

Don Quijote Holdings. Co., Ltd.

Q1 Results for FY 2018

Earnings Results

July 1, 2017 - September 30, 2017

November 6, 2017



Earnings summary

Consolidated (Millions of yen)	3 months to Sep. 2017			3 months to Sep. 2016	
	Actual	Share	YoY	Actual	Share
Net sales	223,433	100.0%	111.0%	201,327	100.0%
Gross profit	59,268	26.5%	109.3%	54,224	26.9%
SGA	44,968	20.1%	107.9%	41,692	20.7%
Operating profit	14,300	6.4%	114.1%	12,532	6.2%
Recurring profit	14,301	6.4%	111.8%	12,788	6.4%
Profit attributable to owners of parent	8,465	3.8%	104.2%	8,127	4.0%
EPS(Yen)	53.52	-	104.1%	51.40	-

- Consolidated and same store sales went up 11.0% and 5.6% YoY respectively. Though there were some negative factors including bad weather and temperature fluctuation, the sales for Q1 were strong by doing more flexible store operation. We took finely-tuned pricing strategy to respond to the price-conscious consumers' needs and won the competition against nearby retailers.
- GPM went down 0.4pts. Some seasonal items sales were affected by bad weather. Food items attracted the greater customer traffic by being more price-competitive.
- Per man-hour productivity improved due to the drastic organizational reform and more authority was delegated to front line staff. Personnel cost as a percentage of sales went down because sales went up sharply. Rent increased associated with new store opening, commission paid went up for one-off reason. All in all, SG&A went down 0.6pts.
- Operating profit and net profit went up 14.1% and 4.2% respectively, both beat our guidance. It is "Positive Surprise!"

Same-store sales



Existing stores	2016 Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	2017 Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.
Sales	103.7%	99.6%	102.6%	102.2%	102.2%	102.6%	102.6%	102.1%	103.2%	102.1%	102.8%	105.1%	105.2%	105.1%	106.4%
Customer traffic	101.9%	98.9%	101.2%	100.7%	101.6%	102.5%	102.7%	101.6%	103.6%	103.1%	102.0%	104.5%	104.0%	104.2%	105.5%
Customer spending	101.8%	100.7%	101.3%	101.5%	100.6%	100.2%	99.9%	100.5%	99.6%	99.0%	100.7%	100.6%	101.1%	100.9%	100.9%
Existing store count	236	239	236	238	239	240	244	244	245	247	258	258	265	269	271

- DQ SSS went up 5.6%, traffic +4.6% and spending +0.9% for Q1(July-September).
- Competitive priced daily necessities expanded the domestic customer base. Tax-free sales for overseas travelers hit all time high. Rapidly grown customer traffic drove strong inbound (tax-free) sales. 1.6pts came from inbound sales out of 5.6% of SSS growth.

Sales breakdown by product category

Consolidated (Millions of yen)	3 months to Sep. 2017			3 months to Jun. 2016	
	Actual	Share	YoY	Actual	Share
Home electrical appliances	18,418	8.2%	111.8%	16,479	8.2%
Miscellaneous household goods	53,356	23.9%	123.7%	43,148	21.4%
Foods	73,231	32.8%	114.6%	63,874	31.7%
Watches & fashion merchandise	40,051	17.9%	98.0%	40,881	20.3%
Sporting goods & leisure goods	15,803	7.1%	105.2%	15,016	7.5%
Other products	15,639	7.0%	103.9%	15,055	7.5%
Total retail store business	216,498	96.9%	111.3%	194,453	96.6%
Rent income	5,232	2.3%	102.3%	5,114	2.5%
Other business	1,703	0.8%	96.8%	1,760	0.9%
Total	223,433	100.0%	111.0%	201,327	100.0%

Home appliances : There were several hit products in private brand items including 4K TV and full HD camera .

Household goods : Cosmetics and drugs sales made a double digit growth respectively. Summer items grew as temperature rose.

Foods : Snacks including chocolates and daily delivered food took the lead. Local noodles became popular.
Meat and Deli boosted fresh food sales.

Watches & Fashion : E-cigarette skyrocketed. Casual wear and private brand items attracted new customer base.

Sports & Leisure : Bad weather and low temperature decelerated the outdoor goods, however, strong character toys sales offset.

The number of stores

(Number of stores)	FY2015	FY2016	FY2017	FY2018-1Q
Don Quijote	183	194	198	199
MEGA	36	39	40	40
New MEGA	41	55	72	73
Others	32	39	44	44
Total stores in Japan	292	327	354	356
Overseas	14	14	14	37
Grand Total	306	341	368	393
Opening	33	40	32	27
Closure	10	5	5	2
Net increase	23	35	27	25

- 3 new stores were opened in Q1: 2 Don Quijote, 1 New MEGA and 24 stores operated by QSI, Inc.
- 2 store closed due to the land readjustment project.

Key components in SG&A

Consolidated (Millions of yen)	3 months to Sep. 2017			3 months to Sep. 2016	
	Actual	Share	YoY	Actual	Share
Net sales	223,433	100.0%	111.0%	201,327	100.0%
Salary allowance	16,718	7.5%	104.2%	16,049	8.0%
Rent	6,602	3.0%	117.1%	5,638	2.8%
Commission paid	5,593	2.5%	128.2%	4,362	2.2%
Depreciation and amortization	3,343	1.5%	100.1%	3,338	1.6%
Others	12,712	5.7%	103.3%	12,305	6.1%
SGA	44,968	20.1%	107.9%	41,692	20.7%

- SGA to sales ratio went down by 0.6pts YoY.
Per man-hour productivity improved due to the drastic organizational reform and more authority was delegated to front line staff.
Personnel cost as a percentage of sales went down because sales went up sharply.
Rent increased associated with new store opening and commission paid went up for one-off reason.

Balance Sheet

(Millions of yen)

Consolidated	As of Sep. 30, 2017	Change from Jun. 30, 2017
Total current assets	315,303	87,718
Cash and deposits	153,805	77,465
Merchandise	130,025	6,056
Total noncurrent assets	436,910	21,627
Total property, plant and equipment	318,266	(7,500)
Buildings	122,895	4,272
Land	173,037	2,019
Total intangible assets	29,608	13,720
Goodwill	19,056	13,963
Total investments and other assets	89,036	407
Lease and guarantee deposits	43,544	3,070
Total assets	752,213	109,345

(Millions of yen)

Consolidated	As of Sep. 30, 2017	Change from Jun. 30, 2017
Total current liabilities	168,323	3,498
Accounts payable	93,591	7,930
Short-term liabilities*	24,408	(614)
Total noncurrent liabilities	297,980	99,867
Long-term bonds	73,782	(1,108)
Long-term borrowings	187,173	102,535
Long-term payables under fluidity lease receivables	17,561	(1,805)
Total liabilities	466,303	103,365
Net assets	285,910	5,980
Total shareholders' equity	263,650	5,368
Non-controlling interests	20,664	(115)
Liabilities and net assets	752,213	109,345

* Short-term liabilities = Short-term loans payable + Current portion of long-term loans payable + Current portion of bonds

- Cash & deposits : It increased sharply because long-term borrowings including 100 billion yen of subordinated loan were financed for further business expansion.
- Merchandise : Inventory increased associated with 3 new stores. It also accumulated for existing stores with strong sales.
- Payables associated with the liquidation of receivables : 24.7 billion yen. It went down by 1.8 billion yen from a year ago.

Cash flows and Capital expenditure

Consolidated Cash Flows

(Millions of yen)

	3 months to Sep. 2017	3 months to Sep. 2016	Change
Cash and equivalents at beginning of period	78,094	44,496	33,598
Cash flows from operating activities	12,385	9,378	3,007
Cash flows from investing activities	(28,267)	(31,344)	3,077
Cash flows from financing activities	94,726	23,383	(71,343)
Net increase (decrease) in cash and equivalents	79,268	1,021	78,247
Cash and equivalents at end of period	157,362	45,517	111,845

Consolidated Capital Expenditures

(Millions of yen)

	3 months to Jun. 2017	3 months to Sep. 2016	Change
Capital expenditures	11,837	12,580	(743)
Cash flows*	8,555	8,856	(301)
Net increase (decrease)	(3,283)	(3,725)	442

* Cash flows = Net income + Depreciation and amortization + Extraordinary loss - Dividend

- Cash flow from operating activities was 12.4 billion yen positive.
Positive factors : 14.2 billion yen of income before income taxes and minority interests, 3.8 billion yen of depreciation and amortization, 4.9 billion yen increase in trade payables. Negative factors : 3.2 billion yen of increase in inventory and 8.1 billion yen for tax payment.
- Cash flow from financing activities was 94.7 billion yen positive driven by 102.3 billion yen of net increase of long-term borrowings and 1.6 billion yen of corporate bond redemption. 3.3 billion yen of dividend payment were negative factors.
- Capex was 11.8 billion yen. Free cash flow was negative 3.3 billion yen .

Forecast for fiscal June 2018

Consolidated (Millions of yen)	FY2018 1H Revised Forecast			FY2017 1H Previously announced forecast		FY2018 Forecast	
	Plan	Share	YoY	Plan	Share	Plan	Share
Net sales	455,000	100.0%	108.9%	445,000	100.0%	890,000	100.0%
Gross profit	119,200	26.2%	107.7%	117,000	26.3%	234,200	26.3%
SGA	90,400	19.9%	107.2%	90,000	20.2%	184,400	20.7%
Operating profit	28,800	6.3%	109.3%	27,000	6.1%	49,800	5.6%
Recurring profit	28,700	6.3%	106.6%	27,000	6.1%	49,800	5.6%
Net profit	16,900	3.7%	102.7%	15,500	3.5%	29,500	3.3%
EPS(Yen)	106.83	-	102.6%	97.99	-	186.49	-
Depreciation	7,200	1.6%	106.0%	7,200	1.6%	15,000	1.7%

- 2H forecast : Sales 455 billion yen, OP : 28.8 billion, RP : 28.7 billion, NP : 16.9 billion.
- Full year forecast : Sales 890 billion yen, OP : 49.8 billion, RP : 49.8 billion, NP : 29.5 billion.
- Don Quijote SSS forecast : DQ SSS forecast : +3.0% in 1H, +0.6% in 2H and +1.8% for full year.