COMPANY RESEARCH AND ANALYSIS REPORT

HURXLEY CORPORATION

7561

Tokyo Stock Exchange Standard Market

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Contents

Summary

In 1Q FY3/25, operating profit rose a sharp 49.9% despite slightly lower net sales

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. and Inaba Peanuts Co., Ltd.

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

1. Overview of 1Q FY3/25 results

In 1Q FY3/25, operating profit rose sharply despite slightly lower net sales. Net sales decreased 4.2% YoY to ¥10,664mn, operating profit rose 49.9% to ¥700mn, ordinary profit increased 17.1% to ¥717mn, and profit attributable to owners of parent declined 6.4% to ¥482mn. In the Ready-made Meals Business, net sales rose as store numbers stopped declining and demand for events and catering recovered. Although the Store Assets & Solutions Business was affected by a pullback in real estate sales and the Logistics and Food Processing Business by the Accounting Standard for Revenue Recognition (treatment of sales commissions), those are temporary factors and there are no concerns about growth potential. Operating profit grew significantly, reflecting a rise in gross profit and suppressed SG&A expenses.

2. FY3/25 results forecasts

For FY3/25, the Company expects growth in net sales for the third consecutive year and profits for the fourth consecutive year. It forecasts YoY growth in net sales of 4.8% to ¥49,000mn, operating profit of 0.6% to ¥2,450mn, ordinary profit of 10.1% to ¥2,850mn, and profit attributable to owners of parent of 12.4% to ¥1,800mn. The Company expects the Logistics and Food Processing Business to continue performing well, and generate the highest sales of the three segments again after doing so in FY3/24. It forecasts sales and profit growth, reflecting a higher ratio of active stores from growth in existing contracts and the acquisition of new customers. The Company forecasts operating profit in line with FY3/24. It forecasts profit growth in FY3/25 as structural reforms triggered by the COVID-19 pandemic support an ongoing transition to operations with relatively high profit margins. Operating profit reached 28.6% of the full-term target in 1Q (19.2% in the previous fiscal year), marking steady progress. In terms of medium-term management targets, the Company has set M&A execution as one priority measure with a ¥12.0bn budget. At FISCO, we expect the Company to execute M&A deals in FY3/25, which could further lift earnings.

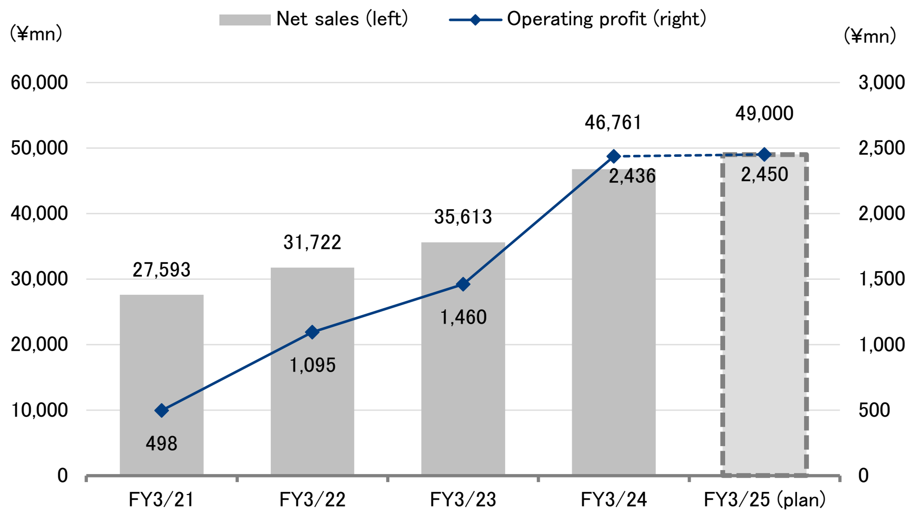
3. Growth strategy

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. Dividend increases are expected at a pace of roughly ¥2.0-3.0 per share annually through FY3/28.

Key Points

- In 1Q FY3/25, operating profit rose a sharp 49.9%, despite slightly lower net sales due to temporary impacts
- Forecasts third straight year of sales growth and fourth straight year of profit growth in FY3/25
- Established four-year medium-term management targets, aims for net sales of ¥72.0bn in FY3/28
- New dividend policy announced “aims to ensure dividends remain above the level in the previous year by increasing dividends,” so dividends are likely to increase by ¥2.0-3.0 each year through FY3/28 in accordance with growth in net profit per share

Results trend



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

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. Representative Director and Chairperson 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 and expanding 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 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").

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 Oaka Stock Exchange (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

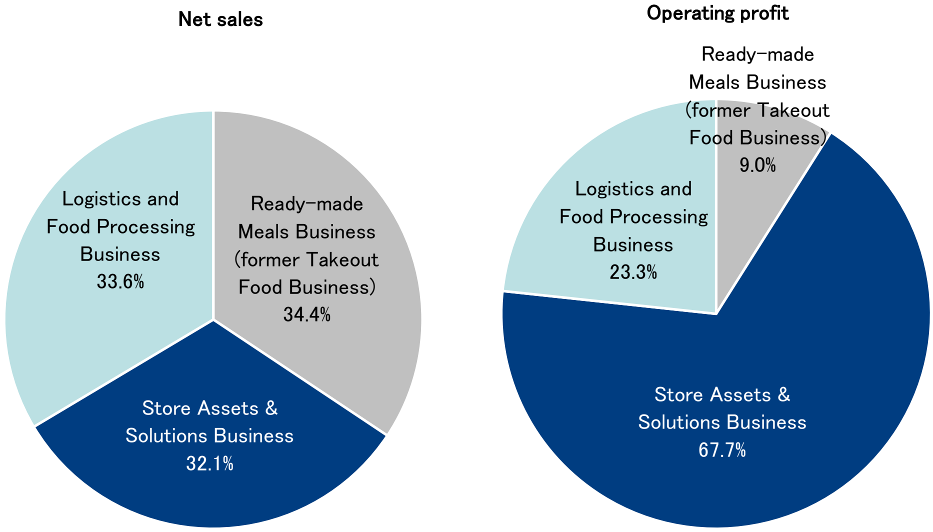
Date	History
June 1976	Founded Hokka Hokka Tei business
July 1978	Opened first Hokka Hokka Tei franchise store
March 1980	Established Hokka Hokka Tei Osaka business division
November 1992	Established Asahi Butsuryu Corp. (now consolidated subsidiary Asahi L&C Corp.)
July 1993	Company name changed to 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 catering services for parties and other events. It accounted for 34.4% of total 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 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 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 net sales and operating profit that FISCO calculated include intra-segment sales and transfers on an unadjusted basis.

Breakdown of FY3/24 net sales and operating profit



Note: Operating profit breakdown based on unadjusted segment profit figures
Source: Prepared by FISCO from the Company's financial results

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 provide consumers with safe and reliable food. Hokka Hokka Tei has 841 stores nationwide, with franchise stores accounting for around 80% of the total (as of June 30, 2024). The remaining roughly 20% of stores are operated directly by the Company, which also handles headquarters functions. The Company's sales in the business are mainly generated by wholesale sales of food ingredients 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 optimum store layouts of 20-25 tsubo (approx. 66-82 m^2), which reduces construction and other store opening expenses. 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. 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. The business includes the Wash & Shine! chain of laundromats, which the Company is increasingly adding to roadside Hokka Hokka Tei stores. In addition, the Company has in recent years set up external sales teams to win more large orders. This is going well, with orders being received for events at various sites that have resumed since COVID-19 was reclassified as a Class 5 infectious disease.

Hokka Hokka Tei store and main menu items

Source: Company materials

The Company discloses monthly same-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.

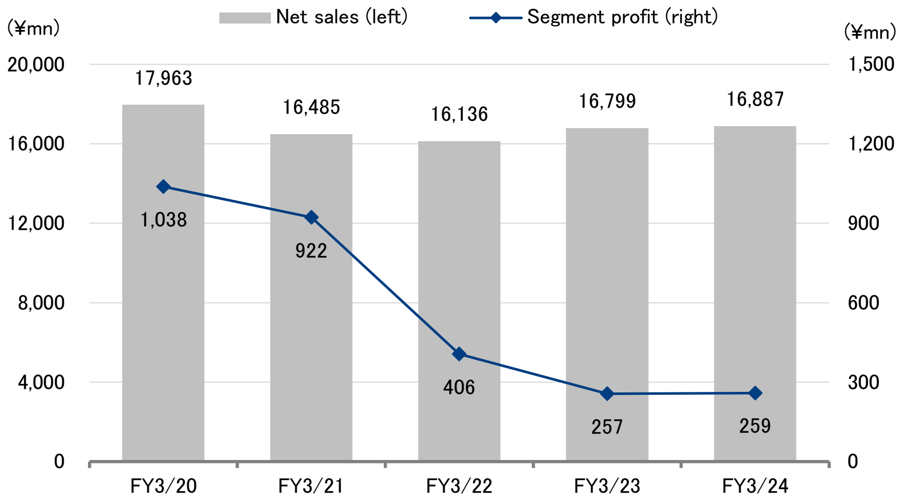
Hokka Hokka Tei KPI (YoY comparison of same-store sales)

	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
FY2023	107.1%	104.6%	106.0%	100.7%	100.7%	104.9%	102.6%	103.1%	102.7%	104.2%	105.4%	103.0%
FY2024	102.2%	103.0%	104.3%	103.2%								

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

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, 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 gradual 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 an 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 ¥2mn YoY). If energy and raw material prices normalize and external conditions start to change, the business should see an improvement in profit margins.

Earnings in the Ready-made Meals Business
(former Takeout Food Business)

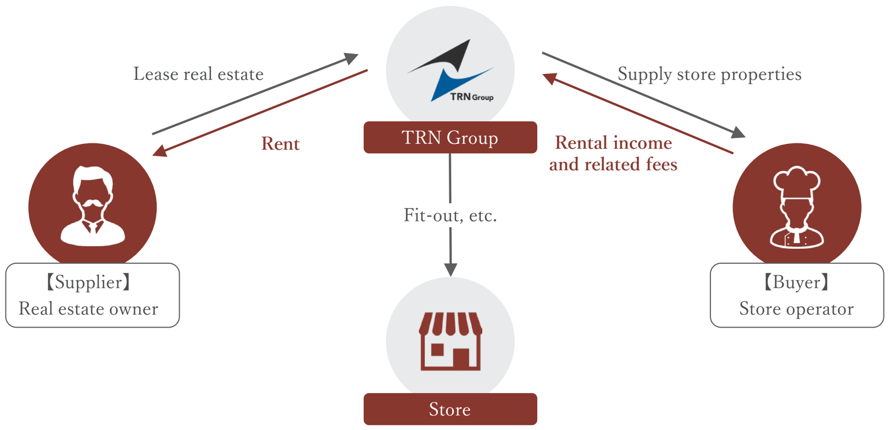


Source: Prepared by FISCO from the Company's financial results

2. Store Assets & Solutions Business

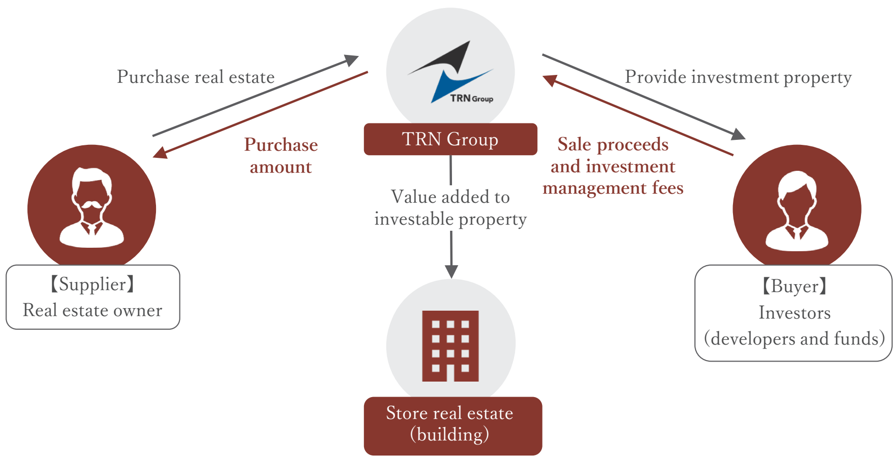
The Store Assets & Solutions Business encompasses five TRN Group companies, including Tenpo Ryutsu Net. These companies operate a range of businesses: the store business provides solutions for store operators, including store leasing, store fit-out, and personnel placement services; the store real estate business acquires, develops, leases and, manages commercial real estate; the store real estate 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 fixtures, 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 leases 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. In this way, the Company's strength lies in its ability to 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

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 steadily increased by 25 and the number of stores with lease contracts 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.

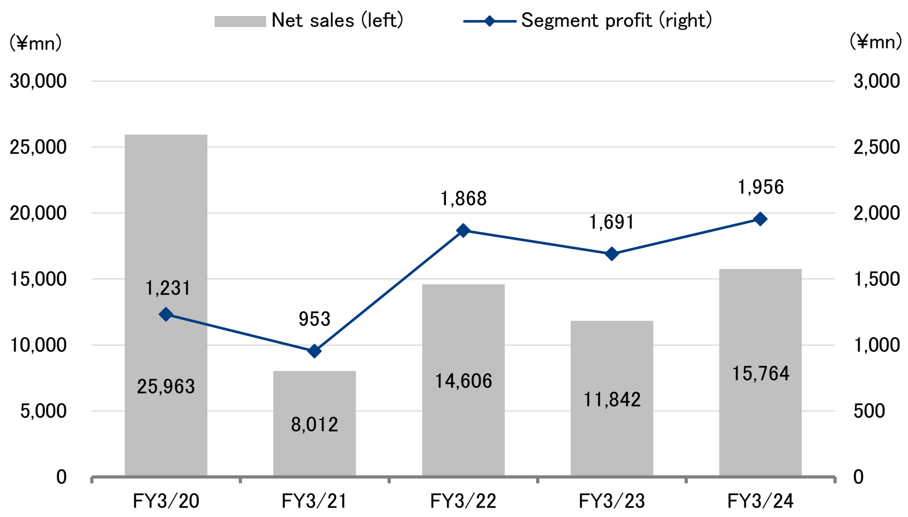
Store Assets & Solutions Business KPIs

		Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
FY2023	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
FY2024	Number of stores with tenant management contracts	144	145	146	147								
	Number of stores with lease contracts	831	836	837	836								
	Number of active stores	975	981	983	983								

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

For recent trends in the Store Assets & Solutions Business, we use the recent 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 due to market conditions 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. In addition, demand for large parties by luxury brands after the COVID-19 pandemic is recovering, leading to 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

3. Logistics and Food Processing Business

In the Logistics and Food Processing Business, Asahi L&C processes food products for Hokka Hokka Tei stores, handles the commissary business which manufactures OEM products for major retailers and logistics operations for products and food ingredients. Also, Inaba Peanuts manufactures and sells peanuts, dried fruits, and other 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 and the business consistently operates at full capacity. In addition, sales proposals tailored to regional markets and seasonal trends contribute 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), which were established to deliver products to Hokka Hokka Tei stores nationwide.

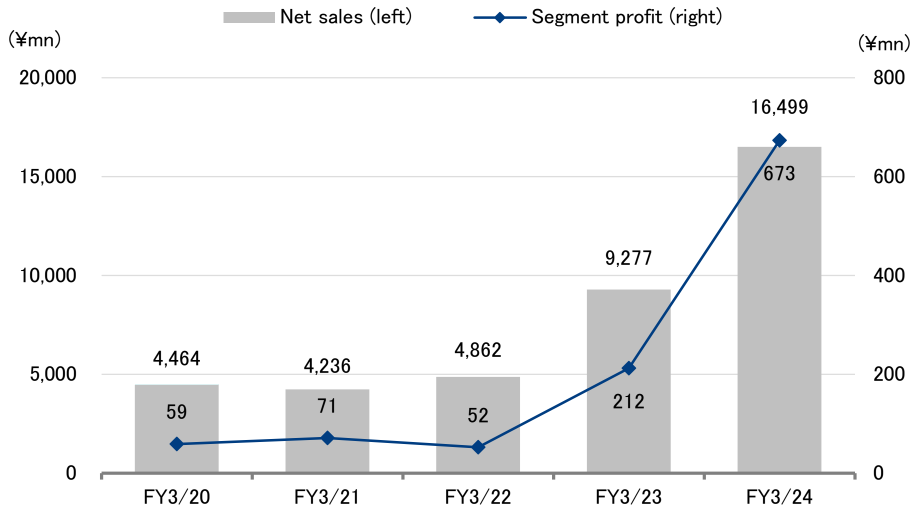
Inaba Peanuts, which joined the Group in November 2022, is a snack and confectionary manufacturer with over 100 years of history (founded in 1918). Inaba Peanuts was the first in the industry to introduce nitrogen gas-filled packaging and high-precision automatic sorting machines. Throughout its history 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 Kinds of Mixed Nuts for Nut Lovers, and Seven Kinds of Mixed Nuts & Fruits for Nut Lovers, which it sells to major supermarkets, drugstores, and convenience store. It also manufactures private brand (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 developed 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 and Yagaishokuhin products and interior view of Hanshin Commissary

Source: Company materials

Looking at trends in the business for the last five fiscal years, net sales were ¥4,464mn and segment profit was ¥59mn in FY3/20, ¥4,236mn and ¥71mn in FY3/21, ¥4,862mn and ¥52mn in FY3/22, and then growth accelerated in FY3/23 and FY3/24. The business reported FY3/22 net sales and segment profit 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 plant 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.

Earnings in the Logistics and Food Processing Business



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

Results trend

Store Assets & Solutions Business and Logistics and Food Processing Business contributed to profit growth in 1Q FY3/25

1. Overview of 1Q FY3/25 results

In 1Q FY3/25, operating profit rose sharply despite slightly lower net sales. Net sales decreased 4.2% YoY to ¥10,664mn, operating profit rose 49.9% to ¥700mn, ordinary profit increased 17.1% to ¥717mn, and profit attributable to owners of parent declined 6.4% to ¥482mn.

Although net sales declined slightly, that owes to temporary factors, and there are no concerns about growth potential. In the Ready-made Meals Business, net sales rose 0,3% YoY to ¥4,106mn. In addition to a halt in the decline in store numbers, this reflects recovery in catering demand and external sales including for sports and music events. In the Store Assets & Solutions Business, net sales declined 8.4% YoY to ¥3,171mn. This is due to an impact from a pullback from real estate sales of about ¥700mn in 1Q FY3/24 despite solid growth in recurring income from an increase in the number of stores under lease contracts and tenant management contracts. In the Logistics and Food Processing Business, net sales decreased 4.7% YoY to ¥3,982mn. This is due to an impact from the Accounting Standard for Revenue Recognition (treatment of sales commissions) despite strong performances in commissary business, peanut, dry fruit, and other confectionery production and wholesaling operations. Excluding impact from the Accounting Standard for Revenue Recognition and the pullback from real estate sales, net sales rose YoY.

Operating profit increased significantly because gross profit rose 2.8% YoY to ¥3,682mn, while SG&A expenses fell 4.3% to ¥2,982mn. By segment, in the Store Assets & Solutions Business, which is driving earnings, segment profit rose 44.3% YoY to ¥616mn. In addition to growth in stores under lease contracts or tenant management contracts, which are high-margin services, brisker tenant turnover contributed to segment profit. In the Logistics and Food Processing Business, segment profit grew a striking 215.9% YoY to ¥304mn. This reflects enhanced production capacity in the commissary business against a backdrop of labor shortages at supermarkets and other retailers. In the Ready-made Meals Business, there was a ¥34mn operating loss (¥54mn profit in the same period of the previous fiscal year), owing to profit being squeezed by price hikes for items like rice and currency exchange rates (yen depreciation).

In 1Q FY3/25, the profitability improved in the Store Assets & Solutions Business and the Logistics and Food Processing Business, showing that structural reforms had an impact.

1Q FY3/25 results

(¥mn)

	1Q FY3/24 Results	1Q FY3/25 Results	YoY	
			Change (%)	Change
Net sales	11,136	10,664	-4.2%	-472
Ready-made Meals Business	4,092	4,106	0.3%	13
Store Assets & Solutions Business	3,462	3,171	-8.4%	-290
Logistics and Food Processing Business	4,179	3,982	-4.7%	-197
Cost of sales	7,553	6,981	-7.6%	-572
Gross profit	3,583	3,682	2.8%	99
SG&A expenses	3,116	2,982	-4.3%	-134
Operating profit	467	700	49.9%	233
Ready-made Meals Business	54	-34	-	-88
Store Assets & Solutions Business	426	616	44.3%	189
Logistics and Food Processing Business	96	304	215.9%	207
Ordinary profit	612	717	17.1%	105
Profit attributable to owners of parent	515	482	-6.4%	-33

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

Sound financial footing with an equity ratio of 38.7%, ROE improvement

2. Financial condition and management indicators

Looking at the Company's financial condition at the end of 1Q FY3/25, net assets were ¥63,017mn, down ¥1,381mn from the end of the previous fiscal year. Of which, current assets were ¥26,398mn, down ¥1,270mn. This is mainly because cash and deposits decreased ¥1,498mn, while merchandise and supplies increased ¥128mn. Non-current assets decreased ¥110mn to ¥36,619mn. This is mainly because property, plant and equipment increased ¥276mn.

Total liabilities stood at ¥38,614mn, down ¥1,629mn from the end of the previous fiscal year. Of which, current liabilities were ¥14,626mn, down ¥980mn. This is mainly because income taxes payable decreased ¥480mn. Non-current liabilities decreased ¥649mn to ¥23,987mn with no major changes. Interest-bearing debt decreased ¥765mn to ¥25,927mn. Total net assets increased ¥248mn to ¥24,403mn. This mainly reflects the recording of profit attributable to owners of parent.

As for management indicators, the current ratio was 180.5%, so short-term stability is not a concern. The equity ratio stood at 38.7%, underlining financial health. In terms of efficiency and profitability, ROE improved to 6.9% (4.7% in the previous fiscal year) and ROA to 4.0% (2.7%) in FY3/24. We at FSICO believe there is room for further improvement.

Consolidated balance sheets and management indicators

(¥mn)

	End of FY3/23	End of FY3/24	End of 1Q FY3/25	Change
Current assets	23,512	27,668	26,398	-1,270
Cash and deposits	11,680	14,611	13,113	-1,498
Non-current assets	35,002	36,729	36,619	-110
Total assets	58,514	64,398	63,017	-1,381
Current liabilities	11,939	15,606	14,626	-980
Non-current liabilities	24,013	24,636	23,987	-649
Total liabilities	35,952	40,243	38,614	-1,629
Total net assets	22,562	24,155	24,403	248
Total liabilities and net assets	58,514	64,398	63,017	-1,381
<Stability>				
Current ratio (current assets / current liabilities)	196.9%	177.3%	180.5%	-
Equity ratio (shareholders' equity / total assets)	38.6%	37.5%	38.7%	-
<Efficiency / profitability>				
ROE (Return on Equity)	4.7%	6.9%	-	-
ROA (Return on Assets)	2.7%	4.0%	-	-

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

Outlook

Forecasts third straight year of sales and profit growth in FY3/25

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 YoY, supported by growth in existing contracts and the acquisition of new customers, lifting the ratio of active stores. FISCO estimates 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. FISCO expects net sales to rise at a steady rate of 4.7% YoY to around ¥16,500mn*. In the Ready-made Meals Business, the Company aims to win back business from individual 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 negative factors, but demand for catering services should increase as the events sector recovers. Taking these factors into account, FISCO estimates net sales will rise steadily to around ¥17,200mn or up 1.9% YoY*. Net sales reached 21.8% of the full-term target at the end of 1Q (23.8% in the previous fiscal year), but the somewhat slow start is not a concern as it owes to temporary factors.

* We at FISCO provided our estimates as the Company does not disclose forecasts by segment. 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 on par with the FY2024. 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. Operating profit reached 28.6% of the full-term target at the end of 1Q (19.2% in the previous fiscal year), marking steady progress. Given prospects for organic growth, FISCO believes the Company's forecasts are slightly conservative 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		1Q progress rate
			Change (%)	Change	
Net sales	46,761	49,000	4.8%	2,239	21.8%
Operating profit	2,436	2,450	0.6%	14	28.6%
Ordinary profit	2,588	2,850	10.1%	262	25.2%
Profit attributable to owners of parent	1,601	1,800	12.4%	199	26.8%

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

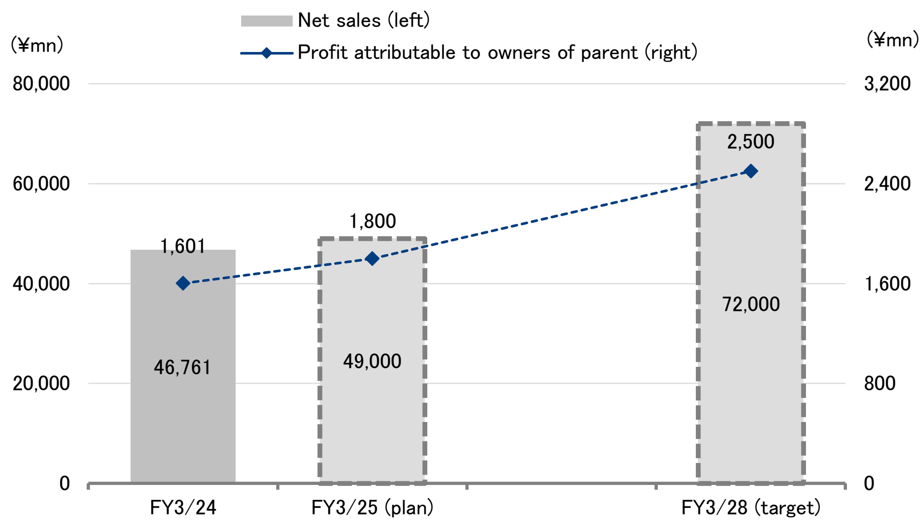
Growth strategy

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

1. Overview of medium-term management targets

The Company has formulated medium-term management targets for the four fiscal years from FY3/25 to FY3/28. It aims to achieve sustainable growth by expanding its business domain through more aggressive growth investments, and by increasing corporate value through business growth and earnings expansion. It plans to invest roughly ¥17.8bn (¥12.0bn in M&A and ¥5.8bn in capital investment) in growth areas, mainly in Logistics and Food Processing Business, 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 ROE 8.3% (up 1.4pp from 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%). The Company aims to increase shareholder returns as well as expand its business performance.

Medium-term management targets and results forecast



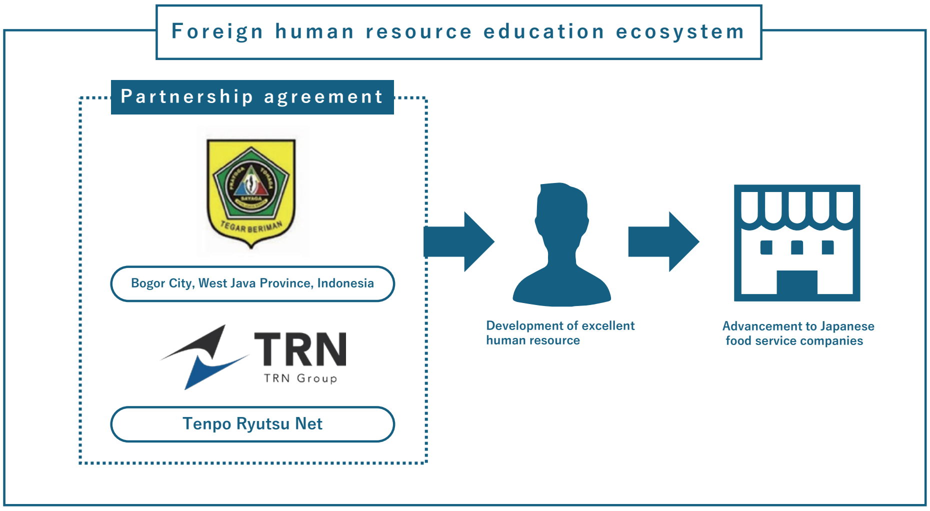
Source: Prepared by FISCO from the Company's financial results and press release, "Formulation of medium-term management targets (FY3/28 final-year targets)"

2. Strengthening HR recruitment solutions business

The Company's consolidated subsidiary Tenpo Ryutsu Net concluded a partnership agreement with Bogor City in Indonesia's West Java Province pertaining to Specified Skilled Workers in the food service industry, and launched a project to build a foreign human resource education ecosystem. This project aims to develop future management candidates and talent with strong culinary skills that can succeed globally by providing unique education in conversational Japanese as well as restaurant and food service outlet management expertise to highly-ambitious people with potential, specifically those who aim to acquire Specified Skilled Worker No.2 residency status after coming to Japan among those who wish to acquire specified skilled worker visas in Japan's food service industry. Assistance will be provided to the talent nurtured through this project so that they can work long term at food service companies in Japan. Indonesia's municipality will recruit human resources, working with local vocational schools, local four-year universities, and Tenpo Ryutsu Net on this industry-academia-government collaboration to develop human resources. Tenpo Ryutsu Net has experience in receiving foreign human resources from countries such as Vietnam and providing them with job opportunities to address the serious labor shortage in Japan's food services industry.

In addition, Tenpo Ryutsu Net announced in August 2024 that it will establish a new company TRN Global Career, Inc. (which will be its subsidiary) on October 1, 2024 through spin-off to reinforce human resource business on which it is focusing.

Structure of Tenpo Ryutsu Net's foreign human resource education ecosystem



Source: Tenpo Ryutsu Net's press release

Shareholder return policy

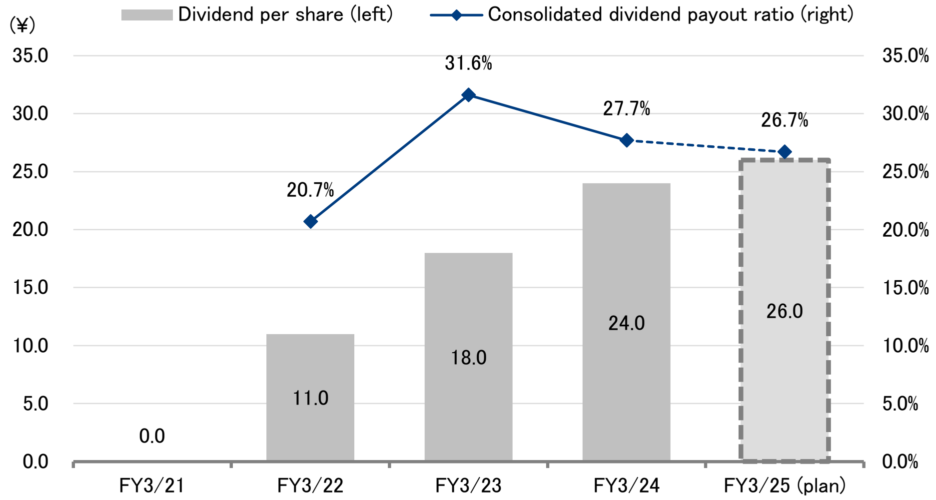
Announced new dividend policy, dividend increase of ¥2.0-3.0 each year through FY3/28 looks promising

The Company has traditionally paid dividends, recognizing returning profit to shareholders as a key management task, but 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 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, comprehensively 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 consolidated 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, "Notice regarding change in dividend policy"

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.

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 specific goals: Implement corporate governance, reinforce risk management and BCP, and implement safety and quality initiatives.

FISCO

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