COMPANY RESEARCH AND ANALYSIS REPORT

SFP Holdings Co., Ltd.

3198

Tokyo Stock Exchange Prime Market

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Index

Summary 01

1. Company profile 01
2. FY2/24 results 01
3. FY2/25 forecast 01
4. Direction 02

Company profile 03

1. Business overview 03
2. Corporate characteristics 05
3. History 05

Performance trends 06

1. Past performance 06
2. FY2/24 results 08
3. Summary of FY2/24 11

Main business activities 11

1. Restaurant openings (and format changes) 11
2. Capturing inbound demand 12
3. Staffing 12

Outlook 12

1. FY2/25 forecast 12
2. Our outlook 13

Direction 13

1. Direction and progress so far 13
2. Our medium- to long-term focus points 15

Shareholder returns 15

Summary

Both net sales and profit grew significantly in FY2/24 due to the capturing of inbound demand and other factors. The Company also worked on opening restaurants in regional areas and developing the business formats it is focusing on

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. Since 2020, the Company had refrained from making large-scale investments such as opening new restaurants, as its business performance had suffered a major setback due to the COVID-19 pandemic, and it focused instead on strengthening its earnings structure through cost reductions. However, signs of a full-fledged recovery are finally starting to appear due to a recovery in domestic consumption following the end of the COVID-19 pandemic and the capturing of inbound demand. The Company is also working on opening restaurants in regional cities and developing the business formats it is focusing on in preparation for a new growth stage. The total number of restaurants at the end of FY2/24 was 205 (including 16 franchise restaurants).

2. FY2/24 results

In FY2/24 results, the Company posted ¥29,079mn in net sales (up 26.9% YoY), operating income of ¥2,026mn (a loss of ¥754mn in FY2/23), and ¥2,236mn in ordinary income (up 41.2% YoY), as both sales and profit grew significantly, while operating income moved into the black. Sales growth at existing restaurants due to factors such as the end of the COVID-19 pandemic and the capturing of strong inbound demand contributed to the increase in sales. In terms of profits, although there was an impact from inflation, the cost of sales ratio remained stable due to menu revisions and other factors, and the increase in sales offset the increase in personnel expenses, restaurant operating costs and other costs due to the expansion of operating hours, which allowed the Company to achieve a significant increase in operating income (turned positive). In terms of activities, the Company got a solid response towards a return to growth, such as opening restaurants in regional areas and developing the public bar business format (a small-scale, low-investment, stable income model)* that the Company is focusing on.

* Brands are Home Base, Go-no-Go, Hamayaki Dragon, Torihei Chan and Yakiton Fukusuke.

3. FY2/25 forecast

In its FY2/25 forecast, the Company expects increases in sales and profits, with net sales up 3.2% year on year to ¥30,000mn, operating income rising 3.6% to ¥2,100mn, and ordinary income growing 2.8% to ¥2,300mn. As for sales, inbound demand will continue to be a tailwind, and growth in existing restaurants and restaurants opened in the previous fiscal year will contribute to the increase in sales. In terms of profits, in addition to such increases as personnel expenses and utility costs (electricity and gas bills) due to the end of subsidies, the Company is anticipating one-time expenses related to new restaurant openings and proactive investment targeting medium-term growth. However, the Company expects an increase in profits due to the lifting of earnings resulting from higher sales.

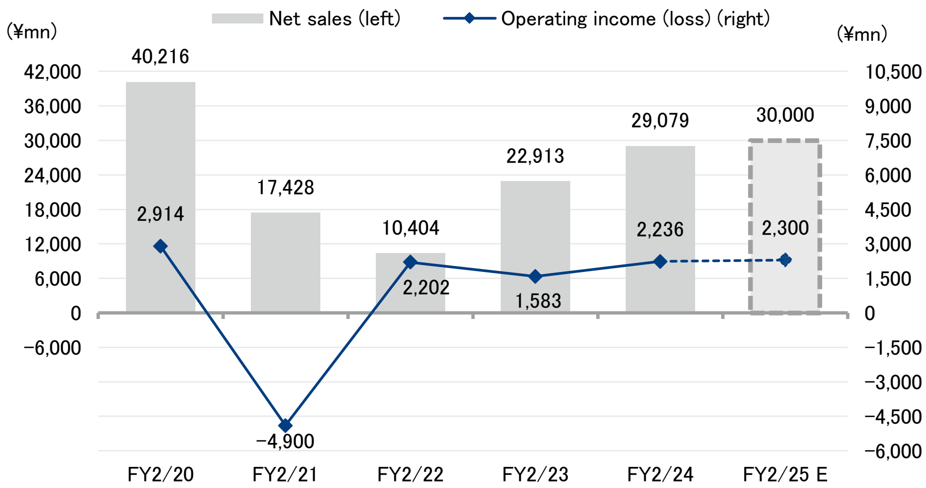
4. Direction

Up until FY2/20, the Company had made an annual announcement of a medium-term management plan for the coming three years, but decided not to do so after FY2/21 given the uncertain outlook caused by the impact of the COVID-19 pandemic. The Company has clarified its short- and medium-term direction, however, as it anticipates changes in the operating environment. It plans to resume a full-scale growth trajectory as soon as possible by: 1) opening stores in regional cities, 2) expanding the public bar format that it is focusing on, 3) existing-store sales growth driven by overseas visitors to Japan and late at night opening hours, 4) measures to counteract inflation (cost pass-through, etc.), and 5) promoting DX (such as cashless payments).

Key Points

- Achieved significant growth in sales and profits in FY2/24 due to factors including the capturing of strong inbound demand
- Solid response to restaurant openings in regional areas and the development of business formats it is focusing on
- For FY2/25, the Company is expecting increases in both sales and profits, despite growth investment looking ahead to the future
- The Company aims for a quick return to a growth trajectory through the opening of new restaurants in regional cities, the expansion of the public bar concept, existing-store sales growth, measures to counteract inflation, and DX promotion, etc.

Results trends



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

Company profile

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

1. Business overview

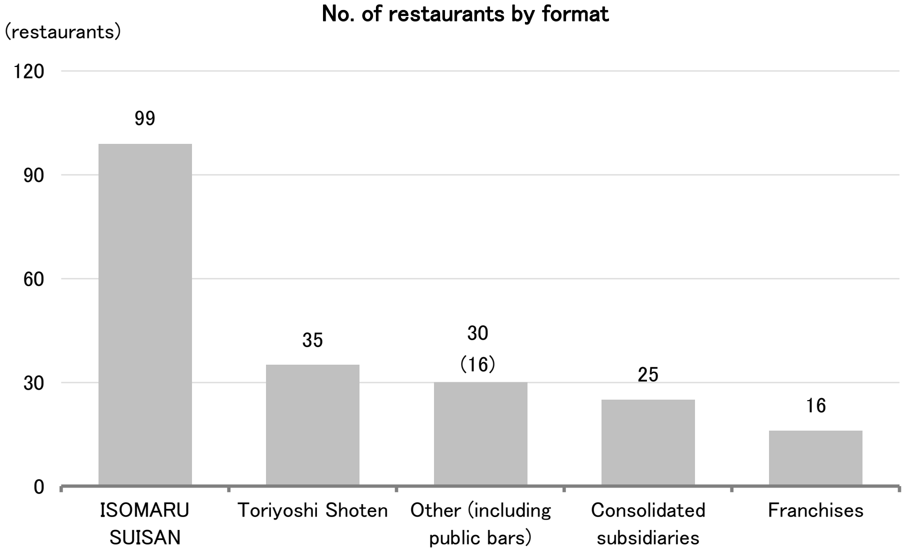
The Company primarily operates ISOMARU SUISAN, a popular seafood izakaya open 24 hours a day*, and Toriyoshi Shoten (a chicken specialty restaurant) at locations adjacent to train stations and in commercial districts. It is also focused on growing the public bar format that generates stable profits from small size and low investments as a second earnings pillar. Although the pandemic has cast a shadow over the whole industry since 2020, its current performance is steadily heading towards recovery, because of the management team dedicating itself to strengthening the Company's earnings structure, and moving ahead in responding to changes in the operating environment.

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

While the Company only has one business segment, the food and beverages segment, it operates in four areas according to format: the Toriyoshi business (founding business), the mainstay ISOMARU SUISAN business, other business including new formats, and also from FY2/20, the contributions of the Alliance members (consolidated subsidiaries)* have been added as the fourth area. The ISOMARU SUISAN business provides about 60% of net sales. The Company mainly opened restaurants in Tokyo and surrounding areas, but is working to open restaurants in regional cities as well.

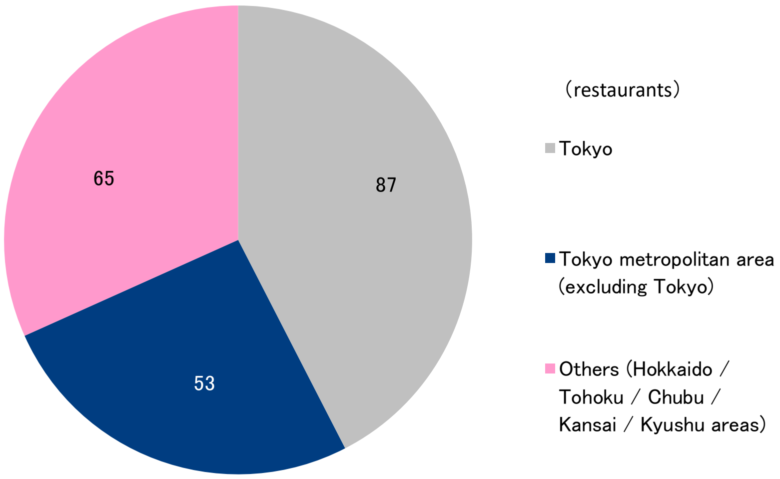
* The two consolidated subsidiaries are Joe Smile Restaurant System Inc. (Kumamoto) and CLOOC DINING CO., LTD. (Nagano). The intention is to leverage M&A to open more restaurants in regional cities (provision of brands via the Group franchise format).

No. of restaurants by format



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

No. of restaurants by area (As of the end of February 2024)



Source: Prepared by FISCO from materials provided by the Company

Features by brand

Brand	Features
ISOMARU SUISAN	Seafood izakaya centered on grilled cuisine
Omotenashi Toriyoshi	Further refining the "Omotenashi" hospitality valued by the original brand Toriyoshi, specialties include the signature dish tebasaki karaage (deep-fried chicken wings)
Toriyoshi Shoten	Tasty, quick provision of chicken izakaya fare
Ichigoro	Izakaya where you can enjoy a wide variety of gyoza
Kiduna Sushi	Delicious and inexpensive fresh food
Teppan 200°c	Casual teppanyaki at a large counter
Misonikomi Udon Tamacho Honten	Nagoya's famous misonikomi udon (udon in a thick miso soup)
Bistro ISOMARU	Casual, Western style bistros that use carefully selected seafood
Kisoba Tamagawa	Reasonable and freshly-prepared boiled soba noodles
Machizushi Torotaku	Restaurant and bar with an extensive line-up of sushi, tempura, and sashimi
ISOMARU SUISAN Shokudo	A restaurant offering fresh sashimi set meals, seafood bowls, eel bowls, etc.

Individual brand characteristics in the "public bar" genre

Brand	Features
Home Base	Public bar with a retro atmosphere reminiscent of the Showa era (1925–1989); the Company's first standing bar (tachinomi) format
Go-no-Go	Public bar you will want to visit every day to feel full of vitality the following day
Hamayaki Dragon	A "hamayaki" barbecue style restaurant/izakaya where you can cook fresh live shellfish, such as Japanese scallops and turban shell (sazae), yourself
Torihei Chan	Public bar proud of their piping-hot omelets and grilled chicken
Yakiton Fukusuke	A public bar where diners can enjoy pork dishes such as the famous "ageton/toroton" and low-temperature-cooked "tonsashi"

Source: Prepared by FISCO from the Company's materials

2. Corporate characteristics

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

The Company can also apply the income model established for ISOMARU SUISAN (hereinafter, "the ISOMARU SUISAN model") to other formats and has substantial room for further evolution. Toriyoshi Shoten applied the ISOMARU SUISAN model to the Company's founding Toriyoshi business and got it back on track. Key points in particular are openings along with ISOMARU SUISAN (at the same time or in the same area as existing ISOMARU SUISAN) and selective openings that meet market features (location and format). Furthermore, with the environmental changes now the COVID-19 pandemic has settled down (such as changes to consumer behaviors), it is considered that it will be necessary to respond flexibly through fine tuning, and it can be said that the Company's true value will be seen in its attitude of pursuing this sort of hypothesis verification-type evolution. The Company launched the Torotaku business format that allows it to open on existing ISOMARU SUISAN locations while continuing to enhance dietary properties. Additionally, the clarification of its intent to focus on the public bar format, which can generate stable profits from small size and low investments, bars with high turnover that leverage ISOMARU SUISAN's strengths in station-front and street-level locations, can also be seen as a move in this direction.

3. History

The Company started with the opening of Toriyoshi, a fried chicken wing specialty restaurant, in Tokyo's Musashino City 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 2008 and built the foundation for growth.

Having smoothly ramped up ISOMARU SUISAN and confirmed a growth path, the Company decided to pursue listing its stock as the quickest path to "building a lasting corporate organization." It accepted capital participation by Polaris Private Equity Fund II, L.P. (Polaris Capital Group Co., Ltd.), a private-equity fund, in December 2010 as well as enhanced management and the accuracy of organizational operation by adopting objective standards and rational methods.

The Company concluded a capital alliance with create restaurants holdings inc. <3387>, which mainly operates restaurants and food courts in suburban shopping centers, and it became a consolidated subsidiary in April 2013 and listed on the Tokyo Stock Exchange (TSE) Second Section in December 2014. On February 28, 2019, listing was upgraded to the TSE First Section (On April 4, 2022, the Company transferred its listing to the Prime Market under the new market classification of the TSE). Meanwhile, during that time, the Company transitioned to a holding company framework in September 2016 and renamed itself as SFP Holdings Co., Ltd. in June 2017.

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

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

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

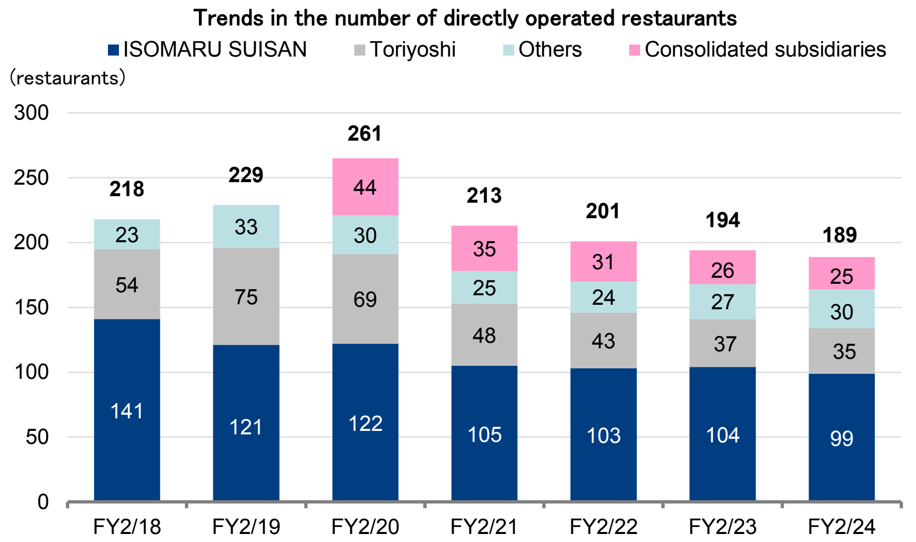
Performance trends

Realized high growth and profitability while also actively increasing the number of locations. Earnings have stalled since FY2/21 because of the COVID-19 pandemic, but latest results show signs of recovery

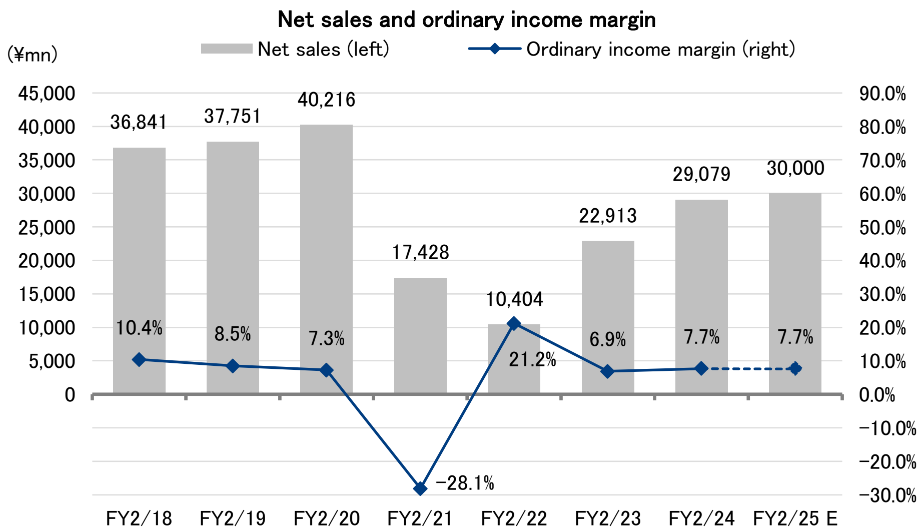
1. Past performance

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

Performance trends



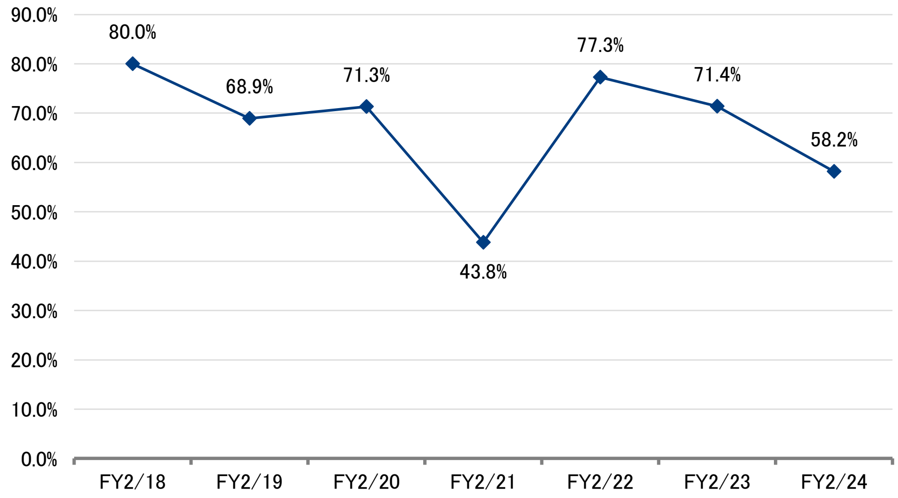
Source: Prepared by FISCO from the Company's financial results supplementary material



Note: The sharply higher ordinary income margin in FY2/22 is due to subsidy income associated with the COVID-19 pandemic
Source: Prepared by FISCO from the Company's financial results

In terms of finances, the Company's equity ratio climbed to 76.8% at the end of FY9/15 after the public-offering capital increase (about ¥12.7bn) accompanying the TSE-2 market IPO in December 2014 and subsequently stayed above 70%. While the equity ratio dropped temporarily in FY2/21 due to booking a net loss due to the impact of COVID-19 and borrowing about ¥9.0bn in working capital, the equity ratio returned to 77.3% at the end of FY2/22, which reflects a level prior to the COVID-19 pandemic. In FY2/24, the Company's equity ratio declined to 58.2% due to the acquisition of treasury stock in order to comply with standards for maintaining a stock market listing (ratio of floating shares), but ROE greatly improved to 17.1% and the Company's financial balance can be evaluated as being extremely good.

Trends in equity ratio



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

2. FY2/24 results

In FY2/24 results, the Company posted ¥29,079mn in net sales (up 26.9% YoY), operating income of ¥2,026mn (a loss of ¥754mn in FY2/23), ¥2,236mn in ordinary income (up 41.2% YoY), and ¥1,731mn in profit attributable to owners of parent (up 214.9% YoY), as both sales and profit grew significantly and exceeded the forecast, while operating income moved into the black.

In net sales, the recovery in domestic consumption following the end of the COVID-19 pandemic and the capturing of inbound demand led to growth in existing-store sales, which contributed to the increase in sales. Actual existing-store sales (full-year average) have recovered to just under 90.0% (69.2% in FY2/23) compared to before the COVID-19 pandemic (compared to FY2/20)*1, and sales to visitors from overseas in particular increased significantly versus FY2/23 due to the introduction of high-priced menu items and other factors*2. Additionally, the reopening of restaurants (ISOMARU SUISAN), which had temporarily suspended late-night hours (10:00 p.m. to 5:00 a.m.) due to staffing shortages, appears to have contributed to the growth in results*3.

*1 In particular, the increase in "spend per customer" appears to be driving the growth in existing-store sales. Going forward, the Company will focus on increasing the number of customers by extending late-night operating hours and strengthening marketing (creating buzz, etc.).

*2 The ratio of sales from overseas visitors to Japan (ISOMARU SUISAN) has expanded to over 11%, and is a factor pushing up overall sales.

*3 Late at night, there are many orders for alcoholic beverages and the margins are high, making it a profitable time for izakaya restaurants. The Company has taken measures to combat the labor shortage, including hiring foreign staff, and has been working to gradually resume late-night operations.

With respect to restaurant openings and closings, the Company opened 8 new restaurants and had 4 restaurants change business format*, while it closed 13 (of which 3 were operated by consolidated subsidiaries), including those where rental agreements had ended, for a total of 205 (including 16 franchise restaurants) at the end of FY2/24.

* The eight new restaurants and two restaurants with changed business formats include three ISOMARU SUISAN restaurants (Nagano Matsumoto, Sendai, Osaka-Kyobashi), four public bar (Go-no-Go) restaurants (Osaka Ekimae, Kyoto Kawaramachi, Yokosuka Chuo, Sendai), and one Yakiton Fukusuke restaurant, and the focus has been on opening restaurants in regional areas and in the public bar format.

In terms of profits, despite the impact of factors such as inflation, the cost of sales ratio remained stable due to menu revisions and some price updates. Furthermore, the increase in sales covered the increase in personnel expenses and restaurant operating expenses* due to new hiring in response to the labor shortage and expanded business hours, resulting in a significant increase in operating income (turned profitable). The operating profit margin also improved to 7.0%, exceeding the level prior to the COVID-19 pandemic. In terms of ordinary income and lower profit lines, although subsidy income related to the COVID-19 pandemic (booked as non-operating income) dropped off (approximately ¥2.2bn), the Company offset the negative amount and secured an increase in profit, as the Company's prior profitability returned strong.

* However, the Company was able to limit the increase in utility costs (especially electricity and gas costs) to ¥145mn due to the subsidy system.

In terms of financial condition, the Company conducted a share buyback* on September 12, 2023, with the aim of bolstering its returns to shareholders, further improving its capital efficiency, and complying with the standards for maintaining its stock listing (ratio of floating shares). As a result, equity capital declined significantly by 38.2% from the end of the previous fiscal year to ¥7,744mn. Additionally, as cash and deposits decreased due to the acquisition of treasury stock, total assets decreased by 24.3% to ¥13,303mn. With this, the equity ratio decreased to 58.2% (71.4% at the end of FY2/23). Meanwhile, ROE, which indicates capital efficiency, improved greatly to 17.1% (4.4% in FY2/23) due to the decline in equity capital and the higher level of profit.

* Acquired 3,000,000 common shares via tender offer at a price of ¥1,980 per share (total acquisition cost: ¥5,940mn). Of the 3,000,000 shares acquired, 2,975,000 shares were retired on February 5, 2024.

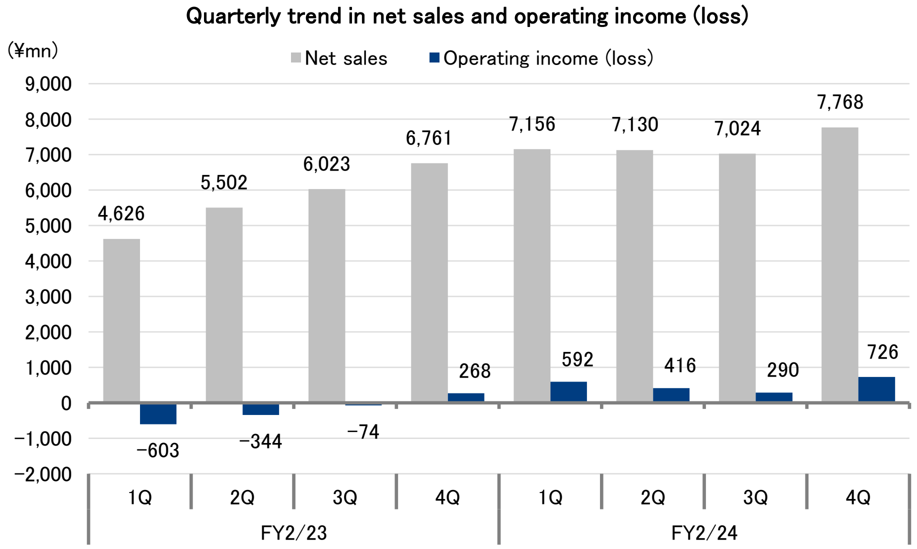
Overview of FY2/24 results

(¥mn)

	FY2/23		FY2/24		Change	
	Results	% of total	Results	% of total	Amount	%
Net sales	22,913		29,079		6,166	26.9%
Toriyoshi	4,328	18.9%	5,165	17.8%	837	19.3%
ISOMARU SUISAN	13,928	60.8%	17,614	60.6%	3,686	26.5%
Other	3,142	13.7%	4,253	14.6%	1,111	35.4%
Subsidiaries	1,513	6.6%	2,046	7.0%	533	35.2%
Cost of sales	6,712	29.3%	8,406	28.9%	1,693	25.2%
Gross profit	16,200	70.7%	20,672	71.1%	4,472	27.6%
SG&A expenses	16,955	74.0%	18,645	64.1%	1,690	10.0%
Operating income (loss)	-754	-3.3%	2,026	7.0%	2,781	-
Ordinary income	1,583	6.9%	2,236	7.7%	652	41.2%
Profit attributable to owners of parent	549	2.4%	1,731	6.0%	1,181	214.9%

	End of FY2/23 results	End of FY2/24 results	Change	
			Amount	%
Total assets	17,574	13,303	-4,271	-24.3%
Shareholders' equity	12,540	7,744	-4,795	-38.2%
Equity ratio	71.4%	58.2%	-	-13.2pt

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



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

Results are reviewed by main business field below.

(1) The Toriyoshi business

Net sales increased 19.3% YoY to ¥5,165mn. Due to a closure of two restaurants, there were 35 restaurants as of the end of FY2/24.

(2) The ISOMARU business

Net sales increased 26.5% YoY to ¥17,614mn. The Company opened three restaurants* and closed seven for a total of 99 and 16 franchise restaurants at the end of FY2/24.

* In addition to ISOMARU SUISAN (Restaurant No. 2 in Sendai, Osaka Kyobashi), includes franchise restaurants of ISOMARU SUISAN Shokudo (Aeon Makuhari Store). Does not include ISOMARU SUISAN from a subsidiary (Matsumoto Ekimae, Nagano).

(3) Other businesses (including public bar format)

Net sales increased 35.4% YoY to ¥4,253mn. The Company opened three new restaurants and added two* by business format change for a total of 30 at the end of FY2/24. Of these, the number of public bar format that the Company is focusing on increased to 16.

* Opened three new locations (Kyoto Kawaramachi Sanjo, Yokosuka Chuo, Sendai) and one business format conversion of Osaka Ekimae Go-no-Go, and one business format conversion restaurant (Ikebukuro) of Yakiton Fukusuke

(4) Food Alliance members (consolidated subsidiaries)

Net sales were up 35.2% YoY to ¥2,046mn. The business format changed for two*1 restaurants, the Company opened two*2 new restaurants and closed four, for a total of 25 at the end of FY2/24.

*1 Changed the business format of one Maekawa Coffee restaurant to Hikari no Mori Coffee, and changed one Maekawa Suigun to Amakusa Suigun
*2 Includes ISOMARU SUISAN (Matsumoto Ekimae, Nagano)

3. Summary of FY2/24

To summarize FY2/24 based on the above, not only did the Company achieve a significant increase in operating income (turning profitable) as the COVID-19 pandemic ended, but the fact that we were able to confirm that the Company's business format (profit model) did not lose its superiority even heading into the post-COVID era can be evaluated as a major plus. In particular, we positively evaluate the following as achievements to be focused on going forward: 1) As inbound demand continues to be strong, the ISOMARU SUISAN style has unexpectedly become an attractive force for attracting visitors to Japan and has become a new profit driver; 2) The Company has been expanding its efforts to open new restaurants in local areas, and the three newly opened restaurants in Nagano Matsumoto, Sendai, and Osaka Kyobashi have achieved sales levels that far exceed the overall average, giving momentum to future regional expansion; 3) The public bar business format (Go-no-Go) has steadily gotten on track; and 4) The Company has been able to address the labor shortage issue, which had been a bottleneck, by actively recruiting employees including foreign nationals (specific skills), and the late-night business hours have been extended and the Company has put in place a system that will enable new restaurant openings. The Company's ability to transform in line with market trends while retaining the essential advantages of its revenue model can be said to be its true strength.

Main business activities

Solid response to establishing new earnings drivers, including capturing inbound demand, opening new restaurants in regional areas, and developing formats that the Company is focusing on

1. Restaurant openings (and format changes)

In FY2/24, the Company resumed opening restaurants looking ahead to the post-COVID era, opening eight new restaurants and changing the format of four other restaurants. These moves were notable in that they featured an increase in restaurant openings in regional cities, and more openings in the public bar format which the Company is focusing on. In particular, with regard to regional restaurant openings, in addition to Nagano Matsumoto and Sendai (both of which are ISOMARU SUISAN's second outlets in each prefecture), Osaka Kyobashi seems to have been very successful since its opening. In the Sendai area, the Company started with its first ISOMARU SUISAN restaurant in 2018, followed by Machi Sushi Torotaku in 2022, and the second ISOMARU SUISAN restaurant in FY2/24, and also opened the public bar Go-no-Go, as it steadily solidified its foothold. The Company is attracting attention as a role model for opening restaurants in regional areas (dominant development). Meanwhile, with respect to the public bar format which the Company is focusing on as its second pillar, the Company has opened four Go-no-Go locations at Osaka Station, Kyoto Kawaramachi Sanjo, Yokosuka Chuo, and Sendai, and opened Yakiton Fukusuke Ikebukuro through a format change, thereby increasing the total number of restaurants to 16 at the end of FY2/24. Going forward, the Company plans to establish a high-profit model and expand into areas (including regional cities) where it has established a foothold with ISOMARU SUISAN.

2. Capturing inbound demand

As inbound demand from tourists visiting Japan remains strong, overseas visitors' percentage of ISOMARU SUISAN's total sales reached a level above 11% in Q4, and contributed greatly to improving the Company's performance. The Company's ability to successfully capture inbound demand is proof that ISOMARU SUISAN's style matches the tastes of foreign tourists, and it appears that at some locations more than half of the guests are foreign tourists*1. A characteristic of visitors to Japan is that they often visit restaurants during the dinner time zone, and they mainly focus on food, but the spend per customer is about 5% higher than that of Japanese customers. Also, they tend to order more crab, eel, shellfish, etc. The Company is working on this as a new earnings driver by bolstering marketing targeting visitors to Japan, a customer segment it has not paid much attention to until recently, and developing high-priced products*2.

*1 Over 70% at certain locations in the Osaka-Namba area.
*2 The Isomaru Special Set developed for inbound tourists has been well received.

3. Staffing

As the industry as a whole faces the issue of labor shortages, the Company is taking measures such as raising wages and actively hiring foreign staff to ensure that it does not undermine its ability to fully resume late-night hours and expand store openings going forward. In particular, the ratio of foreign staff hired is increasing, and the Company plans to enhance its support system with a view to long-term employment as valuable workers. The number of employees per restaurant in FY2/24 improved significantly to 5.8 (4.8 in the previous fiscal year), and the Company is preparing to extend operating hours and open new restaurants.

Outlook

Expecting continued increase in sales and operating profit in FY2/25 despite proactive growth investment and cost increases

1. FY2/25 forecast

In its FY2/25 forecast, the Company basically expects increases in sales and profits, excluding net income which will be impacted by an increase in tax burden. The Company forecasts net sales to rise 3.2% year on year to ¥30,000mn, operating income to increase 3.6% to ¥2,100mn, ordinary income to grow 2.8% to ¥2,300mn, and profit attributable to owners of parent to fall 13.4% to ¥1,500mn.

As for sales, inbound demand will continue to be a tailwind, and growth at existing restaurants and restaurants opened in the previous fiscal year will contribute to the increase in sales. In terms of the number of restaurants, the Company plans to open seven directly-managed restaurants and close two, resulting in a net increase of five restaurants compared to the end of the previous fiscal year.

In terms of profits, the Company expects personnel expenses to rise due factors such as proactive hiring and rising wages, and forecasts that utility costs (electricity and gas bills) will increase due to the end of subsidies and other factors. Also, the Company is anticipating one-time expenses related to new restaurant openings and proactive investment targeting medium-term growth, but the Company still forecasts an increase in profits due to the lifting of earnings resulting from higher sales.

FY2/25 forecast

(¥mn)

	FY2/24		FY2/25		Change	
	Results	% of total	Results	% of total	Amount	%
Net sales	29,079		30,000		920	3.2%
Operating income	2,026	7.0%	2,100	7.0%	73	3.6%
Ordinary income	2,236	7.7%	2,300	7.7%	63	2.8%
Profit attributable to owners of parent	1,731	6.0%	1,500	5.0%	-231	-13.4%

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

2. Our outlook

At FISCO, we believe that the Company's earnings forecasts are reasonable, although caution needs to be taken as the economic outlook remains uncertain. The Company is prioritizing bolstering its structure for growth from FY2/26 onward, and while the growth in business results is expected to moderate for a while, 1) the Company's capturing of strong inbound demand, and 2) the recovery in the number of customers due to factors such as the extension of business hours, will possibly be factors behind an upward trend in business results. In particular, regarding 1), the Company is working on bolstering marketing and product development (high price-range products) for tourists visiting Japan, and we will pay close attention to the trends and effects of these efforts, as they hold potential for further growth. Other important areas to focus on are the Company's establishment of business infrastructure and operational reforms to support future growth, such as strengthening human capital (including recruitment and training) and promoting DX.

Direction

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

1. Direction and progress so far

Up until FY2/20, the Company had made an annual announcement of a medium-term management plan for the coming three years, but decided not to do so after FY2/21 given the uncertain outlook caused by the impact of the COVID-19 pandemic. The Company has clarified its short- and medium-term direction, however, as it anticipates changes in the operating environment. It is carrying out initiatives such as 1) opening stores in regional cities, 2) expanding the public bar format that it is focusing on, 3) existing-store sales growth driven by foreign visitors to Japan and late at night opening hours, 4) measures to counteract inflation (cost pass-through, etc.), and 5) promoting DX (such as cashless payments).

(1) Opening new restaurants in regional cities

The mainstay ISOMARU SUISAN format has expanded primarily in Tokyo and the surrounding three prefectures, but even prior to the COVID-19 pandemic, the Company had been seeking ways to advance into regional cities, including through alternate business formats. Looking back at its track record up through FY2/24, in addition to Kyoto, Osaka and Hyogo (21 restaurants in total in those three areas), the Company successfully opened restaurants in Sendai (4 restaurants), Shizuoka (1 restaurant), Nagano (2 restaurant) and Kumamoto (2 restaurants)*, in addition to covering Sapporo (1 restaurant), Aichi (8 restaurants) and Fukuoka (5 restaurants) through franchise expansion. The Company is turning its attention toward opportunities to open new restaurants in other undeveloped core cities, and has positioned that effort as one driver of medium-term growth. It is particularly prioritizing opening restaurants in Hokuriku, Chugoku and Kyushu and plans to expand by area by opening additional stores after laying the groundwork firstly.

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

(2) Expanding the focus on the public bar format

To respond dynamically to changes in business conditions triggered by the COVID-19 pandemic, the Company is focusing on the public bar format, which offers stable income for a low investment, while levering the strengths of its existing mainstay business formats. The public bar format (income model) is characterized by, among other things, 1) being located in residential areas and shopping arcades, 2) street-level locations, 3) compact size, 4) operating from 5 p.m. to 5 a.m. and 5) a small number of customers with high turnover. Brands for future development include mainly the four brands of Go-no-Go, Hamayaki Dragon, Torihei Chan, and Yakiton Fukusuke. The Company has multiple business formats within the public bar genre, allowing it to choose the format that best matches a location in terms of market, customer base and competitors, which is one of its strengths. In other words, it can be defined as a type of business that can earn stable income for a low investment with a focus on residential and commercial areas, while retaining the advantages of the Company's mainstay formats, including street-level locations, operation both day and night (to capture a wide range of demand depending on use), and high turnover. Going forward, the Company intends to open more restaurants, including in regional cities, mainly in areas where it has established a foothold with ISOMARU SUISAN.

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

The increase in the number of visitors to Japan, which is driving current business results, is expected to provide further growth for existing restaurants, so the Company plans to put in place systems (revisions to its personnel system, higher salary levels) to ensure that it does not miss any opportunity to capture demand.

(4) Measures to counteract inflation

The Company will continue to pass appropriate cost increases onto sales prices to maintain its cost of sales ratio at a certain level and cut SG&A expenses while promoting optimization of procurement costs by taking advantage of economies of scale within the create restaurants holdings Group, given that raw material and energy prices are expected to stay high and other factors.

2. Our medium- to long-term focus points

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

Shareholder returns

Paid an annual dividend of ¥23 per share in FY2/24, an increase of ¥3 YoY. Plans to increase the dividend by ¥3 again in FY2/25

For FY2/24, the Company revised its interim dividend upward by ¥1 and the year-end dividend by ¥2, based on its strong current business results, and the annual dividend is ¥23 yen per share, an increase of ¥3 from the previous fiscal year (interim dividend = ¥11, year-end dividend = ¥12). The Company is planning to pay an annual dividend for FY2/25 of ¥26 per share (¥13 interim dividend, ¥13 year-end dividend), an increase of ¥3 from FY2/24. Additionally, the Company plans to continue implementing its shareholder gift program as usual.

As discussed above, the Company conducted a share buyback on September 12, 2023 (3,000,000 common shares; total acquisition cost: ¥5,940mn) with the aim of bolstering its returns to shareholders, further improving its capital efficiency, and complying with the standards for maintaining its stock market listing (ratio of floating shares). (2,975,000 of the shares were retired on February 5, 2024.)

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