

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 First Quarter of the Fiscal Year Ending June 30, 2023
(Three Months Ended September 30, 2022)

[Japanese GAAP]

November 14, 2022

Company name: MarketEnterprise Co., Ltd.

Listing: Tokyo Stock Exchange

Securities code: 3135

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

Representative: Yasushi Kobayashi, President, CEO

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Scheduled date of filing of Quarterly Report:

November 14, 2022

Scheduled date of payment of dividend:

-

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting:

None

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

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending June 30, 2023

(July 1, 2022 to September 30, 2022)

(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	%
Three months ended Sep. 30, 2022	3,671	40.8	(57)	-	(70)	-	(101)	-
Three months ended Sep. 30, 2021	2,607	(9.2)	(165)	-	(161)	-	(121)	-

Note: Comprehensive income (millions of yen)

Three months ended Sep. 30, 2022: (95) (- %)

Three months ended Sep. 30, 2021: (121) (- %)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Sep. 30, 2022	(19.16)	-
Three months ended Sep. 30, 2021	(23.00)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2022	3,892	1,211	24.6
As of Jun. 30, 2022	3,531	1,296	29.7

Reference: Shareholders' equity (millions of yen)

As of Sep. 30, 2022: 958

As of Jun. 30, 2022: 1,050

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2022	-	0.00	-	0.00	0.00
Fiscal year ending Jun. 30, 2023	-				
Fiscal year ending Jun. 30, 2023 (forecasts)		0.00	-	0.00	0.00

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

3. Consolidated Forecast for the Fiscal Year Ending June 30, 2023 (July 1, 2022 to June 30, 2023)

(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	15,000	25.1	300	-	275	-	167	-	31.39

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 Sep. 30, 2022:	5,322,600 shares	As of Jun. 30, 2022:	5,304,800 shares
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2) Number of treasury shares as of the end of the period

As of Sep. 30, 2022:	395 shares	As of Jun. 30, 2022:	349 shares
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3) Average number of shares outstanding during the period

Three months ended Sep. 30, 2022:	5,321,330 shares	Three months ended Sep. 30, 2021:	5,295,176 shares
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* 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.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

1) First quarter overview of the economy and business environment

In the first quarter of the fiscal year ending in June 2023, there were expectations for an upturn in economic activity because of progress with vaccinations and the easing of restrictions on various activities. However, the outlook for the economy is still unclear as the higher cost of energy due to the Ukraine crisis, the yen's rapid decline, and rising prices of many products caused by the rising cost of raw materials are having a negative impact on consumer sentiment.

Consumers in Japan have an even stronger desire than before to economize and seek low prices, but this is not the only defining characteristic of consumer spending. Purchasing activity by consumers in Japan is becoming more diverse as the range of ways people spend their money expands in order to reflect the different values and preferences of consumers. These trends are most pronounced with regard to purchases made using the internet. In this social environment, activities of the MarketEnterprise Group are guided by the “optimized trading company” vision that reflects the growing diversity of consumption behavior and the increasing interest in smart consumption and gives everyone the best options for purchasing products and services. Another goal is to use business operations to play a role in the creation of the circular economy, an economic activity aimed at the realization of SDGs, which has become a global trend in recent years.

2) First quarter results of operations

The MarketEnterprise Group's vision is to operate as an “optimized trading company for the creation of a sustainable society.” Group companies are dedicated to providing products and services that match the increasingly diverse range of consumption behavior and styles of people and, for some products and services, business operators and companies. Activities include use of the internet to give customers a selection of purchasing channels in order to match their needs.

On August 13, 2021, we announced a medium-term management plan covering the three-year period ending in June 2024. The goals for the plan's final year are net sales of 20 billion yen and an operating profit of 1.2 billion yen. In the current fiscal year, which is the middle year of this plan, investments are continuing for building a sound medium-term base for earnings. There are also activities for sales growth and becoming more profitable. The following table summarizes activities during the first quarter for accomplishing these goals.

Reportable segment	Activities
Second-hand Online Business	<p>(Second-hand business for individuals)</p> <ul style="list-style-type: none"> • Marketing investment for increasing the number of used items submitted for purchases • More buyers and vehicles for purchasing used items at customers' homes for the growth of these purchases • Up-front investment associated with opening of the Chiba Purchasing Base in October for expanding operations to more areas <p>(Agricultural equipment)</p> <ul style="list-style-type: none"> • Growth of business with companies in Japan at the used agricultural equipment purchasing and sales business that was acquired from Farmally, inc. in the fourth quarter of the previous fiscal year. <p>(Oikura)</p> <ul style="list-style-type: none"> • IT system investments to increase earnings of Oikura as a second-hand distribution platform • Joint activities with local governments to contribute to accomplishing the SDGs (promote the utilization of markets for used consumer goods in order to reduce the volume of large household items in trash and the environmental impact of discarded items)

Media Business	<ul style="list-style-type: none"> • Maintenance activities for articles in this business to accommodate updated search engine algorithms • Expand the categories of products and services used to send customers to other MarketEnterprise businesses
Mobile & Telecommunications Business	<ul style="list-style-type: none"> • New rate plans that match customers' needs for increasing new service subscriptions • Service agreements with longer terms as customers ask to change from 4G to 5G

As a result, net sales were 3,671 million yen, 40.8% higher than in the first quarter of the previous fiscal year. Operating loss was 57 million yen, compared with a loss of 165 million yen one year earlier, ordinary loss was 70 million yen, compared with a loss of 161 million yen one year earlier, and loss attributable to owners of parent was 101 million yen, compared with a loss of 121 million yen one year earlier. Sales and earnings were generally consistent with the assumptions used for the medium-term management plan.

3) Overview by Business Segment

• Second-Hand Online Business

This business, which is the core business of the MarketEnterprise Group, buys and sells second-hand merchandise by using only the internet and operating no brick-and-mortar stores.

To purchase second-hand merchandise, this business operates the takauureru.com comprehensive purchasing website for all types of merchandise as well as other purchasing websites for specific categories of merchandise. Second-hand merchandise is sold using the internet by posting goods simultaneously on many websites, including YAHUOKU!, Rakuten, Amazon, ReRe, our own e-commerce site, and others. The main targets of this business are large or expensive merchandise and merchandise in large quantities. These types of merchandise are not suitable for C2C transactions because of the difficulty of packaging and sending these items. Using the C2B2C structure instead gives people confidence about the quality of merchandise and other aspects of these transactions due to the inclusion of a reputable company as an intermediary. During the past few years, we have used knowledge acquired by operating this business to start a second-hand agricultural equipment business. In addition to operating this business in Japan, we plan to diversify this business by using synergies with other group businesses, such as by exporting used agricultural equipment. There are also numerous initiatives under way for enlarging the base of operations for Oikura, an internet platform that matches sellers of second-hand items, which are ordinary consumers, with buyers, which are second-hand stores throughout Japan.

During the first quarter, there were substantial marketing expenditures as in the previous fiscal year for increasing the number of items submitted to be purchased in the second-hand business for individuals. We also increased the number of buyers who visit customers and added more vehicles for this purchasing service. In addition, there were investments for several purposes leading up to the October opening of the Chiba Purchasing Base. As these activities progressed, we increased the volume of used items purchased by starting activities targeting consumer needs that are not readily apparent involving the sale of used items. In the agricultural equipment sector, the volume of purchases increased due to the growth of the volume of business with companies in Japan resulting from synergies with the used agricultural equipment buying and selling business of Farmally that we acquired in April 2022. In the Oikura business, we invested in IT systems as a second-hand platform to build a larger and more powerful base for long-term earnings. Public-private sector collaboration involving the SDGs is another major theme of this business. We are establishing partnerships with local governments with the goal of increasing the utilization of markets for used consumer goods in order to reduce the volume of large household items in trash and the environmental impact of discarded items.

Sales increased 31.6% to 1,936 million yen and segment profit was 48 million yen, compared with a loss of 4 million yen one year earlier.

• Media Business

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

- iPhone Kakuyasu SIM Tsushin and SIMCHANGE, which have information about mobile phones and services
- Takakuureru.com Magazine and Oikura Magazine, which have information about selling and disposing items
- Beginners and Outlet Japan, which have information about buying items
- Saiyasu-Syuuri.com, which has information about repairing items
- Used Agricultural Equipment Market UMM, a platform for buying and selling used agricultural equipment

In the first quarter, there were maintenance activities for articles in the media of this business to reflect updated search engine algorithms. Due to this maintenance and the addition of more product and service categories used to send customers to other MarketEnterprise businesses, search rankings for highly profitable keywords were high just as in the previous fiscal year. There was also an increase at the core mobile phone and services media in revenue received for directing customers to other media, including in sectors other than telecommunications. At media in sectors other than mobile phones and services, there were increases in the number of page views and revenue for directing customers to other media.

Because of these highly effective and efficient business operations, sales increased 65.9% to 209 million yen and segment profit increased 91.6% to 128 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, which uses the Kashimo brand (an abbreviation for the words “smart mobile” in Japanese), is an internet connection service that uses a mobile Wi-Fi router.

In the first quarter, the number of new mobile phone service plans sold increased because of the large number of customers sent to this business from our mobile phone and services media. In addition, we took steps to increase the length of contracts with customers as customers requested a switch to 5G service at the end of their 4G service plans. There was a temporary increase in expenses in this business for measures to build a sound base for medium-term earnings. One action is a large volume of advertising activity for selling phone service plans to new customers in order to raise sales of higher-rate plans with a high percentage of recurring revenue. These plans temporarily reduce earnings recorded at the time when a new subscription is sold but increases monthly earnings over the entire subscription period. Another action was an addition to the allowance for doubtful accounts to be prepared for write-offs in the future.

Because of these numerous marketing initiatives, sales increased 53.8% to 1,577 million yen and segment profit was 28 million yen, compared with a loss of 7 million yen one year earlier.

(2) Explanation of Financial Position

1) Assets

Total assets at the end of the first quarter increased 361 million yen from the end of the previous fiscal year to 3,892 million yen. This was mainly due to increases of 141 million yen in cash and deposits, 117 million yen in accounts receivable-trade and 140 million yen in investments and other assets. The increase in investments and other assets is attributable primarily to an increase in guarantee deposits associated with a MarketEnterprise stock future transaction contract with SBI SECURITIES Co., Ltd. in which MarketEnterprise will submit or receive a payment depending on the difference between two designated prices involving its stock when the contract ends.

2) Liabilities

Total liabilities increased 446 million yen from the end of the previous fiscal year to 2,681 million yen. The main reasons were increases of 400 million yen in short-term borrowings and 139 million yen in accounts payable-trade. There were decreases of 29 million yen in income taxes payable and 65 million yen in long-term borrowings (including current portion of long-term borrowings).

3) Net assets

Net assets decreased 84 million yen from the end of the previous fiscal year to 1,211 million yen. This was mainly due to loss attributable to owners of parent of 101 million yen.

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

Sales and earnings in the first quarter are in line with our business plan. The MarketEnterprise Group maintains its consolidated forecast for the fiscal year ending June 30, 2023 that was announced on August 12, 2022.

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

(Thousands of yen)

	FY6/22 (As of Jun. 30, 2022)	First quarter of FY6/23 (As of Sep. 30, 2022)
Assets		
Current assets		
Cash and deposits	941,696	1,083,612
Accounts receivable-trade	971,026	1,088,117
Merchandise	439,020	504,503
Allowance for doubtful accounts	-	(14,221)
Other	189,331	109,638
Total current assets	2,541,074	2,771,650
Non-current assets		
Property, plant and equipment	365,858	378,219
Intangible assets		
Goodwill	171,685	152,841
Other	44,095	40,438
Total intangible assets	215,781	193,280
Investments and other assets	408,667	549,650
Total non-current assets	990,307	1,121,150
Total assets	3,531,382	3,892,801
Liabilities		
Current liabilities		
Accounts payable-trade	366,179	506,004
Short-term borrowings	800,000	1,200,000
Current portion of long-term borrowings	247,656	234,305
Accounts payable-other	282,308	355,631
Lease liabilities	15,462	12,906
Income taxes payable	46,044	16,190
Provision for bonuses	-	17,955
Other	300,807	217,530
Total current liabilities	2,058,458	2,560,523
Non-current liabilities		
Long-term borrowings	147,472	95,570
Lease liabilities	14,288	12,165
Other	15,071	13,431
Total non-current liabilities	176,832	121,167
Total liabilities	2,235,290	2,681,691
Net assets		
Shareholders' equity		
Share capital	325,937	330,942
Capital surplus	305,577	310,582
Retained earnings	406,710	305,328
Treasury shares	(530)	(582)
Total shareholders' equity	1,037,694	946,270
Accumulated other comprehensive income		
Foreign currency translation adjustment	12,322	12,209
Total accumulated other comprehensive income	12,322	12,209
Share acquisition rights	1,040	937
Non-controlling interests	245,033	251,693
Total net assets	1,296,091	1,211,110
Total liabilities and net assets	3,531,382	3,892,801

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

(Thousands of yen)

	First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)	First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)
Net sales	2,607,325	3,671,196
Cost of sales	1,729,184	2,331,730
Gross profit	878,141	1,339,466
Selling, general and administrative expenses	1,043,720	1,397,059
Operating loss	(165,578)	(57,593)
Non-operating income		
Foreign exchange gains	-	412
Dividend income of insurance	221	260
Subsidy income	4,667	-
Vending machine income	290	75
Gain on sale of scraps	1,109	770
Other	314	632
Total non-operating income	6,602	2,150
Non-operating expenses		
Interest expenses	1,047	2,933
Foreign exchange losses	1,193	-
Commission expenses	-	599
Loss on valuation of derivatives	-	11,600
Other	33	87
Total non-operating expenses	2,274	15,220
Ordinary loss	(161,251)	(70,662)
Extraordinary losses		
Loss on retirement of non-current assets	7,798	-
Total extraordinary losses	7,798	-
Loss before income taxes	(169,049)	(70,662)
Income taxes-current	1,014	12,261
Income taxes-deferred	(46,395)	12,366
Total income taxes	(45,380)	24,628
Loss	(123,669)	(95,290)
Profit (loss) attributable to non-controlling interests	(1,892)	6,659
Loss attributable to owners of parent	(121,776)	(101,950)

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

	(Thousands of yen)	
	First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)	First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)
Loss	(123,669)	(95,290)
Other comprehensive income		
Foreign currency translation adjustment	2,282	(112)
Total other comprehensive income	2,282	(112)
Comprehensive income	(121,386)	(95,403)
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	(119,493)	(102,062)
Comprehensive income attributable to non-controlling interests	(1,892)	6,659

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment Information

I. First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)

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

(Thousands of yen)

	Reportable segment				Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Second-hand online	Media	Mobile & Telecommunica- tions	Total		
Net sales						
External sales	1,472,233	109,119	1,025,972	2,607,325	-	2,607,325
Inter-segment sales and transfers	-	17,051	-	17,051	(17,051)	-
Total	1,472,233	126,170	1,025,972	2,624,376	(17,051)	2,607,325
Segment profit (loss)	(4,728)	67,117	(7,183)	55,205	(220,784)	(165,578)

Notes: 1. The -220 million yen adjustment to segment profit (loss) includes elimination for inter-segment transactions of 19 million yen, and -239 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 (losses) are adjusted to be consistent with operating loss shown on the quarterly consolidated statement of income.

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

Not applicable.

II. First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)

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

(Thousands of yen)

	Reportable segment				Adjustment (Note 1)	Amounts shown on quarterly consolidated financial statements (Note 2)
	Second-hand online	Media	Mobile & Telecommunica- tions	Total		
Net sales						
External sales	1,936,983	156,582	1,577,630	3,671,196	-	3,671,196
Inter-segment sales and transfers	-	52,724	-	52,724	(52,724)	-
Total	1,936,983	209,306	1,577,630	3,723,920	(52,724)	3,671,196
Segment profit (loss)	48,567	128,566	28,274	205,408	(263,001)	(57,593)

Notes: 1. The -263 million yen adjustment to segment profit includes elimination for inter-segment transactions of 32 million yen, and -295 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 (loss) are adjusted to be consistent with operating loss shown on the consolidated statement of income.

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

Not applicable.

Revenue Recognition

Information on revenue from contracts with customers broken down

First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)

(Thousands of yen)

	Reportable segment			
	Second-hand online	Media	Mobile & Telecommunications	Total
Second-hand business for individuals	1,235,046	-	-	1,235,046
Machinery (agricultural equipment/ construction machinery)	237,187	-	-	237,187
Performance-based advertising revenue	-	109,119	-	109,119
Communication service fee income	-	-	1,025,972	1,025,972
Revenue from contracts with customers	1,472,233	109,119	1,025,972	2,607,325
Other income	-	-	-	-
External sales	1,472,233	109,119	1,025,972	2,607,325

First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)

(Thousands of yen)

	Reportable segment			
	Second-hand online	Media	Mobile & Telecommunications	Total
Second-hand business for individuals	1,492,120	-	-	1,492,120
Machinery (agricultural equipment/ construction machinery)	444,863	-	-	444,863
Performance-based advertising revenue	-	156,582	-	156,582
Communication service fee income	-	-	1,577,630	1,577,630
Revenue from contracts with customers	1,936,983	156,582	1,577,630	3,671,196
Other income	-	-	-	-
External sales	1,936,983	156,582	1,577,630	3,671,196