COMPANY RESEARCH AND ANALYSIS REPORT

SFP Holdings Co., Ltd.

3198

Tokyo Stock Exchange Prime Market

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Summary

Despite the ongoing COVID-19 pandemic, in FY2/22 the Company achieved ordinary profitability by strengthening its income structure and utilizing subsidy programs. Expects a certain level of recovery in net sales in FY2/23

1. Company profile

SFP Holdings Co., Ltd. <3198> (hereinafter, also "the Company") primarily operates restaurants such as ISOMARU SUISAN, a popular 24-hour seafood restaurant located adjacent to train stations and in urban commercial districts on the street level, and Toriyoshi Shoten (chicken specialty restaurants). It has achieved robust profitability and growth thanks to a unique income model that takes maximum advantage of customer draw from prime locations. However, results have weakened significantly since FY2/21 due to the COVID-19 pandemic, and management has reduced new restaurant openings and other large investments for the past two years and focused on strengthening the income structure with cost cutbacks. As of the end of February 2022, the Company had 215 restaurants (with 14 franchise restaurants). On April 4, 2022, the Company transferred its listing to the Prime Market under the new market classification of the Tokyo Stock Exchange.

2. FY2/22 results

Consolidated results in FY2/22 were ¥10,404mn in net sales (down 40.3% YoY) and a ¥7,919mn operating loss (a loss of ¥5,339mn in FY2/21). Although the COVID-19 pandemic caused a significant decline in sales, the Company achieved ordinary profitability by strengthening its income structure and utilizing subsidy programs. With the prolonging of the COVID-19 pandemic, repeated closures, shortened hours and restrictions on the serving of alcoholic beverages throughout the year as part of a series of emergency declarations and quasi-state of emergency measures to prevent the spread of the disease resulted in a further decline in net sales compared to the previous fiscal year. On the other hand, while the decline in sales put downward pressure on earnings, the Company was able to achieve ordinary profitability by establishing efforts to strengthen its income structure, by significantly reducing fixed costs (land rent, head office expenses, etc.), and by recording subsidy income (employment adjustment subsidies and subsidies for cooperating with requests to shorten operating hours) in conjunction with the COVID-19 pandemic.

3. FY2/23 forecast

In its FY2/23 forecast, the Company expects to bring an increase in operating income (moving to profitability),through a certain level of recovery in net sales with net sales up 135.5% year on year to ¥24,500mn, and operating income of ¥300mn (a loss of ¥7,919mn in FY2/22). FY2/23 got off to a difficult start in March 2022 with a prolonged sixth wave of the COVID-19 pandemic, but by April, all of its restaurants had reopened, and sales are expected to return to approximately 70% of pre-COVID-19 levels (full year) over the course of a step-by-step recovery. In terms of profit and loss, despite an expected increase in recruiting expenses to secure needed human resources, the Company expects to return to profitability in terms of operating income due to increased sales and ongoing efforts to control costs. With regards to restaurant openings and closings, the Company is apparently considering a resumption of new restaurant openings predicated on the COVID-19 pandemic coming to an end.

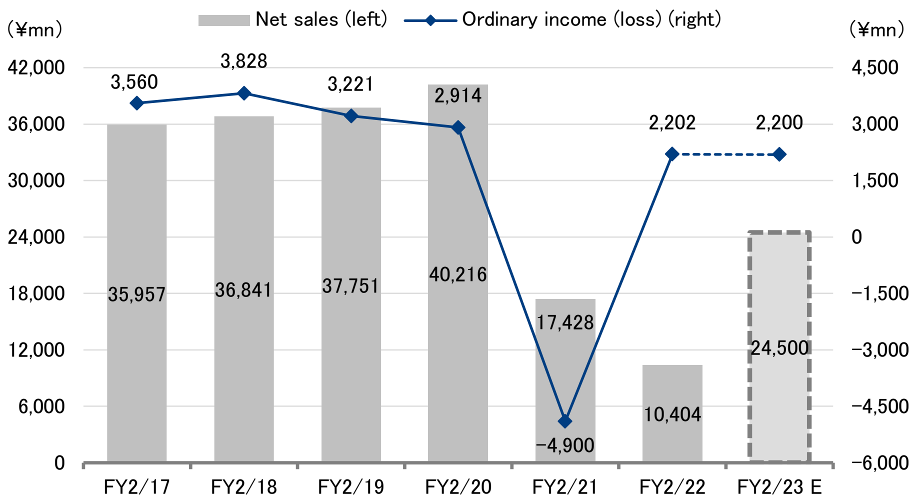
4. Direction

Previously, the Company had made an annual announcement of a medium-term management plan for the coming three years, but decided not to do so after 2020 given the uncertain outlook caused by the impact of the COVID-19 pandemic. It has, however, clarified a direction for the short- to medium-term, as practices for living during the pandemic have taken hold and as it looks toward the post-COVID era. Specific initiatives intended to put the Company back on a growth trajectory include (1) opening new restaurants in regional cities; (2) expanding the "new Japanese-style pub" business format the Company is focusing on; (3) addressing rising prices; and (4) cashless payments and other labor-saving systems.

Key Points

- Despite a significant decline in sales due to the ongoing COVID-19 pandemic, in FY2/22 the Company achieved ordinary profitability by strengthening its income structure and utilizing subsidy programs
- For its FY2/23 forecast, the Company expects operating income to increase (move to profitability) through a certain level of recovery in net sales
- The Company aims to return to a growth trajectory through the opening of new restaurants in regional cities, the expansion of the "new Japanese-style pub" concept, addressing rising prices and cashless payments and other labor-saving systems

Results trends



Source: Prepared by FISCO from the Company's financial results

Company profile

Develops popular brands, including ISOMARU SUISAN and Toriyoshi Shoten

1. Business overview

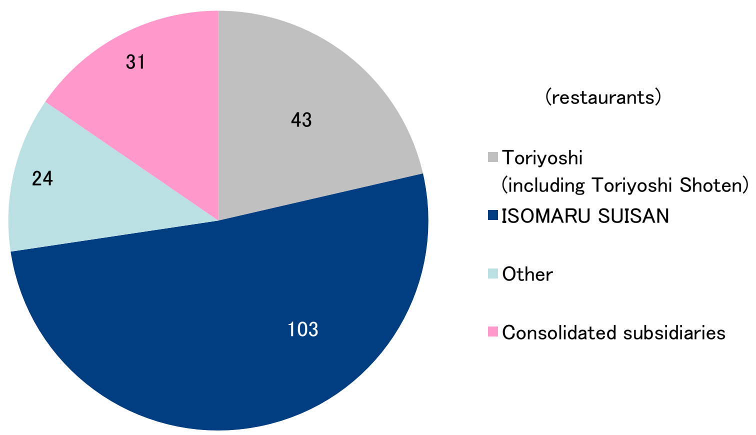
The Company primarily operates seafood izakaya ISOMARU SUISAN, a popular restaurant open 24 hours a day* at locations adjacent to train stations and in commercial districts (street level). Moreover, Toriyoshi Shoten (a chicken specialty restaurant) has become its second growth driver using the same income model as ISOMARU SUISAN. In addition, since FY2/20, the Company has been developing its own Alliance Conception. The aim is to expand the network of restaurants in regional cities (provision of brands via the in-company franchise format) through utilizing M&A. The impact from the COVID-19 pandemic is currently affecting the entire industry, and the Company has focused on strengthening its income structure for the past two years and worked towards prompt recovery while responding to changes in the environment.

* Depending on the market characteristics, there are also some locations that are not open 24 hours a day.

As of the end of February 2022, the Company had 215 restaurants (including 14 franchise restaurants) including the 2 Alliance members (a total of 31 restaurants). ISOMARU SUISAN is the largest format with 103 locations (including 13 franchise restaurants), and 195 restaurants are concentrated in the Tokyo metropolitan area (including 124 in Tokyo). The Company has established brand presence and expanded the number of restaurants with focused openings in the Tokyo metropolitan area. But recently, it has looked toward opening restaurants in regional cities, including through the Alliance Conception. It concluded a capital alliance with create restaurants holdings inc. <3387> in April 2013 to become a consolidated subsidiary and listed shares on the TSE Second Section in December 2014, and on February 28, 2019, its listing was upgraded to the First Section. (On April 4, 2022, transferred its listing to the Prime Market under the new classification of TSE.)

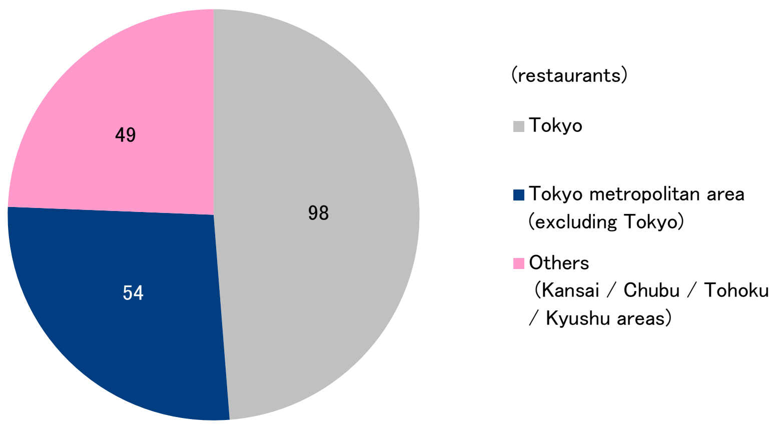
While the Company only has one business segment, the food and beverages segment, it operates in 4 areas according to format: the Toriyoshi business (including Toriyoshi Shoten), the mainstay ISOMARU SUISAN business, other business including new formats, and also from FY2/20, the contributions of the Alliance members have been added as the fourth area. The ISOMARU SUISAN (a consolidated subsidiary) business provides 54.7% of net sales (FY2/22 result).

No. of restaurants by format



Note: excluding franchise restaurants
Source: Prepared by FISCO from the Company's financial results supplementary material

No. of restaurants by area



Note: excluding franchise restaurants
Source: Prepared by FISCO from the Company's financial results supplementary material

Features by brand

Brand	Features
ISOMARU SUISAN	Seafood izakaya centered on grilled cuisine
Toriyoshi	Chicken specialty restaurant that serves fried chicken wings with a special sauce
Toriyoshi Shoten	Tasty, quick provision of chicken izakaya fare
Omotenashi Toriyoshi	Further refining the “Omotenashi” hospitality to create new value
Ichigoro	Izakaya where you can enjoy a wide variety of gyoza
Kiduna Sushi	Delicious and inexpensive fresh food
Teppan 200°c	Casual teppanyaki at a large counter
Misonikomi Udon Tamacho Honten	Nagoya’s famous misonikomi udon (udon in a thick miso soup)
Bistro ISOMARU	Casual, Western style bistros that use carefully selected seafood
Kisoba Tamagawa	Reasonable and freshly-prepared boiled soba noodles
Machizushi Torotaku	Restaurant and bar with an extensive line-up of sushi, tempura, and sashimi
ISOMARU SUISAN Shokudo	Restaurant with a wide range of food items, including fresh sashimi meals, seafood rice bowls, grilled fish meals, and “Unagi-no-Okajima” thick eels

Individual brand characteristics in the “new Japanese-style pub” genre

Brand	Features
Home Base	Japanese-style pub with a retro atmosphere reminiscent of the Showa era (1925–1989); the Company’s first standing bar (tachinomi) format
Go-no-Go	Japanese-style pubs you will want to visit every day to feel full of vitality the following day
Hamayaki Dragon	A “hamayaki” barbecue style restaurant/izakaya where you can cook fresh live shellfish, such as Japanese scallops and turban shell (sazae), yourself
Torihei Chan	Japanese-style pubs proud of their piping-hot omelets and grilled chicken

Source: Prepared by FISCO from the Company’s materials

2. Corporate characteristics

The Company’s advantage lies in its unique income model, in addition to the conventional izakaya income model. Mainstay ISOMARU SUISAN’s income model selects locations adjacent to train stations and in commercial districts with high rents for its street-level locations. It sustains high turnover by maximizing customer draw at these prime sites with unique and highly visible facades, welcoming and open atmospheres, and 24-hour operations that cover a wide range of demand. It realizes leverage by securing large sales that sufficiently cover expensive rents that would erode profitability at typical izakaya restaurants. This format cannot be easily copied because it relies on a location analysis scheme, street-level restaurant development skills, know-how in 24-hour operations and rotating optimal menus for specific hours. We think expensive opening costs and the difficulties of 24-hour operations present major hurdles to other companies. The Company’s accumulation of know-how ahead of others and build-up of robust brand presence through focused openings in the Tokyo metropolitan area have driven a beneficial cycle of lowering opening risk. Although the restricted flow of people, shortened business hours, limits on the number of customers and restrictions on serving alcohol due to the COVID-19 pandemic had the effect of negating some of ISOMARU SUISAN’s strengths (including prime station-front locations, high turnover, 24-hour operations to meet a wide range of needs, etc.), these were primarily examples of policy-driven force majeure, and are not expected to significantly alter the advantages of the income model itself.

The Company can also apply the income model established for ISOMARU SUISAN (hereinafter, "the ISOMARU SUISAN model") to other formats and has substantial room for further evolution. Toriyoshi Shoten, which has become a second major brand, applied the ISOMARU SUISAN model to the Company's founding Toriyoshi business and has been steadily gaining momentum. Key points are openings along with ISOMARU SUISAN (at the same time or in the same area as existing ISOMARU SUISAN) and selective openings that meet market features (location and format). Also, after assessing the environmental changes once the COVID-19 pandemic has settled down (such as changes to consumer behaviors), it is considered that it will be necessary to respond flexibly through fine tuning, and it can be said that the Company's true value will be seen in its attitude of pursuing this sort of hypothesis verification-type evolution. The Company's clarification of its intent to focus on the "new Japanese-style pub" format (details to follow) can also be seen as a move in this direction. This format can generate stable profits from low investments in smaller-sized, pubs with high turnover that leverage ISOMARU SUISAN's strengths in station-front and street-level locations.

3. History

The Company started with the opening of Toriyoshi, a fried chicken wing specialty restaurant, in Tokyo's Musashino City (now Toriyoshi Shoten's Kichijoji South Exit restaurant) in April 1984 by founder Ryosaku Samukawa (former Representative Director and Chairman, retired in December 2015). Toriyoshi served Nagoya-style fried chicken wings arranged with a special recipe as its main menu and steadily increased the number of locations. It presented a vision of "becoming a comprehensive food service business that creates a rich menu of foods" in 2001 and expanded operations to 50 locations, including format diversification, in 2008.

Following the economic downturn triggered by the Lehman Brothers bankruptcy and changes in the industry environment, the Company revised its vision to "become a specialty restaurant group that enriches Japan." With the switch in course to pursuit of "specialty restaurants," it opened ISOMARU SUISAN based on a unique income model in 2009 and built the foundation for growth.

Having smoothly ramped up ISOMARU SUISAN and confirmed a growth path, the Company decided to pursue listing its stock as the quickest path to "building a lasting corporate organization." It accepted capital participation by Polaris No.2 Investment Limited Partnership (Polaris Capital Group Co., Ltd.), a private-equity fund, in December 2010 as well as enhanced management and the accuracy of organizational operation by adopting objective standards and rational methods.

The Company concluded a capital alliance with create restaurants holdings, which mainly operates restaurants and food courts in suburban shopping centers, and it became a consolidated subsidiary in April 2013 and listed on the TSE Second Section in December 2014. On February 28, 2019, listing was upgraded to the TSE First Section (On April 4, 2022, the Company transferred its listing to the Prime Market under the new market classification of the TSE). Meanwhile, during that time, the Company transitioned to a holding company framework in September 2016 and renamed itself as SFP Holdings Co., Ltd. in June 2017.

The Company accelerated the pace of openings for ISOMARU SUISAN, which had solidified a brand presence as a popular format, after listing on the market and reached 100 locations for ISOMARU SUISAN in May 2015. It also started franchising ISOMARU SUISAN in Nagoya City, Aichi Prefecture*. It began opening Toriyoshi Shoten restaurants, which are the second major growth driver.

* Started ISOMARU SUISAN franchise operations in Kyushu (Fukuoka Prefecture) in June 2017.

The Company started its own Alliance Conception from FY2/20, and it is working to open restaurants in regional cities (provision of brands via the in-company franchise format) through utilizing M&A.

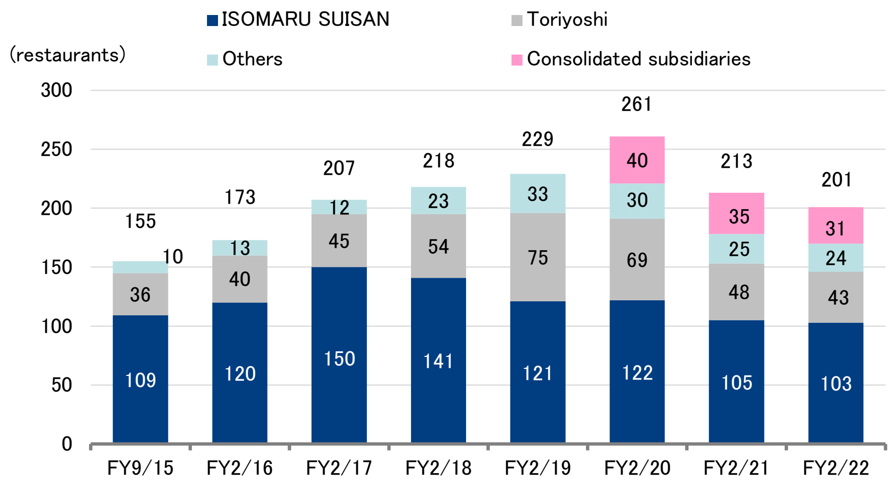
Performance trends

Realized high growth and profitability while also actively increasing the number of locations
Performance, however, has stalled in the last two years due to the impact of the COVID-19 pandemic

1. Past performance

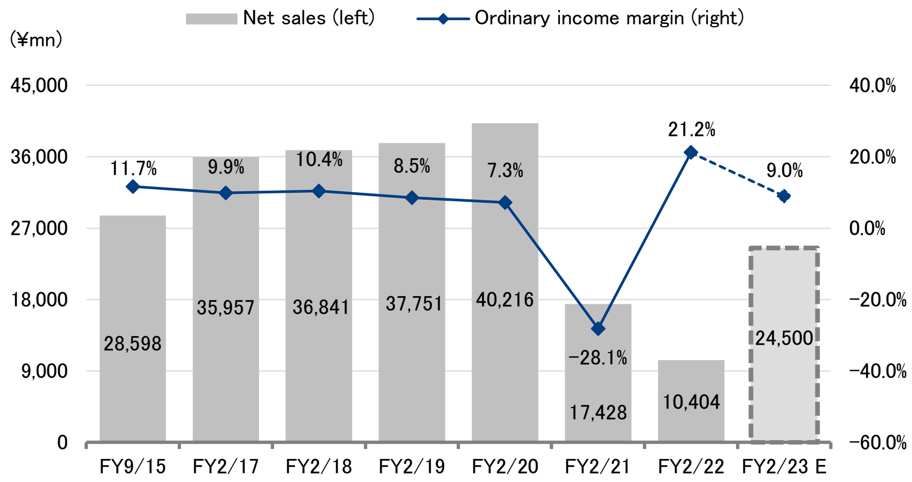
Prior to the COVID-19 pandemic (through FY2/20), increases in the number of restaurants led the Company's growth. Income growth accelerated from FY9/10 when the Company ramped up openings of ISOMARU SUISAN based on a unique income model, and ordinary income margin improved significantly with the rise in sales. The margin exceeded the 8% goal in FY9/13 and subsequently rose to 11.7% in FY9/15. It has remained at a strong level since then. However, from FY2/18, results grew only moderately for two consecutive fiscal years. This was because the Company decided to strategically keep down openings of new locations to respond to environmental changes and with an eye to realizing sustainable growth in the future. At the same time, it allocated the excess investment capacity and business resources resulting from this to strengthening existing locations and to developing new business formats. The Company expanded the number of stores and earnings with the launch of the unique Alliance Conception in FY2/20. However, since FYFY2/21, it faced major setback in earnings due to COVID-19 impact and closed unprofitable restaurants.

Restaurant number trends
(excluding franchise restaurants)



Note: excluding franchise restaurants
Source: Prepared by FISCO from the Company's financial results supplementary material

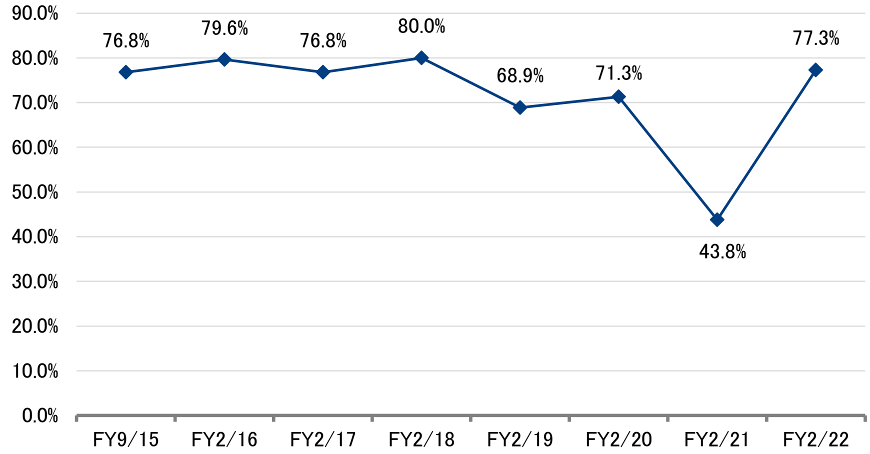
Net sales and ordinary income margin



Notes 1: FY2/16 not shown because it was an irregular period of just 5 months
Notes 2: Non-consolidated results for FY9/15
Source: Prepared by FISCO from the Company's financial results

In terms of finances, the Company's equity ratio climbed to 76.8% at end of FY9/15 after the public-offering capital increase (about ¥12.7bn) accompanying the TSE-2 market IPO in December 2014 and subsequently stayed above 70%. While the equity ratio dropped temporarily in FY2/21 due to booking a net loss due to the impact of COVID-19 and borrowing about ¥9bn in working capital, the equity ratio has returned to 77.3% in FY2/22 and the Company is sustaining soundness in the financial base.

Trends in equity ratio



Source: Prepared by FISCO from the Company's financial results

2. FY2/22 results

The Company reported FY2/22 consolidated results with ¥10,404mn in net sales (down 40.3% YoY), ¥7,919mn in operating loss (a loss of ¥5,339mn in FY2/21), ¥2,202mn in ordinary income (a loss of ¥4,900mn in FY2/21), and ¥1,745mn in profit attributable to owners of parent (a loss of ¥5,650mn). Despite a significant decline in sales due to the ongoing COVID-19 pandemic, the Company achieved ordinary profitability by strengthening its income structure and utilizing subsidy programs.

As in FY2/21, the impact of the COVID-19 pandemic continued to be a drag on results. In particular, closures and shortened business hours and restrictions on the serving of alcohol due to a series of emergency declarations and quasi-state of emergency measures to prevent the spread of disease, continued throughout the year, resulting in a further decline in net sales over FY2/21. Sales have shrunk significantly to about 25% of levels prior to the COVID-19 pandemic (FY2/20, the same below).

In particular, the mainstay ISOMARU SUISAN business format, with an income model that demonstrates its strength through 24-hour operations at locations adjacent to train stations and in commercial districts (street level), was greatly affected by requests for closures as well as shortened business hours. The fact that the Company managed only about three months (total number of days) of normal operations throughout the fiscal year suggests just how difficult the business environment was. However, as the COVID-19 pandemic waned temporarily between November and December 2021, the Company was able to achieve an operating profit on a single-month basis as monthly same-store sales recovered to about 70% of pre-COVID-19 pandemic levels (though with shortened hours), maintaining the superiority of this format.

With respect to restaurant openings and closings, the Company opened one new restaurant and closed 13 under its policy of limiting large-scale investments for the time being; bringing the number of restaurants to 215 (including 14 franchise restaurants) at the end of FY2/22.

On the other hand, while the decline in sales put downward pressure on earnings, the Company was able to achieve ordinary profitability by establishing efforts to strengthen its income structure, by significantly reducing* fixed costs (land rent, head office expenses, etc.), and by recording subsidy income (non-operating income), including employment adjustment subsidies and subsidies for cooperating with requests to shorten operating hours, in conjunction with the COVID-19 pandemic.

* Land rent declined by 27% compared to prior to the COVID-19 pandemic, while head office expenses were reduced by 42%.

As for the Company's financial condition, total assets shrank 34.4% from the end of FY2/21 to ¥16,096mn due to a decrease in cash and deposits resulting from repayment of loans, and a reduction in fixed assets resulting from restaurant closings and impairment losses. On the other hand, the equity ratio improved significantly to 77.3% (43.8% at the end of FY2/21) as shareholders' equity increased to ¥12,438mn, up 15.8% YoY, due to an increase in retained earnings. In addition, although cash and deposits, which had been temporarily bolstered by borrowing to prepare for unforeseen circumstances, decreased to approximately ¥5.7bn (vs. about ¥11.6bn at the end of FY2/21) on repayment of loans, the current ratio remains at 345.1%, and there are no concerns about the Company's solvency. Interest-bearing debt has declined significantly, to approximately ¥0.6bn (¥9.9bn at the end of FY2/21), and the net D/E ratio remains negative, indicating that the Company's financial balance has returned to its positive state prior to the COVID-19 pandemic.

Overview of FY2/22 results

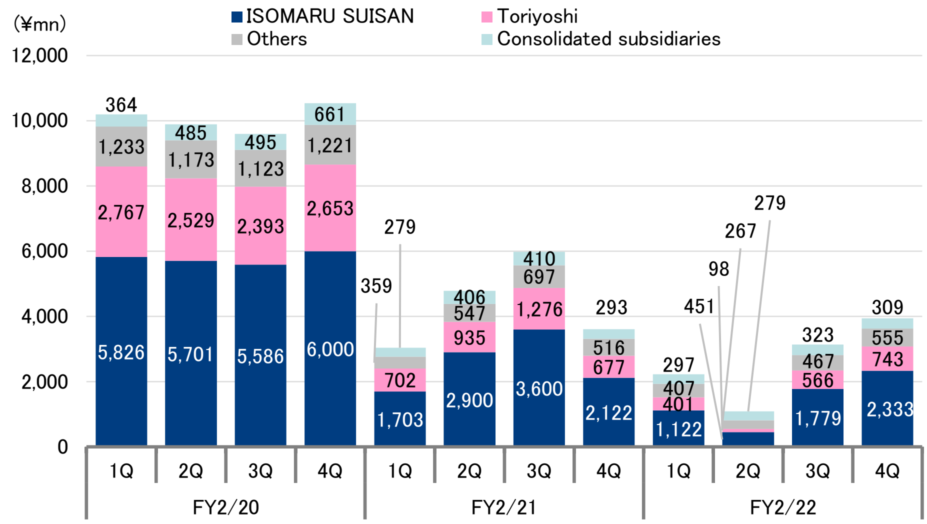
(¥mn)

	FY2/21		FY2/22		Change	
	Results	% of total	Results	% of total	Amount	%
Net sales	17,428		10,404		-7,024	-40.3%
Toriyoshi business	3,591	20.6%	1,809	17.4%	-1,782	-49.6%
ISOMARU SUISAN business	10,326	59.2%	5,687	54.7%	-4,639	-44.9%
Other business	2,120	12.2%	1,698	16.3%	-422	-19.9%
Consolidated subsidiaries	1,389	8.0%	1,208	11.6%	-181	-13.0%
Cost of sales	4,941	28.4%	3,114	29.9%	-1,826	-37.0%
Gross profit	12,487	71.6%	7,290	70.1%	-5,197	-41.6%
SG&A expenses	17,826	102.3%	15,210	146.2%	-2,616	-14.7%
Operating income (loss)	-5,339	-30.6%	-7,919	-76.1%	-2,580	-
Ordinary income (loss)	-4,900	-28.1%	2,202	21.2%	7,102	-
Profit (loss) attributable to owners of parent	-5,650	-32.4%	1,745	16.8%	7,395	-

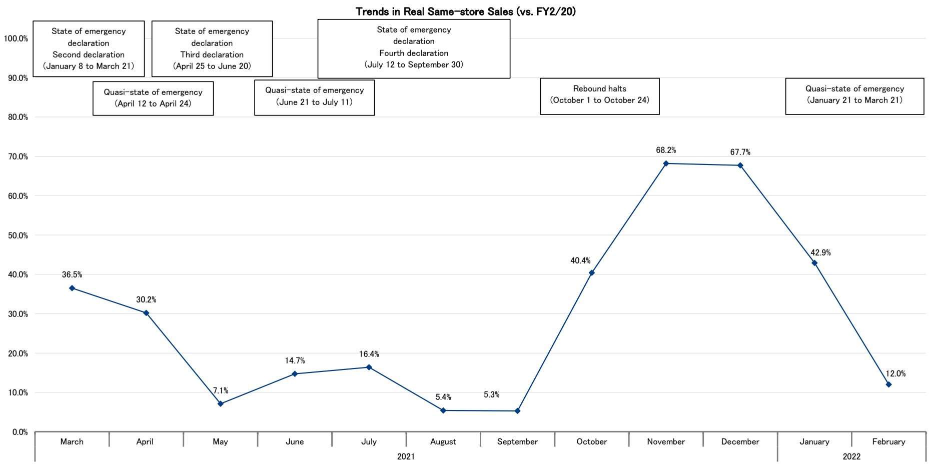
	End of FY2/21	End of FY2/22	Change	
			Amount	%
Total assets	24,535	16,096	-8,438	-34.4%
Shareholders' equity	10,743	12,438	1,694	15.8%
Equity ratio	43.8%	77.3%	33.5pt	-

Source: Prepared by FISCO from the Company's financial results

Quarterly trend in sales by formats



Source: Prepared by FISCO from the Company's financial results supplementary material



Note: Periods of requests noted above are based on Metropolitan Tokyo.
Source: Prepared by FISCO from the Company's results briefing material

Results are reviewed by main business field below.

(1) The Toriyoshi business

Net sales declined 49.6% YoY to ¥1,809mn. With the closure of one Toriyoshi restaurant and four Toriyoshi Shoten restaurants, there were 43 restaurants as of the end of FY2/22.

(2) The ISOMARU business

Net sales declined 44.9% YoY to ¥5,687mn. To develop lunch and food-centered demand, the Company opened one ISOMARU SUISAN Shokudo restaurant, in addition to converting four ISOMARU SUISAN restaurants to ISOMARU SUISAN Shokudo outlets and one ISOMARU SUISAN restaurant to the Machizushi Torotaku format; while closing three ISOMARU SUISAN restaurants. There were 116 restaurants (including 13 franchise restaurants) at the end of FY2/22.

(3) Other businesses

Net sales declined 19.9% YoY to ¥1,698mn. There were 24 restaurants at the end of FY2/22, with one Machizushi Torotaku restaurant converted from the ISOMARU SUISAN format while one ICHIGORO restaurant was closed. In May 2021, the Company also opened ISOMURA SUISAN Otodoke Gourmet Shop, its official online store.

(4) Food Alliance members (consolidated subsidiaries)

Net sales were down 13.0% YoY to ¥1,208mn. Due to restaurant closures, Joh Smile Restaurant System Inc. (Kumamoto) and CLOOC DINING CO., LTD. (Nagano) had 13 restaurants and 19 restaurants (including one franchise restaurant) respectively at the end of FY2/22.

3. Summary of FY2/22

Our review of FY2/22 in light of the above is that the prolonging of the COVID-19 pandemic restricted sales activities throughout the period, resulting in the same severe results (net sales and operating income/loss) as in FY2/21. That said, we would like to emphasize again that this was due largely to policy-driven force majeure aimed at countering COVID-19, and in no way represents a loss in the essential superiority of the Company's business (income model). This is in sharp contrast to conventional izakaya chains, which have all struggled with income models that rely on sales from large-scale locations adjacent to train stations or on the upper floors of buildings and on reservations and parties, resulting in a large number of restaurant closures. The recovery in the Company's same-store sales between November and December 2021, as the COVID-19 pandemic waned for a time, is a testament to this distinction. In addition, the fact that the Company has worked to strengthen its income structure in the past two years, and was able to preserve its financial base through the use of subsidy programs and other means, are positive factors going forward. In its evaluation of companies in the restaurant (izakaya) industry in the wake of the COVID-19 pandemic, FISCO has focused on the following four points: whether they (1) have the financial strength, and (2) whether they are working to strengthen their income structure to survive the COVID-19 pandemic; and further, whether they, in anticipation of the post-COVID era are (3) maintaining the superiority of their management resources (restaurants, human resources, etc.) and business formats (income models), and (4) have an accurate understanding of the "new normal" (environmental changes) and have the resources and are prepared to respond. We believe the current stage requires an emphasis on (3) and (4) above, and since the Company has already addressed (1) and (2), the target for evaluation becomes how to assess their efforts with (3) and (4). From that perspective, they have undertaken some efforts to sort the business out over the past two years. Given that the Company has maintained its core restaurants and human resources, has not lost the essential superiority of its business model, and is preparing to respond to changes in the business environment (e.g. business model revisions and DX) while leveraging its strengths, we deem it highly likely that the Company will be able to secure an advantageous position in an industry undergoing reorganization.

Efforts to address the COVID-19 pandemic

Working to secure new sources of income and strengthen the income structure

1. Expanding takeout counters

Under restrictions on operating hours during the COVID-19 pandemic, since May 2020, the Company has worked to strengthen takeout sales as a new source of income. It has substantially expanded its original takeout menu—centered primarily on rice-bowl dishes—with broiled seafood, hors d'oeuvres, boxed meals and other items. It also introduced new takeout channels with the LINE Pokeo takeout service and Uber Eats and Demae-can delivery services at ISOMARU SUISAN and Toriyoshi Shoten. In FY2/22, it added more takeout counters and is working to further bolster those efforts.

2. Developing demand for lunch and food services

As restrictions on serving alcohol and limits on the number of people have continued, the Company is working to strengthen its lunch and other food offerings. Specific examples include updating existing restaurants as ISOMARU SUISAN Shokudo restaurants that serve a wide range of menu items, including fresh sashimi meals, seafood rice bowls and grilled fish meals, Machizushi Torotaku restaurants, Japanese-style sushi pubs for the general public with a wide assortment of sushi, tempura and sashimi dishes.

3. Strengthening the income structure

Over the past two years of the COVID-19 pandemic, the Company has had a certain level of success in strengthening its income structure by withdrawing from unprofitable restaurants and cutting head office expenses (reducing fix costs). Specifically, it closed 66 restaurants in two years, primarily high-rent locations and those on the upper floors of buildings. Meanwhile, head office expenses were reduced by 42% from pre-COVID-19 pandemic levels by curbing hiring and cutting advertising and sales promotion expenses. Through repayment of loans and other steps, the Company's equity ratio now exceeds the level prior to the COVID-19 pandemic, and we can say that the Company has successfully preserved its strength for the future.

Outlook

Expects an increase in operating income (profit) in FY2/23 as net sales recover to some extent.

1. FY2/23 forecast

For FY2/23, the Company forecasts a 135.5% YoY increase in net sales to ¥24,500mn, operating income of ¥300mn (a loss of ¥7,919mn in in the previous fiscal year), ordinary income of ¥2,200mn (down 0.1% YoY), and profit attributable to owners of parent of ¥1,700mn (down 2.6% YoY), with operating income to increase (a return to profitability) on a certain level of recovery in net sales. Note that slight declines in ordinary income and profit attributable to owners of parent are due to a drop* in subsidy income with some exceptions, but they are expected to remain at about the same level, nevertheless.

* Delayed payments from the previous period and payments for responding to quasi-state of emergency measures to prevent the spread of disease (through March 21, 2022) are included in the FY2/23 forecast.

FY2/23 got off to a difficult start in March 2022 with a prolonged sixth wave of the COVID-19 pandemic, but with the receipt of subsidies that covered losses, all restaurants had resumed operations by April, and sales have gradually recovered. The Company expects a step-by-step recovery to continue going forward, and estimates that net sales for the full year will return to about 70% of what they were prior to the COVID-19 pandemic. With regards to restaurant openings and closings, the Company is apparently considering a resumption of new restaurant openings predicated on the end of the COVID-19 pandemic.

In terms of profit and loss, despite an expected increase in recruiting expenses to secure needed personnel, the Company expects to return to profitability in terms of operating income due to increased sales and continued cost controls.

FY2/23 forecast

(¥mn)

	FY2/22		FY2/23		Change	
	Results	% of total	Forecast	% of total	Amount	%
Net sales	10,404		24,500		14,095	135.5%
Operating income (loss)	-7,919	-76.1%	300	1.2%	8,219	-
Ordinary income (loss)	2,202	21.2%	2,200	9.0%	-2	-0.1%
Profit (loss) attributable to owners of parent	1,745	16.8%	1,700	6.9%	-45	-2.6%

Source: Prepared by FISCO from the Company's financial results

2. Our outlook

FISCO believes it is necessary to remain cautious about the uncertain outlook—including concerns about new variants of the COVID-19 virus, but assuming the COVID-19 pandemic is contained, we also believe the assumption for net sales in the Company's forecast (about 70% of pre-COVID-19 sales) is not unattainable. In addition, because the Company has lowered its break-even point, by strengthening its income structure, it should be well-positioned to return to profitability in operating income along with a recovery in net sales. Should the COVID-19 pandemic resolve earlier than expected, recovery going forward, and the speed and direction the Company takes toward regrowth, will need to be followed carefully, including how it determines the correct timing for resuming growth investments—in new restaurant openings and conversions, etc.—and what bottlenecks exist in terms of securing human resources, soaring raw material prices and other issues.

Direction

As a new direction for the short- to medium-term, focus on opening new restaurants in regional cities and on expanding the "new Japanese-style pub" format, which generates stable income for a low investment

1. Direction

Previously, the Company had made an annual announcement of a medium-term management plan for the coming three years, but decided not to do so after 2020 given the uncertain outlook caused by the impact of the COVID-19 pandemic. It has, however, clarified a direction for the short- to medium-term, as practices for living during the pandemic have taken hold and as it looks toward the post-COVID era. Specific initiatives intended to put the Company back on a growth trajectory include (1) opening new restaurants in regional cities; (2) expanding the "new Japanese-style pub" business format the Company is focusing on; (3) addressing rising prices; and (4) cashless payments and other labor-saving systems.

(1) Opening new restaurants in regional cities

The mainstay ISOMARU SUISAN format has expanded primarily in Tokyo and three prefectures, but even prior to the COVID-19 pandemic, the Company had been seeking ways to advance into regional cities. Looking back at its track record to date, in addition to Kyoto, Osaka and Hyogo (15 restaurants in total in those three areas), the Company successfully opened restaurants in Sendai (1 location), Nagano (1 location) and Kumamoto (2 locations)*, in addition to covering Aichi (8 restaurants) and Fukuoka (5 restaurants) through franchise expansion. The Company is once again turning its attention toward opportunities to open new restaurants in other undeveloped core cities, and has positioned that effort as one driver of medium-term growth.

* Of these, restaurants in Nagano and Kumamoto were opened under the Alliance Conception

(2) Expanding the focus on the “new Japanese-style Pub” format

To respond dynamically to changes in business conditions triggered by the COVID-19 pandemic, the Company intends to focus on the “new Japanese-style pub” format, which offers stable income for a low investment, while levering the strengths of its existing mainstay business formats. The “new Japanese-style pub” format (income model) is characterized by, among other things, 1) being located in residential areas and shopping arcades, 2) street-level locations, 3) compact size, 4) operating between 5 p.m. and 5 a.m. and 5) a small number of customers with high turnover. Brands currently being developed include Torihei Chan, Hamayaki Dragon, and Go-no-Go. The Company has multiple business formats within the “new Japanese-style pub” genre, allowing it to choose the format that best matches a location in terms of market, customer base and competitors, which is one of its strengths. In other words, it can be defined as a type of business that can earn stable income for a low investment while retaining the advantages of the Company’s mainstay formats, including station-front and street-level locations, 24-hour operation (to capture a wide range of demand depending on use), and high turnover. Going forward, the Company intends to increase the number of new restaurant openings in Tokyo and three prefectures, including through conversion of existing restaurants to this new format.

(3) Addressing rising prices

One external environmental factor the Company must deal with is an increasing risk that higher raw material and logistics costs will lead to a worsening cost rate. While the Company works to reduce sales costs through a reevaluation of production sites and product standards, in September 2021, it established CMD, a joint venture planning company that will take the lead in centralizing food product purchasing for the affiliated companies of create restaurant holdings, and is promoting optimization (unit price reductions) through joint purchasing.

(4) Cashless and labor-saving systems

The Company has also participated in create restaurant holdings’ DX promotion project (in partnership with Softbank <9434>). By building customer databases, introducing self-ordering and self-checkout systems, and improving data analytics through the use of AI, the Company intends to improve operational efficiency, optimize the allocation of human resources (labor savings) and improve customer service to achieve both cost control and customer satisfaction (improved convenience).

2. Our focus points

FISCO also sees expansion into regional cities not only as a growth opportunity, but as a rational strategy when attempting to diversify risk amid concerns about new variants of the COVID-19 virus and other factors. Regional restaurants (ISOMARU SUISAN), which to date have been operated on a test basis, have performed well overall, and when the COVID-19 pandemic is contained, the Company can finally launch full - fledged expansion efforts. In doing so, the method the Company chooses—whether through directly-owned or franchised restaurants, or through M&A (the Alliance Conception)—is of some concern, but it is quite possible that franchise development, with its low investment and ability to open new restaurants quickly, will be a realistic option. Meanwhile, the “new Japanese-style pub” format can be seen as an effort to fine-tune the ISOMARU SUISAN income model in line with environmental changes. We want to keep an eye on trends going forward, however, to see how these restaurants will evolve differently from ISOMARU SUISAN, and whether they can provide a new axis of growth. In addition, the collaboration with create restaurant holdings and its affiliated companies will be a great advantage in addressing rising prices and promoting DX. The key to both of these areas is economy of scale, and we see a high likelihood of industry restructuring in the midst of these developments.

Shareholder returns

Company decides on a FY2/22 period-end dividend (resumption) of ¥10 per share
In FY2/23, the Company plans an annual dividend of ¥20 per share

While the Company forwent both an interim and period-end dividend in FY2/21 due to worsening performance associated with the COVID-19 pandemic, in FY2/22 it posted profit attributable to owners of parent and thus decided on a period-end dividend (resumption) of ¥10 per share. For FY2/23, it plans to increase the annual dividend by ¥10 to ¥20 (interim ¥10, period-end ¥10). It also intends to implement its shareholder gift program as usual.

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