

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



November 14, 2023

Company name: **AUCNET INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3964

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

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Scheduled date of filing quarterly report: November 14, 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 Third Quarter of the Fiscal Year Ending December 31, 2023
(January 1, 2023 - September 30, 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	%
Nine months ended								
September 30, 2023	32,242	5.8	5,423	1.9	5,521	(0.5)	3,512	1.3
September 30, 2022	30,485	—	5,321	10.9	5,547	10.7	3,468	13.7

(Note) Comprehensive income: Nine months ended September 30, 2023: ¥3,738 million [3.7%]

Nine months ended September 30, 2022: ¥3,604 million [10.4%]

* 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 first quarter of the fiscal year ended December 31, 2022. Accordingly, year-on-year change in net sales from the nine months ended September 30, 2021, during which these standards had not yet been adopted, is not stated.

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2023	139.05	138.40
September 30, 2022	125.55	124.63

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2023	37,796	21,967	56.9
As of December 31, 2022	37,348	22,911	60.3

(Reference) Equity: As of September 30, 2023: ¥21,501 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	–	24.00	–		
Year ending December 31, 2023 (Forecast)				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)	158.92

(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):

September 30, 2023:	26,463,200 shares
December 31, 2022:	26,463,200 shares
 - 2) Total number of treasury shares at the end of the period:

September 30, 2023:	2,814,116 shares
December 31, 2022:	352,116 shares
 - 3) Average number of shares during the period:

Nine months ended September 30, 2023:	25,258,678 shares
Nine months ended September 30, 2022:	27,627,825 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.

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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 as of the end of the third 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 medium-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 nine months ended September 30, 2023, net sales were ¥32,242,084 thousand (up 5.8% from the same period of the previous fiscal year), operating profit was ¥5,423,477 thousand (up 1.9% from the same period of the previous fiscal year), ordinary profit was ¥5,521,202 thousand (down 0.5% from the same period of the previous fiscal year), and profit attributable to owners of parent was ¥3,512,181 thousand (up 1.3% from the same period of the previous fiscal year).

	For the nine months ended September 30, 2023	Year-on-year change
Net sales	¥32,242,084 thousand	+5.8%
Operating profit	¥5,423,477 thousand	+1.9%
Ordinary profit	¥5,521,202 thousand	(0.5)%
Profit attributable to owners of parent	¥3,512,181 thousand	+1.3%

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 relay broadcast 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 15.6% year on year to 3.60 million units in the nine months ended September 30, 2023. The total number of used vehicle registrations (*7) increased 1.0% year on year to 4.86 million units, and the number of used vehicles listed at auctions around Japan (*8) increased 18.0% year on year to 6.04 million units. The total number of used vehicles sold at auctions (*8) increased 10.0% year on year to 3.90 million units.

Following on from the second quarter of the fiscal year under review, the third quarter also saw significant year-on-year increases in the number of new vehicle registrations, the number of used vehicles listed at auctions and the number of used vehicles sold at auctions.

Regarding used vehicle inspection service, in addition to sustained strong demand for used vehicle inspections, we made efforts to build a prompt and high-quality inspection system, and the number of used vehicles inspected increased substantially. As a result, sales and profit increased year on year, contributing significantly to segment income.

In terms of proxy bidding service, in the third quarter of the fiscal year under review, the number of members rose and there was a favorable performance in number of auctions won mainly by domestic dealers, resulting in increases of sales and profit year on year.

The number of auctions won through live relay broadcast auctions increased due to a brisk used vehicle auctions market, and as a result, sales and profit increased year on year.

The number of vehicles listed and the number of vehicles sold at our own used vehicle auctions increased, and in the shared inventory market, the number of auctions won showed a recovery trend due to strengthened cooperation with exporter members in the third quarter of the fiscal year under review.

As a result, for the nine months ended September 30, 2023, net sales (including intersegment net sales) were ¥9,336,711 thousand (up 8.4% from the same period of the previous fiscal year) and operating profit was ¥3,069,492 thousand (up 7.9% from the same period of the previous fiscal year).

	For the nine months ended September 30, 2023	Year-on-year change
Net sales	¥9,336,711 thousand	+8.4%
Operating profit	¥3,069,492 thousand	+7.9%

- (*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 relay broadcast 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 products, including used smartphones and used PCs, and services pertaining to distribution.

The number of buyers participating in auctions increased year on year due to the acquisition of new buyers by the use of digital marketing and an increase in the number of the listed used smartphone peripherals. However, the transaction amount shrank year on year as the number of units of used devices sold fell from the same period of the previous year due to rising price of devices and prolonged replacement cycles. We also made proactive investments by focusing on areas such as overseas branch operations to further strengthen our buying power, renovation of existing systems to improve operational efficiency, improved convenience by introducing a new auction method, and diversification of suppliers by the commencement of a trade in service for consumers.

As a result, for the nine months ended September 30, 2023, net sales were ¥5,053,420 thousand (down 3.8% from the same period of the previous fiscal year) and operating profit was ¥3,257,753 thousand (down 8.4% from the same period of the previous fiscal year).

	For the nine months ended September 30, 2023	Year-on-year change
Net sales	¥5,053,420 thousand	(3.8)%
Operating profit	¥3,257,753 thousand	(8.4)%

(Consumer Product Business)

The Consumer Product Business comprises auctions for pre-owned luxury brand items and services pertaining to distribution, including those targeting consumers.

In the B2B Business, the number of new memberships and the number of members participating in auctions remained strong owing to the use of digital marketing. In addition, an increase in the number of high unit-price items listed due to partnerships with a major company led to a rise in the average price of units sold, and transaction amount increased. As a result, sales and profit increased year on year.

In the business targeting consumers, in the third quarter of the fiscal year under review, the gross profit margin was lower than expected as a result of purchase and sales controls due to a declined market price of a part of handling items while the number of consumers increased due to the inbound demands, resulting in an increase in sales year on year.

As a result, for the nine months ended September 30, 2023, net sales were ¥15,094,472 thousand (up 9.3% from the same period of the previous fiscal year) and operating profit was ¥1,406,443 thousand (up 9.8% from the same period of the previous fiscal year).

	For the nine months ended September 30, 2023	Year-on-year change
Net sales	¥15,094,472 thousand	+9.3%
Operating profit	¥1,406,443 thousand	+9.8%

(Others)

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

For the nine months ended September 30, 2023, net sales (including intersegment net sales) were ¥3,083,438 thousand (down 2.7% from the same period of the previous fiscal year) and operating loss was ¥152,018 thousand (the operating loss for the corresponding period of the previous fiscal year was ¥361,110 thousand).

	For the nine months ended September 30, 2023	Year-on-year change
Net sales	¥3,083,438 thousand	(2.7)%
Operating loss	¥(152,018) thousand	—

(2) Explanation of Financial Position

1) Assets, liabilities and net assets

Total assets as of the end of the third quarter of the fiscal year under review amounted to ¥37,796,789 thousand, an increase of ¥448,129 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥2,817,747 thousand increase in due from auction members and a ¥381,400 thousand increase in inventories, despite a ¥2,570,906 thousand decrease in cash and deposits and a ¥222,213 thousand decrease in other under current assets.

Total liabilities amounted to ¥15,828,819 thousand, an increase of ¥1,391,389 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥1,536,201 thousand increase in due to auction members and a ¥102,223 thousand increase in accounts payable - trade, despite a ¥518,555 thousand decrease in other under current liabilities.

Total net assets amounted to ¥21,967,970 thousand, a decrease of ¥943,260 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥2,252,120 thousand increase in retained earnings, despite a ¥3,421,556 thousand decrease in treasury shares due to purchase of treasury shares.

(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 September 30, 2023
Assets		
Current assets		
Cash and deposits	20,021,460	17,450,554
Notes and accounts receivable - trade, and contract assets	1,244,982	1,183,595
Inventories	2,662,673	3,044,074
Due from auction members	3,538,963	6,356,711
Other	2,931,556	2,709,343
Allowance for doubtful accounts	(41,876)	(45,454)
Total current assets	30,357,759	30,698,823
Non-current assets		
Property, plant and equipment	1,637,989	1,650,325
Intangible assets		
Goodwill	550,444	460,479
Other	855,524	972,685
Total intangible assets	1,405,968	1,433,165
Investments and other assets	3,946,943	4,014,475
Total non-current assets	6,990,901	7,097,966
Total assets	37,348,660	37,796,789

(Thousand yen)

	As of December 31, 2022	As of September 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	785,956	888,180
Due to auction members	7,202,380	8,738,581
Income taxes payable	876,067	1,009,499
Other provisions	234,819	298,157
Other	2,200,733	1,682,177
Total current liabilities	11,299,957	12,616,596
Non-current liabilities		
Retirement benefit liability	1,816,027	1,864,280
Provision for share-based remuneration	228,171	267,781
Other	1,093,272	1,080,161
Total non-current liabilities	3,137,471	3,212,222
Total liabilities	14,437,429	15,828,819
Net assets		
Shareholders' equity		
Share capital	1,807,303	1,807,303
Capital surplus	4,207,369	4,207,369
Retained earnings	16,621,897	18,874,018
Treasury shares	(599,643)	(4,021,200)
Total shareholders' equity	22,036,925	20,867,490
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	316,360	400,980
Foreign currency translation adjustment	111,417	199,145
Remeasurements of defined benefit plans	49,382	34,380
Total accumulated other comprehensive income	477,161	634,506
Non-controlling interests	397,144	465,973
Total net assets	22,911,231	21,967,970
Total liabilities and net assets	37,348,660	37,796,789

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended September 30, 2022 and 2023

(Thousand yen)

	For the nine months ended September 30, 2022	For the nine months ended September 30, 2023
Net sales	30,485,925	32,242,084
Cost of sales	17,425,959	18,503,406
Gross profit	13,059,965	13,738,677
Selling, general and administrative expenses	7,738,209	8,315,200
Operating profit	5,321,756	5,423,477
Non-operating income		
Interest income	2,891	4,219
Dividend income	51,362	57,389
Foreign exchange gains	159,403	65,377
Other	50,163	18,657
Total non-operating income	263,820	145,644
Non-operating expenses		
Interest expenses	261	107
Share of loss of entities accounted for using equity method	10,814	17,766
Fee expenses	8,771	25,220
Other	18,106	4,824
Total non-operating expenses	37,952	47,919
Ordinary profit	5,547,623	5,521,202
Extraordinary income		
Gain on liquidation of subsidiaries and associates	8,341	4,539
Other	1,073	117
Total extraordinary income	9,414	4,657
Extraordinary losses		
Loss on liquidation of subsidiaries and associates	—	8,052
Other	172,831	3,114
Total extraordinary losses	172,831	11,166
Profit before income taxes	5,384,207	5,514,693
Income taxes	1,867,061	1,933,682
Profit	3,517,145	3,581,010
Profit attributable to non-controlling interests	48,457	68,829
Profit attributable to owners of parent	3,468,688	3,512,181

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended September 30, 2022 and 2023

(Thousand yen)

	For the nine months ended September 30, 2022	For the nine months ended September 30, 2023
Profit	3,517,145	3,581,010
Other comprehensive income		
Valuation difference on available-for-sale securities	(56,731)	84,619
Foreign currency translation adjustment	155,861	87,727
Remeasurements of defined benefit plans, net of tax	(11,407)	(15,001)
Total other comprehensive income	87,722	157,345
Comprehensive income	3,604,868	3,738,356
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,556,410	3,669,526
Comprehensive income attributable to non-controlling interests	48,457	68,829

(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)

Pursuant to a resolution passed at a meeting of the Board of Directors held on May 9, 2023, the Company purchased 2,567,600 treasury shares. As a result of this purchase, treasury shares increased by ¥3,543,288 thousand.

(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 third 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 nine months ended September 30, 2022 (from January 1, 2022 to September 30, 2022)

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

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Consumer Product Business	Total				
Net sales								
Auction related revenue	5,837,059	5,118,383	1,841,477	12,796,920	1,409,518	14,206,438	—	14,206,438
Product sales related revenue	277,613	137,285	11,948,239	12,363,139	608,234	12,971,374	—	12,971,374
Other	2,393,711	—	23,270	2,416,982	891,130	3,308,112	—	3,308,112
Revenue from contracts with customers	8,508,385	5,255,669	13,812,987	27,577,042	2,908,883	30,485,925	—	30,485,925
Other revenue	—	—	—	—	—	—	—	—
Net sales to outside customers	8,508,385	5,255,669	13,812,987	27,577,042	2,908,883	30,485,925	—	30,485,925
Inter-segment net sales or transfers	102,447	—	—	102,447	261,612	364,060	(364,060)	—
Total	8,610,832	5,255,669	13,812,987	27,679,489	3,170,496	30,849,986	(364,060)	30,485,925
Segment income (loss)	2,845,467	3,556,040	1,281,122	7,682,630	(361,110)	7,321,520	(1,999,764)	5,321,756

(Notes) 1. "Others" is the segment which is not included in reportable segments, including such businesses as auctions for used motorcycles and flowers, medical-related businesses, and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥1,999,764 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.

Impairment loss not allocated to reporting segments is ¥75,151 thousand.

For the nine months ended September 30, 2023 (from January 1, 2023 to September 30, 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	6,190,133	4,835,498	2,117,662	13,143,294	1,387,706	14,531,000	—	14,531,000
Product sales related revenue	309,750	217,921	12,864,717	13,392,389	553,709	13,946,099	—	13,946,099
Other	2,736,056	—	112,092	2,848,148	916,835	3,764,984	—	3,764,984
Revenue from contracts with customers	9,235,940	5,053,420	15,094,472	29,383,832	2,858,251	32,242,084	—	32,242,084
Other revenue	—	—	—	—	—	—	—	—
Net sales to outside customers	9,235,940	5,053,420	15,094,472	29,383,832	2,858,251	32,242,084	—	32,242,084
Inter-segment net sales or transfers	100,770	—	—	100,770	225,186	325,957	(325,957)	—
Total	9,336,711	5,053,420	15,094,472	29,484,603	3,083,438	32,568,041	(325,957)	32,242,084
Segment income (loss)	3,069,492	3,257,753	1,406,443	7,733,690	(152,018)	7,581,671	(2,158,194)	5,423,477

(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 ¥2,158,194 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)

(Cancellation of treasury shares)

At a meeting of the Board of Directors held on November 14, 2023, the Company resolved to cancel treasury shares in accordance with Article 178 of the Companies Act.

The main breakdown is as follows.

- | | |
|---|--|
| 1. Class of shares to be cancelled | Common shares of the Company |
| 2. Total number of shares to be cancelled | 1,700,000 shares
(6.42% of the total number of issued shares before the cancellation) |
| 3. Scheduled date of cancellation | November 30, 2023 |

(Reference)

Total number of shares outstanding after cancellation	24,763,200 shares
Number of treasury shares after cancellation (estimate)	857,816 shares

Notes: 1. The above estimate is calculated based on the number of treasury shares as of September 30, 2023.

2. The number of treasury shares does not include 256,300 shares of the Company's stock held by Custody Bank of Japan, Ltd. (Trust Account E).