COMPANY RESEARCH AND ANALYSIS REPORT

SFP Holdings Co., Ltd.

3198

Tokyo Stock Exchange First Section

28-May-2020

FISCO Ltd. Analyst

Ikuo Shibata

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary — 01

1. Company profile — 01
2. FY2/20 results — 01
3. The impact of the spread of COVID-19 — 02
4. Growth strategy — 02

Company profile — 03

1. Business overview — 03
2. Corporate characteristics — 06
3. History — 06

Performance trends — 08

1. Past performance — 08
2. FY2/20 consolidated results — 10

Initiatives — 13

1. Promotion of the Alliance Conception — 13
2. Results for restaurant openings and closures, etc. — 13

The impact of COVID-19 and the measures for it — 14

1. The restaurant management conditions, etc. (the impact of the virus and the measures) — 14
2. FY2/21 forecasts — 14
3. Main measures — 14

Growth strategy — 15

1. Medium-term management plan — 15
2. The Alliance Conception — 16

Shareholder returns — 17

Summary

In FY2/20, the SFP Food Alliance Conception contributed greatly to the increase in sales. Presently, FY2/21 forecasts is still undecided due to the impact of COVID-19

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. Also, since FY2/20, it has been developing its own SFP Food Alliance Conception (hereafter, the Alliance Conception). It has also made a smooth start toward expanding the network of restaurants in regional cities (provision of brands via the in-company franchise format) through utilizing M&A. At the present time, the impact of the spread of COVID-19 is casting a shadow over the entire industry, but it seems there have been no major changes to the direction of the Company's long-term strategy. At the end of February 2020, the total number of restaurants was 261, including those of the 2 subsidiaries* (a total of 40 restaurants) that entered the scope of consolidation from the previous fiscal period, and also 14 franchise restaurants. The main chain, ISOMARU SUISAN, has 122 restaurants. Looking at the restaurant openings by area, they are concentrated in the Tokyo metropolitan area, at 197 restaurants (of which, 126 restaurants are within Tokyo), but the Company is also looking toward opening restaurants in regional cities, including through the Alliance Conception.

* In the Company, they are called Food Alliance members (hereafter, Alliance members).

2. FY2/20 results

In the FY2/20 consolidated results, net sales increased 6.5% year on year (YoY) to ¥40,216mn and operating income decreased 12.3% to ¥2,549mn. Net sales exceeded ¥40bn for the first time. This was mainly because sales of restaurants opened in the previous fiscal period contributed from the beginning of this fiscal year, and also from the sales obtained via M&A and from 9 new openings. In particular, as the M&A based on the Alliance Conception, first Joh Smile Restaurant System Inc. (hereafter, JS) joined the Group, followed by, CLOOC DINING CO., LTD. (hereafter, CL), and the additions of their results contributed greatly. Also, for openings of new restaurants, on the one hand the Company continued its policy of keeping down openings for the time being, based on factors such as the difficulty in keeping staff, while on the other hand it actively supported its existing restaurants (conducting renovations and repairs, etc.) and closed unprofitable restaurants. Alongside these efforts, sales from existing restaurants trended strongly. In profits, operating income declined and was less than forecast, mainly because the Company conducted format conversions and renovations and repairs, etc., toward growth, and also due to the increase in labor costs. Conversely, in terms of activities, in addition to developing new formats, it achieved various other results, including opening the first ISOMARU SUISAN restaurant in Kyoto, and openings of ISOMARU SUISAN restaurants by the 2 Alliance members.

3. The impact of the spread of COVID-19

In response to the requests for self-restraint following the spread of COVID-19, in March 2020, the Company reduced the opening hours of 201 directly managed restaurants. Then on entering April, it decided to temporarily close 223 directly managed restaurants (from April 8 to May 6) in response to the government's issuance of the Declaration of Emergency. Therefore, at the very least, during this period these closed restaurants will not generate any sales, but the burden of fixed costs will remain as heavy as before. So, the situation is that the Company cannot avoid the impact on its results and financial condition, the same as every other company in its industry. As of the end of February 2020, it had secured a balance of cash and cash equivalents of ¥7,122mn (equivalent to 2.13 months of monthly sales), and it is also working to raise additional funds (bank loans) not only to secure business continuity, but also to maintain a structure toward a smooth restart of business activities. It has not yet decided (not disclosed) results forecasts for FY2/21, because it is difficult to make rational calculations at the present time, but it plans to disclose them as soon as it becomes possible to make rational calculations.

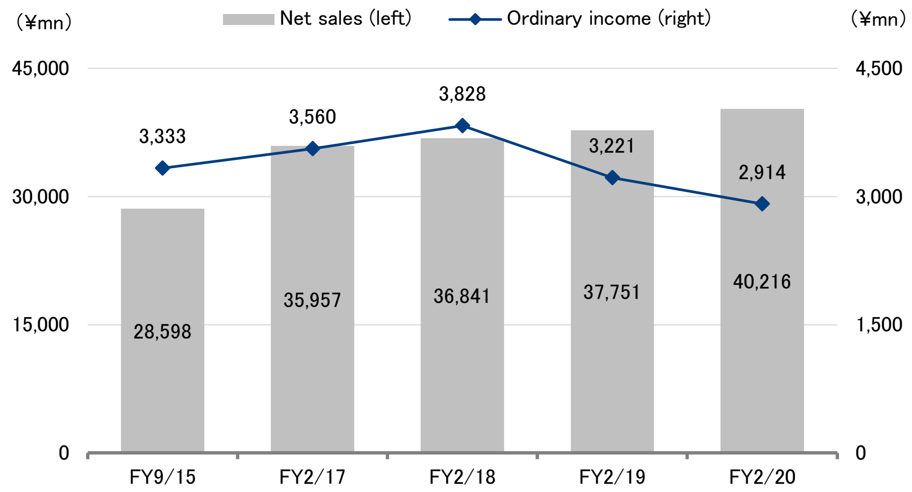
4. Growth strategy

The Company is also progressing its three-year medium-term management plan, which has FY2/22 as the final fiscal year. However, the situation has become uncertain for the achievement of the plan's numerical targets due to the spread of COVID-19, and the same as for the current period's results forecasts, it intends to review them once again at a time when rational calculations are possible. But inherently, it seems that there have been no major changes to the strategy's direction, which is centered on the Alliance Conception. For organic growth by the Company itself, it is working on various measures, including continuing to open restaurants in prime locations, mainly in the Tokyo metropolitan area and the Kansai area, at the same time as increasing the number of staff, improving store operating efficiency, and developing new brands. Thus, the Company is drawing a two-layered image of growth: sustained organic growth and accelerated growth through the Alliance Conception.

Key Points

- In the FY2/20 results, sales increased but profits decreased, with net sales exceeding ¥40bn for the first time.
- The newly launched Alliance Conception contributed to the higher sales, but profits decreased and were less than forecast due to upfront investment with an eye to the future and an increase in labor costs.
- The Company decided to temporarily close 223 directly managed restaurants in response to the Declaration of Emergency due to the spread of COVID-19. Although there are concerns that this will have a major impact on results, it has secured sufficient liquidity on hand.
- At the present time, it has not decided on the FY2/20 results forecasts or the review of the medium-term management plan's targets. However, there seems to have been no major changes to its long-term strategy, which is centered on the Alliance Conception.

Results trends



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

Company profile

Develops popular brands, including ISOMARU SUISAN and Toriyoshi Shoten
Made a steady start to business expansion through its own Alliance Conception

1. Business overview

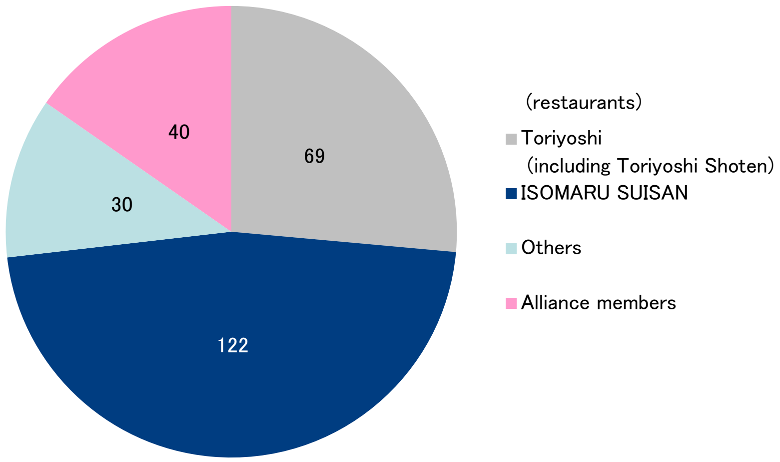
The Company primarily operates seafood izakaya ISOMARU SUISAN, a popular restaurant open 24 hours a day* at locations adjacent to train stations and in commercial districts (street level). Recently, Toriyoshi Shoten (chicken specialty izakaya), has gained momentum using the same income model as ISOMARU SUISAN as a second brand, and the Company is ambitious about developing even more formats. In addition, since FY2/20, it has been developing its own Alliance Conception. It has also made a smooth start toward expanding the network of restaurants in regional cities (provision of brands via the in-company franchise format) through utilizing M&A. At the present time, the impact of the spread of COVID-19 is casting a shadow over the entire industry, but it seems there have been no major changes to the direction of the Company's long-term strategy.

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

As of the end of February 2020, the Company had 261 restaurants including the 2 Alliance members (a total of 40 restaurants), along with 14 franchise restaurants. ISOMARU SUISAN is the largest format with 122 locations, and 197 restaurants are concentrated in the Tokyo metropolitan area (including 126 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.

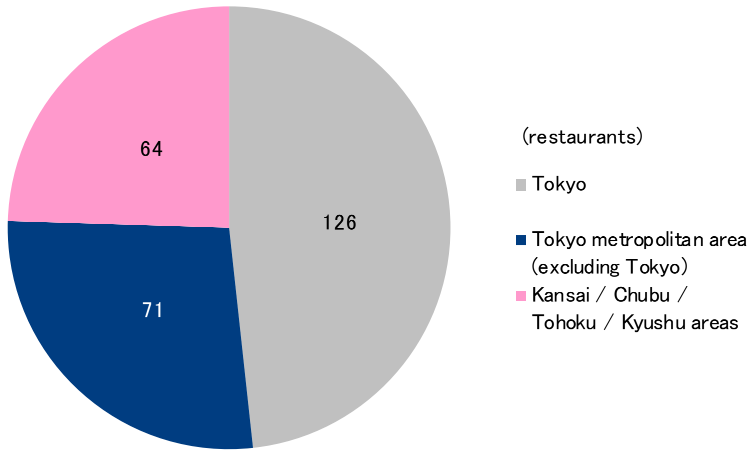
While the Company only has one business segment, the food and beverages segment, it operates in 4 areas according to format: the Toriyoshi business (including Toriyoshi Shoten), the mainstay ISOMARU SUISAN business, other business including new formats, and also from this fiscal period, the contributions of the Alliance members have been added as the fourth area. The ISOMARU SUISAN business provides 57.5% of net sales (FY2/20 result).

No. of restaurants by format



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

No. of restaurants by area



Note: excluding franchise restaurants
Source: Prepared by FISCO from the Company's results briefing 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. Ichigoro Shokudo has an extensive menu of meals.
Kiduna Sushi	Delicious and inexpensive fresh food. You can also enjoy “all-you-can-eat sushi.”
CASA DEL GUAPO	Authentic recreation of a Spanish bar
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
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
Hitsuji Hachiban	Specialist Genghis Khan (Mongolian-style barbecue) restaurants that focus on the ingredients and in which you can enjoy domestically produced lamb of rare value.
Torihei Chan	Japanese-style pubs proud of their piping-hot omelets and grilled chicken

Source: Prepared by FISCO from the Company’s materials

Income model of 24-hour operation at locations adjacent to train stations and in commercial districts (street level) is a key strength

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. The Company still has considerable room to open restaurants at prime locations in the Tokyo metropolitan area, and it plans to start full-fledged efforts to enter regional cities utilizing M&A through the Alliance Conception in FY2/20. We think it enjoys unique positioning to achieve high profitability and growth.

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). The Company opened Toriyoshi Shoten adjacent to ISOMARU SUISAN, and their coexistence proves that demand will not be cannibalized for these brands. Additionally, the Company is successfully improving results in some cases in conversions of ISOMARU SUISAN suburban locations that have exhausted vibrancy from their openings, while its strategy of "multiple contents in prime locations" (a strategy to leverage to the greatest possible extent the strengths of prime locations through multiple contents) can also be evaluated as being rational. Going forward, it is aiming to develop various formats, including the ISOMARU SUISAN model, and in terms of the potential for the expansion of the restaurant network, naturally it is considered that after restaurants are opened, the probability that earnings will be maintained and improved further increases. Also, after assessing the environmental changes once COVID-19 crisis has settled down (such as changes to consumer behaviors), it is considered that it will be necessary to respond flexibly through fine tuning (model changes), 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.

Founded with the Toriyoshi restaurant that specializes in Nagoya-style fried chicken wings

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. San Francisco Holdings Co., Ltd., which was established as an SPC (special purpose company), became the nominal surviving company and absorbed the prior main operating entity Samukawa Food Planning Co., Ltd. in May 2011 (the Company was renamed SFP Dining Co., Ltd. in October 2011). The Company transitioned to a holding company framework in September 2016 and renamed itself as SFP Holdings Co., Ltd. in June 2017.

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.

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*1. It began opening Toriyoshi Shoten restaurants, which are the second major growth driver, and ramped up this business.

* 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.

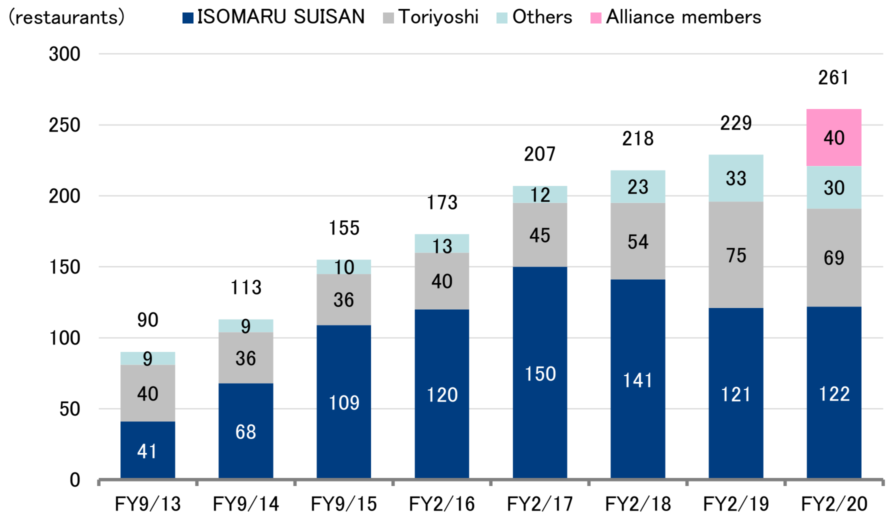
Performance trends

Realized high growth and profitability while also actively increasing the number of locations
However, in the past few years, growth has been moderate due to the strategy of keeping down new restaurant openings

1. Past performance

Increases in the number of restaurants have driven the Company's growth in past years. Income growth accelerated from FY9/10 when the Company ramped up openings of ISOMARU SUISAN based on a unique income model, and ordinary profit 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 2 consecutive fiscal years. This was because the Company reviewed its restaurant opening policy and 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 (including the reduction of the number of restaurants in suburbs susceptible to economic fluctuations). 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.

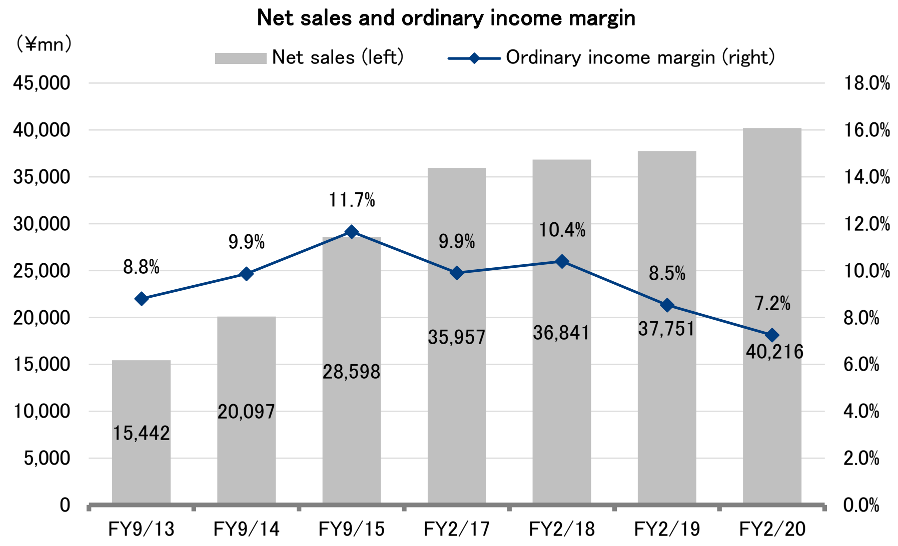
Restaurant number trends (excluding franchise restaurants)



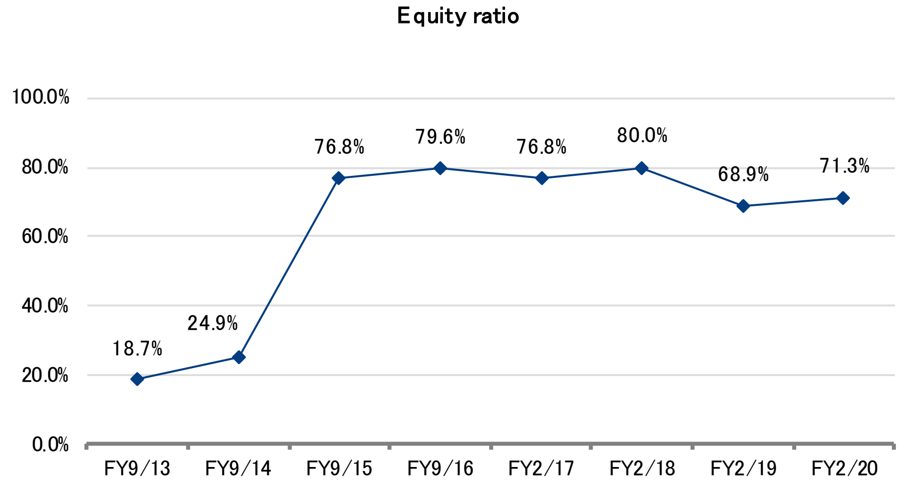
Source: Prepared by FISCO from the Company's results briefing materials

In financial standing, the equity ratio had been about 20% for many years, but it strengthened to 76.8% at the end of FY9/15 owing to the public offering capital increase for the TSE Second Section listing in December 2014 (about ¥12,758mn), and it has trended at a high level thereafter. Also, there have been no significant changes since the acquisition (and cancellation) of treasury stock, which was resolved upon in January 2018. This strong financial base can be highly evaluated as supporting its business continuity in the current environment that is characterized by increasing uncertainties due to the impact of COVID-19, at the same time as being the driving force behind its growth in the future.

Performance trends



Note: FY2/16 not shown because it was an irregular period of just 5 months
*Consolidated results from FY2/17 onwards. Non-consolidated results in and before FY9/15.
Source: Prepared by FISCO from the Company's financial results



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

In FY2/20, sales increased but profits decreased, with net sales exceeding ¥40bn.
In addition to the effects of the Alliance, sales at existing restaurants trended strongly

2. FY2/20 consolidated results

In FY2/20, profits were lower despite sales growth, with a 6.5% increase in net sales to ¥40,216mn while operating income decreased 12.3% to ¥2,549mn. Ordinary income decreased 9.5% to ¥2,914mn, and profit attributable to owners of parent decreased 25.3% to ¥1,461mn. Net sales exceeded ¥40bn for the first time. But in profits, although a decline in profits was forecast, including due to upfront investment, they declined even more than forecast.

The main reasons for the increase in sales were that the 15 restaurants opened in the previous fiscal year contributed from the start of the fiscal period, and also from the sales obtained via M&A and from 9 new openings. In particular, as the M&A based on the Alliance Conception, first JS joined the Group, followed by CL, and their additions to the results contributed greatly. For openings of new restaurants, on the one hand the Company continued its policy of keeping down openings for the time being, based on factors such as the difficulty in keeping staff, while on the other hand it actively supported its existing restaurants (through renovations and repairs, etc.) and closed unprofitable restaurants (and conducted the optimal allocation of staff). Moreover, the continued implementation of the sales promotion measures*1 was successful, and existing restaurants' net sales trended strongly, at 99.0% YoY (in particular, ISOMARU SUISAN's were 100.5%), even while being impacted by the large typhoon and COVID-19.

*1 Sales of featured products (limited-period menus) to stimulate topics of conversation and to attract customers, etc.
*2 Existing restaurants' net sales fell to 92.6% YoY in October due to the effects of a large typhoon and to 96.6% in February due to the impact of COVID-19.

In profits, although the cost of sales ratio rose due to the previously mentioned sales promotion measures, it was basically within the expected range. However, SG&A expenses increased more than expected, including as the Company implemented format conversions and renovations and repairs, etc., toward realizing growth; as labor costs increased due to the rise in the average hourly wage and that employees were encouraged to take paid-leave; and the recording of removal costs for a former office following an office relocation. As a result, operating income declined and was less than forecast.

For the financial condition, although cash and deposits decreased, total assets still increased slightly, up 1.7% on the end of the previous fiscal year to ¥22,975mn, mainly because of the recording of goodwill following the consolidation of the 2 Alliance members. Shareholders' equity rose 5.2% to ¥16,371mn due to the accumulation of retained earnings, and therefore the equity ratio was maintained at the high level of 71.3% (68.9% at the end of the previous fiscal period). The goodwill balance increased to ¥2,048mn, but this is only 9.1% of total assets and around 12.5% of shareholders' equity, so its financial impact is not that great at the current time.

Overview of FY2/20 results

(¥mn)

	FY2/19		FY2/20		Change		FY2/20 results		
	Results	% of total	Results	% of total	Amount	Change (%)	Revised forecast	% of total	Achievement rate
Net sales	37,751	100.0%	40,216	100.0%	2,465	6.5%	40,000	100.0%	100.5%
Toriyoshi	10,725	28.4%	10,343	25.7%	-382	-3.6%	-	-	-
ISOMARU SUISAN	22,542	59.7%	23,115	57.5%	573	2.5%	-	-	-
Others	4,483	11.9%	4,751	11.8%	268	6.0%	-	-	-
Alliance members	-	-	2,007	5.0%	2,007	-	-	-	-
Cost of sales	10,749	28.5%	11,691	29.1%	942	8.8%	11,628	29.1%	-
Gross profit	27,001	71.5%	28,525	70.9%	1,523	5.6%	28,372	70.9%	100.5%
SG&A expenses	24,094	63.8%	25,975	64.6%	1,880	7.8%	25,672	64.2%	-
Operating income	2,907	7.7%	2,549	6.3%	-357	-12.3%	2,700	6.8%	94.4%
Ordinary income	3,221	8.5%	2,914	7.2%	-307	-9.5%	3,000	7.5%	97.1%
Profit attributable to owners of parent	1,955	5.2%	1,461	3.6%	-494	-25.3%	1,800	4.5%	81.2%

	End of February 2019 Results	End of February 2020 Results	Change	
			Amount	Change (%)
Total assets	22,585	22,975	390	1.7%
Shareholders' equity	15,566	16,371	805	5.2%
Equity ratio	68.9%	71.3%	-	2.4pt

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

Results are reviewed by main business field below.

(1) The Toriyoshi business

Net sales decreased 3.6% YoY to ¥10,343mn. Due to a format conversion, 1 Toriyoshi Shoten restaurant was opened, but 3 Toriyoshi restaurants and 4 Toriyoshi Shoten restaurants were closed. As a result, the number of restaurants decreased by 6 (to 69 restaurants). Also, existing restaurants' net sales were 96.0% YoY. However, it seems that generally, basic business performance is good, excluding some restaurants in which improvements have been slow to appear, out of the restaurants opened through format conversions in the previous fiscal year*.

* In the previous fiscal period (FY2/19), 21 unprofitable restaurants, including ISOMARU SUISAN restaurants (mainly restaurants in the suburbs), underwent format conversions to become Toriyoshi Shoten restaurants, and they are working to improve their results.

(2) The ISOMARU business

An increase in net sales was secured, rising 2.5% YoY to ¥23,115mn. There were 5 openings of new restaurants (as planned), and 1 opening through a format conversion, while 5 restaurants were closed. As a result, the number of restaurants increased by 1 (to 122 restaurants). Also, for the franchises, 2 restaurants were opened in Fukuoka Prefecture (for a total of 12 franchise restaurants). Elsewhere, existing restaurants' net sales trended strongly, at 100.5% YoY. It can be said that the Company is succeeding in supporting its existing restaurants, as in addition to continuously implementing restaurant renovations and sales promotion measures, it is optimizing placements of staff, of both new recruits and staff from closed restaurants (strengthening the management structure).

(3) Other businesses

Net sales grew, up 6.0% YoY to ¥4,751mn. There were openings of 1 Go-no-Go restaurant and 1 Home Base restaurant through format conversions, and of 1 Torihei Chan restaurant, which is a new format. Conversely, there were closures of 5 Ichigoro restaurants, including 4 due to format conversions, and 1 Go-no-Go restaurant. As a result, the number of restaurants decreased by 3 (to 30 restaurants). However, the 14 restaurants opened in the previous fiscal period (9 new restaurants and 5 format-conversion restaurants) contributed from the beginning of the fiscal period, which was the main reason for the increase in sales.

(4) Alliance members

The net sales of the 2 Alliance members were ¥2,007mn, which contributed greatly. JS, which was consolidated on March 1, 2019, contributed results for the full fiscal year, while CL, which was consolidated on July 1, 2019, contributed results for 8 months. For these 2 companies, a total of 4 restaurants were opened, 2 ISOMARU SUISAN restaurants (1 restaurant for each) and 2 existing-format restaurants, while 3 restaurants were closed. As a result, the total number of restaurants became 40 (2 franchise restaurants besides).

Openings and closures in FY2/20

	Business				Total	Region		
	Toriyoshi	ISOMARU SUISAN	Others	Alliance members		Tokyo	Tokyo metropolitan area (excluding Tokyo)	Kansai / Chubu /Tohoku / Kyushu areas
End of February 2019	75	121 (10)	33	-	229 (10)	131	76	22 (10)
Openings	0	+5 (+2)	0	+4	+9 (+2)	+2	+1	+6 (+2)
Increase in restaurants through M&A	0	0	0	+39 (+2)	+39 (+2)	0	0	+39 (+2)
Format conversions	+1	+1	+3	+3	+8	+2	0	+4
Closures (including format conversions)	-7	-5	-6 [-5]	-6 [-3]	-24 [-8]	-9 [-2]	-8 [-2]	-7 [-4]
End of February 2020	69	122 (12)	30	40 (2)	261 (14)	126	71	64 (14)

The [ ] figure shows the number of closures through conversions included in the total number.
The ( ) figure is the number of franchise restaurants excluded from the total number.
Source: Prepared by FISCO from the Company's results briefing materials

Initiatives

Is focusing on strengthening the earnings base and on the Alliance Conception with an eye to the future
Is achieving results, including opening the first restaurant in Kyoto and developing new formats

1. Promotion of the Alliance Conception

Two companies, JS and CL have joined the Alliance Conception (the details are given below), which started in FY2/20. JS, which was consolidated on March 1, 2019, is developing formats including the Maekawa Suigun izakayas in Kumamoto Prefecture. On December 2, 2019, it opened its first ISOMARU SUISAN Kamitori restaurant (Kumamoto Prefecture), and then on March 2, 2020, it opened ISOMARU SUISAN Shinshigai restaurant (Kumamoto Prefecture). CL, which was consolidated on July 1, 2019, is also developing a wide variety of formats, centered on the Kara-age Centers in Nagano Prefecture. It also opened its first ISOMARU SUISAN Nagano Ekimae restaurant (adjacent to Nagano Station, Nagano Prefecture) on December 26, 2019. These were both the first ISOMARU SUISAN restaurant openings in Kumamoto Prefecture and Nagano Prefecture, and it seems they have made steady starts. Going forward, the Company's policy is for these 2 companies to continue to open ISOMARU SUISAN restaurants, and at the same time, to consider at any time selecting the third and subsequent companies to join the Alliance.

2. Results for restaurant openings and closures, etc.

In order to strengthen the earnings base toward accelerating growth in the future, the Company is conducting measures including 1) temporarily keeping down openings of new restaurants (and opening restaurants with a high probability of success), 2) renovating existing restaurants, and 3) closing unprofitable restaurants (and re-allocating staff). For 1), it opened 9 restaurants, compared to the full fiscal year plan of 7 openings. It is continuing to open restaurants in prime locations in the Tokyo metropolitan area, of adjacent to Shinbashi Station, Kabuki-cho 2-chome, and adjacent to Mizonokuchi Station, while also taking on the challenge of opening in new areas and locations (such as Himeji Miyuki Street and the basement of the Osaka Station building). In particular, following on from Osaka (17 restaurants) and Hyogo Prefecture (5 restaurants), it opened a restaurant for the first time in Kyoto (in Kawaramachi Sanjo) as the third Kansai area. For new formats as well, on February 28, 2020, it opened the first Torihei Chan*1 Koenji restaurant, while on entering this period also, on March 19, 2020, it opened the Torotaku*2 Kawagoe restaurant.

*1 A new format targeting local customers, whose main items are grilled chicken, grilled skewers, and Japanese-style rolled omelet. By keeping down the number of menu items, it is able to improve the productivity of the kitchens and maintain high profit margins.
*2 Japanese-style sushi pubs mainly serving sushi and tempura. It is a new format, in which customers can enjoy both a quick-providing menu and meals, and by strengthening the food aspect, it realizes both "eating and drinking," while aiming to simplify operations by specializing in menu items.

For 2), the Company is renovating 17 restaurants, mainly ISOMARU SUISAN restaurants. For 3), it has closed 16 unprofitable restaurants, and at the same time, it has re-allocated the staff in these closed restaurants to existing restaurants (further strengthening the management structure). It can be said that the strong results at the existing restaurants were as a result of this.

The impact of COVID-19 and the measures for it

At the present time, has not decided (not disclosed) the FY2/20 results forecasts.
Is aiming for business continuity through securing liquidity on hand, while also progressing measures to respond to after the business restart and for sustainable growth

1. The restaurant management conditions, etc. (the impact of the virus and the measures)

In response to the requests for self-restraint following the spread of COVID-19, in March 2020, the Company reduced the opening hours of 201 directly managed restaurants. Then on entering April, it decided to temporarily close 223 directly managed restaurants (from April 8 to May 6) in response to the government's issuance of the Declaration of Emergency. Therefore, at the very least, during this period these closed restaurants will not generate any sales, but on the other hand, the burden of fixed costs (restaurant rent, labor costs, etc.) will remain as heavy as before, and although it will be necessary to pay attention to developments for financial aid during closure by the government and local governments, the situation is that the Company cannot avoid the impact on its results and financial condition, the same as every other company in its industry. As of the end of February 2020, it had secured a balance of cash and cash equivalents of ¥7,122mn (equivalent to 2.13 months of monthly sales), and it is also working to raise additional funds (bank loans) not only to secure business continuity, but also to maintain a structure to toward a smooth restart of business activities.

2. FY2/21 forecasts

The Company has not yet decided (not disclosed) results forecasts for FY2/21, because it is difficult to make rational calculations at the present time due to the impact of the spread of COVID-19. But it plans to disclose them as soon as it becomes possible to make rational calculations.

3. Main measures

The Company is conducting the following measures for sustainable growth, including to respond after the business restart (measures to respond to COVID-19).

(1) Measures to respond to COVID-19 (after the business restart)
a) Temporarily shorten opening hours and implement cost controls
b) Review the menus and work to manage costs and secure profits
c) To prevent the infection spreading, continuously and thoroughly conduct health and hygiene management

(2) Developments of new formats and openings of new restaurants
a) Develop new formats and form brands by refining existing formats
b) Open restaurants in areas in which they have not yet been opened, and develop formats tailored to areas

(3) Deploying M&As through the Alliance Conception
a) Continue to open ISOMARU SUISAN restaurants through the consolidated subsidiaries
b) Consider at any time selecting the third and subsequent alliance partners

At FISCO, we think that the industry as a whole cannot avoid a significant impact on results, such as due to restaurant closures and shortened business hours. Therefore, we think that each company in the industry, for which the uncertainty about the future has increased significantly, should be evaluated according to 3 stages; 1) the extent of the possibility that they can survive as businesses, 2) their strength to maintain a structure toward a smooth business restart (and the abilities of their actual work sites to respond), and 3) whether or not they will have growth opportunities (will obtain survivor benefits) after the current crisis has calmed down (in the post-COVID period). In the case of the Company, it can be judged to have excess funding capacity, having accumulated ¥16bn of shareholders' equity (retained earnings), including securing liquidity on hand, and it will be greatly supported by this. Also, its basic policy at the present time is to maintain the numbers of its restaurants and employees, so it can be highly evaluated on the point that it has a structure in place to enable a smooth business restart. More importantly, the impact of COVID-19 might spur an industry restructuring, and it is possible that the Company, which is progressing the Alliance Conception, will have a greater role (presence) to play for this. In other words, surviving this current serious period will actually lead to increased opportunities in the future. Of course, since the scenario depicted will change depending on how long the current situation continues, it would seem necessary to firmly follow-up on 3) the developments and results trends to settle down the crisis on a quarterly basis.

Growth strategy

Aiming to accelerate growth from continuous organic growth and the Company's own Alliance Conception

1. Medium-term management plan

The Company is also progressing its three-year medium-term management plan, which has FY2/22 as the final fiscal year. However, the situation has become uncertain for the achievement of the plan's numerical targets due to the spread of COVID-19, so the same as for the current period's results forecasts, it intends to review them once again at a time when rational calculations are possible. But inherently, it seems there have been no major changes to the strategy's direction, which is centered on the Alliance Conception (the details are given below). For the Company's own organic growth as well, its long-term policy includes to continue to open restaurants in prime locations, centered on the Tokyo metropolitan area and the Kansai area, and also increase the number of staff, manage restaurants efficiently, and develop new brands. So, it is drawing a two-layered image of growth: sustained organic growth and accelerated growth through the Alliance Conception.

2. The Alliance Conception

The Company has established the Alliance Conception to respond to a situation in which external factors (such as recruitment difficulties, including of restaurant staff) and internal factors (like the limit on the control range alongside the growth in scale, and the shortage of human resources for middle management) are acting as a drag on growth, and also as a strategy to effectively enter into regional cities. Specifically, in regional cities, it is putting in place a mechanism to support growth through conducting capital tie-ups with companies that manage izakaya and that have an abundance of management expertise and then providing them with the Company's main brands (including ISOMARU SUISAN). For the Company, this mechanism enables it to quickly lock in place a business foundation in regional cities (such as acquiring sites for openings, human resources, and a regional network, and also excellent management-level employees who are competent and ambitious). For its partners, it enables them to add popular brands, such as ISOMARU SUISAN and Toriyoshi Shoten, to serve as a second growth engine (source of earnings), while they continue with their own brands, while also providing them with various scale merits and opportunities to expand scale (such as the nationwide expansion of the partners' brands). Moreover, it also makes possible the sharing of business formats and knowledge between the partners. In other words, it is not merely the addition to the Company's result from an M&A, and its features include that it is ultimately one part of a growth strategy centered on the main brands and that it utilizes the partner's independence and desire for growth. This strategy benefits from 1) popular brands that can be lined up even in the regions, 2) a track record of breaking away from owner companies, 3) and the fact that Company itself had been an acquired in an M&A deal. Therefore, as it is being conducted by the Company, it can be said that it is a model that is sufficiently persuasive.

Entering into regional cities through M&A and franchises is one of the growth axes that the Company has investigated. But the reasons for changing direction at this juncture are thought to be external factors that are proving beneficial for conducting M&A, in addition to responding to the aforementioned environmental changes. It is targeting, for example, managers who have been successful in establishing appealing brands locally but who are having problems in finding successors, and young managers who are struggling to overcome barriers to growth, and it seems to be aiming for partnerships with around 10 companies in the next few years. Also, as previously stated, it is possible that one of the effects of COVID-19 will be to further spur-on the Alliance Conception.

At FISCO, we assume that although the progress of the Company's growth strategy may be delayed by the impact of COVID-19, toward realizing sustainable growth after this crisis has settled down, it is important that it conduct measures such as firmly analyzing the environment and collecting information, and then establishing and maintaining systems in response to this. In particular, starting with the selections of the third and subsequent Alliance members, we shall be paying attention to its developments, such as investigations toward expanding its restaurant-opening areas, developments of new formats, and refinements of existing formats in response to environmental changes.

Shareholder returns

Will not pay a period-end dividend in FY2/20 (interim dividend of ¥13 only). Has currently not decided on the dividend for FY2/21

The Company's basic dividend policy is to pay dividends continuously and stably. However, for FY2/20, it has changed its initial forecast (of an interim dividend of ¥13 and a period-end dividend of ¥13), and it will now not pay a period-end dividend and only pay an interim dividend per share of ¥13. It has also not decided on the FY2/21 dividend at the current time, due to the impact of COVID-19.

At FISCO, on considering the current conditions, we evaluate the Company's decision not to pay a period-end dividend as reasonable, as it is prioritizing securing liquidity on hand and accumulating retained earnings.

The Company has also adopted a shareholder gift program. It allocates food coupons that can be used as the Company's restaurants twice a year (covering shareholders with 100 or more shares listed in the shareholder registry at the end of February and the end of August). The gift amount varies depending on the number of shares owned.

Shareholder gift program

Number of shares owned	Shareholder gift coupon (each distribution)
100-499 shares	¥4,000
500-999 shares	¥10,000
1,000 or more shares	¥20,000

Source: Prepared by FISCO from the Company's results briefing materials

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock 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 prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities 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 made 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 contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, 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 upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (Financial information Dept.)
Email: support@fisco.co.jp