

mercari



Consolidated Financial Results for the Three Months Ended September 30, 2021 [Japanese GAAP]

October 29, 2021

Company name: Mercari, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4385

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Scheduled date of filing quarterly securities report: November 11, 2021

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: None

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

1. Consolidated Financial Results for the Three Months Ended September 30, 2021 (the “Period”) (July 1, 2021 to September 30, 2021)

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

	Net sales		Operating profit		Ordinary profit		Net profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
September 30, 2021	33,634	51.8	849	133.4	834	218.1	(119)	-
September 30, 2020	22,156	52.3	364	-	262	-	4,281	-

(Note) Comprehensive income: Three months ended September 30, 2021: ¥(17) million [-%]
Three months ended September 30, 2020: ¥92 million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
September 30, 2021	(0.75)	-
September 30, 2020	27.37	26.39

(Note 1) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) from the beginning of the fiscal year (July 1, 2021). All figures for the first quarter of the fiscal year ending March 31, 2022, reflect the application of this accounting standard.

(Note 2) Information on diluted earnings per share for the three months ended September 30, 2021, is omitted since, although potential shares did exist, the recorded figure was a basic loss per share.

English Translation

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(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2021	298,945	42,292	13.8
As of June 30, 2021	262,529	40,013	14.9

(Reference) Equity: As of September 30, 2021 ¥41,203 million

As of June 30, 2021 ¥39,060 million

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) from the beginning of the fiscal year (July 1, 2021). All figures for the first quarter of the fiscal year ending June 30, 2022, reflect the application of this accounting standard.

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2021	-	0.00	-	0.00	0.00
Fiscal year ending June 30, 2022	-				
Fiscal year ending June 30, 2022 (Forecast)		-	-	-	-

(Note) Revisions to the forecasts of cash dividends most recently announced: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2022 (July 1, 2021 to June 30, 2022)

The consolidated financial results forecast for the current fiscal year is not stated because it is difficult to reasonably estimate a forecast of the financial results. Details concerning the reasons thereof are stated in “1. Qualitative Information Regarding Results for the Period (3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 3 of the Appendix.

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* Notes:

- (1) Changes in significant subsidiaries during the Period (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Application of special accounting treatments for preparing the quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (4) Total number of issued shares (common stock)
 - 1) Total number of issued shares at the end of the Period (including treasury stock):

September 30, 2021:	159,652,853 shares
June 30, 2021:	157,807,344 shares
 - 2) Total number of treasury stock at the end of the Period:

September 30, 2021:	2 shares
June 30, 2021:	2 shares
 - 3) Average number of shares during the Period:

Three months ended September 30, 2021:	159,156,339 shares
Three months ended September 30, 2020:	156,402,017 shares

* Quarterly Consolidated Financial Results are exempt from quarterly review conducted by certified public accountants or audit firms.

* Explanation of the proper use of financial results forecast and other notes

The consolidated financial results forecast for the current fiscal year is not stated because it is difficult to reasonably estimate a forecast of the financial results. Details concerning the reasons thereof are stated in “1. Qualitative Information Regarding Results for the Period (3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 3 of the Appendix.

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1. Qualitative Information Regarding Results for the Period

(1) Explanation of Operating Results

The Company and its group companies (collectively, the “Group”) have been working to realize the Group mission to create value in a global marketplace where anyone can buy & sell. The Group continued to work toward this goal, focusing on creating further growth opportunities for the Group by promoting the development of new domains in Japan and overseas, such as Souzoh, Mercari, and global expansion, while continuing to grow and strengthen its three pillars. In addition, through business activities that have a positive impact on the environment and the world, the Group aims to use the planet's limited resources carefully and build a world where anyone can create value, and this year the Group is tackling climate change mitigation and D&I as particularly important areas of focus.

In the mainstay Mercari Japan business, in addition to expanding the number of new users through invitation campaigns, etc., the Group implemented cross-use initiatives (measures to encourage users to sell items, purchase items, and make *Merpay* payments) for new users from the three months ended September 30, 2021, in order to increase the retention of new users. As a result, *Mercari's* gross merchandise volume (GMV) in Japan for the three months ended September 30, 2021, was ¥203.4 billion, an increase of ¥32.8 billion from the corresponding period of the previous fiscal year, and the number of monthly active users (MAU ^(Note 1)) increased to 19.84 million.

In the Souzoh business, the advance opening of *Mercari Shops* started on July 28, 2021, and although *Mercari Shops* started with limited features and sellers, the response during the advance opening was better than expected, with many businesses requesting to open stores.

With respect to the *Merpay* business and its mobile payment services, the Group has continuously been working to strengthen earnings potential mainly in the credit area. By becoming the first business to be certified for AI credit, the Group expects to be able to grant credit and design services more flexibly and appropriately than ever before. As a result, the *Merpay Smart Payments (fixed-amount payment)* service, a strategic priority, achieved steady gains in its number of users and account balances, and the number of *Merpay* users reached 11.35 million, ^(Note 2) while a profitable structure was established, mainly in the credit area, and the *Merpay* business achieved an operating profit.

For the Mercari US business, the Group has been working on developing new features and products, such as the nationwide expansion of *Mercari Local*, a same-day delivery service, and the launch of a buy now, pay later (BNPL) payment service in collaboration with Zip Co Ltd. to make the product more convenient. Mercari US has also been investing in acquiring talent. However, the GMV of *Mercari* in the US for the three months ended September 30, 2021, was \$271 million, a decrease of \$18 million compared to the corresponding period of the previous fiscal year, which had rapid growth (165% increase year on year) due to COVID-19. On the other hand, MAU was 4.83 million, an 18% increase year on year.

As a result, for the three months ended September 30, 2021, the Group recorded net sales of ¥33,634 million (51.8% increase year on year), operating profit of ¥849 million (133.4% increase year on year), ordinary profit of ¥834 million (218.1% increase year on year), and net loss attributable to owners of parent of ¥119 million (compared to net profit attributable to owners of parent of ¥4,281 million in the corresponding period of the previous fiscal year).

Information by business segment is omitted as the Group operates a single segment—i.e., the marketplace business.

(Note 1) MAU (Monthly Active Users) is defined as the quarterly average number of registered users who accessed the *Mercari* service via app or website at least once during a given month.

(Note 2) Total of the number of users registered for *Merpay Electronic Money* and users of *QR Code Payments*, *Online Payments*, and *Merpay Smart Payments (lump-sum payment and fixed-amount payment)* as of September 30, 2021 (excluding overlaps)

(2) Explanation of Financial Position

(Assets)

Assets as of September 30, 2021, increased by ¥36,415 million from the end of the previous fiscal year to

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¥298,945 million.

The main reasons for increases and decreases are as follows.

- Cash on hand and in banks increased by ¥19,885 million compared with the end of the previous fiscal year. This mainly reflected net profit before income taxes of ¥834 million with adjustments for a ¥7,358 million increase in other receivable, a ¥4,184 million decrease in deposits paid, a ¥6,359 million increase in deposits received, a ¥12,000 million increase in guarantee deposits, ¥5,529 million from income taxes paid, a ¥8,423 million increase in short-term borrowings, ¥25,100 million from repayments of long-term borrowings, and a ¥49,988 million proceeds from issuance of convertible-bond-type bonds with stock acquisition rights.
- Other receivable increased by ¥7,358 million compared to the end of the previous fiscal year primarily due to an increase in use of *Merpay Smart Payments*.
- Guarantee deposits increased by ¥12,000 million from the end of the previous fiscal year, primarily due to deposits paid based on laws and regulations accompanying the increase in the amounts spent on *Mercari* and *Merpay*.

(Liabilities)

Liabilities as of September 30, 2021, increased by ¥34,136 million from the end of the previous fiscal year to ¥256,653 million.

The main reasons for increases and decreases are as follows.

- Short-term borrowings increased by ¥8,423 million from the end of the previous fiscal year, primarily due to the liquidation of receivables for lump-sum payments and fixed-amount payments.
- Long-term borrowings (including the current portion of long-term borrowings) decreased by ¥25,100 million from the end of the previous fiscal year due to repayments.
- Deposits received increased by ¥6,359 million from the end of the previous fiscal year, primarily due to the increase in the amounts spent on *Mercari* and *Merpay*.
- Convertible-bond-type bonds with stock acquisition rights increased by ¥50,000 million from the end of the previous fiscal year due to their issuance to provide investment funds for accelerating growth in existing businesses and creating new business opportunities, and to strengthen the financial base.

(Net assets)

Net assets as of September 30, 2021, increased by ¥2,279 million from the end of the previous fiscal year to ¥42,292 million.

The main reasons for increases and decreases are as follows.

- Capital stock increased by ¥1,111 million from the end of the previous fiscal year following the issuance of new shares.
- Capital surplus increased by ¥1,111 million from the end of the previous fiscal year following the issuance of new shares.

(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements

Working to realize its mission, the Group intends to promote the development of new domains in Japan and overseas, such as Souzoh, Mercoin, and global expansion, and focus on creating further growth opportunities for the Group while continuing to grow and strengthen the three pillars of the Mercari Japan, Merpay, and Mercari US businesses. As opposed to the Mercari Japan business, which has a stable earnings base, Mercari US, Merpay, and the other new businesses are still in the investment phase. As the Group will make these strategic investments flexibly, it is difficult to forecast the consolidated financial results, and due to the foregoing reasons, the Company has not disclosed its earnings forecast. The Group will engage in management that emphasizes medium- to long-term business growth by conducting disciplined strategic investments to maximize future profits.

In regard to the impact of the COVID-19 pandemic, it continues to be difficult to accurately forecast future trends, such as when the pandemic will clear up. When considering the outlook for future cash flow, future business environment, etc., as of now, it has been judged that although it will have a certain impact on the Company, the effects will be limited. Furthermore, it has been judged that there will be no serious effects on accounting estimates including allowance for doubtful accounts. However, as there is a possibility that changes in the situation will have an impact on consolidated financial statements, the Company will continue to watch developments carefully.

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2. Quarterly Consolidated Financial Statements and Primary Notes**(1) Quarterly Consolidated Balance Sheets**

(Millions of yen)

	As of June 30, 2021	As of September 30, 2021
Assets		
Current assets		
Cash on hand and in banks	171,463	191,349
Trade accounts receivable	2,413	3,443
Other receivable	47,001	54,359
Prepaid expenses	2,336	2,632
Deposits paid	6,251	2,067
Other current assets	876	1,349
Allowance for doubtful accounts	(2,416)	(2,899)
Total current assets	227,926	252,302
Non-current assets		
Property and equipment	2,623	2,767
Intangible assets	658	641
Investments and other assets		
Investment securities	215	215
Lease deposits	1,631	1,622
Deferred tax assets	2,362	2,360
Guarantee deposits	26,767	38,768
Other assets	344	269
Total investments and other assets	31,321	43,234
Total non-current assets	34,603	46,643
Total assets	262,529	298,945

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(Millions of yen)

	As of June 30, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Short-term borrowings	19,602	28,025
Current portion of long-term borrowings	35,398	348
Accounts payable	17,775	18,650
Accrued expenses	1,147	1,401
Income taxes payable	6,140	1,016
Deposits received	117,099	123,459
Provision for bonuses	1,683	910
Provision for point certificates	802	924
Provision for share-based compensation	152	233
Other current liabilities	5,529	4,556
Total current liabilities	205,331	179,526
Non-current liabilities		
Convertible-bond-type bonds with stock acquisition rights	-	50,000
Long-term borrowings	16,148	26,098
Retirement benefit liability	92	96
Asset retirement obligations	126	126
Deferred tax liabilities	183	178
Other non-current liabilities	633	627
Total non-current liabilities	17,184	77,126
Total liabilities	222,516	256,653
Net assets		
Shareholders' equity		
Capital stock	42,630	43,741
Capital surplus	42,585	43,697
Retained earnings (Accumulated deficit)	(46,149)	(46,307)
Treasury stock	(0)	(0)
Total shareholders' equity	39,065	41,131
Accumulated other comprehensive income		
Foreign currency translation adjustments	(5)	71
Total accumulated other comprehensive income	(5)	71
Stock acquisition rights	566	643
Non-controlling interests	386	445
Total net assets	40,013	42,292
Total liabilities and net assets	262,529	298,945

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

(Millions of yen)

	For the three months ended September 30, 2020	For the three months ended September 30, 2021
Net sales	22,156	33,634
Cost of sales	5,839	11,694
Gross profit	16,317	21,939
Selling, general and administrative expenses	15,953	21,090
Operating profit	364	849
Non-operating income		
Interest income	10	5
Compensation income	12	-
Consumption taxes refund	-	6
Foreign exchange gain	-	6
Other	14	13
Total non-operating income	38	32
Non-operating expenses		
Interest expense	59	35
Foreign exchange loss	75	-
Bond issuance costs	-	11
Other	5	0
Total non-operating expenses	139	46
Ordinary profit	262	834
Extraordinary income		
Gain on sales of investment securities	6,942	-
Total extraordinary income	6,942	-
Net profit before income taxes	7,204	834
Income taxes	2,919	894
Net profit (loss)	4,285	(59)
Net profit attributable to non-controlling interests	4	59
Net profit (loss) attributable to owners of parent	4,281	(119)

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Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the three months ended September 30, 2020	For the three months ended September 30, 2021
Net profit	4,285	(59)
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,997)	-
Foreign currency translation adjustments	(194)	77
Total other comprehensive income	(4,192)	77
Comprehensive income	92	17
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	88	(41)
Comprehensive income attributable to non-controlling interests	4	59

(3) Notes to the Quarterly Consolidated Financial Statements

Notes on going concern assumption

Not applicable.

Notes on significant changes in the amount of shareholders' equity

Not applicable.

Application of special accounting treatments for preparing the quarterly consolidated financial statements

Calculation of income tax expense

The Company reasonably estimated the effective tax rate following application of tax effect accounting on net profit before income taxes for the fiscal year, which includes the current quarterly period, and applied this percentage to quarterly net profit before income taxes to determine income taxes.

Change in accounting policy

Application of Accounting Standard for Revenue Recognition, etc.

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021, Accounting Standards Board of Japan) from the beginning of the first quarter of the current fiscal year, and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services.

The main changes resulting from the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations are as follows.

Revenue recognition for transactions of entity acting as principal

For services related to delivery carried out as part of the Group's marketplace services, the amount of revenue was previously calculated by deducting the delivery costs from the amount received from the customer. However, as a result of applying the Accounting Standard for Revenue Recognition and relevant ASBJ regulations and evaluating whether each entity in the Group that has a delivery function acts as principal or agent when providing goods or services to their customers, the Company's US subsidiary shall be treated as an entity acting as a principal.

As a result, for the aforementioned transactions, the method of calculating the amount of revenue has changed to the method in which the full amount of consideration received from the customer is recognized as revenue.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the start of the current fiscal year, was added to or subtracted from the opening balance of retained earnings of the current fiscal year, and thus the new accounting policy was applied from such opening balance; provided, however, that the new accounting policy was not retrospectively applied to contracts where recognitions of nearly all the revenue amounts for periods prior to the start of the current fiscal year, by applying the method provided for in paragraph 86 of the Accounting Standard for Revenue Recognition.

As a result, net sales increased by ¥4,742 million, cost of sales increased by ¥4,879 million, and selling, general and administrative expenses decreased by ¥151 million, while operating profit, ordinary profit, and net profit before income taxes each increased by ¥14 million. In addition, retained earnings as of the beginning of the previous fiscal year decreased by ¥38 million.

Application of Accounting Standard for Fair Value Measurement, etc.

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year under review, and it has applied the new accounting policy provided for by the Accounting Standard for Fair Value Measurement, etc. prospectively in accordance with the transitional measures provided for in paragraph 19 of the Accounting Standard for Fair Value Measurement, and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019).

There is no impact on the quarterly consolidated financial statements from the application of this standard.

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Segment information, etc.

Segment information, etc. is omitted as the Group operates a single segment—i.e., the marketplace business.

Significant subsequent events

Not applicable.