

Matsukiyo-Cocokara merger to create leading drugstore will benefit from regulatory changes

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Regulatory changes in the pharmaceutical sector will support [the proposed tie-up](#) between Japanese drug store chains **Matsumoto Kiyoshi** [TYO:3088] and **Cocokara Fine** [TYO:3098] but the merger, which has gained antitrust clearance, will not be a catalyst for more major deals between leading sector players, lawyers told PaRR.

Matsumoto Kiyoshi, the country's fifth largest drug store chain in terms of sales, and Cocokara Fine, ranking seventh, will complete their merger in October, with combined sales of around JPY 1 trillion (USD 9.2 billion). The Matsukiyo Cocokara & Company will emerge as the country's largest drugstore chain. Their goal is to become Asia's largest drugstore.

Sugi Holdings, which lost out to Matsumoto Kiyoshi in partnering with Cocokara Fine, does not appear to be making any moves so far. "I do not see big deals closing one after another," said Hidenori Akabane, an attorney for Chugai Godo Law Office.

Japanese lawyers pointed out the sector remains highly fragmented below the leading players and stores' growth strategy is not about increasing the number of retail outlets or operational size. The larger players may acquire smaller players, they said.

There were 59,483 pharmacies at the end of November 2020, which is a more than the number of convenience stores in Japan.

Drugstore players	Tickers	MCAP (local m)	MCAP (USDm)	EV/EBITDA	EV/ FY22 EBITDA	EV/ Revenue	P/E	P/BV	FY 2020 Revenue	No. of stores (latest quarter)
Welcia	3141.T	705,417	6,500	12.13	10.22	0.78	25.64	4.04	868,280	2,191
Tsuruha	3391.T	691,430	6,371	10.58	9.87	0.71	23.66	2.76	841,036	2,382
Cosmos	3349.T	614,812	5,665	12.49	11.27	0.81	25.62	3.86	684,403	1,092
Sundrug	9989.T	485,678	4,475	8.50	8.04	0.64	18.04	2.38	617,769	1,194
Matsumotokiyoshi	3088.T	544,176	5,014	12.51	11.13	0.95	21.66	2.27	590,593	1,755
Sugi Holdings	7649.T	501,580	4,622	10.02	9.52	0.71	22.37	2.48	541,964	1,371
Cocokara Fine	3098.T	268,887	2,478	12.20	10.66	0.62	49.5	1.9	403,875	1,444
Create SD	3148.T	223,177	2,056	7.66	-	0.55	15.03	2.42	319,588	677
Kusuri No Aoiki	3549.T	260,144	2,397	12.36	11.00	0.96	21.58	3.59	300,173	655
Ain Holdings	9627.T	246,935	2,275	10.99	8.90	0.70	38.34	2.17	292,615	1,057
Cawachi	2664.T	69,546	641	3.65	-	0.19	8.64	0.7	270,313	343
Median (Except Cocokara)				10.99	10.05	0.71	22.37	2.48		

*Source: Fidesso, company filings

Takanori Abe, an attorney for Abe & Partners, said drug store business models are varied, but these two major players are merging because their business models are similar. Both are focused on beauty and health and the pandemic has been especially hard on them.

The cosmetics sector was hit by a decrease in demand resulting from soft lockdowns following the spread of coronavirus. On the other hand, drugstores that focus on food are doing well. They have been able to compete effectively against supermarkets by realizing low prices, he said.

Being big and being a winner are two different things. The pandemic exposed the marriage of the king and the queen of “beauty and health” to difficult conditions. It will not be easy to stick to their projected to goal of achieving JPY 1.5 trillion sales in 2026, up 50% from 2019, the lawyers believed.

Pharmaceutical regulatory changes, however, will be in favor of Matsukiyo Cocokara.

The Ministry of Health, Labour and Welfare has been driving the small pharmacies to consolidate, as the country had too many drug outlets. As part of this, the ministry is calling for upgrades in the pharmacies’ services which will benefit Matsukiyo Cocokara. Amongst other things it wants them to be more tailored to patients’ needs, to offer 24-hour phone-based prescription services, to form stronger links with clinics in the area, to offer customized advisory. The move for multi-functional outlets will benefit drugstores like Matsukiyo Cocokara that offer

prescription services along with sales of cosmetics, healthcare and other products, said Akabane.

However, a Health Ministry official as well as the lawyers said the government's intent is not to wipe out small pharmacies. They said that prescription coverage policies, which are updated regularly, may actually benefit small players in some instances.

The Japan Fair Trade Commission (JFTC) has cleared the Matsukiyo Cocokara merger, but in the past, antitrust concerns have become apparent in the drugstore sector. A JFTC fact-finding survey in January 2018 showed that the level of AMA compliance in the drugstore segment was the lowest among the retail chain types, that included supermarkets, convenience stores, discount stores, agricultural cooperatives and department stores.

The potential violations included returning purchased goods without clarifying return policies, asking suppliers to provide free labor and forcing monetary donations for events, which may be seen as abuse of superior bargaining position, the JFTC said.

In 2018, the JFTC conducted an on-site inspection of Genky DrugStores Co. for alleged abuse of superior bargaining position by making suppliers provide manpower for events and failing to compensate for the labor, forcing suppliers to purchase Christmas cakes from Genky and contribute monetary donation for marketing campaigns, among others. The company filed a commitment plan to improve AMA compliance and the JFTC approved it on 5 August 2020.

For the last few years, the JFTC has been focused on preventing the abuse of superior bargaining position in particular, one lawyer said.

Matsumoto Kiyoshi did not respond to a request for comment.

by Mayumi Watanabe in Tokyo