Summary of Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2020 (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.

August 8, 2019

Company name: Duskin Co., Ltd. Shares listed: Tokyo
Code number: 4665 (URL https://www.duskin.co.jp/corp/index.html)
Representative: Teruji Yamamura, President & CEO
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Scheduled date of filing quarterly report: August 9, 2019
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, 2019 to June 30, 2019

(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 June 30, 2019	39,301	-0.3	2,046	-11.6	2,155	-23.6	1,193	-35.5
3 months ended June 30, 2018	39,401	-2.0	2,315	28.9	2,819	23.0	1,848	14.8

(Note) Comprehensive income: June 30, 2019: -95 million yen (- %) June 30, 2018: 5,962 million yen (62.9%)

	Profit per share	Profit per share (fully diluted)
	yen	yen
3 months ended June 30, 2019	23.14	23.13
3 months ended June 30, 2018	34.60	34.59

(2) Financial position

	Total assets	Net assets	Ratio of equity to total assets
	millions of yen	millions of yen	%
As of June 30, 2019	186,340	146,630	78.5
As of Mar. 31, 2019	194,223	149,884	77.0

(Reference) Shareholders' equity: June 30, 2019: 146,369 million yen Mar. 31, 2019: 149,627 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, 2019	–	30.00	–	20.00	50.00
Year ending Mar. 31, 2020	–				
Year ending Mar. 31, 2020 (Forecast)		24.00	–	32.00	56.00

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

3. Forecast of consolidated financial results for the FY2019 (April 1, 2019 - March 31, 2020)

(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, 2019	79,700	1.7	3,500	-20.1	3,900	-26.0	2,500	-26.3	49.01
Year ending Mar. 31, 2020	162,000	2.1	6,700	-15.8	8,100	-19.1	5,700	-4.8	111.74

(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 June 30, 2019	52,694,823	Year ended Mar. 31, 2019	52,694,823
2)	Number of treasury shares at the end of the period	3 months ended June 30, 2019	1,454,397	Year ended Mar. 31, 2019	679,822
3)	Average number of shares during the period (during the quarter)	3 months ended June 30, 2019	51,579,583	3 months ended June 30, 2018	53,444,803

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.

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1. Qualitative information

(1) Business results

In the first three months of fiscal 2019 (April 1 to June 30, 2019), the Japanese economy continued to recover slowly as consumer spending rebounds with the support of the ongoing improvement in personal income. However, the improvement in corporate earnings is slowing because of the high cost of logistics, caused in part by Japan’s labor shortage, and rising prices of raw materials. Along with the prolonged U.S.-China trade friction and other events, the economic outlook has become increasingly uncertain.

This fiscal year is the second year of the Medium-Term Management Policy 2018. Direct Selling Group is concentrating on the goal of providing a Daily Life Fine-Tuning Service. There are many activities for strengthening cooperation among the dust control product rental, the Care Service (professional cleaning and technical services), services for seniors and other business units. For residential market services, we increased activities aimed at providing comprehensive services that are in tune with each family’s daily rhythm. For the commercial market services, we strengthened our ability to provide hygiene management expertise. In association with these measures, we opened Duskin Laboratory as an open innovation facility that goes beyond conventional boundaries by making the opinions of consumers the basis of activities. In Food Group, initiatives for rebuilding the Mister Donut brand continued. Initiatives include a product strategy to give customers more reasons to visit a Mister Donut shop and investments to open new shops and renovate existing ones.

In the first quarter, due to lower Direct Selling Group sales and higher Food Group sales, consolidated sales decreased 99 million yen (0.3%) from one year earlier to 39,301 million yen. Consolidated operating profit decreased 269 million yen (11.6%) to 2,046 million yen because of higher expenses, primarily for personnel and IT systems. Consolidated ordinary profit was down 664 million yen (23.6%) to 2,155 million yen mainly because of a decrease in net non-operating income. NAC Co., Ltd., the largest franchisee of Duskin, became an equity-method affiliate in September 2018. This company tends to post most of its profit in the second half and to have a loss in the first quarter because of the big impact of its housing sales business on profits. NAC posted a loss in the first quarter of this fiscal year. As this was the first time that NAC was included in equity-method income in the first quarter of a fiscal year, this loss caused the total share of profit of equity-method affiliates to be much less than one year earlier. As a result, profit attributable to owners of parent decreased 655 million yen (35.5%) to 1,193 million yen.

(millions of yen)

	3 months ended June 30, 2018	3 months ended June 30, 2019	Increase/decrease	
				%
Consolidated sales	39,401	39,301	-99	-0.3
Consolidated operating profit	2,315	2,046	-269	-11.6
Consolidated ordinary profit	2,819	2,155	-664	-23.6
Profit attributable to owners of parent	1,848	1,193	-655	-35.5

Result by business segment

Sales

(millions of yen)

	3 months ended June 30, 2018	3 months ended June, 2019	Increase/decrease	
				%
Direct Selling Group	27,950	27,507	-442	-1.6
Food Group	8,503	8,727	223	2.6
Other Businesses	3,739	3,727	-12	-0.3
Total	40,194	39,962	-231	-0.6
Eliminations for inter-segment sales and transfers	-792	-660	132	—
Consolidated sales	39,401	39,301	-99	-0.3

Sales by business segment above include inter-segment sales.

Operating profit (loss)

(millions of yen)

	3 months ended June 30, 2018	3 months ended June 30, 2019	Increase/decrease	
				%
Direct Selling Group	3,581	3,165	-415	-11.6
Food Group	70	284	213	302.4
Other Businesses	144	174	30	21.5
Total	3,796	3,624	-171	-4.5
Eliminations for inter-segment sales and transfers, and corporate expense	-1,480	-1,578	-98	—
Consolidated operating profit	2,315	2,046	-269	-11.6

Operating profit or loss above includes inter-segment transactions.

i. Direct Selling Group

Sales of this group decreased 442 million yen (1.6%) to 27,507 million yen because of lower sales of dust control products, the group's largest category of sales. Operating profit was down 415 million yen (11.6%) to 3,165 million yen as an improvement in the cost of sales ratio was outweighed by a decline in gross profit caused by lower sales and an increase in personnel and other operating expenses.

This group continued its promotional activities for the key dust control products to prevent the decline in the number of customers.

In the residential market, we placed our focus on many activities to make more customers aware of the option of using credit cards instead of cash for payments in order to meet customers' demands and offer greater convenience. Due to many activities to attract more members for the DDuet website, there was an increase in membership during the first quarter. However, the holiday period in late April and early May was longer than usual this year. This brought down sales of mop products other than Cleaning Basic Three and reduced sales of Robot Cleaner SiRo, resulting in a decline in residential dust control products compared with one year earlier.

In the commercial market, we continued to conduct training programs for increasing the number of Hygiene Masters who use advanced sanitary management knowledge to provide comprehensive solutions. However, the long holiday period also impacted the performance of commercial products and a high-volume customer decided to end its service contract. As a result, sales of dust control products for commercial use were lower than one year ago.

ServiceMaster (professional cleaning), Merry Maids (home cleaning and helper services), Terminix (pest control and comprehensive hygiene management), Total Green (plant and flower maintenance) and Home Repair (fixing scratches and dents) all recorded higher customer-level sales. As a result, sales of professional cleaning and technical services were higher than one year earlier. In addition, to meet increasing demand for these services, the number of franchised locations increased because of franchise recruitment activities.

In other businesses of Direct Selling Group, sales were lower in the Uniform Service business and cosmetics-related business and higher in the Health Rent business (rental and sale of assisted-living and health care products), Rent-All business (rental of household items and equipment for various events) and Life Care business (living support services for seniors).

ii. Food Group

At Food Group, customer-level sales at Mister Donut, the core business of this group, increased even though the number of stores declined as unprofitable locations were closed. Sales growth was attributable to a big increase in customer-level sales per shop in operation due to the popularity of all newly introduced products. As a result, sales were 8,727 million yen, a 223 million yen (2.6%) increase, and operating profit was 284 million yen, a 213 million yen (302.4%) increase from the same period a year earlier due to higher gross profit lifted by an increase in sales, in addition to a decline in personnel expenses.

Mister Donut continued to focus on sales of MISDO Meets, which are products developed with companies that have high-quality ingredients and advanced technologies. For the third consecutive fiscal year, Mister Donut sold Matcha Sweets Premium, which uses matcha green tea powder of Gion Tsujiri, a Kyoto green tea specialty brand. Another priority is MISDO GOHAN with the goal of establishing this as a brand menu item to enjoy for breakfast, brunch, lunch and at other times. In April, Mister Donut started selling four types of Tapioca Drinks to strengthen the dessert menu ahead of summer, when sales are normally low. Tapioca beverages are very popular in Japan, especially among young women. The new beverages made a big contribution to sales growth. In May, Mister Donut shops launched Cotton Snow Candy 2019 and introduced new versions of the Old Fashion and Chocolate donuts as one step for reinvigorating mainstay menu items. Also, based on customer input received at Mister Donut Fan Meetings and other sources, Mister Donut started selling Dream Donuts (Angel Double Chocolate and three other flavors), which combine a new type of dough with existing ingredients.

In other food service businesses, sales were lower at Pie Face, a specialty pie store, as a decline in the number of stores offset strong performances at existing stores and lower at The Chiffon & Spoon, a specialty chiffon cake shop, and Bakery Factory, a large bakery shop. Sales increased at Katsu & Katsu, a pork cutlet specialty restaurant operator that became a separate company. Sales at consolidated subsidiary Hachiya Dairy Products, which produces OEM ice cream and other products for a large dairy products company, decreased because of cooler than usual early summer weather.

iii. Other Businesses

In Japan, sales decreased at consolidated subsidiary Duskin Kyoeki Co., Ltd., a leasing and insurance company and increased at consolidated subsidiary Duskin Healthcare Co., Ltd., which provides medical facility management services. Total sales of consolidated subsidiaries outside Japan decreased. Sales were higher at Duskin Hong Kong Co., Ltd., which procures raw materials and equipment, in part due to a larger volume of mats for use in Taiwan. Sales also increased at Duskin Shanghai Co., Ltd. due to higher sales of dust control products to commercial customers. Sales were lower at Mister Donut Shanghai Co., Ltd., which completed the closure of all its shops at the end of March 2019. As a result, sales of Other Businesses decreased 12 million yen (0.3%) to 3,727 million yen. Operating profit increased 30 million yen (21.5%) to 174 million yen as earnings were unchanged at Duskin Kyoeki and higher at Duskin Healthcare and the overseas business loss decreased.

Customer-level sales outside Japan were higher in the Direct Selling businesses in all overseas regions where these businesses operate: Taiwan, China (Shanghai) and South Korea. Customer level sales at Mister Donut were lower in China (Shanghai) and Thailand, flat in Taiwan, and higher in the Philippines and Indonesia. Customer-level sales at Big Apple Worldwide Holdings Sdn. Bhd., which is mainly in Malaysia, decreased.

Segment sales figures do not include consumption tax.

(2) Financial Position

Total assets were 186,340 million yen at the end of the first quarter, 7,883 million yen less than at the end of the previous fiscal year. Major changes were a 1,485 million yen increase in notes and accounts receivable-trade and decreases of 5,802 million yen in securities, 2,972 million yen in investment securities and 2,050 million yen in cash and deposits.

Liabilities decreased 4,629 million yen to 39,709 million yen at the end of the first quarter mainly because of decreases of 2,160 million yen in accounts payable-other and 1,823 million yen in the provision for bonuses.

Net assets decreased 3,253 million yen to 146,630 million yen mainly because of treasury stock purchases of 2,121 million yen and a 1,301 million yen decrease in the valuation difference on available-for-sale securities.

(3) Forecast

No revisions have been made to the forecast for consolidated results of operations for FY2019 (April 1, 2019 - March 31, 2020) that was announced on May 15, 2019.

2. Consolidated financial statements

(1) Consolidated balance sheets

(millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	15,881	13,830
Notes and accounts receivable - trade	10,211	11,696
Lease receivables and investments in leases	1,196	1,155
Securities	23,404	17,602
Merchandise and finished goods	7,994	8,813
Work in process	193	196
Raw materials and supplies	1,459	1,475
Other	3,635	4,541
Allowance for doubtful accounts	-28	-29
Total current assets	63,948	59,283
Non-current assets		
Property, plant and equipment		
Buildings and structures	43,062	43,064
Accumulated depreciation	-27,024	-27,246
Buildings and structures, net	16,038	15,817
Machinery, equipment and vehicles	25,326	25,145
Accumulated depreciation	-18,620	-18,438
Machinery, equipment and vehicles, net	6,706	6,707
Land	22,663	22,731
Construction in progress	574	566
Other	12,125	12,420
Accumulated depreciation	-9,503	-9,710
Other, net	2,621	2,709
Total property, plant and equipment	48,604	48,531
Intangible assets		
Goodwill	429	486
Other	10,127	9,997
Total intangible assets	10,556	10,484
Investments and other assets		
Investment securities	62,458	59,486
Long-term loans receivable	0	0
Deferred tax assets	2,092	2,074
Guarantee deposits	5,543	5,500
Other	1,048	1,009
Allowance for doubtful accounts	-30	-30
Total investments and other assets	71,114	68,040
Total non-current assets	130,275	127,057
Total assets	194,223	186,340

(millions of yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,845	6,366
Income taxes payable	1,308	218
Provision for bonuses	3,491	1,667
Asset retirement obligations	9	—
Accounts payable - other	8,730	6,569
Guarantee deposit received for rental products	9,206	9,307
Other	4,738	5,638
Total current liabilities	34,330	29,768
Non-current liabilities		
Retirement benefit liability	8,191	8,135
Asset retirement obligations	585	589
Long-term guarantee deposits	786	792
Long-term accounts payable - other	26	36
Deferred tax liabilities	75	75
Reserves for losses on liquidation of subsidiaries and affiliates	329	299
Other	14	13
Total non-current liabilities	10,009	9,941
Total liabilities	44,339	39,709
Net assets		
Shareholders' equity		
Share capital	11,352	11,352
Capital surplus	11,091	11,091
Retained earnings	118,075	118,228
Treasury shares	−1,565	−3,686
Total shareholders' equity	138,954	136,986
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,920	8,618
Deferred gains or losses on hedges	−1	−0
Foreign currency translation adjustment	−139	−144
Remeasurements of defined benefit plans	894	909
Total accumulated other comprehensive income	10,673	9,383
Share acquisition rights	18	22
Non-controlling interests	237	238
Total net assets	149,884	146,630
Total liabilities and net assets	194,223	186,340

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

Consolidated statements of income

(millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Net sales	39,401	39,301
Cost of sales	21,244	21,119
Gross profit	18,156	18,182
Selling, general and administrative expenses	15,840	16,136
Operating profit	2,315	2,046
Non-operating income		
Interest income	76	52
Dividend income	172	178
Rental income from facilities	36	42
Commission income	51	47
Share of profit of entities accounted for using equity method	78	—
Miscellaneous income	149	125
Total non-operating income	566	446
Non-operating expenses		
Interest expenses	2	0
Rental expenses on facilities	18	30
Share of loss of entities accounted for using equity method	—	278
Miscellaneous loss	40	27
Total non-operating expenses	61	337
Ordinary profit	2,819	2,155
Extraordinary income		
Gain on sales of non-current assets	2	0
Other	0	0
Total extraordinary income	2	0
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on abandonment of non-current assets	13	3
Impairment loss	62	—
Loss on disaster	—	1
Loss on valuation of investment securities	—	155
Other	0	—
Total extraordinary losses	75	160
Profit before income taxes	2,746	1,995
Income taxes	899	801
Profit	1,847	1,193
Profit (loss) attributable to non-controlling interests	-1	0
Profit attributable to owners of parent	1,848	1,193

Consolidated statements of comprehensive income

(millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Profit	1,847	1,193
Other comprehensive income		
Valuation difference on available-for-sale securities	644	-1,309
Deferred gains or losses on hedges	10	－
Foreign currency translation adjustment	-37	1
Remeasurements of defined benefit plans, net of tax	3,542	12
Share of other comprehensive income of entities accounted for using equity method	-44	5
Total other comprehensive income	4,115	-1,289
Comprehensive income	5,962	-95
Comprehensive income attributable to owners of parent	5,964	-96
Comprehensive income attributable to non-controlling interests	-2	1

(3) Notes to consolidated financial statements

(Notes relating to going concern assumption)
None

(Notes on significant changes in shareholders' equity)
Duskin purchased 774,300 of treasury shares in accordance with the Board of Directors resolution of February 12, 2019. As a result, the treasury shares increased 2,121 million yen to 3,686 million yen as of the end of the first quarter.

(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.

(Segment information)

Segment information

I 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 income (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 three months 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	Eliminations 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 franchisees 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

II Three-month period (April 1, 2019 - June 30, 2019)

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	27,345	8,725	3,231	39,301	–	39,301
Inter-segment sales and transfers	162	2	496	660	-660	–
Total	27,507	8,727	3,727	39,962	-660	39,301
Segment income (loss)	3,165	284	174	3,624	-1,578	2,046

(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 -1,578 million yen include a 20 million yen elimination for inter-segment sales and transfers and -1,599 million yen of corporate expenses that cannot be allocated to a particular business segment.

3. Segment income (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 three months of FY2019 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	Eliminations or corporate	Consolidated total
Amortization	46	1	2	–	50
Balance (Note)	384	23	79	–	486

(Note) Goodwill at the end of the first quarter includes 384 million yen of goodwill in Direct Selling Group and 23 million yen of goodwill in Food Group resulting from the purchase by Duskin and its subsidiaries of the business operations of several franchisees and 79 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