



S Foods

TSE 1st Section 2292 Industry: Food, wholesale, retail, food service

Wagyu beef champion to expand Angus beef business; initiating coverage with a Buy rating

Initiating coverage with a TP of 4,900 yen and a Buy rating

We initiate coverage of S Foods Inc. (2292, S Foods, the company) with a target price of 4,900 yen and a Buy rating. The company is an integrated meat company involved in upstream and downstream meat distribution. It is a major wholesaler of brand-name Wagyu beef, such as “Kobe Beef,” and is also famous for its processed meat products, “Kotetchan.” The company’s five-year average sales growth rate is 6.2% (CAGR), the highest among listed meat companies. The company is expected to realize the results of various long-term ambitious projects, such as the full-scale operation of its pig farming business in Hokkaido and the capacity expansion of its US subsidiary which produces premium Angus beef, in addition to the internal growth of its beef-related business. The meat market is currently experiencing a mix of declining restaurant demand and rising retail demand, but the company is in a good position to benefit from a recovery in restaurant demand going forward. The company is also active in M&A, and we expect it to be an additional growth driver.

FY2/21 results: weak restaurant demand, strong retail demand

Consolidated sales for the FY 2/21 were 327.5bn yen (-7.0% YoY), OP 12.6bn yen (+17.8% YoY), and NP 10.0bn yen (+53.0% YoY). Segment OP was 12.0bn yen (+12.5% YoY) in the manufacturing and wholesale business, 2.0bn yen (+93.3% YoY) in the retail business, and -0.3bn yen in the food service business (vs. a profit of 0.3bn yen in FY2/20). In the manufacturing and wholesale business, meat wholesaling and sales of processed products to retailers were strong, while meat wholesaling to restaurant operators declined. In the retail and food service businesses, the company secured an overall increase in profits. The large increase in NP was due to the gain on sales of fixed assets of 4.1bn yen, an extraordinary gain. Meanwhile, the company posted an impairment loss of 1.4bn yen as an extraordinary loss in the businesses that were strongly affected by the COVID-19.

Mita Securities’ earnings forecast

We forecast OP of 12.9bn yen (+2.5% YoY) in FY2/22, 13.6bn yen (+5.5% YoY) in FY2/23, and 14.6bn yen (+7.2% YoY) in FY2/24. The company’s strength lies in wholesaling to restaurant operators, and as such we expect limited profit growth in FY2/22 due to weak demand from restaurants. In FY2/23, we expect a recovery in restaurant demand due to progress in COVID-19 vaccination. In FY2/24, we expect the pig farming business to increase shipments and Aurora Packing in the US to increase capacity. Although we have not factored in additional M&A in our forecast, we believe it is a possibility.

Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 6.0% and a terminal growth rate of 0.4%, based on our earnings forecasts for FY2/22-FY2/26. Our target price is equivalent to 17.5x our FY2/23 EPS forecast of 280.35 yen.

Risk factors to our view include the occurrence of events that threaten meat safety, a significant deterioration in demand for meat and processed products, lower margins due to increased competition, long-term restrictions on meat imports, decrease in production due to occurrence of COVID-19 clusters, and the failure of large-scale M&A.

MITA SECURITIES Co., Ltd.
Junichi Shimizu
Chief Analyst, Head of Research

Initiation of coverage

Rating
Buy

Target price (JPY)	4,900
Stock price (JPY) (May 24)	3,280
Market cap (JPYbn)	105.8

Key changes

Rating	New
Target price	New
Earnings forecast	New

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

		2/20	2/21	2/22E	2/23E	2/24E
Sales	JPYbn	352.0	327.5	340.6	357.5	379.7
OP	JPYbn	10.7	12.6	12.9	13.6	14.6
RP	JPYbn	11.1	13.0	13.3	14.1	15.1
NP	JPYbn	6.5	10.0	8.1	8.9	9.5
EPS	JPY	205.6	315.3	257.3	280.4	301.6
BPS	JPY	2,528	2,783	2,970	3,173	3,390
DPS	JPY	60.0	64.0	70.0	78.0	84.0
PER	x	10.9	10.4	12.7	11.7	10.9
PBR	x	0.9	1.2	1.1	1.0	1.0
Div. yield	%	2.7	2.0	2.1	2.4	2.6
ROA	%	3.9	5.8	4.6	4.6	4.7
ROE	%	8.1	11.9	8.9	9.1	9.2

Source: Company data, Mita Securities

Company profile

S Foods is an integrated meat company based in Hyogo Prefecture. Its strength lies in the wholesale of premium Wagyu beef such as Kobe beef, Matsusaka beef, and Omi beef. As for processed products, the company is famous for its “Kotetchan” beef offal products. The company has also expanded into retail and food service through its subsidiaries. In recent years, the company has been focusing on the pig farming business in Hokkaido, the meat packing business in the U.S., and the chicken business.

Investment Thesis

Outlook

Long-term profit growth to continue as ambitious initiatives bear fruit

We initiate coverage of S Foods Inc. (2292, S Foods, the company) with a target price of 4,900 yen and a Buy rating.

The company, based in Nishinomiya City, Hyogo Prefecture, is an integrated meat company engaged in upstream and downstream meat distribution. Its businesses include livestock production, meat wholesaling, processed meat product manufacturing, meat retailing, and food services, etc. Its FY2/21 sales of 327.5bn yen was the fifth highest among listed Japanese meat companies, and its OP of 12.6bn yen was the fourth highest. The company's five-year average sales growth rate of 6.2% (CAGR) ranks first. The five-year average OPM was 3.5%, ranking third.

The company is strong in wholesaling beef, including brand-name Wagyu beef (Kobe beef, Matsusaka beef, Omi beef, and etc.), and it also plans to strengthen its pork and chicken businesses. At present, the company is making progress in its pig farming business in Hokkaido, and is also improving the profitability of its chicken production business, which it acquired through M&A. In addition, the company is working to strengthen its business franchise in the Tokyo metropolitan area, centered on its newly built plant in Chiba Prefecture. Overseas, measures are underway to double the production capacity and enhance the profitability of Aurora Packing, a U.S. meat packer that handles premium Angus beef.

M&A has been an important growth driver for the company, and it has a good track record in turnarounds of acquisitions. Aurora Packing and Foodlier, both acquired by the company, have improved their profitability since joining the group. Going forward, the company plans to combine both organic and inorganic growth to achieve its long-term goals.

Our forecasts for FY2/22 are for sales of 340.6bn yen (+4.0% YoY) and a slight increase in OP to 12.9bn yen (+2.5% YoY). We have factored in the current weakness in demand from restaurant operators, given the company's strength in wholesaling to them. Our subsequent OP forecast is 13.6bn yen for FY2/23 and 14.6bn yen for FY2/24. In FY2/23, we expect meat procurement demand from the restaurant industry to recover, and in FY2/24, we expect the pig farming business expansion in Hokkaido and the capacity enhancement of Aurora Packing in the U.S. to make a full-scale contribution to earnings. In addition, we believe that the company will strengthen its business franchise in the Tokyo metropolitan area. Although we have not factored in the impact of additional M&A in our forecast, we believe that the company is likely to aggressively pursue growth through M&A in addition to organic growth.

Catalysts

The catalysts we envision for an upturn in the stock price include a recovery in demand for meat in the restaurant industry, the successful implementation of various growth measures, and the execution of M&A that could strengthen the business platform.

Initiating coverage with a TP of 4,900 yen and a Buy rating

Highest sales growth rate in the industry over the past five years

Abundant projects for growth drivers

Extensive track record in M&As. Proactive approach going forward

Recovery in restaurant demand, increased shipments in the pig farming business, and capacity expansion at the US plant expected to contribute to earnings

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

JPYm	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	2/22	2/22	2/23	2/24
	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	CoE	Consensus	Consensus	Consensus
Earnings												
Sales	338,781	351,972	327,479	340,572	357,523	379,724	404,182	429,355	340,000	337,645	346,155	360,127
(YoY, %)	7.1	3.9	-7.0	4.0	5.0	6.2	6.4	6.2				
Operating profit	10,973	10,703	12,609	12,922	13,632	14,608	15,485	16,410	12,700	12,903	13,546	14,392
(YoY, %)	0.1	-2.5	17.8	2.5	5.5	7.2	6.0	6.0				
OPM (%)	3.2	3.0	3.9	3.8	3.8	3.8	3.8	3.8				
Recurring profit	11,344	11,085	12,990	13,336	14,069	15,100	16,032	17,034	13,000	13,093	13,736	14,582
(YoY, %)	-1.2	-2.3	17.2	2.7	5.5	7.3	6.2	6.3				
Net profit	7,185	6,511	9,965	8,135	8,862	9,533	10,142	10,797	8,000	8,257	8,684	9,212
(YoY, %)	-7.4	-9.4	53.0	-18.4	8.9	7.6	6.4	6.5				
Depreciation	3,322	3,675	5,017	5,000	5,200	5,500	5,600	5,700				
Capital expenditure	12,494	16,307	5,569	8,000	8,200	7,000	7,100	7,200				
Free CF	-2,471	-12,821	17,184	2,093	4,295	6,544	6,582	7,851				
Segment earnings												
Meat manufacturing and wholesale												
Sales	307,380	321,013	296,788	307,335	325,733	348,702	372,787	397,515				
(YoY, %)	8.1	4.4	-7.5	3.6	6.0	7.1	6.9	6.6				
Operating profit	10,501	10,631	11,964	12,138	12,947	13,975	14,917	15,904				
OPM (%)	3.4	3.3	4.0	3.9	4.0	4.0	4.0	4.0				
Meat retail												
Sales	22,153	21,588	24,128	26,670	25,064	24,219	24,375	24,532				
(YoY, %)	-4.1	-2.6	11.8	10.5	-6.0	-3.4	0.6	0.6				
Operating profit	1,242	1,031	1,993	2,110	1,729	1,574	1,584	1,595				
OPM (%)	5.6	4.8	8.3	7.9	6.9	6.5	6.5	6.5				
Meat food service												
Sales	7,927	8,044	5,179	5,177	5,329	5,399	5,610	5,890				
(YoY, %)	4.1	1.5	-35.6	0.0	2.9	1.3	3.9	5.0				
Operating profit	356	319	-331	-270	69	259	269	283				
OPM (%)	4.5	4.0	-6.4	-5.2	1.3	4.8	4.8	4.8				
Per share indicators												
EPS (JPY)	226.90	205.59	315.26	257.35	280.35	301.58	320.86	341.57	253.09	261.22	274.72	291.44
BPS (JPY)	2,525.62	2,528.08	2,783.07	2,970.41	3,172.77	3,390.35	3,621.21	3,864.78				
DPS (JPY)	56.00	60.00	64.00	70.00	78.00	84.00	90.00	98.00	70.00			
Valuation, profitability, etc.												
PER (x)	19.0	10.9	10.4	12.7	11.7	10.9	10.2	9.6				
PBR (x)	1.7	0.9	1.2	1.1	1.0	1.0	0.9	0.8				
Dividend payout ratio (%)	24.7	29.2	20.3	27.2	27.8	27.9	28.0	28.7				
Dividend yield (%)	1.3	2.7	2.0	2.1	2.4	2.6	2.7	3.0				
ROA (%)	4.5	3.9	5.8	4.6	4.6	4.7	4.8	4.8				
ROE (%)	8.9	8.1	11.9	8.9	9.1	9.2	9.2	9.1				
Financial soundness indicators												
Capital ratio (%)	48.3	46.8	51.0	50.9	50.8	51.6	52.4	53.2				
Debt/Equity (x)	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4				

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, we used a residual income model (RIM) with a cost of equity of 6.0% and a terminal growth rate of 0.4%, based on our earnings forecasts for FY2/22-FY2/26. Our target price is equivalent to 17.5x our FY2/23 EPS forecast of 280.35 yen.

TP of 4,900 yen based on RIM

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	A	Mita E	Mita E	Mita E	Mita E	Mita E	Mita E
JPYbn	2/21	2/22	2/23	2/24	2/25	2/26	2/27
Shareholders' equity (EOP)	88.0	93.9	100.3	107.2	114.5	122.2	
Net profit		8.1	8.9	9.5	10.1	10.8	
Cost of equity		5.3	5.6	6.0	6.4	6.9	
Residual income		2.9	3.2	3.5	3.7	3.9	
PV of residual income		2.7	2.9	3.0	2.9	2.9	
PV of terminal value							52.6

Beta	1.10						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	6.00						
Terminal growth rate (%)	0.40						
Total equity value						155.0	
Number of shares O/S (m)						31,609	
Target share price						4,900	

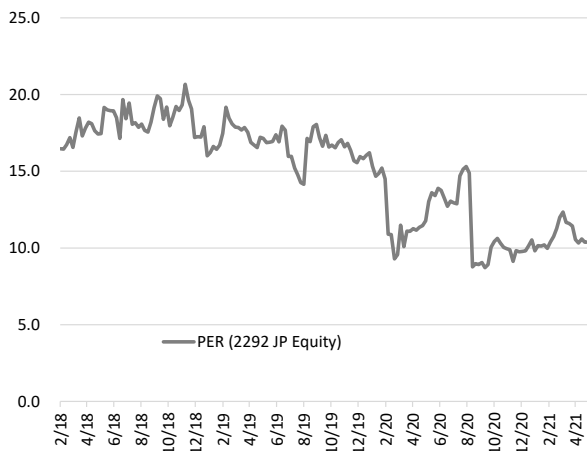
Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

	Terminal growth rate (%)										
	0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0
Target price	4,800	4,800	4,850	4,850	4,900	4,950	4,950	5,000	5,050	5,100	5,100

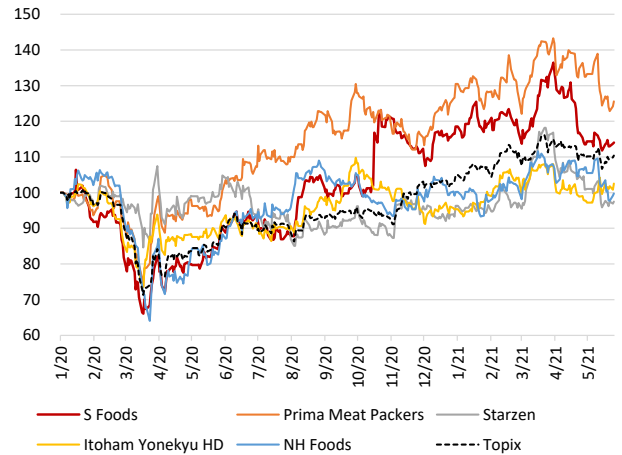
Source: Mita Securities

Figure: S Foods' PER (reference)



Source: Bloomberg Finance LP data, Mita Securities

Figure: Stock price trends for meat companies (reference)



Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Figure: Comparison of valuations for meat companies (reference)

Company	Ticker	Share price	Mkt cap	PER	PER	PER	PER	PBR	EV/EBITDA	EV/Sales	ROE	Sales growth	EBITDA Mgn	Div Yield	1M	3M	1YR
		24-May	JPYbn	Last	LTM	Current E	Next E	Last	Next E	Next E	LTM	LTM	LTM	Current E	Change	Change	Change
PRIMA MEAT PACKERS LTD	2281	3,200	161.7	11.4	11.4	13.1	13.6	1.6	5.9	0.4	14.6	3.7	7.1	2.1	-7.9	-0.5	33.0
NH FOODS LTD	2282	4,560	469.5	14.3	14.4	14.8	13.7	1.1	6.5	0.5	7.8	-4.4	6.4	2.1	-6.5	-1.0	18.4
HAYASHIKANE SANGYO CO LTD	2286	614	5.5	4.2	4.2	NA	NA	0.6	NA	NA	15.1	-1.8	4.4	NA	-3.2	-1.6	6.2
MARUDAI FOOD CO LTD	2288	1,694	44.9	103.9	103.7	NA	NA	0.6	NA	NA	0.5	-4.7	3.5	NA	0.4	-0.3	-12.5
FUKUTOME MEAT PACKERS LTD	2291	1,925	6.5	NA	NA	NA	NA	1.5	NA	NA	-5.7	-1.1	1.0	NA	-1.6	-4.7	1.4
S FOODS INC	2292	3,280	105.8	10.4	10.4	12.6	11.9	1.2	6.0	0.3	11.9	-7.0	6.0	2.1	-1.2	-2.4	32.3
TAKIZAWA HAM CO LTD	2293	3,010	6.3	112.2	111.9	NA	NA	1.7	NA	NA	1.5	2.8	2.5	NA	0.8	-8.0	4.2
ITOHAM YONEKYU HOLDINGS INC	2296	733	218.0	10.7	10.7	14.0	13.5	0.9	6.0	0.2	8.5	-1.1	4.6	2.3	3.5	-1.6	16.7
STARZEN CO LTD	8043	2,169	42.3	6.1	6.1	NA	NA	0.7	NA	NA	12.4	-0.6	2.6	NA	-5.9	0.4	-2.3
Average				34.2	34.1	13.6	13.2	1.1	6.1	0.4	7.4	-1.6	4.3	2.1	-2.4	-2.2	10.8

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus

Risk factors

Risk factors to our view include the occurrence of events that threaten meat safety, a significant deterioration in demand for meat and processed products, lower margins due to increased competition, long-term restrictions on meat imports, decrease in production due to occurrence of COVID-19 clusters, and the failure of large-scale M&A.

Company overview

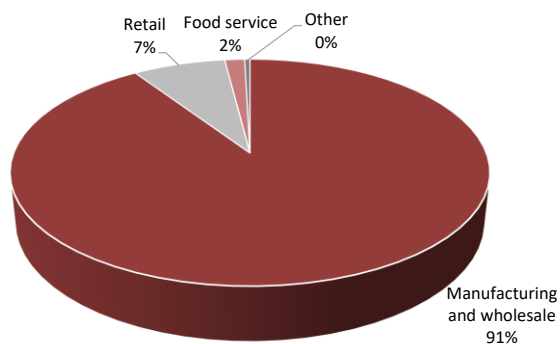
Company and business overview

Overview of S Foods

S Foods is a comprehensive meat company based in Nishinomiya City, Hyogo Prefecture, and is engaged in vertically integrated business from upstream to downstream of meat distribution. The company was founded in 1967. The company has 2,438 full-time employees and an average of 2,718 temporary employees (as of the end of FY2/20). The company's business segments are meat and other products manufacturing and wholesale (manufacturing and wholesale), meat and other products retail (retail), and meat and other products food service (food service). Its five-year average sales growth rate (CAGR) through FY2/21 is 6.2%, and five-year average OPM is 3.5%.

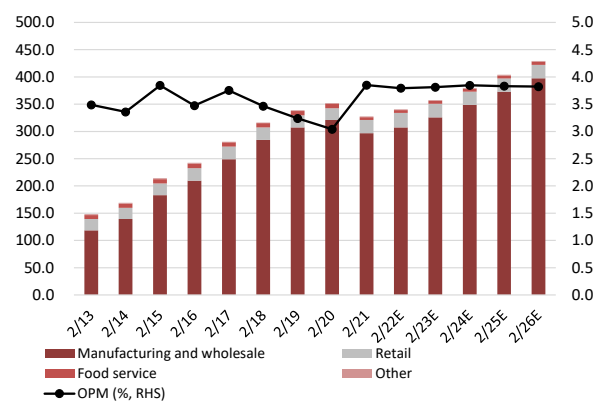
Top class sales growth rate and profitability as an integrated meat company

Figure: Sales breakdown (FY2/21)



Source: Company data, Mita Securities

Figure: Sales and OPM



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

Overview of business segments

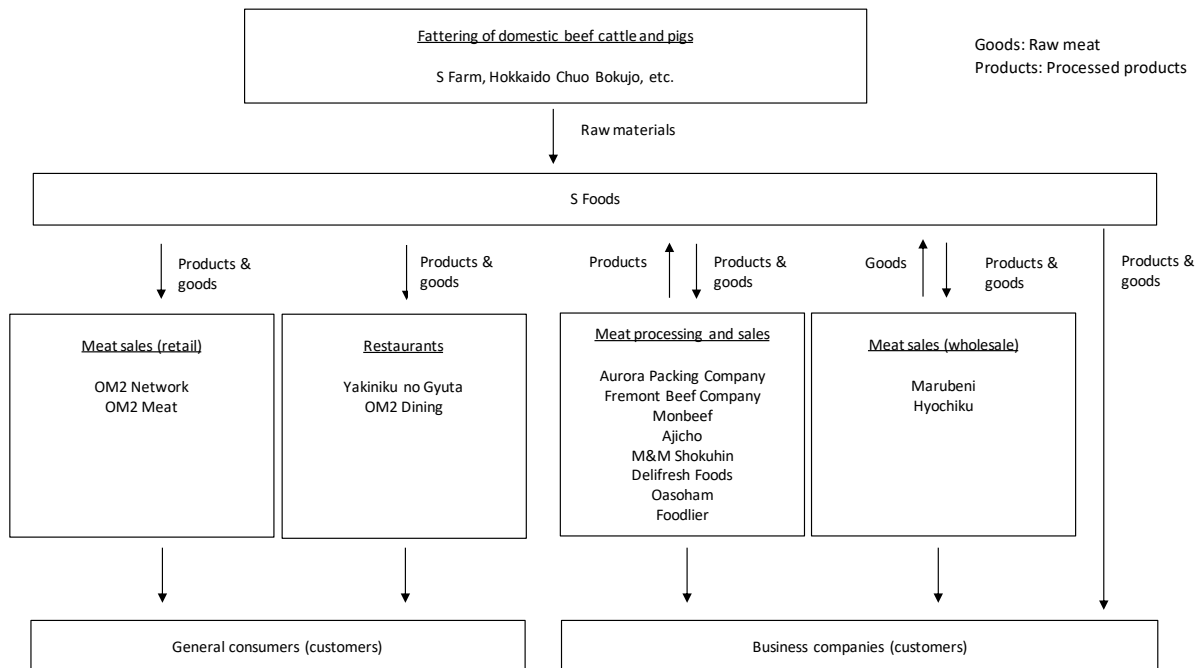
The manufacturing and wholesale business, which accounts for the majority of sales and profits, includes livestock production, meat wholesale, and meat processing and sales. The company has strength in the wholesaling of domestic beef, and has the largest share of the market for the three major Wagyu brands (Kobe beef, Matsusaka beef, and Omi beef) (according to the company). The company is also a pioneer in the import and sale of variety meats (offal) and the manufacture and sale of processed products made from them, and is widely known for its “Kotetchan,” a processed beef offal product launched in 1982. Other popular standard products include “Gudakusan Motsu-Nikomi (Stewed offal).” Consolidated subsidiary Foodlier, a ham and sausage manufacturer, has been selling popular sausage products such as “Crispy Breakfast Sausage” and “Let’s go! Anpanman Children’s Sausage.” Aurora Packing, a consolidated subsidiary in the U.S., supplies high-grade grain-fed Angus cattle under the brand name “Aurora Beef.”

Manufacturing and wholesale business

The retail and food service businesses are overseen by consolidated subsidiary OM2 Network (7614, 53% stake held by S Foods). The retail business includes the meat stores “Nikudokoro Okubo,” “Okubo,” and “Niku no Marucho,” while the food service business includes the yakiniku and shabu-shabu restaurants “Yakiniku no Gyuta” and “Tajima-ya,” and the steakhouse “Outback Steakhouse.”

Retail and food service businesses

Figure: Group structure



Source: Company data, Mita Securities

Latest financial results

Consolidated sales for FY2/21 were 327.5bn yen (-7.0% YoY), OP 12.6bn yen (+17.8% YoY), and NP 10.0bn yen (+53.0% YoY).

In the manufacturing and wholesale business, sales were 296.8bn yen (-7.5% YoY), and OP 12.0bn yen (+12.5% YoY). The sales declined mainly due to a decrease in wholesale sales to restaurants. The profit increased mainly due to increase in wholesale sales to retailers, higher profit margins in the U.S. business, and strong performance in the ham and sausage business. Sales in the retail business were 24.1bn yen (+11.8% YoY), and OP was 2.0bn yen (+93.3% YoY) due to strong sales in meat stores and delicatessen stores as demand for in-house eating and ready-to-eat meals increased due to the COVID-19 pandemic. The food service business posted sales of 5.2bn yen (-35.6% YoY) and an OP of -0.3bn yen (vs. a profit of 0.3bn yen in FY2/20). The COVID-19 pandemic had a severe impact on the results for the food service business.

As for extraordinary gains and losses, the company posted a gain of 4.1bn yen on the sale of fixed assets and an impairment loss of 1.4bn yen.

Group companies

S Foods has carried out numerous M&As in the past and thus has a large number of subsidiaries. In the manufacturing and wholesale business, Aurora Packing and Foodlier are among the largest contributors to earnings. The retail and food service businesses are structured under the holding company, OM2 Network, with OM2 Meat, Yakiniku no Gyuta, OM2 Dining, and Marucho Kobeya under its umbrella.

**Sales down, profit up in FY2/21.
Strong retail demand for meat
despite lower demand from
restaurant operators**

Figure: Main subsidiaries

Subsidiary name	Ticker	Voting rights held (%)	Location	Segment	Overview
KK Hokkaido Chuo Bokujo		100.0	Kita Hiroshima City, Hokkaido	Manufacturing and wholesale	Pig farming business
KK Hyochiku		100.0	Nishinomiya City, Hyogo	Manufacturing and wholesale	Import and sale of meat
KK Ajicho		100.0	Nishinomiya City, Hyogo	Manufacturing and wholesale	Manufacture of meat and processed products
M&M Shokuhin KK		100.0	Himeji City, Hyogo	Manufacturing and wholesale	Manufacture of meat and processed products
KK Delifresh Foods		100.0	Honjo City, Saitama	Manufacturing and wholesale	Manufacture of ham, sausage and other processed products
KK Oasoham		100.0	Kumamoto City, Kumamoto	Manufacturing and wholesale	Manufacture of ham, sausage and other processed products
Foodlier Co., Ltd.		100.0	Takatsuki City, Osaka	Manufacturing and wholesale	Manufacture of ham, sausage and other processed products
Fremont Beef Company		100.0	Nebraska, USA	Manufacturing and wholesale	Manufacture of meat and processed food products
Aurora Packing Company, Inc.		100.0	Illinois, USA	Manufacturing and wholesale	Manufacture of meat and processed food products
Monbeef Pty Ltd		100.0	NSW, Australia	Manufacturing and wholesale	Manufacture of meat and processed food products
OM2 Network Co., Ltd.	7164	53.1	Minato-ku, Tokyo	Retail	Holding company for meat retail and food service businesses
OM2 Meat Co., Ltd.		100.0	Minato-ku, Tokyo	Retail	Retailing of meat and processed meat products and prepared foods. Operates "Nikudokoro Okubo" and "Okubo" shops
KK Marucho Kobeya		100.0	Toyama City, Toyama	Retail	Retailing of meat and processed meat products and prepared foods. Operates "Niku-no-MarUCHO" shops
KK Yakiniku no Gyuta		100.0	Himeji City, Hyogo	Food service	Operates yakiniku and shabu-shabu restaurants, including "Yakiniku no Gyuta" and "Tajima-ya"
OM2 Dining Co., Ltd.		100.0	Minato-ku, Tokyo	Food service	Operates "Outback Steakhouse" in Japan

Source: Company data, Mita Securities

Company history

The predecessor of S Foods was Stamina Shokuhin Co., Ltd. established in Amagasaki City, Hyogo Prefecture, by Hayao Morishima in 1967. The company was reorganized as Stamina Foods Inc. in 1970, and changed its name to S Foods Inc. in 2000. In 2004, the company merged with Murachiku Co., Ltd. led by Shinnosuke Murakami, and has since undergone a number of M&As.

Former S Foods and Murachiku merged during the BSE crisis. Since then, the company has grown through a series of M&As

The company went public as an OTC stock of the JSDA in 1989, was listed on the Second Section of the Osaka Securities Exchange in 1994, and was listed on the Second Section of the Tokyo Stock Exchange in 1999. In 2000, the stock was moved to the First Section of both the TSE and the OSE.

A major turning point for the company was the BSE (Bovine Spongiform Encephalopathy) outbreak in the US in 2003. At the time, the company's business was centered on U.S. beef, but the BSE outbreak led to a ban on imports of U.S. beef, and the company suffered a major blow when it was forced to suspend sales of its main processed product, "Kotetchan." In order to overcome the crisis, the company merged with Murachiku, a wholesaler of domestic beef, to form the new S Foods in March 2005. In March 2006, Hayao Morishima was appointed Chairman of the Board and Shinnosuke Murakami (former President of Murachiku) was appointed President (current position).

The U.S. beef embargo was lifted in July 2006 (it had been lifted in December 2005, but imports were suspended again in January 2006). The company resumed sales of "Kotetchan" in some regions in August 2006 and nationwide in March 2008.

Since then, the company has been actively engaged in M&A to expand its business, acquiring meat trading company Hyouchiku in 2008, Kyushu-Sagamiham (now Oasoham) in 2009, Hokkaido Chuo Bokujo (pig farm) in 2010, and Hidaka Shokuniku Center in 2011. In 2011, OM2 Dining, a subsidiary of OM2 Network, took over the Japanese operations of "Outback Steakhouse." In 2014, the company acquired Glico Ham (now Foodlier), a ham and sausage maker, from Ezaki Glico (2206). The company has also looked overseas in recent years, acquiring meat packer Aurora Packing in the US in 2015 and Monbeef in Australia in 2019. In addition, the company is expanding its domestic chicken business through M&As. The company has been committed to reducing the acquisition cost, and it had only 100m yen of goodwill on its balance sheet as of the end of FY2/21. The company is also adept at turnarounds of underperforming companies, and has brought loss-making companies such as Foodlier and Aurora Packing into the black after acquisitions.

Figure: History

Date	Events
May-67	Stamina Foods Co., Ltd. was established in Amagasaki City, Hyogo Prefecture. Started sales of variety meat
Jan-70	Organization changed to Stamina Foods Inc.
Jan-72	Succeeded in developing and importing variety meat (beef) from the U.S.
Jul-82	Beef variety meat product "Kotetchan" was released
Dec-82	Murachiku Co., Ltd. was established
Apr-89	Established Fremont Beef Company (currently a consolidated subsidiary) in Nebraska, USA as a joint venture with Marubeni Corporation
Aug-89	Registered as over-the-counter stock with the Japan Securities Dealers Association
Aug-92	Beef variety meat product "Gyu Motsu Nabe" is launched
Jul-94	Listed on the Second Section of the Osaka Securities Exchange
Dec-99	Listed on the Second Section of the Tokyo Stock Exchange
Aug-00	Changed company name from "Stamina Foods Inc." to "S Foods Inc." Listed on the First Section of the Tokyo Stock Exchange and the Osaka Securities Exchange
Sep-04	Murachiku Co., Ltd. became a wholly owned subsidiary through a share exchange. As a result, M&M Shokuhin KK (currently a consolidated subsidiary) and OM2 Network Co., Ltd. (currently a consolidated subsidiary) became affiliated companies
Mar-05	S Foods Inc. merged with Murachiku Co., Ltd. Acquired shares of Fremont Beef Company from Marubeni Corporation and others, and made it a wholly owned subsidiary
Aug-05	Acquired additional shares of OM2 Network Co., Ltd. and made it a consolidated subsidiary.
Mar-06	Mr. Hayao Morishima became Chairman and Mr. Shinnosuke Murakami became President (current position)
Mar-07	OM2 Network Co., Ltd. acquired all shares of KK Yakiniku no Gyuta
Oct-08	Acquired all shares of KK Hyochiku (currently a consolidated subsidiary), a meat trading company
Mar-09	Acquired all shares of Kyushu-Sagamihama KK (currently KK Oasoham, a consolidated subsidiary)
Apr-10	Acquired all shares of KK Hokkaido Chuo Bokujo and entered the pig farming business (currently a consolidated subsidiary)
Sep-11	KK Hidaka Shokuniku Center became a subsidiary (currently a consolidated subsidiary)
Dec-11	OM2 Dining Co., Ltd. (a subsidiary of OM2 Network) acquired Outback Steakhouse's restaurant business in Japan
Jan-14	Acquired all shares of Glico Ham Co., Ltd., a manufacturer and seller of ham, sausage, chilled foods, etc. (currently Foodlier Co., Ltd., a consolidated subsidiary)
Dec-15	Acquired all shares of Aurora Packing Company, Inc., a meat packer in the U.S., and made it a subsidiary
Mar-19	Acquired all shares of Monbeef Pty Ltd, a meat packer in Australia

Source: Company data, Mita Securities

Major shareholders/management team

The largest shareholder is Shinnosuke Murakami, the founder of the former Murachiku and current president of S Foods, with a 25.24% stake (as of the end of FY2/20). The second largest shareholder is Marubeni Corporation, with a 15.29% stake. Of the 11 directors of S Foods, two are from Marubeni (one of them is an outside director), and Marubeni applies the equity method to S Foods. However, in our view, the management independence is high.

President owns 25%, Marubeni 15%

Five M, which owns 3.44% of the company, is the asset management company of Hayao Morishima, the founder of S Foods. After the merger of S Foods and Murachiku, Five M was the second largest shareholder, but in 2009 S Foods acquired most of the S Foods shares held by Five M through a share buyback. Most of these treasury shares were released to the market at the time of the subsequent CB conversion.

Figure: Major shareholders (end-FY2/20)

Major shareholders	Shares held (%)
Shinnosuke Murakami	25.24
Marubeni Corporation	15.29
Japan Trustee Services Bank, Ltd. (trust account) (currently Custody Bank of Japan, Ltd.)	4.17
Northern Trust Co. (AVFC) Re Fidelity Funds	3.84
Five M YK	3.44

Source: Company data, Mita Securities

Japan's meat market

Growing meat consumption as seen from household expenditures

Shifting from seafood to meat

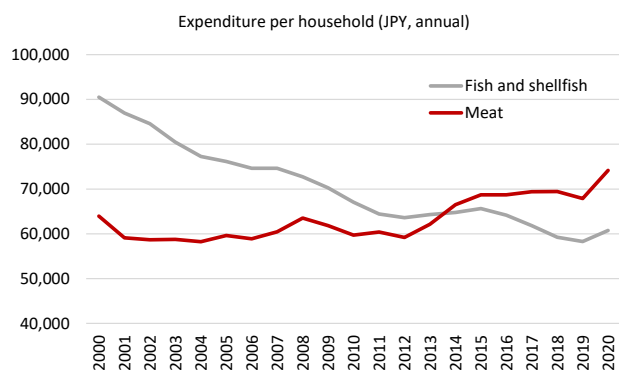
According to a household survey by the Ministry of Internal Affairs and Communications (MIC), of the total expenditure per household in 2020, meat was 74,179 yen (+9.3% YoY) and seafood was 60,731 yen (+4.2% YoY). Both meat and seafood increased significantly due to the special factor of increased demand for in-house eating in the wake of the COVID-19 pandemic. The expenditure per household for total food (including eating out) was 800,137 yen (-2.3% YoY). The main reason for the decline is the decrease in spending on eating out.

Looking at historical long-term data, we can see a general trend of decreasing spending on seafood and increasing spending on meat. The five-year CAGR for consumer spending was 1.5% for meat and -1.5% for seafood, while the 10-year CAGR was 2.2% for meat and -1.0% for seafood. Expenditure on food as a whole decreased at a five-year CAGR of -0.3% and increased at a 10-year CAGR of 0.4%, indicating that the proportion of expenditure on meat is increasing. The share of meat in total expenditure on food was 7.7% in 2010, 8.5% in 2015, and 9.3% in 2020.

Looking at the breakdown of expenditure on meat, in 2020, it was 59,355 yen for fresh meat (+10.0% YoY) and 14,824 yen for processed meat (+6.6% YoY). The five-year CAGR for expenditure was 1.8% for fresh meat and 0.6% for processed meat, and the 10-year CAGR was 2.5% for fresh meat and 1.0% for processed meat.

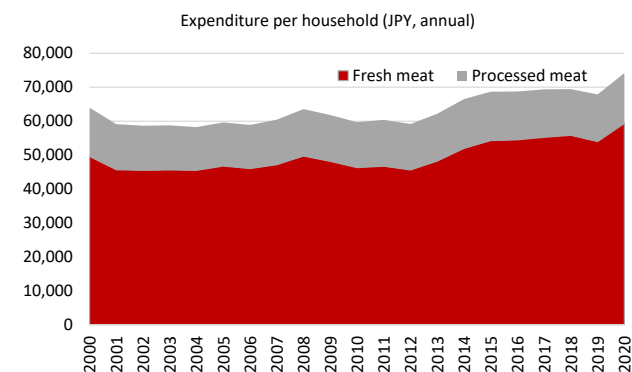
Long-term trend of increasing household spending on meat; COVID-19 boosts spending on fresh meat

Figure: Expenditure per household (JPY, year, total households)



Source: MIC data, Mita Securities

Figure: Meat breakdown (JPY, year, total households)



Source: MIC data, Mita Securities

Supply and demand for meat

Beef supply and demand

According to the Japan Agricultural and Livestock Industries Corporation (ALIC), the estimated beef market volume (domestic demand) for FY2020 was 930 thousand tons (-0.7% YoY), likely due to the negative impact of COVID-19 on restaurants. However, from a long-term perspective, domestic demand has been on an upward trend, with a five-year CAGR of 2.3% and a 10-year CAGR of 0.9%.

On the supply side, domestic production in FY2020 was 336 thousand tons (+1.8% YoY), and imports were 591 thousand tons (-5.0% YoY). The import volume has been adjusted to meet the decline in demand. Over the long term, the domestic production volume has generally remained

Robust long-term demand for beef exists. Demand from restaurants retreating in response to COVID-19

flat, and the market has responded to the growth in demand by increasing the import volume. The five-year CAGR for domestic production is 0.2%, and the 10-year CAGR is -0.7%. The five-year CAGR for imports is 3.9%, and the 10-year CAGR is 1.5%.

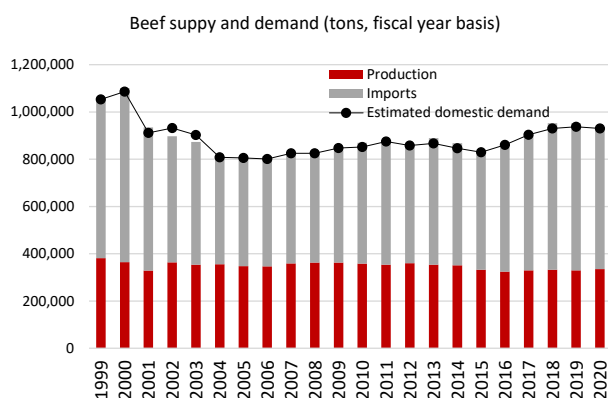
Pork supply and demand

Estimated pork market volume (domestic demand) in FY2020 was 1,827 thousand tons (+0.9% YoY). Demand for pork, which is less expensive than beef, appears to have been solid due to rising demand for in-house eating. The five-year CAGR is 1.2%, and the 10-year CAGR is 1.0%.

Stable long-term demand for pork

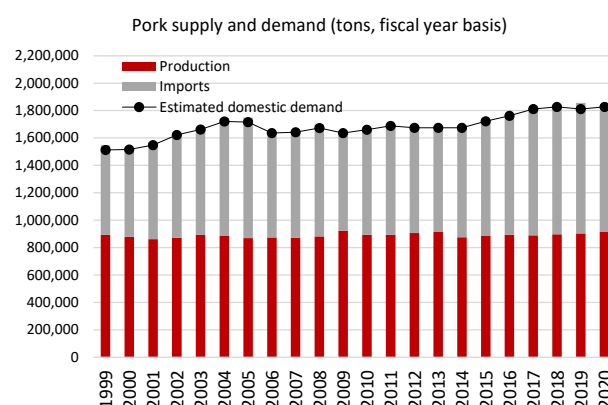
On the supply side, domestic production in FY2020 was 917 thousand tons (+1.5% YoY) and imports were 884 thousand tons (-7.3% YoY). It appears that import volume was suppressed due to high inventory at the beginning of the period. The five-year CAGR for domestic production is 0.6%, and the 10-year CAGR is 0.2%. The five-year CAGR for imports is 1.4%, and the 10-year CAGR is 1.4%.

Figure: Beef supply and demand



Source: ALIC data, Mita Securities

Figure: Pork supply and demand



Source: ALIC data, Mita Securities

S Foods' position in the Japanese meat industry

S Foods has the highest sales growth rate and among the highest profit margins

The total sales of the nine major listed Japanese meat suppliers for FY2020 were 3,463.3bn yen (-2.4% YoY). S Foods, with sales of 327.5bn yen, ranks fifth after NH Foods (2282), Itoham Yonekyu HD (2296), Prima Meat Packers (2281), and Starzen (8043). The company's share of the nine-company total is 9.5%, up sharply from 7.4% in FY2015.

Expanding sales share while maintaining a high profit margin

The five-year CAGR for total sales of the nine companies is 1.0%. S Foods' five-year CAGR for sales is 6.2%, the highest among the nine companies.

The total OP of the nine companies for FY2020 was 115.4bn yen, with an OPM of 3.3%. S Foods' OP was 12.6bn yen, and its OPM was 3.9%, ranking third behind Prima Meat Packers and NH Foods (note that NH Foods has adopted IFRS and cannot be compared directly with other companies).

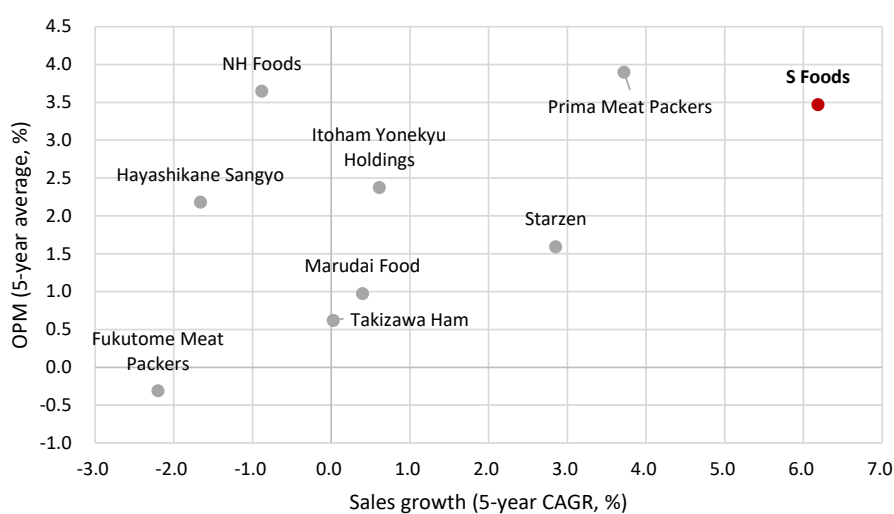
The average OPM of the nine companies over the past five years was 2.9%. S Foods' average OPM over the past five years was 3.5%. The company ranks third after Prima Meat Packers and NH Foods (NH Foods is under IFRS).

Figure: Sales comparison for the nine major listed meat companies

	Ticker	FY15 Sales (JPYbn)	Share among 9 companies (%)	FY20 Sales (JPYbn)	Share among 9 companies (%)
NH Foods	2282	1,229.3	37.4	1,176.1	34.0
Itoham Yonekyu Holdings	2296	817.5	24.8	842.7	24.3
Prima Meat Packers	2281	361.2	11.0	433.6	12.5
Starzen	8043	303.4	9.2	349.2	10.1
S Foods	2292	242.6	7.4	327.5	9.5
Marudai Food	2288	229.5	7.0	234.2	6.8
Hayashikane Sangyo	2286	48.2	1.5	44.4	1.3
Takizawa Ham	2293	30.4	0.9	30.4	0.9
Fukutome Meat Packers	2291	28.3	0.9	25.3	0.7
Total for 9 companies		3,290.4	100.0	3,463.3	100.0

Source: Companies data, Mita Securities

Figure: Sales growth and OPM (average for the past five years)



Source: Companies data, Mita Securities

Growth drivers

Long-term management goals

Investment from a long-term perspective

The company's long-term goal is to become the No. 1 variety meat supplier in the world and the No. 1 meat supplier in Japan. While the company does not have a medium-term management plan, it appears that prior to COVID-19 it had been planting various seeds with the goal of achieving annual growth of around 10% in both sales and OP. In the past few years, however, the company has not been able to consistently increase its OP due to natural disasters and epidemics (in FY2/19 there was a series of natural disasters such as the torrential rain in western Japan, the earthquake in northern Osaka, the earthquake in Hokkaido, and a large typhoon; in FY2/20 there was an outbreak of classical swine fever; and in FY2/21 there was an outbreak of COVID-19). That said, the company has been steadily strengthening its business base in the medium to long term, in our view.

At present, the company has a number of organic growth projects in place to sustain long-term growth, and is also keen to implement growth measures using M&A. The main growth driver projects are as follows

Summary of growth drivers

Strengthening the business franchise in the Tokyo metropolitan area

The company has built its largest factory facility (meat center, processed product plant, and distribution facility) in Funabashi City, Chiba Prefecture and relocated its Tokyo branch. It plans to use the new facility to strengthen its business franchise in the Tokyo metropolitan area. In FY2/21, the company did not make as much progress as it had expected due to the COVID-19 pandemic, but we believe that the new facility will be a growth driver in FY2/22 and beyond.

Strengthening the pig farming business in Hokkaido

The company is continuing to invest in the pork business in order to make it the second pillar of earnings after the beef business. In recent years, the company has been strengthening its upstream business by building additional pig farms in Hokkaido, and in mid-FY2/21, it completed a farm capable of shipping approximately 240,000 pigs per year (equivalent to approximately 10bn yen in terms of shipment value). The company will now enter the stage of raising sows and expanding the shipment. The plan is to be able to produce at full capacity in about three years. In the medium term, investments will also be made to expand the scale of the slaughterhouse. Pork produced at these farms is shipped under the brand name "Yume-no-Daichi (Dreamland)."

Capacity expansion at Aurora Packing in the US

In December 2015, the company acquired Aurora Packing, a medium-sized meat packer in Illinois, U.S. Aurora Packing produces premium Angus beef under the brand name "Aurora Beef." Aurora Packing had been in the red before the acquisition (sales of USD290m and OP of USD-2m in FY11/14 before the acquisition), but after becoming a part of S Foods, its profitability has been improving and it has already turned profitable. Aging plants and insufficient production capacity have been issues, but a new plant is scheduled to be completed in FY2/23. The investment will be 8bn yen, which will more than double the production capacity and improve the productivity, thus improving the profit margin, in our view.

Aiming to become the world's No. 1 variety meat supplier and Japan's No. 1 meat supplier through a combination of organic and inorganic growth

New large-scale facility in Chiba to strengthen business franchise in the Tokyo metropolitan area

The farms are completed. Entering the stage of shipment expansion

Capacity expansion at Aurora Packing in the US

Strengthening the chicken business

In August 2016, the company made Naigai Shokuhin a consolidated subsidiary and entered the chicken meat production business; in October 2017, it made Nikkei Shokusan, also in the chicken meat business, a consolidated subsidiary; and in September 2019, Naigai Shokuhin merged with Nikkei Shokusan and changed its name to Tsukubadori. According to Tsukubadori’s website, sales are 6.5bn yen (it is unclear when this was). It appears S Foods is planning to further expand its chicken business. However, given the small size of the current business, in our view, the company is likely to take growth measures through the use of M&A.

Expanding the chicken business through M&A

Beef exports

Beef exports are a promising growth sector: according to ALIC, beef exports increased significantly to 5,565 tons in FY2020 (+34.5% YoY). The export volume now accounts for 1.7% of domestic production. Demand overseas is high for Wagyu beef with high unit prices, and in general margins are higher than for domestic sales. For S Foods, which is strong in handling the three major Wagyu cattle (Kobe beef, Matsusaka beef, and Omi beef), the expansion of the export market will provide an opportunity for growth.

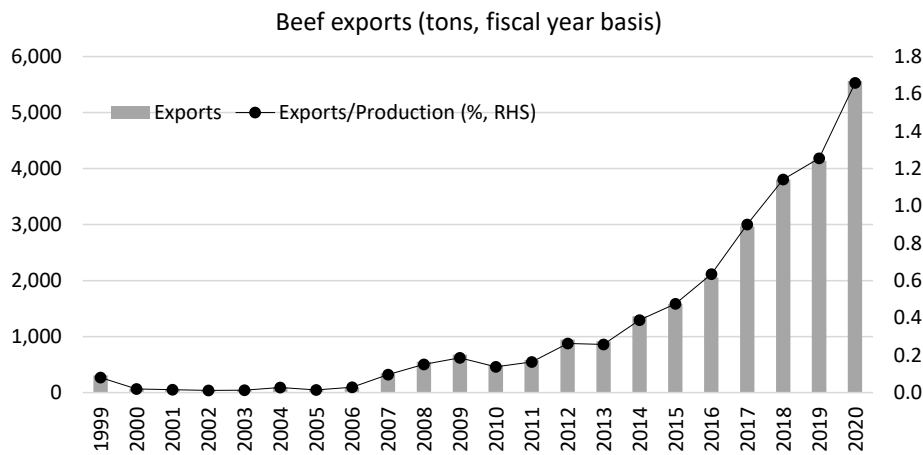
Export market is growing rapidly

M&A

Other than the above, the company acquired Monbeef (Australian meat packer) in March 2019 and Marucho Kobeya (meat retailer) in March 2021. The company appears to be considering a wide range of businesses, from upstream to downstream of beef, pork, and chicken, not only domestically but also overseas, as candidates for M&A. Based on the company’s track record of successful turnarounds of acquisitions such as Aurora Packing and Foodlier in the past, we believe that the company’s M&A growth strategy is very promising.

Aggressive stance on M&A continues

Figure: Beef exports



Source: ALIC data, Mita Securities

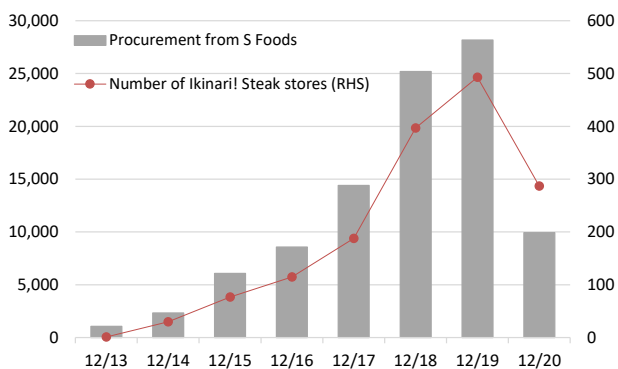
Issues

Business contraction of a major client

In recent years, Pepper Food Service (3053, PFS), one of the company’s major customers, has rapidly expanded sales by opening a large number of “Ikinari! Steak” restaurants. However, while PFS was struggling with cannibalization among existing stores, it was hit by COVID-19 and fell into a serious financial crisis. In July 2020, its U.S. subsidiary filed for bankruptcy protection (Chapter 7), and in August of the same year, PFS sold its original Pepper Lunch business. “Ikinari! Steak” was also forced to downsize drastically, and the number of stores is now down to about half of its peak. PFS had been procuring most of its meat from S Foods. It appears that one of the reasons for the decline in sales at S Foods in FY2/21 was a decrease in meat wholesale sales to PFS. As the number of PFS stores has been declining further, the decline in wholesale sales from S Foods is likely to continue for some time. However, we believe that the negative impact on S Foods’ profits will be limited because the decline in wholesale sales going forward should be much smaller than in FY2/21.

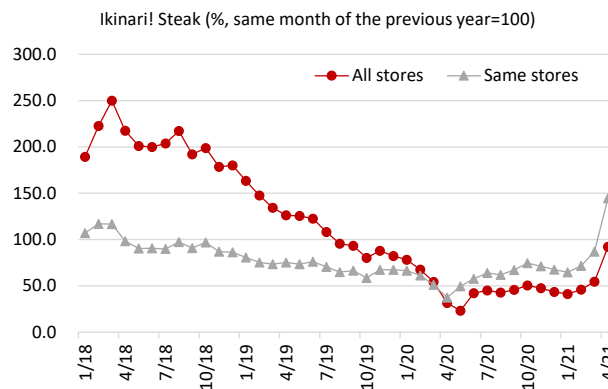
Sales to PFS should continue to decline. However, the negative impact on S Foods’ profits should be limited

Figure: PFS’s procurement from S Foods (JPYm)



Source: Pepper Food Service data, Mita Securities

Figure: Monthly sales data for Ikinari! Steak



Source: Pepper Food Service data, Mita Securities

Mita Securities' earnings forecast

Our earnings forecast

Assuming a standstill in FY2/22

Our forecast for FY2/22 is for sales of 340.6bn yen (+4.0% YoY) and OP of 12.9bn yen (+2.5% YoY). The forecast for segment OP is 12.1bn yen (+1.5% YoY) for the manufacturing and wholesale business, 2.1bn yen (+5.9% YoY) for the retail business, and -0.3bn yen (vs. -0.3bn yen in FY2/21) for the food service business.

The reason for expecting a sluggish OP growth rate of 1.5% in the manufacturing and wholesale business, compared to 12.5% in FY2/21, is that we expect a rebound in businesses that performed well in the previous fiscal year. Overall, as in FY2/21, demand for meat from restaurants is expected to remain weak, while retail demand (demand for in-house eating and ready-to-eat meals) is expected to remain strong. The company is rather strong in the restaurant market, and we believe that a full recovery will come in FY2/23.

The retail business will be consolidated from February 2021 to January 2022 (one month later than S Foods parent). We expect sales and profits to increase due to the continued strong demand for in-house eating and ready-to-eat meals as well as the consolidation effect of Marucho Kobeya, which was acquired in March.

The food service business will be consolidated from January to December 2021 for Yakiniku no Gyuta (two months behind S Foods parent) and from December 2020 to November 2021 for OM2 Dining (three months behind). We expect losses to be roughly the same as in FY2/21, as earnings will take into account the period when operating conditions are still difficult.

Our earnings forecast for FY2/23

For FY2/23, we forecast sales of 357.5bn yen (+5.0% YoY) and OP 13.6bn yen (+5.5% YoY). By this time, we believe that the vaccine effect will lead to a recovery in restaurant demand for meat. In addition, the strengthened business franchise in the Tokyo metropolitan area and the improved profitability of the Australian business are expected to contribute to the earnings improvement.

Outlook for FY2/24 and beyond

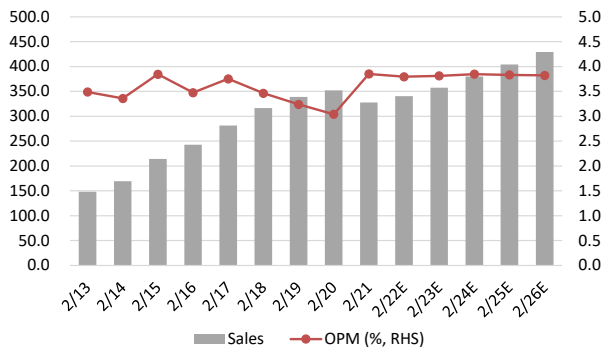
From FY2/24 onwards, we forecast OP of 14.6bn yen (+7.2% YoY) in FY2/24, 15.5bn yen (+6.0% YoY) in FY2/25, and 16.4bn yen (+6.0% YoY) in FY2/26. The new facility of U.S. subsidiary Aurora Packing is expected to be completed by FY2/23. With the doubling of capacity, we expect the new facility to contribute more to profits from FY2/24 onward. The Hokkaido pig farming business should also be ready to ship 240,000 pigs by this time, which will greatly contribute to the Group's meat procurement. Our forecast does not take M&A into account, but we believe it is a good possibility and can be seen as an additional growth factor.

Recovery in restaurant demand will take time, but retail demand will complement it

We expect OP in FY2/23 to increase by 5.5% to 13.6bn yen. Recovery in restaurant demand should proceed

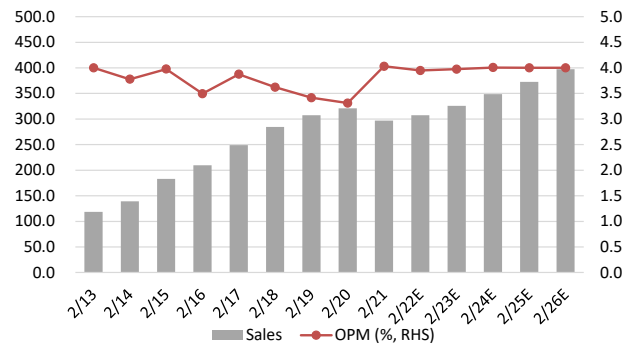
We expect to see the effects of Aurora's capacity expansion and the growth of pig farming business in Hokkaido in FY2/24

Figure: Consolidated earnings (JPYbn)



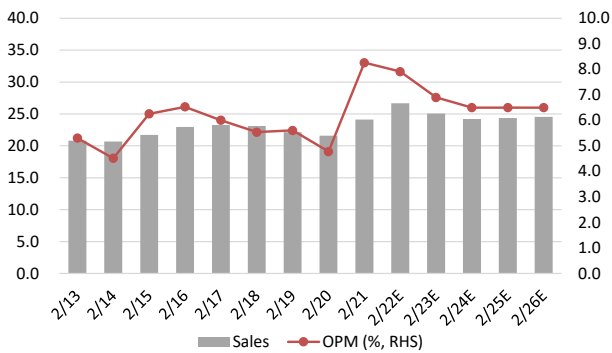
Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

Figure: Manufacturing and wholesale business (JPYbn)



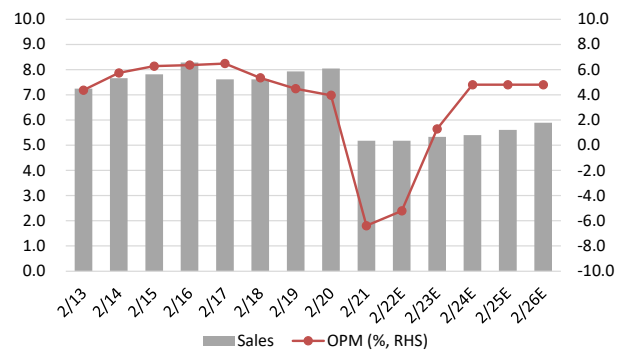
Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

Figure: Retail business (JPYbn)



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

Figure: Food service business (JPYbn)



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

Figure: Mita Securities' earnings forecast (various indicators)

Various indicators	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	5y ave growth (CAGR, %)
	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	
Sales growth (%)	7.1	3.9	-7.0	4.0	5.0	6.2	6.4	6.2	
OP growth (%)	0.1	-2.5	17.8	2.5	5.5	7.2	6.0	6.0	
RP growth (%)	-1.2	-2.3	17.2	2.7	5.5	7.3	6.2	6.3	
NP growth (%)	-7.4	-9.4	53.0	-18.4	8.9	7.6	6.4	6.5	
GPM (%)	14.1	13.9	15.4	15.3	15.1	14.9	14.8	14.7	
EBITDA margin (%)	4.4	4.3	5.6	5.6	5.6	5.6	5.5	5.4	
OPM (%)	3.2	3.0	3.9	3.8	3.8	3.8	3.8	3.8	
ROE (%)	4.5	3.9	5.8	4.6	4.6	4.7	4.8	4.8	
ROE (%)	8.9	8.1	11.9	8.9	9.1	9.2	9.2	9.1	

Source: Company data, Mita Securities

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

PL Consolidated, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	5y ave growth (CAGR, %)
	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	
Sales	338,781	351,972	327,479	340,572	357,523	379,724	404,182	429,355	5.6
COGS	291,136	303,072	276,895	288,450	303,583	323,171	344,418	366,251	
Gross profit	47,645	48,899	50,583	52,122	53,940	56,553	59,764	63,104	
SGA	36,672	38,196	37,974	39,200	40,309	41,944	44,279	46,694	
Operating profit	10,973	10,703	12,609	12,922	13,632	14,608	15,485	16,410	5.4
Non-operating income	917	903	1,006	1,046	1,098	1,166	1,242	1,319	
Non-operating expense	546	521	625	633	661	675	695	695	
Recurring profit	11,344	11,085	12,990	13,336	14,069	15,100	16,032	17,034	5.6
Extraordinary income	180	216	4,923	341	358	380	404	429	
Extraordinary losses	275	912	2,498	850	536	570	606	644	
Pretax profit	11,250	10,390	15,414	12,826	13,891	14,910	15,829	16,819	1.8
Corporate taxes	3,678	3,546	5,131	4,233	4,584	4,920	5,224	5,550	
Minorities	386	331	318	459	445	457	464	472	
Net profit	7,185	6,511	9,965	8,135	8,862	9,533	10,142	10,797	1.6
EBITDA	14,947	15,109	18,458	18,908	19,870	21,215	22,247	23,349	4.8
Shares outstanding (m)	31.666	31.669	31.609	31.609	31.609	31.609	31.609	31.609	
EPS	226.90	205.59	315.26	257.35	280.35	301.58	320.86	341.57	
DPS	56.00	60.00	64.00	70.00	78.00	84.00	90.00	98.00	
Payout ratio (%)	24.7	29.2	20.3	27.2	27.8	27.9	28.0	28.7	
DOE (%)	2.2	2.4	2.4	2.4	2.5	2.6	2.6	2.6	
BPS	2,525.62	2,528.08	2,783.07	2,970.41	3,172.77	3,390.35	3,621.21	3,864.78	

Source: Company data, Mita Securities

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

Segment earnings	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	5y ave growth
Consolidated, JPYm	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	(CAGR, %)
Meat manufacturing and wholesale									
Sales	307,380	321,013	296,788	307,335	325,733	348,702	372,787	397,515	6.0
(YoY, %)	8.1	4.4	-7.5	3.6	6.0	7.1	6.9	6.6	
Operating profit	10,501	10,631	11,964	12,138	12,947	13,975	14,917	15,904	5.9
(YoY, %)	1.9	1.2	12.5	1.5	6.7	7.9	6.7	6.6	
OPM (%)	3.4	3.3	4.0	3.9	4.0	4.0	4.0	4.0	
Meat retail									
Sales	22,153	21,588	24,128	26,670	25,064	24,219	24,375	24,532	0.3
(YoY, %)	-4.1	-2.6	11.8	10.5	-6.0	-3.4	0.6	0.6	
Operating profit	1,242	1,031	1,993	2,110	1,729	1,574	1,584	1,595	-4.4
(YoY, %)	-3.0	-17.0	93.3	5.9	-18.0	-9.0	0.6	0.6	
OPM (%)	5.6	4.8	8.3	7.9	6.9	6.5	6.5	6.5	
Number of stores	154	145	141	153	154	155	156	157	
Ave number of stores	153	150	143	147	154	155	156	157	
(YoY, %)	1.0	-2.3	-4.3	2.8	4.4	0.7	0.6	0.6	
Sales/ Ave number of stores	145	144	169	181	163	157	157	157	
(YoY, %)	-5.1	-0.3	16.8	7.5	-10.0	-4.0	0.0	0.0	
Meat food service									
Sales	7,927	8,044	5,179	5,177	5,329	5,399	5,610	5,890	2.6
(YoY, %)	4.1	1.5	-35.6	0.0	2.9	1.3	3.9	5.0	
Operating profit	356	319	-331	-270	69	259	269	283	NA
(YoY, %)	-12.5	-10.4	NA	NA	NA	274.1	3.9	5.0	
OPM (%)	4.5	4.0	-6.4	-5.2	1.3	4.8	4.8	4.8	
Number of stores	50	48	41	38	38	39	41	43	
Ave number of stores	52	49	45	40	38	39	40	42	
(YoY, %)	-5.5	-4.9	-9.2	-11.2	-3.8	1.3	3.9	5.0	
Sales/ Ave number of stores	154	164	116	131	140	140	140	140	
(YoY, %)	10.2	6.7	-29.1	12.6	7.0	0.0	0.0	0.0	
Other									
Sales	1,320	1,325	1,383	1,390	1,397	1,404	1,411	1,418	1.2
(YoY, %)	4.0	0.4	4.4	0.5	0.5	0.5	0.5	0.5	
Operating profit	116	-15	-63	-56	-14	0	14	28	NA
(YoY, %)	-1.7	NA	NA	NA	NA	NA	NA	101.0	
OPM (%)	8.8	-1.1	-4.6	-4.0	-1.0	0.0	1.0	2.0	

Source: Company data, Mita Securities

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

BS	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	5y ave growth
Consolidated, JPYm	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	(CAGR, %)
Assets									
Total current assets	99,237	97,228	102,409	110,016	120,273	129,199	138,328	148,453	7.7
Cash and deposits	40,410	30,644	40,284	43,700	49,583	53,489	57,215	62,021	
Accounts receivable	33,157	37,314	32,754	34,427	36,098	38,807	40,923	43,772	
Inventories	22,035	25,716	25,881	26,515	28,489	29,930	32,252	33,803	
Other	3,635	3,554	3,490	5,374	6,104	6,974	7,938	8,857	
Total fixed assets	66,304	73,842	69,984	74,421	77,121	78,321	80,021	81,221	3.0
Tangible assets	44,315	57,030	52,391	55,391	58,391	59,891	61,391	62,891	
Intangible assets	701	726	637	2,030	1,730	1,430	1,130	830	
Investment and other	21,286	16,085	16,955	17,000	17,000	17,000	17,500	17,500	
Total assets	165,542	171,071	172,394	184,437	197,394	207,520	218,349	229,674	5.9
Liabilities									
Total current liabilities	49,298	52,577	48,568	50,000	53,178	55,748	58,525	61,379	4.8
Accounts payable	27,760	28,569	24,032	25,035	26,348	28,048	29,892	31,787	
Short-term debt	12,753	14,226	12,370	12,292	13,492	13,500	13,500	13,500	
Other	8,785	9,782	12,166	12,674	13,339	14,199	15,133	16,092	
Total long-term liabilities	30,214	32,145	29,319	33,550	36,487	36,710	37,000	37,300	4.9
Long-term debt	23,725	27,850	24,602	28,680	31,480	31,500	31,500	31,500	
Other	6,489	4,295	4,717	4,869	5,007	5,210	5,500	5,800	
Total liabilities	79,513	84,722	77,887	83,550	89,666	92,458	95,525	98,680	4.8
Net assets									
Shareholders' equity	79,977	80,062	87,970	93,892	100,288	107,166	114,463	122,162	6.8
Warrants	0	0	0	0	0	0	0	0	
Minorities	6,050	6,286	6,536	6,995	7,440	7,897	8,361	8,833	
Total net assets	86,028	86,348	94,507	100,887	107,728	115,063	122,824	130,995	6.7
Debt									
Debt/EBITDA (x)	2.4	2.8	2.0	2.2	2.3	2.1	2.0	1.9	
D/E (x)	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	
Shareholders' equity ratio (%)	48.3	46.8	51.0	50.9	50.8	51.6	52.4	53.2	

Source: Company data, Mita Securities

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

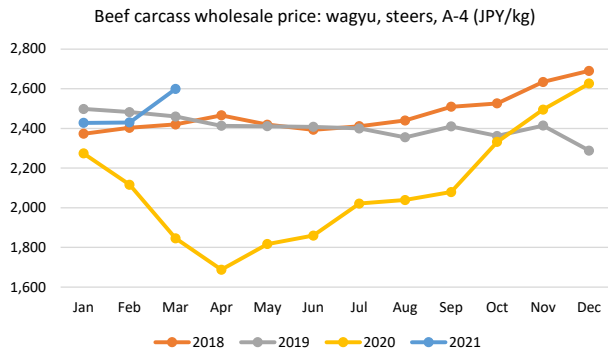
CF	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	5y ave growth
Consolidated, JPYm	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	(CAGR, %)
Cashflow from operations									
Net profit	11,538	5,130	16,507	12,638	12,695	13,744	14,382	15,251	
Depreciation and amortization	7,185	6,511	9,965	8,135	8,862	9,533	10,142	10,797	
Other	3,385	3,743	5,203	5,300	5,500	5,800	5,900	6,000	
Other	968	-5,124	1,339	-796	-1,666	-1,589	-1,660	-1,546	
Cashflow from investing									
Capital expenditure	-14,009	-17,951	677	-10,545	-8,400	-7,200	-7,800	-7,400	
Disposal of fixed assets	-12,494	-16,307	-5,569	-8,000	-8,200	-7,000	-7,100	-7,200	
Other	168	16	6,520	0	0	0	0	0	
Other	-1,683	-1,660	-274	-2,545	-200	-200	-700	-200	
Cashflow from financing									
Debt issuance /repayment	6,651	3,613	-7,326	1,778	1,587	-2,638	-2,855	-3,045	
Share issuance /buyback	8,464	5,616	-5,185	4,000	4,000	28	0	0	
Dividend paid	0	0	0	0	0	0	0	0	
Other	-1,645	-1,833	-1,961	-2,022	-2,213	-2,466	-2,655	-2,845	
Other	-168	-170	-180	-200	-200	-200	-200	-200	
Cash and cash equivalents	39,453	30,189	39,829	43,700	49,583	53,489	57,215	62,021	
Free cashflow	-2,471	-12,821	17,184	2,093	4,295	6,544	6,582	7,851	

Source: Company data, Mita Securities

Reference materials

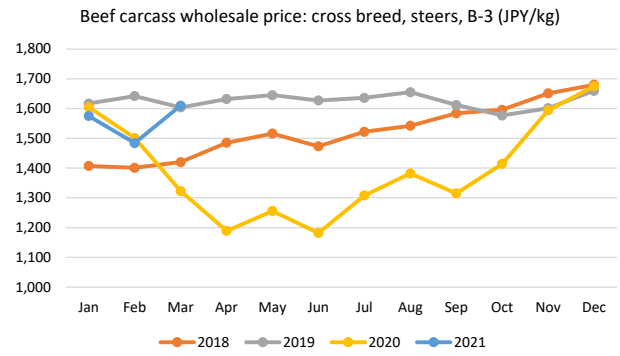
Wholesale price for beef

Figure: Domestic beef carcass, wagyu, steers, A-4



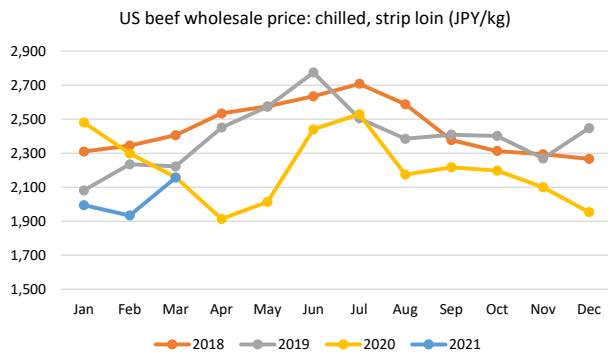
Source: ALIC data, Mita Securities

Figure: Domestic beef carcass, cross breed, steers, B-3



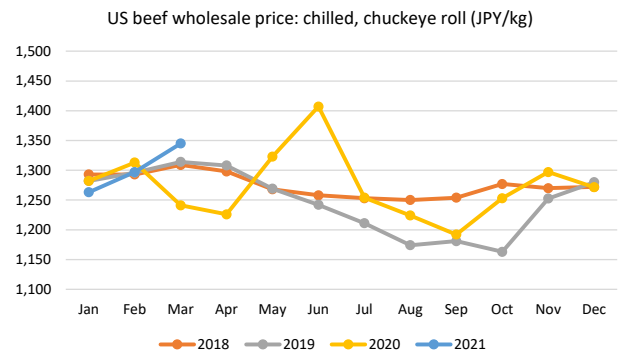
Source: ALIC data, Mita Securities

Figure: US beef, chilled, strip loin



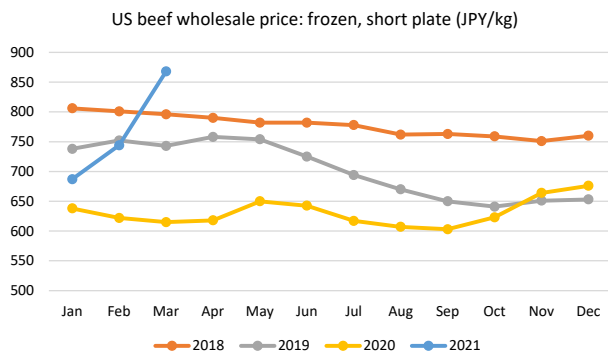
Source: ALIC data, Mita Securities

Figure: US beef, chilled, chuckeye roll



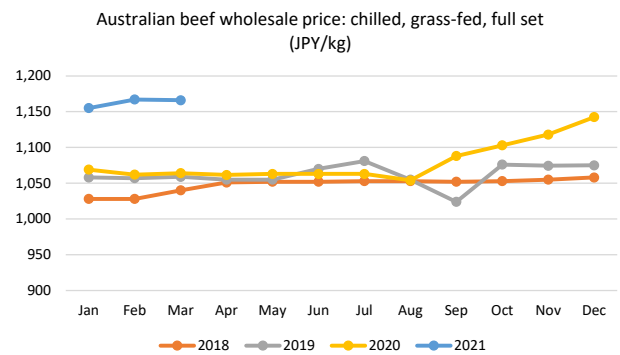
Source: ALIC data, Mita Securities

Figure: US beef, frozen, short plate



Source: ALIC data, Mita Securities

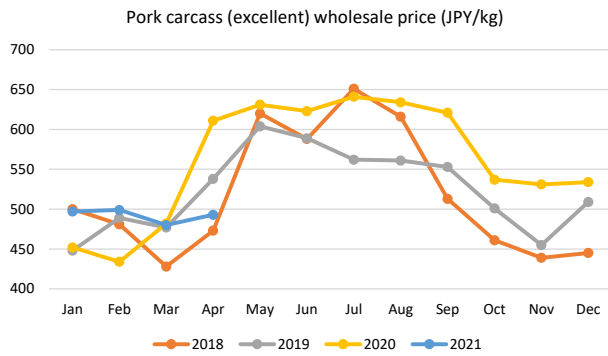
Figure: Australian beef, chilled, grass-fed, full set



Source: ALIC data, Mita Securities

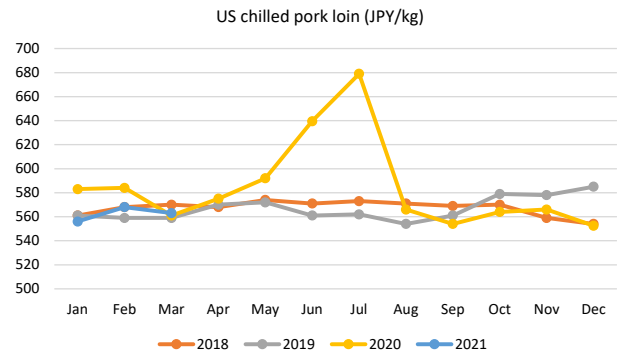
Wholesale price for pork

Figure: Domestic pork carcass, excellent



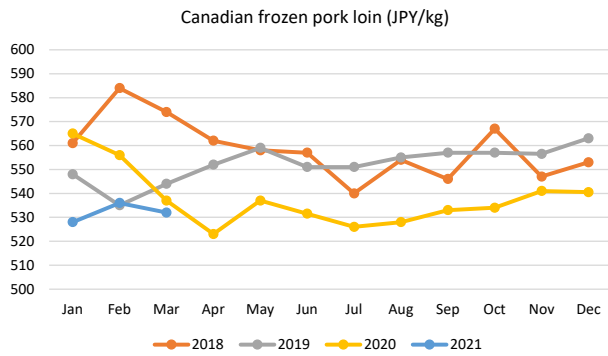
Source: ALIC data, Mita Securities

Figure: US pork, chilled, loin



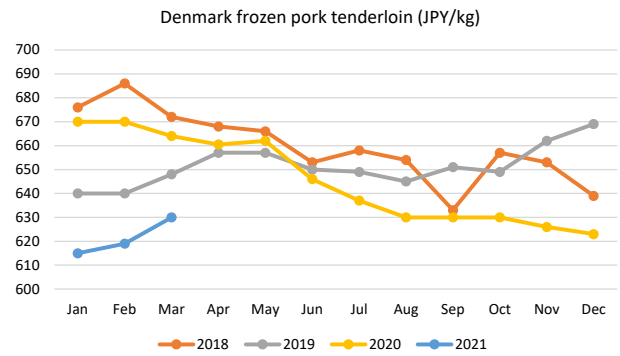
Source: ALIC data, Mita Securities

Figure: Canadian pork, frozen, loin



Source: ALIC data, Mita Securities

Figure: Denmark pork, frozen, tenderloin



Source: ALIC data, Mita Securities

APPENDIX

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

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