

Consolidated Financial Results for the Nine Months Ended December 31, 2016 【Japanese Standards】

Summary of Quick Financial Announcement of Consolidated Financial Information For the Third Quarter Ended December 31, 2016.

Company name : AUTOBACS SEVEN CO., LTD.

Code number : 9832

(URL <http://www.autobacs.co.jp/>)

Headquarters : Tokyo, Japan

Company Representative : Kiomi Kobayashi, Representative Director

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Stock exchange listing : Tokyo

Submission of Quarterly Business Report : February 7, 2017

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, 2016 (From April 1, 2016 to December 31, 2016)

(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, 2016	160,687	(2.5)	6,159	(18.0)	7,111	(15.8)
Nine months ended						
December 31, 2015	164,883	(1.8)	7,507	11.6	8,443	4.9

Note: Comprehensive income : **4,681 million yen for the nine months ended December 31, 2016 : (0.1 %)**

4,684 million yen for the nine months ended December 31, 2015 : (17.3 %)

	Profit attributable to owners of parent		Basic net income per share (Yen)	Basic net income per share - diluted (Yen)
Nine months ended		%		
December 31, 2016	4,650	(13.2)	55.35	-
Nine months ended				
December 31, 2015	5,356	13.3	63.04	-

(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, 2016	203,003	131,391	64.6	1,560.69
Fiscal year ended				
March 31, 2016	180,454	131,747	72.8	1,564.86

(Reference) Equity : **Nine months ended December 31, 2016 : 131,117 million Yen**

For the year ended March 31, 2016 : 131,455 million Yen

2. Dividends

	Dividends per share				(Yen)
	First Quarter	Second Quarter	Third Quarter	Year -end	Annual
Fiscal year ended					
March 31, 2016	-	30.00	-	30.00	60.00
Fiscal year ended					
March 31, 2017	-	30.00	-	-	-
Fiscal year ended					
March 31, 2017 (forecast)	-	-	-	30.00	60.00

Note : Revisions to dividend forecasts published most recently : None

3. Forecast for the fiscal year ending March 2017 (from April 1, 2016 to March 31, 2017)

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

	Net sales		Operating income		Ordinary income	
		%		%		%
Annual	206,700	(0.7)	5,200	(22.4)	6,200	(20.3)

	Profit attributable to owners of parent		Basic net income per share(Yen)	
		%		
Annual	3,700	(15.4)	44.04	

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, 2016 : 84,050,105 shares
Fiscal year ended March 31, 2016 : 86,950,105 shares
 - 2. Number of treasury stock at the end of period
Nine months ended December 31, 2016 : 37,764shares
Fiscal year ended March 31, 2016 : 2,945,239 shares
 - 3. Average shares outstanding over quarter
Nine months ended December 31, 2016 : 84,011,053 shares
Nine months ended December 31, 2015 : 84,979,716 shares

※Indication regarding the situation of quarterly review procedures

These financial results are not subject to the quarterly review procedures pursuant to the Financial Instruments and Exchange Act. At the time of the disclosure of the financial results, the procedures for reviewing quarterly financial statements pursuant to the Financial Instruments and Exchange Act had not been completed.

※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, 2016

(1) Qualitative Information Concerning Consolidated Business Results

(i) Business Environment

Regarding the domestic economy during the first nine months of the consolidated fiscal year under review, the domestic stock market began to recover from November on the back of expectations of positive changes in U.S. policies. However, the overall economic outlook remained uncertain and personal spending continued to fail to show strength. As for the domestic consumption of automotive goods and services, overall conditions were on track to recovery, reflecting the active introduction of new types of automobiles by automobile manufacturers, offsetting the effects of the suspension of sales of light motor vehicles mainly due to the issue of the manipulation of fuel consumption data and other adverse events.

(ii) Overview of Each Business

[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) declined by 1.1% year on year on a same-store basis, and rose by 0.1% year on year on an overall-store basis.

In the automotive goods and services segment in the domestic AUTOBACS chain, lineups mainly for high-profile car video recorders and new models of car navigation systems were bolstered, and new goods were added to the lineups of the private brand AQ (Autobacs Quality). The Company also attracted strong attention from customers by launching the “Pedal Watcher (accelerator controller),” a device that prevents accidents caused by errors in the use of the accelerator and brake by a driver, through cooperation with the manufacturer. This was in response to rising awareness of such accidents as a social issue. Moreover, the Company strengthened its sales promotion measures in anticipation that the demand for winter goods would increase year on year, and there was snow in November centered in eastern Japan. As a result, sales of winter goods remained steady. Sales of car interior accessories and car navigation systems remained sluggish in the third quarter, but those of consumable goods, such as tires, oil and batteries, were on a recovery trend.

In the statutory safety inspection and maintenance services segment, a new service called “Three Star Compensation” was launched for customers who have commissioned the Company to perform statutory safety inspections, and TV commercials were aired nationwide to boost recognition of the new service. Despite being faced with a challenging business environment in which the number of vehicles subject to statutory inspection was limited until the second quarter, partly reflecting an increase in the number from September, the number of vehicles that underwent statutory safety inspection and maintenance services increased by 4.3% year on year, to approximately 448,500 units. In the automobile purchase and sales segment, sales to used car dealers by means such as auto auctions grew. This reflected an increase in the number of vehicles purchased due to the fact that the Company strengthened the purchasing of vehicles by each store by broadcasting TV commercials nationally in the same manner as for the services relating to statutory safety inspection. As a result, sales of both new and used cars came to approximately 20,900 units, representing a year-on-year increase of 8.1%.

In terms of the number of domestic store openings and closings, eleven new stores were opened, one store was opened as a result of the change of the business model, one store was relocated, and three stores were closed, resulting in an increase of one store, with the total number of stores rising from 599 as of the end of March 2016, to 600.

The number of CARS franchise stores at the end of December 2016 increased from 480 as of the end of the previous fiscal year, to 499.

[Overseas Business]

In the overseas business, the Company is expanding its businesses with the aim of increasing profits in France and developing future key earnings drivers in the ASEAN region. Looking at the situation in major countries, the business environment in France remained challenging, but the effects of the stagnant economy and other negative factors were mitigating. Under these circumstances, operating income in France declined year on year due to a decrease in sales, despite continued efforts to improve the gross margin by increasing the ratio of sales of services triggered by the start of tire sales. In Thailand, the Company opened the AUTOBACS Jalan Store in November through relocation. The Company is working tirelessly to establish a business model for operating small stores that capitalize on customers' needs for maintenance in outlying areas in Thailand. In Malaysia, the Company is experimenting with different business models centered on the maintenance services offered at the three stores that opened in the previous fiscal year. The Company's business in Singapore was performing well. In Indonesia, a local joint venture opened the AUTOBACS TSM Bandung Store in West Java in December 2016 based on the license agreement.

As a result of two new store openings and one store opening as a result of relocation, the total number of stores outside Japan stood at 36 compared to 33 as of the end of March 2016.

[New Businesses]

As for new businesses, operating income improved significantly year on year at the subsidiary that operates the imported car dealer business. This improvement was mainly attributable to expanded service revenues, the ongoing initiative of developing employees that commenced in the previous fiscal year, and the strengthening of target management.

(iii) Overview of Consolidated Business Results

The Group's sales during the first nine months of the consolidated fiscal year under review decreased by 2.5% year on year, to 160,687 million yen, gross profit declined by 2.7%, to 51,424 million yen, and selling, general, and administrative expenses decreased by 0.2% year on year, to 45,264 million yen, resulting in operating income of 6,159 million yen, a decrease of 18.0% from a year earlier. Ordinary income declined by 15.8% year on year, to 7,111 million yen. As a result, profit attributable to owners of parent declined by 13.2% year on year, to 4,650 million yen.

Results by business segment are as shown below.

<Non-consolidated>

Sales fell by 4.3% year on year, to 124,136 million yen, and operating income declined by 28.7% year on year, to 5,762 million yen. Sales of winter goods increased in the third quarter as a result of snowfall. Over the first nine months, however, wholesale sales of tires and wheels, car accessories, and other items to stores shrank due to improvement of inventory efficiency at domestic AUTOBACS franchise stores. Meanwhile, the gross margin dropped to 20.3% from 21.0% recorded a year ago, due mainly to declines in the gross margin associated with these goods. As for selling, general, and administrative expenses, efforts were made to reduce advertising expenses and other expenses, while expenses associated with the replacement of facilities in the Eastern Japan and Western Japan Logistics Centers increased.

<Domestic Store Subsidiaries>

Sales decreased by 0.7% year on year, to 51,864 million yen, while operating income improved by 809 million yen from a year ago, to 214 million yen. While the segment continued to make an effort in the same manner as previous terms to enhance inventory efficiency, improve the gross margin and achieve the efficient use of expenses, the impact of this effort was magnified due to a year-on-year recovery in

sales in the third quarter. As a result, the segment recorded profits with a significant year-on-year increase in operating income.

<Overseas Subsidiaries>

Sales fell by 15.4% year on year, to 5,975 million yen, while an operating loss of 93 million yen was recorded (compared to operating income of 75 million yen for the same period of the previous fiscal year). This mainly reflected the deterioration in revenue of the French subsidiary and an increase in pre-emptive expenses related to the opening of a store in Thailand.

<Subsidiaries for Car Goods Supplies and Other>

Sales increased 0.4% year on year, to 16,238 million yen, and operating income rose by 9.0% year on year, to 115 million yen. This was attributable to improvements in the profits of the subsidiary operating the imported car dealer business and the one undertaking the wholesale of oil and other merchandise.

<Subsidiaries for Supporting Functions>

Sales decreased by 9.7% year on year, to 2,215 million yen, and operating income declined by 11.2%, to 297 million yen.

<Adjustments to Consolidated Operating Income>

The adjusted amount from the aggregate amount of the operating income of all segments to the consolidated operating income was a subtraction of 137 million yen. This was mainly attributable to elimination from the intersegment transactions.

The relationship between the categories for carrying out business strategies, the Domestic AUTOBACS Business, the Overseas Business and the New Business, and the segments are as follows. The Domestic AUTOBACS Business, the category to which the Company, Domestic Store Subsidiaries and Subsidiaries for Car Goods Supply and Others belong, is comprised of wholesale to franchise outlets and retail sales of automotive goods and services.

The Overseas Business, the category to which mainly overseas subsidiaries belong, is chiefly comprised of retail sales of automotive goods and services.

The New Business, the category to which mainly subsidiaries for car goods supply and others belong, is chiefly comprised of the imported car dealer business.

(iv) Medium-term Strategic Measures

The Company made an announcement titled “AUTOBACS SEVEN Announces Medium-term Management Policy and Basic Strategy” on October 31, 2016. In the third quarter under review, in accordance with this new medium-term policy, the Company launched several measures, including the experiment of new business models.

In the Domestic AUTOBACS Business, the Company opened the AUTOBACS TATEBAYASHI SUWA-CHO Store, a new-style store centered on a gas station. It also opened the AUTOBACS AKITA YURIHONJO Store and the AUTOBACS IWAKUNI Store. These are experimental stores that focus on customer convenience by significantly changing the existing methods of merchandise display and adopting a reservation system for installation services and other services. In statutory safety inspections, aimed at compliance with laws and regulations and the homogenization of customer services, the Company has started giving instructions to stores by developing a manual for carrying out statutory safety inspections. In automobile purchases and sales, the Company has opened a total of six AUTOBACS Used Car Purchase Stores, stores specializing in purchases and sales of used cars, since

March 2016. It has been working to improve profits by increasing the number of purchases of cars in cities, in particular.

In the Overseas Business, while the Company worked to improve earnings on a same-store basis and examined the feasibility of small-scale stores, including the establishment of alliance with local partners, it also took measures such as the development of structures for the wholesale business in relevant countries.

In the New Business, in an effort to improve the earnings of the entire BMW dealer business, the Company acquired all the shares of Motoren Tochigi Corp., an authorized BMW dealership that operates in five locations in Tochigi Prefecture.

Additional Information:

(Application of “Guidance for Recoverability of deferred tax assets”)

“Guidance for Recoverability of deferred tax assets” (ASBJ Guidance No.26, March 28, 2016) applied from the first quarter ended June 30, 2016.

6. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Unit: Millions of Yen)

	March 31, 2016 Amount	December 31, 2016 Amount
Assets		
Current assets		
Cash and deposits	37,052	37,578
Notes and accounts receivable - trade	19,655	35,277
Merchandise	17,213	17,719
Accounts receivable - other	19,039	25,482
Other	14,806	13,841
Allowance for doubtful accounts	(112)	(108)
Total current assets	107,655	129,791
Non-current assets		
Property, plant and equipment		
Land	22,449	22,449
Other, net	19,816	21,442
Total property, plant and equipment	42,265	43,892
Intangible assets		
Goodwill	852	732
Other	5,052	4,339
Total intangible assets	5,904	5,071
Investments and other assets		
Guarantee deposits	16,198	15,538
Other	8,720	8,998
Allowance for doubtful accounts	(290)	(289)
Total investments and other assets	24,628	24,247
Total non-current assets	72,799	73,211
Total assets	180,454	203,003
Liabilities		
Current liabilities		
Notes and accounts payable - trade	13,835	35,239
Short-term loans payable	2,432	4,049
Accounts payable - other	11,219	14,296
Income taxes payable	1,885	848
Provision for business restructuring	76	75
Other provision	532	519
Other	5,500	5,248
Total current liabilities	35,482	60,276
Non-current liabilities		
Long-term loans payable	2,343	606
Provision	87	90
Net defined benefit liability	121	127
Asset retirement obligations	2,269	2,301
Other	8,402	8,208
Total non-current liabilities	13,224	11,334
Total liabilities	48,707	71,611

	March 31, 2016 Amount	December 31, 2016 Amount
Net assets		
Shareholders' equity		
Capital stock	33,998	33,998
Capital surplus	34,299	34,299
Retained earnings	67,125	60,823
Treasury shares	(5,976)	(56)
Total shareholders' equity	129,447	129,064
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,491	1,654
Foreign currency translation adjustment	516	398
Total accumulated other comprehensive income	2,008	2,052
Non-controlling interests	292	274
Total net assets	131,747	131,391
Total liabilities and net assets	180,454	203,003

(2) Consolidated Statements of Income and Comprehensive Income
(Unit: Millions of Yen)

	Nine months ended December 31, 2015 Amount	Nine months ended December 31, 2016 Amount
Net sales	164,883	160,687
Cost of sales	112,037	109,263
Gross profit	52,846	51,424
Selling, general and administrative expenses	45,338	45,264
Operating income	7,507	6,159
Non-operating income		
Interest income	57	48
Dividend income	68	65
Lease revenue-system equipment	813	756
Other	1,472	1,268
Total non-operating income	2,411	2,139
Non-operating expenses		
Interest expenses	34	24
Lease cost-system equipment	889	694
Other	552	468
Total non-operating expenses	1,476	1,187
Ordinary income	8,443	7,111
Extraordinary income		
Gain on sales of investment securities	87	—
Total extraordinary income	87	—
Profit before income taxes	8,531	7,111
Income taxes - current	3,289	2,266
Income taxes - deferred	(101)	203
Total income taxes	3,188	2,470
Profit	5,343	4,641
Profit attributable to		
Profit attributable to owners of parent	5,356	4,650
Loss attributable to non-controlling interests	(13)	(9)
Other comprehensive income		
Valuation difference on available-for-sale securities	(604)	164
Foreign currency translation adjustment	(60)	(128)
Share of other comprehensive income of entities accounted for using equity method	5	3
Total other comprehensive income	(658)	40
Comprehensive income	4,684	4,681
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,705	4,694
Comprehensive income attributable to non-controlling interests	(20)	(13)

7. Notes in case significant changes were made to the amount of shareholders' equity

At the Board of Directors Meeting held on May 10, 2016, the Board approved the cancellation 2,900,000 shares of treasury stock and carried it out on May 31, 2016.

As a result, Retained earnings and Treasury shares were decreased by 5,910 million yen.

8. Segment Information

I Nine months ended December 31, 2015

(1) Information about sales and profit (loss)

(Unit: Millions of Yen)

	The Company	Domestic Store Subsidiaries	Overseas Subsidiaries	Subsidiaries for Car Goods Supply and Other	Subsidiaries for Supporting Functions	Total
Net sales						
Sales to outside customers	95,318	51,390	6,825	10,571	776	164,883
Intersegment sales or transfers	34,438	814	235	5,600	1,677	42,766
Total	129,756	52,205	7,061	16,171	2,453	207,649
Profit(loss)	8,077	(594)	75	55	335	7,949

(2) Difference between operating income and Sum of operating income (loss) in reportable segments for the Nine months ended December 31

(Unit: Millions of Yen)

Income	Amount
Total reportable segments	7,949
Elimination of intersegment transaction	(376)
Inventories	(375)
Amortization of goodwill	(77)
Provision for point card certificates	(7)
Non-current assets	373
Others	21
Operating income	7,507

(3) Impairment losses of assets, goodwill, and others, by reporting segment
Not applicable.

II Nine months ended December 31, 2016
 (1) Information about sales and profit (loss)

(Unit: Millions of Yen)

	The Company	Domestic Store Subsidiaries	Overseas Subsidiaries	Subsidiaries for Car Goods Supply and Other	Subsidiaries for Supporting Functions	Total
Net sales						
Sales to outside customers	91,951	51,071	5,786	11,261	616	160,687
Intersegment sales or transfers	32,185	793	189	4,977	1,598	39,743
Total	124,136	51,864	5,975	16,238	2,215	200,431
Profit(loss)	5,762	214	(93)	115	297	6,297

(2) Difference between operating income and Sum of operating income (loss) in reportable segments for the Nine months ended December 31

(Unit: Millions of Yen)

Income	Amount
Total reportable segments	6,297
Elimination of intersegment transaction	(336)
Amortization of goodwill	(92)
Provision for point card certificates	2
Inventories	30
Non-current assets	265
Others	(7)
Operating income	6,159

(3) Impairment losses of assets, goodwill, and others, by reporting segment
 Not applicable.

9.Subsequent Events

(Business combination by acquisition)

The Company decided at the Board of Directors meeting held on December 26, 2016, to acquire all shares of Motoren Tochigi Corp. and signed the share transfer agreement on the same day. The Company acquired all shares on January 5, 2017.

1. Outline of the business combination

a. Name of the acquiree and its Business

Name of the acquiree : Motoren Tochigi Corp.

Business : Sales of new and certified pre-owned BMW cars, and services

b. Objective of the business combination

Aiming to achieve its management vision “Anything about cars, you find at AUTOBACS,” the Company is striving to expand earnings in the AUTOBACS business while at the same time developing new businesses. As part of this effort, the Company has started operation the authorized BMW dealerships since April 1, 2015.

c. Date of the business combination

January 5, 2017

d. Form of the business combination

Acquisition of shares

e. Company name after combination

Motoren Tochigi Corp.

f. Voting rights acquired through the business combination

100%

g. Primary reasons for determination of controlling company

AUTOBACS SEVEN Co., LTD. acquired the shares in cash.

2. Acquisition cost and breakdown by class of consideration

Consideration for Motoren Tochigi's shares acquired	Cash	1,800 million yen
Acquisition cost		1,800 million yen

3. Description and amount of major acquisition-related cost

Advisory fee and others 9 million yen

4. Amount, reason for recognition, period and method of amortization of goodwill

Not determined yet

5. Amount of assets acquired and liabilities assumed on the date of the business combination and the main components

Not determined yet

(Treasury stock)

At the Board of Directors meeting held on January 31, 2017, the Board approved the repurchase of common stock up to a maximum of 1,500,000 shares to the aggregate amount of 3,000 million yen from February 1, 2017 to February 28, 2017.

10. Additional Information

(1) Consolidated Sales Component and Percentage by Division

(Unit: Millions of Yen)

Nine months ended December 31, 2016

Divisions	Amount	Ratio	Year-on-Year Increase/Decrease Ratio
Wholesale	93,155	58.0	97.1
Retail	65,443	40.7	98.2
Others (letting and hiring fee of leased object)	2,088	1.3	90.9
Total	160,687	100.0	97.5

Note : Consumption taxes are excluded from the above amounts.

(2) Consolidated Sales Component and Percentage by Product Category
(Unit: Millions of Yen)

Nine months ended December 31, 2016

Products	Amount	Ratio	Year-on-Year Increase/Decrease Ratio
Wholesale		%	%
Tires and wheels	26,668	28.6	95.2
Car electronics	17,344	18.6	95.3
Oil and batteries	13,724	14.7	103.6
Accessories and maintenance	22,194	23.8	95.0
Statutory safety inspections and services	3,396	3.7	104.7
Sales of automobiles	3,154	3.4	96.9
Others	6,672	7.2	100.6
Subtotal	93,155	100.0	97.1
Retail			
Tires and wheels	13,304	20.3	97.7
Car electronics	8,044	12.3	92.9
Oil and batteries	5,496	8.4	98.4
Accessories and maintenance	15,886	24.3	96.2
Statutory safety inspections and services	12,409	19.0	102.8
Sales of automobiles	8,268	12.6	106.5
Others	2,034	3.1	83.4
Subtotal	65,443	100.0	98.2
Others (letting and hiring fee of leased object)	2,088	-	90.9
Total			
Tires and wheels	39,973	24.9	96.1
Car electronics	25,389	15.8	94.5
Oil and batteries	19,220	12.0	102.1
Accessories and maintenance	38,080	23.7	95.5
Statutory safety inspections and services	15,806	9.8	103.2
Sales of automobiles	11,422	7.1	103.7
Others	10,795	6.7	94.9
Total	160,687	100.0	97.5

Notes : 1. Consumption taxes are excluded from the above amounts.

2. Effective the fiscal year ended March 31, 2017, the Company has reclassified its product category following the change of sales component and percentage. "Car exterior items", "Car interior items" and "Motor sports" have been aggregated to the new classification of "Accessories and maintenance". "Sales of automobiles" has been presented separately which was included in "Others" previously. "Service" has been changed its name to "Statutory safety inspection and services".

The Year-on-Year ratio information has been recalculated according to the new sales component.

3. "Others" is consisted of revenue of Used car goods sales and Royalty income.

4. The sales amount to application of equity method companies are in the wholesale.