Chiyoda / 8185

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Research Coverage Report by Shared Research Inc.

INDEX

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

Summary

Business overview

Chiyoda Co., Ltd. is a retailer specializing in low-price shoes; its mainstay business is shoe sales, which is operated by the parent company. Chiyoda operates a network of stores adjacent to residential areas, including suburban roadside stores and stores located within small shopping centers. Subsidiary Mac-House (TSE JASDAQ: 7603), in which Chiyoda holds a 61.3% stake, sells casual apparel and jeans. The parent company's shoe business had a total of 1,029 domestic stores in operation as of the end of FY02/20, including 563 stores under the name *Tokyo Shoes Retailing Center* and 387 under the name *Shoe Plaza*. In terms of format, roughly 50% are standalone format stores, 20% are roadside combination stores, and 30% are shop-in-shops; it also has some stores located near train stations and in neighborhood shopping areas.

With most of its shoes being priced in the JPY3,000 range, the average spending per customer was JPY3,902 (FY02/20). Although women's shoes only account for slightly over 20% of sales, Chiyoda's customers are predominantly housewives, leading the company to conclude that many of its female customers are buying shoes for their husbands and children.

Margins are high at over 50% for men's and women's shoes and sandals due to a high share of private brand (PB) merchandise. Children's and athletic shoes have lower margins due to a higher share of global national brands. Shared Research estimates that the difference in margins between private brands (PB)/national private brands (NPB) and others is around 10pp.

Brand development

The company has three main Private Brands (PBs) (Cedar Crest, Hydro-Tech and Bio-Fitter) and many other PBs, National Private Brands (NPBs), as well as global National Brands (NBs). The company has a strategy of increasing the share of PBs in its brand portfolio to increase GPM, and aims for both PB ratio and GPM to reach 50% in the medium term.

Main store formats

Tokyo Shoes Retailing Center (TSRC)

Launched as the Tokyo Shoes Retailing Center in 1961, the company is a pioneer in the roadside shop concept in Japan. Its customers are mainly in their 30s–60s, with low prices its key selling point. The store network is built on roadsides and in neighborhood shopping centers (NSC), with average floor space of around 99–495sqm, mainly selling low-priced products. TSRC has also been renovating stores and opening more stores in front of train stations and in neighborhood shopping areas with the aim of bringing in more female customers. In FY02/20, TSRC's 562 stores accounted for 45% of parent company sales.

Shoe Plaza

Since its establishment in 1994, growth in this format has centered on suburban stores aimed at families. This format features large stores and a wide range of NB sneakers. Due to the large share of NBs, average spending per customer is high. Shoe Plaza customers are mainly in their 30s and 40s. Floor space is around 300-700sqm. Shoe Plaza has been opening more stores inside of shopping centers with a brighter format and an emphasis on new arrivals. In FY02/20, Shoe Plaza's 388 stores accounted for 47% of parent company sales.

Sales and earnings trends

- In FY02/20, Chiyoda recorded sales of JPY113.5bn (-4.2% YoY), an operating loss of JPY1.2bn (operating profit of JPY1.7bn in FY02/19), and a net loss of JPY1.6bn (net income of JPY1.6bn in FY02/19). The intense competitive environment led sales to fall in both the Shoes and Apparel businesses, which were also affected by poor weather. As a result of recording valuation losses on inventories and disposing of slow-moving inventories in efforts to freshen up in-store product lineups, GPM declined to 45.6% from 48.1% in FY02/19. Chiyoda recorded an operating loss and a net loss despite SG&A expenses falling by 4.3% YoY due to a reduced store count. The company expects annual dividend to remain stable at JPY74.0 per share.
- The full-year company forecast for FY02/21 calls for sales of JPY103.2bn (-9.1% YoY), an operating loss of JPY800mn (operating loss of JPY1.2bn in FY02/20), and a net loss of JPY1.4bn (loss of JPY1.6bn). Operating losses narrowed from

JPY1.6bn in Q1 to JPY34mn in Q2. Chiyoda forecasts sales turning higher in 2H, rising 2.8% YoY, and a return to the black at the operating line, with operating profit coming in at JPY796mn. The company forecasts an annual dividend of JPY37 per share. Although it expects a net loss in FY02/21, Chiyoda views providing ample, steady returns to shareholders over the long term as a key management priority. It said that it determined the dividend forecast taking into account retaining internal reserves needed for future internal structural reform and capex.

Strengths and Weaknesses

Shared Research believes Chiyoda's strengths to be 1) economies of scale, 2) low-cost neighborhood stores in attractive locations, and 3) its handling of PBs. The company's main weaknesses are 1) a lack of presence in large-scale shopping malls and central urban areas, 2) its inventory control, and 3) its dependence on bargain sales. (For further details, see "Strengths and weaknesses" section.)

Key financial data

Income statement (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Est.
Sales	154,086	150,323	147,423	143,005	144,504	137,017	127,634	118,568	113,530	103,150
YoY	-1.9%	-2.4%	-1.9%	-3.0%	1.0%	-5.2%	-6.8%	-7.1%	-4.2%	-9.1%
Gross profit	73,066	73,441	72,041	69,005	69,613	66,456	63,677	57,032	51,773	-
YoY	1.9%	0.5%	-1.9%	-4.2%	0.9%	-4.5%	-4.2%	-10.4%	-9.2%	-
GPM	47.4%	48.9%	48.9%	48.3%	48.2%	48.5%	49.9%	48.1%	45.6%	-
Operating profit	10,731	12,316	10,531	7,753	9,372	7,731	6,132	1,669	-1,231	-800
YoY	112.3%	14.8%	-14.5%	-26.4%	20.9%	-17.5%	-20.7%	-72.8%	-	-
OPM	7.0%	8.2%	7.1%	5.4%	6.5%	5.6%	4.8%	1.4%	-1.1%	-0.8%
Recurring profit	11,339	13,108	11,027	8,253	9,927	8,143	6,595	2,266	-669	-600
YoY	98.1%	15.6%	-15.9%	-25.2%	20.3%	-18.0%	-19.0%	-65.6%	-	-
RPM	7.4%	8.7%	7.5%	5.8%	6.9%	5.9%	5.2%	1.9%	-0.6%	-0.6%
Net income	4,839	7,151	5,847	4,165	4,882	4,295	4,643	1,613	-1,643	-1,400
YoY	362.2%	47.8%	-18.2%	-28.8%	17.2%	-12.0%	8.1%	-65.3%	-	-
Net margin	3.1%	4.8%	4.0%	2.9%	3.4%	3.1%	3.6%	1.4%	-1.4%	-1.4%
Per share data ('000 shares, JPY)										
Shares outstanding (ex. treasury shares; year-end)	39,721	39,484	39,489	38,616	37,921	37,068	36,368	35,565	35,621	-
Shares issued (year-end)	41,610	41,610	41,610	41,610	41,610	41,610	41,610	41,610	41,610	-
Treasury shares	1,889	2,126	2,121	2,994	3,689	4,542	5,242	6,045	5,989	-
Shares outstanding (average)	39,721	39,694	39,489	39,011	38,117	37,498	36,894	35,832	35,615	-
EPS	121.8	180.2	148.1	106.8	128.1	114.6	125.9	45.0	-46.2	-39.3
EPS (fully diluted)	121.8	179.8	147.7	106.5	127.7	114.1	125.3	44.8	-	-
Dividend per share	50	60	70	70	75	70	72	74	74	37
Book value per share	1,688	1,831	1,937	1,974	1,998	2,045	2,087	2,002	1,868	-
Balance sheet (JPYmn)										
Cash and cash equivalents	47,024	55,013	55,136	49,457	42,032	44,836	42,547	44,216	40,410	
Total current assets	80,001	86,594	88,646	87,725	86,305	86,610	82,377	81,820	74,465	
Tangible fixed assets	8,987	10,308	10,463	10,630	10,316	10,269	11,480	10,152	9,004	
Intangible fixed assets	3,685	3,633	3,690	3,677	3,678	3,662	3,821	3,987	4,677	
Investments and other assets	34,082	32,331	31,828	31,888	29,556	26,007	25,138	21,800	21,224	
Total assets	126,756	132,868	134,628	133,922	129,856	126,550	122,817	117,761	109,371	
Accounts payable	28,465	28,379	28,588	31,164	27,321	24,963	20,420	21,920	20,529	
Short-term debt	1,786	1,717	1,682	1,782	2,001	1,618	530	1,192	60	
Total current liabilities	39,049	39,102	37,286	40,377	37,123	33,387	27,499	29,229	26,352	
Long-term debt	1,592	1,619	1,337	1,375	1,157	1,336	1,458	1,272	1,200	
Total fixed liabilities	14,988	15,107	14,539	11,270	11,064	11,578	13,904	13,015	13,105	
Total liabilities	54,037	54,209	51,825	51,648	48,188	44,965	41,404	42,245	39,457	
Net assets	72,719	78,658	82,802	82,273	81,668	81,585	81,412	75,516	69,914	
Cash flow statement (JPYmn)										
Cash flows from operating activities	9,306	10,917	4,993	974	-1,383	6,994	3,893	5,825	1,771	
Cash flows from investing activities	-370	952	-1,266	-4,507	4,261	2,566	-725	1,498	-984	
Cash flows from financing activities	-3,064	-3,375	-3,604	-5,445	-5,199	-5,457	-5,456	-5,855	-4,392	
Financial ratios										
Total interest-bearing debt	3,378	3,336	3,019	3,157	3,158	2,954	1,988	2,464	1,260	
Net cash	43,646	51,677	52,117	46,300	38,874	41,882	40,559	41,752	39,150	
ROE	7.3%	10.3%	7.9%	5.5%	6.4%	5.7%	6.1%	2.2%	-2.4%	
Net margin	3.1%	4.8%	4.0%	2.9%	3.4%	3.1%	3.6%	1.4%	-1.4%	
Total asset turnover	1.23	1.16	1.10	1.07	1.10	1.07	1.02	0.99	1.00	
Financial leverage (equity multiplier)	1.91	1.86	1.80	1.76	1.74	1.69	1.64	1.64	1.65	
ROA (RP-based)	9.0%	10.1%	8.2%	6.1%	7.5%	6.4%	5.3%	1.9%	-0.6%	
ROIC	8.5%	9.2%	7.8%	5.6%	7.1%	6.1%	5.0%	1.4%	-1.1%	
NOPAT	6,365	7,305	6,528	4,806	6,032	5,175	4,240	1,158	-854	
Net assets + Interest-bearing debt	74,712	79,046	83,908	85,626	85,128	84,683	83,970	80,690	74,577	
ROIC (before tax)	14.4%	15.6%	12.6%	9.1%	11.0%	9.1%	7.3%	2.1%	-1.7%	
OPM	7.0%	8.2%	7.1%	5.4%	6.5%	5.6%	4.8%	1.4%	-1.1%	
Sales / Invested capital	206.2%	190.2%	175.7%	167.0%	169.7%	161.8%	152.0%	146.9%	152.2%	
DOE	3.0%	3.4%	3.7%	3.6%	3.7%	3.4%	3.5%	3.6%	3.8%	
Dividend payout ratio	41.0%	33.2%	47.3%	65.5%	58.5%	61.1%	57.2%	164.3%	-	
Equity ratio	52.9%	54.4%	56.8%	56.9%	58.3%	59.9%	61.8%	60.5%	60.8%	

Source: Shared Research based on company data

Recent updates

Highlights

On October 9, 2020, Chiyoda Co., Ltd. announced earnings results for Q2 FY02/21; see the results section for details.

On October 1, 2020, the company announced monthly sales data for September 2020; see the monthly trends section for further details.

On September 1, 2020, the company announced monthly sales data for August 2020.

On August 3, 2020, the company announced monthly sales data for July 2020.

On July 27, 2020, Shared Research updated the report following interviews with the company.

On July 10, 2020, the company announced earnings results for Q1 FY02/21.

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

Trends and outlook

Monthly trends

Comparable-store sales YoY	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Q1	Q2	Q3	Q4	FY
FY02/17	-1.4%	0.0%	-4.3%	-1.4%	1.7%	-5.3%	-5.9%	1.2%	-3.2%	-4.0%	-11.0%	-2.5%	-1.9%	-1.7%	-2.7%	-6.4%	-3.1%
Customer count	-9.1%	-8.3%	-10.4%	-5.6%	-1.8%	-10.1%	-7.8%	-0.1%	-4.7%	-4.5%	-11.0%	-2.3%	-9.3%	-5.9%	-4.3%	-6.7%	-6.7%
Customer spend	8.4%	9.0%	6.8%	4.4%	3.5%	5.2%	2.0%	1.2%	1.5%	0.5%	0.0%	-0.2%	8.1%	4.4%	1.6%	0.2%	3.8%
FY02/18	-7.6%	0.8%	-3.9%	-2.1%	-3.0%	-6.8%	-10.3%	-6.0%	-5.7%	-6.9%	-5.2%	-7.4%	-3.4%	-4.0%	-7.3%	-6.5%	-5.2%
Customer count	-8.1%	1.0%	-3.2%	-3.1%	-2.5%	-7.7%	-10.4%	-6.2%	-5.3%	-6.7%	-5.6%	-8.3%	-3.2%	-4.5%	-7.3%	-6.7%	-5.3%
Customer spend	0.5%	-0.3%	-0.7%	1.0%	-0.6%	1.0%	0.0%	0.1%	-0.5%	-0.3%	0.3%	0.9%	-0.2%	0.5%	-0.1%	0.2%	0.1%
FY02/19	-2.0%	-10.4%	-11.6%	-4.9%	-8.6%	-7.2%	2.2%	-12.7%	-4.1%	3.8%	-8.9%	-2.7%	-8.2%	-6.9%	-5.3%	-2.5%	-6.0%
Customer count	-0.3%	-9.1%	-13.2%	-4.2%	-7.4%	-8.1%	-0.2%	-13.4%	-4.7%	1.9%	-9.4%	-0.8%	-7.9%	-6.6%	-6.5%	-3.2%	-6.2%
Customer spend	-1.8%	-1.5%	1.7%	-0.7%	-1.4%	0.9%	2.3%	0.8%	0.5%	1.8%	0.5%	-2.0%	-0.5%	-0.4%	1.2%	0.6%	0.2%
FY02/20	0.4%	-8.1%	2.0%	0.6%	-7.8%	5.0%	0.2%	-0.9%	2.7%	-10.1%	-2.1%	0.6%	-2.2%	-1.2%	0.6%	-5.1%	-2.0%
Customer count	1.3%	-6.2%	3.0%	-1.3%	-10.6%	6.3%	0.7%	2.5%	5.6%	-6.5%	-0.6%	1.2%	-1.0%	-2.4%	2.9%	-2.8%	-1.0%
Customer spend	-0.9%	-2.1%	-1.0%	1.9%	3.1%	-1.3%	-0.6%	-3.3%	-2.8%	-4.0%	-1.5%	-0.6%	-1.3%	1.3%	-2.3%	-2.4%	-1.1%
FY02/21	-24.4%	-43.4%	-24.4%	5.7%	1.6%	-10.8%	-21.1%						-31.0%	-1.0%			-16.8%
Customer count	-23.5%	-43.3%	-22.9%	5.7%	-1.5%	-9.2%	-19.3%						-30.3%	-1.6%			-16.4%
Customer spend	-1.3%	-0.3%	-2.0%	0.0%	3.1%	-1.7%	-2.2%						-1.0%	0.6%			-0.6%
All-store sales YoY	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Q1**	**Q2**	**Q3**	**Q4**	**FY**
FY02/17	-3.0%	-1.9%	-5.8%	-2.8%	0.1%	-6.6%	-7.6%	-0.4%	-4.6%	-5.2%	-12.1%	-3.9%	-3.5%	-3.1%	-4.1%	-7.5%	-4.5%
Customer count	-10.5%	-10.1%	-12.0%	-7.1%	-3.5%	-11.5%	-9.6%	-1.7%	-6.3%	-5.9%	-12.3%	-3.8%	-10.9%	-7.4%	-5.9%	-7.9%	-8.1%
Customer spend	8.4%	9.0%	7.0%	4.6%	3.7%	5.4%	2.1%	1.4%	1.8%	0.7%	0.2%	-0.1%	8.2%	4.6%	1.8%	0.4%	3.9%
FY02/18	-8.3%	0.0%	-4.8%	-3.3%	-4.2%	-8.0%	-9.2%	-4.9%	-4.6%	-5.6%	-3.7%	-6.3%	-4.2%	-5.0%	-6.1%	-5.1%	-5.1%
Customer count	-8.8%	0.1%	-4.3%	-4.4%	-3.8%	-9.0%	-10.0%	-5.8%	-4.9%	-6.1%	-4.8%	-7.9%	-4.1%	-5.7%	-6.9%	-6.0%	-5.6%
Customer spend	0.6%	-0.2%	-0.6%	1.0%	-0.4%	1.1%	0.8%	0.9%	0.3%	0.5%	1.1%	1.7%	-0.1%	0.6%	0.7%	1.0%	0.5%
FY02/19	-0.6%	-9.0%	-9.9%	-3.4%	-7.5%	-5.7%	1.7%	-13.0%	-4.3%	2.8%	-9.9%	-4.3%	-6.8%	-5.5%	-5.5%	-3.5%	-5.3%
Customer count	0.0%	-8.5%	-12.2%	-3.3%	-6.5%	-7.1%	-0.6%	-13.7%	-4.9%	0.9%	-10.3%	-2.6%	-7.2%	-5.6%	-6.6%	-4.1%	-5.9%
Customer spend	-0.7%	-0.6%	2.5%	-0.1%	-1.1%	1.4%	2.3%	0.7%	0.6%	1.8%	0.4%	-1.8%	0.4%	0.0%	1.1%	0.6%	0.5%
FY02/20	-0.7%	-9.7%	0.5%	-1.0%	-8.4%	3.7%	-1.1%	-2.1%	1.8%	-10.8%	-2.7%	-0.6%	-3.5%	-2.1%	-0.4%	-5.7%	-2.9%
Customer count	0.2%	-7.5%	1.4%	-2.9%	-11.4%	4.9%	-0.8%	1.0%	4.0%	-7.3%	-1.5%	-0.3%	-2.2%	-3.5%	1.6%	-3.5%	-2.0%
Customer spend	-1.0%	-2.1%	-0.9%	1.9%	3.3%	-1.1%	-0.3%	-3.1%	-2.7%	-3.8%	-1.3%	-0.4%	-1.3%	1.4%	-2.0%	-2.3%	-1.0%
FY02/21	-24.8%	-43.7%	-24.1%	5.6%	1.8%	-10.9%	-22.7%						-31.1%	-0.9%			-16.8%
Customer count	-24.1%	-43.6%	-22.9%	5.3%	-1.5%	-9.6%	-21.2%						-30.6%	-1.8%			-16.6%
Customer spend	-1.0%	-0.1%	-1.7%	0.3%	3.3%	-1.5%	-2.0%						-0.8%	0.9%			-0.4%
Store count	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Q1**	**Q2**	**Q3**	**Q4**	**FY**
FY02/17	1,070	1,074	1,072	1,071	1,070	1,065	1,066	1,067	1,064	1,066	1,060	1,055	1,072	1,065	1,064	1,055	1,055
Openings	1	6	1	1	1	-	2	3	-	2	-	-	8	2	5	2	17
Closures	-4	-2	-3	-2	-2	-5	-1	-2	-3	-	-6	-5	-9	-9	-6	-11	-35
FY02/18	1,054	1,051	1,050	1,050	1,048	1,040	1,080	1,082	1,085	1,087	1,085	1,080	1,050	1,040	1,085	1,080	1,080
Openings	3	2	-	1	1	-	4	4	4	2	- -		5	2	12	2	21
Closures	-4	-5	-1	-1	-3	-8	-2	-2	-1	-	-2	-5	-10	-12	-5	-7	-34
FY02/19	1,079	1,080	1,072	1,069	1,069	1,061	1,062	1,057	1,059	1,060	1,052	1,047	1,072	1,061	1,059	1,047	1,047
Openings	2	2	2	1	1	-	4	2	5	1	-	3	6	2	11	4	23
Closures	-3	-1	-10	-4	-1	-8	-3	-7	-3	-	-8	-8	-14	-13	-13	-16	-56
FY02/20	1,045	1,044	1,041	1,043	1,043	1,036	1,036	1,037	1,040	1,042	1,037	1,029	1,041	1,036	1,040	1,029	1,029
Openings	3	-	-	2	1	1	2	4	3	2	-	2	3	4	9	4	20
Closures	-5	-1	-3	-	-1	-8	-2	-3	-	-	-5	-10	-9	-9	-5	-15	-38
FY02/21	1,030	1,035	1,034	1,033	1,031	1,021	1,017						1,034	1,021			1,021
Openings	3	8	4	-	1 -		-						15	1			16
Closures	-2	-3	-5	-1	-3	-10	-4						-10	-14			-24

Source: Shared Research based on company data
Note: Most recent monthly figures may not be final. Due to the absorption of i-Walk, total store sales are reflected from September 2017 onward.

Reference

Mac-House monthly performance

Comparable-store YoY		Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/15	Sales	-4.5%	-6.7%	-1.3%	-1.2%	-1.4%	1.2%	9.0%	4.0%	-0.8%	-0.5%	-9.2%	-8.7%
	Customer count	-2.7%	-3.1%	-0.3%	-0.9%	-1.6%	0.1%	8.8%	0.6%	-6.3%	-1.9%	-10.8%	-12.3%
	Customer spend	-1.8%	-3.8%	-1.0%	-0.2%	0.2%	1.1%	0.1%	3.3%	5.9%	1.4%	1.7%	4.1%
FY02/16	Sales	-4.7%	12.6%	6.2%	-12.2%	5.5%	17.0%	11.2%	11.1%	4.5%	0.7%	7.6%	6.7%
	Customer count	-6.6%	11.5%	4.4%	-14.1%	0.0%	13.4%	10.8%	9.4%	9.2%	5.1%	13.1%	8.2%
	Customer spend	2.0%	0.9%	1.8%	2.2%	5.5%	3.2%	0.3%	1.5%	-4.3%	-4.2%	-4.9%	-1.4%
FY02/17	Sales	2.2%	3.0%	0.6%	3.1%	3.4%	-13.0%	-17.7%	-1.4%	-2.6%	-7.8%	-9.3%	-10.4%
	Customer count	9.8%	6.0%	6.9%	10.2%	11.1%	-8.3%	-13.4%	0.5%	0.2%	-7.5%	-12.3%	-9.3%
	Customer spend	-7.0%	-2.8%	-5.9%	-6.4%	-6.9%	-5.0%	-4.9%	-1.9%	-2.8%	-0.3%	3.5%	-1.1%
FY02/18	Sales	-13.6%	-5.6%	-6.7%	-6.6%	0.7%	-2.6%	1.4%	-6.1%	-7.1%	-2.7%	-7.7%	-3.7%
	Customer count	-14.6%	-7.6%	-9.3%	-7.2%	0.6%	0.3%	5.8%	-3.3%	-5.7%	3.2%	0.2%	1.3%
	Customer spend	1.1%	2.1%	2.8%	0.6%	0.1%	-2.9%	-4.1%	-2.9%	-1.5%	-5.7%	-8.0%	-4.9%
FY02/19	Sales	0.0%	-7.8%	-16.3%	-6.3%	-14.2%	-9.2%	-9.1%	-18.1%	-8.0%	-6.1%	-10.0%	-14.6%
	Customer count	5.1%	-3.6%	-11.4%	-5.1%	-9.7%	-4.5%	-6.4%	-12.4%	-2.6%	-0.3%	-5.1%	-9.0%
	Customer spend	-4.8%	-4.4%	-5.6%	-1.3%	-5.0%	-4.9%	-3.0%	-6.5%	-5.5%	-5.7%	-5.3%	-6.1%
FY02/20	Sales	-6.4%	-1.5%	2.8%	3.5%	-10.8%	13.6%	-10.1%	-8.0%	0.2%	-11.6%	-9.4%	-6.1%
	Customer count	-2.1%	6.1%	7.3%	8.3%	-5.8%	22.4%	-4.8%	-3.9%	3.4%	-14.8%	-15.2%	-0.9%
	Customer spend	-4.4%	-7.1%	-4.2%	-4.4%	-5.2%	-7.2%	-5.6%	-4.3%	-3.1%	3.8%	6.8%	-3.1%
FY02/21	Sales	-32.4%	-60.6%	-24.1%	0.8%	-18.2%	-22.5%	-9.5%					
	Customer count	-35.8%	-62.5%	-32.2%	-12.5%	-29.3%	-28.7%	-15.8%					
	Customer spend	5.2%	5.0%	11.9%	15.2%	15.7%	8.6%	7.5%					

Source: Shared Research based on company data

Chiyoda parent earnings

Income statement (JPYmn)	FY02/12 Parent	FY02/13 Parent	FY02/14 Parent	FY02/15 Parent	FY02/16 Parent	FY02/17 Parent	FY02/18 Parent	FY02/19 Parent	FY02/20 Parent	FY02/21 Est.
Total sales	**110,314**	**108,330**	**107,220**	**103,615**	**105,263**	**100,562**	**95,509**	**90,522**	**87,919**	**81,700**
YoY	**-0.9%**	**-1.8%**	**-1.0%**	**-3.4%**	**1.6%**	**-4.5%**	**-5.0%**	**-5.2%**	**-2.9%**	**-7.1%**
Parent: Shoe business	110,314	108,330	107,220	103,615	105,263	100,562	95,509	90,522	87,919	81,700
YoY	-0.8%	-1.8%	-1.0%	-3.4%	1.6%	-4.5%	-5.0%	-5.2%	-2.9%	-7.1%
Men's shoes	27,580	27,708	27,720	27,392	26,442	24,875	24,118	22,247	21,588	-
YoY	-1.4%	0.5%	0.0%	-1.2%	-3.5%	-5.9%	-3.0%	-7.8%	-3.0%	-
Women's shoes	24,797	24,607	24,482	23,121	21,960	18,436	19,969	19,085	18,246	-
YoY	-1.6%	-0.8%	-0.5%	-5.6%	-5.0%	-16.0%	8.3%	-4.4%	-4.4%	-
Children's shoes	11,604	10,924	10,624	10,103	10,737	10,879	9,656	8,800	9,295	-
YoY	-7.2%	-5.9%	-2.7%	-4.9%	6.3%	1.3%	-11.2%	-8.9%	5.6%	-
Rubber and athletic shoes	38,081	37,203	36,447	35,564	38,764	39,137	35,079	34,245	32,927	-
YoY	0.8%	-2.3%	-2.0%	-2.4%	9.0%	1.0%	-10.4%	-2.4%	-3.8%	-
Sandals	5,267	4,923	4,790	4,290	4,423	4,434	3,956	3,695	3,535	-
YoY	6.8%	-6.5%	-2.7%	-10.4%	3.1%	0.2%	-10.8%	-6.6%	-4.3%	-
Other shoes	2,982	2,962	3,154	3,142	2,935	2,798	2,729	2,447	2,327	-
YoY	3.6%	-0.7%	6.5%	-0.4%	-6.6%	-4.7%	-2.5%	-10.3%	-4.9%	-
Gross profit	**51,554**	**52,057**	**52,247**	**49,881**	**50,406**	**47,512**	**45,672**	**42,350**	**38,897**	**-**
YoY	2.3%	1.0%	0.4%	-4.5%	1.1%	-5.7%	-3.9%	-7.3%	-8.2%	-
GPM	46.7%	48.1%	48.7%	48.1%	47.9%	47.2%	47.8%	46.8%	44.2%	-
SG&A expenses	**43,252**	**42,782**	**42,822**	**42,151**	**41,906**	**40,660**	**40,224**	**39,574**	**39,386**	**-**
YoY	-3.6%	-1.1%	0.1%	-1.6%	-0.6%	-3.0%	-1.1%	-1.6%	-0.5%	-
SG&A ratio	39.2%	39.5%	39.9%	40.7%	39.8%	40.4%	42.1%	43.7%	44.8%	-
Operating profit	**8,301**	**9,274**	**9,425**	**7,730**	**8,500**	**6,851**	**5,448**	**2,776**	**-488**	**-**
YoY	50.2%	11.7%	1.6%	-18.0%	10.0%	-19.4%	-20.5%	-49.0%	-	-
OPM	7.5%	8.6%	8.8%	7.5%	8.1%	6.8%	5.7%	3.1%	-0.6%	-
Non-operating income (expenses)	544	877	970	813	851	894	936	776	1,386	-
Recurring profit	**8,845**	**10,151**	**10,395**	**8,543**	**9,351**	**7,745**	**6,384**	**3,552**	**898**	**400**
YoY	45.7%	14.8%	2.4%	-17.8%	9.5%	-17.2%	-17.6%	-44.4%	-74.7%	-55.5%
RPM	8.0%	9.4%	9.7%	8.2%	8.9%	7.7%	6.7%	3.9%	1.0%	0.5%
Extraordinary gains (losses)	-1,785	-138	-166	-261	-584	-608	184	1,858	-864	-
Pre-tax profit	7,060	10,012	10,229	8,282	8,767	7,137	6,569	5,410	34	-
Implied tax rate	50.2%	43.4%	39.1%	40.5%	42.6%	39.3%	25.9%	33.5%	108.8%	-
Net income	**3,515**	**5,663**	**6,231**	**4,929**	**5,030**	**4,330**	**4,868**	**3,595**	**-2**	**-400**
YoY	41.6%	61.1%	10.0%	-20.9%	2.0%	-13.9%	12.4%	-26.2%	-	-
Net margin	3.2%	5.2%	5.8%	4.8%	4.8%	4.3%	5.1%	4.0%	-0.0%	-0.5%

Source: Shared Research based on company data

Mac-House (JASDAQ 7603) earnings

Income statement (JPYmn)	FY02/12 Parent	FY02/13 Parent	FY02/14 Parent	FY02/15 Parent	FY02/16 Parent	FY02/17 Parent	FY02/18 Parent	FY02/19 Parent	FY02/20 Parent	FY02/21 Est.
Total sales	40,450	38,658	36,749	35,951	35,970	33,727	30,852	28,009	25,610	21,448
YoY	-4.6%	-4.4%	-4.9%	-2.2%	0.1%	-6.2%	-8.5%	-9.2%	-8.6%	-16.3%
Men's tops	11,990	11,807	11,233	10,703	10,278	9,219	8,150	7,671	7,276	-
YoY	-3.0%	-1.5%	-4.9%	-4.7%	-4.0%	-10.3%	-11.6%	-5.9%	-5.1%	-
Men's bottoms	7,961	7,471	7,079	6,958	6,995	6,720	6,001	5,323	4,876	-
YoY	-3.3%	-6.2%	-5.2%	-1.7%	0.5%	-3.9%	-10.7%	-11.3%	-8.4%	-
Womenswear	10,980	10,521	9,998	8,932	8,461	7,801	7,106	6,381	6,095	-
YoY	-9.4%	-4.2%	-5.0%	-10.7%	-5.3%	-7.8%	-8.9%	-10.2%	-4.5%	-
Children's, other	9,516	8,856	8,437	9,355	10,234	9,984	9,592	8,633	7,361	-
YoY	-1.9%	-6.9%	-4.7%	10.9%	9.4%	-2.4%	-3.9%	-10.0%	-14.7%	-
CoGS	21,753	20,113	19,644	19,298	19,393	17,304	14,886	14,436	13,550	-
Gross profit	18,696	18,545	17,105	16,653	16,577	16,423	15,965	13,573	12,059	-
YoY	1.3%	-0.8%	-7.8%	-2.6%	-0.5%	-0.9%	-2.8%	-15.0%	-11.2%	-
GPM	46.2%	48.0%	46.5%	46.3%	46.1%	48.7%	51.7%	48.5%	47.1%	-
SG&A expenses	16,632	15,830	15,965	16,451	15,858	15,807	15,749	14,811	13,417	-
YoY	-12.9%	-4.8%	0.9%	3.0%	-3.6%	-0.3%	-0.4%	-6.0%	-9.4%	-
SG&A ratio	41.1%	40.9%	43.4%	45.8%	44.1%	46.9%	51.0%	52.9%	52.4%	-
Operating profit	2,064	2,715	1,140	202	718	616	216	-1,238	-1,357	-975
YoY	-	31.5%	-58.0%	-82.3%	255.4%	-14.2%	-64.9%	-	-	-
OPM	5.1%	7.0%	3.1%	0.6%	2.0%	1.8%	0.7%	-4.4%	-5.3%	-4.5%
Non-operating income (expenses)	49	187	111	145	116	65	48	91	19	31
Recurring profit	2,113	2,902	1,251	347	834	681	264	-1,147	-1,338	-944
YoY	-	37.4%	-56.9%	-72.3%	140.3%	-18.3%	-61.2%	-	-	-
RPM	5.2%	7.5%	3.4%	1.0%	2.3%	2.0%	0.9%	-4.1%	-5.2%	-4.4%
Extraordinary gains (losses)	-596	47	-125	-284	-273	-302	-162	-866	-638	-
Pre-tax profit	1,516	2,949	1,126	63	561	379	105	-2,014	-1,976	-
Implied tax rate	-25.0%	16.2%	51.2%	296.8%	72.0%	64.6%	313.3%	-40.5%	-7.7%	-
Net income	1,895	2,470	549	-123	156	133	-224	-2,831	-2,129	-1,480
YoY	-	30.3%	-77.8%	-	-	-14.7%	-	-	-	-
Net margin	4.7%	6.4%	1.5%	-0.3%	0.4%	0.4%	-0.7%	-10.1%	-8.3%	-6.9%

Source: Shared Research based on company data

Quarterly trends and results

Consolidated	FY02/19				FY02/20				FY02/21		FY02/21	
Cumulative (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	32,585	61,530	90,219	118,568	31,529	59,834	87,567	113,530	20,868	47,924	46.5%	103,150
YoY	-8.9%	-8.5%	-7.9%	-7.1%	-3.2%	-2.8%	-2.9%	-4.2%	-33.8%	-19.9%		-9.1%
Cost of sales	16,146	31,279	45,718	61,536	16,115	32,519	46,887	61,757	10,863	25,840		
Gross profit	16,439	30,250	44,501	57,032	15,414	27,315	40,680	51,773	10,004	22,083		
YoY	-11.2%	-10.6%	-10.0%	-10.4%	-6.2%	-9.7%	-8.6%	-9.2%	-35.1%	-19.2%		
GPM	50.4%	49.2%	49.3%	48.1%	48.9%	45.7%	46.5%	45.6%	47.9%	46.1%		
SG&A expenses	14,385	28,078	41,920	55,363	13,940	27,032	40,295	53,005	11,566	23,679		
YoY	-4.1%	-4.1%	-3.8%	-3.8%	-3.1%	-3.7%	-3.9%	-4.3%	-17.0%	-12.4%		-
SG&A ratio	44.1%	45.6%	46.5%	46.7%	44.2%	45.2%	46.0%	46.7%	55.4%	49.4%		-
Operating profit	2,053	2,172	2,580	1,669	1,474	282	384	-1,231	-1,562	-1,596	-	-800
YoY	-41.4%	-52.1%	-56.1%	-72.8%	-28.2%	-87.0%	-85.1%	-	-	-		-
OPM	6.3%	3.5%	2.9%	1.4%	4.7%	0.5%	0.4%	-1.1%	-7.5%	-3.3%		-0.8%
Recurring profit	2,161	2,502	3,039	2,266	1,552	554	860	-669	-1,616	-1,524	-	-600
YoY	-40.2%	-47.6%	-51.3%	-65.6%	-28.2%	-77.9%	-71.7%	-	-	-		-
RPM	6.6%	4.1%	3.4%	1.9%	4.9%	0.9%	1.0%	-0.6%	-7.7%	-3.2%		-0.6%
Net income	1,754	1,549	1,327	1,613	717	-160	-188	-1,643	-1,306	-1,666	-	-1,400
YoY	-29.4%	-49.4%	-69.7%	-65.3%	-59.1%	-	-	-	-	-		-
Net margin	5.4%	2.5%	1.5%	1.4%	2.3%	-0.3%	-0.2%	-1.4%	-6.3%	-3.5%		-1.4%

Consolidated	FY02/19				FY02/20				FY02/21	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	32,585	28,945	28,689	28,349	31,529	28,305	27,733	25,963	20,868	27,056
YoY	-8.9%	-8.0%	-6.7%	-4.4%	-3.2%	-2.2%	-3.3%	-8.4%	-33.8%	-4.4%
Cost of sales	16,146	15,133	14,439	15,818	16,115	16,404	14,368	14,870	10,863	14,977
Gross profit	16,439	13,811	14,251	12,531	15,414	11,901	13,365	11,093	10,004	12,079
YoY	-11.2%	-9.8%	-8.8%	-11.9%	-6.2%	-13.8%	-6.2%	-11.5%	-35.1%	1.5%
GPM	50.4%	47.7%	49.7%	44.2%	48.9%	42.0%	48.2%	42.7%	47.9%	44.6%
SG&A expenses	14,385	13,693	13,842	13,443	13,940	13,092	13,263	12,710	11,566	12,113
YoY	-4.1%	-4.1%	-3.1%	-3.8%	-3.1%	-4.4%	-4.2%	-5.5%	-17.0%	-7.5%
SG&A ratio	44.1%	47.3%	48.2%	47.4%	44.2%	46.3%	47.8%	49.0%	55.4%	44.8%
Operating profit	2,053	119	408	-911	1,474	-1,192	102	-1,615	-1,562	-34
YoY	-41.4%	-88.5%	-69.5%	-	-28.2%	-	-75.0%	-	-	-
OPM	6.3%	0.4%	1.4%	-3.2%	4.7%	-4.2%	0.4%	-6.2%	-7.5%	-0.1%
Recurring profit	2,161	341	537	-773	1,552	-998	306	-1,529	-1,616	92
YoY	-40.2%	-70.8%	-63.1%	-	-28.2%	-	-43.0%	-	-	-
RPM	6.6%	1.2%	1.9%	-2.7%	4.9%	-3.5%	1.1%	-5.9%	-7.7%	0.3%
Net income	1,754	-205	-222	286	717	-877	-28	-1,455	-1,306	-360
YoY	-29.4%	-	-	10.4%	-59.1%	-	-	-	-	-
Net margin	5.4%	-0.7%	-0.8%	1.0%	2.3%	-3.1%	-0.1%	-5.6%	-6.3%	-1.3%
Inventories	36,859	34,030	37,349	33,344	36,576	32,706	33,822	29,593	33,141	28,723
YoY	-10.2%	-8.6%	-6.0%	-5.4%	-0.8%	-3.9%	-9.4%	-11.2%	-9.4%	-12.2%
Days in inventory	204	214	226	204	198	193	211	195	263	188

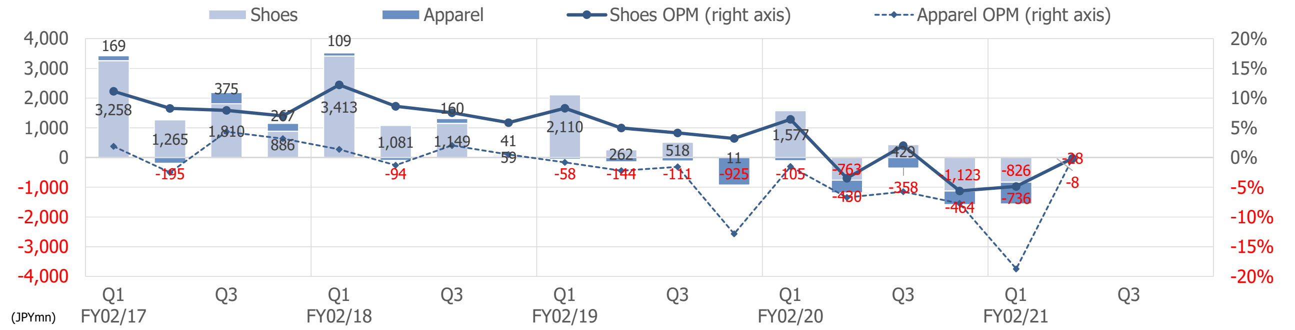
Source: Shared Research based on company data

1H FY02/21 results (out October 9, 2020)

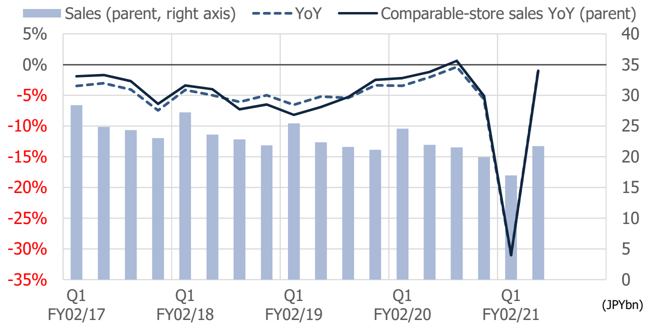
Results summary

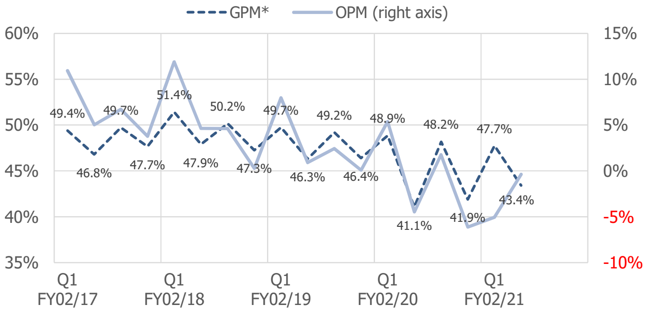
- In 1H FY02/21, Chiyoda recorded sales of JPY47.9bn (-19.9% YoY), an operating loss of JPY1.6bn (operating profit of JPY282mn in 1H FY02/20), and a net loss of JPY1.7bn (net loss of JPY160mn). Sales fell sharply as consumers refrained from going out and the company shut stores and reduced business hours in response to the COVID-19 pandemic. Results fell short of the company's 1H targets (sales of JPY49.3bn, an operating loss of JPY1.3bn) due to weaker-than-expected demand for business shoes and apparel for outing resulting from limited opportunities for going out, either for work or for pleasure. The booking of inventory valuation losses also weighed down results.
- In Q2 FY02/21, the company recorded sales of JPY27.1bn (-4.4% YoY), an operating loss of JPY34mn (operating loss of JPY1.2bn in Q2 FY02/20), and a net loss of JPY360mn (net loss of JPY877mn). The YoY decline in sales in Q2 narrowed from the 33.8% YoY decline recorded in Q1. The loss narrowed sharply as well, thanks to GPM improving to 44.6% from 42.0% in Q2 FY02/20 (the company booked substantial inventory valuation losses in Q2 FY02/20) and SG&A expenses dropping 7.5% YoY, including on a decline in spending on advertising.
- The full-year company forecast for FY02/21 calls for sales of JPY103.2bn (-9.1% YoY), an operating loss of JPY800mn (operating loss of JPY1.2bn in FY02/20), and a net loss of JPY1.4bn (loss of JPY1.6bn). Operating losses narrowed from JPY1.6bn in Q1 to JPY34mn in Q2. Chiyoda forecasts sales turning higher in 2H, rising 2.8% YoY, and a return to the black at the operating line, with operating profit coming in at JPY796mn. The company forecasts an annual dividend of JPY37 per share (JPY74 in FY02/20). Although it expects a net loss in FY02/21, Chiyoda views providing ample, steady returns to shareholders over the long term as a key management priority. It said that it determined the dividend forecast taking into account retaining internal reserves needed for future internal structural reform and capex.
- Shoe business (the mainstay of non-consolidated operations): Chiyoda recorded Q2 FY02/21 sales of JPY21.7bn (-0.8% YoY) and an operating loss of JPY28mn (operating loss of JPY763mn in Q2 FY02/20). On a parent-only basis, comparable store sales fell 31.0% YoY (customer count down 30.3% and customer spend down 1.0%) in Q1, but just 1.0% YoY (customer count down 1.6% and customer spend up 0.6%) in Q2. Store count as of end-Q2 FY02/21 was down 1.4% YoY (-15 stores) to 1,021. The estimated GPM (calculated by removing the GPM for Mac-House from the consolidated figure) improved to 43.4% versus 41.1% in Q2 FY02/20. After booking substantial inventory valuation losses in Q2 FY02/20, inventory valuation losses appear to have contracted YoY in Q2 FY02/21. Estimated SG&A expenses were down 3.0% YoY. Estimated inventories were down 10.9% YoY, indicating that the company is making progress in its efforts to freshen up its product lineups.
- Apparel business: Subsidiary Mac-House (JASDAQ: 7603, 61.3% ownership stake) recorded Q2 FY02/21 sales of JPY5.3bn (-16.7% YoY) and an operating loss of JPY8mn (operating loss of JPY430mn in Q2 FY02/20). Comparable store sales fell 39.6% YoY (customer count down 44.1%, customer spend up 8.1%) in Q1, but just 13.1% YoY (customer count down 24.0%, customer spend up 14.3%) in Q2. Store count as of end-Q2 FY02/21 was down 3.7% (-14 stores) to 367. GPM improved from 45.4% in Q2 FY02/20 to 49.6%. Mac-House worked to improve quality—as it steered away from an overreliance on low-priced products—and strove to reduce the number of product categories and narrow the number of products handled. In addition, it stepped up control over purchasing by reducing product lead times, and limiting sales price changes by cutting down on the distribution of flyers. SG&A expenses were down 20.5% YoY to JPY2.7bn as the company closed unprofitable stores, reduced advertising spending, and curtail personnel expenses by cutting operating hours and adjusting work schedules.

Operating profit by segment



Parent performance

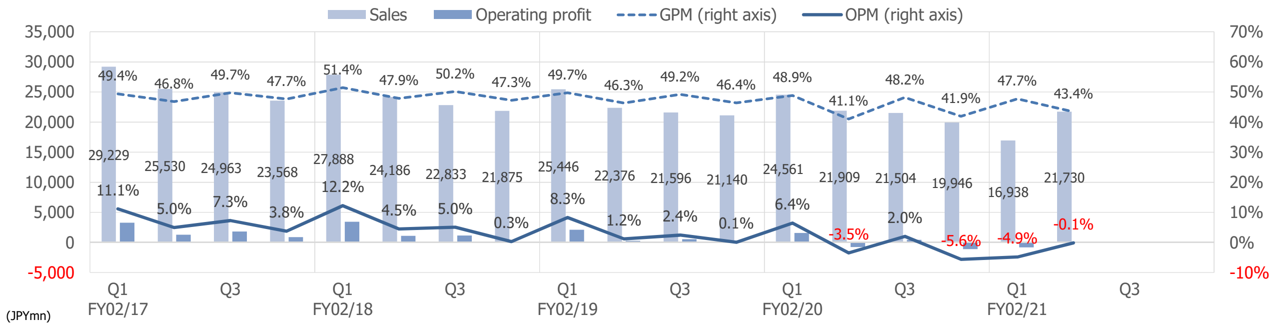




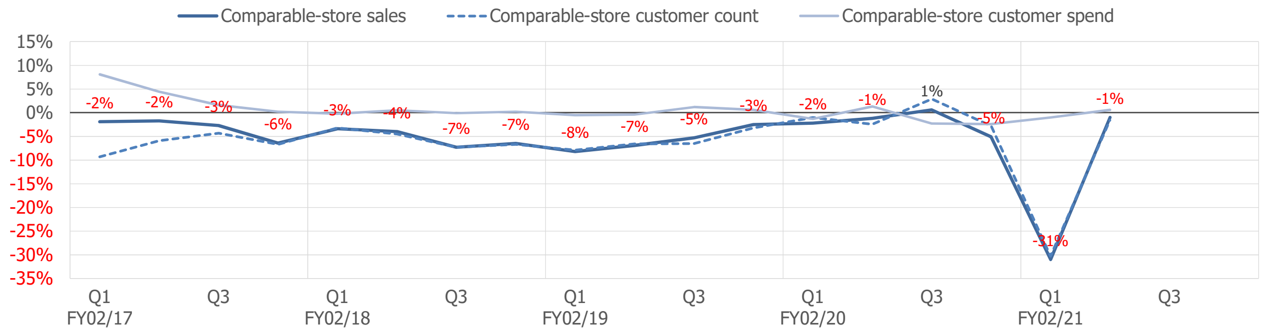
Source: Shared Research based on company data
Note: GPM* = (consolidated gross profit – Mac-House gross profit) ÷ Shoe segment sales

Shoe business

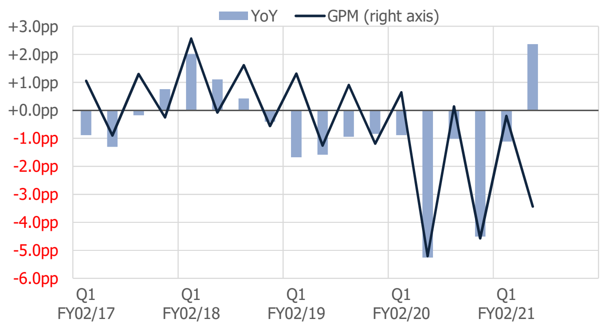
Shoe business earnings

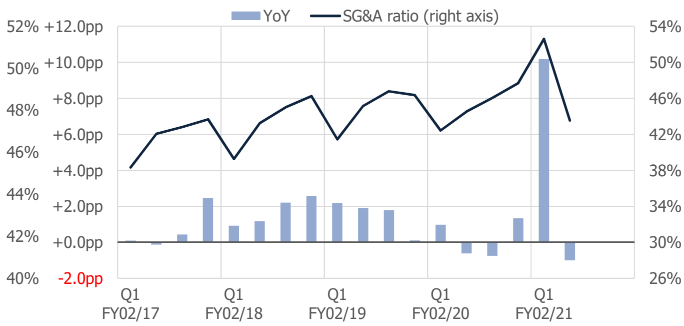


Parent comparable store sales



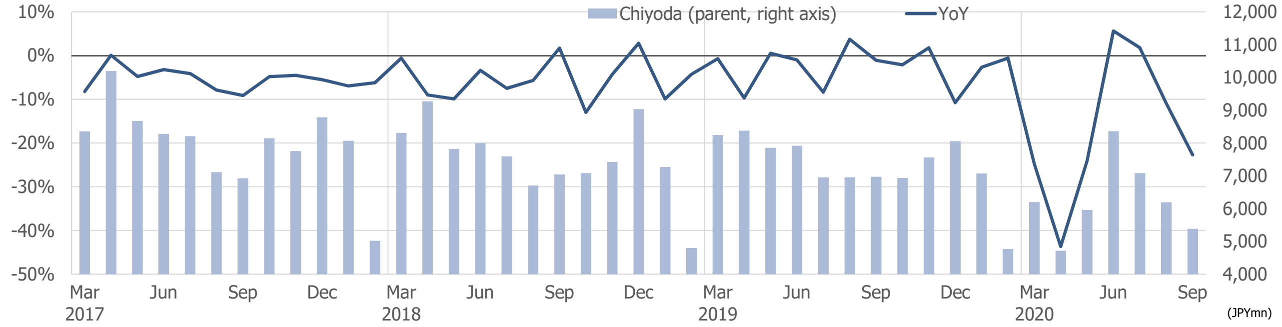
Shoe business GPM and SG&A expense ratio estimates

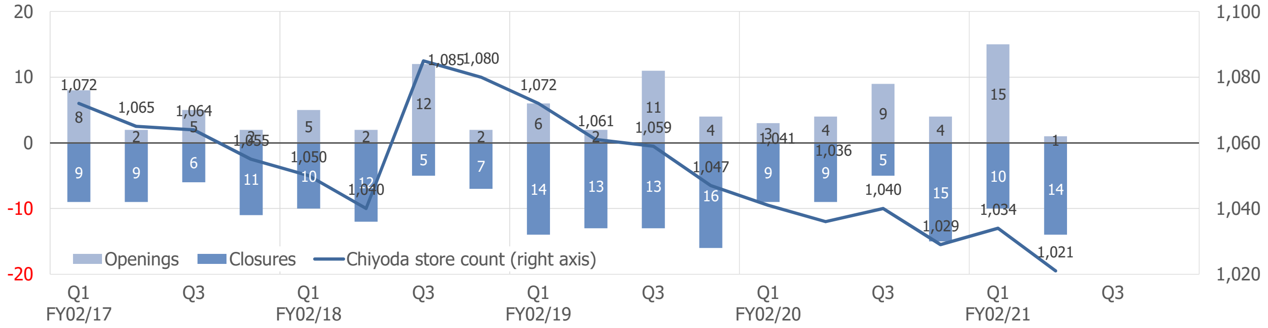




Source: Shared Research based on company data

Monthly sales data (parent; sales are Shared Research estimates), and Chiyoda store count





Quarterly results and inventory trends

Consolidated - Mac-House	FY02/19				FY02/20				FY02/21	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	25,447	22,376	21,596	21,140	24,562	21,908	21,505	19,945	16,939	21,730
YoY	-8.8%	-7.5%	-5.4%	-3.4%	-3.5%	-2.1%	-0.4%	-5.7%	-31.0%	-0.8%
Gross profit	12,658	10,364	10,626	9,811	11,999	8,995	10,362	8,358	8,086	9,435
YoY	-11.7%	-10.5%	-7.2%	-5.1%	-5.2%	-13.2%	-2.5%	-14.8%	-32.6%	4.9%
GPM	49.7%	46.3%	49.2%	46.4%	48.9%	41.1%	48.2%	41.9%	47.7%	43.4%
SG&A expenses	10,546	10,102	10,105	9,799	10,420	9,756	9,901	9,511	8,911	9,461
YoY	-3.7%	-3.4%	-1.7%	-3.1%	-1.2%	-3.4%	-2.0%	-2.9%	-14.5%	-3.0%
SG&A ratio	41.4%	45.1%	46.8%	46.4%	42.4%	44.5%	46.0%	47.7%	52.6%	43.5%
Operating profit	2,111	263	519	14	1,579	-762	460	-1,151	-826	-26
YoY	-37.8%	-76.7%	-55.9%	-93.6%	-25.2%	-	-11.4%	-	-	-
OPM	8.3%	1.2%	2.4%	0.1%	6.4%	-3.5%	2.1%	-5.8%	-4.9%	-0.1%
Recurring profit	2,209	436	652	116	1,649	-594	643	-1,029	-870	65
YoY	-36.5%	-65.1%	-49.2%	-63.5%	-25.4%	-	-1.4%	-	-	-
RPM	8.7%	1.9%	3.0%	0.5%	6.7%	-2.7%	3.0%	-5.2%	-5.1%	0.3%
Net income	1,950	384	783	1,327	996	-364	455	-601	-503	-142
YoY	-21.5%	-43.8%	-39.6%	228.5%	-48.9%	-	-41.9%	-	-	-
Net margin	7.7%	1.7%	3.6%	6.3%	4.1%	-1.7%	2.1%	-3.0%	-3.0%	-0.7%
Inventories	27,494	26,145	28,214	26,683	29,581	27,488	27,779	24,870	28,183	24,480
YoY	-8.4%	-6.1%	-2.9%	1.6%	7.6%	5.1%	-1.5%	-6.8%	-4.7%	-10.9%
Days in inventory	249	252	224	161	175	160	159	150	220	156

Source: Shared Research based on company data

Apparel business

Mac-House's quarterly earnings trends

Mac-House performance	FY02/19				FY02/20				FY02/21		FY02/21	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	7,138	6,569	7,093	7,209	6,967	6,397	6,228	6,018	3,929	5,326	43.2%	21,448
YoY	-9.4%	-9.8%	-10.3%	-7.4%	-2.4%	-2.6%	-12.2%	-16.5%	-43.6%	-16.7%		-
Gross profit	3,781	3,447	3,625	2,720	3,415	2,906	3,003	2,735	1,918	2,644		
YoY	-9.3%	-7.7%	-13.0%	-30.1%	-9.7%	-15.7%	-17.2%	0.6%	-43.8%	-9.0%		
GPM	53.0%	52.5%	51.1%	37.7%	49.0%	45.4%	48.2%	45.4%	48.8%	49.6%		
SG&A expenses	3,839	3,591	3,737	3,644	3,520	3,336	3,362	3,199	2,655	2,652		
YoY	-5.4%	-6.2%	-6.8%	-5.4%	-8.3%	-7.1%	-10.0%	-12.2%	-24.6%	-20.5%		
SG&A ratio	53.8%	54.7%	52.7%	50.5%	50.5%	52.1%	54.0%	53.2%	67.6%	49.8%		
Operating profit	-58	-144	-111	-925	-105	-430	-358	-464	-736	-8	-	-975
YoY	-	-	-	-	-	-	-	-	-	-		-
OPM	-0.8%	-2.2%	-1.6%	-12.8%	-1.5%	-6.7%	-5.7%	-7.7%	-18.7%	-0.2%		-4.5%
Recurring profit	-48	-95	-115	-889	-97	-404	-337	-500	-746	27	-	-944
YoY	-	-	-	-	-	-	-	-	-	-		-
RPM	-0.7%	-1.4%	-1.6%	-12.3%	-1.4%	-6.3%	-5.4%	-8.3%	-19.0%	0.5%		-4.4%
Net income	-196	-589	-1,005	-1,041	-279	-513	-483	-854	-803	-218	-	-1,480
YoY	-	-	-	-	-	-	-	-	-	-		-
Net margin	-2.7%	-9.0%	-14.2%	-14.4%	-4.0%	-8.0%	-7.8%	-14.2%	-20.4%	-4.1%		-6.9%
Inventories	9,365	7,885	9,135	6,661	6,995	5,218	6,043	4,723	4,958	4,243	-	-
YoY	-15.1%	-16.0%	-14.3%	-25.8%	-25.3%	-33.8%	-33.8%	-29.1%	-29.1%	-18.7%		-
Days in inventory	192	204	226	221	204	202	226	207	273	195		-

Source: Shared Research based on company data

Sales by product	FY02/19				FY02/20				FY02/21		FY02/21	
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Menswear	3,255	3,127	3,176	3,436	3,192	3,067	2,850	3,043	1,805	2,603		
YoY	-9.1%	-8.5%	-9.3%	-5.9%	-1.9%	-1.9%	-10.3%	-11.4%	-43.5%	-15.1%		
Tops	1,922	1,573	2,064	2,112	1,888	1,605	1,858	1,925	1,121	1,425		
YoY	-5.3%	-5.6%	-6.3%	-6.2%	-1.8%	2.0%	-10.0%	-8.9%	-40.6%	-11.2%		
Bottoms	1,333	1,554	1,112	1,324	1,304	1,462	992	1,118	684	1,178		
YoY	-14.1%	-11.2%	-14.5%	-5.4%	-2.2%	-5.9%	-10.8%	-15.6%	-47.5%	-19.4%		
Womenswear	1,680	1,463	1,696	1,542	1,729	1,378	1,691	1,297	467	1,977		
YoY	-10.2%	-11.5%	-12.4%	-6.4%	2.9%	-5.8%	-0.3%	-15.9%	-73.0%	43.5%		
Tops	872	681	963	779	910	746	906	705	40	1,385		
YoY	-4.8%	-8.2%	-8.2%	-5.7%	4.4%	9.5%	-5.9%	-9.5%	-95.6%	85.7%		
Bottoms	808	782	733	763	819	632	785	592	427	592		
YoY	-15.3%	-14.3%	-17.3%	-7.1%	1.4%	-19.2%	7.1%	-22.4%	-47.9%	-6.3%		
Other	2,201	1,978	2,221	2,233	2,044	1,821	1,818	1,678	1,054	1,347		
YoY	-9.3%	-10.6%	-10.1%	-10.0%	-7.1%	-7.9%	-18.1%	-24.9%	-48.4%	-26.0%		
Children's	894	661	937	760	806	624	852	660	520	578		
YoY	-7.6%	-10.4%	-10.0%	-4.8%	-9.8%	-5.6%	-9.1%	-13.2%	-35.5%	-7.4%		
Others	1,307	1,317	1,284	1,473	1,238	1,197	966	1,018	534	769		
YoY	-10.4%	-10.7%	-10.2%	-12.5%	-5.3%	-9.1%	-24.8%	-30.9%	-56.9%	-35.8%		
Store count	413	413	415	398	390	381	382	371	372	367		-
Openings	7	1	9	3	2	1	6	2	8	1		-
Closures	-4	-1	-7	-20	-10	-10	-5	-13	-7	-6		-
Comparable-store YoY												
Sales	-8.7%	-10.3%	-12.0%	-8.9%	-1.5%	0.9%	-5.1%	-10.0%	-39.6%	-13.1%		
Customer count	-4.2%	-6.8%	-7.1%	-3.6%	4.2%	7.1%	-1.3%	-14.1%	-44.1%	-24.0%		
Customer spend	-4.3%	-3.8%	-5.2%	-5.4%	-5.5%	-5.8%	-3.8%	4.8%	8.1%	14.3%		
All-store YoY												
Sales	-9.4%	-9.8%	-10.3%	-7.3%	-2.4%	-2.6%	-12.2%	-16.5%	-43.6%	-16.7%		
Customer count	-3.2%	-4.4%	-3.1%	0.3%	5.2%	5.0%	-8.5%	-21.3%	-48.2%	-27.4%		
Customer spend	-6.4%	-5.6%	-7.4%	-7.6%	-7.2%	-7.3%	-4.0%	6.1%	9.0%	14.7%		

Source: Shared Research based on company data

For details on previous quarterly and full-year results, please refer to the Historical earnings results section.

Company forecast for FY02/21

Consolidated	FY02/19			FY02/20			FY02/21		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H Act.	2H Est.	FY Est.
Sales	61,530	57,038	118,568	59,834	53,696	113,530	47,924	55,226	103,150
YoY	-8.5%	-5.6%	-7.1%	-2.8%	-5.9%	-4.2%	-19.9%	2.8%	-9.1%
Gross profit	30,250	26,782	57,032	27,315	24,458	51,773	22,083	-	-
YoY	-10.6%	-10.3%	-10.4%	-9.7%	-8.7%	-9.2%	-19.2%	-	-
GPM	49.2%	47.0%	48.1%	45.7%	45.5%	45.6%	46.1%	-	-
SG&A expenses	28,078	27,285	55,363	27,032	25,973	53,005	23,679	-	-
YoY	-4.1%	-3.4%	-3.8%	-3.7%	-4.8%	-4.3%	-12.4%	-	-
SG&A ratio	45.6%	47.8%	46.7%	45.2%	48.4%	46.7%	49.4%	-	-
Operating profit	2,172	-503	1,669	282	-1,513	-1,231	-1,596	796	-800
YoY	-52.1%	-	-72.8%	-87.0%	-	-	-	-	-
OPM	3.5%	-0.9%	1.4%	0.5%	-2.8%	-1.1%	-3.3%	1.4%	-0.8%
Recurring profit	2,502	-236	2,266	554	-1,223	-669	-1,524	924	-600
YoY	-47.6%	-	-65.6%	-77.9%	-	-	-	-	-
RPM	4.1%	-0.4%	1.9%	0.9%	-2.3%	-0.6%	-3.2%	1.7%	-0.6%
Net income	1,549	64	1,613	-160	-1,483	-1,643	-1,666	266	-1,400
YoY	-49.4%	-95.9%	-65.3%	-	-	-	-	-	-
Net margin	2.5%	0.1%	1.4%	-0.3%	-2.8%	-1.4%	-3.5%	0.5%	-1.4%

Parent	FY02/19			FY02/20			FY02/21		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H Act.	2H Est.	FY Est.
Sales	47,803	42,719	90,522	46,470	41,449	87,919	38,668	43,032	81,700
YoY	-5.9%	-4.4%	-5.2%	-2.8%	-3.0%	-2.9%	-16.8%	3.8%	-7.1%
Gross profit	22,382	19,968	42,350	20,418	18,479	38,897	-	-	-
YoY	-9.0%	-5.3%	-7.3%	-8.8%	-7.5%	-8.2%	-	-	-
GPM	46.8%	46.7%	46.8%	43.9%	44.6%	44.2%	-	-	-
SG&A expenses	20,149	19,425	39,574	20,069	19,317	39,386	-	-	-
YoY	-0.6%	-2.7%	-1.6%	-0.4%	-0.6%	-0.5%	-	-	-
SG&A ratio	42.2%	45.5%	43.7%	43.2%	46.6%	44.8%	-	-	-
Operating profit	2,233	543	2,776	348	-836	-488	-931	-	-
YoY	-48.5%	-51.3%	-49.0%	-84.4%	-	-	-	-	-
OPM	4.7%	1.3%	3.1%	0.7%	-2.0%	-0.6%	-2.4%	-	-
Recurring profit	2,800	752	3,552	1,421	-523	898	-761	1,161	400
YoY	-42.5%	-50.4%	-44.4%	-49.3%	-	-74.7%	-	-	-55.5%
OPM	5.9%	1.8%	3.9%	3.1%	-1.3%	1.0%	-2.0%	2.7%	0.5%
Recurring profit	2,250	1,345	3,595	775	-777	-2	-980	580	-400
YoY	-31.6%	-14.8%	-26.2%	-65.6%	-	-	-	-	-
OPM	4.7%	3.1%	4.0%	1.7%	-1.9%	-0.0%	-2.5%	1.3%	-0.5%

Mac-House	FY02/19			FY02/20			FY02/21		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H Act.	2H Est.	FY Est.
Sales	13,707	14,302	28,009	13,364	12,246	25,610	9,255	12,193	21,448
YoY	-9.6%	-8.8%	-9.2%	-2.5%	-14.4%	-8.6%	-30.7%	-0.4%	-16.3%
Gross profit	7,228	6,345	13,573	6,321	5,738	12,059	4,562	-	-
YoY	-8.5%	-21.3%	-15.0%	-12.5%	-9.6%	-11.2%	-27.8%	-	-
GPM	52.7%	44.4%	48.5%	47.3%	46.9%	47.1%	49.3%	-	-
SG&A expenses	7,430	7,381	14,811	6,856	6,561	13,417	5,307	-	-
YoY	-5.8%	-6.1%	-6.0%	-7.7%	-11.1%	-9.4%	-22.6%	-	-
SG&A ratio	54.2%	51.6%	52.9%	51.3%	53.6%	52.4%	57.3%	-	-
Operating profit	-202	-1,036	-1,238	-535	-822	-1,357	-744	-231	-975
YoY	-	-	-	-	-	-	-	-	-
OPM	-1.5%	-7.2%	-4.4%	-4.0%	-6.7%	-5.3%	-8.0%	-1.9%	-4.5%
Recurring profit	-143	-1,004	-1,147	-501	-837	-1,338	-719	-225	-944
YoY	-	-	-	-	-	-	-	-	-
OPM	-1.0%	-7.0%	-4.1%	-3.7%	-6.8%	-5.2%	-7.8%	-1.8%	-4.4%
Recurring profit	-785	-2,046	-2,831	-792	-1,337	-2,129	-1,021	-459	-1,480
YoY	-	-	-	-	-	-	-	-	-
OPM	-5.7%	-14.3%	-10.1%	-5.9%	-10.9%	-8.3%	-11.0%	-3.8%	-6.9%

Source: Shared Research based on company data

For FY02/21, Chiyoda forecasts sales of JPY103.2bn (-9.1% YoY), an operating loss of JPY800mn (loss of JPY1.2bn in FY02/20), and a net loss of JPY1.4bn (net loss of JPY1.6bn). The company initially left its earnings forecast "undecided," but economic activities are returning to normal with the lifting of the state of emergency declaration, and after confirming a recovery in sales, the company announced forecast figures together with Q1 results on July 10, 2020.

In Q1, the decrease in customer count due to COVID-19 had significant impact on performance, resulting in an operating loss of JPY1.6bn. In Q2, however, Chiyoda forecasts an operating profit of JPY262mn, and in 2H expects operating profit of JPY500mn. The company says it has factored into its forecast extraordinary losses of around JPY500mn in 1H and JPY1.0bn for the year. These expected extraordinary losses appear to reflect potential costs and impairment losses associated with closing unprofitable stores.

The annual dividend forecast for FY02/21 is JPY37 per share (JPY74 per share in FY02/20). Although Chiyoda expects to record a net loss in FY02/21, it places importance on providing long-term, stable, and substantial returns, and determined the dividend forecast after considering its need to maintain the internal reserves necessary for future internal structural reforms and capital investment.

Shoe business (parent)

On a non-consolidated basis, Chiyoda forecasts FY02/21 sales of JPY81.7bn (-7.1% YoY), recurring profit of JPY400mn (-55.5% YoY), and a net loss of JPY400mn (net loss of JPY2mn in FY02/20). For 1H, the company forecasts sales of JPY39.5bn (-15% YoY) and a recurring loss of JPY500mn (recurring profit of JPY1.4bn in 1H FY02/20). For Q2, it expects sales to increase to JPY22.6mn (+3.0% YoY) and recurring profit to recover to JPY275mn (recurring loss of JPY818mn in Q2 FY02/20). The company forecasts comparable store sales to be up 3% YoY in Q2, up 1% YoY in Q3, and up 3% YoY in Q4. June comparable store sales were up 5.7% YoY (5.7% increase in customer count, flat customer spend), and this appears to have given Chiyoda confidence in sales recovery.

The company forecasts a GPM of about 44.8% in 1H FY02/21 (43.9% in 1H FY02/20). In 1H FY02/20, an additional inventory valuation loss occurred due to the change in the inventory valuation method, which pushed down GPM by 2.5pp. The absence of such a factor in FY02/21 should yield a higher GPM. However, the company does not expect GPM to reach the level of 1H FY02/19 (46.8%) due to factors pushing down GPM such as the deterioration in the product mix due to the decline in business shoes and the early recovery of children's shoes.

Chiyoda forecasts a full-year GPM of 45.4% (44.2% in FY02/20). In FY02/20, the change in inventory valuation method pushed GPM down by 2.3pp. The company expects the absence of this effect to boost GPM, but has also factored deterioration in the product mix in 1H into its forecasts. Chiyoda expects SG&A expenses to decrease by about JPY2.4bn YoY to JPY37.0bn (-6.1% YoY). Q1 SG&A expenses were down JPY1.5bn YoY mainly due to reductions in advertising expenses, personnel expenses, and rent. From Q2 onward, while the company expects payment fees to rise with an increase in cashless payments, it expects that personnel costs and rent will continue to decline.

Chiyoda plans to open 25 stores and close 40 stores, and expects the store count at end-FY02/21 to fall to 1,014 stores (-15 stores YoY). It plans to standardize 200 Shoe Plaza stores by end-FY02/22. Shared Research will pay close attention to the effects of standardizing stores such as improvement of comparable store sales due to improved displays, reduction of stagnant inventory through reduction of stock-keeping units (SKUs), reduction of opportunity losses due to stockouts, improved freshness of products lineup, and improved inventory turnover.

Apparel business

The company FY02/21 forecast in the Apparel business (Mac-House) is sales of JPY21.4mn (-16.3% YoY), operating loss of JPY975mn (loss of JPY1.4mn in FY02/20), a net loss of JPY1.5mn (loss of JPY2.1bn in FY02/20). The company expects to record a net loss for the fourth consecutive year. It plans to open 10 stores and close 40 stores, most of which are unprofitable. The company expects store count to continue to shrink, reaching 341 stores (-8.1% YoY) at end-FY02/21.

The company expects GPM to improve to 49.6% from 47.1% in FY02/20. GPM fell in FY02/20 as the company processed stagnant inventory accompanying changes in product strategy (including revision of product categories handled, reduction of the number of items, revision of price ranges, quality improvement, reduction in production lead time, and brand restructuring).

However, the company expects it to recover in FY02/21. SG&A expenses are expected to be about JPY11.8bn, a decrease of about JPY1.6bn YoY. In addition to planning to reduce advertising costs, the company expects decreases in personnel costs and rent as the business scales down. Still, it forecasts an operating loss of JPY260mn in 2H FY02/21, and we need to closely watch the pace of future reforms.

Historical company forecasts versus results

Results vs. Initial Est. (JPYmn)		FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Sales	Initial Est.	147,903	151,823	153,164	150,021	142,377	146,523	136,000	128,200	118,300
	Results	154,086	150,323	147,423	143,005	144,504	137,017	127,634	118,568	113,530
	Results vs. Initial Est.	4.2%	-1.0%	-3.7%	-4.7%	1.5%	-6.5%	-6.2%	-7.5%	-4.0%
Operating profit	Initial Est.	5,794	11,535	13,258	11,434	9,201	10,859	8,400	7,600	3,340
	Results	10,731	12,316	10,531	7,753	9,372	7,731	6,132	1,669	-1,231
	Results vs. Initial Est.	85.2%	6.8%	-20.6%	-32.2%	1.9%	-28.8%	-27.0%	-78.0%	-136.9%
Recurring profit	Initial Est.	6,443	12,032	13,846	11,935	9,504	11,052	8,600	7,900	3,520
	Results	11,339	13,108	11,027	8,253	9,927	8,143	6,595	2,266	-669
	Results vs. Initial Est.	76.0%	8.9%	-20.4%	-30.9%	4.5%	-26.3%	-23.3%	-71.3%	-119.0%
Net income	Initial Est.	1,531	5,776	7,169	6,423	5,090	6,122	4,900	4,700	1,400
	Results	4,839	7,151	5,847	4,165	4,882	4,295	4,643	1,613	-1,643
	Results vs. Initial Est.	216.1%	23.8%	-18.4%	-35.2%	-4.1%	-29.8%	-5.2%	-65.7%	-217.4%

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

Medium-term business plan

Performance targets under current medium-term plan proved difficult to meet

The company revised its medium-term business plan in April 2018, bringing its target for FY2/20 consolidated sales down to JPY131.8bn, target for gross profit down to JPY66.3bn, and target for operating profit down to JPY8.8bn. In April 2019, Koji Funahashi, a scion of Chiyoda's founding family, resigned as President and CEO due to the likelihood that the company's performance would fall far short of medium-term business plan targets. He was replaced by director and accounting department head Shoji Sawaki (in May 2020, Mr. Sawaki was appointed senior managing director and Mr. Tadao Sugiyama was appointed President and CEO).

As explained at a results briefing held in July 2019, areas of the medium-term business plan in which Chiyoda did not make adequate progress included ensuring that product price points suited store location and product development matched store format, establishing an organization and scheme for managing products from procurement through sale to increase the ratio of products sold (at the original retail price) before the next model is released, and fundamentally restructuring the product department to improve the accuracy of merchandising.

In light of this situation, Mr. Sawaki has stipulated a return to a "customers first" approach, and began actively working to improve the freshness of its product lineup, improve the ratio of global brand sneakers sold at the original retail price, expand the customer base by enhancing the lineup of inexpensive private brand products (a hybrid merchandising policy with both private brands and global brands), and enhance the rollout of a multichannel e-commerce business.

In practice, the company stepped up efforts to clear slow-moving inventory by tightening the rule for booking inventory valuation loss as a financial strategy to improve the freshness of sales floor displays. It reduced the number of product items (stock keeping units; SKU) in March to improve freshness and launched a pilot store with standardized fixtures and fittings, shelves, and shelving units, whose layout can be changed or extended easily. As well, parent e-commerce sales grew 18.4% YoY, although still modest in scale.

However, given the downward trend in sales until now, the company is under pressure to expand comparable-store sales. Managing director and head of sales Tadao Sugiyama assumed head of store operations on May 21, 2020. We anticipate no major change in the policy of improving the freshness of the company's product lineup, but expect new measures devised by Sugiyama to revitalize existing stores. Chiyoda had planned to announce a new medium-term business plan in April 2020, but this was postponed due to the impact of COVID-19 outbreak. We await with interest the details of the new medium-term plan.

Mac-House is undergoing management reforms led by Hisami Kitahara, who took over as president and CEO on March 1, 2019. The management team concluded that the low-price strategy through FY02/19 resulted in quality deterioration, and consequently a decline in the number of product items sold. After revising its product strategy, Mac-House booked a product valuation loss in FY02/20 and is working on reducing inventory and improving the quality of basic product lines, changing its product portfolio to "good value, trendy items." Specific actions are as follows. 1) Improve customer spending and unit price per item centered on new product lines. 2) Develop "lifestyle proposals through apparel" with themes such as outdoor pursuits and athleisure. 3) Strengthen advertising that does not rely on discounts, such as increased mobile ads targeting the company's 374mn loyalty club members as of end February 2020. 4) Integrate physical stores and e-commerce business, such as integration of logistics centers supplying stores and e-commerce business. 5) Close unprofitable stores and open new stores in carefully selected areas only (plans to open 10–15 new stores and close 30–40 stores in FY02/21).

Major company initiatives (as of April 2018)

<Shoe business >

Merchandise policies: Enhance brand value, strengthen value proposition

- Continue hybrid merchandising policies featuring mix of private brand and national brands
- Enhance brand value and foster new brands with aim of getting sales of private brands up to 50% of overall sales in the future
- Increase input of women into product development with aim of developing shoes that will better appeal to working women
- Develop different merchandise lineups for different store formats to help better tailor merchandise price points to individual store locales
- Change or diversify countries of production to enhance procurement capabilities (from China to Japan, Vietnam, Cambodia, and other countries)
- Create organization and management structure to more closely track goods from purchase to final sale with aim of increasing the proportion of goods sold at full price

Store development policies: work to tailor mainstay formats, ShoePlaza and Tokyo Shoe Retailing Center, to better fit individual locales

- Develop "stage-up stores" in locations with high population densities, use 2020 Tokyo Olympics/Paralympics as opportunity to expand sales of sports shoes 2020
- Increase store openings in and around Tokyo, Osaka, Nagoya, and other major metropolitan areas
- Promote inventory and data sharing between online and brick-and-mortar stores by improving its website system
- Accelerate closures of unprofitable stores, increase store remodelings around clear themes

Personnel and organizational policies

- Strengthen coordination between corporate headquarters and stores, increase employee job rotation to help develop merchandise that is better suited to individual regions
- Improve merchandising accuracy with help of full-scale reorganization of merchandising department
- Promote greater diversity, increase number of female managers and buyers, increase hiring of experienced personnel and specialists
- Improve communication and foster changes in the way people work by creating more attractive workspaces that are open and flat

Investment guidelines and returns to shareholders

- Upgrade POS system and information system that handle merchandise ordering , allocation to individual stores, down to sales analysis
- Make steady, long-term improvements in returns to shareholders a management priority; under medium-term business plan, set targets for (consolidated) dividend payout ratio at 50%, total returns to shareholders at 100%, and dividend on equity ratio at 3.5%
- Look at making changes to other shareholder benefits with the aim of enhancing the level of service to individual shareholders

Group policies

- Increase operating efficiency and create synergies among managerial, administrative, and distribution departments of group companies
- Create collaborative structure with Mac-House (apparel business) on store development
- Under medium-term plan, merge operations with subsidiary Chiyoda Bussan to help increase efficiency of group businesses

<Apparel business >

- Change business model from jeans and casual wear stores to casual wear and accessories stores
- Focus on opening new, large format stores (Mac-House Superstore, Mac-House Superstore Future)

Source: Share Research, based on company data

Performance fell far short of medium-term business plan targets

(JPYmn)	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	MTP (out Apr 2018) FY02/19 Init. Est.	MTP (out Apr 2018) FY02/20 MTP	Versus MTP FY02/19 Diff.	Versus MTP FY02/20 Diff.
Sales	**144,504**	**137,017**	**127,634**	**128,200**	**131,800**	**128,200**	**131,800**	**-9,632**	**-18,270**
Chiyoda (parent)	105,263	100,562	95,509	97,000	99,000	97,000	99,000	-6,478	-11,081
Mac-House	35,970	33,727	30,852	31,100	32,700	31,100	32,700	-3,091	-7,090
Rest of consolidated	3,271	2,728	1,273	100	100	100	100	-63	-99
GPM	**48.2%**	**48.5%**	**49.9%**	**49.9%**	**50.3%**	**49.9%**	**50.3%**	**-1.8%**	**-4.7%**
Chiyoda (parent)	47.9%	47.2%	47.8%	48.0%	48.3%	48.0%	48.3%	-1.3%	-4.0%
Mac-House	46.1%	48.7%	51.7%	52.5%	53.0%	52.5%	53.0%	-4.0%	-5.9%
SG&A expenses	60,240	58,724	57,544	56,400	57,500	56,400	57,500	-1,037	-4,495
Chiyoda (parent)	41,906	40,660	40,224	39,600	39,800	39,600	39,800	-26	-414
Mac-House	15,858	15,807	15,749	15,850	16,700	15,850	16,700	-1,039	-3,283
Rest of consolidated	2,476	2,257	1,571	950	1,000	950	1,000	28	-798
Operating profit	**9,372**	**7,731**	**6,132**	**7,600**	**8,800**	**7,600**	**8,800**	**-5,931**	**-10,031**
Chiyoda (parent)	8,500	6,851	5,448	7,000	8,000	7,000	8,000	-4,224	-8,488
Mac-House	718	616	216	470	630	470	630	-1,708	-1,987
Rest of consolidated	154	264	468	130	170	130	170	1	444
OPM	6.5%	5.6%	4.8%	5.9%	6.7%	5.9%	6.7%	-4.5%	-7.8%
Chiyoda (parent)	8.1%	6.8%	5.7%	7.2%	8.1%	7.2%	8.1%	-4.1%	-8.6%
Mac-House	2.0%	1.8%	0.7%	1.5%	1.9%	1.5%	1.9%	-5.9%	-7.2%
Chiyoda store count	**1,073**	**1,055**	**1,080**	**1,065**	**1,065**	**1,065**	**1,065**	**-18**	**-36**
Openings	41	17	21	25	25	25	25	-2	-5
Closures	-55	-35	-34	-40	-25	-40	-25	-16	-13
Mac-House store count	**452**	**423**	**410**	**425**	**440**	**425**	**440**	**-27**	**-69**
Openings	9	5	13	30	30	30	30	-10	-19
Closures	-37	-24	-36	-15	-15	-15	-15	-17	-23

Source: Shared Research based on company data

Business

Description

Chiyoda Co., Ltd. is a retailer specializing in low-price shoes. The company operates a network of stores adjacent to residential areas, including suburban roadside stores and stores located within small shopping centers. Subsidiary Mac-House sells casual apparel and jeans.

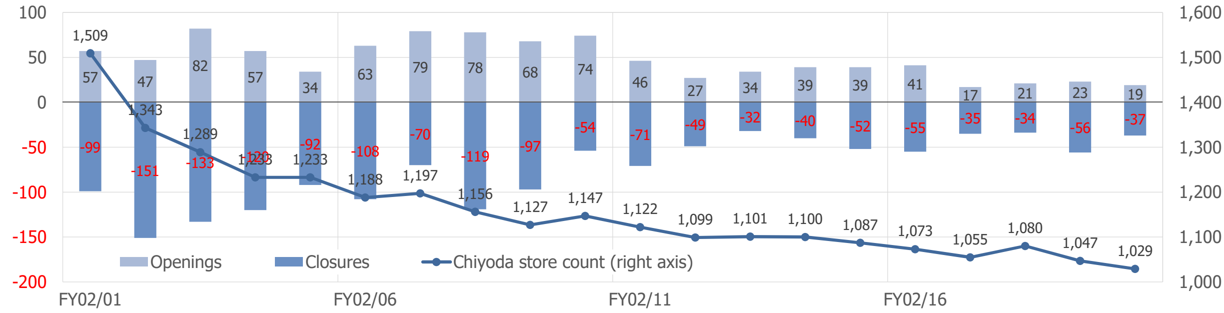
Business overview

At the end of FY02/20, Chiyoda operated 1,029 stores in the Shoe business, of which about 64% were roadside stores, 30% were in shopping centers, and 4% in areas near train stations and in neighborhood shopping areas.

The store network totaled 1,551 in FY02/00, but steadily shrank due to the closure of unprofitable stores through FY02/09, after the global financial crisis. Chiyoda opened more stores than it closed during FY02/10. Since then, the number of stores has been declining.

Since Chiyoda began in Koenji, Tokyo, stores are concentrated in the Kanto region, at about 35% of the total. From FY02/14, the company started prioritizing low-cost store openings in smaller shopping centers, occupying spaces vacated by other retailers. Since FY02/17, it has strengthened openings in densely populated areas.

Chiyoda store count (year-end), openings, closures (parent-level)



Source: Shared Research based on company data

Number of stores by region

	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Hokkaido and Tohoku	177	177	181	180	179	179	182	177	174
Kanto	373	384	386	388	388	381	388	382	376
Chubu	174	171	172	171	172	169	181	171	172
Kinki	146	144	139	134	124	118	121	120	117
Chugoku	54	54	55	51	48	46	47	45	45
Shikoku	32	32	33	33	33	32	31	30	29
Kyushu	143	139	134	130	129	130	130	122	116
Total	1,099	1,101	1,100	1,087	1,073	1,055	1,080	1,047	1,029

Source: Shared Research based on company data

Store count

Store count (year-end)	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Chiyoda (parent)	1,099	1,101	1,100	1,087	1,073	1,055	1,080	1,047	1,029
Shoes total	1,099	1,101	1,100	1,087	1,073	1,055	1,080	1,047	1,029
Chiyoda and SPC	170	173	166	143	122	87	107	87	79
TSRC	579	578	573	575	577	582	571	567	563
Shoe Plaza	350	350	361	369	374	386	402	393	387
Mac-House	482	476	482	480	452	433	410	398	371
I-Walk	40	42	46	47	42	38	-	-	-
Total	1,621	1,619	1,628	1,614	1,567	1,526	1,490	1,445	1,400

Openings	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Chiyoda (parent)	27	34	39	39	41	17	21	23	20
Shoes total	27	34	39	39	41	17	21	23	19
Chiyoda and SPC	9	11	9	2	8	2	3	-	2
TSRC	16	17	13	20	18	5	2	8	8
Shoe Plaza	2	6	17	17	15	10	16	15	9
Mac-House	9	21	31	43	9	5	13	20	11
I-Walk	2	5	5	6	3	1	1	-	-
Total	38	60	75	88	53	23	35	43	31

Closures	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Chiyoda (parent)	-50	-32	-40	-52	-55	-35	-34	-56	-57
Shoes total	-49	-32	-40	-52	-55	-35	-34	-56	-37
Chiyoda and SPC	-15	-8	-16	-25	-29	-17	-14	-17	-10
TSRC	-21	-18	-18	-18	-16	-7	-13	-14	-11
Shoe Plaza	-13	-6	-6	-9	-10	-11	-7	-25	-16
Mac-House	-46	-27	-25	-45	-37	-24	-36	-32	-38
I-Walk	-5	-3	-1	-5	-8	-5	-1	-	-
Total	-101	-62	-66	-102	-100	-64	-71	-88	-95

Source: Shared Research based on company data

The average spending per customer is in a low-price range of JPY3,000–4,000. Although women's shoes only account for slightly over 20% of sales, customers are predominantly housewives. Chiyoda believes that many of its customers are housewives buying shoes for their husbands and children.

Margins are high at over 50% for men's and women's shoes and sandals due to high share of brand PB merchandise. Children's and athletic shoes are lower margin due to a higher share of global national brands.

Chiyoda (parent) shoes, sales breakdown by product, customer count, and customer spend

(JPYmn)	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Chiyoda (parent) shoe business: sales	110,314	108,330	107,220	103,615	105,263	100,562	95,509	90,522	87,919
YoY	-0.9%	-1.8%	-1.0%	-3.4%	1.6%	-4.5%	-5.0%	-5.2%	-2.9%
Men's shoes	27,580	27,708	27,720	27,392	26,442	24,875	24,118	22,247	21,588
YoY	-1.4%	0.5%	0.0%	-1.2%	-3.5%	-5.9%	-3.0%	-7.8%	-3.0%
% of parent shoes sales	25.0%	25.6%	25.9%	26.4%	25.1%	24.7%	25.3%	24.6%	24.6%
Women's shoes	24,797	24,607	24,482	23,121	21,960	18,436	19,969	19,085	18,246
YoY	-1.6%	-0.8%	-0.5%	-5.6%	-5.0%	-16.0%	8.3%	-4.4%	-4.4%
% of parent shoes sales	22.5%	22.7%	22.8%	22.3%	20.9%	18.3%	20.9%	21.1%	20.8%
Children's shoes	11,604	10,924	10,624	10,103	10,737	10,879	9,656	8,800	9,295
YoY	-7.2%	-5.9%	-2.7%	-4.9%	6.3%	1.3%	-11.2%	-8.9%	5.6%
% of parent shoes sales	10.5%	10.1%	9.9%	9.8%	10.2%	10.8%	10.1%	9.7%	10.6%
Rubber and athletic shoes	38,081	37,203	36,447	35,564	38,764	39,137	35,079	34,245	32,927
YoY	0.8%	-2.3%	-2.0%	-2.4%	9.0%	1.0%	-10.4%	-2.4%	-3.8%
% of parent shoes sales	34.5%	34.3%	34.0%	34.3%	36.8%	38.9%	36.7%	37.8%	37.5%
Sandals	5,267	4,923	4,790	4,290	4,423	4,434	3,956	3,695	3,535
YoY	6.8%	-6.5%	-2.7%	-10.4%	3.1%	0.2%	-10.8%	-6.6%	-4.3%
% of parent shoes sales	4.8%	4.5%	4.5%	4.1%	4.2%	4.4%	4.1%	4.1%	4.0%
Other	2,982	2,962	3,154	3,142	2,935	2,798	2,729	2,447	2,327
YoY	3.6%	-0.7%	6.5%	-0.4%	-6.6%	-4.7%	-2.5%	-10.3%	-4.9%
% of parent shoes sales	2.7%	2.7%	2.9%	3.0%	2.8%	2.8%	2.9%	2.7%	2.6%
Store count	1,099	1,101	1,100	1,087	1,073	1,055	1,080	1,047	1,029
Openings	27	34	39	39	41	17	21	23	19
Closures	-49	-32	-40	-52	-55	-35	-34	-56	-37
Comparable-store customer count YoY	-0.7%	-2.8%	-4.0%	-7.5%	-4.4%	-6.7%	-5.3%	-7.6%	-0.6%
Comparable-store customer spend YoY	1.2%	1.5%	1.6%	4.7%	6.4%	3.8%	0.1%	0.5%	-0.4%
Chiyoda (parent) shoe business GPM	46.7%	48.1%	48.7%	48.1%	47.9%	47.2%	47.8%	46.8%	44.2%

Customer count	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Chiyoda (parent)	33,984	32,831	31,946	29,434	28,080	25,810	24,376	22,970	22,529
Shoes total	33,975	32,831	31,946	29,434	28,080	25,810	24,376	22,970	22,529
Chiyoda and SPC	4,050	3,922	3,796	2,822	2,250	1,482	1,203	1,345	1,182
TSRC	16,839	16,189	15,616	14,690	14,227	13,302	12,462	11,524	11,312
Shoe Plaza	13,023	12,624	12,433	11,668	11,314	10,733	10,226	9,778	9,695
Mac-House	10,552	9,682	9,313	9,123	9,169	8,903	8,338	8,119	7,713

Customer spend (JPY)	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Chiyoda (parent)	3,246	3,299	3,356	3,520	3,748	3,896	3,918	3,940	3,902
Shoes total	3,245	3,299	3,356	3,520	3,748	3,896	3,918	3,940	3,902
Chiyoda and SPC	3,378	3,362	3,386	3,611	3,901	4,139	4,097	4,342	4,285
TSRC	2,910	2,982	3,051	3,181	3,378	3,474	3,502	3,529	3,517
Shoe Plaza	3,630	3,658	3,697	3,912	4,182	4,380	4,370	4,362	4,286
Mac-House	3,833	3,993	3,946	3,941	3,923	3,788	3,700	3,450	3,320

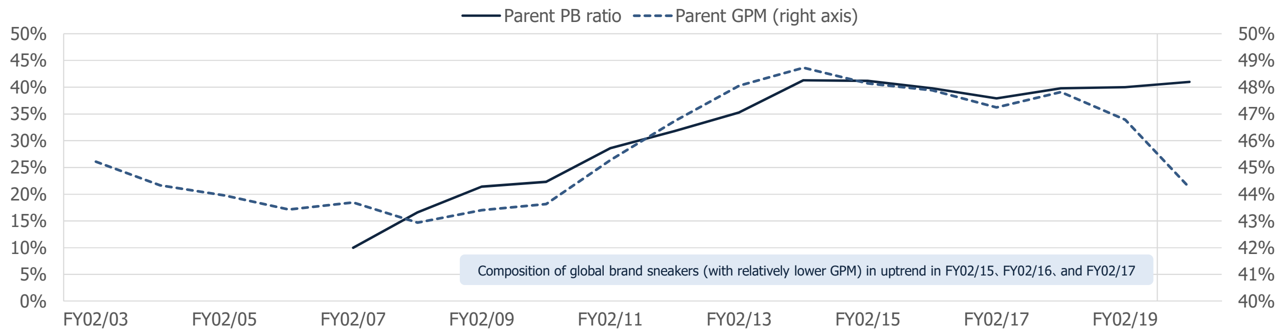
Source: Shared Research based on company data

Business model

Brand development

There are three key Private Brands (PBs): Cedar Crest, Hydro-Tech and Bio-Fitter; many other PBs; 16 National Private Brands (NPBs) and global National Brands (NBs). The company has a strategy of increasing the share of PBs in its brand portfolio to increase GPMs, and aims for PBs to comprise 50% of sales in the medium term.

PB ratio and GPM (parent)



Source: Shared research based on company data

Private Brands (PB)

PBs are original brands Chiyoda develops with a great degree of freedom. The company starts with product design, selects the factories, and sets prices. The company has buyers assigned responsibility for the development of each PB. These buyers communicate to suppliers the desired product design and features. The suppliers (trading companies, manufacturers, and partner factories) produce or procure the shoes, which Chiyoda then sells in its own stores.

Core Private Brands

- **Cedar Crest**: An outdoor shoe brand born in the US. Chiyoda has trademark rights for Japan, China, and South Korea. Chiyoda controls the entire manufacturing and marketing process from design through price setting. In addition to outdoor shoes (deck shoes and work boots), Chiyoda also offers business shoes and sneakers. Prices are generally in the JPY3,000–8,000 range, although some business shoes and work boots sell for over JPY10,000.
- **Hydro-Tech**: The company developed this brand with an emphasis on functionality in addition to comfort. Initially, the brand specialized in shoes featuring proprietary water-resistant material and anti-slip properties based on an outsole made from a ceramic and walnut compound. At present, the brand has a lineup encompassing a diverse array of properties, including breathability and lightness. In May 2013, the brand added a line of women's shoes to its men's and sneaker lines. Prices range from around JPY4,990—10,000. Launched in 2003.
- **Bio-Fitter**: This brand emphasizes comfort with a lightweight design and cushioning. Full line, including men's, women's and children's shoes as well as sneakers. Prices are in the JPY2,000–3,000 range. Launched in 2005.

CEDAR CREST ULTRA LIGHT（JPY8,900）

HYDRO-TECH blue collection（JPY9,800）

Bio-Fitter KIREI WALK（JPY4,890）

Source: Company data (2016)

National Private Brands (NPB)

NPBs are brands sublicensed for the Japanese market. While Chiyoda needs to obtain approval from the license owner, it has a great degree of freedom to create products for the local market. Just as with PBs, Chiyoda's buyers tell the suppliers (trading companies, manufacturers and partner factories) what sort of design they want. The suppliers deliver the products to Chiyoda, which sells them in its stores. The company pays the license owner royalty fees. There are many brands, including Keds, Savoy, McGregor and Texaco.

National Brands (NB)

This category includes global NBs (Nike, Converse, New Balance) and domestic NBs, from major brands like Asics, to minor ones.

Chiyoda believes that one reason its comparable store sales stagnated in the past was a heavy reliance on PBs in the mix. To attract more customers, the company now feels it needs to increase the weight of major brands, while lowering the share of minor domestic NBs. At the same time the company thinks it can improve GPMs of NBs by centralizing the procurement; until recently, its regional buyers have been purchasing the domestic NBs separately on a territory-by-territory basis, without much central coordination.

National Private Brands (NPB) placement

Source: Shared Research based on company data
Note: 'Newly introduced' from February 2016

Store formats

Store formats include Kutsu-Chiyoda and SPC, Tokyo Shoes Retailing Center (TSRC), and Shoe Plaza.

Store format placement

Source: Shared Research based on company data

Kutsu-Chiyoda and SPC

From its founding in 1936 (first shop opened in Koenji, Tokyo) Chiyoda aimed to operate stores as an integral part of the local community. In recent years, this format has been on a declining trend (In FY02/17, 28 stores were transformed into the Shoe Plaza and TSRC formats). There were 79 stores at end-FY02/20. Per-customer spending is over JPY4,300, which is higher than other formats, with high GPM, but customer traffic is low and OPM relatively low.

Kutsu-Chiyoda stores have five sales staff on average, 50–60% of them part-timers. This ratio of part-time staff members is lower than at other formats due to the small size of the Kutsu-Chiyoda stores—mostly 130–200sqm outlets located inside general merchandise stores (GMS) such as Jusco (owned by Aeon, TSE1: 8267) and Ito-Yokado (Seven & I Holdings, TSE1: 3382). As customer traffic per store is low, the profitability of this format is lower than for the other formats.

The SPC format's merchandise lineup centers on a select range of sneakers, and targets the youth market. Shops are in central Tokyo and Yokohama, typically in so-called fashion buildings (buildings filled with retail stores), and neighborhood shopping centers (NSC). The store manager has a certain level of authority, such as the right to sell selected focus brands. The average store is around 165–265sqm and has five sales staff, with up to 70% of staff part-timers.

Kutsu-Chiyoda and SPC performance (all stores)

Chiyoda and SPC (All-store basis)	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Sales (JPYmn)	13,680	13,416	13,593	10,798	9,399	6,919	5,964	5,840	5,065
YoY	-6.9%	-1.9%	1.3%	-20.6%	-13.0%	-26.4%	-13.8%	-2.1%	-13.3%
GPM	48.1%	49.2%	48.9%	48.4%	47.3%	46.7%	47.6%	48.5%	47.0%
Operating profit (JPYmn)	400	541	374	213					
OPM	2.9%	4.0%	2.8%	2.0%					
Store count	170	173	166	143	122	87	107	87	79
Change	-6	+3	-7	-23	-21	-35	+20	-20	-8
Openings	+9	+11	+9	+2	+8	+2	+3	-	+2
Closures	-15	-8	-16	-25	-29	-17	-14	-17	-10
Customer count ('000)	4,050	3,922	3,796	2,822	2,250	1,482	1,203	1,345	1,182
YoY	-7.1%	-3.2%	-3.2%	-25.7%	-20.3%	-34.1%	-18.8%	11.8%	-12.1%
YoY (comparable stores)	0.6%	-2.0%	-4.5%	-8.8%	-5.6%	-9.9%	0.3%	-10.6%	10.9%
Customer spend (JPY)	3,378	3,362	3,386	3,611	3,901	4,139	4,097	4,342	4,285
YoY	0.2%	-0.5%	0.7%	6.6%	8.0%	6.1%	-1.0%	6.0%	-1.3%
YoY (comparable stores)	0.7%	-0.5%	-3.2%	-6.3%	6.5%	5.1%	-1.4%	1.0%	4.2%
Customer count per store ('000)	23.8	22.7	22.9	19.7	18.4	17.0	11.2	15.5	15.0

Source: Shared Research based on company data

Kutsu-Chiyoda and SPC format examples

Source: Shared Research based on company data

Tokyo Shoes Retailing Center (TSRC)

Launched as the Tokyo Shoes Retailing Center in 1977, the company is a pioneer in the roadside shop concept in Japan. Its customers are mainly in their 40s–60s, with low prices its key selling point. The store network is built on roadsides and in NSC, with average floor space of around 100–500sqm. The stores have three to four sales staff on average, with up to 70% part-timers. This is one of the key formats for new stores. Women's shoes account for 25% of sales, men's for 30%, sneakers for 35%, and children's for 10%. Per-customer spending at around JPY3,500 is lower than other formats.

From February 2016, the company will proceed with the implementation of a new urban TSRC format for "shotengai" shopping districts. The primary color of the signboard is planned to change from red to white, and the new format is intended to appeal to women and foreign visitors.

TSRC format example (roadside standalone and "shotengai" shopping district)

Source: Shared Research based on company data

TSRC (All-store basis)	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Sales (JPYmn)	49,012	48,286	47,649	46,513	47,863	46,175	43,645	40,673	39,788
YoY	0.5%	-1.5%	-1.3%	-2.4%	2.9%	-3.5%	-5.5%	-6.8%	-2.2%
GPM	46.8%	48.5%	49.2%	48.8%	48.5%	48.1%	48.7%	47.6%	46.6%
Operating profit (JPYmn)	4,086	4,624	4,738	4,220					
OPM	8.3%	9.6%	9.9%	9.1%					
Store count	579	578	573	575	577	582	571	567	563
Change	-5	-1	-5	+2	+2	+5	-11	-4	-4
Openings	+16	+17	+13	+20	+18	+5	+2	+8	+8
Closures	-21	-18	-18	-18	-16	-7	-13	-14	-11
Customer count ('000)	16,839	16,189	15,616	14,690	14,227	13,302	12,462	11,524	11,312
YoY	-1.5%	-3.9%	-3.5%	-5.9%	-3.2%	-6.5%	-6.3%	-7.5%	-1.8%
YoY (comparable stores)	-1.8%	-3.6%	-4.1%	-6.5%	-4.1%	-6.1%	-5.8%	-7.9%	-2.5%
Customer spend (JPY)	2,910	2,982	3,051	3,181	3,378	3,474	3,502	3,529	3,517
YoY	2.1%	2.5%	2.3%	4.3%	6.2%	2.8%	0.8%	0.8%	-0.3%
YoY (comparable stores)	2.0%	2.4%	2.3%	4.1%	6.0%	2.7%	0.6%	0.7%	-0.3%
Customer count per store ('000)	29.1	28.0	27.3	25.5	24.7	22.9	21.8	20.3	20.1

Source: Shared Research based on company data

Shoe Plaza

Since its establishment in 1994, growth in this format has centered on suburban stores aimed at families. This format features large stores and a wide range of NB sneakers. Due to the large share of NBs, average prices are high. Shoe Plaza customers are mainly in their 30s–50s. Floor space is around 350–650sqm, and the stores have six sales staff on average, up to 70% part timers. Women's shoes account for 25% of sales, men's for 30%, sneakers for 35%, and children's for 10%.

While Shoe Plaza GPM is low, operating profit margins are higher than for other formats, because per-customer spending is relatively high at around JPY4,300. Customer traffic is also higher than other formats. From FY02/05 the company changed the focus of new store openings from standalone stores to shopping complexes and accelerated the rollout. Large stores were common when Shoe Plaza first started, but some stores with floor space of 99–198sqm have opened in recent years.

Shoe Plaza (All-store basis)	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Sales (JPYmn)	47,277	46,194	45,977	45,401	46,906	46,305	44,693	42,658	41,554
YoY	-0.3%	-2.3%	-0.5%	-1.3%	3.3%	-1.3%	-3.5%	-4.6%	-2.6%
GPM	46.2%	47.3%	48.2%	47.4%	47.4%	46.5%	47.0%	46.1%	44.9%
Operating profit (JPYmn)	3,778	4,113	4,283	3,268					
OPM	8.0%	8.9%	9.3%	7.2%					
Store count	350	350	361	369	374	386	402	393	387
Change	-11	-	+11	+8	+5	+12	+16	-9	-6
Openings	+2	+6	+17	+17	+15	+10	+16	+15	+9
Closures	-13	-6	-6	-9	-10	-11	-7	-25	-16
Customer count ('000)	13,023	12,624	12,433	11,668	11,314	10,733	10,226	9,778	9,695
YoY	-1.0%	-3.1%	-1.5%	-6.2%	-3.0%	-5.1%	-4.7%	-4.4%	-0.8%
YoY (comparable stores)	0.1%	-2.0%	-3.7%	-8.4%	-5.0%	-7.3%	-5.5%	-6.9%	-
Customer spend (JPY)	3,630	3,658	3,697	3,912	4,182	4,380	4,370	4,362	4,286
YoY	0.7%	0.8%	1.1%	5.8%	6.9%	4.7%	-0.2%	-0.2%	-1.7%
YoY (comparable stores)	0.5%	0.5%	0.8%	5.7%	6.9%	5.0%	-0.3%	0.1%	-1.7%
Customer count per store ('000)	37.2	36.1	34.4	31.6	30.3	27.8	25.4	24.9	25.1

Source: Shared Research based on company data

Shoe Plaza format examples (including flagship Shinjuku store [right])

Source: Shared Research based on company data

Online sales

The company operates its own website, Chiyoda Online Shop, and also sells through e-commerce marketplaces, such as Yahoo! Shopping, Rakuten Ichiba, Locondo, and Amazon. Online sales were approximately JPY1bn in FY02/20.

Marketing

Chiyoda conducted an online brand awareness survey in May 2013. Among its PBs and NPBs, 17% of respondents were aware of McGregor, and 14% of Savoy. For the Chiyoda’s core PBs, the figures were just 10% for Cedar Crest, 8.5% for Hydro-Tech, and 5.4% for Bio-Fitter. The awareness of Chiyoda’s store formats was 58.4% for TSRC, 37.9% for Kutsu-Chiyoda, 27.6% for Shoe Plaza, and 4% for SPC.

The company is keen to boost the awareness and improve the image of its stores. One thing it has started doing is using more aggressive TV advertising to change the consumer perception of its stores. Specifically, the commercials show the actual store interiors, with their refreshed merchandising presentation, aiming to draw the customers back to Chiyoda stores. Also, the company is focused on attracting quality and repeat customers among its 5.21mn customers who have downloaded its app and/or registered for the online newsletter as of August 2019.

Through the Chiyoda Fashion Project (CFP) the company plans to utilize its female human resources as it aims to increase customer satisfaction and expand its female customer base. For women in the teenage–29 age bracket, the company plans to use its “Shutte” free magazine to offer fashion ideas. For active seniors, the company will leverage its “You-Hola!” free magazine to provide ideas for healthy lifestyles.

Main group companies (end-April 2020)

Consolidated subsidiaries

Mac-House Co., Ltd. (61.4% owned) (JASDAQ: 7603)

Casual apparel retailer.

Profitability snapshot, financial ratios

Profit margins (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Gross profit	73,066	73,441	72,041	69,005	69,613	66,456	63,677	57,032	51,773
GPM	47.4%	48.9%	48.9%	48.3%	48.2%	48.5%	49.9%	48.1%	45.6%
Operating profit	10,731	12,316	10,531	7,753	9,372	7,731	6,132	1,669	-1,231
OPM	7.0%	8.2%	7.1%	5.4%	6.5%	5.6%	4.8%	1.4%	-1.1%
EBITDA	11,989	13,514	11,836	9,189	10,880	9,086	7,678	3,188	74
EBITDA margin	7.8%	9.0%	8.0%	6.4%	7.5%	6.6%	6.0%	2.7%	0.1%
Net margin	3.1%	4.8%	4.0%	2.9%	3.4%	3.1%	3.6%	1.4%	-1.4%
Financial ratios									
ROA (RP-based)	9.0%	10.1%	8.2%	6.1%	7.5%	6.4%	5.3%	1.9%	-0.6%
ROE	7.3%	10.3%	7.9%	5.5%	6.4%	5.7%	6.1%	2.2%	-2.4%
Total asset turnover	122.8%	115.8%	110.2%	106.5%	109.6%	106.9%	102.4%	98.6%	100.0%
Inventory turnover	277.8%	276.3%	268.1%	237.8%	204.3%	182.6%	176.2%	179.4%	196.3%
Days in inventory	131	132	136	153	179	200	207	203	186
Working capital	1,703	843	2,321	4,621	14,756	14,521	16,880	13,502	11,727
Current ratio	204.9%	221.5%	237.7%	217.3%	232.5%	259.4%	299.6%	279.9%	282.6%
Quick ratio	125.4%	145.3%	153.5%	128.4%	119.1%	140.7%	162.2%	158.4%	163.5%
OCF / Current liabilities	23.2%	27.9%	13.1%	2.5%	-3.6%	19.8%	12.8%	20.5%	6.4%
OCF / Total liabilities	17.2%	20.1%	9.6%	1.9%	-2.9%	15.6%	9.4%	13.8%	4.5%
Cash conversion cycle (days)	1.49	1.71	3.05	11.81	41.89	70.34	83.65	84.20	68.17
Change in working capital	895	-860	1,478	2,300	10,135	-235	2,359	-3,378	-1,775

Source: Shared Research based on company data

Strengths and weaknesses

Strengths

- **Economies of scale:** Chiyoda had 1,029 stores in its Shoe business nationwide as of the end of FY02/20. This network means scale advantage, both in purchasing and in ability to use mass advertising.
- **Low-cost neighborhood stores in attractive locations:** Chiyoda expanded aggressively and early in locations ignored by competitors at the time. The company secured real estate in key—and low-rent—neighborhood roadside locations close to where consumers lived, redefining shoe shopping as a casual activity similar to buying rice or milk. All this created a real and long-lasting advantage.
- **Handling of PBs:** Private brand products (PBs) have a higher GPM than global brand (GBs) and other products. The company has handled PBs for many years, and hence gained considerable recognition. Its extensive product lineup is largely thanks to a combination of GBs and PBs.

Weaknesses

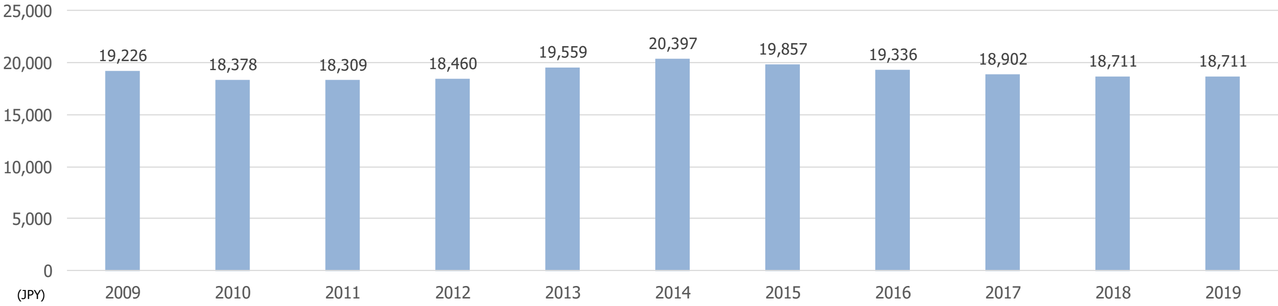
- **No presence in large-scale shopping malls and central urban areas:** Strengths often breed weaknesses and Chiyoda's entrenchment in easy-to-operate low-cost neighborhood market made it marginally unattractive for the company to pursue such channels as densely populated urban areas, large shopping malls, or railway terminal buildings. Unfortunately, this is increasingly where the consumers are.
- **Inventory control:** Demand for some shoes is influenced by fashion trends while stable demand can be expected for some more standard shoes. Compared to clothing, a larger percentage of shoes are assumed to be categorized as standard. For this reason, the company tends to think that slow-moving inventory will eventually be sold. Further, launches of new products in categories with stable demand result in a higher number of similar products, increasing slow-moving inventory.
- **Dependence on bargain prices:** The company frequently uses bargain prices (effective price reductions) to attract customers. This is ostensibly due to the extensive contribution from the combination of low-cost operations and bargain pricing during the company's growth phase. However, although bargain pricing temporarily enhances a store's ability to attract customers, it becomes increasingly difficult to sustain this enhanced ability through bargain pricing alone. The company will need to strengthen its ability to attract customers by differentiating itself through methods other than bargain pricing, such as increasing product freshness, improving store displays, and enhancing PBs.

Market and value chain

Market overview

The Ministry of Internal Affairs and Communications (MIC) Household Income and Expenditure Survey shows that average spending on footwear per household was JPY18,711 in 2019, 8.2% lower than the recent peak of JPY20,397 in 2014 and on a slow downward trend. Although most footwear is nondurable and represents a stable market, without higher value-added and an increase in per-capita shoe consumption, growth prospects are poor because of Japan's shrinking population.

Average spending on footwear per household



Source: Shared Research based on MIC data

Customers

While women's shoes comprise just over 20% of sales, housewives are the main customers. Chiyoda comments that housewives often buy shoes for their husbands and children.

Competition

According to 2016 statistics from the Ministry for Economy, Trade and Industry (METI), there were 6,707 shoe stores in Japan. The per-store figures for employees, annual sales, and floor space were on a rising trend. This implies increasing dominance by major shoe stores, as small stores go out of business. Other large shoe retailers include ABC-Mart Inc. (TSE1: 2670) and Gfoot Co., Ltd. (TSE1: 2686). These three companies (including Chiyoda) are increasingly dominating the market.

	1997	1999	2002	2004	2007	2012	2014	2016
No. of stores	19,256	17,450	14,798	13,530	12,311	8,835	8,933	6,707
No. of employees per store	3.0	3.1	3.4	3.4	3.7	4.2	4.0	5.5
Annual sales per store (JPYmn)	51.7	48.2	48.6	50.1	56.2	63.7	74.4	101.0
Floor area per store (sqm)	89.5	93.8	101.5	103.4	119.1	151.4	134.0	140.7

Source: Ministry for Economy Trade and Industry Commerce Statistics, SR Inc. Research

A sales mix comparison of the three companies show that Chiyoda has a large share of men's shoes (approximately 25% of sales). The company offers many men's shoe brands (mainly private brands), which appear to be popular with consumers. However, the share of sports shoes such as sneakers is under 40% and declining. In contrast, competitor ABC-Mart has made sports shoes sales a growth driver with approximately 60% sales share. Profitability comparison

Profitability comparison Chiyoda (parent, JPYmn)	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Sales	110,314	108,330	107,220	103,615	105,263	100,562	95,509	90,522	87,919
YoY	-0.9%	-1.8%	-1.0%	-3.4%	1.6%	-4.5%	-5.0%	-5.2%	-2.9%
Gross profit	51,554	52,057	52,247	49,881	50,406	47,512	45,672	42,350	38,897
GPM	46.7%	48.1%	48.7%	48.1%	47.9%	47.2%	47.8%	46.8%	44.2%
SG&A ratio	39.2%	39.5%	39.9%	40.7%	39.8%	40.4%	42.1%	43.7%	44.8%
Operating profit	8,301	9,274	9,425	7,730	8,500	6,851	5,448	2,776	-488
YoY	50.2%	11.7%	1.6%	-18.0%	10.0%	-19.4%	-20.5%	-49.0%	-117.6%
OPM	7.5%	8.6%	8.8%	7.5%	8.1%	6.8%	5.7%	3.1%	-0.6%
Recurring profit	8,845	10,151	10,395	8,543	9,351	7,745	6,384	3,552	898
RPM	8.0%	9.4%	9.7%	8.2%	8.9%	7.7%	6.7%	3.9%	1.0%
Net income	3,515	5,663	6,231	4,929	5,030	4,330	4,868	3,595	-2
Net margin	3.2%	5.2%	5.8%	4.8%	4.8%	4.3%	5.1%	4.0%	-0.0%
PB ratio	31.8%	35.3%	41.3%	41.2%	39.8%	37.9%	39.8%	40.1%	41.0%
Store count (domestic)	1,099	1,101	1,100	1,087	1,073	1,055	1,080	1,047	1,029
Sales per sqm (JPY'000)	256	255	249	242	245	234	228	220	218
Sales per employee (JPY'000)	21,690	21,575	21,098	21,329	21,512	-	-	-	-
ABC-Mart (parent, JPYmn)	**FY02/12**	**FY02/13**	**FY02/14**	**FY02/15**	**FY02/16**	**FY02/17**	**FY02/18**	**FY02/19**	**FY02/20**
Sales	122,089	131,840	145,387	159,655	174,167	178,930	186,243	191,347	194,029
YoY	8.5%	8.0%	10.3%	9.8%	9.1%	2.7%	4.1%	2.7%	1.4%
Gross profit	71,415	78,962	84,859	91,554	99,266	102,317	105,668	107,136	109,207
GPM	58.5%	59.9%	58.4%	57.3%	57.0%	57.2%	56.7%	56.0%	56.3%
SG&A ratio	38.6%	38.4%	37.1%	35.0%	35.9%	36.3%	36.0%	35.9%	36.7%
Operating profit	24,293	28,378	30,951	35,706	36,752	37,372	38,686	38,380	38,072
YoY	2.6%	16.8%	9.1%	15.4%	2.9%	1.7%	3.5%	-0.8%	-0.8%
OPM	19.9%	21.5%	21.3%	22.4%	21.1%	20.9%	20.8%	20.1%	19.6%
Recurring profit	25,575	29,003	31,907	36,653	37,732	39,030	40,719	40,162	39,554
RPM	20.9%	22.0%	21.9%	23.0%	21.7%	21.8%	21.9%	21.0%	20.4%
Net income	13,833	16,215	18,105	22,104	23,041	25,992	27,156	27,178	27,097
Net margin	11.3%	12.3%	12.5%	13.8%	13.2%	14.5%	14.6%	14.2%	14.0%
PB ratio	44.7%	46.5%	48.0%	46.5%	40.4%	37.5%	35.6%	33.1%	-
Store count (domestic)	650	703	749	784	849	906	939	987	1,016
Sales per sqm (JPY'000)	718	691	709	727	744	720	722	708	690
Sales per employee (JPY'000)	31,655	32,858	34,135	35,394	33,644	33,212	34,176	33,835	33,992
G-Foot (JPYmn)	**FY01/12**	**FY02/13**	**FY02/14**	**FY02/15**	**FY02/16**	**FY02/17**	**FY02/18**	**FY02/19**	**FY02/20**
Sales	92,136	102,454	98,370	103,467	103,933	102,224	97,282	95,013	89,089
YoY	11.9%	-	-4.0%	5.2%	0.5%	-1.6%	-4.8%	-2.3%	-6.2%
Gross profit	38,049	44,172	44,212	47,563	49,270	48,820	45,965	43,775	39,606
GPM	41.3%	43.1%	44.9%	46.0%	47.4%	47.8%	47.2%	46.1%	44.5%
SG&A ratio	38.0%	39.2%	40.4%	40.6%	42.1%	42.9%	44.9%	45.7%	46.7%
Operating profit	3,022	4,021	4,465	5,507	5,515	5,005	2,238	351	-2,000
YoY	59.5%	-	11.0%	23.3%	0.1%	-9.2%	-55.3%	-84.3%	-669.8%
OPM	3.3%	3.9%	4.5%	5.3%	5.3%	4.9%	2.3%	0.4%	-2.2%
Recurring profit	2,979	3,995	4,423	5,465	5,473	5,027	2,279	388	-1,994
RPM	3.2%	3.9%	4.5%	5.3%	5.3%	4.9%	2.3%	0.4%	-2.2%
Net income	979	1,654	2,180	2,801	2,814	2,680	751	-1,478	-4,453
Net margin	1.1%	1.6%	2.2%	2.7%	2.7%	2.6%	0.8%	-1.6%	-5.0%
PB ratio	18.4%	20.5%	29.0%	34.9%	37.3%	31.9%	27.7%	29.6%	28.8%
Store count (domestic)	675	673	735	810	869	880	890	934	889
Sales per sqm (JPY'000)	408	412	366	351	329	312	292	279	264
Sales per employee (JPY'000)	14,960	15,687	14,022	19,175	18,487	18,329	17,547	17,088	16,616

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: From FY02/13, G-Foot's financial year-end is February. Previously it was January.

Store count and sales breakdown by region

FY02/20	Chiyoda consolidated shoe business				ABC-mart domestic				G-FOOT			
(JPYmn, stores)	Sales	% of total	Store count	% of total	Sales	% of total	Store count	% of total	Sales	% of total	Store count	% of total
Hokkaido/Tohoku	14,393	16.4%	174	16.9%	13,688	7.7%	87	8.6%	12,586	14.1%	168	18.9%
Kanto	35,711	40.6%	376	36.5%	80,846	45.2%	413	40.6%	26,614	29.9%	231	26.0%
Chubu	13,166	15.0%	172	16.7%	21,604	12.1%	154	15.2%	18,608	20.9%	180	20.2%
Kinki	8,749	10.0%	117	11.4%	32,992	18.4%	160	15.7%	16,658	18.7%	152	17.1%
Chugoku/Shikoku	5,748	6.5%	90	8.7%	9,472	5.3%	72	7.1%	5,341	6.0%	60	6.7%
Kyushu	10,150	11.5%	116	11.3%	20,261	11.3%	130	12.8%	8,671	9.7%	93	10.5%
Total	87,920		1,029		178,867		1,016		89,089		889	

FY02/19	Chiyoda consolidated shoe business				ABC-mart domestic				G-FOOT			
(JPYmn, stores)	Sales	% of total	Store count	% of total	Sales	% of total	Store count	% of total	Sales	% of total	Store count	% of total
Hokkaido/Tohoku	15,304	16.9%	177	16.9%	14,164	7.4%	86	8.7%	13,463	14.2%	170	18.2%
Kanto	36,187	40.0%	382	36.5%	80,513	42.0%	405	41.0%	27,854	29.3%	237	25.4%
Chubu	13,825	15.3%	171	16.3%	21,352	11.1%	147	14.9%	19,835	20.9%	179	19.2%
Kinki	8,860	9.8%	120	11.5%	32,038	16.7%	151	15.3%	17,693	18.6%	153	16.4%
Chugoku/Shikoku	5,920	6.5%	75	7.2%	9,438	4.9%	74	7.5%	5,648	5.9%	59	6.3%
Kyushu	10,459	11.5%	122	11.7%	20,029	10.4%	124	12.6%	9,682	10.2%	98	10.5%
Total	90,558		1,047		191,808		987		95,013		934	

FY02/18	Chiyoda consolidated shoe business				ABC-mart domestic				G-FOOT			
(JPYmn, stores)	Sales	% of total	Store count	% of total	Sales	% of total	Store count	% of total	Sales	% of total	Store count	% of total
Hokkaido/Tohoku	16,177	16.7%	182	16.9%	13,944	8.0%	85	9.1%	13,775	14.2%	165	18.5%
Kanto	38,821	40.1%	388	35.9%	79,746	45.6%	382	40.7%	28,540	29.3%	241	27.1%
Chubu	14,891	15.4%	181	16.8%	20,965	12.0%	143	15.2%	20,776	21.4%	178	20.0%
Kinki	9,348	9.7%	121	11.2%	31,926	18.3%	146	15.5%	18,418	18.9%	150	16.9%
Chugoku/Shikoku	6,374	6.6%	78	7.2%	9,109	5.2%	71	7.6%	5,831	6.0%	59	6.6%
Kyushu	11,168	11.5%	130	12.0%	19,322	11.0%	112	11.9%	9,938	10.2%	97	10.9%
Total	96,782		1,080		174,915		939		97,282		890	

FY02/17	Chiyoda consolidated shoe business				ABC-mart domestic				G-FOOT			
(JPYmn, stores)	Sales	% of total	Store count	% of total	Sales	% of total	Store count	% of total	Sales	% of total	Store count	% of total
Hokkaido/Tohoku	17,176	16.6%	185	16.9%	13,610	8.0%	84	9.3%	14,663	14.3%	164	18.6%
Kanto	41,224	39.9%	398	36.4%	78,736	46.4%	369	40.7%	29,623	29.0%	234	26.6%
Chubu	15,804	15.3%	178	16.3%	19,892	11.7%	132	14.6%	21,903	21.4%	172	19.5%
Kinki	10,143	9.8%	123	11.3%	30,145	17.8%	150	16.6%	19,727	19.3%	152	17.3%
Chugoku/Shikoku	7,063	6.8%	79	7.2%	8,647	5.1%	63	7.0%	5,844	5.7%	57	6.5%
Kyushu	11,877	11.5%	130	11.9%	18,682	11.0%	108	11.9%	10,460	10.2%	101	11.5%
Total	103,290		1,093		169,716		906		102,224		880	

FY02/16	Chiyoda consolidated shoe business				ABC-mart domestic				G-FOOT			
(JPYmn, stores)	Sales	% of total	Store count	% of total	Sales	% of total	Store count	% of total	Sales	% of total	Store count	% of total
Hokkaido/Tohoku	17,666	16.3%	185	16.6%	13,431	8.1%	79	9.3%	14,942	14.4%	165	19.0%
Kanto	43,340	39.9%	408	36.6%	77,880	46.8%	351	41.3%	30,642	29.5%	233	26.8%
Chubu	16,349	15.1%	182	16.3%	19,085	11.5%	126	14.8%	22,581	21.7%	173	19.9%
Kinki	11,072	10.2%	129	11.6%	29,000	17.4%	133	15.7%	20,070	19.3%	147	16.9%
Chugoku/Shikoku	7,585	7.0%	82	7.4%	8,475	5.1%	58	6.8%	5,551	5.3%	52	6.0%
Kyushu	12,518	11.5%	129	11.6%	18,563	11.2%	102	12.0%	10,143	9.8%	99	11.4%
Total	108,534		1,115		166,438		849		103,933		869	

Sales breakdown by product category

Sales	Chiyoda parent shoe sales				ABC-mart consolidated				G-FOOT			
(JPYmn)	FY02/17	FY02/18	FY02/19	FY02/20	FY02/17	FY02/18	FY02/19	FY02/20	FY02/17	FY02/18	FY02/19	FY02/20
Men's shoes	24,875	24,118	22,247	21,588	48,254	47,890	46,997	48,387	17,289	15,629	15,627	13,511
Women's shoes	18,436	19,969	19,085	18,246	21,456	20,871	18,937	18,271	25,759	23,631	22,336	19,430
Children's shoes	10,879	9,656	8,800	9,295	14,492	16,238	17,778	17,695	19,203	18,920	18,426	18,049
Rubber and athletic shoes	39,137	35,079	34,245	32,927	132,764	144,331	155,699	161,023	32,561	32,036	31,350	31,918
Sandals	7,232	6,685	6,142	5,862	21,983	24,950	27,288	26,983	7,410	7,064	7,271	6,180
Total	100,562	95,509	90,522	87,919	238,952	254,283	266,703	272,361	102,224	97,282	95,013	89,089

% of sales	Chiyoda parent shoe sales				ABC-mart consolidated				G-FOOT			
	FY02/17	FY02/18	FY02/19	FY02/20	FY02/17	FY02/18	FY02/19	FY02/20	FY02/17	FY02/18	FY02/19	FY02/20
Men's shoes	24.7%	25.3%	24.6%	24.6%	24.6%	23.2%	17.6%	17.7%	16.9%	16.1%	16.4%	15.2%
Women's shoes	18.3%	20.9%	21.1%	20.8%	10.8%	8.9%	29.5%	27.9%	25.2%	24.3%	23.5%	21.8%
Children's shoes	10.8%	10.1%	9.7%	10.6%	5.6%	5.7%	17.4%	17.3%	18.8%	19.4%	19.4%	20.3%
Rubber and athletic shoes	38.9%	36.7%	37.8%	37.5%	50.5%	53.7%	27.4%	29.3%	31.9%	32.9%	33.0%	35.8%
Sandals	7.2%	7.0%	6.8%	6.7%	8.4%	8.5%	8.0%	7.7%	7.2%	7.3%	7.7%	6.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Shared Research based on company data
Note: ABC Mart defines men's shoes as both leather casual shoes and business shoes.

Financial statements

Income statement

Income statement (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Total sales	**154,086**	**150,323**	**147,423**	**143,005**	**144,504**	**137,017**	**127,634**	**118,568**	**113,530**
YoY	-1.9%	-2.4%	-1.9%	-3.0%	1.0%	-5.2%	-6.8%	-7.1%	-4.2%
CoGS	81,020	76,882	75,381	74,000	74,891	70,561	63,956	61,536	61,757
Gross profit	**73,066**	**73,441**	**72,041**	**69,005**	**69,613**	**66,456**	**63,677**	**57,032**	**51,773**
YoY	1.9%	0.5%	-1.9%	-4.2%	0.9%	-4.5%	-4.2%	-10.4%	-9.2%
GPM	47.4%	48.9%	48.9%	48.3%	48.2%	48.5%	49.9%	48.1%	45.6%
SG&A expenses	**62,334**	**61,124**	**61,510**	**61,251**	**60,240**	**58,724**	**57,544**	**55,363**	**53,005**
YoY	-6.4%	-1.9%	0.6%	-0.4%	-1.7%	-2.5%	-2.0%	-3.8%	-4.3%
SG&A ratio	40.5%	40.7%	41.7%	42.8%	41.7%	42.9%	45.1%	46.7%	46.7%
Operating profit	**10,731**	**12,316**	**10,531**	**7,753**	**9,372**	**7,731**	**6,132**	**1,669**	**-1,231**
YoY	112.3%	14.8%	-14.5%	-26.4%	20.9%	-17.5%	-20.7%	-72.8%	-
OPM	7.0%	8.2%	7.1%	5.4%	6.5%	5.6%	4.8%	1.4%	-1.1%
Non-operating income	2,063	1,992	1,705	1,499	1,473	1,313	1,305	1,371	1,296
Non-operating expenses	1,455	1,200	1,209	999	919	901	842	773	734
Recurring profit	**11,339**	**13,108**	**11,027**	**8,253**	**9,927**	**8,143**	**6,595**	**2,266**	**-669**
YoY	98.1%	15.6%	-15.9%	-25.2%	20.3%	-18.0%	-19.0%	-65.6%	-129.5%
RPM	7.4%	8.7%	7.5%	5.8%	6.9%	5.9%	5.2%	1.9%	-0.6%
Extraordinary gains	151	493	60	35	11	15	648	2,800	3
Extraordinary losses	2,622	530	366	626	839	753	581	1,809	1,516
Pre-tax profit	8,868	13,071	10,721	7,662	9,099	7,405	6,660	3,257	-2,182
Implied tax rate	36.9%	37.9%	43.5%	46.3%	45.7%	41.3%	31.6%	84.2%	-13.4%
Net income attrib. to non-controlling interests	-754	-961	-212	47	-60	-51	-86	-1,097	-831
Net income	**4,839**	**7,151**	**5,847**	**4,165**	**4,882**	**4,295**	**4,643**	**1,613**	**-1,643**
YoY	362.2%	47.8%	-18.2%	-28.8%	17.2%	-12.0%	8.1%	-65.3%	-201.9%
Net margin	3.1%	4.8%	4.0%	2.9%	3.4%	3.1%	3.6%	1.4%	-1.4%

Source: Shared Research based on company data

Balance sheet

Balance sheet (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
ASSETS									
Cash and deposits	47,024	55,013	55,136	49,457	42,032	44,836	42,547	44,216	40,410
Accounts receivable	1,933	1,803	2,093	2,370	2,167	2,123	2,061	2,078	2,663
Allowance for doubtful accounts	-16	-13	-15	-10	-6	-6	-4	-4	-6
Inventories	28,235	27,419	28,816	33,415	39,910	37,361	35,239	33,344	29,593
Prepaid expenses	1,380	1,329	1,274	1,463	1,279	1,213	1,209	1,186	1,194
Other	1,443	1,041	1,340	1,028	921	1,082	1,322	998	611
Total Current Assets	**80,001**	**86,594**	**88,646**	**87,725**	**86,305**	**86,610**	**82,377**	**81,820**	**74,465**
Buildings	4,762	4,886	5,052	5,161	4,789	4,633	4,751	3,842	3,235
Equipment	3	5	2	2	1	-	-	-	-
Tools, furniture, and fixtures	500	525	575	684	772	903	1,034	980	853
Land	3,242	4,352	4,307	4,216	4,216	4,216	4,216	4,165	4,144
Lease assets	475	477	514	562	536	485	1,467	1,161	748
Other fixed assets	2	61	10	3	1	30	9	3	22
Total tangible fixed assets	8,987	10,308	10,463	10,630	10,316	10,269	11,480	10,152	9,004
Investment securities	9,485	5,653	7,187	8,558	7,042	7,530	7,079	3,780	3,018
Long-term time deposit	500	3,500	3,500	3,400	3,600	850	1,350	1,450	1,550
Deferred tax assets	3,561	3,863	3,187	2,867	3,028	2,716	2,666	3,141	4,126
Lease and guarantee deposits	19,710	18,354	17,248	16,407	15,188	14,270	13,546	12,712	11,918
Other	826	961	706	656	767	694	540	761	614
Investments and other assets	34,082	32,331	31,828	31,888	29,556	26,007	25,138	21,800	21,224
Total intangible fixed assets	3,685	3,633	3,690	3,677	3,678	3,662	3,821	3,987	4,677
Total fixed assets	**46,755**	**46,274**	**45,981**	**46,196**	**43,551**	**39,940**	**40,439**	**35,941**	**34,906**
Total assets	**126,756**	**132,868**	**134,628**	**133,922**	**129,856**	**126,550**	**122,817**	**117,761**	**109,371**
LIABILITIES									
Accounts payable	28,465	28,379	28,588	31,164	27,321	24,963	20,420	21,920	20,529
Short-term debt	1,786	1,717	1,682	1,782	2,001	1,618	530	1,192	60
Other	8,798	9,006	7,016	7,431	7,801	6,806	6,549	6,117	5,763
Total current liabilities	39,049	39,102	37,286	40,377	37,123	33,387	27,499	29,229	26,352
Long-term debt	1,592	1,619	1,337	1,375	1,157	1,336	1,458	1,272	1,200
Other	13,396	13,488	13,202	9,895	9,907	10,242	12,446	11,743	11,905
Total fixed liabilities	14,988	15,107	14,539	11,270	11,064	11,578	13,904	13,015	13,105
Total liabilities	**54,037**	**54,209**	**51,825**	**51,648**	**48,188**	**44,965**	**41,404**	**42,245**	**39,457**
NET ASSETS									
Capital stock	6,893	6,893	6,893	6,893	6,893	6,893	6,893	6,893	6,893
Capital surplus	7,489	7,489	7,486	7,486	7,486	7,486	7,486	7,486	7,483
Retained earnings	55,160	60,126	63,405	64,624	66,741	68,208	70,220	69,194	64,882
Treasury stock	-3,026	-3,528	-3,520	-5,521	-7,518	-9,519	-11,522	-13,471	-13,345
Valuation difference on marketable securities	521	1,315	2,233	3,123	2,516	2,937	2,984	1,177	671
Deferred gains (losses) on hedges	-	-	-16	16	-44	8	-5	-	-
Remeasurements of defined benefit plans	-	-	-	-380	-326	-227	-162	-76	-49
Share subscription rights	39	97	124	158	205	255	308	318	223
Non-controlling interests	5,642	6,264	6,194	5,872	5,714	5,542	5,209	3,993	3,154
Total net assets	**72,719**	**78,658**	**82,802**	**82,273**	**81,668**	**81,585**	**81,412**	**75,516**	**69,914**
Working capital	1,703	843	2,321	4,621	14,756	14,521	16,880	13,502	11,727
Total interest-bearing debt	3,378	3,336	3,019	3,157	3,158	2,954	1,988	2,464	1,260
Net cash	44,146	55,177	55,617	49,700	42,474	42,732	41,909	43,202	40,700

Source: Shared Research based on company data
Note: Accounts payable includes factoring liabilities

Per-share data ('000 shares, JPY)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Shares outstanding (ex. treasury shares; year-end)	39,721	39,484	39,489	38,616	37,921	37,068	36,368	35,565	35,621
Shares issued (year-end)	41,610	41,610	41,610	41,610	41,610	41,610	41,610	41,610	41,610
Treasury shares	1,889	2,126	2,121	2,994	3,689	4,542	5,242	6,045	5,989
Shares issued (average)	39,721	39,694	39,489	39,011	38,117	37,498	36,894	35,832	35,615
EPS	122	180	148	107	128	115	126	45	-46
EPS (fully diluted)	122	180	148	107	128	114	125	45	-
Dividend per share	50	60	70	70	75	70	72	74	74
Dividend payout ratio	41.0%	33.3%	47.3%	65.5%	58.5%	61.1%	57.2%	164.3%	-160.3%
DPS / BPS	3.0%	3.3%	3.6%	3.5%	3.8%	3.4%	3.5%	3.7%	4.0%
Total dividends	1,986	2,374	2,764	2,719	2,844	2,609	2,643	2,631	2,635
Acquisition of treasury shares	0	501	2	2,001	2,006	2,000	2,002	2,001	1
Disposal of treasury shares									
Total shareholder return	41.0%	40.2%	47.3%	113.3%	99.3%	107.3%	100.0%	287.2%	-160.4%
Book value per share	1,688	1,831	1,937	1,974	1,998	2,045	2,087	2,002	1,868
ROE	7.3%	10.3%	7.9%	5.5%	6.4%	11.3%	6.1%	2.2%	-2.4%
ROA (RP-based)	9.0%	10.1%	8.2%	6.1%	7.5%	6.7%	5.5%	1.9%	-0.6%

Source: Shared Research based on company data

Cash flow statement

Cash flow statement (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Cash flows from operating activities (1)	9,306	10,917	4,993	974	-1,383	6,994	3,893	5,825	1,771
Pre-tax profit	8,868	13,071	10,721	7,662	9,099	7,405	6,660	3,257	-2,182
Depreciation	1,258	1,198	1,305	1,436	1,508	1,355	1,546	1,519	1,305
Impairment losses	481	155	262	432	554	566	401	1,589	1,356
Amortization of goodwill	-	-	-	-	-	-	-	-	-
Change in working capital	-896	860	-1,476	-2,299	-10,124	212	-2,277	3,431	1,845
Income taxes	-3,198	-4,701	-6,174	-3,691	-2,889	-4,179	-2,591	-1,763	-1,662
Other	2,793	334	355	-2,566	469	1,635	154	-2,208	1,109
Cash flows from investing activities (2)	-370	952	-1,266	-4,507	4,261	2,566	-725	1,498	-984
Acquisition of tangible/intangible fixed assets	-719	-2,437	-1,445	-1,479	-1,373	-1,596	-1,588	-1,521	-1,331
Proceeds from sale of tangible/intangible fixed assets	-	424	51	73	2	5	3	61	15
Payments for lease and guarantee deposits	-236	-421	-571	-529	-358	-446	-359	-379	-216
Proceeds from collection of guarantee deposits	1,036	945	758	792	867	654	695	564	568
Other	-451	2,441	-59	-3,364	5,123	3,949	524	2,773	-20
FCF (1+2)	8,936	11,869	3,727	-3,533	2,878	9,560	3,168	7,323	787
Cash flows from financing activities	-370	952	-1,266	-4,507	4,261	2,566	-725	1,498	-984
Net change in short-term borrowings	-50	-	-	280	180	-275	-924	-	-
Net change in long-term borrowings	-224	-42	-316	-141	-178	72	-132	-444	-194
Issuance and redemption of bonds	-	-	-	-	-	-	1,097	-91	-1,010
Acquisition of treasury stock	-	-501	-2	-2,001	-2,000	-2,000	-2,002	-2,001	-1
Dividends paid	-2,382	-2,185	-2,568	-2,947	-2,679	-2,827	-2,648	-2,625	-2,634
Other	2,286	3,179	1,618	-1,699	6,938	5,596	1,882	4,658	2,854
Change in cash and cash equivalents	5,872	8,494	122	-8,979	-2,321	4,103	-2,288	1,468	-3,606
Cash and cash equivalents (year-end)	43,355	51,850	51,972	42,993	40,672	44,776	42,487	43,956	40,350
Depreciation and amortization of goodwill (A)	1,258	1,198	1,305	1,436	1,508	1,355	1,546	1,519	1,305
Capital expenditures (B)	-719	-2,013	-1,394	-1,406	-1,371	-1,591	-1,585	-1,460	-1,316
Change in working capital (C)	-896	860	-1,476	-2,299	-10,124	212	-2,277	3,431	1,845
Simple FCF (NI+A+B-C)	10,303	11,396	12,108	9,991	19,360	6,957	8,898	-115	-4,038

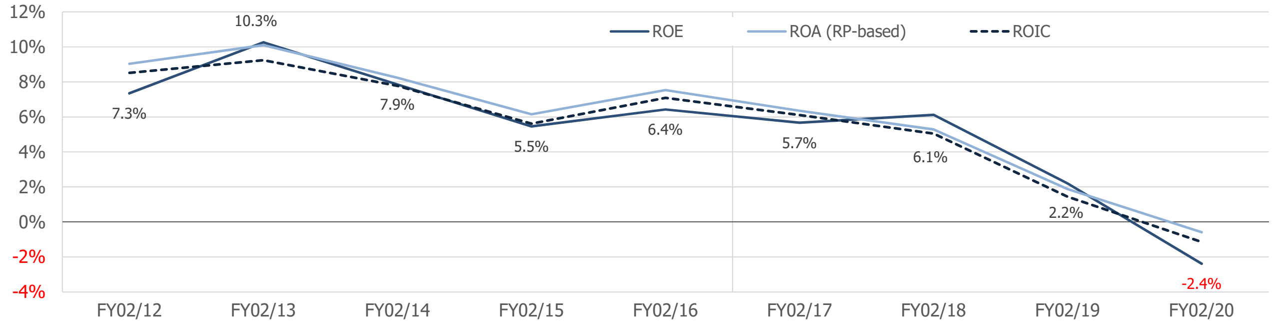
Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Cash conversion cycle	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Accounts receivable turnover	78.94	80.47	75.68	64.08	63.70	63.88	61.01	57.29	47.89
Inventory turnover	2.78	2.76	2.68	2.38	2.04	1.83	1.76	1.79	1.96
Accounts payable turnover	2.71	2.71	2.65	2.48	2.56	2.70	2.82	2.91	2.91
Days in accounts receivable	5	5	5	6	6	6	6	6	8
Days in inventory	131	132	136	153	179	200	207	203	186
Days in accounts payable	135	135	138	147	143	135	130	126	125
Cash conversion cycle (days)	1.49	1.71	3.05	11.81	41.89	70.34	83.65	84.20	68.17

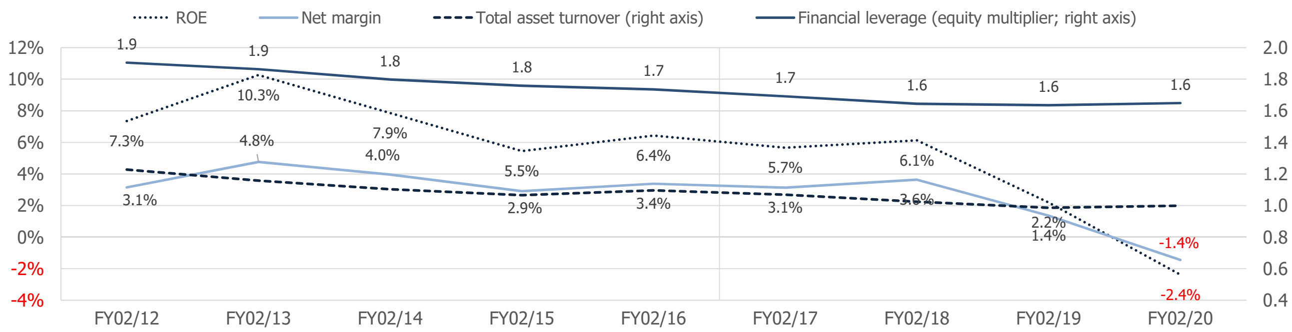
Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

ROE, ROA, ROIC

(JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
ROE	**7.3%**	**10.3%**	**7.9%**	**5.5%**	**6.4%**	**5.7%**	**6.1%**	**2.2%**	**-2.4%**
Net margin	3.1%	4.8%	4.0%	2.9%	3.4%	3.1%	3.6%	1.4%	-1.4%
Total asset turnover	1.23	1.16	1.10	1.07	1.10	1.07	1.02	0.99	1.00
Financial leverage (equity multiplier)	1.91	1.86	1.80	1.76	1.74	1.69	1.64	1.64	1.65
ROA (RP-based)	**9.0%**	**10.1%**	**8.2%**	**6.1%**	**7.5%**	**6.4%**	**5.3%**	**1.9%**	**-0.6%**
ROIC	**8.5%**	**9.2%**	**7.8%**	**5.6%**	**7.1%**	**6.1%**	**5.0%**	**1.4%**	**-1.1%**
NOPAT	6,365	7,305	6,528	4,806	6,032	5,175	4,240	1,158	-854
Net assets + Interest-bearing debt	74,712	79,046	83,908	85,626	85,128	84,683	83,970	80,690	74,577
ROIC (before tax)	14.4%	15.6%	12.6%	9.1%	11.0%	9.1%	7.3%	2.1%	-1.7%
OPM	7.0%	8.2%	7.1%	5.4%	6.5%	5.6%	4.8%	1.4%	-1.1%
Sales / Invested capital	2.06	1.90	1.76	1.67	1.70	1.62	1.52	1.47	1.52



ROE



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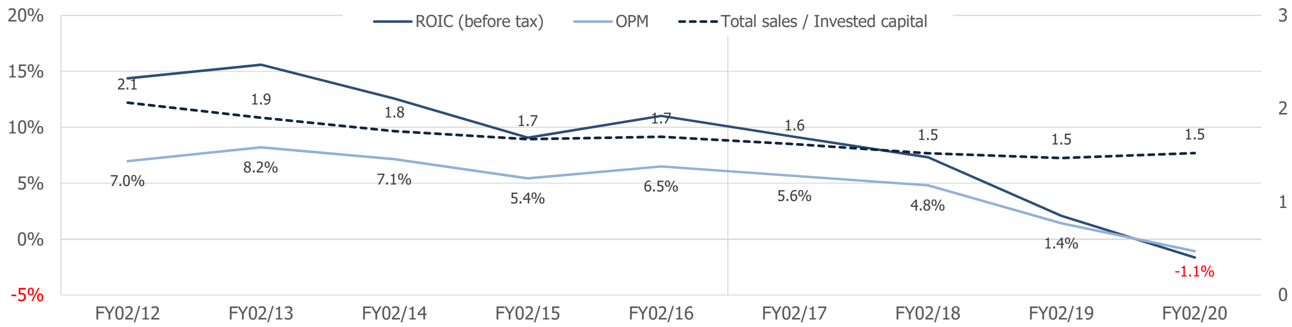

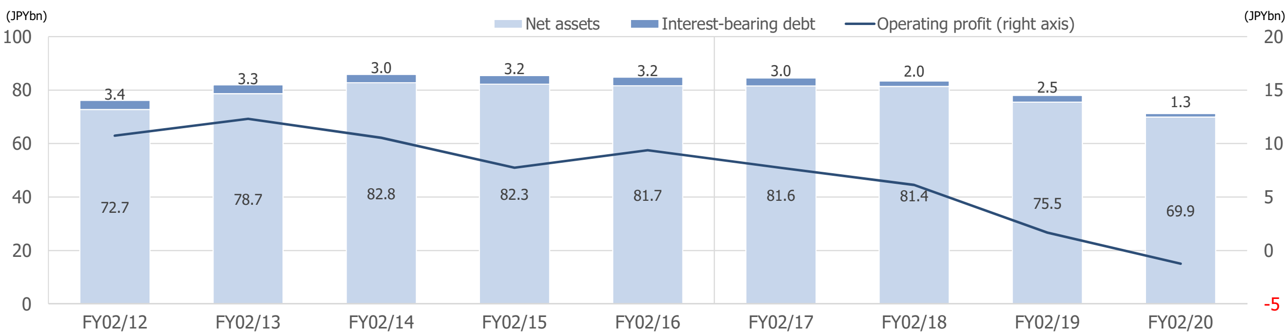

Source: Shared Research based on company data

Other information

History

Chiyoda has its roots in the Chiyoda Shoe Store that Yoshio Funahashi (father of current Chairman Masao Funahashi) opened in 1936 in Koenji, Suginami Ward, Tokyo. The name "Chiyoda" was written in katakana, the Japanese alphabet used to write imported foreign words. It was a revolutionary idea at the time and had connotations of modernity and innovation. In 1962 Chiyoda opened a store in Nakano, from which its store expansion began.

From its early days, Chiyoda grew by opening in areas with no shoe stores. Customers could travel to department stores in the city and buy luxury shoes, but there were few shops in the suburbs where ordinary Japanese people lived. This area was ripe with business potential. Chiyoda opened shops on the roadsides near residential areas and offered shoes at a price which made them more of an everyday purchase than a luxury. The store chain spread nationwide to over 1,000 shops. According to the company, its neighborhood location and low-price strategy was an early model of success that gave a hint that Shimamura (another retailer) later emulated in its own expansion strategy.

Chiyoda diversified into apparel in 1983; toys (Hello Mac) in 1985; children's clothing and baby products (Baby Mom) in 1991; sporting goods (Foot Up) in 1992; luggage (Bag Land) in 1993; and outdoor apparel in 1994. However, from 2000, there was an assault on the Japanese retail market from Toys 'R' Us and other foreign retailers. Starting with its toy chain, comparable store sales started falling, and during this slump Chiyoda gradually withdrew from the other categories. Shoes and casual clothing were the only businesses remaining in FY02/14.

From the early 2000s, Chiyoda started closing unprofitable stores, adopted stricter store opening criteria, and limited new store openings. As a result, the number of stores has slowly declined. The company had 1,029 stores at the end of FY02/20 (1,551 at the end of FY02/00). While its comparable store sales stagnated, Chiyoda has been improving GPM by strengthening PB offerings from the early 2000s.

Chiyoda listed on the Over-The-Counter market in 1980 and on the First Section of the Tokyo Stock Exchange in 2003.

Major shareholders

As of end-February 2020

Top shareholders	Shares held ('000)	Shareholding ratio
Ichigo Trust Pte. Ltd. (Standing proxy: The Hongkong and Shanghai Banking Corporation, Limited, Tokyo branch)	6,589	18.50%
Masao Funahashi	3,145	8.83%
Chuo Shoji Co., Ltd.	2,998	8.42%
Daichi Ltd.	1,630	4.58%
Morgan Stanley MUFG Securities Co., Ltd.	1,421	3.99%
Chiyoda Kyoeikai	1,390	3.90%
The Master Trust Bank of Japan, Ltd. (Trust account)	881	2.47%
BNYM SA/NV FOR BNYM FOR BNYGCM CLIENT ACCOUNTS M LSCBRD (Standing proxy: UFJ Bank Limited)	870	2.44%
Sumitomo Mitsui Banking Corporation	860	2.41%
J.P. MORGAN BANK LUXEMBOURG S.A. 1300000 (Standing proxy: Mizuho Bank, Ltd.)	770	2.16%
SUM	20,556	57.71%

Source: Shared Research based on company data

Top management

Chiyoda's Chairman **Masao Funahashi** (born 1934) is son of Chiyoda founder Yoshio Funahashi. He was appointed director of Chiyoda Shoe Store (Chiyoda) in 1957, and became President and CEO of Chiyoda in 1976. He was appointed Chairman of the

Board in 2013. Koji Funahashi, the eldest son of Chairman Masao Funahashi, served as President and CEO from May 2013 through March 2019.

His successor Tadao Sugiyama (born in 1952) joined Chiyoda in 1972. He became general manager of Kanto region sales in 2010, executive officer and general manager of Kanto region sales in 2012, director in 2013, managing director in 2018, and concurrently head of sales in 2019. He took over as President and CEO in May 2020.

Employees

In FY02/20, Chiyoda had 1,774 full-time employees. The annual average number of temporary staff was 4,144.

In FY02/20, the parent company employed 1,441 staff, with key statistics as follows:

- ▷ Average age: 45.6
- ▷ Average years of service: 21.2 years
- ▷ Average annual salary: JPY4.9mn

The company's retention rate is high. Given that the average employee is 45.6 years old and average length of service is 21.2 years, almost everyone who joined around the age of 20 must still be with the company. The Chiyoda group has a Chiyoda Union, which belongs to the Japanese Federation of Textile, Chemical, Food, Commercial, Service and General Workers' Unions and Specialty Store Union Association. It seems that the presence of the unions is contributing to Chiyoda's high retention rates.

Dividends and Shareholder benefits

Under the policy of conducting ample returns stably to shareholders for the long term, Chiyoda aims at a consolidated dividend payout ratio of 50% and a consolidated total return ratio of 100%. For the medium-term plan, the company added another target of DOE at 3.5% or more and plans to revise the shareholder benefit plan to enhance services for individual shareholders.

Chiyoda gives shareholders with parcels of at least 100 shares discount coupons twice a year. On August 31 and the last day of February they receive five 20%-off vouchers redeemable at Kutsu-Chiyoda, Shoe Plaza, TSRC and SPC shops.

(JPYmn)		FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Total dividends	a)	1,986	2,374	2,764	2,719	2,844	2,609	2,643	2,631	2,635
Total treasury stock acquired	b)	0	501	2	2,001	2,006	2,000	2,002	2,001	1
Total returns to shareholders	c) = a) + b)	1,986	2,875	2,766	4,720	4,850	4,609	4,645	4,632	2,636
Net income attributable to parent company shareholders	d)	4,839	7,151	5,847	4,165	4,882	4,295	4,643	1,613	-1,643
Dividend payout ratio	a) / d)	41.0%	33.2%	47.3%	65.3%	58.3%	60.7%	56.9%	163.1%	-160.4%
Total shareholder return ratio	c) / d)	41.0%	40.2%	47.3%	113.3%	99.3%	107.3%	100.0%	287.2%	-160.4%
Net assets available to common shareholders (year end)		67,038	72,297	76,484	76,243	75,749	75,788	75,895	71,205	66,537
Average of beginning and end of year	f)	65,882	69,668	74,391	76,364	75,996	75,769	75,842	73,550	68,871
Before deducting assets available to holders of Class A preferred shares		67,038	72,297	76,484	76,243	75,749	75,788	75,895	71,205	66,537
EPS	(JPY)	121.8	180.2	148.1	106.8	128.1	114.6	125.9	45.0	-46.2
Dividend per share	(JPY)	50.0	60.0	70.0	70.0	75.0	70.0	72.0	74.0	74.0
DOE	a) / f)	3.0%	3.4%	3.7%	3.6%	3.7%	3.4%	3.5%	3.6%	3.8%

Source: Shared Research based on company data

Historical earnings results and news

Historical earnings

Q1 FY02/21 results (out July 10, 2020)

Results summary

- In Q1 FY02/21, Chiyoda booked sales of JPY20.9bn (-33.8% YoY), operating loss of JPY1.6bn (operating profit of JPY1.5bn in Q1 FY02/20), and a net loss of JPY1.3bn (net income of JPY717mn in Q1 FY02/20). Sales fell sharply as the company shut stores and reduced business hours in response to the COVID-19 pandemic and demand declined as consumers stayed home. The GPM was 47.9%, down from 48.9% in Q1 FY02/20. Demand for products such as business shoes declined as teleworking spread, and customer spend stagnated due to an increased consumer focus on maintaining living standards. SG&A expenses were JPY11.6bn (-17.0% YoY). Curtailing promotions with TV commercials and flyers amid lower demand helped cut costs. The company booked JPY229mn in extraordinary losses (JPY145mn in impairment losses).
- The full-year company forecast for FY02/21 calls for sales of JPY103.2bn (-9.1% YoY), an operating loss of JPY800mn (operating loss of JPY1.2bn in FY02/20), and a net loss of JPY1.4bn (net loss of JPY1.6bn). Following an operating loss of JPY1.6bn in Q1, the company expects a return to the black with operating profit of JPY262mn in Q2 and JPY500mn in 2H. It forecasts an annual dividend of JPY37 per share (JPY74 in FY02/20). Although it expects a net loss in FY02/21, Chiyoda views providing ample, steady returns to shareholders over the long term as a key management priority. It said that it determined the dividend forecast taking into account retaining internal reserves needed for future internal structural reform and capex.

Shoe business

Shoe business (the mainstay of non-consolidated operations): Q1 FY02/21 sales of JPY16.9bn (-31.0% YoY), and operating loss of JPY826mn (operating profit of JPY1.6bn in Q1 FY02/20). On a parent-only basis, comparable store sales fell 31.0% YoY (customer count down 30.3% and customer spend down 1.0%). By product, sales of men's shoes (24.6% of total sales in FY02/20) decreased 40% YoY, sales of women's shoes (20.8%) decreased 41% YoY, and sales of children's shoes (10.6%) decreased 19% YoY. Sales decreased YoY by 26% for sneakers (37.5%) and 14% for sandals (4.0%).

The estimated gross profit margin of the Shoe business (calculated by removing the GPM for Mac-House from the consolidated figure) was 47.7%, down from 48.9% in Q1 FY02/20. The decline in GPM was due mainly to deterioration of the product mix caused by a significant decrease in sales of men's and women's shoes, which comprise a high ratio of private brand products and offer high margins. Sales of these shoes fell owing to the promotion of telework and consumers refraining from leaving the home.

SG&A expenses in the Shoe business were JPY8.9bn (-14.5% YoY). The company cut advertising costs, such as by drastically curbing leaflets and TV ads. Personnel expenses also fell due to a decrease in overtime. Rent fell as well, owing to a decrease in rent at stores in shopping centers, which have sales-linked rental contracts. Despite these cost reductions, the company booked an operating loss in Q1 due to the large impact of the decline in gross profit on lower sales.

Stores numbered 1,034 at end-Q1 (-7 stores [-0.7%] YoY). In Q1, the company opened 15 stores, closed 10 stores for net increase of five. Chiyoda has begun to work on standardizing the Shoe Plaza stores and will target 200 out of the 393 stores (total Shoe Plaza store figure as of end-Q1). The company standardized 13 stores in Q1. It expects this process to improve in-store displays, reduce stagnant inventory by bringing down stock keeping units (SKUs), reduce opportunity loss due to out-of-stock items, improve the freshness of products lineup, and improve inventory turnover. In addition, anticipating that changes in consumer behavior will continue, Chiyoda worked to strengthen online content such as e-commerce and apps/e-mail newsletters, and promoted collaboration between e-commerce sites and brick-and-mortar stores.

Monthly comparable store sales decreased 24.4% YoY in March (23.5% decrease in customer count, 1.3% decrease in customer spend), 43.4% YoY in April (43.3% decrease in customer count, 0.3% decrease in customer spend), and 24.4% YoY in May (22.9% decrease in customer count, 2.0% decrease in customer spend). The decline was greatest in April, when the state of emergency was declared, and narrowed in May. Comparable store sales recovered in June, increasing 5.7% YoY (5.7% increase in customer count, flat customer spend). Sales temporarily underwent a significant decline due to COVID-19, but are normalizing. However, recovery in business shoes is slow owing to an increase in telework and other factors, and Shared Research thinks the product mix needs to be carefully watched.

Estimated inventories for the Shoe business at end-Q1 were JPY28.2bn (-4.7% YoY). Inventories declined YoY amid unusually low sales.

Apparel business

In Q1, subsidiary Mac-House (TSE: 7603, 61.3% stake), which operates the Apparel business, had sales of JPY3.9bn (-43.6% YoY) and an operating loss of JPY736mn (versus loss of JPY105mn in Q1 FY02/20). Comparable store sales were down 39.6% YoY (44.1% decrease in customer count, 8.1% increase in customer spend). The number of customers visiting stores dropped sharply due to efforts to prevent the spread of COVID-19, including consumers refraining from leaving their homes, the company shortening the business hours of its stores, and temporary store closures owing to the closure of commercial facilities in which the stores are located. On the other hand, the number of purchases per customer increased, and customer spend increased YoY. The company has been working to improve product quality at Mac-House so that low-priced items are not overrepresented in the product lineup, reduce the categories of products handled, and decrease the number of items. These product reforms seem to have contributed to the rise in customer spend. Stores numbered 372 (-18 stores [-4.6%] YoY) at end-Q1 with eight store openings and seven store closures in Q1. Gross profit margin was 48.8% (49.0% in Q1 FY02/20). SG&A expenses were JPY2.6bn (-24.6% YoY), falling as the company eliminated unprofitable stores and curtailed spending on leaflets. Inventory at end-Q1 was JPY5.0bn (-29.1% YoY). Notably, inventory was reduced in Q1 despite the significant decline in sales.

Full-year FY02/20 results (out April 10, 2020)

Results summary

- In FY02/20, Chiyoda booked sales of JPY113.5bn (-4.2% YoY), operating loss of JPY1.2bn (operating profit of JPY1.7bn in FY02/19), and a net loss of JPY1.6bn (net income of JPY1.6bn in FY02/19). The intense competitive environment led sales to fall in both the Shoes and Apparel businesses, which were also affected by poor weather. As a result of recording valuation losses on inventories and disposing of slow-moving inventories in efforts to freshen up in store product lineups, GPM declined to 45.6% from 48.1% in FY02/19. The company recorded an operating loss and net loss despite SG&A expenses falling by 4.3% YoY due to a reduced store count. Inventory at end-FY02/20 was down 11.2% YoY to JPY29.6bn. The results of efforts to freshen the product lineup are starting to become visible, although they could not yet be described as sufficient. The annual dividend is expected to remain stable at JPY74.0 per share.
- Both segments posted lower sales and operating profit. The Shoe business posted sales of JPY87.9bn (-2.9% YoY) and operating profit of JPY120mn (-95.9% YoY). The Apparel business posted sales of JPY25.6bn (-8.6% YoY) and operating loss of JPY1.4bn (JPY1.2bn loss in FY02/19).
- The full-year company forecasts for FY02/21 are undetermined: Consumers are currently avoiding going out and crowded areas due to the influence of the novel coronavirus, and comparable store sales for the company have slumped, down by 24.4% YoY in March 2020 at the parent (down 32.4% for Mac-House). Maintaining that it is uncertain when customer count will recover, and that there are concerns over the impact on product procurement, which is based around overseas production, the company has stated that its earnings forecasts are undetermined. It intends to promptly disclose its forecasts as soon as it becomes possible to make proper and rational calculation.

Shoe business

The Shoe business mainly run by the parent company posted sales of JPY87.9bn (-2.9% YoY) and operating profit of JPY120mn (-95.9% YoY). Parent company sales were JPY87.9bn (-2.9% YoY), operating loss was JPY488mn (JPY2.8bn profit in FY02/19), and net loss was JPY200mn (JPY3.6bn profit in FY02/19). Comparable-store sales fell 2.0% YoY, with customer traffic down 1.0% and per-customer spending down 1.1%. Trends improved in Q1–Q3, with sales down 2.2% YoY in Q1, down 1.2% in Q2, and up 0.6% in Q3. Momentum fizzled out in Q4, however, due to a weak holiday shopping season followed by the sharp negative impact of COVID-19 from the second half of February, resulting in a 5.1% YoY sales decline. The company opened 20 new stores and closed 38 stores for a total of 1,029 at end FY02/20 (net decrease of 18 stores, -1.7% YoY).

The parent company's gross profit was JPY38.9bn (-8.2% YoY) and GPM was down to 44.2% from 46.8% in FY02/19. Contributing factors were aggressive discounts to clear inventory to refresh in-store lineups and additional inventory valuation loss booked on slow-moving merchandise. Chiyoda previously booked a valuation loss on inventory held longer than a specified period as "slow-moving inventory." From FY02/20, the company tightened the rule to revalue all seasonal product items left at the end of the first year after launch and non-seasonal product items that had no purchasing for one year. As a result, valuation loss increased to JPY2.1bn at the parent, of which the inventory valuation rule change accounted for JPY1.6bn (2.3pp relative to total sales; breaking down into JPY1.2bn in Q2 and JPY394mn in Q4). The company commented that inventory valuation loss is likely to decrease in FY02/21, because the effect of the rule change will fade.

Parent SG&A expenses totaled JPY39.4bn (-0.5% or -JPY188mn YoY). Reduced rent and depreciation associated with a lower store count more than compensated for additional expenses due to the integration of some operations of subsidiary Chiyoda Bussan Co., Ltd.

Estimated inventory at end FY02/20 (consolidated basis, excluding Mac-House) was JPY24.9bn, down JPY1.8bn from end-FY02/19. Inventory levels were JPY4.7bn lower than the recent peak (Q1 FY02/20).

Sales of the Shoe business were JPY19.9bn (-5.6% YoY) and the operating loss came to JPY1.1bn (-5.6% YoY) in Q4. Comparable-store sales fell 5.1% YoY (customer traffic down 2.8% and per-customer spending down 2.4%). Chiyoda ran a Christmas discount sale in December, but this did not attract as many customers as expected, resulting in a sharp 10.1% comparable-store sales decline. Sales began to recover in January and early February before the negative impact of appeals to stay home to prevent the spread of COVID-19 in the second half of February onward.

Estimated GPM in Q4 (consolidated basis, excluding Mac-House) was 41.9%, down from 46.4% in FY02/19. Tightened rules on inventory valuation loss had a 2.0pp negative effect on GPM. Estimated SG&A expenses were JPY9.5bn, down 2.9% YoY.

Apparel business

Mac-House (JASDAQ 7603; 61.3% equity stake) runs Chiyoda's apparel business. In FY02/20, it reported sales of JPY25.6bn (-8.6% YoY) and an operating loss of JPY1.4bn (JPY1.2bn loss in FY02/19), recording an operating loss for two consecutive fiscal years. Comparable-store sales fell 4.0% YoY (customer traffic down 0.9% and per-customer spending down 3.1%). The number of stores at end FY02/20 was 371, a net decrease of 27 stores (-6.8%) YoY.

Mac-House focused on improving product quality so that it does not rely too much on low pricing as well as reducing the range of product categories and number of product items it handles, which resulted in an improved unit price per item. However, its stores had to sell items at a discount, because unseasonable weather meant seasonal items did not go on sale at appropriate times, as well as disposing of slow-moving inventory and aggressively selling off items to prevent further inventory buildups. Consequently, GPM fell to 47.1% from 48.5% in FY02/19. Cuts in SG&A expenses, which were down 9.4% YoY to JPY13.4bn, were not enough to compensate for the above negative factors. Inventory was down 29.1% YoY to JPY4.7bn.

Mac-House reduced its loss on lower sales in Q4, recording sales of JPY6.0bn (-16.5% YoY) and operating loss of JPY464mn (versus a JPY925mn loss in Q4 FY02/19). Comparable-store sales continued on a downward trend, due in part to a warm winter, falling 11.6% YoY in December 2019, 9.4% in January 2020, and 6.1% in February. GPM was 45.4%, improving from 37.7% in

Q4 FY02/19, when the company recorded a large inventory valuation loss. SG&A expenses were JPY3.2bn (-12.2% YoY), but the SG&A-to-sales ratio was 53.2% versus 50.5% in FY02/19 due to the substantial sales decline.

Q3 FY02/20 results (out January 10, 2020)

Results summary

- In cumulative Q3 FY02/20, Chiyoda booked sales of JPY87.6bn (-2.9% YoY), operating profit of JPY384mn (-85.1% YoY), and a net loss of JPY188mn (net income of JPY1.3bn in Q3 FY02/19). The intense competitive environment led sales to fall in both the Shoes and Apparel businesses, which were also affected by poor weather. There are no signs that the decline is abating. As the first step in structural reform, both businesses are working to freshen up their in-store product lineups and are moving swiftly to reduce inventory as they book additional inventory valuation losses. The company revised down its FY02/20 earnings forecasts to sales of JPY113.8bn (-4.0% YoY), operating loss of JPY1.6bn (operating profit of JPY1.7bn in FY02/19), and a net loss of JPY2.5bn (net income of JPY1.6bn in FY02/19). The previous forecasts called for sales of JPY115.6bn, operating profit of JPY100mn, and a net loss of JPY1.2bn. In the face of tough short-term sales trends, the company has maintained its determination to freshen up its stores and is aggressively booking inventory valuation losses to lay the groundwork for improving its position. The annual dividend forecast remains unchanged, at JPY74.0 per share.
- Q3 (September–November): Sales were JPY27.7bn (-3.3% YoY), operating profit JPY102mn (-75.0% YoY), and net loss JPY28mn (net loss of JPY222mn in Q3 FY02/19).
- Shoe business (the mainstay of non-consolidated operations): Q3 sales of JPY21.5bn (-0.4% YoY), and operating profit of JPY429mn (-17.2% YoY). On a parent-only basis, comparable store sales rose 0.6% YoY (customer count up 2.9% and customer spend down 2.3%), and the store count as of end-Q3 was down 1.8% YoY to 1,040 stores. It seems that comparable store sales grew on aggressive price reductions to dispose of inventory as the company worked to rejuvenate its product lineup. The estimated GPM (calculated by removing the GPM for Mac-House from the consolidated figure) was down to 48.2% versus 49.2% in Q3 FY02/19. Estimated inventory (calculated in the same way) was down 1.5% YoY to JPY27.8bn. Although cumulative Q3 results were largely in line with its forecasts, the company revised down its full-year forecasts for parent. Comparable store sales in December were below expectations as they fell 10.1% YoY, and it plans to step up discount sales to clear out its slow-moving inventories. The revised full-year parent forecast is for sales of JPY88.2bn (-2.6% YoY, JPY88.8bn previously) and operating loss of JPY670mn (operating profit of JPY2.8bn in FY02/19; previous forecast was profit of JPY300mn).
- Apparel business: Subsidiary Mac-House (JASDAQ: 7603, 61.3% ownership stake) booked Q3 FY02/20 sales of JPY6.2bn (-12.2% YoY), and an operating loss of JPY358mn (JPY111mn loss in Q3 FY02/19). Seasonal products got off to a slow start amid poor weather and customer spend declined as the company disposed of slow-moving inventories. Comparable store sales fell 5.1% YoY (customer count down 1.3% and customer spend down 3.8%), and the store count as of end-Q3 was down 8.0% YoY to 382 stores. Mac-House is also currently in a transition period, and is taking initiatives to rebuild the corporate culture, reform products and store management, and revamp its store development strategy. As part of product reform efforts, Mac-House is working to quickly dispose of slow-moving inventories. These moves seem to be exerting downward pressure on the gross profit margin. Comparable store sales for Mac-House in December were down 11.6% YoY, and the company has new plans to reduce prices to get rid of slow-moving inventories, so revised its full-year forecasts to sales of JPY25.6bn (-8.6% YoY, JPY26.8bn previously), and an operating loss of JPY1.5bn (operating loss of JPY1.2bn in FY02/19; previous forecast, operating loss of JPY864mn).

Shoe business

In Q3, the parent company, which operates the shoe business, generated sales of JPY21.5bn (-0.4% YoY) and operating profit of JPY429mn (-17.2% YoY). These results were essentially in line with the company forecast. On a parent-only basis, comparable store sales rose 0.6% YoY (customer count up 2.9% YoY and customer spend down 2.3% YoY). Sales rose just 0.2% YoY in September, ahead of the consumption tax hike, so there was no significant last-minute demand, but October sales fell just 0.9% YoY despite the impact of a typhoon, so the reactionary falloff was also relatively small. November sales rose 2.7% YoY. At the end of Q3, there were 1,040 stores (-1.8% YoY). The company opened nine new stores within shopping centers and at other locations but also closed five mostly unprofitable stores. In terms of product line, children's shoes continued to generate higher sales YoY, helped by the addition of kids' spaces and an expanded lineup focused on private brand products. However, men's and women's shoes did not perform as well as children's shoes. Demand for sneakers is relatively robust, but it does not appear that the company is adequately capturing this demand.

The company is aggressively reducing prices to dispose of inventory in preparation for the addition of new products as it works to rejuvenate its product lineup, and it appears as if these discounts contributed to the increase in comparable store sales. However, the estimated GPM (calculated by subtracting Mac-House results from consolidated results) declined to 48.2% from 49.2% in Q3 FY02/19. Estimated gross profit (same calculation method) was JPY10.4bn (-2.5% YoY). Estimated SG&A expenses (same calculation method) were JPY9.9bn (2.0% YoY), so the SG&A-to-sale ratio was 46.0%, down from 46.8% in Q3 FY02/19.

Estimated Q3 inventory (same calculation method) was JPY27.8bn (-1.5% YoY). As of Q3, the company has yet to shrink its inventory adequately. Since July 2019, the company is working hard to rejuvenate its product lineup, and has been controlling its ordering to actively reduce its inventory. Considering the lead time between order placement and product delivery, it seems likely that genuine inventory reduction will occur in Q4 FY02/20 or Q1 FY02/21.

Although cumulative Q3 results were essentially in line with plan, December comparable store sales were below plan, falling 10.1% YoY (customer count down 6.5% and customer spend down 4.0%). In addition to external factors, such as the lack of snowfall in regions that typically get snow, consumers were not adequately made aware of the company's Christmas sale, leading to a YoY decline in customer count.

Apparel business

In Q3, subsidiary Mac-House (TSE: 7603, 61.3% share) generated sales of JPY6.2bn (-12.2% YoY) and operating loss of JPY358mn (operating loss of JPY111mn in Q3 FY02/19). Comparable store sales fell 5.1% YoY (customer count down 1.3% YoY and customer spend down 3.8%). With unusually warm weather in September and October, long-sleeve shirts sold poorly. September sales were down 10.1% YoY despite the approaching consumption tax hike, and October sales fell 8.0% due to the impact of a typhoon. Temperatures fell in November, giving sales, which rose 0.2% YoY, a boost. At the end of Q3, there were 382 stores (-8.0% YoY). The company opened six stores during Q3, four of which use the new NAVY format (mid-sized stores with a large range of national brands focused on denim, expanding coordination possibilities). It also closed five unprofitable stores in Q3.

Mac-House is currently in a transition period as it takes steps to rebuild its corporate culture, reform products and store management, and revamp its store development strategy. Its efforts to dispose of slow-moving inventory have led to a lower GPM. Q3 gross profit was JPY3.0bn (-17.2% YoY) and GPM was 48.2%, down from 51.1% in Q3 FY02/19. SG&A expenses were JPY3.4bn (-10.0% YoY). However, Q3 inventory was JPY6.0bn, down 33.8% YoY. It seems the liquidation of old products is steadily proceeding.

Based on its Q3 results and December results (comparable store sales fell 11.6% YoY) and the fact that it plans to continue discounts to clear slow-moving inventory, Mac-House made a downward revision to its full-year outlook. It now forecasts sales of JPY25.6bn (-8.6% YoY; previous forecast was JPY26.8bn) and operating loss of JPY1.5bn (operating loss of JPY1.2bn in FY02/19; previous forecast was operating loss of JPY864mn).

1H FY02/20 results (out October 11, 2019)

Results summary

- In 1H (Mar–August) FY02/20, Chiyoda booked sales of JPY59.8bn (-2.8% YoY), operating profit of JPY282mn (-87.0% YoY), and a net loss of JPY160mn (net income of JPY1.5bn in 1H FY02/19). The intense competitive environment led sales to fall in both the Shoes and Apparel businesses, and the gross profit margin decreased. Although the company actively worked to curb SG&A expenses, operating profit continued to fall. The company booked additional inventory valuation losses in the Shoe business as it worked to invigorate stores. It has revised downward its full-year forecast for FY02/20 to sales of JPY115.6bn (-2.5% YoY) and operating profit of JPY100mn (-94.0% YoY). (Initial forecast for FY02/20: sales of JPY118.3bn and operating profit of JPY3.3bn). The annual dividend forecast remains unchanged at JPY74.0 per share.
- Shoe business (the mainstay of non-consolidated operations): Sales of JPY46.5bn (-2.8% YoY), and operating profit of JPY814mnbn (-65.7% YoY). On a parent-only basis, comparable store sales fell 1.7% YoY (customer count down 1.7% YoY and customer spend flat YoY), and the store count as of end 1H was down 2.3% YoY to 1,036 stores. The company set up a kids' space and expanded the product line-up to attract more families. Sales of children's shoes were solid. Expanding its range of men's shoes that are lightweight, flexible, and easy to walk in, the company enhanced the development of the lightest-ever Hydro-Tech brand business shoes. However, the company aggressively wrote down inventories carried forward from the previous fiscal year in an effort to rejuvenate stores. The gross profit margin dropped, as the company posted a non-consolidated inventory valuation loss of JPY1.5bn, including JPY1.2bn in an additional valuation loss on slower-selling products. Although SG&A expenses continued to fall YoY, the decrease was insufficient to stem the drop in gross profit, and operating profit fell substantially. On a parent-only basis, the company lowered its full-year FY02/20 forecast to sales of JPY88.8bn and recurring profit of JPY1.5bn (initial forecast for FY02/20: sales of JPY91.5bn and recurring profit of JPY5.0bn). The company plans to actively dispose of inventory, and it expects to book an inventory valuation loss of approximately JPY700mn in 2H in relation to products lacking freshness. The company is beginning to conduct major reforms, as it believes its excessive store inventories are hindering its ability to create fresh sales areas.
- Apparel business: Subsidiary Mac-House (JASDAQ: 7603, 61.3% ownership stake) booked 1H FY02/20 sales of JPY13.4bn (-2.5% YoY), and an operating loss of JPY535mn (versus a JPY202mn loss in 1H FY02/19). These figures were slightly above the initial 1H forecasts for Mac-House (sales of JPY12.9bn and an operating loss of JPY635mn.) Comparable store sales fell 0.4% YoY (customer count up 5.7% YoY and customer spend down 5.7% YoY), and the store count as of end 1H was down 7.7% YoY to 381 stores. Mac-House is currently in a transition period, having embarked on initiatives to rebuild the corporate culture, reform products and store management, and revamp its store development strategy. As part of product reform efforts, Mac-House is working to quickly dispose of slow-moving inventories, while lowering prices to accelerate sales and keep from accumulating more of such inventory. The company expects the gross profit margin to fall as a result. Mac-House plans to slim its lineup to improve quality and make product offerings more consistent (i.e., target markets, price ranges, and fashion tastes) to avoid over-concentration in low-end products. Mac-House believes its reform efforts are generally progressing as planned. Its forecast for full-year FY02/20 is unchanged from the initial forecast (sales down 4.3% YoY to JPY26.8bn and operating loss of JPY864mn versus operating loss of JPY1.2bn in FY02/19).

Shoe business

In the shoe business, 1H FY02/20 sales were JPY46.5bn (-2.8% YoY) and operating profit was JPY814mn (-65.7% YoY). Parent company sales and operating profit, which form the main pillar of the shoe business, were JPY46.5bn (-2.8% YoY) and JPY348mn (-84.4% YoY), respectively. Gross profit margin at the parent company fell substantially to 43.9% from 46.8% in 1H FY02/19 due to changes in the company's inventory valuation rules. The company did manage to cut SG&A expenses by 0.4% YoY but the decline in gross profit margin was large, and operating profit fell significantly.

Comparable store sales at the parent company fell 1.7% YoY. Customer spend was flat YoY, while customer count declined by 1.7% YoY. As of end 1H, the store network included 1,036 stores (-2.4% YoY). During 1H, the company opened seven new stores, mainly in commercial buildings nearby terminal stations, and closed 18 primarily unprofitable stores.

By products, children's shoes sales grew by 5.5% YoY. This rise appears to be due to the company's efforts to strengthen its ability to draw more families by setting up kids' spaces. Meanwhile, the company recorded rougher sales from its mainstay men's shoes (-2.0% YoY), women's shoes (-4.4% YoY), brand sneakers (-3.3% YoY), and other sneakers (-6.2% YoY).

Gross profit margin declined sharply, but the details behind this drop make it clear that the company is headed toward reform. The parent company recorded inventory write-downs of JPY351mn in accordance with its previous rules. It also booked an additional valuation loss of JPY1.2bn. This additional booking conformed with the policy of newly appointed president and CEO Shoji Sawaki (appointed in April 2019), who is striving for reform by raising the freshness of the product lineup.

To describe this policy more concretely, the company previously recorded valuation losses for inventory with a predetermined number of days or longer in inventory as "low-turnover products". In 1H FY02/20, the company booked valuation losses for seasonal products at the end of their respective first seasons after they were launched and for year-round products with no annual record of procurement. With financial provisions, it appears as if the company will set bargain prices for these products at its stores in an effort to sell off excess inventory and raise the freshness of its stores' product lineups. Excluding the additional valuation losses, 1H gross profit margin was 46.4%, down 0.4pp YoY.

SG&A expenses at the parent company was JPY20.0bn (-0.4% YoY). Advertising/promotion spending increased, but SG&A expenses still declined due primarily to a decrease in rent on lower store count.

Apparel business

Subsidiary Mac-House booked 1H FY02/20 sales of JPY13.4bn (-2.5% YoY) and an operating loss of JPY535mn (versus a JPY202mn loss in 1H FY02/19). These figures were slightly above the initial 1H forecasts for Mac-House (sales of JPY12.9bn and an operating loss of JPY635mn) and indicate results were generally in accordance with the forecasts.

Comparable store sales fell 0.4% YoY (customer count up 5.7% YoY and customer spend down 5.7% YoY). Monthly comparable store sales had been trending downward since April 2018 but grew in May 2019 (+2.8% YoY) and subsequently rose again in both June (+3.5% YoY) and August (+13.6%), although they fell in July (-10.8% YoY). The decline in comparable store sales continues to slow down. Store count as of end 1H was down 7.7% YoY to 381 stores. During 1H, the company opened three stores in shopping centers and other facilities, while closing 20 mainly unprofitable stores. It also conducted renovations in 58 stores.

Since President and CEO Hisami Kitahara took office in March 2019, Mac-House has been in a transition period, embarking on initiatives to rebuild the corporate culture, reform products and store management, and revamp its store development strategy. As part of its product reform efforts, Mac-House is working to quickly dispose of excessive inventories, while appropriately lowering prices to accelerate sales and keep from accumulating more of such inventory. As a result, the gross profit margin at Mac-House in 1H declined to 47.3% (52.7% in 1H FY02/19). Meanwhile, inventories fell 33.8% YoY to JPY5.2bn, indicating ongoing progression toward a leaner, more flexible position.

Mac-House plans to slim down its lineup to improve quality and make product offerings more consistent (i.e., target markets, price ranges, and fashion tastes) to avoid over-concentration in low-end products. Concrete examples of related initiatives include making adjustments to merchandise categories (revising product lineups that are too focused on practical use), narrowing down product offerings, adjusting price points, improving merchandise quality, reducing production lead times, and rebuilding brands. Through these initiatives, the company aims to differentiate itself from the competition, adjust item prices, and increase customer spend.

News and topics

April 2020

On April 24, 2020, the company announced an upcoming change in representative director.

According to the plan, current managing director and head of sales, Tadao Sugiyama, will assume the position of representative director, president, and head of overall store operations effective May 21, 2020. The company aims to further strengthen its management framework with this change.

Mr. Sugiyama (born in 1952) joined Chiyoda in 1972. He became general manager of Kanto region sales in 2010, executive officer and general manager of Kanto region sales in 2012, director in 2013, managing director in 2018, and concurrently head of sales in 2019. In conjunction with this change, current representative director, president, and head of finance, Shoji Sawaki, will become senior managing director and head of finance.

October 2019

On October 11, 2019, the company announced earnings results for 1H FY02/20 and revised full-year forecasts.

Glossary

Community shopping center (CSC)
Medium-sized shopping center in a local area.

National Private Brand (NPB)
National brands for which Chiyoda holds sublicensed rights in the Japanese market and in some cases other countries. When developing products for NPBs the company generally has to obtain approval from the licensor. Royalties are paid to the licensor, and Chiyoda is permitted to create products for the Japanese market and other markets for which it has obtained sublicense rights.

Neighborhood shopping center (NSC)
Small shopping center built around a supermarket.

Outright purchase
Method of procuring goods with no right to return, so involves inventory risk. Other methods are consignment (returns possible) and another method where the procurement occurs at the time of sale.

Roadside
Refers to shops built along major roads with high traffic volumes, where vehicle access is the main method of gathering customers. It refers in particular to the roadside establishments in the suburbs.

Shop-in-shop
Refers to an independent shop located inside another shop in a shopping center etc.

SPA
Acronym for Specialty-store retailer of Private-label Apparel. In Japan, this specifically refers to apparel manufacturer-retailers with vertically integrated operations encompassing materials procurement, product planning, production, distribution, sales, promotion and inventory management. By integrating the supply chain, such retailers can respond rapidly to market trends.

Visual merchandising (VMD)
Appealing to consumers by not simply placing goods on shelves but displaying in a way to achieve a visual impact.

Company profile

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June 4, 1948	April 23, 1980
Website	**Financial Year-End**
https://www.chiyodagrp.co.jp/en/	February
IR Contact	**IR Web**
-	https://www.chiyodagrp.co.jp/ir/en_news.html

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FIELDS CORPORATION
Financial Products Group Co., Ltd.
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Fujita Kanko Inc.
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ipet Insurance CO., Ltd.
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JMDC Inc.
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Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
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Oki Electric Industry Co., Ltd
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