



mercari

Consolidated Financial Results for the Six Months Ended December 31, 2019 [Japanese GAAP]

February 6, 2020

Company name: Mercari, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4385

URL: <https://about.mercari.com/en/>

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Scheduled date of filing quarterly securities report: February 13, 2020

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 Six Months Ended December 31, 2019 (the "Period")

(July 1, 2019 to December 31, 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	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2019	32,993	38.7	(13,906)	-	(13,895)	-	(14,103)	-
December 31, 2018	23,788	-	(3,654)	-	(3,684)	-	(4,475)	-

(Note) Comprehensive income: Six months ended December 31, 2019: ¥(12,565) million [-%]

Six months ended December 31, 2018: ¥(4,552) million [-%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2019	(92.35)	-
December 31, 2018	(31.70)	-

(Notes)1. Mercari, Inc. (the "Company") did not prepare quarterly consolidated financial statements for the six months ended December 31, 2017. Accordingly, the changes from the previous corresponding period for the six months ended December 31, 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 December 31, 2019	186,275	41,110	21.8
As of June 30, 2019	163,685	50,936	31.1

(Reference) Equity: As of December 31, 2019: ¥40,526 million

As of June 30, 2019: ¥50,936 million

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.

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	-	0.00			
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 (4) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 3 of the Appendix.

English Translation

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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):

December 31, 2019:	153,967,271 shares
June 30, 2019:	150,755,347 shares
 - 2) Total number of treasury stock at the end of the Period:

December 31, 2019:	2 shares
June 30, 2019:	2 shares
 - 3) Average number of shares during the Period:

Six months ended December 31, 2019:	152,721,274 shares
Six months ended December 31, 2018:	141,193,255 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 (4) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 3 of the Appendix.

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Table of Contents

1. Qualitative Information Regarding Results for the Period	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	2
(3) Explanation of Cash Flows	3
(4) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
Quarterly Consolidated Statements of Income	6
Quarterly Consolidated Statements of Comprehensive Income	7
(3) Quarterly Consolidated Statements of Cash Flows	8
(4) Notes to the Quarterly Consolidated Financial Statements	9
Notes on going concern assumption	9
Notes on significant changes in the amount of shareholders' equity	9
Application of special accounting treatments for preparing the quarterly consolidated financial statements	9
Segment information, etc.	9
Significant subsequent events	9

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 crucial year for establishing three core businesses: the *Mercari* Japan business, the *Merpay* business, and the *Mercari* US business; and making continued investment prioritizing business growth. The Group is now building a solid foundation for achieving its mission.

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 optimizing the balance between listing and buying 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 six months ended December 31, 2019 was ¥281.3 billion, an increase of ¥53.3 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, while working to gain more users and merchants. As a result of these efforts, the number of users has passed 5 million ^(Note 2) and is steadily increasing.

Meanwhile, the Group worked to expand the *Mercari* C2C marketplace in the US by increasing brand awareness and optimizing listing 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 six months ended December 31, 2019 was ¥25.6 billion (the exchange rate conversion is calculated by the average rate during the Period of ¥108.06 against the US dollar), up ¥7.7 billion from the corresponding period of the previous fiscal year.

As a result of the above, for the six months ended December 31, 2019, the Group recorded net sales of ¥32,993 million (38.7% increase year on year), operating loss of ¥13,906 million (compared to operating loss of ¥3,654 million in the corresponding period of the previous fiscal year) primarily associated with the increases in advertising expenses and personnel expenses, ordinary loss of ¥13,895 million (compared to ordinary loss of ¥3,684 million in the corresponding period of the previous fiscal year), and loss attributable to owners of parent of ¥14,103 million (compared to loss attributable to owners of parent of ¥4,475 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 Deferred Payments* (excluding overlaps) as of October 2019. On January 25, 2020, the number surpassed 6 million.

(2) Explanation of Financial Position

(Assets)

Total assets as of December 31, 2019 increased by ¥22,590 million from the end of the previous fiscal year to ¥186,275 million. This is primarily attributable to a ¥12,122 million increase in guarantee deposits, a ¥10,133 million increase in securities, a ¥6,243 million increase in other receivable, a ¥2,509 million increase in deposits paid, and a ¥2,190 million increase in investment securities, despite a ¥14,227 million decrease in cash and cash equivalents.

(Liabilities)

Total liabilities as of December 31, 2019 increased by ¥32,416 million from the end of the previous fiscal year to ¥145,165 million. This is primarily attributable to a ¥16,868 million increase in deposits received and an ¥11,098 million increase in cash due to users and other payables, despite a ¥752 million decrease in income taxes payable, a ¥716 million decrease in provision for share-based compensation, and a ¥700 million decrease in long-term borrowings (including current portion of long-term borrowings).

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(Net assets)

Net assets as of December 31, 2019 decreased by ¥9,826 million from the end of the previous fiscal year to ¥41,110 million. This is primarily attributable to a ¥14,099 million decrease in retained earnings due to loss attributable to owners of parent.

(3) Explanation of Cash Flows

In the current fiscal year, cash and cash equivalents (hereinafter referred to as “cash”) decreased by ¥4,093 million from the end of the previous fiscal year to ¥126,681 million as of December 31, 2019, in tandem with a ¥124 million decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation.

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

(Cash flows from operating activities)

Cash used in operating activities during the current fiscal year amounted to ¥1,852 million. This is primarily attributable to ¥13,895 million in loss before income taxes, adjusted by an increase in change in other receivable of ¥4,852 million, an increase in change in cash due to users and other payables of ¥10,606 million, an increase in deposits paid of ¥2,506 million, and an increase in deposits received of ¥16,743 million, and also attributable to an increase in guarantee deposits of ¥12,050 million and income taxes paid of ¥1,283 million.

(Cash flows from investing activities)

Cash used in investing activities during the current fiscal year amounted to ¥2,065 million. This is primarily attributable to purchase of property and equipment of ¥453 million and purchase of subsidiaries’ shares resulting in a change in scope of consolidation of ¥1,534 million.

(Cash flows from financing activities)

Cash used in financing activities during the current fiscal year amounted to ¥301 million. This is primarily attributable to proceeds of ¥645 million from issuance of common stock from exercise of employee share options, ¥700 million of repayments of long-term borrowings, and ¥246 million of payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation.

(4) 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 December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	125,578	111,351
Trade accounts receivable	1,341	1,442
Securities	5,196	15,329
Other receivable	14,176	20,419
Prepaid expenses	913	2,444
Deposits paid	5,383	7,892
Other current assets	319	1,380
Allowance for doubtful accounts	(1,094)	(1,362)
Total current assets	151,813	158,899
Non-current assets		
Property, plant and equipment	1,883	3,149
Intangible assets		
Goodwill	1,022	1,047
Other intangible assets	58	135
Total intangible assets	1,081	1,182
Investments and other assets		
Investment securities	533	2,723
Lease deposits	2,020	2,243
Deferred tax assets	1,825	1,249
Guarantee deposits	4,526	16,649
Other assets	0	177
Total investments and other assets	8,907	23,044
Total non-current assets	11,871	27,376
Total assets	163,685	186,275

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(Millions of yen)

	As of June 30, 2019	As of December 31, 2019
Liabilities		
Current liabilities		
Current portion of long-term borrowings	1,261	1,095
Cash due to users and other payables	7,281	18,380
Accrued expenses	1,081	872
Income taxes payable	1,687	934
Deposits received	45,818	62,686
Provision for bonuses	673	1,078
Provision for point certificates	869	859
Provision for loss on business liquidation	82	-
Provision for share-based compensation	905	188
Other current liabilities	1,352	7,566
Total current liabilities	61,014	93,661
Non-current liabilities		
Long-term borrowings	51,447	50,914
Retirement benefit liability	-	68
Other provisions	-	48
Other non-current liabilities	286	471
Total non-current liabilities	51,734	51,503
Total liabilities	112,748	145,165
Net assets		
Shareholders' equity		
Capital stock	40,110	41,146
Capital surplus	40,089	41,072
Retained earnings (Accumulated deficit)	(29,097)	(43,196)
Treasury stock	(0)	(0)
Total shareholders' equity	51,102	39,021
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	1,604
Foreign currency translation adjustments	(165)	(99)
Total accumulated other comprehensive income	(165)	1,504
Non-controlling interests	-	584
Total net assets	50,936	41,110
Total liabilities and net assets	163,685	186,275

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

(Millions of yen)

	For the six months ended December 31, 2018	For the six months ended December 31, 2019
Net sales	23,788	32,993
Cost of sales	5,026	9,440
Gross profit	18,761	23,552
Selling, general and administrative expenses	22,416	37,459
Operating loss	(3,654)	(13,906)
Non-operating income		
Interest income	11	79
Foreign exchange gain	-	26
Other	15	27
Total non-operating income	26	133
Non-operating expenses		
Interest expense	46	119
Foreign exchange loss	8	-
Other	0	3
Total non-operating expenses	56	122
Ordinary loss	(3,684)	(13,895)
Extraordinary losses		
Loss on devaluation of investment securities	35	-
Loss on step acquisitions	47	-
Loss on liquidation of business	182	-
Total extraordinary losses	266	-
Loss before income taxes	(3,950)	(13,895)
Income taxes	524	332
Loss	(4,475)	(14,228)
Loss attributable to non-controlling interests	-	(124)
Loss attributable to owners of parent	(4,475)	(14,103)

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Quarterly Consolidated Statements of Comprehensive Income**(Millions of yen)**

	For the six months ended December 31, 2018	For the six months ended December 31, 2019
Loss	(4,475)	(14,228)
Other comprehensive income		
Valuation difference on available-for-sale securities	-	1,604
Foreign currency translation adjustment	(76)	58
Total other comprehensive income	(76)	1,662
Comprehensive income	(4,552)	(12,565)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(4,552)	(12,440)
Comprehensive income attributable to non-controlling interests	-	(124)

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(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	For the six months ended December 31, 2018	For the six months ended December 31, 2019
Cash flows from operating activities		
Loss before income taxes	(3,950)	(13,895)
Depreciation and amortization	309	587
Amortization of goodwill	141	117
Loss on liquidation of business	182	-
Loss on step acquisitions	47	-
Loss on devaluation of investment securities	35	-
Increase in allowance for doubtful accounts	287	267
Decrease in provision for point certificates	-	(10)
Increase (decrease) in provision for bonuses	(134)	404
Increase (decrease) in provision for share-based compensation	62	(716)
Interest income	(11)	(79)
Interest expense	46	119
Change in trade accounts receivable	(442)	262
Change in other receivable	(4,064)	(4,852)
Change in cash due to users and other payables	5,515	10,606
Increase in deposits paid	(974)	(2,506)
Increase in deposits received	272	16,743
Other—net	(993)	4,471
Subtotal	(3,669)	11,520
Interest and dividend income received	11	79
Interest expense paid	(46)	(119)
Decrease (increase) in guarantee deposits	(256)	(12,050)
Income taxes paid	(1,742)	(1,283)
Net cash provided by (used in) operating activities	(5,704)	(1,852)
Cash flows from investing activities		
Purchase of property, plant and equipment	(936)	(453)
Purchase of investment securities	(189)	-
Purchase of subsidiaries' shares resulting in a change in scope of consolidation	-	(1,534)
Payments for lease deposits	(328)	(3)
Other—net	(12)	(74)
Net cash provided by (used in) investing activities	(1,465)	(2,065)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,000)	-
Repayments of long-term borrowings	(4,572)	(700)
Proceeds from issuance of common stock	8,378	645
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)
Net cash provided by (used in) financing activities	2,648	(301)
Foreign currency translation adjustments on cash and cash equivalents	(10)	251
Net increase (decrease) in cash and cash equivalents	(4,531)	(3,968)
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	-	(124)
Cash and cash equivalents at the end of period	104,704	126,681

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(4) 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.

Significant subsequent events

Not applicable.