English Translation
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mercari

Consolidated Financial Results for the Fiscal Year Ended June 30, 2019 [Japanese GAAP]

August 8, 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 annual general meeting of shareholders: September 27, 2019
Scheduled date of filing annual securities report: September 27, 2019
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on annual financial results: Available
Schedule of annual financial results briefing session: Scheduled (for institutional investors and securities analysts)

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

1. Consolidated Financial Results for the Fiscal Year Ended June 30, 2019 (the "Period")

(July 1, 2018 to June 30, 2019)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2019	51,683	44.5	(12,149)	-	(12,171)	-	(13,764)	-
June 30, 2018	35,765	62.0	(4,422)	-	(4,741)	-	(7,041)	-

(Note) Comprehensive income: Fiscal year ended June 30, 2019: ¥(14,098) million [-%]
Fiscal year ended June 30, 2018: ¥(7,028) million [-%]

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	Basic earnings per share	Diluted earnings per share	Return on shareholders' equity	Ordinary profit to total assets	Operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
June 30, 2019	(94.98)	-	(26.1)	(8.6)	(23.5)
June 30, 2018	(60.61)	-	(23.9)	(5.5)	(12.4)

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

Fiscal year ended June 30, 2019: ¥ - million

Fiscal year ended June 30, 2018: ¥ - million

(Notes) 1. On October 20, 2017, Mercari, Inc. (the "Company") conducted a 10:1 stock split of its common stock. Basic earnings per share is calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.

2. Information on diluted earnings per share is omitted since, although potential shares did exist during the previous fiscal year, the average share price during the period cannot be determined, given that the Company had not been listed, and a loss per share was recorded. For the current fiscal year also, although potential shares did exist, because a loss per share was recorded, it is not displayed here.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2019	163,685	50,936	31.1	337.88
As of June 30, 2018	117,752	54,422	46.2	402.12

(Reference) Equity: As of June 30, 2019: ¥50,936 million
As of June 30, 2018: ¥54,422 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
June 30, 2019	(7,289)	(2,805)	32,200	130,774
June 30, 2018	(3,437)	(1,944)	63,617	109,157

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
June 30, 2018	-	0.00	-	0.00	0.00	-	-	-
June 30, 2019	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending June 30, 2020 (Forecast)	-	-	-	-	-		-	

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3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2020 (July 1, 2019 to June 30, 2020)

The consolidated financial results forecast for the next fiscal year is not stated because it is difficult to reasonably estimate a forecast of the financial results. Details concerning the reasons thereof are stated in "1. Overview of Operating Results, etc. (4) Future Outlook" on page 4 of the Appendix.

*** Notes:**

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

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

1) Changes in accounting policies due to revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

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

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

June 30, 2019: 150,755,347 shares

June 30, 2018: 135,339,722 shares

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

June 30, 2019: 2 shares

June 30, 2018: - shares

3) Average number of shares during the Period:

Fiscal year ended June 30, 2019: 144,914,800 shares

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

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(Reference) Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2019 (July 1, 2018 to June 30, 2019)

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

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2019	46,254	38.4	7,135	(3.7)	7,090	(0.2)	(5,046)	-
June 30, 2018	33,424	57.3	7,411	65.7	7,107	59.0	(8,428)	-

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
June 30, 2019	(34.82)	-
June 30, 2018	(72.55)	-

(Notes) 1. On October 20, 2017, Mercari, Inc. (the "Company") conducted a 10:1 stock split of its common stock. Basic earnings per share is calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.

2. Information on diluted earnings per share is omitted since, although potential shares did exist during the previous fiscal year, the average share price during the period cannot be determined, given that the Company had not been listed, and a loss per share was recorded. For the current fiscal year also, although potential shares did exist, because a loss per share was recorded, it is not displayed here.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2019	125,742	60,242	47.9	399.61
As of June 30, 2018	115,414	54,676	47.4	403.99

(Reference) Equity: As of June 30, 2019: ¥60,242 million
As of June 30, 2018: ¥54,676 million

* Consolidated Financial Results are exempt from audit conducted by certified public accountants or audit firms.

* 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.

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1. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Period

According to the FY2018 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 May 2019, the Japanese domestic market for marketplace apps such as *Mercari* accounted for ¥639.2 billion in 2018, and this market is showing an ongoing expansion.

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. As part of measures to strengthen categories, the Group introduced the *Mercari Automobile Warranty* system, which enables the buying and selling of automobiles safely, securely, and simply, and a *Vehicle Inspection Certificate Two-Dimensional Barcode Listing* feature to Automobile category. Looking to tap into new groups of potential customers, the Group has been trialing measures such as holding workshops for participants to learn how to use the *Mercari* app. In addition, in the belief that an increase in listings is important for *Mercari* to achieve sustained growth, the Group has been promoting efforts to make item listing and packing easier. As part of these efforts, as well as continually improving AI listing (Note 3), the Group is also proceeding with such measures as expanding categories that support barcode listings and the packing areas, *TsutsuMer Spots*, which offer packing materials that can be used free of charge. In June 2019, the Group started trialing the placement of photography booths at coin laundromats that enable users to take photographs for listings such as clothes right after they have been washed. As a result, *Mercari*'s gross merchandise volume in Japan (Note 4) for the fiscal year ended June 30, 2019 was ¥490.2 billion, an increase of ¥143.4 billion compared with 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. In addition to providing a feature that proposes the optimal listing price and changing to a user interface focused on listing, the Group has worked to increase the number of sellers and buyers through new campaigns on online media, TV commercials and other media, aiming to further expand recognition and user numbers. As a result, *Mercari's MAU* surpassed 2 million and the gross merchandise volume of *Mercari* in the US in the fiscal year ended June 30, 2019 was ¥40.2 billion (the exchange rate conversion is calculated by the average rate during the Period of ¥111.11 against the US dollar), up ¥16.7 billion from 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 user and information base nurtured through *Mercari*, the Group launched *Merpay*, a mobile payment service, in February 2019. In addition to having expanded the number of merchants through its strategy of "openness," which promotes neutral and open partnerships across business categories and industries, the Group has been opening up *Merpay Deferred Payments* to merchants and expanding online payments. As a result, as of June 18, 2019, the number of *Merpay* registered users (Note 5) exceeded 2 million, and it continues to steadily increase. In addition, *Merpay* has received

strong support from users, as reflected by it being ranked first in the "Overall Satisfaction" index in the July 2019 QR Code Payment Customer Satisfaction Survey (Note 6).

As a result of the above, for the fiscal year ended June 30, 2019, the Group recorded net sales of ¥51,683 million (44.5% increase year on year), operating loss of ¥12,149 million (compared to operating loss of ¥4,422 million in the previous fiscal year) primarily associated with the use of advertising expenses and increase in personnel expenses, ordinary loss of ¥12,171 million (compared to ordinary loss of ¥4,741 million in the previous fiscal year), and loss attributable to owners of parent of ¥13,764 million (compared to loss attributable to owners of parent of ¥7,041 million in 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
(Note 2) MAU (Monthly Active Users): Number of users that use *Mercari* more than once in a month
(Note 3) AI listing: 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* (service ended in December 2018), *Mercari Maisonz* (service ended in August 2018), and *CARTUNE*
(Note 5) Total number of users who have registered for *Merpay Electronic Money* excluding code payments.
(Note 6) Announced in July 2019 by MMD LABO, which is operated by MMD Labo, Inc.

(2) Overview of Financial Position for the Period

(Assets)

Total assets at the end of the current fiscal year increased by ¥45,933 million from the end of the previous fiscal year to ¥163,685 million. This is primarily attributable to a ¥16,420 million increase in cash and cash equivalents as a result of new borrowings on June 28, 2019 and others, a ¥11,401 million increase in other receivable and a ¥4,597 million increase in deposits paid.

(Liabilities)

Total liabilities at the end of the current fiscal year increased by ¥49,419 million from the end of the previous fiscal year to ¥112,748 million. This is primarily attributable to a ¥22,088 million increase in deposits received associated with the launch of *Merpay* services, and a ¥24,691 million increase in long-term borrowings (including current portion of long-term borrowings) as a result of new borrowings.

(Net assets)

Net assets at the end of the current fiscal year decreased by ¥3,485 million from the end of the previous fiscal year to ¥50,936 million. This is primarily attributable to a ¥13,809 million decrease in retained earnings due to the recording of loss attributable to owners of parent and other reasons, despite a ¥5,306 million increase in both capital stock and capital surplus as a result of issuance of new shares, mainly 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.

(3) Overview of Cash Flows for the Period

Cash and cash equivalents ("cash") for the current fiscal year increased by ¥21,616 million from the end of the previous fiscal year and amounted to ¥130,774 million at the end of the current fiscal year, in tandem with a decrease of ¥96 million in cash and cash equivalents due to adjustments resulting from additions to and exclusions from the scope of 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 ¥7,289 million (compared to ¥3,437 million used in the previous fiscal year). This is primarily attributable to ¥12,567 million in loss before income taxes, adjusted by an increase in deposits received of ¥22,077 million, an increase in change in other receivable of ¥11,405 million, an increase in deposits paid of ¥4,608 million, an increase in change in cash due to users and other payables of ¥2,442 million, an increase in allowance for doubtful accounts of ¥946 million, and an increase in provision for share-based compensation of ¥905 million, and also attributable to income taxes paid of ¥2,491 million and guarantee deposits paid of ¥3,929 million.

(Cash flows from investing activities)

Cash used in investing activities during the current fiscal year amounted to ¥2,805 million (compared to ¥1,944 million used in the previous fiscal year). This is primarily attributable to purchase of property, plant and equipment of ¥1,699 million and payments for lease deposits of ¥940 million.

(Cash flows from financing activities)

Cash provided by financing activities during the current fiscal year amounted to ¥32,200 million (compared to ¥63,617 million provided in the previous fiscal year). This is primarily attributable to proceeds from long-term borrowings of ¥50,000 million, repayments of long-term borrowings of ¥25,308 million and proceeds of ¥8,665 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) Future Outlook

In order to further enhance its corporate value, the Group intends to actively promote the US business and *Merpay* business with *Mercari*'s stable and continuous growth in Japan. As opposed to the *Mercari* business in Japan that has a stable earnings base, the US business and *Merpay* business are still in the investment phase, and these strategic investments could result in an increase in losses recorded under consolidated operating profit/loss and consolidated profit/loss over the short term. Since it is difficult to forecast the consolidated financial results due to the foregoing reasons, the Company has not disclosed its earnings 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. Basic Policy Regarding Selection of Accounting Standards

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

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

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3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and cash equivalents	109,157	125,578
Trade accounts receivable	359	1,341
Securities	-	5,196
Other receivable	2,774	14,176
Prepaid expenses	491	913
Deposits paid	786	5,383
Other current assets	304	319
Allowance for doubtful accounts	(148)	(1,094)
Total current assets	113,725	151,813
Non-current assets		
Property, plant and equipment	1,037	1,883
Intangible assets		
Goodwill	119	1,022
Other intangible assets	1	58
Total intangible assets	120	1,081
Investments and other assets		
Investment securities	416	533
Lease deposits	1,223	2,020
Deferred tax assets	627	1,825
Guarantee deposits	598	4,526
Other assets	3	0
Total investments and other assets	2,869	8,907
Total non-current assets	4,026	11,871
Total assets	117,752	163,685

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(Millions of yen)

	As of June 30, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Short-term borrowings	1,000	-
Current portion of long-term borrowings	9,061	1,261
Cash due to users and other payables	5,170	7,281
Accrued expenses	1,422	1,081
Income taxes payable	2,260	1,687
Deposits received	23,730	45,818
Provision for bonuses	679	673
Provision for point certificates	-	869
Provision for loss on business liquidation	-	82
Provision for share-based compensation	-	905
Other current liabilities	979	1,352
Total current liabilities	44,304	61,014
Non-current liabilities		
Long-term borrowings	18,956	51,447
Other non-current liabilities	68	286
Total non-current liabilities	19,024	51,734
Total liabilities	63,329	112,748
Net assets		
Shareholders' equity		
Capital stock	34,803	40,110
Capital surplus	34,783	40,089
Retained earnings (Accumulated deficit)	(15,288)	(29,097)
Treasury stock	-	(0)
Total shareholders' equity	54,298	51,102
Accumulated other comprehensive income		
Foreign currency translation adjustments	123	(165)
Total accumulated other comprehensive income	123	(165)
Total net assets	54,422	50,936
Total liabilities and net assets	117,752	163,685

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(2) Consolidated Statements of Income and Comprehensive Income

(Consolidated Statements of Income)

(Millions of yen)

	For the fiscal year ended June 30, 2018	For the fiscal year ended June 30, 2019
Net sales	35,765	51,683
Cost of sales	6,806	12,864
Gross profit	28,958	38,818
Selling, general and administrative expenses	33,381	50,968
Operating loss	(4,422)	(12,149)
Non-operating income		
Interest income	4	66
Insurance income	20	-
Other	11	25
Total non-operating income	37	91
Non-operating expenses		
Interest expense	92	78
Listing-related expense	236	-
Foreign exchange loss	6	34
Other	20	0
Total non-operating expenses	355	112
Ordinary loss	(4,741)	(12,171)
Extraordinary losses		
Loss on devaluation of investment securities	193	159
Loss on step acquisitions	-	47
Loss on liquidation of business	-	189
Total extraordinary losses	193	396
Loss before income taxes	(4,935)	(12,567)
Income taxes - current	2,384	2,394
Income taxes - deferred	(278)	(1,197)
Total income taxes	2,106	1,197
Loss	(7,041)	(13,764)
Loss attributable to owners of parent	(7,041)	(13,764)

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(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	For the fiscal year ended June 30, 2018	For the fiscal year ended June 30, 2019
Loss	(7,041)	(13,764)
Other comprehensive income		
Foreign currency translation adjustment	13	(334)
Total other comprehensive income	13	(334)
Comprehensive income	(7,028)	(14,098)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(7,028)	(14,098)

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(3) Consolidated Statements of Changes in Equity

For the fiscal year ended June 30, 2018

(Millions of yen)

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

	Shareholders' equity	Accumulated other comprehensive income		Total net assets
	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at the beginning of current period	4,306	110	110	4,416
Changes of items during the period				
Issuance of new shares	57,033			57,033
Loss attributable to owners of parent	(7,041)			(7,041)
Net changes of items other than shareholders' equity		13	13	13
Total changes of items during the period	49,992	13	13	50,005
Balance at the end of current period	54,298	123	123	54,422

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For the fiscal year ended June 30, 2019

(Millions of yen)

	Shareholders' equity			
	Capital stock	Capital surplus	Retained earnings	Treasury stock
Balance at the beginning of current period	34,803	34,783	(15,288)	-
Changes of items during the period				
Issuance of new shares	5,306	5,306		
Loss attributable to owners of parent			(13,764)	
Purchase of treasury stock				(0)
Disposal of treasury stock		0		
Change in scope of consolidation			(44)	
Net changes of items other than shareholders' equity				
Total changes of items during the period	5,306	5,306	(13,809)	(0)
Balance at the end of current period	40,110	40,089	(29,097)	(0)

	Shareholders' equity	Accumulated other comprehensive income		Total net assets
	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at the beginning of current period	54,298	123	123	54,422
Changes of items during the period				
Issuance of new shares	10,612			10,612
Loss attributable to owners of parent	(13,764)			(13,764)
Purchase of treasury stock	(0)			(0)
Disposal of treasury stock	0			0
Change in scope of consolidation	(44)			(44)
Net changes of items other than shareholders' equity		(289)	(289)	(289)
Total changes of items during the period	(3,196)	(289)	(289)	(3,485)
Balance at the end of current period	51,102	(165)	(165)	50,936

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(4) Consolidated Statements of Cash Flows

(Millions of yen)

	For the fiscal year ended June 30, 2018	For the fiscal year ended June 30, 2019
Cash flows from operating activities		
Loss before income taxes	(4,935)	(12,567)
Depreciation and amortization	236	789
Amortization of goodwill	204	276
Loss on liquidation of business	-	189
Loss on step acquisitions	-	47
Loss on devaluation of investment securities	193	159
Increase in allowance for doubtful accounts	145	946
Increase in provision for point certificates	-	869
Increase in provision for share-based compensation	-	905
Interest income	(4)	(66)
Insurance income	(20)	-
Interest expense	92	78
Listing-related expense	236	-
Change in trade accounts receivable	(251)	(992)
Change in other receivable	(1,641)	(11,405)
Change in cash due to users and other payables	1,843	2,442
Increase in deposits paid	(753)	(4,608)
Increase in deposits received	1,791	22,077
Other—net	1,796	1
Subtotal	(1,065)	(856)
Interest income received	4	66
Interest expense paid	(92)	(78)
Insurance income received	20	-
Decrease (increase) in guarantee deposits	(598)	(3,929)
Income taxes paid	(1,705)	(2,491)
Net cash provided by (used in) operating activities	(3,437)	(7,289)
Cash flows from investing activities		
Purchase of investment securities	(503)	(189)
Purchase of property, plant and equipment	(692)	(1,699)
Payments for lease deposits	(738)	(940)
Other—net	(10)	23
Net cash provided by (used in) investing activities	(1,944)	(2,805)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(2,500)	(1,000)
Proceeds from long-term borrowings	16,000	50,000
Repayments of long-term borrowings	(6,871)	(25,308)
Proceeds from issuance of common stock	57,033	8,665
Payments of listing-related expense	(43)	(156)
Other—net	(1)	0
Net cash provided by (used in) financing activities	63,617	32,200
Foreign currency translation adjustments on cash and cash equivalents	58	(391)
Net increase (decrease) in cash and cash equivalents	58,294	21,713
Cash and cash equivalents at the beginning of period	50,863	109,157
Increase in cash and cash equivalents from newly consolidated subsidiary	-	77
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	-	(174)
Cash and cash equivalents at the end of period	109,157	130,774

(5) Notes to the Consolidated Financial Statements

Notes on going concern assumption

Not applicable.

Changes in presentation

Changes accompanying the 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 February 16, 2018) has been applied from the beginning of the fiscal year ended June 30, 2019. Thereby, deferred tax assets (if any) are presented under "Investments and other assets" and deferred tax liabilities (if any) are presented under "Non-current liabilities" in the consolidated balance sheets.

As a result, "Deferred tax assets" of ¥501 million that was included in "Other current assets" under "Current assets" in the consolidated balance sheets of the previous fiscal year is presented as "Deferred tax assets" under "Investments and other assets."

Consolidated balance sheets

"Deferred tax assets," which was included in "Other current assets" under "Current assets" and "Other assets" under "Investments and other assets" in the consolidated balance sheets of the previous fiscal year, is separately presented from the current fiscal year because its monetary significance has increased. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, ¥501 million that was included in "Other current assets" under "Current assets" and ¥126 million that was included in "Other assets" under "Investments and other assets" in the consolidated balance sheets of the previous fiscal year have been reclassified as "Deferred tax assets" under "Investments and other assets."

"Deposits paid," which was included in "Other current assets" under "Current assets" in the consolidated balance sheets of the previous fiscal year, is separately presented from the current fiscal year because its monetary significance has increased. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, ¥786 million that was included in "Other current assets" under "Current assets" in the consolidated balance sheets of the previous fiscal year has been reclassified as "Deposits paid."

"Goodwill," which was included in "Other intangible assets" under "Intangible assets" in the consolidated balance sheets of the previous fiscal year, is separately presented from the current fiscal year because its monetary significance has increased. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, ¥119 million that was included in "Other intangible assets" under "Intangible assets" in the consolidated balance sheets of the previous fiscal year has been reclassified as "Goodwill."

"Guarantee deposits," which was included in "Other assets" under "Investments and other assets" in the consolidated balance sheets of the previous fiscal year, is separately presented from the current fiscal year because its monetary significance has increased. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, ¥598 million that was included in "Other assets" under "Investments and other assets" in the consolidated balance sheets of the previous fiscal year has been reclassified as "Guarantee deposits."

From the current fiscal year, the Company records as "Deposits received" part of the debts to users that were previously recorded as "Cash due to users and other payables." With the launch of the *Merpay* service, uses of claims held by users towards the Group diversified, becoming increasingly similar to deposits. The Group thus decided to make this change, presenting all the debts to users as deposits so that the Group's actual business activities are more appropriately reflected. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, ¥21,507 million that was included in "Cash due to users and other payables" under "Current liabilities" in the consolidated balance sheets of the previous fiscal year is presented as "Deposits received."

Consolidated Statements of Cash Flows

As stated in the change in presentation in the consolidated balance sheet, from the current fiscal year, the Company records as "Deposits received" part of the debts to users that were previously recorded as "Cash due to users and other payables." As a result, ¥374 million that was included in "Change in cash due to users and other payables" under "Cash flows from operating activities" in the previous fiscal year is presented as "Increase in deposits received."

In line with this change, "Increase in deposits received," which was included in "Other—net" under "Cash flows from operating activities" in the consolidated statements of cash flows of the previous fiscal year, is separately presented from the current fiscal year because its monetary significance has increased. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, together with the above mentioned ¥374 million, ¥1,417 million that was included in "Other—net" under "Cash flows from operating activities" in the consolidated statements of cash flows of the previous fiscal year has been reclassified as "Increase in deposits received."

"Increase in deposits paid," which was included in "Other—net" under "Cash flows from operating activities" in the consolidated statements of cash flows of the previous fiscal year, is separately presented from the current fiscal year because its monetary significance has increased. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, ¥(753) million that was included in "Other—net" under "Cash flows from operating activities" in the consolidated statements of cash flows of the previous fiscal year has been reclassified as "Increase in deposits paid."

Segment information, etc.

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

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 June 30, 2019 is included in the consolidated statements of income for the current fiscal year.

(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

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	¥(583) 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 June 30, 2019 on the assumption that such goodwill had been generated on the first day of the current fiscal year.

Per share information

	For the fiscal year ended June 30, 2018	For the fiscal year ended June 30, 2019
Net assets per share	¥402.12	¥337.88
Basic loss per share	¥(60.61)	¥(94.98)

(Notes) 1. On October 20, 2017, the Company conducted a 10:1 stock split of its common stock, pursuant to the resolution of the Board of Directors on September 14, 2017. However, Basic loss per share are calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.

2. Information on diluted earnings per share is omitted since, although potential shares did exist during the previous fiscal year, the average share price during the period cannot be determined, given that the Company had not been listed, and a loss per share was recorded. For the current fiscal year also, although potential shares did exist, because a loss per share was recorded, it is not displayed here.

3. The basis for the calculation of basic loss per share is as follows.

	For the fiscal year ended June 30, 2018	For the fiscal year ended June 30, 2019
Basic loss per share		
Loss attributable to owners of parent (Million yen)	(7,041)	(13,764)
Amount not attributable to common shareholders (Million yen)	-	-
Loss attributable to owners of parent related to common stock (Million yen)	(7,041)	(13,764)
Average number of shares outstanding during the period	116,176,295	144,914,800
Outline of potential common stock excluded from the computation of diluted earnings per share due to its non-dilutive effect	Number of stock acquisition rights: 3,285,210 Number of common stock: 24,470,400	Number of stock acquisition rights: 2,409,080 Number of common stock: 12,125,300 Number of restricted stock units (RSU): 1,200,077 Number of common stock: 1,200,077

Significant subsequent events

Business combination through acquisition

At a meeting of the board of directors held on July 30, 2019, the Company resolved to acquire 61.6% of the issued shares of Kashima Antlers F.C. Co., Ltd. from NIPPON STEEL CORPORATION, and concluded a share transfer agreement with NIPPON STEEL CORPORATION.

(1) Outline of the business combination

(i) Name and description of business of the acquired company

Name of the acquired company: Kashima Antlers F.C. Co., Ltd.

Description of business:

1. Management of the Kashima Antlers professional soccer team
2. Planning and management of various entertainment, such as soccer games and other sporting events
3. Management of sports facilities such as soccer stadiums

(ii) Main reasons for business combination

The Kashima Antlers began in October 1991 as the local team of the Rokko region of Japan, with its parent entity being the soccer team of Sumitomo Metal Industries, Ltd., and was one of the teams participating in the Japan Professional Football League (J.League). Having won the most titles among the three main domestic titles (J1. League, J.League Cup, and The Emperor's Cup), as well as having won the AFC Champions League in 2018 to become the number one club in Asia, the team is a leading soccer club not only in Japan but in Asia as well.

The Group's mission is to create value in a global marketplace where anyone can buy & sell by providing access in both Japan and the US, to its marketplace app *Mercari*, which enables people to readily buy and sell second-hand items using their smartphones. In addition, in February 2019, it began providing mobile payment services through *Merpay*.

Kashima Antlers' ambition to become a world-class soccer team resonates with Mercari, leading the Company to support them by becoming a sponsor in 2017. However, driven by a desire to create close relationships with Kashima Antlers, the Company recently came to an agreement for Kashima Antlers to join the Mercari Group. Going forward, while respecting the Kashima Antlers' independence in club management, the Company will leverage its management know-how as a member of the Antlers family to support the further development of Kashima Antlers as a globally competitive club that is loved by fans and supporters. In addition, the Company will use the power of the Kashima Antlers' strong brand to enhance the value of its own brand, as well as using it to further expand its user base for the *Mercari* and *Merpay* platforms operated by the Company. Moreover, working with the Kashima Antlers and the Kashima Antlers' home

region of Rokko, the Company will help promote the development of regional society and sports businesses, with the goal of becoming a well-loved member of the Antlers family.

Additionally, as a shareholder of Kashima Antlers F.C. Co., Ltd., the Company will observe the various rules of J.League, including its J.League contract, as well as the rules set by the Japan Football Association, while continuing to support the club so as to promote the J.League philosophy, J.League action programs and the J.League 100 Year Plan.

(iii) Date of business combination

August 30, 2019 (scheduled)

(iv) Legal form of business combination

Acquisition of shares

(v) Name of the company after the business combination

Kashima Antlers F.C. Co., Ltd.

(vi) Percentage of voting rights acquired

61.6%

(vii) Main grounds for determination of the acquiring company

In order for the Company to acquire the shares in consideration for cash.

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

Consideration for the acquisition	Cash	¥1,588 (approximate estimates)	million
Acquisition cost		¥1,588 (approximate estimates)	million

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

Advisory fee, etc. ¥9 million (approximate estimates)

(4) Amount of goodwill recognized, reason for recognition of goodwill, and method and period for amortization of goodwill

Not confirmed at this stage.

(5) Amounts and breakdowns for assets received, and liabilities assumed, on date of business combination

Not confirmed at this stage.

(6) Method of procurement of payment funds and payment

By using its own capital.

(7) Allocation of acquisition cost

Because the process of specifying identifiable assets and liabilities and calculating their market value is incomplete, the allocation of acquisition cost has not been completed.