



Consolidated Financial Results for the Three-month Period Ended September 30, 2018 [Japanese GAAP]

November 8, 2018

Company name: Mercari, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4385

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

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Scheduled date of filing quarterly securities report: November 14, 2018

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 Three-month Period Ended September 30, 2018 (the "Period") (July 1, 2018 to September 30, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended September 30, 2018	10,552	-	(2,513)	-	(2,513)	-	(2,887)	-
September 30, 2017	-	-	-	-	-	-	-	-

(Note) Comprehensive income: Three months ended September 30, 2018: ¥(2,693) million [-%]

Three months ended September 30, 2017: ¥ - million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended September 30, 2018	(20.71)	-
September 30, 2017	-	-

(Notes) 1. Mercari, Inc (the "Company") did not prepare quarterly consolidated financial statements for the three months ended September 30, 2017. Accordingly, the results and the changes from the previous corresponding period for the three months ended September 30, 2017 have been left blank, and the changes from the previous corresponding period for the three months ended September 30, 2018 have also been left blank.

2. Information on diluted earnings per share for the three months ended September 30, 2018 is omitted since, although potential shares exist, the recorded figure was a loss.

English Translation

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(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2018	118,578	59,958	50.6
As of June 30, 2018	117,752	54,422	46.2

(Reference) Equity: As of September 30, 2018: ¥59,958 million

As of June 30, 2018: ¥54,422 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, 2018	-	0.00	-	0.00	0.00
Fiscal year ending June 30, 2019	-				
Fiscal year ending June 30, 2019 (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, 2019 (July 1, 2018 to June 30, 2019)

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 (3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 3 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):

September 30, 2018:	141,266,642 shares
June 30, 2018:	135,339,722 shares
 - 2) Total number of treasury stock at the end of the Period:

September 30, 2018:	- shares
June 30, 2018:	- shares
 - 3) Average number of shares during the Period:

Three months ended September 30, 2018:	139,444,024 shares
Three months ended September 30, 2017:	- shares

(Note) The Company did not prepare quarterly consolidated financial statements for the three months ended September 30, 2017. Accordingly the average number of shares during the Period for the three months ended September 30, 2017 has been left blank.

* 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 (3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 3 of the Appendix.

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1. Qualitative Information Regarding Results for the Period

(1) Explanation of Operating Results

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), worth approximately ¥2.1 trillion (11.7% increase year on year) in 2017, the Japanese domestic market for 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* C2C marketplace, the Company and its group companies (collectively, the “Group”) carried out marketing measures centered around TV commercials and online advertising, and engaged in efforts to strengthen CRM measures ^(Note 1). In addition, the Group undertook various new measures, such as developing and improving features to strengthen various categories including smartphones, books, and DVDs. As a result, *Mercari*’s gross merchandise volume in Japan ^(Note 2) on a consolidated basis for the three months ended September 30, 2018 was ¥99.0 billion, an increase of ¥28.8 billion compared with the corresponding period 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 worked to expand the *Mercari* C2C marketplace in the US by strengthening its management team and implementing efforts to improve the convenience of its services by continuously focusing on developing and improving features tailored to the US, including improving delivery features. As a result, the gross merchandise volume of *Mercari* in the US on a consolidated basis in the three months ended September 30, 2018 was ¥8.0 billion (the exchange rate conversion is calculated by monthly average rates), up ¥3.5 billion from the corresponding period of the previous fiscal year. Aiming to further expand recognition, the Group is carrying out radio advertising and other offline advertising while continuing to focus on online advertising that can reach a wide audience.

As a result, for the three months ended September 30, 2018, the Group recorded net sales of ¥10,552 million, operating loss of ¥2,513 million primarily associated with the use of advertising expenses, ordinary loss of ¥2,513 million, and loss attributable to owners of parent of ¥2,887 million.

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

(Note 1) CRM (Customer Relationship Management) measures: Measures aimed at raising user satisfaction.

(Note 2) Including purchases via *Mercari Kauru* and *Mercari Maison*.

(2) Explanation of Financial Position

(Assets)

Total assets as of September 30, 2018 increased by ¥826 million from the end of the previous fiscal year to ¥118,578 million. This is primarily attributable to a ¥1,562 million increase in other receivables, a ¥181 million increase in prepaid expenses, and a ¥424 million increase in investments and other assets, despite a ¥1,764 million decrease in cash and cash equivalents.

(Liabilities)

Total liabilities as of September 30, 2018 decreased by ¥4,708 million from the end of the previous fiscal year to ¥58,620 million. This is primarily attributable to a ¥2,327 million decrease in long-term borrowings (including current portion of long-term borrowings) and a ¥1,696 million decrease in income taxes payable.

(Net assets)

Net assets as of September 30, 2018 increased by ¥5,535 million from the end of the previous fiscal year to ¥59,958 million. This is primarily attributable to a ¥4,114 million increase in both capital stock and capital surplus due to a secondary offering of a 2,840,500 share over-allotment of the Company’s common stock in conjunction with the Company’s initial public offering of its common stock on the Mothers Section of the Tokyo Stock Exchange and other reasons, despite a ¥2,887 million decrease in retained earnings due to loss attributable to owners of parent.

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

In order to further enhance its 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, overseas businesses and new businesses 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.

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2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and cash equivalents	109,157	107,393
Trade accounts receivable	359	501
Other receivable	2,774	4,336
Prepaid expenses	491	673
Other current assets	1,090	1,459
Allowance for doubtful accounts	(148)	(236)
Total current assets	113,725	114,127
Non-current assets		
Property, plant and equipment	1,037	1,086
Intangible assets	120	71
Investments and other assets		
Investment securities	416	605
Lease deposits	1,223	1,430
Other assets	1,229	1,257
Total investments and other assets	2,869	3,293
Total non-current assets	4,026	4,451
Total assets	117,752	118,578
Liabilities		
Current liabilities		
Short-term borrowings	1,000	1,000
Current portion of long-term borrowings	9,061	8,869
Cash due to users and other payables	26,677	26,125
Accrued expenses	1,422	1,082
Income taxes payable	2,260	564
Deposits received	2,223	2,567
Provision for bonuses	679	713
Other current liabilities	979	784
Total current liabilities	44,304	41,706
Non-current liabilities		
Long-term borrowings	18,956	16,820
Other non-current liabilities	68	92
Total non-current liabilities	19,024	16,913
Total liabilities	63,329	58,620
Net assets		
Shareholders' equity		
Capital stock	34,803	38,918
Capital surplus	34,783	38,898
Retained earnings (Accumulated deficit)	(15,288)	(18,175)
Total shareholders' equity	54,298	59,640
Accumulated other comprehensive income		
Foreign currency translation adjustments	123	318
Total accumulated other comprehensive income	123	318
Total net assets	54,422	59,958
Total liabilities and net assets	117,752	118,578

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

	For the three months ended September 30, 2018
Net sales	10,552
Cost of sales	2,285
Gross profit	8,266
Selling, general and administrative expenses	10,780
Operating loss	(2,513)
Non-operating income	
Interest income	5
Foreign exchange gain	17
Other	2
Total non-operating income	25
Non-operating expenses	
Interest expense	24
Total non-operating expenses	24
Ordinary loss	(2,513)
Loss before income taxes	(2,513)
Income taxes	374
Loss	(2,887)
Loss attributable to owners of parent	(2,887)

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(Quarterly Consolidated Statement of Comprehensive Income)**(Millions of yen)**

	For the three months ended September 30, 2018
Loss	(2,887)
Other comprehensive income	
Foreign currency translation adjustments	194
Total other comprehensive income	194
Comprehensive income	(2,693)
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	(2,693)

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(3) Notes to the Quarterly Consolidated Financial Statements

Notes on going concern assumption:

Not applicable.

Notes on significant changes in the amount of shareholders' equity:

The Company raised equity through a secondary offering of a 2,840,500 share over-allotment of the Company's common stock in conjunction with the Company's initial public offering of its common stock on the Mothers Section of the Tokyo Stock Exchange. As a result, the Company's capital stock and capital surplus as of September 30, 2018 increased by ¥4,114 million apiece to ¥38,918 million and ¥38,898 million, respectively.

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 consolidated fiscal year, which includes the quarterly period, and applied this percentage to quarterly profit before income taxes to determine income taxes.

Additional information:

Application of Partial Amendments to Accounting Standard for Tax Effect Accounting

Partial Amendment to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan ("ASBJ") Statement No.28, revised on 16th February, 2018) has been applied from the beginning of the three months ended September 30, 2018. Thereby, deferred tax assets are presented under "Investments and other assets" and deferred tax liabilities are presented under "Non-current liabilities" in the quarterly consolidated balance sheets.

Segment information, etc.:

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

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Significant subsequent events:

Conversion of Michael Inc. into a wholly-owned subsidiary through simplified share exchange

The Company resolved at the meeting of the board of directors held on October 18, 2018 to implement a share exchange (the “Share Exchange”) through which the Company would become a wholly-owning parent company of Michael Inc. (“Michael”) and Michael would become a wholly-owned subsidiary of the Company, and both companies executed a share exchange agreement (the “Share Exchange Agreement”) on the same day.

(1) Outline of the Share Exchange

(i) Name and description of business of the wholly-owned subsidiary resulting from the Share Exchange

Name of the wholly-owned subsidiary: Michael Inc.

Description of business: Development and operation of community applications

(ii) Purpose of the Share Exchange

The Company is pushing ahead with its efforts to enhance every category on the *Mercari* C2C marketplace. The Company, among others, has been making efforts to increase the distribution volume of items in the automotive categories, including the launch of services that allow users to list automotive parts for sale in July 2013 and automobile bodies for sale in May 2016.

Michael has plentiful information concerning automobiles and automotive parts posted by users and off-line and on-line communities composed of users across a wide range of age groups, through the operation of its automobile-related SNS service, “*CARTUNE*”.

The Share Exchange enables the Company, together with Michael, to combine the automotive categories of the Company with the user base, communities, and operation know-how of “*CARTUNE*” of Michael, thereby accelerating the enhancement of the automotive categories with an increase in the number of automotive parts listed for sale.

(iii) Effective date of the Share Exchange

November 8, 2018

(iv) Method of the Share Exchange

Through the Share Exchange, the Company became the wholly-owning parent company and Michael became the wholly-owned subsidiary. The Company conducted the Share Exchange through the simplified procedure for share exchange (*kani kabushiki kokan*) under the provision of Article 796, Paragraph 2 of the Companies Act, without obtaining approval by resolution of its general meeting of shareholders. Michael has conducted the Share Exchange after obtaining approval by resolution of its extraordinary general meeting of shareholders held on November 7, 2018.

(v) Name of the company after the business combination

Michael Inc.

(2) Allotment in the Share Exchange

	The Company (Wholly-owning parent company)	Michael Inc. (Wholly-owned subsidiary)
Exchange ratio in the Share Exchange (Note 1)	1	194.83
Number of shares to be delivered for the Share Exchange (Note 2)	Common stock of the Company: 392,582 shares	

(Notes) 1. In the Share Exchange, the Company allotted and delivered 194.83 common stock in the Company per common stock in Michael to those who were the shareholders of Michael as of the time immediately prior to the Company’s acquisition of all the issued shares in Michael, except for those held by the Company in Michael, through the Share Exchange (the “Reference Time”).

2. The Company has requested a third party institution independent from both companies to calculate the share exchange ratio in order to ensure the fairness and appropriateness in determining the share exchange ratio to be used for the Share Exchange.

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(3) Summary of accounting treatment to be applied

The Share Exchange is to be accounted for as an exchange of shares that have been acquired in accordance with “Accounting Standard for Business Combinations” (ASBJ Statement No. 21) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10).