October 30, 2018

Consolidated Financial Results for the Six Months Ended September 30, 2018 【Japanese GAAP】

Summary of Quick Financial Announcement of Consolidated Financial Information For the Six Months Ended September 30, 2018.

Company name：AUTOBACS SEVEN CO., LTD.
Code number：9832
(URL https://www.autobacs.co.jp/)
Headquarters：Tokyo, Japan
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：November 6, 2018
Start of cash dividend payments：November 26, 2018
Supplementary quarterly materials prepared：Yes
Quarterly results information meeting held：Yes (for investors and analysts, etc.)

1. Results for the Six months ended September 30, 2018 (From April 1, 2018 to September 30, 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	
Six months ended		%		%		%
September 30, 2018	97,536	(1.0)	1,508	(32.3)	1,849	(24.5)
Six months ended September 30, 2017	98,473	3.5	2,227	72.0	2,451	56.8

Note: Comprehensive income： 907 million yen for the six months ended September 30, 2018： (55.7)%
2,047 million yen for the six months ended September 30, 2017： - %

	Profit attributable to owners of parent		Basic net income per share (Yen)	Basic net income per share - diluted (Yen)
Six months ended		%		
September 30, 2018	595	(54.8)	7.22	-
Six months ended September 30, 2017	1,317	84.6	15.97	-

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

	Total assets	Total net assets	Equity ratio	Net assets per share (Yen)
Six months ended September 30, 2018	182,713	125,771	% 68.6	1,518.73
Fiscal year ended March 31, 2018	187,354	127,352	67.7	1,537.59

(Reference) Equity : Six months ended September 30, 2018 : 125,309 million Yen
For the 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	82.41

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)
Six Months ended September 30, 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
Six Months ended September 30, 2018 : 1,540,705shares
Fiscal year ended March 31, 2018 : 1,540,020 shares

3. Average shares outstanding over quarter
Six Months ended September 30, 2018 : 82,509,831 shares
Six Months ended September 30, 2017 : 82,511,622 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.

※The Company will be held the Analysts Meeting on October 31, 2018. The presentation material and video picture of the meeting will be uploaded as soon as possible on the Company's website afterwards.

5. Qualitative Information concerning Consolidated Business Results for the Six Months Ended September 30, 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 six months of the consolidated fiscal year under review, volumes of new vehicle sales have been recovering, but used car registrations have fallen below the results of the previous year, and the demand for automotive goods and services remained low.

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 six months of the consolidated fiscal year under review decreased by 1.0% year on year, to 97,536 million yen, gross profit declined by 3.8% year on year, to 30,797 million yen, and selling, general, and administrative expenses decreased by 1.7% year on year, to 29,288 million yen, resulting in operating income of 1,508 million yen, a decrease of 32.3% from a year earlier. Ordinary income decreased by 24.5% year on year, to 1,849 million yen. As special losses, loss from disasters of 689 million yen and special retirement allowance of 270 million yen accounted due to the integration of subsidiaries. As a result, profit attributable to owners of parent decreased by 54.8% year on year, to 595 million yen.

Results by business segment are as shown below.

[Domestic AUTOBACS Business]

For the first six months of the consolidated fiscal year under review, total sales for domestic businesses in the AUTOBACS chain (including franchise outlets) increased by 0.2% year on year on a same-store basis, and by 0.3% year on year on an overall-store basis.

At domestic AUTOBACS chain stores, although sales of tires were strong for private brand and low-priced tires as the expansion of the tire product was strengthened, sales of tires slackened overall because of the strong demand for the replacement of tires with summer tires on a nationwide basis in March 2018, among other causes. Regarding car electronics, sales of dashcams were strong due to the growing public interest in driving safety since October 2017 and the expanded product lines and sales systems in every store, as well as the stable sales of car navigation systems (mainly new systems) through the strengthened sales initiatives. Moreover, the Company expanded 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.

In March 2018, the Company opened the first JACK & MARIE store, JACK & MARIE Bay Quarter Yokohama, which is Japan's first shop for a motorized lifestyle, and in September 2018, it opened the

second JACK & MARIE store, JACK & MARIE LaLaport NAGOYA minato AQULS, and continued to participate in exhibition events with the aim of increasing recognition of the brand.
Furthermore, since the previous period, the Company has been 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 has been 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 existence," 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 that period, the number of vehicles that underwent statutory safety inspection and maintenance services decreased by 5.9% year on year, to approximately 299,000 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. For the first six months of the consolidated fiscal year under review, three unprofitable stores were closed and sales activities were strengthened and focused on. As a result, the total sales volume in the domestic AUTOBACS business increased by 1.3% year on year, to approximately 14,400 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 one store opening and seven store closures. The number of CARS franchise stores at the end of September was 423, decreasing one store from the end of the previous fiscal year.
In addition to these results, the businesses of the consolidated subsidiaries operating AUTOBACS chain stores were transferred to a franchisee during the fiscal year ended March 31, 2018, the Company's selling prices to each store, which had been reduced in the previous period, were returned to normal prices, and the expenses related to its logistics system decreased. Consequently, sales in the domestic AUTOBACS business during the first six months of the consolidated fiscal year under review decreased by 2.8% year on year, to 81,021 million yen, and segment profit declined by 6.6% year on year, to 5,394 million yen.

[Overseas Business]
Sales for the Overseas Business increased by 17.0% year on year, to 5,374 million yen, and the segment loss was 357 million yen (segment loss in the previous year was 320 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, the number of stores to be consolidated increased by two stores because franchise outlets were placed under the direct management of the local subsidiaries. Although sales and gross margin increased year on year due to the transfer of the stores, operating income stayed the same level as the same period of the last fiscal year. In addition, although sales of maintenance services for vehicles used for car sharing in Singapore were strong, earnings decreased due to a temporary decrease in store staff. In the wholesale business, despite increased expenses for business expansion in China, the wholesale of automotive goods and services for China grew, resulting in a reduction in operating loss. 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.
As a result of six store openings and two store closures, the total number of stores outside Japan stood at 45.

[Car Dealer, BtoB and Internet Business]

Sales for the Car Dealer, BtoB and Internet Business increased by 4.5% year on year, to 14,357 million yen, and the segment loss was 786 million yen (segment loss in the last fiscal year was 374 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, the Company raised the price for the wholesale of oil, and sales increased. In addition, although income from accessories and other goods improved, operating income decreased year on year due to the continual influence of the rise in oil prices and distribution costs. In addition, the businesses of Cores International, Inc. and Plaster K.K., which operate wholesale businesses, were transferred and consolidated into a new company, CAP Style Co., Ltd., which was established in July 2018, and the setup for future business expansion was undertaken.
In the Internet business, the Company is working on the reconstruction of product lineups, channels and promotions. External malls were concentrated from three channels into one for streamlining purposes, and preparations were made for the renewal of the Company's own website. In addition, the Company is building a platform for online sales aimed at the BtoB business.

[Other Businesses]

Sales in the other businesses decreased by 3.8% year on year, to 1,120 million yen, and the segment profit declined by 9.3% year on year, to 255 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 September 30, 2018
Assets		
Current assets		
Cash and deposits	39,069	37,357
Notes and accounts receivable - trade	23,600	26,041
Merchandise	16,419	18,600
Accounts receivable - other	21,972	16,695
Income taxes receivable	32	153
Other	10,693	10,273
Allowance for doubtful accounts	(92)	(90)
Total current assets	111,695	109,030
Non-current assets		
Property, plant and equipment		
Land	22,627	21,572
Other, net	18,599	18,614
Total property, plant and equipment	41,226	40,187
Intangible assets		
Goodwill	1,170	1,155
Other	4,879	4,461
Total intangible assets	6,050	5,616
Investments and other assets		
Guarantee deposits	14,181	14,100
Other	14,254	13,815
Allowance for doubtful accounts	(54)	(37)
Total investments and other assets	28,381	27,879
Total non-current assets	75,658	73,682
Total assets	187,354	182,713
Liabilities		
Current liabilities		
Accounts payable - trade	20,710	23,643
Short-term loans payable	3,252	3,289
Accounts payable - other	12,626	10,655
Income taxes payable	3,014	531
Provision for point card certificates	237	132
Other	6,582	6,174
Total current liabilities	46,425	44,426
Non-current liabilities		
Long-term loans payable	2,190	1,320
Provision	76	41
Net defined benefit liability	1,051	1,014
Asset retirement obligations	2,110	2,184
Other	8,147	7,954
Total non-current liabilities	13,575	12,515
Total liabilities	60,001	56,941

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Net assets		
Shareholders' equity		
Capital stock	33,998	33,998
Capital surplus	34,298	34,298
Retained earnings	59,639	57,759
Treasury shares	(2,773)	(2,774)
Total shareholders' equity	125,163	123,281
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,924	2,161
Foreign currency translation adjustment	470	523
Remeasurements of defined benefit plans	(692)	(657)
Total accumulated other comprehensive income	1,703	2,027
Non-controlling interests	486	462
Total net assets	127,352	125,771
Total liabilities and net assets	187,354	182,713

(2) Consolidated Statements of Income and Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	98,473	97,536
Cost of sales	66,457	66,738
Gross profit	32,016	30,797
Selling, general and administrative expenses	29,788	29,288
Operating profit	2,227	1,508
Non-operating income		
Interest income	38	34
Dividend income	61	49
Share of profit of entities accounted for using equity method	58	89
Lease revenue-system equipment	355	363
Other	592	629
Total non-operating income	1,106	1,165
Non-operating expenses		
Interest expenses	17	14
Lease cost-system equipment	428	404
Loss on retirement of non-current assets	220	83
Other	216	321
Total non-operating expenses	883	824
Ordinary profit	2,451	1,849
Extraordinary income		
Gain on sales of investment securities	123	－
Insurance income	－	97
Total extraordinary income	123	97
Extraordinary losses		
Impairment loss	166	－
Special retirement expenses	－	270
Loss on disaster	－	689
Total extraordinary losses	166	960
Profit before income taxes	2,408	987
Income taxes - current	938	261
Income taxes - deferred	130	148
Total income taxes	1,068	409
Profit	1,339	577
Profit attributable to		
Profit attributable to owners of parent	1,317	595
Profit (loss) attributable to non-controlling interests	21	(17)
Other comprehensive income		
Valuation difference on available-for-sale securities	492	237
Foreign currency translation adjustment	209	63
Remeasurements of defined benefit plans, net of tax	－	35
Share of other comprehensive income of entities accounted for using equity method	5	(6)
Total other comprehensive income	708	329
Comprehensive income	2,047	907
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,027	920
Comprehensive income attributable to non-controlling interests	20	(12)

(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 six 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 six months of the consolidated fiscal year.

As a result, 367 million yen and 45 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 six months of the consolidated fiscal year, were allocated to 367 million yen in “Net sales” and 45 million yen in “Cost of sales,” respectively.

7. Segment Information

I Six months ended September 30, 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	82,688	4,446	10,476	862	98,473	-	98,473
Transactions with other segments	634	149	3,267	302	4,353	(4,353)	-
Net sales	83,323	4,595	13,743	1,164	102,826	(4,353)	98,473
Operating profit (loss)	5,775	(320)	(374)	281	5,361	(3,133)	2,227

Notes:

1. The amount (3,133) 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

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 six months ended September 30, 2017.

II Six months ended September 30, 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	80,428	5,232	11,048	827	97,536	-	97,536
Transactions with other segments	592	142	3,308	293	4,337	(4,337)	-
Net sales	81,021	5,374	14,357	1,120	101,873	(4,337)	97,536
Operating profit (loss)	5,394	(357)	(786)	255	4,506	(2,997)	1,508

Notes:

1. The amount (2,997) 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 six 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

Not applicable.