



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	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
Sales	95,178	103,110	117,482	120,671	121,788	125,961	129,817	137,865	139,200	141,031	142,000
YoY	5.1%	8.3%	13.9%	2.7%	0.9%	3.4%	3.1%	6.2%	1.0%	1.3%	0.7%
Gross profit	24,233	26,937	34,228	37,004	38,690	42,602	46,681	51,761	53,621	56,517	
YoY	6.5%	11.2%	27.1%	8.1%	4.6%	10.1%	9.6%	10.9%	3.6%	5.4%	
Gross profit margin	25.5%	26.1%	29.1%	30.7%	31.8%	33.8%	36.0%	37.5%	38.5%	40.1%	
Operating profit	4,700	6,238	7,076	8,831	7,484	7,203	6,939	9,561	9,583	10,093	10,300
YoY	99.0%	32.7%	13.4%	24.8%	-15.3%	-3.8%	-3.7%	37.8%	0.2%	5.3%	2.1%
Operating profit margin	4.9%	6.0%	6.0%	7.3%	6.1%	5.7%	5.3%	6.9%	6.9%	7.2%	7.3%
Recurring profit	5,191	7,188	8,148	9,920	8,468	8,406	8,099	10,689	10,986	11,095	11,200
YoY	74.5%	38.5%	13.4%	21.7%	-14.6%	-0.7%	-3.7%	32.0%	2.8%	1.0%	0.9%
Recurring profit margin	5.5%	7.0%	6.9%	8.2%	7.0%	6.7%	6.2%	7.8%	7.9%	7.9%	7.9%
Net income	2,910	5,244	6,060	7,296	5,542	5,612	5,580	6,839	7,329	7,334	7,400
YoY	76.6%	80.2%	15.6%	20.4%	-24.0%	1.3%	-0.6%	22.6%	7.2%	0.1%	0.9%
Net margin	3.1%	5.1%	5.2%	6.0%	4.6%	4.5%	4.3%	5.0%	5.3%	5.2%	5.2%
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	49,923	49,923	
EPS	60.2	109.4	130.2	160.9	120.0	121.4	121.0	148.4	159.0	159.1	
Dividend per share	9.0	12.0	16.0	20.0	23.0	27.0	30.0	33.0	36.0	46.0	
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	1,827.1	
Balance sheet (JPYmn)											
Cash and deposits	1,823	5,851	7,381	4,314	4,125	2,360	3,643	7,414	13,003	8,199	
Other	26,503	29,786	33,591	37,090	37,692	40,198	42,521	41,781	41,171	42,293	
Total current assets	28,326	35,637	40,972	41,404	41,817	42,558	46,164	49,195	54,174	50,492	
Tangible fixed assets	29,834	29,495	27,428	27,488	29,042	30,377	32,727	34,927	35,549	42,070	
Investments and other assets	14,738	14,072	13,414	14,160	14,177	14,068	14,124	15,787	15,361	16,267	
Intangible fixed assets	1,323	782	306	199	458	502	468	376	234	730	
Total assets	74,223	79,987	82,122	83,252	85,496	87,506	93,485	100,286	105,320	109,560	
Accounts payable	7,461	8,496	10,649	11,374	10,502	10,912	11,298	10,412	10,246	9,375	
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	19,459	
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	5,680	
Total liabilities	36,150	36,738	35,172	29,874	26,133	23,949	25,661	26,923	26,379	25,139	
Net assets	38,072	43,249	46,950	53,378	59,362	63,556	67,824	73,363	78,940	84,420	
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	7,726	
Cash flows from investing activities	-1,457	801	-1,766	-1,043	-3,964	-3,643	-4,301	-4,471	-3,266	-10,777	
Cash flows from financing activities	-12,040	-3,009	-7,900	-7,300	-4,358	-3,638	-1,963	-1,454	-1,719	-1,753	
Financial ratios											
ROA (RP-based)	6.7%	9.3%	10.1%	12.0%	10.0%	9.7%	8.9%	11.0%	10.7%	10.3%	
ROE	7.9%	12.9%	13.4%	14.5%	9.8%	9.1%	8.5%	9.7%	9.6%	9.0%	
Equity ratio	51.3%	54.1%	57.2%	64.1%	69.4%	72.6%	72.6%	73.2%	75.0%	77.1%	

Source: Shared Research based on company data

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

Recent updates

Highlights

On **August 24, 2020**, Shared Research updated the report following interviews with Yellow Hat Ltd.

On **July 31, 2020**, the company announced earnings results for Q1 FY03/21; see the results section for details.

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

Trends and outlook

Quarterly trends and results

Cumulative (JPYmn)	FY03/20				FY03/21				FY03/21		FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	1H Est.	% of Est.	FY Est.
Sales	32,880	71,530	112,361	141,031	31,133				51.0%	61,000	21.9%	142,000
YoY	4.7%	11.9%	2.8%	1.3%	-5.3%					-14.7%		0.7%
Gross profit	13,462	28,373	44,309	56,517	13,041							
YoY	11.1%	16.8%	8.1%	5.4%	-3.1%							
Gross profit margin	40.9%	39.7%	39.4%	40.1%	41.9%							
SG&A expenses	11,318	22,670	34,640	46,423	11,242							
YoY	5.6%	6.2%	5.3%	5.4%	-0.7%							
SG&A ratio	34.4%	31.7%	30.8%	32.9%	36.1%							
Operating profit	2,144	5,702	9,669	10,093	1,798				62.0%	2,900	17.5%	10,300
YoY	53.3%	93.2%	19.8%	5.3%	-16.1%					-49.1%		2.1%
Operating profit margin	6.5%	8.0%	8.6%	7.2%	5.8%					4.8%		7.3%
Recurring profit	2,422	6,159	10,447	11,095	2,067				62.6%	3,300	18.5%	11,200
YoY	33.4%	68.0%	15.3%	1.0%	-14.7%					-46.4%		0.9%
Recurring profit margin	7.4%	8.6%	9.3%	7.9%	6.6%					5.4%		7.9%
Net income	1,671	4,236	7,130	7,334	1,369				59.5%	2,300	18.5%	7,400
YoY	27.8%	67.8%	15.7%	0.1%	-18.1%					-45.7%		0.9%
Net margin	5.1%	5.9%	6.3%	5.2%	4.4%					3.8%		5.2%

Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	32,880	38,650	40,831	28,670	31,133			
YoY	4.7%	18.8%	-9.9%	-4.3%	-5.3%			
Gross profit	13,462	14,911	15,936	12,208	13,041			
YoY	11.1%	22.4%	-4.4%	-3.5%	-3.1%			
Gross profit margin	40.9%	38.6%	39.0%	42.6%	41.9%			
SG&A expenses	11,318	11,352	11,970	11,783	11,242			
YoY	5.6%	6.8%	3.6%	5.8%	-0.7%			
SG&A ratio	34.4%	29.4%	29.3%	41.1%	36.1%			
Operating profit	2,144	3,558	3,967	424	1,798			
YoY	53.3%	129.1%	-22.5%	-72.0%	-16.1%			
Operating profit margin	6.5%	9.2%	9.7%	1.5%	5.8%			
Recurring profit	2,422	3,737	4,288	648	2,067			
YoY	33.4%	101.9%	-20.5%	-66.4%	-14.7%			
Recurring profit margin	7.4%	9.7%	10.5%	2.3%	6.6%			
Net income	1,671	2,565	2,894	204	1,369			
YoY	27.8%	110.8%	-20.5%	-82.5%	-18.1%			
Net margin	5.1%	6.6%	7.1%	0.7%	4.4%			

Source: Shared Research based on company data

Quarterly performance by segment

Cumulative (JPYmm)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	32,880	71,530	112,361	141,031	31,133			
YoY	4.7%	11.9%	2.8%	1.3%	-5.3%			
Auto and Motorcycle Parts Sales	31,314	68,405	107,669	134,775	29,536			
YoY	5.1%	12.7%	3.1%	1.5%	-5.7%			
Wholesale	10,381	24,884	40,574	49,153	9,470			
YoY	1.3%	13.0%	1.2%	-0.8%	-8.8%			
General stores	2,896	6,004	10,036	12,732	2,928			
YoY	10.9%	16.4%	5.1%	4.4%	1.1%			
Group stores	7,484	18,879	30,537	36,420	6,542			
YoY	-2.0%	11.9%	0.0%	-2.5%	-12.6%			
Sales per store	20	50	81	97	18			
YoY	-1.3%	13.1%	1.4%	-0.9%	-11.1%			
Retail	20,093	41,849	64,719	82,468	19,192			
YoY	6.5%	12.1%	3.8%	2.4%	-4.5%			
Sales per store	57	118	181	229	52			
YoY	-1.7%	4.0%	-3.4%	-4.5%	-8.3%			
Other	839	1,672	2,375	3,153	873			
YoY	24.3%	22.2%	16.5%	16.2%	4.1%			
Real Estate Lease	1,566	3,124	4,691	6,256	1,597			
YoY	-2.0%	-2.3%	-2.1%	-2.1%	2.0%			
Gross profit	13,462	28,373	44,309	56,517	13,041			
YoY	11.1%	16.8%	8.1%	5.4%	-3.1%			
Gross profit margin	40.9%	39.7%	39.4%	40.1%	41.9%			
SG&A expenses	11,318	22,670	34,640	46,423	11,242			
YoY	5.6%	6.2%	5.3%	5.4%	-0.7%			
SG&A ratio	34.4%	31.7%	30.8%	32.9%	36.1%			
Operating profit	2,144	5,702	9,669	10,093	1,798			
YoY	53.3%	93.2%	19.8%	5.3%	-16.1%			
Operating profit margin	6.5%	8.0%	8.6%	7.2%	5.8%			
Auto and Motorcycle Parts Sales	1,851	5,119	8,797	8,940	1,443			
YoY	62.7%	113.7%	21.6%	5.4%	-22.0%			
OPM	5.9%	7.5%	8.2%	6.6%	4.9%			
Real Estate Lease	292	582	871	1,153	354			
YoY	11.9%	4.5%	4.8%	4.7%	21.2%			
OPM	18.6%	18.6%	18.6%	18.4%	22.2%			

Quarterly (JPYmm)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	32,880	38,650	40,831	28,670	31,133			
YoY	4.7%	18.8%	-9.9%	-4.3%	-5.3%			
Auto and Motorcycle Parts Sales	31,314	37,091	39,264	27,106	29,536			
YoY	5.1%	20.0%	-10.2%	-4.4%	-5.7%			
Wholesale	10,381	14,503	15,690	8,579	9,470			
YoY	1.3%	23.2%	-13.1%	-9.4%	-8.8%			
General stores	2,896	3,108	4,032	2,696	2,928			
YoY	10.9%	22.2%	-8.2%	2.1%	1.1%			
Group stores	7,484	11,395	11,658	5,883	6,542			
YoY	-2.0%	23.4%	-14.7%	-13.9%	-12.6%			
Sales per store	20	31	31	16	18			
YoY	-1.3%	25.3%	-12.9%	-11.5%	-11.1%			
Retail	20,093	21,756	22,870	17,749	19,192			
YoY	6.5%	17.9%	-8.6%	-2.5%	-4.5%			
Sales per store	57	61	63	48	52			
YoY	-1.7%	9.5%	-14.4%	-8.3%	-8.3%			
Other	839	833	703	778	873			
YoY	24.3%	20.2%	4.8%	15.4%	4.1%			
Real Estate Lease	1,566	1,558	1,567	1,565	1,597			
YoY	-2.0%	-2.5%	-1.9%	-1.9%	2.0%			
Gross profit	13,462	14,911	15,936	12,208	13,041			
YoY	11.1%	22.4%	-4.4%	-3.5%	-3.1%			
Gross profit margin	40.9%	38.6%	39.0%	42.6%	41.9%			
SG&A expenses	11,318	11,352	11,970	11,783	11,242			
YoY	5.6%	6.8%	3.6%	5.8%	-0.7%			
SG&A ratio	34.4%	29.4%	29.3%	41.1%	36.1%			
Operating profit	2,144	3,558	3,967	424	1,798			
YoY	53.3%	129.1%	-22.5%	-72.0%	-16.1%			
Operating profit margin	6.5%	9.2%	9.7%	1.5%	5.8%			
Auto and Motorcycle Parts Sales	1,851	3,268	3,678	143	1,443			
YoY	62.7%	160.0%	-24.0%	-88.5%	-22.0%			
OPM	5.9%	8.8%	9.4%	0.5%	4.9%			
Real Estate Lease	292	290	289	282	354			
YoY	11.9%	-2.0%	5.5%	4.4%	21.2%			
OPM	18.6%	18.6%	18.4%	18.0%	22.2%			

Source: Shared Research based on company data

Store count

(number of stores)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total number of stores	839	843	849	849	846			
Net increase	4	8	14	10	-3			
Yellow Hat (Japan)	730	733	739	738	736			
Net increase	2	5	11	10	-2			
Openings	4	10	19	21	3			
Closures	2	5	8	11	5			
Wholly owned subsidiaries	357	360	367	367	365			
Net increase	11	14	21	21	-2			
Group company stores	373	373	372	371	371			
Net increase	-9	-9	-10	-11	-			
2-Rin-Kan	56	55	55	56	56			
Net increase	-	-1	-1	-	-			
Bikers' Station SOX	49	51	51	52	51			
Net increase	2	4	4	5	-1			
Yellow Hat (overseas)	4	4	4	3	3			
Net increase	-	-	-	-1	-			

Source: Shared Research based on company data

YoY comparison of sales by product category at all Yellow Hat stores

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All-store retail sales	29,779	62,441	100,735	127,129	27,194			
YoY	3.7%	11.9%	1.6%	-0.7%	-8.7%			
Comparable-store sales YoY	3.1%	11.2%	1.0%	-1.3%	-9.2%			
Tires	4%	20%	1%	-1%	-13%			
Aluminum wheels	-8%	20%	-13%	-16%	-15%			
Audio, navigation systems, other	3%	19%	13%	5%	-27%			
Engine oil	3%	2%	1%	1%	-6%			
Batteries	10%	6%	3%	4%	11%			
Maintenance and car washing	3%	2%	-1%	-1%	8%			
Interior accessories	-1%	-3%	-3%	-5%	-5%			
Exterior accessories	0%	6%	-33%	-37%	-5%			
Functional products	2%	2%	0%	-1%	-1%			
Services	7%	13%	6%	4%	-7%			
Inspection	12%	10%	3%	-1%	-3%			

Source: Shared Research based on company data

*Audio, navigation system, other: car navigation systems, drive recorders, audio equipment, electronic toll collection (ETC) devices, and other products

*Services: wages for maintenance work, installation or replacement work, and other services

Q1 FY03/21 results

- ▷ **Sales:** JPY31.1bn (-5.3% YoY)
- ▷ **Operating profit:** JPY1.8bn (-16.1% YoY)
- ▷ **Recurring profit:** JPY2.1bn (-14.7% YoY)
- ▷ **Net income*:** JPY1.4bn (-18.1% YoY)

*Net income attributable to owners of the parent.

Against the 1H FY03/21 forecast, Q1 results saw sales achieve 51.0%, operating profit 62.0%, recurring profit 62.6%, and net income attributable to owners of the parent 59.5%.

The business environment in Q1 FY03/21 in the car accessories industry saw declining customer visits and stagnant sales in high-ticket items such as tires and car navigation systems due to the impact of the COVID-19 outbreak. According to the company, however, since June 2020 following the lifting of the state of emergency, customer traffic has increased and sales of high-ticket items have started to recover.

- ▷ Q1 FY03/21 sales and gross profit declined YoY. Revenue from both sales and accompanying installation fees declined for high-ticket items such as tires, car navigation systems, and drive recorders.
- ▷ The sales breakdown showed wholesale sales of JPY9.5bn (-8.8% YoY) and retail sales of JPY19.2bn (-4.5% YoY).

- ▷ SG&A expenses declined 0.7% YoY. While higher rent and personnel expenses were incurred from additional stores at subsidiaries, this was offset by lower advertising levels during the emergency declaration period. Profit items from the operating profit and below declined on a YoY basis.

Auto and Motorcycle Parts Sales

- ▷ **Sales:** JPY29.5bn (-5.7% YoY)
- ▷ **Operating profit:** JPY1.4bn (-22.0% YoY)

Q1 FY03/21 saw three openings and five closings of Yellow Hat stores in Japan. Outside of Yellow Hat stores, the company closed one Bikers' Station SOX store. As of end-June 2020, the company had a total of 846 stores and seven Yellow Hat automobile inspection centers. The breakdown of stores is as follows:

Japan

- ▷ Yellow Hat: 736
- ▷ 2-Rin-Kan (motorcycle parts): 56
- ▷ SOX: 51

Overseas

- ▷ Yellow Hat: 3

Real Estate Lease

- ▷ **Sales:** JPY1.6bn (+2.0% YoY)
- ▷ **Operating profit:** JPY354mn (+21.2% YoY)

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

Full-year company forecast

(JPYmn)	FY03/20			FY03/21		
	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Sales	71,530	69,501	141,031	61,000	81,000	142,000
YoY	11.9%	-7.7%	1.3%	-14.7%	16.5%	0.7%
Cost of sales	43,156	41,358	84,514	34,549	49,151	83,700
Gross profit	28,373	28,144	56,517	26,451	31,849	58,300
YoY	16.8%	-4.0%	5.4%	-6.8%	13.2%	3.2%
Gross profit margin	39.7%	40.5%	40.1%	43.4%	39.3%	41.1%
SG&A expenses	22,670	23,753	46,423	23,551	24,449	48,000
SG&A ratio	31.7%	34.2%	32.9%	38.6%	30.2%	33.8%
Operating profit	5,702	4,391	10,093	2,900	7,400	10,300
YoY	93.2%	-33.8%	5.3%	-49.1%	68.5%	2.1%
Operating profit margin	8.0%	6.3%	7.2%	4.8%	9.1%	7.3%
Recurring profit	6,159	4,936	11,095	3,300	7,900	11,200
YoY	68.0%	-32.6%	1.0%	-46.4%	60.0%	0.9%
Recurring profit margin	8.6%	7.1%	7.9%	5.4%	9.8%	7.9%
Net income	4,236	3,098	7,334	2,300	5,100	7,400
YoY	67.8%	-35.5%	0.1%	-45.7%	64.6%	0.9%

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

Sales breakdown

(JPYmn)	FY03/19	FY03/20	FY03/21
	Act.	Act.	Est.
Sales	139,200	141,031	142,000
YoY	1.0%	1.3%	0.7%
Auto and Motorcycle Parts Sales	132,812	134,775	135,608
YoY	1.1%	1.5%	0.6%
Wholesale	49,553	49,153	48,344
YoY	-4.1%	-0.8%	-1.6%
% of sales	37.3%	36.5%	35.6%
Retail	80,545	82,468	83,836
YoY	4.2%	2.4%	1.7%
% of sales	60.6%	61.2%	61.8%
Other	2,713	3,153	3,427
YoY	13.7%	16.2%	8.7%
% of sales	2.0%	2.3%	2.5%
Real Estate Lease	6,388	65,256	6,391
YoY	-0.9%	921.5%	-90.2%

Source: Shared Research based on company data

Store count and planned openings/closings

	FY03/19	FY03/20	FY03/21
	Act.	Act.	Est.
Store count	835	849	864
Net increase	26	14	15
Yellow Hat (Japan)	728	738	748
Net increase	25	10	10
Openings	33	21	20
Closures	9	12	10
2-Rin-Kan	56	56	59
Net increase	1	0	3
Bikers' Station SOX	47	52	54
Net increase	1	5	2
Yellow Hat (overseas)	4	3	3
Net increase	-1	-1	0

Source: Shared Research based on company data

Store sales

(JPYmn)	FY03/19	FY03/20	FY03/21
	Act.	Act.	Est.
All-store retail sales	128,067	127,129	-
All-store retail sales YoY	-1.0%	-0.7%	-
Comparable-store retail sales YoY	-2.6%	-1.3%	-2.0%

Source: Shared Research based on company data

For FY03/21, the company forecasts sales of JPY142.0bn (+0.7% YoY), operating profit of JPY10.3bn (+2.1% YoY), recurring profit of JPY11.2bn (+0.9% YoY), and net income attributable to owners of the parent of JPY7.4bn (+0.9% YoY).

The company forecasts sales to drop due to a decline in customer footfall, particularly in 1H FY03/21 during which the government declared a state of emergency associated with the COVID-19 pandemic. It does, however, expect to see a certain

level of continuing demand for its business since automobiles are a part of an important infrastructure supporting people's everyday living. To the extent possible, the company plans to meet customer needs by providing maintenance services and car parts and accessories at its Yellow Hat stores.

Sales

The company forecasts sales of JPY142.0bn (+0.7% YoY), with sales of JPY135.6bn (+0.6% YoY) in the mainstay Auto and Motorcycle Parts Sales business. It expects sales to be essentially flat YoY as the positive impact provided by an increase in store count is countered by a decline in comparable store sales.

Yellow Hat forecasts wholesale sales of JPY48.3bn (-1.6% YoY) and retail sales of JPY83.8bn (+1.7% YoY). The reason it expects wholesale sales to fall but retail sales to rise is that it anticipates a rise in store count centered on stores operated by subsidiaries.

Store openings/closings and net increase

In Japan the company plans 26 openings and 11 closings for a net increase of 15, bringing the store count to 861 at end-FY03/21. The increase in store count will be centered on the Yellow Hat format.

- ▷ In terms of stores specializing in automotive parts, it plans 20 openings and 10 closings for a net increase of 10, bringing the store count to 748 at end-FY03/21.
 - For Yellow Hat (including Yellow Hat Motorsports), it plans 15 openings and seven closings for a net increase of eight, bringing the store count to 696 at end-FY03/21.
 - For Kakuyasu Tire Tread, it plans five openings and three closings for a net increase of two, bringing the store count to 52 at end-FY03/21.
- ▷ In terms of stores specializing in motorcycle parts, it plans three 2-Rin-Kan store openings for a net increase of three, bringing the store count to 59 at end-FY03/21.
- ▷ In terms of stores specializing in the sale of new and preowned motorcycles, it plans three Bikers' Station SOX openings and one closing for a net increase of two, bringing the store count to 54 at end-FY03/21.

Comparable store sales

Yellow Hat forecasts comparable store sales will fall 17.0% YoY in 1H, but rise 13.0% YoY in 2H, for a 2.0% drop YoY for the full year. In 1H, there is a negative impact from the COVID-19 pandemic and lower demand following a spate of last-minute buying ahead of the consumption tax hike (implemented in October 2019). Although the impact of the pandemic is likely to continue in 2H, a certain degree of demand related to maintenance should continue, since cars are such an important part of people's lives, and the impact of the drop in demand following the tax hike should wane.

By product, there was robust demand in FY03/20 for installation of drive recorders after high-profile incidents of road rage on expressways, but the company expects such demand to settle down in FY03/21. Tire sales declined for two consecutive years (-3% YoY in FY03/19 and -1% YoY in FY03/20) due to unusually warm winters among other factors, but the company says its forecast assumes ordinary levels of snowfall in FY03/21.

Operating profit

Yellow Hat targets operating profit of JPY10.3bn (+2.1% YoY) and OPM of 7.3% (+0.1pp YoY). It expects growth in gross profit on higher sales and improved GPM to exceed growth in SG&A expenses.

Gross profit

The company forecasts gross profit of JPY58.3bn (+3.2% YoY) and GPM of 41.1% (+1.0pp YoY). It expects GPM improvement and higher gross profit due to a higher ratio of relatively high-margin retail sales and lower ratio of relatively low-margin wholesale sales.

SG&A expenses

Yellow Hat expects SG&A expenses of JPY48.0bn (+3.4% YoY) and an SG&A expense ratio of 33.8% (+0.9pp YoY). It thinks SG&A expenses will rise as the number of retail stores grows. The main reason for the increase in the SG&A expense ratio is a projected decline in comparable store sales.

Outlook

Yellow Hat published an overview of its medium-term plan (FY03/21–FY03/23) in an annual securities report, calling for FY03/23 sales of JPY150.0bn (+6.4% versus FY03/20), operating profit of JPY11.4bn (+12.9%), and recurring profit of JPY12.5bn (+10.9%).

In regard to capital efficiency, the company aims to maintain both return on equity (ROE) and return on assets (ROA; ratio of recurring profit to total assets) of 8% or higher as it works to maximize enterprise value.

Medium-term plan targets and results

(JPYmn)	FY03/20		FY03/21 Est.	FY03/22 Target	FY03/23 Target
	Prev. MTP	Act.			
Sales	148,000	141,031	142,000	147,000	150,000
Operating profit	10,000	10,093	10,300	11,100	11,400
Operating profit margin	6.8%	7.2%	7.3%	7.6%	7.6%
Recurring profit	11,000	11,095	11,200	12,000	12,300
Recurring profit margin	7.4%	7.9%	7.9%	8.2%	8.2%
ROE	8.0% or higher	9.0%	8.0% or higher	8.0% or higher	8.0% or higher
ROA (RP-based)	8.0% or higher	10.3%	8.0% or higher	8.0% or higher	8.0% or higher

Source: Shared Research based on company materials

The business environment is rapidly evolving as the Japanese auto parts market shrinks and plans have arisen to make use of automatic diagnostic equipment in auto maintenance services due to an increase in vehicles with automatic braking systems and lane keeping assistance functionality. At the same time, because of declines in the numbers of gas stations and body shops offering automotive expendables and maintenance services, there is increasing need for the expendables sales and maintenance services Yellow Hat provides through its nationwide network.

The company plans to improve enterprise value through the following initiatives.

Expansion of automotive parts sales business

Aiming to expand the auto parts sales business, the company plans to open more stores using the Yellow Hat and Kakuyasu Tire Tread brands and enhance the range of products and services it offers at physical stores, strengthening sales of expendables with a focus on tires.

Kakuyasu Tire Tread stores are operated by wholly owned subsidiary Yellow Hat Tread and specialize in new, used, and outlet-priced tires and aluminum wheels. The first Kakuyasu Tire Tread opened in April 2012, and there were 50 stores in the chain as of November 2019.

In Japan, since FY03/12, the company has each year been opening about 30 stores and closing about 10, for a net increase of about 20 stores per year. Under the medium-term plan, it plans to continue opening 20–30 stores per year and says it is possible to develop some 1,000 stores in Japan, assuming a potential customer population of about 50,000 people per store.

Yellow Hat store openings and closings

Yellow Hat store count (year-end)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Openings	19	34	39	23	46	36	26	37	33	21
Japan	18	34	38	23	43	36	26	37	33	21
Overseas	1	-	1	-	3	-	-	-	-	-
Closures	6	6	9	4	14	6	5	16	9	12
Japan	2	4	8	4	10	5	4	9	8	11
Overseas	4	2	1	-	4	1	1	7	1	1
Store count (year-end)	517	545	575	594	626	666	678	708	732	741
Japan	500	530	560	579	612	653	675	703	728	738
Overseas	17	15	15	15	14	13	12	5	4	3

Source: Shared Research based on company data

Note: Openings, closings, and end-FY store count are totals of directly operated stores, stores operated by subsidiaries, and stores operated by franchisees.

Since FY03/13, Yellow Hat has increased the store count with a focus on those managed by wholly owned subsidiaries, and it plans to maintain this approach for the medium term.

Store count

	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
(year-end; stores)										
Total Yellow Hat group	517	562	625	645	698	750	781	809	835	849
YoY	2.6%	8.7%	11.2%	3.2%	8.2%	7.4%	4.1%	3.6%	3.2%	1.7%
Total Yellow Hat stores	517	545	575	594	626	666	687	708	732	741
YoY	2.6%	5.4%	5.5%	3.3%	5.4%	6.4%	3.2%	3.1%	3.4%	1.2%
Japan	500	530	560	579	612	653	675	703	728	738
YoY	3.3%	6.0%	5.7%	3.4%	5.7%	6.7%	3.4%	4.1%	3.6%	1.4%
Yellow Hat Sales Pro (directly managed)	29	26	-	-	-	-	-	-	-	-
Managed by cons. subsidiaries	89	103	148	171	207	253	297	320	346	367
Managed by Yellow Hat group companies	382	401	412	408	405	400	378	383	382	371
Overseas	17	15	15	15	14	13	12	5	4	3
YoY	-15.0%	-11.8%	0.0%	0.0%	-6.7%	-7.1%	-7.7%	-58.3%	-20.0%	-25.0%
Other group stores in Japan	3	17	50	51	72	84	94	101	103	108
YoY	50.0%	466.7%	194.1%	2.0%	41.4%	16.7%	11.8%	7.4%	2.0%	4.8%
2-Rin-Kan	2	1	38	40	44	50	53	55	56	56
YoY	0.0%	-50.0%	-	5.3%	10.0%	13.6%	6.0%	3.8%	1.8%	0.0%
Bikers' Station SOX	-	-	-	-	28	34	41	46	47	52
YoY	-	-	-	-	-	21.4%	20.6%	12.2%	2.2%	10.6%
Montecarlo	-	15	12	11	10	-	-	-	-	-

Source: Shared Research based on company materials

Looking at historical performance, retail sales has been the driver behind the company's sales growth, and growth in retail sales was achieved through an increase in store count. However, over the long term, sales per store have been in a downward trend. This is primarily because the company has focused its store openings on relatively low-cost vacated premises in regional areas with small commercial zones.

Auto and Motorcycle Parts Sales: retail store count and sales

Retail (stores, JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Store count	120	145	198	222	289	337	391	421	449	475
YoY	14.3%	20.8%	36.6%	12.1%	30.2%	16.6%	16.0%	7.7%	6.7%	5.8%
Yellow Hat Sales Pro (directly managed)	29	26	-	-	-	-	-	-	-	-
Stores managed by subsidiaries	89	103	148	171	207	253	297	320	346	367
2-Rin-Kan	2	1	38	40	44	50	53	55	56	56
Bikers' Station SOX	-	-	-	-	28	34	41	46	47	52
Montecarlo	-	15	12	11	10	-	-	-	-	-
Sales	31,540	31,483	48,259	51,644	56,264	62,443	70,783	77,334	80,545	82,468
YoY	1.2%	-0.2%	53.3%	7.0%	8.9%	11.0%	13.4%	9.3%	4.2%	2.4%
Sales per store	280	238	281	246	220	199	194	190	185	179
YoY	3.9%	-15.2%	18.4%	-12.6%	-10.5%	-9.4%	-2.5%	-2.0%	-2.8%	-3.6%

Source: Shared Research based on company materials

Expansion of automobile inspection and service businesses

In services, Yellow Hat seeks to enhance its automobile inspection and maintenance services by developing human resources such as qualified mechanics and increasing the number of designated auto inspection shops, as it aims to expand the earnings of the services department and win new customers (as of March 2020, 161 stores were designated inspection shops).

The Japanese government considers auto maintenance shops that have equipment and space to overhaul vehicles and a 2nd grade mechanic (under the Japanese National Trade Skill Testing system) to be either certified shops or designated shops. At a certified shop, vehicles can be taken apart for inspection and maintenance, but there is no auto inspection line, so vehicles must be taken to a separate auto inspection facility for testing. Designated shops are a subset of certified shops that have their own testing lines like those found at auto inspection facilities, so there is no need to take vehicles to a Land Transport Bureau branch office when auto inspections are conducted. These designated shops have the advantage of being able to conduct auto inspections on weekends and holidays, and inspections can be done quickly because there is no need to take vehicles to a Land Transport Bureau branch office.

Yellow Hat says that auto inspections themselves do not generate substantial earnings, but even if it sets inspection fees lower than at manufacturer-affiliated dealers, the replacement of expendables when inspections are conducted generates sales and profit from the parts and wages for the replacement work, so there is adequate merit in expanding auto inspection capacity.

The company does not disclose sales data related to auto inspection and services, but its supplementary financial information includes YoY comparisons for the number of vehicles inspected and sales from services. Based on those trends, Shared Research

estimates that over the last 10 years the number of vehicles inspected approximately tripled, while sales from services approximately doubled.

YoY comparison of number of automobiles inspected and services sales

(YoY)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
No of cars inspected	18.0%	13.0%	14.0%	10.0%	10.0%	19.0%	14.0%	7.0%	4.0%	-1.0%
Services sales	2.0%	9.0%	8.0%	5.0%	1.0%	13.0%	8.0%	10.0%	5.0%	4.0%

Source: Shared Research based on company data

Enhancement of motorcycle business

In order to enhance the motorcycle business, the company plans to open new 2-Rin-Kan and Bikers' Station SOX stores and expand earnings at existing stores by increasing sales of its own-brand parts and capturing inspection demand.

The motorcycle business comprises 2-Rin-Kan stores (sales of motorcycle parts) operated by 2-Rin-Kan Yellow Hat Co., Ltd., which became a subsidiary in April 2012, and Bikers' Station SOX stores (sales of new and preowned motorcycles) operated by YellowHat-Sox Inc., which became a subsidiary in May 2014.

Historically, the company has opened about three 2-Rin-Kan stores per year and about five Bikers' Station SOX stores per year.

Enhancement of wholesale business

In addition to wholesaling to Yellow Hat stores, the parent and its subsidiary wholesalers sell automotive and motorcycle parts to hardware stores and other general customers. In FY03/20, wholesaling to customers other than Yellow Hat stores generated sales of JPY12.7bn (+4.4% YoY), accounting for 9.4% (+0.2pp YoY) of Auto and Motorcycle Parts Sales business sales.

In the medium term, to enhance wholesaling to customers other than Yellow Hat stores, the company plans to develop products and capture new customers via the manufacturer vendor subsidiary JOYFULL Co., Ltd.

JOYFULL became a subsidiary in August 2010. It develops and manufactures washer fluids, battery fluids, and coolants, and launched the new ENERGY LUBE brand of automotive lubricants in April 2019.

Vigorous company-building

Yellow Hat aims to improve brand awareness by continuing to enhance its advertising and promotional initiatives.

Dividend policy

In terms of its dividend policy, Yellow Hat targets a 30% consolidated payout ratio while taking its consolidated earnings, financial condition, and investment plans into account.

Business

Description

Yellow Hat sells automotive 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 FY03/20, Yellow Hat had sales of JPY141.0bn versus JPY221.4bn for Autobacs Seven.

Historical performance and turning point

Company falls into earnings slump in FY03/08

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 under the Y-DNA* program formulated in FY03/05. 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.

*Under the Yellowhat Drastic New stage Action program (Y-DNA), a plan to innovate while retaining the Yellow Hat DNA, the company sought to merge and unify subsidiary sales companies to reduce costs and enhance head office functions.

Earnings growth achieved from FY03/09 onward under system established by current president, Yasuo Horie

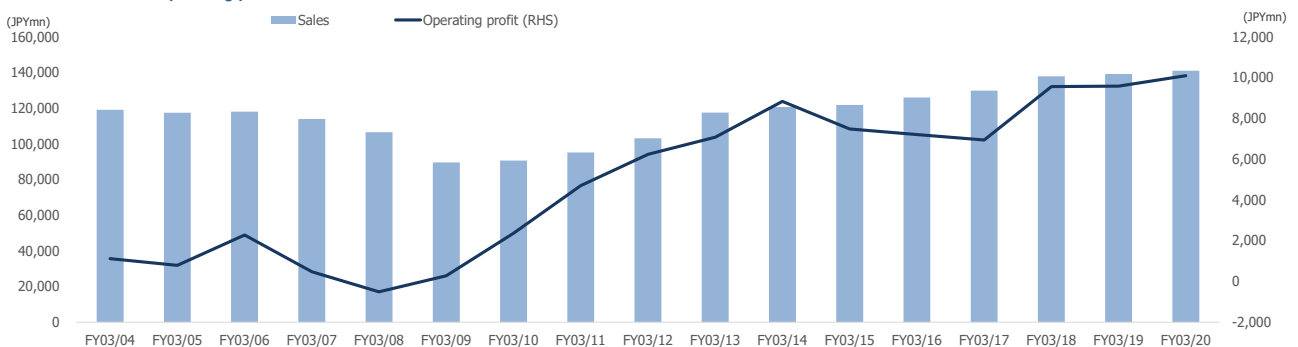
Under Yasuo Horie, who became president in October 2008, the company concentrated its resources on the core automotive parts business, conducted strict cost reductions and expense controls, and employed a basic policy of having regional sales subsidiaries manage stores.

In addition, the company reduced the sales ratio of audio and visual products and other car electronics, which have relatively low margins in the face of fierce competition, and raised the ratio of relatively high-margin tires and expendables (including batteries and oil), for which demand is proportional to the number of vehicles owned and distance traveled. In this way, it improved its overall GPM.

It also promoted other measures to improve margins, such as actively opening stores at low cost, primarily in vacated premises, thereby reducing procurement costs by leveraging procurement scale based on a higher store count.

In FY03/09, sales fell to 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 FY03/20 sales recovering to JPY141.0bn (+1.3% YoY) and operating profit to JPY10.1bn (+5.3% YoY, OPM of 7.2%).

Trends in sales and operating profit



Source: Shared Research based on company data

Business segments

The company has two segments: Auto and Motorcycle Parts Sales (95.6% of sales in FY03/20) and Real Estate Lease (4.4%). In the latter business, Yellow Hat leases store buildings to its sales subsidiaries, affiliates, and group store operators.

Performance by segment

(JPY mn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	95,178	103,110	117,482	120,671	121,788	125,961	129,817	137,865	139,200	141,031
YoY	5.1%	8.3%	13.9%	2.7%	0.9%	3.4%	3.1%	6.2%	1.0%	1.3%
Auto and Motorcycle Parts Sales	88,364	96,248	110,531	113,829	115,081	119,411	123,370	131,418	132,812	134,775
YoY	5.1%	8.9%	14.8%	3.0%	1.1%	3.8%	3.3%	6.5%	1.1%	1.5%
% of sales	92.8%	93.3%	94.1%	94.3%	94.5%	94.8%	95.0%	95.3%	95.4%	95.6%
Real Estate Lease	6,814	6,862	6,950	6,842	6,706	6,549	6,447	6,446	6,388	6,256
YoY	4.4%	0.7%	1.3%	-1.6%	-2.0%	-2.3%	-1.6%	0.0%	-0.9%	-2.1%
% of sales	7.2%	6.7%	5.9%	5.7%	5.5%	5.2%	5.0%	4.7%	4.6%	4.4%
Operating profit	4,700	6,238	7,076	8,831	7,484	7,203	6,939	9,561	9,583	10,093
YoY	99.0%	32.7%	13.4%	24.8%	-15.3%	-3.8%	-3.7%	37.8%	0.2%	5.3%
Operating profit margin	4.9%	6.0%	6.0%	7.3%	6.1%	5.7%	5.3%	6.9%	6.9%	7.2%
Auto and Motorcycle Parts Sales	3,913	5,424	6,182	7,914	6,448	6,211	5,936	8,594	8,482	8,940
YoY	118.2%	38.6%	14.0%	28.0%	-18.5%	-3.7%	-4.4%	44.8%	-1.3%	5.4%
OPM	4.4%	5.6%	5.6%	7.0%	5.6%	5.2%	4.8%	6.5%	6.4%	6.6%
% of operating profit	83.3%	87.0%	87.4%	89.6%	86.2%	86.2%	85.5%	89.9%	88.5%	88.6%
Real Estate Lease	787	814	893	917	1,036	992	1,002	967	1,101	1,153
YoY	38.3%	3.4%	9.7%	2.7%	13.0%	-4.2%	1.0%	-3.5%	13.9%	4.7%
OPM	11.5%	11.9%	12.8%	13.4%	15.4%	15.1%	15.5%	15.0%	17.2%	18.4%
% of operating profit	16.7%	13.0%	12.6%	10.4%	13.8%	13.8%	14.4%	10.1%	11.5%	11.4%

Source: Shared Research based on company materials

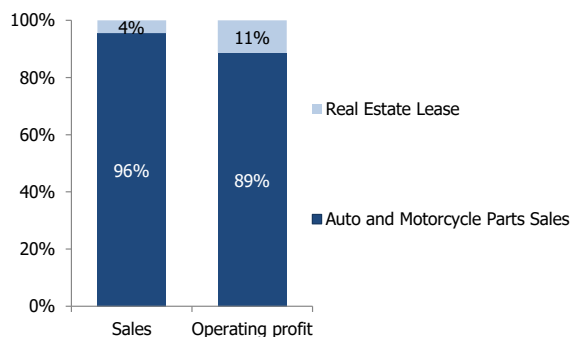
Auto and Motorcycle Parts Sales (95.6% of sales and 88.6% of operating profit in FY03/20)

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 Bikers' Station SOX chain, which sells motorcycles. There are three sales formats in use: retail sales by consolidated subsidiaries, wholesale sales to group affiliates (voluntary chain members), and wholesale sales to hardware stores and other general customers.

In FY03/20, sales by product were: tires and wheels, 29.5%; audio and visual products, 9.9%; car wash, car washing, oil, and other chemicals, 9.7%; functional products, 11.3%; interior and exterior products, 4.8%; motorcycle products, 9.6%; and other, 25.3%.

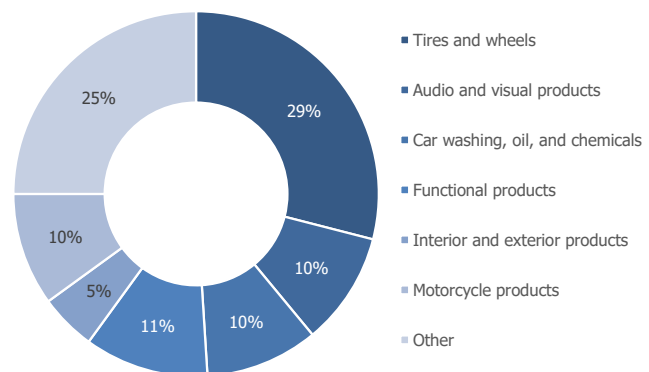
Gross profit margins are relatively low for car electronics such as audio and visual products due to falling prices amid stiff competition. Conversely, gross profit margins are relatively high for tires and consumables (including batteries and oil) because of steady growth in replacement demand proportionate to car ownership and distances traveled.

Segment sales and operating profit (FY03/20)



Source: Shared Research based on company data

Sales by product: Auto and Motorcycle Parts Sales (FY03/20)

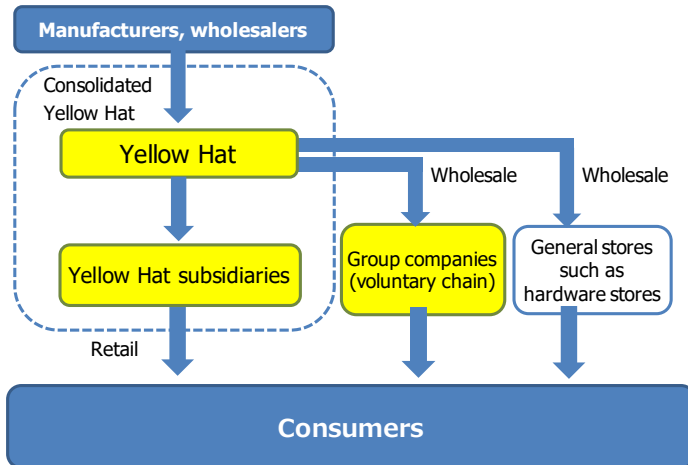


Source: Shared Research based on company data

Overview of business model

In the core Auto and Motorcycle Parts Sales business, there are three selling formats: retail by consolidated subsidiaries, wholesale sales to group companies (voluntary chain stores*), and wholesale sales to general-purpose stores such as hardware stores.

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.

In FY03/20, sales by format in this segment were as follows: retail, 61.2%; wholesale, 36.5% (with 27.0% to Yellow Hat group companies (voluntary chains) and 9.4% to general stores).

Until FY03/15, wholesale sales comprised a larger share of the total than retail, but in FY03/16, retail sales overtook wholesale. The rise in the ratio of retail sales to total sales was driven by two factors: an increased retail store presence due to acquisition of companies such as Monte-carlo Co., Ltd. (now Hiroshima Yellow Hat), Driver Stand Co., Ltd. (now 2-Rin-Kan Yellow Hat), and Will Co., Ltd. (now YellowHat-Sox); and cases whereby some group companies found it impossible to continue operating as associate stores in the voluntary chain due to the lack of successors, so they were consolidated as subsidiaries.

Auto and Motorcycle Parts Sales business: sales by selling format

(JPY mn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	88,364	96,248	110,531	113,829	115,081	119,411	123,370	131,418	132,812	134,775
YoY	5.1%	8.9%	14.8%	3.0%	1.1%	3.8%	3.3%	6.5%	1.1%	1.5%
Retail	31,540	31,483	48,259	51,644	56,264	62,443	70,783	77,334	80,545	82,468
YoY	1.2%	-0.2%	53.3%	7.0%	8.9%	11.0%	13.4%	9.3%	4.2%	2.4%
% of sales	35.7%	32.7%	43.7%	45.4%	48.9%	52.3%	57.4%	58.8%	60.6%	61.2%
Wholesale	56,481	64,186	61,635	61,470	57,347	54,961	50,376	51,698	49,553	49,153
YoY	6.9%	13.6%	-4.0%	-0.3%	-6.7%	-4.2%	-8.3%	2.6%	-4.1%	-0.8%
% of sales	63.9%	66.7%	55.8%	54.0%	49.8%	46.0%	40.8%	39.3%	37.3%	36.5%
Group stores	52,920	59,617	53,914	53,474	47,509	44,055	39,410	39,592	37,361	36,420
YoY	5.7%	12.7%	-9.6%	-0.8%	-11.2%	-7.3%	-10.5%	0.5%	-5.6%	-2.5%
% of sales	59.9%	61.9%	48.8%	47.0%	41.3%	36.9%	31.9%	30.1%	28.1%	27.0%
General stores	3,560	4,568	7,720	7,996	9,837	10,905	10,966	12,106	12,191	12,732
YoY	27.6%	28.3%	69.0%	3.6%	23.0%	10.9%	0.6%	10.4%	0.7%	4.4%
% of sales	4.0%	4.7%	7.0%	7.0%	8.5%	9.1%	8.9%	9.2%	9.2%	9.4%
Other	343	579	637	715	1,470	2,006	2,210	2,386	2,713	3,153
YoY	444.4%	68.8%	10.0%	12.2%	105.6%	36.5%	10.2%	8.0%	13.7%	16.2%
% of sales	0.4%	0.6%	0.6%	0.6%	1.3%	1.7%	1.8%	1.8%	2.0%	2.3%
Operating profit	3,913	5,424	6,182	7,914	6,448	6,211	5,936	8,594	8,482	8,940
YoY	118.2%	38.6%	14.0%	28.0%	-18.5%	-3.7%	-4.4%	44.8%	-1.3%	5.4%
Operating profit margin	4.4%	5.6%	5.6%	7.0%	5.6%	5.2%	4.8%	6.5%	6.4%	6.6%

Source: Shared Research based on company materials

Retail

In FY03/20, retail accounted for 61.2% of sales in the Auto and Motorcycle Parts Sales business (up from 60.6% in FY03/19).

In retail, 34 consolidated subsidiaries manage Yellow Hat, 2-Rin-Kan, and Bikers' Station SOX stores by region. 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.

Retail: store count and sales

Retail (stores, JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Store count	120	145	198	222	289	337	391	421	449	475
YoY	14.3%	20.8%	36.6%	12.1%	30.2%	16.6%	16.0%	7.7%	6.7%	5.8%
Yellow Hat Sales Pro (directly managed)	29	26	-	-	-	-	-	-	-	-
Stores managed by subsidiaries	89	103	148	171	207	253	297	320	346	367
2-Rin-Kan	2	1	38	40	44	50	53	55	56	56
Bikers' Station SOX	-	-	-	-	28	34	41	46	47	52
Montecarlo	-	15	12	11	10	-	-	-	-	-
Sales	31,540	31,483	48,259	51,644	56,264	62,443	70,783	77,334	80,545	82,468
YoY	1.2%	-0.2%	53.3%	7.0%	8.9%	11.0%	13.4%	9.3%	4.2%	2.4%
Sales per store	280	238	281	246	220	199	194	190	185	179
YoY	3.9%	-15.2%	18.4%	-12.6%	-10.5%	-9.4%	-2.5%	-2.0%	-2.8%	-3.6%

Source: Shared Research based on company materials

Retail sales are proportional to store count and sales per store. The company is increasing the store count mainly through acquisition and via consolidated subsidiaries. However, sales per store are trending downward in the long term largely due to the company's focus on store openings in relatively low-cost vacated premises in regional areas with small commercial zones.

Since gross profit for retail includes profit at the store level, it has a higher GPM than wholesale, and there is greater profit volatility in relation to increases or decreases in sales. On the other hand, its SG&A expense ratio is also relatively high due to the fixed cost burden of personnel expenses, rents, and depreciation associated with store operation.

Wholesale

In FY03/20, wholesale accounted for 36.5% of sales in the Auto and Motorcycle Parts Sales business (down from 37.3% in FY03/19). In wholesale, the company wholesales to group stores (voluntary chain members; 27.0% of segment sales) and to general external parties such as hardware stores (9.4% of segment sales).

GPM in wholesale is lower than in retail. Although the company group bears no risk from holding inventories, it also receives no profit at the store level.

Wholesale: store count and sales

Wholesale (stores, JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Yellow Hat group store count	382	401	412	408	405	400	378	383	382	371
YoY	0.3%	5.0%	2.7%	-1.0%	-0.7%	-1.2%	-5.5%	1.3%	-0.3%	-2.9%
Sales: Wholesale	56,481	64,186	61,635	61,470	57,347	54,961	50,376	51,698	49,553	49,153
YoY	6.9%	13.6%	-4.0%	-0.3%	-6.7%	-4.2%	-8.3%	2.6%	-4.1%	-0.8%
Yellow Hat group stores	52,920	59,617	53,914	53,474	47,509	44,055	39,410	39,592	37,361	36,420
YoY	5.7%	12.7%	-9.6%	-0.8%	-11.2%	-7.3%	-10.5%	0.5%	-5.6%	-2.5%
Sales per store	139	152	133	130	117	109	101	104	98	97
YoY	2.4%	9.8%	-12.9%	-1.7%	-10.4%	-6.3%	-7.4%	2.7%	-6.1%	-1.0%
General stores	3,560	4,568	7,720	7,996	9,837	10,905	10,966	12,106	12,191	12,732
YoY	27.6%	28.3%	69.0%	3.6%	23.0%	10.9%	0.6%	10.4%	0.7%	4.4%

Source: Shared Research based on company materials

Wholesale sales to group affiliates (voluntary chain members)

In FY03/20, wholesale sales to group stores accounted for 27.0% of sales in the Auto and Motorcycle Parts Sales business (28.1% in FY03/19). The company generates revenue through wholesale sales of merchandise to group affiliates that operate voluntary chain stores under affiliation agreements.

Yellow Hat executes agreements between group affiliates 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 (including face-to-face sales and maintenance work), merchandise management (ordering and sales floor construction) and store management (including achieving sales targets, cost reductions, and staff training). Group affiliates 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 collect royalties from affiliates. In contrast to stores operated by consolidated subsidiaries, affiliates may reflect the direction set by headquarters, but are not compelled to do so. As a result, stores operated by group affiliates are allowed a certain degree of latitude with regard to format which goes outside standard formats such as selling cars for example.

Sales in wholesale (to Yellow Hat group companies) are proportional to the store count and sales per store. The wholesale business sells to about 380 stores, and sales are about JPY100mn per store.

Wholesale sales to hardware stores and other general customers

In FY03/20, general wholesale sales accounted for 9.4% of sales in the Auto and Motorcycle Parts Sales business (9.2% in FY03/19). Yellow Hat generates revenue through wholesale sales of merchandise from its subsidiary companies to hardware stores and the like. Sales were JPY12.7bn in FY03/20, continuing the trend of YoY growth every year since FY03/11. While GPM for general wholesale sales is lower than retail, the fixed cost ratio is 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 JOYFULL Co., Ltd. (became a subsidiary in August 2010; 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

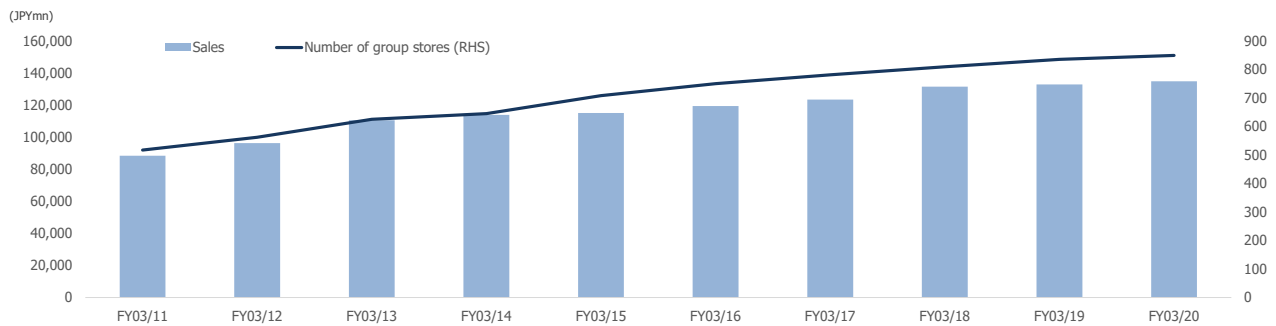
There are two key areas to focus on when analyzing Yellow Hat: store development (sales growth through new store openings) and improving store profitability.

Store development (sales growth through new store openings)

Per the company, its share of the Japanese 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 (companies selling car parts) such as Yellow Hat and Autobacs Seven 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 Bikers' Station SOX.

Yellow Hat: Auto and Motorcycle Parts Sales and group store count



	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	88,364	96,248	110,531	113,829	115,081	119,411	123,370	131,418	132,812	134,775
YoY	5.1%	8.9%	14.8%	3.0%	1.1%	3.8%	3.3%	6.5%	1.1%	1.5%
Operating profit	3,913	5,424	6,182	7,914	6,448	6,211	5,936	8,594	8,482	8,940
YoY	118.2%	38.6%	14.0%	28.0%	-18.5%	-3.7%	-4.4%	44.8%	-1.3%	5.4%
Operating profit margin	4.4%	5.6%	5.6%	7.0%	5.6%	5.2%	4.8%	6.5%	6.4%	6.6%
No. of group stores	517	562	625	645	708	750	781	809	835	849
YoY	2.6%	8.7%	11.2%	3.2%	9.8%	5.9%	4.1%	3.6%	3.2%	1.7%
Sales per store	171	171	177	176	163	159	158	162	159	159
YoY	2.5%	0.2%	3.3%	-0.2%	-7.9%	-2.0%	-0.8%	2.8%	-2.1%	-0.2%

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 industries. According to the company, its margins in newly opened stores are higher than others in the industry. For example, Autobacs Seven 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 (3,306sqm), but it relaxes these when it enters vacated premises to at least 80 tsubo (264sqm) for selling space and 500 tsubo (1,653sqm) 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 Seven 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 term. The company also argues 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 ratio of retail sales to total sales. They accounted for 61.2% of sales in FY03/20, compared with 37.0% at Autobacs Seven. This is because under its current president, Yasuo Horie, Yellow Hat has shifted store management to regional sales subsidiaries, and in the 2010s focused on these subsidiaries to increase its store count.

Stores

As of end-FY03/20 the company had 738 Yellow Hat stores in Japan (728 at end-FY03/19) and three overseas (four at end-FY03/19). Of the stores in Japan, 367 (346 at end-FY03/19) were operated by wholly owned subsidiaries and 371 (382 at end-FY03/19) by group affiliates (voluntary chain companies, details in table below).

In addition, for motorcycle parts it had 56 2-Rin-Kan stores (flat YoY) and for motorcycles and motorcycle parts it had 52 Bikers' Station SOX stores (47 at end-FY03/19). Overseas, the company had three stores in Taiwan (four at end-FY03/19).

Types of Yellow Hat group stores

Store type	Business detail	Store count
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Yellow Hat, Japan	Automotive parts sales, automobile inspections, maintenance services	738
Subsidiary-operated Yellow Hat	Yellow Hat stores operated by wholly owned subsidiaries	367
Affiliate-operated Yellow Hat	Yellow Hat stores operated by equity method affiliate Hotman and other group affiliates	371
Yellow Hat, Overseas	Yellow Hat stores operated by wholly owned subsidiary Taiwan Yellowhat Co., Ltd.	3
2-Rin-Kan	Motorcycle parts sales business operated by wholly owned subsidiary 2-Rin-Kan Yellow Hat Co., Ltd.	56
Bikers' Station SOX	Motorcycle and motorcycle parts sales business operated by wholly owned subsidiary YellowHat-Sox Inc.	52

Yellow Hat store



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



Source: Company data

Yellow Hat group store count

Number of stores (year-end)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Total Yellow Hat group	517	562	625	645	698	750	781	809	835	849
YoY	2.6%	8.7%	11.2%	3.2%	8.2%	7.4%	4.1%	3.6%	3.2%	1.7%
Total Yellow Hat stores	517	545	575	594	626	666	687	708	732	741
YoY	2.6%	5.4%	5.5%	3.3%	5.4%	6.4%	3.2%	3.1%	3.4%	1.2%
Japan	500	530	560	579	612	653	675	703	728	738
YoY	3.3%	6.0%	5.7%	3.4%	5.7%	6.7%	3.4%	4.1%	3.6%	1.4%
Yellow Hat Sales Pro (directly managed)	29	26	-	-	-	-	-	-	-	-
Managed by cons. subsidiaries	89	103	148	171	207	253	297	320	346	367
Managed by Yellow Hat group companies	382	401	412	408	405	400	378	383	382	371
Overseas	17	15	15	15	14	13	12	5	4	3
YoY	-15.0%	-11.8%	0.0%	0.0%	-6.7%	-7.1%	-7.7%	-58.3%	-20.0%	-25.0%
Other group stores in Japan	3	17	50	51	72	84	94	101	103	108
YoY	50.0%	466.7%	194.1%	2.0%	41.4%	16.7%	11.8%	7.4%	2.0%	4.8%
2-Rin-Kan	2	1	38	40	44	50	53	55	56	56
YoY	0.0%	-50.0%	-	5.3%	10.0%	13.6%	6.0%	3.8%	1.8%	0.0%
Bikers' Station SOX	-	-	-	-	28	34	41	46	47	52
YoY	-	-	-	-	-	21.4%	20.6%	12.2%	2.2%	10.6%
Montecarlo	-	15	12	11	10	-	-	-	-	-

Source: Shared Research based on company materials

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 2-Rin-Kan and Bikers' Station SOX banners.

Breakdown of Yellow Hat (Japan) store operators by format and area

Number of stores	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
By operator										
Yellow Hat store (Japan)	500	530	560	579	612	653	675	703	728	738
Yellow Hat Sales Pro (directly managed)	29	26	-	-	-	-	-	-	-	-
Managed by cons. subsidiaries	89	103	148	171	207	253	297	320	346	367
Managed by Yellow Hat group companies	382	401	412	408	405	400	378	383	382	371
By format (Yellow Hat [Japan])										
Yellow Hat store (Japan)	500	530	560	579	612	653	675	703	728	738
Yellow Hat	495	525	551	569	596	633	651	670	679	685
Yellow Hat Motor Sports	3	3	3	3	3	3	3	3	3	3
Recycle Market	2	2	2	2	2	1	-	-	-	-
Yellow Hat Tread	-	-	4	5	11	16	21	30	46	50
By region (area office in charge; Yellow Hat store)										
Yellow Hat store (Japan)	500	530	560	579	612	653	675	703	728	738
Hokkaido	27	28	28	28	28	31	31	35	35	37
% of Yellow Hat stores (Japan)	5.4%	5.3%	5.0%	4.8%	4.6%	4.7%	4.6%	5.0%	4.8%	5.0%
Tohoku	102	107	110	111	113	115	116	120	123	125
% of Yellow Hat stores (Japan)	20.4%	20.2%	19.6%	19.2%	18.5%	17.6%	17.2%	17.1%	16.9%	16.9%
Kanto	162	167	185	191	168	171	176	180	188	190
% of Yellow Hat stores (Japan)	32.4%	31.5%	33.0%	33.0%	27.5%	26.2%	26.1%	25.6%	25.8%	25.7%
Chubu	62	69	64	67	107	120	128	138	141	143
% of Yellow Hat stores (Japan)	12.4%	13.0%	11.4%	11.6%	17.5%	18.4%	19.0%	19.6%	19.4%	19.4%
Kinki and Shikoku	54	57	61	65	71	78	82	87	94	96
% of Yellow Hat stores (Japan)	10.8%	10.8%	10.9%	11.2%	11.6%	11.9%	12.1%	12.4%	12.9%	13.0%
Chugoku	46	49	54	57	59	66	67	66	67	67
% of Yellow Hat stores (Japan)	9.2%	9.2%	9.6%	9.8%	9.6%	10.1%	9.9%	9.4%	9.2%	9.1%
Kyushu	47	53	58	60	66	72	75	77	80	80
% of Yellow Hat stores (Japan)	9.4%	10.0%	10.4%	10.4%	10.8%	11.0%	11.1%	11.0%	11.0%	10.8%

Source: Shared Research based on company materials

Note: Yellow Hat Tread's Kakuyasu Tire Tread stores specialize in new, used, and outlet-priced tires and aluminum wheels.

Stores openings and closures

Yellow Hat store count (year-end)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Openings	19	34	39	23	46	36	26	37	33	21
Japan	18	34	38	23	43	36	26	37	33	21
Overseas	1	-	1	-	3	-	-	-	-	-
Closures	6	6	9	4	14	6	5	16	9	12
Japan	2	4	8	4	10	5	4	9	8	11
Overseas	4	2	1	-	4	1	1	7	1	1
Store count (year-end)	517	545	575	594	626	666	678	708	732	741
Japan	500	530	560	579	612	653	675	703	728	738
Overseas	17	15	15	15	14	13	12	5	4	3

Note: Stores in Japan 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

Overseas, a subsidiary operates three stores in Taiwan as of May 2020. Earnings are mostly reflected in the company's equity-method gain or loss. Yellow Hat previously operated stores in China and the United Arab Emirates as well, either via a joint venture company or a franchise agreement, but it handed control of the China stores to the joint venture in FY03/18 and closed the UAE stores in FY03/19.

Improving store profitability

The operating environment for the company is challenging. There is unlikely to be much growth in new car sales in Japan hereafter 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 (one-time revenue business) to one that targets cars already on the road (recurring-revenue 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 other audio and visual products installed in cars have been declining 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 (including batteries and oil) which have high gross profit margins is contributing to the improvement in store profitability.

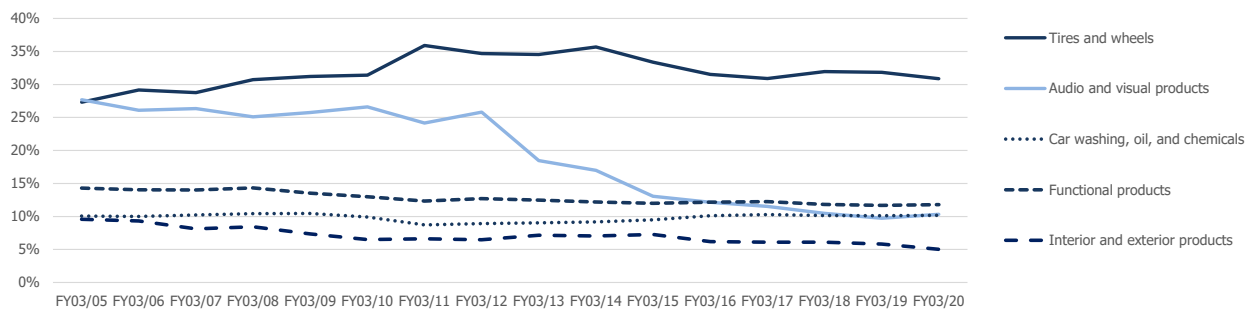
Distinguishing feature of Yellow Hat: high share of tires and wheels in sales

There is a large share of tires and wheels in sales for Yellow Hat (30.9% of Auto and Motorcycle Parts Sales in FY03/20 versus 25.9% of sales in Japan in the Autobacs business for Autobacs Seven). 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 29.5% of total FY03/20 sales from 24.8% in FY03/07 (tires and wheels accounted for 45.3% of sales in the Auto and Motorcycle Parts Sales business in FY03/20, excluding motorcycle parts sales). 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 88 Yellow Hat 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 7.2% in FY03/20.

Yellow Hat: share of sales by product



(JPY mn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Auto and Motorcycle Parts Sales	88,364	96,248	110,531	113,829	115,081	119,411	123,370	131,418	132,812	134,775
YoY	5.1%	8.9%	14.8%	3.0%	1.1%	3.8%	3.3%	6.5%	1.1%	1.5%
Tires and wheels	31,725	33,380	38,182	40,631	38,411	37,639	38,128	41,997	42,285	41,599
YoY	20.1%	5.2%	14.4%	6.4%	-5.5%	-2.0%	1.3%	10.1%	0.7%	-1.6%
% of segment	35.9%	34.7%	34.5%	35.7%	33.4%	31.5%	30.9%	32.0%	31.8%	30.9%
Audio and visual products	21,347	24,839	20,409	19,349	15,017	14,494	14,207	13,762	12,905	13,915
YoY	-4.6%	16.4%	-17.8%	-5.2%	-22.4%	-3.5%	-2.0%	-3.1%	-6.2%	7.8%
% of segment	24.2%	25.8%	18.5%	17.0%	13.0%	12.1%	11.5%	10.5%	9.7%	10.3%
Car washing, oil, and chemicals	7,699	8,577	9,994	10,448	10,911	12,084	12,690	13,339	13,431	13,697
YoY	-7.7%	11.4%	16.5%	4.5%	4.4%	10.8%	5.0%	5.1%	0.7%	2.0%
% of segment	8.7%	8.9%	9.0%	9.2%	9.5%	10.1%	10.3%	10.2%	10.1%	10.2%
Functional products	10,893	12,229	13,780	13,879	13,818	14,530	15,107	15,536	15,495	15,894
YoY	-0.2%	12.3%	12.7%	0.7%	-0.4%	5.2%	4.0%	2.8%	-0.3%	2.6%
% of segment	12.3%	12.7%	12.5%	12.2%	12.0%	12.2%	12.2%	11.8%	11.7%	11.8%
Interior and exterior products	5,856	6,237	7,913	8,026	8,354	7,373	7,522	8,035	7,711	6,762
YoY	7.1%	6.5%	26.9%	1.4%	4.1%	-11.7%	2.0%	6.8%	-4.0%	-12.3%
% of segment	6.6%	6.5%	7.2%	7.1%	7.3%	6.2%	6.1%	6.1%	5.8%	5.0%
Motorcycle products	-	-	9,846	10,477	10,521	11,286	11,807	12,325	13,024	13,469
YoY	-	-	-	6.4%	0.4%	7.3%	4.6%	4.4%	5.7%	3.4%
% of segment	-	-	8.9%	9.2%	9.1%	9.5%	9.6%	9.4%	9.8%	10.0%
Other	10,844	10,986	10,407	11,019	18,049	22,005	23,909	26,424	27,961	29,439
YoY	2.7%	1.3%	-5.3%	5.9%	63.8%	21.9%	8.7%	10.5%	5.8%	5.3%
% of segment	12.3%	11.4%	9.4%	9.7%	15.7%	18.4%	19.4%	20.1%	21.1%	21.8%

Source: Shared Research based on company materials

Cost structure

Summary income statement

(JPY mn)	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 Cons.
Sales	95,178	103,110	117,482	120,671	121,788	125,961	129,817	137,865	139,200	141,031
Gross profit	24,233	26,937	34,228	37,004	38,690	42,602	46,681	51,761	53,621	56,517
Gross profit margin	25.5%	26.1%	29.1%	30.7%	31.8%	33.8%	36.0%	37.5%	38.5%	40.1%
SG&A expenses	19,533	20,699	27,152	28,172	31,205	35,399	39,741	42,200	44,038	46,423
SG&A ratio	20.5%	20.1%	23.1%	23.3%	25.6%	28.1%	30.6%	30.6%	31.6%	32.9%
Salaries and allowances	6,030	6,042	8,574	8,737	10,103	11,495	13,112	13,840	14,817	15,801
% of sales	6.3%	5.9%	7.3%	7.2%	8.3%	9.1%	10.1%	10.0%	10.6%	11.2%
Rents	2,815	2,742	3,735	3,982	4,572	5,227	5,669	6,189	6,502	6,694
% of sales	3.0%	2.7%	3.2%	3.3%	3.8%	4.1%	4.4%	4.5%	4.7%	4.7%
Advertising and promotion expense	-	2,859	3,576	4,307	4,621	5,160	5,873	5,682	5,657	5,823
% of sales	-	2.8%	3.0%	3.6%	3.8%	4.1%	4.5%	4.1%	4.1%	4.1%
Other	-	9,056	11,267	11,146	11,909	13,517	15,087	16,489	17,062	18,105
% of sales	-	8.8%	9.6%	9.2%	9.8%	10.7%	11.6%	12.0%	12.3%	12.8%
Operating profit	4,700	6,238	7,076	8,832	7,485	7,203	6,940	9,561	9,583	10,094
Operating profit margin	4.9%	6.0%	6.0%	7.3%	6.1%	5.7%	5.3%	6.9%	6.9%	7.2%

Source: Shared Research based on company materials

Gross profit

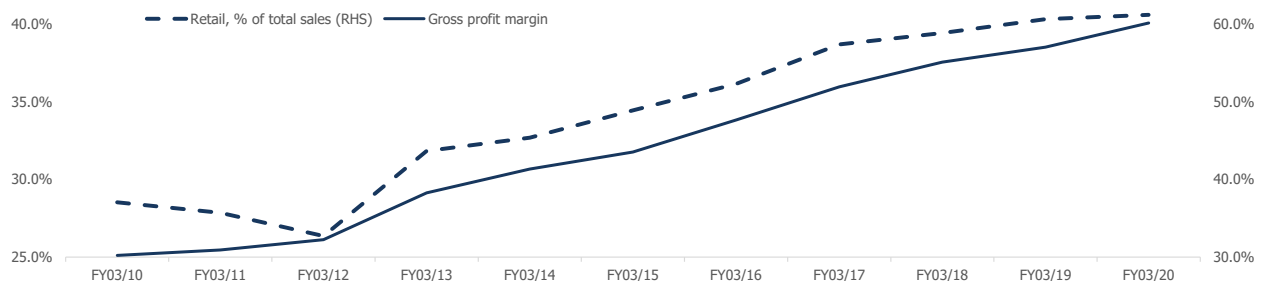
GPM increased from 25.5% in FY03/11 to 40.1% in FY03/20 because the ratio of relatively high-margin retail sales to total sales increased, and GPM improved at subsidiaries (mainly subsidiaries operating retail stores) and at the parent.

Increased ratio of retail sales to total sales

Since gross profit in retail includes profit at the store level, it has higher GPM than wholesale. However, its SG&A expense ratio is also relatively high due to the fixed cost burden of personnel expenses, rents, and depreciation associated with store operation.

The following graph shows how the company's GPM rises in tandem with the ratio of retail sales to total sales.

GPM and retail sales ratio



Source: Shared Research based on company materials

Improved GPM at subsidiaries (mainly subsidiaries operating retail stores)

Of Yellow Hat's 37 consolidated subsidiaries, 34 operate retail stores in various regions of Japan, and Shared Research understands that the difference between consolidated and parent-only gross profit is close to the gross profit figure for subsidiaries operating retail stores. The ratio of this difference in gross profit to consolidated retail sales can therefore be considered essentially the GPM for subsidiaries operating retail stores. This ratio has been trending upward, from 32.7% in FY03/11 to 47.6% in FY03/20, due largely to expansion in wage earnings (included under "other" in the data on sales by product provided earlier) in services (maintenance work, installation or replacement work, and other services).

Consolidated performance, parent performance, and difference

(JPY mn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Consolidated sales	95,178	103,110	117,482	120,671	121,788	125,961	129,817	137,865	139,200	141,031
Parent sales	87,035	95,732	96,260	99,401	95,576	93,937	95,732	97,297	96,834	98,799
Cons./parent ratio	1.1	1.1	1.2	1.2	1.3	1.3	1.4	1.4	1.4	1.4
Retail sales	31,540	31,483	48,259	51,644	56,264	62,443	70,783	77,334	80,545	82,468
% of total sales	33.1%	30.5%	41.1%	42.8%	46.2%	49.6%	54.5%	56.1%	57.9%	58.5%
Consolidated gross profit	24,233	26,937	34,228	37,004	38,690	42,602	46,681	51,761	53,621	56,517
Consolidated GPM	25.5%	26.1%	29.1%	30.7%	31.8%	33.8%	36.0%	37.5%	38.5%	40.1%
Parent gross profit	13,924	16,350	13,970	14,302	14,162	13,947	14,558	15,198	15,724	17,290
Parent GPM	16.0%	17.1%	14.5%	14.4%	14.8%	14.8%	15.2%	15.6%	16.2%	17.5%
Cons.-parent gross profit	10,309	10,587	20,258	22,702	24,528	28,655	32,123	36,563	37,897	39,227
% of Retail sales	32.7%	33.6%	42.0%	44.0%	43.6%	45.9%	45.4%	47.3%	47.1%	47.6%
SG&A expenses	19,533	20,699	27,152	28,172	31,205	35,399	39,741	42,200	44,038	46,423
SG&A ratio	20.5%	20.1%	23.1%	23.3%	25.6%	28.1%	30.6%	30.6%	31.6%	32.9%
Parent SG&A expenses	9,981	10,265	7,564	7,511	6,962	7,205	7,524	7,663	7,654	8,497
Parent SG&A ratio	11.5%	10.7%	7.9%	7.6%	7.3%	7.7%	7.9%	7.9%	7.9%	8.6%
Cons.-parent SG&A expenses	9,552	10,434	19,588	20,661	24,243	28,194	32,217	34,537	36,384	37,926
% of Retail sales	30.3%	33.1%	40.6%	40.0%	43.1%	45.2%	45.5%	44.7%	45.2%	46.0%
Operating profit	4,700	6,238	7,076	8,832	7,485	7,203	6,940	9,561	9,583	10,094
Operating profit margin	4.9%	6.0%	6.0%	7.3%	6.1%	5.7%	5.3%	6.9%	6.9%	7.2%
Parent operating profit	3,943	6,085	6,406	6,791	7,200	6,742	7,034	7,535	8,070	8,792
Parent OPM	4.5%	6.4%	6.7%	6.8%	7.5%	7.2%	7.3%	7.7%	8.3%	8.9%
Cons.-parent operating profit	757	153	670	2,041	285	461	-94	2,026	1,513	1,302
% of Retail sales	2.4%	0.5%	1.4%	4.0%	0.5%	0.7%	-0.1%	2.6%	1.9%	1.6%

Source: Shared Research based on company materials

Yellow Hat does not disclose data on wage earnings from services, which include auto inspection fees and sales from services, but in its supplementary financial information, it does provide YoY comparisons of the number of vehicles inspected and sales from services. Based on those trends, Shared Research estimates that over the last 10 years the number of vehicles inspected approximately tripled, while sales from services approximately doubled.

YoY comparisons of number of vehicles inspected and sales from services

(YoY)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
No of cars inspected	18.0%	13.0%	14.0%	10.0%	10.0%	19.0%	14.0%	7.0%	4.0%	-1.0%
Services sales	2.0%	9.0%	8.0%	5.0%	1.0%	13.0%	8.0%	10.0%	5.0%	4.0%

Source: Shared Research based on company data

Shared Research understands that the difference between consolidated and parent-only SG&A expenses is close to the SG&A expense figure for subsidiaries operating retail stores. The ratio of the difference in SG&A expenses to consolidated retail sales can therefore be considered essentially the SG&A expense ratio for subsidiaries operating retail stores. This ratio has also been trending upward, from 30.3% in FY03/11 to 46.0% in FY03/20.

Improved GPM at parent

The parent's gross profit comprises gross profit on wholesale sales from the parent to sales subsidiaries, Yellow Hat group chains, and hardware stores and other general customers.

The parent's GPM rose from 14.5% in FY03/13 to 17.5% in FY03/20. This is because the ratio of relatively high-margin tire and wheel sales increased, while the ratio of relatively low-margin audio and visual product sales declined.

The parent's GPM declined in FY03/13 when Yellow Hat transferred to subsidiaries the retail stores it had been operating. For this reason, the parent's most recent GPM is compared against FY03/13 rather than FY03/11.

The ratio of tire and wheel sales (excluding motorcycle parts and other) rose from 42.3% in FY03/13 to 45.3% in FY03/20, while the ratio of audio and visual product sales declined from 22.6% in FY03/13 to 15.1% in FY03/20.

SG&A expenses

Due to an increasing share of retail sales, the SG&A expense ratio rose from 20.5% in FY03/11 to 32.9% in FY03/20. Still, GPM improvement outstripped growth in the SG&A expense ratio, leading to an improvement in OPM.

As mentioned previously, for Yellow Hat, when sales of high-margin retail sales 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.

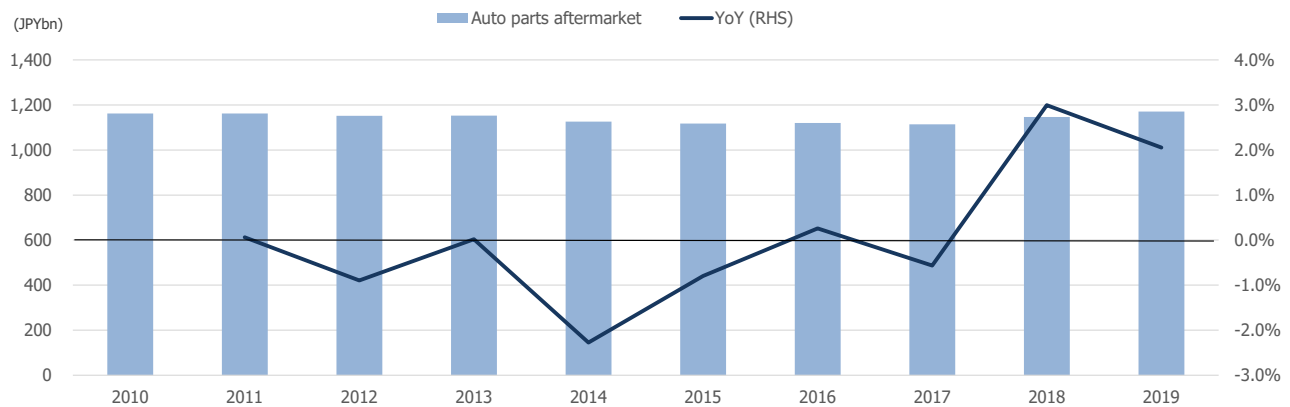
Market and value chain

Market overview

According to Yano Research Institute's *Market Report on Replacement Parts/Auto Supplies Market 2015*, in 2014, the Japanese aftermarket car parts market fell to JPY1.1tn (-2.3% YoY based on value of manufacturers' shipments in Japan). 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.

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 industry. Furthermore, price declines for car accessories accompanying the trend toward smaller cars and cars with enhanced functionalities, 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' shipments in Japan)



(JPYbn)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Auto parts aftermarket in Japan	1,162	1,163	1,152	1,153	1,126	1,117	1,120	1,114	1,147	1,171
YoY		0.1%	-0.9%	0.0%	-2.3%	-0.8%	0.3%	-0.6%	3.0%	2.1%

Source: Shared Research based on Yano Research Institute data and Auto-Parts & Accessories Retail Association (APARA) data
 Note: Figures for 2017 onward are Shared Research estimates based on YoY sales figures from APARA.

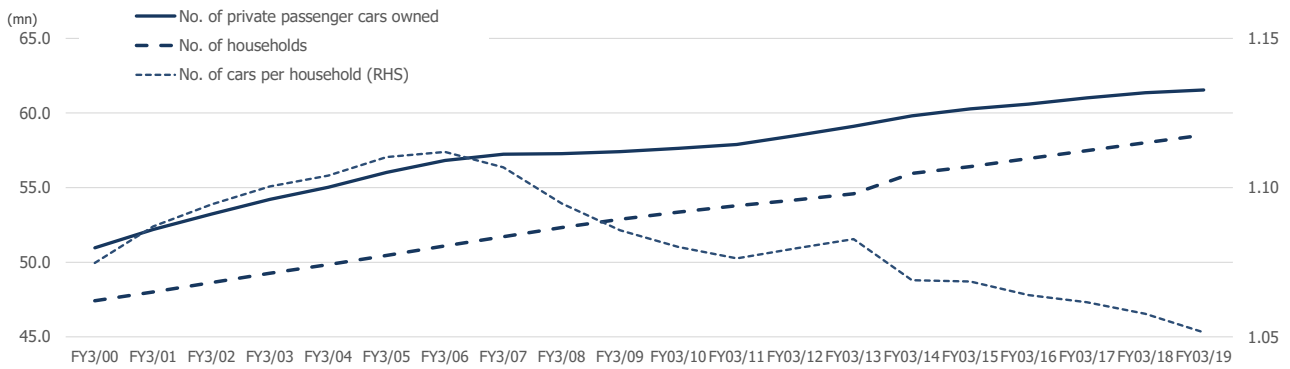
Car ownership and average years of use increase

Number of vehicles owned and average years of use, which affect potential demand for automotive parts, are as follows.

Number of vehicles owned

According to the Automobile Inspection & Registration Information Association of Japan (AIRIA), Japanese owned about 61.8mn vehicles as of end-March 2019 (+0.3% YoY), with the bulk of these, some 61.5mn (+0.3% YoY) being private passenger vehicles. With 58.5mn households in Japan (+0.9% YoY), there is an average of 1.05 vehicles per household (-0.6% YoY). With slow growth in the number of households, the number of private passenger vehicles has also grown, but the number of vehicles per household peaked at 1.11 at end-March 2006. In addition, the number of households is projected to decline (see following paragraph).

Number of passenger cars owned, number of households, and number of cars per household



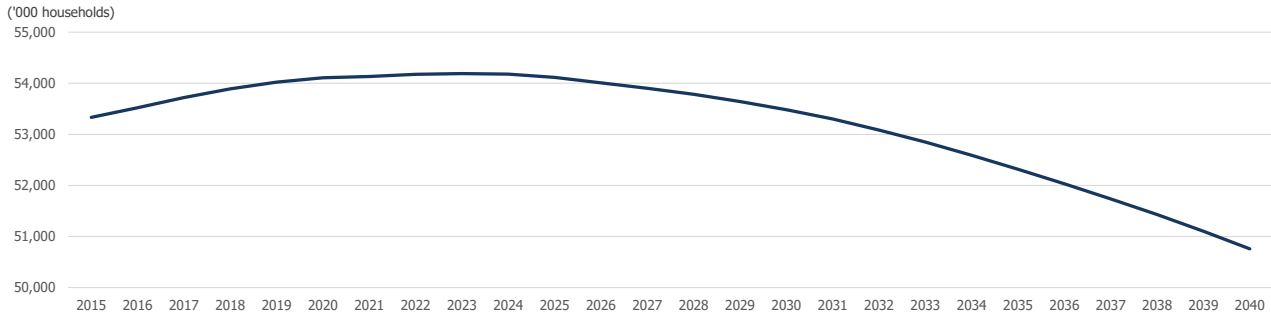
(mn units)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
No. of passenger cars owned	57.9	58.1	58.7	59.4	60.1	60.5	60.8	61.3	61.6	61.8
YoY	0.4%	0.4%	1.0%	1.1%	1.2%	0.8%	0.5%	0.7%	0.5%	0.3%
No. of private passenger cars owned	57.6	57.9	58.5	59.1	59.8	60.3	60.6	61.0	61.4	61.5
YoY	0.4%	0.4%	1.0%	1.1%	1.2%	0.8%	0.5%	0.7%	0.6%	0.3%
No. of households (mn)	53.4	53.8	54.2	54.6	56.0	56.4	57.0	57.5	58.0	58.5
YoY	0.9%	0.8%	0.7%	0.8%	2.5%	0.8%	1.0%	0.9%	0.9%	0.9%
No. of cars per household	1.08	1.08	1.08	1.08	1.07	1.07	1.06	1.06	1.06	1.05
YoY	-0.5%	-0.4%	0.3%	0.3%	-1.3%	0.0%	-0.4%	-0.2%	-0.4%	-0.6%

Source: Shared Research based on AIRIA data

Household projections

According to *Household Projections for Japan (2018 Nationwide Projections)* from the National Institute of Population and Social Security Research, the number of households will peak in 2023 at 54.2mn and then decline to 53.5mn by 2030 and 50.8mn by 2040.

Household projections for Japan

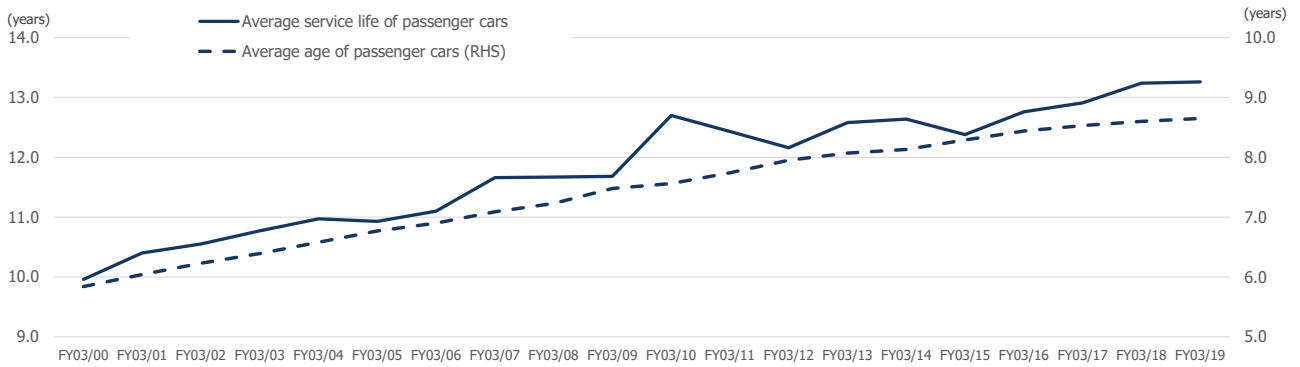


Source: *Household Projections for Japan (2018 Nationwide Projections)* from National Institute of Population and Social Security Research

Average years of vehicle use

According to AIRIA, as of March 2019, the average service life of passenger vehicles (excluding light vehicles) was 13.3 years (13.2 years as of March 2018). In addition, the average age of the vehicles was 8.7 years (8.6 years as of March 2018). Both figures have been trending upward. Coupled with the aforementioned growth in the number of vehicles owned, this means there is good reason to expect stable demand for maintenance services and automobile inspections.

Average service life and average age of passenger cars



(years)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
Average service life of passenger cars	12.7	12.4	12.2	12.6	12.6	12.4	12.8	12.9	13.2	13.3
YoY change	1.0	-0.3	-0.3	0.4	0.1	-0.3	0.4	0.2	0.3	0.0
Average age of passenger cars	7.6	7.7	8.0	8.1	8.1	8.3	8.4	8.5	8.6	8.7
YoY change	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1

Source: Shared Research based on AIRIA data

Yellow Hat thinks it has room to grow its share of car parts and accessories stores in the Japanese 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 as follows: 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 2018 there were 14,670 car dealers (16,213 in 2007, source: Japan Automobile Dealers Association) and 30,070 service (gas) stations (44,057 in 2007, source: *Numbers of Gasoline Dealers and Service Stations* from Agency for Natural Resources and Energy).

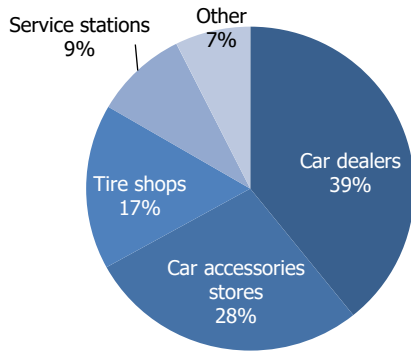
Gasoline demand declined as hybrid and fuel-efficient cars became even more fuel-efficient, and an increase in self-service gas stations made it difficult to sell merchandise, crimping profits at service stations. Furthermore, we understand that many garages are closing due to lack of a successor to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

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 because they have no parent company (tire manufacturer) supplying the bulk of their products.

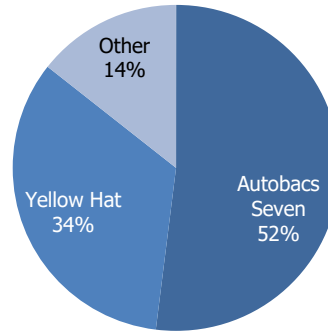
According to the Auto-Parts & Accessories Retail Association, total sales for the four big automotive parts companies came to JPY400.6bn (-0.4% YoY) in FY03/20. Based on this figure, Autobacs Seven's sales (total for the Autobacs business in Japan and the dealer, B2B, and online business) represented a 52% share, while Yellow Hat's sales (Auto and Motorcycle Parts Sales business) represented a 34% share, meaning the two companies together have captured more than 80% of the market.

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



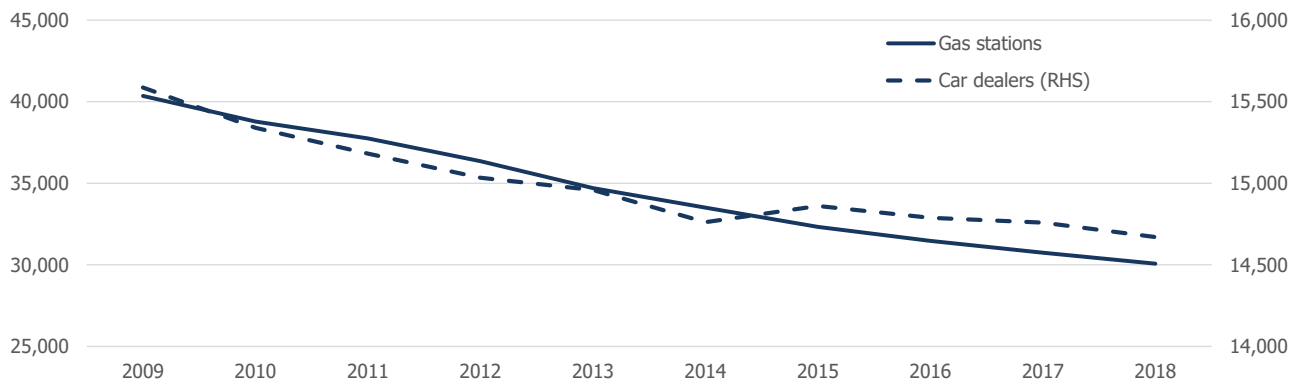
Source: Shared Research based on AM NETWORK Magazine data

Share in the Japanese car-parts stores (FY03/20)



Source: Shared Research based on Auto-Parts & Accessories Retail Association and company briefing materials
 Note: For Autobacs Seven, this graph uses total sales for the Autobacs business in Japan and the dealer, B2B, and online businesses. For Yellow Hat, it uses sales from the Auto and Motorcycle Parts Sales business.

Trends in numbers of service (gas) stations and car dealerships in Japan



(no. of facilities/stores)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gas stations	40,357	38,777	37,743	36,349	34,706	33,510	32,333	31,467	30,747	30,070
YoY		-4.1%	-3.9%	-2.7%	-3.7%	-4.5%	-3.4%	-3.5%	-2.7%	-2.3%
Car dealers	15,587	15,340	15,182	15,034	14,959	14,762	14,861	14,788	14,759	14,670
YoY		-2.5%	-1.6%	-1.0%	-1.0%	-0.5%	-1.3%	0.7%	-0.5%	-0.2%

Source: Shared Research based on data from Agency for Natural Resources and Energy for gas station counts and data from Japan Automobile Dealers Association for car dealership counts

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, and 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.

Even if one buys auto parts online, he/she needs to go to a mechanic to have those parts installed and of course there are additional charges for such work. 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)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	95,178	103,110	117,482	120,671	121,788	125,961	129,817	137,865	139,200	141,031
YoY	5.1%	8.3%	13.9%	2.7%	0.9%	3.4%	3.1%	6.2%	1.0%	1.3%
Gross profit	24,233	26,937	34,228	37,004	38,690	42,602	46,681	51,761	53,621	56,517
YoY	6.5%	11.2%	27.1%	8.1%	4.6%	10.1%	9.6%	10.9%	3.6%	5.4%
Gross profit margin	25.5%	26.1%	29.1%	30.7%	31.8%	33.8%	36.0%	37.5%	38.5%	40.1%
SG&A expenses	19,533	20,699	27,152	28,172	31,205	35,399	39,741	42,200	44,038	46,423
YoY	-4.2%	6.0%	31.2%	3.8%	10.8%	13.4%	12.3%	6.2%	4.4%	5.4%
SG&A ratio	20.5%	20.1%	23.1%	23.3%	25.6%	28.1%	30.6%	30.6%	31.6%	32.9%
Operating profit	4,700	6,238	7,076	8,831	7,484	7,203	6,939	9,561	9,583	10,093
YoY	99.0%	32.7%	13.4%	24.8%	-15.3%	-3.8%	-3.7%	37.8%	0.2%	5.3%
Operating profit margin	4.9%	6.0%	6.0%	7.3%	6.1%	5.7%	5.3%	6.9%	6.9%	7.2%

Autobacs Seven (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	236,350	237,342	230,168	231,697	209,454	208,142	204,033	212,328	213,840	221,400
YoY	1.5%	0.4%	-3.0%	0.7%	-9.6%	-0.6%	-2.0%	4.1%	0.7%	3.5%
Gross profit	75,739	77,036	75,729	76,907	66,902	66,968	66,162	67,966	67,581	70,746
YoY	2.4%	1.7%	-1.7%	1.6%	-13.0%	0.1%	-1.2%	2.7%	-0.6%	4.7%
Gross profit margin	32.0%	32.5%	32.9%	33.2%	31.9%	32.2%	32.4%	32.0%	31.6%	32.0%
SG&A expenses	63,750	63,315	62,984	62,962	60,498	60,266	60,332	60,177	60,102	63,160
YoY	-0.1%	-0.7%	-0.5%	0.0%	-3.9%	-0.4%	0.1%	-0.3%	-0.1%	5.1%
SG&A ratio	27.0%	26.7%	27.4%	27.2%	28.9%	29.0%	29.6%	28.3%	28.1%	28.5%
Operating profit	11,988	13,720	12,745	13,944	6,403	6,701	5,829	7,789	7,478	7,585
YoY	17.9%	14.4%	-7.1%	9.4%	-54.1%	4.7%	-13.0%	33.6%	-4.0%	1.4%
Operating profit margin	5.1%	5.8%	5.5%	6.0%	3.1%	3.2%	2.9%	3.7%	3.5%	3.4%

Source: Shared Research based on company data

Comparison to Autobacs Seven

Sales per store greater at Autobacs Seven than at Yellow Hat

Autobacs Seven has a larger sales floor, greater sales per store than Yellow Hat, and more stores in the Kinki area. Yellow Hat stores are smaller, targeting smaller markets like regional cities. In addition, Yellow Hat has focused its store openings on relatively low-cost vacated premises since the late 2000s. Most Yellow Hat stores are located in the Kanto, Chubu, and Tohoku areas in that order, with fewer stores in the Kinki area.

Numbers of households and Yellow Hat and Autobacs Seven stores by area

'000 households)	Number of households	Yellow Hat		Autobacs Seven	
		Store count	No. of households per store	Store count	No. of households per store
Hokkaido	2,773	37	75	32	87
Tohoku	4,622	125	37	56	83
Kanto	20,392	190	107	141	145
Chubu	8,854	143	62	128	69
Kinki	9,601	72	133	106	91
Chugoku	3,337	67	50	36	93
Shikoku	1,780	24	74	21	85
Kyushu	6,650	80	83	62	107

Source: Shared Research based on basic resident register data from the Ministry of Internal Affairs and Communications (for numbers of households), along with data from the two companies

Notes: Store counts for Yellow Hat are as of March 2019 and for Autobacs Seven are as January 2020.

Tohoku area: Aomori, Akita, Miyagi, Yamagata, Iwate, Fukushima, and Niigata prefectures
 Kanto area: Tokyo, Tochigi, Ibaraki, Gunma, Kanagawa, Saitama, and Chiba prefectures
 Chubu area: Toyama, Ishikawa, Fukui, Mie, Gifu, Aichi, Nagano, Shizuoka, and Yamanashi prefectures
 Kinki area: Osaka, Kyoto, Shiga, Hyogo, Nara, and Wakayama prefectures
 Chugoku area: Okayama, Hiroshima, Tottori, Shimane, and Yamaguchi prefectures
 Kyushu area: Fukuoka, Miyazaki, Kumamoto, Oita, Nagasaki, Saga, Kagoshima, and Okinawa prefectures

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.

Yellow Hat's earnings are growing, while Autobacs Seven's sales and profit are both declining

Comparing the two companies' performance over the last 10 years, Yellow Hat has achieved sales CAGR of 4.5% and operating profit CAGR of 15.6%. Autobacs Seven, on the other hand, saw its sales and operating profit shrink by an average of 0.5% and 2.9% per year, respectively.

Autobacs Seven has mostly developed large stores along major thoroughfares in urban centers, but the Japanese market for this sort of large store is largely saturated, so growth in store count has stalled. In contrast, Yellow Hat continues to increase its store count by focusing on premises vacated by other business types such as convenience stores, even opening stores in areas with small commercial zones. In Japan, Autobacs Seven's store count rose from 513 at end-FY03/10 to 585 at end-FY03/20, an increase of 14%. Over the same time period, Yellow Hat's store count went from 484 to 738, a 52% increase.

Furthermore, Yellow Hat, in addition to growing its sales, has achieved improvement in its profit margins by opening new stores in vacated premises to control costs, reducing procurement costs by increasing the scale of transactions as its store count grows, shifting its product mix toward higher margin products, and implementing other cost-cutting measures.

Other differences between Yellow Hat and Autobacs Seven

Yellow Hat is not involved in buying or selling cars, but Autobacs Seven is making a push in this area. In FY03/20, the buying and selling of cars resulted in sales of JPY9.5bn, or 5.3% of the JPY178.1bn in sales generated by the Autobacs business in Japan. In addition, Yellow Hat's strategy is focused on improving profits in the business in Japan rather than its overseas operations. Autobacs Seven is working to develop its overseas business as it sees this as a new growth driver. In FY03/20, Autobacs Seven's overseas business posted sales of JPY11.5bn (+5.2% YoY), which was 5.2% (+0.1pp YoY) of total sales, but still booked operating loss of JPY360mn (operating loss of JPY783mn in FY03/19).

Strengths and weaknesses

Strengths

- ▶ **Leadership of President Yasuo Horie, who revamped management.** Yellow Hat's earnings had deteriorated to an operating loss of JPY507mn in FY03/08, but turned around to a record operating profit of JPY10.1bn in FY03/20. Shared Research thinks that the recovery in performance is largely attributable to the leadership of President Yasuo Horie. Mr. Horie spearheaded improvements 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 industries, making use of the buildings and fixtures left behind. According to Yellow Hat, this method means that 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 FY03/20, Yellow Hat had OPM of 7.2% and recurring profit to total assets ratio of 10.3%—higher than the corresponding figures for Autobacs Seven, 3.4% and 4.6% respectively. The difference reflects the fact that Yellow Hat has shifted its product range to relatively high-margin tires, batteries, and oil, and implemented cost cuts and thorough expense control. In FY03/20, tires and wheels accounted for 29.5% (30.4% in FY03/19) of Yellow Hat's sales versus 25.9% (27.3%) for Autobacs Seven (of sales in the Autobacs business in Japan).

Weaknesses

- ▶ **Relatively low sales per store.** In FY03/20, Yellow Hat had sales per store of JPY231mn (retail sales divided by the average store count at the beginning and end of the period). This was roughly half of the JPY412mn achieved by Autobacs Seven (total retail sales for Super Autobacs and Autobacs divided by the average store count at the beginning and end of the period). Shared Research thinks that this is because Autobacs Seven has its stores in prime locations and has 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 costs 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 Seven uses a franchise system. As such, it is involved in store management, providing its operating and sales expertise to the companies operating the stores primarily with the aim of growing sales for the franchiser.
- ▶ **Low profile.** Autobacs Seven has for a long time put a great deal of effort into promotional activities, using celebrities in television commercials and participating in racing activities. This has implanted the idea that Autobacs is synonymous with anything to do with cars in consumers' minds. Autobacs Seven has established a dominant position in the Japanese car part stores industry with a 52% market share (FY03/20). Yellow Hat has not traditionally been as aggressive in its marketing activities as Autobacs Seven, so its profile is low in comparison.

Historical performance

Full-year FY03/20 results

- ▷ **Sales:** JPY141.0bn (+1.3% YoY)
- ▷ **Operating profit:** JPY10.1bn (+5.3% YoY)
- ▷ **Recurring profit:** JPY11.1bn (+1.0% YoY)
- ▷ **Net income*:** JPY7.3bn (+0.1% YoY)

*Net income attributable to owners of the parent.

Against the full-year FY03/20 forecast, sales reached 97.5%, operating profit 91.8%, recurring profit 93.2%, and net income attributable to owners of the parent 92.8%.

- ▷ Despite a slowdown after the consumption tax hike and a warm winter lowering sales of winter goods such as studless snow tires, sales increased overall thanks to profit growth in pit services and strong drive recorder sales.
 - Auto and Motorcycle Parts Sales business sales were mainly split between wholesale sales of JPY49.2bn (-0.8% YoY) and retail sales of JPY82.5bn (+2.4% YoY). Of wholesale sales, JPY12.7bn (+4.4% YoY) was to general external parties and JPY36.4bn (-2.5% YoY) was to Yellow Hat group affiliates.
 - Total Yellow Hat store sales came to JPY127.1bn (-1.3% YoY), while comparable store sales also declined 1.3% YoY. Due to the warm winter and other factors, tire sales fell 1% YoY and aluminum wheel sales dropped 16% YoY, but sales of AVC (including car navigation systems, drive recorders, audio systems, and ETC devices) rose 5% YoY and sales from services (maintenance work, installation or replacement work, and other services) grew 4% YoY.
 - In FY03/20, the company opened 21 Yellow Hat stores and closed 11, for a net increase of 10; opened three 2-Rin-Kan stores and closed three, for a net increase of zero; and opened five Bikers' Station SOX stores, for a net increase of five. At end-FY03/20, it had a total of 849 stores (738 Yellow Hat stores, 56 2-Rin-Kan stores, and 52 Bikers' Station SOX stores in Japan, and an additional three Yellow Hat stores overseas) and seven Yellow Hat automobile inspection centers. Of the Yellow Hat stores in Japan, 367 were operated by subsidiaries and 372 by group affiliates.
- ▷ Gross profit was JPY56.5bn (+5.4% YoY). SG&A expenses rose to JPY46.4bn (+5.4% YoY) due mainly to higher rent and personnel expenses stemming from additional stores at subsidiaries.
- ▷ In regard to sales breakdown, wholesale sales marked JPY49.2bn (-0.8% YoY) and retail sales JPY82.5bn (+2.4% YoY).

Auto and Motorcycle Parts Sales

- ▷ **Sales:** JPY134.8bn (+1.5% YoY)
- ▷ **Operating profit:** JPY8.9bn (+5.4% YoY)

Real Estate Lease

- ▷ **Sales:** JPY6.3bn (-2.1% YoY)
- ▷ **Operating profit:** JPY1.2bn (+4.7% YoY)

Q3 FY03/20 results

- ▷ **Sales:** JPY112.4bn (+2.8% YoY)
- ▷ **Operating profit:** JPY9.7bn (+19.8% YoY)
- ▷ **Recurring profit:** JPY10.4bn (+15.3% YoY)
- ▷ **Net income*:** JPY7.1bn (+15.7% YoY)

*Net income attributable to owners of the parent.

Against the full-year FY03/20 forecast, sales reached 77.7%, operating profit 87.9%, recurring profit 97.8%, and net income attributable to owners of the parent 90.3%.

- ▷ Despite a slowdown after the consumption tax hike and a warm winter lowering sales of winter goods such as studless snow tires, sales increased overall thanks to profit growth in pit services and strong drive recorder sales.
 - Auto and Motorcycle Parts Sales business sales were mainly split between wholesale sales of JPY40.6bn (+1.2% YoY) and retail sales of JPY64.7bn (+3.8% YoY). Of wholesale sales, JPY10.0bn (+5.1% YoY) was to general external parties and JPY30.5bn (flat YoY) was to Yellow Hat group affiliates.
 - Total Yellow Hat store sales came to JPY100.7bn (+1.6% YoY), while comparable store sales grew 1.0% YoY. Due to the warm winter and other factors, sales of aluminum wheels fell 13% YoY, but sales of AVC (including car navigation systems, drive recorders, audio systems, and ETC devices) rose 13% YoY and sales from services (maintenance work, installation or replacement work, and other services) grew 6% YoY.
 - In cumulative Q3 FY03/20, the company opened 19 Yellow Hat stores and closed eight, for a net increase of 11; opened two 2-Rin-Kan stores and closed three, for a net decrease of one; and opened four Bikers' Station SOX stores, for a net increase of four. At end-Q3, it had a total of 849 stores (739 Yellow Hat stores, 55 2-Rin-Kan stores, and 51 Bikers' Station SOX in Japan, and an additional four Yellow Hat stores overseas) and seven Yellow Hat automobile inspection centers. Of the Yellow Hat stores in Japan, 367 were operated by subsidiaries and 372 by group affiliates.
- ▷ Gross profit was JPY44.3bn (+8.1% YoY) and GPM was 39.4% (+1.9pp YoY).
- ▷ SG&A expenses rose to JPY34.6bn (+5.3% YoY) due mainly to higher rent and personnel expenses stemming from additional stores at subsidiaries and a push in advertising activities.

Auto and Motorcycle Parts Sales

- ▷ **Sales:** JPY107.7bn (+3.1% YoY)
- ▷ **Operating profit:** JPY8.8bn (+21.6% YoY)

Real Estate Lease

- ▷ **Sales:** JPY4.7bn (-2.1% YoY)
- ▷ **Operating profit:** JPY871mn (+4.9% YoY)

1H FY03/20 results

- ▷ **Sales:** JPY71.5bn (+11.9% YoY)
- ▷ **Operating profit:** JPY5.7bn (+93.2% YoY)

- ▷ Recurring profit: JPY6.2bn (+68.0% YoY)
- ▷ Net income*: JPY4.2bn (+67.8% YoY)

*Net income attributable to owners of the parent.

Against the full-year FY03/20 forecast, sales reached 49.5%, operating profit 51.8%, recurring profit 51.8%, and net income 53.6%.

Sales increased thanks to a surge in demand primarily for high-priced items such as tires prior to the consumption tax hike. Gross profit was JPY28.4bn (+16.8% YoY). SG&A expenses rose to JPY22.7bn (+6.2% YoY) due mainly to higher rent and personnel expenses stemming from additional stores at subsidiaries and a push in advertising activities.

In regard to sales breakdown, wholesale sales marked JPY24.9bn (+13.0% YoY) and retail sales JPY41.8bn (+12.1% YoY).

Auto and Motorcycle Parts Sales

- ▷ Sales: JPY68.4bn (+12.7% YoY)
- ▷ Operating profit: JPY5.1bn (+113.7% YoY)

As of end-September 2019, the company had a total of 843 stores and seven Yellow Hat automobile inspection centers. The breakdown of stores is as follows:

Japan

- ▷ Yellow Hat: 733
- ▷ 2-Rin-Kan (motorcycle parts): 55
- ▷ SOX: 51

Overseas

- ▷ Yellow Hat: 4

Real Estate Lease

- ▷ Sales: JPY3.1bn (-2.3% YoY)
- ▷ Operating profit: JPY582mn (+4.6% YoY)

Q1 FY03/20 results

- ▷ **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 attributable to owners of the parent.

Against the full-year FY03/20 forecast, 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).

Auto 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:

Japan

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

Overseas

- ▷ Yellow Hat: 4

Real Estate Lease

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

Other information

History

Hidesaburo Kagiya 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.

Under the Y-DNA program formulated in FY03/05, efforts to promote efficiency through diversification and the merger and unification of subsidiary sales companies ended in failure and the company posted substantial losses for two consecutive years in FY03/08 and FY03/09. President Yasuo Horie took over in October 2008 and is the company's current president. The company then began to diversify its subsidiary sales companies by region, and focus management resources on its core business.

Under the Yellowhat Drastic New stage Action program (Y-DNA), a plan to innovate while retaining the Yellow Hat DNA, the company sought to merge and unify subsidiary sales companies to reduce costs and enhance head office functions.

Date	Overview
Oct 1961	Royal is founded in Tokyo to sell automotive parts and accessories
Aug 1967	Spins off service station wholesale business servicing the Kanto area and establishes Corner Royal
Jun 1969	Establishes automotive goods sales spaces in large retail stores and begins selling directly to consumers
Nov 1975	Opens first directly managed store, Yellow Hat Utsunomiya Minami
Apr 1982	Concludes group store contract with Yellow Hat Kamagaya as the first group store
Dec 1990	Gains approval of Japan Securities Dealers Association to register for over-the-counter trading
Dec 1995	Lists on Tokyo Stock Exchange 2nd Section
Sep 1997	Lists on Tokyo Stock Exchange 1st Section
Oct 1997	Changes name to Yellow Hat Ltd.
Sep 2001	Opens Yellow Hat Shipai in Taiwan as first overseas store
Aug 2010	Acquires all shares of JOYFULL Co., Ltd. (now consolidated subsidiary)
Apr 2012	Acquires all shares of Driver Stand Co., Ltd., and makes it a subsidiary (now consolidated subsidiary 2-Rin-Kan Yellow Hat Co., Ltd.)
May 2014	Makes Will Co., Ltd., a wholly owned subsidiary through a stock swap (now consolidated subsidiary YellowHat-Sox Inc.)

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Koeikikaku, Ltd.	6,274	13.59%
Yellow Hat Kyowakai	2,654	5.75%
The Master Trust Bank of Japan, Ltd. (Trust account)	2,643	5.73%
JP Morgan Chase Bank 385632	2,299	4.98%
Japan Trustee Services Bank, Ltd. (Trust account)	1,912	4.14%
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,225	2.65%
MUFG Bank, Ltd.	991	2.14%
Koichiro Kagiyama	788	1.70%
Japan Trustee Services Bank, Ltd. (Trust account 5)	754	1.63%
State Street Bank and Trust Company 505103	721	1.56%
SUM	20,261	43.91%

Source: Shared Research based on company data
As of March 31, 2020; shareholding ratio based on shares outstanding (excl. treasury shares)

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 30% while taking its consolidated earnings, financial condition, and investment plans into account. The company's full-year FY03/21 dividend forecast is JPY52.0 (up from JPY46.0 in FY03/20).

Profile

Company	Head office
Yellow Hat Ltd.	1-7-4 Iwamotocho, Chiyoda-ku Tokyo, Japan 101-0032
Phone	Listed
+81-3-6866-1680	Tokyo Stock Exchange 1st Section
Established	Exchange listing
March 15, 1962	December 15, 1995
Fiscal year-end	
March	

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Artspark Holdings Inc.	Financial Products Group Co., Ltd.	Mercuria Investment Co., Ltd.	SOURCENEXT Corporation
AS ONE CORPORATION	First Brothers Col, Ltd.	Micronics Japan Co., Ltd.	Star Mica Holdings Co., Ltd.
Ateam Inc.	FreeBit Co., Ltd.	MIRAIT Holdings Corporation	Strike Co., Ltd.
Aucfan Co., Ltd.	Fujita Kanko Inc.	Monex Goup Inc.	Symbio Pharmaceuticals Limited
AVANT CORPORATION	Gamecard-Joyco Holdings, Inc.	MORINAGA MILK INDUSTRY CO., LTD.	Synchro Food Co., Ltd.
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Azbil Corporation	GCA Corporation	NAGASE & CO., LTD	Takashimaya Company, Limited
AZIA CO., LTD.	Good Com Asset Co., Ltd.	NAIGAI TRANS LINE LTD.	Take and Give Needs Co., Ltd.
AZoom, Co., Ltd.	Grandy House Corporation	NanoCarrier Co., Ltd.	Takihyo Co., Ltd.
Base Co., Ltd	Hakuto Co., Ltd.	Net Marketing Co., Ltd.	TEAR Corporation
BEENOS Inc.	Hamee Corp.	Net One Systems Co.,Ltd.	Tempo Innovation Inc.
Bell-Park Co., Ltd.	Happinet Corporation	Nichi-Iko Pharmaceutical Co., Ltd.	3-D Matrix, Ltd.
Benefit One Inc.	Harmonic Drive Systems Inc.	Nihon Denkei Co., Ltd.	TKC Corporation
B-lot Co.,Ltd.	HOUSEDO Co., Ltd.	Nippon Koei Co., Ltd.	TKP Corporation
Broadleaf Co., Ltd.	H2O Retailing Corporation	NIPPON PARKING DEVELOPMENT Co., Ltd.	Tsuzuki Denki Co., Ltd.
CanBas Co., Ltd.	IDOM Inc.	NIPRO CORPORATION	TOCALO Co., Ltd.
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Career Design Center Co., Ltd.	i-mobile Co.,Ltd.	NS TOOL CO., LTD.	Tokyu Construction Co., Ltd.
Carna Biosciences, Inc.	Inabata & Co., Ltd.	OHIZUMI MFG. CO., LTD.	TOYOBO CO., LTD.
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CERES INC.	Infomart Corporation	Oki Electric Industry Co., Ltd	Toyo Tanso Co., Ltd.
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