COMPANY RESEARCH AND ANALYSIS REPORT

SFP Holdings Co., Ltd.

3198

Tokyo Stock Exchange Prime Market

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Summary

Despite the seventh wave of the COVID-19 pandemic, the Company achieved robust net sales and improved profitability in FY2/23 as the recovery trend continued. Opening new restaurants in regional cities and changing to the present focus business formats

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 2020 due to the COVID-19 pandemic, and management has reduced new restaurant openings and other large investments for the past two years up to FY2/22 and focused on strengthening the income structure with cost cutbacks. Despite intermittent negative effects of the seventh wave of the COVID-19 pandemic, the recovery trend continued through FY2/23, and the Company resumed opening new restaurants mainly in regional cities. The total number of restaurants at end-FY2/23 was 210 (including 16 FC*).

* Franchises (same below)

2. FY2/23 results

In FY2/23 consolidated results, sales increased significantly thanks to constant recovery from the COVID-19 pandemic, and operating loss was greatly reduced, leading the Company to post ¥22,913mn in net sales (up 120.3% YoY), a ¥754mn operating loss (a loss of ¥7,919mn in FY2/22), and ¥1,582mn in ordinary income (down 28.1%). Ordinary income declined due to a fall in subsidy income, which was as expected. Net sales recovered steadily in each quarter despite the impact of the seventh wave of the pandemic, because some restaurants resumed early morning and late at night opening hours from 2Q, the number of overseas visitors to Japan increased sharply from 3Q, and Year-end and New Year banquet demand recovered. Profitability has also been improving despite a tough environment of rising prices eroding earnings thanks to the sales growth effect and strengthened earnings structure, going into the black at quarterly operating income level in 4Q. The Company began taking steps to return to a growth trajectory, such as opening stores in regional cities and converting some restaurants to the "new public bar" format that it is focusing on. This format can generate stable profits from small size and low investments.

3. FY2/24 forecast

In its FY2/24 forecast, the Company expects to return to profitability in terms of operating income for the full year, driven by further recovery in net sales, with net sales up 17.8% year on year to ¥27,000mn, and operating income of ¥1,000mn. Attracting overseas visitors to Japan and restaurants opening late at night will likely contribute to profit growth. As well as the recovery of same-store sales, the Company plans to accelerate the opening of restaurants in the "new public bar" format (including existing restaurants converted to this format). Although higher personnel expenses stemming from wage increases and utility costs staying high because of rising prices, the Company forecasts sharp rise in operating income, taking it into the black due to the sales growth effect and measures to keep the cost of sales ratio down.

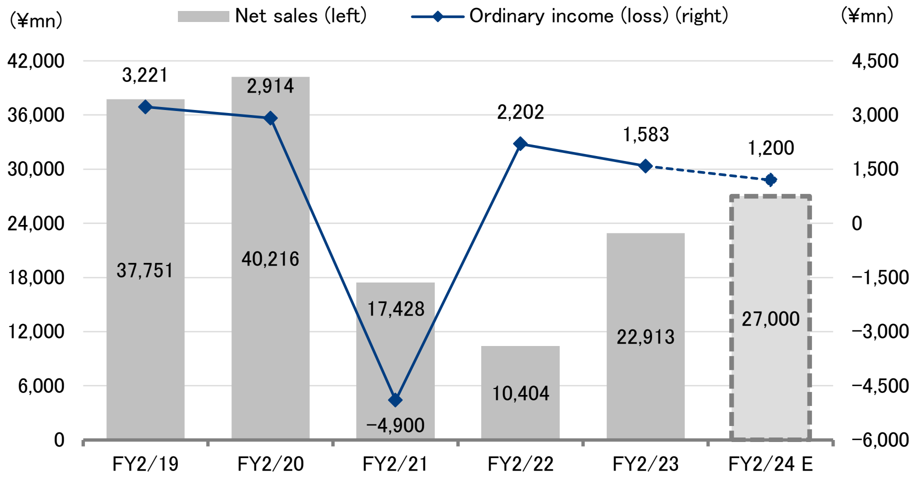
4. Direction

Up until FY2/20, 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 FY2/21 given the uncertain outlook caused by the impact of the COVID-19 pandemic. The Company has clarified its short- and medium-term direction, however, as it anticipates changes in the operating environment. It plans to resume a growth trajectory as soon as possible by: 1) opening stores in regional cities, 2) expanding the "new public bar" format that it is focusing on, 3) same-store sales growth driven by overseas visitors to Japan and late at night opening hours, 4) measures to counteract inflation (cost pass-through, etc.), and 5) promoting DX (such as cashless payments).

Key Points

- Net sales grew sharply and profitability improved in FY2/23, which was generally in a recovery trend, despite the impact of mainly the seventh wave of the COVID-19 pandemic
- The Company was able to present new axes of growth, such as opening restaurants in regional cities and converting some restaurants to a new format that it is focusing on
- For its FY2/24 forecast, the Company expects to return to profitability in terms of operating income for the full year, driven by further 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 public bar" concept, same-store sales growth, measures to counteract inflation, and DX promotion, etc.

Results trends



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

Company profile

Develops popular brands, including ISOMARU SUISAN and Toriyoshi Shoten. Also focused on opening restaurants in regional cities and business format that generates stable profits from small size and low investments

1. Business overview

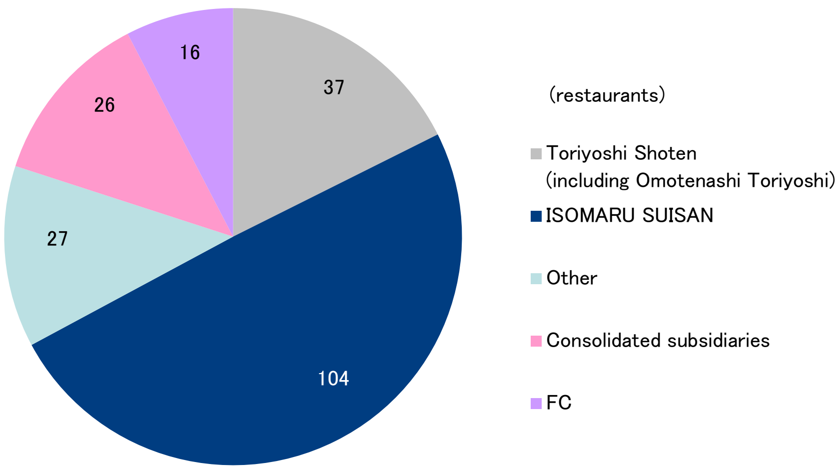
The Company primarily operates ISOMARU SUISAN, a popular seafood izakaya open 24 hours a day*1, and Toriyoshi Shoten (a chicken specialty restaurant) at locations adjacent to train stations and in commercial districts. It is also focused on growing the “new public bar”*2 format that generates stable profits from small size and low investments as a second earnings pillar. Although the pandemic has cast a shadow over the whole industry since 2020, the management team has dedicated itself to strengthening the Company’s earnings structure and is working to achieve a swift recovery as well as adapt to changes in the operating environment.

*1 Depending on the market characteristics, there are also some locations that are not open 24 hours a day.
*2 Brands are Home Base, Go-no-Go, Hamayaki Dragon, and Torihei Chan.

While the Company only has one business segment, the food and beverages segment, it operates in 4 areas according to format: the Toriyoshi business (founding business), the mainstay ISOMARU SUISAN business, other business including new formats, and also from FY2/20, the contributions of the Alliance members (consolidated subsidiaries)* have been added as the fourth area. The ISOMARU SUISAN business provides 60.8% of net sales (FY2/23 result). The Company mainly opened restaurants in Tokyo and surrounding areas, but plans to expand into regional cities as well.

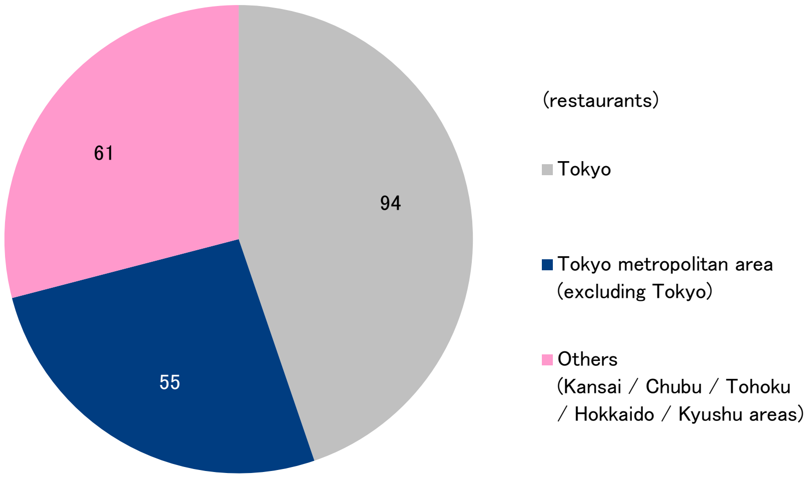
* The two consolidated subsidiaries are Joe Smile Restaurant System Inc. (Kumamoto) and CLOOC DINING CO., LTD. (Nagano). The intention is to leverage M&A to open more restaurants in regional cities (provision of brands via the in-company franchise format).

No. of restaurants by format



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

No. of restaurants by area (As of the end of February 2023)



Source: Prepared by FISCO from the Company's website

Features by brand

Brand	Features
ISOMARU SUISAN	Seafood izakaya centered on grilled cuisine
Omotenashi Toriyoshi	Further refining the "Omotenashi" hospitality valued by the original brand Toriyoshi, specialties include the signature dish tebasaki karaage (deep-fried chicken wings)
Toriyoshi Shoten	Tasty, quick provision of chicken izakaya fare
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 public bar" genre

Brand	Features
Home Base	Public bar with a retro atmosphere reminiscent of the Showa era (1925–1989); the Company's first standing bar (tachinomi) format
Go-no-Go	Public bar 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	Public bar 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 during the COVID-19 pandemic, 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 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). Most importantly, 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 launched the Torotaku business format which allows it to open ISOMARU SUISAN stores in existing locations while continuing to enhance dietary properties. Additionally, the clarification of its intent to focus on the "new public bar" format, which can generate stable profits from small size and low investments, bars with high turnover that leverage ISOMARU SUISAN's strengths in station-front and street-level locations, can also be seen as a move in this direction.

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 inc.<3387>, 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.

* Launched ISOMARU SUISAN franchise operations in Kyushu (Fukuoka Prefecture) in June 2017 and in Hokkaido in December 2022.

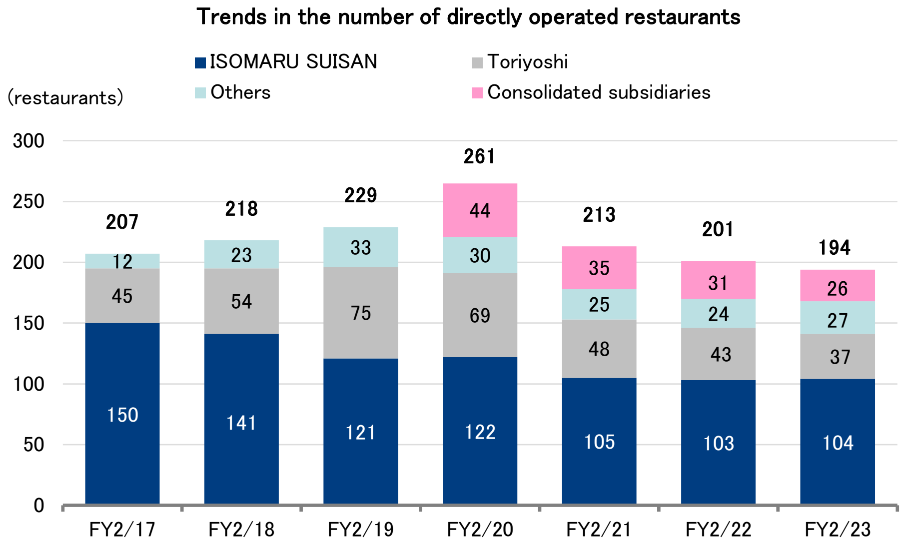
In FY2/20, the Company worked to open restaurants in regional cities (provision of brands via the in-company franchise format) by utilizing M&A through its own Alliance Conception.

Performance trends

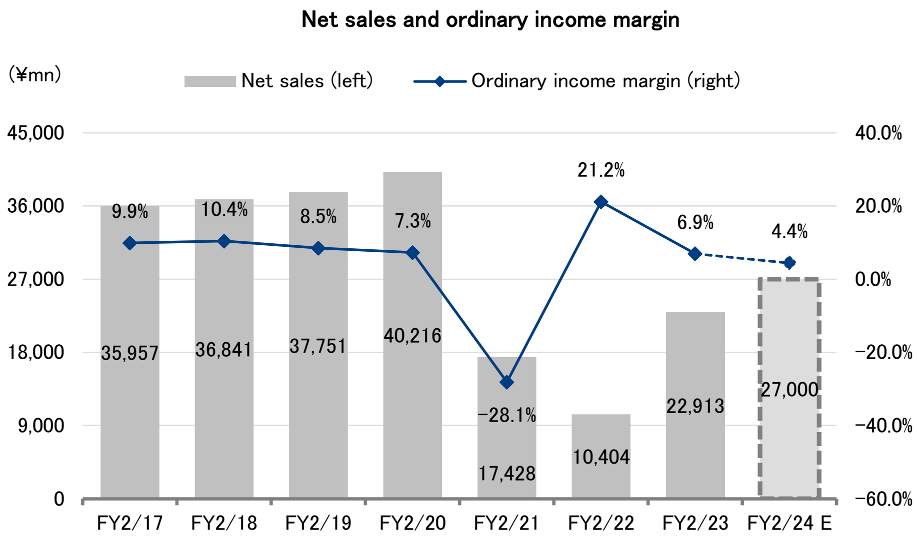
Realized high growth and profitability while also actively increasing the number of locations, but earnings have stalled since FY2/21 because of the COVID-19 pandemic

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 FY2/21, it faced major setback in earnings due to COVID-19 impact and worked on closing unprofitable restaurants. Earnings began a gradual recovery in FY2/23, which is ongoing.

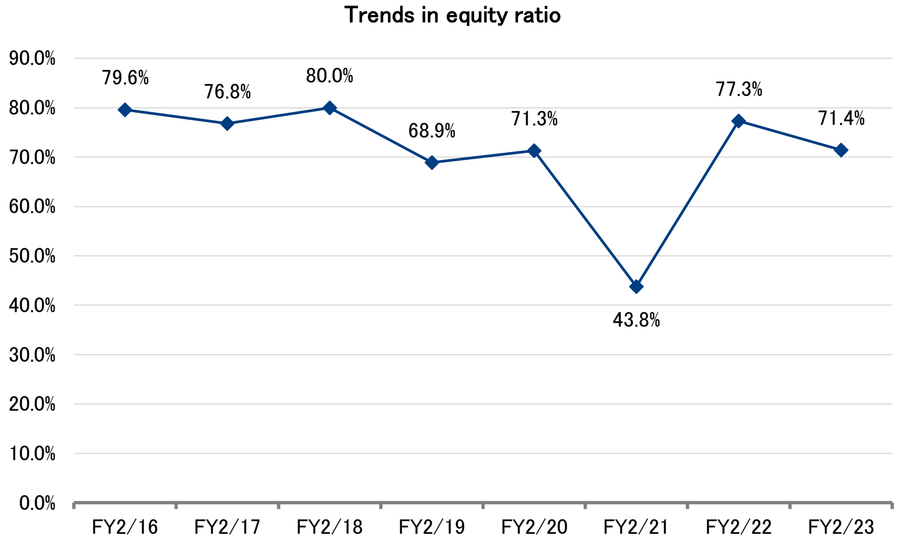


Source: Prepared by FISCO from the Company's financial results supplementary material



Note: The sharply higher ordinary income margin in FY2/22 is due to employment adjustment subsidies and other subsidy programs associated with the COVID-19 pandemic
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 returned to 77.3% at the end of FY2/22, which reflects a level prior to the COVID-19 pandemic. The strength of the Company's financial base, which is one of the strongest in the industry, can be considered a major advantage when it starts opening new restaurants again.



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

2. FY2/23 results

In FY2/23 consolidated results, sales increased significantly thanks to constant recovery from the COVID-19 pandemic, and operating loss was greatly reduced, leading the Company to report ¥22,913mn in net sales (up 120.2% YoY), ¥754mn in operating loss (a loss of ¥7,919mn in FY2/22), ¥1,583mn in ordinary income (down 28.1%), and ¥549mn in profit attributable to owners of parent (down 68.5%). The main reason for the decline in ordinary income and profit attributable to owners of parent is the drop in subsidy income, which was as expected.

Despite the impact of the seventh wave of the COVID-19 pandemic, earnings trends continued to recover overall, and the Company achieved 2.2x YoY net sales growth. Earnings recovered gradually in each quarter, because some restaurants resumed early morning and late at night opening hours from 2Q, the number of overseas visitors to Japan increased sharply from 3Q onward, and Year-end and New Year banquet demand recovered. Results were slightly weaker than the initial forecast, because the pace of recovery was slower than expected because of the seventh wave of COVID-19. Same-store sales over the full year recovered to 69.2% of pre-pandemic (FY2/20) levels (30.1% in FY2/22) and to 84.4% in February 2023 (on a monthly basis) alone.

With respect to restaurant openings and closings, the Company opened five new restaurants (including two franchise restaurants) and closed 10 (including five operated by consolidated subsidiaries) for a total of 210 (including 16 franchise restaurants) at end-FY2/23.

In terms of profit and loss, although profit fell short of the initial company forecast (a return to profitability in operating income for the full year) due to the impact of intermittent waves of COVID-19 infections and inflation*1, profitability improved substantially due to the sales growth effect and strengthened earnings structure, going into the black at operating income level in 4Q (quarterly basis). It is notable that despite a tough operating environment with rising prices, management initiatives so far have proved effective, resulting in stable cost of sales ratio trends*2.

*1 Inflation had minimal impact on the cost of sales ratio, but added around ¥420mn to SG&A expenses (electricity and gas, personnel expenses, etc.).

*2 The Company has reviewed product specifications, achieved unit price reductions through joint purchasing, and revised sales prices, resulting in stable cost of sales ratio trends (29.3% for the full year).

In terms of finances, total assets increased 9.2% from the end of FY2/22 to ¥17,574mn. Equity capital also increased as a result of additional retained earnings, up 0.8% to ¥12,540mn, and the equity ratio was 71.4% (77.3% at the end of the previous fiscal year).

Overview of FY2/23 results

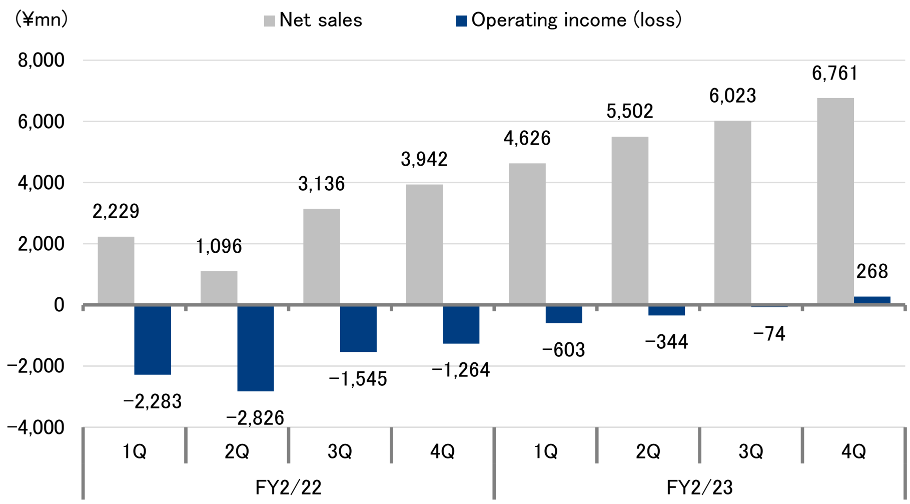
(¥mn)

	FY2/22		FY2/23		Change	
	Results	% of total	Results	% of total	Amount	%
Net sales	10,404		22,913		12,508	120.2%
Toriyoshi	1,809	17.4%	4,328	18.9%	2,519	139.2%
ISOMARU SUISAN	5,687	54.7%	13,928	60.8%	8,241	144.9%
Other	1,698	16.3%	3,142	13.7%	1,444	85.0%
Subsidiaries	1,208	11.6%	1,513	6.6%	305	25.2%
Cost of sales	3,114	29.9%	6,712	29.3%	3,599	115.6%
Gross profit	7,290	70.1%	16,200	70.7%	8,910	122.2%
SG&A expenses	15,210	146.2%	16,955	74.0%	1,745	11.5%
Operating income (loss)	-7,919	-76.1%	-754	-3.3%	7,164	-
Ordinary income (loss)	2,202	21.2%	1,583	6.9%	-618	-28.1%
Profit (loss) attributable to owners of parent	1,745	16.8%	549	2.4%	-1,195	-68.5%

	End of FY2/22	End of FY2/23	Change	
			Amount	%
Total assets	16,096	17,574	1,477	9.2%
Shareholders' equity	12,438	12,540	101	0.8%
Equity ratio	77.3%	71.4%		-5.9pt

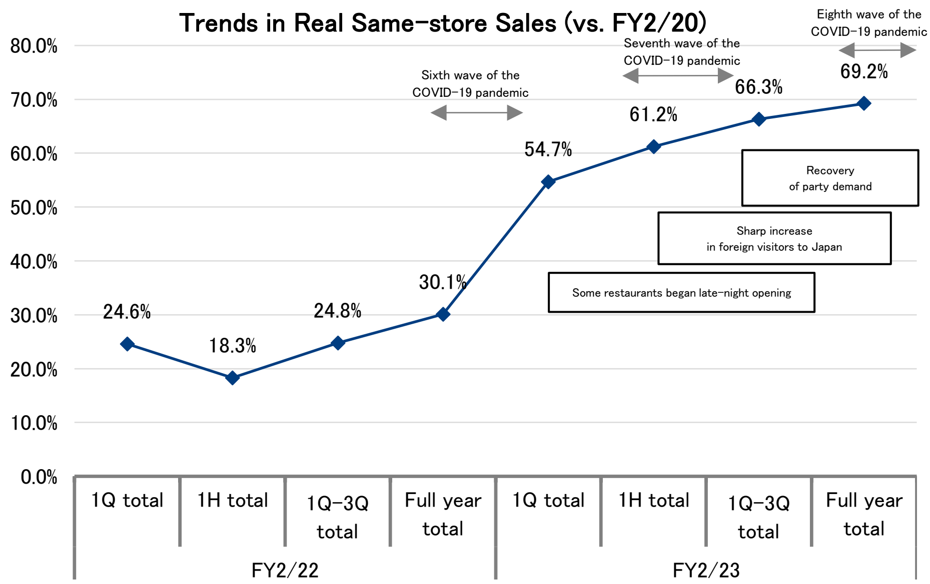
Source: Prepared by FISCO from the Company's financial results

Quarterly trend in net sales and operating income (loss)



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

Performance trends



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

Results are reviewed by main business field below.

(1) The Toriyoshi business

Net sales increased 139.2% YoY to ¥4,328mn. Due to the closure of four restaurants and a reduction of two restaurants through format changes, there were 37 restaurants as of the end of FY2/23.

(2) The ISOMARU business

Net sales increased 144.9% YoY to ¥13,928mn. The Company opened four restaurants (including two franchise restaurants) and closed one for a total of 120 (including 16 franchise restaurants) at end-FY2/23. The new franchise restaurants include ISOMARU SUISAN Shokudo, its first format for food courts. *

* Store opened in Hamachika food court/restaurant area in CIAL Yokohama as a franchise operation by create restaurants, a group company. The Company targets synergy effects by combining create restaurants' know-how in food court operations with the ISOMARU SUISAN brand.

(3) Other businesses

Net sales increased 85.0% YoY to ¥3,142mn. The Company opened one new restaurant and closed one, and added three by business format change for a total of 27 at end-FY2/23. Of these, the number of "new public bar" that the Company is focusing on increased to 12, including four that underwent a format change.

(4) Food Alliance members (consolidated subsidiaries)

Net sales were up 25.2% YoY to ¥1,513mn. Five restaurants were closed for a total of 26 at end-FY2/23.

3. Summary of FY2/23

To summarize FY2/23 results, earnings recovered more or less as expected despite the seventh wave of the COVID-19 pandemic slowing recovery down. We rate the Company's performance in sharply reducing its operating loss (and turning profitable on a quarterly basis in 4Q), because it illustrates that its business formats retain a competitive advantage. Other positive signs for the future include withdrawal from unprofitable restaurants and converting some to a new format in anticipation of changes in the operating environment, and cost reduction efforts, resulting in a lean earnings structure. Another major step forward is that the Company has indicated a new direction for its business, such as focusing on opening restaurants in regional cities and switching to the "new public bar" format.

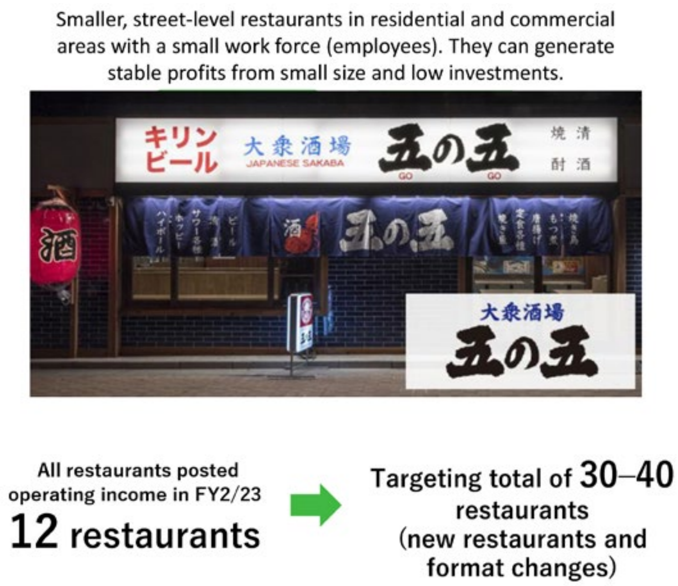
Main business activities

Resumed opening restaurants in regional cities and changing some restaurants to "new public bar" format

● **Restaurant openings (and format changes)**

In FY2/23, the Company resumed opening stores on the assumption that the COVID-19 pandemic will begin to wind down. It is notable that of the five stores opened in FY2/23, three were in regional cities (Machizushi Torotaku in Sendai, ISOMARU SUISAN in Shizuoka, and ISOMARU SUISAN franchise restaurant in Sapporo). Restaurants in Shizuoka and Sapporo are the first in those cities. The new restaurant in Sendai is the second after ISOMARU SUISAN Ichibancho restaurant, which opened in October 2018, and can be regarded as a model case in opening multiple restaurants with different brands in a regional city. The Company will continue to seek opportunities to open restaurants in core regional cities, where it does not have a presence, and has finally taken steps toward resuming growth. The Company opened four restaurants (Hamayaki Dragon and Torihei Chan) by changing formats of existing restaurants to the "new public bar" format, which it is focusing on as a second earnings pillar.

New public bar



Source: The Company's financial results supplementary material

Outlook

Expects to return to profitability in terms of operating income for the full year in FY2/24, driven by further recovery in net sales. Plans to open stores in regional cities

1. FY2/24 forecast

For FY2/24, the Company expects to return to profitability in terms of operating income for the full year, driving by further recovery in net sales, and forecasts a 17.8% YoY increase in net sales to ¥27,000mn, operating income of ¥1,000mn (a loss of ¥754mn in the previous fiscal year), ordinary income of ¥1,200mn (down 24.2% YoY), and profit attributable to owners of parent of ¥900mn (up 63.7% YoY). Ordinary income is forecast to decline because of the dropout of subsidy income (roughly ¥2bn negative impact on income).

The Company expects that attracting overseas visitors to Japan and resuming late at night openings in a big way will contribute to net sales growth. It expects a recovery in real same-store sales and plans to open restaurants in regional cities, as well as growing the “new public bar” format, which it is focusing on, into a second earnings pillar

For profit and loss, the Company expects personnel expenses to increase* because of wage hikes and utility costs to remain high amid rising prices. However, it expects a sharp profit increase, with operating income in the black for the full year due to the sales growth effect and keeping the cost of sales ratio down.

* To counteract inflation, the Company plans a 4.1% annual wage increase to provide living support for employees and minimize employee turnover. The purpose of the pay increase is to improve engagement (retention) of employees, who play an important role in enhancing corporate value.

FY2/24 forecast

(¥mn)

	FY2/23		FY2/24		Change	
	Results	% of total	Forecast	% of total	Amount	%
Net sales	22,913		27,000		4,087	17.8%
Operating income (loss)	-754	-3.3%	1,000	3.7%	1,755	-
Ordinary income (loss)	1,583	6.9%	1,200	4.4%	-383	-24.2%
Profit (loss) attributable to owners of parent	549	2.4%	900	3.3%	351	63.7%

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 is attainable for the following reasons. The number of overseas visitors to Japan is increasing fast, and the rise in the number of visitors from China will likely accelerate from now on. Customers traffic has steadily picked up since the Company resumed opening restaurants late at night (at roughly 50% of restaurants from Q2), which is peak time for the izakaya format, and there is still scope to extend opening hours in stages. In addition, its plans to open stores in regional cities are concrete and realistic. In terms of profit and loss, because the Company has successfully implemented measures to counteract inflation, lowered its break-even point by strengthening its income structure, and returned to profitability on a quarterly operating income basis in 4Q FY2/23, it should be well-positioned to turn profitable for the full year in operating income along with further recovery in net sales despite concerns due to inflation, among other factors. A key focus point is how the Company makes opening restaurants in regional cities and accelerating the opening of restaurants in the "new public bar" format a new axis of growth that contributes to earnings expansion. The speed and direction the Company takes toward regrowth will need to be followed carefully, including what bottlenecks exist in terms of securing human resources, rising 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 public bar" format, which generates stable income for a low investment

1. Direction and progress so far

Up until FY2/20, 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 FY2/21 given the uncertain outlook caused by the impact of the COVID-19 pandemic. The Company has clarified its short- and medium-term direction, however, as it anticipates changes in the operating environment. It intends to carry out initiatives such as 1) opening stores in regional cities, 2) expanding the "new public bar" format that it is focusing on, 3) same-store sales growth driven by foreign visitors to Japan and late at night opening hours, 4) measures to counteract inflation (cost pass-through, etc.), and 5) promoting DX (such as cashless payments).

(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, including through alternate business formats. Looking back at its track record up through FY2/23, in addition to Kyoto, Osaka and Hyogo (15 restaurants in total in those three areas), the Company successfully opened restaurants in Sendai (2 restaurants), Shizuoka (1 restaurant), Nagano (1 restaurant) and Kumamoto (2 restaurants)*, in addition to covering Sapporo (1 restaurant), Aichi (8 restaurants) and Fukuoka (5 restaurants) through franchise expansion. The Company is 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. It is particularly prioritizing opening restaurants in Chubu, Hokuriku, Chugoku, Shikoku, and southern Kyushu and plans to expand by area by opening additional stores after laying the groundwork firstly.

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

Store openings in regional cities

Source: The Company's financial results supplementary material

(2) Expanding the focus on the "new public bar" format

To respond dynamically to changes in business conditions triggered by the COVID-19 pandemic, the Company intends to focus on the "new public bar" format, which offers stable income for a low investment, while levering the strengths of its existing mainstay business formats. The "new public bar" 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 from 5 p.m. to 5 a.m. and 5) a small number of customers with high turnover. Brands currently being developed include Homebase, Go-no-Go, Hamayaki Dragon, and Torihei Chan. The Company has multiple business formats within the "new public bar" 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 with a focus on residential and commercial areas, while retaining the advantages of the Company's mainstay formats, including street-level locations, operation both day and night (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. In FY2/23, the Company opened four restaurants (Hamayaki Dragon and Torihei Chan) by converting existing restaurants to new formats for a total of 12. It plans to open more new restaurants in FY2/24.

(3) Same-store sales growth (capturing demand)

The increase in the number of overseas visitors to Japan and resumption of late at night operations (attracting demand for customers late at night), which contributed to earnings in the previous fiscal year, offer further scope for same-store sales growth. The Company will therefore strengthen its structure (such as hiring enough people) to ensure if captures this demand.

(4) Measures to counteract inflation

The Company will continue to pass appropriate cost increases onto sales prices to maintain its cost of sales ratio at a certain level and cut SG&A expenses, given that raw material and energy prices are expected to stay high.

(5) DX promotion (cashless and labor-saving systems)

The Company plans to provide cashless and labor-saving systems to improve operational efficiency and improve convenience. In the past few years, the share of cash payments at its restaurants has shrunk from 70% in 2019 to 56% in 2022. The Company plans to introduce all-in-one checkout systems* at all restaurants in FY2/24 to increase the use of cashless payments further. In the longer term, it is also looking at introducing a one-stop system from making a reservation to ordering and payment, utilizing sales data and customer databases, and streamlining back-office operations to optimize the allocation of human resources and improve customer service, combining cost reduction with customer satisfaction (improved convenience).

* The Company is introducing “stera”, a cashless payment platform that handles all types of payment methods.

2. Our focus points

FISCO is keeping an eye on the extent of the post-pandemic recovery of the Company’s main business formats, as well as how the Company makes opening restaurants in regional cities and accelerating the opening of restaurants in the “new public bar” format a new axis of growth. Expanding into regional cities in particular is likely to begin in earnest as the pandemic winds down, because pilot regional restaurants (ISOMARU SUISAN) have generally performed well. 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 having multiple options with differences in speed, profitability, and amount of investment (risk) could be a factor that raises the probability of success. Meanwhile, the “new public bar” format can be seen as an effort to fine-tune the ISOMARU SUISAN income model in line with environmental changes. Since this format is already demonstrating the expected results, we want to keep an eye on trends going forward to see how these restaurants will evolve. In addition, the collaboration with create restaurant holdings and its affiliated companies will be a great advantage in measures to counteract inflation and promotion of DX. The key to both these areas is economy of scale, and we see a high likelihood of industry restructuring amid these developments.

Shareholder returns

Plans annual dividend of ¥20 per share in FY2/24, unchanged from FY2/23

The Company paid an annual dividend of ¥20 (an increase of ¥10 per share; (interim ¥10, period-end ¥10) in FY2/23, unchanged from the initial forecast. For FY2/24, it plans to pay an annual dividend of ¥20 (interim ¥10, period-end ¥10), which is the same amount as the previous fiscal year. It also intends to implement its shareholder gift program as usual.

Disclaimer

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