



Shared Research Monthly Wrap – July 2015

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In order to highlight any biases, we clearly attribute our data and findings. We will always present opinions from company management as such.

Our views are ours where stated.

We appreciate your suggestions and feedback. Write to us at sr_inquiries@sharedresearch.jp or find us on Bloomberg

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Shared Research

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Monthly musings

Market view from Sendagi

"Well, in our country," said Alice, still panting a little, "you'd generally get to somewhere else—if you run very fast for a long time, as we've been doing."
 "A slow sort of country!" said the Queen. "Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"

—Lewis Carroll, *Through the Looking-Glass, and What Alice Found There*

Dear readers,

First, an important announcement. As some of you may already know, we have decided to move the Monthly wrap to a free subscription model. From next month, it will only be distributed via an email list. In order to continue receiving it, you need to provide your name, company name, and email address. Your continued support is greatly appreciated.

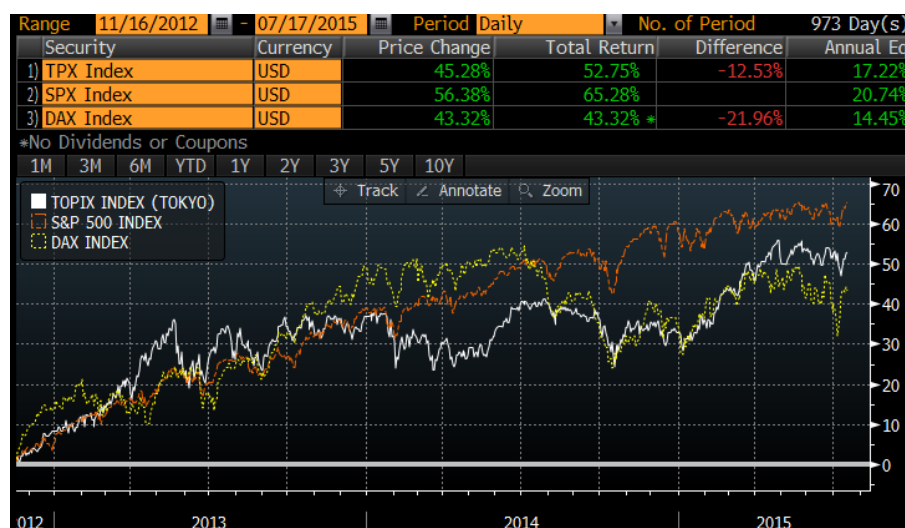
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Today, I'd like to look at what the Japanese market has achieved since the official start of its "Abenomics" bull phase—November 16, 2012. I'm not going to recap the achievements of Mr. Abe and his cabinet, or talk about corporate governance reform. Let me simply review some trivia-like numbers of what has moved the market—and how far.

I'll start, as always, with my favorite chart that demonstrates the performance of the Topix index in comparison with its US (S&P 500) and German (DAX) counterparts—in the same currency. Many of you are already familiar with the fact that since Abe came to power, Japan's stocks have managed to keep up with the Schmidts but not the Joneses. Abenomics has barely got appreciated.



In yen terms, the Topix has moved 925.43 points, or 125.5%. Predictably, roughly 20% (about 200 index

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points) came from Toyota, MUFG, SMFG, NTT, Softbank, KDDI, Mizuho FG, Sony, Murata, and Japan Tobacco. (By the way, if we compare the top ten performers during the previous bull market—I somewhat arbitrarily mark it as early 2003 to early 2007—Toyota, Mizuho FG, SMFG, and MUFG featured prominently.)

While the previous bull market was propped up by two clear themes—real estate and commodities—it's less clear what defines this particular one apart from the cheaper yen, and recovery in the earnings of exporters and banks that are helped by it. Curiously, while there is a lot of focus on ROE this time around, the current Bloomberg-consensus based projected ROE of 8.5% is still below the 9.5% peak of 2006. The current level of Topix leverage (be it total debt to total equity or to total assets), is notably similar to that of 2007, the last year of the previous bull market.

The Nikkei index performance contributors, in absence of financials and due to the archaic price-weighted calculation methodology, tell us even less. Fast Retailing—admittedly a great company but also one of the most expensive large caps—has contributed a full 13% to performance since late 2012, punching above its 10% index weight. It is followed by Softbank and KDDI, who celebrated the end of NTT Docomo's mobile dominance, and formed a stable and very profitable oligopoly. Then come the shining stars of Japanese manufacturing: Fanuc, Daikin, TDK, Kyocera, etc. Nothing like a competitive product helped by a weak domestic currency.

When I continue comparing financial and valuation metrics between now and the last market peak, I see pretty much the same numbers across the board. Yes, the dividend yield is a bit higher today, likely thanks to the pressure to increase shareholder returns. Other than that, no difference.

While I'm feeling a bit stuck trying to see what happens next, my problem is not shared by Mr. Abe. Not Shinzo Abe, Japan's prime minister, but Shuhei Abe, the founder and CEO of investment boutique SPARX.

Mr. Abe of SPARX is an experienced and respected member of the investment community, who cut his teeth advising George Soros (and by his own admission got fired for being a bit too early in his Japanese equities collapse call in 1989). I therefore listened with great interest to his seminar at the Japanese Association of Corporate Directors a couple of months ago.

Mr. Abe has no doubts. He thinks that the Nikkei index will go to 35,000–40,000 yen by 2020. He believes this so much that he even wrote a book titled [*Nothing but Equities*](#).

He posits that a number of things will help us get there. The most important one is inflation. According to Mr. Abe, the tide turned in 2010 but was temporarily disrupted by the earthquake. He thinks that Kuroda's "different dimension of easing" has delivered a critical push to restart both asset reflation and wage growth.

Furthermore, Mr. Abe thinks there will be two major positive shifts in productivity—capital and industrial. Capital productivity is a function of increased focus by corporations on achieving higher returns on capital. Industrial productivity is a function of the robotics revolution. Both will help Japan restore growth, enough to have its stock market double from here.

I beg to differ.

First, inflation. While I understand how healthy—low but positive—inflation makes the economy more "normal," I have trouble seeing how it materially helps growth or the stock market (at least in the Japanese context). It is true that deflation causes stagnation, as consumers and businesses grow used to expecting lower prices. The opposite, however, is not necessarily the case.

Japanese inflation is much more likely to be of a cost-push type. Lower yen—in the neighborhood of JPY120–130/USD—is necessary for this still-export-oriented economy to grow. The cheaper currency

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means more expensive imports, from energy to consumer goods. Mr. Abe believes wage growth will compensate for this. I agree that wages should start rising and that this is good for the economy in the short run. In the long run, however, we need productivity gains, or growth will not be sustainable—with the end result being stagflation.

The cost push is bad for the consumer. Higher wages are good for the consumer, but in Japan an increasingly smaller percentage of consumers stands to benefit. Specifically, the huge and growing army of pensioners and retirement-age workers will not see their incomes rise. With 25% of the population above 65 years of age, that's a problem. Also, small businesses, who employ the majority of the working population, will find it harder to raise salaries given razor-thin profitability. I often see evidence that the consolidation and profitability focus of large businesses means they apply force where they can—by squeezing suppliers. Talking to suppliers will teach you a lot about the fantastic margin improvements of car manufacturers like Toyota. A similar phenomenon can be seen with large convenience store chains squeezing the packaged food and beverage manufacturers.

Furthermore, businesses large and small have memories of the financial crisis and know that when things turn sour, they'll be left to fend for themselves. Poor labor market flexibility, a critical area barely touched by Shinzo Abe's reforms, means companies will and should resist adding full-time staff above the replacement rate, and they will fight tooth and nail to keep overall labor cost low and incremental cost variable. The optimistic headlines should not mask the fact that for many large businesses their labor cost is currently declining due to the baby-boomers' exit. That makes it easier to pay higher wages to remaining workers. For now. The problem is what happens next, as the economy recovers to its steady pre-Lehman state. From here, growth and innovation are needed to drive the demand that would in turn justify adding even more workers.

One clear driver of growth is inbound tourism and its collateral benefits. Still, tourism has two major drawbacks: being the service industry, it tends to create low-wage jobs, meaning it is immensely helpful for the Japanese economy but its value added is low; and a clear dependence on Chinese tourists—not a surprise really, but a risk nevertheless (I'm talking about both the geopolitical aspect and the simple dependence of the health of the Chinese economy).

In manufacturing and broadly defined ICT, Mr. Abe's (I'm back to the SPARX one here) argument is that robotic revolution will ensure breakthroughs in productivity. I have also argued multiple times that robotics will ensure long-term survival of the Japanese economy by restoring its cost competitiveness. At some level I sympathize with Mr. Abe's argument, but the more I think more about the issue, the more I see risks.

Specifically, I'm concerned that robotics will lead to commoditization of a larger swath of the global manufacturing economy. Japan is leading in many manufacturing areas, but advances of robots and auxiliary technologies such as 3-D printing may shrink the area where such leadership delivers sufficient incremental value added. At the same time, the key source of value in the global information technology and robotics trade—controlling the information infrastructure from software to storage to information distribution solutions—are areas where Japan has either a technology-level disadvantage (e.g., in software vis-à-vis the US) or a domestic market disadvantage. The latter means Japan has a sub-size domestic market too small and weird for foreigners to be bothered with, but no global players emerge domestically. There is also a major political aspect: in all mega markets (China, the US, and in some way Europe), locals will have an advantage dictated by national interests and security priorities, not just economic prowess. All that leaves Japan in a very tough competitive spot.

I believe one way of overcoming some of these difficulties would be for Japanese companies to become better capitalists and buy growth globally using their strong balance sheets.

Unfortunately, I have to disagree with Mr. Abe's optimism. First, the much vaunted ROE revolution is nothing but a top-down orchestrated attempt to close the gap—primarily through shaming rather than

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economic incentives—in the capital (in)efficiency of corporate Japan compared to the US and Europe. Perhaps Mr. Abe and I have different experiences in interacting with Japanese companies; based on my experience, the fundamental issue has barely started to get addressed—the management culture is not driven by capitalist financial incentives, but the notion of maintaining Confucian social harmony. In order to make capital work well enough to reshape Japan's near future, the country's business elite need to transform into sophisticated financial predators. So far, when it comes to Japanese corporations acquiring overseas growth, more often than not one hears about legendary overpaying, bad timing, and accounting blowups.

If I sound negative, let me assure you that I'm not. I believe there are substantial positive changes going on in Japan. But we need to be realistic about how much this transformation impacts short-term economic performance. We also need to be realistic about the magnitude of challenges, both domestic and global. Japan is changing but the world around it may be changing even faster. And unlike Mr. Abe, I believe that the *net* effect of the sum of everything that's going on has been, to a substantial degree, priced in.

One more point. The flow of money. Over the years, I found that Japanese investors in particular are fascinated with who is buying, i.e., demand dynamics. Without a doubt, supply/demand is important, as it determines the short-term (and in some cases even long-term securities) prices. However, the supply/demand part is the "voting machine" component of the market. Whether or not everybody agrees with Warren Buffett is up to them, but history does seem to show, as does simple logic, that ignoring the "weighing machine" is perilous.

So is it prudent for a public pension fund to suddenly decide to shift allocation to domestic equities? And is it wise for Mr. Abe of SPARX to join the call to Japanese households to increase their allocation to equities *now*? When I listened to his presentation I heard the same argument about the amazing size and power of the financial assets of Japanese households. What if all of this money went to equities? Wouldn't it be awesome? I think the answer is yes, *if* it happens at the right time.

You see, it's important for this wealth to help owners sustain a fairly modest lifestyle for the next 30–50 years. The problem with equity returns is that they tend to be volatile. Buying a mutual fund or ETF is easy. The difficult part comes when you are sitting on a 20%–30% loss and deciding what to do next. Does starting to invest (or increasing allocations) in equities now, 130% up from the market bottom and 10–15% away from the previous peak strike you as the right time? Only if Mr. Abe is right. Can he be right?

That is actually a fairly simple question. Mr. Abe is calling for the market to double in the next five years. This can be achieved through earnings growth, multiples expansion, or both. Given that we are near some of the highest multiples of the past 20 years, let's generously say that only some expansion is possible. Most rational observers would agree that most of the upside should come from earnings—growing at least to the high teens in CAGR for the next five years. Is it possible? For the broad market, barring a miracle, the answer is no.

Yours,

Oleg Zuravljov

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Good afternoon. David here. Hope you are staying cool this month. Headlines in the next 2–3 weeks will undoubtedly be dominated by earnings numbers and meetings. Nidec, the first large technology name, reports today (July 22) after market, followed by Canon and Hitachi next week. Most of the earnings are over the next 2–3 weeks, including Toyota on August 4. As we have entered the "quiet period" in Japan before the barrage of numbers hit the tape, I'd like to reflect on some of my recent visits and names of interest over the past month.

Please note that the names below are all non-technology stocks, a good place to be in our humble view. Apple's recent lower than expected iPhone shipments and next quarter sales guidance suggest that the current smart phone driver of tech is vulnerable. PC sales have lagged this year, falling 12% YoY in the second quarter (June), after a brief resurgence in 2014.

Asahi (3333)

I visited Asahi earlier this month. Asahi is the top bicycle retail chain in Japan. The company reported strong June sales on Monday, July 6, and the stock soared the next day by 10%. June sales rose 24% YoY as both bike units and prices increased solidly. Asahi is expanding its store network rapidly. Unit sales should grow by 5% this year while revenues expand by 10% owing to increases in average selling prices (ASPs), as Asahi sells more expensive sports bikes. 2H should look good YoY as the post-tax hike effect kicks in. Capex is falling this year as well, which could buoy profits in 2H, usually a weak period. **PBR of 1.6x is near an all-time low**, and the PE is 17x FY02/16E. The stock has underperformed the TOPIX by 48% over the past year. Asahi is a family-owned business with President Shimoda and family owning half the company. Other large shareholders include Fidelity at 8% and Templeton at 2%. Asahi has been able to expand market share by providing a large selection of 500 bikes per store and a high level of service, competitive against rival stores. Aeon is the next largest bike chain but its shops are smaller than Asahi's. Other bike dealers include Cycle Spot in Tokyo and Daiwa Cycle in the Kansai area. Asahi is the only listed major bicycle dealer in Japan.

Tear (2485)

Tear is a funeral services company based in Nagoya. Shared Research initiated coverage on June 29. Market cap: JPY17bn
Liquidity: recently trades about JPY95mn per day (USD775,000)

Upending established funeral practices

In 1997, TEAR President Tomiyasu founded the company to overturn long-standing practices among traditional funeral companies. TEAR provides a full range of funeral services in funeral halls, homes, temples, and community centers. The company operates in the Nagoya area, Aichi. It also has a funeral hall management business (Franchise segment) harnessing its experience in operating funeral halls. According to the Ministry of Health, Labour and Welfare's Vital Statistics Survey, 1.3mn people died in Japan in 2014. Between 1994 and 2014, the number of deaths in Japan rose by 1.6% per year. The National Institute of Population and Social Security Research forecasts annual growth of 1.1% in the death rate from 2015, with deaths peaking at 1.7mn per year in 2040.

The company led the adoption of fully transparent funeral pricing, detailing all associated costs for customers. TEAR's funerals typically cost less than its competitors' (about 20% less than the industry average). Most customers join a prepay system, TEAR Club; after paying an initial fee, members receive funeral-related benefits, as well as discounts and services at partner companies. The company also has a unique staff training system.

Backed by an expanding market, the company has increased its number of halls. From FY09/05 through FY09/14 the number of funerals it handled at directly managed halls rose by an average of 13.1% per

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year, sales rose by an average of 11.4%, operating profit rose by 14.9%, and net income rose by 17.1%. Since FY09/13, the company's market share of funeral hall users in Nagoya has topped 20%.

Financial targets

For FY09/15, it estimates sales of JPY10.0bn (+5.0% YoY), operating profit of JPY1.0bn (+4.0%), recurring profit of JPY980mn (+5.9%), and net income of JPY630mn (+15.0%).

In the long term, TEAR plans to have 200 funeral halls (73 in FY09/14) and sales of JPY16.5bn (from JPY9.5bn).

The company plans to open four to five directly operated funeral halls annually. The number of funerals held in existing halls is set to increase given Japan's top-heavy demographics. Shared Research estimates that annual growth of around 10% in sales and profits is attainable.

Strengths and weaknesses

Shared Research thinks the company's strengths are its system of preregistering customers, accumulated

expertise in managing a sizeable chain of funeral halls, and its relative ease in raising funds. Its

weaknesses are its high personnel expense ratio, that new halls pull down earnings., and the heavy influence of lower funeral prices on profits.

Please go to our website for the full report: <http://www.sharedresearch.jp/en>

Goldcrest (8871)

Slightly positive. The current trend looks unchanged, solid as usual. The sell-side is generally negative on their outlook with the exception of one large domestic broker. The main reason is the gross margin compression for condos. Costs for condo construction are rising faster than condo prices, which is squeezing gross margins. However, operating margins are improving this year owing to a 78% increase in sales. The stock has been a laggard in a buoyant sector, underperforming the market by 20% over the past year. The current price is nearly 1/3 the peak in 2007. Obvious catalysts are continued tight demand/supply for condos, population growth in Tokyo, incoming revenues from 1,000 new condo units under construction (Shin-Kawasaki 417, Atami 329, Kiba 239), and valuation. Golfcrest has a PBR of 0.85x versus 3.1x at Haseko. Of course, Golfcrest has always traded at a discount to Haseko, but it does seem to do better late-cycle.

The firm has about JPY80bn in unrealized gains (fukumi eki), as it generally bought land during recessionary times (Shin-Kawasaki 2003, Kiba 2010–2012), or at bargain basement prices (Atami contractor took a big loss when it sold the land to Goldcrest in 2014). Kawasaki and Kiba are targeted at first time family buyers in the JPY40–60mn price range (70sqm condos). Atami has similar prices but is targeted at 2nd home buyers (besso) who are wealthier and usually older.

The two major future projects are Koto-ku with 1,100 condo units and Kawasaki with 2,060 additional condo units, on top of the current 420 units under construction. Koto-ku and Kawasaki will be built from 2018–2025. Despite the bankruptcy of several rivals including Joint, Urban, Morimoto, Nihon Sogo, market share at Goldcrest has gone down to 1% from 2% market share pre-financial crises.

Risks

- ☐ Slowdown in real estate demand as rents and house prices rise without wage increases
- ☐ Yen appreciation

Other points

- ☐ Sales fell 35% last year owing to later than expected completion of condos in Kawasaki. Atami and Kiba projects are on time. The firm is able to maintain high margins despite lower revenues in the past. Gross margin last year was 37% and should fall slightly to 36% this year.

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- ☐ Rivals are the large contractors: Mitsui Sumitomo Fudosan, Mitsubishi Jisho, Nomura Fudosan.
- ☐ Haseko is the builder for Goldcrest's Kiba condos. Goyo is the builder for Atami condos.
- ☐ The firm estimates that its land assets book value was JPY80bn and is now worth JPY160bn for a JPY80bn unrealized gain.
- ☐ Atami condos are 80% 2nd house type (besso) and 20% full-time living type.
- ☐ The stock price peaked at JPY7,000 in 2007 when the firm made JPY24bn in OP on JPY99bn in sales, about 3x the current projected sales and profit level.

Tokyu Construction (1720)

Generally positive. No material changes since our last meeting in February. The firm comments that the forecast for FY03/16 is conservative. Its margins are improving to 3% OPM from 2.3% last year owing to higher margin projects. Tokyu has the ability now to pick and choose the most lucrative projects. Rivalry appears to be waning from its core general contractor competition. Building costs are rising by about 2% this year, but the company is able to offset most of the price hikes. There has been more interest from investors in Q1 this year than last year's Q1. If you want more information, let me know and I will send you my full notes from the last meeting.

Medical Data Vision (3902)

It is all about the future. There won't be any immediate profit improvement, but the company is in an excellent position with a dominant share in hospital data management and a 100% share in pharmaceutical patient drug analyzer tools. It is fairly easy to envision JPY8bn in sales in 2018, up from JPY2.6bn this year. More than half of the JPY8bn would come from data utilization division. The firm projects 30% CAGR for the next two years. Sales are forecasted to rise 35% this year. If things go well, the firm could make JPY2.4bn in RP in five years, which would suggest a JPY30bn valuation (currently JPY9bn). Shareholders Fujifilm and Medipal own over 50% and have invested in MDV for many years prior to the IPO last year. MDV is aiming to tie-up businesses with both major shareholders.

Background

The company sells management support software designed for hospitals and other healthcare providers. President Iwasaki, who has an IT background, founded the firm in 2003 after coming to the conclusion that Japan's medical institutions are well behind the information sharing curve.

It aims to improve the quality of medical care by analyzing and sharing the medical results using clinical data, epidemiological studies, market research, and drug development. In order to access sensitive medical data in hospitals, MDV provides hospitals with data management tools that allow hospitals to become more efficient and profitable. MDV software displays the disease treatment data and financial performance of hospitals. This improves the quality of services. Its software is used in 42% (705) of the 1585 hospitals in Japan. Smaller rivals have 100–200 hospitals each using their software. For its data management software, MDV receives an initial fee of JPY4mn plus maintenance fees of JPY50,000 per month.

A relatively new business is the MDV analyzer and ad-hoc research service (data utilization) which is sold to pharmaceutical companies. The MDV data analysis reveals how the patient is using prescribed drugs which will enhance the pharma company's sales and marketing abilities. Since MDV is the only company with access to sensitive patient data, it has a virtual monopoly and can scale this pharma business dramatically. Current sales are JPY0.7bn which could jump to JP4–5bn in the next three to four years.

The company is small with a JPY9bn market cap, recently listed in December 2014. Q1 sales rose 24% but OP fell by 20%. The firm says it is in-line so far this year. The firm is pouring funds into its sales efforts, which is limiting profit growth in the near term. Sales are heavily skewed to Q4, when requests

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from the pharma companies come in.

Risks

- ☐ System security breaches. Since medical data is extremely sensitive, a data leak would be damaging for the firm.
- ☐ Employee attrition. MDV has unique data and position in the medical field. If some of its senior talent left for a rival firm, that could subtract from its business advantage.

All the best,

David

TOPIX100 Portfolio

Return Comparison (%)	
TPX100	16.35
Portfolio	19.59
TPX100 Points	
2015/2/12	954.2
2015/7/21	1098.98

Start Date	Current Date
2015/2/12	2015/7/21

Weight Rel. To TPX100	
BIG OW	4.4
OW	1.5
MW	1.0
UW	0.0

Ticker	Name	Weight Rel. To TPX100	Total Return (%)	Wgt (%)	Ticker	Name	Weight Rel. To TPX100	Total Return (%)	Wgt (%)
7203	Toyota Motor Corp	MW	8.3	8.3	6594	Nidec Corp	UW	22.4	0.0
8306	Mitsubishi UFJ Financial G	BOW	31.2	18.7	9983	Fast Retailing Co Ltd	MW	34.3	0.7
9984	SoftBank Corp	UW	-0.2	0.0	9531	Tokyo Gas Co Ltd	MW	-4.5	0.7
7267	Honda Motor Co Ltd	MW	2.3	2.7	6326	Kubota Corp	UW	20.3	0.0
8316	Sumitomo Mitsui Financial G	OW	34.0	3.7	2502	Asahi Group Holdings Ltd	UW	6.7	0.0
8411	Mizuho Financial Group Inc	OW	36.8	3.2	4523	Eisai Co Ltd	UW	46.4	0.0
9432	Nippon Telegraph & Telephone	UW	28.7	0.0	1605	Inpex Corp	BOW	-1.2	2.8
9433	KDDI Corp	UW	24.4	0.0	3402	Toray Industries Inc	MW	3.4	0.6
4502	Takeda Pharmaceutical Co Ltd	UW	3.8	0.0	8601	Daiwa Securities Group Inc	MW	8.6	0.6
4503	Astellas Pharma Inc	UW	4.9	0.0	4661	Oriental Land Co Ltd/Japan	UW	14.3	0.0
7751	Canon Inc	OW	5.6	2.6	4578	Otsuka Holdings Co Ltd	UW	21.7	0.0
2914	Japan Tobacco Inc	UW	31.8	0.0	4755	Rakuten Inc	MW	23.6	0.6
6954	FANUC Corp	UW	12.3	0.0	2503	Kirin Holdings Co Ltd	UW	10.5	0.0
6758	Sony Corp	OW	10.8	2.4	3407	Asahi Kasei Corp	UW	-18.0	0.0
6501	Hitachi Ltd	UW	-0.4	0.0	1925	Daiwa House Industry Co Ltd	OW	42.7	0.9
8802	Mitsubishi Estate Co Ltd	MW	9.1	1.5	7974	Nintendo Co Ltd	OW	85.4	0.9
3382	Seven & I Holdings Co Ltd	UW	24.7	0.0	7269	Suzuki Motor Corp	OW	19.0	0.9
9022	Central Japan Railway Co	UW	11.5	0.0	7261	Mazda Motor Corp	UW	2.2	0.0
9020	East Japan Railway Co	MW	25.2	1.3	8308	Resona Holdings Inc	OW	12.3	0.9
8058	Mitsubishi Corp	MW	24.6	1.3	9735	Secom Co Ltd	UW	19.0	0.0
8801	Mitsui Fudosan Co Ltd	MW	10.1	1.3	5411	JFE Holdings Inc	OW	-9.8	0.8
8766	Tokio Marine Holdings Inc	MW	27.9	1.3	8630	Sompo Japan Nipponkoa HD	OW	29.9	0.8
6752	Panasonic Corp	UW	17.5	0.0	8053	Sumitomo Corp	OW	14.9	0.8
9437	NTT DOCOMO Inc	UW	21.5	0.0	8035	Tokyo Electron Ltd	UW	-10.3	0.0
4063	Shin-Etsu Chemical Co Ltd	MW	-7.1	1.2	6702	Fujitsu Ltd	OW	-6.7	0.8
7201	Nissan Motor Co Ltd	MW	9.5	1.2	8113	Unicharm Corp	UW	-6.3	0.0
5108	Bridgestone Corp	OW	5.0	1.7	4568	Daiichi Sankyo Co Ltd	UW	48.2	0.0
4452	Kao Corp	UW	22.2	0.0	9202	ANA Holdings Inc	OW	17.9	0.7
7270	Fuji Heavy Industries Ltd	MW	13.4	1.1	9021	West Japan Railway Co	UW	39.9	0.0
6981	Murata Manufacturing Co Ltd	UW	62.4	0.0	8002	Marubeni Corp	UW	1.5	0.0
6902	Denso Corp	MW	9.0	1.1	6988	Nitto Denko Corp	MW	36.4	0.5
8031	Mitsui & Co Ltd	OW	2.3	1.6	2802	Ajinomoto Co Inc	UW	29.8	0.0
6503	Mitsubishi Electric Corp	MW	17.0	1.0	5802	Sumitomo Electric Industries	OW	34.3	0.7
5401	Nippon Steel & Sumitomo Metal	OW	0.4	1.5	1878	Daito Trust Construction	UW	-2.6	0.0
6861	Keyence Corp	UW	21.1	0.0	5020	JX Holdings Inc	OW	11.8	0.7
8604	Nomura Holdings Inc	OW	39.1	1.5	1928	Sekisui House Ltd	MW	26.8	0.4
6301	Komatsu Ltd	UW	-5.2	0.0	8267	Aeon Co Ltd	OW	45.5	0.6
6367	Dai-ichi Industries Ltd	MW	10.1	0.9	5713	Sumitomo Metal Mining Co Ltd	MW	0.3	0.4
7741	Hoya Corp	OW	8.0	1.3	8795	T&D Holdings Inc	OW	30.7	0.6
8750	Dai-ichi Life Insurance	OW	41.2	1.2	7202	Isuzu Motors Ltd	UW	-0.3	0.0
7011	Mitsubishi Heavy Industries	MW	15.6	0.8	9532	Osaka Gas Co Ltd	UW	4.4	0.0
8591	ORIX Corp	BOW	20.3	3.6	9064	Yamato Holdings Co Ltd	UW	-3.4	0.0
8001	ITOCHU Corp	BOW	20.1	3.6	8332	Bank of Yokohama Ltd/The	UW	18.4	0.0
6502	Toshiba Corp	UW	-17.8	0.0	9502	Chubu Electric Power Co Inc	OW	36.1	0.5
6273	SMC Corp/Japan	UW	11.6	0.0	9503	Kansai Electric Power Co Inc	OW	43.3	0.5
4901	FUJIFILM Holdings Corp	BOW	15.0	3.4	4188	Mitsubishi Chemical HD	OW	33.3	0.5
8309	Sumitomo Mitsui Trust HD	OW	30.0	1.1	4911	Shiseido Co Ltd	UW	52.8	0.0
8830	Sumitomo R & D	UW	7.5	0.0	7752	Ricoh Co Ltd	OW	12.7	0.4
8725	MS&AD Insurance Group HD	OW	29.7	1.1	7912	Dai Nippon Printing Co Ltd	UW	23.4	0.0
6971	Kyocera Corp	BOW	15.5	3.1	1963	JGC Corp	OW	-6.7	0.3

(The views above are random musings and not a recommendation to buy, sell, or look for a finance job.)

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New Coverage

iStyle (3660)

Sells online advertising space to cosmetics manufacturers, offers market services such as research and consulting, and sells cosmetics to consumers. Runs @cosme, Japan's top cosmetics and beauty website.

Operator of @cosme, Japan's most popular comprehensive cosmetics and beauty website

The istyle group primarily runs @cosme, Japan's most popular comprehensive cosmetics and beauty website. The website is a marketing platform for cosmetics sales, from showcasing product information to handling payments. Primary operations as of March 2015: selling online advertising space to cosmetics manufacturers (under 50% of total sales), market solutions (including research and consulting services), and selling cosmetics to consumers (online plus physical stores; above 40% of total sales). The strong brand recognition of @cosme should underpin expansion into other beauty businesses and success overseas. In the medium- to long-term, the company seeks to expand its platform into other beauty-related businesses.

The company has eight consolidated subsidiaries (Cosme.com Inc., cosme next Inc., istyle Beauty Solutions Inc., istyle Capital Inc., istyle Trading Inc., istyle China Co., Ltd., istyle Global [Singapore] Pte. Ltd., and PT. Creative Visions Indonesia), as well as non-consolidated units and affiliates. (As of the end of March 2015.)

@cosme's popularity enables the company to collect, analyze, and monetize online consumer comments. Per the company, it has nearly 10mn unique users who visit @cosme every month. More than half of women in Japan aged 20–40 use this website at least once a month. The company is working to offer value added service to both cosmetics manufacturers and consumers using @cosme.

@cosme, Japan's biggest website dedicated to beauty businesses

@cosme is Japan's biggest website dedicated to information on cosmetics and beauty businesses. The service began in December 1999 as a social site featuring users' posts on cosmetics products and beauty tip blogs.

The website still focuses on consumer reviews, and provides information on cosmetics and other upcoming products. Users, mostly women in their 20s and 30s, can access information on cosmetics and services, post and view comments and questions. The site lists job postings, stores that sell popular products, and beauty-related discussions.

Product category: Cosmetics include skincare products such as face lotion; base products like foundation; makeup such as eye shadows and gloss; as well as body-care and haircare products. The company's @cosme service classifies cosmetics into 11 categories: skincare and base products; sun protection and treatment products; makeup; base makeup; perfume; haircare; body and oral care; kits and sets; beauty goods, appliances; supplements and food; and other. These categories are further divided into different classifications.

Direct sales to retailers: Cosmetics makers sell some products directly to retailers under a special contract. These manufacturers include Shiseido Co., Ltd., Kanebo Cosmetics Inc., KOSE Corp., Kao Corp., P&G Max Factor, ALBION co., Ltd., and Revlon. Retailers include stores directly operated by manufacturers, department stores, specialized cosmetic stores, and some online stores.

Conventional products: Products supplied to retailers through wholesalers. These are sold at drugstores, variety shops, and general merchandise stores. Manufactures include FT Shiseido, Kracie Home Products,

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Kao, Lion Corp., Unilever Japan, Cow Brand Soap Kyoshinsha, KOSE COSMEPORT Corp., Mandom Corp., ISEHAN co., Ltd. (formally Kiss Me Cosmetics).

Door-to-door sales: Some products are sold door-to-door. Major manufacturers include POLA, MENARD, Noevir Co., Ltd., Avon Products (network sales), Nu Skin Japan Co., Ltd. (network sales), Aistar Co., Ltd., Chanson Cosmetics, OPPEN COSMETICS, and IVY Cosmetics Corp.

Mail-order sales: The most recent method of distributing cosmetics. Increasingly, manufacturers that used to sell products through other means are now entering this market. Conversely, companies that used to engage exclusively in mail-order sales are now selling products through stores. Manufacturers include FANCL CORPORATION, DHC Corp., Saishunkan Co., Ltd., VERNAL, ORBIS Inc. (POLA), ESS, and C'BON Co., Ltd.

Business use: Cosmetics used at beauty and aesthetic salons. Major manufacturers are Wella Japan Co., Ltd., Nihon L'Oreal, Shiseido, Hoya, Schwarzkopf & Henkel, Kao, ARIMINO CO., LTD., and Milbon.

Cosmetics stores: Old school, small-scale stores run by individual store owners.

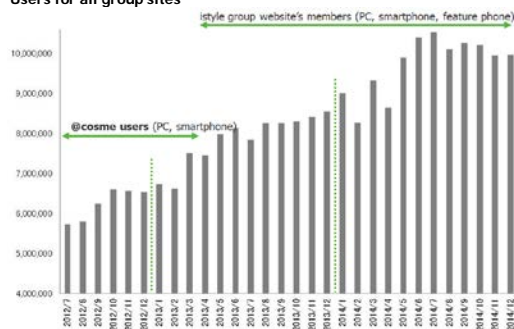
Resale price maintenance system: A practice in which manufacturers set retail prices. This practice is banned, except for some products exempted by the Japan Fair Trade Commission. Cosmetics used to be among exempted items, but the exemption was lifted in 1997.

More than 3mn registered users

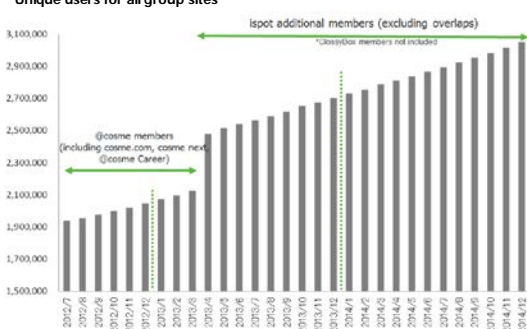
The website does not require user registration for accessing information on products and their rankings, or for viewing comments. Registration is required for more detailed information or to post comments. To register, users must provide information such as date of birth and skin type.* Free members can collect points when buying products online, create wish lists, participate in events, and become product monitors, as well as post comments and send messages to each another. Premium membership (JPY280/month) comes with discount coupons and additional points, as well as access to detailed product information. According to the company's website, at least 80% of premium members are satisfied with the service (as of March 2015).

*Skin type includes normal, dry, oily, combination, sensitive, and atopic.

Users for all group sites



Unique users for all group sites



Source: Company data, SR Inc. research

More than 50% of women aged 20–40 in Japan use @cosme

With no other website providing similar services, @cosme's membership and monthly unique user base is expanding. The total number of members of the company's websites exceeded 3mn at the end of 2014. The unique user number has also been on the rise, despite seasonal factors. According to istyle, the monthly unique user number for @cosme reached some 9.8mn at end June 2014. About half of all

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women in Japan aged 20-40 use this site every month.

Monthly users by age group (Japan)

Age group (mn people)	End June 2012			End June 2013			End June 2014		
	Total female pop.	Users	Monthly user rate	Total female pop.	Users	Monthly user rate	Total female pop.	Users	Monthly user rate
Under 10	5.2	0.0	0.0%	5.2	0.0	0.0%	5.19	0	0.0%
10-19	5.8	0.2	4.1%	5.8	0.3	5.4%	5.79	0.38	6.6%
20-29	6.5	1.7	26.6%	6.4	3.0	47.0%	6.44	3.66	56.8%
30-39	8.6	1.5	17.0%	8.3	2.9	35.2%	8.32	3.6	43.3%
40-49	8.3	0.5	5.8%	8.9	1.3	15.0%	8.87	1.7	19.2%
50 and above	30.3	0.0	0.0%	30.8	0.3	1.1%	30.81	0.46	1.5%
Total	64.8	3.9	6.1%	65.4	8.0	12.2%	65.41	9.8	15.0%

Source: Company data, SR Inc. research

Note: Figures for Japan's female population are based on statistics from the Ministry of Internal Affairs and Communications; user count is based on IStyle's computer, smartphone, and feature phone unique users

Members exceed 3.2mn as of March 2015; user postings number 12mn

The website had more than 3.2mn members as of March 2015. The company commands respect from major cosmetics manufacturers because of its influence on individual consumers. It has a wealth of data based on consumer postings; at the end of March 2015, about 12mn comments had been posted on the website. The company correlates these postings with users' ages and skin types. This database allows the company to analyze information from various angles, and forms the core of the company's solution services and revenue stream.

Site profile

Monthly page views (mn)	270,000,000
@cosme members (mn)	3.2
Monthly unique users (mn)	10
Posts (mn)	12
Brands	28,000
Products	250,000

Source: Company data compiled in March 2015

Note: Page views and unique user counts are for all devices.

Marketing platform supports @cosme

istyle has created Japan's biggest cosmetics database through @cosme, which gives the company access to customer information. Using this database, it has created a unique marketing platform; it gives members points that can be used for a variety of services, and companies access to customer information. The company is now building a payment platform linked to a centrally managed customer database and reward system, accessible from different devices.

This platform targets small-scale manufacturers, yoga studios, beauty and nail salons, as well as individual consumers. It will use the platform to create new markets. The company will initially pursue this strategy in Japan and eventually enter other parts of Asia to create a market based on consumer needs.

Company history

Establishment: advertising business based on online posts, solution services

The company began as a weekly online magazine, started as a hobby by Meyumi Yamada (now a director) who was working for a cosmetics manufacturer. The number of subscribers surged, and Testsuo Yoshimatsu, who was working for consulting company Arthur Andersen, encouraged Yamada to establish a business. According to Yoshimatsu, who serves as president, he co-founded istyle to facilitate the online aspect of the cosmetics industry. Seeing the one-way communication between cosmetic manufacturers and consumers as inefficient, he decided to use the internet to facilitate two-way

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interactions. With @cosme as a focus, the company has been expanding businesses and increasing sales since its foundation.

The most challenging task was to explain to cosmetics manufacturers the company's business model, which relies on @cosme and its consumer posts. But following the company's first customer, major Japanese cosmetics manufacturer Shiseido Co., Ltd. (TSE1: 4911), the number of members grew; the company expanded its database and increased industry recognition, and from 2001 advertisements from cosmetics manufacturers rose, as did demand for the company's solution services. The cosmetics industry was reeling from the collapse of the bubble economy, and manufacturers had to develop products that would set them apart. As they turned to istyle's website to advertise their products, istyle's data on consumer preferences grew in importance.

Growth period: stores featuring product rankings help attract customers

The company entered into its next phase of expansion after the website business began to grow. In November 2002, the company started an e-commerce business with the creation of cosme.com, which sells cosmetics over the internet. In 2007, istyle began to open physical @cosme stores featuring products that are highly rated on the website. Most cosmetics stores display products supplied by higher-paying companies more prominently to maximize profitability. The company's method of product display, based on product rankings, soon gained traction due to novelty and convenience. Feedback from these stores, in addition information gained online, helped the company improve its @cosme services, further increasing the number of @cosme members.

Transition period: expanding into related businesses, moving beyond Japan

The company then began to expand into related businesses and tried to establish operations outside Japan. In May 2012, istyle acquired ispot, a website that provides information on salons, to enter other beauty-related fields.

It is also seeking to establish operations in Asia. Japanese cosmetics, considered safe and of high quality, are popular in Asia, and Asian visitors to Japan often buy cosmetics. Japanese cosmetics manufacturers also want to increase sales in Asia as the domestic market matures. Against this background, istyle has established subsidiaries in China, Hong Kong, Singapore, and Indonesia.

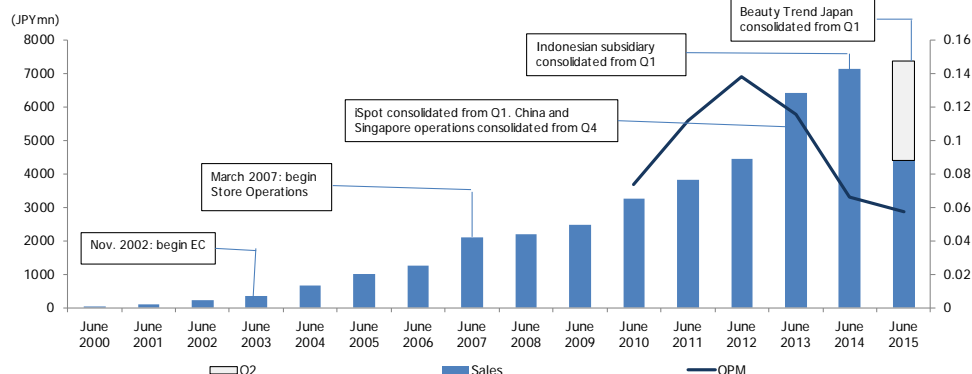
Long-term growth strategy: new businesses

Sales have been continuously rising since the company's foundation, with profits trending upward. Now, the company is accelerating its expansion efforts by seeking to enter new business fields and establish operations outside Japan. (See the Strategy, and Trends and outlook sections for details.) On the other hand, costs of starting new businesses are weighing on the company.

For FY06/14, the company's operating profit fell 35.9% YoY because of expenses related to an office relocation and the launch of new services. For FY06/15, operating profit may continue to decline as the company plans to overhaul its smartphone site during 2H.

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Sales



Source: Company data, SR Inc. research

Overview of the PC version of @cosme

Database on products and reviews

Pages for particular products

Users can access detailed product information, reviews, and blogs, as well as post questions about products and view statistics of other members.

■ Online reviews

The new website, in addition to allowing users to post comments, has a "thank you" button to express appreciation for certain posts, and links to information on where to buy certain products, their effectiveness, etc.

■ Member statistics

Users can view statistics of members who have posted comments on particular products; the posters' ages and skin types are shown in graphs. Posts can be accessed by clicking within the graphs.

Pages tied to keywords (rankings based on posts)

Comprehensive information based on keyword search

■ Product rankings based on posts

Newest product rankings by keyword

■ List of products, postings

Products and posts tied to keywords

■ Q&A

Questions and answers by keyword from the Chieco chat room

■ Blogs

Blogs by keyword (blogs posted by non-members)

«Category»

The keyword menu lists specific items, user concerns, skin types, age, where the product was purchased, and the characteristics of the product.

My@cosme

Allows users to customize data

Users can post comments or edit their own comments, check their favorite brands, and keep track of other members.

■ Favorite brands

Users who register their favorite brands can receive information on these brands.

■ Favorite members

Users can quickly check comments by their favorite posters and exchange messages.

■ My Collection (products, posts, Chieco topics, photos)

Users can store product information, comments, and topics for quick access. Users can also create photo albums with their own images.

Content unique to @cosme

■ Prizes

Users can win popular items on @cosme. The page is revised twice a month.

■ Beauty news

Information on new products and trends, reports from product information sessions; most recent photos and articles.

Source: Company data, SR Inc. research

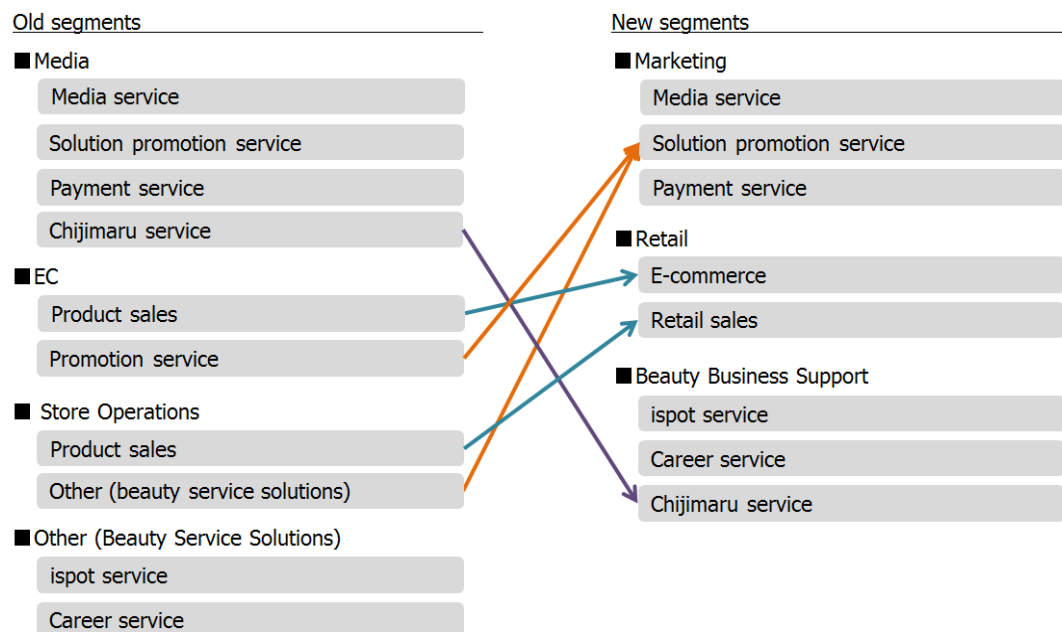
Segment overview

The company has three segments: Marketing, Retail, and Beauty Business Support. This segmentation

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was adopted in Q1 FY06/15. The following is a comparison between the new and previous segmentations:

Old and new segment comparisons



Source: Company data

Marketing is the largest. This segment, which has been in existence since the company's inception, sells online advertising space to cosmetics companies and provides solution services. The second biggest segment is Retail, selling cosmetics to individual consumers; the company stands apart from rivals because it markets products based on product rankings. New businesses fall under the Beauty Business Support segment, which is set for expansion.

Marketing: 51.7% of sales, 51.9% of OP for 1H FY06/15

Marketing (JPYmn)	FY06/14 (old segmentation)				FY06/15 (new segmentation)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	835	843	816	1,123	1,117	1,164		
Japan	799	812	754	1,092	1,043	1,054		
Overseas	36	31	62	31	74	110		
OP	4	12	38	189	113	51		
Japan	26	63	72	224	137	68		
Overseas	-23	-51	-34	-34	-24	-17		
OPM	0.4%	1.4%	4.6%	16.9%	10.1%	4.4%		
Japan	3.3%	7.8%	9.5%	20.5%	13.2%	6.5%		
Overseas	-	-	-	-	-	-		
Sales comp.	50.2%	50.3%	45.4%	56.0%	53.2%	50.3%		
OP comp.	8.9%	24.5%	33.8%	79.0%	64.8%	36.1%		

Source: Company data, SR Inc. research

The Marketing segment has the media service, solution and promotion service, and payment service. The overseas business offering marketing services also falls under this segment. For 1H FY06/15, this segment comprised 51.7% and 51.9% of overall sales and operating profit, making it the company's

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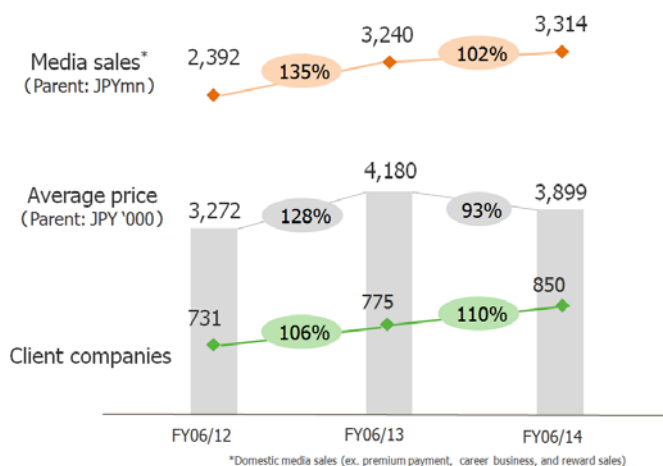
biggest operations. Cosmetics makers tend to release new products at the turn of seasons. Therefore, this segment's sales tend to rise March–May, and September–November.

In the media (online advertising) service, the company sells ad space on @cosme, a comprehensive cosmetics and beauty website, and reaps advertising revenue. The media service handles “response advertising” (banner ads, text ads, email ads), “branding advertising” (tie-up ads designed to boost brand image), and “affiliate advertising” (directs users to e-commerce sites operated by cosmetics makers and collects commissions if users make purchases).

The company creates a database using information collected from users. Using the database, the company can advertise based on users' age and skin type, as well as create and edit product ads based on consumer posts.

Branding advertising and response advertising comprise some 50% and 40% of ad revenue, respectively. The rest comes from affiliate advertising. The media business had 850 clients in FY06/14 (+10% YoY), with each client paying an average of JPY3.9mn (-7% YoY). Sales have been rising, but average payment per client fell slightly during FY06/14.

Average payment, number of clients at Media segment



Source: Company data

The solution and promotion service provides marketing solutions (other than advertising) to cosmetics manufacturers using @cosme's database. This business includes a brand fan club service, research and consulting services, and data use service.

The brand fan club service lets clients create and update their @cosme pages to promote their brands and communicate with consumers. The contract is based on individual brands, rather than client companies as a whole. There are various optional functions, and monthly fees differ accordingly.

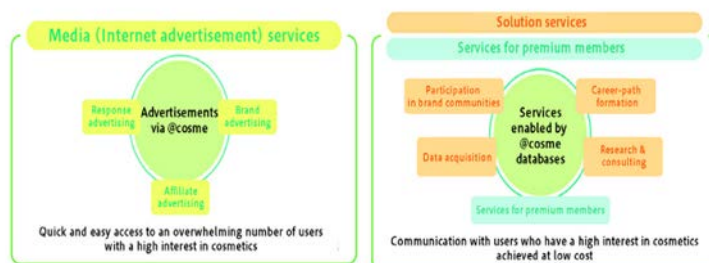
The premium membership service for general consumers is more user friendly than the free services, and comes with product coupons. The monthly fee is JPY280 (excluding tax). The number of members has been increasing as the company promotes this service. For Q2 FY06/15, membership rose 76% YoY.

Research and consulting services provide information obtained through @cosme and its analytic tools to clients. The service includes individual data, the results of market research, and consulting.

The data-use service provides clients with rights to use the @cosme logo, ranking information, and consumers' online postings. Clients may use istyle's product ranking information on their own websites.

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To expand its services, istye acquired all shares in Beauty Trend Japan and turned the company into a consolidated unit in August 2014. The subsidiary operates GLOSSYBOX, which delivers sample cosmetics packages to members on a regular basis. Earnings of this unit are included in this segment.



Source: Company data

Retail: 41.5% of sales, 49.7% of OP for 1H FY03/14

Retail (JPYmn)	FY06/14 (old segmentation)				FY06/15 (new segmentation)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	672	696	838	736	836	997		
E-Commerce	150	152	180	158	176	223		
Store Operations	522	545	658	577	659	774		
OP	52	62	84	80	65	93		
E-Commerce	16	16	20	20	0	0		
Store Operations	36	45	64	60	0	0		
OPM	7.7%	8.8%	10.0%	10.8%	7.7%	9.3%		
E-Commerce	10.4%	10.7%	10.9%	12.5%	0.0%	0.0%		
Store Operations	-	-	-	-	-	-		
Sales comp.	40.3%	41.5%	46.7%	36.7%	39.8%	43.1%		
OP comp.	129.5%	130.1%	75.4%	33.2%	37.0%	65.4%		

Source: Company data, SR Inc. research

This segment, which has e-commerce and retail (at physical stores) businesses, comprised 41.5% of the company's overall sales and 49.7% of operating profit for 1H FY06/15. E-commerce operations are handled by Cosme.com Inc., a consolidated subsidiary. Cosme.com procures and sells cosmetics, quasi-drugs, health foods, and other products through computer and smartphone sites.

The e-commerce business and store operations are not affected by seasonal factors, but sales of e-commerce operations tend to rise when malls carry out sales campaigns or offer free shipping. Store operations sales sometimes decline after sales campaigns finish at commercial facilities where the company operates.

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Source: Company data

Store operations are run by cosme next Inc., a consolidated subsidiary. The unit develops store formats for cosmetics sales and operates @cosme outlets. This business seeks to create a new format that combines aspects of both online and physical store operations. At end June 2014, there were five @cosme stores in Tokyo (one each in Ikebukuro, Shinjuku, Ueno, Shibuya, and Yurakucho). The company wants to create stores where customers can enjoy browsing, helping customers find cosmetics that meet their needs using online information and reviews.

Product procurement in retail operations

In the e-commerce business, the company usually places orders with manufacturers after receiving orders from consumers. The company may have some inventory of products it expects to become popular or those that are already best sellers. The company may increase inventory to improve its delivery system, but for the past five years (as of May 2015) inventory turnover has been relatively slow, at a little over one month.

In the store operations, each store is responsible for placing its own orders using inventory management data, with the approval of store managers.

Future store openings

The company does not try to expand sales of @cosme store by raising prices. The company wants customers to visit the store frequently and buy many items. For this purpose, the company aims to open stores at locations that can attract shoppers any day of the week, such as buildings attached to or nearby stations. The company will decide locations based on the expected ROI and the effectiveness of advertising, in addition to location and rent.

Outside Japan, the company supplies products to JUMEI.COM, the biggest cosmetics retailer in China. The company also operates a virtual store on Tmall Global, operated by Alibaba.com. These businesses may not have much impact on FY06/15 earnings, but the company wants to gradually expand these and other operations.

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Source: Company data, as of Q2 FY06/14

Beauty Business Support: 6.8% of sales, -1.6% of OP for FY03/14

Beauty Business Support, Other

(JPYmn)	FY06/14 (old segmentation)				FY06/15 (new segmentation)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	158	137	141	145	146	152		
Beauty Business Support	0	0	0	0	146	152		
Other	158	137	141	145	0	0		
OP	-15	-26	-10	-29	-3	-2		
Beauty Business Support	0	0	0	0	-3	-2		
Other	-15	-26	-10	-29	0	0		
OPM	-	-	-	-	-	-		
Beauty Business Support	-	-	-	-	-	-		
Other	-	-	-	-	-	-		
Sales comp.	9.5%	8.2%	7.9%	7.3%	7.0%	6.6%		
OP comp.	-38.4%	-54.6%	-9.2%	-12.2%	-1.7%	-1.5%		

Source: Company data, SR Inc. research

This segment, formerly Other before the company changed its segmentation during Q1 FY06/15, includes a solution services catering to diverse clients. The segment is run by subsidiary istyle Beauty Solutions. For 1H FY06/15, the segment generated 6.8% of the company's overall sales, but it was still in the red as businesses were in nascent stages. The segment operates three major businesses:

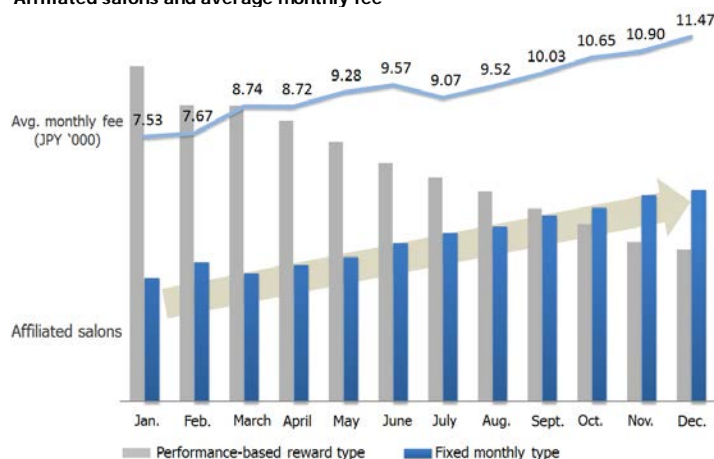
ispot: website that provides information on aesthetic salons

This business, which operates a website that provides information on aesthetics, nail and hair salons, and beauty clinics, generates some 80% of segment sales. The website, in addition to providing data on stores, also features consumer posts. Customers use their IDs to make online reservations on these salons and to access other services. Members use their IDs to accumulate points.

According to the company, although ispot is in the red, average spend per customer is rising as the company promotes monthly fixed-rate services. As a result, losses are narrowing.

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Affiliated salons and average monthly fee



Source: Company data

@cosme Career (career.cosme.net, salon.career.cosme.net)

The website, opened in January 2008, is the largest job site for Japan's cosmetics and beauty-related industries. The site carries job postings related to cosmetics, and aesthetic and nail salons.



Source: Company data

Earnings comparison with peers

No direct competitors

istyle operates @cosme, Japan's largest website featuring consumer comments, through which the company sells online advertising space to cosmetics and beauty-related companies and provides products to individual consumers. According to istyle, it is the only company in Japan that has both online and physical cosmetics and beauty stores. Certain companies share some similarities: Kakaku.com Inc. (TSE1: 2371) operates a price-comparison website that features consumer comments, M3 Inc. (TSE1:2413) runs a medical site for the pharmaceutical industry, and Kenko.com (TSE Mothers: 3325) is one of the largest online sellers of health products such as medical and daily goods. However, these companies target different industries and clients, so istyle is unlikely to compete directly with them.

Currently in investment phase; improved profits expected from here

The company's operating profit margin is relatively lower than that of Kakau.com, M3, or Kenko.com because it operates a product retail business that generates more than 40% of overall sales, and because the company's overseas operations and the Beauty Business Support operations are still unprofitable, as

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they are in the nascent stages. The company distinguishes itself, however, by going beyond online sales to cooperate with physical stores. Losses are being narrowed, and the company's profit margin has significant room to grow.

Financial year		FY06/10	FY06/11	FY06/12	FY06/13	FY06/14
CoGS/ sales	istyle	40.6%	36.0%	33.2%	32.0%	35.8%
	M3	28.0%	26.1%	25.1%	29.3%	32.3%
	Kakaku.com	10.0%	8.9%	8.7%	8.3%	7.9%
	Kenko.com	67.5%	68.0%	67.8%	66.7%	66.9%
SG&A/sales	istyle	52.1%	52.8%	53.0%	56.5%	57.5%
	M3	31.3%	32.7%	34.7%	35.0%	34.3%
	Kakaku.com	43.2%	40.8%	42.5%	41.8%	42.9%
	Kenko.com	31.7%	33.8%	35.2%	34.1%	32.9%
OPM	istyle	7.3%	11.2%	13.8%	11.5%	6.6%
	M3	40.7%	41.2%	40.2%	35.7%	33.4%
	Kakaku.com	46.8%	50.3%	48.8%	49.9%	49.2%
	Kenko.com	0.8%	-1.9%	-3.0%	-0.7%	0.2%
Net margin	istyle	4.8%	6.8%	8.3%	6.7%	0.2%
	M3	16.4%	23.8%	23.6%	21.5%	22.6%
	Kakaku.com	27.3%	29.3%	28.5%	30.5%	30.4%
	Kenko.com	0.5%	-	-	-	0.1%
Equity ratio	istyle	66.2%	63.7%	65.9%	71.6%	73.1%
	M3	71.4%	74.8%	73.5%	72.1%	73.5%
	Kakaku.com	56.8%	60.7%	63.5%	75.3%	79.5%
	Kenko.com	46.2%	34.6%	28.0%	44.2%	47.5%
ROE	istyle	-	18.4%	19.8%	13.9%	0.4%
	M3	18.5%	28.8%	29.7%	28.6%	28.3%
	Kakaku.com	37.6%	38.0%	32.3%	38.0%	40.4%
	Kenko.com	3.4%	-	-	-	0.9%

Source: Company materials, SR Inc. research

*M3 Inc. and Kenko.com's financial year ends in December, while Kakaku.com Inc.'s ends in March.

**Kenko.com changed its financial year end from March to December, so FY12/13 is recorded as a nine-month period.

Business characteristics (for reference)

Procurement, sales routes

Segment	Details	
Marketing	Procurement	No procurement necessary
	Sales	The media and solution operations generate 40% of sales by selling directly to manufacturers and 60% via agents. The premium membership service deals with customers directly.
Retail	Procurement	Some 80% of products come directly from manufacturers and 20% via wholesalers
	Sales	Most buyers are individual consumers.

Source: Company data, SR Inc. research

Making sales projections

Media business

The company uses an index calculated based on year-ago figures in light of the business strategy for a given financial year. The company multiplies the average price per client for each service (ad impression cost, average service fee, payment services, etc.) by the expected number of new contracts and fee-paying customers (based on the company's past performance and the current business strategy).

E-commerce

The company multiplies the number of products likely to be sold by the average spend per customer.

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Store operations

The company creates a target for product sales operations by multiplying expected customer count by the average spend per customer expected based on past earnings.

Other

The company creates a sales target for store information and other services by calculating the average unit price per month (based on past performance), then multiplying the figure by the expected number of posts (in light of past performance and the strategy for a given fiscal year). For career services sales target, the company multiplies average unit sales calculated (based on past performance) by an expected number of contracts.

Overseas strategy

There are many countries where the market for beauty-related businesses has room to grow. The company is pursuing expansion in Asia, where Japanese products are held in high esteem.

View the [full report](#).

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TEAR Corporation (2485)

Funeral hall company providing a full range of funeral services in halls, homes, temples, and community centers, mainly in the Nagoya area. Also manages funeral hall franchisees.

President Tomiyasu founded TEAR in 1997. After working for a funeral company for 18 years he decided to start his own firm and overturn long-standing practices. The company mainly operates around Nagoya, Aichi. It provides services at funeral halls, homes, temples, and public halls. It also offers post-funeral services including memorial services on important anniversaries. TEAR also manages funeral hall franchisees, leveraging its operational experience.

Rare growth industry in Japan

According to the Vital Statistics Survey published by the Ministry of Health, Labour and Welfare, there were 1.3mn deaths in Japan in 2014. Over the past 20 years the number of deaths grew at an annual pace of 1.6%. The National Institute of Population and Social Security Research (Population Projection for Japan) forecasts the number of deaths to increase at an annual rate of 1.1% from 2015 before peaking at 1.7mn in 2040. Demand for funeral services is growing despite Japan's shrinking population, low birthrate, and aging society, making the funeral business one of the few growth industries in the country.

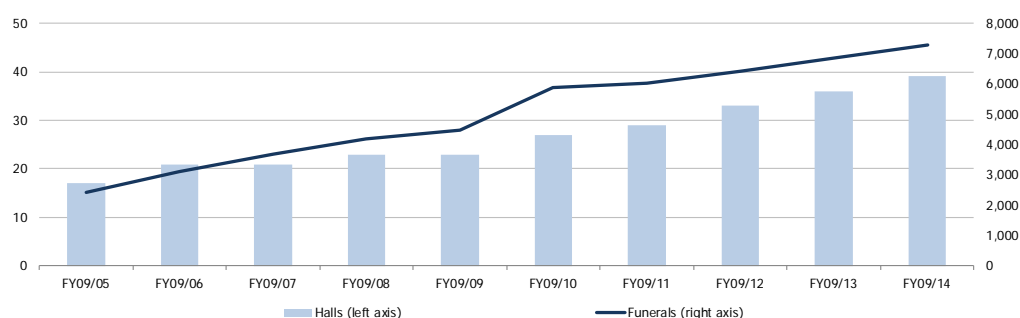
Transparent low prices, dominant presence, membership, and in-house training

Several characteristics set the company apart. TEAR spearheaded the move to provide transparent pricing, revealing all the costs associated with a funeral. Its funerals cost less than its competitors' (about 20% less than market average). It has a dominant funeral hall presence around Nagoya (end FY09/14 it had 22 halls in Nagoya alone). The company established a membership system called TEAR No Kai ("Tear Club"), and most of the funeral services the company conducts are for members. After paying an initial fee, members receive various funeral-related benefits, as well as discounts and services at partner companies. The company also has a unique staff training system. TEAR is one of two funeral companies listed on the TSE First Section—possibly raising its reliability and profile in the eyes of consumers.

Earnings

The number of funerals handled by TEAR has grown in view of more halls and a rising number of deaths per year. From FY09/05 through FY09/14 the number of funerals TEAR handled grew by 13.1% per year. Since FY09/13, its share of funerals in Nagoya has topped 20%.

TEAR: number of directly managed funeral halls and number of funerals conducted

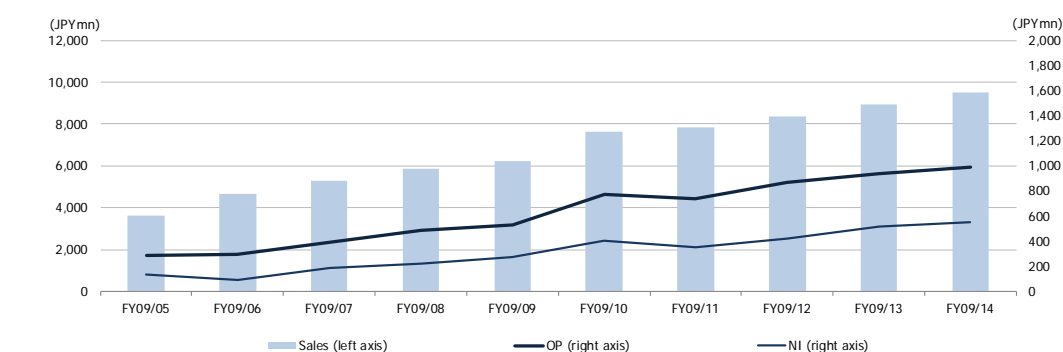


Source: Company data

Accompanying a rise in the number of funerals handled, from FY09/05 through FY09/14 the company's sales grew by 11.4% per year; operating profit by 14.9%; and net income by 17.1%.

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TEAR: sales, operating profit, and net income



Source: Company data

It has two segments, Funeral and Franchise. In FY09/14, the funeral business accounted for more than 97% of all sales and operating profit.

Segments (JPYmn)	FY09/07 Act.	FY09/08 Act.	FY09/09 Act.	FY09/10 Act.	FY09/11 Act.	FY09/12 Act.	FY09/13 Act.	FY09/14 Act.
Sales	5,267	5,868	6,216	7,640	7,827	8,356	8,920	9,528
YoY	13.6%	11.4%	5.9%	22.9%	2.4%	6.8%	6.7%	6.8%
Funeral	5,208	5,833	6,167	7,550	7,697	8,210	8,686	9,259
YoY	13.3%	12.0%	5.7%	22.4%	1.9%	6.7%	5.8%	6.6%
% of sales	98.9%	99.4%	99.2%	98.8%	98.3%	98.3%	97.4%	97.2%
Franchise	60	35	49	90	130	145	234	269
YoY	48.4%	-41.6%	41.5%	82.5%	44.3%	11.8%	60.8%	15.1%
% of sales	1.1%	0.6%	0.8%	1.2%	1.7%	1.7%	2.6%	2.8%
Operating profit	388	485	532	771	736	869	940	992
YoY	31.3%	25.0%	9.6%	45.0%	-4.6%	18.1%	8.1%	5.6%
OPM	7.4%	8.3%	8.6%	10.1%	9.4%	10.4%	10.5%	10.4%
Funeral	-	-	-	1,239	1,209	1,333	1,507	1,575
YoY	-	-	-	-	-2.4%	10.2%	13.1%	4.5%
OPM	-	-	-	16.4%	15.7%	16.2%	17.4%	17.0%
% of operating profit	-	-	-	99.0%	97.5%	96.1%	97.3%	97.3%
Franchise	-	-	-	13	32	54	41	43
YoY	-	-	-	-	145.1%	71.7%	-24.2%	4.4%
OPM	-	-	-	14.3%	24.3%	37.3%	17.6%	15.9%
% of operating profit	-	-	-	1.0%	2.5%	3.9%	2.7%	2.7%
Company-wide/eliminations	-	-	-	-481	-505	-518	-608	-625

Source: Company data

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

Business model

Funeral segment

Sales

Segment sales are a function of the average funeral price times the number of funerals. In FY09/14, the average funeral price was JPY1.1mn and the company conducted 7,301 funerals. The difference between overall sales and the number of funerals multiplied by the average funeral price tells us that sales of Buddhist memorial services and gravestone referrals, as well as Tear Club membership fees amount to about 10% of sales.

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Funeral segment: contracts

	FY09/07	FY09/08	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14
Sales (JPYmn)	5,208	5,833	6,167	7,550	7,697	8,210	8,686	9,259
YoY		12.0%	5.7%	22.4%	1.9%	6.7%	5.8%	6.6%
Funerals	3,680	4,194	4,481	5,867	6,021	6,417	6,862	7,301
YoY		14.0%	6.8%	30.9%	2.6%	6.6%	6.9%	6.4%
Funeral cost (JPYmn)				1.11	1.10	1.10	1.10	1.12
YoY					-1.4%	0.7%	-0.1%	1.1%

Source: Company data

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

Customers

TEAR provides funeral services at directly managed funeral halls, customers' homes, temples, and public halls. It also offers post-funeral services such as memorial services on significant dates.

TEAR established a membership system called TEAR No Kai (Tear Club). After paying an initial fee of JPY10,000 members can receive special discounts on TEAR's funerals and various other privileges. This is to boost its membership base, i.e., potential future customers. Over 90% of the company's customers are members of the club or belong to partner organizations.

Promotional events at funeral halls, door-to-door marketing by salespeople to residents near the funeral halls (each funeral hall has one or two salespeople), and internet marketing drive Tear Club membership growth. At end FY09/14, there were 238,632 club members.

Services

Main services normally cover the two days of the wake and funeral—from when the body is taken to the funeral hall to its final trip to the crematorium.

Specifically, services comprise of transportation of the body from the hospital; enshrining and preparing the body; arranging and installing an altar and associated items in accordance with the deceased's religious affiliation; and arranging and carrying out other activities before, during, and after the funeral service, including placing the body in the coffin, providing a master of ceremonies, and transporting the body to the crematorium. TEAR can provide ancillary services such as selling gravestones and arranging visits from monks, but does not generally do so. Only those with approval from relevant local authorities, the prefectural government, can handle cremations.

Prices

In FY09/14, TEAR's average funeral price was JPY1.1mn. According to the company, this was around JPY300,000 cheaper than the average funeral price in Japan of JPY1.4mn.

Number of funerals

The number of funerals is rising as the company's funeral hall network grows. The number of funerals per hall is around 200 a year.

Number of halls and funerals per hall

	FY09/07	FY09/08	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14
Halls	21	23	23	27	29	33	36	39
YoY	-	2	-	4	2	4	3	3
Annual average	21	22	23	25	28	31	35	38
Funerals	3,680	4,194	4,481	5,867	6,021	6,417	6,862	7,301
Funerals per hall	175	191	195	235	215	207	199	195

Source: Company data

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

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Franchise segment

Using TEAR's experience, the Franchise segment targets companies looking to expand into new businesses and make effective use of vacant land. The company offers a total package spanning market surveys and funeral hall planning through training and management advice. Segment sales come from franchise-joining fees (JPY2mn), funeral hall application fees (JPY3mn), royalties (around 3% of the franchisee hall's revenue), fees for training franchisee staff, and funeral-related product sales to franchisees.

At the end of FY09/14, eight franchisees were managing 34 halls.

One of the conditions for granting rights to a franchisee is that it is not already in the funeral business. Different from other firms, TEAR thinks it inefficient to retrain employees who have practical experience at another funeral company. TEAR trains franchise employees in the same manner as its own.

Business overview

The company provides customers with a comprehensive range of funeral services at its directly managed halls, in their homes, and at temples and public halls. It also offers post-funeral services such as memorial services on significant dates.

Service prices

According to the company, until the late 1990s when it began operating, funeral companies conducted funerals, and in many cases without revealing detailed pricing. TEAR took another approach. Since its inception the company has fully disclosed its pricing structure and provided prior estimates to its customers; customers can find funeral prices by referring to pamphlets or the internet. The company also has a policy of not accepting the gratuities traditionally paid by the bereaved to those involved in the funeral business. Its service revenue is a combination of a fixed charge (depending on the price of the altar), and a variable charge (depending on the number of mourners). Charges do not vary according to religion.

Fixed charges

The company charges according to the size of the altar, with plans ranging from JPY220,000 to JPY3.7mn. As of April 2015, altar prices in the Chubu and Kansai regions differed from those in the Kanto region. Fixed charges include the cost of the altar, funeral hall use (two days), delivery charges, a futon for the deceased, the body-washing ritual, a set of handouts for the funeral hall, an urn set, memorial garments, thank-you letters for those attending the wake (members receive 100 free), thank-you letters for those attending the funeral (members receive 100 free), a personalized eulogy, floral decorations, dry ice, deodorant and preservatives, a formal photograph of the deceased, a hearse, a coffin, a temporary altar, the master of ceremonies, and service fees. Charges vary between those who are members of Tear Club and nonmembers. Members receive some services for free and a 10% discount on the altar price with altar packages of JPY630,000 or more.

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Fixed funeral charges (JPY '000)	Chubu, Kansai			Kanto		
	Altar price	Altar and accessories		Altar price	Altar and accessories	
		Non-members	Members		Non-members	Members
Family funeral plan	380	678	380	300	676	300
	630	1,051	567	360	793	360
	780	1,201	702	560	1,091	560
	980	1,438	882	760	1,325	684
	1,280	1,738	1,152			
	1,580	2,078	1,422			
	1,880	2,378	1,692			
General funeral plan				220	567	220
				380	733	380
	630	1,097	567	630	1,119	567
	780	1,247	702	780	1,279	702
	980	1,447	882	980	1,498	882
	1,080	1,547	972	1,080	1,608	972
	1,280	1,757	1,152	1,280	1,813	1,152
	1,580	2,128	1,422	1,580	2,141	1,422
	1,880	2,456	1,692	1,880	2,458	1,692
	2,180	2,764	1,962	2,180	2,751	1,962
	2,680	3,264	2,412	2,680	3,251	2,412
	3,180	3,776	2,862			
	3,680	4,276	3,312			

Source: Company data

Chubu area includes Aichi, Gifu and Mie prefectures; Kansai area: Osaka and Wakayama prefectures; Kanto area: Saitama, Kanagawa, and Chiba prefectures.

Member prices refer to those for Tear Club Gold Members.

Variable charges (incidental funeral costs)

Variable charges cover thank-you gifts to mourners at the wake and funeral as well as catering charges. The amount depends on the number of mourners. The type of gift and food varies with regional customs. Charges are as shown in the table below.

Cost per mourner (JPY)	Sokuyohin	Kodengaeshi	Wake catering	Shuttatsu Ryori	Shojin Otoshi
Chubu region (Aichi, Gifu, Mie prefectures)*	600	-	1,300	1,300	3,600
Okazaki, Aichi Prefecture	400	-	500	500	3,500
Toyohashi, Aichi Prefecture	400	1,500	600	600	3,500
Kansai region (Osaka, Wakayama prefectures)	500	-	700	-	3,600
Kanto region (Saitama, Kanagawa, Chiba prefectures)	2,000	-	450	-	3,000

Source: Company data

*Excludes Okazaki and Toyohashi (Aichi Prefecture)

Wake catering costs in the Kanto region are the individual price of a 10-person, JPY4,500 set.

Sokuyohin: small gift given by the bereaved to mourners who have given them condolence money at the time of funeral or memorial ceremony—primarily in western Japan. A different term, "kokorozashi," is used in eastern Japan.

Dedachi Ryori (literally "departure dish"): meal eaten by the bereaved family and relatives as the last meal with the deceased before the funeral.

Shojin Otoshi: one of many terms that refers to the return to a normal diet from a vegetarian one accompanying the Buddhist ceremony on the 49th day after death. These days, it is common to perform this together with the seventh-day memorial ceremony after returning from the crematorium, at a banquet, to thank the monks and facilitators for their work.

Average prices

The average price for funerals TEAR conducted was JPY1.1mn in FY09/14. The breakdown: altar

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(including accessories), JPY710,000; funeral associated expenses (thank you gifts and food), JPY250,000; and floral and other offerings, JPY150,000. The average price paid by the bereaved family excluding the offerings was JPY960,000.

According to TEAR, the average price for a typical funeral in Japan was JPY1.4mn (calculated by the company based on METI's Survey of Selected Service Industries). This means that TEAR provides funerals that are about JPY300,000 cheaper than those of its competitors. TEAR can provide this pricing by accepting a lower profit per funeral than other companies in the sector.

Price maintenance/funeral advisers

According to the company, the size of funerals is on a downward trend accompanying a rise in the average age of the deceased and the chief mourners, and shrinking family sizes due to Japan's declining birthrate. Per the company, the average funeral price is falling across the industry. To help maintain prices, TEAR has employed funeral advisers to take requests from the bereaved family since FY09/12. Personnel involved in running the funeral may be busy with funeral preparations and unable to fully handle all of these requests, so these advisers are able to take full note of the family's wishes and offer them the best plan. Orders taken by advisers were around JPY1.3mn on average, versus the company-wide average of JPY1.1mn. As of April 2015, advisers took around 70% of total orders.

Tear no Kai (Tear Club)

What is Tear Club?

Tear no Kai (Tear Club) is the company's membership system. For an initial fee of JPY10,000 and no installments or annual fees, members can receive special benefits on TEAR's funerals depending on membership type, as well as discounts and benefits at partner companies throughout Japan. A member cannot be enrolled posthumously. One TEAR card may be used for one funeral. Other than the member, their immediate family, relatives, and friends may also use the discounts. Furthermore, Gold Tear Club members can make use of discounted services at over 10,000 hotels, hot springs, restaurants, and leisure facilities.

In the Chubu region, a nonmember who selects the standard JPY630,000 altar plan has to pay extra charges of JPY466,800 for a total cost of JPY1.1mn. Tear Club members receive a 10% discount on the altar price and incidental services free of charge, for a total funeral cost of JPY567,000. Memorial services cost nonmembers JPY52,400 and members JPY28,600.

Aim of Tear Club

It is Shared Research's understanding that mutual aid society salespeople keep in touch with members, who pay monthly installments, so they form relationships with customers. For TEAR, which is not a part of this system, the Tear Club is an alternate means to keep in touch with customers and boost its profile. A METI survey* asked where respondents got information about funeral industry operators. The answers: "I already knew them," 27.5%; "introduced by family/relatives," 21.2%; "the deceased or family consulted with them ahead of time," 15.8%; "the deceased chose them beforehand," 12.2%. Excluding cases where relatives have introduced the customer, awareness and prior consultations are important factors.

*METI released a report on "Creating a Peaceful and Reliable End-of-Life Stage" on August 10, 2011. The report highlighted the need to raise public awareness of the end-of-life stage and rebuild the daily lives of the bereaved and touched on the role of the funeral industry in doing so.

Member acquisition

The Tear Club holds promotional events such as funeral seminars, discussion groups and funeral hall inspection tours. TEAR also has one or two salespeople per funeral home who visit neighborhood residents. Marketing personnel are assigned five months before opening new funeral halls; they conduct

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preopening marketing to the residents of the vicinity. Tear Club membership is growing at an annual pace of around 20,000. As of FY09/14 there were 238,632 members.

Tear Club

	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14
Members	154,620	175,577	196,411	218,446	238,632
Partner organizations	257	294	347	446	527

Source: Company data

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

Number of funerals and members, mortality rate

According to the company, in FY09/14, 67% of customers were Tear Club members, 23% from partner organizations, and 9% nonmembers. This shows the importance of the Tear Club in accessing customers. The company estimates that 98% of Tear Club members use its services again.

According to the Ministry of Health, Labour and Welfare's Vital Statistics Survey, there were 1.3mn deaths in 2013 for a mortality rate (number of deaths as share of total population) of 1.0%. The rate for those over 50 was double that at 2.2% and that for those over 65 was 3.5%. There is a tendency to think that forecasting sales in the funeral business is inherently difficult due to the lack of planning. However, if a company grows its population of potential customers as TEAR does, members or their relatives will use its funeral services every year, generating recurring funeral demand. This increases the likelihood of stable, high operating rates at the funeral halls.

Mortality statistics

	Number of deceased	Mortality rate	Percentage
Total	1,268,436	1,009	1.0%
0-4	2,958	57	0.1%
5-9	453	9	0.0%
10-14	467	8	0.0%
15-19	1,268	21	0.0%
20-24	2,423	40	0.0%
25-29	2,894	43	0.0%
30-34	3,909	53	0.1%
35-39	6,436	72	0.1%
40-44	10,124	106	0.1%
45-49	14,053	170	0.2%
50-54	20,581	270	0.3%
55-59	31,365	410	0.4%
60-64	62,932	655	0.7%
65-69	82,495	953	1.0%
70-74	111,419	1,473	1.5%
75-79	161,275	2,569	2.6%
80-84	224,159	4,721	4.7%
85-89	244,044	8,363	8.4%
90-94	177,392	14,624	14.6%
95-99	85,282	24,936	24.9%
100-	21,979	39,962	40.0%

Source: "Vital Statistics Survey," Ministry of Health, Labour and Welfare

The mortality rate is deaths per 100,000 people

Funeral halls

Hall opening strategy

It has a strategy of developing funeral halls concentrated in a certain geographic area so that it has a dominant presence. This makes it more convenient for consumers and boosts the company's name recognition. According to the company, opening a large funeral hall will not necessarily boost its profile

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with the surrounding residents. So if it has the funds to build one large funeral facility, instead it will open two smaller facilities. Through this the company aims to boost recognition, raise operating rates through complementary utilization of halls, and promote nearby halls when it holds funerals. TEAR has established that a funeral hall should have a catchment area of 3km in diameter. The company assesses population in an area and distance from neighboring halls when deciding whether to develop a new hall.

Development costs

Hall development costs consist largely of building construction expenses, as the company leases the land. The halls come in either a standard or small format, as shown below.

Funeral hall formats			
Format		Capex	Payback period*
Standard	2-3 stories; two ceremony halls (capacity of 10-100 people); two ante-rooms for families; two dining rooms	JPY150-200mn	7 years
Small	single-story; one ceremony hall (capacity of 10-100 people); one ante-room for family; one dining room	JPY100-150mn	9-10 years

Source: Company data

*Payback period = total investment ÷ (operating profit + depreciation)

As of April 2015, the company mainly employed the small format when opening new halls and renovating existing ones, to address the downtrend in funeral sizes. It said that over the previous three to four years the cost of building a hall had risen by 30% due to rising construction costs.

Operating rates and existing halls

Due to the nature of funerals, it is not possible to take orders and determine schedules in advance, and the company is unable to control operating rates. Per the company, average utilization was around 70%. (Based on around 25 working days per month; 30 days in a typical month excluding inauspicious days. Because one funeral includes a wake and the funeral ceremony itself over two days, one hall can hold 12.5 funerals per month. The standard two-hall facility would be operating at full capacity with 25 funerals per month.)

According to TEAR, the company includes a funeral hall in its comparable or existing hall figures two years after it opens. Sales at existing halls are growing. In addition to the increasing number of deaths (rising at an annual rate of 1%), the company is growing its Tear Club membership through door-to-door marketing to neighborhood residents and maintaining average prices.

Halls

TEAR has grown its network beyond Aichi. In 2006 it expanded into Osaka, and in 2012 opened a funeral hall in Saitama. It plans to expand its business in the Kansai and Kanto regions. Further, it has arrangements with more than 200 funeral homes in Tokyo, so TEAR's funeral services are available there as well.

TEAR's funeral halls								
	FY09/07	FY09/08	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14
Directly managed halls	21	23	23	27	29	33	36	39
Nagoya City	14	15	15	18	18	20	20	22
Aichi Prefecture (ex. Nagoya City)	6	7	7	8	10	11	12	12
Outside Aichi Prefecture	1	1	1	1	1	2	4	5
Funerals	3,680	4,194	4,481	5,867	6,021	6,417	6,862	7,301
Nagoya City	2,638	2,930	3,131	4,057	4,049	4,234	4,411	4,576
Aichi Prefecture (ex. Nagoya City)	970	1,148	1,206	1,615	1,791	1,973	2,120	2,165
Outside Aichi Prefecture	72	116	144	195	181	210	331	560
Funerals per hall	175	191	195	235	215	207	199	195
Nagoya City	188	202	209	246	225	223	221	218
Aichi Prefecture (ex. Nagoya City)	162	177	172	215	199	188	184	180
Outside Aichi Prefecture	72	116	144	195	181	140	110	124

Source: Company data

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

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TEAR's halls: key data (as of September 30, 2014)

TEAR establishment	Location	Established	Renovated Halls (capacity in parentheses)
Head office and TEAR Kurokawa	Kita Ward, Nagoya City	Aug. 2001	2F large hall (capacity: 200), 3F small hall (capacity: 30), 4F medium hall (capacity: 50)
Nakagawa	Nakagawa, Nagoya City	Jan 1, 1998	1F family funeral hall (20), 2F large hall (100), 3F large hall (100)
Kasadera	Minami, Nagoya City	Nov. 1998	Dec. 2010 1F small hall (80), 2F large hall (150)
Minato	Minato, Nagoya City	Aug. 1999	Nov. 2013 1F small hall (20), 2F large hall (120), 3F medium hall (70) * With a partition, halls on the second and third floors may be converted to a suitable size for family funerals
Sannou	Nakagawa, Nagoya City		2F large hall (120), 3F large hall (120)
Midori	Midori, Nagoya City	Feb. 2001	2F large hall (300), 3F medium hall (130), 3F small hall (40)
Gokiso	Showa, Nagoya City	July. 2001	Nov. 2014
Daikou	Higashi, Nagoya City	July. 2001	2F large hall (300), 3F medium hall (150), 3F small hall (50)
Nakamura	Nakamura, Nagoya City	Dec. 2001	2F large hall (200), 3F large hall (200), 4F family-only funeral hall (20)
Aoiyama	Tempaku, Nagoya City	July. 2002	2F large hall (120), 3F large hall (120), 4F small hall (30)
Nishibiwajima	Kiyosu, Aichi Prefecture	Oct. 2002	1F large hall (200)
Kanie	Kanie, Aichi Prefecture	Nov. 2002	1F large hall (150), 1F medium hall (80)
Meiko	Minato, Nagoya City	Dec. 2002	1F large hall (200), 2F medium hall (70)
Joshin	Nishi, Nagoya City	Dec. 2002	Nov. 2011 1F large hall (100), 2F small hall (50)
Jimokuji	Ama, Aichi Prefecture	Aug. 2003	Dec. 2012 1F large hall (150), 1F family-only funeral hall (waiting room) (30)
Toyoake	Toyoake, Aichi Prefecture	Oct. 2004	1F large hall (200), 1F medium hall (100)
Moriyama	Moriyama, Nagoya City	Oct. 2004	1F large hall (250), 2F medium hall (100)
Atsuta	Atsuta, Nagoya City	Nov. 2005	1F large hall (200), 1F medium hall (100)
Kadoma	Kadoma, Osaka	Mar. 2006	1F medium hall (100), 1F small hall (30), 2F large hall (200)
Toyohashi	Toyohashi, Aichi Prefecture	July. 2006	July. 2015 2F large hall (120), 3F small hall (50)
Toyohashiminami	Toyohashi, Aichi Prefecture	July. 2006	1F large hall (120), 1F medium hall (80)
Shikanya	Moriyama, Nagoya City	June. 2008	2F large hall (200), 3F small hall (50)
Okazakiminami	Okazaki, Aichi Prefecture	Oct. 2007	1F medium hall (100), 3F large hall (150)
Mizuho	Mizuho, Nagoya City	Oct. 2009	2F large hall (150), 3F medium hall (100)
Meito	Meito, Nagoya City	Oct. 2009	1F small hall (80), 2F large hall (200)
Kasugai	Kasugai, Aichi Prefecture	Dec. 2009	1F large hall (120), 2F small hall (50)
Sako	Nishi, Nagoya City	June. 2010	2F large hall (100), 3F large hall (100)
Okazakikita	Okazaki, Aichi Prefecture	Oct. 2010	2F large hall (120), 1F small hall (40)
Toyohashinishi	Toyohashi, Aichi Prefecture	Apr. 2011	2F large hall (120), 3F small hall (50)
Okazakichuo	Okazaki, Aichi Prefecture	Oct. 2011	2F large hall (120), 3F small hall (50)
Doutoku	Minami, Nagoya City	Apr. 2012	1F small hall (50), 2F large hall (120)
Kakuozan	Chikusa, Nagoya City	June. 2012	2F large hall (100), 3F small hall (50)
Koshigaya	Koshigaya, Saitama	Sep. 2012	2F large hall (60-150), 3F large hall (60-150)
Daito	Daito, Osaka	Apr. 2013	1F large hall (150), 2F large hall (150)
Ajiyoshi	Kasugai, Aichi Prefecture	May. 2013	2F hall * (50-150; by partitions), 1F Japanese style room, over 26 sqm (20)
Hatogaya	Kawaguchi, Saitama	Aug. 2013	(50-80)
Honjin	Nakamura, Nagoya City	Oct. 2013	(40-70)
Neyagawa	Neyagawa, Osaka	Dec. 2013	1F large hall (100), 2F large hall (100)
Matsubakoen	Nakagawa, Nagoya City	Dec. 2013	1F family funeral hall (30), 2F hall (max 120)
Total			

Source: Company data

Unique training program

Change in nature of funeral services

According to the company, funerals shifted from the family's home to funeral halls starting in the 1990s. Prior to that, funeral operators primarily handled the heavy infrastructure including setting up altars, ceremony venues, and tents. In the 1990s they moved into offering services such as funeral consulting, conducting proceedings, and usher services. Employees of funeral halls started to become more involved—from transporting and enshrining the body through conducting the wake, funeral, and farewell ceremony. They thus needed to show care when dealing with those close to the deceased.

Staff training to improve service

TEAR places importance on distinguishing itself through its service. It does not employ those with much experience in the funeral industry. Instead, it trains its staff so that they can provide services that take into consideration the bereaved. The company has established its own personnel training program called Tear Academy, and a testing system which employees must pass for promotion.

As of April 2015, around 130 of the company's 245 permanent employees were involved in funeral services. Employees were generally around 30 years of age.

In-house training program: Tear Academy

TEAR has set up an in-house training organization called Tear Academy. For three months after new

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graduates join the company, they receive instruction in etiquette and funeral knowledge and techniques. They learn how to think as someone intimately involved with ceremonies surrounding death, and receive detailed moral training. TEAR says that this thorough education enables it to maintain service quality.

Career advancement plan: Tear Tests

TEAR has established six grades for its employees. It holds tests once a year, which involve written and practical tests. Employees receive financial rewards for passing the tests.

Service quality

Training is designed to teach the company's philosophy and unify employees' way of thinking, to offer quality services. TEAR's achievements were recognized with its inclusion in the ninth annual "High Service Japan 300," by the SPRING, the Service Industry Productivity Council. This recognizes firms and organizations which are leaders in improving productivity and innovation.

Profitability snapshot, financial ratios

Sales

As mentioned, TEAR's sales are a function of number of funerals times average price per funeral (see section on business model).

Costs

CoGS

CoGS ratios are about 65.0–70.0%. The largest component is product costs at about 30% of sales, and outsourcing costs at 10–15% of sales.

Product costs: Primarily flowers, food, altars, and coffins. Because of the particular needs of funerals, the lead time is short for ordering flowers and food. The company thus procures them from nearby florists and restaurants. It has not disclosed the breakdown of costs by item. TEAR procures altars, coffins, and ancillary items mainly from China to cut costs.

Outsourcing: The company uses temporary employment agencies mainly for funeral directors, MCs, tea servers, ushers, and security guards, who are paid by the hour. Hearse costs are also included in outsourcing.

Personnel: Personnel costs for employees of the funeral halls are included in costs. Depending on the size of the facility, there are between two and seven employees.

Rent and depreciation: This is mainly funeral hall rents and depreciation on buildings.

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CoGS breakdown (JPYmn)	FY09/07 Par.	FY09/08 Par.	FY09/09 Par.	FY09/10 Par.	FY09/11 Par.	FY09/12 Par.	FY09/13 Par.	FY09/14 Par.
Funeral segment sales	5,267	5,868	6,216	7,640	7,827	8,356	8,920	9,528
Total CoGS	3,846	4,186	4,356	5,228	5,299	5,569	5,816	6,162
Product costs	1,748	1,924	1,992	2,347	2,407	2,453	2,555	2,634
Personnel	262	311	385	392	418	470	495	590
Expenses	1,836	1,951	1,979	2,489	2,474	2,647	2,766	2,938
Outsourcing	723	780	786	953	951	995	994	981
Funeral supplies	23	19	43	60	58	67	66	75
Hall supplies	45	65	14	75	40	83	52	52
Rents	588	567	597	642	650	683	747	796
Utilities	71	81	83	90	98	109	124	141
Maintenance	42	46	50	60	72	64	65	65
Depreciation	132	180	163	244	289	293	330	375
Taxes	64	44	60	82	89	94	81	94
Other	148	167	183	284	226	259	307	359
CoGS-to-sales ratio								
Total CoGS	73.0%	71.3%	70.1%	68.4%	67.7%	66.6%	65.2%	64.7%
Product costs	33.2%	32.8%	32.1%	30.7%	30.8%	29.4%	28.6%	27.6%
Personnel	5.0%	5.3%	6.2%	5.1%	5.3%	5.6%	5.6%	6.2%
Expenses	34.9%	33.2%	31.8%	32.6%	31.6%	31.7%	31.0%	30.8%
Outsourcing	13.7%	13.3%	12.6%	12.5%	12.2%	11.9%	11.1%	10.3%
Funeral supplies	0.4%	0.3%	0.7%	0.8%	0.7%	0.8%	0.7%	0.8%
Hall supplies	0.9%	1.1%	0.2%	1.0%	0.5%	1.0%	0.6%	0.5%
Rents	11.2%	9.7%	9.6%	8.4%	8.3%	8.2%	8.4%	8.4%
Utilities	1.3%	1.4%	1.3%	1.2%	1.3%	1.3%	1.4%	1.5%
Maintenance	0.8%	0.8%	0.8%	0.8%	0.9%	0.8%	0.7%	0.7%
Depreciation	2.5%	3.1%	2.6%	3.2%	3.7%	3.5%	3.7%	3.9%
Taxes	1.2%	0.8%	1.0%	1.1%	1.1%	1.1%	0.9%	1.0%
Other	2.8%	2.9%	2.9%	3.7%	2.9%	3.1%	3.4%	3.8%

Source: Company data

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

SG&A expenses

SG&A expenses are mainly personnel costs, advertising expenses and other head office expenses.

Personnel: In addition to personnel costs in the management division (42 people in FY09/14), this includes personnel in the Funeral segment other than those employed by the funeral halls (about 100 people) and employees in the Franchise segment (five people).

Advertising: Costs for television commercials, flyers, and billboards. Because TEAR has used a regional saturation model in its funeral hall rollout, promotional spending packs a punch.

SG&A expense breakdown (JPYmn)	FY09/07 Par.	FY09/08 Par.	FY09/09 Par.	FY09/10 Par.	FY09/11 Par.	FY09/12 Par.	FY09/13 Par.	FY09/14 Par.
Total SG&A	1,033	1,197	1,329	1,641	1,792	1,918	2,164	2,373
Advertising and promotion	183	268	270	335	311	372	410	512
Commission	67	62	84	89	179	162	200	200
Allowance for doubtful accounts	0	5	-	-	1	4	6	3
Personnel	595	662	742	915	951	1,027	1,130	1,250
Rents	23	25	24	21	20	19	21	26
Depreciation	32	32	62	65	43	42	49	19
Other	132	143	147	216	287	292	348	363
SG&A-to-sales								
Total SG&A	19.6%	20.4%	21.4%	21.5%	22.9%	23.0%	24.3%	24.9%
Advertising and promotion	3.5%	4.6%	4.3%	4.4%	4.0%	4.4%	4.6%	5.4%
Commission	1.3%	1.1%	1.3%	1.2%	2.3%	1.9%	2.2%	2.1%
Allowance for doubtful accounts	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
Personnel	11.3%	11.3%	11.9%	12.0%	12.1%	12.3%	12.7%	13.1%
Rents	0.4%	0.4%	0.4%	0.3%	0.3%	0.2%	0.2%	0.3%
Depreciation	0.6%	0.5%	1.0%	0.8%	0.5%	0.5%	0.6%	0.2%
Other	2.5%	2.4%	2.4%	2.8%	3.7%	3.5%	3.9%	3.8%

Source: Company data

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

Personnel expenses include directors' compensation, salaries, bonuses, provision for bonuses, and welfare expenses.

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Fixed and variable costs

Variable costs/marginal profit ratio

Within CoGS, direct variable costs, which change with sales and the number of funerals, include product costs (28.5% of sales in the Funeral business), outsourcing costs (10.6%), ancillary funeral goods (0.8%), and public taxes and charges (1.0%)—totaling 40.9% in FY09/14. Other CoGS and SG&A expenses are mainly fixed or are indirect variable costs which change with the number of halls. Based on direct variable costs, the marginal profit ratio was 59.1%. The company charges an average of JPY1.2mn per funeral, so marginal profit per funeral was JPY680,000.

Fixed costs

Fixed costs are personnel costs included in CoGS, funeral hall consumables, rent, utilities, management and maintenance expenses, depreciation, and “other,” as well as expenses that change with the number of funeral halls and SG&A expenses. In FY09/14, fixed costs included in CoGS were JPY2.4bn. Divided by the average number of directly managed funeral halls at the start and end of the financial year, fixed costs per funeral hall were JPY63mn.

As flagged, the main components of SG&A expenses are personnel expenses in the management division and personnel in the Funeral segment (excluding those employed by the funeral halls). While movements in sales do not directly affect it, the company is increasing personnel numbers as well as advertising spending. SG&A expenses are thus on a rising trend both in absolute amount and as a share of sales.

Hall breakeven

Marginal profit per funeral is JPY680,000 and fixed expenses per hall are JPY63mn, so breakeven per hall is sales of JPY107mn ($\text{JPY63mn} \div 59.1\%$), or 93 funerals per year. In this case, standard format funeral hall facilities are at full capacity with 300 funerals per year, so if they hit a 32% operating rate they breakeven at the gross profit level.

By dividing SG&A expenses in FY09/14 by the average number of funeral halls at the start and end of the financial year, SG&A expenses per hall come out at JPY63mn. Therefore, if each funeral hall bears an appropriate share of SG&A expenses, the breakeven point is sales of JPY213mn ($\text{JPY126mn} \div 59.1\%$), or 186 funerals per year. In this case, a 62% operating rate will make a standard format funeral hall facility break even at the operating profit level.

View the [full report](#).

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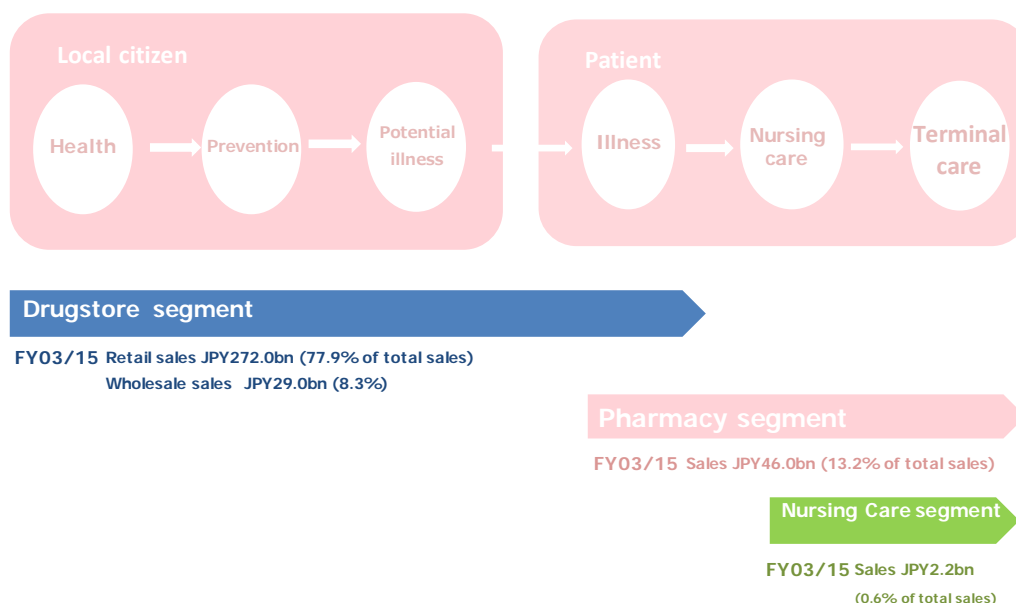
Cocokara Fine, Inc. (3098)

Operator of drugstores that sell pharmaceuticals, cosmetics, and daily essentials (non-prescription), as well as of dispensing pharmacies (prescription), with nationwide store network. Also has a foothold in nursing and home-visit nursing care.

Drugstore and prescription dispensing backed by nationwide store network

The company has two principal businesses: the operation of stores that sell pharmaceuticals, cosmetics, daily essentials and other items, and the management of dispensing pharmacies. The drugstore industry is competitive (501 companies at end FY 2013), but Cocokara Fine is one of only a few with a store network covering most of Japan. (According to the company, it ranked second in number of stores as of end March 2015, at 1,341 stores). The company also operates stores in all but six of Japan's 47 prefectures (as of end March 2015). Another distinguishing characteristic is the large scale of its Pharmacy (dispensing prescription drugs) segment. (According to the company, it ranks second in the drugstore industry for dispensing fees, and first in the number of stores that handle more than 1,000 prescriptions per month.) Because its nationwide development has resulted in weak per-store sales, on a sales basis the company is seventh in the drugstore industry (according to the company). Around 70–80% of its customers are women, notably housewives and businesswomen.

Although Drugstore and Pharmacy is its core segment, the company also has a Nursing Care segment offering home-visit nursing care as part of a broad range of community-focused healthcare services. It plans to meet changing needs through its service-oriented strategy. It goes beyond simple retail sales to provide total health support services to communities (its customers).



Source: Company data

It positions service orientation (see the Management strategy section) as a competitive strategy, which it will

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pursue to differentiate itself. Specifically, the company is focusing on a presentation-style service, in which it offers customers counseling and provides information regarding health and beauty care. By offering convenience and increasing satisfaction, it aims to forge long-term relationships with its customers, ensure their loyalty, and encourage ongoing purchases.

Drugstores

According to the Ministry of International Affairs and Communications' standard Japanese industry classifications, a drugstore is "a place of business conducting retail sales of health and beauty products, centered on pharmaceuticals and cosmetics, as well as household items, processed foods and other convenience products in a self-service format." Drugstores must meet four criteria, including (1) having a self-service format (50% or more of all stores), (2) handling pharmaceuticals, cosmetics, hygiene products and daily-use items, (3) sales of pharmaceuticals/cosmetics accounting for 30% or more of total sales, and (4) handling five or more product categories, including pharmaceuticals and cosmetics.

Drugstores typically focus on health and beauty care, and offer a lineup of daily items, processed foods and such. They tend to be conveniently located and feature one-stop shopping, highlighting access and ease of finding products. Under Japan's Pharmaceutical Affairs Law, a license is needed to operate a drugstore, either as a pharmacy (if also dispensing prescription drugs) or as a retailer.

Dispensing pharmacies

Also according to the Ministry of International Affairs and Communications' Japanese standard industry classifications, a dispensing pharmacy is primarily for the dispensing and sales of pharmaceuticals based on a physician's prescription. Businesses whose economic activity comprises the sale of pharmaceuticals are classified as "retailers."

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Store count of Cocokara Fine's three main stores pre-merger

Cocokara Fine current store count

Seijo: March 2008

Total: 271

Hokkaido										0
Aomori										0
Akita										0
Iwate										0
Ishikawa										0
Niigata										0
Yamagata										0
Miyagi										0
Yamaguchi										0
Shimane										0
Tottori										0
Hyogo										0
Kyoto										0
Fukui										0
Toyama										0
Gunma										0
Tochigi										1
Fukushima										0
Nagasaki										0
Saga										0
Fukuoka										0
Kumamoto										0
Oita										0
Kagoshima										0
Miyazaki										0
Hiroshima										0
Okayama										0
Ehime										0
Kagawa										0
Kochi										0
Tokushima										0
Osaka										0
Shiga										0
Gifu										0
Nagano										1
Saitama										38
Ibaraki										1
Nara										0
Aichi										1
Yamanashi										3
Tokyo										151
Chiba										4
Mie										0
Shizuoka										27
Kanagawa										44
Okinawa										0

+

Segami Medics: March 2008

Total: 355

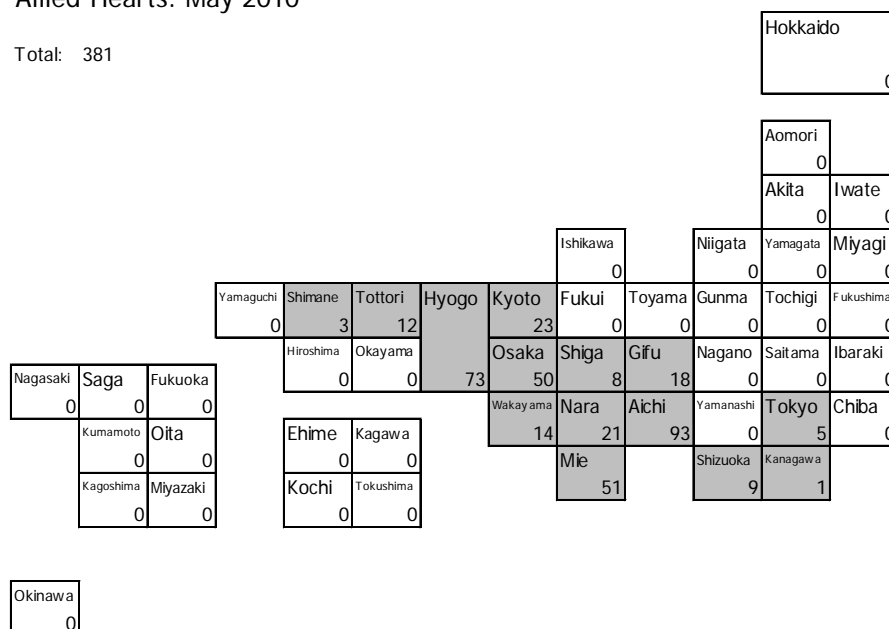
Hokkaido										0
Aomori										0
Akita										0
Iwate										0
Ishikawa										0
Niigata										0
Yamagata										0
Miyagi										0
Yamaguchi										22
Shimane										0
Tottori										0
Hyogo										20
Kyoto										7
Fukui										0
Toyama										0
Gunma										0
Tochigi										0
Fukushima										0
Nagasaki										20
Saga										3
Fukuoka										58
Kumamoto										8
Oita										4
Kagoshima										0
Miyazaki										0
Hiroshima										17
Okayama										15
Ehime										3
Kagawa										7
Kochi										1
Tokushima										8
Osaka										71
Shiga										3
Gifu										2
Nagano										0
Saitama										12
Ibaraki										0
Nara										0
Aichi										15
Yamanashi										5
Tokyo										28
Chiba										15
Mie										0
Shizuoka										0
Kanagawa										9
Okinawa										1

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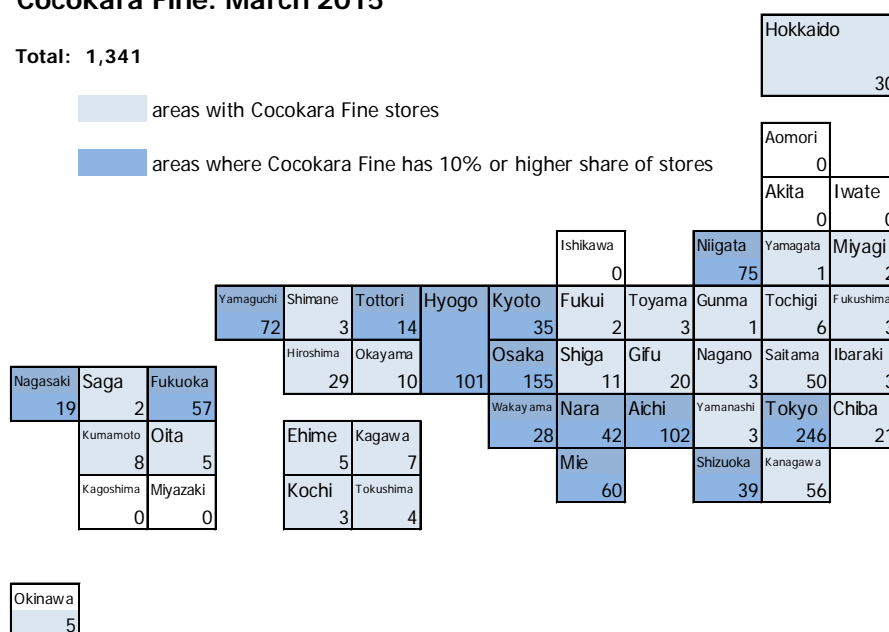
Allied Hearts: May 2010

Total: 381



Cocokara Fine: March 2015

Total: 1,341



Source: Company data; respective company data

In April 2008, Seijo Co., Ltd. and Segami Medics Co., Ltd., both mid-sized drugstore operators in the Kanto

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region, underwent a management merger and established the company through the transfer of shares. Thereafter, the company merged with and made into subsidiaries Allied Hearts Holdings Co., Ltd. (October 2010), Suzuran Co., Ltd. (October 2011), Kodama Co., Ltd. (November 2012), Iwasakikoukendou Co., Ltd. (November 2013). Rather than the case of a single, overwhelmingly powerful company swallowing up others, it has grown through mergers with other companies operating on the same scale. This approach is distinctive because it has allowed the company to benefit from the expertise of each of its constituents.

In the mainstay Drugstore business, Cocokara Fine's network covers most of Japan. The reason is that it has built its business through nationwide mergers with drugstore groups particularly strong in specific regions—by amalgamating Seijo (Kanto), Segami (Kansai-focused), Zip Drug (Tokai), Lifort (Hyogo), Suzuran (Hokkaido), KODAMA (Shinetsu), and the Kusuri Iwasaki chain (Yamaguchi). In April 2013, the company integrated six sales subsidiaries in order to focus the sales functions of its core Drugstore and Pharmacy segment. The company divides its store network into four clusters to optimize merchandising in each market area.

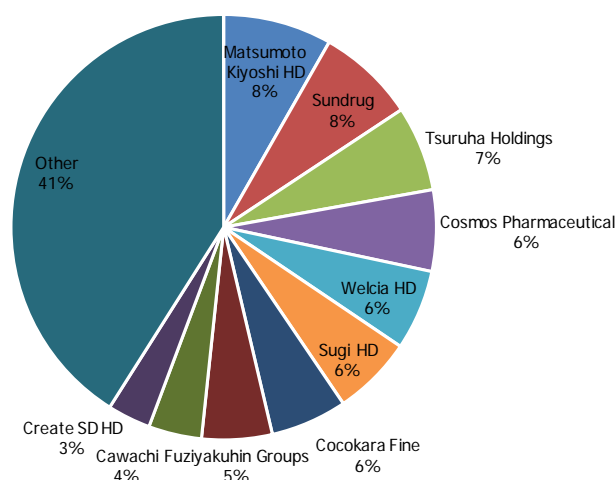
Like one of its predecessors, Segami Medics, since the beginning operations in its Pharmacy segment the company has made a policy of making sure this business is competitive with specialty pharmacy chains, maintaining its focus on dispensing prescriptions.

Competitive position in the drugstore/ prescription industries

In the drugstore industry, competitors include Matsumoto Kiyoshi Holdings Co., Ltd. (TSE1: 3088), Sundrug Co., Ltd. (TSE1: 9989), Tsuruha Holdings, Inc. (TSE1: 3391), Cosmos Pharmaceutical Corporation (TSE1: 3349), Sugi Holdings Co., Ltd. (TSE1: 7649) and Welcia Holdings Co., Ltd. (TSE1: 3141).

Chains specializing in prescriptions include Ain Pharmaciez Inc. (TSE1: 9627), Sogo Medical Co., Ltd. (TSE1: 4775), Nihon Chouzai Co., Ltd. (TSE1: 3341), Qol Co., Ltd. (TSE1: 3034), Medical System Network Co., Ltd. (TSE1: 4350), Pharmarise Holdings Corporation (TSE1: 2796) and Aisei Pharmacy Co., Ltd. (TSE1: 3170).

Listed drugstores' market share (top ten companies of FY 2013)



Source: Company data, Japan drugstore industry statistics

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Drugstore rankings (FY2013)

Store count			Dispensing fee (drugstore industry)			Dispensing fee (including specialty chains)		
Rank	Company name	Store count	Rank	Company name	JPYbn	Rank	Company name	JPYbn
1	Matsumoto Kiyoshi HD	1,486	1	Sugi HD	49.9	1	Ain Pharmaciez	148.3
2	Cocokara Fine	1,352	2	Cocokara Fine	44.2	2	Nihon Chouzai	143.6
3	Tsuruha HD	1,312	3	Tsuruha HD	37.3	3	Kraft	118.7
4	Sundrug	937	4	Welcia HD	36.4	4	Kyousoumirai Group	85.6
5	Sugi HD	915	5	Matsumoto Kiyoshi HD	30.3	5	Qol	80.8
6	Welcia HD	874	6	CFS Corporation	16.8	6	Sogo Medical	71
7	Cosmos Pharmaceutical	577	7	Tomod's	16.2	7	Pharma HD	59.5
8	Create SD HD	444	8	Kokumin	12.6	8	Sugi HD	49.9
9	Kirindo	327	9	Kusuri no Aoki	11.9	9	Aisei	46.7
10	CFS Corporation	308	10	Sugiyama drugs	11.5	10	Cocokara Fine	44.2

Source: Company data

Cocokara Fine industry position (2013)

Sixth (by sales) in the drugstore industry, third–seventh place frequently switch

First: Matsumoto Kiyoshi (JPY495.3bn)

Second: Sundrug (JPY447.8bn)

Second in the drugstore industry, by store count

First: Matsumoto Kiyoshi (1,486 stores)

Second: Cocokara Fine (1,352 stores)

Second among pharmacies within drugstores (first and second change position frequently)

First: Sugi (JPY49.9bn)

Second: Cocokara Fine (JPY44.2bn)

Tenth in dispensing fees (including specialized dispensing prescription chains); announced a business tie-up with fifth-ranked Qol Co., Ltd. in July 2014

Business segments

Its business segments are divided into two segments: Drugstore and Pharmacy, and Nursing Care Services. In FY03/15, Drugstore and Pharmacy generated sales of JPY347.0bn (99.4% of total sales), and Nursing Care Services delivered JPY2.2bn (0.6%). The company's Drugstore and Pharmacy segment divides further into three categories: non-prescription retail, prescription dispensing operations, and wholesale operations. Sales in non-prescription retail were JPY272.0bn (77.9%), in prescription dispensing JPY46.0bn (13.2%) and in wholesale operations JPY29.0bn (8.3%).

By segment, operating profit in FY03/15 for the Drugstore and Pharmacy segment was JPY4.4bn (down 42.0% YoY, 100.9% of the total), and Nursing Care Services had an operating loss of JPY39mn.

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Earnings by segment (JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14 Old segments	FY03/14 New segments	FY03/15
Total sales	190,957	256,681	321,954	335,886	349,337	394,337	349,164
Drugstore and Pharmacy	189,972	255,504	320,672	334,151	347,441	347,441	346,962
Drugstore and Pharmacy (old segmentation)	164,580	222,848	282,755	299,994	318,091	na	na
Wholesale	25,392	32,656	37,917	34,157	29,350	na	na
Nursing Care	984	1,175	1,281	1,734	1,895	1,895	2,202
Total segment profit	4,904	7,912	10,138	11,798	9,622	7,390	4,351
Drugstore and Pharmacy	5,025	8,056	10,257	11,946	9,799	7,574	4,391
Drugstore and Pharmacy (old segmentation)	4,764	7,742	9,831	11,548	9,478	na	na
Wholesale	261	314	426	398	321	na	na
Nursing Care	-121	-143	-119	-148	-178	-183	-39
Adjustments	-1,510	-1,537	-1,558	-1,767	-2,231	-	-
Eliminations	-	-	-	12	48	48	18
Consolidated operating profit	3,394	6,375	8,579	10,043	7,438	7,438	4,369
Total segment assets	66,668	115,903	121,333	131,677	136,431	136,431	132,502
Drugstore and Pharmacy	65,799	115,079	120,207	128,646	134,145	134,145	130,264
Drugstore and Pharmacy (old segmentation)	61,766	108,753	113,475	123,922	129,478	na	na
Wholesale	4,033	6,326	6,732	4,724	4,667	na	na
Nursing Care	868	823	1,124	3,030	2,285	2,285	2,238
Total assets	13,010	5,457	19,582	18,575	2,878	2,878	3,109
Eliminations	-	-	-	-674	-4	-4	-2
Total consolidated assets	79,679	121,361	140,915	149,578	139,305	139,305	135,610
Segment profit margins	2.6%	3.1%	3.1%	3.5%	2.8%	1.9%	1.2%
Drugstore and Pharmacy	2.6%	3.1%	3.1%	3.5%	2.8%	1.9%	1.2%
Drugstore and Pharmacy (old segmentation)	2.9%	3.5%	3.5%	3.8%	3.0%	na	na
Wholesale	1.0%	1.0%	1.1%	1.2%	1.1%	na	na
Nursing Care	nm	nm	nm	nm	nm	nm	nm
Segment return on assets	7.4%	6.8%	8.4%	9.0%	7.1%	5.4%	3.3%
Drugstore and Pharmacy	7.6%	7.0%	8.5%	9.3%	7.3%	5.6%	3.4%
Drugstore and Pharmacy (old segmentation)	7.7%	7.1%	8.7%	9.3%	7.3%	na	na
Wholesale	6.5%	5.0%	6.3%	8.4%	6.9%	na	na
Nursing Care	nm	nm	nm	nm	nm	nm	nm

Note: Segment asset turnover is calculated by dividing segment profit by segment assets.
Source: Company data

Drugstore and Pharmacy segment

FY03/15 sales by product in drugstore retail operations (including prescription)

Pharmaceuticals (total of OTC pharmaceuticals and prescription): JPY100.6bn (31.6% of retail sales, +1.3% YoY)

Cosmetics: JPY46.0bn (28.8%, -4.0%)

Health foods: JPY10.3bn (3.2%, +1.9%)

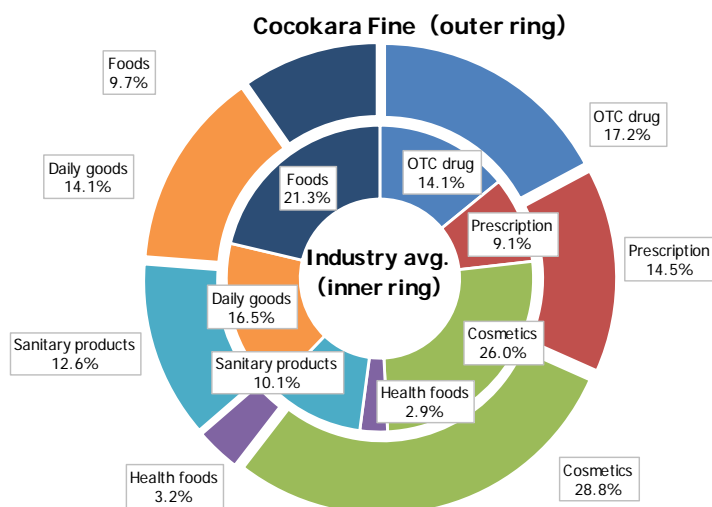
Sanitary products: JPY44.8bn (12.6%, -0.3%)

Daily essentials: JPY44.8bn (14.1%, -0.2%)

Foods: JPY30.9bn (9.7%, +8.3%)

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Share of sales by product category



Note: The industry average and Cocokara Fine's product categories are not necessarily the same. Cosmetics in the industry include beauty care and healthcare products in addition to cosmetics. Sanitary products in the industry include products for nursing care, babies, and households.

Source: Company data, drugstore management statistics

Breakdown of FY03/15 gross profit margin

Pharmaceuticals: 38.5%

Health foods: 34.1%

Cosmetics: 26.4%

Sanitary products: 26.4%

Daily essentials: 17.9%

Foods: 10.9%

Looking at drugstore retail operations (including prescription) chronologically, sales grew steadily (15.0% annual growth) from JPY158.2bn in FY03/09 to JPY318.1bn in FY03/14, mainly due to an increase in the number of stores. Over the same period, the number of stores grew 16.1% annually, from 640 to 1,352. However, these sales dipped in FY03/15, to JPY318.0bn. At end FY03/15, the number of stores was down by 11 YoY, to 1,341, due to a scrap-and-build strategy. See the following table for sales by store from FY03/09–FY03/15.

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Cocokara Fine sales productivity

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15
Consolidated sales (JPYmn)	170,116	190,957	256,681	321,954	335,886	349,337	349,164
Drugstore and Pharmacy segment sales* (JPYmn)	158,183	164,580	222,848	282,755	299,994	318,091	317,969
Average sales floor area (mid-year, sqm)	205,453	213,233	316,357	425,480	466,452	528,744	554,704
Sales floor area (year-end, sqm)	210,757	215,709	417,004	433,957	498,947	558,540	550,867
Sales per sqm (JPY'000)	769.9	771.8	704.4	664.6	642.4	600.4	629.5
Employees (average)	5,121	5,438	7,135	8,827	9,700	10,995	na
Sales per employee (JPY'000)	33,219	35,115	35,975	36,474	34,627	31,772	na
Store count	640	661	1,084	1,130	1,261	1,352	1,341
Sales per store (JPYmn)	247.2	249.0	205.6	250.2	237.9	235.3	237.1
GPM (%)	27.3%	24.8%	24.8%	24.7%	25.8%	25.9%	25.4%
Inventory turnover (times)	6.0	7.0	7.2	6.9	6.5	6.2	5.8
Gross profit to inventory ratio(%)	162.2%	173.5%	177.2%	171.4%	167.6%	161.4%	147.7%

Note: Employees include parttime and temporary workers (eight hours/day)

*Excluding online sales

Source: Company data

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Sales and GPM by product category

Cocokara Fine							
	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15
Sales (JPYmn)							
Medical products	50,927	52,160	69,663	87,895	92,979	99,255	100,555
OTC	33,521	32,811	42,652	51,509	53,307	54,994	54,587
Prescription	17,406	19,319	27,011	36,386	39,671	44,261	45,967
Cosmetics	51,620	52,114	65,550	85,744	89,812	95,275	91,492
Health food	7,300	7,478	9,259	9,522	9,940	10,075	10,262
Sanitary products	na	na	na	34,344	37,309	40,054	39,941
Daily goods	26,908	28,616	42,038	39,773	42,334	44,873	44,786
Food	na	na	na	na	27,616	28,560	30,931
Total of retail	21,425	24,211	36,335	25,477	-	-	-
Wholesale	158,183	164,580	222,848	282,755	299,994	318,091	317,969
Total Drugstore, Pharmacy segments	na	na	na	na	34,157	29,350	28,993
Nursing Care segment	158,183	164,580	222,848	282,755	334,151	347,441	346,962
Total	11,932	26,377	33,832	39,199	1,734	1,895	2,202
Other products	170,116	190,957	256,681	321,954	335,886	349,337	349,164
% of retail							
Medical products	32.2%	31.7%	31.3%	31.1%	31.0%	31.2%	31.6%
OTC	21.2%	19.9%	19.1%	18.2%	17.8%	17.3%	17.2%
Prescription	11.0%	11.7%	12.1%	12.9%	13.2%	13.9%	14.5%
Cosmetics	32.6%	31.7%	30.3%	30.3%	29.9%	30.0%	28.8%
Health food	4.6%	4.5%	4.2%	3.4%	3.3%	3.2%	3.2%
Sanitary products	na	na	na	12.1%	12.4%	12.6%	12.6%
Daily goods	17.0%	17.4%	18.9%	14.1%	14.1%	14.1%	14.1%
Food	na	na	na	na	9.2%	9.0%	9.7%
Total of retail	13.5%	14.7%	16.3%	9.0%	-	-	-
Wholesale	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Drugstore, Pharmacy segments	-	-	-	-	-	-	-
Nursing Care segment	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-
Other products	-	-	-	-	-	-	-
YoY (%)							
Medical products	na	2.4%	33.6%	26.2%	5.8%	6.7%	1.3%
OTC	na	-2.1%	30.0%	20.8%	3.5%	3.2%	-0.7%
Prescription	na	11.0%	39.8%	34.7%	9.0%	11.6%	3.9%
Cosmetics	na	1.0%	25.8%	30.8%	4.7%	6.1%	-4.0%
Health food	na	2.4%	23.8%	2.8%	4.4%	1.4%	1.9%
Sanitary products	na	na	na	na	8.6%	7.4%	-0.3%
Daily goods	na	6.3%	46.9%	-5.4%	6.4%	6.0%	-0.2%
Food	na	na	na	na	na	3.4%	8.3%
Total of retail	na	13.0%	50.1%	-29.9%	-	-	-
Wholesale	na	4.0%	35.4%	26.9%	6.1%	6.0%	0.0%
Total Drugstore, Pharmacy segments	na	na	na	na	-	-	-1.2%
Nursing Care segment	na	4.0%	35.4%	26.9%	18.2%	4.0%	-0.1%
Total	na	121.1%	28.3%	15.9%	-95.6%	9.3%	16.2%
Other products	na	12.3%	34.4%	25.4%	4.3%	4.0%	0.0%
Gross profit margin (%)							
Medical products	38.5%	37.5%	37.5%	38.1%	39.2%	38.6%	38.5%
OTC	39.0%	37.5%	37.6%	38.8%	40.7%	39.3%	38.4%
Prescription	37.8%	37.6%	37.4%	37.1%	37.3%	37.6%	38.5%
Cosmetics	28.3%	28.0%	26.1%	26.6%	27.0%	27.2%	26.4%
Health food	27.0%	26.9%	30.4%	34.4%	34.6%	35.0%	34.1%
Sanitary products	0.0%	0.0%	0.0%	25.8%	26.8%	26.5%	26.4%
Daily goods	21.9%	21.5%	21.0%	18.7%	19.2%	18.8%	17.9%
Food	0.0%	0.0%	0.0%	0.0%	12.7%	11.6%	10.9%
Total of retail	18.1%	18.6%	22.5%	12.4%	-	-	-
Wholesale	29.1%	28.5%	28.3%	27.9%	28.6%	28.3%	27.8%
Total Drugstore, Pharmacy segments	na	na	na	na	1.5%	1.0%	0.9%
Nursing Care segment	0.0%	0.0%	0.0%	0.0%	25.8%	26.0%	25.5%
Total	0.0%	0.0%	0.0%	0.0%	10.0%	7.2%	11.3%
Other products	27.3%	24.8%	24.8%	24.7%	25.8%	25.9%	25.4%

Note: Prior to FY03/12, the Nursing Care segment included wholesales (not in the Drugstore/Pharmacy segments).

Source: Company data

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2012 Statistics				Drugstore industry					Cocokara Fine store count		
	Population ①	Population over 65 ②	Aging rate ②/①	Store count	Population per store	Annual sales per store (JPYmn)	Annual sales per employee (JPYmn)	Amount sold per sqm (JPY'000)	End FY03/12 (share) (%)	End FY03/15	End FY03/15
All Japan	128,373,879	30,968,259	24.1%	14,326	8,961	254.4	22.2	588.8	1,130	7.9%	1,341
Hokkaido	5,465,451	1,431,915	26.2%	635	8,607	249.4	23.0	506.7	24	3.8%	30
Aomori	1,372,010	369,774	27.0%	99	13,859	174.5	19.7	310.1	0	0.0%	0
Iwate	1,314,180	367,325	28.0%	159	8,265	287.1	23.0	419.3	0	0.0%	0
Miyagi	2,318,692	538,321	23.2%	279	8,311	268.0	22.2	437.2	0	0.0%	2
Akita	1,076,205	329,912	30.7%	87	12,370	259.6	22.9	375.8	0	0.0%	0
Yamagata	1,155,942	327,564	28.3%	153	7,555	259.6	23.8	389.2	0	0.0%	1
Fukushima	1,980,259	513,560	25.9%	241	8,217	287.5	25.2	475.3	0	0.0%	3
Ibaraki	2,997,072	712,145	23.8%	352	8,514	366.7	20.8	501.2	1	0.3%	3
Tochigi	2,010,934	468,381	23.3%	212	9,486	397.6	31.0	578.2	6	2.8%	6
Gunma	2,023,382	501,715	24.8%	216	9,368	295.7	27.3	481.9	1	0.5%	1
Saitama	7,272,304	1,602,692	22.0%	788	9,229	296.9	17.7	627.8	46	5.8%	50
Chiba	6,240,455	1,425,541	22.8%	584	10,686	306.8	19.9	658.6	21	3.6%	21
Tokyo	13,142,640	2,783,083	21.2%	1,640	8,014	282.2	23.0	1,116.2	222	13.5%	246
Kanagawa	9,083,643	1,964,504	21.6%	987	9,203	324.0	25.6	873.4	58	5.9%	56
Niigata	2,361,133	644,314	27.3%	310	7,617	231.1	22.1	418.6	0	0.0%	75
Toyama	1,094,827	302,144	27.6%	179	6,116	216.0	16.4	348.6	0	0.0%	3
Ishikawa	1,163,089	293,433	25.2%	200	5,815	264.5	17.7	443.7	0	0.0%	0
Fukui	810,552	206,865	25.5%	119	6,811	341.2	24.9	423.1	0	0.0%	2
Yamanashi	863,917	221,829	25.7%	136	6,352	247.9	20.0	488.0	2	1.5%	3
Nagano	2,165,604	592,539	27.4%	267	8,111	246.9	22.9	503.3	2	0.7%	3
Gifu	2,102,879	530,401	25.2%	314	6,697	237.7	22.4	408.1	20	6.4%	20
Shizuoka	3,809,470	948,455	24.9%	382	9,972	356.3	26.3	582.4	38	9.9%	39
Aichi	7,462,800	1,610,922	21.6%	882	8,461	272.3	21.3	623.1	103	11.7%	102
Mie	1,871,619	471,658	25.2%	184	10,172	181.9	20.8	539.6	56	30.4%	60
Shiga	1,419,426	308,822	21.8%	129	11,003	294.4	19.7	525.4	10	7.8%	11
Kyoto	2,587,129	649,164	25.1%	315	8,213	213.8	22.4	599.0	33	10.5%	35
Osaka	8,873,698	2,089,869	23.6%	1,022	8,683	234.1	23.2	810.1	144	14.1%	155
Hyogo	5,660,302	1,364,171	24.1%	608	9,310	215.4	22.1	580.3	99	16.3%	101
Nara	1,405,453	359,044	25.5%	133	10,567	181.7	20.7	597.0	37	27.8%	42
Wakayama	1,016,563	284,089	27.9%	62	16,396	65.0	15.2	505.9	22	35.5%	28
Tottori	588,508	159,231	27.1%	45	13,078	249.8	25.4	447.8	13	28.9%	14
Shimane	713,134	213,829	30.0%	72	9,905	209.2	23.7	557.1	3	4.2%	3
Okayama	1,946,083	510,124	26.2%	222	8,766	208.0	20.7	441.2	13	5.9%	10
Hiroshima	2,873,603	722,034	25.1%	276	10,412	173.4	23.5	487.7	20	7.2%	29
Yamaguchi	1,447,499	423,087	29.2%	139	10,414	168.9	24.8	396.5	23	16.5%	72
Tokushima	785,001	217,889	27.8%	96	8,177	214.4	22.0	461.2	7	7.3%	4
Kagawa	1,010,707	269,430	26.7%	108	9,358	193.0	21.9	354.6	8	7.4%	7
Ehime	1,440,117	397,608	27.6%	178	8,091	231.3	24.1	446.5	4	2.2%	5
Kochi	755,994	226,337	29.9%	72	10,500	254.2	25.5	490.7	3	4.2%	3
Fukuoka	5,105,427	1,184,307	23.2%	486	10,505	188.9	21.0	579.4	55	11.3%	57
Saga	853,341	214,048	25.1%	87	9,809	79.5	16.2	434.8	2	2.3%	2
Nagasaki	1,427,133	383,689	26.9%	116	12,303	142.6	22.7	555.4	17	14.7%	19
Kumamoto	1,825,361	481,665	26.4%	195	9,361	107.5	18.4	424.6	8	4.1%	8
Oita	1,199,401	330,863	27.6%	97	12,365	122.7	19.8	401.6	5	5.2%	5
Miyazaki	1,141,559	304,776	26.7%	98	11,649	88.8	17.9	308.3	0	0.0%	0
Kagoshima	1,701,387	460,642	27.1%	207	8,219	141.0	20.0	465.4	0	0.0%	0
Okinawa	1,437,994	253,898	17.7%	158	9,101	133.2	20.7	615.5	4	2.5%	5

Source: “2012 demographic survey,” Ministry of Health, Labour and Welfare; “2012 Economic Census,” Ministry of Economy, Trade and Industry; company materials

By referring to the number of drugstores by prefecture as listed in the Ministry of Economy, Trade and Industry’s 2012 Economic Census for Business Activity against the company’s number of stores as of March 31, 2012, we calculated the following.

Market share by store count

30% or more: Mie, Wakayama

20–30%: Niigata (stores at end FY03/15), Nara, Tottori

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10–20%: Shizuoka, Kyoto, Fukuoka, Aichi, Tokyo, Osaka, Nagasaki, Hyogo, Yamaguchi

Based on drugstore industry analysis tables by prefecture, we conclude the following:

The company's share of stores is 10% or more in the major prefectures of Tokyo, Osaka, and Aichi. (As the data Shared Research used for the analysis is from the 2012 Economic Census data, the range differs slightly from the company's figures, described below, in several prefectures.)

The company is strong in major metropolitan centers where the per-store population is low (market areas are narrow).

The company is weaker in Hokkaido, Tohoku, Kanto outside the major urban areas, San'in and south-central Kyushu.

The company is weaker in regions with a high percentage of the population aged 65 or older.

The company analyzes its own store network as follows (with newer data than Shared Research's data from the Economic Census):

Its store network is nationwide, ranging from Hokkaido in the north to Kyushu and Okinawa in the south, rare in the drugstore industry.

The number of stores is 1,341, ranking it second in the drugstore industry.

It ranks second in dispensing fees.

Numerous stores in major urban areas: its share of stores in Tokyo is second. It ranks second in Osaka and third in Nagoya.

Regions where Cocokara Fine has strong presence

End of July 2014	Store count		Sales floor	
	Share	Rank	Share	Rank
Yamaguchi	46%	1	33%	1
Wakayama	36%	1	26%	2
Mie	32%	1	29%	2
Nara	30%	1	28%	1
Tottori	29%	2	23%	2
Niigata	25%	1	17%	3
Osaka	19%	2	15%	3
Hyogo	18%	2	14%	2
Nagasaki	14%	4	14%	4
Kyoto	13%	3	10%	4
Aichi	12%	3	11%	3
Tokyo	11%	2	11%	2
Shizuoka	9%	5	6%	4
Fukuoka	9%	5	6%	6
Hiroshima	9%	9	7%	5

Note: 1H includes Iwasaki Kendo.

Source: Company data, SR inc. research

Drugstores typically attract customers with low-priced foods and daily essentials (tissues, detergent, etc.), leading them to buy higher priced, profitable products like pharmaceuticals, health foods, and cosmetics, thereby boosting overall profitability.

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Standard formats by cluster

The company classifies its shops into four types: urban drugstores, drugstores in shopping streets, drugstores in residential areas, and community drugstores. The company optimizes its standard formats for each cluster by opening new stores and closing others.

Urban drugstores: 154 at end FY03/14; 152 at end FY03/15 (11.3% of total)

The company positions its urban drugstores, a small percentage of total stores, as information providers.

These stores target younger customers (20s–40s) commuting to school or work and with limited shopping time. Their main target is businesswomen who spend a big chunk of their income on high-priced cosmetics and beauty products.

Customers tend to spend higher amounts per item at urban drugstores than in other clusters (on average, JPY500 or more). Conversely, they tend to buy fewer items (two or three, on average), and fewer of these customers (about half) have a "Cocokara club card" (explained later). This cluster accounts for the highest percentage of cosmetics sales.

	Urban	Commercial	Residential	Suburban
End FY03/15 store count (comp.)	152 (11.3%)	353 (26.3%)	429 (32.7%)	217 (16.2%)
Floor area (sqm)		Small About 165-264	Medium About 330-660	Large About 660 and over
Business area Radius		Minimum 500sqm	Small 1Km	Wide 2Km
Product composition (● : specialty, ▲ : focus area)	Medicine 21% Health food 4% Sanitary products 10% Cosmetics 50% ● Daily goods 9% ▲ Food 6% ▲	Medicine 22% ● Health food 4% Sanitary products 14% Cosmetics 35% ● Daily goods 19% Food 6% ▲	Medicine 19% Health food 4% Sanitary products 16% ● Cosmetics 31% Daily goods 20% ● Food 10%	Medicine 17% Health food 3% Sanitary products 14% Cosmetics 25% ▲ Daily goods 19% Food 23% ●
Customer base	Businesspeople, students	Homemakers, businesswomen, seniors	Homemakers, families, seniors	Homemakers, families, seniors
Age	20s-40s	30s-40s Under 50	30s-60s	30s-40s Under 50-60
Regular customers	Businesswomen who want some luxury •Cosmetics share of sales: high •Shopping for oneself	Homemakers who want to save time and more convenience •Desired products available as needed •Solution to problems of each season	Homemakers who buy for families •Shopping finished quickly	Customers with cars •Weekdays: shopping for the family •Weekends: shopping with the family
Employee ratio	Low about 50%	about 60%	about 70%	High about 80%
Price per product (Avg.)	High JPY500 + α	Mid-JPY 400	Less than JPY400	Low JPY300 and above
Items purchased (Avg.)	Low About 2.5	Less than 3	About 4	High 5 and up
Store image	Informative	Quick, specialty store	Specialty store providing solutions, close and convenient	One-stop shopping store for living necessities
Mainstay products	•Beauty products (Skincare, makeup) •Fun trendy space	•Necessities •Seasonal goods •Enhancement of health and beauty care	•Daily goods (kitchen, clothing) •Food (bread, milk) •Specializing in and providing health and beauty care	•All food (inc. planned products) •Daily goods (inc. household, clothing) •Product lineup for one-stop shopping •Expand food
Details	•Early incorporation of seasonal and new products •Space to test out products	•Community-based promotions •Attract passing customers	•Enhanced functions (an assortment of products needed every day), product lineup of food with specific functions •Easy-to-find products	•A range of seasonal household goods and clothing •Zoning to guide customers to the back of stores

Source: Company data

In its urban drugstores, it concentrates on staying at the forefront of trends through early offerings of seasonal and new products. The strongest product category for these stores is beauty products such as skin care and make-up.

Drugstores in shopping streets: 359 at end FY03/14; 353 at end FY03/15 (26.3% of total)

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The company's image for stores in this cluster is quick and specialized. The target customer base centers on people in their 30s–40s and includes homemakers, businesswomen, and seniors. These stores target customers who are focused on quick and convenient shopping. Homemakers are the principal customer group within this target category, and this cluster seeks to offer the products they want in the quantities they need, and to alleviate the difficulties of seasonal shopping. These stores characteristically serve a small market area, with a 500sqm radius. Areas are also small to encourage seniors to walk in to shop. Selling areas are around 165–265sqm.

With regard to customer purchasing characteristics, these stores rank second behind urban drugstores in unit price per item, at around JPY400. They are also next-lowest from urban stores in number of items purchased (average of less than three) and card membership ratio (mid-60%). They rank top in percentage purchases of pharmaceuticals (22%).

The company is working to expand its health and beauty care offerings and encourage sales of seasonal products. The company conducts community-focused sales promotions, configures the stores to encourage pass-by trade and provides compact selling areas. Mainstay product categories are everyday and seasonal products.

Drugstores in residential areas: 446 at end FY03/14; 439 at end FY03/15 (32.7% of total)

The company's model for drugstores in residential areas is one of lifestyle specialty stores. This cluster accounts for the company's highest percentage of stores. Drugstores in residential areas target a broad customer base: homemakers in their 30s–60s, families, and seniors. Within this group, the main target is homemakers shopping for their families, who typically want to finish shopping quickly. Accordingly, these shops concentrate on addressing the issues homemakers face, and on being nearby and convenient. Their target market area is within a radius of 1km. Selling areas are 330–660sqm, and the stores typically have 15–20 parking places.

As to purchasing characteristics, customers at drugstores in residential areas are behind community drugstores in unit price per product (less than JPY400). They are next-highest in items purchased (around four) and membership percentage (mid-70%). Sanitary products and daily items constitute a high percentage of sales.

The forte of these stores lies in their lineup of everyday products. In addition to expanding health and beauty items, at drugstores in residential areas the company aims to lift sales of household items. It is focusing on everyday goods (kitchen items, clothing detergent) and foods (bread, milk).

Community drugstores: 220 at end FY03/14; 217 at end FY03/15 (16.2% of the total)

Community drugstores aim to be one-stop shops to meet customers' lifestyle product needs. Their target customer base centers on people in their 30s and 40s who drive to the stores, and includes homemakers, families, and seniors. Shopping for family items tends to be focused on weekdays, with weekend and holiday shopping targeting families who shop together. These stores have a broad market area, within a radius of 2km. Selling areas are large, at 660sqm or more. These shops have around 50 parking spaces.

For community drugstores, purchasing characteristics tend toward low unit prices (over JPY300), but a high



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number of items purchased (five more, on average), and a high percentage of card membership (around 80%). Food sales make up a high percentage of the total.

In addition to foods (delivered daily), the company is augmenting these stores' household product lineups such as seasonal household items and clothing to increase focus on one-stop shopping. Community drugstores are zoned to draw customers into the store interior. Principal product categories are general food products (including non-essentials) and everyday goods (including cleaning items and clothing).

The company has adopted this cluster-specific approach to optimize merchandizing. According to the company, while GPM is highest at urban clusters, followed by commercial, residential, and suburban clusters, the SG&A-to sales ratio also follows that order, meaning OPM does not differ significantly between clusters. As of June, 2015, large urban clusters did especially well, due in part to inbound tourism.

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Store composition: End FY03/15		Urban		Commercial		Residential		Suburban		Specialty pharmaceutical		Iwasakikoukendou	
	Total	Comp.		Comp.		Comp.		Comp.		Comp.		Comp.	
Whole Country	1,341	152	11.3%	353	26.3%	439	32.7%	217	16.2%	122	9.1%	58	4.3%
Hokkaido	30	4	13.3%	6	20.0%	5	16.7%	1	3.3%	14	46.7%		
Aomori													
Iwate													
Miyagi	2					1	50.0%	1	50.0%				
Akita	0												
Yamagata	1							1	100.0%				
Fukushima	3							1	33.3%				
Hokkaido/Tohoku	36	4	11.1%	6	16.7%	8	22.2%	4	11.1%	14	38.9%		
Tokyo	246	48	19.5%	149	60.6%	15	6.1%	2	0.8%	32	13.0%		
Kanagawa	56	9	16.1%	29	51.8%	15	26.8%	3	5.4%	0			
Saitama	50	4	8.0%	15	30.0%	17	34.0%	11	22.0%	3	6.0%		
Chiba	21	5	23.8%	9	42.9%	4	19.0%	1	4.8%	2	9.5%		
Ibaraki	3	0	0	1	33.3%	1	33.3%	1	33.3%				
Tochigi	6	0	0	1	16.7%	4	66.7%	1	16.7%				
Gunma	1	0	0	0	0.0%	1	100.0%	0	0				
Yamagata	3	0	0	1	33.3%	2	66.7%	0	0				
Niigata	75	3	4.0%	13	17.3%	43	57.3%	15	20.0%	1	1.3%		
Nagano	3	0	0	0	0	2	66.7%	1	33.3%	0			
Kanto/Koshinetsu	464	69	14.9%	218	47.0%	104	22.4%	35	7.5%	38	8.2%		
Gifu	20	1	5.0%	2	10.0%	6	30.0%	9	45.0%	2	10.0%		
Aichi	102	3	2.9%	4	3.9%	40	39.2%	37	36.3%	18	17.6%		
Shizuoka	39			2	5.1%	10	25.6%	27	69.2%	0	0.0%		
Mie	60					43	71.7%	13	21.7%	4	6.7%		
Toyama	3					0	0	3	100.0%				
Fukui	2					1	50.0%	1	50.0%				
Ishikawa	0												
Tokai/Hokuriku	226	4	1.8%	8	3.5%	100	44.2%	90	39.8%	24	10.6%		
Osaka	155	19	12.3%	38	24.5%	72	46.5%	5	3.2%	21	13.5%		
Kyoto	35	7	20.0%	7	20.0%	17	48.6%	3	8.6%	1	2.9%		
Hyogo	101	11	10.9%	20	19.8%	52	51.5%	10	9.9%	8	7.9%		
Nara	42	3	7.1%	9	21.4%	18	42.9%	10	23.8%	2	4.8%		
Shiga	11	2	18.2%	0	0	8	72.7%	1	9.1%	0	0.0%		
Wakayama	28	0	0	0	0	11	39.3%	17	60.7%	0	0.0%		
Kansai	372	42	11.3%	74	19.9%	178	47.8%	46	12.4%	32	8.6%		
Okayama	10	2	20.0%	4	40.0%	1	10.0%	1	10.0%	2	20.0%		
Hiro	29	5	17.2%	2	6.9%	10	34.5%	4	13.8%	1	3.4%	7	24.1%
Yamaguchi	72	1	1.4%	5	6.9%	4	5.6%	7	9.7%	4	5.6%	51	70.8%
Tottori	14					2	14.3%	12	85.7%				
Shimane	3							3	100.0%				
Chugoku	128	8	6.3%	11	8.6%	17	13.3%	27	21.1%	7	5.5%	58	45.3%
Tokushima	4	0	0	0	0	2	50.0%	2	50.0%				
Kagawa	7	2	28.6%	2	28.6%	1	14.3%	2	28.6%				
Ehime	5	2	40.0%	1	20.0%	2	40.0%	0	0.0%				
Kochi	3	2	66.7%	0	0	0	0	1	33.3%				
Shikoku	19	6	31.6%	3	15.8%	5	26.3%	5	26.3%				
Fukuoka	57	11	19.3%	19	33.3%	15	26.3%	6	10.5%	6	10.5%		
Saga	2	1	50.0%	0	0.0%	1	50.0%	0	0.0%	0	0.0%		
Nagasaki	19	5	26.3%	5	26.3%	6	31.6%	3	15.8%	0	0.0%		
Kumamoto	8	1	12.5%	4	50.0%	2	25.0%	0	0.0%	1	12.5%		
Oita	5	1	20.0%	2	40.0%	1	20.0%	1	20.0%	0	0.0%		
Miyazaki	0				0.0%	0	0.0%						
Kagoshima	0				0.0%	0	0.0%						
Okinawa	5			3	60.0%	2	40.0%						
Kyushu/Okinawa	96	19	19.8%	33	34.4%	27	28.1%	10	10.4%	7	7.3%	0	-

Source: Company data

Domestic store openings, conversions

	FY03/13 Stores (Year-end)		FY03/14 Stores (Year-end)		Format conversions	FY03/15 Stores (Year-end)		Format conversions	FY03/16 Stores (Year-end)		Format conversions
	Openings	Closures	Openings	Closures		Openings	Closures		Openings	Closures	
Drugstore total	1,161	1,241	1,079	1,179	-5	1,219	14	-35	1,211	25	-29
Cocokara Fine	-	-	-	-	-5	1,161	14	-31	1,152	24	-29
Kodama	82	-	-	-	-	-	-	-	-	-	-
Iwasakikouken-do (Pharmacies)	-	62	-	62	-	58	-	-4	59	1	-
Specialty pharmacies	121	116	-	-5	-	112	1	-4	108	na	na
Total	1,261	1,352	1,200	1,279	5	1,341	25	-36	1,340	29	-30
(Total prescription transactions)	221	227	8	-7	5	234	12	-5	237	6	-3

Source: Company data

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Private-brand products

The company has focused on the development of private-brand (PB) products, based on feedback from customers (see Management strategy section). The company's percentage of PB product sales is rising steadily:

FY03/11: 8.5%

FY03/12: 9.0%

FY03/13: 9.3%

FY03/14: 10.0%

FY03/15: 10.4%

Cocokara club card

Cocokara club card is a prepaid card with point accumulation. The number of card members who made purchases within the previous year declined from 7.6mn at end FY03/14 to 7.4mn at end FY03/15. The number of loyal customers has also decreased slightly, from 1.19mn in FY03/15 to 1.17mn. It is likely that a pullback in demand due to the consumption tax hike, as well as poor weather, which temporarily affected sales, also pushed down member count. Instead of focusing on the number of members, it will focus more on more promotional efforts, such as reconsidering what to offer members. Customers who produce their card at checkout accumulate between one and five points for every JPY100 of shopping. (The points ratio increases, based on annual shopping amounts, with the increased ratio applied the following month. Certain days have also been set as "five-point days.") Differences from competitors' loyalty cards are fourfold and central to the company's customer strategy: a "community circle," a family-based system, Cocokara Fine communications, and e-commerce links.

Service orientation based on customer feedback

Cocokara Fine is the only company in its industry to have a call center for customers staffed by some 11 people. This center fields about 30,000 customer communications each year in the form of e-mails, telephone calls, and postcards, and shares the customer feedback it receives with headquarters. A weekly meeting is held to discuss responses, to resolve issues and enhance service.

Home-delivery service for seniors

Around 400 stores provide a home-delivery service for seniors.

Retail operations (excluding prescription dispensing)

In FY03/15, non-prescription retail sales were JPY272.0bn (down 0.7% YoY), accounting for 85.5% of retail sales from the Drugstore and Pharmacy segments.

Prescription dispensing operations

Prescription dispensing operations generated sales of JPY46.0bn in FY03/15 (+3.9% YoY), comprising 14.5% of retail sales of the Drugstore and Pharmacy segment.

Cocokara Fine is distinctive in having drugstores with dispensing operations (ranking second in the industry for dispensing operations-within-drugstore sales). According to the company, 178 stores handle more than

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1,000 prescriptions per month (end-FY03/15), which is the top for the industry. Of its 234 dispensing stores (122 specialized pharmacies, 112 in combination with drugstores), 100 serve as at-home dispensing locations (up 49% YoY).

Both the number of stores handling prescriptions and unit prescription amounts have increased over time, steadily driving up sales in prescription operations. These sales grew 17.6% per year from FY03/09 to FY03/15, rising from JPY17.4bn to JPY46.0bn. Over this period, the number of stores handling prescriptions expanded by 13.1% annually, rising from 112 to 234. Also, the number of prescriptions handled rose from 2.6mn to 5.1mn, expanding at 12.1% annually. Unit prescription amounts increased from JPY6,805 to JPY9,064, for an annual increase of 7.9%.

Cocokara Fine	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15
Pharmacy sales (JPYmn)	17,406	19,319	27,011	36,386	39,671	44,261	45,967
Retail sales (%)	11.0%	11.7%	12.1%	12.9%	13.2%	13.9%	14.5%
Prescriptions ('000)	2,557	2,654	3,542	4,445	4,741	4,975	5,071
Prescription price (JPY)	6,805	7,277	7,626	8,185	8,367	8,896	9,065
Stores handling prescriptions	112	117	209	217	221	227	234
Pharmacy sales per stores (JPYmn)	157	168	165	174	181	197	199
Stores with over 1,000 prescriptions a month	85	93	152	162	166	175	178

Source: Company materials

The Japanese government has introduced policies to promote the expansion of family pharmacies, which account for 48% of the company's total dispensing locations. Meanwhile, revisions in FY 2014 (See the Market and value chain section for details) have prompted a decline in medical treatment fees, reducing the number of large-scale pharmacies near hospitals. The company has only 10 large-scale pharmacies near hospitals—four pharmacies with a concentration of more than 70% handling more than 4,000 prescriptions per month, and six with concentrations of more than 90% handling more than 2,500 prescriptions per month).

The company employs more than 7,000 specialists, including pharmacists and registered salespeople (see Market and value chain section for an explanation of pharmaceutical regulations), nationally registered dietitians, nurses, care managers, certified care workers, occupational therapists, and physiotherapists. Leveraging the strengths of its service orientation centering on these specialists, plus its industry-leading dispensing capabilities, the company is focusing on the dispensing business, to operate community-based family pharmacies.

Most patients who receive in-home treatment undergo drug therapy, so the company believes pharmacists will play a growing role in in-home treatment. Accordingly, it is promoting an initiative to create a therapeutic healthcare network in which pharmacists collaborate with physicians and nurses.

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Cocokara Fine	FY03/11			FY03/12			FY03/13			FY03/14		
Drugstore and Pharmacy	Stores	Sales	Sales per store	Stores	Sales	Sales per store	Stores	Sales	Sales per store	Stores	Sales	Sales per store
Total retail sales		(JPYmn)	(JPYmn)		(JPYmn)	(JPYmn)		(JPYmn)	(JPYmn)		(JPYmn)	(JPYmn)
Nationwide	1,084	222,848	205.6	1,130	282,755	250.2	1,261	299,994	237.9	1,352	318,091	235.3
Hokkaido				24	2,626	109.4	25	5,007	200.3	31	6,403	206.5
Miyagi							2	148	74.0	2	412	206.0
Yamagata										1	188	188.0
Fukushima							3	280	93.3	3	575	191.7
Hokkaido/Tohoku				24	2,626	109.4	30	5,435	181.2	37	7,578	204.8
Tokyo	217	56,669	261.1	222	60,406	272.1	236	63,424	268.7	241	64,822	269.0
Kanagawa	58	15,447	266.3	58	16,174	278.9	58	16,333	281.6	58	16,711	288.1
Saitama	48	11,082	230.9	46	10,797	234.7	54	11,984	221.9	53	12,263	231.4
Chiba	20	6,160	308.0	21	6,379	303.8	20	6,100	305.0	21	6,017	286.5
Ibaraki	2	459	229.5	1	334	334.0	3	280	93.3	3	426	142.0
Tochigi	6	945	157.5	6	1,007	167.8	6	1,006	167.7	6	946	157.7
Gunma	1	167	167.0	1	198	198.0	1	213	213.0	1	208	208.0
Yamanashi	2	440	220.0	2	387	193.5	2	370	185.0	3	463	154.3
Niigata							77	6,904	89.7	76	14,737	193.9
Nagano	2	407	203.5	2	394	197.0	3	473	157.7	3	559	186.3
Kanto/Koshinetsu	356	91,776	257.8	359	96,076	267.6	460	107,087	232.8	465	117,152	251.9
Gifu	20	2,741	137.1	20	5,098	254.9	21	4,859	231.4	21	4,645	221.2
Aichi	101	14,106	139.7	103	27,000	262.1	106	27,167	256.3	105	26,673	254.0
Shizuoka	37	8,039	217.3	38	9,270	243.9	39	9,676	248.1	40	9,388	234.7
Mie	50	6,070	121.4	56	12,842	229.3	57	13,791	241.9	58	13,933	240.2
Toyama										3	190	63.3
Fukui							1	34	34.0	2	137	68.5
Tokai/Hokuriku	208	30,956	148.8	217	54,210	249.8	224	55,527	247.9	229	54,966	240.0
Osaka	141	32,321	229.2	144	40,294	279.8	151	41,039	271.8	155	42,178	272.1
Kyoto	31	5,849	188.7	33	7,951	240.9	35	8,089	231.1	34	8,313	244.5
Hyogo	98	14,523	148.2	99	24,026	242.7	99	24,354	246.0	102	25,082	245.9
Nara	38	6,817	179.4	37	10,476	283.1	37	10,410	281.4	42	10,403	247.7
Shiga	10	1,252	125.2	10	1,985	198.5	10	2,063	206.3	11	2,175	197.7
Wakayama	18	2,113	117.4	22	5,047	229.4	26	5,982	230.1	27	6,491	240.4
Kansai	336	62,875	187.1	345	89,779	260.2	358	91,937	256.8	371	94,642	255.1
Okayama	14	2,205	157.5	13	2,299	176.8	12	2,343	195.3	11	2,251	204.6
Hiroshima	19	5,217	274.6	20	5,456	272.8	21	5,620	267.6	29	5,944	205.0
Yamaguchi	24	3,451	143.8	23	3,386	147.2	23	3,298	143.4	78	6,705	86.0
Tottori	13	2,014	154.9	13	3,999	307.6	14	3,848	274.9	14	3,564	254.6
Shimane	3	300	100.0	3	605	201.7	3	583	194.3	3	549	183.0
Chugoku	73	13,187	180.6	72	15,745	218.7	73	15,692	215.0	135	19,013	140.8
Tokushima	7	1,415	202.1	7	1,348	192.6	7	1,214	173.4	4	1,003	250.8
Kagawa	8	1,549	193.6	8	1,464	183.0	7	1,314	187.7	7	1,200	171.4
Ehime	3	931	310.3	4	995	248.8	4	985	246.3	5	1,033	206.6
Kochi	3	695	231.7	3	806	268.7	3	809	269.7	3	829	276.3
Shikoku	21	4,590	218.6	22	4,613	209.7	21	4,322	205.8	19	4,065	213.9
Fukuoka	53	10,714	202.2	55	11,021	200.4	58	11,455	197.5	58	11,542	199.0
Saga	2	307	153.5	2	314	157.0	2	303	151.5	2	282	141.0
Nagasaki	19	5,410	284.7	17	5,238	308.1	18	5,109	283.8	19	5,116	269.3
Kumamoto	8	1,424	178.0	8	1,448	181.0	7	1,390	198.6	7	1,304	186.3
Oita	5	1,110	222.0	5	1,049	209.8	5	1,019	203.8	5	1,017	203.4
Okinawa	3	482	160.7	4	620	155.0	5	697	139.4	5	781	156.2
Kyushu/Okinawa	90	19,447	216.1	91	19,690	216.4	95	19,973	210.2	96	20,042	208.8
Internet sales	-	na	-	-	na	-	-	na	-	-	612	-

Note: Regional divisions are based on Cocokara Fine's store count by format

Source: Company data

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Cocokara Fine	FY03/11			FY03/12			FY03/13			FY03/14		
Drugstore and Pharmacy	Stores	Sales	Sales per store	Stores	Sales	Sales per store	Stores	Sales	Sales per store	Stores	Sales	Sales per store
Total retail		(JPYmn)	(JPYmn)		(JPYmn)	(JPYmn)		(JPYmn)	(JPYmn)		(JPYmn)	(JPYmn)
Nationwide	64.0%	35.4%	-17.4%	4.2%	26.9%	21.7%	11.6%	6.1%	-4.9%	7.2%	6.0%	-1.1%
Hokkaido	-	-	-	-	-	-	4.2%	90.7%	83.0%	24.0%	27.9%	3.1%
Miyagi	-	-	-	-	-	-	-	-	-	0.0%	178.4%	178.4%
Yamagata	-	-	-	-	-	-	-	-	-	-	-	-
Fukushima	-	-	-	-	-	-	-	-	-	0.0%	105.4%	105.4%
Hokkaido/Tohoku	-	-	-	-	-	-	25.0%	107.0%	65.6%	23.3%	39.4%	13.1%
Tokyo	18.6%	12.3%	-5.3%	2.3%	6.6%	4.2%	6.3%	5.0%	-1.2%	2.1%	2.2%	0.1%
Kanagawa	7.4%	11.2%	3.5%	0.0%	4.7%	4.7%	0.0%	1.0%	1.0%	0.0%	2.3%	2.3%
Saitama	-2.0%	-0.5%	1.6%	-4.2%	-2.6%	1.7%	17.4%	11.0%	-5.4%	-1.9%	2.3%	4.3%
Chiba	-4.8%	-1.2%	3.8%	5.0%	3.6%	-1.4%	-4.8%	-4.4%	0.4%	5.0%	-1.4%	-6.1%
Ibaraki	-33.3%	-17.1%	24.3%	-50.0%	-27.2%	45.5%	200.0%	-16.2%	-72.1%	0.0%	52.1%	52.1%
Tochigi	0.0%	33.7%	33.7%	0.0%	6.6%	6.6%	0.0%	-0.1%	-0.1%	0.0%	-6.0%	-6.0%
Gunma	0.0%	15.2%	15.2%	0.0%	18.6%	18.6%	0.0%	7.6%	7.6%	0.0%	-2.3%	-2.3%
Yamanashi	-33.3%	-24.9%	12.6%	0.0%	-12.0%	-12.0%	0.0%	-4.4%	-4.4%	50.0%	25.1%	-16.6%
Niigata	-	-	-	-	-	-	-	-	-	-1.3%	113.5%	116.3%
Nagano	0.0%	3.8%	3.8%	0.0%	-3.2%	-3.2%	50.0%	20.1%	-20.0%	0.0%	18.2%	18.2%
Kanto/Koshinetsu	10.6%	9.1%	-1.3%	0.8%	4.7%	3.8%	28.1%	11.5%	-13.0%	1.1%	9.4%	8.2%
Gifu	566.7%	502.4%	-9.6%	0.0%	86.0%	86.0%	5.0%	-4.7%	-9.2%	0.0%	-4.4%	-4.4%
Aichi	1162.5%	854.4%	-24.4%	2.0%	91.4%	87.7%	2.9%	0.6%	-2.2%	-0.9%	-1.8%	-0.9%
Shizuoka	42.3%	21.5%	-14.7%	2.7%	15.3%	12.3%	2.6%	4.4%	1.7%	2.6%	-3.0%	-5.4%
Mie	-	-	-	12.0%	111.6%	88.9%	1.8%	7.4%	5.5%	1.8%	1.0%	-0.7%
Toyama	-	-	-	-	-	-	-	-	-	-	-	-
Fukui	-	-	-	-	-	-	-	-	-	100.0%	302.9%	101.5%
Tokai/Hokuriku	462.2%	262.0%	-35.6%	4.3%	75.1%	67.9%	3.2%	2.4%	-0.8%	2.2%	-1.0%	-3.2%
Osaka	74.1%	35.3%	-100.0%	2.1%	24.7%	22.1%	4.9%	1.8%	-2.9%	2.6%	2.8%	0.1%
Kyoto	244.4%	69.5%	-50.8%	6.5%	35.9%	27.7%	6.1%	1.7%	-4.1%	-2.9%	2.8%	5.8%
Hyogo	345.5%	159.0%	-41.9%	1.0%	65.4%	63.8%	0.0%	1.4%	1.4%	3.0%	3.0%	0.0%
Nara	137.5%	110.7%	-11.3%	-2.6%	53.7%	57.8%	0.0%	-0.6%	-0.6%	13.5%	-0.1%	-12.0%
Shiga	150.0%	105.6%	-17.8%	0.0%	58.5%	58.5%	0.0%	3.9%	3.9%	10.0%	5.4%	-4.2%
Wakayama	-	-	-	22.2%	138.9%	95.4%	18.2%	18.5%	0.3%	3.8%	8.5%	4.5%
Kansai	154.5%	70.9%	-32.9%	2.7%	42.8%	39.1%	3.8%	2.4%	-1.3%	3.6%	2.9%	-0.7%
Okayama	7.7%	-0.3%	-7.4%	-7.1%	4.3%	12.3%	-7.7%	1.9%	10.4%	-8.3%	-3.9%	4.8%
Hiroshima	0.0%	2.1%	2.1%	5.3%	4.6%	-0.6%	5.0%	3.0%	-1.9%	38.1%	5.8%	-23.4%
Yamaguchi	-4.0%	-4.4%	-0.4%	-4.2%	-1.9%	2.4%	0.0%	-2.6%	-2.6%	239.1%	103.3%	-40.1%
Tottori	-	-	-	0.0%	98.6%	98.6%	7.7%	-3.8%	-10.6%	0.0%	-7.4%	-7.4%
Shimane	-	-	-	0.0%	101.7%	101.7%	0.0%	-3.6%	-3.6%	0.0%	-5.8%	-5.8%
Chugoku	28.1%	20.6%	-5.8%	-1.4%	19.4%	21.1%	1.4%	-0.3%	-1.7%	84.9%	21.2%	-34.5%
Tokushima	0.0%	-0.6%	-0.6%	0.0%	-4.7%	-4.7%	0.0%	-9.9%	-9.9%	-42.9%	-17.4%	44.6%
Kagawa	0.0%	0.4%	0.4%	0.0%	-5.5%	-5.5%	-12.5%	-10.2%	2.6%	0.0%	-8.7%	-8.7%
Ehime	0.0%	-8.6%	-8.6%	33.3%	6.9%	-19.8%	0.0%	-1.0%	-1.0%	25.0%	4.9%	-16.1%
Kochi	50.0%	11.0%	-26.0%	0.0%	16.0%	16.0%	0.0%	0.4%	0.4%	0.0%	2.5%	2.5%
Shikoku	5.0%	-0.5%	-5.2%	4.8%	0.5%	-4.1%	-4.5%	-6.3%	-1.8%	-9.5%	-5.9%	4.0%
Fukuoka	-1.9%	0.6%	2.5%	3.8%	2.9%	-0.9%	5.5%	3.9%	-1.4%	0.0%	0.8%	0.8%
Saga	0.0%	36.4%	36.4%	0.0%	2.3%	2.3%	0.0%	-3.5%	-3.5%	0.0%	-6.9%	-6.9%
Nagasaki	-5.0%	-6.0%	-1.0%	-10.5%	-3.2%	8.2%	5.9%	-2.5%	-7.9%	5.6%	0.1%	-5.1%
Kumamoto	-11.1%	-1.7%	10.6%	0.0%	1.7%	1.7%	-12.5%	-4.0%	9.7%	0.0%	-6.2%	-6.2%
Oita	0.0%	-0.5%	-0.5%	0.0%	-5.5%	-5.5%	0.0%	-2.9%	-2.9%	0.0%	-0.2%	-0.2%
Okinawa	0.0%	20.2%	0.0%	33.3%	28.6%	-3.5%	25.0%	12.4%	-10.1%	0.0%	12.1%	12.1%
Kyushu/Okinawa	-3.2%	-0.8%	2.5%	1.1%	1.2%	0.1%	4.4%	1.4%	-2.8%	1.1%	0.3%	-0.7%
Internet sales total	-	na	-	-	na	-	-	na	-	-	79.0%	-

Note: Regional divisions are based on Cocokara Fine's store count by format

Source: Company data

Wholesale operations, nursing care services, overseas operations

In FY03/15, wholesale operations posted sales of JPY29.0bn (down 1.2% YoY, accounting for 8.3% of total sales), and nursing care services generated JPY2.2bn (up 16.2%, 0.6% of total sales).

Wholesale operations

As an individual category, sales from overseas operations have been shrinking over time, from JPY34.2bn in FY03/13 (10.2% of total sales) to JPY29.4bn (8.4%) in FY03/14 and JPY29.0bn (8.3%) in FY03/15. These operations contribute only slightly to overall profits, however, as they have a gross profit margin of around 1%.

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Nursing care services

Sales from nursing care services are growing, up from JPY1.7bn (0.52% of total sales) in FY03/13 to JPY1.9bn (0.54%) in FY03/14 and JPY2.2bn (0.63%) in FY03/15. Also, nursing care services had a gross profit margin of 11.3% in FY03/15. Although generating a slight loss on an operating basis, existing businesses are turning profitable, and revenue and profits at new facilities are rising.

Although its scale in nursing care services is small, it has some of the elements required to build a community healthcare network. The company is introducing its “Sayama Model” health network bases on a trial basis. In March 2013, it established “Aozora,” a 95-apartment block of serviced residences for the elderly in Sayama, Saitama. In addition to functioning as a nursing care facility, this “Sayama Model” provides retail services via a Cocokara Fine drugstore, as well as dispensing services, and liaises with visiting nursing care services. The facility also communicates with other medical institutions nearby, promoting the creation of a health network model. It believes it can use this model, even if it involves tie-ups with companies in other sectors.

Overseas operations

In 2012, it established Shanghai Cocokaraine Inc. as a wholly owned investment (a non-consolidated subsidiary) with the aim of retailing and wholesaling health and beauty care products in Shanghai. The company has also established a joint venture in China with ITOCHU Corporation (TSE1: 8001), Alfresa Holdings Corporation (TSE1: 2784), and Liaoning Chengda Co., Ltd. (operating about 900 pharmacies in the region), that operates three shops (two in Shanghai and one in Dalian). It also conducts wholesale operations in Thailand, Vietnam, and Russia.

Principal group companies (at March 31, 2015, % owned in parentheses)

The company has six consolidated subsidiaries: Cocokaraine Healthcare Inc. (100%), Finecare Inc. (100%), Cocokaraine OEC Co., Ltd. (100%), Iwasakikokendo Co., Ltd. (100%), Cocokaraine associe Co., Ltd. (100%) and Cocokaraine soleil, Inc. (100%). The company also has two non-consolidated subsidiaries, CocokaraFine Co., Ltd. (100%) and Shanghai Cocokaraine Inc. (100%), with no equity-method affiliates.

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June 2015 Client Updates

3-D Matrix, Ltd. (7777)

Medical technology company. Exclusively licensed from MIT, core technology is based on unique characteristics of self-assembling peptides.

On **June 12, 2015**, 3-D Matrix Ltd. (3DM) announced full-year earnings results for FY04/15 and a medium-term management plan.

Quarterly Performance (JPYmn)	FY04/14				FY04/15				FY04/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Operating Revenue	48	1	7	51	0	0	0	100	102.9%	97
YoY	-	-	-	58.4%	-	-	-	96.8%	-	-
R&D Expenses	146	136	145	171	141	281	181	214	-	-
YoY	59.7%	50.0%	61.6%	39.1%	-3.7%	106.1%	24.7%	24.8%	-	-
SG&A Expenses	222	221	232	349	297	286	328	274	-	-
YoY	65.9%	62.6%	40.7%	73.2%	33.6%	29.3%	41.7%	-21.5%	-	-
Operating Profit	-321	-356	-372	-470	-438	-567	-509	-389	-	-1,918
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-	-	-	-	-	-
Recurring Profit	-341	-361	-357	-466	-471	-514	-438	-372	-	-1,814
YoY	-	-	-	-	-	-	-	-	-	-
RPM	-	-	-	-	-	-	-	-	-	-
Net Income	-341	-361	-357	-467	-635	-514	-439	-407	-	-2,009
YoY	-	-	-	-	-	-	-	-	-	-
NPM	-	-	-	-	-	-	-	-	-	-

Source: Company data

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

Forecasts based on most recently released figures.

R&D expenses were JPY816mn (+36.3% YoY). Excluding R&D, SG&A expenses increased to JPY1.2bn (+15.8% YoY) as the company ramped up overseas expansion.

The company posted JPY141mn in non-operating income (JPY3.5mn for Q1, JPY54.8mn for Q2, JPY72.7mn for Q3, JPY10.0mn for Q4) because of an increase in the value of assets held in foreign currencies at subsidiaries.

Medium-Term Plan (JPYmn)	FY04/15 Act.	FY04/16 Est.	FY04/17 Target	FY04/18 Target
Operating Revenue	100	783~2,877	8,233	9,851
R&D Expenses	816	1,024	1,544	1,643
SG&A Expenses	1,185	-	-	-
Operating Profit	-1,903	-1,996~24	2,180	3,010
Recurring Profit	-1,795	-2,004~16	2,180	3,010
Net Profit	-1,995	-2,005~11	2,064	2,337

Source: Company data

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

According to the company's medium-term management plan, it plans to expand its operations via upfront payments, milestone payments, and product sales from locally absorbent hemostatic material TDM-621 and other pipeline products both in Japan and overseas.

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Aeon Delight Co., Ltd. (9787)

Leading comprehensive facility management service company belonging to the Aeon group.

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Apamanshop Holdings Co., Ltd. (8889)

Japan's leading rental property broker, offering comprehensive services through its proprietary real estate information network.

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Bell-Park Co., Ltd. (9441)

Independent mobile phone distributor focusing on SoftBank Mobile shops. Differentiation through efficient stores and personnel investments. Growth through acquisitions

On **June 5, 2015**, Bell-Park Co., Ltd. announced May monthly sales estimate.

Monthly Sales	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2015													
New	32,004	23,500	42,930	23,657	23,658								143,998
YoY	-14.7%	-36.9%	-48.9%	-22.0%	-23.8%								
ex-low ARPU handsets (YoY)	29,464	21,959	41,064	21,085	19,888								133,460
	4.6%	-18.7%	-28.4%	13.9%	10.6%								
Replacement	41,949	29,468	37,274	29,933	29,934								167,648
YoY	23.3%	-7.6%	-23.8%	34.1%	27.8%								
Total	73,953	52,968	80,204	53,590	53,592								311,646
YoY	3.4%	-23.4%	-39.7%	1.8%	-1.7%								
Monthly Sales	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2014													
New	37,521	37,268	84,090	30,311	31,067	29,803	36,075	36,118	41,293	34,307	33,474	30,924	462,251
YoY	-15.8%	-4.7%	4.8%	-28.2%	-29.7%	-0.4%	13.5%	7.5%	21.4%	-9.2%	-15.2%	-14.7%	-6.3%
ex-low ARPU handsets (YoY)	28,160	27,016	57,329	18,514	17,990	16,624	20,118	20,380	26,813	25,171	24,460	25,547	308,122
	24.8%	35.9%	41.8%	-20.2%	-25.2%	-12.8%	-5.1%	-16.8%	17.1%	9.8%	-2.5%	-1.5%	5.6%
Replacement	34,016	31,893	48,944	22,325	23,426	22,687	29,112	28,791	57,084	60,363	65,875	44,047	468,563
YoY	-8.9%	23.3%	5.7%	-32.4%	-41.9%	-14.4%	0.2%	-4.3%	55.0%	30.9%	34.4%	8.2%	6.2%
Total	71,537	69,161	133,034	52,636	54,493	52,490	65,187	64,909	98,377	94,670	99,349	74,971	930,814
YoY	-12.6%	6.4%	5.2%	-30.0%	-35.5%	-7.0%	7.2%	1.9%	38.8%	12.9%	12.3%	-2.6%	-0.4%

Source: Company data, SR Inc. Research

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

Low ARPU handsets: Mimamori Mobile handsets, PhotoVision digital photo frames, and USIM

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MONTHLY WRAP – July 2015

Chiyoda Co., Ltd. (8185)

Retailer specializing in low-price shoes.

On **June 1, 2015**, Chiyoda Co., Ltd announced monthly sales data for April 2015.

Comparable Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/11	-6.6%	-6.1%	-7.5%	-4.4%	-4.6%	-8.5%	-7.4%	2.2%	-5.4%	-3.2%	-0.1%	3.0%
Customer count	-1.2%	-2.1%	-3.6%	-1.8%	-2.1%	-5.7%	-3.5%	1.8%	-4.9%	-4.6%	-2.5%	0.3%
Spend per customer	-5.5%	-4.2%	-4.0%	-2.7%	-2.6%	-3.1%	-4.1%	0.3%	-0.6%	1.5%	2.4%	2.7%
FY02/12	-17.3%	4.1%	2.4%	1.9%	5.4%	1.0%	1.5%	-0.5%	6.3%	3.0%	-0.4%	1.4%
Customer count	-19.6%	1.5%	0.9%	0.6%	5.2%	-0.1%	-0.1%	-1.1%	4.1%	1.9%	-0.7%	0.5%
Spend per customer	2.8%	2.5%	1.5%	1.2%	0.1%	1.0%	1.5%	0.6%	2.0%	1.0%	0.2%	0.9%
FY02/13	15.7%	2.2%	-4.6%	-0.6%	-3.8%	-3.5%	-0.2%	-8.9%	1.5%	-2.8%	-1.7%	-6.9%
Customer count	13.3%	0.7%	-5.3%	-3.2%	-6.5%	-4.4%	-0.3%	-9.1%	-0.5%	-4.9%	-3.0%	-7.7%
Spend per customer	2.0%	1.4%	0.7%	2.6%	2.8%	0.9%	0.1%	0.2%	2.0%	2.1%	1.3%	0.9%
FY02/14	2.8%	-9.5%	-2.1%	1.3%	-8.4%	0.3%	-3.0%	-3.7%	-2.2%	-3.4%	-8.5%	17.3%
Customer count	1.7%	-10.7%	-4.1%	0.3%	-8.1%	-1.7%	-5.7%	-5.6%	-5.1%	-4.1%	-9.6%	14.3%
Spend per customer	1.0%	1.3%	2.0%	1.0%	-0.3%	2.0%	2.8%	1.9%	3.0%	0.7%	1.2%	2.6%
FY02/15	15.0%	-8.3%	-3.3%	-9.1%	-4.2%	1.3%	-6.3%	-8.9%	-6.0%	5.0%	-3.3%	-11.8%
Customer count	6.3%	-10.6%	-7.8%	-11.8%	-8.7%	-3.5%	-11.3%	-12.8%	-8.3%	-1.0%	-6.2%	-15.4%
Spend per customer	8.1%	2.6%	4.8%	3.0%	4.8%	4.9%	5.6%	4.4%	2.4%	6.1%	3.0%	4.3%
FY02/16	-17.1%	12.2%	8.0%	-	-	-	-	-	-	-	-	-
Customer count	-17.2%	5.1%	2.7%	-	-	-	-	-	-	-	-	-
Spend per customer	0.1%	6.6%	5.1%	-	-	-	-	-	-	-	-	-

All Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/11	-2.5%	-2.8%	-4.4%	-1.3%	-2.0%	-6.1%	-5.9%	3.1%	-5.0%	-3.0%	0.1%	3.7%
Customer count	2.8%	1.5%	-0.5%	1.2%	0.5%	-3.3%	-2.1%	2.7%	-4.8%	-4.7%	-2.3%	0.8%
Spend per customer	-5.2%	-4.2%	-3.9%	-2.6%	-2.5%	-2.9%	-4.0%	0.3%	-0.3%	1.8%	2.5%	2.8%
FY02/12	-18.6%	1.8%	0.9%	0.3%	3.7%	-0.3%	0.3%	-1.5%	4.8%	1.3%	-1.9%	-0.1%
Customer count	-20.9%	-0.8%	-0.7%	-1.0%	3.4%	-1.3%	0.3%	-1.5%	4.8%	1.3%	-1.9%	-0.1%
Spend per customer	2.9%	2.6%	1.6%	1.2%	0.2%	0.9%	1.3%	0.3%	1.9%	0.9%	0.1%	0.8%
FY02/13	14.3%	0.8%	-6.1%	-1.7%	-4.9%	-4.7%	-1.2%	-9.4%	2.0%	-2.5%	-1.5%	-6.6%
Customer count	11.9%	-0.6%	-6.8%	-4.2%	-7.5%	-5.7%	-1.4%	-9.8%	-0.2%	-4.6%	-2.8%	-7.5%
Spend per customer	2.1%	1.4%	0.7%	2.6%	2.8%	0.9%	0.2%	0.4%	2.1%	2.2%	1.3%	1.0%
FY02/14	3.6%	-8.3%	-0.5%	3.3%	-6.6%	1.9%	-1.5%	-2.4%	-1.1%	-2.5%	-7.5%	17.9%
Customer count	2.5%	-9.6%	-2.6%	2.2%	-6.4%	-0.4%	-4.4%	-4.4%	-4.3%	-3.4%	-8.9%	14.7%
Spend per customer	1.0%	1.5%	2.2%	1.0%	-0.3%	2.2%	3.0%	2.0%	3.3%	0.9%	1.4%	2.8%
FY02/15	16.1%	-8.0%	-3.0%	-9.5%	-5.0%	0.8%	-7.2%	-9.7%	-7.3%	3.8%	-4.2%	-12.2%
Customer count	7.2%	-10.5%	-7.7%	-12.4%	-9.6%	-4.1%	-12.3%	-13.7%	-9.5%	-2.2%	-7.1%	-16.0%
Spend per customer	8.2%	2.8%	5.0%	3.2%	5.0%	5.1%	5.7%	4.6%	2.4%	6.1%	3.1%	4.4%
FY02/16	-17.2%	11.8%	8.0%	-	-	-	-	-	-	-	-	-
Customer count	-17.5%	4.8%	2.5%	-	-	-	-	-	-	-	-	-
Spend per customer	0.3%	6.6%	5.2%	-	-	-	-	-	-	-	-	-

Source: Company data processed by SR Inc.
 Figures may differ from company materials due to differences in rounding methods.
 Most recent monthly figures may not be final.

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Creek & River Co Ltd (4763)

A staffing company strong in the creative and professional fields. Pursuing growth by expanding into outsourcing and rights management.

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MONTHLY WRAP – July 2015

Daiseki Co Ltd (9793)

Environmental services company with strength in industrial waste disposal. Growing organically and through M&A. Strong balance sheet and cash flow generation.

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MONTHLY WRAP – July 2015

Don Quijote Co., Ltd. (7532)

Innovative and iconoclastic general discount retailer with a nationwide presence.

On **June 10, 2015**, Don Quijote announced an upward revision to the year-end dividend forecast, a stock split, and sales figures for May 2015 (see the monthly trends section for details).

Revision to year-end dividend forecast for FY06/15

In view of earnings through Q3 FY06/15, the company has decided to increase its year-end dividend forecast by JPY4 to JPY30 per share. Together with an interim dividend of JPY10, this means the company forecasts a full-year dividend of JPY40.

Stock split

The company has resolved to conduct a two-for-one stock split, with a record date of June 30, 2015, and an effective date of July 1, 2015. The number of shares outstanding after the split will be 157,869,760 against 78,934,880 shares outstanding before the split.

The stock split will be effective July 1, 2015, while the record date for the dividend payment is June 30, 2015. Therefore, the year-end dividend for FY06/15 will be paid based on the number of shares before the stock split.

Monthly trends		FY06/04	FY06/05	FY06/06	FY06/07	FY06/08	FY06/09	FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15
		FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
Total Stores	Sales	20.3%	19.8%	11.8%	7.2%	6.5%	5.9%	6.1%	5.9%	6.2%	7.1%	6.6%	
	# of Stores	93	107	122	135	148	150	162	169	185	200	217	
Comparable Stores	Sales	-2.4%	2.0%	2.9%	0.4%	-3.3%	0.5%	-1.5%	3.4%	0.5%	-0.1%	0.8%	
	# of Customers	-2.8%	0.3%	-0.4%	-0.7%	-2.2%	4.5%	3.8%	3.1%	-0.8%	-0.5%	0.1%	
	Avg. Spend per Customer	0.4%	1.7%	3.3%	1.1%	-1.2%	-3.8%	-5.1%	0.3%	1.3%	0.4%	0.7%	
	# of Comparable Stores	70	89	104	117	123	144	149	158	164	179	194	
By Product	Electric Appliances	17.1%	17.0%	12.2%	4.0%	-2.7%	-4.8%	-3.6%	5.1%	-2.2%	-0.5%	-2.7%	
	Household Goods	15.1%	15.5%	12.9%	10.4%	8.2%	9.8%	9.1%	7.9%	6.7%	7.9%	8.8%	
	Foods	25.6%	23.1%	9.2%	5.1%	10.9%	20.8%	14.4%	4.5%	7.3%	8.9%	13.1%	
	Watches & Fashion Merchandise	25.6%	23.4%	14.0%	7.0%	6.3%	0.0%	1.7%	4.3%	11.9%	11.2%	3.4%	
	Sporting & Leisure Goods	18.6%	14.1%	7.2%	13.3%	5.5%	4.1%	5.5%	8.2%	2.0%	8.3%	5.6%	
	Other Products	6.0%	19.4%	-7.8%	-1.3%	0.1%	10.4%	21.7%	29.7%	10.9%	-22.6%	-1.1%	
		FY06/13											
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Total Stores	Sales	2.2%	8.4%	9.5%	7.0%	10.3%	7.3%	6.8%	8.3%	10.8%	7.4%	10.7%	10.9%
	# of Stores	186	187	188	189	191	194	194	195	197	197	197	200
Comparable Stores	Sales	-5.4%	0.5%	0.6%	-1.3%	1.7%	-1.0%	-1.7%	-1.0%	2.5%	-0.6%	2.8%	3.2%
	# of Customers	-4.3%	-0.1%	-0.1%	-1.5%	0.0%	-0.8%	-1.7%	-1.2%	1.4%	-0.4%	1.4%	1.5%
	Avg. Spend per Customer	-1.2%	0.6%	0.7%	0.2%	1.6%	-0.2%	0.0%	0.2%	1.0%	-0.2%	1.4%	1.7%
	# of Comparable Stores	165	167	167	167	169	172	173	173	173	177	178	179
By Product	Electric Appliances	-16.6%	-0.7%	5.8%	3.2%	10.5%	4.5%	2.5%	3.2%	7.8%	5.7%	10.1%	6.2%
	Household Goods	3.2%	7.2%	8.5%	7.4%	8.8%	6.3%	5.6%	9.2%	11.6%	7.1%	11.5%	12.6%
	Foods	7.6%	8.9%	10.6%	7.0%	9.6%	9.1%	7.4%	8.7%	11.1%	7.7%	9.5%	8.7%
	Watches & Fashion Merchandise	11.8%	13.6%	13.3%	10.8%	15.7%	9.8%	11.7%	10.3%	13.3%	8.6%	11.7%	11.8%
	Sporting & Leisure Goods	1.6%	14.5%	11.1%	3.8%	5.4%	5.3%	5.6%	9.1%	16.1%	7.6%	11.0%	11.6%
	Other Products	-32.8%	-17.3%	-15.5%	-12.5%	-10.2%	-13.0%	-11.7%	-1.9%	-21.6%	0.6%	4.0%	30.3%
		FY06/14											
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Total Stores	Sales	5.2%	8.2%	4.3%	5.1%	4.9%	5.4%	5.2%	3.5%	23.5%	1.8%	8.2%	6.2%
	# of Stores	200	201	200	203	208	211	212	212	212	215	216	217
Comparable Stores	Sales	-0.5%	1.8%	-0.6%	0.0%	0.0%	-0.9%	-1.3%	-2.3%	16.7%	-4.5%	0.7%	-0.5%
	# of Customers	0.0%	1.1%	-2.5%	-0.4%	-0.1%	-0.5%	-0.5%	-2.4%	5.7%	-2.7%	2.4%	0.9%
	Avg. Spend per Customer	-0.5%	0.6%	2.0%	0.4%	0.1%	-0.5%	-0.8%	0.1%	10.4%	-1.8%	-1.6%	-1.4%
	# of Comparable Stores	184	185	185	186	187	189	192	191	193	195	195	194
By Product	Electric Appliances	0.9%	3.7%	-2.4%	-0.6%	0.5%	-4.1%	-0.4%	-5.0%	14.9%	-11.5%	0.9%	2.1%
	Household Goods	5.7%	10.0%	4.1%	8.2%	6.2%	8.0%	5.9%	5.4%	30.2%	1.5%	9.2%	5.9%
	Foods	6.6%	9.6%	3.3%	5.1%	6.8%	9.4%	8.6%	9.9%	36.5%	7.2%	21.0%	18.8%
	Watches & Fashion Merchandise	5.4%	9.1%	1.8%	4.4%	4.4%	4.2%	3.9%	0.0%	12.9%	-3.2%	0.3%	-1.7%
	Sporting & Leisure Goods	8.6%	6.8%	0.4%	4.9%	5.5%	6.9%	7.0%	2.7%	11.2%	1.8%	6.8%	1.4%
	Other Products	-13.3%	-12.0%	103.4%	7.9%	-5.7%	8.3%	5.1%	-7.2%	2.9%	91.8%	-12.8%	0.2%
		FY06/15											
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Total Stores	Sales	9.1%	11.2%	12.3%	16.2%	16.1%	10.9%	13.6%	16.6%	-3.5%	23.0%	18.2%	
	# of Stores	220	221	220	221	222	225	225	228	232	235	238	
Comparable Stores	Sales	1.4%	2.3%	5.0%	8.3%	7.1%	4.3%	6.7%	9.4%	-10.5%	14.2%	8.5%	
	# of Customers	1.7%	0.6%	3.5%	5.2%	3.8%	0.0%	1.2%	5.6%	-5.4%	5.3%	3.2%	
	Avg. Spend per Customer	-0.2%	1.7%	1.5%	2.9%	3.1%	4.2%	5.4%	3.7%	-5.4%	8.5%	5.1%	
	# of Comparable Stores	196	196	196	195	196	200	203	204	205	205	207	
By Product	Electric Appliances	-1.0%	3.1%	14.8%	15.8%	10.2%	13.8%	18.1%	15.0%	-7.2%	23.4%	8.3%	
	Household Goods	8.3%	10.7%	13.8%	15.9%	17.2%	11.0%	15.2%	19.4%	-3.5%	32.4%	25.9%	
	Foods	21.0%	21.6%	24.0%	25.8%	23.4%	17.7%	19.1%	19.5%	-4.3%	27.2%	17.6%	
	Watches & Fashion Merchandise	5.1%	5.4%	7.6%	9.1%	10.9%	5.3%	6.9%	12.6%	-0.9%	19.5%	17.3%	
	Sporting & Leisure Goods	3.9%	3.5%	10.0%	12.0%	10.3%	5.5%	6.1%	8.7%	-2.6%	9.4%	13.3%	
	Other Products	14.1%	70.0%	-43.7%	13.6%	28.8%	12.4%	5.4%	18.9%	-3.8%	-31.1%	7.1%	

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.

Comparable store sales increased 8.5% YoY in May. Fewer working days than May 2014, a string of



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consecutive holidays, and good weather made positive contributions to sales. Seasonal summer products also got off to a strong start, driving comparable store sales. Spending by foreign tourists continued to increase, once again contributing to earnings growth.

View the [full report](#).

Shared Research

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Elecom Co. (6750)

Designer and manufacturer of computer and smartphone peripheral devices/accessories; has a tie-up with French external hard drive maker La Cie to sell its products in Japan.

View the [full report](#).

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en-japan Inc. (4849)

Pioneer of online recruitment information websites, with a particular focus on mid-career and experienced worker hiring. Now looking to expand into Asia and bilingual staff recruiting.

On **June 25, 2015**, Shared Research updated comments on en-japan Inc. after interviewing management.

Quarterly Performance (JPYmm)		FY03/13				FY03/14				FY03/15				FY03/13		FY03/14	FY03/15	FY03/16	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Act.	Act.	Act.	% of FY	FY Est.	Est.
Sales		3,297	3,138	3,801	3,327	3,652	3,835	4,595	4,674	4,590	4,615	4,772	5,646	13,564	16,755	19,624	102.2%	19,200	24,520
YoY		16.0%	-0.8%	10.0%	-0.1%	10.7%	22.2%	20.9%	40.5%	25.7%	20.3%	3.9%	20.8%		23.5%	17.1%		14.6%	24.9%
Cost of Sales		473	451	502	507	432	434	498	556	465	461	510	494	1,931	1,921	1,931			2,350
Personnel Expenses		209	207	224	215	225	251	267	282	307	310	338	340	855	1,025	1,295			1,563
Others		263	243	279	291	207	184	230	275	158	151	172	154	1,076	896	635			786
Gross Profit		2,824	2,687	3,300	2,820	3,219	3,401	4,096	4,118	4,125	4,154	4,262	5,152	11,632	14,833	17,693	102.0%	17,354	22,170
YoY		19.0%	-0.3%	11.2%	0.2%	14.0%	26.5%	24.1%	46.0%	28.1%	22.2%	4.1%	25.1%		27.5%	19.3%		17.0%	25.3%
SG&A		85.7%	85.6%	86.8%	84.8%	88.2%	88.7%	89.1%	88.1%	89.9%	90.0%	89.3%	91.2%	85.8%	88.5%	90.2%		90.4%	90.4%
SG&A Expenses		2,101	2,129	2,265	2,353	2,506	2,497	2,918	3,470	3,144	3,396	3,448	3,761	8,848	11,392	13,750	102.6%	13,404	18,170
YoY		9.6%	7.6%	9.9%	-0.1%	19.3%	17.3%	28.8%	47.5%	25.5%	36.0%	18.2%	8.4%		28.7%	20.7%		17.7%	32.1%
SG&A / Sales		63.7%	67.8%	59.6%	70.7%	68.6%	65.1%	63.5%	74.2%	68.5%	73.6%	72.3%	66.6%	65.2%	68.0%	70.1%		69.8%	74.1%
Personnel		1,211	1,256	1,284	1,275	1,434	1,443	1,598	1,570	1,788	1,804	1,886	1,981	5,028	6,048	7,460	101.0%	7,385	9,217
Advertising / Promotional		395	370	464	567	476	472	636	1,051	543	626	623	778	1,797	2,636	2,570	90.0%	2,854	4,283
Others		494	502	515	511	594	581	683	849	812	967	937	1,003	2,023	2,707	3,719	117.5%	3,164	4,668
Operating Profit		724	558	1,034	467	713	903	1,177	648	981	758	814	1,391	2,783	3,441	3,943	99.8%	3,950	4,000
YoY		58.0%	-22.1%	14.1%	1.5%	-1.4%	61.8%	13.8%	38.6%	37.5%	-16.1%	-30.9%	114.7%		23.6%	14.6%		14.8%	1.4%
OPM		21.9%	17.8%	27.2%	14.0%	19.5%	23.6%	25.6%	13.9%	21.4%	16.4%	17.0%	24.6%	20.5%	20.5%	20.1%		20.6%	16.3%
Recurring Profit		782	576	1,045	437	902	925	1,274	647	1,018	903	921	1,417	2,840	3,747	4,259	107.3%	3,970	4,120
YoY		51.9%	3.2%	14.3%	-0.0%	15.3%	60.6%	21.9%	47.9%	12.9%	-2.4%	-27.7%	119.0%		31.9%	13.7%		5.9%	-3.3%
RPM		23.7%	18.4%	27.5%	13.1%	24.7%	24.1%	27.7%	13.8%	22.2%	19.6%	19.3%	25.1%	20.9%	22.4%	21.7%		20.7%	16.8%
Net Income		468	338	653	86	1,771	546	772	-300	597	581	536	817	1,546	2,789	2,531	113.0%	2,240	2,620
YoY		67.2%	44.3%	31.0%		278.6%	61.4%	18.1%		-66.3%	6.3%	-30.5%		80.4%		-9.2%		-19.7%	3.5%
NPM		14.2%	10.8%	17.2%	2.6%	48.5%	14.2%	16.8%	-6.4%	13.0%	12.6%	11.2%	14.5%	11.4%	16.6%	12.9%		11.7%	10.7%
Hiring Business (*)																			
Sales		3,187	3,065	3,726	3,255	3,531	3,705	4,438	4,497	4,443	4,471	4,579	5,449	13,233	16,171	18,942	104.7%	18,100	23,490
YoY		10.8%	20.9%	19.1%	38.2%	25.8%	20.7%	3.2%	21.2%						22.2%	17.1%		245.7%	24.0%
Gross Profit		2,755	2,631	3,242	2,767	3,111	3,279	3,947	3,962	3,988	4,017	4,088	4,976	11,395	14,299	17,069			
GP		86.4%	85.8%	87.0%	85.0%	88.1%	88.5%	88.9%	88.1%	89.8%	89.8%	89.3%	91.3%	86.1%	88.4%	90.1%			
Operating Profit		745	550	1,022	456	696	876	1,135	601	976	784	804	1,389	2,773	3,308	3,953	106.1%	3,725	4,105
OPM		23.4%	17.9%	27.4%	14.0%	19.7%	23.6%	25.6%	13.4%	22.0%	17.5%	17.6%	25.5%	21.0%	20.5%	20.9%		20.6%	17.5%
Sales Breakdown																			
Recruitment Advertising		1,856	1,758	1,774	1,771	1,929	2,213	2,226	2,476	2,298	2,422	2,519	3,032	7,159	8,844	10,271		10,090	12,700
Recruitment Consulting		1,079	1,117	1,156	1,121	1,292	1,182	1,149	1,320	1,576	1,528	1,435	1,730	4,478	4,943	6,269		5,890	7,850
Overseas Subsidiaries						81	132	316	306	323	449	510	560		835	1,842		1,710	2,500
New Graduate Hiring Business		222	168	776	316	190	133	687	336	197	44	28	30	1,482	1,346	299		180.1%	166
Others		30	24	26	47	42	51	60	61	57	38	90	97	127	214	282		244	440
YoY																			
Recruitment Advertising						3.9%	25.9%	25.5%	39.8%	19.1%	9.4%	13.2%	22.5%		23.5%	16.1%		14.0%	
Recruitment Consulting						19.7%	5.8%	-0.6%	17.2%	22.0%	29.3%	24.9%	31.1%		10.4%	26.8%		19.1%	
Overseas Subsidiaries						298.8%	240.2%	61.4%	83.0%							120.6%		104.1%	
New Graduate Hiring Business		15.0%	-4.0%	20.9%	-10.0%	-14.4%	-20.8%	-11.5%	6.3%	3.7%	-66.9%	-95.9%	-91.1%		-9.2%	-77.8%		-87.7%	
Others						40.0%	112.5%	130.8%	29.8%	35.7%	-25.5%	50.0%	58.4%		68.5%	31.6%			
Education and Evaluation Business (*)																			
Sales		81	70	73	70	126	145	172	193	159	158	213	217	294	636	747	65.0%	1,150	1,100
Gross Profit		61	53	56	53	111	130	156	168	144	143	185	188	223	565	660			
GP		75.3%	75.7%	76.7%	75.7%	88.1%	89.7%	90.7%	87.1%	90.6%	90.5%	86.9%	86.6%	75.9%	88.8%	88.4%			
Operating Profit		20	4	11	8	16	28	42	46	4	-26	11	2	43	132	-9	-4.0%	225	-105
OPM		24.7%	5.7%	15.1%	11.4%	12.7%	19.3%	24.4%	23.8%	2.5%	-16.5%	5.1%	1.0%	14.6%	20.8%	-1.2%		19.6%	-9.5%
en-japan inc.																			
Sales		2,567	2,380	3,001	2,682	2,652	2,802	3,339	3,246	2,960	2,958	3,094	3,713	10,630	12,041	12,725	96.5%	13,180	16,280
YoY		10.8%	-4.3%	3.6%	-1.6%	3.3%	17.7%	11.3%	21.0%	11.6%	5.6%	-7.3%	14.4%		13.3%	5.7%		9.5%	27.9%
Operating Profit		598	434	935	502	625	793	1,083	516	772	600	752	1,195	2,469	3,017	3,319	96.2%	3,450	3,130
OPM		23.3%	18.2%	31.2%	18.7%	23.6%	28.3%	32.4%	15.9%	26.1%	20.3%	24.3%	32.2%	23.2%	25.1%	26.1%		26.2%	19.2%
EWJ (en world japan K.K)																			
Sales		734	762	807	653	886	859	871	1,037	1,268	1,175	1,075	1,270	2,959	3,655	4,788	122.1%	3,920	5,390
YoY		38.8%	12.6%	43.9%	6.4%	20.7%	12.7%	7.9%	58.8%	43.1%	36.8%	23.4%	22.5%		23.5%	31.0%		7.3%	12.4%
Operating Profit		166	163	141	7	200	186	104	167	355	192	86	266	479	658	899	128.4%	700	840
OPM		22.6%	21.4%	17.5%	1.1%	22.6%	21.7%	11.9%	16.1%	28.0%	16.3%	8.0%	20.9%	16.2%	18.0%	18.8%		17.9%	15.6%
Overseas subsidiaries																			
Sales						81	132	316	306	323	449	510	560		838	1,842	107.7%	1,710	2,500
Operating Profit						-51	-37	41	38	-32	82	55	1		-8	106	84.8%	125	385
OPM						-63.0%	-28.0%	13.0%	12.4%	-9.9%	18.3%	10.8%	0.2%		-1.0%	5.8%		7.3%	15.4%

Source: Company data

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

Note: En-japan changed reporting segments in FY03/15 (the mid-career hiring and new graduate hiring segments have been combined to form the hiring segment). For readers' convenience, Shared Research uses the simple sum of the mid-career hiring and new graduate hiring segments for the hiring segment prior to FY03/14. Data for the education and evaluation segment are unchanged.

*Q4 FY03/15 figures are calculated by subtracting cumulative Q3 earnings from full-year company forecasts.

[en] Career Change, [en] world Japan lead earnings, overall profits for overseas subsidiaries

Full-year FY03/15 profit is up YoY, lead by recruitment subsidiary EWJ, with sales exceeding forecasts and operating profit basically on target.

The company's main service of recruitment advertising, [en] Career Change, and its main recruitment consulting subsidiary, [en] world Japan (EWJ), both performed strongly, while the company's overseas subsidiaries also became profitable overall. Unplanned costs were incurred with relocation of the company's subsidiary offices and new business investment, but these also increased revenues that brought profits back on target.

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[en] Career Change, [en] world Japan show strong performance

The main service of recruitment advertising, [en] Career Change, saw robust results due to an overhaul of the company's recruitment websites in 1H, and by Q4, listings had returned to levels last seen in 2008. In recruitment consulting, [en] world Japan (EWJ) saw another quarter of double-digit growth in Q4, as it responds to the hiring demands of globalizing companies in Japan. In addition to a growing market, EWJ's staff additions and strategic focus saw sales (JPY4.8bn) and operating profit (JPY899mn) both exceed forecast (JPY3.9bn and JPY700mn respectively), contributing to consolidated performance.

Overseas subsidiaries as a group achieve positive operating profit

Overseas subsidiaries saw significant year-on-year growth in revenues and an improvement in operating profit from earnings of subsidiaries in Vietnam and Thailand, as well as a subsidiary in India that started contributing in Q3. As a group, overseas subsidiaries achieved a positive operating profit of JPY106mn. Vietnam and Australia in particular appear to have robust performance.

View the [full report](#).

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Gulliver International Co., Ltd. (7599)

Core business in buying and wholesaling used vehicles. Japan's largest buyer of used vehicles and the first to introduce nationwide unified purchase prices. Pioneer in use of computers to showcase and sell used vehicles.

On **June 30, 2015**, Gulliver International Co., Ltd. announced the launch of a specialist truck, van, and bus website "Gulliver Truck" on July 1, 2015.

Gulliver's aim

The company has received feedback from customers that use freight vehicles for commercial purposes that they do not know where to buy and sell such vehicles. As a result, the company has decided to establish a specialist website as the first step in creating an environment where customers can buy and sell trucks, vans, and buses easily, at appropriate prices, as with regular passenger cars.

In the active market for freight vehicles, Gulliver plans to leverage its distribution system and wide-ranging network to increase the value of the used-car industry for consumers that want to buy and sell vehicles at fair prices.

Demand for freight vehicles

New freight vehicle registrations have been trending upward for the past five years (+120% YoY in 2014), with over 500,000 such registrations per year.

Over 10,000 freight vehicles are shipped from auto auctions nationwide every month. Many of these vehicles are shipped overseas, as emerging markets and other countries spend on capex. Gulliver has thus decided to open this website in anticipation of rising demand both in Japan and overseas.

Features of Gulliver Truck website

- ☐ Offers a global market picture, with a calculation of the purchase price in the highest priced region.
- ☐ Offers high selling prices through unique channels, based on a rich range of global channels.
- ☐ Offers a quick process, from purchase to sale, using Gulliver's domestic network of about 460 stores (as of February 2015).

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On **June 10, 2015**, the company announced monthly sales data for May 2015.

Total car sales at directly managed stores (units)

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Total
FY02/12	19,156	13,401	10,709	12,284	12,482	9,822	12,344	12,426	10,497	8,987	10,059	14,122	146,289
YoY	-3.8%	-12.7%	-10.7%	9.5%	5.4%	2.3%	-4.1%	3.2%	-3.1%	17.1%	-11.5%	-6.5%	-2.3%
FY02/13	20,685	15,420	10,900	11,670	11,594	11,443	12,220	13,794	13,661	8,285	11,925	17,156	158,753
YoY	8.0%	15.1%	1.8%	-5.0%	-7.1%	16.5%	-1.0%	11.0%	30.1%	-7.8%	18.6%	21.5%	8.5%
FY02/14	23,223	15,921	12,456	12,884	13,123	12,198	13,416	17,181	15,462	10,716	13,258	18,931	178,769
YoY	12.3%	3.2%	14.3%	10.4%	13.2%	6.6%	9.8%	24.6%	13.2%	29.3%	11.2%	10.3%	12.6%
FY02/15	21,580	11,640	9,725	10,374	12,232	13,044	14,136	18,552	15,181	11,070	13,215	18,219	168,968
YoY	-7.1%	-26.9%	-21.9%	-19.5%	-6.8%	6.9%	5.4%	8.0%	-1.8%	3.3%	-0.3%	-3.8%	-5.5%
FY02/16	23,716	18,747	13,605	-	-	-	-	-	-	-	-	-	56,068
YoY	9.9%	61.1%	39.9%	-	-	-	-	-	-	-	-	-	30.6%

Retail sales at directly managed stores (units)

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Total
FY02/12	3,618	3,191	2,160	2,315	2,858	2,150	2,406	3,142	2,560	2,493	2,307	3,891	33,091
YoY	-19.2%	10.8%	-23.9%	-17.5%	-7.5%	-21.8%	-17.3%	-3.9%	-9.8%	5.6%	15.6%	12.2%	-7.3%
FY02/13	5,758	3,642	3,080	3,761	4,123	3,270	3,789	4,422	3,583	2,771	2,717	4,353	45,269
YoY	59.1%	14.1%	42.6%	62.5%	44.3%	52.1%	57.5%	40.7%	40.0%	11.2%	17.8%	11.9%	36.8%
FY02/14	6,593	4,327	3,441	3,804	4,109	3,027	3,937	4,962	4,660	3,661	2,785	5,080	50,386
YoY	14.5%	18.8%	11.7%	1.1%	-0.3%	-7.4%	3.9%	12.2%	30.1%	32.1%	2.5%	16.7%	11.3%
FY02/15	7,006	3,028	2,806	3,695	4,087	4,448	4,249	5,030	4,937	3,873	3,176	5,882	52,217
YoY	6.3%	-30.0%	-18.5%	-2.9%	-0.5%	46.9%	7.9%	1.4%	5.9%	5.8%	14.0%	15.8%	3.6%
FY02/16	7,944	5,338	5,028	-	-	-	-	-	-	-	-	-	18,310
YoY	13.4%	76.3%	79.2%	-	-	-	-	-	-	-	-	-	42.6%

Wholesale sales at directly managed stores (units)

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Total
FY02/12	15,538	10,210	8,549	9,969	9,624	7,672	9,938	9,284	7,937	6,494	7,752	10,231	113,198
YoY	0.7%	-18.2%	-6.6%	18.5%	10.0%	12.0%	-0.3%	5.8%	-0.7%	22.2%	-17.3%	-12.0%	-0.8%
FY02/13	14,927	11,778	7,820	7,909	7,471	8,173	8,431	9,372	10,078	5,514	9,208	12,803	113,484
YoY	-3.9%	15.4%	-8.5%	-20.7%	-22.4%	6.5%	-15.2%	0.9%	27.0%	-15.1%	18.8%	25.1%	0.3%
FY02/14	16,630	11,594	9,015	9,080	9,014	9,171	9,479	12,219	10,802	7,055	10,473	13,851	128,383
YoY	11.4%	-1.6%	15.3%	14.8%	20.7%	12.2%	12.4%	30.4%	7.2%	27.9%	13.7%	8.2%	13.1%
FY02/15	14,574	8,612	6,919	6,679	8,145	8,596	9,887	13,522	10,244	7,197	10,039	12,337	116,751
YoY	-12.4%	-25.7%	-23.3%	-26.4%	-9.6%	-6.3%	4.3%	10.7%	-5.2%	2.0%	-4.1%	-10.9%	-9.1%
FY02/16	15,772	13,409	8,577	-	-	-	-	-	-	-	-	-	37,758
YoY	8.2%	55.7%	24.0%	-	-	-	-	-	-	-	-	-	25.4%

Store count

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Term-end
FY02/12	421	417	416	418	415	415	417	418	419	419	417	415	415
Directly managed	286	284	284	286	287	287	289	288	291	291	289	288	288
Franchisee	135	133	132	132	128	128	128	130	128	128	128	127	127
YoY (directly managed)	-4	-4	-4	-2	±0	-1	+1	±0	+5	+5	+3	+2	+2
FY02/13	415	415	413	416	414	414	413	411	411	413	412	412	412
Directly managed	288	291	290	293	293	293	292	292	292	294	293	294	294
Franchisee	127	124	123	123	121	121	121	119	119	119	119	118	118
YoY (directly managed)	+2	+7	+6	+7	+6	+6	+3	+4	+1	+3	+4	+6	+6
FY02/14	411	412	404	404	404	407	409	411	412	408	413	417	417
Directly managed	294	296	294	294	295	297	298	302	303	298	302	304	304
Franchisee	117	116	110	110	109	110	111	109	109	110	111	113	113
YoY (directly managed)	+6	+5	+4	+1	+2	+4	+6	+10	+11	+4	+9	+10	+10
FY02/15	421	421	421	422	424	426	432	439	444	448	454	461	461
Directly managed	308	308	312	313	315	316	321	332	337	342	347	354	354
Franchisee	113	113	109	109	109	110	111	107	107	106	107	107	107
YoY (directly managed)	+14	+12	+18	+19	+20	+19	+23	+30	+34	+44	+45	+50	+50
FY02/16	466	461	462	-	-	-	-	-	-	-	-	-	466
Directly managed	359	362	367	-	-	-	-	-	-	-	-	-	359
Franchisee	107	99	95	-	-	-	-	-	-	-	-	-	107
YoY (directly managed)	+51	+54	+55	-	-	-	-	-	-	-	-	-	+51

Source: Company data

Total car sales at directly managed stores = Direct customer retail sales and wholesale sales at auctions, etc.

Retail sales at directly managed stores = as mentioned above, units sold directly to customers

View the [full report](#).

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Harmonic Drive Systems (6324)

World leading manufacturer of Harmonic Drive® compact speed reducers mainly used in industrial robots and precision equipment.

On **June 29, 2015**, Shared Research updated the report following a phone interview with Harmonic Drive Systems Inc. (HDSI) management.

Quarterly Performance (JPYmn)		FY03/13				FY03/14				FY03/15				FY03/15	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales		4,957	4,890	4,158	4,126	4,969	5,443	5,475	5,197	6,155	6,545	6,493	6,758	99.8%	26,000
Reducers		3,958	3,871	3,398	3,260	3,860	4,270	4,342	4,047	5,047	5,405	5,384	5,467		
Mechatronics		1,000	1,019	760	866	1,108	1,173	1,133	1,150	1,108	1,140	1,109	1,292		
Japan		4,222	4,131	3,543	3,466	4,228	4,567	4,685	4,420	5,382	5,682	5,644	5,826		
North America		735	759	615	660	741	876	790	777	773	863	849	932		
YoY		-11.8%	-10.9%	-8.0%	-9.0%	0.2%	11.3%	31.7%	26.0%	23.9%	20.2%	18.6%	30.0%		23.3%
Reducers		-12.9%	-12.3%	-5.4%	-6.8%	-2.5%	10.3%	27.8%	24.2%	30.8%	26.6%	24.0%	35.1%		
Mechatronics		-7.0%	-4.7%	-18.2%	-16.6%	10.9%	15.2%	49.2%	32.8%	-0.1%	-2.8%	-2.1%	12.3%		
Japan		-12.0%	-11.5%	-4.6%	-12.3%	0.1%	10.6%	32.2%	27.5%	27.3%	24.4%	20.5%	31.8%		
North America		-10.4%	-7.5%	-23.6%	13.4%	0.8%	15.4%	28.5%	17.8%	4.3%	-1.5%	7.4%	20.0%		
Gross Profit		2,119	2,070	1,665	1,515	2,172	2,430	2,436	2,080	2,797	3,237	2,977	3,110		
YoY		-12.5%	-12.4%	-3.8%	-15.0%	2.5%	17.4%	46.3%	37.3%	28.8%	33.2%	22.2%	49.5%		
GPM		42.7%	42.3%	40.1%	36.7%	43.7%	44.6%	44.5%	40.0%	45.4%	49.5%	45.9%	46.0%		
SG&A Expenses		976	996	1,037	924	1,079	1,118	1,102	1,151	1,189	1,213	1,312	1,342		
YoY		-4.3%	0.2%	6.7%	-5.6%	10.6%	12.3%	6.3%	24.6%	10.2%	8.4%	19.1%	16.6%		
SG&A / Sales		19.7%	20.4%	24.9%	22.4%	21.7%	20.5%	20.1%	22.1%	19.3%	18.5%	20.2%	19.9%		
Operating Profit		1,143	1,074	628	591	1,093	1,312	1,334	929	1,608	2,025	1,665	1,768	96.1%	7,350
YoY		-18.4%	-21.6%	-17.2%	-26.5%	-4.3%	22.1%	112.2%	57.3%	47.1%	54.4%	24.9%	90.3%		57.5%
OPM		23.1%	22.0%	15.1%	14.3%	22.0%	24.1%	24.4%	17.9%	26.1%	30.9%	25.6%	26.2%		28.3%
Recurring Profit		1,183	1,025	698	670	1,196	1,362	1,364	902	1,796	2,091	1,805	1,834	97.4%	7,730
Japan		1,422	1,105	855	752	1,397	1,402	1,570	1,155	2,046	2,112	1,933	1,985		
North America		70	85	55	84	75	109	57	29	30	97	110	129		
Europe		17	-4	19	79	83	56	-29	-11	116	81	71	12		
Eliminations, company-wide		-326	-160	-231	-246	-359	-205	-234	-271	-396	-199	-308	-292		
YoY		-20.8%	-28.3%	-22.1%	15.9%	1.0%	32.8%	95.4%	34.7%	50.2%	53.5%	32.4%	103.4%		60.3%
Japan		-12.9%	-21.3%	2.3%	-15.2%	-1.8%	26.8%	83.7%	53.5%	46.4%	50.7%	23.1%	71.9%		
North America		-56.8%	-43.0%	-61.1%	670.9%	6.4%	28.8%	3.2%	-65.7%	-60.5%	-11.3%	93.5%	343.1%		29.7%
RPM		23.9%	21.0%	16.8%	16.2%	24.1%	25.0%	24.9%	17.3%	29.2%	31.9%	27.8%	27.1%		
Japan		33.7%	26.8%	24.1%	21.7%	33.0%	30.7%	33.5%	26.1%	38.0%	37.2%	34.2%	34.1%		
North America		9.6%	11.2%	9.0%	12.8%	10.1%	12.4%	7.2%	3.7%	3.8%	11.2%	13.0%	13.8%		
Net Income		722	481	380	378	759	870	843	522	1,113	1,370	1,176	1,175	98.6%	4,900
YoY		-4.6%	-34.9%	-23.6%	157.4%	5.2%	80.9%	121.8%	37.9%	46.7%	57.5%	39.5%	125.1%		63.7%
NPM		14.6%	9.8%	9.1%	9.2%	15.3%	16.0%	15.4%	10.0%	18.1%	20.9%	18.1%	17.4%		18.8%
Orders		5,361	4,313	4,098	4,414	5,316	5,323	5,282	6,400	7,015	6,008	6,715	7,750		
Parent		4,732	3,707	3,763	4,077	4,647	4,693	4,537	5,966	6,260	5,247	5,815	6,884		
Difference		629	606	335	337	669	630	745	434	755	761	900	866		
YoY		-12.3%	-8.3%	6.1%	-4.0%	-0.8%	23.4%	28.9%	45.0%	31.9%	12.9%	27.1%	21.1%		
Parent		-10.0%	-12.8%	9.0%	-6.7%	-1.8%	26.6%	20.6%	46.3%	34.7%	11.8%	28.2%	15.4%		
Difference		-26.9%	33.8%	-18.2%	50.0%	6.4%	4.0%	122.3%	28.8%	12.8%	20.8%	20.8%	99.4%		
Order backlog		3,270	2,659	2,582	2,962	3,387	3,321	3,119	4,400	5,224	4,677	5,005	6,186		

Quarterly sales and orders (parent) (JPYmn)		FY03/13				FY03/14				FY03/15			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales		4,442	4,237	3,761	3,717	4,416	4,673	4,853	4,640	5,584	5,781	5,804	5,858
Semiconductor production equipment		544	417	325	404	483	538	635	572	525	538	562	519
Flat panel displays		229	201	191	315	462	364	355	318	245	366	405	301
Industrial robot applications		1,687	1,700	1,220	1,276	1,278	1,629	1,521	1,628	2,606	2,491	2,244	2,599
Gear heads (for electric motor makers)		331	267	220	261	285	377	350	373	323	318	388	425
Machine tools		311	277	334	310	304	280	351	350	359	391	424	402
Oil-Drilling Equipment		243	232	282	86	285	273	255	180	376	403	435	235
Others		1,095	1,143	1,187	1,063	1,315	1,211	1,383	1,218	1,147	1,271	1,343	1,375
YoY		-13.4%	-14.0%	-3.2%	-9.9%	-0.6%	10.3%	29.0%	24.8%	26.4%	23.7%	19.6%	26.3%
Semiconductor production equipment		-18.4%	-28.1%	-30.4%	-30.9%	-11.2%	29.0%	95.4%	41.6%	8.7%	0.0%	-11.5%	-9.3%
Flat panel displays		-58.1%	-35.0%	-8.2%	62.4%	101.7%	81.1%	85.9%	1.0%	-47.0%	0.5%	14.1%	-5.3%
Industrial robot applications		-8.5%	-13.7%	-14.6%	-5.6%	-24.2%	-4.2%	24.7%	27.6%	103.9%	52.9%	47.5%	59.6%
Gear heads (for electric motor makers)		-11.0%	-23.9%	-20.9%	-16.1%	-13.9%	41.2%	28.9%	45.0%	31.9%	15.6%	10.9%	13.9%
Machine tools		-8.3%	-21.3%	9.2%	-8.0%	-2.3%	1.1%	5.1%	12.9%	18.1%	39.6%	20.8%	14.9%
Oil-Drilling Equipment		120.9%	77.1%	67.9%	-53.5%	17.3%	17.7%	-9.6%	109.3%	31.9%	47.6%	70.6%	30.6%
Others		-12.0%	-7.2%	15.6%	-8.5%	20.1%	5.9%	16.5%	14.6%	-12.8%	5.0%	-2.9%	12.9%
Orders		4,732	3,707	3,763	4,077	4,647	4,693	4,537	5,966	6,260	5,247	5,815	6,884
Semiconductor production equipment		491	351	337	449	510	597	629	565	558	510	521	698
Flat panel displays		243	183	239	379	471	381	289	276	433	334	304	443
Industrial robot applications		1,853	1,370	1,349	1,179	1,478	1,609	1,463	2,685	2,854	1,946	2,722	2,720
Gear heads (for electric motor makers)		335	225	239	241	344	375	354	351	340	344	372	607
Machine tools		272	304	320	311	271	319	364	334	401	424	363	709
Oil-Drilling Equipment		354	180	132	377	223	178	174	370	397	495	231	170
Others		1,181	1,094	1,145	1,137	1,349	1,231	1,261	1,382	1,274	1,189	1,300	1,534
YoY		-10.0%	-12.8%	9.0%	-6.7%	-1.8%	26.6%	20.6%	46.3%	34.7%	11.8%	28.2%	15.4%
Semiconductor production equipment		-22.6%	-22.0%	-36.1%	-22.0%	3.9%	70.1%	86.6%	25.8%	9.4%	-14.6%	-17.2%	23.5%
Flat panel displays		-48.3%	-27.1%	47.5%	89.5%	93.8%	108.2%	20.9%	-27.2%	-8.1%	-12.3%	5.2%	60.5%
Industrial robot applications		-11.0%	-16.2%	18.5%	-23.8%	-20.2%	17.4%	8.5%	127.7%	93.1%	20.9%	86.1%	1.3%
Gear heads (for electric motor makers)		-17.9%	-28.8%	-13.7%	-26.1%	-2.7%	66.7%	48.1%	45.6%	-1.2%	-8.3%	5.1%	72.9%
Machine tools		-13.7%	-9.5%	1.3%	-5.5%	-0.4%	4.9%	13.8%	7.4%	48.0%	32.9%	-0.3%	112.3%
Oil-Drilling Equipment		200.0%	-10.9%	230.0%	61.8%	-37.0%	-1.1%	31.8%	-1.9%	78.0%	178.1%	32.8%	-54.1%
Others		-3.5%	3.2%	15.8%	-1.7%	14.2%	12.5%	10.1%	21.5%	-5.6%	-3.4%	3.1%	11.0%

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

Source: Company data

*Q4 FY03/15 figures are calculated by subtracting cumulative Q3 results from full-year company forecasts.

Business conditions were favorable throughout the year. Specifically, manufacturing industry capex was robust in developed economies, while demand for automation and labor saving increased in emerging markets.

View the [full report](#).

MONTHLY WRAP – July 2015

Hearts United Group Co., Ltd. (3676)

A debugging business established as a holding company of Digital Hearts.

On **June 30, 2015**, Hearts United Group Co., Ltd. announced that it would make Premium Agency (in which it currently holds a 58.8% interest) a wholly owned subsidiary by acquiring the remaining shares outstanding and would then transfer Premium Agency's 3D solutions business to YR Co., Ltd.

The company expects to acquire the shares and also transfer control of the 3D solutions business unit on July 1, 2015. Services currently offered by the 3D solutions business include virtual reality (VR) solutions and augmented reality (AR) solutions. The company does not expect this transaction to have a material impact on consolidated results.

View the [full report](#).

MONTHLY WRAP – July 2015

Ito En, Ltd. (2593)

Beverage company specializing in green tea beverages, such as its flagship "Oi Ocha" brand, as well as vegetable and coffee drinks.

On June 5, 2015, Ito En announced monthly sales data for May 2015.

Monthly Sales (non-consolidated estimates; % change YoY)												FY04/16	
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	Total
Total Sales	4.2%												
Tea Leaf	5.2%												
Beverages	4.2%												
Breakdown by Beverage Category													
Japanese Tea Beverages	4.6%												
Chinese Tea Beverages	28.7%												
Vegetable Beverages	0.1%												
Fruit Beverages	-17.9%												
Coffee Beverages	22.9%												
Black Tea Beverages	-36.0%												
Functional Beverages	40.5%												
Mineral Water	10.1%												
Monthly Sales (non-consolidated estimates; % change YoY)												FY04/15	
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	Total
Total Sales	-2.7%	0.5%	-3.9%	-9.4%	-3.8%	0.1%	-2.6%	-1.2%	0.7%	0.3%	-9.4%	4.7%	-2.7%
Tea Leaf	-1.4%	1.0%	-0.3%	-0.8%	2.3%	3.2%	0.1%	4.2%	5.1%	5.8%	-7.2%	9.7%	1.3%
Beverages	-2.7%	0.5%	-4.1%	-9.8%	-3.9%	-0.3%	-2.4%	-1.4%	0.6%	0.3%	-9.5%	4.2%	-3.1%
Breakdown by Beverage Category													
Japanese Tea Beverages	2.5%	0.2%	-0.9%	-10.2%	-3.1%	1.7%	1.4%	1.1%	5.1%	4.7%	-3.5%	6.0%	-0.1%
Chinese Tea Beverages	-9.4%	-0.5%	-2.7%	-12.3%	-15.4%	-0.7%	-12.4%	-6.1%	-0.7%	-1.6%	-9.1%	61.2%	-0.7%
Vegetable Beverages	-19.9%	-10.9%	-13.0%	-16.2%	-10.8%	-5.4%	-10.7%	-11.6%	-3.5%	1.4%	-28.0%	-5.2%	-11.7%
Fruit Beverages	17.9%	18.9%	-10.0%	-13.9%	57.6%	11.9%	6.3%	-5.0%	0.7%	-22.3%	-12.4%	-8.1%	-1.0%
Coffee Beverages	9.7%	23.9%	4.8%	16.3%	17.1%	10.2%	-4.4%	10.9%	7.5%	11.4%	13.5%	10.0%	9.1%
Black Tea Beverages	7.1%	2.7%	-5.8%	-7.0%	-21.9%	-25.7%	-0.6%	-29.0%	-13.6%	-37.8%	-25.8%	-31.9%	-17.4%
Functional Beverages	-32.8%	-15.3%	-14.2%	-16.1%	-13.7%	-0.3%	-7.2%	-15.2%	-11.1%	-17.6%	-8.8%	-4.2%	-14.8%
Mineral Water	-13.7%	-8.2%	-14.2%	-13.4%	-16.8%	-9.8%	-9.3%	-4.1%	-5.3%	-3.2%	-15.3%	5.0%	-10.3%

Source: Company data

MONTHLY WRAP – July 2015

On June 1, 2015, the company announced full-year earnings results for FY04/15.

Quarterly Performance (JPYmn)	FY04/14				FY04/15				FY04/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	119,193	119,791	94,926	103,845	118,700	115,152	94,444	102,245	-	-
YoY	12.2%	8.7%	4.6%	7.4%	-0.4%	-3.9%	-0.5%	-1.5%		
Gross Profit	55,809	58,135	46,199	51,661	55,616	55,598	45,267	50,928		
YoY	13.4%	11.1%	6.3%	9.7%	-0.3%	-4.4%	-2.0%	-1.4%		
GPM	46.8%	48.5%	48.7%	49.7%	46.9%	48.3%	47.9%	49.8%		
SG&A Expenses	50,240	49,243	45,329	45,892	53,421	49,605	45,770	47,220		
YoY	14.0%	12.5%	9.0%	8.2%	6.3%	0.7%	1.0%	2.9%		
SG&A / Sales	42.2%	41.1%	47.8%	44.2%	45.0%	43.1%	48.5%	46.2%		
Operating Profit	5,568	8,893	870	5,769	2,194	5,993	-502	3,708	-	-
YoY	8.1%	4.1%	-53.4%	22.9%	-60.6%	-32.6%	-	-35.7%		
OPM	4.7%	7.4%	0.9%	5.6%	1.8%	5.2%	-	3.6%		
Recurring Profit	5,426	8,692	835	5,565	2,082	5,937	-308	3,518	-	-
YoY	11.0%	2.5%	-55.3%	19.0%	-61.6%	-31.7%	-	-36.8%		
RPM	4.6%	7.3%	0.9%	5.4%	1.8%	5.2%	-	3.4%		
Net Income	2,987	5,338	378	3,393	937	3,441	-398	3,312	-	-
YoY	22.1%	4.6%	-67.1%	33.3%	-68.6%	-35.5%	-	-2.4%		
NM	2.5%	4.5%	0.4%	3.3%	0.8%	3.0%	-	3.2%		
Cumulative data										
	Q1	1H	Q3	FY	Q1	1H	Q3	FY	% of FY	FY Est.
Sales	119,193	238,984	333,910	437,755	118,700	233,852	328,296	430,541	98.5%	437,000
YoY	12.2%	10.4%	8.7%	8.4%	-0.4%	-2.1%	-1.7%	-1.6%		-0.2%
Gross Profit	55,809	113,944	160,143	211,804	55,616	111,214	156,481	207,409	98.5%	210,615
YoY	13.4%	12.2%	10.4%	10.3%	-0.3%	-2.4%	-2.3%	-2.1%		-0.6%
GPM	46.8%	47.7%	48.0%	48.4%	46.9%	47.6%	47.7%	48.2%		48.2%
SG&A Expenses	50,240	99,483	144,812	190,704	53,421	103,026	148,796	196,016	98.7%	198,615
YoY	14.0%	13.2%	11.9%	11.0%	6.3%	3.6%	2.8%	2.8%		4.1%
SG&A / Sales	42.2%	41.6%	43.4%	43.6%	45.0%	44.1%	45.3%	45.5%		45.4%
Operating Profit	5,568	14,461	15,331	21,100	2,194	8,187	7,685	11,393	94.9%	12,000
YoY	8.1%	5.6%	-1.4%	4.2%	-60.6%	-43.4%	-49.9%	-46.0%		-43.1%
OPM	4.7%	6.1%	4.6%	4.8%	1.8%	3.5%	2.3%	2.6%		2.7%
Recurring Profit	5,426	14,118	14,953	20,518	2,082	8,019	7,711	11,229	96.8%	11,600
YoY	11.0%	5.6%	-1.9%	3.0%	-61.6%	-43.2%	-48.4%	-45.3%		-43.5%
RPM	4.6%	5.9%	4.5%	4.7%	1.8%	3.4%	2.3%	2.6%		2.7%
Net Income	2,987	8,325	8,703	12,096	937	4,378	3,980	7,292	117.6%	6,200
YoY	22.1%	10.3%	0.1%	7.6%	-68.6%	-47.4%	-54.3%	-39.7%		-48.7%
NPM	2.5%	3.5%	2.6%	2.8%	0.8%	1.9%	1.2%	1.7%		1.4%

Source: Company data

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

Estimates based on most recently released figures.

In the beverage industry, difficult conditions persisted amid a prolonged decline in consumption spending following the consumption tax increase, price declines fueled by increased competition, and lingering concerns over rising raw material and fuel costs resulting from the weak yen. Poor weather across Japan also negatively affected the market, including a lack of sunlight, heavy rains, and a succession of typhoons. As a result, Ito En's sales and profits fell year-on-year.

View the [full report](#).

MONTHLY WRAP – July 2015

Japan Best Rescue System Co Ltd (2453)

The only listed provider of handyman services. Strong growth, healthy balance sheet. Operates nationwide.

On **June 22, 2015**, Japan Best Rescue System Co., Ltd. (JBR) announced that it had submitted revised reports (a revised improvement report and report on the status of improvements) to the Tokyo and Nagoya stock exchanges.

In the revised reports, the company set forth multiple additional measures for improvement, based on facts that had come to light as a result of the investigations of the Internal Investigation Committee. According to the company, the Tokyo and Nagoya stock exchanges have requested that the company resubmit the report on the status of improvements by January 8, 2016, as they have judged that the company should explain the status of the implementation of the measures for improvement after six months, in order to confirm that the measures for improvement are functioning effectively. The company plans to resubmit with sincerity the report on the status of improvements to the exchanges.

On **June 8, 2015**, the company announced it had been issued Public Announcements by the Tokyo and Nagoya stock exchanges.

Stock exchanges issue Public Announcements when there are falsities in disclosed information, in order to publicly announce the facts and prevent reoccurrence. In this case, both Tokyo and Nagoya stock exchanges issued Public Announcements after finding that multiple directors and employees at JBR did not accurately report inappropriate sales reporting at subsidiary Binos Corporation, which was in violation of listing regulations.

JBR has already taken punitive measures against the directors and employees involved, and announced preventative measures in accordance with proposals from the Internal Investigation Committee on May 25, 2015. Having now received the Public Announcements, JBR plans to revise the preventative measures and submit a revised improvement report and revised report on the status of improvements to both stock exchanges by June 22, 2015, taking into account the findings of the Internal Investigation Committee and confirmation of the facts by the exchanges. The company plans to disclose any relevant information as soon as possible.

View the [full report](#).

MONTHLY WRAP – July 2015

JIN Co., Ltd. (3046)

Mall-based eyewear retailer, aggressive growth strategy using private-label retailing model.

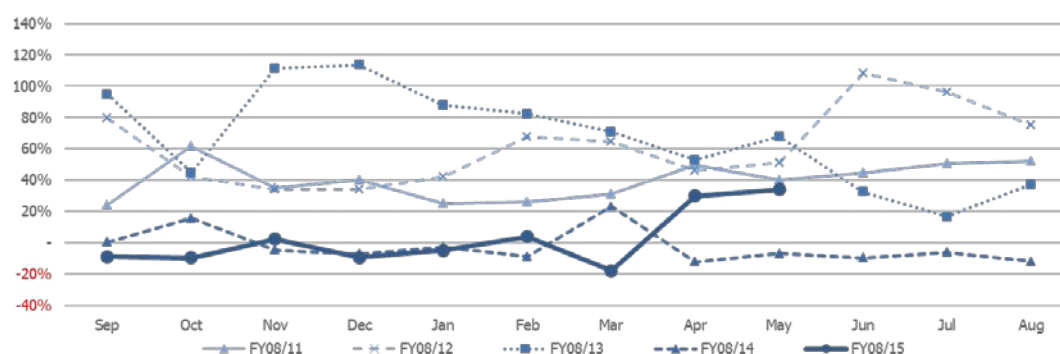
On **June 17, 2015 (June 16, PDT)**, JIN Co., Ltd. was selected as the winner of the 2015 Salesforce Emerging Leader Award for Japan in the Japan-US Innovation Awards 2015, held by the Japan Society of Northern California and the US-Asia Technology Management Center at Stanford University (US). iRobot (US robot vacuum cleaner Roomba) was selected as the winner of the Salesforce Emerging Leader Award for the US.

Every year, a panel of 40 San Francisco and Silicon Valley-based venture capitalists, academics, and respected executives award prizes to one US company and one Japanese company judged to be highly innovative and have the potential to make a global impact.

The panel rated highly the company's revolutionary new JINS brand glasses format; its creation of a new market for light, non-prescription glasses; and its efforts to create sensing eyewear (wearable technology).

On **June 5, 2015**, the company released monthly sales data for May 2015.

All stores sales growth

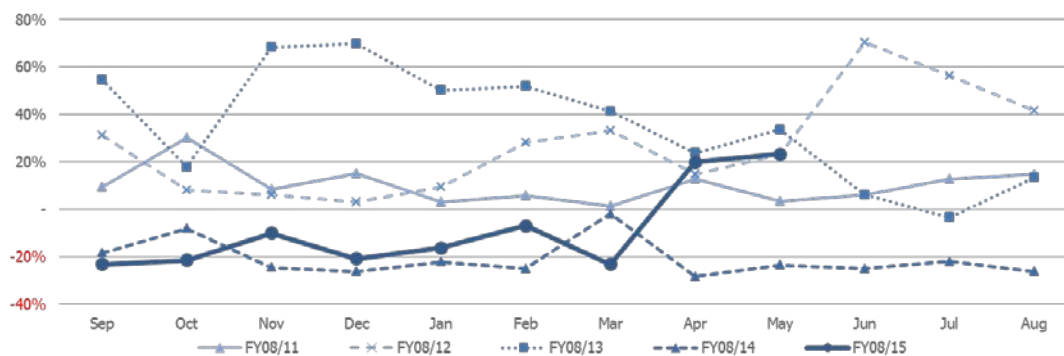


All Stores Sales Growth (YoY)												
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
FY08/09	5.5%	21.2%	41.5%	21.9%	44.0%	18.6%	16.0%	14.6%	26.8%	21.8%	38.4%	40.2%
FY08/10	60.4%	67.9%	45.3%	45.7%	46.6%	52.5%	50.7%	69.6%	54.4%	48.0%	33.1%	36.7%
FY08/11	23.9%	61.4%	35.3%	40.1%	24.8%	26.0%	31.3%	49.7%	39.9%	44.4%	50.8%	52.2%
FY08/12	79.5%	42.3%	34.2%	34.3%	42.2%	67.7%	64.8%	46.0%	51.0%	108.1%	96.2%	75.0%
FY08/13	94.8%	44.7%	111.4%	113.5%	87.7%	82.2%	70.7%	52.8%	67.8%	32.4%	16.6%	37.1%
FY08/14	0.4%	15.6%	-4.6%	-7.2%	-2.6%	-8.9%	23.2%	-12.2%	-6.9%	-9.7%	-6.2%	-11.8%
FY08/15	-9.0%	-9.6%	2.3%	-9.4%	-5.0%	4.0%	-17.8%	29.9%	33.9%			

Source: Company data, SR Inc. Research

Comparable stores sales growth

MONTHLY WRAP – July 2015



	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
FY08/09	-20.6%	-11.1%	-1.5%	-13.2%	3.8%	-8.3%	-7.8%	-5.1%	6.0%	2.9%	9.9%	15.9%
FY08/10	33.5%	51.1%	36.1%	40.7%	41.1%	42.5%	35.3%	50.4%	36.1%	29.6%	20.2%	21.2%
FY08/11	9.4%	30.3%	8.4%	15.1%	3.1%	5.7%	1.2%	12.7%	3.3%	5.9%	12.9%	14.7%
FY08/12	31.1%	7.9%	5.9%	3.0%	9.3%	28.1%	33.1%	14.9%	23.2%	70.4%	56.2%	41.7%
FY08/13	54.8%	17.8%	68.3%	69.8%	50.3%	51.9%	41.3%	23.8%	33.7%	6.1%	-3.5%	13.3%
FY08/14	-18.6%	-8.1%	-24.5%	-26.3%	-22.2%	-25.1%	-1.9%	-28.4%	-23.6%	-25.1%	-22.1%	-26.3%
FY08/15	-23.3%	-21.5%	-10.2%	-20.8%	-16.4%	-7.0%	-23.3%	19.8%	23.3%			

Source: Company data, SR Inc. Research

View the [full report](#).

MONTHLY WRAP – July 2015

Kenedix, Inc. (4321)

Japan's largest, independent real estate fund manager. After rightsizing its balance sheet, now aiming to grow assets under management.

On **June 25, 2015**, Kenedix, Inc. announced the approval of the listing of a J-REIT specializing in healthcare facilities.

Japan Senior Living Investment Corporation received approval for the listing of its investment units on the REIT securities market of the Tokyo Stock Exchange. The company announced the establishment of Japan Senior Living Investment on May 12, 2015. This J-REIT is managed by Japan Senior Living Partners Co., Ltd., in which Kenedix has a 60% stake.

On **June 22, 2015**, this report was updated after Shared Research interviewed management.

Quarterly Performance (Cumulative) (JPYmn)					FY12/15				FY12/15	
	Q1	1H	Q1-Q3	Q1-Q4	Q1	1H	Q1-Q3	Q1-Q4	% of FY	FY Est.
Revenue	5,141	14,488	19,741	26,212	8,307				38.5%	21,600
YoY	10.7%	79.1%	63.4%	16.7%	61.6%				-3.8%	
Gross Profit	3,315	7,044	9,739	13,519	5,565				41.2%	13,500
YoY	21.3%	37.4%	26.4%	22.0%	67.9%				21.9%	
GPM	64.5%	48.6%	49.3%	51.6%	67.0%				62.5%	
SG&A Expenses	1,075	2,278	3,457	5,371	1,345					6,000
YoY	20.9%	28.7%	26.6%	29.0%	25.1%				44.2%	
SG&A / Revenue	20.9%	15.7%	17.5%	20.5%	16.2%				27.8%	
Operating Profit	2,240	4,765	6,281	8,147	4,219				56.3%	7,500
YoY	21.5%	42.0%	26.3%	17.8%	88.3%				8.5%	
OPM	43.6%	32.9%	31.8%	31.1%	50.8%				34.7%	
Recurring Profit	1,989	3,871	5,262	6,406	3,824				57.1%	6,700
YoY	42.3%	47.0%	53.6%	31.3%	92.3%				37.4%	
RPM	38.7%	26.7%	26.7%	24.4%	46.0%				31.0%	
Net Income	3,310	4,904	5,945	4,844	6,304				105.1%	6,000
YoY	188.3%	134.3%	161.5%	144.0%	90.5%				202.3%	
NPM	64.4%	33.8%	30.1%	18.5%	75.9%				27.8%	

(Quarterly) (JPYmn)					FY12/15			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	5,141	9,347	5,253	6,471	8,307			
YoY	10.7%	171.4%	31.6%	-37.6%	61.6%			
Gross Profit	3,315	3,729	2,695	3,780	5,565			
YoY	21.3%	55.8%	4.5%	12.1%	67.9%			
GPM	64.5%	39.9%	51.3%	58.4%	67.0%			
SG&A Expenses	1,075	1,203	1,179	1,914	1,345			
YoY	20.9%	36.5%	22.7%	33.8%	25.1%			
SG&A / Revenue	20.9%	12.9%	22.4%	29.6%	16.2%			
Operating Profit	2,240	2,525	1,516	1,866	4,219			
YoY	21.5%	66.9%	-6.4%	-3.8%	88.3%			
OPM	43.6%	27.0%	28.9%	28.8%	50.8%			
Recurring Profit	1,989	1,882	1,391	1,144	3,824			
YoY	42.3%	52.4%	75.4%	-21.2%	92.3%			
RPM	38.7%	20.1%	26.5%	17.7%	46.0%			
Net Income	3,310	1,594	1,041	-1,101	6,304			
YoY	188.3%	68.7%	478.3%	-	90.5%			
NPM	64.4%	17.1%	19.8%	-	75.9%			

Source: Company data

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

Forecasts based on most recently released figures.

Kenedix increased assets under management (AUM) by making new investments in healthcare facilities and performing asset management services for these properties. The company also issued a dividend in FY12/14, its first for seven years.

View the [full report](#).

MONTHLY WRAP – July 2015

Mac-House Co., Ltd. (7603)

Low-cost specialty retailer of everyday casual wear with nationwide appeal.

On **June 1, 2015**, Shared Research announced monthly sales data for May 2015.

Comparable Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/10 Sales	-18.2%	-11.0%	-9.6%	-18.6%	-11.4%	-13.2%	-17.6%	-16.8%	-26.2%	-11.8%	-11.7%	-10.9%
Cust. count	-16.7%	-5.4%	-0.8%	-5.6%	-4.4%	-7.8%	-6.1%	-11.4%	-17.3%	-2.3%	-1.4%	-2.9%
Spend / cust.	-1.8%	-5.8%	-8.9%	-13.8%	-7.3%	-5.9%	-12.2%	-6.1%	-10.8%	-9.8%	-10.4%	-8.3%
FY02/11 Sales	-17.5%	-15.3%	-11.9%	-8.3%	-10.1%	-12.1%	-17.3%	-0.9%	-8.0%	-13.7%	-6.3%	1.5%
Cust. count	-8.5%	-11.8%	-8.2%	-6.3%	-7.3%	-9.5%	-11.3%	5.9%	-1.6%	-12.9%	-7.7%	-1.2%
Spend / cust.	-9.9%	-4.0%	-4.1%	-2.2%	-3.1%	-2.8%	-6.7%	-6.4%	-6.6%	-0.9%	1.6%	2.8%
FY02/12 Sales	-18.1%	7.4%	-6.7%	1.9%	-1.4%	-1.6%	7.5%	-0.9%	1.2%	7.5%	-2.1%	-0.9%
Cust. count	-21.0%	1.4%	-12.4%	-9.0%	-8.8%	-7.6%	-5.1%	-12.6%	-8.3%	2.7%	-7.1%	-3.3%
Spend / cust.	3.6%	5.9%	6.5%	11.9%	8.1%	6.5%	13.3%	13.4%	10.3%	4.7%	5.3%	2.4%
FY02/13 Sales	23.2%	3.8%	-1.3%	-2.2%	-4.0%	1.8%	-7.3%	-9.3%	8.4%	-3.2%	-5.8%	-5.3%
Cust. count	14.3%	-0.6%	-4.7%	-6.1%	-8.0%	0.6%	-7.5%	-11.0%	1.1%	-6.7%	-8.7%	-10.8%
Spend / cust.	7.7%	4.4%	3.6%	4.2%	4.4%	1.2%	0.3%	1.9%	7.3%	3.7%	3.2%	6.2%
FY02/14 Sales	5.8%	-11.4%	-2.8%	2.9%	-8.9%	-4.1%	-6.3%	-14.3%	-9.0%	-8.5%	1.8%	10.5%
Cust. count	3.3%	-12.6%	-3.2%	2.2%	-7.8%	-7.1%	-8.2%	-11.8%	-5.9%	-7.2%	7.9%	17.8%
Spend / cust.	2.4%	1.4%	0.4%	0.7%	-1.2%	3.3%	2.1%	-2.9%	-3.3%	-1.4%	-5.7%	-6.2%
FY02/15 Sales	-4.5%	-6.7%	-1.3%	-1.2%	-1.4%	1.2%	9.0%	4.0%	-0.8%	-0.5%	-9.2%	-8.7%
Cust. count	-2.7%	-3.1%	-0.3%	-0.9%	-1.6%	0.1%	8.8%	0.6%	-6.3%	-1.9%	-10.8%	-12.3%
Spend / cust.	-1.8%	-3.8%	-1.0%	-0.2%	0.2%	1.1%	0.1%	3.3%	5.9%	1.4%	1.7%	4.1%
FY02/15 Sales	-4.7%	12.6%	6.2%	-	-	-	-	-	-	-	-	-
Cust. count	-6.6%	11.5%	4.4%	-	-	-	-	-	-	-	-	-
Spend / cust.	2.0%	0.9%	1.8%	-	-	-	-	-	-	-	-	-

All Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/10 Sales	-15.4%	-7.6%	-5.0%	-16.4%	-9.7%	-11.6%	-16.2%	-15.2%	-25.9%	-12.6%	-11.9%	-11.9%
Cust. count	-13.0%	-0.9%	5.8%	-2.2%	-1.7%	-5.3%	-3.8%	-8.5%	-16.2%	-2.3%	-1.0%	-3.3%
Spend / cust.	-2.9%	-6.8%	-10.2%	-14.5%	-8.2%	-6.7%	-12.9%	-7.4%	-11.6%	-10.5%	-11.0%	-8.9%
FY02/11 Sales	-18.8%	-17.3%	-14.6%	-10.7%	-12.2%	-14.2%	-19.2%	-5.1%	-12.0%	-17.5%	-10.9%	-3.1%
Cust. count	-11.8%	-13.3%	-10.8%	-8.2%	-8.9%	-11.2%	-13.1%	1.5%	-5.9%	-16.6%	-12.0%	-5.5%
Spend / cust.	-7.9%	-4.5%	-4.2%	-2.7%	-3.7%	-3.4%	-7.1%	-6.4%	-6.5%	-1.1%	1.3%	2.6%
FY02/12 Sales	-21.4%	1.4%	-11.3%	-2.5%	-5.9%	-5.7%	3.1%	-4.8%	-3.1%	3.6%	-6.1%	-5.5%
Cust. count	-24.2%	-4.2%	-16.7%	-12.8%	-12.9%	-11.4%	-8.9%	-15.5%	-11.8%	-0.9%	-10.5%	-7.3%
Spend / cust.	3.6%	5.9%	6.5%	11.9%	8.0%	6.5%	13.2%	12.6%	9.8%	4.5%	4.9%	1.9%
FY02/13 Sales	17.0%	-1.4%	-6.2%	-7.0%	-8.8%	-3.2%	-11.7%	-12.6%	4.9%	-5.3%	-7.9%	-6.9%
Cust. count	9.0%	-5.4%	-9.2%	-10.4%	-12.3%	-4.2%	-12.4%	-14.6%	-2.5%	-9.0%	-11.0%	-12.4%
Spend / cust.	7.4%	4.2%	3.3%	3.8%	4.0%	1.0%	0.8%	2.3%	7.7%	4.0%	3.4%	6.3%
FY02/14 Sales	4.9%	-11.8%	-2.5%	2.9%	-8.8%	-3.9%	-6.0%	-14.2%	-9.1%	-8.2%	0.9%	9.2%
Cust. count	2.5%	-12.9%	-2.9%	2.1%	-7.5%	-6.5%	-7.9%	-11.6%	-5.7%	-6.5%	6.9%	15.9%
Spend / cust.	2.4%	1.3%	0.5%	0.8%	-1.3%	2.9%	2.1%	-3.0%	-3.5%	-1.8%	-5.6%	-5.8%
FY02/15 Sales	-3.3%	-5.8%	-1.4%	-1.8%	-2.6%	0.2%	8.6%	2.8%	-1.4%	-1.5%	-9.4%	-8.3%
Cust. count	-0.8%	-1.4%	0.3%	-0.7%	-1.9%	-0.1%	9.4%	0.5%	-5.9%	-1.8%	-9.5%	-10.5%
Spend / cust.	-2.5%	-4.5%	-1.7%	-1.1%	-0.7%	0.3%	-0.7%	2.3%	4.8%	0.3%	0.1%	2.5%
FY02/15 Sales	-8.8%	8.3%	2.6%	-	-	-	-	-	-	-	-	-
Cust. count	-10.3%	7.8%	1.2%	-	-	-	-	-	-	-	-	-
Spend / cust.	1.7%	0.4%	1.4%	-	-	-	-	-	-	-	-	-

Source: Company data

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

View the [full report](#).



MONTHLY WRAP – July 2015

MIRAIT Holdings Corp. (1417)

A major telecom construction company, benefiting from telecom sophistication and expanding its earnings base.

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Shared Research



MONTHLY WRAP – July 2015

NAGASE & CO., LTD (8012)

Japan's largest specialist chemical trading company, differentiating through research and manufacturing capabilities. Imports, exports and sells chemicals, as well as plastics, electronic materials, cosmetics and food additives.

View the [full report](#).

Shared Research

MONTHLY WRAP – July 2015

NanoCarrier Co. (4571)

Biotech pharmaceutical company. Developer of new therapeutic drugs using micellar nanoparticle technology for drug targeting and delivery.

On **June 18, 2015**, NanoCarrier Co. submitted an IND Application to the Pharmaceuticals and Medical Devices Agency (PMDA), for the participation of Japan in the multinational clinical trial of NC-6004 (Nanoplatin®) in patients with pancreatic cancer.

NanoCarrier has conducted a Phase I clinical trial of NC-6004 for the indication of solid tumors in Japan. As a result of discussions with the PMDA, Japan will now participate in a Phase III clinical trial for the indication of pancreatic cancer that is progressing in Asia, without conducting a Phase II clinical trial in Japan. This Phase III clinical trial is the final trial in the process to obtain approval to market NC-6004 in Japan and Asia.

Overview of the Phase III clinical trial in Japan and Asia

Indication: Metastatic or locally advanced pancreatic cancer
 Trial content: Verification of the efficacy of NC-6004 in combination with gemcitabine
 Trial period: Through September 2017 (planned)

The launch of a domestic Phase III clinical trial for the indication of pancreatic cancer increases the marketability of this product, as it expands the potential market from the Asian region to also include the domestic market. In addition, the company expects this trial to add momentum to licensing agreements with pharmaceutical companies, as it makes it possible to begin marketing NC-6004 in Japan sooner, further increasing the value of this product.

The company does not expect this trial to have any material impact on earnings for FY03/16.

On **June 11, 2015**, Shared Research updated the report after interviewing management.

Quarterly Performance (JPYmn)	FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	150	176	119	28	57	254	47	317	100.1%	675
YoY	1430.2%	96.4%	16.7%	-83.9%	-62.0%	44.7%	-60.1%	1040.8%		42.9%
Gross Profit	98	125	53	14	27	177	9	251		
YoY	-	209.9%	-14.9%	-51.1%	-72.4%	41.2%	-82.9%	1747.1%		
GPM	65.2%	71.4%	44.8%	48.9%	47.4%	69.6%	19.2%	79.1%		
SG&A Expenses	375	349	336	352	409	303	423	437		
YoY	151.8%	172.2%	114.6%	81.9%	8.9%	-13.3%	25.8%	24.2%		
SG&A / Sales	250.2%	198.7%	283.5%	1266.7%	717.5%	119.1%	894.1%	137.9%		
Operating Profit	-277	-224	-283	-339	-382	-126	-414	-187	-	-1,129
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-	-	-	-	-	-
Recurring Profit	-190	-246	-197	-462	-461	312	190	-212	-	-189
YoY	-	-	-	-	-	-	-	-	-	-
RPM	-	-	-	-	-	122.5%	401.1%	-	-	-
Net Income	-191	-246	-197	-479	-462	310	188	-244	-	-227
YoY	-	-	-	-	-	-	-	-	-	-
NPM	-	-	-	-	-	121.9%	397.8%	-	-	-

Figures may differ from company materials due to differences in rounding methods
 Source: Company data

Sales were primarily from supplying clinical trial medication and materials for cosmetics.

NanoCarrier booked JPY919mn in forex gains—mainly from the revaluation of time deposits in foreign currencies—and JPY28mn in interest received, mainly from time deposits in foreign currencies.

MONTHLY WRAP – July 2015

On **June 9, 2015**, the company announced an IND application for the domestic Phase I clinical trial of NC-6004 for the indication of head and neck cancer.

The company submitted an investigational new drug application (IND application) to the Pharmaceuticals and Medical Devices Agency (PMDA) for the domestic Phase I clinical trial of NC-6004 (Nanoplatin®) for the indication of head and neck cancer. According to the company, this IND application will not affect results for FY03/16.

According to the company, there remains significant unmet need for therapies for head and neck cancer in Asia, including Japan. For head and neck cancer for which surgical treatment is not indicated, the standard therapy is a combination of chemotherapy and radiotherapy. It is hoped that by using anticancer drugs and radiation in combination, the antitumor effect of this therapy can be strengthened, and compared with surgery, organs can be preserved. The representative anticancer drug used in chemotherapy is cisplatin, but there are issues such as the need to reduce the amount of cisplatin administered in order to avoid side effects. In response, the company is developing NC-6004, a new drug delivery product that effectively deploys the antitumor effect of cisplatin, while also reducing side effects. In order to resolve some of the issues associated with cisplatin, NanoCarrier has decided to launch a trial on the combination of NC-6004 and radiotherapy. The company believes that this trial will contribute to an increase in the product value of NC-6004, and an improvement in patients' quality of life.

Overview the Phase I clinical trial

- Indication: Head and neck squamous cell carcinoma
- Trial content: Verifying the safety and tolerability of NC-6004 when used in combination with radiotherapy, and deciding the recommended dose of NC-6004
- Trial period: Approximately two years from the start of the trial (planned).

View the [full report](#).

MONTHLY WRAP – July 2015

NTT Urban Development Corporation (8933)

Real estate company leasing office buildings, commercial facilities, and residential properties. Also sells residential properties, mainly condominiums. Established as a member of the NTT Group (Japan's largest telecoms group), NTT Urban now owns many properties with a higher market value than book value.

View the [full report](#).

MONTHLY WRAP – July 2015

Onward Holdings Co Ltd (8016)

Apparel manufacturer. Strong presence in Japanese department stores. Ambition to grow worldwide via acquired JOSEPH and Jil Sander brands. Strong financials

On **June 22, 2015**, Onward Holdings Co., Ltd. announced a basic agreement regarding the establishment of a joint venture with Laox Co., Ltd. (TSE2: 8202).

The company entered into a basic agreement with Laox to establish a joint venture for the planning, manufacture, and sale of lifestyle and culture products, such as apparel.

Reasons for and details of the establishment of the joint venture

The company is accelerating its global strategy, and plans to grow as a lifestyle and culture company. To this end, it is promoting an omnichannel strategy to increase customer satisfaction, and developing new business areas. The company also aims to grow earnings by launching products and services that cater to demand from inbound tourists and overseas markets.

With this joint venture, the company plans to offer quality, refined lifestyle and culture products that showcase Japanese creative technologies and clean lifestyle and culture to Asia and the rest of the world.

The joint venture will use Onward's planning and manufacturing base to create products that Laox will sell on e-commerce websites overseas and duty-free stores in Japan. The company plans to grow this business by focusing on an omnichannel strategy combining online and brick-and-mortar businesses—linking e-commerce for customers overseas with stores for tourists visiting Japan.

Overview of the joint venture

Name:	TBC
Business:	Planning, manufacture, sale of apparel and other products
Capital:	JPY400mn
Establishment:	September 1, 2015 (planned)
Stake:	Onward: 51%; Laox: 49%.

View the [full report](#).

MONTHLY WRAP – July 2015

Paris Miki Holdings Inc. (7455)

Eyeglass retailer focusing on depth of product offering and selling across the price spectrum. Largest store network in Japan. Strong financial position.

On **June 8, 2015**, Shared Research updated the report after interviewing management.

Existing Stores													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
FY03/10	-4.4%	-7.2%	-9.3%	-4.8%	-3.3%	-3.7%	-6.8%	-7.8%	1.9%	1.0%	-5.4%	-4.7%	
FY03/11	-4.1%	-3.4%	3.4%	3.2%	2.7%	3.1%	6.7%	4.3%	4.2%	0.1%	3.3%	0.7%	
FY03/12	3.6%	2.7%	-0.2%	1.2%	-1.6%	-2.7%	-2.7%	-1.3%	-4.1%	-2.7%	-7.7%	7.1%	
FY03/13	-5.5%	-6.6%	-4.9%	-12.7%	-13.9%	-5.1%	-7.4%	-10.8%	-10.8%	-11.7%	-1.3%	-4.1%	
FY03/14	-4.2%	-2.1%	-0.5%	4.8%	3.7%	-0.9%	-1.0%	5.8%	5.1%	4.0%	-1.6%	19.5%	
FY03/15	5.5%	-6.2%	-4.4%	-8.4%	-4.9%	-0.9%	-3.9%	1.9%	-6.3%	-3.8%	4.0%	-18.3%	
FY03/16	-8.5%	5.9%											

All Stores													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
FY03/10	-4.5%	-7.0%	-9.3%	-5.2%	-3.5%	-3.7%	-6.8%	-8.4%	1.9%	1.0%	-6.3%	-6.0%	
FY03/11	1.0%	3.3%	10.2%	10.3%	9.9%	10.2%	13.6%	10.6%	9.2%	5.3%	5.2%	-2.2%	
FY03/12	2.3%	2.4%	-1.3%	-0.2%	-2.6%	-4.2%	-3.5%	-1.7%	-4.6%	-2.9%	-8.3%	6.4%	
FY03/13	-5.7%	-6.7%	-5.3%	-13.2%	-14.2%	-5.7%	-7.6%	-11.1%	-11.6%	-12.8%	-3.6%	-7.0%	
FY03/14	-7.5%	-5.3%	-3.8%	1.8%	0.5%	-4.7%	-5.0%	1.9%	1.8%	1.1%	-4.2%	17.9%	
FY03/15	4.2%	-7.5%	-5.7%	-9.8%	-6.4%	-2.2%	-4.8%	0.8%	-7.2%	-4.9%	2.6%	-19.4%	
FY03/16	-9.1%	5.1%											

Japan: comparable store sales continue to slide

Sales were down year-on-year at main subsidiary Miki because of a protracted pullback in demand following the consumption tax hike, and the closing of unprofitable stores. Although the company is also opening new stores in parallel with closing unprofitable stores, comparable store sales continued to underperform. As a result, sales and operating profit both declined year-on-year, underperforming the company's targets.

Overseas: operating loss widens; tackling a new challenge in Vietnam

Overseas, the operating loss widened from JPY103mn in FY03/14 to JPY207mn. In China, results are improving as the company's Chinese subsidiary closes unprofitable stores, but difficult conditions persisted amid sluggish economic growth and rising labor expenses. The company's subsidiary in Southeast Asia had also been contributing to operating profit, but results were hit by lower sales at this subsidiary. Shared Research judges that the loss at the company's Australian subsidiary has probably narrowed as it streamlines its store network.

Sales fell at the UK subsidiary as it closed for relocation. Operating profit also declined owing to expenses associated with this relocation. Recurring profit, however, improved because the company received compensation for the relocation. The company also began investing in a medical business in Vietnam, as it takes on a new challenge in this region where eye healthcare remains underdeveloped.

Towards FY03/16

In its management plan and forecasts for FY03/16, the company appears likely to continue policies from FY03/15: strengthening value-added products, continuing to close unprofitable stores, and expanding successful store formats. Shared Research will also keep an eye out for concrete initiatives to combat the sales and customer declines, as well as contributions to full-year earnings from stores that changed pricing displays (about 75), and performance of new stores inspired by the successful Shibuya store.

The company plans to close 30 stores, and open 10 stores, mainly in shopping centers in areas where there are few stores, to capitalize on underlying demand. It also plans to develop new products together with manufacturers in response to demand for glasses for different purposes.

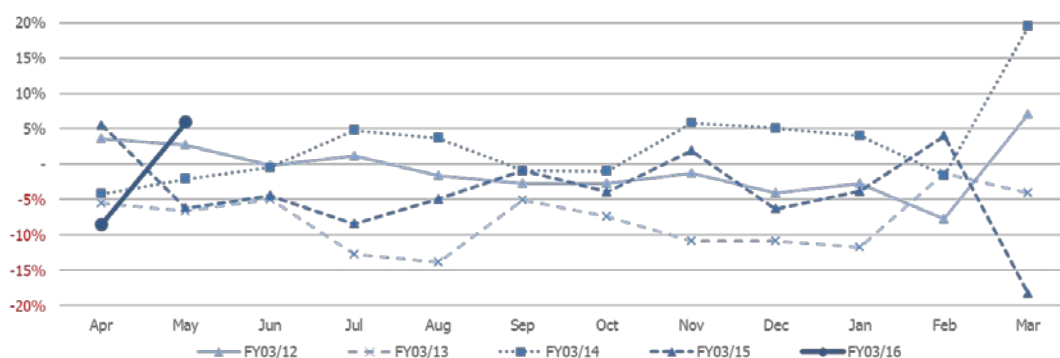
MONTHLY WRAP – July 2015

Overseas, the company plans to streamline its store network in areas with difficult operating conditions. It may expand in areas where business is robust and new areas.

On **June 2, 2015**, Paris Miki Holdings announced May 2015 sales figures.

Monthly comparable-store sales

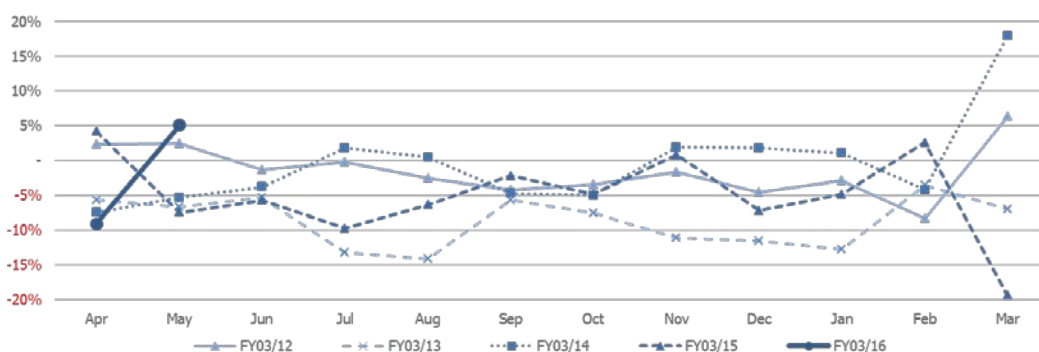
Existing Stores	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
FY03/10	-4.4%	-7.2%	-9.3%	-4.8%	-3.3%	-3.7%	-6.8%	-7.8%	1.9%	1.0%	-5.4%	-4.7%
FY03/11	-4.1%	-3.4%	3.4%	3.2%	2.7%	3.1%	6.7%	4.3%	4.2%	0.1%	3.3%	0.7%
FY03/12	3.6%	2.7%	-0.2%	1.2%	-1.6%	-2.7%	-2.7%	-1.3%	-4.1%	-2.7%	-7.7%	7.1%
FY03/13	-5.5%	-6.6%	-4.9%	-12.7%	-13.9%	-5.1%	-7.4%	-10.8%	-10.8%	-11.7%	-1.3%	-4.1%
FY03/14	-4.2%	-2.1%	-0.5%	4.8%	3.7%	-0.9%	-1.0%	5.8%	5.1%	4.0%	-1.6%	19.5%
FY03/15	5.5%	-6.2%	-4.4%	-8.4%	-4.9%	-0.9%	-3.9%	1.9%	-6.3%	-3.8%	4.0%	-18.3%
FY03/16	-8.5%	5.9%										



Source: Company data

Monthly all-store sales

All Stores	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
FY03/10	-4.5%	-7.0%	-9.3%	-5.2%	-3.5%	-3.7%	-6.8%	-8.4%	1.9%	1.0%	-6.3%	-6.0%
FY03/11	1.0%	3.3%	10.2%	10.3%	9.9%	10.2%	13.6%	10.6%	9.2%	5.3%	5.2%	-2.2%
FY03/12	2.3%	2.4%	-1.3%	-0.2%	-2.6%	-4.2%	-3.5%	-1.7%	-4.6%	-2.9%	-8.3%	6.4%
FY03/13	-5.7%	-6.7%	-5.3%	-13.2%	-14.2%	-5.7%	-7.6%	-11.1%	-11.6%	-12.8%	-3.6%	-7.0%
FY03/14	-7.5%	-5.3%	-3.8%	1.8%	0.5%	-4.7%	-5.0%	1.9%	1.8%	1.1%	-4.2%	17.9%
FY03/15	4.2%	-7.5%	-5.7%	-9.8%	-6.4%	-2.2%	-4.8%	0.8%	-7.2%	-4.9%	2.6%	-19.4%
FY03/16	-9.1%	5.1%										



Source: Company data

View the [full report](#).

MONTHLY WRAP – July 2015

Pigeon Corp. (7956)

Manufacturer of baby bottles, nipples, and other baby goods, seeking a greater global presence.

On **June 1, 2015**, Pigeon Corp. announced earnings results for Q1 FY01/16.

Quarterly Performance (JPYmn)	FY01/15				FY01/16				FY01/16	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	18,859	20,370	21,939	22,945	21,810	-	-	-	-	-
YoY	11.6%	3.3%	4.9%	15.2%	15.6%	-	-	-	-	-
Gross Profit	8,379	9,323	10,172	10,422	10,101	-	-	-	-	-
YoY	14.0%	5.8%	7.3%	18.2%	20.6%	-	-	-	-	-
GPM	44.4%	45.8%	46.4%	45.4%	46.3%	-	-	-	-	-
SG&A Expenses	5,696	6,021	6,444	7,355	6,497	-	-	-	-	-
YoY	4.7%	1.8%	9.7%	7.0%	14.1%	-	-	-	-	-
SG&A / Sales	30.2%	29.6%	29.4%	32.1%	29.8%	-	-	-	-	-
Operating Profit	2,684	3,302	3,728	3,067	3,596	-	-	-	-	-
YoY	40.3%	13.8%	3.4%	57.7%	34.0%	-	-	-	-	-
OPM	14.2%	16.2%	17.0%	13.4%	16.5%	-	-	-	-	-
Recurring Profit	2,660	3,298	3,992	3,349	3,663	-	-	-	-	-
YoY	21.6%	10.9%	7.1%	58.6%	37.7%	-	-	-	-	-
RPM	14.1%	16.2%	18.2%	14.6%	16.8%	-	-	-	-	-
Net Income	1,773	2,302	2,303	2,075	2,469	-	-	-	-	-
YoY	33.5%	28.4%	-8.5%	54.0%	39.3%	-	-	-	-	-
NPM	9.4%	11.3%	10.5%	9.0%	11.3%	-	-	-	-	-
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	18,859	39,229	61,168	84,113	21,810	-	-	-	23.7%	92,000
YoY	11.6%	7.1%	6.3%	8.6%	15.6%	-	-	-		9.4%
Gross Profit	8,379	17,702	27,874	38,296	10,101	-	-	-		
YoY	14.0%	9.5%	8.7%	11.1%	20.6%	-	-	-		
GPM	44.4%	45.1%	45.6%	166.9%	46.3%	-	-	-		
SG&A Expenses	5,696	11,716	18,160	-	6,505	-	-	-		
YoY	4.7%	3.2%	5.4%	-	14.2%	-	-	-		
SG&A / Sales	30.2%	29.9%	29.7%	-	29.8%	-	-	-		
Operating Profit	2,684	5,986	9,714	12,781	3,596	-	-	-	25.9%	13,900
YoY	40.3%	24.3%	15.4%	23.3%	34.0%	-	-	-		8.8%
OPM	14.2%	15.3%	15.9%	55.7%	16.5%	-	-	-		15.1%
Recurring Profit	2,660	5,958	9,950	13,299	3,663	-	-	-	26.2%	14,000
YoY	21.6%	15.4%	11.9%	20.9%	37.7%	-	-	-		5.3%
RPM	14.1%	15.2%	16.3%	58.0%	16.8%	-	-	-		15.2%
Net Income	1,773	4,074	6,377	8,452	2,469	-	-	-	27.7%	8,900
YoY	33.5%	30.5%	13.1%	21.0%	39.3%	-	-	-		5.3%
NPM	9.4%	10.4%	10.4%	36.8%	11.3%	-	-	-		9.7%

Source: Company data

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

Sales for increased owing to expansion overseas, particularly in China, and earnings growth in the Domestic Baby & Mother Care segment. Operating profit, recurring profit, and net income were higher as sales increased, utilization of production facilities expanded, and the CoGS-to-sales ratio improved by 1.9pp year-on-year.

View the [full report](#).

MONTHLY WRAP – July 2015

Round One Corp. (4680)

Nationwide operator of amusement complex centers with bowling at their core.

On **June 8, 2015**, Round One Corporation released monthly sales data for May 2015.

Monthly Sales Trends												
FY03/16	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Sales (JPYmn)	5,908	6,820										
Bowling	1,692	1,913										
Game	2,522	2,936										
Karaoke	591	698										
SPO-CHA	890	1,032										
Other	211	240										
Total Sales YoY	-7.8%	-2.9%										
Bowling	-15.4%	-7.3%										
Game	-6.1%	-4.4%										
Karaoke	-7.8%	-1.8%										
SPO-CHA	1.4%	7.9%										
Other	5.8%	8.2%										
Comparable Store Sales YoY	-9.4%	-4.7%										
Bowling	-16.6%	-8.6%										
Game	-8.0%	-6.5%										
Karaoke	-9.4%	-3.4%										
SPO-CHA	-0.7%	5.8%										
Other	5.3%	7.7%										

Monthly Sales Trends												
FY03/15	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Sales (JPYmn)	6,408	7,024	5,913	6,134	9,318	6,321	5,793	6,071	6,960	7,808	6,102	8,050
Bowling	2,001	2,064	1,688	1,686	2,649	1,756	1,624	1,660	2,045	2,431	1,849	2,652
Game	2,686	3,070	2,652	2,894	3,955	2,898	2,661	2,777	3,067	3,240	2,527	2,952
Karaoke	641	711	625	650	927	645	569	595	775	777	598	746
SPO-CHA	878	956	745	700	1,531	805	730	834	849	1,112	904	1,451
Other	199	221	201	202	254	216	207	203	223	242	220	248
Total Sales YoY	-3.3%	0.1%	-6.0%	-0.6%	8.4%	-4.4%	3.7%	9.9%	-4.4%	-9.2%	-0.8%	-5.8%
Bowling	-13.2%	-14.7%	-20.4%	-12.3%	-2.4%	-16.8%	-9.5%	-3.9%	-8.6%	-10.2%	-5.9%	-8.8%
Game	3.4%	11.1%	3.2%	6.4%	12.9%	5.2%	11.9%	16.7%	-2.5%	-10.5%	-2.1%	-8.9%
Karaoke	1.6%	6.5%	-0.4%	1.8%	10.6%	2.3%	5.7%	10.9%	-4.9%	-5.7%	-0.6%	-8.1%
SPO-CHA	1.8%	4.2%	0.9%	4.9%	19.8%	-8.6%	9.3%	21.8%	-3.6%	-7.3%	12.8%	7.1%
Other	-12.2%	-9.6%	-12.8%	-7.6%	-3.9%	-6.7%	2.0%	5.8%	9.0%	2.8%	11.9%	6.8%
Comparable Store Sales YoY	-3.3%	0.1%	-6.0%	-0.6%	8.4%	-4.4%	2.0%	7.3%	-6.4%	-10.9%	-2.7%	-7.5%
Bowling	-13.2%	14.7%	-20.4%	-12.3%	-2.4%	-16.8%	-10.6%	-5.6%	-10.0%	-11.5%	-7.3%	-10.1%
Game	3.4%	11.1%	3.2%	6.4%	12.9%	5.2%	10.0%	13.4%	-4.9%	-12.8%	-4.4%	-10.8%
Karaoke	1.6%	6.5%	-0.4%	1.8%	10.6%	2.3%	4.5%	9.0%	-6.5%	-7.2%	-2.2%	-9.6%
SPO-CHA	1.8%	4.2%	0.9%	4.9%	19.8%	-8.6%	5.4%	18.2%	-6.4%	-9.3%	10.1%	4.7%
Other	-12.2%	-9.6%	-12.8%	-7.6%	-3.9%	-6.7%	1.7%	5.3%	8.7%	2.5%	11.5%	6.3%

Source: Company data

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

May 2015 sales were down 2.9% YoY with comparable store sales down 4.7% YoY. The total number of stores was 113, of which 111 were existing (comparable) stores.

MONTHLY WRAP – July 2015

On **June 2, 2015**, Shared Research updated the report after interviewing management, and in view of full-year earnings results for FY03/15.

Quarterly Performance (JPYmn)	FY03/13				FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	20,741	22,532	19,071	23,559	20,165	21,706	18,715	23,686	19,694	22,155	19,319	22,737		
YoY	-6.7%	-5.2%	-5.7%	0.9%	-2.8%	-3.7%	-1.9%	0.5%	-2.3%	2.1%	3.2%	-4.0%		
Gross profit	2,628	4,168	1,066	5,466	2,665	3,051	632	5,375	1,559	2,995	210	3,631		
YoY	-44.0%	-24.6%	-57.3%	7.8%	1.4%	-26.8%	-40.7%	-1.7%	-41.5%	-1.8%	-66.8%	-32.4%		
GPM	12.7%	18.5%	5.6%	23.2%	13.2%	14.1%	3.4%	22.7%	7.9%	13.5%	1.1%	16.0%		
SG&A expenses	423	408	457	474	409	398	465	362	406	403	486	459		
YoY	8.5%	-6.2%	-3.2%	3.9%	-3.3%	-2.5%	1.8%	-23.6%	-0.7%	1.3%	4.5%	26.8%		
SG&A / Sales	2.0%	1.8%	2.4%	2.0%	2.0%	1.8%	2.5%	1.5%	2.1%	1.8%	2.5%	2.0%		
Operating profit	2,204	3,760	610	4,991	2,256	2,652	168	5,012	1,152	2,593	-276	3,172		
YoY	-48.8%	-26.1%	-69.9%	8.2%	2.4%	-29.5%	-72.5%	0.4%	-48.9%	-2.2%	-	-36.7%		
OPM	10.6%	16.7%	3.2%	21.2%	11.2%	12.2%	0.9%	21.2%	5.8%	11.7%	-	14.0%		
Recurring profit	1,007	2,804	26	4,380	1,642	1,970	-278	4,484	830	2,577	-222	2,965		
YoY	-68.3%	-25.7%	-97.4%	24.4%	63.1%	-29.7%	-	2.4%	-49.5%	30.8%	-	-33.9%		
RPM	4.9%	12.4%	0.1%	18.6%	8.1%	9.1%	-	18.9%	4.2%	11.6%	-	13.0%		
Net income	439	1,580	-703	-715	631	-11,371	-3,681	-5,260	778	1,527	-479	-6,394		
YoY	-75.9%	159.4%	-	-	43.9%	-	-	-	23.3%	-	-	-		
NPM	2.1%	7.0%	-	-	3.1%	-	-	-	4.0%	6.9%	-	-		
(Cumulative)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	20,741	43,273	62,344	85,903	20,165	41,871	60,586	84,272	19,694	41,849	61,168	83,905	100.7%	83,300
YoY	-6.7%	-5.9%	-5.9%	-4.1%	-2.8%	-3.2%	-2.8%	-1.9%	-2.3%	-0.1%	1.0%	-0.4%		-1.2%
Gross profit	2,628	6,796	7,862	13,328	2,665	5,716	6,348	11,723	1,559	4,554	4,764	8,395		
YoY	-44.0%	-33.5%	-38.2%	-25.1%	1.4%	-15.9%	-19.3%	-12.0%	-41.5%	-20.3%	-25.0%	-28.4%		
GPM	12.7%	30.2%	41.2%	56.6%	13.2%	26.3%	33.9%	49.5%	7.9%	20.6%	24.7%	36.9%		
SG&A expenses	423	831	1,288	1,762	409	807	1,272	1,634	406	809	1,295	1,754		
YoY	8.5%	0.7%	-0.7%	0.5%	-3.3%	-2.9%	-1.2%	-7.3%	-0.7%	0.2%	1.8%	7.3%		
SG&A / Sales	2.0%	3.7%	6.8%	7.5%	2.0%	3.7%	6.8%	6.9%	2.1%	3.7%	6.7%	7.7%		
Operating profit	2,204	5,964	6,574	11,565	2,256	4,908	5,076	10,088	1,152	3,745	3,469	6,641	109.8%	6,050
YoY	-48.8%	-36.5%	-42.4%	-27.9%	2.4%	-17.7%	-22.8%	-12.8%	-48.9%	-23.7%	-31.7%	-34.2%		-40.0%
OPM	10.6%	26.5%	34.5%	49.1%	11.2%	22.6%	27.1%	42.6%	5.8%	16.9%	18.0%	29.2%		7.3%
Recurring profit	1,007	3,811	3,837	8,217	1,642	3,612	3,334	7,818	830	3,407	3,185	6,150	107.9%	5,700
YoY	-68.3%	-45.2%	-51.8%	-28.4%	63.1%	-5.2%	-13.1%	-4.9%	-49.5%	-5.7%	-4.5%	-21.3%		-27.1%
RPM	4.9%	16.9%	20.1%	34.9%	8.1%	16.6%	17.8%	33.0%	4.2%	15.4%	16.5%	27.0%		6.8%
Net income	439	2,019	1,316	601	631	-10,740	-14,421	-19,681	778	2,305	1,826	-4,568	-	-5,300
YoY	-75.9%	-16.9%	-46.8%	-78.4%	43.9%	-	-	-	23.3%	-	-	-		-
NPM	2.1%	9.0%	6.9%	2.6%	3.1%	-	-	-	4.0%	10.4%	9.5%	-		-6.4%

Source: Company data

Company estimates are the most recent figures.

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

The company targeted occasional users such as families with Disney characters in promotional campaigns and planning. It also expanded its free shuttlebus service from 33 to 88 stores, in a bid to make it more convenient for visitors. The company was aiming to increase sales, but in the end sales fell year-on-year. According to the company, this was partly because sluggish demand persisted following the consumption tax hike in April 2014, and sales growth stalled owing to poor weather during the holiday season, usually a time of peak demand. Rising personnel and utilities expenses led to higher overheads, resulting in double-digit declines in operating and recurring profit.

Factors affecting recurring profit

Factors affecting recurring profit			
(JPYbn)	Plus		Minus
Lower D&A*	1.94	Higher rental expenses*	4.85
Lower lease expenses*	1.35	Higher amusement prize expenses	0.91
Lower interest expenses*	1.25	Higher personnel expenses	0.71
Lower taxes*	0.74	Higher utilities expenses	0.42
Other	0.31	Lower sales	0.36
Total	5.59		7.25

Source: Company data

*Mostly due to sale and leaseback agreements.

Extraordinary losses totaled JPY31.5bn in FY03/14 as the company continued making sale-and-leaseback agreements. In FY03/15, extraordinary losses came to just JPY5.0bn, despite some impairment losses. As a result, the net loss narrowed significantly year-on-year.

As of the end of April 2015, total domestic store count was 113, of which 111 stores were existing (comparable) stores. The breakdown of sales by service is as follows (figures in parentheses exclude US sales).

View the [full report](#).

MONTHLY WRAP – July 2015

Ryohin Keikaku Co., Ltd. (7453)

A global specialty retailer selling household goods, apparel and fashion items, and food under a single brand: MUJI (Mujirushi Ryohin). The bulk of sales come from Japan and increasingly, China.

On **June 2, 2015**, Ryohin Keikaku Co., Ltd. announced monthly sales data for May 2015.

FY02/14	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	9.2%	-4.2%	1.4%	3.0%	-2.8%	4.7%	-0.6%	8.0%	8.2%	6.8%	7.7%	3.1%
Directly managed total	11.0%	-2.1%	5.8%	8.1%	0.8%	7.7%	2.7%	11.2%	9.9%	10.1%	9.7%	3.4%
Licensed Stores (Inc. Seiyu) (comparable)	7.2%	-7.5%	-1.7%	0.9%	-1.1%	6.6%	-0.6%	9.2%	8.2%	8.2%	9.6%	6.3%
Licensed Stores (Inc. Seiyu) total	7.6%	-6.4%	-0.9%	1.8%	-1.4%	5.4%	-4.8%	6.1%	6.6%	6.7%	8.1%	9.9%
Instore (comparable)	8.8%	-4.8%	0.8%	2.6%	-2.5%	5.1%	-0.6%	8.2%	8.2%	7.1%	8.1%	3.7%
Instore total	10.3%	-3.0%	4.4%	6.8%	0.4%	7.3%	1.2%	10.1%	9.2%	9.4%	9.4%	4.6%
Total	10.4%	7.0%	8.0%	12.6%	6.4%	16.9%	7.2%	19.6%	14.8%	18.6%	15.7%	14.0%

FY02/15	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	22.2%	-2.3%	1.6%	4.9%	1.9%	-0.8%	1.8%	-2.2%	0.7%	-2.2%	1.5%	5.3%
Directly managed total	28.4%	2.1%	5.6%	8.2%	6.6%	3.9%	7.0%	4.7%	7.5%	2.3%	5.9%	10.9%
Licensed Stores (Inc. Seiyu) (comparable)	20.5%	-2.2%	0.7%	5.0%	-1.3%	-1.5%	1.1%	-3.0%	-1.6%	-7.0%	-4.8%	-1.0%
Licensed Stores (Inc. Seiyu) total	21.7%	-1.9%	2.0%	3.8%	0.0%	1.3%	0.4%	-3.1%	2.1%	-4.2%	-2.2%	0.7%
Instore (comparable)	21.9%	-2.2%	1.4%	5.0%	1.2%	-0.9%	1.7%	-2.4%	0.3%	-3.2%	0.2%	4.0%
Instore total	27.0%	1.3%	4.9%	7.3%	5.3%	3.4%	5.8%	3.2%	6.5%	1.1%	4.4%	8.9%
Total	30.6%	12.0%	11.0%	13.6%	22.7%	13.2%	18.1%	8.6%	12.2%	6.4%	13.9%	10.5%

FY02/13	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	14.4%	-1.0%	0.1%	-4.1%	0.5%	2.5%	2.9%	-1.8%	2.6%	-5.5%	-4.9%	1.3%
Apparel	20.9%	7.1%	9.2%	-1.6%	10.5%	17.9%	5.2%	5.4%	13.4%	-2.4%	-2.4%	15.4%
Household Goods	13.4%	-4.7%	-5.8%	-6.9%	-4.3%	-4.1%	2.1%	-5.8%	-3.3%	-6.7%	-5.7%	-3.1%
Food	3.3%	-7.8%	-2.9%	3.0%	-11.2%	-6.4%	2.0%	-9.9%	-10.8%	-10.4%	-9.0%	-8.1%
Customers Traffic	8.5%	-6.8%	-7.1%	-6.9%	-7.8%	-4.2%	-2.6%	-6.4%	-4.7%	-8.4%	-9.1%	-3.1%
Spending per Customer	5.4%	6.2%	7.8%	3.0%	9.1%	7.1%	5.7%	4.9%	7.6%	3.2%	4.7%	4.6%

FY02/14	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	9.2%	-4.2%	1.4%	3.0%	-2.8%	4.7%	-0.6%	8.0%	8.2%	6.8%	7.7%	3.1%
Apparel	23.1%	-3.7%	3.8%	4.9%	-8.0%	1.2%	1.8%	5.8%	6.0%	5.1%	5.7%	1.2%
Household Goods	2.5%	-4.8%	0.2%	3.5%	-4.5%	5.7%	-2.6%	6.1%	7.4%	5.9%	7.7%	4.1%
Food	11.8%	-2.5%	-2.4%	-4.9%	41.0%	17.7%	6.0%	39.0%	30.4%	25.0%	19.1%	5.9%
Customers Traffic	3.9%	-4.8%	-1.8%	-0.9%	0.1%	2.2%	-1.8%	4.7%	6.0%	2.7%	2.6%	-4.6%
Spending per Customer	5.1%	0.7%	3.2%	3.9%	-3.0%	2.5%	1.2%	3.2%	2.1%	4.0%	5.0%	8.1%

FY02/15	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	22.2%	-2.3%	1.6%	4.9%	1.9%	-0.8%	1.8%	-2.2%	0.7%	-2.2%	1.5%	5.3%
Apparel	11.4%	6.8%	5.0%	6.5%	5.9%	0.6%	9.5%	-0.2%	2.6%	3.4%	2.9%	10.8%
Household Goods	31.8%	-8.7%	-1.9%	3.2%	2.8%	-0.6%	-1.3%	-1.0%	2.2%	-3.9%	2.9%	4.3%
Food	2.8%	1.9%	6.5%	8.3%	-16.1%	-7.0%	-9.4%	-17.9%	-16.6%	-16.7%	-10.8%	-2.9%
Customers Traffic	3.0%	-0.3%	3.6%	3.2%	0.9%	0.0%	-2.2%	-6.3%	-3.7%	-5.3%	-3.4%	1.8%
Spending per Customer	18.7%	-1.9%	-2.0%	1.7%	0.9%	-0.8%	4.1%	4.3%	4.6%	3.2%	5.0%	3.4%

FY02/16	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	-10.3%	13.8%	8.5%	-	-	-	-	-	-	-	-	-
Apparel	-2.8%	13.1%	8.2%	-	-	-	-	-	-	-	-	-
Household Goods	-14.1%	17.4%	10.9%	-	-	-	-	-	-	-	-	-
Food	-7.6%	-4.2%	-4.6%	-	-	-	-	-	-	-	-	-
Customers Traffic	-7.0%	-1.2%	-0.8%	-	-	-	-	-	-	-	-	-
Spending per Customer	-3.5%	15.2%	9.3%	-	-	-	-	-	-	-	-	-

Source: Company data

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

Comparable stores are considered those open for at least two years.

Licensed stores are wholesale client firms other than FamilyMart and com KIOSK stores.

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MONTHLY WRAP – July 2015

Sanrio Co., Ltd. (8136)

Character management company. Owns Hello Kitty. Growing worldwide licensing business.

On **June 11, 2015**, Sanrio Co., Ltd. announced the acquisition of treasury stock.

The company received notification that its second largest shareholder, Kohnan Shoji Co., Ltd. intended to sell some of its stake (total stake of 7.72% of shares outstanding as of March 31, 2015). In view of the impact on the liquidity and market price of the company's shares, and the company's financial standing, the company decided to acquire the shares as treasury stock. Note, Shintaro Tsuji, president of Sanrio, serves as the representative director of Kohnan Shoji, which manages the founding family's assets.

The company plans to use its own capital to acquire these shares. As of March 31, 2015, the company holds liquid assets (cash and deposits) of over JPY50bn, meaning it will still hold ample liquid assets after the buyback.

Overview of the acquisition of treasury stock

Type of shares:	Ordinary shares
Number of shares:	Up to 2,500,100
Acquisition amount:	Up to JPY7.8bn
Acquisition period:	June 12–July 10, 2015 (21 working days).

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MONTHLY WRAP – July 2015

SATO Holdings Corp. (6287)

Provider of comprehensive solutions based on auto-ID technology.

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MONTHLY WRAP – July 2015

SBS Holdings, Inc. (2384)

General logistics specialist: logistics accounts for 93% of sales and 30% of operating profit. Over 60% of operating profit from property management.

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MONTHLY WRAP – July 2015

Takashimaya Co., Ltd. (8233)

Major Japanese department store operator aiming for further growth driven by greater presence in the shopping center sector and in Asia

On **June 26, 2015**, Takashimaya Co., Ltd. announced earnings results for Q1 FY02/16.

Quarterly Performance (JPYmn)	FY02/14				FY02/15				FY02/16				FY02/16		FY02/16	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.	% of FY	FY Est.
Operating Revenue	214,007	221,284	212,900	255,989	224,269	217,404	213,824	257,026	219,392	-	-	-	49.0%	448,000	23.7%	925,000
YoY	3.2%	4.1%	1.7%	6.2%	4.8%	-1.8%	0.4%	0.4%	-2.2%	-	-	-	1.4%	-	23.7%	925,000
Sales	199,848	206,571	198,598	240,768	209,100	202,393	198,825	241,056	203,899	-	-	-	-	-	23.7%	861,700
YoY	3.2%	3.8%	1.4%	6.2%	4.6%	-2.0%	0.1%	0.1%	-2.5%	-	-	-	-	-	23.8%	861,700
Gross Profit	51,934	52,291	50,729	59,719	53,109	50,907	50,716	59,760	51,739	-	-	-	-	-	23.8%	217,800
YoY	2.2%	1.9%	0.8%	4.3%	2.3%	-2.6%	-0.0%	0.1%	-2.6%	-	-	-	-	-	1.5%	217,800
GPM	26.0%	25.3%	25.5%	24.8%	25.4%	25.2%	25.5%	24.8%	25.4%	-	-	-	-	-	25.3%	25.3%
SG&A Expenses	59,999	61,941	59,725	62,304	60,743	61,239	60,088	61,548	59,781	-	-	-	-	-	24.2%	247,100
YoY	2.4%	2.3%	0.4%	2.9%	1.2%	-1.1%	0.6%	-1.2%	-1.6%	-	-	-	-	-	1.3%	247,100
SG&A / Sales	30.0%	30.0%	30.1%	25.9%	29.0%	30.3%	30.2%	25.5%	29.3%	-	-	-	-	-	28.7%	28.7%
Operating Profit	6,094	5,062	5,317	12,626	7,535	4,679	5,627	14,181	7,451	-	-	-	54.0%	13,800	21.9%	34,000
YoY	3.6%	19.4%	25.1%	13.8%	23.6%	-7.6%	5.8%	12.3%	-1.1%	-	-	-	13.0%	-	6.2%	34,000
Operating Profit / Operating Revenue	3.0%	2.5%	2.7%	5.2%	3.6%	2.3%	2.8%	5.9%	3.7%	-	-	-	-	-	3.9%	3.9%
Recurring Profit	7,715	5,777	6,151	13,707	8,552	5,650	6,358	15,344	8,347	-	-	-	54.2%	15,400	22.3%	37,400
YoY	21.0%	7.7%	13.0%	8.1%	10.8%	-2.2%	3.4%	11.9%	-2.4%	-	-	-	8.4%	-	4.2%	37,400
Recurring Profit / Operating Revenue	3.9%	2.8%	3.1%	5.7%	4.1%	2.8%	3.2%	6.4%	4.1%	-	-	-	-	-	4.3%	4.3%
Net Income	4,016	3,598	2,995	8,107	4,551	5,028	3,453	9,549	6,319	-	-	-	62.0%	10,200	27.1%	23,300
YoY	4.0%	31.1%	19.8%	9.0%	13.3%	39.7%	15.3%	17.8%	38.8%	-	-	-	6.5%	-	3.2%	23,300
NPM	2.0%	1.7%	1.5%	3.4%	2.2%	2.5%	1.7%	4.0%	3.1%	-	-	-	-	-	2.7%	2.7%

Segment Performance (JPYmn)	FY02/13				FY02/14				FY02/15				FY02/16			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating Revenue	207,348	212,482	209,350	241,152	214,007	221,284	212,900	255,989	224,269	217,404	213,824	257,026	219,392	-	-	-
Department Stores	183,464	189,681	182,421	214,523	189,084	196,335	187,624	225,036	198,591	190,809	188,043	225,513	193,344	-	-	-
Construction	4,708	3,612	6,329	4,361	4,307	4,747	4,468	7,100	5,551	6,354	4,914	7,839	4,980	-	-	-
Real Estate	8,328	8,331	8,411	8,793	8,827	8,964	8,944	10,069	9,427	9,370	9,442	9,863	9,719	-	-	-
Finance	3,052	2,778	2,802	3,023	3,034	2,875	2,850	3,152	3,228	2,893	2,984	3,280	3,316	-	-	-
Other	7,795	8,080	9,385	10,454	8,753	8,364	9,013	10,632	7,470	7,977	8,441	10,532	8,032	-	-	-
Operating Profit	5,884	4,240	4,251	11,101	6,094	5,062	5,317	12,626	7,535	4,679	5,627	14,181	7,451	-	-	-
Department Stores	2,489	1,211	1,099	7,081	2,689	1,702	2,190	7,381	3,916	1,008	2,133	8,462	3,236	-	-	-
Construction	35	225	309	299	15	374	-	748	79	345	131	884	112	-	-	-
Real Estate	1,959	1,872	2,029	1,897	2,160	1,902	2,122	2,196	2,239	2,156	2,318	2,815	2,607	-	-	-
Finance	1,080	823	819	903	1,069	882	779	1,414	1,135	930	965	1,146	1,146	-	-	-
Other	-123	282	132	970	63	325	292	970	72	301	226	991	100	-	-	-
OPM	2.8%	2.0%	2.0%	4.6%	2.8%	2.3%	2.5%	4.9%	3.4%	2.2%	2.6%	5.5%	3.4%	-	-	-
Department Stores	1.4%	0.6%	0.6%	3.3%	1.4%	0.9%	1.2%	3.3%	2.0%	0.5%	1.1%	3.8%	1.7%	-	-	-
Construction	0.7%	6.2%	4.9%	6.9%	0.3%	7.9%	-0.6%	10.5%	1.4%	5.4%	2.7%	11.3%	2.2%	-	-	-
Real Estate	23.5%	22.5%	24.1%	21.6%	24.5%	21.2%	23.7%	21.8%	23.8%	23.0%	24.5%	28.5%	26.8%	-	-	-
Finance	35.4%	29.6%	29.2%	29.9%	35.2%	30.7%	27.3%	44.9%	35.2%	32.1%	32.3%	34.9%	34.6%	-	-	-
Other	-1.6%	3.5%	1.4%	9.3%	0.7%	3.9%	3.2%	9.1%	1.0%	3.8%	2.7%	9.4%	1.2%	-	-	-

FY02/16 Forecast (JPYmn)	FY02/13			FY02/14			FY02/15			FY02/16		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Act.	1H Est.	2H Est.	FY Est.
Operating Revenue	419,830	450,503	870,333	435,291	468,889	904,180	411,493	501,030	912,523	448,000	477,000	925,000
YoY	2.4%	0.5%	1.4%	3.7%	4.1%	3.9%	-5.5%	6.9%	0.9%	8.9%	-4.8%	1.4%
Sales	392,697	422,690	815,387	406,419	439,366	845,785	411,493	439,881	851,374	-	-	861,700
YoY	2.3%	0.2%	1.2%	3.5%	3.9%	3.7%	1.2%	0.1%	0.7%	-	-	1.2%
CoGS	317,717	342,916	605,687	302,193	358,441	631,111	307,477	390,554	698,031	-	-	707,200
Gross Profit	102,113	107,587	172,825	104,225	110,448	173,562	104,016	110,476	214,492	-	-	217,800
YoY	2.4%	-0.9%	-17.0%	2.1%	2.7%	0.4%	-0.2%	0.0%	23.6%	-	-	1.5%
GPM	26.0%	25.5%	21.2%	25.6%	25.1%	20.5%	25.3%	25.1%	25.2%	-	-	25.3%
SG&A	119,121	120,048	239,169	121,940	122,029	243,969	121,982	121,636	243,618	-	-	247,100
SG&A / Sales	30.3%	28.4%	29.3%	30.0%	27.8%	28.8%	29.6%	27.7%	28.6%	-	-	28.7%
Operating Profit	10,124	15,352	25,476	11,156	17,943	29,099	12,214	19,808	32,022	13,800	20,200	34,000
YoY	11.6%	27.6%	20.7%	10.2%	16.9%	14.2%	9.5%	10.4%	10.0%	13.0%	2.0%	6.2%
OP / Operating Revenue	2.4%	3.4%	2.9%	2.6%	3.8%	3.2%	3.0%	4.0%	3.5%	3.1%	4.2%	3.7%
Recurring Profit	11,740	18,126	29,866	13,492	19,858	33,350	14,202	20,892	35,094	15,400	22,000	37,400
YoY	8.8%	33.6%	22.6%	14.9%	9.6%	11.7%	5.3%	5.2%	5.2%	8.4%	5.3%	6.6%
RP / Operating Revenue	2.8%	4.0%	3.4%	3.1%	4.2%	3.7%	3.5%	4.2%	3.8%	3.4%	4.6%	4.0%
Net Income	6,604	9,936	16,540	7,614	11,102	18,716	9,579	13,002	22,581	10,200	13,100	23,300
YoY	22.8%	80.0%	51.8%	15.3%	11.7%	13.2%	25.8%	17.1%	20.7%	6.5%	0.8%	3.2%

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

Source: Company data

In the domestic department store business, consumer spending and gross margins dipped below expectations. Yet overall consolidated results were mostly in line with targets as demand from inbound tourists increased more than threefold, significantly more than expected. Subsidiaries such as Toshin Development and overseas department stores also contributed to results.

On **June 11, 2015**, the company announced the opening of a Takashimaya Style Maison in Mitsui

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Shopping Park LaLaport EBINA, scheduled to open in October 29, 2015. Takashimaya Style Maison is a new edited satellite store format.

Takashimaya Style Maison is the company's third edited satellite store format after Takashimaya Food Maison (three stores) and Million Doors Takashimaya Cosmetics (two stores). Takashimaya Style Maison sells cosmetics, fashion accessories, and lifestyle accessories, based on the concept of an “everyday, bright, casual store.” This store offers customers the sort of quality and collection of items found in department stores, tailored to meet local demand and conditions in the shopping center. At the same time, this store offers new products as only a new format can, providing a sense of fun and gorgeousness akin to the ground floor of a department store.

Overview of Takashimaya Style Maison

The main target of this store is women in their 30s and 40s that are actively enjoying life, including fashion and child raising. It offers customers a lifestyle, and is split into three zones: dressing, sending, and gathering. The dressing zone features popular cosmetics and fashion accessories. The sending zone has food and lifestyle accessories suitable for personal gifts. In the gathering zone, there is a bakery/café, and the company also plans to hold events in this space. The sales floor of the EBINA store is 725sqm.

On **June 1, 2015**, the company released monthly store sales data for May 2015.

All Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/13												
Takashimaya (Parent)	16.5%	2.8%	-0.2%	-0.9%	-1.9%	0.6%	1.9%	-1.0%	2.4%	-2.7%	-2.2%	-0.3%
Domestic Department Stores	16.9%	1.9%	-0.7%	-0.5%	-3.0%	-0.6%	1.1%	-1.6%	1.6%	-2.6%	-2.9%	0.3%
Corporate Business	0.1%	23.6%	9.0%	-2.5%	31.5%	20.0%	26.1%	10.3%	21.8%	-7.8%	5.2%	-5.6%
Cross-Media Business	13.4%	-10.3%	-3.8%	-11.7%	-1.4%	22.3%	0.9%	3.6%	7.1%	-0.8%	13.8%	-6.1%
FY02/14												
Takashimaya (Parent)	2.9%	-1.3%	2.5%	8.9%	-3.6%	0.4%	1.9%	-2.6%	2.2%	1.8%	4.1%	3.7%
Domestic Department Stores	4.9%	-0.5%	1.0%	7.8%	-4.0%	0.3%	2.6%	-2.3%	3.0%	1.8%	4.1%	3.9%
Corporate Business	29.1%	-11.5%	20.7%	38.8%	6.0%	-3.0%	3.7%	-4.2%	-5.9%	11.7%	7.5%	3.0%
Cross-Media Business	-1.8%	4.5%	11.3%	0.6%	3.9%	13.2%	-18.3%	-5.3%	-11.2%	-7.0%	-0.7%	-5.8%
FY02/15												
Takashimaya (Parent)	32.3%	-13.2%	-7.0%	-4.9%	-4.4%	0.1%	-0.3%	-0.4%	0.7%	-1.0%	-1.3%	0.3%
Domestic Department Stores	31.7%	-13.5%	-6.5%	-4.9%	-4.3%	0.0%	-0.4%	-0.5%	0.5%	-1.1%	-1.5%	-0.1%
Corporate Business	55.4%	-21.1%	-17.9%	-15.6%	1.2%	-5.3%	-3.6%	-1.3%	-11.4%	-8.7%	34.5%	20.6%
Cross-Media Business	5.4%	-33.8%	-36.0%	-25.2%	-12.8%	-3.4%	-11.7%	1.0%	-10.7%	16.2%	-13.4%	-2.8%
FY02/16												
Takashimaya (Parent)	-23.9%	16.6%	10.0%	-	-	-	-	-	-	-	-	-
Domestic Department Stores	-23.7%	16.2%	9.6%	-	-	-	-	-	-	-	-	-
Corporate Business	-25.9%	34.0%	-	-	-	-	-	-	-	-	-	-
Cross-Media Business	-16.6%	57.5%	-	-	-	-	-	-	-	-	-	-

Source: Company data

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

Store sales in May 2015 were up 9.6% across Takashimaya (parent) stores and 17 domestic subsidiary department stores. Summer menswear and high-end products such as luxury items, jewelry, and watches sold well. Demand from inbound tourists increased significantly, and the company also faced a favorable year-on-year comparison with the previous year, when sales fell 6.5% owing to the pullback after the rush to beat the consumption tax hike. As a result, sales were up year-on-year, and up by 2.4% against May 2013.

View the [full report](#).

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Takihyo Co., Ltd. (9982)

Textiles and apparel trading house with over 260 years of history.

On **June 23, 2015**, Takihyo Co., Ltd. announced earnings results for Q1 FY02/16.

Quarterly Performance (JPYmn)	FY02/14				FY02/15				FY02/15		FY02/15		FY02/15		FY02/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of 1H	1H Est.	% of FY	FY Est.		
Sales	19,635	17,666	23,701	18,368	19,384	16,650	22,118	19,504	20,225	-	55.0%	36,800	25.4%	79,500		
YoY	4.5%	7.8%	9.0%	4.3%	-1.3%	-5.8%	-6.7%	6.2%	4.3%	-		2.1%		2.4%		
Gross Profit	4,110	3,522	4,897	3,486	4,068	3,270	4,773	3,793	4,275	-						
YoY	-12.5%	-3.8%	-2.5%	1.8%	-1.0%	-7.2%	-2.5%	8.8%	5.1%	-						
GPM	20.9%	19.9%	20.7%	19.0%	21.0%	19.6%	21.6%	19.4%	21.1%	-						
SG&A Expenses	3,736	3,408	3,550	3,399	3,512	3,247	3,437	3,461	3,572	-						
YoY	2.4%	2.7%	1.0%	-4.9%	-6.0%	-4.7%	-3.2%	1.8%	1.7%	-						
SG&A / Sales	19.0%	19.3%	15.0%	18.5%	18.1%	19.5%	15.5%	17.7%	17.7%	-						
Operating Profit	373	115	1,347	86	555	23	1,336	333	703	-	100.4%	700	26.0%	2,700		
YoY	-64.3%	-66.4%	-10.5%	-	48.8%	-80.0%	-0.8%	287.2%	26.7%	-		21.0%		20.1%		
OPM	1.9%	0.7%	5.7%	0.5%	2.9%	0.1%	6.0%	1.7%	3.5%	-		1.9%		3.4%		
Recurring Profit	453	105	1,367	85	605	61	1,407	329	798	-	99.8%	800	28.0%	2,850		
YoY	-57.7%	-70.1%	-10.0%	-	33.6%	-41.9%	2.9%	287.1%	31.9%	-		20.1%		18.6%		
RPM	2.3%	0.6%	5.8%	0.5%	3.1%	0.4%	6.4%	1.7%	3.9%	-		2.2%		3.6%		
Net Income	271	79	854	-52	429	15	521	95	542	-	108.4%	500	31.9%	1,700		
YoY	-54.0%	-50.0%	-5.8%	-	58.3%	-81.0%	-39.0%	-	26.3%	-		12.4%		60.3%		
NPM	1.4%	0.4%	3.6%	-	2.2%	0.1%	2.4%	0.5%	2.7%	-		1.4%		2.1%		
Inventories	4,238	4,381	5,131	4,152	3,705	3,967	3,886	5,001	3,928	-						
YoY	21.3%	19.2%	29.8%	5.1%	-12.6%	-9.4%	-24.3%	20.4%	6.0%	-						
Days in Inventory	24.1	27.8	23.1	28.4	23.4	26.2	20.7	25.8	25.5	-						

Takihyo established sales groups for each channel, in a bid to increase its market share. It also focused on increasing added value by negotiating with materials suppliers and other suppliers. In addition, the company established a quality control center in Dalian, China, to ensure more consistent quality, and established production facilities in the ASEAN countries and inland China (see the Full-year outlook section for details). As in FY03/15, Takihyo also continued cutting distribution costs—comprising about 30% of SG&A expenses—and improved its profit structure by using real estate assets more efficiently.

As a result, sales and operating profit grew 4.3% and 26.5% YoY respectively.

New quality control center in Dalian (Liaoning Province, China)

In December 2014, Takihyo established a Dalian Branch of its Shanghai subsidiary for quality control on products purchased in Dalian. This branch began operations in May 25, 2015, and plans to ramp up to full-fledged operations on July 1, 2015.

View the [full report](#).

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Verite Co., Ltd. (9904)

Jewelry retailer acquired by Indian jewelry conglomerate specializing in diamond rings.

On **June 18, 2015**, Shared Research updated the report after interviewing management.

Quarterly Performance (JPYmn)		FY03/13				FY03/14				FY03/15				FY03/15	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales		2,217	2,392	2,589	3,367	2,251	2,296	2,505	2,726	1,747	2,009	2,108	2,739	100.0%	8,600
YoY		7.8%	1.3%	-5.1%	-8.5%	1.5%	-4.0%	-3.2%	-19.0%	-22.4%	-12.5%	-15.8%	0.5%		-12.0%
Gross Profit		1,162	1,257	1,783	1,521	1,127	1,200	1,280	1,270	902	1,022	1,100	1,097		
YoY		-0.2%	-4.6%	14.7%	0.2%	-3.0%	-4.5%	-28.2%	-16.5%	-20.0%	-14.8%	-14.1%	-13.6%		
GPM		52.4%	52.6%	68.9%	45.2%	50.1%	52.3%	51.1%	46.6%	51.6%	50.9%	52.2%	40.1%		
SG&A Expenses		1,371	1,333	1,368	1,446	1,169	1,148	1,140	1,198	1,027	861	1,036	1,196		
YoY		8.6%	-3.8%	-3.6%	1.1%	-14.7%	-13.9%	-16.7%	-17.2%	-12.1%	-25.0%	-9.1%	-0.2%		
SG&A / Sales		61.8%	55.7%	52.8%	42.9%	51.9%	50.0%	45.5%	43.9%	58.8%	42.9%	49.1%	43.7%		
Operating Profit		-209	-75	414	79	-42	52	140	90	-125	20	64	-100	106.8%	-132
YoY		-	-	204.4%	2.6%	-1.9%	2.3%	-66.2%	13.9%	-61.5%	-54.3%	-	-		
OPM		-9.4%	-3.1%	16.0%	2.3%	-	-	5.6%	3.3%	-7.2%	1.0%	3.0%	-3.7%		
Recurring Profit		-238	-105	378	39	-66	-1	81	6	-151	-3	43	-143	109.0%	-233
YoY		-	-	220.3%	77.3%	-	-	-78.6%	-84.6%	-	-	-46.9%	-		
RPM		-10.7%	-4.4%	14.6%	1.2%	-2.9%	-0.0%	3.2%	0.2%	-8.6%	-0.1%	2.0%	-5.2%		
Net Income		-254	-202	354	215	-58	-16	69	157	-164	-25	30	-1,428	103.7%	-1,530
YoY		-	-	306.9%	-	-	-	-80.5%	-27.0%	-	-	-56.5%	-		
NPM		-11.5%	-8.4%	13.7%	6.4%	-2.6%	-0.7%	2.8%	5.8%	-9.4%	-1.2%	1.4%	-52.1%		
Store count		101	102	104	97	83	82	84	80	81	80	84	79		
Verite		76	78	78	73	75	75	77	73	74	73	75	70		
MAHARAJA		4	4	4	4	5	5	5	5	5	5	7	7		
MMiKaZaRi		-	1	2	2	2	2	2	2	2	2	2	2		
Other		21	19	20	18	1	-	-	-	-	-	-	-		
Product Inventory		5,070	4,720	5,604	5,268	6,085	6,442	6,208	5,927	5,944	5,951	5,898	4,738		
YoY		5.5%	-12.1%	-0.9%	-0.5%	20.0%	36.5%	10.8%	12.5%	-2.3%	-7.6%	-5.0%	-20.1%		
Turnover (days)		448	394	584	269	461	522	471	380	641	550	536	296		

Full-Year Performance (JPYmn)		FY03/04	FY03/05	FY03/06	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	Est.	Change
Sales		16,376	15,753	13,719	8,861	5,491	11,519	9,246	9,530	10,823	10,565	9,778	8,603	8,100	-503	
YoY		-5.8%	-3.8%	-12.9%	-	-	-	-19.7%	3.1%	13.6%	-2.4%	-7.4%	-12.0%	-5.8%		
Gross Profit		8,178	7,999	7,072	4,449	2,854	5,567	4,552	4,878	5,555	5,723	4,877	4,121	4,350	229	
YoY		-3.9%	-2.2%	-11.6%	-	-	-	-18.2%	7.2%	13.9%	3.0%	-14.8%	-15.5%	5.5%		
GPM		49.9%	50.8%	51.5%	50.2%	52.0%	48.3%	49.2%	51.2%	51.3%	54.2%	49.9%	47.9%	53.7%		
SG&A Expenses		7,982	8,250	7,534	5,231	2,616	6,116	5,213	4,815	5,497	5,518	4,655	4,262	4,200	-62	
YoY		-4.7%	3.4%	-8.7%	-	-	-	-14.8%	-7.6%	14.2%	0.4%	-15.6%	-8.4%	-1.5%		
SG&A / Sales		48.7%	52.4%	54.9%	59.0%	47.6%	53.1%	56.4%	50.5%	50.8%	52.2%	47.6%	49.5%	51.8%		
Operating Profit		155	-251	-462	-781	237	-548	-660	59	47	209	240	-141	150	291	
YoY		45.5%	-	-	-	-	-	-	-	-20.3%	344.7%	14.8%	-	1.9%		
OPM		1.2%	-1.6%	-3.4%	-8.8%	4.3%	-4.8%	-7.1%	0.6%	0.4%	2.0%	2.5%	-1.6%	70	324	
Recurring Profit		245	-232	-514	-933	272	-694	-611	4	-90	74	20	-254	-		
YoY		100.8%	-	-	-	-	-	-	-	-	-	-73.0%	-	-		
RPM		1.5%	-1.5%	-3.7%	-10.5%	5.0%	-6.0%	-6.6%	0.0%	-0.8%	0.7%	0.2%	-3.0%	0.9%		
Net Income		-391	-205	-1,199	-1,545	215	-1,935	-768	-169	-212	113	152	-1,587	10	1,597	
YoY		-	-	-	-	-	-	-	-	-	-	34.5%	-	-		
NPM		-2.4%	-1.3%	-8.7%	-17.4%	3.9%	-16.8%	-8.3%	-1.8%	-2.0%	1.1%	1.6%	-18.4%	0.1%		
Store count					112	105	102	94	89	100	97	80	79	79		
Verite									81	77	73	73	70	71	1	
MAHARAJA									3	4	4	5	7	6	-1	
MMiKaZaRi									-	2	2	2	2	2		
Other									5	19	18	-	-	-		
Product Inventory		5,015	5,210	4,571	3,891	4,101	4,204	4,235	4,507	5,333	5,300	5,958	4,760			
YoY		3.3%	3.9%	-12.3%	-	-	-	0.7%	6.4%	18.3%	-0.6%	12.4%	-20.1%			
Turnover (days)		220	241	269	-	-	255	328	343	341	401	419	437	421	-16	

Source: Company data
Figures may differ from company materials due to differences in rounding methods.

Difficult conditions persisted during FY03/15, namely due to the pullback in demand after the rush to beat the consumption tax hike, poor consumer spending, and poor weather conditions. As a result, sales fell through Q3. In Q4, however, the company began seeing year-in-year growth. Since Christmas, CEO Arpan Jhaveri has been advising stores on strategies for promotions, inventory, products, and sales. It appears these strategies are paying off.

Still, operating profit, recurring profit, and net income all slipped into the red as sales fell. The net loss was considerable, at JPY1.6bn. This was due to an extraordinary loss of JPY879mn booked on provisions for doubtful accounts after accounts receivable from sister company Jewel Source Japan and advance payments to the Aston Luxury Group Limited were found to be unrecoverable. The company also recognized business restructuring expenses of JPY339mn as an extraordinary loss, owing to the disposal of long-term inventory.

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On June 5, 2015, Verite Co. announced May 2015 sales figures.

Monthly Sales (YoY)	FY03/16												FY03/16				FY03/16		FY
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Q1	Q2	Q3	Q4	1H	2H	
All Stores																			
Sales	9.5%	8.2%																	
Customer Count	-19.3%	-27.5%																	
Sales Per Customer	35.7%	49.4%																	
Stores	80	78																	
Verite	71	70																	
MAHARAJA	7	6																	
MIMiKaZaRi	2	2																	
Comparable Stores																			
Sales	6.5%	4.6%																	
Customer Count	-16.6%	-14.5%																	
Sales Per Customer	27.7%	38.5%																	
Stores	77	76																	
Monthly Sales (YoY)	FY03/15												FY03/15				FY03/15		FY
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Q1	Q2	Q3	Q4	1H	2H	
All Stores																			
Sales	-27.6%	-15.0%	-10.9%	-9.1%	-16.2%	-11.7%	-13.0%	-15.7%	-17.4%	6.9%	4.9%	-5.2%	-17.7%	-11.9%	-15.6%		-14.7%		-12.4%
Customer Count	-38.7%	-24.9%	-18.2%	-19.7%	-19.3%	-15.9%	-14.4%	-15.4%	-19.5%	-6.6%	9.8%	-3.0%	-27.6%	-18.4%	-16.9%		-23.2%		-9.6%
Sales Per Customer	18.0%	13.2%	9.0%	13.2%	3.7%	5.0%	1.6%	-0.4%	2.5%	14.4%	-4.5%	-2.3%	13.7%	8.0%	1.5%		11.2%		8.8%
Stores	81	81	81	80	80	80	83	83	84	81	81	79	81	80	84		80		0
Verite	74	74	74	73	73	73	74	74	75	72	72	70	74	73	75		73		0
MAHARAJA	5	5	5	5	5	5	7	7	7	7	7	7	5	5	7		5		0
MIMiKaZaRi	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2		2		0
Comparable Stores																			
Sales	-21.8%	-8.6%	-11.1%	-2.3%	-9.7%	-10.6%	-10.7%	-11.7%	-11.6%	15.8%	3.6%	1.1%	-13.5%	-7.4%	-11.4%		-10.3%		-7.6%
Customer Count	-33.6%	-23.9%	-17.4%	-18.1%	-17.4%	-14.9%	-14.9%	-12.2%	-15.5%	-2.2%	13.1%	-3.1%	-24.9%	-16.9%	-14.4%		-21.0%		-17.0%
Sales Per Customer	17.7%	20.1%	7.7%	19.3%	9.3%	5.1%	4.9%	0.6%	4.6%	18.4%	-8.4%	4.3%	15.3%	11.4%	3.5%		13.5%		11.3%
Stores	76	79	79	80	79	79	79	80	80	80	77	77	79	79	80		79		0
Monthly Sales (YoY)	FY03/14												FY03/14				FY03/14		FY
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Q1	Q2	Q3	Q4	1H	2H	
All Stores																			
Sales	8.5%	-8.7%	-7.4%	-0.8%	-9.8%	-1.9%	-7.0%	4.2%	2.3%	8.4%	-10.8%	-0.3%	-3.3%	-4.2%	-0.1%	-0.8%	-3.8%	-0.5%	-2.0%
Customer Count	17.4%	2.5%	-9.5%	-7.2%	-14.2%	-11.6%	-9.4%	-8.9%	-12.6%	-14.6%	-30.0%	-19.4%	2.8%	-11.1%	-10.7%	-20.6%	-4.3%	-15.8%	-10.3%
Sales Per Customer	-7.6%	-11.0%	2.4%	6.9%	5.1%	11.0%	2.6%	14.4%	17.0%	26.9%	27.4%	23.7%	-6.0%	7.7%	11.8%	25.0%	0.5%	18.2%	9.3%
Stores	87	84	83	83	83	82	82	84	84	82	81	80	83	82	84	80	82	80	80
Verite	75	75	75	76	76	75	75	77	77	75	74	73	75	75	77	73	75	73	73
MAHARAJA	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
MIMiKaZaRi	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	5	2	1										1						
Comparable Stores																			
Sales	7.7%	-9.0%	6.7%	0.5%	-4.0%	2.4%	-0.2%	12.2%	11.8%	18.7%	-4.1%	0.7%	1.2%	-0.4%	8.0%	4.8%	0.4%	6.3%	3.6%
Customer Count	18.6%	1.8%	-1.6%	-0.6%	-8.0%	-4.6%	-0.1%	-3.5%	-3.6%	-7.6%	-23.9%	-12.8%	5.8%	-4.5%	-2.6%	-14.0%	0.6%	-8.5%	-4.1%
Sales Per Customer	-9.2%	-10.7%	8.5%	1.2%	4.4%	7.3%	-0.1%	16.3%	16.0%	28.4%	26.0%	15.5%	-4.4%	4.3%	10.9%	21.8%	-0.2%	16.2%	8.0%
Stores	81	78	78	77	77	76	77	78	79	79	76	77	78	76	79	77	76	77	77

Source: Company data

On June 1, 2015, the company announced a reduction in capital reserves and an appropriation of surplus. This will eliminate a loss in retained earnings (loss carried forward) from net assets on the company's balance sheet.

Details

For FY03/15 the company recorded an extraordinary loss of JPY1.3bn, resulting in the booking of a net loss of JPY1.6bn and a loss carried forward of JPY1.6bn. At a meeting of the board of directors on June 1, 2015, the company decided on a reduction in capital reserves and an appropriation of surplus to set off the loss carried forward, restore its finances, ensure a flexible capital policy, and realize an early resumption of dividends.

The company will reduce JPY1.6bn from its capital reserves of JPY3.1bn, and transfer that amount to other capital surplus. The JPY1.6bn will then be transferred to other retained earnings, and as a result, the loss in retained earnings will be eliminated.

The transfer is between net assets accounts, effective June 1, 2015. As the amount of net assets has not changed, earnings will not be affected.

View the [full report](#).

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Yumeshin Holdings Co., Ltd. (2362)

Staffing company focused on the construction industry. Expanding into other areas to secure long-term growth

On **June 25, 2015**, Yumeshin Holdings announced the disposition of treasury stock by overseas offering.

Purpose and reasons for the disposition of treasury stock by overseas offering

The company expects significant demand for young dispatch workers on construction sites to continue. In its medium-term plan, the company has set forth its aim to increase the number of technicians on its books to 5,000, in order to capitalize on this demand. It plans to hire over 1,600 people every year from FY09/14 to FY09/17, and intends to conduct promotional campaigns and pursue acquisitions to achieve this target.

Details of the disposition of treasury stock

Type and number of shares:	9,032,400 ordinary shares in the company
Method of determining payment value:	To be determined on June 25, 2015 (London time), by the book building process
Offer method:	To be offered overseas, mainly in Europe and Asia, with all shares underwritten and purchased by Macquarie Capital Securities Limited, a foreign corporation, the sole lead manager and sole bookrunner. The disposition price (offer price) will be determined by the book building process after considering supply and demand conditions, based on the closing price of the company's ordinary shares on June 25, 2015 multiplied by a factor between 0.90 and 1.00.
Application unit size:	100 shares
Payment date:	July 10, 2015
Share transfer date:	July 13, 2015
Treasury shares held before disposition:	9,032,486 shares
Treasury shares held after disposition:	86 shares (number of shares disposed: 9,032,400).

Use of funds

The company expects net proceeds of JPY6.6bn from the disposition of these treasury shares. It plans to allocate about JPY6.0bn to funds for an acquisition to expand its foundations in the high value-added temporary staffing business in FY09/16. It plans to allocate the remainder to investment in new businesses by FY09/18, such as a business for referring human resources overseas to the Japanese market, and working capital for growth in the temporary staffing business. If the above acquisition does not go according to plan, the company intends to allocate the funds to working capital for growth in the temporary staffing business.

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On **June 2, 2015**, Shared Research updated the report after interviewing management.

Quarterly Performance (Cumulative) (JPYmn)	FY09/14				FY09/15				FY09/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	3,780	7,966	12,114	16,482	5,135	10,956			22,500~25,500	
YoY	25.8%	29.9%	32.2%	31.5%	35.8%	37.5%			36.5%~54.7%	
Gross Profit	1,004	2,249	3,400	4,583	1,399	2,916				
YoY	12.4%	21.9%	30.9%	32.8%	39.3%	29.6%				
GPM	26.6%	28.2%	28.1%	27.8%	27.3%	26.6%				
SG&A Expenses	699	1,377	2,035	2,726	777	1,645				
YoY	40.1%	28.4%	26.3%	22.8%	11.1%	19.4%				
SG&A / Sales	18.5%	17.3%	16.8%	16.5%	15.1%	15.0%				
Operating Profit	305	872	1,365	1,857	622	1,272				
YoY	-22.7%	12.9%	38.3%	51.0%	104.2%	45.8%				
OPM	8.1%	10.9%	11.3%	11.3%	12.1%	11.6%				
Recurring Profit	365	1,977	2,491	2,952	729	1,436				
YoY	-23.4%	106.7%	103.4%	66.7%	99.7%	-27.4%				
RPM	9.7%	24.8%	20.6%	17.9%	14.2%	13.1%				
Net Income	299	1,418	1,854	2,246	416	807			2,250~3,200	
YoY	-3.9%	142.9%	141.9%	61.8%	39.2%	-43.1%			0.2%~42.5%	
NPM	7.9%	17.8%	15.3%	13.6%	8.1%	7.4%				

Quarterly Performance (JPYmn)	FY09/14				FY09/15			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	3,780	4,186	4,148	4,369	5,135	5,821		
YoY	25.8%	33.9%	36.9%	29.4%	35.8%	39.1%		
Gross Profit	1,004	1,245	1,151	1,182	1,399	1,517		
YoY	12.4%	30.9%	52.7%	38.9%	39.3%	21.8%		
GPM	26.6%	29.7%	27.7%	27.1%	27.3%	26.1%		
SG&A Expenses	699	678	658	691	777	868		
YoY	40.1%	18.3%	22.0%	13.5%	11.1%	28.0%		
SG&A / Sales	18.5%	16.2%	15.9%	15.8%	15.1%	14.9%		
Operating Profit	305	567	493	492	622	649		
YoY	-22.7%	50.1%	129.7%	102.3%	104.2%	14.4%		
OPM	8.1%	13.6%	11.9%	11.3%	12.1%	11.2%		
Recurring Profit	365	1,612	514	461	729	706		
YoY	-23.4%	236.2%	91.5%	-15.7%	99.7%	-56.2%		
RPM	9.7%	38.5%	12.4%	10.5%	14.2%	12.1%		
Net Income	299	1,119	435	392	416	391		
YoY	-3.9%	310.0%	138.7%	-37.0%	39.2%	-65.1%		
NPM	7.9%	26.7%	10.5%	9.0%	8.1%	6.7%		

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

Source: Company data

Sales grew in line with growth in the Construction Technician Temporary Staffing segment—the result of increased hiring of technicians—and the consolidation of Iwamotogumi Co., Ltd. Operating profit also grew significantly year-on-year, as the utilization rate and wages improved in the Construction Technician Temporary Staffing segment. Recurring profit and net income were both down year-on-year, owing to a difficult comparison with Q2 FY09/14, when the company booked a gain on the sale of investment securities of JPY958mn, and a gain on the sale of shares in a subsidiary of JPY299mn.

On **June 1, 2015**, the company announced the transfer of a subsidiary (share transfer) and an extraordinary profit, the establishment of a subsidiary and the launch of a new business, and a revision to the year-end dividend forecast for FY09/15.

Transfer of a subsidiary (share transfer) and extraordinary profit

Yumeshin will transfer all shares in consolidated subsidiaries Gakidaisyo, Inc. and Iwamotogumi Co., Ltd. to Sato Sogokikaku Limited. The company also expects to book an extraordinary profit as a result of this share transfer in FY09/15. Gakidaisyo and Iwamotogumi will cease to be consolidated subsidiaries after the transfer.

Reasons for the transfer

Gakidaisyo operates childcare and nursing care facilities, while Iwamotogumi constructs high-end

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bespoke residences. Yumeshin, however, has decided that focusing management resources on its core businesses—Construction Technician Temporary Staffing and other added-value recruitment—will better increase investment efficiency and contribute to the maximization of shareholder value. As a result, the company has decided to transfer its share holdings in these subsidiaries.

Share transfer schedule

Gakidaisyō: June 30, 2015

Iwamotogumi: June 1, 2015

Extraordinary profit

In line with the above transfer, Yumeshin expects to recognize gains of the sale of shares in subsidiaries of about JPY1.6bn as an extraordinary profit in FY09/15. The company is analyzing the effect of this action of earnings for FY09/15, and plans to disclose any necessary revisions to earnings forecasts as soon as possible.

Overview of Sato Sogokikaku Limited

Business: investment, real estate leasing

Capital relationship with Yumeshin: holds 9.85% of outstanding shares in Yumeshin.

Establishment of a subsidiary and launch of a new business

On June 1, 2015, the company launched a new business at a new subsidiary that was established on February 3, 2015.

The new business

- ☐ Recruitment of foreign technicians and trainees, mainly from ASEAN countries.
- ☐ Support for foreign technicians and trainees, mainly from ASEAN countries.

Overview the newly established subsidiary

Name: Yumeshin Agent Co., Ltd.

Business: recruitment

Capital: JPY40mn.

Revision of dividend forecast

In view of earnings performance in FY09/15, cash flow, and capital efficiency, the company has decided to increase its year-end dividend per share forecast by JPY5 to JPY20. Combined with the interim dividend of JPY15, this means the company plans to pay a full-year dividend of JPY35.

View the [full report](#).

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ZAPPALLAS, INC. (3770)

A web-based business, mainly offering digital contents centered on fortune-telling.

On **June 12, 2015**, ZAPPALLAS, INC. announced earnings results for full-year FY04/15.

Quarterly Performance (JPYmn)	FY04/14				FY04/15				FY04/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	1,882	2,017	1,912	2,343	1,678	2,091	1,800	2,013		
YoY	-20.6%	-8.5%	-6.9%	3.6%	-10.8%	3.7%	-5.9%	-14.1%		
Gross Profit	1,295	1,371	1,331	1,398	1,052	1,156	1,115	1,225		
GPM	68.8%	68.0%	69.6%	59.7%	62.7%	55.3%	62.0%	60.9%		
SG&A Expenses	1,120	1,275	1,138	1,123	968	987	941	1,087		
YoY	6.7%	3.7%	1.5%	-14.0%	-13.6%	-22.6%	-17.3%	-3.2%		
Operating Profit	175	93	191	263	60	177	145	135		
YoY	-70.9%	-69.7%	-33.9%	17.4%	-65.9%	90.1%	-24.1%	-48.6%		
OPM	9.3%	4.6%	10.0%	11.2%	3.6%	8.5%	8.0%	6.7%		
Recurring Profit	152	100	247	253	63	260	261	144		
YoY	-74.9%	-68.1%	-41.1%	-19.7%	-58.4%	159.5%	5.5%	-43.0%		
Net Income	86	72	161	56	52	160	-250	281		
YoY	-75.2%	-70.9%	-46.2%	151.2%	-40.3%	122.0%	-	397.6%		
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	1,882	3,899	5,812	8,155	1,678	3,769	5,569	7,582	98.1%	7,730
YoY	-20.6%	-14.8%	-12.3%	-8.3%	-10.8%	-3.3%	-4.2%	-7.0%		-5.2%
Gross Profit	1,295	2,666	3,997	5,396	1,052	2,208	3,323	4,549		
GPM	68.8%	68.4%	68.8%	66.2%	62.7%	58.6%	59.7%	60.0%		
SG&A Expenses	1,120	2,395	3,533	4,656	968	1,955	2,896	3,983		
YoY	6.7%	5.1%	3.9%	-1.1%	-13.6%	-18.4%	-18.0%	-14.5%		
Operating Profit	175	268	459	722	60	237	382	517	103.3%	500
YoY	-70.9%	-70.5%	-61.7%	-49.2%	-65.9%	-11.8%	-16.9%	-28.4%		-30.8%
OPM	9.3%	13.3%	-	30.8%	3.6%	11.3%	21.2%	25.7%		6.5%
Recurring Profit	152	253	500	752	63	324	584	729	104.1%	700
YoY	-74.9%	-72.6%	-62.7%	-54.5%	-58.4%	28.2%	17.0%	-3.2%		-7.0%
Net Income	86	158	319	376	52	211	-39	242	403.6%	60
YoY	-75.2%	-73.4%	-64.3%	-59.0%	-40.3%	33.4%	-	-35.5%		-84.0%

Source: Company data

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

Gross profit excludes provision for sales returns.

Sales grew for the Others and Commerce segments, but declined overall due to lower sales for the Contents segment, the main earnings driver, on a continued decline in users, particularly feature phone users. Despite reduced SG&A expense owing to thorough cost management, operating profit still declined 28.4% YoY due to lower sales for the high-margin Contents segment. Recurring profit declined 3.2% YoY on currency exchange losses and other factors. The company booked an impairment loss of JPY378mn on fixed assets and unamortized goodwill at subsidiary BxE Inc., recognized as an extraordinary loss. Corporate tax adjustments to account for deferred tax assets associated with unrealized losses after the agreement to transfer shares in BxE produced a JPY133mn drag on earnings. As a result, net income declined 35.5% YoY.

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MONTHLY WRAP – July 2015

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