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On **July 6, 2018,** Chiyoda Co., Ltd. announced earnings results for Q1 FY02/19. Along with the results announcement, it also announced revisions to its 1H and full-year forecasts (consolidated and parent).

Quarterly performance	FY02/17				FY02/18				FY02/19		FY02/17	FY02/18	FY02/19	FY02/19		FY02/17	FY02/18	FY02/19		FY02/20	FY02/19 Change	
Consolidated (JPYmn)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Est. Q2**	**1H**	**1H**	**Est. Q1**	**1H Est.**	**Diff.**	**Act.**	**Act.**	**Init. Est.**	**% of FY**	**MTP**	**Q1**	**Est. Q2**
Sales	**38,142**	**33,287**	**33,609**	**31,979**	**35,768**	**31,470**	**30,741**	**29,655**	**32,585**	**29,662**	**71,429**	**67,238**	**62,247**	**66,200**	**-3,953**	**137,017**	**127,634**	**128,200**	**25.4%**	**131,800**	**-3,183**	**-1,808**
Shoes	29,229	25,530	24,963	23,568	27,888	24,186	22,833	21,875	25,446		54,759	52,074		51,370		103,290	96,782	-		-	-2,442	
Parent	28,396	24,837	24,306	23,023	27,216	23,595	22,828	21,870	25,436	22,648	53,233	50,811	48,084	51,300	-3,216	100,562	95,509	97,000	26.2%	99,000	-1,780	-947
Other	833	693	657	545	672	591	5	5	10		1,526	1,263		70		2,728	1,273				-662	
Apparel	8,912	7,757	8,646	8,412	7,880	7,283	7,908	7,781	7,138	6,822	16,669	15,163	13,960	14,830	-870	33,727	30,852	31,100	23.0%	32,700	-742	-461
YoY	-3.3%	-3.7%	-5.4%	-8.5%	-6.2%	-5.5%	-8.5%	-7.3%	-8.9%	-5.7%	-3.5%	-5.9%	-7.4%	-1.5%		-5.2%	-6.8%	0.4%		2.8%		
Shoes	-3.6%	-3.3%	-4.6%	-8.0%	-4.6%	-5.3%	-8.5%	-7.2%	-8.8%		-3.5%	-4.9%		-1.4%		-4.8%	-6.3%					
Parent	-3.5%	-3.0%	-4.1%	-7.5%	-4.2%	-5.0%	-6.1%	-5.0%	-6.5%	-4.0%	-3.3%	-4.5%	-5.4%	1.0%		-4.5%	-5.0%	1.6%		2.1%		
Other	-8.0%	-13.3%	-21.6%	-25.2%	-19.3%	-14.7%	-99.2%	-99.1%	-98.5%		-10.4%	-17.2%		-94.5%		-16.6%	-53.3%					
Apparel	-2.2%	-4.9%	-7.5%	-10.1%	-11.6%	-6.1%	-8.5%	-7.5%	-9.4%	-6.3%	-3.5%	-9.0%	-7.9%	-2.2%		-6.2%	-8.5%	0.8%		5.1%		
Gross profit	**18,673**	**15,535**	**16,847**	**15,401**	**18,510**	**15,318**	**15,620**	**14,229**	**16,439**		**34,208**	**33,828**				**66,456**	**63,677**	**64,000**	**25.7%**	**66,300**	**-2,071**	
Cons. ex. Mac-House	14,440	11,947	12,413	11,233	14,340	11,585	11,451	10,336	12,658		26,387	25,925				50,033	47,712	47,670	26.6%	48,970	-1,682	
Mac-House	4,233	3,588	4,434	4,168	4,170	3,733	4,169	3,893	3,781		7,821	7,903				16,423	15,965	16,330	23.2%	17,330	-389	
YoY	-4.8%	-5.8%	-3.6%	-3.9%	-0.9%	-1.4%	-7.3%	-7.6%	-11.2%		-5.2%	-1.1%				-4.5%	-4.2%	0.5%		3.6%		
Cons. ex. Mac-House	-5.3%	-6.0%	-5.0%	-6.5%	-0.7%	-3.0%	-7.7%	-8.0%	-11.7%		-5.6%	-1.8%				-5.7%	-4.6%	-0.1%		2.7%		
Mac-House	-2.9%	-5.1%	0.4%	3.8%	-1.5%	4.0%	-6.0%	-6.6%	-9.3%		-3.9%	1.0%				-0.9%	-2.8%	2.3%		6.1%		
GPM	49.0%	46.7%	50.1%	48.2%	51.8%	48.7%	50.8%	48.0%	50.4%		47.9%	50.3%				48.5%	49.9%	49.9%		50.3%	-1.3pp	
Cons. ex. Mac-House	49.4%	46.8%	49.7%	47.7%	51.4%	47.9%	50.2%	47.3%	49.7%		48.2%	49.8%				48.4%	49.3%	49.1%		49.4%	-1.7pp	
Mac-House	47.5%	46.3%	51.3%	49.5%	52.9%	51.3%	52.7%	50.0%	53.0%		46.9%	52.1%				48.7%	51.7%	52.5%		53.0%	+0.1pp	
SG&A expenses	**15,268**	**14,523**	**14,741**	**14,192**	**15,007**	**14,285**	**14,284**	**13,968**	**14,385**		**29,791**	**29,292**				**58,724**	**57,544**	**56,400**	**25.5%**	**57,500**	**-622**	
Cons. ex. Mac-House	11,204	10,739	10,683	10,291	10,947	10,457	10,275	10,116	10,546		21,943	21,404				42,917	41,795	40,550	26.0%	40,800	-401	
Mac-House	4,064	3,784	4,058	3,901	4,060	3,828	4,009	3,852	3,839		7,848	7,888				15,807	15,749	15,850	24.2%	16,700	-221	
YoY	-2.8%	-2.4%	-2.4%	-2.5%	-1.7%	-1.6%	-3.1%	-1.6%	-4.1%		-2.6%	-1.7%				-2.5%	-2.0%	-2.0%		2.0%		
Cons. ex. Mac-House	-3.4%	-3.6%	-3.7%	-2.5%	-2.3%	-2.6%	-3.8%	-1.7%	-3.7%		-3.5%	-2.5%				-3.3%	-2.6%	-3.0%		0.6%		
Mac-House	-1.1%	1.3%	1.2%	-2.6%	-0.1%	1.2%	-1.2%	-1.3%	-5.4%		0.0%	0.5%				-0.3%	-0.4%	0.6%		5.4%		
SG&A ratio	40.0%	43.6%	43.9%	44.4%	42.0%	45.4%	46.5%	47.1%	44.1%		41.7%	43.6%				42.9%	45.1%	44.0%		43.6%	+2.2pp	
Cons. ex. Mac-House	38.3%	42.1%	42.8%	43.7%	39.3%	43.2%	45.0%	46.2%	41.4%		40.1%	41.1%				41.6%	43.2%				+2.2pp	
Mac-House	45.6%	48.8%	46.9%	46.4%	51.5%	52.6%	50.7%	49.5%	53.8%		47.1%	52.0%				46.9%	51.0%	51.0%		51.1%	+2.3pp	
Operating profit	**3,405**	**1,012**	**2,106**	**1,208**	**3,503**	**1,033**	**1,336**	**261**	**2,053**	**512**	**4,417**	**4,536**	**2,565**	**4,900**	**-2,335**	**7,731**	**6,132**	**7,600**	**27.0%**	**8,800**	**-1,450**	**-521**
Shoes	3,258	1,265	1,810	886	3,413	1,081	1,149	59	2,110		4,523	4,494				7,219	5,702	-		-	-1,303	
Parent	3,106	1,247	1,631	867	3,237	1,096	1,052	63	2,028		4,353	4,333		4,600		6,851	5,448	7,000	29.0%	8,000	-1,209	
Other	152	18	179	19	176	-15	97	-4	82		170	161				368	254				-94	
Apparel	169	-195	375	267	109	-94	160	41	-58	-92	-26	15	-150	250	-400	616	216	470	-12.3%	630	-167	+2
YoY	-12.9%	-36.9%	-11.6%	-18.1%	2.9%	2.1%	-36.6%	-78.4%	-41.4%	-50.4%	-19.9%	2.7%	-43.5%	8.0%		-17.5%	-20.7%	23.9%		15.8%		
Shoes	-9.7%	-20.7%	-8.4%	-35.8%	4.8%	-14.5%	-36.5%	-93.3%	-38.2%	-	-13.1%	-0.6%				-15.7%	-21.0%	-		-		
Parent	-13.2%	-22.4%	-15.9%	-37.0%	4.2%	-12.1%	-35.5%	-92.7%	-37.3%	-	-16.0%	-0.5%	-	6.2%		-19.4%	-20.5%	28.5%		14.3%		
Other	390.3%	-	397.2%	280.0%	15.8%	-	-45.8%	-	-53.4%	-	750.0%	-5.3%				503.3%	-31.0%	-		-		
Apparel	-32.9%	-	-8.3%	2,125.0%	-35.5%	-	-57.3%	-84.6%	-	-	-	-	-	1,566.7%		-14.2%	-64.9%	117.6%		34.0%		
OPM	8.9%	3.0%	6.3%	3.8%	9.8%	3.3%	4.3%	0.9%	6.3%	1.7%	6.2%	6.7%	4.1%	7.4%	-3.3pp	5.6%	4.8%	5.9%		6.7%	-3.5pp	-1.6pp
Shoes	11.1%	5.0%	7.3%	3.8%	12.2%	4.5%	5.0%	0.3%	8.3%	-	8.3%	8.6%			-	7.0%	5.9%	-		-	-3.9pp	
Parent	10.9%	5.0%	6.7%	3.8%	11.9%	4.6%	4.6%	0.3%	8.0%	-	8.2%	8.5%	-	9.0%		6.8%	5.7%	7.2%		8.1%	-3.9pp	
Other	18.2%	2.6%	27.2%	3.5%	26.2%	-	1,940.0%	-	820.0%	-	11.1%	12.7%				13.5%	20.0%	-		-		
Apparel	1.9%	-	4.3%	3.2%	1.4%	-	2.0%	0.5%	-	-	-	0.1%	-	1.7%		1.8%	0.7%	1.5%		1.9%		
Recurring profit	**3,446**	**1,204**	**2,217**	**1,276**	**3,611**	**1,166**	**1,457**	**361**	**2,161**	**624**	**4,650**	**4,777**	**2,785**	**5,000**	**-2,215**	**8,143**	**6,595**	**7,900**	**27.4%**	**9,100**	**-1,450**	**-542**
YoY	-14.4%	-31.9%	-10.0%	-23.7%	4.8%	-3.2%	-34.3%	-71.7%	-40.2%	-46.5%	-19.7%	2.7%	-41.7%	4.7%		-18.0%	-19.0%	19.8%		15.2%		
RPM	9.0%	3.6%	6.6%	4.0%	10.1%	3.7%	4.7%	1.2%	6.6%	2.1%	6.5%	7.1%	4.5%	7.6%	-3.1pp	5.9%	5.2%	6.2%		6.9%	-3.5pp	-1.6pp
Net income	**1,948**	**605**	**1,232**	**510**	**2,486**	**578**	**1,320**	**259**	**1,754**	**344**	**2,553**	**3,064**	**2,098**	**3,000**	**-902**	**4,295**	**4,643**	**4,700**	**37.3%**	**-**	**-732**	**-234**
YoY	-4.2%	-29.0%	1.6%	-34.9%	27.6%	-4.5%	7.1%	-49.2%	-29.4%	-40.5%	-11.5%	20.0%	-31.5%	-2.1%	-29.4pp	-12.0%	8.1%	1.2%		-		
Net margin	5.1%	1.8%	3.7%	1.6%	7.0%	1.8%	4.3%	0.9%	5.4%	1.2%	3.6%	4.6%	3.4%	4.5%	-1.2pp	3.1%	3.6%	3.7%		-	-1.6pp	-0.7pp
Inventory	**40,918**	**36,834**	**40,382**	**37,361**	**41,054**	**37,242**	**39,727**	**35,239**	**36,859**		**36,834**	**37,242**				**37,361**	**35,239**				**-4,195**	
Cons. ex. Mac-House	29,924	26,712	28,777	27,001	30,019	27,851	29,069	26,264	27,494		26,712	27,851				27,001	26,264				-2,525	
Mac-House	10,994	10,122	11,605	10,360	11,035	9,391	10,658	8,975	9,365		10,122	9,391				10,360	8,975				-1,670	
Days in inventory	**189**	**200**	**210**	**214**	**207**	**221**	**232**	**222**	**204**							**200**	**222**				**-4**	
Cons. ex. Mac-House	182	190	202	206	192	210	228	219	192							192	219				-0	
Mac-House	212	231	235	236	263	263	245	230	249							223	230				-14	
Comp. store sales growth	**-1.9%**	**-1.7%**	**-2.7%**	**-6.4%**	**-3.4%**	**-4.0%**	**-7.3%**	**-6.5%**	**-8.2%**		**-1.8%**	**-3.7%**				**-3.1%**	**-5.2%**				**-4.8pp**	
Customer count	-9.3%	-5.9%	-4.3%	-6.7%	-3.2%	-4.5%	-7.3%	-6.7%	-7.9%		-7.7%	-3.8%				-6.7%	-5.3%				-4.7pp	
Customer spend	8.1%	4.4%	1.6%	0.2%	-0.2%	0.5%	-0.1%	0.2%	-0.5%		6.3%	0.1%				3.8%	0.1%				-0.3pp	
All store sales growth	**-3.5%**	**-3.1%**	**-4.1%**	**-7.5%**	**-4.2%**	**-5.0%**	**-6.1%**	**-5.1%**	**-6.8%**		**-3.3%**	**-4.6%**				**-4.5%**	**-5.1%**				**-2.6pp**	
Customer count	-10.9%	-3.1%	-5.9%	-7.9%	-4.1%	-5.7%	-6.9%	-6.0%	-7.2%		-9.2%	-4.9%				-8.1%	-5.6%				-3.1pp	
Customer spend	8.2%	-7.4%	1.8%	0.4%	-0.1%	0.6%	0.7%	1.0%	0.4%		6.4%	0.2%				3.9%	0.5%				+0.5pp	
Store count																						
Chiyoda	1,072	1,065	1,064	1,055	1,050	1,040	1,085	1,080	1,072		1,065	1,040				1,055	1,080	1,065		1,065	+22	
Mac-House	452	448	444	433	427	421	413	410	413		448	421				423	410	425		440	-14	
Openings																						
Chiyoda	8	2	5	2	5	2	12	2	6		10	7				17	21	25	24.0%	25	+1	
Mac-House	3	-	1	1	3	1	5	4	7		3	4				5	13	30		30	+4	
Closures																						
Chiyoda	-9	-9	-6	-11	-10	-12	-5	-7	-14		-18	-22				-35	-34	-40	35.0%	-25	-4	
Mac-House	-3	-4	-5	-12	-9	-7	-13	-7	-4		-16	-4				-24	-36	-15		-15	+5	

(JPYmn)		FY02/03	FY02/04	FY02/05	FY02/06	FY02/07	FY02/08	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
Chiyoda (parent) shoe business: sales		117,546	116,935	111,707	115,251	113,983	115,010	114,595	113,829	111,289	110,314	108,330	107,220	103,615	105,263	100,562	95,509
	Men's shoes	30,602	29,558	27,616	28,636	28,725	28,721	28,018	27,669	27,981	27,580	27,708	27,720	27,392	26,442	24,875	24,118
	Women's shoes	24,339	24,101	23,418	24,490	25,283	25,975	25,974	25,320	25,191	24,797	24,607	24,482	23,121	21,960	18,436	19,969
	Children's shoes	5,600	5,950	5,658	5,754	6,005	11,231	13,246	13,800	12,504	11,604	10,924	10,624	10,103	10,737	10,879	9,656
	Rubber and athletic shoes	49,562	50,224	47,679	48,890	46,648	40,993	39,461	39,438	37,766	38,081	37,203	36,447	35,564	38,764	39,137	35,079
	Sandals	5,130	4,862	5,108	5,134	4,936	5,440	5,188	4,665	4,930	5,267	4,923	4,790	4,290	4,423	4,434	3,956
	Other	2,311	2,237	2,226	2,344	2,383	2,647	2,706	2,840	2,877	2,982	2,962	3,154	3,142	2,935	2,798	2,729
YoY		0.2%	-0.5%	-4.5%	3.2%	-1.1%	0.9%	-0.4%	-0.7%	-2.2%	-0.9%	-1.8%	-1.0%	-3.4%	1.6%	-4.5%	-5.0%
	Men's shoes	-0.7%	-3.4%	-6.6%	3.7%	0.3%	-0.0%	-2.4%	-1.2%	1.1%	-1.4%	0.5%	0.0%	-1.2%	-3.5%	-5.9%	-3.0%
	Women's shoes	-5.8%	-1.0%	-2.8%	4.6%	3.2%	2.7%	-0.0%	-2.5%	-0.5%	-1.6%	-0.8%	-0.5%	-5.6%	-5.0%	-16.0%	8.3%
	Children's shoes	-0.3%	6.3%	-4.9%	1.7%	4.4%	87.0%	17.9%	4.2%	-9.4%	-7.2%	-5.9%	-2.7%	-4.9%	6.3%	1.3%	-11.2%
	Rubber and athletic shoes	4.8%	1.3%	-5.1%	2.5%	-4.6%	-12.1%	-3.7%	-0.1%	-4.2%	0.8%	-2.3%	-2.0%	-2.4%	9.0%	1.0%	-10.4%
	Sandals	-5.1%	-5.2%	5.1%	0.5%	-3.9%	10.2%	-4.6%	-10.1%	5.7%	6.8%	-6.5%	-2.7%	-10.4%	3.1%	0.2%	-10.8%
	Other	-1.3%	-3.2%	-0.5%	5.3%	1.7%	11.1%	2.2%	5.0%	1.3%	3.6%	-0.7%	6.5%	-0.4%	-6.6%	-4.7%	-2.5%
% of parent shoe sales																	
	Men's shoes	26.0%	25.3%	24.7%	24.8%	25.2%	25.0%	24.4%	24.3%	25.1%	25.0%	25.6%	25.9%	26.4%	25.1%	24.7%	25.3%
	Women's shoes	20.7%	20.6%	21.0%	21.2%	22.2%	22.6%	22.7%	22.2%	22.6%	22.5%	22.7%	22.8%	22.3%	20.9%	18.3%	20.9%
	Children's shoes	4.8%	5.1%	5.1%	5.0%	5.3%	9.8%	11.6%	12.1%	11.2%	10.5%	10.1%	9.9%	9.8%	10.2%	10.8%	10.1%
	Rubber and athletic shoes	42.2%	43.0%	42.7%	42.4%	40.9%	35.6%	34.4%	34.6%	33.9%	34.5%	34.3%	34.0%	34.3%	36.8%	38.9%	36.7%
	Sandals	4.4%	4.2%	4.6%	4.5%	4.3%	4.7%	4.5%	4.1%	4.4%	4.8%	4.5%	4.5%	4.1%	4.2%	4.4%	4.1%
	Other	2.0%	1.9%	2.0%	2.0%	2.1%	2.3%	2.4%	2.5%	2.6%	2.7%	2.7%	2.9%	3.0%	2.8%	2.8%	2.9%
Store count		1,043	1,020	1,003	1,017	1,060	1,103	1,117	1,142	1,121	1,099	1,101	1,100	1,087	1,073	1,055	1,080
	Openings	75	54	34	63	79	78	68	74	46	27	34	39	39	41	17	21
	Closures	-46	-77	-51	-49	-36	-35	-54	-49	-67	-49	-32	-40	-52	-55	-35	-34
Comparable stores: customer count YoY			-0.5%	-1.3%	-0.3%	-2.9%	-3.1%	-3.5%	-2.2%	-2.5%	-0.7%	-2.8%	-4.0%	-7.5%	-4.4%	-6.7%	-5.3%
Comparable stores: customer spend YoY			-4.4%	-3.5%	0.3%	-0.7%	-1.1%	0.3%	-2.3%	-1.7%	1.2%	1.5%	1.6%	4.7%	6.4%	3.8%	0.1%
Chiyoda (parent) shoe business: GPM		38.1%	38.4%	39.2%	40.0%	41.1%	42.4%	43.4%	43.7%	45.3%	46.7%	48.1%	48.7%	48.1%	47.9%	47.2%	47.8%

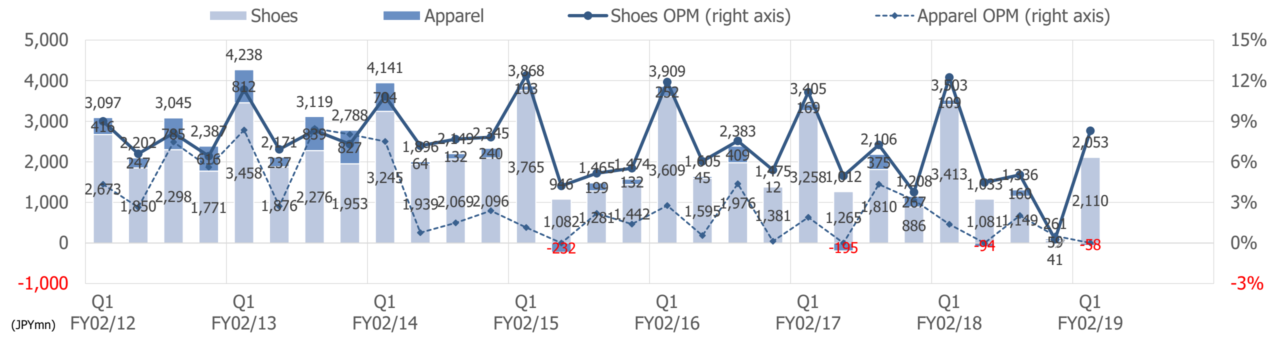
Source: Shared Research based on company data

Seasonality: During Q1 (March to May), sales peak in March. Margins tend to fall in Q2 (June to August) and Q4 (December to February) due to clearance sales and lower prices. Profitability also tends to bottom in Q2 and Q4, which is when the company records inventory write-offs in August and February.

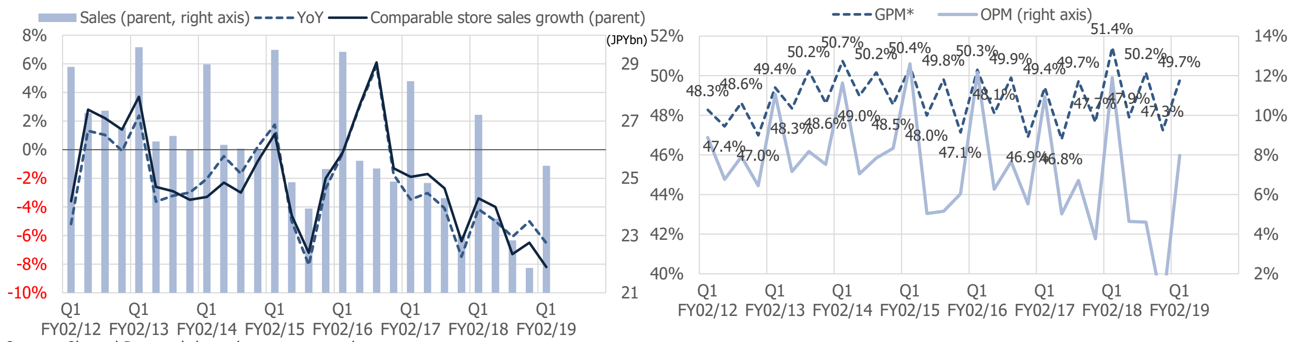
Q1 FY02/19 results (out July 6, 2018)

- Q1 FY02/19: Consolidated sales down 8.9% YoY, hurt by increased competition and cutbacks in new purchasing in conjunction with efforts to bring down inventory levels; consolidated operating profit finishes down 41% as gross margins come under further pressure from aggressive markdowns used to dispose of unwanted inventories. The company announces downward revision to 1H and full-year forecasts for consolidated results. Reflecting a sense of crisis, the company also took steps to shore up its organization in May
- Parent: Q1 sales down 6.5% and operating profit down 16%. Along with the downward revision to its consolidated forecast, the company lowered its 1H and full-year forecasts for the parent, cutting its full-year operating profit forecast from JPY7.5bn to JPY3.9bn
    - Comparable store sales down 8.2% due to 7.9% decline in customer traffic; operating profit also finished down, as improvements in the gross margin and cuts in SG&A expenses failed to offset the drop in gross profit resulting from lower sales
    - Sales of the new private brand fuwaraku were up 48% YoY; new casual lines also added to sales
    - Store formats: Continued opening joint stores with Mac-House to increase customer-drawing power; opened six new stores in shopping centers and inside general merchandise stores while closing 14 unprofitable stores
- Apparel business: Consolidated subsidiary Mac-House also announced downward revision to 1H and full-year results on the same day
- FY02/19: Company looking to revive sales bit by bit with the help of competitive new merchandise offerings, more private label goods, and aggressive store remodeling. No change in dividend forecast.

Operating profit by segment (JPYmn)



Parent performance (JPYbn)



Source: Shared Research based on company data
Note: GPM* = (consolidated gross profit – Mac-House gross profit) ÷ Shoe segment sales

Industry conditions and company initiatives

The operating environment for the shoe and apparel industry is growing increasingly difficult, as not only does the market have too many brick-and-mortar stores, consumers also have more choices when it comes to shopping as more competitors from outside the industry move in and online stores expand their reach. Faced with this difficult operating environment, Chiyoda is working to 1) enhance its retail outlets through an aggressive remodeling program aimed at better expressing the brand image and giving displays a clear theme; 2) attract more customers by enhancing its online contents through websites, social media, email magazines, and apps; and 3) better define its store format to encourage new store openings while at the same time aggressively closing unprofitable stores.

More specifically, on the private brand front, sales of the new private brand fuwaraku were up 48% YoY in 1Q, aided by the development of a new line of casual goods, the establishment of dedicated HP for the brand and applications, and actively message consumers using social media. In the area of global brand sneakers, the company reported that sales of the 11 leading brands were up 10% YoY, aided by improved inventory control and the expansion of merchandise displays for global brand sneakers for women and its own original (special makeup) brands. On the store front, the company has been remodeling stores so as to better express the image of individual brands along with an emphasis on themes such a "health" and "commuting." The company continued opening joint stores with Mac-House to increase customer-drawing power, opening six new stores in shopping centers and inside general merchandise stores while closing 14 unprofitable stores. After remodeling a total of 49 stores, the company saw sales increase by an average of 27%. In the area of e-commerce, the company saw a 27% increase in sales as a result of its multi-channel online sales strategy.

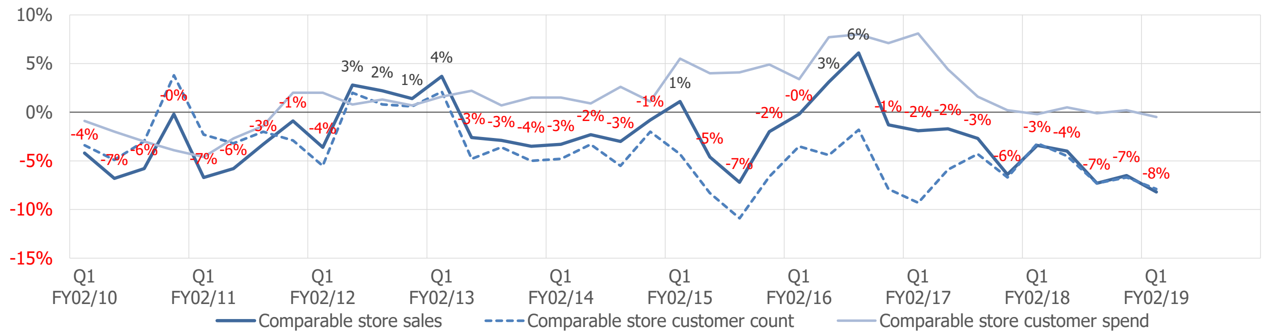
Earnings overview

Parent: sales down 6.5%, operating profit down 16%; with sales running below plan, also lowers parent 1H and full-year forecasts

Reflecting the tough operating environment in 1Q FY02/19, the company reported consolidated sales of JPY32.6bn (-8.9% YoY) and operating profit of JPY2.1bn (-41.4%). The parent company, which operates the group's mainstay shoe business, reported sales of JPY25.4bn (-6.5%) and an operating profit of JPY2.0bn (-37.3%). Not only were sales and earnings down YoY, they were also below plans, prompting the company to issue a downward revision to its 1H and full-year forecasts at both the consolidated and parent levels. Subsidiary Mac-House also issued a downward revision to its 1H and full-year forecasts.

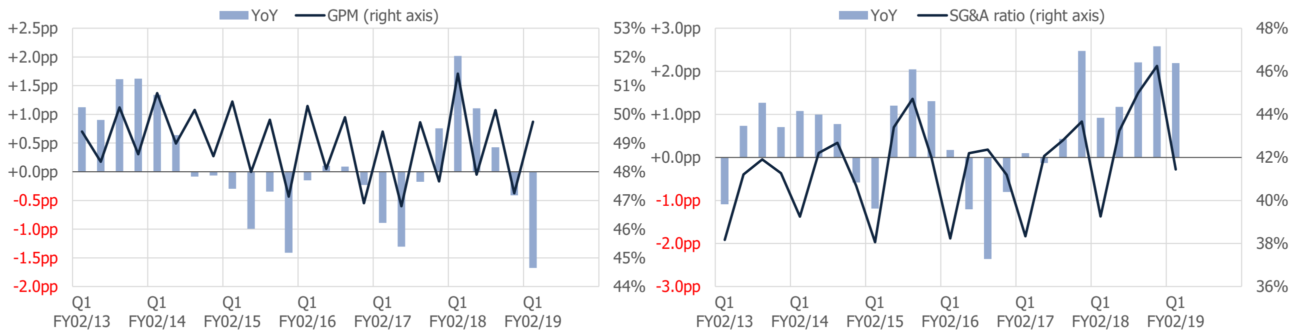
The company attributed the 6.5% decline in parent sales to a decline in customer traffic following cutbacks in the purchasing of new merchandise in connection with its efforts to bring down inventory levels. On the earnings front, the gross profit margin was further pressured by the aggressive markdowns used to clear unwanted inventories, leaving the gross margin down 1.7pp, at 49.7%. The company reined in spending at the SG&A expense level but this was not enough to offset the impact of lower sales, leaving parent operating profit down JPY1.2bn or 37.3% YoY. (See the section below for an overview of the company's downward revision to its 1H and full-year forecasts.)

Parent comparable store sales



Source: Shared Research based on company data

Shoe business GPM and SG&A expense ratio estimates



Source: Shared Research based on company data

Reasons for downward revision at Chiyoda

Explaining the downward revision to the parent company forecast for FY02/19, the company said 1Q sales came in below plan due to a large-than-expected drop in sales resulting from its decision to cut back on purchases of new merchandise as part of its effort to bring down inventory levels amid an already competitive market environment with online sellers as well as companies from outside the shoe industry looking to expand sales. On the earnings front, the company pointed to a decline in the gross profit margin resulting from the aggressive markdowns used for the inventory disposal. Although it is working to rein in spending at the SG&A expense level and is selling some investment securities, the parent company determined that this would not be enough to offset the drop in sales and had to lower its forecast for earnings as well. This, combined with the downward revision to the forecast of subsidiary Mac-House (discussed above), forced the company to lower its forecast at not only the parent but the consolidated level as well.

Outlook for FY02/19

FY02/19 started off on a down note with comparable store sales declining 10.4% YoY in April as customer traffic fell by 9.1%, followed by an 11.6% decline in comparable store sales in May with customer traffic down 13.2%. Although the company appears to be doing well with its efforts to expand sales of global brand sneakers and sales of its new fuwaraku private brand, sales of low-priced goods and women's shores remain weak. Reflecting a sense of crisis, the company moved to shore up its organization in May 2018. Sales have been picking up a bit since June but, with both sales and earnings finishing below plans in Q1, the company decided to issue a downward revision to its 1H and full-year forecast (at both the parent and consolidated level) along with the release of Q1 results (as detailed above). The company is looking to revive sales bit by bit with the help of competitive new merchandise offerings and more private label goods, and aggressive store remodeling, which are already proving successful. It is also planning to sell off more of its cross-shareholdings.

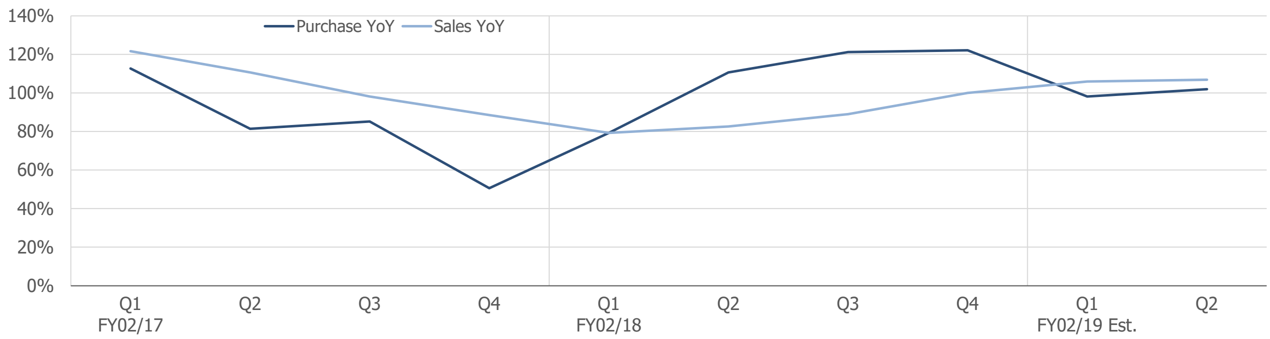
Toward FY02/19 (for reference), the company forecasts sales of JPY128.2bn (+0.4% YoY), operating profit of JPY7.6bn (+23.9%), and net income of JPY4.7bn (+1.2%). The company is taking the following measures to respond to consumer needs. In product strategy, the company aims to raise the value of its private brands, appeal to cost-conscious customers, and promote hybrid merchandise with National Brands. In store strategy, the company will focus on opening and conducting renewals of its main stores such as Shoe Plaza, Tokyo Shoes Retailing Center, and Mac-House SS, in the Tokyo Metropolitan area and large cities. In human resources and organizational strategy, the company will promote the diversification of its personnel, promote female employees, and expand the hiring of female specialists.

At the same time with the announcement of the full-year FY02/18 results, the company announced a downward revision to its medium-term management plan announced in April 2017. It also lowered targets for FY02/19, the second year in the medium-term management plan, and for FY02/20, the final year of the medium-term management plan. The basic policy was not changed but the company added the following two initiatives: integration of Chiyoda Bussan to improve the efficiency of the group businesses, and acceleration of closings of unprofitable stores and proactive store renovations.

Revised forecast

	FY02/17		FY02/18		FY02/19 Est. Q1		FY02/19 Init. Est.		FY02/17	FY02/18	FY02/19	FY02/19	FY02/20	FY02/18	FY02/19	FY02/20	3-year
(JPYmn)	1H	2H	1H	2H	1H	2H	1H	2H	Cons.	Cons.	Est. Q1	Init. Est.	MTP	MTP	MTP	MTP	CAGR
Sales	**71,429**	**65,588**	**67,238**	**60,396**	**62,247**	**59,735**	**66,200**	**73,460**	**137,017**	**127,634**	**121,982**	**128,200**	**131,800**	**136,000**	**138,300**	**142,700**	**1.4%**
Chiyoda (parent)	53,233	47,329	50,811	44,698	48,084	43,415	51,300	50,700	100,562	95,509	91,499	97,000	99,000	100,500	102,000	104,000	1.1%
Mac-House (MH)	16,669	17,058	15,163	15,689	13,960	16,270	14,830	19,970	33,727	30,852	30,230	31,100	32,700	32,900	33,000	34,700	1.0%
Rest of cons.	1,527	1,201	1,264	9	203	50	70	2,790	2,728	1,273	253	100	100	2,600	3,300	4,000	
YoY	-3.5%	-7.0%	-5.9%	-7.9%	-7.4%	-1.1%	-1.5%	21.6%	-5.2%	-6.8%	-4.4%	0.4%	2.8%	-0.7%	1.7%	3.2%	
Chiyoda (parent)	-3.3%	-5.8%	-4.5%	-5.6%	-5.4%	-2.9%	1.0%	13.4%	-4.5%	-5.0%	-4.2%	1.6%	2.1%	-0.1%	1.5%	2.0%	
Mac-House	-3.5%	-8.8%	-9.0%	-8.0%	-7.9%	3.7%	-2.2%	27.3%	-6.2%	-8.5%	-2.0%	0.8%	5.1%	-2.5%	0.3%	5.2%	
Gross profit	34,208	32,248	33,828	29,849					66,456	63,677	-	64,000	66,300	66,700	68,300	70,800	2.1%
Chiyoda (parent)	25,079	22,433	24,596	21,076					47,512	45,672	-	46,600	47,800	47,900	49,200	50,500	2.1%
Mac-House (MH)	7,821	8,602	7,903	8,062					16,423	15,965	-	16,330	17,330	16,380	16,500	17,520	2.2%
Rest of cons.	1,308	1,213	1,329	711					2,521	2,040	-	1,070	1,170	2,420	3,900	4,080	
GPM	**47.9%**	**49.2%**	**50.3%**	**49.4%**					**48.5%**	**49.9%**	**-**	**49.9%**	**50.3%**	**49.0%**	**49.4%**	**49.6%**	**+0.4pp**
Chiyoda (parent)	47.1%	47.4%	48.4%	47.2%					47.2%	47.8%	-	48.0%	48.3%	47.7%	48.2%	48.6%	+0.4pp
Mac-House	46.9%	50.4%	52.1%	51.4%					48.7%	51.7%	-	52.5%	53.0%	49.8%	50.0%	50.5%	+0.6pp
SG&A expenses	29,791	28,933	29,292	28,252					58,724	57,544	-	56,400	57,500	58,300	58,500	60,000	0.7%
Chiyoda (parent)	20,725	19,935	20,725	19,499					40,660	40,224	-	39,600	39,800	40,400	40,700	41,400	0.6%
Mac-House (MH)	7,848	7,959	7,888	7,861					15,807	15,749	-	15,850	16,700	15,600	15,500	16,220	0.9%
Rest of cons.	1,218	1,039	679	892					2,257	1,571	-	950	1,000	2,300	2,300	2,380	
YoY	-2.6%	-4.3%	-1.7%	-4.7%					-2.5%	-2.0%		-2.0%	2.0%	-0.7%	0.3%	2.6%	
Chiyoda (parent)	-3.1%	-4.3%	-	-5.0%					-3.0%	-1.1%		-1.6%	0.5%	-0.6%	0.7%	1.7%	
Mac-House (MH)	0.0%	-2.3%	0.5%	-1.9%					-0.3%	-0.4%		0.6%	5.4%	-1.3%	-0.6%	4.6%	
SG&A ratio	41.7%	44.1%	43.6%	46.8%					42.9%	45.1%	-	44.0%	43.6%	42.9%	42.3%	42.0%	-0.3pp
Chiyoda (parent)	38.9%	42.1%	40.8%	43.6%					40.4%	42.1%	-	40.8%	40.2%	40.2%	39.9%	39.8%	-0.2pp
Mac-House (MH)	47.1%	46.7%	52.0%	50.1%					46.9%	51.0%	-	51.0%	51.1%	47.4%	47.0%	46.7%	-0.0pp
Operating profit	**4,417**	**3,314**	**4,536**	**1,596**	**2,565**	**1,113**	**4,900**	**2,700**	**7,731**	**6,132**	**3,678**	**7,600**	**8,800**	**8,400**	**9,800**	**10,800**	**11.8%**
Chiyoda (parent)	4,353	2,498	4,333	1,115			4,600	2,500	6,851	5,448	-	7,000	8,000	7,500	8,500	9,100	9.9%
Mac-House (MH)	-26	642	15	201	-150	370	250	280	616	216	220	470	630	780	1,000	1,300	28.3%
Rest of cons.	90	174	188	280			50	-80	264	468	3,458	130	170	120	300	400	
YoY	-19.9%	-14.1%	2.7%	-51.8%			8.0%	69.2%	-17.5%	-20.7%	-40.0%	23.9%	15.8%	8.7%	16.7%	10.2%	
Chiyoda (parent)	-16.0%	-24.7%	-0.5%	-55.4%			6.2%	124.2%	-19.4%	-20.5%	-	28.5%	14.3%	9.5%	13.3%	7.1%	
Mac-House (MH)	-	52.5%	-	-68.7%	-	84.1%	1,566.7%	39.3%	-14.2%	-64.9%	1.9%	117.6%	34.0%	26.6%	28.2%	30.0%	
OPM	6.2%	5.1%	6.7%	2.6%	4.1%	1.9%	7.4%	3.7%	5.6%	4.8%	3.0%	5.9%	6.7%	6.2%	7.1%	7.6%	+0.6pp
Chiyoda (parent)	8.2%	5.3%	8.5%	2.5%			9.0%	4.9%	6.8%	5.7%	-	7.2%	8.1%	7.5%	8.3%	8.8%	+0.6pp
Mac-House (MH)	-0.2%	3.8%	0.1%	1.3%	-1.1%	2.3%	1.7%	1.4%	1.8%	0.7%	0.7%	1.5%	1.9%	2.4%	3.0%	3.7%	+0.6pp
Recurring profit	**4,650**	**3,493**	**4,777**	**1,818**	**2,785**	**1,260**	**5,000**	**3,000**	**8,143**	**6,595**	**4,045**	**7,900**	**9,100**	**8,600**	**10,000**	**11,000**	**10.5%**
Chiyoda (parent)	4,859	2,886	4,868	1,516	3,048	815	4,900	3,100	7,745	6,384	3,863	7,500	8,500	8,200	9,200	9,800	8.2%
Mac-House (MH)	20	661	48	216	-140	400	280	280	681	264	260	520	-	810			
Rest of cons.	-229	-54	-139	86	-123	45	-180	-380	-283	-53	-78	-120	600	-410			
YoY	-19.7%	-15.5%	2.7%	-48.0%	-41.7%	-30.7%	4.7%	65.0%	-18.0%	-19.0%	-38.7%	19.8%	15.2%	5.6%	16.3%	10.0%	
Chiyoda (parent)	-13.2%	-23.1%	0.2%	-47.5%	-37.4%	-46.2%	0.7%	104.5%	-17.2%	-17.6%	-39.5%	17.5%	13.3%	5.9%	12.2%	6.5%	
Mac-House (MH)	-94.4%	39.2%	140.0%	-67.3%	-	85.2%	483.3%	29.6%	-18.3%	-61.2%	-1.5%	97.0%	-	18.9%	-	-	
RPM	6.5%	5.3%	7.1%	3.0%	4.5%	2.1%	7.6%	4.1%	5.9%	5.2%	3.3%	6.2%	6.9%	6.3%	7.2%	7.7%	+0.6pp
Chiyoda (parent)	9.1%	6.1%	9.6%	3.4%	6.3%	1.9%	9.6%	6.1%	7.7%	6.7%	4.2%	7.7%	8.6%	8.2%	9.0%	9.4%	+0.6pp
Mac-House (MH)	0.1%	3.9%	0.3%	1.4%	-1.0%	2.5%	1.9%	1.4%	2.0%	0.9%	0.9%	1.7%	-	2.5%	-	-	
Net income	**2,553**	**1,742**	**3,064**	**1,836**	**2,098**	**702**	**3,000**	**1,080**	**4,295**	**4,643**	**2,800**	**4,700**	**-**	**4,900**			
YoY	-11.5%	-12.7%	20.0%	5.4%	-31.5%	-61.8%	-2.1%	-41.2%	-12.0%	8.1%	-39.7%	1.2%	-	14.1%			
Net margin	3.6%	2.7%	4.6%	3.0%	3.4%	1.2%	4.5%	1.5%	3.1%	3.6%	2.3%	3.7%	-	3.6%			
ROE									5.7%	6.1%	-	6.3%	7.3%	6.5%	7.4%	8.2%	
Chiyoda store count	**1,065**	**1,055**	**1,055**	**1,065**					**1,055**	**1,080**	**-**	**1,065**	**1,065**	**1,065**	**1,075**	**1,095**	**1.2%**
TSRC	582	582	-	584					582	571	-			584	588	590	
Shoe Plaza	382	386	-	403					386	402	-			403	420	447	
Other	101	87	1,055	78					87	107	-			78	67	58	
Openings	10	7	7	14					17	21	-	25	25	35	40	50	
TSRC	3	2	3						5	2	-			13	11	9	
Shoe Plaza	5	5	5						10	16	-			20	23	33	
Other	2	-	2						2	3	-			2	6	8	
Closures	-9	-26	-11	-8					-35	-34	-	-40	-25	-25	-30	-30	
TSRC	-3	-4	-3						-7	-13	-			-11	-7	-7	
Shoe Plaza	-5	-6	-5						-11	-7	-			-3	-6	-6	
Other	-10	-7	-10						-17					-11	-17	-17	
Comp. store sales growth	-1.8%	-4.5%	-3.7%	-6.9%					-3.1%	-5.2%	-	-	-	0.0%	0.1%	0.2%	
Comp. store customer count	-7.7%	-5.4%	-3.8%	-7.0%					-6.7%	-5.3%	-	-	-				
Comp. store customer spend	6.3%	0.9%	0.1%	0.1%					3.8%	0.1%	-	-	-				
PB ratio	37.5%	38.3%	37.5%						37.9%	39.8%		41.0%		39.5%	42.0%	44.0%	
Men's shoes									57.5%	59.9%		59.9%		0.2%	0.3%	0.2%	
Women's shoes									57.3%	52.1%		54.1%		0.3%	0.3%	0.1%	
Children's shoes									28.5%	27.4%		28.4%					
Sneakers									19.1%	22.7%		24.7%					
Mac-House store count	**448**	**423**	**433**	**410**					**423**	**410**		**425**	**440**	**393**	**393**	**393**	**-2.4%**
Openings	-	5	1	8					5	13		30	30	5	15	15	
Closures	-4	-20	-12	-16					-24	-36		-15	-15	-35	-15	-15	

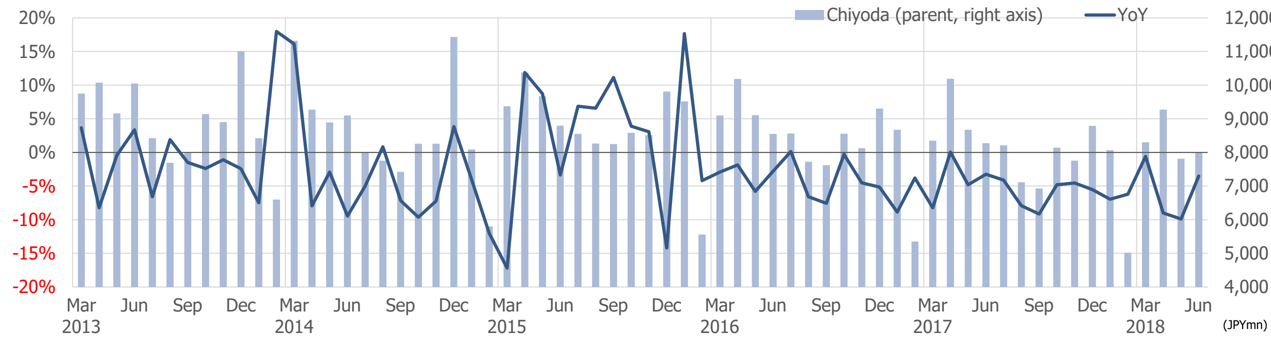
Effects of inventory control

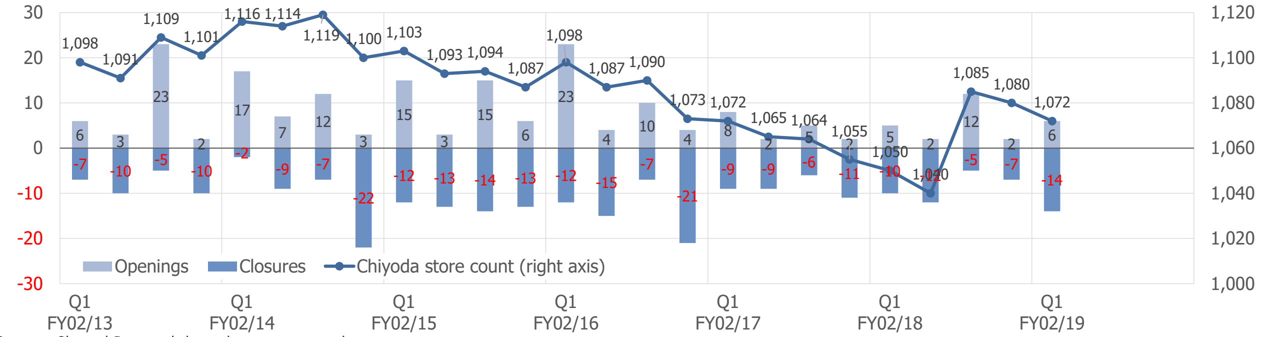


Source: Shared Research based on company data

Shoe segment

Monthly sales data (parent; sales in September 2016 and later are Shared Research estimates), and Chiyoda store count





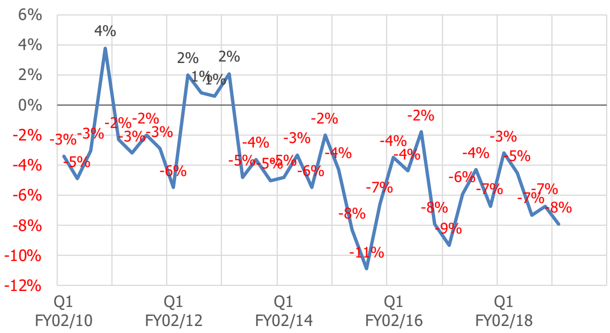
Source: Shared Research based on company data

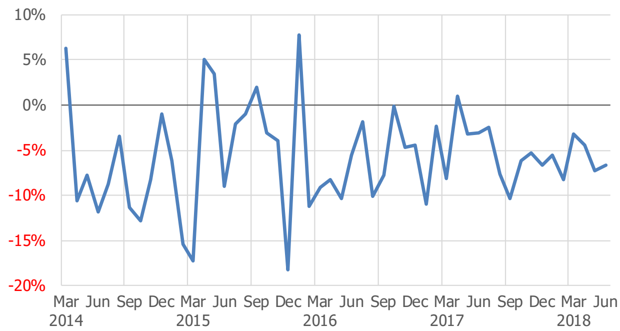
Quarterly results and inventory trends

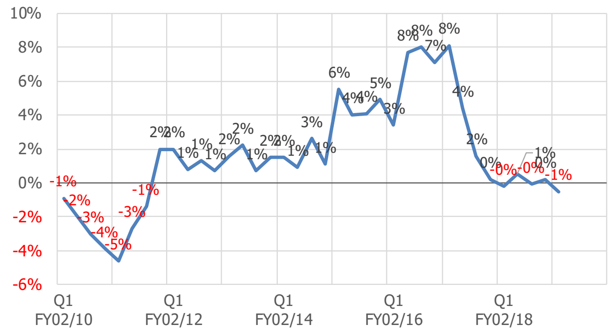
(JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2 Est.	Q3	Q4
Sales	39,441	34,573	35,523	34,967	38,142	33,287	33,609	31,979	35,768	31,470	30,741	29,655	32,585	29,662		
Mac-House	9,114	8,160	9,343	9,353	8,912	7,757	8,646	8,412	7,880	7,283	7,908	7,781	7,138	6,822		
Difference (Shoes business)	30,327	26,413	26,180	25,614	29,230	25,530	24,963	23,567	27,888	24,187	22,833	21,874	25,447	22,840		
YoY	-0.0%	1.7%	4.6%	-1.8%	-3.3%	-3.7%	-5.4%	-8.5%	-6.2%	-5.5%	-8.5%	-7.3%	-8.9%	-5.7%		
Mac-House	0.6%	-1.8%	2.9%	-1.6%	-2.2%	-4.9%	-7.5%	-10.1%	-11.6%	-6.1%	-8.5%	-7.5%	-9.4%	-6.3%		
Difference (Shoes business)	-0.2%	2.9%	5.3%	-1.9%	-3.6%	-3.3%	-4.6%	-8.0%	-4.6%	-5.3%	-8.5%	-7.2%	-8.8%	-5.6%		
Merchandise inventory	38,971	37,746	43,094	39,910	40,918	36,834	40,382	37,361	41,054	37,242	39,727	35,239	36,859			
Mac-House	11,491	10,673	12,357	10,790	10,994	10,122	11,605	10,360	11,035	9,391	10,658	8,975	9,365			
Difference (Shoes business)	27,480	27,073	30,737	29,120	29,924	26,712	28,777	27,001	30,019	27,851	29,069	26,264	27,494			
Merchandise inventory days	167	194	204	200	189	200	210	214	207	221	232	222	204			
Mac-House	203	231	213	198	212	231	235	236	263	263	245	230	249			
Difference (Shoes business)	155	182	201	201	182	190	202	206	192	210	228	219	192			

Source: Shared Research based on company data

YoY changes of customer count (top) and customer spend (bottom), for quarters (left) and months (right)







Source: Shared Research based on company data

Apparel

Mac-House's quarterly earnings trends

Quarterly performance	FY02/16				FY02/17				FY02/18				FY02/19		FY02/16	FY02/17	FY02/18	FY02/19	FY02/19	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Act.	Act.	Act.	Rev. Est.	Init. Est.	% of FY
Sales	**9,115**	**8,160**	**9,343**	**9,353**	**8,912**	**7,757**	**8,647**	**8,411**	**7,880**	**7,283**	**7,908**	**7,781**	**7,138**		**35,971**	**33,727**	**30,852**	**30,230**	**31,100**	**23.6%**
YoY	0.7%	-1.8%	2.9%	-1.6%	-2.2%	-4.9%	-7.4%	-10.1%	-11.6%	-6.1%	-8.5%	-7.5%	-9.4%		0.1%	-6.2%	-8.5%	-2.0%	0.8%	
CoGS	4,753	4,379	4,925	5,336	4,679	4,169	4,213	4,243	3,710	3,550	3,739	3,888	3,357		19,393	17,303	14,886	-	14,773	
Gross profit	**4,361**	**3,781**	**4,418**	**4,017**	**4,233**	**3,588**	**4,434**	**4,168**	**4,170**	**3,733**	**4,169**	**3,893**	**3,781**		**16,577**	**16,423**	**15,965**	-	**16,327**	
YoY	-0.5%	-0.3%	3.0%	-4.1%	-2.9%	-5.1%	0.4%	3.8%	-1.5%	4.0%	-6.0%	-6.6%	-9.3%		-0.5%	-0.9%	-2.8%	-	2.3%	
GPM	47.8%	46.3%	47.3%	42.9%	47.5%	46.3%	51.3%	49.6%	52.9%	51.3%	52.7%	50.0%	53.0%		46.1%	48.7%	51.7%	-	52.5%	
SG&A expenses	4,109	3,736	4,008	4,005	4,064	3,784	4,058	3,901	4,060	3,828	4,009	3,852	3,839		15,858	15,807	15,749	-	15,857	
YoY	-3.9%	-7.2%	-2.0%	-1.3%	-1.1%	1.3%	1.2%	-2.6%	-0.1%	1.2%	-1.2%	-1.3%	-5.4%		-3.6%	-0.3%	-0.4%	-	0.7%	
SG&A ratio	45.1%	45.8%	42.9%	42.8%	45.6%	48.8%	46.9%	46.4%	51.5%	52.6%	50.7%	49.5%	53.8%		44.1%	46.9%	51.0%	-	51.0%	
Operating profit	**252**	**45**	**409**	**12**	**169**	**-195**	**375**	**267**	**109**	**-94**	**160**	**41**	**-58**		**718**	**616**	**216**	**220**	**470**	-
YoY	144.7%	-	105.5%	-90.9%	-32.9%	-	-8.3%	2,125.0%	-35.5%	-	-57.3%	-84.6%	-		255.4%	-14.2%	-64.9%	1.9%	117.6%	
OPM	2.8%	0.6%	4.4%	0.1%	1.9%	-2.5%	4.3%	3.2%	1.4%	-1.3%	2.0%	0.5%	-0.8%		2.0%	1.8%	0.7%	0.7%	1.5%	
Recurring profit	290	69	431	44	195	-175	397	264	131	-83	173	43	-48		834	681	264	260	520	-
YoY	76.8%	-	88.2%	-72.0%	-32.8%	-	-7.9%	500.0%	-32.8%	-	-56.4%	-83.7%	-		140.3%	-18.3%	-61.2%	-1.5%	97.0%	
RPM	3.2%	0.8%	4.6%	0.5%	2.2%	-2.3%	4.6%	3.1%	1.7%	-1.1%	2.2%	0.6%	-0.7%		2.3%	2.0%	0.9%	0.9%	1.7%	
Net income	48	17	104	-13	105	-250	202	76	2	-105	24	-145	-196		156	133	-224	-240	60	-
YoY	6.7%	-	57.6%	-	118.8%	-	94.2%	-	-98.1%	-	-88.1%	-	-		-	-14.7%	-	-	-	
Net margin	0.5%	0.2%	1.1%	-0.1%	1.2%	-3.2%	2.3%	0.9%	0.0%	-1.4%	0.3%	-1.9%	-2.7%		0.4%	0.4%	-0.7%	-0.8%	0.2%	
Store count	470	462	457	452	452	448	444	433	427	421	413	410	413		452	433	410		425	
Openings	5	-	3	1	3	-	1	1	3	1	5	4	7		9	5	13		30	
Closures	-15	-8	-8	-6	-3	-4	-5	-12	-9	-7	-13	-7	-4		-37	-24	-36		-15	
Sales by product																				
Menswear	4,308	4,049	4,348	4,568	4,092	3,734	3,958	4,155	3,581	3,416	3,503	3,651	3,255		17,273	15,939	14,151			
Tops	2,606	2,146	2,740	2,786	2,369	1,865	2,456	2,529	2,029	1,666	2,203	2,252	1,922		10,278	9,219	8,150			
Bottoms	1,702	1,903	1,608	1,782	1,723	1,869	1,502	1,626	1,552	1,750	1,300	1,399	1,333		6,995	6,720	6,721			
Womenswear	2,263	1,865	2,367	1,966	2,252	1,715	2,085	1,749	1,870	1,654	1,935	1,647	1,680		8,461	7,801	7,106			
Tops	1,136	843	1,192	881	1,130	784	1,077	797	916	742	1,049	826	872		4,052	3,788	3,533			
Bottoms	1,127	1,022	1,175	1,085	1,122	931	1,008	952	954	912	886	821	808		4,409	4,013	3,573			
Others	2,542	2,245	2,630	2,817	2,564	2,310	2,604	2,506	2,427	2,212	2,471	2,482	2,201		10,234	9,984	9,592			
Children's	1,005	720	1,133	885	969	662	1,085	825	968	738	1,041	798	894		3,743	3,541	3,545			
Others	1,537	1,525	1,497	1,932	1,595	1,648	1,519	1,681	1,459	1,474	1,430	1,684	1,307		6,491	6,443	6,047			
YoY																				
Menswear	-0.7%	-4.5%	0.9%	-4.3%	-5.0%	-7.8%	-9.0%	-9.0%	-12.5%	-8.5%	-11.5%	-12.1%	-9.1%		-2.2%	-7.7%	-11.2%			
Tops	0.3%	-5.4%	-1.0%	-9.2%	-9.1%	-13.1%	-10.4%	-9.2%	-14.4%	-10.7%	-10.3%	-11.0%	-5.3%		-4.0%	-10.3%	-11.6%			
Bottoms	-2.2%	-3.5%	4.3%	4.6%	1.2%	-1.8%	-6.6%	-8.8%	-9.9%	-6.4%	-13.4%	-14.0%	-14.1%		0.5%	-3.9%	0.0%			
Womenswear	-6.8%	-6.5%	-2.3%	-5.8%	-0.5%	-8.0%	-11.9%	-11.0%	-17.0%	-3.6%	-7.2%	-5.8%	-10.2%		-5.3%	-7.8%	-8.9%			
Tops	-11.3%	-14.2%	-5.9%	-15.0%	-0.5%	-7.0%	-9.6%	-9.5%	-18.9%	-5.4%	-2.6%	3.6%	-4.8%		-11.3%	-6.5%	-6.7%			
Bottoms	-1.9%	1.0%	1.7%	3.3%	-0.4%	-8.9%	-14.2%	-12.3%	-15.0%	-2.0%	-12.1%	-13.8%	-15.3%		1.0%	-9.0%	-11.0%			
Others	11.3%	8.3%	11.8%	6.5%	0.9%	2.9%	-1.0%	-11.0%	-5.3%	-4.2%	-5.1%	-1.0%	-9.3%		9.4%	-2.4%	-3.9%			
Children's	-1.1%	1.3%	-4.0%	-	-3.6%	-8.1%	-4.2%	-6.8%	-0.1%	11.5%	-4.1%	-3.3%	-7.6%		-1.3%	-5.4%	0.1%			
Others	21.2%	12.0%	27.7%	9.7%	3.8%	8.1%	1.5%	-13.0%	-8.5%	-10.6%	-5.9%	0.2%	-10.4%		16.7%	-0.7%	-6.1%			
Comparable stores YoY																				
Sales	4.7%	2.3%	8.4%	4.0%	1.9%	-1.9%	-5.8%	-8.8%	-8.4%	-2.7%	-4.9%	-4.5%	-8.4%		4.9%	-3.8%	-5.2%			
Customer count	3.4%	-0.8%	9.7%	8.4%	7.4%	4.3%	-3.3%	-9.6%	-10.2%	-1.2%	-2.1%	1.8%	-10.2%		5.1%	-0.4%	-3.2%			
Customer spend	1.3%	3.1%	-1.2%	-3.6%	-5.1%	-5.9%	-2.6%	0.6%	2.0%	-0.8%	-2.9%	-6.2%	2.0%		-0.2%	-3.4%	-2.1%			
All stores YoY																	-			
Sales	0.7%	-1.8%	2.9%	-1.6%	-2.2%	-4.9%	-7.5%	-10.1%	-11.6%	-6.1%	-8.5%	-7.5%	-11.6%		0.1%	-6.2%	-8.5%			
Customer count	-0.2%	-4.1%	4.2%	2.6%	3.2%	1.4%	-5.1%	-10.9%	-13.5%	-5.3%	-5.5%	-0.5%	-13.5%		0.5%	-2.9%	-6.0%			
Customer spend	0.9%	2.4%	-1.3%	-3.6%	-5.3%	-6.2%	-2.5%	0.7%	2.2%	-0.8%	-3.3%	-7.0%	2.2%		-0.5%	-3.4%	-2.3%			
Inventories																				
Product inventories	11,491	10,673	12,357	10,790	10,994	10,122	11,605	10,360	11,035	9,391	10,658	8,975	9,365		10,790	10,360	8,975			
YoY	38.0%	48.1%	28.2%	11.9%	-4.3%	-5.2%	-6.1%	-4.0%	0.4%	-7.2%	-8.2%	-13.4%	-15.1%		11.9%	-4.0%	-13.4%			
Days in inventory	203	231	213	198	212	231	235	236	263	263	245	230	249		192	223	237			

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Reasons for downward revision at Mac-House

Explaining the downward revision, Mac-House said Q1 sales had come it below plan, with comparable store sales falling 8.7% YoY on a 4.2% decline in customer traffic and 4.7% decline in average spending per customer. Sales during the month of May, which accounts for a large percent of annual sales, were especially weak, with comparable store sales dropping 16.3% YoY on an 11.4% decline in customer traffic and 5.6% decline in average spending per customer. Mac-House attributed the sharp drop in sales to a number of factors, including 1) unfavorable weather conditions that hurt sales of summer goods; 2) cutbacks in consumer spending on apparel in response to rising prices; 3) customer losses resulting from heavy discounting by competitors; and 4) a weaker-than-expected response to sales promotions through newspaper advertising. Mac-House said that the highly competitive market environment is expected to continue in Q2 as other companies brought forward their bargain sale events. With respects to gross profit, Mac-House said the gross profit margin was running in line with its initial forecast thanks to reforms to its merchandise procurement practices but that operating profit was still expected to finish below its initial full-year forecast despite the additional spending cuts planned for 1H.

Along with the downward revision to its 1H forecast, Mac-House also lowered its forecast for the full year but made no changes to its forecast for 2H, when it plans to roll out a new merchandise lineup that should be more competitive. Mac-House also made no changes to its store opening plans and, as of this time, has not changed its dividend forecast.

This note is the most recent addition to the full report.

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