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On **July 30, 2020**, COTA Co., Ltd. announced earnings results for Q1 FY03/21.

Cumulative (JPYmm)	FY03/19				FY03/20				FY03/21	FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of Est.	FY Est.
Sales	1,189	2,706	5,444	6,992	1,388	3,178	5,958	7,461	1,204	15.7%	7,650
YoY	4.6%	4.4%	5.2%	3.9%	16.8%	17.4%	9.4%	6.7%	-13.3%		2.5%
Gross profit	891	2,005	4,067	5,186	1,062	2,389	4,503	5,609	920	16.1%	5,715
YoY	4.8%	5.5%	6.3%	5.1%	19.2%	19.1%	10.7%	8.2%	-13.3%		1.9%
Gross profit margin	75.0%	74.1%	74.7%	74.2%	76.5%	75.2%	75.6%	75.2%	76.4%		74.7%
SG&A expenses	826	1,708	2,791	3,788	952	1,951	3,108	4,139	935	20.9%	4,480
YoY	4.7%	5.7%	4.3%	4.6%	15.3%	14.2%	11.4%	9.3%	-1.7%		8.2%
SG&A ratio	69.5%	63.1%	51.3%	54.2%	68.6%	61.4%	52.2%	55.5%	77.7%		58.6%
Operating profit	65	297	1,276	1,398	110	438	1,396	1,470	-15	-	1,235
YoY	5.9%	4.5%	11.1%	6.3%	68.7%	47.3%	9.4%	5.1%	-		-16.0%
Operating profit margin	5.5%	11.0%	23.4%	20.0%	7.9%	13.8%	23.4%	19.7%	-1.3%		16.1%
Recurring profit	48	286	1,271	1,400	116	450	1,412	1,492	-10	-	1,256
YoY	-28.1%	-3.1%	9.0%	4.6%	139.3%	57.3%	11.2%	6.6%	-		-15.8%
Recurring profit margin	4.1%	10.6%	23.3%	20.0%	8.4%	14.2%	23.7%	20.0%	-0.8%		16.4%
Net income	27	207	908	965	75	314	983	1,036	-11	-	855
YoY	-39.0%	-3.5%	10.5%	-0.6%	177.8%	51.6%	8.4%	7.3%	-		-17.4%
Net margin	2.3%	7.7%	16.7%	13.8%	5.4%	9.9%	16.5%	13.9%	-0.9%		11.2%

Quarterly (JPYmm)	FY03/19				FY03/20				FY03/21	FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of Est.	FY Est.
Sales	1,189	1,518	2,738	1,548	1,388	1,790	2,781	1,503	1,204	15.7%	7,650
YoY	4.6%	4.2%	6.0%	-0.4%	16.8%	17.9%	1.6%	-2.9%	-13.3%		2.5%
Gross profit	891	1,114	2,062	1,119	1,062	1,327	2,115	1,106	920	16.1%	5,715
YoY	4.8%	6.1%	7.1%	0.7%	19.2%	19.1%	2.6%	-1.2%	-13.3%		1.9%
Gross profit margin	75.0%	73.4%	75.3%	72.3%	76.5%	74.1%	76.0%	73.6%	76.4%		74.7%
SG&A expenses	826	882	1,083	997	952	999	1,157	1,032	935	20.9%	4,480
YoY	4.7%	6.6%	2.1%	5.5%	15.3%	13.2%	6.9%	3.5%	-1.7%		8.2%
SG&A ratio	69.5%	58.1%	39.5%	64.4%	68.6%	55.8%	41.6%	68.7%	77.7%		58.6%
Operating profit	65	232	979	122	110	328	958	74	-15	-	1,235
YoY	5.9%	4.1%	13.3%	-26.9%	68.7%	41.3%	-2.2%	-39.2%	-		-16.0%
Operating profit margin	5.5%	15.3%	35.8%	7.9%	7.9%	18.3%	34.4%	4.9%	-1.3%		16.1%
Recurring profit	48	238	985	130	116	334	963	80	-10	-	1,256
YoY	-28.1%	4.2%	13.1%	-25.2%	139.3%	40.5%	-2.2%	-38.6%	-		-15.8%
Recurring profit margin	4.1%	15.7%	36.0%	8.4%	8.4%	18.7%	34.6%	5.3%	-0.8%		16.4%
Net income	27	180	700	58	75	239	669	52	-11	-	855
YoY	-39.0%	5.7%	15.5%	-61.6%	177.8%	32.6%	-4.4%	-9.2%	-		-17.4%
Net margin	2.3%	11.9%	25.6%	3.7%	5.4%	13.3%	24.1%	3.5%	-0.9%		11.2%

Performance by product (JPYmm)	FY03/19				FY03/20				FY03/21	FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of Est.	FY Est.
Total sales	1,189	1,518	2,738	1,548	1,388	1,790	2,781	1,503	1,204	15.7%	7,650
YoY	4.6%	4.2%	6.0%	-0.4%	16.8%	17.9%	1.6%	-2.9%	-13.3%		2.5%
Toiletries	788	1,095	2,005	1,037	1,016	1,335	2,054	1,066	871	15.6%	5,600
YoY	5.2%	6.0%	8.2%	-1.3%	28.9%	21.9%	2.4%	2.8%	-14.3%		2.4%
% of total sales	66.4%	72.2%	73.3%	66.9%	73.4%	74.5%	73.9%	70.9%	72.5%		73.2%
Hair Styling	206	230	464	289	202	257	480	244	196	15.8%	1,240
YoY	-4.6%	9.0%	-1.7%	4.0%	-1.9%	11.7%	3.4%	-15.6%	-3.0%		4.8%
% of total sales	17.4%	15.2%	17.0%	18.6%	14.6%	14.3%	17.3%	16.2%	16.3%		16.2%
Hair Coloring	81	86	98	118	61	85	81	100	54	15.9%	340
YoY	19.1%	-20.4%	0.0%	8.3%	-24.7%	-1.2%	-17.3%	-15.3%	-11.5%		4.0%
% of total sales	6.8%	5.7%	3.6%	7.6%	4.4%	4.7%	2.9%	6.7%	4.5%		4.4%
Hair Growing Agents	45	55	114	51	43	52	112	46	43	16.5%	260
YoY	2.3%	0.0%	3.6%	2.0%	-4.4%	-5.5%	-1.8%	-9.8%	0.0%		2.8%
% of total sales	3.8%	3.6%	4.2%	3.3%	3.1%	2.9%	4.0%	3.1%	3.6%		3.4%
Perm	31	28	34	36	26	35	30	32	21	17.5%	120
YoY	24.0%	12.0%	21.4%	-25.0%	-16.1%	25.0%	-11.8%	-11.1%	-19.2%		-2.4%
% of total sales	2.6%	1.8%	1.2%	2.3%	1.9%	2.0%	1.1%	2.1%	1.7%		1.6%
SUM: product sales	1,151	1,494	2,715	1,532	1,348	1,764	2,757	1,488	1,203	15.9%	7,560
YoY	4.4%	4.3%	6.0%	-0.3%	17.1%	18.1%	1.5%	-2.9%	-10.8%		2.8%
% of total sales	97.0%	98.5%	99.2%	98.8%	97.4%	98.5%	99.2%	99.0%	100.2%		98.8%
Other	35	23	22	19	36	27	23	15	16	18.0%	89
YoY	9.4%	-8.0%	0.0%	-5.0%	2.9%	17.4%	4.5%	-21.1%	-55.6%		-11.9%
% of total sales	3.0%	1.5%	0.8%	1.2%	2.6%	1.5%	0.8%	1.0%	1.3%		1.2%
Adjustments	3	1	1	-2	4	-1	1	-0	3		-

Source: Shared Research based on company data
Notes: Figures may differ from company materials due to differences in rounding methods.

Q1 FY03/21 results (out July 30, 2020)

Summary

For Q1 FY03/21, the company reported (non-consolidated) sales of JPY1.2bn (-13.3% YoY), an operating loss of JPY15mn, a recurring loss of JPY10mn, and a net loss of JPY11mn. This compares with an operating profit of JPY110mn, a recurring profit of JPY116mn, and net income of JPY75mn in the same quarter last year. The April–June 2020 quarter included the period covered by the Japanese government’s state of emergency declaration, which ran from early April through mid-May. The beauty salons that handle the company’s products saw customer traffic drop sharply while the state of emergency declaration was in effect, having shortened operating hours or temporarily closed in compliance with the government’s voluntary guidelines, but are now reporting a rebound in customer traffic since the state of emergency declaration was rescinded in mid-May. On the product sales front, the company reported continued strong sales of its mainstay COTA i CARE product line, though this was not enough to offset drags on sales elsewhere, including drop in sales of its COTA TREAT PREMIQUE line, which debuted in May last year. (The company’s COTA TREAT PREMIQUE product line consists mainly of hair treatments for use at salons, but also includes home-use products for consumers looking to maintain the quality of their hair.)

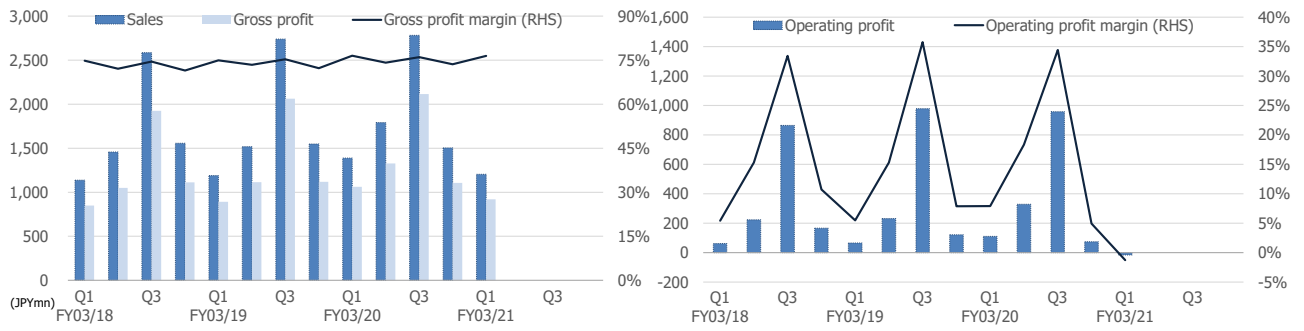
By product category, the company reported Q1 toiletry product sales of JPY871mn (-14.3% YoY), hair styling product sales of JPY196mn (-3.0% YoY), hair coloring product sales of JPY54mn (-11.5% YoY), hair growing agent sales of JPY43mn (down slightly YoY), perm products sales of JPY21mn (-19.2% YoY), and other product sales of JPY16mn (-55.6% YoY).

The Q1 gross profit margin of 76.4% was essentially unchanged from 76.5% in the same quarter last year, as the company effectively offset a less-profitable sales mix (resulting from the decline in the proportion of overall sales accounted for by relatively high-margin toiletry products) with cost-savings on the production side, where it benefited from more accurate sales forecasts and better production planning, and ongoing efforts to increase efficiency on the factory floor. On the SG&A expense front, personnel-related expenditures continued to rise but the company managed to bring down SG&A spending by 1.7% YoY, to JPY935mn, with most of the reduction coming from reduced spending on sales-related activities, which were voluntarily curbed during much of the quarter owing to the pandemic.

The company made no changes to its initial forecast for FY03/21 calling for full-year sales of JPY7.7bn, operating profit of JPY1.2bn, and net income of JPY855mn, as it still expects to realize its 23rd consecutive year of positive top-line growth thanks to ongoing expansion driven by a combination of its Junpo Salon System-based consulting business and salon sales of toiletry products. Although sales would appear to be running below plan at this point (with Q1 giving it only 15.7% of its full-year target versus 18.6% at this time last year), the company is sticking with original estimate for full-year sales. By way of explanation, the company said 1) its main sales push this year was originally geared towards the second half of the year and not the first; 2) sales of its mainstay COTA i CARE product line are doing well and the salons that handle its products and who were hit hard during the period covered by the government’s state of emergency declaration, have been seeing customers traffic come back since the emergency declaration was lifted in mid-May; and 3) the losses it booked in Q1 were small, and did not warrant changing its full-year forecast. The company also made no changes to its plans to pay an annual dividend of JPY18.0 per share.

Seasonality: The company’s earnings tend to be skewed toward Q3 (October–December). November–December is typically the peak season for the hair salon industry as Christmas and year-end demand drives up customer traffic. The company strategically holds its COTA National Salon Sales Competition for partner salons in this period. The competition provides incentives to boost salon retail sales during this period (including awards given to salons with outstanding sales performance). As a result of these factors, Q3 sales tend to rise above those of other quarters.

Sales and gross profit (left), operating profit and OPM (right)



Source: Shared Research based on company data

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

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