



mercari

Consolidated Financial Results for the Six Months Ended December 31, 2018 [Japanese GAAP]

February 7, 2019

Company name: Mercari, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4385

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

Representative: Shintaro Yamada, Chief Executive Officer

Contact: Kei Nagasawa, Chief Financial Officer

Phone: +81-3-6804-6907

Scheduled date of filing quarterly securities report: February 14, 2019

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, 2018 (the "Period") (July 1, 2018 to December 31, 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	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2018	23,788	-	(3,654)	-	(3,684)	-	(4,475)	-
December 31, 2017	-	-	-	-	-	-	-	-

(Note) Comprehensive income: Six months ended December 31, 2018: ¥(4,552) million [-%]

Six months ended December 31, 2017: ¥ - million [-%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2018	(31.70)	-
December 31, 2017	-	-

(Notes) 1. Mercari, Inc. (the "Company") did not prepare quarterly consolidated financial statements for the six months ended December 31, 2017. Accordingly, the results and the changes from the previous corresponding period for the six months ended December 31, 2017 have been left blank, and the changes from the previous corresponding period for the six months ended December 31, 2018 have also been left blank.

2. Information on diluted earnings per share for the six months ended December 31, 2018 is omitted since, although potential shares exist, the recorded figure was a loss.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2018	121,020	59,369	49.1
As of June 30, 2018	117,752	54,422	46.2

(Reference) Equity: As of December 31, 2018: ¥59,369 million

As of June 30, 2018: ¥54,422 million

English Translation

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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	-	0.00			
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 (4) 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):

December 31, 2018:	145,175,284 shares
June 30, 2018:	135,339,722 shares
 - 2) Total number of treasury stock at the end of the Period:

December 31, 2018:	2 shares
June 30, 2018:	- shares
 - 3) Average number of shares during the Period:

Six months ended December 31, 2018:	141,193,255 shares
Six months ended December 31, 2017:	- shares

(Note) The Company did not prepare quarterly consolidated financial statements for the six months ended December 31, 2017. Accordingly the average number of shares during the Period for the six months ended December 31, 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 (4) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 3 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	2
(3) Explanation of Cash Flows	3
(4) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	5
Quarterly Consolidated Statement of Income	5
Quarterly Consolidated Statement of Comprehensive Income	6
(3) Quarterly Consolidated Statements of Cash Flows	7
(4) Notes to the Quarterly Consolidated Financial Statements	8
Notes on going concern assumption	8
Notes on significant changes in the amount of shareholders' equity	8
Application of special accounting treatments for preparing the quarterly consolidated financial statements	8
Additional information	8
Segment information, etc.	8
Business combination	9
Significant subsequent events	11

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 increased MAU ^(Note 1) by strengthening CRM measures ^(Note 2) that utilize points effectively starting in September 2018. In addition, the Group undertook various new measures, such as developing and improving features to strengthen various categories. As part of these efforts, in November 2018, the Group acquired Michael Inc., which operates *CARTUNE*, a community application for car lovers. The Group is also pursuing a new collaborative initiative between *CARTUNE* and *Mercari* centered around car parts (ID connection with *Mercari* started from the third quarter of the current fiscal year). As a result, *Mercari*’s gross merchandise volume in Japan ^(Note 3) for the six months ended December 31, 2018 was ¥228.0 billion, an increase of ¥71.0 billion compared with the corresponding period of the previous fiscal year. In addition, the gross merchandise volume in Japan since the start of service (July 2, 2013) surpassed ¥1 trillion during the quarter ended December 31, 2018.

Meanwhile, the Group worked to expand the *Mercari* C2C marketplace in the US by implementing efforts to improve the convenience of its services by continuously focusing on developing and improving features including delivery features. Additionally, aiming to further expand recognition and user numbers, the Group carried out radio advertising and other offline advertising as well as campaigns to increase buyer numbers while focusing on online advertising that can reach a wide audience.

As a result, the gross merchandise volume of *Mercari* in the US in the six months ended December 31, 2018 was ¥17.8 billion (the exchange rate conversion is calculated by the average rate of ¥112.18 against the US dollar), up ¥7.5 billion from the corresponding period of the previous fiscal year.

As a result of the above, for the six months ended December 31, 2018, the Group recorded net sales of ¥23,788 million, operating loss of ¥3,654 million primarily associated with the use of advertising expenses, ordinary loss of ¥3,684 million, and loss attributable to owners of parent of ¥4,475 million.

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

(Note 1) MAU (Monthly Active Users): Number of users that use *Mercari* more than once in a month.

(Note 2) CRM (Customer Relationship Management) measures: Measures aimed at raising user activation.

(Note 3) Including purchases via *Mercari Kauru* and *Mercari Maison*.

(2) Explanation of Financial Position

(Assets)

Total assets as of December 31, 2018 increased by ¥3,268 million from the end of the previous fiscal year to ¥121,020 million. This is primarily attributable to a ¥443 million increase in trade accounts receivable, a ¥4,065 million increase in other receivables, a ¥600 million increase in property, plant and equipment, and a ¥1,038 million increase in goodwill, despite a ¥4,453 million decrease in cash and cash equivalents.

(Liabilities)

Total liabilities as of December 31, 2018 decreased by ¥1,678 million from the end of the previous fiscal year to ¥61,651 million. This is primarily attributable to a ¥4,572 million decrease in long-term borrowings (including current portion of long-term borrowings), a ¥1,000 million decrease in short-term borrowings, and a ¥1,362 million decrease in income taxes payable, despite a ¥5,339 million increase in cash due to users and other payables.

(Net assets)

Net assets as of December 31, 2018 increased by ¥4,947 million from the end of the previous fiscal year to

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¥59,369 million. This is primarily attributable to a ¥4,750 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, share exchange with Michael Inc., and other reasons, despite a ¥4,475 million decrease in retained earnings due to loss attributable to owners of parent.

(3) Explanation of Cash Flows

In the current fiscal year, cash and cash equivalents (hereinafter referred to as "cash") decreased by ¥4,453 million from the end of the previous fiscal year to ¥104,704 million as of December 31, 2018, in tandem with an increase of ¥77 million due to new consolidation.

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 ¥5,704 million. This is primarily attributable to ¥3,950 million in loss before income taxes, adjusted by an increase in change in cash due to users and other payables of ¥5,515 million and an increase in change in other receivable of ¥4,064 million, and also attributable to income taxes paid of ¥1,742 million.

(Cash flows from investing activities)

Cash used in investing activities during the current fiscal year amounted to ¥1,465 million. This is primarily attributable to purchase of property and equipment of ¥936 million, payments for lease deposits of ¥328 million, and purchase of investment securities of ¥189 million.

(Cash flows from financing activities)

Cash provided by financing activities during the current fiscal year amounted to ¥2,648 million. This is primarily attributable to proceeds of ¥8,378 million from 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 factors, ¥4,572 million of repayments of long-term borrowings, and ¥1,000 million in net decrease 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 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 December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	109,157	104,704
Trade accounts receivable	359	802
Other receivable	2,774	6,839
Prepaid expenses	491	729
Deposits paid	786	1,761
Other current assets	304	438
Allowance for doubtful accounts	(148)	(435)
Total current assets	113,725	114,840
Non-current assets		
Property, plant and equipment	1,037	1,637
Intangible assets		
Goodwill	119	1,157
Other intangible assets	1	20
Total intangible assets	120	1,178
Investments and other assets		
Investment securities	416	378
Lease deposits	1,223	1,502
Other assets	1,229	1,482
Total investments and other assets	2,869	3,363
Total non-current assets	4,026	6,180
Total assets	117,752	121,020
Liabilities		
Current liabilities		
Short-term borrowings	1,000	-
Current portion of long-term borrowings	9,061	8,495
Cash due to users and other payables	26,677	32,017
Accrued expenses	1,422	1,043
Income taxes payable	2,260	898
Deposits received	2,223	2,503
Provision for bonuses	679	547
Provision for loss on business liquidation	-	154
Provision for share-based compensation	-	62
Other current liabilities	979	859
Total current liabilities	44,304	46,582
Non-current liabilities		
Long-term borrowings	18,956	14,950
Other non-current liabilities	68	118
Total non-current liabilities	19,024	15,068
Total liabilities	63,329	61,651
Net assets		
Shareholders' equity		
Capital stock	34,803	39,553
Capital surplus	34,783	39,533
Retained earnings (Accumulated deficit)	(15,288)	(19,763)
Total shareholders' equity	54,298	59,322
Accumulated other comprehensive income		
Foreign currency translation adjustments	123	46
Total accumulated other comprehensive income	123	46
Total net assets	54,422	59,369
Total liabilities and net assets	117,752	121,020

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(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statement of Income

(Millions of yen)

	For the six months ended December 31, 2018
Net sales	23,788
Cost of sales	5,026
Gross profit	18,761
Selling, general and administrative expenses	22,416
Operating loss	(3,654)
Non-operating income	
Interest income	11
Other	15
Total non-operating income	26
Non-operating expenses	
Interest expense	46
Foreign exchange loss	8
Other	0
Total non-operating expenses	56
Ordinary loss	(3,684)
Extraordinary losses	
Loss on devaluation of investment securities	35
Loss on step acquisitions	47
Loss on liquidation of business	182
Total extraordinary losses	266
Loss before income taxes	(3,950)
Income taxes	524
Loss	(4,475)
Loss attributable to owners of parent	(4,475)

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

	For the six months ended December 31, 2018
Loss	(4,475)
Other comprehensive income	
Foreign currency translation adjustments	(76)
Total other comprehensive income	(76)
Comprehensive income	(4,552)
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	(4,552)

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(3) Quarterly Consolidated Statements of Cash Flows**(Millions of yen)**

	For the six months ended December 31, 2018
Cash flows from operating activities	
Loss before income taxes	(3,950)
Depreciation and amortization	309
Amortization of goodwill	141
Loss on liquidation of business	182
Loss on step acquisitions	47
Loss on devaluation of investment securities	35
Increase in allowance for doubtful accounts	287
Interest income	(11)
Interest expense	46
Change in trade accounts receivable	(442)
Change in other receivable	(4,064)
Change in cash due to users and other payables	5,515
Decrease in deposits paid	(974)
Other—net	(792)
Subtotal	(3,669)
Interest and dividend income received	11
Interest expense paid	(46)
Decrease (increase) in guarantee deposits	(256)
Income taxes paid	(1,742)
Net cash provided by (used in) operating activities	(5,704)
Cash flows from investing activities	
Purchase of property and equipment	(936)
Purchase of investment securities	(189)
Payments for lease deposits	(328)
Other—net	(12)
Net cash provided by (used in) investing activities	(1,465)
Cash flows from financing activities	
Net increase (decrease) in short-term borrowings	(1,000)
Repayments of long-term borrowings	(4,572)
Proceeds from issuance of common stock	8,378
Payments of listing-related expense	(156)
Net cash provided by (used in) financing activities	2,648
Foreign currency translation adjustments on cash and cash equivalents	(10)
Net increase (decrease) in cash and cash equivalents	(4,531)
Cash and cash equivalents at the beginning of period	109,157
Increase in cash and cash equivalents from newly consolidated subsidiary	77
Cash and cash equivalents at the end of period	104,704

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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

During the three months ended September 30, 2018, 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 each increased by ¥4,069 million.

Furthermore, during the six months ended December 31, 2018, because the Company implemented a share exchange through which the Company became wholly-owning parent company of Michael Inc. and Michael Inc. became a wholly-owned subsidiary of the Company, both capital stock and capital surplus increased by ¥560 million.

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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Business combination

Business combination through simplified share exchange

(1) Outline of the business combination

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.

In addition, on November 8, 2018, the effective date of the share exchange, Michael became a wholly-owned subsidiary of the Company. Note that the Share Exchange followed the procedures of a simplified share exchange (*kani kabushiki kokan*), which, pursuant to the provisions of Article 796, Paragraph 2 of the Companies Act, does not require approval at the Company’s general meeting of shareholders.

(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 business combination

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) Date of business combination

October 31, 2018 (deemed acquisition date)

November 8, 2018 (effective date of the Share Exchange)

(iv) Name of the company after the business combination

Michael Inc.

(v) Percentage of voting rights acquired

Percentage of voting rights immediately before the Share Exchange	11.22%
Percentage of voting rights additionally acquired in the Share Exchange	88.78%
Percentage of voting rights subsequent to the stock acquisition	100.00%

(vi) Main grounds for determination of the acquiring company

The Company is determined as the acquiring company because the Company acquired 100% of the voting rights of Michael. This reasoning is in line with the reasoning for determination of the acquiring company mentioned in “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).

(2) Period of operating results of acquired company included in consolidated financial statements

Since the deemed date of acquisition was October 31, 2018, the operating results of the acquired company for the period from November 1, 2018 to December 31, 2018 is included in the quarterly consolidated statement of income.

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(3) Matters relating to the calculation of the acquisition cost, etc.

(i) Acquisition cost of the acquired company and breakdown thereof by consideration type

Fair value, as of the date of business combination, of common stock of Michael owned by the Company immediately before the Share Exchange	¥141 million
Fair value of common stock of the Company delivered on business combination date	¥1,121 million
Acquisition cost	¥1,262 million

(ii) 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 shares of common stock in the Company per one share of 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.

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.

(4) Difference between acquisition cost of the acquired company and total acquisition cost of individual transactions leading to acquisition

Loss on step acquisitions	¥47 million
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(5) Details and amounts of main acquisition-related costs

Advisory fee, etc.	¥10 million
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(6) Amount of goodwill recognized, reason for recognition of goodwill, and method and period for amortization of goodwill

(i) Amount of goodwill recognized ¥1,179 million

The amount of goodwill is calculated on a provisional basis because the allocation of acquisition cost was not completed as of December, 31, 2018, as that time was only shortly after the acquisition.

(ii) Reason for recognition of goodwill

Goodwill is recognized because the acquisition cost exceeded the fair value of net assets of the acquired company.

(iii) Method and period for amortization of goodwill

Amortized in equal amounts over 5 years

(7) Amount and breakdown of assets acquired and liabilities assumed as of the date of the business combination

Current assets	¥90 million
Non-current assets	¥3 million
Total assets	¥93 million
Current liabilities	¥11 million
Total liabilities	¥11 million

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Note that the amounts of assets acquired and liabilities assumed on the date of the business combination are calculated on a provisional basis because the fair value measurements of the assets and liabilities were not completed by December 31, 2018, as that time was only shortly after the acquisition.

- (8) Estimated amount of the impact on the consolidated statement of income for the current fiscal year assuming that the business combination had been completed on the beginning of the current fiscal year, and its calculation method

Net sales	¥0 million
Operating loss	¥(372) million

Method for calculating approximate estimates and significant assumptions

Concerning the method for calculating approximate estimates, the positive or negative effect of the amortization of goodwill recognized at the time of the business combination has been calculated in the net sales and profit and loss information from July 1, 2018 to December 31, 2018 on the assumption that such goodwill had been generated on the first day of the current fiscal year.

Significant subsequent events

Issuance of new stock as Restricted Stock Units (RSU) Incentive Plan

At the meeting of the board of directors of the Company held on December 18, 2018, it had reconsidered its incentive compensation plans for domestic and foreign (a) employees of the Company and (b) executives, directors and employees of its subsidiaries (collectively, the “Employee(s)”) and resolved to adopt the Incentive Plan for the Employees.

In addition, the resolution for the issuance of new stock based on the Restricted Stock Unit (RSU) Incentive Plan was passed at the meeting of the board of directors held on January 17, 2019. The payment for the total value of 283 million yen for this issuance will be made by February 21, 2019.