

Disclaimer:

This financial report is solely a translation of the “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.

Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending June 30, 2020
(Six Months Ended December 31, 2019)

[Japanese GAAP]

February 14, 2020

Company name: MarketEnterprise Co., Ltd.

Listing: Tokyo Stock Exchange (Mothers)

Securities code: 3135

URL: <http://www.marketenterprise.co.jp/>

Representative: Yasushi Kobayashi, President, CEO

Contact: Kenichi Imamura, Director, CFO

Tel: +81-(0)3-5159-4060

Scheduled date of filing of Quarterly Report:

February 14, 2020

Scheduled date of payment of dividend:

-

Preparation of supplementary materials for quarterly financial results: None

Holding of quarterly financial results meeting:

Yes (for securities analysts and institutional investors)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2020
(July 1, 2019 to December 31, 2019)

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended Dec. 31, 2019	5,179	35.1	309	105.1	308	106.1	167	151.4
Six months ended Dec. 31, 2018	3,832	31.5	150	-	149	-	66	-

Note: Comprehensive income (millions of yen) Six months ended Dec. 31, 2019: 199 (up 111.4%)

Six months ended Dec. 31, 2018: 94 (-%)

	Net income per share		Diluted net income per share	
	Yen		Yen	
Six months ended Dec. 31, 2019	32.16		30.43	
Six months ended Dec. 31, 2018	13.06		12.88	

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen		Millions of yen		%	
As of Dec. 31, 2019	3,033		1,444		43.5	
As of Jun. 30, 2019	2,617		1,244		44.0	

Reference: Shareholders' equity (millions of yen)

As of Dec. 31, 2019: 1,319

As of Jun. 30, 2019: 1,151

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2019	-	0.00	-	0.00	0.00
Fiscal year ending Jun. 30, 2020	-	0.00	-	-	-
Fiscal year ending Jun. 30, 2020 (forecasts)	-	-	-	0.00	0.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending June 30, 2020 (July 1, 2019 to June 30, 2020)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	10,000	18.0	600	32.7	602	32.2	270	32.5	51.85

Note: Revisions to the most recently announced earnings forecast: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None

Newly added: -

Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of shares outstanding (common shares)

1) Number of shares outstanding as of the end of the period (including treasury shares)

As of Dec. 31, 2019:	5,223,000 shares	As of Jun. 30, 2019:	5,207,800 shares
----------------------	------------------	----------------------	------------------

2) Number of treasury shares as of the end of the period

As of Dec. 31, 2019:	286 shares	As of Jun. 30, 2019:	286 shares
----------------------	------------	----------------------	------------

3) Average number of shares outstanding during the period

Six months ended Dec. 31, 2019:	5,210,596 shares	Six months ended Dec. 31, 2018:	5,102,260 shares
---------------------------------	------------------	---------------------------------	------------------

* This summary report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecast, and other special items

Cautionary statement with respect to forecasts

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to MarketEnterprise's management at the time these materials were prepared, but are not promises by MarketEnterprise regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	4
(3) Explanation of Consolidated Forecast and Other Forward-looking Statements	4
2. Quarterly Consolidated Financial Statements and Notes	5
(1) Quarterly Consolidated Balance Sheet	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
Going Concern Assumption	8
Significant Changes in Shareholders' Equity	8
Segment Information	8

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

1) First half overview of the economy and business environment

In the first half of the fiscal year ending on June 30, 2020, the Japanese economy continued to recover slowly backed by improvements in corporate earnings and the labor market. However, the economic outlook remained uncertain because of trade issues, including U.S. -China trade friction, instability in financial markets, changes in consumer sentiment due to the consumption tax hike in October 2019 and other events.

The desire to hold down spending and purchase lower-priced items is still influencing consumer spending in Japan. Nevertheless, this emphasis on economizing and seeking low prices is not the only defining characteristic of consumer spending. Purchasing activity by consumers in Japan is becoming diverse as the range of ways people spend their money grows in order to reflect individual values, lifestyles and interests. In addition, the purchasing behavior is diversifying, as the expressions “smart consumption” and “ethical consumption” gradually become more common.

The diversify of purchasing behavior in Japan is increasing and consumers are seeking more diverse ways of purchasing. To meet the needs of consumers, the MarketEnterprise Group (the “Group”) has established the vision of becoming an “optimized trading company centered on second-hand” in order to be a source of the best possible purchasing choices for each individual. Many activities are under way to accomplish this goal.

2) First half results of operations

The Group conducted aggressive and efficient web marketing activities that targeted the increasing diversity of purchasing behavior and consumers seeking more diverse ways of purchasing. There were also many activities involving media and services. The Group continued to automate business processes, make its services easier to use and take other actions for making operations more efficient, while expanding services in each segment, such as developing new purchasing channels.

First half net sales were 5,179 million yen, 35.1% higher than in the first half of the previous fiscal year. Operating profit increased 105.1% to 309 million yen, ordinary profit increased 106.1% to 308 million yen, and profit attributable to owners of parent increased 151.4% to 167 million yen. As in the first quarter, earnings were higher than one year earlier even as the Group made investments for more synergies among its businesses and hiring talented people in order to build a base for more earnings growth.

3) Overview by Segment

The Group made substantial investments in many business sectors during the fiscal years that ended on June 30, 2017 and 2018, which was a period for making strategic investments for medium to long-term growth. By the end of the previous fiscal year, which ended on June 30, 2019, in addition to improving the profitability of existing businesses, the new businesses and related activities that resulted from these investments were starting to contribute to earnings. As a result, the decision was made to begin managing and reporting operations by using three business segments rather than a single business segment, the second-hand online business (buying and selling second-hand merchandise by using only the Internet and operating no brick-and-mortar stores), as in prior fiscal years. The new business segments are the second-hand online business, media business and mobile & telecommunications business. Each segment is different in terms of its business model and other characteristics.

The Group started reporting results of operations with three reportable segments in the current fiscal year. No prior-year segment comparisons are shown because it is not possible to determine accurate data for these segments in the previous fiscal year.

- Second-Hand Online Business

This business, which is the core business of the Group, buys and sells second-hand merchandise by using only the Internet and operating no brick-and-mortar stores. The Group operates the takakuureru.com purchasing website as well as separate purchasing websites for 30 categories of merchandise. The Group receives an average of about 40,000 purchase requests every month. It uses many channels for the sale of second-hand merchandise, including YAHUOKU!, Rakuten, Amazon and other websites. Merchandise is also sold on the ReRe e-commerce website. The main target of the second-hand is large or expensive merchandise or merchandise in large quantities. Difficulties involving quality and logistics make C-to-C transactions difficult for these types of items. In addition, this business covers a broad array of product categories including niche products.

During the first half, both purchases and sales were strong. In addition, following the first quarter, the Group took actions for improving its efficiency by increasing the use of IT for business processes and standardizing these processes. Furthermore, we cultivated new purchasing channels such as purchasing services for customers of major financial institutions and trade-in services for major manufacturers.

Another first half activity was the start of collaboration between its takakuureru.com purchasing website and Oikura, which the Group acquired in February 2019. Oikura is one of the largest Internet platforms in Japan for comparisons of purchase prices of used household items, using a process that matches consumers with second-hand stores throughout Japan. We started linking “takakuureru.com” at the end of June 2019, and the effects of IT investment to improve the matching rate between consumers and second-hand shops are gradually starting to appear.

Due to the success of all these initiatives, transaction volumes in major product categories such as home appliances, audio equipment, musical instruments, cameras, and personal computers grew steadily. Furthermore, the volume of second-hand transactions increased significantly in agricultural equipment, one of the strategic categories that also include construction machinery and medical equipment. All of these categories have considerable growth potential and high barriers to new entrants. As a result, this segment had sales of 3,454 million yen and a segment profit of 339 million yen.

- Media Business

The media business uses Internet media to distribute useful information concerning purchasing activities to people interested in “smart consumption.” This business operates five internet media in three categories.

- iPhone Kakuyasu SIM Tsushin and SIMCHANGE, which have information about mobile & telecommunications
- Takakuureru.com Magazine, which has information about selling and disposing items
- Beginners and Outlet Japan, which have information about buying items

In the first half, as a result of special demand accompanying the launch of a new smartphone in September 2019, there was a strong performance by mobile & telecommunications media including SIMCHANGE, which was acquired in August 2019. Total monthly page views for all five internet media have increased to more than 10 million. As a result, sales were 263 million yen and segment profit was 177 million yen.

- Mobile & Telecommunications Business

Consolidated subsidiary MEMobile Co., Ltd. is the primary component of this business. This company provides telecommunication services that are less expensive, simpler and easier to understand. The main service uses the Kashimo brand, which is an abbreviation for the words “smart mobile” in Japanese.

During the first half, one priority was using synergies with the media business to increase new contracts for our wireless broadband service. To support sales activities, the Group offers an expanded optional menu and utilizes web marketing. This business continued to perform well in the first half because of these activities and cumulative sales of our service subscriptions were about 45,000. As a result, sales were 1,600 million yen and segment profit was 139 million yen.

(2) Explanation of Financial Position

Assets

Total assets at the end of the second quarter of the current fiscal year increased 415 million yen from the end of the previous fiscal year to 3,033 million yen. This was mainly due to increases of 191 million yen in cash and deposits, 66 million yen in accounts receivable-trade and 127 million yen in goodwill.

Liabilities

Total liabilities increased 215 million yen from the end of the previous fiscal year to 1,588 million yen. The main reasons were increases of 51 million yen in accounts payable-trade, 78 million yen in current portion of long-term borrowings and 191 million yen in long-term borrowings, while there was a decrease of 81 million yen in income taxes payable.

Net assets

Net assets increased 200 million yen from the end of the previous fiscal year to 1,444 million yen. This was mainly due to the booking of profit attributable to owners of parent of 167 million yen and an increase of 32 million yen in non-controlling interests.

Cash Flows

Cash and cash equivalents (hereinafter, "cash") at the end of the second quarter increased 191 million yen from the end of the previous fiscal year to 1,358 million yen. The cash flow components and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash provided by operating activities was 121 million yen (compared with 30 million yen used in the same period of the previous fiscal year). Main factors include profit before income taxes of 307 million yen, increases of 66 million yen in note and accounts receivable-trade and 9 million yen in inventories, and income taxes paid of 167 million yen.

Cash flows from investing activities

Net cash used in investing activities was 193 million yen (compared with 19 million yen used in the same period of the previous fiscal year). Main factors include payments for acquisition of businesses of 150 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 263 million yen (compared with 185 million yen provided in the same period of the previous fiscal year). Main factors include proceeds from long-term borrowings of 400 million yen.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

At this time, the Group maintains its consolidated forecast for the fiscal year ending June 30, 2020 it announced on August 14, 2019. An announcement will be made promptly if a revision is needed.

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

(Thousands of yen)

	FY6/19 (As of Jun. 30, 2019)	Second quarter of FY6/20 (As of Dec. 31, 2019)
Assets		
Current assets		
Cash and deposits	1,166,847	1,358,199
Accounts receivable-trade	504,267	570,632
Merchandise	367,659	373,757
Other	78,949	96,607
Total current assets	2,117,723	2,399,196
Non-current assets		
Property, plant and equipment	144,904	145,928
Intangible assets		
Goodwill	86,666	214,387
Other	22,480	24,245
Total intangible assets	109,146	238,632
Investments and other assets	245,702	249,361
Total non-current assets	499,753	633,922
Total assets	2,617,477	3,033,119
Liabilities		
Current liabilities		
Accounts payable-trade	176,090	227,714
Current portion of long-term borrowings	221,971	299,988
Accounts payable-other	197,870	204,043
Lease obligations	11,979	12,039
Income taxes payable	179,845	98,310
Provision for loss on order received	6,138	2,231
Other	205,744	184,282
Total current liabilities	999,639	1,028,608
Non-current liabilities		
Long-term borrowings	333,823	524,973
Lease obligations	33,986	27,952
Other	5,505	6,681
Total non-current liabilities	373,315	559,607
Total liabilities	1,372,955	1,588,215
Net assets		
Shareholders' equity		
Share capital	306,375	306,699
Capital surplus	286,015	286,339
Retained earnings	559,324	726,882
Treasury shares	(394)	(394)
Total shareholders' equity	1,151,320	1,319,526
Share acquisition rights	1,440	1,440
Non-controlling interests	91,761	123,937
Total net assets	1,244,522	1,444,903
Total liabilities and net assets	2,617,477	3,033,119

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Six-month Period)**

(Thousands of yen)

	First six months of FY6/19 (Jul. 1, 2018 – Dec. 31, 2018)	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)
Net sales	3,832,268	5,179,239
Cost of sales	2,273,795	3,197,996
Gross profit	1,558,472	1,981,242
Selling, general and administrative expenses	1,407,817	1,672,230
Operating profit	150,655	309,012
Non-operating income		
Dividend income of insurance	136	130
Foreign exchange gains	85	423
Vending machine income	746	157
Other	751	419
Total non-operating income	1,719	1,131
Non-operating expenses		
Interest expenses	1,548	1,652
Compensation expenses	383	-
Cancellation penalty	547	-
Other	289	206
Total non-operating expenses	2,768	1,859
Ordinary profit	149,606	308,285
Extraordinary losses		
Loss on retirement of non-current assets	-	701
Total extraordinary losses	-	701
Profit before income taxes	149,606	307,583
Income taxes-current	45,316	88,360
Income taxes-deferred	9,807	19,490
Total income taxes	55,123	107,850
Profit	94,482	199,732
Profit attributable to non-controlling interests	27,822	32,175
Profit attributable to owners of parent	66,659	167,557

Quarterly Consolidated Statement of Comprehensive Income
(For the Six-month Period)

(Thousands of yen)

	First six months of FY6/19 (Jul. 1, 2018 – Dec. 31, 2018)	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)
Profit	94,482	199,732
Comprehensive income	94,482	199,732
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	66,659	167,557
Comprehensive income attributable to non-controlling interests	27,822	32,175

(3) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment Information

I. First six months of FY6/19 (Jul. 1, 2018 – Dec. 31, 2018)

Segment information is omitted since the Group has only a single business segment, which is the second-hand online business.

II. First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)

1. Information related to net sales and profit or loss for each reportable segment

	Reportable segment				Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Second-hand online	Media	Mobile & Telecommunica- tions	Subtotal		
Net sales						
External sales	3,454,064	124,721	1,600,453	5,179,239	-	5,179,239
Inter-segment sales and transfers	-	138,938	-	138,938	(138,938)	-
Total	3,454,064	263,660	1,600,453	5,318,178	(138,938)	5,179,239
Segment profit	339,429	177,179	139,791	656,400	(347,387)	309,012

Notes: 1. The -347 million yen adjustment to segment profit includes elimination for inter-segment transactions of 18 million yen, and -365 million yen in corporate expenses that cannot be allocated to any of the reportable segments.

Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

2. Segment profits are adjusted to be consistent with operating profit shown on the quarterly consolidated statement of income.

2. Information related to revisions for reportable segments

The Group made substantial investments in many business sectors during the fiscal years that ended on June 30, 2017 and 2018, which was a period for making strategic investments for medium to long-term growth. By the end of the previous fiscal year, which ended on June 30, 2019, the new businesses and related activities that resulted from these investments were starting to contribute to earnings. As a result, the decision was made to begin managing and reporting operations by using three business segments rather than a single business segment, the second-hand online business (buying and selling second-hand merchandise by using only the Internet and operating no brick-and-mortar stores), as in prior fiscal years. The new business segments are the second-hand online business, media business and mobile & telecommunications business. Each segment is different in terms of its business model and other characteristics.

The Group started reporting results of operations with three reportable segments in the current fiscal year. No prior-year segment comparisons are shown because it is not possible to determine accurate data for these segments in the previous fiscal year.

3. Information related to impairment losses on non-current assets or goodwill, etc. for each reportable segment

Significant change in goodwill

Goodwill was booked in the "Media" segment as MarketEnterprise has acquired the SIMCHANGE business in the first quarter of FY6/20.

Accordingly, goodwill of 150 million yen was recorded.