



Ohsho Food Service

TSE 1st Section 9936 Industry: Food service, retail

Gold medalist in Chinese cuisine. Enjoy dumplings in store or at home; initiating coverage with a Buy rating

Initiating coverage with a TP of 7,250 yen and a Buy rating

We initiate coverage of Ohsho Food Service Corporation (9936, Ohsho Food Service, the company) with a target price of 7,250 yen and a Buy rating.

The company operates “Gyoza no Ohsho,” the largest Chinese restaurant chain, both directly and through franchisees nationwide. The company’s earnings have been robust since pre-COVID-19 pandemic. Although sales of in-store dining declined as it was forced to shorten business hours in the wake of the COVID-19, sales of take-out and delivery have been strong. The company posted an OP of 6.1bn yen (OPM 7.5%) in FY3/21 while many of its competitors posted losses. With the withdrawal of underperforming restaurants, the potential locations for new openings have been increasing. The company appears to be the only major Chinese restaurant chain that can continue to make positive investments. In our view, the company’s competitive advantage will continue to strengthen.

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

Mita Securities’ earnings forecast

We forecast OP of 7.5bn yen (+23.0% YoY; company guidance: 6.7bn yen) for FY3/22, 8.8bn yen (+18.4% YoY) for FY3/23, and 9.1bn yen (+2.5% YoY) for FY3/24. Going forward, we can expect 1) an easing of requests by local governments to shorten business hours, 2) a recovery in demand for eating out due to the progress of vaccinations, and 3) more room to open new stores due to the withdrawal of underperforming restaurants. Although take-out demand at restaurants may peak out in general, we expect dumpling take-out demand to take root as dumplings are a good match for meals at home. In addition, a recovery in the provision of alcoholic beverages will have a positive effect on the average spend per customer. As for the number of directly-owned stores, we assume a gradual increase from 528 at the end of FY3/21 to 554 at the end of FY3/24, with the possibility of accelerating store openings if the take-out and delivery specialty store “Gyoza no Ohsho Joy Naho” to be launched in June is successful.

Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 4.5% and a terminal growth rate of 0.3%, based on our earnings forecasts for FY3/22-FY3/26. Our target price is equivalent to 23.0x our FY3/23 EPS forecast of 315.90 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, customer defection due to food poisoning, and the occurrence of serious governance issues.

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 21-27)

MITA SECURITIES Co., Ltd.

Junichi Shimizu

Chief Analyst, Head of Research

Initiation of coverage

Rating

Buy

Target price (JPY)	7,250
Stock price (JPY) (Jun 21)	5,610
Market cap (JPYbn)	130.6

Key changes

Rating	New
Target price	New
Earnings forecast	New

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

		3/20	3/21	3/22E	3/23E	3/24E
Sales	JPYbn	85.6	80.6	88.4	94.2	96.9
OP	JPYbn	7.7	6.1	7.5	8.8	9.1
RP	JPYbn	8.1	6.9	8.8	9.2	9.4
NP	JPYbn	5.3	4.3	5.5	5.9	6.1
EPS	JPY	283.0	228.4	295.1	315.9	323.9
BPS	JPY	2,681	2,821	3,016	3,212	3,396
DPS	JPY	120.0	100.0	120.0	140.0	150.0
PER	x	20.4	25.5	19.0	17.8	17.3
PBR	x	2.2	2.1	1.9	1.7	1.7
Div. yield	%	2.1	1.7	2.1	2.5	2.7
ROA	%	8.1	5.4	6.0	6.2	6.4
ROE	%	10.9	8.3	10.1	10.1	9.8

Source: Company data, Mita Securities

Company profile

Ohsho Food Service is a Kyoto-based restaurant company that operates the largest Chinese restaurant chain “Gyoza no Ohsho” nationwide. 734 restaurants (528 directly owned, 206 franchised) at the end of FY3/21. Sales of 80.6bn yen in FY3/21. Take-out and delivery sales are strong.

Investment Thesis

Outlook

Take-out demand to take root, in-store alcohol service to return

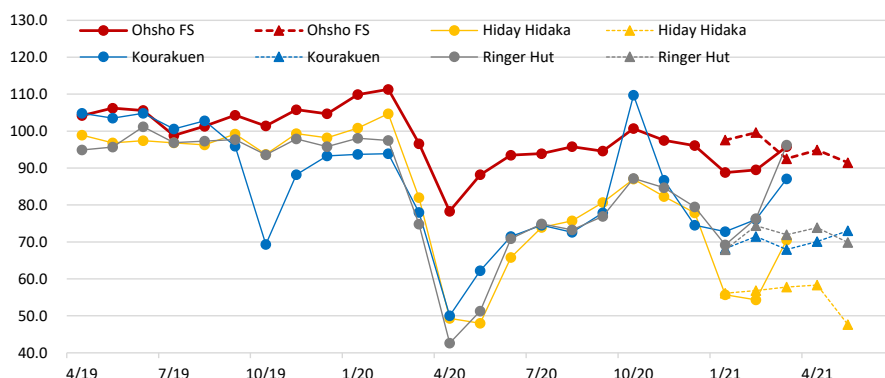
We initiate coverage of Ohsho Food Service Corporation (9936, Ohsho Food Service, the company) with a target price of 7,250 yen and a Buy rating.

The company operates “Gyoza no Ohsho,” a Chinese restaurant chain for the masses, both directly and through franchisees throughout Japan. In the three years prior to the COVID-19 pandemic (FY3/18-FY3/20), the company performed well, with same-store sales at directly-owned stores continuing to increase year on year. In FY3/21, when it was severely affected by the COVID-19 pandemic, sales of in-store dining declined due to shortened business hours, but demand for take-out and delivery was strong, and same-store sales were down only 7.2% YoY. In our view, the company’s solid earnings are supported by its superior cooking techniques, extensive menu, and overwhelming brand recognition as a Chinese restaurant. The company posted an OP of 6.1bn yen (OPM 7.5%) in FY3/21 while many of its competitors fell into the red. As underperforming restaurants are closing their stores, the number of available locations for new openings is increasing. The company appears to be the only major Chinese restaurant chain that can continue to make positive investments. In our view, the company’s competitive advantage will continue to strengthen.

Initiating coverage with a TP of 7,250 yen and a Buy rating

Outstanding results for a Chinese restaurant chain. Competitive advantage to be further strengthened in the wake of the COVID-19

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 88.4bn yen (+9.6% YoY) and OP of 7.5bn yen (+23.0% YoY) for FY3/22, exceeding the company’s guidance of 83.9bn yen in sales and 6.7bn yen in OP. We expect the number of directly-owned stores at the end of the fiscal year to be 538 (+1.9% YoY), the same as the company’s assumption. We assume same-store sales to grow +8.3% YoY (+6.4% in number of customers and +1.7% in average spend per customer), exceeding the company’s assumption of +2.1%. This corresponds to a +0.5% increase in same-store sales compared to FY3/20 (-9.7% in number of customers and +11.3% in average spend per customer).

Going forward, we can expect 1) a further easing of requests by local governments for restaurants to close or shorten hours and refrain from serving alcohol, 2) a recovery in demand for eating out due to the progress of vaccinations, and 3) more room to open new stores due to the closure of

We expect FY3/22 results to exceed the company’s guidance. Expect take-out demand to take root and recovery in in-store dining, including alcoholic beverages

underperforming restaurants. Although take-out demand for restaurant meals is likely to peak out in general, we believe that demand for dumpling take-out will take root because dumplings are a good match for meals at home. We also believe that a recovery in alcohol orders for in-store dining will have a positive effect on average spend per customer.

We expect OP to be 8.8bn yen (+18.4% YoY) in FY3/23, surpassing the pre-COVID-19 OP. For 3/24, we expect OP to be 9.1bn yen (+2.5% YoY). We assume a moderate increase in the number of directly-owned stores, from 546 at the end of FY3/23 (+1.5% YoY) to 554 at the end of FY3/24 (+1.5% YoY). However, if the take-out/delivery specialty store “Gyoza no Ohsho Joy Naho” to be launched in June is successful, there will be a greater possibility of accelerated store openings.

We expect OP to exceed that before the COVID-19 in FY3/23. Take-out/delivery specialty stores, if successful, to become additional growth driver

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

JPYm	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	3/22	3/22	3/23	3/24
	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	CoE	Consensus	Consensus	Consensus
Earnings												
Sales	81,638	85,571	80,616	88,379	94,232	96,941	100,968	103,221	83,854	88,760	94,790	97,360
(YoY, %)	4.5	4.8	-5.8	9.6	6.6	2.9	4.2	2.2				
Operating profit	6,924	7,698	6,073	7,473	8,849	9,068	9,541	9,850	6,685	8,000	8,500	9,100
(YoY, %)	25.8	11.2	-21.1	23.0	18.4	2.5	5.2	3.2				
OPM (%)	8.5	9.0	7.5	8.5	9.4	9.4	9.4	9.5				
Recurring profit	7,310	8,084	6,867	8,768	9,151	9,376	9,859	10,168	7,915	8,400	8,900	9,500
(YoY, %)	26.5	10.6	-15.1	27.7	4.4	2.5	5.1	3.1				
Net profit	4,189	5,311	4,287	5,539	5,930	6,081	6,404	6,612	5,167	5,290	5,630	6,030
(YoY, %)	14.7	26.8	-19.3	29.2	7.1	2.5	5.3	3.2				
Depreciation	2,553	2,503	2,525	2,601	2,684	2,763	2,846	2,933	2,562			
Capital expenditure	1,448	2,243	3,192	4,390	3,400	3,500	3,690	3,790	4,363			
Free CF	7,188	5,586	2,380	4,439	5,658	5,365	5,763	5,758				
KPI												
Number of directly-owned stores	516	523	528	538	546	554	563	572				
(YoY, %)	1.4	1.4	1.0	1.9	1.5	1.5	1.6	1.6				
Sales per store (directly-owned)	147	152	141	152	160	162	166	167				
(YoY, %)	1.7	3.4	-7.4	8.3	4.9	1.4	2.6	0.6				
Number of FC stores	213	214	206	210	213	216	219	222				
(YoY, %)	-6.2	0.5	-3.7	1.9	1.4	1.4	1.4	1.4				
Per share indicators												
EPS (JPY)	223.32	283.04	228.37	295.08	315.90	323.94	341.17	352.20	275.26	281.80	299.91	321.22
BPS (JPY)	2,498.80	2,680.93	2,820.79	3,015.88	3,211.78	3,395.72	3,586.89	3,769.09				
DPS (JPY)	120.00	120.00	100.00	120.00	140.00	150.00	170.00	180.00	100.00			
Valuation, profitability, etc.												
PER (x)	31.4	20.4	25.5	19.0	17.8	17.3	16.4	15.9				
PBR (x)	2.8	2.2	2.1	1.9	1.7	1.7	1.6	1.5				
Dividend payout ratio (%)	53.7	42.4	43.8	40.7	44.3	46.3	49.8	51.1				
Dividend yield (%)	1.7	2.1	1.7	2.1	2.5	2.7	3.0	3.2				
ROA (%)	6.5	8.1	5.4	6.0	6.2	6.4	6.8	6.7				
ROE (%)	9.0	10.9	8.3	10.1	10.1	9.8	9.8	9.6				
Financial soundness indicators												
Capital ratio (%)	73.3	74.5	58.1	60.3	61.4	69.2	70.0	70.8				
Debt/Equity (x)	0.1	0.1	0.5	0.4	0.4	0.2	0.2	0.2				

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, recovery in quarterly profits, easing of requests by local governments to shorten business hours, and progress in vaccination against the COVID-19.

Valuations

Stock valuation based on the residual income model (RIM)

In calculating our target price of 7,250 yen, we used a residual income model (RIM) with a cost of equity of 4.5% and a terminal growth rate of 0.3%, based on our earnings forecasts for FY3/22-FY3/26. Our target price is equivalent to 23.0x our FY3/23 EPS forecast of 315.90 yen.

TP of 7,250 yen based on RIM

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	A	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE
JPYbn	3/21	3/22	3/23	3/24	3/25	3/26	3/27
Shareholders' equity (EOP)	53.0	56.6	60.3	63.7	67.3	70.8	
Net profit		5.5	5.9	6.1	6.4	6.6	
Cost of equity		2.4	2.5	2.7	2.9	3.0	
Residual income		3.2	3.4	3.4	3.5	3.6	
PV of residual income		3.0	3.1	3.0	3.0	2.9	
PV of terminal value							68.6
Beta	0.80						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	4.50						
Terminal growth rate (%)	0.30						
Total equity value							136.5
Number of shares O/S (m)							18.772
Target share price							7,250

Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate	0.00	0.10	0.20	0.30	0.40	0.50	0.60	0.70	0.80	0.90
Target price	7,000	7,100	7,200	7,250	7,350	7,450	7,550	7,650	7,800	7,900

Source: Mita Securities

Figure: Ohsho Food Service's PER (reference)



Source: Bloomberg Finance LP data, Mita Securities

Comparison of valuations with food service companies (reference)

The company's P/E ratio (based on Bloomberg consensus forecasts) is significantly lower than the average and median for restaurant operators, giving the impression that the company is undervalued. However, it is important to note that the number of sell-side analysts' forecasts that make up the consensus forecast seems to be small.

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
CHOUHIMARU 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 NICHIRETS 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	NA	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 RENOIIR 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
GOUMRET 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
MATSUYAFOODS 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

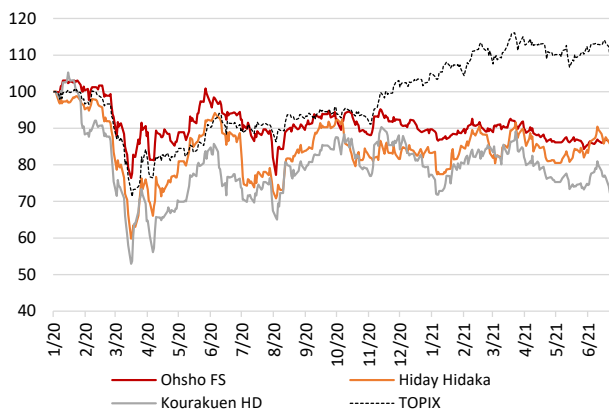
Figure: Comparison of valuations for food service companies (Chinese restaurants, ramen)

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
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
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
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
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

Source: Bloomberg Finance LP data, Mita Securities

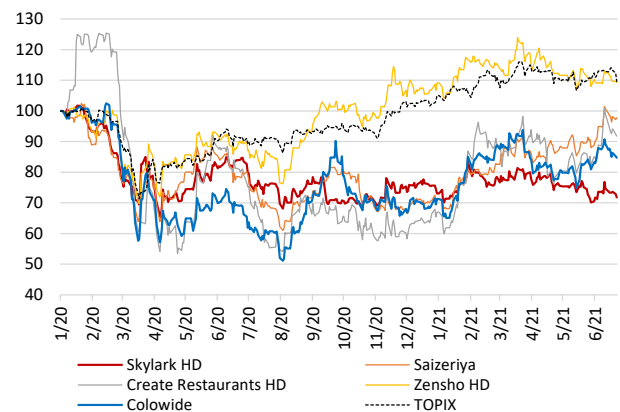
Note: Forecasts are based on Bloomberg consensus. Shading indicates stocks covered by Mita Securities

Figure: Stock price trends (Chinese restaurants)



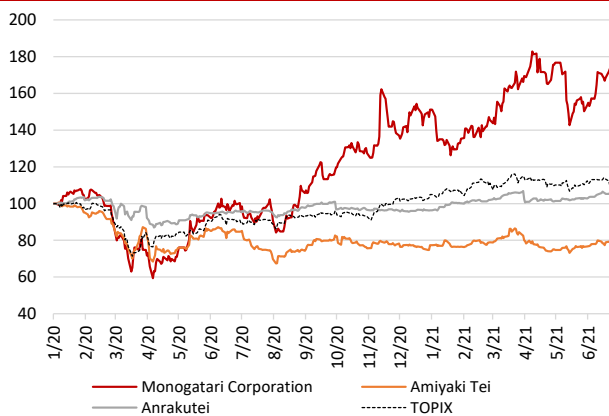
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

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



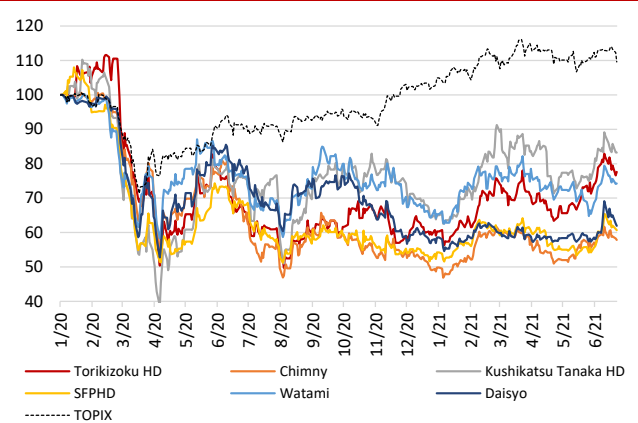
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Figure: Stock price trends (Japanese BBQ)



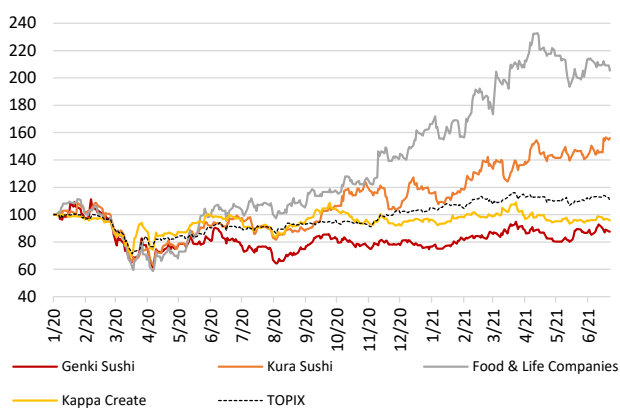
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Figure: Stock price trends (Japanese style pubs)



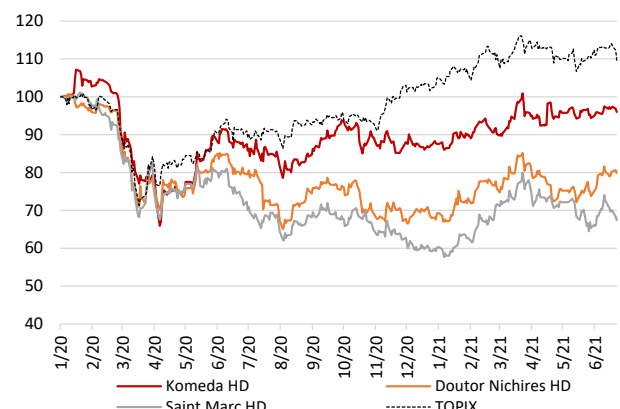
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

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, customer defection due to food poisoning, and the occurrence of serious governance issues.

Company overview

Company overview

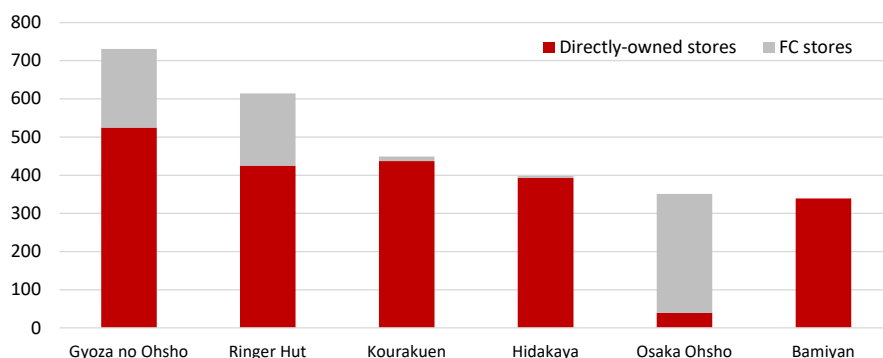
Overview of Ohsho Food Service

Based in Kyoto City, Kyoto Prefecture, Ohsho Food Service operates the “Gyoza no Ohsho” Chinese restaurant chain both directly and through franchisees nationwide. As of the end of FY3/21, the company had 734 stores (528 directly-owned and 206 franchise stores). Of these, three are overseas stores in Taiwan. The company appears to have the largest market share as a Chinese restaurant chain. Its main competitors include Osaka Ohsho, Hidakaya, Kourakuen, Bamiyan, and Ringer Hut.

Consolidated sales for FY3/21 were 80.6bn yen (-5.8% YoY), OP 6.1bn yen (-21.1% YoY), and OPM 7.5%. Although in-store dining declined due to the COVID-19 pandemic, it was largely offset by a surge in take-out and delivery demand, resulting in exceptionally high profits for a restaurant operator. The company’s earnings before the COVID-19 pandemic were strong, with FY3/19 OP of 6.9bn yen (+25.8% YoY, OPM 8.5%) and FY3/20 OP of 7.7bn yen (+11.2% YoY, OPM 9.0%).

Largest Chinese restaurant chain in Japan. Demand for take-out and delivery is strong despite the COVID-19 pandemic

Figure: Comparison of store count for Chinese restaurant chains (domestic stores)



Source: Companies data, Mita Securities Note: End-Mar 21 for Gyoza no Ohsho, Kourakuen and Bamiyan. End-Feb 21 for others

Strengths and challenges

We believe that the company’s strengths lie in 1) the superior cooking skills of its chefs, 2) its overwhelming brand recognition as a Chinese restaurant for the masses, and 3) its robust store profit management system. At its stores, the chefs themselves cook the fresh dumplings, which are formed at the company’s own factory, on teppan (generally, chain restaurants use frozen dumplings and automatic dumpling cooking machines to simplify the process). Because the chefs have excellent cooking skills, they can offer a variety of set meal menus by hand, in addition to standard dishes such as dumplings, ramen, and fried rice. Despite being a large chain, the company does not aspire to simplify operations by making cooking manual. By enhancing the capabilities of individual employees, the company has been able to achieve high efficiency, which has led to high profitability at the store level and brand recognition as a Chinese restaurant for the masses.

Strengths include cooking skills of chefs, brand recognition, and profit management system

On the other hand, the pace of new store openings has been moderate, partly due to the lack of simplification of operations through manuals. The company’s challenge is to develop sufficient human resources for new store openings while focusing on the growth of existing stores.

Securing chefs a challenge in expanding store openings

Group companies

The difference between consolidated sales and parent company sales is extremely limited: FY3/21 consolidated sales were 80.6bn yen, while parent company sales were 80.3bn yen, a difference of 0.3bn yen.

Subsidiary Ohsho Heartful processes vegetables used to make dumplings and provides cleaning services for uniforms used in stores and factories. In Taiwan, a subsidiary operates the “Gyoza no Ohsho” restaurant.

Figure: Subsidiaries

Subsidiary name	Voting rights (%)	Location	Overview
Ohsho Restaurant Service Co., Ltd.	100.0	Taipei, Taiwan	Operation of Chinese restaurants in Taiwan
Ohsho Heartful Corp.	100.0	Kyoto City, Kyoto Prefecture	Food processing and cleaning

Source: Company data, Mita Securities

Company history

The company's predecessor was a privately owned restaurant in Kyoto, Japan, which was incorporated in 1974 as Ohsho Chain Corporation and changed its name to Ohsho Food Service Corporation in 1990. In 1993, the company was registered with the Japan Securities Dealers Association as an over-the-counter stock. In 1995, the company was listed on the Second Section of the Osaka Securities Exchange; in 2006, it was listed on the First Section of the Osaka Securities Exchange; in 2013, it moved to the First Section of the Tokyo Stock Exchange. In 2015, the company reached 700 stores in Japan. In 2016, it established the Higashi Matsuyama Factory in Saitama Prefecture to supply food ingredients to stores in eastern Japan.

Figure: History

Date	Event
Dec-67	Opened the first Ohsho store in Kyoto City, Kyoto Prefecture. Expanded network mainly in Kyoto City
Jul-74	Established Ohsho Chain Corporation (currently Ohsho Food Service Corporation)
Apr-81	Established Kyushu Factory (Fukuoka Prefecture)
Feb-90	Established Kumiyama Factory (Kyoto Prefecture)
Dec-90	Company name changed to Ohsho Food Service Corporation
Mar-93	Registered with the Japan Securities Dealers Association as an over-the-counter stock
Jan-95	Listed on the Osaka Securities Exchange (Second Section) and the Kyoto Stock Exchange
Mar-06	Listed on the Osaka Securities Exchange (First Section)
Jul-07	Achieved 500 store count in Japan
Dec-11	Established Sapporo Factory (Hokkaido)
Jul-13	Moved to the Tokyo Stock Exchange (First Section)
Dec-13	Naoto Watanabe appointed President and Representative Director (current position)
Oct-14	Use of domestic products for main ingredients of gyoza and domestic flour for noodles
Feb-15	Achieved 700 store count in Japan
Dec-15	Third-party committee established to evaluate and verify corporate governance (investigation report received in March 2016)
Feb-16	Established Higashi Matsuyama Factory (Saitama Prefecture)
Oct-19	Introduced cashless payment system using credit cards and digital money to all directly-owned stores

Source: Company data, Mita Securities

Major shareholders/management team

The company's effective largest shareholder is Ariake Japan, a seasoning manufacturer. Japan Food Business is the asset management company of Ariake Japan's founder, so the two companies are effectively one and the same. The total holding of the two companies is 13.4%. The effective second largest shareholder is Asahi Breweries, a liquor manufacturer, with a 10.9% stake. The total holding of the founding family is 9.3%.

Figure: Major shareholders (end-FY3/21)

Major shareholders	Shares held (%)
Asahi Breweries	10.9
Japan Food Business	7.5
Ariake Japan	5.9
The Master Trust Bank of Japan (trust account)	5.3
Umeko Kato	3.3
Hiromi Kato	3.2
Kato Asao International Scholarship	2.8

Source: Company data, Mita Securities

Details of business

Breakdown of sales

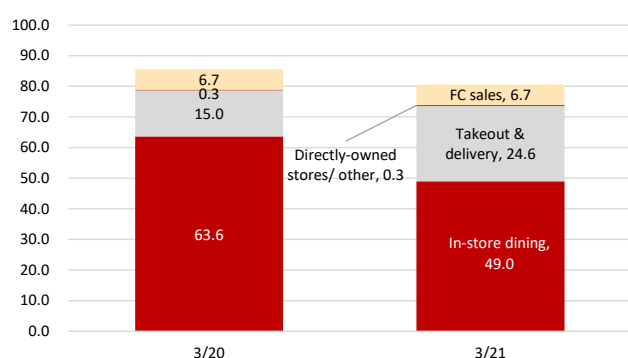
Breakdown of consolidated sales

The breakdown of consolidated sales of 80.6bn yen for FY3/21 is 73.9bn yen for the directly-owned stores and 6.7bn yen for the franchise business. Directly-owned stores in Japan accounted for 73.6bn yen and overseas (Taiwan) for 0.3bn yen, while franchise sales were mainly related to the wholesale of food ingredients to franchise stores. The company does not include royalties received from franchise stores as sales, but rather as non-operating income.

Recently, most restaurant operators have experienced a significant decline in sales due to the COVID-19 pandemic, but the company fared well in FY3/21 with sales down only 5.8% YoY. While in-store dining sales (based on directly-owned stores in Japan) declined by 23.0%, take-out and delivery sales grew rapidly by 64.1%, accounting for 33.4% of total sales (19.1% in FY3/20).

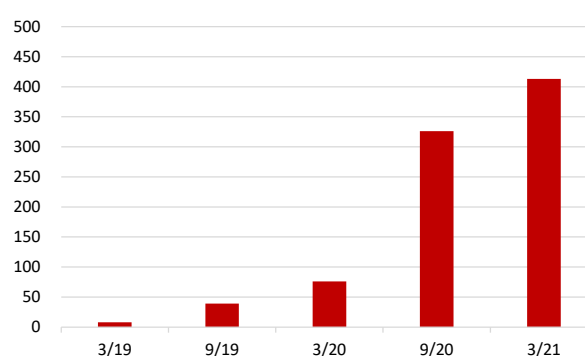
Take-out and delivery sales have grown to account for 1/3 of total sales

Figure: Sales breakdown (JPYbn)



Source: Company data, Mita Securities

Figure: Number of stores offering delivery service



Source: Company data, Mita Securities

Breakdown of store count

Breakdown of stores by region

The number of stores at the end of FY3/21 was 734. Of these, 528 were directly-owned stores and 206 were franchised stores. Three of the directly-owned stores are located overseas (Taiwan).

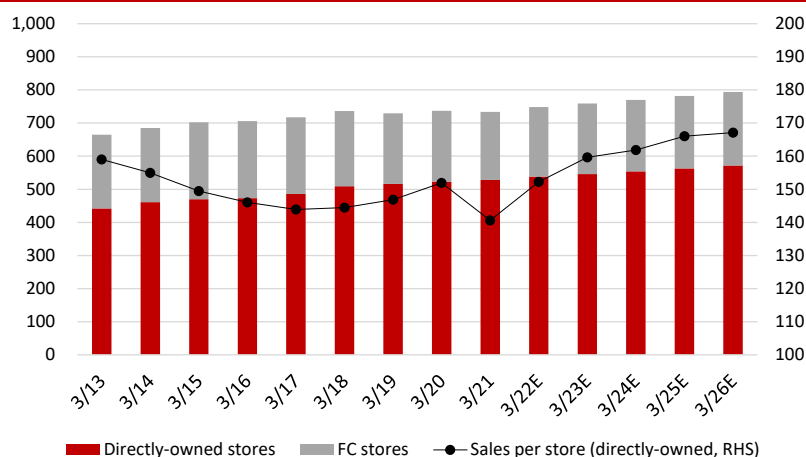
The regional composition of directly-owned stores was 45% in Kansai, 28% in Kanto, 10% in Tokai, and 5% in Kyushu. The company is based in Kyoto Prefecture and has already established a strong store network in the Kansai region. In the Kansai region, the company has a large number of stores near train stations and shopping districts, as well as roadside stores, many of which are large with seating capacities exceeding 100. In the Kanto region, on the other hand, stores are mainly located near train stations and shopping districts, and many of them in Tokyo have seating capacities of less than 50. The company's future store openings are likely to be centered in the Kanto region. For stores in the Kanto region, the company already has a system in place to supply ingredients from its Higashi Matsuyama Factory.

In terms of the regional distribution of stores, we believe that the closest competitor in Chinese restaurant chain to "Gyoza no Ohsho" is "Osaka Ohsho." "Osaka Ohsho," which is operated by Eat & Holdings, has a nationwide network of franchises centered on Osaka Prefecture, with a large

Established a strong store network in Kansai. Plans to open stores mainly in Kanto

number of stores in the Kansai region. On the other hand, “Hidakaya” operates stores only in the Kanto region, while “Kourakuen” operates stores mainly in the Kanto and Tohoku regions. In the Kansai region, since “Gyoza no Ohsho” has a strong store network, there seems to be little room left for Chinese restaurant chains based in eastern Japan to expand.

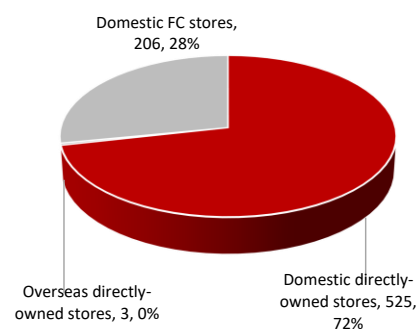
Figure: Store count, sales per store (store, JPYm)



Source: Company data, Mita Securities

Note: Forecasts are by Mita Securities

Figure: Store count breakdown (end-Mar 21)



Source: Company data, Mita Securities

Figure: Breakdown of stores by region for Chinese restaurant companies

Ohsho FS (9936)			Hiday Hidaka (7611)			Kourakuen HD (7554)		
	Store count End-FY3/21	Share (%)		Store count End-FY2/21	Share (%)		Store count End-FY3/21	Share (%)
Kansai	236	44.7	Tokyo	202	46.8	Tohoku	141	32.3
Hokkaido	19	3.6	Saitama	108	25.0	Kanto	243	55.6
Tohoku	5	0.9	Kanagawa	69	16.0	Hokuriku & Koshinetsu	33	7.6
Kanto	147	27.8	Chiba	49	11.3	Tokai	17	3.9
Koshinetsu	8	1.5	Ibaraki	3	0.7	Kansai	3	0.7
Tokai	51	9.7	Tochigi	1	0.2			
Hokuriku	16	3.0						
Chugoku & Shikoku	17	3.2						
Kyushu	26	4.9						
Taiwan	3	0.6						
Total	528	100.0	Total	432	100.0	Total	437	100.0

Source: Companies data, Mita Securities

Overview of “Gyoza no Ohsho”

Menu and average spend per customer

“Gyoza no Ohsho” is a Japanese-style Chinese restaurant. With its wide variety of menu items and reasonable prices, it provides customers with excellent cost performance.

The main menu items include dim sum and fried foods (fried pork dumplings, spring rolls, shumai), noodles (ramen, fried noodles), rice (fried rice, Tianjin rice, Chinese rice), a la carte dishes (stir-fried liver and Chinese chive, shrimp with chili sauce, stir-fried vegetables, sweet-and-sour pork, double cooked pork, bean curd, crab eggs, pork and green peppers), and desserts. For dim sum, fried food, rice, and a la carte dishes, they also offer a “small size menu” so that even a single customer can enjoy a variety of dishes. The set meal menu, which combines several dishes, is also popular. In addition, there is a wide variety of original menu items invented by each restaurant manager, which is rare among chain restaurants. As the company offers many dishes that require a large kitchen workload, competitors are unlikely to be able to imitate the company’s operations.

The main menu items are priced in western Japan as follows: dumplings (6 pieces) 220 yen excluding tax, Gyoza no Ohsho ramen 480 yen, fried rice 400 yen, shrimp with chili sauce 600 yen, double cooked pork 480 yen, and bean curd 450 yen. In the “small size menu,” dumplings (3 pieces) are priced at 120 yen, fried rice at 248 yen, shrimp with chili sauce at 334 yen, double cooked pork at 287 yen, and bean curd at 277 yen. Prices in eastern Japan are set slightly higher than those in western Japan.

The current average spend per customer is slightly less than 1,100 yen, but this includes a large portion of take-out and delivery, which have a high spend per customer. Before the COVID-19 pandemic, the average spend per customer on in-store dining appears to have been around 950 yen, and the percentage of alcohol beverages was about 8%.

Offering a diverse menu with dumplings at the core, including original items for each store.

Prices are reasonable

Average spend per customer for in-store dining is about 950 yen.

Alcohol ratio is 8%

Figure: Fried pork dumplings (gyoza)



Source: Company data

Figure: Exterior view of Shibuya Hachikomae Store



Source: Company data

Food ingredients

In 2014, the company announced the use of domestic products for the main ingredients of dumplings and domestic flour for noodles. Currently, all of the ingredients used in dumplings are domestically produced, with the exception of some seasonings. The garlic used in dumplings is produced in Aomori, and the flour used for the dumpling skin and the noodles (ramen and fried noodles) is produced in Hokkaido.

Focus on domestic food ingredients

Central kitchen

The company has four factories in Kyoto, Saitama, Fukuoka, and Hokkaido that serve as central kitchens for making dumplings, noodles, and ramen soup. Fresh dumplings are formed at the factories and delivered to each store (the company does not freeze dumplings). Most recently, the company has introduced a new dumpling forming line at its Kumiya Factory in Kyoto, increasing its production capacity by about 1.8 times.

Dumplings formed in its own factory are delivered fresh to stores

In-store cooking

In-store cooking is carried out by chefs with excellent cooking skills. The chefs cook dumplings on the teppan (griddle) themselves, instead of using automatic grillers. This makes it possible to respond to customers' detailed requests. Fried rice and a la carte dishes are also prepared by the chefs using woks. The strength of the company's restaurants lie in their ability to offer a wide variety of authentic menu items through the complex operations of their chefs with excellent cooking skills.

Chefs cook dumplings themselves

Figure: Exterior view of Higashi Matsuyama Factory



Source: Company data

Figure: Central kitchens

Factory name	Location	Areas to be covered
Kumiya Factory	Kyoto	Kansai and Tokai
Kyushu Factory	Fukuoka	Kyushu and Chugoku
Sapporo Factory	Hokkaido	Hokkaido
Higashi Matsuyama Factory	Saitama	East Japan

Source: Company data, Mita Securities

Franchise system

As of the end of FY3/21, there were 206 franchised stores, accounting for 28% of the total chain. FC owners are dispersed, and many of them own three or four stores.

FC sales mainly come from wholesale of food ingredients

FC contracts are for nine years. The company receives only a small amount of royalties from franchise owners, about 100m yen per year for all franchise stores. Most of the company's franchise sales come from the wholesale of food ingredients.

Business performance in the wake of the COVID-19 pandemic

Same-store sales

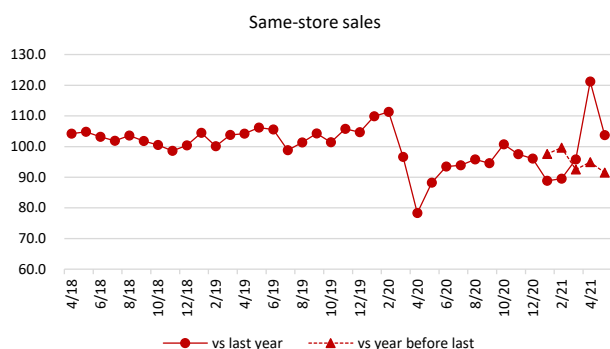
The company's same-store sales (directly-owned stores) in FY3/21 were down 7.2% YoY, an exceptionally strong performance in the restaurant industry, which was severely affected by the COVID-19 pandemic. The breakdown is a 15.2% decrease in the number of customers and a 9.4% increase in average spend per customer. The main reason for the increase in average spend per customer is the significant increase in the take-out and delivery ratio, as one customer often orders foods for multiple people when using take-out or delivery.

Same-store sales in April 2021 were +21.2% YoY and -5.1% vs. April 2019 (our estimate); same-store sales in May were +3.7% YoY and -7.4% vs. May 2019. The impact of suspending alcoholic beverage sales in areas under the emergency declarations and measures to prevent the spread of the disease has been strong. This means that there is room for a large increase in sales when alcohol service is resumed.

Same-store sales declined 7.2% YoY in FY3/21. Exceptionally strong performance in the restaurant industry

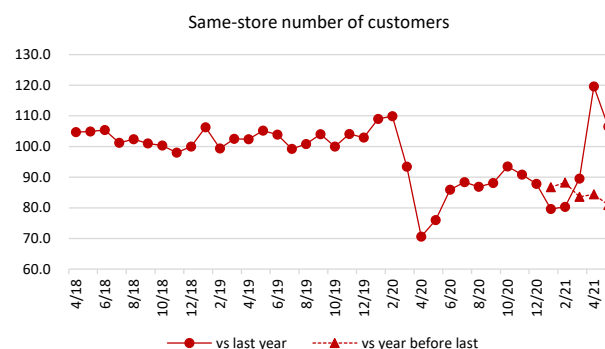
Room for significant growth in sales once alcohol service is resumed

Figure: Same-store sales



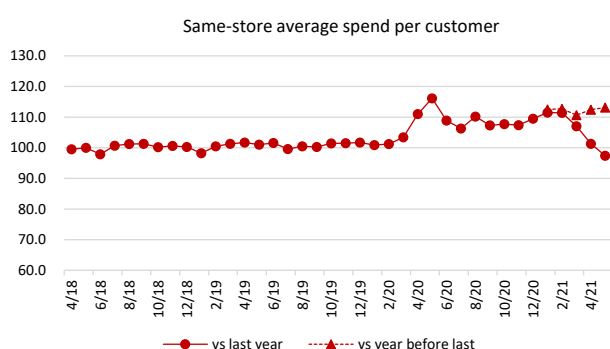
Source: Company data, Mita Securities

Figure: Same-store number of customers



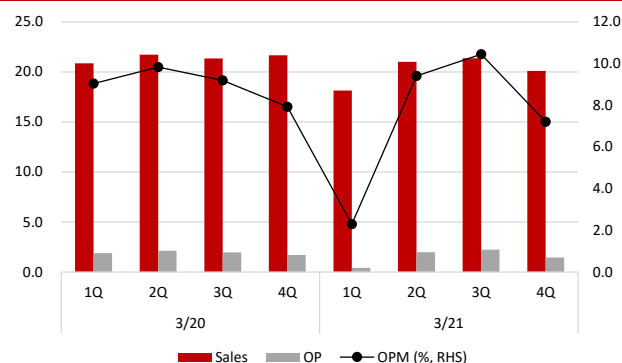
Source: Company data, Mita Securities

Figure: Same-store average spend per customer



Source: Company data, Mita Securities

Figure: Quarterly earnings (JPYbn)



Source: Company data, Mita Securities

Comparison of earnings with competitors

The following is a comparison of Ohsho Food Service's (the company's) main business performance items with those of its competitors (Hiday Hidaka and Kourakuen HD). In FY3/21, the company was able to maintain an OPM of 7.5% despite a 5.8% decline in sales, while the other two companies suffered significant sales declines of around 30% and both suffered significant operating losses. Hiday Hidaka had achieved the same level of OPM as the company prior to the COVID-19 pandemic, but many of its stores are located near train stations in central Tokyo, and the COVID-19 impact seemed to have been significant. As for Kourakuen HD, its business performance had been sluggish even before the COVID-19 pandemic. Both Hiday Hidaka and Kourakuen HD did not see the same increase in average spend per customer as the company.

The company's debt increased substantially in FY3/21, but this was due to borrowing to prepare for unexpected situations. Net debt, which is debt minus liquidity on hand, continues to be significantly negative. The company's financial soundness and cash flow stability are well maintained. Hiday Hidaka's net debt is negative, but its liquidity on hand has declined substantially. Kourakuen HD continues to face a difficult financial situation. Although Kourakuen HD has secured its near-term cash needs by entering into a commitment line, its problem lies in its low equity capital. In its earnings presentation materials, Kourakuen HD stated that it still has the capacity to raise funds through the sale of treasury stock (book value of 2.4bn yen), and the market is likely to be concerned about the possibility of equity financing in the event of a downturn in earnings.

Strong results far surpassing competitors in the Chinese restaurant market. Stable financials

Figure: Comparison of earnings for Chinese restaurant operators (JPYm)

Company name	Ohsho FS	Hiday Hidaka	Kourakuen HD
Ticker	9936	7611	7554
FY21 CoE	3/22	2/22	3/22
Sales	83,854	NA	28,800
(YoY, %)	4.0	NA	8.4
OP	6,685	NA	300
OPM (%)	8.0	NA	1.0
FY20	3/21	2/21	3/21
Sales	80,616	29,563	26,565
(YoY, %)	-5.8	-30.0	-30.5
OP	6,073	-2,799	-1,729
OPM (%)	7.5	-9.5	-6.5
ROE (%)	8.3	-12.2	-23.7
FCF	2,380	-4,499	247
Cash and cash equivalents	39,590	6,925	2,905
Debt	26,994	0	6,316
Net debt	-12,596	-6,925	3,411
Shareholders' equity	52,952	21,916	3,163
FY19	3/20	2/20	3/20
Sales	85,571	42,209	38,237
(YoY, %)	4.8	0.8	-7.3
OP	7,698	4,096	660
OPM (%)	9.0	9.7	1.7
ROE (%)	10.9	10.1	-15.3
FCF	5,586	2,271	140
Cash and cash equivalents	17,117	12,801	1,642
Debt	4,837	0	4,776
Net debt	-12,280	-12,801	3,134
Shareholders' equity	50,305	26,235	3,933

Source: Companies data, Mita Securities Note: March fiscal year end for Ohsho FS and Kourakuen HD, February for Hiday Hidaka

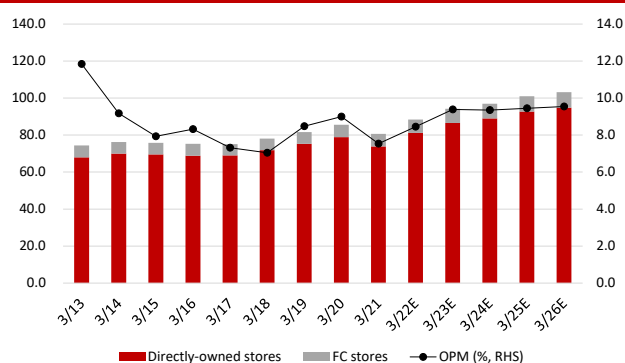
Growth strategies

Moderate, but steady growth

The company's store operations are supported by chefs with excellent cooking skills, so securing human resources is an issue as the company expands its store network. The core of the company's growth strategy is to brush up the performance of existing stores and to train personnel who will be responsible for growth. The company will continue to expand its store network to an extent that does not overwhelm its human resource development. The company is likely to open new stores mainly in the Kanto region, where it does not yet have a large store network and where it can take advantage of the Higashi Matsuyama Factory's capabilities. The number of available locations is expected to increase due to the withdrawal of underperforming restaurant operators, which should provide an opportunity for the company. The company plans to open a take-out/delivery specialty store "Gyoza no Ohsho Joy Naho" in June. If it succeeds, it could become a new growth driver.

Growth drivers are 1) brushing up performance of existing stores and 2) expanding store network in Kanto. Take-out/delivery specialty stores should also attract attention

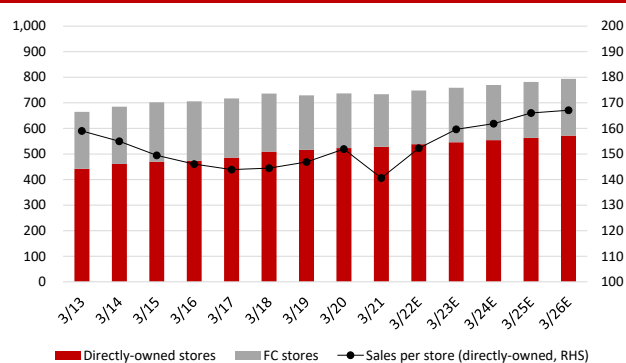
Figure: Sales (JPYbn) and OPM (%)



Source: Company data, Mita Securities

Note: Forecasts are by Mita Securities

Figure: Store count, sales per store (JPYm)



Source: Company data, Mita Securities

Note: Forecasts are by Mita Securities

Mita Securities' earnings forecast

Earnings forecast for FY3/22

We forecast consolidated sales of 88.4bn yen (+9.6% YoY), OP of 7.5bn yen (+23.0% YoY), and NP of 5.5bn yen (+29.2% YoY) for FY 3/22, all above the company's guidance (sales of 83.9bn yen, OP of 6.7bn yen, and NP of 5.2bn yen). We expect the number of directly-owned stores at the end of the fiscal year to be 538 (+1.9% YoY), the same as the company's assumption. We expect same-store sales to grow +8.3% YoY (+6.4% in number of customers and +1.7% in average spend per customer), exceeding the company's assumption of +2.1%. This corresponds to a +0.5% increase in same-store sales (-9.7% in number of customers and +11.3% in average spend per customer) compared to FY3/20.

Going forward, we can expect 1) a further easing of requests by local governments for restaurants to close or shorten hours and refrain from serving alcohol, 2) a recovery in demand for eating out due to progress in vaccinations, and 3) more room to open new stores due to the withdrawal of underperforming restaurants. Although take-out demand for restaurant meals is likely to peak out in general, we believe that demand for dumpling take-out will take root as dumplings are a good match for meals at home. In addition, a recovery in the alcohol ratio for in-store dining should have a positive effect on average spend per customer.

We expect OP up 23% to 7.5bn yen. Expect take-out to take root and in-store alcohol service to return

Outlook for FY3/23 and beyond

We forecast OP of 8.8bn yen (+18.4% YoY) in FY3/23, surpassing the performance before the COVID-19 pandemic. Thereafter, we forecast moderate growth in OP to 9.1 bn yen in FY3/24, 9.5bn yen in FY3/25, and 9.9bn yen in FY3/26. We expect a gradual increase in the number of directly-owned stores from 546 at the end of FY3/23 to 572 in FY3/26, and the total number of stores in the chain at the end of FY3/26 to be 794. However, if "Gyoza no Ohsho Joy Naho," a take-out/delivery specialty restaurant to be rolled out in June, is successful, the possibility of further store openings will increase.

We expect OP to be 8.8bn yen in FY3/23, higher than before the COVID-19 pandemic. Modest growth thereafter. Growth may accelerate if take-out/delivery specialty stores are successful

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

Various indicators	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr ave growth
Consolidated	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Sales growth (%)	4.0	4.5	4.8	-5.8	9.6	6.6	2.9	4.2	2.2	
Same-store sales growth (%)	1.4	2.3	4.0	-7.2	8.3	4.9	1.4	2.6	0.6	
Directly-owned store count growth (%)	4.7	1.4	1.4	1.0	1.9	1.5	1.5	1.6	1.6	
OP growth (%)	0.2	25.8	11.2	-21.1	23.0	18.4	2.5	5.2	3.2	
RP growth (%)	-0.4	26.5	10.6	-15.1	27.7	4.4	2.5	5.1	3.1	
NP growth (%)	-4.9	14.7	26.8	-19.3	29.2	7.1	2.5	5.3	3.2	
Gross profit margin (%)	69.5	70.1	70.3	69.6	69.7	69.8	69.8	69.8	69.9	
OP margin (%)	7.0	8.5	9.0	7.5	8.5	9.4	9.4	9.4	9.5	
EBITDA margin (%)	11.1	11.6	11.9	10.7	11.4	12.2	12.2	12.3	12.4	
ROA (%)	5.6	6.5	8.1	5.4	6.0	6.2	6.4	6.8	6.7	
ROE (%)	8.1	9.0	10.9	8.3	10.1	10.1	9.8	9.8	9.6	

Source: Company data, Mita Securities

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

PL	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr ave growth
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Sales	78,117	81,638	85,571	80,616	88,379	94,232	96,941	100,968	103,221	5.1
COGS	23,797	24,376	25,423	24,527	26,779	28,458	29,276	30,492	31,070	
Gross profit	54,319	57,261	60,148	56,088	61,600	65,774	67,665	70,476	72,151	
SGA	48,816	50,337	52,449	50,014	54,127	56,925	58,597	60,935	62,301	
Operating profit	5,503	6,924	7,698	6,073	7,473	8,849	9,068	9,541	9,850	10.2
Non-operating income	459	510	515	959	1,462	462	463	463	463	
Non-operating expense	181	123	129	166	167	160	155	145	145	
Recurring profit	5,780	7,310	8,084	6,867	8,768	9,151	9,376	9,859	10,168	8.2
Extraordinary gains	36	0	97	0	0	0	0	0	0	
Extraordinary losses	340	705	235	276	500	300	300	300	300	
Pre-tax profit	5,476	6,606	7,946	6,591	8,268	8,851	9,076	9,559	9,868	8.4
Corporate taxes	1,824	2,417	2,634	2,304	2,728	2,921	2,995	3,154	3,256	
Minority interests	0	0	0	0	0	0	0	0	0	
Net profit	3,652	4,189	5,311	4,287	5,539	5,930	6,081	6,404	6,612	9.1
EBITDA	8,640	9,477	10,201	8,598	10,074	11,533	11,831	12,387	12,783	8.3
Shares O/S	18.723	18.758	18.764	18.772	18.772	18.772	18.772	18.772	18.772	
EPS	195.06	223.32	283.04	228.37	295.08	315.90	323.94	341.17	352.20	
BPS	2,463.44	2,498.80	2,680.93	2,820.79	3,015.88	3,211.78	3,395.72	3,586.89	3,769.09	
DPS	120.0	120.0	120.0	100.0	120.0	140.0	150.0	170.0	180.0	
Payout ratio (%)	61.5	53.7	42.4	43.8	40.7	44.3	46.3	49.8	51.1	

Source: Company data, Mita Securities

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

Sales and store count by division	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr ave growth
JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Directly-owned stores										
Sales	71,873	75,273	78,920	73,886	81,161	86,536	89,029	92,738	94,825	5.1
(YoY, %)	4.2	4.7	4.8	-6.4	9.8	6.6	2.9	4.2	2.3	
Directly-owned store count (end-FY)	509	516	523	528	538	546	554	563	572	1.6
(YoY, %)	4.7	1.4	1.4	1.0	1.9	1.5	1.5	1.6	1.6	
Sales/Ave store count	144	147	152	141	152	160	162	166	167	
(YoY, %)	0.4	1.7	3.4	-7.4	8.3	4.9	1.4	2.6	0.6	
Franchise stores										
Sales	6,244	6,364	6,651	6,730	7,218	7,695	7,913	8,230	8,396	4.5
(YoY, %)	2.7	1.9	4.5	1.2	7.2	6.6	2.8	4.0	2.0	
FC store count (end-FY)	227	213	214	206	210	213	216	219	222	1.5
(YoY, %)	-1.7	-6.2	0.5	-3.7	1.9	1.4	1.4	1.4	1.4	
Sales/Ave store count	27	29	31	32	35	36	37	38	38	
(YoY, %)	4.0	6.1	7.7	2.9	8.3	4.9	1.4	2.6	0.6	
Total store count	736	729	737	734	748	759	770	782	794	1.6
(YoY, %)	2.6	-1.0	1.1	-0.4	1.9	1.5	1.4	1.6	1.5	

Source: Company data, Mita Securities

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

BS	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr ave growth
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Assets										
Total current assets	14,245	16,013	19,554	42,452	43,190	46,790	39,772	42,945	45,656	
Cash and deposits	12,496	14,118	17,117	39,590	40,158	43,563	36,299	39,247	41,814	
Accounts receivable	447	552	1,220	1,597	1,551	1,547	1,640	1,680	1,714	
Inventories	430	394	468	469	513	534	543	579	568	
Other	872	949	749	796	968	1,146	1,290	1,440	1,560	
Total fixed assets	50,857	47,937	47,983	48,701	50,646	51,470	52,316	53,282	54,262	
Tangible assets	37,752	36,089	35,798	36,092	37,881	38,596	39,333	40,177	41,034	
Intangible assets	120	133	145	143	150	150	150	150	150	
Investment and other	12,983	11,714	12,039	12,465	12,615	12,724	12,833	12,955	13,077	
Total assets	65,102	63,950	67,538	91,154	93,835	98,261	92,087	96,227	99,917	1.9
Liabilities										
Total current liabilities	15,034	13,440	13,715	20,582	23,037	23,698	19,020	19,498	19,725	
Accounts payable	2,170	2,074	2,071	1,986	2,168	2,304	2,371	2,469	2,516	
Short-term debt	6,016	3,040	2,842	10,931	12,500	12,500	7,500	7,500	7,500	
Other	6,848	8,326	8,802	7,665	8,369	8,893	9,149	9,529	9,710	
Total non-term liabilities	3,945	3,637	3,517	17,619	14,184	14,271	9,323	9,396	9,438	
Long-term debt	2,462	2,129	1,995	16,063	12,500	12,500	7,500	7,500	7,500	
Other	1,483	1,508	1,522	1,556	1,684	1,771	1,823	1,896	1,938	
Total liabilities	18,979	17,077	17,233	38,201	37,221	37,969	28,343	28,894	29,164	-5.3
Net assets										
Shareholders' equity	46,122	46,872	50,305	52,952	56,614	60,292	63,745	67,333	70,754	6.0
Warrants	0	0	0	0	0	0	0	0	0	
Minorities	0	0	0	0	0	0	0	0	0	
Total net assets	46,122	46,872	50,305	52,952	56,614	60,292	63,745	67,333	70,754	6.0
Debt										
Debt/EBITDA (x)	8,478	5,169	4,837	26,994	25,000	25,000	15,000	15,000	15,000	-11.1
D/E (x)	1.0	0.5	0.5	3.1	2.5	2.2	1.3	1.2	1.2	
D/E (x)	0.2	0.1	0.1	0.5	0.4	0.4	0.2	0.2	0.2	
Shareholders' equity ratio (%)	70.8	73.3	74.5	58.1	60.3	61.4	69.2	70.0	70.8	

Source: Company data, Mita Securities

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

CF	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr ave growth
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Cashflow from operations										
Net profit	6,641	8,783	7,736	5,824	9,029	9,258	9,065	9,653	9,748	
Depreciation and amortization	3,652	4,189	5,311	4,287	5,539	5,930	6,081	6,404	6,612	
Other	3,137	2,553	2,503	2,525	2,601	2,684	2,763	2,846	2,933	
Other	-148	2,041	-78	-988	888	643	220	403	204	
Cashflow from investing										
Capital expenditure	-1,919	-1,595	-2,150	-3,444	-4,590	-3,600	-3,700	-3,890	-3,990	
Disposal of fixed assets	-1,902	-1,448	-2,243	-3,192	-4,390	-3,400	-3,500	-3,690	-3,790	
Other	0	1	250	0	0	0	0	0	0	
Other	-17	-148	-157	-252	-200	-200	-200	-200	-200	
Cashflow from financing										
Debt issuance/repayment	-4,084	-5,557	-2,585	20,092	-3,871	-2,253	-12,628	-2,816	-3,191	
Share issuance/buyback	-1,838	-3,308	-333	22,158	-1,994	0	-10,000	0	0	
Dividend paid	0	-1	0	0	0	0	0	0	0	
Other	-2,246	-2,246	-2,251	-2,064	-1,877	-2,253	-2,628	-2,816	-3,191	
Other	0	-2	-1	-2	0	0	0	0	0	
Cash and cash equivalents										
Free cashflow	12,496	14,118	17,117	39,590	40,158	43,563	36,299	39,247	41,814	
Free cashflow	4,722	7,188	5,586	2,380	4,439	5,658	5,365	5,763	5,758	

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

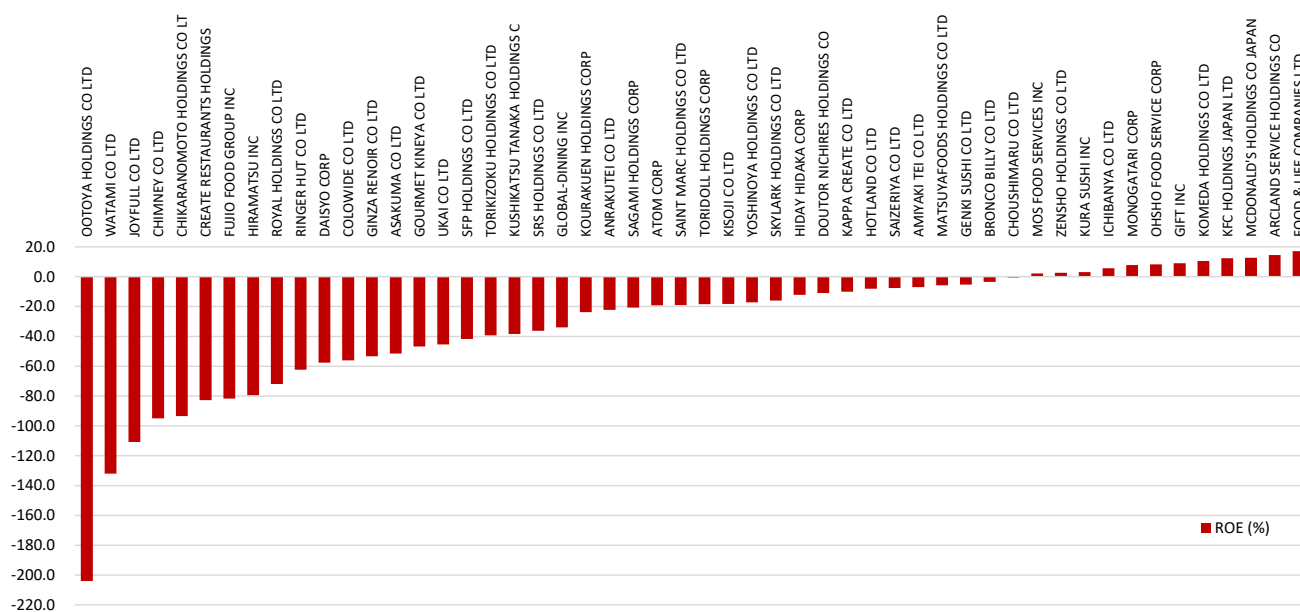
Source: Companies data, Mita Securities

Caution required around the date of earnings announcement

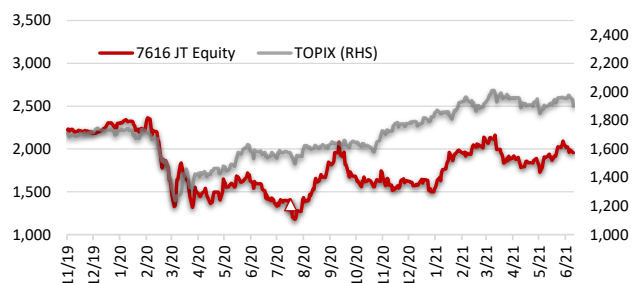
Those companies whose fiscal year ends in March will announce their financial results between the end of July and the beginning of August. We expect a number of restaurant operators to report worse results in the April-June period than in the January-March period, as the emergency extension is expected 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

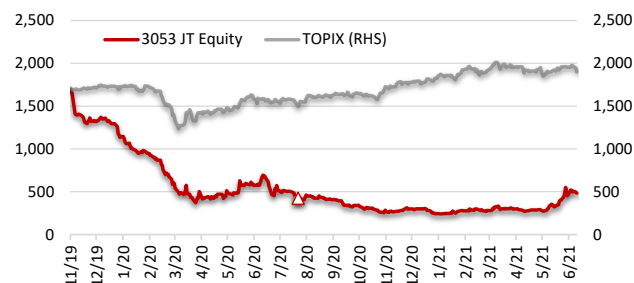
The possibility of dilution risk due to equity financing cannot be dispelled for those restaurant operators that have not carried out recapitalization despite the ongoing damage to their equity capital. It should be noted that recapitalization measures are often announced at the same time as or slightly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

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

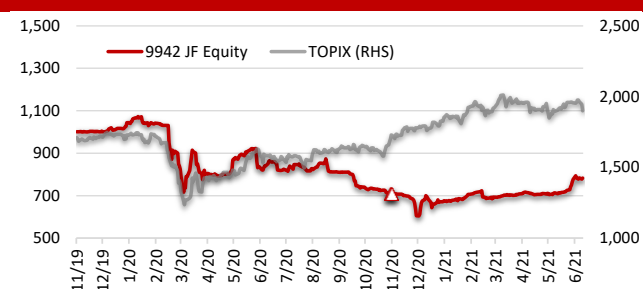
Source: Bloomberg Finance LP data, Mita Securities

Share prices of food restaurant operators that carried out recapitalization (including sub loans)**Figure: Colowide (7616) Issued preferred shares**

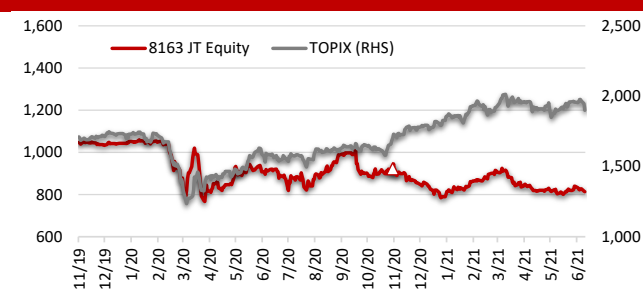
Source: Bloomberg Finance LP data, Mita Securities

Figure: Pepper FS (3053) Issued warrants

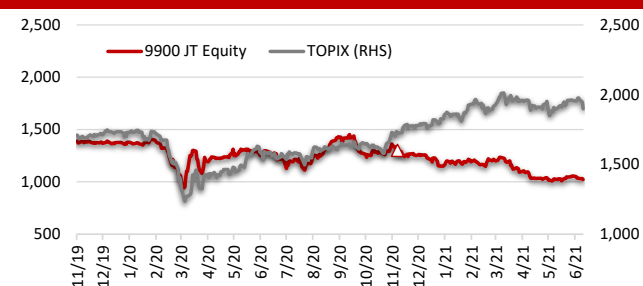
Source: Bloomberg Finance LP data, Mita Securities

Figure: Joyfull (9942) Sold treasury shares

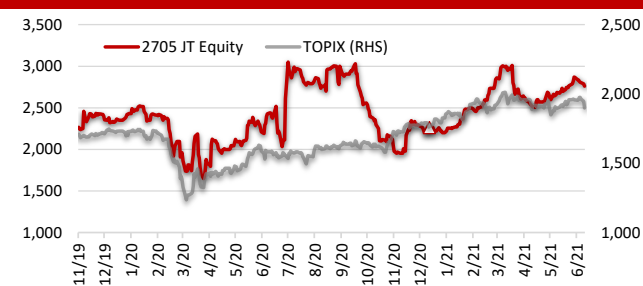
Source: Bloomberg Finance LP data, Mita Securities

Figure: SRS HD (8163) Issued warrants

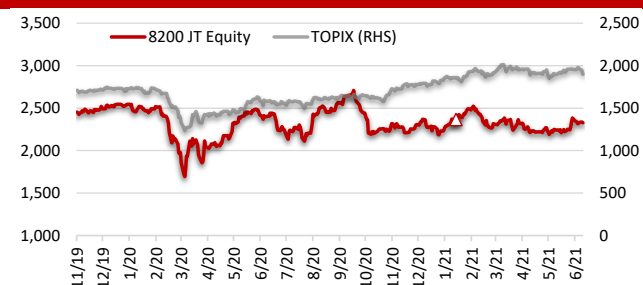
Source: Bloomberg Finance LP data, Mita Securities

Figure: Sagami HD (9900) Issued warrants

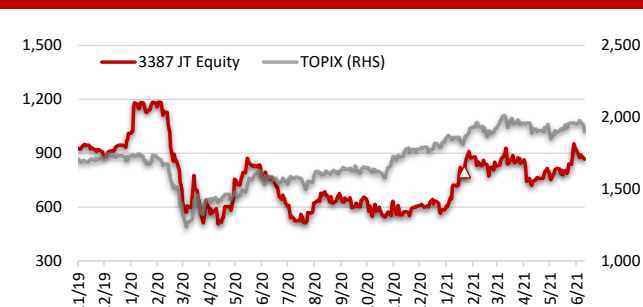
Source: Bloomberg Finance LP data, Mita Securities

Figure: Ootoya HD (2705) Issued preferred shares

Source: Bloomberg Finance LP data, Mita Securities

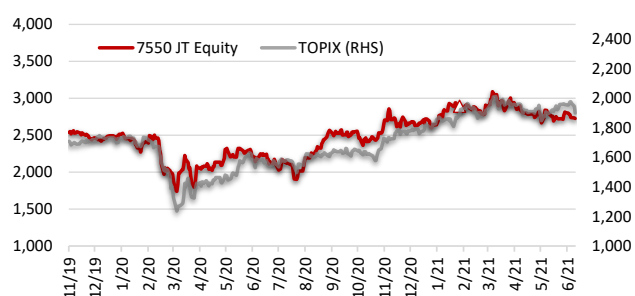
Figure: Ringer Hut (8200) Issued warrants, borrowed subordinated loans

Source: Bloomberg Finance LP data, Mita Securities

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

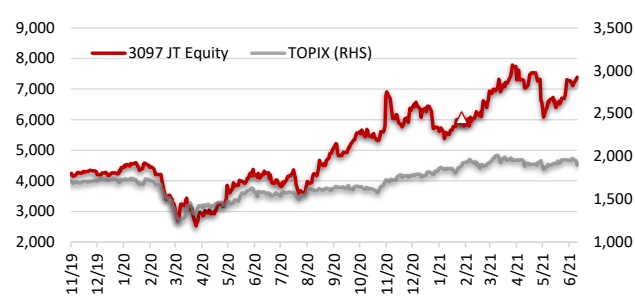
Source: Bloomberg Finance LP data, Mita Securities

Figure: Zensho HD (7550) Borrowed subordinated loans



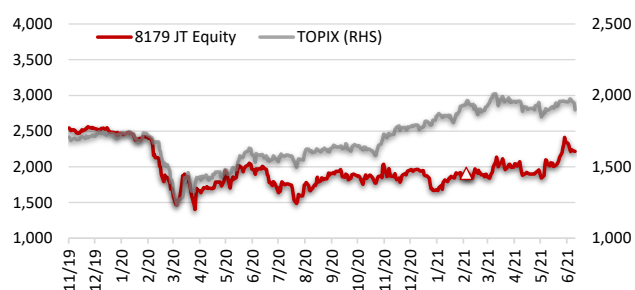
Source: Bloomberg Finance LP data, Mita Securities

Figure: Monogatari Corporation (3097) Issued CB



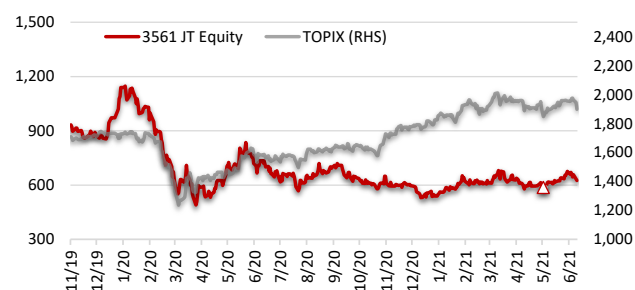
Source: Bloomberg Finance LP data, Mita Securities

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



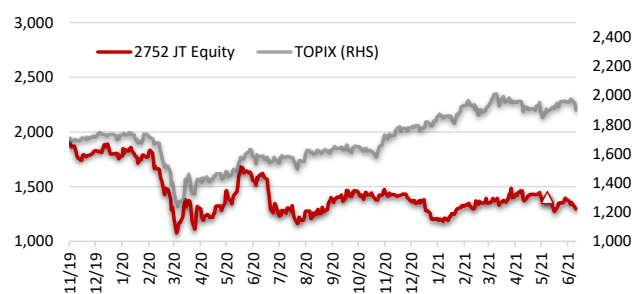
Source: Bloomberg Finance LP data, Mita Securities

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



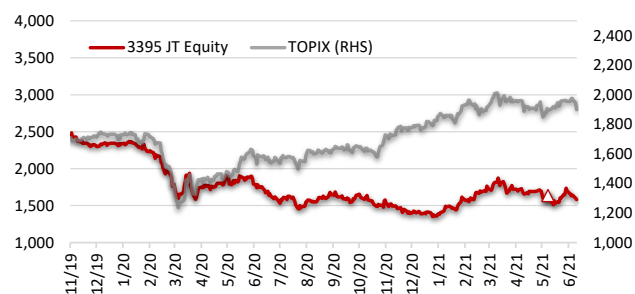
Source: Bloomberg Finance LP data, Mita Securities

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

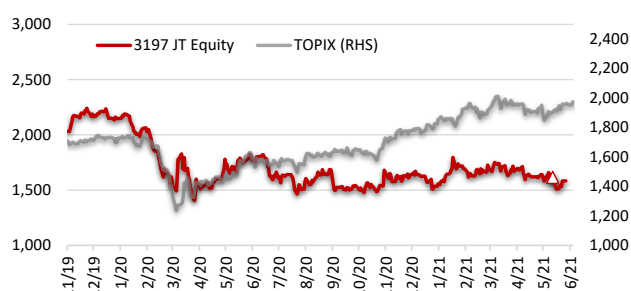


Source: Bloomberg Finance LP data, Mita Securities

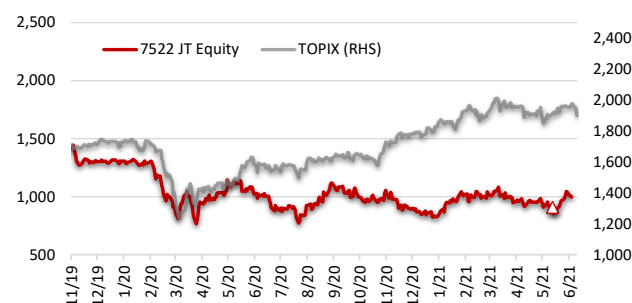
Figure: Saint Marc HD (3395) Issued warrants and CB



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

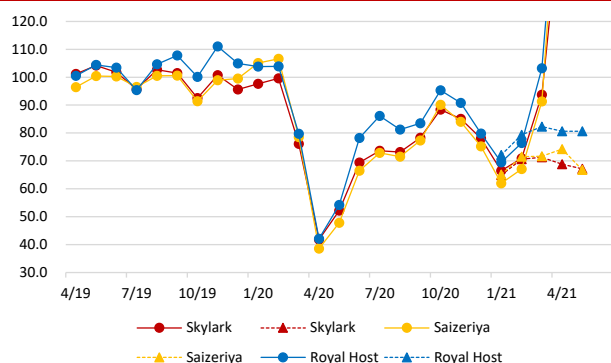
Since spring 2020, when the impact of COVID-19 came into full swing, restaurant operators in general have been struggling with poor sales. In particular, the izakaya (Japanese style pub) category has been severely affected. This was due to the fact that they are mainly open at night, have a high dependence 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

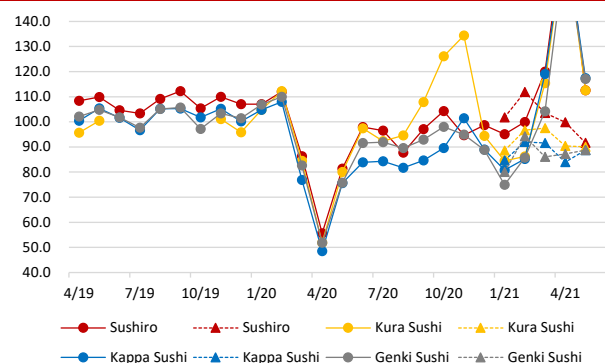
Same-store sales (compared to last year or year before last)

Figure: Family restaurants



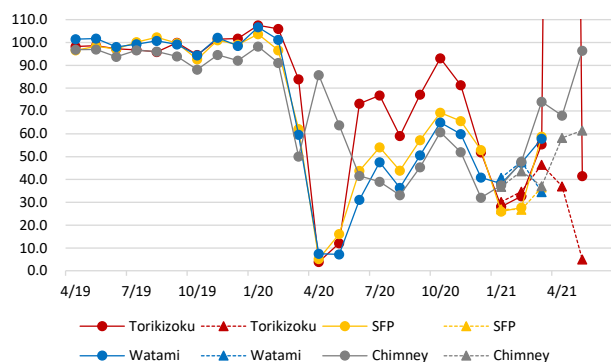
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Sushi restaurants



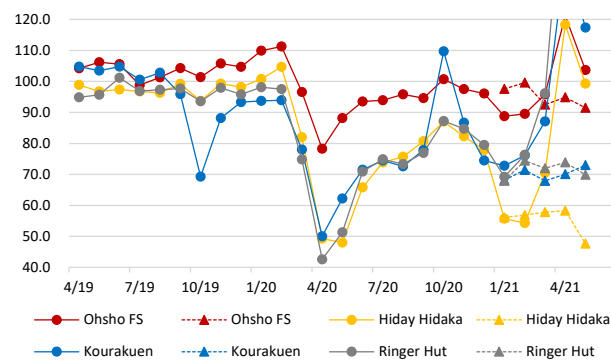
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Izakaya (Japanese style pubs)



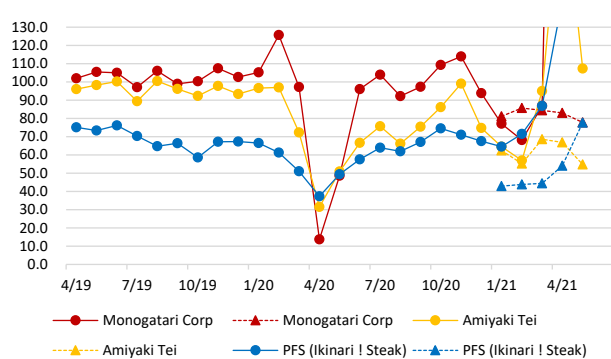
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Chinese restaurants



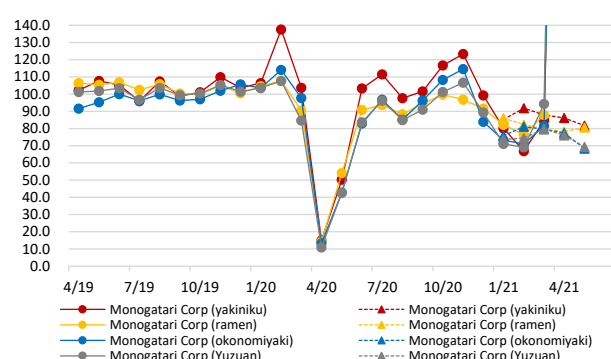
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

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

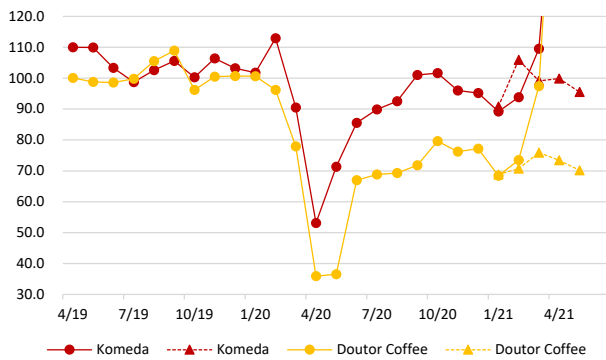
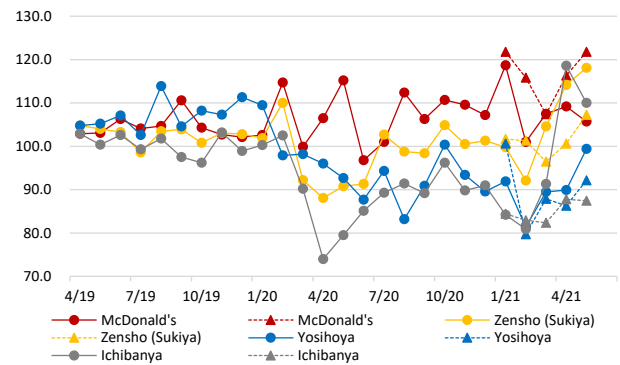


Figure: Fast food shops



Market size for food service industry

Figure: Market size for total food service industry

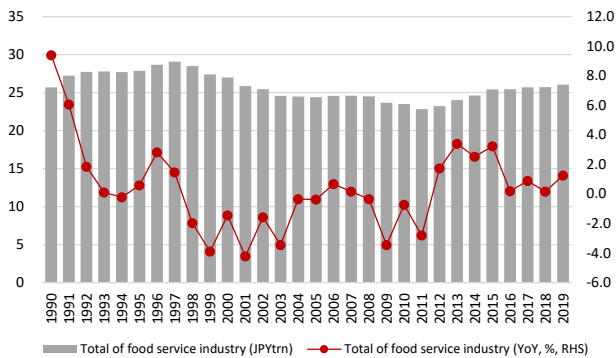


Figure: Market size for diner and restaurants

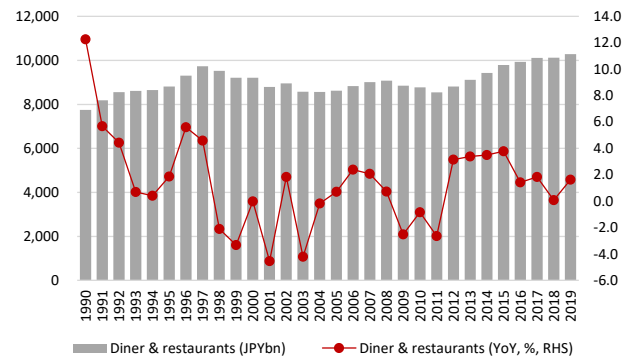


Figure: Market size for coffee shops

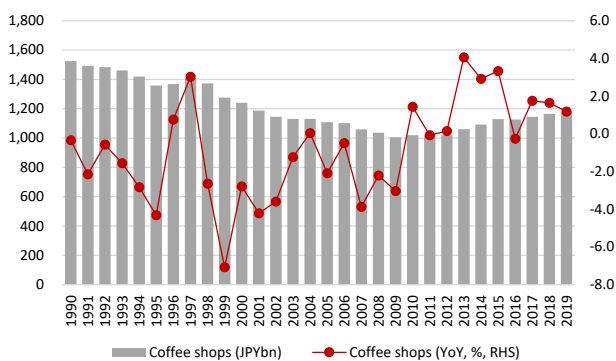
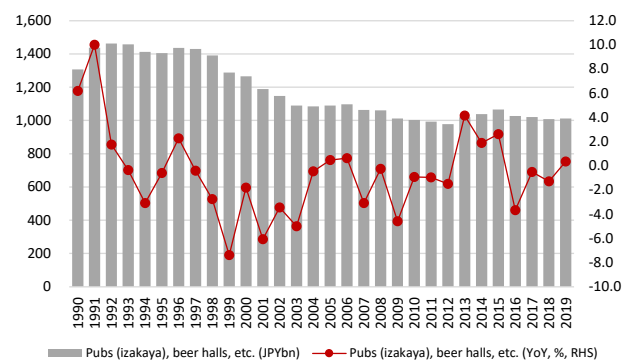


Figure: Market size for Japanese style pubs and beer halls



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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