



# Monogatari Corporation

TSE 1st Section 3097 Industry: Food service, retail

## King of Japanese BBQ industry; initiating coverage with a Buy rating

### Initiating coverage with a TP of 9,100 yen and a Buy rating

We initiate coverage of the Monogatari Corporation (3097, Monogatari Corporation, the company) with a target price of 9,100 yen and a Buy rating.

The company operates popular restaurants such as “Yakiniku King” and “Marugen Ramen” nationwide, both directly and through franchisees. The company’s earnings have been robust since pre-COVID-19 pandemic, and it has been expanding its store network. As its stores are mainly suburban roadside restaurants for families, the company has not been strongly affected by the COVID-19 pandemic. The company is expected to be profitable in FY6/21, following FY6/20, which sets it apart from restaurant operators in general. We believe that the company can make further progress in the post-COVID-19 period as 1) the brand recognition of “Yakiniku King” has been increasing, and 2) the company has already secured sufficient funds for growth.

The catalysts we envision for an upturn in the stock price include strong monthly same-store sales, a recovery in quarterly profits, easing of requests by local governments to shorten business hours, progress in vaccination against the COVID-19, and M&A.

### Mita Securities’ earnings forecast

We forecast OP of 3.4bn yen (+11.0% YoY) in FY6/21, 5.0bn yen (+48.8% YoY) in FY6/22, and 6.2bn yen (+24.0% YoY) in FY6/23. Going forward, we can expect 1) easing of requests by local governments to shorten business hours, 2) recovery in demand for eating out due to the progress of vaccination, and 3) more room to open new stores due to the withdrawal of underperforming restaurants. We assume that the number of directly-owned stores in Japan will increase significantly from 308 at the end of FY6/20 to 397 at the end of FY6/23. Although we have not factored in the possibility of domestic and overseas M&As in our forecasts, we believe that they can be expected as additional growth drivers.

### Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 5.0% and a terminal growth rate of 1.2%, based on our earnings forecasts for FY6/21-FY6/26. Our target price is equivalent to 27.3x our FY6/23 EPS forecast of 333.43 yen.

Risk factors to our view include prolonged requests for shorter business hours due to a rapid increase in COVID-19 cases, unexpected deterioration in same-store sales, and customer defection due to food poisoning.

### Special topics: Restaurant industry status

At the end of this report, we have included recent examples of recapitalization of food service companies, monthly same-store sales data, etc. (pages 23-29)

MITA SECURITIES Co., Ltd.

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## Initiation of coverage

Rating

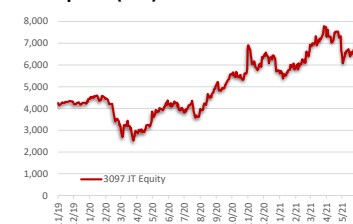
Buy

Target price (JPY)	9,100
Stock price (JPY) (Jun 21)	7,390
Market cap (JPYbn)	89.2

### Key changes

Rating	New
Target price	New
Earnings forecast	New

### Stock price (JPY)



Source: Bloomberg Finance LP

### Earnings

		6/19	6/20	6/21E	6/22E	6/23E
Sales	JPYbn	58.9	58.0	65.0	74.9	83.8
OP	JPYbn	3.9	3.0	3.4	5.0	6.2
RP	JPYbn	4.7	3.0	4.9	6.0	6.2
NP	JPYbn	2.9	0.5	3.0	3.8	4.0
EPS	JPY	244.1	37.9	246.4	319.0	333.4
BPS	JPY	1,461	1,444	1,641	1,900	2,154
DPS	JPY	45.0	47.5	60.0	80.0	90.0
PER	x	17.6	110.7	30.0	23.2	22.2
PBR	x	2.9	2.9	4.5	3.9	3.4
Div. yield	%	1.0	1.1	0.8	1.1	1.2
ROA	%	9.4	1.3	7.0	7.9	7.5
ROE	%	17.9	2.6	16.0	18.0	16.4

Source: Company data, Mita Securities

### Company profile

Monogatari Corporation is a restaurant company based in Aichi Prefecture that operates “Yakiniku King” nationwide. As of March 31, 2021, the company had 559 stores in Japan (333 directly-owned stores and 226 FC stores) and 13 overseas stores (directly-owned). Sales in FY6/20 were 58.0bn yen.

# Investment Thesis

## Outlook

### Recovery of eating out demand due to vaccination, more room to open new stores

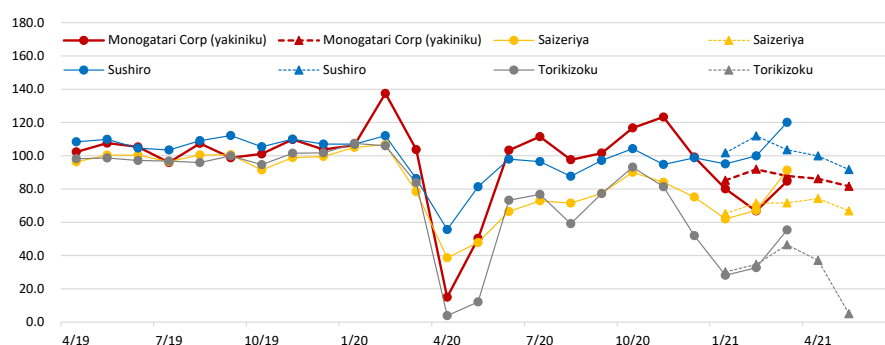
We initiate coverage of the Monogatari Corporation (3097, Monogatari Corporation, the company) with a target price of 9,100 yen and a Buy rating.

The company operates popular restaurants such as “Yakiniku King” and “Marugen Ramen” both directly and through franchisees. These formats have been performing well since prior to the COVID-19 pandemic, and the company has been expanding its store network. In addition, the company’s focus on suburban roadside family-oriented restaurants has prevented it from being severely affected by COVID-19. The company’s same-store sales were one of the strongest for a restaurant company. While most of the other strong performers have captured take-out demand, the company’s main restaurants are centered on in-store dining. The company appears to be successfully capturing the limited in-store dining opportunities available to consumers. We believe that the company can make further progress in the post-COVID-19 period, as its brand recognition has been enhanced by the increasing number of stores and successful marketing efforts, and the company has already secured sufficient funds for growth.

*Initiating coverage with a TP of 9,100 yen and a Buy rating*

*Expecting breakthrough in the post-COVID-19 period*

Figure: Monthly same-store sales



Source: Companies data, Mita Securities

Note: Same month last year or year before last =100. Solid line vs last year, dotted line vs year before last

We forecast consolidated sales of 65.0bn yen (+12.1% YoY), OP of 3.4bn yen (+11.0% YoY, OPM 5.2%), and RP of 4.9bn yen (+62.6% YoY) for FY6/21. We expect sales and OP to be lower and RP to be higher than the company’s guidance (sales 67.8bn yen, OP 4.0bn yen, and RP 4.5bn yen). We expect 4Q (Apr-Jun) OP to be slightly in the red at -0.1bn yen due to the prolonged emergency declaration and measures to prevent the spread of the disease, and expect full-year OP to be below the company’s guidance. On the other hand, we expect RP to exceed the company’s guidance due to the effect of local government subsidies. We believe that the company will be able to achieve an OPM of over 5% for two consecutive fiscal years, FY6/20 and FY6/21, which were affected by the COVID-19 pandemic. We note that an OPM of 5% is a typical level for a restaurant operator in a normal business environment.

For FY6/22, we expect recovery to progress with sales of 74.9bn yen (+15.2% YoY), OP 5.0bn yen (+48.8% YoY), and RP 6.0bn yen (+21.1% YoY). For 6/23, we forecast OP of 6.2bn yen (+24.0% YoY). Going forward, we expect local governments to further ease requests for restaurants to close or

*We expect FY6/21 RP to rise 63% to 4.9bn yen, exceeding the company’s guidance*

*Closure of underperforming restaurants opens up room for new openings*

shorten hours, demand for eating out to recover due to ongoing vaccinations, and the withdrawal of underperforming restaurants to increase the number of available locations. The company has a number of popular restaurants, such as “Yakiniku King” and “Marugen Ramen,” and is in a position to benefit from the expansion of available locations. We expect the number of directly-owned stores in Japan to increase significantly from 308 at the end of FY6/20 to 397 at the end of FY6/23.

Although we have not factored in the possibility of domestic and overseas M&As in our forecasts, we believe that they can be expected as an additional growth driver. The progress of the business alliance with Advantage Advisors should be closely watched.

*Growing expectations for growth through M&A*

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

JPYm	6/18	6/19	6/20	6/21	6/22	6/23	6/24	6/25	6/26	6/21	6/21	6/22	6/23
	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	Mita E	CoE	Consensus	Consensus	Consensus
<b>Earnings</b>													
Sales	52,124	58,924	57,961	65,003	74,867	83,789	92,467	101,374	110,321	67,822	66,362	75,004	84,890
(YoY, %)	16.9	13.0	-1.6	12.1	15.2	11.9	10.4	9.6	8.8				
Operating profit	3,356	3,933	3,034	3,368	5,012	6,217	7,117	7,916	8,683	4,021	3,968	5,350	5,920
(YoY, %)	30.1	17.2	-22.9	11.0	48.8	24.0	14.5	11.2	9.7				
OPM (%)	6.4	6.7	5.2	5.2	6.7	7.4	7.7	7.8	7.9				
Recurring profit	3,866	4,687	3,029	4,923	5,962	6,218	7,118	7,918	8,685	4,460	4,794	5,630	6,303
(YoY, %)	26.5	21.2	-35.4	62.6	21.1	4.3	14.5	11.2	9.7				
Net profit	2,386	2,938	457	2,974	3,850	4,024	4,636	5,180	5,702	2,860	2,992	3,602	4,009
(YoY, %)	15.1	23.1	-84.5	551.0	29.5	4.5	15.2	11.7	10.1				
Depreciation	2,189	2,464	2,426	2,715	3,068	3,406	3,729	4,065	4,390				
Capital expenditure	4,408	4,525	4,511	6,200	6,800	6,800	6,800	6,800	6,800				
Free CF	854	1,050	-2,044	-1,638	1,444	690	1,701	2,487	3,404				
<b>KPI</b>													
Number of directly-owned stores	267	294	319	350	384	418	452	486	520				
(YoY, %)	15.1	10.1	8.5	9.7	8.9	8.1	7.5	7.0					
Sales per store (directly-owned)	204	207	184	188	199	206	211	216	221				
(YoY, %)	2.0	1.6	-11.4	2.3	5.9	3.4	2.5	2.4	2.0				
Number of FC stores	203	221	221	229	241	253	265	277	289				
(YoY, %)	5.7	8.9	0.0	3.6	5.2	5.0	4.7	4.5	4.3				
<b>Per share indicators (adjusted for stock split)</b>													
EPS (JPY)	198.44	244.08	37.90	246.41	319.01	333.43	384.15	429.25	472.45	237.22	247.89	298.43	332.22
EPS (diluted, JPY)	198.44	244.08	37.90	228.59	295.94	309.31	356.37	398.21	438.29				
BPS (JPY)	1,263.35	1,461.39	1,444.13	1,641.34	1,900.35	2,153.78	2,447.93	2,767.18	3,109.64				
BPS (diluted, JPY)	1,263.35	1,461.39	1,444.13	1,522.64	1,762.92	1,998.02	2,270.90	2,567.06	2,884.75				
DPS (JPY)	80.00	90.00	95.00	60.00	80.00	90.00	110.00	130.00	160.00	60.00			
<b>Valuation, profitability, etc.</b>													
PER (x)	28.4	17.6	110.7	30.0	23.2	22.2	19.2	17.2	15.6				
PER (diluted, x)	28.4	17.6	110.7	32.3	25.0	23.9	20.7	18.6	16.9				
PBR (x)	4.5	2.9	2.9	4.5	3.9	3.4	3.0	2.7	2.4				
PBR (diluted, x)	4.5	2.9	2.9	4.9	4.2	3.7	3.3	2.9	2.6				
Dividend payout ratio (%)	20.1	18.4	125.2	24.3	25.1	27.0	28.6	30.3	33.9				
Dividend yield (%)	1.4	2.1	2.3	0.8	1.1	1.2	1.5	1.8	2.2				
ROA (%)	8.7	9.4	1.3	7.0	7.9	7.5	8.0	8.2	8.4				
ROE (%)	16.8	17.9	2.6	16.0	18.0	16.4	16.7	16.5	16.1				
<b>Financial soundness indicators</b>													
Capital ratio (%)	51.1	53.7	45.3	42.3	44.7	46.8	49.0	51.0	52.9				
Debt/Equity (x)	0.4	0.4	0.7	0.9	0.8	0.7	0.6	0.5	0.5				

Source: Company data, QUICK, Mita Securities

Note: Consensus forecasts are by QUICK consensus

## Catalysts

The catalysts we envision for an upturn in the stock price include strong monthly same-store sales, a recovery in quarterly profits, easing of requests by local governments to shorten business hours, progress in vaccination against the COVID-19, and M&A.

## Valuations

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

In calculating our target price of 9,100 yen, we used a residual income model (RIM) with a cost of equity of 5.0% and a terminal growth rate of 1.2%, based on our earnings forecasts for FY6/21-FY6/26. Our target price is equivalent to 27.3x our FY6/23 EPS forecast of 333.43 yen.

*TP of 9,100 yen based on RIM*

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE
JPYbn	6/21	6/22	6/23	6/24	6/25	6/26	6/27
Shareholders' equity (EOP)	19.8	22.9	26.0	29.5	33.4	37.5	
Net profit		3.8	4.0	4.6	5.2	5.7	
Cost of equity		1.0	1.1	1.3	1.5	1.7	
Residual income		2.9	2.9	3.3	3.7	4.0	
PV of residual income		2.7	2.6	2.9	3.0	3.2	
PV of terminal value							84.1
Beta	0.90						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	5.00						
Terminal growth rate (%)	1.20						
Total equity value							118.4
Number of shares O/S (fully-diluted, m)							13.009
Target share price							9,100

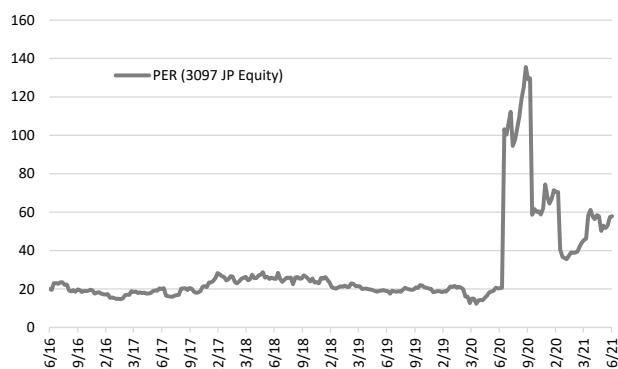
Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate	0.20	0.40	0.60	0.80	1.00	1.20	1.40	1.60	1.80	2.00
Target price	7,700	7,950	8,200	8,450	8,750	9,100	9,450	9,900	10,350	10,900

Source: Mita Securities

Figure: Monogatari Corporation's PER (reference)



Source: Bloomberg Finance LP data, Mita Securities

## Comparison of valuations with food service companies (reference)

Most of the food service companies' stock prices are still below the pre-COVID-19 levels, and very few have outperformed the TOPIX since the end of 2019, with Monogatari Corporation being one of the notable stocks. Nevertheless, the company's P/E ratios (based on Bloomberg consensus forecasts) are below the average and median for food service companies, and we believe the company is undervalued.

Figure: Comparison of valuations for food service companies

Company name	Ticker	PX 6/21	Mkt cap JPYbn	Net D/E Last	Sales YoY LTM	EBITDA Mgn LTM	ROE LTM	ROE Cur E	ROE Nxt E	PER LTM	PER Cur E	PER Nxt E	PBR Last	EV/EBITDA Cur E	EV/Sales Cur E	Div yield Cur E	1M Chg	3M Chg	1YR Chg
KURA SUSHI INC	2695	4,190	173.5	-0.1	7.4	4.6	3.1	8.3	12.3	121.4	43.4	27.1	3.7	14.6	1.1	0.6	6.5	12.2	60.8
MCDONALD'S HOLDINGS CO JAPAN	2702	4,940	656.8	-0.2	2.4	14.8	12.7	11.4	10.9	30.9	30.8	28.9	3.7	13.2	2.0	0.8	-1.0	-3.7	-19.5
OOTOYA HOLDINGS CO LTD	2705	2,760	20.0	0.2	-34.3	-24.0	-203.9	NA	NA	NA	NA	NA	14.2	NA	NA	NA	3.1	-8.0	13.3
FUJIO FOOD GROUP INC	2752	1,295	57.7	3.6	-33.9	-12.3	-81.6	11.5	NA	NA	124.5	34.1	16.1	NA	2.2	0.0	-5.6	-7.0	-19.1
AMIYAKI TEI CO LTD	2753	2,942	20.1	-0.2	-30.6	-9.8	-7.0	3.5	NA	NA	28.8	28.8	1.0	NA	0.4	0.0	3.0	-8.2	-7.9
HIRAMATSU INC	2764	226	11.0	4.1	-36.6	-32.0	-79.3	NA	NA	NA	NA	NA	3.1	NA	NA	NA	36.1	33.7	18.3
PEPPER FOOD SERVICE CO LTD	3053	484	18.9	2.4	NA	NA	NA	NA	NA	NA	NA	NA	32.0	NA	NA	NA	36.7	45.8	-30.2
ARCLAND SERVICE HOLDINGS CO	3085	2,216	73.3	-0.6	18.8	12.9	14.5	13.8	12.7	23.2	22.2	21.5	3.2	10.5	1.4	1.1	0.0	-0.9	10.4
CHOSHIMARU CO LTD	3075	1,147	16.7	NA	-15.9	1.2	-0.5	NA	NA	NA	NA	NA	2.3	NA	NA	NA	5.8	-5.1	2.7
DOUTOR NICHIREI HOLDINGS CO	3087	1,728	78.8	-0.3	-26.7	-4.8	-11.0	4.9	2.9	NA	16.3	27.3	0.8	7.3	0.4	1.4	3.8	-6.1	0.6
BRONCO BILLY CO LTD	3091	2,453	37.0	-0.3	-27.8	0.2	-3.5	NA	NA	NA	NA	NA	2.1	NA	NA	0.7	6.1	-3.0	-5.4
MONOGATARI CORP	3097	7,390	89.2	0.2	-8.4	8.5	7.8	15.4	NA	58.5	29.8	24.7	4.4	14.3	1.4	0.9	10.5	1.0	75.5
CHIMNEY CO LTD	3178	1,354	26.2	0.8	-67.8	-38.2	-94.9	NA	NA	NA	NA	NA	5.3	NA	NA	NA	1.0	-4.7	-15.3
TORIKIZOKU HOLDINGS CO LTD	3193	1,857	21.6	0.0	-40.8	-9.9	-39.3	NA	NA	NA	NA	29.9	4.4	NA	1.0	0.0	5.5	-0.5	13.9
HOTLAND CO LTD	3196	1,391	30.0	0.6	-12.3	2.8	-8.1	15.3	NA	NA	27.2	26.8	4.1	NA	1.1	0.4	1.4	6.2	10.9
SKYLARK HOLDINGS CO LTD	3197	1,544	346.7	2.1	-27.6	6.9	-15.9	1.0	4.4	NA	180.0	51.0	2.7	8.7	1.6	0.2	-3.6	-11.3	-14.6
SFP HOLDINGS CO LTD	3198	1,431	36.9	-0.1	-56.7	-17.8	-41.7	NA	NA	NA	NA	22.4	3.4	NA	1.5	0.0	8.7	-5.5	-11.6
CREATE RESTAURANTS HOLDINGS	3387	867	164.2	3.5	-46.6	-0.8	-82.7	12.6	NA	NA	64.7	64.7	9.5	NA	2.2	0.0	6.6	-6.6	14.7
SAINT MARC HOLDINGS CO LTD	3395	1,580	36.0	-0.2	-36.2	-9.7	-19.1	3.7	2.6	NA	24.0	36.6	0.9	6.3	0.5	2.8	2.4	-15.7	-8.8
TORIDOLL HOLDINGS CORP	3397	1,865	162.7	3.0	-13.9	5.4	-18.5	4.0	7.9	NA	106.8	36.2	5.6	12.0	1.9	0.3	5.8	5.0	43.2
KOMEDA HOLDINGS CO LTD	3543	2,035	93.9	1.5	-7.6	20.9	10.6	13.9	14.1	26.1	18.7	17.1	2.7	16.6	4.4	2.6	-0.6	-4.9	9.6
KUSHIKATSU TANAKA HOLDINGS C	3547	1,867	17.4	0.3	-35.8	-11.2	-38.4	6.5	30.6	NA	691.5	26.7	12.5	62.9	1.9	0.3	9.1	-6.1	9.4
CHIKARANOMOTO HOLDINGS CO LT	3561	626	16.9	3.7	-43.2	-13.9	-93.5	NA	NA	NA	NA	NA	11.4	NA	NA	NA	1.8	-7.9	-13.3
FOOD & LIFE COMPANIES LTD	3563	4,720	547.8	2.4	2.4	14.6	17.1	22.6	23.7	59.7	42.9	37.4	9.5	17.6	2.7	0.5	2.8	-2.4	90.5
ATOM CORP	7412	765	148.1	0.2	-35.2	-4.1	-21.6	NA	NA	NA	NA	NA	17.8	NA	NA	NA	-0.3	-2.3	-10.2
KAPPA CREATE CO LTD	7421	1,463	72.3	0.1	-13.3	-0.5	-10.0	NA	NA	NA	NA	NA	6.6	NA	NA	NA	-0.3	-12.1	-2.2
WATAMI CO LTD	7522	978	41.7	3.5	-33.1	-17.1	-132.0	NA	NA	NA	NA	NA	12.3	NA	NA	NA	7.8	-9.7	-2.6
ZENSHO HOLDINGS CO LTD	7550	2,727	422.3	2.2	-5.6	5.4	2.6	12.6	13.2	182.0	35.9	34.1	4.9	13.0	0.9	0.7	-1.7	-10.6	21.7
KOURAKUEN HOLDINGS CORP	7554	1,523	25.5	1.1	-30.5	-3.3	-23.7	NA	NA	NA	89.6	NA	7.2	NA	1.0	0.0	-3.3	-18.9	-6.7
ANRAKUTEI CO LTD	7562	5,380	11.5	1.3	73.0	-2.1	-22.3	NA	NA	NA	NA	NA	2.6	NA	NA	NA	2.7	-0.4	11.0
SAIZERIYA CO LTD	7581	2,631	137.5	-0.3	-28.6	0.1	-7.5	0.6	5.1	NA	149.5	29.6	1.6	14.0	0.9	0.7	9.0	7.0	24.9
HIDAY HIDAKA CORP	7611	1,778	67.8	-0.3	-30.0	-7.9	-12.2	NA	NA	NA	NA	NA	3.1	NA	NA	0.0	2.8	-6.4	-2.4
COLOWIDE CO LTD	7616	1,954	147.1	3.6	-28.5	3.0	-56.1	NA	NA	NA	NA	NA	8.9	NA	NA	NA	1.4	-9.7	22.5
UKAI CO LTD	7621	3,090	16.2	1.5	-35.5	-14.5	-45.4	NA	NA	NA	NA	NA	5.7	NA	NA	NA	2.8	-0.2	-3.3
GLOBAL-DINING INC	7625	494	5.1	0.9	-33.5	-15.3	-34.0	NA	NA	NA	NA	NA	2.3	NA	NA	NA	33.9	99.2	169.9
ICHIBANYA CO LTD	7630	4,790	152.9	-0.5	-14.1	7.7	5.7	11.4	NA	88.1	42.7	48.5	5.1	NA	2.8	1.7	-0.4	-7.4	-5.7
ASAKUMA CO LTD	7678	1,562	8.4	-0.4	-27.9	-23.0	-51.6	NA	NA	NA	NA	NA	3.7	NA	NA	NA	2.6	-6.8	3.4
MOS FOOD SERVICES INC	8153	3,030	97.0	-0.2	4.3	7.4	2.2	3.7	NA	93.7	55.0	46.7	2.1	NA	1.2	0.8	-4.1	-12.4	2.6
KISOJI CO LTD	8160	2,330	60.4	0.0	-29.3	-7.0	-18.3	NA	NA	NA	NA	NA	2.5	NA	NA	NA	1.4	-10.8	-7.9
SRS HOLDINGS CO LTD	8163	813	29.8	0.5	-2.1	-5.4	-36.3	NA	NA	NA	NA	NA	3.0	NA	NA	NA	0.7	-10.8	-11.5
ROYAL HOLDINGS CO LTD	8179	2,215	100.5	2.3	-45.2	-26.7	-71.9	-15.8	-0.1	NA	NA	69.8	3.4	28.0	1.3	0.2	10.1	3.7	12.6
RINGER HUT CO LTD	8200	2,328	60.7	1.0	-28.1	-14.9	-62.4	NA	NA	NA	NA	NA	6.1	NA	NA	NA	3.8	-2.4	-3.2
GIFT INC	9279	2,676	26.6	0.2	19.6	6.0	9.1	23.0	NA	89.6	31.6	23.3	7.9	NA	1.9	0.6	12.6	23.5	89.8
GENKI SUSHI CO LTD	9828	2,620	23.3	0.6	-11.9	3.7	-5.3	NA	NA	NA	NA	NA	2.9	NA	NA	NA	-1.9	-7.7	8.4
GINZA RENAISSANCE CO LTD	9853	822	5.1	0.1	-48.1	-52.4	-53.3	NA	NA	NA	NA	NA	1.6	NA	NA	NA	0.6	-5.9	-6.1
GOURMET KINEYA CO LTD	9850	953	21.5	1.5	-43.1	-15.2	-46.7	NA	NA	NA	NA	NA	2.6	NA	NA	NA	-0.7	-6.2	-7.5
YOSHINOYA HOLDINGS CO LTD	9861	2,052	133.6	0.8	-21.2	0.5	-17.2	6.3	3.2	NA	64.9	62.3	3.4	15.5	1.0	0.3	0.4	-8.9	-13.1
KFC HOLDINGS JAPAN LTD	9873	2,756	61.8	-0.8	12.6	8.6	12.3	NA	NA	22.0	22.2	22.7	2.6	NA	0.5	1.8	-1.9	-11.9	-2.6
MATSUYA FOODS HOLDINGS CO LTD	9887	3,480	66.3	0.3	-11.4	-0.2	-5.7	NA	NA	NA	27.7	17.6	1.7	NA	0.7	0.7	-0.9	-4.7	-6.8
SAGAMI HOLDINGS CORP	9900	1,021	29.2	-0.2	-23.0	-9.2	-20.7	NA	NA	NA	NA	NA	2.5	NA	NA	NA	-0.1	-16.3	-20.5
OHSHO FOOD SERVICE CORP	9936	5,610	130.6	-0.2	-5.8	10.3	8.3	210.0	NA	24.6	19.9	18.7	2.0	NA	1.3	1.8	-0.4	-5.6	-8.5
JOYFULL CO LTD	9942	783	25.0	37.9	-33.1	-11.1	-110.8	NA	NA	NA	NA	NA	8.9	NA	NA	NA	10.4	11.4	-9.3
DAISYO CORP	9979	1,049	22.2	0.3	-40.1	-12.5	-57.6	NA	NA	NA	NA	NA	1.8	NA	NA	NA	4.8	0.8	-22.3
Average				1.6	-21.5	-5.4	-31.8	17.4	10.3	68.3	79.6	33.9	5.6	17.0	1.5	0.7	4.5	-0.9	8.4
Median				0.3	-28.0	-3.7	-18.8	11.4	9.4	59.1	35.9	28.9	3.4	14.0	1.3	0.6	2.6	-5.6	-2.6

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus. Shading indicates stocks covered by Mita Securities

Figure: Comparison of valuations for food service companies (Japanese BBQ, steak, shabu-shabu)

Company name	Ticker	PX 6/21	Mkt cap JPYbn	Net D/E Last	Sales YoY LTM	EBITDA Mgn LTM	ROE LTM	ROE Cur E	ROE Nxt E	PER LTM	PER Cur E	PER Nxt E	PBR Last	EV/EBITDA Cur E	EV/Sales Cur E	Div yield Cur E	1M Chg	3M Chg	1YR Chg
AMIYAKI TEI CO LTD	2753	2,942	20.1	-0.2	-30.6	-9.8	-7.0	3.5	NA	NA	28.8	28.8	1.0	NA	0.4	0.0	3.0	-8.2	-7.9
PEPPER FOOD SERVICE CO LTD	3053	484	18.9	2.4	NA	NA	NA	NA	NA	NA	NA	NA	32.0	NA	NA	NA	36.7	45.8	-30.2
BRONCO BILLY CO LTD	3091	2,453	37.0	-0.3	-27.8	0.2	-3.5	NA	NA	NA	NA	NA	2.1	NA	NA	0.7	6.1	-3.0	-5.4
MONOGATARI CORP	3097	7,390	89.2	0.2	-8.4	8.5	7.8	15.4	NA	58.5	29.8	24.7	4.4	14.3	1.4	0.9	10.5	1.0	75.5
ATOM CORP	7412	765	148.1	0.2	-35.2	-4.1	-21.6	NA	NA	NA	NA	NA	17.8	NA	NA	NA	-0.3	-2.3	-10.2
ANRAKUTEI CO LTD	7562	5,380	11.5	1.3	73.0	-2.1	-22.3	NA	NA	NA	NA	NA	2.6	NA	NA	NA	2.7	-0.4	11.0
ASAKUMA CO LTD	7678	1,562	8.4	-0.4	-27.9	-23.0	-51.6	NA	NA	NA	NA	NA	3.7	NA	NA	NA	2.6	-6.8	3.4
KISOJI CO LTD	8160	2,330	60.4	0.0	-29.3	-7.0	-18.3	NA	NA	NA	NA	NA	2.5	NA	NA	NA	1.4	-10.8	-7.9

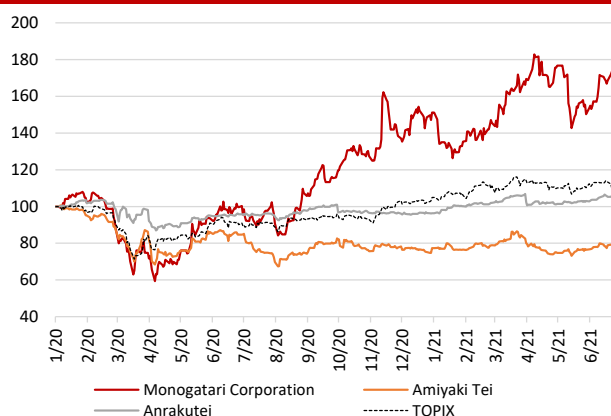
Source: Bloomberg Finance LP data, Mita Securities

Note 1: Forecasts are based on Bloomberg consensus. Shading indicates stocks covered by Mita Securities

Note 2: Pepper Food Service (3053) has changed the disclosure of its financial results to a non-consolidated basis since 3Q FY12/20 (previously it was on a consolidated basis), hence the YoY figures are "NA."

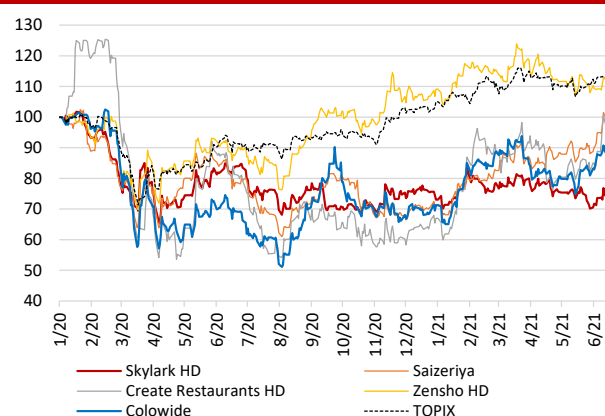
Anrakutei (7562) posted an increase in sales due to the consolidation of ARCMEAL from FY3/21, but same-store sales declined by 20%.

Figure: Stock price trends (Japanese BBQ)



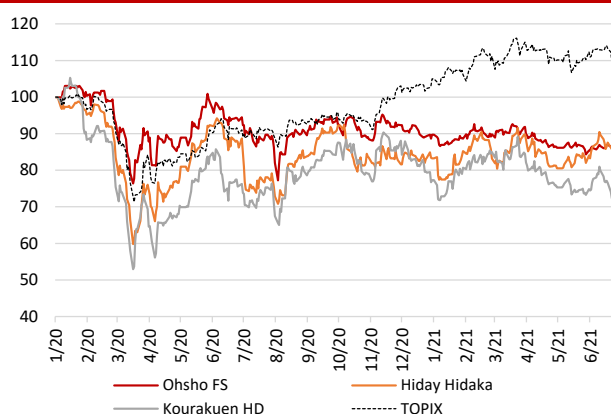
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Figure: Stock price trends (family restaurants, general type)



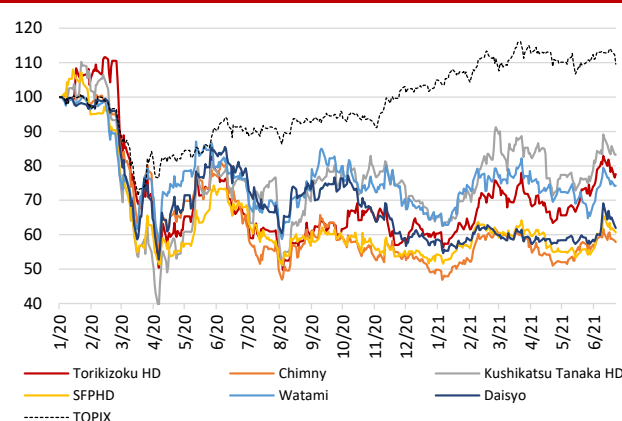
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Figure: Stock price trends (Chinese restaurants)



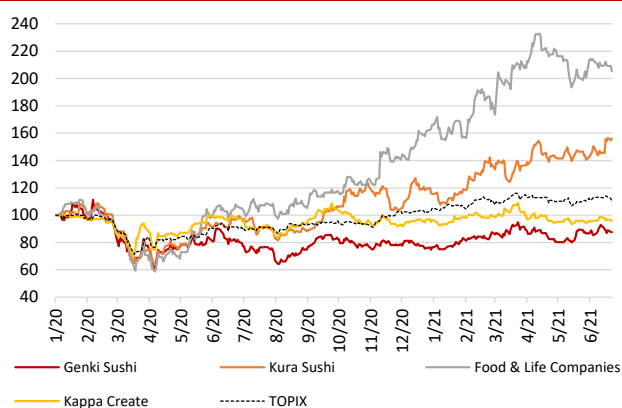
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Figure: Stock price trends (Japanese style pubs)



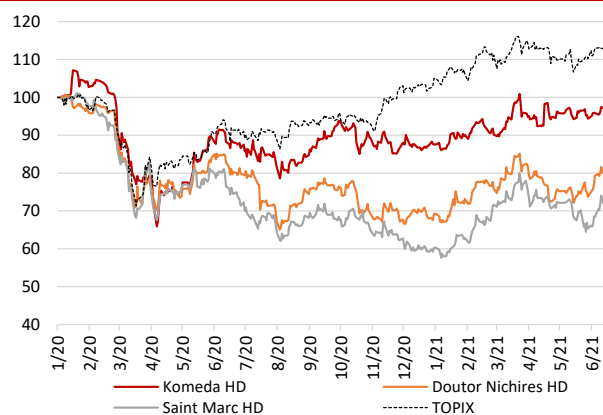
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Figure: Stock price trends (sushi restaurants)



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

Figure: Stock price trends (coffee shops)



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

## Risk factors

Risk factors to our view include prolonged requests for shorter business hours due to a rapid increase in COVID-19 cases, unexpected deterioration in same-store sales, and customer defection due to food poisoning.

# Company overview

## Company overview

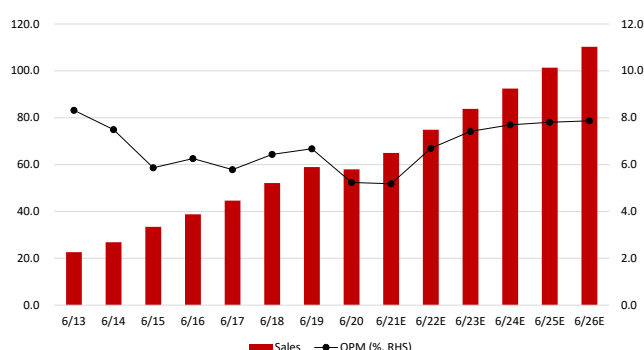
### Overview of Monogatari Corporation

Monogatari Corporation is a restaurant operator based in Toyohashi City, Aichi Prefecture. The company operates self-developed restaurant formats such as “Yakiniku King,” “Marugen Ramen,” “Okonomiyaki Honpo,” and “Yuzuan” under both direct management and franchise. As of the end of 3Q FY6/21 (March 31, 2021), the company had 559 stores in Japan (333 directly-owned and 226 FC) and 13 overseas stores (directly-owned). The yakiniku (Japanese BBQ) division, centered on “Yakiniku King,” accounts for 263 stores (160 directly-owned and 103 FC), or about half of the total. “Yakiniku King” is competing with “Gyu-Kaku” (operated by REINS International, a subsidiary of Colowide) for the top position in the yakiniku restaurant market.

Consolidated sales in FY6/20 were 58.0bn yen (-1.6% YoY), OP 3.0bn yen (-22.9% YoY), and OPM 5.2%. The five-year average sales growth rate (CAGR) through FY6/20 was 11.6%, and the five-year average OPM was 6.1%. Prior to the COVID-19 pandemic, the five-year average sales growth rate (CAGR) through FY6/19 was 17.0%, a very high level for a restaurant operator based on organic growth. The growth has been driven by the new openings of “Yakiniku King,” “Marugen Ramen,” and “Yuzuan.”

*Operates “Yakiniku King,” one of the largest yakiniku chains in Japan. Expanding store network on the back of strong earnings*

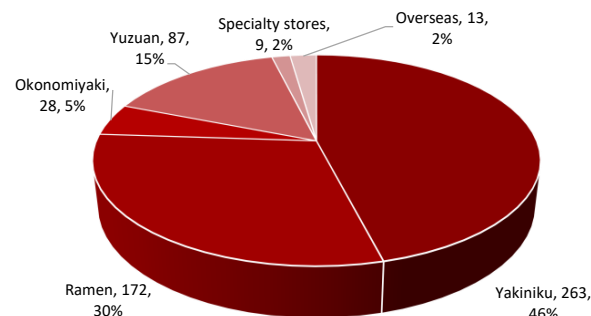
Figure: Sales and OPM (consolidated, JPYbn)



Source: Company data, Mita Securities

Note: Forecasts are by Mita Securities

Figure: Store count (directly-owned + FC, end-Mar 21)



Source: Company data, Mita Securities

### Management philosophy

The company’s management philosophy, “Smile & Sexy,” strongly reflects the aesthetics of the company’s effective founder, Yoshio Kobayashi (Director and Special Advisor). The company clearly states that it places the dignity of the individual above the dignity of the organization, and encourages its employees to express and develop themselves in order to create a happy and prosperous “self story.” The company explains that “sexy” means being able to express oneself, and that in order to be “sexy,” one must polish one’s “smile.” This idea is also reflected in the company name, “Monogatari (“Story”) Corporation.” The company’s employees must be “Smile & Sexy” to be able to provide customers with the company’s brand value of “smiles and energy no matter what time or which store you go to.”

*Management philosophy: “Smile & Sexy”*



### Operations overview

“Yakiniku King” offers all-you-can-eat yakiniku (Japanese BBQ), “Yuzuan” offers all-you-can-eat sushi and shabu-shabu, and “Marugen Ramen” mainly offers ramen, dumplings, and fried chicken. The menu mix of these restaurants places a small operational burden on the kitchen, making it easy for the company to expand its network of stores, whether directly owned or franchised.

Meanwhile, the company focuses on providing “nosy” service to customers. For example, “Yakiniku King” has “Yakiniku Police” who provide customers with instructions on how to cook their meat. The recent introduction of serving robots was also based on the idea of enhancing “nosy” human services by reducing the burden of serving food.

*Serving customers in a “nosy” manner. A menu mix that reduces the load on the kitchen*

Figure: Yakiniku Police



Source: Company data

Figure: Serving robot



Source: Company data

The company has two central kitchens in Aichi Prefecture. Monogatari Food Factory manufactures noodles for ramen and fried noodles, and Monogatari Food Labo manufactures liquid seasonings such as yakiniku sauce. Delivery to stores is outsourced to external companies.

Figure: Central kitchens

Factory name	Location	Overview
Monogatari Food Factory	Aichi	Noodle production factory
Monogatari Food Labo	Aichi	Liquid seasoning production factory

Source: Company data, Mita Securities

### Group companies

The company operates restaurant businesses in China through its subsidiary. Currently, the company runs “Hokkaido Crab Okadaya So-honten,” “Wood-Fired Yakiniku Gen-no-Ya So-honten,” and “Yakiniku Specialty Restaurant Nikugen Yakiniku-Oh.”

*Expanding into Chinese market*

Figure: Subsidiaries

Subsidiary name	Voting rights (%)	Location	Overview
Monogatari (Shanghai) Enterprises Management Co., Ltd.	100.0	Shanghai, China	Restaurant management
Sttoryteller, Inc.	100.0	Toyohashi City, Aichi Prefecture	Supervision of group companies in overseas business

Source: Company data, Mita Securities

## Company history

The predecessor of Monogatari Corporation was an oden shop run by Kimie Kobayashi (Yoshio Kobayashi's mother) in Toyohashi City, Aichi Prefecture. The company was incorporated as KK Genji in 1969, and Yoshio Kobayashi became the President and Representative Director in 1980. The company changed its name to Monogatari Corporation in 1997, and was listed on the JASDAQ Securities Exchange in 2008, the Second Section of the Tokyo Stock Exchange in 2010, and the First Section of the Tokyo Stock Exchange in 2011.

In 1995, the company entered the yakiniku business with the opening of its first "Yakiniku Ichiban Kalbi" restaurant, and in 2007, it opened its first "Yakiniku King" restaurant, its current main restaurant format. In the ramen business, it opened the first "Marugen Ramen" store in 2001. The first "Yuzuan" store opened in 2012, and the number of stores in the group reached 500 in 2019.

*Growing from an oden shop in Toyohashi to a nationwide chain*

### Figure: History

Date	Event
Dec-49	Kimie Kobayashi establishes oden shop "Shubo Genji" in Toyohashi City, Aichi Prefecture.
Sep-69	KK Genji is established.
Apr-80	Yoshio Kobayashi assumed the position of President and Representative Director (currently Director and Special Advisor).
Dec-95	Opened the first "Yakiniku Ichiban Kalbi" restaurant in Toyohashi City, Aichi Prefecture.
Jun-97	Company name changed to the Monogatari Corporation.
Dec-98	Opened the first franchise store "Yakiniku Ichiban Kalbi" Hane Store.
Jun-01	Opened the first "Marugen Ramen" store in Anjo City, Aichi Prefecture.
Dec-05	Opened the first "Okonomiyaki Honpo" store in Sagami City, Kanagawa Prefecture.
Mar-07	Opened the first "Yakiniku King" restaurant in Nonoichi, Ishikawa Prefecture.
Mar-08	Listed on the JASDAQ Stock Exchange (currently the Tokyo Stock Exchange JASDAQ (Standard)).
Jun-10	Listed on the Second Section of the Tokyo Stock Exchange.
Jun-11	Listed on the First Section of the Tokyo Stock Exchange
Jul-11	Local subsidiary established in Hong Kong. Noodle factory "Monogatari Food Factory" established in Komaki City, Aichi Prefecture.
Sep-11	Yukio Kaji appointed as President and Representative Director.
Nov-11	Local subsidiary established in Shanghai, China.
Jun-12	Opened the first "Sushi & Shabu-Shabu Yuzuan" restaurant in Machida City, Tokyo.
Apr-19	Established "Monogatari Food Labo," a liquid seasoning manufacturing plant in Komaki City, Aichi Prefecture.
Jul-20	Yoshiyuki Shibamiya appointed President and Representative Director (currently Chairman and Representative Director).
Sep-20	Hisayuki Kato appointed President and Representative Director (current position).
Feb-21	Concludes a business alliance agreement with Advantage Advisors, Co., Ltd.

Source: Company data, Mita Securities

## Major shareholders/management team

The company's largest shareholder is Yoshio Kobayashi, who is the effective founder of the company. The founding family, including Yoshio Kobayashi, owns about 18% of the company. Yoshio Kobayashi was appointed President and Representative Director in 1980 and Chairman and Representative Director in 2011. He is currently Director and Special Advisor (scheduled to resign as Director in September 2021). As mentioned above, his aesthetics are strongly reflected in the company's corporate culture.

*Founding family owns 18%.  
"Smile & Sexy" remains under  
the new management*

Currently, the company is represented by Yoshiyuki Shibamiya (Chairman and Representative Director), Hisayuki Kato (President and Representative Director), and Masamichi Okada (Senior Managing Officer and Representative Director), who together hold less than 0.3% of the company's stock. Even with the change in management, the company's management philosophy of "Smile & Sexy" has remained unchanged.

Aoyama Trading, which owns 2.45% of the company, is a major retailer that operates “Yofuku-no-Aoyama” and “THE SUIT COMPANY.” As a franchisee, Aoyama Trading operates 38 “Yakiniku King” restaurants and 13 “Yuzuan” restaurants (as of March 31, 2021).

#### Figure: Major shareholders (end-FY6/20)

Major shareholders	Shares held (%)
Yoshio Kobayashi	8.31
Japan Trustee Services Bank, Ltd. (trust account) (currently Custody Bank of Japan, Ltd.)	4.66
Yusuke Kobayashi	4.39
The Master Trust Bank of Japan, Ltd. (trust account)	3.62
Sanae Kobayashi	3.56
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	3.55
Aoyama Trading	2.45
The Toyohashi Shinkin Bank	1.82
Yohei Kobayashi	1.71
Japan Trustee Services Bank, Ltd. (trust account 5) (currently Custody Bank of Japan, Ltd.)	1.65

Source: Company data, Mita Securities

## Details of business

### Breakdown of sales

#### Breakdown of sales by division

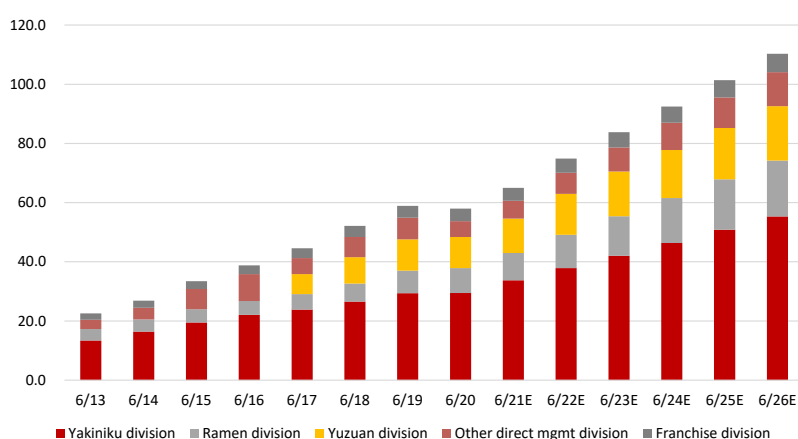
Consolidated sales for FY6/20 totaled 58.0bn yen, of which 53.8bn yen came from directly-owned stores and 4.2bn yen from franchise businesses.

The breakdown of the sales for directly-owned stores is: 29.5bn yen for yakiniku, 8.4bn yen for ramen, 1.8bn yen for okonomiyaki, 10.5bn yen for “Yuzuan” (sushi and shabu-shabu), 1.5 bn yen for specialty stores (urban yakiniku restaurants, etc.), and 2.1bn yen for others (overseas).

Franchise division sales are comprised of membership fees, royalties, and wholesale of food ingredients. The membership fee ranges from 1.5 to 5m yen per store, depending on the number of stores. Royalties range from 2.4% to 5.0% of sales (average around 4%), depending on the type of restaurant and the number of stores. 10-year franchise contracts are used for most types of restaurants.

*Yakiniku accounts for majority of sales. Other businesses include sushi, shabu-shabu, and ramen*

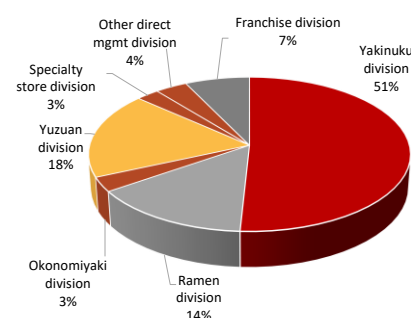
Figure: Sales (consolidated, JPYbn)



Source: Company data, Mita Securities

Note: Forecasts are by Mita Securities

Figure: Sales breakdown (FY6/20)



Source: Company data, Mita Securities

## Breakdown of store count

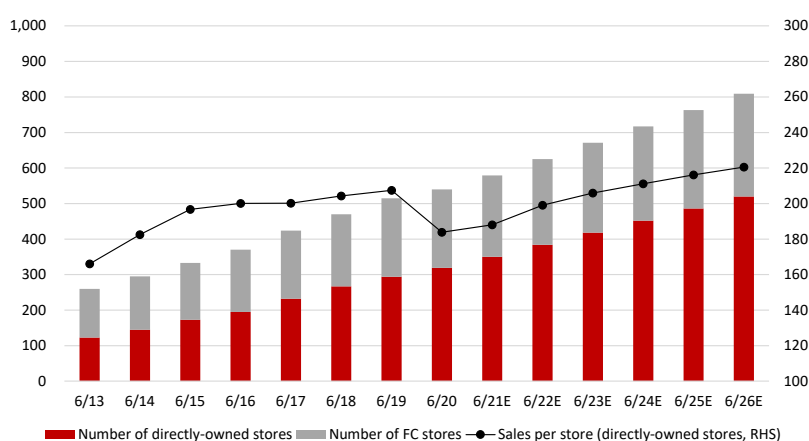
### Breakdown by store type and region

As of the end of 3Q FY6/21 (end of March 2021), the number of stores was 572. Of these, 346 were directly owned and 226 were franchise stores. By division, the yakiniku division accounted for 46%, the ramen division 30%, and the “Yuzuan” division 15%.

By region, 33% were in the Kanto region, 27% in the Chubu region, 13% in the Kinki region, and 12% in Kyushu and Okinawa. The company’s chain has already established stores in all 47 prefectures, and the top prefectures in terms of the store count are Aichi Prefecture (67 stores), Kanagawa Prefecture (45 stores), Saitama Prefecture (41 stores), Tokyo (32 stores), and Chiba Prefecture (31 stores). The company’s main formats basically focus on opening stores in roadside areas.

**346 directly-owned and 226 franchised stores. High proportion of stores in Kanto and Chubu regions. Mostly suburban roadside stores**

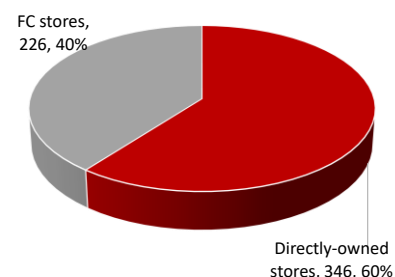
Figure: Store count, sales per store (store, JPYm)



Source: Company data, Mita Securities

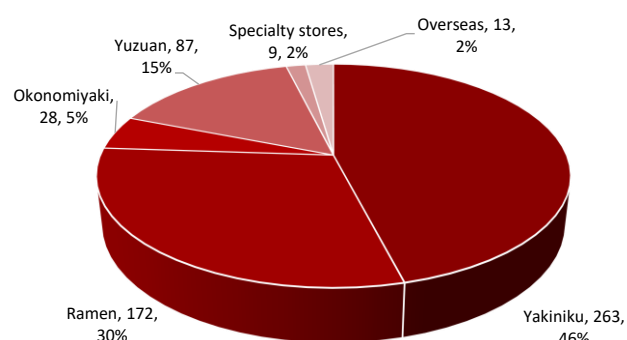
Note: Forecasts are by Mita Securities

Figure: Store count breakdown (end-Mar 21)



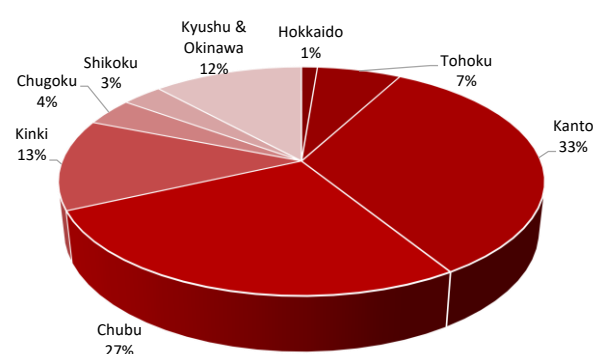
Source: Company data, Mita Securities

Figure: Store count by division (directly-owned+FC, end-Mar 21)



Source: Company data, Mita Securities

Figure: Store count by region (directly-owned+FC, end-Mar 21)



Source: Company data, Mita Securities

## Overview of main restaurant formats

### Yakiniku King

“Yakiniku King” is the company’s largest restaurant format, with 261 stores (159 directly owned and 102 franchised) at the end of 3Q FY6/21, accounting for almost all of the 263 stores in the yakiniku division. The overall sales of the “Yakiniku King” chain have grown to around 50bn yen, and it is competing for the top position with “Gyu-Kaku,” which is operated by REINS International (a subsidiary of Colowide).

*One of the largest yakiniku chains in Japan. Popular for its reasonably priced all-you-can-eat menu. Important growth driver*

“Yakiniku King” is basically a large store with a parking lot on a suburban roadside, and the standard type of store is 284 square meters. It mainly targets families. The main menu item is the “King Course,” a 100-minute all-you-can-eat meal for 2,980 yen (excluding tax) (see image below). Infants eat free, elementary school students pay half price, and those over 60 years old receive a 500 yen discount. The all-you-can-eat menu includes a variety of dishes including Yakiniku King’s “four specialties” (“King Kalbi,” “Aburi Sukiyaki Kalbi,” “Hanasaki Superior Loin - Garlic Butter Soy Sauce,” and “Jar Pickled Outside Skirt”). Drinks are charged separately. The average spend per customer during dinner hours is about 3,000 yen. Since the restaurant is located in a roadside area, the percentage of alcohol per customer spend appears to be low.

Although “Yakiniku King” is an all-you-can-eat restaurant, it uses a table-order buffet style where the staff brings the ordered food to the table. The restaurant also emphasizes “nosy” service, such as the “Yakiniku Police,” who instruct customers on how to cook their meat. In order to improve the efficiency of serving food and to enhance the quality of human service, the company has introduced serving robots.

At “Yakiniku King,” each table is equipped with a pair of tongs for grilling raw meat and for picking up grilled meat. In order to make it easy to distinguish between the two types of tongs, different types are used.

Even in the COVID-19 era, the yakiniku division has been performing well and has been expanding stores. “Yakiniku King” is a core growth driver for the company. The company believes that it has room to expand to 400 stores over the long term.

Figure: Exterior view of “Yakiniku King” store



Source: Company data

Figure: Interior view of “Yakiniku King” store



Source: Company data

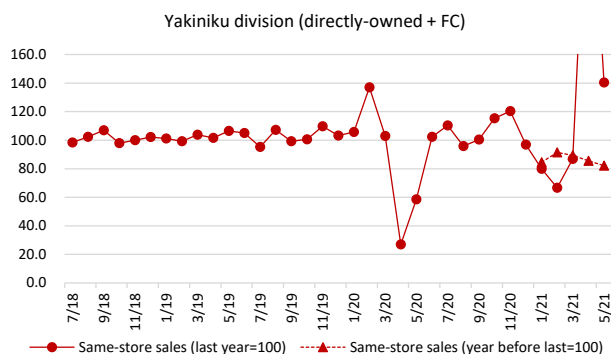


Figure: Menu for “King Course”



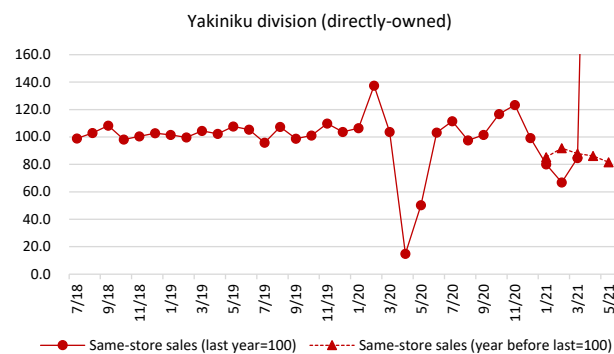
Source: Company data

Figure: Monthly data (directly-owned + FC)



Source: Company data, Mita Securities

Figure: Monthly data (directly-owned)



Source: Company data, Mita Securities

## Marugen Ramen

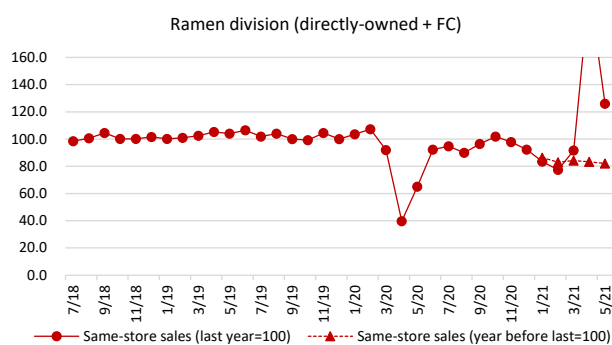
“Marugen Ramen” is the company’s second largest restaurant format after “Yakiniku King,” with 163 stores at the end of 3Q FY6/21 (70 directly owned and 93 FC franchised), accounting for most of the 172 stores in the Ramen division.

“Marugen Ramen” is basically a suburban roadside store with a parking lot, and the standard type of store is 205 square meters, which is quite large for a ramen store. It targets a wide range of customers, including families. The main menu item is the “Aged Soy Sauce Ramen Meat Soba” priced at 650 yen excluding tax. There are many variations of ramen, ranging in price from 650 yen to 930 yen. Other than ramen, dumplings are priced at 290 yen, fried chicken at 290-350 yen, and so on. Our impression is that most dishes do not require a large operational load.

As with the yakiniku division, the ramen division’s earnings have been stable even in the COVID-19 era, and the company has been opening new stores. This is an important growth driver for the company.

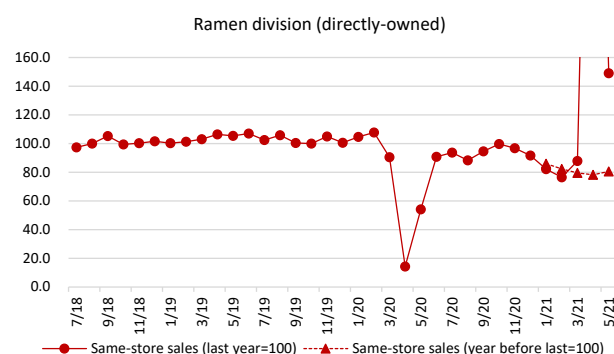
**Ramen restaurant for families.**  
**Aggressively opening new stores**  
**on the back of strong business**  
**performance**

Figure: Monthly data (directly-owned + FC)



Source: Company data, Mita Securities

Figure: Monthly data (directly-owned)



Source: Company data, Mita Securities

### Sushi & Shabu-Shabu Yuzuan

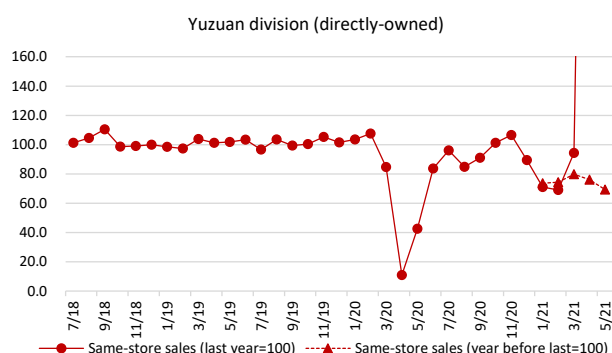
“Yuzuan” is an all-you-can-eat sushi and shabu-shabu restaurant, a relatively new restaurant format that opened its first store in 2012 and has grown to have the third largest number of stores after “Yakiniku King” and “Marugen Ramen.” The number of stores at the end of 3Q FY6/21 was 87 (70 directly-owned and 17 franchise stores). Of the franchise stores, 13 are owned by Aoyama Trading.

“Yuzuan” is basically a suburban roadside store with a parking lot, and the standard type of store is 300 square meters. It is a Japanese style restaurant and is targeted at a wider range of age groups than “Yakiniku King.” The dinner menu includes “Beef Shabu-Shabu, Sushi, and Chef’s Recommended Seasonal Dish Course” for 2,980 yen excluding tax. Infants are free, elementary school students are half-price, and those over 65 years old receive a 500 yen discount. The restaurant uses sushi robots, so the operational burden of cooking does not seem to be significant.

“Yuzuan” has some profitability issues, and is not expected to be as strong a growth driver as “Yakiniku King” or “Marugen Ramen.” The impact of the COVID-19 pandemic was also slightly larger than the top two formats. The company has been trying to develop new menu items, sell sushi take-out, capture demand for events such as birthdays, and hold events for children.

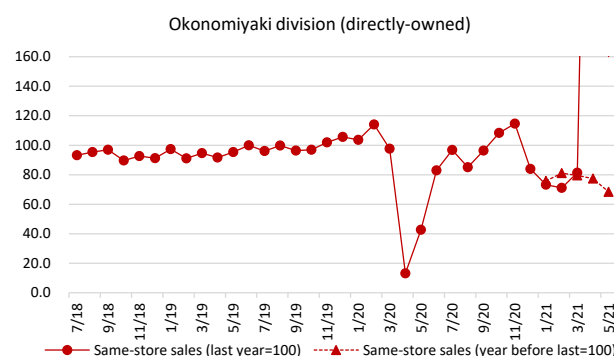
*One step short of becoming a growth driver on par with “Yakiniku King” and “Marugen Ramen”*

Figure: Monthly data (directly-owned)



Source: Company data, Mita Securities

Figure: Monthly data (directly-owned)



Source: Company data, Mita Securities



### Okonomiyaki Honpo

Okonomi-yaki Honpo is an all-you-can-eat okonomiyaki restaurant format with 28 stores at the end of 3Q FY6/21 (17 directly owned and 11 franchise stores). The “Standard All-You-Can-Eat Course” is 1,980 yen excluding tax. Infants are free, elementary school students are half-price, and those over 70 are half-price. The all-you-can-eat course includes okohonyaki, okonomiyaki, monja, fried noodles, and teppan-yaki. The business has been underperforming since before the COVID-19 pandemic, and the number of stores has been declining. The company is pursuing a restructuring of its format.

*Format restructuring in progress*

### Overseas business

The company’s overseas business consists of 13 stores in three formats in Shanghai. The core business is “Hokkaido Crab Okadaya So-honten.” However, the average spend per customer is expected to be high at about 6,200 yen, and the company believes it will be difficult to open many stores. The new Japanese style yakiniku business, “Yakiniku Specialty Restaurant Nikugen Yakiniku-Oh,” is reasonably priced with an expected average spend of 1,300 yen per customer, and has been mentioned as a candidate for multiple store development. Sales in China declined significantly in 3Q FY6/20 (Jan-Mar 2020), but have been recovering since then, and in 3Q FY6/21 they were 2.5 times higher than in the same period of the previous year. Aggressive development of new formats and businesses in Asia is a key issue in the company’s mid-term plan.

*Quickly recovering from the COVID-19 pandemic. To be one of the growth drivers in the medium term*

## Growth strategies

### New medium-term management plan “Vision 2025”

In its medium-term management plan, the company aims to achieve consolidated sales of 100bn yen, RP of over 8bn yen, and ROE of over 15% in FY6/25.

*Aiming for 100bn yen sales in FY6/25*

The core of the company’s growth strategy is to aggressively open new stores in existing restaurant formats, mainly “Yakiniku King” and “Marugen Ramen,” and to aggressively develop new restaurant formats and businesses in Asia. In addition, the company plans to improve efficiency and reduce costs by making its stores and head office operations smarter, and to promote in-house production of food ingredients by expanding its central kitchens.

### Business alliance with Advantage Advisors

In February 2021, the company announced the signing of a business alliance agreement with Advantage Advisors (AA) and the underwriting of 6.1bn yen in convertible bonds by AA. AA has invested in a number of restaurant companies, such as Pepper Food Service, Saint Marc HD, and Arcland Service HD. The company plans to receive support from AA in obtaining information and planning strategies for M&A in order to open new brands, obtaining information on overseas local partners, and planning overseas strategies. The company has grown by developing its own roadside restaurant formats in Japan, such as “Yakiniku King” and “Marugen Ramen.” If the company can succeed in M&A and overseas store openings, it will be able to acquire new growth drivers. The company has also secured funds to support its future growth strategy by issuing CBs.

*Utilizing AA’s expertise in M&A and overseas strategy*

# Mita Securities' earnings forecast

## FY6/21 results preview

We forecast consolidated sales of 65.0bn yen (+12.1% YoY), OP of 3.4bn yen (+11.0% YoY), RP of 4.9bn yen (+62.6% YoY), and NP of 3.0bn yen (+551.0% YoY) for FY6/21. We expect sales and OP to be below the company's guidance (sales 67.822bn yen, OP 4.021bn yen, RP 4.460bn yen, and NP 2.860bn yen), while RP to be above, and NP to be roughly in-line.

It should be noted that since the company's fiscal year ends in June, the previous fiscal year's results (FY6/20) have already been affected by the COVID-19 pandemic. For reference, FY6/19 results were sales of 58.9bn yen, OP 3.9bn yen, RP 4.7bn yen, and NP 2.9bn yen.

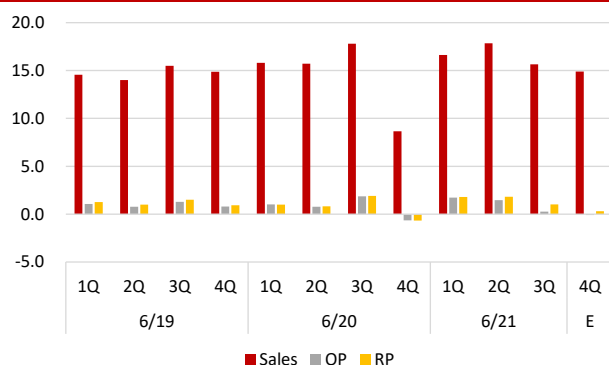
The reason for our lower forecast for sales and OP versus the company's guidance is that we have factored in the extended emergency period, which resulted in a number of stores operating at shorter hours. We expect higher RP due to the inclusion of local government subsidies in non-operating income. The company's guidance was issued on January 27, and it is unlikely that the subsequent prolonged emergency period and subsidies were factored in. Our forecast assumes that some of the subsidies not fully applied for in 4Q (Apr-Jun) will be postponed to 1Q FY6/22. Furthermore, we expect NP to be largely in-line with the company's guidance despite higher RP, because we expect that the company will post extraordinary losses such as impairment losses on fixed assets.

We expect 4Q (Apr-Jun) OP to be -0.1bn yen (vs. -0.7bn yen in 4Q FY6/20) and 4Q RP to be 0.3bn yen.

*We expect OP up 11% to 3.4bn yen, missing the guidance. Expect RP to rise 63% to 4.9bn yen, above guidance, due to subsidy effect*

*We expect a slight operating loss in 4Q*

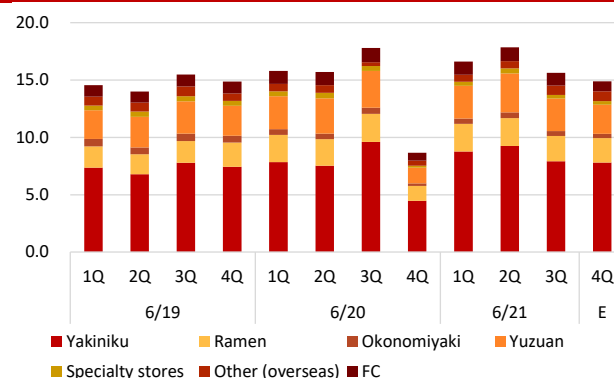
Figure: Consolidated sales, OP and RP (quarterly, JPYbn)



Source: Company data, Mita Securities

Note: Forecasts are by Mita Securities

Figure: Sales by division (quarterly, JPYbn)



Source: Company data, Mita Securities

Note: Forecasts are by Mita Securities

## **Earnings forecast for FY6/22**

We forecast consolidated sales of 74.9bn yen (+15.2% YoY), OP 5.0bn yen (+48.8% YoY), RP 6.0bn yen (+21.1% YoY), and NP 3.8bn yen (+29.5% YoY) for FY6/22.

We have assumed that same-store sales growth will be 5.9% YoY and down 4.0% from FY6/19 before being affected by the COVID-19. Given the current progress in vaccinating the elderly, the risk of emergency declarations and the issuance of measures to prevent the spread of the disease due to an increase in the number of infected cases should gradually decline. This will also ease consumers' concerns about dining out at restaurants.

We expect the number of directly-owned stores in Japan at the end of the fiscal year to be 367 (+30 stores YoY), as we expect the opening of new stores such as "Yakiniku King" and "Marugen Ramen" to proceed smoothly. We believe that the number of locations where the company can open new stores will increase in the future as underperforming restaurant operators close their stores.

The reason for assuming a RP of 6.0bn yen vs. an OP of 5.0bn yen is that a portion of subsidy income that was not applied for in time in FY6/21 is expected to be booked in FY6/22.

*We expect OP up 49% to 5bn yen. Vaccinations underway, reduced requests for shorter business hours*

*Withdrawal of underperforming restaurants to expand available locations*

## **Outlook for FY6/23 and beyond**

Our OP forecast for FY6/23 and beyond is 6.2bn yen (+24.0% YoY) for FY6/23, 7.1bn yen (+14.5% YoY) for FY6/24, 7.9bn yen (+11.2% YoY) for FY6/25, and 8.7bn yen (+9.7% YoY) for FY6/26. Our forecast assumes a net increase of 30 directly-owned stores per year in Japan. At the end of FY6/26, we expect the chain to have 809 stores, including 487 directly-owned domestic stores, 289 domestic franchise stores, and 33 overseas stores. We believe that a net increase of about 30 stores per year on a directly-owned basis is feasible, taking into account the fact that the company has multiple businesses that are popular with consumers, and that there is more room to open new stores due to the closure of stores by underperforming restaurant operators.

In terms of sales, we expect the company will be able to achieve its medium-term plan target of 100bn yen in FY6/25. On the other hand, we expect RP to be 7.9bn yen, slightly short of the company's mid-term target of over 8bn yen for FY6/25. Our forecast assumes the continuation of organic growth both in Japan and overseas, and does not factor in inorganic growth such as M&A. However, given the fact that the company's medium-term plan includes M&A initiatives and that the business alliance with Advantage Advisors has started, there is a good chance that the company's inorganic growth strategy will bear fruit in the future. In that case, the company may be able to achieve its RP target for FY6/25.

*We expect sales to exceed 100bn yen in FY6/25. With M&A, achieving RP target of over 8bn yen may become a possibility*

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

Various indicators	6/18	6/19	6/20	6/21	6/22	6/23	6/24	6/25	6/26	5-yr ave growth
Consolidated	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Sales growth (%)	16.9	13.0	-1.6	12.1	15.2	11.9	10.4	9.6	8.8	
Same-store sales growth (%)	3.3	2.0	-9.0	2.3	5.9	3.4	2.5	2.4	2.0	
Directly-owned store count growth (%)	15.1	10.1	8.5	9.7	9.7	8.9	8.1	7.5	7.0	
OP growth (%)	30.1	17.2	-22.9	11.0	48.8	24.0	14.5	11.2	9.7	
RP growth (%)	26.5	21.2	-35.4	62.6	21.1	4.3	14.5	11.2	9.7	
NP growth (%)	15.1	23.1	-84.5	551.0	29.5	4.5	15.2	11.7	10.1	
Gross profit margin (%)	65.4	65.5	65.6	65.8	65.8	66.0	66.0	66.0	66.0	
OP margin (%)	6.4	6.7	5.2	5.2	6.7	7.4	7.7	7.8	7.9	
EBITDA margin (%)	10.6	10.9	9.4	9.4	10.8	11.5	11.7	11.8	11.8	
ROA (%)	8.7	9.4	1.3	7.0	7.9	7.5	8.0	8.2	8.4	
ROE (%)	16.8	17.9	2.6	16.0	18.0	16.4	16.7	16.5	16.1	

Source: Company data, Mita Securities

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

PL	6/18	6/19	6/20	6/21	6/22	6/23	6/24	6/25	6/26	5-yr ave growth
Consolidated, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Sales	52,124	58,924	57,961	65,003	74,867	83,789	92,467	101,374	110,321	11.2
COGS	18,060	20,311	19,961	22,231	25,605	28,488	31,439	34,467	37,509	
Gross profit	34,064	38,613	37,999	42,772	49,263	55,301	61,028	66,907	72,812	
SGA	30,708	34,680	34,966	39,404	44,251	49,084	53,912	58,991	64,129	
Operating profit	3,356	3,933	3,034	3,368	5,012	6,217	7,117	7,916	8,683	20.9
Non-operating income	574	853	97	1,655	1,055	106	106	107	107	
Non-operating expense	64	99	102	100	105	105	105	105	105	
Recurring profit	3,866	4,687	3,029	4,923	5,962	6,218	7,118	7,918	8,685	12.0
Extraordinary gains	0	0	0	50	0	0	0	0	0	
Extraordinary losses	241	466	1,852	600	300	300	300	300	300	
Pre-tax profit	3,624	4,220	1,177	4,373	5,662	5,918	6,818	7,618	8,385	13.9
Corporate taxes	1,236	1,279	724	1,399	1,812	1,894	2,182	2,438	2,683	
Minority interests	2	3	-3	0	0	0	0	0	0	
Net profit	2,386	2,938	457	2,974	3,850	4,024	4,636	5,180	5,702	13.9
EBITDA	5,545	6,397	5,460	6,083	8,080	9,622	10,846	11,981	13,073	16.5
Shares O/S	6.012	6.020	6.027	12.068	12.068	12.068	12.068	12.068	12.068	
Shares O/S (fully-diluted)	6.012	6.020	6.027	13.009	13.009	13.009	13.009	13.009	13.009	
EPS	396.88	488.16	75.79	246.41	319.01	333.43	384.15	429.25	472.45	
EPS (fully-diluted)	396.88	488.16	75.79	228.59	295.94	309.31	356.37	398.21	438.29	
BPS	2,526.70	2,922.79	2,888.26	1,641.34	1,900.35	2,153.78	2,447.93	2,767.18	3,109.64	
BPS (fully-diluted)	2,526.70	2,922.79	2,888.26	1,522.64	1,762.92	1,998.02	2,270.90	2,567.06	2,884.75	
DPS	80.0	90.0	95.0	60.0	80.0	90.0	110.0	130.0	160.0	
Payout ratio (%)	20.1	18.4	125.2	24.3	25.1	27.0	28.6	30.3	33.9	

Source: Company data, Mita Securities

Note: Per share indicators are not adjusted for stock splits, and therefore do not match the figures on pages 1 and 3

Figure: Mita Securities' earnings forecast (sales and store count by division, JPYm)

Sales and store count by division JPYm	6/18 A	6/19 A	6/20 A	6/21 Mita E	6/22 Mita E	6/23 Mita E	6/24 Mita E	6/25 Mita E	6/26 Mita E	5-yr ave growth (CAGR, %)
<b>Yakiniku division</b>										
Sales	26,565	29,378	29,462	33,747	37,879	42,024	46,352	50,870	55,314	10.4
(YoY, %)	11.3	10.6	0.3	14.5	12.2	10.9	10.3	9.7	8.7	
Directly-owned store count (end-FY)	129	137	149	163	177	191	205	219	233	7.4
(YoY, %)	8.4	6.2	8.8	9.4	8.6	7.9	7.3	6.8	6.4	
Sales/Ave store count	214	221	206	216	223	228	234	240	245	
(YoY, %)	1.4	3.1	-6.7	5.0	3.0	2.5	2.5	2.5	2.0	
<b>Ramen division</b>										
Sales	6,099	7,606	8,433	9,200	11,266	13,388	15,171	17,004	18,889	15.5
(YoY, %)	17.3	24.7	10.9	9.1	22.5	18.8	13.3	12.1	11.1	
Directly-owned store count (end-FY)	47	60	72	78	89	100	111	122	133	11.3
(YoY, %)	20.5	27.7	20.0	8.3	14.1	12.4	11.0	9.9	9.0	
Sales/Ave store count	142	142	128	123	135	142	144	146	148	
(YoY, %)	-0.4	0.2	-10.1	-4.0	10.0	5.0	1.5	1.5	1.5	
<b>Okonomiyaki division</b>										
Sales	2,718	2,498	1,754	1,755	1,953	1,934	1,914	1,895	1,876	1.3
(YoY, %)	3.2	-8.1	-29.8	0.1	11.3	-1.0	-1.0	-1.0	-1.0	
Directly-owned store count (end-FY)	22	18	16	17	17	17	17	17	17	0.0
(YoY, %)	4.8	-18.2	-11.1	6.3	0.0	0.0	0.0	0.0	0.0	
Sales/Ave store count	126	125	103	106	115	114	113	111	110	
(YoY, %)	0.8	-1.2	-17.4	3.1	8.0	-1.0	-1.0	-1.0	-1.0	
<b>Yuzuan division</b>										
Sales	8,922	10,608	10,518	11,629	13,796	15,117	16,253	17,324	18,405	9.6
(YoY, %)	32.5	18.9	-0.8	10.6	18.6	9.6	7.5	6.6	6.2	
Directly-owned store count (end-FY)	47	55	62	70	75	80	85	90	95	6.3
(YoY, %)	27.0	17.0	12.7	12.9	7.1	6.7	6.3	5.9	5.6	
Sales/Ave store count	212	208	180	176	190	195	197	198	199	
(YoY, %)	-41.6	-2.1	-13.6	-2.0	8.0	2.5	1.0	0.5	0.5	
<b>Specialty store division</b>										
Sales	1,530	1,728	1,503	1,434	1,549	1,549	1,549	1,549	1,549	1.6
(YoY, %)	22.2	12.9	-13.0	-4.6	8.0	0.0	0.0	0.0	0.0	
Directly-owned store count (end-FY)	7	7	9	9	9	9	9	9	9	0.0
(YoY, %)	16.7	0.0	28.6	0.0	0.0	0.0	0.0	0.0	0.0	
Sales/Ave store count	235	247	188	159	172	172	172	172	172	
(YoY, %)	219.6	4.9	-23.9	-15.2	8.0	0.0	0.0	0.0	0.0	
<b>Other (overseas)</b>										
Sales	2,582	3,056	2,092	2,880	3,645	4,655	5,750	6,885	8,060	22.9
(YoY, %)	66.9	18.4	-31.5	37.7	26.6	27.7	23.5	19.7	17.1	
Directly-owned store count (end-FY)	15	17	11	13	17	21	25	29	33	20.5
(YoY, %)	50.0	13.3	-35.3	18.2	30.8	23.5	19.0	16.0	13.8	
Sales/Ave store count	207	191	149	240	243	245	250	255	260	
(YoY, %)	0.1	-7.5	-21.8	60.6	1.3	0.8	2.0	2.0	2.0	
<b>Franchise division</b>										
Sales	3,705	4,047	4,196	4,357	4,779	5,123	5,479	5,848	6,229	7.4
(YoY, %)	10.6	9.2	3.7	3.8	9.7	7.2	7.0	6.7	6.5	
Directly-owned store count (end-FY)	203	221	221	229	241	253	265	277	289	4.8
(YoY, %)	5.7	8.9	0.0	3.6	5.2	5.0	4.7	4.5	4.3	
Sales/Ave store count	19	19	19	19	20	21	21	22	22	
(YoY, %)	2.8	1.8	-0.5	2.0	5.0	2.0	2.0	2.0	2.0	
Total store count	470	515	540	579	625	671	717	763	809	6.9
Directly-owned domestic store count	252	277	308	337	367	397	427	457	487	7.6
FC domestic store count	203	221	221	229	241	253	265	277	289	4.8
Overseas store count	15	17	11	13	17	21	25	29	33	20.5

Source: Company data, Mita Securities

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

BS	6/18	6/19	6/20	6/21	6/22	6/23	6/24	6/25	6/26	5-yr ave growth
Consolidated, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
<b>Assets</b>										
Total current assets	7,841	8,931	13,065	17,041	16,814	16,791	17,687	19,343	21,694	
Cash and deposits	5,491	6,260	9,888	12,661	13,381	13,106	13,721	14,881	16,716	
Accounts receivable	912	1,131	1,436	2,838	2,085	2,507	2,813	3,297	3,655	
Inventories	363	394	427	469	563	592	683	715	807	
Other	1,075	1,146	1,313	1,072	785	586	469	451	517	
Total fixed assets	21,894	23,805	25,357	29,754	34,474	38,767	42,655	46,124	49,186	
Tangible assets	17,083	18,878	20,026	23,511	27,243	30,637	33,708	36,443	38,854	
Intangible assets	318	296	316	354	408	457	504	552	601	
Investment and other	4,493	4,631	5,016	5,889	6,823	7,674	8,443	9,128	9,732	
Total assets	29,735	32,736	38,422	46,794	51,288	55,558	60,341	65,467	70,880	8.7
<b>Liabilities</b>										
Total current liabilities	7,867	8,118	13,829	14,030	15,097	16,009	16,942	17,900	18,862	
Accounts payable	1,808	2,056	2,130	2,372	2,732	3,039	3,354	3,677	4,002	
Short-term debt	1,173	1,287	7,517	7,000	7,000	7,000	7,000	7,000	7,000	
Other	4,886	4,775	4,183	4,659	5,366	5,970	6,588	7,223	7,861	
Total non-term liabilities	6,600	6,936	7,100	12,866	13,157	13,447	13,737	14,041	14,350	
Long-term debt	4,672	4,871	5,001	10,500	10,500	10,500	10,500	10,500	10,500	
Other	1,928	2,065	2,099	2,366	2,657	2,947	3,237	3,541	3,850	
Total liabilities	14,467	15,054	20,929	26,896	28,254	29,456	30,679	31,942	33,212	4.3
<b>Net assets</b>										
Shareholders' equity	15,192	17,594	17,407	19,808	22,934	25,992	29,542	33,395	37,528	13.6
Warrants	63	74	87	90	100	110	120	130	140	
Minorities	12	14	0	0	0	0	0	0	0	
Total net assets	15,267	17,682	17,493	19,898	23,034	26,102	29,662	33,525	37,668	13.6
<b>Debt</b>										
Debt/EBITDA (x)	5.845	6.158	12.517	17.500	17.500	17.500	17.500	17.500	17.500	0.0
D/E (x)	1.1	1.0	2.3	2.9	2.2	1.8	1.6	1.5	1.3	
D/E (x)	0.4	0.4	0.7	0.9	0.8	0.7	0.6	0.5	0.5	
Shareholders' equity ratio (%)	51.1	53.7	45.3	42.3	44.7	46.8	49.0	51.0	52.9	

Source: Company data, Mita Securities

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

CF	6/18	6/19	6/20	6/21	6/22	6/23	6/24	6/25	6/26	5-yr ave growth
Consolidated, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
<b>Cashflow from operations</b>										
Net profit	5,657	5,804	2,827	4,962	8,644	7,890	8,901	9,687	10,604	
Depreciation and amortization	2,386	2,938	457	2,974	3,850	4,024	4,636	5,180	5,702	
Other	2,189	2,464	2,426	2,715	3,068	3,406	3,729	4,065	4,390	
	1,082	401	-56	-727	1,726	461	536	442	512	
<b>Cashflow from investing</b>										
Capital expenditure	-4,803	-4,754	-4,871	-6,600	-7,200	-7,200	-7,200	-7,200	-7,200	
Disposal of fixed assets	-4,408	-4,525	-4,511	-6,200	-6,800	-6,800	-6,800	-6,800	-6,800	
Other	0	0	0	0	0	0	0	0	0	
	-395	-229	-360	-400	-400	-400	-400	-400	-400	
<b>Cashflow from financing</b>										
Debt issuance/repayment	196	-206	5,688	4,411	-724	-965	-1,086	-1,328	-1,569	
Share issuance/buyback	651	313	6,359	4,983	0	0	0	0	0	
Dividend paid	3	4	5	0	0	0	0	0	0	
Other	-450	-513	-603	-572	-724	-965	-1,086	-1,328	-1,569	
	-9	-11	-74	0	0	0	0	0	0	
<b>Cash and cash equivalents</b>										
Free cashflow	5,491	6,260	9,888	12,661	13,381	13,106	13,721	14,881	16,716	
	854	1,050	-2,044	-1,638	1,444	690	1,701	2,487	3,404	

Source: Company data, Mita Securities

## Special topics: Restaurant industry status

### A series of recapitalizations

#### Recapitalization by restaurant operators

As a result of COVID-19, a number of restaurant operators have posted losses, and consequently, many of them have undertaken recapitalization. There is a wide range of financing options available, including the issuance of common stock, warrants, convertible bonds, preferred stock, and subordinated loans. Most of these financings are third party allocations, and many are a combination of warrant issues and other means. This is probably due to the fact that many of the listed restaurant operators have a small market capitalization, which limits the number of risk takers, and also due to the need to announce recapitalization in a timely manner. With the prolonged state of emergency since April, many more restaurant operators are likely to implement similar recapitalization measures in the future, in our view.

*Capital erosion proceeding, and a series of recapitalizations underway*

**Figure: Examples of recapitalization by restaurant operators (including subordinated loans)**

Announcement	Company name	Ticker	Funding method	Funding amount (JPYm)	Note
07/28/20	Colowide	7616	Preferred shares	9,000	Dividend 3.5% per annum. No conversion right to common shares
07/31/20	Pepper Food Service	3053	Warrants	6,740	Exercise price 415 yen (initial), with downward adjustment clause (last closing price x 90%, minimum exercise price 208 yen)
			Warrants	2,883	Exercise price 415 yen (initial), with downward adjustment clause (minimum exercise price 312 yen)
					Maximum dilution of the above total 99.96%
11/11/20	Joyfull	9942	Treasury share sale	1,000	
11/11/20	SRS HD	8163	Warrants	6,186	Exercise price 922 yen (initial), with downward adjustment clause (last closing price x 92%, minimum exercise price 646 yen). Maximum dilution 19.27%
11/19/20	Sagami HD	9900	Warrants	4,910	Exercise price 1,291 yen (initial), with downward adjustment clause (last closing price x 92%, minimum exercise price 904 yen). Maximum dilution 14.34%
12/24/20	Ootoya HD	2705	Preferred shares	3,000	With conversion right to common shares
01/26/21	Ringer Hut	8200	Subordinated loans	5,000	
			Warrants	2,359	Exercise price 2,363 yen (initial), with downward adjustment clause (last closing price x 92%, minimum exercise price 1,655 yen). Maximum dilution 3.84%
02/02/21	Create Restaurants HD	3387	Undated subordinated loans	15,000	Recorded as equity under IFRS
02/05/21	Zensho HD	7550	Subordinated loans	10,000	JCR recognizes 50% as equity
02/08/21	Monogatari Corporation	3097	CB	6,120	Conversion price of 12,500 yen (initial, before 1:2 stock split), with downward adjustment clause (minimum conversion price of 11,250 yen). Maximum dilution 8.69%
02/15/21	Royal HD	8179	Common shares	10,000	Issue price 1,718 yen
			Warrants	7,847	Exercise price 1,908 yen (initial), with upward and downward adjustment clauses (minimum exercise price 1,431 yen)
			Preferred shares	3,000	Dividend 8.5% per annum. No conversion right to common shares
			Preferred shares	3,000	Dividend 8.5% per annum, with conversion right to common shares
					Maximum dilution of the above total 29.69%
05/14/21	Chikaranomoto HD	3561	Common shares	1,646	Issue price 558 yen
			Warrants	1,182	Exercise price 587 yen (fixed)
			Warrants	765	Exercise price 764 yen (fixed)
					Maximum dilution of the above total 24.71%
05/20/21	Fujio Food Group	2752	Subordinated loans	3,700	
			Treasury share sale	851	Sale price 1,216 yen
			Warrants	1,919	Exercise price 1,399 yen (fixed). Maximum dilution 3.21%
05/20/21	Saint Marc HD	3395	Warrants	967	Exercise price 1,662 yen (initial), with downward adjustment clause (minimum exercise price 1,280 yen)
			CB	6,057	Conversion price 1,662 yen (initial), with downward adjustment clause (minimum conversion price 1,280 yen)
					Maximum dilution of the above total 23.09%
05/21/21	Skylark HD	3197	Common shares	43,000	Public offering of new shares. Issue price 1,495 yen. Maximum dilution 15.19%
05/24/21	Watami	7522	Preferred shares	12,000	Dividend 4% per annum. No conversion right to common shares

Source: Companies data, Mita Securities

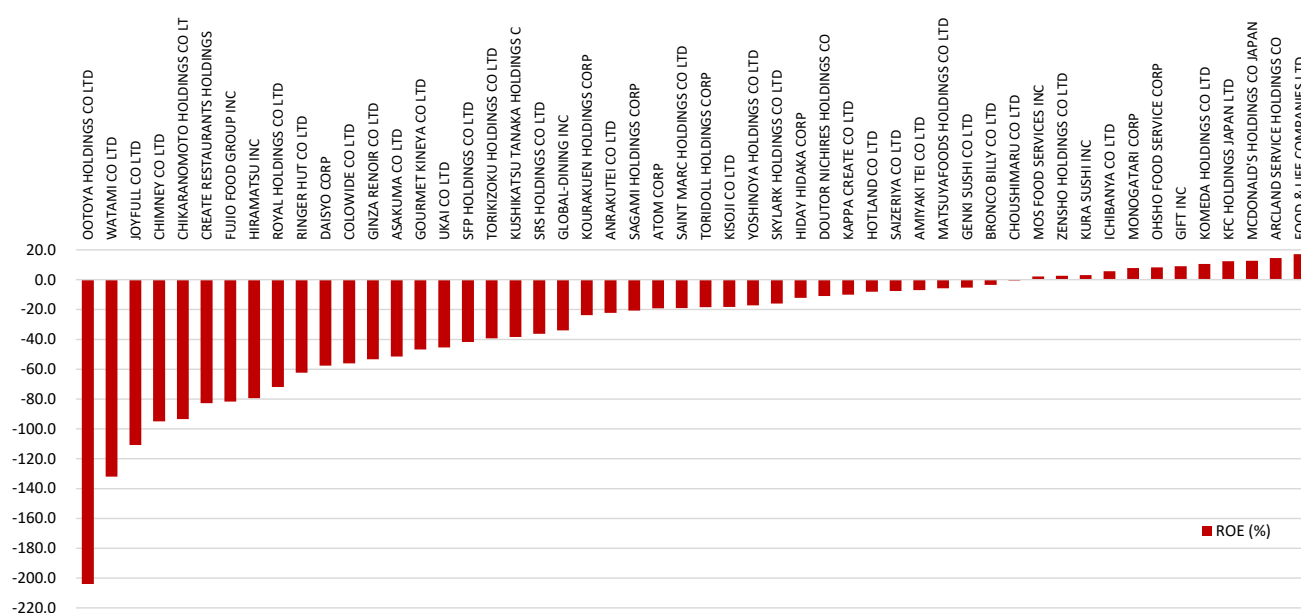
**Caution required around the date of earnings announcement**

Those companies whose fiscal year ends in March will announce their financial results between the end of July and the beginning of August. We expect a number of restaurant operators to report worse results in the April-June period than in the January-March period, as the emergency extension is expected to have had a significant impact and it is uncertain whether the subsidies generated during this period can be recorded in the PL during the same quarter.

*Event risk around the earnings announcement date should be cautioned for underperforming companies*

The possibility of dilution risk due to equity financing cannot be dispelled for those restaurant operators that have not carried out recapitalization despite the ongoing damage to their equity capital. It should be noted that recapitalization measures are often announced at the same time as or slightly later than earnings announcements.

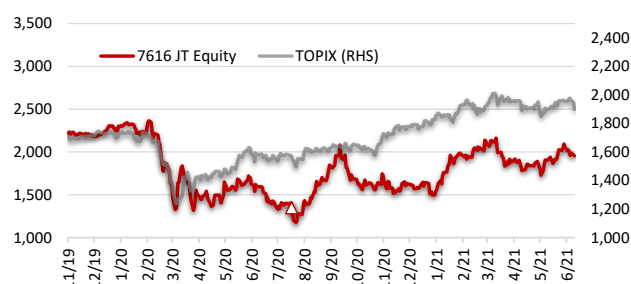
**Figure: Degree of equity capital impairment (based on Bloomberg data)**



Source: Bloomberg Finance LP data, Mita Securities

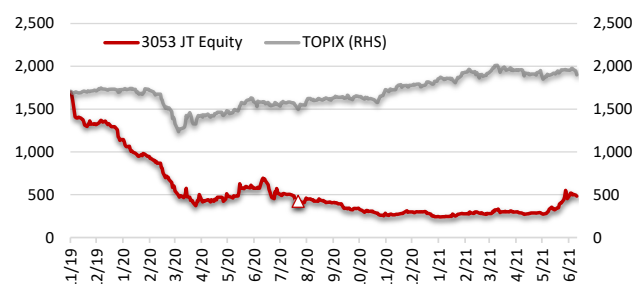
**Share prices of food restaurant operators that carried out recapitalization (including sub loans)**

**Figure: Colowide (7616) Issued preferred shares**



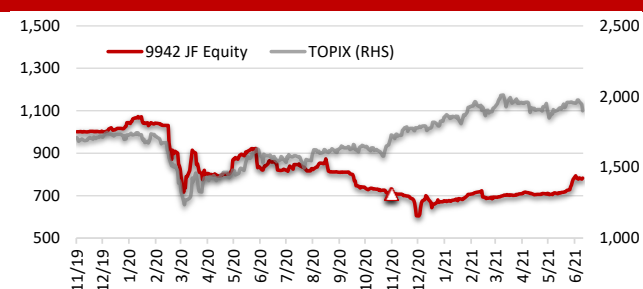
Source: Bloomberg Finance LP data, Mita Securities

**Figure: Pepper FS (3053) Issued warrants**

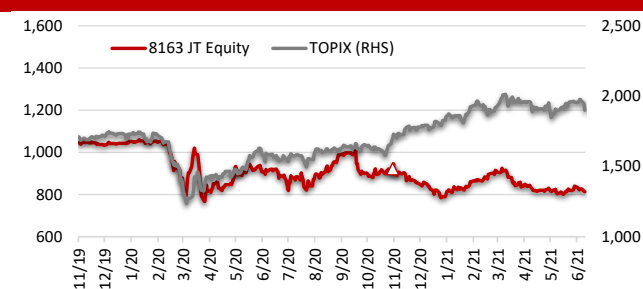


Source: Bloomberg Finance LP data, Mita Securities

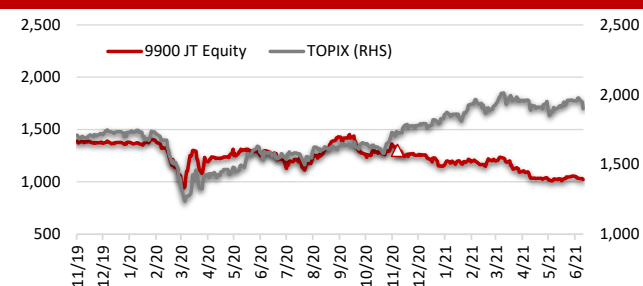


**Figure: Joyfull (9942) Sold treasury shares**

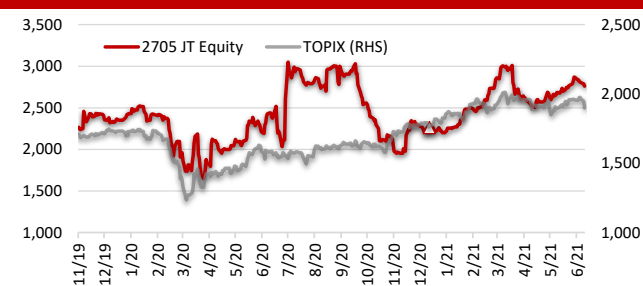
Source: Bloomberg Finance LP data, Mita Securities

**Figure: SRS HD (8163) Issued warrants**

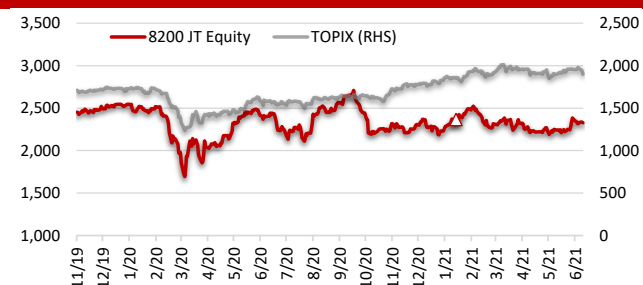
Source: Bloomberg Finance LP data, Mita Securities

**Figure: Sagami HD (9900) Issued warrants**

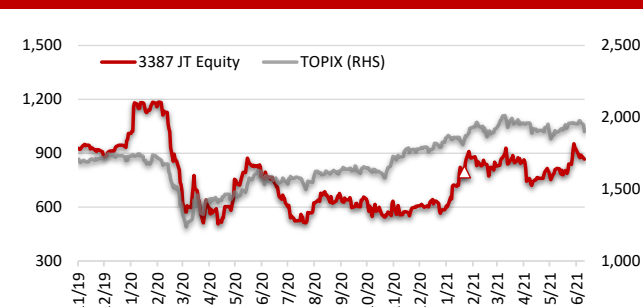
Source: Bloomberg Finance LP data, Mita Securities

**Figure: Ootoya HD (2705) Issued preferred shares**

Source: Bloomberg Finance LP data, Mita Securities

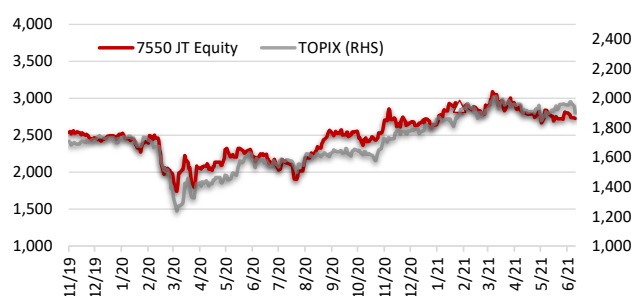
**Figure: Ringer Hut (8200) Issued warrants, borrowed subordinated loans**

Source: Bloomberg Finance LP data, Mita Securities

**Figure: Create Restaurants HD (3387) borrowed undated subordinated loans**

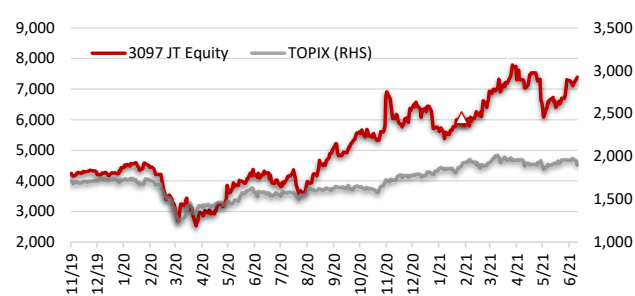
Source: Bloomberg Finance LP data, Mita Securities

Figure: Zensho HD (7550) Borrowed subordinated loans



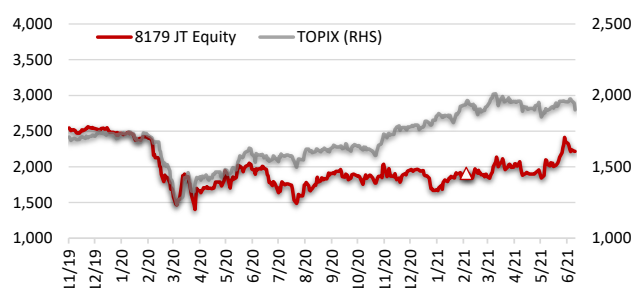
Source: Bloomberg Finance LP data, Mita Securities

Figure: Monogatari Corporation (3097) Issued CB



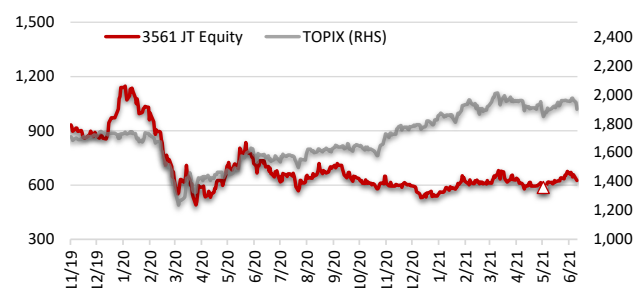
Source: Bloomberg Finance LP data, Mita Securities

Figure: Royal HD (8179) Issued common shares, warrants, and preferred shares



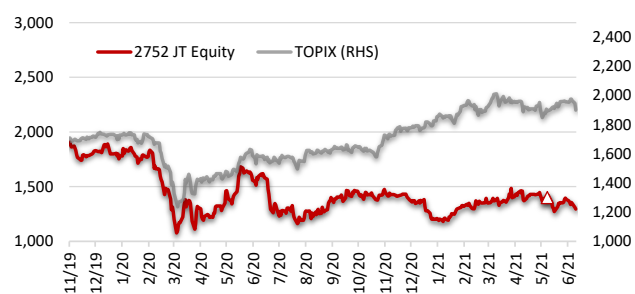
Source: Bloomberg Finance LP data, Mita Securities

Figure: Chikaranomoto HD (3561) Issued common shares and preferred shares



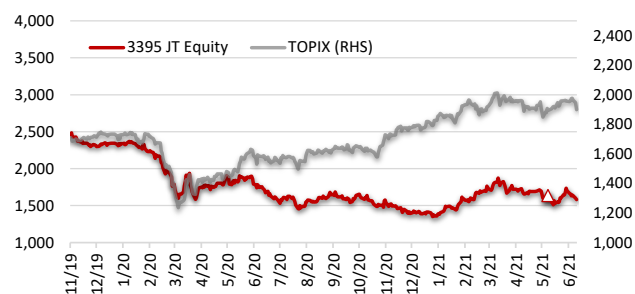
Source: Bloomberg Finance LP data, Mita Securities

Figure: Fujio Food Group (2752) Borrowed subordinated loans, sold treasury shares, and issued warrants



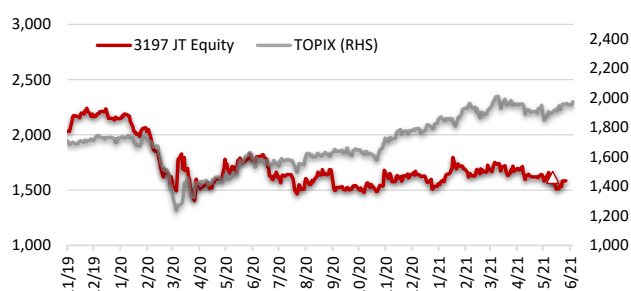
Source: Bloomberg Finance LP data, Mita Securities

Figure: Saint Marc HD (3395) Issued warrants and CB



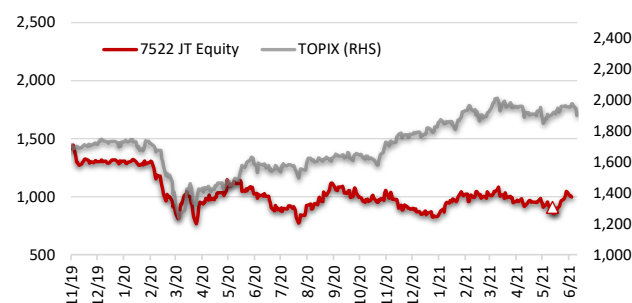
Source: Bloomberg Finance LP data, Mita Securities

Figure: Skylark (3197) Issued common shares



Source: Bloomberg Finance LP data, Mita Securities

Figure: Watami (7522) Issued preferred shares



Source: Bloomberg Finance LP data, Mita Securities

## Performance gaps in monthly sales data

### Points to note in examining monthly data

Many of the listed restaurant operators disclose the growth rate of monthly sales (all-store and same-store basis) and its breakdown (number of customers and average spend per customer) compared to the same month last year, in the following month. In most cases, the method of disclosure is to set the actual results for the same month last year as 100%, and indicate 105% if the sales increased by 5%, and 95% if the sales decreased by 5%. In the following charts, regardless of the company's disclosure method, the notation method is applied in the same manner as above.

It should be noted that the definition of same-store sales differs by company. In particular, since 2020, when the COVID-19 pandemic hit, we have seen a few companies calculate YoY growth rates by excluding stores that are temporarily closed from the same-store figures. In the examples below, the family restaurant Saizeriya and the izakaya (Japanese style pub) Chimney fall into this category.

From April 2020 onward, many of the stores had temporary closures or shortened hours, and sales at each company fell sharply YoY. As a reaction to this, the YoY growth rate since April 2021 has been very large, making it difficult to grasp the actual situation. In the charts below, the dotted line represents our estimate of the growth rate from January 2021 onward compared to the same month in 2019.

### Performance trends by sub-sector and individual company

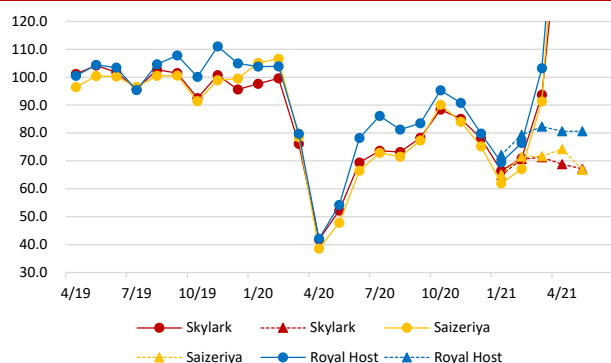
Since spring 2020, when the impact of COVID-19 came into full swing, restaurant operators in general have been struggling with poor sales. In particular, the izakaya (Japanese style pub) category has been severely affected. This was due to the fact that they are mainly open at night, have a high dependence on alcoholic beverages, and many of them are located in downtown areas near train stations where the flow of people has decreased. On the other hand, restaurants with strong take-out menus, those located mainly in suburban areas, and those with low reliance on nighttime sales are doing relatively well. In particular, take-out demand was strong for fast food and sushi restaurants, and overall business was solid. Also performing relatively well were Ohsho Food Service, which has strong take-out demand for dumplings and other items, and Monogatari Corporation, which has a popular yakiniku (Japanese BBQ) format centered on suburban locations.

*Simple comparison of disclosed figures becoming difficult*

*Izakaya (Japanese style pub) earnings deteriorating sharply. Restaurants with strong take-out demand or in suburban roadside areas performing relatively well*

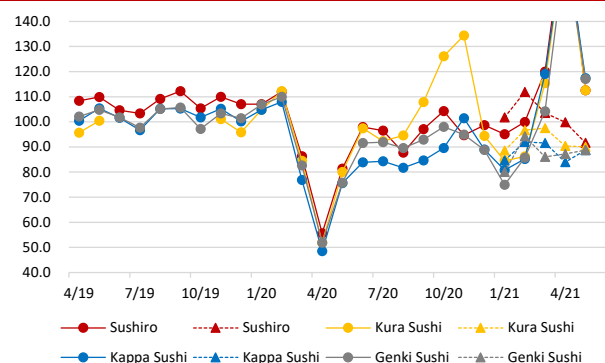
## Same-store sales (compared to last year or year before last)

Figure: Family restaurants



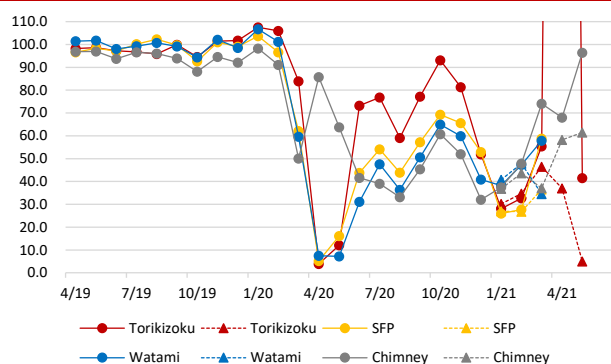
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Sushi restaurants



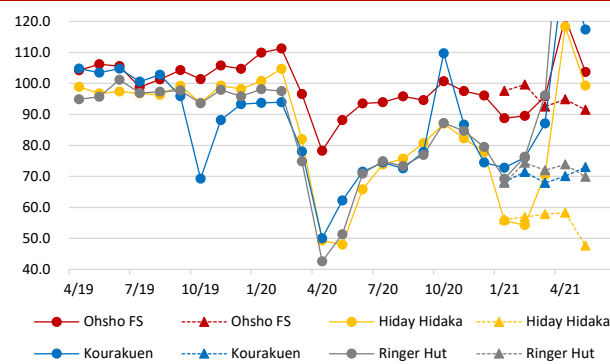
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Izakaya (Japanese style pubs)



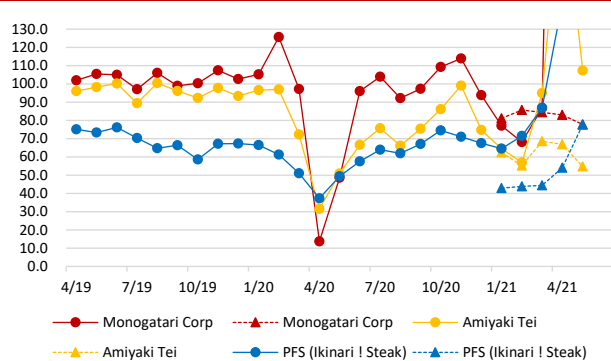
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Chinese restaurants



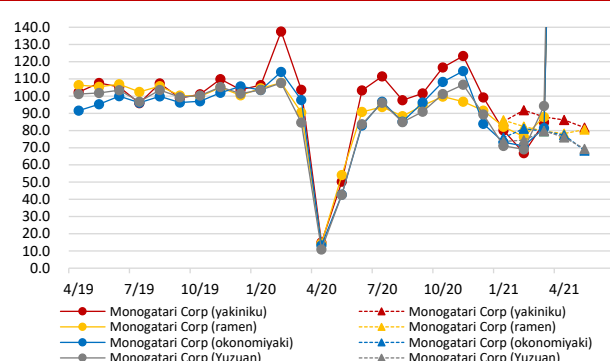
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Yakiniku (Japanese BBQ), steak



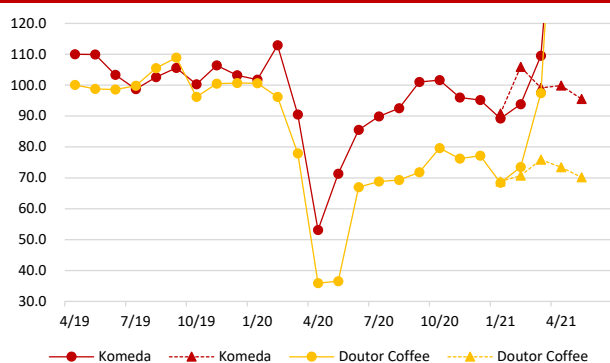
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Monogatari Corporation by division



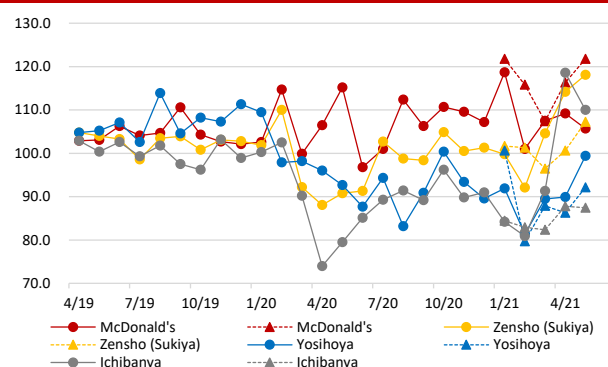
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Coffee shops



Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

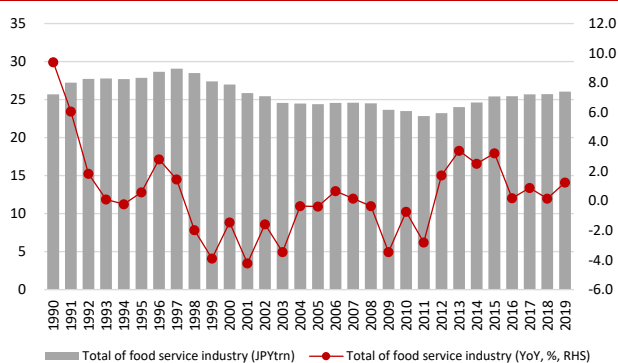
Figure: Fast food shops



Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

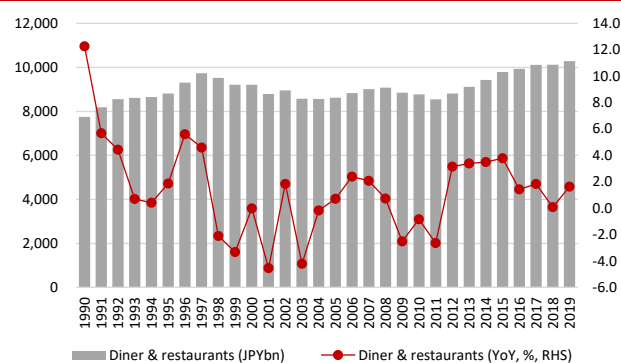
## Market size for food service industry

Figure: Market size for total food service industry



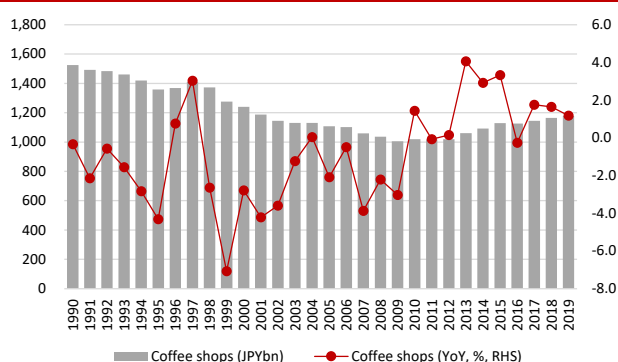
Source: JF data, Mita Securities

Figure: Market size for diner and restaurants



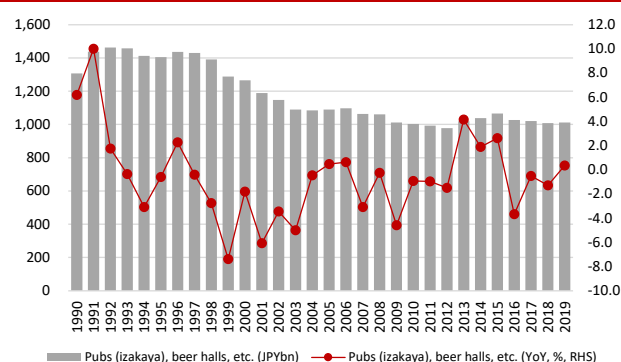
Source: JF data, Mita Securities

Figure: Market size for coffee shops



Source: JF data, Mita Securities

Figure: Market size for Japanese style pubs and beer halls



Source: JF 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.

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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%.

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