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On November 5, 2020, COTA Co., Ltd. announced earnings results for 1H FY03/21

Cumulative (JPYmm)	FY03/19				FY03/20				FY03/21		FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	1,189	2,706	5,444	6,992	1,388	3,178	5,958	7,461	1,204	3,020	39.5%	7,650
YoY	4.6%	4.4%	5.2%	3.9%	16.8%	17.4%	9.4%	6.7%	-13.3%	-5.0%		2.5%
Gross profit	891	2,005	4,067	5,186	1,062	2,389	4,503	5,609	920	2,278	39.9%	5,715
YoY	4.8%	5.5%	6.3%	5.1%	19.2%	19.1%	10.7%	8.2%	-13.3%	-4.6%		1.9%
Gross profit margin	75.0%	74.1%	74.7%	74.2%	76.5%	75.2%	75.6%	75.2%	76.4%	75.4%		74.7%
SG&A expenses	826	1,708	2,791	3,788	952	1,951	3,108	4,139	935	1,949	43.5%	4,480
YoY	4.7%	5.7%	4.3%	4.6%	15.3%	14.2%	11.4%	9.3%	-1.7%	-0.1%		8.2%
SG&A ratio	69.5%	63.1%	51.3%	54.2%	68.6%	61.4%	52.2%	55.5%	77.7%	64.5%		58.6%
Operating profit	65	297	1,276	1,398	110	438	1,396	1,470	-15	329	26.6%	1,235
YoY	5.9%	4.5%	11.1%	6.3%	68.7%	47.3%	9.4%	5.1%	-	-24.9%		-16.0%
Operating profit margin	5.5%	11.0%	23.4%	20.0%	7.9%	13.8%	23.4%	19.7%	-1.3%	10.9%		16.1%
Recurring profit	48	286	1,271	1,400	116	450	1,412	1,492	-10	340	27.1%	1,256
YoY	-28.1%	-3.1%	9.0%	4.6%	139.3%	57.3%	11.2%	6.6%	-	-24.3%		-15.8%
Recurring profit margin	4.1%	10.6%	23.3%	20.0%	8.4%	14.2%	23.7%	20.0%	-0.8%	11.3%		16.4%
Net income	27	207	908	965	75	314	983	1,036	-11	235	27.5%	855
YoY	-39.0%	-3.5%	10.5%	-0.6%	177.8%	51.6%	8.4%	7.3%	-	-25.2%		-17.4%
Net margin	2.3%	7.7%	16.7%	13.8%	5.4%	9.9%	16.5%	13.9%	-0.9%	7.8%		11.2%

Quarterly (JPYmm)	FY03/19				FY03/20				FY03/21		FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	1,189	1,518	2,738	1,548	1,388	1,790	2,781	1,503	1,204	1,816	39.5%	7,650
YoY	4.6%	4.2%	6.0%	-0.4%	16.8%	17.9%	1.6%	-2.9%	-13.3%	1.5%		2.5%
Gross profit	891	1,114	2,062	1,119	1,062	1,327	2,115	1,106	920	1,358	39.9%	5,715
YoY	4.8%	6.1%	7.1%	0.7%	19.2%	19.1%	2.6%	-1.2%	-13.3%	2.4%		1.9%
Gross profit margin	75.0%	73.4%	75.3%	72.3%	76.5%	74.1%	76.0%	73.6%	76.4%	74.8%		74.7%
SG&A expenses	826	882	1,083	997	952	999	1,157	1,032	935	1,014	43.5%	4,480
YoY	4.7%	6.6%	2.1%	5.5%	15.3%	13.2%	6.9%	3.5%	-1.7%	1.5%		8.2%
SG&A ratio	69.5%	58.1%	39.5%	64.4%	68.6%	55.8%	41.6%	68.7%	77.7%	55.8%		58.6%
Operating profit	65	232	979	122	110	328	958	74	-15	344	26.6%	1,235
YoY	5.9%	4.1%	13.3%	-26.9%	68.7%	41.3%	-2.2%	-39.2%	-	5.0%		-16.0%
Operating profit margin	5.5%	15.3%	35.8%	7.9%	7.9%	18.3%	34.4%	4.9%	-1.3%	19.0%		16.1%
Recurring profit	48	238	985	130	116	334	963	80	-10	350	27.1%	1,256
YoY	-28.1%	4.2%	13.1%	-25.2%	139.3%	40.5%	-2.2%	-38.6%	-	4.9%		-15.8%
Recurring profit margin	4.1%	15.7%	36.0%	8.4%	8.4%	18.7%	34.6%	5.3%	-0.8%	19.3%		16.4%
Net income	27	180	700	58	75	239	669	52	-11	246	27.5%	855
YoY	-39.0%	5.7%	15.5%	-61.6%	177.8%	32.6%	-4.4%	-9.2%	-	3.0%		-17.4%
Net margin	2.3%	11.9%	25.6%	3.7%	5.4%	13.3%	24.1%	3.5%	-0.9%	13.5%		11.2%

By product Quarterly (JPYmm)	FY03/19				FY03/20				FY03/21		FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Total sales	1,189	1,518	2,738	1,548	1,388	1,790	2,781	1,503	1,204	1,816	39.5%	7,650
YoY	4.6%	4.2%	6.0%	-0.4%	16.8%	17.9%	1.6%	-2.9%	-13.3%	1.5%		2.5%
Toiletries	788	1,095	2,005	1,037	1,016	1,335	2,054	1,066	871	1,310	38.9%	5,600
YoY	5.2%	6.0%	8.2%	-1.3%	28.9%	21.9%	2.4%	2.8%	-14.3%	-1.9%		2.4%
% of total sales	66.4%	72.2%	73.3%	66.9%	73.4%	74.5%	73.9%	70.9%	72.5%	72.1%		73.2%
Hair Styling	206	230	464	289	202	257	480	244	196	316	41.3%	1,240
YoY	-4.6%	9.0%	-1.7%	4.0%	-1.9%	11.7%	3.4%	-15.6%	-3.0%	23.0%		4.8%
% of total sales	17.4%	15.2%	17.0%	18.6%	14.6%	14.3%	17.3%	16.2%	16.3%	17.4%		16.2%
Hair Coloring	81	86	98	118	61	85	81	100	54	83	40.3%	340
YoY	19.1%	-20.4%	0.0%	8.3%	-24.7%	-1.2%	-17.3%	-15.3%	-11.5%	-2.4%		4.0%
% of total sales	6.8%	5.7%	3.6%	7.6%	4.4%	4.7%	2.9%	6.7%	4.5%	4.6%		4.4%
Hair Growing Agents	45	55	114	51	43	52	112	46	43	59	39.2%	260
YoY	2.3%	0.0%	3.6%	2.0%	-4.4%	-5.5%	-1.8%	-9.8%	0.0%	13.5%		2.8%
% of total sales	3.8%	3.6%	4.2%	3.3%	3.1%	2.9%	4.0%	3.1%	3.6%	3.2%		3.4%
Perm	31	28	34	36	26	35	30	32	21	31	43.3%	120
YoY	24.0%	12.0%	21.4%	-25.0%	-16.1%	25.0%	-11.8%	-11.1%	-19.2%	-11.4%		-2.4%
% of total sales	2.6%	1.8%	1.2%	2.3%	1.9%	2.0%	1.1%	2.1%	1.7%	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	1,781	39.5%	7,560
YoY	4.4%	4.3%	6.0%	-0.3%	17.1%	18.1%	1.5%	-2.9%	-10.8%	1.0%		2.8%
% of total sales	97.0%	98.5%	99.2%	98.8%	97.4%	98.5%	99.2%	99.0%	100.2%	98.0%		98.8%
Other	35	23	22	19	36	27	23	15	16	18	38.2%	89
YoY	9.4%	-8.0%	0.0%	-5.0%	2.9%	17.4%	4.5%	-21.1%	-55.6%	-33.3%		-11.9%
% of total sales	3.0%	1.5%	0.8%	1.2%	2.6%	1.5%	0.8%	1.0%	1.3%	1.0%		1.2%
Adjustments	3	1	1	-2	4	-1	1	-0	3	-1		-

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

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.

1H FY03/21 results (out November 5, 2020)

Summary

For 1H FY03/21, the company reported sales of JPY3.0bn (-5.0% YoY), an operating profit of JPY329mn (-24.9% YoY), a recurring profit of JPY340mn (-24.3% YoY), and net income of JPY235mn (-25.2% YoY). Q1 included the period covered by the Japanese government's state of emergency declaration, and the beauty salons that handle the company's products shortened operating hours or temporarily closed and also saw customer traffic drop sharply during Q1. However, in Q2 customer traffic started to recover following the lift of the state of emergency declaration.

In Q2, sales were JPY1.8bn (+1.5% YoY), operating profit was JPY344mn (+5.0% YoY), and net income was JPY246mn (+3.0% YoY). Q1 is seasonally a period of lackluster demand and was adversely affected by the impact of COVID-19 this year. As a result, the company reported operating loss and net loss in Q1, however, it recorded YoY increases in sales and profit in Q2 as the impact of COVID-19 was less severe during Q2.

By product category, the company reported Q2 toiletry product sales of JPY1.3bn (-1.9% YoY), hair styling product sales of JPY316mn (+23.0% YoY), hair coloring product sales of JPY83mn (-2.4% YoY), hair growing agent sales of JPY59mn (+13.5% YoY), perm products sales of JPY31mn (-11.4% YoY), and other product sales of JPY18mn (-33.3% YoY).

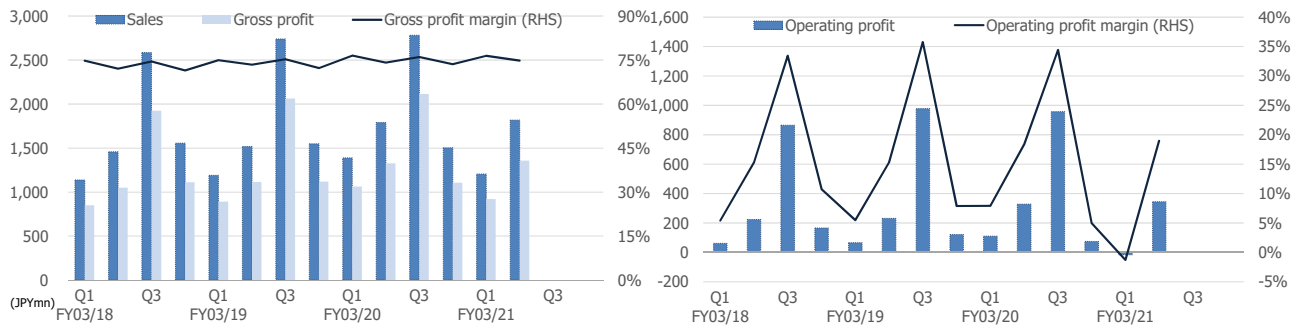
Among toiletries that account for a large share of total sales, sales of mainstay COTA i CARE shampoos and treatments were robust. Overall sales of toiletries were largely firm but decreased YoY as sales in Q2 FY03/20 were boosted by the launch of the new product, COTA TREAT PREMIQUE (launched in May 2019) and last-minute demand before the consumption tax hike.

The Q2 gross profit margin of 74.8% was up from 74.1% in Q2 FY03/20. The company continued review of cost of sales management, with more accurate sales forecasts and better production planning, and ongoing efforts to improve production process, appear to have boosted profitability. SG&A expenses were JPY1.0bn (+1.5% YoY); personnel-related costs continued to rise, but sales-related costs have been kept under control.

The company made no changes to its initial forecast for FY03/21 results that calls for sales of JPY7.7bn, operating profit of JPY1.2bn, and net income of JPY855mn. The company expects to achieve its 23rd consecutive year of positive top-line growth thanks to ongoing expansion driven by a combination of its Junpo Salon System-based consulting system and salon retail sales of toiletry products. Although sales progress versus full-year company forecast has been slow at 39.5% of full-year forecast at this point (42.6% of its full-year target in 1H FY03/20), Shared Research thinks COTA's performance is progressing in line with plan, based on the three factors: 1) its earnings are typically tilted toward the second half of the year; 2) the progress rate was higher in 1H FY03/20 due to the introduction of new products and rush demand before the consumption tax hike (the progress rate in 1H FY03/19 was 38.7%); 3) the impact of the COVID-19 pandemic seen in Q1 has started disappearing in Q2. The company also made no changes to its annual dividend forecast 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

Full-year FY03/21 company forecast

(JPYmn)	FY03/19			FY03/20			FY03/21		
	1H	2H	FY	1H	2H	FY	1H Act.	2H Est.	FY Est.
Sales	2,706	4,286	6,992	3,178	4,283	7,461	3,020	4,630	7,650
YoY	4.4%	3.6%	3.9%	17.4%	-0.1%	6.7%	-5.0%	8.1%	2.5%
Cost of sales	701	1,105	1,807	789	1,063	1,852	742	1,193	1,935
Gross profit	2,005	3,180	5,186	2,389	3,220	5,609	2,278	3,437	5,715
YoY	5.5%	4.8%	5.1%	19.1%	1.3%	8.2%	-4.6%	6.7%	1.9%
Gross profit margin	74.1%	74.2%	74.2%	75.2%	75.2%	75.2%	75.4%	74.2%	74.7%
SG&A expenses	1,708	2,080	3,788	1,951	2,189	4,139	1,949	2,531	4,480
YoY	5.7%	3.7%	4.6%	14.2%	5.2%	9.3%	-0.1%	15.6%	8.2%
SG&A ratio	63.1%	48.5%	54.2%	61.4%	51.1%	55.5%	64.5%	54.7%	58.6%
Operating profit	297	1,101	1,398	438	1,032	1,470	329	906	1,235
YoY	4.5%	6.8%	6.3%	47.3%	-6.3%	5.1%	-24.9%	-12.2%	-16.0%
Operating profit margin	11.0%	25.7%	20.0%	13.8%	24.1%	19.7%	10.9%	19.6%	16.1%
Recurring profit	286	1,114	1,400	450	1,042	1,492	340	916	1,256
YoY	-3.1%	6.7%	4.6%	57.3%	-6.4%	6.6%	-24.3%	-12.1%	-15.8%
Recurring profit margin	10.6%	26.0%	20.0%	14.2%	24.3%	20.0%	11.3%	19.8%	16.4%
Net income	207	758	965	314	722	1,036	235	620	855
YoY	-3.5%	0.2%	-0.6%	51.6%	-4.8%	7.3%	-25.2%	-14.1%	-17.4%
Net margin	7.7%	17.7%	13.8%	9.9%	16.8%	13.9%	7.8%	13.4%	11.2%

Source: Shared Research based on company data

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

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