans, and the ¥9,202 thousand decrease in foreign currency translation adjustment, despite the reporting of profit attributable to owners of parent of ¥614,911 thousand, the ¥716,100 thousand increase in capital stock, the ¥1,019,467 thousand increase in capital surplus, the ¥18,808 thousand increase in valuation difference on available-for-sale securities, and the ¥15,700 thousand increase in non-controlling interests.

### (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 March 31, 2017
<b>Assets</b>		
Current assets		
Cash and deposits	13,333,868	13,428,699
Accounts receivable - trade	854,244	1,124,849
Due from auction members	3,355,597	4,913,091
Other	1,491,868	1,619,906
Allowance for doubtful accounts	(40,848)	(40,940)
Total current assets	18,994,729	21,045,607
Non-current assets		
Property, plant and equipment	1,336,736	1,308,258
Intangible assets		
Goodwill	1,442,330	1,201,941
Other	870,362	961,327
Total intangible assets	2,312,692	2,163,269
Investments and other assets	2,801,907	2,847,233
Total non-current assets	6,451,336	6,318,760
Total assets	25,446,066	27,364,368
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	474,965	488,879
Due to auction members	6,487,612	5,902,977
Short-term loans payable	1,400,000	1,400,000
Income taxes payable	988,974	455,881
Other provision	222,132	325,973
Other	1,304,793	1,430,856
Total current liabilities	10,878,478	10,004,567
Non-current liabilities		
Net defined benefit liability	1,498,192	1,518,811
Other	929,878	809,128
Total non-current liabilities	2,428,071	2,327,939
Total liabilities	13,306,549	12,332,507
<b>Net assets</b>		
Shareholders' equity		
Capital stock	138,788	854,888
Capital surplus	5,665,384	6,684,852
Retained earnings	6,397,559	7,012,470
Treasury shares	(515,032)	-
Total shareholders' equity	11,686,700	14,552,211
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	318,595	337,404
Foreign currency translation adjustment	31,549	22,346
Remeasurements of defined benefit plans	(30,596)	(29,069)
Total accumulated other comprehensive income	319,548	330,681
Non-controlling interests	133,267	148,967
Total net assets	12,139,516	15,031,861
Total liabilities and net assets	25,446,066	27,364,368

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended March 31, 2016 and 2017

(Thousand yen)

	For the three months ended March 31, 2016	For the three months ended March 31, 2017
Net sales	5,384,899	5,182,065
Cost of sales	1,868,383	1,791,795
Gross profit	3,516,516	3,390,270
Selling, general and administrative expenses	2,212,747	2,279,212
Operating income	1,303,769	1,111,057
Non-operating income		
Interest income	5,968	2,025
Dividend income	2,340	5,940
Share of profit of entities accounted for using equity method	2,250	23,765
Reversal of allowance for doubtful accounts	60,270	—
Other	3,651	3,352
Total non-operating income	74,480	35,083
Non-operating expenses		
Interest expenses	15,205	1,644
Foreign exchange losses	25,410	44,950
Other	251	1,702
Total non-operating expenses	40,866	48,298
Ordinary income	1,337,382	1,097,843
Extraordinary income		
Gain on sales of non-current assets	22	—
Total extraordinary income	22	—
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	—	2,202
Loss on sales and retirement of non-current assets	5,715	—
Total extraordinary losses	5,715	2,202
Profit before income taxes	1,331,689	1,095,640
Income taxes	560,632	465,028
Profit	771,056	630,611
Profit attributable to non-controlling interests	3,463	15,700
Profit attributable to owners of parent	767,593	614,911



Quarterly Consolidated Statements of Comprehensive Income  
Three Months Ended March 31, 2016 and 2017

(Thousand yen)

	For the three months ended March 31, 2016	For the three months ended March 31, 2017
Profit	771,056	630,611
Other comprehensive income		
Valuation difference on available-for-sale securities	(49,330)	18,808
Foreign currency translation adjustment	(3,237)	(9,202)
Remeasurements of defined benefit plans, net of tax	—	1,526
Total other comprehensive income	(52,567)	11,132
Comprehensive income	718,489	641,744
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	715,026	626,044
Comprehensive income attributable to non-controlling interests	3,463	15,700

(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)

Issuance of shares for offering and disposal of treasury shares

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. As a result, during the three months ended March 31, 2017, capital stock increased by ¥716,100 thousand, capital surplus increased by ¥1,019,467 thousand, and treasury shares decreased by ¥515,032 thousand. As of March 31, 2017, capital stock amounted to ¥854,888 thousand, capital surplus amounted to ¥6,684,852 thousand, and treasury shares amounted to ¥— thousand.

(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, 2016 (from January 1, 2016 to March 31, 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	2,747,966	1,484,191	648,925	4,881,084	503,815	5,384,899	–	5,384,899
Inter-segment net sales or transfers	480	–	–	480	78,234	78,714	(78,714)	–
Total	2,748,446	1,484,191	648,925	4,881,564	582,049	5,463,613	(78,714)	5,384,899
Segment income (loss)	860,227	912,984	178,431	1,951,644	67,196	2,018,840	(715,071)	1,303,769

(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, satellite communications and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥715,071 thousand includes goodwill amortization of negative ¥240,388 thousand, and corporate expenses of negative ¥474,682 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, 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	2,905,997	1,295,040	640,833	4,841,871	340,194	5,182,065	–	5,182,065
Inter-segment net sales or transfers	40,152	–	–	40,152	150,640	190,792	(190,792)	–
Total	2,946,149	1,295,040	640,833	4,882,023	490,834	5,372,858	(190,792)	5,182,065
Segment income (loss)	919,146	748,182	229,233	1,896,561	(8,755)	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 online sales of automotive accessories, system development and provision, satellite communications

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.

#### (Significant subsequent events)

##### Issuance of new shares through third-party allocation

In line with the listing of the Company, it was resolved at Board of Directors meetings held on February 23, 2017 and March 9, 2017, in connection with the secondary offering by way of over-allotment, to issue new shares through third party placement to NAMAI ASSET MANAGEMENT INC, the main shareholder in the Company as detailed below, in order to acquire the shares needed to return common shares of the Company borrowed by Nomura Securities Co., Ltd. from NAMAI ASSET MANAGEMENT INC, and payment was completed on April 25, 2017.

(1) Total of shares for issue	Common stock	723,000 shares
(2) Issue price		¥1,100 per share
(3) Subscription price		¥1,023 per share
(4) Capital increase		¥1,023 per share
(5) Total subscription price		¥739,629 thousand
(6) Total capital increase		¥739,629 thousand
(7) Payment date		April 25, 2017
(8) Use of additional capital		The additional capital is to be used primarily for covering the costs of Company-wide IT system integration and an accounting system software upgrade, as well as for repayment of loans from financial institutions.