Seria / 2782

COVERAGE INITIATED ON: 2017.02.23
LAST UPDATE: 2019.04.05

Shared Research Inc. has produced this report by request from the company discussed in the report. The aim is to provide an "owner's manual" to investors. We at Shared Research Inc. make every effort to provide an accurate, objective, and neutral analysis. In order to highlight any biases, we clearly attribute our data and findings. We will always present opinions from company management as such. Our views are ours where stated. We do not try to convince or influence, only inform. We appreciate your suggestions and feedback. Write to us at sr_inquiries@sharedresearch.jp or find us on Bloomberg.

Research Coverage Report by Shared Research Inc.

INDEX

How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary

Core businesses

- Seria operates 100-yen stores, buying products from manufacturers and selling them at a flat price of JPY100 (plus tax). As of March 31, 2018, Seria had 1,455 directly managed stores (+86 YoY) and 51 franchised stores (-4 YoY). In Shared Research's view, Seria distinguishes itself through the use of point-of-sale (POS) data and systematic management of product orders and inventories. As a result, Seria has higher GPM, OPM, and sales per store than its competitors. Seria began seeing results from its ordering support system (which supplies key information to help store staff place orders) in FY03/09. From that point to FY03/18, annual sales growth averaged 9.8% and operating profit 30.0%. (Over the same period, average annual sales growth at competitor Can Do Co., Ltd. (TSE1: 2698) was 0.9% and operating profit 23.3%. For Watts Co., Ltd (TSE1: 2735), sales grew 4.1% and operating profit 1.6% during the period.)
- In the early 2000s, Seria was third in the industry and facing financial difficulties. Back then the 100-yen store sector was dominated by market leader Daiso Sangyo Co., Ltd. (unlisted). Industry trends included diversifying the product range (Daiso sold 90,000 products), relying on the intuition and experience of store staff for ordering and inventory management, and highly dense product displays. In 2003, the founder's nephew and current president, Eiji Kawai, joined the company as managing director. Kawai had gained experience at the Ogaki Kyoritsu Bank, Ltd. (TSE1: 8361) developing systems based on statistical methods. He became central to the data-driven reforms from 2004, leading Seria to grow faster than industry peers. In this environment, Seria was the first 100-yen store operator to introduce a POS system (2004) and a proprietary ordering support system (2006). It also developed a new store design (2007). In these ways, Seria took an objective, data-driven approach to product ordering and inventory management, paring down product numbers to create stores that felt more spacious and offering a product lineup more appealing to women. As a result, the company has achieved results surpassing those of competitors.
- Seria reports only parent earnings (no subsidiaries). Most of its stores are directly managed. In March 2018, Seria had 1,455 stores and sales per store of JPY114mn (total sales = number of stores x sales per store). Comparable store sales have been growing, driven by increasing repeat customers and drawing customers away from other 100-yen stores.
- GPM has risen from 39.5% (FY03/08) to 43.2% (FY03/18), trending upward due to both directly managed stores and sundries comprising a higher share of sales. GPM is also affected by forex fluctuations, as the company imports most of its merchandise.
- SG&A expenses are mainly personnel expenses, which are affected more by the number of stores than by sales. The company has seen its SG&A expense ratio fall and OPM grow as sales per store have risen.

Trends and outlook

- In FY03/18, sales were JPY159.1bn (+9.5% YoY), operating profit JPY16.5bn (+8.6%), recurring profit JPY16.5bn (+8.4%), and net income JPY11.3bn (+7.4%).
- For FY03/19, the company forecasts sales of JPY171.0bn (+7.5% YoY), operating profit of JPY17.0bn (+3.2%), recurring profit of JPY17.0bn (+3.0%), and net income of JPY11.7bn (+3.4%).
- Over the medium term, Seria plans to open new stores and grow sales at existing stores, which we think should allow it to maintain double-digit sales and earnings growth.

Strengths and weaknesses

We see Seria's strengths as an ordering system using proprietary algorithms to manage inventories and reduce lost sales opportunities, customer draw through its uncluttered stores and product lineup, and ample cash to open new stores as opportunities arise. Its weaknesses are that many of the attractive locations in shopping centers have already been taken by competitors; growing price competition from other types of retailers; and a growth strategy that is only effective at taking share away from other 100-yen stores. (See the Strengths and weaknesses section for details.)

Key financial data

Income statement (JPYmn)	FY03/09 Par.	FY03/10 Par.	FY03/11 Par.	FY03/12 Par.	FY03/13 Par.	FY03/14 Par.	FY03/15 Par.	FY03/16 Par.	FY03/17 Par.	FY03/18 Par.	FY03/19 Est.
Total sales	**68,394**	**76,244**	**83,389**	**93,634**	**98,246**	**109,393**	**118,336**	**130,983**	**145,328**	**159,114**	**171,000**
YoY	8.2%	11.5%	9.4%	12.3%	4.9%	11.3%	8.2%	10.7%	11.0%	9.5%	7.5%
Gross profit	**26,764**	**30,376**	**34,189**	**39,066**	**41,445**	**46,214**	**50,129**	**55,502**	**62,387**	**68,671**	
YoY	6.9%	13.5%	12.6%	14.3%	6.1%	11.5%	8.5%	10.7%	12.4%	10.1%	
GPM	39.1%	39.8%	41.0%	41.7%	42.2%	42.2%	42.4%	42.4%	42.9%	43.2%	
Operating profit	**1,551**	**3,314**	**5,081**	**7,722**	**8,314**	**10,192**	**10,521**	**12,016**	**15,171**	**16,479**	**17,000**
YoY	-32.3%	113.7%	53.3%	52.0%	7.7%	22.6%	3.2%	14.2%	26.3%	8.6%	3.2%
OPM	2.3%	4.3%	6.1%	8.2%	8.5%	9.3%	8.9%	9.2%	10.4%	10.4%	9.9%
Recurring profit	**1,579**	**3,308**	**5,075**	**7,775**	**8,261**	**10,242**	**10,644**	**12,063**	**15,218**	**16,500**	**17,000**
YoY	-33.1%	109.5%	53.4%	53.2%	6.3%	24.0%	3.9%	13.3%	26.2%	8.4%	3.0%
RPM	2.3%	4.3%	6.1%	8.3%	8.4%	9.4%	9.0%	9.2%	10.5%	10.4%	9.9%
Net income	**784**	**1,494**	**2,318**	**4,292**	**4,802**	**6,194**	**6,720**	**7,951**	**10,533**	**11,316**	**11,700**
YoY	-33.2%	90.6%	55.2%	85.2%	11.9%	29.0%	8.5%	18.3%	32.5%	7.4%	3.4%
Net margin	1.1%	2.0%	2.8%	4.6%	4.9%	5.7%	5.7%	6.1%	7.2%	7.1%	6.8%
Per share data											
Shares issued (year end; '000)	76	76	76	76	37,920	37,920	37,920	37,920	75,840	75,840	
EPS	10	19.7	30.6	56.6	63.3	81.7	88.6	104.9	138.9	149.2	154.3
EPS (fully diluted)	-	-	-	-	-	-	-	-	-	-	
Dividend per share	3	2.5	2.5	5.0	7.5	10.0	12.5	15.0	20.0	30.0	50.0
Book value per share	126	143.6	171.6	225.8	284.3	358.3	438.4	530.5	654.5	783.7	
Balance sheet (JPYmn)											
Cash and cash equivalents	2,789	5,366	8,231	11,523	13,240	14,655	17,221	21,487	29,301	35,979	
Total current assets	**14,814**	**17,869**	**20,657**	**24,499**	**26,437**	**29,057**	**32,327**	**38,892**	**48,289**	**56,555**	
Tangible fixed assets	5,914	6,939	7,902	7,895	7,812	8,317	9,511	10,292	11,826	13,758	
Investments and other assets	6,330	6,863	7,371	7,422	7,779	8,550	9,117	9,840	10,535	11,276	
Intangible fixed assets	577	471	371	309	224	231	203	163	117	78	
Total assets	**27,637**	**32,143**	**36,302**	**40,127**	**42,253**	**46,157**	**51,160**	**59,189**	**70,768**	**81,669**	
Accounts payable	5,981	6,482	7,312	7,208	6,528	5,977	5,986	7,210	8,255	8,603	
Short-term debt	2,533	2,644	2,588	2,180	2,033	1,387	810	433	460	-	
Total current liabilities	**11,451**	**13,308**	**14,680**	**15,832**	**14,201**	**13,968**	**13,586**	**15,011**	**17,476**	**18,303**	
Long-term debt	5,017	5,178	4,615	3,384	3,091	1,703	893	460	-	-	
Total fixed liabilities	**6,622**	**7,946**	**8,608**	**7,167**	**6,487**	**5,017**	**4,326**	**3,943**	**3,654**	**3,929**	
Total liabilities	**18,074**	**21,255**	**23,288**	**22,999**	**20,689**	**18,985**	**17,912**	**18,955**	**21,131**	**22,232**	
Net assets	**9,562**	**10,887**	**13,013**	**17,128**	**21,563**	**27,171**	**33,247**	**40,234**	**49,637**	**59,436**	
Total interest-bearing debt	7,550	7,822	7,203	5,564	5,124	3,090	1,703	893	460	-	
Cash flow statement (JPYmn)											
Cash flows from operating activities	2,479	4,866	6,220	7,481	5,622	7,854	8,711	10,382	14,113	13,843	
Cash flows from investing activities	-2,445	-1,649	-1,688	-1,535	-2,321	-3,075	-3,387	-3,517	-4,054	-4,599	
Cash flows from financing activities	-352	-630	-1,615	-2,650	-1,587	-3,332	-2,858	-2,497	-2,244	-2,615	
Financial ratios											
ROA (RP-based)	6.1%	11.1%	14.8%	20.3%	20.1%	23.2%	21.9%	21.9%	23.4%	21.6%	
ROE	8.5%	14.6%	19.4%	28.5%	24.8%	25.4%	22.2%	21.6%	23.4%	20.7%	
Equity ratio	34.6%	33.9%	35.8%	42.7%	51.0%	58.9%	65.0%	68.0%	70.1%	72.8%	

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

Recent updates

Highlights

On **April 5, 2019,** Seria Co., Ltd. released monthly sales data for March 2019; see the Monthly trends section for details.

On **March 5, 2019,** the company released monthly sales data for February 2019.

On **February 25, 2019,** Shared Research updated the report following interviews with the company.

On **February 5, 2019,** the company released monthly sales data for January 2019.

On **January 31, 2019,** the company announced earnings results for Q3 FY03/19; see the results section for details.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Monthly trends

	FY03/18 Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	1H	2H	FY
All stores	13.0%	10.0%	10.5%	10.4%	13.1%	11.9%	8.6%	10.6%	8.8%	6.3%	4.3%	6.9%	11.5%	7.6%	9.5%
Comparable stores	4.4%	1.4%	2.2%	2.2%	5.2%	4.2%	-0.7%	2.0%	0.0%	-1.6%	-4.2%	-1.2%	3.3%	-0.9%	1.2%
Customer count	3.8%	1.5%	2.2%	2.0%	4.0%	3.4%	-1.7%	1.8%	0.5%	-1.4%	-3.1%	-0.8%	2.8%	-0.7%	1.0%
Customer spend	0.6%	0.0%	0.0%	0.2%	1.2%	0.8%	1.1%	0.1%	-0.5%	-0.2%	-1.1%	-0.5%	0.5%	-0.2%	0.1%
Store count	1,379	1,382	1,388	1,391	1,396	1,407	1,417	1,437	1,449	1,438	1,435	1,455	1,407	1,455	1,455
Openings	15	9	9	8	6	18	17	24	12	2	7	23	65	85	150
Closures	5	6	3	5	1	7	7	4	-	13	10	3	27	37	64

	FY03/19 Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	1H	2H	FY
All stores	6.3%	6.7%	9.5%	6.2%	6.0%	7.3%	8.4%	5.2%	5.8%	7.2%	7.9%	9.5%	7.0%	7.3%	7.1%
Comparable stores	-1.2%	-1.2%	1.5%	-1.3%	-2.1%	0.1%	1.5%	-1.5%	-0.5%	0.5%	1.5%	1.7%	-0.7%	0.5%	-0.1%
Customer count	-0.3%	-1.4%	0.8%	-1.2%	-1.5%	-0.6%	2.4%	-0.9%	-0.4%	1.1%	1.5%	1.6%	-0.7%	0.8%	0.0%
Customer spend	-0.9%	0.2%	0.7%	-0.1%	-0.7%	0.7%	-0.9%	-0.6%	-0.1%	-0.5%	0.0%	0.1%	0.0%	-0.3%	-0.2%
Store count	1,471	1,474	1,484	1,490	1,488	1,495	1,500	1,514	1,523	1,521	1,520	1,543	1,495	1,543	1,543
Openings	19	6	13	11	7	15	13	18	9	3	7	26	71	76	147
Closures	3	3	3	5	9	8	8	4	-	5	8	3	31	28	59

Source: Shared Research based on company data

Quarterly trends and results

Quarterly results

Cumulative	FY03/18				FY03/19				FY03/19	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	38,994	77,919	120,333	159,114	41,903	83,358	128,509		75.2%	171,000
YoY	11.2%	11.5%	10.7%	9.5%	7.5%	7.0%	6.8%			7.5%
Gross profit	16,778	33,529	51,810	68,671	18,062	35,979	55,464			
YoY	12.6%	12.5%	11.4%	10.1%	7.7%	7.3%	7.1%			
GPM	43.0%	43.0%	43.1%	43.2%	43.1%	43.2%	43.2%			
SG&A expenses	12,617	25,466	38,892	52,191	14,011	28,078	42,461			
YoY	10.7%	10.9%	11.0%	10.5%	11.0%	10.3%	9.2%			
SG&A ratio	32.4%	32.7%	32.3%	32.8%	33.4%	33.7%	33.0%			
Operating profit	4,160	8,062	12,917	16,479	4,050	7,900	13,002		76.5%	17,000
YoY	19.0%	18.2%	12.6%	8.6%	-2.6%	-2.0%	0.7%			3.2%
OPM	10.7%	10.3%	10.7%	10.4%	9.7%	9.5%	10.1%			9.9%
Recurring profit	4,156	8,058	12,926	16,500	4,060	7,909	13,056		76.8%	17,000
YoY	18.0%	17.6%	12.3%	8.4%	-2.3%	-1.8%	1.0%			3.0%
RPM	10.7%	10.3%	10.7%	10.4%	9.7%	9.5%	10.2%			9.9%
Net income	2,807	5,394	8,683	11,316	2,721	5,327	8,824		75.4%	11,700
YoY	18.8%	17.2%	11.8%	7.4%	-3.1%	-1.2%	1.6%			3.4%
Net margin	7.2%	6.9%	7.2%	7.1%	6.5%	6.4%	6.9%			6.8%

Quarterly	FY03/18				FY03/19			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	38,994	38,925	42,414	38,781	41,903	41,455	45,151	
YoY	11.2%	11.8%	9.3%	5.8%	7.5%	6.5%	6.5%	
Gross profit	16,778	16,751	18,281	16,861	18,062	17,917	19,485	
YoY	12.6%	12.4%	9.4%	6.2%	7.7%	7.0%	6.6%	
GPM	43.0%	43.0%	43.1%	43.5%	43.1%	43.2%	43.2%	
SG&A expenses	12,617	12,849	13,426	13,299	14,011	14,067	14,383	
YoY	10.7%	11.0%	11.3%	9.2%	11.0%	9.5%	7.1%	
SG&A ratio	32.4%	33.0%	31.7%	34.3%	33.4%	33.9%	31.9%	
Operating profit	4,160	3,902	4,855	3,562	4,050	3,850	5,102	
YoY	19.0%	17.5%	4.3%	-3.7%	-2.6%	-1.3%	5.1%	
OPM	10.7%	10.0%	11.4%	9.2%	9.7%	9.3%	11.3%	
Recurring profit	4,156	3,902	4,868	3,574	4,060	3,849	5,147	
YoY	18.0%	17.1%	4.5%	-3.5%	-2.3%	-1.4%	5.7%	
RPM	10.7%	10.0%	11.5%	9.2%	9.7%	9.3%	11.4%	
Net income	2,807	2,587	3,289	2,633	2,721	2,606	3,497	
YoY	18.8%	15.5%	4.0%	-4.9%	-3.1%	0.7%	6.3%	
Net margin	7.2%	6.6%	7.8%	6.8%	6.5%	6.3%	7.7%	

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

Sales by segment

Cumulative (JPYmn)	FY03/18 Q1	FY03/18 Q2	FY03/18 Q3	FY03/18 Q4	FY03/19 Q1	FY03/19 Q2	FY03/19 Q3	FY03/19 Q4
Sales	38,994	77,919	120,333	159,114	41,903	83,358	128,509	
YoY	11.2%	11.5%	10.7%	9.5%	7.5%	7.0%	6.8%	
Directly managed stores	38,131	76,161	117,636	155,546	41,060	81,768	125,943	
YoY	11.7%	12.0%	11.0%	9.8%	7.7%	7.4%	7.1%	
% of total sales	97.8%	97.7%	97.8%	97.8%	98.0%	98.1%	98.0%	
Franchised stores	598	1,166	1,786	2,298	573	1,107	1,683	
YoY	0.2%	1.0%	1.0%	-0.1%	-4.2%	-5.1%	-5.8%	
% of total sales	1.5%	1.5%	1.5%	1.4%	1.4%	1.3%	1.3%	
Wholesale	76	152	228	290	61	118	180	
YoY	-3.8%	-5.6%	-7.3%	-9.4%	-19.7%	-22.4%	-21.1%	
% of total sales	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	
Overseas	188	439	682	978	208	364	702	
YoY	-29.1%	-24.6%	-6.6%	-3.4%	10.6%	-17.1%	2.9%	
% of total sales	0.5%	0.6%	0.6%	0.6%	0.5%	0.4%	0.5%	
Quarterly (JPYmn)	**FY03/18 Q1**	**Q2**	**Q3**	**Q4**	**FY03/19 Q1**	**Q2**	**Q3**	**Q4**
Sales	38,994	38,925	42,414	38,781	41,903	41,455	45,151	
YoY	11.2%	11.8%	9.3%	5.8%	7.5%	6.5%	6.5%	
Directly managed stores	38,131	38,030	41,475	37,910	41,060	40,708	44,175	
YoY	11.7%	12.3%	9.3%	6.0%	7.7%	7.0%	6.5%	
% of total sales	97.8%	97.7%	97.8%	97.8%	98.0%	98.2%	97.8%	
Franchised stores	598	568	620	512	573	534	576	
YoY	0.2%	2.0%	1.0%	-3.9%	-4.2%	-6.0%	-7.1%	
% of total sales	1.5%	1.5%	1.5%	1.3%	1.4%	1.3%	1.3%	
Wholesale	76	76	76	62	61	57	62	
YoY	-3.8%	-7.3%	-10.6%	-16.2%	-19.7%	-25.0%	-18.4%	
% of total sales	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	
Overseas	188	251	243	296	208	156	338	
YoY	-29.1%	-20.8%	64.2%	5.0%	10.6%	-37.8%	39.1%	
% of total sales	0.5%	0.6%	0.6%	0.8%	0.5%	0.4%	0.7%	

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

Sales by product category

Cumulative (JPYmn)	FY03/18 Q1	FY03/18 Q2	FY03/18 Q3	FY03/18 Q4	FY03/19 Q1	FY03/19 Q2	FY03/19 Q3	FY03/19 Q4
Sales	38,994	77,919	120,333	159,114	41,903	83,358	128,509	
YoY	11.2%	11.5%	10.7%	9.5%	7.5%	7.0%	6.8%	
Sundries	38,128	76,290	117,707	155,274	41,117	81,865	126,075	
YoY	11.7%	11.9%	11.1%	9.9%	7.8%	7.3%	7.1%	
% of total sales	97.8%	97.9%	97.8%	97.6%	98.1%	98.2%	98.1%	
Foods and snacks	845	1,586	2,560	3,757	767	1,457	2,379	
YoY	-6.0%	-5.4%	-4.6%	-4.5%	-9.2%	-8.1%	-7.1%	
% of total sales	2.2%	2.0%	2.1%	2.4%	1.8%	1.7%	1.9%	
Other	20	42	65	82	18	35	54	
YoY	-4.8%	-17.6%	-12.2%	-12.8%	-10.0%	-16.7%	-16.9%	
% of total sales	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	
Quarterly (JPYmn)	**FY03/18 Q1**	**Q2**	**Q3**	**Q4**	**FY03/19 Q1**	**Q2**	**Q3**	**Q4**
Sales	38,994	38,925	42,414	38,781	41,903	41,455	45,151	
YoY	11.2%	11.8%	9.3%	5.8%	7.5%	6.5%	6.5%	
Sundries	38,128	38,162	41,417	37,567	41,117	40,748	44,210	
YoY	11.7%	12.2%	9.6%	6.2%	7.8%	6.8%	6.7%	
% of total sales	97.8%	98.0%	97.6%	96.9%	98.1%	98.3%	97.9%	
Foods and snacks	845	741	974	1,197	767	690	922	
YoY	-6.0%	-4.8%	-3.3%	-4.2%	-9.2%	-6.9%	-5.3%	
% of total sales	2.2%	1.9%	2.3%	3.1%	1.8%	1.7%	2.0%	
Other	20	22	23	17	18	17	19	
YoY	-4.8%	-26.7%	0.0%	-15.0%	-10.0%	-22.7%	-17.4%	
% of total sales	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	

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

Comparable store sales at directly managed stores

YoY	FY03/18 Q1	FY03/18 Q2	FY03/18 Q3	FY03/18 Q4	FY03/19 Q1	FY03/19 Q2	FY03/19 Q3	FY03/19 Q4
Comparable stores sales (directly managed)	2.70%	3.30%	2.30%	1.20%	-0.30%	-0.70%	-0.50%	
Customer count		2.80%		1.00%		-0.70%		
Customer spend		0.50%		0.10%		0.00%		

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

Store openings and closures

Cumulative	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net increase in directly managed stores	19	38	80	86	29	40	68	
Openings	33	65	118	150	38	71	111	
Closures	14	27	38	64	9	31	43	
Net increase in franchise stores	-1	-3	-3	-4	-	-	-2	
Openings	-	-	1	1	-	-	-	
Closures	1	3	4	5	-	-	2	
Quarterly	**FY03/18**				**FY03/19**			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net increase in directly managed stores	19	19	42	6	29	11	28	
Openings	33	32	53	32	38	33	40	
Closures	14	13	11	26	9	22	12	
Net increase in franchise stores	-1	-2	-	-1	-	-	-2	
Openings	-	-	1	-	-	-	-	
Closures	1	2	1	1	-	-	2	

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

Number of stores

	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
No. of directly managed stores	1,388	1,407	1,449	1,455	1,484	1,495	1,523	
YoY	7.6%	7.0%	7.2%	6.3%	6.9%	6.3%		
Color the Days	-	837	-	911	-	973	-	
Excl. Color the Days	-	570	-	544	-	522	-	
No. of franchise stores	54	52	52	51	51	51	49	

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

(Reference) Can Do quarterly results

Cumulative (JPYmn)	Mar–May/17	Mar–Aug/17	Mar–Nov/17	Mar/17–Feb/18	Mar–May/18	Mar–Aug/18	Mar–Nov/18	Mar/18–Feb/19
Sales	17,541	34,555	51,754	69,114	18,031	35,583	53,381	
YoY	0.9%	1.3%	1.7%	1.7%	2.8%	3.0%	3.1%	
Gross profit	6,703	13,284	19,939	26,653	6,929	13,741	20,618	
YoY	3.6%	4.3%	3.9%	3.5%	3.4%	3.4%	3.4%	
GPM	38.2%	38.4%	38.5%	38.6%	38.4%	38.6%	38.6%	
SG&A expenses	6,137	12,261	18,450	24,569	6,414	12,836	19,362	
YoY	2.9%	5.0%	4.9%	4.2%	4.5%	4.7%	4.9%	
SG&A ratio	35.0%	35.5%	35.6%	35.5%	35.6%	36.1%	36.3%	
Operating profit	566	1,023	1,489	2,083	516	905	1,256	
YoY	11.8%	-3.2%	-7.2%	-4.8%	-8.8%	-11.5%	-15.6%	
OPM	3.2%	3.0%	2.9%	3.0%	2.9%	2.5%	2.4%	
Quarterly (JPYmn)	**Mar–May/17**	**Jun–Aug/17**	**Sep–Nov/17**	**Dec/17–Feb/18**	**Mar–May/18**	**Jun–Aug/18**	**Sep–Nov/18**	**Dec/18–Feb/19**
Sales	17,541	17,014	17,199	17,360	18,031	17,552	17,798	
YoY	0.9%	1.8%	2.6%	1.7%	2.8%	3.2%	3.5%	
Gross profit	6,703	6,581	6,655	6,714	6,929	6,812	6,877	
YoY	3.6%	5.1%	3.1%	2.1%	3.4%	3.5%	3.3%	
GPM	38.2%	38.7%	38.7%	38.7%	38.4%	38.8%	38.6%	
SG&A expenses	6,137	6,123	6,189	6,119	6,414	6,422	6,526	
YoY	2.9%	7.2%	4.8%	2.2%	4.5%	4.9%	5.4%	
SG&A ratio	35.0%	36.0%	36.0%	35.2%	35.6%	36.6%	36.7%	
Operating profit	566	457	466	594	516	389	351	
YoY	11.8%	-16.9%	-15.0%	1.6%	-8.8%	-14.9%	-24.7%	
OPM	3.2%	2.7%	2.7%	3.4%	2.9%	2.2%	2.0%	

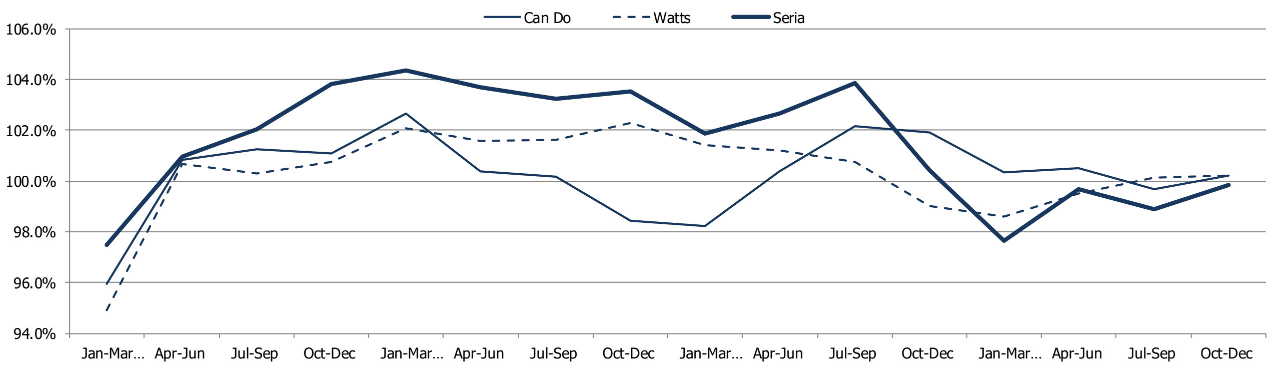
Source: Shared Research based on Can Do materials
Note: Figures may differ from company data due to differences in rounding methods.
In order to enable comparisons with the company's results, cumulative results are calculated based on the sum of quarterly results of three-month periods from March to February of the following year.

(Reference) Watts quarterly results

Cumulative (JPYmn)	Mar–May/17	Mar–Aug/17	Mar–Nov/17	Mar/17–Feb/18	Mar–May/18	Mar–Aug/18	Mar–Nov/18	Mar/18–Feb/19
Sales	12,141	24,009	35,854	47,896	12,916	25,558	38,290	
YoY	4.5%	3.1%	2.8%	2.4%	6.4%	6.5%	6.8%	
Gross profit	4,557	9,126	13,663	18,333	4,845	9,572	14,334	
YoY	4.7%	4.3%	4.0%	4.0%	6.3%	4.9%	4.9%	
GPM	37.5%	38.0%	38.1%	38.3%	37.5%	37.5%	37.4%	
SG&A expenses	4,189	8,561	12,850	17,174	4,549	9,189	13,814	
YoY	3.5%	5.3%	4.6%	5.0%	8.6%	7.3%	7.5%	
SG&A ratio	34.5%	35.7%	35.8%	35.9%	35.2%	36.0%	36.1%	
Operating profit	369	565	816	1,158	295	383	521	
YoY	21.4%	-8.7%	-4.6%	-8.3%	-19.9%	-32.3%	-36.2%	
OPM	3.0%	2.4%	2.3%	2.4%	2.3%	1.5%	1.4%	
Quarterly (JPYmn)	**Mar–May/17**	**Jun–Aug/17**	**Sep–Nov/17**	**Dec/17–Feb/18**	**Mar–May/18**	**Jun–Aug/18**	**Sep–Nov/18**	**Dec/18–Feb/19**
Sales	12,141	11,868	11,845	12,042	12,916	12,642	12,732	
YoY	4.5%	1.8%	2.0%	1.4%	6.4%	6.5%	7.5%	
Gross profit	4,557	4,569	4,537	4,670	4,845	4,728	4,762	
YoY	4.7%	3.8%	3.4%	4.2%	6.3%	3.5%	4.9%	
GPM	37.5%	38.5%	38.3%	38.8%	37.5%	37.4%	37.4%	
SG&A expenses	4,189	4,372	4,290	4,324	4,549	4,640	4,624	
YoY	3.5%	7.0%	3.3%	6.2%	8.6%	6.1%	7.8%	
SG&A ratio	34.5%	36.8%	36.2%	35.9%	35.2%	36.7%	36.3%	
Operating profit	369	197	250	343	295	88	138	
YoY	21.4%	-37.7%	6.3%	-16.1%	-19.9%	-55.4%	-45.0%	
OPM	3.0%	1.7%	2.1%	2.8%	2.3%	0.7%	1.1%	

Source: Shared Research based on Watts materials
Note: Figures may differ from company data due to differences in rounding methods.
In order to enable comparisons with the company's results, cumulative results are calculated based on the sum of quarterly results of three-month periods from March to February of the following year.

Comparable store sales



	2015				2016				2017				2018			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Seria	97.5%	101.0%	102.0%	103.8%	104.4%	103.7%	103.2%	103.5%	101.9%	102.7%	103.9%	100.4%	97.7%	99.7%	98.9%	99.8%
Can Do	96.0%	100.8%	101.2%	101.1%	102.7%	100.4%	100.2%	98.4%	98.2%	100.4%	102.2%	101.9%	100.3%	100.5%	99.7%	100.2%
Watts	94.9%	100.7%	100.3%	100.8%	102.1%	101.6%	101.6%	102.3%	101.4%	101.2%	100.8%	99.0%	98.6%	99.5%	100.1%	100.2%

Source: Shared Research based on each company's data
YoY figures for comparable store sales are the average of three months of YoY figures.

Cumulative Q3 FY03/19 results

- ▷ Sales: JPY128.5bn (+6.8% YoY)
- ▷ Operating profit: JPY13.0bn (+0.7% YoY)
- ▷ Recurring profit: JPY13.1bn (+1.0% YoY)
- ▷ Net income: JPY8.8bn (+1.6% YoY)

Top-line growth was driven by additions to the company's store network as comparable store sales finished down 0.5% YoY. On the earnings front, gains at the gross profit level were driven by higher sales and margin improvement but increases in SG&A spending left the company with only modest gains at the operating profit level and below.

Looking at trends on a quarterly basis, in both Q1 (April–June) and Q2 (July–September) sales were up YoY but operating profit was down. In contrast, in Q3 (October–December) both sales and operating profit finished higher as growth of SG&A spending slowed from the pace in Q1 and Q2, allowing Seria to deliver a 5.1% YoY increase in operating profit (to JPY5.1bn) on a 6.5% YoY rise in sales (to JPY45.2bn).

Results for the nine-month period through Q3 were generally in line plan, with 75.2% of its full-year forecast for sales (versus 75.6% in cumulative Q3 FY03/18 against FY03/18 result), 76.5% of its full-year forecast for operating profit (versus 78.4%), 76.8% of its full-year forecast for recurring profit (versus 78.3%), and 75.4% of its full-year forecast for net income (versus 76.7%).

Sales and earnings at Seria display seasonality, with both sales and earnings tending to be the highest in Q3 and lower in Q4 than in Q3. Part of the difference stems from the fact that Q3 has 92 days and also benefits from demand related to both Halloween and Christmas, whereas Q4 FY03/19 has only 90 days and the only seasonal event that generates addition demand at its stores is Valentine's Day.

Company initiatives

Aiming to maintain consistent growth in market share, the company has focused on developing products that cover a wide range of styles, and building a well-balanced product portfolio. It has also continued to actively work on invigorating shopping centers in hopes of opening new stores efficiently and have strengthened ties with companies that could possibly lead to multiple projects. In terms of logistics, the company has continued to fine-tune operations at multiple warehouses. To move toward a flexible and centralized distribution network that can accommodate and adapt to environment changes, the company has implemented new initiatives such as managing logistics of certain products internally rather than through suppliers. The company also made further progress in improving the efficiency of overall operations by leveraging IT systems, and in October 2018, it launched self-checkout terminals on a trial basis and evaluated their effects.

- Developing products to meet wide range of consumer tastes: In the past, Seria focused mainly on how well new products would sell in the short term; starting this fiscal year, however, it started evaluating new products based on sales over the long term to improve the accuracy of its sales data. In cumulative Q3 FY03/19, the company could more easily identify hit products among daily goods and basic items thanks to the effects of introducing a measure of long-term sales performance.
- Improving overall operational efficiency with help of new IT systems: In Q3 (October–December 2018) the company began using a new merchandise management system to help simplify both merchandise and cash management. According to the company, the new system will reduce the time needed to perform these tasks by about 30 minutes per day per store.
- Installation of self-checkout terminals: In October 2018, Seria installed self-checkout terminals on a trial basis at its Myogadani Store in Bunkyo-ku, Tokyo, with the aim of reducing customer waiting times and improving operational efficiency. Since installing the self-checkout terminals the Myogadani Store has seen about 20% of its customers use the new terminals, leading to shorter waits at checkout registers, reducing crowding, and ultimately leading to higher sales. Following this successful trial, the company plans to install self-checkout terminals at a number of other stores going forward. These self-checkout terminals cost about JPY500,000 each and their only operational costs is credit card processing fees (a fixed percentage of sales).

Store openings and closures, store count, and comparable store sales at directly managed stores

Store openings and closures

Seria is moving forward with store openings and closures, while keeping an eye on profitability.

- Store openings: 111 directly managed stores (118 in Q3 FY03/18) and zero franchised stores (1).
- Store closures: 43 directly managed stores (38) and two franchised stores (1).
- Store count: 1,572 stores (1,501 as of end-Q3 FY03/18), comprising 1,523 directly managed stores (1,449) and 49 franchised stores (52).

Seria is aiming to open 150 new directly managed stores during FY03/19. As of the end of Q3 directly managed store openings were basically in line with plan, though the company noted that some store openings planned for this fiscal year may be pushed back to the next fiscal year. The company also planned to close a total of 65 stores in FY03/19; as of the end of Q3 store closures are running slightly behind plan. As a result, store count is expected to finish the year roughly in line with the plan.

Comparable store sales

For the nine-month period through Q3, sales at directly managed comparable stores were down 0.5% YoY, with customer traffic down 0.4% YoY and average spending per customer down 0.2% YoY. In Q3 (October–December 2018), comparable store sales were down 0.2% YoY, with customer traffic up 0.3% YoY and spending per customer down 0.5% YoY; this represents an improvement, in customer traffic in particular, over the first half of the year, when comparable store sales were down 0.7% YoY with customer traffic down 0.7% YoY and customer spending flat. The decline in comparable store sales in Q3 was attributed to weak demand for handcrafted goods and relatively weak demand related to holidays and seasonal events such as Halloween and Christmas. Q3 result undershot the company's forecast of up1.3% YoY for the second half of the sales at comparable stores.

Performance

Sales

▷ For the nine-month period through Q3, the company reported sales of JPY128.5bn (+6.8% YoY).

Sales by segment

▷ Sales at directly managed stores were JPY125.9bn (+7.1% YoY). Directly managed stores accounted for 98.0% (+0.2pp YoY) of total sales.

▷ Franchised store sales were JPY1.7bn (-5.8% YoY), accounting for 1.3% (-0.2pp YoY) of total sales.

Sales by product category

▷ Sales of sundries came to JPY126.1bn (+7.1% YoY), accounting for 98.1% of sales (+0.3pp YoY).

▷ Sales of foods and snacks were JPY2.4bn (-7.1% YoY), accounting for 1.9% (-0.3pp YoY) of total sales.

Gross profit

▷ Gross profit was JPY55.5bn (+7.1% YoY), and the GPM was 43.2% (+0.1pp YoY).

The rise in the gross profit margin was driven by the increase in the proportion of sales accounted for by sundries, which carry higher margins.

SG&A expenses

▷ SG&A expenses: JPY42.5bn (up 9.2% YoY); the SG&A expense ratio of 33.0% (up 0.7pp YoY).

The rise in SG&A expenses was attributed to the increase in the company's store count, which increased rent and other related expenses, and to increases in the average wage paid to part-time employees.

In Q3 (October–December 2018), SG&A spending of JPY14.4bn was up 7.1% YoY, and the SG&A expense ratio of 31.9% was up only 0.2pp YoY. The smaller increase in SG&A expenses and the SG&A expense ratio in Q3 reflected the fact that the company increased wage rates for part-time employees in response to the rise in the mandatory minimum wage in Q3 FY03/18.

Trends at competitors

Looking at trends in comparable store sales and results at other companies in the industry, we find same store sales have been basically flat and that this together with rising SG&A expenses (mainly personnel costs and rents) continues to push down operating profits.

- ▷ For the nine-month period from April through December 2018, Can Do saw a modest 0.1% YoY increase in average monthly sales at comparable store while Watts saw a 0.0% decline (simple average).
- ▷ At Can Do, during the nine-month period from March to November 2018 (which corresponds to its Q2 to Q4 FY11/18) sales were up 3.1% YoY but rising SG&A expenses left operating profit down 15.6% YoY.
- ▷ At Watts, during the nine-month period from March to November 2018 (which covers its Q3 FY08/18 through Q1 FY08/19) sales increased by 6.8% YoY but rising SG&A expenses left operating profit down 36.2% YoY.

The company noted that when the government hiked the consumption tax rate in April 2014, that its order system help it get through swings in demand around the time of the tax hike without any merchandise stockouts and this subsequently allowed it to pick up market share from competitors and ultimately led to positive growth in comparable store sales. With the Japanese government set to raise the consumption tax rate again in October 2019, Shared Research is thinking that Seria may once again have an opportunity to pick up market share and attract new customers.

When minimum wage is raised again in October 2019 and personnel costs increase, Share Research is thinking that other companies in the 100 yen-store industry could feel even more pressure on their bottom line. If companies in the industry see the operating environment deteriorating there will undoubtedly be more closures of underperforming stores. In this event, Share Research believes it will be competitors doing most of the closures, leaving Seria in a position to benefit once competitive conditions in the industry start to ease again.

See the Historical financial statements section for past quarterly and full-year results.

Full-year company forecasts

	FY03/18			FY03/19		
(JPYmn)	1H Act.	2H Act	FY Act.	1H Act.	2H Est.	FY Est.
Sales	**77,919**	**81,195**	**159,114**	**83,358**	**87,642**	**171,000**
YoY	11.5%	7.6%	9.5%	7.0%	7.9%	7.5%
CoGS	44,390	46,052	90,442	47,379	49,721	97,100
Gross profit	**33,529**	**35,142**	**68,671**	**35,979**	**37,921**	**73,900**
YoY	12.5%	7.8%	10.1%	7.3%	7.9%	7.6%
GPM	43.0%	43.3%	43.2%	43.2%	43.3%	43.2%
SG&A expenses	25,466	26,725	52,191	28,078	28,822	56,900
SG&A ratio	32.7%	32.9%	32.8%	33.7%	32.9%	33.3%
Operating profit	**8,062**	**8,417**	**16,479**	**7,900**	**9,100**	**17,000**
YoY	18.2%	0.8%	8.6%	-2.0%	8.1%	3.2%
OPM	10.3%	10.4%	10.4%	9.5%	10.4%	9.9%
Recurring profit	**8,058**	**8,442**	**16,500**	**7,909**	**9,091**	**17,000**
YoY	17.6%	0.9%	8.4%	-1.8%	7.7%	3.0%
RPM	10.3%	10.4%	10.4%	9.5%	10.4%	9.9%
Net income	**5,394**	**5,922**	**11,316**	**5,327**	**6,373**	**11,700**
YoY	17.2%	-0.2%	7.4%	-1.2%	7.6%	3.4%

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

Company forecasts for FY03/19

- ▷ Sales: JPY171.0bn (+7.5% YoY)
- ▷ Operating profit: JPY17.0bn (+3.2% YoY)
- ▷ Recurring profit: JPY17.0bn (+3.0% YoY)
- ▷ Net income: JPY11.7bn (+3.4% YoY)

Based on 1H FY03/19 results, the company made no changes to its full-year forecasts, but it revised underlying assumptions such as store count and comparable store sales.

The company plans an annual dividend of JPY50; an interim dividend of JPY20 and year-end dividend of JPY30.

Forecast assumptions

Seria anticipates sales growth to continue on increases in store count and comparable store sales. The company plans to open 150 directly managed stores (79 in 2H) and close 65 (34 in 2H), for a net total of 1,540 stores at end-FY03/19 (+5.8% YoY).

Comparable store sales fell 0.7% YoY in 1H, and the company looks for a 1.3% YoY increase in 2H. Since in FY03/18, directly managed comparable store sales rose 3.3% YoY in 1H and fell 0.9% in 2H, hurdles remain high for 1H, but lower for 2H. Further, the company once again repaired its ordering system in February 2018. There is a lag between the ordering system repair and the manifestation of this improvement, although the company expects to see YoY growth in comparable store sales during 2H FY03/19.

The company made no changes to its initial sales forecast, but it revised its store count assumptions. It maintained its target for store openings but increased its target for store closures by 10 based on 1H results, thus reducing its projected store count for end-FY03/19 by 10. In addition, it raised its 2H assumption for YoY comparable sales growth by 1.0pp. As noted, the company cleared a high hurdle in 1H, and its renovated ordering system is steadily contributing to results.

Despite the impact of higher sales, the company expects the rate of operating profit growth to be below the rate of sales growth due to higher SG&A expenses. It forecasts operating profit margin to decline 0.5pp YoY.

The company expects gross profit margin to be at 43.2%, even YoY. It expects the increase in GPM from a higher percentage of sales from directly managed stores and sundries in the sales mix to be offset by higher raw materials costs.

The company expects the SG&A expense ratio to rise 0.5pp YoY to 33.3%. It expects salaries to rise 3% YoY, which will push up the SG&A expense ratio 0.3pp.

Others: Key initiatives

Product strategy

The company is focusing on product development aimed at expanding its customer base as part of its product strategy. Specifically, it plans to add products targeting teenaged women.

The company is also aiming to strengthen its product portfolio management by setting data-based standards for making changes to its product lineup. In the past, the company has manufactured new products in minimum lots. However, this method led to products being out of stock and reactionary increases after restocking products, damaging the accuracy of the sales data. By implementing a long-term system to evaluate new products in FY03/19, the company aims to lower costs by improving sales data accuracy and stabilizing production volume.

Store strategy

To effectively cover its diverse store opening needs, Seria is sharing information on potential store openings and strengthening ties with companies that could possibly lead to multiple projects. It is also working on store development and reinforcing its sales infrastructure to sustain store openings. For example, it established a Chugoku-Shikoku Sales Office in May 2018.

Enhanced operational efficiency

- Enhanced operational efficiency: Seria plans to enhance the operational efficiency of its stores by leveraging various systems. It aims to launch systems that will simplify cash and inventory management in FY03/19. The company believes this will produce a 30-min reduction in the daily work load at each store, which will lead to an annual cost saving of JPY270mn in hourly wages.
- Introduction of self-checkout terminals: In October 2018, Seria began testing self-checkout terminals that exclusively accept Suica (rechargeable contactless smart card) payments at its Myogadani Store in Bunkyo-ku, Tokyo, with the aim of reducing customer waiting times and improving operational efficiency. It plans to further evaluate self-checkout terminals, and increase the rollout of such terminals going forward. Self-checkout terminals cost about JPY500,000, and their operational costs are limited to card processing fees equivalent to a certain percentage of sales. As self-checkout terminals help reduce the number of staff required during busy hours, Seria believes they can deliver higher cost savings in regional stores than urban stores because the former tend to see larger differences in workload between regular and busy hours.
- Logistics system: The company implemented the domestic part of its logistics system that centralizes management for several warehouses in FY03/18, and worked out a timeframe to similarly enhance its overseas logistics in 1H FY03/19. By establishing such infrastructure, it believes it has laid the foundations for efficiency gains deriving from factors such as moving product distribution from supplier-based to in-house management and changing logistics routes. From end-FY03/19 through FY03/20, the company plans to further enhance logistics efficiency through warehouse relocations.

Medium-to long-term outlook

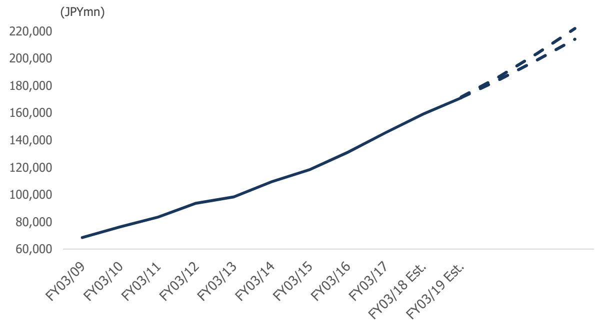
Medium- to long-term management strategy

Seria formulates three-year medium-term management plans on a rolling basis, updating them annually. However, it does not release numerical targets.

Double-digit sales growth to continue on increases in store count and comparable store sales

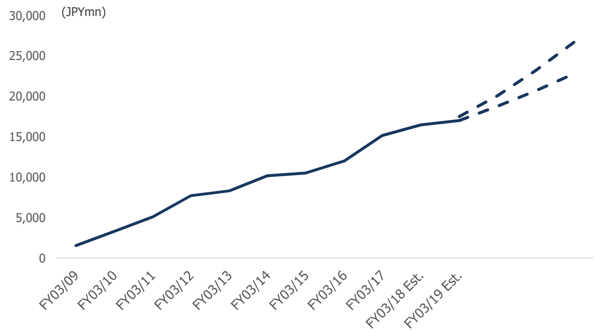
Shared Research thinks Seria can achieve annual profit growth of around 10% over the medium term given its store opening strategy and the fact that GPM has room to grow.

Sales projection



Source: Shared Research

Operating profit projection



Source: Shared Research

Company plans to open 120 to 170 directly managed stores per year

In FY03/18, Seria had 1,455 directly managed stores (+86 stores, +6.3% YoY). The company's strategy for opening new stores is to open an average of 150–200 stores a year in FY03/19–FY03/21, reaching 1,800 stores by FY03/21. During the same period, it plans to close about 50 stores a year. In FY03/19, the company plans to open 150 directly managed stores and close 55 stores for a net increase of 95 stores.

Seria says it costs around JPY40mn to open a new store. Stores are mainly staffed by part-time employees. The company says what limits new store openings is viable locations, rather than money or people. Seria targets commercial areas with a population of 20,000 potential customers for each store. With the four leading 100-yen companies having a total of over 6,500 stores as of May 2018, Seria considers the market to be saturated. It says, however, that it can grow by taking market share away from competitors. Seria has achieved and maintained sales per store that outpace competitors by introducing a POS system (2004) and an ordering support system (2006), and by launching new Color the Days stores from FY03/09 (in FY03/18, Seria's sales per store were JPY110mn, compared with JPY91mn at competitor Can Do in FY11/17 and JPY40mn at Watts in FY08/17.) As a result, from around FY03/14 Seria has been receiving a growing number of requests from shopping centers to open stores, as competitors' agreements come to an end.

However, as of May 2018, the company expects a yearly pace of 150 store openings. According to the company, upon the end of a lease with existing 100-yen stores belonging to a competitor, the shopping centers which rent the storefronts may renew the lease at a higher rental fee or switch to a different 100-yen store, such as Seria. However, in recent years many competitors have accepted the higher rental fees. As a result, there are many cases of 100-yen stores renewing their leases, slowing the pace of transfers between different 100-yen stores.

Sales per store, comparable store sales YoY

Seria's sales per store (sales at directly managed stores divided by the average number of directly managed stores during the year) have grown by an average of 3.5% per year between FY03/09—when the ordering support system began having an effect––and FY03/18. During this period, YoY growth of comparable store sales averaged 1.7% per year.

Comparable store sales have mostly grown YoY because the number of repeat customers is growing steadily, and because Seria is gradually taking customers away from competitors due to a more competitive product lineup. Shared Research attributes Seria's competitive product lineup to a proprietary ordering support system that helps it manage inventories and pinpoint popular products, which competitors cannot emulate.

Likely to see sales growth, higher GPM, and lower SG&A expense ratio

Shared Research estimates that Seria can achieve annual profit growth of around 10%. We think that sales could grow as the number of store openings and comparable store sales increase, and that GPM has room to improve. Also, as SG&A expenses are mostly fixed costs linked to store count, growth in comparable store sales should lead to a lower SG&A expense ratio.

Over the medium term, the company plans to take market share away from competitors. Shared Research thinks Seria will hold back on efforts to raise profitability in favor of driving an industry shakeout, by putting its resources into products and services. If this is the case, we believe Seria will maintain current profitability levels.

GPM has room to grow

Increasing the percentage of directly owned stores and the ratio of sundries contribute to GPM growth. According to a Shared Research estimate, the difference in GPM between directly owned stores and franchised stores, as well as the difference between sundries and food, is approximately 20%. As such, a one percent increase in the sales mix for either directly owned stores or sundries should account for 0.2pp increase in GPM.

In FY03/18, directly managed stores made up 97.8% of sales (from 92.3% in FY03/09), and sundries accounted for 97.6% of product sales (85.2% in FY03/09). Accordingly, the GPM rose from 39.1% to 43.2%. As neither directly managed stores nor sundries have reached 100% of sales composition at end-FY03/18 (97.8% and 97.6%, respectively), GPM still has some (although limited) room to grow.

In FY03/16, the company also divided up delivery areas by region and worked to improve logistics operations at multiple warehouses. Seria aims to lower logistics expenses by using a system to estimate appropriate inventory levels at warehouses, curtailing delivery costs, and reducing warehouse space.

Half of SG&A expenses linked to store count; comparable store sales growth to lower SG&A ratio

SG&A expenses are mostly personnel (41.9% of SG&A expenses in FY03/18) and rent (32.7%). Others include depreciation and amortization (5.2%), utilities (5.2%), and packing and transportation expenses (3.4%). Around half of personnel and rent expenses are linked to store count, and all depreciation and amortization costs and utilities expenses are linked to store count. Shared Research therefore estimates that 60–70% of SG&A expenses fluctuate according to store numbers.

As expenses linked to store count remain fixed even as sales per store rise, higher sales per store push down the SG&A-to-sales ratio and lead to higher OPM. For instance, at an SG&A ratio of 33% (with 70% linked to store numbers), a 1% rise in sales at existing stores has a 0.23pp positive impact on OPM, assuming other factors are constant. Seria expects comparable store sales to continue rising, lowering the SG&A ratio.

Other: Unenthusiastic about developing overseas over the medium term

Daiso, the leader in the 100-yen store sector, is aggressively expanding overseas. Of Daiso's 5,050 stores (as of October 2017), 1,900 are located in 26 countries and regions outside Japan. By comparison, in FY03/18, overseas sales accounted for only 0.6% of Seria's sales, or JPY978mn (-3.3% YoY), decreasing YoY. Seria is unenthusiastic about developing overseas over the medium term, because it sees ample opportunities for growth in the Japanese market.

Financial strategy

Seria's balance sheet has a high proportion of cash and cash equivalents. In FY03/18, cash and cash equivalents totaled JPY36.0bn, making up 44% of total assets.

Seria mainly uses cash and cash equivalents on store openings. Opening one store requires around JPY40mn. Opening 150 stores in FY03/18 would thus necessitate cash and cash equivalents of JPY6.0bn; 200 stores would require JPY8.0bn. The company keeps cash in reserve for store openings so that it can take advantage of sudden opportunities that may arise due to rapid changes in the operating environment.

Thinks acquisitions are not necessary to grow

Seria says it does not need to make acquisitions in order to grow, as it plans to take market share away from competitors. While the company recognizes that acquisitions could accelerate economies of scale, it doubts such activity would deliver technological or other benefits. Seria believes acquiring a competitor would be a drain on finances and operations, requiring Seria to remodel stores, retrain employees, revise product offerings, and close redundant stores.

Business

Business model

Main source of earnings: Running 100-yen stores throughout Japan (directly managed stores account for 97.8% of total sales)

Seria operates 100-yen stores (stores that sell products for a fixed price of JPY100 plus tax) throughout Japan. Most of its stores are directly managed, but the company also wholesales products to franchised stores and sells products to large customers. Product sales from directly managed stores are Seria's main source of earnings. In FY03/18, directly managed stores accounted for 97.8% of total sales.

Sales by segment

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Sales	68,394	76,244	83,389	93,634	98,246	109,393	118,336	130,983	145,328	159,114
YoY	8.2%	11.5%	9.4%	12.3%	4.9%	11.3%	8.2%	10.7%	11.0%	9.5%
Directly managed stores	63,141	71,131	78,616	89,072	93,930	105,221	114,178	127,237	141,694	155,546
YoY	9.0%	12.7%	10.5%	13.3%	5.5%	12.0%	8.5%	11.4%	11.4%	9.8%
% of sales	92.3%	93.3%	94.3%	95.1%	95.6%	96.2%	96.5%	97.1%	97.5%	97.8%
Franchised stores	4,118	3,943	3,648	3,522	3,250	3,121	2,938	2,543	2,301	2,298
YoY	-1.9%	-4.2%	-7.5%	-3.5%	-7.7%	-4.0%	-5.9%	-13.4%	-9.5%	-0.1%
% of sales	6.0%	5.2%	4.4%	3.8%	3.3%	2.9%	2.5%	1.9%	1.6%	1.4%
Others	1,134	1,169	1,124	1,038	1,064	1,051	1,218	1,202	1,332	1,268
YoY	3.7%	3.1%	-3.8%	-7.7%	2.5%	-1.2%	15.9%	-1.3%	10.8%	-4.8%
% of sales	1.7%	1.5%	1.3%	1.1%	1.1%	1.0%	1.0%	0.9%	0.9%	0.8%

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

20,000 products, mostly sundries

Seria sells some 20,000 products (an average Seria store stocks 15,000), comprising sundries (97.6% of sales in FY03/18) and foods and snacks (2.4%). Foods and snacks account for a lower percentage of the sales mix than at competitors. Each month, Seria changes out 400–600 product offerings, or around 6,000 each year. Popular items are nets for kitchen sink drains and dry-cell batteries. The company considers popular items those that are purchased 10 or 20 times per 10,000 customer visits. (Most products are purchased only five or six times per 10,000 visits.)

Main products

Category	Main products
Sundries	Makeup, accessories, sanitary supplies, health products, bath and toiletry items, cleaning supplies, laundry items, detergent, kitchen items, tableware, baking items, interior goods, home decorations, storage items, character goods, wrapping items, bags and pouches, toys, umbrellas and rainwear, automotive and bicycling accessories, clothing, paper, writing materials, stationery, office and store items, gardening items, fake flowers, sewing supplies, pet items, DIY supplies, handicraft items, general electronics items, digital items, seasonal items*
Foods and snacks	Candy, ice cream, jellies, Western sweets, Japanese sweets, chocolate, biscuits, baked sweets, chewing gum, gummies, rice crackers, shrimp crackers, beans, delicacies, drinks, coffee, Western tea, cocoa, Japanese tea, retort-packaged and precooked foods, canned goods, bottled items, processed foods, seasonings, noodles, rice-based foods, dried foods, flour-based foods, confectionery ingredients, seasonal items*

* Items sold seasonally for short periods, such as at mid-summer, Halloween, Christmas, New Years, and Valentine's Day

Sales by product category

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Sales	68,394	76,244	83,389	93,634	98,246	109,393	118,336	130,983	145,328	159,114
YoY	8.2%	11.5%	9.4%	12.3%	4.9%	11.3%	8.2%	10.7%	11.0%	9.5%
Sundries	58,267	66,861	75,045	86,682	92,981	104,628	113,793	126,656	141,299	155,274
YoY	8.7%	14.7%	12.2%	15.5%	7.3%	12.5%	8.8%	11.3%	11.6%	9.9%
% of sales	85.2%	87.7%	90.0%	92.6%	94.6%	95.6%	96.2%	96.7%	97.2%	97.6%
Foods and snacks	9,843	9,173	8,176	6,779	5,096	4,633	4,436	4,241	3,934	3,757
YoY	5.7%	-6.8%	-10.9%	-17.1%	-24.8%	-9.1%	-4.3%	-4.4%	-7.2%	-4.5%
% of sales	14.4%	12.0%	9.8%	7.2%	5.2%	4.2%	3.7%	3.2%	2.7%	2.4%
Other	283	209	167	171	169	131	105	84	94	82

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

Around half the products Seria offers are standard products offered by other retailers, and its procurement sources are similar to those of its competitors. At Seria, sundries account for a rising portion of the sales mix, while the ratio of foods and snacks is shrinking. Although foods and snacks are generally considered effective at attracting customers, their GPM is lower than for sundries. Seria is using an ordering support system to shift the lineup from foods and snacks to sundries, while managing the impact of this move on store sales. Lowering the sales mix of food is helping the company succeed in boosting the overall GPM.

Private-brand products account for around 10% of product offerings. Seria's private-brand products tend to be simple and stylish basic goods especially attractive to women (similar to its store design), and are used for branding purposes rather than to boost profitability.

Seria has 180 suppliers, the main ones being LEC, Inc. (TSE1: 7874), Echo Kinzoku Co., Ltd. (unlisted, supplies household sundries and DIY items to 100-yen stores), Sun Note Co., Ltd. (unlisted, sells paper products, files and writing instruments to 100-yen stores), and Kyowa Shiko Co., Ltd. (unlisted, makes and sells paper goods).

Most of the 1,506 stores are directly managed; Color the Days stores within shopping centers account for more than half

In FY03/18, Seria had 1,506 stores (1,455 directly managed, 51 franchised). Seria's directly managed stores use rented space averaging 559sqm (calculated by Shared Research from the section in Seria's FY03/18 securities report covering principal facilities). Store rents average JPY12.1mn per year.

The number of franchised stores continues to fall. Since 2006, Seria has been installing support systems at directly managed stores to manage ordering and inventories. The company is reducing the number of franchised stores, which do not use this system.

Number of stores

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Total number of stores	939	999	1,052	1,067	1,104	1,173	1,248	1,323	1,424	1,506
Yo\ YoY	5.4%	6.4%	5.3%	1.4%	3.5%	6.3%	6.4%	6.0%	7.6%	5.8%
Directly managed stores	809	880	939	970	1,015	1,090	1,174	1,265	1,369	1,455
YoY	7.3%	8.8%	6.7%	3.3%	4.6%	7.4%	7.7%	7.8%	8.2%	6.3%
% of total stores	86.2%	88.1%	89.3%	90.9%	91.9%	92.9%	94.1%	95.6%	96.1%	96.6%
Franchised stores	130	119	113	97	89	83	74	58	55	51
YoY	-5.1%	-8.5%	-5.0%	-14.2%	-8.2%	-6.7%	-10.8%	-21.6%	-5.2%	-7.3%
% of total stores	13.8%	11.9%	10.7%	9.1%	8.1%	7.1%	5.9%	4.4%	3.9%	3.4%

Source: Shared Research based on company data

Store formats

Seria has stores both in shopping centers and as standalones. Stores in shopping centers are more effective at attracting customers. Seria was a relative latecomer in establishing permanent 100-yen stores. As the scope for opening new stores in shopping centers was limited in the early 2000s, the company focused on opening standalone stores. Then, as operating performance picked up in the late 2000s, Seria began to outpace competitors in sales per store and in ability to attract customers. As a result, from around FY03/14 the company has seen an increase in requests to open stores in shopping centers following the conclusion of competitor leases.

Seria's customers count and sales per store have increased since 2010, due to the introduction of POS and ordering support systems. Seria began developing Color the Days stores in 2007 to attract customers of shopping centers. The company has made a full-fledged effort to increase these stores since FY03/09, and as of May 2018, Color the Days stores surpassed competitors in sales per store (see Competitors section).

Because shopping centers generally charge sales-based rent, from the centers' perspective, stores that bring in more customers are more attractive. For this reason, since FY03/14 Seria has been receiving more requests from shopping centers to open stores when competitor leases expire. Shared Research's understanding is that the shopping centers derive higher synergies from pairing with the leading retailer in a given sector. For example, if a leading company's ability to attract customers is 10% greater than a second-ranked company, two store openings by leading companies would have 1.21x the ability to attract customers than two store openings of second-ranked companies (simple calculation), and the positive effect on the shopping center overall would be even larger. Thus, store-opening opportunities tend to be given to top-ranked companies with higher customer visits and sales, while second- and third-ranked companies lose opportunities.

Number of stores by format

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
No. of directly managed stores	810	881	939	970	1,015	1,090	1,174	1,266	1,369	1,455
YoY	7.3%	8.8%	6.7%	3.3%	4.6%	7.4%	7.7%	7.8%	8.2%	6.3%
Color the Days	22	81	167	240	317	421	531	646	777	911
YoY	-	268.2%	106.2%	43.7%	32.1%	32.8%	26.1%	21.7%	20.3%	17.2%
% of directly managed stores	2.7%	9.2%	17.8%	24.7%	31.2%	38.6%	45.2%	51.0%	56.8%	62.6%
Other than Color the Days	787	799	772	730	698	669	643	619	592	544
YoY	-	1.5%	-3.4%	-5.4%	-4.4%	-4.2%	-3.9%	-3.7%	-4.4%	-8.1%
% of directly managed stores	97.2%	90.7%	82.2%	75.2%	68.7%	61.3%	54.7%	48.9%	43.2%	37.4%

Source: Shared Research based on company data

Since FY03/09, Seria has been concentrating on switching to the Color the Days format, and as of May 2018 these were the core of the company's new store openings. Seria aims to move away from the conventional image of 100-yen stores, using in-store decorations and product displays that appeal to women and increasing the proportion of products targeting women. The stores offer interior, gardening, gift wrapping, and craft ideas, along with food recipes.

Seria explains that its development and expansion of Color the Days stores stems from POS data indicators showing a change in the behavior of consumers visiting 100-yen stores: a shift from impulse buying to planned purchasing. In response, Seria has introduced an ordering support system to manage product lineups, pared down products handled compared with conventional 100-yen stores, and designed stores to make planned purchases easier.

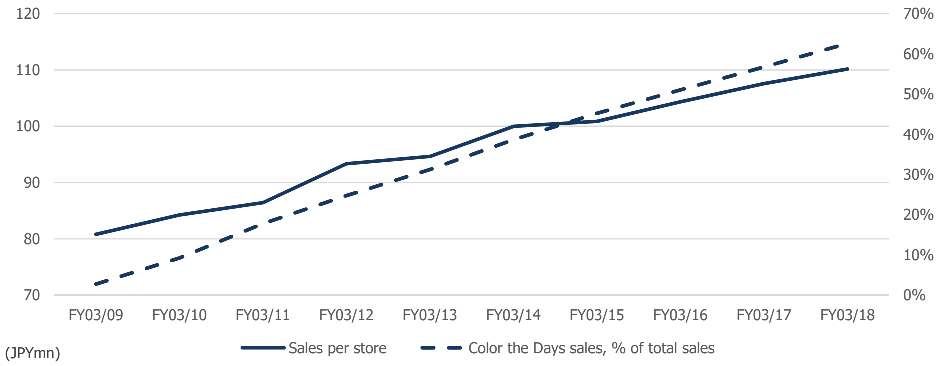
Stores other than Color the Days (standalone)

Color the Days store

Color the Days products

Source: Company data

Sales per store and Color the Days percentage of total



Source: Shared Research based on company data

Stores by region

Seria considers 20,000 people to be the ideal commercial population per store. The company operates stores throughout Japan, with most of its stores are in the Kanto/Koshinetsu and Tokai/Hokuriku regions. Still, the Tokai/Hokuriku region has the most stores per population density, at one store per 51,000 people. (This area includes Gifu Prefecture, where Seria is headquartered.) By comparison, the Kanto/Koshinetsu region serves 115,000 people per store and the Chugoku/Shikoku region serves 108,000 people. With relatively fewer stores per population, these areas offer room for new store openings.

Number of stores by region

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Number of stores	810	881	939	970	1,015	1,090	1,174	1,266	1,369	1,455
YoY	7.3%	8.8%	6.7%	3.3%	4.6%	7.4%	7.7%	7.8%	8.2%	6.3%
Hokkaido and Tohoku	110	113	118	119	127	137	147	153	167	181
YoY	12.2%	2.7%	4.4%	0.8%	6.7%	7.9%	7.3%	4.1%	9.2%	8.4%
Kanto and Koshinetsu	233	246	259	256	272	295	319	348	385	422
YoY	1.3%	5.6%	5.3%	-1.2%	6.3%	8.5%	8.1%	9.1%	10.6%	9.6%
Tokai and Hokuriku	259	279	287	296	297	309	324	333	353	356
YoY	5.7%	7.7%	2.9%	3.1%	0.3%	4.0%	4.9%	2.8%	6.0%	0.8%
Kansai	80	99	116	129	140	157	177	198	214	234
YoY	25.0%	23.8%	17.2%	11.2%	8.5%	12.1%	12.7%	11.9%	8.1%	9.3%
Chugoku and Shikoku	33	37	43	46	49	56	64	81	96	103
YoY	22.2%	12.1%	16.2%	7.0%	6.5%	14.3%	14.3%	26.6%	18.5%	7.3%
Kyushu and Okinawa	94	106	116	124	130	136	143	152	154	159
YoY	4.4%	12.8%	9.4%	6.9%	4.8%	4.6%	5.1%	6.3%	1.3%	3.2%

Source: Shared Research based on company data
*Regional groupings: Hokkaido/Tohoku: Hokkaido, Aomori, Iwate, Miyagi, Akita, Yamagata, and Fukushima prefectures; Kanto/Koshinetsu: Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo, Kanagawa, Niigata, Yamanashi, and Nagano prefectures; Tokai/Hokuriku: Toyama, Ishikawa, Fukui, Gifu, Shizuoka, Aichi, and Mie prefectures; Kansai: Shiga, Kyoto, Osaka, Hyogo, Nara, and Wakayama prefectures; Chugoku/Shikoku: Tottori, Shimane, Okayama, Hiroshima, Yamaguchi, Tokushima, Kagawa, Ehime, and Kochi prefectures; Kyushu/Okinawa: Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima, and Okinawa prefectures. The same groupings apply below.

Population of commercial areas by region (thousands of people per store)

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Nationwide	158	145	136	132	126	117	108	100	93	87
Hokkaido and Tohoku	136	132	126	124	115	106	98	94	85	78
Kanto and Koshinetsu	203	193	185	187	176	163	151	139	126	115
Tokai and Hokuriku	70	65	63	61	61	59	56	54	51	51
Kansai	260	210	180	162	149	132	117	105	97	88
Chugoku and Shikoku	352	312	268	250	233	203	177	139	117	108
Kyushu and Okinawa	155	137	126	118	112	107	101	95	94	90

Source: Shared Research based on company and national census data

Sales by region are highest in areas with the most stores: Kanto/Koshinetsu, followed by the Tokai/Hokuriku and Kansai regions. Sales per store exceed the national average in Kansai, and were lower than the average in the Tokai Hokuriku and Kyushu/Okinawa regions.

Sales by region at directly managed stores (JPYmn)

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Nationwide	63,141	71,131	78,616	89,072	93,930	105,221	114,178	127,237	141,694	155,546
Hokkaido and Tohoku	8,701	9,614	9,922	11,300	11,507	12,945	13,993	15,206	16,740	18,409
% of sales	13.8%	13.5%	12.6%	12.7%	12.3%	12.3%	12.3%	12.0%	11.8%	11.8%
Kanto and Koshinetsu	18,444	19,997	22,075	24,723	26,399	30,261	34,084	38,593	43,970	49,930
% of sales	29.2%	28.1%	28.1%	27.8%	28.1%	28.8%	29.9%	30.3%	31.0%	32.1%
Tokai and Hokuriku	20,712	22,702	23,713	25,539	26,143	27,955	28,813	30,614	32,485	33,858
% of sales	32.8%	31.9%	30.2%	28.7%	27.8%	26.6%	25.2%	24.1%	22.9%	21.8%
Kansai	7,033	9,244	11,647	13,842	15,368	17,943	19,531	22,395	24,913	27,435
% of sales	11.1%	13.0%	14.8%	15.5%	16.4%	17.1%	17.1%	17.6%	17.6%	17.6%
Chugoku and Shikoku	2,759	3,249	3,844	4,579	4,709	5,413	6,397	7,861	9,687	10,858
% of sales	4.4%	4.6%	4.9%	5.1%	5.0%	5.1%	5.6%	6.2%	6.8%	7.0%
Kyushu and Okinawa	5,489	6,321	7,413	9,086	9,801	10,702	11,358	12,565	13,897	15,054
% of sales	8.7%	8.9%	9.4%	10.2%	10.4%	10.2%	9.9%	9.9%	9.8%	9.7%

Source: Shared Research based on company data

Sales per store by region at directly managed stores (JPYmn)

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Sales per store	81	84	86	93	95	100	101	104	108	110
YoY	0.5%	4.3%	2.6%	8.0%	1.4%	5.6%	0.9%	3.4%	3.1%	2.4%
Hokkaido and Tohoku	84	86	86	95	94	98	99	101	105	106
YoY	-1.6%	3.1%	-0.4%	11.0%	-1.9%	4.8%	0.5%	2.9%	3.2%	1.1%
Kanto and Koshinetsu	80	83	87	96	100	107	111	116	120	124
YoY	-1.1%	4.8%	4.7%	9.8%	4.2%	6.7%	4.0%	4.2%	3.7%	3.1%
Tokai and Hokuriku	82	84	84	88	88	92	91	93	95	96
YoY	0.5%	2.7%	-0.7%	4.6%	0.6%	4.6%	-1.3%	2.4%	1.6%	0.8%
Kansai	98	103	108	113	114	121	117	119	121	122
YoY	2.2%	5.7%	4.9%	4.3%	1.1%	5.7%	-3.2%	2.1%	1.3%	1.3%
Chugoku and Shikoku	92	93	96	103	99	103	107	108	109	109
YoY	3.4%	0.9%	3.5%	7.1%	-3.7%	4.0%	3.4%	1.7%	0.9%	-0.3%
Kyushu and Okinawa	60	63	67	76	77	80	81	85	91	96
YoY	4.4%	5.9%	5.7%	13.4%	1.9%	4.3%	1.2%	4.6%	6.6%	5.9%

Source: Shared Research based on company data

Sales per population by region at directly managed stores (JPY/person)

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Nationwide	494	558	614	697	737	827	898	1,001	1,116	1,228
Hokkaido and Tohoku	581	646	669	768	787	891	969	1,059	1,173	1,300
Kanto and Koshinetsu	389	421	460	515	550	631	709	800	910	1,031
Tokai and Hokuriku	1,134	1,245	1,304	1,408	1,444	1,546	1,597	1,697	1,803	1,882
Kansai	337	444	557	663	737	863	941	1,081	1,205	1,330
Chugoku and Shikoku	238	281	333	399	412	476	565	697	863	973
Kyushu and Okinawa	376	434	508	623	673	737	784	870	965	1,048

Source: Shared Research based on company data
Sales per population by region = sales by region ÷ population by region

Per-store indicators

- Sales per store were JPY110mn, rising in tandem with comparable store sales. On average, each store sells 1.1mn items per year. Given that stores stock 15,000 different products, this is an average of 73 units of each product per store per year.
- Average daily sales amount to JPY302,000 per store, with 3,018 items sold. Seria says that spend per customer averages around JPY500, and stores average 600 customers per day.
- Product inventories per store (cost basis) amount to JPY9.9mn and have a sales value of JPY17mn (170,000 items). Thus, on average each store has 12 of each item in inventory.
- Stores cost JPY40mn to open, mostly due to store fixtures, guarantee deposits, and building renovation costs.

Sales per store, product inventories

(JPYmn)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Sales per store	81	84	86	93	95	100	101	104	108	110
YoY	0.5%	4.3%	2.6%	8.0%	1.4%	5.6%	0.9%	3.4%	3.1%	2.4%
Sales per day (JPY'000)	221	231	237	256	259	274	276	286	295	302
Merchandise inventories per store	11.9	11.1	10.0	9.8	9.5	9.2	9.2	9.8	9.9	9.9
YoY	-1.7%	-7.2%	-9.9%	-1.6%	-3.2%	-3.4%	-0.2%	6.6%	1.4%	0.1%

Source: Shared Research based on company data
Note: Sales per store is calculated as sales at directly managed stores divided by the number of stores (average of numbers at beginning and end of year).
Note: Inventory per store is calculated as total inventory assets divided by the number of directly managed stores (year-end).

YoY figures at existing stores

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Existing store sales YoY	-1.3%	2.2%	0.3%	5.0%	0.2%	3.8%	-0.1%	2.8%	3.1%	1.2%
Customer count YoY	-0.2%	2.3%	0.6%	4.8%	1.8%	2.6%	-0.2%	1.8%	1.6%	1.0%
Customer spend YoY	-1.1%	-0.1%	-0.3%	0.1%	-1.6%	1.2%	0.1%	1.0%	1.4%	0.1%

Source: Shared Research based on company data

Customer attributes

Seria does not issue point cards, so does not track customer attributes. Furthermore, the company does not market to a specific customer segment. Seria believes, however, that most customers are women in their 30s and 40s.

Differentiating factors

Shared Research believes Seria's data-driven management approach has been a key reason for its growth. In the early 2000s, across the industry most 100-yen stores were managed based on intuition. At this time, the current president—with experience using statistical methods to set up risk management systems at a bank—joined the company, and Seria adopted a data-driven approach.

In the early 2000s, Seria took the industry lead in using POS data. The company uses proprietary algorithms to manage product orders and inventories by product and by store. As a result, Seria ensures its stores are stocked with popular items, reduces lost opportunities, optimizes lineups through product substitution, and increases customer numbers.

Seria began seeing results from its ordering support system, which helps store staff place orders, in FY03/09. From that point to FY03/18, annual sales growth averaged 9.8% and operating profit 30.0%. Over the same period (FY11/08 to FY11/17), average annual sales growth at competing Can Do was 0.9% and operating profit 23.3%. For Watts, sales grew 4.1% and operating profit 1.6% (FY08/08 to FY08/17).

100-yen stores overlooked systems investment until the 2000s

100-yen stores grew in the 1990s, against a backdrop of deflation, yen appreciation, and low-cost labor in China. After the 1998 Asian currency crisis, the yen depreciated, leading to an industry shakeout that resulted in a four-company oligopoly (Daiso in first place, Seria in second, Can Do in third, and Watts in fourth). As each of these companies opened more stores in the 2000s, the rate of growth leveled off as the market neared saturation. Faced by growing competition from other retailers, 100-yen stores began to lose their low-price appeal. Under these circumstances, Seria's three competitors continued to expand their product offerings, introduced products with price points other than the standard JPY100, and moved to develop business overseas.

Shared Research's understanding is that until Seria started seeing the impact of introducing a POS system and an ordering support system, the 100-yen store industry considered the use of POS systems and sales data relatively unimportant. Such information was considered unnecessary, as all products were priced at a uniform JPY100 and data on price elasticity to demand could not be verified. Rather than trying to understand which items were popular, Seria's three competitors focused on broadening their product ranges. In the early 2000s, for instance, industry-leading Daiso, in an effort to grow by making shopping entertaining and novel, offered 90,000 items, which led to highly dense product displays.

President joined company in 2003; shifted gears in 2004 with the introduction of POS system

In 1994, Seria erected its first permanent 100-yen store, a relative latecomer within the 100-yen store industry. In 2003, Seria's current president Eiji Kawai, formerly employed at Ogaki Kyoritsu Bank, joined the company. At the bank, Mr. Kawai had learned about the use of statistical methods to build systems for optimizing loan receivables, as well as for analyzing and utilizing data. At the time, Seria ranked third in an oligopolistic four-company market, and interest-bearing debt stood at more than 30x net income.

Seria took its shares public in 2004, using the funds it raised to lead the industry in introducing a POS system. In 2006, the company launched a proprietary ordering support system based on POS data. Through the early 2000s, each of the 100-yen stores had focused on a product diversification (long-tail) strategy, and ordering was based on the intuition and experience of store staff, so the companies paid little attention to managing product inventories at stores. Shared Research thinks this situation led to companies running out of stock on popular items, resulting in lost sales opportunities. In contrast, by using data obtained through the POS system, Seria was able to understand which items were popular, make sure those items were in stock, and optimize lineups through product substitution.

At other 100-yen stores, customers sometimes had trouble finding the products they wanted. Seria explains that analysis of POS data showed a change in the behavior of customers visiting 100-yen stores: a shift from impulse buying to planned purchasing. In response, the company created store layouts where products were easy to find and made sure in-demand products were kept in stock.

Understanding product popularity and sales trends allowed Seria to create roomier display spaces and develop a new type of 100-yen store with a cleaner feel. In 2007, the company developed new Color the Days stores targeting women. Seria began proactively opening more Color the Days stores in FY03/09. The ordering support system reduced the burden of operations on store staff, giving them more time to ensure stores were clean and arrange product displays. They also had more time to interact with customers. Shared Research believes these elements helped Seria establish a sophisticated store image, strengthen the brand, and boost customer numbers.

Between FY03/10 and FY03/14, Seria used POS data to promote a shift from foods and snacks to sundries; this higher percentage of sundries sales boosted GPM. Seria also shared sales data with supplying manufacturers to help them optimize production and inventory planning. Costs fell as a result, which in turn contributed to Seria's profitability. Sharing information also encouraged suppliers to develop new and more attractive items.

Importance of managing orders and inventories at 100-yen stores

Seria improved its performance by introducing POS and ordering support systems. These systems ensured that stores had popular items in stock.

For general retailers, products and pricing are important determinants of sales. If products do not sell well, retailers lower prices to clear inventories. They can therefore use product sales to identify relationships between demand and prices. However, 100-yen stores carry essentially the same products as their competitors, and cannot differentiate on price. As such, differentiating factors for 100-yen stores are the number of products; inventories of popular items; and the frequency of introducing new items, as well as store location, design, and cleanliness, and the attitude of store employees.

The last two factors—inventories of popular items and the frequency with which new items are introduced—are particularly important, for several reasons.

- If popular products are out of stock, stores lose sales opportunities and customer satisfaction falls. Conversely, having popular items in stock generates sales opportunities at the company, especially when competitors had lost sales due to their popular items being out of stock. If a customer experiences this over several trips, they may change their shopping habits, and the company can take repeat customers away from competitors that had shortages of those items. Seria says customers give it high marks for having the products they want in easy-to-find locations; this satisfaction leads to more customer visits. The company says that demand has changed since the Great East Japan Earthquake of March 2011 and the consumption tax hike in April 2014. Responding to these shifts and making sure products were in stock have contributed to ongoing customer increases.

> In 2H FY03/14 (October 2013 to March 2014), comparable store sales increased 5.1% YoY, supported by rush demand ahead of the consumption tax hike in April 2014. Comparable store sales remained firm in 1H FY03/15 (April to September 2014), rising 2.1% YoY. However, comparable store sales dropped 2.2% in 2H FY03/15 (October 2014 to March 2015) mainly in response to the year-earlier boost from rush demand.

- Product shortages lead to more customer inquiries, reducing staff efficiency and causing delays in ordering and stocking, leading to a vicious cycle of further shortages on popular items.
- If shortages of popular items cause stores to stock empty shelf space with slow-moving products, store inventories fill up with these slow-moving products, producing a situation that lowers sales and reduces customer satisfaction.
- Although shelf space at 100-yen stores is limited, no leeway exists to clear out inventories by lowering prices, as product prices are fixed at JPY100, prompting the accumulation of slow-moving products. Slow-moving products often collect dust and become discolored by sun, generating disposal losses. Such products also take shelf space away from popular items and new products, slowing the process of switching in new products.

To keep popular items in stock, a company needs to forecast sales and have a framework to order products systematically and in advance based on these forecasts. Seria has succeeded in maintaining optimal inventories of popular items by being the first 100-yen store to introduce POS and ordering support systems. Customer numbers have continued to grow as a result. Having an ordering support system in place reduces the amount of time employees spend placing orders and responding to inquiries about shortages. Shared Research believes the systems have several additional benefits, such as making stores appear orderly and clean, and facilitating staff interaction with employees.

Seria's store strategy is different from that of competitors. By using an ordering support system, the company cast aside a strategy focused on a wide product range. The result is that Seria has fewer products than competitors, but its stores stock the products the average consumer wants.

Shared Research estimates that disparities in product sales at 100-yen stores follow the Pareto principle (a law suggesting that 20% of products generate 80% of sales). Following this logic, if a store keeps the most popular 20% of items in stock and substitutes new products for the remaining 80%, product turnover increases, shelves are not burdened by poor-selling products, and customers can easily find the products they want.

Industry-leading Daiso offers 90,000 products. By comparison, Seria has around 20,000 (approximately 20% of Daiso's level). Shopping at a conventional 100-yen store can offer entertainment, as customers must search for the desired product in highly dense product displays with a wide variety of items. Seria has reduced this sense of treasure hunting at its stores, and instead offers more fast-moving products than competitors, successfully shifting from conventional, highly dense product displays to relatively less cluttered displays.

POS and ordering support systems

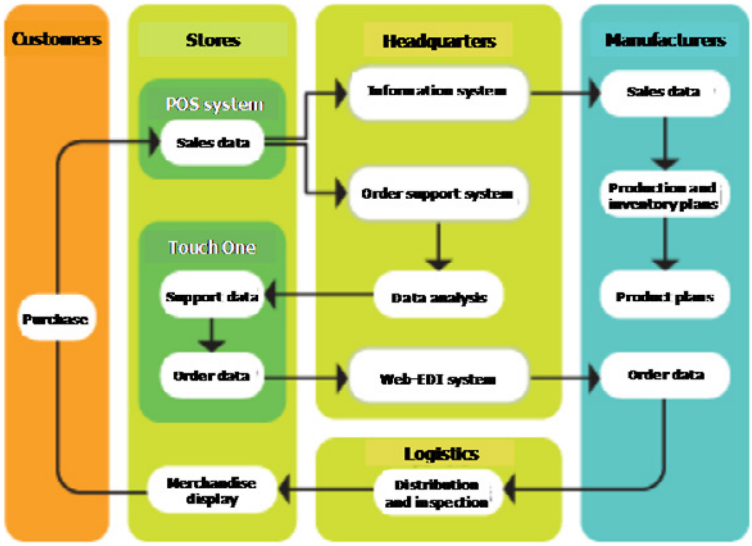
Ordering support system uses product-specific purchase indices to rank products

The company calls its data analysis methods algorithms. In general, retailers accumulate data by using both general and specialized systems (such as POS systems and point cards). Each company has proprietary methods of structuring hypotheses for the accumulated data and testing these hypotheses.

One of Seria's differentiators, the ordering support system, is somewhat of a "black box." The main purpose of the system is to efficiently route strong-selling products to store shelves and eliminate poor performers. To achieve this, the company extracts data on per-product demand from real-time product sales at individual stores, optimizing inventories (items and quantities) to meet demand. The company calls the algorithm this system uses an "autonomous hypothesis testing model."

Shared Research understands that Seria uses POS system data to compare purchase indices (PIs; how many times a product is purchased per 1,000 customers; calculated as number of times bought/number of customers) at all stores and PIs by store for each product. (Seria uses PIs to eliminate per-store differences in sales volume due to visitor numbers.) From these data, the company then creates the Seria Purchase Index (SPI), which accounts for factors such as store characteristics (floor space and location) and the season. The ordering support system calculates inventories by product and places orders by store using these product rankings. Stores use system terminals displaying products and quantities to place orders, ensuring that product lineups correlate to demand. This approach results in a lineup of products that are confirmed to be selling well, rather than a lineup based on the intuition and experience of individual store staff. Post-order, depending on sales and inventories, figures are automatically recalculated based on disparities between sales and inventory forecasts and actual inventory levels. Therefore, hypotheses are continuously tested and revised.

POS system and ordering support system flow



Source: Shared Research based on company data

Switches out products with lower SPI rankings; system selects new products, allocation, and quantities

Seria substitutes in new products for those with low rankings (as calculated in the process described above), as it aims to maintain a strong-selling product lineup. Each year, the company substitutes 6,000 products (corresponding to 30% of total items handled). To minimize risk, Seria uses its system to select new products and determine how many items to send to which stores. Once introduced, new products are ranked alongside existing ones in the system, and the substitution cycle repeats.

Accurately detecting and reflecting demand fluctuations in product lineups

When demand fluctuates, the ordering support system accurately measures the change, and reflects the change in stores' product lineups. For instance, if a television commercial features a product sold at a 100-yen store, demand might surge for the item that was less popular in the past. Character items are also susceptible to spurts in popularity, with strong demand for a certain period of time. When sudden fluctuations like this occur that cannot be accounted for by seasonal factors, regardless of past sales data the system continually measures new demand, accurately measuring the change and reflecting it in the inventory.

Sharing information with manufacturers to lower costs and develop new products

Seria shares sales information with manufacturers. Manufacturers, in turn, use this information to optimize production management and inventory plans, reducing their own costs. Lower manufacturing costs feed back to improved profit margins for Seria. Sharing information also encourages manufacturers to develop attractive products for Seria.

Earnings model

Earnings model

Store count, sales per store	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Store count	970	1,015	1,090	1,174	1,265	1,369	1,455
YoY	3.3%	4.6%	7.4%	7.7%	7.8%	8.2%	6.3%
Net increase	31	45	75	84	91	104	86
Openings	62	68	95	117	124	140	150
Closures	31	23	20	33	33	36	64
Sales per store (JPYmn)	93	95	100	101	104	108	110
YoY	8.0%	1.4%	5.6%	0.9%	3.4%	3.1%	2.4%
Comparable store sales YoY	5.0%	0.2%	3.8%	-0.1%	2.8%	3.1%	1.2%
Customer count YoY	4.8%	1.8%	2.6%	-0.2%	1.8%	1.6%	1.0%
Customer spend YoY	0.1%	-1.6%	1.2%	0.1%	1.0%	1.4%	0.1%
Earnings (JPYmn)	**FY03/12**	**FY03/13**	**FY03/14**	**FY03/15**	**FY03/16**	**FY03/17**	**FY03/18**
Sales	93,634	98,246	109,393	118,336	130,983	145,328	159,114
YoY	12.3%	4.9%	11.3%	8.2%	10.7%	11.0%	9.5%
Directly managed stores	89,072	93,930	105,221	114,178	127,237	141,694	155,546
YoY	13.3%	5.5%	12.0%	8.5%	11.4%	11.4%	9.8%
% of sales	95.1%	95.6%	96.2%	96.5%	97.1%	97.5%	97.8%
Franchised stores	3,522	3,250	3,121	2,938	2,543	2,301	2,298
YoY	-3.5%	-7.7%	-4.0%	-5.9%	-13.4%	-9.5%	-0.1%
% of sales	3.8%	3.3%	2.9%	2.5%	1.9%	1.6%	1.4%
Others	1,038	1,064	1,051	1,218	1,202	1,332	1,268
YoY	-7.7%	2.5%	-1.2%	15.9%	-1.3%	10.8%	-4.8%
% of sales	1.1%	1.1%	1.0%	1.0%	0.9%	0.9%	0.8%
CoGS	54,567	56,800	63,179	68,206	75,480	82,940	90,442
Gross profit	39,066	41,445	46,214	50,129	55,502	62,387	68,671
YoY	14.3%	6.1%	11.5%	8.5%	10.7%	12.4%	10.1%
GPM	41.7%	42.2%	42.2%	42.4%	42.4%	42.9%	43.2%
SG&A expenses	31,344	33,131	36,022	39,607	43,486	47,216	52,191
SG&A ratio	33.5%	33.7%	32.9%	33.5%	33.2%	32.5%	32.8%
Operating profit	7,722	8,314	10,192	10,521	12,016	15,171	16,479
YoY	52.0%	7.7%	22.6%	3.2%	14.2%	26.3%	8.6%
OPM	8.2%	8.5%	9.3%	8.9%	9.2%	10.4%	10.4%

Source: Shared Research based on company data
Note: Sales per store is calculated as sales at directly managed stores divided by the number of stores (average of numbers at beginning and end of year).

Sales

Sales mostly from directly managed stores

Sales break down into sales at directly managed stores (97.8% of sales in FY03/18), sales at franchised stores (1.4% of sales), and other sales (0.8%).

Sales increase in line with higher store count and number of customers at existing stores

Directly managed stores generate the most sales, while franchised stores and other sales make only a limited contribution. Sales at directly managed stores are calculated as the number of stores times sales per store. Sales per store are calculated as the number of stores times customers per store times spend per customer (average number of products purchased times JPY100).

Over the past five years, sales have grown due to increases in both store count and sales per store. Seria has accelerated store openings since FY03/14. The company commented that this is due to an increase in requests from shopping centers to open its stores as competitors' leases expire.

The rate of change in sales per store closely follows YoY changes in comparable store sales. Comparable store sales are mainly affected by the number of customers; the impact of spend per customer is slight. Seria seeks to make visiting its stores a habit for its customers by offering popular items, based on POS system data, and by switching in new products.

Sales by region and product category

Seria further breaks down sales figures into directly managed store sales by region and product.

Sales by region figures help the company understand regional trends for store openings, and sales per store for each region. For sales by product category, Seria discloses sales of foods and snacks and of sundries, which are useful for understanding GPM trends.

Gross profit

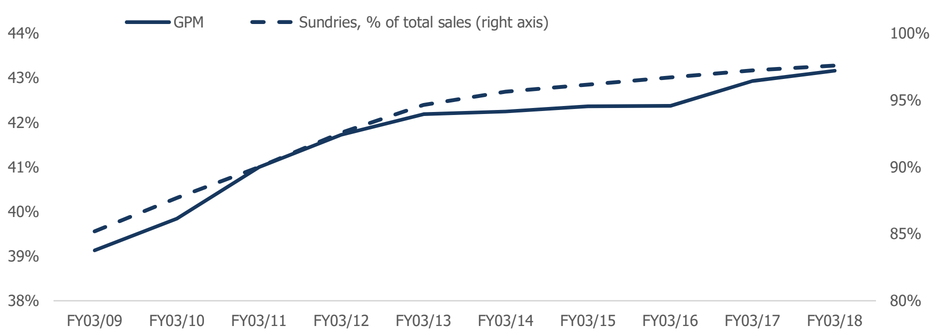
CoGS is only variable costs, and is calculated as the beginning inventory + inventory purchases – end inventory. GPM is affected by the share of sales of sundries, the sales composition of directly managed stores, and exchange rates.

Impact of sundries' share of sales

Shared Research estimates that foods and snacks have a GPM of around 20%, and sundries 40%. Seria has succeeded in increasing the sales mix of sundries through the introduction of POS and ordering support systems. Earnings trends show that these systems have been instrumental in lifting Seria's GPM above competitors' margins.

Sundries' share of sales rose by 12.4pp between FY03/09 and FY03/18. Multiplying this figure by the GPM differential of 20% between foods and snacks and sundries results in a 2.5pp rise in the GPM. Hence, the 4.0pp actual change in GPM between FY03/09 and FY03/18 is largely due to changes in the product mix, according to Shared Research.

Composition of sales of sundries, GPM



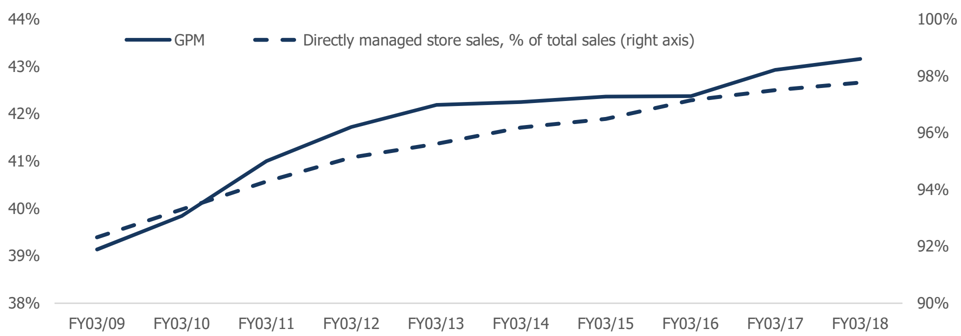
Source: Shared Research based on company data

Impact of the sales composition of directly managed stores

Seria's GPM from wholesaling to franchised stores is around 20%, compared with a 40% GPM at directly managed stores. Shared Research accordingly understands that the GPM should rise as directly managed store sales make up a greater share of sales.

The percentage of sales at directly managed stores rose 5.4pp between FY03/09 and FY03/18. Multiplying 5.4pp by approximately 20% (the difference in GPM between directly managed and franchised stores) results in 1.1pp. According to Shared Research estimates, this is the contribution of the shift to directly managed stores to the change in GPM during this period (+4.0pp).

Composition of sales at directly managed stores, GPM



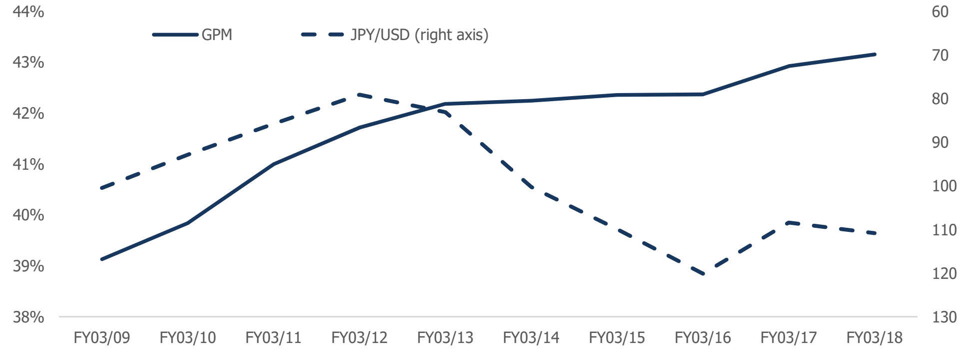
Source: Shared Research based on company data

Forex impact

The company commented that around 60% of its products are made in China. Seria imports products from China either directly or through distributors, and is therefore affected by exchange rate fluctuations. Seria says that due to yen-denominated transactions and inventories, changes in exchange rates take 6–18 months to filter through into operating performance. The company estimates that a JPY1 fluctuation in exchange rates (yen appreciation/ depreciation) has a 0.03pp impact on the GPM.

Seria's GPM has risen since FY03/13 despite yen depreciation. This increase is attributable to higher sales ratios of sundries and directly managed stores. Shared Research also believes that cost savings achieved by providing sales data to suppliers contributed.

Exchange rates and GPM



Source: Shared Research based on company data

SG&A expenses

SG&A expenses are mainly personnel (41.9% of SG&A expenses in FY03/18) and rent (32.7%). Other expenses include depreciation and amortization (5.2% of SG&A), utilities (5.2%), and packing and transportation expenses (3.4%).

SG&A expenses

SG&A breakdown (JPYmn)	FY03/09 Act.	FY03/08 Act.	FY03/11 Act.	FY03/12 Act.	FY03/09 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.
SG&A expenses	25,212	27,061	29,107	31,344	33,131	36,022	39,607	43,486	47,216	52,191
YoY	10.9%	7.3%	7.6%	7.7%	5.7%	8.7%	10.0%	9.8%	8.6%	10.5%
SG&A ratio	36.9%	35.5%	34.9%	33.5%	33.7%	32.9%	33.5%	33.2%	32.5%	32.8%
Personnel	9,863	10,905	11,703	12,698	13,466	14,815	16,017	17,426	19,273	21,885
YoY	11.9%	10.6%	7.3%	8.5%	6.0%	10.0%	8.1%	8.8%	10.6%	13.6%
Salaries and allowances	9,125	10,030	10,574	11,332	12,022	13,125	14,203	15,420	16,766	19,028
Bonuses	117	163	219	315	332	404	450	481	572	625
Provision of bonuses	141	196	290	374	395	486	492	579	652	640
Retirement benefits expenses	29	31	45	51	56	75	76	71	92	100
Legal welfare expenses	451	485	575	626	661	725	796	875	1,191	1,492
Rents	7,573	8,229	8,924	9,670	10,289	11,405	12,706	14,159	15,501	17,051
YoY	1.6%	8.7%	8.4%	8.4%	6.4%	10.8%	11.4%	11.4%	9.5%	10.0%
Rents per store	9.7	9.7	9.8	10.1	10.4	10.8	11.2	11.6	11.8	12.1
% of directly managed store sales	0.1	0.1	0.1	10.9%	11.0%	10.8%	11.1%	11.1%	10.9%	11.0%
Depreciation	1,756	1,892	2,034	2,222	2,166	2,208	2,400	2,732	2,646	2,707
YoY	98.9%	7.7%	7.5%	9.2%	-2.5%	1.9%	8.7%	13.8%	-3.1%	2.3%
Depreciation per store	2.2	2.2	2.2	2.3	2.2	2.1	2.1	2.2	2.0	1.9
Utility	1,605	1,616	1,747	1,645	1,831	2,096	2,327	2,392	2,412	2,690
YoY	13.3%	0.7%	8.1%	-5.8%	11.3%	14.5%	11.0%	2.8%	0.8%	11.5%
Utility per store	2.1	1.9	1.9	1.7	1.8	2.0	2.1	2.0	1.8	1.9
Packing and transportation expenses	596	669	958	1,114	1,187	1,339	1,483	1,581	1,688	1,798
YoY	7.0%	12.2%	43.2%	16.3%	6.6%	12.8%	10.8%	6.6%	6.8%	6.5%
% of directly managed store sales	0.9%	0.9%	1.2%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%

Source: Shared Research based on company data
Note: Figures may differ from company data due to differences in rounding methods.
Note: Personnel expenses are the total of salaries and allowances, bonuses, provision of reserve for bonuses, retirement benefit expenses, and statutory welfare expenses.

Personnel expenses

In FY03/18, Seria had 407 full-time employees (temporary workers: 9,119). The majority of employees are store operation staff, with headquarters personnel at just 72 (temporary workers: 64).

Shared Research calculates headquarters-related personnel expenses to be between JPY400mn and JPY700mn, by multiplying the number of headquarters staff by average annual salaries (including social insurance expenses). By subtracting headquarters-related personnel expenses from total personnel expenses, Shared Research estimates personnel expenses per store at JPY12mn–JPY15mn. As shown in the following table, personnel expenses per store are rising, and Shared Research believes this is due to rising wages for temporary workers.

Breakdown of personnel expenses, personnel expenses per store

(JPYmn)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Personnel expenses	9,863	10,905	11,703	12,698	13,466	14,815	16,017	17,426	19,273	21,885
Headquarters	396	435	475	447	462	486	531	550	584	648
Stores	9,467	10,470	11,228	12,251	13,004	14,329	15,486	16,876	18,689	21,237
Personnel expenses per store	12.1	12.4	12.3	12.8	13.1	13.6	13.7	13.8	14.2	15.0

Source: Shared Research based on company data
Note: Figures may differ from company data due to differences in rounding methods.
Note: Personnel expenses are calculated by Shared Research based on the number of employees and annual average salaries.

Rent expenses

Rent expenses have trended upward in line with increases in the number of stores and sales. Rent expenses comprise fixed rents and sales-based rents. In general, Shared Research assumes that rents at standalone stores are fixed, whereas rents at stores in shopping malls are based on sales (around 10% of sales).

Shared Research assumes that per-store rents are rising because the number of stores in shopping malls is increasing. Sales-based rents therefore account for a rising proportion of rent expenses.

Other SG&A expenses (depreciation and amortization, utilities, packing and transportation expenses)

- Depreciation and amortization expenses (depreciation of store fixtures) are stable at JPY2.0mn per store.
- Utilities expenses are mainly for stores and are steady at JPY2.0mn per store.
- Packing and transportation expenses, mostly shipping costs, vary with sales, and the portion of these expenses to directly managed store sales is around 1.2%.

Strengths and weaknesses

Strengths

- **Proprietary ordering system to effectively manage inventories, reduce lost sales opportunities:** Seria led competitors in the introduction of a POS system (2004) and proprietary ordering support system (2006). Shared Research understands that these systems have enabled Seria to maintain store inventories of popular items, reduce lost sales opportunities due to shortages, and take repeat customers away from competitors. Thereafter, in 2007, Seria developed the Color the Days store format, featuring interior designs and product lineups tailored to women. Differentiating Seria is its product lineup, popular items that remain in stock, and uncluttered stores, which in turn are underpinned by systems using proprietary algorithms. These systems are difficult for competitors to emulate.
- **A virtuous cycle attracting more customers with uncluttered stores and product lineup:** Seria surpasses competitors in sales per store and ability to attract customers, because it uses a POS system and a proprietary ordering support system to ensure optimal product lineup, and has developed uncluttered stores. Given its customer draw, since FY03/14 Seria has received a growing number of requests from shopping centers to open stores when competitors' leases expire. Seria has a relatively high percentage of standalone stores in less competitive locations. With increases in the number of store openings in shopping centers, however, Shared Research thinks the company can further increase customer numbers, boost sales per store, and earn favorable reviews from shopping centers that may lead to more requests to open stores in shopping centers.
- **Ample leeway to invest in new stores as opportunities arise:** In FY03/18, interest-bearing debt was none, cash and deposits were JPY36.0bn, and cash flow from operating activities was JPY13.8bn. By comparison, Can Do (in FY11/17) had no interest-bearing debt, cash and deposits of JPY3.4bn, and cash flow from operating activities of JPY2.0bn. For Watts (in FY08/17), interest-bearing debt was JPY1.5bn, cash and deposits were JPY5.7bn, and cash flow from operating activities was JPY1.2bn. Seria's higher cash on hand and ability to generate cash indicates ample leeway to invest in new stores. Seria aims to have 2,000 directly managed stores by FY03/21 (1,455 in FY03/18). Given that Seria needs JPY40mn to open one new store, it has ample cash to invest in stores to meet these medium-term store opening targets.

Weaknesses

- **Less attractive store locations than competitors, who have more stores in shopping centers:** Store location is an important part of 100-yen store operations, and more passersby visit stores in shopping centers than standalone stores. Seria was a latecomer in erecting permanent 100-yen stores in the 1990s. By the late 2000s, competitors had taken up most of the attractive locations in shopping centers, and so a higher percentage of Seria's stores were standalone. However, Seria's performance has been recovering since the mid-2000s, outpacing competitors in sales per store and the ability to attract customers. As a result, since FY03/14 Seria was receiving an increasing number of requests from shopping centers to open stores when competitors' leases expire.
- **Growing price competition from other retailers:** The 100-yen store market grew rapidly during the deflationary economic period of the 1990s by taking market share away from supermarkets and stationery stores. Growth in the 100-yen store market leveled off in the 2000s (see the Market and value chain section). Reasons included consumer boredom, saturation in the number of stores, fewer products 100-yen stores could offer for JPY100 to take away market share from supermarkets, and supermarkets' introduction of low-priced private-brand products. Also, e-commerce sites were able to offer a wider product lineup than 100-yen stores. Shared Research believes that from the mid-2010s other retailers were able to compete with a wide range of low-price products. At this point, Seria led the industry in using data analysis to review the number of products, ensure stores were stocked with popular items, and improve store design, product displays, and product lineups. Seria is taking market share away from industry peers and showing faster growth.
- **Growth strategy that is only effective at taking share away from competing 100-yen stores:** Seria's ordering support system is effective at gaining share in the 100-yen store sector by taking customers away from direct competitors. Demand fluctuated following the Great East Japan Earthquake of March 2011 and the consumption tax hike of April 2014. Seria was able to respond to these changes without running out of inventory, allowing it to take customers away from other 100-yen stores and continue building up its customer base. However, Shared Research thinks Seria's ordering support system has

limited effect in taking market share away from other retail categories, expanding its own market, or creating new markets. Performance trends provide evidence that the ordering support system has been instrumental to Seria's growth in market share. Thanks to this system, average annual sales growth was 9.9% from FY03/09 (a bottoming out) to FY03/17. By comparison, growth for the 100-yen store industry was 3.9% over the same period (even including Daiso's expanding overseas sales). Seria's market share grew 7.7pp during that period, from 13.6% to 21.3%.

Group companies

Seria has no subsidiaries.

Market and value chain

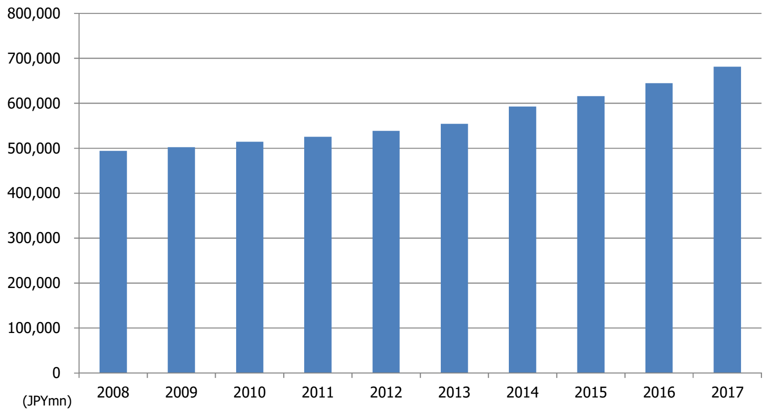
Market overview

Market scale and trends in the 100-yen store sector

According to the Ministry of Economy, Trade and Industry's dynamic statistics of commerce, in 2017 retail sales amounted to JPY142.5tn (+1.9% YoY). Within this figure, department store sales were JPY6.6tn (-0.7%), supermarket sales JPY13.0tn (+0.4%), and convenience store sales JPY11.7tn (+2.4%).

By comparison, total sales by the four leading 100-yen store operators (including overseas sales) were approximately JPY700bn, representing a niche market that accounted for less than 1% of total retail sales. This market grew from essentially zero in the early 1990s to JPY400.0bn–JPY500.0bn by the early 2000s.

Total sales of the four leading operators of 100-yen stores (JPYmn)

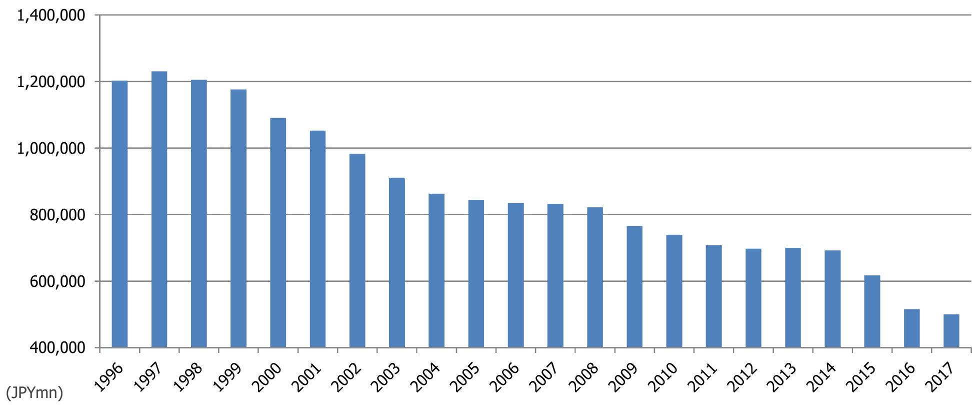


Source: Shared Research based on individual company data

Shared Research believes 100-yen stores have grown by taking market share away from supermarkets in the categories of household and personal goods. According to the dynamic statistics of commerce, supermarket sales of household and personal goods were JPY350.0bn from the mid-1990s to the early 2000s. This figure was close to sales by 100-yen stores at the time.

The rate of growth in the 100-yen store market leveled off after the mid-2000s. Shared Research attributes this falloff to consumer boredom, saturation in the number of stores, saturation in the number of products 100-yen stores could take away from supermarkets and sell for JPY100, and competition from supermarkets' private-brand products.

Supermarket sales in categories of others (household goods) and clothing (other clothing)



Source: Shared Research based on dynamic statistics of commerce data

History of 100-yen stores

A type of business similar to the 100-yen stores of today can be traced back to the 1930s, which Takashimaya operated “10 sen stores” (100 sen being equivalent to 1 yen) throughout Japan. This trend morphed into the special-event sales of the 1960s, followed by the opening of permanent 100-yen stores in the 1980s, sales growth in the 1990s, and a slowdown in sales growth in the late 2000s.

1960s: Temporary special-event sales, with products at a uniform price of JPY100

In the 1960s supermarkets and department stores began trying to attract customers by selling sundry lifestyle items (special sales) at uniform low prices for limited periods of time, such as one week. The operators of stalls operating special-event sales would make their rounds of various stores to hold such sales.

The items sold at these special-event sales tended to be items suppliers wanted to liquidate quickly. Products centered on pawned items, with few standard items being offered.

1980s: Emergence of permanent stores

In March 1985, Life Co., Ltd., opened Japan’s first permanent 100-yen store in Aichi Prefecture. Thereafter, permanent stores were erected by Daiso in 1991, Seria in 1994, Watts in 1995, and Can Do in 1997.

1990s to early 2000s: Market expanded after Japan’s bubble economy collapsed, as the yen appreciated and deflation hit

The market for 100-yen stores grew from essentially zero in the early 1990s to JPY400bn–500bn by the early 2000s. In the 1990s, persistent deflation exacerbated consumer demand for low-priced items. Against a backdrop of yen appreciation and relatively low-cost labor in China, 100-yen stores were able to procure and sell products at low prices. These stores grew by taking market share away from supermarkets for household goods and personal effects. After the bursting of Japan’s economic bubble, rapid deflation prompted a sharp increase in the number of 100-yen stores. The sector became known as a “growth industry in hard times.”

During this period, yen depreciation around the Asian currency crisis of 1998 led to an industry shakeout. The result was an oligopolistic market with four major 100-yen players (Daiso, Seria, Can Do, and Watts).

Late 2000s onward: Growth levels off

From the late 2000s onward, the rate of growth in 100-yen stores leveled off. The slowdown occurred as consumers tired of the idea of 100-yen stores, whose novelty was wearing off, and store saturation occurred. Also, 100-yen stores had reached a limit on the product areas where they could compete with supermarkets, and had begun facing competition from other retailers.

From the 2000s, the four leading operators of 100-yen stores employed various growth strategies, adopting multilevel pricing, expanding operations overseas, introducing POS systems, and launching new store formats. Although information on industry leader Daiso is limited, as the company is unlisted, Seria led Can Do and Watts in introducing POS systems and opening new types of stores. As a result, Seria grew more rapidly than these other two companies.

Competitors

Overview

Four leading companies have most of the 100-yen store market. Seria's competitors are Daiso, which leads the sector in sales and number of stores. Following Seria are Can Do in third place and Watts in fourth.

Four-company comparison

	Seria FY03/18	Daiso FY03/18	Can Do FY11/17	Watts FY08/17
Sales	JPY159.1bn	JPY454.8bn	JPY68.8bn	JPY47.5bn
Operating profit	JPY16.5bn	-	JPY2.1bn	JPY1.2bn
OPM	10.4%	-	3.0%	2.5%
Interest-bearing debt	JPY460mn	-	JPY0mn	JPY1.5bn
Net assets	JPY59.4bn	-	JPY11.8bn	JPY9.9bn
Total assets	JPY81.7bn	-	JPY24.5bn	JPY20.1bn
Number of stores	1,455 (51 franchised)	5,270 (3,278 in Japan, 1,992 overseas)	994 (297 franchised in Japan, 14 franchised overseas)	1,087 (42 franchised, 66 overseas)
Sales per store	JPY110mn	-	JPY91mn	JPY40mn
Sundries as % of sales	97.6%	-	82.2%	-
Number of products	20,000	50,000	20,000	6,000–7,000
Established	Oct. 1987	Dec. 1977	Dec. 1993	Feb. 1995
Characteristics	Uses POS system and proprietary ordering support system to ensure popular items designs from a women's perspective, expanding product lineup through new Color the Days stores from 2007	Market leader in sales and number of stores Aggressively developing overseas	The industry number two until the mid-2000s, but sales at directly managed stores have been essentially flat over the past decade. Like competitors, expanding offerings of high-priced items, promoting business overseas, and introducing POS systems, but not making these changes as successfully.	An advocate of low-cost store openings and closures and low-cost operations. Small/medium-sized stores averaging 230sqm operated by part-time workers.

Competitors' performance trends

Seria's performance

Store count, sales per store	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Number of stores	809	880	939	970	1,015	1,090	1,174	1,265	1,369	1,455
YoY	7.3%	8.8%	6.7%	3.3%	4.6%	7.4%	7.7%	7.8%	8.2%	6.3%
Sales per store (JPYmn)	81	84	86	93	95	100	101	104	108	110
YoY	0.6%	4.3%	2.6%	8.0%	1.4%	5.6%	0.9%	3.4%	3.1%	2.4%
Earnings (JPYmn)	**FY03/09**	**FY03/10**	**FY03/11**	**FY03/12**	**FY03/13**	**FY03/14**	**FY03/15**	**FY03/16**	**FY03/17**	**FY03/18**
Sales	68,394	76,244	83,389	93,634	98,246	109,393	118,336	130,983	145,328	159,114
YoY	8.2%	11.5%	9.4%	12.3%	4.9%	11.3%	8.2%	10.7%	11.0%	9.5%
Directly managed stores	63,141	71,131	78,616	89,072	93,930	105,221	114,178	127,237	141,694	155,546
YoY	9.0%	12.7%	10.5%	13.3%	5.5%	12.0%	8.5%	11.4%	11.4%	9.8%
% of sales	92.3%	93.3%	94.3%	95.1%	95.6%	96.2%	96.5%	97.1%	97.5%	97.8%
Franchised stores	4,118	3,943	3,648	3,522	3,250	3,121	2,938	2,543	2,301	2,298
YoY	-1.9%	-4.2%	-7.5%	-3.5%	-7.7%	-4.0%	-5.9%	-13.4%	-9.5%	-0.1%
% of sales	6.0%	5.2%	4.4%	3.8%	3.3%	2.9%	2.5%	1.9%	1.6%	1.4%
Others	1,134	1,169	1,124	1,038	1,064	1,051	1,218	1,202	1,332	1,268
YoY	3.7%	3.1%	-3.8%	-7.7%	2.5%	-1.2%	15.9%	-1.3%	10.8%	-4.8%
% of sales	1.7%	1.5%	1.3%	1.1%	1.1%	1.0%	1.0%	0.9%	0.9%	0.8%
CoGS	41,629	45,868	49,199	54,567	56,800	63,179	68,206	75,480	82,940	90,442
Gross profit	26,764	30,376	34,189	39,066	41,445	46,214	50,129	55,502	62,387	68,671
YoY	6.9%	13.5%	12.6%	14.3%	6.1%	11.5%	8.5%	10.7%	12.4%	10.1%
GPM	39.1%	39.8%	41.0%	41.7%	42.2%	42.2%	42.4%	42.4%	42.9%	43.2%
Change in GPM	-0.5%	0.7%	1.2%	0.7%	0.5%	0.1%	0.1%	0.0%	0.6%	0.2%
SG&A expenses	25,212	27,061	29,107	31,344	33,131	36,022	39,607	43,486	47,216	52,191
SG&A ratio	36.9%	35.5%	34.9%	33.5%	33.7%	32.9%	33.5%	33.2%	32.5%	32.8%
Operating profit	1,551	3,314	5,081	7,722	8,314	10,192	10,521	12,016	15,171	16,479
YoY	-32.3%	113.7%	53.3%	52.0%	7.7%	22.6%	3.2%	14.2%	26.3%	8.6%
OPM	2.3%	4.3%	6.1%	8.2%	8.5%	9.3%	8.9%	9.2%	10.4%	10.4%

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

Can Do's performance

Store count, sales per store	FY11/08	FY11/09	FY11/10	FY11/11	FY11/12	FY11/13	FY11/14	FY11/15	FY11/16	FY11/17
Store count	808	820	843	808	827	854	888	927	967	994
Directly managed stores	568	585	610	572	577	585	600	631	654	683
OHO!HO!	-	-	-	-	-	-	-	3	3	-
Franchised stores	240	235	233	236	250	269	288	293	310	311
Sales per directly managed store (JPYmn)	96	95	92	94	96	94	94	93	93	91
YoY	-3.0%	-0.5%	-3.9%	2.1%	2.1%	-1.3%	-1.0%	-0.9%	0.0%	-1.9%
Earnings (JPYmn)	**FY11/08**	**FY11/09**	**FY11/10**	**FY11/11**	**FY11/12**	**FY11/13**	**FY11/14**	**FY11/15**	**FY11/16**	**FY11/17**
Sales	63,248	62,817	62,408	63,019	62,669	62,738	63,485	65,242	68,042	68,829
YoY	-4.9%	-0.7%	-0.7%	1.0%	-0.6%	0.1%	1.2%	2.8%	4.3%	1.2%
Directly managed stores	55,255	55,050	54,856	55,397	54,966	54,865	55,403	57,026	59,553	60,756
YoY	-5.0%	-0.4%	-0.4%	1.0%	-0.8%	-0.2%	1.0%	2.9%	4.4%	2.0%
% of sales	87.4%	87.6%	87.9%	87.9%	87.7%	87.5%	87.3%	87.4%	87.5%	88.3%
Franchised stores	7,783	7,522	7,293	7,273	7,252	7,262	7,397	7,434	7,574	7,347
YoY	-3.2%	-3.4%	-3.0%	-0.3%	-0.3%	0.1%	1.9%	0.5%	1.9%	-3.0%
% of sales	12.3%	12.0%	11.7%	11.5%	11.6%	11.6%	11.7%	11.4%	11.1%	10.7%
Gross profit	22,219	22,169	22,617	23,133	23,065	22,896	23,305	24,091	25,618	26,512
YoY	-5.9%	-0.2%	2.0%	2.3%	-0.3%	-0.7%	1.8%	3.4%	6.3%	3.5%
GPM	35.1%	35.3%	36.2%	36.7%	36.8%	36.5%	36.7%	36.9%	37.6%	38.5%
SG&A expenses	21,904	21,367	21,619	20,749	20,882	21,411	21,605	22,772	23,276	24,439
YoY	-3.9%	-2.4%	1.2%	-4.0%	0.6%	2.5%	0.9%	5.4%	2.2%	5.0%
SG&A ratio	34.6%	34.0%	34.6%	32.9%	33.3%	34.1%	34.0%	34.9%	34.2%	35.5%
Operating profit	316	802	998	2,384	2,182	1,485	1,700	1,319	2,341	2,073
YoY	-60.9%	153.9%	24.5%	138.9%	-8.5%	-32.0%	14.5%	-22.4%	77.5%	-11.5%
OPM	0.5%	1.3%	1.6%	3.8%	3.5%	2.4%	2.7%	2.0%	3.4%	3.0%

Source: Shared Research based on Can Do company data
Note: Figures may differ from company data due to differences in rounding methods.
Note: Figures are consolidated from FY11/07 onward. Previous figures are non-consolidated.

Watts' performance

Store count, sales per store	FY08/08	FY08/09	FY08/10	FY08/11	FY08/12	FY08/13	FY08/14	FY08/15	FY08/16	FY08/17
Store count	756	790	822	806	822	901	959	1,002	1,028	1,087
Directly managed stores	521	574	627	684	765	848	908	958	981	1,045
Franchised stores	235	216	195	122	57	53	51	44	47	42
Sales per directly managed store (JPYmn)	49	46	45	46	46	44	42	41	41	40
YoY	3.5%	-6.4%	-1.7%	2.3%	-0.6%	-5.2%	-3.3%	-4.1%	0.3%	-1.0%
Earnings (JPYmn)	**FY08/08**	**FY08/09**	**FY08/10**	**FY08/11**	**FY08/12**	**FY08/13**	**FY08/14**	**FY08/15**	**FY08/16**	**FY08/17**
Sales	33,141	33,075	34,635	38,188	40,759	41,725	43,574	44,463	46,176	47,494
YoY	29.3%	-0.2%	4.7%	10.3%	6.7%	2.4%	4.4%	2.0%	3.9%	2.9%
Directly managed stores	24,241	25,285	27,268	30,448	33,446	35,287	37,130	37,827	39,411	40,749
YoY	27.5%	4.3%	7.8%	11.7%	9.8%	5.5%	5.2%	1.9%	4.2%	3.4%
% of sales	73.1%	76.4%	78.7%	79.7%	82.1%	84.6%	85.2%	85.1%	85.3%	85.8%
Others	8,900	7,790	7,367	7,740	7,313	6,438	6,444	6,636	6,765	6,745
YoY	34.6%	-12.5%	-5.4%	5.1%	-5.5%	-12.0%	0.1%	3.0%	1.9%	-0.3%
% of sales	26.9%	23.6%	21.3%	20.3%	17.9%	15.4%	14.8%	14.9%	14.7%	14.2%
Gross profit	12,069	12,137	12,920	14,519	15,592	15,981	16,584	16,728	17,332	17,995
YoY	27.6%	0.6%	6.4%	12.4%	7.4%	2.5%	3.8%	0.9%	3.6%	3.8%
GPM	36.4%	36.7%	37.3%	38.0%	38.3%	38.3%	38.1%	37.6%	37.5%	37.9%
SG&A expenses	11,025	11,021	11,594	12,702	13,536	13,906	14,800	15,470	16,126	16,785
YoY	27.4%	0.0%	5.2%	9.6%	6.6%	2.7%	6.4%	4.5%	4.2%	4.1%
SG&A-to-sales ratio	33.3%	33.3%	33.5%	33.3%	33.2%	33.3%	34.0%	34.8%	34.9%	35.3%
Operating profit	1,044	1,117	1,326	1,818	2,056	2,075	1,785	1,258	1,206	1,209
YoY	29.9%	6.9%	18.7%	37.1%	13.1%	0.9%	-14.0%	-29.5%	-4.2%	0.3%
OPM	3.2%	3.4%	3.8%	4.8%	5.0%	5.0%	4.1%	2.8%	2.6%	2.5%

Source: Shared Research based on Watts company data
Note: Figures may differ from company data due to differences in rounding methods.
Note: In September 2007, Kanto Watts merged with Sanei Shoji.

Results vs. competitors

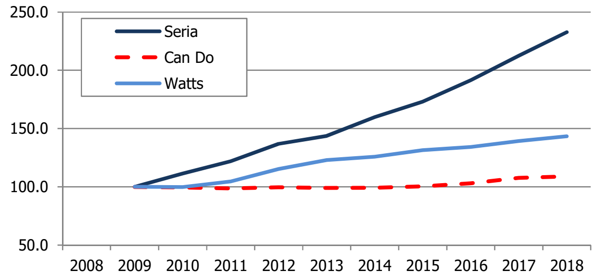
The section below compares Seria's performance over the past decade with that of Can Do and Watts.

Sales growth comparison

To compare sales over 10 fiscal years (FY03/09–FY03/18 for Seria, FY11/08–FY11/17 for Can Do, and FY08/08–FY08/17 for Watts), we have indexed sales 10 fiscal years earlier for each company to 100. As can be seen by the graph, Seria's sales have surpassed those of competitors.

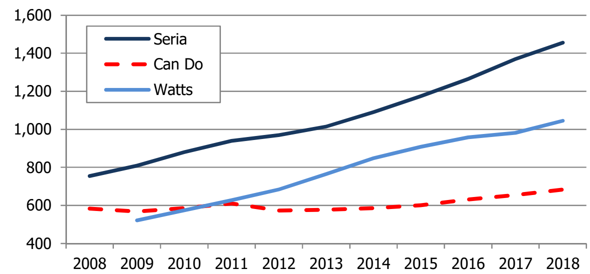
If growth is driven by store count and sales per store, Seria increased on both counts. Shared Research attributes this expansion to Seria's product lineup based on an ordering support system and success in developing new stores. By comparison, the number of Can Do stores has risen slowly, but sales per store have fallen. For Watts, the number of stores increased, but sales per store were trending downward.

Sales over the past 10 fiscal years (sales 10 fiscal years earlier indexed at 100)



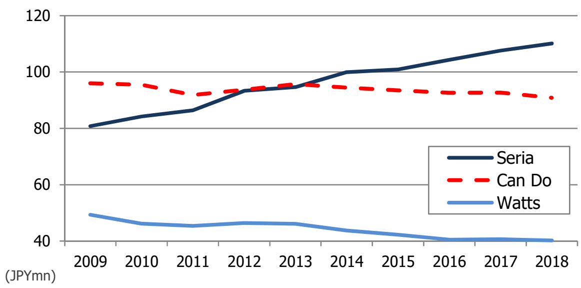
Source: Shared Research based on individual companies' data

Number of directly managed stores



Source: Shared Research based on individual companies' data

Sales per store at directly managed stores



Source: Shared Research based on individual companies' data

Profit comparison

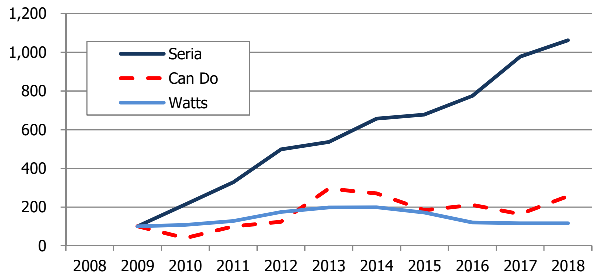
By indexing each company's operating profit 10 fiscal years earlier to 100, it is clear that Seria's profit growth outpaced that of competitors.

Seria's profit rose faster than competitors' because of higher sales growth and faster OPM increases.

Breaking down OPM into the GPM and SG&A expense ratio, we see that Seria's GPM rose more quickly. Shared Research attributes this rise to the introduction and application of a proprietary ordering support system. Using this system, while increasing customer numbers, Seria was able to raise its percentage of relatively profitable sundries, lower the ratio of franchised stores, and cut costs by providing information to suppliers.

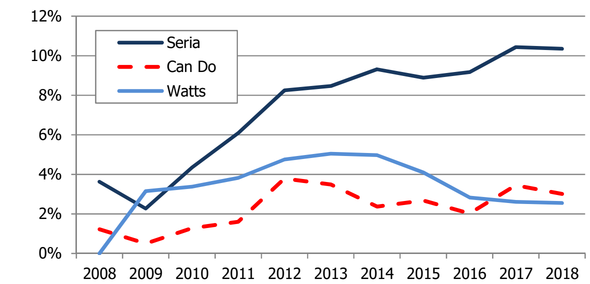
Whereas competitors' SG&A-to-sales ratios rose or fluctuated, Seria's has fallen. As fixed costs for stores account for most SG&A expenses at 100-yen stores, the SG&A ratio falls as sales per store increase. Shared Research thinks that by expanding its lineup of popular items, Seria attracted repeat customers away from competitors, maintaining higher sales at existing stores and lowering the SG&A ratio. Shared Research estimates that competitors' falling sales per store were because Seria was taking repeat customers away from them.

Operating profit over the past 10 years (sales 10 fiscal years earlier indexed at 100)



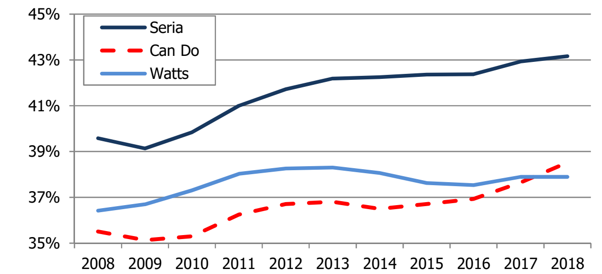
Source: Shared Research based on individual companies' data

OPM



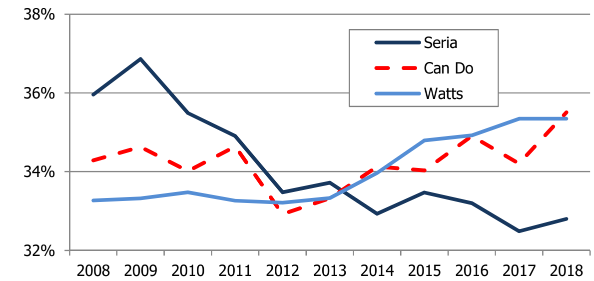
Source: Shared Research based on individual companies' data

GPM



Source: Shared Research based on individual companies' data

SG&A-to-sales ratio



Source: Shared Research based on individual companies' data

Historical financial statements

1H FY03/19 results

- ▷ Sales: JPY83.4bn (+7.0% YoY)
- ▷ Operating profit: JPY7.9bn (-2.0% YoY)
- ▷ Recurring profit: JPY7.9bn (-1.8% YoY)
- ▷ Net income: JPY5.3bn (-1.2% YoY)

Initiatives

Aiming to maintain consistent growth in market share, the company has focused on developing products that cover a wide range of styles, and building a well-balanced product portfolio. It has also continued to actively work on invigorating shopping centers in hopes of opening new stores efficiently and have strengthened ties with companies that could possibly lead to multiple projects. In terms of logistics, the company has continued to fine-tune operations at multiple warehouses. To move toward a flexible and centralized distribution network that can accommodate and adapt to environment changes, the company has implemented new initiatives such as managing logistics of certain products internally rather than through suppliers. The company also intends to pursue branding that will underpin sustainable growth.

Store openings and closures, store count, and comparable store sales at directly managed stores

Seria is moving forward with store openings and closures, while keeping an eye on profitability. In 1H FY03/19, the company opened 71 directly managed stores (65 in 1H FY03/18) and zero franchised stores (0), and closed 31 directly managed stores (27) and zero franchised stores (3). Store openings were roughly in line with plan (1H forecast of 72), while closures exceeded the target (1H forecast of 24). Scrap-and-build efforts outpaced initial forecasts as the company focused on profitability. It also relocated two stores due to impact from natural disasters. As of end-1H FY03/19, Seria had 1,546 stores (1,459 as of end-1H FY03/18), comprising 1,495 directly managed stores (1,407) and 51 franchised stores (52).

Comparable store sales at directly managed stores decreased 0.7% YoY on a drop in customer numbers due in part to adverse weather conditions in Q2 (July–September). The outcome reflected a 0.7% YoY decline in customer numbers and flat spend per customer YoY, and was broadly in line with the 1H forecast, which called for a 0.5% YoY decline in comparable store sales.

In Q4 FY03/18, comparable store sales fell 2.3% YoY (simple average YoY change). The company said there were multiple factors that led to this decline such as adverse weather conditions and a drop in demand for event-related goods, but the impact of repairing the ordering system weighed down results the most. In the past, the company operated the ordering system by gathering sales data daily while manually setting some variables on a weekly basis. It changed the system to automatically set the variables daily in October 2017, but an error had occurred during the process. Due to the error, delays emerged in optimizing sales inventories and the company experienced opportunity loss. However, Seria repaired its ordering system again in February 2018, and the system ran smoothly in 1H FY03/19. The company expects to see YoY growth in monthly comparable store sales in 2H FY03/19.

Performance

Sales came to JPY83.4bn (+7.0% YoY).

Sales at directly managed stores were JPY81.8bn (+7.4% YoY). Directly managed stores accounted for 98.1% (+0.3pp YoY) of total sales. Franchised store sales were JPY1.1bn (-5.1% YoY), accounting for 1.3% (-0.2pp YoY) of total sales.

Sales of sundries came to JPY81.9bn (+7.3% YoY), making up 98.2% of sales (+0.3pp YoY). Sales of foods and snacks were JPY1.5bn (-8.1% YoY), accounting for 1.7% (-0.3pp YoY) of total sales.

Gross profit was JPY36.0bn (+7.3% YoY), and the GPM was 43.2% (+0.2pp YoY). Sales breakdown by business segment indicated an increase in the sales mix of directly managed stores, where margins are relatively higher, and this contributed to an increase in the GPM.
SG&A expenses came to JPY28.1bn (+10.3% YoY). This reflected an increase in personnel expenses due to an expansion in store numbers and a rise in average part-time wages, and higher rent and other costs driven by growth in store numbers. The SG&A expense ratio rose 1.0pp YoY, to 33.7%. This was attributable to a rise in personnel and other expenses and to a YoY decline in comparable store sales.

As a result, operating profit totaled JPY7.9bn (-2.0% YoY), recurring profit JPY7.9bn (-1.8% YoY), and net income JPY5.3bn (-1.2% YoY).

Competition status
At Seria's main competitors, comparable store sales remained flat YoY during the period, while SG&A expenses such as personnel and rent increased, causing their operating profits to decline. Comparing the simple average from April to September 2018, comparable store sales were up 0.1% YoY at Can Do and down 0.2% YoY at Watts. Can Do's Q2 and Q3 FY11/18 (March–August 2018) results indicated a YoY increase of 3.0% in sales but a drop of 11.5% YoY in operating profit, due to higher SG&A expenses. At Watts, sales in Q3 and Q4 FY08/18 (March–August 2018) increased 6.5% YoY while operating profit dropped 32.2% YoY, also due to higher SG&A expenses.

Based on estimates for per-store OPM at competitors (derived from its own OPM and per-store OPM distribution), Seria believes the ratio of unprofitable stores at these companies is 15–20%, compared with roughly 2% for its own operations. Although competitors are attempting to bring their product lineups and store exteriors in line with Seria, which boasts high profit margins, they have yet to implement Seria's systematic inventory management, which is a key factor supporting those margins. Against this backdrop and amid a rise in its own SG&A expenses as of November 2018 (personnel costs up about 3% YoY, logistics expenses up about 10% YoY), Seria believes competitors are experiencing steeper declines in OPM and a larger increase in the number of unprofitable stores. As a result, it expects competitors to continue closing unprofitable stores going forward, and accordingly believes competition among 100-yen store operators may ease.

Q1 FY03/19 results

- ▷ Sales: JPY41.9bn (+7.5% YoY)
- ▷ Operating profit: JPY4.1bn (-2.6% YoY)
- ▷ Recurring profit: JPY4.1bn (-2.3% YoY)
- ▷ Net income: JPY2.7bn (-3.1% YoY)

Measured against 1H FY03/19 forecasts, Q1 sales reached 50.1% (FY03/18 Q1 sales were 50.0% of 1H results), operating profit 48.8% (51.6%), recurring profit 48.9% (51.6%), and net income 49.5% (52.0%). The company had projected higher YoY sales and earnings for 1H, with results being an increase in sales but a drop in earnings. The figures were, however, largely in line with company forecasts.

Initiatives
Aiming to maintain consistent growth in market share, the company has focused on developing products that cover a wide range of styles, and building a well-balanced product portfolio. Specifically, it expanded the lineup of event-related goods targeting families and adults. It has also continued to actively work on invigorating shopping centers in hopes of opening new stores efficiently and have strengthened ties with companies that could possibly lead to multiple projects. In terms of logistics, the company has continued to fine-tune operations at multiple warehouses. To move toward a flexible and centralized distribution network that can accommodate and adapt to environment changes, the company has implemented new initiatives such as managing logistics of certain products internally rather than through suppliers. The company also intends to pursue branding that will underpin sustainable growth.

Store openings and closures, store count, and comparable store sales at directly managed stores

Seria is moving forward with store openings and closures, while keeping an eye on profitability. In Q1 FY03/19, the company opened 38 directly managed stores (33 in Q1 FY03/18) and zero franchised stores (0), and closed 9 directly managed stores (14) and zero franchised stores (1). According to the company, store openings during the period were in line with its plan of opening 150 stores for the full year. The pace of openings slowed down at operators of multiple commercial facilities due to refurbishment delays at these sites. Meanwhile, the company received inquiries from new channels such as department stores. As of end-Q1 FY03/19, Seria had 1,535 stores (1,442 as of end-FY03/18), comprising 1,484 directly managed stores (1,388) and 51 franchised stores (54).

Comparable store sales at directly managed stores slightly decreased 0.3% YoY due to a decrease in customer numbers. The company had expected a 0.5% YoY decline in its 1H forecast, so results were largely in line.

In Q4 FY03/18, comparable store sales fell 2.3% YoY (simple average YoY change). The company said there were multiple factors that led to this decline such as adverse weather conditions and a drop in demand for event-related goods, but the impact of repairing the ordering system weighed down results the most. In the past, the company operated the ordering system by gathering sales data daily while manually setting some variables on a weekly basis. It changed the system to automatically set the variables daily in October 2017, but an error had occurred during the process. Due to the error, delays emerged in optimizing sales inventories and the company experienced opportunity loss. However, the company repaired the ordering system in February 2018, and the system ran smoothly in Q1 FY03/19. There is a lag between the ordering system repair and the manifestation of this improvement, and the company expects to see YoY growth in comparable store sales from 2H FY03/19.

Performance

Sales came to JPY41.9bn (+7.5% YoY).

Sales at directly managed stores were JPY41.1bn (+7.7% YoY). Directly managed stores accounted for 98.0% (+0.2pp YoY) of total sales. Franchised store sales were JPY573mn (-4.2% YoY), accounting for 1.4% (-0.2pp YoY) of total sales.

Sales of sundries came to JPY41.1bn (+7.8% YoY), making up 98.1% of sales (+0.3pp YoY). Sales of foods and snacks were JPY767mn (-9.2% YoY), accounting for 1.8% (-0.3pp YoY) of total sales.

Gross profit was JPY18.1bn (+7.7% YoY), and the GPM was 43.1% (+0.1pp YoY). GPM increased on the back of sales increase at directly managed stores and a rise in the sales mix of sundries, which are relatively higher margin.

SG&A expenses came to JPY14.0bn (+11.0% YoY). Personnel expenses rose in tandem with the increase in store counts and higher average salaries. The cost of rent also increased as the number of stores increased. Higher expenses such as personnel costs coupled with a YoY drop in comparable store sales pushed up the SG&A expense ratio by 1.1pp YoY to 33.4%.

Operating profit totaled JPY4.1bn (-2.6% YoY), recurring profit JPY4.1bn (-2.3% YoY), and net income JPY2.7bn (-3.1% YoY).

Competition status

At Seria’s main competitors, comparable store sales either remained flat or dropped during the period, while SG&A expenses such as personnel and rent increased, causing their operating profits to decline. Comparing the simple average from April to June 2018, comparable store sales at Can Do was up 0.5% YoY and at Watts down 0.5% YoY. Can Do’s Q2 FY11/18 (March–May 2018) results indicated a YoY increase by 2.8% in sales but a drop by 8.8% in operating profit, attributable to higher SG&A expenses. At Watts, sales in Q3 FY08/18 (March–May 2018) increased 6.4% YoY while operating profit dropped 19.9% YoY also due to higher SG&A expenses.

Full-year FY03/18 results

- ▷ Sales: JPY159.1bn (+9.5% YoY)
- ▷ Operating profit: JPY16.5bn (+8.6%)
- ▷ Recurring profit: JPY16.5bn (+8.4%)
- ▷ Net income: JPY11.3bn (+7.4%)

Initiatives

Aiming to set the base to double its market share, the company has continued to actively work on invigorating shopping centers and also pursued the scrap and build policy in certain regions.

Furthermore, it worked on strengthening its supply chain by expanding the lineup of Seria-exclusive products (products manufactured by other companies but only sold by Seria). The number of Seria-exclusive products made up 24.7% of total products, up 13.5pp compared with end-FY03/17. According to the company, because it is able to forecast demand using only company sales data, it can distribute inventory precisely. Because the number of products is in decline for other companies in this industry, the increase in the number of Seria-exclusive products is an advantage in this competitive environment.

In terms of logistics, the company fine-tuned operations at multiple warehouses—this is in addition to setting up a new logistics center in Sagamihara City, Kanagawa Prefecture, in April 2017, with an eye to spreading its store network in the future. As a result, logistics expenses per product have declined steadily. However, it appears that the impact on results of this initiative is not significant. By analyzing POS data, the company seeks to introduce new products that are likely to be successful, avoid inventory shortages, and pursue branding that will underpin sustainable growth.

Store openings and closures, store count, and comparable store sales at directly managed stores

Seria is moving forward with store openings and closures, while keeping an eye on profitability. In FY03/18, the company opened 150 directly managed stores (140 in FY03/17) and one franchised store, and closed 64 directly managed stores (36) and five franchised stores (3). As of end-FY03/18, Seria had 1,506 stores (1,424 as of end-FY03/17), comprising 1,455 directly managed stores (1,369) and 51 franchised stores (55).

According to the company, upon the end of a lease with existing 100-yen stores from competitors, the shopping centers which rent the storefronts may renew the lease at a higher rental fee or switch to a different 100-yen store, such as the company. However, in recent years many competitors have accepted the higher rental fees. As a result, there are many cases of 100-yen stores renewing their leases, slowing the pace of transfers between different 100-yen stores.

The company has pursued a scrap and build policy for closed stores whose operations it had outsourced.

Comparable store sales at directly managed stores rose 1.2% YoY due to an increase in customer numbers. The number of customers rose 1.0% while spend per customer increased 0.1%. In 1H, comparable store sales at directly managed stores rose 3.3% YoY, the number of customers increased 2.8% YoY, and spend per customer increased 0.5% YoY. In contrast, in 2H comparable store sales at directly managed stores fell 0.9% YoY, the number of customers decreased 0.7% YoY, and spend per customer decreased 0.2% YoY. Comparable store sales declined in Q4 in particular.

According to the company, the decline in comparable store sales in Q4 was due to multiple factors, including unseasonable weather, lower demand for event-related products, including Valentine's Day, and the impact of renovating the ordering system. Of these, the renovation of the ordering system had the greatest impact. In the past, the company has operated the ordering system by gathering sales data daily while manually setting some variables weekly. It changed the system to automatically set the variables daily in October 2017, but an error had occurred during the process. Due to the error, delays emerged in optimizing sales inventories and the company experienced opportunity loss. However, the company renovated its ordering system once again in February 2018 and solved this issue. There is a lag between the ordering system renovation and the manifestation of this improvement, although the company expects to see YoY growth in comparable store sales during 1H FY03/19.

The following is the simple, average YoY change in comparable store sales from April 2017 to March 2018 for companies in the industry: Seria, +1.2%, Can Do Co., Ltd., +1.2%, and Watts Co., Ltd., -0.1%. The following is the simple, average YoY change for overall sales: Seria, +9.5%, Can Do Co., Ltd., +1.9%, and Watts Co., Ltd., +2.9% (Can Do and Watts figures based on Shared Research calculation of public figures). Based on these results, Shared Research estimates the company's high sales growth in FY03/18 demonstrates that it is either capturing most of the growth of the expanding 100-yen store market or is capturing the market share of the largest 100-yen store company in Japan, Daiso Industries Co., Ltd.

Performance

FY03/18 full-year sales came to JPY159.1bn (+9.5% YoY).

Sales at directly managed stores were JPY155.5bn (+9.8% YoY). Directly managed stores accounted for 97.8% (+0.3pp) of total sales. Franchised store sales were JPY2.3bn (-0.1% YoY), accounting for 1.4% (-0.2pp) of total sales.

Sales of sundries came to JPY155.3bn (+9.9% YoY), making up 97.6% of sales (+0.4pp). Sales of foods and snacks were JPY3.8bn (-4.5%), accounting for 2.4% (-0.3pp) of total sales.

Gross profit margin rose; however, operating profit margin remained even YoY due to higher SG&A expense ratio.

Gross profit was JPY68.7bn (+10.1% YoY), and the GPM was 43.2% (+0.3pp). The higher profitability was attributable to a higher share of sales from directly managed stores (more profitable than franchises) and sundries (higher margins than food), leading to a rise in gross profit margin.

SG&A expenses came to JPY52.2bn (+10.5% YoY). The SG&A expense ratio rose 0.3pp, to 32.8%. Personnel expenses (salaries, benefits, bonuses, severance package expenses, etc.) rose, and personnel expense to sales ratio rose 0.5pp to 13.8%.

Operating profit totaled JPY16.5bn (+8.6% YoY), recurring profit JPY16.5bn (+8.4%), and net income JPY11.3bn (+7.4%).

FY03/17 results

- ▷ Sales: JPY145.3bn (+11.0% YoY)
- ▷ Operating profit: JPY15.2bn (+26.3%)
- ▷ Recurring profit: JPY15.2bn (+26.2%)
- ▷ Net income: JPY10.5bn (+32.5%)

Initiatives

To double its market share, the company has been expanding its base for store openings and has worked to invigorate shopping centers by attracting store visitors and strengthen its supply chain by sharing sales data with suppliers. In February 2016, Seria divided up delivery areas by region and improved logistics operations at multiple warehouses. By analyzing POS data, the company seeks to introduce new products that are likely to be successful, avoid inventory shortages, and pursue branding that will underpin sustainable growth.

Store openings and closures, store count, and comparable store sales at directly managed stores

Seria is moving forward with store openings and closures, while keeping an eye on profitability. In FY03/17, the company opened 140 directly managed stores (124 in FY03/16), and closed 36 directly managed stores (33) and three franchised stores (16). As of end-FY03/17, Seria had 1,424 stores (1,323 in FY03/16), comprising 1,369 directly managed stores (1,265) and 55 franchised stores (58).

The company commented that of the total net increase in the store count of the top four 100-yen shop companies—Daiso Sangyo (unlisted), Seria, Can Do (TSE1: 2698), and Watts (TSE1: 2735)—it accounted for over 50%.

Comparable store sales at directly managed stores rose 3.1% YoY. This percentage breaks down as +1.6% YoY in customer numbers and +1.4% in spend per customer. Spend per customer increased YoY due to the full-year contribution of Seria-exclusive products (supplied by manufacturers but sold only by Seria), such as craft products. The company commented that its ordering support system continues to help stores improve their product range.

Performance

Sales came to JPY145.3bn (+11.0% YoY).

Sales at directly managed stores were JPY141.7bn (+11.4% YoY). Directly managed stores accounted for 97.5% (+0.4pp) of total sales. Franchised store sales were JPY2.3bn (-9.5% YoY), accounting for 1.6% (-0.3pp) of total sales.

Sales of sundries came to JPY141.3bn (+11.6% YoY), making up 97.2% of sales (+0.5pp). Sales of foods and snacks were JPY3.9bn (-7.2%), accounting for 2.7% (-0.5pp) of total sales.

Profits rose, thanks to higher sales, an increased GPM, and a lower SG&A expense ratio.

Gross profit was JPY62.4bn (+12.4% YoY), and the GPM was 42.9% (+0.5pp). The higher profitability was attributable to a higher share of sales from directly managed stores (more profitable than franchises) and sundries (higher margins than food). Yen appreciation also curtailed procurement prices.

SG&A expenses came to JPY47.2bn (+8.6% YoY). The SG&A expense ratio fell 0.7pp, to 32.5%, on solid comparable store sales. Personnel expenses and rent rose due to the higher number of stores, and the expansion of eligibility for social insurance added to insurance-related expenses.

Operating profit totaled JPY15.2bn (+26.3% YoY), up JPY3.2bn YoY. Higher sales (+JPY6.2bn) and cost reduction effects (+JPY696mn) boosted operating profit. Still, SG&A expenses rising by JPY3.7bn (JPY1.3bn in rent, JPY1.3bn in salaries, and JPY1.0bn in other expenses) pulled down operating profit.

Recurring profit was JPY15.2bn (+26.2% YoY), up JPY3.2bn YoY. Positive factors were a JPY3.2bn increase in operating profit and JPY13mn decrease in non-operating expenses. A JPY12mn decline in non-operating pulled down recurring profit.

Net income was JPY10.5bn (+32.5% YoY), up JPY2.6bn YoY. Positive factors were a JPY3.2bn increase in recurring profit and JPY15mn decrease in extraordinary loss. A JPY588mn rise in income tax was a negative factor.

Income statement

Income statement (JPYmn)	FY03/09 Par.	FY03/10 Par.	FY03/11 Par.	FY03/12 Par.	FY03/13 Par.	FY03/14 Par.	FY03/15 Par.	FY03/16 Par.	FY03/17 Par.	FY03/18 Par.
Total sales	**68,394**	**76,244**	**83,389**	**93,634**	**98,246**	**109,393**	**118,336**	**130,983**	**145,328**	**159,114**
YoY	8.2%	11.5%	9.4%	12.3%	4.9%	11.3%	8.2%	10.7%	11.0%	9.5%
CoGS	41,629	45,868	49,199	54,567	56,800	63,179	68,206	75,480	82,940	90,442
Gross profit	**26,764**	**30,376**	**34,189**	**39,066**	**41,445**	**46,214**	**50,129**	**55,502**	**62,387**	**68,671**
YoY	6.9%	13.5%	12.6%	14.3%	6.1%	11.5%	8.5%	10.7%	12.4%	10.1%
GPM	39.1%	39.8%	41.0%	41.7%	42.2%	42.2%	42.4%	42.4%	42.9%	43.2%
SG&A expenses	25,212	27,061	29,107	31,344	33,131	36,022	39,607	43,486	47,216	52,191
SG&A ratio	36.9%	35.5%	34.9%	33.5%	33.7%	32.9%	33.5%	33.2%	32.5%	32.8%
Operating profit	**1,551**	**3,314**	**5,081**	**7,722**	**8,314**	**10,192**	**10,521**	**12,016**	**15,171**	**16,479**
YoY	-32.3%	113.7%	53.3%	52.0%	7.7%	22.6%	3.2%	14.2%	26.3%	8.6%
OPM	2.3%	4.3%	6.1%	8.2%	8.5%	9.3%	8.9%	9.2%	10.4%	10.4%
Non-operating income	154	109	109	154	107	145	189	103	90	68
Non-operating expenses	126	115	115	101	160	95	66	56	43	47
Recurring profit	**1,579**	**3,308**	**5,075**	**7,775**	**8,261**	**10,242**	**10,644**	**12,063**	**15,218**	**16,500**
YoY	-33.1%	109.5%	53.4%	53.2%	6.3%	24.0%	3.9%	13.3%	26.2%	8.4%
RPM	2.3%	4.3%	6.1%	8.3%	8.4%	9.4%	9.0%	9.2%	10.5%	10.4%
Extraordinary gains	348	-	13	-	-	-	-	-	-	-
Extraordinary losses	247	314	780	112	91	85	90	90	75	234
Tax charges	896	1,499	1,988	3,369	3,368	3,962	3,833	4,021	4,609	4,948
Implied tax rate	53.3%	50.1%	46.1%	44.0%	41.2%	39.0%	36.3%	33.6%	30.4%	30.4%
Net income	**784**	**1,494**	**2,318**	**4,292**	**4,802**	**6,194**	**6,720**	**7,951**	**10,533**	**11,316**
YoY	-33.2%	90.6%	55.2%	85.2%	11.9%	29.0%	8.5%	18.3%	32.5%	7.4%
Net margin	1.1%	2.0%	2.8%	4.6%	4.9%	5.7%	5.7%	6.1%	7.2%	7.1%

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

See the Earnings model section for a discussion of income statement items from sales through operating profit.

Discussion of non-operating income and expenses is omitted, as these items are negligible.

The impact of extraordinary gains and losses is also limited. In FY03/11, the company recorded extraordinary losses of JPY780mn, but this was due to one-time factors: the application of the accounting standard for asset retirement obligations, which resulted in losses of JPY379mn, and JPY184mn in losses stemming from damage from the Great East Japan Earthquake.

With the corporate tax rate falling, Seria's tax rate fell from 53.3% to 30.4% between FY03/09 and FY03/18. The main reasons for the fall were a reduction in the statutory tax rate from 39.8% to 30.2% and the lowering of the inhabitant tax on a per-capita basis from 14.6% to 2.0%.

Balance sheet

Balance sheet (JPYmn)	FY03/09 Par.	FY03/10 Par.	FY03/11 Par.	FY03/12 Par.	FY03/13 Par.	FY03/14 Par.	FY03/15 Par.	FY03/16 Par.	FY03/17 Par.	FY03/18 Par.
ASSETS										
Cash and deposits	2,789	5,366	8,231	11,523	13,240	14,655	17,221	21,487	29,301	35,979
Accounts receivable	439	414	407	425	442	384	392	312	281	355
Inventories	9,656	9,745	9,369	9,521	9,648	10,014	10,767	12,365	13,562	14,433
Other current assets	1,927	2,341	2,647	3,026	3,104	4,003	3,944	4,724	5,141	5,785
Total current assets	**14,814**	**17,869**	**20,657**	**24,499**	**26,437**	**29,057**	**32,327**	**38,892**	**48,289**	**56,555**
Buildings (net)	2,780	2,830	3,281	3,350	3,750	4,473	5,738	6,691	8,288	10,159
Structures (net)	165	163	156	148	135	126	123	123	121	125
Vehicles (net)	12	7	15	9	10	10	6	4	2	1
Tool, furniture, and fixtures (net)	333	248	142	401	302	309	334	350	409	440
Land	949	949	979	979	979	940	940	940	940	940
Lease assets (net)	1,671	2,739	3,323	3,005	2,633	2,447	2,364	2,170	2,052	2,090
Construction in progress	-	-	3	-	-	10	2	12	11	1
Total tangible fixed assets	**5,914**	**6,939**	**7,902**	**7,895**	**7,812**	**8,317**	**9,511**	**10,292**	**11,826**	**13,758**
Total intangible fixed assets	**577**	**471**	**371**	**309**	**224**	**231**	**203**	**163**	**117**	**78**
Investment securities	246	260	235	148	164	142	181	160	170	169
Investments in capital of affiliates	33	33	33	33	33	33	33	33	33	33
Long-term loans	40	40	36	36	36	36	36	43	42	42
Long-term prepaid expenses	271	326	352	371	400	449	500	555	617	670
Differed tax assets	166	224	397	376	353	393	275	295	326	392
Lease and guarantee deposits	5,355	5,726	6,042	6,149	6,536	7,131	7,826	8,477	9,055	9,679
Other	215	249	273	305	253	362	261	271	288	287
Investments and other assets	**6,330**	**6,863**	**7,371**	**7,422**	**7,779**	**8,550**	**9,117**	**9,840**	**10,535**	**11,276**
Total fixed assets	**12,822**	**14,274**	**15,645**	**15,628**	**15,816**	**17,099**	**18,832**	**20,297**	**22,479**	**25,114**
Total assets	**27,637**	**32,143**	**36,302**	**40,127**	**42,253**	**46,157**	**51,160**	**59,189**	**70,768**	**81,669**
LIABILITIES										
Accounts payable	5,981	6,482	7,312	7,208	6,528	5,977	5,986	7,210	8,255	8,603
Short-term debt	2,533	2,644	2,588	2,180	2,033	1,387	810	433	460	-
Lease obligations	566	669	787	733	691	685	711	647	609	642
Accounts payable–other	530	509	560	1,079	889	744	769	936	1,272	1,745
Accrued expenses	1,087	1,241	1,346	1,500	1,607	1,724	1,874	2,059	2,355	2,839
Accrued consumption taxes	111	276	224	338	245	299	1,002	491	763	724
Income taxes payable	430	1,245	1,469	2,371	1,741	2,564	1,876	2,498	3,001	2,994
Other current liabilities	208	237	387	417	462	582	552	730	756	751
Total current liabilities	**11,451**	**13,308**	**14,680**	**15,832**	**14,201**	**13,968**	**13,586**	**15,011**	**17,476**	**18,303**
Long-term debt	5,017	5,178	4,615	3,384	3,091	1,703	893	460	-	-
Lease obligations	1,163	2,157	2,680	2,422	2,089	1,907	1,803	1,672	1,599	1,616
Net defined benefit liability	63	233	217	203	187	193	155	190	237	284
Other fixed liabilities	377	376	1,095	1,156	1,118	1,211	1,472	1,618	1,816	2,026
Total fixed liabilities	**6,622**	**7,946**	**8,608**	**7,167**	**6,487**	**5,017**	**4,326**	**3,943**	**3,654**	**3,929**
Total liabilities	**18,074**	**21,255**	**23,288**	**22,999**	**20,689**	**18,985**	**17,912**	**18,955**	**21,131**	**22,232**
Net assets										
Capital stock	1,278	1,278	1,278	1,278	1,278	1,278	1,278	1,278	1,278	1,278
Capital surplus	1,419	1,419	1,419	1,419	1,419	1,419	1,419	1,419	1,419	1,419
Retained earnings	6,893	8,198	10,327	14,430	18,853	24,479	30,524	37,528	46,925	56,725
Accumulated other comprehensive income	-28	-8	-12	-	12	-5	24	7	14	13
Total net assets	**9,562**	**10,887**	**13,013**	**17,128**	**21,563**	**27,171**	**33,247**	**40,234**	**49,637**	**59,436**
Working capital	4,114	3,677	2,464	2,738	3,562	4,421	5,173	5,467	5,588	6,185
Total interest-bearing debt	7,550	7,822	7,203	5,564	5,124	3,090	1,703	893	460	-
Net debt	4,761	2,456	-1,028	-5,959	-8,116	-11,565	-15,518	-20,594	-28,841	-35,979

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

Assets

Current assets

Current assets made up 69% of Seria's total assets in FY03/18. Cash and cash equivalents are a particularly large component of current assets (44% of total assets), followed by inventories (18%).

Seria mainly uses cash and cash equivalents to pay for replacement funds and to invest in store openings, with each store requiring around JPY40mn. Opening 150 stores (based on stores opened in FY03/18) would thus require around JPY6.0bn, which the company has enough cash and equivalents to cover. The company keeps cash in reserve for store openings so that it can take advantage of opportunities that may arise due to rapid changes in the operating environment.

Inventories tend to grow as the number of stores rises. In FY03/18, the inventory turnover ratio was 6.5x (6.4x in FY03/17), rising in the long term because of higher sales at existing stores and lower per-store inventories. Inventories per store (inventory assets ÷ number of directly managed stores) at the end of FY03/17 came to JPY9.9mn (JPY9.9mn at end-FY03/16).

Fixed assets

Fixed assets made up 31% of total assets, with tangible fixed assets and investments and other assets each accounting for 17% and 14%. Tangible fixed assets comprise buildings and lease assets. Investments and other assets are mainly deposits and key money and include store furnishings and fixtures, deposits, and guarantees. Fixed assets are on an upward trend due to the increase in the number of stores.

The company generally rents space for newly opened stores; headquarters land accounts for JPY867mn of Seria's land total of JPY940mn.

Liabilities

Liabilities center on current liabilities. Major line items are accounts payable and accrued expenses. Seria has been paying down interest-bearing debt since FY03/11. As of end-FY03/18, there was no interest-bearing debt. Net debt was a negative JPY36.0bn, with cash and cash equivalents far exceeding interest-bearing debt.

Net assets

In FY03/18, net assets totaled JPY59.4bn, and the equity ratio was 73%. At JPY56.7bn, retained earnings make up the bulk of net assets. Net assets rise as net income is retained. In FY03/05, Seria raised JPY1.1bn by issuing shares (2,300 shares), but the company has issued no new shares since.

Cash flow statement

Cash flow statement (JPYmn)	FY03/09 Par.	FY03/10 Par.	FY03/11 Par.	FY03/12 Par.	FY03/13 Par.	FY03/14 Par.	FY03/15 Par.	FY03/16 Par.	FY03/17 Par.	FY03/18 Par.
Cash flows from operating activities (1)	2,479	4,866	6,220	7,481	5,622	7,854	8,711	10,382	14,113	13,843
Pre-tax profit	1,680	2,994	4,307	7,662	8,170	10,157	10,553	11,973	15,143	16,265
Depreciation	1,756	1,892	2,034	2,222	2,166	2,208	2,400	2,732	2,646	2,707
Increase (decrease) in inventories	-505	-88	376	-152	-126	-365	-753	-1,597	-1,196	-871
Increase (decrease) in accounts payable	428	500	830	-104	-679	-551	9	1,245	1,044	348
Income taxed paid	-1,002	-882	-1,989	-2,517	-3,991	-3,252	-4,381	-3,530	-4,377	-4,952
Cash flows from investing activities (2)	-2,445	-1,649	-1,688	-1,535	-2,321	-3,075	-3,387	-3,517	-4,054	-4,599
Purchase of tangible fixed assets	-1,474	-1,073	-1,298	-1,302	-1,802	-2,171	-2,585	-2,767	-3,231	-3,671
Payment of guarantee deposits	-960	-848	-603	-597	-770	-922	-1,306	-1,046	-991	-1,055
Free cash flow (1+2)	34	3,217	4,532	5,946	3,301	4,779	5,324	6,865	10,059	9,244
Cash flows from financing activities	-352	-630	-1,615	-2,650	-1,587	-3,332	-2,858	-2,497	-2,244	-2,615
Proceeds from long-term debt	3,600	3,100	2,200	1,100	1,900	-	-	-	-	-
Repayments of long-term debt	-3,120	-2,827	-2,819	-2,738	-2,340	-2,033	-1,387	-810	-433	-460
Dividends paid	-189	-189	-189	-189	-379	-568	-758	-947	-1,137	-1,516
Repayments of lease obligations	-642	-712	-806	-822	-767	-730	-712	-739	-673	-639
Simple FCF (NI + A + B - C)	873	1,826	1,784	5,400	5,921	7,001	7,236	8,183	10,056	10,942
Depreciation and amortization (A)	1,756	1,892	2,034	2,222	2,166	2,208	2,400	2,732	2,646	2,707
Capital expenditures (B)	-1,668	-1,123	-1,355	-1,388	-1,871	-2,260	-2,636	-2,794	-3,244	-3,678
Increase (decrease) in working capital (C)	-1	437	1,213	-274	-824	-859	-752	-294	-121	-597

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

Cash flows from operating activities

Cash flows from operating activities are affected mainly by fluctuations in net income and depreciation and amortization expenses. Inventories rise in line with store openings, using cash. Higher accounts payable tend to absorb this impact.

Cash flows from investing activities

Cash flows from investing activities are mainly affected by capital investments at stores. These flows tend to be negative due to payments for the purchase of tangible fixed assets and making guarantee deposits. As the pace of store openings picks up, cash flows from investing activities are becoming more negative.

Cash flows from financing activities

Cash flows from financing activities tend to be negative, being made up of repayments of interest-bearing debt, dividend payments, and the settlement of lease obligations.

Since FY03/11, the company has worked actively to pay back interest-bearing debt. Interest-bearing debt fell from JPY7.2bn in FY03/11 to none in FY03/18.

Other information

History

Founded in 1987 as special-event sale business by Hiromitsu Kawai, uncle of the current president

Hiromitsu Kawai founded Sanyo Agency Co., Ltd., Seria's predecessor, in Gifu Prefecture in 1987. Initially, the company held special-event sales at general merchandisers and supermarkets, offering all products for JPY100.

At the time of the company's founding, explains Seria, many companies conducting special-event sales would report overly low sales figures to the retailers they rented space from. As rents were determined on the basis of sales, operators tended to report lower-than-actual sales to lower their rents. According to the company, Hiromitsu would report sales from special-event sales honestly. This candor earned him high marks with lessors and led to the company being able to hold special-event sales under favorable conditions.

The briskness of Seria's special-event sale business turned out to have a downside, as the company was late in opening permanent 100-yen stores. Seria opened its first in 1994, three years behind Daiso. As a result, Seria had relatively little opportunity to open stores in shopping malls and other shopping centers, where the frequency of visits from potential customers was relatively high. Instead, Seria mainly opened standalone stores.

In the early 1990s, as deflation was causing prices to fall, 100-yen stores were able to take advantage of exchange rates characterized by yen depreciation since the Plaza Accord to purchase products from China that were inexpensive due to low wages. By offering low-priced products to consumers, 100-yen stores grew by taking market share away from supermarkets in the household goods and personal effects categories. The situation changed as a result of the Asian currency crisis of 1998, which caused the yen to depreciate. Many 100-yen stores experienced financial difficulties, resulting in a shakeout that reduced the number of players from several hundred to an oligopoly of four (Daiso, Seria, Can Do, and Watts).

Eiji Kawai, current president, joins company

Eiji Kawai, the founder's nephew, joined the company in 2003 as managing director. At the time, Seria ranked third in the industry in sales, behind Daiso and Can Do, and lacked competitiveness. Financial soundness was also an issue; Seria had interest-bearing debt of JPY9.0bn, with net income of JPY240mn.

At that point, the mainstream strategy in the 100-yen store sector was to increase product offerings and use highly dense product displays to create a treasure-hunt style of shopping and encourage impulse purchases. Companies did not use POS systems. Eiji Kawai, however, hailed from Ogaki Kyoritsu Bank, where he had been in charge of developing a system to optimize loan receivables. He had experience in data analysis and application, and used sales data to rebuild Seria's finances.

In 2003, Seria registered its shares over the counter with the Japan Securities Dealers Association, raising JPY972mn from issuing new shares. The company used that money to introduce a POS system in 2004. In 2006, Seria began using an ordering support system that combined POS system data with proprietary data handling algorithms.

The ordering support system failed to deliver results in the first two years, and Seria posted two consecutive years of losses in FY03/08 and FY03/09. From FY03/10, the number of existing stores increased, sundries began accounting for a higher percentage of sales, and the company provided sales data to suppliers. These factors helped buoy GPM.

In FY03/09, Seria opened Color the Days, a store format for shopping malls. Color the Days stores had pared-down product offerings, achieved through the ordering support system, requiring less space for product displays. The stores were designed to attract women, with aisles wide enough to accommodate baby strollers, and displays of character goods appealing to women. These developments marked the introduction of stores providing mainly sundries.

Buoyed by the POS system, ordering support system, and Color the Days launches, Seria's operating performance grew faster than its competitors from FY03/10. Between FY03/09 and FY03/18, the average annual growth rate was 9.8% for sales and 30.0% for operating profit.

A key factor supporting this growth was a system using proprietary algorithms, which is difficult for competitors to emulate. Also, because Seria's ability to attract customers and sales per store have outpaced competitors, since FY03/14 the company has received an increasing number of requests from shopping centers to open stores, allowing it to replace competitors.

Date	Event
Oct. 1987	Sanyo Agency Co., Ltd., established
Feb. 1994	First permanent store opened
Aug. 1996	First standalone store opened
Mar. 1998	First store opened in a shopping center
Oct. 2001	First overseas franchised store opened, in Taiwan
Apr. 2003	Company name changed to Seria Co., Ltd.
Sep. 2003	Shares registered over the counter with Japan Securities Dealers Association
Sep. 2004	Real-time POS system introduced at all directly managed stores
Dec. 2004	Shares listed on the JASDAQ market
Sep. 2006	Ordering support system introduced at all directly managed stores
Nov. 2007	First Color the Days store opened
Apr. 2010	Listed on the JASDAQ market of the Osaka Securities Exchange
Jul. 2013	Listed on the JASDAQ (standard) market of the Tokyo Stock Exchange

News and topics

January 2018

On **January 31, 2018**, the company announced revisions to its dividend forecast.

Revision:
Revised forecast: year-end dividend of JPY30 (previous forecast year-end dividend of JPY25: announced in May 2017)

Reasons for the revision
Regarding profit distribution, Seria aims to pay a stable dividend while strengthening the management base and financial structure and also taking into account its profit levels and dividend payout ratio. For Q3, the company revised up its earnings forecast in October 2017, and its recent performance has been largely in line with revised forecast. Further, the company noted that its financial situation continues to improve and that it expects to complete the payment of interest-bearing debt by the end of FY03/18 as its financial situations is improving continuously. Following the comprehensive review of its financial situations such as cash flow, the company revised up its year-end dividend forecast to reflect these factors.

Major shareholders

Top shareholders	Shares held	Shareholding ratio
Hiro Corporation	22,800,000	30.06%
State Street Bank and Trust Company (Standing proxy: Hongkong and Shahghai Banking Corporation Limited, Tokyo Branch, Custody Department)	6,456,180	8.51%
Hiromitsu Kawai	3,240,000	4.27%
Jisaku Ito	2,980,000	3.93%
State Street Bank and Trust Company (Standing proxy: Mizuho Bank, Ltd., Settlement and Clearing Department)	2,975,000	3.92%
Japan Trustee Services Bank, Ltd. (Trust account)	2,742,900	3.62%
Akiyo Kawai	2,120,000	2.80%
The Ogaki Kyoritsu Bank Ltd.	1,395,000	1.84%
BBH Mathews Japan Fund (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	1,236,000	1.63%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,200,000	1.58%
Total shares issued	47,145,080	62.16%

Source: Shared Research based on company data
Note: Figures as of end-March 2018

Shareholder returns

While reinforcing its management foundation and financial structure, Seria aims to continue paying stable dividends, while taking profit levels and the dividend payout ratio into consideration. The company accumulates retained earnings to invest in new stores and the renovation of existing stores, boosting sales and return on equity and leading to higher shareholder returns over the long term.

In line with its policy of paying steady annual dividends, in FY03/19 the company plans to pay dividends of JPY50 per share (payout ratio of 32.4%), while taking into account profit levels and cash flows.

Corporate governance and top management

Corporate governance

Seria is a company with an Audit & Supervisory Board. The Board of Directors comprises four executive directors and three Audit & Supervisory Board members. Two of the Audit & Supervisory Board members are outside directors.

Corporate governance

Organization and capital structure	
Organization	Company with Audit & Supervisory Board
Controlling shareholder	N
Parent company code	-
Directors	
Number of directors (per Articles of Incorporation)	10 or fewer
Directors' term of office (per Articles of Incorporation) (years)	1
Outside directors (independent directors)	
Auditors	
Number of Audit & Supervisory Board members (per Articles of Incorporation)	4 or fewer
Outside Audit & Supervisory Board members (independent directors)	2
Other	
Participation in electronic voting platform	N
Submission of convocation notice (executive summary) in English	N
Disclosure of director compensation	Disclosure of total amount, and disclosure of total amount for members whose total compensation is JPY100mn or more

Disclosure of compensation amounts and policy for determining calculation method	N
Corporate takeover defenses	N

Top management

As of FY03/18, Seria had only one representative director: Eiji Kawai, who is the president and CEO.

President: Eiji Kawai

President Eiji Kawai was born in 1967 in Gifu Prefecture. He is the nephew of company founder Hiromitsu Kawai. In 1990, Eiji joined Ogaki Kyoritsu Bank following graduation from the Faculty of Economics at Doshisha University. After working in the planning of sales promotion and auditing, he became involved in developing a system to optimize the bank's loan receivables. Eiji joined Seria in 2003 as managing director. He was appointed president (his current position) in June 2014.

Profile

Company	Head office
Seria Co., Ltd.	2-38 Sobutsu, Ogaki, Gifu
Phone	**Listed on**
+81-584-89-8858	Tokyo Stock Exchange JASDAQ
Established	**Exchange listing**
October 1987	December 2004
Website	**Fiscal year-end**
http://www.seria-group.com/corporate/en/	March
IR contact	**IR site**
	http://www.seria-group.com/corporate/ir/
IR email	**IR phone**
m-kobayashi@seria-group.com	+81-584-89-8954

About Shared Research Inc.

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at http://www.sharedresearch.jp.

Current Client Coverage of Shared Research Inc.

Accordia Golf Trust
ADJUVANT COSME JAPAN CO., LTD.
Aeon Delight Co., Ltd.
Aeon Fantasy Co., Ltd.
Ai Holdings Corporation
ANEST IWATA Corporation
AnGes Inc.
Anicom Holdings, Inc.
Anritsu Corporation
Apaman Co., Ltd.
Arealink Co.,Ltd.
Artspark Holdings Inc.
AS ONE CORPORATION
Ateam Inc.
Aucfan Co., Ltd.
AVANT CORPORATION
Axell Corporation
Azbil Corporation
AZIA CO., LTD.
BEENOS Inc.
Bell-Park Co., Ltd.
Benefit One Inc.
B-lot Co.,Ltd.
Canon Marketing Japan Inc.
Career Design Center Co., Ltd.
Carna Biosciences, Inc.
CARTA HOLDINGS, INC
CERES INC.
Chiyoda Co., Ltd.
Chugoku Marine Paints, Ltd.
cocokara fine Inc.
COMSYS Holdings Corporation
CRE, Inc.
CREEK & RIVER Co., Ltd.
Daiseki Co., Ltd.
DIC Corporation
Digital Arts Inc.
Digital Garage Inc.
Dream Incubator Inc.
Earth Corporation
Elecom Co., Ltd.
en-Japan Inc.
euglena Co., Ltd.
Evolable Asia Corp.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
FreeBit Co., Ltd.
FRONTEO, Inc.
Fujita Kanko Inc.
Gamecard-Joyco Holdings, Inc.
GCA Corporation
Grandy House Corporation
Hakuto Co., Ltd.
Happinet Corporation
Harmonic Drive Systems Inc.
HOUSEDO Co., Ltd.
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
istyle Inc.
Itochu Enex Co., Ltd.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kenedix, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
Milbon Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
Oki Electric Industry Co., Ltd
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
Pan Pacific International Holdings Corporation
PARIS MIKI HOLDINGS Inc.
PIGEON CORPORATION
RACCOON HOLDINGS, Inc.
RESORTTRUST, INC.
ROUND ONE Corporation
RVH Inc.
RYOHIN KEIKAKU CO., LTD.
SanBio Company Limited
SANIX INCORPORATED
Sanrio Company, Ltd.
SATO HOLDINGS CORPORATION
SBS Holdings, Inc.
Seikagaku Corporation
Seria Co.,Ltd.
SHIP HEALTHCARE HOLDINGS, INC.
SIGMAXYZ Inc.
SMS Co., Ltd.
Snow Peak, Inc.
Solasia Pharma K.K.
SOURCENEXT Corporation
Star Mica Co., Ltd.
Strike Co., Ltd.
SymBio Pharmaceuticals Limited
Synchro Food Co., Ltd.
TAIYO HOLDINGS CO., LTD.
Takashimaya Company, Limited
Take and Give Needs Co., Ltd.
Takihyo Co., Ltd.
TEAR Corporation
Tenpo Innovation Inc.
3-D Matrix, Ltd.
TKC Corporation
TOKAI Holdings Corporation
Tri-Stage Inc.
VISION INC.
VISIONARY HOLDINGS CO., LTD.
WirelessGate, Inc.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
YUMESHIN HOLDINGS CO., LTD.
Yume no Machi Souzou Iinkai Co., Ltd.
Yushiro Chemical Industry Co., Ltd.
ZAPPALLAS, INC.

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

Contact Details

Shared Research Inc.
3-31-12 Sendagi Bunkyo-ku Tokyo, Japan
URL: https://sharedresearch.jp
Phone: +81 (0)3 5834-8787
Email: info@sharedresearch.jp