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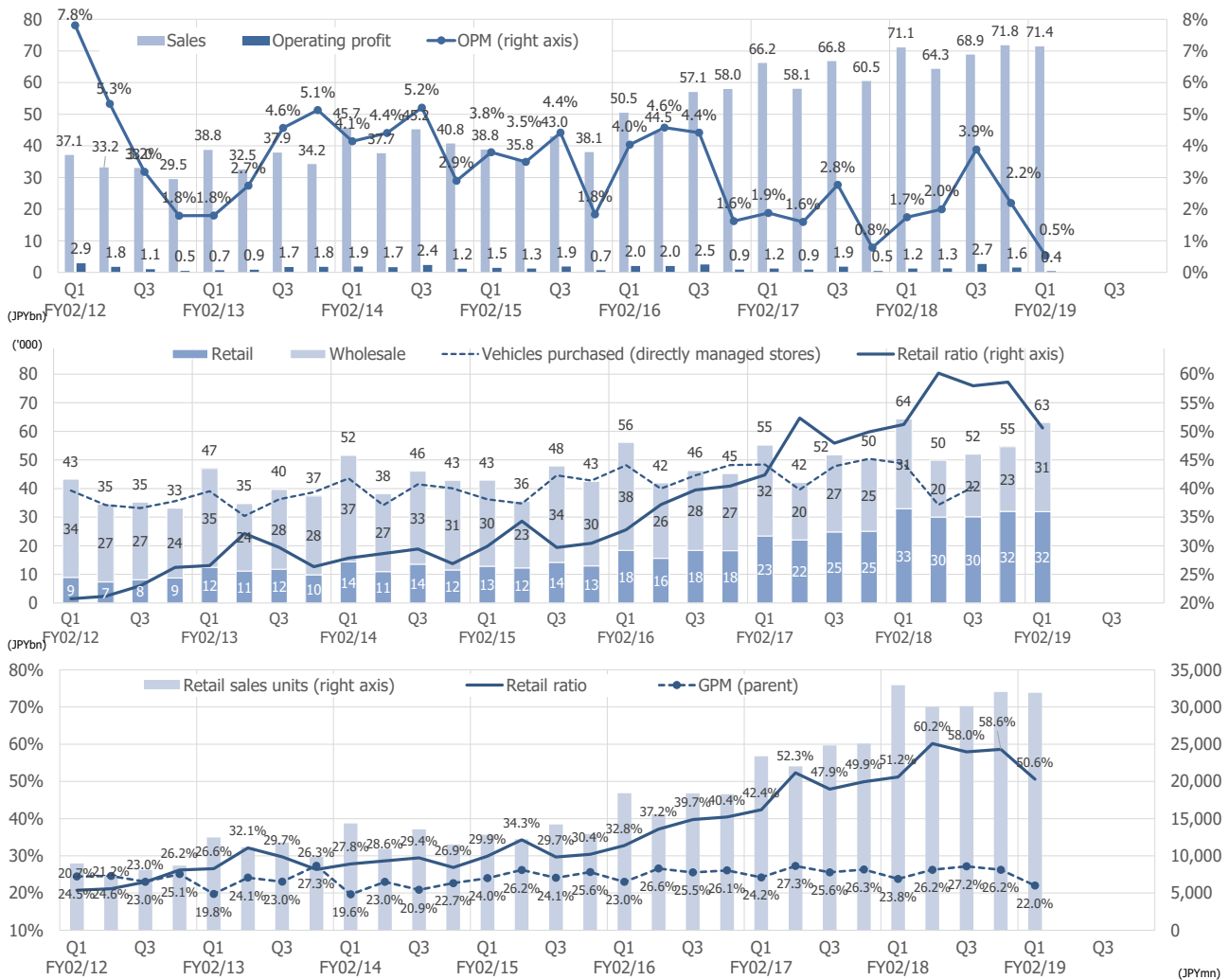
On **July 12, 2018**, IDOM Inc. announced earnings results for Q1 FY02/19; see the results section for details.

Quarterly performance (JPYmm)		FY02/17				FY02/18				FY02/19				FY02/19				YoY chg		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1H	1H	1H Est.	FY Est.	Act.	Act.	Est.	Change	Q1
Sales		66,192	58,052	66,789	60,483	71,130	64,338	68,870	71,819	71,411		124,244	135,468	142,800	50.0%	251,516	276,157	290,000	+13,843	+281
	Domestic business	54,369	46,723	56,704	51,520	60,562	52,425	56,884	59,614	58,567		101,092	112,987			209,316	229,485		-1,995	
	Australian business	11,413	10,868	9,664	8,651	10,184	11,385	11,445	11,838	12,460		22,281	21,569			40,596	44,852		+2,276	
	Other (US)	408	463	420	312	383	529	541	367	384		871	912			1,603	1,820		+1	
	YoY	31.1%	30.4%	17.1%	4.3%	7.5%	10.8%	3.1%	18.7%	0.4%		30.8%	9.0%	5.4%		19.7%	9.8%	5.0%		
	Domestic business	8.5%	6.1%	16.4%	10.1%	11.4%	12.2%	0.3%	15.7%	-3.3%		7.4%	11.8%			10.4%	9.6%			
	Australian business	-	-	-24.1%	-20.6%	-10.8%	4.8%	18.4%	36.8%	22.3%		-	-3.2%			117.3%	10.5%			
Gross profit		15,007	14,697	16,106	15,323	16,088	15,725	17,039	17,007	15,306		29,704	31,813	33,400	45.8%	61,133	65,859	70,000	+4,141	-782
	YoY	27.9%	25.4%	16.1%	7.3%	7.2%	7.0%	5.8%	11.0%	-4.9%		26.7%	7.1%	5.0%		18.5%	7.7%			
	GPM	22.7%	25.3%	24.1%	25.3%	22.6%	24.4%	24.7%	23.7%	21.4%		23.9%	23.5%	23.4%		24.3%	23.8%	24.1%	+0.3pp	-1.2pp
SG&A expenses		13,761	13,771	14,255	14,847	14,845	14,440	14,363	15,432	14,927		27,532	29,285	30,700	48.6%	56,634	59,080	62,400	+3,320	+82
	YoY	42.0%	42.2%	25.6%	11.3%	7.9%	4.9%	0.8%	3.9%	0.6%		42.1%	6.4%	4.8%		28.5%	4.3%			
	SG&A ratio	20.8%	23.7%	21.3%	24.5%	20.9%	22.4%	20.9%	21.5%	20.9%		22.2%	21.6%	21.5%		22.5%	21.4%	21.5%	+0.1pp	+0.0pp
Operating profit		1,245	927	1,850	476	1,243	1,285	2,676	1,575	378		2,172	2,528	2,700	14.0%	4,498	6,779	7,600	+821	-865
	Domestic business	1,347	950	2,045	1,018	1,569	1,414	2,952	1,986	434		2,297	2,983			5,360	7,921		-1,135	
	Australian business	-5	66	-108	-415	-232	-42	-199	-294	62		61	-274			-462	-767		+294	
	Other (US)	27	33	44	8	28	51	63	23	-		60	79			112	165			
	Adjustments	-124	-123	-129	-134	-121	-139	-141	-139	-		-247	-			-	-			
	Elimination	1	-3	-8	-	7	-7	-8	-8	-		-2	-0			-10	-16			
	Goodwill amortization	-125	-120	-121	-134	-128	-131	-133	-132	-		-245	-259			-500	-524			
	YoY	-39.0%	-54.5%	-26.6%	-49.5%	-0.2%	38.6%	44.6%	230.9%	-69.6%		-46.8%	16.4%	6.8%		-40.4%	50.7%	12.1%		
	Domestic business	-34.9%	-52.5%	-16.3%	-12.9%	16.5%	48.8%	44.4%	95.1%	-72.3%		-43.6%	29.9%			-27.7%	47.8%			
	OPM	1.9%	1.6%	2.8%	0.8%	1.7%	2.0%	3.9%	2.2%	0.5%		1.7%	1.9%	1.9%		1.8%	2.5%	2.6%	+0.2pp	-1.2pp
	Domestic business	2.5%	2.0%	3.6%	2.0%	2.6%	2.7%	5.2%	3.3%	0.7%		2.3%	2.6%	-		2.6%	3.5%			-2
Recurring profit		1,173	847	1,893	247	903	1,129	2,449	1,316	103		2,020	2,032	2,300	4.5%	4,160	5,797	6,800	+1,003	-800
	YoY	-41.8%	-58.2%	-32.7%	-	-23.0%	33.2%	29.4%	432.8%	-88.6%		-50.0%	0.6%	13.2%		-39.1%	39.4%	17.3%		
	RPM	1.8%	1.5%	2.8%	0.4%	1.3%	1.8%	3.6%	1.8%	0.1%		1.6%	1.5%	1.6%		1.7%	2.1%	2.3%	+0.2pp	-1.1pp
Net income		732	370	1,088	57	457	664	1,628	829	-146		1,102	1,121	2,100	-7.0%	2,247	3,578	3,900	+322	-603
	YoY	-41.3%	-71.9%	-34.4%	-	-37.6%	79.5%	49.6%	1,354.4%	-		-57.0%	1.7%	87.3%		-45.3%	59.2%	9.0%		
	Net margin	1.1%	0.6%	1.6%	0.1%	0.6%	1.0%	2.4%	1.2%	-		0.9%	0.8%	1.5%		0.9%	1.3%	1.3%	+0.0pp	#VALUE!
Parent (JPYmm)		FY02/17				FY02/18				FY02/19				FY02/19				YoY chg		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1H	1H	1H Est.	FY Est.	Act.	Act.	Est.	Change	Q1
Sales		51,275	44,925	53,355	48,879	57,444	50,162	52,975	55,196	55,588		96,200	107,606	111,100	50.0%	198,434	215,777	225,000	+9,223	-1,856
	YoY	12.0%	11.7%	-0.7%	12.9%	11.7%	0.7%	12.9%	-3.2%	-		10.6%	8.7%			10.6%	8.7%			
Gross profit		12,407	12,248	13,645	12,866	13,673	13,167	14,393	14,487	12,234		24,655	26,840	27,800	44.0%	51,166	55,720	58,400	+2,680	-1,439
	YoY	13.3%	10.4%	15.8%	12.3%	10.2%	7.5%	5.5%	12.6%	-10.5%		11.8%	8.9%	3.6%		13.0%	8.9%	4.8%		
	GPM	24.2%	27.3%	25.6%	26.3%	23.8%	26.2%	27.2%	26.2%	22.0%		25.6%	24.9%	25.0%		25.8%	25.8%	26.0%	+0.1pp	-1.8pp
SG&A expenses		11,204	11,283	11,804	12,341	12,269	11,871	11,884	12,782	12,038		22,487	24,131	25,000	48.2%	46,632	48,797	51,200	+2,403	-231
	Personnel	4,153	4,111	4,185	4,165	4,487	4,270	4,316	4,357	4,462		8,264	8,757			16,614	17,430		-25	
	Outsourcing	434	433	507	440	557	519	471	662	597		867	1,076			1,814	2,209		+40	
	Commission fee	385	491	486	360	456	543	367	366	326		876	999			1,722	1,732		-130	
	Depreciation	572	606	651	685	631	658	672	688	633		1,178	1,289			2,514	2,649		+2	
	Advertising	1,994	1,929	2,322	2,819	1,992	1,813	2,107	2,624	1,829		3,923	3,805			9,064	8,536		-163	
	Rent	1,816	1,861	1,891	1,964	2,153	2,209	2,175	2,241	2,328		3,677	4,362			7,532	8,778		+175	
	Others	1,846	1,853	1,763	1,910	1,989	1,848	1,771	1,852	1,860		3,699	3,837			7,372	7,460		-129	
	YoY	21.9%	24.3%	24.6%	15.3%	9.5%	1.1%	0.7%	3.6%	-1.9%		23.1%	7.3%	3.6%		21.3%	4.6%			
	Personnel	18.8%	16.7%	21.2%	22.2%	8.0%	3.9%	3.1%	4.6%	-0.6%		17.7%	6.0%	-		19.7%	4.9%			
	Outsourcing	16.4%	11.9%	28.0%	21.5%	28.3%	19.9%	-7.1%	50.5%	7.2%		14.1%	24.1%	-		19.5%	21.8%			
	Commission fee	44.2%	74.1%	112.2%	17.6%	18.4%	10.6%	-24.5%	1.7%	-28.5%		59.6%	14.0%	-		58.9%	0.6%			
	Depreciation	27.1%	22.4%	16.0%	10.0%	10.3%	8.6%	3.2%	0.4%	0.3%		24.7%	9.4%	-		18.1%	5.4%			
	Advertising	39.8%	55.4%	37.7%	3.8%	-0.1%	-6.0%	-9.3%	-6.9%	-8.2%		47.1%	-3.0%	-		28.2%	-5.8%			
	Rent	21.6%	15.7%	15.9%	21.2%	18.6%	18.7%	15.0%	14.1%	8.1%		18.5%	18.6%	-		18.5%	16.5%			
	Others	9.6%	20.1%	15.9%	14.9%	7.7%	-0.3%	0.5%	-3.0%	-6.5%		14.6%	3.7%	-		15.0%	1.2%			
	SG&A-to-sales ratio	21.9%	25.1%	22.1%	25.2%	21.4%	23.6%	22.4%	23.2%	21.7%		23.4%	22.4%	22.5%		23.5%	22.6%	22.8%	+0.1pp	+0.3pp
	Personnel	8.1%	9.2%	7.8%	8.5%	7.8%	8.5%	8.1%	7.9%	8.0%		8.6%	8.1%	-		8.4%	8.1%		+0.2pp	+0.2pp
	Outsourcing	0.8%	1.0%	1.0%	0.9%	1.0%	1.0%	0.9%	1.2%	1.1%		0.9%	1.0%	-		0.9%	1.0%		+0.1pp	+0.1pp
	Commission fee	0.8%	1.1%	0.9%	0.7%	0.8%	1.1%	0.7%	0.7%	0.6%		0.9%	0.9%	-		0.9%	0.8%		-0.2pp	-0.2pp
	Depreciation	1.1%	1.3%	1.2%	1.4%	1.1%	1.3%	1.3%	1.2%	1.1%		1.2%	1.2%	-		1.3%	1.2%		+0.0pp	+0.0pp
	Advertising	3.9%	4.3%	4.4%	5.8%	3.5%	3.6%	4.0%	4.8%	3.3%		4.1%	3.5%	-		4.3%	4.0%		-0.2pp	-0.2pp
	Rent	3.5%	4.1%	3.5%	4.0%	3.7%	4.4%	4.1%	4.1%	4.2%		3.8%	4.1%	-		3.8%	4.1%		+0.4pp	+0.4pp
	Others	3.6%	4.1%	3.3%	3.9%	3.5%	3.7%	3.3%	3.4%	3.3%		3.8%	3.6%	-		3.7%	3.5%		-0.1pp	-0.1pp
Operating profit		1,202	965	1,841	526	1,404	1,305	2,509	1,704	195		2,167	2,709	2,800	7.0%	4,534	6,922	7,200	+278	
	YoY	-31.7%	-52.1%	-20.2%	-30.6%	16.8%	35.2%	36.3%	224.0%	-86.1%		-42.6%	25.0%	3.4%		-33.7%	52.7%	4.0%		</

Q1 FY02/19 results (out July 12, 2018)

- ▷ Overview: Q1 earnings down sharply despite start of nine earnings growth initiatives; company looking to undertake additional reforms starting in Q2
- ▷ Q1 FY02/19: Operating profit down nearly JPY900mn YoY as retail sales volume declines for first time since Q1 FY02/15 as company moves to optimize retail advertising and make changes on product planning front. Decline in gross profit per vehicle on retail sales leaves gross profit at parent down JPY1.4bn, with this only partially offset by JPY200mn in SG&A spending cuts at parent and turnaround at Australian business (leading to JPY300mn YoY increase in operating profit)
- ▷ Optimizing retail advertising: Tightening of internal review system and ad content standards led to decline in number of ads placed and customers until April, though this had factored in plan
- ▷ Changes in product planning: Despite switch to pricing strategy aimed at attracting more customers from latter half of April, retail sales volume and gross profit per vehicle both declined (in contrast to forecast, which assumed the switch would have no impact)
- ▷ Retail sales: Retail sales down 3.1% YoY as changes in product planning brought in more customer but the contract rate declines. Decline in proportion of customer buying add-on services also declined, further depressing gross profit
- ▷
- ▷ Australia: With operating profit of JPY62mn, Australian business finished in the black before goodwill amortization for the first time since Q2 FY02/17. New car market in Australia still sluggish, but various sales initiatives has kept top-line revenues growing at the Australian business since Q2 FY02/18
- ▷ New store openings: 14 new openings and two closures for net increase of 12 stores in Q1 FY02/19 versus full-year target of net increase of 32 stores
- ▷ Outlook from Q2: The company still looking to meet initial target for higher retail volume, will implement additional reform measures aimed at bringing the proportion of retail customers purchasing a vehicle (i.e., the contract rate) and the proportion purchasing additional services back to previous levels

Quarterly earnings



Source: Shared Research based on company data

Earnings overview

Q1 earnings down sharply despite start of nine earnings growth initiatives; company looking to undertake additional reform measures starting in Q2

Sales: JPY71.4bn (+0.4% YoY)
 Operating profit: JPY400mn (-69.5%)

On the domestic front, sales fell 3.3% YoY to JPY58.6bn and operating profit fell 72.3% YoY to JPY400mn. In Australia, sales rose 22.4% to JPY12.5bn and operations move into the black with an operating profit of JPY100mn versus a loss of JPY200mn the same period last year.

During FY02/19 the company will continue working on the nine earnings growth initiatives that are designed to help it meet the sales and earnings targets under its medium-term business plan. Its efforts aimed at increasing retail car sales volume and the gross profit per vehicle sold did not yield the results expected, though, as the increase in retail customer traffic failed to bring about the expected increase in either proportion of retail customers purchasing a vehicle (i.e., the contract rate) or the proportion purchasing additional services. With both the retail sales volume and the gross profit per vehicle coming down, the gross profit at the parent fell JPY1.4bn YoY and the gross profit margin declined 1.8pp.

Initiatives undertaken during Q1 included 1) optimizing retail advertising by tightening its internal review system and standards for ad content, which led to a decline in the volume of ads placed until April; 2) changes in product planning from latter half of April with a switch to pricing aimed at attracting more customers and increasing customer satisfaction (offering cars and services

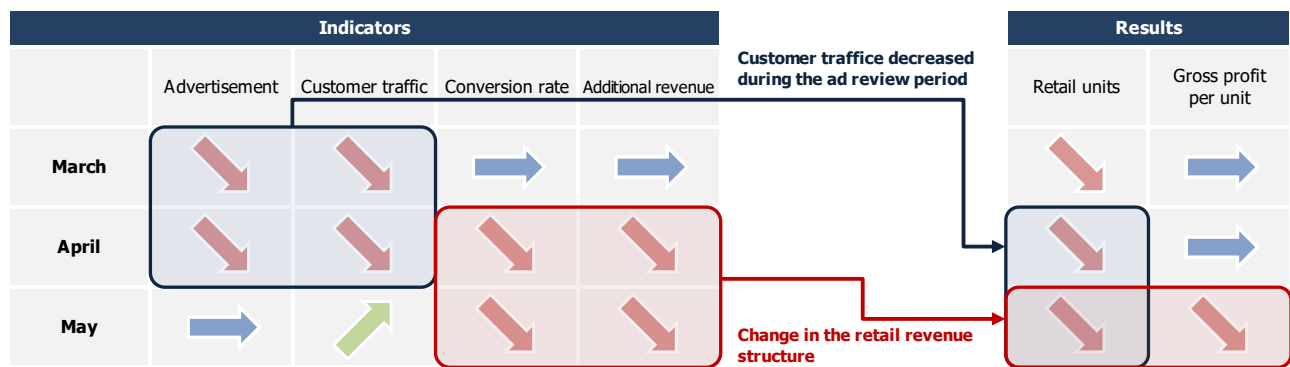
that match customer needs, and increasing price transparency). The change did not yield the benefits expected, though, as the increase in customer traffic was less than the company had expected and the added traffic did not lead to an increase in either the proportion of retail customers purchasing a vehicle or the proportion purchasing additional services (which would have increased both retail sales and the gross profit on sales).

To address this problem, the company initiated additional reform measures aimed at meeting its initial target for higher retail volume and bringing the proportion of retail customers purchasing a vehicle and the proportion purchasing additional services back to previous levels. We will be keeping a close watch on impact of these additional measures going forward.

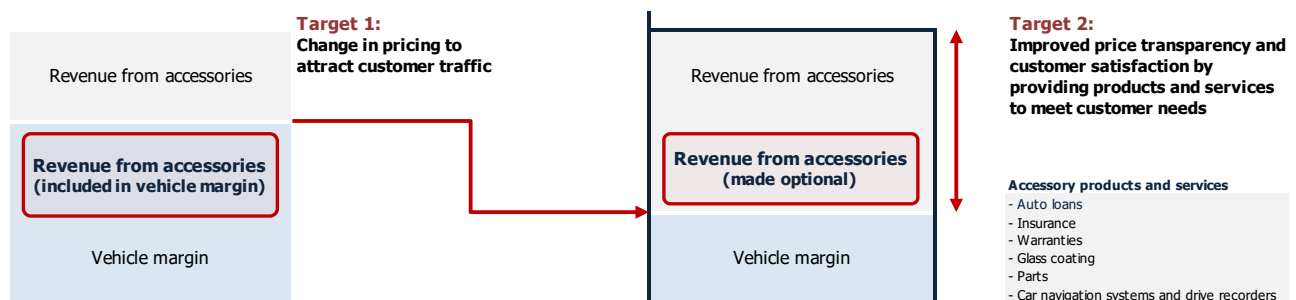
Nine initiatives to grow profits



Trends in retail sales volume and gross profit per vehicle sold (YoY, per store)



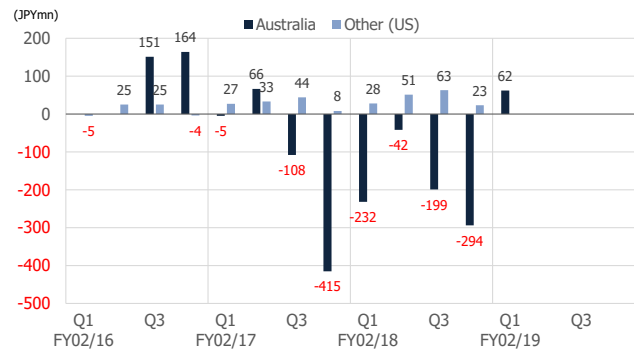
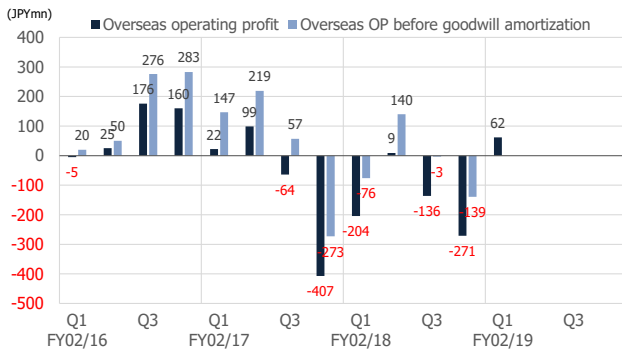
Purpose of changes in product planning



Source: Shared Research based on company data

Despite ongoing weakness in the new car market, the company's Australian business finished in the black with an operating profit of JPY62mn (before goodwill amortization) for first time since Q2 FY02/17. We plan to ask the company for more details on about the impact from the appointment of a new COO (in January 2018) and other factors on these results during our upcoming interview with the company.

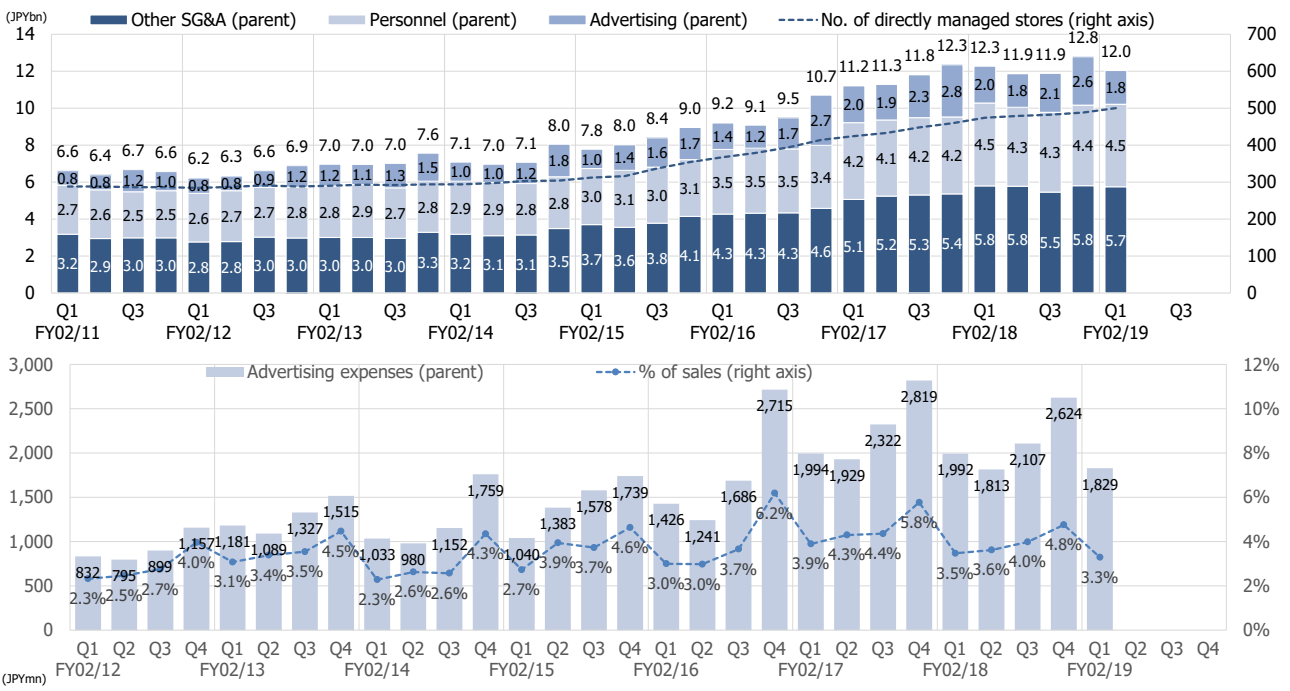
Overseas business (JPYmn)



Source: Shared Research based on company data

Additional data

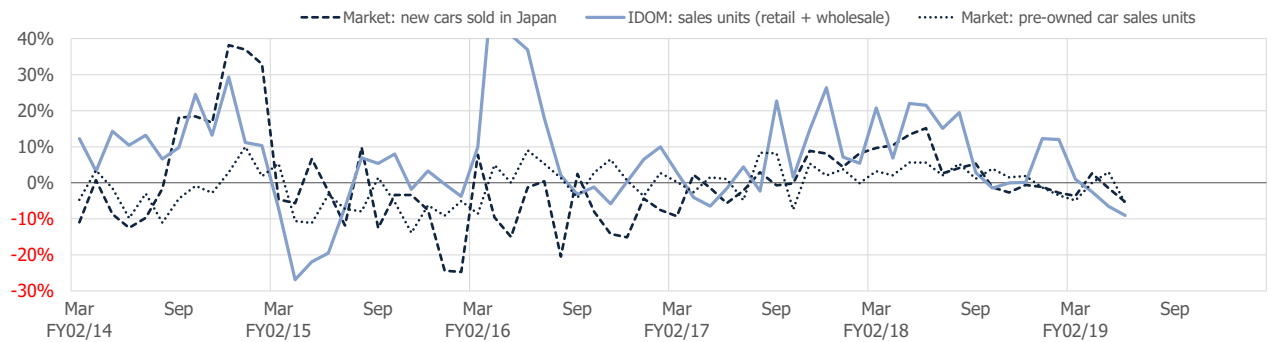
Parent SG&A expenses



Source: Shared Research based on company data

For reference

Overall domestic sales volume of new vehicles; IDOM's sales volume



Source: Shared Research based on company data, Japan Automobile Dealers Association data, and Japan Light Motor Vehicle and Motorcycle Association data
Note: Domestic sales of new vehicles are sales of passenger cars, small vehicles, and light motor vehicles.

This note is the most recent addition to the [full report](#).

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