

Consolidated Financial Statements for the Second Quarter of the Fiscal Year Ending December 31, 2020 [Japanese GAAP]



August 11, 2020

Company name: **AUCNET INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3964

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

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Scheduled date of filing quarterly report: August 11, 2020

Scheduled date of commencing dividend payments: September 1, 2020

Preparation of supplementary explanatory materials: None

Quarterly financial results meeting: Yes (for institutional investors and analysts)

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

1. Consolidated Results for the Second Quarter of the Fiscal Year Ending December 31, 2020

(January 1, 2020 – June 30, 2020)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended June 30, 2020	10,416	4.6	1,768	32.9	1,803	36.5	1,059	60.6
June 30, 2019	9,960	(0.7)	1,331	(25.9)	1,320	(28.4)	659	(31.1)

(Note) Comprehensive income: Six months ended June 30, 2020: ¥1,005 million [28.7%]

Six months ended June 30, 2019: ¥781 million [-11.0%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2020	38.33	37.99
June 30, 2019	23.97	23.71

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2020	30,709	19,036	61.0
As of December 31, 2019	29,324	18,333	61.6

(Reference) Equity: As of June 30, 2020: ¥18,746 million

As of December 31, 2019: ¥18,063 million

2. Cash Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Year ended December 31, 2019	Yen —	Yen 13.00	Yen —	Yen 13.00	Yen 26.00
Year ending December 31, 2020	—	10.00			
Year ending December 31, 2020 (Forecast)			—	10.00	20.00

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

3. Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2020 (January 1, 2020 - December 31, 2020)

(% 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
	20,328	3.3	2,582	2.3	2,681	1.9	1,430	51.77

(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):

June 30, 2020:	27,822,700 shares
December 31, 2019:	27,769,300 shares
 - 2) Total number of treasury shares at the end of the period:

June 30, 2020:	147,316 shares
December 31, 2019:	147,316 shares
 - 3) Average number of shares during the period:

Six months ended June 30, 2020:	27,641,633 shares
Six months ended June 30, 2019:	27,522,515 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of performance forecast and other notes

The earnings forecast and other forward-looking statements herein are based on the information currently available and certain assumptions deemed reasonable by the Company, and the Company does not guarantee their achievement. In addition, actual results may differ significantly from these forecasts due to a wide range of factors. For cautionary notes on assumptions that form the basis of the performance forecast and the use of performance forecast, please see “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information” on page 4 of the attachments.

Table of Contents - Attachments

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	4
(3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information	4
2. Quarterly Consolidated Financial Statements and Primary Notes	5
(1) Quarterly Consolidated Balance Sheets	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Quarterly Consolidated Statements of Cash Flows	8
(4) 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 consolidated subsidiaries) as of the end of the second quarter of the fiscal year under review.

During the six months ended June 30, 2020, although the Japanese economy continued to be buffeted by the impact of the novel coronavirus (COVID-19), due to a gradual resumption in social economic activities thanks to the effects of an array of government policies, there are expectations of a recovery from the severe situation. Nonetheless, it will be necessary to keep an eye on novel coronavirus (COVID-19) trends going forward, both inside and outside of Japan, and the outlook remains uncertain.

In these circumstances, in line with our brand statement, “Shaping the Future of Commerce,” the Company has strived to further improve its social and economic value, by (1) creating next-generation information distribution and new services, (2) thoroughly upgrading services to outperform competitors, and (3) establishment and development overseas business models.

As a result, for the six months ended June 30, 2020, net sales were ¥10,416,552 thousand (up 4.6% from the same period of the previous fiscal year), operating profit was ¥1,768,942 thousand (up 32.9% from the same period of the previous fiscal year), ordinary profit was ¥1,803,028 thousand (up 36.5% from the same period of the previous fiscal year), and profit attributable to owners of parent was ¥1,059,526 thousand (up 60.6% from the same period of the previous fiscal year).

Performance results by business segment are as follows.

1) Automobile Business

In the Japanese automotive sector, which has close connections with our business, total new-vehicle registrations (*6) decreased 19.8% year-on-year to 2.20 million units in the six months ended June 30, 2020. The total number of used-vehicle registrations (*7) fell 4.8% year-on-year to 3.46 million units, and the number of vehicles exhibited (*8) at auction around Japan declined 7.8% year-on-year to 3.67 million units. The total number of vehicles sold at auction (*8) decreased 13.0% year-on-year to 2.20 million units.

As the market trended toward stagnation due to the impact of the novel coronavirus (COVID-19), our used vehicle auction participation by primary dealers and rental and lease company members fell significantly, and the partial restriction on exports caused year-on-year declines in the numbers of both vehicles exhibited and vehicles sold at auction. In order to overcome this situation, we swiftly took initiatives to minimize the decline in distribution, such as setting special prices for transaction fees and subsidizing land transportation costs incurred by listing as urgent industry-wide support measures, and allowing non-members to participate in used vehicle auctions. Our used vehicle inspection service also declined year-on-year due to a falling number of inspections on commission owing to the impact of slack sales for both new and used vehicles. Meanwhile, in our live linked auctions and proxy bidding service, while the spread of the novel coronavirus (COVID-19) had an impact, we were able to maintain the number of vehicles bought and our sales share at the same levels as in the previous fiscal year owing to rising needs for live linked auction participation following the expansion of remote activities under self-restraint measures.

As a result, for the six months ended June 30, 2020, net sales (including inter-segment net sales) were ¥5,720,437 thousand (down 8.1% from the same period of the previous year), and operating profit was ¥1,674,727 thousand (down 14.4% from the same period of the previous year).

(*1) 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) 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 transport used vehicles at auctions on behalf of its members.
- (*5) The used vehicle inspection service and related inspection skills training services are provided by AIS INC.
- (*6) Based on statistics compiled by Japan Automobile Dealers Association
- (*7) Based on statistics compiled by Japan Automobile Dealers Association and Japan Light Motor Vehicle and Motorcycle Association
- (*8) Based on U-Car Full Data Book and Export Quotation Book

2) Digital Product Business

The Digital Product Business comprises auctions for used digital equipment including used smartphones and used PCs, and services pertaining to distribution.

In Japan, both transaction amount and profit per item increased year-on-year owing to higher unit sales prices and other factors, backed by an increase in unit sales compared to the previous fiscal year, as well as by initiatives taken to strengthen sales network since last year. In addition, we were able to substantially improve performance by working aggressively to cut selling, general and administrative expenses and to reform our business foundation. Moreover, distribution of used PCs also experienced year-on-year increases in both number of members and transaction amount backed by the prevalence of telework. On the other hand, business in the United States was hit by the suspension of economic activities under stay-at-home orders issued for the prevention of the novel coronavirus (COVID-19). Therefore, while business development did not move forward, we resumed transaction negotiations with the aim of obtaining new business opportunities.

As a result, for the six months ended June 30, 2020, net sales were ¥2,953,309 thousand (up 57.8% from the same period of the previous year), and operating profit was ¥1,223,282 thousand (up 236.1% from the same period of the previous year).

3) Other Information Distribution Business

The Other Information Distribution Business comprises auctions for pre-owned luxury brand items, used motorcycles, and flowers (cut and potted), and services pertaining to distribution.

For pre-owned luxury brand items, we saw an increase in the number of items sold. The increase was attributable to more active participation by members as a result of a business alliance with a company that offers proxy service for overseas users to purchase Japanese items, expansion of memberships inside and outside of Japan, a remote work promotion campaign, and other initiatives. In addition, transaction amount rose year-on-year because an increased number of luxury wristwatches for auction resulted in higher average sales prices. The number of used motorcycles sold at auction was on par with the previous fiscal year. While the rate of sales increased year-on-year, the number of units listed decreased from the previous fiscal year, due to the difficulty in securing products as a result of sluggish sales of new vehicles and the impact of the novel coronavirus (COVID-19). For flowers (cut and potted), transaction amount declined year-on-year due to a drop in demand as a result of self-restraint among retail stores and cancellations or contraction of weddings, funerals and other events, reflecting the impact of the novel coronavirus (COVID-19).

As a result, for the six months ended June 30, 2020, net sales were ¥1,328,392 thousand (down 2.6% from the same period of the previous fiscal year), and operating profit was ¥333,117 thousand (up 0.8% from the same period of the previous fiscal year).

4) Other Business

Other Business comprises system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

For the six months ended June 30, 2020, net sales (including inter-segment net sales) were ¥745,126 thousand (down 13.4% from the same period of the previous year), and operating loss was ¥237,742 thousand (the operating loss for the same period of the previous year was ¥156,411 thousand).

(2) Explanation of Financial Position

1) Overview of Assets, Liabilities, and Net Assets

Total assets as of the end of the second quarter of the fiscal year under review amounted to ¥30,709,322 thousand, an increase of ¥1,384,673 thousand from the end of the previous fiscal year. This is mainly attributable to respective increases of ¥1,732,541 thousand in cash and deposits and ¥56,838 thousand in notes and accounts receivable – trade, despite respective decreases of ¥71,449 thousand in due from auction members, ¥18,747 thousand in property, plant and equipment, ¥88,022 thousand in intangible assets, and ¥142,411 thousand in investments and other assets.

Total liabilities amounted to ¥11,672,595 thousand, an increase of ¥681,501 thousand from the end of the previous fiscal year. This is mainly attributable to respective increases of ¥53,461 thousand in accounts payable – trade, ¥440,563 thousand in due to auction members, ¥202,814 thousand in income taxes payable, ¥20,661 thousand in provision for share-based remuneration, and ¥35,707 thousand in retirement benefit liability.

Total net assets amounted to ¥19,036,726 thousand, an increase of ¥703,171 thousand from the end of the previous fiscal year. This is mainly attributable to respective increases of ¥29,428 thousand in share capital ¥26,271 thousand in capital surplus, ¥698,528 thousand in retained earnings, and ¥20,738 thousand in non-controlling interests, despite respective decreases of ¥60,629 thousand in valuation difference on available-for-sale securities, ¥6,103 thousand in foreign currency translation adjustment, and ¥5,061 thousand in remeasurements of defined benefit plans.

2) Overview of Cash Flows

Cash and cash equivalents as of the end of the second quarter of the fiscal year under review amounted to ¥15,444,150 thousand, an increase of ¥1,682,541 thousand from the end of the previous fiscal year.

The status of cash flows by activity in the six months ended June 30, 2020, and the main factors affecting cash flows are as follows.

(Cash Flows from Operating Activities)

Cash provided by operating activities amounted to ¥2,348,591 thousand. As a main breakdown of inflows, profit before income taxes was ¥1,794,351 thousand, depreciation was ¥371,983 thousand, and a decrease in inventories of ¥194,304 thousand, while there was an increase of ¥440,563 thousand in due to auction members. Outflows consisted primarily of ¥541,794 thousand in income taxes paid.

(Cash Flows from Investing Activities)

Cash used in investing activities amounted to ¥329,905 thousand. This is mainly attributable to payments into time deposits of ¥340,000 thousand, proceeds from withdrawal of time deposits of ¥290,000 thousand and purchase of intangible assets of ¥264,704 thousand.

(Cash Flows from Financing Activities)

Cash used in financing activities amounted to ¥362,542 thousand. This is mainly attributable to dividends paid by parent company of ¥360,944 thousand.

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

There are no changes to the performance forecast announced on February 14, 2020.

Performance in the six months ended June 30, 2020 was favorable. However, as the impact of COVID-19 continues to be unpredictable, the performance forecast has not been changed. We will promptly announce any revisions to the performance forecast in the event they become necessary in consideration of developments in the circumstances and business trends.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	14,701,608	16,434,150
Notes and accounts receivable – trade	849,107	905,946
Due from auction members	3,589,476	3,518,027
Other	3,333,990	3,258,732
Allowance for doubtful accounts	(23,529)	(32,347)
Total current assets	22,450,654	24,084,508
Non-current assets		
Property, plant and equipment	1,482,512	1,463,764
Intangible assets	1,513,036	1,425,013
Investments and other assets	3,878,446	3,736,035
Total non-current assets	6,873,994	6,624,813
Total assets	29,324,649	30,709,322
Liabilities		
Current liabilities		
Accounts payable – trade	604,799	658,260
Due to auction members	6,040,109	6,480,672
Income taxes payable	493,100	666,751
Other provisions	118,168	190,416
Other	1,199,558	1,021,929
Total current liabilities	8,455,736	9,018,030
Non-current liabilities		
Provision for share-based remuneration	74,980	95,642
Retirement benefit liability	1,620,592	1,656,300
Other provisions	10,532	13,077
Other	829,251	889,544
Total non-current liabilities	2,535,358	2,654,565
Total liabilities	10,991,094	11,672,595
Net assets		
Shareholders' equity		
Share capital	1,729,168	1,758,596
Capital surplus	6,782,326	6,808,597
Retained earnings	9,484,599	10,183,127
Treasury shares	(241,056)	(241,056)
Total shareholders' equity	17,755,037	18,509,265
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	246,330	185,700
Foreign currency translation adjustment	4,466	(1,637)
Remeasurements of defined benefit plans	58,106	53,045
Total accumulated other comprehensive income	308,903	237,109
Non-controlling interests	269,613	290,352
Total net assets	18,333,554	19,036,726
Total liabilities and net assets	29,324,649	30,709,322

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended June 30, 2019 and 2020

(Thousand yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Net sales	9,960,721	10,416,552
Cost of sales	4,545,259	4,518,885
Gross profit	5,415,461	5,897,666
Selling, general and administrative expenses	4,084,038	4,128,724
Operating profit	1,331,423	1,768,942
Non-operating income		
Interest income	3,759	34,886
Dividend income	11,917	34,032
Other	74,193	18,805
Total non-operating income	89,870	87,725
Non-operating expenses		
Interest expenses	1,082	475
Foreign exchange losses	82,076	26,549
Share of loss of entities accounted for using equity method	—	8,337
Provision of allowance for doubtful accounts	14,579	18,234
Other	2,756	42
Total non-operating expenses	100,495	53,639
Ordinary profit	1,320,798	1,803,028
Extraordinary income		
Gain on sales of investment securities	10,000	—
Other	157	—
Total extraordinary income	10,157	—
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	73,244	8,676
Other	22,238	—
Total extraordinary losses	95,482	8,676
Profit before income taxes	1,235,474	1,794,351
Income taxes	547,915	717,244
Profit	687,558	1,077,107
Profit attributable to non-controlling interests	27,958	17,580
Profit attributable to owners of parent	659,600	1,059,526

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended June 30, 2019 and 2020

(Thousand yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Profit	687,558	1,077,107
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,559)	(60,629)
Foreign currency translation adjustment	(13,103)	(6,103)
Remeasurements of defined benefit plans, net of tax	108,135	(5,061)
Total other comprehensive income	93,472	(71,794)
Comprehensive income	781,031	1,005,312
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	753,073	987,731
Comprehensive income attributable to non-controlling interests	27,958	17,580

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Cash flows from operating activities		
Profit before income taxes	1,235,474	1,794,351
Depreciation	300,974	371,983
Increase (decrease) in allowance for doubtful accounts	6,217	35,470
Increase (decrease) in retirement benefit liability	23,952	28,377
Increase (decrease) in provision for share-based remuneration	20,344	20,661
Increase (decrease) in other provisions	86,193	74,841
Interest and dividend income	(15,676)	(68,919)
Interest expenses	1,082	475
Share of loss (profit) of entities accounted for using equity method	(27,570)	8,337
Loss on valuation of shares of subsidiaries and associates	73,244	8,676
Decrease (increase) in trade receivables	3,415	(55,269)
Decrease (increase) in due from auction members	(1,932,364)	71,449
Decrease (increase) in inventories	(154,133)	194,304
Increase (decrease) in trade payables	(20,576)	53,625
Increase (decrease) in due to auction members	1,741,544	440,563
Other, net	(70,827)	(196,801)
Subtotal	1,271,295	2,782,128
Interest and dividends received	15,537	68,569
Interest paid	(779)	(315)
Income taxes paid	(846,240)	(541,794)
Income taxes refund	233,190	40,002
Net cash provided by (used in) operating activities	673,003	2,348,591
Cash flows from investing activities		
Payments into time deposits	(290,000)	(340,000)
Proceeds from withdrawal of time deposits	300,003	290,000
Purchase of property, plant and equipment	(13,478)	(67,080)
Purchase of intangible assets	(308,026)	(264,704)
Proceeds from lease and guarantee deposits received	35,541	99,894
Other, net	(769,337)	(48,014)
Net cash provided by (used in) investing activities	(1,045,297)	(329,905)
Cash flows from financing activities		
Proceeds from issuance of shares	16,718	1,857
Dividends paid	(359,562)	(360,944)
Other, net	(27,382)	(3,456)
Net cash provided by (used in) financing activities	(370,226)	(362,542)
Effect of exchange rate change on cash and cash equivalents	7,587	26,398
Net increase (decrease) in cash and cash equivalents	(734,933)	1,682,541
Cash and cash equivalents at beginning of period	15,629,697	13,761,608
Cash and cash equivalents at end of period	14,894,763	15,444,150

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

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

(Calculation of Tax Expenses)

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

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

(Segment information, etc.)

[Segment information]

For the six months ended June 30, 2019 (from January 1, 2019 to June 30, 2019)

1. Information on net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	6,151,448	1,871,979	1,364,375	9,387,803	572,918	9,960,721	—	9,960,721
Inter-segment net sales or transfers	75,367	—	—	75,367	287,111	362,478	(362,478)	—
Total	6,226,815	1,871,979	1,364,375	9,463,170	860,029	10,323,200	(362,478)	9,960,721
Segment income (loss)	1,956,503	363,957	330,595	2,651,056	(156,411)	2,494,644	(1,163,220)	1,331,423

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥1,163,220 thousand is corporate expenses, which chiefly comprise general and administrative expenses not allocated to specific reportable segments.

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

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

Not applicable.

For the six months ended June 30, 2020 (from January 1, 2020 to June 30, 2020)

1. Information on net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	5,643,190	2,953,309	1,328,392	9,924,892	491,660	10,416,552	—	10,416,552
Inter-segment net sales or transfers	77,246	—	—	77,246	253,466	330,713	(330,713)	—
Total	5,720,437	2,953,309	1,328,392	10,002,139	745,126	10,747,266	(330,713)	10,416,552
Segment income (loss)	1,674,727	1,223,282	333,117	3,231,127	(237,742)	2,993,385	(1,224,442)	1,768,942

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥1,224,442 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.

(Significant subsequent events)

(Absorption-type merger with consolidated subsidiary)

The Company resolved at a Board of Directors meeting held on May 12, 2020 that it would absorb and merge with its wholly owned subsidiary, Advanced Core Technology Co., Inc. The absorption-type merger was implemented on July 1, 2020.

1. Objective of the Merger

Advanced Core Technology Co., Inc. has been a provider of systems solutions business to provide system design and development, as well as system operation and maintenance as a system development company of the Aucnet Group. In addition, Advanced Core Technology has been responsible for the system maintenance and operation associated with auctions in the Aucnet Group. This merger will fuse the Company's systems division with various factors such as the auction-related system maintenance/operation technology, expertise, and the human talent that Advanced Core Technology has cultivated so far, whereby integrating resources that had been dispersed. In so doing, we aim to strengthen the Company's operations structure of auction-related system, reduce overlapping administrative costs, and achieve further development of business.

2. Outline of the Transaction

1) Name and Business Description of the Combining Entities

Name of the Acquiring Entity: AUCNET INC.

Business Description: Automobile Business, Digital Product Business, Other Information Distribution Business and Other business

Name of the Acquired Entity: Advanced Core Technology Co., Inc.

Business Description: System solutions business to provide services for system design, system development, system operation, and system maintenance.

2) Date of the Business Combination

July 1, 2020

3) Legal Form of the Business Combination

Absorption-type merger where the Company is the surviving entity and Advanced Core Technology Co., Inc. is the absorbed entity.

4) Name of the Entity after the Business Combination

AUCNET INC.

5) Allotment upon the Merger

Since this is a merger with a wholly owned subsidiary of the Company, there is no payment of any consideration.

6) Outline of the Accounting Procedures Implemented

For accounting purposes, this merger was treated as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

(Business combination through acquisition)

The Company resolved at a Board of Directors meeting held on May 26, 2020 that it would acquire all of the shares of KinutaFlowerAuction CO.LTD, making it into a subsidiary. The acquisition of all shares was completed on July 1, 2020.

1 Outline of the Business Combination

1) Name and Business Description of the Acquired Company

Name of the Acquired Company: KinutaFlowerAuction CO.LTD

Business Description: Wholesale sales of primarily potted flowers

2) Main Reason for the Business Combination

KinutaFlowerAuction CO.LTD, located within Setagaya Market of Metropolitan Central Wholesale Market, is a wholesale company that has focused on potted flowers since its founding, such as Western orchids, foliage plants, gardening materials, and other items, and thus possesses strengths in both quality and lineup. Compared to other spot markets, Setagaya Market of Metropolitan Central Wholesale Market offers an excellent location and environment, and is a market where the industry's leading buyers and producers are being involved in and premium products are supplied.

AUCNET AGRI BUSSINESS INC., one of the Group companies, provides information services pertaining to online auctions and delivery of flowers, mainly for cut flowers. By operating a comprehensive distribution market for flowers with a good balance of cut and potted flowers, it aims to further expand its business.

Based on a careful consideration of the synergistic effects after making KinutaFlowerAuction a subsidiary, we judged that such effects would contribute to further enhancement of the Group's profitability and its competitiveness, and that there are sufficient prospects to achieve favorable return on investment. Therefore, the Company's determined to acquire all of the shares of KinutaFlowerAuction.

3) Date of the Business Combination

July 1, 2020

4) Legal Form of the Business Combination

Acquisition of shares in exchange for cash and deposits

5) Name of the Entity after the Business Combination

The name will not be changed.

6) Ratio of Voting Rights Acquired

100%

7) Main Reason for Determining the Acquired Company

The Company acquired shares in exchange for cash and deposits.

2 Acquisition Cost and Related Details

The acquisition cost of the acquired company is undisclosed in accordance with the intention of the other party. Nevertheless, the acquisition cost has been determined based on share valuation reports and other materials from third-party institutions in order to ensure its fairness and appropriateness.

3 Details and Amounts of Major Acquisition-related Expenses

Not yet determined as of the present time.

4 Amount of Goodwill Recognized, Cause, Amortization Method, and Amortization Period

Not yet determined as of the present time.

5 Amounts and Breakdown of Assets Accepted and Liabilities Assumed on the Date of the Business Combination

Not yet determined as of the present time.