



mercari

Consolidated Financial Results for the Nine Months Ended March 31, 2019 [Japanese GAAP]

May 9, 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: May 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 Nine Months Ended March 31, 2019 (the “Period”) (July 1, 2018 to March 31, 2019)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2019	37,378	43.0	(5,981)	-	(5,993)	-	(7,341)	-
March 31, 2018	26,147	-	(1,896)	-	(1,951)	-	(3,434)	-

(Note) Comprehensive income: Nine months ended March 31, 2019: ¥(7,458) million [-%]

Nine months ended March 31, 2018: ¥(3,507) million [-%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
March 31, 2019	(51.28)	-
March 31, 2018	(29.87)	-

(Notes)1. Information on diluted earnings per share is omitted since, although potential shares exist, the recorded figure was a loss.

- 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) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of March 31, 2019	123,367	56,958	46.2
As of June 30, 2018	117,752	54,422	46.2

(Reference) Equity: As of March 31, 2019: ¥56,958 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)

(% indicates changes from the previous corresponding period.)

	Net sales	
	Millions of yen	%
Fiscal year ending June 30, 2019	50,000 ~ 52,000	39.8 ~ 45.4

(Note) Revisions to the financial results forecast most recently announced: Yes

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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):

March 31, 2019:	149,769,959 shares
June 30, 2018:	135,339,722 shares
 - 2) Total number of treasury stock at the end of the Period:

March 31, 2019:	2 shares
June 30, 2018:	- shares
 - 3) Average number of shares during the Period:

Nine months ended March 31, 2019:	143,167,499 shares
Nine months ended March 31, 2018:	114,985,100 shares

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

* 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 forward-looking statements, including the financial results forecast, contained in these materials are based on information currently available to the Company and certain assumptions deemed reasonable by the Company. As such, they do not constitute guarantees by the Company of future performance. 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.

English Translation

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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 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	6
Quarterly Consolidated Statements of Income	6
Quarterly Consolidated Statements of Comprehensive Income	7
(3) 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 CRM measures ^(Note 1) and measures to strengthen categories, in addition to marketing measures centered on TV commercials and online advertising. As a result, MAU ^(Note 2) and unit prices have been steadily increasing. By category, the Entertainment and Hobbies category in particular has been growing, with good performance driven by expanded buying and selling of toys and trading cards as well as rising transaction volumes of books, DVDs, and other merchandise via the barcode listing feature.

Against this backdrop, and in the belief that an increase in listings is important for the Company to achieve sustained growth, the Group has been promoting efforts to make item listing and packaging easier. As part of this initiative, in addition to AI listing ^(Note 3), in March 2019 the Group launched the barcode listing feature in the cosmetics category. The Group is also undertaking trials of packaging areas, *TsutsuMer Spot*, at some post offices, offering packing materials that can be used free of charge.

As a result, *Mercari*’s gross merchandise volume in Japan ^(Note 4) for the nine months ended March 31, 2019 was ¥361.0 billion, an increase of ¥110.3 billion compared with the corresponding period of the previous fiscal year.

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. Additionally, aiming to further expand recognition and user numbers, the Group carried out online advertising that can reach a wide audience while also working to increase the number of sellers and buyers through campaigns on online media and TV commercials.

As a result, the gross merchandise volume of *Mercari* in the US in the nine months ended March 31, 2019 was ¥29.2 billion (the exchange rate conversion is calculated by the average rate during the Period of ¥111.52 against the US dollar), up ¥12.2 billion from the corresponding period of the previous fiscal year.

The “Cashless Vision” announced by the Ministry of Economy, Trade and Industry in April 2018 sets out a goal of achieving a 40% cashless payment ratio by 2025 and industry, the government, and academia have been promoting efforts to realize a cashless society.

Based on the technology and vast customer and information base nurtured through *Mercari*, the Group launched *Merpay*, a service offering mobile payment through the *iD* contactless payment service ^(Note 5), on February 13, 2019. Furthermore, *Merpay* began offering the code payment feature *Code Payments* on March 14. Together with *iD* merchants, this will enable the use of *Merpay* at 1.35 million stores (to be brought online in stages) throughout Japan. As a result of enhancing convenience through the expansion of services, the number of *Merpay* registered users ^(Note 6) surpassed 1 million on April 17, 2019, and has been steadily increasing. Looking ahead, *Merpay* will continue to support the penetration of a cashless society through its strategy of “openness,” which promotes neutral and open partnerships across business categories and industries.

As a result of the above, for the nine months ended March 31, 2019, the Group recorded net sales of ¥37,378 million (43.0% increase year on year), operating loss of ¥5,981 million (compared to operating loss of ¥1,896 million in the corresponding period of the previous fiscal year) primarily associated with the use of advertising expenses and increase in personnel expenses, ordinary loss of ¥5,993 million (compared to ordinary loss of ¥1,951 million in the corresponding period of the previous fiscal year), and loss attributable to owners of parent of ¥7,341 million (compared to loss attributable to owners of parent of ¥3,434 million in the corresponding period of the previous fiscal year).

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 activation

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(Note 2) MAU (Monthly Active Users): Number of users that use *Mercari* more than once in a month

(Note 3) A listing support feature that identifies images of items to be listed and displays their titles and brands in real time

(Note 4) Including purchases via *Mercari Kauru*, *Mercari Maisonz*, and *CARTUNE*

(Note 5) *iD*: Registered trademark of NTT DOCOMO, INC.

(Note 6) Total number of users who have registered for *Merpay Electronic Money*

(2) Explanation of Financial Position

(Assets)

Total assets as of March 31, 2019 increased by ¥5,615 million from the end of the previous fiscal year to ¥123,367 million. This is primarily attributable to a ¥827 million increase in trade accounts receivable, a ¥4,999 million increase in securities, a ¥8,077 million increase in other receivable, a ¥1,487 million increase in deposits paid, a ¥674 million increase in property, plant and equipment, and a ¥961 million increase in goodwill, despite a ¥12,305 million decrease in cash and cash equivalents.

(Liabilities)

Total liabilities as of March 31, 2019 increased by ¥3,079 million from the end of the previous fiscal year to ¥66,409 million. This is primarily attributable to a ¥12,006 million increase in cash due to users and other payables, despite a ¥1,000 million decrease in short-term borrowings, a ¥6,816 million decrease in long-term borrowings (including current portion of long-term borrowings), and a ¥2,121 million decrease in income taxes payable.

(Net assets)

Net assets as of March 31, 2019 increased by ¥2,536 million from the end of the previous fiscal year to ¥56,958 million. This is primarily attributable to a ¥4,997 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 ¥7,341 million decrease in retained earnings due to loss attributable to owners of parent.

(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 other than the forecast for net sales. The Group will engage in management that emphasizes medium- to long-term business growth by conducting disciplined strategic investments.

With regard to net sales, the Company has disclosed forecasts for the fiscal year ending June 30, 2019 (July 1, 2018 to June 30, 2019) in light of recent trends. For related details, please see "Notice Regarding Full-Year Consolidated and Non-Consolidated Earnings Forecasts" announced today.

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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 March 31, 2019
Assets		
Current assets		
Cash and cash equivalents	109,157	96,852
Trade accounts receivable	359	1,187
Securities	-	4,999
Other receivable	2,774	10,851
Prepaid expenses	491	833
Deposits paid	786	2,273
Other current assets	304	380
Allowance for doubtful accounts	(148)	(685)
Total current assets	113,725	116,693
Non-current assets		
Property, plant and equipment	1,037	1,711
Intangible assets		
Goodwill	119	1,081
Other intangible assets	1	28
Total intangible assets	120	1,109
Investments and other assets		
Investment securities	416	359
Lease deposits	1,223	1,837
Other assets	1,229	1,656
Total investments and other assets	2,869	3,853
Total non-current assets	4,026	6,674
Total assets	117,752	123,367
Liabilities		
Current liabilities		
Short-term borrowings	1,000	-
Current portion of long-term borrowings	9,061	7,819
Cash due to users and other payables	26,677	38,684
Accrued expenses	1,422	795
Income taxes payable	2,260	139
Deposits received	2,223	2,867
Provision for bonuses	679	376
Provision for point certificates	-	267
Provision for loss on business liquidation	-	122
Provision for share-based compensation	-	748
Other current liabilities	979	955
Total current liabilities	44,304	52,777
Non-current liabilities		
Long-term borrowings	18,956	13,382
Other non-current liabilities	68	249
Total non-current liabilities	19,024	13,631
Total liabilities	63,329	66,409
Net assets		
Shareholders' equity		
Capital stock	34,803	39,801
Capital surplus	34,783	39,780
Retained earnings (Accumulated deficit)	(15,288)	(22,629)
Treasury stock	-	(0)
Total shareholders' equity	54,298	56,953

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Accumulated other comprehensive income		
Foreign currency translation adjustments	123	5
Total accumulated other comprehensive income	123	5
Total net assets	54,422	56,958
Total liabilities and net assets	117,752	123,367

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

(Millions of yen)

	For the nine months ended March 31, 2018	For the nine months ended March 31, 2019
Net sales	26,147	37,378
Cost of sales	4,560	8,993
Gross profit	21,587	28,385
Selling, general and administrative expenses	23,483	34,366
Operating loss	(1,896)	(5,981)
Non-operating income		
Interest income	3	20
Insurance income	19	-
Foreign exchange gain	-	14
Other	5	17
Total non-operating income	28	53
Non-operating expenses		
Interest expense	59	65
Foreign exchange loss	21	-
Other	3	0
Total non-operating expenses	84	65
Ordinary loss	(1,951)	(5,993)
Extraordinary losses		
Loss on devaluation of investment securities	193	55
Loss on step acquisitions	-	47
Loss on liquidation of business	-	190
Total extraordinary losses	193	294
Loss before income taxes	(2,145)	(6,287)
Income taxes	1,289	1,053
Loss	(3,434)	(7,341)
Loss attributable to owners of parent	(3,434)	(7,341)

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

	For the nine months ended March 31, 2018	For the nine months ended March 31, 2019
Loss	(3,434)	(7,341)
Other comprehensive income		
Foreign currency translation adjustment	(72)	(117)
Total other comprehensive income	(72)	(117)
Comprehensive income	(3,507)	(7,458)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(3,507)	(7,458)

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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

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 the 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 current 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 March 31, 2019 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

(5) Details and amounts of main acquisition-related costs

Advisory fee, etc. ¥10 million

(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

As of December 31, 2018, the amount of goodwill was calculated on a provisional basis because the allocation of acquisition cost was not completed. The amount has been confirmed as of March 31, 2019. No revision has been made to the amount of goodwill.

(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 as of December 31, 2018 were calculated on a provisional basis because the fair value of the assets and liabilities were not completed by December 31, 2018. However, they have been confirmed as of March 31, 2019. No revision has been made to the amounts of assets acquired and liabilities assumed on the date of the business combination.

- (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	¥(427) 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 March 31, 2019 on the assumption that such goodwill had been generated on the first day of the current fiscal year.

Significant subsequent events

Not applicable.