

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, 2021
(Six Months Ended December 31, 2020)

[Japanese GAAP]

February 12, 2021

Company name: MarketEnterprise Co., Ltd.

Listing: Tokyo Stock Exchange

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 15, 2021

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, 2021
(July 1, 2020 to December 31, 2020)

(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, 2020	5,628	8.7	206	(33.2)	195	(36.7)	93	(44.3)
Six months ended Dec. 31, 2019	5,179	35.1	309	105.1	308	106.1	167	151.4

Note: Comprehensive income (millions of yen) Six months ended Dec. 31, 2020: 117 (down 41.2%)

Six months ended Dec. 31, 2019: 199 (up 111.4%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Dec. 31, 2020	17.85	16.98
Six months ended Dec. 31, 2019	32.16	30.43

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Dec. 31, 2020	3,945	1,775	39.7
As of Jun. 30, 2020	4,023	1,625	35.8

Reference: Shareholders' equity (millions of yen)

As of Dec. 31, 2020: 1,565

As of Jun. 30, 2020: 1,440

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2020	-	0.00	-	0.00	0.00
Fiscal year ending Jun. 30, 2021	-	0.00			
Fiscal year ending Jun. 30, 2021 (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, 2021 (July 1, 2020 to June 30, 2021)

(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	13,500	23.8	730	11.3	733	10.4	360	23.4	68.88
	to	to	to	to	to	to	to	to	to
	14,500	33.0	900	37.2	903	36.0	450	54.3	86.10

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, 2020:	5,285,400 shares	As of Jun. 30, 2020:	5,226,400 shares
----------------------	------------------	----------------------	------------------

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

As of Dec. 31, 2020:	315 shares	As of Jun. 30, 2020:	286 shares
----------------------	------------	----------------------	------------

3) Average number of shares outstanding during the period

Six months ended Dec. 31, 2020:	5,231,618 shares	Six months ended Dec. 31, 2019:	5,210,596 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) Quarterly Consolidated Statement of Cash Flows	8
(4) Notes to Quarterly Consolidated Financial Statements	9
Going Concern Assumption	9
Significant Changes in Shareholders' Equity	9
Segment Information	9

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, 2021, there were steep downturns in corporate earnings and the labor market in Japan as COVID-19 restricted the activities of companies and consumers. There was a temporary decline in the impact of this crisis between early summer and the beginning of autumn and the economy recovered somewhat. However, this was followed by another upturn in infections and the business climate has become extremely difficult again.

Japanese consumers continued to hold down spending and purchase lower-priced items. But the emphasis on economizing and seeking low prices 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 individual values, lifestyles and interests.

In this challenging business climate, the MarketEnterprise Group (“the Group”) is focusing on activities that reflect the growing diversity of consumption behavior and the increasing interest in smart consumption. Activities of group companies are guided by the “optimized trading company” vision in order to give everyone the best possible options for purchasing products and services.

2) First half results of operations

The vision of the Group 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, companies. Activities include use of the internet to give customers a selection of purchasing channels in order to match their needs. During the first half, every business segment enlarged and upgraded services with measures such as adding new purchasing and sales channels, operating internet media, and using more efficient web marketing activities. Furthermore, as in the previous fiscal year, there were activities to improve business processes and increase efficiency, such as by automating business processes and making services easier to use. In May 2020, the Group established a consolidated subsidiary in Vietnam to reinforce IT development capabilities in order to support the expected growth of business activities. In addition, two newly established consolidated subsidiaries made investments for future growth, such as by acquiring a business in the agricultural equipment sector, a business field that is currently attracting much attention.

In the first half, there was an increase in profits of the second-hand online business. However, margins were lower in the media business and mobile & telecommunications business because of the end of an upturn in demand for upgrading communication services in the fourth quarter of the previous fiscal year caused by changes in the markets for these businesses. First half net sales were 5,628 million yen, 8.7% higher than in the first half of the previous fiscal year. Operating profit decreased 33.2% to 206 million yen, ordinary profit decreased 36.7% to 195 million yen, which includes a foreign exchange loss caused by the yen’s appreciation, and profit attributable to owners of parent decreased 44.3% to 93 million yen.

3) Overview by Business Segment

• 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.

To purchase second-hand merchandise, this business operates the takakuureru.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. There are many activities for the diversification of second-hand online business activities in manner that captures synergies with the current operations of this business. Two examples are the acquisition of Oikura, which operates a second-hand merchandise internet platform, and the full-scale start of an agricultural equipment export business.

In the first half, progress continued with using IT and standardization for business processes. Due to the uncertain business climate, the highest priority is conducting business activities while more efficiently using internet advertisements for the purchase of second-hand merchandise. In recent years, the market for large agricultural equipment sold to companies has been attracting attention. We strengthened business activities for the purchase and sale of used agricultural equipment. This business is conducted primarily by consolidated subsidiary ME Trading Co., Ltd., which was established in April 2020. We buy and sell agricultural equipment in Japan and operate a cross-border e-commerce platform for this equipment. Oikura, an internet platform that matches consumers who want to sell items with second-hand brick-and-mortar stores throughout Japan, continued to develop an IT system that raises the accuracy of these matches. Revenue received for directing customers to stores participating in this platform increased because of the full-scale start in July 2020 of sending to these stores customers with second-hand items that are difficult for the Group to buy.

Earnings in the first half benefited from a decline in the volume of lower margin merchandise in categories we already handle. This was a reflection of advertising activities that place emphasis on maximizing benefits in relation to expenses. In addition, there was growth in purchases and sales of agricultural equipment, a sector we continue to target for growth, and higher revenue at Oikura for directing customers to participating stores. As a result, sales decreased 2.8% to 3,356 million yen and segment profit increased 3.6% to 351 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 eight internet media in five categories.

- iPhone Kakuyasu SIM Tsushin and SIMCHANGE, which have information about mobile & telecommunications
- 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

Following the first quarter, the growth in the number of page views was held down in the second quarter because of revisions in May and December 2020 by Google of the core algorithms for its search engine. Nevertheless, sales increased because of higher advertising sales from customers outside the Group, chiefly for Beginners, which is for people interested in starting a new hobby. Earnings were affected by an increase in personnel expenses associated with the expansion of the staff to build a stronger profit structure for the media business, which has been growing rapidly. As a result, sales increased 15.6% to 304 million yen and segment profit decreased 11.3% to 157 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 half, the number of new service subscriptions decreased following the end of the upturn in demand for upgrading telecommunication services that occurred in the fourth quarter of the previous fiscal year. Demand increased because more companies started using teleworking and the length of time people spent at home increased. A decrease in the number of new customers sent to this business from MarketEnterprise telecommunications media was another reason for the smaller number of new service subscriptions.

Fee income for communication services increased significantly in the first half due to the larger number of

customers resulting from new service contracts, mainly in the fourth quarter of the previous fiscal year. However, there was a decrease in sales incentive fees because of the smaller number of new service subscriptions in the first half. As a result, sales increased 27.5% to 2,039 million yen and segment profit decreased 18.5% to 113 million yen.

(2) Explanation of Financial Position

Assets

Total assets at the end of the second quarter of the current fiscal year decreased 77 million yen from the end of the previous fiscal year to 3,945 million yen. This was mainly due to a decrease of 627 million yen in accounts receivable-trade, while there was an increase of 560 million yen in cash and deposits.

Liabilities

Total liabilities decreased 228 million yen from the end of the previous fiscal year to 2,169 million yen. The main reasons were decreases of 56 million yen in accounts payable-trade, 104 million yen in income taxes payable and 52 million yen in long-term borrowings.

Net assets

Net assets increased 150 million yen from the end of the previous fiscal year to 1,775 million yen. This was mainly due to profit attributable to owners of parent of 93 million yen and an increase of 25 million yen in non-controlling interests.

Cash Flows

Cash and cash equivalents (hereinafter, "cash") at the end of the second quarter increased 560 million yen from the end of the previous fiscal year to 1,816 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 600 million yen (compared with 121 million yen provided in the same period of the previous fiscal year). Main factors include income taxes paid of 151 million yen, profit before income taxes of 194 million yen and a decrease of 627 million yen in note and accounts receivable-trade.

Cash flows from investing activities

Net cash used in investing activities was 54 million yen (compared with 193 million yen used in the same period of the previous fiscal year). Main factors include purchase of property, plant and equipment of 14 million yen and payments of leasehold and guarantee deposits of 25 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 16 million yen (compared with 263 million yen provided in the same period of the previous fiscal year). Main factors include repayments of long-term borrowings of 205 million yen, proceeds from long-term borrowings of 200 million yen and proceeds from issuance of shares resulting from exercise of share acquisition rights of 33 million yen.

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

The Group maintains its consolidated forecast for the fiscal year ending June 30, 2021 that was announced on August 14, 2020.

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

(Thousands of yen)

	FY6/20 (As of Jun. 30, 2020)	Second quarter of FY6/21 (As of Dec. 31, 2020)
Assets		
Current assets		
Cash and deposits	1,255,622	1,816,432
Accounts receivable-trade	1,283,911	655,933
Merchandise	404,786	398,687
Other	124,662	124,636
Total current assets	3,068,982	2,995,689
Non-current assets		
Property, plant and equipment	358,869	379,601
Intangible assets		
Goodwill	280,910	246,298
Other	33,019	28,915
Total intangible assets	313,929	275,214
Investments and other assets	281,447	295,024
Total non-current assets	954,246	949,840
Total assets	4,023,229	3,945,529
Liabilities		
Current liabilities		
Accounts payable-trade	370,379	313,632
Current portion of long-term borrowings	464,952	512,141
Accounts payable-other	209,729	185,602
Lease obligations	14,974	19,475
Income taxes payable	164,164	60,153
Provision for loss on order received	501	28
Other	281,905	219,938
Total current liabilities	1,506,607	1,310,971
Non-current liabilities		
Long-term borrowings	859,747	807,023
Lease obligations	21,887	39,092
Other	9,601	12,560
Total non-current liabilities	891,236	858,676
Total liabilities	2,397,843	2,169,648
Net assets		
Shareholders' equity		
Share capital	306,797	323,553
Capital surplus	286,437	303,193
Retained earnings	851,014	944,401
Treasury shares	(394)	(464)
Total shareholders' equity	1,443,854	1,570,682
Accumulated other comprehensive income		
Foreign currency translation adjustment	(3,853)	(5,625)
Total accumulated other comprehensive income	(3,853)	(5,625)
Share acquisition rights	1,440	1,086
Non-controlling interests	183,945	209,738
Total net assets	1,625,386	1,775,881
Total liabilities and net assets	4,023,229	3,945,529

(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 FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Net sales	5,179,239	5,628,480
Cost of sales	3,197,996	3,570,244
Gross profit	1,981,242	2,058,236
Selling, general and administrative expenses	1,672,230	1,851,794
Operating profit	309,012	206,441
Non-operating income		
Foreign exchange gains	423	-
Guarantee commission received	139	164
Dividend income of insurance	130	162
Vending machine income	157	198
Other	279	840
Total non-operating income	1,131	1,366
Non-operating expenses		
Interest expenses	1,652	2,276
Foreign exchange losses	-	6,401
Listing expenses	-	4,000
Other	206	128
Total non-operating expenses	1,859	12,807
Ordinary profit	308,285	195,000
Extraordinary losses		
Loss on sales of non-current assets	-	844
Loss on retirement of non-current assets	701	132
Total extraordinary losses	701	976
Profit before income taxes	307,583	194,023
Income taxes-current	88,360	50,024
Income taxes-deferred	19,490	24,819
Total income taxes	107,850	74,844
Profit	199,732	119,179
Profit attributable to non-controlling interests	32,175	25,792
Profit attributable to owners of parent	167,557	93,387

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

	(Thousands of yen)	
	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Profit	199,732	119,179
Other comprehensive income		
Foreign currency translation adjustment	-	(1,771)
Total other comprehensive income	-	(1,771)
Comprehensive income	199,732	117,407
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	167,557	91,615
Comprehensive income attributable to non-controlling interests	32,175	25,792

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Cash flows from operating activities		
Profit before income taxes	307,583	194,023
Depreciation	16,979	28,103
Amortization of goodwill	22,279	34,612
Interest and dividend income	(5)	(14)
Interest expenses	1,652	2,276
Decrease (increase) in trade receivables	(66,364)	627,977
Decrease (increase) in inventories	(9,073)	6,375
Increase (decrease) in trade payables	51,623	(56,747)
Loss (gain) on sales of non-current assets	-	844
Increase (decrease) in accounts payable-other	5,439	(22,796)
Increase (decrease) in accrued expenses	(31,644)	(31,484)
Increase (decrease) in accrued consumption taxes	12,228	(46,356)
Other, net	(20,409)	17,463
Subtotal	290,288	754,278
Interest and dividends received	5	14
Interest paid	(1,652)	(2,276)
Income taxes paid	(167,216)	(151,754)
Net cash provided by (used in) operating activities	121,423	600,262
Cash flows from investing activities		
Payments for acquisition of businesses	(150,000)	-
Purchase of property, plant and equipment	(14,312)	(14,045)
Proceeds from sales of property, plant and equipment	-	193
Purchase of investment securities	-	(10,500)
Purchase of intangible assets	(4,924)	(580)
Payments of leasehold and guarantee deposits	(24,775)	(25,456)
Other, net	100	(3,950)
Net cash provided by (used in) investing activities	(193,911)	(54,339)
Cash flows from financing activities		
Proceeds from issuance of shares resulting from exercise of share acquisition rights	648	33,158
Proceeds from long-term borrowings	400,000	200,000
Repayments of long-term borrowings	(130,833)	(205,535)
Repayments of lease obligations	(5,974)	(10,578)
Other, net	-	(70)
Net cash provided by (used in) financing activities	263,840	16,974
Effect of exchange rate change on cash and cash equivalents	-	(2,087)
Net increase (decrease) in cash and cash equivalents	191,352	560,809
Cash and cash equivalents at beginning of period	1,166,847	1,255,622
Cash and cash equivalents at end of period	1,358,199	1,816,432

(4) 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 FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)

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	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 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.

II. First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)

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	3,356,724	231,850	2,039,905	5,628,480	-	5,628,480
Inter-segment sales and transfers	-	73,019	-	73,019	(73,019)	-
Total	3,356,724	304,870	2,039,905	5,701,500	(73,019)	5,628,480
Segment profit	351,564	157,121	113,962	622,648	(416,206)	206,441

Notes: 1. The -416 million yen adjustment to segment profit includes elimination for inter-segment transactions of 29 million yen, and -445 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 impairment losses on non-current assets or goodwill, etc. for each reportable segment

Not applicable.