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On February 8, 2021, COTA Co., Ltd. announced earnings results for Q3 FY03/21.

Cumulative (JPY mn)	FY03/19				FY03/20				FY03/21			FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% 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	6,155	80.5%	7,650
YoY	4.6%	4.4%	5.2%	3.9%	16.8%	17.4%	9.4%	6.7%	-13.3%	-5.0%	3.3%	-	2.5%
Gross profit	891	2,005	4,067	5,186	1,062	2,389	4,503	5,609	920	2,278	4,676	-	-
YoY	4.8%	5.5%	6.3%	5.1%	19.2%	19.1%	10.7%	8.2%	-13.3%	-4.6%	3.8%	-	-
Gross profit margin	75.0%	74.1%	74.7%	74.2%	76.5%	75.2%	75.6%	75.2%	76.4%	75.4%	76.0%	-	-
SG&A expenses	826	1,708	2,791	3,788	952	1,951	3,108	4,139	935	1,949	3,135	-	-
YoY	4.7%	5.7%	4.3%	4.6%	15.3%	14.2%	11.4%	9.3%	-1.7%	-0.1%	0.9%	-	-
SG&A ratio	69.5%	63.1%	51.3%	54.2%	68.6%	61.4%	52.2%	55.5%	77.7%	64.5%	50.9%	-	-
Operating profit	65	297	1,276	1,398	110	438	1,396	1,470	-15	329	1,541	102.4%	1,505
YoY	5.9%	4.5%	11.1%	6.3%	68.7%	47.3%	9.4%	5.1%	-	-24.9%	10.4%	-	2.4%
Operating profit margin	5.5%	11.0%	23.4%	20.0%	7.9%	13.8%	23.4%	19.7%	-1.3%	10.9%	25.0%	-	19.7%
Recurring profit	48	286	1,271	1,400	116	450	1,412	1,492	-10	340	1,559	99.1%	1,573
YoY	-28.1%	-3.1%	9.0%	4.6%	139.3%	57.3%	11.2%	6.6%	-	-24.3%	10.4%	-	5.4%
Recurring profit margin	4.1%	10.6%	23.3%	20.0%	8.4%	14.2%	23.7%	20.0%	-0.8%	11.3%	25.3%	-	20.6%
Net income	27	207	908	965	75	314	983	1,036	-11	235	1,082	100.0%	1,082
YoY	-39.0%	-3.5%	10.5%	-0.6%	177.8%	51.6%	8.4%	7.3%	-	-25.2%	10.0%	-	4.5%
Net margin	2.3%	7.7%	16.7%	13.8%	5.4%	9.9%	16.5%	13.9%	-0.9%	7.8%	17.6%	-	14.1%

Quarterly (JPY mn)	FY03/19				FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	1,189	1,518	2,738	1,548	1,388	1,790	2,781	1,503	1,204	1,816	3,135
YoY	4.6%	4.2%	6.0%	-0.4%	16.8%	17.9%	1.6%	-2.9%	-13.3%	1.5%	12.7%
Gross profit	891	1,114	2,062	1,119	1,062	1,327	2,115	1,106	920	1,358	2,398
YoY	4.8%	6.1%	7.1%	0.7%	19.2%	19.1%	2.6%	-1.2%	-13.3%	2.4%	13.4%
Gross profit margin	75.0%	73.4%	75.3%	72.3%	76.5%	74.1%	76.0%	73.6%	76.4%	74.8%	76.5%
SG&A expenses	826	882	1,083	997	952	999	1,157	1,032	935	1,014	1,186
YoY	4.7%	6.6%	2.1%	5.5%	15.3%	13.2%	6.9%	3.5%	-1.7%	1.5%	2.5%
SG&A ratio	69.5%	58.1%	39.5%	64.4%	68.6%	55.8%	41.6%	68.7%	77.7%	55.8%	37.8%
Operating profit	65	232	979	122	110	328	958	74	-15	344	1,212
YoY	5.9%	4.1%	13.3%	-26.9%	68.7%	41.3%	-2.2%	-39.2%	-	5.0%	26.6%
Operating profit margin	5.5%	15.3%	35.8%	7.9%	7.9%	18.3%	34.4%	4.9%	-1.3%	19.0%	38.7%
Recurring profit	48	238	985	130	116	334	963	80	-10	350	1,219
YoY	-28.1%	4.2%	13.1%	-25.2%	139.3%	40.5%	-2.2%	-38.6%	-	4.9%	26.6%
Recurring profit margin	4.1%	15.7%	36.0%	8.4%	8.4%	18.7%	34.6%	5.3%	-0.8%	19.3%	38.9%
Net income	27	180	700	58	75	239	669	52	-11	246	847
YoY	-39.0%	5.7%	15.5%	-61.6%	177.8%	32.6%	-4.4%	-9.2%	-	3.0%	26.5%
Net margin	2.3%	11.9%	25.6%	3.7%	5.4%	13.3%	24.1%	3.5%	-0.9%	13.5%	27.0%

By product Quarterly (JPYmn)	FY03/19				FY03/20				FY03/21			FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% 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	3,135	80.5%	7,650
YoY	4.6%	4.2%	6.0%	-0.4%	16.8%	17.9%	1.6%	-2.9%	-13.3%	1.5%	12.7%	-	2.5%
Toiletries	788	1,095	2,005	1,037	1,016	1,335	2,054	1,066	871	1,310	2,291	-	-
YoY	5.2%	6.0%	8.2%	-1.3%	28.9%	21.9%	2.4%	2.8%	-14.3%	-1.9%	11.5%	-	-
% of total sales	66.4%	72.2%	73.3%	66.9%	73.4%	74.5%	73.9%	70.9%	72.5%	72.1%	73.1%	-	-
Hair Styling	206	230	464	289	202	257	480	244	196	316	583	-	-
YoY	-4.6%	9.0%	-1.7%	4.0%	-1.9%	11.7%	3.4%	-15.6%	-3.0%	23.0%	21.5%	-	-
% of total sales	17.4%	15.2%	17.0%	18.6%	14.6%	14.3%	17.3%	16.2%	16.3%	17.4%	18.6%	-	-
Hair Coloring	81	86	98	118	61	85	81	100	54	83	83	-	-
YoY	19.1%	-20.4%	0.0%	8.3%	-24.7%	-1.2%	-17.3%	-15.3%	-11.5%	-2.4%	2.5%	-	-
% of total sales	6.8%	5.7%	3.6%	7.6%	4.4%	4.7%	2.9%	6.7%	4.5%	4.6%	2.6%	-	-
Hair Growing Agents	45	55	114	51	43	52	112	46	43	59	125	-	-
YoY	2.3%	0.0%	3.6%	2.0%	-4.4%	-5.5%	-1.8%	-9.8%	0.0%	13.5%	11.6%	-	-
% of total sales	3.8%	3.6%	4.2%	3.3%	3.1%	2.9%	4.0%	3.1%	3.6%	3.2%	4.0%	-	-
Perm	31	28	34	36	26	35	30	32	21	31	29	-	-
YoY	24.0%	12.0%	21.4%	-25.0%	-16.1%	25.0%	-11.8%	-11.1%	-19.2%	-11.4%	-3.3%	-	-
% of total sales	2.6%	1.8%	1.2%	2.3%	1.9%	2.0%	1.1%	2.1%	1.7%	1.7%	0.9%	-	-
SUM: product sales	1,151	1,494	2,715	1,532	1,348	1,764	2,757	1,488	1,203	1,781	3,111	-	-
YoY	4.4%	4.3%	6.0%	-0.3%	17.1%	18.1%	1.5%	-2.9%	-10.8%	1.0%	12.8%	-	-
% of total sales	97.0%	98.5%	99.2%	98.8%	97.4%	98.5%	99.2%	99.0%	100.2%	98.0%	99.3%	-	-
Other	35	23	22	19	36	27	23	15	16	18	22	-	-
YoY	9.4%	-8.0%	0.0%	-5.0%	2.9%	17.4%	4.5%	-21.1%	-55.6%	-33.3%	-4.3%	-	-
% of total sales	3.0%	1.5%	0.8%	1.2%	2.6%	1.5%	0.8%	1.0%	1.3%	1.0%	0.7%	-	-
Adjustments	3	1	1	-2	4	-1	1	-0	3	-1	2	-	-

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.

Q3 FY03/21 results (out February 8, 2021)

Summary

For cumulative Q3 FY03/21, the company reported sales of JPY6.2bn (+3.3% YoY), an operating profit of JPY1.5bn (+10.4% YoY), a recurring profit of JPY1.6bn (+10.4% YoY), and net income of JPY1.1bn (+10.0% 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 the period. However, customer traffic recovered to previous-year levels following the lifting of the state of emergency declaration and the company in Q3 (the busy season) saw firm sales, particularly for COTA i CARE, a core product within its in-store sales strategy.

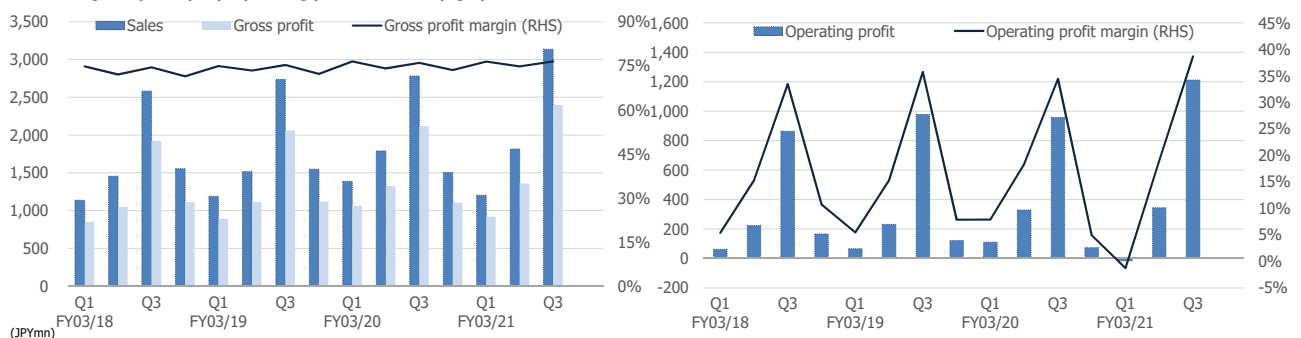
In Q3, sales were JPY3.1bn (+12.7% YoY), operating profit was JPY1.2bn (+26.6% YoY), and net income was JPY847mn (+26.5% YoY). The COTA National Salon Sales Competition, which is held every year during the busy November–December period, produced strong sales. Given uncertainty over customer traffic due to the COVID-19 pandemic, salons that sell the company's products to consumers are focusing on store-based sales to stabilize operations, which contributed to double-digit sales growth for COTA.

By product category, the company reported Q3 toiletry product sales of JPY2.3bn (+11.5% YoY), hair styling product sales of JPY583mn (+21.5% YoY), hair coloring product sales of JPY83mn (+2.5% YoY), hair growing agent sales of JPY125mn (+11.6% YoY), perm products sales of JPY29mn (-3.3% YoY), and other product sales of JPY22mn (-4.3% YoY). Among toiletries that account for a large share of total sales, sales of mainstay COTA i CARE shampoos and treatments were robust.

The Q3 gross profit margin of 76.5% was up from 76.0% in Q3 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 JPY1.2bn (+2.5% YoY); personnel-related costs continued to rise on an increase in employees, but sales-related costs have been kept under control. As a result, OPM improved to 38.7% from 34.4% in Q3 FY03/20.

While maintaining its FY03/21 sales forecast of JPY7.7bn, the company upwardly revised its profit forecasts from those announced in May 2020, lifting its forecast for operating profit from JPY1.2bn to JPY1.5bn (+2.4% YoY) and its forecast for net income from JPY855mn to JPY 1.1bn (+4.5% YoY). The company upwardly revised these forecasts in line with favorable results from the COTA National Salon Sales Competition held in Q3, the cost of sales ratio trending lower than it did in FY03/20 thanks to ongoing cost management reviews, and a reduction in sales-related expenses thanks to voluntary restraint in some of the company's sales activities. Subtracting cumulative Q3 results from the company's full-year forecasts yields Q4 forecasts of JPY1.5b (-0.5% YoY) for sales, JPY36mn in operating losses (versus operating profit of JPY74mn in Q4 FY03/20), and net earnings at the breakeven point (versus net income of JPY52mn in Q4 FY03/20). The company has not recorded an operating loss in Q4 once in the past five years. It continues to forecast an annual dividend of JPY18.0 per share. Alongside the release of Q3 results, the company also announced plans to enact a 1.1-for-1 stock split on March 31, 2021.

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



Source: Shared Research based on company data

Full-year FY03/21 company forecast

(JPYmn)	FY03/20			FY03/21			FY03/21 Initial Est.		
	1H	2H	FY	1H Act.	2H Est.	FY Est.	1H Act.	2H Est.	FY Est.
Sales	3,178	4,283	7,461	3,020	4,630	7,650	3,020	4,630	7,650
YoY	17.4%	-0.1%	6.7%	-5.0%	8.1%	2.5%	-5.0%	8.1%	2.5%
Cost of sales	789	1,063	1,852	742	-	-	742	1,193	1,935
Gross profit	2,389	3,220	5,609	2,278	-	-	2,278	3,437	5,715
YoY	19.1%	1.3%	8.2%	-4.6%	-	-	-4.6%	6.7%	1.9%
Gross profit margin	75.2%	75.2%	75.2%	75.4%	-	0.0%	75.4%	74.2%	74.7%
SG&A expenses	1,951	2,189	4,139	1,949	-	-	1,949	2,531	4,480
YoY	14.2%	5.2%	9.3%	-0.1%	-	-	-0.1%	15.6%	8.2%
SG&A ratio	61.4%	51.1%	55.5%	64.5%	-	0.0%	64.5%	54.7%	58.6%
Operating profit	438	1,032	1,470	329	1,176	1,505	329	906	1,235
YoY	47.3%	-6.3%	5.1%	-24.9%	14.0%	2.4%	-24.9%	-12.2%	-16.0%
Operating profit margin	13.8%	24.1%	19.7%	10.9%	25.4%	19.7%	10.9%	19.6%	16.1%
Recurring profit	450	1,042	1,492	340	1,233	1,573	340	916	1,256
YoY	57.3%	-6.4%	6.6%	-24.3%	18.3%	5.4%	-24.3%	-12.1%	-15.8%
Recurring profit margin	14.2%	24.3%	20.0%	11.3%	26.6%	20.6%	11.3%	19.8%	16.4%
Net income	314	722	1,036	235	847	1,082	235	620	855
YoY	51.6%	-4.8%	7.3%	-25.2%	17.4%	4.5%	-25.2%	-14.1%	-17.4%
Net margin	9.9%	16.8%	13.9%	7.8%	18.3%	14.1%	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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