

Consolidated Financial Statements for the Fiscal Year Ended December 31, 2020 [Japanese GAAP]



February 12, 2021

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 general shareholders meeting: March 30, 2021

Scheduled date of commencing dividend payments: March 9, 2021

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Preparation of supplementary explanatory materials: None

Financial results briefing: Yes (for institutional investors and analysts)

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

1. Consolidated Results for the Fiscal Year Ended December 31, 2020

(January 1, 2020 - December 31, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2020	24,078	22.4	3,705	46.7	3,643	38.5	1,896	35.1
December 31, 2019	19,672	0.9	2,525	(21.5)	2,630	(20.5)	1,404	(17.8)

(Note) Comprehensive income: Year ended December 31, 2020: ¥1,870 million [15.2%]

Year ended December 31, 2019: ¥1,623 million [6.0%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Year ended	Yen	Yen	%	%	%
December 31, 2020	68.56	68.01	10.1	11.6	15.4
December 31, 2019	50.94	50.47	8.0	9.3	12.8

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

Year ended December 31, 2020: ¥13 million

Year ended December 31, 2019: ¥26 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2020	33,280	19,637	58.1	697.22
As of December 31, 2019	29,324	18,333	61.6	653.97

(Reference) Equity: As of December 31, 2020: ¥19,324 million

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

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year-end
Year ended	Million yen	Million yen	Million yen	Million yen
December 31, 2020	4,119	549	(2,873)	15,766
December 31, 2019	1,426	(2,600)	(757)	13,761

2. Cash Dividends

	Annual dividends					Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Year ended December 31, 2019	Yen —	Yen 13.00	Yen —	Yen 13.00	Yen 26.00	Million yen 721	% 51.0	% 4.1
Year ended December 31, 2020	—	10.00	—	11.00	21.00	584	30.6	3.1
Year ending December 31, 2021 (Forecast)	—	12.00	—	12.00	24.00		30.2	

3. Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2021 (January 1, 2021 - December 31, 2021)

(% 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 33,796	% 40.4	Million yen 3,806	% 2.7	Million yen 3,768	% 3.4	Million yen 2,214	% 16.7	Yen 79.46

* Notes:

- (1) Changes in significant subsidiaries during the period under review: None
- (2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (3) Total number of issued and outstanding shares (common shares)
 - 1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

December 31, 2020:	27,863,500 shares
December 31, 2019:	27,769,300 shares
 - 2) Total number of treasury shares at the end of the period:

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

Year ended December 31, 2020:	27,667,087 shares
Year ended December 31, 2019:	27,560,876 shares

(Reference) Summary of Non-consolidated Results**1. Non-consolidated Results for the Fiscal Year Ended December 31, 2020****(January 1, 2020 - December 31, 2020)****(1) Non-consolidated Operating Results** (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Net income	
Year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2020	13,916	19.6	2,178	326.9	2,472	80.1	1,019	(76.7)
December 31, 2019	11,634	22.6	510	—	1,372	35.4	4,369	432.1

	Basic earnings per share	Diluted earnings per share
Year ended	Yen	Yen
December 31, 2020	36.84	36.54
December 31, 2019	158.54	157.05

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2020	25,233	13,947	55.3	503.21
As of December 31, 2019	23,534	13,524	57.5	489.61

(Reference) Equity: As of December 31, 2020: ¥13,947 million

As of December 31, 2019: ¥13,524 million

* These financial results are outside the scope of audit procedures 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. Overview of Business Results, etc. (4) Future Outlook” on page 5 of the attachments.

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1. Overview of Business Results, etc.

(1) Overview of Business Results for the Fiscal Year under Review

1) Business Results

During the fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020), the Japanese economy remained in an extremely severe situation due to limitations on economic activities brought on by the spread of the novel coronavirus (COVID-19). After the state of emergency was lifted, efforts were made to balance prevention of the spread of infection and economic activities, and there were visible signs of a gradual recovery owing to the effects of an array of government policies as well as an upturn in overseas economies. Nonetheless, it will be necessary to continue keeping an eye on the spread of infection and its impact on social economic activities, and the outlook remains uncertain.

In these circumstances, in line with our brand statement, “Shaping the Future of Commerce,” the Company has worked to further improve its social and economic value, by providing competitive value-added products and services to promote information distribution in addition to its B2B information distribution intermediary businesses.

As a result, for the fiscal year ended December 31, 2020, net sales of the Company were ¥24,078,099 thousand (up 22.4% from the previous fiscal year), operating profit was ¥3,705,549 thousand (up 46.7% from the previous fiscal year), ordinary profit was ¥3,643,461 thousand (up 38.5% from the previous fiscal year), and profit attributable to owners of parent was ¥1,896,934 thousand (up 35.1% from the previous fiscal year).

Performance results by business segment are as follows.

In view of the growing scale of business in auctions for pre-owned luxury brand items and other services, the Company has changed its segments from the fiscal year ended December 31, 2020. The “Other Information Distribution Business” segment, which comprised auctions for pre-owned luxury brand items, used motorcycles, and flowers, has been discontinued. Auctions for pre-owned luxury brand items are now included in the new “Consumer Product Business” segment, while auctions for used motorcycles and flowers have been consolidated into the existing “Others” segment.

For the following comparison with the previous year, the figures are compared by restating the figures of the previous year to match the new segment classification.

(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 11.5% year-on-year to 4.59 million units in the fiscal year ended December 31, 2020. The total number of used-vehicle registrations (*7) fell 1.7% year-on-year to 6.86 million units, and the number of vehicles listed (*8) at auction around Japan declined 7.0% year-on-year to 7.10 million units. The total number of vehicles sold at auction (*8) decreased 6.6% year-on-year to 4.56 million units.

The used vehicle market has been recovering gradually from the second half of the fiscal year, despite the impact of the novel coronavirus (COVID-19). In the Company’s used vehicle auctions, we were able to keep the drop in the full-year operating profit to a minimum by offering various countermeasure support and also due to the market recovery trend in the second half of the fiscal year. In the shared inventory market, the number of units sold remained at the same level as in the previous fiscal year due to a recovery in the retail sales market, which led to a growing trend towards sourcing products from the shared inventory market. In the proxy bidding service, number of members and number of vehicles bought exceeded the levels of the previous fiscal year, as exporters slowly returned to the service following the easing of export restrictions and due to the continued rise in the need for remote participation in live-linked auctions.

As a result, net sales of the Automobile Business (including inter-segment net sales) were ¥11,689,059 thousand (down 4.0% from the previous fiscal year), and operating profit was ¥3,581,482 thousand (down

4.6% from the previous fiscal 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

(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, sales units increased significantly from the level of the previous fiscal year, on the back of robust sales of new-model smartphones and stable supply of trade-in devices. This, together with factors such as the expansion of the overseas buyer network, which we had been actively working on, the strengthening of participation and bidding in auctions, as well as the rise in unit sales prices, resulted in an increase in both revenue and profit. In addition, continued efforts to cut selling, general and administrative expenses and raise operational efficiency helped to substantially improve the performance. Auctions for used PCs also contributed to the performance for the fiscal year under review, as the used items distribution market remained robust due to the prevalence of telework. Business in the United States has been greatly affected by the slowdown in economic activities due to the spread of the novel coronavirus (COVID-19). Although this remains a risk factor going forward, the number of items handled is gradually rising, and the Company is working to achieve stability in the business there.

As a result, net sales of the Digital Product Business were ¥5,877,352 thousand (up 52.1% from the previous fiscal year), and operating profit was ¥2,391,900 thousand (up 161.4% from the previous fiscal year).

(Consumer Product Business)

The Consumer Product Business comprises auctions for pre-owned luxury brand items and services pertaining to distribution, including those targeting consumers.

Auctions became busy with a growing number of buyers both inside and outside of Japan, due to an industry-wide rise in demand for online auctions against the backdrop of the impact of the novel coronavirus (COVID-19). Owing to our digital marketing efforts to promote participation in auctions, the number of items listed increased substantially year-on-year. In addition, sales soared as a result of the acquisition of GALLERY RARE Ltd. in September.

As a result, net sales of the Consumer Product Business were ¥3,940,655 thousand (up 284.5% from the previous fiscal year), and operating profit was ¥535,934 thousand (up 47.6% from the previous fiscal year).

(Others)

The Others segment comprises auctions for used motorcycles and flowers, medical-related businesses, and overseas businesses.

Net sales of the Others segment (including inter-segment net sales) were ¥3,199,391 thousand (down 4.2% from the previous fiscal year), and operating loss was ¥300,459 thousand (the operating loss for the previous year was ¥14,307 thousand).

(2) Overview of Financial Position for the Fiscal Year under Review

(Assets)

Current assets as of the end of the fiscal year under review amounted to ¥25,798,093 thousand (up 14.9% from the end of the previous fiscal year). This is mainly attributable to respective increases of ¥2,074,777 thousand in cash and deposits, ¥336,380 thousand in notes and accounts receivable – trade, ¥1,464,504 thousand in inventories, and ¥663,684 thousand in due from auction members, despite a decrease of ¥1,048,534 thousand in “other” under current assets.

Non-current assets amounted to ¥7,482,729 thousand (up 8.9% from the end of the previous fiscal year). This is mainly attributable to a ¥790,350 thousand increase in goodwill, despite a decrease of ¥262,673 thousand in software.

(Liabilities)

Current liabilities as of the end of the fiscal year under review amounted to ¥10,665,908 thousand (up 26.1% from the end of the previous fiscal year). This is mainly attributable to respective increases of ¥222,856 thousand in accounts payable – trade, ¥992,836 thousand in due to auction members, ¥538,973 thousand in income taxes payable, and ¥390,569 thousand in “other” under current liabilities.

Non-current liabilities amounted to ¥2,977,229 thousand (up 17.4% from the end of the previous fiscal year). This is mainly attributable to respective increases of ¥123,668 thousand in retirement benefit liability, and ¥268,901 thousand in “other” under non-current liabilities.

(Net assets)

Net assets as of the end of the fiscal year under review amounted to ¥19,637,686 thousand (up 7.1% from the end of the previous fiscal year). This is mainly attributable to an increase of ¥1,257,711 thousand in retained earnings.

(3) Overview of Cash Flows for the Fiscal Year under Review

Cash and cash equivalents as of the end of the fiscal year under review amounted to ¥15,766,386 thousand, an increase of ¥2,004,777 thousand from the end of the previous fiscal year.

The status of cash flows by activity in the fiscal year ended December 31, 2020, and the main factors affecting cash flows are as follows.

(Cash Flows from Operating Activities)

Cash provided by operating activities during the fiscal year under review amounted to ¥4,119,156 thousand (up 188.8% from the previous fiscal year). As a main breakdown of inflows, profit before income taxes was ¥3,445,308 thousand, depreciation was ¥777,017 thousand, increase in due to auction members was ¥645,083 thousand, and decrease in consumption taxes refund receivable was ¥500,711 thousand. As a main breakdown of outflows, increase in due from auction members was ¥428,388 thousand, increase in inventories was ¥267,631 thousand, increase in trade receivables was ¥304,759 thousand, and income taxes paid were ¥923,363 thousand.

(Cash Flows from Investing Activities)

Cash provided by investing activities during the fiscal year under review amounted to ¥549,676 thousand (compared to ¥2,600,207 thousand used in the previous fiscal year). As a main breakdown of inflows, proceeds from withdrawal of time deposits were ¥680,000 thousand, collection of loans receivable was ¥1,070,598 thousand, proceeds from cancellation of insurance funds were ¥129,573 thousand, and proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation were ¥227,041 thousand. As a main breakdown of outflows, payments into time deposits were ¥750,000 thousand, purchase of property, plant and equipment was ¥210,567 thousand, purchase of intangible assets was ¥376,097 thousand, and purchase of shares of subsidiaries resulting in change in scope of consolidation was ¥343,664 thousand.

(Cash Flows from Financing Activities)

Cash used in financing activities during the fiscal year under review amounted to ¥2,873,663 thousand (up 279.4% from the previous fiscal year). As a main breakdown of inflows, proceeds from issuance of shares were ¥15,892 thousand. As a main breakdown of outflows, net decrease in short-term borrowings was ¥1,470,000 thousand, repayments of long-term borrowings were ¥610,382 thousand, and dividends paid were ¥639,161 thousand.

(4) Future Outlook

Regarding the outlook for the next fiscal year, while signs of a recovery is expected as a result of preventive measures against the spread of the novel coronavirus (COVID-19) and an array of government policies, there is also a need to continue paying close attention to the spread of the virus and its impact on social economic activities, as well as the developments in the world economy and fluctuations in financial and capital markets.

Under such an environment, in the Automobile Business, we will seek to maintain and strengthen the diverse range of services we offer in our own distribution systems so as to establish a more stable business foundation that is not affected by market trends. In the Digital Product Business, we will continue efforts to reinforce our network of buyers and revamp our platform in order to provide an enhanced auctioning environment, and thereby achieve stable growth. In our business in the United States, we will expand our merchandising business and work to stabilize our business foundation. In the Consumer Product Business, we will seek to create synergy with GALLERY RARE Ltd., which we acquired in September 2020, focus on furthering our overseas business development, and create new markets and increase our market share both inside and outside of Japan.

Based on the above, for the forecast of the full fiscal year ending December 31, 2021, the Company expects net sales of ¥33,796,489 thousand (up 40.4% year-on-year), operating profit of ¥3,806,441 thousand (up 2.7% year-on-year), ordinary profit of ¥3,768,248 thousand (up 3.4% year-on-year), and profit attributable to owners of parent of ¥2,214,119 thousand (up 16.7% year-on-year).

2. Basic Policy on Selecting Accounting Standards

The Company continues to prepare consolidated financial statements in accordance with the Japanese standards for the time being, taking into account comparability of consolidated financial statements over different accounting periods and between companies.

The Company will appropriately respond to the adoption of the international accounting standards considering various conditions in Japan and overseas.

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2019	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	14,701,608	16,776,386
Notes and accounts receivable - trade	849,107	1,185,487
Inventories	309,770	1,774,274
Due from auction members	3,589,476	4,253,161
Income taxes receivable	40,002	—
Other	2,984,218	1,935,683
Allowance for doubtful accounts	(23,529)	(126,899)
Total current assets	22,450,654	25,798,093
Non-current assets		
Property, plant and equipment		
Buildings and structures	580,647	913,374
Accumulated depreciation and impairment loss	(222,052)	(497,810)
Buildings and structures, net	358,595	415,563
Land	797,076	797,076
Other	996,170	1,280,465
Accumulated depreciation and impairment loss	(669,329)	(917,132)
Other, net	326,840	363,333
Total property, plant and equipment	1,482,512	1,575,973
Intangible assets		
Software	1,506,918	1,244,245
Goodwill	—	790,350
Other	6,117	6,117
Total intangible assets	1,513,036	2,040,713
Investments and other assets		
Investment securities	1,922,959	1,757,749
Deferred tax assets	472,300	619,969
Other	1,661,933	1,696,708
Allowance for doubtful accounts	(178,747)	(208,384)
Total investments and other assets	3,878,446	3,866,043
Total non-current assets	6,873,994	7,482,729
Total assets	29,324,649	33,280,823

(Thousand yen)

	As of December 31, 2019	As of December 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	604,799	827,655
Due to auction members	6,040,109	7,032,946
Income taxes payable	493,100	1,032,073
Provision for bonuses	105,792	166,613
Provision for point card certificates	12,375	16,490
Other	1,199,558	1,590,128
Total current liabilities	8,455,736	10,665,908
Non-current liabilities		
Retirement benefit liability	1,620,592	1,744,261
Provision for share-based remuneration	74,980	124,282
Other	839,784	1,108,685
Total non-current liabilities	2,535,358	2,977,229
Total liabilities	10,991,094	13,643,137
Net assets		
Shareholders' equity		
Share capital	1,729,168	1,765,614
Capital surplus	6,782,326	6,815,614
Retained earnings	9,484,599	10,742,310
Treasury shares	(241,056)	(241,056)
Total shareholders' equity	17,755,037	19,082,483
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	246,330	216,400
Foreign currency translation adjustment	4,466	(5,002)
Remeasurements of defined benefit plans	58,106	30,333
Total accumulated other comprehensive income	308,903	241,731
Non-controlling interests	269,613	313,471
Total net assets	18,333,554	19,637,686
Total liabilities and net assets	29,324,649	33,280,823

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

(Thousand yen)

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Net sales	19,672,155	24,078,099
Cost of sales	8,720,934	11,309,171
Gross profit	10,951,221	12,768,927
Selling, general and administrative expenses	8,425,722	9,063,377
Operating profit	2,525,499	3,705,549
Non-operating income		
Interest income	37,696	67,207
Dividend income	39,035	39,740
Share of profit of entities accounted for using equity method	26,827	13,073
Reversal of allowance for doubtful accounts	14,299	—
Other	47,469	54,678
Total non-operating income	165,328	174,699
Non-operating expenses		
Interest expenses	2,109	2,827
Foreign exchange losses	55,973	197,385
Provision of allowance for doubtful accounts	—	30,652
Other	2,037	5,922
Total non-operating expenses	60,120	236,787
Ordinary profit	2,630,707	3,643,461
Extraordinary income		
Gain on extinguishment of tie-in shares	—	34,094
Gain on sales of investment securities	56,203	—
Other	3,685	—
Total extraordinary income	59,889	34,094
Extraordinary losses		
Impairment loss	—	59,494
Loss on sales and retirement of non-current assets	59,918	56,540
Loss on valuation of investment securities	8,399	106,670
Loss on valuation of shares of subsidiaries and associates	76,665	8,650
Other	15,988	891
Total extraordinary losses	160,972	232,247
Profit before income taxes	2,529,624	3,445,308
Income taxes - current	1,102,255	1,566,041
Income taxes - deferred	(12,675)	(58,366)
Total income taxes	1,089,580	1,507,675
Profit	1,440,044	1,937,633
Profit attributable to non-controlling interests	36,038	40,699
Profit attributable to owners of parent	1,404,005	1,896,934

Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Profit	1,440,044	1,937,633
Other comprehensive income		
Valuation difference on available-for-sale securities	85,007	(29,929)
Foreign currency translation adjustment	(5,720)	(9,469)
Remeasurements of defined benefit plans, net of tax	104,086	(27,773)
Total other comprehensive income	183,372	(67,172)
Comprehensive income	1,623,417	1,870,461
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,587,378	1,829,761
Comprehensive income attributable to non-controlling interests	36,038	40,699

(3) Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(Thousand yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	1,711,335	6,801,669	8,815,791	(248,596)	17,080,200
Changes during period					
Issuance of new shares	17,832	17,832			35,665
Dividends of surplus			(719,983)		(719,983)
Profit attributable to owners of parent			1,404,005		1,404,005
Increase (decrease) in retained earnings from newly consolidated subsidiary		(2,410)	(15,214)		(17,624)
Disposal of treasury shares				7,691	7,691
Purchase of treasury shares				(151)	(151)
Decrease (increase) of capital surplus by change of share to consolidated subsidiary		(34,766)			(34,766)
Net changes in items other than shareholders' equity					
Total changes during period	17,832	(19,343)	668,807	7,540	674,837
Balance at end of period	1,729,168	6,782,326	9,484,599	(241,056)	17,755,037

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	161,323	10,187	(45,979)	125,531	207,968	17,413,699
Changes during period						
Issuance of new shares						35,665
Dividends of surplus						(719,983)
Profit attributable to owners of parent						1,404,005
Increase (decrease) in retained earnings from newly consolidated subsidiary						(17,624)
Disposal of treasury shares						7,691
Purchase of treasury shares						(151)
Decrease (increase) of capital surplus by change of share to consolidated subsidiary						(34,766)
Net changes in items other than shareholders' equity	85,007	(5,720)	104,086	183,372	61,645	245,017
Total changes during period	85,007	(5,720)	104,086	183,372	61,645	919,854
Balance at end of period	246,330	4,466	58,106	308,903	269,613	18,333,554

Fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)

(Thousand yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	1,729,168	6,782,326	9,484,599	(241,056)	17,755,037
Changes during period					
Issuance of new shares	36,446	36,446			72,892
Dividends of surplus			(639,222)		(639,222)
Profit attributable to owners of parent			1,896,934		1,896,934
Increase (decrease) in retained earnings from newly consolidated subsidiary					—
Disposal of treasury shares					—
Purchase of treasury shares					—
Decrease (increase) of capital surplus by change of share to consolidated subsidiary		(3,157)			(3,157)
Net changes in items other than shareholders' equity					
Total changes during period	36,446	33,288	1,257,711	—	1,327,446
Balance at end of period	1,765,614	6,815,614	10,742,310	(241,056)	19,082,483

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	246,330	4,466	58,106	308,903	269,613	18,333,554
Changes during period						
Issuance of new shares						72,892
Dividends of surplus						(639,222)
Profit attributable to owners of parent						1,896,934
Increase (decrease) in retained earnings from newly consolidated subsidiary						—
Disposal of treasury shares						—
Purchase of treasury shares						—
Decrease (increase) of capital surplus by change of share to consolidated subsidiary						(3,157)
Net changes in items other than shareholders' equity	(29,929)	(9,469)	(27,773)	(67,172)	43,857	(23,314)
Total changes during period	(29,929)	(9,469)	(27,773)	(67,172)	43,857	1,304,131
Balance at end of period	216,400	(5,002)	30,333	241,731	313,471	19,637,686

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Cash flows from operating activities		
Profit before income taxes	2,529,624	3,445,308
Depreciation	660,534	777,017
Impairment loss	—	59,494
Amortization of goodwill	—	32,136
Increase (decrease) in allowance for doubtful accounts	(52,557)	(171,149)
Increase (decrease) in retirement benefit liability	64,326	42,823
Increase (decrease) in provision for share-based remuneration	34,840	49,301
Interest and dividend income	(76,732)	(107,917)
Interest expenses	2,109	2,827
Share of loss (profit) of entities accounted for using equity method	(26,827)	(13,073)
Loss on sales and retirement of property, plant and equipment	59,592	56,536
Loss (gain) on valuation of investment securities	8,399	106,760
Loss (gain) on sales of investment securities	(56,203)	—
Loss on valuation of shares of subsidiaries and associates	76,665	8,650
Loss (gain) on extinguishment of tie-in shares	—	(34,094)
Decrease (increase) in trade receivables	7,251	(304,759)
Decrease (increase) in due from auction members	(950,353)	(428,388)
Decrease (increase) in inventories	(211,045)	(267,631)
Increase (decrease) in trade payables	1,853	193,369
Increase (decrease) in due to auction members	1,347,261	645,083
Decrease (increase) in consumption taxes refund receivable	(906,810)	500,711
Other, net	(70,800)	353,107
Subtotal	2,441,127	4,946,113
Interest and dividends received	77,459	57,709
Interest paid	(2,106)	(1,305)
Income taxes paid	(1,323,478)	(923,363)
Income taxes refund	233,190	40,002
Net cash provided by (used in) operating activities	1,426,193	4,119,156
Cash flows from investing activities		
Payments into time deposits	(670,000)	(750,000)
Proceeds from withdrawal of time deposits	590,003	680,000
Purchase of property, plant and equipment	(119,492)	(210,567)
Purchase of intangible assets	(548,035)	(376,097)
Purchase of investment securities	(899,665)	—
Proceeds from sales of investment securities	91,600	—
Payments of leasehold and guarantee deposits	(5,767)	(32,285)
Loan advances	(1,121,800)	(500)
Collection of loans receivable	137,963	1,070,598
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(343,664)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	227,041
Proceeds from lease and guarantee deposits received	41,990	105,545
Purchase of insurance funds	(62,013)	(73,204)
Proceeds from cancellation of insurance funds	—	129,573
Other, net	(34,991)	123,238
Net cash provided by (used in) investing activities	(2,600,207)	549,676

(Thousand yen)

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	—	(1,470,000)
Repayments of long-term borrowings	—	(610,382)
Proceeds from issuance of shares	35,665	15,892
Dividends paid	(719,729)	(639,161)
Other, net	(73,281)	(170,012)
Net cash provided by (used in) financing activities	(757,345)	(2,873,663)
Effect of exchange rate change on cash and cash equivalents	(14,026)	62,434
Net increase (decrease) in cash and cash equivalents	(1,945,387)	1,857,604
Cash and cash equivalents at beginning of period	15,629,697	13,761,608
Increase in cash and cash equivalents resulting from merger	—	147,173
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	77,299	—
Cash and cash equivalents at end of period	13,761,608	15,766,386

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Segment information, etc.)

[Segment information]

1. Overview of reportable segments

The Company's reportable segments are components of the Company about which separate financial information is available. These segments are subject to periodic examinations to enable the Board of Directors to decide how to allocate management resources and assess performance.

The Company mainly organizes and conducts auctions via the Internet and provides various related information. Its business segments are based on items handled and consist of "Automobile Business," "Digital Product Business," and "Consumer Product Business" as reportable segments.

The Automobile Business comprises the Company's mainstay used vehicle auctions, shared inventory market, live-linked auction, proxy bidding service, used vehicle inspection service, and other services. The Digital Product Business comprises auctions for used digital equipment including used smartphones and used PCs, and services pertaining to distribution. The Consumer Product Business comprises auctions for pre-owned luxury brand items and services pertaining to distribution, including those targeting consumers.

2. Matters on the changes, etc. of reportable segments

In view of the growing scale of business in auctions for pre-owned luxury brand items and other services, the Company has changed its segments from the fiscal year ended December 31, 2020. The "Other Information Distribution Business" segment, which comprised auctions for pre-owned luxury brand items, used motorcycles, and flowers, has been discontinued. Auctions for pre-owned luxury brand items are now included in the new "Consumer Product Business" segment, while auctions for used motorcycles and flowers have been consolidated into the existing "Others" segment.

The segment information for the fiscal year ended December 31, 2019 has been compiled based on the reportable segment classification after the changes.

3. Information on net sales, income (loss), assets, liabilities, and others by reportable segment
For the fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Consumer Product Business	Total				
Net sales								
Net sales to outside customers	12,026,408	3,863,092	1,025,004	16,914,505	2,757,650	19,672,155	—	19,672,155
Inter-segment net sales or transfers	148,131	—	—	148,131	582,207	730,338	(730,338)	—
Total	12,174,539	3,863,092	1,025,004	17,062,636	3,339,858	20,402,494	(730,338)	19,672,155
Segment income (loss)	3,754,808	915,074	362,987	5,032,870	(14,307)	5,018,562	(2,493,062)	2,525,499

- (Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as auctions for used motorcycles and flowers, medical-related businesses, and overseas businesses.
2. Adjustment of segment income (loss) of negative ¥2,493,062 thousand is corporate expenses 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 profit reported on the consolidated statements of income.

For the fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Consumer Product Business	Total				
Net sales								
Net sales to outside customers	11,537,078	5,877,352	3,940,655	21,355,086	2,723,013	24,078,099	—	24,078,099
Inter-segment net sales or transfers	151,981	—	—	151,981	476,378	628,359	(628,359)	—
Total	11,689,059	5,877,352	3,940,655	21,507,067	3,199,391	24,706,458	(628,359)	24,078,099
Segment income (loss)	3,581,482	2,391,900	535,934	6,509,317	(300,459)	6,208,858	(2,503,308)	3,705,549

- (Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as auctions for used motorcycles and flowers, medical-related businesses, and overseas businesses.
2. Adjustment of segment income (loss) of negative ¥2,503,308 thousand is corporate expenses 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 profit reported on the consolidated statements of income.

4. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.
For the fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)
Not applicable.

For the fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)

(Significant impairment loss on non-current assets)

In the “Digital Product Business” segment, we posted an impairment loss on non-current assets. The amount recorded for the said impairment loss was ¥59,494 thousand in the fiscal year ended December 31, 2020.

(Significant changes in the amount of goodwill)

In the “Consumer Product Business” segment, in line with the acquisition of shares of GALLERY RARE Ltd., from 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 fiscal year ended December 31, 2020.

In the “Others” segment, in line with the acquisition of shares of Kinuta Flower Auction CO. LTD, from 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 fiscal year ended December 31, 2020.

(Per share information)

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Net assets per share	¥653.97	¥697.22
Basic earnings per share	¥50.94	¥68.56
Diluted earnings per share	¥50.47	¥68.01

(Notes) 1. The shares of the Company held by the Board Benefit Trust (“BBT”) recorded as treasury shares under shareholders’ equity are included in the treasury shares to be deducted in calculating the number of issued and outstanding shares at the end of the fiscal year and the average number of shares during the fiscal year for the purpose of calculating net assets per share and basic earnings per share. Please note that the number of shares of the Company held by BBT, which were deducted for the purpose of calculating net assets per share for the fiscal years ended December 31, 2019 and December 31, 2020, are 147,100 shares and 147,100 shares, respectively, and the average number of shares of the Company held by BBT during the fiscal years ended December 31, 2019 and December 31, 2020, which were deducted for the purpose of calculating basic earnings per share, are 147,100 shares and 147,100 shares, respectively.

2. Basis of calculation of basic earnings per share and diluted earnings per share is as follows:

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Basic earnings per share		
Profit attributable to owners of parent (Thousand yen)	1,404,005	1,896,934
Amount not attributable to common stockholders (Thousand yen)	—	—
Profit attributable to owners of parent relating to common stock (Thousand yen)	1,404,005	1,896,934
Average number of shares of common stock outstanding during the period (Shares)	27,560,876	27,667,087
Diluted earnings per share		
Adjustment for profit attributable to owners of parent (Thousand yen)	—	—
Increase in number of shares of common stock (Shares)	260,256	225,304
Overview of residual shares not included in calculation of diluted earnings per share due to lack of dilutive effect		—