

English Translation

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mercari

**Consolidated Financial Results
for the Six Months Ended December 31, 2022
[Japanese GAAP]**

February 7, 2023

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: February 14, 2023

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled

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

1. Consolidated Financial Results for the Six Months Ended December 31, 2022 (the "Period")**(July 1, 2022 to December 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	%
Six months ended								
December 31, 2022	84,285	18.4	5,832	-	5,967	-	1,202	-
December 31, 2021	71,191	47.7	(1,774)	-	(1,797)	-	(2,728)	-

(Note) Comprehensive income: Six months ended December 31, 2022: ¥982 million [-%]

Six months ended December 31, 2021: ¥(2,509) million [-%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2022	7.47	7.37
December 31, 2021	(17.11)	-

(Note) Information on diluted earnings per share for the six months ended December 31, 2021, is omitted since, although potential shares did exist, the recorded figure was a basic loss per share.

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(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2022	375,275	40,394	10.3
As of June 30, 2022	339,862	37,998	10.8

(Reference) Equity: As of December 31, 2022 ¥38,766 million

As of June 30, 2022 ¥36,756 million

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, 2022	-	0.00	-	0.00	0.00
Fiscal year ending June 30, 2023	-	0.00			
Fiscal year ending June 30, 2023 (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, 2023 (July 1, 2022, to June 30, 2023)

The consolidated financial results forecast for the current fiscal year is not stated because it is difficult to forecast a reasonable estimate of the full-year financial results. Details concerning the reasons thereof are stated in “1. Qualitative Information Regarding Results for the Period, (4) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 4 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: No
 - 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):

December 31, 2022:	161,357,247 shares
June 30, 2022:	160,813,967 shares
 - 2) Total number of treasury stock at the end of the Period:

December 31, 2022:	103 shares
June 30, 2022:	103 shares
 - 3) Average number of shares during the Period:

Six months ended December 31, 2022:	160,979,237 shares
Six months ended December 31, 2021:	159,460,066 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 forecasts and other notes

The consolidated financial results forecast for the current fiscal year is not stated because it is difficult to forecast a reasonable estimate of the full-year financial results. Details concerning the reasons thereof are stated in “1. Qualitative Information Regarding Results for the Period (4) 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

On February 1, 2023, the Group announced its new Group mission, “Circulate all forms of value to unleash the potential in all people.” This Group mission is meant to go beyond Mercari’s founding mission of “Create value in a global marketplace where anyone can buy & sell,” and clearly states the role that the Group should fulfill in society. The Group will continue to take on bold challenges without fear of failure as we aim to unleash the potential in people all over the world. To realize its new mission, the Group’s business policy for the current fiscal year entails having an awareness of the balance between growth and revenue by building a sturdy global business base. Furthermore, the Group is aiming for growth by creating synergies through its consumer-to-consumer (C2C) and business-to-consumer (B2C) operations, and between the Marketplace and Fintech domains.

In the Marketplace domain, the Group is striving to increase the number of listings through strengthened collaboration between the C2C and B2C business areas as one of its business objectives for the current fiscal year. During the six months ended December 31, 2022, it focused on acquiring new users through referral campaigns and offline measures such as *Mercari Workshops*, and promoted proofs of concept (PoC ^(Note 1)) for measures aimed at growth over the medium-to-long term. As a result, the growth of gross merchandise value (GMV ^(Note 2)) for the Marketplace domain was generally in line with expectations at +10% year-on-year, and for the six months ended December 31, 2022, was ¥475.2 billion, an increase of ¥39.3 billion from the corresponding period of the previous fiscal year, with monthly active users (MAU ^(Note 3)) numbering 21.53 million.

In the Fintech domain, the Group has been working to promote circular finance by strengthening Group synergy as one of its business objectives for the current fiscal year. To further grow its credit business and strengthen its revenue base, the Company announced its entry into the credit card business and began rolling out *Mercard* on November 8, 2022. Although the response seen thus far is the initial momentum generated during promotions to acquire cardholders and promote the use of *Mercard*, the number of cardholders is nonetheless growing steadily. With the launch of the service, the Company has started to make upfront investments to acquire *Mercard* cardholders and encourage use of the card; however, since a revenue base has been established to a certain extent by the credit business, which the Company has been promoting since the fiscal year ended June 30, 2021, and the business continues to grow steadily, Fintech achieved an unadjusted operating profit ^(Note 4) during the second quarter of the current fiscal year.

As a result of the above, Japan Region reported net sales of ¥58,427 million (up 20.9% year-on-year) and segment profit of ¥16,305 million (up 128.9% year-on-year) for the six months ended December 31, 2022.

In its US business, the Group has been focusing on product improvements to promote both selling and buying as its business policy for the current fiscal year. Having succeeded in achieving a certain level of brand recognition, targeted and effective advertising led to an increase in new users and MAU of 5.16 million. On the other hand, a slowdown in purchases resulting from inflation and other factors saw GMV decrease to \$528 million (¥73.9 billion; the exchange rate conversion is the total of the amounts calculated for each month using the average rate during the month), down \$52 million from the corresponding period of the previous fiscal year. As a result of the above, the US business reported net sales of ¥23,022 million (up 13.9% year-on-year) and a segment operating loss of ¥6,324 million (versus a segment loss of ¥4,567 million in the corresponding period of the previous fiscal year) for the six months ended December 31, 2022.

As a result, for the six months ended December 31, 2022, the Group recorded net sales of ¥84,285 million (18.4% increase year-on-year), operating profit of ¥5,832 million (compared to operating loss of ¥1,774 million in the corresponding period of the previous fiscal year), ordinary profit of ¥5,967 million (compared to ordinary loss of ¥1,797 million in the corresponding period of the previous fiscal year), and net profit attributable to owners of parent of ¥1,202 million (compared to net loss attributable to owners of parent of ¥2,728 million in the corresponding period of the previous fiscal year).

(Note 1) PoC (proof of concept) refers to the verification or demonstration of a new idea in the preliminary stage of prototype development.

(Note 2) GMV (Gross Merchandise Value) is the total value of merchandise sold during a specified period.

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(Note 3) 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 4) Amount before deducting internal transactions between Marketplace and Fintech (outsourced payment processing fees).

(2) Explanation of Financial Position

(Assets)

Assets as of December 31, 2022, increased by ¥35,412 million from the end of the previous fiscal year to ¥375,275 million.

The main reasons for increases and decreases are as follows.

- The main reasons for the decrease in cash on hand and in banks are outlined in the Explanation of Cash Flows section below.
- Other receivable increased by ¥17,380 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 ¥24,998 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 December 31, 2022, increased by ¥33,016 million from the end of the previous fiscal year to ¥334,880 million.

The main reasons for increases and decreases are as follows.

- Borrowings increased by ¥13,212 million from the end of the previous fiscal year, primarily due to the liquidation of receivables for lump-sum payments and fixed-amount payments.
- Deposits received increased by ¥16,277 million from the end of the previous fiscal year, primarily due to higher spending on *Mercari* and *Merpay*.

(Net assets)

Net assets as of December 31, 2022, increased by ¥2,396 million from the end of the previous fiscal year to ¥40,394 million.

The main reasons for increases and decreases are as follows.

- Capital stock increased by ¥444 million from the end of the previous fiscal year following the issuance of new shares.
- Capital surplus increased by ¥444 million from the end of the previous fiscal year following the issuance of new shares.
- Retained earnings increased by ¥1,202 million from the end of the previous fiscal year due to the recording of net profit attributable to owners of the parent.

(3) Explanation of Cash Flows

For the six months ended December 31, 2022, cash and cash equivalents (hereinafter referred to as “cash”) decreased by ¥8,970 million from the end of the previous fiscal year to ¥202,435 million as of December 31, 2022.

The status of cash flows and their contributing factors for the six months ended December 31, 2022, are as follows.

(Cash flows from operating activities)

Cash used in operating activities during the Period amounted to ¥21,450 million. This is primarily attributable to net profit before income taxes of ¥5,221 million, an increase in deposits received of ¥16,681 million, an increase in other receivable of ¥17,418 million, and an increase in guarantee deposits of ¥24,999 million.

(Cash flows from investing activities)

Cash used in investing activities during the Period amounted to ¥257 million. This is primarily attributable to purchase of property and equipment of ¥279 million, purchase of investment securities of ¥206 million, and proceeds from refund of lease deposits of ¥133 million.

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(Cash flows from financing activities)

Cash provided by financing activities during the Period amounted to ¥13,163 million. This is primarily attributable to change in short-term borrowings of ¥1,411 million and proceeds of ¥12,000 million from long-term borrowings.

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

The Group strives to achieve its mission through efforts related to its business policy for the current fiscal year, which entails having an awareness of the balance between growth and revenue by building a sturdy global business base. At the same time, it is difficult to make projections for consolidated earnings, partly because the Group will be taking a flexible approach to investments in response to business circumstances and environmental changes. This is in order to realize medium- to long-term growth, as the Group continues to closely observe the external environment in terms of how long the effects of inflation in Japan as well as in the United States will continue. As such, the Company has not yet announced forecasts for consolidated earnings.

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

(Millions of yen)

	As of June 30, 2022	As of December 31, 2022
Assets		
Current assets		
Cash on hand and in banks	211,406	199,777
Trade accounts receivable	4,454	5,443
Securities	-	2,657
Other receivable	80,287	97,667
Prepaid expenses	2,805	2,190
Deposits paid	7,093	2,356
Other current assets	2,156	9,159
Allowance for doubtful accounts	(4,807)	(4,656)
Total current assets	303,396	314,595
Non-current assets		
Property and equipment	3,462	3,168
Intangible assets	666	610
Investments and other assets		
Investment securities	117	275
Lease deposits	1,614	1,474
Deferred tax assets	3,417	3,104
Guarantee deposits	26,774	51,773
Other assets	413	273
Total investments and other assets	32,337	56,900
Total non-current assets	36,466	60,679
Total assets	339,862	375,275

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(Millions of yen)

	As of June 30, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Short-term borrowings	54,254	55,665
Current portion of long-term borrowings	1,348	1,928
Accounts payable	18,217	20,865
Accrued expenses	1,915	1,672
Income taxes payable	1,525	4,123
Deposits received	139,094	155,372
Provision for bonuses	1,389	1,660
Provision for point certificates	359	707
Provision for share-based compensation	91	318
Other current liabilities	6,525	4,516
Total current liabilities	224,722	246,830
Non-current liabilities		
Convertible-bond-type bonds with stock acquisition rights	50,000	50,000
Long-term borrowings	25,749	36,970
Retirement benefit liability	75	46
Asset retirement obligations	126	126
Deferred tax liabilities	162	158
Other non-current liabilities	1,028	749
Total non-current liabilities	77,141	88,050
Total liabilities	301,864	334,880
Net assets		
Shareholders' equity		
Capital stock	44,628	45,073
Capital surplus	44,582	45,026
Retained earnings (Accumulated deficit)	(53,757)	(52,554)
Treasury stock	(0)	(0)
Total shareholders' equity	35,453	37,544
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	(1)
Deferred gains or losses on hedges	-	(131)
Foreign currency translation adjustments	1,303	1,355
Total accumulated other comprehensive income	1,303	1,221
Stock acquisition rights	926	1,057
Non-controlling interests	314	571
Total net assets	37,998	40,394
Total liabilities and net assets	339,862	375,275

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

(Millions of yen)

	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Net sales	71,191	84,285
Cost of sales	24,844	29,905
Gross profit	46,346	54,379
Selling, general and administrative expenses	48,121	48,546
Operating profit (loss)	(1,774)	5,832
Non-operating income		
Interest income	12	176
Consumption taxes refund	14	-
Foreign exchange gain	5	-
Subsidy income	-	126
Other	22	54
Total non-operating income	54	357
Non-operating expenses		
Interest expense	65	62
Foreign exchange loss	-	134
Bond issuance costs	11	-
Other	-	25
Total non-operating expenses	77	223
Ordinary profit (loss)	(1,797)	5,967
Extraordinary income		
Gain on reversal of stock acquisition rights	-	2
Total extraordinary income	-	2
Extraordinary losses		
Loss on devaluation of investment securities	74	45
Loss on cancellation of leases	-	519
Cancellation penalty	-	114
Other	-	70
Total extraordinary losses	74	749
Net profit (loss) before income taxes	(1,872)	5,221
Income taxes	889	4,156
Net profit (loss)	(2,761)	1,064
Net loss attributable to non-controlling interests	(33)	(138)
Net profit (loss) attributable to owners of parent	(2,728)	1,202

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Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Net profit (loss)	(2,761)	1,064
Other comprehensive income		
Valuation difference on available-for-sale securities	-	(1)
Deferred gains or losses on hedges	-	(131)
Foreign currency translation adjustments	252	51
Total other comprehensive income	252	(81)
Comprehensive income	(2,509)	982
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(2,476)	1,120
Comprehensive income attributable to non-controlling interests	(33)	(138)

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(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Cash flows from operating activities		
Net profit (loss) before income taxes	(1,872)	5,221
Depreciation and amortization	374	415
Loss on devaluation of investment securities	74	45
Bond issuance costs	11	-
Change in allowance for doubtful accounts	1,423	(151)
Change in provision for point certificates	880	348
Change in provision for bonuses	(67)	271
Change in provision for share-based compensation	59	226
Interest income	(12)	(176)
Interest expense	65	62
Change in trade accounts receivable	(1,169)	(993)
Change in other receivable	(23,198)	(17,418)
Change in accounts payable	3,160	2,598
Change in deposits paid	3,057	4,708
Change in deposits received	19,972	16,681
Change in prepaid expenses	(2,132)	593
Other—net	(602)	(7,989)
Subtotal	23	4,442
Interest and dividend income received	12	176
Interest expense paid	(65)	(62)
Change in guarantee deposits	(19,501)	(24,999)
Income taxes paid	(5,854)	(1,501)
Other—net	14	493
Net cash provided by (used in) operating activities	(25,370)	(21,450)
Cash flows from investing activities		
Purchase of property and equipment	(181)	(279)
Purchase of investment securities	-	(206)
Purchase of subsidiaries' shares resulting in a change in scope of consolidation	(18)	-
Proceeds from refund of lease deposits	0	133
Other—net	12	95
Net cash provided by (used in) investing activities	(186)	(257)
Cash flows from financing activities		
Change in short-term borrowings	20,213	1,411
Proceeds from long-term borrowings	-	12,000
Repayments of long-term borrowings	(25,200)	(200)
Proceeds from issuance of bonds	49,876	-
Proceeds from issuance of common stock	1,921	50
Other—net	(35)	(97)
Net cash provided by (used in) financing activities	46,775	13,163
Foreign currency translation adjustments on cash and cash equivalents	722	(425)
Change in cash and cash equivalents	21,941	(8,970)
Cash and cash equivalents at the beginning of period	171,463	211,406
Cash and cash equivalents at the end of period	193,404	202,435

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(4) 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 methods for handling preparation of the quarterly consolidated financial statements

Calculation of income tax expense

The Company reasonably estimated the effective tax rate following the application of tax effect accounting on net profit before income taxes for the fiscal year, which includes the current quarterly period. The Company also applied this percentage to quarterly net profit before income taxes to determine income taxes. However, the statutory effective tax rate is utilized in cases where it is not possible to use the estimated effective tax rate.

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Segment information, etc.

I For the six months ended December 31, 2021

Information on net sales and profit or loss by reportable segment

(Millions of yen)

	Reportable segments			Other	Total	Adjustments	Amounts in the quarterly consolidated statements of income
	Japan Region	US	Total				
Net sales							
Net sales from external customers	48,119	20,211	68,330	2,860	71,191	-	71,191
Intersegment sales or transfers	192	-	192	274	467	(467)	-
Total	48,311	20,211	68,522	3,135	71,658	(467)	71,191
Segment profit (loss)	7,121	(4,567)	2,554	(116)	2,437	(4,212)	(1,774)

(Notes) 1. Total amount of the segment profit (loss) corresponds to operating loss described in the quarterly consolidated statements of income.

- Adjustments for segment profit (loss) mainly consist of general and administrative expenses that are not attributable to reportable segments.
- The “Other” column includes business segments that are not included in the reportable segments, such as the sports business.

II For the six months ended December 31, 2022

1. Information on net sales and profit or loss by reportable segment

(Millions of yen)

	Reportable segments			Other	Total	Adjustments	Amounts in the quarterly consolidated statements of income
	Japan Region	US	Total				
Net sales							
Net sales from external customers	58,427	23,022	81,449	2,835	84,285	-	84,285
Intersegment sales or transfers	0	-	0	260	260	(260)	-
Total	58,427	23,022	81,449	3,095	84,545	(260)	84,285
Segment profit (loss)	16,305	(6,324)	9,981	(543)	9,437	(3,604)	5,832

(Notes) 1. Total amount of the segment profit (loss) corresponds to operating profit described in the quarterly consolidated statements of income.

- Adjustments for segment profit (loss) mainly consist of general and administrative expenses that are not attributable to reportable segments.
- The “Other” column includes business segments that are not included in the reportable segments, such as the sports business.

2. Matters related to changes in reportable segments

Previously, the Group operated as a single segment, the marketplace business. Commencing the first quarter ended September 30, 2022, the Group changed its reportable segments to those of Japan Region and US.

This change was made because the Group transitioned to a new management execution structure from January 1, 2022, and changed its corporate management classification from July 1, 2022, with the objectives of further strengthening the strategy of the overall business structure in Japan and further developing globally.

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Significant subsequent events

Not applicable.