

Consolidated Financial Statements for the Fiscal Year Ended December 31, 2019 [Japanese GAAP]



February 14, 2020

Company name: **AUCNET INC.**
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 3964
 URL: <https://www.aucnet.co.jp/>
 Representative: Mr. Kiyotaka Fujisaki, Representative Director and President
 Contact: Mr. Hiroki Taniguchi, Executive Officer, DM, Corporate Management Division
 Phone: +81-3-6440-2552
 Scheduled date of general shareholders meeting: March 27, 2020
 Scheduled date of commencing dividend payments: March 6, 2020
 Scheduled date of filing securities report: March 30, 2020
 Preparation of supplementary explanatory materials: None
 Financial results briefing: Yes (for institutional investors and analysts)

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

1. Consolidated Results for the Fiscal Year Ended December 31, 2019 (January 1, 2019 - December 31, 2019)

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

Year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2019	19,672	0.9	2,525	(21.5)	2,630	(20.5)	1,404	(17.8)
December 31, 2018	19,492	0.4	3,219	(0.8)	3,308	(0.4)	1,707	(3.4)

(Note) Comprehensive income: Year ended December 31, 2019: ¥1,623 million [6.0%]

Year ended December 31, 2018: ¥1,532 million [-16.0%]

Year ended	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
December 31, 2019	50.94	50.47	8.0	9.3	12.8
December 31, 2018	62.19	61.41	10.1	12.1	16.5

(Reference) Share of profit (loss) of entities accounted for using equity method:

Year ended December 31, 2019: ¥26 million

Year ended December 31, 2018: ¥66 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2019	29,324	18,333	61.6	653.97
As of December 31, 2018	27,257	17,413	63.1	625.31

(Reference) Equity: As of December 31, 2019: ¥18,063 million

As of December 31, 2018: ¥17,205 million

(3) Consolidated Cash Flows

Year ended	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year-end
	Million yen	Million yen	Million yen	Million yen
December 31, 2019	1,426	(2,600)	(757)	13,761
December 31, 2018	2,848	(1,239)	(947)	15,629

2. Cash Dividends

	Annual dividends					Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Year ended December 31, 2018	Yen –	Yen 13.00	Yen –	Yen 13.00	Yen 26.00	Million yen 717	% 41.8	% 4.2
Year ended December 31, 2019	–	13.00	–	13.00	26.00	721	51.0	4.1
Year ending December 31, 2020 (Forecast)	–	10.00	–	10.00	20.00		38.6	

3. Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2020 (January 1, 2020 - December 31, 2020)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	20,328	3.3	2,582	2.3	2,681	1.9	1,430	1.9	51.77

* Notes:

(1) Changes in significant subsidiaries during the period under review: Yes

(Changes in specified subsidiaries resulting in changes in scope of consolidation)

New: 1 (Company name: iryoo.com INC.) Excluded: 1 (Company name: AUCNET DIGITAL PRODUCTS INC.)

(Note) For details, please see “3. Consolidated Financial Statements and Primary Notes (5) Notes to Consolidated Financial Statements (Changes in significant subsidiaries during the fiscal year under review)” on page 13 of the attachments.

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(3) Total number of issued and outstanding shares (common shares)

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

December 31, 2019: 27,769,300 shares

December 31, 2018: 27,667,500 shares

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

December 31, 2019: 147,316 shares

December 31, 2018: 151,902 shares

3) Average number of shares during the period:

Year ended December 31, 2019: 27,560,876 shares

Year ended December 31, 2018: 27,463,529 shares

(Reference) Summary of Non-consolidated Results**1. Non-consolidated Results for the Fiscal Year Ended December 31, 2019****(January 1, 2019 - December 31, 2019)**

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

Year ended	Net sales		Operating profit		Ordinary profit		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2019	11,634	22.6	510	—	1,372	35.4	4,369	432.1
December 31, 2018	9,487	0.9	(572)	—	1,013	21.8	821	9.1

Year ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
December 31, 2019	158.54	157.05
December 31, 2018	29.90	29.52

(Note) In the fiscal year ended December 31, 2019, extraordinary income includes gain on extinguishment of tie-in shares of ¥3,249 million due to the merger of AUCNET DIGITAL PRODUCTS INC.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2019	23,534	13,524	57.5	489.61
As of December 31, 2018	14,989	9,745	65.0	354.20

(Reference) Equity: As of December 31, 2019: ¥13,524 million

As of December 31, 2018: ¥9,745 million

* These financial results are outside the scope of audit procedures by certified public accountants or an audit firm.

* Explanation of the proper use of performance forecast and other notes

The earnings forecast and other forward-looking statements herein are based on the information currently available and certain assumptions deemed reasonable by the Company, and the Company does not guarantee their achievement. In addition, actual results may differ significantly from these forecasts due to a wide range of factors. For cautionary notes on assumptions that form the basis of the performance forecast and the use of performance forecast, please see on page 5 of the attachments.

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1. Overview of Business Results, etc.

(1) Overview of Business Results for the Fiscal Year under Review

1) Business Results

During the fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019), the Japanese economy showed a modest recovery with a steady improvement in the employment and income picture, owing to effects of various measures, despite remaining weakness in exports. However, it is necessary to pay close attention to developments in the world economy, including movements associated with trade issues, the outlook for the Chinese economy, and the impact of fluctuations in financial and capital markets.

In these circumstances, in line with our brand statement, “Shaping the Future of Commerce,” the Company has worked to further improve its social and economic value by providing competitive value-added products and services to promote information distribution in addition to its B2B information distribution intermediary businesses.

As a result, for the fiscal year ended December 31, 2019, net sales of the Company were ¥19,672,155 thousand (up 0.9% from the previous fiscal year), operating profit was ¥2,525,499 thousand (down 21.5% from the previous fiscal year), ordinary profit was ¥2,630,707 thousand (down 20.5% from the previous fiscal year), and profit attributable to owners of parent was ¥1,404,005 thousand (down 17.8% from the previous fiscal year).

Performance results by business segment are as follows.

(Automobile Business)

The Automobile Business comprises the Company’s mainstay used vehicle auctions (*1), shared inventory market (*2), live linked auctions (*3), the proxy bidding service (*4), used vehicle inspection service (*5), and other services.

In the Japanese automotive sector, which has close connections with our business, total new-vehicle registrations (*6) decreased 1.5% year-on-year to 5.19 million units in the fiscal year ended December 31, 2019. The total number of used-vehicle registrations (*7) increased 0.6% year-on-year to 6.98 million units, and the number of vehicles listed (*8) at auctions around Japan increased 3.8% year-on-year to 7.64 million units. The total number of vehicles sold at auctions (*8) increased 2.1% year-on-year to 4.88 million units. For our used vehicle auctions, despite a robust market trend, the number of vehicles listed and the total number of vehicles sold at auctions decreased from the previous fiscal year due to a decline in the number of vehicles listed by imported car dealer members, who are the main listing targets, and the number of expensive vehicles listed by specialty stores. In the shared inventory market, the total number of vehicles listed and vehicles sold at auction increased, as the number of inter-group transactions between dealers and rental and lease companies remained steady, as well as through registration assistance for specialty stores and joint registration for vehicles with inspection for used vehicle listing magazines, etc., and regular updates to the desired selling price. In the used vehicle inspection service, the number of vehicles inspected increased significantly, exceeding one million for the first time since the service was launched, mainly due to a large increase in the number of qualification inspections for the used vehicle listing magazines mentioned above.

As a result, net sales of the Automobile Business (including inter-segment net sales) were ¥12,174,539 thousand (up 3.0% from the same period of the previous year), and operating profit was ¥3,754,808 thousand (up 3.7% from the same period of the previous year).

(*1) Used vehicle auctions are real-time, members-only online auctions run by the Company.

(*2) The shared inventory market is a system that allows Aucnet Group member sellers to share inventory with other members online. The inventory remains at the seller’s premises while other members access it via the online system.

(*3) Live-linked auctions use an online live-link system that enables real-time remote access to participate at physical auction sites, through partnerships between AUCNET and the physical auction sites.

(*4) The proxy bidding service is an agency service provided by i-Auc, Inc. to buy, sell, settle payment for

and transport used vehicles at auctions on behalf of its members.

(*5) The used vehicle inspection service and related inspection skills training services are provided by AIS INC.

(*6) Based on statistics compiled by Japan Automobile Dealers Association

(*7) Based on statistics compiled by Japan Automobile Dealers Association and Japan Light Motor Vehicle and Motorcycle Association

(*8) Based on U-Car Full Data Book and Export Quotation Book

(Digital Product Business)

The Digital Product Business comprises auctions for used digital equipment including used smartphones and used PCs, and services pertaining to distribution.

The distribution volume increased from the previous fiscal year, owing to significant changes in the contract details with major customers in April, despite some impact from the slowdown of smartphone sales in Japan. However, the expected levels of income were not achieved, and operating expenses related to the relocation of domestic processing centers increased. In the overseas business, selling, general and administrative expenses were incurred in relation to preparation of facility infrastructure in the United States and the establishment of new businesses, but full-scale business operation was not yet commenced.

As a result, net sales of the Digital Product Business were ¥3,863,092 thousand (down 4.4% from the previous year), and operating profit was ¥915,074 thousand (down 52.6% from the previous year).

(Other Information Distribution Business)

The Other Information Distribution Business comprises auctions for pre-owned luxury brand items, used motorcycles, and flowers (cut and potted), and services pertaining to distribution.

For pre-owned luxury brand items, we experienced strong growth in the number of members, both with Japan and overseas, due to new member acquisition measures and stronger coordination of services with the U.S. entity with which we commenced a business partnership during the previous fiscal year, and the numbers of items listed and sold increased compared to the previous fiscal year. For used motorcycles, the market conditions continued to be severe, and progress in securing motorcycles listings was sluggish. However, we conducted test marketing for the subscription service, and commenced preparations for a full-scale launch during the next fiscal year, due to a generally positive response. For flowers (cut and potted), as products continued to be in short supply across Japan due to the effects of typhoons and other natural disasters, the number of items for listing was decreased but sales prices at auction rose, and so the total transaction amount remained at the same level as the previous fiscal year.

As a result, net sales of the Other Information Distribution Business (including inter-segment net sales) were ¥2,719,728 thousand (up 1.9% from the previous year), and operating profit was ¥677,010 thousand (up 7.2% from the previous year).

(Other Business)

Other Business comprises system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

Net sales of the Other Business (including inter-segment net sales) were ¥1,645,433 thousand (down 9.5% from the previous year), and operating loss was ¥328,331 thousand (the operating loss for the previous year was ¥269,306 thousand).

(2) Overview of Financial Position for the Fiscal Year under Review

(Assets)

Current assets as of the end of the fiscal year under review amounted to ¥22,450,654 thousand (up 5.3% from the end of the previous fiscal year). This is mainly attributable to a ¥950,353 thousand increase in due from auction members, a ¥219,328 thousand increase in inventories, and a ¥909,747 thousand increase in short-term loans receivable, despite a ¥1,788,091 thousand decrease in cash and deposits, a ¥12,395 thousand decrease in notes and accounts receivable – trade, and a ¥193,188 thousand decrease in income taxes receivable.

Non-current assets amounted to ¥6,873,994 thousand (up 15.8% from the end of the previous fiscal year). This is mainly attributable to a ¥119,573 thousand increase in software and a ¥1,005,988 thousand increase in investment securities, despite a ¥53,857 thousand decrease in buildings and structures, net, a ¥15,559 thousand decrease in other, net under property, plant and equipment, a ¥70,016 thousand decrease in deferred tax assets, and a ¥57,310 thousand decrease in other under investments and other assets.

(Liabilities)

Current liabilities as of the end of the fiscal year under review amounted to ¥8,455,736 thousand (up 15.5% from the end of the previous fiscal year). This is mainly attributable to a ¥4,807 thousand increase in accounts payable – trade, a ¥1,347,261 thousand increase in due to auction members, and a ¥33,146 thousand increase in provision for bonuses, despite a ¥180,110 thousand decrease in income taxes payable, and a ¥6,308 thousand decrease in provision for point card certificates.

Non-current liabilities amounted to ¥2,535,358 thousand (up 0.5% from the end of the previous fiscal year). This is mainly attributable to a ¥34,840 thousand increase in provision for stocks payment, despite an ¥85,007 thousand decrease in retirement benefit liability.

(Net assets)

Net assets as of the end of the fiscal year under review amounted to ¥18,333,554 thousand (up 5.3% from the end of the previous fiscal year). This is mainly attributable to a ¥17,832 thousand increase in capital stock, a ¥668,807 thousand increase in retained earnings, an ¥85,007 thousand increase in valuation difference on available-for-sale securities, a ¥104,086 thousand increase in remeasurements of defined benefit plans, and a ¥61,645 thousand increase in non-controlling interests, despite a ¥19,343 thousand decrease in capital surplus, a ¥7,540 thousand decrease in treasury shares, and a ¥5,720 thousand decrease in foreign currency translation adjustment.

(3) Overview of Cash Flows for the Fiscal Year under Review

3) Cash Flows

Cash and cash equivalents as of the end of the fiscal year under review amounted to ¥13,761,608 thousand, a decrease of ¥1,868,088 thousand from the end of the previous fiscal year.

The status of cash flows by activity in the fiscal year ended December 31, 2019, and the main factors affecting cash flows are as follows.

(Cash Flows from Operating Activities)

Cash provided by operating activities during the fiscal year under review amounted to ¥1,426,193 thousand (down 49.9% from the previous fiscal year). As a main breakdown of inflows, profit before income taxes was ¥2,529,624 thousand, depreciation was ¥660,534 thousand, increase in due to auction members was ¥1,347,261 thousand, and income taxes refund were ¥233,190 thousand. As a main breakdown of outflows, increase in due from auction members was ¥950,353 thousand, increase in inventories was ¥211,045 thousand, increase in consumption taxes refund receivable was ¥906,810 thousand, and income taxes paid were ¥1,323,478 thousand.

(Cash Flows from Investing Activities)

Cash used in investing activities during the fiscal year under review amounted to ¥2,600,207 thousand (up 109.7% from the previous fiscal year). As a main breakdown of inflows, proceeds from withdrawal of time

deposits were ¥590,003 thousand. As a main breakdown of outflows, payments into time deposits were ¥670,000 thousand, purchase of property, plant and equipment was ¥119,492 thousand, purchase of intangible assets was ¥548,035 thousand, purchase of investment securities was ¥899,665 thousand, and payments of loans receivable were ¥1,121,800 thousand.

(Cash Flows from Financing Activities)

Cash used in financing activities during the fiscal year under review amounted to ¥757,345 thousand (down 20.1% from the previous fiscal year). As a main breakdown of inflows, proceeds from issuance of common shares were ¥35,665 thousand. As a main breakdown of outflows, cash dividends paid were ¥719,729 thousand.

(4) Future outlook

Regarding the outlook for the next fiscal year, although a modest recovery is expected on the back of the continuation of the government's economic policies and other factors, it is necessary to pay close attention to developments in the world economy and fluctuations in financial and capital markets.

Under such an environment, in the Automobile Business, we will seek to expand our distribution volume through the construction of data distribution systems with "SATEROKU," a system that allows our members to appraise their used vehicles. In the Digital Product Business, we will aim for stable distribution within Japan and full-scale development of our business overseas, as well as the construction of a more diverse global network through the expansion of sales channels. In the Other Information Distribution Business, we will expand distribution volume of pre-owned luxury brand items bought and sold through aggressive overseas expansion, while continuing to focus on acquiring more members in Japan and overseas; expand distribution volume of used motorcycles by redoubling sales efforts, while boosting distribution through the operation of the subscription service; and expand distribution of flowers (cut and potted) through member acquisition utilizing digital marketing and expansion of the "Otoriyose Torihiki" web purchase service for florists.

Based on the above, for the forecast of the full fiscal year ending December 31, 2020, the Company expects net sales of ¥20,328 million (up 3.3% year-on-year), operating profit of ¥2,582 million (up 2.3% year-on-year), ordinary profit of ¥2,681 million (up 1.9% year-on-year) and profit attributable to owners of parent of ¥1,430 million (up 1.9% year-on-year).

2. Basic Policy on Selecting Accounting Standards

The Company continues to prepare consolidated financial statements in accordance with the Japanese standards for the time being, taking into account comparability of consolidated financial statements over different accounting periods and between companies.

The Company will appropriately respond to the adoption of the international accounting standards considering various conditions in Japan and overseas.

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2018	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	16,489,700	14,701,608
Notes and accounts receivable - trade	861,503	849,107
Inventories	90,442	309,770
Due from auction members	2,639,122	3,589,476
Income taxes receivable	233,190	40,002
Other	1,076,371	2,984,218
Allowance for doubtful accounts	(68,094)	(23,529)
Total current assets	21,322,235	22,450,654
Non-current assets		
Property, plant and equipment		
Buildings and structures	627,293	580,647
Accumulated depreciation	(214,841)	(222,052)
Buildings and structures, net	412,452	358,595
Land	797,076	797,076
Other	920,948	996,170
Accumulated depreciation	(578,547)	(669,329)
Other, net	342,400	326,840
Total property, plant and equipment	1,551,928	1,482,512
Intangible assets		
Software	1,387,345	1,506,918
Other	6,117	6,117
Total intangible assets	1,393,462	1,513,036
Investments and other assets		
Investment securities	916,971	1,922,959
Deferred tax assets	542,317	472,300
Other	1,719,244	1,661,933
Allowance for doubtful accounts	(188,985)	(178,747)
Total investments and other assets	2,989,547	3,878,446
Total non-current assets	5,934,939	6,873,994
Total assets	27,257,175	29,324,649

(Thousand yen)

	As of December 31, 2018	As of December 31, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	599,991	604,799
Due to auction members	4,692,847	6,040,109
Income taxes payable	673,211	493,100
Provision for bonuses	72,646	105,792
Provision for point card certificates	18,684	12,375
Other	1,262,182	1,199,558
Total current liabilities	7,319,563	8,455,736
Non-current liabilities		
Retirement benefit liability	1,705,599	1,620,592
Provision for stocks payment	40,139	74,980
Other	778,171	839,784
Total non-current liabilities	2,523,911	2,535,358
Total liabilities	9,843,475	10,991,094
Net assets		
Shareholders' equity		
Capital stock	1,711,335	1,729,168
Capital surplus	6,801,669	6,782,326
Retained earnings	8,815,791	9,484,599
Treasury shares	(248,596)	(241,056)
Total shareholders' equity	17,080,200	17,755,037
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	161,323	246,330
Foreign currency translation adjustment	10,187	4,466
Remeasurements of defined benefit plans	(45,979)	58,106
Total accumulated other comprehensive income	125,531	308,903
Non-controlling interests	207,968	269,613
Total net assets	17,413,699	18,333,554
Total liabilities and net assets	27,257,175	29,324,649

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

(Thousand yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Net sales	19,492,679	19,672,155
Cost of sales	7,735,252	8,720,934
Gross profit	11,757,426	10,951,221
Selling, general and administrative expenses	8,538,423	8,425,722
Operating profit	3,219,003	2,525,499
Non-operating income		
Interest income	7,935	37,696
Dividend income	36,174	39,035
Share of profit of entities accounted for using equity method	66,957	26,827
Reversal of allowance for doubtful accounts	—	14,299
Other	28,073	47,469
Total non-operating income	139,141	165,328
Non-operating expenses		
Interest expenses	3,416	2,109
Foreign exchange losses	23,993	55,973
Other	21,985	2,037
Total non-operating expenses	49,394	60,120
Ordinary profit	3,308,749	2,630,707
Extraordinary income		
Gain on sales of investment securities	—	56,203
Other	7,638	3,685
Total extraordinary income	7,638	59,889
Extraordinary losses		
Loss on retirement of non-current assets	12,858	59,918
Loss on valuation of investment securities	44,967	8,399
Loss on valuation of shares of subsidiaries and associates	106,890	76,665
Other	17,254	15,988
Total extraordinary losses	181,969	160,972
Profit before income taxes	3,134,417	2,529,624
Income taxes - current	1,367,333	1,102,255
Income taxes - deferred	23,471	(12,675)
Total income taxes	1,390,804	1,089,580
Profit	1,743,613	1,440,044
Profit attributable to non-controlling interests	35,671	36,038
Profit attributable to owners of parent	1,707,941	1,404,005

Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Profit	1,743,613	1,440,044
Other comprehensive income		
Valuation difference on available-for-sale securities	(173,659)	85,007
Foreign currency translation adjustment	(10,032)	(5,720)
Remeasurements of defined benefit plans, net of tax	(27,776)	104,086
Total other comprehensive income	(211,468)	183,372
Comprehensive income	1,532,144	1,623,417
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,496,472	1,587,378
Comprehensive income attributable to non-controlling interests	35,671	36,038

(3) Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,672,777	6,763,112	7,814,198	—	16,250,089
Changes of items during period					
Issuance of new shares	38,557	38,557			77,114
Dividends of surplus			(714,449)		(714,449)
Profit attributable to owners of parent			1,707,941		1,707,941
Increase (decrease) in retained earnings from newly consolidated subsidiary			8,100		8,100
Disposal of treasury shares					—
Purchase of treasury shares				(248,596)	(248,596)
Decrease (increase) of capital surplus by change of share to consolidated subsidiary					—
Net changes of items other than shareholders' equity					
Total changes of items during period	38,557	38,557	1,001,592	(248,596)	830,110
Balance at end of current period	1,711,335	6,801,669	8,815,791	(248,596)	17,080,200

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	334,983	20,219	(18,202)	336,999	172,297	16,759,385
Changes of items during period						
Issuance of new shares						77,114
Dividends of surplus						(714,449)
Profit attributable to owners of parent						1,707,941
Increase (decrease) in retained earnings from newly consolidated subsidiary						8,100
Disposal of treasury shares						—
Purchase of treasury shares						(248,596)
Decrease (increase) of capital surplus by change of share to consolidated subsidiary						—
Net changes of items other than shareholders' equity	(173,659)	(10,032)	(27,776)	(211,468)	35,671	(175,796)
Total changes of items during period	(173,659)	(10,032)	(27,776)	(211,468)	35,671	654,314
Balance at end of current period	161,323	10,187	(45,979)	125,531	207,968	17,413,699

Fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,711,335	6,801,669	8,815,791	(248,596)	17,080,200
Changes of items during period					
Issuance of new shares	17,832	17,832			35,665
Dividends of surplus			(719,983)		(719,983)
Profit attributable to owners of parent			1,404,005		1,404,005
Increase (decrease) in retained earnings from newly consolidated subsidiary		(2,410)	(15,214)		(17,624)
Disposal of treasury shares				7,691	7,691
Purchase of treasury shares				(151)	(151)
Decrease (increase) of capital surplus by change of share to consolidated subsidiary		(34,766)			(34,766)
Net changes of items other than shareholders' equity					
Total changes of items during period	17,832	(19,343)	668,807	7,540	674,837
Balance at end of current period	1,729,168	6,782,326	9,484,599	(241,056)	17,755,037

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	161,323	10,187	(45,979)	125,531	207,968	17,413,699
Changes of items during period						
Issuance of new shares						35,665
Dividends of surplus						(719,983)
Profit attributable to owners of parent						1,404,005
Increase (decrease) in retained earnings from newly consolidated subsidiary						(17,624)
Disposal of treasury shares						7,691
Purchase of treasury shares						(151)
Decrease (increase) of capital surplus by change of share to consolidated subsidiary						(34,766)
Net changes of items other than shareholders' equity	85,007	(5,720)	104,086	183,372	61,645	245,017
Total changes of items during period	85,007	(5,720)	104,086	183,372	61,645	919,854
Balance at end of current period	246,330	4,466	58,106	308,903	269,613	18,333,554

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Cash flows from operating activities		
Profit before income taxes	3,134,417	2,529,624
Depreciation	609,138	660,534
Amortization of goodwill	481,675	0
Increase (decrease) in allowance for doubtful accounts	36,060	(52,557)
Increase (decrease) in retirement benefit liability	64,756	64,326
Increase (decrease) in provision for stocks payment	40,139	34,840
Interest and dividend income	(44,109)	(76,732)
Interest expenses	3,416	2,109
Share of loss (profit) of entities accounted for using equity method	(66,957)	(26,827)
Loss on retirement of non-current assets	12,735	59,592
Loss (gain) on valuation of investment securities	44,967	8,399
Loss (gain) on sales of investment securities	—	(56,203)
Loss on valuation of shares of subsidiaries and associates	106,890	76,665
Decrease (increase) in notes and accounts receivable - trade	(10,778)	7,251
Decrease (increase) in due from auction members	955,149	(950,353)
Decrease (increase) in inventories	26,708	(211,045)
Increase (decrease) in notes and accounts payable - trade	(24,475)	1,853
Increase (decrease) in due to auction members	(1,201,960)	1,347,261
Decrease (increase) in consumption taxes refund receivable	147,292	(906,810)
Other, net	72,782	(70,800)
Subtotal	4,387,849	2,441,127
Interest and dividend income received	69,950	77,459
Interest expenses paid	(3,416)	(2,106)
Income taxes paid	(1,614,604)	(1,323,478)
Income taxes refund	8,759	233,190
Net cash provided by (used in) operating activities	2,848,538	1,426,193
Cash flows from investing activities		
Payments into time deposits	(1,020,000)	(670,000)
Proceeds from withdrawal of time deposits	1,030,000	590,003
Purchase of property, plant and equipment	(201,751)	(119,492)
Purchase of intangible assets	(780,567)	(548,035)
Purchase of investment securities	—	(899,665)
Proceeds from sales of investment securities	145	91,600
Payments of loans receivable	(165,500)	(1,121,800)
Other, net	(102,273)	77,181
Net cash provided by (used in) investing activities	(1,239,948)	(2,600,207)
Cash flows from financing activities		
Proceeds from issuance of common shares	77,114	35,665
Cash dividends paid	(714,694)	(719,729)
Other, net	(310,329)	(73,281)
Net cash provided by (used in) financing activities	(947,908)	(757,345)
Effect of exchange rate change on cash and cash equivalents	(8,542)	(14,026)
Net increase (decrease) in cash and cash equivalents	652,138	(1,945,387)
Cash and cash equivalents at beginning of period	14,925,711	15,629,697
Increase in cash and cash equivalents from newly consolidated subsidiary	51,847	77,299
Cash and cash equivalents at end of period	15,629,697	13,761,608

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Changes in significant subsidiaries during the fiscal year under review)

AUCNET DIGITAL PRODUCTS INC., which was a consolidated subsidiary of the Company, is excluded from the scope of consolidation because it ceased to exist by the absorption-type merger with the Company as the surviving entity during the fiscal year under review.

Assist Inc., which was a consolidated subsidiary of the Company, is excluded from the scope of consolidation because it ceased to exist by the absorption-type merger with JBTV, Inc. as the surviving entity, which is also a consolidated subsidiary of the Company, during the fiscal year under review.

The Company increased the capital of iryoo.com INC., which is a specified subsidiary of the Company, during the fiscal year under review. As a result, iryoo.com INC. is included in the scope of consolidation due to the increase in its financial significance.

In addition, CARSERU, INC., which was newly established, is included in the scope of consolidation for the fiscal year under review.

(Additional Information)

(Performance-Linked Stock Compensation Plan)

Based on the resolution by the 10th Annual General Shareholders Meeting held on March 28, 2018, the Company has introduced a performance-linked stock compensation plan in the form of a Board Benefit Trust (BBT) (the "Plan"), aiming to raise the motivation for contributing to improving performance and increasing corporate value over the medium- to long-term by further clarifying the link between the compensation of Directors and Executive Officers (the "Directors, etc.") and the performance and stock value of the Company.

The Company has conformed to the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issues Task Force (PITF) No. 30 on March 26, 2015) with respect to the accounting methods of the aforementioned trust agreement.

(1) Outline of the Transaction

The Plan is a performance-linked stock compensation plan whereby shares in the Company are acquired through a trust using money contributed by the Company as funds (hereinafter, the trust established pursuant to the Plan is referred to as the "Trust"), and shares in the Company and cash equivalents of such shares at their market value (collectively, the "Company Shares, etc.") are delivered through the Trust to Directors, etc. pursuant to the Officer Stock Delivery Regulations established by the Company. The time for Directors, etc. to receive delivery of Company Shares, etc. shall in principle be the date on which the Directors, etc. retire.

(2) Shares of the Company Held by Trust

Shares of the Company held by Trust are recorded as treasury shares under the category of net assets at book value in the Trust (excluding accompanying expenses). Book value and the number of aforementioned treasury shares were ¥248,430 thousand and 151,800 shares, respectively, as of the end of the previous fiscal year, and ¥240,738 thousand and 147,100 shares, respectively, as of the end of the fiscal year under review.

(Adoption of the "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.")

In addition, the Company has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (ASBJ Statement No. 28, February 16, 2018) since the beginning of the first quarter of the fiscal year under review. As a result, deferred tax assets are now presented in the "investments and other assets" section.

Accordingly, deferred tax assets of ¥112,502 thousand from the "current assets" section have been included in deferred tax assets of ¥542,317 thousand in the "investments and other assets" section.

(Segment information, etc.)

[Segment information]

1. Overview of reportable segments

The Company's reportable segments are components of the Company about which separate financial information is available. These segments are subject to periodic examinations to enable the Board of Directors to decide how to allocate management resources and assess performance.

The Company mainly organizes and conducts auctions via the Internet and provides various related information. Its business segments are based on items handled and consist of "Automobile Business," "Digital Product Business," and "Other Information Distribution Business" as reportable segments.

The Automobile Business comprises the Company's mainstay used vehicle auctions, shared inventory market, live linked auction, the proxy bidding service, used vehicle inspection service, and other services. The Digital Product Business comprises auctions of used digital equipment including used smartphones and used PCs, and services pertaining to distribution. The Other Information Distribution Business comprises auctions of pre-owned luxury brand items, used motorcycles, and flowers (cut and potted), and services pertaining to distribution.

2. Information on net sales and income (loss) by reportable segment

For the fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	11,646,610	4,040,863	2,664,954	18,352,427	1,140,251	19,492,679	—	19,492,679
Inter-segment net sales or transfers	168,384	—	4,039	172,423	677,665	850,089	(850,089)	—
Total	11,814,994	4,040,863	2,668,993	18,524,851	1,817,916	20,342,768	(850,089)	19,492,679
Segment income (loss)	3,620,486	1,931,579	631,246	6,183,312	(269,306)	5,914,006	(2,695,003)	3,219,003

(Notes) 1. "Others" is the segment which is not included in reportable segments, including such businesses as system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥2,695,003 thousand includes goodwill amortization of negative ¥481,675 thousand, and corporate expenses of negative ¥2,213,327 thousand not allocated to specific reportable segments. Corporate expenses chiefly comprise general and administrative expenses not allocated to specific reportable segments.

3. Adjustments are made to reconcile segment income (loss) with operating profit reported on the consolidated statements of income.

For the fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	12,026,408	3,863,092	2,719,728	18,609,229	1,062,926	19,672,155	—	19,672,155
Inter-segment net sales or transfers	148,131	—	—	148,131	582,506	730,637	(730,637)	—
Total	12,174,539	3,863,092	2,719,728	18,757,360	1,645,433	20,402,793	(730,637)	19,672,155
Segment income (loss)	3,754,808	915,074	677,010	5,346,893	(328,331)	5,018,562	(2,493,062)	2,525,499

(Notes) 1. "Others" is the segment which is not included in reportable segments, including such businesses as system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥2,493,062 thousand is corporate expenses, which chiefly comprise general and administrative expenses not allocated to specific reportable segments.

3. Adjustments are made to reconcile segment income (loss) with operating profit reported on the consolidated statements of income.

3. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.

For the fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

Not applicable.

For the fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

Not applicable.

(Per share information)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Net assets per share	¥625.31	¥653.97
Basic earnings per share	¥62.19	¥50.94
Diluted earnings per share	¥61.41	¥50.47

(Notes) 1. The shares of the Company held by the Board Benefit Trust (“BBT”) recorded as treasury shares under shareholders’ equity are included in the treasury shares to be deducted in calculating the number of issued and outstanding shares at the end of the fiscal year and the average number of shares during the fiscal year for the purpose of calculating net assets per share and basic earnings per share. Please note that the number of shares of the Company held by BBT, which were deducted for the purpose of calculating net assets per share for the fiscal years ended December 31, 2018 and December 31, 2019, are 151,800 shares and 147,100 shares respectively, and the average number of shares of the Company held by BBT during the fiscal years ended December 31, 2018 and December 31, 2019, which were deducted for the purpose of calculating basic earnings per share, are 77,509 shares and 150,764 shares respectively.

2. Basis of calculation of basic earnings per share and diluted earnings per share is as follows:

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Basic earnings per share		
Profit attributable to owners of parent (Thousand yen)	1,707,941	1,404,005
Amount not attributable to common stockholders (Thousand yen)	—	—
Profit attributable to owners of parent relating to common stock (Thousand yen)	1,707,941	1,404,005
Average number of shares of common stock outstanding during the period (Shares)	27,463,529	27,560,876
Diluted earnings per share		
Adjustment for profit attributable to owners of parent (Thousand yen)	—	—
Increase in number of shares of common stock (Shares)	350,503	260,256
Overview of residual shares not included in calculation of diluted earnings per share due to lack of dilutive effect	—	—

(Significant subsequent events)

Not applicable.