# Don Quijote HLDGS

## Don Quijote Holdings

## First Quarter Results for June 2015

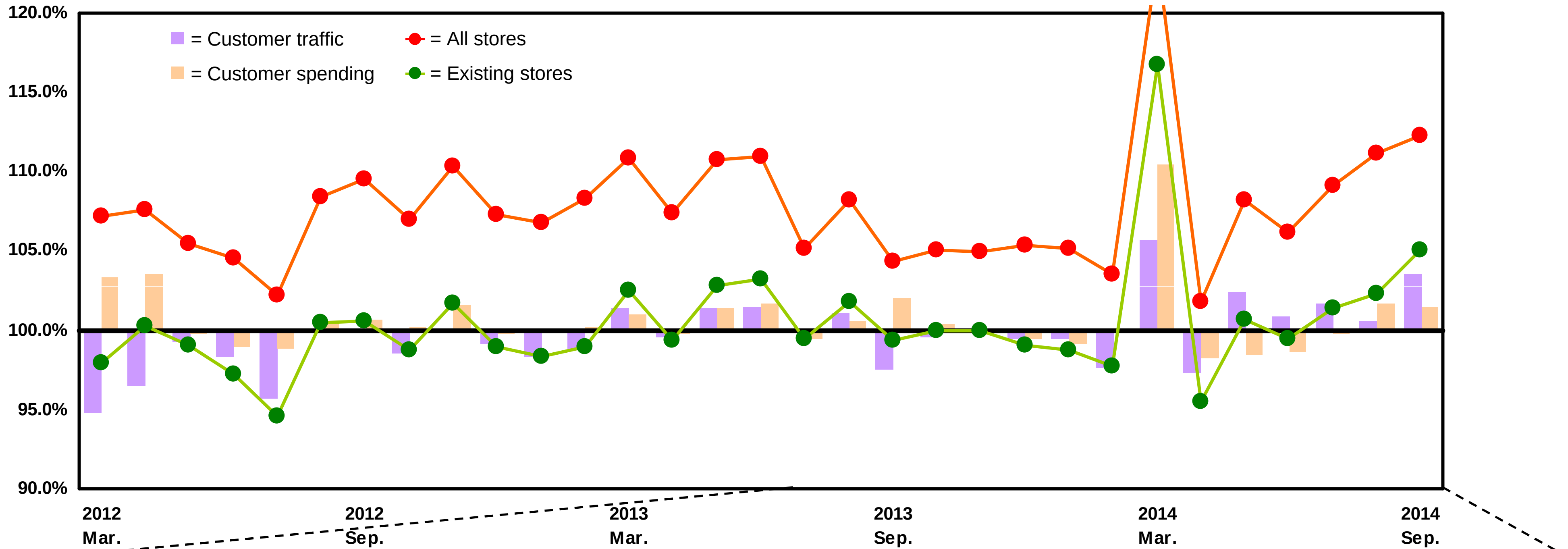
November 5th, 2014

# Earnings Summary, First Quarter of FY2015

| Consolidated (Millions of yen) | 3 months to Sep. 2014 | | | 3 months to Sep. 2013 | |
|---|---|---|---|---|---|
| | Actual | Share | YoY | Actual | Share |
| Net sales | 163,861 | 100.0% | 111.8% | 146,514 | 100.0% |
| Gross profit | 44,235 | 27.0% | 110.9% | 39,880 | 27.2% |
| SGA | 33,779 | 20.6% | 113.6% | 29,740 | 20.3% |
| Operating profit | 10,456 | 6.4% | 103.1% | 10,140 | 6.9% |
| Recurring profit | 10,822 | 6.6% | 103.7% | 10,433 | 7.1% |
| Net profit | 6,141 | 3.7% | 95.7% | 6,416 | 4.4% |
| EPS(Yen) | 78.29 | - | 95.1% | 82.33 | - |

- Total sales jumped by 11.8%, SSS were up 2.8% as we enjoyed food sales growth by taking the market share from other retailers including GMS. This is because we took the leadership in price competition in the industry after the consumption tax-hike.
- GPM for this Q1 was 27.0%, reached the high level, though it was down 0.2 points from a year ago due to two reasons.
  -The total sales led by daily commodities as food sales surged year-over-year.
  -GPM for previous Q1 marked the high level of 27.2%.
- SGA ratio to the sales went up 0.3 points as we made the upfront investment, mainly labor cost, for the future new store rollout.
  OP grew and beat our estimate driven by sales growth. Although the bottom line was down 4.3%, it was above our estimate.

# Existing Stores (Don Quijote store format)




| Existing stores | 2013 Jul. | Aug. | Sep. | Oct. | Nov. | Dec. | 2014 Jan. | Feb. | Mar. | Apr. | May | Jun. | Jul | Aug. | Sep. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 99.5% | 101.8% | 99.4% | 100.0% | 100.0% | 99.1% | 98.7% | 97.7% | 116.7% | 95.5% | 100.7% | 99.5% | 101.4% | 102.3% | 105.0% |
| Customer traffic | 100.0% | 101.1% | 97.5% | 99.6% | 99.9% | 99.5% | 99.5% | 97.6% | 105.7% | 97.3% | 102.4% | 100.9% | 101.7% | 100.6% | 103.5% |
| Customer spending | 99.5% | 100.6% | 102.0% | 100.4% | 100.1% | 99.5% | 99.2% | 100.1% | 110.4% | 98.2% | 98.4% | 98.6% | 99.8% | 101.7% | 101.5% |
| Existing store No. | 184 | 185 | 185 | 186 | 187 | 189 | 192 | 191 | 193 | 195 | 195 | 194 | 196 | 196 | 196 |

- Don Quijote SSS were up 2.8% because of more customer traffic (up 1.9%) and more customer spending (up 0.9%) even though the bad weather gave us negative impact. Private brand and value-added items were assorted to attract new customer base from other retailers. It made per-customer spending up.

# Sales Breakdown of Products Category : FY2015 1Q

| Consolidated (Millions of yen) | 3 months to Sep. 2014 | | | 3 months to Sep. 2013 | |
|---|---|---|---|---|---|
| | Actual | Share | YoY | Actual | Share |
| Home electrical appliances | 12,884 | 7.9% | 100.5% | 12,816 | 8.7% |
| Miscellaneous household goods | 36,011 | 22.0% | 109.5% | 32,872 | 22.4% |
| Foods | 48,773 | 29.8% | 119.0% | 40,998 | 28.0% |
| Watches & fashion merchandise | 34,099 | 20.8% | 104.5% | 32,632 | 22.3% |
| Sporting goods & leisure goods | 11,208 | 6.8% | 104.9% | 10,685 | 7.3% |
| Other products | 15,024 | 9.1% | 135.4% | 11,097 | 7.6% |
| Total retail store business | 157,999 | 96.4% | 112.0% | 141,100 | 96.3% |
| Rent income | 4,448 | 2.7% | 108.9% | 4,086 | 2.8% |
| Other business | 1,414 | 0.9% | 106.5% | 1,328 | 0.9% |
| Total | 163,861 | 100.0% | 111.8% | 146,514 | 100.0% |

- Foods grew its sales by 19.0% year-over-year thanks to successful pricing strategy and product mix.
  "Processed foods" e.g. snacks and noodles "Daily delivered foods" e.g. eggs and tofu "Beverages" are the contributors.
- Miscellaneous household goods grew 9.6% year-over-year backed by the strong foreign tourists' demand toward cosmetics and drugs as well as daily necessities like hair care products.
- Luxuries and durables are on the recovery track with smaller negative impact from pre tax-hike last-minute demand.

# Number of stores

| (Number of stores) | FY2013 | FY2014 | FY2015-1Q |
|---|---|---|---|
| Don Quijote | 165 | 174 | 172 |
| MEGA | 35 | 37 | 37 |
| New MEGA | 21 | 28 | 31 |
| Others | 31 | 30 | 32 |
| Domestic store opening | 16 | 22 | 6 |
| Domestic store closure | 3 | 5 | 3 |
| Net store increase | 13 | 17 | 3 |
| Overseas | 3 | 14 | 14 |
| Total | 255 | 283 | 286 |

- 6 new stores opened in Q1: 3 Don Quijote, 2 New MEGA , 1 small store format.
- 3 stores closed in DQ including temporal suspension.
- New store openings are ongoing in line with our expectation so far. Having stores in properties that were formally occupied by other retailers, is our main way. We're securing human resources including senior-citizen part-time staff in an agile manner.

# Key Components of SG&A Expenses : FY2015 1Q

| Consolidated (Millions of yen) | 3 months to Sep. 2014 | | | 3 months to Sep. 2013 | |
|---|---|---|---|---|---|
| | Actual | Share | YoY | Actual | Share |
| Net sales | 163,861 | 100.0% | 111.8% | 146,514 | 100.0% |
| Salary allowance | 11,980 | 7.3% | 117.0% | 10,242 | 7.0% |
| Rent | 4,544 | 2.8% | 106.0% | 4,287 | 2.9% |
| Commission paid | 3,661 | 2.2% | 106.3% | 3,444 | 2.4% |
| Depreciation and amortization | 2,608 | 1.6% | 117.9% | 2,212 | 1.5% |
| Others | 10,986 | 6.7% | 115.0% | 9,555 | 6.5% |
| SGA | 33,779 | 20.6% | 113.6% | 29,740 | 20.3% |

- SGA ratio to the sales stood at 20.6%, slightly increased year-over-year. It was affected by initial cost* burden associated with new store openings, more work required with sales mix change, and the consolidation of MARUKAI, the U.S. subsidiary.
  *Salary allowance, Depreciation & Amortization, Fixings, etc.
- Stronger sales promotion with our original e-money "majica" to push up the traffic for further sales growth. Personnel cost, mainly salary allowance went up year-over-year. This is because of the fact that we secured human resources in advance to be ready for the aggressive new store openings in Q2 and onwards.

# Sales, Profit and Loss by Segment : FY2015 1Q

Sales, profit and loss by segment from Jul. 1, 2014, to Sep. 30, 2014 （Millions of yen）

| Consolidated | Retail store | Rent income | Others | Total | Adjusted amount | Consolidated |
|---|---|---|---|---|---|---|
| Sales to external customers | 157,999 | 4,448 | 1,414 | 163,861 | - | 163,861 |
| Internal sales or transfers between segments | - | 3,587 | 1,329 | 4,916 | -4,916 | - |
| Total | 157,999 | 8,035 | 2,743 | 168,777 | -4,916 | 163,861 |
| Segment profit | 6,486 | 2,853 | 1,190 | 10,529 | -73 | 10,456 |

Sales, profit and loss by segment from Jul. 1, 2013, to Sep. 30, 2013 （Millions of yen）

| Consolidated | Retail store | Rent income | Others | Total | Adjusted amount | Consolidated |
|---|---|---|---|---|---|---|
| Sales to external customers | 141,100 | 4,086 | 1,328 | 146,514 | - | 146,514 |
| Internal sales or transfers between segments | - | 731 | 694 | 1,425 | -1,425 | - |
| Total | 141,100 | 4,817 | 2,022 | 147,939 | -1,425 | 146,514 |
| Segment profit | 8,291 | 1,236 | 582 | 10,109 | 31 | 10,140 |

- Q1 segment profit in the retail business was 6.5 billion yen which is our mainstay.
- Q1 segment profit in the tenant leasing business was 2.9 billion yen.
- Q1 segment profit in other business was 1.2 billion.

# Balance Sheet

(Millions of yen)

| Consolidated | As of Sep. 30, 2014 | Change from Jun. 30, 2014 |
|---|---|---|
| Total current assets | 151,211 | -7,623 |
| Cash and deposits | 31,115 | -11,575 |
| Inventories | 91,884 | 2,779 |
| Total noncurrent assets | 282,694 | 9,393 |
| Total property, plant and equipment | 220,624 | 7,901 |
| Buildings | 81,384 | 4,306 |
| Land | 124,230 | 4,550 |
| Total intangible assets | 15,377 | 21 |
| Goodwill | 6,244 | -88 |
| Total investments and other assets | 46,693 | 1,471 |
| Lease and guarantee deposits | 30,890 | -73 |
| Total assets | 433,905 | 1,770 |

(Millions of yen)

| Consolidated | As of Sep. 30, 2014 | Change from Jun. 30, 2014 |
|---|---|---|
| Total current liabilities | 109,399 | -5,045 |
| Accounts payable | 54,716 | -402 |
| Short-term liabilities* | 22,506 | 2,562 |
| Total noncurrent liabilities | 126,671 | 2,144 |
| Long-term bonds | 43,410 | -890 |
| Long-term borrowings | 27,766 | -2,264 |
| Long-term payables under fluidity lease receivables | 39,312 | 4,967 |
| Total liabilities | 236,070 | -2,901 |
| Net assets | 197,835 | 4,671 |
| Total shareholders' equity | 192,070 | 4,433 |
| Minority interests | 6,220 | 401 |
| Liabilities and net assets | 433,905 | 1,770 |

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

- Cash & deposits amounted to 31.1 billion yen, 11.6 billion less than the end of last year. This is due to the upfront investment for the store network expansion as well as the hold-down of financing except the one had done by liquidizing claims.
- Inventories stood at 91.9 billion yen, 2.8 billion more than the end of last year with 6 new stores as well as the accumulation based on the robust sales trend.
- Payables under fluidity lease receivables were 46.3 billion yen, up 6 billion, with financing through ABL.

# Cash Flows and Capital Expenditures

## Consolidated Cash Flows

（Millions of yen）

| | 3 months to Sep. 2014 | 3 months to Sep. 2013 | Change |
|---|---|---|---|
| Cash and equivalents at beginning of period | 44,105 | 36,132 | 7,973 |
| Cash flows from operating activitiies | 1,324 | 7,160 | -5,836 |
| Cash flows from investing activities | -16,609 | -11,176 | -5,433 |
| Cash flows from financing activities | 2,976 | 1,182 | 1,794 |
| Net increase (decrease) in cash and equivalents | -12,291 | -2,661 | -9,630 |
| Cash and equivalents at end of period | 31,814 | 33,471 | -1,657 |

## Consolidated Capital Expenditures

（Millions of yen）

| | 3 months to Sep. 2014 | 3 months to Sep. 2013 | Change |
|---|---|---|---|
| Capital expenditures | 14,787 | 8,692 | 6,095 |
| Cash flows* | 6,819 | 6,986 | -167 |
| Net increase (decrease) | -7,968 | -1,706 | -6,262 |

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

- Cash outflows in investment CF exceeded cash inflows in operating CF. It was impacted by the acquisition of tangible fixed assets as much as 14.8 billion yen for new stores, aiming at further growth.
- 3 billion yen of cash inflows in financial CF largely due to 7.5 billion yen income from rent claims liquidation intending diversified financing.
- Capex stood at 14.8 billion yen, mainly in Japan Asset Marketing and Don Quijote.

# Company Forecast : FY2015 (June 2015)

| Consolidated (Millions of yen) | FY2015 1H Revised forecast | | | FY2015 1H Latest forecast | | FY2015 Forecast | |
|---|---|---|---|---|---|---|---|
| | Plan | Share | YoY | Plan | Share | Actual | Share |
| Net sales | 331,000 | 100.0% | 109.1% | 323,000 | 100.0% | 634,000 | 100.0% |
| Gross profit | 88,500 | 26.7% | 109.2% | 85,300 | 26.4% | 167,800 | 26.5% |
| SGA | 67,800 | 20.5% | 111.9% | 65,500 | 20.3% | 133,000 | 21.0% |
| Operating profit | 20,700 | 6.3% | 101.0% | 19,800 | 6.1% | 34,800 | 5.5% |
| Recurring profit | 21,200 | 6.4% | 100.3% | 20,200 | 6.3% | 35,600 | 5.6% |
| Net profit | 12,500 | 3.8% | 96.0% | 12,400 | 3.8% | 21,500 | 3.4% |
| EPS(Yen) | 159.45 | - | 95.5% | 158.18 | - | 274.26 | - |
| Depreciation | 5,300 | 1.6% | 116.5% | 5,100 | 1.6% | 10,500 | 1.7% |

- First half forecast revised upward. Sales : up 8 billion yen, OP : up 900 million,  RP : up 1 billion, against our initial forecast.
- Don Quijote SSS forecast goes as follows. Full year : flat year-over-year, 1H : +1.0%, 2H : -1.1%
- 25-30 new store openings per annum with 35 billion yen of capex.