

Consolidated Financial Statements for the Fiscal Year Ended December 31, 2022 [Japanese GAAP]



February 14, 2023

Company name: **AUCNET INC.**
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 3964
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 Scheduled date of general shareholders meeting: March 28, 2023
 Scheduled date of commencing dividend payments: March 7, 2023
 Scheduled date of filing securities report: March 29, 2023
 Preparation of supplementary explanatory materials: Yes
 Financial results briefing: Yes (for institutional investors and analysts)

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

1. Consolidated Results for the Fiscal Year Ended December 31, 2022 (January 1, 2022 - December 31, 2022)

(1) Consolidated Operating Results (% 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	%
Year ended December 31, 2022	40,455	–	6,601	12.9	6,699	9.6	4,346	19.9
December 31, 2021	36,710	52.5	5,846	57.8	6,113	67.8	3,625	91.1

(Note) Comprehensive income: Year ended December 31, 2022: ¥4,534 million [19.2%]

Year ended December 31, 2021: ¥3,803 million [103.4%]

* The Company has adopted the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) and other standards from the beginning of the fiscal year ended December 31, 2022. Accordingly, the figures presented for the fiscal year ended 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	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Year ended	Yen	Yen	%	%	%
December 31, 2022	159.48	158.47	19.4	18.1	16.3
December 31, 2021	130.56	129.58	17.4	17.4	15.9

(Reference) Share of profit (loss) of entities accounted for using equity method:

Year ended December 31, 2022: ¥4 million

Year ended December 31, 2021: ¥5 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2022	37,348	22,911	60.3	862.24
As of December 31, 2021	36,822	22,701	60.6	802.38

(Reference) Equity: As of December 31, 2022: ¥22,514 million

As of December 31, 2021: ¥22,319 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year-end
Year ended	Million yen	Million yen	Million yen	Million yen
December 31, 2022	4,523	185	(4,426)	19,941
December 31, 2021	4,249	388	(825)	19,565

2. Cash Dividends

	Annual dividends					Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
December 31, 2021	–	19.00	–	21.00	40.00	1,117	30.6	5.3
Year ended	–	23.00	–	25.00	48.00	1,290	30.1	5.8
December 31, 2022								
Year ending	–	24.00	–	24.00	48.00		31.8	
December 31, 2023 (Forecast)								

3. Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2023 (January 1, 2023 - December 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	43,000	6.3	6,300	(4.6)	6,322	(5.6)	3,945	(9.2)	151.10

* 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) 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
- (3) 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):

December 31, 2022:	26,463,200 shares
December 31, 2021:	27,957,100 shares
 - 2) Total number of treasury shares at the end of the period:

December 31, 2022:	352,116 shares
December 31, 2021:	140,516 shares
 - 3) Average number of shares during the period:

Year ended December 31, 2022:	27,251,314 shares
Year ended December 31, 2021:	27,768,925 shares

(Reference) Summary of Non-consolidated Results**1. Non-consolidated Results for the Fiscal Year Ended December 31, 2022 (January 1, 2022 - December 31, 2022)**

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

Year ended	Net sales		Operating profit		Ordinary profit		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2022	15,832	(1.5)	3,673	9.3	6,135	82.5	4,769	146.7
December 31, 2021	16,073	15.5	3,359	54.2	3,361	36.0	1,933	89.7

Year ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
December 31, 2022	175.00	173.89
December 31, 2021	69.62	69.10

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2022	26,961	15,728	58.3	602.35
As of December 31, 2021	26,679	15,221	57.1	547.21

(Reference) Equity: As of December 31, 2022: ¥15,728 million

As of December 31, 2021: ¥15,221 million

* These financial results are outside the scope of audit procedures 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 the performance forecast, please see “1. Overview of Business Results, etc. (4) Future Outlook” on page 5 of the attachments.

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1. Overview of Business Results, etc.

(1) Overview of Business Results for the Fiscal Year under Review

1) Business Results

During the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022), in Japan, the normalization of economic activity was pursued, including the easing of various restrictions due to the impact of the novel coronavirus (COVID-19). However, it is necessary to keep a close eye on the impact of rising prices and movements in financial and capital markets, and the outlook remains uncertain.

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 fiscal year ended December 31, 2022, the Group’s net sales were ¥40,455,750 thousand, operating profit was ¥6,601,382 thousand (up 12.9% from the previous fiscal year), ordinary profit was ¥6,699,838 thousand (up 9.6% from the previous fiscal year), and profit attributable to owners of parent was ¥4,346,059 thousand (up 19.9% from 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 5.6% year-on-year to 4.20 million units in the fiscal year ended December 31, 2022. The total number of used-vehicle registrations (*7) decreased 6.4% year-on-year to 6.30 million units, and the number of vehicles listed at auctions around Japan (*8) decreased 1.0% year-on-year to 6.91 million units. The total number of vehicles sold at auctions (*8) decreased 1.3% year-on-year to 4.70 million units.

During the fiscal year under review, in the proxy bidding service, in addition to a continuous increase in the number of members, recovery of the number of vehicles bought became apparent from around June, resulting in higher profit year-on-year. Moreover, demand for used vehicle inspections remained high throughout the year and the number of vehicles inspected for a used vehicle listing platform increased, resulting in increases in both sales and profit of the used vehicle inspection service.

The number of vehicles bought in our live-linked auctions started to recover from around May. Although the number of vehicles listed and the number of vehicles sold at auctions around Japan showed signs of recovery in the fourth quarter, the number of vehicles sold at AUCNET-hosted used vehicle auctions and from the shared inventory was sluggish, leading to decreases in both segment net sales and profit.

As a result, net sales of the Automobile Business (including inter-segment net sales) were ¥11,452,754 thousand, and operating profit was ¥3,689,140 thousand (down 0.8% from the previous fiscal 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 the 2022 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.

During the fiscal year under review, although the number of sales units of used devices remained low, the transaction amount expanded, reflecting a continued increase in the number of new global buyers due to stronger digital marketing, in addition to the positive effect of the weakness of the yen throughout the year, resulting in increases in both net sales and profit. Moreover, vitalization of auctions due to the increase in the number of buyers and cost control contributed to higher profit, even excluding the impact of the elimination of deficits following the withdrawal of the U.S. business at the end of 2021.

As a result, net sales of the Digital Product Business were ¥6,899,918 thousand, and operating profit was ¥4,552,428 thousand (up 19.5% from the previous fiscal 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.

During the fiscal year under review, in the B2B business, net sales and profit both increased. This is because the number of items listed at auctions continuously increased as a result of our emphasis on measures to promote listing and the number of items bought at auctions increased, reflecting an increase in the number of buyers participating in auctions thanks to digital marketing.

In the business targeting consumers, demand for luxury brand items remained high. In addition, a greater focus on key products for purchase and appropriate purchase and sales control in view of market prices resulted in a higher profit margin, greatly contributing to an increase in profit.

As a result, net sales of the Consumer Product Business were ¥18,323,179 thousand, and operating profit was ¥1,678,835 thousand (up 30.2% from the previous fiscal year).

(Others)

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

Net sales of the Others segment (including inter-segment net sales) were ¥4,261,630 thousand, and operating loss was ¥492,037 thousand (the operating loss for the previous fiscal year was ¥252,846 thousand).

(2) Overview of Financial Position for the Fiscal Year under Review

(Assets)

Current assets as of the end of the fiscal year under review amounted to ¥30,357,759 thousand (up 1.1% from the end of the previous fiscal year). This is mainly attributable to a ¥437,770 thousand increase in inventories and a ¥779,511 thousand increase in other current assets, despite a ¥594,461 thousand decrease in cash and deposits and a ¥420,834 thousand decrease in due from auction members.

Non-current assets amounted to ¥6,990,901 thousand (up 2.7% from the end of the previous fiscal year). This is mainly attributable to a ¥312,768 thousand increase in deferred tax assets, despite a ¥90,777 thousand decrease in software and a ¥119,953 thousand decrease in goodwill.

(Liabilities)

Current liabilities as of the end of the fiscal year under review amounted to ¥11,299,957 thousand (up 2.4% from the end of the previous fiscal year). This is mainly attributable to a ¥473,546 thousand increase in due to auction members and a ¥540,222 thousand increase in other current liabilities, despite a ¥716,394 thousand decrease in income taxes payable.

Non-current liabilities amounted to ¥3,137,471 thousand (up 1.8% from the end of the previous fiscal year). This is mainly attributable to a ¥60,192 thousand increase in provision for share-based remuneration.

(Net assets)

Net assets as of the end of the fiscal year under review amounted to ¥22,911,231 thousand (up 0.9% from the end of the previous fiscal year). This is mainly attributable to an increase of ¥3,090,977 thousand in retained earnings, despite a decrease of ¥2,647,495 thousand in capital surplus.

(3) Overview of Cash Flows for the Fiscal Year under Review

Cash and cash equivalents as of the end of the fiscal year under review amounted to ¥19,941,460 thousand, an increase of ¥375,538 thousand from the end of the previous fiscal year.

The status of cash flows by activity in the fiscal year ended December 31, 2022, and the main factors affecting cash flows are as follows.

(Cash Flows from Operating Activities)

Cash provided by operating activities during the fiscal year under review amounted to ¥4,523,210 thousand (up 6.4% from the previous fiscal year). As a main breakdown of inflows, profit before income taxes was ¥6,537,661 thousand, depreciation was ¥759,466 thousand, amortization of goodwill was ¥119,953 thousand, decrease in due from auction members was ¥420,834 thousand, and increase in due to auction members was ¥473,546 thousand. As a main breakdown of outflows, increase in trade receivables was ¥136,585 thousand, increase in inventories was ¥429,267 thousand, and income taxes paid were ¥3,312,974 thousand.

(Cash Flows from Investing Activities)

Cash provided by investing activities during the fiscal year under review amounted to ¥185,158 thousand (down 52.4% from the previous fiscal year). As a main breakdown of inflows, proceeds from withdrawal of time deposits were ¥1,820,000 thousand. As a main breakdown of outflows, payments into time deposits were ¥850,000 thousand, purchase of property, plant and equipment was ¥376,453 thousand, and purchase of intangible assets was ¥353,898 thousand.

(Cash Flows from Financing Activities)

Cash used in financing activities during the fiscal year under review amounted to ¥4,426,426 thousand (up 436.3% from the previous fiscal year). As a main breakdown of outflows, purchase of treasury shares was ¥3,136,207 thousand and dividends paid were ¥1,224,980 thousand.

(4) Future Outlook

Regarding the future outlook, an upturn of the economy is expected as a result of the easing of the restrictions on economic activity in the phase of living with COVID-19. On the other hand, there is also a need to continue paying close attention to developments in the world economy such as the trend of exchange rates and the prolonged Russia-Ukraine conflict. Under such an environment, in the Automobile Business, it is expected that the impact of the semiconductor shortage will gradually dissipate and the number of vehicles listed and sold at used vehicle auctions will recover. Our aim is to create a circular distribution platform that grows together with our members. In the Digital Product Business, while it is expected that there will be little growth in the number of sales units of used devices and the outlook for exchange rates will remain unclear, we will continue to focus our efforts on expanding our network of buyers, with the aim of reforming the auction system and strengthening sourcing. In the Consumer Product Business, although it is necessary to carefully monitor the trends of exchange rates and inbound demand, we will continue to pursue synergy with GALLERY RARE Ltd. and promote establishment of bases in Europe and the U.S. to realize global distribution.

As for Group-wide investments, we will focus on branding as ESG stocks, expansion of human resources, and pay raises to ensure competitiveness, and will continue our efforts to grow our business in order to achieve the mid-term management plan “Blue Print 2025.”

Based on the above, for the forecast of the full fiscal year ending December 31, 2023, the Company expects net sales of ¥43,000 million (up 6.3% year-on-year), operating profit of ¥6,300 million (down 4.6% year-on-year), ordinary profit of ¥6,322 million (down 5.6% year-on-year), and profit attributable to owners of parent of ¥3,945 million (down 9.2% year-on-year).

2. Basic Policy on Selecting Accounting Standards

The Company continues to prepare consolidated financial statements in accordance with the Japanese standards for the time being, taking into account the comparability of consolidated financial statements over different accounting periods and between companies.

The Company will appropriately respond to the adoption of the international accounting standards considering various conditions in Japan and overseas.

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	20,615,921	20,021,460
Notes and accounts receivable - trade	1,121,839	–
Notes and accounts receivable - trade, and contract assets	–	1,244,982
Inventories	2,224,903	2,662,673
Due from auction members	3,959,798	3,538,963
Other	2,152,044	2,931,556
Allowance for doubtful accounts	(56,168)	(41,876)
Total current assets	30,018,339	30,357,759
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,702,087	1,724,778
Accumulated depreciation and impairment loss	(1,196,867)	(1,234,513)
Buildings and structures, net	505,219	490,264
Land	797,076	797,076
Other	1,510,865	1,726,812
Accumulated depreciation and impairment loss	(1,174,069)	(1,376,164)
Other, net	336,796	350,648
Total property, plant and equipment	1,639,091	1,637,989
Intangible assets		
Software	939,670	848,893
Goodwill	670,397	550,444
Other	6,117	6,630
Total intangible assets	1,616,186	1,405,968
Investments and other assets		
Investment securities	1,419,795	1,444,452
Deferred tax assets	758,189	1,070,957
Other	1,590,144	1,666,628
Allowance for doubtful accounts	(218,899)	(235,095)
Total investments and other assets	3,549,229	3,946,943
Total non-current assets	6,804,507	6,990,901
Total assets	36,822,846	37,348,660

(Thousand yen)

	As of December 31, 2021	As of December 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	751,746	785,956
Due to auction members	6,728,834	7,202,380
Income taxes payable	1,592,462	876,067
Provision for bonuses	305,775	234,819
Other	1,660,511	2,200,733
Total current liabilities	11,039,329	11,299,957
Non-current liabilities		
Retirement benefit liability	1,790,612	1,816,027
Provision for share-based remuneration	167,978	228,171
Other	1,122,969	1,093,272
Total non-current liabilities	3,081,560	3,137,471
Total liabilities	14,120,889	14,437,429
Net assets		
Shareholders' equity		
Share capital	1,806,238	1,807,303
Capital surplus	6,854,864	4,207,369
Retained earnings	13,530,920	16,621,897
Treasury shares	(229,927)	(599,643)
Total shareholders' equity	21,962,096	22,036,925
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	302,147	316,360
Foreign currency translation adjustment	20,102	111,417
Remeasurements of defined benefit plans	35,013	49,382
Total accumulated other comprehensive income	357,262	477,161
Non-controlling interests	382,598	397,144
Total net assets	22,701,956	22,911,231
Total liabilities and net assets	36,822,846	37,348,660

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

(Thousand yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Net sales	36,710,088	40,455,750
Cost of sales	19,812,180	23,136,054
Gross profit	16,897,908	17,319,695
Selling, general and administrative expenses	11,051,467	10,718,313
Operating profit	5,846,440	6,601,382
Non-operating income		
Interest income	4,137	4,248
Dividend income	43,282	55,362
Foreign exchange gains	172,877	29,943
Share of profit of entities accounted for using equity method	5,892	4,171
Subsidy income	–	16,774
Other	74,646	44,717
Total non-operating income	300,835	155,216
Non-operating expenses		
Interest expenses	759	304
Loss on tax purpose reduction entry of non-current assets	–	16,774
Fee expenses	–	33,427
Other	33,503	6,255
Total non-operating expenses	34,263	56,760
Ordinary profit	6,113,012	6,699,838
Extraordinary income		
Gain on liquidation of subsidiaries and associates	–	10,657
Other	115,939	1,073
Total extraordinary income	115,939	11,730
Extraordinary losses		
Loss on sale and retirement of non-current assets	11,128	33,064
Impairment loss	52,704	75,152
Loss associated with system discontinuation	–	56,694
Other	171,020	8,996
Total extraordinary losses	234,853	173,907
Profit before income taxes	5,994,099	6,537,661
Income taxes - current	2,483,602	2,469,928
Income taxes - deferred	(177,782)	(346,376)
Total income taxes	2,305,819	2,123,551
Profit	3,688,279	4,414,109
Profit attributable to non-controlling interests	62,752	68,049
Profit attributable to owners of parent	3,625,527	4,346,059

Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Profit	3,688,279	4,414,109
Other comprehensive income		
Valuation difference on available-for-sale securities	85,746	14,213
Foreign currency translation adjustment	25,105	91,315
Remeasurements of defined benefit plans, net of tax	4,679	14,369
Total other comprehensive income	115,531	119,898
Comprehensive income	3,803,810	4,534,008
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,741,058	4,465,958
Comprehensive income attributable to non-controlling interests	62,752	68,049

(3) Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

(Thousand yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	1,765,614	6,815,614	10,742,310	(241,056)	19,082,483
Cumulative effects of changes in accounting policies					–
Restated balance	1,765,614	6,815,614	10,742,310	(241,056)	19,082,483
Changes during period					
Issuance of new shares	40,624	40,624			81,248
Dividends of surplus			(836,916)		(836,916)
Profit attributable to owners of parent			3,625,527		3,625,527
Purchase of treasury shares					–
Cancellation of treasury shares					–
Disposal of treasury shares				11,128	11,128
Decrease (increase) of capital surplus by change of share to consolidated subsidiary		(1,374)			(1,374)
Transfer from retained earnings to capital surplus					–
Net changes in items other than shareholders' equity					
Total changes during period	40,624	39,249	2,788,610	11,128	2,879,612
Balance at end of period	1,806,238	6,854,864	13,530,920	(229,927)	21,962,096

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	216,400	(5,002)	30,333	241,731	313,471	19,637,686
Cumulative effects of changes in accounting policies						–
Restated balance	216,400	(5,002)	30,333	241,731	313,471	19,637,686
Changes during period						
Issuance of new shares						81,248
Dividends of surplus						(836,916)
Profit attributable to owners of parent						3,625,527
Purchase of treasury shares						–
Cancellation of treasury shares						–
Disposal of treasury shares						11,128
Decrease (increase) of capital surplus by change of share to consolidated subsidiary						(1,374)
Transfer from retained earnings to capital surplus						–
Net changes in items other than shareholders' equity	85,746	25,105	4,679	115,531	69,126	184,657
Total changes during period	85,746	25,105	4,679	115,531	69,126	3,064,270
Balance at end of period	302,147	20,102	35,013	357,262	382,598	22,701,956

Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

(Thousand yen)

	Shareholders' equity				Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	
Balance at beginning of period	1,806,238	6,854,864	13,530,920	(229,927)	21,962,096
Cumulative effects of changes in accounting policies			4,880		4,880
Restated balance	1,806,238	6,854,864	13,535,801	(229,927)	21,966,976
Changes during period					
Issuance of new shares	1,064	1,064			2,128
Dividends of surplus			(1,224,401)		(1,224,401)
Profit attributable to owners of parent			4,346,059		4,346,059
Purchase of treasury shares				(3,136,207)	(3,136,207)
Cancellation of treasury shares		(2,620,439)		2,620,439	–
Disposal of treasury shares		(64,245)		146,052	81,806
Decrease (increase) of capital surplus by change of share to consolidated subsidiary		563			563
Transfer from retained earnings to capital surplus		35,562	(35,562)		–
Net changes in items other than shareholders' equity					
Total changes during period	1,064	(2,647,495)	3,086,096	(369,716)	69,949
Balance at end of period	1,807,303	4,207,369	16,621,897	(599,643)	22,036,925

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	302,147	20,102	35,013	357,262	382,598	22,701,956
Cumulative effects of changes in accounting policies						4,880
Restated balance	302,147	20,102	35,013	357,262	382,598	22,706,837
Changes during period						
Issuance of new shares						2,128
Dividends of surplus						(1,224,401)
Profit attributable to owners of parent						4,346,059
Purchase of treasury shares						(3,136,207)
Cancellation of treasury shares						–
Disposal of treasury shares						81,806
Decrease (increase) of capital surplus by change of share to consolidated subsidiary						563
Transfer from retained earnings to capital surplus						–
Net changes in items other than shareholders' equity	14,213	91,315	14,369	119,898	14,546	134,444
Total changes during period	14,213	91,315	14,369	119,898	14,546	204,393
Balance at end of period	316,360	111,417	49,382	477,161	397,144	22,911,231

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Cash flows from operating activities		
Profit before income taxes	5,994,099	6,537,661
Depreciation	764,772	759,466
Impairment loss	52,704	75,152
Amortization of goodwill	133,974	119,953
Increase (decrease) in allowance for doubtful accounts	(64,111)	(6,632)
Increase (decrease) in provision for bonuses	138,862	(71,375)
Increase (decrease) in retirement benefit liability	53,092	46,127
Increase (decrease) in provision for share-based remuneration	43,696	60,192
Increase (decrease) in provision for loss on business liquidation	50,995	(50,995)
Interest and dividend income	(47,419)	(59,610)
Interest expenses	759	304
Share of loss (profit) of entities accounted for using equity method	(5,892)	(4,171)
Loss on sale and retirement of non-current assets	11,608	33,064
Loss (gain) on sale of investment securities	(92,081)	–
Loss (gain) on sale of shares of subsidiaries and associates	(15,585)	(65)
Loss (gain) on liquidation of subsidiaries and associates	–	(10,657)
Loss associated with system discontinuation	–	56,694
Decrease (increase) in trade receivables	129,498	(136,585)
Decrease (increase) in due from auction members	293,362	420,834
Decrease (increase) in inventories	(346,227)	(429,267)
Increase (decrease) in trade payables	(78,655)	34,276
Increase (decrease) in due to auction members	(304,112)	473,546
Decrease (increase) in consumption taxes refund receivable	(473,508)	(87,816)
Other, net	131,134	14,928
Subtotal	6,370,968	7,775,026
Interest and dividends received	51,936	59,610
Interest paid	(5,584)	(304)
Income taxes paid	(2,168,115)	(3,312,974)
Income taxes refund	–	1,852
Net cash provided by (used in) operating activities	4,249,204	4,523,210

(Thousand yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Cash flows from investing activities		
Payments into time deposits	(770,000)	(850,000)
Proceeds from withdrawal of time deposits	730,000	1,820,000
Purchase of property, plant and equipment	(333,247)	(376,453)
Purchase of intangible assets	(282,940)	(353,898)
Proceeds from sale of property, plant and equipment	23,344	5,833
Payment of loss associated with system development discontinuation	–	(17,342)
Proceeds from sale of shares of subsidiaries and associates	16,069	659
Proceeds from sale of investment securities	588,091	–
Proceeds from the liquidation of subsidiaries and associates	–	12,575
Payments of leasehold and guarantee deposits	(16,500)	(63,406)
Proceeds from lease and guarantee deposits received	78,593	31,858
Purchase of insurance funds	(37,895)	(38,159)
Proceeds from cancellation of insurance funds	61,148	3,728
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	385,976	–
Other, net	(53,708)	9,762
Net cash provided by (used in) investing activities	388,930	185,158
Cash flows from financing activities		
Proceeds from issuance of shares	14,998	2,128
Purchase of treasury shares	–	(3,136,207)
Proceeds from share issuance to non-controlling shareholders	5,000	–
Dividends paid	(835,676)	(1,224,980)
Other, net	(9,738)	(67,367)
Net cash provided by (used in) financing activities	(825,417)	(4,426,426)
Effect of exchange rate change on cash and cash equivalents	(13,182)	93,596
Net increase (decrease) in cash and cash equivalents	3,799,535	375,538
Cash and cash equivalents at beginning of period	15,766,386	19,565,921
Cash and cash equivalents at end of period	19,565,921	19,941,460

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Changes in accounting policies)

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

The Company has adopted 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 fiscal year ended December 31, 2022. 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 the 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 an 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 fiscal year ended December 31, 2022, with the new accounting policies applied from the beginning balance.

As a result of this change, for the fiscal year ended December 31, 2022, net sales decreased by ¥391,225 thousand, cost of sales increased by ¥232,601 thousand, selling, general and administrative expenses decreased by ¥623,856 thousand, and operating profit, ordinary profit, and profit before income taxes each increased by ¥29 thousand. In addition, the beginning balance of retained earnings increased by ¥4,880 thousand.

Due to the 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 fiscal year under review. 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.

(Adoption of Accounting Standard for Fair Value Measurement, etc.)

The Company has adopted 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 fiscal year ended December 31, 2022, 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 consolidated financial statements.

(Segment information, etc.)

[Segment information]

1. Overview of reportable segments

The Company’s reportable segments are components of the Company about which separate financial information is available. These segments are subject to periodic examinations to enable the Board of Directors to decide how to allocate management resources and assess performance.

The Company mainly organizes and conducts auctions via the Internet and provides various related information. Its business segments are based on items handled and consist of “Automobile Business,” “Digital Product Business,” and “Consumer Product Business” as reportable segments.

The Automobile Business comprises the Company’s mainstay used vehicle auctions, shared inventory market, live-linked auctions, proxy bidding service, used vehicle inspection service, and other services. The Digital Product Business comprises auctions for used digital equipment including used smartphones and used PCs, and services pertaining to distribution. The Consumer Product Business comprises auctions for pre-owned luxury brand items and services pertaining to distribution, including those targeting consumers.

2. Change to reportable segments, etc.

As disclosed in “Changes in accounting policies,” the Company has adopted the Revenue Recognition Standard, etc. from the beginning of the fiscal year ended December 31, 2022, 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 ¥588,464 thousand in the Automobile Business segment; net sales increased by ¥106,674 thousand in the Digital Product Business segment; net sales increased by ¥151,592 thousand in the Consumer Product Business segment; net sales decreased by ¥61,027 thousand in the Others segment in the fiscal year ended December 31, 2022. The impact on segment income is minor.

3. Information on net sales and income (loss) and information on disaggregation of revenue by reportable segment

For the fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Consumer Product Business	Total				
Net sales								
Net sales to outside customers	11,970,124	6,832,897	14,506,790	33,309,811	3,400,276	36,710,088	–	36,710,088
Inter-segment net sales or transfers	134,469	–	–	134,469	390,934	525,404	(525,404)	–
Total	12,104,593	6,832,897	14,506,790	33,444,280	3,791,211	37,235,492	(525,404)	36,710,088
Segment income (loss)	3,717,069	3,810,782	1,289,287	8,817,139	(252,846)	8,564,292	(2,717,852)	5,846,440

- (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 ¥2,717,852 thousand is corporate expenses not allocated to specific reportable segments. Corporate expenses 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 consolidated statements of income.

For the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Consumer Product Business	Total				
Net sales								
Auction related revenue	7,720,492	6,609,806	2,552,174	16,882,473	1,894,496	18,776,970	–	18,776,970
Product sales related revenue	345,424	290,112	15,746,298	16,381,834	819,179	17,201,014	–	17,201,014
Other	3,249,144	–	24,706	3,273,851	1,203,914	4,477,765	–	4,477,765
Revenue from contracts with customers	11,315,061	6,899,918	18,323,179	36,538,160	3,917,590	40,455,750	–	40,455,750
Other revenue	–	–	–	–	–	–	–	–
Net sales to outside customers	11,315,061	6,899,918	18,323,179	36,538,160	3,917,590	40,455,750	–	40,455,750
Inter-segment net sales or transfers	137,692	–	–	137,692	344,040	481,732	(481,732)	–
Total	11,452,754	6,899,918	18,323,179	36,675,852	4,261,630	40,937,483	(481,732)	40,455,750
Segment income (loss)	3,689,140	4,552,428	1,678,835	9,920,404	(492,037)	9,428,366	(2,826,984)	6,601,382

- (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 ¥2,826,984 thousand is corporate expenses not allocated to specific reportable segments. Corporate expenses 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 consolidated statements of income.

4. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.
For the fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

(Significant impairment loss on non-current assets)

No loss was allocated to reportable segments in the fiscal year ended December 31, 2021. Impairment loss not allocated to reportable segments was ¥52,704 thousand, comprising ¥52,396 thousand in software and ¥308 thousand in other property, plant and equipment.

(Significant changes in the amount of goodwill)

Not applicable.

For the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

(Significant impairment loss on non-current assets)

No loss was allocated to reportable segments in the fiscal year ended December 31, 2022. Impairment loss not allocated to reportable segments was ¥75,152 thousand, which was all related to software.

(Significant changes in the amount of goodwill)

Not applicable.

(Per share information)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Net assets per share	¥802.38	¥862.24
Basic earnings per share	¥130.56	¥159.48
Diluted earnings per share	¥129.58	¥158.47

(Notes) 1. The shares of the Company held by the Board Benefit Trust (“BBT”) recorded as treasury shares under shareholders’ equity are included in the treasury shares to be deducted in calculating the number of issued and outstanding shares at the end of the fiscal year and the average number of shares during the fiscal year for the purpose of calculating net assets per share and basic earnings per share. Please note that the number of shares of the Company held by BBT, which were deducted for the purpose of calculating net assets per share for the fiscal years ended December 31, 2021 and December 31, 2022, are 140,300 shares and 140,300 shares, respectively, and the average number of shares of the Company held by BBT during the fiscal years ended December 31, 2021 and December 31, 2022, which were deducted for the purpose of calculating basic earnings per share, are 142,348 shares and 140,300 shares, respectively.

2. Basis of calculation of basic earnings per share and diluted earnings per share is as follows:

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Basic earnings per share		
Profit attributable to owners of parent (Thousand yen)	3,625,527	4,346,059
Amount not attributable to common stockholders (Thousand yen)	—	—
Profit attributable to owners of parent relating to common stock (Thousand yen)	3,625,527	4,346,059
Average number of shares of common stock outstanding during the period (Shares)	27,768,925	27,251,314
Diluted earnings per share		
Adjustment for profit attributable to owners of parent (Thousand yen)	—	—
Increase in number of shares of common stock (Shares)	210,405	174,119
Overview of residual shares not included in calculation of diluted earnings per share due to lack of dilutive effect		—

(Significant subsequent events)

Not applicable.