

2nd Quarter Results for Fiscal Year Ending February 28, 2018

October 13, 2017

IDOM Inc.

I . Summary of results

II . Main initiatives

III . Performance analysis

Reference

IV . Topics

V . Supplementary information

[Supplementary information on accounting standards](#)

The IDOM Group has examined the possibility of adopting IFRS for financial reporting from the year-end of the fiscal year ended February 28, 2017, for the purpose of improving comparability of financial information in international capital markets. However, with comprehensive considerations on various factors and impacts on the Group's earnings from estimated costs to occur in relation to adopting IFRS, the Group has concluded not to adopt IFRS for the time being and continue to report financial statements based on Japanese GAAP for a time.

I . Summary of results

2Q summary

	FY 2017 Mar - Aug		FY 2018 Mar - Aug
Number of cars purchased*	87,998 cars	➔	83,027 cars
Number of cars sold*			
Wholesale	51,877 cars	➔	51,262 cars
Retail	45,421 cars	➔	62,979 cars
SG&A expenses (Non-consolidated)	22,487 million yen	➔	24,132 million yen
Operating income (Non-consolidated)	2,167 million yen	➔	2,709 million yen
Operating income (Consolidated)	2,172 million yen	➔	2,528 million yen

* Number of cars handled at directly managed stores.

II . Main initiatives

The 2 main initiatives

Gulliver stores



(The original Gulliver stores which had primarily focused on purchasing)

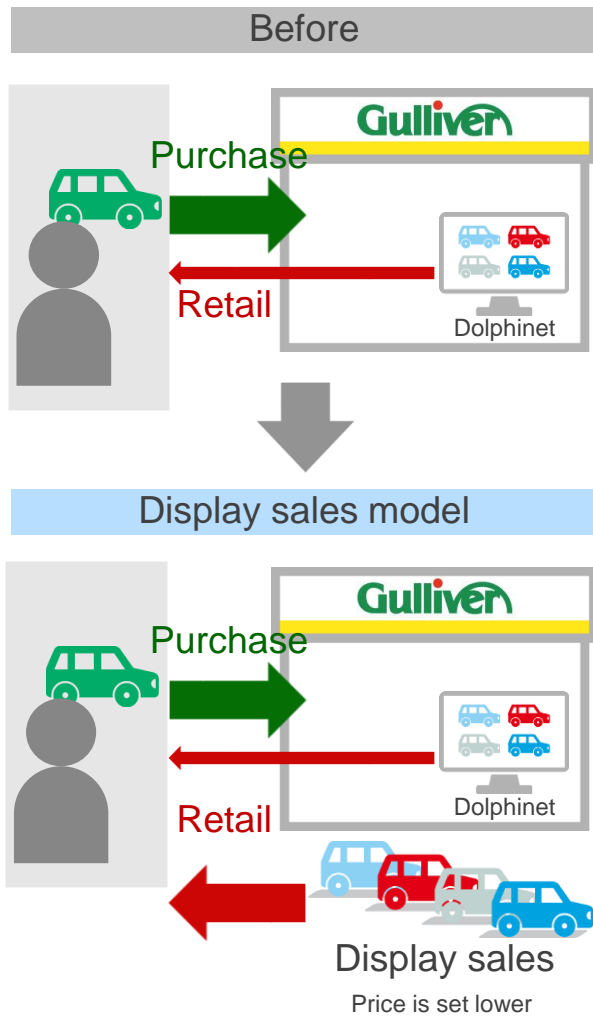
- Model transformation to start display sales
- The target stores planned in April completed the model transformation by the end of August

Display stores

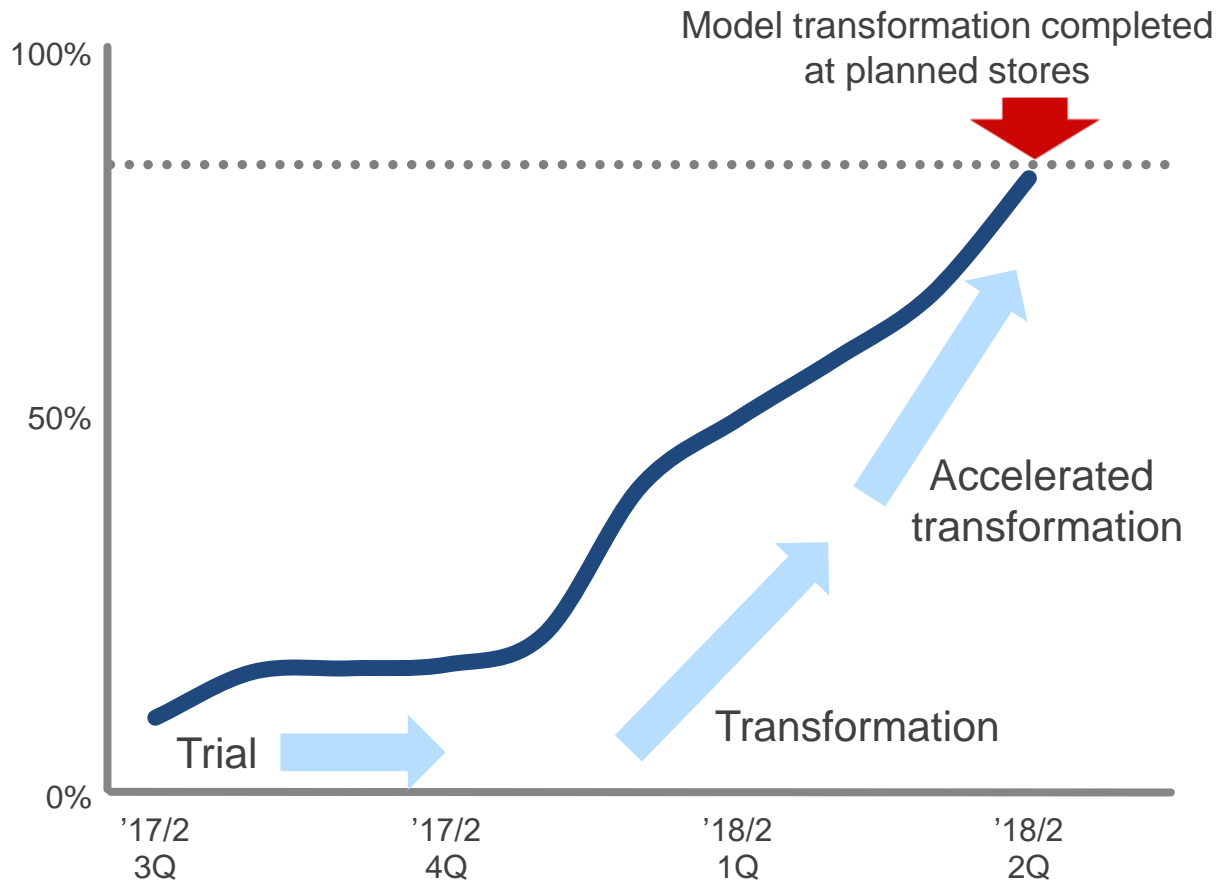


- Continuing to open new stores under the medium-term business strategy
- Progress is in accordance with the plan set at the beginning of the year

Gulliver stores display sales model transformation



Display sales model transformation at Gulliver stores



* The percentage of Gulliver stores in which the display sales model is implemented

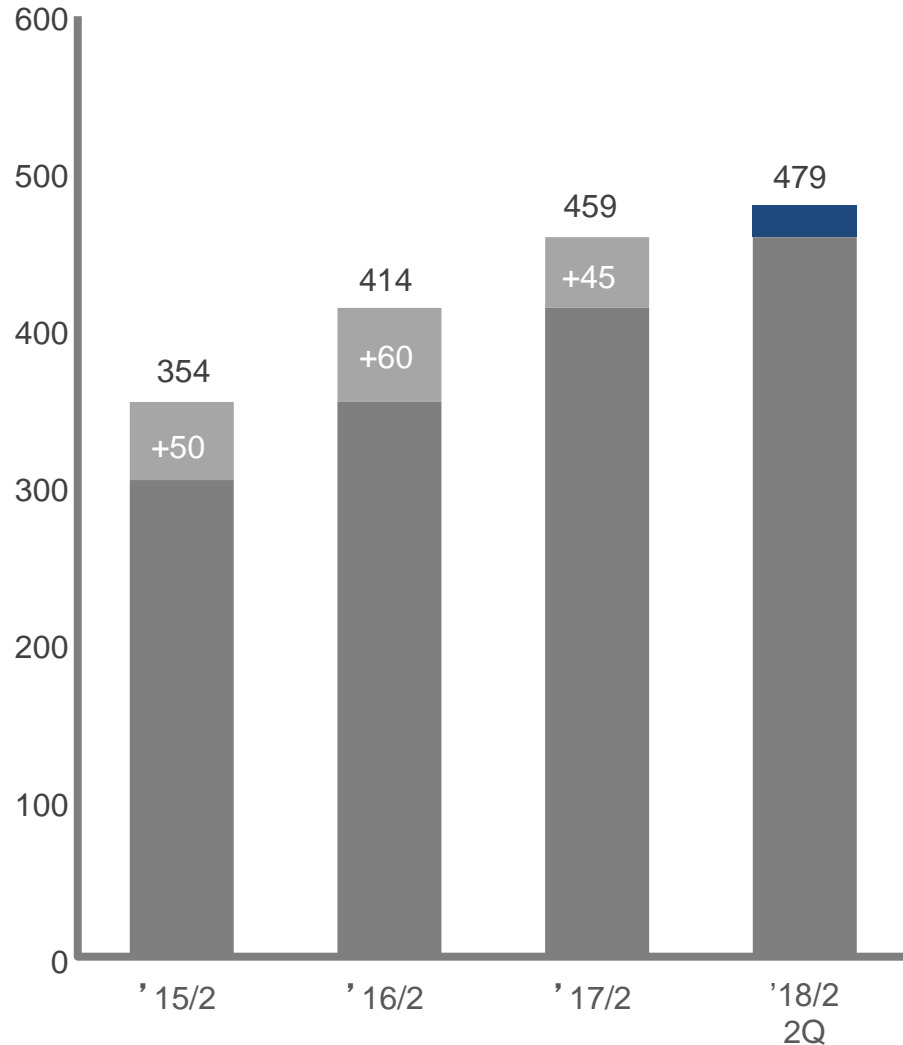
*Dolphinet: Online car sales system

Gulliver stores adopted display sales model to raise its profitability. Under this model, Gulliver stores display and sell lower price cars in addition to the conventional operation of purchasing and selling through Dolphinet. Model transformation was accelerated in 2Q and completed by the end of August at all the targeted stores planned in April.

Store openings

Number of directly managed stores

(unit: stores)



Net increase

20 stores

Newly opened

22

Closed

2

40 stores are under
“contracted & unopened” status
(As of August 31, 2017)

*The number of stores under “contracted & unopened” status includes stores that are expected to open after the current fiscal year.

Store openings (March - Augst)



OL R-8 Takaoka
Takaoka, Toyama



OL R-8 Kanazawa
Kanazawa, Ishikawa



OL R-3 Minamitakae
Kumamoto, Kumamoto



OL R-208 Omuta
Omuta, Fukuoka



OL 254 Kawagoe
Kawagoe, Saitama



OL Tendo
Tendo, Yamagata



OL Hitachi-Tajiri
Hitachi, Ibaraki



OL Ichinoseki
Ichinoseki, Iwate



OL Sapporo Shiroishi
Sapporo, Hokkaido



OL Asakuchi-Konko
Asakuchi, Okayama



OL Tsuyama
Tsuyama, Okayama



OL R-136 Mishima
Mishima, Shizuoka



OL Kumagaya
Kumagaya, Saitama



OL Mito Bypass
Mito, Ibaraki



Nobeoka
Nobeoka, Miyazaki



Store openings (March - Augst)

(Shopping Center)



Kouchi
Kouchi



Nagano
Nagono



AEON MALL Tottori-Kita
Tottori



(Gulliver display sales model)

R-8 Nagahama
Nagahama, Shiga



Iizuka
Iizuka, Fukuoka



Kakegawa
Kakegawa, Shizuoka



Kurobe
Kurobe, Toyama



* Display sales store under the original Gulliver brand is opened when the property meets requirements for OUTLET stores and the area is uncovered by existing Gulliver stores.

III. Performance analysis

[Consolidated] Analysis of changes in operating income for 2Q

FY 2017 2Q [Consolidated] operating income
2,172 million yen

FY 2018 2Q [Consolidated] operating income
2,528 million yen

Impact on
operating income

1

Display sales model implemented to Gulliver stores

(Per-unit profit set lower, retail car sales increased)

positive

2

Increases in the number of display sales stores

(Retail car sales increased)

positive

3

SG&A expenses

(New store costs increased, advertising costs for purchasing slightly decreased)

negative

4

Australian subsidiary

(Operating income declined)

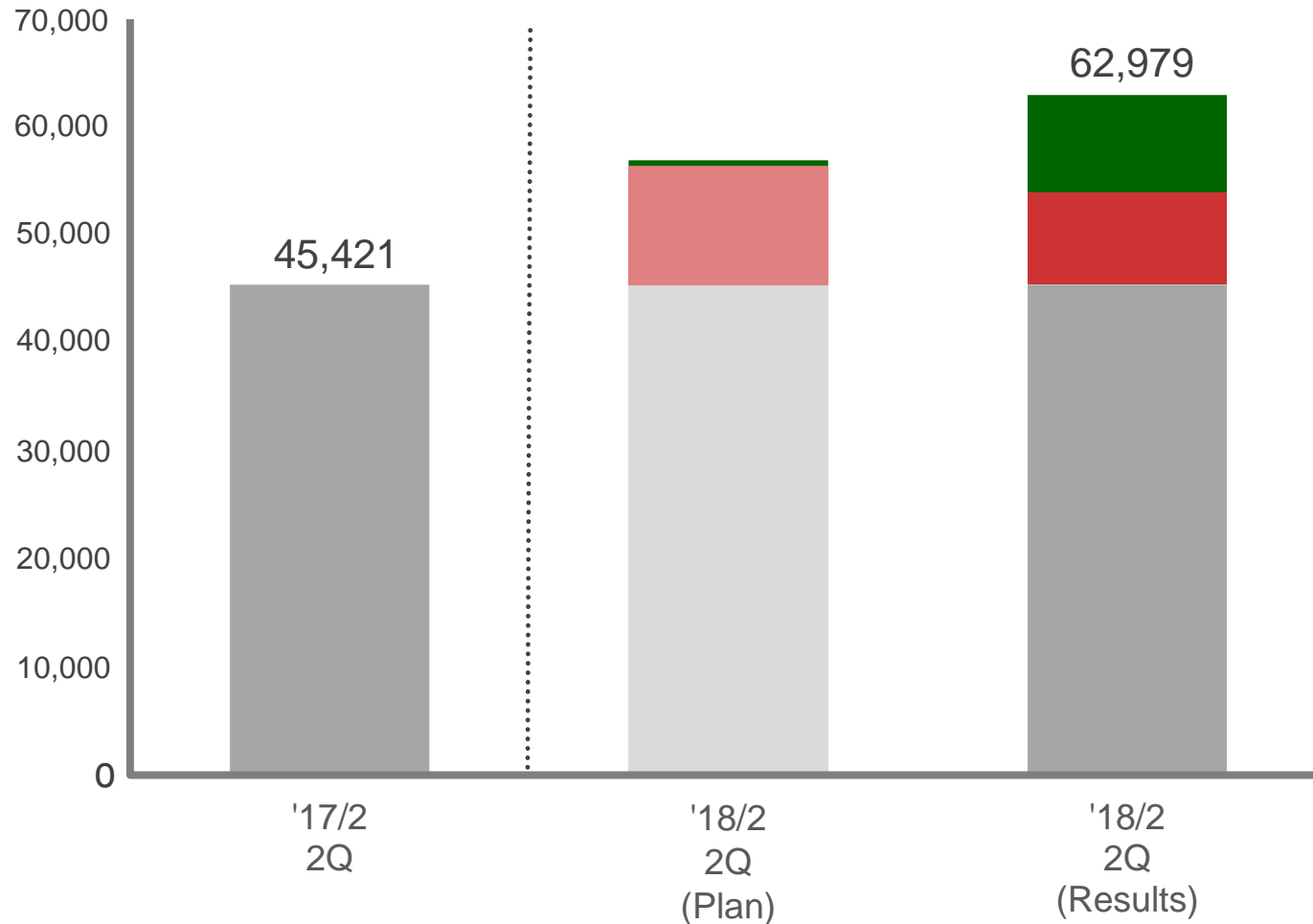
negative

- 1 Gulliver display sales model
- 2 Display sales stores
- 3 SG & A expenses
- 4 Australian subsidiary

Total number of retail cars sold at all directly managed stores (6 months)

(Total number of cars for retail at all directly managed stores including the original Gulliver stores)

(No. of cars)



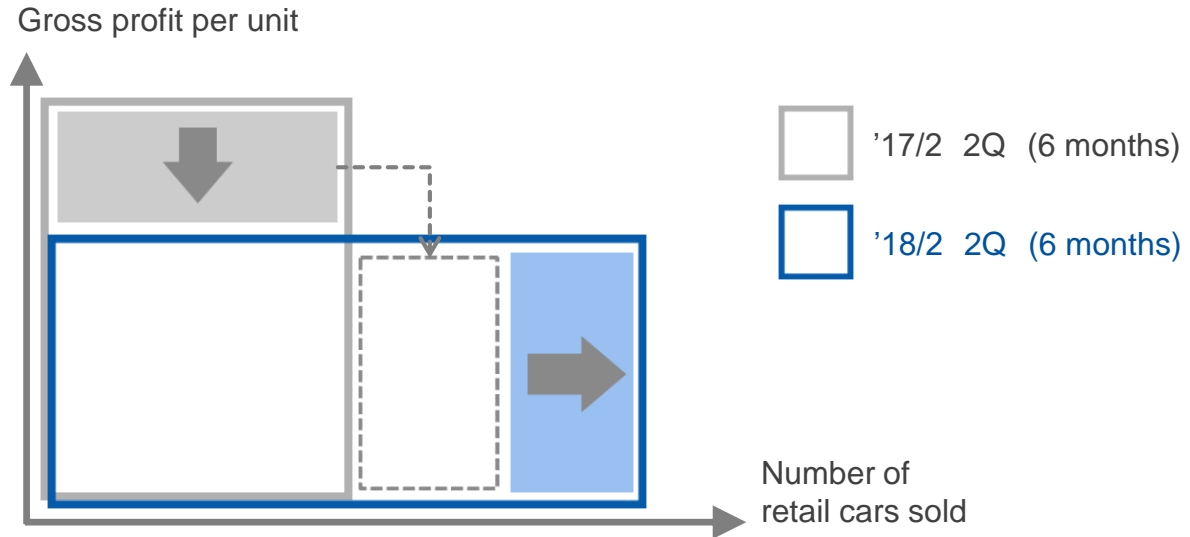
Factors contributed to the growth

Display sales at Gulliver stores

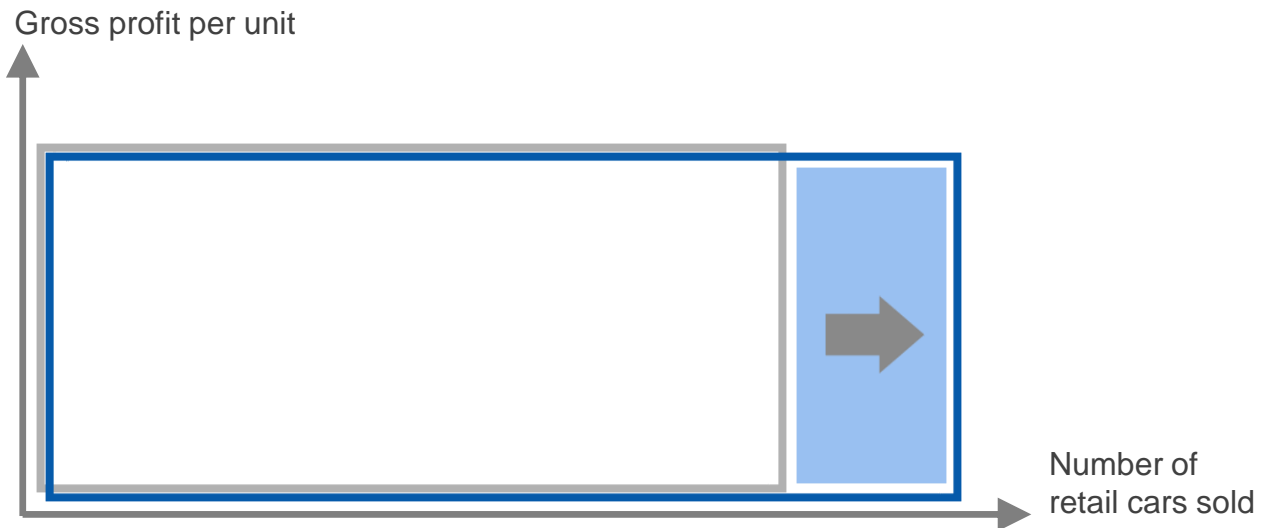
Increase in number of display sales stores



289 stores



190 stores

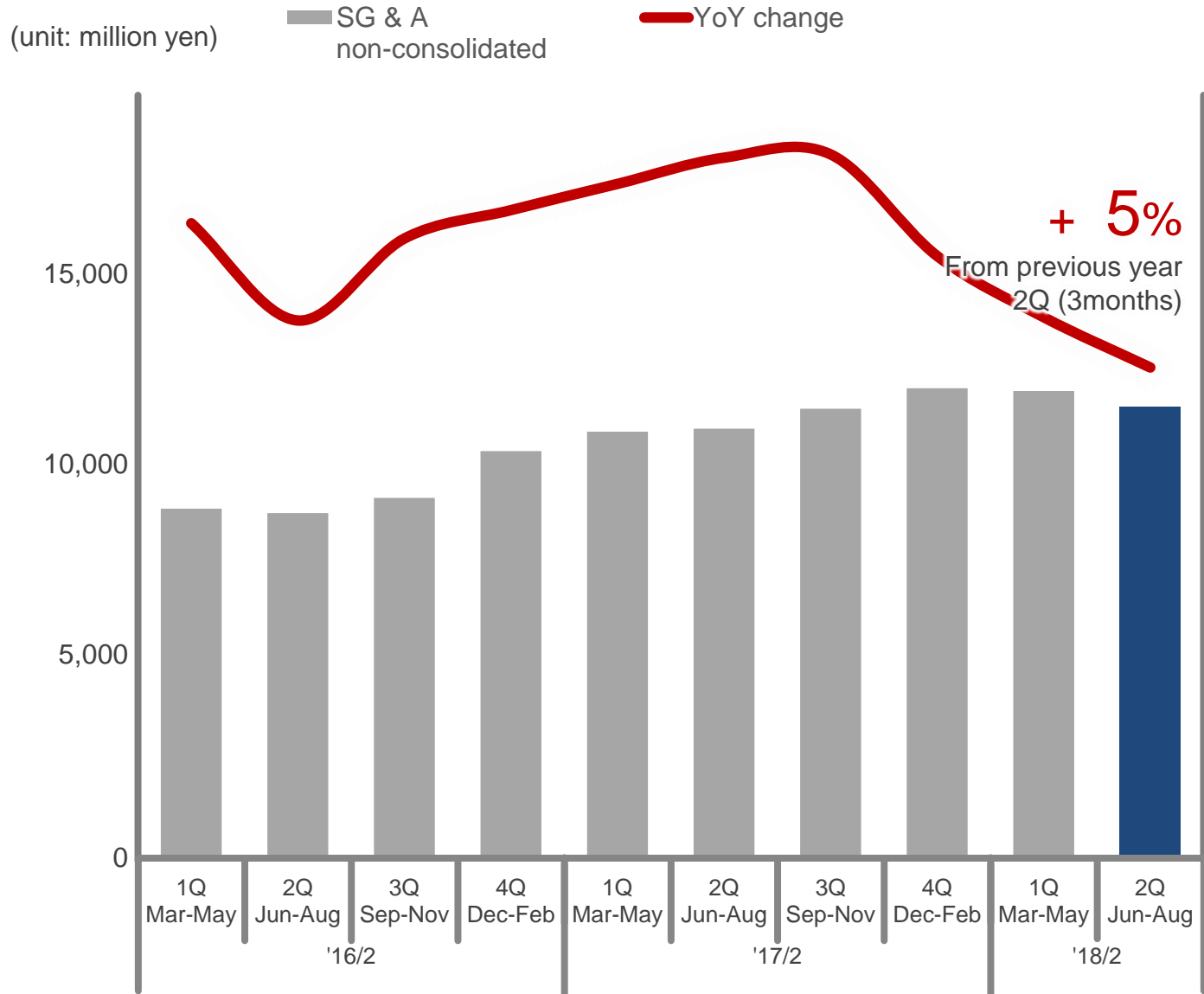


Gulliver stores: Strategic price change (lowering unit price) increased the unit sales. Gross profit per unit decreased but the total gross profit increased YoY.

Display stores: Unit sales grew on the back of the increase in the number of stores. Resulted in gross profit per unit to increase YoY.

- 1 Gulliver display sales model
- 2 Display sales stores
- 3 SG & A expenses**
- 4 Australian subsidiary

Trends in SG & A (non-consolidated)



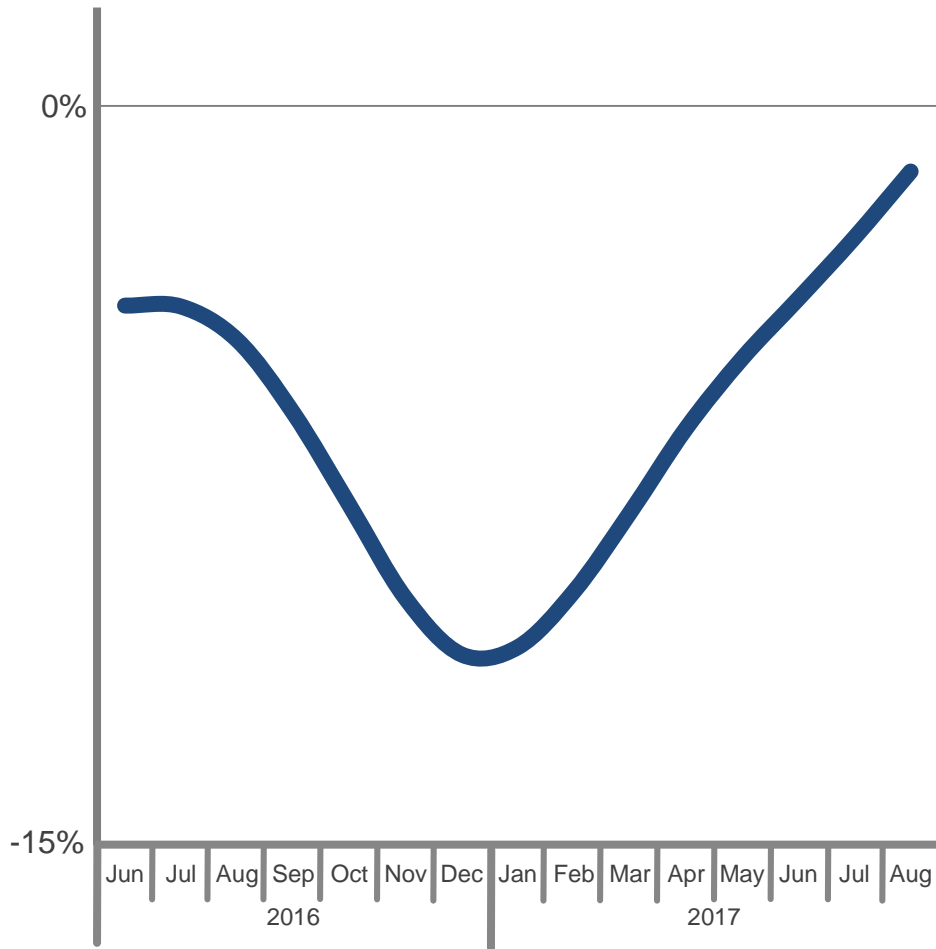
Factors for the YoY change

- [1] Store operation costs
 - Increased by a growth in the number of stores
- [2] Advertising for purchasing.
 - Slightly decreased
- [3] New service costs
 - Decreased

SG&A is shifting in to a restraining trend from the upturn trend resulted from increases in advertising costs for purchasing business.
 [2] The advertising costs for purchasing in the second quarter (Jun-Aug) slightly decreased YoY.
 [1] Increase in the store operation costs and [3] decrease in new service costs are in line with the plan.

- 1 Gulliver display sales model
- 2 Display sales stores
- 3 SG & A expenses
- 4 Australian subsidiary**

New vehicle market in Western Australia (% change YoY)

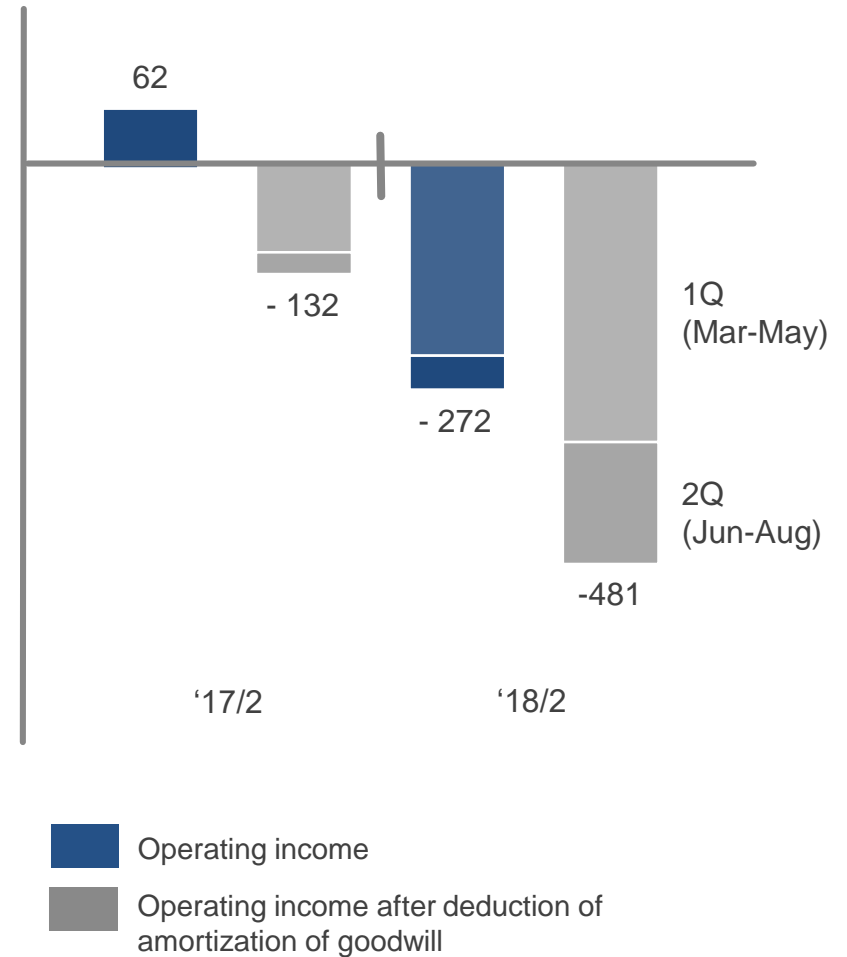


Source: Sales of New Vehicle, Australian Bureau of Statistics (September 2017)

* Buick Holdings (DVG) operates multi-brand new car dealerships in Western Australia

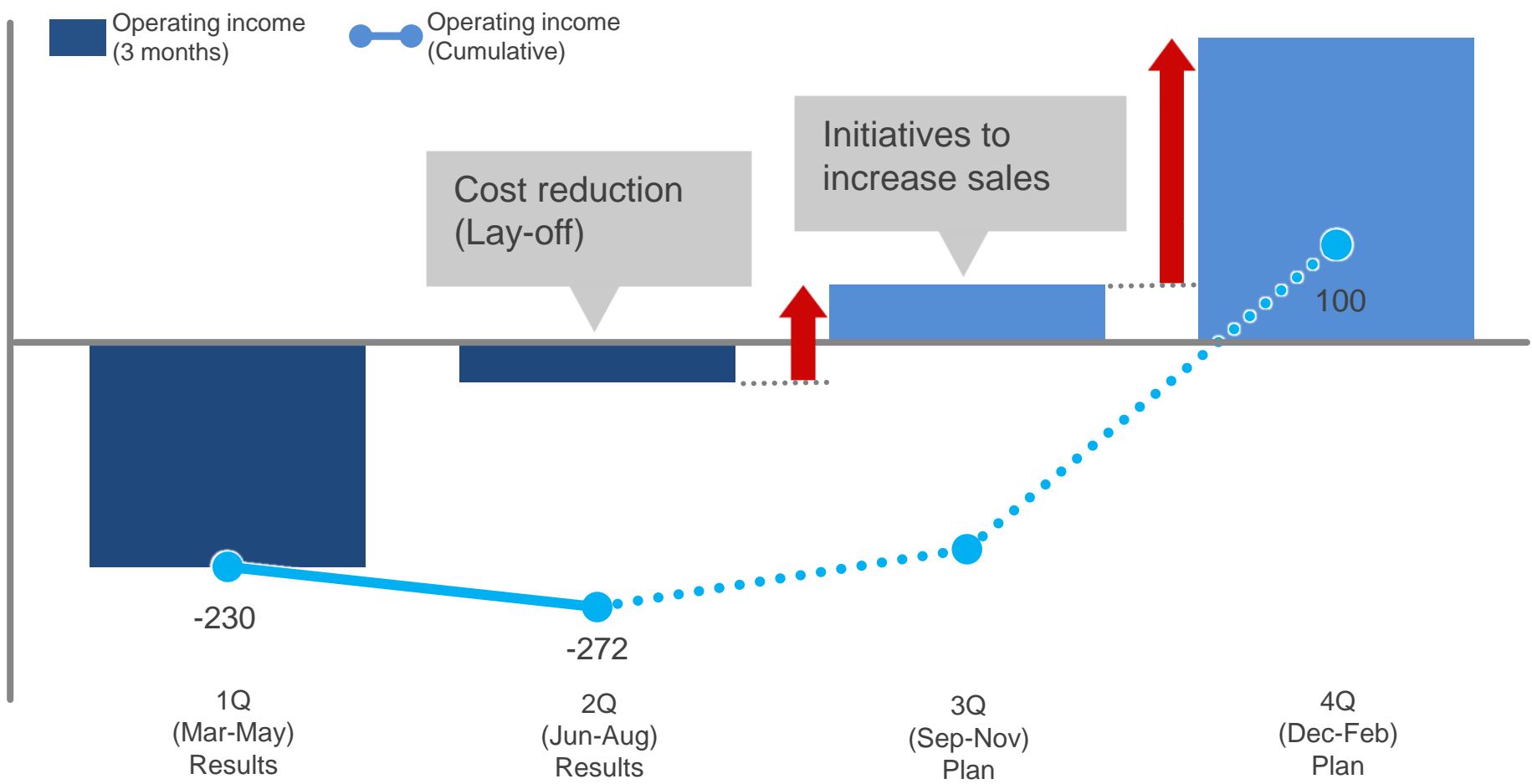
Operating income and operating income after deduction of amortization of goodwill

(unit: million yen)



Operating income

(unit: million yen)

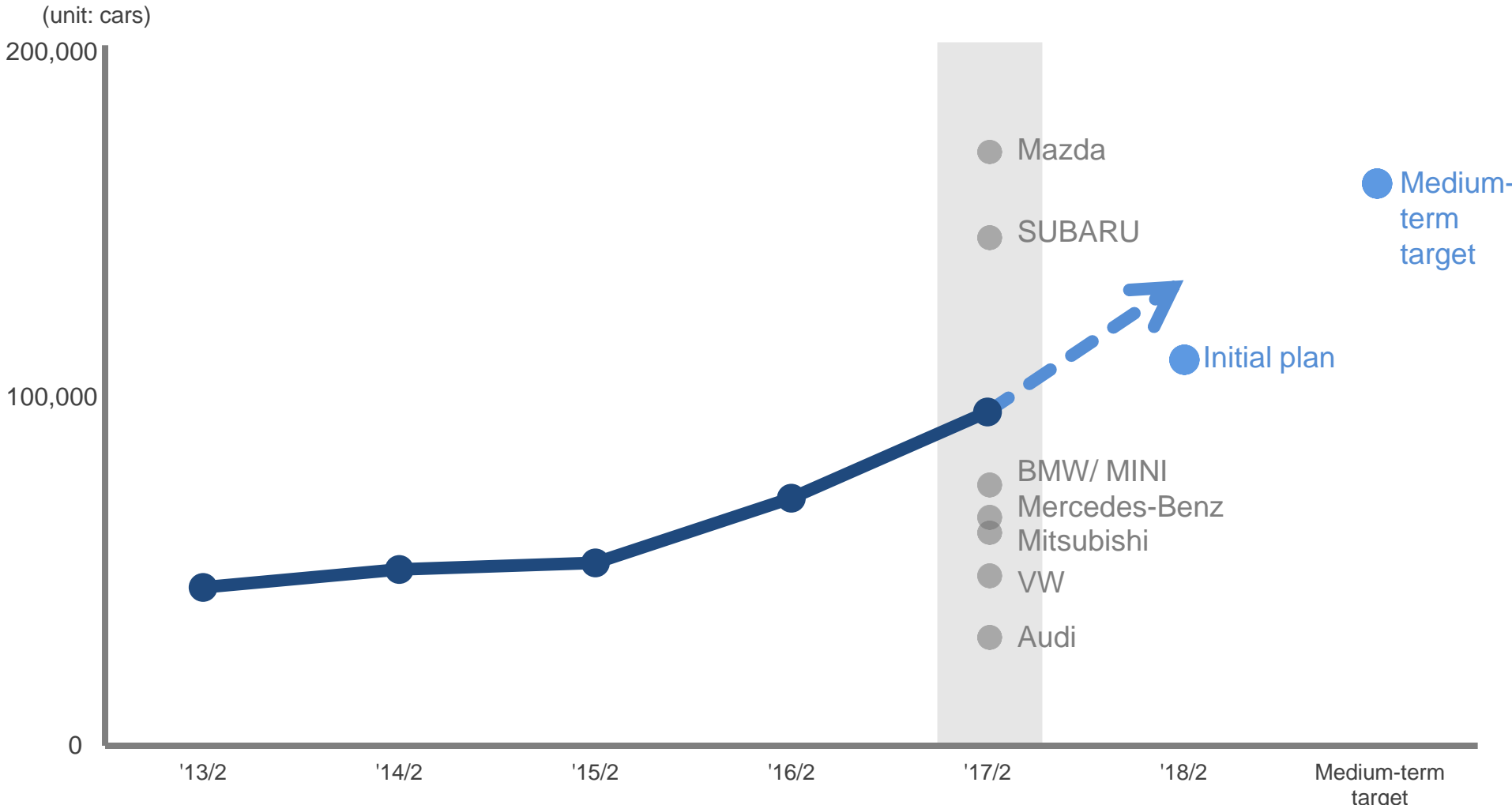


Cost reduction (lay-off) conducted in 2Q. Lay off costs of 38 million yen were recorded as an extraordinary expense. Improvement in operating income is expected from 3Q. After 3Q, in addition to the cost reduction, initiatives undertaken to increase sales is expected to contribute in profit improvement.

Growth in retail and the beyond

Retail capability is becoming IDOM's solid strength

Number of retail cars sold by IDOM



● Number of cars sold in Japan by manufactures (20,000 to 200,000 unit sales, March 2016 to February 2017)
Source: Japan Automobile Dealers Association

IV. Topics

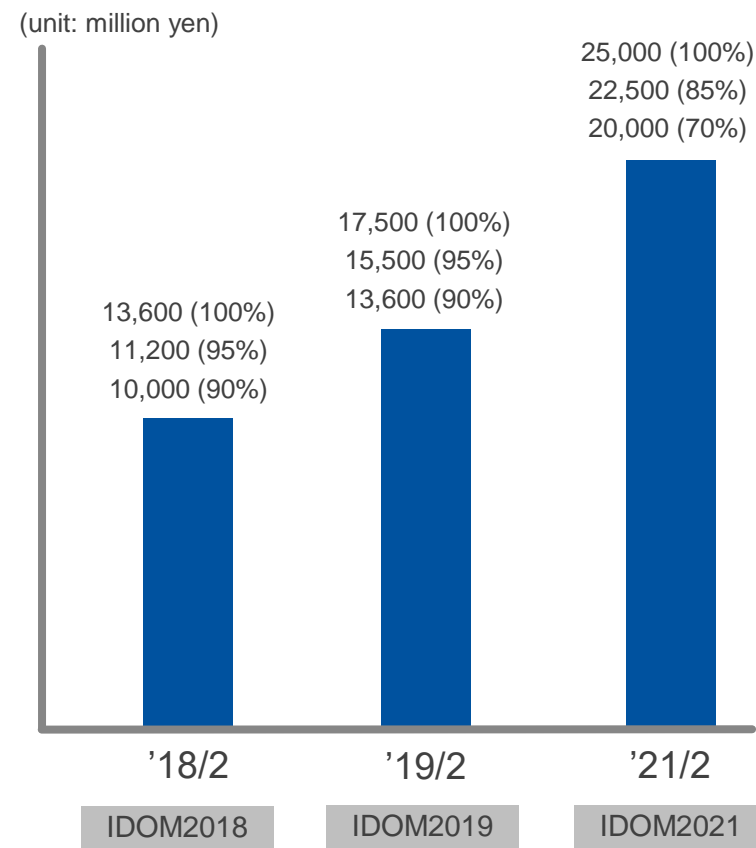
Additional issue of stock options with performance-based conditions

(Announced on July 12, 2017)

The series of stock acquisition rights and the targeted shares

Profit target condition (operating income)

	IDOM2018	IDOM2019 (Newly set)	IDOM2021
Issued October 2016	The 4th (0.9 million shares)	—	The 5th (2.1 million shares)
July 2017	The 6th (0.3 million shares)	The 7th (0.5 million shares)	The 8th (1.2 million shares)



* The amounts shown in () indicate the number of shares targeted by each series of stock acquisition rights
 The total number of targeted shares of the 4th to 8th series: 5 million shares (4.93% of the current total voting rights)

Features of this stock option program

- Exercisable only if profit targets are achieved
- Eligible allottees can be determined retrospectively from directors and employees
- No expenses are required to be recorded (anticipated)

* The percentage shown in () indicates the portion that can be exercised having achieved the stated profits

Please see the Company's announcement made on July 12, 2017 for the details.



Monthly flat-rate rental service
using purchased used cars in stock

- Monthly options expanded to 6 plans*
- Started incorporating corporate users
- Introduced sharing allowance up to 5 users

* 29,800, 39,800, 59,800, 79,800, 200,000, and 300,000 yen



C2C platform option for
uncontracted customers

- In June 2017, service name changed to “Gulliver FleMa” from “Kurumajiro”
- Launched new App in July, 2017



攻めのIT経営銘柄2017

Competitive IT Strategy Company

IDOM's IT uses and the evaluation

- Active involvement by the management
- Active disclosure (corporate website)

I. Management

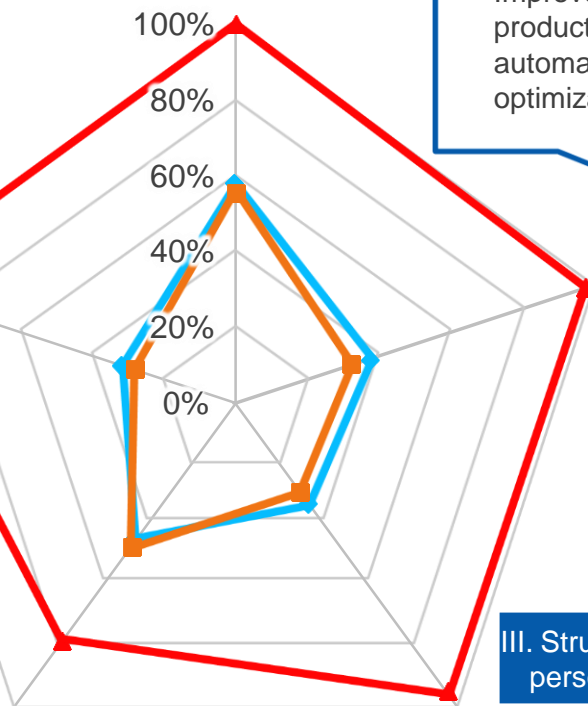
- New business development utilizing the IT and resources cultivated through the operation of existing business (“NOREL”, “Gulliver Free Market”)
- Improvement of existing business and increasing productivity (cloud servers and BI applications, automated pricing system, call center operation optimization)

- Efficacy valuation with IT-ROI, and PDCA to maximize the IT investments

V. Valuation

II. Strategic IT use

- ◆ Average (all)
- Average(wholesale)
- ▲ IDOM



- Improvement of existing systems

IV. Infrastructure

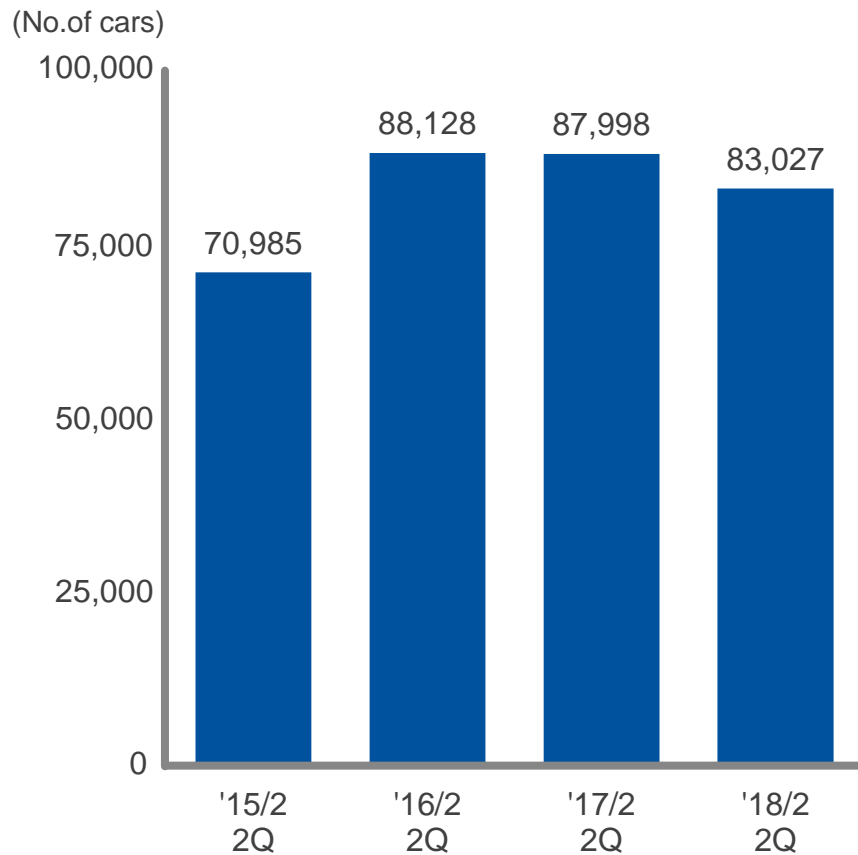
III. Structure & personnel

- Structure established to promote integration of IT and business. (specialized group “Team X”)
- HR management for IT personnel

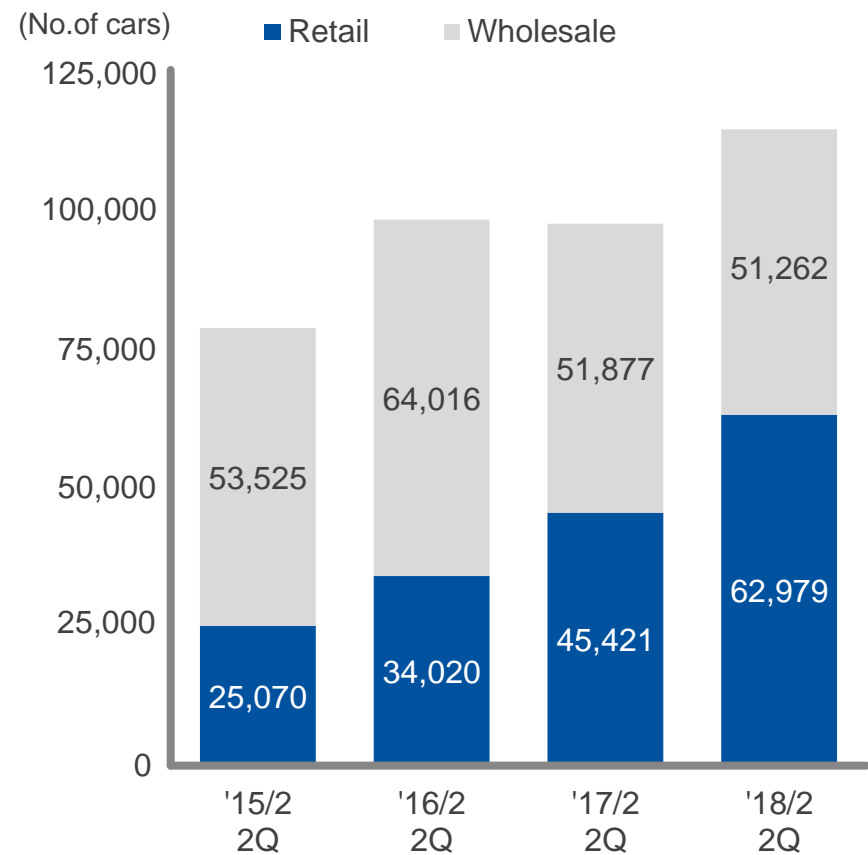
V . Supplementary information

[Non-consolidated] Unit information at directly managed stores

Number of cars purchased (6 months)



Number of cars sold (wholesale and retail) (6 months)



[Consolidated / Non-consolidated] 2Q income statement

Consolidated	6 months ended August 31, 2015		6 months ended August 31, 2016		6 months ended August 31, 2017		6 months ended August 31, 2017			
	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Change (million yen)	Y/Y (%)
Sales	74,631	100.0	95,024	100.0	124,244	100.0	135,468	100.0	11,224	9.0
Cost of sales	55,828	74.8	71,573	75.3	94,539	76.1	103,654	76.5	9,115	9.6
Gross profit	18,802	25.2	23,450	24.7	29,704	23.9	31,813	23.5	2,109	7.1
SG&A Expenses	16,075	21.5	19,371	20.4	27,532	22.2	29,285	21.6	1,753	6.4
Operating income	2,727	3.7	4,079	4.3	2,172	1.7	2,528	1.9	356	16.4
Ordinary income	2,758	3.7	4,043	4.3	2,020	1.6	2,032	1.5	12	0.6
Income before income taxes and minority interests	2,704	3.6	4,021	4.2	1,789	1.4	1,876	1.4	87	4.9
Profit attributable to owners of parent	1,645	2.2	2,563	2.7	1,102	0.9	1,121	0.8	19	1.7

Non-Consolidated	6 months ended August 31, 2015		6 months ended August 31, 2016		6 months ended August 31, 2017		6 months ended August 31, 2017			
	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Change (million yen)	Y/Y (%)
Sales	73,280	100.0	89,317	100.0	96,200	100.0	107,606	100.0	11,406	11.9
Cost of sales	54,925	75.0	67,268	75.3	71,544	74.4	80,764	75.1	9,220	12.9
Gross profit	18,354	25.0	22,048	24.7	24,655	25.6	26,841	24.9	2,186	8.9
SG&A Expenses	15,793	21.6	18,272	20.5	22,487	23.4	24,132	22.4	1,645	7.3
Operating income	2,561	3.5	3,776	4.2	2,167	2.3	2,709	2.5	542	25.0
Ordinary income	2,563	3.5	3,740	4.2	2,102	2.2	2,489	2.3	387	18.4
Income before income taxes	2,519	3.4	3,721	4.2	1,904	2.0	2,367	2.2	463	24.3
Net income	1,527	2.1	2,343	2.6	1,343	1.4	1,504	1.4	161	12.0

[Consolidated] Balance sheets

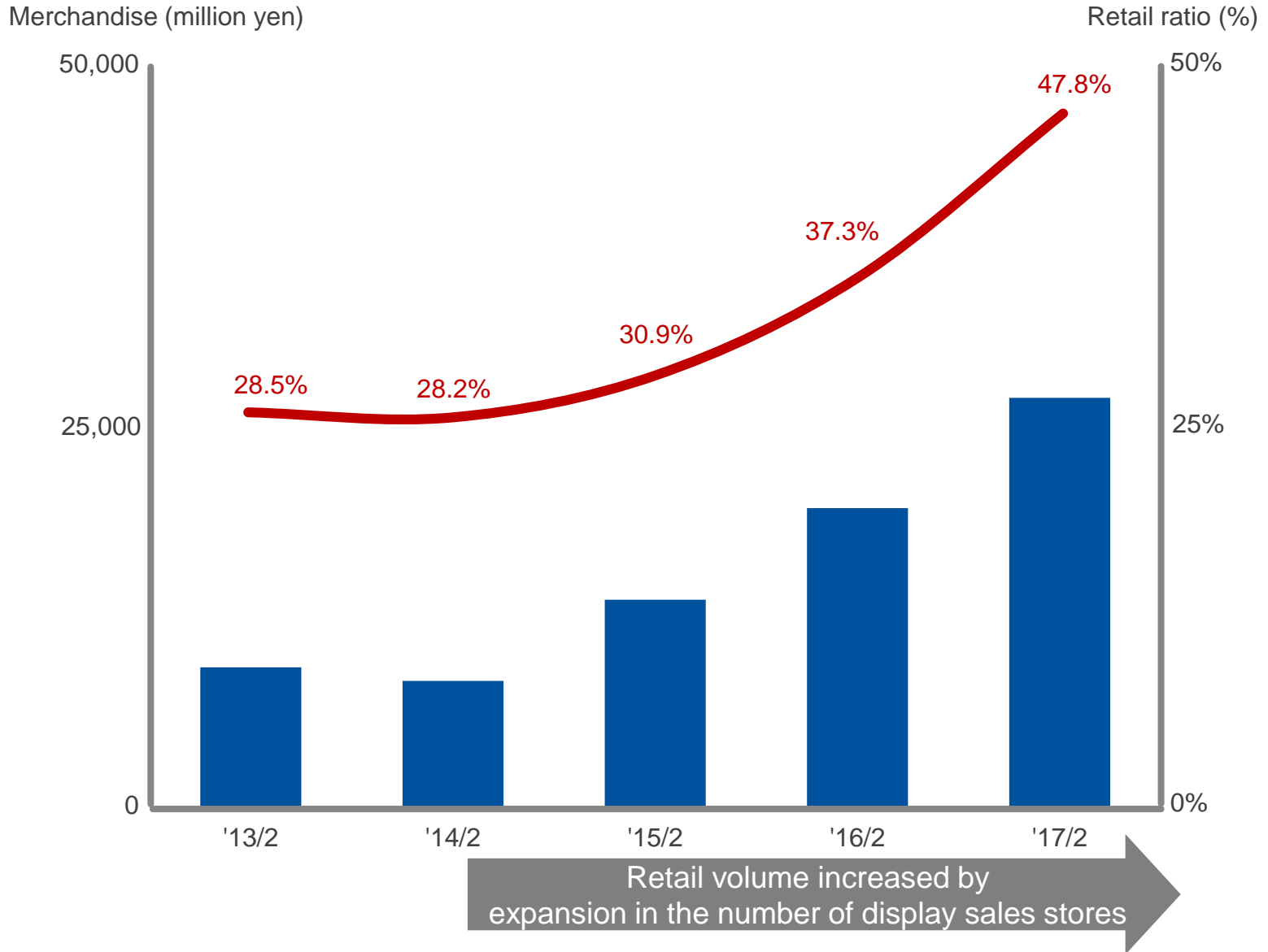
(million yen)

	As of February 28, 2017	As of August 31, 2017
Assets		
Current assets		
Cash and deposits	14,337	27,413
Notes and accounts receivable - trade	4,655	4,690
Merchandise	41,333	37,358
Deferred tax assets	785	903
Other	2,717	2,970
Allowance for doubtful accounts	-64	-52
Total current assets	63,765	73,284
Non-current assets		
Property, plant and equipment		
Buildings and structures	29,766	31,629
Accumulated depreciation	-10,134	-10,866
Buildings and structures, net	19,632	20,763
Vehicles	312	168
Accumulated depreciation	-100	-66
Vehicles, net	212	101
Tools, furniture and fixtures	4,097	4,250
Accumulated depreciation	-3,088	-3,242
Tools, furniture and fixtures, net	1,009	1,007
Land	218	218
Construction in progress	961	265
Total property, plant and equipment	22,033	22,357
Intangible assets		
Software	3,201	3,129
Goodwill	9,687	9,520
Other	4,024	3,968
Total intangible assets	16,914	16,618
Investments and other assets		
Investment securities	40	37
Shares of subsidiaries and associates	247	250
Long-term loans receivable	229	232
Lease and guarantee deposits	5,033	5,253
Construction assistance fund receivables	5,214	5,290
Deferred tax assets	361	383
Other	533	730
Allowance for doubtful accounts	-325	-356
Total investments and other assets	11,334	11,823
Total non-current assets	50,281	50,799
Total assets	114,047	124,083

	As of February 28, 2017	As of August 31, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	12,317	12,545
Short-term loans payable	3,408	1,370
Current portion of long-term loans payable	-	39
Accounts payable - other	3,885	2,748
Income taxes payable	679	1,263
Advances received	4,228	3,459
Deposits received	383	191
Provision for bonuses	651	786
Provision for merchandise warranties	1,149	1,186
Other provision (Current)	175	211
Other	2,602	3,410
Total current liabilities	29,483	27,212
Non-current liabilities		
Long-term loans payable	40,774	52,682
Long-term guarantee deposited	529	498
Provision for directors' retirement benefits	188	-
Asset retirement obligations	1,866	1,948
Deferred tax liabilities (Fixed)	1,127	1,105
Other provision (Fixed)	425	398
Other	70	191
Total non-current liabilities	44,983	56,825
Total liabilities	74,466	84,037
Net assets		
Shareholders' equity		
Capital stock	4,157	4,157
Capital surplus	4,032	4,032
Retained earnings	33,821	34,334
Treasury shares	-3,947	-3,947
Total shareholders' equity	38,063	38,576
Accumulated other comprehensive income		
Foreign currency translation adjustment	578	670
Total accumulated other comprehensive income	578	670
Stock acquisition rights	5	7
Minority owner shares worth	934	790
Total net assets	39,581	40,046
Total liabilities and net assets	114,047	124,083

Expansion in retail and changes in inventory volume

Merchandise (non-consolidated) and retail ratio (unit base)



Inventory period and inventory risk



When a car is sold on retail, delivery preparation period of 1 to 1.5 months is required for documentation, transportation, legal inspections, etc. It remains in the company's inventory, however, there is no devaluation risk for contracted and undelivered car.