

Equities

16 November 2011 | 171 pages

Retail Handbook 2011

Understanding the essence of retail

■ Industry Overview

Kumio Tomonaga

+81-3-6270-4755

kumio.tomonaga@citi.com

Chiaki Hirota

+81-3-6270-4756

chiaki.hirota@citi.com



See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Contents

Introduction	3
Issuing our Retail Handbook 2011	3
We divide our new handbook into three parts	5
Investment strategy	7
To understand the “essence”	12
Section 1 Looking for the optimal retail strategy	16
Looking for the optimal retail strategy	17
Section 2 Subsector analysis	45
Convenience store sector	46
Department store subsector	65
Consumer electronics retailers	83
Apparel stores	96
Drugstores	109
Section 3 Data	124
Data	125
Appendix A-1	165

Introduction

Issuing our Retail Handbook 2011

Theme is understanding the essence of retail

On September 16, 2010 we initiated coverage of Japan's retail sector with three reports: [Retail Handbook - RoIC and OP/GP ratios key to new management strategy](#); [Retail: Survey of 3,800 Outlets - The essence of retail](#); [Retail Sector Coverage Initiation - Who will survive even if sales continue to stagnate?](#) As with the previous version, the theme of our *Retail Handbook 2011* is "understanding the essence of retail", but in the new version we make significant changes in content, devoting a large number of pages to breaking down our company analysis by subsector.

RoIC and OP/GP ratios key

In the previous version of our Retail Handbook, we noted that optimal retail strategies are changing as Japan enters an era of population decline. We put particular emphasis on analysis using RoIC. In this version, we do wide-ranging analysis based on the OP/GP ratio, which, as with RoIC, we think has become increasingly important.

From focus on growing sales to focus on boosting OP/GP ratio

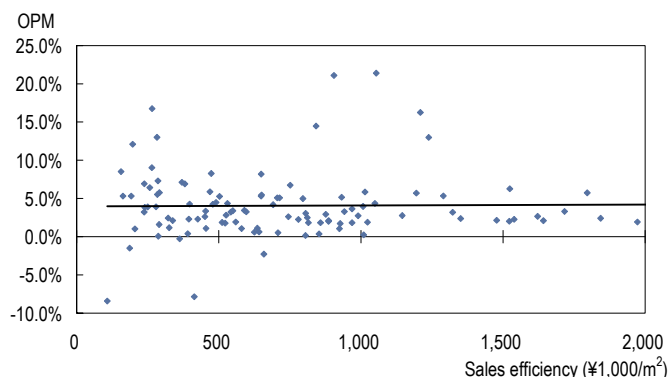
Key point: OP/GP ratio device for increasing gaps between companies

In the 1970s, it was okay to amass inventory and open stores with capital amassed from the timing difference between accounts payable and receivable. In the 1990s, improving inventory control and eliminating opportunity losses was an effective management strategy. Now, with prices falling and the population declining, we think management must shift its focus to improving asset and cost efficiency. This suggests the end of a "sales first" philosophy, and we think differences in OP/GP ratio will increase gaps between companies. In our view, retailers need to base their decisions regarding store opening policy, product policy, and personnel policy on OP/GP ratios.

No relationship between sales floor efficiency and OP margins

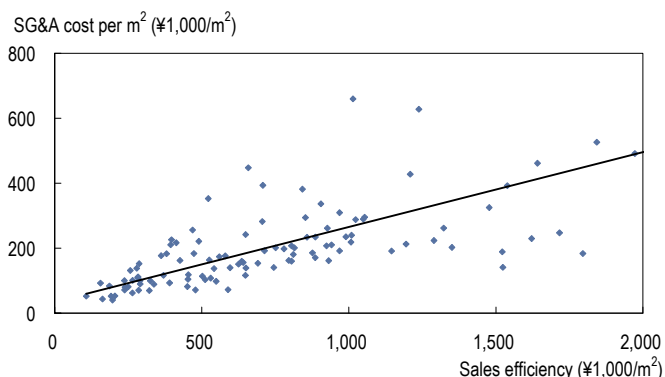
In our view, the reason why retailers need to rid themselves of the "sales first" philosophy is clear from the first six figures we present in this report. In Figure 1, we look at the relationship between sales floor efficiency and operating margin at major retailers, and one can see that there is no relationship between the two. We think the main reason for this is that when sales floor efficiency is high, SG&A costs per square meter are high as well. This is demonstrated in Figure 2.

Figure 1. Sales efficiency v.s. OPM



Note: Based on latest financial results. Consolidated numbers used when available
Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 2. Sales efficiency v.s. per m² SG&A cost



Note: Based on latest financial results. Consolidated numbers used when available
Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

In Figures 3, 5, and 6, we look at major cost categories (personnel, rent, facilities costs) at retailers. We note there is a strong positive correlation between sales floor efficiency and per-square meter personnel costs, rental charges, and facilities costs.

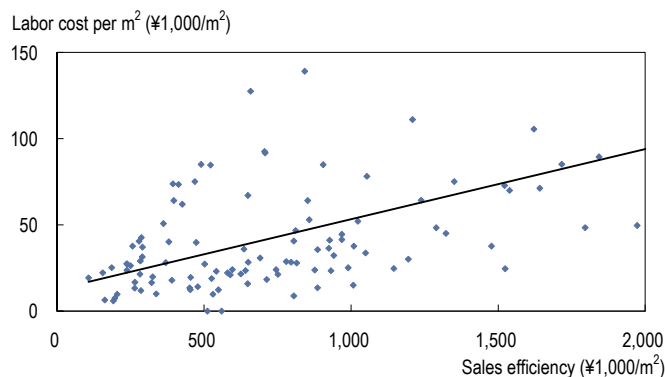
As one can see from Figure 4, the reason per-square meter personnel costs are high is that the higher the sales floor efficiency, the smaller the sales floor area per person. This means retailers have to increase personnel and that per-capita personnel costs are high because the sales floor is busy.

Key to raising OP/GP ratio depends on SG&A allocation method

Clear from examples of Seven & i and Yamada Denki

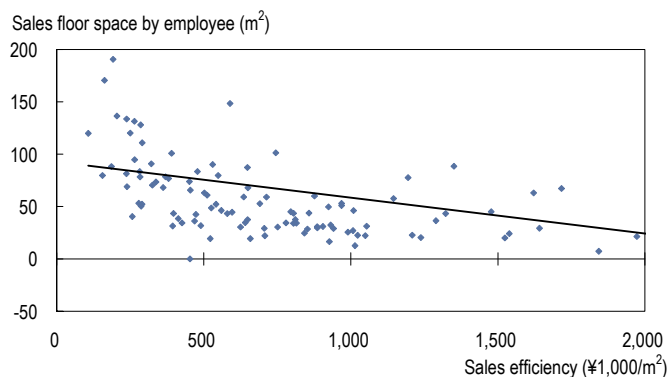
In the second section of this report, we perform analyses by subsector. The reason the Seven-Eleven Japan parent and Yamada Denki have high OP/GP ratios is not because of high sales floor efficiency; in our view, the key is rather that SG&A costs per square meter are kept low despite high sales floor efficiency. When its OP/GP ratio is high, a company can spend more on advertising per square meter than peers while keeping the allocation ratio the same, and this leads to a virtuous cycle that produces high sales floor efficiency.

Figure 3. Sales efficiency v.s. Labor cost per m²



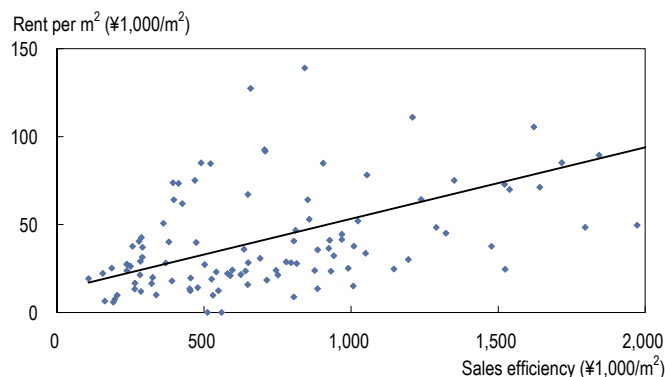
Note: Based on latest financial results. Consolidated numbers used when available.
Source: Company discussions, Results filings, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 4. Sales efficiency v.s. sales floor space per employee



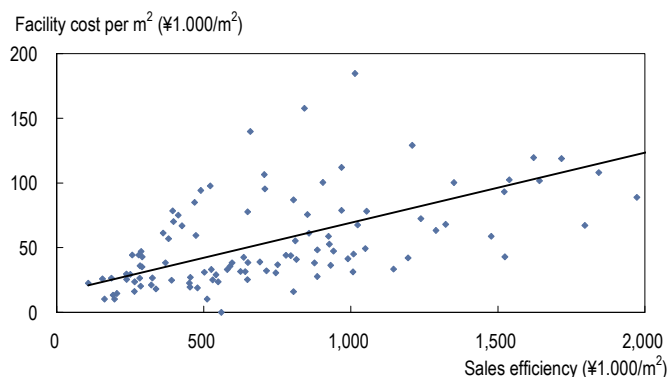
Note: Based on latest financial results. Consolidated numbers used when available.
Source: Company discussions, Results filings, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 5. Sales efficiency vs rent per m²



Note: Based on latest financial results. Consolidated numbers used when available.
Source: Company discussions, Results filings, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 6. Sales efficiency vs facility costs per m²



Note: Based on last financial results. Consolidated numbers used when available.
Source: Company discussions, Results filings, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

We divide our new handbook into three parts

In the first section, we revise our analysis of optimal strategies for each sector, adding in another year's worth of data. In the second section, we perform analyses on subsectors, something we had not done much previously (the subsectors we look at in this version are convenience stores, department stores, consumer electronics retailers, apparel stores, and drugstores). We consider what optimal strategies would be for representative retailers within each of these subsectors and discuss key points. Finally, in the third section, we append figures included in the previously published reports that we feel remain important.

Convenience stores

Market could get far larger than anyone expected

It is clear that convenience stores are seeing new growth via efforts to bring in new customer strata. As they are taking share from "mom-and-pop" stores, we think the convenience store sector could grow to a scale far larger than what anyone has imagined. In the near term, we anticipate high growth for the four convenience store majors thanks to an upturn for the sector environment. However, we note that Seven-Eleven Japan's OP/GP ratio is 36%, 1.6x that of Lawson and c2.5x that of FamilyMart and Circle K Sunkus. In addition, OP per store at Seven-Eleven Japan is ¥13mn, well above the ¥6mn at Lawson and ¥4mn at FamilyMart. If this gap remains in place, Seven-Eleven Japan could take significant share from second-tier operators and put itself in a dominant position.

Department stores

Profitability low but chance for recovery

Department stores look to be in a bad state on pretty much all metrics, including OP/GP ratio. However, department stores are able to generate abundant cash flow, and we think they are in a position to benefit from an increase in the number of wealthy seniors. In our view, a recovery for department stores is possible, and we feel three things need to be done for this to occur: 1) the introduction of mark-to-market management, 2) ensuring optimal cost allocation and careful cash flow management, and 3) implementing groundbreaking mergers. For Isetan Mitsukoshi Holdings, which accounts for one-third of Tokyo department store sales, we think the keys are whether 1) there are benefits from system and card integration and 2) there are benefits from integration of companies in Sapporo, Niigata, and Hakata.

Apparel stores

Highest investment efficiency among retailers, generates solid free cash flow with relative ease

Apparel specialty stores have high gross margins, and as most new stores are opened in rental property facilities costs are limited. As such, apparel stores are able to generate sales with relatively low inventory turnover and have the highest investment efficiency among retailers, making it easy to generate free cash flow. Indeed, many of the leading retailers with top class OP/GP ratios are apparel specialty stores (e.g., Shimamura, Fast Retailing, Point). Over the past 20+ years, the percentage of consumption accounted for by apparel has fallen more than almost any other category. However, in the three years since the Lehman Brothers failure, consumers have been increasingly demanding value-added products, and labor costs are expected to continue rising in China, where products for Japanese retailers are produced. As such, it looks as if apparel prices will also continue to rise. What is more, the trend in women's clothing is shifting from casual to elegance, and it looks as if men's apparel has entered the first replacement cycle since 2006. Therefore, we think demand will continue to shift from low-priced basic goods to mid- to high-priced apparel.

The worse the environment, the greater the oligopolization

Consumer electronic retailers

Consumer electronics retailers look set to benefit from reconstruction demand, which is likely to persist for the next several years (primarily in the Tohoku region). We also expect technological innovation to generate new demand (continual demand for upgrades, expansion in the market for environment-friendly products). These factors should also benefit consumer electronics retailers. On the other hand, the ratio of consumption accounted for by consumer electronics is well above the average over the past several years, due mainly to a rapid rise in the percent of spending accounted for by TVs. As such, a significant increase over the next several years would seem unlikely. The worse the environment gets, the more oligopolistic the market is likely to become. Even under this kind of environment, we think Yamada Denki and K's Holdings, both of which have OP/GP ratios exceeding 20%, will continue aggressive store openings, and we look for both to increase their market shares.

Relatively high growth potential: need to decide on target (specialty vs. discount) and leverage resulting edge

Drugstores

Customers like national brands, particularly when it comes to medication and daily products, making it hard for drugstores to differentiate themselves via private brands. As a result, they are forced to rely on appealing on price, and this means lower gross margins and lower SG&A ratios than other subsectors. However, drugstore profit structures differ greatly depending on whether they 1) focus on expertise and handle more prescription drugs and category 1 products or 2) follow a discount model in which they focus on lowering prices. While the drugstore subsector has a higher growth rate than other retail subsectors, growth is slowing, and going forward we look for drugstores to either 1) aim to boost sales by augmenting product line-ups in other industry areas and eating into their markets or 2) work to capture the ¥6trn prescription drug market. In our view, the drugstore chains that will continue to grow market share will not be those who stick to the middle ground, but rather chains that decide on a clear target (expertise or discount) and can use the resulting edge to drive sales.

Topix Retail index outperformed the market by wide margin

Investment strategy

2011: a difficult year to read consumption trends

Following the devastating earthquake and tsunami on March 11 and the resulting nuclear accident, many had extremely bearish takes on consumption, thinking deflation would reignite, incomes would decline, and the government would consider tax hikes.

However, we took a bullish view on consumption in a March 24 note

On the other hand, on March 24, just two weeks after the March 11 disaster, we laid out our bullish stance on consumption in 2011 ([J. Front Retailing \(3086\) - At 0.5x PBR, Western Japan-based retailer looks very oversold](#)). Initially some were considered querulous, but retailer earnings were up sharply in H1 and the TOPIX retail index has significantly outperformed TOPIX. Now it appears that most market observers explain this earnings improvement at retailers as being due to extraordinary demand. It is true that there was extraordinary demand in H1: there was a supply shortfall for some products, products that helped with saving electricity did well, and SG&A costs declined due to efforts to save electricity and voluntary restraint in advertising. On March 24, we expected extraordinary demand and were bullish about consumption.

In addition, we made the following points following the March 11 disaster:

- 1) Putting off the buying of high-priced goods will likely be short-lived
- 2) Convenience stores have entered a new growth stage in which their value will be reacknowledged
- 3) There will be an increasing shift away from basic products and toward more fashionable items
- 4) Fundamentally speaking, consumption is in a recovery phase after the Lehman Brothers failure
- 5) Selling price will increase
- 6) The closer the area hit hardest by the March 11 disaster, the more the oligopolization and the stronger the same-store sales
- 7) Efforts to save energy will drive a new kind of consumption
- 8) A consumption tax hike would be positive for high-end products

Among these points, in particular, many said that department stores were likely to fall into the red as high-priced products would stop selling well immediately after the earthquake. However, it turned out to be opposite; each department store has raised its initial forecasts significantly, and it looks increasingly as if two department stores with February year-ends (i.e., with fiscal years that include the March 11 disaster), J. Front Retailing and Takashimaya, will be able to secure earnings growth in FY2/12.

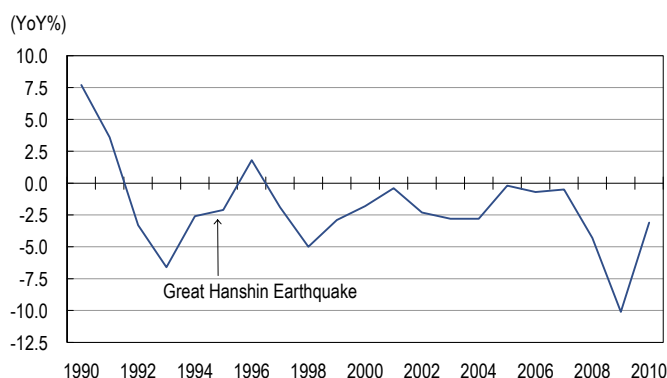
In our March 24 initiation on J. Front Retailing ([J. Front Retailing \(3086\) - At 0.5x PBR, Western Japan-based retailer looks very oversold](#)), we wrote “We doubt

restraint in purchasing high-priced products after the March 11 disaster will be prolonged. For example, there was only a relatively brief lull in such purchases following the Great Hanshin earthquake of 1995. In fact, there may have been a “you-can’t-take-it-with-you” reaction among some wealthy consumers, and with reconstruction demand added in, 1996 department store sales were up for the first time in five years”.

Sales turned up the year after the earthquake even in the middle of the bubble bursting

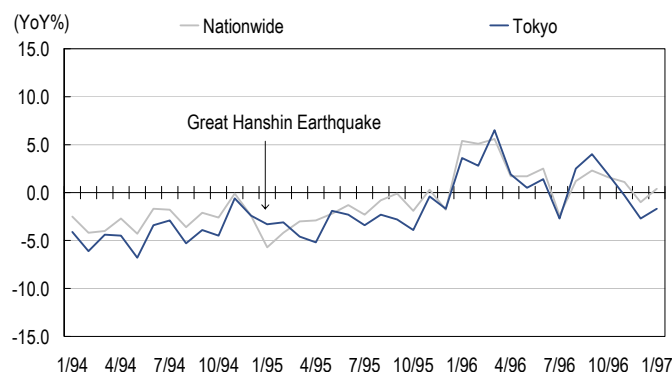
Figure 7 shows nationwide department store sales since 1990. Let us look at department store sales before and after the January 1995 Great Hanshin Earthquake (also known as the Kobe earthquake and the Hyogoken Nambu Earthquake). Although department store sales fell 2.1% in 1995, this was actually an improvement over the preceding years, as they had declined by 2.6% in 1994, 6.6% in 1993, and 3.3% in 1992. Moreover, they rose by 1.8% in 1996, thanks to recovery-related demand.

Figure 7. Nationwide department stores sales growth (adjusted)



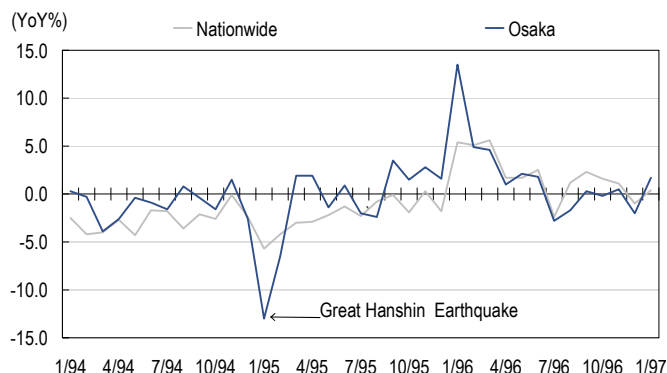
Source: Japan Department Stores Association, company discussions, NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 8. Comparison of nationwide and Tokyo sales growth trends (January 1994–January 1997)



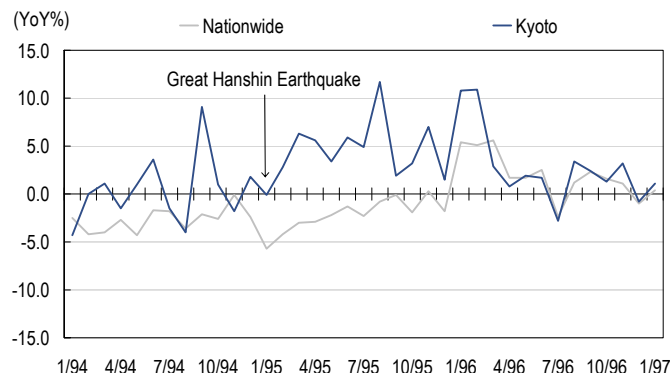
Source: Japan Department Stores Association, company discussions, NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 9. Comparison of nationwide and Osaka sales growth trends (January 1994–January 1997)



Source: Japan Department Stores Association, company discussions, NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 10. Comparison of nationwide and Kyoto sales growth trends (January 1994–January 1997)



Source: Japan Department Stores Association, company discussions, NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Osaka department store sales growth turned positive two months after Great Hanshin Earthquake

Next, let us look at sales in and around 1995 in a little more detail. Figures 3-5 below show monthly department store sales in the Tokyo, Kyoto, and Osaka areas (three of Japan's six major cities) from January 1994 through January 1997 (i.e., in the year prior to and the two years following the Great Hanshin Earthquake).

No impact whatsoever on sales in the Tokyo region

In Tokyo area, sales growth remained negative following the earthquake, but the YoY rate of decline improved gradually, and in January 1996 growth turned positive. At a minimum, it is impossible to point to a period of buying restraint following the earthquake.

In the Osaka area (adjacent to and partially overlapping with the disaster area), sales growth was unsurprisingly negative in January and February 1995, but turned positive in March, and held steady thereafter. We attribute this in part to some department stores in the adjacent Kobe area suspending operations, but also in part to Osaka stores benefiting from recovery-related demand.

Kyoto sales moved further into positive territory

In the Kyoto area (a little over one hour's travel away from the disaster area), the basic sales trend before and after the earthquake was unchanged; sales growth remained positive and continued to gradually improve.

These data on department store sales show that a pullback in spending on high-end goods failed to materialize, not only in the Tokyo area but also in areas close to the disaster area.

Direction more important than absolute level for consumer sentiment

In thinking about why this happened, we think the direction of consumer sentiment is more important than the absolute level, and that some of the rich may have drawn down their savings. We think the same kind of thing is happening this time.

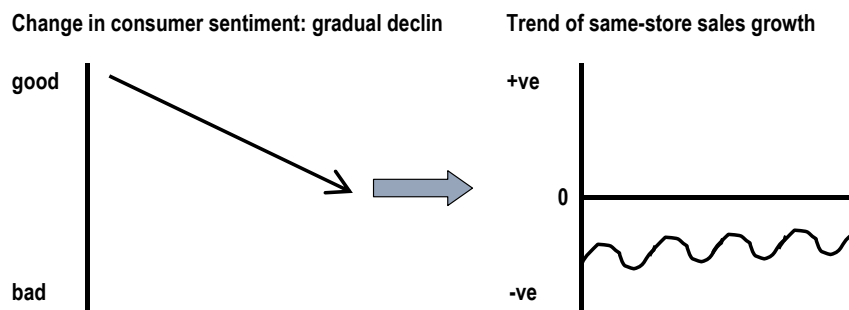
Because household financial assets are massive in Japan, consumer sentiment has a major impact on consumer spending. One example of this is the spike in demand for home appliances ahead of the halving, in November 2010, of eco-points granted under the Eco Point Program. Around 6mn color TVs were sold in one month, close to the benchmark for a normal year's worth of color TV sales. Since the average benefit derived from the halving of eco-points is around ¥10,000 per unit, this example shows the importance of the direction of consumer sentiment.

Let us now examine two scenarios. Figure 11 shows a scenario in which consumer sentiment gradually deteriorates, while Figure 12 shows a scenario in which consumer sentiment drops sharply owing to an external shock, then improves gradually. In the former scenario, same-store sales growth is highly likely to remain below the year-ago level. In the latter scenario, however, same-store sales growth turns sharply negative for a time, but then turns positive as consumer psychology improves. The reason we think same-store sales growth turns positive despite a lower level of consumer sentiment than a year earlier is that, in our view, the direction of consumer sentiment has a greater impact than its absolute level.

Kyoto saw growth a month after the quake

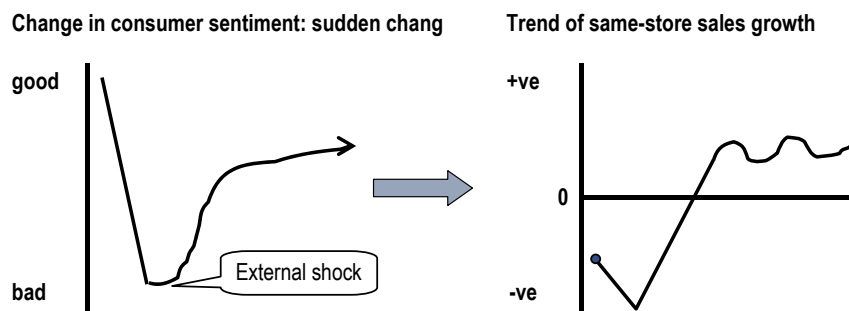
Moreover, we believe the bigger the external shock, the more likely the rich are to tap their savings while they still can, questioning the rational of savings for a raining day

Figure 11. Consumer sentiment trends (1)



Source: Company discussions, Citi Investment Research and Analysis.

Figure 12. Consumer sentiment trends (2)



Source: Company discussions, Citi Investment Research and Analysis.

Shift away from basic products (no-frills items) to more fashionable items (high value-added goods) accelerating

When we initiated on the retail sector September 2010, we said that the tide of consumption was likely to change significantly after what we see as an excessive emphasis on low-priced goods that started with the GFC.

Since the GFC ended, consumers that once flocked to strong retailers have been looking elsewhere

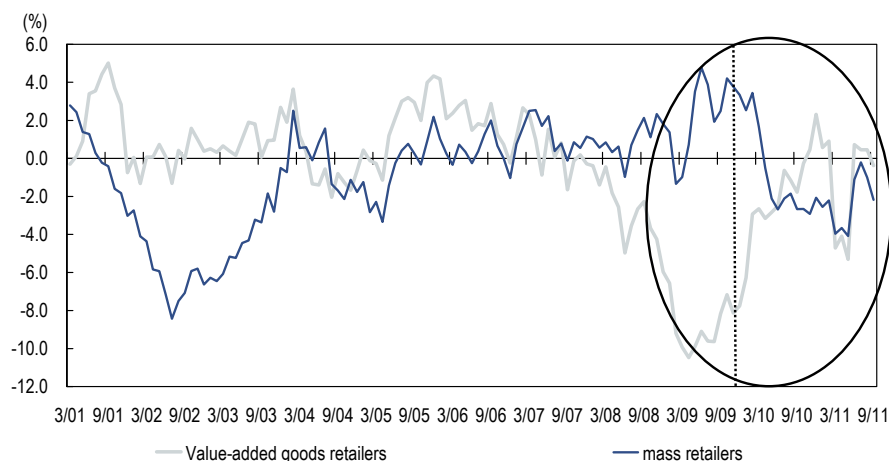
We select 15 companies in each of two categories (mass market products, value-added products) from the Hidden Gems report we publish monthly, and in Figure 14 below we look at same-store sales trends (3MMA) for each. Starting in September 2008, when Lehman Brothers filed for bankruptcy, the number of customers at stores selling value-added products declined sharply and average customer spending plummeted. The plunge in average customer spending during that time is clear from Figure 14 (same-store sales, customer numbers, and average customer spending for all retailers that disclose data). At the same time, customers flocked to strong retailers when it came to no-frills products, due to rapid economic deterioration and greater selectivity. This was, for example, the period when a large

number of customers shifted to Uniqlo and Nitori. Mass media was filled at the time with reports about how to dress well for less, resulting in a widespread attitude that it was fashionable and cool to wear cheap clothes well. Even those who had tired of Uniqlo outerwear bought Uniqlo products. We think growth was particularly high for Uniqlo at this time because its Heattech products were a big hit.

Consumption tide began to change at end-2009, with impact on all retailers from October 2010

We think the post-GFC consumption pattern began to change again at the end of 2009. It was at this time, one year after the major decline for global stock markets, that consumers felt normal again and decided they were tired of belt-tightening. This attitude began with the more fashion-conscious consumers, and we note that the upturn in same-store sales at United Arrows began at this time. From the end of 2009, consumer priorities began to shift gradually from price to added value, and in October 2010 ASP began to rise in the retail sector as a whole. Retailers that had previously benefited from customers flocking to them began to see customers look elsewhere.

Figure 13. Monthly and 3MMA sales trends for 15 mass retailers and 15 value-added goods retailers

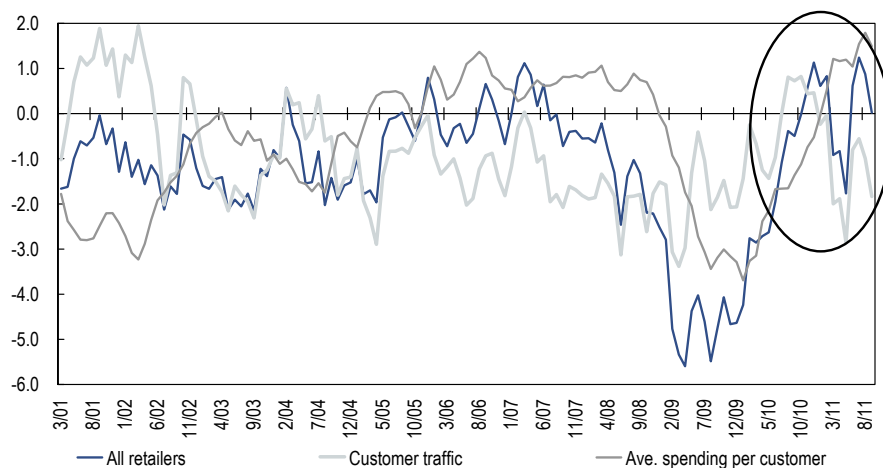


Note 1: Value-added goods retailers: Isetan, Marui, United Arrows, Ryohin Keikaku, Aoyama Trading, Aoki Holdings, Parco, Kisoji, Sanyo Shokai, Onward Holdings, PAL, Royal Holdings, F.D.C. Products, Rock Field, Otsuka Furniture

Note 2: Mass Retailers: Fast Retailing, Nitori, Shimamura, McDonald's Holdings Japan, ABC Mart, Don Quijote, Saizeriya, Nishimatsuya Chain, Osho Food Service, Kappa Create, Toridoll, Kura Corporation, MrMax, Hiday, Cando

Source: Company data, Citi Investment Research and Analysis.

Figure 14. Trends of 3M MA same-store sales, customer traffic, and average spending per customer (all retailers average)



Source: Company data, Citi Investment Research and Analysis.

High hopes for Christmas gift demand at year-end

While we need to take into account the way that temperatures have been on the high side this autumn/winter season, trends in women's apparel are shifting from casual to elegant (and hence from pants to skirts) and we believe men are entering the apparel replacement cycle for the first time since 2006, with the demand shift from cheap and basic items to apparel in higher-priced brackets intensifying further. Since the disaster we have been seeing signs of further intensification in demand for gifts such as clothing, sundries, and accessories, as people want to express their affection to people close to them. We have high hopes for the year-end Christmas shopping season at department stores and high-value-added retailers of fashionable apparel.

To understand the “essence”

Driven by short-term information

We analyze listed retail companies from various perspectives (valuations, operating efficiency, asset efficiency, cash flow, etc.) as we want to determine optimal strategies for retailers. The equity market, where a vast amount of information flies about, where quarterly reporting has become the norm, where operating results for just three months and same-store sales for one month or even one week carry influence, and where there is constant chatter about matters such as whether overseas stores are doing well and who will benefit from a hot summer, may well regard this kind of grass-roots analysis as unnecessary or even pointless.

Often, even the slightest management strategy success can excite investors to attach an extremely high premium to a stock. Conversely, even the smallest slip up can incite the market to brand a company as having no prospects for revival. Our view, however, is that the core value of a retail company, built up through years of effort, is not affected that much by short-term results.

Quarterly results and overseas strategies are not the essence

More than 90% of data is ephemeral

More than 90% of available retail company data is ephemeral and we doubt it has much weight as an indicator of real enterprise value. Even companies' same-store sales and gross margin assumptions, and their progress toward these numbers, data on which we have traditionally focused, are very fleeting compared with evaluating the core competitiveness of companies. We also think a preoccupation with overseas strategies on the basis that there are no growth prospects for the domestic market is too selective an approach for value analysis. In our opinion, a company's core competitiveness cannot be determined by looking at quarterly results or the short-term results of overseas strategies and private-brand strategies in isolation. Rather, it is what they have built up over a period of time that reflects core competitiveness.

Putting ourselves in the shoes of investors, we must decide if information has real value or not (i.e., whether it is ephemeral or secular) and forecast the time and the magnitude of change it signals. Our survival as equity analysts depends on being able to make these forecasts on the assumption that investors often make erroneous assessments of value.

What we as a retail team want to say is not that we should deny the ephemeral; rather, we must make the occasional ephemeral judgment while keeping our basic focus on the secular. To distinguish between the key themes of ephemeral versus secular, it is necessary to determine the core value of each company based on optimal management strategy. Unfortunately, much information on the stock market is ephemeral, and we see a significant lack of balance between ephemeral and secular. Using ephemeral changes only is one-sided, whereas we think understanding the secular enables the investor to make a balanced judgment as to when to "attack" and when to "defend."

The Intelligent investor

"The market is a pendulum that forever swings between unsustainable optimism (which makes stocks too expensive) and unjustified pessimism (which makes them too cheap). The intelligent investor is a realist who sells to optimists and buys from pessimists." This comes from *The Intelligent Investor*, written by Benjamin Graham (1894-1976) and published in 1949. Written more than 60 years ago, this book is arguably the most widely read book among investors, so we would expect all investors to know what it says. And yet, the inability to put its message into practice has been a consistent theme.

In this report, we present a careful analysis of fundamentals, including valuations, finances and operating efficiency.

The universe

The universe we use when doing our balance sheet and income statement analyses is all 376 currently listed retailers broadly defined, which we separate into 23 subsectors. In Figure 15, we present market cap, OP, and sales weightings for each of the 23 subsectors.

In the interest of accuracy, we do not use all 376 firms when we do time-series analyses, but instead about 100 major retailers selected from the 376. These firms are listed in Figure 2. We select them based on superior market caps and sales, low PBRs, and low PERs. They account for 74% of the total market cap of listed retailers, as well as 73% of sales and 74% of total assets.

Figure 15. Retail subsector breakdown (376 stocks) by market cap, sales, and OP

	Subsector	No. of Cos	MV	Sales	OP
1	Retail conglomerates	5	20.0%	25.2%	22.6%
2	Department stores	13	6.0%	8.8%	3.8%
3	Convenience stores	7	5.9%	2.4%	5.9%
4	GMS	8	2.4%	4.4%	2.8%
5	Supermarkets	44	5.6%	10.7%	6.2%
6	Apparel stores	47	18.1%	7.5%	14.2%
7	Consumer appliance chain stores	16	6.7%	12.3%	11.8%
8	Home centres	19	3.3%	4.1%	4.1%
9	Drugstores	24	5.4%	6.6%	6.3%
10	Home furnishing and lifestyle stores	7	3.6%	1.2%	3.3%
11	Eyewear stores	5	0.7%	0.3%	0.3%
12	Discount stores/100 yen shops	7	1.9%	1.8%	1.7%
13	Shoe/bag/accessory stores	14	2.5%	1.2%	2.1%
14	Mail-order retailers	16	2.0%	1.6%	1.4%
15	Second-hand shops	8	0.2%	0.3%	0.3%
16	Sports shop	7	1.0%	0.9%	1.2%
17	Book/CD/DVD sales/rental shops	8	0.5%	1.0%	1.0%
18	Others	34	3.1%	2.5%	2.4%
19	Fast food restaurants	28	5.6%	3.2%	4.6%
20	Japanese style dining pubs	29	2.2%	1.5%	1.3%
21	Family restaurants	17	1.8%	1.1%	1.8%
22	Revolving sushi restaurants	7	0.8%	0.5%	0.6%
23	Take-out food shops	4	0.5%	0.5%	0.4%
	Average growth	376	100.0%	100.0%	100.0%
	Pure retail	289	89.0%	93.1%	91.4%
	Restaurants	87	11.0%	6.9%	8.6%

Note: Based on latest financial results. Consolidated numbers used when available. MV is based on closing price as of November 14

Source: Bloomberg, company discussions, Citi Investment Research and Analysis.

Figure 16. List of retail stocks

Company name	Subsector	Code	Company name	Subsector	Code
1 SEVEN & I HD	Retail conglomerates	3382	56 SHIMAMURA	Apparel stores	8227
2 MARUI GROUP	Retail conglomerates	8252	57 COX	Apparel stores	9876
3 THE DAIEI	Retail conglomerates	8263	58 FAST RETAILING	Apparel stores	9983
4 UNY	Retail conglomerates	8270	59 DOMESTIC UNIQLO	Apparel stores	-
5 ISETAN MITSUKOSHI HD	Department stores	3099	60 EDION	Consumer appliance chain stores	2730
6 J.FRONT RETAILING	Department stores	3086	61 BIC CAMERA	Consumer appliance chain stores	3048
7 TAKASHIMAYA	Department stores	8233	62 KOJIMA	Consumer appliance chain stores	7513
8 MATSUYA	Department stores	8237	63 JOSHIN DENKI	Consumer appliance chain stores	8173
9 H2O RETAILING	Department stores	8242	64 K'S HD	Consumer appliance chain stores	8282
10 KINTETSU DEPARTMENT STORE	Department stores	8244	65 YAMADA DENKI	Consumer appliance chain stores	9831
11 PARCO	Department stores	8251	66 SEKIDO	Consumer appliance chain stores	9878
12 LAWSON	Convenience stores	2651	67 DAIYU EIGHT	Home centres	2662
13 CVS BAY AREA	Convenience stores	2687	68 NAFCO	Home centres	2790
14 CIRCLE K SUNKUS	Convenience stores	3337	69 KOHNAN SHOJI	Home centres	7516
15 FAMILYMART	Convenience stores	8028	70 HANDSMAN	Home centres	7636
16 MINISTOP	Convenience stores	9946	71 SHIMACHU	Home centres	8184
17 SEVEN-ELEVEN JAPAN	Convenience stores	-	72 KOMERI	Home centres	8218
18 AEON KYUSHU	GMS	2653	73 KIRINDO	Drugstores	2660
19 SAN-A	GMS	2659	74 CAWACHI	Drugstores	2664
20 IZUMIYA	GMS	8266	75 GENKY STORES	Drugstores	2772
21 IZUMI	GMS	8273	76 COCOKARA FINE	Drugstores	3098
22 HEIWADO	GMS	8276	77 GROWELL HD	Drugstores	3141
23 FUJI	GMS	8278	78 CREATE SD HD	Drugstores	3148
24 ITO-YOKADO	GMS	-	79 COSMOS PHARMACEUTICAL	Drugstores	3349
25 AEON RETAIL	GMS	-	80 YAKUODO	Drugstores	3385
26 MAXVALU TOHOKU	Supermarkets	2655	81 TSURUHA HD	Drugstores	3391
27 HALOWS	Supermarkets	2742	82 KUSURI NO AOKI	Drugstores	3398
28 DAIKOKUTENBUSSAN	Supermarkets	2791	83 SUGI HD	Drugstores	7649
29 UNIVERSE	Supermarkets	3078	84 CFS	Drugstores	8229
30 MAXVALU HOKKAIDO	Supermarkets	7465	85 AIN PHARMACIEZ	Drugstores	9627
31 MAXVALU CHUBU	Supermarkets	8171	86 SUNDRUG	Drugstores	9989
32 THE MARUETSU	Supermarkets	8178	87 BALS	Home furnishing and lifestyle stores	2738
33 INAGEYA	Supermarkets	8182	88 ZAKKAYA BULLDOG	Home furnishing and lifestyle stores	3331
34 LIFE	Supermarkets	8194	89 RYOHIN KEIKAKU	Home furnishing and lifestyle stores	7453
35 MAXVALU TOKAI	Supermarkets	8198	90 PASSPORT	Home furnishing and lifestyle stores	7577
36 OKUWA	Supermarkets	8217	91 NITORI HD	Home furnishing and lifestyle stores	9843
37 YAKO	Supermarkets	8279	92 JIN	Eyewear stores	3046
38 MARUKYO	Supermarkets	9866	93 MEGANESUPER	Eyewear stores	3318
39 ARCS	Supermarkets	9948	94 PARIS MIKI HD	Eyewear stores	7455
40 TAIYO	Supermarkets	9949	95 CAN DO	Discount stores/100 yen shops	2698
41 VALOR	Supermarkets	9956	96 WATTS	Discount stores/100 yen shops	2735
42 POINT	Apparel stores	2685	97 DON QUIJOTE	Discount stores/100 yen shops	7532
43 PALEMO	Apparel stores	2778	98 MR MAX	Discount stores/100 yen shops	8203
44 HONEYS.	Apparel stores	2792	99 ABC-MART	Shoe/bag/accessory stores	2670
45 JEANS MATE	Apparel stores	7448	100 GFOOT	Shoe/bag/accessory stores	2686
46 KONAKA	Apparel stores	7494	101 CHIYODA	Shoe/bag/accessory stores	8185
47 NISHIMATSUYA CHAIN	Apparel stores	7545	102 TOKYO DERICA	Shoe/bag/accessory stores	9990
48 MAC HOUSE	Apparel stores	7603	103 HARD OFF	Second-hand shops	2674
49 UNITED ARROWS	Apparel stores	7606	104 ALPEN	Sports shop	3028
50 KYOTO KIMONO YUZEN	Apparel stores	7615	105 HIMARAYA	Sports shop	7514
51 TAKA-Q	Apparel stores	8166	106 XEBIO	Sports shop	8281
52 SUZUTAN	Apparel stores	8193	107 ASAHI	Others	3333
53 SAGAMI	Apparel stores	8201	108 WORKMAN	Others	7564
54 AOKI HD	Apparel stores	8214	109 AUTOBACS SEVEN	Others	9832
55 AOYAMA TRADING	Apparel stores	8219			

Source: Company discussions, Citi Investment Research and Analysis.

Section 1

Looking for the optimal retail strategy

Looking for the optimal retail strategy

In the first section, we add another year's data to our analysis of optimal subsector strategy from the previous version of our Retail Handbook. Unless otherwise noted, data (in both this section and the next) are consolidated and based on the most recent quarter (through July).

Most sectors still facing triple set of woes

Figures 17-21 present an analysis of RoIC and its structural factors by the 23 retail subsectors. RoIC can be broken down to the inverse of operating assets to total assets multiplied by the total asset turnover and the operating margin.

RoIC for sector as a whole is 10.2%, up from 8.6% in FY09

The RoIC for the retail sector as a whole is 10.2% and has been on a clear recovery track since the GFC ended (for instance, it was 8.6% in FY09). However, in absolute terms it remains low. The year-ago figure can be found in Figure 17, and we note that Japanese-style dining pubs and revolving sushi restaurants have seen deterioration even amidst an overall recovery. Consumer electronics stores stand out among subsectors that saw improvement, with the RoIC for that subsector rising to 14.2% from 8.5%.

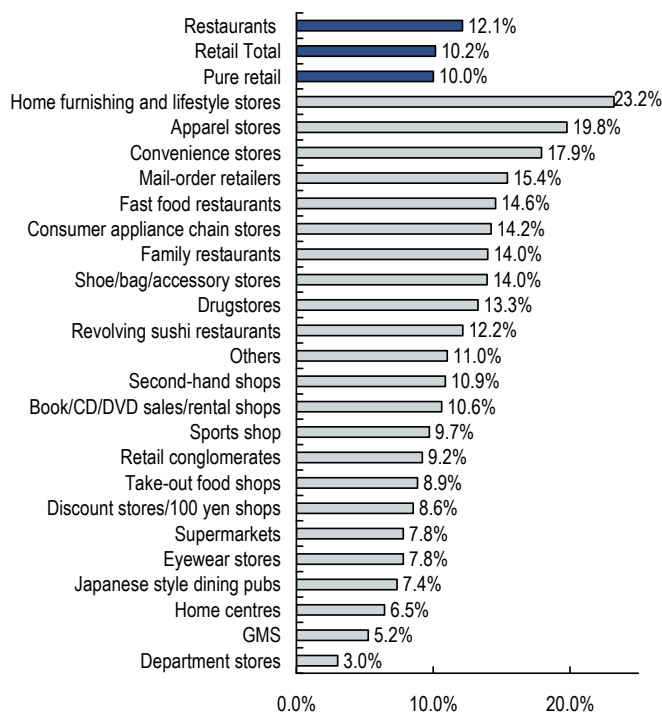
Figure 17. ROIC breakdown by subsector

Subsector	(Operating assets / TA)	1/ TA turnover (times)	OPM	ROIC	FY09 ROIC
1 Retail conglomerates	1.9	1.3	3.7%	9.2%	7.5%
2 Department stores	1.5	1.2	1.8%	3.0%	2.1%
3 Convenience stores	1.9	0.9	10.3%	17.9%	16.0%
4 GMS	1.3	1.6	2.6%	5.2%	4.1%
5 Supermarkets	1.4	2.4	2.4%	7.8%	7.1%
6 Apparel stores	2.1	1.2	7.7%	19.8%	17.7%
7 Consumer appliance chain stores	1.5	2.4	3.9%	14.2%	8.5%
8 Home centres	1.2	1.3	4.1%	6.5%	5.9%
9 Drugstores	1.6	2.1	3.9%	13.3%	11.7%
10 Home furnishing and lifestyle stores	1.5	1.4	11.1%	23.2%	23.5%
11 Eyewear stores	1.7	1.3	3.6%	7.8%	6.2%
12 Discount stores/100 yen shops	1.3	1.9	3.5%	8.6%	7.0%
13 Shoe/bag/accessory stores	1.8	1.1	7.0%	14.0%	12.8%
14 Mail-order retailers	2.6	1.7	3.6%	15.4%	13.3%
15 Second-hand shops	1.5	1.8	4.0%	10.9%	11.2%
16 Sports shop	1.5	1.3	5.1%	9.7%	8.9%
17 Book/CD/DVD sales/rental shops	1.5	1.8	4.0%	10.6%	15.2%
18 Others	2.1	1.3	4.0%	11.0%	12.3%
19 Fast food restaurants	1.6	1.5	5.9%	14.6%	12.4%
20 Japanese style dining pubs	1.4	1.4	3.6%	7.4%	8.6%
21 Family restaurants	1.5	1.4	6.8%	14.0%	12.8%
22 Revolving sushi restaurants	1.5	1.9	4.4%	12.2%	14.1%
23 Take-out food shops	1.8	1.6	3.1%	8.9%	8.5%
Retail Total	1.6	1.5	4.1%	10.2%	8.6%
Pure retail	1.6	1.5	4.0%	10.0%	8.4%
Restaurants	1.5	1.5	5.2%	12.1%	11.4%

Note: Latest financial results, consolidated basis if available.

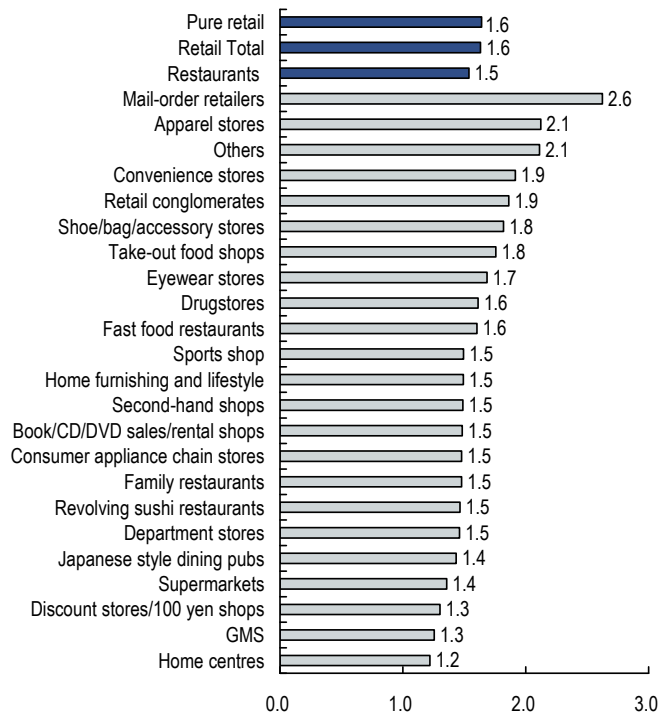
Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 18. Ranking: ROIC



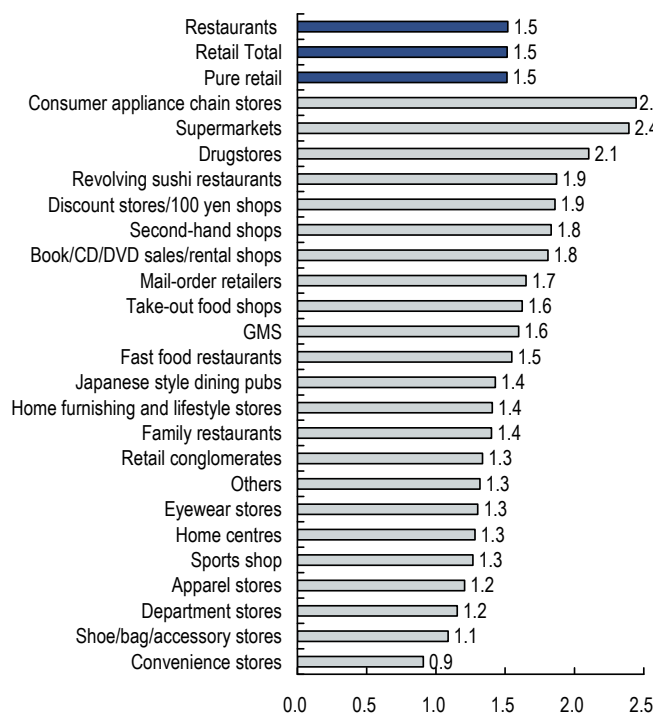
Note: Latest financial results, consolidated basis if available
Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 19. Ranking: 1/(Operating assets / TA)



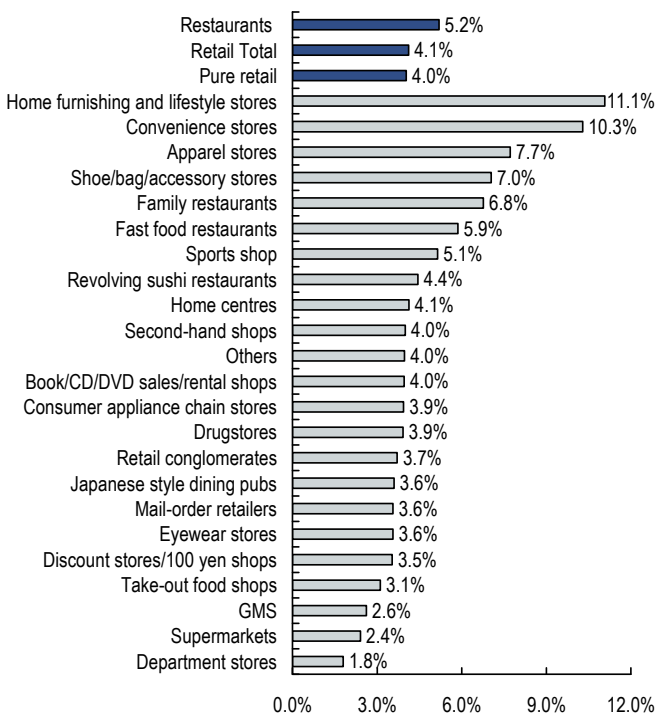
Note: Latest financial results, consolidated basis if available
Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 20. Ranking: TA turnover



Note: Latest financial results, consolidated basis if available
Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 21. Ranking: OPM



Note: Latest financial results, consolidated basis if available
Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Four subsectors with RoIC of 15% or more: home furnishing and lifestyle stores, apparel stores, convenience stores, and mail order

The only subsectors that are above what might be considered a fairly reasonable level of 15% are home furnishing and lifestyle stores, apparel stores, convenience stores, and mail order. However, we note that fast food, consumer electronics stores, shoe/bag/accessory stores, and family restaurants are in the 14%-15% range, and the number of subsectors that saw improved investment efficiency stemming from better profitability due to a sales recovery and cost curbs increased. Consumer electronics stores saw a particularly large jump, to 14.2% from 8.5%. We think this was due not only to reasons discussed above, but also to the eco point system and increased demand for TV upgrades in the run-up to the end of analog broadcasting. Strong sales resulted in an improved total asset turnover rate (2.4x from 2.3x) and a better operating margin (to 3.9% from 2.6%). What is more, the subsector reined in wasteful purchasing, so the inverse of the ratio of operating assets to total assets also improved (to 1.5x from 1.4x).

What is apparent from our factor analysis is that because many firms have not to date engaged in RoIC-driven management, they are suffering from a triple set of woes: there is an imbalance between operating assets as a percentage of total assets, total asset turnover is weak, and operating margins are low, because cost restructuring, which is more important than sales, has been neglected. Unfortunately, few subsectors have shown improvement in asset efficiency since the previous version of our Retail Handbook.

A look at a subsector breakdown shows that RoICs for apparel stores and convenience stores are at a fairly reasonable level. While this suggests that both of these subsectors have high ratios of operating assets to total assets and cash-rich balance sheets, it also suggests that their investment may be insufficient. We look

Top three are Start Today (342.8%), Fast Retailing (80.4%), and Point (59.9%)



Key point: Apparel stores with high operating margins and business models that allow for operations with relatively little in the way of operating assets have high RoICs



Key point: Total operating revenue for the 382 listed retailers comes to ¥50.317trn, or about 37% of Japan's retail sales

RoE of 5.7% needs improvement

Total operating revenue for the 13 listed department stores is ¥4.421trn, while OP is ¥79bn and the operating margin is 1.8%

for aggressive investment and shareholder return measures in these subsectors. In addition, mail order retailers do not need to invest in stores, so they have little in the way of operating assets, and this has driven the high RoIC. On the other hand, home improvement stores and GMS have to buy land and buildings in some cases when they open new stores, so we think their level of investment is on the high side. We also note that subsectors that have total asset turnovers of more than 2x include supermarkets and drugstores (both of which sell food products) and consumer electronics stores (at which inventory accounts for a large proportion of total assets). However, turnover is not high even in these subsectors, and we think all subsectors need to make efforts to improve. The average for operating margin is 4.1%, with only two subsectors in double digits (home furnishing and lifestyle stores and convenience stores).

There is a large gap between the top retailers (including those without physical stores) in terms of RoIC, Start Today (with a RoIC of 342.8%) and the number two retailer Fast Retailing (at 80.4%). Start Today has an extremely high operating margin at 24.6%, and it needs no physical stores as it sells products via the Internet. Moreover, products that it sells on consignment account for 72.2% of sales (as of FY3/11) and Start Today itself has limited inventory, so the ratio of operating assets to total assets is extremely small. All of these things combine to produce Start Today's high investment efficiency. Many of the other top-ranked companies, including second- and third-ranked retailers Fast Retailing and Point (RoIC of 59.9%), have high operating margins and business models that allow for operations with relatively little in the way of operating assets.

Balance sheet and income statement characteristics by retail subsector

Figures 22-23 show the balance sheets and income statements for 382¹ listed retailers by major subsector. Total operating revenue for the 382 listed retailers came to ¥50.317trn in FY10, or about 37% of Japan's retail sales. OP comes to ¥2.078trn, RP is ¥2.134trn, NP is ¥841bn, and the OP margin is 4.1%. Total assets total ¥33.252trn, and a look at key items reveals total cash and deposits of ¥3.883trn, ¥5.882trn in land, net assets of ¥14.876trn, interest-bearing debt of ¥7.177trn, and inventory of ¥3.615trn. Overall, the sector saw improvement compared with a year earlier, sales rose ¥340bn, OP rose ¥289bn, total assets declined ¥219bn, and net assets improved by ¥81bn. NP fell ¥201bn due to the posting of asset disposal obligations.

The shareholders' equity ratio, a measure of financial stability, is 44.8%. At 5.7%, RoE (the ratio of NP to shareholders' equity) would appear to need improvement.

Now we look at the characteristics of the various subsectors. Total operating revenue for the 13 listed department stores is ¥4.421trn, while OP is ¥79bn and total assets are ¥3.835trn. Earnings have been improving since the GFC ended, and their operating margin has risen to 1.8% from 1.2% a year earlier, but this is still well below other subsectors. Given that department stores have a high proportion of "source-when-sold" procurement, there is little inventory, and although sales weightings for products other than food are high, inventory turnover is very short at 14 days. In addition, investment in new stores as well as in existing stores is comparatively low, while mergers (creating Isetan Mitsukoshi Holdings, J.Front Holdings, etc.) have resulted in high fixed asset-to-total asset ratios as fixed assets (mainly land) at companies that were absorbed (e.g., Mitsukoshi and Matsuzakaya) were valued at market prices.

¹ As of end-August 2011.

Figure 22. Income statements by subsector (FY10)

(¥bn)	Total	Pure retailers	Restaurants	Retail conglomerates	Department stores	Convenience stores	GMS	Supermarkets	Apparel stores	Consumer electronics stores	Home centers	Drugstores
No. of listed companies	382	294	88	5	13	7	8	45	48	16	19	25
Main P/L items												
Sales / Operating revenues	50,317	46,825	3,492	12,647	4,421	1,181	2,214	5,492	3,778	6,177	2,048	3,382
Operating gross profit	17,333	15,307	2,026	4,408	1,160	771	668	1,423	1,765	1,436	639	828
SG&A expenses	15,253	13,409	1,844	3,939	1,081	650	610	1,291	1,470	1,192	554	696
OP	2,078	1,897	181	469	79	121	58	132	293	243	85	133
RP	2,134	1,956	179	470	99	122	55	135	282	275	83	145
NP	841	797	44	149	42	54	25	56	120	131	38	71
Profitability												
Gross profit margin	34.4%	32.7%	58.0%	34.9%	26.2%	65.3%	30.2%	25.9%	46.7%	23.2%	31.2%	24.5%
SG&A expense ratio (%)	30.3%	28.6%	52.8%	31.1%	24.4%	55.0%	27.6%	23.5%	38.9%	19.3%	27.1%	20.6%
Operating margin (%)	4.1%	4.1%	5.2%	3.7%	1.8%	10.3%	2.6%	2.4%	7.8%	3.9%	4.1%	3.9%
Recurring margin (%)	4.2%	4.2%	5.1%	3.7%	2.2%	10.4%	2.5%	2.5%	7.5%	4.4%	4.0%	4.3%
Management indicators												
ROE (%)	5.7%	5.8%	3.8%	3.9%	3.1%	8.5%	4.8%	5.5%	6.3%	12.7%	5.2%	9.8%
Net profit margin (%)	1.7%	1.7%	1.3%	1.2%	0.9%	4.6%	1.1%	1.0%	3.2%	2.1%	1.8%	2.1%
Equity multiplier	2.24	2.26	1.96	2.51	2.86	2.04	2.66	2.28	1.65	2.45	2.19	2.22
Total asset turnover	1.51	1.51	1.53	1.34	1.15	0.91	1.60	2.39	1.20	2.44	1.28	2.11
Fixed asset turnover	3.04	3.09	2.47	2.85	1.81	1.93	2.27	3.61	3.77	5.39	2.20	5.35
Average number of days of inventory	26.22	27.75	5.81	16.82	14.41	6.26	20.95	11.07	45.64	33.10	66.33	39.19
Average number of days payable outstanding	29.71	31.03	12.06	32.18	29.38	66.69	23.73	23.01	32.68	18.22	43.15	48.16
Average number of days the sum of payable outstanding and inventories	481	421	60	532	181	195	17	180	-134	-252	-130	83
Cash and cash equivalents	4,374	4,005	369	1,218	244	278	74	243	706	224	112	239
Total interest-bearing debt	7,177	6,632	544	2,493	792	5	481	536	361	651	424	223
Net cash	-2,802	-2,627	-175	-1,275	-547	272	-407	-293	345	-427	-311	16
Adjusted net cash	-6,898	-6,607	-291	-2,391	-903	57	-551	-639	7	-735	-554	-430

Source: Company discussions, Nikkei NEEDS-Financial QUEST, company data, Citi Investment Research and Analysis.

Figure 23. Balance sheets by subsector (FY10)

(¥bn)	Total	Pure retailers	Restaurants	Retail conglomerates	Department stores	Convenience stores	GMS	Supermarkets	Apparel stores	Consumer electronics stores	Home centers	Drugstores
No. of listed companies	382	294	88	5	13	7	8	45	48	16	19	25
Current assets	12,536	11,944	592	3,673	871	506	300	564	1,637	1,147	553	787
Cash & cash equivalents	3,883	3,535	348	1,151	226	258	74	237	454	224	93	206
Account receivables	2,016	1,936	80	715	312	1	38	38	268	194	25	98
Total inventories	3,615	3,560	56	583	175	20	127	167	472	560	372	363
Fixed assets	20,714	19,020	1,694	5,797	2,964	792	1,086	1,732	1,498	1,380	1,043	819
Tangible fixed assets	12,905	11,907	998	3,432	2,144	342	835	1,270	747	868	771	452
Depreciable fixed assets	6,904	6,277	627	2,036	788	243	448	671	396	478	427	254
Building and structure	6,134	5,598	537	1,768	743	183	421	609	346	445	409	222
Land and others	5,882	5,518	365	1,359	1,345	98	384	584	344	376	329	193
Intangible fixed assets	1,350	1,268	82	496	134	65	34	53	161	74	35	96
Investment / other fixed assets	6,459	5,845	614	1,870	686	385	217	410	590	438	237	271
Investment securities	1,333	1,285	47	548	239	22	23	44	172	44	25	18
Leasehold deposits	3,673	3,260	413	1,011	294	269	142	254	256	278	158	180
Total assets	33,252	30,965	2,287	9,471	3,835	1,299	1,386	2,296	3,136	2,527	1,596	1,606
Current liabilities	11,516	10,873	642	3,331	1,379	510	486	829	909	962	571	682
Account payables	4,096	3,980	115	1,115	356	216	144	346	338	308	242	446
Short-term borrowing	1,490	1,408	82	219	213	0	140	165	129	165	141	43
Commercial papers	118	118	0	52	50	1	14	2	0	0	0	0
Long-term debt due within 1 year	1,087	931	156	396	9	1	49	96	52	108	78	45
SB and CB due within 1 year	172	165	6	91	22	0	10	2	3	2	3	0
Accrued liabilities and taxes	703	597	106	128	29	63	42	48	85	11	31	17
Fixed liabilities	6,860	6,385	475	2,368	1,117	153	378	460	329	532	297	200
SB and CB due within 1 year	1,078	1,058	20	646	76	0	17	15	40	152	15	16
Long-term borrowing	3,232	2,953	279	1,089	421	4	251	256	136	224	187	119
Total liabilities	18,375	17,258	1,117	5,699	2,496	664	864	1,290	1,238	1,494	868	882
Minority interests	641	621	20	507	25	13	14	1	22	18	1	3
Net assets	14,876	13,707	1,169	3,771	1,339	635	522	1,007	1,898	1,033	728	724
Common stocks	2,395	2,113	282	352	228	96	109	205	328	198	108	100
Capital surplus	266	207	60	0	0	0	23	24	22	3	54	2
Retained earnings	8,770	8,144	626	2,141	411	431	281	636	1,379	568	495	458
Total interest-bearing debt	7,177	6,632	544	2,493	792	5	481	536	361	651	424	223

Source: Company discussions, Nikkei NEEDS-Financial QUEST, company data, Citi Investment Research and Analysis.

Total operating revenue at the 48 listed specialty apparel stores comes to ¥3.778trn, while OP is ¥293bn and the operating margin is 7.8% (nearly double the 4.1% pure retailer average)

Total operating revenue at the 48 listed specialty apparel stores comes to ¥3.778trn, while OP is ¥293bn and total assets total ¥3.136trn. As SPAs (specialty store retailers of private label apparel), which have high gross margins, make up a large proportion of this subsector, its operating gross margin is 14ppt higher than that for pure retailers at 46.7%. Firms in this subsector have many stores in retail facilities, so their tangible fixed asset ratio is low at 23.8% (compared with the pure retailer average of 38.5%). However, at the same time they have a lot of stores on rental properties, so their overhead ratio is high, at 38.9%. Investment in store openings is relatively modest, and the operating margin is nearly double that of pure retailers (7.8% versus 4.1%), making it easy for these firms to amass cash. The interest-bearing debt ratio (interest-bearing debt divided by total assets) is 11.5%, well below the average of 21.4% for pure retailers, and the shareholders' equity ratio is in the top tier of retail subsectors at 60.5%. Balance sheets are strong, and we see upside for shareholders' equity efficiency depending on how the firms use their substantial cash savings.

Operating revenue for the seven listed convenience stores comes to ¥1.181trn, while OP was ¥121bn and the operating margin is 10.3%

Operating margins based on total chain-wide store sales are just under 6% for Seven-Eleven Japan and 2%-3% for second-tier operators like Lawson, FamilyMart, and Circle K Sunkus

Operating revenue for the 25 listed drugstores comes to ¥3.382trn, while OP is ¥133bn and an operating margin of 3.8%

Operating revenue at the 16 listed consumer electronics retailers comes to ¥6.177trn, while OP is ¥243bn and the operating margin is 3.9%

Operating revenue for the seven listed convenience stores comes to ¥1.181trn, while OP was ¥121bn and total assets to ¥1.299trn. At 10.3%, the operating margin for convenience stores is second only to home furnishing and lifestyle stores, and they have almost no interest-bearing debt, so their finances are solid. In this subsector analysis, we use operating revenue as reported in company materials rather than substituting total chain-wide store sales to facilitate side-by-side comparison. This raises the operating margin, and operating margins based on total chain-wide store sales work out to just under 6% for Seven-Eleven Japan and 2%-3% for second-tier convenience stores such as Lawson, FamilyMart, and Circle K Sunkus.

Operating revenue for the 25 listed drugstores comes to ¥3.382trn, while OP is ¥133bn and total assets are ¥1.606trn. These 25 firms include stores that specialize in prescription drugs. For pure drugstores, the gross margin is 25.3%, the SG&A ratio is 21.5%, and the operating margin is 3.8%. For stores that specialize in prescription drugs, the gross margin is 18.4%, the SG&A ratio is 13.6%, and the operating margin is 4.8%. Inventory accounts for 22.6% of total assets at drugstores, well above the 11.5% figure for pure retailers. Many products these stores handle have long shelf-lives, and it is relatively easy (compared with other retail subsectors) to return unsold products to manufacturers. This is probably why inventory accounts for such a large proportion of total assets. The accounts payable turnover is longer than that for pure retailers (48.2 days versus 31 days), so drug stores are able to make effective use of the timing difference between accounts payable and receivable.

Operating revenue at the 16 listed consumer electronics retailers comes to ¥6.177trn, while OP is ¥243bn and total assets ¥2.527trn. With product differentiation difficult, the gross margin for these firms is 23.2%, below the 32.7% for pure retailers. In addition, product prices are high, so inventory accounts for a high proportion of total assets, at 22.1%. When products are updated, prices tend to fall sharply, so accounts payable turnover is short at 18.2 days, below inventory turnover of 33 days. Spending on new stores (including inventory) is high, so the interest-bearing debt ratio is higher than that for pure retailers (25.8% versus 21.4%).

Figure 24. Balance sheets by subsector (FY10)

	Total	Pure retailers	Restaurants	Retail conglomerates	Department stores	Convenience stores	GMS	Supermarkets	Apparel stores	Consumer electronics stores	Home centers	Drugstores
Current assets	37.7%	38.6%	25.9%	38.8%	22.7%	39.0%	21.6%	24.6%	52.2%	45.4%	34.7%	49.0%
Cash & cash equivalents	11.7%	11.4%	15.2%	12.2%	5.9%	19.9%	5.3%	10.3%	14.5%	8.9%	5.8%	12.8%
Account receivables	6.1%	6.3%	3.5%	7.6%	8.1%	0.0%	2.8%	1.7%	8.6%	7.7%	1.6%	6.1%
Total inventories	10.9%	11.5%	2.4%	6.2%	4.6%	1.6%	9.2%	7.3%	15.1%	22.2%	23.3%	22.6%
Fixed assets	62.3%	61.4%	74.1%	61.2%	77.3%	61.0%	78.4%	75.4%	47.8%	54.6%	65.3%	51.0%
Tangible fixed assets	38.8%	38.5%	43.6%	36.2%	55.9%	26.3%	60.2%	55.3%	23.8%	34.3%	48.3%	28.1%
Depreciable fixed assets	20.8%	20.3%	27.4%	21.5%	20.6%	18.7%	32.3%	29.2%	12.6%	18.9%	26.8%	15.8%
Building and structure	18.4%	18.1%	23.5%	18.7%	19.4%	14.1%	30.4%	26.5%	11.0%	17.6%	25.6%	13.9%
Land and others	17.7%	17.8%	15.9%	14.3%	35.1%	7.5%	27.7%	25.4%	11.0%	14.9%	20.6%	12.0%
Intangible fixed assets	4.1%	4.1%	3.6%	5.2%	3.5%	5.0%	2.5%	2.3%	5.1%	2.9%	2.2%	6.0%
Investment / other fixed assets	19.4%	18.9%	26.8%	19.7%	17.9%	29.7%	15.6%	17.8%	18.8%	17.3%	14.8%	16.9%
Investment securities	4.0%	4.2%	2.1%	5.8%	6.2%	1.7%	1.7%	1.9%	5.5%	1.8%	1.6%	1.1%
Leasehold deposits	11.0%	10.5%	18.1%	10.7%	7.7%	20.7%	10.3%	11.1%	8.1%	11.0%	9.9%	11.2%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Current liabilities	34.6%	35.1%	28.1%	35.2%	36.0%	39.3%	35.1%	36.1%	29.0%	38.1%	35.8%	42.5%
Account payables	12.3%	12.9%	5.0%	11.8%	9.3%	16.6%	10.4%	15.1%	10.8%	12.2%	15.2%	27.8%
Short-term borrowing	4.5%	4.5%	3.6%	2.3%	5.6%	0.1%	10.1%	7.2%	4.1%	6.5%	8.9%	2.7%
Commercial papers	0.4%	0.4%	0.0%	0.5%	1.3%	0.0%	1.0%	0.1%	0.0%	0.0%	0.0%	0.0%
Long-term debt due within 1 year	3.3%	3.0%	6.8%	4.2%	0.2%	0.0%	3.5%	4.2%	1.7%	4.3%	4.9%	2.8%
SB and CB due within 1 year	0.5%	0.5%	0.3%	1.0%	0.6%	0.0%	0.7%	0.1%	0.1%	0.1%	0.2%	0.0%
Accrued liabilities and taxes	2.1%	1.9%	4.6%	1.4%	0.8%	4.9%	3.0%	2.1%	2.7%	0.4%	1.9%	1.0%
Fixed liabilities	20.6%	20.6%	20.8%	25.0%	29.1%	11.8%	27.3%	20.0%	10.5%	21.1%	18.6%	12.4%
SB and CB due within 1 year	3.2%	3.4%	0.9%	6.8%	2.0%	0.0%	1.3%	0.7%	1.3%	6.0%	0.9%	1.0%
Long-term borrowing	9.7%	9.5%	12.2%	11.5%	11.0%	0.3%	18.1%	11.1%	4.3%	8.9%	11.7%	7.4%
Total liabilities	55.3%	55.7%	48.9%	60.2%	65.1%	51.1%	62.4%	56.2%	39.5%	59.1%	54.4%	54.9%
Minority interests	1.9%	2.0%	0.9%	5.3%	0.7%	1.0%	1.0%	0.1%	0.7%	0.7%	0.1%	0.2%
Net assets	44.7%	44.3%	51.1%	39.8%	34.9%	48.9%	37.6%	43.8%	60.5%	40.9%	45.6%	45.1%
Common stocks	7.2%	6.8%	12.3%	3.7%	5.9%	7.4%	7.9%	8.9%	10.5%	7.8%	6.8%	6.2%
Capital surplus	0.8%	0.7%	2.6%	0.0%	0.0%	0.0%	1.6%	1.0%	0.7%	0.1%	3.4%	0.1%
Retained earnings	26.4%	26.3%	27.4%	22.6%	10.7%	33.2%	20.3%	27.7%	44.0%	22.5%	31.0%	28.5%
Total interest-bearing debt	21.6%	21.4%	23.8%	26.3%	20.6%	0.4%	34.7%	23.3%	11.5%	25.8%	26.5%	13.9%

Source: Company discussions, Nikkei NEEDS-Financial QUEST, company data, Citi Investment Research and Analysis.

Figure 25. Major retailers: OPM, GPM and SG&A ratio by subsector (ranked within subsector by OPM)

Code	Company name	OPM	GPM	SG&A ratio	Code	Company name	OPM	GPM	SG&A ratio
Retail conglomerate					7603	MAC HOUSE	-1.5%	43.5%	45.0%
8252	MARUI GROUP	3.6%	35.6%	32.0%	7448	JEANS MATE	-7.9%	44.6%	52.5%
3382	SEVEN & I HD	3.2%	23.0%	19.8%	Consumer electronics chain stores				
8270	UNY	1.8%	21.6%	19.8%	9831	YAMADA DENKI	5.7%	23.5%	17.8%
8263	THE DAIEI	0.4%	34.9%	34.5%	8282	K'S HD	5.3%	23.3%	18.0%
Department stores					2730	EDION	2.9%	24.1%	21.2%
8251	PARCO	3.4%	15.7%	12.3%	8173	JOSHIN DENKI	2.8%	19.5%	16.7%
8242	H2O RETAILING	2.3%	27.8%	25.5%	7513	KOJIMA	2.6%	21.5%	18.9%
3086	J.FRONT RETAILING	2.1%	24.2%	22.0%	3048	BIC CAMERA	2.4%	24.7%	22.3%
8233	TAKASHIMAYA	2.1%	30.2%	28.1%	9878	SEKIDO	0.2%	24.0%	23.8%
8237	MATSUYA	1.9%	26.8%	24.9%	Home centers				
8244	KINTETSU DEPARTMENT STORE	1.0%	23.5%	22.4%	8184	SHIMACHU	7.3%	32.0%	24.7%
3099	SETAN MITSUKOSHI HD	0.9%	28.0%	27.1%	7516	KOHAN SHOJI	5.8%	36.8%	31.0%
Convenience stores					8218	KOMERI	5.3%	32.7%	27.4%
-	SEVEN-ELEVEN JAPAN	5.7%	16.0%	10.2%	2790	NAFCO	5.3%	32.2%	26.9%
2651	LAWSON	3.3%	17.7%	14.4%	7636	HANDSMAN	2.1%	28.4%	26.3%
8028	FAMILYMART	2.7%	16.8%	14.2%	2662	DAIYU EIGHT	1.0%	27.0%	26.0%
2687	CVS BAY AREA	2.4%	31.0%	28.6%	Drugstores				
9946	MINISTOP	2.4%	17.4%	15.0%	9627	AIN PHARMACIEZ	6.3%	15.5%	9.3%
3337	CIRCLE K SUNKUS	2.0%	14.4%	12.4%	3148	CREATE SD HD	5.5%	26.9%	21.4%
GMS					9989	SUNDRUG	5.3%	22.7%	17.3%
2659	SAN-A	6.7%	33.5%	26.8%	3391	TSURUHA HD	5.3%	27.9%	22.7%
8273	IZUMI	4.3%	24.7%	20.4%	3349	COSMOS PHARMACEUTICAL	4.2%	19.2%	15.0%
8276	HEIWADO	2.8%	34.0%	31.2%	7649	SUGI HD	4.2%	26.5%	22.3%
-	AEON RETAIL	1.9%	33.0%	31.1%	2664	CAWACHI	3.4%	21.3%	17.9%
2653	AEON KYUSHU	1.2%	31.7%	30.6%	3398	KUSURI NO AOKI	3.3%	26.4%	23.0%
8278	FUJI	1.1%	27.1%	26.0%	3141	GROWELL HD	3.2%	28.6%	25.4%
8266	IZUMIYA	1.1%	31.5%	30.4%	2772	GENKY STORES	2.6%	20.8%	18.2%
-	ITO-YOKADO	0.2%	25.9%	25.8%	3098	COCOKARA FINE	2.5%	24.8%	22.3%
Supermarkets					3385	YAKUODO.	2.4%	24.1%	21.7%
2791	DAIKOKUTENBUSSAN	5.2%	22.5%	17.4%	8229	CFS	1.8%	29.1%	27.3%
8279	YAOKO	4.3%	32.0%	27.6%	2660	KIRINDO	1.1%	26.2%	25.1%
3078	UNIVERSE	4.0%	25.7%	21.7%	Home furnishing and lifestyle stores				
2742	HALOWS	3.3%	25.6%	22.3%	9843	NITORI HD	16.8%	54.9%	38.1%
9956	VALOR	3.2%	26.7%	23.5%	7453	RYOHIN KEIKAKU	8.2%	45.5%	37.3%
9948	ARCS	3.1%	22.9%	19.9%	2738	BALS	5.9%	60.6%	54.7%
8198	MAXVALU TOKAI	2.7%	26.5%	23.8%	7577	PASSPORT	4.5%	49.6%	45.1%
8217	OKUWA	2.3%	27.7%	25.4%	3331	ZAKKAYA BULLDOG	-8.4%	40.3%	48.8%
8194	LIFE	2.1%	28.6%	26.5%	Eyewear stores				
9866	MARUKYO	2.0%	21.3%	19.3%	3046	JIN	5.8%	70.9%	65.1%
8178	THE MARUETSU	1.9%	30.1%	28.2%	7455	PARIS MIKI HD	1.8%	69.4%	67.6%
9949	TAIYO	1.9%	22.0%	20.2%	3318	MEGANESUPER	-2.3%	65.7%	68.0%
8171	MAXVALU CHUBU	1.8%	26.5%	24.7%	Discount stores / 100 yen shops				
8182	INAGEYA	1.7%	30.0%	28.2%	7532	DON QUIJOTE	5.0%	25.4%	20.4%
7465	MAXVALU HOKKAIDO	0.6%	25.0%	24.4%	2735	WATTS	3.8%	37.3%	33.5%
2655	MAXVALU TOHOKU	0.6%	24.8%	24.2%	2698	CAN DO	1.6%	36.2%	34.6%
Apparel stores					8203	MR MAX	0.4%	24.3%	23.9%
-	DOMESTIC UNIQLO	21.4%	49.5%	28.1%	Shoe/bag/accessory stores				
9983	FAST RETAILING	16.2%	51.7%	35.4%	2670	ABC-MART	21.1%	58.3%	37.2%
2685	POINT	14.5%	59.8%	45.4%	9990	TOKYO DERICA	5.1%	45.1%	40.0%
7615	KYOTO KIMONO YUZEN	13.0%	63.7%	50.7%	8185	CHIYODA	3.2%	45.6%	42.4%
8227	SHIMAMURA	9.0%	32.7%	23.7%	2686	GFOOT	2.3%	40.4%	38.1%
8214	AOKI HD	8.3%	47.1%	38.8%	Second-hand shops				
7606	UNITED ARROWS	8.2%	53.0%	44.8%	2674	HARD OFF	8.5%	68.1%	59.6%
7545	NISHIMATSUYA CHAIN	6.9%	37.0%	30.1%	Sports shops				
8219	AOYAMA TRADING	6.9%	55.1%	48.1%	8281	XEBIO	7.1%	38.6%	31.5%
2792	HONEYS.	6.4%	57.7%	51.3%	3028	ALPEN	5.5%	44.9%	39.4%
8166	TAKA-Q	4.3%	61.2%	57.0%	7514	HIMARAYA	3.9%	36.4%	32.5%
2778	PALEMO	3.9%	53.4%	49.5%	Others				
8193	SUZUTAN	2.3%	55.7%	53.4%	3333	ASAHI	13.0%	51.9%	38.9%
8201	SAGAMI	0.5%	56.2%	55.6%	7564	WORKMAN	12.1%	32.6%	20.5%
9876	COX	0.1%	53.2%	53.1%	9832	AUTOBACS SEVEN	5.1%	32.0%	27.0%
7494	KONAKA	-0.3%	48.6%	48.9%					

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Per-square meter metrics

Firstly, we compare OP per square meter. This indicator shows how much OP is generated per square meter of floor space and which enables comparisons across all retail formats. Figure 26 shows the per-square meter indicator by major domestic retail subsectors.



Key point: Apparel stores, convenience stores, and consumer electronics stores have high OP per square meter

Apparel stores, convenience stores, and consumer electronics stores have high OP per square meter. The average for all retailers is ¥32,300. In addition to the three above, three more subsectors exceed this average: home furnishing and lifestyle stores, shoe/bag/accessory stores, and other retailers.

Figure 26. Major retailers: per m² data (Sales, GPM, OP, SG&A, and breakdown)

Subsector	per m ² data (¥1,000)				Breakdown				
	Sales efficiency	GP	OP	SG&A	Sales floor space	Sales	GP	OP	SG&A
Retail conglomerates	1,176.0	285.1	32.1	253.0	17.0%	24.3%	22.2%	16.9%	23.1%
Department stores	1,521.6	402.1	27.1	375.0	5.0%	9.3%	9.2%	4.2%	10.1%
Convenience stores	1,680.4	276.5	66.3	210.2	8.0%	16.4%	10.2%	16.5%	9.1%
GMS	578.2	172.3	10.0	162.3	16.0%	11.2%	12.6%	5.0%	14.0%
Supermarkets	809.3	218.8	20.7	198.1	7.2%	7.0%	7.2%	4.6%	7.6%
Apparel stores	525.1	252.6	67.7	185.0	9.9%	6.3%	11.4%	20.7%	9.8%
Consumer appliance chain stores	1,016.7	236.2	43.5	192.7	9.7%	11.9%	10.5%	13.0%	10.0%
Home centres	217.5	72.6	12.0	60.6	8.5%	2.2%	2.8%	3.1%	2.8%
Drugstores	648.0	158.4	26.0	132.3	7.4%	5.8%	5.4%	5.9%	5.2%
Home furnishing and lifestyle stores	322.1	166.7	39.8	126.9	3.1%	1.2%	2.4%	3.9%	2.1%
Eyewear stores	583.5	400.7	7.3	393.4	0.3%	0.2%	0.5%	0.1%	0.6%
Discount stores/100 yen shops	560.7	150.3	22.2	128.1	2.3%	1.6%	1.6%	1.6%	1.6%
Shoe/bag/accessory stores	385.4	186.9	34.0	152.9	1.9%	0.9%	1.7%	2.0%	1.6%
Second-hand shops	155.7	106.0	13.3	92.7	0.1%	0.0%	0.1%	0.0%	0.1%
Sports shop	309.3	127.7	18.5	109.2	2.4%	0.9%	1.4%	1.4%	1.4%
Others	486.4	165.3	32.5	132.8	1.1%	0.7%	0.9%	1.1%	0.8%
Average	823.7	218.3	32.3	186.0	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Top three in OP per square meter are Fast Retailing, United Arrows, ABC Mart

Next we look at individual companies. Many at the top are elite specialty stores: Fast Retailing (domestic Uniqlo business) tops the list of per-square meter OP at ¥225,000, followed by United Arrows at ¥204,000, ABC Mart at ¥191,000, Kyoto Kimono Yuzen at ¥161,000, Point at ¥122,000. The average for per-square meter SG&A cost at the top ten firms is ¥425,000, well above the average for all retailers (¥186,000). However, they make up for high costs via high sales floor efficiency (¥1.516mn versus an average of ¥824,000 for all retailers), and this allows them to post high OP. At the bottom end are Nitori Holdings, Asahi, Shimamura, and Workman, among others. Their sales floor efficiency is ¥252,000, which is about 30% of the average for all retailers. However, they post per-square meter OP of ¥32,000, which is in line with retailer average thanks to success in cutting back on SG&A costs per square meter. Sales efficiency at Ryohin Keikaku and San-A is in line with the sector average, but OP per square meter is high at about ¥50,000 thanks to a careful balance between gross margin and costs (Figure 27).

Figure 27. Major retailers' per m² data (ranked in order of OP per m²): Top 50 retailers (¥'000/m²)

	Subsector	Company name	Code	Sales efficiency	GP	OP	SG&A
1	Apparel stores	DOMESTIC UNIQLO	-	1,053.6	521.2	225.3	295.6
2	Apparel stores	UNITED ARROWS	7606	2,496.1	1,322.9	203.5	1,119.4
3	Apparel stores	FAST RETAILING	9983	1,209.0	624.5	196.4	428.1
4	Shoe/bag/accessory stores	ABC-MART,	2670	904.9	527.8	190.8	336.9
5	Apparel stores	KYOTO KIMONO YUZEN	7615	1,238.3	788.8	160.9	627.9
6	Apparel stores	POINT	2685	842.4	504.0	121.9	382.1
7	Convenience stores	SEVEN-ELEVEN JAPAN	-	1,795.8	286.8	103.1	183.7
8	Drugstores	AIN PHARMACIEZ	9627	1,523.7	236.6	95.5	141.1
9	Drugstores	SUNDRUG	9989	1,289.7	292.5	68.8	223.7
10	Consumer appliance chain stores	YAMADA DENKI	9831	1,194.7	281.2	68.1	213.0
11	Consumer appliance chain stores	BIC CAMERA	3048	2,663.2	658.5	64.6	593.9
12	Eyewear stores	JIN	3046	1,014.1	719.4	59.3	660.1
13	Convenience stores	LAWSON,	2651	1,716.5	304.1	56.7	247.5
14	Home furnishing and lifestyle stores	RYOHIN KEIKAKU	7453	649.3	295.6	53.2	242.4
15	GMS	SAN-A	2659	751.2	252.0	50.6	201.4
16	Supermarkets	DAIKOKUTENBUSSAN	2791	931.8	210.0	48.1	161.9
17	Supermarkets	YAOKO	8279	1,049.3	335.4	45.6	289.8
18	Home furnishing and lifestyle stores	NITORI HOLDINGS	9843	265.2	145.5	44.4	101.1
19	Convenience stores	CVS BAY AREA	2687	1,843.3	570.7	44.3	526.4
20	Convenience stores	FAMILYMART	8028	1,621.6	272.6	43.0	229.6
21	Retail conglomerates	SEVEN & I HOLDINGS	3382	1,322.5	304.4	42.2	262.2
22	Supermarkets	UNIVERSE	3078	1,007.5	258.5	39.8	218.6
23	Discount stores/100 yen shops	DON QUIJOTE	7532	795.9	202.4	39.7	162.6
24	Apparel stores	AOKI HOLDINGS	8214	473.2	222.8	39.1	183.7
25	Department stores	MATSUYA	8237	1,972.7	529.4	37.9	491.5
26	Others	ASAHI	3333	282.3	146.4	36.7	109.7
27	Others	AUTOBACS SEVEN	9832	713.4	228.6	36.2	192.4
28	Shoe/bag/accessory stores	TOKYO DERICA	9990	705.8	318.4	35.9	282.5
29	Drugstores	CREATE SD HOLDINGS	3148	650.2	174.8	35.4	139.3
30	Retail conglomerates	MARUI GROUP	8252	968.5	344.9	35.3	309.6
31	Department stores	H2O RETAILING	8242	1,538.9	427.4	34.9	392.5
32	Consumer appliance chain stores	K'S HOLDINGS	8282	648.5	151.1	34.4	116.6
33	Department stores	TAKASHIMAYA	8233	1,641.6	495.9	34.3	461.6
34	Convenience stores	CIRCLE K SUNKUS	3337	1,695.5	244.5	34.1	210.4
35	Convenience stores	MINISTOP	9946	1,350.7	234.6	32.1	202.5
36	Consumer appliance chain stores	JOSHIN DENKI	8173	1,145.4	223.0	31.6	191.4
37	Department stores	J.FRONT RETAILING	3086	1,477.4	357.0	31.6	325.4
38	Supermarkets	HALOWS	2742	941.5	241.1	30.9	210.2
39	Drugstores	SUGI HOLDINGS	7649	691.0	182.8	29.0	153.8
40	Home furnishing and lifestyle stores	BALS	2738	468.6	284.0	27.5	256.4
41	Supermarkets	MAXVALU TOKAI	8198	990.3	262.5	27.1	235.4
42	Drugstores	TSURUHA HOLDINGS	3391	502.2	140.3	26.4	113.8
43	Apparel stores	AOYAMA TRADING	8219	380.6	209.6	26.3	183.3
44	Sports shop	XEBIO	8281	370.0	142.9	26.3	116.6
45	Consumer appliance chain stores	EDION	2730	876.4	211.2	25.6	185.6
46	Department stores	ISETAN MITSUKOSHI HOLDINGS	3099	2,794.6	782.9	25.2	757.7
47	Supermarkets	ARCS	9948	805.5	184.8	24.6	160.2
48	Apparel stores	SHIMAMURA	8227	264.3	86.4	23.9	62.5
49	Others	WORKMAN	7564	196.7	64.1	23.8	40.3
50	GMS	IZUMI	8273	530.2	131.1	23.0	108.1

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Cost structures differ, even within subsectors

Although Yamada Denki and Bic Camera have similar levels of OP per square meter (¥68,100 and ¥64,600 respectively), they have very different earnings structures. First of all, Yamada Denki focuses on suburban locations, and its sales floor efficiency is ¥1.195mn, which is less than half that of Bic Camera (¥2.663mn), which focuses on urban locations primarily near train stations. On the other hand, Bic Camera costs per square meter are some 2.8x those of Yamada Denki, at ¥594,000 versus ¥213,000. Of course, rents and personnel costs are higher at Bic Camera given its urban locations, but these factors alone do not explain the structural differences. We discuss this further in our section on the consumer electronics retailer subsector.

What is more, while Ryohin Keikaku and Nitori have sales floor efficiency that is below the retail sector average, their OP per square meter is c1.5x the average. At Ryohin Keikaku we think this is due to a high gross margin, while at Nitori we think it is due to low costs.

Costs differ somewhat depending on operating area, but as Japan's consumption is unlikely to grow going forward as the population declines, we think a key point for examining retailers is success in cost control.

The all-retailer average (excluding companies posting operating losses) is 13.0%, with Cox posting the low at 0.1% and Fast Retailing (domestic Uniqlo business) posting the high at 43.2% (FY8/10).

OP/GP ratio analysis

The OP/GP ratio is the ratio of OP to gross profit. Moving forward we think this indicator will become increasingly important.

A ratio far below those of peers suggests costs are too high, while a ratio well above those of peers suggests a firm has established low-cost operations (although it may not have invested sufficiently in future growth). Figures 28-32 detail OP/GP ratios at major retailers by subsector. The all-retailer average (excluding companies posting operating losses) is 13.0%, with Cox posting the low at 0.1% and Fast Retailing (domestic Uniqlo business) posting the high at 43.2% (FY8/10).

A look at the breakdown by subsector suggests that relatively few companies exceed 20% in OP/GP ratio. Parco is the only department store to exceed 20%, while Seven-Eleven Japan is the only convenience store, San-A is the only GMS, Daikokuten Bussan is the only supermarket, Yamada Denki and K's Holdings are the only consumer electronics retailers, Shimachu is the only home center, Nitori Holdings is the only furniture store, and ABC-Mart is the only bags/shoes/accessories specialist. Workman and Asahi in the others subsector also exceed 20%. In most subsectors, only one or two firms have an OP allocation ratio exceeding 20%. Among retail conglomerates, Seven & i leads the way at 13.9%, bolstered by the high 35.9% at Seven-Eleven Japan, whereas Ito-Yokado is at 0.6%, Aeon is at 5.8%, and Uny is at 8.4%, suggesting their costs are excessive. On the other hand, there are a number drugstores and apparel specialists with ratios above 20% (Fast Retailing, Point, Shimamura, Kyoto Kimono Yuzen, Ain Pharmaciez, Sundrug, Cosmos Pharmaceutical, and Create SD Holdings), suggesting a good balance between gross profits and costs.

Figure 28. Major retailers: OP/GP ratio ranking by subsector: Maximum, minimum, average

Subsector	Simple Average	Highest	Lowest
Retail conglomerates	10.9%	35.9%	0.6%
Department stores	11.2%	21.9%	4.5%
Convenience stores	19.6%	35.9%	13.7%
GMS	7.8%	20.1%	3.4%
Supermarkets	9.4%	22.9%	2.4%
Apparel stores	7.6%	43.2%	-17.6%
Consumer appliance chain stores	13.7%	24.2%	1.0%
Home centres	13.2%	22.8%	3.8%
Drugstores	15.6%	40.4%	4.2%
Home furnishing and lifestyle stores	9.3%	30.5%	-20.9%
Eyewear stores	2.4%	8.2%	-3.5%
Discount stores/100 yen shops	9.0%	19.6%	1.6%
Shoe/bag/accessory stores	15.0%	36.2%	5.7%
Second-hand shops	12.5%	-	-
Sports shop	13.8%	18.4%	10.7%
Others	26.0%	37.1%	15.8%
Overall average	13.0%	27.8%	3.1%

Note: Based on latest financial results. Consolidated numbers used when available. No maximum or minimum available for subsectors in which there is only one company.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 29. Major retailers: OP/GP ratio ranking by subsector

Code	Company name	GPM	OPM	OP/GP	Code	Company name	GPM	OPM	OP/GP
RETAIL CONGLOMERATES					7494	KONAKA	48.6%	-0.3%	-0.6%
3382	SEVEN & I HD	23.0%	3.2%	13.9%	7603	MAC HOUSE	43.5%	-1.5%	-3.4%
8252	MARUI GROUP	35.6%	3.6%	10.2%	7448	JEANS MATE	44.6%	-7.9%	-17.6%
8270	UNY	21.6%	1.8%	8.4%	CONSUMER ELECTRONICS CHAIN STORES				
8263	THE DAIEI	34.9%	0.4%	1.0%	9831	YAMADA DENKI	23.5%	5.7%	24.2%
DEPARTMENT STORES					8282	K'S HD	23.3%	5.3%	22.8%
8251	PARCO	15.7%	3.4%	21.9%	8173	JOSHIN DENKI	19.5%	2.8%	14.2%
3086	J.FRONT RETAILING	24.2%	2.1%	8.9%	7513	KOJIMA	21.5%	2.6%	12.1%
8242	H2O RETAILING	27.8%	2.3%	8.2%	2730	EDION	24.1%	2.9%	12.1%
8237	MATSUYA	26.8%	1.9%	7.2%	3048	BIC CAMERA	24.7%	2.4%	9.8%
8233	TAKASHIMAYA	30.2%	2.1%	6.9%	9878	SEKIDO	24.0%	0.2%	1.0%
8244	KINTETSU DEPARTMENT STORE	23.5%	1.0%	4.5%	HOME CENTERS				
3099	ISETAN MITSUKOSHI HD	28.0%	0.9%	3.2%	8184	SHIMACHU	32.0%	7.3%	22.8%
CONVENIENCE STORES					2790	NAFCO	32.2%	5.3%	16.5%
-	SEVEN-ELEVEN JAPAN	16.0%	5.7%	35.9%	8218	KOMERI	32.7%	5.3%	16.2%
2651	LAWSON	17.7%	3.3%	18.6%	7516	KOHNAN SHOJI	36.8%	5.8%	15.7%
8028	FAMILYMART	16.8%	2.7%	15.8%	7636	HANDSMAN	28.4%	2.1%	7.4%
3337	CIRCLE K SUNKUS	14.4%	2.0%	14.0%	2662	DAIYU EIGHT	27.0%	1.0%	3.8%
9946	MINISTOP	17.4%	2.4%	13.7%	DRUGSTORES				
2687	CVS BAY AREA	31.0%	2.4%	7.8%	9627	AIN PHARMACIEZ	15.5%	6.3%	40.4%
GMS					9989	SUNDRUG	22.7%	5.3%	23.5%
2659	SAN-A	33.5%	6.7%	20.1%	3349	COSMOS PHARMACEUTICAL	19.2%	4.2%	22.1%
8273	IZUMI	24.7%	4.3%	17.5%	3148	CREATE SD HD	26.9%	5.5%	20.3%
8276	HEIWADO	34.0%	2.8%	8.3%	3391	TSURUHA HD	27.9%	5.3%	18.9%
-	AEON RETAIL	33.0%	1.9%	5.8%	2664	CAWACHI	21.3%	3.4%	16.0%
8278	FUJI	27.1%	1.1%	4.0%	7649	SUGI HD	26.5%	4.2%	15.8%
2653	AEON KYUSHU	31.7%	1.2%	3.7%	3398	KUSURI NO AOKI	26.4%	3.3%	12.7%
8266	IZUMIYA	31.5%	1.1%	3.4%	2772	GENKY STORES	20.8%	2.6%	12.6%
-	ITO-YOKADO	25.9%	0.2%	0.6%	3141	GROWELL HD	28.6%	3.2%	11.2%
SUPERMARKETS					3385	YAKUODO.	24.1%	2.4%	10.1%
2791	DAIKOKUTENBUSSAN	22.5%	5.2%	22.9%	3098	COCOKARA FINE	24.8%	2.5%	10.0%
3078	UNIVERSE	25.7%	4.0%	15.4%	8229	CFS	29.1%	1.8%	6.3%
8279	YAOKO	32.0%	4.3%	13.6%	2660	KIRINDO	26.2%	1.1%	4.2%
9948	ARCS	22.9%	3.1%	13.3%	HOME FURNISHING & LIFESTYLE STORES				
2742	HALOWS	25.6%	3.3%	12.8%	9843	NITORI HD	54.9%	16.8%	30.5%
9956	VALOR	26.7%	3.2%	12.1%	7453	RYOHIN KEIKAKU	45.5%	8.2%	18.0%
8198	MAXVALU TOKAI	26.5%	2.7%	10.3%	2738	BALS	60.6%	5.9%	9.7%
9866	MARUKYO	21.3%	2.0%	9.4%	7577	PASSPORT	49.6%	4.5%	9.0%
9949	TAIYO	22.0%	1.9%	8.4%	3331	ZAKKAYA BULLDOG	40.3%	-8.4%	-20.9%
8217	OKUWA	27.7%	2.3%	8.1%	EQWEAR STORES				
8194	LIFE	28.6%	2.1%	7.3%	3046	JIN	70.9%	5.8%	8.2%
8171	MAXVALU CHUBU	26.5%	1.8%	6.9%	7455	PARIS MIKI HD	69.4%	1.8%	2.5%
8178	THE MARUETSU	30.1%	1.9%	6.3%	3318	MEGANESUPER	65.7%	-2.3%	-3.5%
8182	INAGEYA	30.0%	1.7%	5.7%	DISCOUNT STORES / ¥100 SHOPS				
7465	MAXVALU HOKKAIDO	25.0%	0.6%	2.5%	7532	DON QUIJOTE	25.4%	5.0%	19.6%
2655	MAXVALU TOHOKU	24.8%	0.6%	2.4%	2735	WATTS	37.3%	3.8%	10.3%
APPAREL STORES					2698	CAN DO	36.2%	1.6%	4.4%
-	DOMESTIC UNIQLO	49.5%	21.4%	43.2%	8203	MR MAX	24.3%	0.4%	1.6%
9983	FAST RETAILING	51.7%	16.2%	31.5%	SHOE/BAG/ACCESSORY STORES				
8227	SHIMAMURA	32.7%	9.0%	27.6%	2670	ABC-MART	58.3%	21.1%	36.2%
2685	POINT	59.8%	14.5%	24.2%	9990	TOKYO DERICA	45.1%	5.1%	11.3%
7615	KYOTO KIMONO YUZEN	63.7%	13.0%	20.4%	8185	CHIYODA	45.6%	3.2%	7.1%
7545	NISHIMATSUYA CHAIN	37.0%	6.9%	18.7%	2686	GFOOT	40.4%	2.3%	5.7%
8214	AOKI HD	47.1%	8.3%	17.5%	SECOND-HAND SHOPS				
7606	UNITED ARROWS	53.0%	8.2%	15.4%	2674	HARD OFF	68.1%	8.5%	12.5%
8219	AOYAMA TRADING	55.1%	6.9%	12.6%	SPORT SHOPS				
2792	HONEYS.	57.7%	6.4%	11.1%	8281	XEBIO	38.6%	7.1%	18.4%
2778	PALEMO	53.4%	3.9%	7.3%	3028	ALPEN	44.9%	5.5%	12.3%
8166	TAKA-Q	61.2%	4.3%	7.0%	7514	HIMARAYA	36.4%	3.9%	10.7%
8193	SUZUTAN	55.7%	2.3%	4.1%	OTHERS				
8201	SAGAMI	56.2%	0.5%	0.9%	7564	WORKMAN	32.6%	12.1%	37.1%
9876	COX	53.2%	0.1%	0.1%	3333	ASAHI	51.9%	13.0%	25.0%
					9832	AUTOBACS SEVEN	32.0%	5.1%	15.8%

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 30. Major retailers: OP/GP ratio by subsector

Subsector	over 30%	25%< X < 30%	20%<X<25%	15%<X<20%	10%<X<15%	5%<X<10%	Others	Total no. of companies
Retail conglomerates					2	1	1	4
Department stores			1			4	2	7
Convenience stores	1			2	2	1	0	6
GMS			1	1		2	4	8
Supermarkets			1	1	5	7	2	16
Apparel stores	2	1	2	3	2	2	6	18
Consumer appliance chain stores			2		3	1	1	7
Home centres			1	3		1	1	6
Drugstores	1		3	3	5	1	1	14
Home furnishing and lifestyle stores	1			1		2	1	5
Eyewear stores						1	2	3
Discount stores/100 yen shops				1	1		2	4
Shoe/bag/accessory stores	1				1	2	0	4
Second-hand shops					1		0	1
Sports shop				1	2		0	3
Others	1	1		1			0	3
	6.4%	1.8%	10.1%	15.6%	22.0%	22.9%	21.1%	100.0%

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 31. Major retailers' OP/GP ratio ranking: Top 50

Ranking	Code	Company name	OP/GP ratio	Ranking	Code	Company name	OP/GP ratio
1	-	DOMESTIC UNIQLO	43.2%	26	7453	RYOHIN KEIKAKU	18.0%
2	9627	AIN PHARMACIEZ	40.4%	27	8214	AOKI HD	17.5%
3	7564	WORKMAN	37.1%	28	8273	IZUMI	17.5%
4	2670	ABC-MART	36.2%	29	2790	NAFCO	16.5%
5	-	SEVEN-ELEVEN JAPAN	35.9%	30	8218	KOMERI	16.2%
6	9983	FAST RETAILING	31.5%	31	2664	CAWACHI	16.0%
7	9843	NITORI HD	30.5%	32	7649	SUGI HD	15.8%
8	8227	SHIMAMURA	27.6%	33	9832	AUTOBACS SEVEN	15.8%
9	3333	ASAHI	25.0%	34	8028	FAMILYMART	15.8%
10	9831	YAMADA DENKI	24.2%	35	7516	KOHNAN SHOJI	15.7%
11	2685	POINT	24.2%	36	3078	UNIVERSE	15.4%
12	9989	SUNDRUG	23.5%	37	7606	UNITED ARROWS	15.4%
13	2791	DAIKOKUTENBUSSAN	22.9%	38	8173	JOSHIN DENKI	14.2%
14	8184	SHIMACHU	22.8%	39	3337	CIRCLE K SUNKUS	14.0%
15	8282	K'S HD	22.8%	40	3382	SEVEN & I HD	13.9%
16	3349	COSMOS PHARMACEUTICAL	22.1%	41	9946	MINISTOP	13.7%
17	8251	PARCO	21.9%	42	8279	YAOKO	13.6%
18	7615	KYOTO KIMONO YUZEN	20.4%	43	9948	ARCS	13.3%
19	3148	CREATE SD HD	20.3%	44	2742	HALOWS	12.8%
20	2659	SAN-A	20.1%	45	3398	KUSURI NO AOKI	12.7%
21	7532	DON QUIJOTE	19.6%	46	2772	GENKY STORES	12.6%
22	3391	TSURUHA HD	18.9%	47	8219	AOYAMA TRADING	12.6%
23	7545	NISHIMATSUYA CHAIN	18.7%	48	2674	HARD OFF	12.5%
24	2651	LAWSON	18.6%	49	3028	ALPEN	12.3%
25	8281	XEBIO	18.4%	50	7513	KOJIMA	12.1%

Note: Based on latest results and consolidated basis if available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 32. Major retailers: OP/GP ratio and SG&A allocation ratio rankings by subsector

Code	Company name	OP/GP ratio	SG&A allocation ratio	Code	Company name	OP/GP ratio	SG&A allocation ratio
Retail conglomerates				Apparel stores			
3382	SEVEN & I HD	13.9%	86.1%	7603	MAC HOUSE	-3.4%	103.4%
8252	MARUI GROUP	10.2%	89.8%	7448	JEANS MATE	-17.6%	117.6%
8270	UNY	8.4%	91.6%	Consumer appliance chain stores			
8263	THE DAIEI	1.0%	99.0%	9831	YAMADA DENKI	24.2%	75.8%
Department stores				8282	K'S HD	22.8%	77.2%
8251	PARCO	21.9%	78.1%	8173	JOSHIN DENKI	14.2%	85.8%
3086	J.FRONT RETAILING	8.9%	91.1%	7513	KOJIMA	12.1%	87.9%
8242	H2O RETAILING	8.2%	91.8%	2730	EDION	12.1%	87.9%
8237	MATSUYA	7.2%	92.8%	3048	BIC CAMERA	9.8%	90.2%
8233	TAKASHIMAYA	6.9%	93.1%	9878	SEKIDO	1.0%	99.0%
8244	KINTETSU DEPARTMENT STORE	4.5%	95.5%	Home centres			
3099	ISETAN MITSUKOSHI HD	3.2%	96.8%	8184	SHIMACHU	22.8%	77.2%
Convenience stores				2790	NAFCO	16.5%	83.5%
-	SEVEN-ELEVEN JAPAN	35.9%	64.1%	8218	KOMERI	16.2%	83.8%
2651	LAWSON	18.6%	81.4%	7516	KOHNAN SHOJI	15.7%	84.3%
8028	FAMILYMART	15.8%	84.2%	7636	HANDSMAN	7.4%	92.6%
3337	CIRCLE K SUNKUS	14.0%	86.0%	2662	DAIYU EIGHT	3.8%	96.2%
9946	MINISTOP	13.7%	86.3%	Drugstores			
2687	CVS BAY AREA	7.8%	92.2%	9627	AIN PHARMACIEZ	40.4%	59.6%
GMS				9989	SUNDRUG	23.5%	76.5%
2659	SAN-A	20.1%	79.9%	3349	COSMOS PHARMACEUTICAL	22.1%	77.9%
8273	IZUMI	17.5%	82.5%	3148	CREATE SD HD	20.3%	79.7%
8276	HEIWADO	8.3%	91.7%	3391	TSURUHA HD	18.9%	81.1%
-	AEON RETAIL	5.8%	94.2%	2664	CAWACHI	16.0%	84.0%
8278	FUJI	4.0%	96.0%	7649	SUGI HD	15.8%	84.2%
2653	AEON KYUSHU	3.7%	96.3%	3398	KUSURI NO AOKI	12.7%	87.3%
8266	IZUMIYA	3.4%	96.6%	2772	GENKY STORES	12.6%	87.4%
-	ITO-YOKADO	0.6%	99.4%	3141	GROWELL HD	11.2%	88.8%
Supermarkets				3385	YAKUODO.	10.1%	89.9%
2791	DAIKOKUTENBUSSAN	22.9%	77.1%	3098	COCOKARA FINE	10.0%	90.0%
3078	UNIVERSE	15.4%	84.6%	8229	CFS	6.3%	93.7%
8279	YAOKO	13.6%	86.4%	2660	KIRINDO	4.2%	95.8%
9948	ARCS	13.3%	86.7%	Home furnishing and lifestyle stores			
2742	HALOWS	12.8%	87.2%	9843	NITORI HD	30.5%	69.5%
9956	VALOR	12.1%	87.9%	7453	RYOHIN KEIKAKU	18.0%	82.0%
8198	MAXVALU TOKAI	10.3%	89.7%	2738	BALS	9.7%	90.3%
9866	MARUKYO	9.4%	90.6%	7577	PASSPORT	9.0%	91.0%
9949	TAIYO	8.4%	91.6%	3331	ZAKKAYA BULLDOG	-20.9%	120.9%
8217	OKUWA	8.1%	91.9%	Eyewear stores			
8194	LIFE	7.3%	92.7%	3046	JIN	8.2%	91.8%
8171	MAXVALU CHUBU	6.9%	93.1%	7455	PARIS MIKI HD	2.5%	97.5%
8178	THE MARUETSU	6.3%	93.7%	3318	MEGANESUPER	-3.5%	103.5%
8182	INAGEYA	5.7%	94.3%	Discount stores/100 yen shops			
7465	MAXVALU HOKKAIDO	2.5%	97.5%	7532	DON QUIJOTE	19.6%	80.4%
2655	MAXVALU TOHOKU	2.4%	97.6%	2735	WATTS	10.3%	89.7%
Apparel stores				2698	CAN DO	4.4%	95.6%
-	DOMESTIC UNIQLO	43.2%	56.8%	8203	MR MAX	1.6%	98.4%
9983	FAST RETAILING	31.5%	68.5%	Shoe/bag/accessory stores			
8227	SHIMAMURA	27.6%	72.4%	2670	ABC-MART	36.2%	63.8%
2685	POINT	24.2%	75.8%	9990	TOKYO DERICA	11.3%	88.7%
7615	KYOTO KIMONO YUZEN	20.4%	79.6%	8185	CHIYODA	7.1%	92.9%
7545	NISHIMATSUYA CHAIN	18.7%	81.3%	2686	GFOOT	5.7%	94.3%
8214	AOKI HD	17.5%	82.5%	Second-hand shops			
7606	UNITED ARROWS	15.4%	84.6%	2674	HARD OFF	12.5%	87.5%
8219	AOYAMA TRADING	12.6%	87.4%	Sports shop			
2792	HONEYS.	11.1%	88.9%	8281	XEBIO	18.4%	81.6%
2778	PALEMO	7.3%	92.7%	3028	ALPEN	12.3%	87.7%
8166	TAKA-Q	7.0%	93.0%	7514	HIMARAYA	10.7%	89.3%
8193	SUZUTAN	4.1%	95.9%	Others			
8201	SAGAMI	0.9%	99.1%	7564	WORKMAN	37.1%	62.9%
9876	COX	0.1%	99.9%	3333	ASAHI	25.0%	75.0%
7494	KONAKA	-0.6%	100.6%	9832	AUTOBACS SEVEN	15.8%	84.2%

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

The all-retailer average is 33.0%, with the low at Seven-Eleven Japan at 10.7% and the high at Megane Super (68.0%)

Labor cost allocation ratios analysis

We now turn to SG&A costs. The SG&A cost allocation ratio is the ratio of SG&A costs to gross profit. In other words, a company with an OP/GP ratio of 20% would have a SG&A cost allocation ratio of 80%. The SG&A cost allocation ratio can, broadly speaking, be broken down into the labor cost allocation ratio, the facility cost allocation ratio, the promotional cost allocation ratio, and the G&A cost allocation ratio. Labor costs amount to the largest portion of SG&A costs. The labor cost allocation ratio is the ratio of labor costs (salary, bonuses, benefits, recruiting costs, director compensation, retirement benefits, etc.) to gross profit. The higher the ratio, the more is spent on employees. The all-retailer average is 33.0%, with the low at Seven-Eleven Japan at 10.7% and the high at Megane Super (68.0%).

By subsector, many companies have relatively low labor cost allocation ratios among convenience stores, consumer electronics retailers, home furnishing and lifestyle stores, and apparel stores. On the other hand, ratios tend to be fairly high at eyewear stores, supermarkets, and drugstores. One reason for this is that eye tests are required at eyewear specialists, making them fairly labor-intensive. At supermarkets, it is possible that an excessive number of employees are allocated to labor-intensive areas like fresh food sections. At drugstores, per-employee personnel costs appear to be on the high side as pharmacist salaries are relatively high (Figures 33-34).

Figure 33. Major retailers: Labor cost allocation ratios by subsector

Subsector	Simple Average	Highest	Lowest
Retail conglomerates	29.2%	35.8%	26.2%
Department stores	31.9%	37.1%	22.4%
Convenience stores	21.3%	47.5%	10.7%
GMS	36.5%	41.0%	28.7%
Supermarkets	41.9%	49.1%	33.0%
Apparel stores	30.9%	48.2%	18.2%
Consumer appliance chain stores	26.2%	38.1%	15.2%
Home centres	33.7%	45.9%	20.3%
Drugstores	34.7%	43.6%	20.0%
Home furnishing and lifestyle stores	27.5%	38.7%	18.2%
Eyewear stores	49.5%	68.0%	30.9%
Discount stores/100 yen shops	32.6%	43.2%	27.2%
Shoe/bag/accessory stores	31.1%	39.5%	21.9%
Second-hand shops	39.4%	-	-
Sports shop	27.9%	29.4%	27.1%
Others	23.8%	31.8%	13.8%

Note: Based on latest financial results. Consolidated numbers used when available. No maximum or minimum available for subsectors in which there is only one company.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 34. Major retailers: Labor cost allocation ratio ranking

Ranking	code	Company name	Labor cost allocation ratio	Ranking	code	Company name	Labor cost allocation ratio
1	-	SEVEN-ELEVEN JAPAN	10.7%	26	3382	SEVEN & I HD	26.2%
2	7564	WORKMAN	13.8%	27	8252	MARUI GROUP	26.6%
3	8028	FAMILYMART	15.0%	28	8281	XEBIO	27.1%
4	3048	BIC CAMERA	15.2%	29	7532	DON QUIJOTE	27.2%
5	3337	CIRCLE K SUNKUS	16.8%	30	7514	HIMARAYA	27.2%
6	9983	FAST RETAILING	18.2%	31	8244	KINTETSU DEPARTMENT STORE	27.6%
7	9946	MINISTOP	18.2%	32	8214	AOKI HD	27.8%
8	9843	NITORI HD	18.2%	33	8270	UNY	28.0%
9	9831	YAMADA DENKI	18.8%	34	2659	SAN-A	28.7%
10	2651	LAWSON	19.4%	35	8227	SHIMAMURA	28.8%
11	9627	AIN PHARMACIEZ	20.0%	36	8203	MR MAX	28.8%
12	7545	NISHIMATSUYA CHAIN	20.1%	37	9989	SUNDRUG	28.9%
13	-	DOMESTIC UNIQLO	20.2%	38	7494	KONAKA	29.0%
14	7516	KOHNAN SHOJI	20.3%	39	2792	HONEYS.	29.0%
15	2670	ABC-MART	21.9%	40	8184	SHIMACHU	29.3%
16	7453	RYOHIN KEIKAKU	22.2%	41	3028	ALPEN	29.4%
17	8251	PARCO	22.4%	42	8173	JOSHIN DENKI	29.5%
18	8219	AOYAMA TRADING	23.2%	43	3148	CREATE SD HD	29.8%
19	7606	UNITED ARROWS	23.3%	44	3099	ISETAN MITSUKOSHI HD	30.5%
20	8282	K'S HD	23.6%	45	2772	GENKY STORES	30.8%
21	2685	POINT	24.7%	46	9990	TOKYO DERICA	30.9%
22	2738	BALS	24.7%	47	3046	JIN	30.9%
23	7615	KYOTO KIMONO YUZEN	25.3%	48	8278	FUJI	31.1%
24	7513	KOJIMA	25.5%	49	2735	WATTS	31.1%
25	3333	ASAHI	25.6%	50	9832	AUTOBACS SEVEN	31.8%

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Facility cost allocation ratios analysis

The average for all retailers is 24.0%, with Arcs posting the sector low at 8.6% and Zakkaya Bulldog the sector high at 51.9%

Next, we turn to facility costs, the second-largest component of SG&A costs. The facility cost allocation ratio is the ratio of facility costs (rents, utilities, store and facility depreciation, common service fees, guarantees and security deposits, capital costs for acquired land, etc.) to gross profit. In calculating this, we use rent and depreciation figures, which are readily available from securities filings, as the numerator. A facility cost allocation ratio much higher than that at peers suggests facility costs are too high, meaning a large number of stores may have to be closed. On the other hand, a ratio well below that of peers could suggest that new stores are not being built and existing stores are aging. The average for all retailers is 24.0%, with Arcs posting the sector low at 8.6% and Zakkaya Bulldog the sector high at 51.9%. Arcs is a well-known supermarket in Japan, and there are many supermarkets with facility cost allocation ratios lower than the overall average. However, as we noted above, areas like fresh foods are labor-intensive, so facility costs make up a smaller portion of overall costs than is seen at other subsectors. In addition, supermarkets located along suburban roadsides generally have fixed rents, so the rent-sales ratio tends to be relatively low. At the same time, many convenience store operators have high facility cost allocation ratios, including FamilyMart. Convenience stores require more system investment and are more equipment-intensive than other subsectors (as they need refrigerated display cases, etc.), and they also tend to have higher rents as they are located in prime urban locations. FamilyMart's ratio is higher than that at Seven-Eleven Japan (23.4%) and Lawson (39.1%), which suggests FamilyMart has many properties producing low gross profits despite high rents. We need to keep an eye on this trend to see if it continues (Figures 35-36).

Figure 35. Major retailers' facility cost allocation ratios: Top 50

Ranking	Code	Company name	Facility cost allocation ratio	TA turnover	Ranking	Code	Company name	Facility cost allocation ratio	TA turnover
1	3331	ZAKKAYA BULLDOG	51.9%	0.9	26	8166	TAKA-Q	28.8%	1.9
2	8028	FAMILYMART	43.9%	3.3	27	3028	ALPEN	28.3%	1.2
3	9946	MINISTOP	42.8%	3.2	28	3098	COCOKARA FINE	27.5%	2.1
4	3337	CIRCLE K SUNKUS	42.5%	3.8	29	8185	CHIYODA	27.4%	1.3
5	7448	JEANS MATE	40.7%	1.5	30	3385	YAKUODO.	27.2%	2.4
6	7516	KOHNAN SHOJI	40.1%	1.3	31	8219	AOYAMA TRADING	27.2%	0.6
7	2651	LAWSON	39.1%	3.5	32	8244	KINTETSU DEPARTMENT STORE	27.1%	1.8
8	2686	GFOOT	38.9%	2.0	33	7455	PARIS MIKI HD	27.0%	1.1
9	7577	PASSPORT	38.8%	2.3	34	8281	XEBIO	26.8%	1.1
10	8251	PARCO	38.4%	1.2	35	8214	AOKI HD	26.7%	0.8
11	8193	SUZUTAN	35.7%	2.2	36	7606	UNITED ARROWS	26.7%	2.0
12	7494	KONAKA	34.8%	0.9	37	2662	DAIYU EIGHT	26.4%	1.4
13	9990	TOKYO DERICA	33.5%	1.6	38	7453	RYOHIN KEIKAKU	26.3%	1.7
14	2698	CAN DO	33.4%	2.7	39	8203	MR MAX	26.1%	1.4
15	7603	MAC HOUSE	32.6%	1.5	40	2653	AEON KYUSHU	25.8%	2.3
16	3318	MEGANESUPER	32.3%	1.6	41	3046	JIN	25.7%	2.4
17	7514	HIMARAYA	32.3%	1.7	42	2660	KIRINDO	25.5%	2.5
18	2735	WATTS	32.2%	2.9	43	8263	THE DAIEI	25.4%	2.3
19	2685	POINT	31.3%	1.7	44	8229	CFS	24.5%	2.9
20	9876	COX	30.8%	1.0	45	2674	HARD OFF	24.4%	1.1
21	2738	BALS	29.9%	2.0	46	2772	GENKY STORES	24.0%	2.4
22	2792	HONEYS.	29.9%	1.6	47	8201	SAGAMI	24.0%	1.9
23	2778	PALEMO	29.7%	2.4	48	9956	VALOR	24.0%	2.0
24	7545	NISHIMATSUYA CHAIN	28.9%	1.8	49	8242	H2O RETAILING	24.0%	1.4
25	8270	UNY	28.9%	1.2	50	-	ITO-YOKADO	23.6%	1.8

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 36. Major retailers: Facility cost allocation ratios, asset turnover by subsector (ranking by facility cost allocation ratios)

Code	Company name	Facility cost allocation ratio	TA turnover	Code	Company name	Facility cost allocation ratio	TA turnover
RETAIL CONGLOMERATES				8227	SHIMAMURA	18.7%	1.7
8270	UNY	28.9%	1.2	7615	KYOTO KIMONO YUZEN	9.2%	1.0
8263	THE DAIEI	25.4%	2.3	CONSUMER ELECTRONICS CHAIN STORES			
8252	MARUI GROUP	22.9%	0.6	7513	KOJIMA	19.1%	2.6
3382	SEVEN & I HD	22.4%	1.4	9878	SEKIDO	18.6%	2.0
DEPARTMENT STORES				2730	EDION	18.1%	2.2
8251	PARCO	38.4%	1.2	8282	K'S HD	16.7%	2.5
8244	KINTETSU DEPARTMENT STORE	27.1%	1.8	8173	JOSHIN DENKI	15.0%	2.9
8242	H2O RETAILING	24.0%	1.4	9831	YAMADA DENKI	15.0%	2.3
8233	TAKASHIMAYA	20.5%	1.1	3048	BIC CAMERA	14.5%	2.7
3099	ISETAN MITSUKOSHI HD	19.2%	1.0	HOME CENTERS			
8237	MATSUYA	16.8%	1.7	7516	KOHNAN SHOJI	40.1%	1.3
3086	J.FRONT RETAILING	16.5%	1.2	2662	DAIYU EIGHT	26.4%	1.4
CONVENIENCE STORES				8184	SHIMACHU	22.1%	0.7
8028	FAMILYMART	43.9%	3.3	8218	KOMERI	21.1%	1.2
9946	MINISTOP	42.8%	3.2	2790	NAFCO	19.6%	1.1
3337	CIRCLE K SUNKUS	42.5%	3.8	7636	HANDSMAN	18.9%	1.5
2651	LAWSON	39.1%	3.5	DRUGSTORES			
-	SEVEN-ELEVEN JAPAN	23.4%	2.2	3098	COCOKARA FINE	27.5%	2.1
2687	CVS BAY AREA	18.9%	2.0	3385	YAKUODO	27.2%	2.4
GMS				2660	KIRINDO	25.5%	2.5
2653	AEON KYUSHU	25.8%	2.3	8229	CFS	24.5%	2.9
-	ITO-YOKADO	23.6%	1.8	2772	GENKY STORES	24.0%	2.4
8278	FUJI	22.0%	2.0	3391	TSURUHA HD	22.1%	2.1
8273	IZUMI	19.2%	1.4	3148	CREATE SD HD	22.0%	2.5
8276	HEIWADO	18.5%	1.4	9989	SUNDRUG	21.6%	2.6
8266	IZUMIYA	18.1%	1.5	7649	SUGI HD	21.3%	2.2
2659	SAN-A	14.6%	1.7	3349	COSMOS PHARMACEUTICAL	20.6%	2.8
-	AEON RETAIL	6.6%	1.7	2664	CAWACHI	20.2%	1.4
SUPERMARKETS				3141	GROWELL HD	18.8%	2.4
9956	VALOR	24.0%	2.0	9627	AIN PHARMACIEZ	18.2%	1.7
8178	THE MARUETSU	22.0%	2.5	3398	KUSURI NO AOKI	16.3%	2.2
8217	OKUWA	20.4%	2.1	HOME FURNISHING & LIFESTYLE STORES			
2655	MAXVALU TOHOKU	20.4%	3.3	3331	ZAKKAYA BULLDOG	51.9%	0.9
2742	HALOWS	19.6%	1.9	7577	PASSPORT	38.8%	2.3
7465	MAXVALU HOKKAIDO	19.6%	3.1	2738	BALS	29.9%	2.0
8194	LIFE	19.1%	2.9	7453	RYOHIN KEIKAKU	26.3%	1.7
8182	INAGEYA	19.0%	2.7	9843	NITORI HD	16.2%	1.3
8171	MAXVALU CHUBU	18.9%	3.0	EYEWEAR STORES			
2791	DAIKOKUTENBUSSAN	17.3%	3.2	3318	MEGANESUPER	32.3%	1.6
8198	MAXVALU TOKAI	15.8%	2.7	7455	PARIS MIKI HD	27.0%	1.1
8279	YAOKO	14.7%	2.4	3046	JIN	25.7%	2.4
9866	MARUKYO	14.7%	1.7	DISCOUNT STORES / ¥100 SHOPS			
3078	UNIVERSE	12.1%	2.5	2698	CAN DO	33.4%	2.7
9949	TAIYO	9.1%	1.3	2735	WATTS	32.2%	2.9
9948	ARCS	8.6%	2.6	8203	MR MAX	26.1%	1.4
APAREL STORES				7532	DON QUIJOTE	21.7%	1.5
7448	JEANS MATE	40.7%	1.5	SHOE/BAG/ACCESSORY STORES			
8193	SUZUTAN	35.7%	2.2	2686	GFOOT	38.9%	2.0
7494	KONAKA	34.8%	0.9	9990	TOKYO DERICA	33.5%	1.6
7603	MAC HOUSE	32.6%	1.5	8185	CHIYODA	27.4%	1.3
2685	POINT	31.3%	1.7	2670	ABC-MART	19.0%	1.1
9876	COX	30.8%	1.0	SECOND-HAND SHOPS			
2792	HONEYS.	29.9%	1.6	2674	HARD OFF	24.4%	1.1
2778	PALEMO	29.7%	2.4	SPORTS SHOPS			
7545	NISHIMATSUYA CHAIN	28.9%	1.8	7514	HIMARAYA	32.3%	1.7
8166	TAKA-Q	28.8%	1.9	3028	ALPEN	28.3%	1.2
8219	AOYAMA TRADING	27.2%	0.6	8281	XEBIO	26.8%	1.1
8214	AOKI HD	26.7%	0.8	OTHERS			
7606	UNITED ARROWS	26.7%	2.0	3333	ASAHI	18.1%	1.8
8201	SAGAMI	24.0%	1.9	7564	WORKMAN	16.0%	1.0
9983	FAST RETAILING	20.7%	1.6	9832	AUTOBACS SEVEN	14.1%	1.1

Note: Based on latest financial results. Consolidated numbers used when available.
Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Promotional cost allocation ratios analysis

The average for all retailers is 6.7% (including some companies that do not disclose), with Bic Camera posting the highest figure at 30.1%

The promotional cost allocation ratio is the ratio of promotional costs (advertising costs, loyalty point-related costs, etc.) to gross profit (Figure 37). The average for all retailers is 6.7%, with Bic Camera posting the highest figure at 30.1%. The bottom end is difficult to determine because there are some retailers that do not disclose advertising and loyalty point-related costs. Yamada Denki had the highest figure in our previous *Retail Handbook* at 33.6% due to its many loyalty point promotions, but this has fallen to 22.5% as the firm has been successful in reining in loyalty point promotional activities. Promotional cost allocation ratios tend to be high in subsectors that fall into excessive competition as differentiation is difficult; examples include consumer electronics retailers, which have a lot of loyalty point-related promotions, and menswear specialists, which hand out a lot of leaflets. At Bic Camera promotional costs account for one-third of total costs, which seems a bit out of balance.

Figure 37. Major retailers: Promotional cost allocation ratios: Top 50

Ranking	Code	Company name	Promotional cost allocation	Ranking	Code	Company name	Promotional cost allocation
1	3048	BIC CAMERA	30.1%	26	-	ITO-YOKADO	9.3%
2	7615	KYOTO KIMONO YUZEN	28.7%	27	7636	HANDSMAN	9.0%
3	9831	YAMADA DENKI	22.5%	28	9983	FAST RETAILING	8.9%
4	9878	SEKIDO	16.7%	29	8252	MARUI GROUP	8.9%
5	3046	JIN	15.5%	30	8171	MAXVALU CHUBU	8.7%
6	9832	AUTOBACS SEVEN	15.2%	31	8229	CFS	8.6%
7	8219	AOYAMA TRADING	14.9%	32	8201	SAGAMI	8.2%
8	8276	HEIWADO	14.4%	33	2670	ABC-MART	8.1%
9	8214	AOKI HD	14.3%	34	8242	H2O RETAILING	8.1%
10	7494	KONAKA	13.3%	35	7545	NISHIMATSUYA CHAIN	8.0%
11	8173	JOSHIN DENKI	13.3%	36	2772	GENKY STORES	7.9%
12	3086	J.FRONT RETAILING	12.8%	37	7649	SUGI HD	7.9%
13	7513	KOJIMA	12.6%	38	8282	K'S HD	7.9%
14	9946	MINISTOP	12.0%	39	3318	MEGANESUPER	7.9%
15	7603	MAC HOUSE	11.5%	40	2662	DAIYU EIGHT	7.8%
16	2730	EDION	11.3%	41	8227	SHIMAMURA	7.8%
17	2653	AEON KYUSHU	10.8%	42	3028	ALPEN	7.7%
18	9948	ARCS	10.5%	43	8251	PARCO	7.6%
19	3398	KUSURI NO AOKI	10.3%	44	2790	NAFCO	7.6%
20	8233	TAKASHIMAYA	10.2%	45	8198	MAXVALU TOKAI	7.5%
21	8185	CHIYODA	10.0%	46	3078	UNIVERSE	7.4%
22	3099	ISETAN MITSUKOSHI HD	9.9%	47	3141	GROWELL HD	7.0%
23	7455	PARIS MIKI HD	9.8%	48	8273	IZUMI	6.7%
24	2686	GFOOT	9.3%	49	8194	LIFE	6.7%
25	-	DOMESTIC UNIQLO	9.3%	50	9843	NITORI HD	6.2%

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Return on capital analysis

Average for major retailers (excluding those posting losses) is 7.9%; Point boasts the sector's highest RoA at 25.0%

Next, we examine RoA (recurring profit/total assets), which is an indicator of return on capital. The average for major retailers (excluding those posting losses) is 7.9%. Point boasts the sector's highest RoA at 25.0%. In general, RoA should be no lower than 10%, but only 30% or so of major retailers have RoA above 10% (Figure 38). RoA tends to be low at retail conglomerates, GMS operators, and department stores, but among specialty retailers better-regarded companies tend to have higher RoA. We think this is because retail conglomerates, GMS operators, and department stores run many general stores, and profit management among the different departments is insufficiently tight. Most specialty store operators focus on a single business, on the other hand. This possibly explains the RoA gap between them and the conglomerates and other less specialized retailers. RoA is calculated by multiplying total asset turnover by the recurring margin, so one of the two needs to be improved to boost RoA. If the retail conglomerates, GMS operators, and department store subsectors could trim costs per square meter while holding investment per square meter to levels befitting returns, we would see huge scope for improvement in both total asset turnover and recurring margins.

Figure 38. Major retailers: Operating efficiency (ROA) by subsector

Subsector	ROA					Total companies	Recurring margin		Difference between RPM and OPM		
	Over 20%	Over 15%	Over 10%	less than 10%	In the red		In profit	In the red	RPM > OPM	RPM = OPM	RPM < OPM
Retail conglomerates				3	1	4	3	1	0	1	3
Department stores				7	0	7	7	0	4	0	3
Convenience stores			2	4	0	6	6	0	4	0	2
GMS			1	7	0	8	8	0	2	2	4
Supermarkets		1	2	13	0	16	16	0	7	5	4
Apparel stores	2	2	3	7	3	17	14	3	10	3	4
Consumer appliance chain stores		1	1	5	0	7	7	0	3	2	2
Home centres				6	0	6	6	0	3	0	3
Drugstores			6	8	0	14	14	0	13	1	0
Home furnishing and lifestyle stores	1		2	1	1	5	4	1	2	0	3
Eyewear stores			1	1	1	3	2	1	1	0	2
Discount stores/100 yen shops			1	3	0	4	4	0	3	1	0
Shoe/bag/accessory stores	1			3	0	4	4	0	1	1	2
Second-hand shops				1	0	1	1	0	1	0	0
Sports shop				3	0	3	3	0	3	0	0
Others	1		1	1	0	3	3	0	3	0	0
Average	4.6%	3.7%	18.5%	67.6%	5.6%	100.0%	94.4%	5.6%	55.6%	14.8%	29.6%

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Balance between sales floor efficiency and profitability

Figure 39 details sales efficiency, inventory per square meter, and inventory turnover by subsector. One needs to take regional differences into account to some extent, but we see differences in sales efficiency even within the same subsector. It is generally perceived that the higher the sales efficiency the better, but we question this notion. We next look at sales efficiency and sales floor space per employee.

Figure 39. Major retailers: Sales efficiency, inventory per m², OP per m², and inventory turnover by subsector

Subsector	Sales efficiency (¥1,000/m ²)	Inventory per m ² (¥1,000)	OP per m ² (¥1,000)	Inventory turnover (x)
Retail conglomerates	1,176.0	29.6	32.1	23.5
Department stores	1,521.6	59.4	27.1	35.6
Convenience stores	1,680.4	4.7	66.3	443.6
GMS	578.2	20.3	10.0	19.2
Supermarkets	809.3	25.5	20.7	37.6
Apparel stores	525.1	55.2	67.7	9.6
Consumer appliance chain stores	1,016.7	91.3	43.5	10.3
Home centres	217.5	46.0	12.0	5.2
Drugstores	648.0	68.7	26.0	9.8
Home furnishing and lifestyle stores	322.1	33.2	39.8	7.9
Eyewear stores	583.5	81.8	7.3	11.4
Discount stores/100 yen shops	560.7	79.4	22.2	9.3
Shoe/bag/accessory stores	385.4	73.6	34.0	5.2
Second-hand shops	155.7	29.7	13.3	5.2
Sports shop	309.3	68.2	18.5	4.7
Others	486.4	39.9	32.5	10.5
Average	686.0	50.4	29.6	40.5

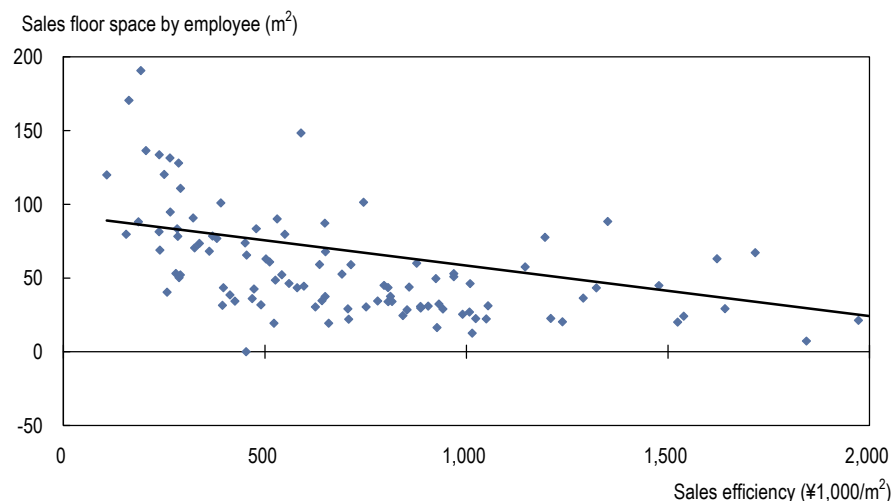
Note: Based on latest financial results. Consolidated numbers used when available.

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Key point: Should aim for standard sales floor efficiency, even low level is okay

As shown in figure 39, the higher the sales efficiency, the longer the working hours, and hence the smaller the sale floor space per employee. This suggests that stores with extremely high sales efficiency place a heavy work burden on employees. Employees do not have to do the impossible at stores where sales efficiency is not excessively high, and this tends to lead to higher productivity. Sometimes, management is criticized when it allows sales at an existing store to fall due to the opening of a new dominant store. However, rather than trying to raise sales efficiency, it may be better for overall efficiency to keep all-store sales efficiency low and reduce volatility at the upper and lower ends.

Figure 40. Sales floor space per employee and sales efficiency



Note: Based on latest financial results. Consolidated numbers used when available.
Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Turnover differential capital

We now turn to an examination of turnover differential capital, which is important from the standpoint of financing. This is excess capital generated by the difference between sales asset turnover (CoGS/annual average sales assets [accounts receivable + bills receivable + initial inventory cost]) and accounts payable turnover (annual purchases/annual average accounts payable [accounts payable + bills payable]). The slower payments are to trading partners relative to when proceeds of sales are received, the more cash is generated. This is a zero-cost method of procuring capital, so companies can use these funds to open a large volume of stores or invest in other facilities. As can be seen in Figure 41, in subsectors with high product turnover rates where customers tend to pay cash (convenience stores, supermarkets, drugstores), many firms have positive turnover differential capital. On the other hand, in subsectors with longer sales cycles where customers tend to buy on credit (furniture and consumer electronics, for example), turnover differential capital tends to be negative.

However, we note that this turnover differential capital unique to retailers has a negative impact on future cash flow. Therefore, companies need to be prudent in using it.

Figure 41. Major retailers: Sales efficiency by subsector

Subsector name	Sales asset turnover (x)	A/C payable turnover (x)	Turnover differential capital >0	Turnover differential capital <0	Total companies
Retail conglomerates	19.0	22.9	3	1	4
Department stores	8.9	12.3	1	6	7
Convenience stores	244.6	23.2	6	0	6
GMS	13.9	17.9	3	4	7
Supermarkets	27.2	16.3	16	0	16
Apparel stores	7.4	14.0	3	14	17
Consumer appliance chain stores	8.4	22.0	0	7	7
Home centres	4.4	7.8	1	5	6
Drugstores	7.8	7.7	9	5	14
Home furnishing and lifestyle stores	7.5	18.3	0	5	5
Eyewear stores	5.4	18.9	0	3	3
Discount stores/100 yen shops	6.2	10.3	2	2	4
Shoe/bag/accessory stores	4.8	7.2	0	4	4
Second-hand shops	4.7	269.1	0	1	1
Sports shop	3.9	5.9	0	3	3
Others	6.2	15.3	0	3	3
Average	12.6	16.2	41.1%	58.9%	107

Note: Based on latest financial results. Consolidated numbers used when available. Sales asset turnover (x) = account receivable turnover + inventory turnover.
Source: Company discussions, company data, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Average employee age

Average age at listed retailers is 36.6

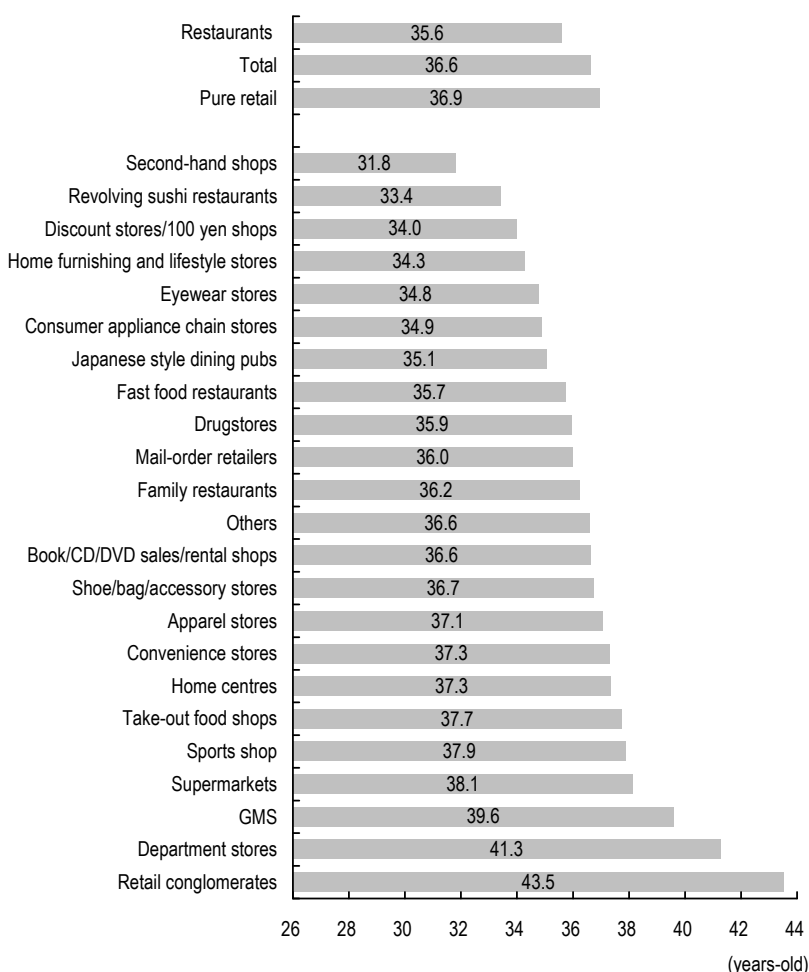
Two subsectors have average ages of 40 or more: retail conglomerates and department stores

Those with average ages of 30-35 are second-hand shops, revolving sushi restaurants, and discount stores/¥100 shops

Figure 42 display average employee age for listed retailers. The average for the 354 listed retailers that disclose these data is 36.6, with the average for pure retailers (excluding restaurants) at 36.9 and the average for restaurants at 35.6. The average employee age is above 40 for retail conglomerates (43.5) and department stores (41.3), followed by GMS at 39.6 and supermarkets at 38.1. On the other hand, the average is relatively low (early 30s) at second-hand shops (31.8), revolving sushi restaurants (33.4), and discount stores/¥100 shops (34.0). These subsectors generally have no production facilities, so in the same way that employee skill level determines operating rates in the manufacturing sector, employee age and productivity are closely related in these retail subsectors. Companies with a low average employee age will probably see their average age rise year by year if nothing is done. On the other hand, companies with higher average ages, like department stores and retail conglomerates, will be able to rejuvenate their workforces in one fell swoop in about 10 years' time.

We note that the average employee age at department stores has fallen 0.8 years since 2008. We are gradually seeing a generation shift via early retirement plans and retirements by baby boomers.

Figure 42. Average employee age of listed retailers by subsector (2010)



Source: Company discussions, company data, Citi Investment Research and Analysis.

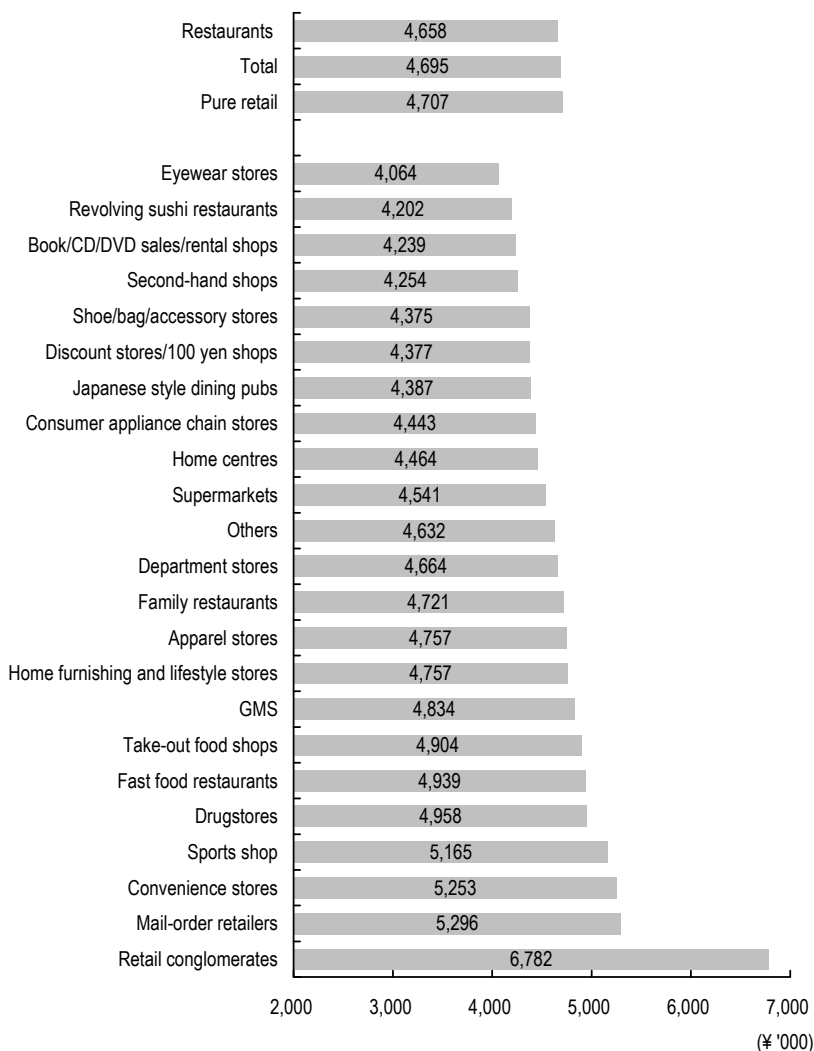
Average salary at listed retailers is ¥4.7mn, with retail conglomerates leading the way at ¥6.78mn (as some became holding companies) while eyewear specialists bring up the rear at ¥4.06mn

Average annual employee salary

Figures 34-36 detail average annual employee salary for listed retailers. The average for the 354 listed retailers that disclose these data is ¥4.7mn, with the average for pure retailers (excluding restaurants) at ¥4.71mn and the average for restaurants at ¥4.66mn. Retail conglomerates have in many cases become holding companies, making precise comparisons impossible, but the average for this subsector is ¥6.78mn, putting it on top. It is followed by mail order retailers at ¥5.3mn and convenience stores at ¥5.25mn. Subsectors with low average employee salaries include eyewear specialists (¥4.06mn), revolving sushi restaurants (¥4.2mn), and second-hand shops (¥4.25mn).

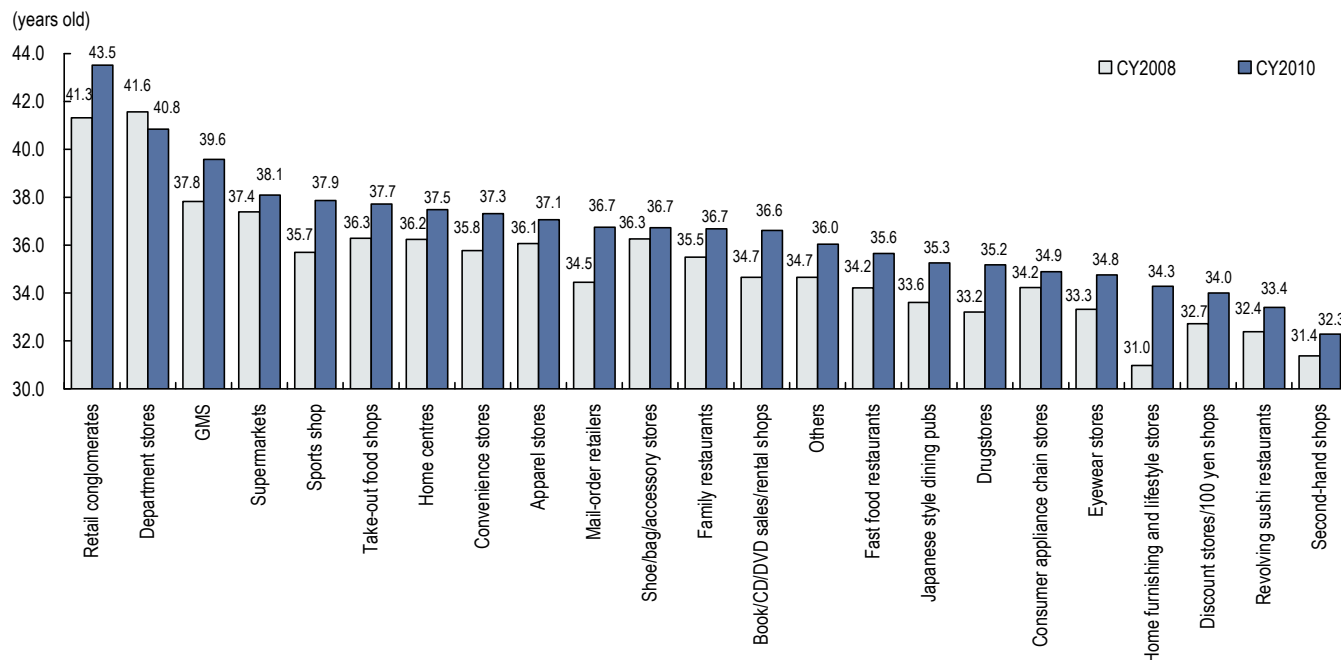
Of the 23 retail subsectors, only nine (including sporting foods, home furnishing and lifestyle stores, and retail conglomerates) saw an increase in average annual salaries since 2008.

Figure 43. Average employee salary of listed retailers by subsector (2010)



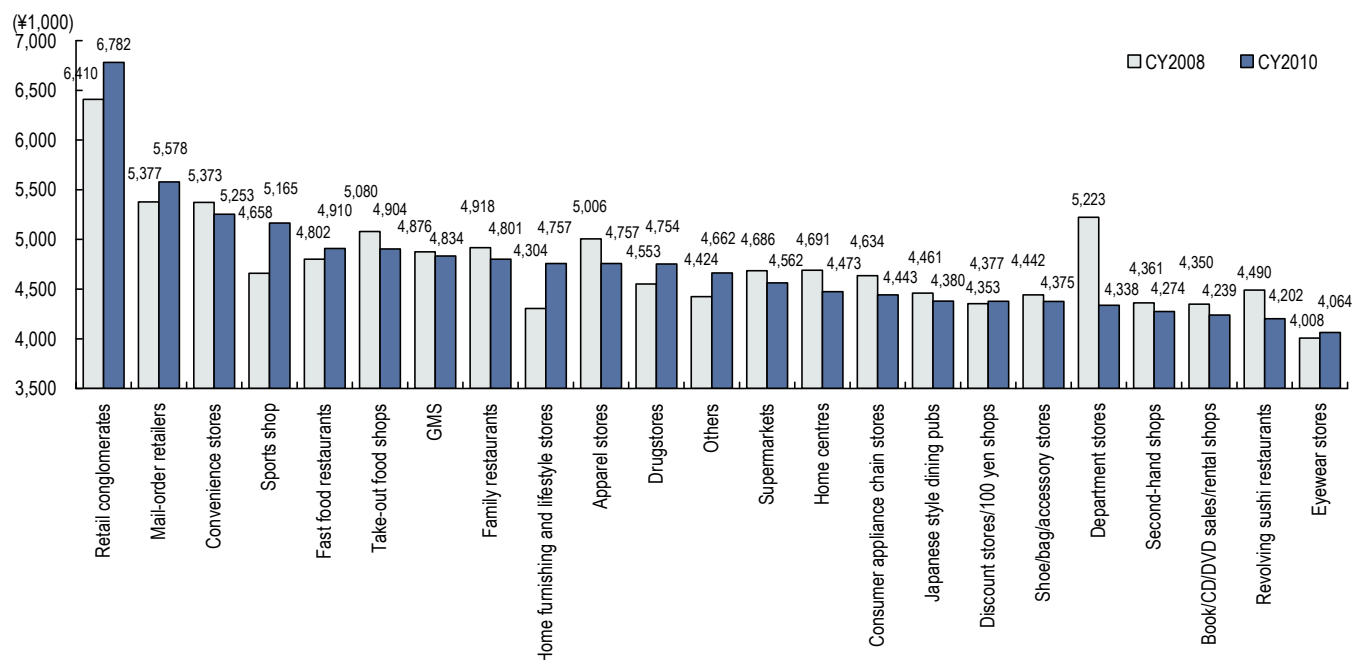
Source: Company discussions, company data, Citi Investment Research and Analysis.

Figure 44. Average employee age of listed retailers by subsector: Autumn 2008 versus 2010



Source: Company discussions, company data, Citi Investment Research and Analysis.

Figure 45. Average employee salary of listed retailers by subsector: Autumn 2008 versus 2010



Source: Company discussions, company data, Citi Investment Research and Analysis.

Section 2

Subsector analysis

Convenience store sector

Let us have a more detailed look at the convenience store industry.

We conduct a detailed analysis of the top four convenience store operators by market cap— Lawson, FamilyMart, Circle K Sunkus, and Ministop—as well as the Seven-Eleven Japan parent (unlisted), a consolidated subsidiary of Seven & i Holdings.

Convenience store operator income statements—key characteristics

Figure 46 shows the consolidated income statements for seven listed convenience store operators, while Figure 47 shows the income statements on an all-chain store sales and parent basis for the five companies subject to our detailed analysis.

Metrics versus sales on the income statement do not reflect reality

One key characteristic of the income statements in the convenience store sector is the great difference from the rest of the retail industry in the way that sales are booked. The only sales booked as a line item are sales at stores that are directly run by the headquarters, so sales on the income statement represent no more than around 5% of all-chain store sales, which are the “real” sales. Also, revenue from franchise stores are booked not as franchise store sales but as royalty income received by the headquarters. So the line item for gross operating revenue consists of royalty income from franchise stores, sales at directly-run stores, and other operating revenue. Broadly speaking, revenue from franchise stores is derived as franchise chain sales x gross profit margin x royalty rate, so on the income statement the gross operating margin is 65.3%, the SG&A-to-sales ratio is 55.0%, and the operating margin 10.3%, a composition divorced from the reality of operations. When Aeon bought regional supermarket operator Marunaka in October, the mass-media reported that it would become number one in Japan in terms of sales, but while Seven & i Holdings reported FY2/11 operating revenue on the income statement of ¥5,120bn, adjusted for the aforementioned we put effective sales at around ¥7,520bn.

Figure 46. CVS income statements

(¥bn)	Convenience stores	Lawson	CVS Bay Area	CircleK Sunkus	Three F	Popular	Familymart	Ministop
No. of listed companies	7							
Main P/L items								
Sales / Operating revenues	1,181	441	29	192	27	58	320	114
Operating gross profit	771	298	8	133	18	16	242	56
SG&A expenses	650	243	7	115	17	16	204	48
OP	121	56	1	19	1	0	38	8
RP	122	55	1	17	1	0	40	9
NP	54	25	0	7	0	-1	18	3
Profitability								
Gross profit margin	65.3%	67.6%	27.0%	69.2%	66.6%	28.2%	75.7%	49.1%
SG&A expense ratio (%)	55.0%	55.0%	24.9%	59.6%	64.5%	27.6%	63.8%	42.4%
Operating margin (%)	10.3%	12.6%	2.1%	9.7%	2.1%	0.6%	11.9%	6.7%
Recurring margin (%)	10.4%	12.4%	2.3%	9.1%	2.5%	0.6%	12.5%	7.5%
Management indicators								
ROE (%)	8.5%	12.2%	5.4%	5.2%	5.5%	-6.8%	8.3%	6.3%
Net profit margin (%)	4.6%	5.8%	0.8%	3.7%	1.2%	-1.0%	5.6%	3.0%
Equity multiplier	2.04	2.28	2.97	1.76	2.72	2.25	2.01	1.82
Total asset turnover	0.91	0.93	2.23	0.80	1.63	3.18	0.73	1.15
Fixed asset turnover	1.93	1.83	6.53	1.72	2.47	4.98	1.78	2.18
Average number of days of inventory	6.26	5.80	5.67	3.50	5.19	9.64	8.88	3.99
Average number of days payable outstanding	66.69	67.33	18.00	63.98	62.38	26.70	81.21	61.54
Average number of days the sum of payable outstanding and inventories	195	74	1	32	4	3	63	18
Cash and cash equivalents	278	78	3	76	1	3	100	18
Total interest-bearing debt	5	1	4	-	0	-	-	1
Net cash	272	77	-1	76	1	3	100	17
Adjusted net cash	57	-4	-2	42	-4	-2	28	-2

Source: Nikkei, NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 47. Major 5 CVS: Margin comparison

(¥mn)	Seven-Eleven Japan	Lawson	FamilyMart	CircleK Sunkus	Ministop
Chainwide store sales	2,947,606	1,502,700	1,440,457	855,010	322,043
Gross OP	470,691	230,156	210,006	122,899	45,610
SG&A	301,538	179,945	176,265	104,584	38,988
OP	169,152	50,210	33,741	18,315	6,622
RP	176,144	49,312	35,887	16,888	7,432
NP	102,049	24,643	16,678	7,277	2,910
vs. Chainwide store sales					
Gross OP	16.0%	15.3%	14.6%	14.4%	14.2%
SG&A	10.2%	12.0%	12.2%	12.2%	12.1%
OP	5.7%	3.3%	2.3%	2.1%	2.1%
RP	6.0%	3.3%	2.5%	2.0%	2.3%
NP	3.5%	1.6%	1.2%	0.9%	0.9%

Note: Based on parent numbers. Consolidated numbers used when available.

Source: Nikkei, NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Only Seven-Eleven Japan exceeds the average in terms of operating margins to all-chain store sales

So as to facilitate comparisons with the rest of the retail subsectors, for reference purposes we took all-chain store sales to be sales and created parent income statements for all companies, as shown in Figure 47. According to this Figure, all-chain store sales at the five convenience store majors amount to ¥7,068bn, OP to ¥278bn, and the operating margin to 3.93%. Seven-Eleven Japan's operating margin is outstanding, at 5.7%, while the operating margins of the other four

Store retirement losses are routinely booked as extraordinary losses

companies are all below the average. The differences in the operating margin stem from 1ppt differences in the gross operating margins and 2ppt differences in SG&A-to-sales ratios. We doubt that current operating margins will be rapidly improved, as around half of all profits are allocated to the franchise store, as convenience store operators use franchise systems, and as operating margins in the food supermarket industry, the leading competitor, are only around 3% even at the blue-chip firms.

The next key characteristic of the convenience store sector is the way that operators constantly generate extraordinary losses, with the main expense items being impairment losses and fixed-asset retirement losses. Although this is a characteristic of retailers in general, convenience store operators have to improve their store portfolios by repeatedly scrapping and building stores. To do this, convenience store operators scrap some 3%-5% of their total store counts annually. Until about two years ago, the scrap ratio was high for stores whose real estate contracts provided for sizeable contract cancellation charges (stores that were closed soon after opening, etc.) but per-store scrap costs have gradually declined, in part because this kind of store has rapidly declined in number, reaching ¥5mn-¥7mn last fiscal year. However, we think that because the cost of scrapping stores constantly recur, reflecting them in OP by booking them as SG&A expenses would be a closer approximation of reality.

Convenience store operator balance sheets—key characteristics

Highly stable balance sheets

The aggregate balance sheet for the seven listed convenience store operators shows a current ratio of around 40%, a fixed asset ratio of around 60%, and an equity ratio of around 50%: generally speaking, they are cash rich and have plenty of shareholders' equity and their balance sheets are highly stable.

Some distinctive features result from differences in capital policies

Let us have a straightforward look at some of the key characteristics of the majors. While the current ratio is around 30% at Lawson, it is around 47% at FamilyMart. This is because Lawson has been continually buying back shares and has a high-dividend policy; the equity ratio is 44% at Lawson but 50% at FamilyMart. As a result, while Lawson is inferior to FamilyMart in terms of balance sheet stability, there is a difference of around 2ppt in their dividend yields and RoE is 12.2% at Lawson versus 8.3% at FamilyMart, so Lawson wins out in terms of capital efficiency.

Key point: Ample deposits and guarantees

Also, as we discussed in Chapter 1, the ratio of deposits and guarantees to total assets in the convenience store sector is high: 24% at FamilyMart, 18% at Circle K Sunkus, and 17% at Lawson, with FamilyMart's balance of deposits and guarantees exceeding ¥100bn. These are assets that may be used in a cash flow-positive way in the future.

Figure 48. CVS balance sheets

(¥bn)	Convenience stores	Lawson	CVS Bay Area	CircleK Sunkus	Three F	Popular	Familymart	Ministop
No. of listed companies	7							
Current assets	506	145	4	106	4	6	206	35
Cash & cash equivalents	258	75	2	69	1	3	95	13
Fixed assets	792	331	9	134	12	12	230	64
Tangible fixed assets	342	159	3	68	4	8	73	26
Building and structure	183	96	1	37	2	4	28	14
Land and others	98	7	2	8	1	4	14	0
Intangible fixed assets	65	36	1	11	1	0	15	2
Investment / other fixed assets	385	136	5	55	7	4	142	36
Leasehold deposits	269	82	1	44	7	3	106	26
Total assets	1,299	476	13	240	17	18	436	99
Current liabilities	510	193	5	82	9	7	178	38
Account payables	216	81	1	34	5	4	71	19
Short-term borrowing	2	0	0	0	0	0	0	1
Accrued liabilities and taxes	63	42	48	85	10	31	17	18
Fixed liabilities	153	75	4	22	1	3	42	7
Long-term borrowing	4	1	3	0	0	0	0	0
Total liabilities	664	268	9	103	10	10	219	45
Minority interests	13	5	0	-	0	-	7	1
Net assets	635	208	4	137	6	8	217	55
Common stocks	96	59	1	8	1	2	17	7
Retained earnings	431	100	3	97	3	3	188	38
Total interest-bearing debt	5	1	4	-	0	-	-	1
Breakdown								
Current assets	39.0%	30.5%	33.2%	44.0%	25.6%	31.3%	47.3%	35.6%
Cash & cash equivalents	19.9%	15.7%	19.0%	28.7%	6.4%	13.9%	21.8%	13.6%
Fixed assets	61.0%	69.5%	66.8%	56.0%	74.4%	68.7%	52.7%	64.4%
Tangible fixed assets	26.3%	33.4%	25.2%	28.4%	24.2%	45.0%	16.8%	26.3%
Building and structure	14.1%	20.3%	9.6%	15.5%	14.3%	21.1%	6.4%	14.2%
Land and others	7.5%	1.4%	14.1%	3.5%	5.3%	20.4%	3.2%	0.3%
Intangible fixed assets	5.0%	7.6%	4.0%	4.7%	6.8%	0.8%	3.3%	1.8%
Investment / other fixed assets	29.7%	28.6%	37.6%	23.0%	43.5%	22.8%	32.6%	36.4%
Leasehold deposits	20.7%	17.2%	9.0%	18.2%	41.9%	18.9%	24.4%	26.3%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Current liabilities	39.3%	40.5%	36.5%	34.0%	54.6%	40.3%	40.7%	38.1%
Account payables	16.6%	17.1%	11.0%	14.0%	27.9%	23.3%	16.3%	19.4%
Short-term borrowing	0.1%	-	3.4%	-	2.5%	-	-	0.8%
Accrued liabilities and taxes	4.9%	8.8%	378.0%	35.3%	62.7%	168.8%	3.9%	17.8%
Fixed liabilities	11.8%	15.7%	29.9%	9.1%	8.6%	15.3%	9.5%	6.9%
Long-term borrowing	0.3%	0.1%	25.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Total liabilities	51.1%	56.2%	66.4%	43.1%	63.2%	55.6%	50.2%	44.9%
Minority interests	1.0%	1.0%	1.4%	-	0.9%	-	1.7%	1.1%
Net assets	48.9%	43.8%	33.6%	56.9%	36.8%	44.4%	49.8%	55.1%
Common stocks	7.4%	12.3%	9.4%	3.5%	8.4%	13.3%	3.8%	7.6%
Retained earnings	33.2%	20.9%	23.1%	40.3%	18.0%	16.8%	43.0%	38.4%
Total interest-bearing debt	0.4%	0.1%	28.8%	-	2.5%	-	-	0.8%

Note: Based on parent numbers. Consolidated numbers used when available.
Source: Nikkei-NEEDS Financial QUEST, Citi Investment Research and Analysis.

As key characteristics on the liabilities side, we note that bills and accounts payable account for 17% of total assets, ahead of the retail industry average of 12%. Borrowings from financial institutions are treated as interest-bearing debt while bills and accounts payable can be thought of as borrowings from business partners and could be considered as liabilities that may have a negative affect on future cash flow. The high ratio of bills and accounts payable in the convenience store sector is largely due to the way that franchise owners' orders are bundled together at headquarters and orders are then placed with business partners, generating bills and accounts payable in the process. The reason that bills and accounts payable

substantially exceed product inventory is because the only convenience store product inventory booked is that held at stores run by the operators themselves, such as directly managed stores and stores where the operator subcontracts out the management.

We also note the presence of the line-items “current money held as agent” and “long-term guarantee deposits received”. The former is the temporary retention of customers’ utilities payments, etc. The latter mainly consists of the monies paid to the headquarters when an owner takes out a franchise; these are retained permanently as long as the business is continuing.

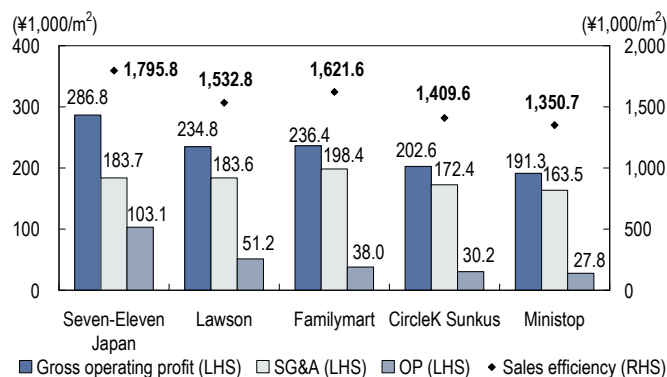
Figure 49. Major 5 CVS: Simplified balance sheets and comparisons (FY2/11)

(¥mn)	Seven- Eleven Japan	Lawson	Family Mart	Circle K Sunkus	Ministop	5 companies Total
Cash & Deposit	202,906	77,815	99,554	75,959	18,004	456,234
Others	311,584	67,194	106,780	29,612	17,240	515,170
Current Assets	514,490	145,009	206,334	105,571	35,244	1,006,648
Tangible fixed Assets	257,045	158,833	73,165	68,133	26,054	583,230
Deposits. Guarantees	124,722	81,654	106,242	43,569	26,075	382,262
Others	462,579	90,539	50,292	22,753	11,754	626,163
Intangible Fixed Assets	844,346	331,026	229,699	134,455	63,883	1,603,409
Note Payable & Account Payable	109,298	81,398	71,169	33,706	19,203	314,774
Deposit	85,796	62,340	63,966	27,561	9,308	248,971
Others	80,204	48,857	42,365	20,266	9,221	191,692
Current Fixed Liability	275,298	192,595	177,500	81,533	37,732	764,658
Long-Term Deposit	6,826	37,139	10,390	10,160	6,492	71,007
Others	8,258	37,835	31,163	11,661	328	88,917
Total Fixed Liability	15,084	74,974	41,553	21,821	6,820	160,252
Shareholders Equity	1,068,453	208,466	216,979	136,672	54,574	1,685,144
Total Assets	1,358,837	476,036	436,034	240,027	99,127	2,610,061
(Comparison)						
Cash & Deposit	14.9%	16.3%	22.8%	31.6%	18.2%	17.5%
Others	22.9%	14.1%	24.5%	12.3%	17.4%	19.7%
Current Assets	37.9%	30.5%	47.3%	44.0%	35.6%	38.6%
Tangible fixed Assets	18.9%	33.4%	16.8%	28.4%	26.3%	22.3%
Deposits. Guarantees	9.2%	17.2%	24.4%	18.2%	26.3%	14.6%
Others	34.0%	19.0%	11.5%	9.5%	11.9%	24.0%
Intangible Fixed Assets	62.1%	69.5%	52.7%	56.0%	64.4%	61.4%
Note Payable & Account Payable	8.0%	17.1%	16.3%	14.0%	19.4%	12.1%
Deposit	6.3%	13.1%	14.7%	11.5%	9.4%	9.5%
Others	5.9%	10.3%	9.7%	8.4%	9.3%	7.3%
Current Fixed Liability	20.3%	40.5%	40.7%	34.0%	38.1%	29.3%
Long-Term Deposit	0.5%	7.8%	2.4%	4.2%	6.5%	2.7%
Others	0.6%	7.9%	7.1%	4.9%	0.3%	3.4%
Total Fixed Liability	1.1%	15.7%	9.5%	9.1%	6.9%	6.1%
Shareholders Equity	78.6%	43.8%	49.8%	56.9%	55.1%	64.6%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, Citi Investment Research and Analysis.

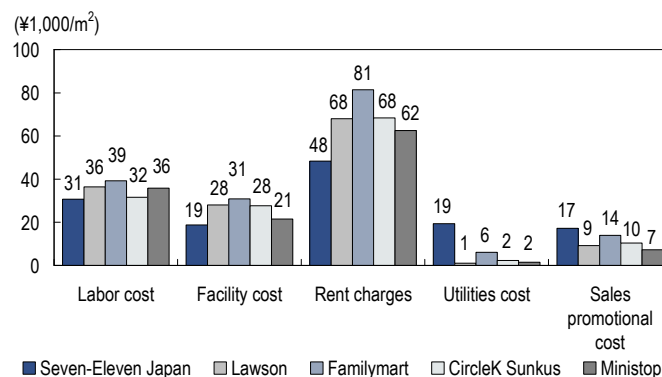
Per-square meter analysis

Figure 50. Major 5 CVS: Comparison of per m² profitability



Note: Based on parent numbers. Consolidated numbers used when available.
Source: Nikkei-NEEDS Financial QUEST, Citi Investment Research and Analysis.

Figure 51. Major 5 CVS: Comparison of per m² operating costs



Note: Based on parent numbers. Consolidated numbers used when available.
Source: Nikkei-NEEDS Financial QUEST, Citi Investment Research and Analysis.

Next we would like to look at per-square meter efficiency at the five major convenience store operators

In Figure 50, we compare sales, gross operating profits, SG&A costs, and OP per square meter at five major convenience store operators. The overwhelming advantage enjoyed by Seven-Eleven Japan is clear; at OP of ¥103,000 per square meter, Seven-Eleven Japan comes in at double Lawson and triple FamilyMart and Circle K Sunkus. A look at gross operating profits and SG&A costs per square meter shows a larger gap for the former than the latter. Indeed, the gap in OP per square meter of ¥50,000-¥60,000 is due mostly to the gap in operating gross profits per square meter. This is in part, in our view, because Seven-Eleven Japan has high sales floor space efficiency, but also because 1) its gross margin is high (distribution costs factored into product CoGS are low) as its strategy of dominating its markets has made it very efficient, and 2) royalty rates are high. What is more, while it appears there is no difference among the five in terms of SG&A costs per square meter, high sales floor space efficiency usually means high SG&A costs, so we think it is important to point out the reason as to why SG&A costs per square meter are basically the same as at peers despite Seven-Eleven Japan being 15%-20% better in terms of sales floor space efficiency.

Comparing SG&A costs per square meter

To look into this question more, we first break down SG&A costs per square meter. Figure 51 below breaks down labor costs, facility costs (lease costs, depreciation), rental charges, utility costs, and advertising costs, all per square meter. Rental charges account for about one-third of convenience store SG&A costs, and rental and facilities charges together come to about 50%. If we add labor costs in too, it comes to about 70% of total SG&A costs.



Key point: Only Seven-Eleven Japan has a different business structure

A look at Figure 51 shows that each of the items are at more or less the same level at the four firms other than Seven-Eleven Japan, with only Seven-Eleven Japan seeing differences. While its per-square meter labor costs, facility cost, and rental charges are quite low by comparison, its per-square meter utilities and advertising costs are extremely high. Why is this? We think per-square meter labor costs are low because Seven-Eleven Japan has more stores than peers, pushing indirect costs down. In addition, it appears labor productivity is high as there are many

areas in which Seven-Eleven Japan does not have stores, since it has focused on dominating major metropolitan areas. As for facility costs, recent system spending has been lower at Seven-Eleven Japan than at peers, and it could be that the firm is enjoying advantages from scale in areas like acquiring or leasing equipment given that it has a large number of new stores. Finally, we think per-square meter rent is low because the ratio of A-type owners (owners that own the land and building, whereas C-type owners are supplied with the land and building) is high. Having a high ratio of A-type owners pushes down the royalty rate, but it is worth noting that Seven-Eleven Japan has offset this and continues to boast the highest royalty rates in the industry. On the other hand, per-square meter utility costs are high, as noted above, and we think this is because Seven-Eleven Japan contracts have headquarters paying 80% of store utility costs. As for advertising costs, the firm is looking to dominate its markets, and it seems it is trying to maintain high sales floor space efficiency by spending a lot on advertising in per-square meter terms.

Lawson has broken away from the ranks of the second-tier operators

Skillfully leveraging the characteristics of store locations

As can be seen in Figure 51, Lawson's per-m² OP is ¥51,000/m², putting it ahead by a couple of lengths from the pack of second-tier operators. We think the reasons for this are that, while its sales area efficiency is weaker than at rivals FamilyMart and Circle K Sunkus, it has been controlling rent per m² well and investing efficiently for a second-tier operator in areas such as IT systems and store facilities. Although Lawson has many stores in rural locations for a convenience store major, we think the key to its success is a management approach that leverages their distinctive characteristics. However, Lawson needs in our view to raise gross operating profit per m² further and there is room for debate on the issue of advertising and marketing expenses, which are at a relatively low level versus peers. We will be monitoring Lawson's next strategic steps, such as moves to retain credit-card customers and the tie-up with Yahoo Japan, with interest.

Hoping to see optimal allocation among expense items at FamilyMart

FamilyMart: Hoping to see a correction to the rent burden ratio and optimal allocation of SG&A expenses

Of the five convenience store operators, FamilyMart has the highest SG&A expenses per m² and market players have called for it to make its SG&A expenses more efficient. In particular, its rent per m² is fairly high. Of course the mirror-image concept to SG&A control is also important, so if FamilyMart maintains SG&A at the current level, it will likely need to aim all out for higher gross profit. In this event, we think that it would need to build up its advertising and marketing expenses, which are even lower than they are at Seven-Eleven Japan. For instance, it could adopt a strategy aiming to cut per-m² rent by ¥10,000/m² and at the same time raise per-m² advertising and marketing expenses by ¥10,000/m², one which would leverage its highest sales floor efficiency among the second-ranked convenience store operators. We think this would be an effective approach.

Circle K Sunkus has an exceptionally tough course to steer

Circle K Sunkus: Hoping to see collaboration with Uny and a return to dominant areas

We think Circle K Sunkus has an exceptionally tough course to steer if it is to get a step ahead of the second-tier pack, as we believe it needs to raise gross operating profit per m² and at the same time cut SG&A expense per m². To achieve both simultaneously by pursuing scale and efficiency at the same time would be difficult; we think it needs to shrink in size for a while, initially pursue efficiency and the aim to expand in scale while pursuing quality just at the moment when efficiency has improved. As is the case with FamilyMart, Circle K Sunkus' per-m² rent is at an exceptionally high level, so we feel that stimulus measures to hike sales floor efficiency is an urgent task. We think it needs, like FamilyMart, to divert some of the per-m² SG&A currently excessively allocated to rent to facility expenses and to advertising and marketing expenses. We also feel it needs to rethink the

geographical network of its stores, which are spread out all over the country, and aim to be more of a dominant player in certain areas. In particular, we think it needs to raise store density in areas where the Uny group is dominant and not merely develop new products but also aim to retain customers with the credit cards that group company UCS issues and through the offer of loyalty points that are usable throughout the group. We do not think it would be difficult to reconcile the conflict of interest between owners in areas where Uny has shops and those in areas where it does not; this could be accomplished by taking the advantages earned in making operations more efficient in dominant areas and returning them in a different form in the shape of owner support in other areas.

San-A model worth a look

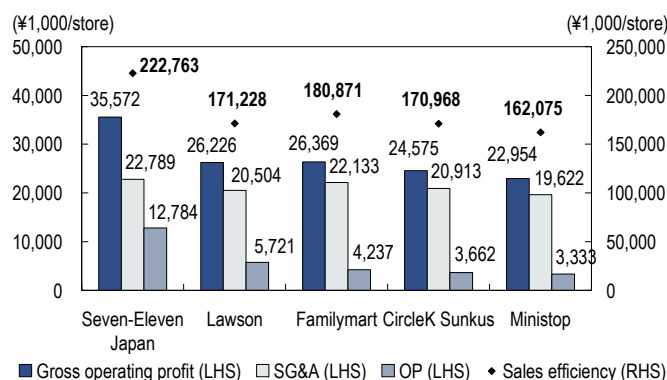
San-A, which has a commanding share of the Okinawa market, made the Lawson stores in Okinawa a consolidated subsidiary. Although only around a year has elapsed since this occurred, various advantages have already started to appear, not only in terms of store opening information and greater facility efficiency but also in areas such as the efficient use of distribution centers, food-processing center recipes and ingredient procurement, and enhanced production line efficiency. We hope to see group value maximized in all areas of product procurement, distribution, and manufacturing.

Ministop's course even tougher to navigate

Ministop has balance between per-m² gross profit and per-m² SG&A expenses, but both are at a low level. It is smaller in terms of absolute scale than Circle K Sunkus yet has a widely spread nationwide store network and this is in our view a major impediment to greater efficiency. We think Ministop needs to pursue the strategy that we outlined above for Circle K Sunkus and achieve results at an even more elevated level.

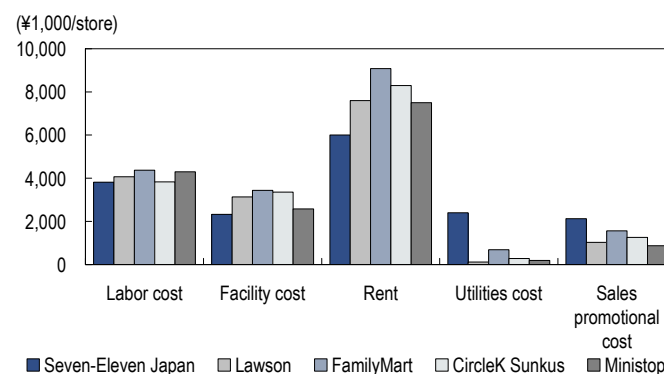
Per-store analysis

Figure 52. Major 5 CVS: Comparison of per-store profitability



Note: Based on parent numbers. Consolidated numbers used when available.
Source: Nikkei-NEEDS Financial QUEST, Citi Investment Research and Analysis.

Figure 53. Major 5 CVS: Comparison of per-store operating costs



Note: Based on parent numbers. Consolidated numbers used when available.
Source: Nikkei-NEEDS Financial QUEST, Citi Investment Research and Analysis.

Figure 54. Major 5 CVS: per store earnings and SG&A breakdown

(¥1,000)	Earnings				SG&A				
	GP	OP	RP	NP	Total	Labor cost	Facility cost	Rent charge	Advertizing cost
Seven-Eleven Japan	35,572	12,784	13,312	7,712	22,789	3,817	2,330	6,002	2,132
Lawson	26,226	5,721	5,619	2,808	20,504	4,072	3,133	7,591	1,029
Familymart	26,369	4,237	4,506	2,094	22,133	4,373	3,440	9,081	1,561
Circle K Sunkus	24,575	3,662	3,377	1,455	20,913	3,831	3,358	8,295	1,259
Ministop	22,954	3,333	3,740	1,465	19,622	4,297	2,579	7,499	874

Note: based on Parent numbers. Consolidated numbers used when available.
Source: Company hearing, Nikkei NEEDS-Financial QUEST, and Citi Investment Research and Analysis.

We have been looking at metrics per square meter thus far; Figure 52-54 shows per-store metrics. Fundamentally, they resemble the data on a sales floor area basis but in the retail industry, when there are clear benchmarks—as there are for convenience stores—a grasp of the per-store numbers makes it easier to form a clear picture of the company.

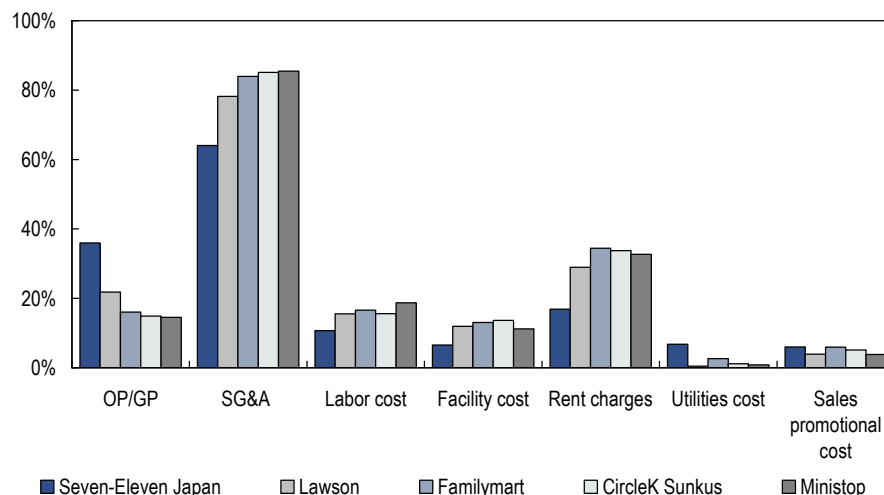


Key point: Seven-Eleven
Japan's per-store OP is 2x-3x that of peers

Unsurprisingly, there are big differences from company to company in OP per store. While Seven-Eleven Japan generates OP of ¥12.78mn per store, the equivalent figure at Lawson is ¥5.72mn, ¥4.24mn at FamilyMart, and ¥3.66mn at Circle K Sunkus. Looking at advertising and promotional expenses in the SG&A breakdown, we note that the per-store figure for Seven-Eleven Japan is ¥2.13mn, close to double the expense at other companies. From the franchise owner perspective, it is clear that this difference is a huge support in operational terms.

OP/GP ratio analysis

Figure 55. Major 5 CVS: Comparison of allocation ratios



Note: Based on parent numbers. Consolidated numbers used when available.
Source: Nikkei-NEEDS Financial QUEST, Citi Investment Research and Analysis.

Figure 56. Major 5 CVS: Comparison of allocation ratios

(\$mn)	Gross OP	OP	RP	NP	Allocation ratio						
					OP/GP	SG&A	Labor cost	Facility cost	Rent	Sales promotional cost	Others
Seven-Eleven Japan	470,691	169,152	176,144	102,049	35.9%	64.1%	10.7%	6.6%	16.9%	6.0%	23.9%
Lawson	230,156	50,210	49,312	24,643	21.8%	78.2%	15.5%	11.9%	28.9%	3.9%	17.8%
FamilyMart	210,006	33,741	35,887	16,678	16.1%	83.9%	16.6%	13.0%	34.4%	5.9%	13.9%
Circle K Sunkus	122,899	18,315	16,888	7,277	14.9%	85.1%	15.6%	13.7%	33.8%	5.1%	17.0%
Ministop	45,610	6,622	7,432	2,910	14.5%	85.5%	18.7%	11.2%	32.7%	3.8%	19.0%

Note: based on Parent numbers. Consolidated numbers used when available.
Source: Nikkei NEEDS-Financial QUEST, and Citi Investment Research and Analysis.

Seven-Eleven Japan's OP/GP ratio close to double that of peers



Key point: OP/GP ratio, which we see as the key metric, is nearly double peers at Seven-Eleven Japan

Next we want to take a look at allocation ratios, which we feel are exceptionally important. Figures 55 and 56 show OP/GP ratios, SG&A allocation ratios, labor cost allocation ratios, and real estate cost allocation ratios. The size of Seven-Eleven Japan's OP/GP ratio stands out. At 36%, there is a big gap of 14ppt (1.6x) over second place Lawson. The OP/GP ratios at FamilyMart, Circle K Sunkus, and Ministop are broadly the same, at around 14%-16%, less than half the level of Seven-Eleven Japan. The figure makes it clear, we think, that while these companies are in the same convenience store business, their operations are substantially different at the granular level. Industry comparisons are generally made using the expression "the Big 4", but while Seven-Eleven Japan's expense allocation ratio is 64%, it is as high as 85% at Circle K Sunkus.

As we noted above, Seven-Eleven Japan is far away in the lead among the five convenience store majors when it comes to the OP/GP ratio but the other four companies are also in double digits, not such a bad level when compared to the Japanese retail sector as a whole but one from which we feel they need to set their sights higher.

SG&A cost allocation ratios

Next we look at the details of SG&A cost allocation ratios. The SG&A cost allocation ratio is the ratio of SG&A costs to gross profit. This ratio can be broken down into the labor cost allocation ratio, the facility cost allocation ratio, the rent allocation ratio, and the promotional cost allocation ratio.



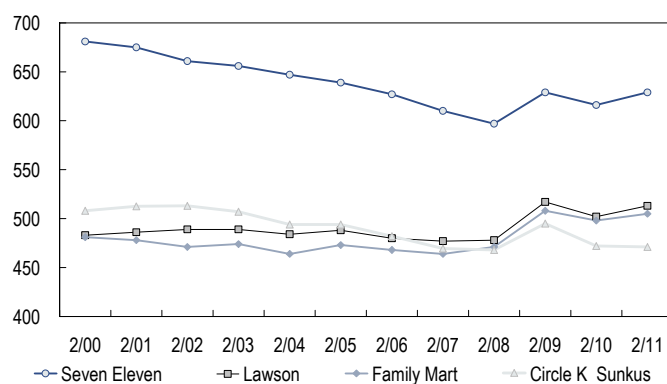
Key point: Seven-Eleven

Japan's per-store promotional costs are nearly 2x that at peers with no difference in the allocation ratio

A look at SG&A cost allocation ratio reveals some things that were not apparent from the per-square meter analysis. For instance, in promotional costs, Seven-Eleven Japan is far and away the biggest spender in terms of the per-square meter analysis and the per-store analysis above, and we noted that this could be contributing to its impressive sales floor efficiency. However, as the OP/GP ratio for Seven-Eleven Japan is close to double those of its peers, there is not a great difference in promotional cost allocation ratios between Seven-Eleven Japan on the one hand and FamilyMart and Circle K Sunkus on the other. In other words, Seven-Eleven Japan's per-store advertising costs are from 1.4x to close to 2x the level of peers but from the profit allocation perspective not different from those of peers. At the risk of belaboring the point, we see it as exceptionally important that, even though allocation ratios are the same, Seven-Eleven Japan is able to substantially outspend its peers when it comes to advertising costs. Similarly, Seven-Eleven Japan's real estate allocation ratio is half that of FamilyMart and its facility allocation ratio half that of Circle K Sunkus, with the gap versus peers wider than per square meter and per-store metrics are.

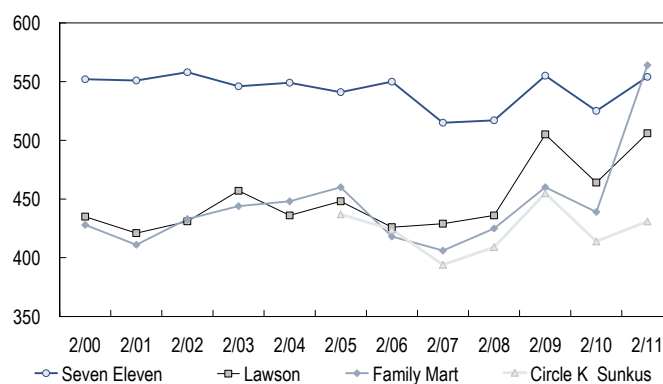
Is Seven-Eleven Japan really that strong?

Figure 57. CVS Big 4: Average daily sales (¥000)



Source: Company data, Citi Investment Research and Analysis.

Figure 58. CVS Big 4: Average daily sales at new stores (¥000)



Source: Company data, Citi Investment Research and Analysis.

We thus think that Seven-Eleven Japan is maintaining an overwhelming lead over its rivals in a variety of metrics. Some market observers have pointed to shrinking gaps between the convenience store firms, however.

Declining gap in average daily all-store sales

Figures 57 and 58 show average daily sales and new store daily sales since 2000 for the Big 4. Certainly, Seven-Eleven Japan's average daily sales were ¥681,000 in FY2/00 and fell 8% in the intervening years to ¥629,000 in FY2/11 as the numbers for Lawson and FamilyMart gradually rose. Certainly as far as this figure shows, it is fair to point to the gap in all-store average daily sales narrowing.

We attribute the narrowing gap in all-store average daily sales largely to technical factors like 1) the impact of the closure of unprofitable stores with low daily sales, 2) differences in the pace of expansion, and 3) the impact of new store openings.

Figure 59. CVS Big 4: Store numbers

		2/99	2/00	2/01	2/02	2/03	2/04	2/05	2/06	2/07	2/08	2/09	2/10	2/11
Seven-Eleven Japan	No of stores	7,732	8,153	8,602	9,060	9,690	10,303	10,826	11,310	11,735	12,034	12,298	12,753	13,232
	A Type	5,016	5,129	5,222	5,211	5,213	5,237	5,249	5,196	5,122	4,919	4,638	4,437	4,340
	C Type	2,414	2,657	2,979	3,384	3,768	4,316	4,799	5,208	5,608	6,311	6,946	7,703	8,449
	Direct manage stores	302	367	401	465	709	750	778	906	1,005	804	661	601	442
Lawson	No of stores	7,016	7,378	7,683	7,734	7,625	7,821	8,077	8,366	8,564	8,587	9,527	9,625	9,853
	B Type	2,724	2,691	2,600	2,412	2,200	1,992	1,836	1,674	1,512	1,369	1,322	1,258	1,216
	G/C Type	3,292	3,835	4,372	4,767	5,091	5,480	5,895	6,284	6,581	6,779	6,926	7,102	7,376
	Direct manage stores	1,000	852	711	555	334	349	346	408	471	439	1,165	1,098	993
Family Mart	No of stores	4,398	4,555	5,275	5,287	5,593	5,770	5,994	6,284	6,501	6,691	6,891	7,158	7,629
	1FC	2,179	2,244	2,507	2,467	2,692	2,838	3,061	3,343	3,509	3,627	3,861	4,086	4,487
	2FC	2,022	2,117	2,525	2,633	2,709	2,690	2,647	2,599	2,634	2,604	2,561	2,638	2,705
	Direct manage stores	197	194	243	187	192	242	286	342	358	460	469	434	437
Circle K	No of stores	2,289	2,379	2,472	2,583	2,710	2,651	2,855	2,891	2,898	2,809	2,846	2,861	2,905
	A Type	1,383	1,375	1,362	1,377	1,356	1,320	1,316	1,234	1,108	990	941	903	845
	C Type	691	750	847	945	1,071	1,107	1,235	1,302	1,382	1,460	1,573	1,682	1,818
	Direct manage stores	215	254	263	261	283	224	304	355	408	359	332	276	242
Sunkus	No of stores	1,739	1,895	2,017	2,138	2,257	2,200	2,273	2,263	2,205	2,119	2,093	2,097	2,096
	A Type	511	543	559	557	546	504	482	455	390	332	303	293	259
	E Type	294	416	518	591	614	620	612	586	543	482	436	399	368
	C Type	886	890	892	938	1,013	998	1,038	1,048	1,083	1,115	1,178	1,263	1,360
Circle K Sunkus	Direct manage stores	48	46	48	52	84	78	141	174	189	190	176	142	109
	No of stores	4,028	4,274	4,489	4,721	4,967	4,851	5,128	5,154	5,103	4,928	4,939	4,958	5,001
	A Type	1,894	1,918	1,921	1,934	1,902	1,824	1,798	1,689	1,498	1,322	1,244	1,196	1,104
	E Type	294	416	518	591	614	620	612	586	543	482	436	399	368
Circle K Sunkus	C Type	1,577	1,640	1,739	1,883	2,084	2,105	2,273	2,350	2,465	2,575	2,751	2,945	3,178
	Direct manage stores	263	300	311	313	367	302	445	529	597	549	508	418	351

Source: Company data, Citi Investment Research and Analysis.

What has been the impact of closing stores with low daily sales?

Over the last decade, the major convenience store operators have been pursuing an aggressive scrap and build strategy. Second-tier convenience store operators tend to close stores with daily sales around ¥300,000 but Seven-Eleven Japan has almost no stores that generated daily sales of less than ¥400,000 and the gap between the daily sales criteria for store closure is wide, so we think that second-tier convenience store operators can push up their average daily sales numbers by closing unprofitable stores.

What do differences in the pace of expansion mean?

The store counts of the major convenience store operators are very different, so we note that the denominator in the average daily sales per store equation is not the same. Figure 59 shows store counts by contract type. What we want to draw attention to here is the period-end store count. Over the last decade, Seven-Eleven Japan has added some 4,500 stores, with its store count rising by approximately 50% to 13,000 from 8,000. On the other hand, organic store count growth excluding M&A has been only around 500 stores at CSK and around 1,000-1,500 stores at Lawson and FamilyMart, so there is a big difference in the growth in the numerator used to derive average daily sales per store. Therefore, it is impossible to evaluate the ability of a given chain simply through all-store daily average sales.

What has been the impact of new store openings?

The gap at Seven-Eleven Japan between all-store average daily sales and new store average daily sales is the biggest of all of the major convenience store operators, so the more that it opens new stores, the more the all-store average is pulled down, whereas there is almost no difference at second-tier convenience store operators between all-store average daily sales and new store average daily sales, so new store openings by them hardly push down their all-store average daily sales numbers at all. As Figure 59 shows, the mainstream in new store openings has shifted to C-type owners, a phenomenon that we believe is occurring because

of the shrinking gap between all-store average daily sales and new store average daily sales.

We can check to see if these hypotheses are accurate by looking at same-store sales over the period. Accordingly, we examine what happened with same-store sales during the period in question.

Same-store sales gap widened over the last decade

Key point: Seven-Eleven Japan has seen a huge rise in customer volume over the past ten years

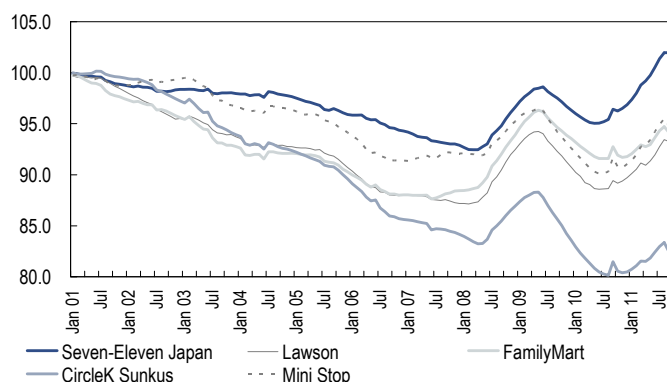
Figures 60-62 show monthly published data for same-store sales, customer counts, and average customer spending at the five major convenience store operators since January 2001. Looking at cumulative same-store sales, we note that while there were winners and losers from year to year, the cumulative numbers that go back more than a decade show that Seven-Eleven Japan has been growing sales at a high level. Moreover, unlike other operators, Seven-Eleven Japan does not book products with low gross margins such as tickets as sales, so we believe that the actual gap is even wider than shown in the figure. We think this lends credibility to the reasons we have detailed above as to why the narrowing gap in all-store average daily sales is largely due to technical factors.

In particular, the customer count and customer spend data show that Seven-Eleven Japan has been pushing the customer count up substantially even though customer spending has been falling.

Decline in number of franchisee-owned stores

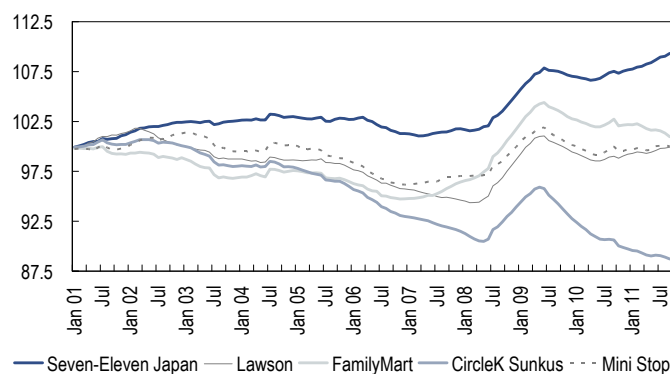
The biggest change in earnings trends for the convenience store sector over the past ten years is the decline in the number of franchisee-owned stores (i.e., the franchisee owns the land and building). As we have noted above, this change has had a major impact on SG&A allocation ratios and per-store OP. Figure 59 tracks the number of stores by type over the past 10+ years. At FamilyMart 1FC-type stores include stores that are effectively owned by headquarters, so the number of 1FC-type stores are on the rise. However, we note that in effect FamilyMart is seeing the same trend as other convenience store majors.

Figure 60. Major CVS: Same store YoY (Jan-2000 = 100)



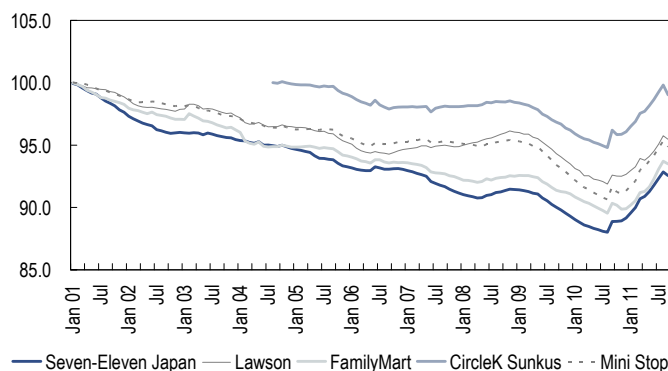
Source: Company data, Citi Investment Research and Analysis.

Figure 61. Major CVS: No. of Customer visits on the same-store YoY (January 2001 = 100)



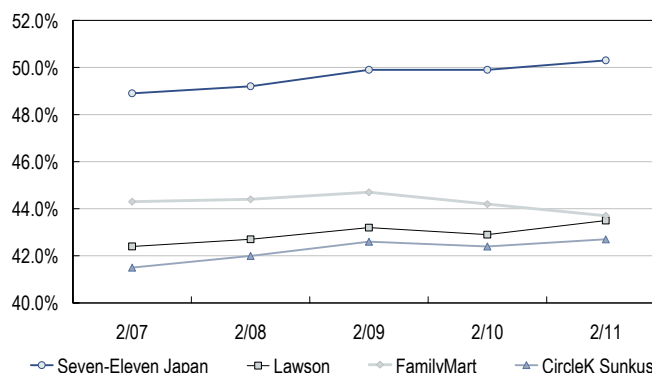
Source: Company data, Citi Investment Research and Analysis.

Figure 62. Major CVS: Average spending per customer on same-store YoY (January 2001 = 100)



Source: Company data, Citi Investment Research and Analysis.

Figure 63. CVS Big 4: Royalty rate trends



Source: Company data, Citi Investment Research and Analysis.

We think there are two main reasons for this trend. In the past, the number of franchisee-owned stores rose primarily as managers of smaller independent stores affiliated with franchise chains. However, managers of these smaller stores are aging and the number of them that can meet affiliation standards has declined. What is more, there are few if any smaller stores left in good locations that haven't already been converted, so it has now become common for headquarters to provide land for franchise stores in light of issues with site selection standards.

Need to keep an eye on royalty rates

Now we turn to an examination of royalty rates at the four major convenience store operators. Royalty rates are lowered over time or when contracts are renewed, and there are also incentives to get multiple stores under contract; as a result, there is downward pressure on rates at a given type of store over time. At the same time, while there are differences between operators, the percentage of stores where headquarters furnishes the land and facilities is increasing, and this change is pushing royalty rates up. Only FamilyMart is seeing sluggish growth in royalty rates, due to increased store openings stemming from am/pm integration and diversification of contract types. Also, while royalty rates are more or less the same at Lawson, FamilyMart, and Circle K Sunkus, Seven-Eleven Japan has seen royalty rates rise 7ppt.

A look at the macroeconomic environment for convenience stores

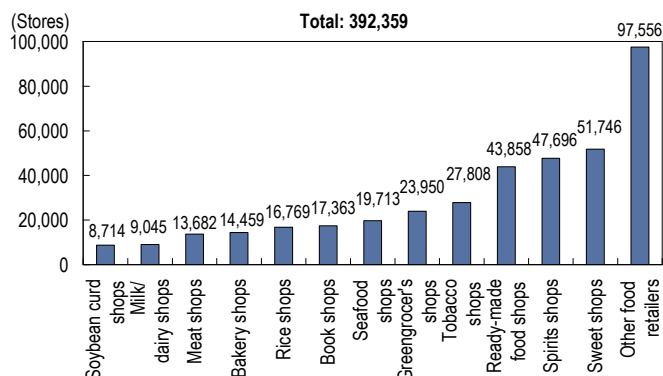
The operating environment for convenience stores has entered an extremely favorable stage, in our view, which can be seen from both a supply and demand perspective. Japan possesses more than 1.1mn stores overall, and sales at stores employing 19 or fewer people exceeds ¥70trn (see figure 133). At the same time, these smaller stores are shutting down at an accelerating rate. In addition, while Japan's population has begun to decline, the number of households should continue to increase for the near future. In 2015 there are expected to be 50.6mn households in Japan, and in 2030 average persons per household is expected to decline to 2.27. According to the National Institute of Population and Social Security Research, While the population is expected to fall 10% from its current level by 2030, the number of households is expected to be largely flat at 48.8mn. By 2030,

households where the head is 65 or older are expected to total 19.03mn, or 40% of overall households; 40% of these households (7.17mn) are expected to be single-individual households. For convenience stores that sell food in small catchment areas, we think the environment will remain favorable.

Number of consumers for whom shopping is inconvenient up sharply

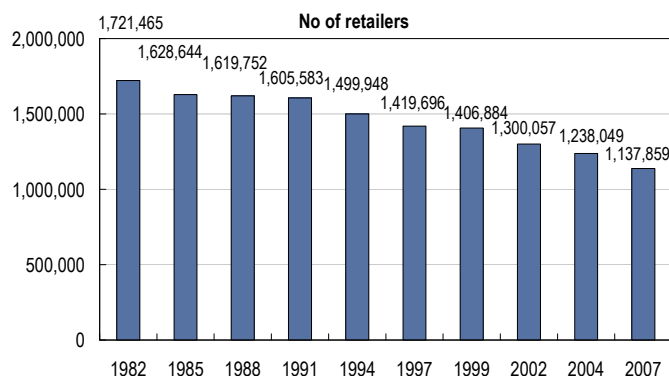
As one can see in Figure 65, the number of smaller stores peaked at 1.72mn in 1982 and fell to 1.13mn as of 2007, for a 33% decline in 25 years. This is not only true for smaller stores—service facilities like banks and public institutions are in decline as well. As such, the number of consumers for whom shopping is inconvenient has risen rapidly.

Figure 64. Number of mom & pop stores by category



Source: Census of Commerce 2007 (METI), Citi Investment Research and Analysis.

Figure 65. Retail industry store numbers (fiscal year basis)



Source: Census of Commerce 2007 (METI), Citi Investment Research and Analysis.

On the demand side, women are increasingly required to work outside the home due to a decline in the working-age population. Figure 66 tracks women's labor force population while Figure 67 tracks the number of dual-income households. The time housewives allot to preparing meals is declining, and this suggests that convenience stores will grow increasingly important.

We think it goes without saying that the "close and convenient" small catchment area format will match future market needs as the number of households is increasing (while the number of people per household is declining) and the number of seniors living alone is on the rise. Figure 69 suggests that when single-person households become the norm, the pattern of high-volume shopping at large stores on the weekend may change. As can be seen in Figure 70, the number of seniors living alone is expected to increase rapidly.

Figure 72 shows the percentage of people over 65 in major nations for the century of 1950 to 2050 at 10-year intervals: actual data for 1950 to date and projections through to 2050. In 1950, Sweden, the UK, and France already had elderly ratios of over 10%. Japan's ratio was the lowest of any major nation at the time, below 5%. Japan's ratio will rise by roughly 8x from 1950 to 2050, far outstripping the 3x increase in the ratio in Germany. Increases in the US, Sweden, the UK, and France will be no more than 2x or so.

Success in bringing in new customers

At the same time, with these changes convenience store will not be able to attract new customers unless they re-think their historical focus on the younger demographic, particularly men. We think the positive change in same-store convenience store sales since last year is due to changes in pricing and product policies. Convenience stores have lowered prices to levels in line with

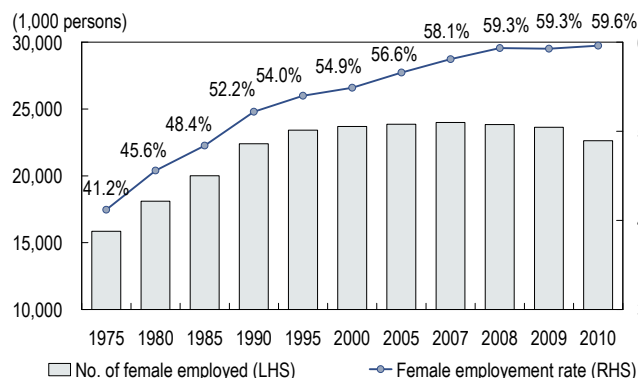
Convenience stores likely to succeed in Asia

supermarkets, and they have increased their supply of prepared and fresh foods as well, all in efforts to being in more seniors and women.

Figure 71 shows the projected populations of major nations. While it is forecast that China and India will have an overwhelming presence in terms of sheer population volume, China's population is projected to decline in the future, in part because of its one-child policies, while India's is projected to keep growing, with the country becoming the most populous nation on the planet. Forecast rates of population growth are exceptionally high for Pakistan, Bangladesh, and Southeast Asia, while in the developed nations of Europe and North America, the population of the US is projected to rise but the populations of other nations are likely to fall or at best rise only modestly. Even other countries such as China, Germany, and France are projected see declines in population between 2025 and 2050.

We think that continued population growth in Asia, which is in relatively close geographical proximity to Japan and whose people are physically similar to the Japanese, is a positive for the Japanese retail industry in the long run, if not in the short run. There are an increasing number of convenience store success stories in Asia, and we think we have reached the stage where there are expectations for convenience store growth there.

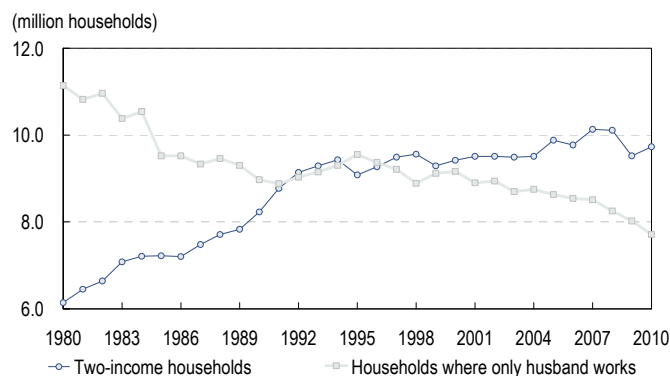
Figure 66. Female employee ratio trend



Note: The 2010 figure excludes those employed in Fukuoka, Miyagi, and Iwate prefectures.

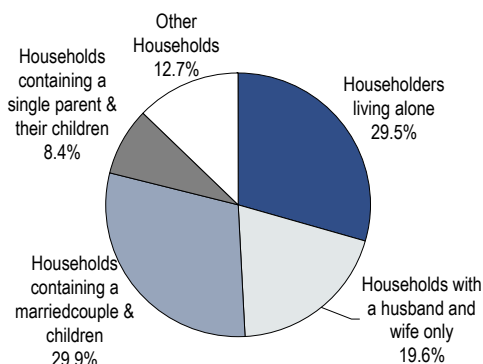
Source: Labor Force Survey (MIAC), Citi Investment Research and Analysis.

Figure 67. Dual-income household trend



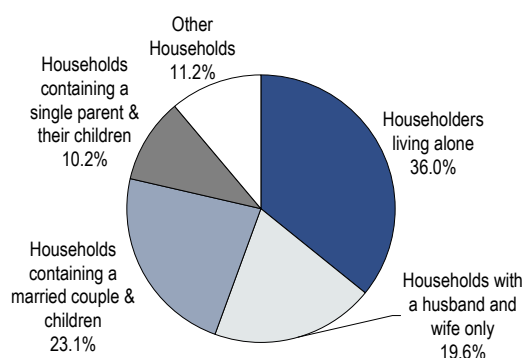
Source: Labor Force Survey (MIAC), Citi Investment Research and Analysis.

Figure 68. Composition of households (CY2005)



Note: National Institute of Population and Social Security Research forecasts.
Source: National Institute of Population and Social Security Research, Citi Investment Research and Analysis.

Figure 69. Composition of households (CY2025E)



Note: Projection based on National Institute of Population and Social Security Research, Citi Investment Research and Analysis.
Source: National Institute of Population and Social Security Research, Citi Investment Research and Analysis.

Figure 70. Estimates of households' types of family with over 65-year-old householders and 75-year-old householders ('000 households)

		Total		Single		Households of nuclear family-								Others	
						Total		Only Couple		Couple and Children		Single Parent and Children			
		Households	%	Households	%	Households	%	Households	%	Households	%	Households	%	Households	%
Over 65-year-old householders	2005	13,546	100.0%	3,865	28.5%	7,580	56.0%	4,648	34.3%	1,918	14.2%	1,014	7.5%	2,100	15.5%
	2010E	15,680	100.0%	4,655	29.7%	8,844	56.4%	5,336	34.0%	2,295	14.6%	1,213	7.7%	2,181	13.9%
	2015E	18,028	100.0%	5,621	31.2%	10,011	55.5%	5,991	33.2%	2,607	14.5%	1,413	7.8%	2,397	13.3%
	2020E	18,992	100.0%	6,311	33.2%	10,228	53.9%	6,140	32.3%	2,573	13.5%	1,515	8.0%	2,454	12.9%
	2025E	19,012	100.0%	6,729	35.4%	9,873	51.9%	5,941	31.2%	2,387	12.6%	1,545	8.1%	2,409	12.7%
	2030E	19,031	100.0%	7,173	37.7%	9,482	49.8%	5,685	29.9%	2,233	11.7%	1,564	8.2%	2,376	12.5%
Over 75-year-old householders	2005	5,539	100.0%	1,967	35.5%	2,660	48.0%	1,707	30.8%	482	8.7%	471	8.5%	912	16.5%
	2010E	7,041	100.0%	2,504	35.6%	3,520	50.0%	2,242	31.8%	685	9.7%	593	8.4%	1,018	14.5%
	2015E	8,267	100.0%	2,960	35.8%	4,223	51.1%	2,652	32.1%	864	10.5%	706	8.5%	1,085	13.1%
	2020E	9,427	100.0%	3,417	36.2%	4,835	51.3%	3,017	32.0%	1,003	10.6%	815	8.6%	1,175	12.5%
	2025E	10,845	100.0%	4,023	37.1%	5,473	50.5%	3,412	31.5%	1,125	10.4%	936	8.6%	1,348	12.4%
	2030E	11,097	100.0%	4,286	38.6%	5,420	48.8%	3,374	30.4%	1,074	9.7%	972	8.8%	1,391	12.5%

Note: Estimates are by National Institute of Population and Society Security Research.
Source: National Institute of Population and Society Security Research, Citi Investment Research and Analysis.

Figure 71. Mid-year estimated population ('000)

	1950	1975	2000	2025E	2050E
India	357,561	620,701	1,021,084	1,395,496	1,592,704
China	554,760	927,808	1,273,979	1,441,426	1,392,307
Pakistan	36,944	68,294	142,648	229,353	304,700
United States	157,813	220,165	284,154	350,103	394,976
Nigeria	32,769	58,950	117,608	190,287	258,108
Indonesia	79,538	134,395	209,174	263,746	284,640
Brazil	53,975	108,124	173,858	227,930	253,105
Bangladesh	41,783	73,178	128,916	193,752	242,937
Ethiopia	18,434	34,114	68,525	118,354	170,190
Iran	16,913	33,344	66,365	89,042	101,944
Mexico	27,737	59,287	100,088	129,381	139,015
Vietnam	27,367	47,974	78,671	104,343	116,654
Russia	102,702	134,233	146,560	129,230	111,752
Japan	83,625	111,524	127,034	124,819	112,198
Germany	68,376	78,674	82,344	81,967	78,765
United Kingdom	49,816	55,426	58,670	63,663	67,143
France	41,829	52,699	59,278	63,407	63,116

Source: The Japanese Journal of Population (2007) by National Institute of Population and Social Security Research.

Figure 72. Estimated over 65 year olds population of major countries

(%)	Japan	United States	Sweden	United Kingdom	France	Germany
1950	4.94	8.26	10.25	10.73	11.38	9.72
1960	5.73	9.19	11.97	11.68	11.64	11.52
1970	7.07	9.84	13.67	13.04	12.87	13.69
1980	9.10	11.20	16.29	14.93	13.97	15.60
1990	12.08	12.22	17.78	15.73	13.99	14.96
2000	17.36	12.31	17.24	15.82	16.27	16.35
2010	23.13	12.76	18.44	16.64	16.54	20.48
2020E	29.25	15.84	21.14	18.87	20.17	22.39
2030E	31.82	19.40	22.79	21.60	23.17	27.27
2040E	36.45	20.46	24.23	23.72	25.26	30.27
2050E	39.56	21.03	24.14	24.05	25.93	30.18

Source: The Japanese Journal of Population (2008) by National Institute of Population and Social Security Research.

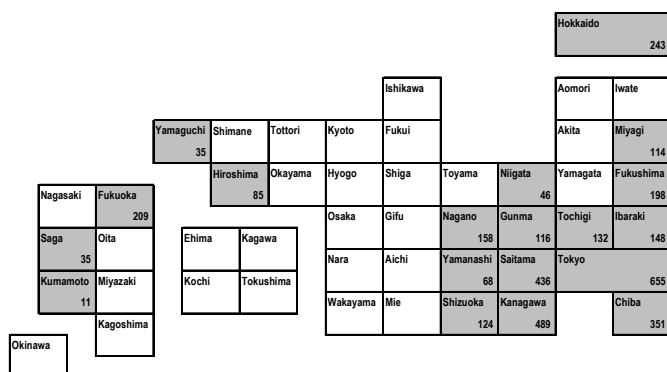
Considerable ability in store placement

Figure 73 tracks details Seven-Eleven Japan store numbers in each prefecture 22 years ago. We chose FY2/89 because at that time Seven-Eleven Japan's OP was ¥43.1bn, around the same as what top specialty stores like Shimamura and Nitori post now.

Seven-Eleven Japan's profits had increased ten-fold in the prior ten years, and OP rose 20% in FY2/89 as well. Specialty stores like Shimamura and Nitori have built out national networks and are working to develop new formats to drive future growth. On the other hand, in FY2/89 Seven-Eleven Japan had stores in just 19 prefectures, of which 13 had 100 or more stores, 6 had 200 or more stores, and only one (Tokyo) had 500 or more stores. Seven-Eleven Japan aims for OP of ¥180bn in FY2/12 and has opened stores for the first time in Kagoshima Prefecture, but we note that even then it has stores in just 39 of Japan's 47 prefectures.

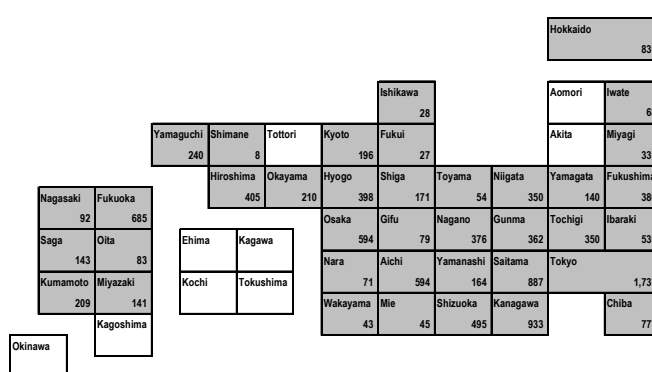
Going forward, we think efforts to attract more seniors and women will mean shortening distances between stores, resulting in increased scope for new store openings.

Figure 73. Seven-Eleven Japan Number of stores by location (end-FY2/89)



Source: Company data, Citi Investment Research and Analysis.

Figure 74. Seven-Eleven Japan Number of stores by location (end-FY2/11)



Source: Company data, Citi Investment Research and Analysis.

Management strategies moving forward

As noted above, we continue to think that growth potential for the convenience store sector as a whole is significant. In our view, the existing pattern wherein Seven-Eleven Japan moves into new areas and shoulders the cost of publicity, resulting in benefits for other convenience stores, will continue. As such, the management strategies at convenience store operators over the next 2-3 years look rather clear. However, from a longer-term point of view, we think the gap discussed above in terms of profit allocation ratios will result in widening gaps in performance between companies.

In the earlier section about profit allocation ratios, we touched on ways second-tier convenience stores could take on Seven-Eleven Japan. First, we think it vital that they analyze the breakdown of per-square meter costs and cost allocation ratios in a systematic fashion and determine optimal allocation. Next, we think major management decisions are necessary, like 1) a shift from a model of covering the entire country to one where the goal is to dominant specific markets or 2) hiking royalty rates and using the extra funds on advertising.

While operating margin for all stores at Seven-Eleven Japan is just below 6%, it is just 2%-3% at other convenience store majors. Therefore, roughly speaking perhaps other convenience store operators could develop formats Seven-Eleven Japan cannot (as doing so would reduce efficiency), thus shrinking the scale gap. In the end, this could lead to improved efficiency. For example, if a new format had an all-store operating margin of 3.5%, it would result in a lower margin at Seven-Eleven Japan, and as such we do not think they would adopt the new format. But for other convenience store operators adopting the new format could result in greater scale and expanded margins. Of course, the key issue here is that it is hard to imagine a format that would grow to a scale similar to that of the existing convenience store format.

This suggests to us that there are no measures that could bring about dramatic results aside from the "M&A plus store closure" method for aggressive sector restructuring we wrote about in an October 19, 2010 report [Retail: Convenience stores - Initiating coverage of the sector: Is growth set to return?](#)

Department store subsector

Now we turn to a more detailed look at department stores.

Department store operator income statements—key characteristics

Operating margin and RoE very low

The aggregate income statement of the 13 listed department store operators shows sales of ¥4,421.2bn, SG&A expenses of ¥1,080.7bn, and OP of ¥79.3bn. As a percentage of the 294 listed pure-play retailers, department stores account for 9.4% of sales and 4.2% of OP.

Listed department stores accounted for some 70% of Japan Department Stores Association sales in 2010, with the remaining 30% accounted for by unlisted regional department stores such as Tenmaya (Okayama Prefecture), Maruhiro Department Store (Saitama), Yamakataya (Kagoshima), Tsuruya Department Store (Kumamoto), Department Store Fujisaki (Miyagi).

The aggregate gross operating margin was 26.2%, the SG&A expense ratio 24.4%, and the operating margin 1.8%. The rapid decline in sales in the wake of the global financial crisis has had a lasting impact and profitability has fallen far below the aggregate for pure-play retailers.

RoE is very low as well, at 3.1%. This breaks down to a total asset turnover ratio of 1.1x, a net margin of 0.9%, and a shareholders' equity ratio reciprocal of 2.9. Even though the gross operating margin is far below the retail industry average, the total asset turnover ratio is the lowest of all retail subsectors.

Figure 75. Department store income statements

(¥bn)	Department stores	Isetan Mitsukoshi HD	J. Front Retailing	Takashimaya	H2O Retailing	Sogo-Seibu
No. of listed companies	13					
Main P/L items						
Sales / Operating revenues	4,421	1,221	950	869	465	847
Operating gross profit	1,160	342	230	263	129	199
SG&A expenses	1,081	331	209	244	119	192
OP	79	11	20	18	11	7
RP	99	27	21	22	11	6
NP	42	3	9	14	3	6
Profitability						
Gross profit margin	26.2%	28.0%	24.2%	30.2%	27.8%	23.6%
SG&A expense ratio (%)	24.4%	27.1%	22.0%	28.1%	25.5%	22.7%
Operating margin (%)	1.8%	0.9%	2.1%	2.1%	2.3%	0.9%
Recurring margin (%)	2.2%	2.2%	2.2%	2.6%	2.4%	0.7%
Management indicators						
ROE (%)	3.1%	0.6%	2.7%	4.6%	2.1%	4.9%
Net profit margin (%)	0.9%	0.2%	0.9%	1.6%	0.7%	0.7%
Equity multiplier	2.86	2.96	2.37	2.71	2.27	4.19
Total asset turnover	1.15	0.99	1.23	1.06	1.35	1.68
Fixed asset turnover	1.81	1.48	1.74	2.04	2.85	2.73
Average number of days of inventory	14.41	17.08	11.67	16.19	12.24	7.88
Average number of days payable outstanding	29.38	28.77	29.32	36.63	25.52	14.90
Average number of days the sum of payable outstanding and inventories	181	39	46	49	17	16
Cash and cash equivalents	244	58	36	71	42	35
Total interest-bearing debt	792	214	109	132	61	85
Net cash	-547	-156	-73	-61	-19	-50
Adjusted net cash	-903	-252	-149	-149	-51	-85

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Nikkei-NEEDS Financial QUEST, Company data, Citi Investment Research and Analysis.

Figure 76. Department stores balance sheets

(¥bn)	Department stores	Isetan Mitsukoshi HD	J. Front Retailing	Takashimaya	H2O Retailing	Sogo-Seibu
No. of listed companies	13					
Current assets	871	243	158	266	86	113
Cash & cash equivalents	226	57	34	56	42	35
Total inventories	175	57	30	39	16	18
Depreciable current assets	35	10	13	5	4	0
Fixed assets	2,964	995	617	551	258	390
Tangible fixed assets	2,144	747	499	382	107	245
Building and structure	743	188	136	160	65	100
Land and others	1,345	538	355	209	34	140
Intangible fixed assets	134	49	18	26	24	25
Investment / other fixed assets	686	199	100	143	127	120
Investment securities	239	89	23	50	55	34
Leasehold deposits	294	76	48	44	56	65
Total assets	3,835	1,238	775	817	344	503
Current liabilities	1,379	419	246	304	118	282
Account payables	356	96	76	87	33	35
Short-term borrowing	295	99	43	14	20	191
Accrued liabilities and taxes	29	0	0	0	19	14
Fixed liabilities	1,117	401	202	212	74	101
Long-term borrowing	497	115	65	118	41	85
Total liabilities	2,496	820	448	516	193	383
Minority interests	25	11	9	5	0	0
Net assets	1,339	418	327	301	151	120
Common stocks	228	50	30	56	18	10
Retained earnings	411	48	85	185	97	58
Total interest-bearing debt	792	214	109	132	61	85
Breakdown						
Current assets	22.7%	19.6%	20.4%	32.5%	25.1%	22.5%
Cash & cash equivalents	5.9%	4.6%	4.4%	6.8%	12.2%	7.0%
Account receivables	8.1%	7.1%	7.0%	14.8%	5.5%	4.4%
Total inventories	4.6%	4.6%	3.9%	4.7%	4.5%	3.6%
Fixed assets	77.3%	80.4%	79.6%	67.5%	74.9%	77.5%
Tangible fixed assets	55.9%	60.3%	64.3%	46.7%	31.1%	48.7%
Building and structure	19.4%	15.2%	17.5%	19.6%	18.9%	19.9%
Land and others	35.1%	43.5%	45.8%	25.6%	9.9%	27.9%
Intangible fixed assets	3.5%	3.9%	2.4%	3.2%	6.8%	4.9%
Investment / other fixed assets	17.9%	16.1%	12.9%	17.5%	37.0%	23.9%
Investment securities	6.2%	7.2%	3.0%	6.1%	16.0%	6.7%
Leasehold deposits	7.7%	6.1%	6.2%	5.3%	16.3%	12.8%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Current liabilities	36.0%	33.8%	31.8%	37.2%	34.4%	56.1%
Account payables	9.3%	7.8%	9.8%	10.7%	9.4%	6.9%
Short-term borrowing	7.7%	8.0%	5.6%	1.7%	5.9%	38.0%
Accrued liabilities and taxes	0.8%	0.0%	0.0%	0.0%	5.5%	2.8%
Fixed liabilities	29.1%	32.4%	26.0%	25.9%	21.6%	20.0%
Long-term borrowing	13.0%	9.3%	8.4%	14.4%	11.8%	16.9%
Total liabilities	65.1%	66.2%	57.8%	63.1%	56.0%	76.1%
Minority interests	0.7%	0.9%	1.2%	0.6%	0.0%	0.0%
Net assets	34.9%	33.8%	42.2%	36.9%	44.0%	23.9%
Common stocks	5.9%	4.0%	3.9%	6.9%	5.2%	2.0%
Retained earnings	10.7%	3.9%	11.0%	22.7%	28.1%	11.6%
Total interest-bearing debt	20.6%	17.3%	14.0%	16.1%	17.7%	16.9%

Note: Based on latest financial results. Consolidated numbers used when available.

Source: Nikkei-NEEDS Financial QUEST, Company data, Citi Investment Research and Analysis.

Department store operator balance sheets—key characteristics

The aggregate balance sheet of the 13 listed department store operators shows total assets of ¥3,835.0bn, liabilities of ¥2,496.0bn, liquid assets of ¥870.6bn, and fixed assets of ¥2,964.3bn.

Excessive holdings of land and marketable securities

Compared to the pure-play retail aggregate, while department stores account for only 4.2% of OP they account for 12.4% of total assets and 9.8% of net assets, which underscores their inefficiency. Also, while department stores account for 7.2% of pure-play retail sector liquid assets, they account for 15.6% of fixed assets, while within fixed assets, they account for 24.4% of land (including “other”) at ¥1,345.0bn and 18.6% of held-for-investment securities at ¥238.6bn. While in part the weightings are due to some land having been marked to market because of corporate mergers, we think department stores are harboring large quantities of assets that need to be pruned back.

On the other hand, department stores account for 4.9% of aggregate pure-play retailer inventory assets, which we regard as a favorable level when put up against their sales weighting. The Department store inventory turnover days metric stands at 14, versus the pure-play retailer average of 28; department stores are a high turnover business, with a turnover rate close to that of food supermarkets. We think this is impacted by the way that department stores keep stock: until products in the store are sold to customers, the ownership rights reside with the business partner rather than the store. Department store bills and accounts payable amount to ¥355.9bn, accounts receivable to ¥311.9bn, and inventory assets to ¥174.6bn, levels at which we see no issues with the balance.

Department store industry beset by inefficiencies

Lowest among retailers on many metrics

As we have seen, almost all metrics for department stores—RoA, RoE, operating margins, and total asset turnover—are at the lowest levels among retail industry subsectors. However, many of the people that work at department stores are highly educated. We would have thought they could easily analyze their own companies and realize how low per-person productivity is, how high labor cost allocation ratios are, and how in these and other ways department stores are inefficient. On the other hand, many industry observers are of the opinion that precisely because there are so many highly educated people working at department stores, they all assert themselves in their own way and their companies therefore do not go in a single direction. It is hard to refute those who point to the greater efficiency of specialty retailers, where often there is a single charismatic leader and a corps of low-cost subordinates who faithfully execute the leader’s instructions.

We would like everyone who works at a listed department store to answer the following question.

Aggregate market cap for top four department stores well below that for Fast Retailing

Why is the aggregate market cap of the top four listed department stores—Isetan Mitsukoshi Holdings, J.Front Retailing, Takashimaya, and H2O Retailing—only around half that of Fast Retailing?

Of course, market cap does not tell the whole story. However, it does in our view show expectations for future cash flow based on investor assessments of past performance. The top four listed department stores have a combined market cap of only around ¥800bn and everyone connected to department stores needs to share the awareness that as a single industry (industry body), it is no longer of a scale worth discussing. Managers and employees are free to pursue the department store

dream but if department stores are unable to sustainably generate sufficient cash flow to withstand competition, the next generation will be unable to inherit the shop.

Grounds for our bullish stance

As outlined above, we believe the department store industry is beset by a huge number of issues. On the other hand, we take a bullish investment stance on the sector. Why is that? We have three reasons: 1) it is widely known that it is an inefficient industry and this in our view has already been baked into valuations, 2) as an industry, sales continue to decline but growth in shareholders' equity is surprisingly good, and 3) earnings could well improve substantially on changes in Japan's population structure and an end to homogenization.

1) Tough operating environment priced in

Valuations for three listed department store operators are shown in Figure 77. They do not strike us as undervalued on PER or EV/EBITDA multiples. On the other hand, we see little chance that the current department store majors will fall into the red and suffer from continual cash outflows and impairments to shareholders' equity, so on the PBR front, we think that the inefficiencies we detailed above are already priced in.

Sharp improvement in earnings-based metrics possible

Earnings-based valuation metrics could see significant upside, as current margins are at marginal levels. Incidentally, Isetan Mitsukoshi Holdings is budgeting for a 3.2% decline in H2 sales through February but October sales were as much as 5ppt ahead of plan. If October levels continue, then we cannot rule out the possibility that the medium-term management plan target of FY3/15 consolidated OP of ¥33bn will be achieved two years ahead of plan. We thus think it is possible that investors are misjudging valuations by looking at earnings-based metrics alone.

Figure 77. Department stores: 3 store valuations

		Operating revenue		OP		RP		NP		EPS	P/E	BPS	P/B	EV/EBITDA	
		(¥bn)	YoY	(¥bn)	YoY	(¥bn)	YoY	(¥bn)	YoY	(¥)	(x)	(¥)	(x)	(x)	
J. Front Retailing (3086)	2/10 Actual	982.5	-10.4%	18.6	-33.8%	20.0	-29.4%	8.2	13.9%	15.5	32.0	595	0.7	7.6	
	2/11 Actual	950.1	-3.3%	20.3	9.4%	21.1	5.6%	8.9	8.5%	16.8	25.4	602	0.7	10.1	
	BUY/1	2/12 Co.E	945.0	-0.5%	19.3	-5.0%	19.5	-7.5%	7.6	-14.2%	14.4	23.4	-	-	
	11/14 close (¥336)	2/12E Citi	941.9	-0.9%	20.5	0.6%	20.5	-2.6%	8.9	1.0%	16.9	19.8	612	0.5	6.6
		2/13E Citi	945.3	0.4%	24.7	20.9%	23.7	15.1%	12.9	44.4%	24.4	13.7	630	0.5	6.6
	2/14E Citi	950.9	0.6%	29.4	18.7%	27.4	15.9%	14.7	13.8%	27.8	12.1	651	0.5	5.7	
Isetan Mitsukoshi HD (3099)	3/10 Actual	1,291.6	-9.5%	4.2	-78.7%	19.7	-43.7%	-63.5	-	-162.5	-	1,049	1.0	20.9	
	3/11 Actual	1,220.8	-5.5%	11.0	163.2%	27.1	37.3%	2.6	-	6.7	112.0	1,031	0.7	13.3	
	BUY/1	3/12Co.E	1,216.0	-0.4%	16.0	45.5%	28.0	3.3%	33.0	1150.0%	83.7	9.0	-	-	
	11/14 close (¥756)	3/12E Citi	1,222.2	0.1%	20.9	90.1%	33.0	21.7%	35.4	1241.4%	89.8	8.4	1,151	0.7	10.4
		3/13E Citi	1,228.8	0.5%	27.6	32.3%	39.8	20.7%	28.0	-20.9%	71.0	10.7	1,212	0.6	8.8
	3/14E Citi	1,247.5	1.5%	36.5	32.0%	35.5	-10.7%	20.2	-27.7%	51.3	14.7	1,253	0.6	7.3	
Takashimaya (8233)	2/10 Actual	877.8	-10.1%	13.4	-45.9%	16.8	-40.1%	7.7	-34.4%	23.4	29.4	871	0.8	7.9	
	2/11 Actual	869.5	-0.9%	18.2	35.3%	22.5	34.1%	13.8	79.6%	42.0	16.0	898	0.7	8.4	
	BUY/1	2/12Co.E	861.4	-0.9%	20.0	10.1%	22.5	0.1%	11.0	-20.6%	33.3	16.4	-	-	
	11/14 close (¥548)	2/12E Citi	861.7	-0.9%	21.0	15.7%	24.2	7.4%	11.9	-14.2%	36.0	15.2	892	0.6	6.5
		2/13E Citi	863.2	0.2%	24.5	16.7%	27.7	14.7%	14.3	20.8%	43.5	12.6	926	0.6	5.8
	2/14E Citi	860.5	-0.3%	27.9	13.6%	31.1	12.3%	16.5	14.8%	49.9	11.0	966	0.6	5.3	

Source: Company data, Bloomberg, Citi Investment Research and Analysis.



Key point: department store shareholders' equity is surging

2) Sales may be shrinking but shareholders' equity is rising

Figure 78 shows OP and shareholders' equity since President Koji Suzuki took the helm. There has been a stream of mergers among department stores, so we take the example of Takashimaya, where a time-series comparison is straightforward. Over this time, consolidated operating revenue has fallen 28% but shareholders' equity has increased 57%. Excluding the public offering of 16mn shares in 2006, shareholders' equity has risen by more than 40%. So while it is easy to cite falling sales and point to the decline of the department store industry, this is not in our view a valid criticism from the perspective of corporate value. We feel that Takashimaya and other department store operators still have room to cut costs and do not really need to make new capital investments. We think operators will continue to steadily build up shareholders' equity moving forward and feel it is reasonable to set our target prices using PBR.



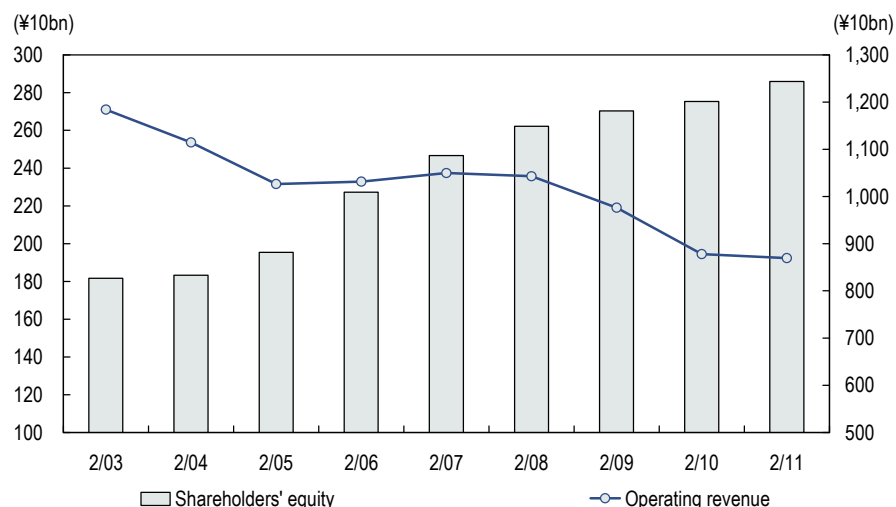
Another key point: the end to homogenization

3) Essentially we are in the process of recovery from the slump triggered by the global financial crisis

We think that sales levels in the supposedly decaying department store sector are likely to finally stop falling following their long-term decline. We are beginning to see signs of changes to the price downtrend, especially in clothing, and the increase in the population of wealthy senior citizens with time on their hands as a result of the rapid increase in retirees is also a tailwind. We expect the next year or two to be characterized by the recovery process from the global financial crisis. For instance, sales at the Daimaru Kobe store were around ¥100bn prior to the global financial crisis but they had fallen by around 20% to ¥80.4bn in FY2/11, so we think the environment is ripe for improvement in sales of 1%-2%.

As far as an end to homogenization is concerned, we are witnessing changes in strategies among department stores, with J.Front Retailing putting emphasis on marketing—including tenant solicitation—while Isetan Mitsukoshi Holdings aims to make its stores “select shops” (ones that bring together a variety of labels under one roof) with 50,000m² of floor space, with these product strategies revealing differences that were not there previously.

Figure 78. Takashimaya: Shareholders' equity and operating revenue (consolidated basis)



Source: Company data, Citi Investment Research and Analysis.

Floor space analysis

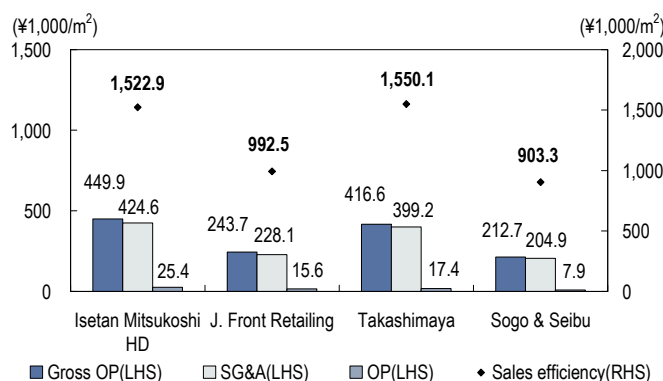
In conducting per-m² floor space analysis and profit allocation analysis, we note that it is impossible to conduct a uniform analysis on a consolidated basis because operations span various business lines, so here we narrow our focus to the department store operations and analyze the big four department stores. For Isetan Mitsukoshi Holdings we take the aggregate numbers for Mitsukoshi in the Tokyo metropolitan area and Isetan, for J.Front Retailing we take the numbers for consolidated subsidiary Daimaru Matsuzakaya Department Stores, while for Takashimaya and Sogo Seibu we take the parent numbers.

Isetan Mitsukoshi has the highest OP per m², followed by Takashimaya, Daimaru Matsuzakaya Department Stores, and finally Sogo Seibu. However, even though Isetan Mitsukoshi is in the lead, it only generates ¥25,000/m².

High costs at Isetan Mitsukoshi, low costs at J. Front and Sogo & Seibu

As the figures below shows, the big four can be divided into two groups: Isetan Mitsukoshi and Takashimaya on the one hand and Daimaru Matsuzakaya and Sogo Seibu on the other. The former are the type that invest in SG&A and generate gross profit while the latter are the type that control SG&A and aim to secure profit this way. In particular, as Figure 80 shows, labor costs per m² are far and away higher at Isetan Mitsukoshi and Takashimaya. These two companies also feature high levels of other expense items, such as facilities spending, real estate costs, and advertising and marketing expenses, although the gap is not as wide as it is for labor expenses.

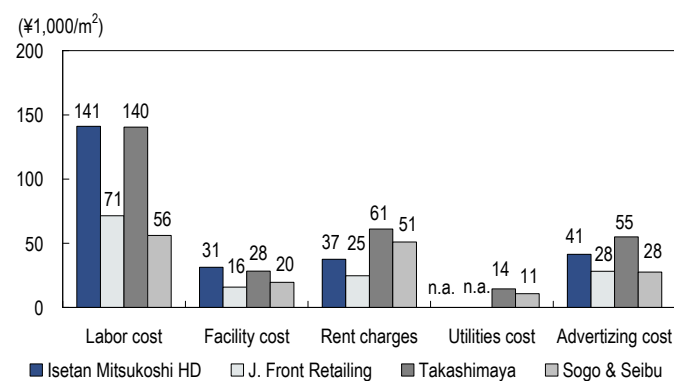
Figure 79. Major 4 department stores: Comparison of per m² profitability



Note: Isetan Mitsukoshi is combination of Tokyo-area Isetan and Mitsukoshi stores. J-Front Retailing is Daimaru and Matsuzakaya Department stores. Takashimaya and Sogo & Seibu are each stand-alone.

Source: Company data, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 80. Major 4 department stores: Comparison of per m² operating costs



Note: Isetan Mitsukoshi is combination of Tokyo-area Isetan and Mitsukoshi stores. J-Front Retailing is Daimaru and Matsuzakaya Department stores. Takashimaya and Sogo & Seibu are each stand-alone.

Source: Company data, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

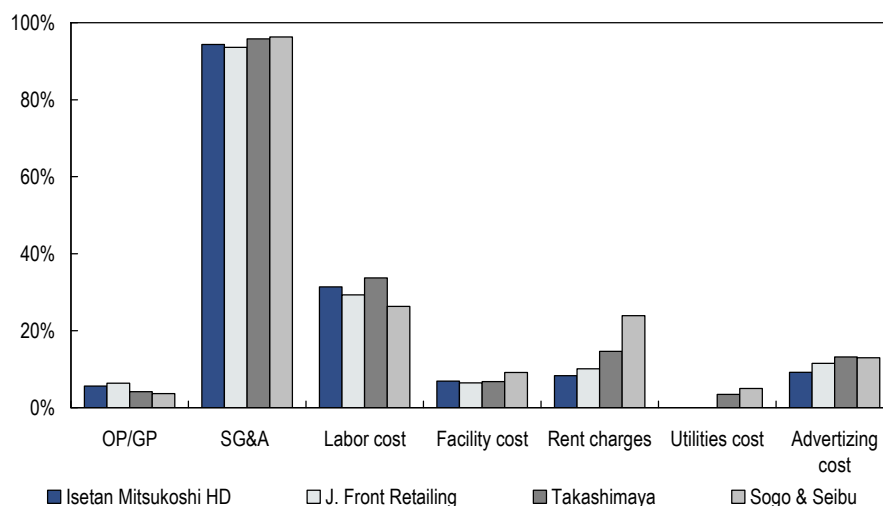
Allocation ratio analysis

Figure 81 shows the OP/GP ratios, SG&A allocation ratios, and labor allocation ratios for the four companies. The companies are in exceptionally dangerous predicaments, with OP/GP ratios of 4%-6% and SG&A allocation ratios of 94%-96%.

Looking at a breakdown of SG&A allocation ratios, we note that while department store operators are keeping facility ratios and real estate ratios lower than in other subsectors, this is because in many cases they own the land and buildings and because they are not opening many new outlets. On the other hand, their labor allocation ratios and advertising and marketing allocation ratios are at regrettably elevated levels.

Splitting Mitsukoshi and Isetan, we find that Mitsukoshi has an OP/GP ratio of 0.4% and an SG&A allocation ratio of 99.6%, making it apparent that Mitsukoshi has big problems. While we would not aver that Isetan's OP/GP ratio is satisfactory, it is the only department store in double-digits, at 10.4%. However, the difference in rent allocation ratios between the department store subsector and other subsectors makes a substantial contribution to Isetan's numbers, too, and rather than speaking of the difference in earnings power engendered by its current employees, we think thanks need to be given to the forebears who had the foresight to acquire the Shinjuku flagship store's land and building.

Figure 81. Major 4 department stores: Comparison of allocation ratios



Note: Isetan Mitsukoshi is combination of Tokyo-area Isetan and Mitsukoshi stores. J-Front Retailing is Daimaru and Matsuzakaya Department stores. Takashimaya and Sogo & Seibu are each stand-alone.
Source: Company data, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 82. Major 4 Department stores: Allocation ratio comparison

(\$mn)	Gross OP	OP	RP	NP	Allocation ratios						
					OP/GP	SG&A	Labor cost	Facility cost	Rent charges	Advertising cost	General cost
Isetan Mitsukoshi HD	196,538	11,074	8,601	-11,613	5.6%	94.4%	31.4%	6.9%	8.3%	9.2%	38.6%
Mitsukoshi	93,948	373	-2,127	-14,925	0.4%	99.6%	27.7%	8.2%	10.1%	13.6%	40.1%
Isetan	102,590	10,701	10,728	3,312	10.4%	89.6%	34.7%	5.8%	6.7%	5.2%	37.2%
J. Front Retailing	156,709	10,002	8,613	3,706	6.4%	93.6%	29.3%	6.5%	10.1%	11.5%	36.2%
Takashimaya	187,546	7,838	11,080	3,231	4.2%	95.8%	33.7%	6.8%	14.6%	13.2%	27.5%
Sogo & Seibu	199,424	7,385	5,623	5,831	3.7%	96.3%	26.3%	9.2%	23.9%	13.0%	24.0%

Note: Based on latest financial results. Consolidated numbers are used where available. Isetan Mitsukoshi HD is the sum of Mitsukoshi parent and Isetan parent figures. J. - Front Retailing is Daimaru and Matsuzakaya Department stores.

Source: Company hearing. Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Key point: Department stores a niche market, accounting for 4% of total consumption

Department store industry operating environment

Department store market only worth ¥6trn

According to *Census of Commerce*, annual product sales in the retail industry as a whole amounted to ¥135trn (most recent survey basis). Meanwhile, 2010 department store sales amounted to c¥6trn, around 4.5% of total consumption.

Figure 83 shows sales and sales weightings by product for nationwide department stores since 1985. The big-picture trend in historical department store sales was for continued, uninterrupted expansion as the economy grew, income levels rose, and prices increased. At the peak of the Bubble in 1991, sales closed in on the ¥10trn level. After that, while there were years such as 1996 and 1997 in which sales picked up, sales have essentially been on a downtrend and in 2010 they amounted to ¥6.3trn, reverting to the level of 30 years before.

Apparel sales down 40%

Let us take a closer look at apparel, which has accounted for some 40% of department store sales. Through until 1998, apparel maintained a sales weighting of around 41% but taking the recent peak in apparel sales in 1998 as the starting point, the weighting has now fallen 6ppt to 35%. Looking at the absolute numbers, department store sales in 1998 amounted to ¥9,177bn, of which apparel sales accounted for ¥3,777bn. So in the last decade or more, department store sales have contracted by ¥2,885bn and apparel sales have contracted by ¥1,580bn. While total department store sales over the period contracted by 31.4%, apparel was beset by a plunge of 41.8%.

Figure 83. National Department Store Sales by Product Category (¥bn)

	Sales by category						% of sales by category					
	Total	Apparel	Accessories	Sundries	Household goods	Food	Total	Apparel	Accessories	Sundries	Household goods	Food
CY1985	6,832	2,806	526	875	817	1,425	100.0%	41.1%	7.7%	12.8%	12.0%	20.9%
CY1986	7,147	2,931	560	929	850	1,488	100.0%	41.0%	7.8%	13.0%	11.9%	20.8%
CY1987	7,491	3,066	591	988	891	1,543	100.0%	40.9%	7.9%	13.2%	11.9%	20.6%
CY1988	7,997	3,257	632	1,081	952	1,624	100.0%	40.7%	7.9%	13.5%	11.9%	20.3%
CY1989	8,606	3,473	702	1,231	1,024	1,691	100.0%	40.4%	8.2%	14.3%	11.9%	19.6%
CY1990	9,330	3,727	776	1,383	1,099	1,815	100.0%	39.9%	8.3%	14.8%	11.8%	19.4%
CY1991	9,712	3,927	836	1,343	1,124	1,936	100.0%	40.4%	8.6%	13.8%	11.6%	19.9%
CY1992	9,520	3,862	840	1,244	1,055	1,973	100.0%	40.6%	8.8%	13.1%	11.1%	20.7%
CY1993	8,960	3,640	822	1,164	932	1,914	100.0%	40.6%	9.2%	13.0%	10.4%	21.4%
CY1994	8,771	3,558	811	1,148	885	1,897	100.0%	40.6%	9.2%	13.1%	10.1%	21.6%
CY1995	8,568	3,478	806	1,120	830	1,874	100.0%	40.6%	9.4%	13.1%	9.7%	21.9%
CY1996	8,838	3,612	856	1,166	822	1,916	100.0%	40.9%	9.7%	13.2%	9.3%	21.7%
CY1997	9,188	3,773	894	1,223	806	2,023	100.0%	41.1%	9.7%	13.3%	8.8%	22.0%
CY1998	9,177	3,777	918	1,217	735	2,061	100.0%	41.2%	10.0%	13.3%	8.0%	22.5%
CY1999	8,994	3,659	929	1,221	675	2,073	100.0%	40.7%	10.3%	13.6%	7.5%	23.0%
CY2000	8,820	3,548	946	1,195	651	2,050	100.0%	40.2%	10.7%	13.6%	7.4%	23.2%
CY2001	8,572	3,418	963	1,165	585	2,017	100.0%	39.9%	11.2%	13.6%	6.8%	23.5%
CY2002	8,345	3,315	978	1,144	507	1,986	100.0%	39.7%	11.7%	13.7%	6.1%	23.8%
CY2003	8,112	3,212	973	1,109	464	1,955	100.0%	39.6%	12.0%	13.7%	5.7%	24.1%
CY2004	7,879	3,048	970	1,094	441	1,927	100.0%	38.7%	12.3%	13.9%	5.6%	24.5%
CY2005	7,841	3,015	989	1,104	425	1,899	100.0%	38.5%	12.6%	14.1%	5.4%	24.2%
CY2006	7,770	2,968	997	1,110	406	1,898	100.0%	38.2%	12.8%	14.3%	5.2%	24.4%
CY2007	7,705	2,895	999	1,101	403	1,913	100.0%	37.6%	13.0%	14.3%	5.2%	24.8%
CY2008	7,381	2,713	936	1,049	369	1,925	100.0%	36.8%	12.7%	14.2%	5.0%	26.1%
CY2009	6,584	2,340	809	915	325	1,822	100.0%	35.5%	12.3%	13.9%	4.9%	27.7%
CY2010	6,292	2,197	770	867	315	1,768	100.0%	34.9%	12.2%	13.8%	5.0%	28.1%

Source: Japan Department Stores Association, Citi Investment Research and Analysis.



Key point: annual expenditure on men's coats is ¥1,200 per household

Figure 84 breaks down annual spending on typical items based on the Household Expenditure Survey. Total spending on men's and women's coats comes to ¥4,332, below the level for eggs or tomatoes.

After apparel, the next biggest decliner has been household goods, sales of which amounted to ¥735bn in 1998 but had fallen by ¥420bn to ¥315bn in 2010, a slump of 57.2%. There was a time when household goods accounted for 15% of department store sales and were one of the core product ranges for department stores, but their sales weighting fell below 10% in 1995 and has reached 5% recently. We feel, however, that the reasons for the decline in sales of household goods and of apparel are completely different. In the case of household goods, department stores themselves have been shrinking sales floor areas on the emergence of big-box electronics retailers and specialty stores, and this has led to the fall in sales, while in the case of apparel, department stores have on balance been increasing sales floor areas and allocating their prime real estate (their second through fourth floors) to it. Sales have nevertheless been falling and the significance of this grave development is completely different.

Figure 84. Annual spending on clothing and footwear by items

(¥)	2001	2010	Change %
Men's clothing	22,131	16,241	-26.6%
Men's suits	8,334	4,849	-41.8%
Men's coats	1,770	1,226	-30.7%
Women's clothing	38,316	28,864	-24.7%
Women's coats	3,998	3,106	-22.3%
Men's shirts & sweaters	10,529	7,789	-26.0%
Women's shirts & sweaters	21,258	16,516	-22.3%
Men's underwear	4,690	3,600	-23.2%
Women's underwear	8,199	6,704	-18.2%
Neckties	1,335	630	-52.8%
Mufflers & scarves	1,493	1,250	-16.3%
Men's socks	1,837	1,421	-22.6%
Men's shoes	3,600	3,366	-6.5%
Women's shoes	7,349	6,335	-13.8%
Washing charges	9,546	6,951	-27.2%

Source: Family Income and Expenditure Survey, Citi Investment Research and Analysis.

Figure 85. Comparison of other items for reference

(¥)	2001	2010	Change %
Fresh milk	17,110	13,498	-21.1%
Eggs	6,969	6,821	-2.1%
Tomatoes	5,161	5,420	5.0%
Apples	4,723	3,901	-17.4%
Mandarin oranges	5,332	3,931	-26.3%
Tuna fish	6,631	4,507	-32.0%

Source: Family Income and Expenditure Survey, Citi Investment Research and Analysis.

Profits at listed department stores

Figure 86 tracks earnings at the 13 listed department stores. Sales have been declining since FY91, but OP improved through FY07 after bottoming in FY98. Total OP at the 13 firms was ¥136.9bn in FY90, but this rose to a record ¥155.1bn in FY05, surpassing the previous record set 15 years earlier. Department stores could not avoid large profit declines in FY08 and FY09 due to the global financial crisis, but although revenue continued to fall in FY10 total OP rose c50% YoY to ¥79.3bn due to thorough cost structure reform (sales came to ¥4,421.2bn). The last time OP had hit the FY10 level was FY95, and at that time sales totaled ¥5,741.3bn. In other words, the sector as a whole managed to cut nearly ¥300bn in costs between FY95 and FY10.

The operating margin at department stores was only about 1.7% during the bubble period (FY91), and while FY05 saw record OP, the operating margin was just 3.0%. Although sales were firm in the late 1980s bolstered by the bubble economy, we think SG&A cost control was lacking, so there was no operating margin improvement.

Revenue has declined since 1998 but OP is up four-fold

On the other hand, while same-store sales continued to fall from FY98, total OP at listed department stores rose from ¥37.6bn in FY98 to ¥160.9bn in FY07, a four-fold increase and well above the record high during the bubble period. During this period cumulative YoY sales growth (adjusted for store numbers) fell 15.3%. Including new stores sales declined from ¥5,579bn to ¥5,403.5bn, a fall of ¥175.5bn. Assuming the gross margin stayed the same, it would appear that department stores cut costs by about ¥167bn during this ten-year period, with profits rising by the same amount.

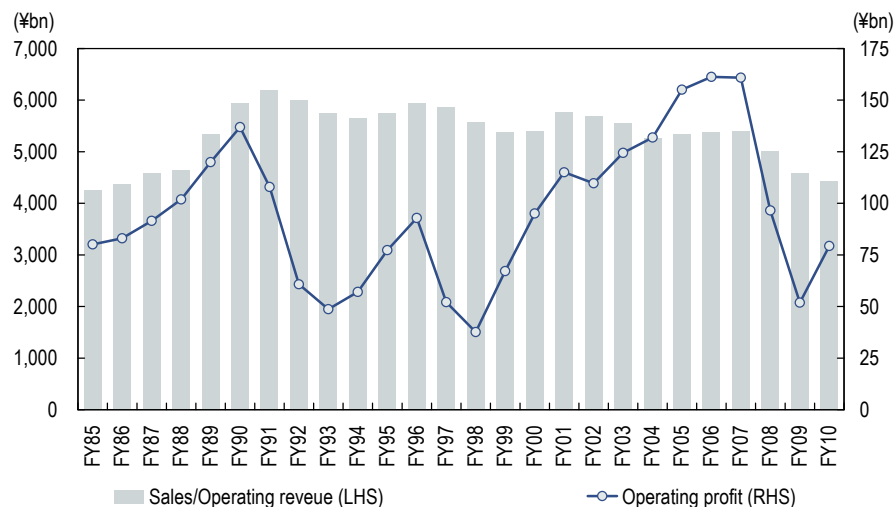
Figure 87 tracks the operating margin, gross operating margin, and SG&A ratio over time. While the gross operating margin at department stores has risen gradually over the past 20 years, we have seen a change in the SG&A ratio since 1998.

In the early 1990s after the bubble burst, sales declined and SG&A costs soared. However, from FY98 department stores began cutting SG&A costs even while sales momentum remained weak. As a result, the operating margin has improved. However, the gross operating margin turned down from FY07 after this

improvement. In our view, this is mainly because apparel sales declined and food sales rose, resulting in sales mix deterioration.

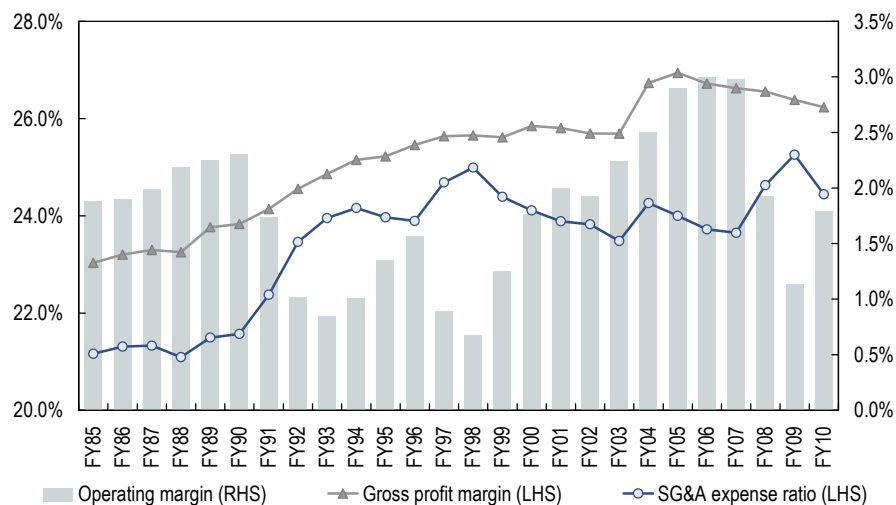
The main reason the operating margin and SG&A ratio both rose in FY04 is that Takashimaya saw its operating margin rise 5.4ppt to 30.0% from 24.6% (its SG&A ratio rose to 27.2% from 22.3%, a 4.9ppt increase). This happened because Takashimaya sold an auto interior subsidiary to Toyota, among other reasons.

Figure 86. Performance trends for department store (1/2)



Source: Company data, Citi Investment Research and Analysis.

Figure 87. Performance trends for department store (2/2)



Source: Company data, Citi Investment Research and Analysis.

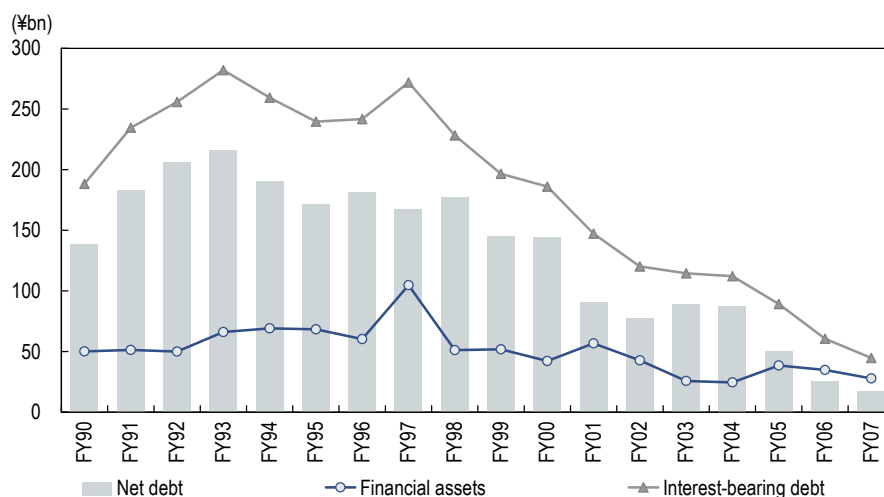
Department stores actually have high investment efficiency

Figures 88-89 track interest-bearing debt, financial assets, and net debt at Isetan and Takashimaya since FY90. In FY93, Isetan's interest-bearing debt was ¥281.9bn, while Takashimaya's was ¥390.8bn in FY94. Net debt came to ¥215.9bn at Isetan in FY93 and ¥300.3bn at Takashimaya in FY94. However, large urban department stores that have already secured prime locations do not need to enter into wasteful new store competition, unlike most retailers. If a department store continuously invests in existing stores only, it should generate significant free cash flow each year; and this is borne out by the figures. Since FY08, Takashimaya's interest-bearing debt has risen, but this is because 1) the firm shifted to a strategy of holding a reasonably large amount of financial assets because of the GFC and 2) operating cash flow declined due to a large-scale expansion for the Osaka store and declining earnings.

Abundant free cash flow at department stores

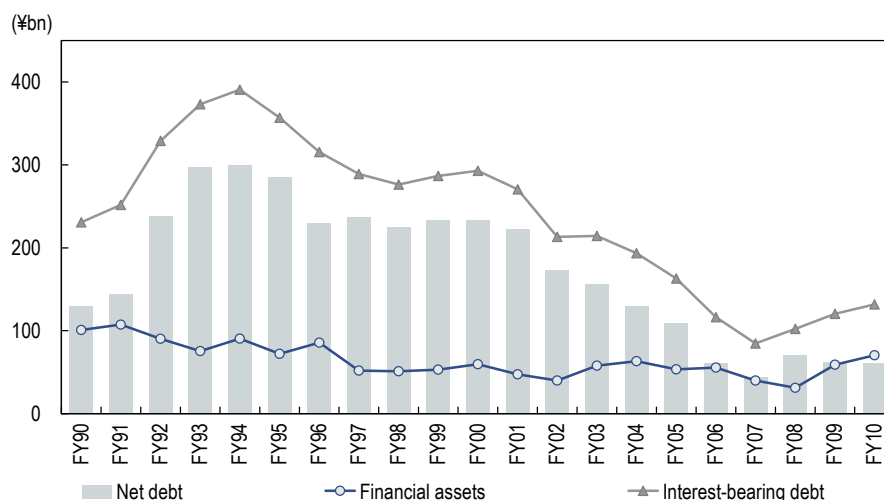
In FY07, Isetan's net debt fell to ¥16.8bn while Takashimaya's fell to ¥44.6bn. The figure does not include long-term holdings of marketable securities, and if we include these holdings both firms have a net cash position. Department store brand value generates cash flow, and the two continue to avoid wasteful spending going forward and maintain the kind of investment efficiency seen over the past ten years, then growth in cash flow is likely to become entrenched.

Figure 88. Isetan: Trends in Net debt, financial assets and interest-bearing debt (consolidated)



Note: No disclosure on consolidated figures for FY2008.
Source: Company data, Citi Investment Research and Analysis.

Figure 89. Takashimaya: Trends in Net debt, financial assets and interest-bearing debt (consolidated)



Source: Company data, Citi Investment Research and Analysis.

Reasons for weak department store sales

Department store sales floors are closely tied to partner companies, with the products on sale ordered based on partner decisions. In addition, products are sold by partner sales staff numbering five times the number of regular department store employees. As a result, most sales floors look alike regardless of department store, making differentiation impossible. What is more, partners supply retail facilities located near train stations and in suburbs with low-priced products, which further reduces department store competitiveness.

As noted above, apparel is the major reason for declining department store sales. Two reasons have been cited for lackluster apparel sales: 1) there have been no clear fashion trends, and 2) weather has been poor. However, sales have roughly halved over the past ten years, so it should be clear to anyone that department stores operators cannot blame these two factors only for their poor sales. We think there is something more essential going on.

We also note that some have said that an increase in consumer inventory has meant poor performance by seasonal products, resulting in a structural decline in sales. When major apparel firms sell apparel in China, in many cases relying on Japan's plans alone tends to result in product shortages, and seasonal products are in most cases ordered separately. Back in the days when consumers had little inventory, seasonal products were key items (e.g., coats in winter, sweaters and cardigans in spring, and jackets in autumn). Sales weightings for these items were high, so it was important to ensure they were a procurement priority. However, this reason does not appear to account for a halving of sales either.

No appealing products

We think consumers stopped buying apparel because 1) consumer thinking about apparel changed and 2) what consumers wanted from department stores changed. To increase their competitiveness, apparel firms shifted a large proportion of production to China, but in so doing Japan's top-flight production areas collapsed and were no longer able to make appealing products. As a result, all products became similar and there were fewer products that appealed to consumers.

In addition, cheaper versions of products sold at department stores became available at stores in buildings near train stations and at suburban shopping centers and specialty shops. This, in our view, changed what consumers were looking for in terms of department store apparel.

In other words, we think the reason for the prolonged decline in department store sales is a weak economy and an inability to provide appealing products. In our view, the latter is responsible for about 80% of the decline.

Need to restore sales floor control



Key point: Restoration of sales floor control vital

To develop appealing products, we think department stores need to take back the power to set prices and control merchandise. However, companies are taking different approaches toward this end. Isetan Mitsukoshi Holdings is working directly toward this goal, while J. Front Retailing is looking to provide products that aren't made by traditional department store partners by changing its operational methodology. Whatever the case, we think it is important for department stores to clearly divide sales floor space it can control from space that it cannot control but can operate at low cost, and to control the balance between the two.

We call the power to set prices and control merchandise "sales floor control". We consolidate the problems department stores need to solve into two areas: 1) a need to regain "sales floor control" and 2) thorough leveraging their high-cost structures.

Sales floor control the most basic of merchandising basics

For retailers, sales floor control is like a club used when playing golf. However, current department stores only control about 15% of their sales floor in the strict sense of the word. Of course, a golf club is no longer necessary if a firm becomes a real estate concern rather than a retailer, but this would necessitate cutting SG&A costs by 50% or more.

Regaining sales floor control increases merchandising ability, the backbone of retail, and in the final analysis goes to the very heart of what retail is.

Efforts in this direction include moves to "construct the most powerful sales structure" at Takashimaya and to "carefully take in what the customer says and make customer desires a reality in a timely fashion" at Isetan Mitsukoshi. J. Front Retailing president Tsutomu Okuda says that the firm plans to continue low-cost operations as a key part of overall operational reform, but that low-cost operations alone aren't the fundamental solution to recovering competitiveness. How much labor productivity (linked to overall operational assessment) can be raised based on low-cost operations is key, in his view. Going forward, he thinks retail success will depend on how effective a retailer is in purchasing and sales; retailers who do not improve in these two areas are unlikely to succeed.

Measures to improve department store operations

As noted above, the key to recovery for department stores is restoration of sales floor control, which would help with sales. From an operational strategy perspective, we make a number of recommendations below.

Key point: need all to adopt mark-to-market thinking and thorough CF management

Should aim for operating margins of 10%+ at large-scale urban stores

1) Introduction of mark-to-market management

Operating in a favorable location on which one does not have to pay rent has caused department stores to overlook the fundamentals of the business, in our view. We think retailers need to mark-to-market all operating assets (land, facilities, etc.), post effective rental and borrowing costs even at properties they own, determine market value yields for each store, and link these things to their personnel systems (e.g., bonus evaluations).

In addition, we look for department stores to slim down bloated balance sheets based on mark-to-market operations.

2) Optimal reallocation of cost and thorough cash flow management

SG&A allocation ratios currently exceed 90% at many department stores, and we think it extremely important to rethink how costs are allocated. In our view, the key to making operations more efficient is optimal reallocation of SG&A costs; that is, retailers need to think about what should be spent on personnel costs, rent, loyalty point systems, etc. For example, a retailer could reduce the rate at which it grants loyalty points, put those savings into personnel costs, and thus improve customer pulling power. These things need to be linked not just to earnings but also to cash flow.

Sales at Isetan's Shinjuku store exceed ¥220bn, double the sales at ABC Mart (which generates ¥20bn in OP). Assuming a gross margin of 30%, the Shinjuku store could produce ¥66bn in gross profits. Therefore, if it were to hold costs below ¥43bn, it could post an operating margin of 10% or more. We think it needs to rethink how it allocates costs with a focus on cash flow.

3) Department stores should consider groundbreaking mergers

One reason that Japanese department stores are relatively inefficient is that there are too many of them. We think further consolidation is necessary to dramatically increase operational efficiency. There have been mergers between Daimaru and Matsuzakaya and Mitsukoshi and Isetan, but even then the top three department stores control only about 40% of the market.

We think consolidation would be effective because the more competing stores there are the more dramatic cost structure improvement can be achieved. In addition, it would allow firms to quickly understand how products were selling, making it easier to respond to customer needs. In our view, scale benefits for department stores are not simply the ability to reduce CoGS via large-lot procurement, but rather the ability to procure products that are selling well based on rapid collection of sales information.

Possible scenarios for integration: Isetan Mitsukoshi Holdings and J. Front Retailing

We look at scenarios for integrations between firms that compete in a number of areas.

Figures 90-92 shows three store regions in which the benefits of integration would be significant: Nagoya (Matsuzakaya Nagoya and Mitsukoshi Nagoya), Fukuoka (Iwataya Mitsukoshi and Hakata Daimaru), and Sapporo (Daimaru Sapporo and Sapporo Marui Mitsukoshi).



Key point: Sales of ¥200bn in Nagoya and Fukuoka

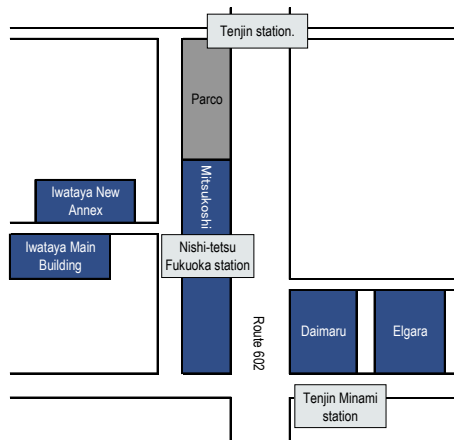
If these stores were to come under the aegis of one company, indirect costs could be cut substantially, and distribution, advertising, and product policy could become more efficient. What is more, it would give the new company a dominant share in these regions, which would improve negotiating power with partners.

Take Matsuzakaya Nagoya and Mitsukoshi Nagoya as an example. As one can see from the figure below, in the area between Hisaya-odori and Otsu-dori we have (from the north) Mitsukoshi Nagoya Sakae, Lachic, the Matsuzakaya north wing, the Matsuzakaya main wing, and the Matsuzakaya south wing. If the area from the Sakae subway station (smack in the center of Nagoya) to Yabacho station were seen as one catchment area, the merged entity could create one large shopping zone where each store had a clear concept. Sales at these five stores total nearly ¥180bn, and if there were progress on efficiency in areas like indirect costs and advertising expenditures, we think it would be possible to aim for an operating margin of 10% or more in the Nagoya area.

We also note that Tenjin, the heart of Fukuoka, is served by the Iwataya flagship main wing, the Iwataya new wing, Mitsukoshi Fukuoka, the Hakata Daimaru main wing, and the Hakata Daimaru Elgala wing. This area could also be consolidated into a single catchment area. Sales at these five stores total around ¥180bn.

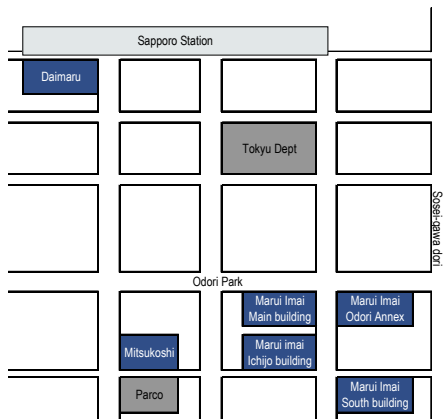
Of course, this kind of store management would not only improve productivity, in our view, but it would also produce benefits in terms of headquarters costs and the consolidation of overlapping subsidiaries.

Figure 90. Fukuoka area store map



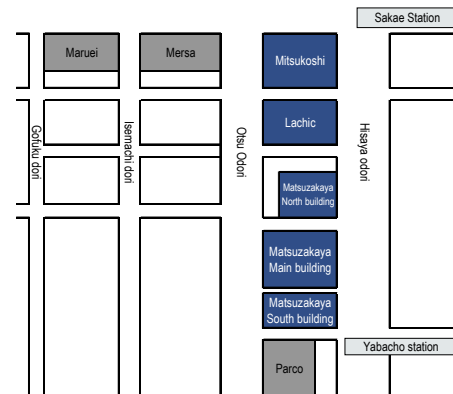
Source: Citi Investment Research and Analysis.

Figure 91. Sapporo area store map



Source: Citi Investment Research and Analysis.

Figure 92. Nagoya area store map



Source: Citi Investment Research and Analysis.

Consumer electronics retailers

Now we take a closer look at consumer electronics retailers.

In our analysis, we look at the six largest firms in terms of market cap (Yamada Denki, K'S Holdings, Bic Camera, Edion, Joshin Denki, Kojima). We note that per-square meter cost figures and allocation ratios may be slightly different than what was seen in Section 1. This is because Section 1 data was drawn from a database (Nikkei Needs-Financial Quest), while in Section 2 we use cost figures as defined by each company to enable more precise comparisons.

Consumer electronic retailer income statements—key characteristics

We present consolidated income statements for the six listed consumer electronics firms we are analyzing in Figure 93.

Lowest gross margins and SG&A ratios among retail subsectors

While operating margins at consumer electronics retailers average 3.9%, in line with the retail average of 4.1%, their gross margins and SG&A ratios are lowest among retail subsectors. We think gross margins are low because all consumer electronics retailers sell basically the same products, making differentiation difficult, resulting in price being the major differentiating factor. In addition, controlling operating costs is the key method, aside from increasing purchasing scale, that allows these retailers to sell products at low prices. Therefore, SG&A ratios tend to be low. We note that supermarkets and drugstores, which also sell the same daily necessities and thus have a hard time differentiating from peers, have low gross margins as well. On the other hand, consumer electronics retailers do not have fresh food areas, which require sophisticated operations, or high-priced refrigerated cases. At the same time, they don't require highly-trained (and thus well-paid) employees, like pharmacists at drug stores. As such, consumer electronics retailers can achieve lower-cost operations than these two formats.

In addition, consumer electronics retailers generate a lot of nonoperating income, and the gap between operating margins and recurring margins tends to be large. This is because items like purchasing discounts and promotional rebates from suppliers are posted to non-operating income. Over the last several years, many consumer electronics retailers have integrated these things with other rebates and included them in CoGS. As such, we think the RP-OP gap will gradually shrink.

Figure 93. Consumer electronics retailers: income statements

(¥bn)	Consumer electronics stores	Yamada Denki	K's HD	Edion	Bic Camera	Kojima	Jyoshin Denki
No. of listed companies	16						
Main P/L items							
Sales / Operating revenues	6,177	2,153	771	901	608	449	435
Operating gross profit	1,436	507	180	217	150	97	85
SG&A expenses	1,192	384	139	191	136	85	73
OP	243	123	41	26	15	12	12
RP	275	138	49	34	12	12	12
NP	131	71	23	16	6	2	6
Profitability							
Gross profit margin	23.2%	23.5%	23.3%	24.1%	24.7%	21.5%	19.5%
SG&A expense ratio (%)	19.3%	17.8%	18.0%	21.2%	22.3%	18.9%	16.7%
Operating margin (%)	3.9%	5.7%	5.3%	2.9%	2.4%	2.6%	2.8%
Recurring margin (%)	4.4%	6.4%	6.4%	3.8%	1.9%	2.6%	2.8%
Management indicators							
ROE (%)	12.7%	15.0%	18.4%	10.4%	9.5%	3.9%	12.4%
Net profit margin (%)	2.1%	3.3%	3.0%	1.8%	1.0%	0.4%	1.4%
Equity multiplier	2.45	1.97	2.47	2.59	3.54	3.40	3.08
Total asset turnover	2.44	2.32	2.45	2.23	2.74	2.58	2.85
Fixed asset turnover	5.39	4.59	5.51	4.65	7.07	6.64	6.68
Average number of days of inventory	33.10	25.85	46.96	36.28	21.22	42.46	38.80
Average number of days payable outstanding	18.22	9.91	19.32	22.31	24.72	14.77	23.96
Average number of days the sum of payable outstanding and inventories	-252	-94	-58	-34	6	-34	-18
Cash and cash equivalents	224	113	10	22	24	18	5
Total interest-bearing debt	651	197	82	108	74	73	38
Net cash	-427	-84	-72	-86	-50	-55	-33
Adjusted net cash	-735	-142	-113	-141	-91	-73	-61

Note: Based on latest financial results (except Bic Camera, where results are from FY8/10). Consolidated numbers used when available.
Source: Nikkei-NEEDS Financial QUEST, Company data, Citi Investment Research and Analysis.

Figure 94. Consumer electronics retailers: balance sheets

(¥bn)	Consumer electronics stores	Yamada Denki	K's HD	Edion	Bic Camera	Kojima	Jyoshin Denki
No. of listed companies	16						
Current assets	1,147	377	135	174	103	96	80
Cash & cash equivalents	224	113	10	22	24	18	5
Account receivables	194	48	17	40	20	17	13
Total inventories	560	153	99	90	35	52	46
Fixed assets	1,380	552	179	229	118	79	73
Tangible fixed assets	868	358	115	162	60	41	48
Depreciable fixed assets	478	195	91	86	21	30	24
Building and structure	445	179	79	77	18	29	21
Land and others	376	152	23	75	39	10	23
Intangible fixed assets	74	32	2	15	15	2	2
Investment / other fixed assets	438	162	62	52	43	35	23
Investment securities	44	21	5	4	7	1	3
Leasehold deposits	278	111	25	32	26	27	17
Total assets	2,527	929	314	403	222	174	153
Current liabilities	962	217	134	149	121	103	69
Account payables	308	58	41	55	41	18	29
Short-term borrowing	275	2	52	44	44	65	13
Accrued liabilities and taxes	11	0	0	2	0	0	0
Fixed liabilities	532	241	53	99	39	20	34
SB and CB due within 1 year	152	129	-	16	4	-	3
Long-term borrowing	224	66	30	49	27	9	22
Total liabilities	1,494	458	187	247	159	123	103
Minority interests	18	2	0	15	1	-	-
Net assets	1,033	471	127	156	63	51	50
Common stocks	198	71	13	10	18	19	15
Retained earnings	568	351	83	64	27	11	28
Total interest-bearing debt	651	197	82	108	74	73	38
Breakdown							
Current assets	45.4%	40.6%	43.0%	43.2%	46.6%	54.9%	52.3%
Cash & cash equivalents	8.9%	12.2%	3.2%	5.4%	10.8%	10.5%	3.6%
Account receivables	7.7%	5.2%	5.4%	9.9%	9.1%	10.0%	8.6%
Total inventories	22.2%	16.4%	31.5%	22.2%	15.9%	30.0%	30.3%
Fixed assets	54.6%	59.4%	57.0%	56.8%	53.4%	45.1%	47.7%
Tangible fixed assets	34.3%	38.5%	36.7%	40.1%	27.1%	23.5%	31.3%
Depreciable fixed assets	18.9%	21.0%	29.0%	21.3%	9.3%	17.4%	15.8%
Building and structure	17.6%	19.2%	25.1%	19.2%	8.0%	16.4%	13.5%
Land and others	14.9%	16.4%	7.2%	18.7%	17.8%	6.0%	15.2%
Intangible fixed assets	2.9%	3.5%	0.7%	3.8%	6.6%	1.4%	1.2%
Investment / other fixed assets	17.3%	17.4%	19.6%	12.9%	19.6%	20.2%	15.3%
Investment securities	1.8%	2.2%	1.6%	1.1%	3.4%	0.3%	1.8%
Leasehold deposits	11.0%	12.0%	7.8%	8.0%	11.7%	15.4%	11.4%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Current liabilities	38.1%	23.4%	42.6%	36.8%	54.4%	58.9%	45.5%
Account payables	12.2%	6.3%	13.0%	13.7%	18.6%	10.4%	18.7%
Short-term borrowing	10.9%	0.2%	16.6%	10.8%	19.8%	37.2%	8.6%
Accrued liabilities and taxes	0.4%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%
Fixed liabilities	21.1%	25.9%	16.9%	24.5%	17.4%	11.7%	22.1%
SB and CB due within 1 year	6.0%	13.9%	-	3.8%	1.7%	-	2.0%
Long-term borrowing	8.9%	7.2%	9.5%	12.0%	12.0%	5.0%	14.3%
Total liabilities	59.1%	49.3%	59.6%	61.3%	71.7%	70.6%	67.5%
Minority interests	0.7%	0.2%	0.0%	3.6%	0.3%	-	-
Net assets	40.9%	50.7%	40.4%	38.7%	28.3%	29.4%	32.5%
Common stocks	7.8%	7.6%	4.1%	2.5%	8.3%	10.9%	9.9%
Retained earnings	22.5%	37.8%	26.4%	16.0%	12.0%	6.6%	18.4%
Total interest-bearing debt	25.8%	21.2%	26.1%	26.7%	33.4%	42.1%	24.9%

Note: Based on latest financial results (except Bic Camera, where results are from FY8/10). Consolidated numbers used when available.
Source: Nikkei-NEEDS Financial QUEST, Company data, Citi Investment Research and Analysis.

Liquid asset ratio higher than at other retailers



Key point: Inventory assets account for a high percentage of overall assets, and this can make it hard to procure capital in periods of rapid sales decline

Consumer electronics retailers balance sheets—key characteristics

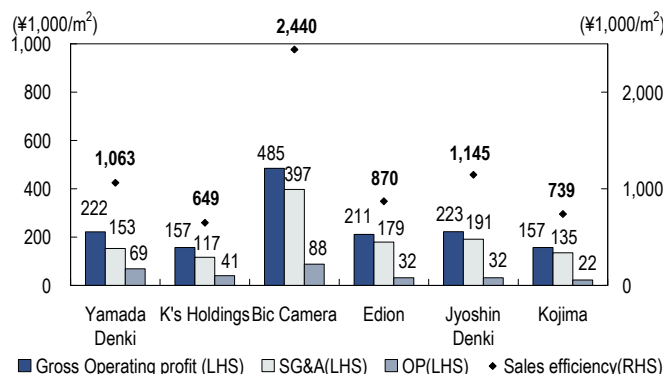
At consumer electronics retailers, liquid assets account for 45% of total assets, while fixed assets account for 55%. Their net asset ratio is 41%. As with convenience stores and apparel shops, where earnings are highly stable, consumer electronics retailers have high liquid asset ratios, but these other subsectors also have high cash and equivalents holdings. Inventory turnover is about 33 days, but inventory is large in absolute terms, so there can be risks to capital procurement in periods where sales are declining rapidly.

There is little difference in liquid asset ratios between Yamada Denki (41%) and K's Holdings (43%), but Yamada Denki's inventory asset ratio is 16.4%, below the six-firm average of 22.1%. On the other hand K's Holdings has the highest ratio of the six at 31.5%. While Yamada Denki has a 21% interest-bearing debt ratio K's Holdings' is on the high side at 26%. Also, at K's Holdings the ratio of total assets accounted for by notes payable and accounts payable (essentially loans from suppliers) is 13%, well above the 6% at Yamada Denki. Therefore, while the net asset ratio at K's Holdings is 40%, versus 51% at Yamada Denki. Also, given benefits of financial leverage, RoE is 18.4% at K's Holdings, above the 15.0% at Yamada Denki.

Landholdings account for 7.2% of assets at K's Holdings and 6.0% at Kojima, compared with 15%-18% at Yamada Denki, Edion, Bic Camera, and Joshin Denki. In addition, deposit guarantees account for 12% of total assets at Yamada Denki and 15.4% at Kojima, but just 7.8% at K's Holdings and 8.0% at Edion.

Floor area analysis

Figure 95. Major 6 consumer electronics retailers: Comparison of per m² profitability



Note: Based on parent numbers. Consolidated numbers used when available (Bic Camera is based on parent results). Gross OP, SG&A and Sales efficiency is excluding points basis.
Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 96. Major 6 consumer electronics retailers: Comparison of per m² operating costs

	Sales efficiency (point adjusted basis) (¥1,000/m ²)	GP (point-adjusted, procurement-discount-adjusted basis)	Effective GPM	SG&A (point-adjusted basis)	OP
Yamada Denki	1,062.6	222.0	20.9%	153.2	68.8
K's HD	648.5	157.3	24.3%	116.6	40.7
Bic Camera	2,440.2	484.9	19.9%	397.1	87.8
Edion	870.3	211.5	24.3%	179.5	32.0
Joshin Denki	1,145.4	223.0	19.5%	191.4	31.6
Kojima	738.9	156.8	21.2%	134.7	22.1

Note: Based on parent numbers. Consolidated numbers used when available (Bic Camera is based on parent results). Gross OP, SG&A and Sales efficiency are excluding points basis.
Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Next we take a look at the efficiency of the six major consumer electronics retailers by sales floor area (m²).

Figures 95-96 shows sales, SG&A expenses, and OP per m² for the six major consumer electronics retailers.



Key point: Sales floor efficiency depends on the location of the store portfolio but positioning in regional competitions also deeply involved

Consumer electronics retailers can be split into two types: those such as Yamada Denki and Bic Camera which use two types of discount sales promotions, cash discounts and points, and those such as K's Holdings, which use only cash discounts. Many companies that fall into the former category add on point expenses to sales, so to correctly compare per m² metrics, we deduct points, add back purchasing discounts booked as non-operating items into CoGS, and compare adjusted per m² data.

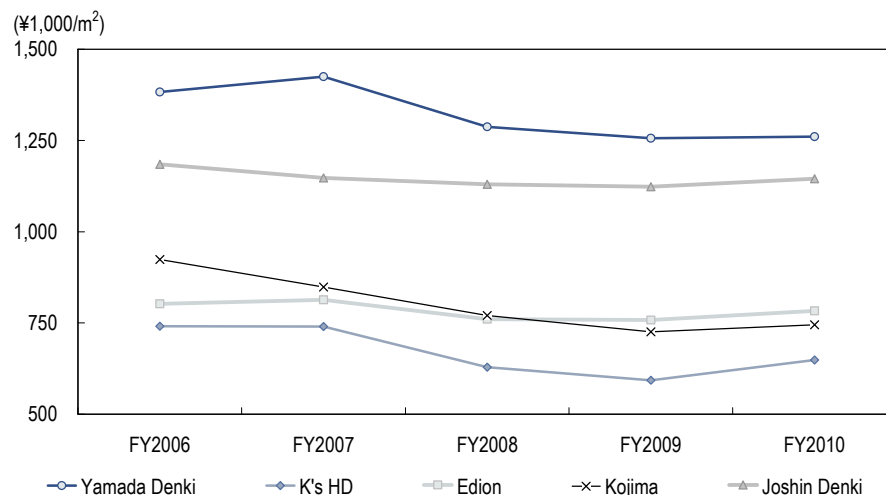
OP per m² (adjusted for purchasing discounts) is highest at Bic Camera, at ¥87,800/m². It is followed by Yamada Denki, at ¥68,800/m², with third-ranked K's Holdings and lower-ranked companies in the ¥22,000/m²-¥40,000/m² range, which runs as low as a quarter of the Bic Camera level.

Next we look at sales floor efficiency, concluding that there are big differences among consumer electronics retailers according to the locations of their store portfolios. For instance, Bic Camera, which mainly runs station-front stores in urban areas, generates ¥2.44mn/m² in sales (deducting points), 3.8x the level of K's Holdings (¥650,000/m²), which mainly runs stores in suburban areas.

At first glance, it looks as though Yamada Denki boasts impressive sales floor efficiency because it gets a boost from its LABI stores in urban areas, but as Figure 97 shows, the company had better sales floor efficiency than peers even before it started opening urban LABI stores. We think one reason for this is that its per-store sales floor area is comparatively small but also that a key factor at work is that it has many stores that are the number one in the area in which they operate. This can be deduced from the way that Joshin Denki, which has built a dominant position in Kansai and established an advantageous position in the regional competition,

boasts impressive sales floor efficiency while Kojima, which is losing market share across the country, is suffering from remorselessly declining sales floor efficiency.

Figure 97. Consumer electronics retailers: Trends in sales floor area efficiency



Note: Based on consolidated numbers where available (Bic Camera and Yamada Denki are based on parent results).

Source: Company data, Citi Investment Research and Analysis.

Consumer electronics retailers have very different earnings structures according to location, as can be seen in the big differences in their sales floor efficiency

Bic Camera pours in SG&A but earns money with impressive sales floor efficiency

First is the pattern exhibited by Bic Camera, which pours vast sums of SG&A expenses into stores in good locations but generates profits by delivering high levels of sales per m^2 . Bic Camera's adjusted gross margin, at 19.9%, is second-lowest to Joshin Denki (19.5%) but thanks to its commanding sales floor efficiency, gross profit per m^2 is 2x-3x higher than peers'. On the other hand, it books far higher levels of promotional costs, personnel costs, and advertising and marketing costs than do peers. In particular, promotional costs (which include points) are 4x-22x levels at peers, rent is 3x-5x, and personnel costs 2x-4x.

Yamada Denki has relatively high sales floor efficiency yet has realized a low-cost operation

Next come Yamada Denki and Joshin Denki, which have very similar levels of sales floor efficiency and adjusted gross profit. However, the gap between the two in per m^2 SG&A expenses such as advertising and marketing costs (excluding point SG&A) and general expenses leads to Yamada Denki boasting an OP per m^2 metric more than twice as high as Joshin Denki.

K's Holdings has built a model whereby it can generate profit even on low sales thanks to its low-cost operation

K's Holdings, Edion, and Kojima feature broadly the same level of sales floor efficiency, ranging from $¥650,000/m^2$ to $¥870,000/m^2$, but the one that boasts the highest OP per m^2 is K's Holdings, at $¥40,700/m^2$, despite having the lowest level of sales floor efficiency. K's Holdings' adjusted gross margin is on par with that of Edion and the highest of the three, so gross profit per m^2 is almost the same level as Kojima, which boasts higher sales floor efficiency than K's Holdings. Meanwhile, K's Holdings has been keeping per m^2 SG&A expenses in check, especially advertising and marketing expense and rent, and this leads to the difference in OP/ m^2 .

We think that K's Holdings has become more adept than the other two at building a low-cost operation in mainly rural locations.

Edion suffers from relatively heavy costs for its sales floor efficiency

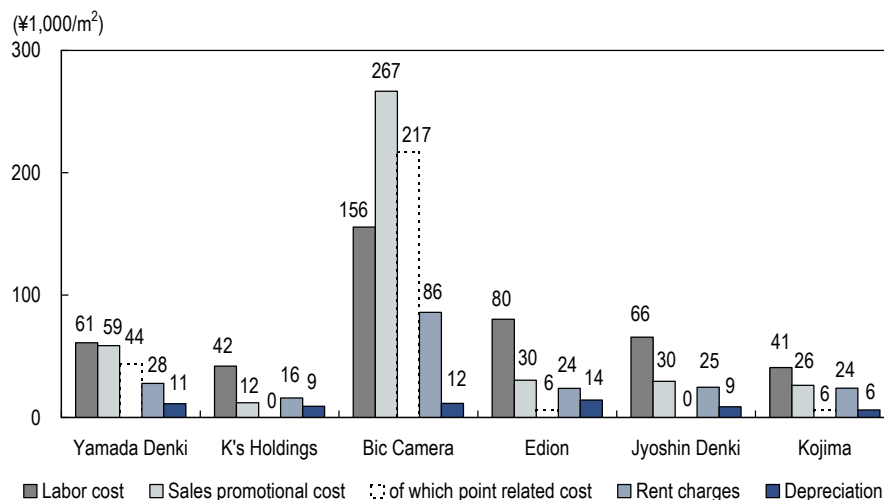
In contrast, Edion has personnel costs of ¥80,300/m², nearly double the level of K's Holdings and Kojima, even though it has roughly the same level of sales floor efficiency, and its advertising and marketing expenses (excluding points) amount to ¥24,300/m², double that of K's Holdings, so it suffers from a relatively high cost burden for its sales floor efficiency level.

Kojima has sales floor efficiency of ¥739,000/m², ahead of K's Holdings at ¥649,000/m². However, the gross margin is low and even though adjusted gross profits are both similar level at ¥15,700/m², SG&A expense is about 15% ahead of that of K's Holdings, so per m² OP is only ¥22,100/m², about half that of K's Holdings.

Analysis of SG&A expense per unit of floor space

Here we compare SG&A broken down into individual items. Figure 98 shows per-m² labor costs, rent, advertising and marketing costs, point-related expenses, and depreciation. Labor costs range from just under 30% to around 40% of consumer electronics retailers' SG&A, rent and depreciation together account for some 20%, and marketing and sales promotion costs, including point promotion costs, between c10% and c30%; these items taken together account for 70% to 80% of total SG&A expenses.

Figure 98. Major 6 consumer electronics retailers: Comparison of per m² operating costs



Note: Based on latest financial results. Consolidated numbers are used where available (Bic Camera based on parent results).

Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Rent exceptionally low at K's Holdings

Figure 98 shows the variety of breakdowns of per-m² SG&A for consumer electronics retailers; we note that they can be classified to a degree by location. For instance, in rent per m², Bic Camera, which has many station-front stores in urban areas, is far and away the highest at ¥86,000/m², followed by Yamada Denki, which has been opening suburban Tecc Land format stores and urban LABI stores. Edion, Jyoshin Denki, and Kojima have stores predominantly located in suburban and residential areas and feature broadly similar levels of per-m² rent. By contrast, K's Holdings' stores are more rurally located and the company is more particular about the conditions under which it opens stores than it is about the store count, so its per-m² rent is extremely low, at ¥16,000/m².

Labor costs are high at Bic Camera, with its city-center, multistory stores



Key point: Sales per employee at Yamada Denki head and shoulders above the rest

Promotional costs high at Bic Camera and Yamada Denki, which use a lot of points

Next we examine per-m² labor costs; here there are fairly substantial differences between companies. Bic Camera's labor costs amount to ¥156,000/m², 3.8x that of the lowest-ranked Kojima. Bic Camera has 3.3 employees per m², approximately 3x that of lowest ranked Kojima. Also, its per-person labor costs are ¥4.75mn, about 15% above the Kojima average. Absolute personnel costs are higher in urban areas, and Bic Camera mainly runs multistory stores, which we think reduces labor cost efficiency compared with suburban stores of only at most a few stories. K's Holdings and Kojima have broadly similar per-m² labor costs, at ¥41,000/m²-¥42,000/m², with Yamada Denki and Joshin Denki next at ¥61,000/m²-¥66,000/m². Taking location and sales floor efficiency into account, labor costs look on the high side at Edion at ¥80,000/m², close to double the level at K's Holdings and Kojima. Edion has 1.7 personnel per m², the third highest after Bic Camera and Joshin Denki, but per-person sales amount to only ¥52.64mn, the lowest of the six companies.

By contrast, Yamada Denki's per-person labor costs are the highest of the six, at ¥5.11mn, but per-person sales are streets ahead of second-placed Bic Camera, at ¥92.76mn. Compared with K's Holdings, the difference is big, with salaries are 1.4x higher and per-person sales 1.6x higher. We think it is fair to say that while Yamada Denki employees are busy, they are rewarded in appropriately in turn (Figure 99).

There are also big gaps from company to company in per-m² promotional costs. Bic Camera uses the most, at ¥267,000/m², 22x the level of lowest ranked K's Holdings. Point promotional expenses are ¥217,000/m² at Bic Camera and ¥44,000/m² at Yamada Denki, far above the levels of other companies. Total promotional expenses at K's Holdings, which does not use point-based sales promotions, are ¥11,900/m², far lower than at peers.

Figure 99. Per employee indicators

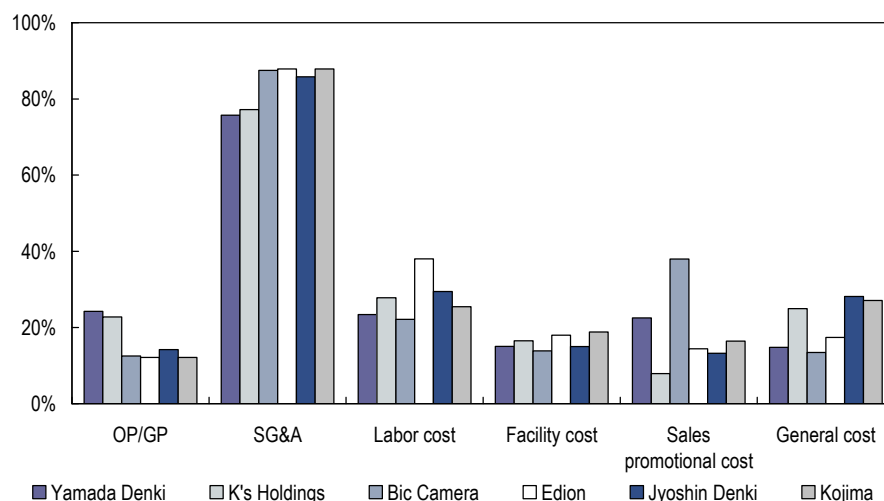
	Sales per employee (¥1,000)	No. of employees per m ²	Labor cost per employee (¥1,000)
Yamada Denki	92,757	1.2	5,109
K's HD	56,600	1.1	3,668
Bic Camera	81,185	3.3	4,753
Edion	52,638	1.7	4,823
Joshin Denki	66,005	1.7	3,784
Kojima	75,508	1.0	4,135

Note: Based on latest financial results. Consolidated numbers are used where available (Bic Camera based on parent results).

Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Allocation ratio analysis

Figure 100. Major 6 consumer electronics retailers: Allocation ratio comparison



Note: Based on latest financial results. Consolidated numbers are used where available (Bic Camera based on parent results).

Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 101. Major 6 consumer electronics retailers: Allocation ratio comparison (data)

(\$mn)	Gross profit					Allocation ratio					
		OP	RP	NP	OP/GP	SG&A	Labor cost	Facility cost	Sales promotional cost	General	
Yamada Denki	506,730	122,764	137,847	70,754	24.2%	75.8%	23.4%	15.0%	22.5%	14.8%	
K's Holdings	179,580	40,930	49,365	23,412	22.8%	77.2%	27.8%	16.5%	7.9%	24.9%	
Bic Camera	130,974	16,394	18,933	5,965	12.5%	87.5%	22.2%	13.9%	38.0%	13.4%	
Edion	217,141	26,339	34,435	16,211	12.1%	87.9%	38.0%	18.0%	14.4%	17.4%	
Jyoshin Denki	84,731	12,011	11,978	6,152	14.2%	85.8%	29.5%	15.0%	13.3%	28.1%	
Kojima	96,671	11,727	11,690	2,014	12.1%	87.9%	25.5%	18.8%	16.5%	27.1%	

Note: Based on latest financial results. Consolidated numbers are used where available (Bic Camera based on parent results).

Source: Company discussions, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

OP/GP ratios for Yamada Denki and K's Holdings almost twice those of peers



Key point: Yamada Denki and K's Holdings dominant in terms of OP/GP ratios

Next we look at allocation ratios, which we consider very important. Figure 101 shows OP/GP, SG&A allocation, labor cost allocation, facility cost allocation, promotional cost allocation ratios, and general cost allocation ratios; we see some special characteristics that are not explained by per m² breakdowns. Yamada Denki and K's Holdings stand out with OP/GP ratios of 24% and 23%, respectively. These are almost twice as high as ratios for companies ranked third and lower (12%-14%). Generally speaking, an OP/GP ratio of more than 20% can be considered good, which means there is plenty of room for improvement for companies ranked below Yamada Denki and K's Holdings. Yamada Denki's sales promotion cost per m² is ¥59,000, 2x-5x higher than the other electronics retail majors (excluding Bic Camera). But it still has a high gross profit in absolute terms because of sales floor area efficiency and the OP/GP ratio is therefore high. In contrast, SG&A expense control is the main reason for the high OP/GP ratio at K's Holdings.

SG&A allocation ratios

Now we turn to the specific factors affecting SG&A allocation ratios at individual operators.

Looking at SG&A allocation ratios, we surmise one of the main reasons Yamada Denki's OP/GP ratio is much higher than the other five electronics retail majors (K's Holdings excluded) is that its labor cost allocation ratio is comparatively low. We believe the saving is invested in sales promotion, thereby improving sales floor area efficiency. While K's Holdings has a high labor cost allocation ratio it has a low advertising and marketing allocation ratio, which keeps overall costs down. Such an allocation is in keeping with K's Holdings' management style.

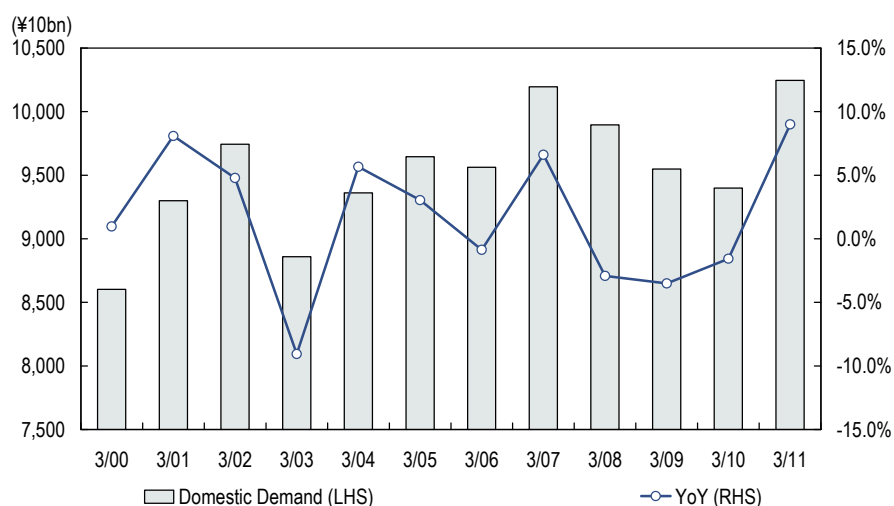
So where can the other electronics retailers, with their low OP/GP ratios (high cost allocation ratios) improve cost efficiency? Edion has a labor cost allocation ratio of 38%, 15ppt higher than that of Yamada Denki. Edion's other cost allocation ratios are almost the same as the industry averages, suggesting it needs to improve labor efficiency. Bic Camera's advertising and marketing allocation ratio is 38%, a massive 30-ppt higher than efficiency leader K's Holdings. As Bic Camera has an urban store network, it can be expected to spend more on advertising and marketing, but we think that it needs to improve its efficiency in this area.

Macro environment for consumer electronics retailers

Figure 102 shows consumer electronics retail market trends, using annual domestic consumer electronics demand data published by the RIC Group as an approximation of sales. The past 10-year and 5-year annual average growth figures for the consumer electronics retail industry are 1.1% and 1.7%, respectively. Over the last five years, in particular, the shift from CRT to FPD TVs has been a major driver of sales. The government's eco-point system has also promoted this shift. Electronics retailers with suburban-oriented networks have recently benefited from last-minute demand; in FY2010 the weighting of TV sales increased to around 25% compared with 15%-20% in FY2008.

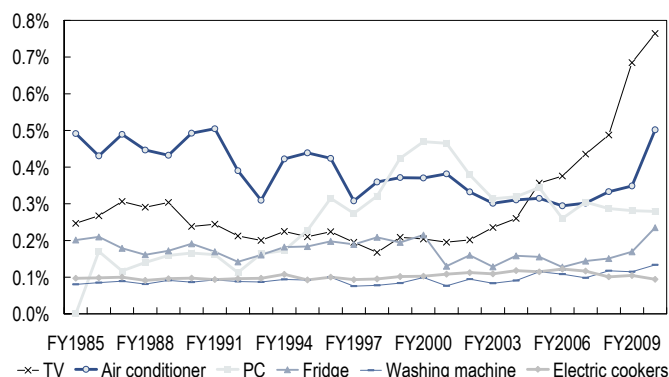
Over the next few years, in addition to reconstruction demand, mainly in the Tohoku region, and the continual occurrence of replacement demand, we expect sales to be supported by smartphone market growth and the creation of new markets accompanying technical innovation, such as products with more environment-friendly features. Figures 103-104 show consumption trends for the main consumer electronics product categories (as a percentage of total consumption and a percentage of consumer electronics consumption). Consumer electronics consumption as a percentage of total personal consumption has increased significantly against the backdrop of a rapid increase in the weighting of TV consumption, and the latest data show that consumer electronics consumption as a percentage of total personal consumption stands at 2.8%, outstripping the historical average range of 1.8%-2.2%. It is reasonable to conclude that this substantial growth cannot be sustained over the next few years.

Figure 102. Trends in domestic consumer electronics demand



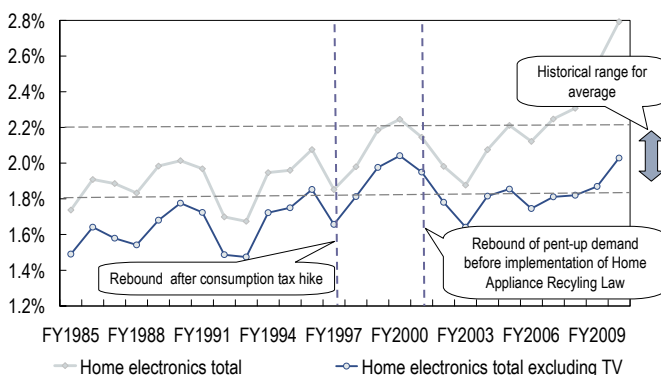
Source: RIC, Company data, Citi Investment Research and Analysis.

Figure 103. Trends in expenditures on major consumer electronics (MMA basis)



Note: Composed by households of more than two persons, and exclude households of agriculture, forestry, and fisheries.
Source: Family Income & Expenditure Survey, Citi Investment Research and Analysis.

Figure 104. Trends in expenditures on consumer electronics vs consumer electronics excluding TVs (MMA basis)

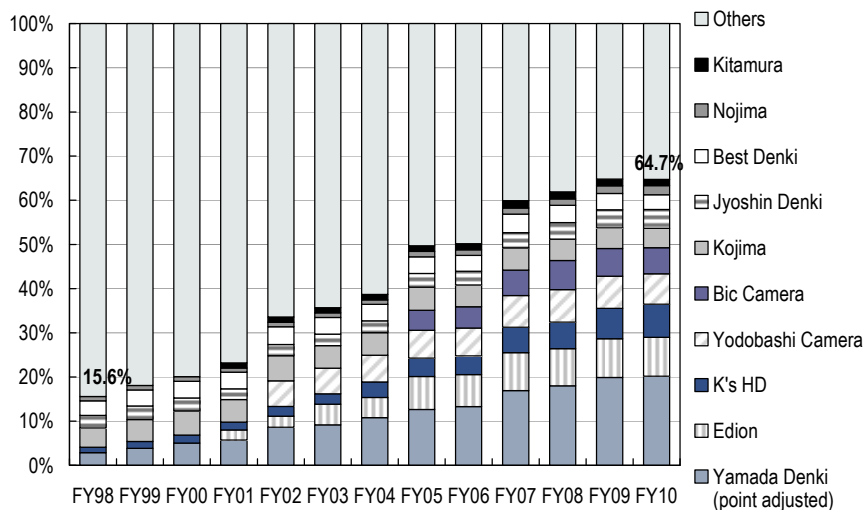


Note: Composed by households of more than two persons, and exclude households of agriculture, forestry, and fisheries.
Source: Family Income & Expenditure Survey, Citi Investment Research and Analysis.

As the operating environment deteriorates, we expect the bigger electronics retailers to become more dominant. Specialty electronics retailers do not have any regional characteristics and because they handle products that are maker-dependent, an oligopoly has progressed more than other sectors. As Figure 105 shows, the market share of the top 10 electronics retailers increased to 64.7% in FY2010 from 20.1% in FY2000. While the market is already highly concentrated, history shows that when conditions get tougher, such as in FY2002 when demand faltered in response to the introduction of the Home Appliance Recycling Law (in April 2001), the market share of the top players tends to increase. In contrast, in FY2010, when demand grew strongly, the market share of the top players slipped. Thus, the tougher the operating environment, the more likely the big names will increase market share. After the eco-point system was introduced in May 2009, many smaller electronics retail chains that had suffered a big drop in earnings after the collapse of Lehman Brothers enjoyed a revival. With sales currently in steep decline, we believe many of these chains will put off store openings.

While the process of oligopolization by the top-ranked players has gone further in consumer electronics than in other subsectors, METI statistics show that there were approximately 40,000 outlets in the latest, CY2007 survey that were considered to be "mom and pop" retailers, 91% of the total and that, with annual sales of ¥1.7trn, they accounted for approximately 20% of the market. We expect the process of oligopolization to accelerate as smaller stores continually go out of business and there is further oligopolization among the top ranked players. We expect to see growth in market share for Yamada Denki and K's Holdings in particular, which have the firepower even in this environment to mount store opening campaigns as big as any they have launched in the past.

Figure 105. Major Home Electronics Retailers' market share



Note: Figures indicate Top 10 market shares.
Source: RIC, Company data, Citi Investment Research and Analysis.

Figure 106. Sales by electrical appliance retailers (by number of employee)

Number of employee	Annual sales by retailer size					Number of retailers				
	CY2002	CY2007	Breakdown (%)		CY07/CY02	CY2002	CY2007	Breakdown (%)		CY07/CY02
	(¥bn)	(¥bn)	CY2002	CY2007				CY2002	CY2007	
Total	7,523	7,841	100%	100%	4%	53,221	44,498	100%	100%	-16%
less than 2	480	377	6%	5%	-21%	26,363	21,921	50%	49%	-17%
3~4	647	536	9%	7%	-17%	15,009	12,253	28%	28%	-18%
5~9	960	758	13%	10%	-21%	7,328	6,237	14%	14%	-15%
10~19	1,207	940	16%	12%	-22%	2,578	2,113	5%	5%	-18%
20~29	874	858	12%	11%	-2%	894	759	2%	2%	-15%
30~49	1,253	1,713	17%	22%	37%	673	768	1%	2%	14%
50~99	1,146	1,440	15%	18%	26%	302	364	1%	1%	21%
more than 100	955	1,218	13%	16%	28%	74	83	0%	0%	12%

Source: METI Commercial statistics, Citi Investment Research and Analysis.

Apparel stores

Here we would like to look in detail at apparel stores.

We target six apparel stores—Fast Retailing, Shimamura, Point, United Arrows, Nishimatsuya Chain, and Honeys—in our detailed analysis. We note that per-square meter cost figures and allocation ratios may be slightly different than what was seen in Section 1. This is because Section 1 data was drawn from a database (Nikkei Needs-Financial Quest), while in Section 2 we use cost figures as defined by each company to enable more precise comparisons. Also, because of the timing of the compilation of data by Fast Retailing, in the first part and the key characteristics of the income statements and balance sheets we use FY8/10 data, while in sections other than this we use FY8/11 data, which was announced on October 12.

Apparel store income statements—key characteristics

Figure 107 shows the consolidated income statements for six listed apparel stores.



Key point: Apparel stores
business model ensures relatively high
gross margins and overall profitability

One key characteristic of the aggregate apparel store income statement is that the operating margin, at 7.8%, is far ahead of the retail industry average of 4.1%. The profitability of large-scale retailers such as Fast Retailing and Shimamura is high, so to some degree, this lifts the overall number. There are also big differences between companies, with Fast Retailing having the highest operating margin, at 16.2% (14.2% in FY8/11) and Levi Strauss Japan having the worst, at -18.5%. Also, gross margins and SG&A-to-sales ratios are relatively high. The gross margin is 12.3ppt higher than the retail industry average of 34.4%, at 46.7%, while the SG&A-to-sales ratio is 8.6ppt higher than the retail industry average of 30.3%, at 38.9%. We think gross margins are relatively high first because apparel stores can develop high-margin private-brand products by boosting their branding, whereas supermarkets, consumer electronics retailers, and drugstores are saddled with daily goods and national-brand products, where lineups cannot be differentiated from those of the competition. Second, it is hard for consumers to know the CoGS of the product itself, as the apparel that circulates in the market comes in a wide range of price brackets. Third, retailers add value-added in a variety of ways, such as through design and materials, to fashionable products and are able to differentiate them, so prices pass muster in the subjective eyes of consumers with the result that the tend to lose sight of the real CoGS.

We believe that the SG&A-to-sales ratio is higher than for other subsectors because many companies do not own land but lease out sales floors when opening new stores and because many new outlets are opened in commercial facilities such as shopping malls and multi-tenant buildings dedicated to fashion (although there are some differences from format to format), which means that rent-to-sales ratios are comparatively elevated. Personnel costs differ depending on whether the retailer is focused on customer contact or on self-service and advertising and marketing costs differ depending on the degree of enthusiasm the retailer has for promotions. It is thus difficult to make sweeping generalizations but apparel stores may have more room for maneuver on the SG&A front than other subsectors as their gross margins are high.

Figure 107. Apparel stores income statements

(¥bn)	Apparel stores	Fast Retailing	Shimamura	Honeys	Point	United Arrows	Nishimatsuya Chain
No. of listed companies	48						
Main P/L items							
Sales / Operating revenues	3,778	815	441	56	106	91	118
Operating gross profit	1,765	421	144	32	63	48	44
SG&A expenses	1,470	289	104	29	48	41	35
OP	293	132	40	4	15	7	8
RP	282	124	41	4	16	7	8
NP	120	62	24	1	8	4	5
Profitability							
Gross profit margin	46.7%	51.7%	32.7%	57.7%	59.8%	53.0%	37.0%
SG&A expense ratio (%)	38.9%	35.4%	23.7%	51.3%	45.4%	44.8%	30.1%
Operating margin (%)	7.8%	16.2%	9.0%	6.4%	14.5%	8.2%	6.9%
Recurring margin (%)	7.5%	15.2%	9.3%	6.6%	14.6%	8.0%	7.1%
Management indicators							
ROE (%)	6.3%	21.4%	11.5%	5.4%	22.5%	23.8%	9.9%
Net profit margin (%)	3.2%	7.6%	5.3%	2.4%	7.9%	4.0%	4.0%
Equity multiplier	1.65	1.76	1.26	1.43	1.66	3.03	1.40
Total asset turnover	1.20	1.61	1.71	1.58	1.71	1.98	1.75
Fixed asset turnover	3.77	9.00	3.17	3.17	5.54	6.28	12.99
Average number of days of inventory	45.64	33.18	26.31	38.31	22.34	63.94	54.35
Average number of days payable outstanding	32.68	24.23	14.32	7.09	50.99	28.99	36.49
Average number of days the sum of payable outstanding and inventories	-134	-20	-14	-5	8	-9	-6
Cash and cash equivalents	706	202	65	6	26	6	22
Total interest-bearing debt	361	23	15	3	0	16	0
Net cash	345	179	50	4	26	-10	22
Adjusted net cash	7	125	33	3	11	-18	10

Note: Based on latest financial results (Fast Retailing results as of Aug 2010). Consolidated numbers used when available.
Source: Nikkei-NEEDS Financial QUEST, Company data, Citi Investment Research and Analysis.

Apparel store balance sheets—Key characteristics



Key point: apparel stores can do business at comparatively low levels of investment, so they find it easy to generate FCF and investment efficiency is impressive

In total, the current ratio is 52%, the fixed asset ratio is 48%, and the shareholders' equity ratio is 61%. The current ratio is much higher than the retail average of 38%. In particular, cash and deposit ratios are high while inventory ratios are not that high (if we exclude food retailers). Apparel stores can do business with relatively small amounts of working capital while raising their inventory turnover.

Also the interest-bearing debt ratio, at 11.5%, is far lower than the retail industry average of 21.6%. As noted above, the inventory turnover rate is relatively high and apparel retailers are able to turn over cash quickly. Moreover, as we detail below, new store investments are lower than in other subsectors, so this is a business in which it is easy to generate FCF. Indeed, this is clear from way that many listed apparel retailers have no need to raise funds from the equity market when going about their normal operations.

Landholdings as a percentage of total assets are 11.0% for the apparel store industry, lower than the retail industry average of 17.7%. Many apparel retailers do not acquire land even when opening roadside stores and many store openings are in department stores, station buildings, multitenant fashion buildings, and shopping malls, which raises the ratio of leased properties. Of our six target companies, Shimamura has a relatively high ratio, at 13%; this is because there was a time when it was acquiring land to open stores. The ratio is a low 1.9% at Nishimatsuya Chain, but in recent years it has been starting to acquire some land when opening stores. Ratios of deposits and guarantees, which may have a positive affect on

future cash flow, to total assets are relatively high at Honeys (23.1%) Point (16.8%), Shimamura (14.6%), and United Arrows (13.6%). Honeys has virtually completed closing down unprofitable domestic stores but even if the closing of stores were to rise moving forward, deposits and guarantees from these stores would be returned.

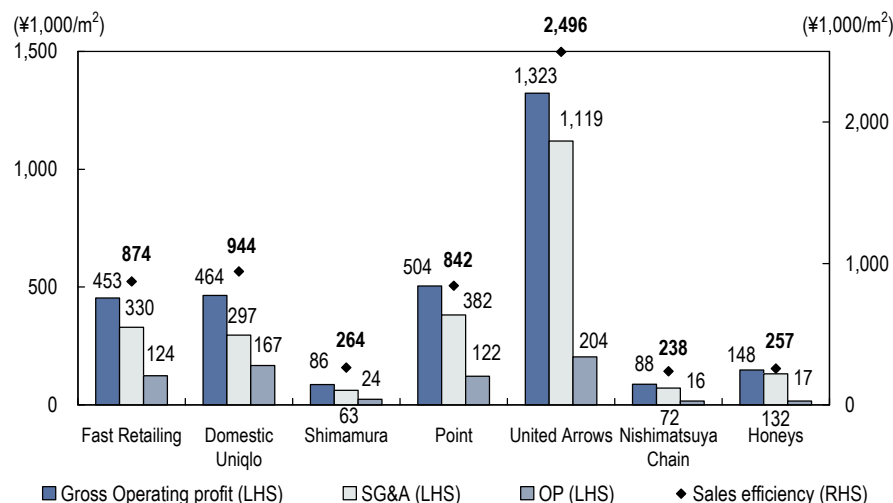
Figure 108. Apparel stores balance sheets

(¥bn)	Apparel stores	Fast Retailing	Shimamura	Honeys	Point	United Arrows	Nishimatsuya Chain
No. of listed companies	48						
Current assets	1,637	346	106	17	39	28	44
Cash & cash equivalents	454	62	25	6	13	6	22
Total inventories	472	74	32	6	6	16	18
Fixed assets	1,498	162	152	19	24	17	23
Tangible fixed assets	747	50	101	9	9	8	6
Depreciable fixed assets	396	45	65	7	6	8	5
Building and structure	346	37	63	7	2	7	3
Land and others	344	4	34	2	2	1	1
Intangible fixed assets	161	48	2	0	1	2	0
Investment / other fixed assets	590	64	49	9	14	7	17
Investment securities	172	1	4	0	2	0	0
Leasehold deposits	256	40	38	8	10	6	3
Total assets	3,136	507	258	35	62	46	67
Current liabilities	909	203	41	7	24	27	18
Account payables	338	54	17	1	15	7	12
Short-term borrowing	185	17	5	1	0	15	0
Accrued liabilities and taxes	85	0	0	2	5	3	3
Fixed liabilities	329	17	13	3	1	3	1
Long-term borrowing	176	6	10	1	0	1	0
Total liabilities	1,238	219	53	11	25	31	19
Minority interests	22	3	-	-	0	-	-
Net assets	1,898	288	205	25	37	15	48
Common stocks	328	10	17	4	3	3	3
Retained earnings	1,379	337	170	18	34	20	45
Total interest-bearing debt	361	23	15	3	0	16	0
Breakdown							
Current assets	52.2%	68.1%	41.0%	47.1%	62.1%	62.0%	65.6%
Cash & cash equivalents	14.5%	12.3%	9.7%	18.3%	21.2%	12.3%	33.0%
Account receivables	8.6%	3.0%	0.5%	8.6%	7.2%	0.6%	1.2%
Total inventories	15.1%	14.6%	12.3%	16.6%	10.4%	34.7%	26.1%
Fixed assets	47.8%	31.9%	59.0%	52.9%	37.9%	38.0%	34.4%
Tangible fixed assets	23.8%	9.9%	39.1%	26.8%	14.0%	17.9%	8.8%
Depreciable fixed assets	12.6%	8.9%	25.1%	20.6%	10.1%	16.6%	6.8%
Building and structure	11.0%	7.3%	24.5%	19.0%	3.4%	14.4%	4.7%
Land and others	11.0%	0.8%	13.0%	6.0%	3.8%	1.2%	1.9%
Intangible fixed assets	5.1%	9.4%	0.8%	0.2%	1.3%	4.1%	0.7%
Investment / other fixed assets	18.8%	12.6%	19.1%	25.9%	22.6%	16.0%	24.9%
Investment securities	5.5%	0.2%	1.5%	0.1%	3.6%	0.3%	0.5%
Leasehold deposits	8.1%	8.0%	14.6%	23.1%	16.8%	13.6%	4.7%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Current liabilities	29.0%	39.9%	15.7%	21.2%	38.5%	60.1%	26.8%
Account payables	10.8%	10.7%	6.7%	3.1%	23.8%	15.7%	17.5%
Short-term borrowing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accrued liabilities and taxes	2.7%	0.0%	0.0%	5.9%	7.7%	6.5%	4.4%
Fixed liabilities	10.5%	3.3%	4.9%	9.1%	1.4%	6.8%	1.7%
Long-term borrowing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total liabilities	39.5%	43.2%	20.6%	30.3%	39.9%	67.0%	28.5%
Minority interests	0.7%	0.5%	-	-	0.3%	-	-
Net assets	60.5%	56.8%	79.4%	69.7%	60.1%	33.0%	71.5%
Common stocks	10.5%	2.0%	6.6%	10.1%	4.3%	6.6%	3.7%
Retained earnings	44.0%	66.4%	66.0%	51.8%	55.1%	42.7%	66.7%
Total interest-bearing debt	11.5%	4.6%	5.7%	7.9%	0.0%	35.3%	0.0%

Note: Based on latest financial results (Fast Retailing results as of Aug 2010). Consolidated numbers used when available.
Source: Nikkei-NEEDS Financial QUEST, Company data, Citi Investment Research and Analysis.

Per-square meter analysis

Figure 109. Major 6 apparel stores: Comparison of per m² profitability



Note: Based on latest financial results. Consolidated numbers used when available.
Source: Company data, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Next let us have a look at efficiency per m² of sales floor area for the six apparel stores. For Fast Retailing we use FY8/10 data.

Figure 109 shows per m² sales, SG&A expenses, OP, and inventory value for the six apparel stores.

United Arrows far and away the winner in OP per m²; many apparel firms features in the top of the all-retailer ranks

By OP per m² is highest at United Arrows, at ¥204,000/m². Next come Fast Retailing and Point, almost on par with each other at ¥124,000/m² and ¥122,000/m², respectively. At the domestic Uniqlo parent, the figure is ¥167,000/m². As we said in part one, these two apparel stores and names such as Kyoto Kimono Yuzen (not included in our target companies here) are among the top ranked by OP per m² across the whole retail universe. Shimamura, Honeys, and Nishimatsuya Chain, which have many suburban stores, generate OP of ¥16,000/m²-¥24,000/m², one-eighth to one-twelfth the level of United Arrows.

United Arrows features better sales floor efficiency than Bic Camera

Next we take a look at sales floor efficiency. The most efficient apparel store is United Arrows, with sales of ¥2.50mn per m², a high level of efficiency that puts it above consumer electronics retailer Bic Camera, which is at ¥2.44mn/m² after point deduction. The mainstay United Arrows format, which accounts for just under half of parent sales, books sales of ¥2.07mn/m², while the silver jewelry brand Chrome Hearts, although it only accounts for 6% of sales, boast outstanding sales floor efficiency of ¥4.58mn/m², which is one reason for United Arrows' overall good performance. Green Label Relaxing, which has stores in urban station buildings and in shopping malls, generates sales per m² of ¥1.41mn, a high level compared with peers.

Domestic Uniqlo operations' sales floor efficiency startling given the location of the portfolio

Next come Fast Retailing and Point, at ¥870,000/m² and ¥840,000/m², respectively. Fast Retailing's domestic Uniqlo operations, which account for 73% of consolidated sales, generate ¥940,000/m², which drives the overall number. However, the sales efficiency dropped 9.7% YoY last year. While the domestic Uniqlo operations have in recent years focused efforts on advancing into city centers, the business originally expanded from roadside locations. While the company does not disclose

Point is generating impressive sales floor efficiency by raising turnover rates in spite of carrying little inventory

Possible to generate higher gross margins with fashionable apparel than with more utilitarian gear

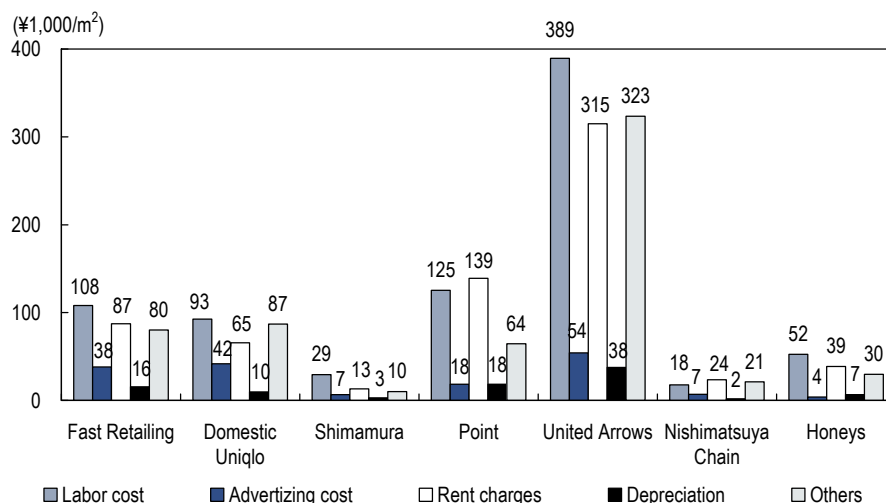
detailed data, we believe the sales weighting remains high for suburban shopping malls and roadside stores compared with stores in urban locations and feel that the booking of sales of close to ¥1mn/m² in spite of the locational breakdown is a startling achievement.

Of Point's mainstay brands, Lowrys Farm and Jeanasis (just over 30% of sales together) tend to occupy urban retail facilities, while Global Work and Lepsim Lowrys Farm (just over 30% of sales together) tend to open in suburban shopping malls, while the overall weighting is slightly tilted to sales in urban retail facilities. What we feel Point is good at is generating impressive sales floor efficiency with little inventory. As we said earlier, Point's sales floor efficiency is almost the same as that of Fast Retailing, but Point carries roughly half the level of inventory, at ¥52,000/m² v.s. ¥99,000/m². It is clear that Point turns over low levels of store inventory quickly and thereby generates impressive sales floor efficiency.

Next comes gross profit. However, there are big differences from company to company in sales floor efficiency and per-m² gross profit is affected by sales floor efficiency, so here we will compare gross margins. The gross margin is highest at Point at 59.8%, followed by Honeys at 57.7%, United Arrows at 53.0%, and Fast Retailing at 51.9%. Gross margins are low at Nishimatsuya Chain and Shimamura, at 37.0% and 32.7%, respectively. We think this is because their weightings of everyday clothing are high and also because they buy in some product from wholesalers and set the markups on these goods low so they can sell them as cheaply as possible. Incidentally, the domestic Uniqlo operations have a gross margin of 49.1%. We think one reason that they can generate high gross margins is that they enjoy economies of scale thanks to the 100% private-branded lineup and huge volumes. Given that the mainstay is in everyday clothing and that there are increasing numbers of products available from peers that are similar to Uniqlo offerings but at lower prices, unless Uniqlo attaches impressive brand value to their products, we think absolute gross margins at Uniqlo are likely to be high.

SG&A costs per square meter

Figure 110. Major 6 apparel stores: Comparison of per m² operating costs



Note: Based on latest financial results. Consolidated numbers used when available.
Source: Company data, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.



Key point: Rent cost allocation higher than for other subsectors

Figure 110 shows per-m² labor costs, depreciation, rent, advertising and marketing costs, and other general costs. Approximately one-third of apparel store SG&A expenses are labor costs, with rent and depreciation together account for another third. While promotional costs differ from company to company, they account for around 5%-15% of SG&A expenses, with the preceding items accounting for some 70% to just under 80% of overall SG&A expenses. The labor cost allocation is on par with that at consumer electronics retailers but rent allocation is larger.

Figure 110 shows how labor costs are particularly different from company to company. While labor costs are ¥389,000/m² at United Arrows, they are only ¥18,000/m² at Nishimatsuya Chain, a difference of 22x. Second after United Arrows comes Point at ¥125,000/m² and then Fast Retailing at ¥108,000/m². This more or less replicates the ranking for sales floor efficiency and we think it results from the more lavish provisioning of employees per m². There are 88 employees per m² at United Arrows, 41 at Point, and 36 at Fast Retailing, far ahead of the seven at Shimamura and Nishimatsuya Chain. Also, United Arrows made many part-timers full-timers when it was hard to hire part-timers in 2007, so its full-timer ratio is a lofty 87% and labor costs per employee are ¥4.42mn, ahead of peers, and this is also a factor behind its high labor costs per m².

Room for improvement in efficiency per employee at United Arrows, Point, and Honeys

Next we turn our gaze to labor costs per employee. While there is not much difference between Point at ¥3.08mn and Uniqlo at ¥3.00mn, there is a gap of around 20ppt in the full-time employee ratio, which is 41% at Point and 20% at Uniqlo. Although Point's full-time employee ratio is higher, sales per employee are lower, at ¥20.68mn versus Uniqlo's ¥30.62mn. Point handles fashionable apparel, where a degree of customer contact is required, while customer contact at Uniqlo is almost unnecessary and the format is one in which most customers know what they want when they enter the store, so simple comparisons are not possible. Nevertheless, there may well be room for improvement in per-employee efficiency at Point. Similarly, Honeys per-employee labor cost is ¥2.12mn and the full-time employee ratio 57%; with sales per employee at ¥10.38mn, it looks as if there is some room for improvement.

Figure 111. Per employee indicators

	Sale per employee (¥1,000)	No. of employees per m ²	Labor cost per employee (¥1,000)
Fast Retailing	24,618	35.5	3,044.7
Domestic Uniqlo	30,621	30.8	3,005.3
Shimamura	34,753	7.6	3,875.7
Point	20,678	40.7	3,076.5
United Arrows	28,365	88.0	4,424.7
Nishimatsuya Chain	31,771	7.5	2,375.7
Honeys	10,384	24.8	2,120.6

Note: Based on latest financial results. Consolidated numbers used when available.
Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Shimamura and Nishimatsuya Chain have created sales floors that can be staffed by part-timers



Key point: Shimamura employee compensation stands out—despite a low full-time employee ratio at Shimamura, its labor costs per employee are second-highest after United Arrows

In contrast, the full-time employee ratios at Shimamura and Nishimatsuya Chain are a mere 17% and 15%, respectively. They have been able to create sales floors that can be staffed by part-timers thanks to the way they have standardized work and centralized operations. Also, as we noted above, they allocate only around seven or eight people per m², far fewer than the 31 to be found at the domestic Uniqlo operations, so although their sales floors are not very efficient, sales per employee are ¥34.75mn at Shimamura and ¥31.77mn at Nishimatsuya Chain, higher than the figure for the domestic Uniqlo operations (¥30.62mn). Moreover, even though Shimamura's full-time employee ratio is low, labor costs per employee are ¥3.88mn, second highest after United Arrows. We think Shimamura is able to earn money efficiently with few employees and return this money proportionately to employees in a highly efficient and well balanced arrangement.

Next let us compare rent per m². Again here, United Arrows sits comfortably at the top of the rankings, with ¥315,000/m², far ahead of second placed Point at ¥139,000/m². However, since United Arrows sales floor efficiency is so impressive, it performs the role of a customer-puller at the heart of a retail facility. It hence receives strongly articulated requests to open stores from operators of retail facilities and its rent-to-sales ratio is 12.6%, a pretty low level for a company that is located mainly in urban area. Rents differ mainly according to location but there is an interesting difference in rent per m² at Shimamura (¥13,000) and Nishimatsuya Chain (¥24,000), which have stores in similar locations. Of course, while Shimamura owns the land for some of its stores, the weighting is not high, and we think the biggest difference lies in the prevision with which stores are developed.

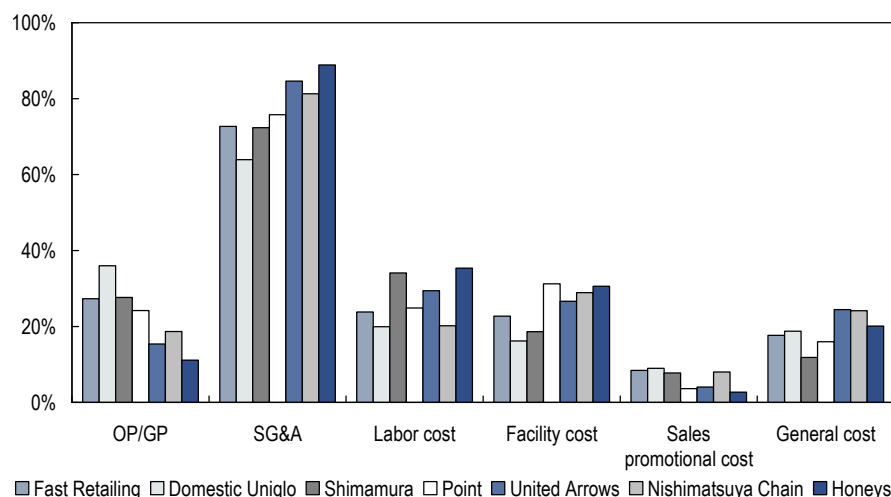
Cost-effectiveness needs to be investigated, but it might be an idea for all companies except Uniqlo to increase their advertising and marketing spending a little

Finally, let us compare per-m² advertising and marketing expenses. Different companies have different thoughts on advertising. On one hand, there are companies such as Fast Retailing, which advertises and markets on all fronts, from TV commercials to flyers, magazines to train posters and the Internet, while on the other there are companies such as Point and United Arrows that are not really proactive and only began TV commercials this fiscal year. Domestic Uniqlo operations' advertising and marketing expenses, at ¥42,000/m², are far higher than peers: 2x those at Point, 6x those at Shimamura and Nishimatsuya Chain, and 10x those at Honeys. They also account for 4.4% of sales, whereas peers are at around 2%-3%.

The cost-effectiveness of advertising and marketing expenses needs to be investigated, but we get the impression that many Japanese retailers are complacent about branding in comparison to retailers from elsewhere that have gone global. It would be no exaggeration to say that for companies that aim to go global, enhanced awareness and brand image is one of the most important issues. We think that companies other than Fast Retailing could usefully get a bit more proactive about advertising and marketing.

Allocation ratio analysis

Figure 112. Major 6 apparel stores: Comparison of allocation ratios



Note: Based on latest financial results. Consolidated numbers used when available.
Source: Company data, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 113. Major 6 apparel stores: Allocation ratio comparison

(\$mn)	Gross profit	OP	RP	NP	Allocation ratio						
					OP/GP	SG&A	Labor cost	Facility cost	Sales promotional cost	General	
Fast Retailing	425,767	116,365	107,090	54,354	27.3%	72.7%	23.8%	22.7%	8.4%	17.7%	
Domestic Uniqlo	294,900	106,200	n.a.	n.a.	36.0%	64.0%	20.0%	16.2%	9.0%	18.8%	
Shimamura	144,230	39,848	41,048	23,507	27.6%	72.4%	34.1%	18.7%	7.8%	11.8%	
Point	63,360	15,329	15,504	8,400	24.2%	75.8%	24.9%	31.3%	3.7%	16.0%	
United Arrows	48,001	7,384	7,240	3,596	15.4%	84.6%	29.4%	26.6%	4.1%	24.4%	
Nishimatsuya Chain	43,645	8,155	8,397	4,755	18.7%	81.3%	20.2%	28.9%	8.0%	24.2%	
Honeys	32,099	3,575	3,672	1,318	11.1%	88.9%	35.4%	30.6%	2.7%	20.1%	

Note: Based on latest financial results. Consolidated numbers used when available.
Source: Company data, Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Many apparel retailers are excellent firms with high OP/GP ratios



Key point: Many apparel retailers are top firms with high OP/GP ratios

Next we take a look at allocation ratios, which we believe are extremely important. Figure 113 shows OP/GP ratios, SG&A allocation ratios, labor allocation ratios, facilities allocation ratios, promotional allocation ratios, and general allocation ratios, and these yield different key characteristics from the per-m² analysis. Three companies boast OP/GP ratios over the 20% mark generally regarded as good: Shimamura at 28%, Fast Retailing at 27%, and Point at 24.2%.

Shimamura, which has the highest OP/GP ratio, generates only ¥86,000/m² of gross profit per m², not even 20% of the Fast Retailing level, but thanks to the way it streamlines each SG&A item as much as possible, it is able to deliver a low-cost operation that fully compensates for the low gross margin. Second-ranked Fast Retailing's domestic Uniqlo operations have an OP/GP ratio of 36%, a startlingly high level. There are few places in the SG&A per m² ratios where the operations stand out, so we feel that its commandingly high OP/GP ratio rests solely in its high sales floor efficiency—despite it still having a relatively high suburban store ratio—and its ability to deliver high gross profit on everyday clothing.

The lowest OP/GP ratio of the six firms is Honeys, at 11%. Since FY5/07, Honeys has seen same-store sales fall in a sustained manner and sales floor efficiency has been on an unrelenting decline, so it has been unable to generate decent gross profit and the burden of its labor costs and rent have grown particularly onerous. However, same-store sales have at last started to increase in a consistent fashion since the start of FY5/12, so we think the OP/GP ratio may improve significantly this fiscal year.

OP/GP ratio surprisingly low at United Arrows

It might surprise some that United Arrows has the second lowest OP/GP ratio, at 15%. Looking at the allocation of SG&A expenses, it is apparent that the allocations to labor expenses and general expenses are high versus peers. As far as labor expenses are concerned, the full-timer ratio is high and labor costs per employee are high, yet productivity versus other companies is inferior (per person sales levels are inadequate given the high unit prices of the items sold). As for general expenses, many stores are in retail facilities, so the commissions paid ratio is higher than at peers, while investment on interiors and maintenance for branding purposes costs money, so maintenance and repair expenses are relatively high. Moving forward, we think there is room for improvement in labor costs, although we do think spending to maintain the brand is to a degree forgivable.

SG&A allocation ratio analysis

Despite low gross profit, Shimamura is able to be generous in its allocation to labor expenses by squeezing other SG&A items

Finally, we take a look at the details of the SG&A allocation ratios at our target companies.

Looking at SG&A allocation ratios, we note that Fast Retailing has been keeping the labor cost allocation and facilities cost allocation ratios lower than peers, Point has low labor and promotional allocation ratios, and that these are the main factors behind their high OP/GP ratios. In contrast, as we noted before Shimamura tries to be as generous as possible with per-person salaries, so its labor cost allocation ratio, at 34%, is not very different from that of Honeys (35%), where the allocation ratio has been rising because of earnings deterioration. Instead, Shimamura has been making every effort to rein in facilities costs and other general costs, so it has been delivering a high OP/GP ratio.

Apparel stores: Macro environment

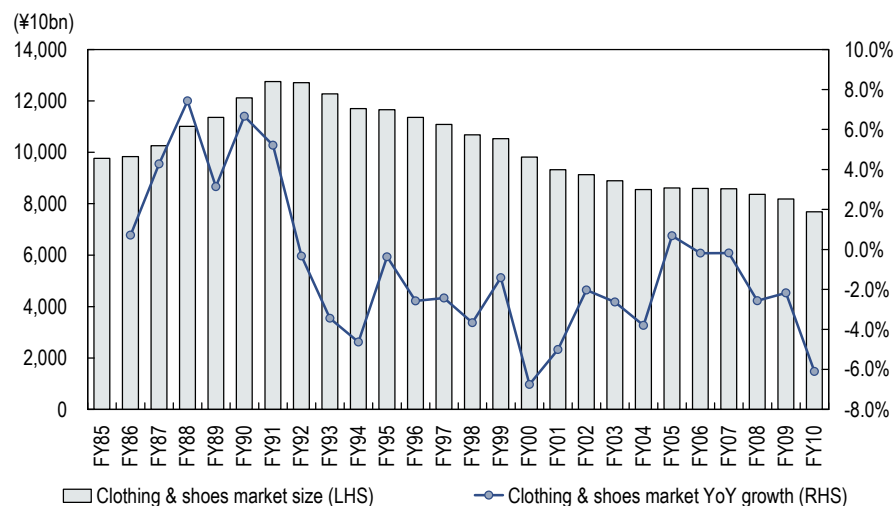
Apparel market down 40% from its peak

Apparel is sold through a wide variety of channels, from department stores to specialty stores and supermarkets, so it is hard to precisely gauge the size of the market and trends within it. Here we use the data on per-household spending on clothing and footwear in the Household Expenditure Survey multiplied by historical and present numbers of households as the apparel market size. As Figure 114 shows, on this basis the FY2010 market was worth around ¥7.7trn, down a hefty 6.1% from the previous fiscal year. The market is also some 40% smaller than it was in the peak year of 1991 (¥12.8trn). The average annual market growth rate of the most recent five years has been -2.8% and over the most recent decade -2.1%, with the contraction ongoing.



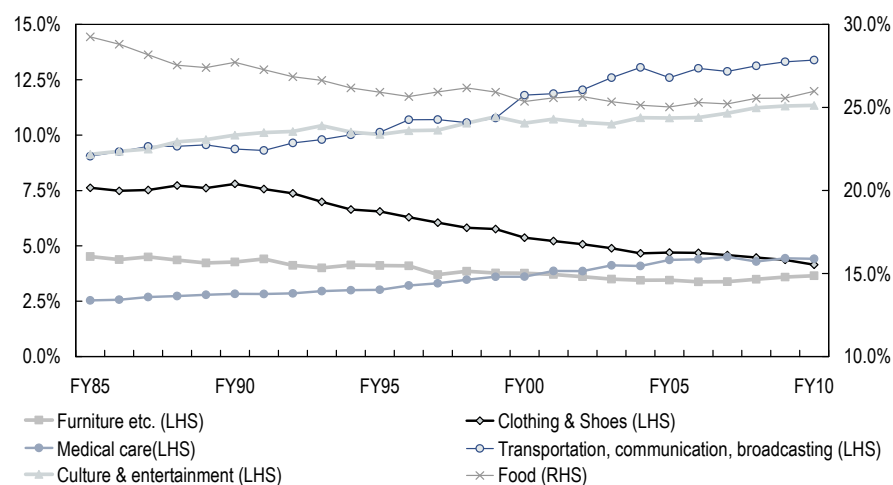
Key point: Clothing and footwear market worth ¥7.7trn, down 40% from its 1991 peak

Figure 114. Trends in market size for clothing and footwear



Source: Household Income and Expenditure Statistics, Current Population Survey, and Citi Investment Research and Analysis.

Figure 115. Trends in expenditures on core items (MMA basis)



Source: Family Income and Expenditure Survey, Citi Investment Research and Analysis.

Weighting for clothing and footwear at 4.4%, down from 1990 peak of 7.8%

The figure also shows trends in the weighting in consumption expenditures for major items. After peaking in 1990 at 7.8%, the weighting for clothing and footwear per family has been falling constantly, reaching the lowest ever level of 4.4% recently. Japan these days has the lowest weighting for spending on apparel among developed nations, with the US at just over 5%, the UK at over 6%, and Germany, France, and Italy at around 8%-9%.

Falling prices the main reason for the big contraction in the market

The main reason for the big contraction in the market has been falling prices. Apparel firms that produced a lot in Japan have shifted en masse to China and been able to cut CoGS substantially, resulting in selling prices falling significantly. Another factor at work has been dramatic changes in standard prices for apparel,

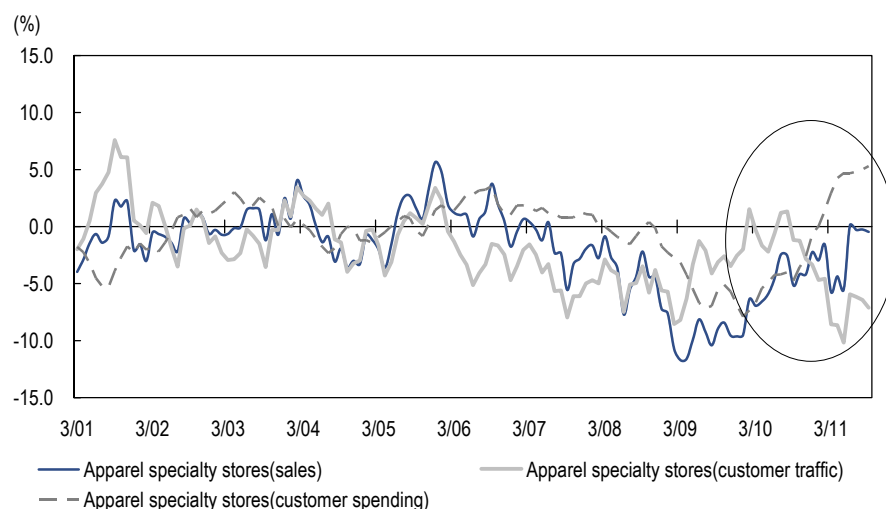
Key moving forward will be the creation of new value and the revitalization of the market

ASP rising in both cyclical and structural terms

thanks to the emergence of specialty private-label apparel (SPA) firms, typified by Uniqlo.

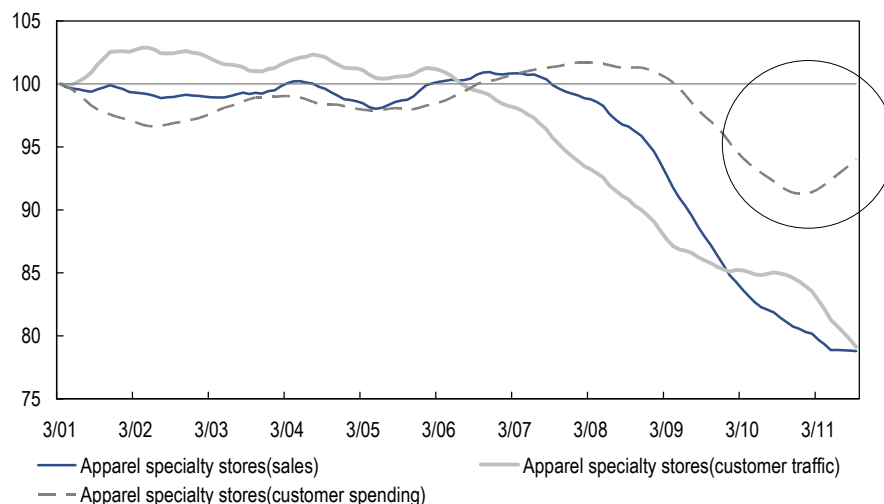
Given Japan's demographic profile, we concede that the apparel market in the future will see purchase volumes gradually contract. Over the long run, we feel it will be important to create differentiated added value, even for everyday wear, and enliven the market. Meanwhile, with three years having elapsed since the global financial crisis, we are witnessing a big change in the tide of consumption, with consumers moving from mere cheapness to quality, even if it costs a little more. Indeed, looking at the 3MMA for same-store sales, customer counts, and unit prices at apparel stores in our *Hidden Gems*, which we compile monthly, the unit price bottomed in October 2010 and then rose significantly. Recently it has been recovering to increases of around 5% YoY. At first blush, it might seem as if there is no room for improvement above this level, but if we take a look at these numbers not on a YoY basis (Figure 116) but on a cumulative basis (Figure 117), which is close to the real number, the unit price bottomed and has finally begun to rise, remaining some 7ppt below the level of 2001. We think that the unit price will rise for the next year or two.

Figure 116. Apparel store sales customer traffic, and customer spending (YoY change)



Source: Company data, Citi Investment Research and Analysis.

Figure 117. Trends in apparel store sales customer traffic, and customer spending (3/01 = 100)



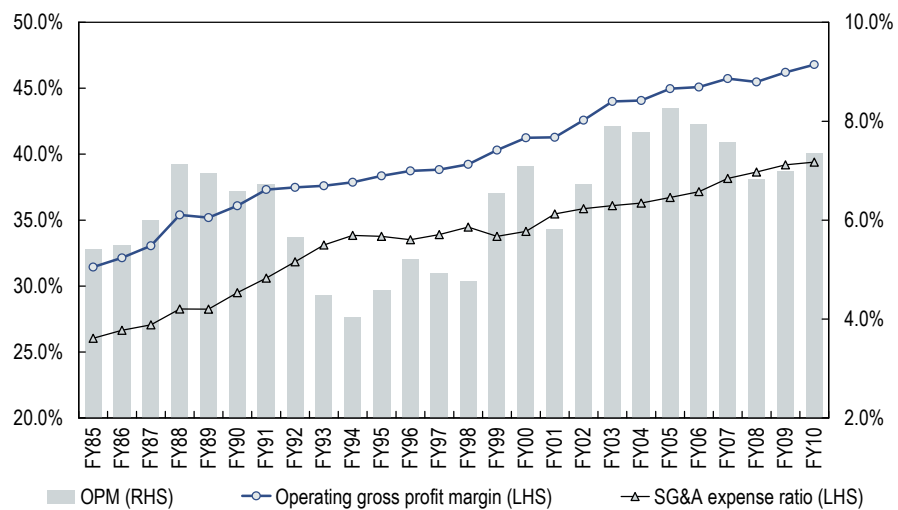
Source: Company data, Citi Investment Research and Analysis.

On a more structural note, China is transitioning to a consumer country from a producer country and wages are continuing to rise at a pace of close to 20% annually. We expect this to continue moving forward. Apparel firms are aiming to expand production facilities in Southeast Asia and India to lower CoGS but we think it will take time for them to aim seriously for “China plus one”, given China’s high absolute weighting, the quality of the factory work, and the convenience of a rapid production system. We feel that further selling price cuts will be physically difficult and that the way retailers are beginning to reduce their purchase volumes of products whose prices are set low and which are not profitable will also contribute to the bottoming of unit prices and their subsequent rise.

Listed apparel firms’ gross margin has improved more than 15ppt in the last 15 years

Figure 118 shows trends in listed apparel retailers’ gross margins, SG&A-to-sales ratios, and operating margins. In FY1985, apparel retailers’ had a consolidated operating margin of 5.4% and a gross margin of 31.4%, while in FY2010, they had an operating margin of 7.3% and a gross margin of 46.8%, which had improved by more than 15ppt over the 15 years. We attribute this to two broad factors. One is, as noted above, the reduction in CoGS on the shift of production to China: while apparel stores have cut selling prices they have been able to improve their gross margins thanks to this. Also, with the continued rapid growth of Fast Retailing, stores have bolstered manufacturing-led retailing rather than purchases from wholesalers. We think it is still possible to improve the gross margin via more efficient distribution and more concentrated production but feel the improvements are likely to be more limited than they were in the last decade.

Figure 118. Apparel Retailers' Margins



Note: Based on financial results. Consolidated numbers used when available.
Source: Company data, Citi Investment Research and Analysis.

Drugstores

Now we would like to take a detailed look at the drugstore industry.

We conduct a detailed analysis of the top nine drugstore companies by market cap (Sundrug, Sugi Holdings, Tsuruha Holdings, Matsumotokiyoshi Holdings, Cosmos Pharmaceutical, Cocokara Fine, Create SD Holdings, Cawachi, and Growell Holdings.) In our m² analysis, we omit Sundrug and Matsumotokiyoshi, which do not disclose on consolidated sales floor areas, and Cocokara Fine, which has comparatively sizeable wholesale sales. We exclude Ain Pharmaciez from consideration this time, as it is a dispensing pharmacy chain and its earnings structure is different.

We note that per-square meter cost figures and allocation ratios may be slightly different than what was seen in Section 1. This is because Section 1 data was taken from a database (Nikkei Needs-Financial Quest), while in Section 2 we use cost figures as defined by each company to enable more precise comparisons. In addition, due to the timing of Growell Holdings' data releases, we use FY8/10 data in the section 1 and the part below about characteristics of drugstore operator income statements, while in other areas we use FY8/11 data as per the company's October 14 release

Drugstore operator income statements—key characteristics

Figure 119 shows the consolidated income statements of nine listed drugstores.

We would cite as the key characteristic of drugstore operator income statements as being the way that while the operating margin, at 3.9%, is in line with the overall retailer average of 4.1%, gross margins and SG&A-to-sales ratios are low. In both cases, the ratios are lower than any other retail subsector except consumer electronics retailers. We think the gross margin is low because consumers tend to favor national brand makers, especially in pharmaceuticals and household goods, and it is difficult to differentiate private-brand products, so drugstores are forced to rely on price appeal. However, although the average gross margin of the drugstore subsector is lower than those of the retail industry average, there are wide gaps from operator to operator within the subsector, another key characteristic of the drugstore industry. For instance, of the nine companies in our spotlight, Cosmos has the lowest gross margin, at 19.2%, which we attribute to its high foodstuff weighting, at 51%, followed by Cawachi at 21.3%, which has a foodstuff weighting of 46%. The higher the sales weighting of low gross margin foodstuffs is, the lower the gross margin tends to be (Figure 120). The highest gross margin is found at Growell, at 28.6% (29.3% in FY8/11); this is because its high-margin OTC and prescription drugs sales weighting is high and also because it does not use food to attract customers, so its food gross margin is 21.5%, far higher than most other firms, where the figure is in the 10%-15% region.

Second lowest in gross margin and SG&A ratio behind consumer electronic retailers



Key point: Earnings structure differs greatly depending on whether focus is on specialization or discounting

Figure 119. Drugstores income statements

(¥bn)	Drugstores	Sundrug	Sugi HD	Tsuruha HD	Matsumotokiyoshi HD	Cosmos Pharmacies	cocokarafine HD	CreateSD HD	Growell HD	Cawachi
No. of listed companies	25									
Main P/L items										
Sales / Operating revenues	3,382	361	305	300	428	237	257	155	239	236
Operating gross profit	828	82	81	84	119	46	64	42	68	50
SG&A expenses	696	63	68	68	104	35	57	33	61	42
OP	133	19	13	16	15	10	6	8	8	8
RP	145	20	15	17	17	11	10	9	8	8
NP	71	11	9	8	7	6	6	5	4	4
Profitability										
Gross profit margin	24.5%	22.7%	26.5%	27.9%	27.8%	19.2%	24.8%	26.9%	28.6%	21.3%
SG&A expense ratio (%)	20.6%	17.3%	22.3%	22.7%	24.2%	15.0%	22.3%	21.4%	25.4%	17.9%
Operating margin (%)	3.9%	5.3%	4.2%	5.3%	3.6%	4.2%	2.5%	5.5%	3.2%	3.4%
Recurring margin (%)	4.3%	5.5%	4.9%	5.5%	4.1%	4.7%	4.0%	5.6%	3.4%	3.6%
Management indicators										
ROE (%)	9.8%	13.9%	10.9%	9.9%	6.6%	19.3%	9.8%	14.0%	10.6%	4.3%
Net profit margin (%)	2.1%	3.0%	3.0%	2.6%	1.7%	2.4%	2.3%	2.9%	1.5%	1.6%
Equity multiplier	2.22	1.79	1.65	1.78	1.98	2.83	2.00	1.93	3.02	1.91
Total asset turnover	2.11	2.58	2.24	2.12	1.97	2.82	2.12	2.47	2.38	1.41
Fixed asset turnover	5.35	8.29	7.71	8.70	4.35	6.54	5.55	9.12	5.96	2.12
Average number of days of inventory	39.19	42.52	41.64	44.87	50.39	30.24	47.94	33.32	39.18	27.40
Average number of days payable outstanding	48.16	37.13	39.65	54.34	46.72	57.82	51.74	47.58	48.48	50.96
Average number of days the sum of payable outstanding and inventories	83	-5	-2	8	-4	18	3	6	6	15
Cash and cash equivalents	239	19	38	37	11	19	12	15	12	25
Total interest-bearing debt	223	7	0	0	1	5	6	0	20	34
Net cash	16	12	38	37	9	13	6	15	-7	-9
Adjusted net cash	-430	-25	5	-8	-45	-24	-30	-5	-39	-42

Note: Based on latest financial results (except Growell HD, where results are from FY8/10). Consolidated numbers used when available.
Source: Nikkei-NEEDS Financial QUEST, Citi Investment Research and Analysis.

Figure 120. Drugstore balance sheet

(¥bn)	Drugstores	Sundrug	Sugi HD	Tsuruha HD	Matsumotokiyoshi HD	Cosmos Pharmacies	cocokarafine HD	CreateSD HD	Growell HD	Cawachi
No. of listed companies	25									
Current assets	787	81	88	88	95	41	67	37	46	49
Cash & cash equivalents	206	19	29	22	11	19	12	6	12	25
Account receivables	98	7	7	7	12	0	12	3	4	2
Total inventories	363	42	35	37	59	20	34	14	26	18
Fixed assets	819	59	48	54	123	43	55	26	55	119
Tangible fixed assets	452	30	26	13	63	27	26	11	27	102
Depreciable fixed assets	254	23	20	11	21	22	15	8	20	43
Building and structure	222	18	17	8	17	19	12	6	14	41
Land and others	193	7	6	2	41	4	11	3	7	58
Intangible fixed assets	96	6	2	12	10	1	2	0	12	5
Investment / other fixed assets	271	24	21	28	50	15	26	15	16	12
Investment securities	18	0	0	5	8	0	-	0	0	0
Leasehold deposits	180	14	14	21	36	9	20	6	13	9
Total assets	1,606	140	136	141	218	84	121	63	100	167
Current liabilities	682	53	49	58	80	48	54	27	50	54
Account payables	446	37	33	45	55	38	36	20	32	33
Short-term borrowing	88	3	0	0	0	2	6	0	8	13
Fixed liabilities	200	9	5	4	27	6	7	3	17	26
Long-term borrowing	135	4	0	0	1	3	0	0	12	20
Total liabilities	882	62	53	62	108	54	61	30	67	80
Minority interests	3	-	-	-	-	-	-	-	1	-
Net assets	724	78	83	79	110	30	61	33	33	88
Common stocks	100	4	15	7	21	4	1	1	1	13
Retained earnings	458	74	43	48	80	21	25	31	14	61
Total interest-bearing debt	223	7	0	0	1	5	6	0	20	34
Breakdown										
Current assets	49.0%	57.7%	64.4%	62.0%	43.5%	49.1%	55.1%	58.4%	45.7%	29.1%
Cash & cash equivalents	12.8%	13.6%	21.4%	15.8%	4.8%	22.1%	9.6%	10.3%	12.1%	14.9%
Account receivables	6.1%	5.1%	5.1%	5.3%	5.3%	0.0%	10.2%	4.3%	4.3%	0.9%
Operating loans/ investment securities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Marketable securities	1.5%	0.0%	6.5%	4.2%	0.0%	0.0%	0.7%	14.4%	0.0%	0.0%
Total inventories	22.6%	30.0%	25.5%	26.0%	27.2%	23.4%	27.8%	22.6%	25.5%	10.6%
Fixed assets	51.0%	42.3%	35.6%	38.0%	56.5%	50.9%	44.9%	41.6%	54.3%	70.9%
Tangible fixed assets	28.1%	21.3%	18.7%	9.3%	28.9%	32.4%	21.5%	17.9%	26.8%	60.9%
Depreciable fixed assets	15.8%	16.4%	14.5%	7.8%	9.8%	26.6%	12.4%	13.2%	19.9%	25.6%
Building and structure	13.9%	12.8%	12.4%	5.9%	7.7%	22.8%	9.6%	9.8%	13.9%	24.2%
Land and others	12.0%	5.0%	4.1%	1.5%	19.1%	5.2%	9.1%	4.7%	6.9%	34.6%
Intangible fixed assets	6.0%	4.2%	1.7%	8.8%	4.7%	0.8%	1.7%	0.3%	11.5%	3.0%
Investment / other fixed assets	16.9%	16.8%	15.1%	20.0%	22.9%	17.7%	21.7%	23.4%	16.0%	7.1%
Investment securities	1.1%	0.1%	0.2%	3.3%	3.6%	0.0%	-	0.1%	0.1%	0.1%
Leasehold deposits	11.2%	9.8%	10.3%	15.1%	16.3%	10.7%	16.6%	9.2%	13.0%	5.4%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Current liabilities	42.5%	37.9%	35.9%	41.2%	37.0%	57.0%	44.2%	43.4%	49.6%	32.2%
Account payables	27.8%	26.2%	24.3%	31.5%	25.2%	44.7%	30.0%	32.2%	31.6%	19.7%
Short-term borrowing	5.5%	2.4%	0.0%	0.1%	0.2%	2.7%	5.1%	0.1%	7.8%	7.8%
Fixed liabilities	12.4%	6.2%	3.4%	2.8%	12.5%	7.7%	5.8%	4.7%	17.3%	15.4%
Long-term borrowing	8.4%	2.9%	0.0%	0.0%	0.3%	3.5%	0.0%	0.0%	11.7%	12.2%
Total liabilities	54.9%	44.1%	39.3%	44.0%	49.5%	64.6%	50.1%	48.1%	66.9%	47.6%
Minority interests	0.2%	-	-	-	-	-	-	-	1.0%	-
Net assets	45.1%	55.9%	60.7%	56.0%	50.5%	35.4%	49.9%	51.9%	33.1%	52.4%
Common stocks	6.2%	2.8%	11.3%	4.7%	9.7%	5.0%	0.8%	1.6%	1.0%	7.8%
Retained earnings	28.5%	52.7%	31.3%	33.7%	36.9%	25.2%	20.8%	48.8%	13.5%	36.3%
Total interest-bearing debt	13.9%	5.3%	0.0%	0.1%	0.5%	6.2%	5.1%	0.1%	19.5%	20.0%

Note: Based on latest financial results (except Growell HD, where results are from FY8/10). Consolidated numbers used when available.

Source: Nikkei-NEEDS Financial QUEST, Company data, Citi Investment Research and Analysis.

Labor costs high as certified staff like pharmacists and registered salespeople are necessary

The SG&A-to-sales ratio is low, as this is the source of the funds for low-priced selling, but because certified staff such as pharmacists and registered salespeople are necessary, the personnel expense burden is onerous.

As with the gross margin, there are big differences from operator to operator in the SG&A-to-sales ratio, with the lowest being found at Cosmos (15.0%) and the highest at Growell, at 25.4% (25.2% in FY8/11). The biggest factor behind the gaps is the ratio of personnel costs to sales, with the lowest at Cosmos (6.1%) and the highest at Growell, at 12.1% (12.2% in FY8/11), a 6.1ppt gap. Growell, which aims to have dispensing pharmacy services in all its stores, has 2.7 pharmacists per store, and we believe that in its mainstay Welcia Kanto operations it treats its staff more generously than its rivals do theirs. In contrast, Cosmos, believing that low prices are more important than expertise, does not handle prescription drugs nor class 1 pharmaceuticals (which require a pharmacist or a registered marketer with three years' of experience to dispense). It mainly runs stores with registered marketers and has a very low per-store pharmacist ratio of 0.3.

Margins do not vary much from operator to operator, but it is clear that earnings structures differ greatly depending on whether the firm is aiming to operate drugstores with high levels of expertise or ones that pursue low prices.

Figure 121. Comparison of sales and gross profit by product (FY2010) (¥mn)

CreateSD HD		Sales	% wgt	GP	GPM	% wgt
(CreateSD Parent)						
	Drugs	35,674	23.2%	13,877	38.9%	33.4%
	Cosmetics	26,315	17.1%	7,973	30.3%	19.2%
	Food	50,709	32.9%	9,128	18.0%	22.0%
	Sundries	29,511	19.2%	7,968	27.0%	19.2%
	Others	11,884	7.7%	2,555	21.5%	6.2%
	Consolidated total	154,094	100.0%	41,516	26.9%	100.0%
Sundrug		Sales	% wgt	GP	GPM	% wgt
	Drugs	82,664	22.9%	-	-	-
	Disposable sundries	47,965	13.3%	-	-	-
	Cosmetics	96,684	26.8%	-	-	-
	Baby goods	7,717	2.1%	-	-	-
	Others	123,456	34.2%	-	-	-
	Real estate/letting	2,167	0.6%	-	-	-
	Consolidated total	360,655	100.0%	81,797	22.7%	100.0%
Growell HD		Sales	% wgt	GP	GPM	% wgt
	Drugs	70,641	26.1%	27,479	38.9%	34.7%
	Prescription drugs	23,892	8.8%	8,434	35.3%	10.6%
	Cosmetics	50,641	18.7%	15,901	31.4%	20.1%
	Household sundries	39,109	14.4%	10,520	26.9%	13.3%
	Foods	62,915	23.2%	13,527	21.5%	17.1%
	Others	23,617	8.7%	3,377	14.3%	4.3%
	Consolidated total	270,816	100.0%	79,234	29.3%	100.0%
Tsuruha HD		Sales	% wgt	GP	GPM	% wgt
	Drugs	72,935	24.3%	30,997	42.5%	37.0%
	Cosmetics	58,575	19.6%	16,694	28.5%	21.9%
	Sundries	90,734	30.3%	19,326	21.3%	25.4%
	Baby & Kids	13,033	4.4%	1,447	11.1%	1.9%
	Others	61,071	20.4%	13,863	22.7%	18.2%
	Consolidated total	299,579	100.0%	83,664	27.9%	100.0%
Sugi HD		Sales	% wgt	GP	GPM	% wgt
(Sugi Pharmacy parent)						
	Dispensaries	25,014	11.4%	8,355	33.4%	13.2%
	Healthcares	56,548	25.8%	21,149	37.4%	33.5%
	Beauty cares	62,659	28.6%	17,670	28.2%	28.0%
	Home cares	39,652	18.1%	9,556	24.1%	15.1%
	Baby cares	9,232	4.2%	1,182	12.8%	1.9%
	Others	26,012	11.9%	5,306	20.4%	8.4%
	Parent Total	219,119	100.0%	63,254	28.9%	100.0%
cocokarafine HD		Sales	% wgt	GP	GPM	% wgt
	Drugs	69,663	27.1%	26,124	37.5%	41.1%
	of which OTC	42,652	16.6%	16,037	37.6%	25.2%
	of which prescription	27,011	10.5%	10,102	37.4%	15.9%
	Cosmetics	65,550	25.5%	17,109	26.1%	26.9%
	Health foods	9,259	3.6%	2,815	30.4%	4.4%
	Sundries	42,038	16.4%	8,828	21.0%	13.9%
	Others	36,335	14.2%	8,175	22.5%	12.9%
	Consolidated total	256,681	100.0%	63,587	24.8%	100.0%
Cawachi		Sales	% wgt	GP	GPM	% wgt
	Drugs	38,510	16.3%	12,939	33.6%	25.9%
	Cosmetics	19,217	8.1%	5,438	28.3%	10.9%
	Sundries	69,421	29.4%	13,121	18.9%	26.2%
	Foods	108,381	46.2%	18,533	17.1%	37.0%
	Consolidated total	235,530	100.0%	50,088	21.3%	100.0%
Cosmos Pharma		Sales	% wgt	GP	GPM	% wgt
	Drugs	41,509	17.5%	14,196	34.2%	31.3%
	Cosmetics	30,623	12.9%	7,931	25.9%	17.5%
	Sundries	40,185	16.9%	7,354	18.3%	16.2%
	General foods	120,939	51.0%	15,480	12.8%	34.1%
	Others	3,917	1.7%	447	11.4%	1.0%
	Consolidated total	237,174	100.0%	45,502	19.2%	100.0%

Source: Company data, Citi Investment Research and Analysis.



Key point: Inventory weighting high as products can be returned. Can open stores leveraging turnover differential capital

Drugstore operator income statements—key characteristics

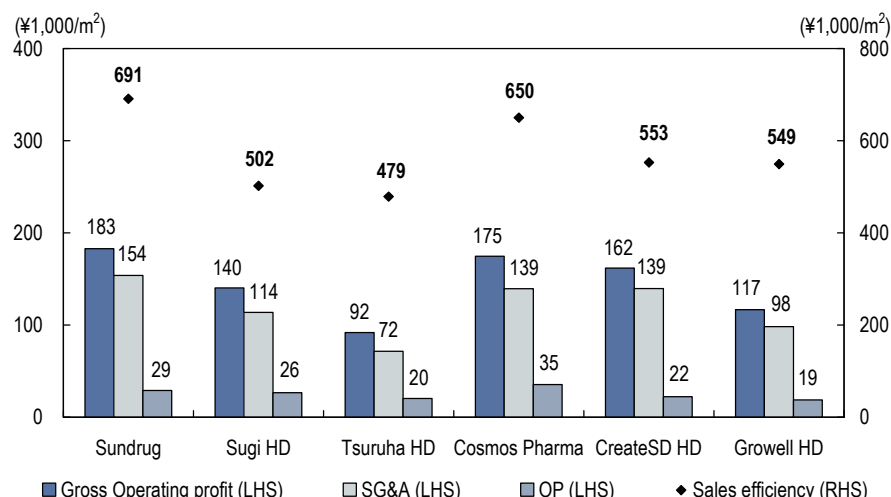
The drugstore sector as a whole has a current asset ratio of 49%, fixed asset ratio of 51%, and a shareholder equity ratio of 45%. The current asset ratio is higher than the retail sector average (38%) and about the same level as that for apparel, eyewear, and sports specialty retailers. However, the high current asset ratio is mainly due to a high level of inventory, which accounts for a larger portion of current assets than cash. We believe the inventory ratio is high because drugs and cosmetics have relatively long shelf lives and because a procurement system that allows product returns has become entrenched. Also, the length of time cash is held can be roughly calculated from the difference between the number of days to turn over accounts payable (end-period accounts payable divided by product purchases during the period) and the number of days to turn over merchandise. For Cawachi and Cosmos, this difference is particularly long, at around 37-41 days. We believe funds generated by this model are used to finance new stores and other business activities.

Looking at the liabilities side of the balance sheet, Sugi, Tsuruha, Create SD, and Matsumotokiyoshi are almost debt-free, Sundrug, Cosmos, and Cocokara Fine have debt/equity ratios of 5%-6%, while Growell and Cawachi have somewhat high ratios at around 20%. The balance sheets of Cawachi and Growell sometimes suffer because Cawachi often buys land when it opens a new store and because Growell repeatedly does M&A deals.

Landholdings as a percentage of total assets for the drugstore sector as a whole is 12%, below the retail sector average of 17.7%. Drugstores often used leased stores and that is why the landholding-to-asset ratio for all drug store operators is single digits apart from Cawachi, where it is a high 34.6%, and Matsumotokiyoshi, at 19.1%. Deposits and guarantees are positive for future cash flow, and its weight as a % of total asset are high for Cocokara Fine (16.6%), Matsumotokiyoshi (16.3%), and Tsuruha (15.1%). For Cawachi the ratio is a low 5.4%.

Per-square meter analysis

Figure 122. Major 6 drugstores : Comparison of per m² profitability



Note: Based on latest financial results. Consolidated numbers are used where available.
Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Next we look at six drug store companies in terms of sales efficiency (per m²). We exclude from this analysis Sundrug and Matsumotokiyoshi because they do not disclose consolidated floor space, and Cocokara Fine because it has a relatively high weighting of wholesale sales.

Figure 122 shows sales, gross profit, SG&A expenses, and OP for the six drug store operators.



Key point: OP per square meter determined by sales floor efficiency rather than target (specialization vs. discount)

Create SD has the highest OP/m² at ¥35,000/m², followed by Sugi with ¥29,000/m² and Tsuruha with ¥26,000/m². From fourth place down OP/m² is ¥19,000–¥22,000, around half the level at Create SD. Benchmark store areas differ from operator to operator. Sales floor efficiency has a larger bearing on OP/m² than whether the operator is deploying a specialist- or discount-oriented business model.

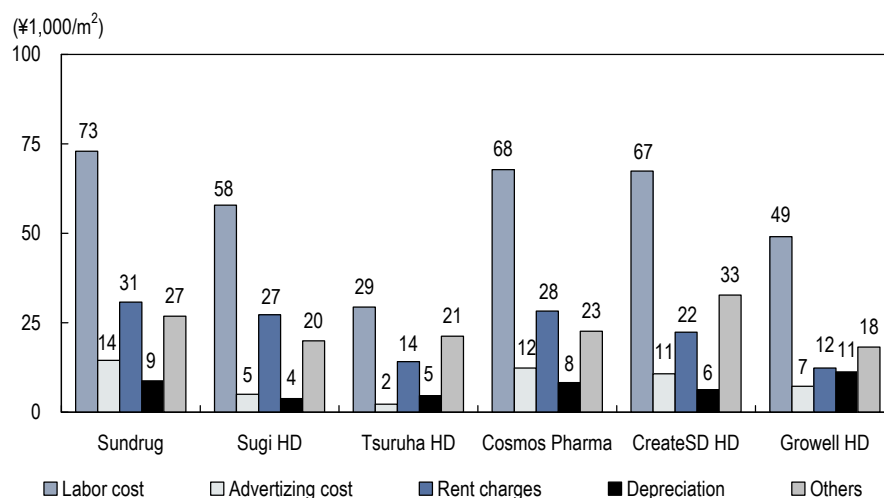
Next we look differences between sales efficiency based on store location and store size. The best performers are Sugi (¥691,000/m²) and Create SD (¥650,000/m²), whose stores have average areas around 200 tsubo (one tsubo = 3.3 m²) and who have built positions of relative dominance in urban areas. Their numbers are higher than those of Cosmos (¥479,000/m²) and Cawachi (¥549,000/m²), whose store are mainly located in suburban areas and have larger average floor spaces. Both Growell and Tsuruha have average store floor space areas of around 200 tsubo, but their efficiency is somewhat weak at ¥553,000/m² and ¥502,000/m², respectively. Tsuruha is the dominant drug store operator in Hokkaido, which along with Tohoku accounts for 60% of its sales, and we think that its mainly rural store locations are the cause of this relatively poor efficiency. On the other hand, Growell in many cases opens new stores in facilities that peers have left, and so its floor space may not fit its locations. Although it may have excess floor space, we do not think this will be a problem if it carefully manages profitability.

Gross profit per m² is determined more by sales weighting by product and target market (whether the operator stresses expertise or discounts) than it is by store location. For example, Sugi boasts the highest gross profit per m² at ¥183,000/m²,

while Cosmos only generates ¥92,000/m², half the level of Sugi. This is because there is a 7ppt difference between the two in their gross margin, mainly due to Cosmos' sales floor efficiency being only c70% that of Sugi and because the sales weighting of low-margin foodstuffs is only 5% at Sugi but a hefty 51% at Cosmos. The two companies take the most contrasting stances among our six comparison firms, with Sugi the most in pursuit of expertise and Cosmos the most in pursuit of low prices.

Comparing SG&A costs per square meter

Figure 123. Major 6 drugstores : m Comparison of per m² operating costs



Note: Based on latest financial results. Consolidated numbers are used where available.
Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

The picture is reversed, however, when it comes to SG&A expense per m², with Cosmos coming in lowest, at ¥72,000/m² and Sugi the highest at ¥154,000/m².



Key point: Labor costs the main factor determining profitability at drugstores

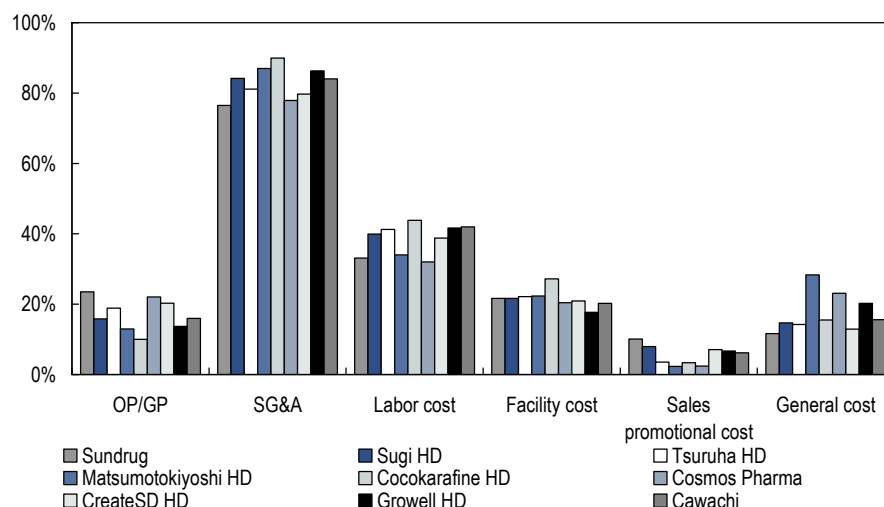
Figure 123 shows per m² labor costs, facilities costs (depreciation), rent, advertising and marketing expense, and other general expenses. Labor costs account for some 50% of drugstore SG&A expenses and rent and depreciation together accounting for some 25%-30% of SG&A, so these three items account for some 70% to 80% of total SG&A expenses. The advertising and marketing expense weighting in SG&A ranges from 3% to 13%, varying greatly from operator to operator.

Figure 123 shows that there are also particularly large gaps from operator to operator in labor costs. Of the difference between Sugi and Cosmos in per m² SG&A expenses, labor costs account for just over 50%, followed by rent at just over 20% and advertising and marketing expense at just over 10%, with these three items accounting for close to 90% of the difference. The difference in labor costs per m² is principally due to the difference in the numbers of qualified employees. Sugi, which aims to have dispensing pharmacy services in all its stores, has 1.9 pharmacists per store. In contrast, Cosmos has decided that there is no money to be made in the combined drugstore/dispensing pharmacy model and is convinced that it would be inefficient to station pharmacists in its stores, as class 1 pharmaceuticals account for just 1% of its sales, so it has only 0.3 pharmacists per store. We think that its strategy of not employing pharmacists is one of the founts of its price competitiveness. Differences in rent from operator to operator broadly results from the price of land where stores are located. Advertising and marketing

expense differ according to whether the operator is oriented to an EDLP (everyday low prices) strategy or a hi-lo strategy. For instance, Cosmos and Cawachi, which are oriented to EDLP, have advertising and marketing expense per m² of ¥2,200-¥7,200. They keep their expenses here lower than Growell, Create SD, and Sugi, which are at ¥10,700/m²-¥14,500/m².

Allocation ratio analysis

Figure 124. Nine drugstores : Allocation ratio comparison



Note: Based on latest financial results. Consolidated numbers are used where available.
Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

Figure 125. Nine drugstores : Allocation ratio comparison

(\$mn)	Gross profit					Allocation ratio						
		OP	RP	NP		OP/GP	SG&A	Labor cost	Facility cost	Sales promotional cost	General	
Sundrug	81,797	19,232	19,801	10,871		23.5%	76.5%	33.1%	21.6%	10.1%	11.7%	
Sugi HD	80,618	12,777	15,012	8,999		15.8%	84.2%	39.9%	21.6%	7.9%	14.7%	
Tsuruha HD	83,664	15,771	16,521	7,881		18.9%	81.1%	41.2%	22.1%	3.6%	14.2%	
Matsumotokiyoshi HD	119,230	15,491	17,497	7,291		13.0%	87.0%	34.0%	22.3%	2.3%	28.4%	
Cocokarafine HD	63,587	6,375	10,395	5,911		10.0%	90.0%	43.8%	27.2%	3.4%	15.5%	
Cosmos Pharma	45,502	10,039	11,071	5,737		22.1%	77.9%	32.0%	20.4%	2.4%	23.1%	
CreateSD HD	41,627	8,442	8,744	4,540		20.3%	79.7%	38.8%	20.9%	7.1%	12.9%	
Growell HD	79,234	10,864	11,390	4,544		13.7%	86.3%	41.7%	17.7%	6.6%	20.2%	
Cawachi	50,088	8,000	8,407	3,800		16.0%	84.0%	42.0%	20.2%	6.2%	15.6%	

Note: Based on latest financial results. Consolidated numbers are used where available.
Source: Nikkei NEEDS-Financial QUEST, Citi Investment Research and Analysis.

OP/GP ratios over 20% at Sundrug, Cosmos, and CreateSD



Key point: OP/GP ratios for drugstores do not differ as much as they do in other subsectors, but are over 20% at Sundrug, Cosmos, and CreateSD

Next we look at allocation ratios, which we consider very important. Figures 124-125 show OP/GP, SG&A allocation, labor cost allocation, facility cost allocation, promotional cost allocation, and general cost allocation ratios; we see some special characteristics that are not explained by per m² breakdowns. Three companies demonstrate generally favorable OP/GP ratios of more than 20%—Sundrug with 24%, Cosmos with 22%, and Create SD with 20%. Sundrug generates its high ratio by keeping SG&A expenses under control while delivering sales levels that are greater than peers'. The low-cost operations at Cosmos mean that it has a favorable ratio despite its low gross margin. Create SD seems to follow a path between these two approaches.

Among nine drugstore operators, the lowest OP/GP ratio is 10% at Cocokara Fine. The company also has a wholesale business, so simple comparisons are not possible, but it has 26.6 staff for each 100m² of floor space, or about double the

corresponding figures at Cosmos (12), Cawachi (12.6), and Create SD (14.7). In particular, its labor allocation ratio is high compared to peers, and this is a key factor underlying its high SG&A allocation ratio. We believe their poor staff efficiency is due to large number of relatively small and various sizes of stores.

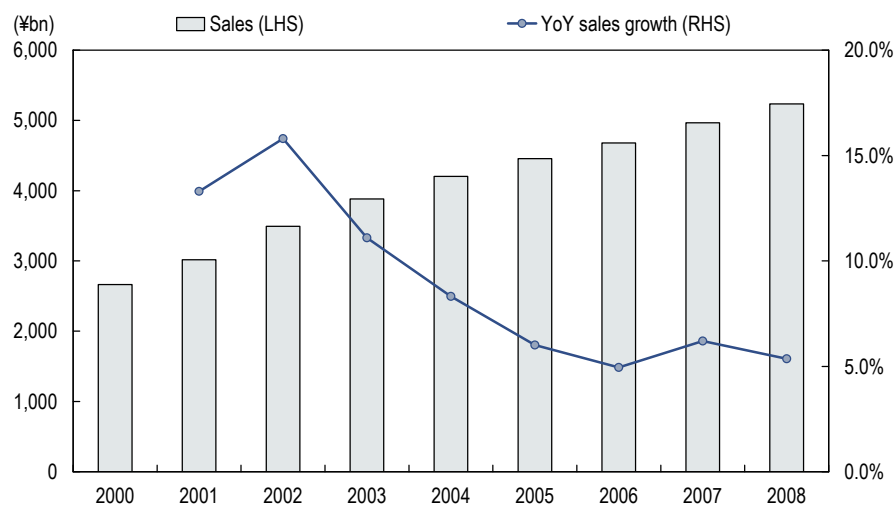
Comparison of SG&A allocation ratios

Now we turn to the specific factors affecting SG&A allocation ratios at individual operators.

Looking at SG&A allocation ratios, we find one of the significant differences between Create SD, Cosmos, and Sundrug, with their OP/GP ratios over 20%, and other operators lies in their low labor cost allocation ratios. For example, Sundrug, which has the highest OP/GP ratio, has a labor cost allocation ratio that is roughly in line with Cosmos (32%) at the lowest end of the range and 11ppt below Cocokara Fine, which has the highest (44%). The number of employees per store and the average salary per employee are not significantly different from peers with stores with similar floor space, so we think this shows more efficient use of floor space (as only figures for parent directly managed stores are disclosed, simple like-for-like comparison is not possible). Furthermore, by keeping the labor cost allocation ratio low, Sundrug can achieve a promotional cost allocation ratio of 10%, greater than peers.

Drugstores: Macroeconomic conditions

Figure 126. Trends in drugstore market size



Source: Company data, Japan Association of Chain Drugstores, Citi Investment Research and Analysis.

Highest average annual growth of any retail subsector over last 5-10 years

Greater growth prospects than other subsectors

Figure 126 shows changes in the scale of the Japanese drugstore market based on annual figures released by the Japan Association of Chain Drug Stores (JACDS). The industry has seen average annual growth of 8.7% over the past 10 years and 4.7% over the past five years, which is the highest growth among retail subsectors in Japan. However, in FY2010, the most recent year for which figures are available, industry growth was just 3.5% YoY—the lowest rate of growth since the association

started to track the market in FY2000. The market was worth a total of ¥5.6trn in FY2010, which breaks down to ¥1.7trn for pharmaceuticals (30.4% of the total market, +3.4% YoY), ¥1.3trn for cosmetics (23.8%, +1.4%), ¥1.3trn for daily goods (22.5%, +3.3%), and ¥1.3trn for other products (22.8%, +5.7%). With market growth for OTC products, cosmetics, and daily goods gradually reaching peaks, a growing number of store operators are expanding their lineups of products such as foods, hardware items, and functional innerwear, aiming to make inroads into other subsectors, such as home centers, and increase sales. Looking ahead, on the discount side, we expect to merchandise lineups expanding across subsector boundaries and price competition increasing.



Key point: Future market share growth will come from 1) eating into other markets by augmenting product line-ups or 2) bolstering specialization to capture the pharmaceutical and switch-OTC markets

Meanwhile, we see two points supporting market growth: 1) stepped-up efforts in dispensing pharmacy businesses, and 2) greater activity in OTC drug market driven by Switching OTC. The JACDS defines retailers that handle both pharmaceuticals and cosmetics and daily goods as drugstores, but if the definition is expanded to include dispensing pharmacies, the total market is around ¥10trn, and we think dispensing pharmacy operations represent an avenue with room for growth over the medium term. In particular, while the dispensing pharmacy market is worth about ¥6.1trn, the top 10 chain operators in the market have an aggregate share of only about 10%, so this is an area where there has been little progress toward oligopolization. Furthermore, as shown in Figure 128, we are witnessing conspicuous advances in the separation of dispensary operations from medical practices in prefectures where that separation has previously been relatively limited. This is a regulated industry, and continuous drug price and dispensing fee reviews mean that margins will probably shrink gradually over the longer run, but the gaps in terms of business conditions between the large players and the smaller participants are widening as well, and we think the weeding out process will start to move much faster.



Key point: We see greater room to achieve continuous growth in market share at chains that have a clearly targeted strategy (whether that means specialization or discounting) than at those that try to chart a middle course

Due to the factors cited above, we think there is greater room to achieve continuous growth in market share at chains that have a clearly targeted strategy (whether that means specialization or discounting) than at those that try to chart a middle course.

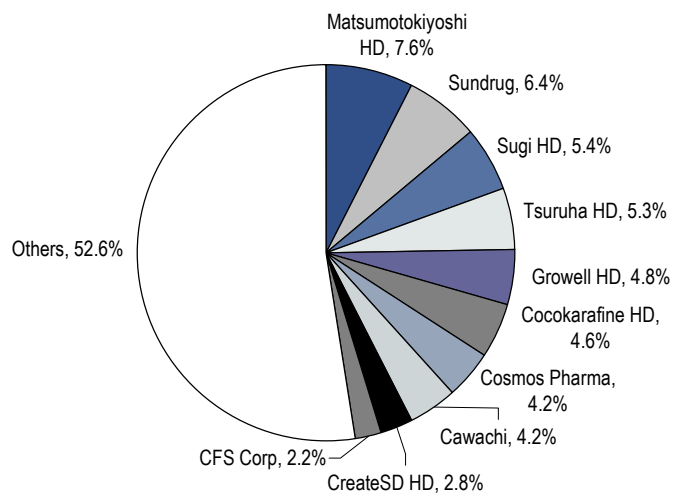
Top ten firms have 47% of the market

Figure 127 shows market share at the top 10 drugstore operators, who account for an aggregate market share of 47%. A number of drugstore operators have adopted holding company formats over the past few years and taken an aggressive approach to M&A. The top company by sales is Matsumotokiyoishi, with annual sales of ¥428.2bn, but Sundrug and Sugi both have sales of more than ¥300bn, Tsuruha and Growell post sales approaching that level, and Cocokara Fine, Cosmos, and Cawachi have sales over ¥200bn, so depending on future M&A developments, it would not be surprising to see a change at the top. Moreover, while drugstores tend to have a more regional character than electronics mass market outlets that predominantly carry national brands, their lineups are not as tailored to local demand as supermarkets, for example, so the obstacles to mergers are not as challenging. Even though the rate of growth has slowed, the market as a whole is still growing, and medium-sized drugstore chains that are dominant in particular regions are still getting preferential trading terms. So unless there is some clear benefit, such as highly differentiated private-brand development or real economies of scale, medium-sized drugstore chains still may not have sufficient motivation to merge with larger rivals.

Equilibrium at the top: any chain could take over the top spot via M&A

In METI's statistics, drugstores are broadly defined to include dispensing pharmacies and other outlets for pharmaceuticals in addition to the chain stores. Small "mom-and-pop" outlets included in this reckoning account for 58% of the total number of stores and just over 50% of sales.

Figure 127. Market share at top 10 drugstores



Source: Company data, Japan Association of Chain Drugstores 2010, Citi Investment Research and Analysis.

Figure 128. Trends in prescription receipt rates

	Prescription receipt rate			Change	
	CY2005	CY2009	CY2010	(CY2010-CY2005)	(CY2010-CY2009)
Hokkaido	62.0%	70.1%	72.9%	10.9%	2.8%
Aomori	61.0%	67.6%	70.6%	9.6%	3.0%
Iwate	60.7%	68.8%	71.2%	10.5%	2.4%
Miyagi	65.7%	71.3%	73.8%	8.1%	2.5%
Akita	71.4%	77.8%	80.8%	9.4%	3.0%
Yamagata	52.3%	60.4%	62.9%	10.6%	2.5%
Fukushima	58.5%	65.9%	68.5%	10.0%	2.6%
Tochigi	57.6%	65.3%	67.5%	9.9%	2.2%
Ibaraki	44.0%	52.8%	55.6%	11.6%	2.8%
Gunma	39.3%	46.4%	48.5%	9.2%	2.1%
Saitama	58.2%	65.1%	67.0%	8.8%	1.9%
Chiba	61.2%	66.3%	68.5%	7.3%	2.2%
Tokyo	65.2%	70.1%	72.6%	7.4%	2.5%
Kanagawa	70.3%	74.7%	77.1%	6.8%	2.4%
Niigata	66.1%	72.4%	74.3%	8.2%	1.9%
Toyama	34.1%	42.9%	45.8%	11.7%	2.9%
Ishikawa	32.6%	44.8%	48.1%	15.5%	3.3%
Fukui	20.1%	29.3%	32.6%	12.5%	3.3%
Yamanashi	58.0%	65.4%	67.7%	9.7%	2.3%
Nagano	51.8%	58.2%	60.5%	8.7%	2.3%
Gifu	48.8%	55.3%	57.5%	8.7%	2.2%
Shizuoka	56.6%	63.0%	65.6%	9.0%	2.6%
Aichi	43.7%	51.3%	54.3%	10.6%	3.0%
Mie	44.0%	49.2%	51.6%	7.6%	2.4%
Shiga	46.6%	57.2%	59.8%	13.2%	2.6%
Kyoto	32.3%	40.0%	42.8%	10.5%	2.8%
Osaka	38.6%	47.0%	49.5%	10.9%	2.5%
Hyogo	52.3%	59.5%	61.5%	9.2%	2.0%
Nara	39.6%	48.2%	50.1%	10.5%	1.9%
Wakayama	29.6%	37.0%	39.3%	9.7%	2.3%
Tottori	59.0%	61.1%	63.2%	4.2%	2.1%
Shimane	48.1%	60.4%	63.7%	15.6%	3.3%
Okayama	47.0%	52.5%	55.0%	8.0%	2.5%
Hiroshima	55.3%	61.9%	64.2%	8.9%	2.3%
Yamaguchi	56.6%	64.0%	67.1%	10.5%	3.1%
Tokushima	35.1%	41.5%	43.9%	8.8%	2.4%
Kagawa	48.3%	54.1%	56.1%	7.8%	2.0%
Ehime	36.1%	42.2%	44.9%	8.8%	2.7%
Kochi	46.4%	53.5%	56.7%	10.3%	3.2%
Fukuoka	60.5%	66.3%	68.4%	7.9%	2.1%
Saga	71.3%	73.7%	74.6%	3.3%	0.9%
Nagasaki	59.1%	62.3%	63.9%	4.8%	1.6%
Kumamoto	52.9%	57.5%	59.7%	6.8%	2.2%
Oita	57.2%	63.4%	65.2%	8.0%	1.8%
Miyazaki	62.9%	67.7%	69.0%	6.1%	1.3%
Kagoshima	57.4%	62.7%	64.5%	7.1%	1.8%
Okinawa	65.3%	69.2%	71.4%	6.1%	2.2%
Average	54.1%	60.7%	63.1%	9.0%	2.4%

Note: Highlighted areas are prescription receipt rates that below the average and changes above the average
Source: Japan Pharmaceutical Association, Citi Investment Research and Analysis.

Figure 129. Drug and toiletry stores: Trends in annual sales by employee numbers and locations

Category	No. of staffs	Annual product sales (¥mn)					Locations				
		CY2004	CY2007	Breakdown		CY07 /CY04	CY2004	CY2007	Breakdown		CY07 /CY04
				CY04	CY07				CY04	CY07	
Drug and Toiletry stores	Total	7,420,744	8,472,373	100.0%	100.0%	14.2%	86,684	84,051	100.0%	100.0%	-3.0%
	less than 2	560,104	482,914	7.5%	5.7%	-13.8%	33,314	28,696	38.4%	34.1%	-13.9%
	3-4	1,072,303	1,134,510	14.5%	13.4%	5.8%	20,912	19,934	24.1%	23.7%	-4.7%
	5-9	2,488,476	2,732,882	33.5%	32.3%	9.8%	21,922	22,870	25.3%	27.2%	4.3%
	10-19	2,086,834	2,580,324	28.1%	30.5%	23.6%	8,359	9,883	9.6%	11.8%	18.2%
	20-29	653,988	897,095	8.8%	10.6%	37.2%	1,545	2,010	1.8%	2.4%	30.1%
	30-49	328,570	346,582	4.4%	4.1%	5.5%	510	529	0.6%	0.6%	3.7%
	50-99	124,638	122,321	1.7%	1.4%	-1.9%	101	105	0.1%	0.1%	4.0%
	over 100	105,832	175,745	1.4%	2.1%	66.1%	21	24	0.0%	0.0%	14.3%
	less than 5-9	4,120,883	4,350,306	55.5%	51.3%	5.6%	54,226	48,630	62.6%	57.9%	-10.3%
Drug stores, except pharmacy	10-49	3,069,392	3,824,001	41.4%	45.1%	24.6%	32,336	35,292	37.3%	42.0%	9.1%
	Total	2,591,492	2,473,853	100.0%	100.0%	-4.5%	31,262	25,256	100.0%	100.0%	-19.2%
	less than 2	219,407	148,223	8.5%	6.0%	-32.4%	14,886	11,385	47.6%	45.1%	-23.5%
	3-4	295,741	228,901	11.4%	9.3%	-22.6%	6,539	4,743	20.9%	18.8%	-27.5%
	5-9	665,836	496,867	25.7%	20.1%	-25.4%	5,346	4,105	17.1%	16.3%	-23.2%
	10-19	940,942	1,067,028	36.3%	43.1%	13.4%	3,514	3,927	11.2%	15.5%	11.8%
	20-29	336,771	399,321	13.0%	16.1%	18.6%	771	895	2.5%	3.5%	16.1%
	30-49	120,758	111,805	4.7%	4.5%	-7.4%	194	184	0.6%	0.7%	-5.2%
	50-99	12,037	-	0.5%	-	-	12	15	0.0%	0.1%	25.0%
	over 100	0	-	0.0%	-	-	0	2	0.0%	0.0%	-
Pharmacy	less than 5-9	1,180,984	873,991	45.6%	35.3%	-26.0%	21,425	16,128	68.5%	63.9%	-24.7%
	10-49	1,398,471	1,578,154	54.0%	63.8%	12.8%	9,825	9,111	31.4%	36.1%	-7.3%
	Total	3,316,409	4,157,398	100.0%	100.0%	25.4%	32,116	36,610	100.0%	100.0%	14.0%
	less than 2	165,196	186,510	5.0%	4.5%	12.9%	5,183	5,438	16.1%	14.9%	4.9%
	3-4	585,338	766,664	17.6%	18.4%	31.0%	9,448	11,038	29.4%	30.2%	16.8%
	5-9	1,540,925	1,918,920	46.5%	46.2%	24.5%	13,699	15,662	42.7%	42.8%	14.3%
	10-19	804,970	1,005,388	24.3%	24.2%	24.9%	3,364	3,898	10.5%	10.6%	15.9%
	20-29	147,940	180,405	4.5%	4.3%	21.9%	325	419	1.0%	1.1%	28.9%
	30-49	53,760	70,127	1.6%	1.7%	30.4%	80	122	0.2%	0.3%	52.5%
	50-99	-	-	-	-	-	15	32	0.0%	0.1%	113.3%
Toiletry stores	over 100	-	-	-	-	-	2	1	0.0%	0.0%	-50.0%
	less than 5-9	750,534	953,174	22.6%	22.9%	27.0%	14,631	16,476	45.6%	45.0%	12.6%
	10-49	2,345,895	2,924,308	70.7%	70.3%	24.7%	17,063	19,560	53.1%	53.4%	14.6%
	Total	1,512,844	1,841,122	100.0%	100.0%	21.7%	23,306	22,185	100.0%	100.0%	-4.8%
	less than 2	175,501	148,182	11.6%	8.0%	-15.6%	13,245	11,873	56.8%	53.5%	-10.4%
	3-4	191,224	138,944	12.6%	7.5%	-27.3%	4,925	4,153	21.1%	18.7%	-15.7%
	5-9	281,714	317,094	18.6%	17.2%	12.6%	2,877	3,103	12.3%	14.0%	7.9%
	10-19	340,922	507,909	22.5%	27.6%	49.0%	1,481	2,058	6.4%	9.3%	39.0%
	20-29	169,278	317,368	11.2%	17.2%	87.5%	449	696	1.9%	3.1%	55.0%
	30-49	154,052	164,651	10.2%	8.9%	6.9%	236	223	1.0%	1.0%	-5.5%
Toiletry stores	50-99	-	84,394	-	4.6%	-	74	58	0.3%	0.3%	-21.6%
	over 100	-	162,580	-	8.8%	-	19	21	0.1%	0.1%	10.5%
	less than 5-9	648,439	604,220	42.9%	32.8%	-6.8%	18,170	16,026	78.0%	72.2%	-11.8%
	10-49	664,252	989,928	43.9%	53.8%	49.0%	5,043	6,080	21.6%	27.4%	20.6%

Source: METI Statistics, Citi Investment Research and Analysis.

Section 3

Data

Data

Figure 130. Monthly expenditure per household by number of household members (¥)

No. of person per household	Average (2.47 person)	1 person	2 persons	3 persons	4 persons	5 persons
Total expenditure	102,157	162,009	126,684	99,450	79,936	67,790
Food	23,739	37,364	29,308	22,546	18,516	16,709
Housing	7,695	20,976	9,209	6,757	4,506	2,728
light and fuel, water	7,545	10,737	9,416	7,390	5,951	5,514
Furniture, etc.	3,450	4,366	4,795	3,605	2,594	2,142
Clothing	4,051	6,449	4,482	4,000	3,498	2,926
Medical care	4,315	6,238	6,728	4,106	2,885	2,288
Transportation, Communications, broadcasting	13,540	20,299	15,369	14,277	11,089	9,289
Education costs	3,383	316	225	2,642	6,588	6,427
Culture amusement	11,599	20,956	14,524	10,261	8,887	7,639
Others	22,840	34,308	32,630	23,867	15,423	12,128
Spread from the average						
Total expenditure	1.00	1.59	1.24	0.97	0.78	0.66
Food	1.00	1.57	1.23	0.95	0.78	0.70
Housing	1.00	2.73	1.20	0.88	0.59	0.35
light and fuel, water	1.00	1.42	1.25	0.98	0.79	0.73
Furniture, etc.	1.00	1.27	1.39	1.04	0.75	0.62
Clothing	1.00	1.59	1.11	0.99	0.86	0.72
Medical care	1.00	1.45	1.56	0.95	0.67	0.53
Transportation, Communications, broadcasting	1.00	1.50	1.14	1.05	0.82	0.69
Education costs	1.00	0.09	0.07	0.78	1.95	1.90
Culture amusement	1.00	1.81	1.25	0.88	0.77	0.66
Others	1.00	1.50	1.43	1.04	0.68	0.53

Source: The survey of household economy (2010), Citi Investment Research and Analysis.

Figure 131. Annual sales by retail subsector (¥bn)

Type of operation	2004	% weight	2007	% weight	2007/ 2004
Retail industry	133,279	100.0	134,705	100.0	1.1
1.Department stores	8,002	5.9	7,709	5.7	-3.7
(1) Large-scale department stores	7,669	5.7	7,324	5.4	-4.5
(2) Other department stores	334	0.2	385	0.3	15.3
2.GMS	8,406	6.2	7,447	5.5	-11.4
(1) Large-scale GMS	7,950	5.9	6,947	5.2	-12.6
(2) Medium-scale GMS	457	0.3	499	0.4	9.3
3.Speciality supermarkets	24,102	17.9	23,796	17.7	-1.3
(1) Apparel	1,545	1.1	1,681	1.2	8.8
(2) Food	17,047	12.7	17,106	12.7	0.3
(3) Household goods	5,510	4.1	5,009	3.7	-9.1
Of which home centers	3,141	2.3	3,046	2.3	-3.0
4.Convenience stores	6,922	5.1	7,007	5.2	1.2
Of which open 24 hours	6,079	4.5	6,247	4.6	2.7
5.Drugstores	2,588	1.9	3,013	2.2	16.4
6.Other supermarkets	5,481	4.1	5,949	4.4	8.6
Of which handle various products	228	0.2	342	0.3	50.2
7.Speciality/Semi-speciality stores	77,549	57.6	79,631	59.1	2.7
(1) Apparel	8,963	6.7	8,515	6.3	-5.0
(2) Food	13,387	9.9	12,608	9.4	-5.8
(3) Household goods	55,199	41.0	58,509	43.4	6.0
8.Other retail stores	229	0.2	154	0.1	-32.8
With various products	229	0.2	142	0.1	-37.9

Sources: Census of Commerce 2007, Citi Investment Research and Analysis.

Figure 132. No. of stores by subsector

Type of operation	2004	% weight	2007	% weight	2007/ 2004
Retail industry	1,238,049	100.0	1,137,859	100.0	- 8.1
1.Department stores	308	0.0	271	0.0	- 12.0
(1) Large-scale department stores	276	0.0	247	0.0	- 10.5
(2) Other department stores	32	0.0	24	0.0	- 25.0
2.GMS	1,675	0.1	1,585	0.1	- 5.4
(1) Large-scale GMS	1,496	0.1	1,380	0.1	- 7.8
(2) Medium-scale GMS	179	0.0	205	0.0	14.5
3.Speciality supermarkets	36,220	3.2	35,512	3.1	- 2.0
(1) Apparel	5,991	0.5	7,153	0.6	19.4
(2) Food	18,485	1.6	17,865	1.6	- 3.4
(3) Household goods	11,744	1.0	10,494	0.9	- 10.6
Of which home centers	4,764	0.4	4,045	0.4	- 15.1
4.Convenience stores	42,738	3.8	43,684	3.8	2.2
Of which open 24 hours	34,453	3.0	36,808	3.2	6.8
5.Drugstores	13,095	1.2	12,701	1.1	- 3.0
6.Other supermarkets	56,211	4.9	55,615	4.9	- 1.1
Of which handle various products	782	0.1	1,015	0.1	29.8
7.Speciality/Semi-speciality stores	1,085,122	95.4	986,650	86.7	- 9.1
(1) Apparel	165,736	14.6	153,820	13.5	- 7.2
(2) Food	323,087	28.4	275,573	24.2	- 14.7
(3) Household goods	596,299	52.4	557,257	49.0	- 6.5
8.Other retail stores	2,680	0.2	1,841	0.2	- 31.3
With various products	2,680	0.2	1,760	0.2	- 34.3

Sources: Census of Commerce 2007, Citi Investment Research and Analysis.

Figure 133. Amount of sales by employee scale

Number of employees	Sales (¥bn)		% weight		CY2007 /2004
	CY2004	CY2007	CY2004	CY2007	
Retail	133,279	134,705	100.0%	100.0%	1.1%
2 or fewer	7,127	6,872	5.3%	5.1%	-3.6%
3 to 4	12,011	13,313	9.0%	9.9%	10.8%
5 to 9	23,315	29,421	17.5%	21.8%	26.2%
10 to 19	26,861	26,123	20.2%	19.4%	-2.7%
20 to 29	12,755	11,670	9.6%	8.7%	-8.5%
30 to 49	11,846	13,235	8.9%	9.8%	11.7%
50 to 99	14,043	13,310	10.6%	9.9%	-5.2%
100 and over	25,322	20,762	19.0%	15.4%	-18.0%
4 or fewer (small-scale stores)	19,138	20,185	14.4%	15.0%	5.5%
5 to 49 (medium-scale stores)	74,777	80,448	56.1%	59.7%	7.6%
50 and above (large-scale stores)	39,364	34,073	29.5%	25.3%	-13.4%

Sources: Census of Commerce 2007, Citi Investment Research and Analysis.

Figure 134. Number of stores by employee scale

Number of employees	No. of stores		% weight		CY2007 /2004
	CY2004	CY2007	CY2004	CY2007	
Retail	1,238,049	1,137,859	100.0%	100.0%	-8.1%
2 or fewer	539,299	499,737	43.6%	43.9%	-7.3%
3 to 4	289,027	275,792	23.3%	24.2%	-4.6%
5 to 9	219,839	226,917	17.8%	19.9%	3.2%
10 to 19	120,437	92,014	9.7%	8.1%	-23.6%
20 to 29	34,730	20,467	2.8%	1.8%	-41.1%
30 to 49	18,674	12,984	1.5%	1.1%	-30.5%
50 to 99	11,153	7,255	0.9%	0.6%	-35.0%
100 and over	4,890	2,693	0.4%	0.2%	-44.9%
4 or fewer (small-scale stores)	828,326	775,529	66.9%	68.2%	-6.4%
5 to 49 (medium-scale stores)	393,680	352,382	31.8%	31.0%	-10.5%
50 and above (large-scale stores)	16,043	9,948	1.3%	0.9%	-38.0%

Sources: Census of Commerce 2007, Citi Investment Research and Analysis.

Figure 135. Laborer's expenditure: CY2010 vs. CY1990

	¥		%	
	1990	2010	1990	2010
Expenditure	331,595	318,211	100.0	100.0
Food	79,993	69,575	24.1	21.9
Cereals	9,163	6,497	2.8	2.0
Fish & shellfish	9,944	5,389	3.0	1.7
Meat	7,884	6,448	2.4	2.0
Dairy products & eggs	3,895	3,299	1.2	1.0
Vegetables & seaweeds	9,843	7,591	3.0	2.4
Fruits	3,540	2,042	1.1	0.6
Oils, fats & seasonings	3,046	3,163	0.9	1.0
Cakes & Candies	5,653	5,495	1.7	1.7
Cooked food	6,597	8,293	2.0	2.6
Beverages	3,061	3,991	0.9	1.3
Alcoholic beverages	4,002	3,162	1.2	1.0
Eating out	13,365	14,206	4.0	4.5
Housing	16,475	20,882	5.0	6.6
Rents for dwelling & land	10,761	14,150	3.2	4.4
Repairs & Maintenance	5,713	6,732	1.7	2.1
Fuel, light & water charges	16,797	21,661	5.1	6.8
Electricity	6,910	9,412	2.1	3.0
Gas	5,248	5,750	1.6	1.8
Other fuel & light	1,224	1,344	0.4	0.4
Water & sewerage charges	3,415	5,155	1.0	1.6
Furniture and household utensils	13,103	10,654	4.0	3.3
Household durables	5,000	3,836	1.5	1.2
Interior furnishing & decorations	1,289	619	0.4	0.2
Bedding	1,147	680	0.3	0.2
Domestic utensils	2,555	2,227	0.8	0.7
Domestic non-durable goods	2,206	2,466	0.7	0.8
Domestic services	906	827	0.3	0.3
Clothes & footwear	23,902	13,599	7.2	4.3
Japanese clothing	1,631	345	0.5	0.1
Clothing	9,700	5,400	2.9	1.7
Shirts & sweaters	4,329	2,700	1.3	0.8
Underwear	1,873	1,138	0.6	0.4
Cloth & thread	690	137	0.2	0.0
Other clothing	1,567	1,117	0.5	0.4
Footwear	2,341	1,830	0.7	0.6
Services related to clothing	1,771	931	0.5	0.3
Medical Care	8,670	11,400	2.6	3.6
Medicines	1,919	1,975	0.6	0.6
Health fortification		945	0.0	0.3
Medical supplies & appliances	1,920	2,302	0.6	0.7
Medical services	4,830	6,177	1.5	1.9
Transportation & Communication	33,499	47,918	10.1	15.1
Public transportation	7,543	6,391	2.3	2.0
Private transportation	19,529	26,878	5.9	8.4
Communication	6,426	14,649	1.9	4.6
Education	16,827	18,195	5.1	5.7
Education fees	12,217	13,519	3.7	4.2
Text books & study-related books	704	380	0.2	0.1
Supplementary tuition fee	3,906	4,296	1.2	1.4
Reading & recreation	31,761	34,229	9.6	10.8
Recreational durable goods	3,988	5,234	1.2	1.6
Recreational goods	6,766	6,830	2.0	2.1
Books & other reading materials	4,398	4,037	1.3	1.3
Recreational services	16,610	18,127	5.0	5.7
Other living expenditure	90,569	70,098	27.3	22.0
Miscellaneous	16,892	23,074	5.1	7.3
Pocket money (of which, detailed uses unknown)	36,800	17,936	11.1	5.6
Social expenses	28,630	20,440	8.6	6.4
Remittance	8,246	8,648	2.5	2.7
Engel's coefficient	24.1	21.9		

Note: Values of monthly average per household are used. Composed by households of more than two persons, and exclude households of agriculture, forestry, and fisheries.
Source: Family Income and Expenditure Survey by the Ministry of Internal Affairs and Communication, Citi Investment Research and Analysis.

Figure 136. Retail Industry: Number of stores by Prefectures

	No. of establishments		Change (%)	Weight (%)
	2004	2007		
Nationwide	1,238,049	1,136,755	-8.2	100.0%
Hokkaido	48,858	44,538	-8.8	3.9%
Aomori	16,389	15,155	-7.5	1.3%
Iwate	16,029	14,721	-8.2	1.3%
Miyagi	23,493	22,052	-6.1	1.9%
Akita	14,463	12,998	-10.1	1.1%
Yamagata	15,041	13,704	-8.9	1.2%
Fukushima	23,237	21,253	-8.5	1.9%
Ibaraki	27,926	25,256	-9.6	2.2%
Tochigi	20,207	19,013	-5.9	1.7%
Gumma	21,588	19,653	-9.0	1.7%
Saitama	45,527	44,555	-2.1	3.9%
Chiba	42,857	39,498	-7.8	3.5%
Tokyo	114,213	102,615	-10.2	9.0%
Kanagawa	59,776	55,002	-8.0	4.8%
Niigata	28,572	26,770	-6.3	2.4%
Toyama	14,404	13,048	-9.4	1.1%
Ishikawa	13,663	12,633	-7.5	1.1%
Fukui	10,355	9,377	-9.4	0.8%
Yamanashi	9,969	9,021	-9.5	0.8%
Nagano	23,692	21,711	-8.4	1.9%
Gifu	22,346	20,835	-6.8	1.8%
Shizuoka	39,545	36,778	-7.0	3.2%
Aichi	61,375	57,121	-6.9	5.0%
Mie	18,886	17,463	-7.5	1.5%
Shiga	12,676	11,558	-8.8	1.0%
Kyoto	28,914	26,965	-6.7	2.4%
Osaka	82,301	74,293	-9.7	6.5%
Hyogo	53,431	49,498	-7.4	4.4%
Nara	12,534	11,430	-8.8	1.0%
Wakayama	13,864	12,198	-12.0	1.1%
Tottori	6,872	6,250	-9.1	0.5%
Shimane	9,927	8,940	-9.9	0.8%
Okayama	20,334	18,372	-9.6	1.6%
Hiroshima	29,601	27,019	-8.7	2.4%
Yamaguchi	18,064	16,140	-10.7	1.4%
Tokushima	10,304	8,992	-12.7	0.8%
Kagawa	11,482	10,577	-7.9	0.9%
Ehime	17,427	15,454	-11.3	1.4%
Kochi	10,345	9,778	-5.5	0.9%
Fukuoka	52,685	48,655	-7.6	4.3%
Saga	10,341	9,768	-5.5	0.9%
Nagasaki	18,444	16,698	-9.5	1.5%
Kumamoto	20,528	18,810	-8.4	1.7%
Oita	14,513	13,210	-9.0	1.2%
Miyazaki	13,545	12,735	-6.0	1.1%
Kagoshima	21,483	19,683	-8.4	1.7%
Okinawa	16,023	14,962	-6.6	1.3%

Note: Since 2007 edition, data includes shops inside train/subway stations and tollway shops.
Source: Census of Commerce 2007, Citi Investment Research and Analysis.

Figure 137. Retail Industry: Number of Stores by Segment (m²)

	2004	2007	Breakdown (%)		2007/ 2004 (%)
			2004	2007	
Retail	1,238,049	1,136,755	100.0%	100.0%	-8.2%
General Retailers	5,556	4,742	0.4%	0.4%	-14.7%
Textiles/clothing/miscellaneous retailers	177,851	166,601	14.4%	14.7%	-6.3%
Food and drink retailers	444,596	389,358	35.9%	34.3%	-12.4%
Auto/ bicycles retailers	86,993	82,738	7.0%	7.3%	-4.9%
Furniture/fixtures/machine & equipment retailers	115,132	98,889	9.3%	8.7%	-14.1%
Other retailers	407,921	394,427	32.9%	34.7%	-3.3%
Pharmaceuticals / cosmetics retailers	86,684	83,938	7.0%	7.4%	-3.2%
Agricultural related retailers	15,042	13,961	1.2%	1.2%	-7.2%
Fuel retailers	62,546	57,883	5.1%	5.1%	-7.5%
Books/stationery retailers	54,329	48,080	4.4%	4.2%	-11.5%
Sports goods/ entertainment goods/ music instrument retailers	33,114	29,079	2.7%	2.6%	-12.2%
Camera/photo-related retailers	4,307	3,513	0.3%	0.3%	-18.4%
Watch/glasses/ optic-machinery retailers	21,405	20,402	1.7%	1.8%	-4.7%
Other non-categorized retailers	130,494	137,571	10.5%	12.1%	5.4%

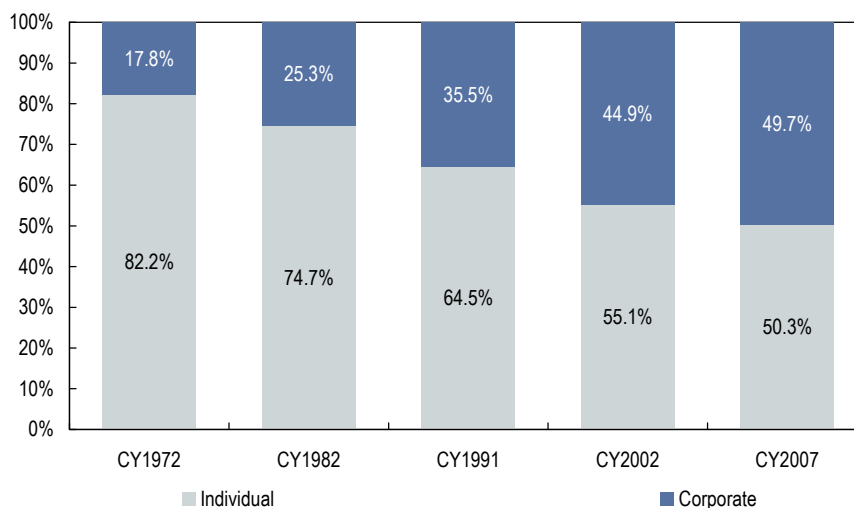
Note: Since 2007 edition, data includes shops inside train/subway stations and tollway shops.
Source: Census of Commerce 2007 preliminary edition, Citi Investment Research and Analysis.

Figure 138. Number of Retailers by company type and by segment

	Corporate retailers				Individual retailers				Composition by company type	
	No. of retailers		Breakdown		No. of retailers		Breakdown		Corporate	
	CY2004	CY2007	CY07/04	CY2007	CY2004	CY2007	CY07/04	CY2007	CY2007	CY07/04
Retail	578,426	565,251	-2.3%	100.0%	659,623	571,504	-13.4%	100.0%	49.7%	3.0%
General Retailers	4,363	3,972	-9.0%	0.7%	1,193	770	-35.5%	0.1%	83.8%	5.2%
Textiles/Clothing/Miscellaneous retailers	92,446	93,043	0.6%	16.5%	85,405	73,558	-13.9%	12.9%	55.8%	3.9%
Food and drink retailers	167,072	158,189	-5.3%	28.0%	277,524	231,169	-16.7%	40.4%	40.6%	3.0%
Auto/bicycles retailers	49,431	48,064	-2.8%	8.5%	37,562	34,674	-7.7%	6.1%	58.1%	1.3%
Furniture/fixtures/machine&equipment retailers	50,779	45,256	-10.9%	8.0%	64,353	53,633	-16.7%	9.4%	45.8%	1.7%
Other retailers	214,335	216,727	1.1%	38.3%	193,586	177,700	-8.2%	31.1%	54.9%	2.4%
Pharmaceuticals / cosmetics retailers	51,998	54,499	4.8%	9.6%	34,686	29,439	-15.1%	5.2%	64.9%	4.9%
Agricultural related retailers	8,593	7,951	-7.5%	1.4%	6,449	6,010	-6.8%	1.1%	57.0%	-0.2%
Fuel retailers	49,598	45,866	-7.5%	8.1%	12,948	12,017	-7.2%	2.1%	79.2%	-0.1%
Books/stationery retailers	27,207	25,375	-6.7%	4.5%	27,122	22,705	-16.3%	4.0%	52.8%	2.7%
Sports goods/entertainment goods/ music instrument retailers	17,447	15,889	-8.9%	2.8%	15,667	13,190	-15.8%	2.3%	54.6%	2.0%
Camera/photo-related retailers	2,482	1,947	-21.6%	0.3%	1,825	1,566	-14.2%	0.3%	55.4%	-2.2%
Watch/glasses/optic-machinery retailers	12,246	12,223	-0.2%	2.2%	9,159	8,179	-10.7%	1.4%	59.9%	2.7%
Other non-categorized retailers	44,764	52,977	18.3%	9.4%	85,730	84,594	-1.3%	14.8%	38.5%	4.2%

Note: Since 2007 edition, data includes shops inside train/subway stations and tollway shops.
Source: Census of Commerce 2007, METI, Citi Investment Research and Analysis.

Figure 139. Retail industry: Number of retailers by company type



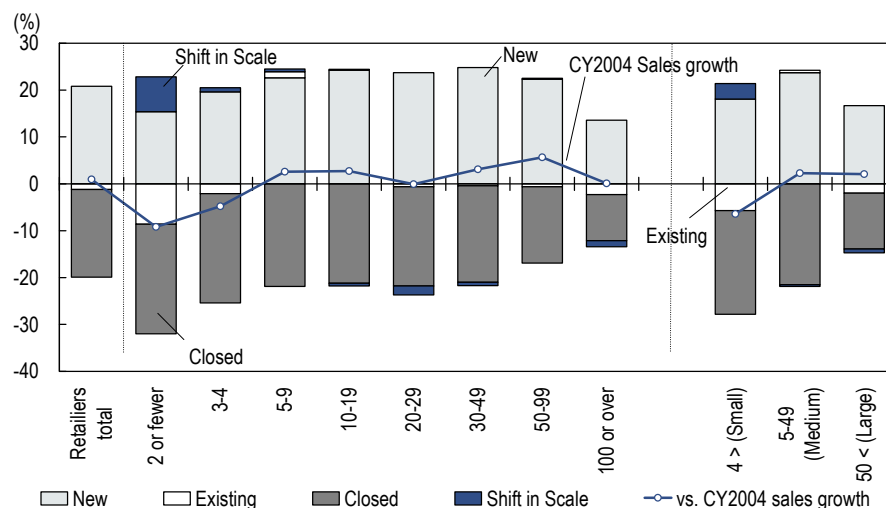
Note: Since 2007 edition, data includes shops inside train/subway stations and tollway shops.
Source: Census of Commerce 2007, METI, Citi Investment Research and Analysis.

Figure 140. Retail Industry: Sales floor area by segment

	2004	2007	Breakdown		Change
			2004	2007	
Retail	143,282,683	151,103,830	100.00%	100.00%	5.50%
General Retailers	22,412,044	23,073,334	15.60%	15.30%	3.00%
Textiles/clothing/miscellaneous retailers	19,961,191	20,883,088	13.90%	13.80%	4.60%
Food and drink retailers	40,898,312	41,653,342	28.50%	27.60%	1.80%
Auto/ bicycles retailers	3,853,928	3,954,741	2.70%	2.60%	2.60%
Furniture/fixtures/machine & equipment retailers	19,108,971	18,781,032	13.30%	12.40%	-1.70%
Other retailers	37,048,237	42,758,293	25.90%	28.30%	15.40%
Pharmaceuticals / cosmetics retailers	7,457,869	8,422,147	5.20%	5.60%	12.90%
Agricultural related retailers	2,099,040	1,829,648	1.50%	1.20%	-12.80%
Books/stationery retailers	4,850,022	4,754,477	3.40%	3.10%	-2.00%
Sports goods/ entertainment goods/ music instrument retailers	5,485,996	5,815,166	3.80%	3.80%	6.00%
Camera/photo-related retailers	282,524	227,471	0.20%	0.20%	-19.50%
Watch/glasses/ optic-machinery retailers	1,523,941	1,482,945	1.10%	1.00%	-2.70%
Other non-categorized retailers	15,348,845	20,226,439	10.70%	13.40%	31.80%

Note: Since 2007 edition, data includes shops inside train/subway stations and tollway shops. This figure excludes fuel retailers.
Source: Census of Commerce 2007 preliminary edition, Citi Investment Research and Analysis.

Figure 141. Sales floor growth by number of employees (2007 vs 2004)



Note: No. of employees for part-timers are not adjusted for 8-hour day working.
Source: Census of Commerce 2007, Citi Investment Research and Analysis.

Figure 142. Regulations related to large-scale stores

Year	Regulations	Contents
1956	Department Store Act implemented	Established permit system for the opening of department stores with floor space of 1,500m ² or more (3,000m ² or more in designated cities)
1974	Large Scale Retail Store Law (Large Store Law) implemented (Department Store Act abolished)	Expanded permit system to all retail stores with floor space of 1,500m ² or more (3,000m ² or more in designated cities), established notification system
1979	Revision to Large Store Law implemented	Amount of floor space covered by regulation lowered, with stores of 1,500m ² or more (3,000m ² or more in designated cities) designated Class 1 and those 500-1,500m ² Class 2
1982	Store openings regulated through MITI administrative guidance	
1986	Maekawa Report recommends deregulation	
1990	US-Japan Structural Impediments Initiative issues interim report	Incorporates complete revision of Large Scale Retail Store Law in three years
	Industrial Structure Council and Small and Medium Enterprise Policy Making Council issue joint report	Calls for abolition of prior explanation requirement and Commercial Activities Adjustment Board
1991	First Toys "R" Us location opened	
1992	Revision to Large Store Law implemented, Special Law on Exceptional Measures Concerning Floor Space for Import Sales implemented	Boundry between Class 1 and Class 2 increased to 3,000m ² (6,000m ² in designated cities)
		Commercial Activities Adjustment Board abolished
		Prior explanation requirement abolished
1994	Industrial Structure Council and Small and Medium Enterprise Policy Making Council issue joint report	Proposes major relaxation of Large Scale Retail Store Law regulations
	Criteria for exercising Large Store Law revised	Retail stores with floor space of less than 1,000m ² liberalized in principle, notification criteria regarding store hours and number of non-business days relaxed
1995	Government formulates Deregulation Promotion Program	Proposes revision of Large Store Law in three years
1997	MITI simplifies procedures for opening stores under Large Store Law	
	Industrial Structure Council and Small and Medium Enterprise Policy Making Council issue joint report	Calls for abolition of Large Store Law and creation of Large Scale Retail Store Location Law
1998	Three community development laws implemented, store openings in suburban locations accelerate	
by 2000	Central City Invigoration Law implemented (July 1998)	
	Revision to City Planning Law implemented (November 1998)	
	Large Scale Retail Store Location Law implemented (June 2000)	
2005	Government and ruling parties submit bill to revise City Planning Law	Establishment of stores with floor space of over 10,000m ² essentially restricted to commercial areas of three regions
2006	Revision to three community development laws enacted	Revision to City Planning Law (May 24), revision to Central City Invigoration Law (May 31)
Fall 2007	Revision to three community development laws implemented	

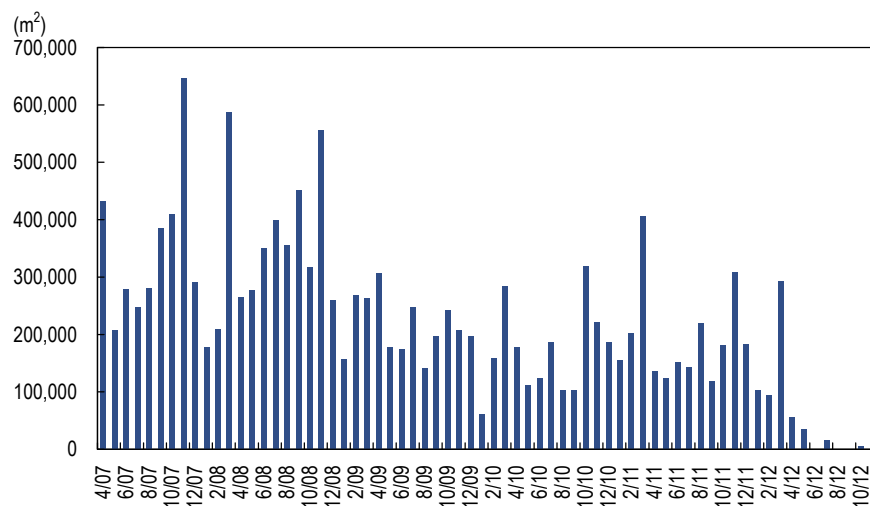
Source: Citi Investment Research and Analysis.

Figure 143. Sales floor space by scheduled store opening date (based on application): By subsector (m²)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
GMSs	389,402	858,474	976,713	947,263	1,021,109	821,874	864,987	264,022	191,307	345,313	104,073
Food supermarkets	155,864	656,439	597,959	566,291	638,602	720,102	687,158	556,554	459,541	541,463	112,233
Consumer electronics retailers	88,076	396,752	237,162	237,079	318,880	327,695	447,938	390,890	243,881	208,188	45,484
Specialty stores	28,250	321,539	292,202	189,085	345,398	311,023	310,159	232,296	205,416	250,980	55,298
Home centers	213,055	713,941	539,978	402,234	477,260	429,303	421,563	290,016	325,696	332,774	115,882
Drugstores	27,596	76,804	142,101	142,101	121,822	149,936	153,979	93,273	45,987	103,934	27,938
Specialty apparel retailers	47,061	150,637	96,546	64,466	70,434	90,674	46,893	72,654	50,408	47,322	20,803
Variety stores	0	73,142	42,353	14,584	9,154	39,079	11,106	11,609	0	6,826	2,060
Discount stores	10,311	74,272	38,526	33,944	43,424	28,697	37,570	14,878	44,946	59,436	11,198
Department stores	6,200	64,044	41,504	53,793	47,549	117,389	18,400	0	0	127,496	18,060
Total	965,815	3,386,044	3,005,044	2,650,840	3,093,632	3,035,772	2,999,753	1,926,192	1,567,182	2,023,732	513,029
Breakdown											
GMSs	40.3%	25.4%	32.5%	35.7%	33.0%	27.1%	28.8%	13.7%	12.2%	17.1%	20.3%
Food supermarkets	16.1%	19.4%	19.9%	21.4%	20.6%	23.7%	22.9%	28.9%	29.3%	26.8%	21.9%
Consumer electronics retailers	9.1%	11.7%	7.9%	8.9%	10.3%	10.8%	14.9%	20.3%	15.6%	10.3%	8.9%
Specialty stores	2.9%	9.5%	9.7%	7.1%	11.2%	10.2%	10.3%	12.1%	13.1%	12.4%	10.8%
Home centers	22.1%	21.1%	18.0%	15.2%	15.4%	14.1%	14.1%	15.1%	20.8%	16.4%	22.6%
Drugstores	2.9%	2.3%	4.7%	5.4%	3.9%	4.9%	5.1%	4.8%	2.9%	5.1%	5.4%
Specialty apparel retailers	4.9%	4.4%	3.2%	2.4%	2.3%	3.0%	1.6%	3.8%	3.2%	2.3%	4.1%
Variety stores	0.0%	2.2%	1.4%	0.6%	0.3%	1.3%	0.4%	0.6%	0.0%	0.3%	0.4%
Discount stores	1.1%	2.2%	1.3%	1.3%	1.4%	0.9%	1.3%	0.8%	2.9%	2.9%	2.2%
Department stores	0.6%	1.9%	1.4%	2.0%	1.5%	3.9%	0.6%	0.0%	0.0%	6.3%	3.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

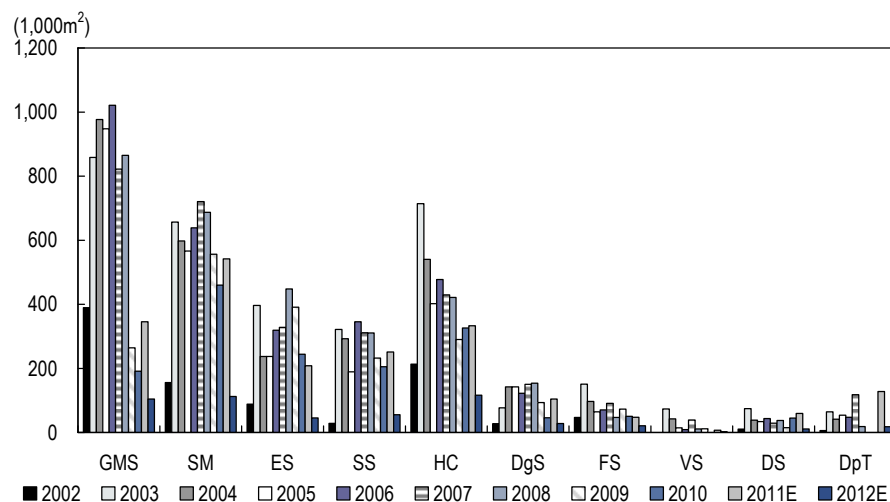
Note: 2011 and 2012 figures are based on submissions already made. Figures include those with multiple tenants with the same category of business.
Source: Store Japan, Citi Investment Research and Analysis.

Figure 144. Sales floor space by scheduled store opening date (based on application)



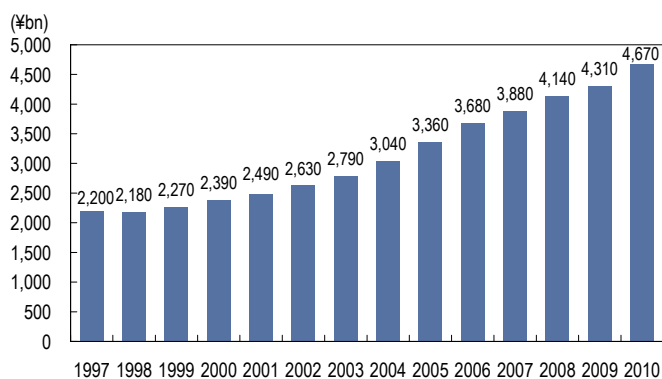
Source: Store Japan, Citi Investment Research and Analysis.

Figure 145. Sales floor space by scheduled store opening date and by subsector (based on application)



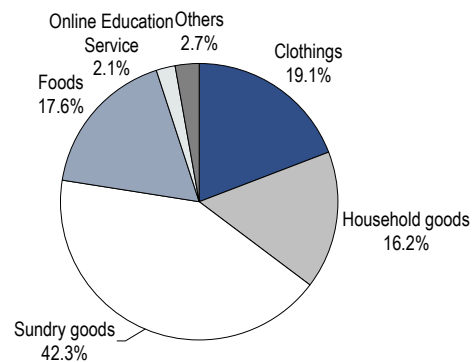
Note: 1) 2011 and 2012 figures are based on submissions already made. Figures include those with multiple tenants with the same category of business. GMS = General merchandizing stores, SM = Food supermarkets, ES = Consumer electronics retailers, SS = Specialty retailers, HC = Home centers, DgS = Drugstores, FS = Specialty apparel retailers, VS = Variety stores, DS = Discount stores, DpT = Department stores.
Source: Store Japan, Citi Investment Research and Analysis.

Figure 146. Figure: Online shopping sales (CY)



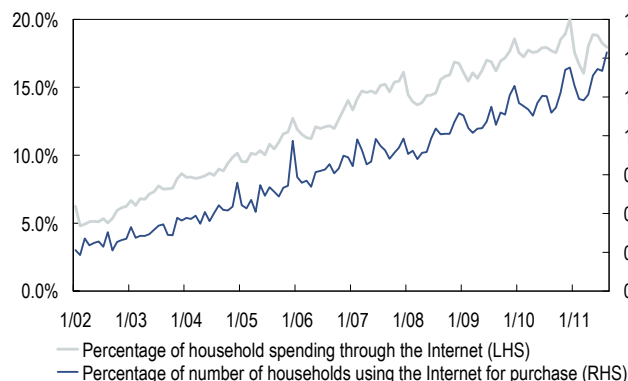
Source: Japan Direct Marketing Association, Citi Investment Research and Analysis.

Figure 147. Breakdown of online shopping sales (08/2011)



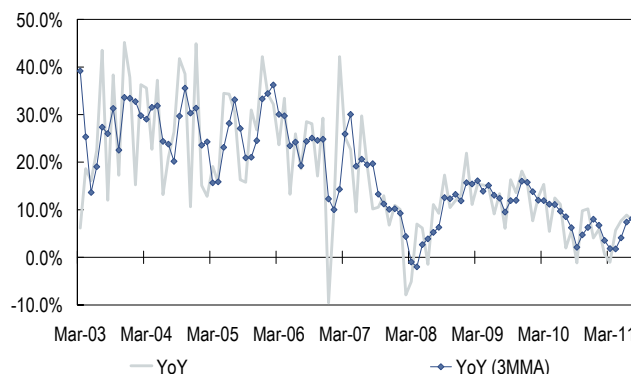
Source: Japan Direct Marketing Association, Citi Investment Research and Analysis.

Figure 148. Online shopping and household consumption



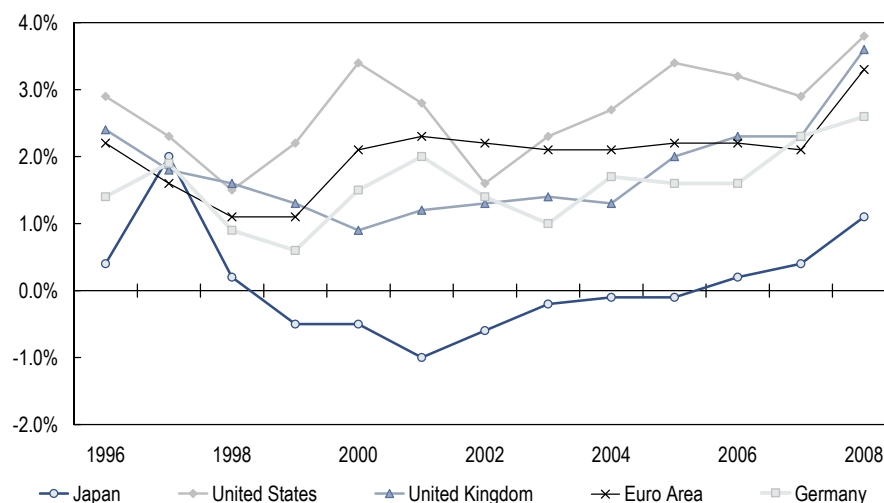
Source: Family Income and Expenditure Survey, Citi Investment Research and Analysis.

Figure 149. Changes in Internet spending (YoY) and the 3MMA (YoY)



Source: Family Income and Expenditure Survey, Citi Investment Research and Analysis.

Figure 150. International Comparison of rise in YoY Consumer Price Index



Note 1: Values are from calendar year except for Japan which values are taken from the 12 months starting from April.

Note 2: Japan includes national/general (perishable foods included).

Source: Monthly Report of Financial Economy Statistics by Bank of Japan.

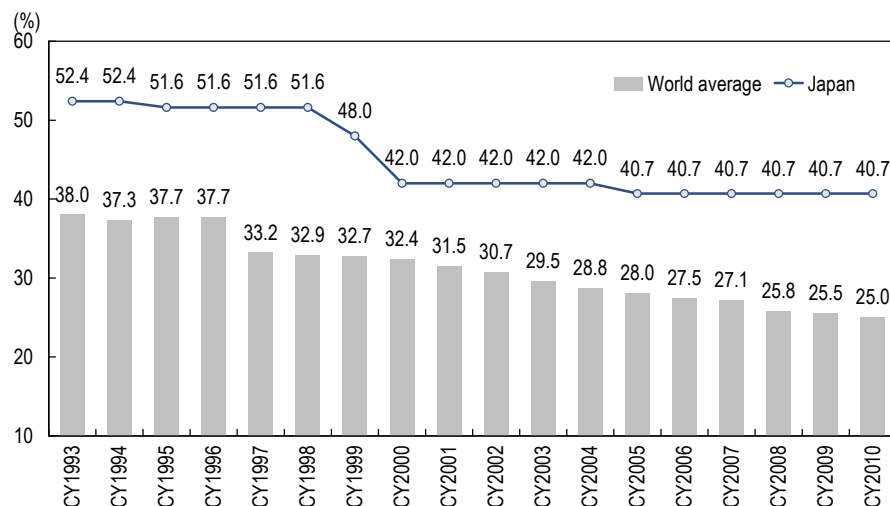
Figure 151. Big Mac Index (Ranking based on Yen)

Ranking		Big Mac prices		\$ price	Yen price
		Local Currency		USD	¥ 77.67/1USD
1	Norway	45.00	Kroner	8.31	645
2	Switzerland	6.50	SFr	8.06	626
3	Sweden	48.40	SKr	7.64	593
4	Brazil	9.50	Real	6.16	478
5	Denmark	28.50	DKr	5.48	426
6	Canada	4.73	C\$	5.00	388
7	Australia	4.56	A\$	4.94	384
8	Euro area	3.44	Euro	4.93	383
9	Argentina	20.00	Peso	4.84	376
10	Colombia	8,400	Peso	4.74	368
11	Israel	15.90	Shekel	4.67	363
12	New Zealand	5.10	NZ\$	4.41	343
13	Japan	320.00	yen	4.08	317
14	Czech Republic	69.30	Koruna	4.07	316
15	United States	4.07	US \$	4.07	316
16	Hungary	760.0	Forint	4.04	314
17	Chile	1,850	Peso	4.00	311
18	Britain	2.39	British pound	3.89	302
19	Turkey	6.50	Lira	3.77	293
20	Peru	10.00	Sol	3.65	283
21	Singapore	4.41	S\$	3.65	283
22	South Korea	3,700	Won	3.50	272
23	Poland	8.63	Zloty	3.09	240
24	South Africa	19.45	Rand	2.87	223
25	Philippines	118.00	Peso	2.78	216
26	Mexico	32.00	Peso	2.74	213
27	Russia	75.00	Rouble	2.70	210
28	Saudi Arabia	10.00	Riyal	2.67	207
29	Indonesia	22,534	Rupiah	2.64	205
30	Taiwan	75.00	NT\$	2.50	194
31	Malaysia	7.20	Ringgit	2.42	188
32	Pakistan	205.0	Rupee	2.38	185
33	Egypt	14.10	Pound	2.36	183
34	Thailand	70.00	Baht	2.35	183
35	China	14.70	Yuan	2.27	176
36	Hong Kong	15.10	HK\$	1.94	151
37	India	84.0	Rupee	1.89	147

Note: Exchange rate is as of July 28, 2011.

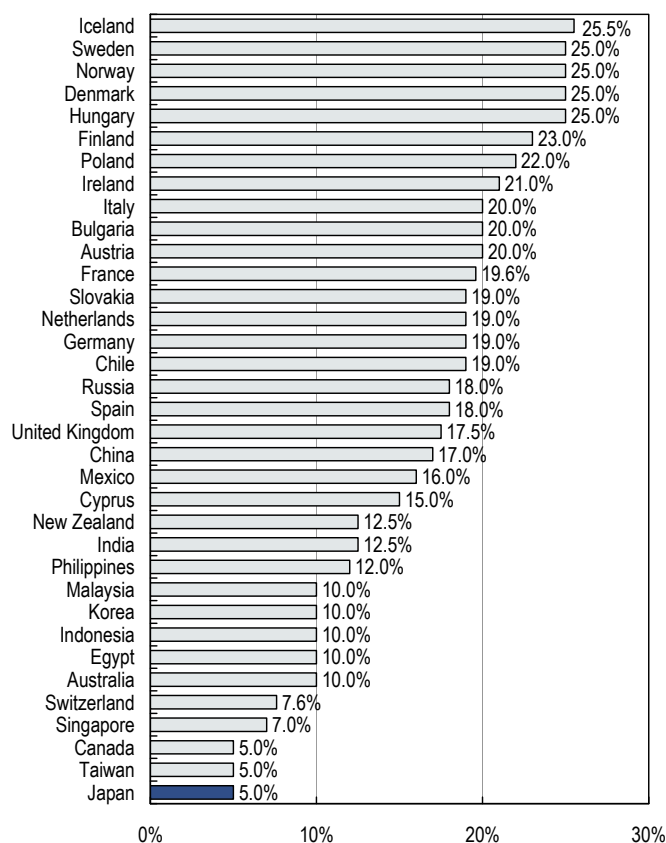
Source: The Economist (July 28, 2011 issue), Citi Investment Research and Analysis.

Figure 152. Change in Corporate Tax Rate



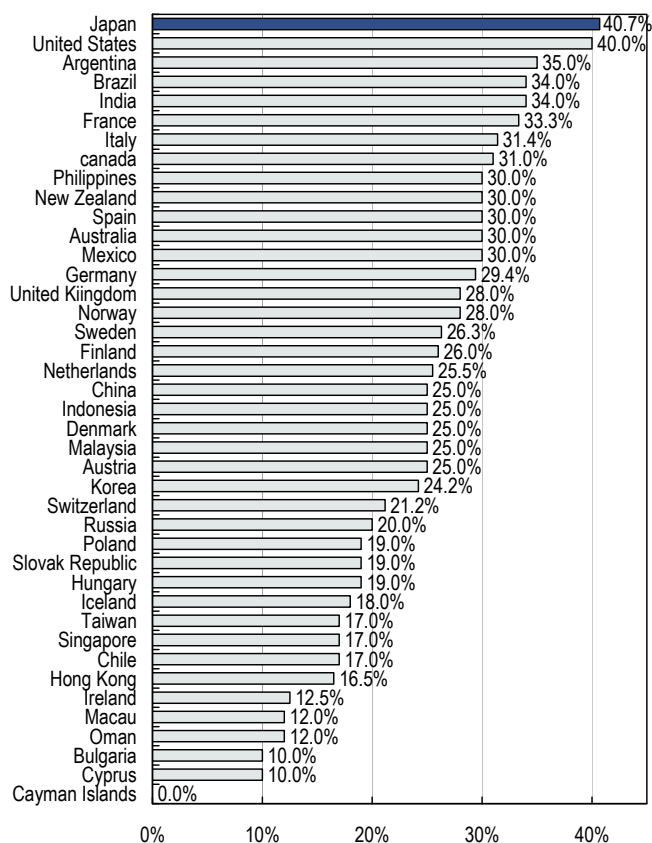
Source: An International Analysis of Corporate Tax Rates by KPMG International, Citi Investment Research and Analysis.

Figure 153. Consumption tax rates (as of Jan 1, 2010)



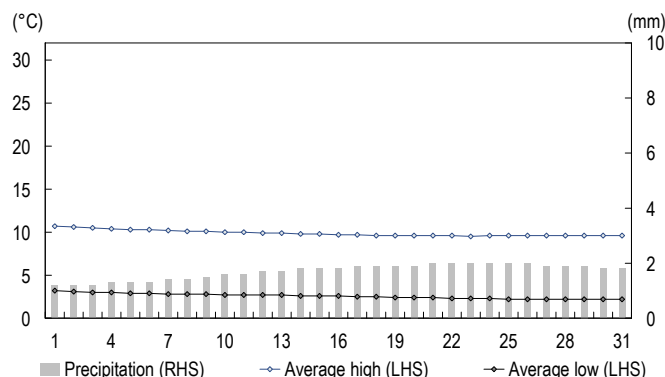
Source: An International Analysis of Corporate Tax Rates by KPMG International, Citi Investment Research and Analysis.

Figure 154. Corporate tax rates (as of Jan 1, 2010)



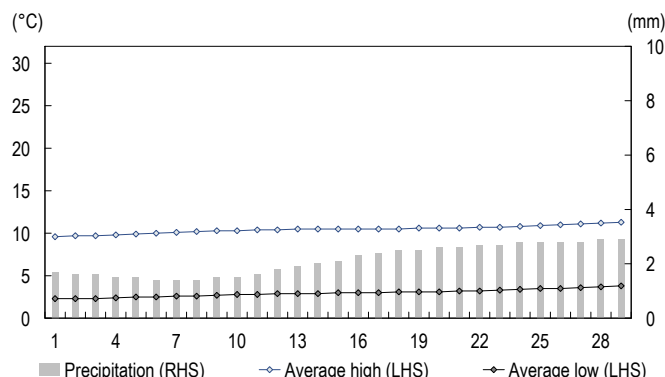
Source: An International Analysis of Corporate Tax Rates by KPMG International, Citi Investment Research and Analysis.

Figure 155. Tokyo: January high and low temperatures and rainfall (average year)



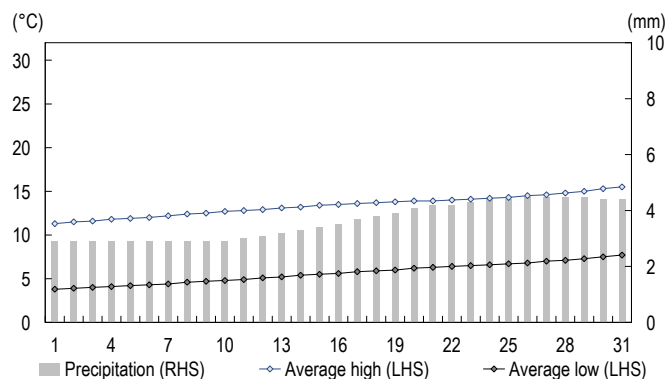
Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 156. February high and low temperatures and rainfall (average year)



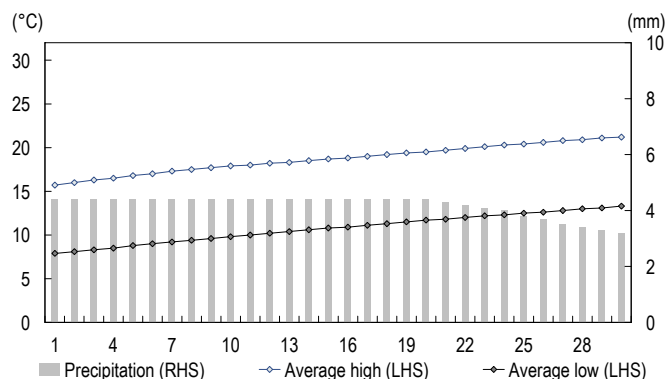
Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 157. March high and low temperatures and rainfall (average year)



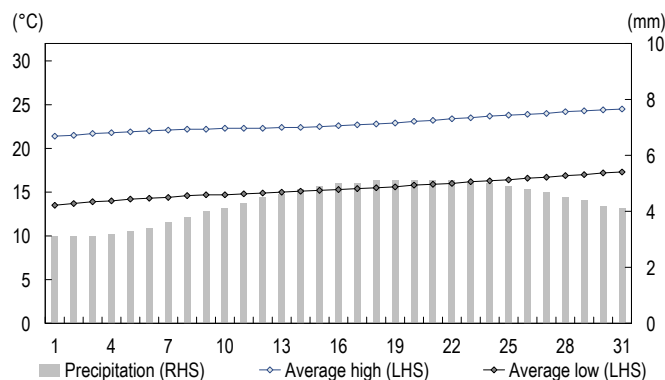
Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 158. April high and low temperatures and rainfall (average year)



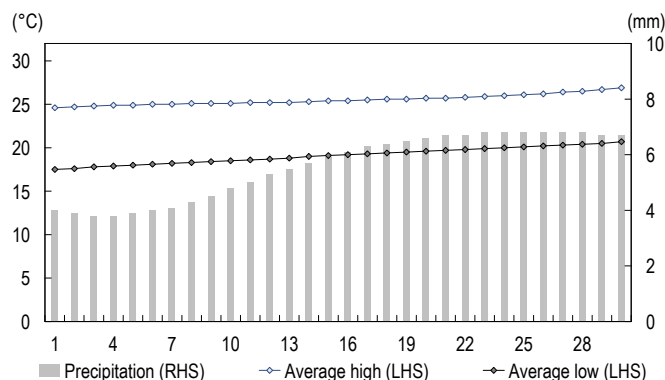
Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 159. May high and low temperatures and rainfall (average year)



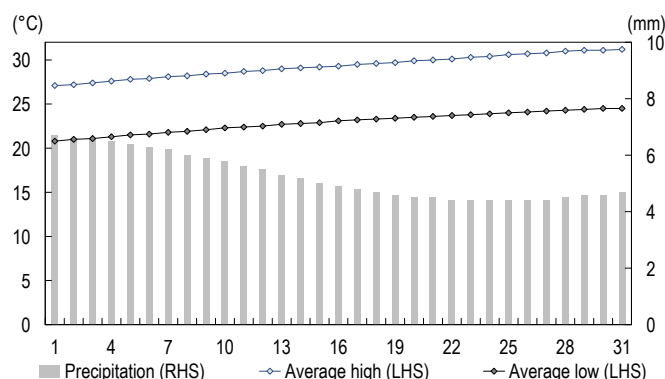
Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 160. June high and low temperatures and rainfall (average year)



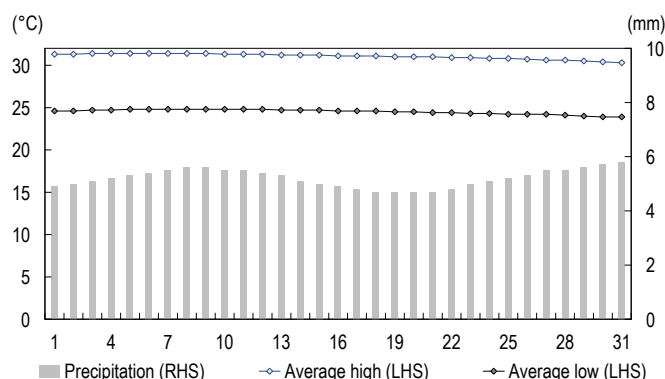
Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 161. July high and low temperatures and rainfall (average year)



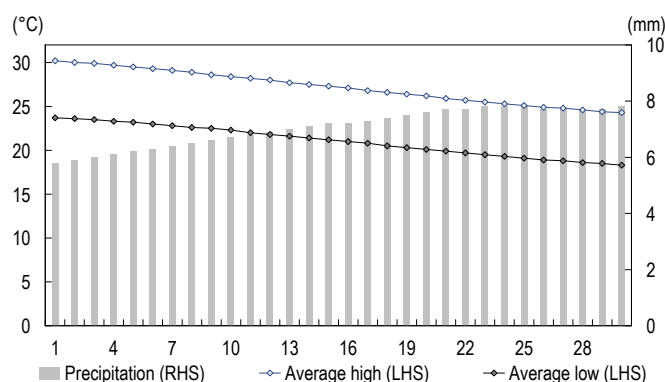
Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 162. August high and low temperatures and rainfall (average year)



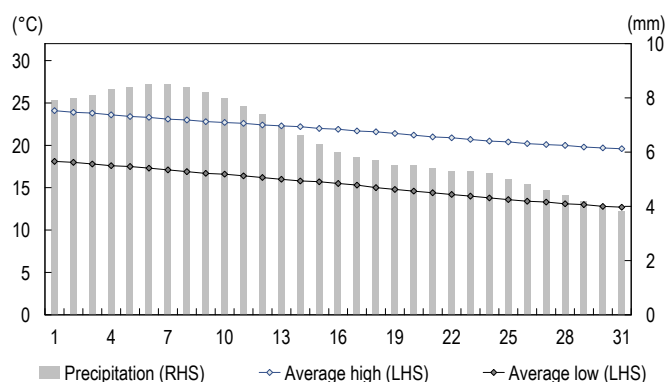
Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 163. September high and low temperatures and rainfall (average year)



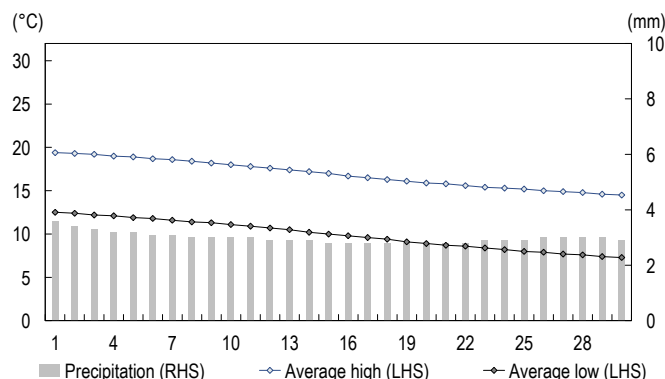
Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 164. October high and low temperatures and rainfall (average year)



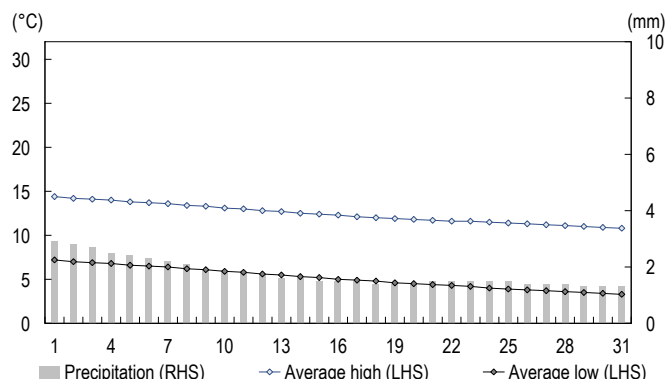
Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 165. November high and low temperatures and rainfall (average year)



Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 166. December high and low temperatures and rainfall (average year)



Note: Average from 1981 to 2010.
Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 167. High and low temperatures: Tokyo (1) Sept 2010 – Feb 2011

Precipitation				Temperature (°C)				Precipitation				Temperature (°C)			

Note: Precipitation of less than 0.5mm is shown as 0.

Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 168. High and low temperatures: Tokyo (2) Mar 2011 – Aug 2011

	Precipitation	Temperature (°C)			Precipitation	Temperature (°C)			Precipitation	Temperature (°C)	
	(mm)	High	Low		(mm)	High	Low		(mm)	High	Low
3/1	10.5	7.8	4.4	5/1	2.0	21.1	15.4	7/1	0.0	33.9	24.8
3/2	0.0	10.3	2.6	5/2	-	24.2	14.4	7/2	0.0	28.9	24.4
3/3	-	8.1	1.8	5/3	6.0	18.2	13.5	7/3	-	31.1	24.1
3/4	-	8.3	1.9	5/4	0.0	21.7	13.3	7/4	-	34.3	26.9
3/5	-	11.5	1.6	5/5	0.0	17.2	13.0	7/5	5.5	32.3	24.3
3/6	-	15.0	2.9	5/6	-	19.6	12.4	7/6	0.0	32.5	25.4
3/7	28.0	9.3	1.0	5/7	1.0	18.4	15.4	7/7	0.0	29.7	23.6
3/8	0.5	10.0	2.6	5/8	-	25.9	14.5	7/8	0.0	31.4	26.5
3/9	-	12.0	3.7	5/9	-	23.8	14.8	7/9	-	32.5	27.3
3/10	-	10.0	2.7	5/10	1.0	27.2	18.4	7/10	-	33.6	26.4
3/11	0.0	11.3	2.9	5/11	35.0	18.5	13.9	7/11	-	33.8	26.1
3/12	-	12.9	2.3	5/12	15.5	16.8	13.9	7/12	0.0	32.3	26.2
3/13	-	15.9	5.2	5/13	-	24.4	16.1	7/13	-	32.7	26.4
3/14	-	20.2	6.7	5/14	0.0	25.1	14.3	7/14	-	33.4	25.9
3/15	0.0	14.0	9.2	5/15	-	25.6	13.9	7/15	-	33.7	25.9
3/16	0.0	13.0	3.5	5/16	-	23.5	16.9	7/16	-	33.3	26.4
3/17	-	8.9	1.8	5/17	3.5	21.7	15.3	7/17	-	34.1	26.1
3/18	-	10.1	1.2	5/18	-	23.7	15.2	7/18	0.0	34.8	27.4
3/19	-	18.2	6.7	5/19	-	25.7	15.4	7/19	3.5	28.7	26.5
3/20	-	17.0	9.4	5/20	-	26.7	18.2	7/20	6.0	28.7	21.1
3/21	20.0	13.4	7.3	5/21	-	27.6	19.3	7/21	3.0	23.6	18.2
3/22	13.5	7.6	5.7	5/22	13.5	29.6	15.2	7/22	-	24.2	18.0
3/23	1.5	10.0	2.7	5/23	7.0	18.3	12.8	7/23	0.0	27.5	18.9
3/24	0.0	8.1	2.9	5/24	20.5	18.1	12.2	7/24	-	30.3	22.7
3/25	0.0	13.4	3.5	5/25	-	23.8	12.9	7/25	0.0	31.5	25.1
3/26	0.0	11.6	4.3	5/26	0.0	22.3	16.1	7/26	-	30.4	25.4
3/27	0.0	12.0	2.9	5/27	1.0	20.6	17.1	7/27	0.0	31.8	25.5
3/28	0.0	12.7	4.4	5/28	24.0	19.7	17.1	7/28	2.5	29.6	24.1
3/29	-	15.3	5.2	5/29	69.5	19.1	16.2	7/29	5.0	29.4	25.0
3/30	0.0	16.5	6.7	5/30	14.0	21.7	16.1	7/30	29.0	29.7	23.1
3/31	0.0	15.5	5.8	5/31	0.0	18.7	12.2	7/31	0.0	25.1	22.2
4/1	-	15.7	6.6	6/1	0.0	18.5	12.1	8/1	0.0	27.3	22.1
4/2	-	18.4	9.1	6/2	10.0	17.4	14.3	8/2	-	29.1	22.0
4/3	0.0	9.9	6.9	6/3	-	24.0	15.2	8/3	15.5	29.3	24.4
4/4	-	13.9	5.9	6/4	-	26.3	18.8	8/4	4.5	31.1	24.3
4/5	-	15.4	4.3	6/5	5.5	25.7	18.3	8/5	4.5	31.2	25.1
4/6	-	19.1	7.7	6/6	-	28.6	17.4	8/6	0.0	32.3	26.0
4/7	-	20.6	10.3	6/7	-	24.0	20.2	8/7	20.0	34.5	26.0
4/8	0.0	18.7	15.5	6/8	3.0	22.7	17.4	8/8	-	33.2	25.5
4/9	0.5	18.0	12.3	6/9	0.0	25.6	18.3	8/9	-	33.9	27.4
4/10	-	17.7	10.3	6/10	0.0	24.9	20.6	8/10	-	34.6	27.4
4/11	12.0	19.3	8.6	6/11	35.5	25.1	20.9	8/11	0.0	35.2	28.2
4/12	0.5	15.7	7.6	6/12	0.0	26.2	20.8	8/12	-	35.1	28.1
4/13	-	20.5	7.1	6/13	29.5	23.5	18.2	8/13	-	34.5	27.2
4/14	-	22.1	11.1	6/14	0.0	24.6	19.7	8/14	-	33.6	27.7
4/15	-	22.5	13.7	6/15	0.0	23.5	19.6	8/15	0.0	33.2	27.4
4/16	0.0	24.6	12.9	6/16	3.5	23.7	18.4	8/16	-	33.6	27.4
4/17	-	17.6	9.6	6/17	21.5	21.0	17.7	8/17	-	33.8	27.5
4/18	0.0	17.4	12.5	6/18	4.5	22.2	18.8	8/18	-	36.1	28.7
4/19	23.0	18.1	7.3	6/19	0.0	24.5	19.4	8/19	57.0	30.9	22.0
4/20	0.0	16.7	6.5	6/20	0.0	26.5	21.5	8/20	0.0	25.8	22.3
4/21	0.0	16.2	8.8	6/21	1.0	29.8	23.0	8/21	11.0	23.5	19.3
4/22	0.0	18.8	11.4	6/22	0.0	31.9	21.8	8/22	26.0	22.9	19.5
4/23	54.0	17.9	14.8	6/23	0.0	32.2	25.7	8/23	0.0	30.9	21.4
4/24	0.0	20.0	11.4	6/24	-	32.7	26.1	8/24	0.0	32.0	25.6
4/25	0.0	20.1	10.9	6/25	0.0	27.9	20.4	8/25	2.5	29.3	25.1
4/26	-	21.0	11.3	6/26	0.0	22.7	19.8	8/26	88.5	31.9	22.9
4/27	2.0	24.4	14.9	6/27	1.5	23.8	20.4	8/27	0.5	27.5	21.9
4/28	4.0	24.8	14.3	6/28	0.0	31.9	22.7	8/28	-	29.8	22.1
4/29	0.0	19.1	12.0	6/29	-	35.1	25.3	8/29	-	29.8	23.1
4/30	-	22.2	12.3	6/30	1.0	33.6	25.2	8/30	4.5	31.7	22.7
								8/31	9.5	30.4	21.6

Note: Precipitation of less than 0.5mm is shown as 0.

Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

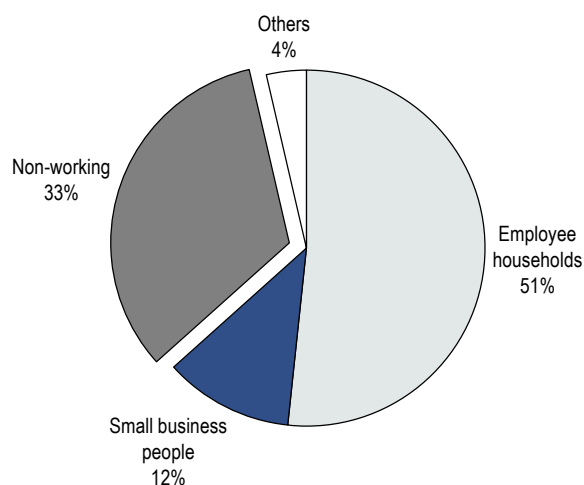
Figure 169. High and low temperatures: Tokyo (3) Sept 2011 – Sept 2011

	Precipitation (mm)	Temperature (°C)	
		High	Low
9/1	2.0	31.9	26.0
9/2	27.0	31.9	24.9
9/3	19.0	30.4	24.3
9/4	2.0	29.4	25.6
9/5	15.0	29.0	24.5
9/6	14.5	29.3	21.8
9/7	-	29.4	20.3
9/8	-	29.7	21.8
9/9	-	31.4	24.1
9/10	-	32.3	25.6
9/11	-	30.9	25.8
9/12	0.0	32.5	25.7
9/13	-	32.3	25.6
9/14	-	32.3	25.2
9/15	-	32.4	25.7
9/16	5.0	31.7	25.0
9/17	0.0	31.4	25.5
9/18	-	31.7	26.2
9/19	0.5	31.1	19.5
9/20	21.0	21.5	18.7
9/21	124.0	26.3	17.3
9/22	5.0	29.5	18.5
9/23	0.0	22.5	19.0
9/24	-	24.8	15.9
9/25	-	23.5	17.5
9/26	0.0	20.2	17.5
9/27	0.0	23.7	18.1
9/28	-	24.3	16.7
9/29	0.0	25.7	17.8
9/30	0.0	29.6	19.3
10/1	0.0	25.1	19.6
10/2	0.0	20.1	17.4
10/3	-	22.9	15.9
10/4	0.0	22.2	14.9
10/5	53.5	19.0	14.4
10/6	3.0	25.5	15.9
10/7	1.5	25.6	17.9
10/8	-	23.2	16.5
10/9	0.0	22.8	17.0
10/10	6.0	24.3	17.5
10/11	-	25.2	18.1
10/12	-	23.4	17.5
10/13	0.0	23.7	16.9
10/14	4.0	25.4	17.4
10/15	2.0	26.9	21.6
10/16	8.0	29.7	20.6
10/17	-	24.6	18.5
10/18	-	21.1	16.5
10/19	0.0	17.5	14.9
10/20	0.0	20.8	14.0
10/21	4.0	21.2	16.5
10/22	37.5	23.0	16.3
10/23	0.0	25.9	20.4
10/24	0.0	22.7	19.4
10/25	-	26.9	18.4
10/26	-	20.3	13.4
10/27	-	19.3	11.7
10/28	-	19.9	11.2
10/29	-	20.9	11.6
10/30	0.0	19.6	14.4
10/31	0.0	23.4	15.3

Note: Precipitation of less than 0.5mm is shown as 0.

Source: Japan Meteorological Agency, Citi Investment Research and Analysis.

Figure 170. Non-working households more than 30% of total



Source: Household expenditure survey, Citi Investment Research and Analysis.

Figure 171. Trends in contract renewal rates for CVS franchisees

		No. of new franchisees	No. of contracts cancelled	Total no. of franchised stores	No. of stores renewing contracts	No. of stores not renewing contracts	Contract renewal rate
Seven-Eleven Japan	FY07	560	272	11,230	419	47	89.9%
	FY08	557	289	11,584	441	43	91.1%
	FY09	678	170	12,140	437	39	91.8%
	FY10	716	120	12,702	483	34	93.4%
Lawson	FY07	313	232	8,148	337	160	67.8%
	FY08	155	246	8,362	401	139	74.3%
	FY09	219	204	8,246	463	131	77.9%
	FY10	132	148	8,086	417	144	74.3%
FamilyMart	FY07	562	281	6,231	404	193	67.7%
	FY08	626	297	6,422	642	138	71.3%
	FY09	614	213	6,724	369	99	78.8%
	FY10	794	179	7,192	360	147	71.0%
Circle K Sunkus	FY07	385	400	4,379	183	124	59.6%
	FY08	364	222	4,431	184	90	67.2%
	FY09	423	186	4,540	225	103	68.6%
	FY10	429	149	4,703	229	117	66.2%

Note 1: Number of contracts cancelled is total of mutually agreed cancellation, cancelled contracts, and terminated contracts.

Note 2: Number of new franchisees for Circle K Sunkus includes operators existing stores renewing contracts before contract expiration.

Source: Japan Franchise Association, Citi Investment Research and Analysis.

Figure 172. Seven-Eleven Japan: Number of stores by area

	2/01	2/02	2/03	2/04	2/05	2/06	2/07	2/08	2/09	2/10	2/11
Hokkaido	730	761	787	803	813	831	832	819	821	815	831
Aomori											
Iwate	4	6	7	7	7	7	9	25	44	58	68
Miyagi	273	280	293	312	321	317	322	324	317	322	331
Akita											
Yamagata	68	83	103	108	118	122	127	131	132	135	140
Fukushima	319	335	344	348	353	362	373	380	379	380	380
Tochigi	380	397	419	446	455	478	488	504	515	523	535
Ibaraki	294	301	309	316	327	333	343	339	335	341	350
Gunma	283	286	303	317	324	333	338	342	346	354	362
Saitama	657	683	712	745	771	794	824	842	857	874	887
Chiba	647	664	685	706	719	735	734	742	744	762	777
Tokyo	1,180	1,222	1,269	1,328	1,387	1,464	1,525	1,577	1,619	1,676	1,737
Kanagawa	746	755	765	793	812	824	837	838	846	886	933
Niigata	240	247	265	288	300	317	334	339	339	347	350
Toyama									11	33	54
Ishikawa										10	28
Fukui									9	21	27
Yamanashi	131	135	134	139	143	147	152	156	159	163	164
Nagano	317	327	333	337	340	340	348	351	357	365	376
Gifu						13	42	63	70	77	79
Shizuoka	344	351	371	392	412	432	446	453	454	469	495
Aichi			85	193	289	384	436	493	533	575	594
Mie						1	5	18	29	40	45
Shiga	101	113	126	129	139	143	149	155	162	166	171
Kyoto	101	111	122	130	144	154	163	174	178	185	196
Osaka	271	321	374	414	449	464	495	508	523	557	594
Hyogo	176	215	253	295	322	334	350	359	361	374	398
Nara		9	19	31	51	55	52	55	59	61	71
Wakayama		11	24	30	35	36	38	38	40	40	43
Tottori											
Shimane									4	7	8
Okayama	91	109	132	148	161	175	187	190	190	198	210
Hiroshima	273	295	319	342	361	373	380	374	383	391	405
Yamaguchi	150	165	182	193	195	202	211	220	228	236	240
Tokushima											
Kagawa											
Ehime											
Kochi											
Fukuoka	526	549	577	604	632	652	674	658	654	671	685
Saga	100	105	113	112	118	123	131	134	135	140	143
Nagasaki	5	6	23	35	46	59	64	75	78	83	92
Kumamoto	110	120	132	144	153	168	180	185	190	199	209
Oita		8	14	17	19	20	20	43	64	80	83
Miyazaki	85	90	96	101	110	118	126	130	133	139	141
Kagoshima											
Okinawa											
Total	8,602	9,060	9,690	10,303	10,826	11,310	11,735	12,034	12,298	12,753	13,232

Source: Company data, Citi Investment Research and Analysis

Figure 173. Lawson: Number of stores by area

	2/01	2/02	2/03	2/04	2/05	2/06	2/07	2/08	2/09	2/10	2/11
Hokkaido	462	476	475	485	494	500	500	496	498	518	532
Aomori	89	101	108	117	123	139	151	156	162	167	169
Iwate	88	94	103	100	159	171	172	166	166	161	160
Miyagi	176	174	166	158	159	162	157	158	183	193	193
Akita	80	91	103	109	127	131	136	141	142	148	153
Yamagata	59	60	55	55	54	55	57	55	56	59	61
Fukushima	108	113	106	107	99	97	97	95	98	100	99
Tochigi	94	100	102	107	107	107	105	105	106	105	109
Ibaraki	98	100	92	94	99	105	103	104	105	106	107
Gunma	65	67	63	65	65	68	69	71	68	65	68
Saitama	258	266	275	288	303	323	333	343	372	374	389
Chiba	251	256	242	259	276	287	287	286	342	351	355
Tokyo	709	708	703	752	789	843	895	896	1,233	1,254	1,288
Kanagawa	482	456	447	463	475	485	494	490	640	664	697
Niigata	115	113	113	108	108	106	108	103	100	104	102
Toyama	87	93	88	89	95	102	99	105	106	111	112
Ishikawa	65	62	67	63	68	73	72	73	78	85	87
Fukui	64	67	69	72	73	74	85	88	92	96	99
Yamanashi	67	64	64	62	62	62	61	64	66	66	73
Nagano	158	147	138	140	138	136	139	139	133	133	132
Gifu	83	79	78	78	84	91	104	102	110	117	122
Shizuoka	180	171	167	160	155	151	148	148	167	173	180
Aichi	325	327	316	335	336	340	329	329	423	446	473
Mie	61	65	65	72	72	80	84	84	84	90	94
Shiga	102	107	104	109	114	118	125	126	123	123	127
Kyoto	182	178	170	170	178	181	193	194	236	245	251
Osaka	879	841	801	814	818	837	835	818	935	954	969
Hyogo	459	457	445	454	458	471	482	487	529	542	554
Nara	118	116	108	100	95	100	104	105	104	102	99
Wakayama	101	103	107	109	111	111	116	115	110	109	110
Tottori	49	52	58	59	65	71	82	85	87	89	89
Shimane	48	55	55	56	60	65	74	77	82	87	90
Okayama	116	114	109	111	114	114	119	123	122	123	122
Hiroshima	121	125	122	115	115	122	124	128	132	140	143
Yamaguchi	111	108	104	108	109	110	110	112	108	109	112
Tokushima	96	101	102	104	102	103	108	109	109	105	103
Kagawa	95	97	97	96	95	96	97	98	98	97	98
Ehime	112	119	124	130	138	152	163	155	150	156	155
Kochi	33	40	44	48	52	56	61	62	60	58	57
Fukuoka	270	271	266	278	292	311	316	320	331	339	357
Saga	52	53	53	56	57	58	60	60	58	60	61
Nagasaki	71	77	78	81	83	83	79	82	84	85	87
Kumamoto	78	79	75	80	86	89	91	92	90	91	92
Oita	86	97	100	103	106	113	119	118	126	136	139
Miyazaki	75	77	79	80	81	80	84	83	84	82	79
Kagoshima	102	107	107	107	108	110	107	106	106	107	105
Okinawa	103	110	112	115	120	127	130	135	133		
Total	7,683	7,734	7,625	7,821	8,077	8,366	8,564	8,587	9,527	9,625	9,853

Source: Company data, Citi Investment Research and Analysis.

Figure 174. FamilyMart: Number of stores by area

	2/01	2/02	2/03	2/04	2/05	2/06	2/07	2/08	2/09	2/10	2/11
Hokkaido											
Aomori							15	23	25	29	34
Iwate	5	10	18	29	56	74	90	95	97	100	99
Miyagi	185	182	184	182	176	184	194	195	197	200	203
Akita						4	20	28	38	44	46
Yamagata	83	84	91	89	92	90	90	88	86	90	87
Fukushima	125	132	133	133	136	135	132	127	125	119	116
Tochigi	119	112	106	111	119	128	134	142	152	163	170
Ibaraki	110	112	110	107	105	111	109	111	114	120	119
Gunma	85	87	88	83	84	85	84	90	89	90	92
Saitama	362	335	336	338	346	362	367	372	382	388	426
Chiba	207	207	218	229	240	252	263	279	298	318	349
Tokyo	951	929	941	957	987	1,009	1,025	1,050	1,109	1,158	1,428
Kanagawa	515	493	494	497	500	505	494	492	503	527	600
Niigata						8	21	35	39	48	51
Toyama	52	49	50	51	55	64	65	65	65	69	69
Ishikawa	61	56	57	57	58	61	67	69	69	75	74
Fukui	72	91	92	92	91	89	86	88	89	93	91
Yamanashi	53	58	56	59	59	61	66	66	63	65	63
Nagano						10	21	29	32	39	45
Gifu	64	71	78	80	83	88	93	100	98	95	89
Shizuoka	201	190	188	197	199	208	201	200	199	197	197
Aichi	349	367	376	404	422	430	438	446	446	447	435
Mie	95	98	106	112	113	114	117	121	120	120	120
Shiga	24	61	66	93	98	105	108	106	107	112	115
Kyoto	141	135	139	141	140	143	141	137	148	156	163
Osaka	615	595	593	601	612	622	634	648	659	692	703
Hyogo	277	258	253	256	266	274	277	284	284	290	296
Nara	48	46	48	47	48	48	49	48	45	47	49
Wakayama	33	37	52	54	60	62	63	66	66	64	64
Tottori				0	5	13	19	25	27	35	38
Shimane						10	20	24	30	36	37
Okayama	84	78	81	82	80	82	81	79	83	88	91
Hiroshima	18	60	86	93	113	132	141	146	154	161	168
Yamaguchi	1	6	8	9	9	9	11	18	23	29	33
Tokushima				0	10	22	37	40	44	49	51
Kagawa		10	20	30	44	54	60	68	71	76	79
Ehime				7	23	47	57	65	73	80	87
Kochi				0	2	10	17	23	28	30	31
Fukuoka	203	198	207	217	224	237	250	260	270	268	273
Saga	24	23	43	42	43	45	49	49	50	51	51
Nagasaki			145	144	144	139	136	131	135	139	139
Kumamoto	65	63	71	84	88	95	93	96	96	99	98
Oita	48	54	59	63	64	63	66	67	63	62	60
Miyazaki											
Kagoshima											
Okinawa											
Total	5,275	5,287	5,593	5,770	5,994	6,284	6,501	6,691	6,891	7,158	7,629

Source: Company data, Citi Investment Research and Analysis.

Figure 175. Circle K: Number of stores by area

	2/01	2/02	2/03	2/04	2/05	2/06	2/07	2/08	2/09	2/10	2/11
Hokkaido											
Aomori				121	109	107	111	108	108	107	108
Iwate				6	7	8	8	8	8	9	8
Miyagi											
Akita				30	26	28	32	25	26	26	16
Yamagata											
Fukushima											
Tochigi											
Ibaraki											
Gunma											
Saitama											
Chiba											
Tokyo	27	43	57	61	67	78	81	82	86	87	79
Kanagawa	128	132	137	130	129	131	129	133	142	140	134
Niigata	5	21	32	43	55	71	81	85	91	93	98
Toyama	70	75	81	75	72	70	70	70	70	67	68
Ishikawa	119	123	126	117	118	116	116	107	103	104	110
Fukui	50	54	57	55	52	49	46	43	46	46	43
Yamanashi											
Nagano	83	93	102	103	111	115	116	117	123	126	132
Gifu	226	237	246	241	243	241	238	226	226	231	243
Shizuoka	304	307	312	294	298	299	296	285	283	282	290
Aichi	814	824	850	847	858	855	839	825	834	835	860
Mie	204	206	210	198	199	197	197	185	185	190	196
Shiga	61	58	59	52	52	52	50	49	50	47	46
Kyoto	105	110	112	108	109	113	115	104	102	104	107
Osaka	102	116	128	131	144	146	157	156	158	160	160
Hyogo	27	32	40	41	47	51	53	51	52	54	55
Nara	49	49	53	55	58	57	53	47	47	45	47
Wakayama	4	7	12	13	13	16	17	20	20	21	22
Tottori											
Shimane											
Okayama	94	96	96	87	88	91	93	83	86	87	83
Hiroshima											
Yamaguchi											
Tokushima											
Kagawa											
Ehime											
Kochi											
Fukuoka											
Saga											
Nagasaki											
Kumamoto											
Oita											
Miyazaki											
Kagoshima											
Okinawa											
Total	2,472	2,583	2,710	2,651	2,855	3,035	3,057	2,809	2,846	2,861	2,905

Source: Company data, Citi Investment Research and Analysis.

Figure 176. Sunkus: Number of stores by area

	2/01	2/02	2/03	2/04	2/05	2/06	2/07	2/08	2/09	2/10	2/11
Hokkaido	246	249	252	229	229	228	211	205	203	194	191
Aomori											
Iwate	56	67	76	79	88	86	86	82	82	82	82
Miyagi	125	133	137	124	123	114	117	117	114	112	110
Akita	66	78	83	81	85	85	84	81	80	80	79
Yamagata	83	83	81	69	68	69	61	56	52	50	49
Fukushima	11	13	14	12	11	13	16	20	22	22	21
Tochigi	64	63	64	59	60	55	52	47	49	51	53
Ibaraki											
Gunma							5	9	11	14	14
Saitama	46	44	42	35	37	37	34	32	32	31	30
Chiba	145	153	159	151	157	146	140	134	132	134	132
Tokyo	452	468	506	503	511	519	508	484	485	495	511
Kanagawa	211	214	214	209	213	217	208	194	188	191	200
Niigata											
Toyama											
Ishikawa											
Fukui											
Yamanashi											
Nagano											
Gifu	16	17	18	20	21	21	20	20	19	18	15
Shizuoka											
Aichi	113	132	141	144	149	146	138	133	131	127	113
Mie	14	20	27	31	34	34	34	32	32	32	27
Shiga											
Kyoto											
Osaka	204	213	235	244	262	265	269	260	250	245	240
Hyogo	131	139	147	141	145	143	132	123	122	119	115
Nara											
Wakayama											
Tottori											
Shimane											
Okayama	32	40	42	44	49	50	51	48	46	44	43
Hiroshima	2	12	19	25	31	35	39	42	43	45	48
Yamaguchi											
Tokushima											
Kagawa											
Ehime											
Kochi											
Fukuoka										11	23
Saga											
Nagasaki											
Kumamoto											
Oita											
Miyazaki											
Kagoshima											
Okinawa											
Total	2,017	2,138	2,257	2,200	2,273	2,263	2,205	2,119	2,093	2,097	2,096

Source: Company data, Citi Investment Research and Analysis.

Figure 177. Mitsukoshi: Sales breakdown by store

(¥mn)	FY2/01	FY2/02	FY2/03	FY2/04	FY2/05	FY2/06	FY2/07	FY2/08	FY3/09	FY3/10	FY3/11
Nihonbashi	295,068	308,292	303,343	291,461	290,851	290,667	278,437	272,887	253,109	215,652	205,565
Ginza	67,909	66,872	65,427	63,350	59,574	60,178	59,928	53,722	48,919	41,145	44,679
Chiba	-	-	-	16,354	31,117	29,601	28,853	28,300	26,500	23,064	18,984
Sapporo Mitsukoshi	55,503	57,227	58,460	51,490	47,667	43,901	41,472	38,987	36,397	32,497	28,621
Sendai Mitsukoshi	45,272	44,835	44,508	42,522	39,831	37,173	36,213	38,788	36,879	31,547	28,540
Nagoya Mitsukoshi	-	-	-	55,375	103,930	119,279	114,228	110,590	84,878	74,185	69,940
Hiroshima Mitsukoshi	18,733	19,988	19,810	20,064	19,079	18,439	18,095	17,626	16,600	15,707	14,972
Takamatsu Mitsukoshi	26,807	30,129	29,086	28,559	27,641	25,920	26,021	26,675	24,872	22,622	21,218
Matsuyama Mitsukoshi	28,677	28,628	26,466	25,764	24,510	24,207	23,293	22,611	20,362	17,192	15,860
Fukuoka Mitsukoshi	-	-	-	25,107	46,324	46,053	44,936	44,660	41,495	37,296	-
Total	607,506	619,661	608,765	691,161	766,599	761,892	736,934	718,680	646,599	544,786	448,379

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.

Source: Company data, Citi Investment Research and Analysis based on company discussions.

Figure 178. Mitsukoshi: Sales efficiency (Sales / term-average sales space, ¥'000/m²)

	FY2/01	FY2/02	FY2/03	FY2/04	FY2/05	FY2/06	FY2/07	FY2/08	FY3/09	FY3/10	FY3/11
Nihonbashi flagship stores	2,814	2,940	2,893	2,686	2,334	2,180	2,051	1,968	1,833	1,575	1,577
Ginza store	2,823	2,780	2,720	2,633	2,476	2,502	2,534	2,311	2,116	1,790	1,397
Chiba store	-	-	-	-	1,162	1,103	1,073	1,047	975	858	707
Sapporo Mitsukoshi	2,105	2,171	2,218	1,865	1,583	1,468	1,377	1,260	1,198	1,112	980
Sendai Mitsukoshi	2,008	1,989	1,974	1,466	1,806	1,686	1,642	1,394	930	794	841
Nagoya Mitsukoshi	-	-	-	-	2,889	1,380	1,136	1,288	1,189	1,039	980
Hiroshima Mitsukoshi	1,159	1,237	1,226	1,241	1,180	1,141	1,119	1,101	1,047	991	945
Takamatsu Mitsukoshi	989	1,112	1,074	1,486	1,067	1,020	1,029	1,018	921	839	787
Matsuyama Mitsukoshi	1,290	1,288	1,191	1,159	1,103	1,089	1,048	1,022	928	795	733
Fukuoka Mitsukoshi	-	-	-	-	1,208	1,208	1,182	1,174	1,091	981	-
Total	1,900	1,902	1,859	1,640	1,521	1,266	1,214	1,378	1,184	948	509

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.

Source: Company data, Citi Investment Research and Analysis based on company discussions.

Figure 179. Isetan: Sales breakdown by store

(¥mn)	FY3/01	FY3/02	FY3/03	FY3/04	FY3/05	FY3/06	FY3/07	FY3/08	FY3/09	FY3/10	FY3/11
Shinjuku	240,416	242,832	239,401	244,223	246,001	252,235	256,980	263,367	246,003	223,597	219,472
Tachikawa	19,539	36,625	37,575	38,328	38,932	40,240	40,535	41,122	38,851	36,041	35,835
Matsudo	29,987	30,653	29,922	29,858	28,829	29,121	29,010	28,348	26,394	23,525	22,036
Urawa	50,757	51,013	50,440	49,541	47,458	47,959	52,775	52,783	49,329	43,722	42,048
Sagamihara	34,280	34,142	33,349	33,257	31,948	32,310	32,490	32,671	30,879	27,508	26,228
Fuchu	25,252	24,954	24,650	24,631	23,746	24,505	24,884	25,124	23,586	20,944	20,301
Total	420,597	440,597	434,520	438,428	434,403	444,260	454,948	462,056	432,474	395,443	365,920

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.
Source: Company data, Citi Investment Research and Analysis based on company discussions.

Figure 180. Isetan: Sales efficiency (Sales / term-average sales space, ¥'000/m²)

	FY3/01	FY3/02	FY3/03	FY3/04	FY3/05	FY3/06	FY3/07	FY3/08	FY3/09	FY3/10	FY3/11
Shinjuku	3,739	3,777	3,723	3,798	3,826	3,923	3,997	4,096	3,826	3,478	3,413
Tachikawa	731	914	938	957	972	1,004	1,012	1,027	970	900	895
Matsudo	906	926	904	902	871	880	876	856	797	711	666
Urawa	1,771	1,780	1,760	1,729	1,656	1,674	1,820	1,774	1,637	1,451	1,395
Sagamihara	838	835	815	813	781	790	794	799	755	672	641
Fuchu	740	732	723	722	696	719	730	737	692	614	595
Total	1,692	1,682	1,659	1,674	1,659	1,696	1,735	1,757	1,642	1,501	1,446

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.
Source: Company data, Citi Investment Research and Analysis based on company discussions.

Figure 181. J. Front Retailing (Daimaru): Sales breakdown by store

(¥mn)	FY2/01	FY2/02	FY2/03	FY2/04	FY2/05	FY2/06	FY2/07	FY2/08	FY2/09	FY2/10	FY2/11
Osaka Shinsaibashi	90,956	93,004	89,378	88,422	85,644	86,750	87,008	85,237	77,050	76,673	88,344
Osaka Umeda	71,719	71,865	68,652	69,271	66,945	67,440	66,931	65,273	60,893	54,085	37,286
Tokyo	54,951	54,914	55,584	54,796	52,692	52,602	52,441	59,709	55,911	53,084	49,785
Lalaport Yokohama	-	-	-	-	-	-	-	3,824	3,827	3,797	3,791
Urawa Parco	-	-	-	-	-	-	-	2,224	4,254	4,087	4,063
Kyoto	84,138	83,281	82,379	82,626	83,434	85,416	83,604	84,113	78,707	70,112	69,259
Yamashina	5,436	5,810	5,859	5,914	5,739	5,747	5,747	5,893	5,757	5,447	4,873
Kobe	91,114	98,431	98,232	99,875	98,412	100,449	100,789	99,779	91,859	82,112	80,381
Shinnagata	8,160	8,218	7,582	7,101	6,402	6,084	6,208	6,172	5,807	5,427	5,400
Suma	-	4,674	12,716	12,245	11,457	11,198	10,902	10,827	10,355	9,727	10,194
Ashiya	-	3,710	9,809	9,485	8,930	8,923	9,063	9,084	8,700	7,977	7,867
Sapporo	-	-	-	39,317	41,508	45,027	48,060	49,999	50,329	51,131	54,497
Hakata Daimaru	80,630	82,901	82,360	82,311	76,466	77,237	76,064	75,608	72,003	67,981	66,660
Shimonoseki Daimaru	25,556	26,189	25,101	25,201	23,129	22,928	22,220	21,836	20,303	18,982	18,155
Kochi Daimaru	21,565	20,680	19,948	20,533	19,419	19,104	18,439	17,994	16,702	15,457	14,926
Total	534,225	553,677	557,600	597,097	580,177	588,905	587,476	597,572	562,457	526,079	515,481

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.

Source: Company data, Citi Investment Research and Analysis based on company discussions.

Figure 182. J. Front Retailing (Daimaru): Sales efficiency (Sales / term-average sales space, ¥'000/m²)

	FY2/01	FY2/02	FY2/03	FY2/04	FY2/05	FY2/06	FY2/07	FY2/08	FY2/09	FY2/10	FY2/11
Osaka Shinsaibashi	2,426	2,481	2,384	2,359	2,284	2,314	2,321	2,274	2,055	1,334	1,140
Osaka Umeda	1,775	1,778	1,699	1,714	1,656	1,669	1,656	1,615	1,507	1,338	923
Tokyo	1,744	1,743	1,765	1,740	1,673	1,670	1,601	1,756	1,644	1,561	1,464
Lalaport Yokohama	-	-	-	-	-	-	-	996	997	989	987
Urawa Parco	-	-	-	-	-	-	-	556	1,064	1,022	1,016
Kyoto	1,655	1,638	1,621	1,626	1,641	1,680	1,645	1,655	1,548	1,379	1,363
Yamashina	587	627	633	639	620	621	621	636	622	588	665
Kobe	1,799	1,943	1,939	1,972	1,943	1,983	1,990	1,970	1,813	1,621	1,587
Shinnagata	898	904	834	781	704	669	683	679	639	597	594
Suma	-	-	972	936	876	856	834	828	792	744	780
Ashiya	-	-	2,281	2,206	2,077	2,075	2,108	2,113	2,023	1,855	1,830
Sapporo	-	-	-	-	922	1,001	1,068	1,111	1,118	1,136	1,211
Hakata Daimaru	1,511	1,553	1,543	1,542	1,433	1,447	1,425	1,417	1,349	1,274	1,249
Shimonoseki Daimaru	1,069	1,095	1,050	1,054	967	959	929	913	849	794	759
Kochi Daimaru	1,342	1,287	1,241	1,278	1,209	1,189	1,148	1,120	1,039	962	929
Total	1,656	1,671	1,640	1,647	1,507	1,530	1,506	1,512	1,423	1,267	1,189

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.

Source: Company data, Citi Investment Research and Analysis based on company discussions.

Figure 183. J. Front Retailing (Matsuzakaya): Sales breakdown by store

(¥mn)	FY2/01	FY2/02	FY2/03	FY2/04	FY2/05	FY2/06	FY2/07	FY2/08	FY2/09	FY2/10	FY2/11
Nagoya	136,925	137,042	134,381	138,746	138,746	146,975	139,968	136,344	123,188	110,584	109,860
Ueno	74,790	72,325	66,683	63,817	61,573	61,285	58,566	59,101	54,598	48,265	49,376
Shizuoka	32,315	32,165	32,129	30,933	30,050	29,707	30,315	29,819	26,540	23,537	22,978
Ginza	19,511	19,481	17,924	16,929	16,291	16,666	16,424	15,630	15,531	14,278	12,199
Takatsuki	14,061	13,643	12,983	12,386	15,782	16,910	16,751	16,260	14,260	12,772	10,081
Nagoya Ekimae	15,987	14,745	13,357	12,796	12,389	12,575	12,455	12,444	11,628	10,484	9,827
Toyota	-	4,741	9,831	9,951	9,785	9,787	10,080	10,022	9,117	8,012	8,191
Total	302,293	301,893	294,276	292,407	290,847	300,106	290,672	285,451	259,904	233,637	222,512

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.
Source: Company data, Citi Investment Research and Analysis based on company discussions.

Figure 184. J. Front Retailing (Matsuzakaya): Sales efficiency (Sales / term-average sales space, ¥'000/m²)

	FY2/01	FY2/02	FY2/03	FY2/04	FY2/05	FY2/06	FY2/07	FY2/08	FY2/09	FY2/10	FY2/11
Nagoya	1,803	1,804	1,769	1,705	1,599	1,694	1,613	1,572	1,420	1,275	1,266
Ueno	2,033	1,966	1,813	1,745	1,694	1,713	1,663	1,678	1,551	1,371	1,402
Shizuoka	1,270	1,264	1,262	1,215	1,181	1,167	1,191	1,172	1,043	925	903
Ginza	770	768	707	668	643	657	648	617	613	563	481
Takatsuki	681	661	629	600	765	819	812	788	691	619	488
Nagoya Ekimae	968	893	808	775	750	761	754	753	704	635	-
Toyota	-	520	540	546	537	537	553	550	500	440	450
Nagoya	1,277	1,225	1,148	1,119	1,038	1,112	1,172	1,151	1,045	965	1,012

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.
Source: Company data, Citi Investment Research and Analysis based on company discussions.

Figure 185. Takashimaya: Sales breakdown by store

(¥mn)	FY2/01	FY2/02	FY2/03	FY2/04	FY2/05	FY2/06	FY2/07	FY2/08	FY2/09	FY2/10	FY2/11
Osaka	171,875	163,642	154,976	150,506	143,594	144,033	142,543	139,535	124,371	107,898	114,907
Sakai	20,756	21,023	22,794	21,745	19,964	18,934	18,779	18,393	17,756	16,589	15,883
Kyoto	112,778	112,701	110,847	108,540	103,522	101,555	103,415	104,193	98,236	90,364	85,370
Senhoku	25,765	25,799	25,587	24,973	23,739	23,554	24,107	24,193	23,221	21,571	20,932
Tokyo	192,245	184,681	164,943	153,946	154,604	159,028	162,584	159,081	146,473	130,795	127,092
Yokohama	161,312	164,960	161,288	161,020	153,491	158,199	159,892	159,471	148,988	135,489	134,029
Konandai	14,602	14,502	14,045	13,449	12,726	12,673	13,035	13,007	12,325	11,186	11,017
Shinjuku	77,805	79,875	82,675	82,690	79,540	79,908	77,947	76,840	76,107	67,835	66,088
Tamagawa	44,599	44,680	43,786	44,241	46,329	47,663	49,137	49,719	46,754	42,301	41,781
Tachikawa	33,376	32,622	31,588	31,345	29,000	28,881	28,519	27,721	24,758	21,243	19,840
Omiya	21,524	21,355	20,852	20,364	18,346	17,351	17,234	17,302	16,066	14,106	13,779
Kashiwa	38,685	42,320	44,457	43,342	41,449	41,134	41,192	42,884	40,713	37,189	37,121
Okayama Takashimaya	26,570	27,829	27,339	26,271	24,611	25,382	25,318	24,431	22,727	19,536	18,852
Gifu Takashimaya	21,008	20,249	19,425	18,478	16,967	17,327	19,763	20,074	18,998	17,186	16,433
Yonago Takashimaya	10,776	10,746	10,751	8,870	8,870	8,537	8,664	8,277	7,616	6,847	6,577
Takasaki Takashimaya	17,465	17,861	17,466	17,319	17,401	18,346	18,426	18,379	17,076	15,217	15,311
Total	991,141	984,845	952,819	927,099	894,153	902,505	910,555	903,500	842,185	755,352	745,012

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.

Source: Company data, Citi Investment Research and Analysis based on company discussions.

Figure 186. Takashimaya: Sales efficiency (Sales / term-average sales space, ¥'000/m²)

	FY2/01	FY2/02	FY2/03	FY2/04	FY2/05	FY2/06	FY2/07	FY2/08	FY2/09	FY2/10	FY2/11
Osaka	2,629	2,329	2,220	2,171	2,067	2,069	2,058	2,056	1,875	1,662	1,678
Sakai	1,104	1,119	1,054	889	873	891	883	865	835	780	747
Kyoto	1,866	1,665	1,636	1,591	1,517	1,492	1,518	1,525	1,438	1,323	1,253
Senhoku	1,206	1,207	1,197	1,169	1,112	1,103	1,129	1,133	1,088	1,010	983
Tokyo	3,861	3,682	3,329	3,113	3,093	3,149	3,220	3,151	2,904	2,591	2,515
Yokohama	2,921	2,961	2,918	2,944	2,820	2,913	2,948	2,941	2,767	2,474	2,390
Konandai	964	957	927	885	834	831	854	852	808	733	722
Shinjuku	1,499	1,498	1,512	1,512	1,454	1,471	1,445	1,424	1,411	1,259	1,227
Tamagawa	2,063	2,067	2,025	1,978	1,966	1,985	2,046	2,071	1,947	1,762	1,740
Tachikawa	1,183	1,156	1,119	1,111	1,088	1,150	1,134	1,102	984	844	873
Omiya	1,209	1,200	1,171	1,160	1,060	1,003	996	1,000	929	815	796
Kashiwa	1,444	1,571	1,688	1,644	1,544	1,532	1,459	1,450	1,379	1,260	1,258
Okayama Takashimaya	1,381	1,424	1,401	1,348	1,257	1,297	1,299	1,254	1,161	997	967
Gifu Takashimaya	967	925	889	849	783	783	858	852	804	728	695
Yonago Takashimaya	634	623	627	520	522	506	516	494	455	410	392
Takasaki Takashimaya	-	-	-	-	-	934	938	935	868	774	783
Total	1,945	1,877	1,808	1,752	1,693	1,715	1,726	1,710	1,600	1,437	1,411

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.

Source: Company data, Citi Investment Research and Analysis based on company discussions.

Figure 187. H2O Retailing: Sales breakdown by store

(¥mn)	FY2/01	FY2/02	FY2/03	FY2/04	FY2/05	FY2/06	FY2/07	FY2/08	FY2/09	FY2/10	FY2/11
Umeda	208,833	199,357	196,392	193,526	192,073	182,650	170,610	173,140	172,887	144,075	131,087
Hanshin Umeda	105,647	108,087	107,213	112,952	103,258	107,534	104,661	102,681	94,289	92,185	96,045
Senri	20,484	20,413	19,732	18,971	18,165	18,934	19,155	19,356	18,701	17,254	17,317
Sakai Kitahanada	-	-	-	-	4,385	8,764	9,571	10,430	10,403	10,224	10,165
Kawanishi	20,246	20,431	19,952	19,120	19,266	19,872	20,669	21,088	20,152	18,636	18,458
Takaraduka	9,899	10,130	10,189	10,063	9,846	10,148	10,512	10,768	10,288	9,302	9,167
Nishinomiya Hankyu	-	-	-	-	-	-	-	-	7,563	19,190	21,763
Kobe	21,212	20,625	18,522	16,995	15,430	14,787	14,441	13,721	11,824	9,913	9,143
Sanda	-	-	-	-	-	808	1,479	1,569	1,533	1,439	1,437
Amagasaki Hanshin	-	-	-	-	-	-	-	-	-	2,017	3,633
Hanshin Nishnomyia	-	-	494	5,716	5,090	5,111	5,185	5,254	5,025	4,736	4,660
Hanshin Mikage	-	-	-	-	-	-	-	5,689	5,689	1,788	1,353
Shijo Kawaramachi	8,726	8,733	8,027	7,809	7,149	6,625	6,675	6,631	5,614	4,574	2,288
Yurakucho	19,607	15,318	14,912	14,608	14,099	14,576	14,578	13,850	12,145	9,885	8,462
Tsudoku	6,754	8,159	8,983	8,422	8,132	8,621	9,325	9,220	9,171	8,339	7,991
Total	421,408	411,253	404,416	408,182	396,893	398,430	387,874	394,860	386,618	354,758	342,969

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.

Source: Company data, Citi Investment Research and Analysis based on company discussions.

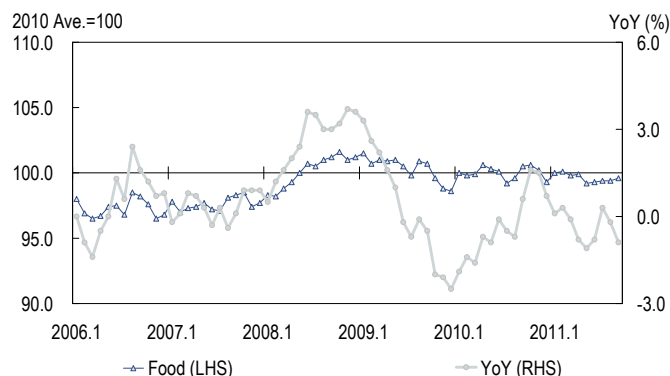
Figure 188. H2O Retailing: Sales efficiency (Sales / term-average sales space, ¥'000/m²)

	FY2/01	FY2/02	FY2/03	FY2/04	FY2/05	FY2/06	FY2/07	FY2/08	FY2/09	FY2/10	FY2/11
Umeda	3,094	3,009	2,972	2,861	2,798	3,046	3,357	2,955	2,610	2,479	2,616
Hanshin Umeda	2,017	2,063	2,047	2,156	1,971	2,053	1,998	1,960	1,800	1,743	1,799
Kobe	1,534	1,529	1,472	1,404	1,332	1,379	1,391	1,404	1,355	1,250	1,255
Sakai Kitahanada	-	-	-	-	274	548	598	652	650	639	635
Sanda	1,247	1,258	1,229	1,204	1,241	1,280	1,331	1,358	1,298	1,200	1,189
Hanshin Mikage	1,377	1,409	1,417	1,399	1,369	1,411	1,462	1,497	1,431	1,294	1,275
Sannomiya	-	-	-	-	-	-	-	-	303	768	871
Kobe	612	595	542	550	502	444	434	412	355	298	275
Sanda	-	-	-	-	-	377	690	732	715	671	671
Amagasaki Hanshin	-	-	-	-	-	-	-	-	-	378	682
Hanshin Nishnomyia	-	-	-	1,146	1,020	1,025	1,039	1,053	1,006	948	932
Hanshin Mikage	-	-	-	-	-	-	-	49	520	380	363
Shijo Kawaramachi	943	963	903	863	777	720	720	709	600	489	-
Yurakucho	1,332	1,041	1,013	1,129	1,260	1,298	1,300	1,223	1,061	864	739
Yurakucho	190	230	505	477	464	492	533	545	561	510	489
Total	1,170	1,349	1,676	1,636	1,580	1,557	1,577	1,531	1,617	1,291	1,217

Note: Sales figures based on the total number of stores shown and may not be consistent with sales figures on financial statements.

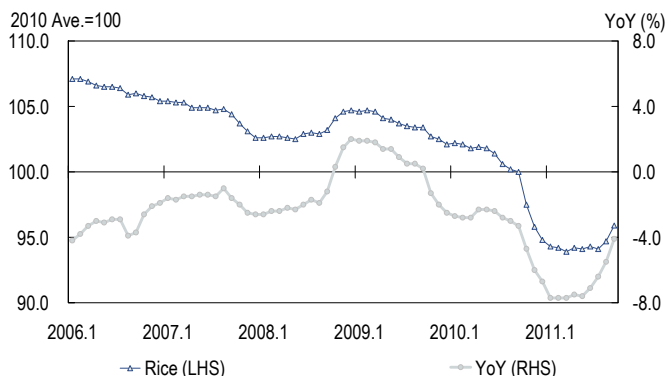
Source: Company data, Citi Investment Research and Analysis based on company discussions.

Figure 189. CPI: Food index



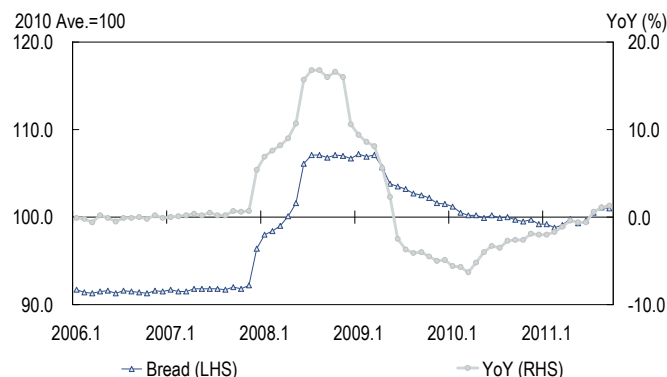
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 190. CPI: Rice index



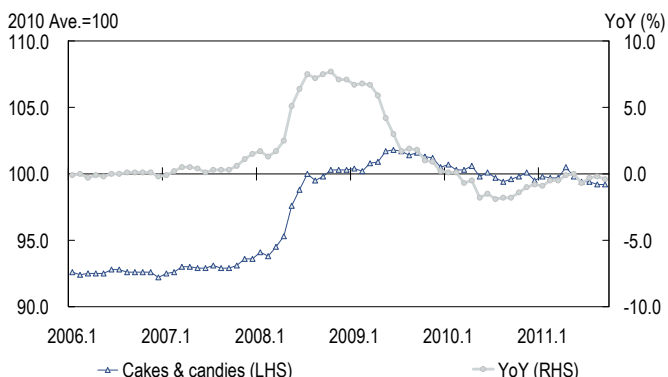
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 191. CPI: Bread index



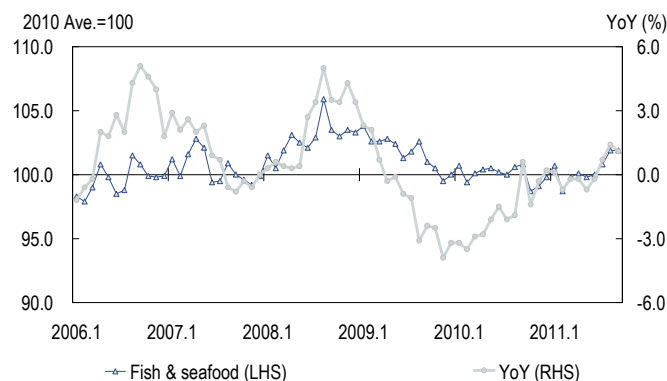
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 192. CPI: Snacks index



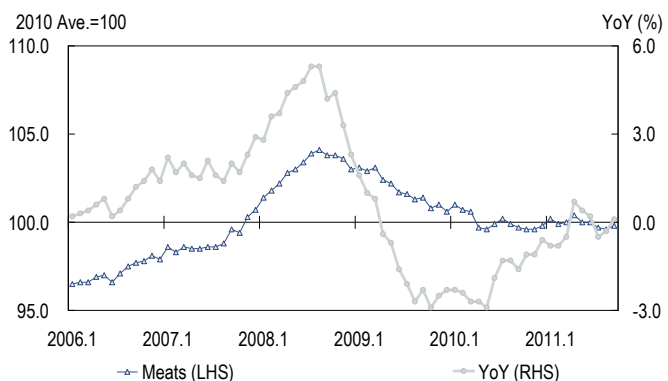
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 193. CPI: Fish & seafood index



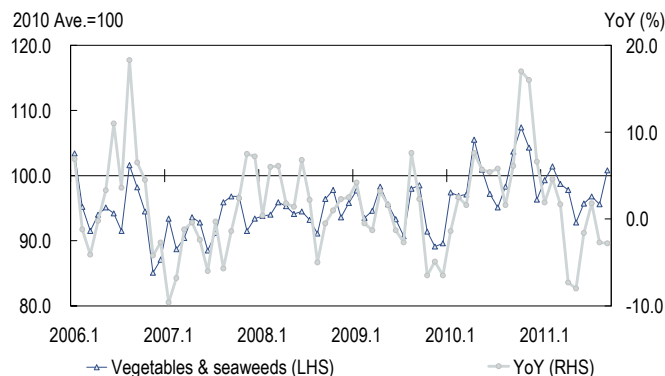
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 194. CPI: Meats index



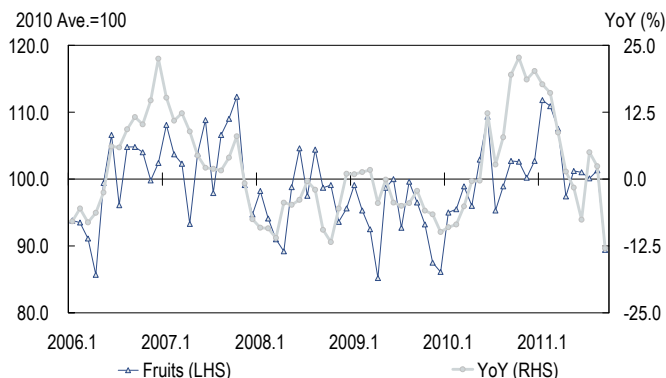
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 195. CPI: Vegetables & seaweeds index



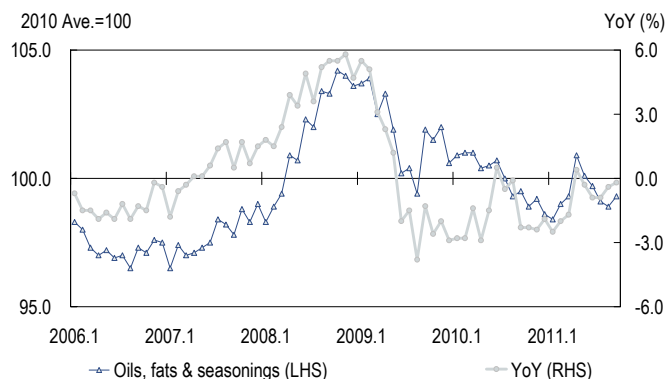
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 196. CPI: Fruits index



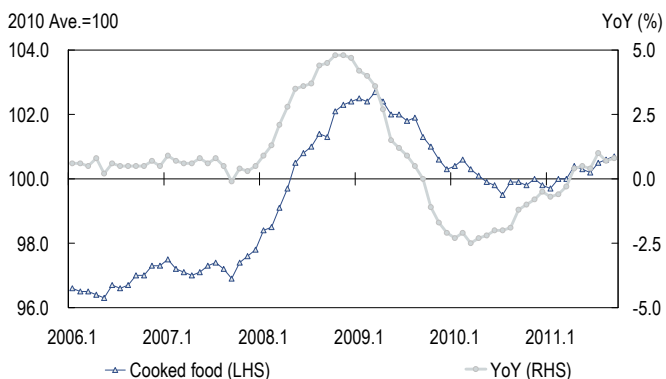
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 197. CPI: Oils, fats & seasonings index



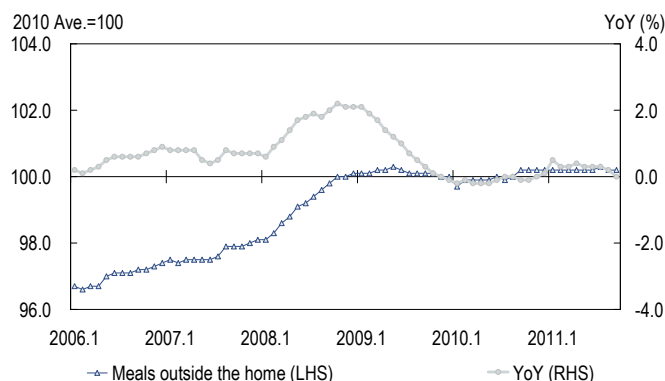
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 198. CPI: Prepared food index



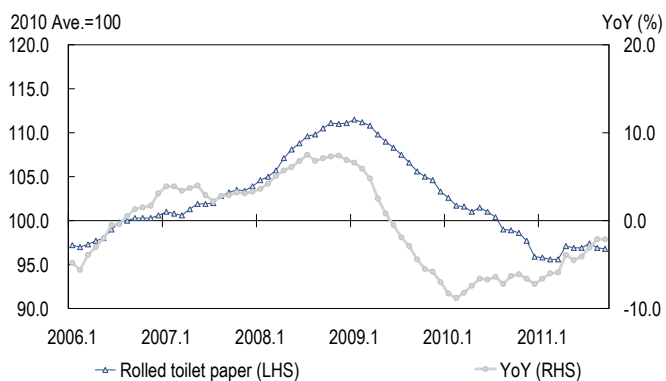
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 199. CPI: Dining out index



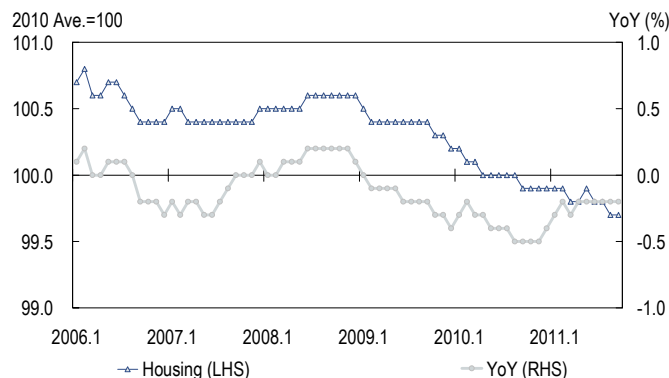
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 200. CPI: Rolled toilet paper index



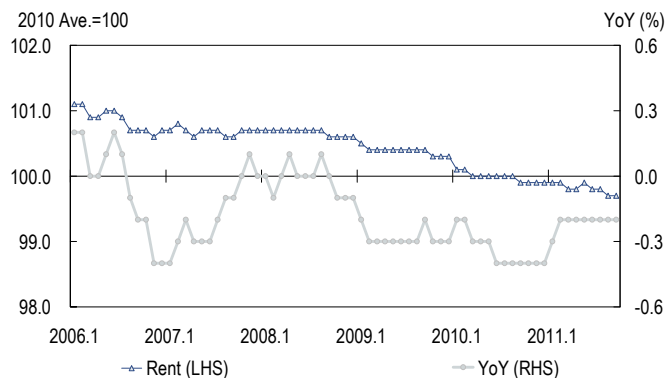
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 201. CPI: Residential index



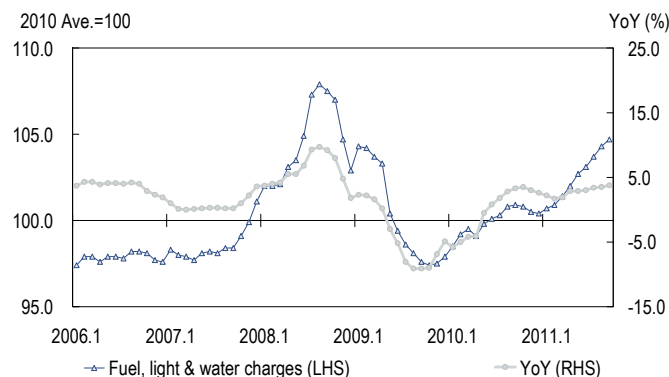
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 202. CPI: Rent index



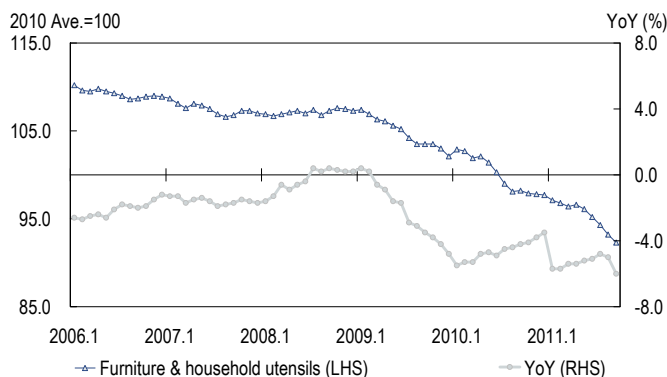
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 203. CPI: Utilities index



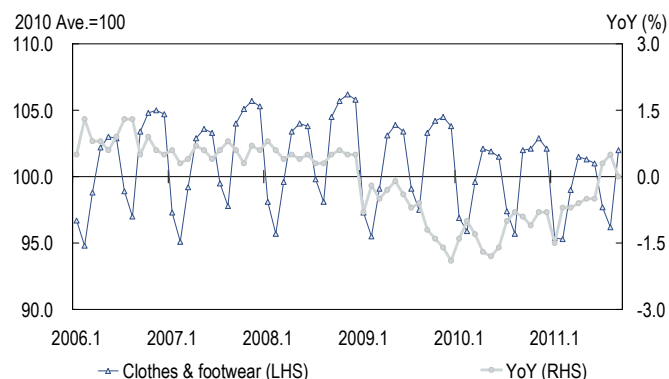
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 204. CPI: Furniture & household utensils index



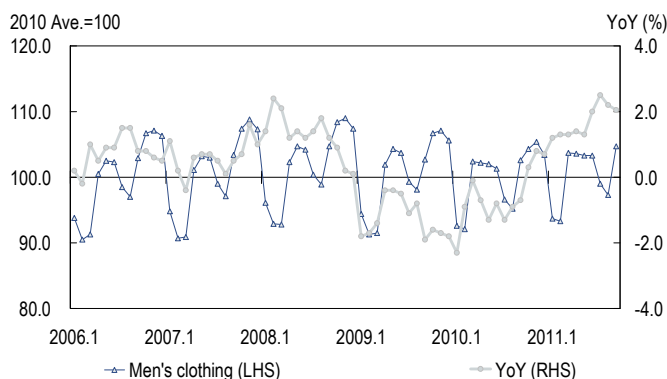
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 205. CPI: Clothes & footwear index



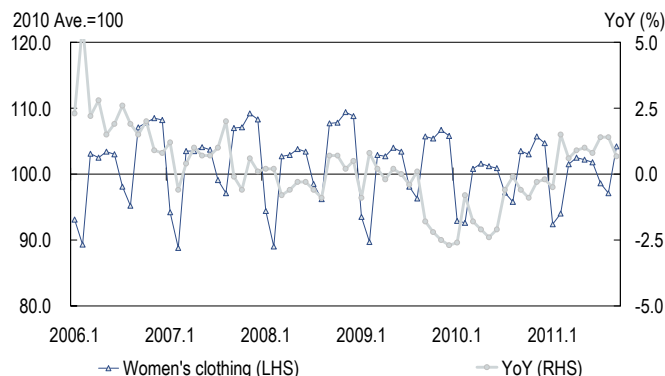
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 206. CPI: Men's clothing index



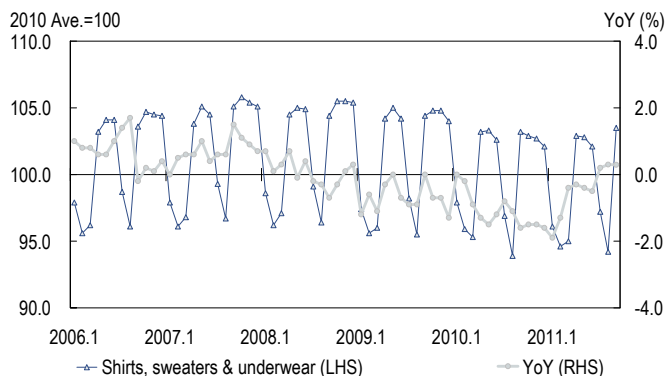
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 207. CPI: Women's clothing index



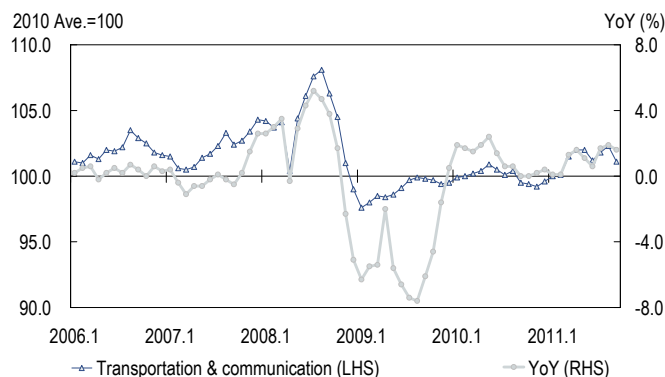
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 208. CPI: Shirts, sweaters & underwear index



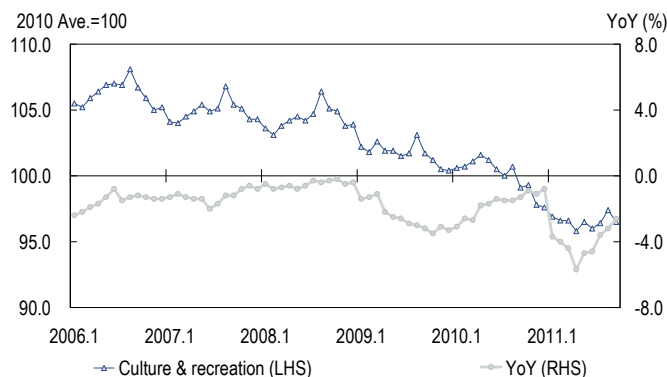
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 209. CPI: Transportation & communication index



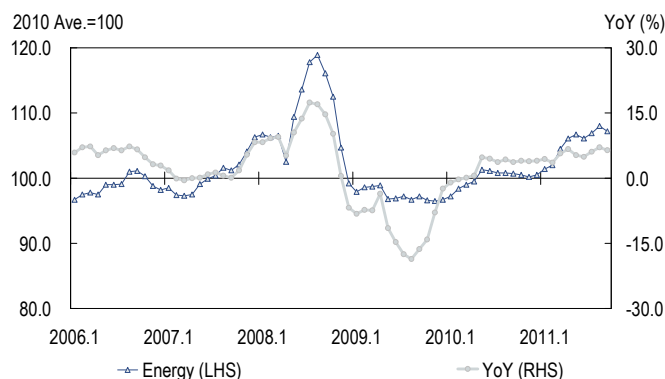
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 210. CPI: Educational entertainment index



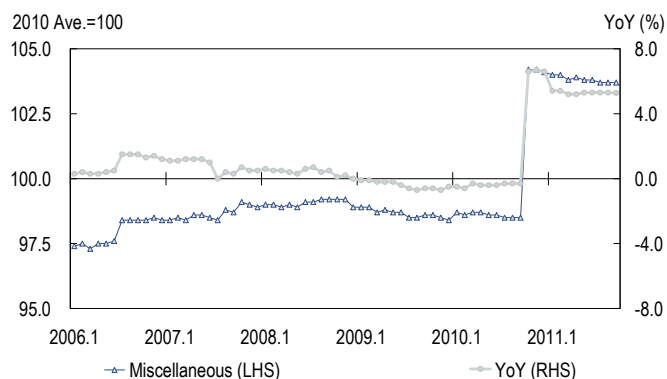
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 211. CPI: Energy index



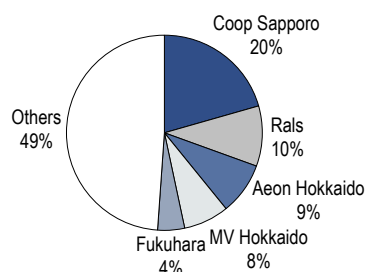
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 212. CPI: Miscellaneous index



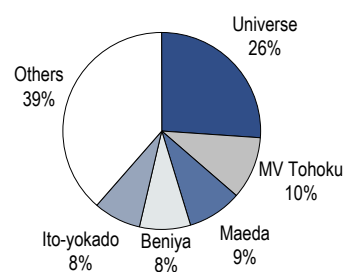
Source: Ministry of Internal Affairs and Communications Citi Investment Research and Analysis.

Figure 213. Hokkaido: Food Supermarket by Region and Analysis of Competitiveness



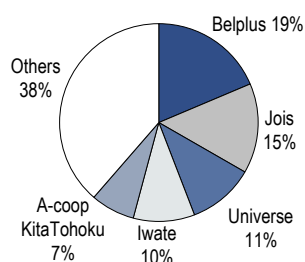
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 214. Aomori: Food Supermarket by Region and Analysis of Competitiveness



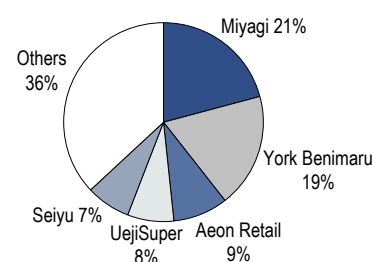
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 215. Iwate: Food Supermarket by Region and Analysis of Competitiveness



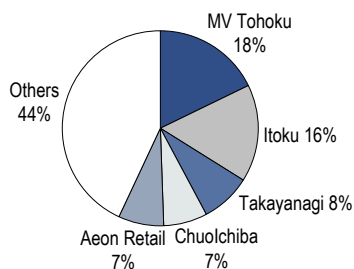
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 216. Miyagi: Food Supermarket by Region and Analysis of Competitiveness



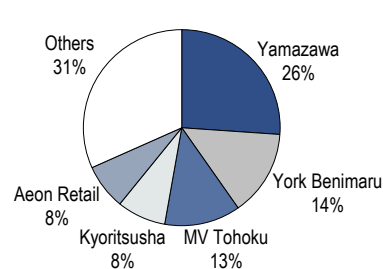
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 217. Akita: Food Supermarket by Region and Analysis of Competitiveness



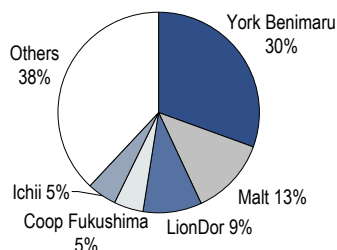
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 218. Yamagata: Food Supermarket by Region and Analysis of Competitiveness



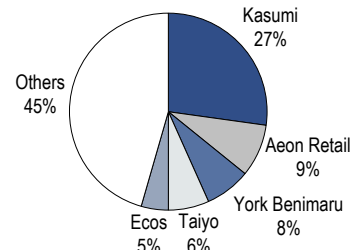
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 219. Fukushima: Food Supermarket by Region and Analysis of Competitiveness



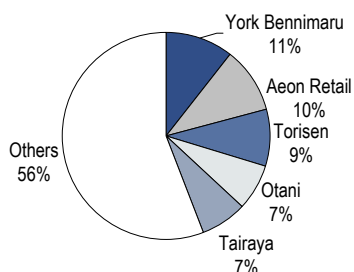
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 220. Ibaragi: Food Supermarket by Region and Analysis of Competitiveness



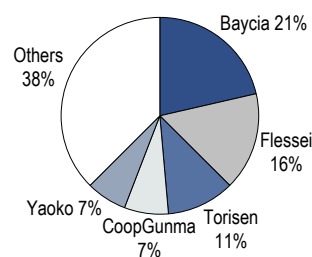
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 221. Tochigi: Food Supermarket by Region and Analysis of Competitiveness



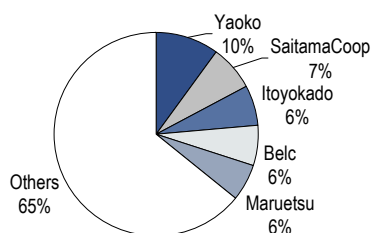
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 222. Gunma: Food Supermarket by Region and Analysis of Competitiveness



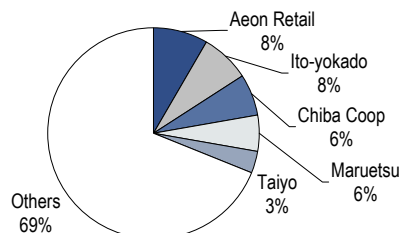
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 223. Saitama: Food Supermarket by Region and Analysis of Competitiveness



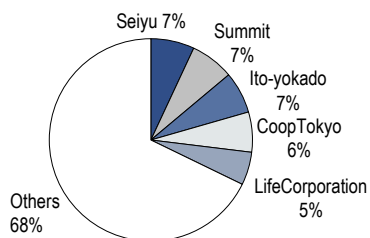
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 224. Chiba: Food Supermarket by Region and Analysis of Competitiveness



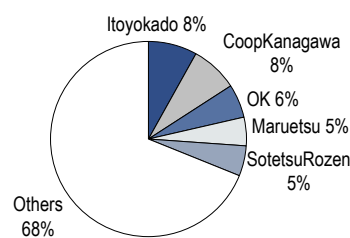
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 225. Tokyo: Food Supermarket by Region and Analysis of Competitiveness



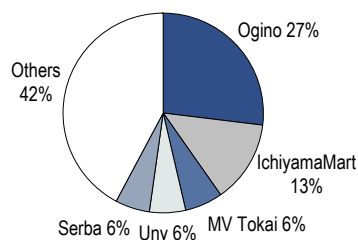
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 226. Kanagawa: Food Supermarket by Region and Analysis of Competitiveness



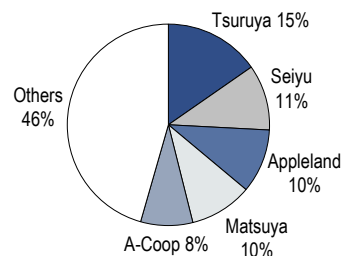
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 227. Yamanashi: Food Supermarket by Region and Analysis of Competitiveness



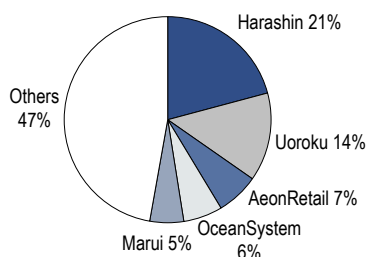
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 228. Nagano: Food Supermarket by Region and Analysis of Competitiveness



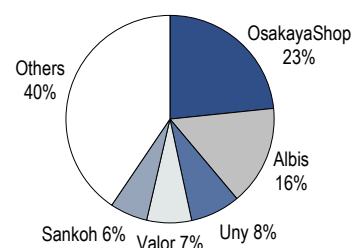
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 229. Niigata: Food Supermarket by Region and Analysis of Competitiveness



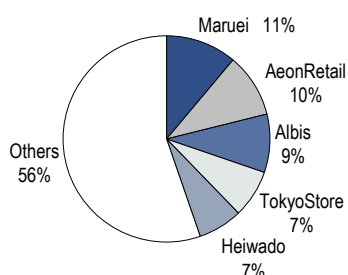
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 230. Toyama: Food Supermarket by Region and Analysis of Competitiveness



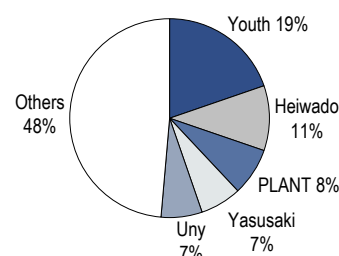
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 231. Ishikawa: Food Supermarket by Region and Analysis of Competitiveness



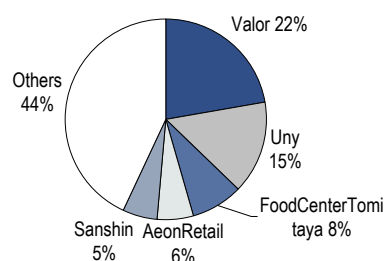
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 232. Fukui: Food Supermarket by Region and Analysis of Competitiveness



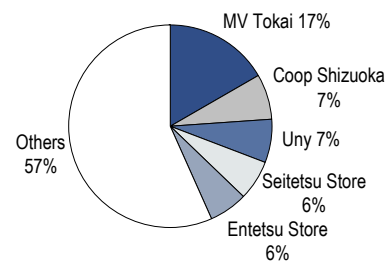
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 233. Gifu: Food Supermarket by Region and Analysis of Competitiveness



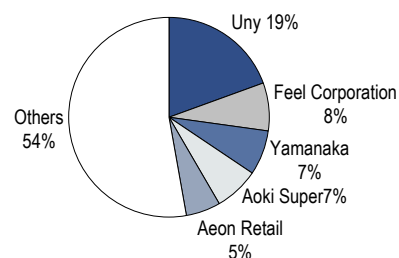
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 234. Shizuoka: Food Supermarket by Region and Analysis of Competitiveness



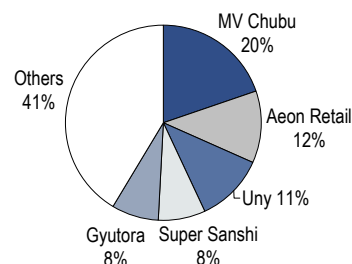
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 235. Aichi: Food Supermarket by Region and Analysis of Competitiveness



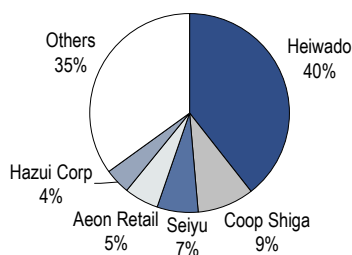
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 236. Mie: Food Supermarket by Region and Analysis of Competitiveness



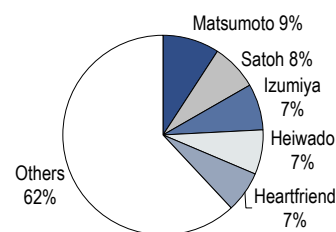
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 237. Shiga: Food Supermarket by Region and Analysis of Competitiveness



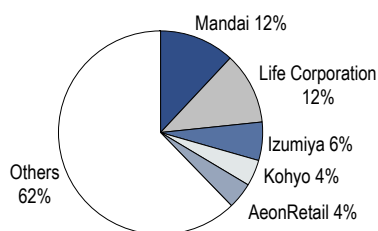
Source: *F Food Supermarket Yearbook 2011*, Citi Investment Research and Analysis.

Figure 238. Kyoto: Food Supermarket by Region and Analysis of Competitiveness



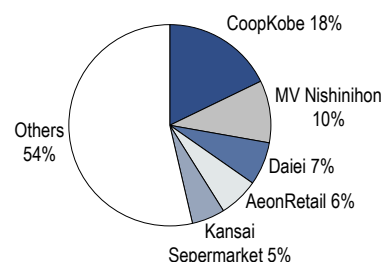
Source: *Food Supermarket Yearbook 2011*, Citi Investment Research and Analysis.

Figure 239. Osaka: Food Supermarket by Region and Analysis of Competitiveness



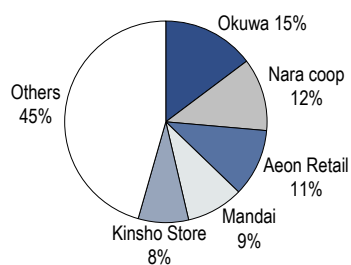
Source: *Food Supermarket Yearbook 2011*, Citi Investment Research and Analysis.

Figure 240. Hyogo: Food Supermarket by Region and Analysis of Competitiveness



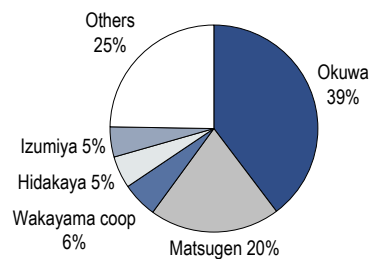
Source: *Food Supermarket Yearbook 2011*, Citi Investment Research and Analysis.

Figure 241. Nara: Food Supermarket by Region and Analysis of Competitiveness



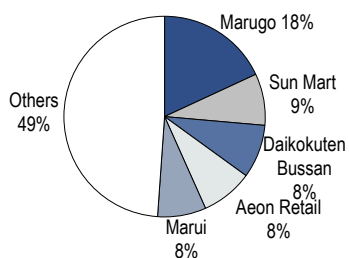
Source: *Food Supermarket Yearbook 2011*, Citi Investment Research and Analysis.

Figure 242. Wakayama: Food Supermarket by Region and Analysis of Competitiveness



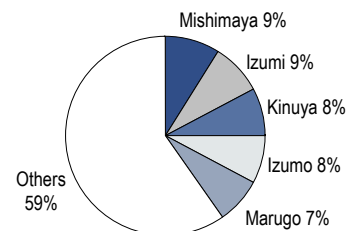
Source: *Food Supermarket Yearbook 2011*, Citi Investment Research and Analysis.

Figure 243. Tottori: Food Supermarket by Region and Analysis of Competitiveness



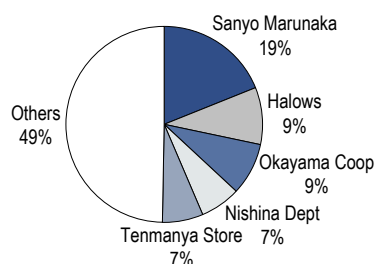
Source: *Food Supermarket Yearbook 2011*, Citi Investment Research and Analysis.

Figure 244. Shimane: Food Supermarket by Region and Analysis of Competitiveness



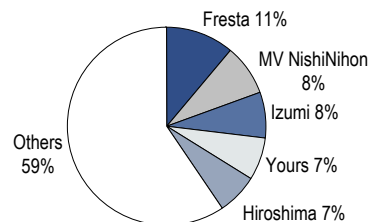
Source: *Food Supermarket Yearbook 2011*, Citi Investment Research and Analysis.

Figure 245. Okayama: Food Supermarket by Region and Analysis of Competitiveness



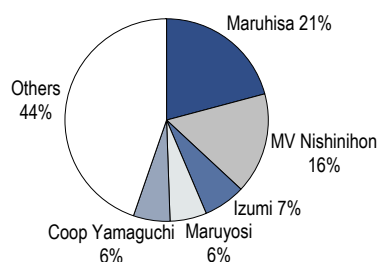
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 246. Hiroshima: Food Supermarket by Region and Analysis of Competitiveness



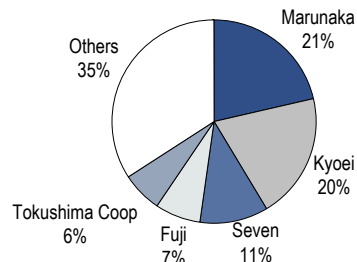
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 247. Yamaguchi: Food Supermarket by Region and Analysis of Competitiveness



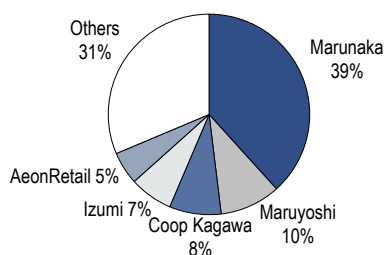
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 248. Tokushima: Food Supermarket by Region and Analysis of Competitiveness



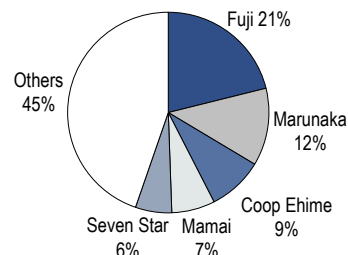
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 249. Kagawa: Food Supermarket by Region and Analysis of Competitiveness



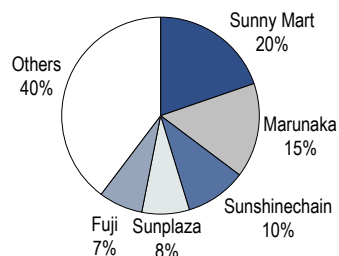
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 250. Ehime: Food Supermarket by Region and Analysis of Competitiveness



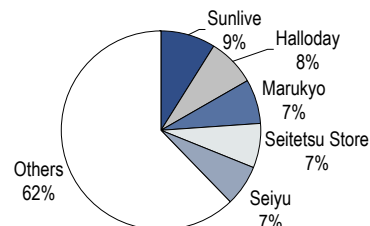
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 251. Kochi: Food Supermarket by Region and Analysis of Competitiveness



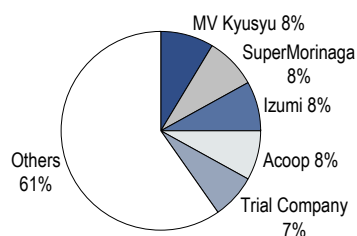
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 252. Fukuoka: Food Supermarket by Region and Analysis of Competitiveness



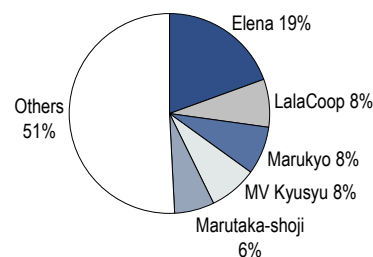
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 253. Saga: Food Supermarket by Region and Analysis of Competitiveness



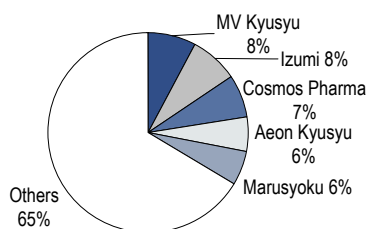
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 254. Nagasaki: Food Supermarket by Region and Analysis of Competitiveness



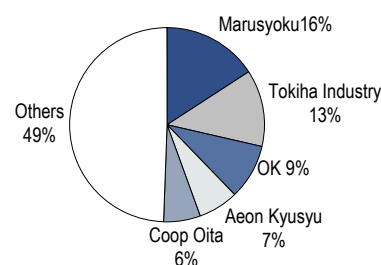
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 255. Kumamoto: Food Supermarket by Region and Analysis of Competitiveness



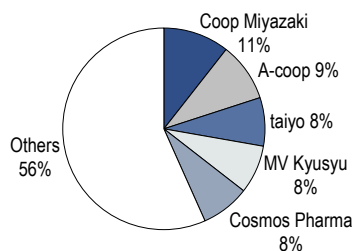
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 256. Oita: Food Supermarket by Region and Analysis of Competitiveness



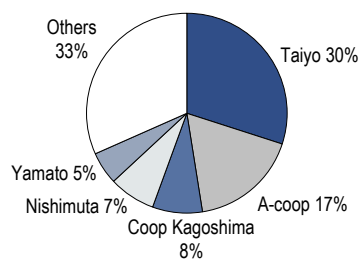
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 257. Miyazaki: Food Supermarket by Region and Analysis of Competitiveness



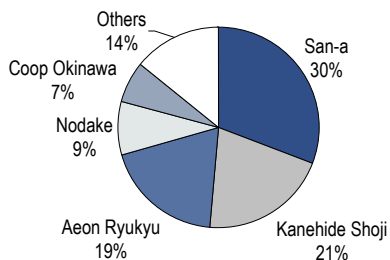
Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 258. Kagoshima: Food Supermarket by Region and Analysis of Competitiveness



Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

Figure 259. Okinawa: Food Supermarket by Region and Analysis of Competitiveness



Source: Food Supermarket Yearbook 2011, Citi Investment Research and Analysis.

J. Front Retailing

Valuation

We set our target price at ¥500, an FY2/12E PBR of 0.8x. This is a discount to the market average PBR, as we take into account the still low RoE following a period of declining sales following the global financial crisis. We also think one should take into account the potential impact on future shareholders' equity from unrealized gains, including ¥95.7bn in deferred tax liabilities and about ¥140bn (our estimate) in unrealized gains on real estate.

Risks

We see a variety of risks to our target price. If the various effects associated with natural disaster were to become even more serious, it could have a major impact on the Japanese economy itself, which could ultimately lead to department store sales dropping across the nation. Furthermore, the impact of department store operators increasing sales floorspace in Osaka could be greater than we have assumed, with potential implications for all stores operating in the Kansai area.

While we do not see any company-specific risks, sales could be more severely affected by changing whether conditions, but this would probably happen gradually rather than suddenly, allowing us to check monthly sales data and follow up on a daily basis to find out what is happening.

Isetan Mitsukoshi Holdings

Valuation

Current earnings are so low as to be not really worth discussing, and the shares look extremely overvalued on earnings indicators. However, PBRs at firms with brand value tend to rise to 1x when there are signs of an upturn in earnings. Accordingly, we see upside for Isetan Mitsukoshi's share price, which is currently trading on a PBR below 1x. With this in mind, we set our target price at ¥1,000, which assumes an end-FY3/12E PBR of 0.85x. Given the most recent land price data, we put unrealized gains on land at more than ¥1,000/share. Depending on the market environment, these unrealized gains could push up the firm's valuation.

Risks

One key risk is a major decline in department store sales due to a global economic downturn. A risk general to the subsector is greater-than-expected sales volatility brought on by major changes in weather or the economy. If either of these factors differ from our assumptions, the share price could diverge from our target price. However, these are not things that happen all of a sudden, and we can generally spot them ahead of time by checking monthly sales data every month and doing daily follow-ups.

Takashimaya

Valuation

We set our target price at an FY2/12E PBR of 0.9x. On top of positive H1 results, earnings visibility for FY2/12 (which included the March 11 earthquake) has improved, and we value the shares applying a modest discount to the market average.

While unrealized gains on land and buildings are small compared with Isetan Mitsukoshi Holdings and J. Front Retailing, Takashimaya owns some of the land on which its Kyoto, Osaka, and Nihonbashi stores are situated as well as the land on which Osaka and Yokohama distribution centers are situated, and we estimate these holdings have a value per share of around ¥200.

Risks

In 2011, Takashimaya spent ¥45bn on significant expansion for its Osaka store, increasing sales floor space by 22,000 m² to 78,000 m². The firm expects sales at this store increase by ¥15bn, but the risk is that it will fail to meet this target. In the past, big store refurbishments have not resulted in remarkable success. If going forward Takashimaya fails to set a clear RoI target and clarify responsibility for attaining it, the cash generated via restructuring could be cancelled out by unprofitable investments.

While not a risk unique to Takashimaya, major fluctuations in weather conditions and the business cycle could cause greater volatility in sales than expected. However, this is not something that would arise suddenly; rather, checking sales data every month and following up on the company can provide an early warning.

Appendix A-1

Analyst Certification

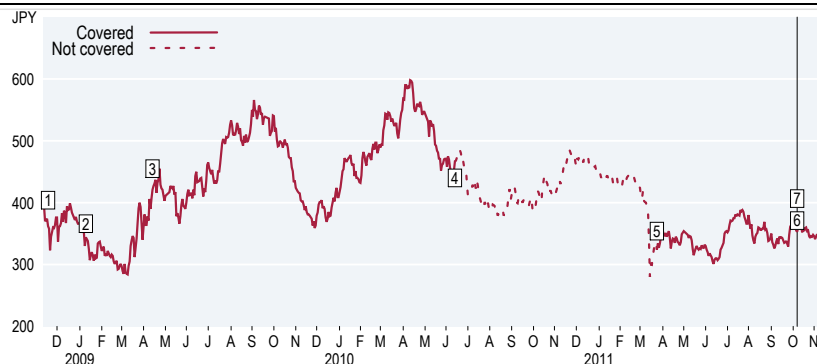
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

J. Front Retailing (3086)

Ratings and Target Price History Fundamental Research

Analyst: Kumio Tomonaga
Covered since March 24 2011



	Date	Rating	Target Price	Closing Price
1	12-Nov-08	*1M	*480	393
2	9-Jan-09	1M	*410	344
3	14-Apr-09	1M	*580	421

* Indicates change

	Date	Rating	Target Price	Closing Price
4	14-Jun-10	Coverage terminated		
5	24-Mar-11	1M	*500	324
6	7-Oct-11	Stock rating system changed		

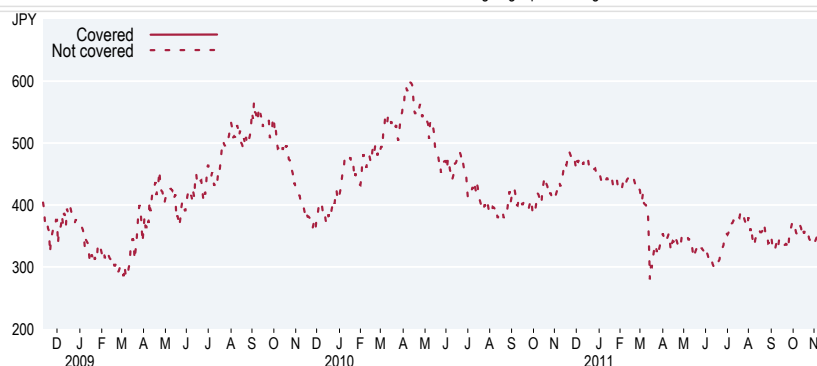
	Date	Rating	Target Price	Closing Price
7	7-Oct-11	*1	500	353

Rating/target price changes above reflect Eastern Standard Time

J. Front Retailing (3086)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Kumio Tomonaga
Covered since March 24 2011



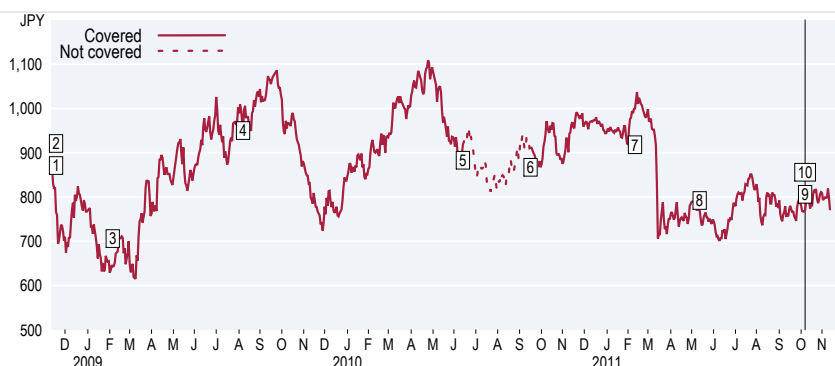
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Isetan Mitsukoshi Holdings (3099)

Ratings and Target Price History Fundamental Research

Analyst: Kumio Tomonaga
Covered since September 16 2010



	Date	Rating	Target Price	Closing Price
1	12-Nov-08	1M	*1,250	868
2	13-Nov-08	1M	*1,220	831
3	5-Feb-09	1M	*950	643
4	7-Aug-09	1M	*1,250	950

* Indicates change

	Date	Rating	Target Price	Closing Price
5	14-Jun-10	Coverage terminated		
6	16-Sep-10	1M	*1,100	911
7	10-Feb-11	1M	*1,200	1,000
8	12-May-11	1M	*1,000	770

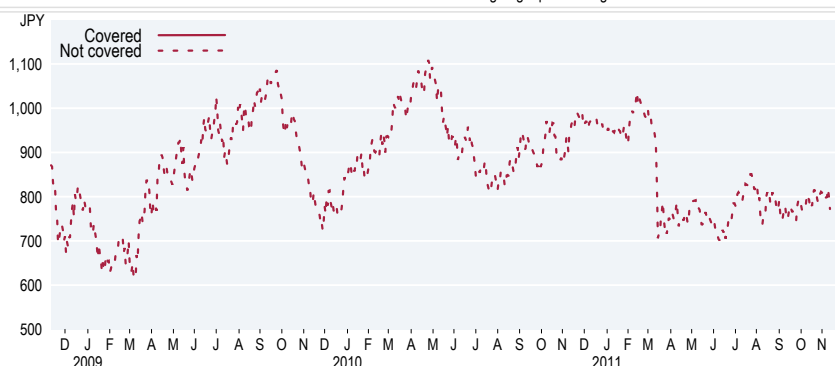
	Date	Rating	Target Price	Closing Price
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*1	1,000	770

Rating/target price changes above reflect Eastern Standard Time

Isetan Mitsukoshi Holdings (3099)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Kumio Tomonaga
Covered since September 16 2010



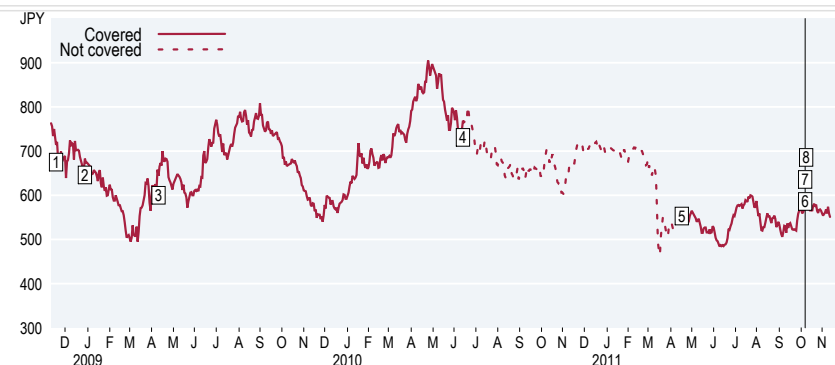
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Takashimaya (8233)

Ratings and Target Price History Fundamental Research

Analyst: Kumio Tomonaga
Covered since April 18 2011



	Date	Rating	Target Price	Closing Price
1	12-Nov-08	2M	*820	756
2	28-Dec-08	2M	*650	660
3	10-Apr-09	*1M	*860	644

* Indicates change

	Date	Rating	Target Price	Closing Price
4	14-Jun-10	Coverage terminated		
5	18-Apr-11	*1L	*710	540
6	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
7	7-Oct-11	*1	710	570
8	10-Oct-11	1	*800	570

Rating/target price changes above reflect Eastern Standard Time

Takashimaya (8233)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Kumio Tomonaga

Covered since April 18 2011



* Indicates change

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research & Analysis Ratings Distribution

Data current as of 10 Oct 2011

Citi Investment Research & Analysis Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
59%	34%	7%	10%	79%	10%
45%	42%	37%	50%	43%	46%

Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:

CIRA's stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.

Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: CIRA's investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of CIRA management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks,

10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Japan Inc.

Kumio Tomonaga; Chiaki Hirota

OTHER DISCLOSURES

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Isetan Mitsukoshi Holdings. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citigroupgeo.com.)

This Product has been modified by the author following a discussion with one or more of the named issuers/issuers of the named securities.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.

Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures. For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.

This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty

Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A. Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 110-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as

defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to CIRA's Products can be found at www.citigroupgeo.com.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product. With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs), CIRA concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual CIRA analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. CIRA simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by CIRA analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.

© 2011 Citigroup Global Markets Inc. Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website

material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST
