



mercari

Consolidated Financial Results for the Three Months Ended September 30, 2020 [Japanese GAAP]

October 30, 2020

Company name: Mercari, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4385

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Scheduled date of filing quarterly securities report: November 12, 2020

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: None

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

1. Consolidated Financial Results for the Three Months Ended September 30, 2020 (the "Period") (July 1, 2020 to September 30, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
September 30, 2020	22,156	52.3	364	-	262	-	4,281	-
September 30, 2019	14,548	37.9	(7,010)	-	(7,027)	-	(7,113)	-

(Note) Comprehensive income: Three months ended September 30, 2020: ¥92 million [-%]

Three months ended September 30, 2019: ¥(7,128) million [-%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
September 30, 2020	27.37	26.39
September 30, 2019	(46.79)	-

(Note) Information on diluted earnings per share for the three months ended September 30, 2019 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, 2020	213,784	36,188	16.7
As of June 30, 2020	198,014	35,368	17.6

(Reference) Equity: As of September 30, 2020: ¥35,602 million

As of June 30, 2020: ¥34,786 million

English Translation

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2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended June 30, 2020	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00
Fiscal year ending June 30, 2021	-				
Fiscal year ending June 30, 2021 (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, 2021 (July 1, 2020 to June 30, 2021)

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, 2020:	156,585,954 shares
June 30, 2020:	156,150,364 shares
 - 2) Total number of treasury stock at the end of the Period:

September 30, 2020:	2 shares
June 30, 2020:	2 shares
 - 3) Average number of shares during the Period:

Three months ended September 30, 2020:	156,402,017 shares
Three months ended September 30, 2019:	152,033,447 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”) are working to realize the medium-term vision, “Become indispensable to the creation of a circular economy.” In the fiscal year ending June 30, 2021, the Group will work towards this goal, aiming to continue providing services that are loved by a wide range of people while strengthening the soundness and increasing the convenience of those services.

Amid the current novel coronavirus disease (“COVID-19”) pandemic, the Group has taken a management approach of curtailing investment; however, it will promote disciplined investment, prioritizing growth in cases where growth can be expected.

In the *Mercari* Japan business, the Group is continuing to strengthen listings, aiming to achieve continuous growth over the medium to long term. Furthermore, under COVID-19, the Group is working to stimulate new demand by focusing on acquiring new users through the full-scale shift to an online format for *Mercari Workshops*, for example. As a result, *Mercari*’s gross merchandise volume in Japan for the three months ended September 30, 2020, was ¥170.6 billion, an increase of ¥43.7 billion compared with the corresponding period of the previous fiscal year.

The Group’s *Merpay* business, which provides a mobile payment service, is preparing to enhance monetization by expanding its credit business, such as *Merpay Smart Payments* service. It is also taking steps to ensure safe and secure usage by further strengthening identity verification when using *Merpay* and anti-fraud measures. As a result, the number of *Merpay* users has steadily increased to 8 million ^(Note).

On the other hand, in the *Mercari* US business, to promote growth of the *Mercari* marketplace for easier and safer selling, the Group is working to increase recognition of the service and capture new users, as well as optimizing listing and delivery. As a result, the gross merchandise volume of *Mercari* in the US for the three months ended September 30, 2020, was ¥30.7 billion (the exchange rate conversion is calculated using the average rate during the Period, ¥106.22 against the US dollar), up ¥19.0 billion from the corresponding period of the previous fiscal year.

As a result, for the three months ended September 30, 2020, the Group recorded net sales of ¥22,156 million (52.3% increase year on year), operating profit of ¥364 million (compared to operating loss of ¥7,010 million in the corresponding period of the previous fiscal year) primarily associated with the decrease in advertising expenses, ordinary profit of ¥262 million (compared to ordinary loss of ¥7,027 million in the corresponding period of the previous fiscal year), and profit attributable to owners of parent of ¥4,281 million (compared to loss attributable to owners of parent of ¥7,113 million in the corresponding period of the previous fiscal year).

Information by business segment is omitted as the Group operates a single segment—i.e. the marketplace business.

(Note) Total of the number of users registered for *Merpay Electronic Money* and users of *Merpay Code Payments*, *Online Payments*, and *Merpay Smart Payments* (formerly *Merpay Deferred Payments*) (excluding overlaps) as of October 5, 2020.

(2) Explanation of Financial Position

(Assets)

Assets as of September 30, 2020, increased by ¥15,770 million from the end of the previous fiscal year, to ¥213,784 million.

The main reasons for increases and decreases are as follows.

- Cash and cash equivalents increased by ¥3,821 million compared with the end of the previous fiscal year. This mainly reflected profit before income taxes of ¥7,204 million with adjustments for a ¥6,942 million gain on sales of investment securities, an ¥11,136 million increase in other receivables, a ¥2,605 million increase in deposits paid, and a ¥5,766 million increase in deposits received, along with a ¥6,999 million increase in guarantee deposits, a ¥5,260 million decrease in securities, ¥6,942 million in proceeds from sale of investment securities, and a ¥7,806 million increase in short-term borrowings.
- Securities decreased by ¥5,260 million from the end of the previous fiscal year following the redemption of

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financial instruments held by the Group.

- Other receivables increased by ¥11,136 million compared to the end of the previous fiscal year primarily due to an increase in use of *Merpay Smart Payments*.
- Deposits paid increased by ¥2,605 million from the end of the previous fiscal year, primarily due to the increase in the amounts spent on *Mercari* and *Merpay*.
- Investment securities decreased by ¥5,629 million from the end of the previous fiscal year, primarily due to the sale of shares held by the Group.
- Guarantee deposits increased by ¥6,999 million 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)

Liabilities as of September 30, 2020 increased by ¥14,950 million from the end of the previous fiscal year to ¥177,595 million.

The main reasons for increases and decreases are as follows.

- Short-term borrowings increased by ¥7,806 million from the end of the previous fiscal year, due to the liquidation of advance payment receivables.
- Deposits received increased by ¥5,766 million 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 as of September 30, 2020, increased by ¥820 million from the end of the previous fiscal year to ¥36,188 million.

The main reasons for increases and decreases are as follows.

- Capital stock and capital surplus increased by ¥727 million from the end of the previous fiscal year primarily following the issuance of new shares.
- Retained earnings increased by ¥4,281 million from the end of the previous fiscal year due to the recording of a profit attributable to owners of parent.
- Valuation difference on available-for-sale securities decreased by ¥3,997 million from the end of the previous fiscal year, mainly due to the sale of shares held by the Group.

(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 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 continues to be 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, the Company will continue to watch developments carefully.

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2. Quarterly Consolidated Financial Statements and Primary Notes**(1) Quarterly Consolidated Balance Sheets**

(Millions of yen)

	As of June 30, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and cash equivalents	135,747	139,569
Trade accounts receivable	1,119	1,752
Securities	5,260	-
Other receivable	15,612	26,748
Prepaid expenses	1,609	1,678
Deposits paid	9,718	12,323
Other current assets	1,614	1,396
Allowance for doubtful accounts	(1,404)	(1,260)
Total current assets	169,277	182,208
Non-current assets		
Property, plant and equipment	2,905	2,884
Intangible assets	679	682
Investments and other assets		
Investment securities	5,881	251
Lease deposits	2,128	2,105
Deferred tax assets	108	1,744
Guarantee deposits	16,598	23,598
Other assets	435	309
Total investments and other assets	25,151	28,009
Total non-current assets	28,736	31,576
Total assets	198,014	213,784

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(Millions of yen)

	As of June 30, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Short-term borrowings	-	7,806
Current portion of long-term borrowings	900	734
Cash due to users and other payables	16,206	17,089
Accrued expenses	861	595
Income taxes payable	1,427	3,135
Deposits received	83,954	89,721
Provision for bonuses	1,314	378
Provision for point certificates	522	811
Provision for share-based compensation	177	532
Other current liabilities	4,764	4,359
Total current liabilities	110,128	125,164
Non-current liabilities		
Long-term borrowings	51,547	51,446
Retirement benefit liability	75	81
Asset retirement obligations	126	126
Deferred tax liabilities	191	190
Other provisions	6	-
Other non-current liabilities	570	586
Total non-current liabilities	52,516	52,431
Total liabilities	162,645	177,595
Net assets		
Shareholders' equity		
Capital stock	41,440	41,804
Capital surplus	41,396	41,759
Retained earnings (Accumulated deficit)	(51,870)	(47,589)
Treasury stock	(0)	(0)
Total shareholders' equity	30,966	35,975
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,995	(1)
Foreign currency translation adjustments	(175)	(370)
Total accumulated other comprehensive income	3,819	(372)
Non-controlling interests	582	586
Total net assets	35,368	36,188
Total liabilities and net assets	198,014	213,784

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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, 2019	For the three months ended September 30, 2020
Net sales	14,548	22,156
Cost of sales	4,118	5,839
Gross profit	10,429	16,317
Selling, general and administrative expenses	17,440	15,953
Operating profit (loss)	(7,010)	364
Non-operating income		
Interest income	44	10
Compensation income	-	12
Other	8	14
Total non-operating income	53	38
Non-operating expenses		
Interest expense	57	59
Foreign exchange loss	11	75
Other	1	5
Total non-operating expenses	70	139
Ordinary profit (loss)	(7,027)	262
Extraordinary income		
Gain on sales of investment securities	-	6,942
Total extraordinary income	-	6,942
Profit (loss) before income taxes	(7,027)	7,204
Income taxes	86	2,919
Profit (loss)	(7,113)	4,285
Profit attributable to non-controlling interests	-	4
Profit (loss) attributable to owners of parent	(7,113)	4,281

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Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the three months ended September 30, 2019	For the three months ended September 30, 2020
Profit (loss)	(7,113)	4,285
Other comprehensive income		
Valuation difference on available-for-sale securities	-	(3,997)
Foreign currency translation adjustment	(14)	(194)
Total other comprehensive income	(14)	(4,192)
Comprehensive income	(7,128)	92
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(7,128)	88
Comprehensive income attributable to non-controlling interests	-	4

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(3) Notes to the Quarterly Consolidated Financial Statements

Notes on going concern assumption

Not applicable.

Notes on significant changes in the amount of shareholders' equity

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—i.e. the marketplace business.

Significant subsequent events

Not applicable.