



Komeda Holdings

TSE 1st Section 3543 Industry: Food service, wholesale, retail

Making money in the morning; initiating coverage with a Buy rating

Initiating coverage with a TP of 3,000 yen and a Buy rating

We initiate coverage of Komeda Holdings Co., Ltd. (3543, Komeda HD, the company) with a target price of 3,000 yen and a Buy rating.

The company operates Japan's largest full-service coffee shop, "Komeda's Coffee," through the franchise system. The company has not been strongly affected by the COVID-19 due to the following factors: 1) most of its stores are suburban roadside stores that focus on repeat customers, and 2) they attract customers during morning hours and are less dependent on sales during dinner hours. In FY2/21 the company posted a solid OP of 5.5bn yen (-30.0% YoY), with an OPM of 19.1% (IFRS).

We believe that in the post-COVID-19 period, the company will become increasingly competitive in the domestic coffee shop market. In recent years, anticipating the growth potential of full-service coffee shops, a number of food service companies have launched coffee shop businesses, but many of these competitors have been severely affected by COVID-19, making aggressive business development difficult, in our view. In addition, a number of underperforming restaurant operators have been closing stores in the wake of COVID-19, and as such, there are more locations where the company can open stores on favorable terms. Overseas, the company has been opening franchise stores in Taiwan, and its overseas business is moving into a full-scale expansion phase.

The catalysts we envision for an upturn in the stock price include strong monthly wholesale sales, a recovery in quarterly profits, easing of requests by local governments for shorter hours for restaurants, progress in COVID-19 vaccination, and strong store openings in Japan and overseas.

Mita Securities' earnings forecast

We forecast OP of 7.3bn yen (+31.8% YoY; company guidance: 7.25bn yen) for FY2/22, 8.1bn yen (+11.5% YoY) for FY2/23, and 9.0bn yen (+11.1% YoY) for FY2/24 (IFRS). We expect the number of stores to increase from 914 at end FY2/21 to 1,060 at end FY2/24. Of these, we expect the overseas stores to increase from 18 at end FY2/21 to 66 at end FY2/24.

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 0.5%, based on our earnings forecasts for FY2/22-FY2/26. Our target price is equivalent to 25.6x our FY2/23 EPS forecast of 117.21 yen.

Risk factors for our view include prolonged requests for shorter hours, unexpected underperformance in the new store openings and wholesale sales, unexpected increase in various costs, occurrence of events that prevent overseas store openings, deterioration of the competitive environment, large goodwill impairment, and customer defection due to food poisoning.

Reference materials

Shareholder benefit yield for food service companies, Capital increase by food service companies, Monthly data for food service companies

MITA SECURITIES Co., Ltd.

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Initiation of coverage

Rating

Buy

Target price (JPY)	3,000
Stock price (JPY) (Jul 7)	2,081
Market cap (JPYbn)	96.0

Key changes

Rating	New
Target price	New
Earnings forecast	New

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

IFRS		2/20	2/21	2/22E	2/23E	2/24E
Sales	JPYbn	31.2	28.8	33.6	36.4	39.6
OP	JPYbn	7.9	5.5	7.3	8.1	9.0
Pre-tax Profit	JPYbn	7.8	5.4	7.2	8.0	8.9
NP	JPYbn	5.4	3.6	4.8	5.4	6.0
EPS	JPY	116.7	77.9	105.0	117.2	130.2
BPS	JPY	720	755	821	887	955
DPS	JPY	51.0	39.0	51.0	62.0	68.0
PER	x	15.7	24.4	19.8	17.8	16.0
PBR	x	2.5	2.5	2.5	2.3	2.2
Div. yield	%	2.8	2.1	2.5	3.0	3.3
ROA	%	6.5	3.5	4.4	4.8	5.2
ROE	%	17.2	10.6	13.3	13.7	14.1

Source: Company data, Mita Securities

Company profile

Komeda HD, based in Aichi Prefecture, operates "Komeda's Coffee" through franchise system nationwide. The company has 914 stores at the end of February 2021 and is the largest full-service coffee shop operator in Japan. FY2/21 sales were 28.8bn yen.

Investment thesis

Outlook

Competitive advantage in post-COVID-19 period

We initiate coverage of Komeda Holdings Co., Ltd. (3543, Komeda HD, the company) with a target price of 3,000 yen and a Buy rating.

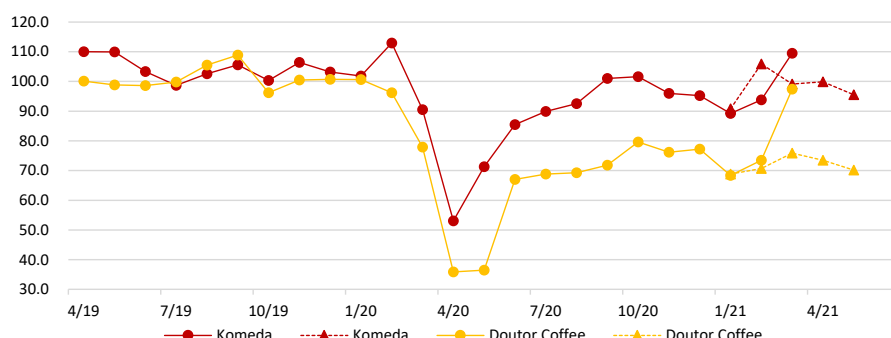
The company operates “Komeda's Coffee,” Japan's largest full-service coffee shop, mainly through the franchise system. The company has a strong presence in the Chukyo area (greater Nagoya area), where coffee shop culture is deeply rooted, and has recently been expanding its store network in eastern and western Japan. It is also focused on developing its overseas business, mainly in Taiwan.

The company's earnings remained solid despite the impact of the COVID-19, with FY2/21 sales of 28.8bn yen (-7.6% YoY), OP 5.5bn yen (-30.0% YoY), and an OPM of 19.1% (25.2% in FY2/20). The number of stores at end FY2/21 was 914 (+2.0% YoY). Same-store wholesale sales to franchisees were down -11.5% YoY, which is quite healthy compared to the typical decline in same-store sales of restaurant operators (estimated to be around -30% YoY). We believe that the reasons for the strong earnings are: 1) its store network is mainly suburban roadside (only 6% of stores are in Tokyo's 23 wards), 2) the stores attract customers during morning hours and are less dependent on sales during dinner hours, 3) the stores have been attracting repeat customers, and 4) “Komeda's Coffee” is popular among consumers.

Initiating coverage with a TP of 3,000 yen and a Buy rating

Solid results for FY2/21, with OP of 5.5 bn yen and OPM of 19.1%

Figure: Monthly same-store sales (same month last year or year before last = 100)



Source: Companies data, Mita Securities

Note: Wholesale sales to franchisees for Komeda

Note: Same month last year or year before last =100. Solid line vs last year, dotted line vs year before last. Partially estimated by Mita Securities

Full-service coffee shops are one of the fastest-growing segments of the food service market, and the company's success has prompted many other companies to enter the market. However, as most of the competitors are focused on directly-owned stores and are facing financial difficulties due to the COVID-19 pandemic, they are not likely to continue aggressive business development going forward. On the other hand, for franchise owners, the fact that “Komeda's Coffee” has proven to generate stable revenues even in the face of the COVID-19 pandemic should motivate them to open new stores in the future. Also, with more and more restaurant operators closing their stores, there are more locations available for the company to open new stores on favorable terms, which is an attractive opportunity for the company. We believe that the company's position in the full-service coffee shop market will be further strengthened in the post-COVID-19 period.

Komeda's competitive advantage has been strengthened in the wake of the COVID-19

We forecast OP of 7.3bn yen (+31.8% YoY) and OPM of 21.6% for FY2/22. We expect the number of stores at end FY2/22 to be 950 (+3.9% YoY), including 30 overseas stores (+12 stores YoY). We expect OP to be roughly in-line with the company's guidance (7.25bn yen). Subsequently, we forecast OP of 8.1bn yen (+11.5% YoY) for FY2/23 and 9.0bn yen (+11.1% YoY) for FY2/24, with 1,060 stores at end FY2/24, including 66 overseas stores.

We forecast OP of 7.3 bn yen for FY2/22 and 950 stores at end FY2/22

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

JPYm	2/19	2/20	2/21	2/22	2/23	2/24	2/22	2/22	2/23	2/24
IFRS	A	A	A	Mita E	Mita E	Mita E	CoE	Consensus	Consensus	Consensus
Earnings										
Sales	30,335	31,219	28,836	33,618	36,395	39,585	32,900	33,107	35,537	37,702
(YoY, %)	16.7	2.9	-7.6	16.6	8.3	8.8				
Operating profit	7,568	7,878	5,511	7,261	8,097	8,996	7,250	7,455	8,098	8,758
(YoY, %)	5.0	4.1	-30.0	31.8	11.5	11.1				
OPM (%)	24.9	25.2	19.1	21.6	22.2	22.7				
Pre-tax profit	7,461	7,775	5,391	7,158	8,009	8,922	7,100	7,337	7,991	8,661
(YoY, %)	5.3	4.2	-30.7	32.8	11.9	11.4				
Net profit	5,117	5,376	3,590	4,843	5,405	6,003	4,850	5,032	5,484	5,911
(YoY, %)	4.3	5.0	-33.2	34.9	11.6	11.1				
Depreciation and amortization	621	1,114	1,429	1,411	1,398	1,392				
Capital expenditure	1,428	1,376	1,484	1,100	1,150	1,200				
Free CF	4,785	7,943	8,875	4,183	5,904	5,811				
KPI										
Number of stores (FC+ directly-owned)	860	896	914	950	1,001	1,060				
(YoY, %)	6.8	4.2	2.0	3.9	5.4	5.9				
Wholesale sales to FC	19,852	21,784	19,905	22,243	23,467	24,989				
(YoY, %)	10.9	9.7	-8.6	11.7	5.5	6.5				
Wholesale sales to FC per store	24.8	26.2	23.3	25.3	25.5	25.7				
(YoY, %)	5.2	5.6	-11.2	8.6	1.0	0.9				
Per share indicators										
EPS (JPY)	112.66	116.66	77.86	105.04	117.21	130.19	105.18	109.24	119.05	128.33
BPS (JPY)	648.24	720.19	754.54	820.58	886.79	954.98				
DPS (JPY)	50.00	51.00	39.00	51.00	62.00	68.00	51.00			
Valuation, profitability, etc.										
PER (x)	18.9	15.7	24.4	19.8	17.8	16.0				
PBR (x)	3.3	2.5	2.5	2.5	2.3	2.2				
Dividend payout ratio (%)	44.2	43.7	50.1	48.6	52.9	52.2				
Dividend yield (%)	2.3	2.8	2.1	2.5	3.0	3.3				
ROA (%)	7.9	6.5	3.5	4.4	4.8	5.2				
ROE (%)	18.0	17.2	10.6	13.3	13.7	14.1				
Financial soundness indicators										
Capital ratio (%)	44.4	33.7	31.8	33.8	35.9	37.9				
Debt/Equity (including leases, x)	NA	1.6	1.7	1.5	1.3	1.2				

Source: Company data, QUICK data, Mita Securities

Note: Consensus forecasts are by QUICK consensus

Catalysts

The catalysts we envision for an upturn in the stock price include strong monthly wholesale sales, a recovery in quarterly profits, easing of requests by local governments for shorter hours for restaurants, progress in COVID-19 vaccination, and strong store openings in Japan and overseas.

Valuations

Stock valuation based on residual income model (RIM)

In calculating our target price of 3,000 yen, we used a residual income model (RIM) with a cost of equity of 4.5% and a terminal growth rate of 0.5%, based on our earnings forecasts for FY2/22-FY2/26. Our target price is equivalent to 25.6x our FY2/23 EPS forecast of 117.21 yen.

TP of 3,000 yen based on RIM

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	A	Mita E	Mita E	Mita E	Mita E	Mita E	Mita E
JPYbn	2/21	2/22	2/23	2/24	2/25	2/26	2/27
Shareholders' equity (EOP)	34.8	37.8	40.9	44.0	47.1	50.1	
Net profit		4.8	5.4	6.0	6.2	6.4	
Cost of equity		1.6	1.7	1.8	2.0	2.1	
Residual income		3.3	3.7	4.2	4.2	4.3	
PV of residual income		3.1	3.4	3.6	3.5	3.4	
PV of terminal value							85.9
Beta	0.80						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	4.50						
Terminal growth rate (%)	0.50						
Total equity value							137.8
Number of shares O/S (m)							46
Target share price (JPY)							3,000

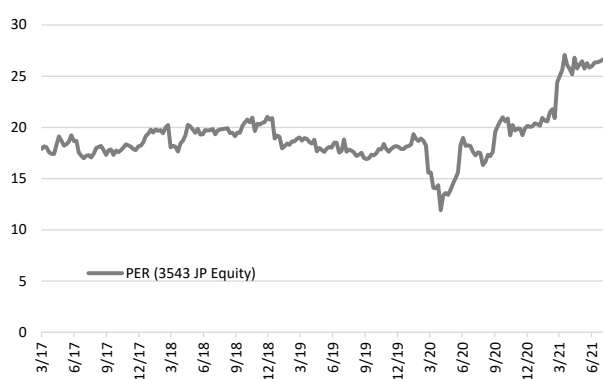
Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate (%)	0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2
Target Price	2,750	2,800	2,850	2,900	2,950	3,000	3,050	3,100	3,150	3,200	3,250	3,350	3,400

Source: Mita Securities

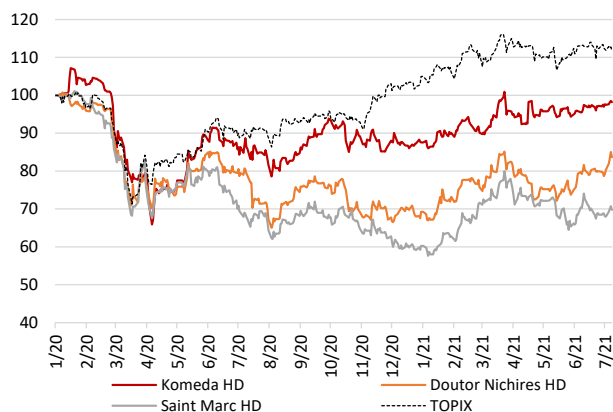
Figure: Komeda HD's PER (reference)



Source: Bloomberg Finance LP data, Mita Securities

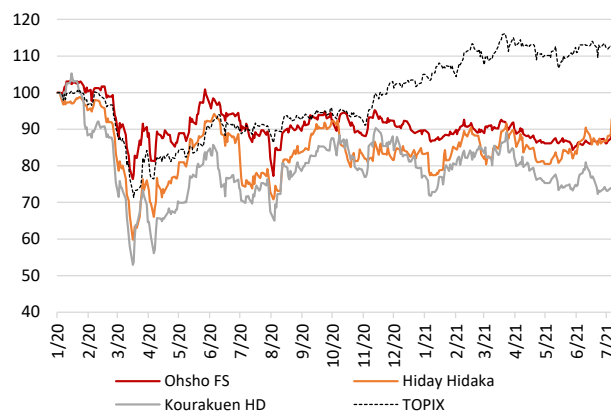
Stock price trends for food service companies

Figure: Stock price trends (coffee shops)



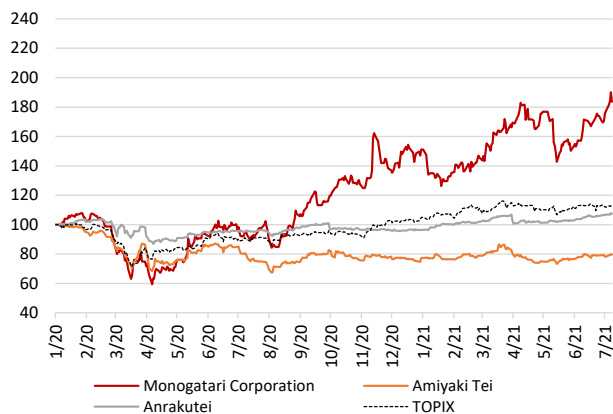
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Figure: Stock price trends (Chinese restaurants)



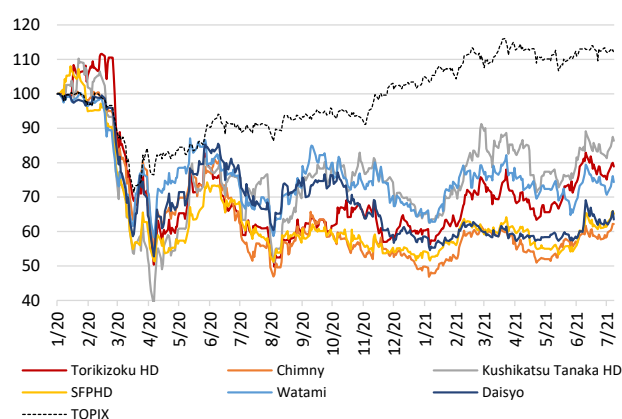
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Figure: Stock price trends (Japanese BBQ)



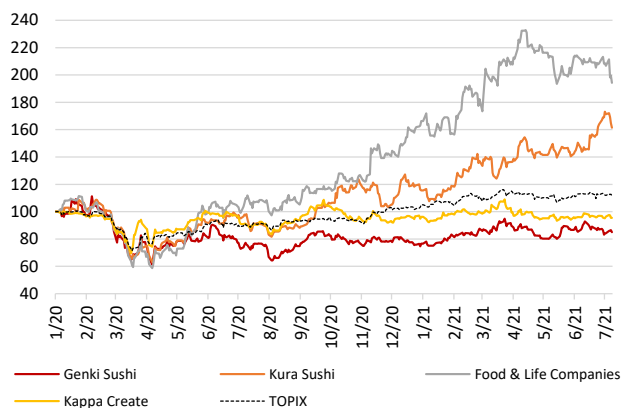
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Figure: Stock price trends (Japanese style pubs)



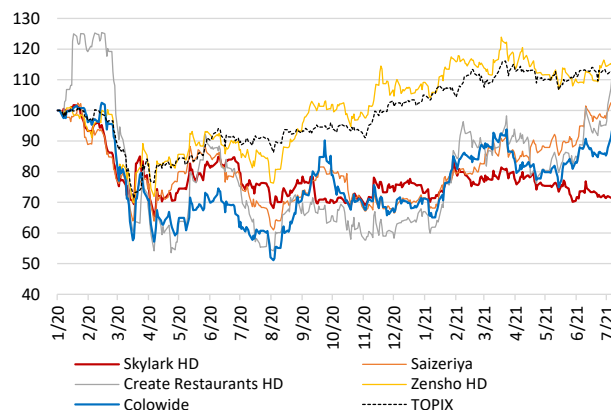
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

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 (family restaurants, general type)



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

Comparison of valuations with similar companies (reference)

Figure: Comparison of valuations for food service companies

Company name	Ticker	PX 7/7	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	4,335	179.5	-0.1	7.4	4.6	3.1	8.3	12.3	125.6	44.9	28.1	3.8	15.1	1.2	0.6	11.7	6.8	64.5
MCDONALD'S HOLDINGS CO JAPAN	2702	4,930	655.5	-0.2	2.4	14.8	12.7	11.4	10.9	30.8	30.7	28.9	3.7	13.2	2.0	0.8	-1.6	-3.1	-14.1
OOTOYA HOLDINGS CO LTD	2705	2,766	20.0	0.2	-34.3	-24.0	-203.9	NA	NA	NA	NA	NA	14.3	NA	NA	NA	-2.0	6.3	30.9
FUJIO FOOD GROUP INC	2752	1,327	59.2	3.6	-33.9	-12.3	-81.6	11.5	NA	NA	127.6	34.9	16.5	NA	2.2	0.0	-4.2	-5.1	-0.4
AMIYAKI TEI CO LTD	2753	2,971	20.3	-0.1	-18.3	-9.6	-2.5	2.0	NA	NA	50.9	20.3	1.0	NA	0.5	0.0	1.3	2.3	1.0
HIRAMATSU INC	2764	210	10.2	4.1	-36.6	-32.0	-79.3	NA	NA	NA	NA	NA	2.9	NA	NA	NA	-9.9	37.3	23.5
PEPPER FOOD SERVICE CO LTD	3053	445	17.4	2.4	NA	NA	NA	NA	NA	NA	NA	NA	29.4	NA	NA	NA	-19.2	49.8	-22.2
ARCLAND SERVICE HOLDINGS CO	3085	2,244	74.3	-0.6	18.8	12.9	14.5	13.8	12.7	23.5	22.5	21.7	3.3	10.7	1.4	1.1	-3.0	-1.7	19.3
CHOSHIMARU CO LTD	3075	1,134	16.5	NA	-1.6	1.2	-0.5	NA	NA	NA	NA	NA	2.3	NA	NA	NA	2.3	-10.7	8.5
DOUTOR NICHIRE HOLDINGS CO	3087	1,810	82.6	-0.3	-26.7	-4.8	-11.0	4.9	2.9	NA	17.0	28.6	0.9	7.8	0.5	1.3	4.5	5.7	5.4
BRONCO BILLY CO LTD	3091	2,415	36.4	-0.3	-27.8	0.2	-3.5	NA	NA	NA	NA	NA	2.1	NA	NA	0.7	-2.3	1.1	4.6
MONOGATARI CORP (TP 9,100 Buy)	3097	7,820	94.4	0.2	-8.4	8.5	7.8	15.4	NA	61.9	31.5	26.2	4.7	15.1	1.4	0.8	11.6	1.3	94.3
CHIMNEY CO LTD	3178	1,456	28.2	0.8	-67.8	-38.2	-94.9	NA	NA	NA	NA	NA	5.6	NA	NA	NA	5.1	14.6	15.0
TORIKIZOKU HOLDINGS CO LTD	3193	1,887	21.9	0.0	-40.8	-9.9	-39.3	NA	NA	NA	NA	30.4	4.5	NA	1.0	0.0	-2.0	14.4	24.7
HOTLAND CO LTD	3196	1,348	29.0	0.6	-12.3	2.8	-8.1	15.3	NA	NA	26.4	25.9	4.0	NA	1.0	0.4	-3.9	5.0	21.9
SKYLARK HOLDINGS CO LTD (TP 1,550 Hold)	3197	1,525	346.9	2.1	-27.6	6.9	-15.9	1.0	4.4	NA	177.8	50.4	2.7	8.7	1.6	0.2	-2.9	-8.6	-6.0
SFP HOLDINGS CO LTD	3198	1,536	39.6	-0.1	-56.7	-17.8	-41.7	NA	NA	NA	NA	24.0	3.7	NA	1.6	0.0	5.1	8.8	3.6
CREATE RESTAURANTS HOLDINGS	3387	972	184.1	3.5	-46.6	-0.8	-82.7	12.6	NA	NA	72.5	72.5	10.6	NA	2.4	0.0	5.8	15.3	49.8
SAINT MARC HOLDINGS CO LTD	3395	1,634	37.2	-0.2	-36.2	-9.7	-19.1	3.7	2.6	NA	24.9	37.9	0.9	6.6	0.5	2.7	-2.9	-5.1	2.8
TORIDOLL HOLDINGS CORP	3397	1,932	168.6	3.0	-13.9	5.4	-18.5	4.0	7.9	NA	110.6	37.5	5.8	12.2	2.0	0.3	7.8	16.2	60.6
KOMEDA HOLDINGS CO LTD (TP 3,000 Buy)	3543	2,081	96.0	1.5	-7.6	20.9	10.6	13.9	14.1	26.7	19.1	17.5	2.8	16.8	4.5	2.6	2.1	6.3	13.7
KUSHIKATSU TANAKA HOLDINGS C	3547	1,938	18.1	0.3	-35.8	-11.2	-38.4	6.5	30.6	NA	147.9	26.4	12.9	65.1	1.9	0.5	3.6	2.6	18.9
CHIKARANOMOTO HOLDINGS CO LT	3561	624	16.9	3.7	-43.2	-13.9	-93.5	NA	NA	NA	NA	NA	11.4	NA	NA	NA	-4.4	-1.0	-8.1
FOOD & LIFE COMPANIES LTD	3563	4,465	518.2	2.4	2.4	14.6	17.1	22.1	23.8	56.4	42.3	35.3	9.0	17.4	2.6	0.5	-6.5	-16.4	77.6
ATOM CORP	7412	783	151.6	0.2	-35.2	-4.1	-21.6	NA	NA	NA	NA	NA	18.2	NA	NA	NA	-0.8	1.7	-2.2
KAPPA CREATE CO LTD	7421	1,458	72.0	0.4	-13.3	0.7	-10.0	NA	NA	NA	NA	NA	6.6	NA	NA	NA	-1.7	-2.4	5.4
WATAMI CO LTD	7522	979	41.8	3.5	-33.1	-17.1	-132.0	NA	NA	NA	NA	NA	12.3	NA	NA	NA	-3.2	3.3	10.2
ZENSHO HOLDINGS CO LTD	7550	2,849	441.2	2.2	-5.6	5.6	2.6	12.6	13.2	190.1	37.9	34.5	5.1	13.4	1.0	0.7	2.9	-2.1	32.9
KOURAKUEN HOLDINGS CORP	7554	1,542	25.9	1.1	-30.5	-3.3	-23.7	NA	NA	NA	90.7	NA	7.3	NA	1.0	0.0	-7.2	-8.2	2.0
ANRAKUTEI CO LTD	7562	5,470	11.7	1.3	73.0	-2.1	-22.3	NA	NA	NA	NA	NA	2.7	NA	NA	NA	2.6	4.6	11.9
SAIZERIYA CO LTD	7581	2,735	143.0	-0.3	-28.6	0.1	-7.5	0.6	5.1	NA	155.5	30.8	1.7	14.6	0.9	0.7	4.2	19.6	38.5
HIDAY HIDAKA CORP	7611	1,945	74.2	-0.3	-23.6	-7.9	-7.0	NA	NA	NA	NA	NA	3.5	NA	NA	0.0	6.2	12.1	25.0
COLOWIDE CO LTD	7616	2,083	156.8	3.6	-28.5	3.0	-56.1	NA	NA	NA	NA	NA	9.5	NA	NA	NA	1.5	10.7	48.2
UKAI CO LTD	7621	3,105	16.3	1.5	-35.5	-14.5	-45.4	NA	NA	NA	NA	NA	5.7	NA	NA	NA	1.1	2.5	-1.4
GLOBAL-DINING INC	7625	523	5.4	0.9	-33.5	-15.3	-34.0	NA	NA	NA	NA	NA	2.4	NA	NA	NA	8.3	89.5	217.0
ICHIBANYA CO LTD	7630	4,945	157.9	-0.5	-8.3	7.7	9.2	11.4	NA	57.6	44.1	50.1	5.3	NA	2.9	1.6	1.7	2.2	3.1
ASAKUMA CO LTD	7678	1,570	8.4	-0.4	-27.9	-23.0	-51.6	NA	NA	NA	NA	NA	3.8	NA	NA	NA	1.2	0.6	4.7
MOS FOOD SERVICES INC	8153	3,150	100.8	-0.2	4.3	7.4	2.2	3.7	NA	97.4	57.2	48.5	2.2	NA	1.2	0.8	1.4	-1.3	10.7
KISOJI CO LTD	8160	2,393	62.0	0.0	-29.3	-7.0	-18.3	NA	NA	NA	NA	NA	2.5	NA	NA	NA	-0.4	0.9	1.8
SRS HOLDINGS CO LTD	8163	813	30.1	0.5	-2.1	-5.4	-36.3	NA	NA	NA	NA	NA	3.0	NA	NA	NA	-1.2	-2.8	-7.4
ROYAL HOLDINGS CO LTD	8179	2,144	97.3	2.3	-45.2	-26.7	-71.9	-15.8	-0.1	NA	NA	67.6	3.3	27.3	1.3	0.2	-7.2	7.7	21.7
RINGER HUT CO LTD	8200	2,431	63.4	1.0	-28.1	-14.9	-62.4	NA	NA	NA	NA	NA	6.3	NA	NA	NA	3.9	4.6	7.9
GIFT INC	9279	2,398	23.8	0.2	19.6	6.0	9.1	23.0	NA	80.3	28.3	20.9	7.1	NA	1.7	0.6	0.9	1.5	84.9
GENKI SUSHI CO LTD	9828	2,544	22.6	0.6	-11.9	4.0	-5.3	NA	NA	NA	NA	NA	2.8	NA	NA	NA	-5.7	-3.3	11.8
GINZA RENOIR CO LTD	9853	833	5.2	0.1	-48.1	-52.4	-53.3	NA	NA	NA	NA	NA	1.6	NA	NA	NA	0.4	2.0	1.8
GOURMET KINEYA CO LTD	9850	973	22.0	1.5	-43.1	-7.1	-46.7	NA	NA	NA	NA	NA	2.6	NA	NA	NA	0.6	3.4	4.1
YOSHINOYA HOLDINGS CO LTD	9861	2,113	137.6	0.8	-21.2	0.5	-17.2	6.3	3.2	NA	52.5	59.4	3.4	15.9	1.1	0.0	1.2	-2.5	-1.0
KFC HOLDINGS JAPAN LTD	9873	2,886	64.7	-0.8	12.6	8.6	12.3	NA	NA	23.0	23.3	23.8	2.7	NA	0.5	1.7	4.4	-1.7	7.2
MATSUYAFOODS HOLDINGS CO LTD	9887	3,555	67.8	0.3	-11.4	-0.2	-5.7	NA	NA	NA	28.3	18.0	1.7	NA	0.8	0.7	0.3	2.6	-0.4
SAGAMI HOLDINGS CORP	9900	1,020	29.4	-0.2	-23.0	-9.2	-20.7	NA	NA	NA	NA	NA	2.5	NA	NA	NA	-3.3	-6.5	-15.6
OHSO FOOD SERVICE CORP (TP 7,250 Buy)	9936	5,750	133.9	-0.2	-5.8	10.3	8.3	210.0	NA	25.2	20.4	19.2	2.0	NA	1.4	1.7	2.3	-0.2	-1.0
JOYFULL CO LTD	9942	780	24.9	37.9	-33.1	-11.1	-110.8	NA	NA	NA	NA	NA	8.9	NA	NA	NA	4.0	10.2	-5.0
DAISYO CORP	9979	1,076	22.8	0.3	-40.1	-12.5	-57.6	NA	NA	NA	NA	NA	1.8	NA	NA	NA	-3.2	9.7	-10.6
Average				1.6	-20.8	-5.2	-31.6	17.3	10.3	66.5	59.4	34.0	5.6	17.3	1.5	0.7	0.2	5.7	18.8
Median				0.3	-27.7	-3.7	-18.8	11.4	9.4	57.0	42.3	28.9	3.7	14.6	1.3	0.6	0.9	2.3	7.2

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 (coffee shops)

Company name	Ticker	PX 7/7	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
DOUTOR NICHIRE HOLDINGS CO	3087	1,810	82.6	-0.3	-26.7	-4.8	-11.0	4.9	2.9	NA	17.0	28.6	0.9	7.8	0.5	1.3	4.5	5.7	5.4
SAINT MARC HOLDINGS CO LTD	3395	1,634	37.2	-0.2	-36.2	-9.7	-19.1	3.7	2.6	NA	24.9	37.9	0.9	6.6	0.5	2.7	-2.9	-5.1	2.8
KOMEDA HOLDINGS CO LTD (TP 3,000 Buy)	3543	2,081	96.0	1.5	-7.6	20.9	10.6	13.9	14.1	26.7	19.1	17.5	2.8	16.8	4.5	2.6	2.1	6.3	13.7
GINZA RENOIR CO LTD	9853	833	5.2	0.1	-48.1	-52.4	-53.3	NA	NA	NA	NA	NA	1.6	NA	NA	NA	0.4	2.0	1.8

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 FC business operators

Company name	Ticker	PX 7/7	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
KOBE BUSSAN CO LTD	3038	3,665	1,002.7	-0.3	3.0	8.6	29.9	30.9	28.3	44.9	39.9	35.7	11.9	29.6	2.8	0.5	27.8	24.2	11.8
KOMEDA HOLDINGS CO LTD (TP 3,000 Buy)	3543	2,081	96.0	1.5	-7.6	20.9	10.6	13.9	14.1	26.7	19.1	17.5	2.8	16.8	4.5	2.6	2.1	6.3	13.7
CURVES HOLDINGS CO LTD	7085	949	89.1	1.2	-10.5	11.3	9.6	12.7	34.7	108.7	83.7	27.1	10.9	NA	4.0	0.5	0.4	-5.1	63.3
FAST FITNESS JAPAN INC	7092	4,400	68.6	-0.2	-1.5	26.8	16.1	NA	NA	62.3	43.9	35.8	6.5	NA	4.9	0.1	-18.1	2.0	NA
WORKMAN CO LTD	7564	7,380	604.0	-0.4	14.6	24.0	20.3	NA	NA	35.3	30.4	27.4	6.6	NA	NA	1.0	-2.9	-9.6	-26.3

Source: Bloomberg Finance LP data, Mita Securities

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

Risk factors

Risk factors for our view include prolonged requests for shorter hours, unexpected underperformance in the new store openings and wholesale sales, unexpected increase in various costs, occurrence of events that prevent overseas store openings, deterioration of the competitive environment, large goodwill impairment, and customer defection due to food poisoning.

Company overview

Company overview

Overview of Komeda HD

Komeda HD is a food service company based in Nagoya City, Aichi Prefecture, Japan. The company operates "Komeda's Coffee" and other coffee shops nationwide, mainly through the franchise system, and in recent years has been expanding its business overseas, mainly in Taiwan. At the end of FY2/21, the company had 914 stores (FC plus directly-owned stores, including overseas stores), 95% of which were FC stores. By type of format, "Komeda's Coffee" accounted for 98% of the total. "Komeda's Coffee" is the third largest coffee shop chain in Japan, behind "Starbucks Coffee" and "Doutor Coffee Shop." It is the largest among full-service coffee shop chains in Japan, with over three times the stores of the second largest chain, "Hoshino Coffee."

In FY2/21, consolidated sales were 28.8bn yen (-7.6% YoY), OP was 5.5bn yen (-30.0% YoY), with OPM of 19.1% and ROE of 10.6%. The five-year average sales growth rate (CAGR) through FY2/20 before the impact of COVID-19 was 10.2%, the five-year average OPM through FY2/20 was 27.3%, and the average ROE over the same period was 19.3%. The main reason for the high growth is the increased number of new stores in regions other than Chukyo (East and West Japan). Its OPM and ROE have been exceptionally high for a food service company.

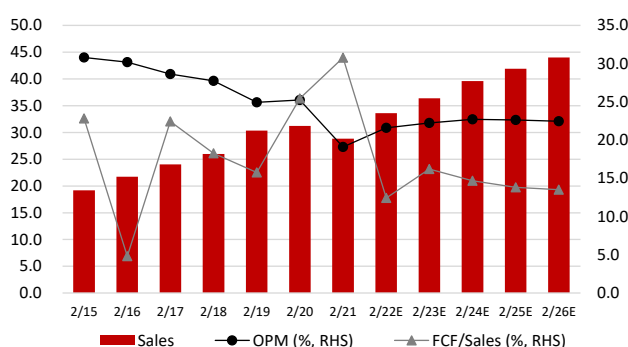
The company specializes in its role as a franchisor and aims for an asset-light business model. The company's core businesses are: 1) manufacturing coffee and bread, and 2) providing management guidance and wholesaling food ingredients to franchise stores. The company has ample cash flow as its factories are not burdened with heavy investments. The FCF to sales ratio in FY2/21 was 30.8%, a very high level, and the average for the five years through FY2/20 was 17.3%. We expect the company to provide a high level of shareholder returns over the long term.

Operates the largest full-service coffee shop in Japan through franchisees

High growth, exceptionally high profitability for a food service company

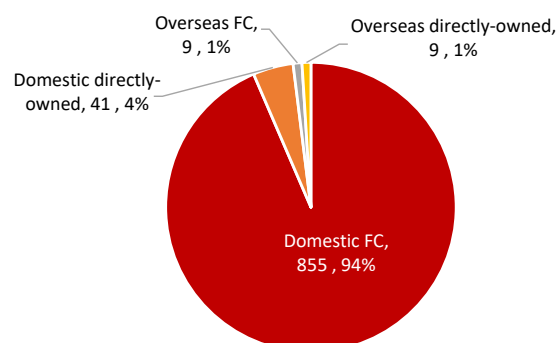
Ample cash flow

Figure: Sales (JPYbn), OPM, FCF/Sales ratio



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

Figure: Breakdown of stores (end-FY2/21)



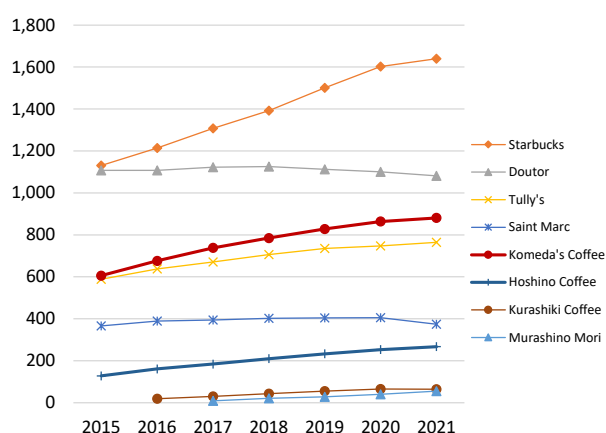
Source: Company data, Mita Securities

Figure: Comparison of coffee shops (Japanese market)

Format name	Type of service	Store count	Directly-owned	FC	FC share (%)	Store count period	Operating/parent company	Ticker
Starbucks Coffee	Self-service	1,640	1,504	136	8.3	3/21	Starbucks Corporation	SBUX
Doutor Coffee Shop	Self-service	1,081	204	877	81.1	2/21	Doutor Nichires Holdings	3087
Tully's	Self-service	764	NA	NA	NA	4/21	Ito En	2593
Saint Marc Café	Self-service	374	365	9	2.4	3/21	Saint Marc Holdings	3395
Komeda's Coffee	Full-service	881	32	849	96.4	2/21	Komeda Holdings	3543
Hoshino Coffee	Full-service	267	232	35	13.1	2/21	Doutor Nichires Holdings	3087
Kurashiki Coffee	Full-service	64	63	1	1.6	3/21	Saint Marc Holdings	3395
Musashino Mori Coffee	Full-service	55	55	0	0.0	3/21	Skylark Holdings	3197

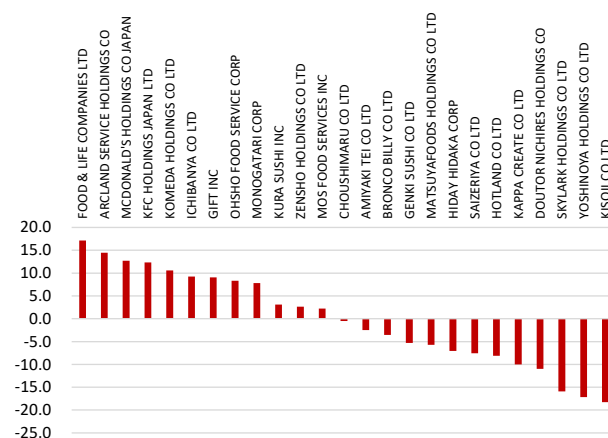
Source: Companies data, Mita Securities

Figure: Store counts for domestic coffee shops



Source: Companies data, Mita Securities

Figure: Food service companies with high ROE (LTM)



Source: Bloomberg Finance LP data, Mita Securities

Group companies

Komeda HD is a holding company and the business is operated by its subsidiary Komeda Co., Ltd.

In 2018, the company established a subsidiary in Taiwan.

Figure: Subsidiaries

Subsidiary name	Voting right (%)	Location	Overview
Komeda Co., Ltd.	100.0	Nagoya City, Aichi Prefecture	Franchise business
Komeda Yummy, Co., Ltd	51.0	Taiwan	Franchise business in Taiwan

Source: Company data, Mita Securities

Company history

The predecessor of Komeda HD is "Komeda's Coffee," a coffee shop opened by Taro Kato in Nagoya City, Aichi Prefecture in 1968. The company was incorporated in 1975 and started manufacturing and selling coffee for franchise stores in 1983. The company then became fully involved in franchise development, expanding its store network mainly in the Tokai region. The company entered the Kanto region in 2003 and the Kansai region in 2006. Through aggressive store openings, the chain grew to 914 stores at the end of FY2/21.

During this period, the company has undergone a number of changes in its major shareholders: in 2008, founder Taro Kato sold all of his shares in the group to a fund affiliated with Advantage Partners for the purpose of business succession. In 2013, Advantage Partners sold its stake in the company to a fund affiliated with MBK Partners. In 2014, Komeda HD was established as a holding company; in June 2016, Komeda HD was listed on the First Section of the Tokyo Stock Exchange. MBK Partners subsequently sold all of its shares in the company.

Grown from a coffee shop in Nagoya to a nationwide chain

Figure: History

Date	Event
Jan-68	Taro Kato opened "Komeda's Coffee" in Nagoya, Aichi Prefecture.
Aug-75	Incorporated as Komeda's Coffee Co., Ltd.
Feb-77	Launched sales of specialty item, "Shiro Noir."
Mar-83	Began production and sales of coffee for franchisees.
Apr-93	Established Komeda Co., Ltd. Began full-scale development of franchise business.
Jun-03	Opened first store in Kanto region (Yokohama Eda Store).
Nov-06	Opened first store in Kansai region (Nara Chuo Store).
Apr-08	Business transferred from Taro Kato to a fund managed by Advantage Partners.
Oct-11	Acquired all shares of Y.K. France Pain and made it a subsidiary.
Feb-13	Business transferred from a fund managed by Advantage Partners to a fund managed by MBK Partners.
Apr-13	Achieved 500 stores in Japan.
Jul-13	Okitane Usui was appointed as President and Representative Director.
Nov-14	Komeda Holdings Co., Ltd. established as a holding company.
Jul-15	Chiba Bread Factory began operations.
Apr-16	Opened first overseas franchise store (Shanghai, China).
Jun-16	Listed on the First Section of the Tokyo Stock Exchange.
Feb-18	Opened first store in Taiwan.
Jul-18	Achieved 800 stores in Japan.
Aug-18	Kanto Coffee Factory began operations.
Nov-18	Established a consolidated subsidiary in Taiwan.

Source: Company data, Mita Securities

Major shareholders/management team

Currently, the company's top shareholders consist of institutional investors. The shareholding by the current management team is limited.

Okitane Usui was appointed President and Representative Director of Komeda Co., Ltd. in July 2013 when the company was under the control of MBK Partners, and concurrently assumed President and Representative Director of Komeda HD when the holding company was established in November 2014. As of end FY2/21, he held less than 0.4% of the company's shares. Prior to joining Komeda, he served as COO of McDonald's Japan and President and Representative Director, COO of SEGA Corporation.

Figure: Major shareholders (end-FY2/21)

Major shareholders	Shares held (%)
Custody Bank of Japan, Ltd. (trust account)	10.58
The Master Trust Bank of Japan, Ltd.	7.22
SMBC Nikko Securities Inc.	2.39
Japan Post Insurance Co., Ltd.	2.00
Custody Bank of Japan, Ltd. (trust account 5)	1.49

Source: Company data, Mita Securities

Details of business

Main restaurant formats

Komeda's Coffee

"Komeda's Coffee" is the largest full-service coffee shop in Japan. Its locations are mainly suburban roadside areas, but some stores are located near stations in downtown areas. A standard roadside store has a site area of 825 to 1,155 square meters (250 to 350 tsubo), a store area of 165 to 198 square meters (50 to 60 tsubo), and a parking lot of 30 to 40 cars. The exterior and interior of the store is in the style of a simple log house, with tables and chairs that allow customers to relax. The store is stocked with newspapers, magazines, and books for customers to read at their convenience. By creating a low-profile image, the stores aim to attract repeat customers from the neighborhood.

The average spend per customer is estimated to be around 800 yen. The main drink on the menu is the Komeda Blend (430-580 yen including tax). Like most coffee shops in Nagoya, "Komeda's Coffee" offers a morning service in which customers who order a drink before 11:00 a.m. are offered a free piece of toast and a boiled egg. It seems that many customers, especially in the Chukyo area, use the shop during the morning hours. For dessert, Shiro Noir (650-680 yen), a Danish bread topped with a soft cream, is popular. For meals, they offer a wide variety of burgers, sandwiches, toast, pizza, gratin, pasta, and salads. These meals are quite large for a coffee shop, so many customers share them with others. Nagoya-style dishes such as Ogura toast, Misokatsu bread, and Ankake spaghetti are also available. For take-out, they offer bread in addition to the main menu items.

The company brews coffee at its own factories and heats it up in its stores to provide customers with coffee of consistent taste across stores. Also, the company provides bread made at its own factories using high quality flour. In August 2020, the company started operation of its bean paste factory, which enables it to produce its own bean paste used for Ogura toast. In setting up the drink and meal menus, the company tries to avoid placing too much burden on the kitchen operation.

Mainly suburban roadside stores. Offering relaxing atmosphere with simple design stores aiming at repeat use by neighborhood residents

Morning service, light meals, and a Nagoya-style menu. Average spend per customer about 800 yen

Use of factories to reduce store operations

Figure: Exterior view of store



Source: Company data

Figure: Interior view of store



Source: Company data

Figure: Coffee, Shiro Noir, Mini Shiro Noir



Source: Company data

Figure: Cutlet sandwich



Source: Company data

Okagean

“Okagean” is a full-service tearoom that mainly serves Japanese-style desserts. Like “Komeda's Coffee,” it provides customers with a relaxing atmosphere. The number of stores at end FY2/21 was 11, of which 7 were in Aichi Prefecture, 3 in Kanagawa Prefecture, and 1 in Tokyo.

The drinks include matcha, green tea, and blended coffee. The store offers a morning service where customers who order a drink before 11:00 a.m. are offered a free rice ball set or toast set. Desserts include matcha Shiro Noir, zenzai/cold zenzai, cream anmitsu, hon warabi mochi, and matcha parfait. The meal menu mainly offers noodles, with a wide variety of Nagoya-style dishes such as Kishimen, Miso-nikomi Udon, and Ankake Spaghetti. As with “Komeda's Coffee,” the menu seems to be designed with an emphasis on kitchen efficiency. Some of the stores are co-located with “Komeda's Coffee,” and share the same kitchen.

“Okagean” has yet to gain sufficient recognition among consumers, and so far, franchise development has been limited. However, the Yokohama Landmark Plaza store (Minatomirai, Nishi-ku, Yokohama City, Kanagawa Prefecture) and Komazawa Park store (Fukazawa, Setagaya-ku, Tokyo), both in high-traffic areas, are co-located with Komeda's Coffee, which should help raise awareness of the brand.

Full-service tearoom with Japanese-style menu

Morning service, Japanese style drinks & desserts, noodles, etc. A wide variety of Nagoya-style food

Raising consumer awareness is a challenge

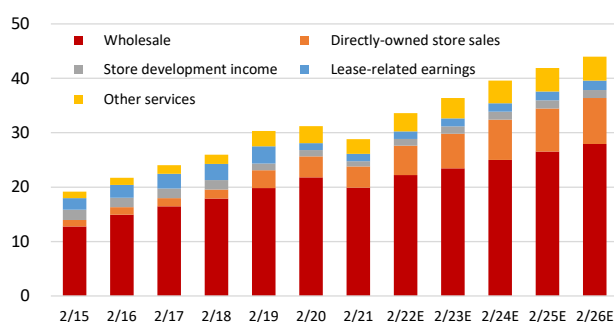
Breakdown of sales and store count

Breakdown of consolidated sales

Consolidated sales for FY2/21 were 28.8bn yen (-7.6% YoY). Of this amount, sales from directly-owned stores accounted for 3.9bn yen (13.5% share), while the remaining 24.9bn yen (86.5% share) came from franchise stores. Of the latter, 19.9bn yen (69.0% share) came from wholesale of food ingredients, 1.3bn yen (4.6% share) from leasing, 1.0bn yen (3.4% share) from store development, and 2.7bn yen (9.4% share) from other services (including royalties). Store development income and a portion of other service income are generated when new stores are opened.

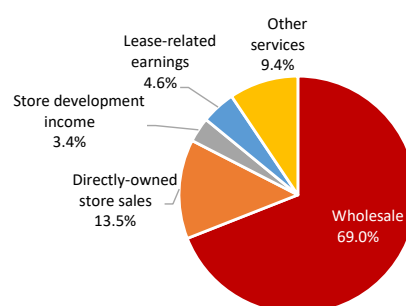
Sales are mainly wholesale sales to franchise stores

Figure: Sales (JPYbn)



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

Figure: Breakdown of sales



Source: Company data, Mita Securities

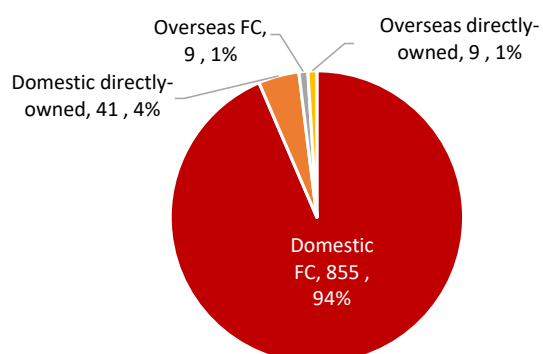
Breakdown of stores

The number of stores at end FY2/21 was 914. This includes 855 domestic franchise stores (94% share), 41 domestic directly-owned stores (4% share), 9 overseas franchise stores (1% share), and 9 overseas directly-owned stores (1% share). Overseas stores are in Taiwan and China (Shanghai).

95% of stores are FCs. "Komeda's Coffee" accounts for 98%

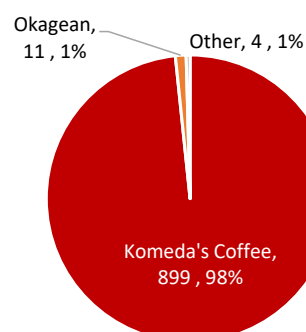
By type of format, "Komeda's Coffee" totaled 899 stores (98% share), and "Okagean" 11 stores (1% share).

Figure: Breakdown by store ownership (end-FY2/21, stores, %)



Source: Company data, Mita Securities

Figure: Breakdown by store format (end-FY2/21, stores, %)



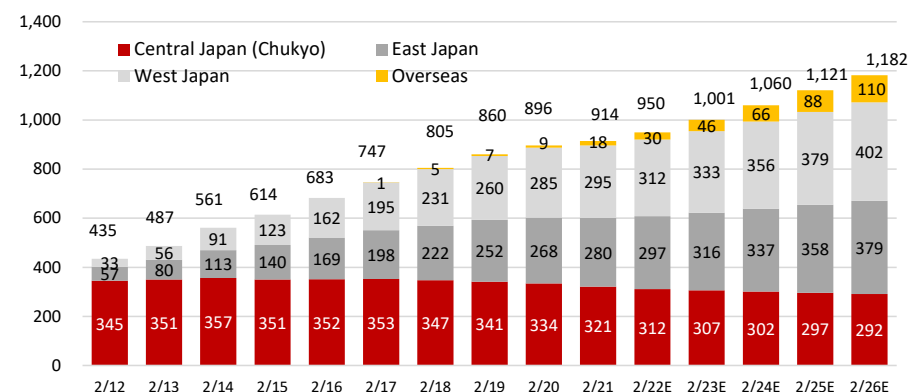
Source: Company data, Mita Securities

Distribution of 896 domestic stores (franchised and directly-owned) by region is as follows: 321 in Chukyo, 280 in East Japan, and 295 in West Japan. “Komeda's Coffee” has already expanded to 47 prefectures nationwide.

Over the past three years, the total number of stores has increased by 109, including an increase of 58 in East Japan, 64 in West Japan, 13 overseas, and a decrease of 26 in Chukyo.

Established strong presence in Chukyo area. Expanding stores in East Japan, West Japan and overseas

Figure: Store count



Source: Company data, Mita Securities

Note: Forecasts are by Mita Securities

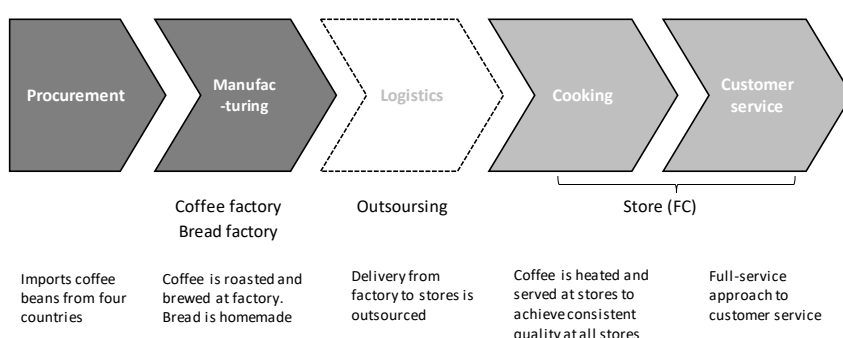
Business model

Supply chain

An overview of the company's supply chain is as follows. The company is primarily in charge of procurement and manufacturing, while logistics from the factory to the stores is outsourced to external companies. FC stores are mainly responsible for cooking and serving customers. There are also some directly-owned stores.

Manufacturing of coffee and bread, wholesaling to franchisees, and management support are the core of the business

Figure: Supply chain



Source: Company data, Mita Securities

Coffee is roasted and brewed at the company's own factories, and then delivered to stores nationwide. Bread is also baked at the company's own factories using high quality flour and delivered to the stores. Other ingredients are purchased in bulk by the company and then wholesaled to the stores. Delivery from the factory to the stores is outsourced to Nippon Access and Nagoya Seiraku.

Since the company's business is operated by franchisees, store operations are designed to reduce the burden on the kitchen. Coffee is heated at each store and served to customers. Coffee brewing is an inefficient operation and is prone to differences in individual skills, but by brewing coffee at the factory, the company is able to ensure uniformity in taste from store to store. For food as well, the menu does not include items that require complicated cooking procedures.

Figure: Exterior view of Chiba Factory



Source: Company data

Figure: Bread production



Source: Company data

Franchise system

At end FY2/21, 95% of the company's stores were franchise stores. When franchise stores are opened, the company assists in the research and selection of properties, as well as the design and construction of store buildings and interiors. The company also subleases the store buildings as needed. After opening, the company provides wholesale of food ingredients, as well as management guidance to the franchisees.

Directly-owned stores account for 13.5% of the company's sales, while revenues from franchise stores account for 86.5% (FY2/21 results). The latter includes 69.0% from wholesale sales of food ingredients, 4.6% from leasing (store rents), 3.4% from store development, and 9.4% from other services (including royalties). Therefore, the company's sales growth is primarily driven by new franchise store openings and wholesale sales growth.

The company charges a monthly royalty of 1,500 yen per seat for each store, which allows franchise stores to earn a higher profit margin when sales increase, as compared to when royalties are proportional to sales. For the company, even if it does not earn royalties proportional to franchise store sales, it is satisfied as long as wholesale sales to franchisees increase. For an average-sized store, royalties are estimated to account for about 2% of store sales.

Wholesale of food ingredients to franchise stores is the main source of sales. Royalties are fixed

Figure: Comparison of royalties

Format name	Operating/parent company	Royalty (monthly)
Komeda's Coffee	Komeda Holdings	Number of seats x 1,500 yen
Hoshino Coffee	Doutor Nichires Holdings	Number of seats x 1,500 yen
Doutor Coffee Shop	Doutor Nichires Holdings	Sales x 2%
Ueshima Coffee	UCC Holdings	Sales x 2%
CAFÉ de CRIÉ	Sapporo Holdings	Sales x 3%
PRONTO	Pronto Corporation	Sales x 3%

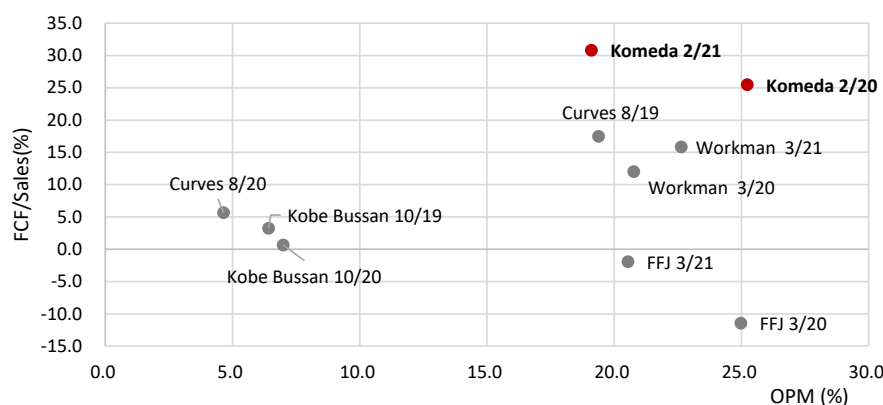
Source: Companies data, Mita Securities

The company's OPM was 19.1% in FY2/21, an unusually high level for a food service company, even with the impact of COVID-19. Key factors behind the high OPM include the majority of stores being franchise stores, and the presence of high gross margin products such as coffee and bread.

In addition, the company's OPM is in-line with those of other companies that operate franchise businesses in other fields, such as retail and sports clubs, and its FCF to sales ratio is overwhelmingly higher.

High level of OPM and FCF to sales ratio supported by FC system and high gross margin products

Figure: Comparison of OPM and FCF/Sales for FC business operators



Source: Companies data, Mita Securities

Business performance in the wake of COVID-19

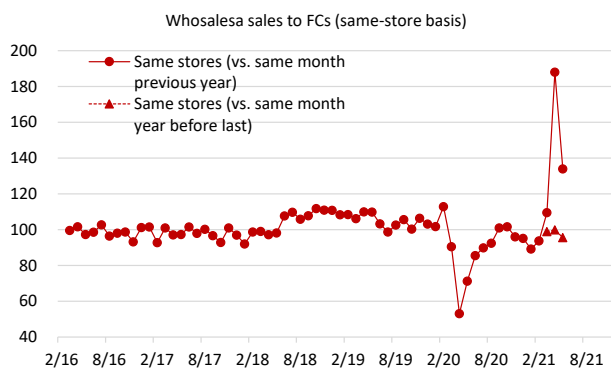
Wholesale sales to franchise stores (same-store basis)

In FY2/21, the company's same-store wholesale sales to franchisees declined only by -11.5% YoY, a solid level for a restaurant operator affected by the COVID-19 pandemic. The reasons for the limited impact of the COVID-19 include: 1) the store network is mainly suburban roadside (only 6% of stores are located in Tokyo's 23 wards), 2) the stores attract customers during morning hours and are less dependent on sales during dinner hours, which are more susceptible to requests for shorter hours (originally, dinner hours accounted for about only 15% of total sales), 3) the stores have been attracting repeat customers, and 4) "Komeda's Coffee" is a popular coffee shop among consumers.

In 1Q FY2/22, same-store wholesale sales to franchisees increased +9.5% YoY in March (-1.0% from March 2019), increased +88.2% YoY in April (-0.1%), and increased +34.0% YoY in May (-4.4%). The cumulative total for 1Q was up +36.7% YoY (-1.9% from 1Q FY2/20). Despite the unfavorable business environment due to the declaration of a state of emergency in some areas in late April, the company's wholesale sales were solid. In late March, "Komeda's Coffee" was featured on a TV program, which apparently contributed to its strong wholesale sales in March and April.

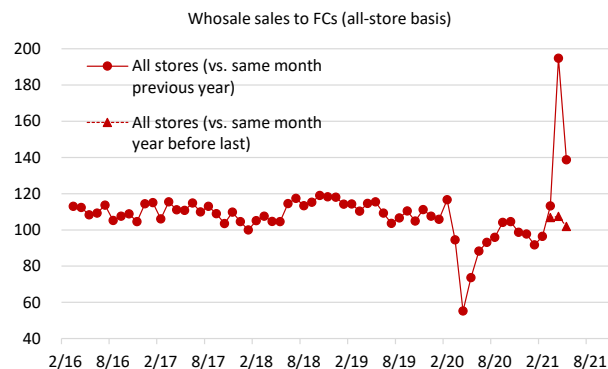
Wholesale sales are solid even in the wake of COVID-19

Figure: Wholesale sales to FCs (same-store basis)



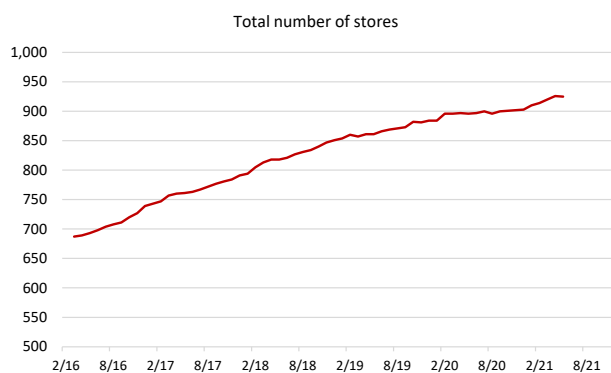
Source: Company data, Mita Securities Note: Same month last year or year before last = 100

Figure: Wholesale sales to FCs (all-store basis)



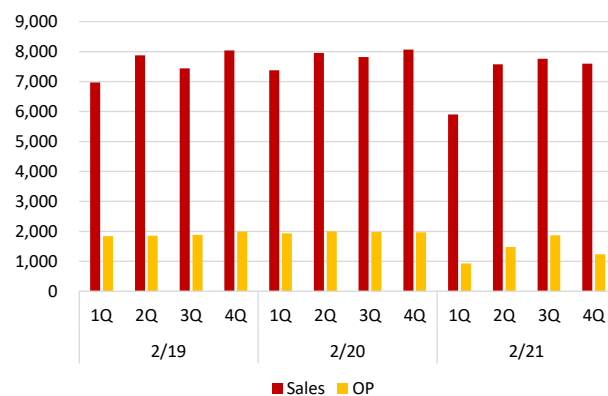
Source: Company data, Mita Securities Note: Same month last year or year before last = 100

Figure: Store count



Source: Company data, Mita Securities

Figure: Quarterly earnings (JPYm)



Source: Company data, Mita Securities

Growth strategies

New medium-term business plan

Key strategies of "VALUES 2025"

In April 2021, the company announced its new medium-term business plan, "VALUES 2025" (FY2/22-FY2/26). The basic philosophy of the plan is to "connect people, communities, and society through relaxation." The plan outlines three key strategies: 1) enhancement of the existing store model (improvement of QSC, expansion of store openings, and promotion of DX), 2) pursuit of new co-creation value (new business development, M&A, and addressing SDGs), and 3) maintenance and expansion of financial values.

To expand the existing store model, the company aims to open 1,200 stores (including 80 overseas stores), an increase of about 300 stores from 914 stores at end FY2/21. In terms of maintaining and expanding financial values, the company has set the following targets: 1) for growth, an annual average EPS growth of over 10%; 2) for profitability, an ROIC of over 10% in the final year; 3) for financial soundness, a capital ratio of over 40% in the final year; and 4) for shareholder returns, a total return ratio of over 50% in the cumulative total for the medium-term plan period. The EPS plan aims for a 1.6x increase in the final year of the medium-term management plan compared to the actual results in FY2/21.

Aims to build up 300 stores in 5 years to reach a total of 1,200 stores. Overseas store openings to increase in a substantial scale

Our view on growth drivers

Store expansion

The company's growth drivers are likely to be 1) continued new store openings in regions other than the Chukyo area and 2) significant expansion of overseas operations, particularly in Taiwan. We expect a net increase of 99 stores in East Japan, 107 stores in West Japan, and 92 stores overseas over the next five years ("Komeda's Coffee" format basis). We assume a net decrease of 29 stores in the Chukyo region. We expect 1,182 stores at the end of FY2/26, almost the same number as in the company's new medium-term business plan.

In terms of opening new stores in Japan, an increasing number of underperforming restaurant operators have been withdrawing from the market due to the impact of the COVID-19 pandemic, and this should help the company find more locations in which it can open new stores at favorable terms. From the standpoint of franchise owners, "Komeda's Coffee," which has maintained stable earnings even during the COVID-19 period, is likely to be a high priority in selecting franchise businesses.

The number of overseas stores doubled over the past year, from 9 at end FY2/20 to 18 at end FY2/21, and since the start of FY2/22, the company has opened 2 stores in Taiwan and 2 in Shanghai by May. In Taiwan, the company has entered a stage where it can expand franchise stores. Also, the company has begun to open stores out of Taipei. Therefore, we believe that the company can accelerate store openings in Taiwan.

Expanding room for new stores in Japan as a result of COVID-19. Full-scale development of FCs in Taiwan underway. Mid-term plan for new store openings is mostly achievable, in our view

New format development

While “Komeda's Coffee” has been growing steadily, we feel that the company has been struggling to develop new business formats. The self-service “Komeda's Stand” stores that opened in Ikebukuro and Kichijoji have already been closed. “Yawaraka Shirokoppe,” which sells breads with a variety of flavors, expanded stores in department stores and so on for a while, but failed to develop the business on a full scale, and the company scaled back its business significantly.

“Komeda's Stand” and “Yawaraka Shirokoppe” were not successful

In July 2020, the company opened “Komeda is □” near the Kabukiza Theater in Higashi-Ginza, Tokyo, focusing on a menu using plant-based ingredients. The concept of the restaurant is to contribute to reducing greenhouse gas emissions from cows and pigs by offering sandwiches and other items made with soy meat. The store's exterior and interior are based on a green color tone with a slightly brighter and more modern design than “Komeda's Coffee,” to match the atmosphere of the downtown office and shopping district. However, the atmosphere of “Komeda's Coffee” is still maintained, as the chairs and tables are the same shape and material as those used in “Komeda's Coffee.” The store offers a space where customers can feel relaxed, which is rare in the city center. It is not a new format, but rather an evolved form of “Komeda's Coffee,” in our view. Reflecting its location in the heart of the city, the prices are higher than most “Komeda's Coffee” stores: 650 yen for a Komeda blend, 980-1,180 yen for a sandwich, and 1,280 yen for a hamburger. Alcohol is also available. The success of such a high-price format for urban locations could be a catalyst for the company to enter the urban café market, where it has been unable to open many stores. However, this business is still in the experimental stage, and it is highly likely that the company has not been able to fully experiment with this business due to the COVID-19 pandemic. It is also questionable whether consumers will accept the high price of just under 2,000 yen for a drink and a hamburger, even in the Higashi-Ginza location. More time will be needed to discuss the possibility of expanding to multiple stores.

“Komeda is □” is more of an evolved form than a new format. It is targeted at the city center. We need to see if the price is acceptable to consumers

M&A

The company's superior cash-flow generation capacity makes M&A a viable option for growth. Although it has remaining debt due to its past LBO, as it repays the debt, it will be easier for the company to take a more aggressive stance on growth investments, in our view.

Mita Securities' earnings forecast

Earnings forecast for FY2/22

We forecast sales of 33.6bn yen (+16.6% YoY), OP of 7.3bn yen (+31.8% YoY), OPM of 21.6% (19.1% in the previous year), and NP of 4.8bn yen (+34.9% YoY) for FY2/22 on an IFRS basis. We expect these figures to be roughly in line with the company's guidance (sales of 32.9bn yen, OP of 7.25bn yen, and NP of 4.85bn yen). We expect the number of stores at end of period to be 950 (+3.9% YoY). Our assumption for same-store wholesale sales to franchisees is for a +9.5% increase YoY (company guidance: +8.8%) and a -3.1% decrease vs. FY2/20.

We expect OP up 32% to 7.3bn yen in FY2/22

We believe that subsidy related to shorter opening hours is limited as only 5% of the company's stores are directly-owned (franchise stores receive the subsidy themselves, not the company).

Going forward, the easing of requests by local governments for shorter hours is likely to act as a positive factor. In addition, we believe that the withdrawal of underperforming restaurant operators will create more room for "Komeda's Coffee" to open new stores.

Outlook for FY2/23 and beyond

Our forecast for FY2/23 is for sales of 36.4bn yen (+8.3% YoY), OP of 8.1bn yen (+11.5% YoY), and an OPM of 22.2%. We assume that the number of stores at end of term is 1,001 (+5.4% YoY). It is highly likely that vaccination rates will have reached a high level by this time. We expect a recovery in same-store wholesale sales to franchisees to continue as demand for coffee shop use increases and the risk of requests for shorter hours being issued is greatly reduced. In addition, we expect new store openings in Japan to take advantage of increased room for new store openings, and overseas, we expect store openings in Taiwan to accelerate.

We expect 8.1bn yen OP and over 1,000 stores in FY2/23, and 9.0bn yen OP in FY2/24

Our forecast for FY2/24 is for an OP of 9.0bn yen (+11.1% YoY) and an OPM of 22.7%. We expect the number of stores at end of term to be 1,060 (+5.9% YoY), of which 66 will be overseas.

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

Various indicators	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	5y CAGR
Consolidated	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	(%)
Sales growth (%)	16.7	2.9	-7.6	16.6	8.3	8.8	5.9	4.9	
Wholesale sales growth (%)	10.9	9.7	-8.6	11.7	5.5	6.5	6.2	5.2	
Same-store wholesale sales growth (%)	6.4	4.9	-11.5	9.5	0.5	0.0	0.0	0.0	
Store count growth (%)	6.8	4.2	2.0	3.9	5.4	5.9	5.8	5.4	
Operating profit growth (%)	5.0	4.1	-30.0	31.8	11.5	11.1	5.4	4.2	
Net profit growth (%)	4.3	5.0	-33.2	34.9	11.6	11.1	2.6	3.5	
Gross margin (%)	37.3	38.7	35.9	37.1	37.2	37.5	37.6	37.5	
Operating profit margin (%)	24.9	25.2	19.1	21.6	22.2	22.7	22.6	22.5	
EBITDA margin (%)	27.0	28.8	24.1	25.8	26.1	26.2	26.0	25.7	
FCF/Sales (%)	15.8	25.4	30.8	12.4	16.2	14.7	13.8	13.5	
ROA (%)	7.9	6.5	3.5	4.4	4.8	5.2	5.3	5.3	
ROE (%)	18.0	17.2	10.6	13.3	13.7	14.1	13.5	13.1	

Source: Company data, Mita Securities

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

P/L	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	5y CAGR
Consolidated, JPYm	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	(%)
Sales	30,335	31,219	28,836	33,618	36,395	39,585	41,915	43,990	8.8
Wholesale	19,852	21,784	19,905	22,243	23,467	24,989	26,541	27,915	7.0
Directly-owned store sales	3,249	3,867	3,900	5,390	6,360	7,410	7,930	8,450	16.7
Store development income	1,246	1,149	975	1,221	1,353	1,485	1,485	1,485	8.8
Lease-related earnings	3,154	1,278	1,340	1,399	1,463	1,545	1,634	1,726	5.2
Other services	2,834	3,141	2,716	3,365	3,752	4,156	4,325	4,414	10.2
CGS	19,034	19,132	18,477	21,139	22,853	24,723	26,169	27,492	
Gross profit	11,301	12,087	10,359	12,479	13,542	14,862	15,746	16,498	9.8
Other operating income	143	166	307	218	80	80	80	80	
SGA	3,793	4,301	4,620	5,086	5,405	5,815	6,185	6,531	7.2
Other operating expense	82	74	535	350	120	130	155	165	
Operating profit	7,568	7,878	5,511	7,261	8,097	8,996	9,486	9,881	12.4
Finance income	26	21	19	38	42	46	49	52	
Finance expense	133	125	139	141	130	120	109	98	
Pre-tax profit	7,461	7,775	5,391	7,158	8,009	8,922	9,426	9,835	12.8
Corporate taxes	2,346	2,406	1,789	2,290	2,563	2,855	3,016	3,147	
Net profit	5,115	5,369	3,602	4,867	5,446	6,067	6,410	6,688	
NP attributable to non-controlling interests	2	7	12	24	41	64	252	311	
NP attributable to owner of the company	5,117	5,376	3,590	4,843	5,405	6,003	6,158	6,376	12.2
EBITDA	8,189	8,992	6,940	8,671	9,495	10,388	10,897	11,301	10.2
Shares outstanding (m)	45.423	46.080	46.110	46.110	46.110	46.110	46.110	46.110	
EPS	112.66	116.66	77.86	105.04	117.21	130.19	133.55	138.29	12.2
BPS	648.24	720.19	754.54	820.58	886.79	954.98	1,020.54	1,086.82	7.6
DPS	50.00	51.00	39.00	51.00	62.00	68.00	72.00	76.00	14.3
Payout ratio (%)	44.2	43.7	50.1	48.6	52.9	52.2	53.9	55.0	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (store count)

Store count data	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	5y CAGR
	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	(%)
Store count at end-FY (FC + directly-owned)									
Komeda's coffee	835	873	899	936	987	1,046	1,107	1,168	5.4
East Japan	237	256	274	291	310	331	352	373	6.4
Chukyo (Central Japan)	331	324	313	304	299	294	289	284	-1.9
West Japan	260	284	294	311	332	355	378	401	6.4
Overseas	7	9	18	30	46	66	88	110	43.6
Okagean	9	11	11	11	11	11	11	11	0.0
East Japan	2	4	4	4	4	4	4	4	0.0
Chukyo (Central Japan)	7	7	7	7	7	7	7	7	0.0
Other	16	12	4	3	3	3	3	3	-5.6
Total	860	896	914	950	1,001	1,060	1,121	1,182	5.3
(YoY, %)	6.8	4.2	2.0	3.9	5.4	5.9	5.8	5.4	
FC store ratio (%)	94.9	94.4	94.5	94.3	94.2	94.2	94.1	94.1	
Wholesale sales to FC per store (JPYm)	24.8	26.2	23.3	25.3	25.5	25.7	25.9	25.8	2.0
(YoY, %)	5.2	5.6	-11.2	8.6	1.0	0.9	0.4	-0.4	
New store openings	71	58	46	53	61	69	71	71	

Source: Company data, Mita Securities

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

B/S	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	5y CAGR
Consolidated, JPYm	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	(%)
Total current assets	14,357	18,220	27,938	29,294	35,766	37,640	40,905	41,450	8.2
Cash and cash equivalents	5,841	6,609	7,301	7,686	9,239	10,190	10,849	11,469	
Trade and other receivables	3,453	6,341	5,195	5,577	4,594	4,625	4,356	4,659	
Other financial assets	4,113	4,133	14,128	16,471	17,831	19,394	20,536	21,552	
Inventories	175	201	317	79	350	116	377	140	
Other current assets	775	936	997	-518	3,753	3,314	4,788	3,629	
Total non-current assets	52,020	80,218	81,598	82,683	78,017	78,410	77,308	79,011	-0.6
Property, plant and equipment	6,745	12,162	12,819	12,509	12,261	12,069	11,958	11,888	
Goodwill	38,354	38,354	38,354	38,354	38,354	38,354	38,354	38,354	
Other intangible assets	53	163	217	238	259	281	302	323	
Trade and other receivables	3,679	25,932	26,473	27,228	22,429	22,579	21,265	22,748	
Other financial assets	2,813	3,004	3,206	3,738	4,046	4,401	4,660	4,891	
Deferred tax assets	158	298	325	379	410	446	472	496	
Other non-current assets	217	305	204	238	257	280	297	311	
Total assets	66,377	98,438	109,536	111,977	113,783	116,049	118,213	120,461	1.9
Total current liabilities	8,324	11,273	23,771	24,507	24,349	24,279	23,911	23,471	-0.3
Trade payables	1,233	1,550	1,488	1,702	1,840	1,991	2,107	2,214	
Short-term borrowings	3,118	3,095	12,705	12,000	11,000	10,000	9,000	8,000	
Lease liabilities		2,292	3,056	2,982	2,923	2,877	2,851	2,834	
Income tax payable	1,319	1,222	2,652	3,395	3,799	4,232	4,471	4,665	
Other financial liabilities	1,746	1,740	1,955	2,237	2,418	2,616	2,769	2,909	
Other current liabilities	908	1,374	1,915	2,191	2,369	2,562	2,712	2,849	
Non-current liabilities	28,575	53,952	50,932	49,567	48,438	47,565	46,823	46,143	-2.0
Long-term borrowings	20,522	17,452	14,861	13,566	12,566	11,566	10,566	9,566	
Lease liabilities		29,753	29,335	28,624	28,057	27,618	27,364	27,205	
Other financial liabilities	7,449	6,129	6,057	6,668	7,086	7,624	8,109	8,562	
Provisions	172	225	308	301	295	290	287	286	
Other non-current liabilities	432	394	371	408	434	467	497	524	
Total liabilities	36,899	65,225	74,703	74,075	72,787	71,844	70,734	69,615	-1.4
Total equity	29,478	33,213	34,833	37,902	40,996	44,205	47,479	50,847	7.9
Equity attributable to owner of the co.	29,445	33,186	34,792	37,837	40,890	44,034	47,057	50,114	
Non-controlling interests	33	27	41	65	106	170	422	733	
Total liabilities and equity	66,377	98,438	109,536	111,977	113,783	116,049	118,213	120,461	1.9
Debt	23,639	20,547	27,566	25,566	23,566	21,566	19,566	17,566	
Debt (including lease)		52,591	59,957	57,172	54,546	52,062	49,781	47,605	
D/E (x)	0.8	0.6	0.8	0.7	0.6	0.5	0.4	0.4	
D/E (including lease, x)		1.6	1.7	1.5	1.3	1.2	1.1	0.9	
Debt/EBITDA (x)	2.9	2.3	4.0	2.9	2.5	2.1	1.8	1.6	
Debt/EBITDA (including lease, x)		5.8	8.6	6.6	5.7	5.0	4.6	4.2	
Capital ratio (%)	44.4	33.7	31.8	33.8	35.9	37.9	39.8	41.6	

Source: Company data, Mita Securities

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

CF	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	5y CAGR
Consolidated, JPYm	A	A	A	MitaE	MitaE	MitaE	MitaE	MitaE	(%)
Net cash from operating activities	6,212	9,318	10,359	5,283	7,054	7,011	7,094	7,290	
NP attributable to owner of the company	5,117	5,376	3,590	4,843	5,405	6,003	6,158	6,376	
Depreciation and amortization	621	1,114	1,429	1,411	1,398	1,392	1,411	1,420	
Other	474	2,829	5,340	-971	252	-384	-475	-506	
Net cash from investing activities	-2,559	-1,372	-11,556	-1,100	-1,150	-1,200	-1,300	-1,350	
Inflows/outflows from term deposit	-1,000	0	-10,000	0	0	0	0	0	
Purchase of non-current assets	-1,428	-1,376	-1,484	-1,100	-1,150	-1,200	-1,300	-1,350	
Disposal of non-current assets	0	0	0	0	0	0	0	0	
Other	-132	4	-72	0	0	0	0	0	
Net cash from financing activities	-3,240	-7,169	1,889	-3,798	-4,352	-4,859	-5,135	-5,320	
Debt issuance/repayment	-216	-5,874	3,899	-2,000	-2,000	-2,000	-2,000	-2,000	
Share capital issuance/buy-back	-702	89	20	0	0	0	0	0	
Dividends paid	-2,250	-2,283	-2,030	-1,798	-2,352	-2,859	-3,135	-3,320	
Other	-73	898	0	0	0	0	0	0	
Cash and cash equivalents	5,841	6,609	7,301	7,686	9,239	10,190	10,849	11,469	
Free CF	4,785	7,943	8,875	4,183	5,904	5,811	5,794	5,940	

Source: Company data, Mita Securities

Reference materials

Shareholder benefit yield for food service companies

Figure: Comparison of shareholder benefit yield

	Company name	Ticker	Vesting month	Shareholder benefit/share (JPY)	Shareholder benefit yield (%)	PBR (x)
1	WATAMI CO LTD	7522	Mar, Sep	80.0	8.2	12.3
2	DAISYO CORP	9979	Feb, Aug	60.0	5.6	1.8
3	SFP HOLDINGS CO LTD	3198	Feb, Aug	80.0	5.2	3.7
4	ATOM CORP	7412	Mar, Sep	40.0	5.1	18.2
5	ANRAKUTEI CO LTD	7562	Mar, Sep	260.0	4.8	2.7
6	FUJIO FOOD GROUP INC	2752	Dec, Jun	60.0	4.5	16.5
7	PEPPER FOOD SERVICE CO LTD	3053	Jun, Dec	20.0	4.5	29.4
8	CHIMNEY CO LTD	3178	Mar, Sep	60.0	4.1	5.6
9	CREATE RESTAURANTS HOLDINGS	3387	Feb, Aug	40.0	4.1	10.6
10	KAPPA CREATE CO LTD	7421	Mar, Sep	60.0	4.1	6.6
11	COLOWIDE CO LTD	7616	Mar, Sep	80.0	3.8	9.5
12	TORIDOLL HOLDINGS CORP	3397	Sep, Mar	60.0	3.1	5.8
13	SRS HOLDINGS CO LTD	8163	Mar, Sep	24.0	3.0	3.0
14	OTOYA HOLDINGS CO LTD	2705	Mar, Sep	80.0	2.9	14.3
15	YOSHINOYA HOLDINGS CO LTD	9861	Feb, Aug	60.0	2.8	3.4
16	SKYLARK HOLDINGS CO LTD	3197	Jun, Dec	40.0	2.6	2.7
17	ASAKUMA CO LTD	7678	Mar	40.0	2.5	3.8
18	HOTLAND CO LTD	3196	Jun, Dec	30.0	2.2	4.0
19	GOURMET KINEYA CO LTD	9850	Mar, Sep	20.0	2.1	2.6
20	BRONCO BILLY CO LTD	3091	Jun, Dec	40.0	1.7	2.1
21	RINGER HUT CO LTD	8200	Feb, Aug	33.0	1.4	6.3
22	AMIYAKI TEI CO LTD	2753	Mar	40.0	1.3	1.0
23	KISOJI CO LTD	8160	Mar, Sep	32.0	1.3	2.5
24	KOURAKUEN HOLDINGS CORP	7554	Mar	20.0	1.3	7.3
25	GINZA RENOIR CO LTD	9853	Mar	10.0	1.2	1.6
26	GENKI SUSHI CO LTD	9828	Mar, Sep	30.0	1.2	2.8
27	TORIKIZOKU HOLDINGS CO LTD	3193	Jan, Jul	20.0	1.1	4.5
28	KUSHIKATSU TANAKA HOLDINGS C	3547	Nov	20.0	1.0	12.9
29	HIDAY HIDAKA CORP	7611	Feb, Aug	20.0	1.0	3.5
30	ARCLAND SERVICE HOLDINGS CO	3085	Jun, Dec	22.0	1.0	3.3
31	UKAI CO LTD	7621	Sep	30.0	1.0	5.7
32	KOMEDA HOLDINGS CO LTD	3543	Feb, Aug	20.0	1.0	2.8
33	MONOGATARI CORP	3097	Jun, Dec	70.0	0.9	4.7
34	CHOUSHIMARU CO LTD	3075	May, Nov	10.0	0.9	2.3
35	SAIZERIYA CO LTD	7581	Aug	20.0	0.7	1.7
36	ZENSHO HOLDINGS CO LTD	7550	Mar, Sep	20.0	0.7	5.1
37	OHSO FOOD SERVICE CORP	9936	Mar, Sep	40.0	0.7	2.0
38	MOS FOOD SERVICES INC	8153	Mar, Sep	20.0	0.6	2.2
39	KURA SUSHI INC	2695	Apr	25.0	0.6	3.8
40	DOUTOR NICHIRETS HOLDINGS CO	3087	Feb	10.0	0.6	0.9

Source: Companies data, Bloomberg Finance LP data, Mita Securities

Note 1: Shareholder benefit yield = Meal coupon amount per share (minimum purchase unit basis)/Stock price (July 7, 2021)

Note 2: Watami (7522) offers 4,000 yen worth of meal coupons every half year. However, use is limited to 500 yen per person per occasion

Capital increase by food service companies

Figure: Examples of capital increase by food service companies (including subordinated loans)

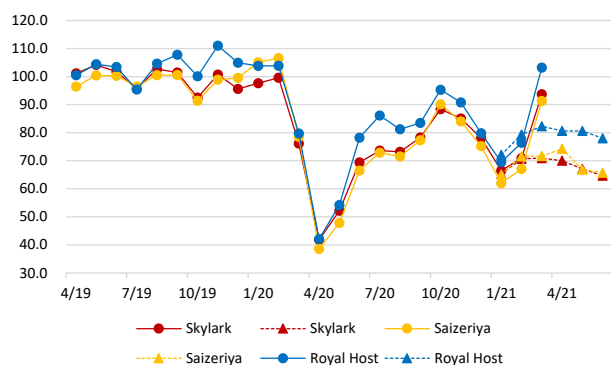
Announcement	Company name	Ticker	Funding method	Funding amount (JPYm)	Note
07/28/20	Colowide	7616	Preferred shares	9,000	Dividend 3.5% per annum. No conversion right to common shares
07/31/20	Pepper Food Service	3053	Warrants	6,740	Exercise price 415 yen (initial), with downward adjustment clause (last 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	42,610	Public offering of new shares. Issue price 1,495 yen. Dilution 15.19%
05/24/21	Watami	7522	Preferred shares	12,000	Dividend 4% per annum. No conversion right to common shares
06/25/21	Zensho HD	7550	Subordinated loans	20,000	
06/28/21	Chimny	3178	Subordinated loans	1,000	

Source: Companies data, Mita Securities

Monthly data for food service companies

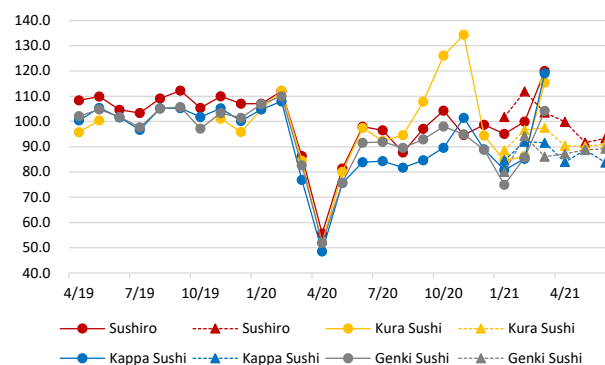
Same-store sales (compared to last year or year before last)

Figure: Family restaurants



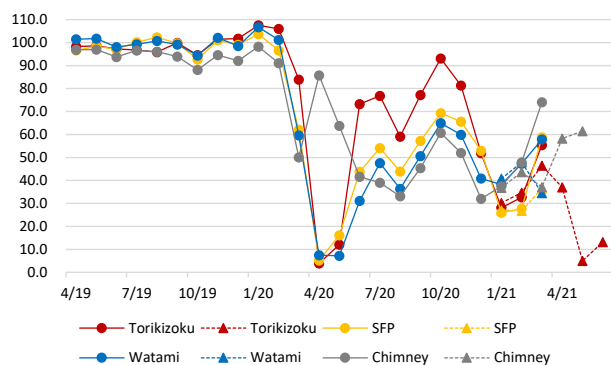
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Sushi restaurants



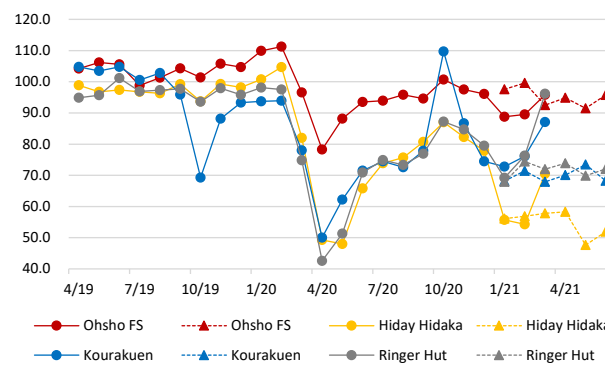
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Izakaya (Japanese style pubs)



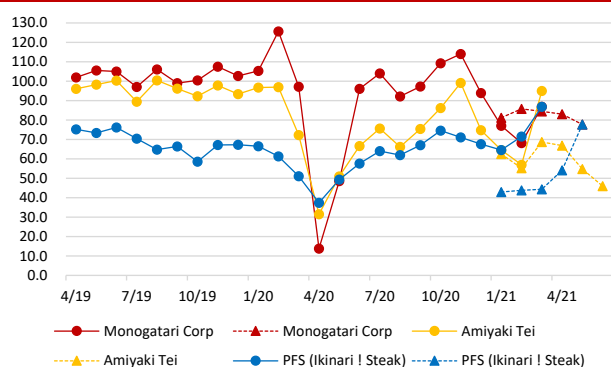
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Chinese restaurants



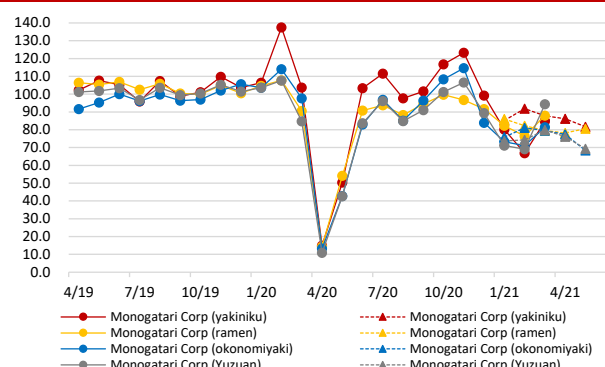
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Yakiniku (Japanese BBQ), steak



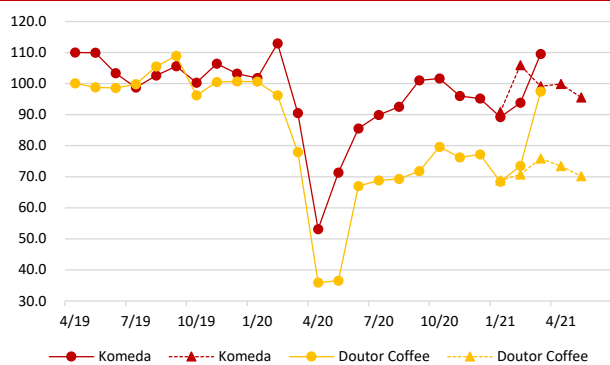
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

Figure: Monogatari Corporation by division



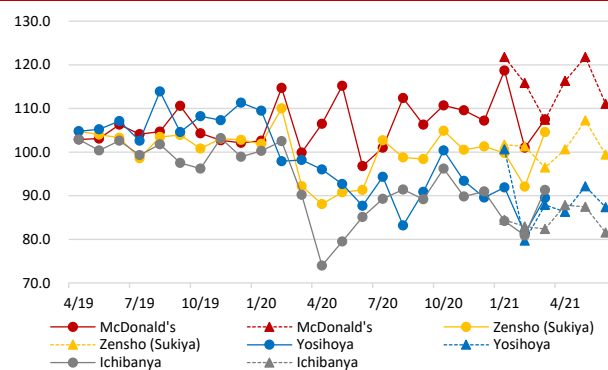
Source: Companies data, Mita Securities Note: Solid line vs last yr, dotted line vs yr before last

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

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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