



Yellow Hat / 9882

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

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Key financial data

Income statement (JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
Sales	103,110	117,482	120,671	121,788	125,961	129,817	137,865	139,200	141,031	146,994	150,000
YoY	8.3%	13.9%	2.7%	0.9%	3.4%	3.1%	6.2%	1.0%	1.3%	4.2%	2.0%
Gross profit	26,937	34,228	37,004	38,690	42,602	46,681	51,761	53,621	56,517	59,900	
YoY	11.2%	27.1%	8.1%	4.6%	10.1%	9.6%	10.9%	3.6%	5.4%	6.0%	
Gross profit margin	26.1%	29.1%	30.7%	31.8%	33.8%	36.0%	37.5%	38.5%	40.1%	40.7%	
Operating profit	6,238	7,076	8,831	7,484	7,203	6,939	9,561	9,583	10,093	12,978	13,500
YoY	32.7%	13.4%	24.8%	-15.3%	-3.8%	-3.7%	37.8%	0.2%	5.3%	28.6%	4.0%
Operating profit margin	6.0%	6.0%	7.3%	6.1%	5.7%	5.3%	6.9%	6.9%	7.2%	8.8%	9.0%
Recurring profit	7,188	8,148	9,920	8,468	8,406	8,099	10,689	10,986	11,095	14,031	14,500
YoY	38.5%	13.4%	21.7%	-14.6%	-0.7%	-3.7%	32.0%	2.8%	1.0%	26.5%	3.3%
Recurring profit margin	7.0%	6.9%	8.2%	7.0%	6.7%	6.2%	7.8%	7.9%	7.9%	9.5%	9.7%
Net income	5,244	6,060	7,296	5,542	5,612	5,580	6,839	7,329	7,334	8,546	9,500
YoY	80.2%	15.6%	20.4%	-24.0%	1.3%	-0.6%	22.6%	7.2%	0.1%	16.5%	11.2%
Net margin	5.1%	5.2%	6.0%	4.6%	4.5%	4.3%	5.0%	5.3%	5.2%	5.8%	6.3%
Per-share data (split-adjusted; JPY)											
Shares issued (year-end; '000)	24,962	24,962	24,962	24,962	24,962	24,962	24,962	49,923	49,923	49,923	
EPS	109.4	130.2	160.9	120.0	121.4	121.0	148.4	159.0	159.1	185.3	205.9
Dividend per share	12.0	16.0	20.0	23.0	27.0	30.0	33.0	36.0	46.0	54.0	58.0
Book value per share	893.8	1,034.4	1,176.8	1,282.1	1,373.3	1,469.1	1,588.6	1,708.8	1,827.1	1,976.7	
Balance sheet (JPYmn)											
Cash and deposits	5,851	7,381	4,314	4,125	2,360	3,643	7,414	13,003	8,199	14,053	
Other	29,786	33,591	37,090	37,692	40,198	42,521	41,781	41,171	42,293	37,402	
Total current assets	35,637	40,972	41,404	41,817	42,558	46,164	49,195	54,174	50,492	51,455	
Tangible fixed assets	29,495	27,428	27,488	29,042	30,377	32,727	34,927	35,549	42,070	48,424	
Investments and other assets	14,072	13,414	14,160	14,177	14,068	14,124	15,787	15,361	16,267	18,283	
Intangible assets	782	306	199	458	502	468	376	234	730	815	
Total assets	79,987	82,122	83,252	85,496	87,506	93,485	100,286	105,320	109,560	118,980	
Accounts payable	8,496	10,649	11,374	10,502	10,912	11,298	10,412	10,246	9,375	8,707	
Short-term debt	4,149	6,374	1,549	1,251	-	-	-	-	-	-	
Total current liabilities	20,578	25,790	22,169	20,633	18,701	20,536	21,416	20,733	19,459	21,883	
Long-term debt	9,676	2,801	1,251	-	-	-	-	-	-	-	
Total fixed liabilities	16,159	9,382	7,704	5,500	5,247	5,125	5,506	5,645	5,680	5,710	
Total liabilities	36,738	35,172	29,874	26,133	23,949	25,661	26,923	26,379	25,139	27,594	
Total net assets	43,249	46,950	53,378	59,362	63,556	67,824	73,363	78,940	84,420	91,386	
Total interest-bearing debt	13,825	9,175	2,800	1,251	-	-	-	-	-	-	
Cash flow statement (JPYmn)											
Cash flows from operating activities	6,171	11,179	8,273	4,552	5,515	7,567	9,696	10,575	7,726	19,352	
Cash flows from investing activities	801	-1,766	-1,043	-3,964	-3,643	-4,301	-4,471	-3,266	-10,777	-11,101	
Cash flows from financing activities	-3,009	-7,900	-7,300	-4,358	-3,638	-1,963	-1,454	-1,719	-1,753	-2,396	
Financial ratios											
ROA (RP-based)	9.3%	10.1%	12.0%	10.0%	9.7%	8.9%	11.0%	10.7%	10.3%	12.3%	
ROE	12.9%	13.4%	14.5%	9.8%	9.1%	8.5%	9.7%	9.6%	9.0%	9.7%	
Equity ratio	54.1%	57.2%	64.1%	69.4%	72.6%	72.6%	73.2%	75.0%	77.1%	76.8%	

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

Recent updates

Highlights

On August 18, 2021, Shared Research updated the report following interviews with Yellow Hat Ltd.

On August 3, 2021, the company announced earnings results for Q1 FY03/22; see the results section for details.

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

Trends and outlook

Quarterly trends and results

Cumulative (JPYmm)	FY03/21				FY03/22				FY03/22		FY03/22	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	1H Est.	% of Est.	FY Est.
Sales	31,133	67,613	115,211	146,994	33,383				49.1%	68,000	22.3%	150,000
YoY	-5.3%	-5.5%	2.5%	4.2%	7.2%					0.6%		2.0%
Gross profit	13,041	27,264	45,989	59,900	14,084							
YoY	-3.1%	-3.9%	3.8%	6.0%	8.0%							
Gross profit margin	41.9%	40.3%	39.9%	40.7%	42.2%							
SG&A expenses	11,242	22,689	34,866	46,922	11,572							
YoY	-0.7%	0.1%	0.7%	1.1%	2.9%							
SG&A ratio	36.1%	33.6%	30.3%	31.9%	34.7%							
Operating profit	1,798	4,574	11,123	12,978	2,512				52.3%	4,800	18.6%	13,500
YoY	-16.1%	-19.8%	15.0%	28.6%	39.7%					4.9%		4.0%
Operating profit margin	5.8%	6.8%	9.7%	8.8%	7.5%					7.1%		9.0%
Recurring profit	2,067	4,981	11,971	14,031	2,747				52.8%	5,200	18.9%	14,500
YoY	-14.7%	-19.1%	14.6%	26.5%	32.9%					4.4%		3.3%
Recurring profit margin	6.6%	7.4%	10.4%	9.5%	8.2%					7.6%		9.7%
Net income	1,369	3,347	8,111	8,546	1,852				54.5%	3,400	19.5%	9,500
YoY	-18.1%	-21.0%	13.8%	16.5%	35.3%					1.6%		11.2%
Net margin	4.4%	5.0%	7.0%	5.8%	5.5%					5.0%		6.3%

Quarterly (JPYmm)	FY03/21				FY03/22			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	31,133	36,480	47,598	31,783	33,383			
YoY	-5.3%	-5.6%	16.6%	10.9%	7.2%			
Gross profit	13,041	14,223	18,725	13,911	14,084			
YoY	-3.1%	-4.6%	17.5%	13.9%	8.0%			
Gross profit margin	41.9%	39.0%	39.3%	43.8%	42.2%			
SG&A expenses	11,242	11,447	12,177	12,056	11,572			
YoY	-0.7%	0.8%	1.7%	2.3%	2.9%			
SG&A ratio	36.1%	31.4%	25.6%	37.9%	34.7%			
Operating profit	1,798	2,776	6,549	1,855	2,512			
YoY	-16.1%	-22.0%	65.1%	337.5%	39.7%			
Operating profit margin	5.8%	7.6%	13.8%	5.8%	7.5%			
Recurring profit	2,067	2,914	6,990	2,060	2,747			
YoY	-14.7%	-22.0%	63.0%	217.9%	32.9%			
Recurring profit margin	6.6%	8.0%	14.7%	6.5%	8.2%			
Net income	1,369	1,978	4,764	435	1,852			
YoY	-18.1%	-22.9%	64.6%	113.2%	35.3%			
Net margin	4.4%	5.4%	10.0%	1.4%	5.5%			

Source: Shared Research based on company data

Quarterly performance by segment

Cumulative (JPYmn)	FY03/21				FY03/22			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	31,133	67,613	115,211	146,994	33,383			
YoY	-5.3%	-5.5%	2.5%	4.2%	7.2%			
Auto and Motorcycle Parts Sales	29,536	64,419	110,412	140,587	31,765			
YoY	-5.7%	-5.8%	2.5%	4.3%	7.5%			
Wholesale	9,470	22,129	39,369	49,177	10,382			
YoY	-8.8%	-11.1%	-3.0%	0.0%	9.6%			
General stores	2,928	6,241	10,926	14,149	3,290			
YoY	1.1%	3.9%	8.9%	11.1%	12.4%			
Group stores	6,542	15,888	28,442	35,027	7,092			
YoY	-12.6%	-15.8%	-6.9%	-3.8%	8.4%			
Retail	19,192	40,448	68,299	87,750	20,407			
YoY	-4.5%	-3.3%	5.5%	6.4%	6.3%			
Other	873	1,842	2,744	3,660	976			
YoY	4.1%	10.2%	15.5%	16.1%	11.8%			
Real Estate Lease	1,597	3,194	4,798	6,407	1,617			
YoY	2.0%	2.2%	2.3%	2.4%	1.3%			
Gross profit	13,041	27,264	45,989	59,900	14,084			
YoY	-3.1%	-3.9%	3.8%	6.0%	8.0%			
Gross profit margin	41.9%	40.3%	39.9%	40.7%	42.2%			
SG&A expenses	11,242	22,689	34,866	46,922	11,572			
YoY	-0.7%	0.1%	0.7%	1.1%	2.9%			
SG&A ratio	36.1%	33.6%	30.3%	31.9%	34.7%			
Operating profit	1,798	4,574	11,123	12,978	2,512			
YoY	-16.1%	-19.8%	15.0%	28.6%	39.7%			
Operating profit margin	5.8%	6.8%	9.7%	8.8%	7.5%			
Auto and Motorcycle Parts Sales	1,443	3,901	10,128	11,678	2,157			
YoY	-22.0%	-23.8%	15.1%	30.6%	49.5%			
OPM	4.9%	6.1%	9.2%	8.3%	6.8%			
Real Estate Lease	354	673	994	1,299	354			
YoY	21.2%	15.6%	14.1%	12.7%	0.0%			
OPM	22.2%	21.1%	20.7%	20.3%	21.9%			

Quarterly (JPYmn)	FY03/21				FY03/22			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	31,133	36,480	47,598	31,783	33,383			
YoY	-5.3%	-5.6%	16.6%	10.9%	7.2%			
Auto and Motorcycle Parts Sales	29,536	34,883	45,993	30,175	31,765			
YoY	-5.7%	-6.0%	17.1%	11.3%	7.5%			
Wholesale	9,470	12,659	17,240	9,808	10,382			
YoY	-8.8%	-12.7%	9.9%	14.3%	9.6%			
General stores	2,928	3,313	4,685	3,223	3,290			
YoY	1.1%	6.6%	16.2%	19.5%	12.4%			
Group stores	6,542	9,346	12,554	6,585	7,092			
YoY	-12.6%	-18.0%	7.7%	11.9%	8.4%			
Retail	19,192	21,256	27,851	19,451	20,407			
YoY	-4.5%	-2.3%	21.8%	9.6%	6.3%			
Other	873	969	902	916	976			
YoY	4.1%	16.3%	28.3%	17.7%	11.8%			
Real Estate Lease	1,597	1,597	1,604	1,609	1,617			
YoY	2.0%	2.5%	2.4%	2.8%	1.3%			
Gross profit	13,041	14,223	18,725	13,911	14,084			
YoY	-3.1%	-4.6%	17.5%	13.9%	8.0%			
Gross profit margin	41.9%	39.0%	39.3%	43.8%	42.2%			
SG&A expenses	11,242	11,447	12,177	12,056	11,572			
YoY	-0.7%	0.8%	1.7%	2.3%	2.9%			
SG&A ratio	36.1%	31.4%	25.6%	37.9%	34.7%			
Operating profit	1,798	2,776	6,549	1,855	2,512			
YoY	-16.1%	-22.0%	65.1%	337.5%	39.7%			
Operating profit margin	5.8%	7.6%	13.8%	5.8%	7.5%			
Auto and Motorcycle Parts Sales	1,443	2,458	6,227	1,550	2,157			
YoY	-22.0%	-24.8%	69.3%	983.9%	49.5%			
OPM	4.9%	7.0%	13.5%	5.1%	6.8%			
Real Estate Lease	354	319	321	305	354			
YoY	21.2%	10.0%	11.1%	8.2%	0.0%			
OPM	22.2%	20.0%	20.0%	19.0%	21.9%			

Source: Shared Research based on company data

Store count

(number of stores)	FY03/21				FY03/22			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total number of stores	846	849	854	852	854			
Net increase	-3	-	5	3	2			
Yellow Hat (Japan)	736	736	740	740	740			
Net increase	-2	-2	2	2	-			
Openings	3	9	13	18	2			
Closures	5	11	11	16	2			
Wholly owned subsidiaries	365	365	366	365	365			
Net increase	-2	-2	-1	-2	-			
Group company stores	371	371	374	375	375			
Net increase	-	-	3	4	-			
2-Rin-Kan	56	57	58	57	57			
Net increase	-	1	2	1	-			
Bikers' Station SOX	51	53	54	55	57			
Net increase	-1	1	2	3	2			
Yellow Hat (overseas)	3	3	2	-	-			
Net increase	-1	-1	-1	-3	-3			

Source: Shared Research based on company data

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

Cumulative (JPYmn)	FY03/21				FY03/22			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All-store retail sales	27,194	55,912	100,105	128,716	28,167			
YoY	-8.7%	-10.5%	-0.6%	1.2%	3.6%			
Comparable-store sales YoY	-9.2%	-10.9%	-1.1%	0.8%	3.0%			
Tires	-13%	-22%	-4%	-2%	2%			
Aluminum wheels	-15%	-31%	2%	4%	-8%			
Audio, navigation systems, other	-27%	-19%	-11%	-8%	18%			
Engine oil	-6%	-4%	-1%	-1%	10%			
Batteries	11%	6%	8%	7%	-7%			
Maintenance and car washing	8%	8%	10%	9%	-7%			
Interior accessories	-5%	1%	2%	1%	-8%			
Exterior accessories	-5%	-6%	24%	34%	-7%			
Functional products	-1%	1%	4%	4%	1%			
Services	-7%	-6%	1%	2%	9%			
Inspection	-3%	-2%	4%	7%	12%			

Source: Shared Research based on company data

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

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

Q1 FY03/22 results

▷ Sales:	JPY33.4bn (+7.2% YoY)
▷ Operating profit:	JPY2.5bn (+39.7% YoY)
▷ Recurring profit:	JPY2.7bn (+32.9% YoY)
▷ Net income*:	JPY1.9bn (+35.3% YoY)

*Net income refers to net income attributable to owners of the parent.

In Q1 FY03/21, when the Japanese government declared its first state of emergency under the COVID-19 outbreak, the car parts market saw sales of high-ticket items such as tires and car navigation systems drop in tandem with the falling consumer sentiment. In contrast, Q1 FY03/22 saw sales grow for high-ticket items as more people opted to use cars as a means of transportation amid the pandemic.

Against this backdrop, Yellow Hat implemented various infection prevention measures and continued to offer maintenance services and sell car parts, being mindful that automobiles are a part of the social infrastructure that sustains peoples' living. During FY03/21, the company launched the Yellow Hat Online Shop as part of an effort to expand its automotive parts sales business. While the online store initially centered on tires and wheels, the company expanded the offerings into audio visual equipment including drive recorders, portable navigation systems, and on-board equipment for the electronic toll collection

(ETC) system in Japan. By working to improve customer convenience in this way, in Q1 FY03/22, the company marked record highs in sales, operating profit, and recurring profit.

Sales and gross profit were up YoY on the back of sales growth in high-ticket items such as tires and car navigation systems, as well as an increase in installation fee income associated with these items.

Profit lines from the operating profit and below increased by double digits on a YoY basis. Gross profit increased 8.0% YoY, while SG&A expenses increased only 2.9% YoY. The rise in SG&A was due mainly to an increase in personnel expenses as store staffing was expanded to provide better in-store customer service.

Note that, with the adoption of the new Accounting Standard for Revenue Recognition, Q1 sales increased by JPY44mn and operating profit and recurring profit by JPY55mn each compared with results based on the previous accounting standard.

Automotive and motorcycle parts sales

- ▷ Sales: JPY31.8bn (+7.5% YoY)
- ▷ Operating profit: JPY2.2bn (+49.5% YoY)

In Q1 FY03/22, there were two openings and two closings of Yellow Hat stores in Japan. Outside of Yellow Hat stores, the company opened two 2-Rin-Kan stores and two Bikers Station SOX stores, while closing two 2-Rin-Kan stores. As of end-Q1, the company had a total of 854 stores and six Yellow Hat automobile inspection centers. The breakdown of stores is as follows:

Domestic

- ▷ Yellow Hat: 740
- ▷ 2-Rin-Kan (motorcycle parts): 57
- ▷ SOX: 57

The sales breakdown showed wholesale sales of JPY10.4bn (+9.6% YoY) and retail sales of JPY20.4bn (+6.3% YoY).

Rental real estate

- ▷ Sales: JPY1.6bn (+1.3% YoY)
- ▷ Operating profit: JPY354mn (largely flat YoY)

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

Full-year company forecast

(JPYmn)	FY03/21			FY03/22		
	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Sales	67,613	79,381	146,994	68,000	82,000	150,000
YoY	-5.5%	14.2%	4.2%	0.6%	3.3%	2.0%
Cost of sales	40,349	46,745	87,094	39,594	48,406	88,000
Gross profit	27,264	32,636	59,900	28,406	33,594	62,000
YoY	-3.9%	16.0%	6.0%	4.2%	2.9%	3.5%
Gross profit margin	40.3%	41.1%	40.7%	41.8%	41.0%	41.3%
SG&A expenses	22,689	24,233	46,922	23,606	24,894	48,500
SG&A ratio	33.6%	30.5%	31.9%	34.7%	30.4%	32.3%
Operating profit	4,574	8,404	12,978	4,800	8,700	13,500
YoY	-19.8%	91.4%	28.6%	4.9%	3.5%	4.0%
Operating profit margin	6.8%	10.6%	8.8%	7.1%	10.6%	9.0%
Recurring profit	4,981	9,050	14,031	5,200	9,300	14,500
YoY	-19.1%	83.3%	26.5%	4.4%	2.8%	3.3%
Recurring profit margin	7.4%	11.4%	9.5%	7.6%	11.3%	9.7%
Net income	3,347	5,199	8,546	3,400	6,100	9,500
YoY	-21.0%	67.8%	16.5%	1.6%	17.3%	11.2%

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

Sales breakdown

(JPYmn)	FY03/20	FY03/21	FY03/22
	Act.	Act.	Est.
Sales	141,031	146,994	150,000
YoY	1.3%	4.2%	2.0%
Auto and Motorcycle Parts Sales	134,775	140,587	143,619
YoY	1.5%	4.3%	2.2%
Wholesale	49,153	49,177	49,780
YoY	-0.8%	0.0%	1.2%
% of sales	36.5%	35.0%	34.7%
Retail	82,468	87,750	89,865
YoY	2.4%	6.4%	2.4%
% of sales	61.2%	62.4%	62.6%
Other	3,153	3,659	3,973
YoY	16.2%	16.0%	8.6%
% of sales	2.3%	2.6%	2.8%
Real Estate Lease	6,256	6,407	6,380
YoY	-2.1%	2.4%	-0.4%

Source: Shared Research based on company data

Number of stores and planned store openings/closures

	FY03/20	FY03/21	FY03/22
	Act.	Act.	Est.
Total number of stores	849	852	871
Net increase	14	3	19
Yellow Hat (Japan)	738	740	750
Net increase	10	2	10
Openings	21	18	20
Closures	12	16	10
2-Rin-Kan	56	57	61
Net increase	-	1	4
Bikers' Station SOX	52	55	60
Net increase	5	3	5
Yellow Hat (overseas)	3	-	-
Net increase	-1	-3	-

Source: Shared Research based on company data

In-store sales

	FY03/20	FY03/21	FY03/22
(JPYmn)	Act.	Act.	Est.
All-store retail sales	127,129	128,716	-
All-store retail sales YoY	-0.7%	1.3%	-
Comparable-store retail sales YoY	-1.3%	0.8%	0.0%

Source: Shared Research based on company data

The company's FY03/22 full-year earnings forecast calls for sales of JPY150.0bn (+2.0% YoY), operating profit of JPY13.5bn (+4.0% YoY), recurring profit of JPY14.5bn (+3.3% YoY), and net income attributable to owners of the parent of JPY9.5bn (+11.2% YoY).

Initiatives in FY03/22

The company plans to strengthen its business foundation and increase profits by implementing the measures outlined below, beginning with the expansion of automotive parts sales, the company's main source of profits.

- ▷ Expand automotive parts sales business: The company plans to open more stores under the Yellow Hat and Kakuyasu Tire Tread brands and strengthen sales of tires and other expendable auto parts by enhancing the range of products and car life services it offers at physical stores.
- ▷ Expand automobile inspection and service business: The company plans to increase profits and enhance customer loyalty by strengthening its maintenance service business, including vehicle inspection. Toward that end, it will develop qualified mechanics and systematically acquire designated auto inspection shops.
- ▷ Strengthen motorcycle business: The company plans to open new 2-Rin-Kan and Bikers' Station SOX stores and expand earnings at existing stores by increasing sales of its own-brand parts and capturing inspection demand.
- ▷ Strengthen wholesale business: To expand its wholesale business targeting sales to general retailers other than Yellow Hat stores, the company plans to develop products and capture new customers via its manufacturer-vendor subsidiary JOYFULL Co., Ltd.
- ▷ The company aims to improve brand awareness by continuing to enhance its advertising and promotional initiatives.

Sales

The company forecasts sales of JPY150.0bn (+2.0% YoY), of which mainstay Auto and Motorcycle Parts Sales segment accounts for JPY143.6bn (+2.2% YoY). An increased number of stores is a positive factor for sales, but the company expects flat YoY comparable-store sales.

Sales break down into JPY49.8bn for wholesale (+1.2% YoY) and JPY89.9bn for retail (+2.4% YoY).

Stores openings and closures, and net increase

In Japan, the company plans to open 30 new stores and close 11 stores for a net increase of 19 to bring the total store count to 871 at end-FY03/22. The company mainly plans to increase the number of Yellow Hat stores.

- ▷ For the Yellow Hat auto parts business, the company plans to open 20 new stores and close 10 stores for a net increase of 10 stores, bringing the total to 750 at end-FY03/22.
 - For Yellow Hat (including Yellow Hat Motor Sport), the company plans to open 15 stores and close 10 stores for a net increase of five stores, bringing the total to 697 stores at end-FY03/22.
 - For Kakuyasu Tire Tread, the company plans to open five stores and close none for a net increase of five stores and total of 53 stores at end-FY03/22.
- ▷ For 2-Rin-Kan (sales of motorcycle parts), the company plans to open five stores and close one store for a net increase of four stores, bringing the total to 61 stores at end-FY03/22.
- ▷ For Bikers' Station SOX (sales of new and preowned motorcycles), the company plans to open five stores and close none for a net increase of five stores, bringing the total to 60 stores at end-FY03/22.

Comparable-store sales

Yellow Hat forecasts a 3.0% YoY increase in all-store sales in 1H and 3.0% YoY decline in 2H for flat YoY sales over the full year. The company expects a rebound in sales in 1H FY03/22 after the decline in 1H FY03/21 because of the spread of COVID-19. In 2H FY03/22, the company expects a downturn versus the increase in sales of winter tires and tire chains in 2H FY03/21 due to snowfall. The company forecasts a 4% YoY volume decline of tires (its mainstay product) after the previous year's increase associated with snowfall.

Operating profit

The company forecasts operating profit of JPY13.5bn (+4.0% YoY) and OPM of 9.0% (+0.2pp YoY). The increase in gross profit due to higher sales and GPM is expected to exceed the rise in SG&A expenses (see below).

Gross profit

The company forecasts gross profit of JPY62.0bn (+3.5% YoY) and a GPM of 41.3% (+0.4pp YoY). Gross profit is expected to increase on a higher GPM from an increased sales share of relatively high-margin retail sales and a smaller sales share of relatively low-margin wholesale sales.

SG&A expenses

The company forecasts SG&A expenses of JPY48.5bn (+3.4% YoY) and an SG&A expense ratio of 32.3% (+0.4pp YoY). The rise in SG&A expenses is associated with an increased retail store count.

Outlook

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

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

Operating profit, ROE, and ROA surpassed targets of the final year of the medium-term plan (FY03/23) in FY03/21. The company expects to reach the medium-term plan target for sales a year early in FY03/22.

Medium-term plan targets and results

(JPYmn)	FY03/20 Act.	FY03/21 Act.	FY03/22 Est.	FY03/23 Targets
Sales	141,031	146,994	150,000	150,000
Operating profit	10,093	12,978	13,500	11,400
Operating profit margin	7.2%	8.8%	9.0%	7.6%
Recurring profit	11,095	14,031	14,500	12,300
Recurring profit margin	7.9%	9.5%	9.7%	8.2%
ROE	9.0%	9.7%	-	8.0% or higher
ROA (RP-based)	10.3%	12.3%	-	8.0% or higher

Source: Shared Research based on company materials

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

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

Expansion of automotive parts sales business

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

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

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

The company has slowed its pace of store openings in FY03/21 and FY03/22, because the impact on the real estate and construction industries of the Tokyo Olympics and the COVID-19 pandemic remains unclear.

Yellow Hat store openings and closings

No. of Yellow Hat stores (year-end)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22 Est.
Openings	34	39	23	46	36	26	37	33	21	18	20
Japan	34	38	23	43	36	26	37	33	21	18	20
Overseas	-	1	-	3	-	-	-	-	-	-	-
Closures	6	9	4	14	6	5	16	9	12	19	10
Japan	4	8	4	10	5	4	9	8	11	16	10
Overseas	2	1	-	4	1	1	7	1	1	3	-
Store count (year-end)	545	575	594	626	666	678	708	732	741	740	750
Japan	530	560	579	612	653	675	703	728	738	740	750
Overseas	15	15	15	14	13	12	5	4	3	-	-

Source: Shared Research based on company data

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

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

Store count

Number of stores (year-end)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22 Est.
Total Yellow Hat group	562	625	645	698	750	781	809	835	849	852	871
YoY	8.7%	11.2%	3.2%	8.2%	7.4%	4.1%	3.6%	3.2%	1.7%	0.4%	2.2%
Total Yellow Hat stores	545	575	594	626	666	687	708	732	741	740	750
YoY	5.4%	5.5%	3.3%	5.4%	6.4%	3.2%	3.1%	3.4%	1.2%	-0.1%	1.4%
Japan	530	560	579	612	653	675	703	728	738	740	750
YoY	6.0%	5.7%	3.4%	5.7%	6.7%	3.4%	4.1%	3.6%	1.4%	0.3%	1.4%
Yellow Hat Sales Pro (directly managed)	26	-	-	-	-	-	-	-	-	-	-
Managed by cons. subsidiaries	103	148	171	207	253	297	320	346	367	365	-
Managed by Yellow Hat group companies	401	412	408	405	400	378	383	382	371	375	-
Overseas	15	15	15	14	13	12	5	4	3	-	-
YoY	-11.8%	0.0%	0.0%	-6.7%	-7.1%	-7.7%	-58.3%	-20.0%	-25.0%	-	-
Other group stores in Japan	17	50	51	72	84	94	101	103	108	112	121
YoY	466.7%	194.1%	2.0%	41.4%	16.7%	11.8%	7.4%	2.0%	4.8%	3.7%	8.1%
2-Rin-Kan	1	38	40	44	50	53	55	56	56	57	61
YoY	-50.0%	-	5.3%	10.0%	13.6%	6.0%	3.8%	1.8%	0.0%	1.8%	7.0%
Bikers' Station SOX	-	-	-	28	34	41	46	47	52	55	60
YoY	-	-	-	-	21.4%	20.6%	12.2%	2.2%	10.6%	5.8%	9.1%
Montecarlo	15	12	11	10	-	-	-	-	-	-	-

Source: Shared Research based on company materials

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

Auto and Motorcycle Parts Sales: retail store count and sales

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
No. of stores: Retail	145	198	222	289	337	391	421	449	475	477
YoY	20.8%	36.6%	12.1%	30.2%	16.6%	16.0%	7.7%	6.7%	5.8%	0.4%
Yellow Hat Sales Pro (directly managed)	26	-	-	-	-	-	-	-	-	-
Stores managed by subsidiaries	103	148	171	207	253	297	320	346	367	365
2-Rin-Kan	1	38	40	44	50	53	55	56	56	57
Bikers' Station SOX	-	-	-	28	34	41	46	47	52	55
Montecarlo	15	12	11	10	-	-	-	-	-	-
Sales: Retail (JPYmn)	31,483	48,259	51,644	56,264	62,443	70,783	77,334	80,545	82,468	87,750
YoY	-0.2%	53.3%	7.0%	8.9%	11.0%	13.4%	9.3%	4.2%	2.4%	6.4%
Sales per store	238	281	246	220	199	194	190	185	179	184
YoY	-15.2%	18.4%	-12.6%	-10.5%	-9.4%	-2.5%	-2.0%	-2.8%	-3.6%	3.3%

Source: Shared Research based on company materials

Expansion of automobile inspection and maintenance service businesses

In services, Yellow Hat seeks to enhance its automobile inspection and maintenance services by developing human resources such as qualified mechanics and increasing the number of designated auto inspection shops, as it aims to expand the earnings of the services department and win new customers (as of June 2021, 168 stores were designated inspection shops).

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

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

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

estimates that over the last 10 years the number of vehicles inspected increased by approximately 2.5x, while sales from services approximately doubled.

YoY comparison of number of automobiles inspected and services sales

(YoY)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Number of cars inspected	13.0%	14.0%	10.0%	10.0%	19.0%	14.0%	7.0%	4.0%	-1.0%	7.0%
Services sales	9.0%	8.0%	5.0%	1.0%	13.0%	8.0%	10.0%	5.0%	4.0%	3.0%

Source: Shared Research based on company data

Enhancement of motorcycle business

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

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

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

Enhancement of wholesale business

In addition to wholesaling to Yellow Hat stores, the parent and its subsidiary wholesalers sell automotive and motorcycle parts to hardware stores and other general customers. In FY03/21, wholesaling to customers other than Yellow Hat stores generated sales of JPY14.1bn (+11.1% YoY), accounting for 10.1% (+0.7pp YoY) of Auto and Motorcycle Parts Sales business sales.

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

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

Vigorous company-building

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

Dividend policy

In terms of its dividend policy, Yellow Hat targets a 30% consolidated payout ratio while taking its consolidated earnings, financial condition, and investment plans into account. In FY03/21, the company paid a dividend of JPY54.0 per share (payout ratio of 29.1%). The FY03/22 dividend forecast is JPY58.0 per share (payout ratio of 28.2%).

Business

Description

Yellow Hat sells automotive and motorcycle parts and accessories and provides maintenance services. In the Japanese market the leading company by sales is Autobacs Seven (TSE1: 9832), followed by Yellow Hat. In FY03/21, Yellow Hat had sales of JPY147.0bn versus JPY220.4.4bn for Autobacs Seven.

Historical performance and turning point

Company falls into earnings slump in FY03/08

In FY03/06, the company posted sales of JPY188.1bn (+0.6% YoY) and operating profit of JPY2.3bn (+188.7%, OPM of 1.9%). However, consumer sentiment subsequently deteriorated along with the economy, and the company lost its ability to coordinate its subsidiaries following consolidation among them in an attempt to boost efficiency under the Y-DNA* program formulated in FY03/05. This led to a slump in sales and an increased SG&A expense burden. In FY03/07 operating profit fell 79.0% YoY to JPY478mn (OPM of 0.4%) and in FY03/08 Yellow Hat posted an operating loss of JPY507mn.

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

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

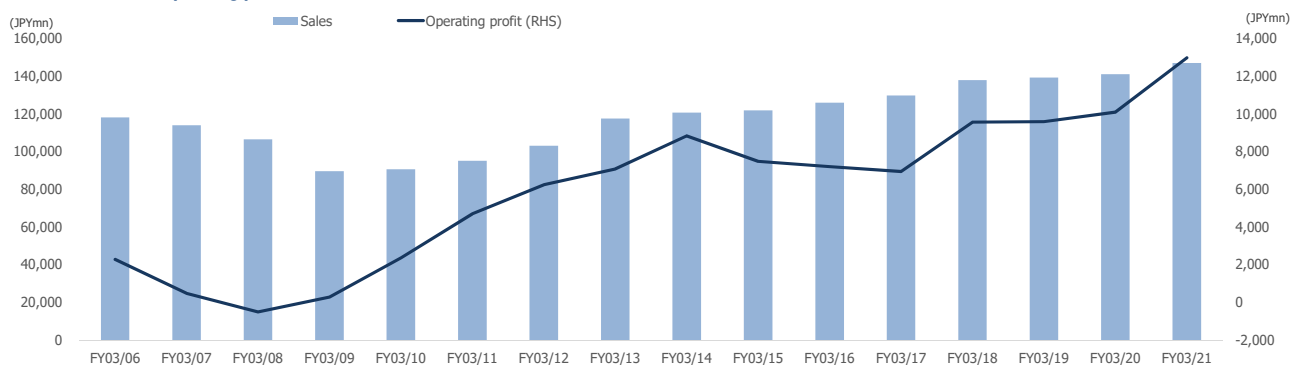
Under Yasuo Horie, who became president in October 2008, the company concentrated its resources on the core automotive parts business, conducted strict cost reductions and expense controls, and employed a basic policy of having regional sales subsidiaries manage stores.

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

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

In FY03/09, sales fell to JPY89.8bn (-15.8% YoY), but the company returned to the black with operating profit of JPY279mn (OPM of 0.3%). The recovery in sales and profits continued from FY03/10 onward, with FY03/21 sales amounting to JPY147.0bn (+4.2% YoY) and operating profit to JPY13.0bn (+28.6% YoY, OPM of 8.8%).

Trends in sales and operating profit



Source: Shared Research based on company data

Business segments

The company has two segments: Auto and Motorcycle Parts Sales (95.6% of sales in FY03/21) and Real Estate Lease (4.4%). In the latter business, Yellow Hat leases store buildings to its sales subsidiaries, affiliates, and group store operators.

Performance by segment

(JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	103,110	117,482	120,671	121,788	125,961	129,817	137,865	139,200	141,031	146,994
YoY	8.3%	13.9%	2.7%	0.9%	3.4%	3.1%	6.2%	1.0%	1.3%	4.2%
Auto and Motorcycle Parts Sales	96,248	110,531	113,829	115,081	119,411	123,370	131,418	132,812	134,775	140,587
YoY	8.9%	14.8%	3.0%	1.1%	3.8%	3.3%	6.5%	1.1%	1.5%	4.3%
% of sales	93.3%	94.1%	94.3%	94.5%	94.8%	95.0%	95.3%	95.4%	95.6%	95.6%
Real Estate Lease	6,862	6,950	6,842	6,706	6,549	6,447	6,446	6,388	6,256	6,407
YoY	0.7%	1.3%	-1.6%	-2.0%	-2.3%	-1.6%	0.0%	-0.9%	-2.1%	2.4%
% of sales	6.7%	5.9%	5.7%	5.5%	5.2%	5.0%	4.7%	4.6%	4.4%	4.4%
Operating profit	6,238	7,076	8,831	7,484	7,203	6,939	9,561	9,583	10,093	12,978
YoY	32.7%	13.4%	24.8%	-15.3%	-3.8%	-3.7%	37.8%	0.2%	5.3%	28.6%
Operating profit margin	6.0%	6.0%	7.3%	6.1%	5.7%	5.3%	6.9%	6.9%	7.2%	8.8%
Auto and Motorcycle Parts Sales	5,424	6,182	7,914	6,448	6,211	5,936	8,594	8,482	8,940	11,678
YoY	38.6%	14.0%	28.0%	-18.5%	-3.7%	-4.4%	44.8%	-1.3%	5.4%	30.6%
OPM	5.6%	5.6%	7.0%	5.6%	5.2%	4.8%	6.5%	6.4%	6.6%	8.3%
% of operating profit	87.0%	87.4%	89.6%	86.2%	86.2%	85.5%	89.9%	88.5%	88.6%	90.0%
Real Estate Lease	814	893	917	1,036	992	1,002	967	1,101	1,153	1,299
YoY	3.4%	9.7%	2.7%	13.0%	-4.2%	1.0%	-3.5%	13.9%	4.7%	12.7%
OPM	11.9%	12.8%	13.4%	15.4%	15.1%	15.5%	15.0%	17.2%	18.4%	20.3%
% of operating profit	13.0%	12.6%	10.4%	13.8%	13.8%	14.4%	10.1%	11.5%	11.4%	10.0%

Source: Shared Research based on company materials

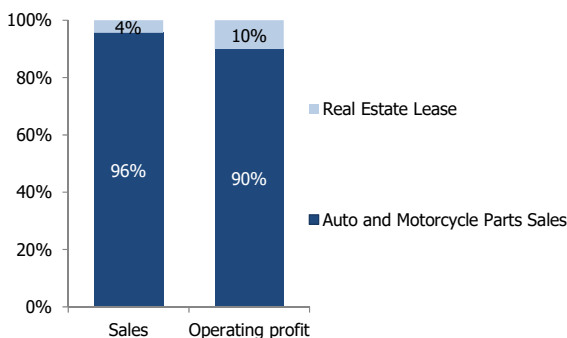
Auto and Motorcycle Parts Sales (95.6% of sales and 90.0% of operating profit in FY03/21)

Its main format is the Yellow Hat auto accessories chain. The company also has a chain of 2-Rin-Kan stores, which sell motorcycle parts, and the Bikers' Station SOX chain, which sells motorcycles. There are three sales formats in use: retail sales by consolidated subsidiaries, wholesale sales to group affiliates (voluntary chain members), and wholesale sales to hardware stores and other general customers.

In FY03/21, sales by product were: tires and wheels, 27.9% (29.5% in FY03/20); audio and visual products, 8.7% (9.9%); car wash, car washing, oil, and other chemicals, 10.1% (9.7%); functional products, 11.5% (11.3%); interior and exterior products, 5.3% (4.8%); motorcycle products, 10.5% (9.6%); and other, 26.1% (25.3%).

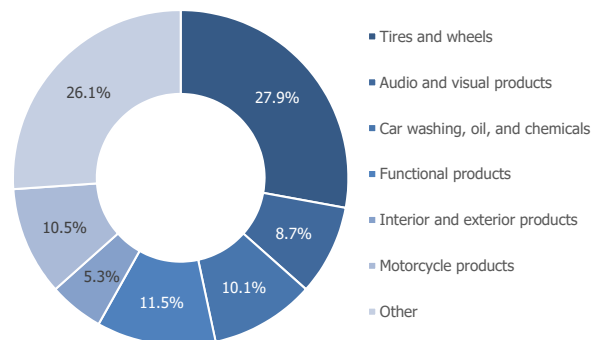
Gross profit margins are relatively low for car electronics such as audio and visual products due to stiff competition. Conversely, gross profit margins are relatively high for tires and consumables (including batteries and oil) because of steady growth in replacement demand proportionate to car ownership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

Segment sales and operating profit (FY03/21)



Source: Shared Research based on company data

Sales by product: Auto and Motorcycle Parts Sales (FY03/21)

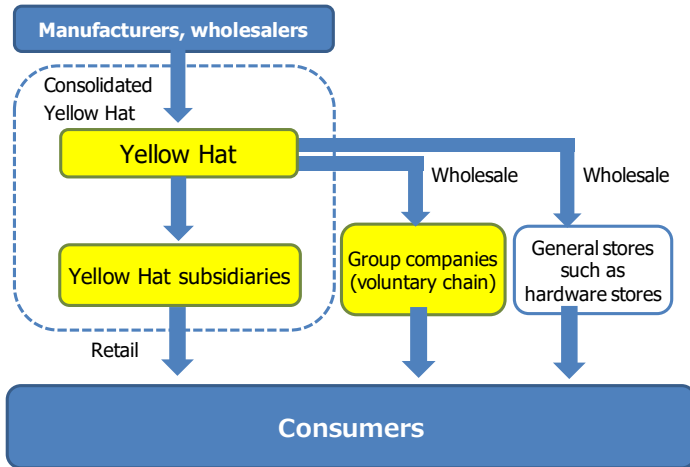


Source: Shared Research based on company data

Overview of business model

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

Three selling formats for Yellow Hat



Source: Shared Research based on company data

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

In FY03/21, sales by format in this segment were as follows: retail, 62.4% (61.2% in FY03/20); wholesale, 35.0% (36.5%), with 24.9% (27.0%) to Yellow Hat group companies (voluntary chains) and 10.1% (9.4%) to general stores.

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

Auto and Motorcycle Parts Sales business: sales by selling format

(JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	96,248	110,531	113,829	115,081	119,411	123,370	131,418	132,812	134,775	140,587
YoY	8.9%	14.8%	3.0%	1.1%	3.8%	3.3%	6.5%	1.1%	1.5%	4.3%
Retail	31,483	48,259	51,644	56,264	62,443	70,783	77,334	80,545	82,468	87,750
YoY	-0.2%	53.3%	7.0%	8.9%	11.0%	13.4%	9.3%	4.2%	2.4%	6.4%
% of sales	32.7%	43.7%	45.4%	48.9%	52.3%	57.4%	58.8%	60.6%	61.2%	62.4%
Wholesale	64,186	61,635	61,470	57,347	54,961	50,376	51,698	49,553	49,153	49,177
YoY	13.6%	-4.0%	-0.3%	-6.7%	-4.2%	-8.3%	2.6%	-4.1%	-0.8%	0.0%
% of sales	66.7%	55.8%	54.0%	49.8%	46.0%	40.8%	39.3%	37.3%	36.5%	35.0%
Group stores	59,617	53,914	53,474	47,509	44,055	39,410	39,592	37,361	36,420	35,027
YoY	12.7%	-9.6%	-0.8%	-11.2%	-7.3%	-10.5%	0.5%	-5.6%	-2.5%	-3.8%
% of sales	61.9%	48.8%	47.0%	41.3%	36.9%	31.9%	30.1%	28.1%	27.0%	24.9%
General stores	4,568	7,720	7,996	9,837	10,905	10,966	12,106	12,191	12,732	14,149
YoY	28.3%	69.0%	3.6%	23.0%	10.9%	0.6%	10.4%	0.7%	4.4%	11.1%
% of sales	4.7%	7.0%	7.0%	8.5%	9.1%	8.9%	9.2%	9.2%	9.4%	10.1%
Other	579	637	715	1,470	2,006	2,210	2,386	2,713	3,153	3,660
YoY	68.8%	10.0%	12.2%	105.6%	36.5%	10.2%	8.0%	13.7%	16.2%	16.1%
% of sales	0.6%	0.6%	0.6%	1.3%	1.7%	1.8%	1.8%	2.0%	2.3%	2.6%
Operating profit	5,424	6,182	7,914	6,448	6,211	5,936	8,594	8,482	8,940	11,678
YoY	38.6%	14.0%	28.0%	-18.5%	-3.7%	-4.4%	44.8%	-1.3%	5.4%	30.6%
Operating profit margin	5.6%	5.6%	7.0%	5.6%	5.2%	4.8%	6.5%	6.4%	6.6%	8.3%

Source: Shared Research based on company materials

Retail

In FY03/21, retail accounted for 62.4% of sales in the Auto and Motorcycle Parts Sales business (up from 61.2% in FY03/19).

In retail, 35 consolidated subsidiaries manage the retail stores and maintenance services of Yellow Hat, 2-Rin-Kan, and Bikers' Station SOX stores by region (as of July 2021). Collaboration between headquarters and the regional subsidiaries that operate stores is swift, so headquarters' intentions are amply reflected in operations. The company has also adopted an area specialization strategy which enables efficient management and store operation that reflects needs of the local community.

Retail: store count and sales

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
No. of stores: Retail	145	198	222	289	337	391	421	449	475	477
YoY	20.8%	36.6%	12.1%	30.2%	16.6%	16.0%	7.7%	6.7%	5.8%	0.4%
Yellow Hat Sales Pro (directly managed)	26	-	-	-	-	-	-	-	-	-
Stores managed by subsidiaries	103	148	171	207	253	297	320	346	367	365
2-Rin-Kan	1	38	40	44	50	53	55	56	56	57
Bikers' Station SOX	-	-	-	28	34	41	46	47	52	55
Montecarlo	15	12	11	10	-	-	-	-	-	-
Sales: Retail (JPYmn)	31,483	48,259	51,644	56,264	62,443	70,783	77,334	80,545	82,468	87,750
YoY	-0.2%	53.3%	7.0%	8.9%	11.0%	13.4%	9.3%	4.2%	2.4%	6.4%
Sales per store	238	281	246	220	199	194	190	185	179	184
YoY	-15.2%	18.4%	-12.6%	-10.5%	-9.4%	-2.5%	-2.0%	-2.8%	-3.6%	3.3%

Source: Shared Research based on company materials

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

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

Wholesale

In FY03/21, wholesale accounted for 35.0% of sales in the Auto and Motorcycle Parts Sales business (down from 36.5% in FY03/20). In wholesale, the company wholesales to group stores (voluntary chain members; 24.9% of segment sales) and to general external parties such as hardware stores (10.1% of segment sales).

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

Wholesale: store count and sales

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
No. of Yellow Hat group stores	401	412	408	405	400	378	383	382	371	375
YoY	5.0%	2.7%	-1.0%	-0.7%	-1.2%	-5.5%	1.3%	-0.3%	-2.9%	1.1%
Sales: Wholesale (JPYmn)	64,186	61,635	61,470	57,347	54,961	50,376	51,698	49,553	49,153	49,177
YoY	13.6%	-4.0%	-0.3%	-6.7%	-4.2%	-8.3%	2.6%	-4.1%	-0.8%	0.0%
Sales to Yellow Hat group stores	59,617	53,914	53,474	47,509	44,055	39,410	39,592	37,361	36,420	35,027
YoY	12.7%	-9.6%	-0.8%	-11.2%	-7.3%	-10.5%	0.5%	-5.6%	-2.5%	-3.8%
Sales per store	152	133	130	117	109	101	104	98	97	94
YoY	9.8%	-12.9%	-1.7%	-10.4%	-6.3%	-7.4%	2.7%	-6.1%	-1.0%	-2.9%
Sales to general stores	4,568	7,720	7,996	9,837	10,905	10,966	12,106	12,191	12,732	14,149
YoY	28.3%	69.0%	3.6%	23.0%	10.9%	0.6%	10.4%	0.7%	4.4%	11.1%

Source: Shared Research based on company materials

Wholesale sales to group affiliates (voluntary chain members)

In FY03/21, wholesale sales to group stores accounted for 24.9% of sales in the Auto and Motorcycle Parts Sales business (27.0% in FY03/20). The company generates revenue through wholesale sales of merchandise to group affiliates that operate voluntary chain stores under affiliation agreements.

Yellow Hat executes agreements between group affiliates and affiliated stores (voluntary chain members). This gives affiliates the right to use Yellow Hat's trademarks and management expertise with the appearance of being part of a single company. Management services include store operations (including face-to-face sales and maintenance work), merchandise management (ordering and sales floor construction) and store management (including achieving sales targets, cost reductions, and staff

training). Group affiliates procure merchandise from Yellow Hat and receive sales support from the company as it leverages its buying power in volume purchases and conducts advertising campaigns.

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

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

Wholesale sales to hardware stores and other general customers

In FY03/21, general wholesale sales accounted for 10.1% of sales in the Auto and Motorcycle Parts Sales business (9.4% in FY03/20). Yellow Hat generates revenue through wholesale sales of merchandise from its subsidiary companies to hardware stores and the like. Sales were JPY14.1bn (+11.1% YoY) in FY03/21, continuing the trend of YoY growth every year since FY03/11. While GPM for general wholesale sales is lower than retail, the fixed cost ratio is also lower, so the impact of declining sales on profits is relatively small.

Yellow Hat got its start as a wholesaler and had transactions with the majority of key hardware stores. As the number of Yellow Hat stores grew, the company focused management resources on the retail side and withdrew temporarily from low-margin wholesale sales to hardware stores. However, the company is once again working to grow its wholesale business. It thinks that bolstering this low-fixed-cost segment will strengthen its business platform and underpin profit growth. To this end it has been utilizing its consolidated subsidiary JOYFULL Co., Ltd. (became a subsidiary in August 2010; manufactures and sells chemical products and has wholesale capabilities) as well as its existing infrastructure of six offices and three logistics centers.

Keys to analyzing Yellow Hat

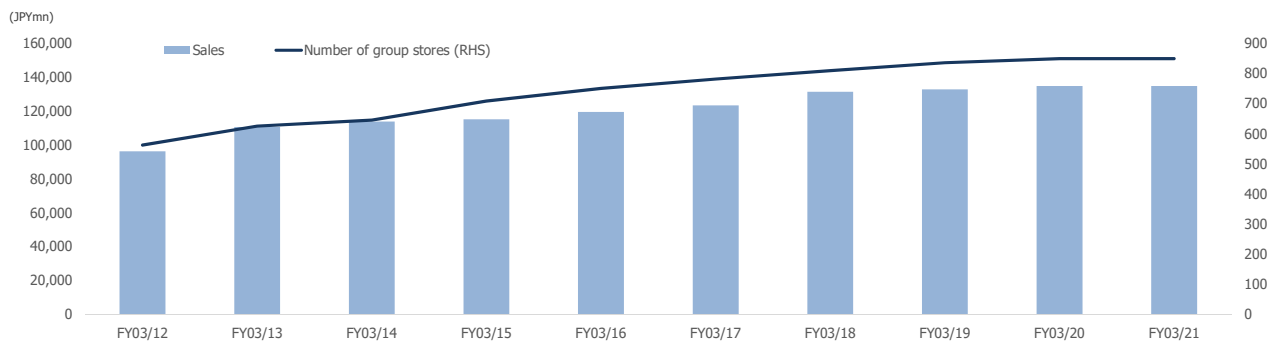
There are two key areas to focus on when analyzing Yellow Hat: store development (sales growth through new store openings) and improving store profitability.

Store development (sales growth through new store openings)

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

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

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



	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	96,248	110,531	113,829	115,081	119,411	123,370	131,418	132,812	134,775	140,587
YoY	8.9%	14.8%	3.0%	1.1%	3.8%	3.3%	6.5%	1.1%	1.5%	4.3%
Operating profit	5,424	6,182	7,914	6,448	6,211	5,936	8,594	8,482	8,940	11,678
YoY	38.6%	14.0%	28.0%	-18.5%	-3.7%	-4.4%	44.8%	-1.3%	5.4%	30.6%
Operating profit margin	5.6%	5.6%	7.0%	5.6%	5.2%	4.8%	6.5%	6.4%	6.6%	8.3%
No. of group stores	562	625	645	708	750	781	809	835	849	852
YoY	8.7%	11.2%	3.2%	9.8%	5.9%	4.1%	3.6%	3.2%	1.7%	0.4%
Sales per store	171	177	176	163	159	158	162	159	159	165
YoY	0.2%	3.3%	-0.2%	-7.9%	-2.0%	-0.8%	2.8%	-2.1%	-0.2%	3.9%

Source: Shared Research based on company materials

Distinguishing feature: opening stores in vacated retail premises

One of the distinguishing characteristics of Yellow Hat is its expertise in low-cost store openings. The company often opens fully fitted out stores using the buildings and fixtures in premises vacated by businesses from other industries. According to the company, its margins in newly opened stores are higher than others in the industry. For example, Autobacs Seven often opens large urban stores in prime locations such as roadsides. In contrast, Yellow Hat has tended to open stores in vacated premises in regional areas with small commercial zones that are relatively low cost. According to the company, although store opening costs vary according to the property, its initial investment expenses are relatively low, enabling a quick turn to profits. The company used to have store opening criteria of selling space of 150 tsubo (496sqm) and site area of 1,000 tsubo (3,306sqm), but it relaxes these when it enters vacated premises to at least 80 tsubo (264sqm) for selling space and 500 tsubo (1,653sqm) for site area. Yellow Hat says that it has already worked to lower costs, including those of fixtures, so there is limited scope for major cuts to store opening costs.

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

Further, Yellow Hat has a high ratio of retail sales to total sales. They accounted for 62.4% of sales in FY03/21, compared with 38.5% (36.7%) at Autobacs Seven. This is because under its current president, Yasuo Horie, Yellow Hat has shifted store management to regional sales subsidiaries, and in the 2010s focused on these subsidiaries to increase its store count.

Stores

As of end-FY03/21 the company had 740 Yellow Hat stores in Japan (738 at end-FY03/20) and zero overseas (three at end-FY03/20). Of the stores in Japan, 365 (367 at end-FY03/20) were operated by wholly owned subsidiaries and 375 (371 at end-FY03/20) by group affiliates (voluntary chain companies, details in table below).

In addition, for motorcycle parts it had 57 2-Rin-Kan stores (56 at end-FY03/20) and for motorcycles and motorcycle parts it had 55 Bikers' Station SOX stores (52 at end-FY03/20).

Types of Yellow Hat group stores

Store type	Business detail	Store count
Yellow Hat, Japan	Automotive parts sales, automobile inspections, maintenance services	740
Subsidiary-operated Yellow Hat	Yellow Hat stores operated by wholly owned subsidiaries	365
Affiliate-operated Yellow Hat	Yellow Hat stores operated by equity method affiliate Hotman and other group affiliates	375
Yellow Hat, Overseas	Yellow Hat stores operated by wholly owned subsidiary Taiwan Yellowhat Co., Ltd.	0
2-Rin-Kan	Motorcycle parts sales business operated by wholly owned subsidiary 2-Rin-Kan Yellow Hat Co., Ltd.	57
Bikers' Station SOX	Motorcycle and motorcycle parts sales business operated by wholly owned subsidiary YellowHat-Sox Inc.	55

Yellow Hat store



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



Source: Company data

Yellow Hat group store count

Number of stores (year-end)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Total Yellow Hat group	562	625	645	698	750	781	809	835	849	852
YoY	8.7%	11.2%	3.2%	8.2%	7.4%	4.1%	3.6%	3.2%	1.7%	0.4%
Total Yellow Hat stores	545	575	594	626	666	687	708	732	741	740
YoY	5.4%	5.5%	3.3%	5.4%	6.4%	3.2%	3.1%	3.4%	1.2%	-0.1%
Japan	530	560	579	612	653	675	703	728	738	740
YoY	6.0%	5.7%	3.4%	5.7%	6.7%	3.4%	4.1%	3.6%	1.4%	0.3%
Yellow Hat Sales Pro (directly managed)	26	-	-	-	-	-	-	-	-	-
Managed by cons. subsidiaries	103	148	171	207	253	297	320	346	367	365
Managed by Yellow Hat group companies	401	412	408	405	400	378	383	382	371	375
Overseas	15	15	15	14	13	12	5	4	3	-
YoY	-11.8%	0.0%	0.0%	-6.7%	-7.1%	-7.7%	-58.3%	-20.0%	-25.0%	-
Other group stores in Japan	17	50	51	72	84	94	101	103	108	112
YoY	466.7%	194.1%	2.0%	41.4%	16.7%	11.8%	7.4%	2.0%	4.8%	3.7%
2-Rin-Kan	1	38	40	44	50	53	55	56	56	57
YoY	-50.0%	-	5.3%	10.0%	13.6%	6.0%	3.8%	1.8%	0.0%	1.8%
Bikers' Station SOX	-	-	-	28	34	41	46	47	52	55
YoY	-	-	-	-	21.4%	20.6%	12.2%	2.2%	10.6%	5.8%
Montecarlo	15	12	11	10	-	-	-	-	-	-

Source: Shared Research based on company materials

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

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

Number of stores	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
By operator										
Yellow Hat store (Japan)	530	560	579	612	653	675	703	728	738	740
Yellow Hat Sales Pro (directly managed)	26	-	-	-	-	-	-	-	-	-
Managed by cons. subsidiaries	103	148	171	207	253	297	320	346	367	365
Managed by Yellow Hat group companies	401	412	408	405	400	378	383	382	371	375
By format (Yellow Hat [Japan])										
Yellow Hat store (Japan)	530	560	579	612	653	675	703	728	738	740
Yellow Hat	525	551	569	596	633	651	670	679	685	689
Yellow Hat Motor Sports	3	3	3	3	3	3	3	3	3	3
Recycle Market	2	2	2	2	1	-	-	-	-	-
Yellow Hat Tread	-	4	5	11	16	21	30	46	50	48
By region (area office in charge; Yellow Hat store)										
Yellow Hat store (Japan)	530	560	579	612	653	675	703	728	738	740
Hokkaido	28	28	28	28	31	31	35	35	37	37
% of Yellow Hat stores (Japan)	5.3%	5.0%	4.8%	4.6%	4.7%	4.6%	5.0%	4.8%	5.0%	5.0%
Tohoku	107	110	111	113	115	116	120	123	125	128
% of Yellow Hat stores (Japan)	20.2%	19.6%	19.2%	18.5%	17.6%	17.2%	17.1%	16.9%	16.9%	17.3%
Kanto	167	185	191	168	171	176	180	188	190	191
% of Yellow Hat stores (Japan)	31.5%	33.0%	33.0%	27.5%	26.2%	26.1%	25.6%	25.8%	25.7%	25.8%
Chubu	69	64	67	107	120	128	138	141	143	143
% of Yellow Hat stores (Japan)	13.0%	11.4%	11.6%	17.5%	18.4%	19.0%	19.6%	19.4%	19.4%	19.3%
Kinki and Shikoku	57	61	65	71	78	82	87	94	96	92
% of Yellow Hat stores (Japan)	10.8%	10.9%	11.2%	11.6%	11.9%	12.1%	12.4%	12.9%	13.0%	12.4%
Chugoku	49	54	57	59	66	67	66	67	67	69
% of Yellow Hat stores (Japan)	9.2%	9.6%	9.8%	9.6%	10.1%	9.9%	9.4%	9.2%	9.1%	9.3%
Kyushu	53	58	60	66	72	75	77	80	80	80
% of Yellow Hat stores (Japan)	10.0%	10.4%	10.4%	10.8%	11.0%	11.1%	11.0%	11.0%	10.8%	10.8%

Source: Shared Research based on company materials

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

Stores openings and closures

No. of Yellow Hat stores (year-end)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Openings	34	39	23	46	36	26	37	33	21	18
Japan	34	38	23	43	36	26	37	33	21	18
Overseas	-	1	-	3	-	-	-	-	-	-
Closures	6	9	4	14	6	5	16	9	12	19
Japan	4	8	4	10	5	4	9	8	11	16
Overseas	2	1	-	4	1	1	7	1	1	3
Store count (year-end)	545	575	594	626	666	678	708	732	741	740
Japan	530	560	579	612	653	675	703	728	738	740
Overseas	15	15	15	14	13	12	5	4	3	-

Note: Stores in Japan include directly managed stores, subsidiary-managed stores, and franchise stores.

Source: Shared Research based on company materials

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

Improving store profitability

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

Meanwhile, sales of car navigation and other audio and visual products installed in cars have been declining since FY03/12 due to price falls and the trend to have them as standard equipment in new cars. According to the company, a rising share in sales of tires and consumables (including batteries and oil) which have high gross profit margins is contributing to the improvement in store profitability.

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

There is a large share of tires and wheels in sales for Yellow Hat (29.1% of Auto and Motorcycle Parts Sales in FY03/21 versus 25.8% of sales in Japan in the Autobacs business for Autobacs Seven). The company aims to distinguish itself from the competition by boosting its tire sales.

Initiatives on this front saw tires and wheels grow to account for 29.1% of total FY03/21 sales from 24.8% in FY03/07 (tires and wheels accounted for 44.0% of sales in the Auto and Motorcycle Parts Sales business in FY03/21, excluding motorcycle parts sales). The company said that economies of scale due to growth in tire sales brought an increase in buying power, contributing to higher operating profits. Also, the company's equity method affiliate Hotman (JASDAQ: 3190) has 88 Yellow Hat stores primarily in the Tohoku and northern Kanto regions, and has expertise in selling high-margin radial tires.

A combination of growing tire sales and growth in the number of high-margin retail stores saw the OPM improve from 0.4% in fiscal 2007 to 8.8% in FY03/21.

Yellow Hat: share of sales by product

(JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.
Auto and Motorcycle Parts Sales	96,248	110,531	113,829	115,081	119,411	123,370	131,418	132,812	134,775	140,587
YoY	8.9%	14.8%	3.0%	1.1%	3.8%	3.3%	6.5%	1.1%	1.5%	4.3%
Tires and wheels	33,380	38,182	40,631	38,411	37,639	38,128	41,997	42,285	41,599	40,955
YoY	5.2%	14.4%	6.4%	-5.5%	-2.0%	1.3%	10.1%	0.7%	-1.6%	-1.5%
% of segment	34.7%	34.5%	35.7%	33.4%	31.5%	30.9%	32.0%	31.8%	30.9%	29.1%
% of auto parts sales	39.1%	42.3%	44.0%	44.4%	43.7%	43.5%	45.3%	46.0%	45.3%	44.0%
Audio and visual products	24,839	20,409	19,349	15,017	14,494	14,207	13,762	12,905	13,915	12,740
YoY	16.4%	-17.8%	-5.2%	-22.4%	-3.5%	-2.0%	-3.1%	-6.2%	7.8%	-8.4%
% of segment	25.8%	18.5%	17.0%	13.0%	12.1%	11.5%	10.5%	9.7%	10.3%	9.1%
Car washing, oil, and chemicals	8,577	9,994	10,448	10,911	12,084	12,690	13,339	13,431	13,697	14,797
YoY	11.4%	16.5%	4.5%	4.4%	10.8%	5.0%	5.1%	0.7%	2.0%	8.0%
% of segment	8.9%	9.0%	9.2%	9.5%	10.1%	10.3%	10.2%	10.1%	10.2%	10.5%
Functional products	12,229	13,780	13,879	13,818	14,530	15,107	15,536	15,495	15,894	16,893
YoY	12.3%	12.7%	0.7%	-0.4%	5.2%	4.0%	2.8%	-0.3%	2.6%	6.3%
% of segment	12.7%	12.5%	12.2%	12.0%	12.2%	12.2%	11.8%	11.7%	11.8%	12.0%
Interior and exterior products	6,237	7,913	8,026	8,354	7,373	7,522	8,035	7,711	6,762	7,717
YoY	6.5%	26.9%	1.4%	4.1%	-11.7%	2.0%	6.8%	-4.0%	-12.3%	14.1%
% of segment	6.5%	7.2%	7.1%	7.3%	6.2%	6.1%	6.1%	5.8%	5.0%	5.5%
Motorcycle products	-	9,846	10,477	10,521	11,286	11,807	12,325	13,024	13,469	15,466
YoY	-	-	6.4%	0.4%	7.3%	4.6%	4.4%	5.7%	3.4%	14.8%
% of segment	-	8.9%	9.2%	9.1%	9.5%	9.6%	9.4%	9.8%	10.0%	11.0%
Other	10,986	10,407	11,019	18,049	22,005	23,909	26,424	27,961	29,439	32,019
YoY	1.3%	-5.3%	5.9%	63.8%	21.9%	8.7%	10.5%	5.8%	5.3%	8.8%
% of segment	11.4%	9.4%	9.7%	15.7%	18.4%	19.4%	20.1%	21.1%	21.8%	22.8%

Source: Shared Research based on company materials

Cost structure

Summary income statement

(JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.
Sales	103,110	117,482	120,671	121,788	125,961	129,817	137,865	139,200	141,031	146,994
Gross profit	26,937	34,228	37,004	38,690	42,602	46,681	51,761	53,621	56,517	59,900
Gross profit margin	26.1%	29.1%	30.7%	31.8%	33.8%	36.0%	37.5%	38.5%	40.1%	40.7%
SG&A expenses	20,699	27,152	28,172	31,205	35,399	39,741	42,200	44,038	46,423	46,922
SG&A ratio	20.1%	23.1%	23.3%	25.6%	28.1%	30.6%	30.6%	31.6%	32.9%	31.9%
Salaries and allowances	6,042	8,574	8,737	10,103	11,495	13,112	13,840	14,817	15,801	16,607
% of sales	5.9%	7.3%	7.2%	8.3%	9.1%	10.1%	10.0%	10.6%	11.2%	11.3%
Rents	2,742	3,735	3,982	4,572	5,227	5,669	6,189	6,502	6,694	6,698
% of sales	2.7%	3.2%	3.3%	3.8%	4.1%	4.4%	4.5%	4.7%	4.7%	4.6%
Advertising and promotion expenses	2,859	3,576	4,307	4,621	5,160	5,873	5,682	5,657	5,823	5,412
% of sales	2.8%	3.0%	3.6%	3.8%	4.1%	4.5%	4.1%	4.1%	4.1%	3.7%
Other	9,056	11,267	11,146	11,909	13,517	15,087	16,489	17,062	18,105	18,205
% of sales	8.8%	9.6%	9.2%	9.8%	10.7%	11.6%	12.0%	12.3%	12.8%	12.4%
Operating profit	6,238	7,076	8,832	7,485	7,203	6,940	9,561	9,583	10,094	12,978
Operating profit margin	6.0%	6.0%	7.3%	6.1%	5.7%	5.3%	6.9%	6.9%	7.2%	8.8%

Source: Shared Research based on company materials

Gross profit

GPM increased from 25.5% in FY03/11 to 40.7% in FY03/21 because the ratio of relatively high-margin retail sales to total sales increased, and GPM improved at subsidiaries (mainly subsidiaries operating retail stores) and at the parent.

Increased ratio of retail sales to total sales

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

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

GPM and retail sales ratio

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Gross profit margin	26.1%	29.1%	30.7%	31.8%	33.8%	36.0%	37.5%	38.5%	40.1%	40.7%
Retail, % of total sales	32.7%	43.7%	45.4%	48.9%	52.3%	57.4%	58.8%	60.6%	61.2%	62.4%

Source: Shared Research based on company materials

Improved GPM at subsidiaries (mainly subsidiaries operating retail stores)

As of July 2021, of Yellow Hat's 38 consolidated subsidiaries, 35 operate retail stores in various regions of Japan, and Shared Research understands that the difference between consolidated and parent-only gross profit is close to the gross profit figure for subsidiaries operating retail stores. The ratio of this difference in gross profit to consolidated retail sales can therefore be considered essentially the GPM for subsidiaries operating retail stores. This ratio has been trending upward, from 32.7% in FY03/11 to 47.8% in FY03/21, due largely to expansion in wage earnings (included under "other" in the data on sales by product provided earlier) in services (maintenance work, installation or replacement work, and other services).

Consolidated performance, parent performance, and difference

(JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Consolidated sales	103,110	117,482	120,671	121,788	125,961	129,817	137,865	139,200	141,031	146,994
Parent sales	95,732	96,260	99,401	95,576	93,937	95,732	97,297	96,834	98,799	95,291
Cons./parent ratio	1.1	1.2	1.2	1.3	1.3	1.4	1.4	1.4	1.4	1.5
Retail sales	31,483	48,259	51,644	56,264	62,443	70,783	77,334	80,545	82,468	87,750
% of total sales	30.5%	41.1%	42.8%	46.2%	49.6%	54.5%	56.1%	57.9%	58.5%	59.7%
Consolidated gross profit	26,937	34,228	37,004	38,690	42,602	46,681	51,761	53,621	56,517	59,900
Consolidated GPM	26.1%	29.1%	30.7%	31.8%	33.8%	36.0%	37.5%	38.5%	40.1%	40.7%
Parent gross profit	16,350	13,970	14,302	14,162	13,947	14,558	15,198	15,724	17,290	17,943
Parent GPM	17.1%	14.5%	14.4%	14.8%	14.8%	15.2%	15.6%	16.2%	17.5%	18.8%
Cons.-parent gross profit	10,587	20,258	22,702	24,528	28,655	32,123	36,563	37,897	39,227	41,957
% of Retail sales	33.6%	42.0%	44.0%	43.6%	45.9%	45.4%	47.3%	47.1%	47.6%	47.8%
SG&A expenses	20,699	27,152	28,172	31,205	35,399	39,741	42,200	44,038	46,423	46,922
SG&A ratio	20.1%	23.1%	23.3%	25.6%	28.1%	30.6%	30.6%	31.6%	32.9%	31.9%
Parent SG&A expenses	10,265	7,564	7,511	6,962	7,205	7,524	7,663	7,654	8,497	7,947
Parent SG&A ratio	10.7%	7.9%	7.6%	7.3%	7.7%	7.9%	7.9%	7.9%	8.6%	8.3%
Cons.-parent SG&A expenses	10,434	19,588	20,661	24,243	28,194	32,217	34,537	36,384	37,926	38,975
% of Retail sales	33.1%	40.6%	40.0%	43.1%	45.2%	45.5%	44.7%	45.2%	46.0%	44.4%
Operating profit	6,238	7,076	8,832	7,485	7,203	6,940	9,561	9,583	10,094	12,978
Operating profit margin	6.0%	6.0%	7.3%	6.1%	5.7%	5.3%	6.9%	6.9%	7.2%	8.8%
Parent operating profit	6,085	6,406	6,791	7,200	6,742	7,034	7,535	8,070	8,792	9,995
Parent OPM	6.4%	6.7%	6.8%	7.5%	7.2%	7.3%	7.7%	8.3%	8.9%	10.5%
Cons.-parent operating profit	153	670	2,041	285	461	-94	2,026	1,513	1,302	2,983
% of Retail sales	0.5%	1.4%	4.0%	0.5%	0.7%	-0.1%	2.6%	1.9%	1.6%	3.4%

Source: Shared Research based on company materials

Yellow Hat does not disclose data on wage earnings from services, which include auto inspection fees and sales from services, but in its supplementary financial information, it does provide YoY comparisons of the number of vehicles inspected and sales from services. Based on those trends, Shared Research estimates that over the last 10 years the number of vehicles inspected increased 2.5x, while sales from services approximately doubled.

YoY comparisons of number of vehicles inspected and sales from services

(YoY)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Number of cars inspected	13.0%	14.0%	10.0%	10.0%	19.0%	14.0%	7.0%	4.0%	-1.0%	7.0%
Services sales	9.0%	8.0%	5.0%	1.0%	13.0%	8.0%	10.0%	5.0%	4.0%	3.0%

Source: Shared Research based on company data

Shared Research understands that the difference between consolidated and parent-only SG&A expenses is close to the SG&A expense figure for subsidiaries operating retail stores. The ratio of the difference in SG&A expenses to consolidated retail sales can

therefore be considered essentially the SG&A expense ratio for subsidiaries operating retail stores. This ratio has also been trending upward, from 30.3% in FY03/11 to 44.4% in FY03/21.

Improved GPM at parent

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

The parent's GPM rose from 14.5% in FY03/13 to 18.8% in FY03/21. This is because the ratio of relatively high-margin tire and wheel sales increased, while the ratio of relatively low-margin audio and visual product sales declined.

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

The ratio of tire and wheel sales (excluding motorcycle parts and other) rose from 42.3% in FY03/13 to 44.0% in FY03/21, while the ratio of audio and visual product sales declined from 22.6% in FY03/13 to 13.7% in FY03/21.

SG&A expenses

Due to an increasing share of retail sales, the SG&A expense ratio rose from 20.5% in FY03/11 to 31.9% in FY03/21. Still, GPM improvement outstripped growth in the SG&A expense ratio, leading to an improvement in OPM.

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

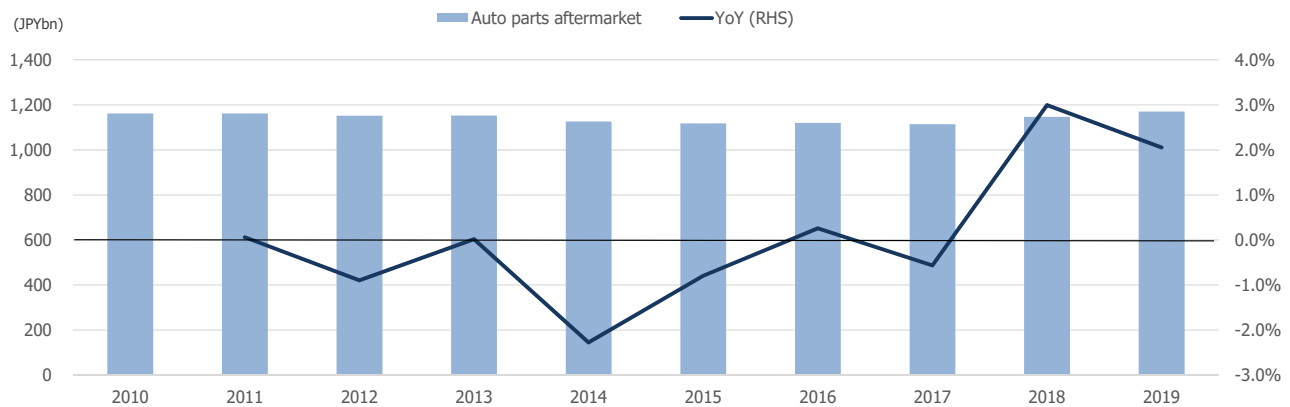
Market and value chain

Market overview

According to Yano Research Institute's *Market Report on Replacement Parts/Auto Supplies Market 2015*, in 2014, the Japanese aftermarket car parts market fell to JPY1.1tn (-2.3% YoY based on value of manufacturers' shipments in Japan). The market remains in a downtrend due to a drop in the number of car enthusiasts among the youth, and the reluctance of consumers to spend on car parts and accessories.

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

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



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

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

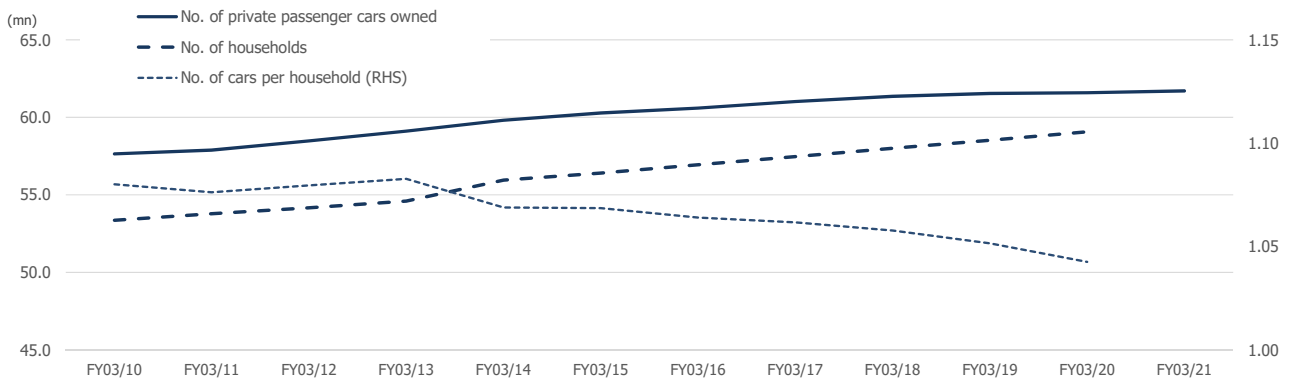
Car ownership and average years of use increase

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

Number of vehicles owned

According to the Automobile Inspection & Registration Information Association of Japan (AIRIA), Japanese owned about 61.8mn vehicles as of end-March 2020 (+0.1% YoY), with the bulk of these, some 61.6mn (+0.1% YoY) being private passenger vehicles. With 59.1mn households in Japan (+0.9% YoY), there is an average of 1.04 vehicles per household (-0.9% YoY). With slow growth in the number of households, the number of private passenger vehicles has also grown, but the number of vehicles per household peaked at 1.11 at end-March 2006. In addition, the number of households is projected to decline (see following paragraph).

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



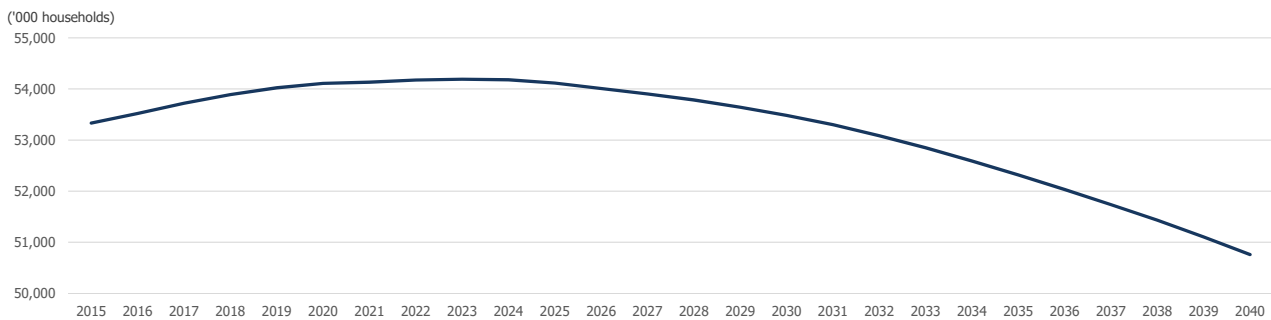
(mn units)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
No. of passenger cars owned	57.9	58.1	58.7	59.4	60.1	60.5	60.8	61.3	61.6	61.8	61.8	61.9
YoY	0.4%	0.4%	1.0%	1.1%	1.2%	0.8%	0.5%	0.7%	0.5%	0.3%	0.1%	0.2%
No. of private passenger cars owned	57.6	57.9	58.5	59.1	59.8	60.3	60.6	61.0	61.4	61.5	61.6	61.7
YoY	0.4%	0.4%	1.0%	1.1%	1.2%	0.8%	0.5%	0.7%	0.6%	0.3%	0.1%	0.2%
No. of households (mn)	53.4	53.8	54.2	54.6	56.0	56.4	57.0	57.5	58.0	58.5	59.1	
YoY	0.9%	0.8%	0.7%	0.8%	2.5%	0.8%	1.0%	0.9%	0.9%	0.9%	0.9%	
No. of cars per household	1.08	1.08	1.08	1.08	1.07	1.07	1.06	1.06	1.06	1.05	1.04	
YoY	-0.5%	-0.4%	0.3%	0.3%	-1.3%	0.0%	-0.4%	-0.2%	-0.4%	-0.6%	-0.9%	

Source: Shared Research based on AIRIA data

Household projections

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

Household projections for Japan

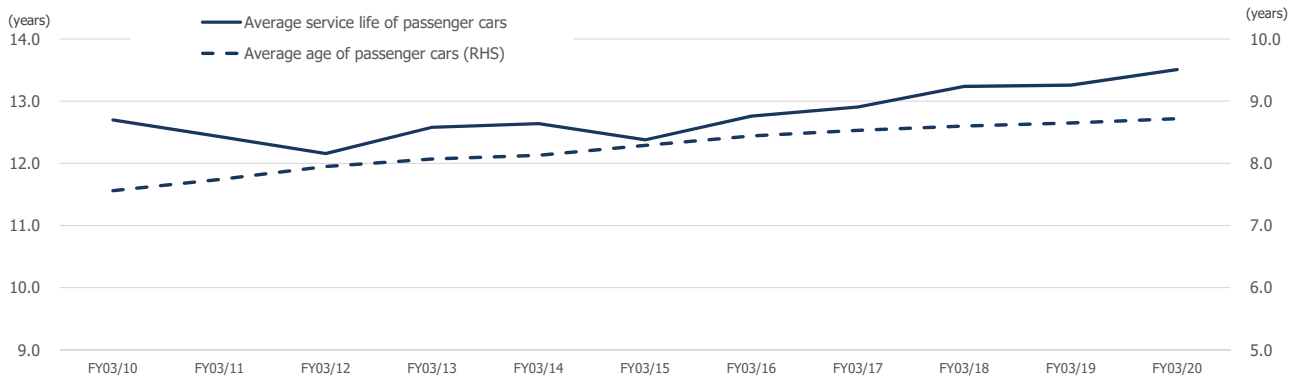


Source: *Household Projections for Japan (2018 Nationwide Projections)* from National Institute of Population and Social Security Research

Average years of vehicle use

According to AIRIA, as of March 2020, the average service life of passenger vehicles (excluding light vehicles) was 13.5 years (13.3 years as of March 2019). In addition, the average age of the vehicles was 8.7 years (8.7 years as of March 2019). Both figures have been trending upward. Coupled with the aforementioned growth in the number of vehicles owned, this means there is good reason to expect stable demand for maintenance services and automobile inspections.

Average service life and average age of passenger cars



(years)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Average service life of passenger cars	12.7	12.4	12.2	12.6	12.6	12.4	12.8	12.9	13.2	13.3	13.5
YoY change	1.0	-0.3	-0.3	0.4	0.1	-0.3	0.4	0.2	0.3	0.0	0.3
Average age of passenger cars	7.6	7.7	8.0	8.1	8.1	8.3	8.4	8.5	8.6	8.7	8.7
YoY change	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1

Source: Shared Research based on AIRIA data

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

In 2011 market shares in the car parts and accessories market were as follows: car dealers, 39%; auto accessory stores, 28%; tire stores, 17%; service (gas) stations, 9%; and other, 7% (source: AM NETWORK magazine).

Starting from around 2008, there was consolidation among car dealers and service station closures. In 2019 there were 14,556 car dealers (16,213 in 2007, source: Japan Automobile Dealers Association) and 29,637 service (gas) stations (44,057 in 2007, source: *Numbers of Gasoline Dealers and Service Stations* from Agency for Natural Resources and Energy).

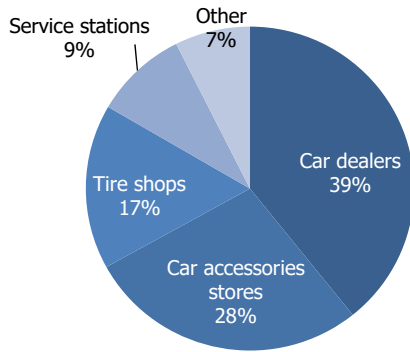
Gasoline demand declined as hybrid and fuel-efficient cars became even more fuel-efficient, and an increase in self-service gas stations made it difficult to sell merchandise, crimping profits at service stations. Furthermore, we understand that many garages are closing due to lack of a successor to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

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

According to Yellow Hat, major auto accessory store companies are able to procure merchandise more cheaply than service stations and car dealers, because the auto accessory stores handle large volumes of merchandise. Further, compared with manufacturer affiliated tire stores, auto accessory stores are able to deal in products from a wider variety of manufacturers because they have no parent company (tire manufacturer) supplying the bulk of their products.

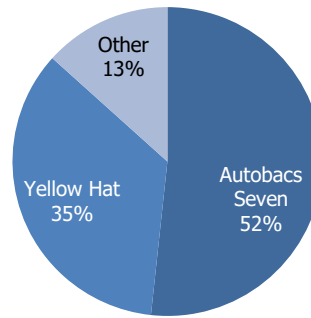
According to the Auto-Parts & Accessories Retail Association, total sales for the four big automotive parts companies came to JPY402.2bn (+0.4% YoY) in FY03/21. Based on this figure, Autobacs Seven's sales (total for the Autobacs business in Japan and the dealer, B2B, and online business) represented a 52% share, while Yellow Hat's sales (Auto and Motorcycle Parts Sales business) represented a 35% share, meaning the two companies together have captured more than 80% of the market.

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



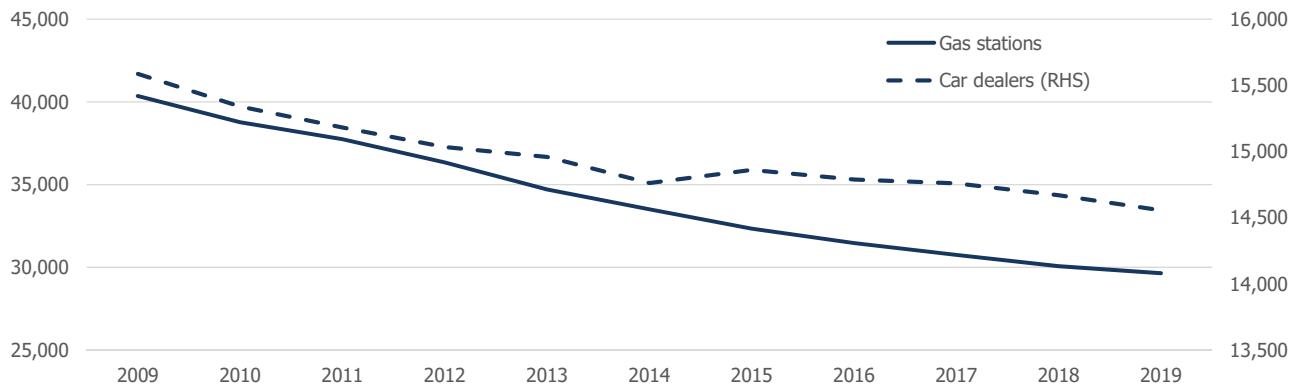
Source: Shared Research based on AM NETWORK Magazine data

Share in the Japanese car-parts stores (FY03/21)



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

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



(no. of facilities/ stores)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Gas stations	38,777	37,743	36,349	34,706	33,510	32,333	31,467	30,747	30,070	29,637
YoY	-3.9%	-2.7%	-3.7%	-4.5%	-3.4%	-3.5%	-2.7%	-2.3%	-2.2%	-1.4%
Car dealers	15,340	15,182	15,034	14,959	14,762	14,861	14,788	14,759	14,670	14,556
YoY	-1.6%	-1.0%	-1.0%	-0.5%	-1.3%	0.7%	-0.5%	-0.2%	-0.6%	-0.8%

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

In addition, online stores have certain levels of share in the sales of car parts and accessories. Shared Research notes, however, that for many car products (tires, oil, and to some extent car electronics and installable accessories) buying online only suits enthusiasts. This is because once the product is bought it needs to be installed/applied. This renders the advantages of internet shopping, convenience and cost, less valuable.

Even if one buys auto parts online, he/she needs to go to a mechanic to have those parts installed and of course there are additional charges for such work. Therefore, until a company sells extremely low cost products online and has easily accessible and low-cost physical service points, internet shopping should remain an incremental threat.

Competition

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

Business performance of major two car-parts vendors

Yellow Hat (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.
Sales	103,110	117,482	120,671	121,788	125,961	129,817	137,865	139,200	141,031	146,994
YoY	8.3%	13.9%	2.7%	0.9%	3.4%	3.1%	6.2%	1.0%	1.3%	4.2%
Gross profit	26,937	34,228	37,004	38,690	42,602	46,681	51,761	53,621	56,517	59,900
YoY	11.2%	27.1%	8.1%	4.6%	10.1%	9.6%	10.9%	3.6%	5.4%	6.0%
Gross profit margin	26.1%	29.1%	30.7%	31.8%	33.8%	36.0%	37.5%	38.5%	40.1%	40.7%
SG&A expenses	20,699	27,152	28,172	31,205	35,399	39,741	42,200	44,038	46,423	46,922
YoY	6.0%	31.2%	3.8%	10.8%	13.4%	12.3%	6.2%	4.4%	5.4%	1.1%
SG&A ratio	20.1%	23.1%	23.3%	25.6%	28.1%	30.6%	30.6%	31.6%	32.9%	31.9%
Operating profit	6,238	7,076	8,831	7,484	7,203	6,939	9,561	9,583	10,093	12,978
YoY	32.7%	13.4%	24.8%	-15.3%	-3.8%	-3.7%	37.8%	0.2%	5.3%	28.6%
Operating profit margin	6.0%	6.0%	7.3%	6.1%	5.7%	5.3%	6.9%	6.9%	7.2%	8.8%

Autobacs Seven (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.
Sales	237,342	230,168	231,697	209,454	208,142	204,033	212,328	213,840	221,400	220,449
YoY	0.4%	-3.0%	0.7%	-9.6%	-0.6%	-2.0%	4.1%	0.7%	3.5%	-0.4%
Gross profit	77,036	75,729	76,907	66,902	66,968	66,162	67,966	67,581	70,746	73,288
YoY	1.7%	-1.7%	1.6%	-13.0%	0.1%	-1.2%	2.7%	-0.6%	4.7%	3.6%
Gross profit margin	32.5%	32.9%	33.2%	31.9%	32.2%	32.4%	32.0%	31.6%	32.0%	33.2%
SG&A expenses	63,315	62,984	62,962	60,498	60,266	60,332	60,177	60,102	63,160	62,711
YoY	-0.7%	-0.5%	0.0%	-3.9%	-0.4%	0.1%	-0.3%	-0.1%	5.1%	-0.7%
SG&A ratio	26.7%	27.4%	27.2%	28.9%	29.0%	29.6%	28.3%	28.1%	28.5%	28.4%
Operating profit	13,720	12,745	13,944	6,403	6,701	5,829	7,789	7,478	7,585	10,577
YoY	14.4%	-7.1%	9.4%	-54.1%	4.7%	-13.0%	33.6%	-4.0%	1.4%	39.4%
Operating profit margin	5.8%	5.5%	6.0%	3.1%	3.2%	2.9%	3.7%	3.5%	3.4%	4.8%

Source: Shared Research based on company data

Comparison to Autobacs Seven

Sales per store greater at Autobacs Seven than at Yellow Hat

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

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

('000 households)	Number of households	Yellow Hat		Autobacs Seven	
		Store count	No. of households per store	Store count	No. of households per store
Hokkaido	2,790	37	75	32	87
Tohoku	4,663	128	36	58	80
Kanto	20,917	191	110	144	145
Chubu	9,030	143	63	127	71
Kinki	9,762	69	141	106	92
Chugoku	3,370	69	49	37	91
Shikoku	1,787	23	78	20	89
Kyushu	6,752	80	84	61	111

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

Notes: Store counts for Yellow Hat are as of March 2021 and for Autobacs Seven are as of July 2021.

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

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

- ▷ Autobacs Seven moved into retail early, and aggressively expanded in the key metropolitan areas of Kanto and Kansai.

▷ Shared Research understands that most of Autobacs Seven's stores are franchise chain stores. Autobacs Seven derives royalty revenues from franchisees linked to sales. It thus has an incentive to push for more big stores to maximize retail revenues. As of FY03/21, 451 of its 584 stores in Japan were franchise stores.

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

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

Comparing the two companies' performance over the last 10 years, Yellow Hat has achieved sales CAGR of 4.4% and operating profit CAGR of 10.7%. Autobacs Seven, on the other hand, saw its sales and operating profit shrink by an average of 0.7% and 1.2% per year, respectively.

Autobacs Seven has mostly developed large stores along major thoroughfares in urban centers, but the Japanese market for this sort of large store is largely saturated, so growth in store count has stalled. In contrast, Yellow Hat continues to increase its store count by focusing on premises vacated by other business types such as convenience stores, even opening stores in areas with small commercial zones. In Japan, Autobacs Seven's store count rose from 513 at end-FY03/11 to 584 at end-FY03/21, an increase of 14% (CAGR of 1.3%). Over the same time period, Yellow Hat's store count went from 500 to 750, a 50% increase (CAGR of 4.1%).

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

Other differences between Yellow Hat and Autobacs Seven

Yellow Hat is not involved in buying or selling cars, but Autobacs Seven is making a push in this area. In FY03/21, the buying and selling of cars resulted in sales of JPY8.7bn (+6.0% YoY), or 5.0% of the JPY175.3bn in sales generated by the Autobacs business in Japan.

In addition, Yellow Hat's strategy is focused on improving profits in the business in Japan rather than its overseas operations. Autobacs Seven is working to develop its overseas business as it sees this as a new growth driver. In FY03/21, Autobacs Seven's overseas business posted sales of JPY9.6bn (-16.2% YoY), which was 4.4% (-0.8pp YoY) of total sales, but still booked operating loss of JPY172mn (operating loss of JPY360mn in FY03/20).

Strengths and weaknesses

Strengths

- **Leadership of President Yasuo Horie, who revamped management.** Yellow Hat's earnings had deteriorated to an operating loss of JPY507mn in FY03/08, but turned around to a record operating profit of JPY13.0bn in FY03/21. Shared Research thinks that the recovery in performance is largely attributable to the leadership of President Yasuo Horie. Mr. Horie spearheaded improvements in profits via the following: focusing resources on core businesses; cost cuts and comprehensive expense control; and migrating store management to regional subsidiaries.
- **Expertise in opening stores in vacated premises enables flexible store rollout.** One standout feature of Yellow Hat is its expertise in low-cost store openings. The company occupies premises vacated by companies from other industries, making use of the buildings and fixtures left behind. According to Yellow Hat, this method means that the profitability of its newly opened stores is higher than others in the industry. Although store opening costs vary by property, its initial investment expenses are relatively low, enabling a quick turn to profits.
- **High margins and capital efficiency.** In FY03/21, Yellow Hat had OPM of 8.8% and recurring profit to total assets ratio of 12.3%—higher than the corresponding figures for Autobacs Seven, 4.8% and 6.2% respectively. The difference reflects the fact that Yellow Hat has shifted its product range to relatively high-margin tires, batteries, and oil, and implemented cost cuts and thorough expense control. In FY03/21, tires and wheels accounted for 29.1% (29.5% in FY03/20; the sales share of tires and wheels of the Auto and Motorcycle Parts Sales business was 44.0%) of Yellow Hat's sales versus 25.8% (25.9%) for Autobacs Seven (of sales in the Autobacs business in Japan).

Weaknesses

- **Relatively low sales per store.** In FY03/21, Yellow Hat had sales per store of JPY240mn (retail sales divided by the average store count at the beginning and end of the period). This was roughly half of the JPY416mn achieved by Autobacs Seven (total retail sales for Super Autobacs and Autobacs divided by the average store count at the beginning and end of the period). Shared Research thinks that this is because Autobacs Seven has its stores in prime locations and has a wide range of products and high profile.
- **Relying on voluntary chain format means weak control.** The voluntary chain is a business format whereby members (independent retailers) join primarily to reduce procurement costs through joint purchases of merchandise. Businesses involved in a voluntary chain have more independence than those in a franchise, so Yellow Hat has limited involvement in the management. In contrast, the company's competitor Autobacs Seven uses a franchise system. As such, it is involved in store management, providing its operating and sales expertise to the companies operating the stores primarily with the aim of growing sales for the franchiser.
- **Low profile.** Autobacs Seven has for a long time put a great deal of effort into promotional activities, using celebrities in television commercials and participating in racing activities. This has implanted the idea that Autobacs is synonymous with anything to do with cars in consumers' minds. Autobacs Seven has established a dominant position in the Japanese car part stores industry with a 52% market share (FY03/21). Yellow Hat has not traditionally been as aggressive in its marketing activities as Autobacs Seven, so its profile is low in comparison.

Historical performance

Full-year FY03/21 results

▷ Sales:	JPY147.0bn (+4.2% YoY)
▷ Operating profit:	JPY13.0bn (+28.6% YoY)
▷ Recurring profit:	JPY14.0bn (+26.5% YoY)
▷ Net income*:	JPY8.5bn (+16.5% YoY)

*Net income refers to net income attributable to owners of the parent.

In January 2021, the company announced revisions to its full-year FY03/21 earnings forecast. The recently announced FY03/21 results exceeded the revised forecasts for all key indicators, with sales coming in at 101.7%, operating profit 108.2%, recurring profit 107.9%, and net income attributable to owners of the parent 101.7% of the revised forecasts.

The business environment in April-May 2020 in the car accessories industry saw declining customer visits and stagnant sales in high-ticket items such as tires and car navigation systems due to the impact of the COVID-19 outbreak and the state of emergency declared by the Japanese government in response. Customer traffic has gradually recovered since June 2020 following the lifting of the state of emergency, and sales of high-ticket items has started to recover. Demand for winter products increased in Q3 (October–December 2020) onward due to cold weather (mainly in the Sea of Japan side of the country), resulting in sales growth of winter tires and tire chains.

Sales were JPY147.0bn (+4.2% YoY). The company had anticipated a sales decline because of the COVID-19 impact, but demand for its products recovered earlier than expected due to a greater need to use cars and motorcycles for travel with minimal risk of infection. Further, a wave of cold weather and heavy snow caused a YoY increase in sales of winter tires and tire chains. This resulted in a YoY increase in sales and gross profit.

Gross profit was up 6.0% YoY, while SG&A expenses only increased by 1.1% YoY. Gross profit was JPY59.9bn (+6.0%) and the GPM was 40.7% (+0.6pp YoY). Factors contributing to the rise in GPM were an increased sales share of the relatively high-margin retail sales and GPM improvement at the parent company. SG&A expenses were JPY46.9bn (+1.1% YoY). An increase in personnel expenses associated with a higher store head count to improve customer service capabilities offset cuts in advertising activities during the states of emergency.

As a result, operating profit came to JPY13.0bn (+28.6% YoY). Profit at all levels recorded double-digit YoY growth.

Automotive and motorcycle parts sales

▷ Sales:	JPY140.6bn (+4.3% YoY)
▷ Operating profit:	JPY11.7bn (+30.6% YoY)

FY03/21 saw 18 openings and 16 closings of Yellow Hat stores in Japan. Outside of Yellow Hat stores, the company opened two 2-Rin-Kan stores and four Bikers Station SOX stores, while closing one store in each of those chains. At end-FY03/21, the company had a total of 740 Yellow Hat stores, 57 2-Rin-Kan stores, and 55 Bikers' Station SOX stores in Japan for a total of 852 stores, and seven Yellow Hat automobile inspection centers.

The sales breakdown showed wholesale sales of JPY49.2bn (largely flat YoY) and retail sales of JPY87.8bn (+6.4% YoY). Wholesale sales broke down into sales to general stores JPY14.1bn (+11.1% YoY) and sales to group affiliates JPY35.0bn (-3.8% YoY).

Yellow Hat's all-store sales totaled JPY128.7bn (+1.2% YoY) and comparable-store sales grew 0.8% YoY. By category, tire sales fell 2% YoY and AVC (car navigation systems, drive recorders, audio equipment, electronic toll collection (ETC) devices, and other

products) sales fell 8% YoY. Tire sales declined YoY, because of a state of emergency declared in 1H FY03/21 to prevent the spread of COVID-19, with business being negatively affected by consumers being asked to stay home. However, sales of studless tires were up in 2H because of heavy snowfall in some regions. Exterior products sales grew 34% YoY, driven by sales of snow and ice removal products, tire chains, and car body covers. Service sales (labor charges for mechanics and personnel who install and remove parts, etc.) were up 2% YoY and auto inspection sales up 7% YoY.

Rental real estate

- ▷ Sales: JPY6.4bn (+2.4% YoY)
- ▷ Operating profit: JPY1.3bn (+12.7% YoY)

Cumulative Q3 FY03/21 results

Earnings results for 1H FY03/20 were as follows:

- ▷ Sales: JPY115.2bn (+2.5% YoY)
- ▷ Operating profit: JPY11.1bn (+15.0% YoY)
- ▷ Recurring profit: JPY12.0bn (+14.6% YoY)
- ▷ Net income*: JPY8.1bn (+13.8% YoY)

*Net income refers to net income attributable to owners of the parent.

In January 2021, the company announced revisions to its full-year FY03/21 earnings forecast. Cumulative Q3 FY03/21 results saw sales achieve 79.7%, operating profit 92.7%, recurring profit 92.1%, and net income attributable to owners of the parent 96.6% of the company's revised full-year forecasts.

The business environment in Q3 FY03/21 in the car accessories industry saw declining customer visits and stagnant sales in high-ticket items such as tires and car navigation systems due to the impact of the COVID-19 outbreak. However, customer traffic has gradually recovered since June 2020 following the lifting of the state of emergency, and sales of high-ticket items has started to recover. In addition, demand for winter products rose owing to a wave of cold weather centered on the Sea of Japan side of the country, causing an increase in sales of winter tires and tire chains.

- ▷ The company had anticipated a sales decline in Q3 FY03/21 because of the COVID-19 impact, but demand for its products recovered earlier than expected due to a greater need to use cars and motorcycles for travel with minimal risk of infection. Further, a wave of cold weather and heavy snow caused a YoY increase in sales of winter tires and tire chains. This resulted in a YoY increase in sales and gross profit.
- ▷ Profit items from the operating profit and below increased by double digits on a YoY basis. Gross profit increased 3.8% YoY, while SG&A expenses increased only 0.7% YoY. There were increases in personnel expenses and rent due to an increase in stores at subsidiaries, but these were offset by curtailing advertising activities during the state of emergency.

Automotive and motorcycle parts sales

- ▷ Sales: JPY110.4bn (+2.5% YoY)
- ▷ Operating profit: JPY10.1bn (+15.1% YoY)

Q3 FY03/21 saw 13 openings and 11 closings of Yellow Hat stores in Japan. Outside of Yellow Hat stores, the company opened two 2-Rin-Kan stores and three Bikers Station SOX stores, and closed one Bikers Station SOX store. As of end-September 2020, the company had a total of 854 stores and seven Yellow Hat automobile inspection centers. The breakdown of stores is as follows:

Domestic

- ▷ Yellow Hat: 740
- ▷ 2-Rin-Kan (motorcycle parts): 58
- ▷ SOX: 54

Overseas

- ▷ Yellow Hat: 2

The sales breakdown showed wholesale sales of JPY39.4bn (-3.0% YoY) and retail sales of JPY68.3bn (+5.5% YoY).

Rental real estate

- ▷ Sales: JPY4.8bn (+2.3% YoY)
- ▷ Operating profit: JPY994mn (+14.1% YoY)

1H FY03/21 results

Earnings results for 1H FY03/20 were as follows:

- ▷ Sales: JPY67.6bn (-5.5% YoY)
- ▷ Operating profit: JPY4.6bn (-19.8% YoY)
- ▷ Recurring profit: JPY5.0bn (-19.1% YoY)
- ▷ Net income*: JPY3.3bn (-21.0% YoY)

*Net income refers to net income attributable to owners of the parent.

1H FY03/21 results saw sales achieve 47.6%, operating profit 44.4%, recurring profit 44.5%, and net income attributable to owners of the parent 45.2% of the company's full-year forecasts.

The business environment in 1H FY03/21 in the car accessories industry saw declining customer visits and stagnant sales in high-ticket items such as tires and car navigation systems due to the impact of the COVID-19 outbreak. According to the company, however, since June 2020 following the lifting of the state of emergency, customer traffic has increased and sales of high-ticket items has started to recover.

- ▷ The company had anticipated a sales decline in 1H FY03/21 because of the COVID-19 impact, but demand for its products recovered earlier than expected due to a greater need to use cars and motorcycles for travel with minimal risk of infection. That being said, sales and gross profit declined YoY in reaction to the last-minute demand a year ago mainly for high-priced items before the consumption tax hike and price increases by tire manufacturers.
- ▷ Profit items from the operating profit and below declined by double digits on a YoY basis. Gross profit declined, and SG&A expenses were up 0.1% YoY. Although the company curtailed advertising activities during the emergency declaration period, higher rent and personnel expenses were incurred from additional stores at subsidiaries.

Automotive and motorcycle parts sales

- ▷ Sales: JPY64.4bn (-5.8% YoY)
- ▷ Operating profit: JPY3.9bn (-23.8% YoY)

1H FY03/21 saw nine openings and 11 closings of Yellow Hat stores in Japan. Outside of Yellow Hat stores, the company opened one 2-Rin-Kan store and two Bikers Station SOX stores, and closed one Bikers Station SOX store. As of end-September 2020, the company had a total of 849 stores and seven Yellow Hat automobile inspection centers. The breakdown of stores is as follows:

Domestic

- ▷ Yellow Hat: 736
- ▷ 2-Rin-Kan (motorcycle parts): 57
- ▷ SOX: 53

Overseas

- ▷ Yellow Hat: 3

The sales breakdown showed wholesale sales of JPY22.1bn (-11.1% YoY) and retail sales of JPY40.4bn (-3.3% YoY).

Rental real estate

- ▷ Sales: JPY3.2bn (+2.2% YoY)
- ▷ Operating profit: JPY673mn (+15.6% YoY)

Q1 FY03/21 results

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

*Net income attributable to owners of the parent.

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

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

- ▷ Q1 FY03/21 sales and gross profit declined YoY. Revenue from both sales and accompanying installation fees declined for high-ticket items such as tires, car navigation systems, and drive recorders.
- ▷ The sales breakdown showed wholesale sales of JPY9.5bn (-8.8% YoY) and retail sales of JPY19.2bn (-4.5% YoY).
- ▷ SG&A expenses declined 0.7% YoY. While higher rent and personnel expenses were incurred from additional stores at subsidiaries, this was offset by lower advertising levels during the emergency declaration period. Profit items from the operating profit and below declined on a YoY basis.

Auto and Motorcycle Parts Sales

- ▷ Sales: JPY29.5bn (-5.7% YoY)

▷ Operating profit: JPY1.4bn (-22.0% YoY)

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

Japan

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

Overseas

- ▷ Yellow Hat: 3

Real Estate Lease

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

News and topics

January 2021

On January 28, 2021, the company announced an upward revision to its earnings forecast and dividend forecast.

Revision of earnings forecast

Revised full-year FY03/21 earnings forecast

- ▷ Sales: JPY144.5bn (previous forecast: JPY142.0bn)
- ▷ Operating profit: JPY12.0bn (JPY10.3bn)
- ▷ Recurring profit: JPY13.0bn (JPY11.2bn)
- ▷ Net income attributable to owners of the parent: JPY8.4bn (JPY7.4bn)
- ▷ EPS: JPY182.11 (JPY160.47)

Reason for the revision

Regarding full-year results for FY03/21, Yellow Hat had expected a decrease in sales due to the impact of COVID-19, but there was more demand for the company's products than it had anticipated in its previous forecast thanks to an increase in transportation by car and motorcycle to mitigate infection risk. In addition, sales of winter products rose due to cold weather across Japan. The company accordingly expects sales and profits from operating profit down to exceed previous forecasts.

Revision of dividend forecast

The company's basic policy is to aim for a dividend payout ratio of 30% and to distribute profits while taking into consideration performance, financial condition, investment plans, and other factors. Yellow Hat revised the year-end dividend forecast for FY03/21 to JPY28/share, an increase of JPY2 from the previous forecast, in consideration of performance trends and the company's financial condition. Its annual dividend forecast is JPY54 (previous forecast: JPY52).

October 2020

On October 30, 2020, the company announced an upward revision to its 1H FY03/21 earnings forecast.

Revised 1H FY03/21 forecast

- ▷ Sales: JPY67.6bn (previous forecast: JPY61.0bn)
- ▷ Operating profit: JPY4.6bn (JPY2.9bn)
- ▷ Recurring profit: JPY5.0bn (JPY3.3bn)
- ▷ Net income: JPY3.3bn (JPY2.3bn)

Reason for revisions

The company had expected a decrease in sales in 1H due to the impact of the COVID-19 pandemic. However, since June when the state of emergency was lifted, demand for cars and motorcycles as a means of transportation has increased due to their effect in reducing infection risk. As a result, demand for the company's services recovered faster than expected in the previous forecast, and sales and all profit categories are expected to exceed the previous targets.

The company left the full-year FY03/21 forecast announced in May 2020 unchanged, as it expects demand will be weighted toward 1H.

Other information

History

Hidesaburo Kagiya founded the company in 1961 as a car parts wholesale business. The name: Royal. In 1982 the first Yellow Hat group store opened, and from 1990 the number of stores grew rapidly (December 1992: 200 stores, April 1995: 300 stores, March 1997: 400 stores). In 1997 the company listed on the TSE 1st Section and changed its name to Yellow Hat Ltd.

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

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

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

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Koeikikaku, Ltd.	6,274	13.59%
The Master Trust Bank of Japan, Ltd. (Trust account)	4,235	9.17%
Yellow Hat Kyowakai	2,738	5.93%
Custody Bank of Japan, Ltd. (Trust account)	2,337	5.06%
JP Morgan Chase Bank 385632	2,026	4.39%
Custody Bank of Japan, Ltd. (Trust account 9)	1,259	2.72%
Koichiro Kagiyama	788	1.70%
State Street Bank and Trust Company 505103	691	1.49%
Sumitomo Rubber Industries, Ltd.	623	1.35%
The Dai-ichi Life Insurance Company, Limited	600	1.29%
SUM	21,576	46.74%

Source: Shared Research based on company data
As of March 31, 2021; shareholding ratio based on shares outstanding (excl. treasury shares)

Koeikikaku is a real estate company run by Koichiro Kagiyama, the previous president and a member of the founding family. The direct and indirect ownership ratio including shares in the name of Koichiro Kagiyama is 15.1%.

Dividends, shareholder benefits

Yellow Hat aims for a consolidated dividend payout ratio of 30% while taking its consolidated earnings, financial condition, and investment plans into account. The company's full-year FY03/22 dividend forecast is JPY58.0 (up from JPY54.0 in FY03/21).

Top management

As of FY03/21, the company's sole representative director is President Yasuo Horie

President Yasuo Horie

President Yasuo Horie was born in Kyoto in 1952. After graduating from the Fiber Science and Engineering Program of Kyoto Institute of Technology and working in a textile company, Horie joined Royal (now Yellow Hat) in October 1976. He worked at branches in Nagoya, Aichi Prefecture and Sendai, Miyagi Prefecture before being assigned to headquarters in 1987. He became director and head of the sales management division in June 1997, managing director and head of the sales and sales management divisions in June 2001, and assumed his current position as president of the company in October 2008.

ESG initiatives

Environment

The company is working on addressing environmental concerns through activities in each region and selling environment-friendly products and supplies.

Activities in each region

The company takes part in National Crime Prevention CSR Promotion Council (Safety Nippon), an organization that shares and distributes crime prevention information, and runs cleanup activities near its headquarters and stores.

Taking part in Safety Nippon

The company has been a founding member of Safety Nippon since April 2015, and contributes to crime prevention activities by assisting with inspections and maintenance of local crime prevention patrol vehicles with blue flashing lights to help make driving safe and secure and create pleasant neighborhoods.

Safety Nippon provides sustained and effective assistance toward crime prevention activities that make neighborhoods safer and help residents feel safe by identifying community service activities to this end by companies, organizations, and local governments and encouraging all stakeholders to participate.

Cleanup activities

The company supports NPO Nihon wo utsukushikusuru kai (“Make Japan Beautiful association”), the brainchild of the company founder Hidesaburo Kagiya, whose objective is to provide a pleasant environment and beautify the country through cleaning streets and public toilets.

Selling environment-friendly products and supplies

Development and sales of environment-friendly products

The company developed products using recyclable pouch packs, which it uses as packaging for its products. This has reduced the volume of plastic use by around 80% compared with using PET (plastic) bottles, as well as reducing the volume of waste by 80% on a volume basis and by more than five-sixths on a weight basis. Other environment-friendly initiatives (using products that reduce environmental impact and simplifying and using environment-friendly packaging materials) include using paper instead of plastic materials for exterior packaging and reducing disposal loss of oil cans by selling engine oil by quantity when performing oil changes.

Adopting environment-friendly supplies

Yellow Hat uses environment-friendly supplies such as checkout bags and paper carrier bags. The company has been replacing plastic (petrochemical) checkout bags with bags made from materials with minimum 30% plant-derived biomass material content to reduce CO2 emissions, reduce dependence on oil, and counteract global warming. Paper carrier bags are made from paper with a minimum 30% recycled paper content and printed using water-based ink.

Social

The company provides vehicle inspection and safety check services, offers a range of products that assist driver safety, and runs road safety programs.

- ▷ Vehicle inspections: Yellow Hat’s vehicle inspections check more than 100 items—56 statutory items, 15 regular items, and more than 30 items specific to Yellow Hat inspections. The company considers vehicle inspections to be a program that helps to operate cars safely. With its unique, 100-item plus inspections, the company helps to prevent accidents and ensure road safety.
- ▷ Safety checks: Yellow Hat offers a free 12-item safety check and does not charge for checking and inflating tires.

- ▷ Range of products that assist driver safety: These products help drivers to feel safe and secure at the wheel, including drive recorders and erroneous start prevention systems. The company designs sales floors to educate customers about the importance of these products to help create a safe society by preventing accidents and resolving possible causes of accidents early.
- ▷ Initiatives aimed at promoting road safety: The company helps to raise awareness of road safety by running the spring and fall road safety campaigns and a cat-themed nationwide road safety event on February 22 (“Cat Day”).

Governance

Overview of corporate governance

Corporate governance

Organizational and capital structure	
Organizational structure	Company with Board of Auditors
Controlling shareholders	No
Parent company ticker	N/A
Directors	
Number of directors stated in Articles of Incorporation	10
Term of directors stated in Articles of Incorporation	One year
Number of directors	Seven
Outside directors (independent officers)	Three
Members of Board of Auditors	
Number of members of the Board of Auditors	Three
Of which, those from outside the company	Two
Independent officers	
Number of independent officers	Four
Other	
Participates in e-voting platforms	Y
Provides notice of convocation of ordinary general shareholders’ meetings in English	N
Discloses directors’ compensation	Not for individuals
Discloses amounts of compensation or formula for calculation of compensation	Y
Takeover defense measures	N

Source: Shared Research, based on company’s Corporate Governance Report (updated June 2021)

SDGs initiatives

SDGs (Sustainable Development Goals) are global goals that serve as a “blueprint to achieve a better and more sustainable future for all” that “leaves no one behind.” The SDGs were presented as part of The 2030 Agenda for Sustainable Development adopted by all United Nations Member States at the 2015 UN Summit. The SDGs are to be achieved by 2030 and consist of 17 goals and 169 targets.

Yellow Hat's SDGs initiatives

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
Yellow Hat's main initiatives																		
Propose safe and secure driving culture and provide social infrastructure																		
Provide safety and security through product and vehicle service options																		
Initiatives that respond to climate change and reduce environmental impact																		
Form a safe workplace and support employees' success																		
Provide stores rooted in their communities and improve sustainability of local communities																		

Source: Shared Research based on company data

Proposing a safe and secure driving culture and providing social infrastructure

In this category, the company contributes toward SDG targets by providing vehicle inspection and maintenance services.

SDGs goals and targets to which proposing a safe and secure driving culture and providing social infrastructure contribute

SDG	Target	Target
Goal 3	Good health and well-being	3-6: By 2020, halve the number of global deaths and injuries from road traffic accidents
Goal 11	Sustainable cities and communities	11-6: By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
Goal 12	Responsible consumption and production	12-5: By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse

Providing safety and security through products and vehicle service options

The company provides free vehicle safety checks, tire pressure checks, and tire inflation. It also sells a range of products that assist driver safety, such as drive recorders and erroneous start prevention systems, and designs sales floors to educate customers about these products' importance.

SDGs goals and targets to which providing safety and security through products and vehicle service options contribute

SDG	Target	Target
Goal 3	Good health and well-being	3-6: By 2020, halve the number of global deaths and injuries from road traffic accidents
Goal 12	Responsible consumption and production	12-5: By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse

Initiatives to respond to climate change and reduce environmental impact

The company develops and sells environment-friendly products and has adopted environment-friendly supplies, as well as working to counteract climate change and reduce its environmental impact by installing LED lighting* in its stores and solar power generation facilities** at its logistics centers, and strictly implementing proper waste disposal and recycling. The company commented that these initiatives were made possible with the cooperation of government and other private-sector companies and organizations.

*LED lighting: Yellow Hat uses LED lighting at its headquarters and around 90% of all stores.

****Solar power generation facility:** The company installed an on-site solar power generation facility at its West Japan Logistics Center in Yamaguchi, Yamaguchi Prefecture, which began operation in May 2015.

SDGs goals and targets to which initiatives in response to climate change and those that reduce environmental impact contribute

SDG		Target
Goal 7	Affordable and clean energy	7-2: By 2030, increase substantially the share of renewable energy in the global energy mix
Goal 12	Responsible consumption and production	12-4: By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water, and soil in order to minimize their adverse impacts on human health and the environment 12-5: By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse
Goal 14	Life below water	14-3: Minimize and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels
Goal 17	Partnerships to achieve the Goal	17-17: Encourage and promote effective public, public-private, and civil society partnerships, building on the experience and resourcing strategies of partnerships

Forming a safe workplace and supporting employees' success

The company is working to build a safe workplace and help employees succeed by encouraging women to progress their careers, and by offering career support programs (such as programs to help employees gain qualifications and internal training sessions), scholarships, assistance for senior employees, and a whistleblowing system/advice service for employees.

- Career assistance: A one-off allowance for employees to obtain specified qualifications related to their work and a training fee loan program for employees to qualify as auto maintenance mechanics. The company also runs its own qualification system covering customer satisfaction, product knowledge, and technical skills, providing an environment that supports employees' knowledge and skills in accordance at each individual's level of competence and experience.
- Yellow Hat scholarships: The company has set up a reserve for admission fees for employees expecting to enter auto mechanic schools.
- Assistance for senior employees: The company offers re-employment options for seniors under the Act on Stabilization of Employment of Elderly Persons. Employees who are 60 years old can, if they wish, be re-employed until they are 65.
- Whistleblowing system and advice service: The company offers a service that employees can contact for reporting and advice regarding compliance and harassment, as well as a legal advice service for matters that employees are reluctant to report internally.

SDGs goals and targets to which forming a safe workplace and supporting employees' success contribute

SDG		Target
Goal 4	Quality education	4-4: By 2030, substantially increase the number of youth and adults who have relevant skills including technical and vocational skills, for employment, decent jobs and entrepreneurship
Goal 5	Gender equality	5-1: End all forms of discrimination against all women and girls everywhere 5-5: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life
Goal 8	Decent work and economic growth	8-5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value

Developing stores rooted in their communities and improving the sustainability of local communities

The company participates in Safety Nippon and runs various road safety initiatives, including road safety campaigns. It also runs cleanup programs near its headquarters and prevents rubbish that falls into its drains and gutters from being washed out into local rivers and streams. The company also sponsors the Kashima Antlers Football Club and Tohoku Rakuten Golden Eagles.

SDGs goals and targets to which developing stores rooted in their communities and improving the sustainability of local communities contribute

SDG	Target
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Goal 3	Good health and well-being	3-6: By 2020, Halve the number of global deaths and injuries from road traffic accidents
Goal 14	Life below water	14-1: By 2025, prevent and significantly reduce marine pollution of all kinds, particularly from land-based activities, including marine debris and nutrient pollution
Goal 17	Partnerships to achieve the Goal	

Profile

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

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AZoom, Co., Ltd.	Harmonic Drive Systems Inc.	NAIGAI TRANS LINE LTD.	Stream Media Corporation
Base Co., Ltd	HENNGE K.K.	NanoCarrier Co., Ltd.	Strike Co., Ltd.
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CanBas Co., Ltd.	IDOM Inc.	Nihon Denkei Co., Ltd.	Take and Give Needs Co., Ltd.
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CERES INC.	Infomart Corporation	Nishinbo Holdings Inc.	TKC Corporation
Chiyoda Co., Ltd.	Intelligent Wave, Inc.	Nisso Corporation	TKP Corporation
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COTA CO.,LTD.	JMDC Inc.	Oki Electric Industry Co., Ltd.	TOYOBO CO., LTD.
CRE, Inc.	JSB Co., Ltd.	ONO SOKKI Co., Ltd.	Toyo Ink SC Holdings Co., Ltd.
CREEK & RIVER Co., Ltd.	JTEC Corporation	ONWARD HOLDINGS CO.,LTD.	Toyo Tanso Co., Ltd.
Daichi Kigenso Kagaku Kogyo Co., Ltd.	J Trust Co., Ltd	Pan Pacific International Holdings Corporation	Tri-Stage Inc.
Daiki Axis Co.,Ltd.	Japan Best Rescue System Co., Ltd.	PARIS MIKI HOLDINGS Inc.	TSURUHA Holdings
Daiseki Co., Ltd.	JINS HOLDINGS Inc.	PCA CORPORATION	VISION INC.
Daivabo Holdings Co.,Ltd.	JP-HOLDINGS, INC.	PIGEON CORPORATION	VISIONARY HOLDINGS CO., LTD.
Demae-Can CO., LTD.	KAMEDA SEIKA CO., LTD.	Premium Water Holdings	V-cube,Inc.
DIC Corporation	Kanamic Network Co., LTD.	P3, inc.	World Holdings Co., Ltd.
Digital Arts Inc.	KANEMATSU CORPORATION	QB Net Holdings Co., Ltd.	WOW WORLD Inc.
Digital Garage Inc.	kaonavi, inc.	RACCOON HOLDINGS, Inc.	YELLOW HAT LTD.
Doshisha Corporation	KFC Holdings Japan, Ltd.	Raysum Co., Ltd.	YOSHINOYA HOLDINGS CO., LTD.
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