



# Tosho

TSE 1st Section

8920

Industry: Leisure and amusement

## Cost advantage to shine under COVID pandemic; initiating coverage with a Buy

### Initiating coverage with a target price of 2,300 yen and a Buy rating

We initiate coverage of Tosho Co., Ltd. (8920, Tosho, the company) with a target price of 2,300 yen and a Buy rating. Although the business environment for the sports club and hotel businesses deteriorated sharply due to the COVID-19 pandemic, Tosho's low-cost management has been successful, and both businesses returned to profitability in 2Q FY3/21, ahead of the competition. The company is in a position to benefit from the market's recovery, in our view. On the other hand, the company's stock price has weakened to the same level as its peers due to the COVID-19 pandemic, and we believe the stock has upside potential going forward.

### Low-cost management, regional store structure

Based in Aichi Prefecture, the company directly manages 101 Holiday Sports Club stores and 31 AB Hotels. The company has unique expertise in low initial investment and low-cost operations, and has been expanding its store network while maintaining an OP margin of over 25% for a long time before the COVID-19 pandemic. Many of the stores in both businesses are located in regional areas, with the sports clubs located in residential areas and the hotels located near manufacturers' manufacturing bases. As a result, many of these stores are relatively easy to operate even in the face of the COVID-19 pandemic.

### Turned profitable in Jul-Sep period. Weakening of competition is progressing

Since 4Q FY3/20, the company's earnings have been strongly affected by the COVID-19 pandemic, and in 1Q FY3/21, when the company was forced to close its sports clubs, it posted effective operating loss of 0.9bn yen. However, as a result of further refining its cost competitiveness, the company was able to achieve an OP of 0.5bn yen in 2Q and 0.6bn yen in 3Q. On the other hand, some operators in the fitness industry decided to close a large number of stores, while others are forced to repair their damaged equity capital. In addition, many companies in the hotel industry are suffering from damage to their equity capital.

### Earnings forecast by Mita Securities

We forecast OP of 1.2bn yen for FY3/21 (-87.5% YoY; company guidance 1.15bn yen), 2.5bn yen (+103.8%YoY) for FY3/22. We believe that in FY3/24 the company's profit will recover to near the level before the COVID-19 pandemic. Also, as the fitness participation rate in Japan is low at around 4%, there is a lot of room for growth in the medium to long term.

### Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 5.5% and a terminal growth rate of 1.2%, based on our earnings forecasts for FY3/21-FY3/26. Our target price is equivalent to 36.0x our FY3/23 EPS forecast of 63.84 yen.

Risk factors to our view include: 1) if the national or local government requests fitness clubs to close or business travelers to refrain from business trips; 2) if the number of fitness club members continues to decline substantially; 3) if hotel room occupancy rates and room rates decline substantially; 4) if occupancy rates of real estate rental properties decline unexpectedly; and 5) if serious conflicts arise among management teams from the founding families.

MITA SECURITIES Co., Ltd.

Junichi Shimizu

Chief Analyst, Head of Research

## Initiation of coverage

Rating

**Buy**

Target price (JPY)	2,300
Stock price (JPY) (Apr 20)	1,743
Market cap (JPYbn)	66.8

### Key changes

Rating	New
Target price	New
Earnings forecast	New

### Stock price (JPY)



Source: Bloomberg Finance LP

### Earnings

		3/19	3/20	3/21E	3/22E	3/23E
Sales	JPYbn	27.2	34.5	17.7	21.8	25.0
OP	JPYbn	7.2	9.7	1.2	2.5	4.5
RP	JPYbn	7.3	9.6	1.3	2.4	4.4
NP	JPYbn	4.0	5.8	0.4	1.4	2.4
EPS	JPY	105.0	151.5	9.4	35.7	63.8
BPS	JPY	769	905	912	942	994
DPS	JPY	15.0	15.0	2.0	6.0	12.0
PER	x	29.2	6.6	199.5	48.8	27.3
PBR	x	4.0	1.1	2.0	1.9	1.8
Div. yield	%	0.5	1.5	0.1	0.3	0.7
ROA	%	6.4	8.1	0.5	1.7	3.0
ROE	%	14.5	18.1	1.0	3.9	6.6

Source: Company data, Mita Securities

### Company profile

Tosho is based in Aichi Prefecture and operates Holiday Sports Club, AB Hotel, and real estate leasing business. The company has 101 sports clubs and 31 hotels. The company is actively involved in the store design stage to reduce initial investment, and also achieves low-cost operations through its own store management.

# Investment Thesis

## Outlook

### **Both sports clubs and hotels to recover ahead of the competition**

We initiate coverage of Tosho Co., Ltd. (8920, Tosho, the company) with a price target of 2,300 yen and a Buy rating.

Based in the Mikawa area of Aichi Prefecture, the company operates a sports club business (comprehensive fitness clubs), a hotel business (business hotels), and a real estate business (rental condominiums for singles). The company has unique expertise in controlling initial investment and low-cost operations, and has achieved an OP margin of over 25% for six consecutive fiscal years before the COVID-19 pandemic. In addition, the company has been aggressively opening new stores and expanding its business, backed by high profitability.

Since 4Q FY3/20, the fitness and hotel industries have been strongly affected by the COVID-19 pandemic, with many operators falling into significant losses, especially in 1Q FY3/21 when the first emergency was declared. The company posted losses in both the sports club and hotel businesses in 1Q, resulting in an operating loss of 0.07bn yen on a consolidated basis (actually an operating loss of 0.9bn yen after adjusting for some operating expenses posted as extraordinary losses). However, both segments were profitable in 2Q and 3Q, reflecting the company's cost competitiveness. It is not uncommon for competitors to be stuck in the red, to be forced to close a large number of stores, or to suffer significant damage to their equity capital (some have recapitalized), but the company has not suffered any particular damage to its store network or balance sheet and should be able to outperform the competition in the recovery phase.

We forecast OP of 1.2bn yen (-87.5% YoY; company guidance: 1.15bn yen) in FY3/21 and 2.5bn yen (+103.8% YoY) in FY3/22. We believe that in FY3/24 the company will recover to near the level of earnings before the COVID-19 pandemic (OP forecast: 6.6bn yen). In the medium to long term, we expect the company to expand by opening new stores again. The fitness participation rate in Japan is very low, at around 4%, leaving a lot of room for growth. In addition, it may become easier to secure properties with low budgets in both the sports club and hotel businesses due to the withdrawal of competitors.

### **Catalysts**

The catalysts we envision for an upturn in the stock price include a recovery in the number of members in the sports club business, an increase in hotel room occupancy rates, a significant decrease in the number of new cases of COVID-19, the generalization of vaccinations, and the resumption of the Go To Travel campaign by the Japanese government.

*Initiating coverage with a TP of 2,300 yen and a Buy rating*

*Excellent cost competitiveness. Quick recovery from the COVID-19 pandemic is expected*

*We expect the company's profits to return to near the level of pre-COVID-19 in FY3/24. Large room for growth in the medium to long term*

Figure: Summary of Mita Securities' earnings forecast (Consolidated)

JPYm	3/18	3/19	3/20	Mita E 3/21	Mita E 3/22	Mita E 3/23	Mita E 3/24	Mita E 3/25	Mita E 3/26	CoE 3/21	Consensus 3/21	Consensus 3/22	Consensus 3/23
<b>Earnings</b>													
Sales	24,139	27,240	34,466	17,679	21,763	25,028	28,667	31,196	34,079	17,500	17,559	21,876	26,536
YoY, %	13.1	12.8	26.5	-48.7	23.1	15.0	14.5	8.8	9.2		-49.1	24.6	21.3
Operating profit	6,561	7,164	9,682	1,209	2,464	4,466	6,639	7,896	9,318	1,150	1,151	2,717	5,303
YoY, %	9.7	9.2	35.1	-87.5	103.8	81.2	48.7	18.9	18.0		-88.1	136.1	95.2
OPM, %	27.2	26.3	28.1	6.8	11.3	17.8	23.2	25.3	27.3		6.6	12.4	20.0
Recurring profit	6,603	7,304	9,580	1,257	2,442	4,441	6,625	7,892	9,323	1,200	1,200	2,750	5,350
YoY, %	9.6	10.6	31.2	-86.9	94.2	81.9	49.2	19.1	18.1		-87.5	129.2	94.5
Net profit	3,767	4,023	5,804	359	1,369	2,445	3,696	4,386	5,157	250	325	1,740	3,295
YoY, %	1.1	6.8	44.2	-93.8	281.5	78.6	51.1	18.7	17.6		-94.4	435.4	89.4
Depreciation	1,766	2,079	2,362	2,389	2,534	2,583	2,648	2,761	2,893				
Capital expenditure	7,448	8,335	7,129	4,409	3,035	4,093	5,237	6,564	6,962				
Free CF	-1,077	-1,942	8,404	-3,469	1,071	927	1,276	563	1,168				
<b>Segment earnings</b>													
Sports club business													
Sales	18,193	20,111	19,424	11,441	14,072	16,200	18,953	20,505	22,261				
YoY, %	11.2	10.5	-3.4	-41.1	23.0	15.1	17.0	8.2	8.6				
Operating profit	4,732	5,144	4,139	618	1,221	2,456	4,052	4,795	5,642				
YoY, %	9.7	8.7	-19.5	-85.1	97.6	101.2	64.9	18.3	17.7				
Hotel business													
Sales	4,413	5,506	6,281	4,783	6,090	7,021	7,702	8,451	9,370				
YoY, %	25.8	24.8	14.1	-23.9	27.3	15.3	9.7	9.7	10.9				
Operating profit	1,205	1,410	1,333	141	681	1,355	1,840	2,239	2,721				
YoY, %	22.7	17.0	-5.4	-89.4	383.7	98.8	35.8	21.7	21.5				
Real estate business													
Sales	1,533	1,622	8,761	1,456	1,601	1,806	2,012	2,240	2,448				
YoY, %	3.6	5.8	440.0	-83.4	10.0	12.8	11.4	11.4	9.3				
Operating profit	619	601	4,198	450	562	655	748	863	957				
YoY, %	-8.4	-2.9	598.8	-89.3	24.9	16.5	14.2	15.5	10.9				
<b>Per share indicators</b>													
EPS (JPY)	98.33	105.03	151.51	9.37	35.74	63.84	96.49	114.50	134.62	6.52	8.48	45.42	86.02
BPS (JPY)	679.52	769.46	904.94	912.31	942.06	993.89	1,074.38	1,170.89	1,285.50				
DPS (JPY)	14.50	15.00	15.00	2.00	6.00	12.00	16.00	18.00	20.00	2.00			
<b>Valuation, profitability, etc.</b>													
PER (x)	41.8	29.2	6.6	199.5	48.8	27.3	18.1	15.2	12.9				
PBR (x)	6.1	4.0	1.1	2.0	1.9	1.8	1.6	1.5	1.4				
Dividend payout ratio (%)	14.7	14.3	9.9	21.3	16.8	18.8	16.6	15.7	14.9				
Dividend yield (%)	0.4	0.5	1.5	0.1	0.3	0.7	0.9	1.0	1.1				
ROA (%)	7.0	6.4	8.1	0.5	1.7	3.0	4.3	4.9	5.4				
ROE (%)	15.6	14.5	18.1	1.0	3.9	6.6	9.3	10.2	11.0				
<b>Financial soundness indicators</b>													
Capital ratio (%)	44.7	43.5	45.9	45.4	44.8	45.5	46.8	48.3	49.9				
Debt/Equity (x)	0.9	1.0	0.8	0.9	0.9	0.9	0.8	0.7	0.7				

Source: Company data, QUICK, Mita Securities

Note: Consensus forecasts are by QUICK consensus

## Valuations

### Stock valuation based on the residual income model (RIM)

In calculating our target price of 2,300 yen, we used a residual income model (RIM) with a cost of equity of 5.5% and a terminal growth rate of 1.2%, based on our earnings forecasts for FY3/21-FY3/26. Our target price is equivalent to 36.0x our FY3/23 EPS forecast of 63.84 yen.

*TP of 2,300 yen based on RIM*

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE
JPYbn	3/21	3/22	3/23	3/24	3/25	3/26	3/27
Shareholders' equity (EOP)	34.9	36.1	38.1	41.2	44.9	49.2	
Net profit		1.4	2.4	3.7	4.4	5.2	
Cost of equity		1.9	2.0	2.1	2.3	2.5	
Residual income		-0.6	0.5	1.6	2.1	2.7	
PV of residual income		-0.5	0.4	1.4	1.7	2.1	
PV of terminal value							48.4
Beta	1.00						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	5.50						
Terminal growth rate (%)	1.20						
Total equity value						88.4	
Number of shares O/S (m)						38,306	
Target share price						<b>2,300</b>	

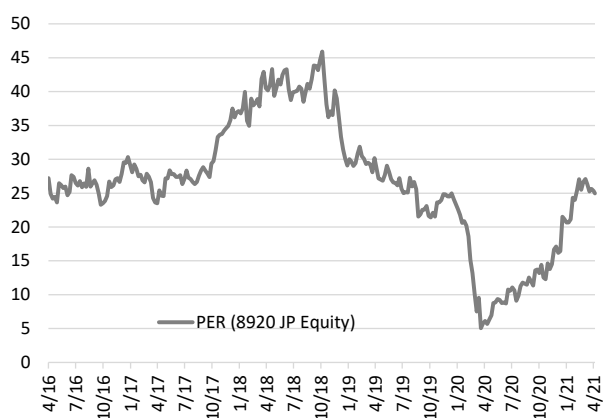
Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate	0.60	0.70	0.80	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.80
Target price	2,150	2,150	2,200	2,200	2,250	2,300	<b>2,300</b>	2,350	2,350	2,400	2,450	2,500	2,500

Source: Company data, Mita Securities

Figure: Tosho's historical PER (reference)



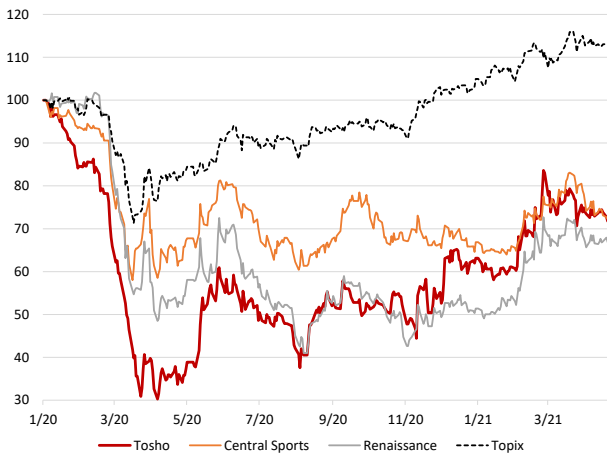
Source: Bloomberg Finance LP data, Mita Securities

**Comparison of valuations with peers**

Tosho was already profitable in 2Q FY3/21, recovering its earnings ahead of its competitors in the fitness club and hotel industry and not suffering any damage to its equity capital. However, the recovery of the company's stock price compared to the level before the COVID-19 pandemic is not so different from that of its competitors, who have suffered more damage to their earnings. In our view, differences in fundamentals may be taking longer to be reflected in stock prices, given the relatively small market capitalization of many stocks in both sectors and the limited coverage by sell-side analysts.

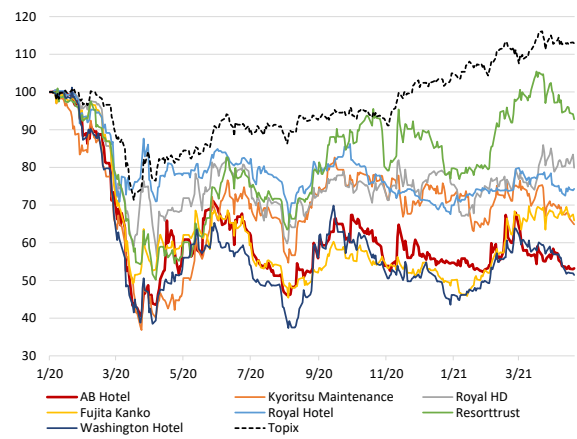
*Stock price does not fully reflect the strength of fundamentals, in our view*

**Figure: Stock price trends for fitness club operators**



Source: Bloomberg Finance LP data, Mita Securities

**Figure: Stock price trends for hotel operators (reference)**



Source: Bloomberg Finance LP data, Mita Securities

**Figure: Comparison of valuations for fitness club operators**

Company	Ticker	Share price 20-Apr	Mkt cap JPYbn	PER Last	PER LTM	PER Current E	PER Next E	PBR Last	EV/EBITDA Next E	EV/Sales Next E	ROE LTM	Sales growth LTM	EBITDA Mgn LTM	Div Yield Current E	1M Change	3M Change	1YR Change
RENAISSANCE INC	2378	1,132	24.2	13.4	NA	NA	61.2	1.4	NA	1.0	-24.8	-30.9	-1.1	0.2	-9.4	20.2	21.9
RIZAP GROUP INC	2928	201	111.8	NA	NA	NA	NA	4.4	NA	NA	-20.4	-13.5	2.7	NA	-14.8	36.7	67.5
CENTRAL SPORTS CO LTD	4801	2,351	27.0	12.3	NA	NA	NA	1.2	NA	NA	-10.3	-29.1	8.9	NA	-13.2	10.2	12.2
CURVES HOLDINGS CO LTD	7085	960	90.1	110.0	110.0	NA	NA	11.1	NA	NA	9.6	-10.5	11.3	NA	-5.1	22.8	101.0
FAST FITNESS JAPAN INC	7092	4,160	64.8	30.7	30.7	137.5	35.7	15.1	15.7	4.6	64.6	41.2	33.1	0.1	6.7	5.6	NA
<b>TOSHO CO LTD</b>	<b>8920</b>	<b>1,743</b>	<b>66.8</b>	<b>11.5</b>	<b>24.0</b>	<b>197.6</b>	<b>34.9</b>	<b>1.9</b>	<b>13.4</b>	<b>3.7</b>	<b>8.4</b>	<b>-8.0</b>	<b>30.4</b>	<b>0.1</b>	<b>-11.5</b>	<b>13.2</b>	<b>91.5</b>
<b>Average</b>				<b>35.6</b>	<b>54.9</b>	<b>167.6</b>	<b>43.9</b>	<b>5.9</b>	<b>14.5</b>	<b>3.1</b>	<b>4.5</b>	<b>-8.5</b>	<b>14.2</b>	<b>0.1</b>	<b>-7.9</b>	<b>18.1</b>	<b>58.8</b>

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus

**Figure: Comparison of valuations for hotel operators (reference)**

Company	Ticker	Share price 20-Apr	Mkt cap JPYbn	PER Last	PER LTM	PER Current E	PER Next E	PBR Last	EV/EBITDA Next E	EV/Sales Next E	ROE LTM	Sales growth LTM	EBITDA Mgn LTM	Div Yield Current E	1M Change	3M Change	1YR Change
RESORTTRUST INC	4681	1,721	186.8	25.8	19.0	30.1	17.3	1.4	9.7	1.5	7.3	-11.7	15.8	1.8	-11.3	14.9	65.2
WASHINGTON HOTEL CORP	4691	685	8.3	18.5	18.5	NA	NA	0.6	NA	NA	3.1	-7.6	9.4	NA	-14.8	5.5	-0.6
AMAZE CO LTD	6076	861	13.1	54.7	NA	NA	NA	1.2	NA	NA	-2.6	-28.7	14.0	NA	-3.6	6.4	28.3
GREENS CO LTD	6547	520	6.7	NA	NA	NA	650.0	2.8	NA	0.5	-128.2	-50.3	-55.9	0.0	-18.4	14.3	27.8
<b>ABHOTEL CO LTD</b>	<b>6565</b>	<b>1,034</b>	<b>14.7</b>	<b>16.4</b>	<b>83.5</b>	<b>NA</b>	<b>NA</b>	<b>2.4</b>	<b>NA</b>	<b>NA</b>	<b>2.9</b>	<b>-23.6</b>	<b>21.9</b>	<b>NA</b>	<b>-7.3</b>	<b>-1.4</b>	<b>-14.9</b>
ROYAL HOLDINGS CO LTD	8179	1,917	87.0	NA	NA	NA	98.6	3.4	14.6	1.1	-76.8	-41.2	-25.3	0.5	-7.3	5.5	12.8
KYORITSU MAINTENANCE CO	9616	3,375	132.4	19.0	NA	NA	29.4	1.8	17.6	1.3	-11.1	-25.6	-3.3	0.7	-14.0	-1.0	44.6
IMPERIAL HOTEL LTD	9708	1,850	109.9	45.6	NA	NA	NA	2.1	54.1	2.0	-16.5	-51.7	-15.3	0.2	-12.2	-5.2	-5.0
ROYAL HOTEL LTD/THE	9713	1,205	12.4	17.0	NA	NA	NA	NA	NA	NA	NA	-50.6	-25.8	NA	-6.2	-1.2	-7.3
FUJITA KANKO INC	9722	1,847	22.5	NA	NA	1.0	NA	18.7	22.3	1.4	-163.4	-61.4	-68.6	0.0	-5.3	29.4	10.5
KYOTO HOTEL LTD/THE	9723	616	7.4	NA	NA	NA	NA	12.0	NA	NA	-126.8	-54.8	-19.8	NA	-1.1	7.7	10.4
<b>Average</b>				<b>28.2</b>	<b>40.3</b>	<b>15.6</b>	<b>198.8</b>	<b>4.6</b>	<b>23.6</b>	<b>1.3</b>	<b>-51.2</b>	<b>-37.0</b>	<b>-13.9</b>	<b>0.5</b>	<b>-9.2</b>	<b>6.8</b>	<b>15.6</b>

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus

**Risk factors**

Risk factors to our view include: 1) if the national or local government requests fitness clubs to close or business travelers to refrain from business trips; 2) if the number of fitness club members continues to decline substantially; 3) if hotel room occupancy rates and room rates decline substantially; 4) if occupancy rates of real estate rental properties decline unexpectedly; and 5) if serious conflicts arise among management teams from the founding families.

# Company overview

## Company and business overview

### Overview of Tosho

Based in Anjo City, Aichi Prefecture, Tosho operates sports clubs, hotels, and real estate businesses. As of the end of 3Q FY3/21, the company's "Holiday Sports Club" had 101 fitness clubs in 40 prefectures nationwide, with 181,000 members. In addition, the company operates 31 business hotels with 4,101 rooms under the brand "AB Hotel." In the real estate business, the company offers the "A-City" series of rental condominiums, mainly for single people, with 55 buildings and 2,191 rooms in Aichi Prefecture.

*Operates sports clubs, business hotels, and rental condominiums. Strengths include low-cost operations*

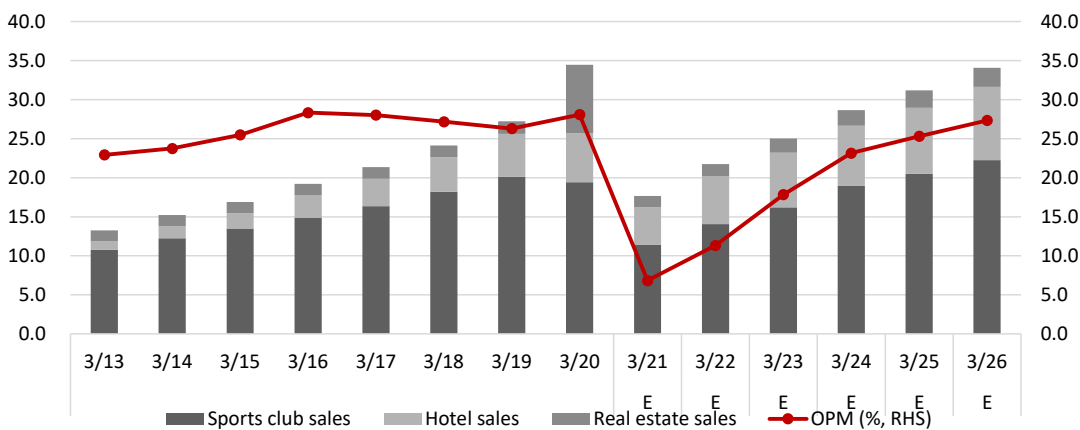
### Latest financial results

In FY3/20, the company posted consolidated sales of 34.5bn yen (+26.5% YoY), OP of 9.7bn yen (+35.1% YoY), and NP of 5.8bn yen (+44.2% YoY). It should be noted, however, that the results were significantly affected by the sale of real estate to Tosho REIT in 4Q. Excluding the impact of the above sale, we estimate that FY3/20 sales were 27.7bn yen (+1.7% YoY) and OP was 5.8bn yen (-18.9% YoY). The main reason for the decline in effective OP was the negative impact of the COVID-19 pandemic on the sports club and hotel businesses in 4Q.

*Effective OP declined in FY3/20 due to the COVID-19 pandemic; FY3/21: Loss in 1Q but turned profitable in 2Q*

Consolidated sales for 1-3Q FY3/21 were 13.0bn yen (-39.2% YoY), OP was 1.0bn yen (-81.1% YoY), and NP was 0.2bn yen (-94.0% YoY). Excluding the impact of posting a portion of operating expenses (0.8bn yen) as an extraordinary loss in 1Q, we estimate that OP for 1-3Q would have been 0.2bn yen (adjusted OP). However, OP by quarter was already in the black in 2Q, with 1Q -0.9bn yen (adjusted), 2Q 0.5bn yen, and 3Q 0.6bn yen. Both the sports club and hotel businesses returned to the black earlier than many of the major players in the industry, demonstrating the company's strength in low-cost operations.

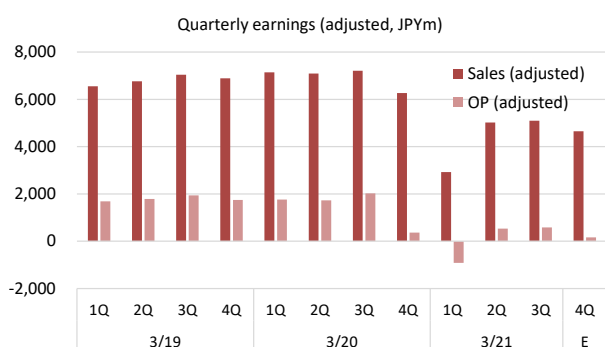
Figure: Sales, OPM



Source: Company data, Mita Securities

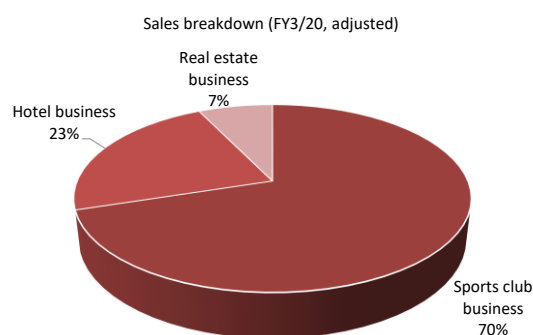
Note: JPYbn. Forecasts are by Mita Securities

Figure: Quarterly earnings (adjusted)



Source: Company data, Mita Securities Note: Excludes asset sale in 4Q FY3/20. Includes COVID-related extraordinary losses in operating expenses for 1Q FY3/21. Forecasts are by Mita Securities

Figure: Sales breakdown (FY3/20, adjusted for asset sale)



Source: Company data, Mita Securities Note: Excludes asset sale to Tosho REIT

Figure: Regional distribution of sports clubs and hotels

Sports club	Stores	Main regions
Hokkaido	7	
Tohoku	4	
Kanto	19	Chiba 5; Gunma 4
Chubu	32	Aichi 12; Shizuoka 7
Kinki	12	Osaka 4
Shikoku	2	
Chugoku	10	Yamaguchi 3
Kyushu	15	Fukuoka 7
Total	101	

Source: Company data, Mita Securities

Hotel	Stores	Main regions
Hokkaido	0	
Tohoku	0	
Kanto	2	
Chubu	20	Aichi 13; Gifu 3
Kinki	7	Shiga 3
Shikoku	0	
Chugoku	1	
Kyushu	1	
Total	31	

## Group Companies

Tosho has AB Hotel and Tosho Asset Management as its subsidiaries.

Figure: Subsidiaries

Subsidiary name	Overview	Shares held (%)
AB Hotel Co., Ltd.	Started the hotel business as a division of Tosho. It was spun off from Tosho in October 2014. Listed on the JASDAQ (Standard) of the Tokyo Stock Exchange and the Second Section of the Nagoya Stock Exchange. Operates business hotels under the AB Hotel brand. 31 hotels as of the end of 3Q FY3/21. Of these, 18 are located in the Tokai area.	52.77
Tosho Asset Management Co., Ltd.	Asset management company for Tosho REIT, Inc.	100.00

Source: Company data, Mita Securities



## Company History

Tosho's predecessor was Towa Construction, which was established in 1979 by Toshihiro Kutsuna (currently Chairman and Representative Director and largest shareholder). The company's experience in the civil engineering and construction business has been the key to achieving high profitability in its current businesses. The company entered the sports club business in 1996, and began to open multiple facilities in 2000. In the hotel business, the company entered the market in 1999 (initially as a franchisee), and began opening more stores in 2005.

In February 2004, Tosho registered its shares with the Japan Securities Dealers Association (JSDA) on the over-the-counter market, and in December 2004, it listed its shares on the JASDAQ stock exchange. In March 2013, the company was listed on the Second Section of the Tokyo Stock Exchange, and in March 2014 it was re-listed on the First Section.

In October 2014, the hotel business was spun off into a separate company, AB Hotel Co., Ltd., and in December 2017, AB Hotel was listed on the JASDAQ Standard of the Tokyo Stock Exchange.

In February 2018, Tosho established Tosho Asset Management Co., Ltd. as a wholly owned subsidiary. In January 2020, Tosho REIT was launched and acquired some assets from Tosho and AB Hotel in March 2020. In March 2021, Tosho issued 5bn yen in publicly offered bonds. The company's financing options have increased and its financial flexibility has been enhanced.

*Realizing a highly profitable business model by applying experience in civil engineering and construction to the company's current business*

**Figure: History of Tosho Group**

Date	Events
Mar-79	Toshihiro Kutsuna (currently Chairman and Representative Director of Tosho) established Towa Construction (currently Tosho). Started civil engineering and construction business.
Dec-86	Started condominium sales business and management of own rental condominiums.
Aug-89	Started administration of condominiums for sale and rent.
Dec-89	Opened the first golf driving range in Anjo City, Aichi Prefecture.
Mar-95	Started construction of rental condominiums on order.
May-96	Entered the sports club business. The first store, Holiday Sports Club Mikawa Anjo, was opened.
Apr-99	Four group companies merged and changed the company name to Tosho Co., Ltd.
Nov-99	Entered the hotel business. The first hotel, Hotel Sunroute Mikawa Anjo, was opened in Anjo City, Aichi Prefecture, as a franchisee (the current AB Hotel Mikawa Anjo Main Tower).
Dec-00	Began opening multiple stores in the sports club business.
Feb-04	Tosho was registered over-the-counter stock in the Japan Securities Dealers Association.
Mar-04	Began development of the "A-City" series of company-owned rental condominiums.
Dec-04	Tosho was listed on the JASDAQ stock exchange.
Sep-05	Changed the name of Hotel Sunroute Mikawa Anjo to AB Hotel Mikawa Anjo Main Tower. Opened the second hotel, AB Hotel Mikawa Anjo New Tower, in Anjo City, Aichi Prefecture, and began to open multiple hotels.
Apr-10	Tosho was listed on the Osaka Securities Exchange JASDAQ following the merger of the Jsdq Securities Exchange and the Osaka Securities Exchange.
May-12	Opened the first Holiday Sports Club store in the Kanto region in Funabashi, Chiba Prefecture.
Mar-13	Tosho was listed on the Second Section of the Tokyo Stock Exchange.
May-13	Tosho was listed on the Second Section of the Nagoya Stock Exchange.
Jun-13	Tosho was delisted from JASDAQ (Standard) of Osaka Securities Exchange.
Mar-14	Tosho was listed on the First Section of the Tokyo Stock Exchange and the First Section of the Nagoya Stock Exchange. Opened Tokyo Office.
Oct-14	The hotel business was spun off into a separate company, AB Hotel Co., Ltd. (now a consolidated subsidiary). Toshihiro Kutsuna assumed the position of President and Representative Director.
Jun-16	Yuichiro Kutsuna assumed the position of President and Representative Director of Tosho.
Sep-16	Kazuki Kutsuna assumed the position of President and Representative Director of AB Hotel.
Dec-17	AB Hotel was listed on the JASDAQ Standard Market of the Tokyo Stock Exchange and the Second Section of the Nagoya Stock Exchange.
Feb-18	Established Tosho Asset Management Co., Ltd. as a wholly owned consolidated subsidiary of Tosho. Mayumi Kutsuna was appointed as President and Representative Director.
Jan-20	Tosho REIT Inc., for which Tosho Asset Management manages assets, completes registration as an investment corporation.
Mar-20	Tosho and AB Hotel transferred a part of sports clubs, rental condominiums and hotels to Tosho REIT.
Oct-20	Opened the 100th store of the Holiday Sports Club.
Mar-21	Tosho issued the 1st unsecured bond of 5bn yen (JCR rating: BBB+/Stable).

Source: Company data, Mita Securities

## Major shareholders/Management

Tosho's largest shareholder is Toshihiro Kutsuna, Chairman and Representative Director of the company, who owns about 41% of the total outstanding shares. The second largest shareholder is Yuichiro Kutsuna (the eldest son of Toshihiro Kutsuna), President and Representative Director, who together with his asset management company (Rasset) owns about 14% of the company. Kazuki Kutsuna, Ai Kikuchi, and Mayumi Kutsuna are also members of the chairman's family, and the founding family owns about 63% of the company.

Kazuki Kutsuna, the second son of Toshihiro Kutsuna, is the President and Representative Director of AB Hotel, and AB Kaihatsu, one of the major shareholders of AB Hotel, is the asset management company of Kazuki Kutsuna. Currently, there are no concurrent directorships between Tosho and AB Hotel.

Mayumi Kutsuna is the wife of Toshihiro Kutsuna and serves as the President and Representative Director of Tosho Asset Management, a wholly owned subsidiary.

Thus, with respect to Tosho and its subsidiaries, it is characteristic that the founding family has a great deal of control, both in terms of capital and human resources.

*The founding family has a great deal of influence*

**Figure: Major shareholders of Tosho (end-FY3/20)**

Major shareholders	Shares held (%)
Toshihiro Kutsuna	41.21
Yuichiro Kutsuna	11.00
Custody Bank of Japan (trust account)	8.71
The Master Trust Bank of Japan (trust account)	3.64
Kazuki Kutsuna	3.17
Rasset LLC	2.98
Ai Kikuchi	2.72
Mayumi Kutsuna	1.74

Source: Company data, Mita Securities

**Figure: Major shareholders of AB Hotel (end-FY3/20) (reference)**

Major shareholders	Shares held (%)
Tosho	52.77
AB Kaihatsu GK	35.55

Source: Company data, Mita Securities

# Sports club business

## Outlook for the sports club business

### Profitability significantly higher than the competition, and steady growth (before COVID-19)

Tosho operates a comprehensive fitness club under the name “Holiday Sports Club.” As of the end of 3Q FY3/21, the company had 101 sports clubs with 181,000 members. The company opened stores mainly in the suburbs near residential areas. Although the company is a latecomer to the market as a major comprehensive club operator (it started opening multiple stores in 2000), it had been growing steadily before the COVID-19 pandemic, backed by high profitability. Before the COVID-19 pandemic, the company had 243,000 members (89 stores) at the end of FY3/19.

*Tosho is a latecomer to the comprehensive sports club market, but has expanded its store network on the back of high profitability. 101 stores, 181,000 members*

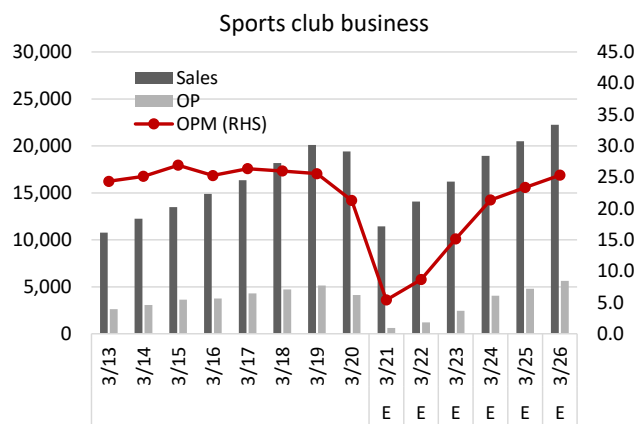
Before the COVID-19 pandemic, the OP margin of the sports club segment was over 25%, much higher than the typical level of 5-10% for large comprehensive fitness clubs. The company has been aggressively opening new stores on the back of high profit margins, expanding its store network by 1.5 times in the five years between the end of FY3/16 and the end of FY3/21.

### Impact of the COVID-19 is significant, but recovery is expected ahead of the competition

We forecast sales of 11.4bn yen (-41% YoY) and OP of 0.6bn yen (-85% YoY) for the segment in FY3/21. Sales are down sharply due to the return of membership fees following store closures and a decline in the number of members. However, the company has been recovering ahead of other major players in the industry, returning to profitability as early as 2Q. The current top line still seems weak, but we believe this is due to the fact that 1) the company has been cautious about normalizing store hours to prevent infections, and 2) it has yet to step up advertising to increase new members. In other words, the company is not in a hurry to normalize its business hours because it can afford the cost. Therefore, our impression is that the company has enough room to recover the number of members in the future. In FY3/22, we expect OP of 1.2bn yen (+98% YoY) due to the recovery of existing stores, although no new stores will open in FY3/22. In FY3/23, we expect the company to resume store openings, and in FY3/24, we expect OP to recover to near the level of earnings before the COVID-19 pandemic.

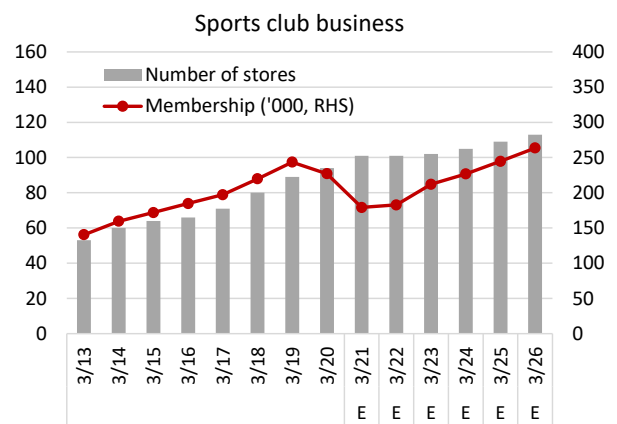
*Turned profitable in 2Q, ahead of competitors. We expect recovery to near pre-COVID-19 pandemic levels in 3 years*

Figure: Sales, OP, OPM



Source: Company data, Mita Securities Note: JPYm. Forecasts are by Mita Securities

Figure: Number of stores, Membership



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

## Holiday Sports Club

### A comprehensive fitness club for adult beginners

Holiday Sports Club is a comprehensive fitness club equipped with a gym, studio, swimming pool, and a large bath. The company's target customers are adult beginners in fitness. The fitness participation rate is low in Japan, and the potential growth in the beginner market is very large, in our view. In addition, because the company targets beginners, the store facilities are relatively simple for a comprehensive club, which helps to reduce initial investment.

The company's employees are trained not only in store administration but also in gym, studio, and swimming instructor duties. The company is not involved in children's swimming schools or training of athletes as other major clubs do, which makes it easier to control labor costs for outside instructors.

### Areas and locations

The company has already opened stores in 40 prefectures across Japan, but 30% of its stores are in the Chubu region, reflecting the fact that its home base is Anjo City, Aichi Prefecture. The largest number of stores is in Aichi Prefecture, with 12. On the other hand, the Kanto region, where most of the major players in the industry have opened stores, accounts for only less than 20% of the total, and there are only two stores in Tokyo. In the long term, there is still plenty of room to open new stores across the country.

Most of the stores are located in suburban roadside and lifestyle areas. While some of the major players in the industry have opened many stores in high rent locations such as in front of central Tokyo stations, the company has avoided such locations in order to focus on profitability. The two stores in Tokyo (Kodaira and Nishi-Ichinoe) are also roadside locations. We believe that the number of people coming to the city center has declined significantly due to the COVID-19 pandemic, and that fitness clubs located in the city center and in front of stations are facing an extremely difficult situation in terms of profitability. In our view, Tosho's focus on suburban roadside locations has kept it from suffering as much damage as the major players in its industry during the current crisis.

*Focuses on fitness beginner market, which has high potential for growth. Optimizing operations by having employees handle both office work and the gym*

*Stores are mainly in suburban roadside areas. Areas and locations relatively unaffected by the COVID-19*

**Figure: Regional distribution of stores for major fitness club operators**

Holiday Sports Club (Comprehensive sports club)		Renaissance (Comprehensive sports club)		Central Sports (Comprehensive sports club)		ANYTIME FITNESS (Machine-specialized sports club)					
3Q-end FY3/21		2Q-end FY3/21		2Q-end FY3/21		3Q-end FY3/21					
Store count	% of total	Store count	% of total	Store count	% of total	Store count	% of total				
Hokkaido	7	6.9	Hokkaido	5	2.9	Hokkaido	6	2.4	Hokkaido	11	1.3
Tohoku	4	4.0	Tohoku	20	11.4	Tohoku	26	10.5	Tohoku	39	4.5
Kanto	19	18.8	Kanto	93	53.1	Kanto	157	63.3	Kanto	385	44.2
Chubu	32	31.7	Chubu	9	5.1	Chubu	15	6.0	Chubu	119	13.6
Kinki	12	11.9	Kinki	18	10.3	Kinki	34	13.7	Kansai	175	20.1
Chugoku	2	2.0	Chugoku & Shikoku	16	9.1	Chugoku	2	0.8	Chugoku	32	3.7
Shikoku	10	9.9			Shikoku	0	0.0	Shikoku	16	1.8	
Kyushu	15	14.9	Kyushu & Okinawa	14	8.0	Kyushu	7	2.8	Kyushu & Okinawa	95	10.9
						Other	1	0.4			
Total	101	100.0	Total	175	100.0	Total	248	100.0	合計	872	100.0

Source: Companies data, Mita Securities

### Standard store business model

The company's standard store profit model, the 2,500-member model, assumes that buildings are in principle newly constructed and owned by the company, and that the total investment per store is 450m yen. Based on the assumption of 2,500 members, the company aims to achieve annual sales of 216m yen, expenses of 140.4m yen, recurring profit of 75.6m yen, and a recurring profit margin of 35%. The company's policy is to open new stores only if they can meet this profit model. The reason why few fitness clubs have been opened in Tokyo is because of the strict criteria for opening a new store. It is not uncommon for a comprehensive fitness club to have a total investment of around 1bn yen per store, and the company's investment of 450m yen is a fairly modest level. The company is able to keep this level of investment low because it builds new buildings in-house, which gives it a high degree of freedom in terms of design, the facilities are designed for adult beginners, and the company itself has experience in the construction industry and is in a position to take an active role in controlling costs from the store design stage.

The majority of the company's sales come from monthly membership fees received from members. Some of the company's competitors focus on selling products such as protein and sportswear, but the company is reluctant to do so because it wants to avoid the risk of purchasing and inventory.

The break-even point for the number of members per store used to be around 1,500, but it is thought to have dropped to around 1,300 as a result of the company's efforts to refine low-cost operations in the wake of the COVID-19 pandemic. Based on the latest number of stores (101), membership (181,000) and adjournment rate (20%), the actual number of members per store at present is approximately 1,430, which is considered to be well within the break-even point. In addition, new stores opened in FY3/21 have been attracting 1,500-2,000 customers, with some exceptions.

*Strict policy to open stores only when the recurring profit margin can be assumed to be 35% at the store level. Controls investment amount with unique construction know-how*

*Sales centered on monthly membership fees*

*Reviewed operations in the wake of the COVID-19 pandemic to lower the break-even point*

**Figure: Standard business model for sports clubs**

Total investment (JPY '000)	450,000
Sales (JPY '000)	216,000
Expenses (JPY '000)	140,400
Recurring profit (JPY '000)	75,600
RP margin (%)	35.0
Membership assumption	2,500
Facilities: Building owned by the company. With hot studio Equipped with gym, studio, swimming pool, and large bath	
Target customers: fitness beginners	

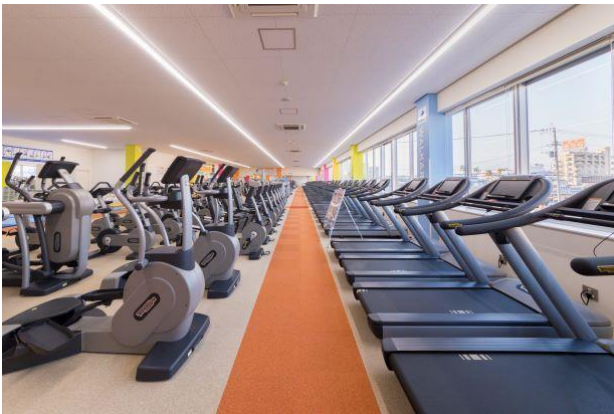
Source: Company data, Mita Securities

**Figure: Exterior for sports club**



Source: Company data

Figure: Gym



Source: Company data

Figure: Studio



Source: Company data

Figure: Swimming pool



Source: Company data

Figure: Large bath



Source: Company data

**Competitive pricing**

The following chart compares the monthly membership fees of fitness clubs in several regions. It seems that the membership fee of Holiday Sports Club is often 10-20% lower than that of other comprehensive fitness clubs in the same area. Also, the difference between the membership fee of Holiday Sports Club and other low-cost gyms specializing in machines such as ANYTIME FITNESS and JOYFIT is only about 1,500 yen.

*Low monthly membership fee for a comprehensive club*



Figure: Examples of monthly membership fees for fitness clubs

	Holiday	Central	Konami	Renaissance	Tipness	Megalos	ANYTIME FITNESS	JOYFIT
Aichi	Nagoya Narumi Master membership 9,130	Ozone Single A 11,313	Narumi Yamashita Regular 11,440	Nagoya Obata Regular 12,100	Kami-Iida Regular 10,780	Chikusa Regular 10,500	Aibarago 7,678	Nagoya Jiami Regular 8,379
	Kariya Chiryu Master membership 9,130	Chikusa Single 8,250	Kariya Regular 10,340					
Saitama	Fukaya Master membership 8,470	Higashi-Matsuyama/ Takasaka, Single 9,900	Kita Ageo Regular 13,750	Kasukabe Fulltime 11,990	Kuki Regular 10,780	Soka Regular 8,030	Higashi-Matsuyama 7,678	Kasukabe Regular 7,128
	Okegawa Master membership 7,227	Okegawa Kitamoto シングル 9,000	Kagaguchi Regular 11,440	Kita Asaka 24 Regular 12,870	Kawaguchi Regular 11,330		Kawaguchi 7,678	
Gunma	Takasaki Master membership 9,625	Takasaki Super single 11,313					Takasaki Egi 7,480	SPA Takasaki Kami-Nakai, Regular 7,480

Source: Companies data, Mita Securities

## Impact of COVID-19 pandemic on the fitness industry

### Varying degrees of profit recovery

We observe the impact of the COVID-19 pandemic on major fitness club operators based on the results of four listed companies (Tosho's sports club business segment, Konami HD's (9766) sports business segment, Central Sports (4801), and Renaissance (2378)). Note that only Konami HD has adopted IFRS and its operating profit/loss includes the impact of impairment losses.

In 4Q FY3/20, when the COVID-19 pandemic became a concern in Japan, the fitness clubs suffered significant declines in sales, but the three companies that adopted JGAAP (Tosho, Central Sports, and Renaissance) remained profitable. However, in 1Q FY3/21, all four companies experienced a significant decline in sales (down 60-70% YoY) and fell into the red. This was due to an increase in the number of stores closed as a result of the declaration of a state of emergency in some areas, forcing the return of membership fees. The three companies that adopted JGAAP booked part of the operating expenses for closed stores as extraordinary losses, which reduced their operating losses by that amount, but the chart below shows the OP margins (adjusted) without that effect.

From 2Q onward, the sales of each company recovered significantly from 1Q. This is because there were no more closures of many stores as in 1Q, although there was a need to shorten opening hours. Although sales continued to decline by about 20-30% YoY due to the large number of members who cancelled or suspended their membership, the cancellation rate seemed to have settled down by 3Q. On an OP basis, Tosho turned profitable in 2Q and Central Sports turned profitable in 3Q, but Renaissance is still in the red. Konami HD (IFRS) is also still in the red.

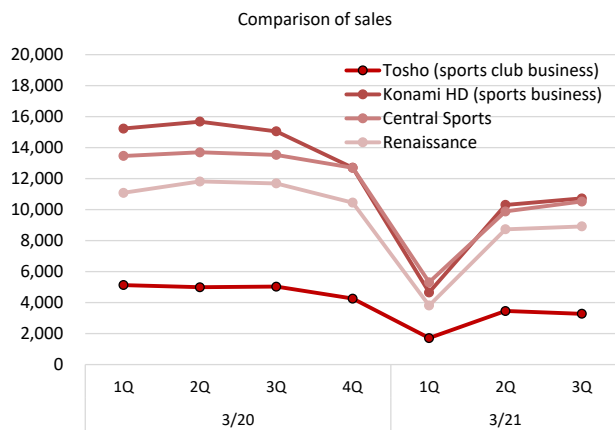
Tosho's sales recovery appears to be weaker than that of its competitors. Our guess is that this is because the company has been shortening its operating hours for a long period of time, which has led to an increase in absenteeism. The company returned to profitability at an early stage by cutting costs, and thus could afford to emphasize infection prevention measures at the expense of sales, in our view. On the other hand, Konami HD, which continues to lose money, announced a large number of store closures. Renaissance, which has also been losing money, returned to normal business hours earlier than other companies and raised prices in April, so the trend in churn rates will be closely watched.

**In 1Q FY3/21, fitness club operators posted a large loss due to a 60-70% decline in sales caused by store closures**

**Tosho has been in the black since 2Q**

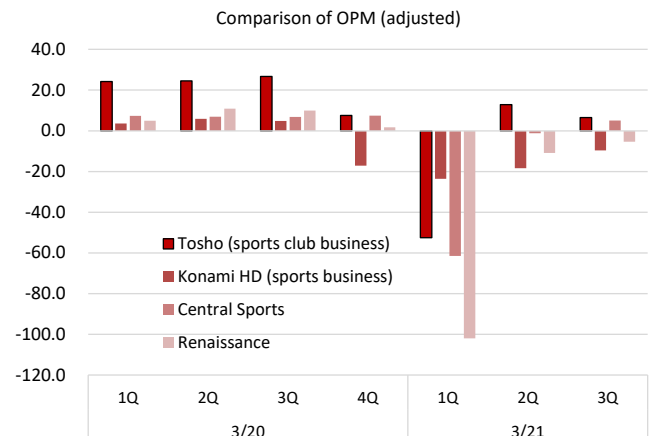
**Tosho leaves room for profit improvement**

Figure: Quarterly sales for major fitness club operators



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

Figure: Quarterly OPM (adjusted) for major fitness club operators



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities. Included COVID-related extraordinary losses in operating expenses

## How fitness clubs responded to the COVID-19 pandemic

### The situation at Holiday Sports Club

In April 2020, Tosho announced that it would stop opening the three Holiday Sports Clubs that were scheduled to open in March 2021 or later. On the other hand, the company has not announced any store closures. In 2Q FY3/21, the sports club business segment's OP returned to the black on a quarterly basis, and there was no damage to equity capital. On the other hand, many other companies in the same industry are experiencing more severe conditions, resulting in massive store closures and damage to equity capital.

**No new stores to be opened, but no existing stores to be closed. Maintaining capital adequacy**

### Massive store closures

Konami Sports, a subsidiary of Konami HD (9766), has been closing and announcing a large number of store closures since FY3/21. 10 stores were closed in January and February 2021, and another 16 stores are scheduled to be closed in May. Most of these stores are in the Konami Sports Club format, a comprehensive fitness club.

**Konami closing a large number of clubs. Curves and JOYFIT also closing many stores**

Curves HD (7085), which franchises Curves health and exercise classes for women, announced that it will close about 100 stores that are heavily affected by the COVID-19 pandemic and integrate them into nearby stores.

JOYFIT, which focuses on 24-hour gyms specializing in machines, closed 47 stores between December 2020 and January 2021. Of these, 22 were in the Kanto region (Tokyo and Kanagawa prefectures).

### Capital raising through treasury stock disposal

In August 2020, Renaissance (2378) raised 2.7bn yen by disposing of its treasury stocks through a third-party allotment. The allottees were SOMPO HD (8630) and Sumitomo Life Insurance. Due to the loss in 1Q FY3/21, shareholders' equity at the end of 1Q fell to 13.2 bn yen (-2.9bn yen from the end of FY3/21), and the company made up for this.

**Renaissance recapitalized through disposal of treasury stock**



**Price revision**

In April 2021, Renaissance (2378) raised its monthly membership fee (990 yen including tax) and began charging a monthly break fee (1,100 yen including tax). The maximum period of suspension is two months, and after the suspension period expires, the original contract will be restored without any formalities.

**Japan's fitness club market**

**Market size**

In our view, the Japanese fitness club market was actually on an expansionary trend before the COVID-19 pandemic. On the other hand, sales of fitness clubs (on a calendar year basis) in the Survey of Selected Service Industries by the Ministry of Economy, Trade and Industry (METI) remained almost flat at around 335bn yen for the three years to 2019. We believe this is because the METI data does not reflect the figures of some operators that have rapidly expanded their store networks in recent years. Sales in 2020 (calendar year basis), which were affected by the COVID-19 pandemic, were 216.1bn yen (-35.5% YoY) according to the METI data.

*In real terms, the fitness market was on an expansionary trend through 2019; 2020 saw a significant contraction due to the COVID-19 pandemic*

Based on METI data, the market share of Holiday Sports Club (on a fiscal year sales basis) has increased from about 4% in FY3/15 to about 6% in FY3/20.

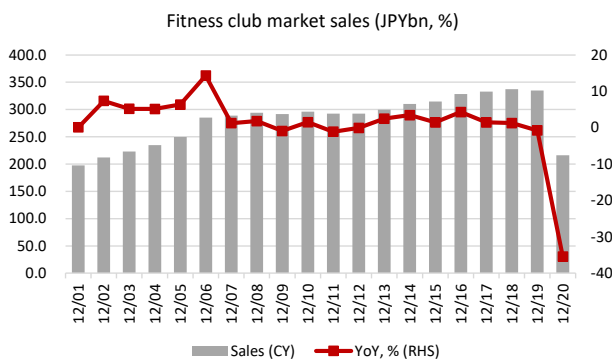
**Participation rate as a percentage of population**

The number of fitness club members based on the METI data was 2.574m at the end of 2020 (-23.4% YoY), and the fitness participation rate (number of fitness club members/Japanese population) was 2.1%. In the three years to 2019, the number of members was around 3.36m, and the participation rate was around 2.7%.

*Real participation rate is less than 5%. Long term growth potential is very large*

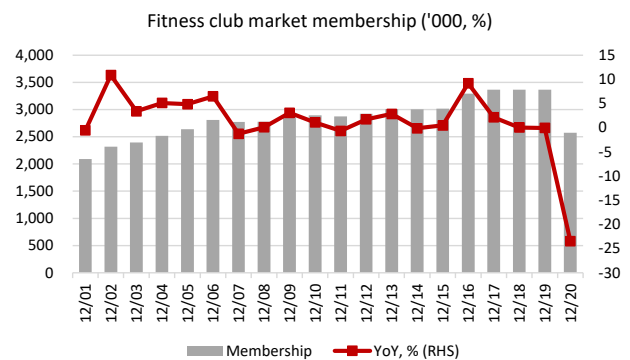
However, as mentioned above, it is highly likely that some companies not included in these statistics have a large number of members, and we estimate that the actual number of fitness club members reached over 5m as of 2019. Nevertheless, the participation rate is still only about 4% of the population, and the long-term growth potential of the fitness market is very large. Even if the participation rate were to double, it would still fall far short of that of Europe and the United States.

**Figure: Fitness club market sales (CY)**



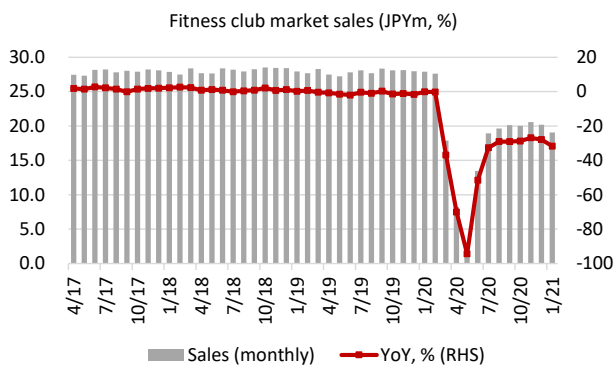
Source: METI data, Mita Securities

**Figure: Fitness club market membership (CY)**



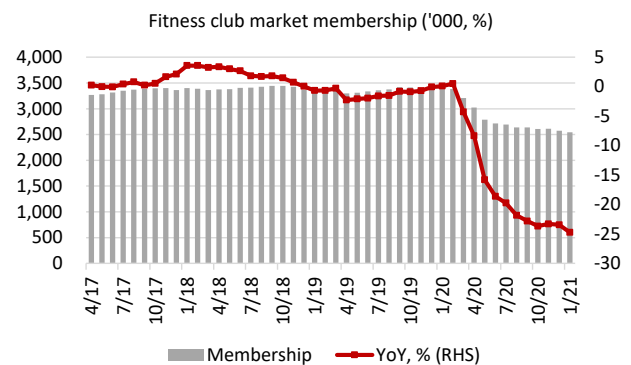
Source: METI data, Mita Securities

Figure: Fitness club market sales (monthly)



Source: METI data, Mita Securities

Figure: Fitness club market membership (monthly)



Source: METI data, Mita Securities

**Major Players**

The traditional players in the fitness club industry are the comprehensive club operators, which operate large stores equipped with gyms, studios, swimming pools, tennis courts, and large bathhouses. Major players include Konami Sports Club (owned by Konami HD (9766)), Central Sports (4801), Renaissance (2378), Tipness (owned by Nippon Television HD (9404)), and Holiday Sports Club (by Tosho). Many of these clubs are engaged in the training of full-fledged athletes, including Olympic athletes, at swimming schools and other facilities. Most of the stores are directly managed, as the investment per facility for such comprehensive clubs is large (e.g., 500m yen to 1bn yen), making it difficult for franchisees to develop on their own. There is no bias in customer demographics, and both men and women of various generations are being attracted. Among them, Tosho's Holiday Sports Club is unique in that it claims to be for adult beginners in fitness. By thoroughly implementing low-cost operations and achieving high profit margins, the company has been opening new stores at a faster pace than its competitors in recent years.

*Comprehensive fitness clubs include Konami, Central, Renaissance, Tipness, and Holiday*

A typical niche player is Curves, which is operated by Curves HD (7085). Curves is a short-time gymnastics class for middle-aged and older women (men are not allowed to join, and 70% of the members are over 60 years old), and because of the small size of its individual stores, it is mainly composed of franchisees. The company has about 2,000 stores, the largest in Japan. The chain's overall sales were 70.2bn yen in FY8/19 and 57.4bn yen in FY8/20, exceeding those of comprehensive club operators.

*Curves, a niche player specializing in women*

In recent years, players that specialize in machines and are open 24 hours a day have rapidly increased the number of stores, contributing to the expansion of the fitness market. The largest of these is ANYTIME FITNESS, which is operated by Fast Fitness Japan (7092). The company has been expanding its franchise network, and by the end of 2020, it had 872 stores. The company's customer base consists of a relatively high percentage of young men. The company's success has prompted a number of companies, including major players, to enter the machine-specialized 24-hour gym business.

*ANYTIME FITNESS, a 24-hour gym specializing in machines*

Figure: Comparison of fitness club operators (reference)

Fitness club name	Operating company or parent company		Sales		OP		# of stores		Membership		Member/Store	Note
			(JPYm)	YoY (%)	(JPYm)	OPM (%)		YoY (%)	('000)	YoY (%)		
Holiday Sports Club	Tosho (8920)	1-3Q FY3/21 FY3/20	8,464 19,424	-44 -3	598 4,139	7 21	101 94	11 6	181 227	-7	1,792 2,415	Earnings are for sports club business
Konami Sports	Konami HD (9766)	1-3Q FY3/21 FY3/20	25,695 58,662	-44 -7	-4,027 33	-16 0	376					Stores as of end-FY3/21 Earnings are for sports business
Central Sports	Central Sports (4801)	1-3Q FY3/21 FY3/20	25,726 53,386	-37 -2	240 3,814	1 7	248 244	5 6	368 434	-17 -1	1,484 1,779	Stores and membership as of end-2Q FY3/21
Renaissance	Renaissance (2378)	1-3Q FY3/21 FY3/20	21,468 45,049	-38 -2	-3,394 3,267	-16 7	175 172	7 4	339 405	-19 -2	1,939 2,354	Stores and membership as of end-2Q FY3/21
Tipness	Nippon Television HD (9404)	1-3Q FY3/21 FY3/20	14,812 35,884	-47 -5	-4,617 847	-31 2	169					
Tokyu Sports Oasis	Tokyu Fudosan HD (3289)	1-3Q FY3/21 FY3/20	10,400 18,700	-28 4			37		120			
Megalos	Nomura Real Estate HD (3231)	1-3Q FY3/21 FY3/20	8,200 15,700	-36 -5			50					
Actos	Valor HD (9956)	1-3Q FY3/21 FY3/20	6,638 13,597	-36 3	-1,615 556	-24 4	193 192	4 32				
Curves	Curves HD (7085)	FY8/20 FY8/19	25,082 28,036	-11 0	1,167 5,436	5 19	2,020 1,991	1 4	701 822	-15 -1	347 413	FC business model. Chain sales 57.4bn for FY8/20
RIZAP	RIZAP Group (2928)	1-3Q FY3/21 FY3/20	40,100	-3			183 198	-8 5				Sales are for the entire RIZAP-related business
ANYTIME FITNESS	Fast Fitness Japan (7092)	1-3Q FY3/21 FY3/20	7,985 11,334		1,520 2,831	19 25	872 736	18 47	550 582	-5	631 791	FC business model
JOYFIT	Okamoto Group						255					Closed 47 stores on 1/31/2021
GOLD'S GYM	THINK Fitness						96					
Cospa	OG Sports		14,779				33					

Source: Company data, Mita Securities

# Hotel business

## Outlook for the hotel business

### Rapidly expanding business with a highly unique business model (before COVID-19)

The company operates business hotels under the AB Hotel brand name, with 31 stores and 4,101 rooms as of the end of 3Q FY3/21. All stores are directly managed. The number of stores has more than doubled from 14 at the end of FY3/17. The company maintained an OP margin of over 25% for a long time, before the COVID-19 pandemic, which is extremely high for a hotel operator.

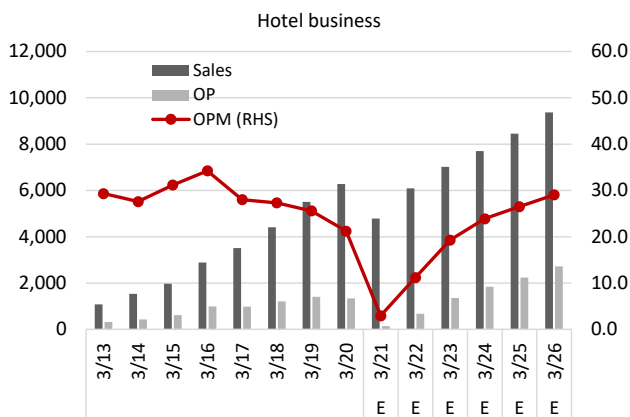
*Rapidly expanding store network backed by high profit margins*

### Relatively high occupancy rate even after the COVID-19 pandemic. Early recovery is expected

Our forecast for the FY3/21 is for sales of 4.783bn yen (-24.0% YoY) and OP of 141m yen (-89.4% YoY). The company posted an operating loss of 156m yen in the 1Q. However, due to the characteristics of the regions and locations where the company's hotels are located, the recovery of business customers is progressing steadily, and the company has already returned to profitability in 2Q. 69% occupancy rate for 1-3Q is a relatively high level for a business hotel. We forecast OP of 681m yen for FY3/22 (+383.7% YoY). In addition, the company plans to resume store openings, albeit on a limited basis, at the beginning of FY3/23, and we assume that it will return to the profit level before the COVID-19 pandemic in FY3/23.

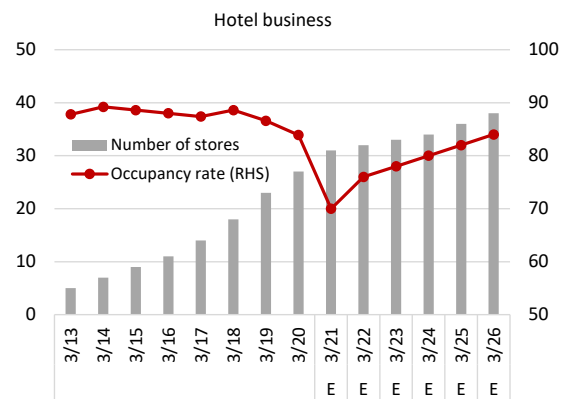
*We expect OP to recover to pre-COVID-19 level in FY3/23*

Figure: Sales, OP, OPM



Source: Company data, Mita Securities Note: JPYm. Forecasts are by Mita Securities

Figure: Number of stores, occupancy rate



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

## AB Hotel

### Pure business use hotel

AB Hotel is a hotel chain that pursues to meet pure business demand. In the past, many business hotel operators actively marketed to the growing number of inbound customers and functioned as budget hotels for tourism purposes, but many of them have fallen on hard times due to oversupply and the loss of inbound demand caused by the COVID-19 pandemic. Even in the heyday of inbound tourism, AB Hotel did not follow the latest trends and operated hotels with an emphasis on repeat customers for business use. As a result, the company has been able to maintain a relatively high occupancy rate as a business hotel operator even in the wake of the COVID-19 pandemic.

*Focuses on pure business use, not on the inbound boom*

### Areas and locations

The company has a nationwide network of hotels, although the largest number of hotels are located in Aichi Prefecture, where it is based. The locations are mainly in front of train stations and near interchanges, where manufacturers' manufacturing bases are located nearby and there is demand for accommodation from business travelers. Aichi Prefecture is a region where many manufacturers, mainly in the automotive industry, have their manufacturing bases, and there is strong demand for business travel.

*Opens stores in close proximity to manufacturers' manufacturing facilities*

**Figure: List of hotels (end-3Q FY3/21)**

Region	Prefecture	Hotel	Region	Prefecture	Hotel	Region	Prefecture	Hotel	
Chubu	Aichi	AB Hotel Mikawa-Anjo Main Tower	Chubu	Gifu	AB Hotel Gifu	Kanto	Gunma	AB Hotel Isesaki	
		AB Hotel Mikawa-Anjo New Tower			AB Hotel Kagamihara			Saitama	AB Hotel Fukaya
		AB Hotel Mikawa-Anjo South Tower							
		AB Hotel Toyota-Motomachi							
		AB Hotel Okazaki		Shizuoka	AB Hotel Kani	Kinki	Osaka	AB Hotel Osaka Sakaisuji-Honmachi	
		AB Hotel Nagoya-Sakae		AB Hotel Iwata	AB Hotel Sakai-Higashi				
		AB Hotel Komaki		Nagano	AB Hotel Fuji	Kyoto	AB Hotel Kyoto Shijo-Horikawa		
		AB Hotel Ichinomiya		Ishikawa	AB Hotel Shiojiri	Shiga	AB Hotel Omi-Hachiman		
		AB Hotel Toyohashi		AB Hotel Kanazawa	AB Hotel Hikone				
		AB Hotel Mikawa-Toyota					AB Hotel Konan		
		AB Hotel Tokai-Otagawa				Nara	AB Hotel Nara		
		AB Hotel Tahara				Chugoku	Yamaguchi	AB Hoel Ube-Shinkawa	
AB Hotel Gamagori				Kyushu	Fukuoka	AB Hotel Yukuhashi			

Source: Company data, Mita Securities

### Unique business model

The standard business model of AB Hotel is to secure a 35% recurring profit margin on a store-by-store basis, assuming a total investment of around 600 to 700m yen, a room count of around 130 rooms, and an occupancy rate of 80%. It is a hotel specializing in lodging and does not have banquet halls. As in the case of the sports club business of Tosho, the parent company, the company's knowledge of the construction industry is helping to reduce the initial investment.

In terms of operations, the company uses the unique outsourcing method for store management. The front desk of each hotel is operated not by the company's employees, but by married couples (or other combinations of couples) who live and work in the hotel under an outsourcing contract. The company has introduced a system of incentives linked to room occupancy rates to increase the efficiency of operations.

The sales channels include Rakuten Travel and other online travel agencies, as well as the company's own website. In general, the pricing seems to be slightly lower than other business hotels with the same specifications. We expect that the company will continue to be competitive in pricing due to its low initial investment and low-cost outsourcing system.

*Strict policy to open stores only when the recurring profit margin can be assumed to be 35% at the store level. Controls investment amount with unique construction know-how. Utilizes an outsourcing method for front desk work*

Figure: Exterior of hotel



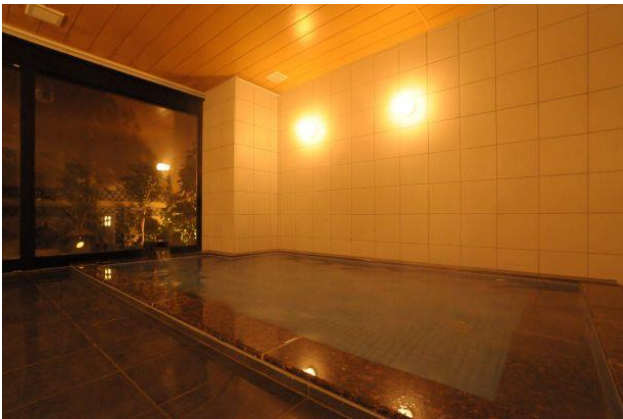
Source: Company data

Figure: Single room



Source: Company data

Figure: Large bath



Source: Company data

Figure: Buffet for breakfast



Source: Company data

Figure: Dining room for breakfast



Source: Company data

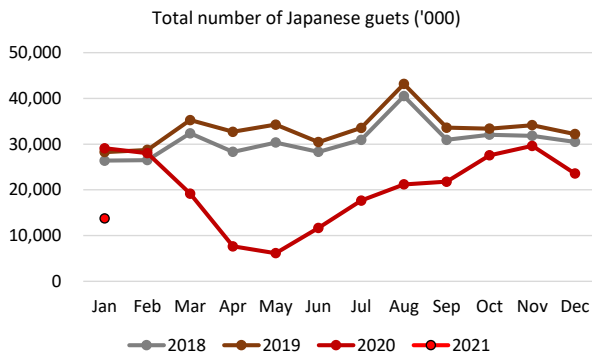
### Trends in the hotel market

#### Fierce headwind from the COVID-19 pandemic (Japan Tourism Agency data)

The COVID-19 pandemic has been a fierce headwind for the hotel market, as foreign guests have almost disappeared since March 2020, while the number of Japanese guests has also plummeted. Although the Japanese government’s Go To Travel campaign helped boost demand for a while after the summer, the campaign was suspended at the end of the year, and demand has slumped again.

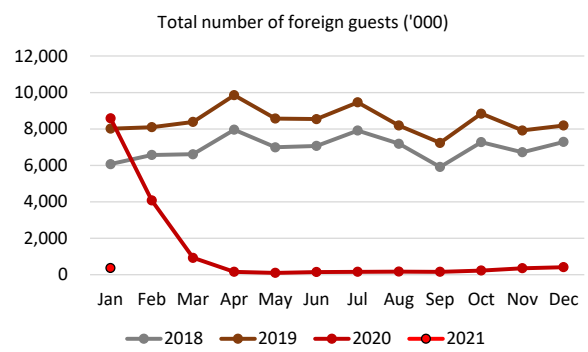
*Inbound demand disappeared. The number of domestic travelers has also dropped sharply*

Figure: Total number of Japanese guests



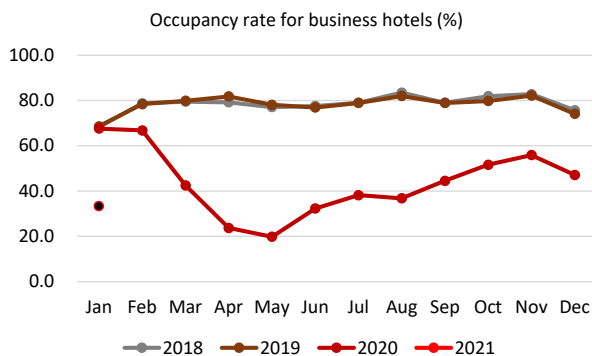
Source: Japan Tourism Agency, Mita Securities

Figure: Total number of foreign guests



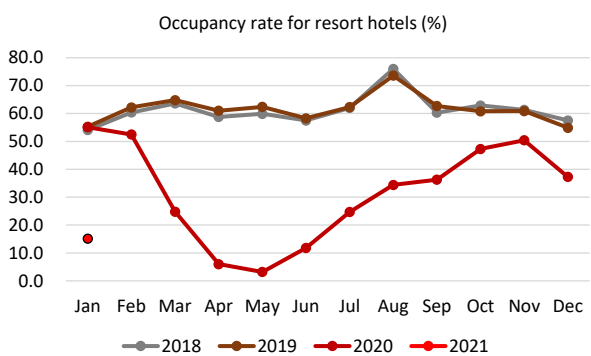
Source: Japan Tourism Agency, Mita Securities

Figure: Business hotel occupancy rate



Source: Japan Tourism Agency, Mita Securities

Figure: Resort hotel occupancy rate



Source: Japan Tourism Agency, Mita Securities

#### AB Hotel's situation after the COVID-19 pandemic

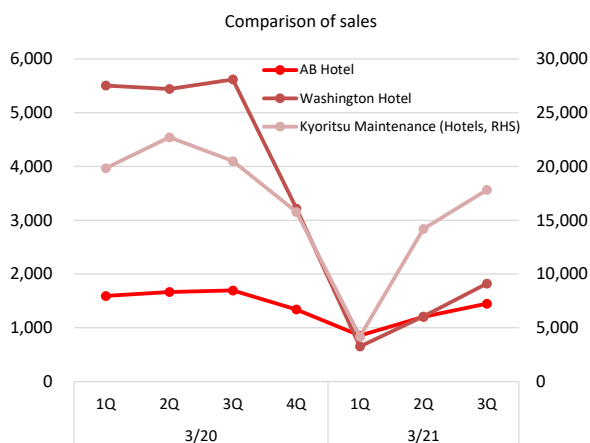
In 1Q FY3/21, when the first emergency declaration was made, hotel companies were forced to suffer a sharp decline in sales and fell into the red, and AB Hotel was no exception, posting sales of 855m yen (-46.3% YoY), an operating loss of 156m yen, and an OPM of -18.3%. However, the damage to the company's earnings was considerably less severe than other hotel operators, and the company posted a small OP in 2Q (12m yen) and posted an OP for 1-3Q. The reasons behind this are: 1) the company's hotels are often located near local manufacturers' manufacturing bases and have strong business demand; 2) the company has long had a management policy of not relying on inbound customer demand; and 3) the company has a high profit margin due to low initial investment and low-cost operations, and is highly resistant to declines in occupancy rates and room rates.

*Damage from the COVID-19 is relatively minor, and early recovery is expected*



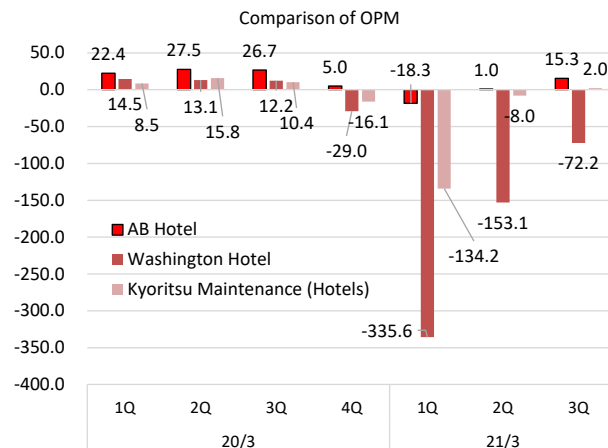
There are many hotel operators that have posted large losses and suffered significant damage to their equity capital. Some of them were forced to increase their capital. We believe that the possibility of such risks occurring in AB Hotel is limited, and that AB Hotel is in a position to take measures for early recovery ahead of the industry.

Figure: Quarterly sales for hotel operators (JPYm)



Source: Companies data, Mita Securities

Figure: Quarterly OPM for hotel operators (%)



Source: Source: Companies data, Mita Securities

Figure: Comparison of listed hotel operators

Company name	Ticker	FY	Consolidated/parent		OP	Shareholders' equity		Hotel-related business segment				Segment name
			Sales	YoY (%)		OPM (%)	equity	Sales	YoY (%)	OP	OPM (%)	
Resorttrust	4681	1-3QFY3/21	130,572	5.9	15,350	11.8	134,383	45,710	-28.1	-2,650	-5.8	Hotel & restaurants
		FY3/20	159,145	-11.4	11,652	7.3	127,798	80,659	0.3	92	0.1	
Washington Hotel	4691	1-3QFY3/21	3,686	-77.8	-5,358	-145.4	8,553					
		FY3/20	19,786	-7.6	1,269	6.4	14,445					
Amaze	6076	FY11/20	11,343	-23.5	1,525	13.4	11,604					
		FY11/19	14,837	0.9	3,652	24.6	11,898					
Greens	6547	1-2QFY6/21	8,223	-48.2	-3,637	-44.2	2,358					
		FY6/20	22,909	-25.9	-3,456	-15.1	6,003					
AB Hotel	6565	1-3QFY3/21	3,508	-29.2	77	2.2	6,021					
		FY3/20	6,295	14.2	1,333	21.2	6,062					
Royal HD	8179	FY12/20	84,304	-40.0	-19,269	-22.9	20,896	13,906	-53.9	-6,996	-50.3	Hotel business
		FY12/19	140,578	2.1	4,648	3.3	50,824	30,185	5.6	3,622	12.0	
Kyoritsu Maintenance	9616	1-3QFY3/21	91,343	-31.4	-3,744	-4.1	75,130	36,208	-42.6	-6,392	-17.7	Hotel business
		FY3/20	169,770	4.3	11,205	6.6	83,954	78,831	0.8	4,853	6.2	
Imperial Hotel	9708	1-3QFY3/21	16,632	-61.6	-8,439	-50.7	51,523					
		FY3/20	54,558	-6.6	3,160	5.8	60,627					
Royal Hotel	9713	1-3QFY3/21	11,879	-60.0	-7,249	-61.0	12,419					
		FY3/20	37,601	-8.0	-257	-0.7	20,132					
Fujita Kanko	9722	FY12/20	26,648	-61.4	-20,611	-77.3	1,182					
		FY12/19	60,960	-0.5	280	0.5	26,263					
Kyoto Hotel	9723	1-3QFY3/21	2,993	-62.9	-1,849	-61.8	567					
		FY3/20	9,625	-9.0	89	0.9	2,106					

Source: Companies data, Mita Securities



# Real estate business

## Outlook for the Real Estate Business

### Overview of the real estate business

The real estate segment consists of the rental condominium business operated by the company under the A-City brand, and the asset management business for Tosho REIT operated by consolidated subsidiary Tosho Asset Management. As of the end of 3Q FY3/21, the A-City brand consisted of 55 rental condominiums with 2,191 units, mainly for single-person households. Tosho REIT's assets under management consist of 2 Holiday Sports Clubs, 3 AB Hotels, and 15 A-City rental condominiums (not included in the above 55 buildings), and the total AUM are estimated to be almost 10bn yen based on the REIT's acquisition price.

*Operates a rental condominium business for single persons in Aichi Prefecture*

### Segment results

In FY3/20, the segment posted sales of 8.8bn yen (+440.0% YoY) and OP of 4.2bn yen (+598.8% YoY). This includes 6.8bn yen in sales and 3.8bn yen in OP from the sale of 15 A-City buildings to Tosho REIT.

*Stable business performance except for temporary factors*

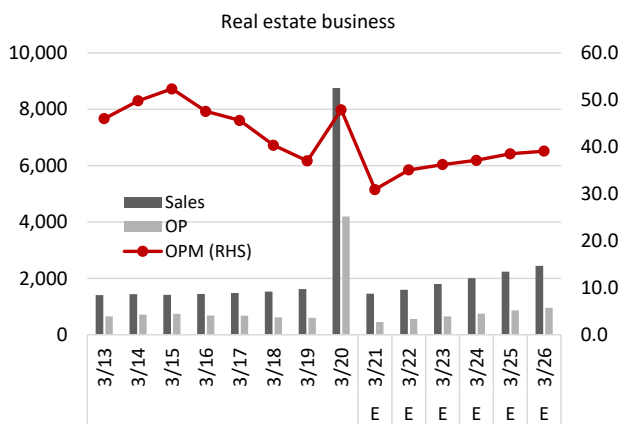
For FY3/21, we forecast sales of 1.5bn yen (-83.4% YoY) and OP of 0.5bn yen (-89.3% YoY). The main reasons for the large decline in profit are the absence of gains on sales recorded in the previous fiscal year and a decrease in the number of buildings owned due to asset sales. The real estate business has not been affected by the COVID-19 pandemic and has been performing well. The occupancy rate is expected to remain in the mid-90% range.

### Growth strategy

The company began developing rental condominiums in the Mikawa region of Aichi Prefecture and later expanded into the Nagoya area. The area is supported by the automotive industry, and strong demand for rental apartments is expected to continue. The company plans to continue supplying about 300 units per year. We forecast OP of 0.6bn yen (+24.9% YoY) in FY3/22 and 0.7bn yen (+16.5% YoY) in FY3/23.

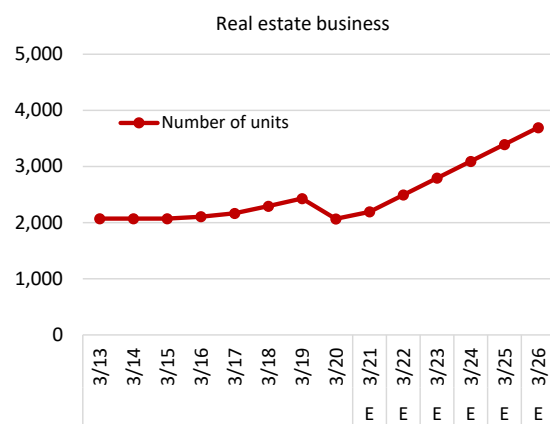
*Plan to continue supplying rental properties in areas with high demand*

Figure: Sales, OP, OPM



Source: Company data, Mita Securities Note: JPYm. Forecasts are by Mita Securities

Figure: Number of rooms



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

## Mita Securities' earnings forecast

### Earnings forecast for FY3/21

We forecast sales of 17.7bn yen (-48.7% YoY), OP of 1.2bn yen (-87.5% YoY), and NP of 0.4bn yen (-93.8% YoY) for FY3/21, slightly above the company's guidance (sales of 17.5bn yen, OP of 1.15bn yen, and NP of 0.25bn yen). The 4Q (3 months) OP forecast is 0.2bn yen.

The breakdown of the full-year OP forecast by segment is as follows: sports club business: 0.6bn yen (-85.1% YoY), hotel business: 0.1bn yen (-89.4% YoY), real estate business: 0.5bn yen (-89.3% YoY). 4Q (3 months) OP forecast is as follows: sports club business: 0.02bn yen (0.2bn yen in 3Q), hotel business: 0.1bn yen (0.2bn yen in 3Q), real estate business: 0.1bn yen (0.1bn yen in 3Q). Although the declaration of the state of emergency seems to have had an impact in 4Q, we assume that each business has maintained profitability.

*We forecast OP of 1.2bn yen for FY3/21. We expect each business to remain profitable in 4Q*

### Earnings forecast for FY3/22

For FY3/22, we forecast sales of 21.8bn yen (+23.1% YoY), OP of 2.5bn yen (+103.8% YoY), and NP of 1.4bn yen (+281.5% YoY). The forecast for OP by segment is as follows: sports club business: 1.2bn yen (+97.6% YoY), hotel business: 0.7bn yen (+383.7% YoY), and real estate business: 0.6bn yen (+24.9% YoY). In the sports club business, we expect the number of members to increase (+2.0% YoY on a total membership basis, and +23.0% YoY excluding members who have suspended their membership). In the hotel business, we assume that occupancy rates and average room rates will improve, and RevPAR will increase by 15%.

*We expect OP of 2.5bn (+104% YoY) for FY3/22. We expect to see a recovery in the occupancy rate and room rate for the hotels, as well as the return of lapsed members in the sports clubs*

### Our view on FY3/23 and beyond

We forecast OP of 4.5bn yen (+81.2% YoY) in FY3/23, 6.6bn yen (+48.7% YoY) in FY3/24, and 7.9bn yen (+18.9% YoY) in FY3/25, and expect OP to recover to near the level before the COVID-19 pandemic in FY3/24. In the medium to long term, we expect the company to expand by opening new stores again. The fitness participation rate in Japan is very low, at around 4%, leaving a lot of room for growth. In addition, it may become easier to secure properties with low budgets in both the sports club and hotel businesses due to the withdrawal of competitors.

*We expect profits to recover to near the level before the COVID-19 pandemic in FY3/24. Given the low fitness participation rate in Japan, there is a lot of room for growth in the medium to long term*

Figure: Mita Securities' earnings forecast (consolidated, various indicators)

Key indicators	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5y ave growth (CAGR, %)
	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	
Sales growth (%)	13.1	12.8	26.5	-48.7	23.1	15.0	14.5	8.8	9.2	
Operating profit growth (%)	9.7	9.2	35.1	-87.5	103.8	81.2	48.7	18.9	18.0	
Recurring profit growth (%)	9.6	10.6	31.2	-86.9	94.2	81.9	49.2	19.1	18.1	
Net profit growth (%)	1.1	6.8	44.2	-93.8	281.5	78.6	51.1	18.7	17.6	
Gross profit margin (%)	37.8	36.1	36.6	13.2	20.9	27.2	32.2	34.2	36.0	
SG&A/Sales (%)	10.6	9.8	8.5	6.4	9.6	9.4	9.0	8.8	8.7	
Operating profit margin (%)	27.2	26.3	28.1	6.8	11.3	17.8	23.2	25.3	27.3	
Recurring profit margin (%)	27.4	26.8	27.8	7.1	11.2	17.7	23.1	25.3	27.4	
EBITDA margin (%)	34.5	33.9	34.9	20.4	23.0	28.2	32.4	34.2	35.8	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, PL, JPYm)

PL	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5y ave growth (CAGR, %)
Consolidated (JPYm)	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	
Sales	24,139	27,240	34,466	17,679	21,763	25,028	28,667	31,196	34,079	14.0
COGS	15,025	17,396	21,838	15,346	17,207	18,208	19,450	20,542	21,809	
Gross profit	9,114	9,844	12,628	2,334	4,556	6,820	9,217	10,654	12,270	
SG&A	2,552	2,679	2,946	1,125	2,092	2,354	2,578	2,758	2,952	
Operating profit	6,561	7,164	9,682	1,209	2,464	4,466	6,639	7,896	9,318	50.4
Non-operating income	229	322	245	300	250	250	260	270	280	
Non-operating expense	187	183	346	252	273	275	275	275	275	
Recurring profit	6,603	7,304	9,580	1,257	2,442	4,441	6,625	7,892	9,323	49.3
Extraordinary gains	0	209	384	200	0	0	0	0	0	
Extraordinary losses	5	492	90	844	0	0	0	0	0	
Pre-tax profit	6,598	7,021	9,874	613	2,442	4,441	6,625	7,892	9,323	72.3
Corporate taxes	2,545	2,579	3,649	221	879	1,599	2,385	2,841	3,356	
Minority interests	286	419	421	34	194	397	544	664	810	
Net profit	3,767	4,023	5,804	359	1,369	2,445	3,696	4,386	5,157	70.4
EBITDA	8,328	9,243	12,045	3,598	4,998	7,048	9,288	10,657	12,211	27.7
Shares O/S (m)	38.3	38.3	38.3	38.3	38.3	38.3	38.3	38.3	38.3	
EPS	98.33	105.03	151.51	9.37	35.74	63.84	96.49	114.50	134.62	
DPS	14.50	15.00	15.00	2.00	6.00	12.00	16.00	18.00	20.00	
BPS	679.52	769.46	904.94	912.31	942.06	993.89	1,074.38	1,170.89	1,285.50	
Payout ratio (%)	14.7	14.3	9.9	21.3	16.8	18.8	16.6	15.7	14.9	
ROA (%)	7.0	6.4	8.1	0.5	1.7	3.0	4.3	4.9	5.4	
ROE (%)	15.6	14.5	18.1	1.0	3.9	6.6	9.3	10.2	11.0	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, segment earnings, JPYm)

Segment earnings (JPYm)	3/18 A	3/19 A	3/20 A	3/21 MitaE	3/22 MitaE	3/23 MitaE	3/24 MitaE	3/25 MitaE	3/26 MitaE	5y ave growth (CAGR, %)
<b>Sports club business</b>										
Sales	18,193	20,111	19,424	11,441	14,072	16,200	18,953	20,505	22,261	14.2
(YoY, %)	11.2	10.5	-3.4	-41.1	23.0	15.1	17.0	8.2	8.6	
Operating profit	4,732	5,144	4,139	618	1,221	2,456	4,052	4,795	5,642	55.6
(YoY, %)	9.7	8.7	-19.5	-85.1	97.6	101.2	64.9	18.3	17.7	
Operating profit margin (%)	26.0	25.6	21.3	5.4	8.7	15.2	21.4	23.4	25.3	
Number of stores (EOP)	80	89	94	101	101	102	105	109	113	
Membership (EOP)	219,790	243,515	227,000	179,180	182,764	211,978	226,757	244,628	263,613	8.0
(YoY, %)	11.4	10.8	-6.8	-21.1	2.0	16.0	7.0	7.9	7.8	
<b>Hotel business</b>										
Sales	4,413	5,506	6,281	4,783	6,090	7,021	7,702	8,451	9,370	14.4
(YoY, %)	25.8	24.8	14.1	-23.9	27.3	15.3	9.7	9.7	10.9	
Operating profit	1,205	1,410	1,333	141	681	1,355	1,840	2,239	2,721	80.8
(YoY, %)	22.7	17.0	-5.4	-89.4	383.7	98.8	35.8	21.7	21.5	
Operating profit margin (%)	27.3	25.6	21.2	2.9	11.2	19.3	23.9	26.5	29.0	
Number of stores (EOP)	18	23	27	31	32	33	34	36	38	4.2
Number of rooms (EOP)	2,342	3,029	3,586	4,099	4,227	4,331	4,461	4,721	4,981	4.0
(YoY, %)	28.4	29.3	18.4	14.3	3.1	2.5	3.0	5.8	5.5	
Sales/Ave number of rooms (JPY/day)	5,561	5,564	5,176	3,430	3,952	4,446	4,800	5,043	5,292	
(YoY, %)	-2.2	0.1	-7.0	-33.7	15.2	12.5	8.0	5.1	4.9	
<b>Real estate business</b>										
Sales	1,533	1,622	8,761	1,456	1,601	1,806	2,012	2,240	2,448	10.9
(YoY, %)	3.6	5.8	440.0	-83.4	10.0	12.8	11.4	11.4	9.3	
Operating profit	619	601	4,198	450	562	655	748	863	957	16.3
(YoY, %)	-8.4	-2.9	598.8	-89.3	24.9	16.5	14.2	15.5	10.9	
Operating profit margin (%)	40.4	37.0	47.9	30.9	35.1	36.2	37.2	38.5	39.1	
Number of properties (EOP)	61	61	53	55	61	67	73	79	85	
Number of units (EOP)	2,292	2,427	2,066	2,191	2,491	2,791	3,091	3,391	3,691	11.0
(YoY, %)	5.9	5.9	-14.9	6.1	13.7	12.0	10.7	9.7	8.8	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, BS, JPYm)

BS	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5y ave growth
Consolidated (JPYm)	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	(CAGR, %)
<b>Assets</b>										
Total current assets	13,784	16,264	23,342	22,832	25,720	27,056	28,558	29,420	30,902	
Cash and deposits	12,815	15,201	22,413	21,454	22,936	23,606	24,382	24,279	24,696	
Accounts receivable	446	497	435	243	354	469	473	552	568	
Inventories	74	84	70	72	73	94	98	110	117	
Other	450	483	423	1,063	2,357	2,887	3,605	4,478	5,521	
Total fixed assets	44,400	51,457	52,119	54,152	54,907	56,595	59,388	63,453	67,808	
PP&E, net	41,033	47,746	47,686	49,672	50,168	51,673	54,257	58,055	62,119	
Intangibles	89	131	146	180	185	190	195	200	205	
Investments and other	3,278	3,580	4,287	4,300	4,553	4,732	4,936	5,198	5,484	
Deferred assets	10	6	2	0	0	0	0	0	0	
Total assets	58,195	67,727	75,463	76,984	80,627	83,652	87,946	92,873	98,710	5.1
<b>Liabilities</b>										
Total current liabilities	8,504	9,540	12,374	10,697	11,866	12,273	12,653	12,987	13,375	
Accounts payable	1	1	1	0	0	0	0	0	0	
Short-term debt	4,374	5,486	5,689	6,000	6,600	6,700	6,700	6,700	6,700	
Other	4,129	4,054	6,684	4,697	5,266	5,573	5,953	6,287	6,675	
Total long-term liabilities	21,564	26,228	25,561	28,442	29,583	29,819	30,106	30,338	30,586	
Long-term debt	18,256	22,611	21,782	27,000	26,900	26,800	26,800	26,800	26,800	
Other	3,308	3,617	3,778	1,442	2,683	3,019	3,306	3,538	3,786	
Total liabilities	30,068	35,768	37,934	39,139	41,449	42,092	42,759	43,325	43,961	2.4
<b>Net assets</b>										
Net assets	28,127	31,959	37,529	37,844	39,177	41,560	45,187	49,548	54,749	7.7
Shareholders' equity	26,030	29,475	34,665	34,947	36,087	38,072	41,156	44,852	49,243	7.1
Minorities	2,098	2,483	2,863	2,897	3,091	3,488	4,031	4,696	5,506	
Warrants	0	0	0	0	0	0	0	0	0	
Debt	22,630	28,097	27,472	33,000	33,500	33,500	33,500	33,500	33,500	0.3
Debt/Equity (x)	0.9	1.0	0.8	0.9	0.9	0.9	0.8	0.7	0.7	
Net Debt/Equity (x)	0.4	0.5	0.2	0.3	0.3	0.3	0.2	0.2	0.2	
Shareholders' capital ratio (%)	44.7	43.5	45.9	45.4	44.8	45.5	46.8	48.3	49.9	
Debt/EBITDA (x)	2.7	3.0	2.3	9.2	6.7	4.8	3.6	3.1	2.7	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, CF, JPYm)

CF	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5y ave growth
Consolidated (JPYm)	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	(CAGR, %)
<b>Cashflow from operations</b>										
Cashflow from operations	6,658	6,386	13,964	951	4,360	5,199	6,717	7,389	8,416	
Net profit	3,767	4,023	5,804	359	1,369	2,445	3,696	4,386	5,157	
Depreciation and amortization	1,766	2,079	2,362	2,389	2,534	2,583	2,648	2,761	2,893	
Other	1,125	284	5,797	-1,797	457	171	372	242	366	
<b>Cashflow from investing</b>										
Cashflow from investing	-7,736	-8,328	-5,559	-4,420	-3,289	-4,272	-5,441	-6,826	-7,248	
Capital expenditure	-7,448	-8,335	-7,129	-4,409	-3,035	-4,093	-5,237	-6,564	-6,962	
Disposal of fixed assets	4	334	3,042	0	0	0	0	0	0	
Other	-292	-327	-1,472	-11	-253	-179	-204	-262	-286	
<b>Cashflow from financing</b>										
Cashflow from financing	1,401	4,136	-1,884	4,914	410	-257	-500	-666	-750	
Dividends paid	-479	-574	-613	-574	-77	-230	-460	-613	-690	
Share capital issuance / (buy-back)	-2	-1	0	0	0	0	0	0	0	
Debt issuance / (repayment)	851	4,744	-1,230	5,528	500	0	0	0	0	
Other	1,031	-33	-40	-40	-13	-27	-40	-54	-60	
<b>Cash and cash equivalents</b>										
Cash and cash equivalents	11,294	13,488	20,009	21,454	22,936	23,606	24,382	24,279	24,696	
Free cashflow	-1,077	-1,942	8,404	-3,469	1,071	927	1,276	563	1,168	

Source: Company data, Mita Securities

## APPENDIX

### [Analyst Certification]

We hereby certify that the views on securities and issuers expressed in this report accurately reflect the personal views of the analyst(s) listed on the cover page of this report. The analyst(s) also certifies that the analyst(s) has not been compensated, directly or indirectly, or promised to be compensated, for expressing any particular view in this report.

### [Ratings]

Ratings are based on the following definitions.

The target price and ratings are based on our views for the next 12 months or so.

Buy: Stocks whose total return (percentage change in share price from current price to projected target price plus projected dividend yield), as of the time the target price is set or changed, is expected to be 15% or more.

Hold: Stocks whose total return (percentage change in share price from current price to projected target price plus projected dividend yield), as of the time the target price is set or changed, is expected to be between -15% and +15%.

Sell: Stocks whose total return (percentage change in share price from current price to projected target price plus projected dividend yield), as of the time the target price is set or changed, is expected to be -15% or less.

RS: Rating Suspended - Stocks for which the target price and rating have been temporarily suspended.

NR: No Rating - Stocks for which no target price or rating is assigned.

### [Potential Conflicts of Interest]

Mita Securities Co., Ltd. and its affiliates have or may in the future have transactions with the companies mentioned in this report, such as providing investment banking services to them. Therefore, investors viewing this report should be aware that Mita Securities Co., Ltd. and its affiliates may have conflicts of interest that could affect the objectivity of this report. Mita Securities Co., Ltd. may in the future hold or trade shares of the stocks listed in this report. Mita Securities Co., Ltd. may also take positions to sell or buy in a manner that conflicts or is inconsistent with the investment decisions and views expressed in this report. Please refer to this report only as one factor for reference in making investment decisions.

### [Important Disclosures]

1. Mita Securities Co., Ltd. has a parent company, subsidiary, affiliated company or related company relationship with the company covered by this report: N/A
2. An officer of Mita Securities Co., Ltd. is concurrently an officer of the company covered by this report: N/A
3. Mita Securities Co., Ltd. owns 5% or more of the total number of issued common shares, etc. of the company covered by this report (as of the end of the previous month): N/A
4. Mita Securities Co., Ltd. has acted as lead manager or joint lead manager for the public offering of securities of the company covered by this report in the past 12 months: N/A
5. The analyst(s) listed on the cover of this report is a director or advisor of the company covered by this report: N/A
6. Any family member of the analyst(s) listed on the cover of this report is a director or an advisor of the company covered by this report: N/A
7. The analyst(s) listed on the cover of this report or their family members hold securities (common stock, corporate bonds, convertible bonds, etc.) of the company covered by this report: N/A

### [General Disclaimer]

The contents and descriptions in this report are based on publicly available information, and have been prepared by analysts with necessary supplements through interviews. The authors of this report are prohibited from using insider information as well as from obtaining such information. The information contained in this report is believed to be accurate and reliable, but its accuracy has not been objectively verified. This report is not intended to contain all the information required by investors. The information contained in this report may be out of date due to changes in the financial market or economic environment. Stocks mentioned directly or indirectly in this report are subject to the risk of losing the principal amount invested due to factors such as changes in stock prices, changes in the management and financial conditions of the issuer, and fluctuations in interest rates and exchange rates. Past performance does not imply or guarantee future performance. The views expressed in this report are subject to change without notice, and Mita Securities Co., Ltd. assumes no obligation to update the information or views contained in this report. Mita Securities Co., Ltd. assumes no responsibility whatsoever for any direct or indirect loss or damage, including lost profits, resulting from the use of or reliance on this report by investors. The information provided by the Company is intended to serve as a reference for investment decisions and is not intended to promise future results. Final investment decisions should be made by investors themselves. The copyright of this report belongs to Mita Securities Co., Ltd. and may not be reproduced, transcribed, or quoted without permission. This report does not constitute a prospectus or other offering document and is not intended as an offer to sell or a solicitation of an offer to buy any securities in any country or region where the solicitation of securities is not permitted. No person to whom this report has been delivered may deliver, circulate or distribute this report, or reproduce, grant or make available for inspection, this report to any other person.

### [Disclaimer for the English version of the report]

The Japanese version of this report is the official version, and the English version is a translation of the Japanese version. In the event of any discrepancy between the Japanese and English versions, the Japanese version shall always take precedence. Mita Securities Co., Ltd. makes no guarantee as to the accuracy and completeness of the content of the English version of this report.

### [Important notes concerning the Financial Instruments and Exchange Act]

When conducting transactions in accordance with the contents of this report, the customer may be required to bear the prescribed fees and expenses for each service or product. In addition, there is a possibility that each service or product may incur losses due to price fluctuations, etc. Since each service or product has different fees, etc. and risks, please read carefully the documents for listed securities, etc., pre-contract documents for the relevant service or product, etc., or materials for customers.

### Company Name

Mita Securities Co., Ltd. / Financial Instruments Business Operator, Director-General of the Kanto Local Finance Bureau (Kinsho) No. 175

### Memberships

Japan Securities Dealers Association