Summary of Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2018 (Japanese Standards)

All information contained in this document has been prepared in accordance with generally accepted accounting principles in Japan.
This document has been translated from the Japanese original for reference purpose only.

January 30, 2018

Company name: Duskin Co., Ltd. Shares listed: Tokyo
Code number: 4665 (URL http://www.duskin.co.jp/corp/index.html)
Representative: Teruji Yamamura, President & CEO
Contact: Hideyuki Naito, Director Phone: (06) 6821-5071
Scheduled date of filing quarterly report: February 13, 2018
Scheduled date of dividend payment: -
Preparation of supplemental explanatory materials: No
Holding of quarterly financial results meeting: No

(Amounts less than one million yen are dropped.)

1. Consolidated financial results for the period from April 1, 2017 to December 31, 2017

(1) Results of operation

(Percentages indicate the change against the same period of the previous fiscal year.)

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
9 months ended Dec. 31, 2017	122,970	-0.6	7,212	40.5	8,465	32.6	5,659	29.5
9 months ended Dec. 31, 2016	123,676	-1.3	5,132	14.0	6,385	13.4	4,371	14.3

(Note) Comprehensive income: Dec. 31, 2017: 9,060 million yen (92.9%) Dec. 31, 2016: 4,695 million yen (-34.2%)

	Net profit per share	Net profit per share (fully diluted)
	yen	yen
9 months ended Dec. 31, 2017	105.89	105.89
9 months ended Dec. 31, 2016	79.46	—

(2) Financial position

	Total assets	Net assets	Ratio of equity to total assets
	millions of yen	millions of yen	%
As of Dec. 31, 2017	193,646	148,991	76.8
As of Mar. 31, 2017	190,116	142,108	74.5

(Reference) Shareholders' equity: Dec. 31, 2017: 148,660 million yen Mar. 31, 2017: 141,724 million yen

2. Dividends

	Dividends per share				
	End of 1st Q	End of 2nd Q	End of 3rd Q	Year-end	Total (Annual)
	yen	yen	yen	yen	yen
Year ended Mar. 31, 2017	—	20.00	—	20.00	40.00
Year ending Mar. 31, 2018	—	20.00			
Year ending Mar. 31, 2018 (Forecast)			—	20.00	40.00

(Note) Revision of forecast for dividend recently announced: None

3. Forecast of consolidated financial results for the FY2017 (April 1, 2017 to March 31, 2018)

(Percentages indicate the change against the same period of the previous fiscal year.)

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net profit per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	yen
Year ending Mar. 31, 2018	163,600	1.1	7,000	15.3	8,400	11.2	5,700	32.0	106.65

(Note) Revision of forecast for consolidated financial results recently announced: None

Notes

(1) Changes in significant subsidiaries during the period (Changes in specific subsidiaries resulting in an adjustment to the scope of consolidation): None

(2) Adoption of special accounting methods for preparation of quarterly consolidated financial statements: Yes

(Note) Please refer to page 10, (2. Consolidated financial statements (3) Notes to consolidated financial statements (Adoption of special accounting methods for preparation of consolidated financial statements)).

(3) Changes in accounting principles and estimates, and retrospective restatements

1) Changes due to revision of accounting standards: None
2) Changes other than 1) above: None
3) Changes in accounting estimates: None
4) Retrospective restatements: None

(4) Number of shares issued (Common stock)

1)	Number of shares issued at the end of the period (including treasury shares)	9 months ended Dec. 31, 2017	55,194,823	Year ended Mar. 31, 2017	55,194,823
2)	Number of treasury shares at the end of the period	9 months ended Dec. 31, 2017	1,750,127	Year ended Mar. 31, 2017	1,749,382
3)	Average number of shares during the period (during the quarter)	9 months ended Dec. 31, 2017	53,445,091	9 months ended Dec. 31, 2016	55,007,348

This summary of financial statements is exempt from the quarterly review.

Explanation regarding the appropriate use of business forecasts
(Note for the financial forecast)

The financial forecast contained in this report is based on information available at the time of preparation of the report and certain assumptions considered reasonable, and thus Duskin makes no warranty as to the achievability of the forecast. Readers are advised that actual results may differ significantly from the forecast.

Contents of attachment:

1. Qualitative information

(1) Business results

In the first nine months of fiscal 2017 (April 1 to December 31, 2017), Japan's economy as a whole continued to recover as consumer spending and capital investment grew, albeit gradually, as a result of strong corporate earnings. This recovery is expected to continue because of the ongoing improvement in employment and personal income. However, the outlook remains uncertain due to growing political instability abroad and increasing geopolitical risk.

In this final year of Medium-term Management Policy 2015, Duskin has focused on achieving a recovery in sales to return the Duskin Group to a growth track. Clean & Care Group continues its efforts to reinforce customer contacts. Included in the efforts are products for simple and efficient cleaning and enhanced technical services as customer needs grow along with the increasing number of working women and senior households. Food Group is committed to re-establishing the Mister Donut brand with the slogan "Something good's gonna happen. Mister Donut" and to developing other food businesses.

Clean & Care Group increased its sales, but Food Group recorded a decrease in sales. As a result, consolidated sales were 122,970 million yen, a 705 million yen (0.6%) decrease from one year earlier. Despite lower sales, consolidated operating profit was 7,212 million yen, a 2,079 million yen (40.5%) increase from the same period of the previous year. This is because cost of sales declined due to a decrease in investments in rental products, and lower expenses for depreciation and retirement benefits. Consolidated ordinary profit was 8,465 million yen, a 2,079 million yen (32.6%) increase. Profit attributable to owners of parent was 5,659 million yen, a 1,288 million yen (29.5%) increase.

(millions of yen)

	9 months ended Dec. 31, 2016	9 months ended Dec. 31, 2017	Increase/decrease	
				%
Consolidated sales	123,676	122,970	-705	-0.6
Consolidated operating profit	5,132	7,212	2,079	40.5
Consolidated ordinary profit	6,385	8,465	2,079	32.6
Profit attributable to owners of parent	4,371	5,659	1,288	29.5

Result by business segment

Sales

(millions of yen)

	9 months ended Dec. 31, 2016	9 months ended Dec. 31, 2017	Increase/decrease	
				%
Clean & Care Group	85,169	86,124	954	1.1
Food Group	30,805	28,313	-2,492	-8.1
Other Businesses	9,921	10,746	824	8.3
Total	125,897	125,183	-713	-0.6
Intersegment eliminations	-2,221	-2,213	7	—
Consolidated sales	123,676	122,970	-705	-0.6

Sales by segment above include inter-segment sales.

Operating profit (loss)

(millions of yen)

	9 months ended Dec. 31, 2016	9 months ended Dec. 31, 2017	Increase/decrease	
				%
Clean & Care Group	10,614	11,868	1,254	11.8
Food Group	-510	243	753	—
Other Businesses	145	197	51	35.7
Total	10,249	12,309	2,060	20.1
Intersegment eliminations, and corporate expenses	-5,116	-5,097	19	—
Consolidated operating profit	5,132	7,212	2,079	40.5

Operating profit or loss above include inter-segment transactions.

1. Clean & Care Group

Sales of Clean & Care Group increased 954 million yen (1.1%) to 86,124 million yen. Gross profit increased due to higher sales. Cost of sales decreased due to lower investments in Style Cleaner and other rental items and lower expenses for marketing activities. As a result, operating profit was 11,868 million yen, a 1,254 million yen (11.8%) increase.

Total sales of residential dust control products were higher than one year earlier despite a decrease in sales of range hood filters and other products. This is due to an increase in sales of Cleaning Basic Three, consisting of the LaLa floor mop, the Shushu handy mop and the Style Cleaner. Extensive promotions of our Kitchen Sponge to acquire new customers contributed to the total sales growth. Rental of the Robot Cleaner SiRo, which was rolled out nationwide in April 2017, performed well. Sales of down quilts and other bedroom products launched in November also helped increase the overall sales in the residential market.

Among dust control products for commercial customers, Inside custom-made indoor mats and thin dust control and water absorption mats continued to perform well because they were well received due to their outstanding functions. Sales of other mats decreased. Total sales of mat products, the core items of this segment, were at the same level as one year earlier. Sales of some water purifier units and restroom-related products were lower than in the previous year. However, the Clear Kukan-M and Clear Kukan-S air purifiers, which were launched for rental in January 2017 and November 2017 respectively, contributed to sales growth. As a result, total sales of products for the commercial market posted higher sales than in the same period of the previous year.

In the technical services sector, Home Repair was started in this fiscal year to provide wall and floor repair services. Royalty fees increased due to higher customer-level sales in our technical service businesses: ServiceMaster (professional cleaning), Merry Maids (housekeeping), Terminix (pest control and prevention), and Total Green (plant and flower maintenance). Equipment and chemical sales to franchisees increased, too. As a result, total sales of the technical services were higher than one year earlier.

Among other businesses of Clean & Care Group, Rent-All, which rents household products and event equipment, performed well. Uniform Service, cosmetics-related products and Home Instead, which provides home care services for seniors, recorded higher sales.

2. Food Group

Sales of Food Group were 28,313 million yen, a 2,492 million yen (8.1%) decrease. This is mainly due to lower customer-level sales of Mister Donut, lower royalty fees and lower sales of raw materials to franchisees. Gross profit decreased due to lower sales. Expenses for depreciation, distribution and retirement benefits were lower. As a result, operating profit was 243 million yen, a 753 million yen increase compared with the 510 million yen operating loss in the same period of the previous year.

With the theme “MISDO meets,” Mister Donut focused on offering fun and value with tasty products in collaboration with companies with state-of-the-art technology and high quality materials. New products were jointly developed and released with Gion Tsujiri Co., Ltd., Soranoiro Co., Ltd, House Food Corporation and TANITA Corporation. In November, Mister Donut released light meal items to meet diversifying customers’ needs and lifestyles. By offering light meal selections under the theme of “MISDO GOHAN” for customers to enjoy at different times of the day, including breakfast, brunch, lunch and coffee breaks, the Mister Donut brand now stands for more than a place to enjoy a snack between meals. “MISDO GOHAN” performed well. Mister Donut continued its marketing activities using campaigns with other companies, including KDDI Corporation's Santaro Day program in August and December. These campaigns were well received among customers. However, total nine month customer-level sales were lower than one year earlier due to closures of underperforming locations.

Among other food service businesses, Katsu & Katsu, a pork cutlet specialty restaurant, continued to perform well. Café Du Monde, Pie Face, a specialty pie store, the Chiffon & Spoon, a specialty chiffon cake shop, and Bakery Factory, a large suburban bakery shop, recorded lower sales. Don Co., Ltd., a consolidated subsidiary operating a seafood donburi chain, was sold to Fujio Food System Co., Ltd., with all shares transferred in the previous fiscal year. As a result, sales of other food services were lower than one year earlier.

3. Other Businesses

Duskin Kyoeki Co., Ltd., a leasing and insurance company, recorded lower sales mainly because a large account's basic lease was changed to a re-leasing agreement. Duskin Healthcare Co., Ltd., which provides management services to medical facilities, recorded higher sales due to the larger number of customers. Among overseas businesses, Duskin Shanghai Co., Ltd. posted higher sales due to higher sales to commercial customers. At Duskin Hong Kong, which procures raw materials and equipment, sales increased due to the larger volume of raw materials for Mister Donuts in Taiwan and paper towel products. Big Apple Worldwide Holdings Sdn. Bhd., the largest donut chain in Malaysia, which Duskin acquired and made a subsidiary during FY2016, contributed to sales. As a result, total sales of overseas businesses were higher. Overall, sales of Other Businesses totaled 10,746 million yen, an 824 million yen (8.3%) increase from one year earlier. Duskin Kyoeki Co., Ltd. recorded lower income due to lower sales. Duskin Healthcare Co., Ltd. also posted lower income due to an increase in recruiting expenses. The operating loss decreased at overseas businesses. As a result, operating profit of Other Businesses was 197 million yen, a 51 million yen (35.7%) increase.

Clean & Care Businesses posted higher customer-level sales than one year earlier in Taiwan and Shanghai, China, but customer-level sales in South Korea were lower. Among donut businesses, sales in Malaysia were higher as Big Apple Group's sales were included. Mister Donut in Taiwan and Indonesia recorded higher sales while sales were lower in Shanghai, Thailand and the Philippines.

Segment sales figures do not include consumption tax.

(2) Financial Position

Total assets amounted to 193,646 million yen at the end of the third quarter of FY2017, a 3,529 million yen increase from the end of the previous fiscal year. This is mainly due to a 5,389 million yen increase in securities, a 2,049 million yen increase in investment securities, and a 3,653 million yen decrease in cash and deposits.

Liabilities amounted to 44,654 million yen, a 3,353 million yen decrease compared to the previous fiscal year. This is mainly due to a 1,494 million yen decrease in accrued income taxes and a 1,377 million yen decrease in provision for bonuses.

Net assets totaled 148,991 million yen at the end of the third quarter, a 6,882 million yen increase from the previous fiscal year. This is mainly due to a 3,521 million yen increase in retained earnings and a 3,067 million yen increase in valuation difference on available-for-sales securities.

(3) Forecast

The forecast for consolidated results of operations for FY2017 (April 1, 2017 to March 31, 2018) is as follows. No revisions have been made to the forecast since it was announced on October 12, 2017.

Consolidated

(millions of yen, %)

	FY2017 (Forcast)			FY2016 (Result)	
		%	Change (%)		%
Sales	163,600	100.0	1.1	161,880	100.0
Operating profit	7,000	4.3	15.3	6,069	3.7
Ordinary profit	8,400	5.1	11.2	7,554	4.7
Profit attributable to owners of parent	5,700	3.5	32.0	4,318	2.7

Non-consolidated

(millions of yen, %)

	FY2017 (Forcast)			FY2016 (Result)	
		%	Change (%)		%
Sales	135,300	100.0	0.8	134,245	100.0
Operating profit	4,600	3.4	13.0	4,069	3.0
Ordinary profit	7,100	5.2	9.6	6,478	4.8
Profit attributable to owners of parent	4,800	3.5	28.9	3,723	2.8

(Note) This forecast is based on projections and assumptions made using information available at the time of the announcement. These projections and assumptions are subject to the uncertainties inherent in future business operations. Actual results may differ materially, depending on various factors.

2. Consolidated financial statements

(1) Consolidated balance sheets

(millions of yen)

	As of March 31, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	21,200	17,547
Notes and accounts receivable - trade	9,887	11,054
Lease receivables and investment assets	1,359	1,365
Securities	16,018	21,408
Merchandise and finished goods	7,388	7,407
Work in process	157	180
Raw materials and supplies	1,557	1,445
Deferred tax assets	1,719	1,412
Other	2,766	4,175
Allowance for doubtful accounts	-34	-38
Total current assets	62,021	65,958
Non-current assets		
Property, plant and equipment		
Buildings and structures	44,157	44,143
Accumulated depreciation	-26,388	-26,726
Buildings and structures, net	17,769	17,416
Machinery, equipment and vehicles	24,880	25,230
Accumulated depreciation	-18,134	-18,484
Machinery, equipment and vehicles, net	6,745	6,745
Land	23,628	23,504
Construction in progress	241	120
Other	11,903	12,388
Accumulated depreciation	-8,955	-9,470
Other, net	2,948	2,917
Total property, plant and equipment	51,334	50,705
Intangible assets		
Goodwill	793	703
Other	6,825	7,049
Total intangible assets	7,618	7,752
Investments and other assets		
Investment securities	58,979	61,028
Long-term loans receivable	5	3
Deferred tax assets	2,263	825
Guarantee deposits	6,304	6,072
Other	1,616	1,328
Allowance for doubtful accounts	-27	-29
Total investments and other assets	69,142	69,229
Total non-current assets	128,095	127,687
Total assets	190,116	193,646

(millions of yen)

	As of March 31, 2017	As of December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,836	6,837
Short-term loans payable	78	168
Current portion of long-term loans payable	10	2
Income taxes payable	2,337	842
Provision for bonuses	3,255	1,877
Asset retirement obligations	12	56
Accounts payable - other	7,583	6,475
Guarantee deposit received for rental products	9,421	9,771
Other	5,069	4,608
Total current liabilities	34,603	30,641
Non-current liabilities		
Net defined benefit liability	11,901	12,606
Asset retirement obligations	616	577
Long-term guarantee deposited	812	798
Long-term accounts payable - other	74	23
Other	0	7
Total non-current liabilities	13,403	14,013
Total liabilities	48,007	44,654
Net assets		
Shareholders' equity		
Capital stock	11,352	11,352
Capital surplus	11,086	11,087
Retained earnings	117,332	120,854
Treasury shares	−3,568	−3,570
Total shareholders' equity	136,203	139,723
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,754	10,822
Deferred gains or losses on hedges	—	4
Foreign currency translation adjustment	−120	−104
Remeasurements of defined benefit plans	−2,113	−1,785
Total accumulated other comprehensive income	5,521	8,936
Subscription rights to shares	—	6
Non-controlling interests	384	324
Total net assets	142,108	148,991
Total liabilities and net assets	190,116	193,646

(2) Consolidated statements of income and statements of comprehensive income

Consolidated statements of income

(millions of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	123,676	122,970
Cost of sales	68,529	67,372
Gross profit	55,146	55,598
Selling, general and administrative expenses	50,013	48,385
Operating profit	5,132	7,212
Non-operating income		
Interest income	312	261
Dividend income	295	309
Rent income on facilities	129	113
Commission fee	165	146
Share of profit of entities accounted for using equity method	129	183
Miscellaneous income	513	406
Total non-operating income	1,547	1,420
Non-operating expenses		
Interest expenses	0	5
Rent expenses on facilities	24	41
Compensation expenses	36	30
Cancellation penalty	90	26
Commission for purchase of treasury shares	60	—
Miscellaneous loss	83	63
Total non-operating expenses	294	167
Ordinary profit	6,385	8,465
Extraordinary income		
Gain on sales of non-current assets	0	31
Gain on liquidation of investment securities	114	—
Gain on sales of shares of subsidiaries and associates	24	—
Other	7	5
Total extraordinary income	147	36
Extraordinary losses		
Loss on sales of non-current assets	21	93
Loss on abandonment of non-current assets	125	84
Impairment loss	83	115
Loss on disaster	174	0
Other	8	5
Total extraordinary losses	412	299
Profit before income taxes	6,120	8,202
Income taxes	1,749	2,557
Profit	4,370	5,644
Loss attributable to non-controlling interests	-0	-14
Profit attributable to owners of parent	4,371	5,659

Consolidated statements of comprehensive income

(millions of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Profit	4,370	5,644
Other comprehensive income		
Valuation difference on available-for-sale securities	-173	3,067
Deferred gains or losses on hedges	18	4
Foreign currency translation adjustment	-186	-9
Remeasurements of defined benefit plans, net of tax	795	317
Share of other comprehensive income of entities accounted for using equity method	-129	35
Total other comprehensive income	324	3,415
Comprehensive income	4,695	9,060
Comprehensive income attributable to owners of parent	4,757	9,074
Comprehensive income attributable to non-controlling interests	-61	-14

(3) Notes to consolidated financial statements

(Notes relating to going concern assumption)
None

(Notes on significant changes in shareholders' equity)
None

(Adoption of special accounting methods for preparation of consolidated financial statements)
To determine tax expenses for consolidated subsidiaries, a reasonable estimate is made for the effective tax rate after the application of deferred tax accounting for profit before income taxes for the fiscal year, including the third quarter. Tax expenses are then calculated by multiplying quarterly profit before income taxes by this estimated effective tax rate.

(Segment information)
Segment information
I Nine-month period (April 1, 2016 to December 31, 2016)
1. Sales, profit (loss) by business segment

(millions of yen)

	Clean & Care Group	Food Group	Other Businesses (Note: 1)	Total	Adjustment (Note: 2)	Consolidated total (Note: 3)
Sales						
To outside customers	84,580	30,796	8,299	123,676	—	123,676
Inter-segment sales and transfers	589	9	1,622	2,221	-2,221	—
Total	85,169	30,805	9,921	125,897	-2,221	123,676
Segment income (loss)	10,614	-510	145	10,249	-5,116	5,132

(Notes) 1. Other Businesses are comprised of the businesses that are not categorized in reportable business segments, including office equipment and vehicle leasing, insurance agent services, hospital management services, and overseas businesses.
2. Segment loss adjustments of 5,116 million yen include a 56 million yen intersegment eliminations and -5,173 million yen of corporate expenses that cannot be allocated to a particular business segment.
3. Segment operating profit or loss has been adjusted for consistency with operating profit that is shown in the quarterly consolidated statements of income.

2. Impairment loss of non-current assets or goodwill by business segment

(Significant impairment loss on non-current assets)
None

(Significant change in the amount of goodwill)
Clean & Care Group recorded 142 million yen of goodwill of Duskin Yatsushiro Co., Ltd. and 145 million yen of goodwill of Duskin Kagoshima Co., Ltd. resulting from the acquisition of these companies by Duskin.
The amortization of goodwill during the first nine months of FY2016 and the balance of goodwill at the end of the third quarter are as follows:

(millions of yen)

	Clean & Care Group	Food Group	Other Businesses	Elimination or corporate	Consolidated total
Amortization - Goodwill	158	9	—	—	167
Balance (Note)	607	39	—	—	647

(Note) Goodwill at the end of the third quarter includes 607 million yen of goodwill in Clean & Care Group and 39 million yen of goodwill in Food Group resulting from the purchase by Duskin and its subsidiaries of the business operation of several franchisees.

(Significant gains on negative goodwill)
None

II Nine-month period (April 1, 2017 to December 31, 2017)

1. Sales, profit (loss) by business segment

(millions of yen)

	Clean &Care Group	Food Group	Other Businesses (Note: 1)	Total	Adjustment (Note: 2)	Consolidated total (Note: 3)
Sales						
To outside customers	85,577	28,305	9,086	122,970	—	122,970
Inter-segment sales and transfers	546	7	1,659	2,213	-2,213	—
Total	86,124	28,313	10,746	125,183	-2,213	122,970
Segment income (loss)	11,868	243	197	12,309	-5,097	7,212

(Notes) 1. Other Businesses are comprised of the businesses that are not categorized in reportable business segments, including office equipment and vehicle leasing, insurance agent services, hospital management services, and overseas businesses.

2. Segment loss adjustments of 5,097 million yen include a 47 million yen intersegment eliminations and -5,145 million yen of corporate expenses that cannot be allocated to a particular business segment.

3. Segment operating profit or loss has been adjusted for consistency with operating profit that is shown in the quarterly consolidated statements of income.

2. Impairment loss of non-current assets or goodwill by business segment

(Significant impairment loss on non-current assets)
None

(Significant change in the amount of goodwill)
None
The amortization of goodwill during the first nine months of FY2017 and the balance of goodwill at the end of the third quarter are as follows:

(millions of yen)

	Clean & Care Group	Food Group	Other Businesses	Elimination or corporate	Consolidated total
Amortization - Goodwill	133	—	16	—	150
Balance (Note)	499	—	203	—	703

(Note) Goodwill at the end of the third quarter includes 499 million yen of goodwill in Clean & Care Group resulting from the purchase by Duskin and its subsidiaries of the business operations of several franchisees and 203 million yen of goodwill in Other Businesses for Big Apple Worldwide Holdings Sdn. Bhd., which was acquired in February 2017.

(Significant gains on negative goodwill)
None