January 31, 2019

Consolidated Financial Results for the Nine Months Ended December 31, 2018 【Japanese GAAP】

Summary of Quick Financial Announcement of Consolidated Financial Information for the Nine Months Ended December 31, 2018.

Company name : AUTOBACS SEVEN CO., LTD.
Code number : 9832
(URL https://www.autobacs.co.jp/)
Company Representative : Kiomi Kobayashi, Representative Director
Contact for further information : Hiroyuki Takano, General Manager, Finance & Accounting Department
Telephone : +81-3-6219-8787
Stock exchange listing : Tokyo
Submission of Quarterly Business Report : February 7, 2019
Start of cash dividend payments : ―
Supplementary quarterly materials prepared : Yes
Quarterly results information meeting held : None

1. Results for the Nine Months Ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

(Note: Amounts less than 1 million Yen have been rounded down. A figure in ( ) indicates a loss or a negative figure.)

(1) Results of operations:

(Unit: Millions of Yen except for per share information, and % information which indicates increase or decrease( ).)

	Net sales		Operating income		Ordinary income	
		%		%		%
Nine months ended December 31, 2018	165,902	0.5	7,142	(10.0)	7,931	(6.1)
Nine months ended December 31, 2017	165,157	2.5	7,938	19.3	8,450	18.8

Note: Comprehensive income : 4,221 million yen for the nine months ended December 31, 2018 : (34.4)%
6,431 million yen for the nine months ended December 31, 2017 : 37.4%

	Profit attributable to owners of parent		Basic net income per share (Yen)	Basic net income per share - diluted (Yen)
		%		
Nine months ended December 31, 2018	4,667	(11.9)	56.56	―
Nine months ended December 31, 2017	5,296	13.9	64.19	―

(2) Financial position:

(Unit: Millions of Yen except for per share information)

	Total assets	Total net assets	Equity ratio	Net assets per share (Yen)
Nine months ended December 31, 2018	202,101	126,758	% 62.4	1,528.91
Fiscal year ended March 31, 2018	187,354	127,352	67.7	1,537.59

(Reference) Equity : Nine months ended December 31, 2018 : 126,148 million Yen

Fiscal year ended March 31, 2018 : 126,866 million Yen

2. Dividends

Dividends per share (Yen)

	First Quarter	Second Quarter	Third Quarter	Year -end	Annual
Fiscal year ended March 31, 2018	–	30.00	–	30.00	60.00
Fiscal year ended March 31, 2019	–	30.00	–	–	–
Fiscal year ended March 31, 2019 (forecast)	–	–	–	30.00	60.00

Note : Revisions to dividend forecasts published most recently : None

3. Forecast for the fiscal year ending March 2019 (from April 1, 2018 to March 31, 2019)

(Unit: Millions of Yen, percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income	
		%		%		%
Annual	215,000	1.3	9,000	15.5	10,000	21.6

	Profit attributable to owners of parent		Basic net income per share(Yen)
		%	
Annual	6,800	25.8	82.42

Note : Revisions to financial forecasts published most recently : None

4. Other

(1) Significant changes in scope of consolidation : None

(2) Adoption of special accounting policies for quarterly financial statements : None

(3) Changes in accounting policies, accounting estimation change and restatement
1. Changes due to changes in accounting standard : None
2. Changes due to changes in accounting standard except (3)-1. : None
3. Changes due to accounting estimation change : None
4. Restatement : None

(4) Shares outstanding (common stock)
1. Number of shares outstanding (including treasury stock)
Nine months ended December 31, 2018 : 84,050,105 shares
Fiscal year ended March 31, 2018 : 84,050,105 shares

2. Number of treasury stock at the end of period
Nine months ended December 31, 2018 : 1,541,395 shares
Fiscal year ended March 31, 2018 : 1,540,020 shares

3. Average shares outstanding over quarter
Nine months ended December 31, 2018 : 82,509,631 shares
Nine months ended December 31, 2017 : 82,511,334 shares

※These financial results are not subject to quarterly review procedures by certified public accountants or auditing firms.

※Statement regarding the proper use of financial forecasts and other special remarks
(Statement regarding the proper use of financial forecasts)
These forecast performance figures are based on the information currently available to the Company's management and certain assumptions judged rational. Accordingly, these might be cases in which actual results materially differ from forecasts of this report.

5.Qualitative Information concerning Consolidated Business Results for the Nine Months Ended December 31, 2018

Since the Company has decided to change the management of its business resources allocation and business performance evaluation into five businesses starting from the fiscal year ending March 31, 2019, it has divided the reportable segments into the "Domestic AUTOBACS Business," the "Overseas Business" and the "Car Dealer, BtoB and Internet Business," considering the characteristics and size of each business.

In addition, because the Company has decided to expand its sales activities, the profit and cost in the credit business, etc., which were indicated as non-operating income and selling, general and administrative expenses in the previous consolidated fiscal year will be included in and indicated as net sales and cost of sales, and also be included in the business category previously indicated as Others and added to reportable segments as a new item called Other Businesses.

The numbers and year-on-year rates described in the following text are based on the above-mentioned rules after the change.

Explanation of business results

Looking at the trends of the domestic automotive-related industry during the first nine months of the consolidated fiscal year under review, volumes of new vehicle sales in Japan were recovering, and used car registrations and demand for automotive goods and services remained almost the same as the year-ago level.

Under these circumstances, the Group is focusing on measures to enhance earnings growth and asset efficiency based on the Group vision of "Turnaround of domestic AUTOBACS business" and "Development of future growth drivers" in the 2017 Medium-Term Business Plan, which ends in the fiscal year ending March 31, 2020.

The Group's sales during the first nine months of the consolidated fiscal year under review increased by 0.5% year on year, to 165,902 million yen, gross profit declined by 1.7% year on year, to 51,837 million yen, and selling, general, and administrative expenses decreased by 0.2% year on year, to 44,695 million yen, resulting in operating income of 7,142 million yen, a decrease of 10.0% from a year earlier. Ordinary income decreased by 6.1% year on year, to 7,931 million yen. As extraordinary income, receivable insurance for disasters of 169 million yen and extraordinary losses, loss from disasters of 962 million yen and special retirement allowance of 273 million yen due to the integration of subsidiaries were recorded. As a result, profit attributable to owners of parent decreased by 11.9% year on year, to 4,667 million yen.

Results by business segment are as shown below.

[Domestic AUTOBACS Business]

For the first nine months of the consolidated fiscal year under review, total sales for domestic businesses in the AUTOBACS chain (including franchise outlets) increased by 1.1% year on year on both a same-store basis and an overall-store basis.

At domestic AUTOBACS chain stores, sales of tires increased overall in response to strong demand for winter tires associated with nationwide cold temperatures in the third quarter, in addition to strong sales of private brand and low-priced tires as the strengthening of the tire product lineups. Sales of tire chains also rose associated with chain attachment mandatory on some roads. Regarding car electronics, sales of dashcams were strong due to an increasing awareness of dashcams, the growing public interest in driving safety and the expanded product lines and sales systems in every store. Moreover, the Company worked to expand the product lines of its private brand AQ. (Autobacs Quality.) and the brands that offer car-related lifestyles, JKM and GORDON MILLER, to improve the attractiveness of the merchandise in stores.

The Company opened the first JACK & MARIE store, JACK & MARIE Bay Quarter Yokohama, which is Japan's first shop for a motorized lifestyle, in March 2018, and it opened JACK & MARIE LaLaport NAGOYA minato AQULS in September 2018 as well as JACK & MARIE Yokohama Landmark Plaza and JACK & MARIE MARK IS Fukuoka Momochi in November 2018, resulting in an increase in the number of physical stores to four. The Company strived to increase the recognition of the brand by continuing to participate in exhibition events.
Moreover, in November 2018, the Company remodeled the Group flagship store SUPER AUTOBACS TOKYO BAY SHINONOME and opened it under the new name of A PIT AUTOBACS SHINONOME, which provides customers with a comfortable space in which to spend time with vehicles and new discoveries and experiences by making proposals for each lifestyle.
Furthermore, the Company is continuously improving store operations such as personnel placement on the sales floor and time management for employees based on an analysis of the status of customer service in stores, and is proceeding with hardware renovations, including the sales floors and service bays.
In the statutory safety inspection and maintenance services segment, the Company offers "Three-star Compensation for your Comfort," a service provided to customers who undergo its statutory safety inspection or maintenance services, with the aim of differentiating itself from the other companies. The Company also implemented operational innovations in the service bays such as the promotion of reservations for the next statutory safety inspection and 15-minute acceptance inspections. Moreover, the AUTOBACS GUYS 2018, as a symbol of "professional and friendly," were selected from among mechanics who actually work in stores and featured in television commercials and in advertising campaigns in stores. However, because of the decreased number of vehicles that were required to undergo statutory safety inspections in Japan during the first half of the current fiscal year, the number of vehicles that underwent statutory safety inspection and maintenance services decreased by 1.1% year on year, to approximately 452,000 units.
In the automobile purchase and sales segment, the terms and conditions of the CARS franchise chain contract were reviewed at the end of March 2018 to enhance used car purchases and reduce costs at CARS franchise stores. In addition, the car buying business was transferred into this segment from this fiscal period. Moreover, four unprofitable stores were closed and sales activities were strengthened and focused on. As a result of these efforts, the total sales volume in the domestic AUTOBACS business increased by 3.4% year on year, to approximately 21,800 units.
In terms of the number of store openings and closures, the total number of stores declined from 603 as of the end of March 2018 to 597, with two store openings and eight store closures. The number of CARS franchise stores at the end of December was 425, increasing one store from the end of the previous fiscal year.
In addition to these results, sales and the gross margin declined, although the Company's selling prices to each store, which had been reduced in the previous period, were returned to normal prices. The decline was mainly due to the transfer of the businesses of consolidated subsidiaries operating AUTOBACS chain stores to a franchisee during the fiscal year ended March 31, 2018 and increased expenses for store renovations and sales promotions. Consequently, sales in the domestic AUTOBACS business during the first nine months of the consolidated fiscal year under review decreased by 1.1% year on year, to 140,328 million yen, and segment profit declined by 6.7% year on year, to 12,317 million yen.

[Overseas Business]

Sales for the Overseas Business increased by 21.7% year on year, to 8,402 million yen, and the segment loss was 599 million yen (segment loss in the same period of the previous year was 464 million yen). The retail and service business in Thailand enjoyed a year-on-year increase in sales thanks to the active openings of small outlets in the PTG Group's gas station malls, which was continued as in the previous fiscal year. In France, although sales increased due to a rise in the number of stores to be consolidated by two stores because franchise outlets were placed under the direct management of the local subsidiaries, an operating loss expanded because of the adverse effects of bad weather and political instability, including demonstrations. In addition, although sales of maintenance services for vehicles used for car sharing in Singapore were strong, earnings decreased mainly due to sluggish service sales at stores.

In the wholesale business, the segment promoted product development in each region, and sales channels were expanding across national borders. In China, despite increased expenses for business expansion, the wholesale of automotive goods and services grew both domestically and internationally, resulting in an increase in operating income. Moreover, sales of private brand oil products for overseas to Russia and the wholesale of automotive goods and services to the local hypermarkets in the ASEAN region increased. In October 2018, the Company also made AudioXtra Pty Limited in Australia a new consolidated subsidiary to further expand earnings in the overseas wholesale business.

As a result of seven store openings and four store closures, the total number of stores outside Japan stood at 44.

[Car Dealer, BtoB and Internet Business]

Sales for the Car Dealer, BtoB and Internet Business increased by 2.9% year on year, to 22,275 million yen, and the segment loss was 784 million yen (segment loss in the same period of the last fiscal year was 484 million yen). In the imported car dealer business, the Company enhanced the sales system at each dealer and focused on sales activities. Moreover, sales increased because the Company acquired two imported car dealers in Nerima-ward, Tokyo in November 2017 and one imported car dealer in Suginami-ward, Tokyo in August 2018.

In the BtoB business, while the environment remained challenging, for instance with the rise in oil prices and distribution costs, the earnings profile was improving, thanks to the price increase for the wholesale of oil and the emergence of integration effects such as the enhanced lineup of private brand products by CAP Style Co., Ltd., which was established in the second quarter of the current fiscal year.

In the Internet business, the Company is working on the reconstruction of product lineups, channels and promotions. External malls have been concentrated from three channels into one for streamlining purposes, and preparations are being made for the renewal of the Company's own website. In addition, the Company made a start in a new BtoB business by building a platform for online sales aimed at the BtoB business.

[Other Businesses]

Sales in the other businesses decreased by 6.0% year on year, to 1,695 million yen, and the segment profit declined by 14.0% year on year, to 296 million yen. This was mainly because of a decrease in insurance-related commission income.

6. Consolidated Financial Statements

(1)Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	39,069	30,441
Notes and accounts receivable - trade	23,600	35,034
Merchandise	16,419	21,981
Accounts receivable - other	21,972	30,036
Income taxes receivable	32	185
Other	10,693	10,022
Allowance for doubtful accounts	(92)	(88)
Total current assets	111,695	127,612
Non-current assets		
Property, plant and equipment		
Land	22,627	21,572
Other, net	18,599	19,697
Total property, plant and equipment	41,226	41,270
Intangible assets		
Goodwill	1,170	1,363
Other	4,879	4,783
Total intangible assets	6,050	6,146
Investments and other assets		
Guarantee deposits	14,181	13,866
Other	14,254	13,241
Allowance for doubtful accounts	(54)	(36)
Total investments and other assets	28,381	27,071
Total non-current assets	75,658	74,489
Total assets	187,354	202,101
Liabilities		
Current liabilities		
Accounts payable - trade	20,710	34,944
Short-term loans payable	3,252	3,139
Accounts payable - other	12,626	17,808
Income taxes payable	3,014	550
Provision for point card certificates	237	86
Other	6,582	6,427
Total current liabilities	46,425	62,957
Non-current liabilities		
Long-term loans payable	2,190	1,320
Provision	76	39
Net defined benefit liability	1,051	957
Asset retirement obligations	2,110	2,139
Other	8,147	7,929
Total non-current liabilities	13,575	12,385
Total liabilities	60,001	75,343

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Net assets		
Shareholders' equity		
Capital stock	33,998	33,998
Capital surplus	34,298	34,298
Retained earnings	59,639	59,354
Treasury shares	(2,773)	(2,776)
Total shareholders' equity	125,163	124,875
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,924	1,534
Foreign currency translation adjustment	470	377
Remeasurements of defined benefit plans	(692)	(639)
Total accumulated other comprehensive income	1,703	1,272
Non-controlling interests	486	610
Total net assets	127,352	126,758
Total liabilities and net assets	187,354	202,101

(2) Consolidated Statements of Income and Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net sales	165,157	165,902
Cost of sales	112,444	114,065
Gross profit	52,713	51,837
Selling, general and administrative expenses	44,774	44,695
Operating profit	7,938	7,142
Non-operating income		
Interest income	58	50
Dividend income	86	78
Share of profit of entities accounted for using equity method	336	505
Lease revenue-system equipment	535	548
Other	794	890
Total non-operating income	1,811	2,073
Non-operating expenses		
Interest expenses	28	21
Lease cost-system equipment	638	604
Loss on retirement of non-current assets	236	84
Other	396	573
Total non-operating expenses	1,300	1,284
Ordinary profit	8,450	7,931
Extraordinary income		
Gain on sales of investment securities	291	－
Insurance income	－	169
Total extraordinary income	291	169
Extraordinary losses		
Impairment loss	220	－
Special retirement expenses	－	273
Loss on disaster	－	962
Loss on liquidation of subsidiaries and associates	561	－
Total extraordinary losses	782	1,235
Profit before income taxes	7,959	6,865
Income taxes - current	2,791	1,983
Income taxes - deferred	(165)	225
Total income taxes	2,625	2,208
Profit	5,333	4,656
Profit attributable to		
Profit attributable to owners of parent	5,296	4,667
Profit (loss) attributable to non-controlling interests	36	(10)
Other comprehensive income		
Valuation difference on available-for-sale securities	796	(385)
Foreign currency translation adjustment	285	(91)
Remeasurements of defined benefit plans, net of tax	－	53
Share of other comprehensive income of entities accounted for using equity method	16	(10)
Total other comprehensive income	1,098	(434)
Comprehensive income	6,431	4,221
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,391	4,236
Comprehensive income attributable to non-controlling interests	40	(14)

(Additional information)

(Application of “the Partial Change in the Accounting Standards Regarding Tax Effect Accounting”, etc.)

The Company has applied “the Partial Change in the Accounting Standards Regarding Tax Effect Accounting” (Corporate Accounting Standards, No. 28, Feb. 16, 2018), etc. since the beginning of the first three months of the consolidated fiscal year under review and displayed “Deferred tax assets” in the “Investments and other assets” category and “Deferred tax liabilities” in the “Non-current liabilities” category.

(Change of indication method)

Because means of financial payment have recently diversified, and the Company has shifted its own points system to a common points system in the domestic AUTOBACS business, it has decided to expand sales activities in the credit card business, etc., which were included in “Others” under “Non-operating income” and “Selling, general and administrative expenses” during the previous nine months of the consolidated fiscal year. This effort increased the importance of the credit card business and the Company consequently decided to include it in a reportable segment. As a result, the profit and cost in the credit card business, etc. were changed to be included in and indicated as “Net sales” and “Cost of sales” starting from the first three months of the consolidated fiscal year under review.

To reflect this change in the indication method, the Company is currently reallocating the quarterly consolidated financial statements during the previous nine months of the consolidated fiscal year.

As a result, 548 million yen and 76 million yen, which were indicated in “Others” under “Non-operating income” and “Selling, general and administrative expenses” in the Consolidated Statements of Income and Comprehensive Income during the previous nine months of the consolidated fiscal year, were allocated to 548 million yen in “Net sales” and 76 million yen in “Cost of sales,” respectively.

7. Segment Information

I Nine months ended December 31, 2017

1. Information about sales and profit (loss)

(Millions of yen)

	Reportable segments					Reconciling items (Note 1)	Per quarterly consolidated financial statements (Note 2)
	Domestic AUTOBACS business	Overseas business	Car Dealer, BtoB and Internet business	Other business	Total Reportable segments		
Sales							
Revenues from external customers	140,630	6,644	16,595	1,286	165,157	—	165,157
Transactions with other segments	1,302	261	5,056	517	7,137	(7,137)	—
Net sales	141,933	6,906	21,651	1,803	172,295	(7,137)	165,157
Operating profit (loss)	13,207	(464)	(484)	345	12,604	(4,665)	7,938

Notes:

1. The amount (4,665) million yen of "Reconciling items" of Operating profit (loss) is the corporate administrative expense which is not allocable to each reportable segment.
2. Operating profit (loss) corresponds to Operating profit in the Consolidated Statements of Income and Comprehensive Income.

2. Impairment losses of assets, goodwill, and others, by reporting segment

(Material impairment loss on non-current assets)

In the "Domestic AUTOBACS Business", due to the decision to close two stores, the book value of these assets was reduced its value to the recoverable value. The relevant decrease, the Company recorded as an impairment loss under extraordinary losses. The impairment loss of this Business was 54 million yen for the nine months ended December 31, 2017.

In the "Car Dealer, BtoB and Internet business", the book value of the group of assets recording continuous losses was reduced its value to the recoverable value. The relevant decrease, the Company recorded as an impairment loss under extraordinary losses. The impairment loss of this Business was 166 million yen for the nine months ended December 31, 2017.

II Nine months ended December 31, 2018

1. Information about sales and profit (loss)

(Millions of yen)

	Reportable segments					Reconciling items (Note 1)	Per quarterly consolidated financial statements (Note 2)
	Domestic AUTOBACS business	Overseas business	Car Dealer, BtoB and Internet business	Other business	Total Reportable segments		
Sales							
Revenues from external customers	139,358	8,178	17,090	1,275	165,902	–	165,902
Transactions with other segments	969	223	5,185	419	6,798	(6,798)	–
Net sales	140,328	8,402	22,275	1,695	172,701	(6,798)	165,902
Operating profit (loss)	12,317	(599)	(784)	296	11,230	(4,088)	7,142

Notes:

1. The amount (4,088) million yen of "Reconciling items" of Operating profit (loss) is the corporate administrative expense which is not allocable to each reportable segment.
2. Operating profit (loss) corresponds to Operating profit in the Consolidated Statements of Income and Comprehensive Income.

2. Matters concerning change in reportable segments

The business segment that was indicated as "Others" in the past will be included in a reportable segment called "Other Business" starting from the first three months of the consolidated fiscal year under review because of a change in the corporate organization aiming at expanding sales activities in the credit card business, etc.

In addition, following a review of management units, the company has changed the business segments of the internet sales business, which was formerly included in "Domestic AUTOBACS business," to "Used Car Buying, Car Dealer and BtoB Business," and of the used car stores, formerly included in "Used Car Buying, Car Dealer and BtoB Business," to "Domestic AUTOBACS Business" starting from the first three months of the consolidated fiscal year under review. Accompanying these segment changes, the name of the reportable segment "Used Car Buying, Car Dealer and BtoB Business" was changed to "Car Dealer, BtoB and Internet Business."

Please note that the disclosed segment information during the previous nine months of the consolidated fiscal year were prepared based on the classification of the reportable segments after change.

3. Impairment losses of assets, goodwill, and others, by reportable segments

(Material changes in the amount of goodwill)

In the "Overseas Business", we acquired shares of AudioXtra Pty Ltd. which operates wholesaling wireless equipment mounted on cars and ships and manufacturing and wholesaling car electronics in Australia, and we have made AudioXtra into our consolidated subsidiary since October, 2018. The increase in goodwill resulting from this matter was 279 million yen in the nine months ended December 31, 2018.