

**Consolidated Financial Statements for the Third Quarter of
the Fiscal Year Ending December 31, 2021
[Japanese GAAP]**



November 9, 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 filing quarterly report: November 9, 2021

Scheduled date of commencing dividend payments: —

Preparation of supplementary explanatory materials: Yes

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, 2021
(January 1, 2021 – September 30, 2021)**

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended								
September 30, 2021	27,263	72.9	4,797	73.8	5,013	82.5	3,049	88.3
September 30, 2020	15,763	6.5	2,760	50.7	2,746	47.0	1,619	69.0

(Note) Comprehensive income: Nine months ended September 30, 2021: ¥3,264 million [105.6%]

Nine months ended September 30, 2020: ¥1,587 million [42.6%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2021	109.89	108.95
September 30, 2020	58.58	58.06

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2021	37,078	22,155	58.8
As of December 31, 2020	33,280	19,637	58.1

(Reference) Equity: As of September 30, 2021: ¥21,794 million

As of December 31, 2020: ¥19,324 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, 2020	—	10.00	—	11.00	21.00
Year ending December 31, 2021	—	19.00	—		
Year ending December 31, 2021 (Forecast)				19.00	38.00

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

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
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	36,655	52.2	5,600	51.1	5,756	58.0	3,471	83.0	124.36

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

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in the change in scope of consolidation): 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, 2021:	27,952,900 shares
December 31, 2020:	27,863,500 shares
 - 2) Total number of treasury shares at the end of the period:

September 30, 2021:	140,516 shares
December 31, 2020:	147,316 shares
 - 3) Average number of shares during the period:

Nine months ended September 30, 2021:	27,753,340 shares
Nine months ended September 30, 2020:	27,653,327 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, 2021, under a severe condition due to the impact of the novel coronavirus (COVID-19), the Japanese economy saw visible signs of a gradual recovery as a result of an array of government policies including measures to prevent the spread of infections. Nonetheless, there will continue to be the need to keep a close eye on trends of the infections both in and outside of Japan and fluctuations in financial capital markets, etc. Under 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 nine months ended September 30, 2021, net sales were ¥27,263,383 thousand (up 72.9% from the same period of the previous fiscal year), operating profit was ¥4,797,056 thousand (up 73.8% from the same period of the previous fiscal year), ordinary profit was ¥5,013,436 thousand (up 82.5% from the same period of the previous fiscal year), and profit attributable to owners of parent was ¥3,049,687 thousand (up 88.3% from the same period of 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) increased 2.3% year-on-year to 3.48 million units in the nine months ended September 30, 2021. The total number of used-vehicle registrations (*7) decreased 0.0% year-on-year to 5.17 million units, and the number of vehicles listed (*8) at auctions around Japan increased 1.2% year-on-year to 5.36 million units. The total number of vehicles sold at auction (*8) increased 8.6% year-on-year to 3.64 million units.

Demand for used vehicles continued to rise from the second quarter due to prolonged delivery lead times for new vehicles caused by a shortage of semiconductors and insufficient supply of new vehicles mainly stemming from reduced production by automakers. Entering the third quarter, the supply shortages of used vehicles became even more obvious. Under these circumstances, the number of vehicles sold in our used vehicle auctions, as well as the number of vehicles bought in our live linked auctions and proxy bidding service remained at low levels, although surpassing the year-earlier results that showed significant declines due to the impact of the spread of COVID-19.

In the used vehicle inspection service, the number of vehicles inspected in the physical auction sites and AUCNET-hosted auctions slowed down due to the market conditions, while the number of vehicles inspected

for a used vehicle listing platform continued to be favorable from the second quarter, thus contributing to segment net sales and income.

As a result, for the nine months ended September 30, 2021, net sales (including inter-segment net sales) were ¥9,148,701 thousand (up 5.1% from the same period of the previous year), and operating profit was ¥2,892,206 thousand (up 10.2% from the same period of the previous year).

- (*1) The 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 other members online. The inventory remains at the seller's premises while other members access it via the online system.
- (*3) The 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) The proxy bidding service is an agency service provided by i-Auc, Inc. to buy, sell, settle payment for and transport used vehicles at auctions on behalf of its members.
- (*5) The 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, although the increasing trend in the number of sales unit until the second quarter somewhat settled down due to restrained purchases of smartphones prior to the launch of new models, the number of sales unit in the third quarter (the three-month period) increased from the same period of the previous year. In addition, our long-standing efforts for strengthening sales capability primarily through expanding overseas buyer network were successful, maintaining unit prices of devices high. In addition to this, the Company streamlined its operations and conducted a cost review, etc., thereby leading to a significant improvement in profit margin.

In the U.S. business, the deficit margin has narrowed on the profit side, mainly in the merchandising business. However, in addition to the impact of travel restrictions and other issues caused by the spread of COVID-19, business maintenance costs such as labor costs have been soaring in the areas where our operation centers are located. Due mainly to these factors, the business environment underwent major changes, which led to the decision to review the current business at the end of October.

As a result, for the nine months ended September 30, 2021, net sales were ¥5,353,318 thousand (up 25.0% from the same period of the previous year), and operating profit was ¥3,010,151 thousand (up 66.6% from the same period of the previous 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.

In the B2B business, demand for online auctions remained strong, and partially supported by higher average price of units sold, which was buoyed by soaring market prices, the transaction amount expanded both in and outside of Japan. Although costs increased due to the relocation of the operation center and an increase in the number of employees for the purpose of expanding the scale and streamlining operations, profit for the nine months ended September 30, 2021 increased from the same period of the previous year.

In the business targeting consumers, GALLERY RARE Ltd. which was made into a consolidated subsidiary in October last year, posted favorable performance. In addition to this, strict cost control through

PMI, among other factors, also contributed to segment profit.

As a result, for the nine months ended September 30, 2021, net sales were ¥10,451,134 thousand (up 980.7% from the same period of the previous year), and operating profit was ¥921,685 thousand (up 154.8% from the same period of the previous year).

(Others)

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

In this segment, for the nine months ended September 30, 2021, net sales (including inter-segment net sales) were ¥2,700,470 thousand (up 18.2% from the same period of the previous year), and operating loss was ¥167,882 thousand (the operating loss for the same period of the previous year was ¥255,799 thousand).

(2) Explanation of Financial Position

Total assets as of the end of the third quarter of the current fiscal year amounted to ¥37,078,185 thousand, an increase of ¥3,797,362 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥2,990,643 thousand increase in cash and deposits, a ¥264,846 thousand increase in inventories and a ¥1,132,054 thousand increase in due from auction members, despite a ¥258,351 thousand decrease in other intangible assets and a ¥388,188 thousand decrease in investments and other assets.

Total liabilities amounted to ¥14,922,400 thousand, an increase of ¥1,279,263 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥1,146,935 thousand increase in due to auction members, a ¥358,975 thousand increase in income taxes payable and a ¥125,898 thousand increase in other provisions, despite a ¥364,999 thousand decrease in other current liabilities.

Total net assets amounted to ¥22,155,784 thousand, an increase of ¥2,518,098 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥2,212,770 thousand increase in retained earnings and a ¥163,461 thousand increase in valuation difference on available-for-sale securities.

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

There is no change to the performance forecast announced on August 10, 2021.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2020	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	16,776,386	19,767,029
Notes and accounts receivable – trade	1,185,487	1,176,273
Inventories	1,774,274	2,039,120
Due from auction members	4,253,161	5,385,215
Other	1,935,683	1,937,740
Allowance for doubtful accounts	(126,899)	(63,236)
Total current assets	25,798,093	30,242,144
Non-current assets		
Property, plant and equipment	1,575,973	1,651,768
Intangible assets		
Goodwill	790,350	714,407
Other	1,250,362	992,011
Total intangible assets	2,040,713	1,706,418
Investments and other assets	3,866,043	3,477,854
Total non-current assets	7,482,729	6,836,041
Total assets	33,280,823	37,078,185
Liabilities		
Current liabilities		
Accounts payable – trade	827,655	758,686
Due to auction members	7,032,946	8,179,882
Income taxes payable	1,032,073	1,391,049
Other provisions	187,203	313,102
Other	1,586,028	1,221,028
Total current liabilities	10,665,908	11,863,748
Non-current liabilities		
Retirement benefit liability	1,744,261	1,786,137
Provision for share-based remuneration	124,282	144,534
Other provisions	20,508	10,635
Other	1,088,177	1,117,344
Total non-current liabilities	2,977,229	3,058,652
Total liabilities	13,643,137	14,922,400
Net assets		
Shareholders' equity		
Share capital	1,765,614	1,805,516
Capital surplus	6,815,614	6,852,867
Retained earnings	10,742,310	12,955,081
Treasury shares	(241,056)	(229,927)
Total shareholders' equity	19,082,483	21,383,537
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	216,400	379,862
Foreign currency translation adjustment	(5,002)	5,733
Remeasurements of defined benefit plans	30,333	25,175
Total accumulated other comprehensive income	241,731	410,771
Non-controlling interests	313,471	361,475
Total net assets	19,637,686	22,155,784
Total liabilities and net assets	33,280,823	37,078,185

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended September 30, 2020 and 2021

(Thousand yen)

	For the nine months ended September 30, 2020	For the nine months ended September 30, 2021
Net sales	15,763,930	27,263,383
Cost of sales	6,666,397	14,508,670
Gross profit	9,097,532	12,754,712
Selling, general and administrative expenses	6,337,339	7,957,656
Operating profit	2,760,193	4,797,056
Non-operating income		
Interest income	52,206	3,276
Dividend income	37,740	41,282
Foreign exchange gains	—	148,981
Reversal of allowance for doubtful accounts	—	30,785
Other	25,982	36,262
Total non-operating income	115,929	260,588
Non-operating expenses		
Interest expenses	809	791
Foreign exchange losses	87,314	—
Share of loss of entities accounted for using equity method	891	10,566
Provision of allowance for doubtful accounts	40,322	—
Loss on cancellation of insurance policies	—	25,548
Other	256	7,302
Total non-operating expenses	129,594	44,208
Ordinary profit	2,746,528	5,013,436
Extraordinary income		
Gain on extinguishment of tie-in shares	34,094	—
Gain on sales of investment securities	—	90,975
Other	617	17,096
Total extraordinary income	34,712	108,072
Extraordinary losses		
Loss on debt transfer	—	30,218
Loss on valuation of shares of subsidiaries and associates	8,624	—
Loss on liquidation of business	—	13,592
Other	—	10,378
Total extraordinary losses	8,624	54,189
Profit before income taxes	2,772,616	5,067,318
Income taxes	1,126,607	1,972,275
Profit	1,646,009	3,095,043
Profit attributable to non-controlling interests	26,138	45,355
Profit attributable to owners of parent	1,619,870	3,049,687

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended September 30, 2020 and 2021

(Thousand yen)

	For the nine months ended September 30, 2020	For the nine months ended September 30, 2021
Profit	1,646,009	3,095,043
Other comprehensive income		
Valuation difference on available-for-sale securities	(40,330)	163,461
Foreign currency translation adjustment	(10,599)	10,736
Remeasurements of defined benefit plans, net of tax	(7,591)	(5,157)
Total other comprehensive income	(58,521)	169,040
Comprehensive income	1,587,487	3,264,083
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,561,348	3,218,727
Comprehensive income attributable to non-controlling interests	26,138	45,355

(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, 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	Consumer Product Business	Total				
Net sales								
Net sales to outside customers	8,590,298	4,283,272	967,088	13,840,660	1,923,269	15,763,930	—	15,763,930
Inter-segment net sales or transfers	112,874	—	—	112,874	362,186	475,060	(475,060)	—
Total	8,703,172	4,283,272	967,088	13,953,534	2,285,456	16,238,990	(475,060)	15,763,930
Segment income (loss)	2,624,994	1,806,484	361,693	4,793,171	(255,799)	4,537,372	(1,777,178)	2,760,193

(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 ¥1,777,178 thousand is corporate expenses of negative ¥1,777,178 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 “Consumer Product 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.

In the “Others,” 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.

For the nine months ended September 30, 2021 (from January 1, 2021 to September 30, 2021)

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	Consumer Product Business	Total				
Net sales								
Net sales to outside customers	9,048,732	5,353,318	10,451,134	24,853,186	2,410,197	27,263,383	—	27,263,383
Inter-segment net sales or transfers	99,968	—	—	99,968	290,272	390,241	(390,241)	—
Total	9,148,701	5,353,318	10,451,134	24,953,154	2,700,470	27,653,624	(390,241)	27,263,383
Segment income (loss)	2,892,206	3,010,151	921,685	6,824,042	(167,882)	6,656,160	(1,859,103)	4,797,056

(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 ¥1,859,103 thousand is corporate expenses of negative ¥1,859,103 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.

3. Change to reportable segments, etc.

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.

Since the segment information for the third quarter of the previous fiscal year disclosed as information compared with the third quarter of the current fiscal year has been prepared based on the reportable segments after the change, there are differences from the reportable segments pertaining to the third quarter disclosed in the previous fiscal year.