



mercari

Consolidated Financial Results for the Nine Months Ended March 31, 2022 [Japanese GAAP]

April 28, 2022

Company name: Mercari, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4385

URL: <https://about.mercari.com/en/>

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Scheduled date of filing quarterly securities report: May 12, 2022

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 Nine Months Ended March 31, 2022 (the “Period”)

(July 1, 2021 to March 31, 2022)

(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	%
Nine months ended								
March 31, 2022	109,701	42.7	(4,686)	-	(4,753)	-	(7,708)	-
March 31, 2021	76,901	44.1	1,528	-	1,427	-	3,576	-

(Note) Comprehensive income: Nine months ended March 31, 2022: ¥(7,096) million [-%]

Nine months ended March 31, 2021: ¥(422) million [-%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
March 31, 2022	(48.27)	-
March 31, 2021	22.81	21.99

(Notes) 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 nine months ended March 31, 2022, reflect the application of this accounting standard.

2. Information on diluted earnings per share for the nine months ended March 31, 2022, 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 March 31, 2022	332,980	36,672	10.6
As of June 30, 2021	262,529	40,013	14.9

(Reference) Equity: As of March 31, 2022 ¥35,247 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 as of March 31, 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	-	0.00	-		
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)

(% 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	%
Fiscal year ending June 30, 2022	147,000	38.5	(4,500)	—	(4,600)	—	(8,600)	—

(Note) Revisions to the consolidated financial results forecast most recently announced: Yes

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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 restatements
 - 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 restatements: No
- (4) Total number of issued shares (common stock)
 - 1) Total number of issued shares at the end of the Period (including treasury stock):

March 31, 2022:	160,488,868 shares
June 30, 2021:	157,807,344 shares
 - 2) Total number of treasury stock at the end of the Period:

March 31, 2022:	85 shares
June 30, 2021:	2 shares
 - 3) Average number of shares during the Period:

Nine months ended March 31, 2022:	159,686,087 shares
Nine months ended March 31, 2021:	156,820,189 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 forward-looking statements, including the financial results forecast, contained in these materials are based on information currently available to the Company and certain assumptions deemed reasonable by the Company. As such, they do not constitute guarantees by the Company of future performance. Details concerning the forward-looking statements 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 4 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. In Q3, 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, Merlogi, and global expansion, while also continuing to grow and strengthen its three pillars of Mercari Japan, Merpay, and Mercari US. Effective January 1, 2022, the Group has transitioned to a new management execution structure to promote the creation of synergy between businesses that the Group operates in Japan and the global business development.

Furthermore, 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. This fiscal year, the Group is also working on climate change mitigation and D&I as particularly important areas of focus. The Company has been making steady progress toward achieving its materiality goals, including by holding its first ever ESG Committee meeting in February.

In the mainstay Mercari Japan business, the Group continues to achieve steady growth in gross merchandise value (GMV), reaching a new record high amid successes with respect to cross-use initiatives and item listing promotional campaigns, in addition to aggressive efforts to acquire new users. On the other hand, there has been a slowdown from the corresponding period of the previous fiscal year in the number of listings and frequency of purchases as a result of people spending less time at home largely amid changing circumstances with respect to COVID-19, coupled with an increase in fraudulent usage since the end of last year, a problem becoming more prevalent across the industry as a whole. These factors culminated in a scenario where the GMV growth rate has slowed down from the corresponding period of the previous fiscal year. As a result, Mercari Japan’s GMV for the nine months ended March 31, 2022, was ¥662.9 billion, an increase of ¥86.6 billion from the corresponding period of the previous fiscal year, with monthly active users (MAU^(Note 1)) numbering 20.69 million.

In the Souzoh business, the full rollout of *Mercari Shops* took place on October 7, 2021. Since then, even with limited features on offer, an increasing number of shops and product listings have found their way to the platform. This increase is necessary to achieve growth over the medium to long term. The Group has been taking a disciplined approach to marketing with its sights set on gaining new shops, while focusing on product updates such as release of the Refrigerated *Mercari Shipping* service to improve user experience. As a result, *Mercari Shops* has been making strong progress, with its cumulative number of shops exceeding 200,000 (as of April 19, 2022) within six months of its full rollout.

With respect to the Merpay business and its mobile payment services, the Group has been working to strengthen earnings potential mainly in the credit area, which involves providing services based on a unique form of credit leveraging *Mercari* user data and AI technology. This has resulted in the establishment of an earnings base that enables consistent achievement of an operating surplus for unadjusted operating profit^(Note 2), thereby culminating in recording an unadjusted operating profit in the third quarter of the fiscal year ending June 30, 2022. With the number of *Merpay* users having reached 12.92 million^(Note 3), and as a result of successful efforts for achieving further growth in the credit area, the percentage of users who have completed identity verification has steadily grown to 85.6%.

For the Mercari US business, MAU reached 5.90 million in the month of January, a new record high for a single month. The Group hit this milestone as the number of new users grew due to ongoing efforts to improve features in order to simplify listing. This had an effect in combination with marketing initiatives to make *Mercari* synonymous with the concept of a consumer-to-consumer (C2C) marketplace. *Mercari* brand awareness achieved a record high and for the first time exceeded some peers. Meanwhile, GMV growth rate has slowed down due to a lack of the cash payouts from the government in the current third quarter that had been provided in the previous third quarter, along with inflation and other unexpected changes in the external environment. The GMV of *Mercari* in the US for the nine months ended March 31, 2022, was \$879 million (¥99.7 billion; the exchange rate conversion is calculated using the average rate during the Period, ¥113.34 against the US dollar), up \$6 million

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from the corresponding period of the previous fiscal year, and MAU increased to 5.67 million.

As a result, for the nine months ended March 31, 2022, the Group recorded net sales of ¥109,701 million (42.7% increase year on year), operating loss of ¥4,686 million (compared to operating profit of ¥1,528 million in the corresponding period of the previous fiscal year), ordinary loss of ¥4,753 million (compared to ordinary profit of ¥1,427 million in the corresponding period of the previous fiscal year), and net loss attributable to owners of parent of ¥7,708 million (compared to net profit attributable to owners of parent of ¥3,576 million in the corresponding period of the previous fiscal year).

Information by business segment is omitted as the Group operates in 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) Amount before deducting internal transactions between *Mercari* and *Merpay*.

(Note 3) Total 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 March 31, 2022 (excluding overlaps)

(2) Explanation of Financial Position

(Assets)

Assets as of March 31, 2022, increased by ¥70,450 million from the end of the previous fiscal year to ¥332,980 million.

The main reasons for increases and decreases are as follows.

- Cash on hand and in banks increased by ¥17,830 million compared to the end of the previous fiscal year. This mainly reflected net loss before income taxes of ¥4,869 million with adjustments for a ¥24,035 million increase in deposits received, a ¥29,230 million increase in other receivable, and a ¥4,160 million decrease in deposits paid, along with a ¥24,502 million increase in guarantee deposits, income taxes paid of ¥5,854 million, a ¥27,940 million increase in short-term borrowings, repayments of long-term borrowings of ¥25,500 million, and proceeds from issuance of convertible-bond-type bonds with stock acquisition rights of ¥49,876 million.
- Other receivable increased by ¥29,230 million compared to the end of the previous fiscal year, primarily due to an increase in use of *Merpay Smart Payments* (lump-sum payment and fixed-amount payment).
- Guarantee deposits increased by ¥24,502 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 March 31, 2022, increased by ¥73,791 million from the end of the previous fiscal year to ¥296,307 million.

The main reasons for increases and decreases are as follows.

- Short-term borrowings increased by ¥27,940 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 ¥24,300 million from the end of the previous fiscal year, primarily due to repayments.
- Deposits received increased by ¥24,035 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 March 31, 2022, decreased by ¥3,340 million from the end of the previous fiscal year to ¥36,672 million.

The main reasons for increases and decreases are as follows.

- Capital stock increased by ¥1,691 million from the end of the previous fiscal year following the issuance of

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new shares.

- Capital surplus increased by ¥1,690 million from the end of the previous fiscal year following the issuance of new shares.
- Retained earnings decreased by ¥7,747 million from the end of the previous fiscal year due to the recording of net loss attributable to owners of the parent.

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

The Company has disclosed forecasts for the fiscal year ending June 30, 2022 (July 1, 2021 to June 30, 2022) in light of recent trends. For related details, please see “Notice Regarding Full-Year Consolidated and Non-Consolidated Earnings Forecasts for FY2022.6” announced today.

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 determined that although it will have a certain impact on the Company, the effects will be limited. Furthermore, it has been determined 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 March 31, 2022
Assets		
Current assets		
Cash on hand and in banks	171,463	189,294
Trade accounts receivable	2,413	4,207
Other receivable	47,001	76,232
Prepaid expenses	2,336	3,228
Deposits paid	6,251	2,090
Income taxes receivable	0	630
Other	876	2,158
Allowance for doubtful accounts	(2,416)	(4,510)
Total current assets	227,926	273,331
Non-current assets		
Property and equipment	2,623	3,207
Intangible assets	658	683
Investments and other assets		
Investment securities	215	117
Lease deposits	1,631	1,611
Deferred tax assets	2,362	2,362
Guarantee deposits	26,767	51,270
Other assets	344	396
Total investments and other assets	31,321	55,757
Total non-current assets	34,603	59,648
Total assets	262,529	332,980

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(Millions of yen)

	As of June 30, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Short-term borrowings	19,602	47,542
Current portion of long-term borrowings	35,398	446
Accounts payable	17,775	19,708
Accrued expenses	1,147	2,280
Income taxes payable	6,140	-
Deposits received	117,099	141,134
Provision for bonuses	1,683	881
Provision for point certificates	802	607
Provision for share-based compensation	152	151
Other current liabilities	5,529	5,509
Total current liabilities	205,331	218,262
Non-current liabilities		
Convertible-bond-type bonds with stock acquisition rights	-	50,000
Long-term borrowings	16,148	26,800
Retirement benefit liability	92	77
Asset retirement obligations	126	126
Deferred tax liabilities	183	164
Other non-current liabilities	633	876
Total non-current liabilities	17,184	78,044
Total liabilities	222,516	296,307
Net assets		
Shareholders' equity		
Capital stock	42,630	44,321
Capital surplus	42,585	44,275
Retained earnings (Accumulated deficit)	(46,149)	(53,896)
Treasury stock	(0)	(0)
Total shareholders' equity	39,065	34,699
Accumulated other comprehensive income		
Foreign currency translation adjustments	(5)	547
Total accumulated other comprehensive income	(5)	547
Stock acquisition rights	566	980
Non-controlling interests	386	444
Total net assets	40,013	36,672
Total liabilities and net assets	262,529	332,980

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

(Millions of yen)

	For the nine months ended March 31, 2021	For the nine months ended March 31, 2022
Net sales	76,901	109,701
Cost of sales	17,944	38,008
Gross profit	58,956	71,692
Selling, general and administrative expenses	57,427	76,378
Operating profit (loss)	1,528	(4,686)
Non-operating income		
Interest income	24	36
Compensation income	12	-
Consumption taxes refund	19	21
Other	28	28
Total non-operating income	84	87
Non-operating expenses		
Interest expense	175	97
Foreign exchange loss	0	44
Bond issuance costs	-	11
Other	10	0
Total non-operating expenses	186	154
Ordinary profit (loss)	1,427	(4,753)
Extraordinary income		
Gain on sales of investment securities	6,942	-
Gain on liquidation of investment securities	-	16
Other	28	1
Total extraordinary income	6,970	17
Extraordinary losses		
Loss on retirement of non-current assets	-	51
Loss on devaluation of investment securities	109	82
Total extraordinary losses	109	133
Net profit (loss) before income taxes	8,288	(4,869)
Income taxes	4,838	2,779
Net profit (loss)	3,450	(7,649)
Net profit (loss) attributable to non-controlling interests	(125)	59
Net profit (loss) attributable to owners of parent	3,576	(7,708)

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Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the nine months ended March 31, 2021	For the nine months ended March 31, 2022
Net profit (loss)	3,450	(7,649)
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,995)	-
Foreign currency translation adjustments	122	552
Total other comprehensive income	(3,873)	552
Comprehensive income	(422)	(7,096)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(297)	(7,155)
Comprehensive income attributable to non-controlling interests	(125)	59

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(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. However, the statutory effective tax rate is used in cases where it is not possible to use the estimated effective tax rate.

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 ¥16,517 million, cost of sales increased by ¥17,071 million, and selling, general and administrative expenses decreased by ¥592 million, while operating loss, ordinary loss, and net loss before income taxes each decreased by ¥38 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 current fiscal year, 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 in a single segment—i.e., the marketplace business.

Significant subsequent events

Not applicable.