English Translation
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mercari

Consolidated Financial Results for the Fiscal Year Ended June 30, 2020 [Japanese GAAP]

August 6, 2020

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 25, 2020
Scheduled date of filing annual securities report: September 25, 2020
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, 2020 (the "Period") (July 1, 2019 to June 30, 2020)

(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, 2020	76,275	47.6	(19,308)	-	(19,391)	-	(22,772)	-
June 30, 2019	51,683	44.5	(12,149)	-	(12,171)	-	(13,764)	-

(Note) Comprehensive income: Fiscal year ended June 30, 2020: ¥(18,981) million [-%]
Fiscal year ended June 30, 2019: ¥(14,098) million [-%]

	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, 2020	(147.86)	-	(53.1)	(10.7)	(25.3)
June 30, 2019	(94.98)	-	(26.1)	(8.6)	(23.5)

(Reference) Share of loss (profit) of entities accounted for using equity method:
Fiscal year ended June 30, 2020: ¥ - million
Fiscal year ended June 30, 2019: ¥ - million

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

(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, 2020	198,014	35,368	17.6	222.78
As of June 30, 2019	163,685	50,936	31.1	337.88

(Reference) Equity: As of June 30, 2020: ¥34,786 million
As of June 30, 2019: ¥50,936 million

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(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, 2020	12,533	(2,653)	465	141,008
June 30, 2019	(7,289)	(2,805)	32,200	130,774

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, 2019	-	0.00	-	0.00	0.00	-	-	-
June 30, 2020	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending June 30, 2021 (Forecast)	-	-	-	-	-		-	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2021 (July 1, 2020 to June 30, 2021)

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, 2020: 156,150,364 shares
June 30, 2019: 150,755,347 shares

2) Total number of treasury stock at the end of the Period:
June 30, 2020: 2 shares
June 30, 2019: 2 shares

3) Average number of shares during the Period:
Fiscal year ended June 30, 2020: 154,017,730 shares
Fiscal year ended June 30, 2019: 144,914,800 shares

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2020 (July 1, 2019 to June 30, 2020)

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

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	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2020	58,744	27.0	11,655	63.3	11,550	62.9	(28,014)	-
June 30, 2019	46,254	38.4	7,135	(3.7)	7,090	(0.2)	(5,046)	-

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
June 30, 2020	(181.89)	-
June 30, 2019	(34.82)	-

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

(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, 2020	104,683	38,884	37.1	249.02
As of June 30, 2019	125,742	60,242	47.9	399.61

(Reference) Equity: As of June 30, 2020: ¥38,884 million
As of June 30, 2019: ¥60,242 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

The Company and its group companies (collectively, the "Group") has positioned the Period as the crucial year for establishing three core businesses: the *Mercari* Japan business, the *Merpay* business, and the *Mercari* US business. The Group is now building a solid foundation for achieving its mission.

In the *Mercari* Japan business, the Group has focused particularly on optimizing the balance between listing and buying with the aim of achieving continuous growth over the medium to long term. In addition to this, the effects of the novel coronavirus disease ("COVID-19") pandemic have increased the number of users and the amount spent per user. As a result, *Mercari*'s gross merchandise volume in Japan (Note 1) for the fiscal year ended June 30, 2020, was ¥625.9 billion, an increase of ¥135.6 billion compared with the previous fiscal year, reflecting the growth rate accelerating again from the latter half of the 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 it is engaged in enhancing profitability by advancing its credit business and business alliances and building a new ecosystem centered on trust, while working to gain more users and merchants. As a result of these efforts, the number of users has passed 7 million (Note 2) and is steadily increasing.

The Group worked to expand the *Mercari* C2C marketplace in the US by strengthening marketing campaigns that pursued brand awareness and growth and by optimizing listing and shipping in order to meet the diverse needs of users. Additionally, in the same way as the *Mercari* Japan business, the effects of the COVID-19 pandemic have increased the number of users and the amount spent per user. As a result, the gross merchandise volume of *Mercari* in the US in the fiscal year ended June 30, 2020, was ¥73.6 billion (the exchange rate conversion is calculated by the average rate during the Period of ¥108.16 against the US dollar), up ¥33.4 billion from the previous fiscal year. It also managed to achieve its target of a monthly gross merchandise volume of 100 million USD in the fourth quarter.

As a result of the above, for the fiscal year ended June 30, 2020, the Group recorded net sales of ¥76,275 million (47.6% increase year on year), operating loss of ¥19,308 million (compared to operating loss of ¥12,149 million in the previous fiscal year) primarily associated with the increases in advertising expenses and personnel expenses, ordinary loss of ¥19,391 million (compared to ordinary loss of ¥12,171 million in the previous fiscal year), and loss attributable to owners of parent of ¥22,772 million (compared to loss attributable to owners of parent of ¥13,764 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) 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 June 2020.

(2) Overview of Financial Position for the Period

(Assets)

Total assets at the end of the current fiscal year increased by ¥34,329 million from the end of the previous fiscal year to ¥198,014 million.

The main reasons for increases and decreases are as follows.

- The main reasons for increases and decreases in cash and cash equivalents are outlined in Overview of Cash Flows for the Period.
- Deposits paid increased from the end of the previous fiscal year, primarily due to the increase in the amounts spent on *Mercari* and *Merpay*.
- Investment securities increased from the end of the previous fiscal year primarily due to the stock listing of the companies of which shares are held by the Group.
- Guarantee deposits increased from the end of the previous fiscal year, primarily due to deposits paid based on laws and regulations accompanying the increase in the amounts spent on *Mercari* and *Merpay*.

(Liabilities)

Total liabilities at the end of the current fiscal year increased by ¥49,897 million from the end of the previous fiscal year to ¥162,645 million.
The main reasons for increases and decreases are as follows.

- Cash due to users and other payables increased from the end of the previous fiscal year primarily due to changes in the conditions of payment to counterparties.
- Deposits received increased from the end of the previous fiscal year, primarily due to the increase in the amounts spent on *Mercari* and *Merpay*.

(Net assets)

Net assets at the end of the current fiscal year decreased by ¥15,567 million from the end of the previous fiscal year to ¥35,368 million.
The main reasons for increases and decreases are as follows.

- Capital stock and capital surplus increased from the end of the previous fiscal year primarily following the issuance of new shares.
- Retained earnings decreased from the end of the previous fiscal year due to the recording of a loss attributable to owners of parent.
- A new valuation difference on available-for-sale securities was recorded primarily due to the stock listing of the companies of which shares are held by the Group.
- New non-controlling interests were recorded primarily due to the acquisition of Kashima Antlers F.C. Co., Ltd.

(3) Overview of Cash Flows for the Period

Cash and cash equivalents ("cash") for the current fiscal year increased by ¥10,234 million from the end of the previous fiscal year and amounted to ¥141,008 million at the end of the current fiscal year, in tandem with a ¥124 million decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation. Cash includes cash and cash equivalents and securities.

The status of cash flows and their contributing factors for the current fiscal year are as follows.

(Cash flows from operating activities)

Cash provided by operating activities during the current fiscal year amounted to ¥12,533 million (compared to ¥7,289 million used in the previous fiscal year). This is primarily attributable to ¥20,519 million in loss before income taxes, adjusted by depreciation and amortization of ¥1,463 million, impairment loss of ¥922 million, an increase in change in cash due to users and other payables of ¥8,638 million, an increase in deposits received of ¥37,695 million and an increase in deposits paid of ¥4,334 million, and also attributable to income taxes paid of ¥2,735 million and an increase in guarantee deposits of ¥11,983 million.

(Cash flows from investing activities)

Cash used in investing activities during the current fiscal year amounted to ¥2,653 million (compared to ¥2,805 million used in the previous fiscal year). This is primarily attributable to purchase of subsidiaries' shares resulting in a change in scope of consolidation of ¥1,534 million and purchase of property, plant and equipment of ¥773 million.

(Cash flows from financing activities)

Cash provided by financing activities during the current fiscal year amounted to ¥465 million (compared to ¥32,200 million provided in the previous fiscal year). This is attributable to proceeds from long-term borrowings of ¥1,000 million, repayments of long-term borrowings of ¥1,261 million, proceeds from issuance of common stock of ¥973 million and payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation of ¥246 million.

(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 make it difficult to forecast the consolidated financial results. Accordingly, 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.

In regard to the impact of the COVID-19 pandemic, it is difficult to accurately predict factors such as the future spread of the disease and the timing of its abatement. When considering outlook for future cash flow, future business environment, etc., as of now it has been judged that although it will have a certain impact on the Company, the effects will be limited. Furthermore, it has been judged that there will be no serious effects on accounting estimates including impairment loss on non-current assets and the recoverability of deferred tax assets. However, as there is a possibility that changes in the situation will have an impact on consolidated financial statements for the next fiscal year onward, the Company will continue to watch developments carefully.

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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, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and cash equivalents	125,578	135,747
Trade accounts receivable	1,341	1,119
Securities	5,196	5,260
Other receivable	14,176	15,612
Prepaid expenses	913	1,609
Deposits paid	5,383	9,718
Other current assets	319	1,614
Allowance for doubtful accounts	(1,094)	(1,404)
Total current assets	151,813	169,277
Non-current assets		
Property, plant and equipment	1,883	2,905
Intangible assets		
Goodwill	1,022	-
Other intangible assets	58	679
Total intangible assets	1,081	679
Investments and other assets		
Investment securities	533	5,881
Lease deposits	2,020	2,128
Deferred tax assets	1,825	108
Guarantee deposits	4,526	16,598
Other assets	0	435
Total investments and other assets	8,907	25,151
Total non-current assets	11,871	28,736
Total assets	163,685	198,014

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(Millions of yen)

	As of June 30, 2019	As of June 30, 2020
Liabilities		
Current liabilities		
Current portion of long-term borrowings	1,261	900
Cash due to users and other payables	7,281	16,206
Accrued expenses	1,081	861
Income taxes payable	1,687	1,427
Deposits received	45,818	83,954
Provision for bonuses	673	1,314
Provision for point certificates	869	522
Provision for loss on business liquidation	82	-
Provision for share-based compensation	905	177
Other current liabilities	1,352	4,764
Total current liabilities	61,014	110,128
Non-current liabilities		
Long-term borrowings	51,447	51,547
Retirement benefit liability	-	75
Asset retirement obligations	-	126
Deferred tax liabilities	-	191
Other provisions	-	6
Other non-current liabilities	286	570
Total non-current liabilities	51,734	52,516
Total liabilities	112,748	162,645
Net assets		
Shareholders' equity		
Capital stock	40,110	41,440
Capital surplus	40,089	41,396
Retained earnings (Accumulated deficit)	(29,097)	(51,870)
Treasury stock	(0)	(0)
Total shareholders' equity	51,102	30,966
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	3,995
Foreign currency translation adjustments	(165)	(175)
Total accumulated other comprehensive income	(165)	3,819
Non-controlling interests	-	582
Total net assets	50,936	35,368
Total liabilities and net assets	163,685	198,014

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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, 2019	For the fiscal year ended June 30, 2020
Net sales	51,683	76,275
Cost of sales	12,864	20,661
Gross profit	38,818	55,613
Selling, general and administrative expenses	50,968	74,921
Operating loss	(12,149)	(19,308)
Non-operating income		
Interest income	66	116
Other	25	95
Total non-operating income	91	211
Non-operating expenses		
Interest expense	78	248
Foreign exchange loss	34	31
Other	0	15
Total non-operating expenses	112	295
Ordinary loss	(12,171)	(19,391)
Extraordinary losses		
Impairment loss	-	922
Loss on devaluation of investment securities	159	204
Loss on step acquisitions	47	-
Loss on liquidation of business	189	-
Total extraordinary losses	396	1,127
Loss before income taxes	(12,567)	(20,519)
Income taxes - current	2,394	2,317
Income taxes - deferred	(1,197)	123
Total income taxes	1,197	2,440
Loss	(13,764)	(22,959)
Loss attributable to non-controlling interests	-	(186)
Loss attributable to owners of parent	(13,764)	(22,772)

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(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	For the fiscal year ended June 30, 2019	For the fiscal year ended June 30, 2020
Loss	(13,764)	(22,959)
Other comprehensive income		
Valuation difference on available-for-sale securities	-	3,995
Foreign currency translation adjustment	(334)	(17)
Total other comprehensive income	(334)	3,978
Comprehensive income	(14,098)	(18,981)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(14,098)	(18,794)
Comprehensive income attributable to non-controlling interests	-	(186)

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(3) Consolidated Statements of Changes in Equity

For the fiscal year ended June 30, 2019

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	34,803	34,783	(15,288)	-	54,298
Changes of items during the period					
Issuance of new shares	5,306	5,306			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					
Total changes of items during the period	5,306	5,306	(13,809)	(0)	(3,196)
Balance at the end of current period	40,110	40,089	(29,097)	(0)	51,102

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of current period	-	123	123	-	54,422
Changes of items during the period					
Issuance of new shares					10,612
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	-	(289)	(289)	-	(289)
Total changes of items during the period	-	(289)	(289)	-	(3,485)
Balance at the end of current period	-	(165)	(165)	-	50,936

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For the fiscal year ended June 30, 2020

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	40,110	40,089	(29,097)	(0)	51,102
Changes of items during the period					
Issuance of new shares	1,330	1,330			2,661
Loss attributable to owners of parent			(22,772)		(22,772)
Purchase of shares of consolidated subsidiaries		(23)			(23)
Net changes of items other than shareholders' equity					
Total changes of items during the period	1,330	1,306	(22,772)	-	(20,135)
Balance at the end of current period	41,440	41,396	(51,870)	(0)	30,966

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of current period	-	(165)	(165)	-	50,936
Changes of items during the period					
Issuance of new shares					2,661
Loss attributable to owners of parent					(22,772)
Purchase of shares of consolidated subsidiaries					(23)
Net changes of items other than shareholders' equity	3,995	(10)	3,985	582	4,567
Total changes of items during the period	3,995	(10)	3,985	582	(15,567)
Balance at the end of current period	3,995	(175)	3,819	582	35,368

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(4) Consolidated Statements of Cash Flows

(Millions of yen)

	For the fiscal year ended June 30, 2019	For the fiscal year ended June 30, 2020
Cash flows from operating activities		
Loss before income taxes	(12,567)	(20,519)
Depreciation and amortization	789	1,463
Amortization of goodwill	276	176
Loss on liquidation of business	189	-
Impairment loss	-	922
Loss on step acquisitions	47	-
Loss on devaluation of investment securities	159	204
Increase in allowance for doubtful accounts	946	309
Increase (decrease) in provision for point certificates	869	(346)
Increase (decrease) in provision for bonuses	(7)	641
Increase (decrease) in provision for share-based compensation	905	(727)
Interest income	(66)	(116)
Interest expense	78	248
Change in trade accounts receivable	(992)	577
Change in other receivable	(11,405)	137
Change in cash due to users and other payables	2,442	8,638
Decrease (increase) in deposits paid	(4,608)	(4,334)
Increase in deposits received	22,077	37,695
Other—net	8	2,413
Subtotal	(856)	27,384
Interest income received	66	116
Interest expense paid	(78)	(248)
Decrease (increase) in guarantee deposits	(3,929)	(11,983)
Income taxes paid	(2,491)	(2,735)
Net cash provided by (used in) operating activities	(7,289)	12,533
Cash flows from investing activities		
Purchase of investment securities	(189)	(109)
Purchase of property, plant and equipment	(1,699)	(773)
Payments for lease deposits	(940)	(331)
Purchase of subsidiaries' shares resulting in a change in scope of consolidation	-	(1,534)
Proceeds from sales of subsidiaries' shares resulting in a change in scope of consolidation	-	18
Other—net	23	75
Net cash provided by (used in) investing activities	(2,805)	(2,653)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,000)	-
Proceeds from long-term borrowings	50,000	1,000
Repayments of long-term borrowings	(25,308)	(1,261)
Proceeds from issuance of common stock	8,665	973
Payments of listing-related expense	(156)	-
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(246)
Other—net	0	-
Net cash provided by (used in) financing activities	32,200	465
Foreign currency translation adjustments on cash and cash equivalents	(391)	13
Net increase (decrease) in cash and cash equivalents	21,713	10,358
Cash and cash equivalents at the beginning of period	109,157	130,774
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)	(124)
Cash and cash equivalents at the end of period	130,774	141,008

(5) Notes to the Consolidated Financial Statements

Notes on going concern assumption

Not applicable.

Changes in presentation

Consolidated Statements of Cash Flows

"Increase (decrease) in provision for bonuses," 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, ¥1 million that was presented 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 ¥(7) million of "Increase (decrease) in provision for bonuses" and ¥8 million of "Other—net."

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 easily 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 a close relationship 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 local communities 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 Vision.

(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%

The percentage of voting rights as of June 30, 2020, is 71.1% due to the additional share acquisition after the date of business combination.

(vii) Main grounds for determination of the acquiring company

The Company acquired the shares in consideration for cash.

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

Since the deemed date of acquisition was July 31, 2019, the operating results of the acquired company for the period from August 1, 2019, to April 30, 2020, are included in the consolidated statements of income for the current fiscal year.

(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

The Company acquired additional shares at a cost of ¥246 million after the date of business combination.

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

Advisory fee, etc. ¥10 million

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

Current assets	¥2,195 million
Non-current assets	¥2,018 million
Total assets	¥4,213 million
Current liabilities	¥1,207 million
Non-current liabilities	¥426 million
Total liabilities	¥1,633 million

(6) Amount allocated to intangible assets other than goodwill and breakdown and period for amortization of main categories

(i) Amount allocated to intangible assets other than goodwill

¥548 million

(ii) Breakdown of main categories

Trademark right

(iii) Period for amortization

20 years

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

Net sales	¥2,109 million
Operating profit	¥693 million

Method for calculating approximate estimates

The estimated amount of impact is the differences between net sales and profit/loss information calculated assuming that the business combination had been completed at the beginning of the current fiscal year and net sales and profit/loss information in the Company's consolidated statements of income. Also, trademark right, etc., recognized at the time of the business combination has been calculated as amortization incurred at the beginning of the current fiscal year.

Segment information, etc.

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

English Translation
This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

Per share information

	For the fiscal year ended June 30, 2019	For the fiscal year ended June 30, 2020
Net assets per share	¥337.88	¥222.78
Basic loss per share	¥(94.98)	¥(147.86)

(Notes) 1. Information on diluted earnings per share is omitted since, although potential shares did exist, a loss per share was recorded.
2. The basis for the calculation of basic loss per share is as follows.

	For the fiscal year ended June 30, 2019	For the fiscal year ended June 30, 2020
Basic loss per share		
Loss attributable to owners of parent (Million yen)	(13,764)	(22,772)
Amount not attributable to common shareholders (Million yen)	-	-
Loss attributable to owners of parent related to common stock (Million yen)	(13,764)	(22,772)
Average number of shares outstanding during the period (Shares)	144,914,800	154,017,730
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: 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	Number of stock acquisition rights: 1,798,300 Number of common stock: 6,952,150 Number of restricted stock units (RSU): 524,223 Number of common stock: 524,223

Significant subsequent events

Liquidation of receivables

At the meeting of the board of directors held on July 16, 2020, the Company resolved to liquidate advance payment receivables of a consolidated subsidiary.

(1) Purpose of liquidation

By liquidating the advance payment receivables of Merpay, Inc. ("Merpay"), a consolidated subsidiary of the Company, the Company aims to more efficiently utilize assets owned by Merpay and strengthen its financial base.

(2) Overview of liquidation

(i) Counterparty	Financial institutions
(ii) Maximum amount	¥50,000 million
(iii) Interest rate	Variable interest rates
(iv) Initial round date	August 13, 2020 (scheduled)
(v) Contract term	5 years
(vi) Other important particulars	None

Sale of investment securities

The Company sold a portion of the investment securities it was holding on July 22, 2020. As a result, the Company will record a gain on sales of investment securities (extraordinary income) in the next fiscal year.

(1) Reason for sale of investment securities

To increase the efficiency of the Company's assets and improve the Company's financial standing.

(2) Date of sale

July 22, 2020

(3) Overview of sale

The investment securities to be sold:	Shares of one listed company held by the Company
Gain on sales of investment securities:	¥6,942 million

(4) Future outlook

The Company is to record the gain on sales of investment securities above as extraordinary income in the fiscal year ending June 30, 2021.