

**Consolidated Financial Statements for the First Quarter of
the Fiscal Year Ending December 31, 2023
[Japanese GAAP]**



May 9, 2023

Company name: **AUCNET INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3964

URL: <https://www.aucnet.co.jp/en/>

Representative: Mr. Shinichiro Fujisaki, President & CEO

Contact: Mr. Hiroki Taniguchi, Director, Senior Managing Executive Officer & CFO

Phone: +81-3-6440-2552

Scheduled date of filing quarterly report: May 9, 2023

Scheduled date of commencing dividend payments: —

Preparation of supplementary explanatory materials: Yes

Quarterly financial results meeting: None

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

**1. Consolidated Results for the First Quarter of the Fiscal Year Ending December 31, 2023
(January 1, 2023 - March 31, 2023)**

(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	%
Three months ended								
March 31, 2023	10,728	2.2	2,146	0.1	2,168	(0.7)	1,390	6.5
March 31, 2022	10,501	—	2,143	18.5	2,183	8.2	1,306	2.2

(Note) Comprehensive income: Three months ended March 31, 2023: ¥1,441 million [6.4%]

Three months ended March 31, 2022: ¥1,354 million [(4.1)%]

* 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 first quarter of the fiscal year ended December 31, 2022. Accordingly, year-on-year change in net sales from the three months ended March 31, 2021, during which these standards had not yet been adopted, is not stated.

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2023	53.25	52.91
March 31, 2022	47.05	46.70

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2023	40,637	23,702	57.3
As of December 31, 2022	37,348	22,911	60.3

(Reference) Equity: As of March 31, 2023: ¥23,277 million

As of December 31, 2022: ¥22,514 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, 2022	–	23.00	–	25.00	48.00
Year ending December 31, 2023	–				
Year ending December 31, 2023 (Forecast)		24.00	–	24.00	48.00

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

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
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	43,000	6.3	6,300	(4.6)	6,322	(5.6)	3,945	(9.2)	151.10

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

* 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: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of issued and outstanding shares (common shares)
 - 1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

March 31, 2023:	26,463,200 shares
December 31, 2022:	26,463,200 shares
 - 2) Total number of treasury shares at the end of the period:

March 31, 2023:	345,316 shares
December 31, 2022:	352,116 shares
 - 3) Average number of shares during the period:

Three months ended March 31, 2023:	26,114,772 shares
Three months ended March 31, 2022:	27,764,674 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 the 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) Notes to Quarterly Consolidated Financial Statements.....	9
(Notes on going concern assumption)	9
(Notes in case of significant changes in amount of shareholders' equity)	9
(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)	9
(Segment information, etc.)	10
(Significant subsequent events)	12

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 first quarter of the fiscal year under review.

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 works to further improve its social and economic value.

In May 2022 we created a mid-term management plan, Blue Print 2025, and established four key management indicators: EBITDA, ROE, payout ratio and the Company’s own unique indicator, “Gross Circulation Value.” Under Blue Print 2025 we will work to expand market share in existing businesses and to develop new businesses, and will aim to further expand our membership network and diversify distribution channels.

As a result of promoting business in line with such plans, for the three months ended March 31, 2023, net sales were ¥10,728,850 thousand (up 2.2% from the same period of the previous fiscal year), operating profit was ¥2,146,385 thousand (up 0.1% from the same period of the previous fiscal year), ordinary profit was ¥2,168,843 thousand (down 0.7% from the same period of the previous fiscal year), and profit attributable to owners of parent was ¥1,390,640 thousand (up 6.5% from the same period of the previous fiscal year).

	For the three months ended March 31, 2023	Year-on-year change
Net sales	¥10,728,850 thousand	+2.2%
Operating profit	¥2,146,385 thousand	+0.1%
Ordinary profit	¥2,168,843 thousand	(0.7)%
Profit attributable to owners of parent	¥1,390,640 thousand	+6.5%

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) increased 15.4 % year on year to 1.38 million units in the three months ended March 31, 2023. The total number of used vehicle registrations (*7) decreased 0.5 % year on year to 1.77 million units, and the number of vehicles listed at auctions around Japan (*8) increased 18.4% year on year to 2.10 million units. The total number of vehicles sold at auctions (*8) increased 7.8% year on year to 1.31 million units.

Around October of last year, the number of new vehicle registrations, the number of vehicles listed at auctions and the number of vehicles sold at auctions began to show signs of recovery, with significant year-on-year increases for all categories in the three months ended March 31, 2023. In addition to recovery in the used vehicle auctions market, policies were taken to increase convenience, websites were constructed and successful bids by exporters, in particular, increased. As a result, the number of vehicles sold through live-linked auctions and proxy bidding services exceeded the corresponding period of the previous year and sales and profit increased year on year.

Although the number of vehicles listed at our own used vehicles auctions and in the shared inventory market increased, the number of vehicles sold was sluggish, leading to a decrease in profit year on year.

Regarding used vehicle inspection services, we continued to build fast and efficient inspection systems, and the number of vehicles inspected for a used vehicle listing platform trended favorably. As a result, sales and profit increased year on year.

As a result, for the three months ended March 31, 2023, net sales (including intersegment net sales) were

¥3,106,998 thousand (up 8.3% from the same period of the previous fiscal year) and operating profit was ¥1,047,517 thousand (up 10.3% from the same period of the previous fiscal year).

	For the three months ended March 31, 2023	Year-on-year change
Net sales	¥3,106,998 thousand	+8.3%
Operating profit	¥1,047,517 thousand	+10.3%

- (*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 2023 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.

Due to the impact of factors such as longer cycles for the replacement of units, the number of sale units decreased compared to the corresponding period of the previous year and transaction amount shrank year on year. However, due to enhancement of digital marketing and service systems, the number of new buyers continued to increase. We are proactively investing to further strengthen buying power, including new membership-based marketing policies, improvements to auction platforms and enhancement of overseas locations, as well as training, hiring and other initiatives geared toward strengthening our organization.

As a result, for the three months ended March 31, 2023, net sales were ¥1,881,982 thousand (down 8.4% from the same period of the previous fiscal year) and operating profit was ¥1,297,354 thousand (down 11.4% from the same period of the previous fiscal year).

	For the three months ended March 31, 2023	Year-on-year change
Net sales	¥1,881,982 thousand	(8.4) %
Operating profit	¥1,297,354 thousand	(11.4) %

(Consumer Product Business)

In the B2B business, new membership numbers increased due to digital marketing and other policies. Additionally, due to approaches tailored to member needs and new sales activities, both the number of items listed and the number of items sold at auctions increased compared to the corresponding period of the previous year, the transaction amount increased due to an increase in the average price of units sold, and sales and profit increased year on year.

In the business targeting consumers, gross profit margin increased due to narrowing down of key products for purchase and purchase and sales controls focused on market prices. However, due to factors such as investment into online advertisements to strengthen buying, sales increased and profit decreased year on year.

As a result, for the three months ended March 31, 2023, net sales were ¥4,809,100 thousand (up 4.0% from the

same period of the previous fiscal year) and operating profit was ¥536,127 thousand (up 10.0% from the same period of the previous fiscal year).

	For the three months ended March 31, 2023	Year-on-year change
Net sales	¥4,809,100 thousand	+4.0 %
Operating profit	¥536,127 thousand	+10.0 %

(Others)

The Others segment comprises auctions for used motorcycles and flowers, circular commerce businesses (including medical-related businesses) and overseas businesses.

For the three months ended March 31, 2023, net sales (including intersegment net sales) were ¥1,034,407 thousand (down 3.7% from the same period of the previous fiscal year) and operating loss was ¥26,823 thousand (the operating loss for the corresponding period of the previous fiscal year was ¥87,449 thousand).

	For the three months ended March 31, 2023	Year-on-year change
Net sales	¥1,034,407 thousand	(3.7) %
Operating loss	¥(26,823) thousand	—

(2) Explanation of Financial Position

Total assets as of the end of the first quarter of the fiscal year under review amounted to ¥40,637,831 thousand, an increase of ¥3,289,170 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥932,959 thousand increase in cash and deposits, a ¥2,250,146 thousand increase in due from auction members and a ¥288,746 thousand increase in inventories, despite a ¥292,676 thousand decrease in other under current assets.

Total liabilities amounted to ¥16,935,758 thousand, an increase of ¥2,498,328 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥102,037 thousand increase in accounts payable - trade and a ¥3,388,912 thousand increase in due to auction members, despite a ¥263,956 thousand decrease in income taxes payable and a ¥805,298 decrease in other under current liabilities.

Total net assets amounted to ¥23,702,073 thousand, an increase of ¥790,842 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥734,355 thousand increase in retained earnings.

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

There is no change to the performance forecast announced on February 14, 2023.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	20,021,460	20,954,419
Notes and accounts receivable - trade, and contract assets	1,244,982	1,338,665
Inventories	2,662,673	2,951,420
Due from auction members	3,538,963	5,789,110
Other	2,931,556	2,638,880
Allowance for doubtful accounts	(41,876)	(43,292)
Total current assets	30,357,759	33,629,203
Non-current assets		
Property, plant and equipment	1,637,989	1,630,990
Intangible assets		
Goodwill	550,444	520,456
Other	855,524	920,333
Total intangible assets	1,405,968	1,440,789
Investments and other assets	3,946,943	3,936,847
Total non-current assets	6,990,901	7,008,627
Total assets	37,348,660	40,637,831

(Thousand yen)

	As of December 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	785,956	887,993
Due to auction members	7,202,380	10,591,292
Income taxes payable	876,067	612,111
Other provisions	234,819	282,275
Other	2,200,733	1,395,434
Total current liabilities	11,299,957	13,769,108
Non-current liabilities		
Retirement benefit liability	1,816,027	1,841,517
Provision for share-based remuneration	228,171	234,512
Other	1,093,272	1,090,619
Total non-current liabilities	3,137,471	3,166,649
Total liabilities	14,437,429	16,935,758
Net assets		
Shareholders' equity		
Share capital	1,807,303	1,807,303
Capital surplus	4,207,369	4,201,232
Retained earnings	16,621,897	17,356,253
Treasury shares	(599,643)	(588,029)
Total shareholders' equity	22,036,925	22,776,759
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	316,360	341,432
Foreign currency translation adjustment	111,417	115,353
Remeasurements of defined benefit plans	49,382	44,382
Total accumulated other comprehensive income	477,161	501,168
Non-controlling interests	397,144	424,145
Total net assets	22,911,231	23,702,073
Total liabilities and net assets	37,348,660	40,637,831

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended March 31, 2022 and 2023

(Thousand yen)

	For the three months ended March 31, 2022	For the three months ended March 31, 2023
Net sales	10,501,878	10,728,850
Cost of sales	5,898,272	5,915,033
Gross profit	4,603,606	4,813,816
Selling, general and administrative expenses	2,460,288	2,667,431
Operating profit	2,143,317	2,146,385
Non-operating income		
Interest income	896	1,497
Dividend income	16,428	19,198
Foreign exchange gains	33,397	15,162
Other	19,529	6,205
Total non-operating income	70,252	42,063
Non-operating expenses		
Interest expenses	116	39
Share of loss of entities accounted for using equity method	13,769	19,077
Other	16,454	487
Total non-operating expenses	30,339	19,605
Ordinary profit	2,183,229	2,168,843
Extraordinary income		
Gain on liquidation of subsidiaries and associates	—	4,539
Other	663	—
Total extraordinary income	663	4,539
Extraordinary losses		
Loss on retirement of non-current assets	653	439
Other	6,530	—
Total extraordinary losses	7,184	439
Profit before income taxes	2,176,708	2,172,943
Income taxes	849,580	755,301
Profit	1,327,128	1,417,641
Profit attributable to non-controlling interests	20,817	27,001
Profit attributable to owners of parent	1,306,310	1,390,640

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended March 31, 2022 and 2023

(Thousand yen)

	For the three months ended March 31, 2022	For the three months ended March 31, 2023
Profit	1,327,128	1,417,641
Other comprehensive income		
Valuation difference on available-for-sale securities	(6,964)	25,071
Foreign currency translation adjustment	38,160	3,935
Remeasurements of defined benefit plans, net of tax	(3,737)	(5,000)
Total other comprehensive income	27,457	24,007
Comprehensive income	1,354,586	1,441,648
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,333,768	1,414,647
Comprehensive income attributable to non-controlling interests	20,817	27,001

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in amount of shareholders' equity)

Not applicable.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after application of tax-effect accounting to profit before income taxes for the fiscal year (consolidated) including the first quarter of the fiscal year under review, with quarterly profit before income taxes then multiplied by the estimated effective tax rate.

However, in the event that this tax expense calculation using estimated effective tax rate results in a significantly improbable figure, a method using the statutory effective tax rate may be adopted.

(Segment information, etc.)

[Segment information]

For the three months ended March 31, 2022 (from January 1, 2022 to March 31, 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	1,960,515	1,984,974	591,887	4,537,377	452,133	4,989,510	—	4,989,510
Product sales related revenue	80,020	70,684	4,020,204	4,170,908	243,363	4,414,272	—	4,414,272
Other	797,840	—	11,393	809,233	288,860	1,098,094	—	1,098,094
Revenue from contracts with customers	2,838,375	2,055,659	4,623,485	9,517,519	984,358	10,501,878	—	10,501,878
Other revenue	—	—	—	—	—	—	—	—
Net sales to outside customers	2,838,375	2,055,659	4,623,485	9,517,519	984,358	10,501,878	—	10,501,878
Inter-segment net sales or transfers	31,784	—	—	31,784	89,804	121,589	(121,589)	—
Total	2,870,159	2,055,659	4,623,485	9,549,304	1,074,163	10,623,467	(121,589)	10,501,878
Segment income (loss)	949,398	1,464,128	487,346	2,900,873	(87,449)	2,813,424	(670,106)	2,143,317

- (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 ¥670,106 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 three months ended March 31, 2023 (from January 1, 2023 to March 31, 2023)

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	2,008,611	1,836,290	694,834	4,539,736	451,162	4,990,898	—	4,990,898
Product sales related revenue	141,198	45,692	4,099,754	4,286,645	198,906	4,485,552	—	4,485,552
Other	928,749	—	14,511	943,261	309,138	1,252,399	—	1,252,399
Revenue from contracts with customers	3,078,559	1,881,982	4,809,100	9,769,643	959,206	10,728,850	—	10,728,850
Other revenue	—	—	—	—	—	—	—	—
Net sales to outside customers	3,078,559	1,881,982	4,809,100	9,769,643	959,206	10,728,850	—	10,728,850
Inter-segment net sales or transfers	28,439	—	—	28,439	75,201	103,640	(103,640)	—
Total	3,106,998	1,881,982	4,809,100	9,798,082	1,034,407	10,832,490	(103,640)	10,728,850
Segment income (loss)	1,047,517	1,297,354	536,127	2,880,999	(26,823)	2,854,175	(707,790)	2,146,385

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as auctions for used motorcycles and flowers, circular commerce businesses, and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥707,790 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.

Not applicable.

(Significant subsequent events)

(Share repurchase and self tender offer)

The Company resolved at a Board of Directors meeting held on May 9, 2023, 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 the 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, 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, such as the dividend of surplus and share repurchases, without obtaining a resolution of a general shareholders meeting. The purpose is to implement flexible dividend and capital policies by authorizing the Board of Directors to pay dividends and repurchase the Company’s shares.

Under the aforementioned policy, for the fiscal year ended December 31, 2022, the Company paid an annual dividend of 48 yen per share (interim dividend: 23 yen, year-end dividend: 25 yen), resulting in a consolidated dividend payout ratio of 30.1%. The Company has also been repurchasing its shares to enhance shareholder returns and implement flexible capital policies in response to changes in the operating environment. Specifically, the Company repurchased its own shares from the market pursuant to the Board of Directors’ resolution adopted on February 14, 2022, and through a public tender offer pursuant to the Board of Directors’ resolution adopted on August 9, 2022. Furthermore, on November 30, 2022, the Company cancelled all 1,500,000 common shares it acquired through the 2022 public tender offer pursuant to the Board of Directors’ resolution adopted on November 22, 2022.

Under these circumstances, in late February 2023, the Company was notified by (i) NAMAI ASSET MANAGEMENT INC., the Company’s eighth largest shareholder (as of March 31, 2023; 850,000 shares held with a shareholding ratio of 3.24%; hereinafter, “NAMAI ASSET MANAGEMENT”), (ii) FLEX Inc., the Company’s ninth largest shareholder (as of March 31, 2023; 844,800 shares held with a shareholding ratio of 3.22%; hereinafter, “FLEX”), and (iii) Flex Mine, one of the Company’s shareholders (76,800 shares held with a shareholding ratio of 0.29%; hereinafter, “Flex Mine,” and together with NAMAI ASSET MANAGEMENT and FLEX, collectively referred to as “Prospective Tendering Founding Shareholders”) that the Prospective Tendering Founding Shareholders intend to sell a total of 1,271,600 shares (shareholding ratio: 4.84%), consisting of 350,000 shares (shareholding ratio: 1.33%), which is a portion of the Company’s common shares held by NAMAI ASSET MANAGEMENT, all 844,800 shares (shareholding ratio: 3.22%) of the Company’s common shares held by FLEX, and all 76,800 shares (shareholding ratio: 0.29%) of the Company’s common shares held by Flex Mine, out of the Company’s common shares they held (a total of 1,771,600 shares held with a shareholding ratio of 6.75%) via Mr. Kiyotaka Fujisaki, the Company’s Chairman.

Meanwhile, in late February 2023, the Company was notified by Orient Corporation, the Company’s fourth largest shareholder (as of March 31, 2023; hereinafter, “Orient Corporation,” and together with the Prospective Tendering Founding Shareholders collectively referred to as “Prospective Tendering Shareholders”) that it intended to sell all 1,296,000 shares (shareholding ratio: 4.94%) of the Company’s common shares held in its name, as part of a revision of its cross-shareholdings, which it holds for the purpose of maintaining medium- to long-term relationships with business partners and expanding transactions with them.

In response to these notifications, in late February 2023, the Company started a detailed consideration of 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 the feasibility of repurchasing these shares in light of the Company’s financial standing and other factors.

As a result, in mid-March 2023, we concluded that repurchasing the Company’s common shares that the Prospective

Tendering Shareholders wish to sell would not only prevent a decline in the market share price due to 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. 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 mid-March 2023 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.

As of the date of submission of this document, the Company has not yet determined its policy on disposal of shares to be repurchased through 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: | 2,824,500 shares (maximum)
(Ratio to total number of issued and outstanding shares: 10.67%) |
| 3) Total repurchase price: | ¥3,897,810,000 (maximum) |
| 4) Repurchase period: | From May 10, 2023 to June 30, 2023 |

3. Summary of the share purchase

- | | |
|---|--|
| 1) Total number of shares to be purchased: | 2,824,400 shares |
| 2) Purchase price: | ¥1,380 per share of common stock |
| 3) Purchase period: | From May 10, 2023 to June 6, 2023 (20 business days) |
| 4) Date of public notice of commencement of tender offer: | May 10, 2023 |
| 5) Settlement commencement date: | June 28, 2023 |