On October 28, 2020, Cocokara Fine Inc. announced revisions to its FY03/21 earnings forecasts.

For 1H FY03/21, the company's revised forecast is projecting consolidated sales of JPY191.8bn (-7.9% YoY), an operating profit of JPY5.4bn (-21.3% YoY), recurring profit of JPY6.5bn (-19.2% YoY), and net income of JPY1.0bn (-80.1% YoY). This compares with its initial forecast for 1H sales of JPY192.6bn, operating profit of JPY2.1bn, recurring profit of JPY3.2bn, and net income of JPY1.7bn.

Explaining the downward revision to its outlook for 1H sales, the company said the COVID-19 pandemic had led to fewer sales to overseas tourists at its stores in urban areas, depressed demand for cosmetics and other high-value added merchandise, and had also led to fewer prescriptions being filled at its pharmacy business. On the earnings front, the company raised its outlook for 1H operating profit and recurring profit, attributing the upward revision to some JPY3.7bn worth of cuts in SG&A expenses versus its initial budget, including reductions in personnel costs, advertising spending, and spending on store remodeling. In contrast, at the net income level, the company lowered its initial forecast to reflect recording of extraordinary losses, as detailed below.

Most of the extraordinary charges the company plans to book will come from writedowns and write-offs of inventories made in connection with its merger with Matsumotokiyoshi Holdings (TSE1: 3088) and accompanying efforts to unify the purchasing and merchandising operations of the two companies. To be precise, Cocokara Fine says it plans to book a total of some JPY4.3bn in valuation losses on merchandise inventories in 1H, and another JPY700mn or so in related costs (such as logistics-related costs and payments to third-party contractors) in Q3 or later. The company added that it is still in the process of calculating precise amounts and that these figures and their booking timing could change. In addition to the inventory-related charge-offs, during 1H the company expects to book roughly JPY100mn in extraordinary losses in connection with its ongoing plans to upgrade its store network (including asset impairment charges, penalties for breaking leases, and other charges booked as a result of closures of unprofitable stores) and another JPY100mn or so in connection with the termination of the contract for its old operating system for its dispensing pharmacies to facilitate the move to a new system.

For full-year FY03/21, the company is now projecting consolidated sales of JPY381.6bn (-5.5% YoY), an operating profit of JPY14.2bn (+6.5% YoY), recurring profit of JPY16.5bn (+5.6% YoY), net income of JPY6.4bn (-22.6% YoY), and EPS of JPY213.4. This compares with its initial full-year forecast calling for consolidated sales of JPY387.9bn, an operating profit of JPY13.9bn, recurring profit of JPY16.0bn, net income of JPY9.1bn, and EPS of JPY303.7.

In addition to the changes in its estimates for 1H sales and earnings, as detailed above, the company lowered its outlook for the second half of the year. Explaining the downward revision to its 2H outlook, the company said that its initial forecast for the full year (announced May 13, 2020) was based on the assumption that the fallout from the pandemic would weigh on results through the first half of the fiscal year and then sales and earnings steadily would improve during the second half of the year. As things stand now, however, the company says that even though economic and social activities have been slowly returning to normal since the Japanese government lifted its state of emergency declaration order back in May, the ongoing uncertainty in the operating environment coupled with a slower-than-expected recovery in tourism-related demand at its urban stores and lagging demand for cosmetics and other high-value added goods has forced it to trim its initial outlook for sales and earnings in the second half of the year.

This note is the most recent addition to the full report.

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