Summary of Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2019 (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.

July 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: Hiroyuki Okubo, Operating Officer, Manager, Corporate Planning Phone: (06) 6821-5071
Scheduled date of filing quarterly report: August 10, 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, 2018 to June 30, 2018

(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	%
3 months ended Jun. 30, 2018	39,401	-2.0	2,315	28.9	2,819	23.0	1,848	14.8
3 months ended Jun. 30, 2017	40,218	-1.0	1,795	321.3	2,292	159.8	1,611	249.3

(Note) Comprehensive income: Jun. 30, 2018: 5,962 million yen (62.9%) Jun. 30, 2017: 3,660 million yen (-%)

	Profit per share	Profit per share (fully diluted)
	yen	yen
3 months ended Jun. 30, 2018	34.60	34.59
3 months ended Jun. 30, 2017	30.15	−

(Note) The provisional accounting treatment for a business combination was finalized at the end of FY2017. The FY2017 first quarter (three months ended in June 30, 2018) profit per share reflects significant changes in the initial allocation of the acquisition cost resulting from finalization of the provisional accounting treatment.

(2) Financial position

	Total assets	Net assets	Ratio of equity to total assets
	millions of yen	millions of yen	%
As of Jun. 30, 2018	191,844	152,623	79.4
As of Mar. 31, 2018	196,058	147,786	75.2

(Reference) Shareholders' equity: Jun. 30, 2018: 152,318 million yen Mar. 31, 2018: 147,415 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, 2018	−	20.00	−	20.00	40.00
Year ending Mar. 31, 2019	−				
Year ending Mar. 31, 2019 (Forecast)		30.00	−	20.00	50.00

(Note) Revision of forecast for dividend recently announced: None
Dividends to be paid at the end of second quarter of the fiscal year 2018 (Forecast): ordinary dividend 20 yen, commemorative dividend 10 yen

3. Forecast of consolidated financial results for the FY2018 (April 1, 2018 - March 31, 2019)

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

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	yen
6 months ending Sept. 30, 2018	81,100	1.0	4,200	-3.4	4,800	-8.5	2,900	-18.8	54.26
Year ending Mar. 31, 2019	163,000	1.2	7,900	4.5	9,000	0.2	5,400	1.4	101.04

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

(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)	3 months ended Jun. 30, 2018	55,194,823	Year ended Mar. 31, 2018	55,194,823
2)	Number of treasury shares at the end of the period	3 months ended Jun. 30, 2018	1,749,222	Year ended Mar. 31, 2018	1,750,262
3)	Average number of shares during the period (during the quarter)	3 months ended Jun. 30, 2018	53,444,803	3 months ended Jun. 30, 2017	53,445,386

* This summary of financial statements is exempt from the quarterly review by certified public accountants or audit corporations.

* 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 three months of fiscal 2018 (April 1 to June 30, 2018), Japan's economy, by and large, continued to recover as employment and personal income improved because of strong corporate earnings. Consumer spending increased slowly. However, the Japanese economy appears to have leveled off due to the increasingly uncertain outlook caused by political instability overseas and other reasons.

In commemoration of the 55th anniversary, Duskin has started the initiatives planned in Medium-Term Management Policy 2018, the second phase of the long-term strategy ONE DUSKIN.

Both Direct Selling Group (the new name of Clean & Care Group since April 1, 2018) and Food Group recorded lower sales. As a result, consolidated sales were 39,401 million yen, an 817 million yen (2.0%) decrease from one year earlier. Gross profit decreased due to lower sales. The cost ratio improved. Expenses for marketing activities and retirement benefits were lower. As a result, consolidated operating profit was 2,315 million yen, a 519 million yen (28.9%) increase. Consolidated ordinary profit was 2,819 million yen, a 527 million yen (23.0%) increase. Profit attributable to owners of parent was 1,848 million yen, a 237 million yen (14.8%) increase.

(millions of yen)

	3 months ended June 30, 2017	3 months ended June 30, 2018	Increase/decrease	
				%
Consolidated sales	40,218	39,401	-817	-2.0
Consolidated operating profit	1,795	2,315	519	28.9
Consolidated ordinary profit	2,292	2,819	527	23.0
Profit attributable to owners of parent	1,611	1,848	237	14.8

Results by business segment

Sales

(millions of yen)

	3 months ended June 30, 2017	3 months ended June 30, 2018	Increase/decrease	
				%
Direct Selling Group	28,181	27,950	-230	-0.8
Food Group	9,169	8,503	-665	-7.3
Other Businesses	3,617	3,739	122	3.4
Total	40,968	40,194	-774	-1.9
Elimination for inter-segment sales and transfers	-749	-792	-43	-
Consolidated sales	40,218	39,401	-817	-2.0

Sales by business segment above include inter-segment sales.

Operating profit (loss)

(millions of yen)

	3 months ended June 30, 2017	3 months ended June 30, 2018	Increase/decrease	
				%
Direct Selling Group	3,335	3,581	246	7.4
Food Group	89	70	-18	-21.1
Other Businesses	103	144	40	38.8
Total	3,528	3,796	267	7.6
Elimination for inter-segment sales and transfers, and corporate expense	-1,732	-1,480	252	-
Consolidated operating profit	1,795	2,315	519	28.9

Operating profit or loss above includes inter-segment transactions.

i. Direct Selling Group

Sales of dust control products for the commercial market were at the same level as in the previous year. Sales of dust control products for residential use declined. As a result, total sales of Direct Selling Group were 27,950 million yen, a 230 million yen (0.8%) decrease from one year earlier. Gross profit decreased due to lower sales. Cost of sales decreased due to lower investments in new items for rent. Expenses for promotion and retirement benefits also declined. As a result, operating profit was 3,581 million yen, a 246 million yen (7.4%) increase from the same period in the previous year.

In the dust control business for residential customers, Duskin focused on new customer acquisition through free product trial offers as part of the 55th anniversary campaign. Discount coupons for products and services other than residential dust control items were also distributed to customers to drive sales growth. Cleaning Basic Three, consisting of the LaLa floor mop, the Shushu handy mop and the Style Cleaner, posted higher sales. Down quilts and other bedroom products also recorded a sales increase. However, sales of other mop products, the Robot Cleaner SiRo and Kitchen Sponge decreased. As a result, total sales of residential dust control products were lower than one year earlier.

Among dust control products for commercial customers, our Inside mats, which are highly stylish custom-made indoor mat products, continued to perform well. Fan Fragrance Deodorizer contributed to sales growth. Sales of Clear Kukan air purifiers increased. However, other mat products, mop products and water purifiers posted lower sales. As a result, total sales of commercial dust control products were the same as in the previous year.

Customer-level sales increased in our cleaning and technical service businesses: ServiceMaster (professional cleaning), Merry Maids (home cleaning and helper services), Terminix (pest control and prevention), Total Green (plant and flower maintenance), and Home Repair (repairing scratches and dents). As a result, total sales were higher than in the same period of the previous year. In an effort to enhance the structure for delivering these services, Duskin is also committed to adding more franchised locations, and the number of the franchisees is steadily increasing.

Among other businesses of Direct Selling Group, Rent-All recorded higher sales because services for indoor events including exhibitions and sports events recorded favorable results. At Health Rent, which became a separate division of Rent-All on April 1, 2018, the rental of assisted-living and health care products continued to perform well. Sales of Uniform Service also increased. Home Instead was rebranded Life Care (support services for seniors) on April 1, 2018. Cosmetic-related businesses and Life Care recorded lower sales.

ii. Food Group

The number of Mister Donut locations decreased due to the closure of underperforming shops. This decrease impacted Mister Donut customer-level sales, royalty fees as well as sales of raw materials to franchisees. As a result, sales of Food Group were 8,503 million yen, a 665 million yen (7.3%) decrease. Operating profit was 70 million yen, an 18 million yen (21.1%) decrease from the previous year. This is mainly because gross profit decreased due to lower sales.

At Mister Donut, the core business of Food Group, “MISDO meets” products were co-developed with companies with leading techniques and high-quality materials as in FY2017 under the brand slogan “Something good’s gonna happen. Mister Donut.” Mister Donut also continued its efforts to sell light meal items with the theme MISDO GOHAN to meet customers' diversifying needs and lifestyles. By offering light meal selections for customers to enjoy at different times of the day, including breakfast, brunch, lunch and coffee breaks, the brand now stands for more than a place to enjoy a snack between meals. Matcha Sweets Premium, which uses matcha green tea powder of Gion Tsujiri, a Kyoto green tea specialty brand, was released in April. This series continued to be well received among customers. Pies, hot dogs and pasta items were added to the MISDO GOHAN menu in May. Other products released during the first quarter of FY2018 include croissant donuts, our popular seasonal items, and Cotton Snow Candy, a cold summer dessert with a new texture. As a result, sales per shop in operation were higher than one year earlier. However, the decrease in the number of units in operation resulted in a decline in total customer-level sales compared with the same period of the previous year.

Among other food service businesses, sales of Katsu & Katsu, a pork cutlet specialty restaurant, and Pie Face, a specialty pie store, increased due to new shop openings. However, Bakery Factory, a large suburban bakery shop, and The Chiffon & Spoon, a specialty chiffon cake shop, recorded lower sales. At the end of FY2017, Duskin withdrew from the Café Du Monde business. As a result, total sales of other food businesses were lower than one year earlier.

iii. Other Businesses

Sales of Duskin Kyoeki, a consolidated company in Japan operating leasing and insurance businesses, were at the same level as in the same period of the previous year. Duskin Healthcare, which provides management services to medical facilities, recorded higher sales. Among overseas businesses, Duskin Hong Kong Co., Ltd., which procures raw materials and equipment, posted lower sales due to the lower volume of raw materials for Mister Donuts in Taiwan. However, Big Apple Worldwide Holdings Sdn. Bhd., the largest donut chain in Malaysia, posted higher sales. Sales of Duskin Shanghai Co., Ltd. increased due to higher sales to commercial customers. Total sales of overseas businesses were therefore higher than one year earlier. Consequently, sales of Other Businesses were 3,739 million yen, a 122 million yen (3.4%) increase. Duskin Kyoeki recorded lower income. However, Duskin Healthcare posted higher income, and the operating loss decreased at overseas businesses. As a result, operating profit was 144 million yen, a 40 million yen (38.8%) increase.

With regard to customer-level sales in overseas businesses, Direct Selling businesses posted higher sales than one year earlier in Taiwan, Shanghai, China and South Korea. Among donut businesses, Mister Donut in Thailand and Indonesia recorded higher sales while sales were lower in Taiwan, Shanghai, China and the Philippines. Sales of Malaysia-based Big Apple Group were higher.

Segment sales figures do not include consumption tax.

(2) Financial Position

Total assets were 191,844 million yen at the end of the first quarter of FY2018, a 4,213 million yen decrease from the end of the previous fiscal year. This is mainly attributable to a 737 million yen increase in cash and deposits, a 573 million yen increase in merchandise and finished goods, a 3,937 million yen decrease in securities, and a 2,516 million yen decrease in deferred tax assets.

Liabilities totaled 39,221 million yen, a 9,050 million yen decrease from the end of the previous fiscal year. This is mainly due to a 5,286 million yen decrease in net defined benefit liability, a 1,764 million yen decrease in provision for bonuses, and a 1,235 million yen decrease in accounts payable-other.

Net assets totaled 152,623 million yen, a 4,836 million yen increase from the end of the previous fiscal year. This is mainly due to a 3,546 million yen increase in remeasurements of defined benefit plans and a 644 million yen increase in valuation difference on available-for-sale securities.

(3) Forecast

No revisions have been made to the forecast for consolidated results of operations for FY2018 (April 1, 2018 - March 31, 2019) and the first half that was announced on May 15, 2018.

2. Consolidated financial statements

(1) Consolidated balance sheets

(millions of yen)

	As of March 31, 2018	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	18,846	19,584
Notes and accounts receivable - trade	9,950	9,975
Lease receivables and investment assets	1,326	1,317
Securities	24,461	20,524
Merchandise and finished goods	7,738	8,312
Work in process	142	170
Raw materials and supplies	1,598	1,455
Other	3,585	3,863
Allowance for doubtful accounts	-37	-39
Total current assets	67,611	65,164
Non-current assets		
Property, plant and equipment		
Buildings and structures	43,486	43,610
Accumulated depreciation	-26,490	-26,717
Buildings and structures, net	16,996	16,893
Machinery, equipment and vehicles	24,975	25,251
Accumulated depreciation	-18,484	-18,615
Machinery, equipment and vehicles, net	6,491	6,636
Land	22,750	22,702
Construction in progress	178	243
Other	12,405	12,593
Accumulated depreciation	-9,478	-9,701
Other, net	2,927	2,891
Total property, plant and equipment	49,344	49,366
Intangible assets		
Goodwill	549	547
Other	7,925	8,101
Total intangible assets	8,474	8,648
Investments and other assets		
Investment securities	60,523	61,015
Long-term loans receivable	3	2
Deferred tax assets	3,073	557
Guarantee deposits	5,751	5,732
Other	1,310	1,387
Allowance for doubtful accounts	-34	-28
Total investments and other assets	70,627	68,665
Total non-current assets	128,446	126,680
Total assets	196,058	191,844

(millions of yen)

	As of March 31, 2018	As of June 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,834	6,404
Short-term loans payable	173	171
Income taxes payable	1,403	232
Provision for bonuses	3,397	1,633
Asset retirement obligations	18	18
Accounts payable - other	8,112	6,876
Guarantee deposit received for rental products	9,314	9,263
Other	4,731	5,613
Total current liabilities	33,985	30,213
Non-current liabilities		
Net defined benefit liability	12,882	7,595
Asset retirement obligations	578	585
Long-term guarantee deposited	788	785
Long-term accounts payable - other	18	23
Other	18	17
Total non-current liabilities	14,286	9,008
Total liabilities	48,271	39,221
Net assets		
Shareholders' equity		
Capital stock	11,352	11,352
Capital surplus	11,087	11,092
Retained earnings	120,519	121,299
Treasury shares	-3,571	-3,569
Total shareholders' equity	139,388	140,176
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,878	10,522
Deferred gains or losses on hedges	1	12
Foreign currency translation adjustment	-54	-140
Remeasurements of defined benefit plans	-1,798	1,747
Total accumulated other comprehensive income	8,026	12,142
Share acquisition rights	9	9
Non-controlling interests	361	295
Total net assets	147,786	152,623
Total liabilities and net assets	196,058	191,844

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

Consolidated statements of income

(millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net sales	40,218	39,401
Cost of sales	22,178	21,244
Gross profit	18,040	18,156
Selling, general and administrative expenses	16,244	15,840
Operating profit	1,795	2,315
Non-operating income		
Interest income	88	76
Dividend income	161	172
Rent income on facilities	39	36
Commission fee	43	51
Share of profit of entities accounted for using equity method	101	78
Miscellaneous income	106	149
Total non-operating income	542	566
Non-operating expenses		
Interest expenses	1	2
Rent expenses on facilities	13	18
Miscellaneous loss	31	40
Total non-operating expenses	45	61
Ordinary profit	2,292	2,819
Extraordinary income		
Gain on sales of non-current assets	2	2
Other	0	0
Total extraordinary income	2	2
Extraordinary losses		
Loss on sales of non-current assets	89	0
Loss on abandonment of non-current assets	28	13
Impairment loss	—	62
Loss on disaster	0	—
Other	0	0
Total extraordinary losses	118	75
Profit before income taxes	2,177	2,746
Income taxes	573	899
Profit	1,603	1,847
Loss attributable to non-controlling interests	-7	-1
Profit attributable to owners of parent	1,611	1,848

Consolidated statements of comprehensive income

(millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Profit	1,603	1,847
Other comprehensive income		
Valuation difference on available-for-sale securities	1,947	644
Deferred gains or losses on hedges	1	10
Foreign currency translation adjustment	-31	-37
Remeasurements of defined benefit plans, net of tax	105	3,542
Share of other comprehensive income of entities accounted for using equity method	33	-44
Total other comprehensive income	2,057	4,115
Comprehensive income	3,660	5,962
Comprehensive income attributable to owners of parent	3,668	5,964
Comprehensive income attributable to non-controlling interests	-8	-2

(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 tax effect accounting for profit before income taxes for the fiscal year, including the first quarter. Tax expenses are then calculated by multiplying quarterly profit before income taxes by this estimated effective tax rate.

(Additional information)

(Application of partial amendments to accounting standard for tax effect accounting)

Partial Amendments to Accounting Standards for Tax Effect Accounting (ASBJ Statement No.28 issued on February 16, 2018) has been applied since the beginning of the first quarter. Deferred tax assets are included in investments and other assets, and deferred tax liabilities are in non-current assets.

(Segment information)

Segment information

I Three-month period (April 1, 2017-June 30, 2017)

1. Sales, profit (loss) by business segment

(millions of yen)

	Direct Selling Group	Food Group	Other Businesses (Note: 1)	Total	Adjustment (Note: 2)	Consolidated total (Note: 3)
Sales						
To outside customers	27,978	9,166	3,073	40,218	−	40,218
Inter-segment sales and transfers	202	3	543	749	-749	−
Total	28,181	9,169	3,617	40,968	-749	40,218
Segment income (loss)	3,335	89	103	3,528	-1,732	1,795

(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 -1,732 million yen include a 13 million yen elimination for inter-segment sales and transfers and -1,746 million yen of corporate expenses that cannot be allocated to a particular business segment.

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

4. Segment information above reflects significant changes in the initial allocation of the acquisition cost arising from finalization of the provisional accounting treatment for a business combination.

2. Impairment loss of noncurrent assets or goodwill by business segment

(Significant impairment loss on noncurrent assets)

None

(Significant change in the amount of goodwill)

None

The amortization of goodwill during the first quarter of FY2017 and the balance of goodwill at the end of the first quarter are as follows:

(millions of yen)

	Direct Selling Group	Food Group	Other Businesses	Elimination or corporate	Consolidated total
Amortization	43	−	1	−	45
Balance (Notes)	538	−	65	−	603

(Notes) 1. Goodwill at the end of the first quarter includes 538 million yen of goodwill in Direct Selling Group resulting from the purchase by Duskin and its subsidiaries of the business operations of several franchisees and 65 million yen of goodwill in Other Businesses for Big Apple Worldwide Holdings Sdn. Bhd., which was acquired in February 2017.

2. The amortization and the balance by business segment reflect significant changes in the initial allocation of the acquisition cost arising from finalization of the provisional accounting treatment for a business combination.

(Significant gains on negative goodwill)

None

II Three-month period (April 1, 2018-June 30, 2018)

1. Sales, profit (loss) by business segment

(millions of yen)

	Direct Selling Group	Food Group	Other Businesses (Note: 1)	Total	Adjustment (Note: 2)	Consolidated total (Note: 3)
Sales						
To outside customers	27,759	8,501	3,139	39,401	—	39,401
Inter-segment sales and transfers	190	2	599	792	-792	—
Total	27,950	8,503	3,739	40,194	-792	39,401
Segment income (loss)	3,581	70	144	3,796	-1,480	2,315

(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 -1,480 million yen include a 21 million yen elimination for inter-segment sales and transfers and -1,501 million yen of corporate expenses that cannot be allocated to a particular business segment.
3. Segment operating profit (loss) has been adjusted for consistency with operating profit that is shown in the quarterly consolidated statements of income.

2. Impairment loss of noncurrent assets or goodwill by business segment

(Significant impairment loss on noncurrent assets)
None

(Significant change in the amount of goodwill)
None
The amortization of goodwill during the first quarter of FY2018 and the balance of goodwill at the end of the first quarter are as follows:

(millions of yen)

	Direct Selling Group	Food Group	Other Businesses	Elimination or corporate	Consolidated total
Amortization	40	0	3	—	44
Balance (Note)	423	30	93	—	547

(Note) Goodwill at the end of the first quarter includes 423 million yen of goodwill in Direct Selling Group and 30 million yen of goodwill in Food Group resulting from the purchase by Duskin and its subsidiaries of the business operations of several franchises and 93 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

3. Notes relating to change in business segments

(Change of business segment name)
In the first quarter of FY2018, Clean & Care Group was renamed Direct Selling Group. This change has no impact on segment information. The name Direct Selling Group is used for the business segment in the first quarter of FY2017 (April 1, 2017-June 30, 2017).