



Yellow Hat / 9882

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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.

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Key financial data

Income statement (JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Est.
Sales	95,178	103,110	117,482	120,671	121,788	125,961	129,817	137,865	139,200	143,000
YoY	5.1%	8.3%	13.9%	2.7%	0.9%	3.4%	3.1%	6.2%	1.0%	2.7%
Gross profit	24,233	26,937	34,228	37,004	38,690	42,602	46,681	51,761	53,621	
YoY	6.5%	11.2%	27.1%	8.1%	4.6%	10.1%	9.6%	10.9%	3.6%	
GPM	25.5%	26.1%	29.1%	30.7%	31.8%	33.8%	36.0%	37.5%	38.5%	
Operating profit	4,700	6,238	7,076	8,831	7,484	7,203	6,939	9,561	9,583	10,500
YoY	99.0%	32.7%	13.4%	24.8%	-15.3%	-3.8%	-3.7%	37.8%	0.2%	9.6%
OPM	4.9%	6.0%	6.0%	7.3%	6.1%	5.7%	5.3%	6.9%	6.9%	7.3%
Recurring profit	5,191	7,188	8,148	9,920	8,468	8,406	8,099	10,689	10,986	11,400
YoY	74.5%	38.5%	13.4%	21.7%	-14.6%	-0.7%	-3.7%	32.0%	2.8%	3.8%
RPM	5.5%	7.0%	6.9%	8.2%	7.0%	6.7%	6.2%	7.8%	7.9%	8.0%
Net income	2,910	5,244	6,060	7,296	5,542	5,612	5,580	6,839	7,329	7,600
YoY	76.6%	80.2%	15.6%	20.4%	-24.0%	1.3%	-0.6%	22.6%	7.2%	3.7%
Net margin	3.1%	5.1%	5.2%	6.0%	4.6%	4.5%	4.3%	5.0%	5.3%	5.3%
Per share data (split-adjusted; JPY)										
Shares issued (year-end; '000)	24,962	24,962	24,962	24,962	24,962	24,962	24,962	24,962	24,962	49,923
EPS	60.2	109.4	130.2	160.9	120.0	121.4	121.0	148.4	159.0	164.8
Dividend per share	9.0	12.0	16.0	20.0	23.0	27.0	30.0	33.0	36.0	40.0
Book value per share	795.0	893.8	1,034.4	1,176.8	1,282.1	1,373.3	1,469.1	1,588.6	1,708.8	
Balance sheet (JPYmn)										
Cash and deposits	1,823	5,851	7,381	4,314	4,125	2,360	3,643	7,414	13,003	
Other	26,503	29,786	33,591	37,090	37,692	40,198	42,521	41,781	41,171	
Total current assets	28,326	35,637	40,972	41,404	41,817	42,558	46,164	49,195	54,174	
Tangible fixed assets	29,834	29,495	27,428	27,488	29,042	30,377	32,727	34,927	35,549	
Investments and other assets	14,738	14,072	13,414	14,160	14,177	14,068	14,124	15,787	15,361	
Intangible fixed assets	1,323	782	306	199	458	502	468	376	234	
Total assets	74,223	79,987	82,122	83,252	85,496	87,506	93,485	100,286	105,320	
Accounts payable	7,461	8,496	10,649	11,374	10,502	10,912	11,298	10,412	10,246	
Short-term debt	5,225	4,149	6,374	1,549	1,251	-	-	-	-	
Total current liabilities	19,254	20,578	25,790	22,169	20,633	18,701	20,536	21,416	20,733	
Long-term debt	9,696	9,676	2,801	1,251	-	-	-	-	-	
Total fixed liabilities	16,895	16,159	9,382	7,704	5,500	5,247	5,125	5,506	5,645	
Total liabilities	36,150	36,738	35,172	29,874	26,133	23,949	25,661	26,923	26,379	
Net assets	38,072	43,249	46,950	53,378	59,362	63,556	67,824	73,363	78,940	
Total interest-bearing debt	14,921	13,825	9,175	2,800	1,251	-	-	-	-	
Cash flow statement (JPYmn)										
Cash flows from operating activities	7,137	6,171	11,179	8,273	4,552	5,515	7,567	9,696	10,575	
Cash flows from investing activities	-1,457	801	-1,766	-1,043	-3,964	-3,643	-4,301	-4,471	-3,266	
Cash flows from financing activities	-12,040	-3,009	-7,900	-7,300	-4,358	-3,638	-1,963	-1,454	-1,719	
Financial ratios										
ROA (RP-based)	6.7%	9.3%	10.1%	12.0%	10.0%	9.7%	8.9%	11.0%	10.7%	
ROE	7.9%	12.9%	13.4%	14.5%	9.8%	9.1%	8.5%	9.7%	9.6%	
Equity ratio	51.3%	54.1%	57.2%	64.1%	69.4%	72.6%	72.6%	73.2%	75.0%	

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

Recent updates

Highlights

On **July 31 2019**, Yellow Hat Ltd. announced earnings results for Q1 FY03/20; see the results section for details.

On **May 9, 2019**, the company announced earnings results for full-year FY03/19.

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

Trends and outlook

Quarterly trends and results

Cumulative (JPYmm)	FY03/19				FY03/20				FY03/20		FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.	% of FY	FY Est.
Sales	31,396	63,916	109,257	139,200	32,880				49.1%	67,000	23.0%	143,000
YoY	-1.3%	0.4%	1.5%	1.0%	4.7%					4.8%		2.7%
Gross profit	12,113	24,299	40,974	53,621	13,462							
YoY	-0.3%	2.2%	3.8%	3.6%	11.1%							
GPM	38.6%	38.0%	37.5%	38.5%	40.9%							
SG&A expenses	10,713	21,347	32,906	44,038	11,318							
YoY	4.8%	3.5%	3.6%	4.4%	5.6%							
SG&A ratio	34.1%	33.4%	30.1%	31.6%	34.4%							
Operating profit	1,399	2,952	8,068	9,583	2,144				56.4%	3,800	20.4%	10,500
YoY	-27.5%	-6.6%	4.3%	0.2%	53.3%					28.7%		9.6%
OPM	4.5%	4.6%	7.4%	6.9%	6.5%					5.7%		7.3%
Recurring profit	1,815	3,666	9,060	10,986	2,422				55.0%	4,400	21.2%	11,400
YoY	-17.9%	-0.1%	5.1%	2.8%	33.4%					20.0%		3.8%
RPM	5.8%	5.7%	8.3%	7.9%	7.4%					6.6%		8.0%
Net income	1,308	2,525	6,165	7,329	1,671				50.6%	3,300	22.0%	7,600
YoY	7.7%	12.6%	10.5%	7.2%	27.8%					30.7%		3.7%
Net margin	4.2%	4.0%	5.6%	5.3%	5.1%					4.9%		5.3%

Quarterly (JPYmm)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	31,396	32,520	45,341	29,943	32,880			
YoY	-1.3%	2.1%	3.1%	-1.0%	4.7%			
Gross profit	12,113	12,186	16,675	12,647	13,462			
YoY	-0.3%	4.8%	6.2%	3.1%	11.1%			
GPM	38.6%	37.5%	36.8%	42.2%	40.9%			
SG&A expenses	10,713	10,634	11,559	11,132	11,318			
YoY	4.8%	2.2%	3.9%	6.6%	5.6%			
SG&A ratio	34.1%	32.7%	25.5%	37.2%	34.4%			
Operating profit	1,399	1,553	5,116	1,515	2,144			
YoY	-27.5%	26.2%	11.7%	-16.8%	53.3%			
OPM	4.5%	4.8%	11.3%	5.1%	6.5%			
Recurring profit	1,815	1,851	5,394	1,926	2,422			
YoY	-17.9%	27.0%	8.9%	-6.8%	33.4%			
RPM	5.8%	5.7%	11.9%	6.4%	7.4%			
Net income	1,308	1,217	3,640	1,164	1,671			
YoY	7.7%	18.4%	9.1%	-7.7%	27.8%			
Net margin	4.2%	3.7%	8.0%	3.9%	5.1%			

Source: Shared Research based on company data

Q1 FY03/20 results

Earnings results for Q1 FY03/20 were as follows:

- ▷ **Sales:** JPY32.9bn (+4.7% YoY)
- ▷ **Operating profit:** JPY2.1bn (+53.3% YoY)
- ▷ **Recurring profit:** JPY2.4bn (+33.4% YoY)
- ▷ **Net income*:** JPY1.7bn (+5.1% YoY)

*Net income refers to net income attributable to parent company shareholders.

Against the full-year FY03/20 forecasts, sales reached 23.0%, operating profit 20.4%, recurring profit 21.2%, and net income 22.0%.

Sales increased overall thanks to strong performance in the sale of consumables. Gross profit was JPY13.5bn (+11.1% YoY). SG&A expenses rose to JPY11.3bn (+5.6% YoY) due mainly to higher rent and personnel expenses stemming from additional stores at subsidiaries.

In regard to sales breakdown, wholesale sales marked JPY10.4bn (+1.3% YoY) and retail sales JPY20.1bn (+6.5% YoY).

Automotive and motorcycle parts sales

- ▷ **Sales:** JPY31.3bn (+5.1% YoY)
- ▷ **Operating profit:** JPY1.9bn (+62.6% YoY)

As of end-June 2019, the company had a total of 839 stores and seven Yellow Hat automobile inspection centers. The breakdown of stores is as follows:

Domestic

- ▷ Yellow Hat: 730
- ▷ 2-Rin-Kan (motorcycle parts): 56
- ▷ SOX: 49

Overseas

- ▷ Yellow Hat: 4

Rental real estate

- ▷ **Sales:** JPY1.6bn (-2.0% YoY)
- ▷ **Operating profit:** JPY292mn (+12.0% YoY)

For details on previous quarterly and annual results, see the Historical performance section.

Full-year company forecasts

(JPYmn)	FY03/18			FY03/19			FY03/20		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Sales	63,643	74,222	137,865	63,916	75,284	139,200	67,000	76,000	143,000
YoY	7.1%	5.4%	6.2%	0.4%	1.4%	1.0%	4.8%	1.0%	2.7%
Cost of sales	39,856	46,247	86,103	39,616	45,962	85,578			
Gross profit	23,787	27,974	51,761	24,299	29,322	53,621			
YoY	11.8%	10.1%	10.9%	2.2%	4.8%	3.6%			
GPM	37.4%	37.7%	37.5%	38.0%	38.9%	38.5%			
SG&A expenses	20,626	21,574	42,200	21,347	22,691	44,038			
SG&A ratio	32.4%	29.1%	30.6%	33.4%	30.1%	31.6%			
Operating profit	3,160	6,401	9,561	2,952	6,631	9,583	3,800	6,700	10,500
YoY	70.3%	25.9%	37.8%	-6.6%	3.6%	0.2%	28.7%	1.0%	9.6%
OPM	5.0%	8.6%	6.9%	4.6%	8.8%	6.9%	5.7%	8.8%	7.3%
Recurring profit	3,668	7,021	10,689	3,666	7,320	10,986	4,400	7,000	11,400
YoY	56.2%	22.1%	32.0%	-0.1%	4.3%	2.8%	20.0%	-4.4%	3.8%
RPM	5.8%	9.5%	7.8%	5.7%	9.7%	7.9%	6.6%	9.2%	8.0%
Net income	2,242	4,597	6,839	2,525	4,804	7,329	3,300	4,300	7,600
YoY	39.4%	15.7%	22.6%	12.6%	4.5%	7.2%	30.7%	-10.5%	3.7%

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

For FY03/20, the company forecasts sales of JPY143.0bn (+2.7% YoY), operating profit of JPY10.5bn (+9.6% YoY), recurring profit of JPY11.4bn (+3.8% YoY), and net income of JPY7.6bn (+3.7% YoY).

Outlook

The company publishes an overview of its medium-term plan in an annual securities report.

The medium-term strategy is based on four key planks: improving store profitability, reducing procurement costs, new store rollouts, and strengthening its wholesale offering, as detailed below.

Improving store profitability

The company is focusing on boosting sales of tires and other consumables such as oil and batteries. It also aims to grow revenue from labor charges by expanding its car maintenance service menu such as inspections and body repairs and coating.

Reducing procurement costs

The company aims to reduce its CoGS and increase margins by making its logistics centers more efficient, boosting the number of private brand products it handles, and cutting costs by exploiting economies of scale through volume purchases.

New store rollouts

In Japan, the company is pursuing an aggressive rollout strategy comprising 30-40 stores annually in the Yellow Hat format via new stores, renovations, and transfers, assuming low-cost store openings based on local area marketing. In the motorcycle business, the company aims to build its network of Riders Stand (2-Rin-Kan) and Bikers Station (SOX). Overseas, the company aims to improve profitability in its Taiwanese and Chinese businesses.

Strengthening the wholesale offering

The company aims to develop new wholesale customers serving the general public, primarily through hardware stores. By bolstering its wholesale offering (which has relatively low fixed costs) the company aims to create a solid business platform to underpin earnings growth.

Specifically, this entails strengthening the wholesale offering through hardware stores and service stations using consolidated subsidiary Joyful, a manufacturer/vendor that makes and sells chemical products such as windshield washers and has a wholesale capability. The market for car accessories sold through hardware stores is estimated at roughly JPY100bn. In the medium term, the company hopes to have sales of JPY10bn in the general wholesale market.

Business

Description

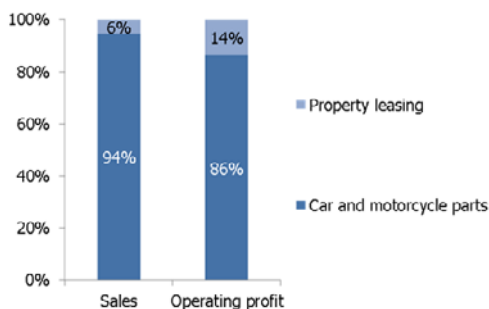
Yellow Hat sells car and motorcycle parts and accessories and provides complementary services. In the Japanese market the leading company by sales is Autobacs Seven (TSE1: 9832), followed by Yellow Hat. In FY03/15, Yellow Hat had sales of JPY121.8bn versus JPY209.5bn for Autobacs Seven. The company has two segments: car and motorcycle parts sales (94.5% of sales in FY03/15) and property leasing (5.5%). In the property business Yellow Hat leases store buildings to its sales subsidiaries, affiliates and group store operators.

Car and motorcycle parts sales

Its main format is the Yellow Hat auto accessories chain. The company also has a chain of 2-Rin-Kan stores, which sell motorcycle parts, and the SOX chain, which sells motorcycles.

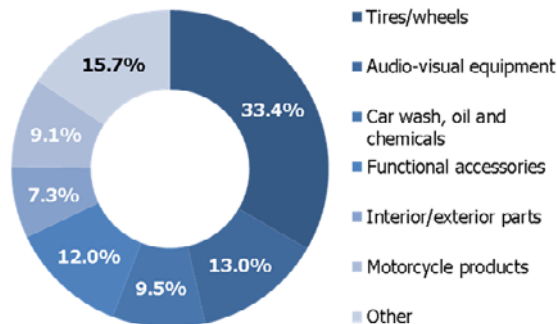
In FY03/15, sales by product were: tires/wheels, 33.4%; audio-visual equipment, 13.0%; car wash, oil and chemicals, 9.5%; functional accessories, 9.5%; interior/exterior goods, 12.0%; motorcycle products, 7.3%; and other, 9.1%. Gross profit margins are relatively low for car electronics such as audio-visual equipment due to falling prices amid stiff competition. Conversely, margins are relatively high for tires and consumables (batteries, oil etc.) because of steady demand growth in line with car ownership and distances traveled.

Segment sales and operating profit (FY03/15)



Source: Shared Research based on company data

Sales by product: car/motorcycle parts (FY03/15)

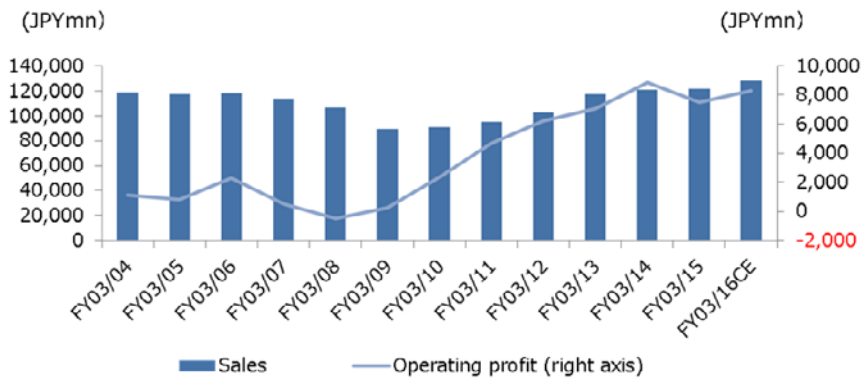


Source: Shared Research based on company data

Trends in sales and operating profit

In FY03/06, the company posted sales of JPY188.1bn (+0.6% YoY) and operating profit of JPY2.3bn (+188.7%, OPM of 1.9%). However, consumer sentiment subsequently deteriorated along with the economy, and the company lost its ability to coordinate its subsidiaries following consolidation among them in an attempt to boost efficiency. This led to a slump in sales and an increased SG&A expense burden. In FY03/07 operating profit fell 79.0% YoY to JPY478mn (OPM of 0.4%) and in FY03/08 Yellow Hat posted an operating loss of JPY507mn. Following the appointment of President Horie in October 2008, the company staged a dramatic turnaround. It concentrated resources on core businesses, cut costs and implemented stringent expense controls and operated stores under regional subsidiaries. In FY03/09, sales were JPY89.8bn (-15.8% YoY), but the company returned to the black with an operating profit of JPY279mn (OPM of 0.3%). The recovery in sales and profits continued from FY03/10 onward, with sales of JPY120.7bn (+2.7% YoY) in FY03/14 and OP of JPY8.8bn (+24.8%, OPM of 7.3%). In FY03/15, the company recorded higher sales but lower profits. This was due to a fall in sales of high-margin products such as tires (owing to a reaction to rush demand to buy tires ahead of the consumption tax hike the previous year and a warm winter) as well as higher SG&A expenses due to an increase in the number of subsidiary stores. Further, the company changed structure due to shifts in the wholesale/retail balance following store transfers and organizational reform. Now a greater proportion of sales increases flow through to profits.

Trends in sales and operating profit



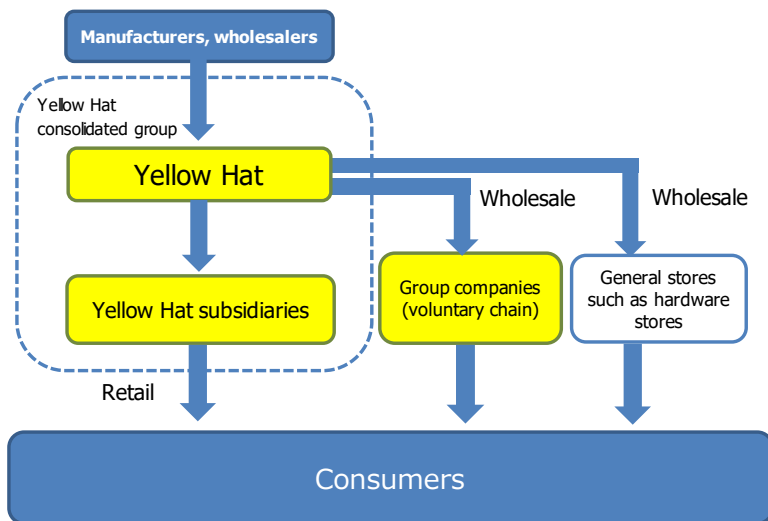
Source: Shared Research based on company data

Overview of business model

In the core car and motorcycle parts sales business, there are three selling formats: retail via stores directly managed by consolidated subsidiaries; wholesale sales to group companies (voluntary chain stores) and wholesale sales to general-purpose stores such as hardware stores. In FY03/15, sales by format in this segment were: retail, 48.9%; wholesale, 49.8% (to group companies (voluntary chains*), 41.3% and general wholesale, 8.5%). Until FY03/15, wholesale sales comprised a larger share of the total, but in FY03/16, retail sales overtook wholesale with shares of 52.9% and 45.4% respectively.

The rise in the share of retail was driven by two factors: an increased retail store presence due to acquisition of companies such as Monte-carlo Co., Ltd. (brand changed to Yellow Hat), Drivers Stand Co., Ltd. (for the brand “2-Rin-Kan”), and Will Co., Ltd. (“SOX”); and cases whereby some group companies found it impossible to continue operating stores as associates in the voluntary chain due to the lack of successors, so they were consolidated as subsidiaries.

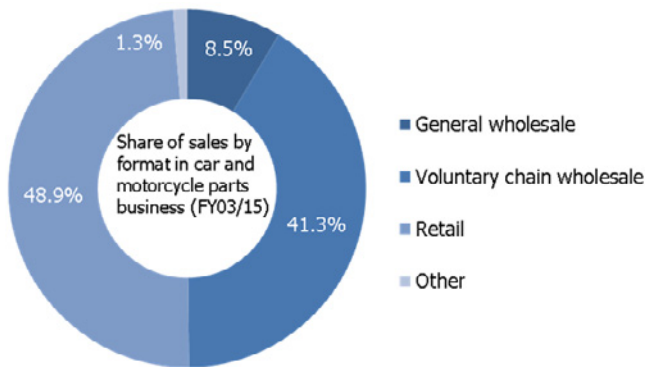
Three selling formats for Yellow Hat



Source: Shared Research based on company data

*A voluntary chain is a business format where retailers or wholesalers form an organization with the aim of joint procurement of merchandise. Under a franchise chain, the head company (franchisor) contracts with franchisees and supplies them with trademarks, products/services, and management expertise to help them carry out their selling activities.

Share of sales by format in car and motorcycle parts business (FY03/15)



Source: Shared Research based on company data

Retailing by subsidiary operated stores

Retail accounted for 48.9% of sales in the car and motorcycle parts sales business in FY03/15. Regional store management subsidiaries manage the stores. Collaboration between headquarters and the regional subsidiaries that operate stores is swift, so headquarters' intentions are amply reflected in operations. The company has also adopted an area specialization strategy which enables efficient management and store operation that reflects needs of the local community. However, while gross profit margins in retail are higher than in wholesale, so are fixed cost ratios. Therefore the volatility of profits due to upswings and downswings in sales is also high.

Wholesale

Wholesale accounted for 49.8% of sales in the car and motorcycle parts sales business in FY03/15. Wholesale has the advantage that the Yellow Hat group does not take on inventory risk, but margins are lower than those in the stores operated by Yellow Hat subsidiaries. Wholesale sales are to group companies (voluntary chain members) as well as general external parties such as hardware stores.

Wholesale sales to group companies (voluntary chain)

Wholesale sales to group companies (voluntary chain members) accounted for 41.3% of sales in the car and motorcycle parts sales business in FY03/15. The company generates revenue through wholesale sales of merchandise to group companies that operate voluntary chain stores under affiliation agreements.

Yellow Hat executes agreements between group companies and affiliated stores (voluntary chain members). This gives affiliates the right to use Yellow Hat's trademarks and management expertise with the appearance of being part of a single company. Management services include store operations (face-to-face sales, maintenance work etc.), merchandise management (ordering, sales floor construction) and store management (achieving sales targets, cost reductions, staff training etc.). Group companies procure merchandise from Yellow Hat and receive sales support from the company as it leverages its buying power in volume purchases and conducts advertising campaigns.

In a typical case, franchisees have to pay royalties as set forth in franchise agreements, but because Yellow Hat has adopted a voluntary chain format, it does not charge royalties. In contrast to subsidiary operated stores, the format of voluntary chain operated stores may reflect the direction set by headquarters, but they cannot be compelled to conform. As a result, group operated stores are allowed a certain degree of latitude with regard to format which goes outside standard formats such as selling cars for example.

Wholesale sales to hardware stores and other general customers

General wholesale sales accounted for 8.5% of sales in the car and motorcycle parts sales business in FY03/15. Yellow Hat generates revenue through wholesale sales of merchandise from its subsidiary companies to hardware stores and the like. Sales were JPY9.8bn in FY03/15, continuing the trend of YoY growth every year since FY03/11. While margins are lower than retail, fixed cost ratios are also lower, so the impact of declining sales on profits is relatively small.

Yellow Hat got its start as a wholesaler and had transactions with the majority of key hardware stores. As the number of Yellow Hat stores grew, the company focused management resources on the retail side and withdrew temporarily from low-margin wholesale sales to hardware stores. However, the company is once again working to grow its wholesale business. It thinks that bolstering this low-fixed-cost segment will strengthen its business platform and underpin profit growth. To this end it has been utilizing its consolidated subsidiary Joyful (which manufactures and sells chemical products and has wholesale capabilities) as well as its existing infrastructure of six offices and three logistics centers.

Keys to analyzing Yellow Hat

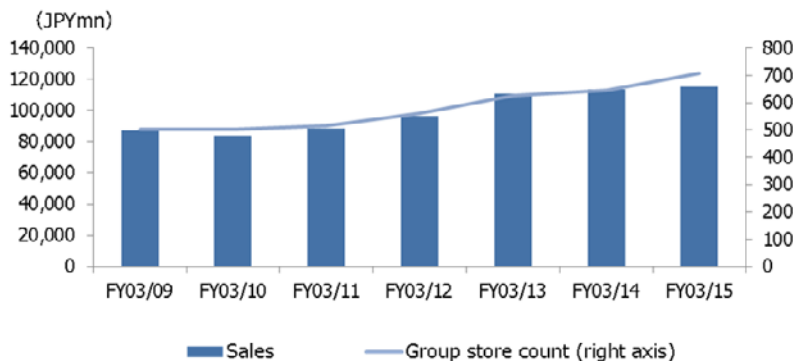
There are two key areas to focus on when analyzing Yellow Hat: store development (sales growth through new store openings) and improving store profitability.

Store development (sales growth through new store openings)

Per the company, its share of the domestic car parts market is just 10-20% (details discussed later). Due to companies closing down or withdrawing from the business of car dealerships, service stations and garages, the market is becoming increasingly concentrated and the market share of major players such as Yellow Hat and Autobacs is rising.

Meanwhile, the market for car parts in Japan is forecast to continue shrinking. Yellow Hat's strategy envisages YoY comparable store sales to be flat YoY in the medium term and aims to grow profits by new store openings. The aggressive store rollout program includes opening 30-40 stores in its key Yellow Hat format per annum combined with new stores for motorcycle accessories merchandiser 2-Rin-Kan and motorcycle seller SOX.

Yellow Hat: sales and group store numbers



Source: Shared Research based on company materials

Distinguishing feature: opening stores in vacated retail premises

One of the distinguishing characteristics of Yellow Hat is its expertise in low-cost store openings. The company often opens fully fitted out stores using the buildings and fixtures in premises vacated by businesses from other sectors. According to the company, its margins in newly opened stores are higher than others in the industry. For example, Autobacs often opens large urban stores in prime locations such as roadsides. In contrast, Yellow Hat has tended to open stores in vacated premises in regional areas with small commercial zones that are relatively low cost. According to the company, although store opening costs vary according to the property, its initial investment expenses are relatively low, enabling a quick turn to profits. The company used to have store opening criteria of selling space of 150 tsubo (496sqm) and site area of 1,000 tsubo (3306sqm), but it relaxes these when it enters vacated premises to at least 80 tsubo (264sqm) for selling space and 500 tsubo (1653sqm) for site area. Yellow Hat says that it has already worked to lower costs, including those of fixtures, so there is limited scope for major cuts to store opening costs.

Since around 2012, Autobacs has also adopted an aggressive store opening strategy in small commercial zones, but Yellow Hat thinks its target of 30-40 store openings per year is readily achievable in the medium and long terms. The company also argued that it has the advantage of accumulated expertise built up over its long history of opening stores in small catchment areas.

Further, Yellow Hat has a high share of retail sales in consolidated sales. They accounted for 46.2% of sales in FY03/15, compared with 39.2% Autobacs.

Stores

As of end-FY03/15 the company had 612 Yellow Hat stores in Japan and 14 overseas. 207 of these were operated by subsidiaries and 405 by group companies (voluntary chain companies, details in figure below). In addition it had 10 Monte-carlo shops (expected to be converted to Yellow Hat stores during FY03/16) and for motorcycles, it had 44 2-Rin-Kan stores and 28 SOX stores. Overseas, the company had 14 stores in Taiwan, China and the United Arab Emirates.

Yellow Hat store



2-Rin-Kan store (a complexed facility of three)



Source: Company data

Yellow Hat has plans to open 30-40 Yellow Hat format stores per annum by store openings, renovations and transfers, assuming low-cost openings based on local area marketing. The company also plans to expand its motorcycle store footprint under the Riders Stand (2-Rin-Kan) and Bikers Station (SOX) banners.

Number of stores (as of end of fiscal year)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15
By operator							
Directly managed	114	29	29	26	-	-	-
Subsidiary-managed	11	74	89	103	148	171	207
Franchise	358	381	382	401	412	408	405
Total stores (domestic)	483	484	500	530	560	579	612
By format							
Yellow Hat	478	480	495	525	551	569	596
YMS	2	2	3	3	3	3	3
Recycle market	3	2	2	2	2	2	2
Other	-	-	-	-	4	5	11
Total stores (domestic)	483	484	500	530	560	579	612
By area							
Hokkaido	27	27	27	28	28	28	28
(% of total domestic stores)	5.6%	5.6%	5.4%	5.3%	5.0%	4.8%	4.6%
Tohoku	97	99	102	107	110	111	113
(% of total domestic stores)	20.1%	20.5%	20.4%	20.2%	19.6%	19.2%	18.5%
Kanto	156	154	162	167	185	161	168
(% of total domestic stores)	32.3%	31.8%	32.4%	31.5%	33.0%	27.8%	27.5%
Chubu	60	60	62	69	64	67	107
(% of total domestic stores)	12.4%	12.4%	12.4%	13.0%	11.4%	11.6%	17.5%
Kinki/Shikoku	51	51	54	57	61	65	50
(% of total domestic stores)	10.6%	10.5%	10.8%	10.8%	10.9%	11.2%	8.2%
Chugoku	45	46	46	49	54	57	59
(% of total domestic stores)	9.3%	9.5%	9.2%	9.2%	9.6%	9.8%	9.6%
Kyushu	47	47	47	53	58	60	66
(% of total domestic stores)	9.7%	9.7%	9.4%	10.0%	10.4%	10.4%	10.8%
Total stores (domestic)	483	484	500	530	560	579	612
Total stores (overseas)	20	20	17	15	15	15	14
Yellow Hat stores total	503	504	517	545	575	594	626
Monte-carlo	-	-	-	15	12	11	10
2-Rin-Kan	1	2	2	1	38	40	44
SOX	-	-	-	-	-	-	28
Monte-carlo stores total	1	2	3	17	50	51	82
Yellow Hat group stores total	503	504	517	562	625	645	708

Source: Shared Research based on company materials

Stores openings and closures

Number of stores (as of end of fiscal year)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15
Openings	19	13	19	34	39	23	46
Domestic	16	10	18	34	38	23	43
Overseas	3	3	1	0	1	0	3
Closures	27	12	6	6	9	4	14
Domestic	25	9	2	4	8	4	10
Overseas	2	3	4	2	1	0	4
Total number of stores	503	504	517	545	575	594	626
Domestic	483	484	500	530	560	579	612
Overseas	20	20	17	15	15	15	14

Note: domestic stores include directly managed stores, subsidiary-managed stores, and franchise stores.
Source: Shared Research based on company materials

The company has internal guidelines regarding the closure of unprofitable stores. Normally **the company will try to revitalize the store** (e.g., replacing the management team) first, and shut the store only as a last resort. As the Yellow Hat store format is suited for expansion into smaller sales regions, the company and its partners can quickly exploit store opening opportunities, like replacing closed (gas) service stations and car dealerships.

Overseas business

Yellow Hat operates stores in Taiwan through subsidiaries and China via JVs: as of April 2016 it had five in Taiwan and seven in China. Operating results show up below the operating line as income from affiliates. The company has a franchise contract in the United Arab Emirates for one store, as opposed to direct investments. Revenue sources are commissions, royalty payments (unlike in Japan), and wholesale sales. The company does not specifically disclose earnings from its overseas businesses. Shared Research thinks that overseas contributions are minor. Yellow Hat said that a challenge going forward was improving the profitability of its existing overseas stores and that it has no intention of aggressively growing its overseas business.

Improving store profitability

The operating environment for the company is challenging. There is unlikely to be much growth in new car sales due to the low birthrate and graying of society and the evolving interests of the younger generation is seeing the number of car enthusiasts wane. However, due to an increase in the average useful life of automobiles, automobile ownership (number of passenger cars) is steadily rising. The consumables subsector of the car parts market is growing. As a result, Yellow Hat is shifting its business model away from one that targets the new car market (flow business) to one that targets cars already on the road (stock business). It is thus beefing up its offerings in tires and other consumables and growing sales of inspections and services to boost profitability at individual stores.

Meanwhile, sales of car navigation and audiovisual systems installed in cars have been declining markedly since FY03/12 due to price falls and the trend to have them as standard equipment in new cars.

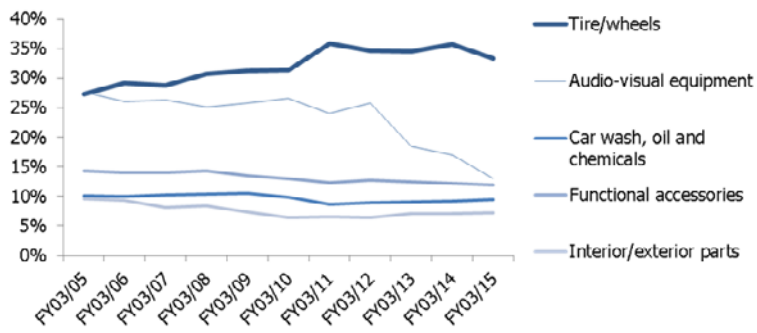
According to the company, a rising share in sales of tires and consumables (batteries, oil etc.) which have high gross profit margins is contributing to the improvement in store profitability.

Distinguishing feature of Yellow Hat: high share of tires and wheels in sales

There is a large share of tires and wheels in consolidated sales for Yellow Hat (31.5% in FY03/15 versus 25.6% for Autobacs). The company aims to distinguish itself from the competition by boosting its tire sales. Initiatives on this front saw tires and wheels grow to account for 33.7% of sales in FY03/14 from 24.8% in FY03/07 (they declined to 31.5% in FY03/15 due to heavy snows and a reactionary fall to the rush to beat the consumption tax hike in the prior year). The company said that economies of scale due to growth in tire sales brought an increase in buying power, contributing to higher operating profits. Also, the company's equity method affiliate (Hotman: JASDAQ 3190) has 85 stores primarily in the Tohoku and northern Kanto regions, and has expertise in selling high-margin radial tires.

A combination of growing tire sales and growth in the number of high-margin retail stores saw the OPM improve from 0.4% in fiscal 2007 to 6.1% in FY03/15.

Yellow Hat: share of sales by product



Source: Shared Research based on company materials

Cost structure

Summary income statement

	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	95,178	103,110	117,482	120,671	121,788
Gross profit	24,233	26,937	34,228	37,004	38,690
SG&A	19,533	20,699	27,152	28,172	31,205
Salaries and allowances	6,030	6,042	8,574	8,737	10,103
Rent	2,815	2,742	3,735	3,982	4,572
Advertising and promotion	NA	2,859	3,576	4,307	4,621
Other	10,688	9,056	11,267	11,146	11,909
Operating profit	4,700	6,238	7,076	8,832	7,485
	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15
	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	25.5%	26.1%	29.1%	30.7%	31.8%
SG&A	20.5%	20.1%	23.1%	23.3%	25.6%
Salaries and allowances	6.3%	5.9%	7.3%	7.2%	8.3%
Rent	3.0%	2.7%	3.2%	3.3%	3.8%
Advertising and promotion	NA	2.8%	3.0%	3.6%	3.8%
Other	11.2%	8.8%	9.6%	9.2%	9.8%
Operating profit	4.9%	6.0%	6.0%	7.3%	6.1%

Source: Shared Research based on company materials

Gross profit

The gross profit margin increased from 25.5% in FY03/11 to 31.8% in FY03/15. This was due to growth in the number of retail sales format stores, which have higher margins than the competition, and growing revenue from labor on the service side.

SG&A expenses

Meanwhile, due to an increasing share of retail business, the SG&A expense ratio rose from 20.5% in FY03/11 to 25.6% in FY03/15.

Still, growth in gross profit outstripped that in the SG&A expense line, for an increase in the OPM.

As mentioned previously, for Yellow Hat, when sales of high-margin retail business expand, fixed expenses grow at the same time due to the company's earnings structure. In other words, a higher share of retail sales means that there is a commensurately larger decline in profit when sales decline. To ameliorate the impact, Yellow Hat is boosting general wholesale sales to hardware stores. By attaining a balance between retail sales, wholesale sales to group companies and general wholesale sales, the company aims to stabilize its earnings structure.

Market and value chain

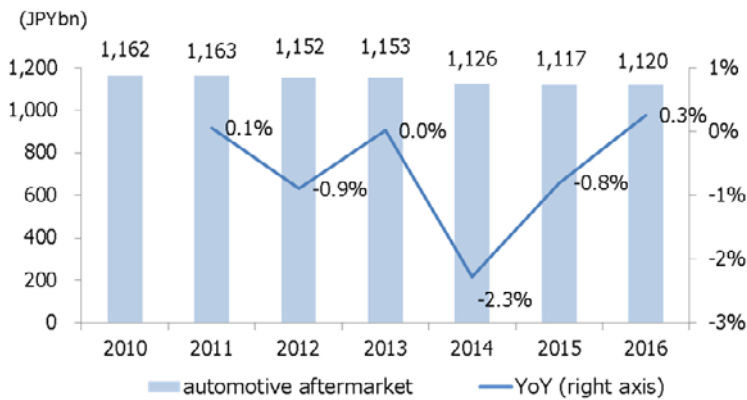
Market overview

In 2014, the Japanese aftermarket car parts market fell by 2.3% YoY to JPY1.13tn (based on value of manufacturers' domestic shipments). The market remains in a downtrend due to a drop in the number of car enthusiasts among the youth, and the reluctance of consumers to spend on car parts and accessories. In 2014 there was a reactionary drop-off following a rush to beat the consumption tax hike the year prior. There was a particularly large fall in audiovisual equipment because of a growing tendency to have OEM car navigation systems preinstalled in new cars.

Estimates were for a further 0.8% drop in 2015 to JPY1.12tn before a slight recovery of 0.3% YoY to JPY1.12tn in 2016 owing to a spike in demand to beat the next hike in the consumption tax. (Source: Yano Research Institute, Automotive Aftermarket 2015).

Going forward, there is little hope of a large increase in the number of new car sales or cars on the road, which drives demand in the sector. Furthermore, price declines for car accessories accompanying the trend toward smaller cars with increasingly sophisticated accessories installed and further extensions to car lifecycles mean that the market is likely to continue to shrink.

Trends in Japan's car-parts aftermarket (based on value of manufacturers' domestic shipments).

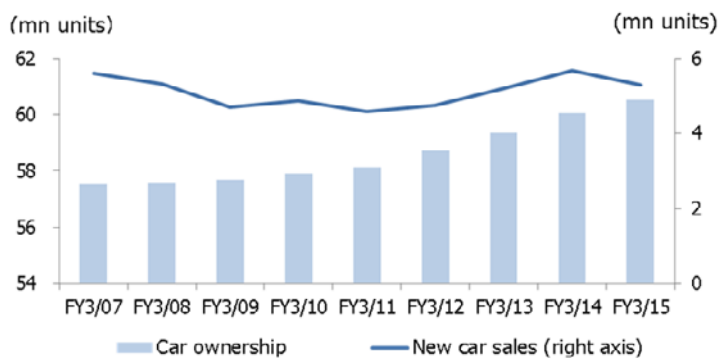


Source: Shared Research based on Yano Research Institute materials

Rising car ownership

The uptrend in car ownership continues as the average life of automobiles continues to lengthen. In 2015 there were roughly 60mn vehicles on the road (around 55mn in 2004). The average service life for passenger cars was around 12 years, +2.4 years since 2000. At the same time, the average age of cars on the road was eight years, +2.5 years since 2000. Therefore steady growth in demand for maintenance, inspections and repairs is in prospect.

Car ownership and new car sales



Source: Shared Research Based on Automobile Inspection & Registration Information Association materials

Yellow Hat thinks it has room to grow its share of car parts and accessories stores in the domestic market, for several reasons: consolidation among automobile dealers; closure of service stations; and garages going out of business due to lack of successors.

In 2011 market shares in the car parts and accessories market were: car dealers, 39%; auto accessory stores, 28%; tire stores, 17%; service (gas) stations, 9%; and other, 7% (source: AM NETWORK magazine). Starting from around 2008, there was consolidation among car dealers and service station closures. In 2014 there were 14,762 car dealers (16,213 in 2007) and 25,275 service stations (34,127).

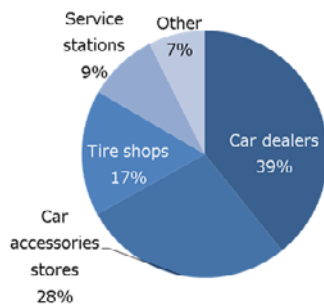
Gasoline demand declined as cars became more fuel-efficient, and an increase in self-service gas stations made it difficult to sell merchandise, crimping profits at service stations. Furthermore, we understand that many garages are closing due to lack of a successor to take over the business.

While the market for car parts is shrinking as mentioned previously, the number of participants is shrinking more quickly, meaning that survivors such as Yellow Hat and Autobacs stand to gain. Data on share of sales by retailer type are not available since 2011 (when the source of the data, AM NETWORK, ceased publication) but according to Yellow Hat, auto accessory shops are growing their market share and there is room for further growth, in the company's view.

According to Yellow Hat, major auto accessory store companies are able to procure merchandise more cheaply than service stations and car dealers, because the auto accessory stores handle large volumes of merchandise. Further, compared with manufacturer affiliated tire stores, auto accessory stores are able to deal in products from a wider variety of manufacturers.

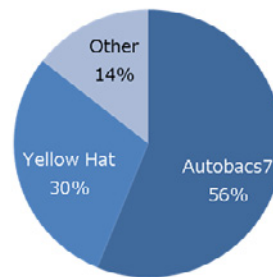
As of FY03/15, Autobacs held about 56% of the Japanese market for car parts and accessories stores with Yellow Hat at 30%, so the two majors accounted for nearly 90% of the entire market.

Retailers' share of car parts market by type (2011)



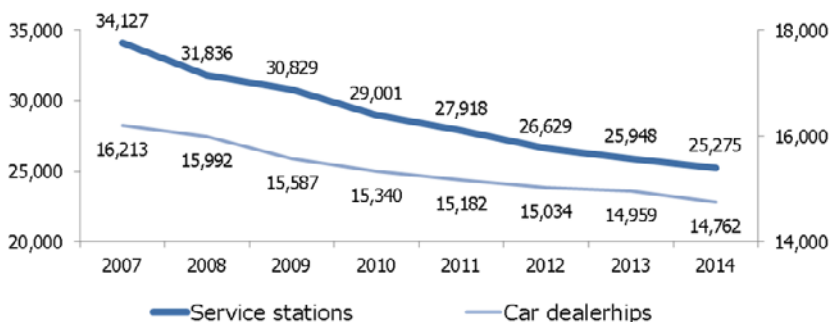
Source: Shared Research based on AM NETWORK Magazine data

Share in the Japanese car-parts stores (FY03/15)



Source: Shared Research based on Auto-Parts & Accessories Retail Association and company briefing materials
Note: Data for Autobacs Seven refer to car accessories sales and services in Japanese Autobacs Seven chain store sales; data for Yellow Hat are data for all Yellow Hat stores by item on the shop floor

Trends in numbers of service stations and car dealerships in Japan



Source: Shared Research based on petroleum industry materials

In addition, online stores have certain levels of share in the sales of car parts and accessories. Shared Research notes, however, that for many car products (tires, oil, to some extent car electronics and installable accessories) buying online only suits enthusiasts. This is because once the product is bought it needs to be installed/applied. This renders the advantages of internet shopping, convenience and cost, less valuable. One needs to go to a mechanic to have tires replaced and pay for fitting. Therefore, until a company sells extremely low cost products online and has easily accessible and low cost physical service points, internet shopping should remain an incremental threat.

Competition

Autobacs Seven and Yellow Hat account for the majority of the car parts market. Other players include Tacti Corporation (an unlisted Toyota-group company; franchises JMS stores), Autowave Co., Ltd. (JASDAQ: 2666), and Auto R's Co., Ltd.(unlisted). There used to be more competitors, but Yellow Hat acquired Monte-carlo in 2011, Driver Stand in 2012, and Will in 2014.

Business performance of major two car-parts vendors

Yellow Hat										
(JPYmn)	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	106,526	89,614	90,589	95,178	103,110	117,482	120,671	121,788	125,961	
YoY	-6.5%	-15.9%	1.1%	5.1%	8.3%	13.9%	2.7%	0.9%	3.4%	
Gross profit	29,014	24,394	22,749	24,233	26,937	34,228	37,004	38,690	42,602	
YoY	-9.5%	-15.9%	-6.7%	6.5%	11.2%	27.1%	8.1%	4.6%	10.1%	
GPM	27.2%	27.2%	25.1%	25.5%	26.1%	29.1%	30.7%	31.8%	33.8%	
Operating profit	-507	279	2,362	4,700	6,238	7,076	8,831	7,484	7,203	
YoY	-	-155.0%	746.6%	99.0%	32.7%	13.4%	24.8%	-15.3%	-3.8%	
OPM	-	0.3%	2.6%	4.9%	6.0%	6.0%	7.3%	6.1%	5.7%	

Autobacs										
(JPYmn)	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	266,429	259,144	232,936	236,350	237,342	230,168	231,697	209,454	208,142	
YoY	9.9%	-2.7%	-10.1%	1.5%	0.4%	-3.0%	0.7%	-9.6%	-0.6%	
Gross profit	82,852	81,193	73,996	75,739	77,036	75,729	76,907	66,902	60,266	
YoY	10.8%	-2.0%	-8.9%	2.4%	1.7%	-1.7%	1.6%	-13.0%	-9.9%	
GPM	31.1%	31.3%	31.8%	32.0%	32.5%	32.9%	33.2%	31.9%	29.0%	
Operating profit	6,936	5,090	10,171	11,988	13,720	12,745	13,944	6,403	6,701	
YoY	-43.2%	-26.6%	99.8%	17.9%	14.4%	-7.1%	9.4%	-54.1%	4.7%	
OPM	2.6%	2.0%	4.4%	5.1%	5.8%	5.5%	6.0%	3.1%	3.2%	

Source: Shared Research based on company data

Comparison to Autobacs

Autobacs Seven has a larger sales floor and greater sales per store than Yellow Hat, and more stores in the Tokyo metropolitan area and the Kansai region (a western Japan area including cities such as Osaka and Kyoto). Yellow Hat stores are smaller, suitable for smaller markets like regional cities.

Shared Research thinks that the difference between the two companies stems from reasons as follows:

- ▷ Autobacs Seven moved into retail early, and aggressively expanded in the key metropolitan areas of Kanto and Kansai;
- ▷ Autobacs Seven derives royalty revenues from franchisees linked to sales. It thus has an incentive to push for more big stores to maximize retail revenues.

Further, according to the company, since Autobacs Seven launched its retail activities, it has run aggressive advertising and promotion campaigns in the media, so its profile is extremely high, and its sales per square meter of selling space is greater than that for Yellow Hat.

Also, Yellow Hat is not involved in buying or selling cars, but Autobacs Seven is making an aggressive push in this area. It had expanded car dealer services to 451 of its 584 stores in Japan as of end-FY03/15. Yellow Hat's strategy is focused on improving profits in the domestic business rather than its overseas operations. Autobacs Seven is working to develop its overseas business as it sees this as a new growth driver and is expanding primarily in the ASEAN region.

Strengths and weaknesses

Strengths

- ▶ **Powerful leadership of President Horie, who revamped management.** Yellow Hat's earnings had deteriorated to an operating loss of JPY500mn in FY03/08, but turned around to a record operating profit of JPY8.8bn in FY03/14. Shared Research thinks that the recovery in performance is largely attributable to the strong leadership of President Horie. Specifically, Mr. Horie spearheaded an improvement in profits via the following: focusing resources on core businesses; cost cuts and comprehensive expense control; and migrating store management to regional subsidiaries.
- ▶ **Expertise in opening stores in vacated premises enables flexible store rollout.** One standout feature of Yellow Hat is its expertise in low-cost store openings. The company occupies premises vacated by companies from other sectors, making use of the buildings and fixtures left behind. According to Yellow Hat, the profitability of its newly opened stores is higher than others in the industry. Although store opening costs vary by property, its initial investment expenses are relatively low, enabling a quick turn to profits.
- ▶ **High margins and capital efficiency.** In FY03/15, Yellow Hat had an OPM of 9.8% and recurring profit to total assets ratio of 10.0%—higher than the corresponding figures for Autobacs, 3.1% and 4.3% respectively. The difference reflects the fact that Yellow Hat has shifted its product range to high-margin tires, batteries and oil, as well as cost cuts and thorough expense control. In FY03/15, tires and wheels accounted for 31.5% of Yellow Hat's sales versus just 25.6% for Autobacs.

Weaknesses

- ▶ **Relatively low sales per store.** In FY03/15, Yellow Hat had sales per store of JPY190mn (sales for domestic Yellow Hat format stores divided by number of stores at the end of the period). This was just about half the levels for Autobacs of JPY420mn (totals for Super Autobacs and Autobacs divided by the number of stores at the end of the period). Shared Research thinks that this is because Autobacs has its stores in prime locations, a wide range of products and high profile.
- ▶ **Relying on voluntary chain format means weak control.** The voluntary chain is a business format whereby members (independent retailers) join primarily to reduce procurement prices through joint purchases of merchandise. Businesses involved in a voluntary chain have more independence than those in a franchise, so Yellow Hat has limited involvement in the management. In contrast, the company's competitor Autobacs uses a franchise system. As such, it is actively involved in management, providing its operating and sales expertise primarily with the aim of growing sales for the franchiser.
- ▶ **Low profile.** Autobacs has for a long time put a great deal of effort into promotional activities, employing celebrities such as baseball stars Kiyoshi Nakahata (of the Yomiuri Giants) and Masayuki Kakefu (Hanshin Tigers) in television commercials. This has implanted the idea that Autobacs is synonymous with anything to do with cars in consumers' minds. Autobacs has established a dominant position in the Japanese car part store sector with a 56% market share (FY03/15). Yellow Hat has not traditionally been as aggressive in its marketing activities as Autobacs, so its profile is low in comparison.

Historical performance

Full-year FY03/19 results

Earnings results for full-year FY03/19 were as follows:

- ▷ **Sales:** JPY139.2bn (+1.0% YoY)
- ▷ **Operating profit:** JPY9.6bn (+0.2% YoY)
- ▷ **Recurring profit:** JPY11.0bn (+2.8% YoY)
- ▷ **Net income*:** JPY7.3bn (+7.2% YoY)

*Net income refers to net income attributable to parent company shareholders.

In terms of progress rates against the full-year FY03/19 forecasts, sales reached 98.1%, operating profit 101.4%, recurring profit 103.0%, and net income 104.3%.

Sales increased overall thanks to profit growth in pit services and an increase in the number of subsidiary stores, despite a substantial downward impact from the absence of rush demand for tires that occurred before price hike in FY03/18 and a YoY decline in tire sales due in part to less-than-usual snowfall throughout Japan. Gross profit was JPY53.6bn (+3.6% YoY); SG&A expenses rose to JPY44.0bn (+4.4% YoY) due mainly to higher rent and personnel expenses stemming from additional stores at subsidiaries.

In regard to sales breakdown, wholesale sales marked JPY49.6bn (-4.1% YoY) and retail sales JPY80.5bn (+4.2% YoY).

Automotive and motorcycle parts sales

- ▷ **Sales:** JPY132.8bn (+1.1% YoY)
- ▷ **Operating profit:** JPY8.5bn (-1.3% YoY)

As of end FY03/19, the company had a total of 835 stores and seven Yellow Hat automobile inspection centers. The breakdown of stores is as follows:

Domestic

- ▷ Yellow Hat: 728
- ▷ 2-Rin-Kan (motorcycle parts): 56
- ▷ SOX: 47

Overseas

- ▷ Yellow Hat: 4

Rental real estate

- ▷ **Sales:** JPY6.4bn (-0.9% YoY)
- ▷ **Operating profit:** JPY1.1bn (+13.9% YoY)

Q3 FY03/19 results

Earnings results for Q3 FY03/19 were as follows:

- ▷ **Sales:** JPY109.3bn (+1.5% YoY)

- ▷ **Operating profit:** JPY8.1bn (+4.2% YoY)
- ▷ **Recurring profit:** JPY9.1bn (+5.1% YoY)
- ▷ **Net income*:** JPY6.2bn (+10.5% YoY)

*Net income refers to net income attributable to parent company shareholders.

In terms of progress rates against the full-year FY03/19 forecasts, sales reached 77.0%, operating profit 85.4%, recurring profit 84.9%, and net income 87.8%.

Sales increased overall thanks to profit growth in pit services, an increase in the number of subsidiary stores, and robust sales at tire chains, despite a substantial downward impact from the absence of rush demand for tires that occurred before price hike during Q3 of the previous year. Gross profit was JPY41.0bn (+3.8% YoY); SG&A expenses rose to JPY32.9bn (+3.6% YoY) due mainly to higher rent and personnel expenses stemming from additional stores at subsidiaries.

In regard to sales breakdown, wholesale sales marked JPY40.1bn (-3.7% YoY) and retail sales JPY62.3bn (+5.0% YoY).

Automotive and motorcycle parts sales

- ▷ **Sales:** JPY104.5bn (+1.6% YoY)
- ▷ **Operating profit:** JPY7.2bn (+3.9% YoY)

As of end-Q3 FY03/19, the company had a total of 830 stores and seven Yellow Hat automobile inspection centers. The breakdown of stores is as follows:

Domestic

- ▷ Yellow Hat: 725
- ▷ 2-Rin-Kan (motorcycle parts): 55
- ▷ SOX: 46

Overseas

- ▷ Yellow Hat: 4

Rental real estate

- ▷ **Sales:** JPY4.8bn (-0.8% YoY)
- ▷ **Operating profit:** JPY831mn (+7.1% YoY)

1H FY03/19 results

Earnings results for 1H FY03/19 were as follows:

- ▷ **Sales:** JPY63.9bn (+0.4% YoY)
- ▷ **Operating profit:** JPY3.0bn (-6.6% YoY)
- ▷ **Recurring profit:** JPY3.7bn (-0.1% YoY)
- ▷ **Net income*:** JPY2.5bn (+12.6% YoY)

*Net income refers to net income attributable to parent company shareholders.

The company revised its consolidated performance forecasts for FY03/19 based on performance trends thus far. In terms of progress rates against the revised full-year FY03/19 forecasts, sales reached 45.0%, operating profit 31.2%, recurring profit 34.4%, and net income 35.9%.

Tire sales fell YoY due the absence of demand rush that occurred before price rises during the previous year. This fall had a large impact on wholesale and retail sales, but sales increased overall thanks to profit growth in pit services and an increase in the number of subsidiary stores. Gross profit was JPY24.3bn (+2.2% YoY); SG&A expenses rose to JPY21.3bn (+3.5% YoY) due mainly to higher rent and personnel expenses stemming from additional stores at subsidiaries.

In regard to sales breakdown, wholesale sales marked JPY22.0bn (+94.6% YoY) and retail sales JPY37.3bn (+4.0% YoY).

Automotive and motorcycle parts sales

- ▷ **Sales:** JPY60.7bn (+0.5% YoY)
- ▷ **Operating profit:** JPY2.4bn (-9.1% YoY)

As of end-1H FY03/19, the company had a total of 822 stores and seven Yellow Hat automobile inspection centers. The breakdown of stores is as follows:

Domestic

- ▷ Yellow Hat: 717
- ▷ 2-Rin-Kan (motorcycle parts): 55
- ▷ SOX: 46

Overseas

- ▷ Yellow Hat: 4

Rental real estate

- ▷ **Sales:** JPY3.2bn (-0.7% YoY)
- ▷ **Operating profit:** JPY557mn (+6.1% YoY)

Q1 FY03/19 results

Earnings results for Q1 FY03/19 were as follows:

- ▷ **Sales:** JPY31.4bn (-1.3% YoY)
- ▷ **Operating profit:** JPY1.4bn (-27.5% YoY)
- ▷ **Recurring profit:** JPY1.8bn (-17.9% YoY)
- ▷ **Net income*:** JPY1.3bn (+7.7% YoY)

*Net income refers to net income attributable to parent company shareholders.

In terms of progress against the full-year FY03/19 forecasts, sales reached 22.0%, operating profit 14.4%, recurring profit 16.8%, and net income 17.9%.

Sales were down YoY despite an increase in the number of stores, since tire sales fell in the absence of a demand rush (in Q1 FY03/18) preceding a price hike. Gross profit was JPY12.1bn (-0.3% YoY); SG&A expenses rose to JPY10.7bn (+4.8% YoY) due mainly to higher rent and personnel costs stemming from additional stores at subsidiaries.

In regard to sales breakdown, wholesale sales marked JPY10.2bn (-7.5% YoY) and retail sales JPY18.9bn (+2.0% YoY).

Automotive and motorcycle parts sales

- ▷ **Sales:** JPY29.7bn (-1.3% YoY)
- ▷ **Operating profit:** JPY1.1bn (-32.2% YoY)

As of end-Q1 FY03/19, the company had a total of 812 stores and seven Yellow Hat automobile inspection centers. The breakdown of stores is as follows:

Domestic

- ▷ Yellow Hat: 706
- ▷ 2-Rin-Kan (motorcycle parts): 55
- ▷ SOX: 46

Overseas

- ▷ Yellow Hat: 5

Rental real estate

- ▷ **Sales:** JPY1.6bn (-0.3% YoY)
- ▷ **Operating profit:** JPY261mn (+4.2% YoY)

Other information

History

Hidesaburo Kagiyama founded the company in 1961 as a car parts wholesale business. The name: Royal. In 1982 the first Yellow Hat group store opened, and from 1990 the number of stores grew rapidly (December 1992: 200 stores, April 1995: 300 stores, March 1997: 400 stores). In 1997 the company listed on the TSE 1st Section and changed its name to Yellow Hat Ltd. In the mid-2000s, efforts toward diversification and unifying subsidiary sales companies ended in failure and the company posted substantial losses for two consecutive years in FY03/08-FY03/09. **President Horie took over in October 2008.** The company then began to diversify its subsidiary sales companies by region, and focus management resources on its core business.

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Koeikikaku, Ltd.	3,137	13.60%
YELLOW HAT Kyowakai	1,381	5.98%
JP Morgan Chase Bank 385632 (Standing proxy: Mizuho Bank, Ltd., Settlement Depart	1,142	4.95%
The Master Trust Bank of Japan, Ltd. (Trust account)	940	4.07%
Japan Trustee Services Bank, Ltd. (Trust account)	866	3.75%
Japan Trustee Services Bank, Ltd. (Trust account 9)	529	2.29%
MUFG Bank, Ltd.	495	2.14%
GOVERNMENT OF NORWAY (Standing proxy: Citibank N.A. Tokyo Branch)	402	1.74%
Koichiro Kagiyama	394	1.70%
Japan Trustee Services Bank, Ltd. (Trust account 5)	364	1.57%
SUM	9,652	41.84%

Source: Shared Research based on company data
As of March 31, 2019

Koeikikaku is a real estate company run by Koichiro Kagiyama, the previous president and a member of the founding family. The direct and indirect ownership ratio including shares in the name of Koichiro Kagiyama is 15.3%.

Dividends, shareholder benefits

Yellow Hat aims for a consolidated dividend payout ratio of 25% while taking its annual consolidated earnings, financial condition and investment plans into account. The company's full-year FY03/17 dividend forecast is JPY60 (JPY30 for the interim and year-end dividend).

Profile

Company	Head office
Yellow Hat Ltd.	1-4-16 Nihonbashi Bakuro-cho Chuo-ku Tokyo, Japan 103-0002
Phone	Listed
+81-3-5695-1600	Tokyo Stock Exchange 1st Section
Established	Exchange listing
March 15, 1962	December 15, 1995
Fiscal year-end	
March	

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>.

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Artspark Holdings Inc.	Inabata & Co., Ltd.	RVH Inc.
AS ONE CORPORATION	Infocom Corporation	RYOHIN KEIKAKU CO., LTD.
Ateam Inc.	Infomart Corporation	SanBio Company Limited
Aucfan Co., Ltd.	Intelligent Wave, Inc.	SANIX INCORPORATED
AVANT CORPORATION	ipet Insurance CO., Ltd.	Sannio Company, Ltd.
Axell Corporation	istyle Inc.	SATO HOLDINGS CORPORATION
Azbil Corporation	Itochu Enex Co., Ltd.	SBS Holdings, Inc.
AZIA CO., LTD.	JSB Co., Ltd.	Seikagaku Corporation
AZoom, Co., Ltd.	JTEC Corporation	Seria Co.,Ltd.
BEENOS Inc.	J Trust Co., Ltd	SHIFT Inc.
Bell-Park Co., Ltd.	Japan Best Rescue System Co., Ltd.	SHIP HEALTHCARE HOLDINGS, INC.
Benefit One Inc.	JINS HOLDINGS Inc.	SIGMAXYZ Inc.
B-lot Co.,Ltd.	JP-HOLDINGS, INC.	SMS Co., Ltd.
Broadleaf Co., Ltd.	KAMEDA SEIKA CO., LTD.	Snow Peak, Inc.
Canon Marketing Japan Inc.	Kenedix, Inc.	Solasia Pharma K.K.
Career Design Center Co., Ltd.	KFC Holdings Japan, Ltd.	SOURCENEXT Corporation
Carna Biosciences, Inc.	KI-Star Real Estate Co., Ltd.	Star Mica Holdings Co., Ltd.
CARTA HOLDINGS, INC	Kodotec Inc.	Strike Co., Ltd.
CERES INC.	Kumiai Chemical Industry Co., Ltd.	Symbio Pharmaceuticals Limited
Chiyoda Co., Ltd.	Lasertec Corporation	Synchro Food Co., Ltd.
Chugoku Marine Paints, Ltd.	LUCKLAND CO., LTD.	TAIYO HOLDINGS CO., LTD.
cocokara fine Inc.	MATSUI SECURITIES CO., LTD.	Takashimaya Company, Limited
COMSYS Holdings Corporation	Medical System Network Co., Ltd.	Take and Give Needs Co., Ltd.
CRE, Inc.	MEDINET Co., Ltd.	Takihyo Co., Ltd.
CREEK & RIVER Co., Ltd.	MedPeer, Inc.	TEAR Corporation
Daiichi Kigenso Kagaku Kogyo Co., Ltd.	Mercuria Investment Co., Ltd.	Tempo Innovation Inc.
Daiseki Co., Ltd.	Micronics Japan Co., Ltd.	3-D Matrix, Ltd.
DIC Corporation	Milbon Co., Ltd.	TKC Corporation
Digital Arts Inc.	MIRAIT Holdings Corporation	TOKAI Holdings Corporation
Digital Garage Inc.	Monex Goup Inc.	TOYOBO CO., LTD.
Dream Incubator Inc.	MORINAGA MILK INDUSTRY CO., LTD.	Toyo Ink SC Holdings Co., Ltd
Earth Corporation	NAGASE & CO., LTD	Toyo Tanso Co., Ltd.
Elecom Co., Ltd.	NAIGAI TRANS LINE LTD.	Tri-Stage Inc.
en-Japan Inc.	NanoCarrier Co., Ltd.	VISION INC.
euglena Co., Ltd.	Net One Systems Co.,Ltd.	VISIONARY HOLDINGS CO., LTD.
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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