cotta | 3359 (TSE Growth)

Company Report

July 10, 2026

Strategy Advisors Inc.
Kenichi Ito

Higher ROIC to Drive Share Price Appreciation

cotta is an e-commerce company whose purpose is “Circulating the joy of creating and the happiness of eating around the world”. The company provides ingredients such as bread flour, butter and chocolate for confectionery, as well as cookie and muffin molds, freshness-preserving agents and wrapping bags - products essential for confectionery & bakery businesses - through its e-commerce platform.

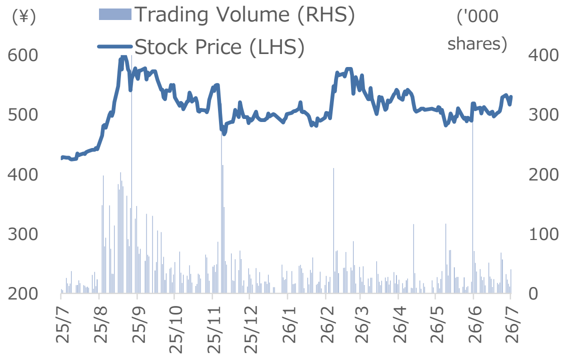
Its key competitive strength (difficulty of imitation) lies in its management execution capabilities. Despite operating from Tsukumi City, Oita Prefecture, where access to management resources is limited, the company has relentlessly refined its operations and grown into a listed company in the niche market for confectionery & bakery supplies.

To meet customers' needs for small-lot orders, a broad product assortment and short delivery lead times, the company has established a highly productive logistics operation utilizing voice-picking technology. Small and medium-sized confectionery & bakery businesses have strong demand for minimizing inventory while obtaining only the quantities they need without delay. By implementing a voice-picking system at its proprietary warehouse, which stocks approximately 30,000 products, the company has built a sophisticated logistics operation capable of shipping orders on the same day. A typical order includes 6 to 7 items, including extremely small products such as labels costing only a few yen each and small packaging bags.

The equity story centers on improving ROIC in its existing businesses and pursuing additional M&A. We believe the share price could be re-rated if ROIC improves at the company's core existing subsidiaries, centered on Works Group, by leveraging its logistics operations capable of handling a broad product assortment in small lots together with its marketing expertise, or if growth accelerates through additional M&A.

Key areas to watch going forward include a higher private brand ratio at Works Group, expansion of MedMarge's high-profitability business and M&A with businesses that have strong strategic fit with the company's existing operations. With the company's PBR remaining around 1x, Strategy Advisors believe the share price could resume its upward trend if it maintains the high profitability of the cotta business while demonstrating new growth potential to the market.

Stock Price and Trading Volumes (Past Year)



Source: Strategy Advisors

Key Indicators

Stock Price (07/10/26)	530
52-Week High (08/29/25)	610
52-Week Low (07/18/25)	425
Historical High (09/30/20)	1,173
Historical Low (12/25/14)	121
Shares on Issue (mn)	10.6
Market Capitalization (¥bn)	5.6
EV (¥bn)	6.3
Equity Ratio (3/26 Actual, %)	44.1
PER (9/26 Actual, x)	9.0
PBR (3/26 Actual, x)	1.2
Dividend Yield (9/26 CoE, %)	1.9
Stock Price (07/10/26)	530

Source: Strategy Advisors

Japanese-Consolidated	Sales	YoY Change	Operating Profit	YoY Change	Profit Before Tax	YoY Change	Profit Attributable to Owners of Parent	YoY Change	EPS	DPS
Fiscal Year-End	(¥mn)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥)	(¥)
9/25 1H	6,884	33.2	550	8.9	543	0.8	351	-3.8	32.9	0.0
9/26 1H	8,419	22.3	647	17.7	649	19.5	368	4.7	34.9	0.0
9/23	8,615	-2.6	797	44.6	830	42.2	570	42.7	54.0	8.0
9/24	8,951	3.9	477	-40.1	534	-35.7	341	-40.2	32.0	8.0
9/25	13,675	52.8	772	61.6	771	44.4	437	28.1	41.2	10.0
9/26 CoE	15,685	14.7	994	28.8	1,006	30.5	628	43.7	59.2	10.0

Source: Company Data. Compiled by Strategy Advisors.

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Executive Summary

cotta is a specialized e-commerce company focused on the confectionery & bakery market, with proprietary logistics operations capable of handling small-lot orders, a broad product assortment and short delivery lead times. The cotta business, its founding business, has increasingly evolved into a cash-generating business, supported by stable earnings from the B2B business and the high profitability of private brand products. Going forward, the company is entering a phase of business diversification and ROIC improvement, with Works Group, TERAZ, MedMarge and other businesses acquired through M&A serving as growth drivers.

The cotta business consists of a B2B business serving small and medium-sized confectionery & bakery businesses and a B2C business serving individual consumers. The B2B business has stable demand from more than 40,000 annual unique users, with an average order value of approximately ¥13,000. In FY9/2025, private brand products, which accounted for more than 40% of sales, recorded a gross profit margin of 39.3%, substantially exceeding the company-wide gross profit margin of 29.7%. Although the B2C business also generated a high gross profit margin of 40.3%, the company positions the B2B business as its primary earnings pillar in light of average order value and marketing costs. In addition, the company aims to increase customer lifetime value (LTV) and order volume through its membership tier-based loyalty program and "Urico", a promotional and reservation tool for pastry shops.

The company's competitive advantage lies not merely in its product lineup of confectionery & bakery supplies, but in the low-cost operations refined at its proprietary logistics center in Tsukumi City, Oita Prefecture. Its ability to ship approximately 30,000 products in small lots on the same day, consolidate multiple product types through voice-picking technology and maintain 24-hour operations by utilizing local labor constitutes a significant barrier to entry that competitors cannot easily replicate.

The company's future growth drivers are improved profitability at Works Group and additional M&A. At Works Group, an online distributor serving beauty salons, efforts are underway to increase the e-commerce penetration rate, strengthen marketing initiatives and improve the private brand ratio by leveraging its customer base of more than 200,000 salons. In addition, the acquisition of MedMarge, which provides online medical consultation services, has enabled the company to expand into the high-profitability aesthetic medical services market. By combining beauty salon supplies, online medical consultations, and specialty hair color salons, the company is expected to improve the profitability of its Beauty Salon Supplies Business while creating new customer touchpoints.

In future M&A, the company intends to focus on businesses with strong strategic fit with its existing operations, where its logistics operations and marketing expertise can be leveraged to accelerate growth and improve profitability at acquired companies. Regarding acquisition prices, the company places emphasis on EV/EBITDA multiples and earnings contribution after goodwill amortization while maintaining investment discipline to avoid excessively expensive acquisitions.

In FY9/2026 Q2, the company reported solid results, with sales of ¥4.07 billion and operating profit of ¥300 million. Based on 1H FY9/2026 performance, the company raised its full-year earnings forecast to sales of ¥15.68 billion and operating profit of ¥990 million. In the cotta business, increased sales of B2B private brand products and a higher average order value supported profitability, while Works Group achieved sales growth and an improved private brand ratio as a result of PMI. From 2H FY9/2026 onward, the consolidation of MedMarge is expected to further increase earnings contributions from the Beauty Salon Supplies Business.

The company's share price has remained weak following the normalization of stay-at-home demand during the COVID-19 pandemic, with its current PBR remaining around 1x. The key to valuation improvement is higher sales growth and improved ROIC. If Works Group achieves a higher private brand ratio, MedMarge expands its high-profitability business, and the company successfully executes additional M&A with businesses that have strong strategic fit with its existing operations, we believe there is potential for the company to achieve a PBR of more than 2x through higher ROIC.

1. Company Overview and Business Model

A Specialized E-Commerce Company Focused on Confectionery & Bakery Supplies Originating from Addressing Customer Needs

cotta is an e-commerce company whose purpose is "Circulating the joy of creating and the happiness of eating around the world". The company provides ingredients such as bread flour, butter and chocolate for confectionery, as well as cookie and muffin molds, freshness-preserving agents, and wrapping bags - products essential for confectionery & bakery businesses - through its e-commerce platform.

A Small-Lot Business Model Developed to Address Customer Needs

Tsukumi City, Oita Prefecture, where the company was founded, is home to the Oita Plant of Taiheiyo Cement (TSE Prime: 5233) and has developed around the limestone and cement industries. Seiichi Sato, the founder and Chairman & Representative Director, whose father-in-law founded Torishige Sangyo, a desiccant manufacturer based in Tsukumi City, worked as a sales representative selling desiccants to confectionery & bakery businesses. Through these sales activities, he learned that customers were forced to purchase packaging materials only in case-size quantities from local wholesalers, resulting in the need to maintain large inventories in their backrooms. To address this issue, he sought to provide a system that would enable customers to purchase products in small lots, at low unit prices, and with short delivery lead times. Initially, orders were accepted by telephone and fax. In 2010, the company began selling confectionery ingredients in addition to freshness-preserving agents and packaging materials, while simultaneously launching its e-commerce business. Today, cotta has evolved into a specialized e-commerce company focused on the confectionery & bakery market.

A Specialized E-Commerce Business Differentiated from General E-Commerce Through an Extensive Product Lineup

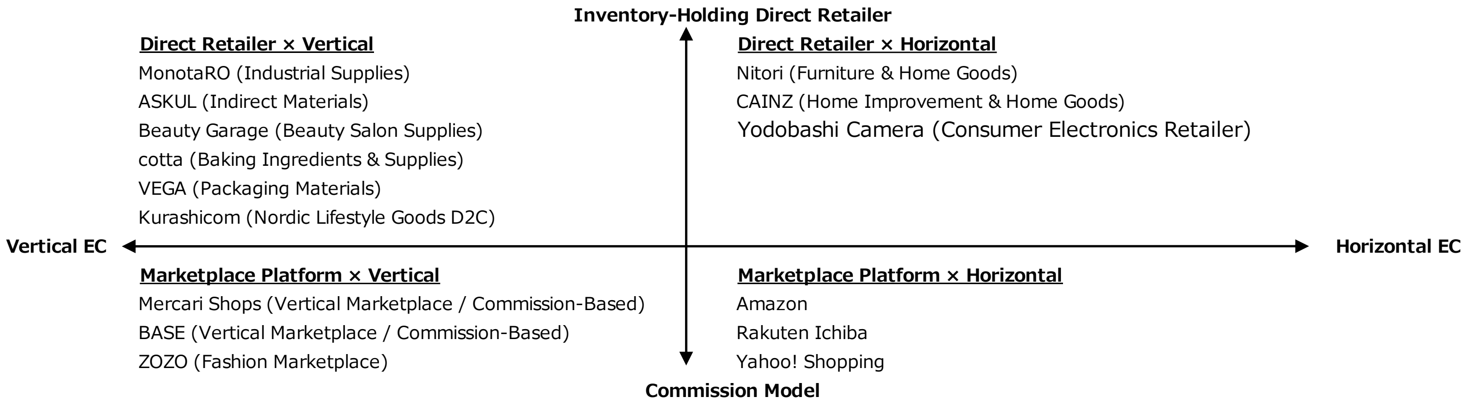
In general, the e-commerce industry is an oligopolistic market in which general e-commerce operators such as Amazon, Rakuten Group (TSE Prime: 4755) and LY Corporation (TSE Prime: 4689) account for more than 70% of the market. By contrast, specialized e-commerce companies, such as ASKUL (TSE Prime: 2678) and MonotaRO (TSE Prime: 3064), focus on specific markets that are less accessible to general e-commerce operators, and cotta is positioned as one of these specialized e-commerce companies.

The business models of general e-commerce operators and specialized e-commerce companies differ fundamentally. The former primarily generates revenue from commissions under a platform-based model, typically recognizing approximately 10–20% of sales as system usage and payment processing fees when products are sold. By contrast, specialized e-commerce companies purchase and sell products directly, making their business model more comparable to those of retailers and wholesalers. As a result, in addition to gross profit margin, inventory turnover and logistics costs are key KPIs. Specialized e-commerce companies differentiate themselves through their product offerings. For example, ASKUL focuses on indirect materials such as office supplies and consumables, while MonotaRO specializes in industrial supplies such as screwdrivers, wrenches and abrasives.

In their respective fields, both offer broader product assortments than general e-commerce operators. Likewise, cotta specializes in a wide range of confectionery & bakery products, providing customers with the value proposition that everything required for confectionery & bakery businesses can be purchased online.

In addition, major retailers such as Nitori Holdings (TSE Prime: 9843) and CAINZ have expanded their proprietary e-commerce operations and offer a broad range of products (Figure 1, upper right). Furthermore, commission-based services specializing in areas distinct from general e-commerce, such as flea market platforms (Mercari Shops) and fashion marketplaces (ZOZO; TSE Prime: 3092), have also emerged.

Figure 1. Business Models of Vertical EC Companies and Horizontal EC Companies



Source: Various Materials. Compiled by Strategy Advisors.

2. Overview of the cotta B2B Business

The B2B Business Driven by Small-Lot Demand and High-Margin Private Brand Products

The cotta business consists of the B2B business serving small and medium-sized confectionery & bakery businesses (approximately 45% of cotta business sales), the B2C business serving individual consumers (approximately 35%) and Others (approximately 20%). The B2B business is a stable earnings source, serving more than 40,000 annual unique users (customers who placed at least one order during the fiscal year). The average order value is approximately ¥14,000 per order. Because customers can place small-lot orders with short delivery lead times, many customers place orders every month. In FY9/2025, private brand products, which accounted for more than 40% of sales, recorded a gross profit margin of 39.3%, well above the company-wide gross profit margin of 29.7%. Confectionery & Bakery Supplies and freshness-preserving agents are the primary drivers of profitability.

In addition to dedicated confectionery & bakery businesses, the company's B2B customer base also includes many businesses that primarily serve end consumers, such as those selling products only at events or roadside stations. The company's ability to accommodate small-lot orders contributes to its profitability.

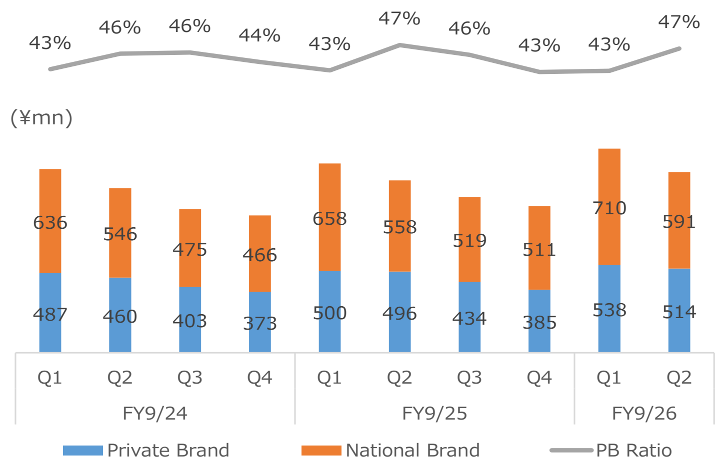
Loyalty Program for cotta Business Members

On October 1, 2024, the company launched a loyalty program for cotta Business members that provides discounts based on membership tier. Members are classified into 5 tiers - Bronze, Silver, Gold, Platinum and Diamond - based on their cumulative purchases over the preceding 6-months. Diamond members, who purchased at least ¥600,000 during the preceding six months, receive a 5% discount on orders and free standard shipping once per month. As of FY9/2025, the number of Gold members and above, who qualify for discount benefits, reached 3,472 despite the program having been in place for less than 1 year, indicating strong customer adoption. The company places emphasis on profitability and is promoting the transformation of the business into a cash-generating business by increasing the number of higher-tier members and expanding sales of high-margin private brand products to highly loyal customers.

Full-Scale Launch of "Urico" a Reservation and Sales Promotion Tool

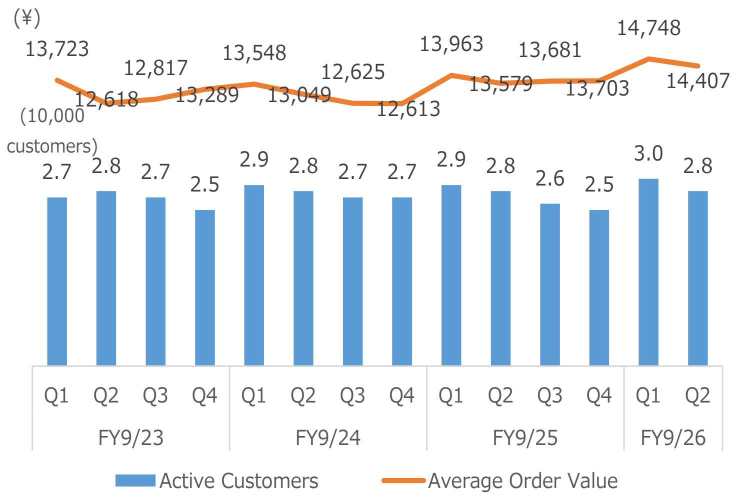
In addition, the company commenced the full-scale rollout of "Urico" a sales promotion and reservation tool for pastry shops, as a new business in June 2026. Through a shop's official LINE account, users can place takeout orders and receive automatic reminder messages after registering their own or their family members' birthdays. The service adopts a monthly subscription model consisting of a fixed monthly fee and a reservation fee, with 3 pricing plans: Light (monthly fee of ¥9,800 and a 15% reservation fee), Basic (¥19,300 and 3.25%) and Premium (¥29,500 and 0.8%). The service is designed to have a low barrier to adoption. The primary customers of the B2B business are small confectionery shops. Unless these customers increase their sales, the company's e-commerce sales will not grow. By supporting customers' sales promotion activities, the company aims to help their businesses grow, which in turn is expected to increase orders placed through cotta. Urico can therefore be regarded as a new business with strong strategic fit with the company's existing operations.

Figure 2. Trends in B2B Sales and Private Brand Ratio



Source: Company Data. Compiled by Strategy Advisors.

Figure 3. Trends in Active Customers and Average Order Value



Source: Company Data. Compiled by Strategy Advisors.

3. Overview of the cotta B2C Business

A Demand-Creation B2C Business Complementing the Risk of Slowing Growth in the B2B Business

The B2C business provides a wide range of confectionery & bakery supplies through its e-commerce platform to individual consumers who enjoy baking confectionery and bread, similar to the B2B business. Following the convenience store dessert boom in 2010, many small confectionery shops were forced to close. To mitigate the risk that future growth would slow if the company relied solely on the B2B business, cotta entered the B2C market. Compared with the B2B business, the B2C business is distinguished by demand-creating content for individual consumers, including recipe features and paid instructional videos demonstrating professional baking techniques.

Building a Powerful Media Presence Through Social Media Marketing

To meet the needs of B2C customers, the company established Petit Pas in 2010 to repackage confectionery ingredients into consumer-sized portions, enabling commercial-use ingredients to be sold in quantities suitable for individual consumers. It subsequently established TUKURU in 2014 to conduct marketing aimed at acquiring individual customers, with a particular focus on social media marketing. As a result, the company's total social media following has expanded to approximately 1.8 million across platforms including Facebook, Instagram and X, giving it a powerful media presence. TUKURU was founded by the company's current President, Akiko Kurosu, who played a pivotal role in establishing the B2C business.

Focus on the Stable-Growth B2B Business Given Challenges in LTV and Profitability in the B2C Business

Sales in the B2C business declined to ¥2.22 billion (-2.5% YoY) in FY9/2025, within expectations. Although the B2C business experienced rapid growth during the COVID-19 pandemic, supported by stay-at-home demand, the effectiveness of advertising spending has declined since economic activity normalized. As a result, the company believes that prioritizing the B2B business, where stable growth is expected, is the better strategy at this stage. This reflects the fact that the B2C business depends on hit products and compared with the B2B business, has greater difficulty generating repeat purchases, limiting the expansion of LTV (lifetime value). Although the B2C business recorded a high gross profit margin of 40.3% in FY9/2025, its average order value was only ¥6,779, approximately half that of the B2B business. Taking into account the marketing costs unique to the B2C business and the lower shipping efficiency associated with small-lot orders, the company believes that the operating profit margin of the B2C business is lower than that of the B2B business.

OMO Strategy and Data Utilization Through Physical Store Expansion

As a new initiative within the B2C business, the company is promoting the integration of online and offline channels through physical retail stores. Since November 2022, it has begun selling its products, primarily Valentine's Day-related products, through DAISO, a ¥100 shop chain. In addition, in March 2026, the company opened its first physical store, cotta store, at Oimachi Tracks. The physical store is expected to attract entry-level consumers who are new to baking while encouraging purchases by customers who were unable to make purchasing decisions online. Going forward, the company plans to integrate purchasing data by linking in-store customers with membership IDs, enabling product development based on purchasing data from both core hobbyist bakers and entry-level consumers. Decisions regarding further store openings will be made based on the performance of the first store. If the company's online-to-offline integration initiatives (OMO strategy) gain traction, the B2C business could return to a growth trajectory.

Figure 4. Overview of the cotta Store

Item	Description
Opening	March, 2026
Location	Oimachi Tracks
Store Area	Approx. 51 sqm.
Product Assortment	Approx. 1,000 SKUs, centered on core products currently offered online, including confectionery & bakery ingredients, packaging materials, kitchenware and seasonal items such as Valentine's Day products.
Targets	Annual Net Sales: ¥100 million (¥56.5 million in Year 1 / Annual Customer Traffic: 30,000

Source: Company Data. Compiled by Strategy Advisors.

4. Difficulty of Imitation and Corporate DNA

Difficulty of Imitation: Management Execution That Has Refined Low-Cost Operations

The company's strength, its difficulty of imitation, lies in its management execution capabilities. Despite operating from a sparsely populated area with limited management resources, Tsukumi City, Oita Prefecture, the company has relentlessly refined its operations and grown into a listed company in the niche market for confectionery & bakery supplies.

To meet customers' needs for small-lot, multi-item orders, the company has established a highly productive logistics operation utilizing voice-picking technology. Small and medium-sized confectionery & bakery businesses have strong demand for avoiding excessive inventories while obtaining only the quantities they need without delay. By contrast, traditional large wholesalers primarily sell products by the case, while general e-commerce marketplaces have limitations in their product assortment for specialized products. The company has implemented a voice-picking system at its proprietary warehouse, which stocks approximately 30,000 products, enabling a sophisticated logistics operation capable of shipping orders on the same day. A typical order contains 6-7 items, including extremely small products such as labels costing only a few yen each and small packaging bags, which are consolidated into a single shipment.

Voice Picking: The Foundation of Low-Cost Operations

The operation begins with a picking leader, who groups similar orders based on order data, processes multiple order slips simultaneously and calculates the optimal allocation of personnel and picking routes to maximize packing efficiency. Staff members then manually pick products from warehouse shelves and pack them according to voice instructions delivered through handheld tablets, wireless devices, and voice terminals. Although the process may appear mundane, it is indispensable for shipping small-lot, multi-item orders within a short lead time (with orders placed by noon on weekdays eligible for same-day shipment at the earliest). The labor-intensive nature of this operation itself constitutes a barrier to entry.

Although such labor-intensive operations generally increase costs, the company has established a 24-hour picking operation while maintaining high productivity by employing local residents as part-time staff at its proprietary logistics center in Tsukumi City, Oita Prefecture. Approximately 40 experienced part-time employees are continuously engaged in picking operations, enabling the company to maximize the advantages of being a local company. By continuously refining these detailed operational processes, the company has expanded its business to the scale of a listed company in a niche market that competitors are reluctant to enter. This management capability itself constitutes the company's difficulty of imitation.

Figure 5. Voice-Directed Picking Operations

Source: Company Material.

The company has also implemented continuous price increases in its B2B business. In FY9/2025, the average order value increased to ¥13,736 (+5.9% YoY). With the number of unique ordering users remaining broadly unchanged, higher average order values drove growth. Raising prices for small and medium-sized confectionery & bakery businesses is not easy. However, given that customer attrition has not occurred despite these price increases, the company appears to be providing differentiated services through logistics operations that competitors cannot easily replicate while successfully addressing customer needs.

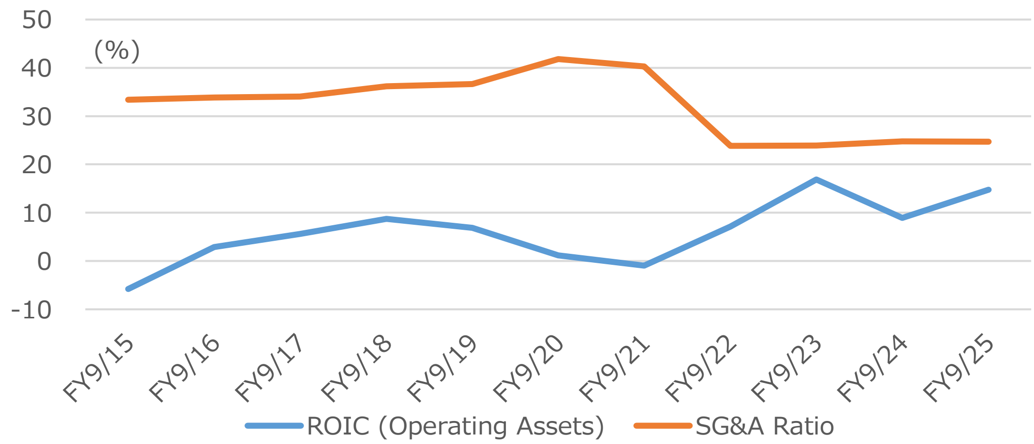
Corporate DNA: A Strong Cost-Conscious, Frugal Culture

Strategy Advisors believes that the company's ability to demonstrate these strengths is underpinned by a deeply embedded corporate DNA characterized by rigorous cost consciousness and frugality. As discussed above, achieving high profitability is by no means easy in a business targeting customers with tight budget constraints, including small and medium-sized confectionery & bakery businesses and individual consumers. These customers are highly sensitive to consumer spending trends and inflation, while corporate customers also face relatively high bankruptcy risk.

Nevertheless, the company has continued to strengthen its competitive position through sustained management efforts tailored to this customer base. Specifically, it has established a low-cost operating structure at its proprietary warehouse in Tsukumi City by employing local residents, reduced logistics costs through the introduction of 10-ton trucks and lowered procurement costs by purchasing products in large volumes. Tsukumi City has a population of only approximately 13,000. The company's ability to achieve its current scale despite operating in an environment with limited management resources reflects its continued commitment to steady management efforts based on its corporate DNA of cost consciousness and frugality.

This is evident in the company's financial metrics. On a non-consolidated basis, the SG&A expense ratio has remained at a low level, while ROIC has consistently exceeded 10%. Since FY9/2022, following the normalization of stay-at-home demand during the COVID-19 pandemic, SG&A expenses have remained at approximately ¥1.6 billion, demonstrating effective cost control. In addition, tangible fixed assets, a component of the invested capital used in calculating ROIC, has remained at approximately ¥800 million, indicating disciplined capital investment.

Figure 6. Trends in Non-Consolidated SG&A-to-Sales Ratio and Asset-Side ROIC



Source: Company Data. Compiled by Strategy Advisors.

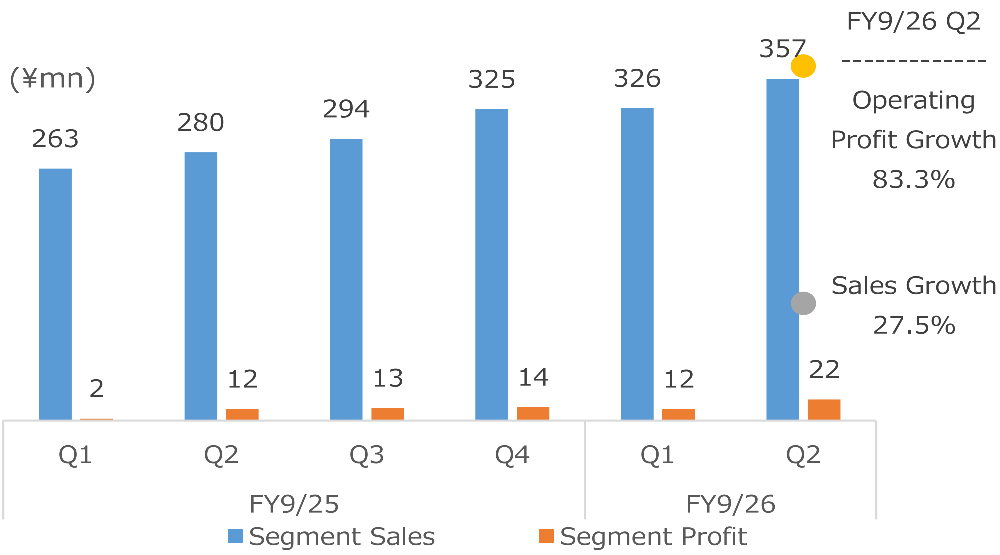
5. Future Growth Strategy Centered on M&A

Continued Commitment to Active M&A

While continuing to transform the B2B business of its core cotta business into a cash-generating business through ongoing price increases, the company has adopted a strategy of expanding its business through active M&A from FY9/2025 onward. As discussed above, the company's difficulty of imitation lies in its management execution capabilities, which enabled it to expand its business to the scale of a listed company in a niche market. Going forward, the company is expected to leverage the management know-how cultivated in its existing businesses to accelerate the growth of acquired companies.

TERAZ and Works Group, both acquired in FY9/2025, have accelerated their growth since the acquisitions. TERAZ, which operates the Human Resource Solutions Business, provides career support services centered on freelance engineer matching and recruitment placement services. In 1H FY9/2026, the Human Resource Solutions Business recorded sales of ¥680 million (+25.9% YoY) and segment profit of ¥30 million (+130.4% YoY), with business performance remaining solid following the acquisition. As a group synergy initiative, the company is also considering utilizing TERAZ to support cotta's digital transformation, making the acquisition a strategically important step toward internalizing development resources.

Figure 7. Qtly Performance Trends of the HR Solutions Business



Source: Company Data. Compiled by Strategy Advisors.

Overview of Works Group & its Financial Impact

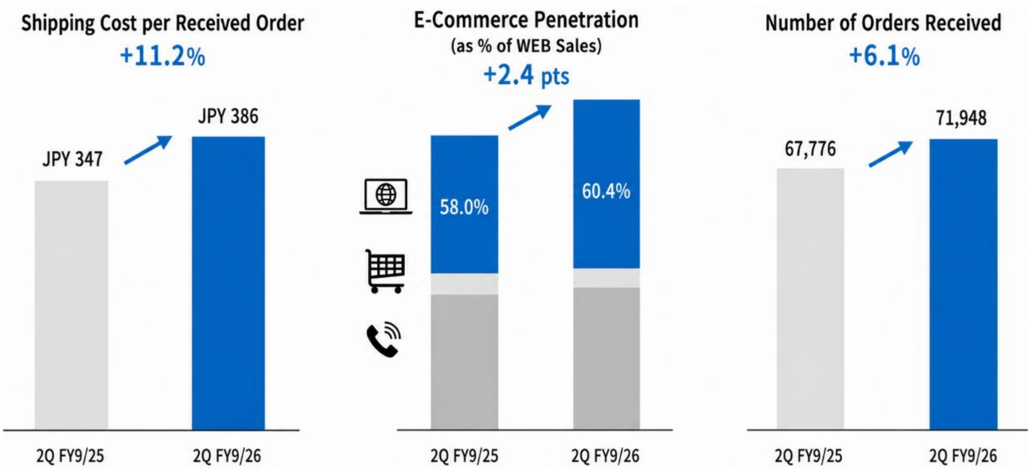
Works Group, which operates the Beauty Salon Supplies Business, is a mail-order and e-commerce company that supplies beauty salon products such as shampoo and hair coloring products to beauty salons through its proprietary catalogs (print and online). Immediately prior to the acquisition in November 2024, Works Group reported sales of ¥4.5 billion and operating profit of ¥250 million for FY3/2024. The acquisition price was approximately ¥1.4 billion, while total goodwill amounted to approximately ¥2 billion, including goodwill already recorded on Works Group's balance sheet. Following the acquisition, approximately half of the goodwill was reclassified to identifiable intangible assets through purchase price allocation (PPA). As a result, goodwill subject to amortization appears to be approximately ¥1 billion, with an amortization period of 15 years. In connection with the acquisition, the company borrowed ¥2.8 billion through a syndicated loan in December 2024.

Stronger Marketing Initiatives Drive Improvements in Key KPI

Works Group's key strength lies in its customer base of more than 200,000 customers, built since its establishment in 1987. Following the acquisition, the company has focused on: 1) improving logistics productivity, 2) increasing the e-commerce penetration rate and 3) strengthening marketing, with these initiatives beginning to generate results. Marketing initiatives have been particularly successful, with both active customers and average order value improving YoY in Q2 FY9/26. Customer acquisition initiatives centered on popular products and direct mail campaigns targeting dormant customers appear to have contributed to these improvements.

Attention should also be paid to the leadership of Go Terada, who assumed the position of President & Representative Director of Works Group in January 2026. Having led domestic operations as Director and COO of e-Guardian (TSE Prime: 6050), he is expected to improve productivity by leveraging the operational improvement expertise he developed through providing BPO services.

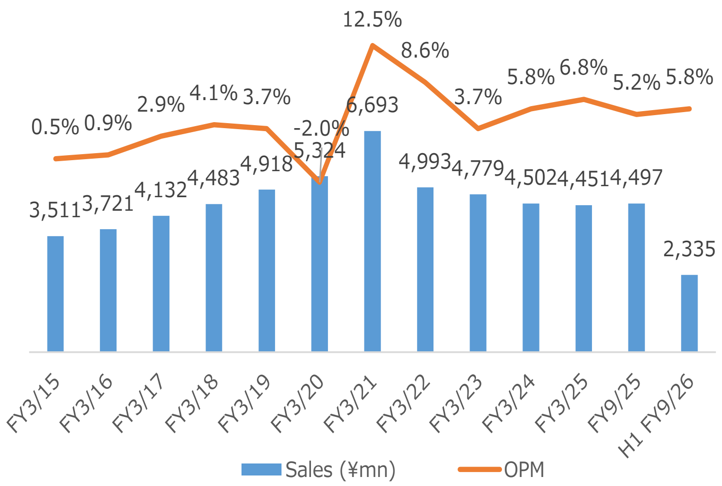
Figure 8. Progress of PMI at Works Group



Source: Company Materials.

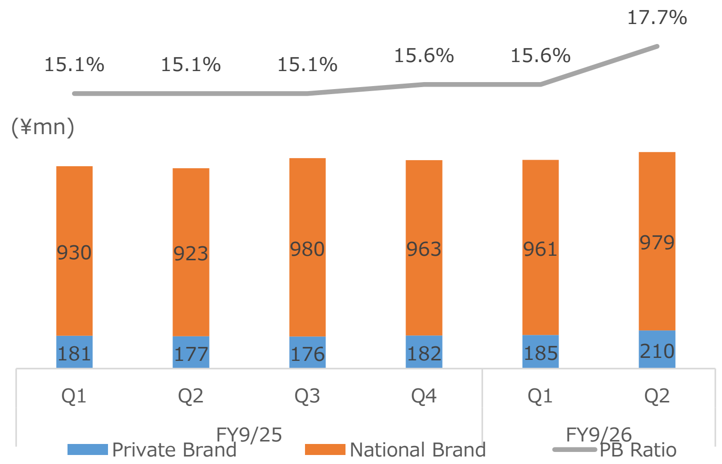
Although sales growth was somewhat sluggish immediately after the acquisition in FY9/2025, Works Group delivered solid results in 1H FY9/2026, with sales of ¥2.33 billion (+6.1% YoY) and operating profit of ¥50 million (+42.9% YoY). In addition to the positive impact of marketing initiatives, improved profitability resulting from a higher private brand sales mix supported earnings growth. Performance also appears to have exceeded the 1H budget, raising expectations that Works Group will emerge as a core subsidiary driving the group's overall performance.

Figure 9. Trends in Net Sales and Operating Margin of Works Group



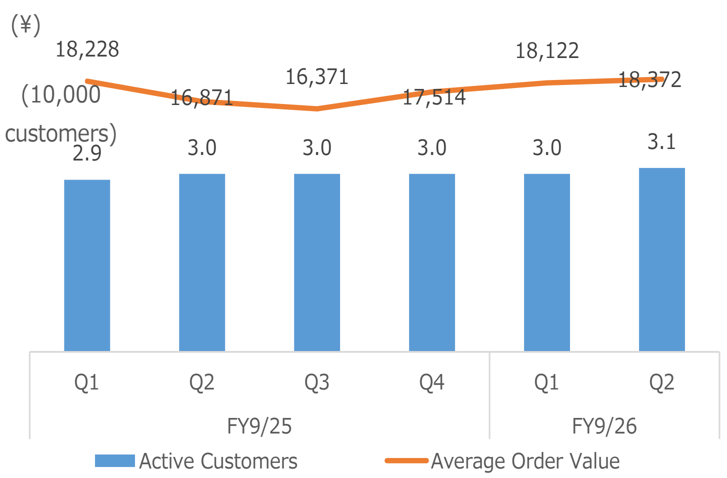
Source: Company Data. Compiled by Strategy Advisors.

Figure 10. Trends in Sales and Private Brand Ratio of Works Group



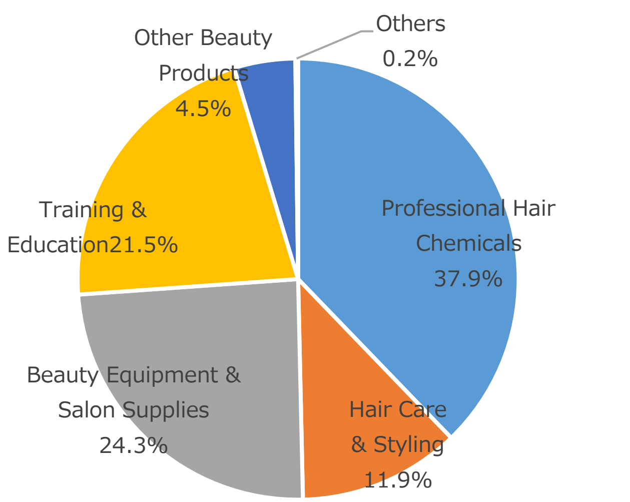
Source: Company Data. Compiled by Strategy Advisors.

Figure 11. Trends in Customer Base and Average Spending per Customer in the Beauty Business



Source: Company Data. Compiled by Strategy Advisors.

Figure 12. Sales Performance by Private Brand Product Category (FY9/2026 Q2 Results)



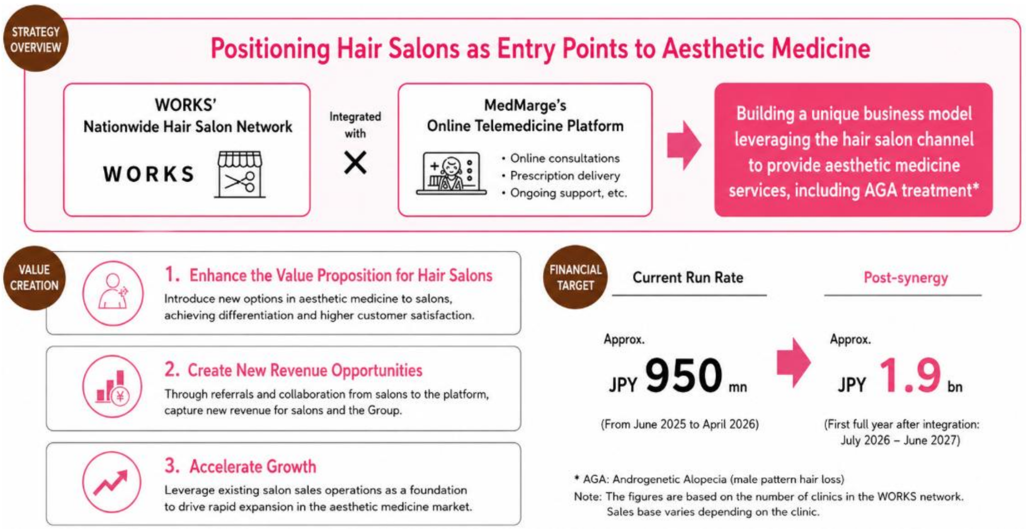
Source: Company Data. Compiled by Strategy Advisors.

Launch of Aesthetic Medical Services Through Online Medical Consultations

In addition, in May 2026, Works Group acquired a 51% equity stake in MedMarge, which provides online medical consultations and began offering prescription medications for conditions such as androgenetic alopecia. Through its customer base of more than 200,000 customers, the company will provide aesthetic medical services through online medical consultations.

For FY4/2026, MedMarge is expected to generate sales of ¥190 million and operating profit of ¥70 million, reflecting a highly profitable business centered on fee income. The company aims to double its current gross merchandise value from approximately ¥950 million to ¥1.9 billion and is expected to contribute to earnings from the next fiscal year onward. Business performance also appears to have remained stronger than initially expected following consolidation, making MedMarge a promising new growth driver.

Figure 13. Overview of the MedMarge Acquisition



Source: Company Materials.

Opening of "hare no iro," a Hair Color Specialty Salon for Mature Customers

Furthermore, on July 10, Works Group opened "hare no iro", a hair color specialty salon for mature customers, in Shiki City, Saitama Prefecture. Similar to the cotta business, Works Group has also entered the B2C market. By supplying its private brand hair coloring products to the salon, the company expects to generate business synergies. Controlling both product development and sales channels in-house is expected to give the company a significant cost advantage over its competitors. The company is also considering overseas store expansion over the medium term, which is expected to serve as a steppingstone toward expansion into overseas markets, particularly in Southeast Asia.

The salon's primary competitor is fufu, a hair color specialty salon operated by Fast Beauty (unlisted). By specializing in hair coloring services, fufu has streamlined its operations and offers services at affordable prices starting in the ¥3,000 range. With more than 150 locations in Japan and overseas, the chain demonstrates that a meaningful market for hair color specialty salons already exists. In addition, against the backdrop of Japan's aging population, the extension of the retirement age and government initiatives to encourage greater workforce participation among older adults, demand for gray-hair coloring services is expected to continue expanding over the medium to long term.

6. President's Career History and Family Management Structure

The Ability to Earn Through One's Own Efforts and Take Action, Forged Through Adversity

Akiko Kurosu, President & Representative Director, is an entrepreneur born in 1984. After graduating from a high school in Oita Prefecture, she entered Meiji University, where she devoted herself to working part-time as a cram school instructor and participating in a basketball club. As a part-time instructor, she was responsible for a preparatory course for entrance examinations to Tokyo metropolitan integrated junior and senior high schools, which had only recently been introduced at the time.

After graduating from university, she joined Intelligence (Currently Persol Career), where she began her career in the human resources industry. From her first year, she ranked among the company's top sales performers and won the Rookie Award. However, the year after she joined the company, the global financial crisis triggered by the Lehman Brothers collapse struck, and she witnessed approximately 60% of her peers being laid off. Through exceptional initiative and persistent effort, she consistently achieved her sales targets despite the economic downturn. This experience impressed upon her the importance of earning through her own efforts and taught her the importance of delivering results.

Built the B2C Business into a Core Earnings Pillar and Became President

Meanwhile, Seiichi Sato, the company's founder and Chairman & Representative Director as well as Ms. Kurosu's father, had never intended for a family member to succeed him. The turning point came with the convenience store sweets boom in 2010. Concerned that the company's core customers - small and medium-sized confectionery & bakery businesses - would face deteriorating business conditions, he decided to shift the company's catalog-based business model to e-commerce and enter the B2C market. At that time, Ms. Kurosu was selected to join cotta as the person capable of launching the e-commerce business and leading its marketing initiatives.

After joining cotta, Ms. Kurosu took charge of the B2C business, leading SNS marketing initiatives and private brand product development. She transformed the company's earnings structure, which had previously relied primarily on B2B, by building the B2C business into a new core earnings pillar. In 2013, she established TUKURU, the company's Tokyo-based subsidiary, and, as its president, led the group's overall marketing initiatives. She became President & Representative Director of cotta in 2020 and has since been responsible for the overall management of the company.

Inheriting the Founder's DNA & Financial Discipline

Ms. Kurosu has said that she learned from Mr. Sato never to make excuses and always to remain committed to achieving numerical targets. Even amid changes in the external environment, such as unfavorable weather conditions and intensifying competition, Mr. Sato consistently emphasized internal efforts and remained committed to business growth. This management philosophy was likely one of the key factors that enabled a company based in the small town of Tsukumi City, Oita Prefecture, to grow into a listed company. Even today, after becoming a listed company, Mr. Sato often says, "We are still just a small company in the countryside and have not yet accomplished anything" and his relentless drive for growth has had a significant influence on Ms. Kurosu.

Mr. Sato is also a graduate of Seiwajuku, the management school founded by Kazuo Inamori, the founder of Kyocera. During a meal with Mr. Inamori, he was told to "compete in the center of the ring", from which he learned that maintaining financial soundness and managing the company with sufficient financial flexibility were essential. In fact, prior to FY9/2025, when the company began actively pursuing M&A, its debt-to-equity ratio remained between 0.3x and 0.4x, while its equity ratio consistently exceeded 60%. Since Ms. Kurosu became president, the company has adopted a more aggressive management approach than before, and although the equity ratio declined to 44.1% as of the end of FY9/2026 Q2, it continues to maintain a sufficiently sound financial position.

In 2015, Ms. Kurosu's husband, Norihiko Kurosu, also joined the company. He currently serves as a director and plays a key supporting role for Ms. Kurosu while leading the cotta business. With a clearly defined division of responsibilities between the two, Ms. Kurosu has been able to devote herself to M&A and new business development.

A Unique Family Management Structure Supporting M&A and Business Diversification

As discussed above, the company's growth strategy is centered on business diversification, and it intends to continue acquiring companies and businesses that have strong compatibility with its existing operations through active M&A. Supporting this diversification is the company's unique family management structure. While many owner-managed companies are succeeded by sons-in-law or other family members, cotta's structure is particularly distinctive in that, in addition to the founder and his daughter, the daughter's husband also plays a key management role.

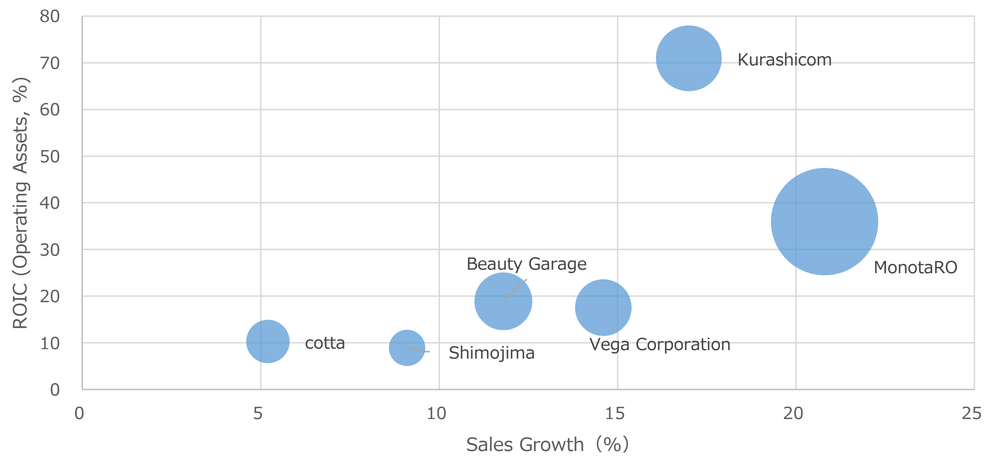
As business diversification progresses, communication costs across the group are expected to increase. However, the company's unique family management structure is expected to enable swift management decision-making, supporting further growth.

7. Equity Story: Improving ROIC Through Existing Businesses and M&A

The company's equity story is centered on improving the ROIC of its existing businesses and pursuing additional M&A. Strategy Advisors believes that the company's management execution capabilities deserve high recognition, having built the business from Tsukumi City, Oita Prefecture, a town with a population of only approximately 13,000, into a listed company in the niche confectionery & bakery supplies market. By leveraging its logistics operations capable of handling multi-item, small-lot orders and its marketing expertise, it can be believed that the company's share price will enter an upward trend if ROIC at its core subsidiaries, particularly Works Group, improves and if additional M&A further accelerates growth.

PBR tends to be driven by the combination of ROIC and sales growth (Figure 14). The slowdown in sales growth at the company's core cotta business, together with the decline in consolidated ROIC following the acquisition of Works Group, can be regarded as the primary reasons for its subdued valuation.

Figure 14. ROIC vs. Sales Growth Scatter Plot



Note1: Bubble size indicates PBR.
Note2: Sales growth represents the year-on-year growth rate in each company's latest reported quarter.
Source: Speeda Data. Compiled by Strategy Advisors.

1) Improving Profitability Through a Higher Private Brand Sales Mix at Works Group

The key drivers of higher ROIC are improved profitability at Works Group (through a higher private brand sales mix and accelerated growth at MedMarge). As of FY9/2026 Q2, the private brand sales mix at Works Group stood at 17.7%, significantly below that of cotta's B2B business (approximately 40%). Hair coloring products and styling products generate high profitability, and actively expanding the development of private brand products in these high-demand categories is expected to improve the profitability of the business. In addition, the opening of hair color specialty salons is expected to expand sales channels. If the company can supply its highly profitable private brand hair coloring products to its directly operated retail stores in meaningful volumes, the private brand sales mix of the business could improve significantly.

2) Accelerating MedMarge's Growth

As discussed above, MedMarge also generates an exceptionally high operating profit margin. If it succeeds in increasing sales, the business has substantial potential to drive improvements in ROIC. Going forward, the company intends to differentiate itself by promoting the adoption of aesthetic medical services through online medical consultations, leveraging Works Group's offline network of more than 200,000 beauty salons. In general, aesthetic medical services are provided by hospitals such as cosmetic surgery clinics. By utilizing beauty salons, however, the company can approach latent demand rather than only addressing the explicit demand of customers who actively seek aesthetic medical treatment.

The company currently provides prescription medications for conditions such as androgenetic alopecia and is also considering offering treatments for female pattern hair loss. As Japan's population continues to age, demand for hair loss treatments is expected to increase further, making it a potentially important future growth driver for the company.

3) Acquiring Businesses with Strong Compatibility with Existing Operations & High Asset Efficiency

We also expect the company to pursue additional M&A opportunities. As a listed company originating from a regional area, with a long track record of employing local residents and a CEO who is a woman in her 40s, cotta receives numerous acquisition opportunities from financial institutions and M&A advisory firms. The president personally reviews these opportunities, and the company intends to continue making acquisitions proactively whenever attractive opportunities arise.

Compared with private equity funds and other financial buyers, the company is able to present acquisition prices that reflect improvements in future cash flow because business synergies can accelerate the growth of acquired companies. By leveraging the management expertise cultivated in niche markets, including logistics operations and marketing know-how, while creating synergies through customer cross-selling and logistics integration, the company is expected to accelerate the growth of acquired businesses.

According to the company, its acquisition discipline is to target transactions at an EV/EBITDA multiple of no more than 6.0x while ensuring that operating profit remains positive even after goodwill amortization, thereby avoiding overpriced acquisitions. Debt financing will remain the primary funding source, and the company does not currently intend to raise capital through equity financing. Following the acquisition of Works Group, the company completed a large-scale debt financing, resulting in an equity ratio of 43.1% and a debt-to-equity ratio of 0.9x as of the end of FY9/25, indicating a moderately leveraged financial position. The company remains cautious regarding large-scale acquisitions and intends to preserve its current financial stability by pursuing additional acquisitions within the scope of operating cash flow.

Figure 15. cotta's M&A Strategy

M&A Candidate Selection Criteria	• Companies providing B2B products in markets aligned with our growth strategy (e.g., the beauty industry, where our group company WORKS operates) • Companies where our expertise in logistics and marketing can be leveraged • Companies with complementary businesses or customer bases, enabling cross-selling across business segments
M&A Investment Criteria	• Companies trading at an EV/EBITDA multiple of 6.0x or below, or expected to remain earnings-accretive after goodwill amortization • Acquisition investment recoverable within five years, assuming synergies and earnings growth • Companies capable of generating immediate operational synergies
Financing Policy	We prioritize shareholder value and capital efficiency while limiting equity financing and utilizing bank borrowings as our primary source of acquisition financing.

Source: Company Materials.

8. Outlook for Future Earnings: Full-Scale Contribution from Works Group's Performance

FY9/26 Q2 Financial Results

Q2 FY9/2026 financial results showed solid performance, with sales of ¥4.07 billion (+5.2% YoY) and operating profit of ¥300 million (+6% YoY). While the Confectionery & Bakery Supplies Business progressed largely in line with the company's plan, the Beauty Salon Supplies Business of Works Group exceeded expectations. In addition, based on its strong 1H FY9/2026 performance, the company announced an upward revision to its full-year earnings forecast on June 8 (sales from ¥15.10 billion to ¥15.68 billion, operating profit from ¥810 million to ¥990 million).

Growth Driven by B2B Private Brand Product Sales

The Confectionery & Bakery Supplies Business was driven by growth in B2B private brand product sales. In particular, sales of highly profitable private brand product categories, including confectionery & bakery supplies and freshness-preserving agents, remained strong. As the Q2 B2B average order value increased to ¥14,407 (+6% YoY), the positive impact of price increases became increasingly evident in improving profitability. The Confectionery & Bakery Supplies Business is characterized by a concentration of sales in 1H FY9/2026, which includes the Christmas and Valentine's Day seasons.

B2C recorded a slight decline in sales YoY. The private brand sales mix was 59%, remaining at the same level YoY. The company intends to continue focusing on profitability by emphasizing private brand products and progress has been in line with expectations.

Figure 16. Private Brand Sales by Category (Non-Consolidated, FY9/2026 Q2) (¥mn)

Category	Sales	Sales YoY	Gross Margin	Sales Mix
Bakery & Confectionery Ingredients	246	+8.0%	High	48.0%
Food Ingredients	177	-0.4%	Low	34.4%
Freshness Preservation Products	58	+3.0%	High	11.3%
Bento Ingredients	0.01	-39.0%	Medium	0.0%
Others	32	-5.7%	High	6.2%
Total Private Brand	514	+4.2%	Medium*	100%

Note: Aggregate gross margin: Low (<30%), Medium (30%–<40%), High (≥40%)
Source: Company Data.

Beauty Salon Supplies Business Turns Profitable at the Operating Level

In FY9/2026 Q2, the Beauty Salon Supplies Business recorded sales of ¥1.18 billion (+7.6% YoY) and operating profit of ¥15.3 million (compared with an operating loss of ¥16.2 million YoY). As Works Group has been consolidated since FY9/2025 Q2, this marked the first period in which YoY comparisons were available following the acquisition. Sales increased by a solid 7.6% YoY, confirming that the benefits of PMI are beginning to materialize.

Specifically, initiatives such as customer acquisition campaigns centered on popular products, direct messaging campaigns targeting dormant customers, and expansion of private brand products have been successful, resulting in a slight increase in the number of customers placing orders. In addition, the key KPI of private brand sales mix improved significantly to 17.7% in FY9/2026 Q2, compared with 15.1% YoY. Hair care & styling products and beauty equipment & salon supplies drove growth, enabling the company to expand higher-margin products within its private brand portfolio.

Although Q2 operating profit declined QoQ, this was primarily due to increased advertising expenses, however, there appears to be no particular concern. While profitability appears to have exceeded the company's plan, management intends to continue making proactive growth investments from 2H onward.

Full-Scale Earnings Contribution from MedMarge from 2H

The business has been consolidated since FY9/2025 Q2, and in the current fiscal year it will contribute an additional quarter of sales due to the consolidation effect. Although the business recorded a loss in FQ2 Y9/2025 mainly due to one-time PMI-related expenses, its contribution to earnings has become increasingly visible from Q3 onward. On a quarterly basis, profitability tends to fluctuate depending on advertising expenditure trends; however, as the business scale expands, it is expected to make a more stable contribution to earnings going forward.

Strategy Advisors is closely monitoring the fact that, since Mr. Terada became President of Works Group, the company has become increasingly capable of implementing more aggressive growth initiatives compared with the past. As MedMarge's contribution to earnings is expected to become full-scale from 2H onwards, expectations for the company's earnings performance in FY9/2026 remain high.

Figure 17. Qtly Income Statement by Segments (¥mn)

FY	9/23				9/24				9/25				9/26	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales	**2,604**	**2,344**	**1,891**	**1,774**	**2,785**	**2,384**	**1,961**	**1,820**	**3,008**	**3,876**	**3,482**	**3,309**	**4,340**	**4,078**
(YoY)	-4.1%	-2.3%	-1.7%	-1.5%	6.9%	1.7%	3.7%	2.6%	8.0%	62.5%	77.5%	81.8%	44.3%	5.2%
Confectionery & Bakery Supplies Business									2,707	2,444	1,978	1,800	2,834	2,483
(YoY)													4.7%	1.6%
Human Resource Solutions Business									263	280	294	325	326	357
(YoY)													24.0%	27.8%
Beauty Salon Supplies Business									-	1,104	1,156	1,140	1,146	1,188
(YoY)													-	7.6%
Others									36	46	52	42	32	48
(YoY)													-11.3%	3.5%
Gross Profit	859	844	647	577	888	800	588	546	920	1,190	1,015	936	1,273	1,241
(Gross Profit Margin)	33.0%	36.0%	34.2%	32.5%	31.9%	33.6%	30.0%	30.0%	30.6%	30.7%	29.2%	28.3%	29.3%	30.4%
(YoY)	3.9%	10.3%	3.3%	10.2%	3.3%	-5.2%	-9.1%	-5.3%	3.6%	48.7%	72.7%	71.2%	38.4%	4.2%
SG&A	560	539	513	517	610	573	561	600	660	900	831	898	933	933
Operating Profit	**299**	**305**	**133**	**59**	**277**	**227**	**26**	**-53**	**260**	**290**	**183**	**37**	**339**	**308**
(YoY)	34.2%	59.8%	7.3%	360.5%	-7.2%	-25.4%	-80.4%	-	-6.4%	27.7%	601.8%	-	30.7%	6.0%
(Operating Profit Margin)	11.5%	13.0%	7.1%	3.4%	10.0%	9.5%	1.3%	-	8.6%	7.5%	5.3%	-	7.8%	7.6%
Confectionery & Bakery Supplies Business									276	282	111	8	310	261
(Operating Profit Margin)									10.2%	11.6%	5.7%	0.5%	11.0%	10.5%
Human Resource Solutions Business									2	12	13	14	12	22
(Operating Profit Margin)									1.0%	4.4%	4.7%	4.4%	3.7%	6.2%
Beauty Salon Supplies Business									-	-16	62	24	37	15
(Operating Profit Margin)									-	-1.5%	5.4%	2.2%	3.2%	1.3%
Others									10	22	15	11	6	36
(Operating Profit Margin)									28.0%	47.7%	29.0%	27.3%	20.0%	76.0%
Adjustments									-29	-10	-19	-20	-26	-27

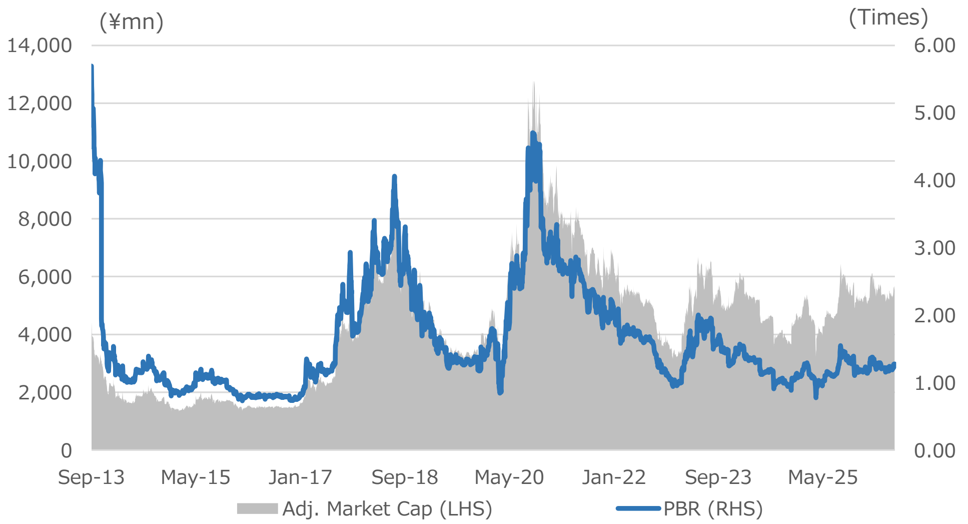
Source: Company Data. Compiled by Strategy Advisors.

9. Share Price Performance and Valuation Comparison

The Market Has Yet to Fully Price in the Next Growth Pillars Beyond the cotta Business

The company's share price has remained weak since reaching its peak in September 2020, driven by pandemic-related stay-at-home demand during the COVID-19 pandemic. Sales growth slowed after peaking in FY9/2021, and sales remained broadly flat for 3 consecutive fiscal years from FY9/2022 to FY9/2024. Although the company's overall business scale remains modest, the market targeted by the cotta Business is limited, leading the market to value the company as a mature business.

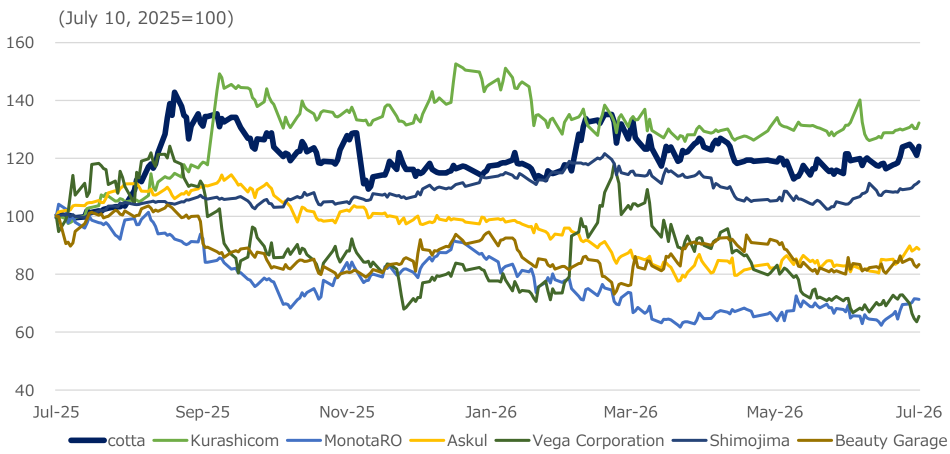
Figure 18. Trends in Market Capitalization and PBR Since Listing



Source: Speeda Data. Compiled by Strategy Advisors.

Over the past year, the company's share price performance has been relatively strong compared with peers, and we believe the current share price, with PBR around 1.0x, is likely close to the bottom. In addition, although the company is expected to achieve significant profit growth for 2 consecutive fiscal years based on its FY9/2025 and FY9/2026 forecasts, the share price has remained capped despite earnings growth. Therefore, it will be important for the company to demonstrate a clear path to higher sales growth and ROIC improvement to the capital markets by both advancing the cash cow transformation of the cotta Business and securing new growth drivers.

Figure 19. Relative Share Price Performance



Source: Speeda Data. Compiled by Strategy Advisors.

Peer Comparison: PBR Expected to Rise Through ROIC Improvement

Among peers, MonotaRO, the largest specialized EC company in Japan, and Kurashicom (7110, TSE Growth), a D2C company specializing in the Nordic lifestyle segment, trade at high PBR valuations. Both companies have high operating profit margins of 12–14% and ROIC exceeding 30%. Strategy Advisors believes that if cotta can raise ROIC to the 15–20% range, there is significant potential for its PBR to rise above 2.0x.

Regarding shareholder returns, the company intends to continue stable dividend payments based on a DOE target of 2.0–2.5%, with an annual dividend forecast of JPY10 for the current fiscal year. The dividend yield is approximately 2%, offering both capital appreciation potential and dividend income. Given the company's policy of actively pursuing M&A, excessive shareholder returns should not be expected. However, the current framework can be viewed as one that balances growth investment and shareholder returns.

Figure 20. Valuation Comparison of Peers

Ticker	Company name	FY	Stock Price	Market Cap	PBR	PER	ROE	ROIC	Gross Margin	Operating Margin	Operaing Profit CAGR 3yr	Shareholders' Equity Ratio	Net D/E Ratio	Stock Price Chg Over Past 1yr	Stock Price Chg Over Past 3yr
			(Jul 10) (¥)	(Jul 10) (¥ mn)	Actual (Times)	CoE (Times)	CoE (%)	CoE (%)	CoE (%)	CoE (%)	(%)	(%)	(Times)	(%)	(%)
3359	cotta	FY9/25	530	5,565	1.3	9.0	14.6	10.3	29.7	5.6	11.8	43.1	0.3	24.1	-9.4
7110	Kurashicom	FY7/25	2,055	15,146	2.8	15.7	19.2	71.0	44.9	12.8	9.0	84.5	-0.9	32.2	20.7
3064	MonotaRO	FY12/25	1,972	979,916	8.0	27.1	32.0	36.0	29.8	13.8	20.8	63.4	-0.3	-28.7	7.9
2678	Askul	FY5/26	1,266	113,350	2.4	28.3	6.4	-14.5	22.3	-4.4	-	20.8	0.4	-11.3	-41.8
3542	Vega Corporation	FY3/26	1,255	13,343	1.8	14.6	14.0	17.5	52.9	7.5	58.8	77.1	-0.3	-34.6	98.6
7482	Shimojima	FY3/26	1,376	32,186	0.9	12.4	7.2	8.9	32.6	5.3	19.8	81.4	-0.2	12.0	28.2
3180	Beauty Garage	FY4/26	1,428	17,915	2.1	13.3	16.9	18.9	24.2	4.0	3.8	45.2	-0.1	-16.6	-37.2
	Average				2.8	17.2	15.7	21.2	33.8	6.4	20.7	59.3	-0.1		

Source: Speeda Data. Compiled by Strategy Advisors.

10. ESG and Sustainability

Governance Structure

cotta is a company with an Audit & Supervisory Committee structure, and the cotta Group consists of the company and 9consolidated subsidiaries. Of the 8 directors, 3 are outside directors (independent directors). According to Principle 4-8 of Japan’s Corporate Governance Code, companies listed on the Growth Market are expected to appoint at least 2 independent outside directors, and the company complies with this principle. The company has one female director, Ms. Kurosu (female director ratio: 12.5%). As of December 2025, Ms. Kurosu is the largest shareholder, holding 11.2% of outstanding shares (excluding treasury shares).

All outside directors serve as audit and supervisory committee members. Among them, Mr. Kodama has business experience in accounting and general affairs at a major manufacturer, while Messrs. Kishihara and Akiyoshi have business experience in the financial industry.

Representative Director and Chairman Mr. Sato is the founder and has played a central role in driving the business development of the cotta Group. However, Ms. Kurosu became President in January 2020, which has contributed to the decentralization of management decision-making. Nevertheless, the company's dependence on Mr. Sato remains high.

Figure 21. Directors' Skill Matrix (as of December 22, 2025)

Name	Title	Areas in which each director is expected to contribute								
		Corporate Management	Business Strategy	New Business Development	Strengthening Existing Businesses	HR Strategy	DX	PR	Financial Accounting	Internal Controls and Governance
Seiichi Sato	Chairman of the Board	○	○	○	○	○			○	○
Akiko Kurosu	President and CEO	○	○	○		○	○	○		○
Fumihiro Yoshida	Senior Managing Director	○	○		○	○				○
Shinjiro Goto	Director	○			○	○				○
Norihiko Kurosu	Director	○	○	○	○		○	○		○
Kazuo Kodama	Outside Director (Audit and Supervisory Committee Member)	○				○			○	○
Toshihiro Kisihara	Outside Director (Audit and Supervisory Committee Member)		○						○	○
Hideya Akiyoshi	Outside Director (Audit and Supervisory Committee Member)					○	○		○	○

Source: Company Material. Compiled by Strategy Advisors.

Sustainability Framework

The governance structure for sustainability is similar to the corporate governance structure. The Management Committee reviews and determines the appropriateness of sustainability initiatives, while material management matters are approved by the Board of Directors.

As part of its sustainability strategy, the company promotes the expansion of the plant-based food market, which has a lower environmental impact. Through "cotta tomorrow", launched jointly with Fuji Oil (2607, TSE Prime), its capital and business alliance partner, the company responds to customer needs such as "wanting to prepare gluten-free and plant-based menus" and "wanting to make snacks for children without worrying about allergies", which have increased in recent years, and promotes the adoption and sales expansion of plant-based foods with lower environmental impact than conventional animal-derived foods.

Human Capital Strategy

As part of its human capital strategy, the company is working to secure and develop diverse human resources and improve the working environment. However, at present, it has not established metrics or targets by category related to human capital and diversity in hiring.

In response to growing demand for its business, establishing an adequate supply structure has become a challenge. The company has relied on employees working during holidays and night shifts; however, it aims to improve employees' work-life balance through logistics efficiency improvements.

Female Manager Ratio of 40%

The ratio of female managers was 40% as of the end of September 2025. According to a survey by Teikoku Databank, the average ratio of female managers was 11.1% in 2025. As female employees account for the majority of the company's workforce, the ratio of female managers is particularly high. The company has not disclosed the male employee childcare leave utilization rate or gender wage gap, as disclosure is not mandatory.

11. Risk Factors

Inventory Risk

As the company handles a wide variety of products, including food products, excessive inventory, inventory shortages, or inventory valuation losses could adversely affect profitability and cash flow.

Logistics Cost Increase Risk

If logistics costs increase due to factors such as a shortage of delivery drivers or rising crude oil prices, profitability could deteriorate.

Risk of Intensifying Competition

If specialized wholesalers of packaging materials, online marketplaces, or other EC companies strengthen their sales of confectionery & bakery-related products, the competitive environment could deteriorate, potentially resulting in lower average selling prices.

Risk of Information Leakage

If personal information held by the company is leaked due to system failures or cyberattacks, this could result in lost sales opportunities and damage to the company's reputation.

Food Quality & Safety Risk

As the company handles confectionery & bakery ingredients and processed food products, quality issues, foreign material contamination, labeling errors, or violations of the Food Sanitation Act and other regulations could result in product recalls, compensation claims, and brand damage.

Logistics & Fulfillment Capacity Risk

While the logistics operation supporting small-lot, multi-item orders and short lead times is a source of the company's competitiveness, insufficient shipping capacity during peak periods, disruptions to warehouses or delivery networks, labor shortages, or natural disasters could lead to delivery delays and a decline in customer satisfaction.

M&A and Subsidiary Management Risk	The company has expanded its business scope through the consolidation of subsidiaries including TERAZ, Works Group, and MedMarge. If acquired companies fail to achieve their business plans, PMI is delayed, internal controls or management systems are inadequate, or expected synergies are not realized, this could affect the company's earnings and financial condition.
Goodwill Impairment and Investment Recovery Risk	Goodwill has been recognized as a result of acquisitions including Works Group. If the profitability of acquired companies falls below expectations, impairment losses could be recorded, significantly reducing profits.
Risk of Higher Financial Leverage	The company's equity ratio has declined due to borrowings associated with large-scale M&A activities. If interest rates rise, operating cash flow deteriorates, or additional investment burdens arise, financial flexibility and shareholder return capacity could be constrained.
Regulatory Risk	MedMarge provides marketing support services for aesthetic medical clinics. If regulations governing online medical consultations or pharmaceutical products are revised in the future, such changes could adversely affect the company's operating results.

Figure 22. Income Statement (¥mn)

FY	9/18	9/19	9/20	9/21	9/22	9/23	9/24	9/25	9/26 CoE
Total Revenue	**6,278**	**6,399**	**7,860**	**9,258**	**8,843**	**8,615**	**8,951**	**13,675**	**15,685**
(YoY)	4.0%	1.9%	22.8%	17.8%	-4.5%	-2.6%	3.9%	52.8%	14.7%
Confectionery & Bakery Supplies Business	-	-	-	-	-	-	-	8,932	
Human Resource Solutions Business	-	-	-	-	-	-	-	1,164	
Beauty Salon Supplies Business	-	-	-	-	-	-	-	3,401	
Others	-	-	-	-	-	-	-	179	
Gross Profit	**2,421**	**2,507**	**3,279**	**3,881**	**2,743**	**2,928**	**2,823**	**4,062**	
Gross Profit Margin	38.6%	39.2%	41.7%	41.9%	31.0%	34.0%	31.5%	29.7%	
SG&A	2,079	2,190	2,990	3,428	2,191	2,130	2,345	3,290	
Operating Profit	**341**	**317**	**288**	**453**	**551**	**797**	**477**	**772**	**994**
(YoY)	16.8%	-7.0%	-9.1%	57.3%	21.6%	44.6%	-40.2%	61.8%	28.8%
Operating Profit Margin	5.4%	5.0%	3.7%	4.9%	6.2%	9.3%	5.3%	5.6%	6.3%
Confectionery & Bakery Supplies Business	-	-	-	-	-	-	-	680	
Human Resource Solutions Business	-	-	-	-	-	-	-	43	
Beauty Salon Supplies Business	-	-	-	-	-	-	-	71	
Others	-	-	-	-	-	-	-	60	
Adjustments	-	-	-	-	-	-	-	-81	
Non-Operating Income	50	46	44	44	45	46	70	64	
Interest and Dividends Income	0	0	0	0	0	0	1	3	
Sponsorship Fee/Contribution	35	46	29	28	25	19	16	12	
Income from Selling Electricity	7	6	10	10	11	8	9	8	
Revenue from Contracted Services	0	0	0	0	0	7	37	23	
Other	8	-6	4	4	8	10	4	16	
Non-Operating Expenses	13	13	12	12	12	13	13	65	
Interest Expenses	8	7	7	8	8	7	8	41	
Expense Selling Electricyt	4	4	3	3	2	2	2	2	
Others	0	2	1	0	1	2	2	20	
Ordinary Profit	**378**	**350**	**320**	**485**	**584**	**830**	**534**	**771**	**1,006**
(YoY)	14.5%	-7.4%	-8.6%	51.6%	20.4%	42.1%	-35.7%	44.4%	30.5%
Ordinary Profit Margin	6.0%	5.5%	4.1%	5.2%	6.6%	9.6%	6.0%	5.6%	6.4%
Extraordinary Gains/Losses	85	2	10	6	9	1	4	11	
Extraordinary Loss	12	14	5	10	13	0	3	29	
Pretax Profit	451	337	325	481	579	832	535	753	
(YoY)	34.2%	-25.3%	-3.6%	48.0%	20.4%	43.7%	-35.7%	40.7%	
Pretax Profit Margin	7.18%	5.27%	4.13%	5.20%	6.55%	9.66%	5.98%	5.51%	
Income Taxes	109	111	62	157	179	261	194	298	
Effective Tax Rate	24.17%	32.94%	19.08%	32.64%	30.92%	31.37%	36.26%	39.58%	
Net Profit	**341**	**225**	**263**	**324**	**399**	**570**	**341**	**455**	
Net Profit Attribute to non-controlling shareholders	0	0	0	0	0	0	0	18	
Net Profit Attribute to parent company shareholders	**341**	**225**	**263**	**324**	**399**	**570**	**341**	**437**	**628**
(YoY)	42.1%	-34.0%	16.9%	23.2%	23.1%	42.9%	-40.2%	28.2%	43.7%

Source: Company Data. Compiled by Strategy Advisors.

Figure 23. Key Financial Indicators

FY		9/18	9/19	9/20	9/21	9/22	9/23	9/24	9/25	9/26 CoE
EPS	(Y)	**31.5**	**20.8**	**24.2**	**29.8**	**37.8**	**54.0**	**32.0**	**41.2**	**59.2**
BPS	(Y)	**232.1**	**249.4**	**268.7**	**288.4**	**316.5**	**365.7**	**389.5**	**422.4**	
DPS	(Y)	**10.0**	**4.0**	**4.0**	**4.0**	**4.0**	**8.0**	**8.0**	**10.0**	**10.0**
Dividend Payout Ratio	(%)	31.7	19.2	16.5	13.4	10.6	14.8	25.0	24.3	16.9
Last Prise	(Y)	**587**	**301**	**1,173**	**570**	**364**	**512**	**362**	**542**	
PER	(Times)	**18.6**	**14.5**	**48.5**	**19.2**	**9.6**	**9.5**	**11.3**	**13.2**	
PBR	(Times)	**2.5**	**1.2**	**4.4**	**2.0**	**1.2**	**1.4**	**0.9**	**1.3**	
Shares Outstanding at Fiscal Year-End	(Thousand Shares)	3,677	11,038	11,080	11,117	11,117	11,224	11,224	11,224	
Treasury Shares	(Thousand Shares)	58	173	169	356	548	545	542	724	
Shares Outstanding ex Treasury Shares	(Thousand Shares)	3,619	10,864	10,910	10,761	10,570	10,679	10,682	10,500	
Market Capitalization (Adjusted for Treasury Shares)	(Ymn)	**2,124**	**3,270**	**12,798**	**6,134**	**3,847**	**5,468**	**3,867**	**5,691**	
Equity Ratio	(%)	58.9	60.4	53.5	53.3	55.9	60.8	65.1	43.1	
Interest-Bearing Debt	(Ymn)	939	976	1,307	1,444	1,477	1,425	1,201	3,975	
D/E Ratio	(Times)	0.37	0.36	0.44	0.46	0.44	0.36	0.29	0.90	
Enterprise Value (EV)	(Ymn)	6,087	2,894	12,128	5,959	3,523	4,966	3,242	7,175	
EBITDA	(Ymn)	460	434	407	586	688	922	599	1,048	
EV/EBITDA Multiple	(Times)	13.2	6.7	29.8	10.2	5.1	5.4	5.4	6.8	
ROE	**(%)**	**14.4**	**8.6**	**9.3**	**10.7**	**12.4**	**15.7**	**8.5**	**10.2**	
ROIC - Invested Capital Basis	(%)	6.7	5.7	5.7	6.7	7.9	10.6	5.3	6.8	
ROIC - Operating Assets Basis	(%)	9.7	8.6	9.1	10.7	12.3	16.8	8.5	10.3	
Number of Employees	**(People)**	**75**	**86**	**86**	**94**	**92**	**96**	**111**	**163**	

Source: Company Data. Compiled by Strategy Advisors.

Figure 24. Balance Sheet (¥mn)

FY	9/17	9/18	9/19	9/20	9/21	9/22	9/23	9/24	9/25
Cash and deposits	1,205	1,293	1,352	1,976	1,618	1,801	1,927	1,826	2,539
Notes and accounts receivable - trade	329	341	303	356	349	353	347	414	665
Inventories	941	983	1,142	1,311	1,663	1,837	2,010	2,088	2,596
Others	189	143	188	201	450	279	291	333	423
Current assets	**2,664**	**2,760**	**2,986**	**3,846**	**4,082**	**4,272**	**4,576**	**4,662**	**6,225**
Buildings and structures	861	815	780	772	931	886	842	803	769
Tools, furniture and fixtures	477	74	66	150	126	155	129	101	126
Others	140	447	469	464	453	440	439	476	496
Tangible fixed assets	1,478	1,338	1,316	1,387	1,512	1,482	1,411	1,382	1,393
Intangible assets	116	100	92	85	73	62	57	120	2,270
Investments and other assets	75	94	108	178	166	178	374	229	398
Total noncurrent assets	**1,669**	**1,532**	**1,517**	**1,652**	**1,752**	**1,723**	**1,843**	**1,732**	**4,061**
Total assets	**4,333**	**4,293**	**4,503**	**5,498**	**5,834**	**5,995**	**6,419**	**6,394**	**10,287**
Accounts payable-trade	441	414	451	567	637	646	516	570	1,126
Current portion of long-term loans	403	195	171	450	711	899	1,103	980	1,714
Contract Liabilities	-	0	0	0	0	12	11	14	13
Others	352	370	318	660	619	481	533	415	647
Current liabilities	**1,196**	**980**	**941**	**1,678**	**1,967**	**2,040**	**2,165**	**1,981**	**3,501**
Long-term debt	855	742	804	856	733	577	322	221	2,260
Retirement benefit liability	3	2	2	6	6	7	8	10	18
Others	73	35	33	14	15	16	18	21	22
Noncurrent liabilities	**931**	**780**	**841**	**877**	**755**	**601**	**349**	**252**	**2,301**
Total liabilities	**2,126**	**1,761**	**1,782**	**2,555**	**2,723**	**2,642**	**2,514**	**2,234**	**5,802**
Capital stock	641	642	642	643	649	649	665	665	665
Capital surplus	614	615	615	617	622	622	638	638	638
Retained earnings	968	1,291	1,480	1,699	1,979	2,335	2,863	3,117	3,468
Treasury shares	-29	-29	-28	-28	-148	-262	-261	-261	-336
Total shareholders' equity	**2,207**	**2,519**	**2,709**	**2,931**	**3,103**	**3,345**	**3,905**	**4,160**	**4,435**
Total net assets	**2,207**	**2,531**	**2,721**	**2,942**	**3,111**	**3,353**	**3,905**	**4,160**	**4,484**
Total liabilities and net assets	**4,333**	**4,293**	**4,503**	**5,498**	**5,834**	**5,995**	**6,419**	**6,394**	**10,287**

Source: Company Data. Compiled by Strategy Advisors.

Figure 25. Cash Flow Statement (¥mn)

	17/9	18/9	19/9	20/9	21/9	22/9	23/9	24/9	25/9
Profit before income taxes	336	451	337	325	481	579	832	535	753
Depreciation	115	118	116	118	132	135	124	119	147
Amortization of goodwill	0	0	0	0	0	0	0	2	128
Interest Expenses	-9	8	7	7	8	8	7	8	41
Other	-264	-223	-317	82	-730	-277	-519	-384	-202
Cash Flows from Operating Activities	**178**	**354**	**144**	**534**	**-106**	**447**	**445**	**280**	**868**
Purchases/Sales of PPE	-43	142	-16	-148	-185	-114	-22	-14	-75
Purchases/Sales of Intangible Assets	-38	-51	-26	-27	-24	-11	-26	-50	-78
Purchase of subsidiary share capital associated with a change in the scope of consolidation	-	0	0	0	0	0	0	29	-2,412
Payments for Acquisition of Businesses	-	0	0	0	0	0	0	-23	0
Other	-3	-5	-9	-3	-13	-10	-192	65	-28
Cash flows from investing activities	**-84**	**85**	**-52**	**-179**	**-223**	**-136**	**-242**	**7**	**-2,595**
Increase/Decrease in Short-Term Borrowings	50	-70	0	0	370	300	100	-20	390
Increase/Decrease in Long-Term Borrowings	-162	-247	21	335	-222	-254	-146	-267	2,225
Dividends paid	-18	-18	-36	-43	-44	-43	-42	-86	-86
Other	-16	-15	-17	-16	-130	-132	11	9	-91
Cash flows from financing activities	**-146**	**-351**	**-32**	**275**	**-27**	**-130**	**-78**	**-387**	**2,436**
Foreign exchange adjustment	**0**	**0**	**0**	**0**	**0**	**2**	**0**	**0**	**0**
Changes in Cash Flow	**-53**	**87**	**59**	**629**	**-357**	**182**	**125**	**-100**	**711**
Cash & Cash Equivalent - Beginning	**1,113**	**1,060**	**1,147**	**1,207**	**1,836**	**1,478**	**1,661**	**1,787**	**1,686**
Cash & Cash Equivalent - Ending	**1,060**	**1,147**	**1,207**	**1,836**	**1,478**	**1,661**	**1,787**	**1,686**	**2,397**
Free Cash Flow	**94**	**439**	**92**	**355**	**-329**	**311**	**203**	**287**	**-1,727**

Source: Company Data. Compiled by Strategy Advisors.

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