

2nd Quarter Results for Fiscal Year Ending February 28, 2019

October 15, 2018

IDOM Inc.

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I. Summary of 2nd quarter (6 months ended) results for FY 2019

2Q (6 months) summary

	FY 2018 Mar - Aug	FY 2019 Mar - Aug
Non-consolidated		
Gross profit	26,841 million yen	24,630 million yen
SG&A expenses	24,132 million yen	24,337 million yen
Operating income	2,709 million yen	293 million yen
.....		
Consolidated		
Operating income	2,528 million yen	445 million yen

2Q (6 months) analysis

	FY 2018 Mar - Aug	FY 2019 Mar - Aug
Operating income	2,528 million yen	445 million yen

[Non-consolidated]

- Decrease in retail car sales per store

- Decrease in retail gross profit per unit




- Decrease in the number of units purchased
(1Q: down approx.10% YoY, 2Q: same level YoY)

[Consolidated]

- Improvement at our Australian subsidiary

II. Non-consolidated performance analysis

Reasons for decreases in retail units and gross profit

	Retail sales per store	Retail gross profit per unit
<p>1</p> <p>Limited advertisement volume while executing reinforcement on internal checking system</p> <p>We reinforced our internal checking system to make sure all advertisements are in accordance with regulations. We limited advertising volume during the period (March and April) and the customer traffic decreased as a result.</p>	<p></p> <p>From March to May</p> <p>Effects were incorporated into forecasts</p>	
<p>2</p> <p>Change in the retail revenue structure</p> <p>We changed our retail revenue structure in mid-April.</p>	<p></p> <p>From May</p> <p>Forecasts did not take into account the effects</p>	<p></p>

Details of and reasons for the changes

Impacts on performance and the reasons

Initiatives taken in Q2 and the effect

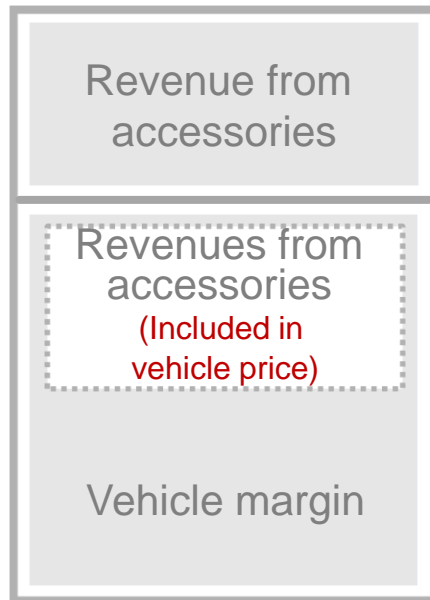
Assumption for second-half forecasts

Details of the change

Change

Changed the structure of retail gross per unit
(profits from vehicles + revenue from accessories)

Before



After the change



Revenues from accessory products and services

- Auto loans
- Insurance
- Warranties
- Maintenance package
- Glass coating
- Parts
- Car navigation systems
- Drive recorders

After mid-April, some accessory revenues that were previously included in vehicle price, were made optional.

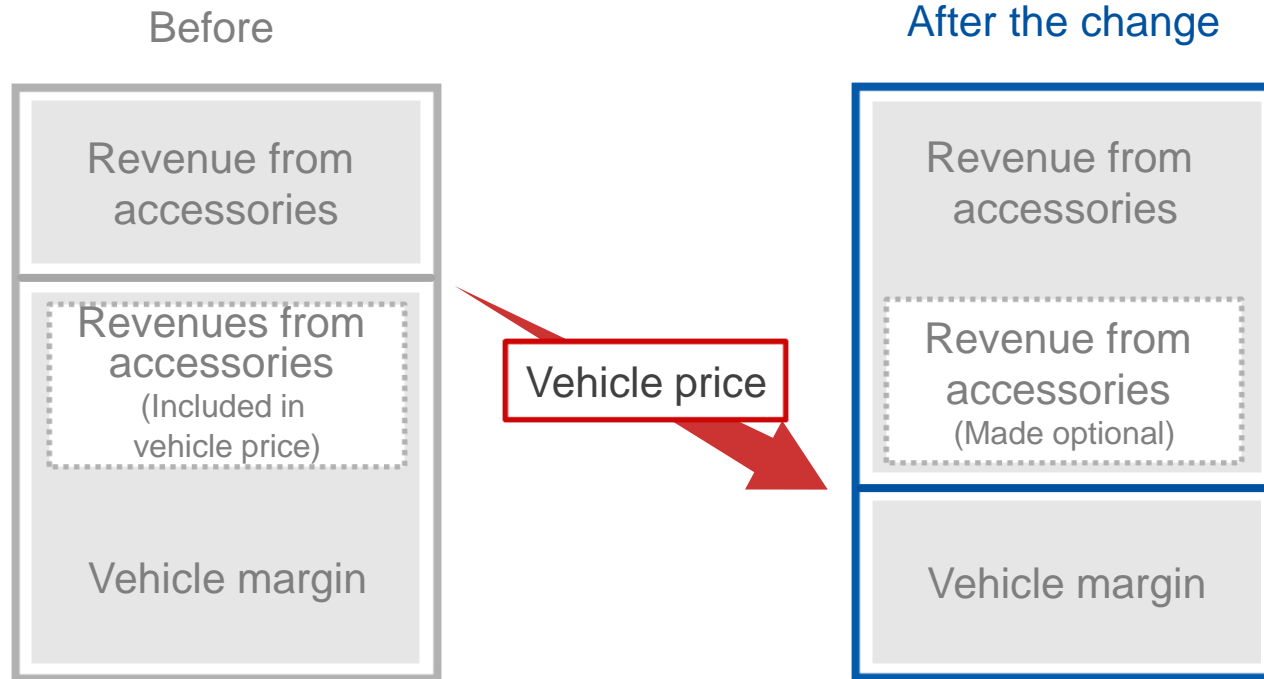
Objective (1)

Objective 1

Change pricing
to attract customer traffic



Expand retail sales



Making some accessories that were previously included in vehicle price optional changes the price of the vehicle. The aim is to increase the number of retail units through the new pricing by attracting more customer traffic, especially over the internet.

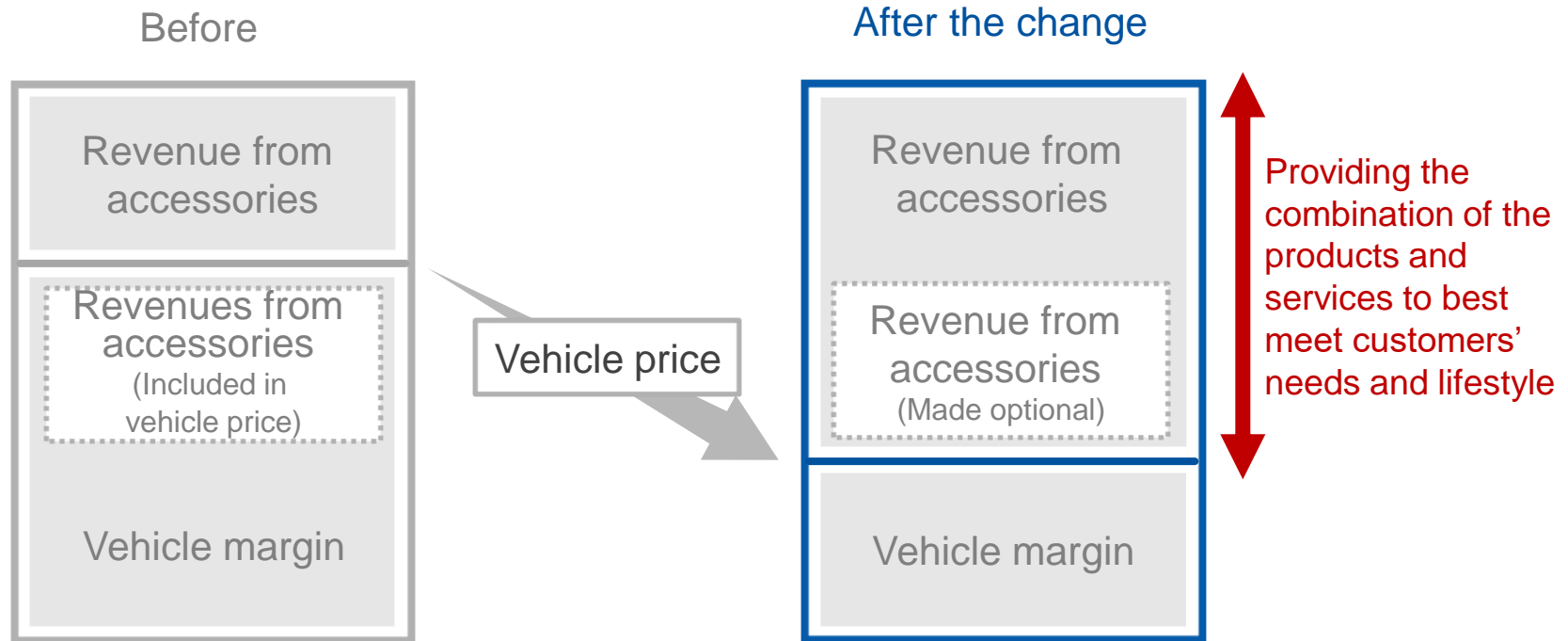
Objective (2)

Objective 2

Provide products and services to meet customers' needs



1. Enhance ability to offer accessory products and services
2. Improve customer satisfaction



By providing accessory products and services that best suit customers' needs and lifestyles, the company aimed to enhance sales capabilities (salespeople's skills and experience for example) in offering accessories and increase customer satisfaction.

Details of and reasons for the changes

Impacts on performance and the reasons

Initiatives taken in Q2 and the effect

Assumption for second-half forecasts

Impacts on the retail sales

- Although the initiative succeeded in boosting customer traffic, sales per store fell due to low conversion rates.

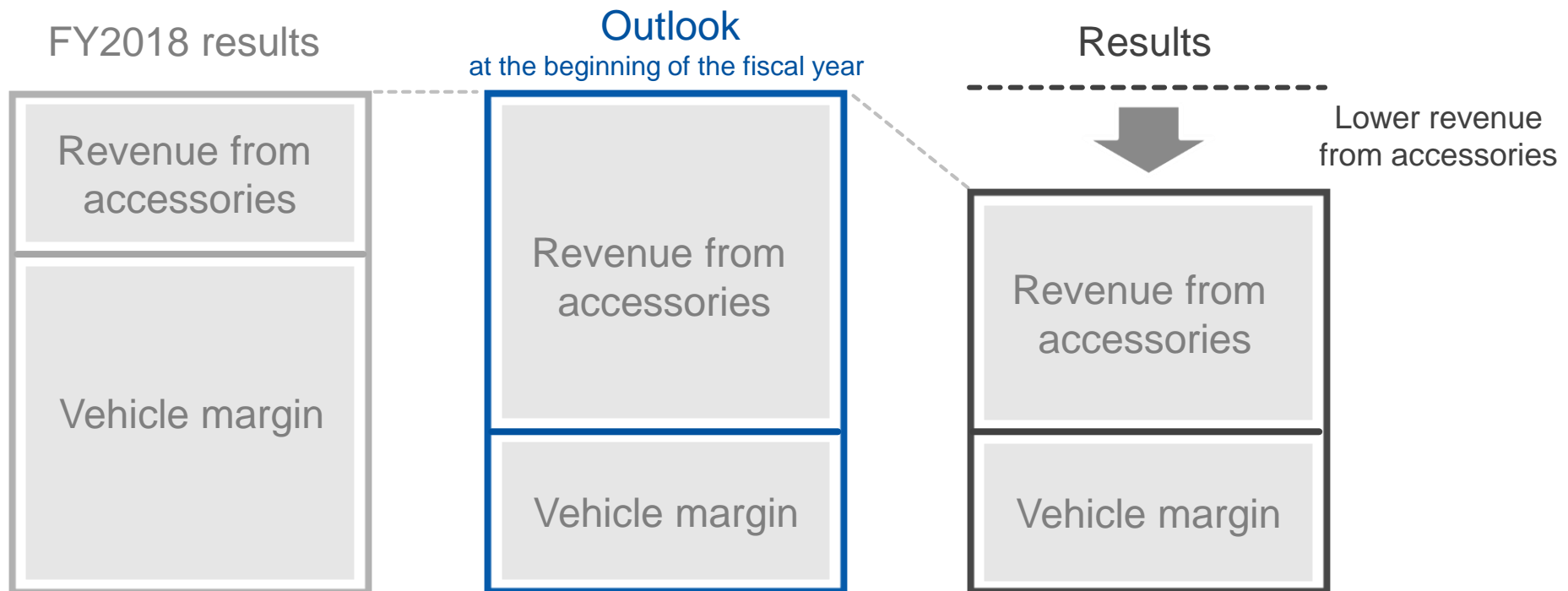
[Retail sales per store]



Impacts on gross profits

- Gross profit per unit fell due to weak revenue from accessories.

[Retail gross profit per unit]



Plans

Planning lacks detail

- Low revenues from accessories on lower-priced cars
- Insufficient plans by regions

Actions

Insufficient implementation process

- Unclear sales style
- Slow penetration to sales staff

Details of and reasons for the changes

Impacts on performance and the reasons

Initiatives taken in Q2 and the effect

Assumption for second-half forecasts

Initiatives taken in Q2

Plans

Planning lacks detail

- Low revenues from accessories on lower-priced cars
- Insufficient plans by regions



- Segment strategies by area and vehicles

Actions

Insufficient implementation process

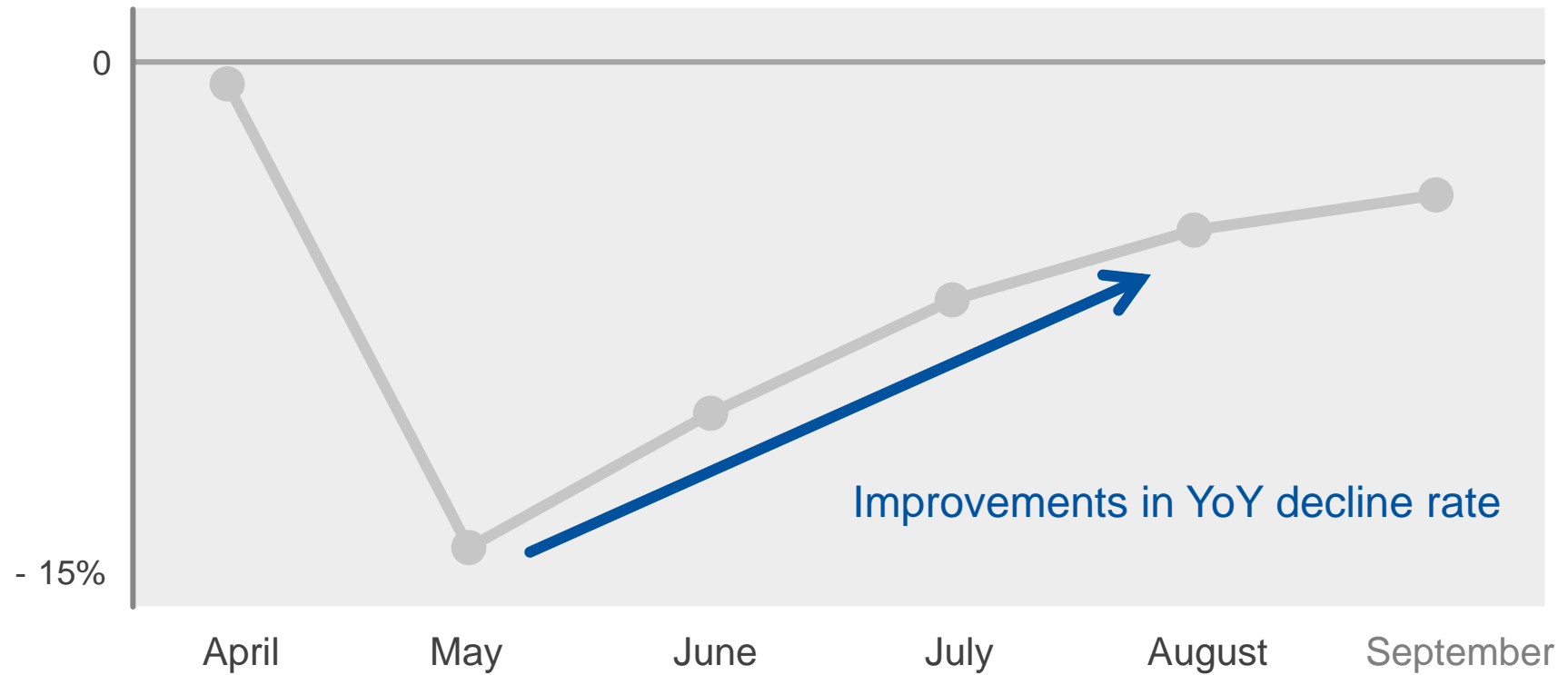
- Unclear sales style
- Slow penetration to sales staff



- Introduce tools and measures to help standardize sales process
- Modify incentive structure to improve motivation
- Sales staff becoming experienced with the new approach

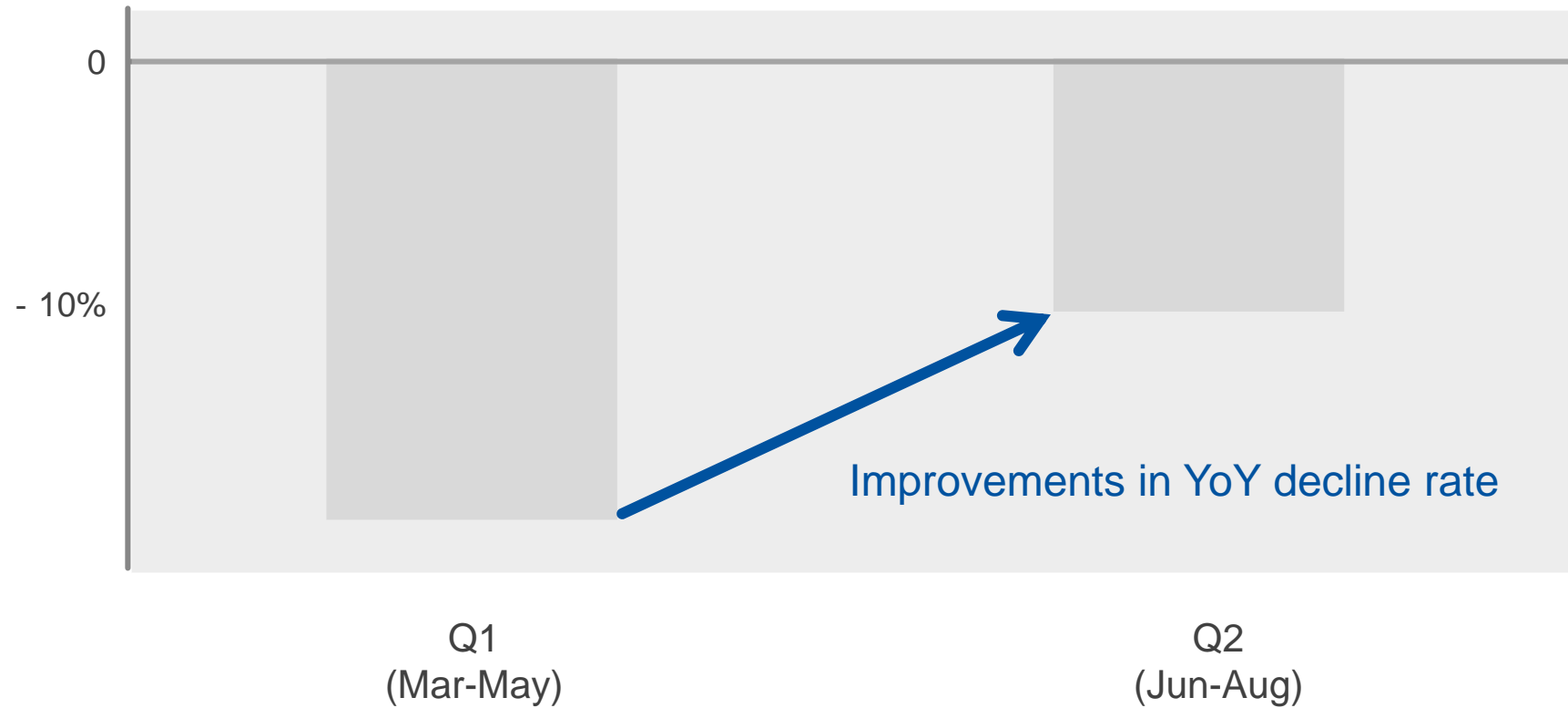
Progress on retail sales per store

Rate of decline in retail sales per store (compared to the same month last year)



Progress on gross profits per unit

Rate of decline in gross profit per unit (quarterly, year on year)



2 Changes in the retail revenue structure

Details of and reasons for the changes

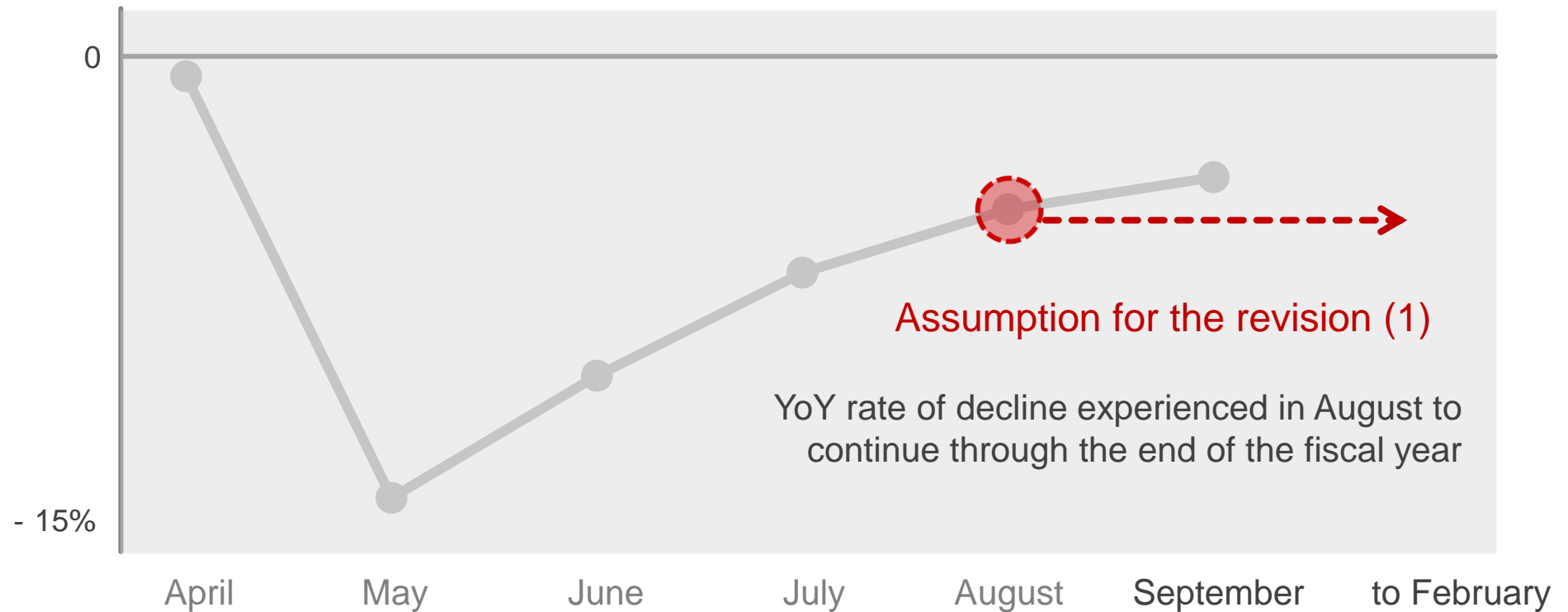
Impacts on performance and the reasons

Initiatives taken in Q2 and the effect

Assumption for second-half forecasts

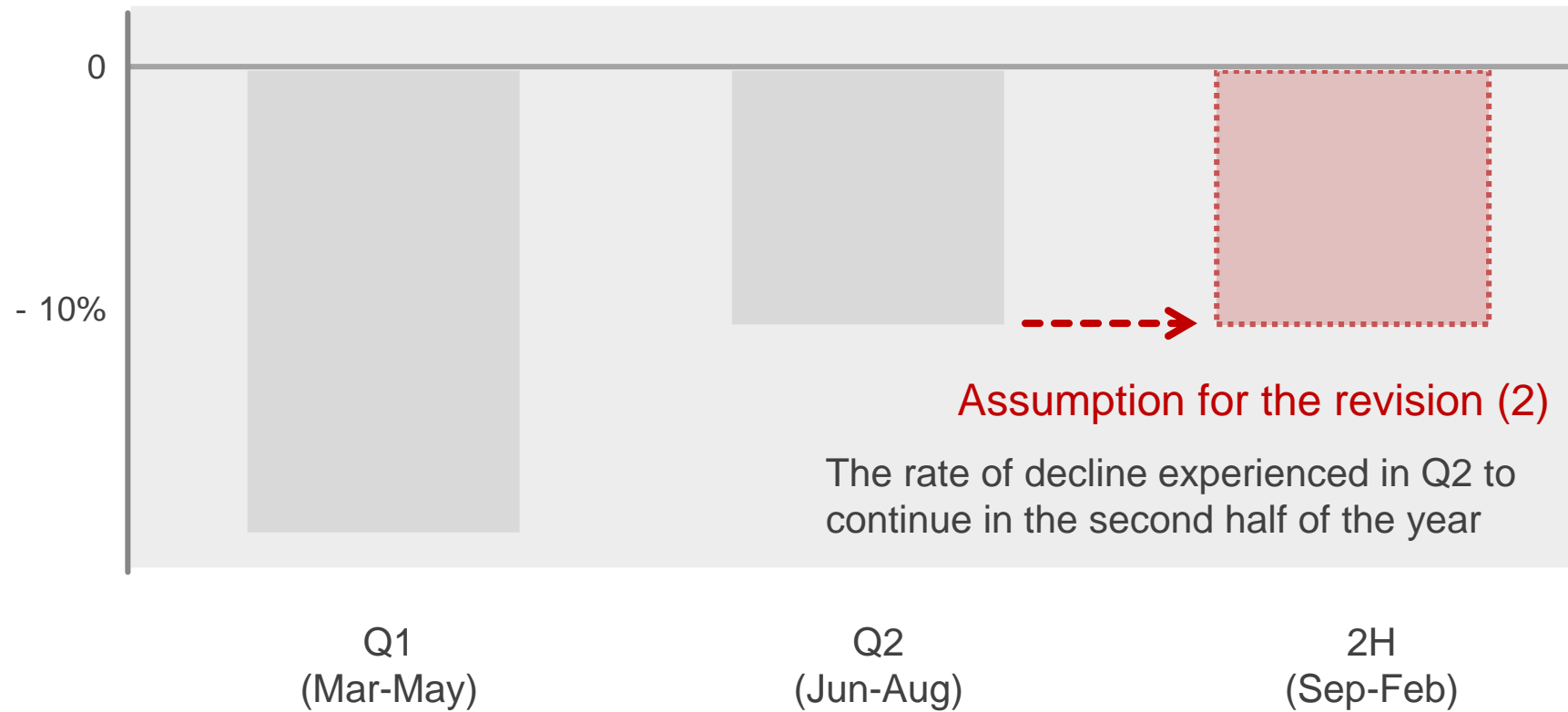
Assumption for the revision (1) retail sales per store

Rate of decline in retail sales per store (compared to the same month last year)



Assumption for the revision (2) gross profits per unit

Rate of decline in gross profit per unit (quarterly, year on year)



Revisions to the full-year forecasts (non-consolidated operating income)

		1H	2H	Full-year
Non-consolidated	Operating income			
	FY2018	2,709 million yen	4,213 million yen	6,922 million yen
	FY2019 (1H actual results + 2H revised forecast)	293 million yen	2,300 million yen	2,600 million yen
	Initial forecast	2,800 million yen	4,400 million yen	7,200 million yen

Revised based on assumptions (1) and (2)

- (1) Retail sales per store in August (YoY decline rate)
- (2) Gross profit per unit in Q2 (YoY decline rate)

Note: Revisions do not take into account the improvements after August.

Note: Revised full-year forecasts (consolidated and non-consolidated) are on page 40.

Continue to enact improvement measures to achieve targets



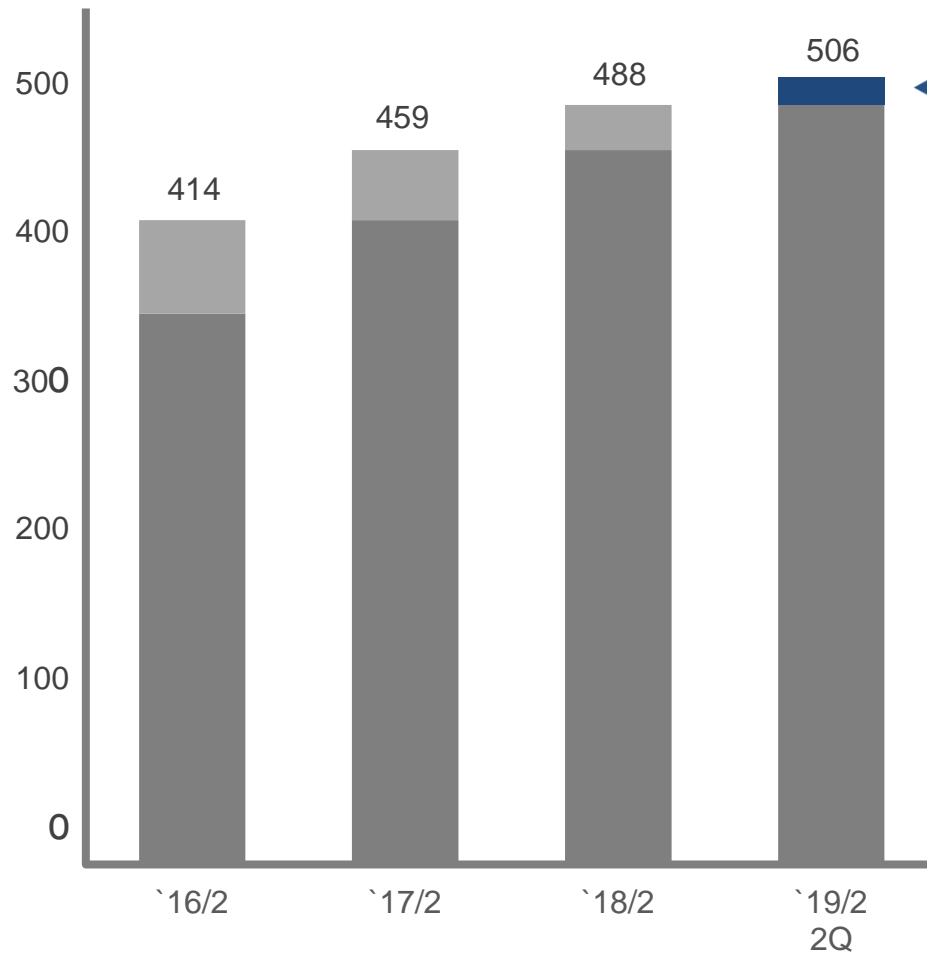
III. Store openings

Store openings

- Store openings are progressing in accordance with the plan.

Number of directly managed stores

(Unit: stores)



	1H	Full-year plan
[Newly opened]	22	/ 32
[Closed]	4	
[Net increase]	18	

Store openings (March - August)



(Gulliver display sales model)

Nanao
Nanao, Ishikawa



Nakatsu
Nakatsu, Oita



Mizuho
Nishitama, Tokyo



Noboribetsu-Muroran
Noboribetsu, Hokkaido



Chikusei
Chikusei, Ibaraki



Omura
Omura, Nagazaki



Karatsu
Karatsu, Saga



Takeo
Takeo, Saga



Saku
Saku, Nagano



Yame
Yame, Fukuoka



Kawara
Tagawa, Fukuoka



Sumoto
Sumoto, Hyogo



Higashikariki
Sapporo, Hokkaido



Hachioji Minamino
Hachioji, Tokyo



Hamamatsu-Miyatake
Hamamatsu, Miyatake



Store openings (March - August)

Gulliver
OUTLET

OL Niigata Sakuragi
Niigata



OL Ishinomaki
Ishinomaki, Miyagi



OL R-8 Tsubame-Sanjo
Sanjo, Niigata



OL Kishiwada-Izumi
Izumi, Osaka



OL Yonezawa
Yonezawa, Yamagata



OL Kawachi-Nagano
Kawachi-Nagano, Osaka



OL R-7 Aomori
Aomori



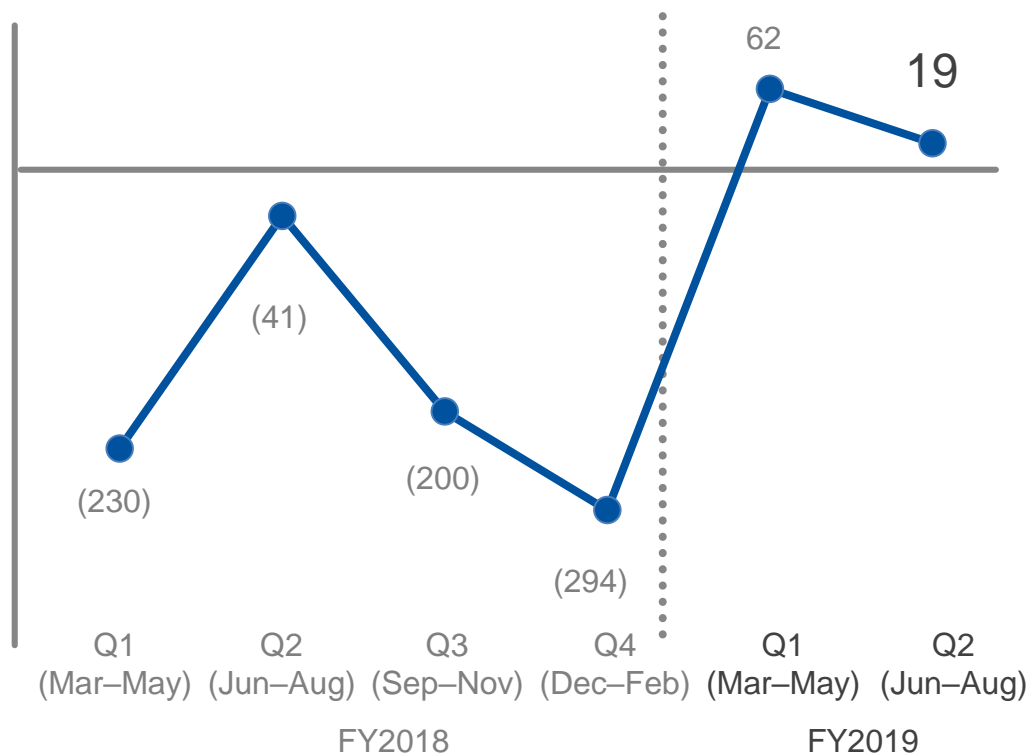
IV. Australian subsidiary

Results from Buick Holdings (DVG), our Australian subsidiary

Operating income (quarterly)

Before deduction for
amortization of goodwill

(unit: million yen)



(unit: million yen)

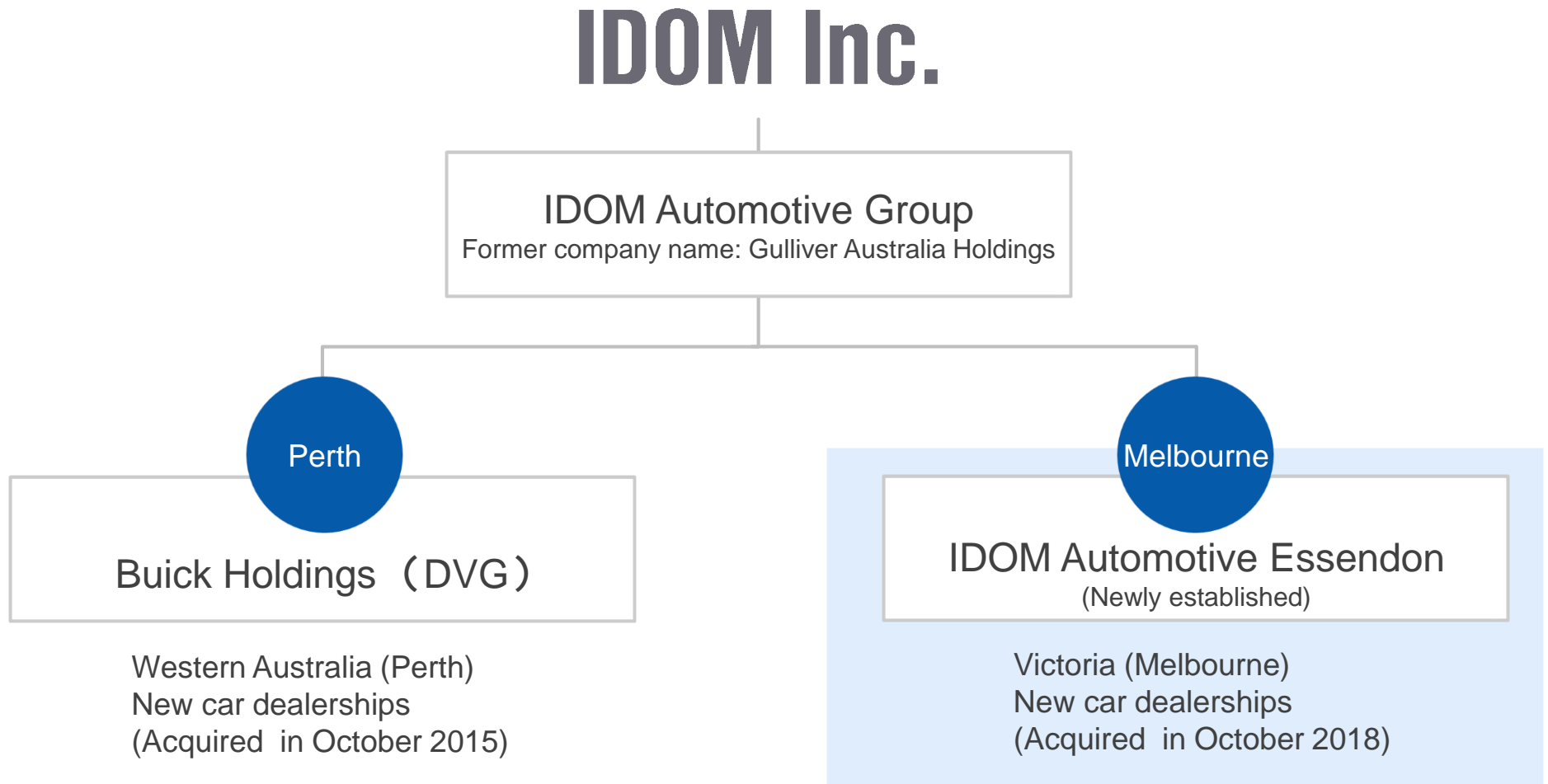
	FY2018 Mar–Aug	FY2019 Mar–Aug
Operating income (loss) (Before deduction for amortization of goodwill)	(272)	81
Amortization of goodwill	209	202

Results were in line with forecasts.

V. Topics

[Topics 1] Acquisition of Melbourne-based dealership group

- Australian business expands to Melbourne by the new acquisition.



[Topics 1] Reasons for acquisition

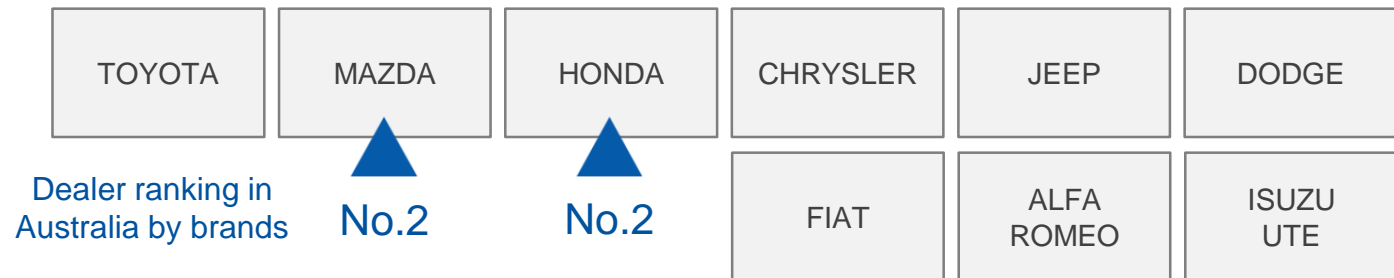


- Leverage IDOM's management know-how in new car dealership business and local networks established in WA business.
- New car market in Melbourne showing steady growth.
- Starting operation in the east side of the country, where the population is concentrated.



Andrews & Wallis Group

- Net Sales: 22.3 billion yen
- Operating income: 860 million yen
- Brands:



*Results for fiscal year ended June 30, 2018 (unaudited, under local accounting standards. Simple sum of the results of the 5 companies), 1AUD = 82yen.

[Topics 2] NOREL launches BMW/MINI new car program

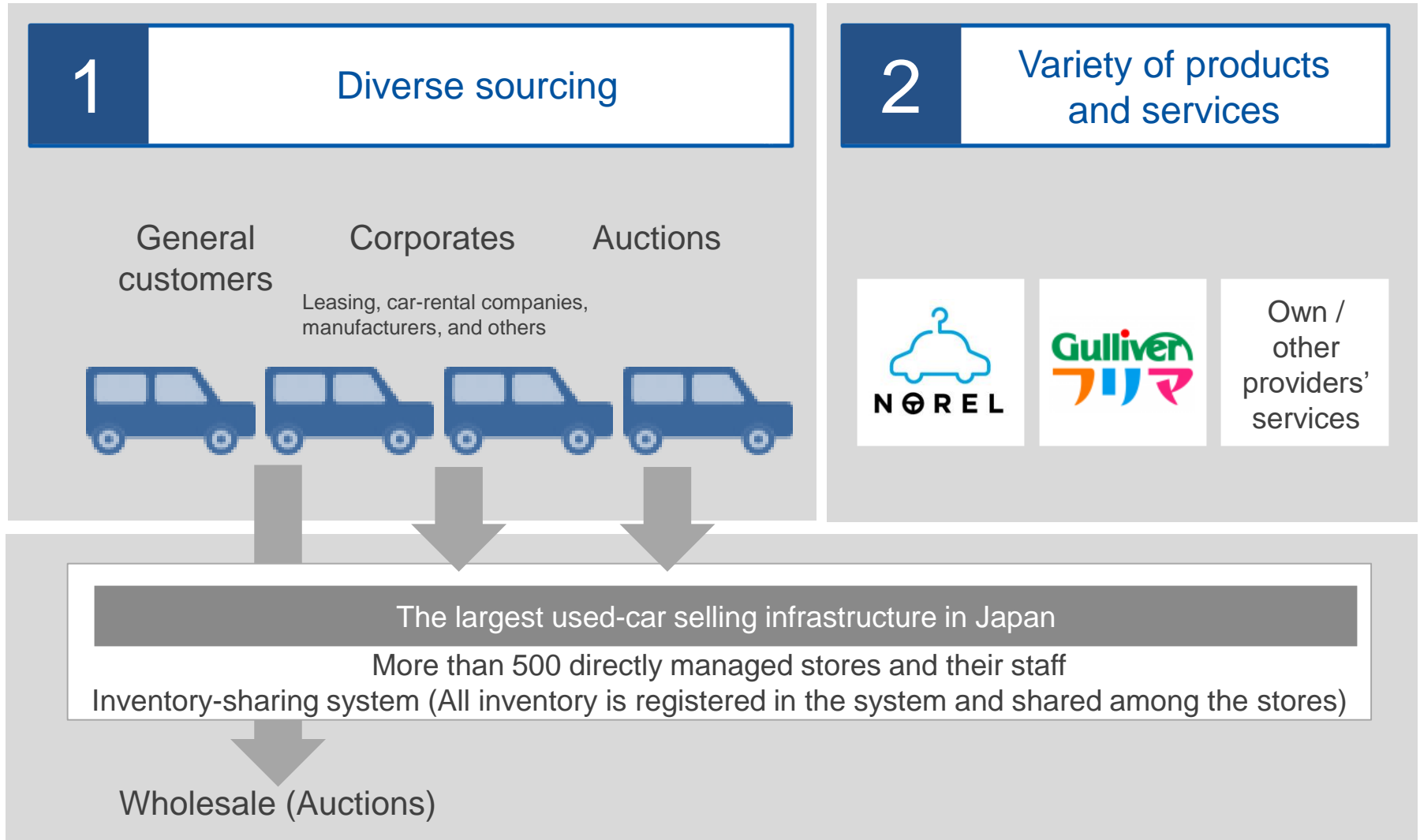
- Under the NOREL new car program, customers can upgrade to a new BMW/MINI after 5,000km on a first car.



NOREL website

NOREL is a monthly flat-rate car subscription service. Under the conventional NOREL program, used cars purchased by IDOM are leased to NOREL customers.

[Topics 2] Our retail capabilities enable us to diversify sourcing and products



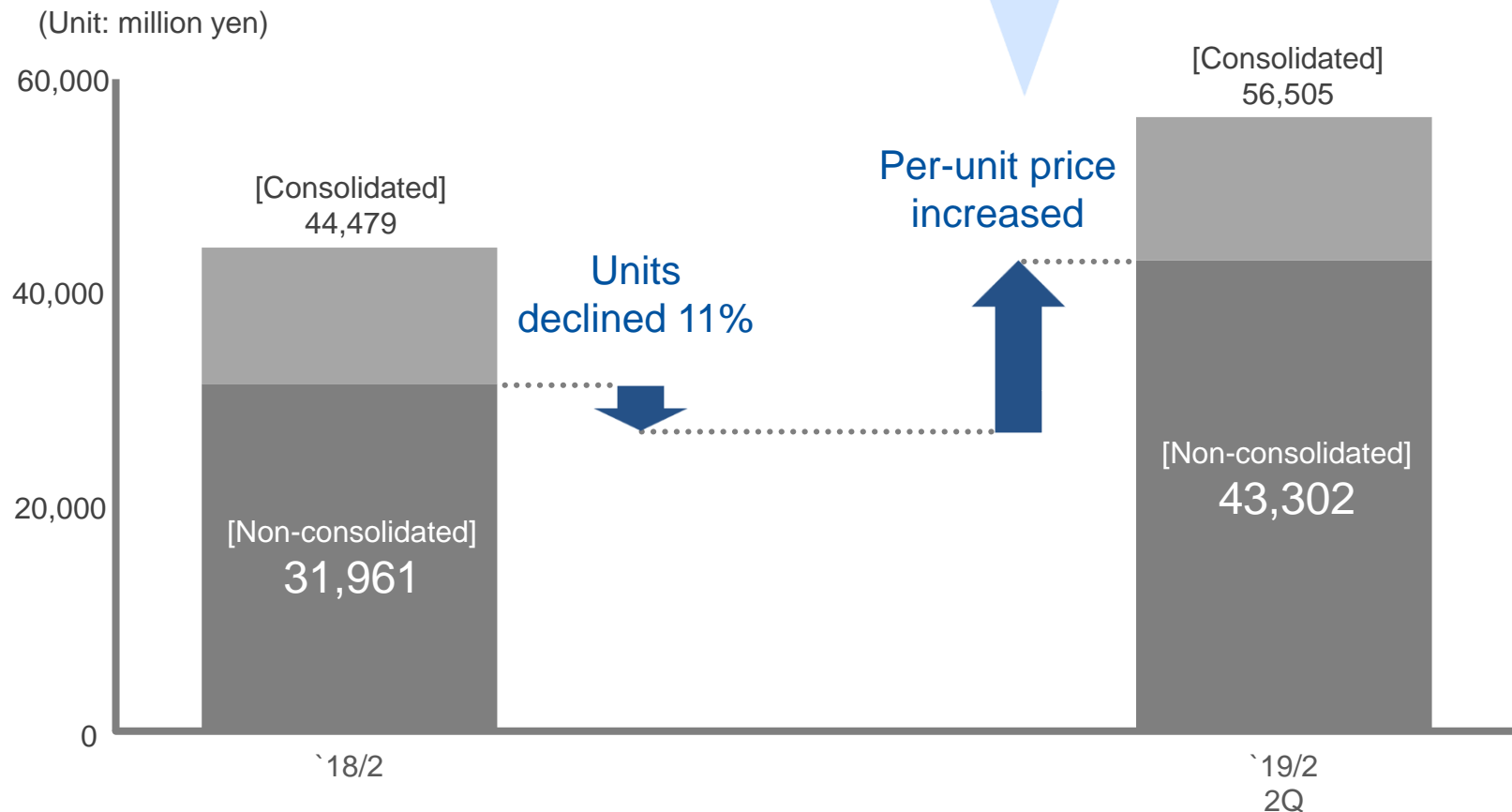
Having the largest used-car selling infrastructure in Japan, backed by more than 500 directly managed stores and their staff, enables us to diversify sourcing and products.

[Topics 3] Inventory

- Unit volume declined from the end of the previous fiscal year. However, total inventory increased due to a larger percentage of higher-priced cars.

Inventory

- Larger percentage of higher-priced vehicles
- BMW/MINI new cars on NOREL program



VI. Supplementary information

[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, 2018			
	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Change (million yen)	Y/Y (%)
Sales	95,024	100.0	124,244	100.0	135,468	100.0	143,937	100.0	8,469	6.3
Cost of sales	71,573	75.3	94,539	76.1	103,654	76.5	113,771	79.0	10,117	9.8
Gross profit	23,450	24.7	29,704	23.9	31,813	23.5	30,165	21.0	-1,648	-5.2
SG&A expenses	19,371	20.4	27,532	22.2	29,285	21.6	29,719	20.6	434	1.5
Operating income	4,079	4.3	2,172	1.7	2,528	1.9	445	0.3	-2,083	-82.4
Ordinary income	4,043	4.3	2,020	1.6	2,032	1.5	-106	—	-2,138	—
Income before income taxes and minority interests	4,021	4.2	1,789	1.4	1,876	1.4	-281	—	-2,157	—
Profit attributable to owners of parent	2,563	2.7	1,102	0.9	1,121	0.8	-598	—	-1,719	—

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, 2018			
	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Change (million yen)	Y/Y (%)
Sales	89,317	100.0	96,200	100.0	107,606	100.0	110,589	100.0	2,983	2.8
Cost of sales	67,268	75.3	71,544	74.4	80,764	75.1	85,959	77.7	5,195	6.4
Gross profit	22,048	24.7	24,655	25.6	26,841	24.9	24,630	22.3	-2,211	-8.2
SG&A expenses	18,272	20.5	22,487	23.4	24,132	22.4	24,337	22.0	205	0.8
Operating income	3,776	4.2	2,167	2.3	2,709	2.5	293	0.3	-2,416	-89.2
Ordinary income	3,740	4.2	2,102	2.2	2,489	2.3	95	0.1	-2,394	-96.2
Income before income taxes	3,721	4.2	1,904	2.0	2,367	2.2	-162	—	-2,529	—
Net income	2,343	2.6	1,343	1.4	1,504	1.4	-391	—	-1,895	—

[Consolidated / Non-consolidated] Income statement (revised forecasts)

Consolidated	FY ended Feb 29, 2016		FY ended Feb 28, 2017		FY ended Feb 28, 2018		FY ending Feb 28, 2019			
	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Outlook (million yen)	Ratio (%)	Change (million yen)	Y/Y (%)
Sales	210,085	100.0	251,516	100.0	276,157	100.0	290,000	100.0	13,843	5.0
Cost of sales	158,474	75.4	190,383	75.7	210,298	76.2	225,600	77.8	15,302	7.3
Gross profit	51,610	24.6	61,133	24.3	65,859	23.8	64,400	22.2	-1,459	-2.2
SG&A expenses	44,067	21.0	56,634	22.5	59,080	21.4	61,400	21.2	2,320	3.9
Operating income	7,542	3.6	4,498	1.8	6,779	2.5	3,000	1.0	-3,779	-55.7
Ordinary income	6,835	3.3	4,160	1.7	5,797	2.1	2,000	0.7	-3,797	-65.5
Income before income taxes and minority interests	6,610	3.1	3,692	1.5	5,221	1.9	1,100	0.4	-4,121	-78.9
Profit attributable to owners of parent	4,111	2.0	2,247	0.9	3,578	1.3	700	0.2	-2,878	-80.4

Non-Consolidated	FY ended Feb 29, 2016		FY ended Feb 28, 2017		FY ended Feb 28, 2018		FY ending Feb 28, 2019			
	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Results (million yen)	Ratio (%)	Outlook (million yen)	Ratio (%)	Change (million yen)	Y/Y (%)
Sales	179,367	100.0	198,434	100.0	215,777	100.0	225,000	100.0	9,223	4.3
Cost of sales	134,077	74.8	147,268	74.2	160,057	74.2	172,200	76.5	12,143	7.6
Gross profit	45,289	25.2	51,166	25.8	55,720	25.8	52,800	23.5	-2,920	-5.2
SG&A expenses	38,447	21.4	46,632	23.5	48,797	22.6	50,200	22.3	1,403	2.9
Operating income	6,841	3.8	4,534	2.3	6,922	3.2	2,600	1.2	-4,322	-62.4
Ordinary income	6,384	3.6	4,649	2.3	6,851	3.2	2,400	1.1	-4,451	-65.0
Income before income taxes	6,155	3.4	3,858	2.0	6,158	2.9	1,600	0.7	-4,558	-74.0
Net income	3,949	2.2	2,558	1.3	4,324	2.0	1,100	0.5	-3,224	-74.6

*An approximately 200 million yen extraordinary loss arising from damage to part of inventory and stores caused by the typhoon and earthquake in September is reflected in the full-year forecast for net income attributable to owners of parent.

[Consolidated] Balance sheets

	As of February 28, 2018	As of August 31, 2018
Assets		
Current assets		
Cash and deposits	22,763	16,566
Notes and accounts receivable - trade	5,709	6,358
Merchandise	44,479	56,505
Deferred tax assets	1,037	953
Other	3,203	4,305
Allowance for doubtful accounts	-239	-65
Total current assets	76,955	84,624
Non-current assets		
Property, plant and equipment		
Buildings and structures	32,602	34,439
Accumulated depreciation	-11,445	-12,141
Buildings and structures, net	21,156	22,298
Vehicles	64	49
Accumulated depreciation	-15	-16
Vehicles, net	48	33
Tools, furniture and fixtures	4,332	4,451
Accumulated depreciation	-3,446	-3,562
Tools, furniture and fixtures, net	886	888
Land	218	218
Construction in progress	777	442
Total property, plant and equipment	23,088	23,881
Intangible assets		
Software	2,981	2,746
Goodwill	8,927	8,413
Other	3,688	3,453
Total intangible assets	15,597	14,613
Investments and other assets		
Investment securities	45	77
Shares of subsidiaries and associates	2,150	2,261
Long-term loans receivable	211	36
Lease and guarantee deposits	5,541	5,815
Construction assistance fund receivables	5,643	5,827
Deferred tax assets	504	472
Other	746	726
Allowance for doubtful accounts	-304	-116
Total investments and other assets	14,539	15,100
Total non-current assets	53,225	53,596
Total assets	130,181	138,220

	As of February 28, 2018	As of August 31, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	14,327	14,702
Short-term loans payable	1,201	4,064
Current portion of long-term loans payables	—	12,000
Accounts payable - other	3,845	2,830
Income taxes payable	2,029	408
Advances received	4,581	5,210
Deposits received	314	166
Provision for bonuses	815	838
Provision for merchandise warranties	871	551
Other provision	315	428
Other	3,597	1,966
Total current liabilities	31,901	43,168
Non-current liabilities		
Long-term loans payable	52,680	50,680
Long-term guarantee deposited	499	441
Asset retirement obligations	2,008	2,105
Deferred tax liabilities	1,008	926
Other provision	395	386
Other	191	352
Total non-current liabilities	56,784	54,894
Total liabilities	88,686	98,062
Net assets		
Shareholders' equity		
Capital stock	4,157	4,157
Capital surplus	4,032	4,032
Retained earnings	36,373	35,420
Treasury shares	-3,947	-3,947
Total shareholders' equity	40,615	39,662
Accumulated other comprehensive income		
Foreign currency translation adjustment	323	23
Deferred losses on hedges	—	-34
Total accumulated other comprehensive income	323	-11
Stock acquisition rights	3	3
Minority owner shares worth	551	502
Total net assets	41,494	40,157
Total liabilities and net assets	130,181	138,220

(million yen)

[Consolidated] Statements of Cash Flows

(million yen)

	6 months ended August 31, 2016	6 months ended August 31, 2017	6 months ended August 31, 2018
I . Cash flows from operating activities	389	6,329	-15,707
II . Cash flows from investing activities	-4,798	-2,565	-2,968
III . Cash flows from financing activities	15,354	9,298	12,507
IV . Effect of exchange rate change on cash and cash equivalents	-41	13	-28
V . Net increase in cash and cash equivalents	10,909	13,076	-6,197
VI . Cash and cash equivalents at the beginning of period	9,122	14,337	22,763
VII . Cash and cash equivalents at the end of period	20,031	27,413	16,566