



mercari

Consolidated Financial Results for the Six Months Ended December 31, 2020 [Japanese GAAP]

February 4, 2021

Company name: Mercari, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4385

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Scheduled date of filing quarterly securities report: February 12, 2021

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and securities analysts)

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

1. Consolidated Financial Results for the Six Months Ended December 31, 2020 (the "Period")

(July 1, 2020 to December 31, 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	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2020	48,213	46.1	1,370	-	1,190	-	4,111	-
December 31, 2019	32,993	38.7	(13,894)	-	(13,883)	-	(14,098)	-

(Note) Comprehensive income: Six months ended December 31, 2020: ¥(380) million [-%]

Six months ended December 31, 2019: ¥(12,556) million [-%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2020	26.25	25.26
December 31, 2019	(92.32)	-

(Note) Information on diluted earnings per share for the six months ended December 31, 2019 is omitted since, although potential shares exist, the recorded figure was a loss.

In the third quarter of last fiscal year, provisional accounting treatment related to business combinations was finalized. Accordingly, the figures for the first six months of the previous fiscal year reflect the finalization of provisional accounting treatment.

English Translation

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(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2020	232,426	36,556	15.5
As of June 30, 2020	198,014	35,368	17.6

(Reference) Equity: As of December 31, 2020: ¥35,923 million
As of June 30, 2020: ¥34,786 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2020	-	0.00	-	0.00	0.00
Fiscal year ending June 30, 2021	-	0.00			
Fiscal year ending June 30, 2021 (Forecast)			-	-	-

(Note) Revisions to the forecasts of cash dividends most recently announced: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2021 (July 1, 2020 to June 30, 2021)

The consolidated financial results forecast for the current fiscal year is not stated because it is difficult to reasonably estimate a forecast of the financial results. Details concerning the reasons thereof are stated in “1. Qualitative Information Regarding Results for the Period (4) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 4 of the Appendix.

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* Notes:

- (1) Changes in significant subsidiaries during the Period (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Application of special accounting treatments for preparing the quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and retrospective restatement
 - 1) Changes in accounting policies due to revision of accounting standards: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (4) Total number of issued shares (common stock)
 - 1) Total number of issued shares at the end of the Period (including treasury stock):

December 31, 2020:	157,038,845 shares
June 30, 2020:	156,150,364 shares
 - 2) Total number of treasury stock at the end of the Period:

December 31, 2020:	2 shares
June 30, 2020:	2 shares
 - 3) Average number of shares during the Period:

Six months ended December 31, 2020:	156,596,395 shares
Six months ended December 31, 2019:	152,721,274 shares

* Quarterly Consolidated Financial Results are exempt from quarterly review conducted by certified public accountants or audit firms.

* Explanation of the proper use of financial results forecast and other notes

The consolidated financial results forecast for the current fiscal year is not stated because it is difficult to reasonably estimate a forecast of the financial results. Details concerning the reasons thereof are stated in “1. Qualitative Information Regarding Results for the Period (4) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 4 of the Appendix.

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Table of Contents

1. Qualitative Information Regarding Results for the Period	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	3
(3) Explanation of Cash Flows	3
(4) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements	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
Quarterly Consolidated Statements of Income	7
Quarterly Consolidated Statements of Comprehensive Income	8
(3) Quarterly Consolidated Statements of Cash Flows	9
(4) Notes to the Quarterly Consolidated Financial Statements	10
Notes on going concern assumption	10
Notes on significant changes in the amount of shareholders' equity	10
Application of special accounting treatments for preparing the quarterly consolidated financial statements	10
Business Combinations	10
Segment information, etc.	10
Significant subsequent events	10

1. Qualitative Information Regarding Results for the Period

(1) Explanation of Operating Results

The Company and its group companies (collectively, the “Group”) are working to realize the medium-term vision, “Become indispensable to the creation of a circular economy.” In the fiscal year ending June 30, 2021, the Group will work towards this goal, aiming to continue providing services that are loved by a wide range of people while strengthening the soundness and increasing the convenience of those services.

The Group has made favorable progress with no change to its business policy for the current period, which was set forth at the outset of the fiscal year. Under the novel coronavirus disease (“COVID-19”) pandemic thus far, the Group curtailed investment until the first half of this quarter, but going forward, the Group will periodically review its investment taking into account the business environment, while concurrently making investment in a manner that prioritizes growth in order to maximize future profits.

In the *Mercari* Japan business, the Group is continuing to strengthen listings, aiming to achieve continuous growth over the medium to long term. During the current quarter, the Group has particularly been focusing on improving user experience by simplifying packing and shipping. Moreover, the Group has been working to stimulate new demand, which has involved placing focus on capturing new users through marketing and offline initiatives such as *Mercari Station*, with the aim of offering services that are loved by a wide range of people ranging from the youth demographic to the middle-aged segment. As a result, *Mercari*’s gross merchandise volume in Japan for the six months ended December 31, 2020, was ¥367.6 billion, an increase of ¥86.2 billion compared with the corresponding period of the previous fiscal year.

With respect to the *Merpay* business and its mobile payment services, the Group has been building asset management services in addition to the payment and credit businesses, which enable users to invest by using their *Merpay* account balances. The Group has been furthermore working to strengthen its earnings potential, particularly in the credit business. To such ends, it started to collect service fees for its *Merpay Smart Payments (fixed-amount payment)* service (15% APR) in November 2020, in addition to having achieved a steadily increasing number of *Merpay Smart Payments (lump-sum payment and fixed-amount payment)* service users. It is also taking steps to ensure safe and secure usage by further strengthening *Merpay*’s identity verification and anti-fraud measures. As a result, the number of *Merpay* users has steadily increased to 8.50 million ^(Note).

In the *Mercari* US business, the Group has been working toward increasing brand recognition, capturing new users, and optimizing listing and delivery. This was done as part of the “*Mercari* is your marketplace” initiative, which aims to generate growth of the *Mercari* marketplace services that make selling a variety of items easier and safer for everyone. As a result, the gross merchandise volume of *Mercari* in the US for the six months ended December 31, 2020, was ¥58.2 billion (the exchange rate conversion is calculated using the average rate during the Period, ¥105.36 against the US dollar), up ¥32.6 billion from the corresponding period of the previous fiscal year.

As a result, for the six months ended December 31, 2020, the Group recorded net sales of ¥48,213 million (46.1% increase year on year), operating profit of ¥1,370 million (compared to operating loss of ¥13,894 million in the corresponding period of the previous fiscal year), ordinary profit of ¥1,190 million (compared to ordinary loss of ¥13,883 million in the corresponding period of the previous fiscal year), and profit attributable to owners of parent of ¥4,111 million (compared to loss attributable to owners of parent of ¥14,098 million in the corresponding period of the previous fiscal year).

Information by business segment is omitted as the Group operates a single segment—i.e., the marketplace business.

(Note) Total of the number of users registered for *Merpay Electronic Money* and users of *QR Code Payments*, *Online Payments*, and *Merpay Smart Payments (lump-sum payment and fixed-amount payment)* as of December 31, 2020 (excluding overlaps)

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(2) Explanation of Financial Position

(Assets)

Assets as of December 31, 2020, increased by ¥34,412 million from the end of the previous fiscal year to ¥232,426 million.

The main reasons for increases and decreases are as follows.

- The main reasons for increases and decreases in cash and cash equivalents are outlined in Explanation of Cash Flows.
- Securities decreased by ¥5,260 million from the end of the previous fiscal year following the redemption of financial instruments held by the Group.
- Other receivables increased by ¥18,949 million compared to the end of the previous fiscal year, primarily due to an increase in use of *Merpay Smart Payments (lump-sum payment and fixed-amount payment)*.
- Deposits paid decreased by ¥8,385 million from the end of the previous fiscal year primarily due to improvements made to the payment cycle.
- Investment securities decreased by ¥5,631 million from the end of the previous fiscal year, primarily due to the sale of shares held by the Group.
- Guarantee deposits increased by ¥7,643 million from the end of the previous fiscal year, primarily due to deposits paid based on laws and regulations accompanying the increase in the amounts spent on *Mercari* and *Merpay*.

(Liabilities)

Liabilities as of December 31, 2020, increased by ¥33,224 million from the end of the previous fiscal year to ¥195,870 million.

The main reasons for increases and decreases are as follows.

- Short-term borrowings increased by ¥10,479 million from the end of the previous fiscal year due to the liquidation of advance payment receivables.
- Income taxes payable increased by ¥3,086 million from the end of the previous fiscal year, primarily due to an increase in profit before income taxes.
- Deposits received increased by ¥17,811 million from the end of the previous fiscal year, primarily due to the increase in the amounts spent on *Mercari* and *Merpay*.

(Net assets)

Net assets as of December 31, 2020, increased by ¥1,187 million from the end of the previous fiscal year to ¥36,556 million.

The main reasons for increases and decreases are as follows.

- Capital stock increased by ¥708 million from the end of the previous fiscal year following the issuance of new shares.
- Capital surplus increased by ¥708 million from the end of the previous fiscal year following the issuance of new shares.
- Retained earnings increased by ¥4,111 million from the end of the previous fiscal year due to the recording of profit attributable to owners of parent.
- Valuation difference on available-for-sale securities decreased by ¥3,999 million from the end of the previous fiscal year, mainly due to the sale of shares held by the Group.

(3) Explanation of Cash Flows

For the six months ended December 31, 2020, cash and cash equivalents (hereinafter referred to as “cash”) increased by ¥19,082 million from the end of the previous fiscal year to ¥160,090 million as of December 31, 2020. Note that cash here includes cash, deposits, and securities.

The status of cash flows and their contributing factors for the six months ended December 31, 2020, are as follows.

(Cash flows from operating activities)

Cash provided by operating activities during the six months ended December 31, 2020, amounted to ¥2,318 million. This is primarily attributable to ¥8,133 million in profit before income taxes, adjusted by a ¥6,942 million gain on sales of investment securities, an increase in change in other receivable of ¥18,902 million, an increase in

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change in cash due to users and other payables of ¥1,706 million, a decrease in deposits paid of ¥8,385 million, and an increase in deposits received of ¥17,811 million, and also attributable to an increase in guarantee deposits of ¥7,643 million.

(Cash flows from investing activities)

Cash provided by investing activities during the six months ended December 31, 2020, amounted to ¥6,997 million. This is primarily attributable to a ¥6,942 million gain on sales of investment securities.

(Cash flows from financing activities)

Cash provided by financing activities during the six months ended December 31, 2020, amounted to ¥10,632 million. This is primarily attributable to a ¥10,479 million increase in short-term borrowings.

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

In order to further enhance its corporate value, the Group intends to actively promote the *Mercari* US business and *Merpay* with *Mercari*'s stable and continuous growth in Japan. As opposed to the *Mercari* Japan business that has a stable earnings base, the *Mercari* US business and *Merpay* are still in the investment phase, and these strategic investments make it difficult to forecast the consolidated financial results. Accordingly, the Company has not disclosed its earnings forecast. The Group will engage in management that emphasizes medium- to long-term business growth by conducting disciplined strategic investments.

In regard to the impact of the COVID-19 pandemic, it continues to be difficult to accurately predict factors such as the future spread of the disease and the timing of its abatement. When considering outlook for future cash flow, future business environment, etc., as of now, it has been judged that although it will have a certain impact on the Company, the effects will be limited. Furthermore, it has been judged that there will be no serious effects on accounting estimates including impairment loss on non-current assets and the recoverability of deferred tax assets. However, as there is a possibility that changes in the situation will have an impact on consolidated financial statements, the Company will continue to watch developments carefully.

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

(Millions of yen)

	As of June 30, 2020	As of December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	135,747	160,090
Trade accounts receivable	1,119	2,668
Securities	5,260	-
Other receivable	15,612	34,562
Prepaid expenses	1,609	3,309
Deposits paid	9,718	1,332
Other current assets	1,614	425
Allowance for doubtful accounts	(1,404)	(1,547)
Total current assets	169,277	200,840
Non-current assets		
Property, plant and equipment	2,905	2,706
Intangible assets	679	674
Investments and other assets		
Investment securities	5,881	249
Lease deposits	2,128	1,709
Deferred tax assets	108	1,744
Guarantee deposits	16,598	24,242
Other assets	435	258
Total investments and other assets	25,151	28,204
Total non-current assets	28,736	31,585
Total assets	198,014	232,426

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(Millions of yen)

	As of June 30, 2020	As of December 31, 2020
Liabilities		
Current liabilities		
Short-term borrowings	-	10,479
Current portion of long-term borrowings	900	567
Cash due to users and other payables	16,206	17,839
Accrued expenses	861	999
Income taxes payable	1,427	4,513
Deposits received	83,954	101,765
Provision for bonuses	1,314	1,220
Provision for point certificates	522	1,033
Provision for share-based compensation	177	476
Other current liabilities	4,764	4,634
Total current liabilities	110,128	143,529
Non-current liabilities		
Long-term borrowings	51,547	51,346
Retirement benefit liability	75	86
Asset retirement obligations	126	126
Deferred tax liabilities	191	188
Other provisions	6	-
Other non-current liabilities	570	593
Total non-current liabilities	52,516	52,340
Total liabilities	162,645	195,870
Net assets		
Shareholders' equity		
Capital stock	41,440	42,149
Capital surplus	41,396	42,104
Retained earnings (Accumulated deficit)	(51,870)	(47,758)
Treasury stock	(0)	(0)
Total shareholders' equity	30,966	36,495
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,995	(3)
Foreign currency translation adjustments	(175)	(568)
Total accumulated other comprehensive income	3,819	(571)
Stock acquisition rights	-	151
Non-controlling interests	582	481
Total net assets	35,368	36,556
Total liabilities and net assets	198,014	232,426

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(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statements of Income****(Millions of yen)**

	For the six months ended December 31, 2019	For the six months ended December 31, 2020
Net sales	32,993	48,213
Cost of sales	9,440	12,023
Gross profit	23,552	36,189
Selling, general and administrative expenses	37,447	34,819
Operating profit (loss)	(13,894)	1,370
Non-operating income		
Interest income	79	19
Compensation income	-	12
Foreign exchange gain	26	-
Other	27	37
Total non-operating income	133	69
Non-operating expenses		
Interest expense	119	121
Foreign exchange loss	-	118
Other	3	9
Total non-operating expenses	122	249
Ordinary profit (loss)	(13,883)	1,190
Extraordinary income		
Gain on sales of investment securities	-	6,942
Total extraordinary income	-	6,942
Profit (loss) before income taxes	(13,883)	8,133
Income taxes	336	4,122
Profit (loss)	(14,219)	4,011
Profit (loss) attributable to non-controlling interests	(121)	(100)
Profit (loss) attributable to owners of parent	(14,098)	4,111

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Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the six months ended December 31, 2019	For the six months ended December 31, 2020
Profit (loss)	(14,219)	4,011
Other comprehensive income		
Valuation difference on available-for-sale securities	1,604	(3,999)
Foreign currency translation adjustment	58	(392)
Total other comprehensive income	1,662	(4,391)
Comprehensive income	(12,556)	(380)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(12,435)	(280)
Comprehensive income attributable to non-controlling interests	(121)	(100)

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(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	For the six months ended December 31, 2019	For the six months ended December 31, 2020
Cash flows from operating activities		
Profit (loss) before income taxes	(13,883)	8,133
Gain on sales of investment securities	-	(6,942)
Depreciation and amortization	575	455
Amortization of goodwill	117	-
Increase in allowance for doubtful accounts	267	142
Increase (decrease) in provision for point certificates	(10)	510
Increase (decrease) in provision for bonuses	404	(94)
Increase (decrease) in provision for share-based compensation	(716)	299
Interest income	(79)	(19)
Interest expense	119	121
Change in trade accounts receivable	262	(1,548)
Change in other receivable	(4,852)	(18,902)
Change in cash due to users and other payables	10,606	1,706
Decrease (increase) in deposits paid	(2,506)	8,385
Increase in deposits received	16,743	17,811
Increase in prepaid expenses	(1,258)	(1,700)
Other—net	5,730	3,018
Subtotal	11,520	11,378
Interest and dividend income received	79	19
Interest expense paid	(119)	(121)
Decrease (increase) in guarantee deposits	(12,050)	(7,643)
Income taxes paid	(1,283)	(1,314)
Net cash provided by (used in) operating activities	(1,852)	2,318
Cash flows from investing activities		
Purchase of property, plant and equipment	(453)	(292)
Proceeds from sale of investment securities	-	6,942
Purchase of subsidiaries' shares resulting in a change in scope of consolidation	(1,534)	-
Payments for lease deposits	(3)	-
Proceeds from refund of lease deposits	-	370
Other—net	(74)	(22)
Net cash provided by (used in) investing activities	(2,065)	6,997
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	10,479
Repayments of long-term borrowings	(700)	(533)
Proceeds from issuance of common stock	645	687
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(246)	-
Net cash provided by (used in) financing activities	(301)	10,632
Foreign currency translation adjustments on cash and cash equivalents	251	(866)
Net increase (decrease) in cash and cash equivalents	(3,968)	19,082
Cash and cash equivalents at the beginning of period	130,774	141,008
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(124)	-
Cash and cash equivalents at the end of period	126,681	160,090

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(4) Notes to the Quarterly Consolidated Financial Statements

Notes on going concern assumption

Not applicable.

Notes on significant changes in the amount of shareholders' equity

Not applicable.

Application of special accounting treatments for preparing the quarterly consolidated financial statements

Calculation of income tax expense

The Company reasonably estimated the effective tax rate following application of tax effect accounting on profit before income taxes for the fiscal year, which includes the current quarterly period, and applied this percentage to quarterly profit before income taxes to determine income taxes.

Business Combinations

(Significant review of the initial allocation of acquisition costs with the comparative information)

With respect to the acquisition of Kashima Antlers F.C. Co., Ltd which took place on July 30, 2019, the Group applied a provisional accounting treatment in the second quarter of the previous fiscal year but then finalized the provisional accounting treatment in the third quarter of the previous fiscal year.

As a result of this finalization of provisional accounting treatment, the comparative information in the quarterly consolidated financial statements for the six months ended December 2020 reflects a significant review of the initial allocation of acquisition costs.

Accordingly, in the quarterly consolidated statements of income for the six months ended December 2020, depreciation expense decreased by ¥11 million, operating profit, ordinary profit and profit before income taxes increased by ¥11 million, and profit attributable to owners of parent increased by ¥5 million.

Segment information, etc.

Segment information, etc. is omitted as the Group operates a single segment—i.e., the marketplace business.

Significant subsequent events

Not applicable.