



Fast Fitness Japan

TSE Mothers 7092 Industry: Leisure & amusement

A game changer in the fitness industry; initiating coverage with a Buy rating (revised version)

Initiating coverage with a TP of 6,700 yen and a Buy rating

We initiate coverage of Fast Fitness Japan, Inc. (7092, FFJ, the company) with a target price of 6,700 yen and a Buy rating.

Anytime Fitness, which is operated by FFJ mainly through a franchise system, is characterized by its high customer attraction due to its strong brand recognition (especially popular among young men) and its low break-even business model for small-scale stores. Despite the decline in membership due to COVID-19, the business has been profitable at the store level, and franchisees are motivated to open new stores. In addition, the number of available properties is increasing due to the withdrawal of restaurants and other businesses. Many of its competitors are reluctant to open new stores due to the severe impact of COVID-19, providing the company with an opportunity to further strengthen its position in the industry. Japan's fitness participation rate is only about 4%, and there is significant room for growth in the fitness market over the long term. In the post-COVID-19 period, we expect the fitness market to grow significantly as consumers become more aware of the importance of exercise.

The catalysts we envision for an upturn in the stock price include a recovery in the number of members, steady new store openings, and a significant decrease in the number of COVID-19 cases.

Mita Securities' earnings forecast

Our OP forecasts are 2.8bn yen for FY3/22 (+23.2% YoY), 3.4bn yen for FY3/23, and 4.0bn yen for FY3/24. We assume that the number of stores will be 1,063 at end-FY3/22 (+17.2% YoY), 1,237 at end-FY3/23, and 1,423 at end-FY3/24. The average number of members per store fell from 791 at end-FY3/20 to 623 at end-FY3/21, but we assume it will gradually recover to 656 at end-FY3/22, 690 at end-FY3/23, and 737 at end-FY3/24. We believe that the franchise should be able to secure a number of members per store that is well above the break-even point (approximately 500 members), and as such franchisees should remain motivated to open new stores.

Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 5.5% and a terminal growth rate of 3.5%, based on our earnings forecasts for FY3/22-FY3/26. Our target price is equivalent to 56.7x our FY3/23 EPS forecast of 118.13 yen.

Risk factors to our view include a request from the national or local government for small-scale gyms to close, a significant failure to meet plans for new store openings, a significant decline in the number of members per store, intensified price competition due to the proliferation of small-scale gyms, manifestations of cannibalization, and a deteriorating relationship with the U.S. franchise headquarters.

In addition, the company was just listed on the stock exchange in December 2020, and its evaluation in the market is not yet fully established. Therefore, it is important to note that the company's share price can fluctuate significantly in the short term.

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Initiation of coverage

Rating
Buy

Target price (JPY)	6,700
Stock price (JPY) (Aug 25)	3,965
Market cap (JPYbn)	61.8

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	11.3	11.2	13.1	14.9	17.0
OP	JPYbn	2.8	2.3	2.8	3.4	4.0
RP	JPYbn	2.8	2.3	2.8	3.4	4.0
NP	JPYbn	1.6	0.9	1.4	1.8	2.2
EPS	JPY	135.4	59.1	89.6	118.1	141.7
BPS	JPY	276.0	521.7	603.2	709.3	838.0
DPS	JPY	2.3	8.5	12.0	13.0	14.0
PER	x	NA	59.8	44.3	33.6	28.0
PBR	x	NA	6.8	6.6	5.6	4.7
Div. yield	%	NA	0.2	0.3	0.3	0.4
ROA	%	12.3	5.0	6.1	7.1	7.7
ROE	%	64.6	16.1	15.9	18.0	18.3

Source: Company data, Mita Securities

Company profile

FFJ operates the 24-hour machine-focused fitness club Anytime Fitness mainly through a franchise system, with 924 stores and 595,000 members as of June 30, 2021.

[Revised version] This is a revised version of the report issued on August 26, 2021. Per-share indicators, including the target price, and other figures have been corrected (pages 1, 2, 3, 4, 5, 17, 18, 19). There is no change to the Buy rating. Stock price data has not been changed from the original report.

Investment thesis

Outlook

Differentiation and growth ambitions

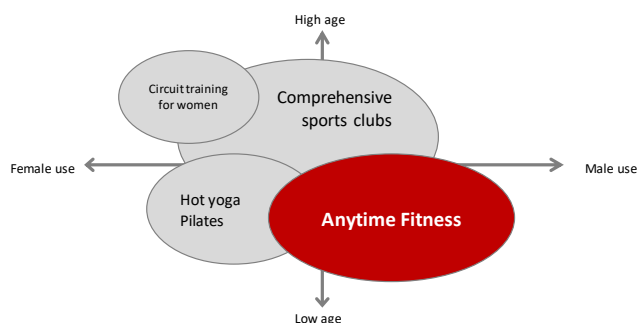
We initiate coverage of Fast Fitness Japan, Inc. (7092, FFJ, the company) with a target price of 6,700 yen and a Buy rating.

FFJ operates the 24-hour machine-focused fitness club "Anytime Fitness" in Japan under both franchise and direct management. Anytime Fitness has been enhancing its market position, mainly among young men, by differentiating itself with lower membership fees compared to comprehensive fitness clubs, the convenience of 24-hour operation, and the installation of high-performance training machines. On the franchise side, the business is highly regarded for its ability to attract customers through the Anytime Fitness brand recognition, as well as its low break-even business model for small-scale facilities. Despite the COVID-19 pandemic, franchisees are motivated to open new stores. With Japan's fitness participation rate still low at around 4%, there is significant room for long-term growth in the fitness market. As many competitors are freezing store openings and closing unprofitable stores in response to the COVID-19, the company has an opportunity to further strengthen its position in the industry.

Initiating coverage with a TP of 6,700 yen and a Buy rating

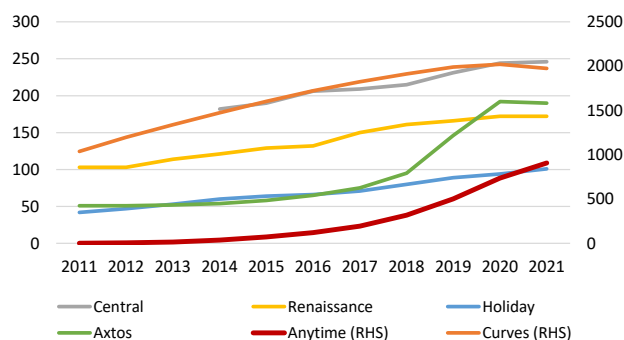
Driving market expansion with differentiated business model. Growth ambitions unabated even under the COVID-19 pandemic

Figure: Positioning in the industry



Source: Company data, Mita Securities

Figure: Number of fitness club stores



Source: Companies data, Mita Securities Note: End-Mar. End-Aug for Curves (end-May for 2021)

Latest earnings and future outlooks

In FY3/21, OP was 2.3bn yen (-19.0% YoY), OPM was 20.5%, 177 new stores were opened, and the number of stores at end-FY3/21 was 907 (+23.2% YoY). Profit decreased mainly due to the closure of all stores in response to the emergency declaration in April-May 2020, which resulted in the exemption of royalties from FC stores and the return of membership fees at directly-owned stores. Although the average number of members per store was down sharply to 623 at end-FY3/21 from 791 at end-FY3/20, it was still well above the break-even point of approximately 500 members and franchisees have been motivated to open new stores. In addition, Anytime Fitness resumed normal operations in June 2020, and since then it has not been subject to the request for shorter hours due to the small size of its stores. This put the company in an advantageous position compared to its larger competitors, which were forced to reduce their operating hours and services.

FY3/21 profit declined due to the impact of COVID-19. However, FCs remained motivated to open new stores. Smaller stores had an advantage in the industry

Our FY3/22 earnings forecasts are for OP of 2.8bn yen (+23.2% YoY), OPM of 21.6%, 160 new stores, and 1,063 stores at the end of FY3/22 (+17.2% YoY). In 1Q, OP was 0.8bn yen, OPM was 24.7%, 18

We expect a five-year CAGR of 19% for OP

new stores were opened, and there were 924 stores at end-1Q. The average number of members per store recovered to 644. Progress toward the company's full-year OP guidance of 2.6bn yen was on track at 29.5%.

For FY3/23, we forecast OP of 3.4bn yen, OPM of 22.7%, and 1,237 stores at the end of the period; for FY3/24, we forecast OP of 4.0bn yen, OPM of 23.4%, and 1,423 stores at the end of the period. We expect continued opening of new stores and improvement in profit margin due to recovery in the number of members. Furthermore, we forecast a five-year OP CAGR of 19.3% through FY3/26.

Catalysts

The catalysts we envision for an upturn in the stock price include a recovery in the number of members, steady new store openings, and a significant decrease in the number of COVID-19 cases.

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	8,024	11,334	11,164	13,050	14,908	17,021	19,370	21,837	13,000	13,000	15,000	17,600
(YoY, %)	191.8	41.2	-1.5	16.9	14.2	14.2	13.8	12.7				
Operating profit	1,675	2,831	2,294	2,825	3,379	3,991	4,746	5,546	2,600	2,650	3,000	3,600
(YoY, %)	NA	69.0	-19.0	23.2	19.6	18.1	18.9	16.9				
OPM (%)	20.9	25.0	20.5	21.6	22.7	23.4	24.5	25.4				
Recurring profit	1,671	2,829	2,256	2,825	3,367	3,978	4,732	5,532	2,500	2,550	2,900	3,500
(YoY, %)	329.5	69.3	-20.3	25.2	19.2	18.2	19.0	16.9				
Net profit	928	1,628	921	1,395	1,840	2,207	2,647	3,109	1,100	1,170	1,335	2,000
(YoY, %)	NA	75.4	-43.4	51.5	31.9	19.9	20.0	17.5				
Depreciation	548	839	1,029	1,179	1,368	1,588	1,841	2,129				
Capital expenditure	1,565	3,146	1,893	1,500	1,890	2,200	2,530	2,880				
Free CF	796	-1,297	-218	917	890	1,164	1,432	1,734				
KPI												
Number of stores (EOP)	502	736	907	1,063	1,237	1,423	1,619	1,827	1,063			
(YoY, %)	57.9	46.6	23.2	17.2	16.4	15.0	13.8	12.8				
FC stores	414	604	756	898	1,055	1,222	1,398	1,584	898			
(YoY, %)	63.6	45.9	25.2	18.8	17.5	15.8	14.4	13.3				
Directly-owned stores	88	132	151	165	182	201	221	243	165			
(YoY, %)	35.4	50.0	14.4	9.3	10.3	10.4	10.0	10.0				
New store openings	184	234	177	160	178	190	202	214	160			
FC stores	161	192	157	145	160	170	180	190	145			
Directly-owned stores	23	42	20	15	18	20	22	24	15			
Number of members (EOP, 000)	411	582	565	697	853	1,049	1,271	1,503				
(YoY, %)	NA	41.6	-2.9	23.4	22.4	23.0	21.1	18.3				
FC stores	348	487	476	597	739	917	1,118	1,331				
(YoY, %)	NA	40.0	-2.3	25.5	23.7	24.1	22.0	19.0				
Directly-owned stores	63	94	89	100	115	133	152	173				
(YoY, %)	NA	48.6	-5.3	12.2	14.9	15.7	14.9	13.1				
Per share indicators (adjusted for stock splits)												
EPS (JPY)	77.20	135.37	59.08	89.57	118.13	141.69	169.97	199.63	70.59	75.08	85.67	128.35
BPS (JPY)	142.92	275.99	521.66	603.17	709.30	837.99	993.96	1,178.58				
DPS (JPY)	2.31	2.31	8.46	12.00	13.00	14.00	15.00	16.00	NA			
Valuation, profitability, etc.												
PER (x)	NA	NA	59.8	44.3	33.6	28.0	23.3	19.9				
PBR (x)	NA	NA	6.8	6.6	5.6	4.7	4.0	3.4				
Dividend payout ratio (%)	3.0	1.7	14.0	13.4	11.0	9.9	8.8	8.0				
Dividend yield (%)	NA	NA	0.2	0.3	0.3	0.4	0.4	0.4				
ROA (%)	13.9	12.3	5.0	6.1	7.1	7.7	8.2	8.6				
ROE (%)	78.1	64.6	16.1	15.9	18.0	18.3	18.6	18.4				
Financial soundness indicators												
Shareholders' equity ratio (%)	16.0	21.2	38.5	38.6	40.7	42.8	45.2	47.7				
Net D/E ratio (%)	0.6	0.7	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4				

Source: Company data, QUICK data, Mita Securities

Note: Consensus forecasts are by QUICK consensus

Valuations

Stock valuation based on residual income model (RIM)

In calculating our target price of 6,700 yen, we used a residual income model (RIM) with a cost of equity of 5.5% and a terminal growth rate of 3.5%, based on our earnings forecasts for FY3/22-FY3/26. Our target price is equivalent to 56.7x our FY3/23 EPS forecast of 118.13 yen.

TP of 6,700 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)	8.1	9.4	11.0	13.1	15.5	18.4	
Net profit		1.4	1.8	2.2	2.6	3.1	
Cost of equity		0.4	0.5	0.6	0.7	0.9	
Residual income		0.9	1.3	1.6	1.9	2.3	
PV of residual income		0.9	1.2	1.4	1.6	1.7	
PV of terminal value							89.4

Beta	1.00						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	5.50						
Terminal growth rate (%)	3.50						
Total equity value						104.3	
Number of shares O/S (m)						15.576	
Target share price						6,700	

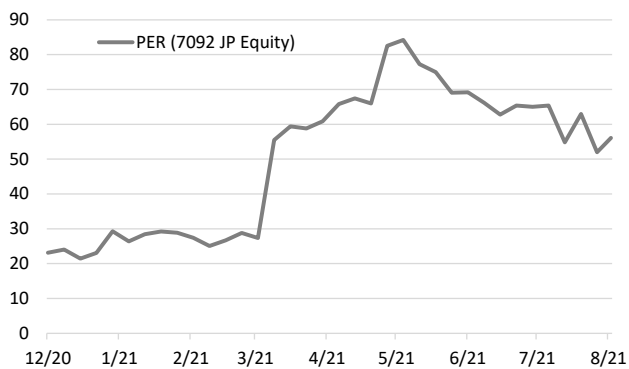
Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.10
Target price	5,350	5,500	5,700	5,950	6,150	6,400	6,700	7,000	7,350	7,750	8,150	8,650	9,200

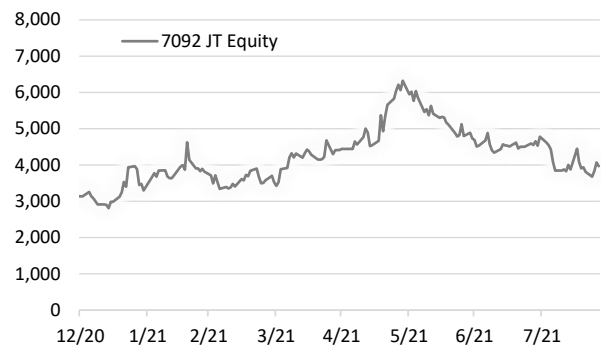
Source: Mita Securities

Figure: FFJ's PER (reference)



Source: Bloomberg Finance LP data, Mita Securities

Figure: FFJ's stock price



Source: Bloomberg Finance LP data, Mita Securities

Comparison of valuations with peers (reference)

Figure: Comparison of valuations for fitness club companies

Company name	Ticker	PX 8/25	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
RENAISSANCE INC	2378	1,159	24.8	1.7	-8.4	-10.7	-61.5	NA	NA	NA	NA	NA	2.4	NA	NA	NA	-7.4	-1.8	19.1
RIZAP GROUP INC	2928	184	102.3	1.3	-3.3	8.7	18.0	NA	NA	25.1	NA	NA	3.7	NA	NA	NA	-10.2	-11.1	34.3
CENTRAL SPORTS CO LTD	4801	2,358	27.0	0.3	-11.6	7.8	0.0	NA	NA	NA	NA	NA	1.2	NA	NA	NA	-2.2	-4.2	7.7
CURVES HOLDINGS CO LTD	7085	805	75.6	1.2	-10.5	11.3	9.6	12.7	34.7	92.2	71.0	23.0	9.3	NA	3.4	0.6	-7.6	-10.0	20.0
FAST FITNESS JAPAN INC (TP 6,700 Buy)	7092	3,965	61.8	-0.2	-1.5	26.8	16.1	NA	NA	56.1	56.2	44.2	5.8	NA	4.6	0.2	-12.9	-34.6	NA
TOSHIO CO LTD	8920	1,632	62.5	0.4	-35.7	20.4	2.6	5.2	10.0	70.1	34.2	21.5	1.8	12.4	3.5	0.3	-7.4	-10.7	16.7
Average				0.8	-11.8	10.7	-2.5	8.9	22.4	60.9	53.8	29.6	4.0	12.4	3.9	0.4	-7.9	-12.1	19.5
Median				0.8	-9.5	10.0	6.1	8.9	22.4	63.1	56.2	23.0	3.1	12.4	3.5	0.3	-7.5	-10.3	19.1

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 franchise business operators

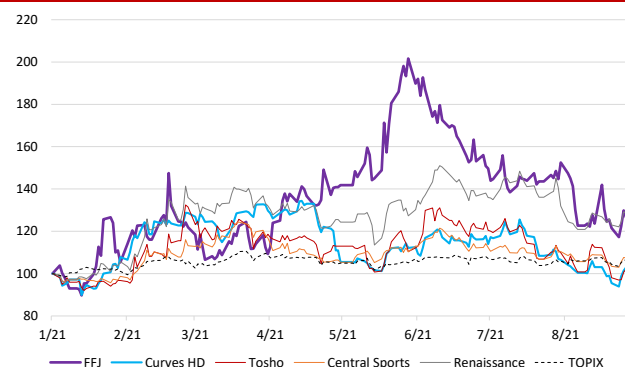
Company name	Ticker	PX 8/25	Mkt cap JPYbn	Net D/E Last	Sales YoY LTM	EBITDA Mgn LTM	ROE LTM	ROE Cur E	ROE Nxt E	PER LTM	PER Cur E	PER Nxt E	PBR Last	EV/EBITDA Cur E	EV/Sales Cur E	Div yield Cur E	1M Chg	3M Chg	1YR Chg
KOBE BUSSAN CO LTD	3038	4,315	1,180.6	-0.3	3.0	8.6	29.9	31.3	28.6	52.8	46.5	41.5	14.0	34.9	3.2	0.4	8.7	53.7	25.7
KOMEDA HOLDINGS CO LTD (TP 3,000 Buy)	3543	2,033	93.8	1.5	4.7	23.0	12.7	13.8	14.1	21.7	18.7	17.3	2.7	15.8	4.2	2.6	0.4	0.6	12.8
CURVES HOLDINGS CO LTD	7085	805	75.6	1.2	-10.5	11.3	9.6	12.7	34.7	92.2	71.0	23.0	9.3	NA	3.4	0.6	-7.6	-10.0	20.0
FAST FITNESS JAPAN INC (TP 6,700 Buy)	7092	3,965	61.8	-0.2	-1.5	26.8	16.1	NA	NA	56.1	56.2	44.2	5.8	NA	4.6	0.2	-12.9	-34.6	NA
WORKMAN CO LTD	7564	7,180	587.7	-0.4	12.6	24.1	21.0	NA	NA	33.5	30.2	26.6	6.5	NA	NA	1.0	-4.4	-5.4	-21.2
Average				0.4	1.7	18.8	17.9	19.2	25.8	51.3	44.5	30.5	7.7	25.3	3.9	1.0	-3.1	0.9	9.3
Median				-0.2	3.0	23.0	16.1	13.8	28.6	52.8	46.5	26.6	6.5	25.3	3.8	0.6	-4.4	-5.4	16.4

Source: Bloomberg Finance LP data, Mita Securities

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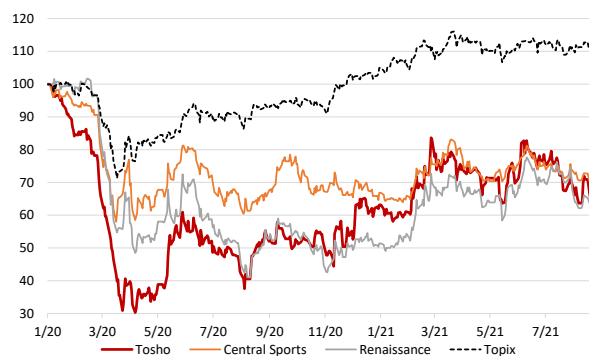
Comparison of stock price trends (reference)

Figure: Stock price trends for fitness club companies



Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2020

Figure: Stock price trends for fitness club companies



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

Risk factors

Risk factors to our view include a request from the national or local government for small-scale gyms to close, a significant failure to meet plans for new store openings, a significant decline in the number of members per store, intensified price competition due to the proliferation of small-scale gyms, manifestations of cannibalization, and a deteriorating relationship with the U.S. franchise headquarters.

In addition, the company was just listed on the stock exchange in December 2020, and its evaluation in the market is not yet fully established. Therefore, it is important to note that the company's share price can fluctuate significantly in the short term.

Company overview

Company overview

Overview of Fast Fitness Japan

Fast Fitness Japan (FFJ, the company) operates the entire franchise system of Anytime Fitness in Japan as the master franchisee in Japan. The company also operates directly-owned stores through its subsidiary. At end-June 2021, there were 924 Anytime Fitness stores in Japan (773 FC stores and 151 directly-owned stores). The company was listed on the Tokyo Stock Exchange Mothers market in December 2020.

Operates the entire Anytime Fitness franchise system in Japan

Anytime Fitness

Anytime Fitness is a fitness club chain originating in the U.S. It is characterized by the following features: 1) 24 hours a day, 365 days a year, 2) specialization in machine gyms, 3) low prices, and 4) access to all fitness clubs worldwide. At end-June 2021, Anytime Fitness had approximately 4,900 stores in 27 countries and regions around the world. The master franchisor is Anytime Fitness, LLC.

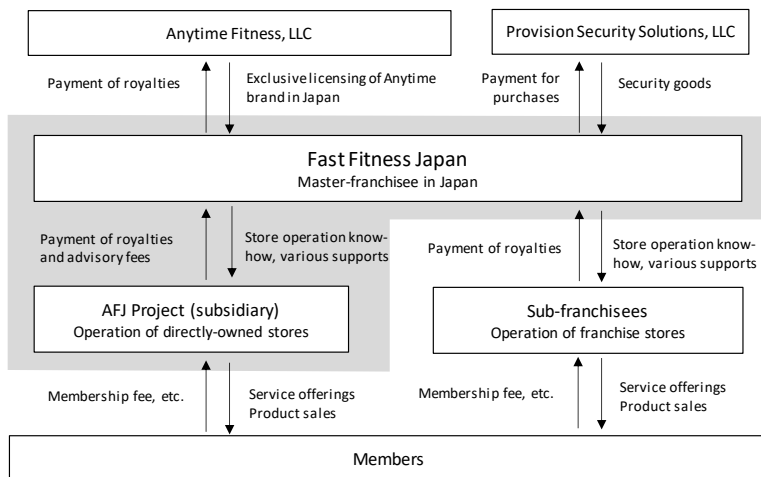
24-hour machine-focused gym

Corporate group structure

The group consists of FFJ and AFJ Project (a wholly owned subsidiary). FFJ, as the master franchisee of Anytime Fitness in Japan, provides store management know-how and various supports to sub-franchisees, and in return receives royalties. AFJ Project, as one of the sub-franchisees, operates Anytime Fitness stores (directly-owned stores).

FFJ is the master franchisee for Anytime Fitness in Japan. Operates directly-owned stores through its subsidiary

Figure: Business structure



Source: Company data, Mita Securities

Summary of earnings

FY3/20 results

In FY3/20, sales were 11.3bn yen (+41.2% YoY), OP 2.8bn yen (+69.0% YoY), and OPM 25.0%. Both sales and OP increased significantly due to an increase in the number of new FC stores and in the number of members for directly-owned stores.

The number of stores at end-FY3/20 was 736 (+234 stores YoY), of which 604 were FC stores (+190 stores YoY) and 132 were directly-owned stores (+44 stores YoY). New store openings totaled 234, of which 192 were FC stores and 42 were directly-owned stores. The number of members was 582,000 (+41.6% YoY), of which 487,000 were for FC stores (+40.0% YoY) and 94,000 were for directly-owned stores (+48.6% YoY). The average number of members per store was 791.

FY3/21 results

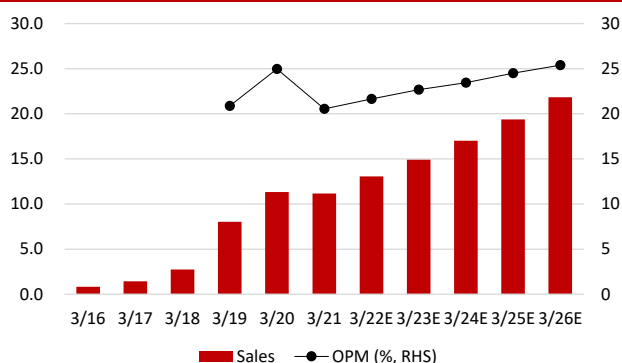
In FY3/21, sales were 11.2bn yen (-1.5% YoY), OP 2.3bn yen (-19.0% YoY), and OPM 20.5%. Due to the impact of COVID-19, the company had to comply with requests to close stores in April and May 2020, and the number of new FC stores and the number of members at directly-owned stores declined, resulting in lower sales and profits. Nevertheless, the small size of Anytime Fitness stores meant that in many subsequent cases they were not subject to requests for closure or shorter hours, and the stores were able to continue operating 24 hours a day as usual even when major comprehensive fitness clubs were closing or shortening their hours. The stores have been able to maintain the number of members well above the break-even point. On the other hand, some of the competitors in the 24-hour gym market have been closing large numbers of stores. In our view, the company's position in the industry has strengthened.

The number of stores at end-FY3/21 was 907 (+171 stores YoY), of which 756 were FC stores (+152 stores YoY) and 151 were directly-owned stores (+19 stores YoY). New store openings totaled 177, of which 157 were FC stores and 20 were directly-owned stores. The number of members was 565,000 (-2.9% YoY), of which 476,000 were for FC stores (-2.3% YoY) and 89,000 were for directly-owned stores (-5.3% YoY). The average number of members per store was 623.

Significant increase in both sales and profit due to increase in new FC store openings and directly-owned store memberships

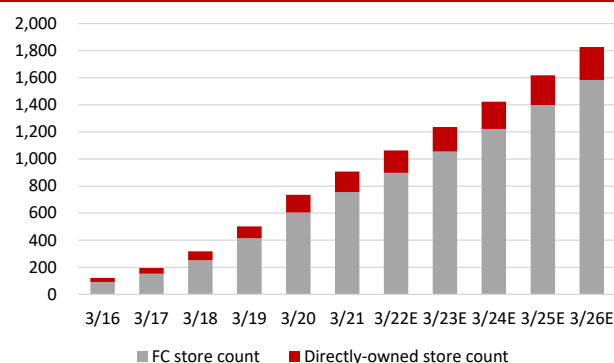
Sales and profits decreased due to a decrease in the number of new FC stores and members for directly-owned stores. However, the withdrawal of competitors strengthened the company's position in the industry

Figure: Sales (JPYbn), OPM (%)



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

Figure: Number of stores



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

Company history

FFJ was established in May 2010. In June 2010, FFJ entered into a master franchise agreement with Anytime Fitness, LLC of the US and became the master franchisee of Anytime Fitness in Japan. In October 2010, the company opened its first Anytime Fitness store in Japan in Chofu City, Tokyo. Since then, Anytime Fitness has been opening new stores at an astonishing pace, reaching 100 stores in October 2015, 500 stores in March 2019, and 900 stores in March 2021. The company listed its shares on the Mothers market of the Tokyo Stock Exchange in December 2020.

Opened 900 stores in just 11 years

Figure: History

Date	Event
May-10	Established Fast Fitness Japan, Inc.
Jun-10	Entered into a master franchise agreement with Anytime Fitness, LLC
Jul-10	KK AFJ Project was established as a wholly owned subsidiary to operate directly-owned stores
Oct-10	Opened the first Anytime Fitness store in Japan in Chofu, Tokyo
Oct-15	Number of Anytime Fitness stores exceeded 100
Mar-19	Number of Anytime Fitness stores exceeded 500
Apr-20	Achieved opening of fitness clubs in 47 prefectures
Dec-20	Listed on the Mothers section of the Tokyo Stock Exchange
Mar-21	Number of Anytime Fitness stores exceeded 900

Source: Company data, Mita Securities

Major shareholders/management team

Mr. Akira Okuma, Chairman & Director, became Director of FFJ in May 2010, President & Representative Director in September 2011, and Chairman & Representative Director in June 2014; he has been Chairman & Director since June 2018 (current position). Oak, the largest shareholder of FFJ, is the asset management company of Mr. Okuma. Oak and Mr. Okuma together own 54.43% of the company's shares.

Chairman Okuma and his asset management company own the majority of shares

Mr. Atsuyuki Tsuchiya, President & Representative Director, worked at Nomura Real Estate Development and Megalos, and was appointed as Director of FFJ in May 2010, Vice President & Representative Director in June 2012, and President & Representative Director in June 2017 (current position). He holds 3.75% of the company's shares.

Figure: Major shareholders (end-FY3/21)

Major shareholders	Shares held (%)
Oak	40.69
Akira Okuma	13.74
RM Japan, LLC	7.72
Custody Bank of Japan (trust account)	4.49
Atsuyuki Tsuchiya	3.75
The Nomura Trust and Banking (trust account 2052248)	3.75
The Nomura Trust and Banking (trust account 2052249)	3.75

Source: Company data, Mita Securities

Details of business

Breakdown of businesses

Breakdown of sales

The breakdown of FY3/21 sales of 11.2bn yen is 4.5bn yen for FC sales (41% of total sales), 5.9bn yen for store sales (53% ditto), and 0.7bn yen for other revenues (6% ditto). FC sales include royalty income and product sales. Store sales include membership fee income for directly-owned stores.

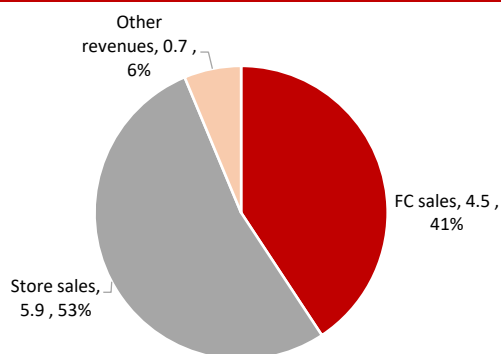
FC sales, store sales (directly-owned stores)

Breakdown of store count

The breakdown of 907 stores as of the end of FY3/21 is 756 FC stores (83% of total) and 151 directly-owned stores (17% ditto). Anytime Fitness operates nationwide, with 45% in Kanto, 20% in Kansai, 13% in Chubu, 11% in Kyushu and Okinawa, 4% in Tohoku, 4% in Chugoku, 2% in Shikoku, and 1% in Hokkaido.

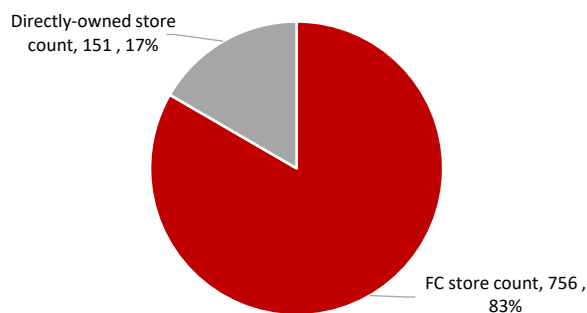
Nationwide store network, with FCs accounting for over 80%

Figure: Breakdown of sales (JPYbn, %, FY3/21)



Source: Company data, Mita Securities

Figure: Breakdown of store count (end-FY3/21)



Source: Company data, Mita Securities

About Anytime Fitness

Stores, facilities and operations

Anytime Fitness is a fitness club that specializes in machine gyms and is open 24 hours a day, 365 days a year. Most of the stores are small, with a floor space of 80-120 tsubo, or 264-396 square meters (100-150 tsubo, or 330-495 square meters, in regional stores). The stores are equipped with high-performance muscle training machines, treadmills, training bikes, and shower rooms. They do not have studios, swimming pools, baths, or saunas unlike comprehensive fitness clubs. Since they do not offer school-style programs, staffing can be kept to a minimum. At night, the stores operate unattended, utilizing a proprietary entry control and security system. In order to facilitate franchise development, the initial cost has been reduced and the burden of operation has been minimized.

Small, machine-focused gym with minimal staff

Pricing

Standard monthly membership fee is 7,000 yen (excluding tax). Individual prices vary by region, with the most expensive being 9,500 yen for the Akasaka store. Some stores in rural areas charge as little as 6,000 yen. The prices are considerably lower than those of comprehensive fitness clubs with large stores, and are likely to appeal to the younger generation. That said, the prices are relatively high as a 24-hour machine-focused gym. Since most 24-hour gyms specializing in machines are small-scale stores, there are a number of small-sized companies entering the market,

Prices are considerably lower than those of comprehensive fitness clubs. Slightly expensive for a machine-focused gym

and many of such competitors are attracting customers with lower prices. In our view, the company is trying to avoid price competition by enhancing its brand value.

Customers

The majority of customers are relatively young men, with about 90% of members in their 40s or younger. The ratio of males and females is just under 80% and over 20%, respectively, which is very different from the comprehensive fitness clubs that attract a large number of middle-aged and older customers, with little difference in gender. In addition to being open 24 hours a day, the relatively low membership fee is probably one of the factors that make it popular among younger customers. The core customer base of Anytime Fitness seems to be young men who want to train their muscles. In order to meet the needs of such customers, the stores are equipped with high-performance training machines.

Mainly young men for strength training

Figure: Exterior view



Source: Company data

Figure: Exterior view



Source: Company data

Figure: Interior view



Source: Company data

Figure: Security key



Source: Company data

FC business

Business model

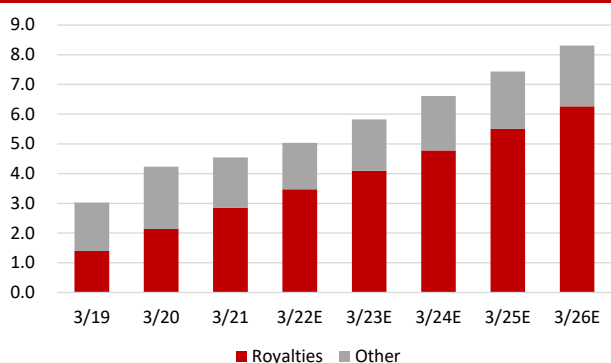
Sales from the FC business consist of royalty income and other sales (product sales, etc.). In FY3/21, FC sales were 4.5bn yen (+7.3% YoY), which was weaker than the increase in the number of FC stores (+25.2% YoY). This was likely due to the impact of royalty exemption during the closure period and lower product sales linked to new store openings.

Royalty income includes royalties, system usage fees, and brand marketing fees. Royalty income is a fixed monthly fee of 350,000 yen per store (of which 75,000 yen is pure royalties), regardless of the size, number of members, or sales of individual FC stores, and thus it is generally linked to the number of FC stores. At end-FY3/21, the company had 756 FC stores (+152 stores YoY). At the same time, the company pays a portion of the royalties to the US headquarters. The company offered royalty exemptions to FC stores for the April-May 2021 closure period.

Product sales are based on sales of products and equipment such as membership management systems (e.g., security keys) to FC stores. Product sales are booked mainly when new FC stores open, so they are generally linked to the number of new FC stores opened. In FY3/21, the company opened 157 new FC stores (-35 stores YoY). The company purchases security keys and other items from the U.S. headquarters.

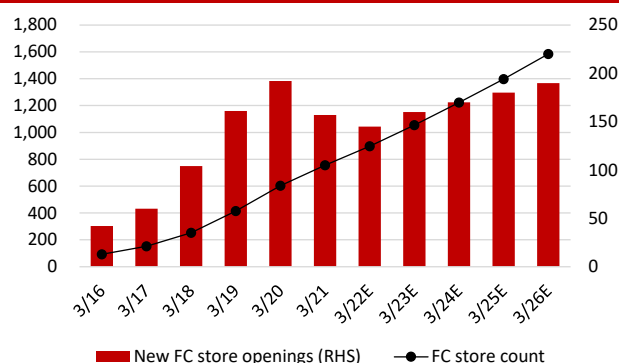
FC sales are mainly comprised of fixed royalty income linked to the number of stores, and product sales linked to the number of new stores opened

Figure: FC sales (breakdown estimated by Mita, JPYbn)



Source: Company data, Mita Securities Note: Breakdown and forecasts are by Mita Securities

Figure: New FC store openings, FC store count



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

Growth drivers

The growth driver for the FC business is to expand the store network. In order to continue opening new stores, the existing FC stores must be able to generate sufficient profits. Although the average number of members per FC store declined from 806 at end-FY3/20 to 630 at end-FY3/21, there is still room for the break-even point of about 500 members. If the number of members per store recovers going forward, we expect franchisees to become even more motivated to open new stores.

In order to prevent cannibalization by new store openings, the company has set up territories for each store. In the Tokyo metropolitan area, a franchisee who wants to open a store within a 500-meter radius of an existing store must obtain approval from the said existing store.

The fitness participation rate in Japan is only about 4% of the population, and there is a huge room for growth over the medium to long term. The company intends to achieve a network of 3,000 stores over the long term in order to expand the market to a fitness participation rate of 10%.

Growth driver is new store openings

Aiming to achieve 3,000 stores to expand the fitness market

KPI

The main KPIs are the number of FC stores and the number of new FC stores opened.

KPIs: the number of FC stores, the number of new stores opened

Directly-owned store business

Business model

FFJ operates directly-owned stores through its subsidiary AFJ Project, and store sales at directly-owned stores in FY3/21 were 5.9bn yen (-4.6% YoY). Store sales mainly consist of membership fee income, which is generally linked to the number of members at directly-owned stores. At end-FY3/21, the company had 151 directly-owned stores, 89 thousand members, and 589 members per store. Compared to end-FY3/20 (132 directly-owned stores, 94 thousand members, and 712 members per store), the number of stores increased, but the average number of members per store decreased significantly due to the COVID-19, resulting in a decrease in the overall number of members for directly-owned stores. Cost of sales corresponding to store sales includes rents, labor costs, utilities, depreciation, etc. for directly-owned stores.

Store sales are linked to the number of members of directly-owned stores

KPI

The main KPI is the number of directly-owned store members.

KPI: the number of members

Figure: Store sales (JPYbn)



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

Figure: Number of directly-owned stores and memberships



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

Fitness market and Anytime Fitness

Major players in the fitness market

Comprehensive fitness clubs

The traditional players in the fitness club industry are the comprehensive clubs, which operate large stores equipped with gyms, studios, swimming pools, tennis courts, and large bathhouses. Major players include Konami Sports Club, (by Konami HD), Central Sports, Renaissance, Tipness (by Nippon Television HD), and Holiday Sports Club (by Tosho). Most of the stores are directly-owned, as the investment per facility for such comprehensive clubs is large (e.g., 0.5bn yen to 1bn yen), making it difficult for franchisees to develop on their own. There is no bias in customer demographics, and both men and women of various generations are being attracted.

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

24-hour fitness clubs specializing in machines

In recent years, players that operate 24 hours a day and specialize in machines have rapidly increased their number of stores, contributing to the expansion of the fitness market. The largest of these is Anytime Fitness, which is operated by FFJ. Unlike comprehensive fitness clubs, Anytime Fitness does not have studios, swimming pools, or large bathhouses, and thus the initial investment amount can be kept low. In addition, the number of staff is limited, which helps to keep operating costs low. Anytime Fitness has been expanding its store network through the FC system, reaching a total of 924 stores at end-June, 2021. Its customer base consists of a relatively high percentage of young men. Following FFJ's success, a number of companies, including major players, have entered the 24-hour machine-focused gym business. The main competitors include JOYFIT (Okamoto Group), FASYGYM24 (Tipness), and World Plus Gym (World Plus). In addition, some comprehensive clubs are increasing the number of their gym areas that are open 24 hours a day.

Anytime Fitness, a 24-hour machine-focused gym

Other fitness clubs

A typical niche player is Curves, which is operated by Curves HD. Curves is a short-time gymnastics class for middle-aged and older women (men are not allowed to join, and 70% of the members are over 60 years old). Due to the small size of its individual stores, the stores are mainly owned by franchisees. The chain had 1,974 stores at end-May 2021, the largest in Japan. The overall sales for the chain were 70.2bn yen in FY8/19 and 57.4bn yen in FY8/20, exceeding those of comprehensive clubs.

Curves, a niche player specializing in women

Impact of COVID-19

Differences in business conditions due to operations and store sizes

Fitness clubs are a membership-based business. For comprehensive clubs that mainly operate directly-owned stores, the majority of sales are composed of the number of members x membership fee per member. The negative effects of COVID-19 include requests for closures due to the declaration of a state of emergency, etc. (membership fees are generally refunded during closures), a decrease in the number of members, a freeze on new store openings, and the withdrawal unprofitable stores. At the time of the first emergency declaration (Apr-May 2020), many companies closed all stores temporarily in accordance with the request for closure, which had a significant negative impact on business performance. The response to the subsequent requests for closure and shortened hours varied from company to company. Since closing or shortening the hours of operation carries a high risk of losing members who want to continue

Comprehensive clubs, primarily directly-owned stores, have been strongly affected by the COVID-19. New store openings are almost frozen

exercising, many companies now seem to be operating as usual. However, they have not been able to fully meet the needs of some customers as they have been limiting the number of participants in the studio programs to prevent infections. They have virtually frozen new store openings, and some are exiting from unprofitable stores. In FY3/21, Central Sports posted a net loss of -2.4bn yen (vs. 2.1bn yen profit in FY3/20) and Renaissance a net loss of -8.7bn yen (vs. 1.4 bn yen profit ditto). Tocho posted a net profit of 0.2bn yen (vs. 5.8bn yen profit ditto).

For FC-based companies, sales consist of royalty income from FC stores (fixed or sales-linked), product sales to members, wholesale sales to FC stores, and income from franchisees upon opening new stores. The negative effects of COVID-19 include a decrease in royalties due to the closure of FC stores caused by emergency declarations, (royalties were exempted during the closure of FC stores due to emergency declarations), a decrease in royalties linked to FC store sales, a decrease in product sales to members, a decrease in wholesale sales to FC stores, a decrease in new store openings, and withdrawal of unprofitable FC stores. At the time of the first emergency declaration (Apr-May 2020), many companies closed all their stores temporarily in accordance with the request for closure. However, at the time of subsequent emergency declarations and priority measures to prevent the spread of the disease, many of them continued to operate normally, as small-scale stores were not subject to the request for closure or shortened hours (many FC stores are small-scale gyms). In general, the impact of the COVID-19 on the earnings of franchise operators seems to be smaller than that of comprehensive club operators that focus on directly-owned stores. Curves HD posted total net loss of -0.9bn yen for Mar 2020-Feb 2021, while FFJ posted net profit of 0.9bn yen for FY3/21 (vs. 1.6 bn yen in FY3/20).

FFJ / Anytime Fitness

Anytime Fitness stores are small in size, and very few stores have been closed or requested to operate for shorter hours, except during the first emergency declaration (April-May 2020). The decline in the number of members has been limited to a certain extent, as Anytime Fitness has resumed 24-hour operations since June 2020, and its members are mainly young adults who are active even under the COVID-19 pandemic. In addition, the number of members per store is well above the break-even point of approximately 500 members.

Royalty income from FC stores is fixed on a monthly basis and stable. However, during the temporary closure period due to the first emergency declaration, FFJ exempted the FC stores from paying royalties.

Although the number of new store openings declined in FY3/21, franchise owners remain highly motivated to open new stores, and the company plans to open 160 stores (145 FC stores and 15 directly-owned stores) in FY3/22.

Companies with mainly small-scale FC stores have quickly restored normal business operations

Small FC stores catering to younger customers have demonstrated strength and secured break-even membership numbers; FCs are motivated to open new stores

Figure: Comparison of fitness club operators

Fitness club name	Operating company or parent company		Sales (JPYm)		OP (JPYm)		# of stores		Membership ('000)		Membership/Store	Note
			FY3/21	YoY (%)	FY3/21	OPM (%)	FY3/21	YoY (%)	FY3/21	YoY (%)		
Holiday Sports Club	Tosho (8920)	FY3/21	11,437	-41	560	5	101	11	174	-23	1,723	Earnings are for sports club business
		FY3/20	19,424	-3	4,139	21	94	6	227	-7	2,415	
Konami Sports Club	Konami HD (9766)	FY3/21	36,102	-38	-5,873	-16	376					Earnings are for sports business
		FY3/20	58,662	-7	33	0						
Central Sports	Central Sports (4801)	FY3/21	36,027	-33	878	2	246	1	360	-17	1,463	
		FY3/20	53,386	-2	3,814	7	244	6	434	-1	1,779	
Renaissance	Renaissance (2378)	FY3/21	30,209	-33	-4,602	-15	172	0	331	-18	1,923	
		FY3/20	45,049	-2	3,267	7	172	4	405	-2	2,354	
Tipness	Nippon Television HD (9404)	FY3/21	20,628	-43	-6,587	-32	170					Stores as of Jun 1, 2021. Includes 110 of 24H gyms
		FY3/20	35,884	-5	847	2						
Tokyu Sports Oasis	Tokyu Fudosan HD (3289)	FY3/21	13,800	-26					95	-21		
		FY3/20	18,700	4					120			
Megalos	Nomura Real Estate HD (3231)	FY3/21	11,500	-27								
		FY3/20	15,700	-5								
Axtos	Valor HD (9956)	FY3/21	9,146	-33	-1,933	-21	190	-1				
		FY3/20	13,597	3	556	4	192	32				
Curves	Curves HD (7085)	1-3Q FY8/21	18,170	-7	1,314	7	1,974	-2	682	-9	345	FC business model. Chain sales 57.4bn for FY8/20
		FY8/20	25,082	-11	1,167	5	2,020	1	701	-15	347	
		FY8/19	28,036	0	5,436	19	1,991	4	822	-1	413	
RIZAP	RIZAP Group (2928)	FY3/21					180	-9				Sales are for the entire RIZAP-related business
		FY3/20	40,100	-3			198	5				
Anytime Fitness	Fast Fitness Japan (7092)	FY3/21	11,163	-2	2,293	21	907	23	565	-3	623	FC business model
		FY3/20	11,334	41	2,831	25	736	47	582	42	791	
JOYFIT	Okamoto Group					243					Closed 47 stores on 1/31/2021	
World Plus Gym	World Plus					125						
GOLD'S GYM	THINK Fitness					96						
Cospa	OG Sports		10,440	-29			33					

Source: Companies data, Mita Securities

Figure: Regional distribution of stores for major fitness club operators

Holiday Sports Club (Comprehensive sports club)			Renaissance (Comprehensive sports club)			Central Sports (Comprehensive sports club)			Anytime Fitness (Machine-specialized sports club)		
End-FY3/21			End-FY3/21			End-FY3/21			End-FY3/21		
Store count	% of total		Store count	% of total		Store count	% of total		Store count	% of total	
Hokkaido	7	6.9	Hokkaido	5	2.9	Hokkaido	6	2.4	Hokkaido	11	1.2
Tohoku	4	4.0	Tohoku	20	11.6	Tohoku	26	10.6	Tohoku	40	4.4
Kanto	20	19.8	Kanto	90	52.3	Kanto	157	63.8	Kanto	405	44.7
Chubu	33	32.7	Chubu	9	5.2	Chubu	14	5.7	Chubu	120	13.2
Kinki	11	10.9	Kinki	18	10.5	Kinki	34	13.8	Kansai	180	19.8
Chugoku	9	8.9	Chugoku & Shikoku	16	9.3	Chugoku	2	0.8	Chugoku	33	3.6
Shikoku	2	2.0				Shikoku	0	0.0	Shikoku	16	1.8
Kyushu	15	14.9	Kyushu & Okinawa	14	8.1	Kyushu	6	2.4	Kyushu & Okinawa	102	11.2
						Other	1	0.4			
Total	101	100.0	Total	172	100.0	Total	246	100.0	合計	907	100.0

Source: Companies data, Mita Securities

Mita Securities' earnings forecast

Earnings forecast for FY3/22

Earnings forecast for FY3/22

Our FY3/22 earnings forecast is for sales of 13.1bn yen (+16.9% YoY), OP of 2.8bn yen (+23.2% YoY), and NP of 1.4bn yen (+51.5% YoY). We expect the results to exceed the company's guidance (sales 13.0bn yen, OP 2.6bn yen, and NP 1.1bn yen) and OP to recover to the level of FY3/20.

We expect OP to recover to FY3/20 level, store count to achieve 1,000

We expect the company to open 160 new stores (145 FC stores and 15 directly-owned stores), reaching a total of 1,063 stores (898 FC stores and 165 directly-owned stores) at-end FY3/22. The increase in the number of available properties, such as former restaurant sites that were closed due to COVID-19, should provide a tailwind for new store openings. We expect the average number of members per store to recover slightly to 656 (623 at end-FY3/21, 791 at end-FY3/20) at end-FY3/22.

1Q FY3/22 results

1Q FY3/22 (Apr-Jun) results were sales of 3.1bn yen (+67.2% YoY) and OP of 0.8bn yen (+428.7% YoY). Progress toward the full-year OP guidance was 29.5%, a positive impression. The company opened 18 new stores (17 FC stores and 1 directly-owned store) in 1Q, reaching a total of 924 stores (773 FC stores and 151 directly-owned stores) at end-1Q. The average number of members per store was 644 at end-1Q.

Progress toward full-year OP guidance 29.5%

Outlook for FY3/23 and beyond

Earnings forecast for FY3/23

For FY3/23, we forecast sales of 14.9bn yen (+14.2% YoY), OP of 3.4bn yen (+19.6% YoY), and NP of 1.8bn yen (+31.9% YoY). We expect the company to open 178 new stores (160 FC stores and 18 directly-owned stores), reaching a total of 1,237 stores (1,055 FC stores and 182 directly-owned stores) at end-FY3/23. We assume that the average number of members per store will recover to 690 at end-FY3/23 due to progress in vaccination.

Earnings forecast for FY3/24

For FY3/24, we forecast sales of 17.0bn yen (+14.2% YoY), OP of 4.0bn yen (+18.1% YoY), and NP of 2.2bn yen (+19.9% YoY). We believe that the company's mid-term plan (OP 4bn yen) is within range. We expect the company to open 190 new stores (170 FC stores and 20 directly-owned stores), reaching a total of 1,423 stores (1,222 FC stores and 201 directly-owned stores) at end-FY3/24. We assume that the average number of members per store will recover to 737 at end-FY3/24.

Mid-term plan OP of 4bn yen in FY3/24 is within range

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

Various indicators	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr growth (CAGR, %)
	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Sales growth (%)	191.8	41.2	-1.5	16.9	14.2	14.2	13.8	12.7	
OP growth (%)	NA	69.0	-19.0	23.2	19.6	18.1	18.9	16.9	
RP growth (%)	329.5	69.3	-20.3	25.2	19.2	18.2	19.0	16.9	
NP growth (%)	NA	75.4	-43.4	51.5	31.9	19.9	20.0	17.5	
Gross profit margin (%)	47.4	46.4	40.6	43.2	43.5	43.7	44.0	44.2	
OP margin (%)	20.9	25.0	20.5	21.6	22.7	23.4	24.5	25.4	
EBITDA margin (%)	27.8	32.5	30.0	30.8	32.0	32.9	34.1	35.2	
ROA (%)	13.9	12.3	5.0	6.1	7.1	7.7	8.2	8.6	
ROE (%)	78.1	64.6	16.1	15.9	18.0	18.3	18.6	18.4	

Source: Company data, Mita Securities

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

PL	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr growth (CAGR, %)
Consolidated, JPY	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Sales	8,024	11,334	11,164	13,050	14,908	17,021	19,370	21,837	14.4
FC sales	3,027	4,235	4,545	5,034	5,823	6,611	7,439	8,307	12.8
Store sales	4,396	6,200	5,915	7,364	8,365	9,645	11,121	12,676	16.5
Other revenues	600	899	703	653	720	765	810	855	4.0
COGS	4,218	6,078	6,630	7,413	8,423	9,583	10,847	12,185	
Gross profit	3,807	5,256	4,534	5,638	6,485	7,438	8,523	9,652	16.3
SGA	2,131	2,424	2,240	2,812	3,106	3,447	3,777	4,106	
Operating profit	1,675	2,831	2,294	2,825	3,379	3,991	4,746	5,546	19.3
Non-operating income	43	56	46	66	59	62	66	70	
Non-operating expenses	47	58	84	66	72	76	80	84	
Recurring profit	1,671	2,829	2,256	2,825	3,367	3,978	4,732	5,532	19.7
Extraordinary gains	1	0	108	0	0	0	0	0	
Extraordinary losses	133	123	775	500	300	300	320	350	
Pre-tax profit	1,539	2,705	1,590	2,325	3,067	3,678	4,412	5,182	26.7
Corporate taxes	611	1,077	669	930	1,227	1,471	1,765	2,073	
Net profit attributable to minorities	0	0	0	0	0	0	0	0	
Net profit	928	1,628	921	1,395	1,840	2,207	2,647	3,109	27.6
EBITDA	2,234	3,684	3,345	4,026	4,769	5,601	6,608	7,696	18.1
Shares outstanding (m)	0.019	9.250	11.987	15.576	15.576	15.576	15.576	15.576	
EPS	50,179.46	175.98	76.80	89.57	118.13	141.69	169.97	199.63	
BPS	92,899.08	358.78	678.16	603.17	709.30	837.99	993.96	1,178.58	
DPS	1,500.00	3.00	11.00	12.00	13.00	14.00	15.00	16.00	
Payout ratio (%)	3.0	1.7	14.0	13.4	11.0	9.9	8.8	8.0	

Source: Company data, Mita Securities

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

Figure: Mita Securities' earnings forecast (number of stores and membership)

Number of stores and membership	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr growth
	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Number of stores (end-FY)	502	736	907	1,063	1,237	1,423	1,619	1,827	15.0
(YoY, %)	57.9	46.6	23.2	17.2	16.4	15.0	13.8	12.8	
FC stores	414	604	756	898	1,055	1,222	1,398	1,584	15.9
(YoY, %)	63.6	45.9	25.2	18.8	17.5	15.8	14.4	13.3	
Directly-owned stores	88	132	151	165	182	201	221	243	10.0
(YoY, %)	35.4	50.0	14.4	9.3	10.3	10.4	10.0	10.0	
New store openings	184	234	177	160	178	190	202	214	
FC stores	161	192	157	145	160	170	180	190	
Directly-owned stores	23	42	20	15	18	20	22	24	
Number of members (end-FY, '000)	411	582	565	697	853	1,049	1,271	1,503	21.6
(YoY, %)	NA	41.6	-2.9	23.4	22.4	23.0	21.1	18.3	
FC stores	348	487	476	597	739	917	1,118	1,331	22.8
(YoY, %)	NA	40.0	-2.3	25.5	23.7	24.1	22.0	19.0	
Directly-owned stores	63	94	89	100	115	133	152	173	14.2
(YoY, %)	NA	48.6	-5.3	12.2	14.9	15.7	14.9	13.1	
Number of members per store (end-FY)	819	791	623	656	690	737	785	823	
FC stores	840	806	630	665	700	750	800	840	
Directly-owned stores	719	712	589	605	630	660	690	710	

Source: Company data, Mita Securities

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

BS	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr growth
Consolidated, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Assets									
Total current assets	4,817	6,503	11,328	13,653	15,403	17,483	19,944	22,745	
Cash and deposits	3,535	4,709	9,333	11,117	12,321	13,783	15,496	17,497	
Accounts receivable	865	1,220	1,159	1,071	1,181	1,255	1,329	1,403	
Inventories	146	140	166	153	169	180	191	201	
Other	271	434	669	1,311	1,731	2,265	2,928	3,644	
Total fixed assets	5,929	9,121	9,766	10,671	11,771	12,999	14,293	15,716	
Fixed assets	3,818	6,319	6,614	7,228	7,972	8,804	9,681	10,644	
Intangibles	178	215	233	255	281	310	341	375	
Investment and other	1,933	2,587	2,918	3,189	3,517	3,885	4,271	4,696	
Total assets	10,746	15,624	21,094	24,324	27,173	30,483	34,237	38,461	12.8
Liabilities									
Total current liabilities	3,763	4,570	4,853	5,130	5,611	6,142	6,706	7,295	
Accounts payable	70	77	173	193	220	250	283	318	
Short-term debt	1,139	1,927	2,680	2,700	2,850	3,000	3,150	3,300	
Other	2,555	2,565	2,001	2,237	2,542	2,892	3,273	3,677	
Total long-term liabilities	5,264	7,736	8,112	9,799	10,514	11,289	12,049	12,809	
Long-term debt	3,414	5,125	5,325	6,300	6,650	7,000	7,350	7,700	
Other	1,850	2,611	2,787	3,499	3,864	4,289	4,699	5,109	
Liabilities	9,028	12,306	12,965	14,929	16,125	17,430	18,755	20,104	9.2
Net assets									
Shareholders' equity	1,719	3,319	8,129	9,395	11,048	13,052	15,482	18,357	
Warrants	0	0	0	0	0	0	0	0	
Minorities	0	0	0	0	0	0	0	0	
Total net assets	1,719	3,319	8,129	9,395	11,048	13,052	15,482	18,357	17.7
Debt									
Debt	4,552	7,052	8,005	9,000	9,500	10,000	10,500	11,000	
Net debt	1,017	2,342	-1,329	-2,117	-2,821	-3,783	-4,996	-6,497	
Net debt/EBITDA (x)	0.5	0.6	-0.4	-0.5	-0.6	-0.7	-0.8	-0.8	
Net D/E ratio (x)	0.6	0.7	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4	
Shareholders' equity ratio (%)	16.0	21.2	38.5	38.6	40.7	42.8	45.2	47.7	

Source: Company data, Mita Securities

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

CF	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	5-yr growth
Consolidated, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Operating CF	2,670	2,328	1,950	2,717	3,130	3,764	4,462	5,214	
Net profit	928	1,628	921	1,395	1,840	2,207	2,647	3,109	
Depreciation and amortization	559	853	1,051	1,201	1,390	1,610	1,863	2,151	
Other	1,183	-153	-21	122	-99	-52	-48	-46	
Investing CF	-1,874	-3,625	-2,168	-1,800	-2,240	-2,600	-3,030	-3,480	
Capital expenditure	-1,565	-3,146	-1,893	-1,500	-1,890	-2,200	-2,530	-2,880	
Disposal of fixed assets	-16	-13	-4	0	0	0	0	0	
Other	-293	-466	-271	-300	-350	-400	-500	-600	
Financing CF	1,089	2,472	4,842	866	313	298	282	266	
Debt issuance/repayment	1,117	2,499	953	995	500	500	500	500	
Share capital issuance/buy-back	0	0	3,917	0	0	0	0	0	
Dividends paid	-28	-28	-28	-129	-187	-202	-218	-234	
Other	0	0	0	0	0	0	0	0	
Cash and cash equivalents	3,535	4,709	9,333	11,117	12,321	13,783	15,496	17,497	
Free CF	796	-1,297	-218	917	890	1,164	1,432	1,734	

Source: Company data, Mita Securities

APPENDIX

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

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

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