

**Consolidated Financial Statements for the Second Quarter of  
the Fiscal Year Ending December 31, 2022  
[Japanese GAAP]**



August 9, 2022

Company name: **AUCNET INC.**  
 Stock exchange listing: Tokyo Stock Exchange  
 Code number: 3964  
 URL: <http://www.aucnet.co.jp/>  
 Representative: Mr. Shinichiro Fujisaki, President & COO  
 Contact: Mr. Hiroki Taniguchi, Director, Managing Executive Officer & CFO  
 Phone: +81-3-6440-2552  
 Scheduled date of filing quarterly report: August 9, 2022  
 Scheduled date of commencing dividend payments: September 5, 2022  
 Preparation of supplementary explanatory materials: Yes  
 Quarterly financial results meeting: Yes (for institutional investors and analysts)

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

**1. Consolidated Results for the Second Quarter of the Fiscal Year Ending December 31, 2022  
(January 1, 2022 – June 30, 2022)**

(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	%
Six months ended								
June 30, 2022	20,603	–	3,972	13.0	4,104	10.4	2,467	3.5
June 30, 2021	18,611	78.7	3,515	98.8	3,718	106.3	2,383	125.0

(Note) Comprehensive income: Six months ended June 30, 2022: ¥2,587 million [1.6%]

Six months ended June 30, 2021: ¥2,546 million [153.3%]

\* The Company has adopted the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) and the related standards from the beginning of the first quarter of the consolidated fiscal year ending December 31, 2022. Accordingly, the figures presented for the second quarter of the consolidated fiscal year ending December 31, 2022 are those after the adoption of the said standards, and as for net sales, change from the previous corresponding period is not stated.

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2022	89.23	88.57
June 30, 2021	85.95	85.25

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2022	42,579	24,247	56.1
As of December 31, 2021	36,822	22,701	60.6

(Reference) Equity: As of June 30, 2022: ¥23,886 million

As of December 31, 2021: ¥22,319 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, 2021	–	19.00	–	21.00	40.00
Year ending December 31, 2022	–	23.00			
Year ending December 31, 2022 (Forecast)			–	24.00	47.00

(Note) Revision to the forecast for dividends announced most recently: Yes

## 3. Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2022 (January 1, 2022 - December 31, 2022)

(% 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	40,270	–	6,480	10.8	6,743	10.3	4,288	18.3	155.07

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

\* The Company has adopted the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) and the related standards from the beginning of the first quarter of the consolidated fiscal year ending December 31, 2022. Accordingly, the figures presented for the forecast of consolidated results for the fiscal year ending December 31, 2022 are those after the adoption of the said standards, and as for net sales, change from the previous corresponding period is not stated.

**\* Notes:**

- (1) Changes in significant subsidiaries during the period under review: None
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards: Yes
  - 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):

June 30, 2022:	27,963,200 shares
December 31, 2021:	27,957,100 shares
  - 2) Total number of treasury shares at the end of the period:

June 30, 2022:	394,516 shares
December 31, 2021:	140,516 shares
  - 3) Average number of shares during the period:

Six months ended June 30, 2022:	27,656,774 shares
Six months ended June 30, 2021:	27,730,374 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.

Table of Contents - Attachments

1. Qualitative Information on Quarterly Financial Results .....	2
(1) Explanation of Operating Results .....	2
(2) Explanation of Financial Position .....	4
(3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information.....	4
2. Quarterly Consolidated Financial Statements and Primary Notes .....	5
(1) Quarterly Consolidated Balance Sheets .....	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income .....	7
(3) Quarterly Consolidated Statements of Cash Flows .....	9
(4) Notes to Quarterly Consolidated Financial Statements.....	10
(Notes on going concern assumption) .....	10
(Notes in case of significant changes in amount of shareholders' equity) .....	10
(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements) .....	10
(Changes in accounting policies) .....	11
(Segment information, etc.) .....	12
(Significant subsequent events) .....	14

## 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 subsidiaries) as of the end of the second quarter of the fiscal year under review.

The Company has adopted the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) and the related standards from the beginning of the first quarter of the consolidated fiscal year ending December 31, 2022. Accordingly, the figures presented for the six months ended June 30, 2022 are those after the adoption of the said standards, and as for net sales, change from the previous corresponding period is not stated.

For details, please see “2. Quarterly Consolidated Financial Statements and Primary Notes (4) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies) (Adoption of Accounting Standard for Revenue Recognition, etc.)”.

During the six months ended June 30, 2022, although the Japanese economy expected to see a phased recovery in economic activity with the gradual easing of the impact of the spread of novel coronavirus (COVID-19), the outlook remains uncertain, as it is necessary to keep a close eye on the impact of Russia’s prolonged invasion of Ukraine and suppression of economic activity in China.

In these circumstances, the Group has undertaken the task of establishing circular distribution in line with our sustainability policy, “Circulating valuable goods on a global scale ~ Circulation Engine.” As a company that contributes to a sustainable society by creating a system to efficiently circulate valuable goods in the market, the Group has worked to further improve its social and economic value.

As a result, for the six months ended June 30, 2022, net sales were ¥20,603,426 thousand, operating profit was ¥3,972,238 thousand (up 13.0% from the same period of the previous fiscal year), ordinary profit was ¥4,104,459 thousand (up 10.4% from the same period of the previous fiscal year), and profit attributable to owners of parent was ¥2,467,707 thousand (up 3.5% from the same period of the previous fiscal year).

Performance results by business segment are as follows.

#### (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 15.4% year-on-year to 2.08 million units in the six months ended June 30, 2022. The total number of used-vehicle registrations (\*7) decreased 7.7% year-on-year to 3.32 million units, and the number of vehicles listed at auctions around Japan (\*8) decreased 6.1% year-on-year to 3.51 million units. The total number of vehicles sold at auction (\*8) decreased 4.6% year-on-year to 2.40 million units.

From the previous year, the supply shortages of used vehicles have continued due to prolonged delivery lead times for new vehicles, influenced by a shortage of semiconductors and insufficient supply of new vehicles mainly stemming from reduced production by automakers. During the six months ended June 30, 2022, the number of vehicles listed and the number of vehicles sold at AUCNET-hosted used vehicle auctions declined year-on-year, and the number of vehicles bought in our live-linked auctions and proxy bidding service fell below the previous year’s results.

Meanwhile, the number of vehicles bought in our live-linked auctions and proxy bidding service bounced back thanks to an increase in the sales share by strengthening measures to promote bids and the recovery in bids by exporters from May onwards due to the weak yen and other factors. As a result, profit for the current second quarter (three-month period) increased year-on-year.

In the used vehicle inspection service, the number of vehicles inspected for a used vehicle listing platform continued to progress favorably from the previous year, thus contributing to segment net sales and income.

As a result, for the six months ended June 30, 2022, net sales (including inter-segment net sales) were ¥5,837,095 thousand, and operating profit was ¥1,900,827 thousand (down 3.4% 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 arrange for transportation of 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.

The number of sales units of used devices decreased from the previous year's results, influenced by factors such as sales of new models of smartphone. On the other hand, the number of new global buyers increased due to increased recognition of our services through continuous sales activities and the strengthening of digital marketing. The number of buyers participating in the auction continued to increase due to the enhancement of our support system, and the transaction amount expanded, partly boosted by the weak yen.

In addition, profit margin for the segment has improved with the elimination of deficits following the completion of the withdrawal of the U.S. business at the end of the previous year.

As a result, for the six months ended June 30, 2022, net sales were ¥3,940,240 thousand, and operating profit was ¥2,734,095 thousand (up 22.6% 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, due to measures to promote listing on auctions, primarily targeting members who sell infrequently at auctions, the number of items listed increased from the same period of the previous year. In addition, the strengthening of our sales structure and the continuation of digital marketing resulted in an ongoing increase in the members both in and outside of Japan, and the number of items sold increased from the same period of the previous year. The average price of units sold remained high and the transaction amount expanded.

In the business targeting consumers, due to the continuous promotion of valuation by way of digital marketing and other efforts, the purchasing and sales business posted favorable performance, and the transaction amount increased. In addition to this, profit margin continued to improve due to the strengthening of product management.

As a result, for the six months ended June 30, 2022, net sales were ¥8,922,681 thousand, and operating profit was ¥885,594 thousand (up 36.3% 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, net sales (including inter-segment net sales) were ¥2,147,776 thousand, and operating loss was ¥184,825 thousand (the operating loss for the same period of the previous year was ¥86,627 thousand).

## (2) Explanation of Financial Position

### 1) Overview of Assets, Liabilities, and Net Assets

Total assets as of the end of the second quarter of the current fiscal year amounted to ¥42,579,756 thousand, an increase of ¥5,756,909 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥3,926,560 thousand increase in cash and deposits, a ¥1,832,952 thousand increase in due from auction members, and a ¥337,319 thousand increase in inventories, despite a ¥200,495 thousand decrease in other intangible assets.

Total liabilities amounted to ¥18,331,841 thousand, an increase of ¥4,210,951 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥4,476,052 thousand increase in due to auction members, despite a ¥262,449 thousand decrease in income taxes payable, and ¥135,041 thousand decrease in other provisions (under current liabilities).

Total net assets amounted to ¥24,247,915 thousand, an increase of ¥1,545,958 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥1,885,493 thousand increase in retained earnings and a ¥112,714 thousand increase in foreign currency translation adjustment, despite a ¥402,346 thousand decrease in treasury shares due mainly to purchase of treasury shares.

### 2) Overview of Cash Flows

Cash and cash equivalents as of the end of the second quarter of the current fiscal year amounted to ¥23,412,482 thousand, an increase of ¥3,846,560 thousand from the end of the previous fiscal year.

The status of cash flows by activity in the six months ended June 30, 2022, and the main factors affecting cash flows are as follows.

#### (Cash Flows from Operating Activities)

Cash provided by operating activities amounted to ¥5,252,322 thousand. As a main breakdown of inflows, profit before income taxes was ¥4,028,061 thousand, depreciation was ¥358,078 thousand, and increase in due to auction members was ¥4,476,052 thousand. As a main breakdown of outflows, increase in due from auction members was ¥1,832,952 thousand, and income taxes paid were ¥1,672,531 thousand.

#### (Cash Flows from Investing Activities)

Cash used in investing activities amounted to ¥388,946 thousand. As a main breakdown of inflows, proceeds from withdrawal of time deposits were ¥470,000 thousand. As a main breakdown of outflows, payments into time deposits were ¥550,000 thousand, and purchase of property, plant and equipment was ¥173,334 thousand.

#### (Cash Flows from Financing Activities)

Cash used in financing activities amounted to ¥1,131,177 thousand. This is mainly attributable to dividends paid of ¥591,097 thousand and purchase of treasury shares of ¥475,207 thousand.

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

With regard to the consolidated earnings forecasts for the fiscal year ending December 31, 2022, we have revised the figures announced on February 14, 2022, in light of the recent business trend.

The forecasts are based on information currently available and actual results may differ from the forecasts due to various factors.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2021	As of June 30, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	20,615,921	24,542,482
Notes and accounts receivable - trade	1,121,839	—
Notes and accounts receivable - trade, and contract assets	—	1,136,244
Inventories	2,224,903	2,562,222
Due from auction members	3,959,798	5,792,750
Other	2,152,044	1,999,636
Allowance for doubtful accounts	(56,168)	(58,204)
Total current assets	30,018,339	35,975,131
Non-current assets		
Property, plant and equipment	1,639,091	1,660,003
Intangible assets		
Goodwill	670,397	610,421
Other	945,788	745,292
Total intangible assets	1,616,186	1,355,713
Investments and other assets	3,549,229	3,588,907
Total non-current assets	6,804,507	6,604,624
Total assets	36,822,846	42,579,756



(Thousand yen)

	As of December 31, 2021	As of June 30, 2022
<b>Liabilities</b>		
Current liabilities		
Accounts payable – trade	751,746	811,905
Due to auction members	6,728,834	11,204,886
Income taxes payable	1,592,462	1,330,013
Other provisions	372,088	237,047
Other	1,594,198	1,594,152
Total current liabilities	11,039,329	15,178,005
Non-current liabilities		
Retirement benefit liability	1,790,612	1,825,720
Provision for share-based remuneration	167,978	188,435
Other provisions	11,789	13,629
Other	1,111,179	1,126,050
Total non-current liabilities	3,081,560	3,153,836
Total liabilities	14,120,889	18,331,841
Net assets		
Shareholders' equity		
Share capital	1,806,238	1,807,303
Capital surplus	6,854,864	6,853,072
Retained earnings	13,530,920	15,416,414
Treasury shares	(229,927)	(632,273)
Total shareholders' equity	21,962,096	23,444,515
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	302,147	281,683
Foreign currency translation adjustment	20,102	132,816
Remeasurements of defined benefit plans	35,013	27,440
Total accumulated other comprehensive income	357,262	441,940
Non-controlling interests	382,598	361,458
Total net assets	22,701,956	24,247,915
Total liabilities and net assets	36,822,846	42,579,756

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

### Quarterly Consolidated Statements of Income

Six Months Ended June 30, 2021 and 2022

(Thousand yen)

	For the six months ended June 30, 2021	For the six months ended June 30, 2022
Net sales	18,611,426	20,603,426
Cost of sales	9,794,639	11,528,819
Gross profit	8,816,786	9,074,606
Selling, general and administrative expenses	5,300,868	5,102,368
Operating profit	3,515,918	3,972,238
Non-operating income		
Interest income	2,559	1,582
Dividend income	33,644	47,276
Foreign exchange gains	155,807	86,479
Subsidy income	—	13,332
Reversal of allowance for doubtful accounts	30,715	—
Other	31,848	16,964
Total non-operating income	254,574	165,634
Non-operating expenses		
Interest expenses	599	204
Share of loss of entities accounted for using equity method	18,469	6,208
Fee expenses	—	8,771
Loss on cancellation of insurance policies	25,548	—
Loss on tax purpose reduction entry of non-current assets	—	13,332
Other	7,023	4,896
Total non-operating expenses	51,641	33,412
Ordinary profit	3,718,852	4,104,459
Extraordinary income		
Gain on liquidation of subsidiaries and associates	—	8,006
Gain on sale of investment securities	90,338	—
Other	15,943	867
Total extraordinary income	106,282	8,873
Extraordinary losses		
Loss on sale and retirement of non-current assets	8,002	19,619
Loss associated with system discontinuation	—	58,739
Loss on debt transfer	30,218	—
Other	161	6,912
Total extraordinary losses	38,382	85,272
Profit before income taxes	3,786,752	4,028,061
Income taxes	1,372,657	1,525,719
Profit	2,414,095	2,502,341
Profit attributable to non-controlling interests	30,604	34,633
Profit attributable to owners of parent	2,383,490	2,467,707

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended June 30, 2021 and 2022

(Thousand yen)

	For the six months ended June 30, 2021	For the six months ended June 30, 2022
Profit	2,414,095	2,502,341
Other comprehensive income		
Valuation difference on available-for-sale securities	138,208	(20,463)
Foreign currency translation adjustment	(2,722)	112,714
Remeasurements of defined benefit plans, net of tax	(3,437)	(7,572)
Total other comprehensive income	132,048	84,678
Comprehensive income	2,546,144	2,587,019
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,515,539	2,552,385
Comprehensive income attributable to non-controlling interests	30,604	34,633

## (3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended June 30, 2021	For the six months ended June 30, 2022
Cash flows from operating activities		
Profit before income taxes	3,786,752	4,028,061
Depreciation	372,198	358,078
Amortization of goodwill	59,976	59,976
Increase (decrease) in allowance for doubtful accounts	(57,385)	102,719
Increase (decrease) in retirement benefit liability	4,860	24,193
Increase (decrease) in provision for share-based remuneration	9,042	20,457
Increase (decrease) in other provisions	128,368	(134,342)
Interest and dividend income	(36,203)	(48,858)
Interest expenses	599	204
Share of loss (profit) of entities accounted for using equity method	18,469	6,208
Loss (gain) on liquidation of subsidiaries and associates	—	(8,006)
Decrease (increase) in trade receivables	(11,299)	60,656
Decrease (increase) in due from auction members	(385,266)	(1,832,952)
Decrease (increase) in inventories	30,348	(334,358)
Increase (decrease) in trade payables	(37,799)	60,191
Increase (decrease) in due to auction members	2,607,793	4,476,052
Loss on sale and retirement of non-current assets	8,002	19,619
Other, net	(410,462)	19,462
Subtotal	6,087,996	6,877,363
Interest and dividends received	42,307	45,841
Interest paid	(2,388)	(204)
Income taxes paid	(1,096,065)	(1,672,531)
Income taxes refund	—	1,852
Net cash provided by (used in) operating activities	5,031,849	5,252,322
Cash flows from investing activities		
Payments into time deposits	(410,000)	(550,000)
Proceeds from withdrawal of time deposits	380,000	470,000
Purchase of property, plant and equipment	(200,949)	(173,334)
Purchase of intangible assets	(112,544)	(41,153)
Proceeds from the liquidation of subsidiaries and associates	—	8,006
Payments of leasehold and guarantee deposits	(5,934)	(61,077)
Proceeds from lease and guarantee deposits received	73,258	30,102
Other, net	558,735	(71,489)
Net cash provided by (used in) investing activities	282,565	(388,946)
Cash flows from financing activities		
Purchase of treasury shares	—	(475,207)
Dividends paid	(306,365)	(591,097)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	(52,940)
Other, net	2,018	(11,930)
Net cash provided by (used in) financing activities	(304,346)	(1,131,177)
Effect of exchange rate change on cash and cash equivalents	(31,761)	114,361
Net increase (decrease) in cash and cash equivalents	4,978,306	3,846,560
Cash and cash equivalents at beginning of period	15,766,386	19,565,921
Cash and cash equivalents at end of period	20,744,692	23,412,482

(4) 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 second 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.

(Changes in accounting policies)

(Adoption of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “Revenue Recognition Standard”) and other standards from the beginning of the first quarter of the current fiscal year. The Company recognizes revenue when control of a promised good or service is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

Accordingly, the Group determines whether it is a principal or an agent for each specified good or service promised to the customer in identifying performance obligations in regular commercial transactions. For determination, we assess whether or not the Group is primarily responsible for fulfilling promise, whether or not the Group has inventory risk, and whether or not the Group has discretion in establishing prices. As a result of the assessment, when the Group concludes that the nature of its promise is a performance obligation to provide the specified goods or services itself, the total amount of the consideration is used for revenue recognition. When the Group concludes it is more likely to be assessed as agent, the net amount of the consideration is used for revenue recognition.

In addition, cashback to auction members to be paid primarily according to the transaction volume was previously recorded as selling, general and administrative expenses, however, it was changed to revenue recognition by net amount which is calculated by deducting payments to customers from the total amount of the corresponding consideration.

Furthermore, some consolidated subsidiaries of the Group offer customer loyalty programs of giving points to customers according to the transaction contents and providing goods or services equivalent to the used points. In the past, in preparation for use of the allocated points, the Group recorded the expected amount of use under the account title of provision for point card certificates while the actual provision amount for point card certificates was recorded under the account title of selling, general and administrative expenses. However, the Company changed to the method of distribution of transaction prices based on their relative stand-alone selling prices calculated in consideration of the prospect of expiration and other factors.

The Company applies the Revenue Recognition Standard, etc. in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior periods is adjusted to retained earnings at the beginning of the first quarter of the current fiscal year, with the new accounting policies applied from the beginning balance.

As a result of this change, for the six months ended June 30, 2022, net sales decreased by ¥195,031 thousand, cost of sales increased by ¥126,770 thousand, selling, general and administrative expenses decreased by ¥322,503 thousand, and operating profit, ordinary profit, and profit before income taxes decreased by ¥701 thousand, respectively. In addition, the beginning balance of retained earnings increased by ¥4,880 thousand.

Due to application of the Revenue Recognition Standard, etc., “notes and accounts receivable - trade,” which was presented under “current assets” in the consolidated balance sheet of the previous period, has been included under “notes and accounts receivable - trade, and contract assets” from the first quarter of the current fiscal year. In addition, in accordance with the transitional treatment set forth in Paragraph 89-2 of the Revenue Recognition Standard, figures for the previous period have not been reclassified based on the new presentation method. Furthermore, in accordance with the transitional treatment set forth in Paragraph 28-15 of “Accounting Standard for Quarterly Financial Statements” (ASBJ Statement No. 12, March 31, 2020), the information on the disaggregation of revenue from contracts with customers for the six months ended June 30, 2021 is not presented.

(Adoption 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; hereinafter “Fair Value Measurement Standard”) and other standards from the beginning of the first quarter of the current fiscal year, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). This has no impact on the quarterly consolidated financial statements.

(Segment information, etc.)

[Segment information]

For the six months ended June 30, 2021 (from January 1, 2021 to June 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	6,128,916	3,923,776	6,916,818	16,969,511	1,641,914	18,611,426	—	18,611,426
Inter-segment net sales or transfers	65,406	—	—	65,406	198,173	263,579	(263,579)	—
Total	6,194,323	3,923,776	6,916,818	17,034,918	1,840,087	18,875,005	(263,579)	18,611,426
Segment income (loss)	1,967,181	2,230,328	649,884	4,847,395	(86,627)	4,760,767	(1,244,848)	3,515,918

(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 ¥1,244,848 thousand is corporate expenses, which chiefly comprise general and administrative expenses not allocated to specific reportable segments.

3. Adjustments are made to reconcile segment income (loss) with operating profit reported on the quarterly consolidated statements of income.

2. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.

Not applicable.

For the six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)

1. Information on net sales and income (loss) and information on disaggregation of revenue 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								
Auction related revenue	4,001,408	3,829,627	1,214,513	9,045,549	973,517	10,019,067	—	10,019,067
Product sales related revenue	176,960	110,612	7,695,468	7,983,041	428,773	8,411,815	—	8,411,815
Other	1,590,672	—	12,700	1,603,372	569,171	2,172,544	—	2,172,544
Revenue from contracts with customers	5,769,041	3,940,240	8,922,681	18,631,963	1,971,463	20,603,426	—	20,603,426
Other revenue	—	—	—	—	—	—	—	—
Net sales to outside customers	5,769,041	3,940,240	8,922,681	18,631,963	1,971,463	20,603,426	—	20,603,426
Inter-segment net sales or transfers	68,053	—	—	68,053	176,313	244,367	(244,367)	—
Total	5,837,095	3,940,240	8,922,681	18,700,017	2,147,776	20,847,793	(244,367)	20,603,426
Segment income (loss)	1,900,827	2,734,095	885,594	5,520,517	(184,825)	5,335,691	(1,363,453)	3,972,238

(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 ¥1,363,453 thousand is corporate expenses, 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.

As disclosed in “Changes in accounting policies,” the Company applied the Revenue Recognition Standard, etc. from the beginning of the first quarter of the current fiscal year, and changed the accounting method for revenue recognition. Accordingly, the Company also changed the method for calculating segment income or loss for operating segments.

As a result of this change, compared with the previous method, net sales decreased by ¥316,209 thousand in the Automobile Business segment; net sales increased by ¥60,033 thousand in the Digital Product Business segment; net sales increased by ¥71,032 thousand in the Consumer Product Business segment; net sales decreased by ¥9,888 thousand in the Others segment in the six months ended June 30, 2022. The impact on segment income is minor.



(Significant subsequent events)

(Share repurchase and self tender offer)

The Company resolved at a Board of Directors meeting held on August 9, 2022 to repurchase its shares and conduct a self tender offer as the specific purchase method (hereinafter, the “Self Tender Offer”), pursuant to the provisions of its Articles of Incorporation in accordance with the provisions of Article 459, Paragraph 1 of the Companies Act (Act No. 86 of 2005, as amended; hereinafter, the “Companies Act”).

#### 1. Purpose of repurchase, etc.

The Company’s basic policy is to continuously pay out dividends to shareholders while continuing to maintain sufficient internal reserves on hand to fund future business development, enhance management structure and fund capital investment. It is our policy to conduct dividend payments twice a year (interim and year-end dividends) with a target of a consolidated dividend payout ratio of 30%, while comprehensively taking into account the business environment surrounding the Company and performance trends, upon maintaining sufficient internal reserves.

In addition, for the purpose of providing a flexible return of profits to shareholders, the Company stipulates in its Articles of Incorporation to the effect that, unless otherwise provided for by laws and regulations, the Company may resolve at its Board of Directors meeting on matters set forth in each item of Article 459, Paragraph 1 of the Companies Act, without obtaining a resolution of a general shareholders meeting. The Company had repurchased its shares to enhance shareholder returns and implement flexible capital policies in response to changes in the operating environment. Pursuant to the Board of Directors’ resolution adopted on February 14, 2022, the Company’s common shares were repurchased from the market.

Under these circumstances, in late May 2022, the Company was notified by (i) FLEX Corporation, the Company’s largest shareholder (as of March 31, 2022) (11,198,800 shares held with a shareholding ratio of 40.42%; hereinafter, “FLEX Corporation”) and (ii) NAMAI ASSET MANAGEMENT INC., the Company’s second largest shareholder (as of March 31, 2022) 1,850,000 shares held with a shareholding ratio of 6.68%; hereinafter, “NAMAI ASSET MANAGEMENT,” and together with FLEX Corporation, collectively referred to as “Prospective Tendering Shareholders”) that the Prospective Tendering Shareholders intended to sell 1,500,000 shares (shareholding ratio: 5.41%) out of the Company’s common shares they held (a total of 13,048,800 shares held with a total shareholding ratio of 47.09%) via Mr. Kiyotaka Fujisaki, the Company’s Chairman & CEO, and Mr. Shinichiro Fujisaki, the Company’s President & COO.

In response to this notification, the Company started specific studies in late May 2022 on the impact on the liquidity and market price of the Company’s common shares in the event that the Company’s common shares for which the Prospective Tendering Shareholders have the intent to sell are temporarily released to the market, as well as on the feasibility of repurchasing these shares in light of the Company’s financial standing and other factors. As a result, in late June 2022, we concluded that repurchasing the Company’s common shares that the Prospective Tendering Shareholders wish to sell would not only prevent the temporary deterioration of the supply-demand relationship of the Company’s common shares, but also contribute to the Company’s capital efficiency, such as basic earnings per share (EPS) and return on equity (ROE), ultimately leading to profit returns to our shareholders. Moreover, the Company has outlined in its Mid-Term Management Plan Blue Print 2025 announced on May 17, 2022 that it should consider and promote capital policies, such as the repurchase of its shares and measures to improve the current ratio of shares, while taking into account the balance between investment for growth in preparation for future business development and the effect of improved capital efficiency. In terms of ROE, we declared our target of raising it to 20% in the fiscal year ending December 31, 2025 from 17.4% in the fiscal year ended December 31, 2021. Accordingly, the Company believes that the repurchase of its shares is in line with the said Plan. In addition, we have considered fully funding the repurchase of our shares with our own funds. Even in this case, we have determined that there will be no issues with our short-term solvency and we will be able to maintain our financial soundness and stability.

We conducted thorough studies on the specific methods for repurchasing our shares. As a result, we determined in late June 2022 that, rather than a market purchase through financial instruments exchanges, a tender offer would be appropriate, in consideration of the following points: (i) equality among shareholders, (ii) transparency of transactions, (iii) due to the fact that the Company’s common shares may be purchased at a certain discount from the market price, the purchase at

such price will minimize the outflow of internal assets outside the Company, and (iv) to offer shareholders other than the Prospective Tendering Shareholders the opportunity to tender the shares based on market price trends, upon providing them with a certain period for consideration.

With regard to the policy on disposal of shares to be repurchased through the Self Tender Offer, the Company intends to cancel all of them by the end of December 2022 after the completion of the Self Tender Offer.

## 2. Details of the Board of Directors' resolution regarding the share repurchase

- |  |   |
|--|---|
| 1) Class of shares to be repurchased:        | Common shares   |
| 2) Total number of shares to be repurchased: | 1,650,100 shares (maximum)<br>(Ratio to total number of issued and outstanding shares: 5.90%) |
| 3) Total repurchase price:                   | ¥2,927,277,400 (maximum)  |
| 4) Repurchase period:                        | From August 10, 2022 to October 14, 2022  |

## 3. Summary of the share purchase

- |   |   |
|---|---|
| 1) Total number of shares to be purchased:                | 1,650,000 shares  |
| 2) Purchase price:  | ¥1,774 per share of common stock                                |
| 3) Purchase period:                                       | From August 10, 2022 to September 7, 2022<br>(20 business days) |
| 4) Date of public notice of commencement of tender offer: | August 10, 2022   |
| 5) Settlement commencement date                           | October 3, 2022   |