COMPANY RESEARCH AND ANALYSIS REPORT

Yoshimura Food Holdings K.K.

2884

Tokyo Stock Exchange First Section

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FISCO Ltd. Analyst

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http://www.fisco.co.jp

Index

Summary

Is developing a business of revitalizing SMEs in Japan. The previous restrictions have been removed in this fiscal year and it will demonstrate its true strength.

1. Company profile and growth strategy

Yoshimura Food Holdings <2884> (hereafter, also "the Company") supports and regenerates the businesses of small and medium food enterprises (SMEs) in Japan. Upon acquiring food SMEs and incorporating them into itself, the Company plans and implements management strategies and manages their businesses while utilizing the strengths of the acquired companies. In addition, it provides support and supervision for each of the functions of sales, manufacturing, product development, quality control, and business management on its SME Support Platform. As it has this sort of business model, it aims for growth on the twin axes of expanding the Group through M&A and growing existing businesses. Within Japan, there are many SMEs that do not have business successors, so the potential for expansion in the future is great. Currently, the Company is only targeting food SMEs, but it is looking to develop into other sectors in the future.

2. FY2/17 consolidated results: despite the restrictions on implementing M&A, achieved higher sales and profits for the second consecutive fiscal year

In the FY2/17 consolidated results, net sales increased 26.6% year-on-year (YoY) to ¥16,241mn, operating income rose 50.4% to ¥493mn, ordinary income grew 61.7% to ¥530mn, and net income attributable to the owners of the parent decreased 23.3% to ¥353mn. In addition to the contribution from the higher sales, including from RAKU-YOU. INC. and YOSHIMURA FOOD, the three companies that became consolidated subsidiaries during the fiscal year, of JUNWA FOOD, Eisen Shuzo Co., Ltd., and SK FOODS also contributed. Despite the higher costs associated with the business expansion, such as logistics and personnel costs, the profit margin rose as the productivity at the subsidiaries improved, including from the active capital investment. The reason why the final profit item declined was as a reaction to the recording of extraordinary income in the previous fiscal year, of compensation proceeds of ¥515mn. The operating income margin improved 0.4 of a percentage point from the previous fiscal year to 3.0%, while ROE was 10.57% and ROA was 7.2%.

3. The Company's FY2/18 consolidated results forecasts are extremely conservative, but it will be a year when the restrictions of the previous fiscal year will be removed and it will demonstrate its true strength

The Company's consolidated results forecasts for FY2/18 are net sales of ¥19,088mn (up 17.5% YoY) and operating income of ¥576mn (up 16.9%). The operating income margin is expected to be 3.0%, which is the same level as the previous fiscal year. However, these forecasts do not take into account at all the M&A that are one part of growth, and the impression is that they are extremely conservative. There was the restriction in the previous fiscal year that the Company could not conduct M&A for half a year due to the review to change its listing to the Tokyo Stock Exchange (TSE) 1st Section. But in this fiscal year, this restriction has been completely removed, and other things remaining equal, it is expected to increase the number of M&A. It conducted three M&A in the half-year period it was able to in the previous fiscal year, so at FISCO, we think it is may complete five or six M&A in this year, although this will depend on factors such as the content of the proposal and the price.

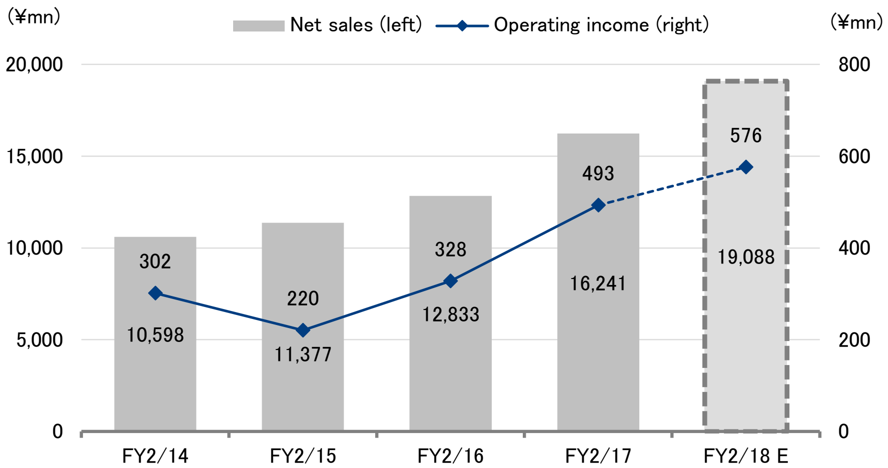
4. May attract attention as a new investment theme

Based on its business model, we think the Company's shares are like an SME version of a REIT. It is currently classified in the food sector, but from its business model of conducting M&A and then subsequently utilizing its SME Support Platform to improve the businesses of the acquired companies, and also as is widely known, that it has indicated its intention to develop in sectors other than food, it may be recognized as a new investment theme. It is difficult for investors to invest directly in unlisted SMEs, but they can invest in them indirectly by investing in the Company. In addition, the Company's business is not limited to supporting and assisting SMEs, as it also uses M&As to deal with the problem of the lack of businesses successors, to develop industries, and to secure employment. So from these viewpoints, it may also attract attention for its social significance.

Key Points

- It deals with the revitalization of SME businesses. Its growth strategy is on the twin axis of expanding the Group through M&A and growing existing businesses
- In the FY2/17 consolidated results, net sales increased 26.6% YoY to ¥16,241mn, and operating income rose 50.4% to ¥493mn, and it achieved higher sales and profits for the second consecutive period despite the restrictions on M&A during the period
- The Company's FY2/18 consolidated results forecasts are extremely conservative, but it will be a year when the restrictions of the previous fiscal year will be removed and it will demonstrate its true strength.
- It may be recognized as a new investment theme.

Results tends



Source: prepared by FISCO from the securities registration statement, the securities report, and the financial results summary

Business overview and history

Acquires and supports SMES, mainly in the food industry

1. Business overview

The Company acquires and supports SMEs, mainly in the food industry. With the aims of supporting and revitalizing SMEs, it plans and implement management strategies for all the companies in the Group as the holding company, and it manages their businesses while utilizing the respective strengths of each of the subsidiaries. In addition, it provides support and supervision for all of the functions of sales, manufacturing, product development, quality control, and business management on the SME Support Platform that it has constructed. Currently, it has a total of 11 subsidiaries under the umbrella of the holding company. In the manufacturing business, RAKU-YOU manufactures and sells chilled shumai (Chinese dumplings) and other dumplings, Ohbun Co., Ltd. manufactures and sells fried oysters and other produce, SHIROISHI KOSAN, INC., manufactures and sells dried noodles and related produce, Sakuragao Shuzo K.K. is a collective of 10 brewery companies in Iwate Prefecture, Daishow Co., Ltd. is a pioneer in peanut butter, YUHOKU SEAFOOD PROCESSING manufactures and sells negitoro (tuna minced with Welsh onion leaves) and tuna slices, JUNWA FOOD manufacturers jellies, Eisen Shuzo Co., Ltd. is a brewery manufacturer in Fukushima Prefecture, and SK FOODS' main products are chilled and frozen tonkatsu (pork cutlets). In the sales business, YOSHIMURA FOOD is involved in the planning and sales of commercial food ingredients, while JOY DINING PRODUCTS Co., Ltd. conducts planning and sales for frozen foods. Currently, the subsidiaries are mainly food SMEs, but the Company plans to develop into other sectors in the future.

There are many SMEs in Japan, but due to the problems they face, such as declining sales because of the falling birthrate and aging population or in finding a business successor, an increasing number of them are unable to demonstrate their inherent capabilities and to move forward, By acquiring the shares and taking-on the businesses of such companies and providing them with support in terms of people, goods, and funds, the Company is aiming for food SMEs to grow again and to revitalize local economies. It intends to revitalize food SMEs by forming a group of these companies, which tend to each have one “strength,” such as being strong in products, technologies, or sales, and by creating a unique platform.

The business companies under the umbrella of the holding company, and their business descriptions

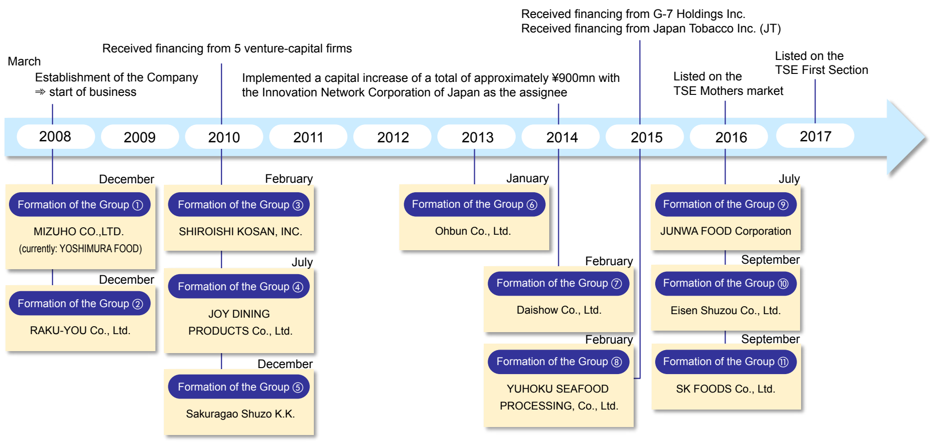
Name and head office location	Segment	Business description and features	Customers
RAKU-YOU. INC. Adachi Ward, Tokyo	Manufacturing business	It sells the chilled shumai and chilled dumplings that it manufactures at five plants in Japan. It has the largest product volume of chilled shumai, which is its mainstay product, and sells approximately 30.82 million packets (Note 1) of chilled shumai a year.	It mainly sells through direct transactions to major supermarkets, and through major food trading companies to Japan-wide supermarket mass retailers, drug stores, consumer co-ops, etc.
Ohbun Co., Ltd. Shikokuchuo City, Ehime Prefecture	Manufacturing business	It has an independent route to procure oysters from Hiroshima Prefecture, which has a limited supply of oysters. Fried oysters are its main product, while it also manufactures and sells other produce, including deep fried chicken cutlets and fried chicken breast	It mainly sells via major food trading companies to Japan-wide supermarket mass retailers and consumer co-ops.
SHIROISHI KOSAN, INC. Shiroishi City, Miyagi Prefecture	Manufacturing business	Founded 130 years ago, its main product is Shiroishi hot noodles, which are a specialty produce of Shiroishi City, and it sells dry noodles and other produce that it manufactures using traditional methods.	It mainly sells via major food trading companies to supermarket mass retailers, drug stores, consumer co-ops, and others in the Tohoku and Kanto regions.
Daishow Co., Ltd. Tokigawa-machi, Hiki-gun, Saitama Prefecture	Manufacturing business	It is pioneer in peanut butter and since its launch of Peanut Butter Creamy in 1985, and it has continuously sold for 30 years this long-selling product, which it makes using its own recipe.	It mainly sells via major food trading companies, primarily to supermarket mass retailers and drug stores in the Kanto region.
Sakuragao Shuzo K.K. Morioka City, Iwate Prefecture	Manufacturing business	It was established in 1973 as a collective of 10 brewing companies in Iwate Prefecture. The sake brewed by the chief brewer, who has won the Iwate Prefecture Craftsperson Award of Excellence (Note 2), has received numerous other awards, including from the Zenkoku Shinshu Kanpyokai (the National Research Institute of Brewing) and the Tohoku Sake Appreciation Association (Note 3).	Mainly sells via liquor wholesalers and related to supermarkets, restaurants, drug stores, etc., in Iwate Prefecture.
YUHOKU SEAFOOD PROCESSING Oi-machi, Ashikarakami-gun, Kanagawa Prefecture	Manufacturing business	Manufacture and sales of negitoro and tuna slices using only tuna that is immediately frozen on the ship at 50 to 60 degrees as soon as it is caught.	Sells via fishery wholesale markets, mainly to supermarket mass retailers in the Kanto and Tohoku regions.
JUNWA FOOD Corporation Kumagaya City, Saitama Prefecture	Manufacturing business	Has constructed a complete quality control system, including having acquired the Saitama Prefecture HACCP, and while being a start-up company for jelly manufacturing, it has an established reputation for its product and technological capabilities, such as being highly evaluated by major GMS.	Mainly sales of PB products to major GMS, etc.
Eisen Shuzou Co., Ltd. Bandai-machi, Yama-gun, Fukushima Prefecture	Manufacturing business	Established in Aizu Wakamatsu in 1869. Subsequently moved to the base of Nishiyama at Mt. Bandaisan in order to use the crystal clear water of "The Mt. Bandaisan Nishiyama Group of Natural Springs, Designation of Japan's Most Famous 100 Natural Waters." In a clear natural environment, while inheriting the traditional handmade manufacturing techniques that utilizes the five senses to the greatest extent, it manufactures delicious sake with a soft taste in the mouth that consumers never tire of drinking.	Mainly sells via liquor wholesalers to supermarkets, restaurants, and drug stores in Fukushima Prefecture, and to restaurants in Metropolitan Tokyo.
SK FOODS Yorii-machi, Osato-gun, Saitama Prefecture	Manufacturing business	It mainly manufactures and sells chilled and frozen pork cutlet, etc., and produce in accordance with customer needs. Also, it is a manufacturer with trading company functions, including direct purchasing and direct sales.	It mainly does not go through trading companies and instead sells produce directly to major supermarkets, etc.
YOSHIMURA FOOD Koshigaya City, Saitama Prefecture	Sales business	Mainly conducts the planning and sales of commercial food ingredients. It does not have logistics functions in-house and has constructed a business model of sending products directly to customers.	It has a wide variety of sales channels, including the restaurant industry, supermarket prepared meals, industrial food supply, convenience store vendors, medical and welfare-related facilities, and school meals.
JOY DINING PRODUCTS Co., Ltd. Koshigaya City, Saitama Prefecture	Sales business	It conducts the planning and sales of frozen foods. It has direct accounts with consumer co-ops throughout Japan and utilizes them to sell Group products.	Mainly sells to nationwide consumer co-ops and home-delivery companies

Note 1: the sales volume of chilled shumai manufactured by RAKU-YOU in FY2/17.
Note 2: The Sakuragao Shuzo chief brewer, Eijiro Inokawa, was awarded the 2012 Iwate Craftsperson Award of Excellence by Iwate Prefecture.
Note 3: It was awarded the Gold Prize by Zenkoku Shinshu Kanpyokai in 2000, 2008, 2009, and 2011. It was also the Prize for Excellence by the Tohoku Sake Appreciation Association in 2000, 2012, 2014, and 2015.
Source: Prepared by FISCO from the Company's and securities report

2. History

CEO and Representative Director Motohisa Yoshimura established L Partners Co., Ltd, in March 2008 and launched the business. Subsequently, the company name was changed. In December 2008, MIZUHO CO.,LTD. (current YOSHIMURA FOOD) and RAKU-YOU formed a group. It received financing from 5 venture capital firms in 2010, and in the same year, SHIROISHI KOSAN was brought into the Group in February, JOY DINING PRODUCTS in July, and Sakuragao Shuzo in December. In 2013, Ohbun was brought into the Group, and in 2014, the Company implemented a capital increase of a total of approximately ¥900mn, with the Innovation Network Corporation of Japan as the assignee, and then it acquired Daishow in February. In 2015, it received financing from G-7 Holdings <7508> and Japan Tobacco Inc. <2914> and acquired YUHOKU SEAFOOD PROCESSING in February of the same year. In March 2016, it was listed on the TSE Mothers market, and in the same year, it brought JUNWA FOOD into the Group in July and Eisen Shuzou and SK FOODS in September. In March 2017, its listing was transferred to the TSE 1st Section.

History



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

The business model, competition, and strengths

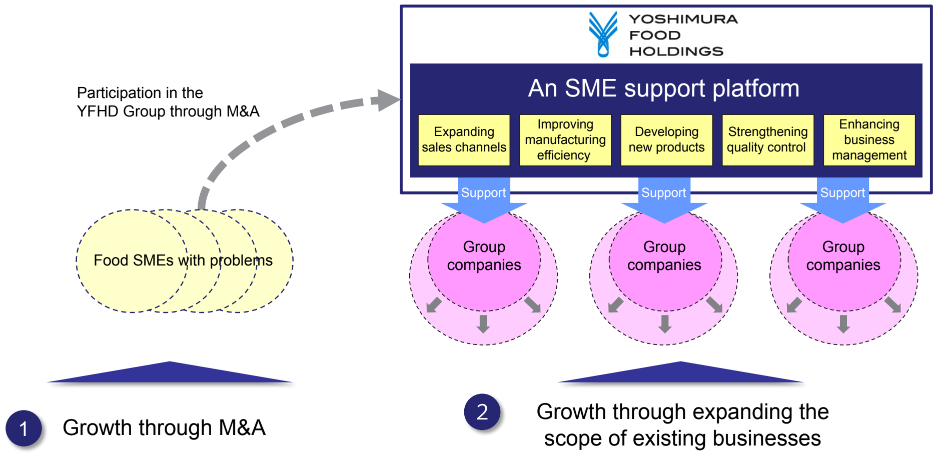
Support and revitalization from the integrated Group management

1. Business model

In principle, the Company makes wholly-owned subsidiaries of the SMEs that it supports and revitalizes, and fundamentally it carries out integrated Group management. After the M&A, it mainly provides support to Group companies on its SME Support Platform by expanding sales channels, improving manufacturing efficiency, developing new products, strengthening quality control, and enhancing business management. The aim of this support is for the SMEs to grow by demonstrating their strengths more than even before and expanding the scope of their existing businesses, while also supplementing the weaknesses of the companies that are newly participating in the Group. The Company identifies the problems in the SMEs it targets and takes full responsibility for resolving them, from selecting the solutions through to implementing them.

The companies that the Company selects to join the Group are those with problems and that want support, and many of the M&A candidates have a business succession problem. JUNWA FOOD and SK FOODS, which were brought into the Group in FY2/17, do not have business successors, while the Company invested in Eisen Shuzou after a 100% capital reduction through a private arrangement.

Business model



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

(1) From investigating the candidate through to the M&A

The pre-M&A stage starts from the introduction of the candidate and the initial investigation and then proceeds to the disclosure and the investigation of the initial information and presentation of the conditions. If the parties are in agreement at this point, they will conclude a basic agreement and start the due diligence. To conduct the due diligence, it is necessary to have the power to discern whether or not the candidate is a good company even when the information disclosed is limited. It also necessary to be able to discern the risks that are specific to SMEs. This explains why the pre-M&A stage normally takes the Company around six months.

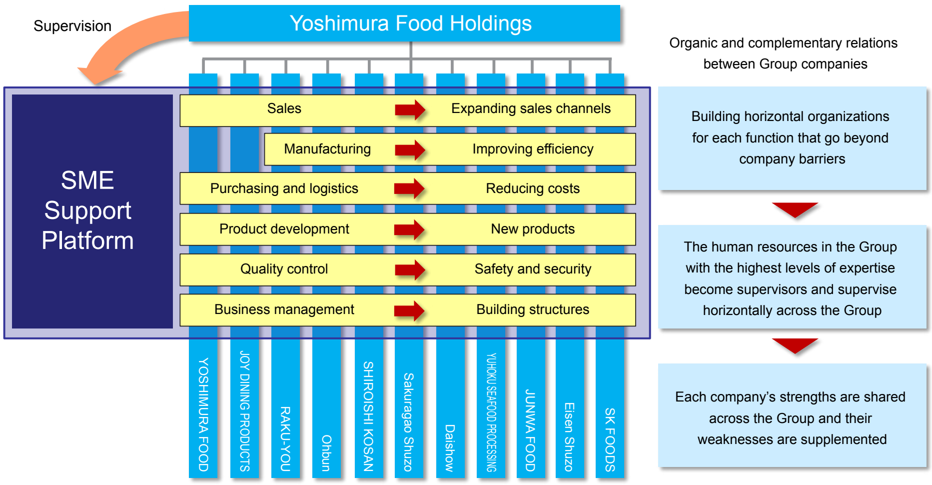
The M&A candidates will be introduced by parties including financial institutions, such as investment banks, regional banks, credit unions, and securities companies; companies providing M&A advisory services; and lawyers handling companies undergoing rehabilitation proceedings. Also, these kinds of SMEs tend to not have a buyer and have been left undervalued, but depending on the sub-sector, in many cases, as a result of the improvements to their businesses, their EV/EBITDA magnification can be two or three times the acquisition price. The Company adheres firmly to an approach of looking at the business content and improvement measures and, while ascertaining whether or not they have excellent human resources, not acquiring companies at an expensive price.

(2) After the M&A

The post-merger integration (PMI) after the M&A normally takes around 6 months. When implementing the PMI, the Company aims to create synergies with Group companies and improve results by winning the hearts and minds of the employees at the acquired company, building a business management structure, and utilizing the SME Support Platform. Winning the employees' hearts and mind is particularly important in order to implement the PMI, and the Company works to builds relations of trust with them and to improve their motivation by aiming to communicate with them from the same position.

The Company provides the SME Support Platform extensively across the Group to its subsidiaries to expand sales channels, improve manufacturing efficiency, development new products, strengthen the quality control structure, enhance business management, and to secure the ability to raise funds and human resources. SMEs tend to have weak management departments and to not have these functions sufficiently established, so it is easy to improve their management simply by establishing these functions.

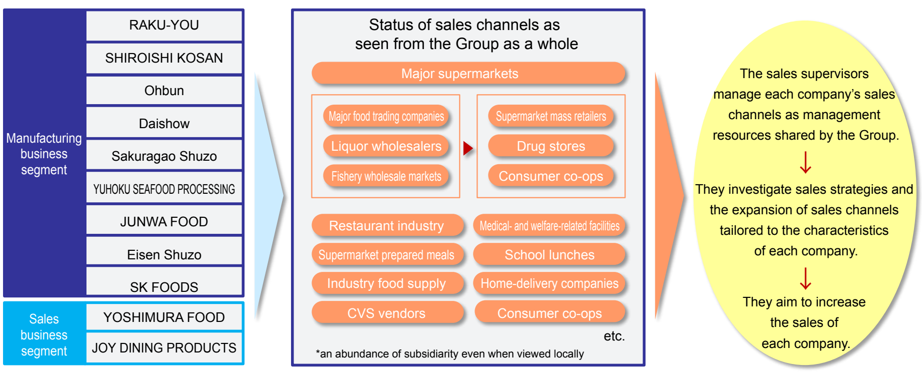
SME Support Platform



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

On looking at a specific example, to expand sales channels, the Company's sales supervisors manage and utilize the sales channels of each respective subsidiary as management resources shared by the entire Group and they investigate sales strategies and expanding sales channels tailored to the characteristics of each company. It is realizing growth in new customers at all of the companies by ascertaining the various channels and customers throughout Japan that each Group company has, sharing and introducing business partners within the Group, conducting cross sales (sales of Group products to existing customers), and providing sales management and support. The Company is succeeding in winning orders for large, private brand products that the Group companies would have actually been unable to handle individually. In many cases, a single SME cannot be said to have sufficiently expanded its sales channels to cover the entire country due to the restrictions of scale, and so the direct effects of the expanded sales channels on sales can be easily and visibly obtained.

Utilizing the SME platform ~sales channels~



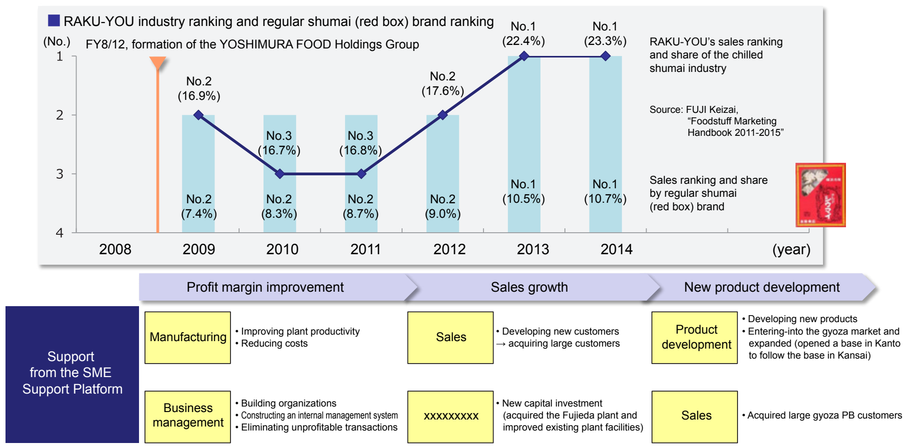
Source: Prepared by FISCO from the Company's results briefing materials

We will consider the example of RAKU-YOU, which joined the Group in December 2008 and which manufactures and sells chilled and frozen cooked foods, including shumai and other dumplings. From 2009 to 2011 with the aim of raising the profit margin, the Company implemented measures to improve plant productivity and reduce costs at its manufacturing sites. In addition, in the management departments, it implemented measures to build organizations, construct an internal-management system, and eliminate unprofitable transactions. Continuing, in the 3 years from 2012 to 2014, it worked to acquire new customers and succeeded in winning large customers, and also acquired a new plant and improved the facilities in the existing plant. As a result of these efforts, while in 2009, the Company's share of the chilled shumai market was 16.9%, ranked second in the industry, by 2013 this sales share had risen to 22.4%, ranked first in the industry, and moreover by the following year of 2014 it had risen to as high as 23.3%. Subsequently, the Company worked to develop new products, to enter-into the dumpling market and to win large PB customers. As a result, in FY2/15, dumpling net sales were ¥204mn, but by FY2/17, they had risen to ¥880mn.

With regards to the other companies also, in the same way, the average annual growth rate of Ohbun was 10.0% from FY2/14 to FY2/16 and of Daishow was 13.2% from FY2/15 to FY2/16.

Example of RAKU-YOU

Example of RAKU-YOU: after it joined the Group, its ranking and share steadily improved

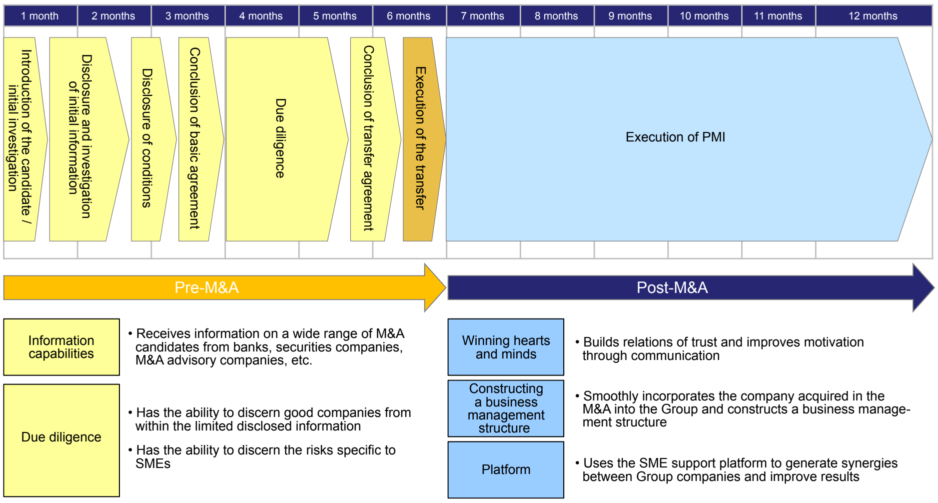


Source: Prepared by FISCO from the Company's results briefing materials

The advantages for the subsidiaries are as previously described, but for the Company also, by increasing the number of Group companies, it can grow sales, reduce costs, and expand the area of business activities. Increasing sales is made possible by sharing sales channels and building an effective and efficient sales structure by bringing into the Group sales companies to promote cross sales. It also makes it easier to conduct sales management and support, including for new channels and the development of new customers. Moreover, it allows it to open-up new sales channels, including online sales and BtoC, thereby enabling sales of PB and other such products. In cost reductions, it can expect volume discounts for procurement costs through the expansion of scale, cost reductions from the consolidation of manufacturing bases, and improved efficiency through the concentration of administrative work. From these points, the Company's SME Support Platform is expanding as the number of M&A increases.

Naturally, the contributions to results after the M&A differ according to the number and type of the M&A, the timing, and the business stage. The Company records M&A related costs in the first year after the acquisition, so there tends to be a significant loss in the first year for those companies joining the Group that are undergoing civil rehabilitation proceedings and also from the timing of joining the Group.

The main sequence of events in the M&A and the time axis



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

2. State of competition for M&A in the food industry

If speaking of M&A in the food industry, while some people might imagine that the Company competes with major food companies and investment funds, in fact it does not compete with any other players. First, compared to investment funds, the Company has a business infrastructure that investment funds do not have, and also the investment funds' experience of conducting M&A in the food industry depends on whether there are candidates. What is most important is that investment funds only target for M&A companies of a certain scale, with the assumption that they will subsequently sell them. Considering efficiency, investment funds tend to be biased toward companies of a certain scale. In contrast, the Company's basic approach is to hold the acquired company over the long term and not to sell it. Conversely, the investment fund cannot invest if it unable to see the time frame and the methods for recovering its investment, and it can be said this becomes a reasonably high hurdle when acquiring food SMEs.

Conversely, major food companies have the business infrastructure and conduct M&A and related measures for the food industry, and it would seem that they hold their acquisitions over the long term. However, in many cases major food companies also require that the company they will acquire be above a certain scale, the same as investment funds, and they will not take action unless the company to be acquired completely matches its strategy. Therefore, major food companies tend not to acquire food SMEs through M&A, and they are also not the target of an M&A for investment funds, so these players do not compete with the Company. The fact that the Company has no actual competitors can be said to be its biggest advantage.

Comparison of the M&A players in the food industry

	Yoshimura Food Holdings	Major food companies	Investment funds
Business infrastructure	Yes	Yes	No
Conducts M&A in food industry	Yes	Yes	Depends on the candidate
Scale of companies' targeted	SMEs	Above a certain scale	Above a certain scale
Holding policy	Long term	Long term	Assumes it will be sold

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

3. Strengths

In addition to the fact that that in actual terms it has no competitors, the Company's greatest strength would seem to be the experience and expertise it has accumulated through specializing in food SMEs. To give some specific examples, it has a wealth of experience in M&A, the power of discernment to select companies with strengths, synergies from utilizing the SME Support Platform, and the resource of an abundance of information obtained from financial institutions and other organizations. It is difficult to smoothly progress an M&A without being introduced to candidates by and receiving information from financial institutions and others. In addition to this, the Company's wealth of experience in M&A and the power of discernment that it has obtained from this experience is vital to selecting good candidates, and indeed it is not an overstatement to say that it is the key to a successful M&A. Another important point is the generation of results in the form of synergies obtained from utilizing the Company's SME Support Platform.

Also, when seen from the side of the owners of the companies being acquired, it is thought that they highly evaluate the fact that the Company does not intend to subsequently sell them. As it does not have the objective of recovering its investment through a sale, this makes possible management from a medium- to long-term perspective aiming for sustainable growth. So it is considered that the owners of SMEs, which prioritize business continuity and maintaining the working environment, prefer to transfer their businesses to the Company from the fact that it is not constrained by the pursuit of short-term profit and instead conducts management from a medium- to long-term perspective.

The Company is listed on the TSE 1st Section and can raised funds through various methods. Moreover, in addition to improving its creditworthiness and name awareness, it is securing human resources and being provided with many M&A candidates, so it would seem that it will have increasing opportunities to encounter excellent M&A candidates in the future. However, even if the number of M&A introductions and proposals brought to it increases, it is considered that it will still be able to respond sufficiently and investigate the proposals, such as for the screening, from its current number of employees.

Growth strategy

Twin axes of increasing the number of Group companies through M&A and growing and expanding existing businesses

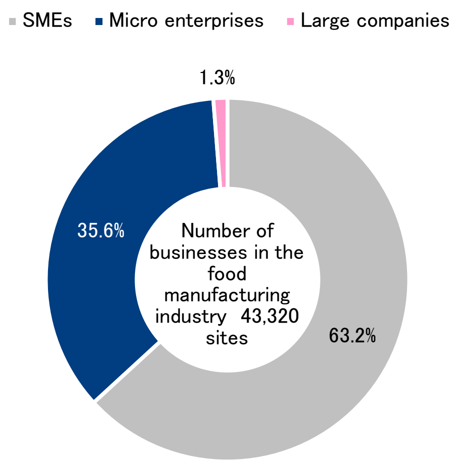
1. Basic policy

The Company's basic policy for its growth strategy is to strengthen growth on the twin axes of "increasing the number of Group companies through M&A" and "growing and expanding existing businesses." It would seem that the number of Group companies is increasing in the context of the favorable external environment, such of the absence of business successors at SMEs. It is also aiming for growth by growing and expand its existing businesses and by bolstering human resources.

2. Strategy

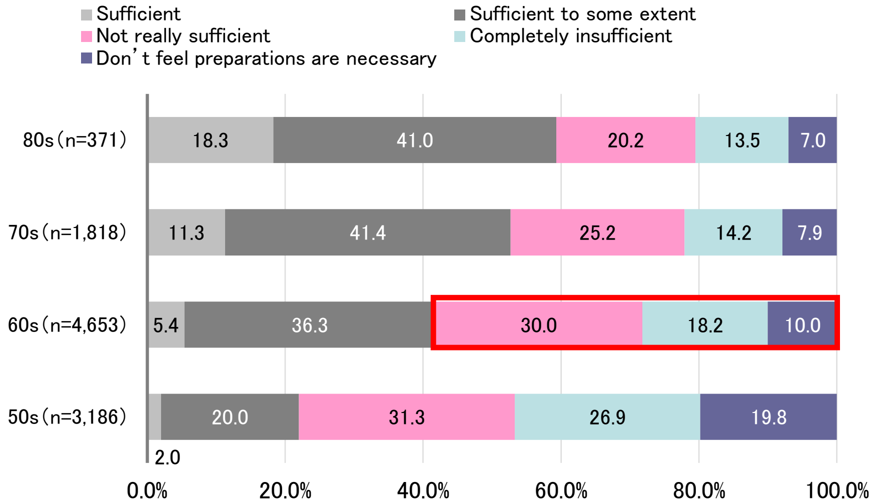
The Company is expanding its business scale by actively conducting M&A, which is one of the two growth axes, and increasing the number of Group companies. On considering the potential for M&A in the future, we can see that the situation within Japan is extremely interesting. According to Company materials, within the manufacturing industries in Japan, the food industry is the largest industry in terms of GDP, the number of employees, and the number of businesses, yet approximately 99% of these businesses are SMEs or micro enterprises. Also, within SMEs in Japan, 66.1% do not have a business successor and 60.0% have a president aged in his or her sixties who has not made preparations for a business successor. Due to this situation, the number of businesses being abandoned or dissolved is increasing. The biggest reason for abandoning or dissolving a business is the aging of the managers or their health problems. These managers tend to retire later than the typical office worker, so the mass retirement of baby-boomer managers is expected to continue to increase in the future, and therefore it seems that there will be a practically endless supply of M&A candidates for the Company.

Percentages of businesses in the manufacturing industry by scale



Note 1: the food manufacturing industry is the total for the food manufacturing industry and the drink, tobacco, and feed manufacturing industry (excluding the tobacco manufacturing industry, and the feed and organic fertilizer manufacturing industry)
Note 2: large companies have 300 or more employees, SMEs have 4 to 299 employees, and micro enterprises have 3 or fewer employees.
Source: prepared by FISCO from data from the Report by Industry in the 2013 Statistical Charts on Industry by the Ministry of Economy, Trade and Industry

State of preparations for business successors by age of the managers



Source: prepared by FISCO from the Small and Medium Enterprise Agency's SME White Paper (2014 edition)

With regards to the second axis of existing businesses, the Company is pursuing results expansion through the SME Support Platform, as well as further strengthening this platform. As previously mentioned, it expects to grow sales, reduce costs, and expand the area of business activities by increasing the number of Group companies. It seems to be focusing on improving the effects and the efficiency of the support and regeneration compared to the current situation.

What is also absolutely essential in order to strengthen the SME Support Platform is bolstering human resources, which relates to both the growth-strategy axes. The Company is aware that it is necessarily to simultaneously bolster human resources for both M&A-related operations and platform-related operations, as this will lead to the smooth expansion of scale through M&A and the steady increasing in sales and profit growth in the future. Specifically, it seems to be strengthening collaborations with investing companies and bolstering human resources in fields such as sales and manufacturing, product development and marketing, and quality control.

It will first focus on Japan, but it may also investigate overseas development in the future from the viewpoint of expanding sales channels.

3. Catalysts

The M&A of SMEs are the major source of the Company's growth, so future growth catalysts can be considered to include its announcements of M&A, announcements of results that include numerical vales on the outcomes of the M&A and the growth strategy, and announcements of upward revisions to the results forecasts.

4. Business risks and human-resources bottlenecks

The Company makes wholly owned subsidiaries of the companies it acquires through M&A, so it cannot be said that there is zero possibility that business risks that could not be ascertained during the due diligence or that have not been actualized will not be actualized in the future. The business risk seems high compared with general consulting, but as the Company has powers of discernment and is accumulating internally expertise and experience, including through actually implementing the PMI, it is considered that the risk is not necessarily all that high. Also, it intends to advance into non-food sectors in the future and the business risk when it does so would seem to be large compared to when limited to the food sector. However, it is considered that as there are problems common to all SMEs regardless of the industry sector, the Company will be able to solve these problems by utilizing its previously acquired expertise and findings.

However, there is the risk of a bottleneck after a company has been made a subsidiary due to a shortage of supervisors to implement the PMI. There are not many human resources with the practical skills needed to conduct the PMI and related operations. Winning the hearts and minds of employees after the M&A is particularly vital, so it is important that the supervisors have experience of this and to choose human resources with the qualities that will enable them to win hearts and mind in a situation in which there will be opposing forces. It seems that there are times when those sort of excellent employees who meet these conditions are pulled-out of the company being acquired. As the Company conducts many M&A, it needs to deal with this sort of human-resource bottleneck, and it thought that it also considers dealing with this problem by shifting the timing of the implementation of the M&A.

Business trends

Despite the restrictions on conducting M&A, achieved record high results for the second consecutive fiscal year.

1. Consolidated results in FY2/17

In the FY2/17 consolidated results, net sales increased 26.6% year-on-year (YoY) to ¥16,241mn, operating income rose 50.4% to ¥493mn, ordinary income grew 61.7% to ¥530mn, and net income attributable to the owners of the parent decreased 23.3% to ¥353mn. In addition to the contribution from the higher sales, including from RAKU-YOU and YOSHIMURA FOOD, the three companies that became consolidated subsidiaries during the fiscal year, of JUNWA FOOD, Eisen Shuzo, and SK FOODS also contributed. In costs, logistics costs rose 39.8% from the increase in the sales volume following the business expansion from the M&A, while personnel costs increased 14.7% from the higher number of subsidiaries. In profits, in addition to the effects of the higher sales, the profit margin rose from the improved productivity, including from the active capital investment. The reason why the final profit item declined was as a reaction to the recording of extraordinary income in the previous fiscal year, of compensation proceeds of ¥515mn. The operating income margin improved 0.4 of a percentage point from the previous fiscal year to 3.0%, while ROE was 10.6% and ROA was 7.2%.

Simplified income statement

(¥mn)

	FY2/14	FY2/15	FY2/16	FY2/17
Net sales	10,598	11,377	12,833	16,241
YoY	-	7.4%	12.8%	26.6%
Cost of sales	8,231	9,019	10,124	12,710
YoY	-	9.6%	12.3%	25.5%
Gross profit	2,367	2,358	2,709	3,531
YoY	-	-0.4%	14.9%	30.3%
SG&A expenses	2,065	2,138	2,381	3,038
YoY	-	3.5%	11.4%	27.6%
Operating income	301	220	328	493
YoY	-	-27.0%	48.9%	50.4%
Ordinary income	301	237	328	530
YoY	-	-21.2%	38.3%	61.7%
Net income attributable to the owners of the parent	126	231	461	353
YoY	-	83.2%	99.2%	-23.3%
Profitability analysis				
Gross profit margin	22.3%	20.7%	21.1%	21.7%
Operating income margin	2.8%	1.9%	2.6%	3.0%
Ordinary income margin	2.8%	2.1%	2.6%	3.3%
Net income margin	1.2%	2.0%	3.6%	2.2%
EPS	45.03	60.94	116.63	81.38
EPS adjusted for dilutive shares	-	-	-	80.91
BPS	556.47	617.71	752.29	838.17
DPS	0.00	0.00	0.00	0.00
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%
ROE	8.1%	10.4%	17.1%	10.6%
ROA (return on assets)	-	4.1%	5.3%	7.2%
Total asset turnover rate	-	195.8%	208.6%	219.9%

Note 1: the Company was listed on the TSE Mothers market on March 4, 2016, so the EPS adjusted for dilutive shares in the FY2/17 consolidated cumulative period was calculated as the average share price during the period from the listing start date to the end of the period.
Note 2: the Company consolidated shares at a ratio of 10 shares to 1 share on June 12, 2015, so EPS was calculated assuming that the share consolidation in question was carried out on the unit types in the previous fiscal year.
Note 3: the FY2/16 EPS after adjustment for dilutive shares is not included because, although there were dilutive shares, the Company was unlisted at the end of the fiscal period, so it was not possible to ascertain the average share price during the period.
Source: prepared by FISCO from the securities registration statement, the securities report, and the financial results summary

(1) Conditions by segment and by subsidiary

By segment, in the manufacturing business, net sales increased 36.1% to ¥11,903mn, and segment income rose 35.8% to ¥660mn. This was due to the contributions to the higher sales of JUNWA FOOD, Eisen Shuzou, and SK FOODS that newly joined the Group in FY2/17, and also from the contribution from the expanded sales of mainstay products and efforts for new fields in RAKU-YOU. In profits, segment income increased because, in addition to the effects of the higher sales, the Company succeeded in reducing the cost of sales ratio, including through capital investment aimed at improving productivity. In the sales business also, sales to the main customers trended strongly, and net sales increased 6.2% to ¥4,338m and segment income rose 22.7% to ¥208mn.

Looking at the sales conditions by company, net sales at RAKU-YOU, which is in the manufacturing business segment, increased 13.1% to ¥4,524mn from the significant growth in sales in the chilled gyoza market that it entered-into in earnest in the previous fiscal year. Sales declined at three companies, at Ohbun from the effects of the fall in the unit price of fried oysters, at SHIROISHI KOSAN from a decline in sales of flour, and at YUHOKU from a reduction in the number of customers. JUNWA FOOD contributed to sales and profits from July 2016 and Eisen Shuzou and SK FOODS from September 2016. Ordinary income was ¥199mn at RAKU-YOU, ¥32mn at Ohbun, ¥38mn at SK FOODS, and ¥70mn at YOSHIMURA FOOD. The ordinary income margin was 4.4% at RAKU-YOU, 1.3%, at Ohbun, 2.3% at SK FOODS, and 1.5% at YOSHIMURA FOOD.

Net sales and ordinary income by subsidiary

(¥mn)

Name	FY2/16	FY2/17	YoY
Consolidated net sales	12,833	16,241	26.6%
Manufacturing business	8,748	11,903	36.1%
RAKU-YOU. INC.	4,000	4,524	13.1%
Ohbun Co., Ltd.	2,535	2,459	-3.0%
SHIROISHI KOSAN, INC.	905	879	-2.8%
Daishow Co., Ltd.	589	641	8.8%
YUHOKU SEAFOOD PROCESSING	485	446	-8.0%
Sakuragao Shuzo K.K.	357	344	-3.8%
JUNWA FOOD	-	786	-
Eisen Shuzo Co., Ltd.	-	343	-
SK FOODS	-	1,697	-
Sales business	4,085	4,338	6.2%
YOSHIMURA FOOD	4,384	4,659	6.3%
JOY DINING PRODUCTS Co., Ltd.	870	960	10.3%
Consolidated ordinary income	328	530	61.7%
RAKU-YOU. INC.		199	
Ohbun Co., Ltd.		32	
SK FOODS		38	
YOSHIMURA FOOD		70	
Consolidated ordinary income margin	2.6%	3.3%	
RAKU-YOU. INC.		4.4%	
Ohbun Co., Ltd.		1.3%	
SK FOODS		2.3%	
YOSHIMURA FOOD		1.5%	

Source: prepared by FISCO form the Company's results briefing materials and securities reports

(2) Financial and cash flow situation

At the end of FY2/17, total assets were up ¥2,411mn on the end of the previous fiscal year to ¥8,590mn. Current assets increased ¥1,731mn to ¥6,199mn, as cash and deposits rose ¥644mn to ¥1,754mn, notes and accounts receivable climbed ¥548mn to ¥2,396mn, and inventory assets increased ¥476mn to ¥1,928mn. Non-current assets increased ¥680mn to ¥2,390mn, as tangible non-current assets rose ¥394mn to ¥1,701mn, intangible non-current assets grew ¥196mn to ¥451mn, and investments and other assets increased ¥88mn to ¥238mn. Within intangible non-current assets, goodwill rose ¥196mn to ¥405mn. Liabilities increased ¥1,810mn to ¥4,943mn. Breaking this down, current liabilities rose ¥755mn to ¥3,150mn and non-current liabilities grew ¥1,054mn to ¥1,792mn. Within current liabilities, accounts payable increased ¥339mn to ¥1,319mn, while short-term loans payable rose ¥188mn to ¥741mn. Within non-current liabilities, long-term loans payable grew ¥1,000mn to ¥1,625mn, which constituted practically all of the increase in non-current liabilities. Interest-bearing debt increased ¥1,188mn to ¥2,366mn. Net assets rose ¥600mn to ¥3,646mn, including due to the issuance of new shares and the accumulation of final profit.

As a result of the above, the equity ratio was 42.4%. This is a fall of 6.9 percentage points on the previous fiscal year, but it still above the average of listed companies of 30%. The D/E ratio was at the low level of 64.9%. The non-current ratio and the non-current long-term ratio were 65.6% and 44.0% respectively, each significantly below 100%. Also, the current ratio was 196.8%, which is close to the ideal level, and all of these values are considered to indicate that the Company's financial condition is highly stable.

Simplified consolidated balance sheet

(¥mn)

	FY2/14	FY2/15	FY2/16	FY2/17
Current assets	3,702	4,322	4,468	6,199
Cash and deposits	1,246	1,150	1,110	1,754
Notes and accounts receivable	1,405	1,965	1,848	2,396
Inventory assets	987	1,102	1,451	1,928
Non-current assets	1,795	1,800	1,710	2,390
Tangible non-current assets	1,279	1,310	1,307	1,701
Intangible non-current assets	348	333	254	451
Goodwill	277	275	208	405
Investment and other assets	167	157	149	238
Total assets	5,497	6,123	6,178	8,590
Current liabilities	1,919	2,762	2,395	3,150
Accounts payable	715	1,253	979	1,319
Short-term loans payable	709	790	553	741
Non-current liabilities	1,461	1,015	737	1,792
Long-term loans payable	1,233	850	624	1,625
Total liabilities	3,381	3,777	3,133	4,943
(interest-bearing debt)	1,943	1,640	1,177	2,366
Share-acquisition rights	-	-	-	1
Equity of non-controlling interests	-	-	-	-
Net assets, total	2,116	2,345	3,045	3,646
Stability analysis				
Equity ratio	38.5%	38.3%	49.3%	42.4%
D/E ratio	91.8%	69.9%	38.7%	64.9%
Current ratio	192.9%	156.5%	186.6%	196.8%
Non-current ratio	84.8%	76.8%	56.2%	65.6%
Non-current long-term conformity ratio	50.2%	53.6%	45.2%	44.0%

Source: prepared by FISCO from the securities registration statement, the securities report, and the financial results summary

Looking at cash flow, the balance of cash, deposits, and cash equivalents at the end of FY2/17 was up ¥644mn on the end of the previous fiscal year to ¥1,714mn. Cash flow from operating activities was ¥516mn, as although payment of income taxes, etc., was ¥373mn and the purchase liabilities reduction amount was ¥202mn, these were exceeded by items including income before income taxes, etc., of ¥525mn, the inventory assets reduction amount of ¥225mn, and depreciation expenses of ¥190mn. Cash flow used in investing activities was ¥308mn, mainly from expenditure of ¥173 to acquire tangible non-current assets and of ¥162 to acquire the shares of subsidiaries following changes to the scope of consolidation. Cash flow from financial activities was ¥436mn, as although there was expenditure of ¥1,086mn to repay long-term loans and the short-term loans net reduction amount was ¥239mn, there was income from long-term loans of ¥1,620mn and from the issuance of shares of ¥242mn. Free cash flow has been positive in each of the last three fiscal years.

Simplified cash flow statement

(¥mn)

	FY2/14	FY2/15	FY2/16	FY2/17
Cash flow from operating activities	-120	473	-68	516
Cash flow from investing activities	-605	-247	265	-308
Cash flow from financial activities	870	-321	-236	436
Free cash flow	-725	226	196	207
Balance of cash, deposits, and cash equivalents at end of fiscal year	1,206	1,110	1,070	1,714

Source: Prepared by FISCO from the Company's securities registration statement and financial results

The results forecasts are extremely conservative and do not incorporate the expansion from M&A, for which the previous fiscal year's restrictions have been removed

2. FY2/18 consolidated forecasts

The Company's consolidated results forecasts for FY2/18 are net sales of ¥19,088mn (up 17.5% YoY), operating income of ¥576mn (up 16.9%), ordinary income of ¥607mn (up 14.5%), and net income attributable to the owners of the parent of ¥412mn (up 16.7%). Most of the forecast increase in sales will be from the full fiscal year contributions of the subsidiaries that joined the Group in the previous fiscal year. However, expansion from M&A that is the source of the Company's growth has not been incorporated into these results forecasts and at FICSO, we think that they are extremely conservative. Results in FY2/18 will depend upon how many M&A it can conduct and also whether the acquired companies will immediately contribute to earnings. There was the restriction in the previous fiscal year that the Company could not conduct any M&A for half a year due to the review to change its listing to the TSE 1st Section, but it still conducted three M&A despite this restriction. But in this fiscal year, on considering its name awareness has improved from being listed on the TSE 1st Section and that it will be presented with many M&A candidates, we think that, even when considered simply, it will conduct 5 or 6 M&A in FY2/18 as a year in which there will be no restrictions. The Company initially announced conservative results forecasts for FY2/17 also, but subsequently upwardly revised them on 2 occasions. Based on this, in the same way it may announce upward revisions during the year as it concludes M&A agreements. There will be no restrictions in this fiscal year and it is expected to be a year in which it demonstrates its true, inherent strengths. We shall be looking forward to the Company upwardly revising its forecasts in its press releases on the implementation of M&A and in its results announcements.

Consolidated forecasts

(¥mn)

	FY2/17		FY2/18 (F)		
	Results	% of sales	Forecast	% of sales	YoY
Net sales	16,241	-	19,088	-	17.5%
Operating income	493	3.0%	576	3.0%	16.9%
Ordinary income	530	3.3%	607	3.2%	14.5%
Net income attributable to the owners of the parent	353	2.2%	412	2.2%	16.7%

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

Share supply-demand balance

Characterized by a high percentage of share holdings by individual investors

1.The percentages of share holdings by type of investor and the major shareholders

As of the end of February 2017, the percentages of share holdings by the type of investor were as follows; 1.52% by financial institutions, 3.35% by financial instruments business operators, 28.35% by other corporations, 2.01% by foreign corporations, and 64.77% by individuals and others, so the percentage of shares held by individuals is high. The Company's leading shareholder is CEO and President Yoshimura, at 40.08%. As of the end of February 2017, the second largest shareholder was the Innovation Network Corporation of Japan, but in March of the same year, it sold one part of the shares it held in the Company and its percentage of the number of shareholder voting rights was reduced to 2.70% and it fell to sixth on the list of shareholders. As a result, it is estimated that the second largest shareholder is now Japan Tobacco Inc., which holds 4.84%.

Ownership ratio by shareholder type (as of February 28, 2017)

(%)	Governments and local public bodies	Financial institutions	Financial instruments business operators	Other companies	Overseas corporations	Individual investors and others	Total
Ownership ratio	0.00	1.52	3.35	28.35	2.01	64.77	100.00

Source: Prepared by FISCO from the securities report

Major shareholders (as of March 31, 2017)

Ranking	Name	Number of shares held (shares)	Ratio of total shares issued (%)
1	Motohisa Yoshimura	1,743,159	40.08
2	Japan Tobacco Inc. <2914>	210,500	4.84
3	Kenzo Shinmura	205,200	4.72
4	Takahiro Yamaguchi	138,100	3.18
5	Mitsunori Suwa	127,311	2.93
6	Innovation Network Corporation of Japan	117,368	2.70
7	The Master Trust Bank of Japan, Ltd. (trust account)	45,700	1.05
8	Nippon Venture Capital Co., Ltd.	44,800	1.03
9	SBI SECURITIES Co., Ltd.	42,000	0.97
10	G-7 HOLDINGS INC. <7508>	41,300	0.95
Total		2,715,438	62.45

Note: The conditions of the major shareholders at the end of March 2017 was estimated by reflecting the sale of shares by the Innovation Network Corporation of Japan in March into the conditions of the major shareholders at the end of February 2017.
Source: Prepared by FISCO from the Company's securities report and press releases

2. It may be recognized as being a new investment theme

Based on its business model, we think that the Company's shares are like an SME version of a REIT. It is currently classified in the food sector, but from its business model of conducting M&A and then subsequently utilizing its SME Support Platform to improve the businesses of the acquired companies, and also as is widely known, that it has indicated its intention to develop in sectors other than food, it may be recognized as being a new investment theme. In addition, the Company's business is not limited to only supporting and assisting SMEs, as it also uses M&As to address the problem of a lack of business successors, to develop industries, and to secure employment. So from these viewpoints, it may also attract attention for its social significance.

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