COMPANY RESEARCH AND ANALYSIS REPORT

SFP Holdings Co., Ltd.

3198

Tokyo Stock Exchange Prime Market

28-May-2025

FISCO Ltd. Analyst
Ikuo Shibata

FISCO Ltd.
https://www.fisco.co.jp

Contents

Summary

In FY2/25, net sales and operating income increased and exceeded forecasts. Expecting higher net sales and profit in FY2/26 as well

SFP Holdings Co., Ltd. <3198> (hereafter, also “the Company”) primarily operates restaurants such as ISOMARU SUISAN, a popular seafood restaurant located adjacent to train stations and in urban commercial districts on the street level, and Toriyoshi Shoten (chicken specialty restaurants). It has built a robust earnings structure thanks to a unique income model that takes maximum advantage of customer draw from prime locations. Since FY2/21, its business performance had suffered a major setback due to the COVID-19 pandemic, but a recovery in domestic consumption and capturing inbound demand helped it recover to pre-pandemic levels. The Company is also working on opening restaurants in regional cities and developing the business formats it is focusing on in preparation for a new growth stage. Recently, the company has also been working on introducing pricing by area. The total number of restaurants at the end of FY2/25 was 208 (including 18 franchise restaurants).

1. FY2/25 results

In FY2/25 results, the Company’s net sales increased 4.5% year on year (YoY) to ¥30,389mn and operating income grew 7.9% to ¥2,186mn, as both net sales and profits increased in excess of forecasts. The summer season was affected by typhoons, but increased sales was secured as the effects of operating hours being extended last fiscal year and capturing strong inbound demand. On the profit front, an increase in visitors to Japan, who mainly use the restaurant services for meals, was a factor boosting the cost of sales ratio. However, at the same time, by revising the menu and other measures the impact of yen depreciation and higher prices was limited, and the cost of sales ratio was maintained as a level nearly equivalent to the previous fiscal year. With regard to SG&A expenses, increased personnel expenses from expanded hiring and higher utility costs mainly caused by subsidies dropping off led to increased expenses, but sales increased in excess of SG&A expenses and operating income was secured. Regarding activities as well, restaurant openings in regional cities, the introduction of pricing by area, the complete renewal of Toriyoshi Shoten, and other measures generated results that will contribute to future growth.

2. FY2/26 forecast

In its FY2/26 forecast, the Company expects increases in sales and profits, with net sales up 6.9% YoY to ¥32,500mn and operating income rising 14.3% to ¥2,500mn. Net sales will continue to enjoy a tailwind from strong inbound demand, and introducing pricing by area and the complete renewal of Toriyoshi Shoten will contribute to higher sales. On the profit front, increased prices for draught beer and rice are expected to have an impact, but by revising menus and optimizing prices, the Company expects to maintain its cost of sales ratio. Increases in utility costs from the end to subsidies will also be covered by in the rise in sales, as the Company expects to secure higher profit. If it does, it will achieve its target of an ordinary income margin of 8%.

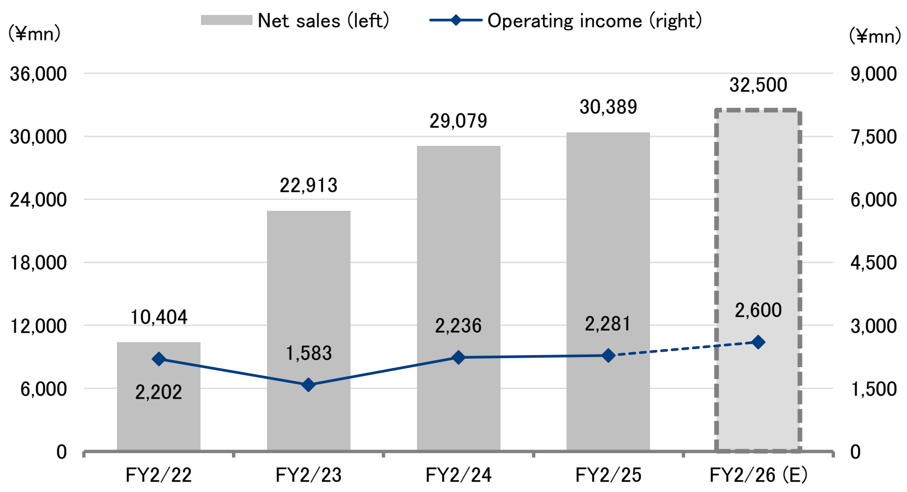
3. Direction

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. The Company has clarified its short- and medium-term direction, however, as it anticipates changes in the operating environment. It plans to resume a full-scale growth trajectory by: (1) opening new restaurants in regional cities, (2) expanding the public bar format that it is focusing on, (3) existing-restaurant sales growth driven by overseas visitors to Japan and opening late night, (4) measures to counteract inflation (cost pass-through, etc.).

Key Points

- In FY2/25, net sales and operating income increased and exceeded forecasts
- Existing restaurants performed well thanks to extending operating hours, capturing inbound demand, revising menus, and other measures
- In FY2/26 as well, higher sales and profit are expected owing to introducing pricing by area and the effects of renewals
- The Company aims for a return to a growth trajectory through the opening of new restaurants in regional cities, the expansion of the public bar format, existing-restaurant sales growth, and measures to counteract inflation, etc. going forward

Results trends



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

Company profile

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

1. Business description

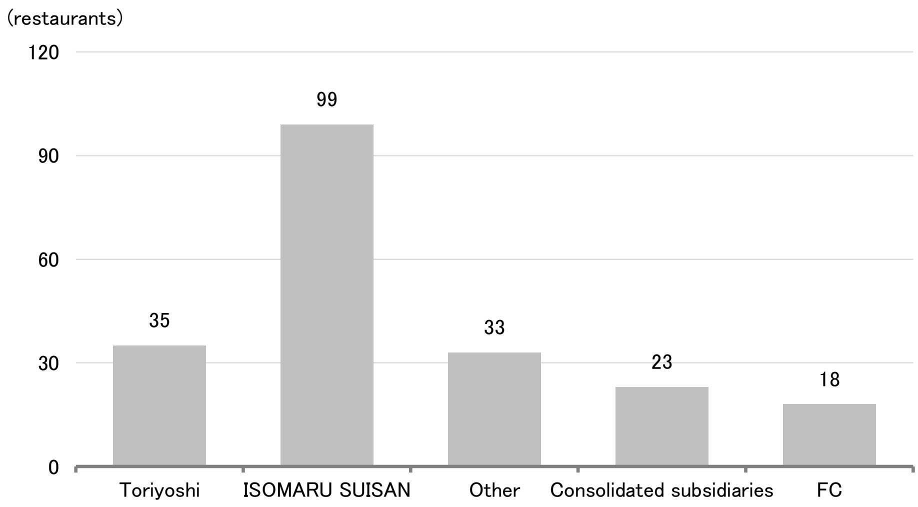
The Company primarily operates ISOMARU SUISAN, a popular seafood izakaya open 24 hours a day*, and Toriyoshi Shoten (a chicken specialty restaurant) located adjacent to train stations and in urban commercial districts on the street level. It is also focused on growing the public bar format that generates stable profits from small size and low investments as a second earnings pillar.

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

While the Company only has one business segment, the food and beverages segment, it operates in four 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 Food Alliance members (consolidated subsidiaries)* have been added as the fourth area. The number of restaurants by format as of the end of FY2/25 totaled 35 for the Toriyoshi business, 99 for the ISOMARU SUISAN business, 33 for other business, 23 for consolidated subsidiaries, and 18 for franchises, with the ISOMARU SUISAN business accounting for approximately 60% of net sales. Restaurant openings have centered on Tokyo and its metropolitan area, but the Company is involved in opening restaurants in regional cities, and as of the end of FY2/25, it has 87 restaurants in Tokyo, 55 in metropolitan area other than Tokyo, and 66 restaurants in other areas (Hokkaido, Tohoku, Chubu, Hokuriku, Kansai, and Kyushu).

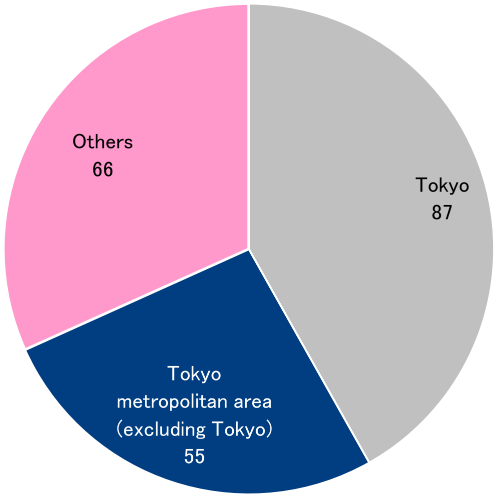
* The two consolidated subsidiaries are Joh Smile Restaurant System Inc. (Kumamoto) and CLOOC DINING Co., Ltd. (Nagano). The intention is to open more restaurants in regional cities (provision of brands via the Group franchise format) through M&A.

No. of restaurants by format (As of the end of FY2/25)



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

No. of restaurants by area (As of the end of FY2/25)



Source: Prepared by FISCO from interviews with the Company

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	Enjoy 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
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	A restaurant offering fresh sashimi set meals, seafood bowls, eel, etc.

Individual brand characteristics in the “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
Torihei Chan	Public bar proud of their piping-hot omelets and grilled chicken

Source: Prepared by FISCO from materials provided by the Company

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. In this way, 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. The expensive opening costs and the difficulties of 24-hour operations are believed to 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 from 2020 to 2023 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. Existing restaurants have returned to pre-COVID-19 levels now that the pandemic is over. Starting with the open atmosphere of street-level locations, the ease of mobile ordering and cashless payment, and the style of ISOMARU SUISAN, which provides the experience of grilling fresh seafood yourself, have been well received by many visitors to Japan, and inbound demand has given a boost to recent performance.

In addition, the Company has achieved further evolution by applying the income model established for ISOMARU SUISAN (hereafter, "the ISOMARU SUISAN model") to other formats. Toriyoshi Shoten applied the ISOMARU SUISAN model to the Company's founding Toriyoshi business and got it back on track. Key points in particular 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 (such as location and format). Furthermore, with the post-COVID-19 environmental changes such as changes in consumer behaviors, it is considered that it will be necessary to respond flexibly through fine tuning, and the Company has been pursuing this sort of hypothesis verification-type evolution. The Company's move in this direction can also be seen in its efforts to strengthen its meal-oriented offerings by expanding the Machizushi Torotaku brand into areas with existing ISOMARU SUISAN locations, along with its clarification of its intent to focus on developing the public bar format that can generate stable profits with minimal investment through small-scale, high-turnover operations.

3. History

The Company started with the opening of Toriyoshi, a fried chicken wing specialty restaurant, in Tokyo's Musashino City in April 1984 by founder Ryosaku Samukawa. 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 Private Equity Fund II, L.P. (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 Tokyo Stock Exchange (TSE) Second Section in December 2014. In February 2019, the listing was upgraded to the TSE First Section, and in April 2022, the Company transferred its listing to the Prime Market in accordance with the TSE market restructuring. 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, after listing on the market and reached 100 locations for ISOMARU SUISAN in May 2015. It started franchising ISOMARU SUISAN, beginning in Nagoya City, Aichi Prefecture, and it also began opening Toriyoshi Shoten restaurants.

Since FY2/20, the Company has been working to open restaurants in regional cities by utilizing M&A through its own SFP Food Alliance Conception.

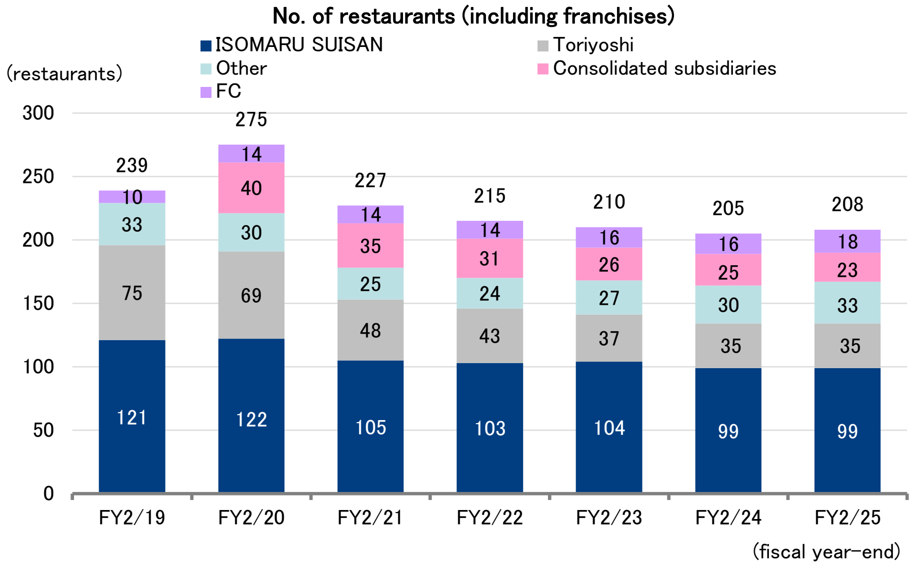
Performance trends

In FY2/25, opening restaurants in regional areas and introducing pricing by area paid dividends as net sales and operating income increased in excess of forecasts

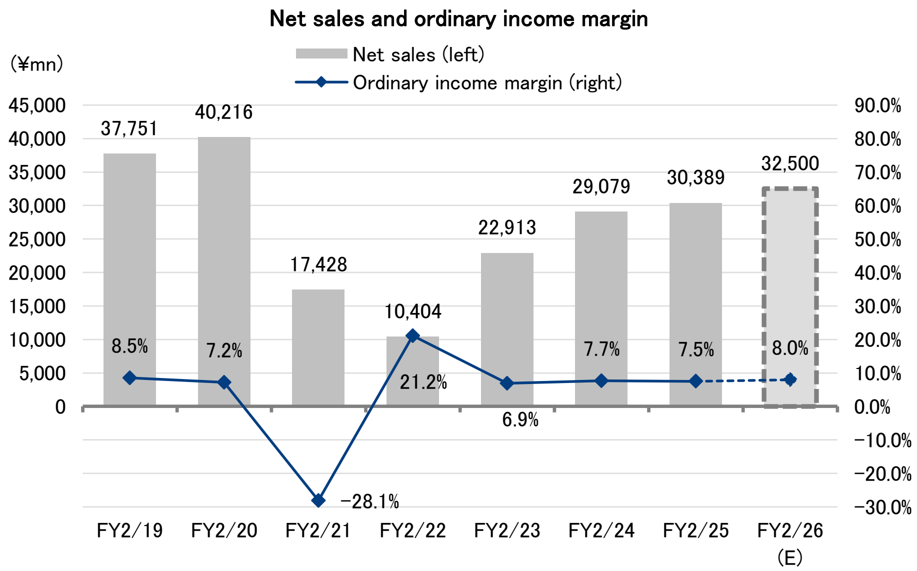
1. Past performance

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, and ordinary income margin improved significantly with the rise in net sales. The margin exceeded the 8% goal in FY9/13 and subsequently rose to 11.7% in FY9/15. At the end of FY2/20, the SFP Food Alliance Conception was started and the number of restaurants in all formats increased to 275 (239 at the end of FY2/19) and net sales increased to ¥40,216mn (¥37,751mn for FY2/19), but due to the pandemic, net sales fell substantially to ¥17,428mn in FY2/21 and to ¥10,404mn in FY2/22. Due to this development, the Company worked to close unprofitable restaurants, with the number of restaurants in all formats standing at 227 at the end of FY2/21 and 215 at the end of FY2/22. Thereafter, with the pandemic subsiding, a recovery in domestic and capturing inbound demand led net sales in FY2/25 to total ¥30,389mn and the ordinary income margin to be 7.5%, a return to pre-pandemic levels. Entering a new stage, the Company is working to open restaurants in regional areas and cultivate its mainstay format. Restaurants in all formats numbered 205 in FY2/24 and 208 in FY2/25.

Performance trends

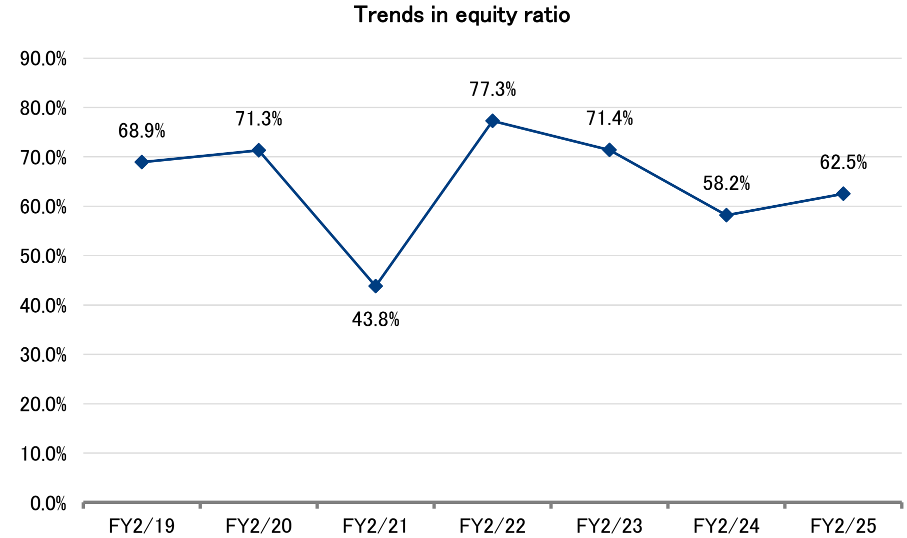


Source: Prepared by FISCO from the Company's financial results supplementary material



Note: The sharply higher ordinary income margin in FY2/22 is due to subsidy income 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 the 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 attributable to owners of parent due to the impact of COVID-19 and borrowing about ¥9.0bn 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. In FY2/24, the Company's equity ratio declined to 58.2% due to the acquisition of treasury stock in order to comply with standards for maintaining a stock market listing (ratio of floating shares), but ROE greatly improved to 17.1% and the Company's financial balance can be evaluated as being extremely good. At the end of FY2/25, the equity ratio recovered to 62.5%.



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

2. FY2/25 results

In FY2/25 results, the Company posted ¥30,389mn in net sales (up 4.5% YoY), operating income of ¥2,186mn (up 7.9%), ¥2,281mn in ordinary income (up 2.0%), and ¥1,485mn in profit attributable to owners of parent (down 14.2%), as both net sales and operating income grew significantly and exceeded the forecast. The decrease in profit attributable to owners of parent was in response to posting deferred tax assets the previous fiscal year and was within expectations.

Though typhoons had an impact in the summer, the effects of operating hours being extended the previous fiscal year and capturing strong inbound demand paid dividends throughout the year and higher sales was secured. Existing restaurant net sales (total for the full year) increased 4.9% YoY. In particular, sales to visitors to Japan trended at a high level due in part to the effects of introducing products in the high price range*. The effects of opening restaurants in regional cities, which the Company has been working on since the previous fiscal year, also steadily built up.

* The Opulent Crab Rice Bowl and Sea Treasures Rice Bowl in the high price range that were introduced in advance in June 2024 in the Namba area, which sees a large number of foreign tourists, were also introduced in the Asakusa area. The percentage of sales to inbound customers in 3Q FY2/25 at ISOMARU SUISAN rose to 14.0% (10.5% during the same period of the previous fiscal year) and was at the same level in 4Q (11.4% the previous fiscal year). It is clear that this contributed to boosting performance.

With respect to restaurant openings and closings, the Company opened 8 new restaurants (including 2 franchise restaurants) and had 3 restaurants change business format, while it closed 5 restaurants for a total of 208 (including 18 franchise restaurants) at the end of FY2/25.

Regarding profits, while visitors to Japan, who mainly use the restaurants to eat, were a factor increasing the cost of sales ratio*1, the effects of yen depreciation and inflationary prices were limited due to revising menus and other measures. The cost of sales ratio was 29.1% (28.9% last fiscal year), so it rose a small amount but a level generally equivalent to the previous fiscal year was maintained. For SG&A expenses as well, expenses increased due to an increase in personnel expenses associated with expanding hiring the previous fiscal year*2 and higher utility costs from the end of subsidies, but the increase in sales outstripped higher SG&A expenses and an increase in operating income was secured. The operating income margin was 7.2% (7.0% the previous fiscal year), an improvement of 0.9 percentage points (pp) even compared to FY2/22 before the pandemic, so a muscular profit structure has taken hold.

*1 As a characteristic of visitors to Japan, they mainly use the restaurants at dinner time and primarily have demand for food, which is a factor boosting the cost of sales ratio. However, the price spent per customer is higher than Japanese customers and they tend to order crab, eel, and seafood.
*2 As of the start of the fiscal year, an increase of around 160 people compared to last fiscal year. Personnel expenses increased correspondingly, but with labor shortages as an issue they are generating positive results for extending operating hours and opening new restaurants.

Regarding financial position, there were no conspicuous changes. An increase in cash and deposits increased total assets by 5.0% compared to the end of the previous fiscal year to ¥13,963mn, but shareholders' equity increased 12.8% to ¥8,732mn due to building up internal reserves, so the equity ratio improved to 62.5% (from 58.2% at the end of the previous fiscal year).

Overview of FY2/25 results

(¥mn)

	FY2/24		FY2/25		YoY	
	Results	Vs. sales	Results	Vs. sales	Change	Change (%)
Net sales	29,079	-	30,389	-	1,310	4.5%
Toriyoshi	5,165	17.8%	5,278	17.4%	113	2.2%
ISOMARU SUISAN	17,614	60.6%	18,461	60.7%	847	4.8%
Other	4,253	14.6%	4,659	15.3%	406	9.5%
Subsidiaries	2,046	7.0%	1,989	6.5%	-57	-2.8%
Cost of sales	8,406	28.9%	8,843	29.1%	437	5.2%
Gross profit	20,672	71.1%	21,545	70.9%	873	4.2%
SG&A expenses	18,645	64.1%	19,358	63.7%	713	3.8%
Operating income	2,026	7.0%	2,186	7.2%	160	7.9%
Ordinary income	2,236	7.7%	2,281	7.5%	45	2.0%
Profit attributable to owners of parent	1,731	6.0%	1,485	4.9%	-246	-14.2%

	End of FY2/24 Results	End of FY2/25 Results	YoY	
			Change	Change (%)
Total assets	13,303	13,963	660	5.0%
Shareholders' equity	7,744	8,732	988	12.8%
Equity ratio	58.2%	62.5%	-	4.3pp

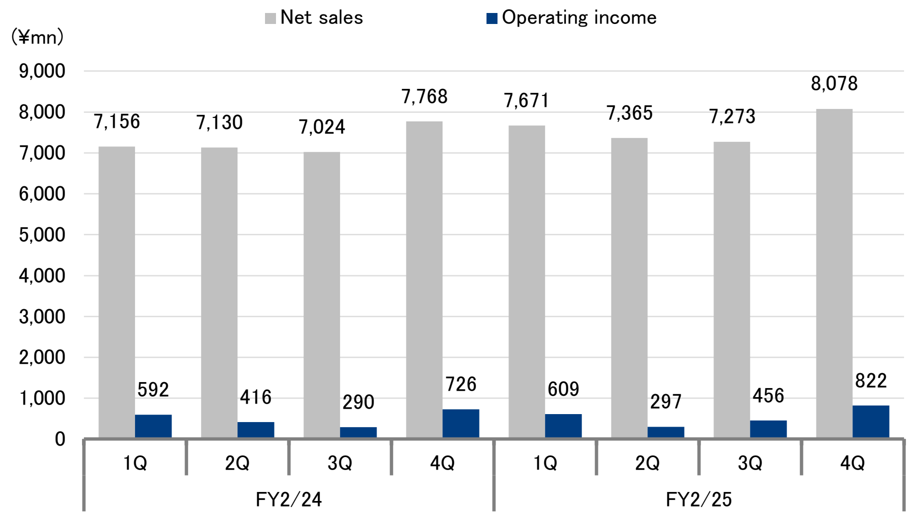
Source: Prepared by FISCO from the Company's financial results

3. Quarterly trend

Net sales in 1Q FY2/25 increased 7.2% YoY to ¥7,671mn, and operating income increased 2.9% to ¥609mn. In 2Q, net sales increased 3.3% to ¥7,365mn and operating income decreased by 28.6% to ¥297mn. In 3Q, net sales grew by 3.5% to ¥7,273mn and operating income increased by 57.2% to ¥456mn. In 4Q, net sales increased by 4.0% to ¥8,078mn and operating income grew by 13.2% to ¥822mn.

In 2Q FY2/25, some restaurants had to be shut due to the impact of typhoons, but net sales in each quarter exceeded the same period of the previous fiscal year. On the profit front, 2Q marked time, but the growth from 3Q onward was able to compensate for it. In 4Q, which is a busy period in particular, the operating income margin rose to 10.2% (9.3% the same period of the previous fiscal year) in part due to the effects of introducing pricing by area.

Quarterly trend in net sales and operating income



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

4. Summary of FY2/25

Summing up FY2/25, while there were several negative factors—1) surging food ingredient costs, 2) increased utility costs (end of subsidies), 3) the impact of typhoons during the summer, and 4) rising personnel expenses due to expanded hiring—these were offset by strong growth at existing restaurants, which led to results that outstripped initial plans. In particular, the operating income margin greatly exceeded pre-pandemic levels. Conversion to a muscular earnings structure will likely be a strength as the Company enters a new stage. As far as activities, new restaurants were opened in regional cities, pricing by area was introduced, and Toriyoshi Shoten was completely renewed, producing results that will contribute to future growth.

Main business activities

Introduced pricing by area and worked to completely renewal of Toriyoshi Shoten

1. Restaurant openings and format changes

In FY2/25, 8 new restaurants were opened (including 2 franchise locations) and 3 restaurants changed formats. The breakdown of new openings is 4 ISOMARU SUISAN restaurants (Kanazawa, Namba Center, Ofuna, and CenTerrace TENMONKAN), 1 ISOMARU SUISAN Shokudo (Yokohama World Porters), 2 Go-no-Go restaurants (Abeno Lucias, Hon-Atsugi Kitaguchi), and 1 Teppan Horumon Go-no-Go restaurant (Kawaguchi)*. What is noteworthy is that to expand restaurant openings into regional cities, the new openings included first-time openings in Ishikawa Prefecture (Kanazawa) and Kagoshima Prefecture (CenTerrace TENMONKAN), which had been undeveloped, and 3 new Go-no-Go locations (including Teppan Horumon Go-no-Go) in the public bar format that the Company is focusing on as a second pillar. Both the Kanazawa location and Center Terrance Astronomical Museum location got off to steady starts, and going forward as well, along with new restaurants in regional cities, the Company intends to search for opening opportunities in areas with high inbound demand such as Tokyo, Osaka and Kyoto. The format changes were all Go-no-Go. The Company intends to strengthen its footing in urban areas through opening restaurants and conducting format changes in areas where ISOMARU SUISAN has a strong footing.

* Of which, the franchise locations are Kanazawa (ISOMARU SUISAN) and Yokohama World Porters (ISOMARU SUISAN Shokudo).

2. Introduction of pricing by area

Starting in 4Q, prices were revised at restaurants in downtown and a new high-priced menu was introduced*1. The initiative anticipates higher beverage prices and rising restaurant management costs. At the same time, prices in residential and suburban areas were kept the same and lunch prices remain the same for all areas to avoid slowing in customer traffic. In addition, introducing late night pricing (12:00 a.m. to 5:00 a.m.) is also being considered. Along with its 78 restaurants in downtown, 3 other restaurants that cater primarily to inbound customers also received new prices for some food items and drinks, primarily alcoholic beverages, as prices were set while considering the customer segment and time of day (introduction of dynamic pricing*2). The intention is to raise profitability by optimizing prices for high-precision revenue management.

*1 78 directly managed ISOMARU SUISAN restaurants in downtown (approx. 80% of the total).
*2 Flexibly determining prices while considering demand trends, etc.

3. Complete renewal of Toriyoshi Shoten

The Company began completely renewal Toriyoshi Shoten in November 2024. The goal is to increase customers by creating a popular feel, the background to which is the response to the public bar format the Company is focused on. A popular feel will be created by such measures as lowering the prices for draught beer and highball drinks, and introducing new grilled chicken menu items. Also, the menu is being narrowed down to simplify operations. At 3 restaurants renewed in advance in November 2024, 4Q FY2/25 results got off to a steady start, with the number of customer visits increasing 13.0% from the same period of the previous fiscal year and spending per customer increasing by 5.0%. The number of restaurants renewed as of the end of FY2/25 increased to 6 (there are 21 conventional restaurants remaining).

Outlook

For FY2/26, while costs are expected to rise, the Company is projecting higher sales and higher profits thanks to introducing pricing by area and other measures

1. FY2/26 forecast

In its FY2/26 forecast, the Company expects increases in sales and profits, with net sales up 6.9% YoY to ¥32,500mn, operating income rising 14.4% to ¥2,500mn, ordinary income growing 14.0% to ¥2,600mn, and profit attributable to owners of parent increasing 14.5% to ¥1,700mn.

With net sales continuing to benefit from strong inbound demand, introducing pricing by area and growth at existing restaurants from the effects of completely renewal Toriyoshi Shoten will contribute to higher sales. The Company is also planning to open around 10 new restaurants.

On the profit front, increased prices for draught beer and rice are expected to have an impact, but the cost of sales ratio will be maintained by revising menus and optimizing prices, among other measures, and increases in utility costs from the end of subsidies and upfront investment for medium-term growth will be offset by higher sales, as the Company expects to secure higher profit.

FY2/26 forecast

(¥mn)

	FY2/25		FY2/26		YoY	
	Results	Vs. sales	Forecast	Vs. sales	Change	Change (%)
Net sales	30,389	-	32,500	-	2,110	6.9%
Operating income	2,186	7.2%	2,500	7.7%	313	14.3%
Ordinary income	2,281	7.5%	2,600	8.0%	318	14.0%
Profit attributable to owners of parent	1,485	4.5%	1,700	5.2%	214	14.5%

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

2. FISCO's view

Although there needs to be focus placed on the impact caused by the uncertain outlook of economic conditions on domestic consumption, inbound demand, and prices, etc., FISCO believes that the assumptions behind the Company's results forecasts are sufficiently rational. If the forecasts are achieved, the ordinary income margin would reach the 8% level, which is the Company's target. What should be watched for is how the introduction of pricing by area, which started in 4Q FY2/25, and the complete renewal of Toriyoshi Shoten contribute to results growth. They are already having some effect, but we will monitor how much potential there is for growth for the full year. If steady effects are demonstrated, this can also be expected to be an upside factor for results. Also, the introduction of dynamic pricing has the potential to be a new strength of the Company depending on its precision.

Direction

Promoting four strategies as a new short- to medium-term direction

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. The Company has clarified its short- and medium-term direction, however, as it anticipates changes in the operating environment. It is carrying out initiatives such as (1) opening new restaurants in regional cities, (2) expanding the public bar format that it is focusing on, (3) existing-restaurant sales growth driven by foreign visitors to Japan and opening late night, and (4) measures to counteract inflation (cost pass-through, etc.).

(1) Opening new restaurants in regional cities

The mainstay ISOMARU SUISAN format has expanded primarily in Tokyo and the surrounding 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 to date, in addition to Kyoto, Osaka and Hyogo (15 restaurants in total in those 3 areas), the Company successfully opened restaurants in Miyagi (4 restaurants), Shizuoka (1 restaurant), Nagano (2 restaurants) and Kumamoto (2 restaurants), Kagoshima (1 restaurant)*, in addition to covering Hokkaido (1 restaurant), Aichi (8 restaurants), Fukuoka (5 restaurants), and Ishikawa (1 restaurant) through franchise expansion. The Company is turning its attention toward opportunities to open new restaurants in other undeveloped regional cities, and has positioned that effort as one driver of medium-term growth. It is particularly prioritizing opening restaurants in Hokuriku, Chugoku and Kyushu and plans to expand by area by opening additional restaurants after laying the groundwork firstly.

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

(2) Expanding the public bar format

To respond dynamically to changes in business conditions triggered by the COVID-19 pandemic, the Company is focusing on the public bar format, which offers stable income for a low investment, while levering the strengths of its existing mainstay business formats. The public bar format (income model) is characterized by, among other things, 1) being located in residential areas and shopping districts, 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. Going forward, it will focus on developing the Go-no-Go brand. The Company has multiple business formats within the 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. Going forward, the Company intends to open more restaurants, including in regional cities, mainly in areas where it has established a foothold with ISOMARU SUISAN.

(3) Existing-restaurant sales growth (capturing demand)

The increase in the number of visitors to Japan, which is driving current business results, is expected to provide further growth for existing restaurants, so the Company has put in place systems such as those for revising its personnel system and for increasing wages to ensure that it does not miss any opportunity to capture 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 while promoting optimization of procurement costs by taking advantage of economies of scale within the create restaurants holdings Group, given that raw material and energy prices are expected to stay high and other factors. The introduction of pricing by area is also expected to act as a counter to inflation.

2. Our medium- to long-term focus points

FISCO is also focused on the recovery in the Company's mainstay format and whether or not expansion into regional cities and accelerating restaurant openings in the public bar format become a new axis. In particular, regarding the expansion into regional cities, regional ISOMARU SUISAN restaurants operated thus far on a trial basis have generally been solid, and going forward as well, expanded restaurant openings are expected from the medium- to long-term standpoint. When this happens, a number of expansion methods can be considered, including directly managed, franchise, and M&A, but given such factors as speed, profitability, investment burden, and risk, etc. having multiple options depending on the situation can be thought to be a factor raising the success rate. At the same time, in the public bar format, the ISOMARU SUISAN model has been made small-scale, low investment in line with changes in the business environment, and results are already being demonstrated in accord with assumptions, so we at FISCO will focus on trends to see how this evolves going forward. Regarding the complete renewal of Toriyoshi Shoten as well, trends should be capable of being grasped based on how the renewals are responded to.

With the end of the pandemic, the Company has resumed restaurant openings, and its performance is also recovering, but for full-fledged growth investment, a number of uncertainties remain, such as inflation countermeasures, making effective use of foreign staff members, restaurants in regional cities strengthening their foothold, and the cultivation of the mainstay format. As of the present time, the Company has not released its next medium-term management plan. On the flip side, if the Company comes to have confidence in this respect, it will build a new competitive advantage for itself, and there is also the view that it would allow us to see in concrete terms how the Company wants to be and its strategy in its next stage. The timing of this can be considered an important turning point for making future investment decisions.

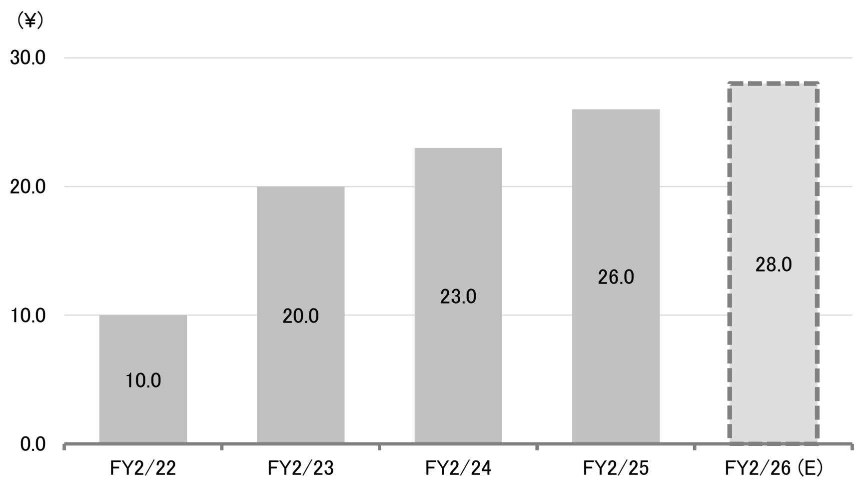
Shareholder return policy

In FY2/25, a dividend increase of ¥3.0 YoY; for FY2/26, planning a ¥2.0 increase

Regarding the full-year dividend for FY2/25, based on recent strong results, the Company paid a dividend of ¥26.0 per share (¥13.0 interim, ¥13.0 year-end), an increase of ¥3.0 from the previous fiscal year. For FY2/26, the Company plans to raise its dividend by ¥2.0 and pay a per-share dividend of ¥28.0 (¥14.0 interim, ¥14.0 year-end). If this is achieved, it would mean four consecutive years of increased dividends starting with the restoration of dividends in FY2/22.

In addition, the Company intends to maintain the same system of shareholder benefits.

Dividend per share (full-year dividend)



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

FISCO

Disclaimer

FISCO Ltd. (“FISCO”) offers stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc.

This report is provided solely for the purpose of offering information and is not a solicitation of investment nor any other act or action.

FISCO has prepared and published this report based on information it deems reliable. However, FISCO does not warrant the accuracy, completeness, certainty, nor reliability of the contents of this report or the said information.

The issuers’ securities, currencies, commodities, and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs, and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto, based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions, and all other contents are based on analysis by FISCO. The contents of this report are current as of the date of preparation and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers, and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report with an understanding and acceptance of the above points.

■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp