

mercari

Consolidated Financial Results
for the Fiscal Year Ended June 30, 2018
[Japanese GAAP]

August 9, 2018

Company name: Mercari, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4385

URL: <https://about.mercari.com/>

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Scheduled date of annual general meeting of shareholders: September 28, 2018

Scheduled date of filing annual securities report: September 28, 2018

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on annual financial results: Available

Schedule of annual 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 Fiscal Year Ended June 30, 2018 (July 1, 2017 to June 30, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2018	35,765	62.0	(4,422)	-	(4,741)	-	(7,041)	-
June 30, 2017	22,071	80.1	(2,775)	-	(2,779)	-	(4,207)	-

(Note) Comprehensive income: Fiscal year ended June 30, 2018: ¥(7,028) million [-%]

Fiscal year ended June 30, 2017: ¥(3,978) million [-%]

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets	Operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
June 30, 2018	(60.61)	-	(23.9)	(5.5)	(12.4)
June 30, 2017	(36.65)	-	(65.7)	(7.0)	(12.6)

(Reference) Investment profit on equity method: Fiscal year ended June 30, 2018: ¥ - million

Fiscal year ended June 30, 2017: ¥ - million

- (Notes) 1. On October 20, 2017, Mercari, Inc. (the "Company") conducted a 10:1 stock split of its common stock. Basic earnings per share is calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.
2. Information on diluted earnings per share is omitted since, although potential shares exist, the recorded figure was a loss.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2018	117,752	54,422	46.2	402.12
As of June 30, 2017	54,489	4,416	8.1	(70.15)

(Reference) Equity: As of June 30, 2018: ¥54,422 million

As of June 30, 2017: ¥4,416 million

(Note) On October 20, 2017, the Company conducted a 10:1 stock split of its common stock. Net assets per share is calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.

English Translation

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(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
June 30, 2018	(3,437)	(1,944)	63,617	109,157
June 30, 2017	6,351	(936)	21,323	50,863

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
June 30, 2017	-	0.00	-	0.00	0.00	-	-	-
June 30, 2018	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending June 30, 2019 (Forecast)	-	-	-	-	-		-	

3. Consolidated financial results forecast for the Fiscal Year Ending June 30, 2019

The consolidated financial results forecast for the next 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. Overview of Business Results, etc. (4) Future Outlook” on page 3 of the Appendix.

*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) 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

(3) Total number of issued shares (common stock)

1) Total number of issued shares at the end of the period (including treasury stock):

June 30, 2018: 135,339,722 shares

June 30, 2017: 114,799,160 shares

2) Total number of treasury stock at the end of the period:

June 30, 2018: - shares

June 30, 2017: - shares

3) Average number of shares during the period:

Fiscal year ended June 30, 2018: 116,176,295 shares

Fiscal year ended June 30, 2017: 114,799,160 shares

(Note) On October 20, 2017, the Company conducted a 10:1 stock split of its common stock. Total number of issued shares (common stock) is calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.

English Translation

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(Reference) Summary of Non-consolidated Financial Results**Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2018 (July 1, 2017 to June 30, 2018)****(1) Non-consolidated Operating Results** (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2018	33,424	57.3	7,411	65.7	7,107	59.0	(8,428)	-
June 30, 2017	21,254	73.4	4,471	36.1	4,469	37.0	(6,990)	-

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
June 30, 2018	(72.55)	-
June 30, 2017	(60.90)	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2018	115,414	54,676	47.4	403.99
As of June 30, 2017	54,855	6,071	11.1	(55.74)

(Reference) Equity: As of June 30, 2018: ¥54,676 million

As of June 30, 2017: ¥6,071 million

- (Notes) 1. On October 20, 2017, the Company conducted a 10:1 stock split of its common stock. Basic earnings per share and net assets per share are calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.
2. Information on diluted earnings per share is omitted since, although potential shares exist, the recorded figure was a loss.

* These consolidated financial results are outside the scope of audit by certified public accountants or audit firms

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

(Notes on forward-looking statements, etc.)

The consolidated financial results forecast for the next 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. Overview of Business Results, etc. (4) Future Outlook” on page 3 of the Appendix.

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1. Overview of Business Results, etc.

(1) Overview of Business Results for the Period Under Review

According to the FY2017 Survey of Infrastructure Development Status for Data-driven Society in Japan (E-Commerce Market Survey) released by the Ministry of Economy, Trade and Industry in April 2018, of the second-hand market (excluding cars and motor bikes) had a total size of approximately ¥2.1 trillion (11.7% increase year on year) in 2017, marketplace apps such as *Mercari* accounted for ¥483.5 billion, a 58.4% growth year on year.

In this business environment, in an effort to continuously grow the *Mercari* CtoC marketplace, the Company and its group companies (collectively, the “Group”) conducted marketing measures centered around TV commercials and online advertising, and also started providing various new functions including the *Mercari Channel*, which enables users to sell items via live video streaming, a function that lets users easily list a smartphone device, and a barcode listing function for items such as books and DVDs. As a result of these initiatives, the cumulative number of *Mercari* app downloads in Japan reached 75.7 million at the end of June 2018, an increase of 20.2 million from the end of the previous fiscal year. In addition, the cumulative number of items listed in Japan since the start of service (July 2, 2013) surpassed one billion as of July 13, 2018.

Meanwhile, the Group strengthened its management team to expand the *Mercari* CtoC marketplace in the US. Under the new management team, the Group worked to promote local development of apps and improve distribution functions, and in March 2018, rebranded the *Mercari* app, which included changes to the app logo design, to establish more effective brand recognition in the US. The cumulative number of *Mercari* app downloads in the US increased by 11.6 million from the end of the previous fiscal year, reaching 39.9 million at the end of June 2018. While focusing on online advertising that can reach a wide audience, the Group also started radio advertising and other offline advertising on a trial basis after the rebranding, in an effort to further improve brand recognition.

As a result, for the fiscal year ended June 30, 2018, the Group recorded net sales of ¥35,765 million (62.0% increase compared to the previous fiscal year), an operating loss of ¥4,422 million primarily associated with the use of advertising expenses, an ordinary loss of ¥4,741 million, and loss attributable to owners of parent of ¥7,041 million.

Information by business segment is omitted as the Group operates a single segment of the marketplace business.

(2) Overview of Financial Position for the Period Under Review

(Assets)

Total assets at the end of the current fiscal year increased by ¥63,262 million from the end of the previous fiscal year to ¥117,752 million. This is primarily attributable to ¥58,294 million increase in cash and cash equivalents as a result of issuance of new shares through the public offering (offering by way of a book building method) associated with the listing of the Company’s shares on the Tokyo Stock Exchange Mothers market on June 19, 2018 and others, and an increase in other receivable by ¥1,641 million.

(Liabilities)

Total liabilities at the end of the current fiscal year increased by ¥13,256 million from the end of the previous fiscal year to ¥63,329 million. This is primarily attributable to ¥9,128 million increase in long-term borrowings (including current portion of long-term borrowings) associated with new borrowings, and ¥2,613 million increase in cash due to users and other payables, despite ¥2,500 million decrease in short-term borrowings.

(Net assets)

Net assets at the end of the current fiscal year increased by ¥50,005 million from the end of the previous fiscal year to ¥54,422 million. This is primarily attributable to ¥28,516 million increase in both common stock and capital surplus as a result of issuance of new shares through the public offering (offering by way of a book building method) associated with the listing of the Company’s shares on the Tokyo Stock Exchange Mothers market, despite ¥7,041 million decrease in retained earnings.

(3) Overview of Cash Flows for the Period Under Review

Cash and cash equivalents (hereinafter referred to as “cash”) for the current fiscal year increased by ¥58,294 million from the end of the previous fiscal year (114.6% increase compared to the previous fiscal year) and amounted to ¥109,157 million at the end of the current fiscal year.

The status of cash flows and their contributing factors for the current fiscal year are as follows.

(Cash flows from operating activities)

Cash used in operating activities during the current fiscal year amounted to ¥3,437 million. This is primarily attributable to ¥4,935 million in loss before income taxes, adjusted by an increase in change in cash due to users and other payables of ¥2,217 million.

(Cash flows from investing activities)

Cash used in investing activities during the current fiscal year amounted to ¥1,944 million. This is primarily attributable to purchase of property and equipment of ¥692 million and payments for lease deposits of ¥738 million.

(Cash flows from financing activities)

Cash provided by financing activities during the current fiscal year amounted to ¥63,617 million. This is primarily attributable to ¥52,026 million in proceeds from issuance of new shares through the public offering (offering by way of a book building method) associated with the listing of the Company’s shares on the Tokyo Stock Exchange Mothers market, and proceeds from long-term borrowings of ¥16,000 million aimed at increasing working capital.

(4) Future Outlook

In order to further enhance corporate value, the Group intends to actively pursue global expansion and the creation of new businesses, centered on Mercari’s stable and continuous growth in Japan. As opposed to the Mercari business in Japan that has a stable earnings base, the overseas business and new business are still in the investment phase, and these strategic investments could result in an increase in losses recorded under consolidated operating profit/loss and consolidated profit/loss over the short term. Since it is difficult to forecast the consolidated financial results due to the foregoing reasons, the Company has not disclosed its results forecast. The Group will engage in management that emphasizes medium- to long-term business growth by conducting disciplined strategic investments.

2. Basic Policy Regarding Selection of Accounting Standards

Taking into consideration the comparability of consolidated financial statements across periods and among companies, the Group’s policy is to prepare its consolidated financial statements based on Japanese GAAP for the time being.

Regarding the timing of application of International Financial Reporting Standards (IFRS), the Group’s policy is to respond appropriately based on the situation in Japan and overseas.

English Translation

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3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Million yen)

	As of June 30, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and cash equivalents	50,863	109,157
Trade accounts receivable	107	359
Other receivable	1,133	2,774
Prepaid expenses	590	491
Other current assets	347	1,591
Allowance for doubtful accounts	(2)	(148)
Total current assets	53,039	114,226
Non-current assets		
Property, plant and equipment	313	1,037
Intangible assets	325	120
Investments and other assets		
Investment securities	106	416
Lease deposits	530	1,223
Other assets	174	727
Total investments and other assets	810	2,367
Total non-current assets	1,450	3,525
Total assets	54,489	117,752
Liabilities		
Current liabilities		
Short-term borrowings	3,500	1,000
Current portion of long-term borrowings	6,002	9,061
Cash due to users and other payables	24,064	26,677
Accrued expenses	690	1,422
Income taxes payable	1,263	2,260
Deposits received	807	2,223
Provision for bonuses	-	679
Other current liabilities	851	979
Total current liabilities	37,179	44,304
Non-current liabilities		
Long-term borrowings	12,887	18,956
Other long-term liabilities	6	68
Total non-current liabilities	12,893	19,024
Total liabilities	50,072	63,329
Net assets		
Shareholders' equity		
Common stock	6,286	34,803
Capital surplus	6,266	34,783
Retained earnings (Accumulated deficit)	(8,246)	(15,288)
Total shareholders' equity	4,306	54,298
Accumulated other comprehensive income		
Foreign currency translation adjustments	110	123
Total accumulated other comprehensive income	110	123
Total net assets	4,416	54,422
Total liabilities and net assets	54,489	117,752

English Translation

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(2) Consolidated Statements of Income and Comprehensive Income

(Consolidated Statements of Income)

(Million yen)

	For the fiscal year ended June 30, 2017	For the fiscal year ended June 30, 2018
Net sales	22,071	35,765
Cost of sales	2,720	6,806
Gross profit	19,350	28,958
Selling, general and administrative expenses	22,126	33,381
Operating loss	(2,775)	(4,422)
Non-operating income		
Interest income	1	4
Insurance income	-	20
Foreign exchange gain	19	-
Other	7	11
Total non-operating income	27	37
Non-operating expenses		
Interest expense	30	92
Listing-related expense	-	236
Foreign exchange loss	-	6
Other	0	20
Total non-operating expenses	31	355
Ordinary loss	(2,779)	(4,741)
Extraordinary losses		
Loss on devaluation of investment securities	247	193
Total extraordinary losses	247	193
Loss before income taxes	(3,026)	(4,935)
Income taxes - current	1,369	2,384
Income taxes - deferred	(188)	(278)
Total income taxes	1,180	2,106
Loss	(4,207)	(7,041)
Loss attributable to owners of parent	(4,207)	(7,041)

English Translation

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(Consolidated Statements of Comprehensive Income)

(Million yen)

	For the fiscal year ended June 30, 2017	For the fiscal year ended June 30, 2018
Loss	(4,207)	(7,041)
Other comprehensive income		
Foreign currency translation adjustments	228	13
Total other comprehensive income	228	13
Comprehensive income	(3,978)	(7,028)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(3,978)	(7,028)

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(3) Consolidated Statements of Changes in Equity

For the fiscal year ended June 30, 2017

(Million yen)

	Shareholders' equity			
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity
Balance at the beginning of current period	6,286	6,266	(4,039)	8,514
Changes of items during the period				
Issuance of new shares				
Loss attributable to owners of parent			(4,207)	(4,207)
Net changes of items other than shareholders' equity				
Total changes of items during the period	-	-	(4,207)	(4,207)
Balance at the end of current period	6,286	6,266	(8,246)	4,306

	Accumulated other comprehensive income		Total net assets
	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at the beginning of current period	(118)	(118)	8,395
Changes of items during the period			
Issuance of new shares			-
Loss attributable to owners of parent			(4,207)
Net changes of items other than shareholders' equity	228	228	228
Total changes of items during the period	228	228	(3,978)
Balance at the end of current period	110	110	4,416

English Translation

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For the fiscal year ended June 30, 2018

(Million yen)

	Shareholders' equity			
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity
Balance at the beginning of current period	6,286	6,266	(8,246)	4,306
Changes of items during the period				
Issuance of new shares	28,516	28,516		57,033
Loss attributable to owners of parent			(7,041)	(7,041)
Net changes of items other than shareholders' equity				
Total changes of items during the period	28,516	28,516	(7,041)	49,992
Balance at the end of current period	34,803	34,783	(15,288)	54,298

	Accumulated other comprehensive income		Total net assets
	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at the beginning of current period	110	110	4,416
Changes of items during the period			
Issuance of new shares			57,033
Loss attributable to owners of parent			(7,041)
Net changes of items other than shareholders' equity	13	13	13
Total changes of items during the period	13	13	50,005
Balance at the end of current period	123	123	54,422

English Translation

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(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended June 30, 2017	For the fiscal year ended June 30, 2018
Cash flows from operating activities		
Loss before income taxes	(3,026)	(4,935)
Depreciation and amortization	107	236
Amortization of goodwill	85	204
Loss on devaluation of investment securities	247	193
Increase in allowance for doubtful accounts	2	145
Interest income	(1)	(4)
Insurance income	-	(20)
Interest expense	30	92
Listing-related expense	-	236
Change in trade accounts receivable	(46)	(251)
Change in other receivable	(589)	(1,641)
Change in cash due to users and other payables	9,740	2,217
Other—net	478	2,460
Subtotal	7,027	(1,065)
Interest income received	1	4
Interest expense paid	(30)	(92)
Insurance income received	-	20
Decrease (increase) in guarantee deposits	-	(598)
Income taxes paid	(646)	(1,705)
Net cash provided by (used in) operating activities	6,351	(3,437)
Cash flows from investing activities		
Purchase of investment securities	(53)	(503)
Purchase of subsidiaries' shares resulting in a change in scope of consolidation	(373)	-
Purchase of property and equipment	(269)	(692)
Payments for lease deposits	(239)	(738)
Other—net	0	(10)
Net cash provided by (used in) investing activities	(936)	(1,944)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings—net	2,453	(2,500)
Proceeds from long-term borrowings	21,500	16,000
Repayments of long-term borrowings	(2,629)	(6,871)
Proceeds from issuance of common stock	-	57,033
Payments of listing-related expense	-	(43)
Other—net	-	(1)
Net cash provided by (used in) financing activities	21,323	63,617
Foreign currency translation adjustments on cash and cash equivalents	300	58
Net increase (decrease) in cash and cash equivalents	27,039	58,294
Cash and cash equivalents at the beginning of period	23,823	50,863
Cash and cash equivalents at the end of period	50,863	109,157

English Translation

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(5) Notes to the Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Segment information, etc.)

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

(Per share information)

	For the fiscal year ended June 30, 2018
Net assets per share	¥402.12
Basic loss per share	¥(60.61)

- (Notes) 1. On October 20, 2017, the Company conducted a 10:1 stock split of its common stock, pursuant to the resolution of the Board of Directors on September 14, 2017. Net assets per share and basic loss per share are calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.
2. Information on diluted earnings per share is omitted since, although potential shares exist, the recorded figure was a loss.
3. The basis for the calculation of basic loss per share is as follows.

	For the fiscal year ended June 30, 2018
Basic loss per share	
Loss attributable to owners of parent (Million yen)	(7,041)
Amount not attributable to common shareholders (Million yen)	-
Loss attributable to common shareholders of the parent (Million yen)	(7,041)
Average number of shares during the period (Shares)	116,176,295
Outline of potential common stock excluded from the computation of diluted earnings per share due to its non-dilutive effect	35 types of stock acquisition rights Number of stock acquisition rights: 3,285,210 Number of common stock: 24,470,400

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(Significant subsequent events)

The Company resolved at its Board of Directors' meeting held on May 14 and June 1, 2018 to issue new shares. With regard to the issuance of new shares through a third-party allotment related to the offering of the Company's shares by way of over-allotment, the Company has received payment on July 19, 2018.

1) Type and number of shares to be issued	Common stock of the Company: 2,840,500 shares
2) Allotment price	¥2,865 per share
3) Total allotment price	¥8,138 million
4) Amount of increase in capital stock and capital surplus	Increase in capital stock: ¥4,069 million Increase in capital surplus: ¥4,069 million
5) Allottee and the number of shares allotted	Daiwa Securities Co. Ltd.: 2,840,500 shares
6) Payment date	July 19, 2018
7) Use of funds	The funds will be used for the working capital of the Group, including investments and loans to consolidated subsidiaries and for the repayments of loans.