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mercari

# Consolidated Financial Results for the Three Months Ended September 30, 2019 [Japanese GAAP]

November 7, 2019

Company name: Mercari, Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 4385
URL: https://about.mercari.com/en/
Representative: Shintaro Yamada, Chief Executive Officer
Contact: Kei Nagasawa, Chief Financial Officer
Phone: +81-3-6804-6907
Scheduled date of filing quarterly securities report: November 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 Three Months Ended September 30, 2019 (the "Period") (July 1, 2019 to September 30, 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 | |
|---|---|---|---|---|---|---|---|---|
| Three months ended | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| September 30, 2019 | 14,548 | 37.9 | (7,010) | - | (7,027) | - | (7,113) | - |
| September 30, 2018 | 10,552 | - | (2,513) | - | (2,513) | - | (2,887) | - |

(Note) Comprehensive income: Three months ended September 30, 2019: ¥(7,296) million [-%]
Three months ended September 30, 2018: ¥(2,693) million [-%]

| | Basic earnings per share | Diluted earnings per share |
|---|---|---|
| Three months ended | Yen | Yen |
| September 30, 2019 | (46.79) | - |
| September 30, 2018 | (20.71) | - |

(Notes)1. Mercari, Inc. (the "Company") did not prepare quarterly consolidated financial statements for the three months ended September 30, 2017. Accordingly, the changes from the previous corresponding period for the three months ended September 30, 2018 have been left blank.
2. Information on diluted earnings per share is omitted since, although potential shares exist, the recorded figure was a loss.

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|---|---|---|---|
| | Millions of yen | Millions of yen | % |
| As of September 30, 2019 | 177,988 | 46,335 | 25.5 |
| As of June 30, 2019 | 163,685 | 50,936 | 31.1 |

(Reference) Equity: As of September 30, 2019: ¥45,432 million
As of June 30, 2019: ¥50,936 million

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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, 2019 | - | 0.00 | - | 0.00 | 0.00 |
| Fiscal year ending June 30, 2020 | - | | | | |
| Fiscal year ending June 30, 2020 (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, 2020 (July 1, 2019 to June 30, 2020)**

The consolidated financial results forecast for the current fiscal year is not stated because it is difficult to reasonably estimate a forecast of the financial results. Details concerning the reasons thereof are stated in "1. Qualitative Information Regarding Results for the Period (3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements" on page 3 of the Appendix.

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*** Notes:**

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

(2) Application of special accounting treatments for preparing the quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates, and retrospective restatement
1) Changes in accounting policies due to revision of accounting standards: No
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No
4) Retrospective restatement: No

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

| | |
|---|---|
| September 30, 2019: | 152,956,183 shares |
| June 30, 2019: | 150,755,347 shares |

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

| | |
|---|---|
| September 30, 2019: | 2 shares |
| June 30, 2019: | 2 shares |

3) Average number of shares during the Period:

| | |
|---|---|
| Three months ended September 30, 2019: | 152,033,447 shares |
| Three months ended September 30, 2018: | 139,444,024 shares |

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

* Explanation of the proper use of financial results forecast and other notes

The consolidated financial results forecast for the current fiscal year is not stated because it is difficult to reasonably estimate a forecast of the financial results. Details concerning the reasons thereof are stated in “1. Qualitative Information Regarding Results for the Period (3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 3 of the Appendix.

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## 1. Qualitative Information Regarding Results for the Period

### (1) Explanation of Operating Results

The Company and its group companies (collectively, the "Group") has positioned this year as the fiscal year for establishing three core businesses: the *Mercari* Japan business, *Merpay,* and the *Mercari* US business; and making continued investment prioritizing business growth. The Group is now building a solid foundation for achieving its mission "Create value in a global marketplace where anyone can buy & sell".

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, the Group has focused particularly on strengthening listings in the *Mercari* business in Japan with the aim of achieving continuous growth over the medium to long term. As a result, *Mercari*'s gross merchandise volume in Japan (Note 1) for the three months ended September 30, 2019 was ¥126.8 billion, an increase of ¥27.8 billion compared with the corresponding period of the previous fiscal year.

Based on the technology and vast user and information base nurtured through *Mercari*, the Group launched *Merpay*, a mobile payment service, in February 2019. Merpay, aims to become a payment service used in people's everyday life and is building a new ecosystem centered on trust with features such as *Merpay Smart Payments* (formerly *Merpay Deferred Payments*), while working to increase the number of users and merchants. As a result of these efforts, the number of users has passed 4 million (Note 2), while the number of merchants accepting payment with *Merpay* has reached 1.7 million (Note 3) and is steadily increasing.

Meanwhile, the Group worked to expand the *Mercari* C2C marketplace in the US by increasing brand awareness and optimizing listings and shipping in order to meet the diverse needs of users. As a result, the gross merchandise volume of *Mercari* in the US in the three months ended September 30, 2019 was ¥11.7 billion (the exchange rate conversion is calculated by the average rate during the Period of ¥107.35 against the US dollar), up ¥3.7 billion from the corresponding period of the previous fiscal year.

As a result of the above, for the three months ended September 30, 2019, the Group recorded net sales of ¥14,548 million (37.9% increase year on year), operating loss of ¥7,010million (compared to operating loss of ¥2,513 million in the corresponding period of the previous fiscal year) primarily associated with the increases in advertising expenses and personnel expenses, ordinary loss of ¥7,027 million (compared to ordinary loss of ¥2,513 million in the corresponding period of the previous fiscal year), and loss attributable to owners of parent of ¥7,113 million (compared to loss attributable to owners of parent of ¥2,887 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) Including purchases via *CARTUNE*

(Note 2) Total of the number of users registered for *Merpay Electronic Money* and users of *Merpay Code Payments, Online Payments,* and *Merpay Smart Payments* (excluding overlaps) as of September 2019. On October 16, 2019, the number surpassed 5 million.

(Note 3) Including scheduled installations (900,000 locations offering *iD* payment/800,000 locations offering code payment)

### (2) Explanation of Financial Position

(Assets)

Total assets as of September 30, 2019 increased by ¥14,303 million from the end of the previous fiscal year to ¥177,988 million. This is primarily attributable to a ¥12,368 million increase in cash and cash equivalents, a ¥615 million increase in prepaid expenses, a ¥1,000 million increase in other receivables, a ¥1,128 million increase in property, plant and equipment, and a ¥1,072 million increase in guarantee deposits, despite a ¥2,815 million decrease in deposits paid.

(Liabilities)

Total liabilities as of September 30, 2019 increased by ¥18,904 million from the end of the previous fiscal year to ¥131,653 million. This is primarily attributable to an ¥8,467 million increase in cash due to users and other payables, a ¥7,629 million increase in deposits received, and a ¥496 million increase in provision for point certificates, despite a ¥1,214 million decrease in income taxes payable, a ¥312 million decrease in provision for bonuses, and a ¥560 million decrease in provision for share-based compensation.

(Net assets)

Net assets as of September 30, 2019 decreased by ¥4,601 million from the end of the previous fiscal year to ¥46,335 million. This is primarily attributable to a ¥7,113 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 promote the US business and *Merpay* business with *Mercari*'s stable and continuous growth in Japan. As opposed to the *Mercari* business in Japan which 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. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

| | As of June 30, 2019 | As of September 30, 2019 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 125,578 | 137,946 |
| Trade accounts receivable | 1,341 | 1,558 |
| Securities | 5,196 | 5,229 |
| Other receivable | 14,176 | 15,176 |
| Prepaid expenses | 913 | 1,528 |
| Deposits paid | 5,383 | 2,567 |
| Other current assets | 319 | 838 |
| Allowance for doubtful accounts | (1,094) | (1,165) |
| Total current assets | 151,813 | 163,679 |
| Non-current assets | | |
| Property, plant and equipment | 1,883 | 3,011 |
| Intangible assets | | |
| Goodwill | 1,022 | 1,106 |
| Other intangible assets | 58 | 109 |
| Total intangible assets | 1,081 | 1,215 |
| Investments and other assets | | |
| Investment securities | 533 | 545 |
| Lease deposits | 2,020 | 1,919 |
| Deferred tax assets | 1,825 | 1,825 |
| Guarantee deposits | 4,526 | 5,599 |
| Other assets | 0 | 192 |
| Total investments and other assets | 8,907 | 10,081 |
| Total non-current assets | 11,871 | 14,308 |
| Total assets | 163,685 | 177,988 |

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(Millions of yen)

| | As of June 30, 2019 | As of September 30, 2019 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Current portion of long-term borrowings | 1,261 | 1,178 |
| Cash due to users and other payables | 7,281 | 15,748 |
| Accrued expenses | 1,081 | 871 |
| Income taxes payable | 1,687 | 473 |
| Deposits received | 45,818 | 53,447 |
| Provision for bonuses | 673 | 360 |
| Provision for point certificates | 869 | 1,365 |
| Provision for loss on business liquidation | 82 | - |
| Provision for share-based compensation | 905 | 344 |
| Other current liabilities | 1,352 | 6,112 |
| Total current liabilities | 61,014 | 79,903 |
| Non-current liabilities | | |
| Long-term borrowings | 51,447 | 51,181 |
| Retirement benefit liability | - | 67 |
| Other provisions | - | 48 |
| Other non-current liabilities | 286 | 453 |
| Total non-current liabilities | 51,734 | 51,749 |
| Total liabilities | 112,748 | 131,653 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 40,110 | 40,917 |
| Capital surplus | 40,089 | 40,897 |
| Retained earnings (Accumulated deficit) | (29,097) | (36,209) |
| Treasury stock | (0) | (0) |
| Total shareholders' equity | 51,102 | 45,605 |
| Accumulated other comprehensive income | | |
| Foreign currency translation adjustments | (165) | (172) |
| Total accumulated other comprehensive income | (165) | (172) |
| Non-controlling interests | - | 902 |
| Total net assets | 50,936 | 46,335 |
| Total liabilities and net assets | 163,685 | 177,988 |

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

### Quarterly Consolidated Statements of Income

(Millions of yen)

| | For the three months ended September 30, 2018 | For the three months ended September 30, 2019 |
|---|---|---|
| Net sales | 10,552 | 14,548 |
| Cost of sales | 2,285 | 4,118 |
| Gross profit | 8,266 | 10,429 |
| Selling, general and administrative expenses | 10,780 | 17,440 |
| Operating loss | (2,513) | (7,010) |
| Non-operating income | | |
| Interest income | 5 | 44 |
| Foreign exchange gain | 17 | - |
| Other | 2 | 8 |
| Total non-operating income | 25 | 53 |
| Non-operating expenses | | |
| Interest expense | 24 | 57 |
| Foreign exchange loss | - | 11 |
| Other | - | 1 |
| Total non-operating expenses | 24 | 70 |
| Ordinary loss | (2,513) | (7,027) |
| Loss before income taxes | (2,513) | (7,027) |
| Income taxes | 374 | 86 |
| Loss | (2,887) | (7,113) |
| Loss attributable to owners of parent | (2,887) | (7,113) |

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## Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

| | For the three months ended September 30, 2018 | For the three months ended September 30, 2019 |
|---|---|---|
| Loss | (2,887) | (7,113) |
| Other comprehensive income | | |
| Foreign currency translation adjustment | 194 | (14) |
| Total other comprehensive income | 194 | (14) |
| Comprehensive income | (2,693) | (7,128) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | (2,693) | (7,128) |

## (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

Not applicable.

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

### Segment information, etc.

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

Business combination

Business combination through acquisition

(1) Outline of the business combination

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. The procedures regarding the share acquisition were completed on August 30, 2019.

(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) Purpose of the 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*.

The 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 the Kashima Antlers, the Company recently came to an agreement for the 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 the 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 (deemed acquisition date: July 31, 2019)

(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

| | |
|---|---|
| Percentage of voting rights acquired on the date of business combination | 61.6% |
| Percentage of voting rights subsequent to the share acquisition | 61.6% |

(vii) Main grounds for determination of the acquiring company
The Company acquired the shares in consideration for cash.

(2) Period of operating results of the acquired company included in the quarterly consolidated statements of income
Since the deemed date of acquisition was July 31, 2019 and only the balance sheet has been consolidated, the operating results of the acquired company have not been included.

(3) Matters relating to the calculation of the acquisition cost, etc.
Acquisition cost of the acquired company and breakdown thereof by consideration type

| | | |
|---|---|---|
| Consideration for the acquisition | Cash | ¥1,588 million |
| Acquisition cost | | ¥1,588 million |

(4) Details and amounts of main acquisition-related costs
Advisory fee, etc. ¥10 million

(5) Amount of goodwill recognized, reason for recognition of goodwill, and method and period for amortization of goodwill
(i) Amount of goodwill recognized
¥142 million
The amount of goodwill was calculated on a provisional basis because the allocation of acquisition cost was not completed as of September 30, 2019.
(ii) Reason for recognition of goodwill
The goodwill was recognized from future excess earning power expected to be generated from future business operations.
(iii) Method and period for amortization of goodwill
Not confirmed at this stage.

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Significant subsequent events

Not applicable.