COMPANY RESEARCH AND ANALYSIS REPORT

HURXLEY CORPORATION

7561

Tokyo Stock Exchange Standard Market

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Contents

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Summary

Medium-term management targets disclosed; aiming for net sales of ¥72.0bn in FY3/28

HURXLEY CORPORATION <7561> (hereafter, also "the Company") is a growing company. Expansion is being driven by M&A in diverse fields related to food with a focus on three core businesses – Ready-made Meals Business*, Store Assets & Solutions Business, and Logistics and Food Processing Business. In the Ready-made Meals Business, HURXLEY operates a chain of directly managed and franchise Hokka Hokka Tei stores that sell freshly prepared takeout bento boxes (boxed meals) and deli foods. The business also offers party catering services. In the Store Assets & Solutions Business, TRN Corporation (now Tenpo Ryutsu Net, Inc.) joined the Group in 2006 through an M&A deal, and is now driving consolidated earnings. The Logistics and Food Processing Business is growing rapidly, led by Asahi L&C Corp., which supplies Hokka Hokka Tei and handles external sales and product distribution to major retailers, and by Inaba Peanuts Co., Ltd., a manufacturer and distributor of fruit- and nut-based snacks that became a consolidated subsidiary in November 2022. The Company's shares were registered as over-the-counter securities in 1997 before being listed on the Second Section of the Tokyo Stock Exchange (TSE) and Osaka Securities Exchange (OSE) in 2001. The share listings were moved to the First Section of the TSE and OSE in 2004. Its TSE listing was moved to the TSE Prime Market as part of the market restructuring in 2022 before voluntary transition to the Standard Market in 2023.

* Effective from FY3/25, the Takeout Food Business has been renamed the Ready-made Meals Business.

1. Overview of medium-term management targets

The Company has formulated medium-term management targets for the four years from FY3/25 to FY3/28. It plans to invest roughly ¥17.8bn in growth areas, with aggressive investment in Logistics and Food Processing, which covers food production, frozen food production, confectionery production, and production and processing of agricultural, marine, and livestock products. Management targets for FY3/28 are return on equity (ROE) 8.3%, full-year dividend ¥35.0, dividend on equity (DOE) 2.1%, net sales ¥72.0bn, EBITDA ¥5.6bn, and profit attributable to owners of parent ¥2.5bn. The Company also announced a new dividend policy, stating that it "aims to ensure dividends remain above the level in the previous year by increasing dividends," in line with growth in net profit per share. We expect dividends to increase at a pace of roughly ¥2.0-3.0 per share annually through FY3/28.

The Company also formulated "measures to realize management that is conscious of cost of capital and the share price." These measures are based on its analysis of the current situation, which found that the Company's growth prospects, profitability and shareholder returns are not well understood by the equity market, and that it needs to improve asset efficiency to further increase ROE. It has announced three measures to address these issues – improve profitability and asset efficiency, strengthen the capital policy and shareholder returns, and step up investor relations activities.

2. Business strategy by segment

The Ready-made Meals Business (deli foods and bento boxes) accounted for roughly 34% of net sales in FY3/24, but this is expected to decline to around 25% in FY3/28. However, the Company forecasts strong growth in net sales. It plans to develop new menu items, cultivate new customer segments, increase the number of members registered on its official app, and capture demand for large parties and events.

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In the Store Assets & Solutions Business, the Company forecasts continued firm growth, on par with the rate in FY3/24. It sees the business accounting for around 32% of net sales in FY3/28. It plans to expand recurring income by increasing the number of active stores, provide store operation consulting services, and offer HR recruitment solutions, including through Japan's support scheme for Specified Skilled Workers (SSW) from overseas. It also aims to improve asset efficiency through initiatives focused on return on invested capital (ROIC).

The Company forecasts the Logistics and Food Processing Business will account for approximately 42% of net sales in FY3/28, up from around 34% in FY3/24. It plans to explore M&A opportunities, further increase sales of strong-selling standard products, expand sales in the commissary business, and improve productivity.

3. Results trend

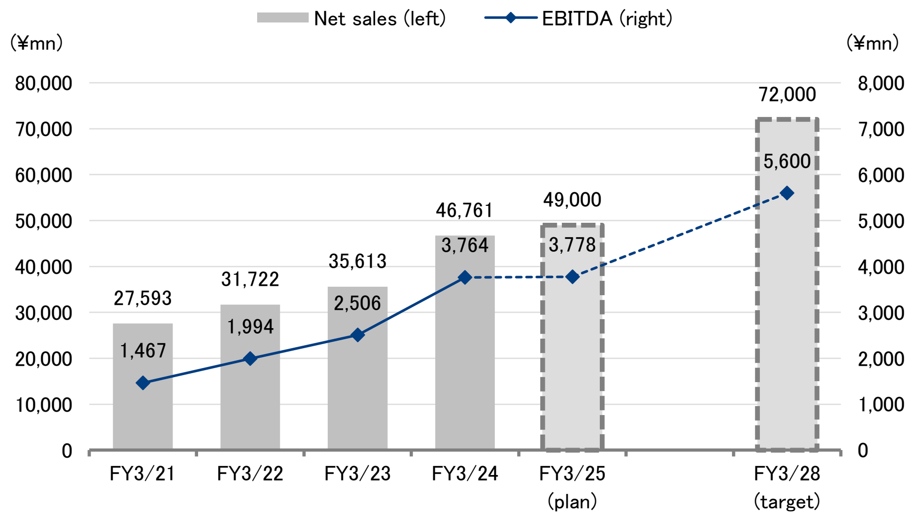
Sales and profits rose sharply in FY3/24. Net sales increased 31.3% year-on-year (YoY) to ¥46,761mn, operating profit rose 66.8% to ¥2,436mn, ordinary profit increased 63.9% to ¥2,588mn, and profit attributable to owners of parent rose 52.8% to ¥1,601mn.

For FY3/25, the Company forecasts net sales will increase for the third consecutive year and all profit items will rise for the fourth consecutive year. It forecasts net sales of ¥49,000mn, up 4.8% YoY, operating profit of ¥2,450mn, up 0.6%, ordinary profit of ¥2,850mn, up 10.1%, and profit attributable to owners of parent of ¥1,800mn, up 12.4%.

Key Points

- Medium-term management targets disclosed; aiming for net sales of ¥72.0bn in FY3/28; plans to step up shareholder returns and invest actively in food processing and manufacturing fields to expand earnings
- Potential market size of its four target investment fields exceeds ¥6tn
- In Logistics and Food Processing Business, aims to grow earnings through investment; in Store Assets & Solutions Business, targets stable growth by increasing number of active stores and further growth in store real estate business
- Expects increase in inquires in commissary business and HR recruitment solutions business amid increasingly severe labor shortage in food and restaurant sector
- Sales and profits rose sharply in FY3/24, with net sales up 31.3% YoY and operating profit up 66.8%; forecasts third straight year of sales growth and fourth straight year of profit growth in FY3/25

Results trends and medium-term management quantitative targets



Source: Prepared by FISCO from the Company's financial results and press release, "Formulation of medium-term management targets (FY3/28 final-year targets)"

Company profile

Targeting growth driven by M&A in diverse fields related to food

1. Company profile

HURXLEY is a growing company. Expansion is being driven by M&A in diverse fields related to food with a focus on three core businesses – Ready-made Meals Business, Store Assets & Solutions Business, and Logistics and Food Processing Business. HURXLEY, which became the Company's current name in 1993, represents the following ideas: the Company's cherished "3H Spirit" (HONESTY (honest dedication), HOT (hot bento boxes), HEART (heartfelt service)), which are the Company's ("OUR") foundation as it pursues further possibilities ("X" = infinite possibilities) and learns from the symbiosis between nature and animals, like a meadow ("LEY"), to make life more efficient, harmonious, and prosperous. Chairperson and president Tatsuya Aoki, also the Company's founder, recognizes that HURXLEY's operating environment is changing. Responding to these changes, he is showing leadership by expanding the number of franchisees through a unique store chain operations system, diversifying the Company's business domains through M&A, and reinforcing the earnings base.

In 1976, the Company developed Japan's first takeout bento business format (Hokka Hokka Tei). As the business grew into a chain of stores, earnings expanded. The Company later moved into the Store Assets & Solutions Business to build a stronger business base. This business became part of the Group in 2006 through the acquisition of TRN Corporation (renamed Tenpo Ryutsu Net, Inc.)*. The Logistics and Food Processing Business is a fast-growing business segment with two core companies – Asahi L&C, which is seeing strong external sales and demand for logistics services from major retailers, and Inaba Peanuts, a manufacturer and distributor of fruit- and nut-based snacks that became a consolidated subsidiary in November 2022.

* Tenpo Ryutsu Net has been reorganized into a group of four consolidated subsidiaries (hereinafter, "the TRN Group").

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The Company's shares were registered as over-the-counter securities in 1997 before being listed on the Second Section of the TSE and OSE in 2001. The shares were moved to the First Section of both markets in 2004. The TSE listing was moved to the TSE Prime Market as part of the market restructuring in April 2022. It then voluntarily transitioned to the Standard Market in October 2023. In June 2024, the Company announced its medium-term management targets, aiming for further growth through FY3/28, the final year of the targets.

History

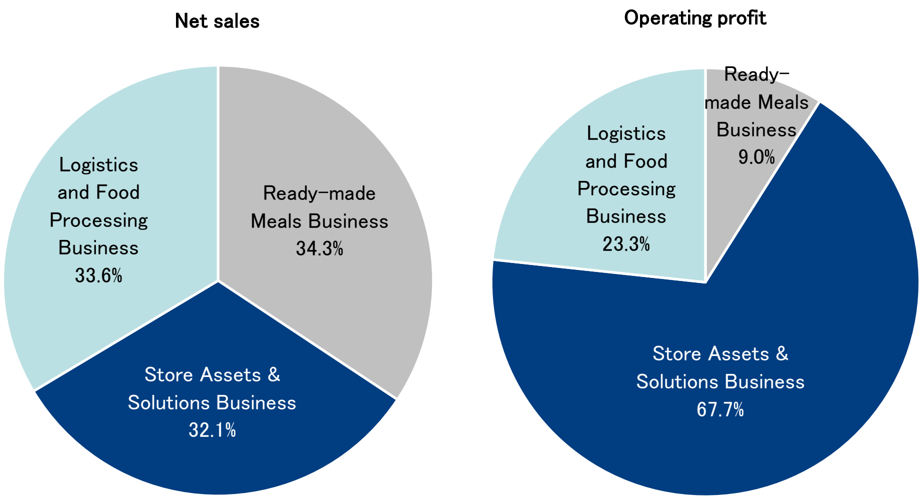
Date	History
June 1976	Founded Hokka Hokka Tei business
July 1978	Opened first Hokka Hokka Tei franchise store
March 1980	Established Hokka Hokka Tei Osaka business division
November 1992	Established Asahi Butsuryu Corp. (now consolidated subsidiary Asahi L&C Corp.)
July 1993	Company name changed to HURXLEY CORPORATION
February 1997	Opened Kaizuka Rice Milling Plant (Kaizuka City, Osaka)
September 1997	Shares registered as over-the-counter securities with Japan Securities Dealers Association
February 2001	Listed on the Second Section of TSE and OSE
September 2004	Listings moved to the First Section of TSE and OSE
July 2005	Established Hanshin Commissary in Amagasaki City, Hyogo Prefecture
May 2008	Acquired majority stake in TRN Corporation, making it a consolidated subsidiary
February 2011	TRN Corporation becomes wholly owned subsidiary
March 2012	TRN Group reorganized through merger of four companies, surviving company renamed Tenpo Ryutsu Net, Inc.
June 2018	Started laundromat services
December 2019	Acquired all outstanding shares in Ajikoubou Suisen Corp. (now a consolidated subsidiary)
February 2021	Acquired all outstanding shares in First Mate Corp. (now a consolidated subsidiary)
March 2021	Acquired all outstanding shares in Annie, Inc. (now a consolidated subsidiary) through consolidated subsidiary Tenpo Ryustu Net, Inc.
October 2021	Moved to pure holding company structure
April 2022	Listing moved from TSE First Section to Prime Market due to TSE market restructuring
November 2022	Acquired all outstanding shares in Inaba Peanuts Co., Ltd. (now a consolidated subsidiary)
April 2023	Yagaishokuhin Co., Ltd., wholly owned subsidiary of Inaba Peanuts, becomes a subsidiary (now a consolidated subsidiary)
October 2023	Transitioned voluntarily from TSE Prime Market to Standard Market

Source: Prepared by FISCO from the Company's Annual Securities Reports

2. Business description

Each of the Company's three businesses accounted for just over 30% of total net sales in FY3/24. They are well-established businesses generating stable profits. The Ready-made Meals Business, which includes Hokka Hokka Tei, sells freshly prepared takeout bento boxes and deli foods (operated through directly managed stores and franchised stores) and offers party catering services. It accounted for 34.3% of net sales and 9.0% of total operating profit in FY3/24. The business is recovering from the COVID-19 pandemic. In the Store Assets & Solutions Business, the TRN Group operates a range of businesses: the store business, which provides store leasing and other solutions, mainly to restaurant operators; the store real estate business, which works to increase the value of commercial real estate through store leasing; the IT management solutions business, which specializes in providing IT services to confectionery stores and bakeries; and the party and event equipment rental business. The business made a large contribution to consolidated earnings in FY3/24, accounting for 32.1% of total net sales and 67.7% of total operating profit. The Logistics and Food Processing Business provides commissary services and food logistics services, including food product processing, for major retailers and other stores. Inaba Peanuts, which joined the Group in 2022, manufactures and sells peanuts, dried fruit and other fruit- and nut-based snacks. It is the Company's third business pillar, accounting for 33.6% of total net sales and 23.3% of total operating profit in FY3/24. The above shares for total net sales and total operating profit are based on the Company's financial disclosures and are calculated on an unadjusted basis, including intra-segment sales and transfers.

Breakdown of FY3/24 net sales and operating profit



1: Operating profit breakdown based on unadjusted segment profit figures
2: Effective from FY3/25, the Takeout Food Business has been renamed the Ready-made Meals Business
Source: Prepared by FISCO from the Company's financial results

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Business overview

Operating three businesses – Ready-made Meals Business, Store Assets & Solutions Business, Logistics and Food Processing Business

1. Ready-made Meals Business

In the Ready-made Meals Business, the Group operates the Hokka Hokka Tei chain, which sells takeout bento boxes and deli foods, under the banner of “freshly made products even faster.” It also provides catering services for different types of demand, including parties, events and ceremonies. The Company has also established a rice milling plant and a quality control research center to ensure stable supplies of rice and provide consumers with safe and reliable food. Hokka Hokka Tei has 839 stores nationwide, with franchise stores accounting for around 80% of the total (as of March 31, 2024). The remaining roughly 20% of stores are operated by the Company, which also handles headquarters functions. The Company’s sales in the business are mainly generated by wholesale food sales to Hokka Hokka Tei stores and by royalty income. It has built a unique store franchise system and provides store manager training at its training center, which covers basic operations, peak-hour operations and store management skills. Hokka Hokkai Tei stores typically have a floor space of approximately 8 to 10 m^2, the optimum store layout size that the Company has fine-tuned over many years. This compact size reduces store opening expenses through lower fit-out costs. The Company also offers an affiliated store rental system for directly managed stores. Under the system, operators rent the stores after joining the chain, allowing them to open their own stores with minimal capital outlay. The business includes the Wash & Shine! chain of laundromats, which the Company is increasingly adding to roadside Hokka Hokka Tei stores. The Company is also working to build a dominant market position by offering a “one owner-five stores” option to Hokka Hokka Tei store operators. After directly managed stores are up and running, the Company gives the same owner or nearby owners the option to acquire the store assets. This provides owners with a low-risk option to expand their businesses, as they can gain expertise in store operations and add more stores with minimal assets. In recent years, the Company set up external sales teams to win more large orders, which have grown to account for around 20% of net sales.

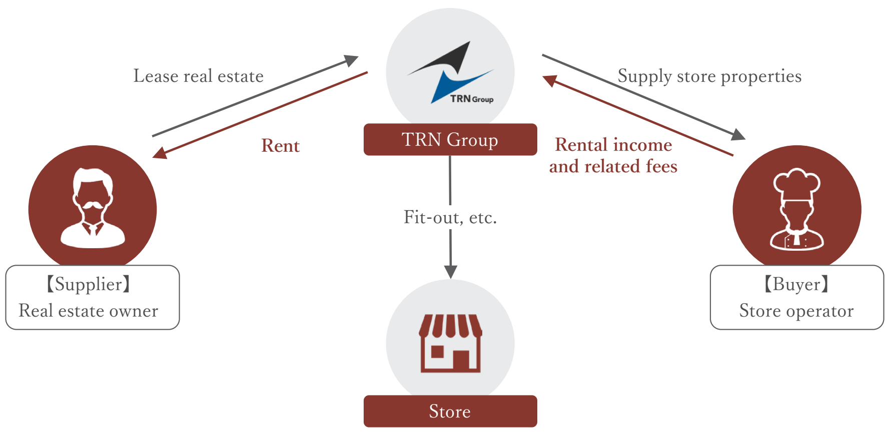
Hokka Hokka Tei store and main menu items

Source: Company materials

2. Store Assets & Solutions Business

The Store Assets & Solutions Business encompasses five TRN Group companies, including Tenpo Ryutsu Net. These companies operate a range of businesses: the store business provides solutions for store operators, including store leasing, store fit-out and personnel placement services; the store real estate business acquires, develops, leases and manages commercial real estate; the real estate fund business invests in commercial buildings; the IT management solutions business develops and sells point-of-sale (POS) cash register systems that help improve the operation and management of confectionery and bakery stores; and the party and event equipment rental business. The main business is store leasing and management by Tenpo Ryutsu Net, which leases stores for restaurants and other businesses from real estate owners and subleases them to business operators. Since the business was launched in 2000, the TRN Group has supported the opening of more than 4,000 stores, with many secured in prime locations near train stations. This store lease scheme is designed to reduce initial costs and risks for the operator by covering the purchase price of the building, deposit and fit-out costs. As of June 2024, the Company had 983 stores under tenant management or store lease contracts. These stores generate recurring income, which is growing on a monthly basis. The Company also has the capability to lease its own properties and properties it has been contracted to manage. One of its objectives is to sell its own properties after lease terms expire. In FY3/24, it sold three properties, including large properties, contributing to earnings. These functions mean the Company can provide a full range of support to store operators and other customers.

Shop support scheme (store leasing)



Source: Company materials

Real estate fund business scheme

Source: Company materials

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3. Logistics and Food Processing Business

In the Logistics and Food Processing Business, Asahi L&C processes food products for Hokka Hokka Tei stores and handles logistics operations for products and food ingredients and for the commissary business, which manufactures OEM products for major retailers and other customers. Inaba Peanuts manufactures and sells peanuts, dried fruits and other fruit- and nut-based snacks on a wholesale basis. The commissary business manufactures chicken products such as fried chicken on an OEM basis for around 20 supermarket and convenience store chains. It also handles spot orders for more than 40 customers. The business consistently operates at full capacity. The Company is also strengthening sales and planning capabilities in the Logistics and Food Processing Business, allowing it to develop sales proposals tailored to regional markets and seasonal trends, which is contributing to sales growth. Plants include Hanshin Commissary and the Kaizuka Rice Milling Center. In 2017, the Company gained FSSC 22000 certification, an international standard for food safety management systems, helping it win the trust of customers, including major businesses. The logistics business is engaged in regional distribution through 11 logistics centers (including the Kagoshima center in the south and the Hokkaido center in the north). The logistics network was established to deliver products to Hokka Hokka Tei stores nationwide.

Inaba Peanuts, which joined the Group in November 2022, is a snack and confectionary manufacturer with over 100 years of history (founded in 1918). Inaba Peanuts was the first in the industry to introduce nitrogen gas-filled packaging and high-precision automatic sorting machines. Throughout its history it has pursued delicious products by focusing on the quality of food ingredients. The product range includes Jane's Krazy Mixed-Up Salt Buttered Peanuts, Jane's Krazy Mixed-Up Salted Nuts, Seven Nut Mix, and Seven Nut & Fruit Mix, which it supplies to major supermarkets, drugstores, and convenience store. It also manufactures private brand (hereinafter, "PB") products on a contract basis. It aims to ensure consistently delicious products with carefully selected ingredients. In April 2023, Yagaishokuhin Co., Ltd., a wholly owned subsidiary of Inaba Peanuts, became a consolidated subsidiary of HURXLEY. Yagaishokuhin supplies Hoshiimo, which is made from beniharuka (red sweet potato) produced in its home market of Ibaraki Prefecture. Hoshiimo is a popular product that continues to generate stable sales. It is also included on the list of hometown tax return gifts for Chikusei City, Ibaraki Prefecture. Aiming to develop new sales channels, the company developed a new range of trail mix products as easy-to-carry nutritional snacks for outdoor activities. The products went on sale in leading outdoor goods stores in June 2024.

Inaba Peanuts products and interior view of Hanshin Commissary

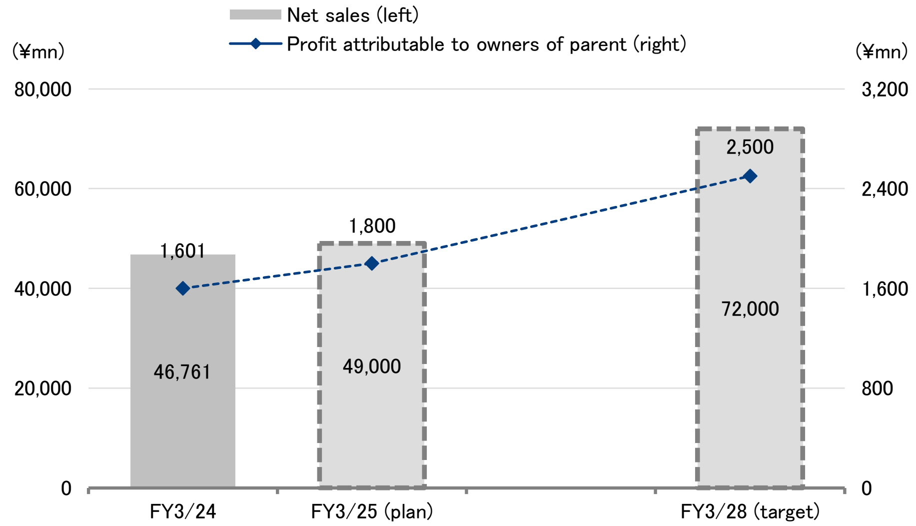
Source: Company materials

Medium-term management targets

Plans to aggressively invest in food processing and manufacturing fields to expand earnings and enhance shareholder returns

The Company has formulated management targets for the four years from FY3/25 to FY3/28. It aims to increase corporate value and generate sustained growth by expanding the business and increasing profits, driven by stepped up investment in growth to extend its business domains. It has budgeted growth investment of around ¥17.8bn (M&A: ¥12.0bn, capital investment: ¥5.8bn), mainly in the Logistics and Food Processing Business. It plans to invest aggressively in M&A, targeting synergies with Group businesses in food production, frozen food production, confectionery production, and production and processing of agricultural, marine, and livestock products. Management targets for FY3/28 are ROE 8.3% (up 1.4 percentage points (pp) vs FY3/24), full-year dividend ¥35.0, DOE 2.1%, net sales ¥72.0bn (up 54.1%), EBITDA ¥5.6bn (up 47.4%), and profit attributable to owners of parent ¥2.5bn (up 56.3%). It aims to increase shareholder returns in line with earnings growth.

Medium-term management quantitative targets



Source: Prepared by FISCO from the Company's financial results and press release, "Formulation of medium-term management targets (FY3/24 final-year targets)"

1. Long-term vision

The Company aims to drive integration that connects producers and consumers in areas related to food. One example is in the downstream area, where retailers are finding it increasingly difficult to produce their own deli foods amid a serious labor shortage. Against this backdrop, Group company Asahi L&C expects to see continued growth in orders in its commissary business. While prices for agricultural products tend to fluctuate sharply due to weather conditions and other factors, the Company ensures stable procurement through annual contracts with producers, allowing them to expand and rationalize their operations with peace of mind. The Company is involved in all areas of the supply chain: downstream (customers of ready-made meal stores and supermarkets), midstream (manufacturing, logistics), and upstream (strong relationships with producers in the agriculture, marine and livestock industries). Its basic vision is continue strengthening ties with partners in all parts of the supply chain. In its approach to M&A targets, it aims to become a platform for food-related companies to help them stabilize their operations. Japan has many food-related companies generating annual sales of around ¥5.0-10.0bn and that have excellent facilities and human resources. However, they are struggling on their own. These companies face surging costs and issues with developing sales channels. The Company believes they can reinforce their weaknesses and maximize their strengths by joining the HURXLEY platform. Because the Company already has strong track record of major M&A deals, it is receiving a large amount of information from M&A advisors, banks, and securities companies about potential targets.

In its medium-term management targets, the Company is aiming for net sales of ¥72.0bn in FY3/28, but it views this as a must-achieve minimum target. For example, acquiring two companies with annual sales of ¥5.0bn would boost net sales by ¥10.0bn in a single year and by ¥30.0bn over three years. This ¥30.0bn alone would cover the difference (¥25.3bn) between net sales in FY3/24 and its medium-term management target for FY3/28. It is of course also targeting organic growth in each business. Over the longer term, it aims to increase annual net sales to roughly ¥300.0bn by FY3/30, the Company's 50th anniversary. As the business expands, it could receive M&A opportunities for companies with annual sales of ¥20.0-50.0bn. The Company is also looking to collaborate with companies in other Asian countries, such as Vietnam and the Philippines, where the food culture is similar to Japan's.

2. Growth investment strategy

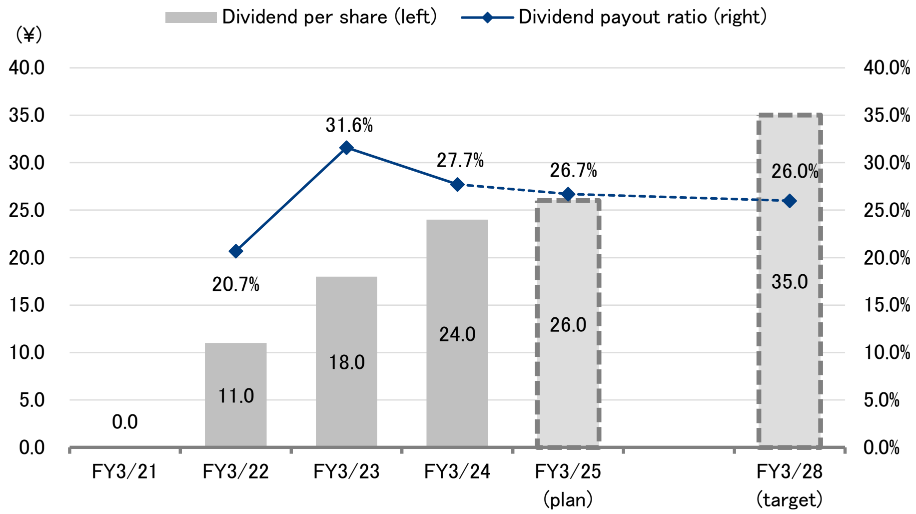
The Company's basic strategy is to increase profits by strengthening its management base (business foundations) through growth investments. It plans to spend ¥17.8bn on growth investments during the four-year period of its medium-term management targets. It plans to fund this investment with a combined ¥20.0bn from operating cash flow (¥15.4bn over four fiscal years) and cash on hand (¥4.6bn). We at FISCO believe the Company is strengthening its financial position as earnings expand, so it has few issues with fund procurement. Identifying investment partners with the same vision and that meet the Company's criteria is therefore likely to be key to achieving its four-year targets. As more companies join the Group, the Company is likely to receive more information about potential M&A targets, increasing the likelihood that it will achieve its targets.

3. Shareholder return policy

The Company announced a new dividend policy in June 2024 in parallel with its new medium-term management targets. Its basic policy is to maintain stable dividends and while also allocating profits to growth investments. The Company also clarified its commitment to returning profits to shareholders, stating that it "aims to ensure dividends remain above the level in the previous year by increasing dividends," in line with growth in net profit per share. Under the medium-term management targets, it is aiming for a full-year dividend of ¥35.0 per share in FY3/28, suggesting dividends could increase at a pace of roughly ¥2.0-3.0 per year. It also plans to buy back shares in a flexible manner, taking into account capital levels and equity market conditions, as well as growth in ROE and net profit per share.

Amid strong profit growth, the Company paid a full-year dividend of ¥24.0 per share for FY3/24 (up ¥6.0 YoY), with DOE at 1.8%. For FY3/25 the Company forecasts a full-year dividend of ¥26.0 (up ¥2.0) and DOE of 1.9%.

Dividend per share and dividend payout ratio



Note: The Company conducted a 2-for-1 stock split of common shares on October 1, 2021; amounts prior to FY3/22 have been retroactively restated to reflect the stock split

Source: Prepared by FISCO from the Company's financial results and press release, "Formulation of medium-term management targets (FY3/24 final-year targets)"

4. Cost of capital in management decisions

After analyzing and evaluating the current situation, the Company formulated "measures to realize management that is conscious of cost of capital and the share price" in June 2024 with the aim of increasing the Group's corporate value. Earnings have recovered steadily since FY3/22 on the back of structural reforms, driving a sharp improvement in operating cash flow. However, with the stock trading on a P/B ratio of 0.72x and a P/E ratio of 10.88x as of the end of FY3/24 there is still room for improvement. These measures are designed to address the lack of understanding in the equity market about the Company's growth prospects, profitability, and shareholder returns. ROE in FY3/24 was 6.9%, below the 8% level considered key to ensuring the P/B ratio does not drop below 1.0x. The Company recognizes the importance of further increasing ROE, as well as improving asset efficiency, one factor weighing on ROE. The Company's total asset turnover ratio has remained low in recent years, at around 0.7x.

The measures are aimed at:

1) Improving profitability and asset efficiency
2) Enhancing capital policy and shareholder returns
3) Stepping up investor relations activities

1) To improve profitability and asset efficiency, the Company has set several goals to increase profitability. It is targeting ROE of 8.3% (up 1.4pp from FY3/24), EBITDA of ¥5.6bn (up 47.4%) and EPS of ¥134.5 (up 54.8%) in FY3/28. It also aims to lift profitability, boost asset efficiency (improve total asset turnover ratio) and promote non-asset businesses by reforming its business structure (portfolio) through aggressive M&A. It plans to spend ¥12.0bn on M&A over the next four fiscal years. In the Store Assets & Solutions Business, specific steps will include reducing the number of inventory turnover days for real estate for sale, increasing recurring income by adding more store leases, growing the HR foreign recruitment business (SSW scheme for overseas workers), and consulting services for store operators.

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Overview of "measures to realize management that is conscious of cost of capital and the share price"

Analysis of current situation and identified issues	Necessary measures
■ Progress so far • Steady recovery in earnings since 2022 due to structural reforms • Timely corporate actions such as share buybacks and cancellations, stock splits, shareholder benefit plans ■ Issues • Room for improvement in P/B and P/E ratios (growth prospects, profitability, shareholder returns, etc. not well understood in equity market) • Further improvement in ROE is key; asset efficiency needs to be improved, as total asset turnover ratio has remained low	1) Improve profitability and asset efficiency • Improve profitability by transforming the business structure (portfolio) through M&A • Lift asset efficiency (increase total asset turnover), promote non-asset businesses, etc. 2) Enhance capital policy and shareholder returns • Create optimal capital structure, return profits to shareholders (dividend hike not less than in previous year), implement flexible share buybacks 3) Step up investor relations (IR) activities • Strengthen IR department, expand IR team, improve disclosure, conduct proactive IR, etc.

Prepared by FISCO based on the Company's "Measures to realize management that is conscious of cost of capital and the share price"

Market analysis of investment areas

Potential market size of the Company's four target investment fields exceeds ¥6tn

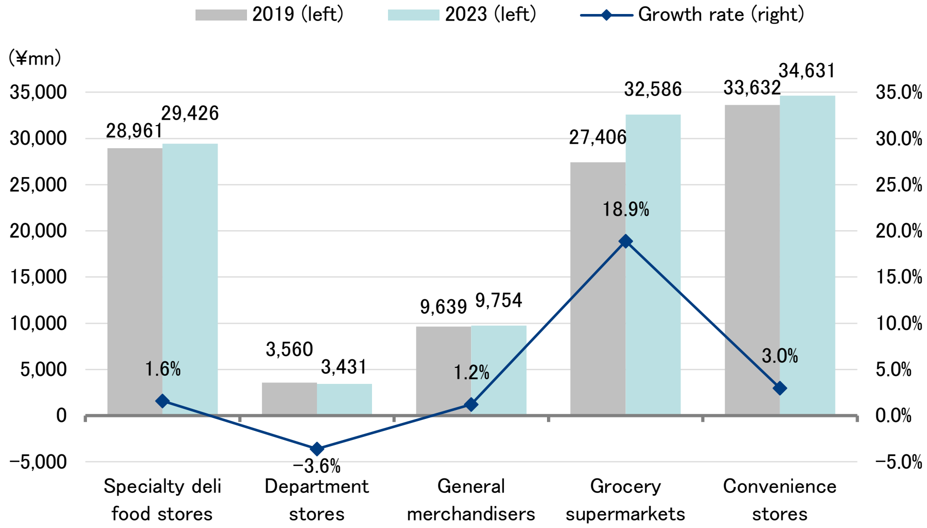
The Company has announced a growth strategy that includes planned growth investment of ¥17.8bn (M&A: ¥12.0bn, capital investment ¥5.8bn). Investment will be channeled into its existing Logistics and Food Processing Business. With M&A, it is targeting companies and industries that have the potential to reinforce and expand the Company's business base through synergies in areas such as food production, frozen food production, confectionery production, and production and processing of agricultural, marine, and livestock products. At FISCO, we have researched and analyzed the market size, growth potential and key players in the Company's main target markets. We estimate the total potential market size of its four target investment fields exceeds ¥6tn.

1. Ready-made meal vendors, private brand food market

The most promising investment area is commissary operations in the Logistics and Food Processing Business. The commissary business model, which is based on external sales of fried chicken and other deli foods produced under contract for supermarkets and drugstores, is seeing very strong growth, with the business consistently operating at full capacity through the use of shift work. With retailers finding it increasingly difficult to prepare their own deli foods due to a severe labor shortage in the retail frontline, subsidiary Asahi L&C, which handles everything from ingredient procurement to manufacturing and distribution, is expected to see continued growth in business inquiries. Asahi L&C has only one commissary plant, which is located in the Kansai region, so companies with processing functions in the Kanto, Tokai or Kyushu regions are likely to be M&A targets.

According to the 2024 White Paper on Ready-made Meals - Expanded Digest Version, published by the Japan Ready-made Meal Association, data on market size by business format shows the grocery supermarket deli food market was worth ¥3.2tn in 2023, second only to the convenience store ready-made meal market's ¥3.4tn. Compared with other business formats, grocery supermarkets also have the highest growth potential of 18.9% (market value in 2023 divided by market value in 2019).

Deli food market size and growth rates by business format



Note: Growth rate is market value in 2023 divided by market value in 2019
Source: Prepared by FISCO from the White Paper on Ready-made Meals - Expanded Digest Version

The PB products of major retailers are also a target market for the Company. With inflation continuing to rise, demand for PB products is high among price-sensitive consumers. To address these needs, retailers are focusing on PB development and sales. According to the Current Survey of Commerce published by the Ministry of Economy, Trade and Industry (METI), the market size of the supermarket business format was around ¥15tn in FY2022. Assuming processed foods and deli foods account for 50% of the market (excluding three fresh food categories and non-food products), the market was worth roughly ¥7.5tn. Of this, we estimate the PB food market accounts for around ¥1tn (assuming a PB product ratio of 16.8%).

Key players in the ready-made meal sector include manufacturers and suppliers to convenience stores such as Warabeya Nichiyo Holdings Co., Ltd. <2918> and Musashino Co., Ltd., as well as numerous other food manufacturers nationwide, including capital affiliates of major retailers and affiliates of leading food manufacturers.

2. Frozen food market

Subsidiary Asahi L&C also processes frozen food at its Hanshin Commissary Plant so it has a close affinity with the frozen food industry. For example, gratin dishes and many other types of deli foods are suitable for cold-chain distribution, allowing quality to be maintained. According to the Preliminary 2023 (Jan-Dec) Report on Frozen Food Production and Consumption published by the Japan Frozen Food Association, frozen food domestic production value in 2023 was approximately ¥780.0bn, up 2.1% YoY. In recent years, supermarkets have expanded their frozen food sections and drugstores have started selling more frozen food items. Demand has also been firm due to rising needs for quick and convenient food amid growth in the number of dual-income households, singles and seniors in Japan.

Key players in the industry are Nichirei Corporation <2871>, Ajinomoto Co., Inc. <2802>, Japan Tobacco Inc. <2914>, Nissui Corporation <1332> and other large manufacturers with a major presence in the market, but there are also many small and mid-size firms. The Japan Frozen Food Association has 109 full member companies.

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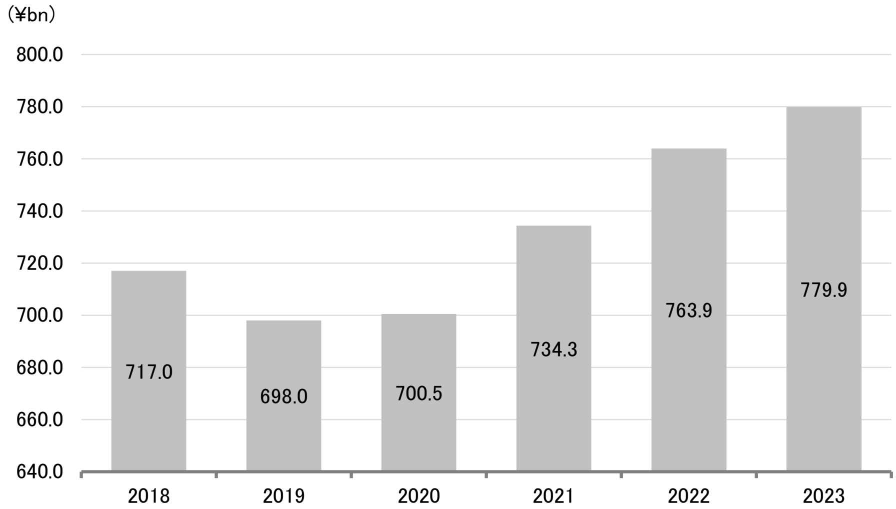
Frozen food domestic production value



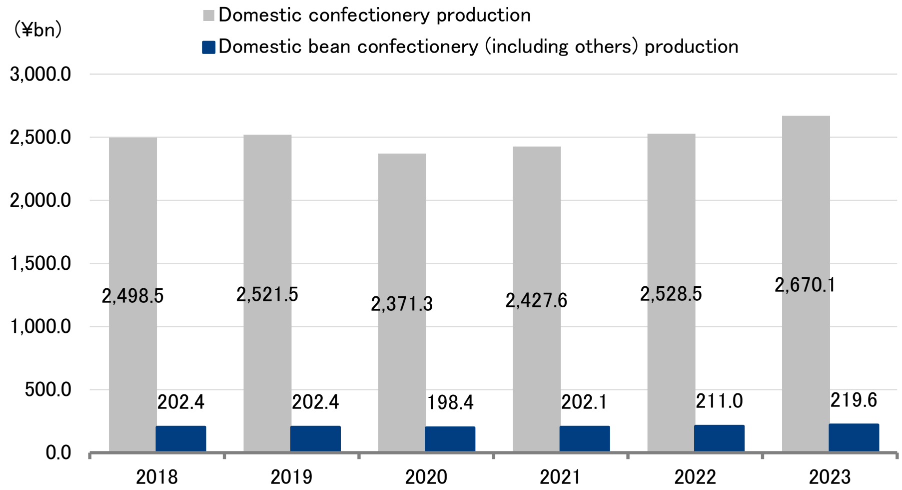
Source: Prepared by FISCO from the Preliminary 2023 (Jan-Dec) Report on Frozen Food Production and Consumption, published by the Japan Frozen Food Association

3. Confectionery market

The Company moved into the confectionery industry with its consolidation of Inaba Peanuts in 2022. Confectionary can be broadly classified into chocolate, candy, chewing gum, biscuits, snacks, and rice crackers, covering a wide range of different product categories such as Japanese-style, Western-style, room temperature, chilled, frozen, and regional confectionary. According to Confectionary Production Volume and Value 2023 (Estimates) published by the All Nippon Kashi Association (ANKA), confectionary domestic production value in 2023 was approximately ¥2.6700tn, up 5.6% YoY. Chocolate and Japanese-style confectionery were the largest market categories, while candy and snack confectionery recorded the strongest YoY growth. The Company is currently active in the bean confectionary and nuts categories.

Key players in the industry are Meiji Holdings Co., Ltd. <2269>, Morinaga & Co., Ltd. <2201>, Ezaki Glico Co., Ltd. <2206>, Calbee, Inc. <2229>, Bourbon Corporation <2208>, KAMEDA SEIKA CO., LTD. <2220> and other major companies. There are also many small and mid-size firms that focus on specific categories and geographic areas.

Confectionary and bean confectionary (including others*) domestic production value



* In addition to bean confectionary, includes amanatto (sweet beans), toy confectionary, okoshi (puffed rice cakes), sugar coated confectioneries

Source: Prepared by FISCO from Confectionary Production Volume and Value (Estimates) published by ANKA

4. Production and processing markets for agricultural, marine, and livestock products

Production and processing markets for agricultural, marine, and livestock products fall into the Company's upstream business domain, where it has been involved in purchasing and sourcing. The Company owns supply chain businesses from the downstream area (retail) through to manufacturing and logistics. By adding Group companies in agricultural, marine and livestock product manufacturing and processing, it can therefore create a longer, optimized supply chain. For example, climate change in recent years has had a major impact on the quality and seasonality of agricultural products, but as a company with downstream functions, HURXLEY can reduce procurement costs and maintain quality by adjusting upstream procurement volumes and selecting the best processing and preservation methods. According to the Results of the FY2022 Comprehensive Survey on the Sixth Industrialization published by the Ministry of Agriculture, Forestry and Fisheries, annual sales of processed agricultural and marine products totaled approximately ¥1.1900tn in 2022 (processed agricultural products: ¥1.0100tn, processed marine products: ¥180.0bn), up 6.3% YoY.

Key industry players include companies as diverse as HOKUTO Corporation <1379>, TOKYO NS-FOODS CO., LTD., Maruha Nichiro Corporation <1333>, Nissui Corporation <1332>, NH Foods Ltd. <2282> and ITOHAM YONEKYU HOLDINGS INC. <2296>.

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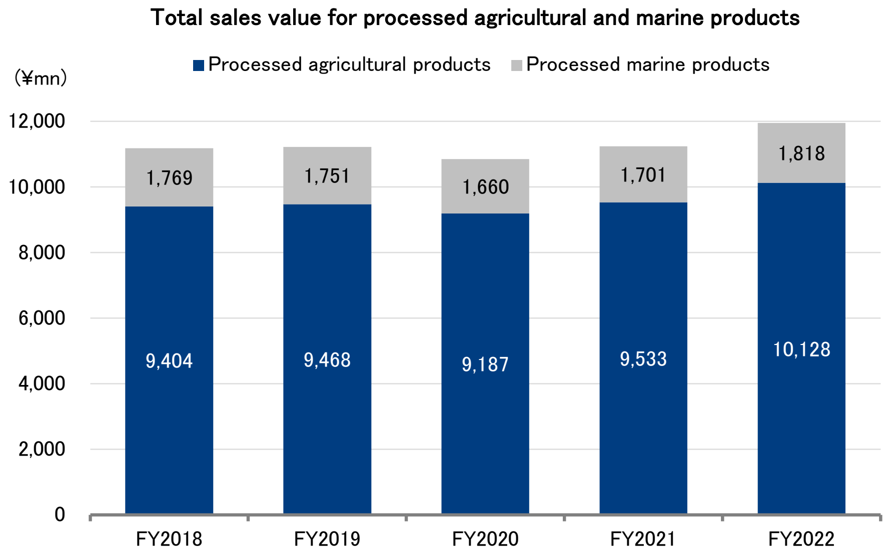

Source: Prepared by FISCO from the Results of the FY2022 Comprehensive Survey on the Sixth Industrialization, published by the Ministry of Agriculture, Forestry and Fisheries

Business strategy by segment

Aiming to expand business base through strategic investment

1. Ready-made Meals Business (deli foods and bento boxes)

(1) Recent trends

Over the last five fiscal years, the Ready-made Meals Business (deli foods and bento boxes) has faced a challenging operating environment. During the COVID-19 pandemic, large orders for events dropped sharply, competition intensified as supermarkets and restaurants strengthened their ready-made meal offerings, and demand for stay-at-home meals increased due to growth in telecommuting. Net sales gradually declined from ¥17,963mn in FY3/20. The Company has actively worked to capture food delivery demand and stepped up its marketing efforts, including targeting younger consumers through tie-up campaigns with anime hero characters. These efforts, along with a recovery in demand for events and parties after COVID-19 was reclassified as a Class 5 infectious disease, has supported a steady rebound in sales, with net sales rising to ¥16,887mn in FY3/24 from a bottom of ¥16,136mn in FY3/22. Segment profit was ¥1,038mn in FY3/20, but this fell to ¥257mn in FY3/23 due to a lingering impact from the pandemic and surging energy and raw material prices from FY3/22 onward. In response, the Company moved to quickly raise prices to pass on higher costs. These price hikes, coupled with cost control, helped steady segment profit in FY3/24 at ¥259mn (up ¥1mn YoY). If energy and raw material prices normalize and external conditions start to change, the business should see an improvement in profit margins.

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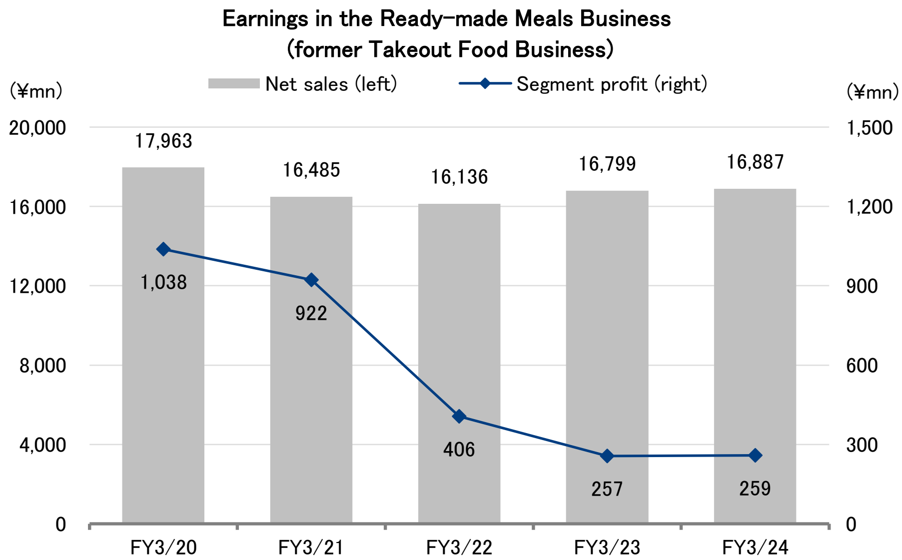

Source: Prepared by FISCO from the Company's financial results

The Company discloses monthly existing-store sales (YoY) and number of stores as KPIs for the Ready-made Meals Business (deli foods and bento boxes). Same-store sales were firm during FY3/24, exceeding year-earlier levels each month. The business had 839 stores as of March 31, 2024.

Hokka Hokka Tei KPI

	2023									2024		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Existing-store sales (YoY)	107.1%	104.6%	106.0%	100.7%	100.7%	104.9%	102.6%	103.1%	102.7%	104.2%	105.4%	103.0%

Source: Prepared by FISCO from the Company's press releases

(2) Medium-term strategy

The Ready-made Meals Business (deli foods and bento boxes) accounted for roughly 34% of net sales in FY3/24, but the Company expects this to decline to around 25% in FY3/28 due to strong growth in the Logistics and Food Processing Business. While the Company sees the Ready-made Meals Business's share of total sales declining roughly 9pp, it forecasts steady growth in sales. It plans to implement the following priority measures:

- Develop new customer segments by launching menu items for young consumers and seniors
- Launch tie-in marketing campaigns with TV anime heroes
- Run tie-in marketing campaigns with character IP
- Collaborate with VTubers in marketing campaigns
- Actively implement digital sales promotions
- Increase the number of registered users on the proprietary Hokka app and Mobile Order app
- Capture demand for large parties and events

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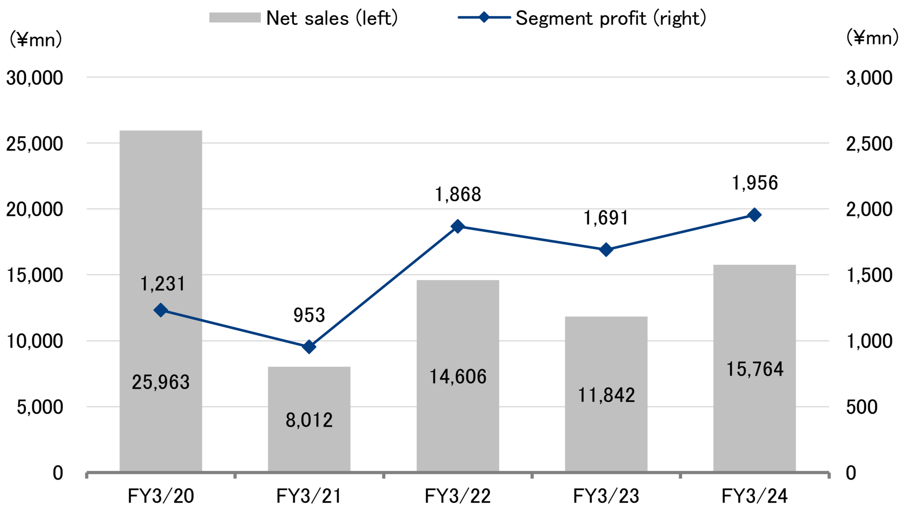
2. Store Assets & Solutions Business

(1) Recent trends

For recent trends in the Store Assets & Solutions Business, we use the three-year period from FY3/22 to FY3/24, as the Accounting Standard for Revenue Recognition was applied from the start of FY3/22 and the segment was reclassified from FY3/23 (previously classified as the Store Consignment Business and the Store Management Business until FY3/22). For FY3/22-FY3/24, net sales were ¥14,606mn, ¥11,842mn, and ¥15,764mn, respectively, and segment profit was ¥1,868mn, ¥1,691mn, and ¥1,956mn. The decline in net sales and profits in FY3/23 largely reflected temporary factors caused by fluctuations in the number of properties sold (three in FY3/22, two in FY3/23). Despite some fluctuations in prices and other factors, real estate sales and profits have generally been rising. Also, efforts by the Company to diversify operations are starting to bear fruit in areas such as POS cash register manufacturing and sales and HR recruitment solutions, amid the labor shortage in the food service sector. Along with a recovery in demand for large parties after the COVID-19 pandemic, this is supporting an upward trend in net sales and profits in the business.

Earnings in the Store Assets & Solutions Business



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

For the Store Assets & Solutions Business, the Company discloses the number of stores with tenant management contracts and the number of stores with lease contracts on a monthly basis as KPIs. Both KPIs are accumulative, recurring income indicators. In the year from March 2023, the number of stores with tenant management contracts increased by 25 and the number of stores with lease contracts steadily increased by 19. We at FISCO expect the number of active stores (number of stores with tenant management contracts + number of stores with lease contracts) to surpass 1,000 in FY3/25.

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Store Assets & Solutions Business KPIs

	2023									2024		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Number of stores with tenant management contracts	116	115	116	115	118	118	117	118	131	130	138	141
Number of stores with lease contracts	806	809	811	813	815	818	819	824	825	826	826	829
Number of active stores	922	924	927	928	933	936	936	942	956	956	964	970

Note: Number of active stores is number of stores with tenant management contracts + number of stores with lease contracts
Source: Prepared by FISCO from the Company's press releases

(2) Medium-term strategy

The Company expects the Store Assets & Solutions Business to account for roughly 32% of net sales in FY3/28. If forecasts the same share of roughly 32% in FY3/24, but it sees firm sales growth in value terms of approximately 146% versus FY3/24. It plans to implement the following priority measures:

- Grow recurring income by increasing the number of active stores (increase stores with tenant management contracts and lease contracts)
- Add value to property assets owned by the store real estate business
- Offer all-round solutions as a store operations consultant
- Provide HR recruitment solutions to address labor shortages in the service sector using the overseas SSW support scheme

The Company has positioned the Store Assets & Solutions Business as the key driver to improve the Group's ROE – one of the main themes in its medium-term management targets – through measures that improve ROIC, lifting asset efficiency.

3. Logistics and Food Processing Business

(1) Recent trends

Looking at trends in the business for the last five fiscal years, growth in net sales and segment profit accelerated in FY3/23 and FY3/24. The business reported FY3/22 net sales and profits of ¥4,862mn and ¥52mn, respectively, increasing to ¥9,277mn and ¥212mn in FY3/23, and ¥16,499mn and ¥673mn in FY3/24. This reflected high capacity utilization in the commissary business on strong OEM manufacturing orders from supermarkets and convenience stores, the consolidation of Inaba Peanuts, and steady growth in orders and the number of stores that stock popular standard products. Inaba Peanuts accounted for roughly 60% of net sales in the Logistics and Food Processing Business in FY3/24.

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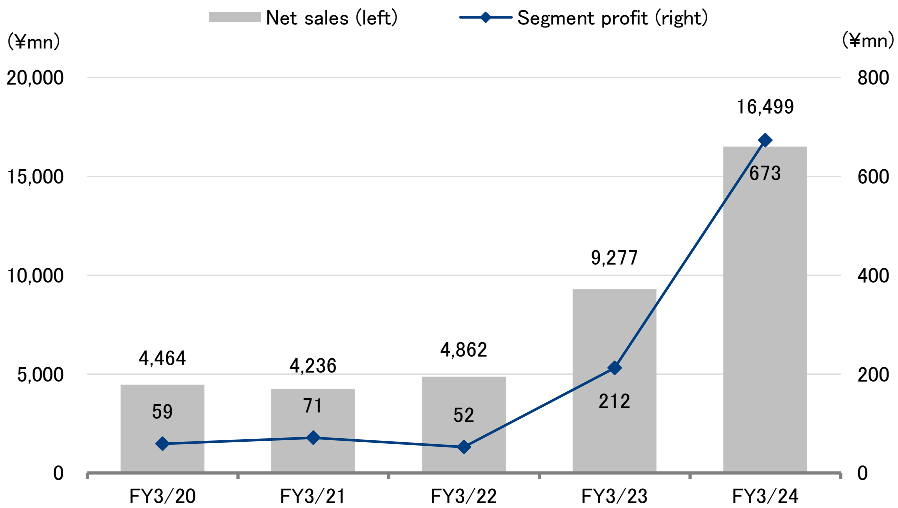
Earnings in the Logistics and Food Processing Business



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

(2) Medium-term strategy

The Company forecasts the Logistics and Food Processing Business will account for approximately 42% of net sales in FY3/28, up from around 34% in FY3/24. It plans to implement the following priority measures:

- Further expand sales of popular standard products (increase number of sellers, orders)
- Grow sales in the strong-performing OEM contract manufacturing and commissary businesses
- Develop a continuous stream of hit products
- Improve productivity by upgrading manufacturing facilities, etc.

The Company sees good prospects for earnings growth in the Logistics and Food Processing Business, supported by M&A and by organic growth through capital investment and measures to strengthen marketing and operations. During the period of the medium-term management targets, it expects the business to grow more strongly than its other two businesses.

Results trend

Steep rise in FY3/24 net sales and profits; further growth expected in FY3/25

1. Overview of FY3/24 results

Sales and profits rose sharply in FY3/24. Net sales increased 31.3% YoY to ¥46,761mn, operating profit rose 66.8% to ¥2,436mn, ordinary profit increased 63.9% to ¥2,588mn, and profit attributable to owners of parent rose 52.8% to ¥1,601mn.

Net sales increased in all three businesses. The strongest growth was in the Logistics and Food Processing Business, with net sales rising 77.8% YoY to ¥16,499mn. This was driven by growth in fruit- and nut-based snack wholesale and manufacturing operations due to the consolidation of Inaba Peanuts, and by the commissary business, which received OEM manufacturing orders from supermarkets and convenience stores. In the Store Assets & Solutions Business, net sales rose 33.1% YoY to ¥15,764mn. This reflected growth in recurring income due to an increase in the number of stores under lease contracts and tenant management contracts, as well as the handover of large real estate properties and a recovery in demand for parties and events. The Takeout Food Business* made good progress with price hikes to offset surging energy and raw material costs. External sales to sports and music events and catering demand also recovered, lifting net sales 0.5% YoY to ¥16,887mn.

* Effective from FY3/25, the Takeout Food Business has been renamed the Ready-made Meals Business.

Gross profit increased 21.8% YoY to ¥15,251mn supported by growth in net sales, which offset a 15.8% increase in SG&A expenses to ¥12,814mn, resulting in a steep rise in operating profit. In the Store Assets & Solutions Business, which is driving earnings, segment profit rose 15.6% to ¥1,956mn. This reflected growth in stores under lease contracts or tenant management contracts, which are high-margin services, and gains on the sale of real estate. The Logistics and Food Processing Business reported very strong growth in segment profit of 216.8% YoY to ¥673mn. The main factors were the consolidation of Inaba Peanuts and full capacity utilization in the commissary business, which is benefiting from the boom in fried chicken and other chicken products. Segment profit in the Takeout Food Business increased 0.5% to ¥259mn.

In FY3/24, each of the Company's three businesses accounted for around 30-35% of net sales (Takeout Food Business 34.4%, Store Assets & Solutions Business 32.1%, Logistics and Food Processing Business 33.6%) and profitability of each business improved, showing that structural reforms are having an impact.

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FY3/24 results

(¥mn)

	FY3/23 Results	FY3/24 Results	YoY	
			Change	Change (%)
Net sales	35,613	46,761	11,147	31.3%
Takeout Food Business	16,799	16,887	88	0.5%
Store Assets & Solutions Business	11,842	15,764	3,922	33.1%
Logistics and Food Processing Business	9,277	16,499	7,221	77.8%
Cost of sales	23,091	31,510	8,419	36.5%
Gross profit	12,522	15,251	2,729	21.8%
SG&A expenses	11,061	12,814	1,753	15.8%
Operating profit	1,460	2,436	975	66.8%
Takeout Food Business	257	259	1	0.5%
Store Assets & Solutions Business	1,691	1,956	264	15.6%
Logistics and Food Processing Business	212	673	460	216.8%
Ordinary profit	1,579	2,588	1,009	63.9%
Profit attributable to owners of parent	1,047	1,601	553	52.8%

Note: Segment net sales and profits are unadjusted and include intra-segment sales and transfers.
Source: Prepared by FISCO from the Company's financial results

2. FY3/25 results forecasts

For FY3/25, the Company sees net sales increasing for the third consecutive year and profits rising for the fourth consecutive year. It forecasts net sales of ¥49,000mn, up 4.8% YoY, operating profit of ¥2,450mn, up 0.6%, ordinary profit of ¥2,850mn, up 10.1%, and profit attributable to owners of parent of ¥1,800mn, up 12.4%.

It expects the Logistics and Food Processing Business to continue performing well. The business generated the highest sales of the three segments in FY3/24 and is projected to do so again in FY3/25. The Company forecasts higher sales and profits YoY, supported by growth in existing contracts and the acquisition of new customers, lifting the ratio of active stores. We estimate sales will increase 4.2% YoY to roughly ¥17,200mn*. The Store Assets & Solutions Business aims to expand by building up its stock of stores under lease contracts or management contracts, although there is likely to be an impact from the handover of large properties in FY3/24. We expect sales to rise at a steady rate of 4.7% YoY to around ¥16,500mn*. In the Ready-made Meals Business (former Takeout Food Business), the Company aims to win back business from consumers who have returned to normal economic activities after the pandemic. It is also targeting large orders for various events such as the Expo 2025 Osaka, Kansai, Japan and orders for catering services for rental conference rooms and halls. A drop in the number of Hokka Hokka Tei stores and increasingly price-sensitive consumers are negatives, but demand for catering services should increase as the events sector recovers. Taking these factors into account, FISCO estimates net sales will rise 1.9% YoY to roughly ¥17,200mn*.

* We at FISCO provided our estimates as the Company does not disclose segment profit forecasts. We assume segment adjustments (eliminations and corporate) and segment sales composition will be largely unchanged from FY3/24.

The Company expects operating profit to be largely steady YoY. Although temporary demand in large real estate property sales is set to drop out, it forecasts profit growth in FY3/25 as structural reforms triggered by the pandemic support an ongoing transition to operations with relatively high profit margins. The Company anticipates increased contributions to consolidated profits from the Store Assets & Solutions Business, supported by growth in recurring income, and from the Logistics and Food Processing Business, on continued high ratio of active stores. Given prospects for organic growth, we believe the Company's forecasts are slightly cautious and reflect only its minimum commitment. It has budgeted ¥12.0bn for investment in M&A, one of the priority measures in the medium-term management targets. It is seeking targets in the food manufacturing industry, including frozen food manufacturers, confectionery manufacturers, and producers and processors of agricultural and livestock products. At FISCO, we expect the Company to execute M&A deals in FY3/25, which could further lift earnings.

FY3/25 results forecasts

(¥mn)

	FY3/24 Results	FY3/25 Forecast	YoY	
			Change	Change (%)
Net sales	46,761	49,000	2,239	4.8%
Operating profit	2,436	2,450	14	0.6%
Ordinary profit	2,588	2,850	262	10.1%
Profit attributable to owners of parent	1,601	1,800	199	12.4%

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

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Sustainability management

Five priority issues identified; aims to support safe and secure lifestyles, protect the global environment

To realize its management philosophy – Wishing for the health and happiness of all people, creating a more prosperous tomorrow – the Company aims to build infrastructure that supports safe and secure lifestyles and to protect the global environment through sustainable business practices. The Company has identified five priority issues (materiality) and established related goals, centered on the Ready-made Meals Business and the Store Assets & Solutions Business.

1) **Create a prosperous, safe and secure tomorrow: More enjoyable cities of the future**
Three specific goals: Prepare for natural disasters, prepare for outbreaks of infectious disease, and adapt to technological innovation and regulatory reform.
2) **Corporate management that motivates people: A company employees can be proud of with other stakeholders**
Three specific goals: Support the development of human resources, ensure human rights-oriented management, and enhance work-life balance and diversity.
3) **Environmentally friendly corporate management [E] - Measures to create a sustainable society and future**
Two specific goals: Implement measures to address global warming, and create a circular economy and society.
4) **Society-friendly corporate management [S]: Work with stakeholders and local communities to create a prosperous tomorrow**
Two specific goals: Create a prosperous tomorrow with stakeholders, and build a shared prosperous future with local communities.
5) **Disciplined, self-improving corporate management [G] - A sound and stable management base that adapts to the operating environment**
Three specie goals: Implement corporate governance, reinforce risk management and BCP, and implement safety and quality initiatives.

FISCO

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