



COTA / 4923

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Research Coverage Report by Shared Research Inc.

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

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Executive summary

Business overview

- COTA develops, manufactures, and sells hair care products and quasi-drugs to salons and distributors. Its sales mainly consist of toiletries (such as shampoos and treatments) but also comprise hair styling, hair coloring, and perm products. The company also retails some of its mainstay products to consumers through salons. In FY03/20, the company reported sales of JPY7.5bn and operating profit of JPY1.5bn, with resulting OPM of 19.7% (GPM of 75.2%, SG&A-to-sales ratio of 55.5%). Sales have increased for 21 consecutive years (although profit fell in FY03/13 on higher depreciation stemming from capacity expansion) thanks to a unique business model: selling internally developed and manufactured products exclusively to salons (which subsequently sell them to consumers for home use in addition to using them in salon services) while providing free consulting services to improve salon management, thereby gaining member salons and boosting sales of its products as salon earnings rise. In FY03/20, toiletries accounted for 73.3% of sales, hair styling products 15.9%, hair coloring products 4.4%, hair growth agents 3.4%, perm products 1.6%, and other products 1.4%.
- In line with its founder's spirit, "modernizing the hair salon industry with salon management," COTA seeks to expand its operations in tandem with growth at salons. The company's products need to meet the performance demands of professional hair stylists and be of sufficient quality to ensure stylists feel confident in recommending them to their customers. COTA continues to develop products that meet this quality standard. Hair stylists are ideally positioned to recommend shampoos and treatments to their customers because they constantly listen to their hair-related concerns. They can also demonstrate products and take time to fully explain their characteristics. Such personal interaction can lead to retail sales, boosting salons' overall sales and profit (salons earn an estimated GPM of just above 30% on COTA product sales). The company contributes to the earnings growth of salons by supplying them with its products, which also has the effect of expanding its own earnings.
- The Junpo Salon System (literally, "10-day Reporting Salon System") has been another instrumental factor in increasing the number of salons carrying the company's products. Under the system, COTA offers salons free consulting to help them modernize management and increase earnings as long as they agree to exclusively carry the company's products (i.e., commit not to use rival products) and are eager to modernize their management. The total number of salons operating in Japan is estimated at roughly 248,000. With only a little over 1,600 salons having adopted the Junpo Salon System to date, there is ample room to expand member base. Sales to Junpo member salons (including via distributors) account for about 65% of COTA's total sales. The company is actively cultivating candidates to become Junpo member salons.

Earnings trends

- For FY03/20, the company reported full-year (non-consolidated) sales of JPY7.5bn (+6.7% YoY), operating profit of JPY1.5bn (+5.1% YoY), recurring profit of JPY1.5bn (+6.6% YoY), and net income of JPY1.0bn (+7.3% YoY). Sales and profit expanded for the 22nd and seventh consecutive year, respectively. Sales increased mainly for toiletries such as shampoos and treatments, and GPM also improved. The annual dividend for FY03/20 was JPY18 per share (payout ratio of 31.1%). On April 1, 2020, the company conducted a 1.1-for-1 stock split. The company has carried out stock split for the tenth straight year.
- Alongside the announcement of Q3 earnings, the company lifted its profit forecasts from those announced in May 2020. For FY03/21, the company now forecasts sales of JPY7.7bn (+2.5% YoY), operating profit of JPY1.5bn (+2.4% YoY), net income of JPY1.1bn (+4.5% YoY), and EPS of JPY54.95. The company lifted its forecasts in line with favorable results from the COTA National Salon Sales Competition held in Q3, the cost of sales ratio trending lower than it did in FY03/20 thanks to continued cost management reviews, and a reduction in sales-related expenses thanks to voluntary restraint in some of the company's sales activities. It forecasts an annual dividend of JPY18.0 per share. The company also targets a 1.1-for-1 stock split on March 31, 2021.
- COTA targets growth via its unique business model that combines a focus on salon retail sales of toiletries with "consulting-based sales," its characteristic practice of boosting sales by providing free consulting services to member salons through the Junpo Salon System. It is currently strengthening personnel training to achieve sustainable growth, and expects this to drive an increase in the number of Junpo member salons from around FY03/21.

Strengths and weaknesses

Shared Research understands COTA's strengths are: 1) its system to sell products at higher prices than generic toiletries via exclusive salons, 2) its initiative to capture and retain salons as customers by helping them expand earnings and modernize management, and 3) its business model that tends to lead to repeat orders. The company's weaknesses are 1) limited scope for accelerated growth in product sales (even for successful products) as exclusive sales through salons hampers rapid expansion in sales channels, 2) its lack of ability to capture and retain newly opening salons as its customers due to not-fully-developed brand recognition, and 3) an inability to actively pursue overseas expansion mainly due to the company's relatively low domestic market share while some rival companies consider overseas business expansion as the next growth driver and are already chasing first-mover advantages overseas (for details, see the Strengths and weaknesses section).

Key financial data

| Income statement (JPYmn) | FY03/12 | FY03/13 | FY03/14 | FY03/15 | FY03/16 | FY03/17 | FY03/18 | FY03/19 | FY03/20 | FY03/21 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|
| | Parent | Parent | Parent | Parent | Parent | Parent | Parent | Parent | Parent | Est. |
| Sales | 5,315 | 5,545 | 5,878 | 6,186 | 6,528 | 6,552 | 6,732 | 6,992 | 7,461 | 7,650 |
| YoY | 4.7% | 4.3% | 6.0% | 5.2% | 5.5% | 0.4% | 2.7% | 3.9% | 6.7% | 2.5% |
| Gross profit | 3,908 | 3,903 | 4,179 | 4,433 | 4,671 | 4,788 | 4,936 | 5,186 | 5,609 | - |
| YoY | 4.5% | -0.1% | 7.1% | 6.1% | 5.4% | 2.5% | 3.1% | 5.1% | 8.2% | - |
| Gross profit margin | 73.5% | 70.4% | 71.1% | 71.7% | 71.6% | 73.1% | 73.3% | 74.2% | 75.2% | - |
| SG&A expenses | 2,907 | 3,033 | 3,265 | 3,451 | 3,542 | 3,559 | 3,621 | 3,788 | 4,139 | - |
| YoY | 4.6% | 4.3% | 7.6% | 5.7% | 2.6% | 0.5% | 1.7% | 4.6% | 9.3% | - |
| SG&A ratio | 54.7% | 54.7% | 55.5% | 55.8% | 54.3% | 54.3% | 53.8% | 54.2% | 55.5% | - |
| Operating profit | 1,002 | 870 | 915 | 982 | 1,129 | 1,230 | 1,315 | 1,398 | 1,470 | 1,505 |
| YoY | 4.2% | -13.1% | 5.1% | 7.3% | 15.0% | 8.9% | 6.9% | 6.3% | 5.1% | 2.4% |
| Operating profit margin | 18.8% | 15.7% | 15.6% | 15.9% | 17.3% | 18.8% | 19.5% | 20.0% | 19.7% | 19.7% |
| Recurring profit | 994 | 881 | 895 | 960 | 1,130 | 1,233 | 1,339 | 1,400 | 1,492 | 1,573 |
| YoY | 3.8% | -11.4% | 1.6% | 7.3% | 17.8% | 9.1% | 8.6% | 4.6% | 6.6% | 5.4% |
| Recurring profit margin | 18.7% | 15.9% | 15.2% | 15.5% | 17.3% | 18.8% | 19.9% | 20.0% | 20.0% | 20.6% |
| Net income | 549 | 629 | 534 | 626 | 767 | 868 | 971 | 965 | 1,036 | 1,082 |
| YoY | 17.4% | 14.7% | -15.1% | 17.2% | 22.4% | 13.3% | 11.8% | -0.6% | 7.3% | 4.5% |
| Net margin | 10.3% | 11.3% | 9.1% | 10.1% | 11.7% | 13.3% | 14.4% | 13.8% | 13.9% | 14.1% |
| Per-share data (split-adjusted; mn shares, JPY) | | | | | | | | | | |
| Shares outstanding (ex. treasury shares; year-end) | 22.5 | 22.5 | 22.5 | 21.1 | 21.1 | 21.1 | 20.4 | 16.3 | 17.9 | - |
| EPS | 24.4 | 28.0 | 23.8 | 28.3 | 36.3 | 41.1 | 47.5 | 48.6 | 47.8 | 55.0 |
| EPS (fully diluted) | - | - | - | - | - | - | - | - | - | - |
| Dividend per share | 7.0 | 7.7 | 9.4 | 9.3 | 11.2 | 12.3 | 13.5 | 14.9 | 16.4 | 18.0 |
| Book value per share | 238 | 259 | 275 | 277 | 304 | 334 | 351 | 356 | 357 | - |
| Balance sheet (JPYmn) | | | | | | | | | | |
| Cash and cash equivalent | 1,670 | 1,892 | 2,407 | 2,226 | 3,139 | 3,663 | 4,016 | 4,043 | 5,030 | - |
| Total current assets | 3,472 | 3,731 | 4,383 | 4,285 | 5,167 | 5,763 | 5,958 | 6,115 | 7,230 | - |
| Tangible fixed assets | 3,341 | 3,163 | 2,969 | 2,756 | 2,591 | 2,488 | 2,492 | 2,410 | 2,308 | - |
| Investments and other assets | 414 | 299 | 362 | 472 | 470 | 610 | 715 | 731 | 715 | - |
| Intangible fixed assets | 111 | 84 | 63 | 44 | 111 | 248 | 198 | 145 | 104 | - |
| Total assets | 7,338 | 7,277 | 7,777 | 7,557 | 8,338 | 9,109 | 9,364 | 9,402 | 10,356 | - |
| Short-term debt | - | - | - | - | - | - | - | - | - | - |
| Current liabilities | 1,566 | 1,000 | 1,080 | 1,157 | 1,320 | 1,382 | 1,394 | 1,563 | 1,654 | - |
| Long-term debt | - | - | - | - | - | - | - | - | - | - |
| Fixed liabilities | 417 | 452 | 512 | 541 | 596 | 679 | 826 | 830 | 958 | - |
| Total liabilities | 1,983 | 1,452 | 1,592 | 1,699 | 1,916 | 2,060 | 2,220 | 2,393 | 2,612 | - |
| Shareholders' equity | 5,353 | 5,824 | 6,185 | 5,857 | 6,421 | 7,048 | 7,144 | 7,008 | 7,743 | - |
| Total net assets | 5,355 | 5,825 | 6,185 | 5,858 | 6,422 | 7,049 | 7,145 | 7,009 | 7,744 | - |
| Total interest-bearing debt | - | - | - | - | - | - | - | - | - | - |
| Cash flow statement (JPYmn) | | | | | | | | | | |
| Cash flows from operating activities | 632 | 1,032 | 890 | 950 | 1,197 | 1,227 | 1,328 | 1,202 | 1,301 | - |
| Cash flows from investing activities | -827 | -652 | -202 | -108 | -1,582 | -662 | -449 | -75 | -564 | - |
| Cash flows from financing activities | -143 | -158 | -174 | -1,024 | -203 | -241 | -875 | -1,100 | -300 | - |
| Financial ratio | | | | | | | | | | |
| ROA (RP-based) | 14.7% | 12.1% | 11.9% | 12.5% | 14.2% | 14.1% | 14.5% | 14.9% | 15.1% | - |
| ROE | 10.7% | 11.3% | 8.9% | 10.4% | 12.5% | 12.9% | 13.7% | 13.6% | 14.0% | - |
| Equity ratio | 72.9% | 80.0% | 79.5% | 77.5% | 77.0% | 77.4% | 76.3% | 74.5% | 74.8% | - |

Source: Shared Research based on company data; per-share data are adjusted for stock splits

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

Note: The company performed 1.1-for-1 stock splits on April 1, 2011, April 1, 2012, April 1, 2013, and April 1, 2014, a 1.2-for-1 stock split on April 1, 2015, and 1.1-for-1 stock splits on April 1, 2016, April 1, 2017, April 1, 2018, April 1, 2019, and April 1, 2020.

Recent updates

Highlights

On February 24, 2021, COTA Co., Ltd. announced: 1) conditions for the planned acquisition of its own treasury shares through a public tender offer; and 2) conditions for the issuance of stock acquisition rights (warrants).

COTA revealed terms and conditions in regard to the planned acquisition of its own shares, which was initially announced on February 18, 2021, through a public tender offer. The purchase price will be JPY1,263 per share after factoring in dividends and ex-rights in line with the stock split, with the offering period from February 25, 2021 to March 24, 2021. The settlement start date is April 15, 2021. The purchase will be limited to a maximum of 750,000 shares, with a total acquisition price estimated at JPY947mn. Leading shareholder Eiwa Shoji is expected to sell 660,000 of its shares, with COTA offering other shareholders similar terms for the sale of their shares.

The company also revealed conditions for the issuance of stock acquisition rights (warrants) via a private placement using its own shares, which was initially announced on February 18, 2021. Management set an initial exercise price of JPY1,670 and a minimum exercise price of JPY1,389. The minimum exercise price following the planned stock split at the end of March 2021 is JPY1,263, equal to the purchase price in the announced acquisition of the company's own shares. Management set the minimum exercise price at a level designed to avoid putting existing shareholders at a disadvantage. The warrants are set to be allotted on March 25, 2021.

On the same day, Shared Research updated the report following interviews with the company.

On February 18, 2021, the company announced plans for share buybacks; plans for issuing warrants via a private placement; the launch of a new product; and the presentation of its research into new hair growth agent at an academic conference.

1) Share buybacks

The company announced that it would be making share buybacks of up to 750,000 shares or JPY950mn worth of its common stock between February 25 and April 30, 2021. The company has not yet decided exactly how it will execute the buybacks, but is tentatively considering making a public tender offer, in which case the offering price would be set at a slight discount to the market price. The company plans to make its final determination concerning its offering price and other conditions at its Board of Directors meeting scheduled to be held on one of the dates between February 24 and February 26. As of February 18, 2021, it had 19,687,931 shares of its common stock outstanding, and held 2,806,888 shares as treasury stock.

Providing background to its share buyback plans, the company said that it had been notified by its largest shareholder, Eiwa Shoji Co., Ltd., that it wanted to sell 660,000 shares out of its current holdings of 2,394,672 shares (representing a 12.16% stake in COTA). Acting in response to this request, the company took into consideration the market liquidity resulting from the sale of a certain number of company shares in a single transaction and the accompanying impact on the price of COTA shares, and decided to open the door for sales by other shareholders who might want to reduce their holdings. In this relation, since the company's representative director and president, Hiroteru Oda, is also the largest shareholder and representative director of Eiwa Shoji, he is an interested party to this transaction and therefore has not been a participant in the either the discussion of or the final vote on the share buyback proposal passed by the Board of Directors.

2) Warrant issue via a private placement with the shares to be issued upon exercise of the warrants to come out of treasury stock holdings

The company's warrant issuing plans call for the issuance of 6,600 warrants (exercisable into 660,000 shares). Under the terms of the issue, to be made via a private placement, the exercise price is adjustable and the exercise of the warrants is subject to the permission of the issuer. The total amount raised by the warrant issue will be JPY2,831,400. The initial exercise price of the

warrants will be set at JPY1,670 (versus the shares' closing price of JPY1,646 on February 18, 2021). Subsequently, the adjusted exercise price will be set at a price equal to 91% of the closing price of the common shares on the trading day immediately prior to the day the request for permission to exercise the warrants is submitted, though cannot be set lower than the minimum exercise price specified in the issuing agreement. With the aim of preventing the exercise of warrants on terms unfavorable to existing shareholders, the minimum exercise price will be fixed at the price at which the company is able to buy back shares from existing shareholders under the share buyback plans discussed above.

The warrant issue will be placed with Morgan Stanley MUFG Securities, which will then be able to exercise the warrants only after submitting a written request for permission to exercise a specific number of the warrants and receiving written permission from COTA in return. In this manner, COTA will be able to control the pace at which new equity funding is coming in unless its share price exceeds a certain specified level; the downside of this arrangement is COTA will not be able to raise any funds from the exercise of the warrants in the event its stock price falls below the minimum exercise price. Through this provision, COTA will be able to prevent the rapid dilution of its shareholders interest within a short period of time and sudden demand–supply imbalances for its shares in the stock market.

Assuming the warrants are all exercised at the initial exercise price, COTA will raise JPY1,098mn, with JPY1,000mn of this slated to be used to fund construction of a new R&D facility and the remainder (JPY98mn) going toward the purchase of R&D equipment.

3) Launch of a new product, COTA COUTURE

The company announced that it would be rolling out a new product on May 13, 2021. Dubbed COTA COUTURE, the new product was developed based on the company's patented shampoo formulation (Patent No. 6786744, granted October 30, 2020) that allows the user to get a rich, full-bodied form and a hair that better maintains its color. Like all other salon-use products the company sells, the new product will be sold directly to salons and through authorized distributors for use in salons only, and will not be found at supermarkets, drugstores, or other retailers for sale to the general consumer. The company is looking for COTA COUTURE to generate sales of JPY1.6bn in FY03/22, though along with this also expects some decline in sales of existing products that are similar.

4) Presentation of research into new hair growth agent at an academic conference

The company issued a press release summarizing the presentation of its research into new hair growth agent at the 59th annual conference of the Japan Oil Chemists' Society held November 2–7, 2020. The paper presented at the conference outlined its joint-research with Saitama Institute of Technology into effective transport systems for hair growth agents onto the dermal papilla. Entitled *Discovery of Hair Growth Agent through Use of Minute Magnetite Particles*, the paper presented at the conference detailed its findings that minute particles of magnetite (tiny particles of black iron oxide that are safe for humans) that are reduced to nanoparticles using specialized technology are effective in restoring new hair growth when covered with hair growth agents and phospholipids, and applied to the surface of the derma papilla. The company has already applied for a patent to cover this technology and plans to continue working on different ways to apply this technology in its development of hair growth agents going forward.

On February 8, 2021, the company announced earnings results for Q3 FY03/21; see the results section for details.

On the same day, the company announced that it had decided to file a criminal complaint with the Kyoto Prefectural Police Uji Police Station in regard to misconduct by a former auditor. The company acknowledged that the misconduct of the former auditor, which it had announced on January 26, 2021, represented a serious breach of trust with its shareholders. COTA also decided that judgement in the matter should rest not with the company, but rather with the public authorities, namely the police, prosecutors, and courts. Compensation from the individual is being pursued through a separate civil complaint.

On January 26, 2021, the company announced the discovery of fraudulent activities conducted by a former auditor and a change to the scheduled date of its Q3 FY03/21 earnings release date.

An internal investigation revealed that a former corporate auditor misappropriated approximately JPY5.7mn for private use over the period spanning from June 2011 through January 2021. The auditor resigned on January 25 and will return the entire sum of misappropriated funds. Moving forward, the company will formulate recurrence prevention measures and strive to enhance its corporate governance. COTA anticipates that the uncovering of this misallocation will have an upward impact on profit in Q3 FY03/21 due to reversals of associated travel expenses and provisions for retirement benefits for directors totaling approximately JPY34mn.

In accordance with this discovery, the company has postponed its announcement of Q3 FY03/21 financial results from January 28, 2021 to early February. This change will give the company time to recalculate financial results for Q3 FY03/21.

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

Trends and outlook

Quarterly trends and results

| Cumulative (JPYmm) | FY03/19 | | | | FY03/20 | | | | FY03/21 | | | FY03/21 | |
|-------------------------|---------|-------|-------|-------|---------|-------|-------|-------|---------|--------|-------|-----------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | % of Est. | FY Est. |
| Sales | 1,189 | 2,706 | 5,444 | 6,992 | 1,388 | 3,178 | 5,958 | 7,461 | 1,204 | 3,020 | 6,155 | 80.5% | 7,650 |
| YoY | 4.6% | 4.4% | 5.2% | 3.9% | 16.8% | 17.4% | 9.4% | 6.7% | -13.3% | -5.0% | 3.3% | - | 2.5% |
| Gross profit | 891 | 2,005 | 4,067 | 5,186 | 1,062 | 2,389 | 4,503 | 5,609 | 920 | 2,278 | 4,676 | - | - |
| YoY | 4.8% | 5.5% | 6.3% | 5.1% | 19.2% | 19.1% | 10.7% | 8.2% | -13.3% | -4.6% | 3.8% | - | - |
| Gross profit margin | 75.0% | 74.1% | 74.7% | 74.2% | 76.5% | 75.2% | 75.6% | 75.2% | 76.4% | 75.4% | 76.0% | - | - |
| SG&A expenses | 826 | 1,708 | 2,791 | 3,788 | 952 | 1,951 | 3,108 | 4,139 | 935 | 1,949 | 3,135 | - | - |
| YoY | 4.7% | 5.7% | 4.3% | 4.6% | 15.3% | 14.2% | 11.4% | 9.3% | -1.7% | -0.1% | 0.9% | - | - |
| SG&A ratio | 69.5% | 63.1% | 51.3% | 54.2% | 68.6% | 61.4% | 52.2% | 55.5% | 77.7% | 64.5% | 50.9% | - | - |
| Operating profit | 65 | 297 | 1,276 | 1,398 | 110 | 438 | 1,396 | 1,470 | -15 | 329 | 1,541 | 102.4% | 1,505 |
| YoY | 5.9% | 4.5% | 11.1% | 6.3% | 68.7% | 47.3% | 9.4% | 5.1% | - | -24.9% | 10.4% | - | 2.4% |
| Operating profit margin | 5.5% | 11.0% | 23.4% | 20.0% | 7.9% | 13.8% | 23.4% | 19.7% | -1.3% | 10.9% | 25.0% | - | 19.7% |
| Recurring profit | 48 | 286 | 1,271 | 1,400 | 116 | 450 | 1,412 | 1,492 | -10 | 340 | 1,559 | 99.1% | 1,573 |
| YoY | -28.1% | -3.1% | 9.0% | 4.6% | 139.3% | 57.3% | 11.2% | 6.6% | - | -24.3% | 10.4% | - | 5.4% |
| Recurring profit margin | 4.1% | 10.6% | 23.3% | 20.0% | 8.4% | 14.2% | 23.7% | 20.0% | -0.8% | 11.3% | 25.3% | - | 20.6% |
| Net income | 27 | 207 | 908 | 965 | 75 | 314 | 983 | 1,036 | -11 | 235 | 1,082 | 100.0% | 1,082 |
| YoY | -39.0% | -3.5% | 10.5% | -0.6% | 177.8% | 51.6% | 8.4% | 7.3% | - | -25.2% | 10.0% | - | 4.5% |
| Net margin | 2.3% | 7.7% | 16.7% | 13.8% | 5.4% | 9.9% | 16.5% | 13.9% | -0.9% | 7.8% | 17.6% | - | 14.1% |

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

| By product Quarterly (JPYmm) | FY03/19 | | | | FY03/20 | | | | FY03/21 | | | FY03/21 | |
|---------------------------------|---------|--------|-------|--------|---------|-------|--------|--------|---------|--------|-------|-----------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | % of Est. | FY Est. |
| Total sales | 1,189 | 1,518 | 2,738 | 1,548 | 1,388 | 1,790 | 2,781 | 1,503 | 1,204 | 1,816 | 3,135 | 80.5% | 7,650 |
| YoY | 4.6% | 4.2% | 6.0% | -0.4% | 16.8% | 17.9% | 1.6% | -2.9% | -13.3% | 1.5% | 12.7% | - | - |
| Toiletries | 788 | 1,095 | 2,005 | 1,037 | 1,016 | 1,335 | 2,054 | 1,066 | 871 | 1,310 | 2,291 | - | - |
| YoY | 5.2% | 6.0% | 8.2% | -1.3% | 28.9% | 21.9% | 2.4% | 2.8% | -14.3% | -1.9% | 11.5% | - | - |
| % of total sales | 66.4% | 72.2% | 73.3% | 66.9% | 73.4% | 74.5% | 73.9% | 70.9% | 72.5% | 72.1% | 73.1% | - | - |
| Hair Styling | 206 | 230 | 464 | 289 | 202 | 257 | 480 | 244 | 196 | 316 | 583 | - | - |
| YoY | -4.6% | 9.0% | -1.7% | 4.0% | -1.9% | 11.7% | 3.4% | -15.6% | -3.0% | 23.0% | 21.5% | - | - |
| % of total sales | 17.4% | 15.2% | 17.0% | 18.6% | 14.6% | 14.3% | 17.3% | 16.2% | 16.3% | 17.4% | 18.6% | - | - |
| Hair Coloring | 81 | 86 | 98 | 118 | 61 | 85 | 81 | 100 | 54 | 83 | 83 | - | - |
| YoY | 19.1% | -20.4% | 0.0% | 8.3% | -24.7% | -1.2% | -17.3% | -15.3% | -11.5% | -2.4% | 2.5% | - | - |
| % of total sales | 6.8% | 5.7% | 3.6% | 7.6% | 4.4% | 4.7% | 2.9% | 6.7% | 4.5% | 4.6% | 2.6% | - | - |
| Hair Growing Agents | 45 | 55 | 114 | 51 | 43 | 52 | 112 | 46 | 43 | 59 | 125 | - | - |
| YoY | 2.3% | 0.0% | 3.6% | 2.0% | -4.4% | -5.5% | -1.8% | -9.8% | 0.0% | 13.5% | 11.6% | - | - |
| % of total sales | 3.8% | 3.6% | 4.2% | 3.3% | 3.1% | 2.9% | 4.0% | 3.1% | 3.6% | 3.2% | 4.0% | - | - |
| Perm | 31 | 28 | 34 | 36 | 26 | 35 | 30 | 32 | 21 | 31 | 29 | - | - |
| YoY | 24.0% | 12.0% | 21.4% | -25.0% | -16.1% | 25.0% | -11.8% | -11.1% | -19.2% | -11.4% | -3.3% | - | - |
| % of total sales | 2.6% | 1.8% | 1.2% | 2.3% | 1.9% | 2.0% | 1.1% | 2.1% | 1.7% | 1.7% | 0.9% | - | - |
| SUM: product sales | 1,151 | 1,494 | 2,715 | 1,532 | 1,348 | 1,764 | 2,757 | 1,488 | 1,203 | 1,781 | 3,111 | - | - |
| YoY | 4.4% | 4.3% | 6.0% | -0.3% | 17.1% | 18.1% | 1.5% | -2.9% | -10.8% | 1.0% | 12.8% | - | - |
| % of total sales | 97.0% | 98.5% | 99.2% | 98.8% | 97.4% | 98.5% | 99.2% | 99.0% | 100.2% | 98.0% | 99.3% | - | - |
| Other | 35 | 23 | 22 | 19 | 36 | 27 | 23 | 15 | 16 | 18 | 22 | - | - |
| YoY | 9.4% | -8.0% | 0.0% | -5.0% | 2.9% | 17.4% | 4.5% | -21.1% | -55.6% | -33.3% | -4.3% | - | - |
| % of total sales | 3.0% | 1.5% | 0.8% | 1.2% | 2.6% | 1.5% | 0.8% | 1.0% | 1.3% | 1.0% | 0.7% | - | - |
| Adjustments | 3 | 1 | 1 | -2 | 4 | -1 | 1 | -0 | 3 | -1 | 2 | - | - |

Source: Shared Research based on company data

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

Seasonality: The company's earnings tend to be skewed toward Q3 (October–December). November–December is typically the peak season for the hair salon industry as Christmas and year-end demand drives up customer traffic. The company strategically holds its COTA National Salon Sales Competition for partner salons in this period. The competition provides incentives to boost salon retail sales during this period (including awards given to salons with outstanding sales performance). As a result of these factors, Q3 sales tend to rise above those of other quarters.

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

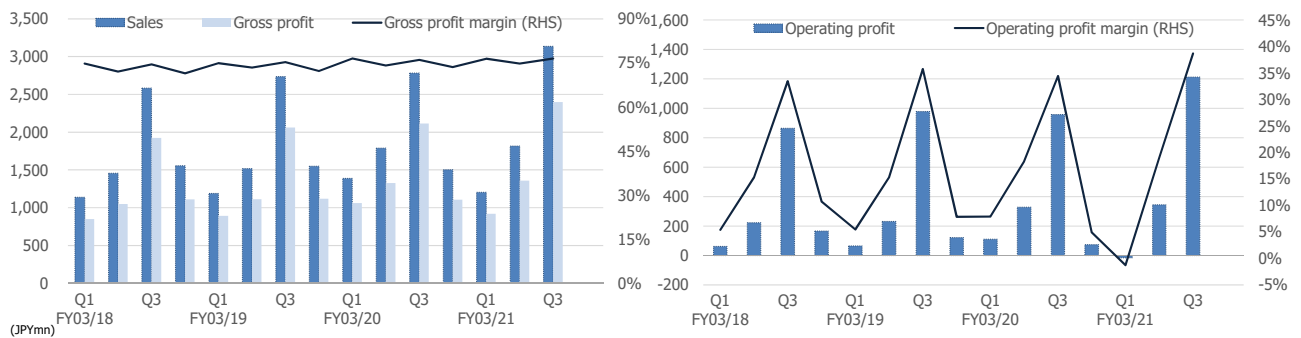
Summary

For cumulative Q3 FY03/21, the company reported sales of JPY6.2bn (+3.3% YoY), an operating profit of JPY1.5bn (+10.4% YoY), a recurring profit of JPY1.6bn (+10.4% YoY), and net income of JPY1.1bn (+10.0% YoY). Q1 included the period covered by the Japanese government's state of emergency declaration, and the beauty salons that handle the company's products shortened operating hours or temporarily closed and also saw customer traffic drop sharply during the period. However, customer traffic recovered to previous-year levels following the lifting of the state of emergency declaration and the company in Q3 (the busy season) saw firm sales, particularly for COTA i CARE, a core product within its in-store sales strategy.

Q3 trends

In Q3, sales were JPY3.1bn (+12.7% YoY), operating profit was JPY1.2bn (+26.6% YoY), and net income was JPY847mn (+26.5% YoY). The COTA National Salon Sales Competition, which is held every year during the busy November–December period, produced strong sales, while new customer development also contributed.

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



Source: Shared Research based on company data

Sales during the 2020 COTA National Salon Sales Competition (sales via salons) totaled JPY3.4bn (+8.6% YoY), surpassing the company's target of JPY3.2bn. When the government declared a state of emergency in April 2020, the number of customers visiting salons fell sharply, creating a heightened sense of crisis among salon operators. However, there were some customers who still visited salons just to purchase toiletry products despite refraining from getting haircuts. Selling products in salons not only adds to salon sales in normal times, but serves as an incentive to customers to visit salons even during extraordinary times such as the pandemic. Many salon operators therefore have a renewed awareness of the importance of selling such products.

The number of salons participating in the competition grew to 2,145 (+4.0% YoY). Starting in September, salons sent out direct mail encouraging customers to make reservations for a visit during the contest period (the direct mail included notification of a 10% discount on products sold during the period). In some cases, the company provided store staff with lectures on how to propose retail sales. In part because the competition was held under the heightened sense of crisis triggered by the pandemic, salons made progress on capturing new customers for retail sales, and they were able to get existing customers to move to larger sizes of products, causing growth in sales per salon.

By product category, the company reported Q3 toiletry product sales of JPY2.3bn (+11.5% YoY), hair styling product sales of JPY583mn (+21.5% YoY), hair coloring product sales of JPY83mn (+2.5% YoY), hair growing agent sales of JPY125mn (+11.6% YoY), perm products sales of JPY29mn (-3.3% YoY), and other product sales of JPY22mn (-4.3% YoY). Among toiletries that account for a large share of total sales, sales of mainstay COTA i CARE shampoos and treatments were robust. The company also says COTA Styling Base B7 Air, its new hair styling product launched in September 2020, has been selling well at salons.

The Q3 gross profit margin of 76.5% was up from 76.0% in Q3 FY03/20. The company's ongoing reviews of cost of sales management, including better production planning based on more accurate sales forecasts, and efforts to improve production processes, contributed to improvement in margins, as did a higher ratio of sales from highly profitable toiletry and hair styling

products. SG&A expenses were JPY1.2bn (+2.5% YoY); personnel-related costs continued to rise on an increase in employees, but sales-related costs have been kept under control. As a result, OPM improved to 38.7% from 34.4% in Q3 FY03/20.

Upward revision of company forecast

While maintaining its FY03/21 sales projection of JPY7.7bn, the company upwardly revised its profit projections from those announced in May 2020, lifting its target for operating profit from JPY1.2bn to JPY1.5bn (+2.4% YoY) and its target for net income from JPY855mn to JPY 1.1bn (+4.5% YoY). The company upwardly revised these forecasts in line with favorable results from the COTA National Salon Sales Competition held in Q3, the cost of sales ratio trending lower than it did in FY03/20 thanks to ongoing cost management reviews, and a reduction in sales-related expenses thanks to voluntary restraint in some of the company's sales activities. Subtracting cumulative Q3 results from the company's full-year forecasts yields Q4 forecasts of JPY1.5b (-0.5% YoY) for sales, JPY36mn in operating losses (versus operating profit of JPY74mn in Q4 FY03/20), and net earnings at the breakeven point (versus net income of JPY52mn in Q4 FY03/20). The company has not recorded an operating loss in Q4 once in the past five years. It continues to forecast an annual dividend of JPY18.0 per share, representing a 32.8% payout ratio based on the latest forecast. Alongside the release of Q3 results, the company also announced plans to enact a 1.1-for-1 stock split on March 31, 2021.

For details on previous quarterly and annual results, please refer to the Historical financial statements section.

Full-year FY03/21 company forecast

| (JPYmn) | FY03/20 | | | FY03/21 | | | FY03/21 Initial Est. | | |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------------|--------------|--------------|
| | 1H | 2H | FY | 1H Act. | 2H Est. | FY Est. | 1H Act. | 2H Est. | FY Est. |
| Sales | 3,178 | 4,283 | 7,461 | 3,020 | 4,630 | 7,650 | 3,020 | 4,630 | 7,650 |
| YoY | 17.4% | -0.1% | 6.7% | -5.0% | 8.1% | 2.5% | -5.0% | 8.1% | 2.5% |
| Cost of sales | 789 | 1,063 | 1,852 | 742 | - | - | 742 | 1,193 | 1,935 |
| Gross profit | 2,389 | 3,220 | 5,609 | 2,278 | - | - | 2,278 | 3,437 | 5,715 |
| YoY | 19.1% | 1.3% | 8.2% | -4.6% | - | - | -4.6% | 6.7% | 1.9% |
| Gross profit margin | 75.2% | 75.2% | 75.2% | 75.4% | - | 0.0% | 75.4% | 74.2% | 74.7% |
| SG&A expenses | 1,951 | 2,189 | 4,139 | 1,949 | - | - | 1,949 | 2,531 | 4,480 |
| YoY | 14.2% | 5.2% | 9.3% | -0.1% | - | - | -0.1% | 15.6% | 8.2% |
| SG&A ratio | 61.4% | 51.1% | 55.5% | 64.5% | - | 0.0% | 64.5% | 54.7% | 58.6% |
| Operating profit | 438 | 1,032 | 1,470 | 329 | 1,176 | 1,505 | 329 | 906 | 1,235 |
| YoY | 47.3% | -6.3% | 5.1% | -24.9% | 14.0% | 2.4% | -24.9% | -12.2% | -16.0% |
| Operating profit margin | 13.8% | 24.1% | 19.7% | 10.9% | 25.4% | 19.7% | 10.9% | 19.6% | 16.1% |
| Recurring profit | 450 | 1,042 | 1,492 | 340 | 1,233 | 1,573 | 340 | 916 | 1,256 |
| YoY | 57.3% | -6.4% | 6.6% | -24.3% | 18.3% | 5.4% | -24.3% | -12.1% | -15.8% |
| Recurring profit margin | 14.2% | 24.3% | 20.0% | 11.3% | 26.6% | 20.6% | 11.3% | 19.8% | 16.4% |
| Net income | 314 | 722 | 1,036 | 235 | 847 | 1,082 | 235 | 620 | 855 |
| YoY | 51.6% | -4.8% | 7.3% | -25.2% | 17.4% | 4.5% | -25.2% | -14.1% | -17.4% |
| Net margin | 9.9% | 16.8% | 13.9% | 7.8% | 18.3% | 14.1% | 7.8% | 13.4% | 11.2% |

Source: Shared Research based on company data

When it announced its Q3 earnings results, COTA made an upward revision to its profit projections versus its initial forecast announced in May 2020. The revised FY03/21 forecast calls for sales of JPY7.7bn (+2.5% YoY), operating profit of JPY1.5bn (+2.4% YoY), net income of JPY1.1bn (+4.5% YoY), and earnings per share of JPY54.95. The company expects its business model that combines consulting-based sales through the Junpo Salon System with a salon retail sales strategy centered on toiletries to deliver sales growth for the 23rd straight fiscal year and operating profit for the eighth straight fiscal year.

The initial forecast had called for sales of JPY7.7bn, operating profit of JPY1.2bn, and net income of JPY855mn. The business environment was negatively impacted in Q1 due to the government's state of emergency declaration in April 2020, which caused the customer count at Junpo member salons, to which the company provides management improvement support, to fall nearly 20% YoY in Q1. However, sales of mainstay product COTA i CARE (accounting for about 70% of toiletry sales) rose YoY, helping to keep the company's overall sales solid. Although many consumers were avoiding having their hair cut at salons to escape possible infection, many still visited Junpo member salons to purchase the shampoos, treatments, and other products they need at home.

From Q2 onward, the number of customers visiting Junpo member salons recovered to about year-earlier levels, and COTA's sales returned to a stable growth trajectory. Q2 sales were up 1.5% YoY. Sales were fairly high in Q2 FY03/20 on a rush of demand ahead of the consumption tax increase in October 2019, but the launch of COTA Styling Base B7 Air (JPY3,850 for 60ml) in September 2020 boosted sales even higher in Q2 FY03/21.

Q3 is typically the company's peak season, and the COTA National Salon Sales Competition, where Junpo member salons compete to sell the company's products, held during this time produced good results. This was presumably due in part to a strong sense of crisis among salon operators in the face of the COVID-19 pandemic. Most salons had experienced a drop in customer count following the government's declaration of a state of emergency in April 2020. It seems that there was renewed awareness that selling shampoos and treatments in salons not only adds to salon sales in normal times, but serves as an incentive to customers to visit salons even during extraordinary times such as the pandemic. As a result, Q3 sales rose a substantial 12.7% YoY (although the YoY difference is partly due to a drop in sales in Q3 FY03/20 following the consumption tax hike).

Even as sales have remained robust, GPM outpaced the company's initial plan, which called for FY03/21 GPM of 74.7%, down slightly from the 75.2% achieved in FY03/20. In fact, GPM for cumulative Q3 FY03/21 reached 76.0% (+0.4pp YoY). The company's ongoing reviews of cost of sales management (better production planning based on more accurate sales forecasts, efforts to improve production processes, and other measures) contributed to this improvement, along with robust sales of high-margin toiletry and hair styling products.

In addition, COTA expects SG&A expenses to end lower than its initial plan because, although personnel costs are rising YoY on an increase in employee count, and logistics costs are rising with increased sales, the company has refrained from some sales activities in order to prevent COVID-19 infections.

Despite the company's upward revision of its FY03/21 full-year forecast at the time of the Q3 results announcement, Shared Research still views the forecast as cautious. Subtracting cumulative Q3 results from the full-year forecast indicates that the company projects lower sales and profit YoY in Q4, with sales of JPY1.5bn (-0.5% YoY), operating loss of JPY36mn (versus operating profit of JPY74mn in Q4 FY03/20), and net income/loss at the breakeven point (versus net income of JPY52mn in Q4 FY03/20). From end-2020 the COVID-19 outbreak began to worsen again, and the government once again declared a state of emergency in January 2021, so Shared Research believes the cautious forecast is due to a renewed sense of uncertainty. However, COTA has not suffered a Q4 operating loss in any of the last five years.

The company forecasts an annual dividend of JPY18.0 per share, representing a 32.8% payout ratio based on the latest forecast. Alongside the release of Q3 results, the company also announced plans to enact a 1.1-for-1 stock split on March 31, 2021.

The company plans capital investment of about JPY905mn in FY03/21, a substantial increase from the JPY60mn it spent in FY03/20. Plans include acquisition of land near its head office for construction of R&D facilities (about JPY200mn for land; the R&D Division is currently located within the head office building; construction of the new facilities should be completed around May 2022 at a total cost of about JPY1.1bn), capital investment associated with the relocation of its Tokyo and Nagoya branches, and additional production facilities. Expanding the total floor space available will make it easier for the company to invite customers (salon employees) for training sessions, and relocating to locations closer to downtown areas will facilitate sales activities. The company expects relocation of the Tokyo branch to cost about JPY300mn, with another JPY220mn to relocate the Nagoya branch. It forecasts JPY204mn in depreciation expenses during FY03/21.

| Performance by product (JPYmn) | FY03/12 Parent | FY03/13 Parent | FY03/14 Parent | FY03/15 Parent | FY03/16 Parent | FY03/17 Parent | FY03/18 Parent | FY03/19 Parent | FY03/20 Parent | FY03/21 Est. |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|
| Total sales | 5,315 | 5,545 | 5,878 | 6,186 | 6,528 | 6,552 | 6,732 | 6,992 | 7,461 | 7,650 |
| YoY | 4.7% | 4.3% | 6.0% | 5.2% | 5.5% | 0.4% | 2.7% | 3.9% | 6.7% | 2.5% |
| Toiletries | 3,355 | 3,541 | 3,909 | 4,030 | 4,439 | 4,512 | 4,686 | 4,925 | 5,471 | 5,600 |
| YoY | 12.7% | 5.5% | 10.4% | 3.1% | 10.2% | 1.6% | 3.9% | 5.1% | 11.1% | 2.4% |
| % of total sales | 63.1% | 63.9% | 66.5% | 65.1% | 68.0% | 68.9% | 69.6% | 70.4% | 73.3% | 73.2% |
| Hair Styling | 944 | 986 | 938 | 1,256 | 1,129 | 1,214 | 1,177 | 1,189 | 1,183 | 1,240 |
| YoY | -7.3% | 4.4% | -4.9% | 34.0% | -10.1% | 7.5% | -3.0% | 1.0% | -0.5% | 4.8% |
| % of total sales | 17.8% | 17.8% | 16.0% | 20.3% | 17.3% | 18.5% | 17.5% | 17.0% | 15.9% | 16.2% |
| Hair Coloring | 484 | 481 | 459 | 375 | 484 | 355 | 383 | 383 | 327 | 340 |
| YoY | -9.2% | -0.7% | -4.4% | -18.3% | 29.0% | -26.7% | 7.9% | 0.0% | -14.6% | 4.0% |
| % of total sales | 9.1% | 8.7% | 7.8% | 6.1% | 7.4% | 5.4% | 5.7% | 5.5% | 4.4% | 4.4% |
| Hair Growing Agents | 226 | 237 | 247 | 251 | 240 | 254 | 259 | 265 | 253 | 260 |
| YoY | -3.4% | 4.9% | 4.0% | 1.8% | -4.5% | 5.8% | 2.0% | 2.3% | -4.5% | 2.8% |
| % of total sales | 4.3% | 4.3% | 4.2% | 4.1% | 3.7% | 3.9% | 3.8% | 3.8% | 3.4% | 3.4% |
| Perm | 144 | 180 | 167 | 141 | 136 | 117 | 126 | 129 | 123 | 120 |
| YoY | -15.6% | 25.2% | -7.2% | -15.9% | -3.3% | -14.0% | 7.7% | 2.4% | -4.7% | -2.4% |
| % of total sales | 2.7% | 3.3% | 2.8% | 2.3% | 2.1% | 1.8% | 1.9% | 1.8% | 1.6% | 1.6% |
| SUM: Product sales | 5,153 | 5,425 | 5,720 | 6,053 | 6,430 | 6,454 | 6,632 | 6,892 | 7,357 | 7,560 |
| YoY | 4.5% | 5.3% | 5.4% | 5.8% | 6.2% | 0.4% | 2.8% | 3.9% | 6.7% | 2.8% |
| % of total sales | 97.0% | 97.8% | 97.3% | 97.9% | 98.5% | 98.5% | 98.5% | 98.6% | 98.6% | 98.8% |
| Other | 162 | 120 | 157 | 132 | 97 | 98 | 99 | 99 | 101 | 89 |
| YoY | 13.7% | -25.8% | 31.1% | -15.9% | -26.8% | 1.0% | 1.0% | 0.0% | 2.0% | -11.9% |
| % of total sales | 3.0% | 2.2% | 2.7% | 2.1% | 1.5% | 1.5% | 1.5% | 1.4% | 1.4% | 1.2% |

Source: Shared Research based on company data

Reference: Sales by region

| By region (JPYmn) | FY03/11 Parent | FY03/12 Parent | FY03/13 Parent | FY03/14 Parent | FY03/15 Parent | FY03/16 Parent | FY03/17 Parent | FY03/18 Parent | FY03/19 Parent |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total sales | 5,075 | 5,315 | 5,545 | 5,878 | 6,186 | 6,528 | 6,552 | 6,732 | 6,992 |
| YoY | 3.6% | 4.7% | 4.3% | 6.0% | 5.2% | 5.5% | 0.4% | 2.7% | 3.9% |
| Hokkaido | - | - | 39 | 44 | 56 | 69 | 67 | 74 | 73 |
| YoY | - | - | - | 12.8% | 27.3% | 23.2% | -2.9% | 10.4% | -1.4% |
| % of total sales | - | - | - | 0.7% | 0.9% | 1.1% | 1.0% | 1.1% | 1.0% |
| Tohoku | - | - | 194 | 241 | 285 | 318 | 327 | 344 | 380 |
| YoY | - | - | - | 24.2% | 18.3% | 11.6% | 2.8% | 5.2% | 10.5% |
| % of total sales | - | - | - | 4.1% | 4.6% | 4.9% | 5.0% | 5.1% | 5.4% |
| Kanto | - | - | 1,063 | 1,220 | 1,380 | 1,526 | 1,581 | 1,622 | 1,687 |
| YoY | - | - | - | 14.8% | 13.1% | 10.6% | 3.6% | 2.6% | 4.0% |
| % of total sales | - | - | - | 20.8% | 22.3% | 23.4% | 24.1% | 24.1% | 24.1% |
| Chubu | - | - | 1,614 | 1,769 | 1,760 | 1,850 | 1,791 | 1,835 | 1,963 |
| YoY | - | - | - | 9.6% | -0.5% | 5.1% | -3.2% | 2.5% | 7.0% |
| % of total sales | - | - | - | 30.1% | 28.5% | 28.3% | 27.3% | 27.3% | 28.1% |
| Kansai | - | - | 1,380 | 1,314 | 1,385 | 1,413 | 1,437 | 1,469 | 1,446 |
| YoY | - | - | - | -4.8% | 5.4% | 2.0% | 1.7% | 2.2% | -1.6% |
| % of total sales | - | - | - | 22.4% | 22.4% | 21.6% | 21.9% | 21.8% | 20.7% |
| Chugoku and Shikoku | - | - | 483 | 514 | 555 | 578 | 619 | 678 | 733 |
| YoY | - | - | - | 6.4% | 8.0% | 4.1% | 7.1% | 9.5% | 8.1% |
| % of total sales | - | - | - | 8.7% | 9.0% | 8.9% | 9.4% | 10.1% | 10.5% |
| Kyushu | - | - | 739 | 747 | 744 | 758 | 714 | 694 | 699 |
| YoY | - | - | - | 1.1% | -0.4% | 1.9% | -5.8% | -2.8% | 0.7% |
| % of total sales | - | - | - | 12.7% | 12.0% | 11.6% | 10.9% | 10.3% | 10.0% |
| Overseas | - | - | 29 | 24 | 16 | 13 | 12 | 12 | 8 |
| YoY | - | - | - | -17.2% | -33.3% | -18.8% | -7.7% | 0.0% | -33.3% |
| % of total sales | - | - | - | 0.4% | 0.3% | 0.2% | 0.2% | 0.2% | 0.1% |

Source: Shared Research based on company data

Initial forecast and results

| Results vs. Initial Est. (JPYmn) | FY03/12 Parent | FY03/13 Parent | FY03/14 Parent | FY03/15 Parent | FY03/16 Parent | FY03/17 Parent | FY03/18 Parent | FY03/19 Parent | FY03/20 Parent |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Sales (Initial Est.) | 5,100 | 5,600 | 6,140 | 6,441 | 6,500 | 6,850 | 6,750 | 7,000 | 7,300 |
| Sales (Results) | 5,315 | 5,545 | 5,878 | 6,186 | 6,528 | 6,552 | 6,732 | 6,992 | 7,461 |
| Results vs. Initial Est. | 4.2% | -1.0% | -4.3% | -4.0% | 0.4% | -4.3% | -0.3% | -0.1% | 2.2% |
| Operating profit (Initial Est.) | 659 | 769 | 1,006 | 1,097 | 1,105 | 1,212 | 1,150 | 1,206 | 1,238 |
| Operating profit (Results) | 1,002 | 870 | 915 | 982 | 1,129 | 1,230 | 1,315 | 1,398 | 1,470 |
| Results vs. Initial Est. | 52.0% | 13.2% | -9.1% | -10.5% | 2.2% | 1.5% | 14.4% | 15.9% | 18.7% |
| Recurring profit (Initial Est.) | 676 | 739 | 1,002 | 1,096 | 1,091 | 1,229 | 1,171 | 1,227 | 1,260 |
| Recurring profit (Results) | 994 | 881 | 895 | 960 | 1,130 | 1,233 | 1,339 | 1,400 | 1,492 |
| Results vs. Initial Est. | 47.0% | 19.2% | -10.7% | -12.4% | 3.6% | 0.3% | 14.3% | 14.1% | 18.4% |
| Net income (Initial Est.) | 370 | 509 | 616 | 706 | 730 | 839 | 813 | 861 | 864 |
| Net income (Results) | 549 | 629 | 534 | 626 | 767 | 868 | 971 | 965 | 1,036 |
| Results vs. Initial Est. | 48.4% | 23.6% | -13.3% | -11.3% | 5.0% | 3.5% | 19.5% | 12.1% | 19.9% |

Source: Shared Research based on company data

Medium-term growth strategy

COTA does not release medium-term management plans that include numerical targets for specific years. However, it sets general targets for key financial indicators to achieve steady growth and sustainability: recurring profit margin (RPM) of 15% or higher; ROE of 10% or higher. Since FY03/15, RPM and ROE have consistently exceeded these targets, reaching 20.0% and 13.6%, respectively, in FY03/19. Shared Research understands the company strives to achieve RPM of at least 15% and ROE of at least 10% even during periods of earnings deterioration.

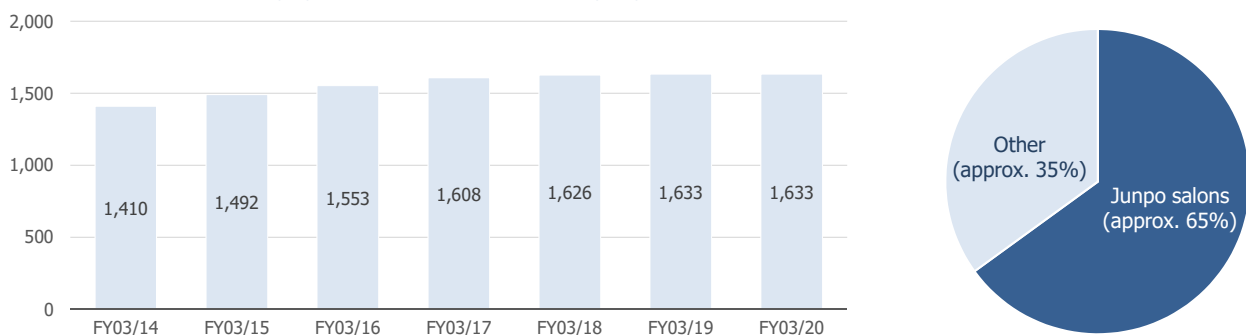
COTA has adopted a growth strategy centering on the Junpo Salon System and expansion of salon retail sales on the principle that success at its customer salons contributes to its own success. Specifically, the company: 1) captures and retains salons as customers by providing free management advice through its Junpo Salon System, and 2) promotes growth in salon retail sales of its toiletries such as shampoos and treatments to improve salon earnings and strengthen its sales.

Only just above 1,600 salons nationwide (0.6% of total) have become members of the Junpo Salon System to date. However, these form an important client base for the company, which derives roughly 65% of its sales from Junpo member salons. Raising the number of member salons should therefore support its growth over the medium term.

Junpo Salon System: A free consulting services system to support and enhance salon management. In keeping with its name (literally, “10-day Reporting Salon System”), the Junpo Salon System originally divided individual months into three blocks of ten days (first, middle, and last), and facilitated confirmation of progress versus targets, communication concerning problems, and the creation of improvement measure proposals based on performance data. The present version of the system sends/receives data via the internet, resulting in more timely analysis. The system grew out of the original Shuho Salon System (literally “Weekly Reporting Salon System”), which COTA launched in the early 1980s, shortly after its establishment. The system was developed to pursue its founder’s spirit of “modernizing the hair salon industry with salon management,” and the company’s investment in the system exceeded its initial capital stock. In July 1983, the company launched a computer-based version of the Shuho Salon System, which was groundbreaking at the time. Salons that agree to use the company’s products exclusively (i.e., commit to not using rival products) and are eager to modernize their management can become Junpo member salons, and as such obtain free consulting advice on how to improve their management.

Over the last five years, the company’s sales have grown at a CAGR of 3.8%. Over the same period, the number of Junpo member salons grew at a CAGR of 1.8%, so we can infer that other factors (such as sales growth at member salons) expanded at a rate of 2.0%. On a net basis, COTA added 18 member salons in FY03/18 (+1.1% YoY), seven in FY03/19 (+0.4% YoY), and none in FY03/20. This was mainly because the primary goal of strengthening the sales force was to add to the number of partner salons for the time being.

Number of Junpo member salons (left), and sales ratio of member salons (right)



Source: Shared Research based on company data

COTA’s Education and Training Division, a specialized training unit that has been reinforced through restructuring, is using a training facility established in November 2017 to accelerate new sales staff training. Whereas it previously took about 10 months before new sales staff could engage in sales activities, the time required has been reduced to about four months due to revision and expansion of training content. The company says the training has boosted motivation, particularly among young sales staff, and has contributed to a reduction in employee turnover. In the short term, it is prioritizing new customer development over any increase in the number of Junpo member salons, as it works to plant the seeds for growing the member salon count in the medium to long term.

The company also aims to increase its GPM over the medium term. It has successfully increased productivity and improved its cost-to-sales ratio by revising production plans and processes based on highly accurate sales forecasts (in financial terms, contributions from a decline in depreciation have been an even larger factor). Going forward, the company intends to step up efforts to improve productivity and gradually raise GPM.

GPM decline in FY03/13: GPM fell sharply from 73.5% in FY03/12 to 70.4% in FY03/13, due mainly to an increase in depreciation as the company's Kyoto plant came online at end-FY03/12. While sales expanded in FY03/13, operating profit was weighed down by the higher depreciation burden. However, the addition of the Kyoto plant sharply expanded production capacity, and the company's capacity utilization rate stood at roughly 60% in FY03/19 (assuming 7.5 hours of operation per day), leaving ample room for further increases in production. This means that sharp rises in depreciation stemming from major capital investment are unlikely in the foreseeable future.

The company plans to increase SG&A expenses, mainly for R&D and personnel, but it hopes to maintain profit on a growth path over the medium term by keeping the rise in SG&A expenses below the growth in gross profit.

COTA could also possibly consider opportunities for inorganic growth via M&A. In our interviews with the company, the company indicated it has no interest in acquiring rival companies or M&A geared toward new businesses, but it will possibly consider business succession of distributors with strong regional networks. That said, the company has not made any acquisitions to date, and is not looking at any particular deals at present. As of end-FY03/20, the company's cash and deposits totaled JPY4.9bn and its equity ratio was 74.8%.

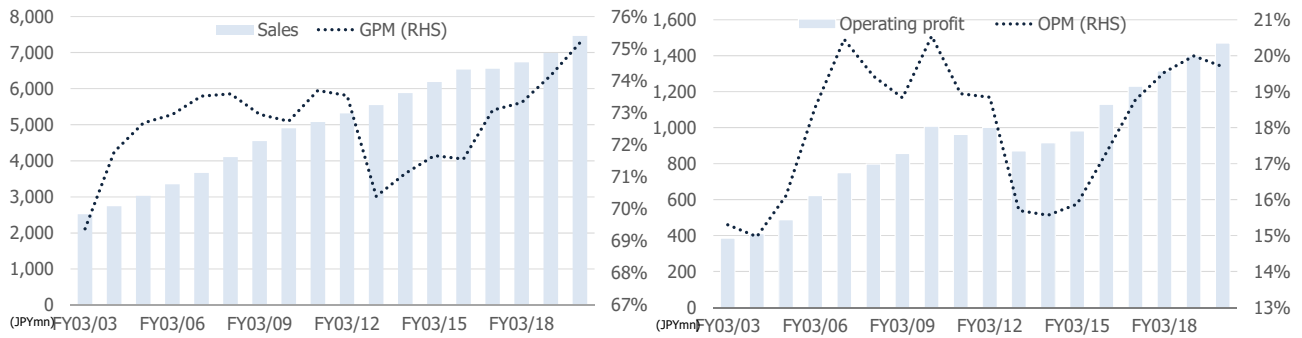
Business

Business description

COTA’s core business consists of the development, manufacture, and sale of hair care products to salons and distributors. These partners use these products in their services and sell some of the company’s mainstay toiletries (mainly shampoos and treatments), hair styling products, and hair growth agents to consumers for home use.

Guided by its founder’s spirit, “modernizing the hair salon industry with salon management,” the company aims to expand its business by encouraging growth at salons. Hair stylists—the link between the company and consumers—spend much of their time interacting with their customers (end users) and listening to their concerns about hair, scalp, and hair styles. These customers have specific needs and a range of hair textures for which the stylists recommend the most suitable products. COTA internally develops and manufactures products that meet the quality needs of these professional hair stylists, enabling them to better satisfy their customers. Higher customer satisfaction drives salon retail sales of the company’s products, which supports salon earnings and helps salons become more stable. Earnings growth and stability at COTA’s partner salons tends to create sales growth for the company because the salons buy more products from COTA.

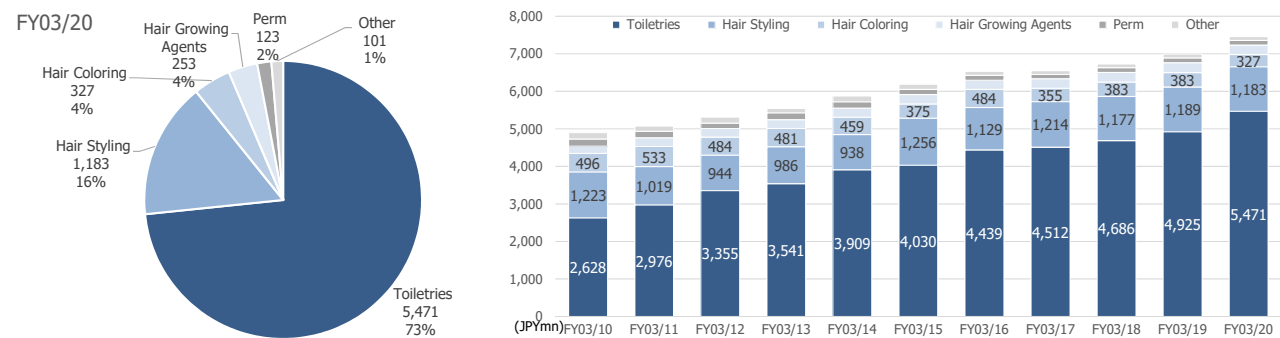
Sales and GPM (left), operating profit and OPM (right)



Key products

COTA’s key products are toiletries such as shampoos and treatments. These are not only used by salons but also sold to consumers through salons, generating high sales. The company also develops hair styling products (such as sprays, waxes, foams, and mists), hair growth agents, hair coloring products, and perm products. It manufactures many of its toiletries, hair styling products, and hair growing agents in-house, but also outsources manufacturing of some products.

Sales ratio by product (left), and sales by product (right)



| Performance by product (JPYmm) | FY03/12 Parent | FY03/13 Parent | FY03/14 Parent | FY03/15 Parent | FY03/16 Parent | FY03/17 Parent | FY03/18 Parent | FY03/19 Parent | FY03/20 Parent |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total sales | 5,315 | 5,545 | 5,878 | 6,186 | 6,528 | 6,552 | 6,732 | 6,992 | 7,461 |
| YoY | 4.7% | 4.3% | 6.0% | 5.2% | 5.5% | 0.4% | 2.7% | 3.9% | 6.7% |
| Toiletries | 3,355 | 3,541 | 3,909 | 4,030 | 4,439 | 4,512 | 4,686 | 4,925 | 5,471 |
| YoY | 12.7% | 5.5% | 10.4% | 3.1% | 10.2% | 1.6% | 3.9% | 5.1% | 11.1% |
| % of total sales | 63.1% | 63.9% | 66.5% | 65.1% | 68.0% | 68.9% | 69.6% | 70.4% | 73.3% |
| Hair Styling | 944 | 986 | 938 | 1,256 | 1,129 | 1,214 | 1,177 | 1,189 | 1,183 |
| YoY | -7.3% | 4.4% | -4.9% | 34.0% | -10.1% | 7.5% | -3.0% | 1.0% | -0.5% |
| % of total sales | 17.8% | 17.8% | 16.0% | 20.3% | 17.3% | 18.5% | 17.5% | 17.0% | 15.9% |
| Hair Coloring | 484 | 481 | 459 | 375 | 484 | 355 | 383 | 383 | 327 |
| YoY | -9.2% | -0.7% | -4.4% | -18.3% | 29.0% | -26.7% | 7.9% | 0.0% | -14.6% |
| % of total sales | 9.1% | 8.7% | 7.8% | 6.1% | 7.4% | 5.4% | 5.7% | 5.5% | 4.4% |
| Hair Growing Agents | 226 | 237 | 247 | 251 | 240 | 254 | 259 | 265 | 253 |
| YoY | -3.4% | 4.9% | 4.0% | 1.8% | -4.5% | 5.8% | 2.0% | 2.3% | -4.5% |
| % of total sales | 4.3% | 4.3% | 4.2% | 4.1% | 3.7% | 3.9% | 3.8% | 3.8% | 3.4% |
| Perm | 144 | 180 | 167 | 141 | 136 | 117 | 126 | 129 | 123 |
| YoY | -15.6% | 25.2% | -7.2% | -15.9% | -3.3% | -14.0% | 7.7% | 2.4% | -4.7% |
| % of total sales | 2.7% | 3.3% | 2.8% | 2.3% | 2.1% | 1.8% | 1.9% | 1.8% | 1.6% |
| SUM: Product sales | 5,153 | 5,425 | 5,720 | 6,053 | 6,430 | 6,454 | 6,632 | 6,892 | 7,357 |
| YoY | 4.5% | 5.3% | 5.4% | 5.8% | 6.2% | 0.4% | 2.8% | 3.9% | 6.7% |
| % of total sales | 97.0% | 97.8% | 97.3% | 97.9% | 98.5% | 98.5% | 98.5% | 98.6% | 98.6% |
| Other | 162 | 120 | 157 | 132 | 97 | 98 | 99 | 99 | 101 |
| YoY | 13.7% | -25.8% | 31.1% | -15.9% | -26.8% | 1.0% | 1.0% | 0.0% | 2.0% |
| % of total sales | 3.0% | 2.2% | 2.7% | 2.1% | 1.5% | 1.5% | 1.5% | 1.4% | 1.4% |

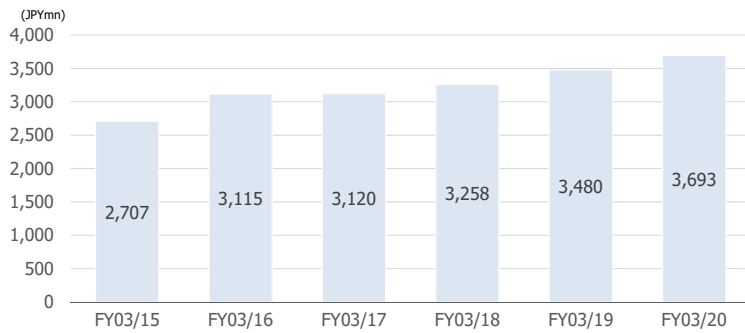
Source: Shared Research based on company data

R&D: Focus on development of high-quality products with long product lives

In accordance with the changing market, the company concentrates on developing high-quality products that are environmentally friendly and gentle on the body and hair. It has adopted a structure under which its Product Development Committee studies market trends, prices, raw materials, quality, and product concepts, and relays its findings to the various development teams of the Research Division. The development teams develop products from a consumer perspective, using only raw materials confirmed to be safe (i.e., unlikely to cause allergic reactions or other conditions). For the company's business model to succeed, its products must be highly appraised by hair stylists who serve consumers with a wide range of hair types (stiff or soft hair, etc.), hair damage, and other factors. COTA's research and development structure focuses on developing products that exceed the performance typically demanded by professional hair stylists.

Ingredients of cosmetics, including hair care products, are required to be disclosed under the Act on Pharmaceuticals and Medical Devices, making it difficult for companies to differentiate themselves on ingredients alone. However, other factors such as mixing sequence, stirring methods, and temperature management can have a significant impact on quality. For example, the company uses different production tank shapes for each of its products. Production techniques can become a differentiator since they are difficult to trace through chemical analysis.

COTA spends ample time on study and research in order to develop products with long product lives, and only launches major product updates every 10 to 15 years. In some cases, however, it adds products with new functionality to existing product lines during this period. For example, the company released the first generation of its COTA i CARE product line in June 1999, and the second generation in February 2012. The product line has continued to enjoy stable sales growth even in recent years, and we understand the company has not observed any sharp declines in its competitiveness even long after its first major renewal.

COTA i CARE sales


Source: Shared Research based on company data

COTA i CARE shampoo lineup


Source: Company website

COTA i CARE treatment lineup


Source: Company website

COTA conducts its core research in collaboration with external research institutes and universities. As of end-FY03/20, its basic research themes were 1) confirmation of the effects of nanomaterials on hair, 2) confirmation of the effects of surfactants on hair, and 3) establishment of measuring methods for the evaluation of the physical properties of hair and hair aging processes.

The company books JPY300–400mn in R&D expenses per year (roughly 5% of sales).

Key themes in recent basic research

| Key themes in basic research | |
|------------------------------|--|
| FY03/19, FY03/20 | |
| 1 | Confirmation of nanomaterial effects on hair |
| 2 | Confirmation of surfactant effects on hair |
| 3 | Establishment of evaluation method for physical properties of hair and scalp aging |
| FY03/18 | |
| 1 | Influence of active ingredients nanogranulation on hair growth |
| 2 | Application of safety evaluation method using 3-D skin models |
| 3 | Establishment of evaluation system for itching by surfactant |
| FY03/17 | |
| 1 | Influence of active ingredient nanogranulation on growth and inside of hair |
| 2 | Application of safety evaluation method using 3-D skin models |
| 3 | Establishment of evaluation system for itching by surfactant |

Source: Shared Research based on company data

Unique sales approach: Promoting products through salons

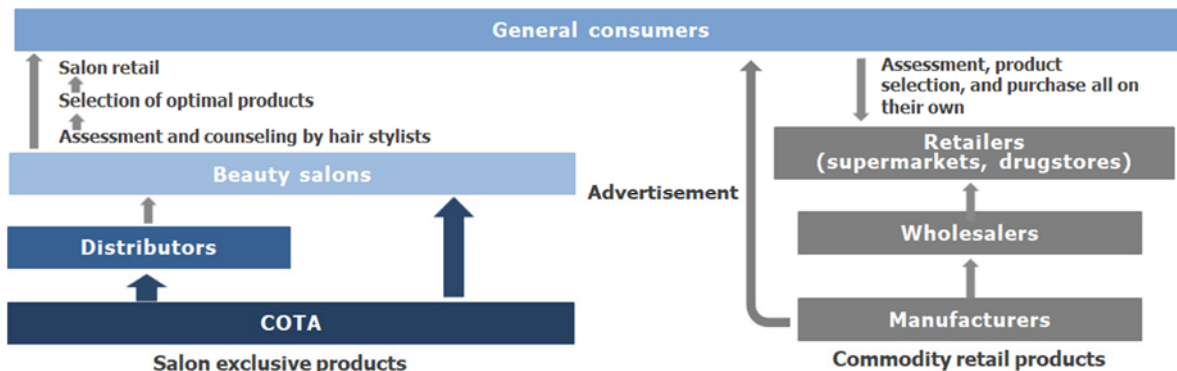
Selling products to consumers through salons

The company has adopted the unique approach of selling its products to consumers exclusively through salons, thus forgoing other sales channels. Since professional hair stylists have already recognized the high quality of its products, COTA could likely capture a broader consumer base through online direct sales or other channels. However, it has opted to stick with selling to salons exclusively.

Shared Research believes this approach is based on the following three points. First, COTA aims to realize its founder’s spirit, “modernize the hair salon industry with salon management” by selling its products via salons and it shares this aspiration with its distributors and partner salons. Second, selling through salons gives hair stylists enough time to promote the company’s products to their customers, including having them try out the products. Closely engaging with consumers in this way encourages them to recognize the quality of the company’s products, which allows the company to sell them at high prices. Third, the salon exclusive approach is likely to cultivate repeat customers (i.e., solidify the customer base) since salon-goers tend to visit the same salon repeatedly.

Major toiletry manufacturers typically develop products tailored to mass market consumer needs, and such products seem unable to address each individual’s specific hair concerns. Because these products are sold through supermarkets and drugstores where they can be compared to rival products, they need to have the unique characteristics consumers easily understand and their prices are often the deciding factor in whether or not a consumer will buy. It is also essential for companies selling such products to conduct mass marketing (including TV commercials) aimed at raising brand recognition to maximize the effects of mass production.

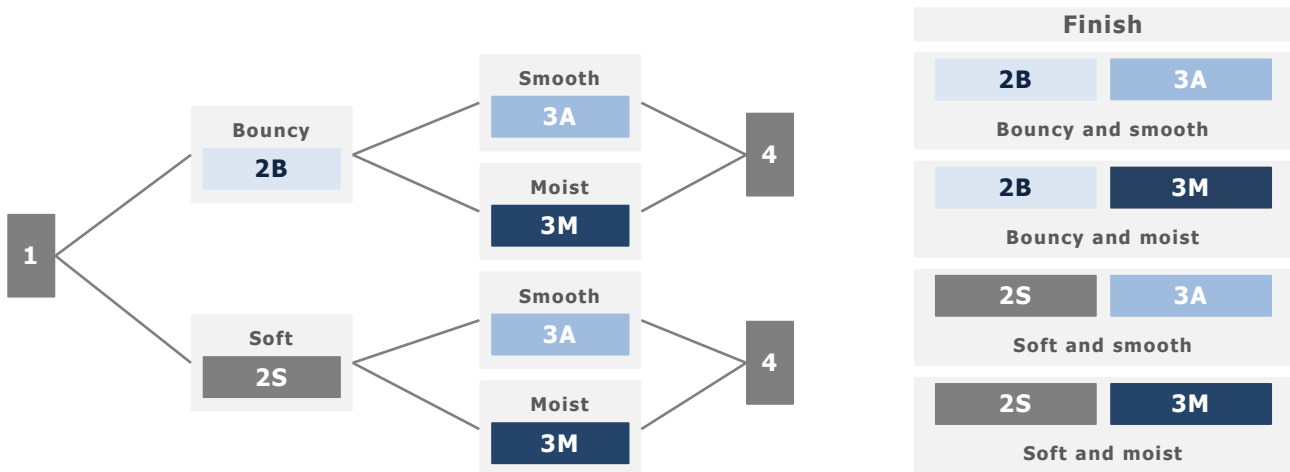
Differences in sales channels for COTA and generic toiletries



Source: Shared Research based on company data

In contrast, COTA sells its products through salons. The hair stylists at these salons understand customers’ hair concerns and preferred hair textures (such as the desires for bouncy and smooth or soft and moist finishes) from daily conversation with customers, and typically recommend a suitable combination of hair products from a range of shampoos and treatments. COTA can ensure consumers continue to buy its products even at high prices by leveraging hair stylists’ in-depth explanations and allowing customers to try out products in salons. The format additionally eliminates the need to invest in major TV ad campaigns or other costly advertising. Finally, strong relationships between salons and their customers, or simply customer satisfaction, can lead to repeat orders for COTA’s products.

Range of hair finishes possible with COTA TREAT PREMIQUE



Source: Shared Research based on company data

Building mutually beneficial relationships with salons

COTA believes it is important to build win-win relationships with salons, under which increases in salon retail sales not only expand salon earnings (support stable salon management), but also contribute to its own earnings growth. The company provides lectures (led by sales staff or distributors) to salons on topics such as product characteristics, the proper usage of products, and how to select products based on customers’ hair texture and needs. It also provides support to expand salon retail sales by offering advice on sales methods (including proposing its original counseling system), such as how to navigate conversations with customers in the salon, and how and when to introduce products to customers.

Junpo Salon System

COTA also utilizes its Junpo Salon System to strengthen mutually beneficial relationships with salons by improving salon management. Using Junpo Salon System, the company provides free consulting services to salons that are eager to modernize their management and achieve transformative sustainable growth. In return for access to the system, the company requires that the salons use its products exclusively (i.e., commit not to use rival products). Through the Junpo Salon System the company obtains daily data on sales, customer traffic, and other indicators from member salons, and analyzes these metrics to provide free consulting advice on how to improve future earnings and modernize salon management.

Salon consulting: Many companies provide a range of consulting services for salons (regarding salon development, marketing, improvement of hair styling techniques). COTA’s consulting services stand out by virtue of their focus on improving salon earnings over the near term and modernizing salon management to fuel continued growth over the medium to long term. Also worthy of note is the fact that while most consulting services are provided for a fee, COTA’s consulting services are offered free of charge mainly because the advice is offered by the company to boost salon retail sales of its products.

Junpo Salon System: In keeping with its name (literally, “10-day Reporting Salon System”), the Junpo Salon System originally divided individual months into three blocks of ten days (first, middle, and last), and facilitated confirmation of progress versus targets, communication of concerning problems, and the creation of improvement measure proposals based on performance data. The present version of the system sends/receives data via the internet, resulting in more timely analysis. The system grew out of the original Shuho Salon System (literally “Weekly Reporting Salon System”), which COTA launched in the early 1980s, shortly after its establishment. The system was developed to pursue its founder’s spirit of “modernizing the hair salon industry with salon management,” and the company’s investment in the system exceeded its initial capital stock. In July 1983, the company launched a computer-based version of the Shuho Salon System, which was groundbreaking at the time.

The consulting services provided through the Junpo Salon System are divided into two stages. The first stage focuses on measures to improve earnings in the near term by increasing awareness of the importance of management plans, performing data-based analysis of present conditions, formulating near-term targets, and developing proposals to resolve existing issues. COTA collects data on sales, customer traffic, and the number of customers requesting perms, coloring, or hair treatment. Based on analysis of progress relative to targets and management indicators for each salon, the company offers feedback and advice to improve performance.

Objectives of consulting through Junpo Salon System

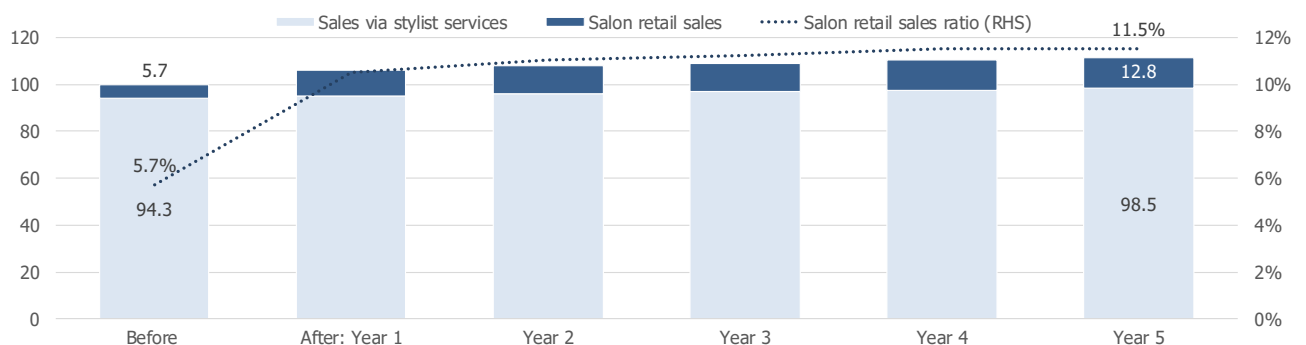
| | |
|--|--|
| Step 1: Aim for improved business performance | |
| Mindset = Decision making | Business performance improvements start with a change in senior management mindset Where there is a management decision, there is a way |
| Status quo analysis | Analyze management data to understand the status quo and find issues to solve |
| Goal setting | Set appropriate numerical goals and share that knowledge |
| Implementing solutions to solve problems | Propose solutions for issues, and promote implementation |
| Understanding progress toward goals | Use Junpo Analysis Table to understand the progress |
| Productivity gains | Aim for a productivity level suitable for the size of business |
| Step 2: Aim for modern management | |
| Establishing management principle | Clarify management purposes; help all stakeholders achieve both material and spiritual wealth |
| Creating management plan | Create medium-term management plan covering sales, costs, profits, and financing |
| Financial management | Offer advice on financial management |
| Labor management | Offer advice on labor management |
| Salon plan | Offer expertise and advice on salon openings |
| Other managerial advice | Offer advice on incorporation, business succession, capital policy, HR development and hiring |

Source: Shared Research based on company data

In the second stage, the aim shifts to modernizing management to ensure continuous salon growth that will keep salons in business well beyond the first generation. Specifically, COTA offers advice and consultation related to the formulation of management principles, drafting of medium-term management plans, financial management, labor management, and salon development. In other words, the second stage encompasses consulting services from a medium- to long-term perspective.

The figure below shows average performance at newly joined Junpo member salons. After becoming members, salon retail sales of COTA products such as shampoos and treatments increased at the salons. Over five years, salon retail sales grew 2.2x, while salon retail sales as a percentage of total sales increased from 5.7% to 11.5%. The benefits of improving management also extend beyond merely bolstering salon retail sales. Many of the member salons have reported that higher retail sales were accompanied by increases in average spend per customer and hourly sales per hair stylist (meaning productivity had improved).

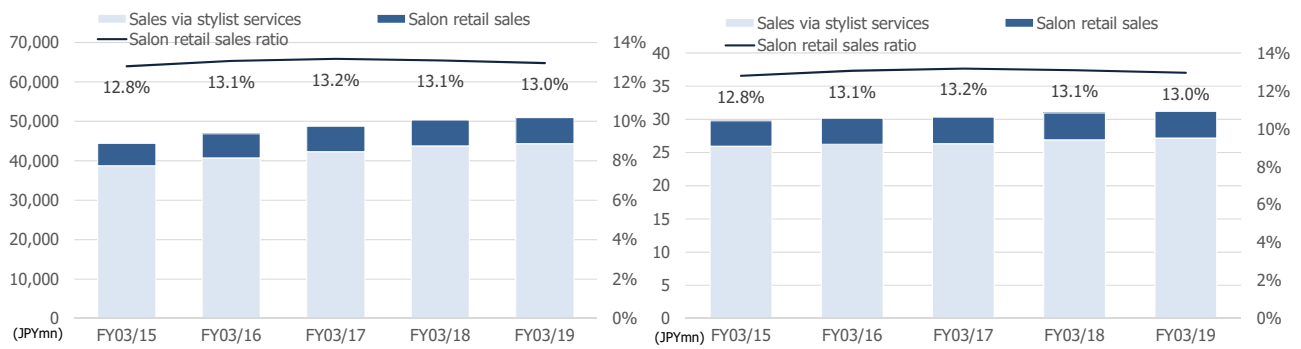
Average performance after adoption of Junpo Salon System (five years)



Source: Shared Research based on company data

The charts below show sales at Junpo member salons including salons which became a member over five years ago. The data show that total sales at member salons have risen in tandem with growth in the number of member salons, that sales per member salon have increased gradually, and that product sales account for 13% of member salon total sales. We can therefore infer that the company's consulting services have contributed to continued management improvement at salons.

Sales at Junpo member salons: total (left), per salon (right)

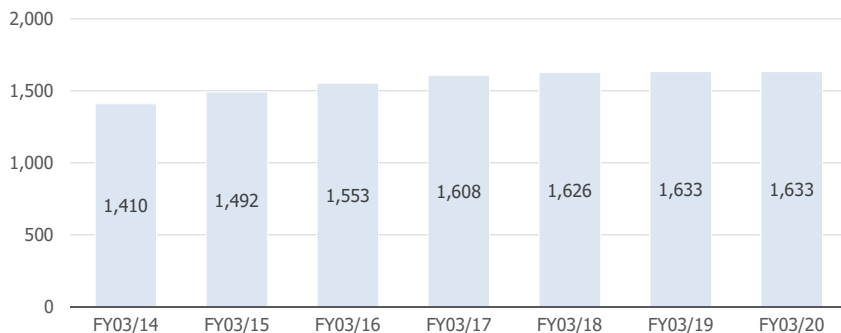


Source: Shared Research based on company data

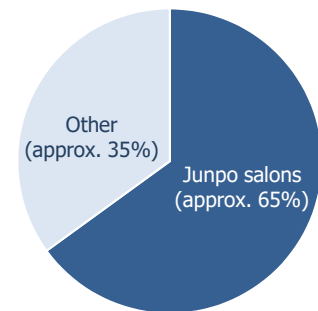
Secondary benefits of the Junpo Salon System: The Junpo Salon System offers management consulting service to salons, but it also provides additional benefits such as information exchange between member salons and improved employee morale. For example, member salons operating in the same region share successful methods to cultivate new customers (including via social networking services and campaigns), or hold rallies shortly before the COTA National Salon Sales Competition, which is held in the busy year-end period. From an objective standpoint, it seems counterproductive for salons that operate in the same region to share expertise, but member salons share COTA's ambition to modernize the hair salon industry with salon management.

Over the last five years, the company's sales have grown at a CAGR of 3.8%. Over the same period, the number of Junpo member salons grew at a CAGR of 1.8%, so we can infer that other factors (such as sales growth at existing member salons) expanded at a rate of 2.0%.

Number of Junpo member salons (left), sales by member salons as percentage of COTA's total sales



Source: Shared Research based on company data



Although the overall number of Junpo member salons remains in an uptrend, inevitably some salons decide to cancel their memberships. COTA says the effectiveness of the Junpo Salon System hinges on a change in mindset at the managerial level, and therefore the results may vary by salon. Accordingly, some salons do not reap the benefits they expected and decide to cancel their memberships. The company says another major reason for cancellations is closures or consolidation of salons driven by fierce competition in the industry. While actual numbers vary by year, the company has seen an average of 132 annual cancellations over the last five years.

COTA does not offer consulting services to non-member salons. However, it does sell products to salons that are not Junpo member salons, based on the shared awareness that selling products in salons can lead to improvements in salon management and sales. The company also says it provides advice (through sales staff and distributors) on product characteristics, the proper usage of products, selection of products based on customers' hair texture and needs, and salon retail sales techniques to partner salons that sell its products. Many non-Junpo member salons also use and sell rival products.

Sales channels

The company develops toiletries that meet the quality standards of professional hair stylists and sells these exclusively through salons, an approach that supports high prices. While generic shampoos of major manufacturers sold at drugstores and supermarkets retail at JPY500–1,000 for a large-volume (660ml) refill pouch, COTA sells its COTA i CARE shampoo exclusively

through salons, with prices ranging from JPY2,500 for a 300ml bottle to JPY5,500 for an 800ml bottle and JPY5,000 for a 750ml refill pouch. By selling exclusively through salons, the company can sufficiently highlight the strengths of its products to consumers, which allows it to charge high prices and avoid price competition among retailers.

Exclusive sales through salons: COTA develops products designed to be recommended as suitable solutions by hair stylists (who constantly listen to salon customers' hair problems and preferences). It believes this approach toward product design delivers optimal results. In other words, as a rule the company supplies its product to consumers through salon retail sales, which entail personal interaction. Except for some products that have been in circulation for a long time, the company requests that distributors and salons handling its products commit to face-to-face sales (although repeat orders after face-to-face sales may be received online provided such sales are routed through the relevant salon). COTA takes firm measures against online sales that are not routed through a salon, which it views as unauthorized distribution, because it believes this has an adverse impact on earnings at salons that carry its products and possibly consumers in general.

Illegal distribution of salon-exclusive shampoo products: On October 31, 2019, the Sankei Shimbun and the Kyoto Shimbun reported that the Kyoto prefectural police arrested one man working in the cosmetics sales business and three male salon operators on suspicion of violations of the Act on Pharmaceuticals and Medical Devices (distribution of cosmetics with fraudulent labeling). The Act on Pharmaceuticals and Medical Devices requires cosmetics manufacturers to label product containers and packaging with serial numbers, names of ingredients, and usage precautions with the aim of ensuring the safety of cosmetics and preventing potential health hazards from spreading. These men that were arrested allegedly removed the serial numbers of COTA products and sold them online. COTA, as a rule, requests a commitment to face-to-face sales from its customers (distributors and partner salons), and does not permit unauthorized distribution through the internet. The men that were arrested appear to have removed the serial numbers of the products before selling them to ensure the products could not be traced back to their original distribution point.

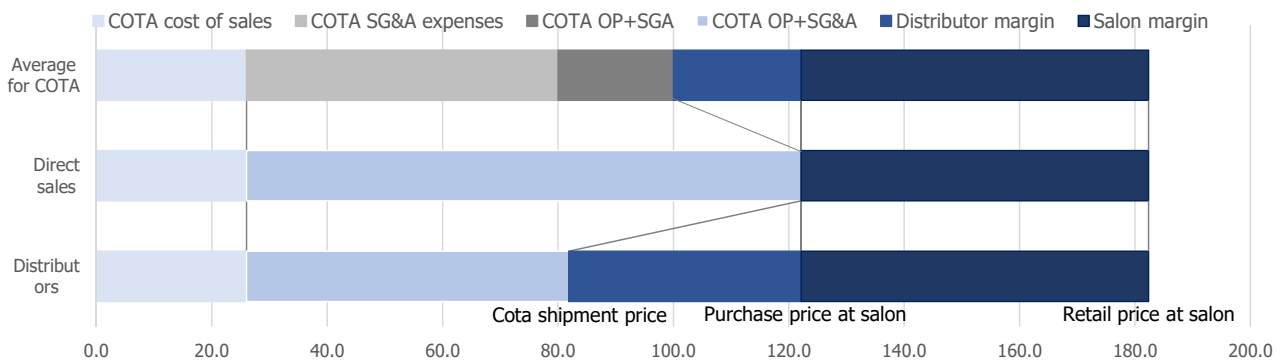
Distributor and direct sales

COTA's primary sales channels are distributor sales and direct sales. The company has been selling products through distributors since its founding, and these sales currently account for roughly 55% of total sales. The company provides lectures to distributors on topics such as product characteristics, selection, and usage, and ensures distributors share its founder's spirit of "modernizing the hair salon industry with salon management." The distributors promote COTA's products and provide management consulting to their customer salons. They also deliver COTA products to, follow-up with, and collect payments from some of COTA's existing partner salons. Distributors collect an estimated sales margin of a little over 30%. It is possible for COTA to achieve sharp growth over a short period of time by linking up with leading distributors to leverage their large networks of customer salons.

COTA ventured into direct sales to salons in the late 1980s. Its direct sales have grown to account for roughly 45% of sales. The company essentially builds direct sales structures in regions that have no influential distributors that carry its products or where such a distributor has shut down operations. It adjusts its shipment prices to ensure all salons pay the same prices for the same products, regardless of the sales channel (via distributors or direct sales). Direct sales are not affected by distributor margins, yielding higher COTA shipment prices and a high GPM. However, the company incurs higher SG&A expenses (fixed costs) for direct sales compared to distributor sales because it needs to shoulder all expenses related to sales, delivery, and collection of payments. Direct sales also enable COTA to better convey its vision to partner salons, including for sales strategy and product promotion. The drawback is that it takes time to cultivate new customer salons due to limitations in human resources.

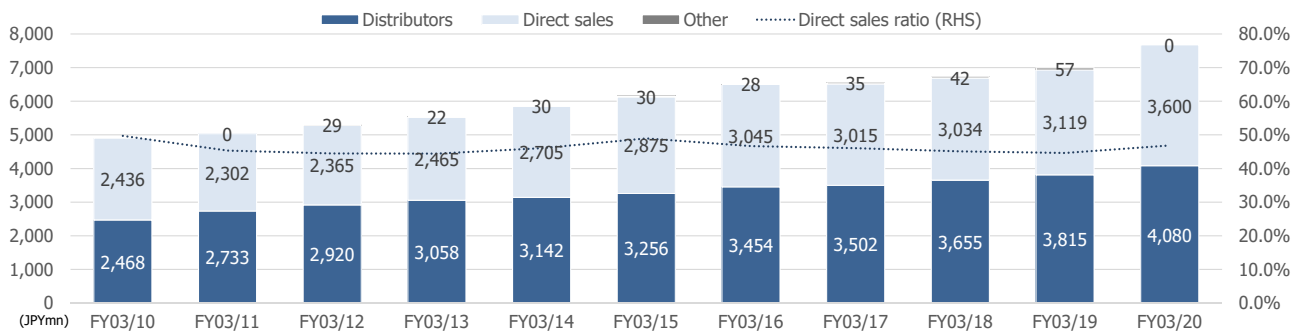
Salons earn an estimated margin of just over 30% on product sales to consumers. Based on this, retail prices to consumers are equivalent to about 180% of the company's average shipment price. By selling products exclusively through salons, the company has built a high value-added supply chain. Junpo member salons obtain products through either distributors or the company (direct sales) based on region and the origin of the business relationship (purchase prices for member salons are identical regardless of the sales channel).

Supply chain cost structure



Source: Shared Research based on company data
 Note: COTA's average selling price indexed at 100, cost of sales at 26, SG&A expenses at 54, and operating profit at 20. Distributor and salon margins estimated by Shared Research based on interviews.

Direct sales ratio



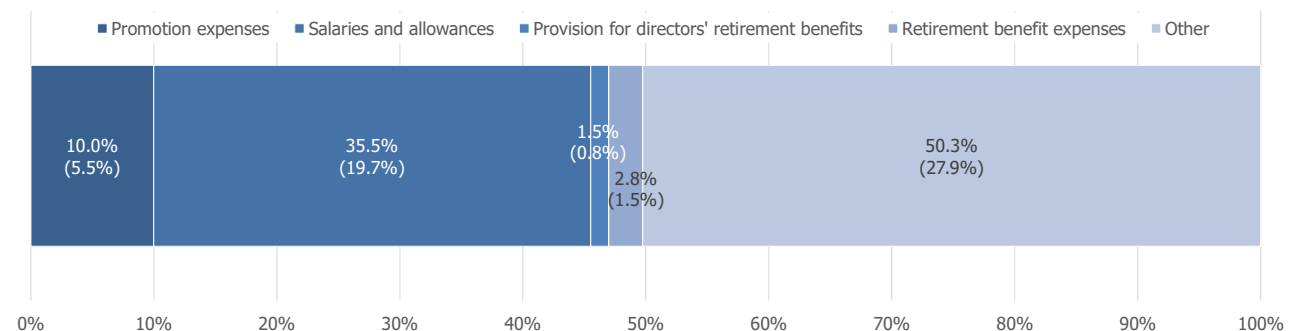
Source: Shared Research based on company data

Cost structure

SG&A expenses

In FY03/20, SG&A expenses came to JPY4.1bn and the SG&A-to-sales ratio to 55.5%. According to its annual securities report, personnel expenses accounted for the lion's share (JPY1.6bn: roughly 40% of SG&A expenses and just over 20% of sales). Sales incentives paid in accordance with annual sales value were another important cost item (roughly 10% of SG&A expenses and about 6% of sales). SG&A expenses were composed of about 25% selling expenses and 75% general and administrative expenses. In other words, SG&A expenses have a high ratio of fixed costs.

Breakdown of SG&A expenses (FY03/20)

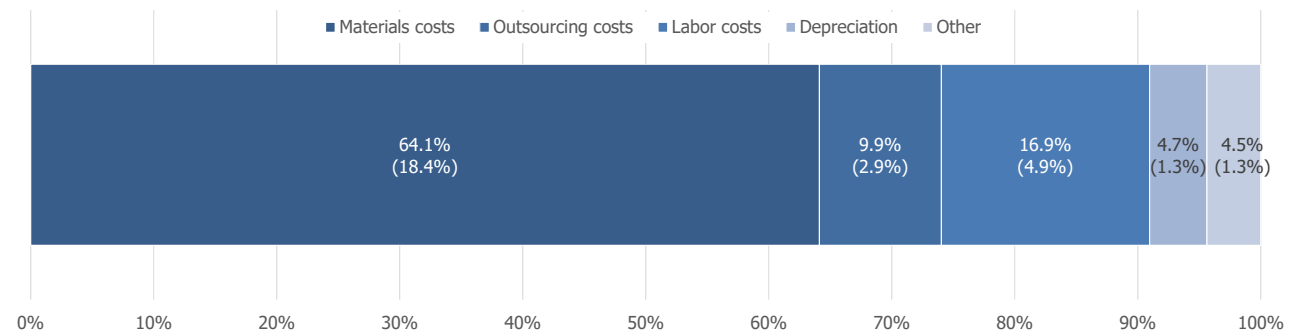


Source: Shared Research based on the company's annual securities report
 Note: Figures in parentheses show a percentage of sales.

Manufacturing costs

In FY03/20, cost of sales came to JPY1.9bn and the cost-to-sales ratio to 24.8%. Total manufacturing costs amounted to JPY2.1bn, comprising JPY1.4bn in materials costs (for ingredients/raw materials and packaging materials), JPY213mn in outsourcing costs (for spray and other products), JPY364mn in labor costs, and JPY100mn in depreciation.

Breakdown of total manufacturing costs (FY03/20)



Source: Shared Research based on company data
 Note: Figures in parentheses show a percentage of sales.

The company completed construction of its Kyoto plant in March 2012, thereby considerably expanding its production capacity. The addition of the plant drove up depreciation under manufacturing costs from JPY33mn in FY03/11 to JPY66mn in FY03/12 and again to JPY324mn in FY03/13, when the company booked depreciation over the full year. As a percentage of total sales, depreciation rose from 0.6% in FY03/11 to 1.2% in FY03/12 and 5.8% in FY03/13, and GPM declined as a result. Thereafter, the depreciation burden gradually fell, reaching 1.3% in FY03/20. The combination of a lower depreciation burden and higher plant productivity (by maximum continuous operation based on the demand outlook) has sharply driven GPM improvement.

The company says it has recently maintained a capacity utilization rate of around 60% (as of FY03/19), and we understand it has sufficient production capacity to cover sales growth in the foreseeable future. Although it will need to make investments for new product launches (each product is made in a different production tank) and repair and maintenance of aging facilities, it is unlikely to require major investments in capacity expansion. In addition, the company as a rule only invests moderately in automation. This is because, as a supplier of high value-added products, it believes “products that people touch when using require meticulous visual and sensory quality checks that only people can deliver.”

Basic management view: COTA BASIC

COTA’s business model is heavily influenced by its founder’s spirit of “modernizing the hair salon industry with salon management.” In addition, the company has formulated basic principles, founding principles, management principles, and divisional policies (collectively referred to as COTA BASIC), which are shared across the company. Shared Research understands this shared set of principles fosters a corporate culture focused on sustainable growth and a quest for “a good company” in the long term rather than chasing unstable short-term profit.

Founder’s spirit: “Modernizing the hair salon industry with salon management”

COTA’s founder’s spirit expresses the company’s aim to promote the continuous business growth of salons, improve their productivity by increasing earnings, improve their work environments, and lead them toward corporate management based on modern financial accounting, thus eliminating potential conflicts between private and corporate interests. The company makes decisions based on whether practices are in line with the founder’s spirit.

According to COTA, when the company started operating (around 1980), the hair salon industry was plagued by low productivity in part due to an emphasis on apprenticeships under technically trained hair professionals, giving rise to a relatively uninspiring environment for young hair stylists. In addition, many salons were held back by outdated management methods and a lack of professionalism among owners with regards to appropriate use of the salon space. COTA’s founder Eiji Oda, who at the time served as the president of another hair care product manufacturer, was deeply concerned about the state of the hair salon industry, and decided to launch COTA in an effort to modernize and develop it.

COTA is strongly committed to creating management structures that allow salons to achieve continuous growth. To this end, the company aims to bring about a change in awareness among salon managers (transforming them from technically trained hair professionals to genuine managers), increase productivity, improve the work environment, and introduce modern financial accounting.

Founding principle: “Fostering a love for beauty, culture, and peace”

Culture is born out of the love of many for things of beauty and for beauty itself. An unwavering love of culture eliminates strife so that a love for peace may spread throughout the world. This founding principle expressing COTA’s original aspiration is shared across the company.

Management principle: “Pursuing business for the sake of people and society while holding fast to our founding principle”

In this context, “for the sake of society” refers to the idea of employing more people and paying more taxes, while “for the sake of people” refers to achieving the expectations placed on the company by shareholders, customers (distributors and salons), and partners (suppliers, financial institutions, and others). COTA also aims to raise the economic prosperity and happiness of its employees through this management principle.

Divisional policies

- ▷ **Sales Division:** Increase salon earnings by implementing COTA’s unique business model that combines consulting-based sales through the Junpo Salon System with a salon retail sales strategy centered on toiletries.
- ▷ **Production Division:** Increase trust in COTA and its products by manufacturing safe products and providing a stable supply of high-quality products to the market.
- ▷ **R&D Division:** Develop safe products that provide high added value to end users by enhancing female beauty, and perform quality control to ensure attainment of the highest standards. Pursue fundamental research in a range of fields by collaborating with industry and academia.
- ▷ **Administrative Division:** Focus on staff training and develop management structures to become a concrete model for “modernizing the hair salon industry with salon management,” and provide back office support for other divisions to ensure the company as a whole further strives to become “a good company.”

Basic principle: Constantly aiming to be “a good company”

COTA’s perspective on what makes “a good company” has nothing to do with generating high sales or operating out of expensive buildings. Instead, the company believes “a good company” is built on the positive mindsets of its employees. Such mindsets generate a strong sense of ethics and morals among employees to remain and promote “a good company,” and also form a foundation for ultimately remaining “a good company,” which makes all of its employees, partners, and stakeholders happy to be connected to it.

When current president Hiroteru Oda was appointed in 2004, he was convinced that a proper value system shared by executives and employees would drive the development of the company. What was important to him was not so much making decisions based on the prospect of future gains or losses, but rather taking action in accordance with a sense of what is ethical. COTA urges all its employees to constantly think and act in a way that can further elevate the company’s status as “a good company.”

COTA BASIC



Source: Shared Research based on company data

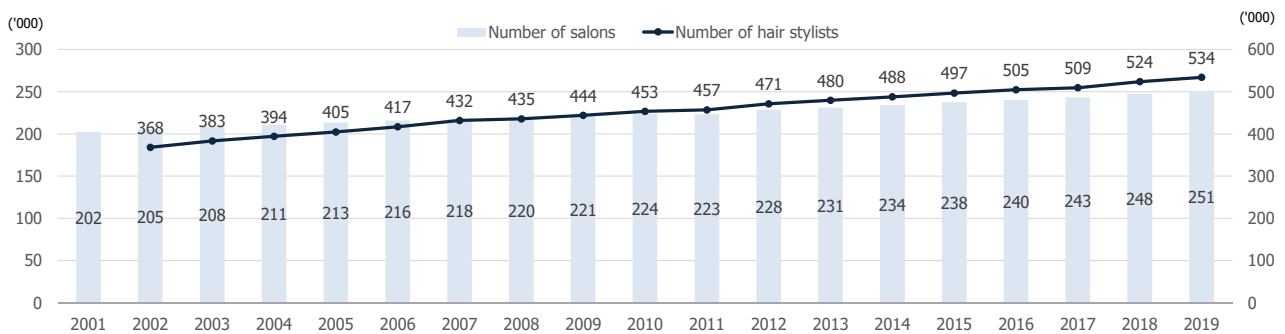
Market and value chain

Demand-side trends

COTA's business model positions salons as sales locations through which it can supply its toiletries and other products to consumers. Put differently, all salons operating across Japan are potential sales outlets for the company. According to statistics compiled by the Ministry of Health, Labour and Welfare, the number of salons operating in Japan stood at 251,000 in 2019, and continues to trend upward. This data is based on applications for salon openings to healthcare centers, which is required by law in Japan, and shows that a large number of such applications are submitted each year (however, the proper notification is not always submitted when a salon closes). The same statistics show growth in the number of hair stylists in Japan, putting the total at 534,000. Japanese hair stylists need to attend a professional training school, pass exams, and obtain a national license before they can work in a salon. A large number of people acquire this license every year.

The annual expansion in the number of salons and hair stylists is a tailwind for COTA, which looks to increase its market share. Salons and hair stylists with an established track record typically value fixed business relationships and are reluctant to switch the products they use to a different manufacturer. New entrants, however, are far more likely to actively explore new products and services in an effort to set themselves apart from established rivals. While the older generation of salon managers was often opposed to the idea of selling toiletries and other products and failed to understand the importance of salon retail sales, such resistance appears to be rare among younger salon managers.

Number of salons and hair stylists



Source: Shared Research based on "Report on Public Health Administration and Services" published by Ministry of Health, Labour and Welfare

Household spending at salons has also trended upward. According to Household Surveys conducted by the Ministry of Internal Affairs and Communications, spending per household at salons/barbershops expanded from JPY25,700 in 2013 to JPY28,900 in 2018. The increase was driven mostly by growth in fees for "other services" such as hair coloring and treatments, while haircut and perm fees expanded modestly.

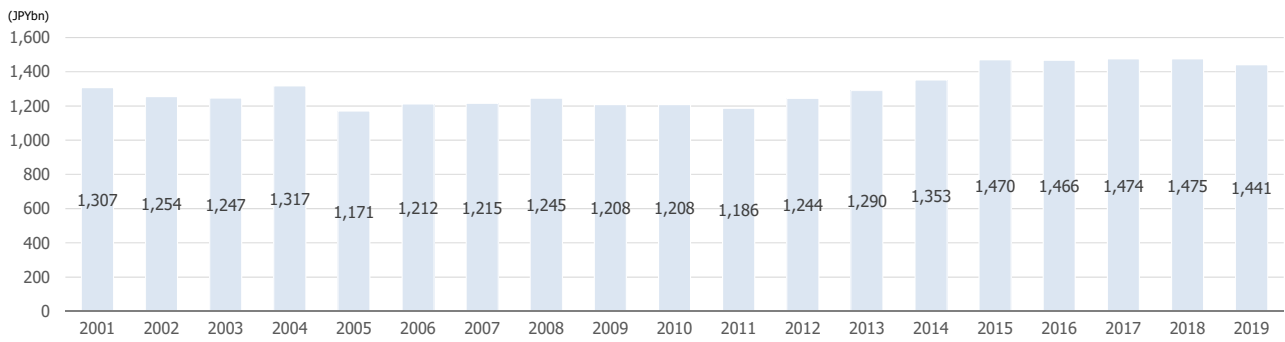
Hair-related spending per household



Source: Shared Research based on Household Surveys by Ministry of Internal Affairs and Communications

We estimate the salon market was worth JPY1.5tn in 2015 (calculated by multiplying spending per household at salons/barbershops by the number of households in the Comprehensive Survey of Living Conditions conducted by the Ministry of Health, Labour and Welfare). From 2005 to around 2012, the market was estimated at roughly JPY1.2tn but since then it expanded in tandem with recovery in the economy. The employment rate for women (the main clientele of salons) has been growing in Japan. Growth in women's disposable income was likely another driver of market expansion.

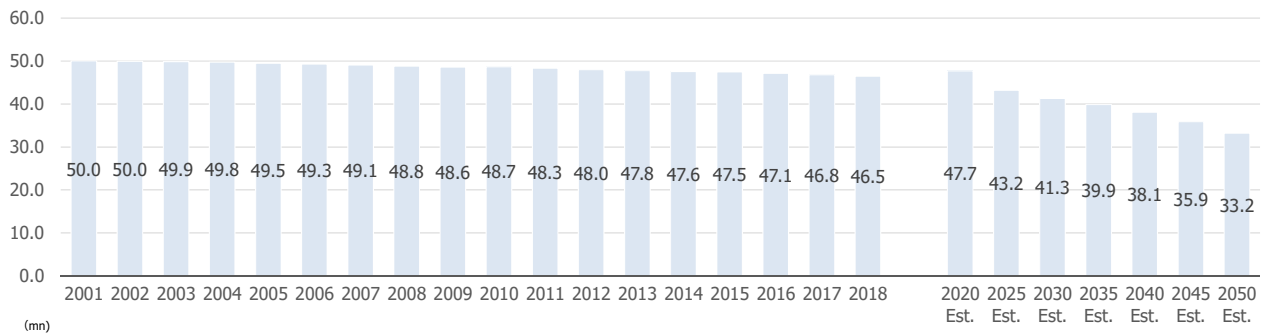
Salon market size (Shared Research estimates)



Source: Shared Research based on Comprehensive Survey of Living Conditions conducted by the Ministry of Health, Labour and Welfare

Over the medium to long term, however, Japan’s aging population is a concern that must be taken into account. The population of women aged 15–74, the demographic that is said to visit salons most frequently, is projected to contract from roughly 47mn at present to 43mn in 2025, and further to about 40mn in 2035. As the present uptrend in salon numbers is unlikely to persist, competition is likely to intensify and lead to a higher number of salon closures. Given its reliance on salons as sales outlets for its products, COTA will need to strengthen its relationships with salons that appear likely to survive if the environment indeed becomes more competitive.

Female population aged 15–74



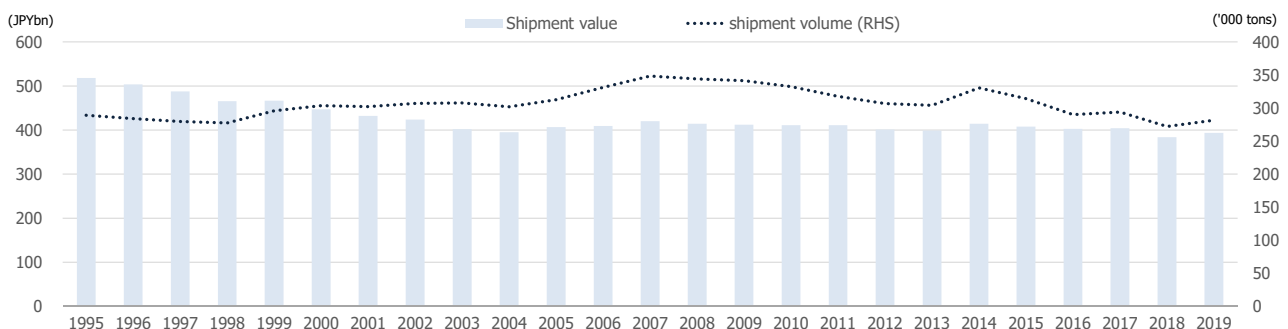
Source: Shared Research based on population estimates of the Ministry of Internal Affairs and Communications, and the Population Projections for Japan issued by the National Institute of Population and Social Security Research

Supply-side trends

According to the Current Survey of Production conducted by the Ministry of Economy, Trade and Industry, shipment value for hair care products gradually declined from about JPY520bn in 1995 to JPY383.9bn in 2018. Over the same period, shipment volume exhibited a more moderate decline from 289,000 metric tons to 272,000 metric tons. Some 200 hair care product manufacturers operate in Japan, and a large number of their products face pressure from price competition amid stagnant demand and growing competition.

COTA raised prices for COTA i CARE when it refreshed the line in 2012. The prices of its more recently developed products also increased on a per-volume basis. The company’s products have gained steady recognition for their high quality, and their prices are therefore moving along a different trajectory than those of generic hair care products.

Hair care product shipment value and volume in Japan



Source: Shared Research based on “Yearbook of Current Survey of Production: Chemical Industry” published by Ministry of Economy, Trade and Industry

Competitors

COTA's competitors comprise some 200 hair care product manufacturers operating across Japan. Rivals that, like COTA, mainly sell their products through salons include Milbon (TSE1: 4919), Adjuvant Cosme Japan (TSE1: 4929), and the cosmetics business of Nicca Chemical (TSE1: 4463).

Milbon Co., Ltd. (TSE1: 4919)

Milbon is a leading domestic manufacturer of hair care products for salons (domestic market share of 16.6% in 2018, according to a survey by Fuji Keizai Co., Ltd.). It sells hair care products such as hair care treatments (58.8% of consolidated sales in FY12/19), hair coloring products (35.8%), and perm products (4.2%) to domestic and overseas salons through distributors. The company jointly develops products with talented hair stylists under a proprietary R&D system, and expands sales through unique proposal-based sales. In FY12/19 (under the new accounting method), its GPM was 65.4%, OPM 18.6%, and R&D expense-to-sales ratio 4.2%. Its overseas sales ratio was relatively high, at 16.2%, and Milbon has positioned the growth in the overseas sales ratio as one of its growth strategies.

Adjuvant Cosme Japan Co., Ltd. (TSE1: 4929)

Adjuvant Cosme Japan plans and develops cosmetics, and sells these through salons. In FY03/20, hair care products accounted for 49.8% of sales. The company completed measures to prevent unauthorized online distribution of its products, and its sales turned upward starting in FY03/17. In FY03/19, its GPM was 60.1%, OPM -3.9%, R&D expense-to-sales ratio 2.8%, and overseas sales ratio 5.0%.

Nicca Chemical Co., Ltd. (TSE1: 4463)

Nicca Chemical is a chemicals manufacturer that mainly supplies surfactants for textile processing. In FY12/19, its professional cosmetics business generated 24.7% of total sales. The company develops businesses based on its expertise in interface chemistry and technologies cultivated in the textile field related to washing, lubricating, and dyeing. In FY12/19, its R&D expense-to-sales ratio was 3.1%.

Competitors

| Ticker | Company | Latest full-year results (JPYmn) | | | Description |
|--------|----------------------|----------------------------------|-------------|------------------|---|
| | | Sales | 3-year CAGR | Operating profit | |
| 4923 | COTA | 7,461 | 2.3% | 1,470 | Develops, manufactures, and sells hair cosmetics and quasi-drugs for beauty salons (including sales via distributors); offers Junpo Salon System for help salons improvement management |
| 4463 | Nicca Chemical | 46,191 | 1.5% | 1,395 | Mainstay product is surfactant for textile processing; operates businesses including industrial and cleaning agents, as well as hair cosmetics for beauty salons |
| 4919 | Milbon | 36,266 | 2.7% | 6,751 | Top manufacturer of hair cosmetics for beauty salons in Japan; along with mainstay hair care products, offers hair coloring and perm products |
| 4929 | ADJUVANT COSME JAPAN | 5,163 | 2.7% | 169 | Plans, develops, and markets salon retail cosmetics; offers business management system for beauty salons |

Source: Shared Research based on company data

| Comparison of key financial data ("C": consolidated, "P": parent; JPYmn) | | | | | | | | | | |
|---|-------------------|-------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--|
| COTA (4923) | FY03/12 P. | FY03/13 P. | FY03/14 P. | FY03/15 P. | FY03/16 P. | FY03/17 P. | FY03/18 P. | FY03/19 P. | FY03/20 P. | |
| Sales | 5,315 | 5,545 | 5,878 | 6,186 | 6,528 | 6,552 | 6,732 | 6,992 | 7,461 | |
| YoY | 4.7% | 4.3% | 6.0% | 5.2% | 5.5% | 0.4% | 2.7% | 3.9% | 6.7% | |
| Operating profit | 1,002 | 870 | 915 | 982 | 1,129 | 1,230 | 1,315 | 1,398 | 1,470 | |
| YoY | 4.2% | -13.1% | 5.1% | 7.3% | 15.0% | 8.9% | 6.9% | 6.3% | 5.1% | |
| Operating profit margin | 18.8% | 15.7% | 15.6% | 15.9% | 17.3% | 18.8% | 19.5% | 20.0% | 19.7% | |
| R&D expenses | 226 | 228 | 230 | 264 | 262 | 287 | 318 | 366 | 393 | |
| YoY | -0.9% | 0.9% | 1.1% | 14.4% | -0.6% | 9.5% | 10.8% | 15.1% | 7.3% | |
| % of sales | 4.3% | 4.1% | 3.9% | 4.3% | 4.0% | 4.4% | 4.7% | 5.2% | 5.3% | |
| Number of employees | 255 | 258 | 284 | 286 | 274 | 293 | 289 | 312 | 327 | |
| Sales per employee | 21 | 21 | 21 | 22 | 24 | 22 | 23 | 22 | 23 | |
| Nicca Chemical (4463) Demi Cosmetics | FY03/12 C. | FY03/13 C. | FY12/13 C.** | FY12/14 C. | FY12/15 C. | FY12/16 C. | FY12/17 C. | FY12/18 C. | FY12/19 C. | |
| Sales | 6,522 | 7,525 | 6,282 | 8,015 | 10,644 | 12,654 | 12,494 | 13,977 | 11,399 | |
| YoY | 14.8% | 15.4% | -16.5% | 27.6% | 32.8% | 18.9% | -1.3% | 11.9% | -18.4% | |
| Operating profit | 1,393 | 1,898 | 1,628 | 1,826 | 1,813 | 2,354 | 2,064 | 2,285 | 1,687 | |
| YoY | 33.1% | 36.3% | -14.3% | 12.2% | -0.7% | 29.8% | -12.3% | 10.7% | -26.2% | |
| Operating profit margin | 21.4% | 25.2% | 25.9% | 22.8% | 17.0% | 18.6% | 16.5% | 16.3% | 14.8% | |
| R&D expenses | 206 | 254 | 206 | 257 | 210 | 233 | 251 | 324 | 352 | |
| YoY | 1.5% | 23.3% | -18.9% | 24.8% | -18.3% | 11.0% | 7.7% | 29.1% | 8.6% | |
| % of sales | 3.2% | 3.4% | 3.3% | 3.2% | 2.0% | 1.8% | 2.0% | 2.3% | 3.1% | |
| Number of employees | 203 | 216 | 224 | 236 | 279 | 297 | 312 | 327 | 276 | |
| Sales per employee | 32 | 35 | - | 34 | 38 | 43 | 40 | 43 | 41 | |
| Milbon (4919) | FY12/11 C. | FY12/12 C. | FY12/13 C. | FY12/14 C. | FY12/15 C. | FY12/16 C. | FY12/17 C. | FY12/18 C. | FY12/19 C. | |
| Sales | 20,527 | 21,887 | 23,830 | 25,227 | 27,377 | 29,135 | 33,456 | 33,882 | 36,266 | |
| YoY | 3.9% | 6.6% | 8.9% | 5.9% | 8.5% | 6.4% | 14.8% | 1.3% | 7.0% | |
| Operating profit | 3,792 | 3,986 | 4,303 | 4,451 | 4,728 | 5,113 | 5,345 | 6,261 | 6,751 | |
| YoY | 6.0% | 5.1% | 7.9% | 3.4% | 6.2% | 8.2% | 4.5% | 17.1% | 7.8% | |
| Operating profit margin | 18.5% | 18.2% | 18.1% | 17.6% | 17.3% | 17.6% | 16.0% | 18.5% | 18.6% | |
| R&D expenses | 870 | 873 | 970 | 1,169 | 1,214 | 1,232 | 1,422 | 1,479 | 1,534 | |
| YoY | 3.8% | 0.4% | 11.0% | 20.5% | 3.9% | 1.5% | 15.4% | 4.0% | 3.7% | |
| % of sales | 4.2% | 4.0% | 4.1% | 4.6% | 4.4% | 4.2% | 4.3% | 4.4% | 4.2% | |
| Number of employees | 502 | 528 | 591 | 649 | 704 | 775 | 805 | 856 | 910 | |
| Sales per employee | 41 | 41 | 40 | 39 | 39 | 38 | 42 | 40 | 40 | |
| ADJUVANT COSME JAPAN (4929) | FY03/12 C. | FY03/13 C. | FY03/14 C. | FY03/15 C. | FY03/16 C. | FY03/17 C. | FY03/18 C. | FY03/19 C. | FY03/20 C. | |
| Sales | 4,145 | 4,469 | 4,571 | 4,504 | 4,401 | 4,771 | 5,098 | 5,164 | 4,674 | |
| YoY | 2.0% | 7.8% | 2.3% | -1.5% | -2.3% | 8.4% | 6.8% | 1.3% | -9.5% | |
| Operating profit | 939 | 989 | 1,002 | 734 | 647 | 519 | 500 | 170 | -185 | |
| YoY | -4.2% | 5.3% | 1.4% | -26.8% | -11.8% | -19.8% | -3.6% | -66.1% | - | |
| Operating profit margin | 22.7% | 22.1% | 21.9% | 16.3% | 14.7% | 10.9% | 9.8% | 3.3% | -3.9% | |
| R&D expenses | 41 | 37 | 44 | 55 | 110 | 142 | 157 | 147 | 161 | |
| YoY | 9.9% | -9.1% | 18.9% | 24.8% | 101.0% | 29.1% | 10.3% | -6.4% | 9.8% | |
| % of sales | 1.0% | 0.8% | 1.0% | 1.2% | 2.5% | 3.0% | 3.1% | 2.8% | 3.4% | |
| Number of employees | 112 | 110 | 114 | 124 | 133 | 181 | 192 | 207 | 193 | |
| Sales per employee | 37 | 41 | 40 | 36 | 33 | 26 | 27 | 25 | 24 | |

Source: Shared Research based on company data

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

Note: FY12/13 figures for Nicca Chemical reflect only nine months due to a change in the accounting period; ROA and ROE are on a companywide basis.

Strengths and weaknesses

Strengths

- **Sales conducted exclusively through salons keep toiletry prices above generic alternatives:** COTA sells the products it develops and manufactures to consumers exclusively through salons. For example, COTA i CARE shampoo, one of the company's mainstay products, is sold at the retail price of JPY5,000 for a 750ml refill pouch, which is higher than the average price for generic equivalents of major manufacturers sold at drugstores and supermarkets (JPY500–1,000 for 660ml refill pouch). Shared Research understands the company's higher prices are underpinned by a combination of its in-house product development and its unique approach of selling products exclusively through salons. COTA develops and supplies products that meet the performance standards demanded by hair stylists, and that deliver sufficient quality to ensure hair stylists feel confident in recommending them to their customers. Salons and hair stylists thus function as sales outlets and representatives for COTA. Hair stylists listen to the concerns and preferences of their customers and recommend products accordingly. In the salon setting, they have ample time to explain the features of particular products and can also let customers try out products. This tends to lead to high customer satisfaction even though the products are sold at relatively high prices. COTA's products are relatively immune to price competition, unlike their generic counterparts, which must compete for attention on the shelves of supermarkets and drugstores.
- **Strategy to capture/retain salons as customers by boosting their earnings and modernizing their management:** Salon earnings grow as salon retail sales of COTA products rise, and this tends to stabilize salon management. Moreover, salons that agree to carry COTA products exclusively (i.e., commit to not using rival products) receive free management consulting services under the company's Junpo Salon System, which has a track record of improving salon management. The company has achieved growth on its ability to capture and retain salons as its customers through its policy of providing free management consulting.
- **Business model conducive to repeat orders:** Consumers tend to visit the same salon repeatedly. Since salons keep track of purchase histories of their customers, they can accurately check product usage, impressions, and satisfaction whenever a customer visits their salon, and accordingly make informed follow-up sales recommendations. While companies selling generic shampoos and treatments have very limited opportunities to interact with their consumers, COTA is able to connect with consumers through the medium of salons, which fosters repeat orders.

Weaknesses

- **Policy of selling exclusively through salons limits prospects for rapid sales growth:** COTA supplies high quality products to ensure hair stylists can confidently recommend them to customers. Its products have gained the recognition of professional hair stylists, so the company should theoretically be able to rapidly expand sales through direct sales to consumers, either online or otherwise. However, COTA is committed conducting sales exclusively through salons to keep with its founder's spirit of "modernizing the hair salon industry with salon management." A drawback of this approach is the greater time necessary to secure a sale, which limits the prospects of rapid sales growth (sales have expanded at a CAGR of 3.8% over the last five years, and 4.4% over the last three years). In other words, the company deliberately opts for modest sales growth to maintain its high-margin business model.
- **Insufficient brand recognition makes it difficult to capture newly opening salons as customers:** Milbon (TSE1: 4919), a rival with strong brand recognition in the hair salon industry, posted sales several times larger than COTA's in FY12/19, at JPY30.4bn. COTA has the second largest domestic market share in salon retail sales of shampoos and treatments, and ranks seventh for hair coloring and perm products. New salons, especially those that are not particular about the products they carry, are likely to stock Milbon products first because of their high brand recognition. COTA has lagged in capturing the many new industry entrants mainly because its brand recognition is still developing.
- **Inability to actively pursue overseas expansion at present stage of development:** Milbon has built a strong position in Japan and is already expanding sales in overseas markets, which it positions as the next growth driver under a strategy aimed at reaping first-mover advantages. Shared Research thinks COTA has ample room to expand its domestic market share and will need to concentrate its management resources in Japan in the foreseeable future even as major competitors have already moved on to the next stage of their growth.

Historical performance and financial statements

Income statement

| Income statement (JPYmn) | FY03/12 | FY03/13 | FY03/14 | FY03/15 | FY03/16 | FY03/17 | FY03/18 | FY03/19 | FY03/20 |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Parent | Parent | Parent | Parent | Parent | Parent | Parent | Parent | Parent |
| Sales | 5,315 | 5,545 | 5,878 | 6,186 | 6,528 | 6,552 | 6,732 | 6,992 | 7,461 |
| YoY | 4.7% | 4.3% | 6.0% | 5.2% | 5.5% | 0.4% | 2.7% | 3.9% | 6.7% |
| Cost of sales | 1,406 | 1,642 | 1,698 | 1,753 | 1,857 | 1,764 | 1,796 | 1,807 | 1,852 |
| Gross profit | 3,908 | 3,903 | 4,179 | 4,433 | 4,671 | 4,788 | 4,936 | 5,186 | 5,609 |
| YoY | 4.5% | -0.1% | 7.1% | 6.1% | 5.4% | 2.5% | 3.1% | 5.1% | 8.2% |
| Gross profit margin | 73.5% | 70.4% | 71.1% | 71.7% | 71.6% | 73.1% | 73.3% | 74.2% | 75.2% |
| SG&A expenses | 2,907 | 3,033 | 3,265 | 3,451 | 3,542 | 3,559 | 3,621 | 3,788 | 4,139 |
| YoY | 4.6% | 4.3% | 7.6% | 5.7% | 2.6% | 0.5% | 1.7% | 4.6% | 9.3% |
| SG&A ratio | 54.7% | 54.7% | 55.5% | 55.8% | 54.3% | 54.3% | 53.8% | 54.2% | 55.5% |
| Operating profit | 1,002 | 870 | 915 | 982 | 1,129 | 1,230 | 1,315 | 1,398 | 1,470 |
| YoY | 4.2% | -13.1% | 5.1% | 7.3% | 15.0% | 8.9% | 6.9% | 6.3% | 5.1% |
| Operating profit margin | 18.8% | 15.7% | 15.6% | 15.9% | 17.3% | 18.8% | 19.5% | 20.0% | 19.7% |
| Non-operating income | 25 | 47 | 23 | 16 | 24 | 29 | 26 | 28 | 25 |
| Non-operating expenses | 32 | 36 | 43 | 38 | 22 | 25 | 3 | 25 | 3 |
| Interest income | 1 | 0 | 1 | 1 | 2 | 4 | 2 | 2 | 2 |
| Dividend income | 2 | 4 | 3 | 3 | 2 | 2 | 2 | 1 | 1 |
| Recurring profit | 994 | 881 | 895 | 960 | 1,130 | 1,233 | 1,339 | 1,400 | 1,492 |
| YoY | 3.8% | -11.4% | 1.6% | 7.3% | 17.8% | 9.1% | 8.6% | 4.6% | 6.6% |
| Recurring profit margin | 18.7% | 15.9% | 15.2% | 15.5% | 17.3% | 18.8% | 19.9% | 20.0% | 20.0% |
| Extraordinary gains | 2 | 150 | - | - | - | - | - | - | - |
| Extraordinary losses | 8 | - | - | - | - | - | - | - | - |
| Income taxes | 439 | 402 | 361 | 334 | 364 | 365 | 368 | 435 | 456 |
| Implied tax rate | 44.4% | 39.0% | 40.3% | 34.8% | 32.2% | 29.6% | 27.5% | 31.1% | 30.6% |
| Net income | 549 | 629 | 534 | 626 | 767 | 868 | 971 | 965 | 1,036 |
| YoY | 17.4% | 14.7% | -15.1% | 17.2% | 22.4% | 13.3% | 11.8% | -0.6% | 7.3% |
| Net margin | 10.3% | 11.3% | 9.1% | 10.1% | 11.7% | 13.3% | 14.4% | 13.8% | 13.9% |

Source: Shared Research based on company data

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

Balance sheet

| Balance sheet (JPYmn) | FY03/12 Parent | FY03/13 Parent | FY03/14 Parent | FY03/15 Parent | FY03/16 Parent | FY03/17 Parent | FY03/18 Parent | FY03/19 Parent | FY03/20 Parent |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| ASSETS | | | | | | | | | |
| Cash and deposits | 53 | 32 | 29 | 24 | 3,139 | 3,663 | 3,966 | 3,993 | 4,930 |
| Securities | 1,617 | 1,861 | 2,378 | 2,202 | - | - | 50 | 50 | 100 |
| Notes and accounts receivable | 1,108 | 1,076 | 1,205 | 1,260 | 1,340 | 1,330 | 1,306 | 1,288 | 1,203 |
| Inventories | 511 | 636 | 638 | 674 | 560 | 640 | 613 | 758 | 944 |
| Deferred tax assets | 97 | 102 | 108 | 103 | 102 | 105 | - | - | - |
| Other | 87 | 25 | 25 | 21 | 27 | 25 | 23 | 26 | 53 |
| Total current assets | 3,472 | 3,731 | 4,383 | 4,285 | 5,167 | 5,763 | 5,958 | 6,115 | 7,230 |
| Buildings and structures | 1,611 | 1,511 | 1,422 | 1,323 | 1,224 | 1,138 | 1,183 | 1,113 | 1,050 |
| Land | 1,159 | 1,159 | 1,159 | 1,159 | 1,159 | 1,159 | 1,159 | 1,159 | 1,159 |
| Other | 571 | 494 | 388 | 274 | 208 | 191 | 151 | 139 | 99 |
| Total tangible fixed assets | 3,341 | 3,163 | 2,969 | 2,756 | 2,591 | 2,488 | 2,492 | 2,410 | 2,308 |
| Goodwill | - | - | - | - | - | - | - | - | - |
| Other | 111 | 84 | 63 | 44 | 111 | 248 | 198 | 145 | 104 |
| Total intangible assets | 111 | 84 | 63 | 44 | 111 | 248 | 198 | 145 | 104 |
| Investment securities | 180 | 106 | 144 | 193 | 193 | 342 | 293 | 302 | 193 |
| Deferred tax assets | 148 | 100 | 120 | 92 | 114 | 151 | 296 | 308 | 364 |
| Other | 86 | 93 | 98 | 187 | 163 | 117 | 127 | 121 | 158 |
| Investments and other assets | 414 | 299 | 362 | 472 | 470 | 610 | 715 | 731 | 715 |
| Total fixed assets | 3,866 | 3,546 | 3,395 | 3,272 | 3,171 | 3,346 | 3,406 | 3,287 | 3,127 |
| Total assets | 7,338 | 7,277 | 7,777 | 7,557 | 8,338 | 9,109 | 9,364 | 9,402 | 10,356 |
| LIABILITIES | | | | | | | | | |
| Accounts and notes payable | 78 | 38 | 92 | 126 | 82 | 114 | 128 | 151 | 154 |
| Short-term debt | - | - | - | - | - | - | - | - | - |
| Other | 1,488 | 962 | 988 | 1,031 | 1,239 | 1,267 | 1,266 | 1,412 | 1,500 |
| Total current liabilities | 1,566 | 1,000 | 1,080 | 1,157 | 1,320 | 1,382 | 1,394 | 1,563 | 1,654 |
| Long-term debt | - | - | - | - | - | - | - | - | - |
| Other | 417 | 452 | 512 | 541 | 596 | 679 | 826 | 830 | 958 |
| Total fixed liabilities | 417 | 452 | 512 | 541 | 596 | 679 | 826 | 830 | 958 |
| Total liabilities | 1,983 | 1,452 | 1,592 | 1,699 | 1,916 | 2,060 | 2,220 | 2,393 | 2,612 |
| NET ASSETS | | | | | | | | | |
| Shareholder's equity | 5,353 | 5,824 | 6,185 | 5,857 | 6,421 | 7,048 | 7,144 | 7,008 | 7,743 |
| Subscription rights to shares | - | - | - | - | - | - | - | - | - |
| Valuation and translation adjustments | 2 | 0 | 1 | 1 | 1 | 0 | 1 | 1 | 1 |
| Total net assets | 5,355 | 5,825 | 6,185 | 5,858 | 6,422 | 7,049 | 7,145 | 7,009 | 7,744 |
| Working capital | 1,541 | 1,674 | 1,751 | 1,808 | 1,818 | 1,856 | 1,792 | 1,895 | 1,993 |
| Total interest-bearing debt | - | - | - | - | - | - | - | - | - |
| Net debt | -1,670 | -1,892 | -2,407 | -2,226 | -3,139 | -3,663 | -4,016 | -4,043 | -5,030 |

Source: Shared Research based on company data

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

Cash flow statement

| Cash flow statement (JPYmn) | FY03/12 Parent | FY03/13 Parent | FY03/14 Parent | FY03/15 Parent | FY03/16 Parent | FY03/17 Parent | FY03/18 Parent | FY03/19 Parent | FY03/20 Parent |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Cash flows from operating activities (1) | 632 | 1,032 | 890 | 950 | 1,197 | 1,227 | 1,328 | 1,202 | 1,301 |
| Pre-tax profit | 988 | 1,031 | 895 | 960 | 1,130 | 1,233 | 1,339 | 1,400 | 1,492 |
| Depreciation | 136 | 414 | 328 | 285 | 220 | 195 | 225 | 208 | 204 |
| Impairment losses | - | - | - | - | - | - | - | - | - |
| Amortization of goodwill | - | - | - | - | - | - | - | - | - |
| Gains on negative goodwill | - | - | - | - | - | - | - | - | - |
| Change in working capital | -183 | -133 | -77 | -57 | -10 | -4 | 64 | -103 | -98 |
| Income taxes | -358 | -369 | -365 | -384 | -346 | -382 | -417 | -361 | -564 |
| Cash flows from investing activities (2) | -827 | -652 | -202 | -108 | -1,582 | -662 | -449 | -75 | -564 |
| Purchase of tangible/intangible fixed assets | -1,123 | -724 | -154 | -50 | -79 | -286 | -134 | -67 | -85 |
| Proceeds from sale of tangible/intangible fixed assets | - | - | - | - | - | - | - | - | - |
| Free cash flow (1+2) | -195 | 380 | 689 | 843 | -385 | 565 | 879 | 1,127 | 737 |
| Cash flows from financing activities | -143 | -158 | -174 | -1,024 | -203 | -241 | -875 | -1,100 | -300 |
| Net increase in short-term borrowings | - | - | - | - | - | - | - | - | - |
| Net increase in long-term borrowings | - | - | - | - | - | - | - | - | - |
| Proceeds from issuance of, and redemption of, bonds | - | - | - | - | - | - | - | - | - |
| Purchase of treasury shares | -0 | -0 | -1 | -812 | -6 | -6 | -616 | -825 | -7 |
| Disposal of treasury shares | 0 | - | 0 | - | - | 0 | 0 | 0 | 0 |
| Dividends paid | -143 | -157 | -173 | -211 | -197 | -236 | -259 | -275 | -293 |
| Change in cash and cash equivalents | -338 | 222 | 515 | -181 | -588 | 324 | 3 | 27 | 437 |
| Depreciation and amortization (A) | 136 | 414 | 328 | 285 | 220 | 195 | 225 | 208 | 204 |
| Capital expenditures (B) | -1,123 | -724 | -154 | -50 | -79 | -286 | -134 | -67 | -85 |
| Change in working capital (C) | -183 | -133 | -77 | -57 | -10 | -4 | 64 | -103 | -98 |
| Simple FCF (NI + A + B - C) | -181 | 589 | 992 | 1,138 | 1,262 | 1,137 | 1,495 | 1,437 | 1,513 |

Source: Shared Research based on company data

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

Profitability analysis

| Profit margins (JPYmn) | FY03/12 Parent | FY03/13 Parent | FY03/14 Parent | FY03/15 Parent | FY03/16 Parent | FY03/17 Parent | FY03/18 Parent | FY03/19 Parent | FY03/20 Parent |
|------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Gross profit | 3,908 | 3,903 | 4,179 | 4,433 | 4,671 | 4,788 | 4,936 | 5,186 | 5,609 |
| Gross profit margin | 73.5% | 70.4% | 71.1% | 71.7% | 71.6% | 73.1% | 73.3% | 74.2% | 75.2% |
| Operating profit | 1,002 | 870 | 915 | 982 | 1,129 | 1,230 | 1,315 | 1,398 | 1,470 |
| Operating profit margin | 18.8% | 15.7% | 15.6% | 15.9% | 17.3% | 18.8% | 19.5% | 20.0% | 19.7% |
| EBITDA | 1,138 | 1,285 | 1,243 | 1,267 | 1,349 | 1,425 | 1,540 | 1,606 | 1,674 |
| EBITDA margin | 21.4% | 23.2% | 21.1% | 20.5% | 20.7% | 21.7% | 22.9% | 23.0% | 22.4% |
| Net margin | 10.3% | 11.3% | 9.1% | 10.1% | 11.7% | 13.3% | 14.4% | 13.8% | 13.9% |
| Financial ratios | | | | | | | | | |
| ROA (RP-based) | 14.7% | 12.1% | 11.9% | 12.5% | 14.2% | 14.1% | 14.5% | 14.9% | 15.1% |
| ROE | 10.7% | 11.3% | 8.9% | 10.4% | 12.5% | 12.9% | 13.7% | 13.6% | 14.0% |
| Total asset turnover | 87.3% | 81.8% | 80.4% | 82.2% | 85.1% | 82.4% | 77.2% | 75.7% | 79.5% |
| Working capital | 1,541 | 1,674 | 1,751 | 1,808 | 1,818 | 1,856 | 1,792 | 1,895 | 1,993 |
| Current ratio | 221.8% | 373.1% | 405.7% | 370.2% | 391.4% | 417.1% | 427.5% | 391.2% | 437.2% |
| Quick ratio | 183.6% | 307.0% | 344.4% | 310.2% | 346.9% | 369.0% | 381.9% | 341.0% | 376.9% |
| OCF / Current liabilities | 51.3% | 80.4% | 85.6% | 84.9% | 96.6% | 90.8% | 95.7% | 81.3% | 80.9% |
| OCF / Total liabilities | 31.8% | 71.0% | 55.9% | 55.9% | 62.5% | 59.5% | 59.8% | 50.2% | 49.8% |
| Cash conversion cycle (days) | 51.42 | 59.03 | 56.82 | 49.95 | 52.24 | 54.11 | 46.87 | 39.51 | 30.87 |
| Change in working capital | 181 | 133 | 77 | 57 | 10 | 38 | -64 | 103 | 98 |

Source: Shared Research based on company data

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

Historical performance

1H FY03/21 results (out November 5, 2020)

Summary

For 1H FY03/21, the company reported sales of JPY3.0bn (-5.0% YoY), operating profit of JPY329mn (-24.9% YoY), recurring profit of JPY340mn (-24.3% YoY), and net income of JPY235mn (-25.2% YoY). Q1 included the period covered by the Japanese government's state of emergency declaration amid the COVID-19 pandemic, and the salons that handle the company's products shortened operating hours or temporarily closed and also saw customer traffic drop sharply during Q1. In Q2, however, customer traffic has for the most part recovered to normal levels following the lift of the state of emergency declaration. Consumable household toiletries (shampoo and treatment) represent the core of COTA's sales, so the effects of the pandemic have been minimal.

The company made no changes to its initial forecast for FY03/21 calling for sales of JPY7.7bn, operating profit of JPY1.2bn, and net income of JPY855mn. It expects to achieve its 23rd consecutive year of sales growth with a combination of consulting-based sales, mainly through the Junpo Salon System, and a retail sales strategy centered on sales of toiletries. Although sales progress versus the full-year company forecast has been slow at 39.5% as of end-1H (42.6% of full-year result in 1H FY03/20), this was mainly due to three factors: 1) In line with COTA's sales strategies, earnings tend to concentrate in Q3; 2) the new product COTA TREAT PREMIQUE was released in May 2019, increasing inventory for distributors and salons in 1H FY03/20; and 3) distributors and salons made large purchases during 1H FY03/20 in preparation for demand before the consumption tax hike (the progress rate for 1H FY03/19 was 38.7%). The company also made no changes to its annual dividend forecast of JPY18.0 per share.

Q2 results

In Q2, sales were JPY1.8bn (+1.5% YoY), operating profit was JPY344mn (+5.0% YoY), and net income was JPY246mn (+3.0% YoY). Q1 is seasonally a period of lackluster demand and performance was affected by the impact of the pandemic and staffing increases targeting medium- and long-term growth. As a result, the company reported operating loss in Q1. In Q2, however, it recorded YoY increases in sales and profits as the impact of the pandemic was almost entirely resolved.

By product category, the company reported Q2 sales of JPY1.3bn (-1.9% YoY) for toiletries, which make up the largest component of sales. Overall, performance can be seen as strong. In Q2 FY03/20, the company's sales were boosted by increased inventory at distributors and salons in preparation for demand preceding the consumption tax hike, so sales were down on a YoY basis. However, sales increased 19.6% compared to Q2 FY03/19. Sales of mainstay COTA i CARE shampoos and treatments in 1H increased 4.3% YoY, indicating that repeat users of COTA's products are steadily increasing.

Sales for hair styling products were JPY316mn (+23.0% YoY). In September 2020, the company released the new product COTA Styling Base B7 Air (60mL, JPY3,850). It is an oil-based product, but consumers can enjoy a light and shiny finish. COTA has offered oil-based hair styling products for some time, but these were generally suited to more put-together, sleek hairstyles. COTA has positioned this new product as being set apart from existing products, as this product belongs to a new category. The shipment of this product to distributors (distributor inventory) has contributed to the boost in Q2 sales.

Q2 sales for hair coloring products were JPY83mn (-2.4% YoY); for hair growing agents, JPY59mn (+13.5% YoY); for perm products, JPY31mn (-11.4%); and for other, JPY18mn (-33.3%).

The Q2 gross profit margin of 74.8% was up from 74.1% in Q2 FY03/20. The company's continued review of cost of sales management, with more accurate sales forecasts and better production planning, and ongoing efforts to improve production process, have boosted profitability.

SG&A expenses were JPY1.0bn (+1.5% YoY). COTA has increased its staff in preparation for medium-to long-term growth, so personnel expenses are increasing. In Q1, travel expenses decreased due to the limiting of salon visits and other sales activities, but these visits generally returned to normal in Q2, so travel expenses have also returned to previous levels. However, events where people gather, such as the COTA Styling Awards, remain suspended. Reductions in costs for holding these events appear

to exceed plan. Normally, COTA's sales activities focus on seeking out new customer salons, but during FY03/21, given the effects of the COVID-19 pandemic, the company is focusing on following up with existing customer outlets.

At end-September 2020, there were 1,618 Junpo member salons, down from 1,633 at end-March 2020. The number of contract cancellations is comparable to most years, but the increase in new member salons has been sluggish, resulting in a net decrease. COTA has strengthened its sales capabilities through increased hiring, and it said the first target for applying this new sales capacity is increasing the number of new customers. After securing these new customers, the company will then move on to increasing the number of Junpo member salons.

Q1 FY03/21 results (out July 30, 2020)

Summary

In Q1 FY03/21, the company reported (non-consolidated) sales of JPY1.2bn (-13.3% YoY), an operating loss of JPY15mn (operating profit of JPY110mn in Q1 FY03/20), a recurring loss of JPY10mn (recurring profit of JPY116mn), and a net loss of JPY11mn (net income of JPY75mn). The company's forecast for FY03/21 remains unchanged, projecting sales of JPY7.5bn (+2.5% YoY), operating profit of JPY1.2bn (-16.0% YoY), recurring profit of JPY1.3bn (-15.8% YoY), net income of JPY855mn (-17.4% YoY), and EPS of JPY43.4.

State-of-emergency declarations issued in response to the COVID-19 pandemic caused the number of customers visiting salons (the sales channel for COTA's products) in April to drop nearly 40% YoY. In May and June, the decline in salon visitation diminished and visitation appears to have rebounded into positive territory in July. The number of customers visiting Junpo member salons, through which the company provide its consulting services system to support and enhance salon management, fell nearly 20% YoY during April–June. Despite this, sales of the company's products made to consumers through salons were strong, with particularly robust performance from its core COTA i CARE product lineup. Many consumers avoided receiving haircuts and other services at salons to prevent infection, but many also continued to visit salons so they could purchase shampoos, treatments, and other products for home use.

Sales trends

By product category, the company reported Q1 toiletry product sales of JPY871mn (-14.3% YoY), hair styling product sales of JPY196mn (-3.0% YoY), hair coloring product sales of JPY54mn (-11.5% YoY), hair growing agent sales of JPY43mn (down slightly YoY), perm products sales of JPY21mn (-19.2% YoY), and other product sales of JPY16mn (-55.6% YoY).

In toiletries (accounted for 73.4% of sales in FY03/20), sales of shampoos and treatments in the company's core COTA i CARE product lineup (accounted for over 70% of toiletry sales) increased YoY. However, overall toiletry sales fell as the company experienced a reactionary downturn in sales of its COTA TREAT PREMIQUE lineup, which was launched during FY03/20 (released in May 2019; primarily focused on treatments used in salons, but also includes product lineups for consumers to use at home to maintain hair texture). The reactionary downturn in COTA TREAT PREMIQUE sales occurred because, at the time the lineup was released, distributors and salons procured enough products from the lineup to build adequate inventories, which caused sales in FY03/20 to swell. Currently, inventory levels at distributors and salons appear to have stabilized. According to the company, sales of COTA TREAT PREMIQUE products made to consumers through salons are on an upswing.

Fundamentally, the company believes that success at its customer salons contributes to its own success. During April–June 2020, when impact from the COVID-19 pandemic was strong, sales of toiletries made to consumers through salons (salon retail sales) were robust. These robust sales provided support for the business results of salons, which were worsening as customer visitation diminished. Based on trends like these, the company is confident that it can lead partner salons to victory in the harshly competitive salon industry by developing consulting-based sales methods that revolve around its Junpo Salon System and salon retail sales strategies focused on selling toiletries.

Lower customer visitation at salons led to reductions in sales of hair coloring products and perm products. The COVID-19 pandemic had a negative impact on the company's sales, but this impact was limited, because the company mainly sells toiletry products designed for home consumption.

Gross profit margin

The Q1 gross profit margin of 76.4% was essentially unchanged from 76.5% in Q1 FY03/20, as the company effectively offset a less-profitable sales mix (resulting from the decline in the proportion of overall sales accounted for by relatively high-margin toiletry products) with cost-savings on the production side, where it benefited from more accurate sales forecasts and better production planning, and ongoing efforts to increase efficiency on the factory floor.

SG&A expenses

SG&A expenses were down by 1.7% YoY, to JPY935m. Personnel expenses rose YoY as the company increased the size of its staff, hiring about 30 new employees. However, the company exercised restraint in terms of sales activities, which substantially lowered sales-related expenses such as travel expenses. The scale of sales activities reached its normal level in July, and the company projects that sales-related expenses will also rise to normal levels starting in Q2.

Sales activities

In Q1, some of the company's sales activities (acquisition of new partner salons) were delayed or stagnated due to measures implemented in response to the COVID-19 pandemic that included the adoption of teleworking primarily for sales positions and business trip cancellations. Despite these hindrances to the company's sales activities, the number of salons with a renewed awareness regarding the importance of salon retail sales (sales of products that can be expected to bring in a measurable amount of revenue, even when haircuts and other services are not possible) increased, particularly in urban areas, where salons were directly impacted by a rapid decline in customer visitation as consumers stayed indoors to avoid infection. The company appears to have acquired fewer new partners than projected (before accounting for impact from the COVID-19 pandemic) in Q1, but indicated that recovery from a shortfall of this scale is possible.

FY03/21 forecast

The company made no changes to its initial forecast for FY03/21 that calls for full-year sales of JPY7.7bn, operating profit of JPY1.2bn, and net income of JPY855mn. The company expects to realize its 23rd consecutive year of positive top-line growth thanks to ongoing expansion driven by a combination of its Junpo Salon System-based consulting business and salon retail sales of toiletry products. Although sales would appear to be running below plan at this point (with Q1 giving it only 15.7% of its full-year target versus 18.6% at this time last year), the company is sticking with original estimate for full-year sales. By way of explanation, the company said 1) its main sales push this year was originally geared toward the second half of the year and not the first; 2) salon retail sales of toiletries and other products in its mainstay COTA i CARE product line are doing well and the salons that handle its products and who were hit hard during the period covered by the government's state of emergency declaration, have been seeing customers traffic come back since the emergency declaration was lifted in mid-May; and 3) the losses it booked in Q1 were small, and did not warrant changing its full-year forecast. The company also made no changes to its plans to pay an annual dividend of JPY18.0 per share.

Full-year FY03/20 results (out May 8, 2020)

Summary

In full-year FY03/20, sales were JPY7.5bn (+6.7% YoY), operating profit was JPY1.5bn (+5.1% YoY), recurring profit JPY1.5bn (+6.6% YoY), and net income JPY1.0bn (+7.3% YoY). These results were in line with the upwardly revised forecast announced on April 23. Sales and operating profit reached record highs, expanding for the 22nd and seventh consecutive year, respectively. Increased sales of toiletries (shampoo, conditioner, etc.) sold through salons drove growth. Sales of toiletries were strong, centered on the flagship COTA i CARE products and the new COTA TREAT PREMIQUE line, which was released in May 2019. These strong sales led to higher profit, despite increased SG&A expenses, primarily personnel expenses. The annual dividend was JPY18 per share (prior to adjustment for stock split) and the payout ratio was 31.1%.

In Q4 FY03/20, sales were JPY1.5bn (-2.9% YoY), operating profit was JPY74mn (-39.2% YoY), recurring profit JPY80mn (-38.6% YoY), and net income JPY52mn (-9.2% YoY). Sales of toiletries increased 2.8% YoY, maintaining a growth trend, while sales of hair styling products, hair coloring products, hair growing agents, and perm products all saw significant decreases, down 15.6% YoY, 15.3%, 9.8%, and 11.1%, respectively.

The company's forecasts for FY03/21 call for sales of JPY7.7bn (+2.5% YoY), operating profit of JPY1.2bn (-16.0% YoY), recurring profit of JPY1.3bn (-15.8% YoY), net income of JPY855mn (-17.4% YoY), and EPS of JPY43.41. Citing difficulty in predicting the effects of the COVID-19 pandemic at this moment, the company has not factored any impact into its forecasts; if any revisions prove necessary, though, they will be announced promptly. COTA targets an annual dividend of JPY18 per share for FY03/21 (note that the company performed a 1.1-for-1 stock split on April 1, 2020).

Earnings trends

In FY03/20, sales grew to JPY7.5bn (+6.7% YoY). On a product basis, growth was driven by toiletries, in which the company posted sales of JPY5.5bn (+11.1% YoY). Sales of flagship COTA i CARE shampoos and treatments rose 6.1% YoY to JPY3.7bn, buoyed by repeat demand from consumers buying through salons and an increase in partner salons, with the new COTA TREAT PREMIQUE line (mainly treatments used in salons, but also includes product lineups for consumers to use at home to maintain hair texture), which was launched in May 2019, also contributing. In its first fiscal year on the market, the new COTA TREAT PREMIQUE line achieved sales of JPY696mn. The company continues to sell the COTA QUALIA line of treatments, but sales of these products dropped from JPY539mn to JPY234mn in FY03/20. Combined sales of the two product lines grew from JPY539mn to JPY930mn, with most of this increase attributable to the new COTA TREAT PREMIQUE line.

Sales of hair styling products decreased 0.5% YoY to JPY1.2bn, as did hair coloring products (down 14.6% YoY to JPY327mn), hair growing agents (down 4.5% YoY to JPY253mn), and perm products (down 4.7% YoY to JPY123mn). Competition is fierce in hair coloring products, due in part to new product launches by rivals, while in perm products the company said that demand remained firm for straight perm products, but contracted for wavy perm products, likely reflecting the latest fashion trends.

Gross profit came to JPY5.6bn (+8.2% YoY) in FY03/20. Contributing to growth were the effects from continued reviews of cost management (production plans based on highly accurate sales forecasts and continued reviews of production processes) and an increase in the sales share of toiletries, which have comparatively high GPM. GPM increased to 75.2% (up from 74.2% in FY03/19).

SG&A expenses rose 9.3% YoY to JPY4.1bn, in line with the company's initial forecast of JPY4.2bn. The increase in SG&A expenses in FY03/20 centered mainly on personnel expenses, as the company is looking to strengthen its sales force through enhancing personnel training.

The number of salons adopting the company's Junpo Salon System, which has a track record of improving salon management, was flat YoY at 1,633 (113 newly adopted the system and 113 canceled their membership). By strengthening its sales force, COTA seeks primarily to add new partner salons (from a sales perspective, the company is less focused in the near term on net growth in the number of Junpo member salons). COTA says that upskilling of younger sales reps in particular has resulted in an increase in partner salon numbers in recent years. In the near future, it expects the number of Junpo member salons to track upward as well.

COVID-19 pandemic had limited impact on earnings in FY03/20. In March, customer footfall at partner salons was down around 10%, but apparently the decline was smaller in salon retail sales to customers (while consumers held back from visiting salons to have their hair cut and colored, some continued to visit for the purpose of buying toiletries (shampoo, conditioner, etc.)).

Seasonality: The company's earnings tend to be skewed toward Q3 (October–December). November–December is typically the peak season for the hair salon industry as Christmas and year-end demand drives up customer traffic. The company strategically holds its COTA National Salon Sales Competition for partner salons in this period. The competition provides incentives to boost salon retail sales during this period (including awards given to salons with outstanding sales performance). As a result of these factors, Q3 sales tend to rise above those of other quarters.

Q3 FY03/20 results

Summary

In cumulative Q3 FY03/20, sales were JPY6.0bn (+9.4% YoY), operating profit was JPY1.4bn (+9.4% YoY), recurring profit JPY1.4bn (+11.2% YoY), and net income JPY983mn (+8.4% YoY), reflecting record high sales and profit. Increased sales of toiletries (shampoo, conditioner, etc.) sold through salons drove growth. On account of the strong performance through to Q3, COTA upgraded its full-year FY03/20 forecasts. The revised forecasts call for sales of JPY7.4bn (+5.8% YoY, previously JPY7.3bn), operating profit of JPY1.4bn (-2.2% YoY, previously JPY1.2bn), recurring profit of JPY1.4bn (-0.7% YoY, previously JPY1.3bn), net income of JPY958mn (-0.7% YoY, previously JPY864mn), and EPS of JPY53.50 (previously JPY48.24).

In Q3 (October–December) FY03/20, sales were JPY2.8bn (+1.6% YoY), operating profit was JPY958mn (-2.2% YoY), recurring profit JPY963mn (-2.2% YoY), and net income JPY669mn (-4.4% YoY). The company was concerned that Q3 sales might be impacted by a reactionary drop-off caused by demand worth about JPY150mn that shifted to before the consumption tax hike. However, the company secured higher Q3 sales, although it did face a period of weak consumer sentiment. On a product basis, growth was driven by toiletries, in which the company posted sales of JPY2.1bn (+2.4% YoY). The flagship COTA i CARE shampoos and treatments, and the new COTA TREAT PREMIQUE line (mainly treatments used in salons, but also includes product lineups for consumers to use at home to maintain hair texture), which was launched in May 2019, also contributed. The performances of COTA Styling Base and other hairy styling products were strong, and their sales increased to JPY480mn (+3.4% YoY). On the other hand, sales of hair coloring products fell to JPY81mn (-17.3% YoY) as competition for sales to all buyers other than Junpo member salons intensified. Furthermore, sales of hair growing agents and perm products both came in below Q3 FY03/19, coming in at JPY112mn (-1.8% YoY) and JPY30mn (-11.8% YoY), respectively.

Sales made through the COTA National Salon Sales Competition (sales from salons to consumers) held from November–December 2019 were JPY3.2bn (2.3% higher than the previous year). COTA i CARE and COTA SERA Spa sales were strong. According to the company, Q3 sales per salon staff member rose. This allows us to surmise that the company's products are a primary factor supporting salon management.

Gross profit came to JPY2.1bn (+2.6% YoY) in Q3. Contributing to growth were the effects from continued reviews of cost management (production plans based on highly accurate sales forecasts and continued reviews of production processes) and an increase in the sales share of toiletries, which have comparatively high GPM. GPM increased to 76.0% (up from 75.3% in Q3 FY03/19). SG&A expenses rose 6.9% YoY to JPY1.2bn, centering on personnel expenses (staff expansion, wage raises, training-related expenses, etc.). The ratio of SG&A expenses to sales also increased to 41.6% (up from 39.5% in Q3 FY03/19), resulting in lower operating profit YoY.

Forecasts for Q4, calculated from company forecasts for FY03/20 (revised forecasts), are for sales of JPY1.4bn (-6.9% YoY), an operating loss of JPY29mn (from a profit of JPY122mn in Q4 FY03/19), a recurring loss of JPY22mn (from a profit of JPY130mn in Q4 FY03/19), and a net loss of JPY25mn (from a profit of JPY58mn in Q4 FY03/19). According to the company, Q3 is typically a busy period owing to high customer traffic at salons and the company holding its COTA National Salon Sales Competition, and sales tend to be lower in Q4 than in Q3. Nevertheless, the company has not posted an operating loss in Q4 for the past five years and does not appear to have any major concerns regarding Q4. Shared Research believes that the company's revised forecasts are on the conservative side.

At the same time as reporting Q3 results, COTA announced it was to conduct a 1.1-for-1 stock split effective on April 1, 2020 (record date: March 31, 2020).

Seasonality: The company's earnings tend to be skewed toward Q3 (October–December). November–December is typically the peak season for the hair salon industry as Christmas and year-end demand drives up customer traffic. The company strategically holds its COTA National Salon Sales Competition for partner salons in this period. The competition provides incentives to boost salon retail sales during this period (including awards given to salons with outstanding sales performance). As a result of these factors, Q3 sales tend to rise above those of other quarters.

Other information

History

| Date | | |
|-----------|------|---|
| September | 1979 | Oda Pharmaceuticals Co., Ltd. established in Kuse, Kyoto with the aim of manufacture and sale of professional-use haircare cosmetics |
| July | 1980 | Completed headquarters factory in Kuse, Kyoto |
| September | | Obtained approval to manufacture cosmetics based on Pharmaceutical Affairs Act (current Pharmaceutical and Medical Device Act) |
| December | | Obtained approval to manufacture quasi-pharmaceutical products based on Pharmaceutical Affairs Act (current Pharmaceutical and Medical Device Act) |
| July | 1983 | Computerized Shuho Salon System (now Junpo Salon System), a structure to capture business metrics at beauty salons on a weekly basis (every ten days in the current system) |
| November | 1986 | Held the first COTA National Salon Sales Competition (held every year since then) |
| January | 2001 | Changed name from Oda Pharmaceuticals Co., Ltd. to COTA Co., Ltd. |
| September | 2002 | Listed shares on the Second Section of the Osaka Securities Exchange (OSE) |
| March | 2012 | Completed Kyoto Factory in Kuse, Kyoto |
| July | 2013 | Listed shares on the Second Section of the Tokyo Stock Exchange (TSE) following the merger of TSE with OSE |
| March | 2014 | Changed listing to the First Section of the Tokyo Stock Exchange |

Source: Shared Research based on company data

News and topics

April 2020

On April 23, 2020, the company announced an upward revision to its full-year FY03/20 forecast.

Revised full-year FY03/20 forecast

- ▷ Sales: JPY7.5bn (previous forecast: JPY7.4bn)
- ▷ Operating profit: JPY1.5bn (previous forecast: JPY1.4bn)
- ▷ Recurring profit: JPY1.5bn (previous forecast: JPY1.4bn)
- ▷ Net income*: JPY1.0bn (previous forecast: JPY958mn)
- ▷ EPS: JPY52.57 (previous forecast: JPY48.63)

*Net income attributable to owners of the parent

Reason for the revision

The company saw robust toiletry sales driven by its mainstay product COTA i CARE and COTA TREAT PREMIQUE, a product launched in May 2019. In addition, COTA's cost-to-sales ratio fell below that of FY03/19 due to strong sales of high-margin toiletries and the company's continued efforts to review costs. SG&A expenses were roughly in line with plan overall despite a rise in personnel expenses. The company had expected sales to grow and profits to fall, but now expects profit to grow as well sales, and has revised its forecast accordingly.

Corporate governance and top management

Corporate governance

| Form of organization and capital structure | |
|---|--|
| Form of organization | Company with Audit & Supervisory Board |
| Controlling shareholder | None |
| Directors and Audit & Supervisory Board members | |
| Number of directors under Articles of Incorporation | 12 |
| Number of directors | 7 |
| Directors' terms under Articles of Incorporation | 2 |
| Chairman of the Board of Directors | President |
| Number of outside directors | 2 |
| Number of independent outside directors | 2 |
| Number of members of Audit & Supervisor Board under Articles of Incorporation | 4 |
| Number of members of Audit & Supervisor Board | 3 |
| Number of outside members of Audit & Supervisory Board | 2 |
| Number of independent outside members of Audit & Supervisory Board | 2 |
| Other | |
| Participation in electronic voting platform | None |
| Providing convocation notice in English | None |
| Implementation of measures regarding director incentives | Other |
| Eligible for stock option | None |
| Disclosure of individual director's compensation | None |
| Policy on determining amount of compensation and calculation methodology | In place |
| Corporate takeover defenses | None |

Source: Shared Research based on company data (as of June 2020)

Top management

Representative Director and President: Hiroteru Oda (born October 3, 1959)

| | |
|-------|--|
| 1984: | Joined COTA Co., Ltd. |
| 1991: | General Affairs Manager |
| 1992: | Director and Head of General Affairs Division |
| 1995: | Managing Director and Head of Sales Department |
| 1998: | Managing Director and Head of Administration Division |
| 2004: | Representative Director and President (current position) |
| 2015: | Representative Director and President at Eiwa Shoji Co., Ltd. (current position) |

Dividend policy

| Per share data (split-adjusted; JPY) | FY03/12 | FY03/13 | FY03/14 | FY03/15 | FY03/16 | FY03/17 | FY03/18 | FY03/19 | FY03/20 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Parent | Parent | Parent | Parent | Parent | Parent | Parent | Parent | Parent |
| Shares outstanding (ex. treasury shares; year-end) | 22.5 | 22.5 | 22.5 | 21.1 | 21.1 | 21.1 | 20.4 | 16.3 | 17.9 |
| EPS | 24.4 | 28.0 | 23.8 | 28.3 | 36.3 | 41.1 | 47.5 | 48.6 | 47.8 |
| EPS (fully diluted) | - | - | - | - | - | - | - | - | - |
| Dividend per share | 7.0 | 7.7 | 9.4 | 9.3 | 11.2 | 12.3 | 13.5 | 14.9 | 16.4 |
| Payout ratio | 28.7% | 27.5% | 39.6% | 32.9% | 30.8% | 29.9% | 28.5% | 30.6% | 31.1% |
| Book value per share | 238 | 259 | 275 | 277 | 304 | 334 | 351 | 356 | 357 |

Source: Shared Research based on company data

Note: The company performed 1.1-to-1 stock splits on April 1, 2011, April 1, 2012, April 1, 2013, and April 1, 2014, a 1.2-for-1 stock split on April 1, 2015, and 1.1-for-1 stock splits on April 1, 2016, April 1, 2017, April 1, 2018, April 1, 2019, and April 1, 2020.

Under its dividend policy, the company aims to maintain stable dividends, while focusing on retained earnings as needed to ensure future business development and reinforce its financial position. The payout ratio was 28.5% in FY03/18, 30.6% in FY03/19, and 31.1% in FY03/20. The company has kept its annual dividend at JPY18 per share (JPY20 per share in FY03/14 including a commemorative dividend), but as it has conducted successive stock splits, the dividend has increased in real terms.

To enhance shareholder value, the company also repurchases its shares while comprehensively assessing factors such as the market environment and capital efficiency. The company bought back its shares worth JPY608mn in FY03/18 and worth JPY817mn in FY03/19.

Major shareholders

| Top shareholders | Shares held ('000) | Shareholding ratio |
|--|--------------------|--------------------|
| Eiwa Shoji Co., Ltd. | 2,394 | 12.16% |
| Hiroteru Oda | 1,184 | 6.01% |
| Custody Bank of Japan, Ltd. (Trust account) | 708 | 3.60% |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 665 | 3.38% |
| Kenji Kato | 515 | 2.62% |
| Mieko Saito | 482 | 2.45% |
| Masanori Katayama | 468 | 2.38% |
| Taisei Kako Co., Ltd. | 424 | 2.15% |
| Hironori Oda | 301 | 1.53% |
| Takeuchi Press Industries Co., Ltd. | 292 | 1.48% |
| SUM | 7,438 | 37.77% |

Source: Shared Research based on company data (as of end-September, 2020)

Note: Shareholding ratio calculated based on shares outstanding (excl. treasury shares)

Employees

| Employees | FY03/12 | FY03/13 | FY03/14 | FY03/15 | FY03/16 | FY03/17 | FY03/18 | FY03/19 | FY03/20 |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| No. of employees | 255 | 258 | 284 | 286 | 274 | 293 | 289 | 312 | 327 |

Source: Shared Research based on company data

Profile

| | |
|---|---|
| Company Name | Head Office |
| COTA Co., Ltd. | 77 Taishin-Arami, Kumiyama-cho, Kuse-gun, Kyoto, 613-0036, Japan |
| Phone | Exchange Listing |
| 81-774-44-1681 | the First Section of the Tokyo Stock Exchange |
| Established | Listed On |
| September 1979 | March 2014 |
| Website | Fiscal Year-End |
| http://www.cota.co.jp/ | March |
| IR Contact | IR Web |
| | http://www.cota.co.jp/ir/ |

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

Current Client Coverage of Shared Research Inc.

| | | | |
|---------------------------------------|------------------------------------|--|--------------------------------|
| Advance Create Co., Ltd. | Digital Garage Inc. | KFC Holdings Japan, Ltd. | ROUND ONE Corporation |
| ADJUVANT COSME JAPAN CO., LTD. | Doshisha Corporation | KI-Star Real Estate Co., Ltd. | RYOHIN KEIKAKU CO., LTD. |
| Aeon Delight Co., Ltd. | Dream Incubator Inc. | KLab Inc. | SanBio Company Limited |
| Aeon Fantasy Co., Ltd. | Earth Corporation | Kondotec Inc. | SANIX INCORPORATED |
| Ai Holdings Corporation | Edion Corporation | Kumiai Chemical Industry Co., Ltd. | Sanrio Company, Ltd. |
| AI inside Inc. | Elecom Co., Ltd. | Lasertec Corporation | SATO HOLDINGS CORPORATION |
| AirTrip Corp. | en Japan Inc. | Locondo, Inc. | SBS Holdings, Inc. |
| and factory, inc. | Estore Corporation. | LUCKLAND CO., LTD. | Seikagaku Corporation |
| ANEST IWATA Corporation | euglena Co., Ltd. | Marumae Co., Ltd. | Seria Co., Ltd. |
| AnGes Inc. | FaithNetwork Co., Ltd. | MATSUI SECURITIES CO., LTD. | Serverworks Co., Ltd. |
| Anicom Holdings, Inc. | Ferrotec Holdings Corporation | Media Do Co., Ltd. | SHIFT Inc. |
| Anritsu Corporation | FIELDS CORPORATION | Medical System Network Co., Ltd. | Shikigaku Co., Ltd. |
| Apaman Co., Ltd. | Financial Products Group Co., Ltd. | MEDINET Co., Ltd. | SHIP HEALTHCARE HOLDINGS, INC. |
| ARATA CORPORATION | First Brothers Col, Ltd. | MedPeer, Inc. | SIGMAXYZ Inc. |
| Artspark Holdings Inc. | FreeBit Co., Ltd. | Mercuria Investment Co., Ltd. | SMS Co., Ltd. |
| AS ONE CORPORATION | Gamecard-Joyco Holdings, Inc. | Metaps Inc. | Snow Peak, Inc. |
| Ateam Inc. | GameWith, Inc. | Micronics Japan Co., Ltd. | Solasia Pharma K.K. |
| Aucfan Co., Ltd. | GCA Corporation | MIRAIT Holdings Corporation | SOURCENEXT Corporation |
| AVANT CORPORATION | Good Com Asset Co., Ltd. | Monex Goup Inc. | Star Mica Holdings Co., Ltd. |
| Axell Corporation | Grandy House Corporation | MORINAGA MILK INDUSTRY CO., LTD. | Strike Co., Ltd. |
| Azbil Corporation | Hakuto Co., Ltd. | Mortgage Service Japan Limited. | Symbio Pharmaceuticals Limited |
| AZIA CO., LTD. | Hamee Corp. | MRT Inc. | Synchro Food Co., Ltd. |
| AZoom, Co., Ltd. | Happinet Corporation | NAGASE & CO., LTD | TAIYO HOLDINGS CO., LTD. |
| Base Co., Ltd | Harmonic Drive Systems Inc. | NAIGAI TRANS LINE LTD. | Takashimaya Company, Limited |
| BEENOS Inc. | HENNGE K.K. | NanoCarrier Co., Ltd. | Take and Give Needs Co., Ltd. |
| Bell-Park Co., Ltd. | Hosokawa Micron Corporation | Net Marketing Co., Ltd. | TEAR Corporation |
| Benefit One Inc. | Hope, Inc. | Net One Systems Co., Ltd. | Tenpo Innovation Inc. |
| B-lot Co., Ltd. | HOUSEDO Co., Ltd. | Nichi-Iko Pharmaceutical Co., Ltd. | 3-D Matrix, Ltd. |
| Broadleaf Co., Ltd. | H2O Retailing Corporation | Nihon Denkei Co., Ltd. | The Hokkoku Bank, Ltd. |
| CanBas Co., Ltd. | IDOM Inc. | Nippon Koei Co., Ltd. | TKC Corporation |
| Canon Marketing Japan Inc. | IGNIS LTD. | NIPPON PARKING DEVELOPMENT Co., Ltd. | TKP Corporation |
| Career Design Center Co., Ltd. | i-mobile Co., Ltd. | NIPRO CORPORATION | Tsuzuki Denki Co., Ltd. |
| Carna Biosciences, Inc. | Inabata & Co., Ltd. | Nishinbo Holdings Inc. | TOCALO Co., Ltd. |
| CARTA HOLDINGS, INC | Infocom Corporation | NS TOOL CO., LTD. | TOKAI Holdings Corporation |
| CERES INC. | Infomart Corporation | OLBA HEALTHCARE HOLDINGS, Inc. | Tokyu Construction Co., Ltd. |
| Chiyoda Co., Ltd. | Intelligent Wave, Inc. | OHIZUMI MFG. CO., LTD. | TOYOBO CO., LTD. |
| Chori Co., Ltd. | ipet Insurance CO., Ltd. | Osix ra daichi Inc. | Toyo Ink SC Holdings Co., Ltd. |
| Chugoku Marine Paints, Ltd. | Itochu Enex Co., Ltd. | Oki Electric Industry Co., Ltd | Toyo Tanso Co., Ltd. |
| cocokara fine Inc. | JAFCO Co., Ltd. | ONO SOKKI Co., Ltd. | Tri-Stage Inc. |
| COMSYS Holdings Corporation | JMDC Inc. | ONWARD HOLDINGS CO., LTD. | TSURUHA Holdings |
| COTA CO., LTD. | JSB Co., Ltd. | Pan Pacific International Holdings Corporation | VISION INC. |
| CRE, Inc. | JTEC Corporation | PARIS MIKI HOLDINGS Inc. | VISIONARY HOLDINGS CO., LTD. |
| CREEK & RIVER Co., Ltd. | J Trust Co., Ltd | PIGEON CORPORATION | World Holdings Co., Ltd. |
| Daichi Kigenso Kagaku Kogyo Co., Ltd. | Japan Best Rescue System Co., Ltd. | P3, inc. | YELLOW HAT LTD. |
| Daiseki Co., Ltd. | JINS HOLDINGS Inc. | QB Net Holdings Co., Ltd. | YOSHINOYA HOLDINGS CO., LTD. |
| Demae-Can CO., LTD | JP-HOLDINGS, INC. | RACCOON HOLDINGS, Inc. | YUMESHIN HOLDINGS CO., LTD. |
| DIC Corporation | KAMEDA SEIKA CO., LTD. | Raysum Co., Ltd. | ZAPPALLAS, INC. |
| Digital Arts Inc. | Kanamic Network Co., LTD | RESORTTRUST, INC. | |

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