



Aucfan / 3674

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

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Executive Summary

Business

- RE-INFRA COMPANY: In a briefing on FY09/20 financial results, Aucfan indicated that it would redefine its corporate identity and become a “RE-INFRA COMPANY.” According to the company, the term “RE-INFRA COMPANY” describes a company that builds unparalleled infrastructure integrating what the company refers to as “society’s various types of ‘Re’.” This concept refers to a range of concepts represented by words beginning with “re,” including “reuse,” “resale,” “revalue,” “reverse,” “recover,” “reduce,” “rebalance,” and “reconstruct.” The company aims to secure happiness and well-being for society and the world at large by rediscovering value and establishing a better cyclical relationship between people and goods that leads to improved circumstances for both. Specifically, the company will establish an infrastructure for the redistribution of goods by consolidating and integrating the features of its services, rather than providing them separately. Furthermore, it will strive to become a one-stop solution for manufacturers, distributors, and retailers that can calculate resale values for product inventories, identify optimal sales channels, and facilitate automatic sales through direct (to customers) and indirect (to cloud sellers) routes.
- Business domain: Aucfan primarily makes inventory values (prices that can encourage early liquidation) visible while identifying related issues, redistributes problematic products (for example, products with older packaging, products nearing expiry, and returned items) for monetization, and optimizes sales prices and product lineups based on data. It started out providing market data (via aucfan.com) to individuals hoping to make money, but then expanded its operations to include the provision of tools that improve the efficiency of procurement and solutions for inventory issues. The company continues to be named after Aucfan, one of its core businesses. However, as a result of expansion in business scope, aucfan.com is currently one of its businesses. In FY09/20, the company changed to reportable three segments: Inventory Management Solution, Merchandise Distribution Platform, and Incubation. The company is developing total solutions through a particular focus on TATEMPO Guide (a system for linking inventory and orders across multiple e-commerce websites) and zaicoban (an inventory management AI for retailers that is linked with TATEMPO Guide) in the Inventory Management Solution business and the NETSEA business, which operates an eponymous B2B marketplace (B2B e-commerce site) for the primary distribution market (inventory sales and wholesaling), in the Merchandise Distribution Platform business.
- Inventory Management Solution: Revenue generated by Inventory Management Solution primarily comes from subscriptions (charged monthly), so the segment uses ARR (Annual Recurring Revenue) as its KPI. The contribution margin ratio is high at 60–70%, meaning that an increase in sales easily leads to improved profitability. Main businesses within this segment include Aucfan Pro Plus, Aucfan (premium), the Storoid analysis tool, the ARPACart Amazon listing tool, TATEMPO Guide, and zaicoban. The old Media and Solution businesses have mainly been included in the Inventory Management Solution segment. In FY09/20, sales were JPY1.9bn (+0.8% YoY), and operating profit was JPY368mn (-8.6% YoY), declining due in part to advertising expenses.
- Merchandise Distribution Platform: Revenue generated by Merchandise Distribution Platform is primarily in the form of commissions and product sales amounts, so the segment uses GMV (Gross Merchandise Volume; includes only merchandise distribution handled directly by the company) as its KPI. The contribution margin ratio is low at 10–20%, and a certain transaction level must be maintained to recover fixed costs. Main businesses within this segment include NETSEA (distribution), B2C e-commerce business horidashi, donation-type e-commerce website Otameshi, ReValue (providing support for the liquidation of dormant inventory), cross-border e-commerce, and Aucfan School (teaching expertise in the procurement and sale of goods and providing follow-up consulting for good sellers). In FY09/20, sales were JPY4.8bn (+19.9% YoY), and operating profit was JPY324mn (+372.4% YoY).
- Incubation: Through its activities in this business, the company aims to acquire the expertise and network to gain and maintain a competitive advantage over the long-term. In FY09/20, this segment generated sales of JPY1.3bn (+57.2% YoY) and operating profit of JPY504mn (-12.1% YoY). In March 2020, Aucfan’s portfolio company, Cyber Security Cloud (TSE

Mothers: 4493), went public. As of end-December 2020, the valuation difference on available-for-sale securities (net unrealized gains after excluding tax effects) stood at JPY2.2bn due to mark-to-market valuation of shares.

Trends and outlook

- FY09/20 results: Sales came to JPY7.9bn (+18.7% YoY), operating profit to JPY821mn (+20.8% YoY), recurring profit JPY809mn (+20.4% YoY), net income attributable to owners of the parent JPY429mn (+31.0% YoY). Versus full-year company targets, sales reached 96.6%, operating profit 100.6%, recurring profit 99.4% and net income 99.7%. In the mainstay businesses (excluding Incubation business), the progress rate was 87.1% for sales and 52.0% for operating profit. The progress rate for the Incubation business was 222.0% for sales and 245.7% for operating profit. In the mainstay businesses, sales grew 0.8% YoY and operating profit fell 8.6% YoY in the Inventory Management Solution business and sales grew 19.9% YoY and operating profit grew 372.4% YoY in the Merchandise Distribution Platform business. In the Incubation business, sales increased by 57.2% and operating profit declined by 12.1%.
- FY09/21 forecast: The full-year forecast for FY09/21 calls for sales of JPY10.9bn (+38.4% YoY), operating profit of JPY1.3bn (+58.4% YoY), recurring profit of JPY1.3bn (+54.5% YoY), net income attributable to owners of the parent of JPY800m (+86.6% YoY), and EPS of JPY78.03. The breakdown is as follows: sales of JPY10.0bn (+51.4% YoY) and operating profit of JPY500.0mn (+57.6% YoY, including impact from common expenses) in the mainstay businesses (other than Incubation) and sales of JPY900.0mn and operating profit of JPY800.0mn in Incubation. The company projects higher sales in the Inventory Management Solution segment and Merchandise Distribution Solution segment, both of which are core segments. It anticipates particularly high growth in the Merchandise Distribution Solution segment, forecasting a growth rate of 50–60% (sales of JPY7.2–7.7bn). On the cost front, the company primarily anticipates a rise in advertising expenses, aside from higher variable costs, such as packing and freight (mainly delivery fees associated with Otameshi site), which is linked to sales, and commission paid (compensation for external payment agencies handling payments associated with NETSEA). Moving forward, the company plans to continue focusing on TATEMPO Guide; zaicoban, which is linked with TATEMPO Guide; and NETSEA. Accordingly, it will actively invest in primarily online advertising aimed at raising recognition regarding these services. With regard to the Incubation segment, only sales and operating profit that had already been recognized at the time the company released its initial projections have been included in its forecast.
- Medium-term goals and strategies: In a briefing on FY09/20 financial results, Aucfan indicated that it would redefine its corporate identity and become a “RE-INFRA COMPANY.” According to the company, the term “RE-INFRA COMPANY” describes a company that builds unparalleled infrastructure integrating what the company refers to as “society’s various types of ‘Re’.” This concept refers to a range of concepts represented by words beginning with “re,” including “reuse,” “resale,” “revalue,” “reverse,” “recover,” “reduce,” “rebalance,” and “reconstruct.” The company aims to secure happiness and well-being for society and the world at large by rediscovering value and establishing a better cyclical relationship between people and goods that leads to improved circumstances for both. Specifically, the company will establish an infrastructure for the redistribution of goods by consolidating and integrating the features of its services, rather than providing them separately. Furthermore, it will strive to become a one-stop solution for manufacturers, distributors, and retailers that can calculate resale values for product inventories, identify optimal sales channels, and facilitate automatic sales through direct (to customers) and indirect (to cloud sellers) routes. From this standpoint, the company will focus on TATEMPO Guide, zaicoban (which is linked with TATEMPO Guide), and NETSEA moving forward.

Strengths and weaknesses

Shared Research sees Aucfan’s strengths as expertise in the use of secondary distribution data; provision of the full line of services needed in secondary distribution; and a business structure that avoids direct competition with strong secondary distribution services from other companies. Weaknesses: dependence on major auction sites for data; existence of merchandise categories in which it is difficult to leverage the company’s strengths; and significant and uncontrollable uncertainties in the Incubation business.

Key financial data

Income statement (JPYmm)	FY09/11 Parent	FY09/12 Parent	FY09/13 Parent	FY09/14 Par.	FY09/15 Cons.	FY09/16 Cons.	FY09/17 Cons.	FY09/18 Cons.	FY09/19 Cons.	FY09/20 Cons.	FY09/21 Est.
Sales	492	620	752	1,006	1,450	2,726	3,656	5,864	6,636	7,874	10,900
YoY	50.8%	26.1%	21.3%	33.9%	44.0%	88.0%	34.2%	60.4%	13.2%	18.7%	38.4%
Gross profit	419	547	653	864	1,088	1,826	1,886	2,715	3,136	3,126	
YoY	66.1%	30.5%	19.5%	32.3%	26.0%	67.8%	3.3%	44.0%	15.5%	-0.3%	-
Gross profit margin	85.2%	88.2%	86.9%	85.8%	75.1%	67.0%	51.6%	46.3%	47.3%	39.7%	
Operating profit	109	202	307	407	141	321	205	411	680	821	1,300
YoY	111.5%	85.3%	52.2%	32.6%	-65.4%	127.8%	-36.0%	100.2%	65.4%	20.8%	58.4%
Operating profit margin	22.1%	32.5%	40.8%	40.4%	9.7%	11.8%	5.6%	7.0%	10.2%	10.4%	11.9%
Recurring profit	111	201	302	413	143	332	303	424	672	809	1,250
YoY	119.9%	81.0%	50.2%	36.7%	-65.5%	133.0%	-8.8%	39.9%	58.7%	20.4%	54.5%
Recurring profit margin	22.6%	32.4%	40.2%	41.0%	9.8%	12.2%	8.3%	7.2%	10.1%	10.3%	11.5%
Net income	73	101	212	250	182	309	219	224	327	429	800
YoY	69.3%	38.1%	110.2%	17.8%	-27.2%	69.5%	-29.1%	2.3%	46.1%	31.0%	86.6%
Net margin	14.9%	16.3%	28.2%	24.9%	12.6%	11.3%	6.0%	3.8%	4.9%	5.4%	7.3%
Per-share data											
Shares issued (year-end; '000)	2.5	2.7	1,833.5	9,737.5	9,860.0	9,895.0	9,907.5	9,915.0	10,469.4	10,539.4	
EPS	12.65	15.13	26.77	25.94	18.61	31.48	22.25	22.72	32.54	41.81	78.03
EPS (fully diluted)	-	-	23.23	25.04	18.37	30.26	21.20	22.14	31.22	41.14	
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Book value per share	51.26	68.34	159.23	196.84	213.53	229.69	250.82	274.22	312.95	784.95	
Balance sheet (JPYmm)											
Cash and cash equivalents	259	339	1,127	1,144	1,403	1,466	1,029	2,095	1,354	2,705	
Total current assets	340	435	1,290	1,368	1,966	2,137	2,477	4,176	4,042	12,170	
Tangible fixed assets	31	23	45	35	55	54	136	121	97	84	
Intangible fixed assets	43	136	204	432	1,355	1,428	1,153	1,139	867	763	
Investments and other assets	58	47	77	294	888	841	448	436	508	366	
Total fixed assets	131	206	325	762	2,298	2,323	1,737	1,696	1,472	1,213	
Total assets	471	641	1,615	2,130	4,270	4,465	4,217	5,874	5,516	13,383	
Short-term debt	18	-	-	-	510	576	520	925	824	1,470	
Total current liabilities	132	170	154	206	763	1,224	1,133	1,965	1,717	2,877	
Long-term debt	15	-	-	-	1,364	961	578	1,188	572	698	
Total fixed liabilities	15	-	-	6	1,364	961	578	1,192	577	2,390	
Total liabilities	147	170	154	212	2,127	2,185	1,711	3,157	2,293	5,267	
Net assets	325	471	1,462	1,917	2,143	2,280	2,506	2,717	3,222	8,116	
Total interest-bearing debt	33	-	-	-	1,874	1,536	1,098	2,113	1,396	2,169	
Statement of cash flows (JPYmm)											
Cash flows from operating activities	178	194	179	330	136	766	155	468	-7	824	
Cash flows from investing activities	-48	-126	-164	-491	-1,722	-249	-126	-222	-322	-287	
Cash flows from financing activities	18	12	772	179	1,844	-503	-431	818	-411	813	
Financial ratios											
ROA (RP-based)	29.2%	36.2%	26.8%	22.0%	4.5%	7.6%	7.0%	8.4%	11.8%	8.6%	
ROE	27.2%	25.5%	22.0%	11.0%	9.1%	14.2%	9.3%	8.7%	11.1%	7.6%	
Equity ratio	86.6%	73.0%	90.4%	90.0%	49.0%	50.6%	58.6%	46.0%	58.2%	60.5%	

Source: Shared Research based on company data

Note: Figures may differ from those reported by company owing to differences in rounding.

Note: Consolidated results shown from FY09/15; change versus parent company figures the previous year shown for reference purposes only.

Recent updates

Highlights

On April 15, 2021, Aucfan Co., Ltd. announced monthly data for business use accounts for March 2021.

The number of business use accounts in March 2021 totaled 1,409,652. The number of new registrations was 8,638.

On March 22, 2021, Shared Research updated the report following interviews with the company.

On March 15, 2021, the company announced monthly data for business use accounts for February 2021.

The number of business use accounts in February 2021 totaled 1,401,014. The number of new registrations was 8,245.

On February 12, 2021, the company announced earnings results for Q1 FY09/21; see the results section for details.

On the same day, the company announced monthly data for business use accounts for January 2021.

The number of business use accounts in January 2021 totaled 1,392,769. The number of new registrations was 9,320.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Monthly data (the number of business use accounts)

	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020
New registration	6,549	6,183	5,455	6,844	7,962	7,567	10,909	8,125	8,423	8,557	7,787	7,996
Total	1,275,928	1,282,111	1,287,566	1,294,410	1,302,372	1,309,939	1,320,848	1,328,973	1,337,396	1,345,953	1,353,740	1,361,736
	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021
New registration	7,595	7,726	6,392	9,320	8,245	8,638						
Total	1,369,331	1,377,057	1,383,449	1,392,769	1,401,014	1,409,652						

Source: Shared Research based on company data (disclosed from June 2020), the number of new registrations is calculated by subtracting the total number of registrations at the end of the previous month from the total number of registrations at the end of the current month.

The number of business use accounts: The total number of aucfan.com members, NETSEA suppliers and buyers, TATEMPO Guide user companies, Otameshi product supplying companies; this is calculated by adding up the figures used for internal management. It includes non-paying members, as well as both active and inactive members.

In April 2020, the number of business use accounts rose sharply due to the impact of the state of emergency declaration by the Japanese government. From May through November 2020, the pace of account growth slowed down compared to April, but remained at a higher level (net increase of 7,500–7,999 accounts per month) compared to levels (net increase of around 6,000–7,000 accounts per month) before January 2020 or before the COVID-19 outbreak in Japan. Growth in the number of accounts slowed further in December 2020 compared to November 2020. From January 2021, however, growth accelerated again.

Significance of the number of business use accounts

Since the number of business use accounts includes both free and paid accounts, an increase in the number of accounts does not necessarily translate to an immediate boost in sales. On the other hand, the number of accounts in the company's focus businesses of NETSEA and TATEMPO Guide are included, which may be useful in determining whether the company's strategy is progressing well.

Quarterly trends and results

Cumulative (JPYmn)	FY09/19				FY09/20				FY09/21	FY09/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of Est.	FY Est.
Sales	1,654	3,361	4,662	6,636	1,573	2,984	5,086	7,874	2,964	27.2%	10,900
YoY	70.0%	34.7%	17.2%	13.2%	-4.9%	-11.2%	9.1%	18.7%	88.4%		38.4%
Gross profit	825	1,766	2,388	3,136	663	1,204	2,316	3,126	1,885		
YoY	70.3%	47.9%	26.8%	15.5%	-19.6%	-31.8%	-3.0%	-0.3%	184.2%		
Gross profit margin	49.8%	52.5%	51.2%	47.3%	42.1%	40.3%	45.5%	39.7%	63.6%		
SG&A expenses	550	1,126	1,742	2,457	601	1,122	1,700	2,305	660		
YoY	9.0%	-1.4%	0.0%	6.6%	9.1%	-0.3%	-2.4%	-6.2%	9.9%		
SG&A ratio	33.3%	33.5%	37.4%	37.0%	38.2%	37.6%	33.4%	29.3%	22.3%		
Operating profit	274	641	647	680	62	82	616	821	1,224	94.2%	1,300
YoY	-	-	351.6%	65.4%	-77.2%	-87.2%	-4.7%	20.8%	1860.0%		58.4%
Operating profit margin	16.6%	19.1%	13.9%	10.2%	4.0%	2.7%	12.1%	10.4%	41.3%		11.9%
Recurring profit	270	637	641	672	61	75	605	809	1,215	97.2%	1,250
YoY	-	953.8%	322.7%	58.7%	-77.5%	-88.3%	-5.6%	20.4%	1896.2%		54.5%
Recurring profit margin	16.3%	19.0%	13.7%	10.1%	3.9%	2.5%	11.9%	10.3%	41.0%		11.5%
Net income	175	479	426	327	11	7	331	429	919	114.8%	800
YoY	-	-	906.3%	46.1%	-93.6%	-98.6%	-22.4%	31.0%	8050.2%		86.6%
Net margin	10.6%	14.3%	9.1%	4.9%	0.7%	0.2%	6.5%	5.4%	31.0%		7.3%

Quarterly (JPYmn)	FY09/19				FY09/20				FY09/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	1,654	1,707	1,301	1,974	1,573	1,411	2,102	2,789	2,964
YoY	70.0%	12.2%	-12.4%	4.8%	-4.9%	-17.4%	61.5%	41.3%	88.4%
Gross profit	825	941	622	748	663	541	1,112	811	1,885
YoY	70.3%	32.7%	-9.9%	-10.0%	-19.6%	-42.6%	78.6%	8.4%	184.2%
Gross profit margin	49.8%	55.2%	47.8%	37.9%	42.1%	38.3%	52.9%	29.1%	63.6%
SG&A expenses	550	575	616	715	601	522	577	606	660
YoY	9.0%	-9.7%	2.9%	27.0%	9.1%	-9.3%	-6.3%	-15.3%	9.9%
SG&A ratio	33.3%	33.7%	47.4%	36.2%	38.2%	37.0%	27.5%	21.7%	22.3%
Operating profit	274	366	6	33	62	19	535	205	1,224
YoY	-	407.0%	-93.4%	-87.6%	-77.2%	-94.8%	8741.2%	517.0%	1860.0%
Operating profit margin	16.6%	21.5%	0.5%	1.7%	4.0%	1.4%	25.4%	7.3%	41.3%
Recurring profit	270	367	3	31	61	14	530	204	1,215
YoY	-	380.1%	-96.2%	-88.4%	-77.5%	-96.3%	15400.0%	548.6%	1896.2%
Recurring profit margin	16.3%	21.5%	0.3%	1.6%	3.9%	1.0%	25.2%	7.3%	41.0%
Net income	175	304	-53	-99	11	-5	324	98	919
YoY	-	927.4%	-	-	-93.6%	-	-	-	8050.2%
Net margin	10.6%	17.8%	-	-	0.7%	-	15.4%	3.5%	31.0%

Source: Shared Research based on company data
 Note: Figures may differ from those reported by company owing to differences in rounding.
 Note: Forecasts are the most recent company estimates.

Seasonality: Prior to FY09/19, sales tended to increase in Q4. This seasonality was largely due to the company's previous netprice business, which is expected to be less seasonal from FY09/20 after the company rebranded netprice to horidashi.

Q1 FY09/21 results

Overview

- ▷ Sales: JPY3.0bn (+88.4% YoY)
- ▷ Operating profit: JPY1.2bn (vs. JPY62mn in Q1 FY09/20)
- ▷ Recurring profit: JPY1.2bn (vs. JPY61mn)
- ▷ Net income*: JPY919mn (vs. JPY11mn)

*Net income attributable to owners of the parent

Versus full-year company targets, sales reached 27.2%, operating profit 94.2%, recurring profit 97.2% and net income 114.8%. In the mainstay businesses (excluding Incubation business), the progress rate was 16.7% for sales and 14.5% for operating profit. The progress rate for the Incubation business was 144.2% for sales and 144.0% for operating profit.

In the mainstay businesses, sales fell 8.5% YoY and operating profit fell 15.7% YoY in the Inventory Management Solution business and sales grew 16.0% YoY and operating profit grew 96.0% YoY in the Merchandise Distribution Platform business. The Inventory Management Solution business was affected by delays in cultivating major corporate customers, but the Merchandise

Distribution Platform business enjoyed a increase in distribution volume thanks to stay-at-home consumption. Moving forward, the company plans to continue focusing on TATEMPO Guide; zaicoban, which is linked with TATEMPO Guide; and NETSEA. Accordingly, it has actively invested in primarily online advertising aimed at raising recognition regarding these services. In the Incubation business, in a continuation of performance in FY09/20, the company sold a large volume of investment securities in Q1. As a result the Incubation business recorded sales of JPY1.3bn and operating profit of JPY1.2bn that included gains from the sale of shares not originally factored into company forecasts. As of end-December 2020, the valuation difference on available-for-sale securities (net unrealized gains after excluding tax effects) stood at JPY2.2bn.

The number of business use accounts in February 2021 totaled 1,401,014. The number of new registrations was 8,245. Growth has been on an uptrend again since January 2020.

The company made no changes to its latest FY09/21 full-year earnings forecasts, disclosed on November 13, 2020. Although it considered revision of its full-year outlook, it elected to leave its forecasts intact, partially in consideration of the major changes in the market environment caused largely by COVID-19 and reflecting the risk of impairment losses from Q2 investment securities held by the Incubation business (operating investment securities). Please see the "FY09/21 full-year company forecasts" section for earnings forecast assumptions.

Quarterly results by segment

Cumulative (JPYmn)	FY09/19				FY09/20				FY09/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total sales	1,654	3,361	4,662	6,636	1,573	2,984	5,086	7,874	2,964
YoY	70.0%	34.7%	17.2%	13.2%	-4.9%	-11.2%	9.1%	18.7%	88.4%
Inventory Management Solution	479	938	1,403	1,917	516	1,088	1,463	1,932	472
YoY	-	-	-	-	7.7%	16.0%	4.3%	0.8%	-8.5%
Merchandise Distribution Platform	974	1,880	2,721	4,022	1,062	1,938	3,129	4,821	1,231
YoY	-	-	-	-	9.0%	3.1%	15.0%	19.9%	16.0%
Incubation	193	557	575	808	27	30	607	1,270	1,298
YoY	287.7%	374.0%	382.3%	194.0%	-86.3%	-94.6%	5.6%	57.2%	-
Operating profit	274	641	647	680	62	82	616	821	1,224
YoY	-	-	351.6%	65.4%	-77.2%	-87.2%	-4.7%	20.8%	-
Operating profit margin	16.6%	19.1%	13.9%	10.2%	4.0%	2.7%	12.1%	10.4%	41.3%
Inventory Management Solution	136	241	335	402	117	220	283	368	99
YoY	-	-	-	-	-14.0%	-8.6%	-15.5%	-8.6%	-15.7%
Operating profit margin	28.4%	25.7%	23.9%	21.0%	22.7%	20.2%	19.4%	19.0%	20.9%
Merchandise Distribution Platform	74	97	94	69	32	45	193	324	63
YoY	-	-	-	-	-56.7%	-53.1%	105.7%	372.4%	96.0%
Operating profit margin	7.6%	5.1%	3.4%	1.7%	3.0%	2.3%	6.2%	6.7%	5.1%
Incubation	164	486	483	573	3	-11	407	504	1,152
YoY	558.6%	486.2%	540.0%	254.0%	-98.2%	-	-15.6%	-12.1%	-
Operating profit margin	84.6%	87.1%	84.0%	71.0%	11.2%	-37.2%	67.1%	39.7%	88.8%
Quarterly (JPYmn)	FY09/19				FY09/20				FY09/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total sales	1,654	1,707	1,301	1,974	1,573	1,411	2,102	2,789	2,964
YoY	70.0%	12.2%	-12.4%	4.8%	-4.9%	-17.4%	61.5%	41.3%	88.4%
Inventory Management Solution	479	459	465	514	516	572	374	470	472
YoY	-	-	-	-	7.7%	24.7%	-19.5%	-8.6%	-8.5%
Merchandise Distribution Platform	974	906	841	1,301	1,062	876	1,191	1,692	1,231
YoY	-	-	-	-	9.0%	-3.3%	41.7%	30.0%	16.0%
Incubation	193	364	17	233	27	4	577	663	1,298
YoY	287.7%	437.6%	-	49.9%	-86.3%	-99.0%	-	184.4%	-
Operating profit	274	366	6	33	62	19	535	205	1,224
YoY	-	407.0%	-93.4%	-87.6%	-77.2%	-94.8%	-	517.0%	-
Operating profit margin	16.6%	21.5%	0.5%	1.7%	4.0%	1.4%	25.4%	7.3%	41.3%
Inventory Management Solution	136	105	94	67	117	103	63	84	99
YoY	-	-	-	-	-14.0%	-1.7%	-32.9%	25.8%	-15.7%
Operating profit margin	28.4%	22.8%	20.3%	13.1%	22.7%	18.0%	16.9%	18.0%	20.9%
Merchandise Distribution Platform	74	23	-3	-25	32	13	147	132	63
YoY	-	-	-	-	-56.7%	-41.1%	-	-	96.0%
Operating profit margin	7.6%	2.5%	-0.4%	-1.9%	3.0%	1.5%	12.4%	7.8%	5.1%
Incubation	164	322	-3	90	3	-14	419	96	1,152
YoY	558.6%	455.2%	-	4.4%	-98.2%	-	-	6.6%	-
Operating profit margin	84.6%	88.5%	-15.7%	38.7%	11.2%	-402.0%	72.6%	14.5%	88.8%

Source: Shared Research based on company data

Note: Figures may differ from those reported by company owing to differences in rounding.

Note: A dash (-) indicates YoY of over 1,000%.

Inventory Management Solution

- ▷ Sales: JPY472mn (-8.5% YoY)
- ▷ Operating profit: JPY99mn (-15.7% YoY)

The company continued invest in advertising and promotions to attract customers and grow sales of its various solutions while strengthening its hiring activities.

There were delays in obtaining new orders as uncertainties over the prolonged COVID-19 pandemic prompted major customers to rein in marketing expenditures. As a result, sales for the zaikoban inventory management AI lagged projections due to lead times required in orders from major accounts. The company does not anticipate a change in this trend as most Japanese companies head into their new fiscal year beginning from April, so from Q2, the company integrated zaicoban with its TATEMPO Guide one-stop online shop management tool, and for major customers with prolonged lead times to orders, it is focusing efforts in the near term on growing sales of low-rate plans targeting the company's strong area of small and medium-sized businesses and SMB (side businesses and sole proprietorships). Specifically, the company aims to grow sales by increasing low-rate plans through cross-selling to existing customers.

The number of Aucfan paying members (Premium, Pro, and Light combined) has been on a recovery trend since bottoming in May 2020 following price revisions. The company attributes this to increased need for side businesses due to declining incomes after the COVID-19 pandemic-fueled state of emergency declaration was lifted in Apr–May 2020.

Accordingly, Inventory Management Solution sales in Q1 declined 8.5% YoY to JPY472mn, although they exceeded Q4 FY09/20 (Jul–Sep) sales of JPY470mn.

Merchandise Distribution Platform

- ▷ Sales: JPY1.2bn (+16.0% YoY)
- ▷ Operating profit: JPY63mn (+96.0% YoY)

The Merchandise Distribution Platform business, in a continuation of the trend in 2H FY09/20, continued to see solid growth in distribution volume and customers, notably for NETSEA and Otameshi. Stay-at-home consumptions led to growth in distribution volume in the business. Sales opportunities increased as companies built up inventory. Otameshi had brisk performance in packaged sales of multiple merchandise. The company expects these trends to continue.

On the other hand, resources in Q1 were allocated to medium-term initiatives expected to contribute to sales from Q2 onward such as the collaboration between NETSEA and Ehime Prefecture, an initiative that is aimed at expanding the number of NETSEA suppliers (sellers). One reason for the emphasis on this project is that a positive outcome would facilitate further collaborations with other local governments. In addition, terms of some large transactions booked as Revalue business sales in Q4 FY09/20 did not match with subsequent terms in Q1.

As a result, Merchandise Distribution Platform sales in Q1 were up 16.0% YoY to JPY1.2bn but failed to reach the JPY1.7bn level posted in Q4 FY09/20 (July–September).

Incubation

- ▷ Sales: JPY1.3bn (vs. JPY27mn Q1 FY09/20)
- ▷ Operating loss: JPY1.2bn (vs. JPY3mn)

In a continuation of performance in FY09/20, the company sold a large volume of investment securities in Q1. The company booked gains from the sale of listed and unlisted stocks that had not originally been anticipated. As of end-December, the

valuation difference on available-for-sale securities (net unrealized gains after excluding tax effects) stood at JPY2.2bn. Of the JPY4.0bn in operating investment securities as of end-December 2020, over 80% was accounted for by shares of Cyber Security Cloud Co., Ltd (TSE Mothers: 4493) while the remainder (nearly 20%) was other unlisted stocks.

For details on previous quarterly and annual results, please refer to Historical financial statements section.

Full-year company forecast

Consolidated earnings (JPYmn)	FY09 / 19			FY09 / 20			FY09 / 21
	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.	FY Est.
Sales	3,361	3,275	6,636	2,984	4,891	7,874	10,900
YoY	34.7%	-2.8%	13.2%	-11.2%	49.3%	18.7%	38.4%
Cost of sales	1,595	1,905	3,500	1,780	2,968	4,748	
Gross profit	1,766	1,370	3,136	1,204	1,922	3,126	
YoY	47.9%	-9.9%	15.5%	-31.8%	40.3%	-0.3%	
Gross profit margin	52.5%	41.8%	47.3%	40.3%	39.3%	39.7%	
SG&A expenses	1,126	1,331	2,457	1,122	1,183	2,305	
SG&A ratio	33.5%	40.6%	37.0%	37.6%	24.2%	29.3%	
Operating profit	641	39	680	82	739	821	1,300
YoY	-	-89.1%	65.4%	-87.2%	1784.8%	20.8%	58.4%
Operating profit margin	19.1%	1.2%	10.2%	2.7%	15.1%	10.4%	11.9%
Recurring profit	637	35	672	75	734	809	1,250
YoY	953.8%	-90.4%	58.7%	-88.3%	2004.2%	20.4%	54.5%
Recurring profit margin	19.0%	1.1%	10.1%	2.5%	15.0%	10.3%	11.5%
Net income	479	-152	327	7	422	429	800
YoY	-	-160.8%	46.1%	-98.6%	-377.1%	31.0%	86.6%

Source: Shared Research based on company data

Note: Figures may differ from those reported by company owing to differences in rounding.

Note: Forecasts are the most recent company estimates.

Supplemental information as of Q1 results announcement (February 12, 2021)

The company made no changes to its latest FY09/21 full-year earnings forecasts, disclosed on November 13, 2020. Although it considered revision its full-year outlook, it elected to leave its forecasts intact, partially in consideration of the major changes in the market environment caused largely by COVID-19.

- ▷ The Incubation business reported gains from the sale of listed and unlisted stocks that had not been factored into the previously announced full-year earnings forecasts. Consequently, Q1 OP reached 94.2% of initial full-year forecasts with progression rates of 97.2% for recurring profit and 114.8% for net income attributable to owners of the parent. However, unlisted shares held by the Incubation business include companies adversely affected by COVID-19, so it is necessary to consider the risk of unanticipated valuation losses by operating investment securities from Q2 onward.
- ▷ The mainstay business saw a positive impact from COVID-19 in FY09/20 due to increased nesting-related demand and an increase in the number of users. Aucfan does not view this as a temporary boost in demand, but rather sees the COVID-19 outbreak as a trigger to expanded penetration of e-commerce, a trend it expects to continue from FY09/21 onward.
- ▷ A state of emergency declaration was issued again in some areas from January 2021 in response to the second wave of COVID-19, but the nesting trend of consumers from 2020 has carried over regardless of the second emergency declaration, so Aucfan expects only a limited impact on earnings.

Company forecast for FY09/21 (as of November 13, 2020)

The full-year forecast for FY09/21 calls for sales of JPY10.9bn (+38.4% YoY), operating profit of JPY1.3bn (+58.4% YoY), recurring profit of JPY1.3bn (+54.5% YoY), net income attributable to owners of the parent of JPY800m (+86.6% YoY), and EPS of JPY78.03. The breakdown is as follows: sales of JPY10.0bn (+51.4% YoY), with operating profit of JPY500.0mn (+57.6% YoY, including impact from common expenses) in the mainstay businesses (other than Incubation) and sales of JPY900.0mn and operating profit of JPY800.0mn in Incubation business.

- ▷ The company projects higher sales in the Inventory Management Solution segment and Merchandise Distribution Solution segment, both of which are core segments. It anticipates particularly high growth in the Merchandise Distribution Solution segment, forecasting a growth rate of 50–60% (sales of JPY7.2–7.7bn).

- ▷ On the cost front, the company primarily anticipates a rise in advertising expenses, aside from higher variable costs, such as packing and freight (mainly delivery fees associated with Otameshi site), which is linked to sales, and commission paid (compensation for external payment agencies handling payments associated with NETSEA). Moving forward, the company plans to continue focusing on TATEMPO Guide; zaicoban, which is linked with TATEMPO Guide; and NETSEA. Accordingly, it will actively invest in primarily online advertising aimed at raising recognition regarding these services. Aucfan thinks that raising recognition regarding “NETSEA Cross-border wholesale,” a sales site for overseas buyers, is particularly necessary because it was just launched in October 2020. Meanwhile, it maintains that it will carefully select and hire personnel moving forward, acknowledging the link between recruitment and an increase in fixed costs.
- ▷ With regard to the Incubation segment, only sales and operating profit that had already been recognized at the time the company released its initial projections have been included in its forecast. This is due to current difficulty formulating a rational outlook. The forecast does not assume an incurrence of impairment losses. Aucfan’s basic approach to new investment moving forward is to jointly invest to the broadest extent possible through Aucfan Incubate Fund No. 1 Investment Limited Partnership (established in September 2020) along with other entities that have invested in the fund.

Medium-term goals and strategies

Redefinition of corporate identity and company strategies

In a briefing on FY09/20 financial results, Aucfan indicated that it would redefine its corporate identity and become a “RE-INFRA COMPANY.” According to the company, the term “RE-INFRA COMPANY” describes a company that builds unparalleled infrastructure integrating what the company refers to as “society’s various types of ‘Re’.” This concept refers to a range of concepts represented by words beginning with “re,” including “reuse,” “resale,” “revalue,” “reverse,” “recover,” “reduce,” “rebalance,” and “reconstruct.” The company aims to secure happiness and well-being for society and the world at large by rediscovering value and establishing a better cyclical relationship between people and goods that leads to improved circumstances for both.

- ▷ Specifically, the company will establish an infrastructure for the redistribution of goods by consolidating and integrating the features of its services, rather than providing them separately. Furthermore, it will strive to become a one-stop solution for manufacturers, distributors, and retailers that can calculate resale values for product inventories, identify optimal sales channels, and facilitate automatic sales through direct (to customers) and indirect (to cloud sellers) routes. From this standpoint, the company will focus on TATEMPO Guide, zaicoban (which is linked with TATEMPO Guide), and NETSEA moving forward.
- ▷ The company thinks that maintaining a system, through which TATEMPO Guide fulfills a central role and zaicoban provides support from the rear, is particularly important. When a company registers a product list, calculations are performed to determine the approximate value of these products, their optimal sales channels, and their highest achievable gross profits and turnover rates.

ALL WELL

The company has decided upon a slogan that reads, “ALL WELL.” The company indicates that this term describes a cycle, which thanks to contributions from the company, leads to better circumstances (represented by “WELL”) for all entities involved, including companies, cloud sellers, consumers, goods, and the company itself.

- ▷ Companies can reduce waste loss and convert inventories into cash
- ▷ Cloud sellers can secure appropriate levels of gross profit and gains through sales channels and categories in which they specialize
- ▷ Consumers can purchase inexpensive items that would have been discarded otherwise
- ▷ The company can secure earnings by acting as a mediator for companies, cloud sellers, and consumers
- ▷ Goods can be redistributed to consumers and reach the ends of their lifespans. The company has expressed an intention to handle goods as if they were also valuable stakeholders moving forward

Business

New segments (applied from FY09/20)

Aucfan primarily makes inventory values (prices that can encourage early liquidation) visible while identifying related issues, redistributes problematic products (for example, products with older packaging, products nearing expiry, and returned items) for monetization, and optimizes sales prices and product lineups based on data. The company will establish an infrastructure for the redistribution of goods by consolidating and integrating the features of its services, rather than providing them separately. Furthermore, it will strive to become a one-stop solution for manufacturers, distributors, and retailers that can calculate resale values for product inventories, identify optimal sales channels, and facilitate automatic sales through direct (to customers) and indirect (to cloud sellers) routes.

- ▷ It started out providing market data (via aucfan.com) to individuals hoping to make money, and then expanded its operations to include the provision of tools that improve the efficiency of procurement and solutions for inventory issues. The company continues to be named after aucfan, one of its core businesses. However, as a result of expansion in business scope, aucfan.com is currently one of its businesses. In FY09/20, the company changed to reportable three segments: Inventory Management Solution, Merchandise Distribution Platform, and Incubation.
- ▷ The company is developing total solutions through its focus on TATEMPO GUIDE (a system for linking inventory and orders across multiple e-commerce websites) and zaicoban (an inventory management AI for retailers) within the Inventory Management Solution segment and on B2B Marketplace (corporate e-commerce site) within the Merchandise Distribution Platform business, which carries NETSEA (platform for primary distribution [sale and wholesale of inventories]).

Inventory Management Solution

Revenue generated by Inventory Management Solution primarily comes from subscriptions (charged monthly), so the segment uses ARR (Annual Recurring Revenue) as its KPI. The contribution margin ratio is high at 60–70%, meaning that an increase in sales easily leads to improved profitability. Main businesses within this segment include Aucfan Pro Plus, Aucfan (premium), the Storoid analysis tool, the ARPACart Amazon listing tool, TATEMPO Guide (a system for linking inventory and orders across multiple e-commerce websites), and the zaicoban inventory management AI for retailers. The old Media and Solution businesses have mainly been included in Inventory Management Solution. In FY09/20, sales were JPY1.9bn (+0.8% YoY), and operating profit was JPY368mn (-8.6% YoY), declining due in part to advertising expenses.

- ▷ Services for cloud sellers: Aucfan Pro Plus, ARPACart
- ▷ Services for e-commerce stores: TATEMPO Guide, Storoid
- ▷ Services for retail stores: zaicoban

Merchandise Distribution Platform

Revenue generated by Merchandise Distribution Platform is primarily in the form of commissions and product sales amounts, so the segment uses GMV (Gross Merchandise Volume; includes only merchandise distribution handled directly by the company) as its KPI. The contribution margin ratio is low at 10–20%, and a certain transaction level must be maintained to recover fixed costs. Main businesses within this segment include the NETSEA business, which operates an eponymous B2B marketplace (B2B e-commerce site) for the primary distribution market (inventory sales and wholesaling), B2C e-commerce business horidashi, donation-type e-commerce website Otameshi, ReValue (providing support for the liquidation of dormant inventory), cross-border e-commerce, and Aucfan School (teaching expertise in the procurement and sale of goods and providing follow-up consulting for good sellers). In FY09/20, sales were JPY4.8bn (+19.9% YoY), and operating profit was JPY324mn (+372.4% YoY).

- ▷ Services for wholesalers and manufacturers: NETSEA (distribution), ReValue
- ▷ Specialized e-commerce: Otameshi, horidashi
- ▷ Support for side businesses: good sellers

Online marketplace: A type of e-commerce website to connect companies looking to purchase goods (buyers) and companies looking to sell goods (suppliers). Because they allow electronic transactions between multiple companies, they are known as business-to-business (B2B) marketplaces.

Incubation business

There are no particular changes from the old segment. The company invests mainly in startups and earns revenue from selling investment securities and consulting for investee companies. However, in regard to new investment in the Incubation business, Aucfan is changing its funding method, so that investment is conducted via a fund operated by the company instead of directly. In FY09/20, this segment generated sales of JPY1.3bn (+57.2% YoY) and operating profit of JPY504mn (-12.1% YoY). In March 2020, Aucfan's investee company, Cyber Security Cloud (TSE Mothers: 4493), went public. As of end-December 2020, the valuation difference on available-for-sale securities (net unrealized gains after excluding tax effects) stood at JPY2.2bn due to the impact of mark-to-market valuation of shares.

(For reference) Old segments through FY09/19

Through FY09/19, Aucfan had four reportable segments: Media, Marketplace, Solution, and Incubation. Shared Research has left the following information on the old segments in this report for reference.

Media business

Core business since the company's inception. Operates aucfan.com, Japan's largest price comparison and search website for products sold through online auction and other e-commerce websites. Also operates Aucfan School, which specializes in teaching expertise and techniques for internet auctions and receives course fees. Earns revenues from membership fees by providing paying members access to market data based on transactions, Aucfan School sales, as well as revenues from ads placed on the website.

Marketplace business

New business expanding since 2014. Acquired companies like NETSEA and ReValue that operate B2B online markets for manufacturers, wholesalers, and retailers in primary (inventory sales and wholesales) and secondary distribution (surplus inventory and returned goods) markets. Offers one-stop services handling everything from full-priced goods to clearance goods, surplus inventories, and returned products. Bought all the shares of netprice (e-commerce business targeting consumers) in December 2017 and made it a subsidiary.

Solution business

Offers business support services including the TATEMPO Guide software system, which allows users to set up and manage multiple online shops (user fee of JPY29,800 per month), crowdsourcing services for large corporate clients, and other support services including one-time or ongoing sales support.

Incubation business

Invests mainly in startups and earns revenue from selling investment securities and consulting for investee companies.

* Online auctions: Auctions that are conducted using the internet, where individuals can set their own price when bidding on the goods. Auction websites typically show only the highest price and would-be buyers can only bid at a higher price. The user that bids the highest price during a predetermined timeframe can buy the item.

Inventory Management Solution and Merchandise Distribution Platform segments

Customer bases of mainstay services and billing formats

The company's mainstay services can be categorized by customer base and billing structure.

- ▷ The customer demographic can be categorized into individuals, SMB (side businesses and sole proprietorships), small and medium-sized businesses, and large corporations.
- ▷ The company's billing structure can be divided into two categories: monthly billing (SaaS model) and revenue from sales and commissions. In the case of monthly billing, the larger the customer, the higher the price range, and the smaller the customer, the larger the number of potential customers. For large corporations, the monthly price starts at JPY500,000 with several tens of thousands of potential customers, and for individuals, the monthly price is under JPY10,000 with several million potential customers.
- ▷ Generally, services under the Inventory Management Solutions business follow monthly billing (SaaS model) and the services under the Merchandise Distribution Platform business generate revenue from sales and commissions. Because of these differences, sales in the Inventory Management Solutions business have a tendency to build up as the number of users increases, while sales in the Merchandise Distribution Platform business are sensitive to fluctuations in transaction values.
- ▷ The company is particularly focused on TATEMPO Guide (a system for linking inventory and orders across multiple e-commerce websites) and zaicoban in the Inventory Management Solution business and the NETSEA business, which operates an eponymous B2B marketplace (B2B e-commerce site) for the primary distribution market (inventory sales and wholesaling), in the Merchandise Distribution Platform business.

Overview of mainstay services

Segment	Revenue	Customer base			
		Individuals	SMB (side businesses, sole proprietorships)	Small and medium-sized enterprises	Large corporations
Inventory Management Solution	Functions (Monthly fees through SaaS)				
Merchandise Distribution Platform	Commercial distribution (sales and commission)	User development 			
					

Source: Shared Research based on company data

Mainstay service details

aucfan.com

In this segment the company operates Aucfan.com, Japan's largest price comparison and market price search website. Media revenues mainly come from membership fees, school tuition fees, and ads placed on the website. The company has not reported the breakdown of revenues in detail, but in order of contribution to earnings, membership fees account for more than half, followed by school fees, and ad revenue.

Service fee revenues and tuition fees

On aucfan.com, users can search for, compare, and analyze prices for goods offered through various auction and e-commerce websites. The site provides access to transaction data going back more than 10 years (product and price information for more than 68bn transactions). Buyers and sellers can refer to this data when conducting transactions. According to the company, it had 68.0bn records of data as of August 2020 (cumulative 2007–2019).

Buyers and sellers on auction websites

	Buyers	Sellers
Users	Users looking to sell goods online, individual entrepreneurs and users looking to open businesses, e-commerce stores, and purchasing stores	Consumers comparing prices online
Information needed	Multifaceted market price info to attain profits (when, how much, and for what price the goods will sell)	Lowest price for a good

Source: Shared Research based on company data

Some services available on aucfan.com are offered to users at no charge, but for a fee, members can gain access to more detailed market price information and data analysis. Paying users range from individuals seeking to earn money by trading in online auctions, to entrepreneurs and companies looking to find the right price at which to sell their products.* According to Aucfan, it is the largest provider of such varied online transaction data in the world. Other large price comparison websites mainly provide buyers with information on the lowest price.

*Aucfan President Shuichi Takenaga wrote a book about his buy-low-sell-high trading technique and how to use Yahoo! Japan’s auction website. In the book, he disputes the commonly held view that Aucfan is a price comparison website for online auction services. Takenaga says that the essence of the company’s services is a database of past winning bids, because what is most important when buying and selling products is addressing customer needs.

According to the company, the majority of users that pay for premium services are individuals or small business owners that are looking to make money on the side by buying and selling goods through online auctions. However, Aucfan also reports that the steady improvement and expansion of its database has led to an increasing number of corporate users looking to establish fair selling prices for the goods they have on hand.

Basic services for paying members are included in the Aucfan Premium service package. The company also offers a number of optional additional services to these users. For users who want more convenient features or data, the company offers advanced features such as Aucfan Pro Plus (data analysis tools) and auction classes and individual support services from Aucfan School. For users looking to learn more about auctions or run their own auction-related businesses, the company also offers face-to-face seminars as well as DVDs and other instructional materials from such seminars.

Service charges

Monthly charges are JPY908 (excluding tax) for Aucfan Premium and JPY10,000 (excluding tax) for Aucfan Pro Plus. In July 2018, the company introduced the Aucfan Pro Plus service with expanded features, such as Storoid (tool for detailed analysis of Yahoo! Shopping stores and items for sale) and Global Aucfan (search and comparison service for the least expensive products worldwide) for a revised fee of JPY10,800 (excluding tax, consumption tax rate of 8% at the time) a month versus the previous fee of about JPY3,800 (including tax). Shared Research thinks that fee changes affected about 5,000 of the paying members.

Number of fee-paying members, fees per member

In FY09/18, the number of fee-paying members for Aucfan Premium, Aucfan Pro Plus, and Aucfan School totaled 48,887 (vs. 52,837 in FY09/17). Although the number of members declined following the revised fees for Aucfan Premium Plus from July 2018, fees per member increased. Average monthly fees per member were JPY2,782 (vs. JPY1,585).

In 1H FY09/19, service fees (for Aucfan Premium and Aucfan Pro Plus membership) accounted for 59% of sales and Aucfan School 34%. Aucfan expanded its services at Aucfan Pro Plus and hiked the average monthly fee (tax inclusive) from around JPY3,800 to JPY10,800 in July 2018. As a result, fee-paying members declined from 52,837 at end-1H FY09/18 to 48,887 at end-1H FY09/19; monthly fee per customer went up from JPY1,585 to JPY2,327. The number of Aucfan paying members (Premium, Pro, and Light combined) has been on a recovery trend since bottoming in May 2020 following price revisions. The company attributes this to increased need for side businesses due to declining incomes after the COVID-19 pandemic-fueled state of emergency declaration was lifted in Apr–May 2020.

Online advertising revenues

The majority of segment revenues come from ads on the company’s mainstay website, aucfan.com. Whenever the website user clicks an ad or purchases a product being advertised, Aucfan collects ad revenues from an advertising agency or a media representative working for the online marketplace or the e-commerce website advertised.

The company breaks down its online ad revenues into pay-for-performance, paid search, and network advertising, but the majority comes from pay-for-performance ads. Aucfan’s online advertising revenue model is distinguished by a focus on ads that provide measurable results, which means the company can manage the ads to improve effectiveness. These ads are used by clients as sales promotions that lead directly to product sales.

Online advertising: Major types of web ads

Pay-for-performance ads	The sponsor places an ad on aucfan.com, then pays Aucfan a performance-based fee each time an aucfan.com user purchases the good or service being advertised.
Search ads	Ads that appear on the results page when users of aucfan.com run key word searches; the company receives a fee from the ad sponsor each time the ad is clicked on by the user.
Network ads	Using an online platform provided by ad network operators, the company collects advertising fees from ad sponsors based on the number of times the ad is displayed or clicked.

Source: Shared Research based on company materials

Interdependence between Aucfan and major auction/shopping websites

Aucfan gets its transaction data for free from operators of auction and shopping websites such as Yahoo! Japan and Amazon. (See following table.) In return it sends its visitors to those sites at no charge.

Major websites providing aucfan.com with transaction data

Type	Website
Shopping	Amazon, Yahoo! Shopping, Rakuten Ichiba
Live auctions	Domestic: Yahoo! Japan, Mobaoku
	Overseas: eBay, Sekaimon
Market pricing	Yahoo! Japan, Mobaoku, Rakuten Rakuma, Sekaimon, eBay, Amazon

Source: Shared Research based on company materials

Aucfan also received transaction data from Mercari in the past.

Aucfan.com links to the various auction and shopping websites from which Aucfan receives data, so users who come to aucfan.com to compare prices can directly access the websites. Much of the traffic to major Japanese auction websites is routed via aucfan.com. In recognition of this interdependence, Aucfan and Yahoo! Japan are working together to increase activity in the auction market, including holding joint seminars on auctions.

Overview of users and services

Aucfan has three classes of users: unregistered users (who use its website at no cost), general members (registered but non-paying members), and paying members (who pay a monthly fee). All users of aucfan.com can conduct keyword searches using product names or characteristics, and use the product and price comparison, search, and analysis tools. Non-paying members can create their own page (My Page) where they can save product and price information. They can also use of some of the features offered to paying members, though with more restrictions. Paying members have access to more detailed data or convenient features that make it easier to buy or sell goods.

Overview of major features of aucfan.com

User type	Service name and features	Overview of main features
All users	Product and Price Information Search	Keyword searches by product names and features, side-by-side comparisons of products and prices across e-commerce websites
General members (non-paying members)	My Page	By opening My Page on Aucfan.com, users can save product and price information on goods, and use of some of the features available to paying members, such as saving product display templates and placing bid reservations.
	Aucfan Connect	A tool that connects the user to Amazon Seller Central and helps make the listing process easy. Its monthly fee is JPY10,000. The service is free for Aucfan members who have an Amazon Professional Seller account.
Paying members	Aucfan Premium	Basic level for paying members: searches of winning bid data from last ten years, features available to those putting goods up for auction, high-speed searches of winning bid prices, savable templates for goods offered, bid reservations, and purchasing information services.
	Aucfan Pro Plus	Online auction sellers can use market search and data analysis functions. Also enables use of profit calculation tools, sales aggregation systems, and search for high-profit products.
	Aucfan School	Experienced instructors providing training courses ranging from beginning to advanced topics. In addition to online lectures, the school also provides email support.

Source: Shared Research based on company materials

Differences in services offered to general members, premium members, and Pro Plus members

	General Members (free)	Premium Members (JPY908 per month ex. tax)	Pro-Plus Members (JPY10,000 per month ex. tax)
Search functions			
Search of winning bid prices	Six months of data	10 years of data	10 years of data
Auction record search	Up to 3 times per month	Up to 1,000 times per month	-
Search on Amazon	△ (with restrictions)	○	○
Search of seller ID numbers	△ (with restrictions)	○	◎ Amazon also covered
Saving search criteria	△ (with restrictions)	○	○
Aucfan Alert (auction search alert)	△ (with restrictions)	○	-
Search of adult categories	○	○	○
Ad exclusion from search results	-	○	○
Ad exclusion from product details	-	○	○
Tools for sellers, winning bidders, and administration			
"My Bookmark"	△ (up to 30 bookmarks)	○	○
"Simple Sellers Tools" (for Yahoo! Japan)	△ (up to 3 times per month)	○	◎ Linked to Yahoo! Japan
"One-glance Valuation Tool" (for winning bids at Yahoo! Japan)	△ (up to 3 times per month)	○	-
"One-glance Valuation Tool" (for Yahoo! Japan)	△ (up to 3 times per month)	○	-
"Simple Sellers Tools" (for Yahoo! Japan)	△ (up to 10 times per month)	○	-
"One-glance Focus Tool"	△ (up to 3 times per month)	○	-
Savable template for sellers	△ (up to 3 times per month)	○	-
Monitor for auction sellers	△ (up to 10 items)	○	-
"One-glance Re-auction Tool"	△ (up to 10 times per month)	○	○
Profit calculation tool	-	○	◎ Per product page
Sales summary system	-	○	◎
Store analysis	-	-	◎
Global search function	-	-	◎
Purchasing information			
Know-how column articles	○	○	◎ Blog articles and video content
Statistics	○	○	○
Three-months course on emailing	-	○	-
Treasure items at Yahoo! Auction	-	○	-
Sedori List (books)	-	○	-
Taobao manual	-	○	-
Optional features ※ Available by request to Premium Members			
Sellers Template Photo Price (monthly fee)	Use up to 10 times per month	Use up to 20 times per month	-
	Up to three additional images Saved for 7 days	Up to three additional images Saved for 14 days	-
Downloadable winning bid data (monthly fee)	Download up to three times per month	Download up to 20 times per month	-
My Goods for Sale Storage (monthly fee)	Save up to three items	Save up to 20 items	-

Source: Shared Research based on company data

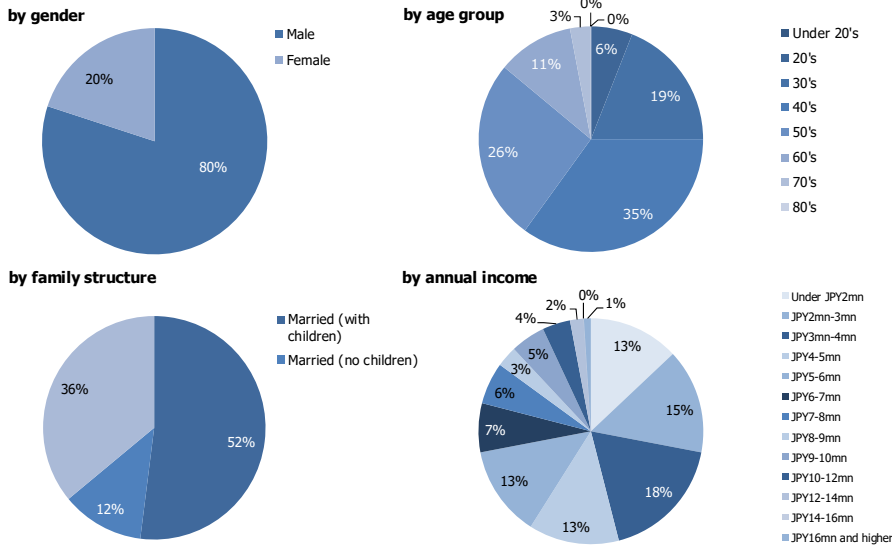
Demographic profile of Aucfan members

According to company materials (Media Guide), roughly 80% of Aucfan members are men. People in their twenties, thirties, and forties account for 80%, likely because those age brackets (typically with high internet literacy) would be most comfortable with Aucfan’s online services. Otherwise, there are no visible trends based on marital status or annual income.

Still, this could change, as the company expects its user base to expand with the rise in smartphone users and internet access.

Aucfan believes that as more auction-related smartphone apps are rolled out, more women and beginners will participate in online auctions, such as for secondhand fashion and household goods.

Aucfan members: Demographics (gender, age, family structure, and income)

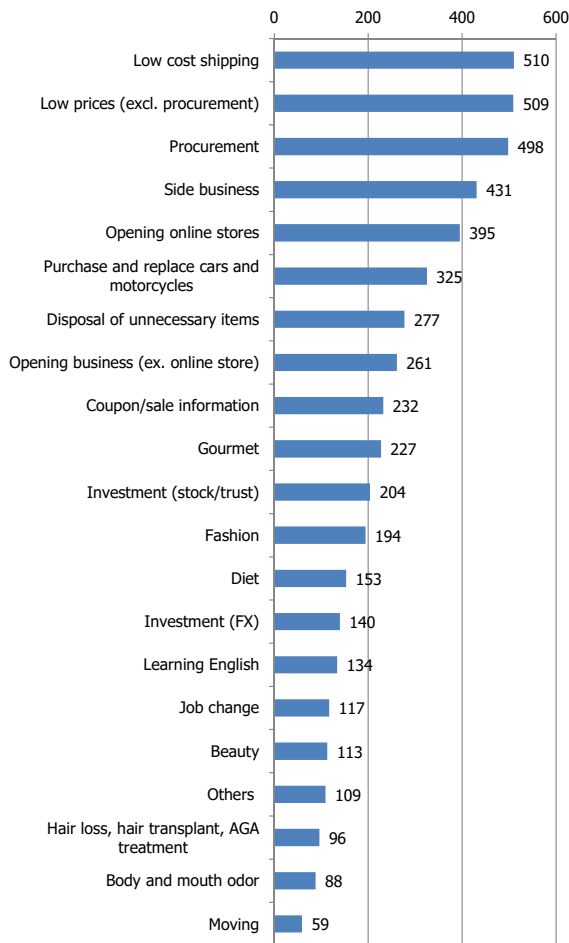


Source: Shared Research based on data from Aucfan Media Guide 201602-06Ver1.0

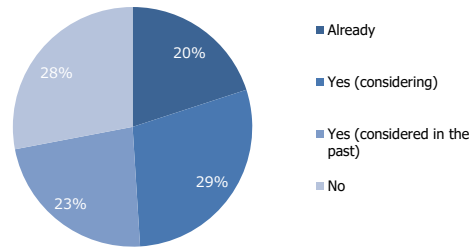
Aucfan members are most interested in affordable shipping prices, low product prices, inventory procurement, and side businesses. Roughly half of all members have or are considering starting their own business or are self-employed. Roughly 35% of members check auction or shopping websites every day using apps.

Profile of Aucfan users

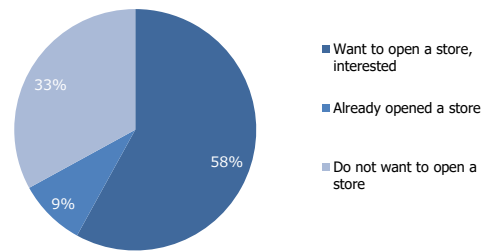
Users' interests in auction (some overlap)



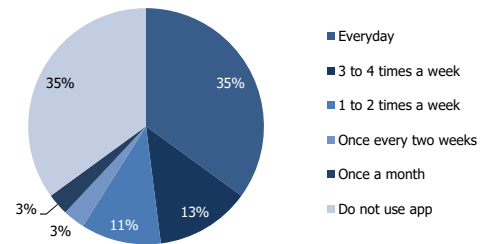
Interests in starting business



Interests in opening an online store



Frequency of visits to auction sites



Source: Shared Research based on data from Aucfan Media Guide 201602-06Ver1.0

School business: proprietary training program to turn buyers into sellers

Aucfan provides courses to give people the expertise they need to become a seller on online auctions. By providing the appropriate service to each customer segment and educating users, Aucfan aims to increase the number of paying users and get them to use more expensive services. The company is looking to expand its user base by allowing basic use of its price comparison website at no charge. It aims to provide auction education programs and premium data to individual users that frequently buy and sell goods through online auctions, and provide additional support to get these individual users to become resellers. (See figure below.)

Aucfan's model for getting people to move up from being buyers to sellers



Source: Company materials

A wide variety of students attend Aucfan School, including businesspeople, retired people, and people on parental leave. Courses last several months, and prices are generally around several tens of thousands of yen. The Aucfan School’s business model is labor-intensive, as it is difficult to significantly grow sales without hiring more teachers. However, profit margins will improve if the number of students per course increases, because the number of teachers and locations would not go up. Sales for Aucfan School are booked across the course offering period (typically about four to five months), making it relatively easy to compile sales forecasts. As for the school business, the company only uses the webinar format due to the COVID-19 outbreak (as of August 2020).

Follow-up consulting plan (monthly payment plan)

Some graduates of Aucfan School sign up for follow-up consulting. By joining the plan, they are able to receive advice from Aucfan’s teachers for a monthly fee of JPY50,000 (tax not included).

NETSEA: wholesaling and procurement platform connecting sellers and buyers

NETSEA business operates an eponymous B2B marketplace for the primary distribution market (inventory sales and wholesaling). Aucfan acquired NETSEA, the predecessor of the business, from DeNA Co., Ltd. (TSE: 2432) in July 2015.

- ▷ With roughly 5,000 manufacturers and wholesalers participating as suppliers (looking to sell goods) and 400,000 retailers and other companies as buyers (looking to purchase goods), the NETSEA website handles over JPY810mn in transactions annually (wholesale price basis), making it the largest online platform serving wholesalers and corporate buyers in Japan. Suppliers pay JPY20,000 per month. In addition, the company receives commissions of 8–10% for products sold on its website. Buyers can use NETSEA free of charge.
- ▷ The NETSEA business gives suppliers and buyers an online platform to do business. In line with standard wholesaling practices, to complete the transaction the buyer must send the supplier a transaction request. The wholesale price is displayed with the permission of the supplier, and then the transaction can occur. At this time, mostly apparel and miscellaneous goods are traded on NETSEA. NETSEA handles only goods sold through primary distribution channels (inventory sales and wholesaling), but is planning to move into the secondhand market.
- ▷ In October 2020, the company launched “NETSEA Cross-border wholesale,” a sales site for overseas buyers. Through this site, overseas users can register as buyers, and suppliers can wholesale overseas. SynaBiz Co., Ltd., which operates this website, assumes responsibility for functions that are necessary for overseas sales, including customer enticement, translation, distribution (exporting), and handling of inquiries. Thanks to these contributions from SynaBiz, suppliers can expand their sales channels to include overseas sales simply by delivering products to the company’s designated warehouses. At the time of the site’s launch, it provided services in English, traditional Chinese, and simplified Chinese. The company plans to include support for additional languages moving forward.
- ▷ Competing services include Super Delivery by Raccoon Holdings (TSE Mothers: 3031).

ReValue: Helping companies liquidate returned goods and surplus stock by finding the right price

The company acquired ReValue, the predecessor of the business, from Dream Incubator Inc. (TSE: 4310) in January 2016.

ReValue operates an online B2B mall that serves as a secondary distribution channel where companies can find the appropriate price and liquidate returned goods and surplus inventory.

- ▷ The Revalue business offers two basic sales channels, a proprietary online mall (ReValue BtoB Mall) and a direct sales channel where potential buyers can contact sellers directly via email or telephone. These two channels have roughly the same transaction volume.
- ▷ ReValue BtoB Mall is a members-only auction website. In some cases, companies offer goods directly on the website (with ReValue earning a 10% commission on the sale). In other cases, ReValue buys the goods from companies (excess inventories, display items, and returned goods) then resells them itself, meaning ReValue must take on inventory risk. However, by using a proprietary database, ReValue can get fairly accurate estimates for fair-value prices that allow it to turn over inventory quickly and earn attractive margins. Buyers using ReValue BtoB Mall include secondhand stores, online stores, individual business owners, and overseas companies.
- ▷ When the buyer directly negotiates with the seller, ReValue acts more like a trading company, matching sellers with buyers. ReValue takes no inventory risk in such cases but it does require time and effort, and margins are relatively thin. Also, sales channels for these direct B2B sales are limited owing to concerns on the part of the seller about possible damage to its brand value or the impact on new product prices. The alternatives may be limited to closed channels,* exports, and designated retailers or wholesalers.**

*Closed channels: Direct sales to specified markets, such as furnishing or equipment installed in buildings by real estate management companies or equipment handled by equipment rental companies.

** Designated retailers or wholesalers: Secondhand shops, online stores, secondhand wholesalers.

- ▷ In order to expand its target markets, the ReValue business has developed a website (<http://trendnavi.revalue.jp/>) for the general public that allows users to estimate demand for their products (without registering). ReValue also provides advice regarding returned goods and surplus stock to retailers, wholesalers, and manufacturers, as well as execution support to help clients liquidate inventories. The ReValue business can conduct inventory valuations utilizing its database, and is moving into the asset-backed lending business.

ReValue business: main service menu

Inventory buy out/disposal	For retailers, wholesalers, manufacturers, and other users, determine fair price based on a proprietary price database and buy the entire lot to resell. Because most sales are done through closed channels, damage to brand image can be avoided.
Inspection agent/Agent for returned goods	A one-stop service to handle tedious task of receiving, accounting for, inspecting, and monetizing returned goods.
Inventory valuation/consulting	Provides accurate and timely asset valuation estimates for various types of inventory.
Bargain goods wholesaling/ sales	Finds buyer for imperfect goods at bargain price among secondhand goods retailers, online stores, overseas buyers

Source: Shared Research, based on company materials

Otameshi: Donation-type e-commerce

Otameshi was launched as part of the ReValue business in July 2017, selling products and retained goods that cannot be sold through regular sales channels due to outdated packaging or approaching best-before dates at reduced prices. By reducing waste loss through its businesses, the company is actively contributing to the achievement of SDGs (particularly SDG No. 12, “Responsible Consumption and Production”). Otameshi fulfills a particularly important role in this regard, helping to reduce food loss. A portion of sales generated by Otameshi is donated to community service organizations.

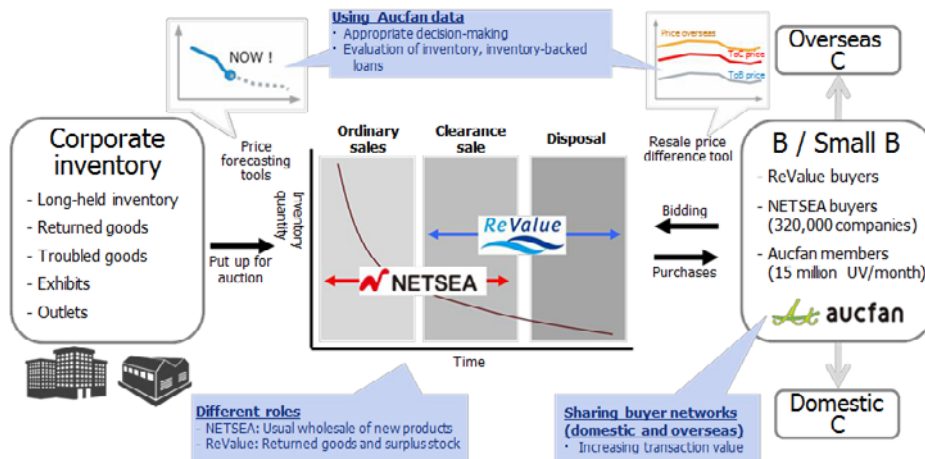
- ▷ Consumers benefit from purchasing items at a low price while contributing to society, and manufacturers (particularly large manufacturers) benefit from liquidating goods and providing products in the form of samples through this novel distribution channel without tarnishing their brand image.
- ▷ Large companies tend to be concerned about possible damage to their branding. Accordingly, the company must dispel these concerns before it can expand its Merchandise Distribution Platform operations for large companies. The company has two approaches for achieving this aim: The first is the Otameshi shopping site mentioned above; the company markets this platform as a shopping site that also contributes to society, which, from the standpoint of ESG, makes participation easier for large companies. The company also calls attention to the site’s capacity for helping to improve brand value by allowing companies to sell off as much of their inventories as possible before being forced to dispose of them. The second approach the company utilizes is zaicoban (to be explained later); it emphasizes that this inventory management AI demonstrates the optimal value of inventories, thereby creating opportunities to convert inventory to cash that outweigh any concerns regarding brand damage.

Synergies from cooperation between NETSEA and ReValue businesses

With the acquisition of NETSEA business in the primary distribution sector (surplus inventory sales and wholesaling) and ReValue business in the secondary distribution sector (inventory disposal and returns), Aucfan has become a one-stop shop for services related to the sale of everything from full-priced goods to clearance goods, returns, and surplus stock.

Suppliers can use either NETSEA or the ReValue BtoB Mall, depending on their wholesale structure and the condition of their inventories: For new goods that could easily be handled through wholesaling, clients can sell directly using the online platform provided by NETSEA business. For returned or surplus goods, clients can use ReValue business’ online mall. By sharing a common buyer network, NETSEA and ReValue businesses can increase the value of transactions and supply a wider variety of goods both in Japan and abroad.

Synergies from collaboration between NETSEA and ReValue businesses



Source: Shared Research based on company data

horidashi: B2C e-commerce business

In January 2020, Aucfan updated netprice and rebranded it as horidashi. Under the concept of “finding bargains and deals,” horidashi mainly handles beauty and health items, household goods, fashion items, watches, and luxury brand items.

- ▷ The transition to horidashi resulted in some attrition of netprice members (who did not take the steps needed for migration), but very few suppliers were lost. The internal system and service content differ from the old netprice, with shipments taking place the next business day in some cases and free shipping on orders of JPY3,980 or more (with some

exceptions). As of February 2020, horidashi customers can buy products that were available through the old netprice and some of the products handled by Otameshi.

- ▷ Prior to FY09/19, sales tended to increase in Q4. This seasonality was largely due to the company's previous netprice business, which is expected to be less seasonal from FY09/20 after the company rebranded netprice to horidashi.

(For reference) horidashi's predecessor netprice

Business overview

Netprice, after launching in 1999 as an online seller of discount products for consumers, has gained support from users for its planning and development of private brand products and for its group buying services. It sells products such as weight loss equipment, health foods, body shaping underwear, and decorative accessories, which resemble telephone shopping merchandise in that they often require an explanation of their product appeal. Sales were JPY2.4bn in FY09/17 and registered users totaled 2.3mn in December 2018.

Issues

Aucfan decided to acquire all of netprice's shares because it believed adding netprice to the group would enable it to expand the businesses of netprice, NETSEA, and ReValue. It intended to expand distribution by combining the transaction data it held, as well as by integrating the customer base and distribution platforms of NETSEA and ReValue with the supplier network, customer base, and e-commerce expertise of netprice. However, despite the large number of repeat users of netprice services, the netprice model involved shipping products in bulk weekly, the netprice system was old and had high running costs, and conversion of the netprice business model was slow.

TATEMPO Guide

TATEMPO Guide is a service that allows users to set up and manage multiple online stores from a single location. TATEMPO Guide helps improve operational efficiency by handling the many problems that come with running multiple online stores relating to order management, inventory management, and product records.

- ▷ Because it is compatible with a wide variety of online stores, TATEMPO Guide is used in more than 1,000 online stores, most with monthly sales of more than JPY100mn, and run by large or listed companies. Aucfan reports that at least 90% of its customers have experienced increases in average sales after installing TATEMPO Guide. Because TATEMPO Guide can be customized to handle changes such as growth in scale or flow of business, it can be used over many years. As replacement is complicated, TATEMPO Guide leads to long-term business once implemented.
- ▷ The company estimates that there are several hundreds of thousands of potential customers for this service, as it targets small and medium-sized businesses. The company offers a 1,000-order plan with a monthly fee of JPY24,000 or more (free for six months) plus commissions. Competitors include Next Engine of Hamee Corporation (TSE1: 3134).

zaicoban: an inventory management AI for retailers

zaicoban, an inventory management AI solution for retail companies, leverages the company's market and logistics data to allow daily tracking of inventory market value to resolve inventory-related issues.

- ▷ By using zaicoban, retailers and other business operators can conduct health checks of products and stores and provide them with recommendations on how to liquidate retained inventories through use of other Aucfan services. Specifically, it can generate an inventory score to indicate risk of inventory retention and a sales score for visualization of optimal pricing to ensure products are sold at the highest possible price until they run out of stock. In addition, it is possible to selectively visualize a particular store among many and determine products at high risk of retention. The health checks can provide the basis for recommendations that identify specific products that could benefit from changes to selling methods or pricing. Zaicoban can be linked to NETSEA through TATEMPO Guide, thereby serving as a one-stop solution through which the company can provide its services. Inventory liquidation support via other company services is also available.

- ▷ The company estimates that there are several tens of thousands of potential customers for this service, as it is aimed at large corporations. Prices start at JPY500,000 (and are quoted individually).

Main costs associated with zaicoban are related to depreciation of software development expenses. zaicoban is an example of SaaS, and as such, the profit it generates generally appears to rise gradually as user companies and GMV increase. As of Q1 FY09/21, there were delays in obtaining new orders as uncertainties over the prolonged COVID-19 pandemic prompted major customers to rein in marketing expenditures. As a result, sales for the zaicoban inventory management AI lagged projections due to lead times required in orders from major accounts. The company does not anticipate a change in this trend as most Japanese companies head into their new fiscal year beginning from April, so from Q2, the company integrated zaicoban with its TATEMPO Guide one-stop online shop management tool, and for major customers with prolonged lead times to orders, it is focusing efforts in the near term on growing sales of low-rate plans targeting the company's strong area of small and medium-sized businesses and SMB (side businesses and sole proprietorships). Specifically, the company aims to grow sales by increasing low-rate plans through cross-selling to existing customers.

Key group companies (as of end-December 2020)

The group consisted of Aucfan Co., Ltd. and five consolidated subsidiaries.

- ▷ SynaBiz Co., Ltd. (wholly owned): operates B2B/B2C marketplace business, NETSEA, ReValue B2B Mall, Otameshi, horidashi, etc.
- ▷ Smartsourcing, Inc. (stake: 92.84%): Solution business, operates TATENPO Guide.
- ▷ netprice Ltd. (wholly owned): operates B2C marketplace business; previously operated netprice, the predecessor of horidashi
- ▷ Aucfan Incubate Inc. (wholly owned): formation of investment partnerships and operational management
- ▷ Aucfan Incubate Fund No. 1 Investment Limited Partnership: investment in domestic and overseas venture companies. The company held a 100% investment stake as of May 2020, but expects its stake to decline to about 51% due to external funding in the future.

Profitability comparison with competitors

The company aims to establish an infrastructure for the redistribution of goods, and therefore concentrates and integrates the functional capabilities of its services, rather than making them available individually. As a result, the company only faces partial competition related to individual services.

- ▷ One Japanese company that resembles Aucfan's existing (media) business is Kakaku.com (TSE1: 2371), which operates kakaku.com and other websites that provide price and product information comparisons and personal product reviews.
- ▷ Similar companies to NETSEA business include Raccoon Holdings Co., Ltd. (TSE Mothers: 3031), which operates a wholesaling and purchasing website called Super Delivery aimed at connecting manufacturers of fashion and accessories to retailers, MonotaRO Co. Ltd. (TSE1: 3064), which focuses on online sales of construction-related products, and Askul Corp. (TSE1: 2678), which focuses on online sales of office products. Raccoon can be viewed as a competitor in a few areas, but the rest do not compete directly with Aucfan given the differences in sales channels and the goods handled. One of TATEMPO Guide's competitors is Next Engine under Hamee Corporation (TSE1: 3134). Meanwhile, similar companies to the ReValue business are minor players such as recycling companies and small discount stores.

Fiscal year		FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19	FY09/20
Cost ratio	Aucfan	14.8%	11.8%	13.1%	14.2%	24.9%	33.0%	48.4%	53.7%	52.7%	60.3%
	Kakaku.com	8.7%	8.3%	7.9%	9.4%	9.4%	10.0%	-	-	-	-
	Raccoon Holdings	83.6%	83.3%	15.8%	15.3%	17.0%	15.9%	17.3%	20.5%	21.1%	-
	Hamee	-	-	59.5%	59.9%	58.6%	52.7%	49.3%	49.1%	43.2%	-
SG&A ratio	Aucfan	63.1%	55.7%	46.0%	45.4%	65.4%	55.2%	46.0%	39.3%	37.0%	29.3%
	Kakaku.com	42.5%	41.8%	42.9%	43.6%	43.3%	43.1%	-	-	-	-
	Raccoon Holdings	14.9%	14.9%	71.4%	68.4%	65.4%	66.3%	65.5%	61.1%	58.6%	-
	Hamee	-	-	35.6%	34.2%	34.4%	34.3%	36.1%	39.6%	41.4%	-
Operating profit margin	Aucfan	22.1%	32.5%	40.8%	40.4%	9.7%	11.8%	5.6%	7.0%	10.2%	10.4%
	Kakaku.com	48.8%	49.9%	49.2%	47.0%	47.3%	46.9%	48.9%	45.7%	44.6%	-
	Raccoon Holdings	1.5%	1.9%	12.8%	16.3%	17.7%	17.8%	17.2%	18.4%	20.3%	-
	Hamee	-	-	4.8%	5.9%	6.9%	13.0%	14.7%	11.3%	15.4%	-
Net margin	Aucfan	14.9%	16.3%	28.2%	24.9%	12.6%	11.3%	5.8%	3.7%	5.0%	5.4%
	Kakaku.com	28.5%	30.5%	30.4%	30.4%	31.7%	32.9%	33.6%	30.5%	30.1%	-
	Raccoon Holdings	1.2%	1.4%	6.4%	9.8%	10.7%	10.8%	11.1%	12.7%	13.0%	-
	Hamee	-	-	2.6%	3.4%	4.0%	8.2%	9.3%	8.0%	9.4%	-
Equity ratio	Aucfan	86.6%	73.0%	90.4%	90.0%	49.0%	50.6%	58.6%	46.0%	58.2%	60.5%
	Kakaku.com	63.5%	75.3%	79.5%	78.4%	81.6%	83.1%	82.7%	83.6%	82.2%	-
	Raccoon Holdings	46.6%	47.3%	47.8%	35.6%	35.7%	34.2%	35.2%	30.4%	29.3%	-
	Hamee	-	-	38.8%	59.8%	66.1%	63.6%	68.8%	70.3%	57.8%	-
ROE	Aucfan	27.2%	25.5%	22.0%	11.0%	9.1%	14.2%	9.3%	8.7%	11.1%	7.6%
	Kakaku.com	32.3%	38.0%	40.4%	41.7%	45.2%	44.5%	45.7%	40.6%	42.6%	-
	Raccoon Holdings	9.3%	10.4%	8.6%	13.1%	14.4%	13.9%	14.0%	15.7%	13.5%	-
	Hamee	-	-	19.8%	16.0%	13.8%	29.7%	28.3%	21.9%	24.4%	-

Source: Shared Research based on data from Aucfan, M3, Inc., Cookpad Inc., and Kakaku.com, Inc.

Note: Cookpad's fiscal year ends in December. Kakaku.com's fiscal year ends in March (IFRS used from FY03/18). Raccoon Holdings and Hamee's fiscal year ends in April. For example, in the table above, Aucfan's results for FY09/20 are compared with the results of its competitors for FY03/21, and FY04/21.

Market and value chain

B2C e-commerce market for consumers

Aucfan's price comparison website, aucfan.com, is aimed primarily at the B2C e-commerce market.

According to a survey by Japan's Ministry of Economy, Trade, and Industry, in 2019 Japan's B2C e-commerce market was worth JPY19.4tn, up 7.7% from 2018. Of this, product sales accounted for JPY10.1tn (+8.1% YoY), with e-commerce transactions comprising 6.76% (+0.54pp) of all B2C product sales. However, compared to the size of global e-commerce transactions which accounted for 12.2% of all B2C sales worldwide (according to eMarketer, as of 2018), Japan's e-commerce market is still small in scale. For this reason, the company thinks that the B2C e-commerce market in Japan can be expected to continue growing.

Trends in Japan's B2C e-commerce market

(JPYbn)	2013	2014	2015	2016	2017	2018	2019
Product sales	5,993	6,804	7,240	8,004	8,601	9,299	10,052
YoY	-	13.5%	6.4%	10.6%	7.5%	8.1%	8.1%
% of total	53.7%	53.2%	52.6%	52.9%	52.1%	51.7%	51.9%
E-commerce ratio	3.9%	4.4%	4.8%	5.4%	5.8%	6.2%	6.8%
Services	4,071	4,482	4,901	5,353	5,957	6,647	7,167
YoY	-	10.1%	9.4%	9.2%	11.3%	11.6%	7.8%
% of total	36.5%	35.0%	35.6%	35.4%	36.1%	37.0%	37.0%
Digital	1,102	1,511	1,633	1,778	1,948	2,038	2,142
YoY	-	37.1%	8.1%	8.9%	9.5%	4.6%	5.1%
% of total	9.9%	11.8%	11.9%	11.7%	11.8%	11.3%	11.1%
Total B2C market	11,166	12,797	13,775	15,136	16,505	17,985	19,361
YoY	17.4%	14.6%	7.6%	9.9%	9.0%	9.0%	7.7%

Source: Shared Research, based on Ministry of Economy, Trade, and Industry FY2019 International Economic Research Project for Establishing an Integrated Domestic and Foreign Economic Growth Strategy (E-Commerce Market Survey)

B2B e-commerce market

Aucfan began a full-scale push to build up a B2B marketplace with the acquisition of NETSEA Cp., Ltd. in July 2015 and ReValue Inc. in January 2016.

According to a METI survey, in 2019 Japan's B2B e-commerce market was worth JPY353tn (+2.5% YoY) and accounted for 31.7% of all B2B sales (+1.5pp YoY).

Of the B2B market, wholesale transactions accounted for JPY103tn (-1.3% YoY). The percent of wholesale transactions conducted via e-commerce continued to rise, hitting 28.8% (+1.1pp YoY).

Trends in Japan's B2B e-commerce market

(JPYtn)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Wholesaling	82.6	80.3	78.3	79.0	85.2	83.6	83.9	94.0	104.0	102.6
YoY	31.0%	-2.8%	-2.5%	0.9%	7.9%	-1.9%	0.4%	12.0%	10.5%	-1.3%
% of total B2C EC	32.2%	31.1%	29.9%	29.9%	30.4%	29.1%	28.9%	29.6%	30.2%	29.1%
E-commerce ratio	21.7%	22.4%	23.8%	24.2%	24.6%	25.4%	26.1%	26.9%	27.7%	28.8%
Total B2C e-commerce market	256.3	257.8	262.1	263.8	280.0	287.2	290.9	318.2	344.2	353.0
YoY	-	0.6%	1.7%	0.6%	6.2%	2.6%	1.3%	8.2%	2.5%	2.5%
E-commerce ratio	23.7%	24.3%	25.7%	26.1%	26.5%	27.3%	28.3%	29.4%	30.2%	31.7%

Source: Shared Research, based on Ministry of Economy, Trade, and Industry FY2019 International Economic Research Project for Establishing an Integrated Domestic and Foreign Economic Growth Strategy (E-Commerce Market Survey)

Strengths and weaknesses

Strengths

- ▶ **Expertise in the use of secondary distribution data:** Although there is a great volume of up-to-date secondary distribution data to be obtained from outside sources, it is rough data with masking applied, so its effective use requires expertise and knowledge of product characteristics. Aucfan has experience analyzing transaction data for products distributed directly through its own websites along with historical chronological data, so it has the expertise to use even rough data from outside sources effectively.
- ▶ **Provision of full line of services needed in secondary distribution:** Within secondary distribution, the three main functions are visualization of inventory value to identify issues, redistribution of problematic products (for example, products with older packaging, products nearing expiry, and returned items) for monetization, and optimization of sales prices and product lineup based on data. Aucfan operates its own e-commerce channel, but also makes use of indirect distribution leveraging the abilities of users (cloud sellers) in the C2C secondary distribution market. The company's provision of a full line of services helps it stand out from the competition.
- ▶ **Business structure that avoids direct competition with strong C2C secondary distribution services:** In Japan, the C2C secondary distribution market is dominated by the Mercari service from Mercari, Inc. (TSE Mothers: 4385) and Yahoo! Japan Auctions from Z Holdings Corporation (formerly Yahoo! Japan Corporation, TSE1: 4689). Aucfan avoids directly competing with the dominant services of other companies in the C2C secondary distribution market by primarily providing services to users (cloud sellers) in the B2C and C2C secondary distribution markets.

Weaknesses

- ▶ **Dependence on major auction sites for data:** Aucfan has its own website for direct liquidation, but its scale is still small in relation to the secondary distribution market as a whole. To compensate, it gathers data on winning bids and purchases from external sources, including major online websites such as Yahoo! Japan. Aucfan directs customers to these major online marketplaces, which send Aucfan transaction data in return. However, if the two sides come into competition as they work to expand their business areas, Aucfan might find it difficult to obtain the transaction data it needs.
- ▶ **Existence of merchandise categories in which it is difficult to leverage the company's strengths:** In the case of non-brand-name apparel, for example, trends evolve rapidly, so a discriminating eye for individual products can be more important than data about price differences based on color, for instance. In addition, Aucfan avoids products that can be easily damaged while in storage or that require significant storage space.
- ▶ **Significant and uncontrollable uncertainties in the incubation business:** Aucfan invests mainly in startups, generating revenue by selling investment securities and consulting for investee companies. However, the valuation of investment securities is sensitive to market changes, liquidity depends on the timing of investees' IPOs, and the structure of the business means there are significant and uncontrollable uncertainties.

Historical performance

Historical performance

Full-year FY09/20 results

Overview

▷ Sales:	JPY7.9bn (+18.7% YoY)
▷ Operating profit:	JPY821mn (+20.8% YoY)
▷ Recurring profit:	JPY809mn (+20.4% YoY)
▷ Net income*:	JPY429mn (+31.0% YoY)

*Net income attributable to owners of the parent

Versus full-year company targets, sales reached 96.6%, operating profit 100.6%, recurring profit 99.4% and net income 99.7%. In the mainstay businesses (excluding Incubation business), the progress rate was 87.1% for sales and 52.0% for operating profit. Previously, the company made the decision not to revise its full-year forecast despite performance that was somewhat lower than expected in Q1 and Q2. It based this decision on the expectation that it would accumulate earnings during 2H. Sales generated by core businesses in Q4 turned out to be slightly lower than the projection released along with Q3 financial results had indicated, but operating profit in Q4 was generally in line with the projection thanks in part to tailwinds associated with the COVID-19 pandemic. The progress rate for the Incubation business was 222.0% for sales and 245.7% for operating profit.

In the mainstay businesses, sales grew 0.8% YoY and operating profit fell 8.6% YoY in the Inventory Management Solution business and sales grew 19.9% YoY and operating profit grew 372.4% YoY in the Merchandise Distribution Platform business. In the Incubation business, sales increased by 57.2% YoY and operating profit declined by 12.1% YoY. The company sold a large volume of investment securities in Q3 and Q4. As of end-September 2020, the valuation difference on available-for-sale securities (net unrealized gains after excluding tax effects) stood at JPY4.4bn.

The company started providing monthly disclosures in June 2020. The number of business use accounts in October 2020 totaled 1,369,331. The number of new registrations was 7,595. Since May 2020, the pace of account growth has slowed down compared to April, but remained at a higher level (net increase of over 7,500 accounts per month) compared to levels (net increase of around 6,000–7,000 accounts per month) before January 2020 or before the COVID-19 outbreak in Japan.

The full-year company earnings forecast for FY09/21 calls for sales of JPY10.9bn (+38.4% YoY), operating profit of JPY1.3bn (+58.4% YoY), recurring profit of JPY1.3bn (+54.5% YoY), net income attributable to owners of the parent of JPY800m (+86.6% YoY), and EPS of JPY78.03. The breakdown is as follows: sales of JPY10.0bn (+51.4% YoY) and operating profit of JPY500.0mn (+57.6% YoY, including impact from common expenses) in the mainstay businesses (other than Incubation), and sales of JPY900.0mn and operating profit of JPY800.0mn in Incubation business. For more details regarding assumptions on which the company's full-year earnings forecast is based, please see the section below, entitled "Full-year company forecast."

In Q1 FY09/20, the company shifted from four reportable segments (Media, Marketplace, Solution, and Incubation) to the following three segments: Inventory Management Solution, Merchandise Distribution Platform, and Incubation. Therefore, YoY comparisons are based on FY09/19 figures after adjustment to reflect the new reportable segments.

Quarterly results by segment

Cumulative (JPYmm)	FY09/18				FY09/19				FY09/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	973	2,495	3,979	5,864	1,654	3,361	4,662	6,636	1,573	2,984	5,086	7,874
YoY	5.8%	37.2%	41.7%	60.4%	70.0%	34.7%	17.2%	13.2%	-4.9%	-11.2%	9.1%	18.7%
Inventory Management Solution					479	938	1,403	1,917	516	1,088	1,463	1,932
YoY					-	-	-	-	7.7%	16.0%	4.3%	0.8%
Merchandise Distribution Platform					974	1,880	2,721	4,022	1,062	1,938	3,129	4,821
YoY					-	-	-	-	9.0%	3.1%	15.0%	19.9%
Incubation	50	118	119	275	193	557	575	808	27	30	607	1,270
YoY	-	-	-	-	287.7%	374.0%	382.3%	194.0%	-86.3%	-94.6%	5.6%	57.2%
Operating profit	-20	52	143	411	274	641	647	680	62	82	616	821
YoY	-	-54.4%	-21.0%	100.2%	-	-	351.6%	65.4%	-77.2%	-87.2%	-4.7%	20.8%
OPM	-2.1%	2.1%	3.6%	7.0%	16.6%	19.1%	13.9%	10.2%	4.0%	2.7%	12.1%	10.4%
Inventory Management Solution					136	241	335	402	117	220	283	368
YoY					-	-	-	-	-14.0%	-8.6%	-15.5%	-8.6%
OPM					28.4%	25.7%	23.9%	21.0%	22.7%	20.2%	19.4%	19.0%
Merchandise Distribution Platform					74	97	94	69	32	45	193	324
YoY					-	-	-	-	-56.7%	-53.1%	105.7%	372.4%
OPM					7.6%	5.1%	3.4%	1.7%	3.0%	2.3%	6.2%	6.7%
Incubation	25	83	75	162	164	486	483	573	3	-11	407	504
YoY	-	-	-	-	558.6%	486.2%	540.0%	254.0%	-98.2%	-	-15.6%	-12.1%
OPM					84.6%	87.1%	84.0%	71.0%	11.2%	-37.2%	67.1%	39.7%

Quarterly (JPYmm)	FY09/18				FY09/19				FY09/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	973	1,522	1,485	1,884	1,654	1,707	1,301	1,974	1,573	1,411	2,102	2,789
YoY	5.8%	69.4%	50.1%	122.0%	70.0%	12.2%	-12.4%	4.8%	-4.9%	-17.4%	61.5%	41.3%
Inventory Management Solution					479	459	465	514	516	572	374	470
YoY					-	-	-	-	7.7%	24.7%	-19.5%	-8.6%
Merchandise Distribution Platform					974	906	841	1,301	1,062	876	1,191	1,692
YoY					-	-	-	-	9.0%	-3.3%	41.7%	30.0%
Incubation	50	68	2	156	193	364	17	233	27	4	577	663
YoY	-	-	-	-	287.7%	437.6%	-	-	-86.3%	-99.0%	3237.6%	184.4%
Operating profit	-20	72	91	268	274	366	6	33	62	19	535	205
YoY	-	115.8%	35.0%	-	-	407.0%	-93.4%	-87.6%	-77.2%	-94.8%	8741.2%	517.0%
OPM	-2.1%	4.7%	6.2%	14.2%	16.6%	21.5%	0.5%	1.7%	4.0%	1.4%	25.4%	7.3%
Inventory Management Solution					136	105	94	67	117	103	63	84
YoY					-	-	-	-	-14.0%	-1.7%	-32.9%	25.8%
OPM					28.4%	22.8%	20.3%	13.1%	22.7%	18.0%	16.9%	18.0%
Merchandise Distribution Platform					74	23	-3	-25	32	13	147	132
YoY					-	-	-	-	-56.7%	-41.1%	-	-
OPM					7.6%	2.5%	-0.4%	-1.9%	3.0%	1.5%	12.4%	7.8%
Incubation	25	58	-7	86	164	322	-3	90	3	-14	419	96
YoY	-	-	-	-	558.6%	455.2%	-	-	-98.2%	-	-	6.6%
OPM					84.6%	88.5%	-15.7%	38.7%	11.2%	-402.0%	72.6%	14.5%

Source: Shared Research based on company data
 Note: Figures may differ from those reported by company owing to differences in rounding.
 Note: A dash (-) indicates YoY of over 1,000%.

Inventory Management Solution

- ▷ Sales: JPY1.9bn (+0.8% YoY)
- ▷ Operating profit: JPY368mn (-8.6% YoY)

The company is investing in zaicoban which uses AI to make inventory values visible, identify issues related to company inventory and optimize sales prices and product lineups, and TATEMPO Guide (an ASP service that allows users to place products simultaneously on multiple online marketplaces and adjust inventory), with a focus on sales expansion and marketing and advertising.

Merchandise Distribution Platform

- ▷ Sales: JPY4.8bn (+19.9% YoY)
- ▷ Operating profit: JPY324mn (+372.4% YoY)

In April 2020, the company posted a record high monthly transaction value of JPY1.3bn in the NETSEA business as FY09/20 transaction value reached a record high of JPY8.1bn (+24% YoY). Meanwhile, the company booked record high profits in the ReValue business, which has maintained its strong performance since. In addition, consolidated subsidiary SynaBiz started a new business of stocking and selling mainly used goods from Q3 with the aim of promoting corporate inventory redistribution.

Incubation

- ▷ Sales: JPY1.3bn (+57.2% YoY)
- ▷ Operating loss: JPY504mn (-12.1% YoY)

In Q3 and Q4, the company sold off a major part of its operational investment securities. In Q4 (July–September), the company recognized an impairment loss on operational investment securities. Accordingly, operating profit (net amount after the recognition of the impairment loss) was only JPY96mn despite sales of JPY663mn. Operational investment securities increased by JPY6.0bn YoY due to the valuation difference on Cyber Security Cloud (TSE Mothers: 4493) shares following its IPO. As of end-September 2020, the valuation difference on available-for-sale securities (net unrealized gains after excluding tax effects) stood at JPY4.4bn.

(For reference) Quarterly results by old segments up to FY09/19

Cumulative (JPYmn)	FY09/18				FY09/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	973	2,495	3,979	5,864	1,654	3,361	4,662	6,636
YoY	5.8%	37.2%	41.7%	60.4%	70.0%	34.7%	17.2%	13.2%
Media	469	868	1,302	1,924	580	1,146	1,710	2,351
YoY	28.5%	10.9%	5.3%	13.2%	23.6%	32.0%	31.3%	22.2%
Marketplace	395	1,361	2,296	3,318	852	1,638	2,342	3,449
YoY	0.7%	67.7%	84.1%	118.6%	115.9%	20.4%	2.0%	4.0%
Solution	85	197	323	430	87	144	210	266
YoY	-47.5%	-30.8%	-21.5%	-22.4%	1.6%	-26.8%	-35.0%	-38.0%
Incubation	50	118	119	275	193	557	575	857
YoY	-	-	-	-	287.7%	374.0%	382.3%	211.9%
Adjustments	-	-49	-61	-83	-	-124	-174	-287
Operating profit	-20	52	143	411	274	641	647	680
YoY	-	-54.4%	-21.0%	100.2%	-	-	351.6%	65.4%
OPM	-2.1%	2.1%	3.6%	7.0%	16.6%	19.1%	13.9%	10.2%
Media	16	18	44	188	70	115	147	181
YoY	-61.5%	-78.3%	-61.2%	51.7%	331.6%	521.6%	231.2%	-3.4%
OPM	3.5%	2.1%	3.4%	9.7%	12.1%	10.0%	8.6%	7.7%
Marketplace	18	30	66	102	37	30	9	-65
YoY	-69.6%	-68.4%	-54.4%	-36.8%	104.4%	1.9%	-86.6%	-
OPM	4.6%	2.2%	2.9%	3.1%	4.3%	1.8%	0.4%	-1.9%
Solution	-83	-86	-53	-54	1	5	11	15
YoY	-	-	-	-	-	-	-	-
OPM	-97.4%	-43.6%	-16.4%	-12.6%	0.7%	3.2%	5.5%	5.5%
Incubation	25	83	75	162	164	486	472	541
YoY	-	-	-	-	558.6%	486.2%	525.8%	234.1%
OPM	49.8%	1	1	58.9%	84.6%	87.1%	82.2%	63.1%
Adjustments	3	7	10	13	92	6	7	8

Quarterly (JPYmn)	FY09/18				FY09/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	973	1,522	1,485	1,884	1,654	1,707	1,301	1,974
YoY	5.8%	69.4%	50.1%	122.0%	70.0%	12.2%	-12.4%	4.8%
Media	469	399	434	622	580	566	564	642
YoY	28.5%	-4.4%	-4.4%	34.3%	23.6%	41.8%	30.0%	3.1%
Marketplace	395	966	935	1,022	852	786	703	1,108
YoY	0.7%	130.3%	114.5%	277.7%	115.9%	-18.6%	-24.8%	8.4%
Solution	85	112	126	107	87	58	66	56
YoY	-47.5%	-8.7%	-0.3%	-25.0%	1.6%	-48.5%	-47.9%	-47.1%
Incubation	50	68	2	156	193	364	17	282
YoY	-	-	-	-	287.7%	437.6%	-	81.4%
Operating profit	-20	72	91	268	274	366	6	33
YoY	-	115.8%	35.0%	-	-	407.0%	-93.4%	-87.6%
OPM	-2.1%	4.7%	6.2%	14.2%	16.6%	21.5%	0.5%	1.7%
Media	16	2	26	143	70	44	32	34
YoY	-61.5%	-94.9%	-11.2%	-	331.6%	-	24.5%	-76.0%
OPM	3.5%	0.5%	6.0%	23.0%	12.1%	7.9%	5.7%	5.4%
Marketplace	18	12	37	36	37	-7	-21	-74
YoY	-69.6%	-66.5%	-28.9%	117.8%	104.4%	-	-	-
OPM	4.6%	1.2%	3.9%	3.5%	4.3%	-0.8%	-3.0%	-6.7%
Solution	-83	-3	33	-1	1	4	7	3
YoY	-	-	-	-	-	-	-79.1%	-
OPM	-97.4%	-2.6%	26.2%	-1.0%	0.7%	6.8%	10.5%	5.8%
Incubation	25	58	-7	86	164	322	-13	69
YoY	-	-	-	-	558.6%	455.2%	-	-20.5%
OPM	49.8%	1	-5	55.6%	84.6%	88.5%	-1	24.4%
Adjustments	3	3	3	3	92	-86	2	1

Source: Shared Research based on company data
 Note: Figures may differ from those reported by company owing to differences in rounding.
 A dash (-) indicates YoY of over 1,000%.

Cumulative Q3 FY09/20 results

Overview

▷ Sales:	JPY5.1bn (+9.1% YoY)
▷ Operating profit:	JPY616mn (-4.7% YoY)
▷ Recurring profit:	JPY604mn (-5.6% YoY)
▷ Net income*:	JPY330mn (-22.4% YoY)

*Net income attributable to owners of the parent

Versus full-year company targets, sales reached 62.4%, operating profit 75.5%, recurring profit 74.3%, and net income 76.9%. For cumulative Q3 FY09/20, in its mainstay businesses (excluding Incubation business), sales grew 4.3% YoY and operating profit fell 15.5% YoY for the Inventory Management Solution and sales grew 15.0% YoY and operating profit grew 105.7% YoY for the Merchandise Distribution Platform business. In Q3 (April–June 2020), the Inventory Management Solutions business struggled, with sales down 19.5% YoY and operating profit down 32.9% YoY, but the Merchandise Distribution Platform business was strong throughout, with sales up 41.7% YoY while recording an operating profit of JPY147mn (versus an operating loss of JPY3mn in Q3 FY09/19). Sales grew 5.6% YoY and operating profit fell 15.6% YoY for the Incubation business in cumulative Q3 FY03/20. In June 2020, the company sold off a major part of its operational investment securities. As of end-June 2020, the valuation difference on available-for-sale securities (net unrealized gains after excluding tax effects) stood at JPY5.2bn.

In Q3, the company launched its first full-fledged promotion featuring a celebrity. This was primarily geared at promoting NETSEA and TATEMPO Guide. The company also stepped up its advertising spending in Q3 as it expected an increase in promotional impressions due to the Japanese government's state of emergency declaration.

The company maintained its full-year FY09/20 earnings forecast announced on November 14, 2019. While Aucfan was temporarily affected by the COVID-19 outbreak in March, the company believes the impact on full-year results will be limited. Additionally, with the mainstay businesses (excluding Incubation business) performing well, it expects to achieve full-year targets in Q4. However, the company's business environment may change depending on societal trends as well as how long it takes for the COVID-19 outbreak to settle. As such, the company noted that it will promptly make an announcement if it makes any changes to its forecast.

The company started providing monthly disclosures in June 2020. The number of business use accounts in July 2020 totaled 1,345,953. The number of new registrations was 8,557 (versus previous month). Since May 2020, the pace of account growth slowed down compared to April, but remained at a higher level (net increase of over 8,000 accounts) compared to January 2020 (net increase of around 6,000-7,000 accounts) before the COVID-19 outbreak in Japan.

Results by segment

In Q1 FY09/20, the company shifted from four reportable segments (Media, Marketplace, Solution, and Incubation) to the following three segments: Inventory Management Solution, Merchandise Distribution Platform, and Incubation. Therefore, YoY comparisons are against cumulative Q3 FY09/19 figures after adjustment to reflect the new reportable segments.

Quarterly results by segment

Cumulative (JPYmn)	FY09/18				FY09/19				FY09/20		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total sales	973	2,495	3,979	5,864	1,654	3,361	4,662	6,636	1,573	2,984	5,086
YoY	5.8%	37.2%	41.7%	60.4%	70.0%	34.7%	17.2%	13.2%	-4.9%	-11.2%	9.1%
Inventory Management Solution					479	938	1,403		516	1,088	1,463
YoY					-	-	-		7.7%	16.0%	4.3%
Merchandise Distribution Platform					974	1,880	2,721		1,062	1,938	3,129
YoY					-	-	-		9.0%	3.1%	15.0%
Incubation	50	118	119	275	193	557	575	857	27	30	607
YoY	-	-	-	-	287.7%	374.0%	382.3%	211.9%	-86.3%	-94.6%	5.6%
Operating profit	-20	52	143	411	274	641	647	680	62	82	616
YoY	-	-54.4%	-21.0%	100.2%	-	-	351.6%	65.4%	-77.2%	-87.2%	-4.7%
Operating profit margin	-2.1%	2.1%	3.6%	7.0%	16.6%	19.1%	13.9%	10.2%	4.0%	2.7%	12.1%
Inventory Management Solution					136	241	335		117	220	283
YoY					-	-	-		-14.0%	-8.6%	-15.5%
Operating profit margin					28.4%	25.7%	23.9%		22.7%	20.2%	19.4%
Merchandise Distribution Platform					74	97	94		32	45	193
YoY					-	-	-		-56.7%	-53.1%	105.7%
Operating profit margin					7.6%	5.1%	3.4%		3.0%	2.3%	6.2%
Incubation	25	83	75	162	164	486	483	541	3	-11	407
YoY	-	-	-	-	558.6%	486.2%	540.0%	234.1%	-98.2%	-	-15.6%
Operating profit margin					84.6%	87.1%	84.0%		11.2%	-37.2%	67.1%

Quarterly (JPYmn)	FY09/18				FY09/19				FY09/20		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total sales	973	1,522	1,485	1,884	1,654	1,707	1,301	1,974	1,573	1,411	2,102
YoY	5.8%	69.4%	50.1%	122.0%	70.0%	12.2%	-12.4%	4.8%	-4.9%	-17.4%	61.5%
Inventory Management Solution					479	459	465		516	572	374
YoY					-	-	-		7.7%	24.7%	-19.5%
Merchandise Distribution Platform					974	906	841		1,062	876	1,191
YoY					-	-	-		9.0%	-3.3%	41.7%
Incubation	50	68	2	156	193	364	17	282	27	4	577
YoY	-	-	-	-	287.7%	437.6%	-	81.4%	-86.3%	-99.0%	-
Operating profit	-20	72	91	268	274	366	6	33	62	19	535
YoY	-	115.8%	35.0%	-	-	407.0%	-93.4%	-87.6%	-77.2%	-94.8%	-
Operating profit margin	-2.1%	4.7%	6.2%	14.2%	16.6%	21.5%	0.5%	1.7%	4.0%	1.4%	25.4%
Inventory Management Solution					136	105	94		117	103	63
YoY					-	-	-		-14.0%	-1.7%	-32.9%
Operating profit margin					28.4%	22.8%	20.3%		22.7%	18.0%	16.9%
Merchandise Distribution Platform					74	23	-3		32	13	147
YoY					-	-	-		-56.7%	-41.1%	-
Operating profit margin					7.6%	2.5%	-0.4%		3.0%	1.5%	12.4%
Incubation	25	58	-7	86	164	322	-3	58	3	-14	419
YoY	-	-	-	-	558.6%	455.2%	-	-32.9%	-98.2%	-	-
Operating profit margin					84.6%	88.5%	-15.7%		11.2%	-402.0%	72.6%

Source: Shared Research based on company data
 Note: Figures may differ from those reported by company owing to differences in rounding.
 Note: A dash (-) indicates YoY of over 1,000%.

Inventory Management Solution

- ▷ Sales: JPY1.5bn (+4.3% YoY)
- ▷ Operating profit: JPY283mn (-15.5% YoY)

The inventory management Software-as-a-Service (SaaS) zaicoban was officially released in March 2020. On May 15, 2020, the company began offering Amazon listing tool, Aucfan Connect, for free. The company is actively working to attract users for TATEMPO Guide, an integrated management system for e-commerce websites, including through the launch of a sales campaign which would allow use of the service without charge for up to six months.

In Q3 (April–June 2020), sales were down 19.5% YoY and operating profit was down 32.9% YoY. With the Japanese government's state of emergency declaration, some customers cut marketing and advertising costs, resulting in order cancellations and postponements. In addition, the company noted that some sales channels that were previously within the scope of Inventory Management Solutions are now covered by Merchandise Distribution Platform.

Merchandise Distribution Platform

- ▷ Sales: JPY3.1bn (+15.0% YoY)
- ▷ Operating profit: JPY193mn (+105.7% YoY)

In April 2020, the company posted a record high monthly transaction value of JPY1.3bn in the NETSEA business as well as record high profits for the ReValue business. Compared to April, NETSEA's monthly transaction value fell in May and June, but remained substantially higher against pre-COVID levels. In addition, consolidated subsidiary SynaBiz started a new business of stocking and selling mainly used goods with the aim of promoting corporate inventory redistribution.

In Q3 (April–June 2020), sales were up 41.7% YoY and operating profit was JPY147mn (versus an operating loss of JPY3mn Q3 FY09/19). The e-commerce ratio was on the rise, partially as a result of the COVID-19 outbreak.

The school business was previously based on in-person group training, but this was changed to a webinar format due to the COVID-19 outbreak. Subsequently, with the resumption of group trainings, the company planned to use both formats. After the Japanese government lifted the state of emergency, however, COVID infections started to rise, and the company cancelled its group training. It has only operated under the webinar format as of August 2020. While this may have a negative impact on sales in the short term, the company intends to take advantage of the webinar format's advantages, such as the lack of geographical limitations in attracting participants.

Incubation

- ▷ Sales: JPY606mn (+5.6% YoY)
- ▷ Operating loss: JPY407mn (-15.6% YoY)

In June 2020, the company sold off a major part of its operational investment securities. Operational investment securities increased by JPY7.7bn YoY due to the valuation difference on Cyber Security Cloud (TSE Mothers: 4493) shares following its IPO. As of end-June 2020, the valuation difference on available-for-sale securities (net unrealized gains after excluding tax effects) stood at JPY5.2bn.

In Q3 FY09/20 (April–June 2020), sales were JPY577mn and operating profit was JPY419mn.

Other topics

Business partnership with eBay Japan

On August 25, 2020, the company announced that it would start joint development of the eBay cross-border e-commerce seller training support service geared for individuals and sole proprietors in September 2020, together with eBay Japan (subsidiary of eBay Inc. [NASDAQ: EBAY]), which supports cross-border e-commerce of Japanese companies by opening stores on online marketplace eBay.

This partnership is significant for eBay Japan in terms of increasing the number of eBay users in the Japanese market while strengthening the school business for Aucfan. In addition, the company also aims to boost user numbers of services geared for individuals and sole proprietors, such as Aucfan Connect, by increasing the number of school graduates.

(For reference) Quarterly results by old segments up to FY09/19

Cumulative (JPYmn)	FY09/18				FY09/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	973	2,495	3,979	5,864	1,654	3,361	4,662	6,636
YoY	5.8%	37.2%	41.7%	60.4%	70.0%	34.7%	17.2%	13.2%
Media	469	868	1,302	1,924	580	1,146	1,710	2,351
YoY	28.5%	10.9%	5.3%	13.2%	23.6%	32.0%	31.3%	22.2%
Marketplace	395	1,361	2,296	3,318	852	1,638	2,342	3,449
YoY	0.7%	67.7%	84.1%	118.6%	115.9%	20.4%	2.0%	4.0%
Solution	85	197	323	430	87	144	210	266
YoY	-47.5%	-30.8%	-21.5%	-22.4%	1.6%	-26.8%	-35.0%	-38.0%
Incubation	50	118	119	275	193	557	575	857
YoY	-	-	-	-	287.7%	374.0%	382.3%	211.9%
Adjustments	-	-49	-61	-83	-	-124	-174	-287
Operating profit	-20	52	143	411	274	641	647	680
YoY	-	-54.4%	-21.0%	100.2%	-	-	351.6%	65.4%
OPM	-2.1%	2.1%	3.6%	7.0%	16.6%	19.1%	13.9%	10.2%
Media	16	18	44	188	70	115	147	181
YoY	-61.5%	-78.3%	-61.2%	51.7%	331.6%	521.6%	231.2%	-3.4%
OPM	3.5%	2.1%	3.4%	9.7%	12.1%	10.0%	8.6%	7.7%
Marketplace	18	30	66	102	37	30	9	-65
YoY	-69.6%	-68.4%	-54.4%	-36.8%	104.4%	1.9%	-86.6%	-
OPM	4.6%	2.2%	2.9%	3.1%	4.3%	1.8%	0.4%	-1.9%
Solution	-83	-86	-53	-54	1	5	11	15
YoY	-	-	-	-	-	-	-	-
OPM	-97.4%	-43.6%	-16.4%	-12.6%	0.7%	3.2%	5.5%	5.5%
Incubation	25	83	75	162	164	486	472	541
YoY	-	-	-	-	558.6%	486.2%	525.8%	234.1%
OPM	49.8%	1	1	58.9%	84.6%	87.1%	82.2%	63.1%
Adjustments	3	7	10	13	92	6	7	8

Quarterly (JPYmn)	FY09/18				FY09/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	973	1,522	1,485	1,884	1,654	1,707	1,301	1,974
YoY	5.8%	69.4%	50.1%	122.0%	70.0%	12.2%	-12.4%	4.8%
Media	469	399	434	622	580	566	564	642
YoY	28.5%	-4.4%	-4.4%	34.3%	23.6%	41.8%	30.0%	3.1%
Marketplace	395	966	935	1,022	852	786	703	1,108
YoY	0.7%	130.3%	114.5%	277.7%	115.9%	-18.6%	-24.8%	8.4%
Solution	85	112	126	107	87	58	66	56
YoY	-47.5%	-8.7%	-0.3%	-25.0%	1.6%	-48.5%	-47.9%	-47.1%
Incubation	50	68	2	156	193	364	17	282
YoY	-	-	-	-	287.7%	437.6%	-	81.4%
Operating profit	-20	72	91	268	274	366	6	33
YoY	-	115.8%	35.0%	-	-	407.0%	-93.4%	-87.6%
OPM	-2.1%	4.7%	6.2%	14.2%	16.6%	21.5%	0.5%	1.7%
Media	16	2	26	143	70	44	32	34
YoY	-61.5%	-94.9%	-11.2%	-	331.6%	-	24.5%	-76.0%
OPM	3.5%	0.5%	6.0%	23.0%	12.1%	7.9%	5.7%	5.4%
Marketplace	18	12	37	36	37	-7	-21	-74
YoY	-69.6%	-66.5%	-28.9%	117.8%	104.4%	-	-	-
OPM	4.6%	1.2%	3.9%	3.5%	4.3%	-0.8%	-3.0%	-6.7%
Solution	-83	-3	33	-1	1	4	7	3
YoY	-	-	-	-	-	-	-79.1%	-
OPM	-97.4%	-2.6%	26.2%	-1.0%	0.7%	6.8%	10.5%	5.8%
Incubation	25	58	-7	86	164	322	-13	69
YoY	-	-	-	-	558.6%	455.2%	-	-20.5%
OPM	49.8%	1	-5	55.6%	84.6%	88.5%	-1	24.4%
Adjustments	3	3	3	3	92	-86	2	1

Source: Shared Research based on company data
 Note: Figures may differ from those reported by company owing to differences in rounding.
 A dash (-) indicates YoY of over 1,000%.

1H FY09/20 results

Overview

- ▷ Sales: JPY3.0bn (-11.2% YoY)
- ▷ Operating profit: JPY82mn (-87.2% YoY)
- ▷ Recurring profit: JPY75mn (-88.3% YoY)
- ▷ Net income*: JPY7mn (-98.6% YoY)

*Net income attributable to owners of the parent

Versus full-year company targets, 1H sales reached 36.6%, operating profit 10.0%, recurring profit 9.2%, and net income 1.5%. 1H results came in below forecast as some of the company's businesses were temporarily affected by the COVID-19 in March, and the company incurred costs related to business withdrawals.

- ▷ Sales fell YoY on the absence of sales and profit (approximately JPY480mn) recorded in the Incubation segment in 1H FY09/19.
- ▷ One-time expenses were incurred as a result of the reorganization of netprice in the Merchandise Distribution Platform segment in 1H. The company made upfront spending in advertising in a planned manner. Upfront spending in advertising was mainly in the school business and businesses such as NETSEA and Otameshi, where attracting customers and increasing site traffic are considered vital.
- ▷ In terms of the impact of the COVID-19 outbreak on the company, the company noted that the global slowdown in consumer spending and reduced opportunities for in-person services will have a negative impact, while the adoption of remote work and side jobs, increased e-commerce usage, and greater volume of reused items in the market will have a positive impact. Despite the short-term negative effects in March, which is included in Q2, the COVID-19 impact from April has been largely positive, with stay-at-home demand contributing to favorable performance in e-commerce operations.

On the other hand, growth for e-commerce sites operated by the company accelerated faster than expected, and Aucfan said there was a good probability that they will continue to contribute to business results. The company maintained its full-year FY09/20 earnings forecast. As part of its supplementary 1H FY09/20 results briefing materials, the company provided the following guidance for sales and operating profit, excluding the Incubation business, for Q3 and thereafter.

- ▷ The company forecasts sales in Q3 FY09/20 exceeding the level of sales shown in Q4 FY09/19. Management also forecasts Q4 FY09/20 sales improving on a QoQ basis.
- ▷ The company forecasts Q3 FY09/20 operating profit remaining at roughly the same level as Q1 FY09/20. Management forecasts Q4 FY09/20 operating profit improving QoQ, and even topping the level shown in Q4 FY09/18, when the company recorded its highest quarterly operating profit since FY09/17.

In Q1 FY09/20, the company shifted from four reportable segments (Media, Marketplace, Solution, and Incubation) to the following three segments: Inventory Management Solution, Merchandise Distribution Platform, and Incubation. Therefore, YoY comparisons are against 1H FY09/19 figures after adjustment to reflect the new reportable segments.

Inventory Management Solution

- ▷ Sales: JPY1.1bn (+16.0% YoY)
- ▷ Operating profit: JPY220mn (-8.6% YoY)

The inventory management Software-as-a-Service (SaaS) zaicoban was officially released in March 2020. On May 15, 2020, the company began offering Amazon listing tool, Aucfan Connect, for free. The company is actively working to attract users for TATEMPO Guide, an integrated management system for e-commerce websites, including through the launch of a sales campaign which would allow use of the service without charge for up to six months.

In the Inventory Management Solution business, the company is working to maximize ARR (Annual Recurring Revenue) by expanding the user base and upselling within that larger base.

Merchandise Distribution Platform

- ▷ Sales: JPY1.9bn (+3.1% YoY)
- ▷ Operating profit: JPY45mn (-53.1% YoY)

The company booked one-time expenses in connection with the closure of netprice at end-December 2019. NETSEA's gross merchandise value (GMV) grew substantially in April, reaching a record high monthly figure of JPY1.3bn. Otameshi also reported sales increases due to self-quarantine-related demand.

- ▷ The COVID-19 pandemic contributed to increased NETSEA and Otameshi utilization. NETSEA booked increased wholesale sales of products such as disinfectants and alcohol as the number of COVID-19 infections increased. Management also noted that the number of registered buyers is steadily increasing as the virus spreads. Otameshi handles a large number of food products, and sales in the business increased from mid-March as stay-at-home demand escalated.
- ▷ The company indicated that its distribution outlets experienced no major impact from the COVID-19 pandemic. Management also noted that the company faced no especially tough hurdles in purchasing merchandise.
- ▷ The school business was initially designed as a group training course, but the COVID-19 pandemic impacted student recruitment from early March and the company suspended face-to-face operations later in the same month. While the company moved to a webinar format thereafter, the enthusiasm and energy shown in the group training format was lacking. Moreover, with application prices relatively high, the company struggled to attract students. That said, management indicated that it had gained operational knowhow in the two months since introducing the webinar format and by late May was seeing an improvement in the recruitment of students. Given advantages such as there being no geographical constraints in attracting students, the company intends on using the webinar format in addition to the face-to-face format, which it hopes to resume from mid-June.

Incubation

- ▷ Sales: JPY30mn (-94.6% YoY)
- ▷ Operating loss: JPY11mn (versus operating profit of JPY486mn in 1H FY09/19)

Unlike in 1H FY09/19, there were no large sales in 1H FY09/20. The company established the Aucfan Incubate Fund No. 1 Investment Limited Partnership. While the company plans to solely fund the partnership and invest JPY300mn - JPY3.0bn initially, it expects its stake to decline to about 51% due to external funding in the future. The company expects the impact of the investment in the fund on FY09/20 results to be minor, but will promptly announce any matters to be disclosed. As of the end of March 2020, the valuation difference on available-for-sale securities (net unrealized gains after excluding tax effects) stood at JPY2.2bn, based largely on valuations gains for Cyber Security Cloud (TSE Mothers: 4493), which listed on March 26, 2020. With a deterioration in the operating environment likely to result in investees having to procure funds through down round offerings, the company could be forced to recognize valuation losses moving forward.

Q1 FY09/20 results

Overview

- ▷ Sales: JPY1.6bn (-4.9% YoY)
- ▷ Operating profit: JPY62mn (-77.2% YoY)
- ▷ Recurring profit: JPY61mn (-77.5% YoY)
- ▷ Net income*: JPY11mn (-93.6% YoY)

*Net income attributable to owners of the parent

Versus full-year company forecasts, Q1 sales reached 19.3%, operating profit 7.7%, recurring profit 7.5%, and net income 2.6%. This progress was essentially according to plan.

- ▷ Sales fell YoY due to the absence of large sales in the Incubation segment.

- ▷ There was a delay to profit due to one-time expenses incurred as a result of the reorganization of netprice in the Merchandise Distribution Platform segment. Earnings progress in existing businesses was in line with the full-year forecast.

In Q1 FY09/20, the company shifted from four reportable segments (Media, Marketplace, Solution, and Incubation) to the following three segments: Inventory Management Solution, Merchandise Distribution Platform, and Incubation. Therefore, YoY comparisons are against Q1 FY09/19 figures after adjustment to reflect the new reportable segments.

Inventory Management Solution

- ▷ Sales: JPY516mn (+7.7% YoY)
- ▷ Operating profit: JPY117mn (-14.0% YoY)

Annual Recurring Revenue (ARR) was JPY298mn (versus full-year FY09/20 forecast of JPY1.5bn) in Q1 FY09/20, accounting for 18.9% of sales. Business solutions performed well. In particular, the inventory management Software as a Service (SaaS) zaicoban contributed to earnings as companies introduced it on a trial basis, even before its official release at the end of March. It has already helped users liquidate goods worth about JPY500mn (based on users' book values), and Aucfan plans to promote it further as a core business. In addition, Tools for small and medium-sized companies that use the zaicoban engine are scheduled for release during FY09/20, and costs increased accompanying preparations to launch the business.

Merchandise Distribution Platform

- ▷ Sales: JPY1.1bn (+9.0% YoY)
- ▷ Operating profit: JPY32mn (-56.7% YoY)

Gross Merchandise Value (GMV) was JPY2.4bn (versus full-year FY09/20 forecast of JPY10.5bn). One-time expenses (JPY15mn loss on cancellation of warehouse lease; goodwill amortization was completed in FY09/19) arose in connection with the closure of netprice at end-December 2019. The netprice business was relaunched as horidashi, which inherited netprice's members and suppliers. The transition caused some attrition of members (who did not take the steps needed for migration), but very few suppliers were lost. The company plans to recover earnings from Q2, integrating management of horidashi with Otameshi, which is performing well. In the B2C business, the company is managing multiple stores (on an OEM basis for other companies) efficiently while taking full advantage of TATEMPO Guide in-house. Wholesale sales to cloud sellers including NETSEA also performed well. However, the take rate may change from Q2 onward due to changes in the sales mix accompanying the closure of netprice.

Incubation

- ▷ Sales: JPY27mn (-86.3% YoY)
- ▷ Operating profit: JPY3mn (-98.2% YoY)

Although there were no large sales, the company made six new investments and undertook two sales. However, one of the companies in which Aucfan has invested, Cyber Security Cloud, Inc., is scheduled for listing in March 2020. Ahead of the listing, Aucfan holds a stake of about 14%, and the lock-up period is 90 days (tentatively running through June 23, 2020).

Other

Impact of increasing spread of COVID-19

Spread of COVID-19 believed to have originated in Wuhan, China, is continuing. Aucfan says there had not been a significant impact on its operations as of February 2020, but hereafter it is possible there will be a decline in shipments of goods manufactured in China.

Impact of release of secondary distribution data by Mercari, Inc. (TSE Mothers: 4385)

In February 2020, Mercari indicated that it plans to release its secondary distribution data. Aucfan believes this will have little impact on its own operations.

Income statement

Income statement (JPYmn)	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19	FY09/20
	Parent	Parent	Par.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Total sales	620	752	1,006	1,450	2,726	3,656	5,864	6,636	7,874
YoY	26.1%	21.3%	33.9%	44.0%	88.0%	34.2%	60.4%	13.2%	18.7%
Cost of sales	73	99	143	361	900	1,771	3,149	3,500	4,748
Gross profit	547	653	864	1,088	1,826	1,886	2,715	3,136	3,126
YoY	30.5%	19.5%	32.3%	26.0%	67.8%	3.3%	44.0%	15.5%	-0.3%
GPM	88.2%	86.9%	85.8%	75.1%	67.0%	51.6%	46.3%	47.3%	39.7%
SG&A expenses	345	346	457	947	1,505	1,681	2,304	2,457	2,305
YoY	11.3%	0.3%	32.0%	107.4%	58.9%	11.6%	37.1%	6.6%	-6.2%
SG&A ratio	55.7%	46.0%	45.4%	65.4%	55.2%	46.0%	39.3%	37.0%	29.3%
Operating profit	202	307	407	141	321	205	411	680	821
YoY	85.3%	52.2%	32.6%	-65.4%	127.8%	-36.0%	100.2%	65.4%	20.8%
OPM	32.5%	40.8%	40.4%	9.7%	11.8%	5.6%	7.0%	10.2%	10.4%
Non-operating income	0	10	15	37	69	123	28	7	7
Non-operating expenses	1	15	9	35	57	26	16	15	19
Recurring profit	201	302	413	143	332	303	424	672	809
YoY	81.0%	50.2%	36.7%	-65.5%	133.0%	-8.8%	39.9%	58.7%	20.4%
RPM	32.4%	40.2%	41.0%	9.8%	12.2%	8.3%	7.2%	10.1%	10.3%
Extraordinary gains (losses)	-10	46	0	9	212	131	-149	-62	-94
Pre-tax profit	191	348	413	151	544	433	274	611	715
Income taxes	90	136	163	-13	240	221	59	280	287
Implied tax rate	47.2%	39.0%	39.4%	-8.9%	44.0%	51.0%	21.5%	45.8%	40.1%
Net income attrib. to non-controlling interests	0	0	0	-18	-4	-7	-9	4	0
Net income	101	212	250	182	309	219	224	327	429
YoY	38.1%	110.2%	17.8%	-27.2%	69.5%	-29.1%	2.3%	46.1%	31.0%
Net margin	16.3%	28.2%	24.9%	12.6%	11.3%	6.0%	3.8%	4.9%	5.4%

Source: Shared Research based on company data

Figures may differ from those reported by company owing to differences in rounding.

Consolidated results shown from FY09/15; change versus parent company figures the previous year shown for reference purposes only.

In FY09/19, the growth rate for sales was just 13.2%, partly due to the impact of a decline in sales at netprice. Despite the termination of netprice at the end of December 2019, sales grew by 18.7% YoY in FY09/20 as the COVID-19 pandemic provided tailwinds for the Merchandise Distribution Platform segment and sales in the Incubation segment were favorable, including those generated by the sale of shares associated with the IPO of Cyber Security Cloud, Inc., one of the company's investees.

Balance sheet

Balance sheet (JPYmn)	FY09/12 Par.	FY09/13 Par.	FY09/14 Par.	FY09/15 Cons.	FY09/16 Cons.	FY09/17 Cons.	FY09/18 Cons.	FY09/19 Cons.	FY09/20 Cons.
ASSETS									
Cash and deposits	339	1,127	1,144	1,403	1,466	1,029	2,095	1,354	2,705
Accounts receivable	81	111	162	265	305	356	594	1,012	1,529
Marketable securities	-	-	-	-	-	494	897	1,244	7,292
Inventories	1	1	2	8	35	195	236	138	262
Deferred tax assets	5	11	8	94	114	107	-	-	-
Other current assets	10	41	53	197	220	343	153	352	414
Allowance for doubtful accounts	-1	-1	-1	-1	-3	-48	-35	-58	-33
Total current assets	435	1,290	1,368	1,966	2,137	2,477	4,176	4,042	12,170
Buildings and structures (net)	2	13	11	18	13	71	69	58	50
Tools, furniture and fixtures (net)	20	32	25	37	40	64	49	36	28
Total tangible fixed assets	23	45	35	55	54	136	121	97	84
Goodwill	1	-	127	860	879	733	602	391	276
Software	112	192	293	430	516	363	407	425	465
Other	23	12	12	65	32	56	131	51	22
Total intangible fixed assets	136	204	432	1,355	1,428	1,153	1,139	867	763
Investment securities	23	35	222	492	390	-	-	-	-
Deferred tax assets	8	8	-	366	294	200	247	278	164
Other	16	34	72	31	157	249	188	176	158
Investments and other assets	47	77	294	888	841	448	436	508	366
Total fixed assets	206	325	762	2,298	2,323	1,737	1,696	1,472	1,213
Total assets	641	1,615	2,130	4,270	4,465	4,217	5,874	5,516	13,383
LIABILITIES									
Accounts payable	6	6	23	36	99	128	277	250	405
Short-term debt	-	-	-	510	576	520	925	824	1,470
Short-term borrowings	-	-	-	23	41	100	300	300	1,133
Current portion of bonds	-	-	-	125	125	125	125	125	-
Current portion of long-term borrowings	-	-	-	362	410	295	500	399	337
Income taxes payable	69	97	90	2	159	60	75	107	397
Accounts payable—other	-	-	-	-	250	241	353	332	405
Provision for bonuses	13	6	3	4	10	-	-	-	-
Other	82	45	90	212	130	184	336	203	200
Total current liabilities	170	154	206	763	1,224	1,133	1,965	1,717	2,877
Long-term debt	-	-	-	1,364	961	578	1,188	572	698
Bonds	-	-	-	500	375	250	125	-	-
Long-term borrowings	-	-	-	864	586	328	1,063	572	698
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	1	-	3	4	6
Total long-term liabilities	-	-	6	1,364	961	578	1,192	577	2,390
Total liabilities	170	154	212	2,127	2,185	1,711	3,157	2,293	5,267
NET ASSETS									
Capital stock	176	566	656	671	676	678	680	861	884
Capital surplus	176	566	656	675	677	649	650	832	855
Retained earnings	112	324	574	756	958	1,177	1,401	1,728	2,157
Treasury stock	-	-	-	-43	-43	-43	-43	-203	-203
Total shareholder equity	468	1,460	1,889	2,059	2,269	2,461	2,687	3,218	3,692
Valuation difference on securities	-	-	27	35	-8	10	17	-9	4,410
Share subscription rights	3	2	-	13	19	21	9	7	7
Other	-0	-	1	0	0	0	0	-	0
Non-controlling interests	-	-	-	35	-	13	4	6	6
Total net assets	471	1,462	1,917	2,143	2,280	2,506	2,717	3,222	8,116
Working capital	76	106	141	237	241	424	553	899	1,387
Total interest-bearing debt	0	0	0	1,874	1,536	1,098	2,113	1,396	2,169
Net debt	-339	-1,127	-1,144	471	71	69	18	42	-536

Source: Shared Research based on company data

Note: Figures above may differ from company figures due to rounding differences.

With expansion in the Incubation business and fair market valuation of an investee (Cyber Security Cloud, Inc.) following its IPO, the amount of operational investment securities (marketable securities) is trending upward. In FY09/20, the company recorded unrealized gains generated following fair market valuation (after tax effect deduction) as valuation difference on available-for-sale securities under net assets.

Cash flow statement

Cash flow statement (JPYmn)	FY09/12 Parent	FY09/13 Parent	FY09/14 Par.	FY09/15 Cons.	FY09/16 Cons.	FY09/17 Cons.	FY09/18 Cons.	FY09/19 Cons.	FY09/20 Cons.
Cash flows from operating activities (1)	194	179	330	136	766	155	468	-7	824
Cash flows from investing activities (2)	-126	-164	-491	-1,722	-249	-126	-222	-322	-287
Free cash flow (1+2)	68	15	-161	-1,586	517	30	246	-329	537
Cash flows from financing activities	12	772	179	1,844	-503	-431	818	-411	813
Depreciation and amortization (A)	39	59	105	239	394	424	441	409	409
Capital expenditures (B)	-126	-156	-323	-227	-297	-358	-313	-315	-315
Working capital changes (C)	10	30	35	96	3	183	129	347	487
Simple FCF (NI + A - B - C)	256	397	643	552	996	817	849	704	666

Source: Shared Research based on company data

Note: Figures above may differ from company figures due to rounding differences.

Cash flow associated with investment in, and sale of, operational investment securities is included in cash flows from operating activities. Cash flows from investing activities center on outflows related to the acquisition of intangible assets. Cash flows from financing activities mostly involve changes in interest-bearing debt, but in FY09/19, they included outflows of JPY160mn for the purchase of treasury shares and inflows of JPY363mn from the issue of shares in connection with the exercise of stock acquisition rights.

News and topics

December 2020

On December 9, 2020, the company announced a change in major shareholders.

On December 9, 2020, Asset Management One Co., Ltd. submitted a Report of Possession of Large Volume to Kanto Local Finance Bureau, and with this, the company confirmed a change in major shareholders. After the change, the number of company shares held by Asset Management One was 990,000 (1,076,000 as of September 15), representing a 9.59% voting right (10.5%).

October 2020

On October 15, the company announced monthly data for business use accounts for September 2020.

The number of business use accounts in September 2020 totaled 1,361,736. The number of new registrations was 7,996. As of September 30, 2020, users of Aucfan Connect, which the company began providing for free in May 2020, exceeded 5,000 individuals.

September 2020

On September 30, 2020, the company announced a change in major shareholders.

On September 29, 2020, Asset Management One Co., Ltd. submitted a Report of Possession of Large Volume to Kanto Local Finance Bureau, and with this, the company confirmed a change in major shareholders. After the change, the number of company shares held by Asset Management One was 1,076,000, representing a 10.5% voting right.

Other information

History

Shuichi Takenaga, founder and representative director, started out by launching an online auction business as a sole proprietor while still in college. As sales grew, in April 2004 he established Defactostandard, Ltd., which later became Aucfan. The experience of operating Defactostandard, which primarily sold items through auctions, provided Takenaga with know-how on profit maximization through buying and selling secondhand products. In January 2006, Defactostandard took over management of an auction statistics website (now aucfan.com) run by an individual, and began operating a media business enabling auction price comparison and market data search.

Aucfan Co. Ltd. was established in June 2007 after Defactostandard separated the media business as an independent entity. At that time, Takenaga sold his stake in Defactostandard to BEENOS (TSE Mothers: 3328). Takenaga currently has no capital relationship with Defactostandard, which now operates Brandear, a platform for trading brand items.

In Aucfan’s early years, it was based mainly on an online advertising revenue model at the Media business. It started generating service fee revenue with the introduction of premium services for members in August 2008. Since then, Aucfan has added steadily to its lineup of revenue-generating services, with the start of the Aucfan School (correspondence courses specializing in auction topics) in December 2008, the launch of the Monochekki smartphone app in October 2011, the introduction of Aucfan Pro comprehensive data analysis tools in November 2011, and the December 2012 launch of Global Aucfan, a one-stop e-commerce website search service.

Following its listing on the Mothers section of the Tokyo Stock Exchange in April 2013, Aucfan began moving into peripheral business areas, but the big turning point came with the acquisition of NETSEA Co., Ltd. in July 2015. With the acquisition, Aucfan extended outside of its traditional Media business (providing price data for online B2C and C2C transactions) into the larger B2B market.

Company history:

2000	Sep.	Auction business launched as a sole proprietorship
2001	Apr.	Auction Statistics Page (tentative name) begins operations
2006	Feb.	Auction Statistics Page (tentative name) acquired through business transfer
2007	Jun.	Media business of Defactostandard Co., Ltd. separated for the purpose of operating internet media “Aucfan;” Aucfan Co., Ltd. established and its “pure advertising” and net advertising businesses launched
	Aug.	Free member service launched
2008	May	Paying member service “Aucfan Premium” launched as a pay-per-use service business
	Dec.	“Aucfan School” auction class launched
2009	May	“Aucdata” consumer trend analysis tool launched
2010	Jan.	“Aucfan Seminar” auction correspondence course launched
	Aug.	“Aucfan Touch” site for smartphones launched
2011	Oct.	“Mono Cheki” smartphone app launched
	Nov.	“Aucfan Pro” integrated analysis tool launched
2012	Dec.	“Global Aucfan,” a comprehensive global ecommerce search site, launched
2013	Apr.	Lists on Mothers Section of the Tokyo Stock Exchange
	Oct.	Aucfan acquires Rakuichi Rakuza, Japan’s largest flea market business, from Marketenterprise Co., Ltd.
2014	Feb.	“Auction Listing Academy and University,” a service to train Yahoo! Japan online auction sellers, launched in partnership with Yahoo! Japan
	May	Beta version of “Auc-checker,” a detection and monitoring service for items traded on online auctions, launched
	Oct.	Acquires 100% of shares in Grand Design & Co., Ltd.

2015	Nov.	Newly established company Grand Design Co., Ltd. Takes over operation of Omni-Channel platform business from Grand Design & Co., Ltd.
	Jan.	Acquires 100% of shares in MiningBrownie, Inc. "aucfan Touch" site launched as official content for iOS smartphones through KDDI's au service
	Feb.	"Aucfan Pro" price analysis tool redesigned Launches "Most Recent Purchase Flash," a new service for users who buy products on the internet
	Apr.	Conducts absorption-type merger of Grand Design & Co., Ltd. Aucfan service "Raku Oroshi" coordinates with CtoJ purchase and wholesale site Begins data coordination with MRT, a medical information platform provider Completes redesign of smartphone site of aucfan.com
	Jun.	Subsidiary Grand Design enters into a capital and business alliance with transcocosmos inc. to develop "Gotcha!mall" shopping mall smartphone app for use in ASEAN countries
	Jul.	Acquires 100% of shares in NETSEA, a new company founded to assume the operations of "DeNA BtoB market," a B2B marketplace operated by DeNA Co., Ltd.
	Sep.	Starts course on Yahoo! Japan Auctions at PC School AVIVA Aucfan price search site begins data coordination with TAU, which commands the largest market share in the purchase of damaged cars
	2016	Jan.
Apr.		Acquires 65% of Smartsourcing, Inc.
Sep.		NETSEA Co., Ltd. and ReValue Inc. merge to form SynaBiz Co., Ltd. Conducts absorption-type merger of MiningBrownie, Inc.
2017	Dec.	Makes netprice Ltd. a subsidiary

Source: Shared Research based on company materials

Major shareholders (as of end-September, 2020)

Top shareholders	Shares held	Shareholding ratio
Shunichi Takenaga	4,106,800	39.79%
S173 Co., Ltd.	950,000	9.20%
Custody Bank of Japan, Ltd. (Trust account)	514,200	4.98%
Custody Bank of Japan, Ltd. (Trust account 9)	425,000	4.12%
SBI Securities Co., Ltd.	192,509	1.86%
JPMBL RE CREDIT SUISSE AG, SINGAPORE BRANCH COLL EQUITY (Standing proxy: MUFG Bank, Ltd.)	137,300	1.33%
FP Growth Support No. A Investment Partnership LLP	100,000	0.97%
Morgan Stanley MUFG Securities Co., Ltd.	98,400	0.95%
Custody Bank of Japan, Ltd. (Securities investment trust account)	98,300	0.95%
Aucfan Directors' Shareholding Association	73,800	0.71%
SUM	6,696,309	64.87%

Source: Shared Research based on company data
The company has 217,000 treasury shares, but is not listed as a major shareholder.

Corporate governance and top management

Corporate governance(as of December 28, 2020)

Corporate governance

Organizational style and capital structure	
Organizational style	Company with Audit & Supervisory Board
Controlling interests	None
Matters related to directors and auditors	
Number of directors under Articles of Incorporation	8
Number of directors	4

Directors' term under Articles of Incorporation	1 year
Chair of Board of Directors	President
Number of outside directors	2
Of outside directors, number nominated as independent officers	2
<hr/>	
Number of Audit & Supervisory Board members under Articles of Incorporation	4
Number of Audit & Supervisory Board members	3
Number of outside Audit & Supervisory Board members	3
Number of independent, outside Audit & Supervisory Board members	4
<hr/>	
Other	
Incentives for directors	Stock option system adopted, other
Persons eligible for stock options	Internal directors, employees, subsidiary directors, subsidiary employees
Disclosure of directors' compensation	Individual compensation not disclosed
Policy on determining amount of compensation and calculation method	None
Takeover defense measures	None

Source: Shared Research based on company data

Top management

Aucfan's president and representative director is Shuichi Takenaga (born 1978). He began an online auction business as a sole proprietor in 2000, while still a student at Kyoto University. In 2004 he founded Defactostandard, Ltd. and became its representative director. In June 2006, Aucfan Co. Ltd. was founded through an incorporation-type company split.

Employees

Aucfan has been reporting consolidated results since FY09/15. As of the end of FY09/20, Aucfan had 146 (149 in FY09/19) employees (consolidated figures). The employee statistics that follow are parent company figures.

Employees

		FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19	FY09/20
Consolidated	No. of employees (excl. temporary workers)		89	105	120	172	149	146
	No. of temporary workers (avg.)		-	19	32	30	24	-
Parent	No. of employees (excl. temporary workers)	52	70	67	69	71	93	96
	No. of temporary workers (avg.)	3	-	9	14	7	-	-
	Average age	30.8	34.3	32.5	33.5	33.3	34.4	34.1
	Average years of service	2.0	2.4	3.8	2.5	3.2	3.3	3.3
	Average annual salary (JPY'000)	4,245	4,536	4,810	5,253	5,398	5,282	5,299

Source: Shared Research based on company data

Note: Average annual compensation includes compensation other than base wages.
Dash (-) denotes when avg. number of temporary staff is less than 10% of employees.

Dividend policy

The company intends to begin paying dividends once earnings and its financial position support such a move. However, since it is still in the growth stage, Aucfan's current priority is building up the internal reserves needed to fund future business expansion and strengthen its financial position. Aucfan has paid no dividends from the time of its founding through FY09/20. It intends to eventually pay dividends, but has not yet made a decision regarding whether paying a dividend is possible or when a dividend might be initiated.

Origin of company name

The name Aucfan comes from the company's vision of gathering together auction fans to create a new whirlwind that will blow around the world.

Profile

Company	Head office
Aucfan Co., Ltd.	2-13-30 Kamiosaki, Shinagawa-ku, Tokyo
Phone	Listed on
+81-3-6809-0951	Tokyo Stock Exchange Mothers
Established	Exchange listing
June 1, 2007	April 25, 2013
Website	Fiscal year-end
http://aucfan.co.jp/en/	September
IR Contact	IR Web
-	http://aucfan.co.jp/en/ir/

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <https://sharedresearch.jp>.

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Aeon Delight Co., Ltd.	Earth Corporation	KLab Inc.	SanBio Company Limited
Aeon Fantasy Co., Ltd.	Edion Corporation	Kondotec Inc.	SANIX INCORPORATED
Ai Holdings Corporation	Elecom Co., Ltd.	Kumiai Chemical Industry Co., Ltd.	Sanrio Company, Ltd.
AI inside Inc.	en Japan Inc.	Lasertec Corporation	SATO HOLDINGS CORPORATION
AirTrip Corp.	Estore Corporation.	Locondo, Inc.	SBS Holdings, Inc.
and factory, inc.	euglena Co., Ltd.	LUCKLAND CO., LTD.	Seikagaku Corporation
ANEST IWATA Corporation	FaithNetwork Co., Ltd.	Marumae Co., Ltd.	Seria Co.,Ltd.
AnGes Inc.	Ferrotec Holdings Corporation	MATSUI SECURITIES CO., LTD.	Serverworks Co.,Ltd.
Anicom Holdings, Inc.	FIELDS CORPORATION	Media Do Co., Ltd.	SHIFT Inc.
Anritsu Corporation	Financial Products Group Co., Ltd.	Medical System Network Co., Ltd.	Shikigaku Co., Ltd
Apaman Co., Ltd.	First Brothers Col, Ltd.	MEDINET Co., Ltd.	SHIP HEALTHCARE HOLDINGS, INC.
ARATA CORPORATION	FreeBit Co., Ltd.	MedPeer, Inc.	SIGMAXYZ Inc.
Artspark Holdings Inc.	Gamecard-Joyco Holdings, Inc.	Mercuria Investment Co., Ltd.	SMS Co., Ltd.
AS ONE CORPORATION	GameWith, Inc.	Metaps Inc.	Snow Peak, Inc.
Ateam Inc.	GCA Corporation	Micronics Japan Co., Ltd.	Solasia Pharma K.K.
Aucfan Co., Ltd.	Good Com Asset Co., Ltd.	MIRAIT Holdings Corporation	SOURCENEXT Corporation
AVANT CORPORATION	Grandy House Corporation	Monex Goup Inc.	Star Mica Holdings Co., Ltd.
Axell Corporation	Hakuto Co., Ltd.	MORINAGA MILK INDUSTRY CO., LTD.	Strike Co., Ltd.
Azbil Corporation	Hamee Corp.	Mortgage Service Japan Limited.	Symbio Pharmaceuticals Limited
AZIA CO., LTD.	Happinet Corporation	MRT Inc.	Synchro Food Co., Ltd.
AZoom, Co., Ltd.	Harmonic Drive Systems Inc.	NAGASE & CO., LTD	TAIYO HOLDINGS CO., LTD.
Base Co., Ltd	HENNGE K.K.	NAIGAI TRANS LINE LTD.	Takashimaya Company, Limited
BEENOS Inc.	Hosokawa Micron Corporation	NanoCarrier Co., Ltd.	Take and Give Needs Co., Ltd.
Bell-Park Co., Ltd.	Hope, Inc.	Net Marketing Co., Ltd.	TEAR Corporation
Benefit One Inc.	HOUSEDO Co., Ltd.	Net One Systems Co.,Ltd.	Tenpo Innovation Inc.
B-lot Co.,Ltd.	H2O Retailing Corporation	Nichi-Iko Pharmaceutical Co., Ltd.	3-D Matrix, Ltd.
Broadleaf Co., Ltd.	IDOM Inc.	Nihon Denkei Co., Ltd.	The Hokkoku Bank, Ltd.
CarBas Co., Ltd.	IGNIS LTD.	Nippon Koei Co., Ltd.	TKC Corporation
Canon Marketing Japan Inc.	i-mobile Co.,Ltd.	NIPPON PARKING DEVELOPMENT Co., Ltd.	TKP Corporation
Career Design Center Co., Ltd.	Inabata & Co., Ltd.	NIPRO CORPORATION	Tsuzuki Denki Co., Ltd.
Carna Biosciences, Inc.	Infocom Corporation	Nishinbo Holdings Inc.	TOCALO Co., Ltd.
CARTA HOLDINGS, INC	Infomart Corporation	Nisso Corporation	TOKAI Holdings Corporation
CERES INC.	Intelligent Wave, Inc.	NS TOOL CO., LTD.	Tokyu Construction Co., Ltd.
Chiyoda Co., Ltd.	ipet Insurance CO., LTD.	OLBA HEALTHCARE HOLDINGS, Inc.	TOYOBO CO., LTD.
Chori Co., Ltd.	Itochu Enex Co., Ltd.	OHIZUMI MFG. CO., LTD.	Toyo Ink SC Holdings Co., Ltd
Chugoku Marine Paints, Ltd.	ItoKuro Inc.	Oisix ra daichi Inc.	Toyo Tanso Co., Ltd.
cocokara fine Inc.	JAFCO Co.,Ltd.	Oki Electric Industry Co., Ltd	Tri-Stage Inc.
COMSYS Holdings Corporation	JMDC Inc.	ONO SOKKI Co., Ltd.	TSURUHA Holdings
COTA CO.,LTD.	JSB Co., Ltd.	ONWARD HOLDINGS CO.,LTD.	VISION INC.
CRE, Inc.	JTEC Corporation	Pan Pacific International Holdings Corporation	VISIONARY HOLDINGS CO., LTD.
CREEK & RIVER Co., Ltd.	J Trust Co., Ltd	PARIS MIKI HOLDINGS Inc.	World Holdings Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.	Japan Best Rescue System Co., Ltd.	PIGEON CORPORATION	YELLOW HAT LTD.
Daiseki Co., Ltd.	JINS HOLDINGS Inc.	P3, inc.	YOSHINOYA HOLDINGS CO., LTD.
Demae-Can CO., LTD	JP-HOLDINGS, INC.	QB Net Holdings Co., Ltd.	ZAPPALLAS, INC.
DIC Corporation	KAMEDA SEIKA CO., LTD.	RACCOON HOLDINGS, Inc.	
Digital Arts Inc.	Kanamic Network Co.,LTD	Raysum Co., Ltd.	
Digital Garage Inc.	kaonavi, inc.	RESORTTRUST, INC.	

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