

mercari



Consolidated Financial Results for the Three Months Ended September 30, 2022 [Japanese GAAP]

October 31, 2022

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 10, 2022

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, 2022 (the "Period")

(July 1, 2022 to September 30, 2022)

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

	Net sales		Operating profit		Ordinary profit		Net profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
September 30, 2022	40,029	19.0	3,119	267.1	3,154	277.8	412	-
September 30, 2021	33,634	51.8	849	133.4	834	218.1	(119)	-

(Note) Comprehensive income: Three months ended September 30, 2022: ¥1,040 million [-%]

Three months ended September 30, 2021: ¥17 million [(81.3)%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
September 30, 2022	2.56	2.53
September 30, 2021	(0.75)	-

(Note) Information on diluted earnings per share for the three months ended September 30, 2021, is omitted since, although potential shares did exist, the recorded figure was a basic loss per share.

English Translation

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(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2022	358,736	39,861	10.7
As of June 30, 2022	339,862	37,998	10.8

(Reference) Equity: As of September 30, 2022 ¥38,304 million

As of June 30, 2022 ¥36,756 million

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, 2022	-	0.00	-	0.00	0.00
Fiscal year ending June 30, 2023	-				
Fiscal year ending June 30, 2023 (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, 2023 (July 1, 2022 to June 30, 2023)

The consolidated financial results forecast for the current fiscal year is not stated because it is difficult to forecast a reasonable estimate of the full-year 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, 2022:	160,951,000 shares
June 30, 2022:	160,813,967 shares
 - 2) Total number of treasury stock at the end of the Period:

September 30, 2022:	103 shares
June 30, 2022:	103 shares
 - 3) Average number of shares during the Period:

Three months ended September 30, 2022:	160,855,094 shares
Three months ended September 30, 2021:	159,156,339 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 forecast a reasonable estimate of the full-year 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”) have been working to realize the Group mission to create value in a global marketplace where anyone can buy & sell. Accordingly, the Group’s business policy for the current fiscal year entails having an awareness of the balance between growth and revenue by building a sturdy global business base. Furthermore, the Group aims to promote growth by creating synergies through stronger ties between its consumer-to-consumer (C2C) and business-to-consumer (B2C) operations, and between the Marketplace and Fintech domains. Note that while previously, the Group operated as a single segment, the marketplace business, the Group changed its reportable segments to those of Japan Region and US effective from the three months ended September 30, 2022. Additionally, the Group will provide explanations regarding Japan Region based on the two domains of Marketplace and Fintech.

In the Marketplace domain, the Group is striving to increase the number of listings through strengthened collaboration between the C2C and B2C business areas as its business policy for the current fiscal year. During the three months ended September 30, 2022, the Group focused on improvements to features supporting shops on Mercari Shops in the B2C business area, in addition to carrying out a major update to the *Mercari* app that enables swift testing and addition of new features going forward and improvement of the user experience (UX) laterally with the Fintech domain. As a result, Marketplace’s gross merchandise value (GMV^(Note 1)) for the three months ended September 30, 2022, was ¥220.4 billion, an increase of ¥16.2 billion from the corresponding period of the previous fiscal year, with monthly active users (MAU^(Note 2)) numbering 20.75 million.

In the Fintech domain, the Group has been working to promote circular finance by strengthening Group synergy as its business policy for the current fiscal year. In the three months ended September 30, 2022, the Group again achieved an unadjusted^(Note 3) operating profit due to a strengthened earnings base accompanying growth of the credit business, following the unadjusted operating profit in the previous quarter. The percentage of users who have completed identity verification has grown to 87.2%, which not only ensures a safe and secure experience for users, but also allows users to more easily begin using services thereby contributing to growth of the credit business. Moreover, on October 31, 2022, the Group announced that it will enter the credit card business, with its sights set on achieving further growth. That business will play a key role as the Group aims to create and maximize group synergies.

In its US business, the Group has been “focusing on product improvements to promote both selling and buying” as its business policy for the current fiscal year. While the number of item listings has steadily increased, particularly amid the success of ongoing product improvement efforts to simplify listing, the business has been impacted by prolonged inflation. As a result, the GMV of the US business for the three months ended September 30, 2022, was \$258 million (¥35.7 billion; the exchange rate conversion is calculated using the average rate during the Period, ¥138.37 against the US dollar), down \$12 million from the corresponding period of the previous fiscal year, and MAU was 4.93 million.

As a result, for the three months ended September 30, 2022, the Group recorded net sales of ¥40,029 million (19.0% increase year on year), operating profit of ¥3,119 million (267.1% increase year on year), ordinary profit of ¥3,154 million (277.8% increase year on year), and net profit attributable to owners of parent of ¥412 million (compared to net loss attributable to owners of parent of ¥119 million in the corresponding period of the previous fiscal year).

(Note 1) GMV (Gross Merchandise Value) is the total value of merchandise sold during a specified period.

(Note 2) MAU (Monthly Active Users) is defined as the quarterly average number of registered users who accessed the *Mercari* service via app or website at least once during a given month.

(Note 3) Amount before deducting internal transactions between Marketplace and Fintech (outsourced payment processing fees).

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(2) Explanation of Financial Position

(Assets)

Assets as of September 30, 2022, increased by ¥18,873 million from the end of the previous fiscal year to ¥358,736 million.

The main reasons for increases and decreases are as follows.

- Cash on hand and in banks decreased by ¥6,504 million compared to the end of the previous fiscal year. This mainly reflected adjustments of a ¥9,131 million increase in other receivable, a ¥1,063 million increase in accounts payable, a ¥4,501 million decrease in deposits paid, and a ¥7,929 million increase in deposits received, along with a ¥20,002 million increase in guarantee deposits and an ¥8,261 million increase in short-term borrowings.
- Other receivable increased by ¥9,131 million compared to the end of the previous fiscal year, primarily due to an increase in use of *Merpay Smart Payments*.
- Guarantee deposits increased by ¥20,002 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, 2022, increased by ¥17,010 million from the end of the previous fiscal year to ¥318,874 million.

The main reasons for increases and decreases are as follows.

- Short-term borrowings increased by ¥8,261 million from the end of the previous fiscal year, primarily due to the liquidation of receivables for lump-sum payments and fixed-amount payments.
- Deposits received increased by ¥7,929 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, 2022, increased by ¥1,862 million from the end of the previous fiscal year to ¥39,861 million.

The main reasons for increases and decreases are as follows.

- Retained earnings increased by ¥412 million from the end of the previous fiscal year due to the recording of net profit attributable to owners of the parent.
- Foreign currency translation adjustments increased by ¥471 million from the end of the previous fiscal year following fluctuations in exchange rates.

(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements

The Group has been striving to achieve its mission through efforts related to its business objective for the current fiscal year, which entails having an awareness of the balance between growth and revenue by building a sturdy global business base. At the same time, it is difficult to make projections for consolidated earnings, partly because the Group will be taking a flexible approach to investments in response to business circumstances and environmental changes. This is in order to realize medium- to long-term growth, as the Group continues to closely observe the external environment in terms of how long the effects of inflation in Japan as well as in the United States will continue. As such, the Company has not yet announced forecasts for consolidated earnings.

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

(Millions of yen)

	As of June 30, 2022	As of September 30, 2022
Assets		
Current assets		
Cash on hand and in banks	211,406	204,901
Trade accounts receivable	4,454	4,753
Other receivable	80,287	89,418
Prepaid expenses	2,805	2,726
Deposits paid	7,093	2,591
Other current assets	2,156	2,931
Allowance for doubtful accounts	(4,807)	(4,568)
Total current assets	303,396	302,754
Non-current assets		
Property and equipment	3,462	3,481
Intangible assets	666	598
Investments and other assets		
Investment securities	117	314
Lease deposits	1,614	1,480
Deferred tax assets	3,417	2,999
Guarantee deposits	26,774	46,776
Other assets	413	330
Total investments and other assets	32,337	51,901
Total non-current assets	36,466	55,981
Total assets	339,862	358,736

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(Millions of yen)

	As of June 30, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Short-term borrowings	54,254	62,516
Current portion of long-term borrowings	1,348	1,298
Accounts payable	18,217	19,281
Accrued expenses	1,915	1,762
Income taxes payable	1,525	2,469
Deposits received	139,094	147,024
Provision for bonuses	1,389	847
Provision for point certificates	359	453
Provision for share-based compensation	91	186
Other current liabilities	6,525	6,038
Total current liabilities	224,722	241,877
Non-current liabilities		
Convertible-bond-type bonds with stock acquisition rights	50,000	50,000
Long-term borrowings	25,749	25,700
Retirement benefit liability	75	44
Asset retirement obligations	126	126
Deferred tax liabilities	162	160
Other non-current liabilities	1,028	966
Total non-current liabilities	77,141	76,997
Total liabilities	301,864	318,874
Net assets		
Shareholders' equity		
Capital stock	44,628	44,859
Capital surplus	44,582	44,813
Retained earnings (Accumulated deficit)	(53,757)	(53,345)
Treasury stock	(0)	(0)
Total shareholders' equity	35,453	36,326
Accumulated other comprehensive income		
Valuation difference on available for sale securities	-	(1)
Deferred gains or losses on hedges	-	203
Foreign currency translation adjustments	1,303	1,775
Total accumulated other comprehensive income	1,303	1,977
Stock acquisition rights	926	893
Non-controlling interests	314	663
Total net assets	37,998	39,861
Total liabilities and net assets	339,862	358,736

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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, 2021	For the three months ended September 30, 2022
Net sales	33,634	40,029
Cost of sales	11,694	14,443
Gross profit	21,939	25,585
Selling, general and administrative expenses	21,090	22,466
Operating profit	849	3,119
Non-operating income		
Interest income	5	63
Foreign exchange gain	6	-
Other	20	26
Total non-operating income	32	89
Non-operating expenses		
Interest expense	35	30
Foreign exchange loss	-	11
Bond issuance costs	11	-
Other	0	12
Total non-operating expenses	46	54
Ordinary profit	834	3,154
Extraordinary income		
Gain on reversal of stock acquisition rights	-	2
Total extraordinary income	-	2
Extraordinary losses		
Loss on retirement of non-current assets	-	50
Loss on devaluation of investment securities	-	7
Cancellation penalty	-	114
Other	-	19
Total extraordinary losses	-	192
Net profit before income taxes	834	2,965
Income taxes	894	2,599
Net profit (loss)	(59)	365
Net profit (loss) attributable to non-controlling interests	59	(46)
Net profit (loss) attributable to owners of parent	(119)	412

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Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the three months ended September 30, 2021	For the three months ended September 30, 2022
Net profit (loss)	(59)	365
Other comprehensive income		
Valuation difference on available-for-sale securities	-	(1)
Deferred gains or losses on hedges	-	203
Foreign currency translation adjustments	77	471
Total other comprehensive income	77	674
Comprehensive income	17	1,040
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(41)	1,086
Comprehensive income attributable to non-controlling interests	59	(46)

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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 net profit before income taxes for the fiscal year, which includes the current quarterly period, and applied this percentage to quarterly net profit before income taxes to determine income taxes. However, the statutory effective tax rate is used in cases where it is not possible to use the estimated effective tax rate.

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Segment information, etc.

I For the three months ended September 30, 2021

Information on net sales and profit or loss by reportable segment

(Millions of yen)

	Reportable segments			Other	Total	Adjustments	Amounts in the quarterly consolidated statements of income
	Japan Region	US	Total				
Net sales							
Net sales from external customers	22,512	9,335	31,848	1,786	33,634	-	33,634
Intersegment sales or transfers	90	-	90	137	228	(228)	-
Total	22,603	9,335	31,939	1,924	33,863	(228)	33,634
Segment profit (loss)	4,550	(1,868)	2,681	203	2,884	(2,034)	849

- (Notes) 1. Total amount of the segment profit (loss) corresponds to operating profit described in the quarterly consolidated statements of income.
2. Adjustments for segment profit (loss) mainly consist of general and administrative expenses that are not attributable to reportable segments.
3. The “Other” column includes business segments that are not included in the reportable segments, such as the sports business.

II For the three months ended September 30, 2022

1. Information on net sales and profit or loss by reportable segment

(Millions of yen)

	Reportable segments			Other	Total	Adjustments	Amounts in the quarterly consolidated statements of income
	Japan Region	US	Total				
Net sales							
Net sales from external customers	27,354	11,092	38,447	1,581	40,029	-	40,029
Intersegment sales or transfers	104	-	104	115	220	(220)	-
Total	27,458	11,092	38,551	1,697	40,249	(220)	40,029
Segment profit (loss)	7,854	(2,971)	4,883	(125)	4,757	(1,638)	3,119

- (Notes) 1. Total amount of the segment profit (loss) corresponds to operating profit described in the quarterly consolidated statements of income.
2. Adjustments for segment profit (loss) mainly consist of general and administrative expenses that are not attributable to reportable segments.
3. The “Other” column includes business segments that are not included in the reportable segments, such as the sports business.

2. Matters related to changes in reportable segments

Previously, the Group operated as a single segment, the marketplace business. Commencing the first quarter ended September 30, 2022, the Group changed its reportable segments to those of Japan Region and US.

This change was made because the Group transitioned to a new management execution structure from January 1, 2022, and changed its corporate management classification from July 1, 2022, with the objectives of further strengthening the strategy of the overall business structure in Japan and further developing globally.

Significant subsequent events

Not applicable.