COMPANY RESEARCH AND ANALYSIS REPORT

IDOM Inc.

7599

Tokyo Stock Exchange Prime Market

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FISCO Ltd. Analyst
Taizo Yamamoto

FISCO Ltd.
https://www.fisco.co.jp

Excessive decline in the share price following the 1Q earnings report. Inventory rightsizing and the effect of large stores are set to have an impact from 2Q onward

IDOM Inc. <7599> (hereafter, also "the Company") is a domestic industry leader in purchasing and retailing used cars, operating under the Gulliver brand. Its business consists of three areas: retail, wholesale, and ancillary services. It operates 444 stores across all prefectures of Japan (as of the end of February 2026). In the retail business, it sells mid-range vehicles, focusing mainly on large stores, and enhances value by combining this with ancillary services such as warranties and loans. In the wholesale business, it distributes purchased vehicles via auctions, reducing price fluctuation risk through rapid turnover of inventory. In the ancillary business, higher purchase rates for various ancillary services contribute to improving gross profit per unit, while automobile installment sales also provide a stable revenue base. The domestic used automobile market is a non-oligopolistic growth market, and the Company is enhancing its results in light of the brand power and credibility it has developed over its history of more than 30 years.

1Q saw improved revenue and profit despite measures to reduce inventory and maintain ongoing investments in large stores

1. Overview of FY2/26 results

The FY2/26 results were net sales of ¥562,774mn (up 13.3% year on year (YoY)), operating profit of ¥20,209mn (up 1.6%), ordinary profit of ¥18,608mn (down 2.7%), and profit attributable to owners of parent of ¥11,914mn (down 11.4%). Net sales and operating profit achieved record highs. Net sales grew due to an increase in retail units sold and progress in opening large stores, as well as an increase in vehicle unit prices associated with a rise in auto auction market prices. In the wholesale business, profit decreased due to the impact of a slump in the used car market in 1H FY2/26, but in the retail business, an increase in retail units sold and higher gross profit per unit drove profit growth, leading to an overall increase in operating profit. Ordinary profit and profit attributable to owners of parent both declined as they were impacted by an increase in interest paid due to a rise in interest-bearing debt and a higher effective tax rate.

2. FY2/27 forecasts

In the 1Q FY2/27 results released on July 14, net sales were ¥159,614mn (up 15.5% YoY) and operating profit was ¥4,356mn (up 15.4%). While market expectations were likely buoyed by the strong results of other companies in the same industry, sales and profit rose despite ongoing investments in large stores and measures to reduce inventory. Based on an index of 100 for FY2/23, gross profit per retail unit was 110, up 10%, with retail units sold increasing 4% to 45,558 units, while inventory amount fell 7% from the end of the previous fiscal year to ¥107.3bn. In addition to the impact from inventory rightsizing, contributions from vehicle inspection and maintenance and investments in large stores are expected to start being reflected in the Company's results from the 2Q onward. For the FY2/27 results, the Company forecasts increased sales and profits, with net sales of ¥629,000mn (up 11.8%), operating profit of ¥24,000mn (up 18.8%), ordinary profit of ¥22,400mn (up 20.4%), and profit attributable to owners of parent of ¥14,200mn (up 19.2%). The effect of store openings prior to the previous fiscal year will contribute throughout the year, and 10 new large stores will be opened as well. As a result, units sold are expected to rise in both the retail and wholesale businesses, leading to increased sales. In terms of profit, assuming that the used car market is stable, gross profit per unit is expected to increase due to improved pricing accuracy and increased ancillary service sales, while the selling, general, and administrative (SG&A) expense ratio will decrease due to reducing the pace of store openings. Double-digit profit growth or more is therefore forecast for each profit line.

3. Growth strategy

With the future mobility society in mind, the Company has specified three growth phases covering the period up to FY2/33. Phase 1, which is the period of the Medium-Term Business Plan 2023–2027 currently in progress, is positioned as the “growth acceleration phase,” during which it will establish a growth foundation by opening large stores and enhancing the value of gross profit per unit. In Phase 2 (the next medium-term business plan), it intends to strengthen its organizational foundation through enhancing productivity and maintaining ROIC. In Phase 3 (the subsequent medium-term business plan), it will expand its market share and accelerate growth by focusing on improving customer lifetime value (LTV), with the aim of establishing itself as number one in the industry.

With regard to the current medium-term business plan, the Company is making steady progress on major KPIs such as improving retail units sold and gross profit per unit, but operating profit is expected to fall short of the forecast owing to rising costs associated with inflation. However, given that there is potential for profit growth based on improving the closing rate, the Company aims to achieve its target by increasing revenue through enhancing its sales capabilities. Meanwhile, indicators such as ROIC and free cash flow (FCF) are at achievable levels, and the Company is making steady progress in improving profitability and enhancing its business foundation.

4. Share price

Operating profit is expected to fall short of the target of ¥30,000mn. While targets in the new medium-term business plan have yet to be announced, operational reforms to the Company’s management practices are proceeding at pace, and an operating profit target of ¥30,000mn for the FY2/30 period would not be unrealistic. When valued at a PER of 15 times, the Company’s market capitalization would exceed ¥300.0bn (compared to a current market capitalization of ¥138.4bn). Furthermore, NEXTAGE <3186> is forecast to post an operating profit of ¥24,000mn in the current period, with a PER of 15.5 times, a market capitalization of ¥273.0bn, and a dividend yield of 1.48%. IDOM’s dividend yield exceeds 3%, and a comparison with similar companies also suggests upside potential in IDOM’s share price. The current share price appears even more attractive when adjusted for the Company’s underlying fundamentals.

Key Points

- Achieved new record highs for net sales and operating profit in FY2/26
- Double-digit growth expected for net sales and operating profit in FY2/27, with both increasing for the third consecutive fiscal year
- The Company has set three growth phases, with a market share of 10% in FY2/33 as its long-term target

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■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp