

# Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending December 31, 2020 [Japanese GAAP]



November 10, 2020

Company name: **AUCNET INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3964

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

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Scheduled date of filing quarterly report: November 10, 2020

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, 2020 (January 1, 2020 – September 30, 2020)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2020	15,763	6.5	2,760	50.7	2,746	47.0	1,619	69.0
September 30, 2019	14,803	2.7	1,831	(27.4)	1,867	(28.7)	958	(33.6)

(Note) Comprehensive income: Nine months ended September 30, 2020: ¥1,587 million [42.6%]

Nine months ended September 30, 2019: ¥1,112 million [-19.0%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2020	58.58	58.06
September 30, 2019	34.79	34.46

## (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2020	35,137	19,341	54.2
As of December 31, 2019	29,324	18,333	61.6

(Reference) Equity: As of September 30, 2020: ¥19,042 million

As of December 31, 2019: ¥18,063 million

## 2. Cash Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Year ended December 31, 2019	Yen —	Yen 13.00	Yen —	Yen 13.00	Yen 26.00
Year ending December 31, 2020	—	10.00	—		
Year ending December 31, 2020 (Forecast)				10.00	20.00

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

## 3. Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2020 (January 1, 2020 - December 31, 2020)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	23,682	20.4	3,480	37.8	3,457	31.4	1,763	25.6	63.77

(Note) Revision to the forecast of consolidated results announced most recently: Yes

**\* Notes:**

- (1) Changes in significant subsidiaries during the period under review: None
- (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, 2020:	27,825,900 shares
December 31, 2019:	27,769,300 shares
  - 2) Total number of treasury shares at the end of the period:

September 30, 2020:	147,316 shares
December 31, 2019:	147,316 shares
  - 3) Average number of shares during the period:

Nine months ended September 30, 2020:	27,653,327 shares
Nine months ended September 30, 2019:	27,545,177 shares

\* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

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

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

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## 1. Qualitative Information on Quarterly Financial Results

### (1) Explanation of Operating Results

Forward-looking statements in this document are based on the judgments of the Group (the Company and its consolidated subsidiaries) as of the end of the third quarter of the fiscal year under review.

During the nine months ended September 30, 2020, while the Japanese economy continued to be buffeted by the impact of the novel coronavirus (COVID-19), there were visible signs of a gradual recovery owing to the resumption of social economic activities and the effects of an array of government policies. Nonetheless, it will be necessary to continue keeping an eye on novel coronavirus (COVID-19) trends, both inside and outside of Japan, as well as their impact on the financial capital markets, and the outlook remains uncertain.

In these circumstances, in line with our brand statement, “Shaping the Future of Commerce,” the Company has strived to further improve its social and economic value, by (1) creating next-generation information distribution and new services, (2) thoroughly upgrading services to outperform competitors, and (3) establishment and development overseas business models.

As a result, for the nine months ended September 30, 2020, net sales were ¥15,763,930 thousand (up 6.5% from the same period of the previous fiscal year), operating profit was ¥2,760,193 thousand (up 50.7% from the same period of the previous fiscal year), ordinary profit was ¥2,746,528 thousand (up 47.0% from the same period of the previous fiscal year), and profit attributable to owners of parent was ¥1,619,870 thousand (up 69.0% from the same period of the previous fiscal year).

Performance results by business segment are as follows.

#### 1) Automobile Business

The Automobile Business comprises the Company’s mainstay used vehicle auctions (\*1), shared inventory market (\*2), live-linked auctions (\*3), proxy bidding service (\*4), used vehicle inspection service (\*5), and other services.

In the Japanese automotive sector, which has close connections with our business, total new-vehicle registrations (\*6) decreased 19.8% year-on-year to 2.20 million units in the nine months ended September 30, 2020. The total number of used-vehicle registrations (\*7) fell 4.8% year-on-year to 3.46 million units, and the number of vehicles listed (\*8) at auction around Japan declined 7.8% year-on-year to 3.67 million units. The total number of vehicles sold at auction (\*8) decreased 13.0% year-on-year to 2.20 million units.

As harsh conditions persisted due to the impact of the novel coronavirus (COVID-19), in the Company’s used vehicle auctions, there was a year-on-year decline in the number of vehicles listed due to factors including a significant decline in distribution. Nonetheless, as market trends gradually recovered, the situation improved compared to the first half of the fiscal year. In the shared inventory market, in addition to market trends, due to factors including a lack of supply in used vehicle auctions, the number of transactions increased, and the number of vehicles sold at auction grew rapidly. For our live-linked auctions and proxy bidding service, despite a declining trend in the use of exporters due to the partial restriction of exports because of the spread of the novel coronavirus (COVID-19) infection, the number of vehicles bought and our sales share remained at the same level as in the previous fiscal year, due to an increasing need for remote participation. Meanwhile, our used vehicle inspection service declined year-on-year due to a falling number of inspections on commission owing to the impact of slack sales for both new and used vehicles.

As a result, for the nine months ended September 30, 2020, net sales (including inter-segment net sales) were ¥8,703,172 thousand (down 6.2% from the same period of the previous year), and operating profit was ¥2,624,994 thousand (down 9.9% from the same period of the previous year).

- (\*1) Used vehicle auctions are real-time, members-only online auctions run by the Company.
- (\*2) The shared inventory market is a system that allows Aucnet Group member sellers to share inventory with each other online. The inventory remains at the seller's premises while other members access it via the online system.
- (\*3) Live-linked auctions use an online live-link system that enables real-time remote access to participate at physical auction sites, through partnerships between AUCNET and the physical auction sites.
- (\*4) Proxy bidding service is an agency service provided by i-Auc, Inc. to buy, sell, settle payment for and arrange for transportation of used vehicles at auctions on behalf of its members.
- (\*5) Used vehicle inspection service and related inspection skills training services are provided by AIS INC.
- (\*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 and Export Quotation Book

## 2) Digital Product Business

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

In Japan, revenue and profit increased significantly year-on-year owing to robust trade-ins and sales of smartphones and PCs. The smartphone market was robust, auction participation was more active and unit sales prices rose in line with the expansion of the overseas buyer network, and we worked aggressively to cut selling, general and administrative expenses and raise operational efficiency. As a result, we were able to substantially improve performance. Moreover, in the PC related business, backed by the prevalence of telework, the used items distribution market was robust, which contributed to our performance. On the other hand, for business in the United States, the business resumed from the state of suspension of economic activities under stay-at-home orders issued for the prevention of the novel coronavirus (COVID-19), and the number of items handled gradually began to increase.

As a result, for the nine months ended September 30, 2020, net sales were ¥4,283,272 thousand (up 56.6% from the same period of the previous year), and operating profit was ¥1,806,484 thousand (up 301.5% from the same period of the previous year).

## 3) Other Information Distribution Business

The Other Information Distribution Business comprises auctions for pre-owned luxury brand items, used motorcycles, and flowers (cut and potted), and services pertaining to distribution.

For pre-owned luxury brand items, while physical auction sites in Japan continued to be closed, we fully utilized the advantage of online auctions by continuing to implement initiatives such as measures to promote auction participation through follow-up services for members, and the expansion of new memberships inside and outside of Japan. This led to more active usage of auctions, and the transaction amount and the number of items sold had significant year-on-year increases. In addition, the amount of overseas successful bids greatly rose from the same period of the previous fiscal year owing to favorable conditions mainly in the United States and Europe. Regarding used motorcycles, although the new vehicles market trended towards recovery, we struggled to acquire a sufficient number of vehicles listed, as the lack of used vehicles continued. Nonetheless, we managed to maintain a high rate of sales, and achieved a level of profit on par with the previous fiscal year. For flowers (cut and potted), the trend continued to refrain from events due to the impact of the novel coronavirus (COVID-19), and the number of items for listing was decreased. However, as the number of users purchasing remotely increased, the number of members had a substantial year-on-year increase, and auctions were active again. In addition, we conducted the purchase and acquisition of Kinuta Flower Auction CO.LTD.

As a result, for the nine months ended September 30, 2020, net sales were ¥2,200,003 thousand (up 7.6% from the same period of the previous year), and operating profit was ¥544,826 thousand (up 5.5% from the same period of the previous year).

#### 4) Other Business

Other Business comprises system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses. For the nine months ended September 30, 2020, net sales (including inter-segment net sales) were ¥1,058,832 thousand (down 18.6% from the same period of the previous year), and operating loss was ¥378,134 thousand (the operating loss for the same period of the previous year was ¥228,620 thousand).

### (2) Explanation of Financial Position

Total assets as of the end of the third quarter of the fiscal year under review amounted to ¥35,137,188 thousand, an increase of ¥5,812,539 thousand from the end of the previous fiscal year. This is mainly attributable to respective increases of ¥1,247,271 thousand in cash and deposits, ¥314,831 thousand in notes and accounts receivable – trade, ¥1,242,090 thousand in due from auction members, ¥1,013,620 thousand in inventories, ¥168,726 thousand in property, plant and equipment, ¥692,983 thousand in intangible assets, and ¥27,619 thousand in investments and other assets.

Total liabilities amounted to ¥15,795,410 thousand, an increase of ¥4,804,315 thousand from the end of the previous fiscal year. This is mainly attributable to respective increases of ¥154,535 thousand in accounts payable – trade, ¥1,680,638 thousand in due to auction members, ¥1,470,000 thousand in short-term borrowings, ¥363,247 thousand in current portion of long-term borrowings, ¥85,520 thousand in income taxes payable, ¥31,422 thousand in provision for share-based remuneration, and ¥99,656 thousand in retirement benefit liability.

Total net assets amounted to ¥19,341,778 thousand, an increase of ¥1,008,223 thousand from the end of the previous fiscal year. This is mainly attributable to respective increases of ¥29,979 thousand in share capital, ¥26,821 thousand in capital surplus, ¥980,647 thousand in retained earnings, and ¥29,296 thousand in non-controlling interests, despite respective decreases of ¥40,330 thousand in valuation difference on available-for-sale securities, ¥10,599 thousand in foreign currency translation adjustment, and ¥7,591 thousand in remeasurements of defined benefit plans.

### (3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information

Based on recent trends in the business performance, the Company has revised the full-year performance forecast for the fiscal year ending December 31, 2020, which was announced on February 14, 2020.

The performance forecast has been prepared based on information available at this time, and the actual performance may differ from the forecast due to a variety of factors.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2019	As of September 30, 2020
<b>Assets</b>		
Current assets		
Cash and deposits	14,701,608	15,948,880
Notes and accounts receivable - trade	849,107	1,163,938
Inventories	309,770	1,323,391
Due from auction members	3,589,476	4,831,567
Other	3,024,220	4,226,687
Allowance for doubtful accounts	(23,529)	(120,600)
Total current assets	22,450,654	27,373,864
Non-current assets		
Property, plant and equipment	1,482,512	1,651,238
Intangible assets		
Goodwill	—	820,339
Other	1,513,036	1,385,679
Total intangible assets	1,513,036	2,206,019
Investments and other assets	3,878,446	3,906,066
Total non-current assets	6,873,994	7,763,324
Total assets	29,324,649	35,137,188
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	604,799	759,334
Due to auction members	6,040,109	7,720,747
Short-term borrowings	—	1,470,000
Current portion of long-term borrowings	—	363,247
Income taxes payable	493,100	578,621
Other provisions	118,168	330,280
Other	1,199,558	1,291,075
Total current liabilities	8,455,736	12,513,306
Non-current liabilities		
Provision for share-based remuneration	74,980	106,402
Retirement benefit liability	1,620,592	1,720,248
Other provisions	10,532	14,350
Other	829,251	1,441,102
Total non-current liabilities	2,535,358	3,282,104
Total liabilities	10,991,094	15,795,410
<b>Net assets</b>		
Shareholders' equity		
Share capital	1,729,168	1,759,147
Capital surplus	6,782,326	6,809,147
Retained earnings	9,484,599	10,465,246
Treasury shares	(241,056)	(241,056)
Total shareholders' equity	17,755,037	18,792,485
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	246,330	205,999
Foreign currency translation adjustment	4,466	(6,133)
Remeasurements of defined benefit plans	58,106	50,515
Total accumulated other comprehensive income	308,903	250,382
Non-controlling interests	269,613	298,910
Total net assets	18,333,554	19,341,778
Total liabilities and net assets	29,324,649	35,137,188



(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended September 30, 2019 and 2020

(Thousand yen)

	For the nine months ended September 30, 2019	For the nine months ended September 30, 2020
Net sales	14,803,353	15,763,930
Cost of sales	6,745,800	6,666,397
Gross profit	8,057,552	9,097,532
Selling, general and administrative expenses	6,226,489	6,337,339
Operating profit	1,831,062	2,760,193
Non-operating income		
Interest income	20,146	52,206
Dividend income	37,035	37,740
Other	72,686	25,982
Total non-operating income	129,868	115,929
Non-operating expenses		
Interest expenses	1,411	809
Foreign exchange losses	88,752	87,314
Share of loss of entities accounted for using equity method	—	891
Provision of allowance for doubtful accounts	—	40,322
Other	2,795	256
Total non-operating expenses	92,959	129,594
Ordinary profit	1,867,972	2,746,528
Extraordinary income		
Gain on extinguishment of tie-in shares	—	34,094
Other	10,157	617
Total extraordinary income	10,157	34,712
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	74,269	8,624
Other	48,902	—
Total extraordinary losses	123,172	8,624
Profit before income taxes	1,754,957	2,772,616
Income taxes	772,744	1,126,607
Profit	982,213	1,646,009
Profit attributable to non-controlling interests	23,782	26,138
Profit attributable to owners of parent	958,431	1,619,870

Quarterly Consolidated Statements of Comprehensive Income  
 Nine Months Ended September 30, 2019 and 2020

(Thousand yen)

	For the nine months ended September 30, 2019	For the nine months ended September 30, 2020
Profit	982,213	1,646,009
Other comprehensive income		
Valuation difference on available-for-sale securities	38,264	(40,330)
Foreign currency translation adjustment	(13,115)	(10,599)
Remeasurements of defined benefit plans, net of tax	105,592	(7,591)
Total other comprehensive income	130,742	(58,521)
Comprehensive income	1,112,955	1,587,487
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,089,173	1,561,348
Comprehensive income attributable to non-controlling interests	23,782	26,138

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in amount of shareholders' equity)

Not applicable.

(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 profit before income taxes for the fiscal year (consolidated) including the third quarter of the fiscal year under review, with quarterly profit 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, 2019 (from January 1, 2019 to September 30, 2019)

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	9,168,384	2,735,507	2,044,375	13,948,267	855,085	14,803,353	—	14,803,353
Inter-segment net sales or transfers	110,838	—	—	110,838	446,355	557,194	(557,194)	—
Total	9,279,223	2,735,507	2,044,375	14,059,106	1,301,440	15,360,547	(557,194)	14,803,353
Segment income (loss)	2,912,382	449,901	516,230	3,878,514	(228,620)	3,649,894	(1,818,831)	1,831,062

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥1,818,831 thousand is corporate expenses of negative ¥1,818,831 thousand, which chiefly comprise general and administrative expenses not allocated to specific reportable segments.

3. Adjustments are made to reconcile segment income (loss) with operating profit 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, 2020 (from January 1, 2020 to September 30, 2020)

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	8,590,298	4,283,272	2,200,003	15,073,574	690,355	15,763,930	—	15,763,930
Inter-segment net sales or transfers	112,874	—	—	112,874	368,477	481,351	(481,351)	—
Total	8,703,172	4,283,272	2,200,003	15,186,449	1,058,832	16,245,281	(481,351)	15,763,930
Segment income (loss)	2,624,994	1,806,484	544,826	4,976,305	(378,134)	4,598,170	(1,837,976)	2,760,193

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as system development and provision, communications and operations maintenance service provision, used

medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥1,837,976 thousand is corporate expenses of negative ¥1,837,976 thousand, which chiefly comprise general and administrative expenses not allocated to specific reportable segments.
3. Adjustments are made to reconcile segment income (loss) with operating profit 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.

(Significant changes in the amount of goodwill)

In the “Other Information Distribution Business,” in line with the acquisition of shares of Kinuta Flower Auction CO.LTD, from the third quarter of the fiscal year under review, the said company has been included in the scope of consolidation. The amount of increase in goodwill as a result of this event was ¥42,964 thousand in the nine months ended September 30, 2020.

In the “Other Information Distribution Business,” in line with the acquisition of shares of GALLERY RARE Ltd., from the third quarter of the fiscal year under review, the said company has been included in the scope of consolidation. The amount of increase in goodwill as a result of this event was ¥779,523 thousand in the nine months ended September 30, 2020.