



Torikizoku Holdings

TSE 1st Section 3193 Industry: Food service, retail

Waiting for the full-scale rollout of Toriki Burger; initiating coverage with a Hold

Initiating coverage with a TP of 2,100 yen and a Hold rating

We initiate coverage of Torikizoku Holdings Co., Ltd. (3193, Torikizoku HD, the company) with a target price of 2,100 yen and a Hold rating.

The company operates one of Japan's largest izakaya (Japanese style pub) chains, Yakitori-ya Torikizoku, both directly and through franchisees. Torikizoku has long been supported by consumers for its superior cost performance, which is achieved by using only domestic ingredients and skewering chicken in its stores while offering a uniform price of 298 yen (excluding tax) per plate and an average spend per customer of around 2,000 yen. Although the company experienced an extremely difficult period under the COVID-19 pandemic, it has seen only a minimal decrease in the store count and is ready to meet the demand recovery in the post-COVID period. Competition in the izakaya sector should continue to be fierce, but we believe that Torikizoku is one of the few formats that can survive over the long term. In addition, the new Toriki Burger format has the potential to bring growth and stability to the company, and we are paying close attention to its development.

Our Hold rating is based on our view that 1) although the company is likely to maintain its competitive advantage, the overall izakaya market's recovery process from the COVID-19 pandemic should be gradual, and 2) it should take time for the stock market to factor in the possibility of a full-scale rollout of Toriki Burger.

Mita Securities' earnings forecast

We forecast an OP of -3.5bn yen in FY7/22 (vs. -4.7bn yen in FY7/21, company guidance undecided), 0.6bn yen in FY7/23, and 1.3bn yen in FY7/24. Our forecast is based on the assumption that demand for izakaya is likely to revive with the lifting or easing of requests for shorter hours and restrictions on the serving of alcohol, but that the recovery process should be gradual due to changes in consumer lifestyles such as the adoption of remote work. We have judged that it will take about three years to return to the pre-COVID-19 demand level. We assume the number of stores to be 642 at the end of FY7/24, a net increase of 27 stores from the end of FY7/21, 15 of which we expect to be Toriki Burger stores.

Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 5.0% and a terminal growth rate of 0.6%, based on our earnings forecasts for FY7/22-FY7/26. Our target price is equivalent to 20.2x our FY7/24 EPS forecast of 103.85 yen.

Upside risk factors include an early full-fledged recovery in izakaya demand, unexpected improvement in same-store sales, and the early launch of multiple Toriki Burger stores. Downside risk factors include prolonged requests for shortened hours and closures due to the rapid increase in the number of COVID-19 cases, unexpected deterioration in same-store sales, customer defection due to food poisoning, and the failure of the Toriki Burger business.

MITA SECURITIES Co., Ltd.

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Initiation of coverage

Rating

Hold

Target price (JPY)	2,100
Stock price (JPY) (Nov 1)	1,921
Market cap (JPYbn)	22.3

Key changes

Rating	New
Target price	New
Earnings forecast	New

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

		7/20	7/21	7/22E	7/23E	7/24E
Sales	JPYbn	27.5	15.6	17.7	28.4	33.8
OP	JPYbn	1.0	-4.7	-3.5	0.6	1.3
RP	JPYbn	1.0	-0.3	-0.6	0.6	1.3
NP	JPYbn	-0.8	-0.5	-0.5	0.6	1.2
EPS	JPY	-65.9	-40.3	-46.6	49.0	103.9
BPS	JPY	489.1	450.6	404.0	453.0	552.8
DPS	JPY	4.0	0.0	0.0	4.0	8.0
PER	x	NA	NA	NA	38.3	18.1
PBR	x	2.5	3.8	4.6	4.1	3.4
Div. yield	%	0.3	0.0	0.0	0.2	0.4
ROA	%	-4.1	-2.5	-3.3	3.2	6.0
ROE	%	-12.5	-8.6	-10.9	11.4	20.7

Source: Company data, Mita Securities

Company profile

Torikizoku HD is a restaurant company based in Osaka Prefecture that operates one of Japan's largest izakaya (Japanese style pub) chains "Yakitori-ya Torikizoku." Torikizoku had 615 stores (383 directly-owned stores and 232 franchise stores) as of the end of FY7/21. Sales in FY7/21 were 15.6bn yen, and the peak of sales before the COVID-19 pandemic was 35.8bn yen in FY7/19.

Investment Thesis

Outlook

Demand recovery in post-COVID period, hope for new fast food restaurant format

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The company operates one of Japan's largest izakaya (Japanese style pub) chains, Yakitori-ya Torikizoku, both directly and through franchisees ("Yakitori" refers to grilled chicken on skewers). While using only domestic ingredients and skewering chicken in its stores, Torikizoku offers consumers a high level of cost performance with a uniform price of 298 yen (excluding tax) per plate and an average spend per customer of around 2,000 yen. It has long been supported by consumers as the top brand of yakitori restaurants in the competitive izakaya industry. Although the company experienced an extremely difficult period under the COVID-19 pandemic, it has seen only a minimal decrease in the store count and is ready to meet the demand recovery in the post-COVID-19 period. Competition in the izakaya market should continue to be fierce going forward, but we believe that Torikizoku is one of the few formats that can survive over the long term.

In August 2021, the company opened its first Toriki Burger fast food restaurant in Shinagawa-ku, Tokyo. Toriki Burger has inherited the DNA of Torikizoku by focusing on chicken as the main menu item and offering uniform prices for chicken burgers and set menus. Toriki Burger is a format that can cater to breakfast, lunch, and take-out demand, which the company has hardly been able to capture so far. It has the potential to bring growth and stability to the company, and we are paying close attention to its development.

Our Hold rating is based on our view that 1) although the company is likely to maintain its competitive advantage, the overall izakaya market's recovery process from the COVID-19 pandemic should be gradual, and 2) it should take time for the stock market to factor in the possibility of a full-scale rollout of Toriki Burger.

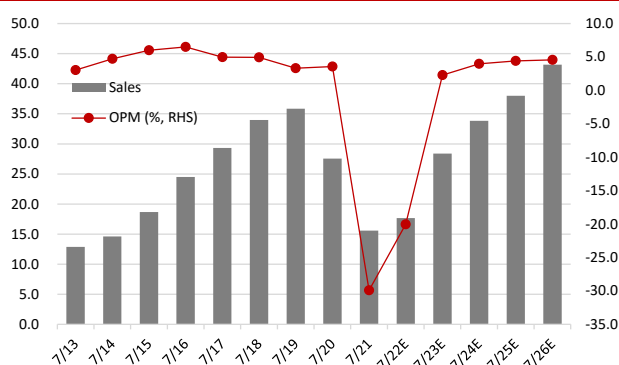
Initiating coverage with a TP of 2,100 yen and a Hold rating

Maintains store network to respond to demand recovery in post-COVID period

Rising expectations for the new Toriki Burger business

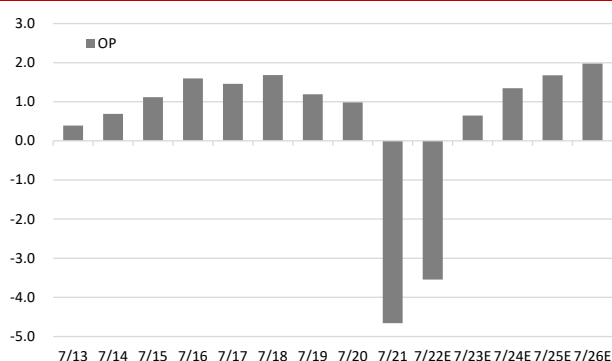
Reasons for our Hold rating

Figure: Sales (JPYbn), Operating profit margin (%)



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

Figure: Operating profit (JPYbn)



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

Mita Securities' earnings forecast

We forecast an OP of -3.5bn yen in FY7/22 (vs. -4.7bn yen in FY7/21, company guidance undecided), 0.6bn yen in FY7/23, and 1.3bn yen in FY7/24. Our forecast is based on the assumption that demand for izakaya is likely to revive with the lifting or easing of requests for shorter hours and restrictions on the serving of alcohol, but that the recovery process should be gradual due to changes in consumer lifestyles such as the adoption of remote work. We have judged that it will take about three years to return to the demand level before the COVID-19. For FY7/22, we expect 3.0bn yen in subsidies from local governments for shortened hours of operation, resulting in an RP forecast of -0.6bn yen.

Our OP forecast is -3.5bn yen for FY7/22, 0.6bn yen for FY7/23, and 1.3bn yen for FY7/24

We expect the number of stores to increase from 615 at the end of FY7/21 (383 directly-owned stores and 232 franchise stores) to 642 at the end of FY7/24 (410 directly-owned stores and 232 franchise stores). We assume that the net increase of 27 stores will be all directly-owned stores, 15 of which will be Toriki Burger stores. We have not yet factored in the franchise development of Triki Burger.

New store openings should be centered on Toriki Burger

Figure: Summary of Mita Securities' earnings forecast

JPYm	7/18 Par A	7/19 Par A	7/20 Par A	7/21 Cons A	7/22 Cons Mita E	7/23 Cons Mita E	7/24 Cons Mita E	7/25 Cons Mita E	7/26 Cons Mita E	7/22 CoE	7/22 Consensus	7/23 Consensus	7/24 Consensus
Earnings													
Sales	33,978	35,848	27,540	15,591	17,682	28,399	33,839	38,014	43,185	NA	23,100	28,000	28,900
(YoY, %)	15.8	5.5	-23.2	-43.4	13.4	60.6	19.2	12.3	13.6				
Operating profit	1,682	1,191	983	-4,663	-3,544	648	1,347	1,678	1,975	NA	-830	1,900	1,640
(YoY, %)	15.4	-29.2	-17.4	NA	NA	NA	107.8	24.6	17.7				
OPM (%)	5.0	3.3	3.6	-29.9	-20.0	2.3	4.0	4.4	4.6				
Recurring profit	1,613	1,145	956	-315	-575	618	1,317	1,648	1,945	NA	0	0	0
(YoY, %)	13.1	-29.0	-16.5	NA	NA	NA	113.1	25.2	18.0				
Net profit	662	-286	-763	-466	-540	568	1,203	1,358	1,326	NA	870	1,170	1,000
(YoY, %)	-31.6	NA	NA	NA	NA	NA	111.9	12.9	-2.4				
Depreciation & amortization	1,387	1,527	1,297	1,041	1,055	1,077	1,107	1,150	1,210				
Capital expenditure	3,236	1,209	237	-46	420	660	900	1,280	1,820				
Free CF	-154	841	-439	-2,799	123	2,401	2,271	1,646	1,571				
KPI													
Same-store sales growth (%)	-3.7	-5.2	-21.0	-41.7	14.1	58.0	16.2	8.5	8.5				
Store count (end-FY)	665	659	629	615	621	630	642	662	690				
Directly-owned stores	423	413	393	383	389	398	410	427	450				
Franchise stores (TCC stores)	242	246	236	232	232	232	232	235	240				
Per share indicators													
EPS (JPY)	57.15	-24.69	-65.88	-40.25	-46.62	49.01	103.85	117.22	114.46	NA	75.10	101.00	86.30
BPS (JPY)	595.71	562.98	489.08	450.58	403.96	452.97	552.83	662.04	766.50				
DPS (JPY)	8.00	8.00	4.00	0.00	0.00	4.00	8.00	10.00	12.00	NA			
Valuation, profitability, etc.													
PER (x)	42.6	NA	NA	NA	NA	38.3	18.1	16.0	16.4				
PBR (x)	4.1	3.8	2.5	3.8	4.6	4.1	3.4	2.8	2.4				
Dividend payout ratio (%)	13.9	-32.2	-6.0	0.0	0.0	8.2	7.7	8.5	10.5				
Dividend yield (%)	0.3	0.4	0.3	0.0	0.0	0.2	0.4	0.5	0.6				
ROA (%)	3.8	-1.6	-4.1	-2.5	-3.3	3.2	6.0	6.0	5.3				
ROE (%)	10.0	-4.3	-12.5	-8.6	-10.9	11.4	20.7	19.3	16.0				
Financial soundness indicators													
Shareholders' equity ratio (%)	36.7	38.1	28.4	31.0	28.6	27.6	29.9	32.4	34.0				
Debt/Equity (x)	0.7	0.6	1.6	1.5	1.6	1.4	1.2	1.0	0.8				

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

Note: Consensus forecasts are by Bloomberg

Valuations

Stock valuation based on the residual income model (RIM)

In calculating our target price of 2,100 yen, we used a residual income model (RIM) with a cost of equity of 5.0% and a terminal growth rate of 0.6%, based on our earnings forecasts for FY7/22-FY7/26. Our target price is equivalent to 20.2x our FY7/24 EPS forecast of 103.85 yen.

TP of 2,100 yen based on RIM

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	A	MitaE	MitaE	MitaE	MitaE	MitaE	MitaE
JPYbn	7/21	7/22	7/23	7/24	7/25	7/26	7/27
Shareholders' equity (EOP)	5.2	4.7	5.2	6.4	7.7	8.9	
Net profit		-0.5	0.6	1.2	1.4	1.3	
Cost of equity		0.3	0.2	0.3	0.3	0.4	
Residual income		-0.8	0.3	0.9	1.0	0.9	
PV of residual income		-0.8	0.3	0.8	0.9	0.7	
PV of terminal value							16.9

Beta	0.90						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	5.00						
Terminal growth rate (%)	0.60						

Total equity value	24.1
Number of shares O/S (m)	11.6
Target share price	2,100

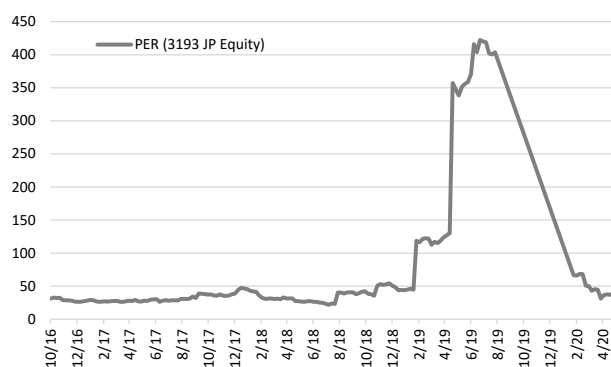
Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate	0.20	0.30	0.40	0.50	0.60	0.70	0.80	0.90	1.00	1.10
Target price	1,950	2,000	2,000	2,050	2,100	2,100	2,150	2,200	2,250	2,250

Source: Mita Securities

Figure: Torikizoku HD's PER (reference)



Source: Bloomberg Finance LP data, Mita Securities

Figure: Torikizoku HD's stock price



Source: Bloomberg Finance LP data, Mita Securities

Comparison of valuations with peers (reference)

Figure: Comparison of valuations for food service companies

Company name	Ticker	PX 10/29	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 (TP 5,000 Buy)	2695	3,675	153.0	-0.1	13.7	4.6	4.9	3.3	10.8	68.4	100.1	30.2	3.3	48.1	1.1	0.5	-6.5	-9.2	17.5
MCDONALD'S HOLDINGS CO JAPAN	2702	5,090	678.1	-0.2	5.6	14.8	12.7	12.0	11.9	30.9	29.9	26.8	3.7	12.7	1.9	0.7	-2.5	3.2	3.0
OOTOYA HOLDINGS CO LTD	2705	2,728	19.8	0.2	-12.1	-13.4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-0.9	-0.1	29.5
FUJIO FOOD GROUP INC	2752	1,357	61.4	3.6	-19.5	-2.0	-48.9	15.7	NA	NA	74.6	35.4	13.2	NA	2.7	0.0	-0.5	2.5	-0.2
AMIYAKI TEI CO LTD	2753	3,070	21.0	-0.1	-16.2	-8.2	0.2	2.0	NA	567.6	40.4	11.1	1.0	NA	0.6	0.0	5.6	6.2	9.1
HIRAMATSU INC	2764	212	16.1	4.1	-6.1	-26.6	-86.1	NA	NA	NA	NA	NA	4.0	NA	NA	NA	-4.4	15.0	16.8
PEPPER FOOD SERVICE CO LTD	3053	383	15.2	2.4	NA	NA	NA	NA	NA	NA	NA	NA	5.6	NA	NA	NA	-1.8	-4.7	35.4
CHOUSHIMARU CO LTD	3075	1,157	17.0	-0.8	-0.6	2.8	7.2	NA	NA	32.9	NA	NA	2.3	NA	NA	NA	-1.8	2.6	2.0
ARCLAND SERVICE HOLDINGS CO	3085	2,255	75.6	-0.6	21.1	12.8	16.9	18.9	13.0	19.5	16.3	22.3	3.2	10.9	1.4	1.3	-2.6	1.1	14.5
DOUTOR NICHIRETS HOLDINGS CO	3087	1,632	74.8	-0.3	-2.7	3.3	-3.2	4.2	1.6	NA	17.9	25.4	0.8	10.9	0.4	1.5	-5.4	-1.5	11.9
BRONCO BILLY CO LTD	3091	2,410	36.7	-0.3	-12.6	6.8	4.4	NA	NA	47.0	NA	NA	2.1	NA	NA	0.7	-4.3	-1.7	8.3
MONOGATARI CORP (TP 9,100 Buy)	3097	7,090	87.5	0.1	10.5	10.2	14.6	15.3	16.0	31.4	26.0	22.0	4.4	11.3	1.2	0.9	-6.3	6.6	36.3
CHIMNEY CO LTD	3178	1,470	28.4	0.8	-60.7	-37.1	-65.7	NA	NA	NA	NA	NA	4.6	NA	NA	NA	-5.1	3.5	19.2
TORIKIZOKU HOLDINGS CO LTD (TP 2,100 Hold)	3193	1,876	22.3	0.6	-40.8	-10.9	-39.3	14.3	NA	NA	25.0	18.6	4.3	NA	1.1	0.0	-10.3	10.8	25.3
HOTLAND CO LTD	3196	1,362	29.6	0.6	5.8	5.2	9.1	16.1	NA	44.3	25.1	28.5	3.9	NA	1.1	0.4	0.7	6.9	13.7
SKYLARK HOLDINGS CO LTD (TP 1,550 Hold)	3197	1,543	351.7	2.1	-15.6	17.8	0.9	1.3	7.2	262.9	278.0	48.4	2.2	8.3	1.6	0.2	-3.3	4.7	4.0
SFP HOLDINGS CO LTD	3198	1,477	38.4	-0.1	-53.8	-1.0	-19.2	14.4	NA	NA	21.2	25.4	3.3	NA	2.6	0.0	-0.5	3.8	13.7
CREATE RESTAURANTS HOLDINGS	3387	783	147.2	3.5	-28.7	21.7	0.8	27.2	NA	1,262.9	23.2	35.6	6.8	NA	2.6	0.6	-19.4	-16.0	42.6
SAINT MARC HOLDINGS CO LTD	3395	1,530	35.1	-0.2	-13.7	-6.3	-11.6	0.7	3.0	NA	136.0	33.6	0.9	11.8	0.5	2.9	-4.5	-3.3	3.6
TORIDOLL HOLDINGS CORP	3397	2,741	245.0	3.0	0.2	10.7	-0.8	9.9	10.4	NA	66.4	44.4	7.7	12.3	2.4	0.2	2.0	38.6	112.0
KOMEDA HOLDINGS CO LTD (TP 3,000 Buy)	3543	2,063	95.8	1.5	8.1	23.7	13.0	13.6	13.7	20.9	19.2	17.8	2.6	15.8	4.3	2.5	-3.5	1.3	12.5
KUSHIKATSU TANAKA HOLDINGS C	3547	2,182	20.7	0.3	-38.7	-22.6	-36.9	2.2	31.4	NA	279.7	42.4	15.3	NA	4.3	0.2	-6.9	18.9	28.9
CHIKARANOMOTO HOLDINGS CO LT	3561	625	17.1	3.7	-31.1	-0.2	-55.1	NA	NA	NA	NA	NA	5.9	NA	NA	NA	2.8	5.5	9.1
FOOD & LIFE COMPANIES LTD	3563	4,925	588.5	2.4	14.3	16.0	23.6	23.6	23.8	44.1	44.1	36.1	9.7	19.7	3.0	0.5	0.8	13.9	79.9
ATOM CORP	7412	768	149.6	0.2	-19.3	-3.4	-19.8	NA	NA	NA	NA	NA	20.9	NA	NA	NA	-1.5	-0.4	-7.3
KAPPA CREATE CO LTD	7421	1,384	68.8	0.4	-2.5	2.9	3.2	NA	NA	200.6	NA	NA	6.4	NA	NA	NA	1.0	-1.3	-1.8
WATAMI CO LTD	7522	984	42.2	3.5	-23.1	-11.4	-73.5	NA	NA	NA	NA	NA	2.8	NA	NA	NA	-10.9	5.7	3.9
ZENSHO HOLDINGS CO LTD	7550	2,628	411.0	2.2	2.3	7.3	12.2	14.6	13.6	40.6	31.0	34.1	4.7	11.7	0.8	0.8	-1.7	-4.3	9.1
KOURAKUEN HOLDINGS CORP	7554	1,471	24.8	1.1	-19.5	0.6	-4.9	NA	NA	NA	NA	NA	7.1	NA	NA	NA	-1.7	0.8	-8.9
ANRAKUTEI CO LTD	7562	6,000	12.8	1.6	58.7	-1.3	2.9	NA	NA	98.8	NA	NA	2.9	NA	NA	NA	-2.9	6.2	22.3
SAIZERIYA CO LTD	7581	3,070	163.9	-0.2	-0.3	6.3	2.2	9.8	6.8	84.6	19.9	23.5	1.8	8.4	1.0	0.6	10.2	16.3	73.5
HIDAY HIDAKA CORP	7611	1,626	62.4	-0.3	-23.8	-10.2	-7.0	NA	NA	NA	NA	NA	3.0	NA	NA	NA	1.5	-4.8	-6.7
COLOWIDE CO LTD	7616	1,648	144.6	3.6	-14.4	8.7	-35.2	NA	NA	NA	NA	NA	7.7	NA	NA	NA	-5.8	-16.0	6.7
UKAI CO LTD	7621	#N/A	N/A	15.8	1.5	-7.7	-9.1	-43.3	NA	NA	NA	NA	6.6	NA	NA	NA	-1.5	-2.7	-0.3
GLOBAL-DINING INC	7625	531	5.3	0.9	34.8	-1.1	0.7	NA	NA	396.3	NA	NA	2.0	NA	NA	NA	5.2	4.3	204.2
ICHIBANYA CO LTD	7630	4,605	147.8	-0.5	-5.4	9.4	8.5	8.9	NA	57.0	54.4	38.7	4.9	NA	2.9	1.7	1.8	-4.6	-12.5
ASAKUMA CO LTD	7678	1,536	8.2	-0.4	-21.0	-21.8	-43.6	NA	NA	NA	NA	NA	3.6	NA	NA	NA	-1.2	-1.1	0.7
MOS FOOD SERVICES INC	8153	3,170	102.8	-0.2	8.3	9.0	5.0	4.4	NA	44.0	48.2	40.7	2.2	NA	1.2	0.7	0.6	2.6	12.8
KISOJI CO LTD	8160	2,139	55.8	0.0	-12.3	NA	-16.5	NA	NA	NA	NA	NA	2.4	NA	NA	NA	-9.5	-8.9	-12.7
SRS HOLDINGS CO LTD	8163	780	29.5	0.5	5.7	2.6	-9.6	NA	NA	NA	NA	NA	2.6	NA	NA	NA	-3.0	-4.3	-13.9
ROYAL HOLDINGS CO LTD	8179	2,067	95.8	2.3	-27.7	-14.3	-55.3	-13.8	10.9	NA	NA	51.9	3.2	NA	1.5	0.0	-3.6	7.7	19.3
RINGER HUT CO LTD	8200	2,209	57.8	1.0	-14.1	-2.2	-13.0	6.3	NA	NA	87.7	216.6	5.2	NA	1.9	0.5	-8.8	-2.2	-1.8
GIFT INC	9279	2,819	28.6	0.2	23.2	6.0	22.4	23.0	NA	35.4	27.2	22.3	7.3	NA	2.2	0.5	-1.2	18.7	54.6
GENKI SUSHI CO LTD	9828	2,694	23.8	0.6	6.7	5.9	3.2	NA	NA	91.4	NA	NA	2.9	NA	NA	NA	-8.0	6.7	19.6
GOURMET KINEYA CO LTD	9850	1,009	23.2	1.5	-28.3	0.9	-28.0	NA	NA	NA	NA	NA	2.8	NA	NA	NA	2.5	5.1	9.8
GINZA RENIOR CO LTD	9853	824	5.2	0.1	-33.6	-41.0	-39.1	NA	NA	NA	NA	NA	1.5	NA	NA	NA	-0.1	0.2	1.9
YOSHINOYA HOLDINGS CO LTD	9861	2,219	146.4	0.8	-14.9	8.1	3.2	11.6	2.5	107.7	28.7	130.3	3.4	16.8	1.1	0.0	2.2	8.0	17.4
KFC HOLDINGS JAPAN LTD	9873	2,889	65.3	-0.8	12.6	8.4	17.8	NA	NA	16.0	NA	NA	2.7	NA	NA	NA	0.7	2.2	17.5
MATSUYAFOODS HOLDINGS CO LTD	9887	3,640	70.0	0.3	-6.2	1.5	1.3	NA	NA	133.0	NA	NA	1.7	NA	NA	NA	1.0	0.7	6.8
SAGAMI HOLDINGS CORP	9900	1,022	31.2	-0.2	-9.2	-4.0	-7.8	NA	NA	NA	NA	NA	2.4	NA	NA	NA	1.5	0.1	-18.8
OHSHO FOOD SERVICE CORP (TP 7,250 Buy)	9936	5,970	139.5	-0.2	-0.2	11.6	11.8	11.7	NA	18.4	17.3	19.6	2.1	NA	1.4	1.8	0.5	2.2	4.5
JOYFULL CO LTD	9942	806	25.6	4.9	-23.6	-3.8	102.0	NA	NA	13.6	NA	NA	7.8	NA	NA	NA	-0.1	-12.3	10.6
DAISYO CORP	9979	1,014	21.6	0.9	-21.0	2.7	-35.7	NA	NA	NA	NA	NA	1.9	NA	NA	NA	-5.2	2.0	-5.1
Average				1.0	-8.6	-0.2	-9.7	10.4	11.8	145.0	61.5	41.6	4.6	15.3	1.8	0.8	-2.3	2.5	18.1
Median				0.5	-10.7	2.6	0.2	11.6	10.9	45.6	29.9	31.9	3.3	11.8	1.5	0.6	-1.7	2.2	9.8

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 izakaya operators (Japanese style pubs)

Company name	Ticker	PX 10/29	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
CHIMNEY CO LTD	3178	1,470	28.4	0.8	-60.7	-37.1	-65.7	NA	NA	NA	NA	NA	4.6	NA	NA	NA	-5.1	3.5	19.2
TORIKIZOKU HOLDINGS CO LTD (TP 2,100 Hold)	3193	1,876	22.3	0.6	-40.8	-10.9	-39.3	14.3	NA	NA	25.0	18.6	4.3	NA	1.1	0.0	-10.3	10.8	25.3
SFP HOLDINGS CO LTD	3198	1,477	38.4	-0.1	-53.8	-1.0	-19.2	14.4	NA	NA	21.2	25.4	3.3	NA	2.6	0.0	-0.5	3.8	13.7
KUSHIKATSU TANAKA HOLDINGS C	3547	2,182	20.7	0.3	-38.7	-22.6	-36.9	2.2	31.4	NA	279.7	42.4	15.3	NA	4.3	0.2	-6.9	18.9	28.9
WATAMI CO LTD	7522	984	42.2	3.5	-23.1	-11.4	-73.5	NA	NA	NA	NA	NA	2.8	NA	NA	NA	-10.9	5.7	3.9
DAISYO CORP	9979	1,014	21.6	0.9	-21.0	2.7	-35.7	NA	NA	NA	NA	NA	1.9	NA	NA	NA	-5.2	2.0	-5.1

Source: Bloomberg Finance LP data, Mita Securities

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

Figure: Stock price trends (Japanese style pubs)

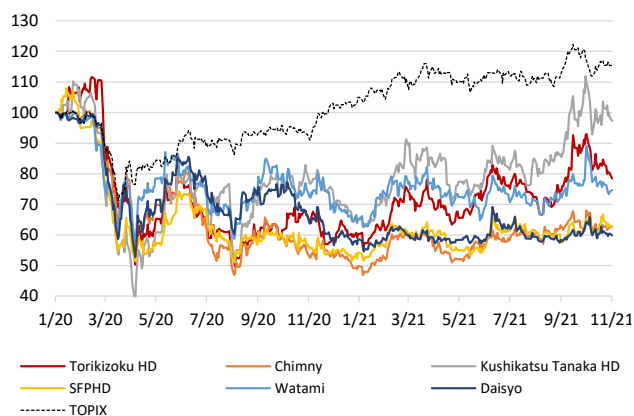


Figure: Stock price trends (family restaurants, general type)

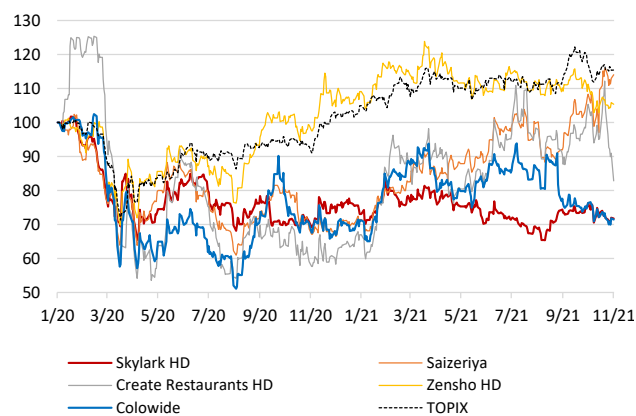


Figure: Stock price trends (Japanese BBQ)

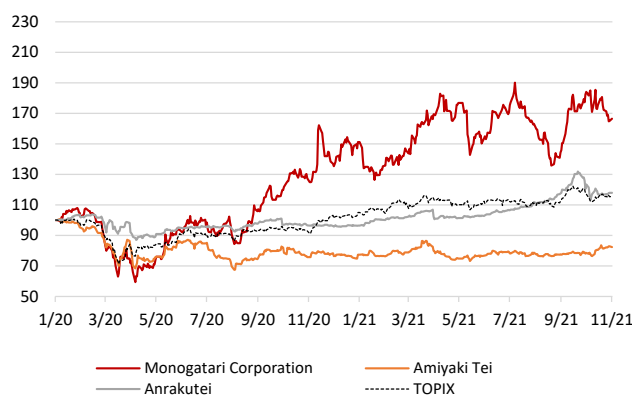


Figure: Stock price trends (Chinese restaurants)

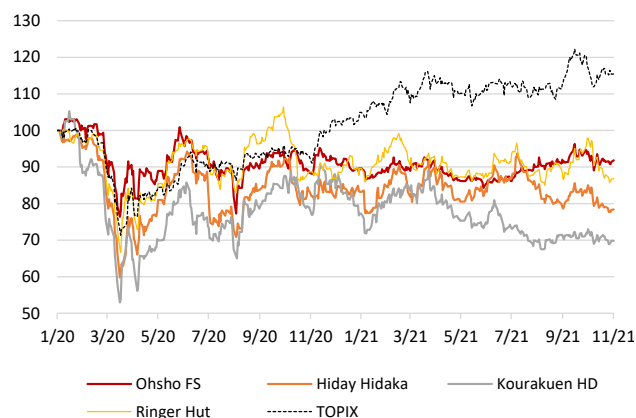


Figure: Stock price trends (sushi restaurants)

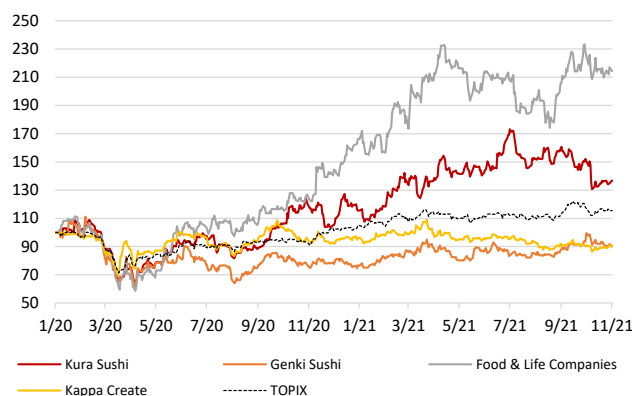
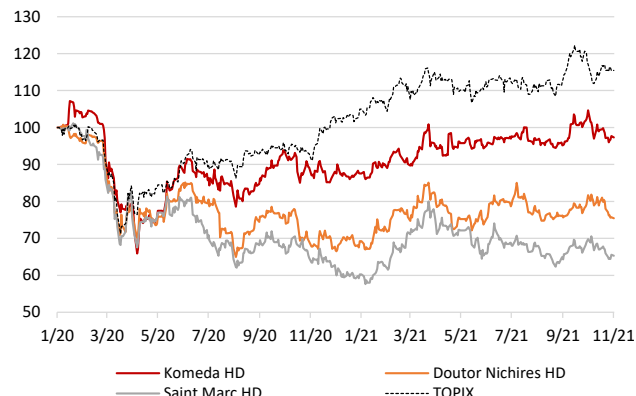


Figure: Stock price trends (coffee shops)



Risk factors

Upside risk factors include an early full-fledged recovery in izakaya demand, unexpected improvement in same-store sales, and the early launch of multiple Toriki Burger stores.

Downside risk factors include prolonged requests for shortened hours and closures due to the rapid increase in the number of COVID-19 cases, unexpected deterioration in same-store sales, customer defection due to food poisoning, and the failure of the Toriki Burger business.

Figure: Exterior view of Torikizoku store



Source: Company data

Figure: Toriki Burger Set



Source: Company data

Company overview

Company overview

Overview of Torikizoku HD

Torikizoku HD is based in Osaka, Japan, and operates the Yakitori-ya Torikizoku chain of izakaya (Japanese-style pubs) both directly and through franchisees (called TCCs by the company). The company is a philosophy-driven organization, and is committed to a variety of principles in its corporate management and format operations. Its corporate philosophy is to "brighten the world with yakitori restaurants," and the concept behind the Torikizoku format is "excitement for a uniform price of 298 yen (excluding tax)." The company aims to provide high-quality service at a low price, while using only domestic ingredients. Torikizoku is a pioneer in the low-priced izakaya format with an average spend per customer of around 2,000 yen, and has been a driving force in the izakaya sector after the Lehman crisis. In addition, the company has been actively involved in improving the social status of the food service industry by improving the working environment, ensuring compliance, and contributing to society.

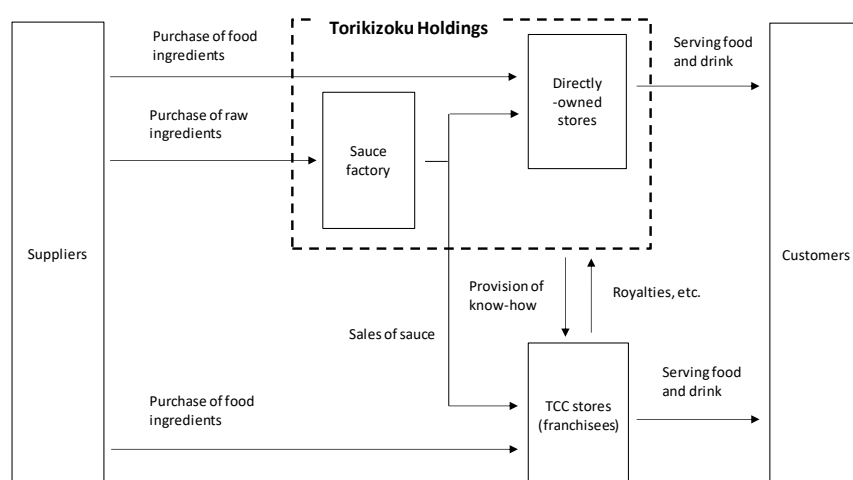
In FY7/21, the company posted sales of 15.6bn yen (-43.4% YoY) and OP -4.7bn yen (vs. 1.0bn yen profit in FY7/20). Sales fell 57% from 35.8bn yen in FY7/19, before the COVID-19 pandemic. The number of Torikizoku stores at the end of FY7/21 was 615 (383 directly-owned stores and 232 franchise stores). We believe that this is the largest number of stores for a single brand of izakaya in Japan.

Aside from Torikizoku, the company had two small yakitori restaurants (Torikizoku Okura-ya and Torikizoku Nakanishi-ya) as of the end of FY7/21. In August 2021, the company opened its first Toriki Burger fast food restaurant in Shinagawa-ku, Tokyo. Toriki Burger is a new format that inherits Torikizoku's DNA (chicken, uniform prices, domestic ingredients), and the company intends to make Toriki Burger a second pillar of its business alongside Torikizoku in the future.

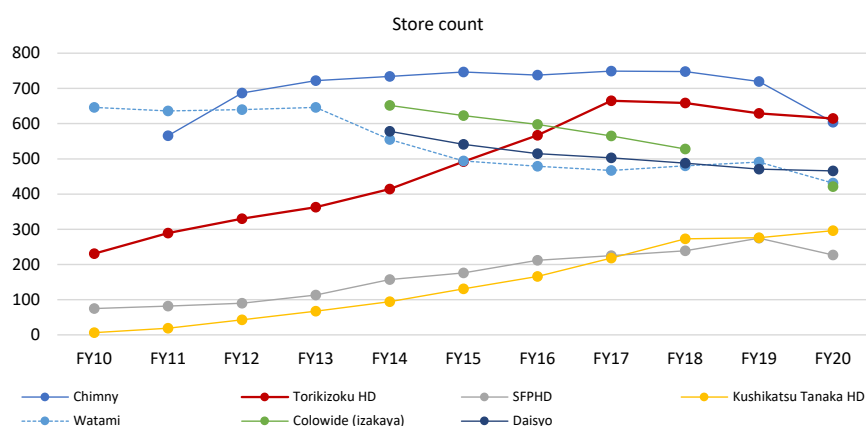
Operates one of the largest izakaya chains in Japan, "Torikizoku." Led the izakaya market after the Lehman crisis

Entered the chicken burger business

Figure: Business structure of Torikizoku HD



Source: Company data, Mita Securities

Figure: Comparison of store counts of food service companies operating izakaya formats

Source: Companies data, Mita Securities

Group companies

Torikizoku HD is a holding company and has two wholly owned subsidiaries, Torikizoku Co., Ltd. and Toriki Burger Co., Ltd.

Figure: Subsidiaries

Subsidiary name	Voting righsts (%)	Business overview
Torikizoku Co., Ltd.	100.0	Operation of izakaya "Torikizoku"
Toriki Burger Co., Ltd.	100.0	Operation of fast food restaurant "Toriki Burger"

Source: Company data, Mita Securities

Company history

The predecessor of Torikizoku HD was a privately owned yakitori restaurant opened in Higashi Osaka City, Osaka Prefecture in 1985 by Tadashi Okura, the founder and current president of the company. The business was incorporated as Eternal Service Co., Ltd. in 1986, and changed its name to Torikizoku Co., Ltd. in 2009. In February 2021, the company transitioned to a holding company structure and changed its name to Torikizoku Holdings Co., Ltd.

Started as a privately owned yakitori restaurant in Higashi-Osaka and grew into a nationwide chain

The company was listed on the JASDAQ (Standard) section of the Tokyo Stock Exchange in 2014, changed its market to the Second Section of the Tokyo Stock Exchange in 2015, and was listed on the First Section of the Tokyo Stock Exchange in 2016.

Since 1995, the company has concentrated on a single format, Torikizoku. It opened its first store in the Kanto region in 2005, and expanded into the Tokai region in 2009, creating a three-pillar structure of Kansai, Kanto, and Tokai. The company continued to expand its store network, opening its 600th store in 2017, but later decided to close some of its stores due to deteriorating earnings.

In August 2021, the company opened the first store of its new format, Toriki Burger.

Figure: History

Date	Event
May-85	Tadashi Okura opened a yakitori restaurant "Torikizoku" as a private-owned business in Higashi Osaka City, Osaka Prefecture.
Sep-86	Established Eternal Service Co., Ltd. (currently Torikizoku Holdings Co., Ltd.). Tadashi Okura became President and Representative Director (current position).
Nov-91	Opened the first franchise store in Higashi Osaka City, Osaka Prefecture.
Jul-95	Withdrew from the izakaya (Japanese style pub) business and concentrated on a single format, "Torikizoku".
May-05	Opened the first store in the Kanto area in Nakano-ku, Tokyo.
Nov-07	Opened 100th store.
Apr-09	Opened the first store in the Tokai area in Naka-ku, Nagoya.
Aug-09	Changed company name to Torikizoku Co., Ltd.
Oct-10	Opened yakitori sauce manufacturing plant.
Jun-12	Opened the 300th store.
Jul-14	Listed shares on the JASDAQ (Standard) of the Tokyo Stock Exchange.
Jul-15	Changed the market to the Second Section of the Tokyo Stock Exchange.
Apr-16	Listed on the First Section of the Tokyo Stock Exchange.
Nov-17	Opened the 600th store.
Feb-21	Transitioned to a holding company structure. Company name changed to Torikizoku Holdings Co. Ltd.
Aug-21	Opened the first Toriki Burger store in Shinagawa-ku, Tokyo.

Source: Company data, Mita Securities

Major shareholders/management team

The company's largest shareholder is Tadashi Okura, the founder and president of the company, with a stake of just under 34% including the shares held by his asset management company.

*Founder owns 34% of the shares***Figure: Major shareholders (end-FY7/21)**

Major shareholders	Shares held (%)
Tadashi Okura	23.40
Okura Tadashi KK	10.32
Custody Bank of Japan, Ltd. (trust account)	8.30
Suntory Liquors Ltd.	2.24
The Master Trust Bank of Japan, Ltd. (trust account)	1.78
Takumi Nakanishi	1.55
Kansai Mirai Bank	1.55
Torikizoku Employee Stock Ownership Plan	1.58
JPMBL RE NOMURA INTERNATIONAL PLC 1 COLL EQUITY	1.32
Kirin Brewery Company, Limited	1.03

Source: Company data, Mita Securities

Shareholder benefit program

The company offers meal coupons as a shareholder benefit to shareholders who hold at least 100 shares as of January 31 and July 31. For example, a shareholder who holds 100 shares can receive meal coupons worth 1,000 yen twice a year.

*Shareholders holding 100 shares
receive meal coupons worth
2,000 yen per year*

Figure: Shareholder benefit program

Number of shares			Annual gift amount (JPY)		Annual gift per share		
				End-Jan	End-Jul	(JPY)	
100	-	299	2,000	1,000	1,000	20.00	6.69
300	-	499	6,000	3,000	1,000	20.00	12.02
500	-		10,000	5,000	5,000	20.00	-

Source: Company data, Mita Securities

Details of business

Details of "Torikizoku"

Concept, menu, pricing

Torikizoku is an izakaya (Japanese style pub) that offers a menu centered on yakitori (grilled chicken on skewers) at a uniform price of 298 yen (excluding tax) per item. The food menu is focused on chicken dishes such as yakitori, fried chicken, chicken rice cooked in a pot, chicken soup noodle, and yakitori bowl. The drink menu offers a wide variety of beverages, including beer, highballs, sours, cocktails, shochu, sake, and soft drinks. Each table is equipped with a tablet terminal, and orders are placed through the tablet.

Torikizoku aims to provide high quality services at low prices. All the ingredients used by the restaurant, including chicken, are domestically produced. The chicken for yakitori is skewered in the restaurant every day during the day. Each plate of yakitori consists of two sticks, and the size of the pieces looks large. In particular, the popular "Kizokuyaki" (leg or breast meat with green onion) uses 90 grams of chicken meat per stick, making it look much larger than a typical yakitori (180-235 kcal for two sticks of Kizokuyaki). Drinks are also priced at 298 yen for a glass, with a variety of choices including premium brand draft beer, large mugs of low-malt beer and highballs, giving the impression of superior cost performance. The average spend per customer is around 2,000 yen, and the menu is structured in such a way that three drinks and three to four dishes are enough to fill a customer's stomach.

Unlike many other specialty chicken restaurants, the company does not offer chicken sashimi (raw sliced chicken) dishes. The company's policy is to emphasize food safety and not to serve dishes that carry a high risk of food poisoning, regardless of their popularity.

Yakitori restaurant with 298 yen per dish. Pursuing high-quality service at low prices

Dedicated to the use of domestic chicken and skewering in the restaurant. 2000 yen is enough for a full meal

Safety first. No raw chicken is served

Figure: Kizokuyaki (leg, w/sauce)



Source: Company data

Figure: Kizokuyaki (breast, w/salt)



Source: Company data

Figure: Premium brand draft beer



Source: Company data

Central kitchen

The company manufactures yakitori sauce at its own factory in Osaka City and distributes it to stores nationwide. The company does not use any other central kitchen.

Making sauce at the central kitchen

In-store cooking

Torikizoku's in-store cooking is based on a strict "selection and concentration" approach to achieve both low prices and high-quality service. For chicken for yakitori, the restaurant selects the costly method of 1) using only domestic chicken procured from domestic producers and wholesalers, and 2) skewering chicken in the restaurant every day. It seems that it is common for low-priced restaurant chains to import frozen yakitori produced and processed overseas in order to control the cost of ingredients.

Selection and concentration in cooking

In order to absorb the cost of ingredients and labor, Torikizoku focuses on chicken dishes that can benefit from the economies of scale, and limits the number of items on the menu.

In addition, yakitori is grilled in the kitchen with an electric griller upon receiving the customer's order. The electric grillers produce a far-infrared effect with less effort than charcoal grills, and the heat level can be easily adjusted. The company purposely chooses not to use charcoal grills in order to offer products with low prices and stable quality.

Business hours

Torikizoku's standard business hours are from 5pm to 1am or 2am. The stores are generally not open early in the morning or during lunch hours, as skewering is done in the restaurant before opening. However, there are some stores that are open during the day or until early morning.

Business hours are not particularly long

Stores

A typical Torikizoku store has a floor space of about 130 square meters and about 70 seats, which is medium-sized for an izakaya chain.

Brand power to attract customers even in low-visibility stores

The stores are mainly located in downtown areas near train stations. In Tokyo, many of them are concentrated near terminal stations such as Shibuya, Shinjuku, Ikebukuro, and Ueno, and in Osaka, Umeda. There are also many stores along the Sobu, Odakyu, Denentoshi, Keio, and Tobu-Tojo lines. On the other hand, there is only one store in Shinbashi and no store in Akihabara, indicating a slight bias in the store locations. This may indicate that there is still room to open more stores in urban areas.

Many stores are located on the second floor or above, or in basements in order to save rent. One of Torikizoku's strengths is that it can attract customers even in stores with low visibility.

Customer base

Torikizoku's core customer base is relatively young men and women. About 80% of the customers are in their 20s and 30s, according to the company. Our observations also indicate that the restaurant is often used by women's groups and by couples. In the past, yakitori restaurants had an image of being a hangout for middle-aged and older men, but Torikizoku has succeeded in renewing the image by creating an atmosphere where women and young people can easily enter.

Young people are the main customers. Revamping the image of yakitori restaurants

Figure: Exterior view (Ueno Showa Street Store)



Source: Company data

Figure: Exterior view (Shibuya Center Street Store)



Source: Company data

Figure: Interior view



Source: Company data

Figure: Interior view



Source: Company data

Figure: Various dishes



Source: Company data

Figure: Yakitori sauce



Source: Company data

Breakdown of store count

Directly-owned stores and franchise stores (TCCs)

The number of Torikizoku stores at the end of FY7/21 was 615 (-14 stores YoY). Of these, 383 were directly-owned stores (-10 stores YoY) and 232 were TCC stores (Torikizoku Comrade Chain = franchise stores) (-4 stores YoY).

383 directly-owned stores and 232 franchise stores at end-FY7/21

The number of stores peaked at 665 at the end of FY7/18, after which the company had been closing stores to eliminate cannibalization. As a result, only a small number of stores were closed due to the COVID-19 pandemic.

Breakdown of stores by region

Since TCC stores contribute little to the company's earnings, it is important to focus on directly-owned stores when looking at the company's earnings. The majority of directly-owned stores are in the Kanto region.

Majority of directly-owned stores are in the Kanto region

Of the 383 directly-owned stores at the end of FY7/21, 224 were in the Kanto region (58% of total directly-owned stores), 91 in the Kansai region (24%), and 68 in the Tokai region (18%). The overwhelming majority of directly-owned stores in the Kanto region appear to be in Tokyo.

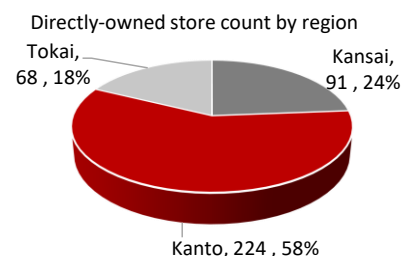
The company has stores in only 15 prefectures: six in Kansai, five in Kanto, and four in Tokai. Furthermore, of the 615 total stores (directly-owned and TCC stores), 335 (54%) are located in Tokyo and Osaka prefectures. In our view, this suggests that there are still many areas with potential room for new store openings in the medium to long term.

Figure: Store count for Torikizoku

	7/12	7/13	7/14	7/15	7/16	7/17	7/18	7/19	7/20	7/21
Directly-owned stores	149	169	190	227	285	342	423	413	393	383
Kansai	65	66	70	75	80	87	95	95	94	91
Kanto	69	85	99	126	165	204	255	244	230	224
Tokai	15	18	21	26	40	51	73	74	69	68
TCC (franchise stores)	140	161	173	187	207	225	242	246	236	232
Kansai	125	130	134	140	146	151	154	152	147	146
Kanto	15	31	39	47	61	74	88	94	89	86
Tokai	0	0	0	0	0	0	0	0	0	0
Total	289	330	363	414	492	567	665	659	629	615
Net increase/decrease	58	41	33	51	78	75	98	-6	-30	-14

Source: Company data, Mita Securities

Figure: Directly-owned stores (end-FY7/21)



Source: Company data, Mita Securities

Franchise system

Torikizoku Comrade Chain (TCC)

The company's franchise system, the Torikizoku Comrade Chain (TCC), differs in many ways from the typical franchise system for restaurant companies. The TCC system is designed to help comrades who share the company's philosophy to start their own businesses, and the company receives only a small amount of direct revenue from TCC stores.

Start-up support for comrades who share the company's philosophy. Royalties are small

- The company does not recruit new franchisees; only former employees who share the company's philosophy are eligible to join TCC stores.
- The FC headquarters does not wholesale food ingredients to TCC stores (except for sauce), and TCC stores purchase specified ingredients directly from suppliers designated by the headquarters.

- The sign-up fee is 500,000 yen, and the royalty is 50,000 yen per month, both of which are at low levels. We estimate that the royalty is equivalent to about 0.7% of a typical store's monthly sales under normal circumstances.

Toriki Burger

Concept, menu

Toriki Burger is a fast food format newly developed by Torikizoku HD. Like Torikizoku, it aims to be a restaurant specializing in high quality chicken burgers using domestic ingredients. Its main product, the Toriki Burger (493kcal), is made from a single piece of domestic chicken breast meat (not a patty). Also, the company has introduced uniform pricing for its chicken burgers and set menus, in line with Torikizoku's uniform pricing concept. Chicken burgers are priced at 390 yen (tax included), and the set menus (chicken burger, French fries S, and drink M) are priced at 590 yen. The restaurant also offers breakfast menus (290 yen for a single item, 490 yen for a set). The company assumes the average spend per customer at 800 yen.

Basic concept is domestic ingredients and uniform price, just like Torikizoku

Overview of the first store

The first Toriki Burger store is located near JR Oimachi Station in Shinagawa-ku, Tokyo, and occupies two floors with a total floor space of 187 square meters and 54 seats. The first floor is an order counter, and the second floor is a space for eating and drinking, similar to a typical fast food restaurant. The store is open from 7am to 9pm. The morning menu will be available from 7am to 10:30am.

Stores similar to general fast food restaurants

Sales target, new store opening plan

The sales target per store for Toriki Burger is about 200m yen per year (Torikizoku's annual sales per store is about 90m yen before the COVID-19). The company plans to open two additional stores in Tokyo during FY7/22 and targets 10-20 directly-owned stores in three years. Regarding the location of new stores, the company is considering station-front and downtown areas, and for the time being it plans to focus on the Tokyo metropolitan area. In addition, the company expects to develop a franchise network in the future.

Plans to achieve 10 to 20 stores in 3 years

Competition

Kentucky Fried Chicken's Chicken Fillet Sandwich (415kcal) uses domestically produced chicken (breast meat) and costs 390 yen (tax included).

McDonald's Chicken Filet-O (465kcal) is made with chicken patties (breast meat) from Thailand and is priced at 360 yen (tax included).

Figure: Exterior view (Toriki Burger Oimachi Store)



Source: Company data

Figure: Interior view



Source: Company data

Figure: Interior view



Source: Company data

Figure: Toriki Burger Set



Source: Company data

Figure: Yakitori Burger – Teriyaki -



Source: Company data

Figure: Salad Chicken -Yuzu Pepper Mayonnaise -



Source: Company data

Izakaya market

Key features of the izakaya market

Fierce competition, direct impact of the COVID-19 pandemic

Our view on the general features of the izakaya (Japanese style pub) business is as follows. We believe that the izakaya business has low growth potential in the food service industry market, and competition within the sector is extremely fierce.

- Izakaya's share of the food service industry market is on a long-term downward trend. We believe this is due to structural changes in society and shifts in consumer preferences.
- Barriers to entry are low and differentiation is difficult. It is difficult to maintain a brand for a long period of time due to the rapid rise and fall of business trends and frequent imitations.
- Stores are mainly located in downtown areas near train stations in cities. Consumers have numerous choices and thus izakaya operators are exposed to fierce competition.
- The cost structure is inflexible due to the high rent and labor-intensive nature of the business.
- The main hours of operation are from evening to late night, so staffing is always a challenge.
- Izakaya has been among the most severely affected by the COVID-19 pandemic in the food service industry market. Changes in consumer lifestyles such as the adoption of remote work are a major headwind.

The market as a whole has low growth potential and is facing fierce competition. Severely affected by COVID-19

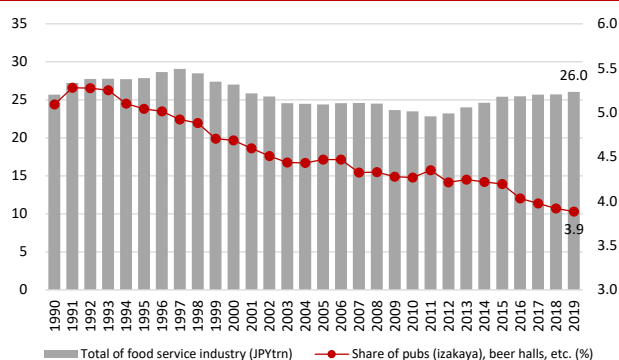
Size and growth potential of the izakaya market

Positioning of izakaya in the food service industry market

According to the estimate by the Japan Food Service Association (JF), the market size of the food service industry in 2019 was 26.0439trn yen, with a 5-year average growth rate of 1.1% (CAGR). Of this total, the market size of izakaya and beer halls, etc. was 1.0114trn yen, with a market share of 3.9%. The five-year average growth rate was -0.5% (CAGR), much lower than the growth rate of the entire food service industry market. Aside from izakaya and beer halls, the sector that experienced a significant decline in the five-year average growth rate was ryotei (Japanese style restaurant) and bars (-0.9%). On the other hand, the market for coffee shops, even if they mainly serve drinks, has grown significantly with a 5-year average growth rate of 1.5%. We can see that consumers are shifting their entertainment from night to day.

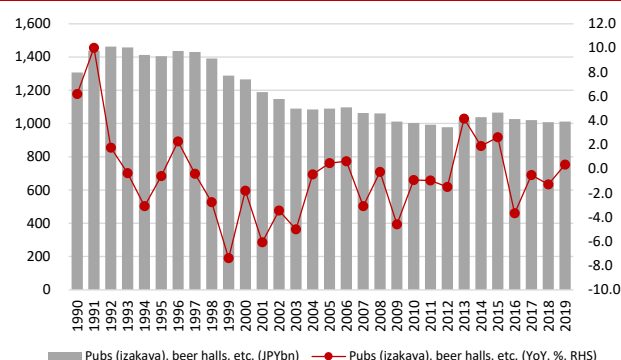
Izakaya market had been in a long-term contraction even before COVID-19. Nightlife declining

Figure: Market size for restaurants, Share of pubs & beer halls



Source: JF data, Mita Securities

Figure: Market for pubs (izakaya) & beer halls



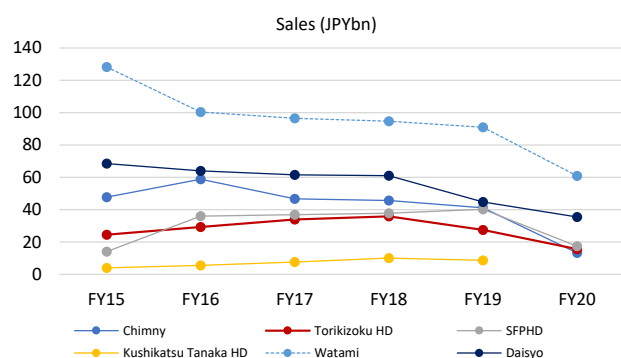
Source: JF data, Mita Securities

Comparison of major izakaya operators

Trends in the izakaya market

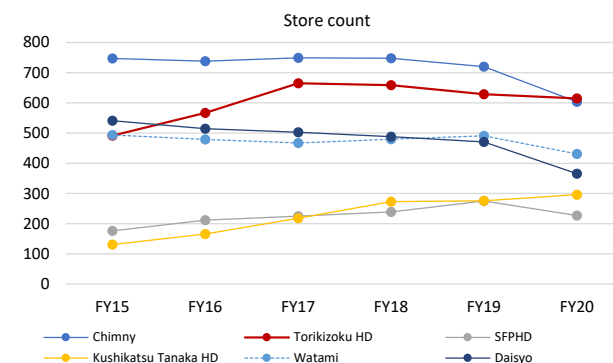
In the following, we compare the earnings of the six listed izakaya operators, including Torikizoku HD, to see how they have fared in the izakaya market over the past five to six years.

Figure: Sales



Source: Companies data, Mita Securities

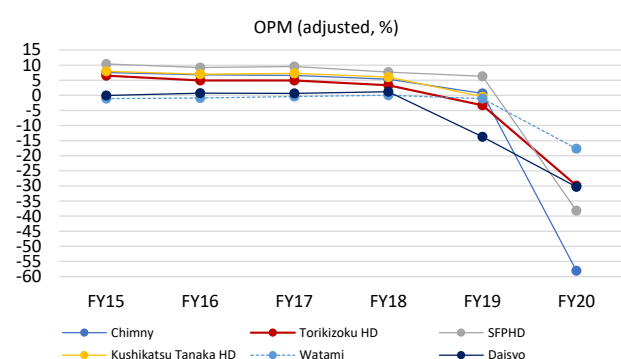
Figure: Store count



Source: Companies data, Mita Securities

Note: FY20 for Kushikatsu Tanaka HD refers to the latest store count

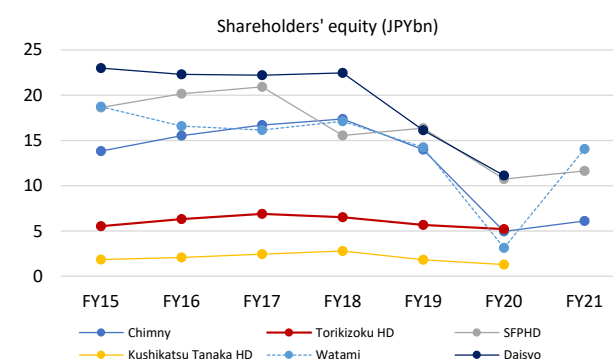
Figure: OPM (adjusted)



Source: Companies data, Mita Securities

Note: SGA includes fixed costs recorded as extraordinary losses

Figure: Shareholders' equity



Source: Companies data, Mita Securities

Note: FY21 for Chimny, SFPHD, and Watami refers to the latest shareholders' equity. FY20 for Kushikatsu Tanaka HD refers to the latest shareholders' equity

Before the COVID-19 pandemic

As shown by the sales figures and the store count, prior to the COVID-19 pandemic, 1) the operators of general izakaya that handled a variety of menus (Chimny, Watami, Daisy) had been losing their competitiveness, while 2) the operators of izakaya with highly specialized menus (Torikizoku HD, SFPHD, Kushikatsu Tanaka HD) had been gaining strength. Due to a decline in the popularity of large banquets as a result of changes in consumer preferences, demand for the general izakaya format with a large number of seats decreased, while the popularity of the specialty izakaya format with low prices and high value-added services in small and medium-sized stores increased. Just prior to the COVID-19 pandemic, general izakaya operators were moving into specialty izakaya, and competition among specialty izakaya operators seemed to be intensifying.

Shift from large scale general izakaya to small and medium scale specialty izakaya.
Intensifying competition among specialty izakaya

Impact of the COVID-19 pandemic

Food service operators as a whole suffered a significant downturn in earnings due to the COVID-19 pandemic, and the impact on the izakaya sector was particularly devastating. In areas subject to emergency measures and priority measures to prevent the spread of the disease, izakaya operators were requested to shorten their opening hours and suspend the serving of alcohol, which forced many of them to close for extended periods. The izakaya companies posted large losses, and some of them closed a large number of stores and suffered significant damage to their equity capital. Of the six companies mentioned above, Watami has already issued preferred shares, and Chimny has taken out a subordinated loan. Create Restaurants HD, the parent company of SFPHD, has taken out a perpetual subordinated loan and has announced a new share issue as well.

Most recently, some of these companies have posted large amounts of subsidy income (non-operating income) to cover their operating losses and have returned to the recurring profits (Torikizoku HD's 4QFY7/21 results, Chimny's 1QFY3/22 results, and SFPHD's 2QFY2/22 results showed operating losses but recurring profits due to the subsidy effect).

As of the end of September, the emergency measures and priority measures to prevent the spread of the disease were lifted in various regions, and in late October, the requests from local governments regarding business hours and the provision of alcohol were largely lifted. On the other hand, it should be noted that subsidies will no longer be provided as in the past. It would not be surprising to see some companies fall into the recurring losses again if the recovery in demand is not sufficient. The flow of people in the office districts does not seem to have recovered significantly, partly due to the establishment of remote work. Those businesses that are located near business districts, that are used mostly by middle-aged and older businesspeople, and that are highly dependent on late-night sales, are likely to struggle as it will take time for demand to recover. Another important issue will be whether or not they will be able to secure the necessary personnel to resume normal operations.

Izakaya operators fell into the red across the board. Recapitalization needed for some operators

Subsidy income helped some izakaya to return to positive RP

While stores were allowed to operate normally in October, subsidies will be cut off. RP may worsen if demand does not recover sufficiently

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

Announcement	Company name	Ticker	Funding method	Funding amount (JPYm)	Note
07/28/20	Colowide	7616	Preferred shares	9,000	Dividend 3.5% per annum. No conversion right to common shares
07/31/20	Pepper Food Service	3053	Warrants	6,740	Exercise price 415 yen (initial), with downward adjustment clause (last closing price x 90%, minimum exercise price 208 yen)
			Warrants	2,883	Exercise price 415 yen (initial), with downward adjustment clause (minimum exercise price 312 yen)
					Maximum dilution of the above total 99.96%
11/11/20	Joyfull	9942	Treasury share sale	1,000	
11/11/20	SRS HD	8163	Warrants	6,186	Exercise price 922 yen (initial), with downward adjustment clause (last closing price x 92%, minimum exercise price 646 yen). Maximum dilution 19.27%
11/19/20	Sagami HD	9900	Warrants	4,910	Exercise price 1,291 yen (initial), with downward adjustment clause (last closing price x 92%, minimum exercise price 904 yen). Maximum dilution 14.34%
12/24/20	Ootoya HD	2705	Preferred shares	3,000	With conversion right to common shares
01/26/21	Ringer Hut	8200	Subordinated loans	5,000	
			Warrants	2,359	Exercise price 2,363 yen (initial), with downward adjustment clause (last closing price x 92%, minimum exercise price 1,655 yen). Maximum dilution 3.84%
02/02/21	Create Restaurants HD	3387	Undated subordinated loans	15,000	Recorded as equity under IFRS
02/05/21	Zensho HD	7550	Subordinated loans	10,000	JCR recognizes 50% as equity
02/08/21	Monogatari Corporation	3097	CB	6,120	Conversion price of 12,500 yen (initial, before 1:2 stock split), with downward adjustment clause (minimum conversion price of 11,250 yen). Maximum dilution 8.69%
02/15/21	Royal HD	8179	Common shares	10,000	Issue price 1,718 yen
			Warrants	7,847	Exercise price 1,908 yen (initial), with upward and downward adjustment clauses (minimum exercise price 1,431 yen)
			Preferred shares	3,000	Dividend 8.5% per annum. No conversion right to common shares
			Preferred shares	3,000	Dividend 8.5% per annum, with conversion right to common shares
					Maximum dilution of the above total 29.69%
05/14/21	Chikaranomoto HD	3561	Common shares	1,646	Issue price 558 yen
			Warrants	1,182	Exercise price 587 yen (fixed)
			Warrants	765	Exercise price 764 yen (fixed)
					Maximum dilution of the above total 24.71%
05/20/21	Fujio Food Group	2752	Subordinated loans	3,700	
			Treasury share sale	851	Sale price 1,216 yen
			Warrants	1,919	Exercise price 1,399 yen (fixed). Maximum dilution 3.21%
05/20/21	Saint Marc HD	3395	Warrants	967	Exercise price 1,662 yen (initial), with downward adjustment clause (minimum exercise price 1,280 yen)
			CB	6,057	Conversion price 1,662 yen (initial), with downward adjustment clause (minimum conversion price 1,280 yen)
					Maximum dilution of the above total 23.09%
05/21/21	Skylark HD	3197	Common shares	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	
07/16/21	Hiramatsu	2764	Common shares	4,600	Issue price 176 yen
			Warrants	3,152	Exercise price 176 yen
					Maximum dilution of the above total 90.37% (shares O/S), 100.00% (voting rights)
08/24/21	Colowide	7616	Common shares	21,849	Public offering of new shares. Dilution 15.39%
08/26/21	Kourakuen HD	7554	Subordinated loans	1,000	
08/31/21	Kisoji	8160	Warrants	8,751	Exercise price 2,355 yen (initial), with downward adjustment clause (minimum exercise price 1,649 yen). Maximum dilution 14.28%
10/28/21	Create Restaurants HD	3387	Common shares	21,024	Public offering of new shares

Source: Companies data, Mita Securities

Torikizoku vs. Isomaru Suisan

Comparison of profit structure before the COVID-19 pandemic

Comparison of Torikizoku HD and SFPHD

In order to understand Torikizoku HD's business model and profit structure, we compare the company with SFP Holdings (SFPHD), which operates Izakaya such as Isomaru Suisan, Toriyoshi, and Toriyoshi Shoten.

Torikizoku HD and SFPHD have contrasting profit structures, even though they are both izakaya

In comparing the pre-COVID-19 pandemic profit structure, we refer to FY7/16-FY7/19 for Torikizoku HD and FY2/17-FY2/20 for SFPHD. Torikizoku HD's OPMs range from 3.3% to 6.5% and SFPHD's from 6.3% to 9.2%. Torikizoku HD's profit structure shows that the company has taken a decisive stance to save on store rent while spending a lot on food ingredients and human resources.

Figure: Comparison of profit structure for Torikizoku HD and SFPHD

	Torikizoku HD						SFPHD						CoE
	7/16	7/17	7/18	7/19	7/20	7/21	2/17	2/18	2/19	2/20	2/21	2/22	
Sales (JPYm)	24,510	29,337	33,978	35,848	27,540	15,591	35,957	36,841	37,751	40,216	17,428	15,000	
Sales growth YoY (%)	31.3	19.7	15.8	5.5	-23.2	-43.4	155.4	2.5	2.5	6.5	-56.7	-13.9	
% of sales													
COGS	31.3	32.1	30.3	29.9	28.8	30.8	28.6	28.5	28.5	29.1	28.4		
Rental expenses (SGA)	7.3	7.4	7.9	8.4	8.8	16.7	11.9	12.2	12.5	12.4	22.7		
Personnel expenses (SGA)	33.7	33.7	33.9	35.1	32.9	48.9	27.6	27.7	28.5	28.9	45.0		
Other SGA	21.2	21.9	22.9	23.3	25.9		22.8	22.0	22.9	23.3	34.6		
OP	6.5	5.0	5.0	3.3	3.6	-29.9	9.2	9.6	7.7	6.3	-30.6	-41.3	
SGA recorded as extraordinary losses	0.0	0.0	0.0	0.0	6.9	0.0	0.0	0.0	0.0	0.0	7.6		
OP (adjusted)	6.5	5.0	5.0	3.3	-3.3	-29.9	9.2	9.6	7.7	6.3	-38.2		
Ave number of directly-owned stores	256	314	383	418	403	388	190	213	224	245	237	213	
Per store (JPYm)													
Sales	95.74	93.58	88.83	85.76	68.34	40.18	189.25	173.37	168.91	164.15	73.54	70.42	
Rental expenses	6.95	6.93	7.03	7.17	6.03	6.73	22.55	21.11	21.10	20.29	16.67		
Personnel expenses	32.26	31.50	30.12	30.08	22.45	19.64	52.16	48.02	48.09	47.46	33.08		

Source: Companies data, Mita Securities

Comparison of sales per store

Sales per store (sales/average number of directly-owned stores) were 86-96m yen for Torikizoku HD and 164-189m yen for SFPHD. This means that Torikizoku HD's sales per store were about half that of SFPHD.

Torikizoku HD's sales per store are about half those of SFPHD. Stores are relatively small and operating hours are short

We believe that the differences between the two companies can be attributed to the following factors: 1) store space and seating capacity, 2) business hours, and 3) average spend per customer.

1) Regarding store space and seating capacity, Torikizoku's standard store size is about 130 square meters with about 70 seats, which is medium-sized for an izakaya. Isomaru Suisan, on the other hand, appears to have many large stores with 100-150 seats. 2) Regarding business hours, most Torikizoku stores are open from 5pm to 1 or 2am, while Isomaru Suisan stores are basically open 24 hours a day. 3) The average spend per customer is around 2,000 yen for Torikizoku and 2,500-3,000 yen for Isomaru Suisan. At Torikizoku, all menu items, including alcoholic beverages, are priced at 298 yen per item (excluding tax). The prices of alcoholic beverages at Isomaru Suisan include 499 yen for draft beer (excluding tax) and 399 yen for sours.

Comparison of cost of sales ratio

The cost of sales ratio (COGS/sales) was 29.9-32.1% for Torikizoku HD and 28.5-29.1% for SFPHD. Torikizoku has focused its menu on chicken dishes to take advantage of economies of scale so that food costs do not become too high even if it only uses domestic ingredients.

Torikizoku HD's cost of sales ratio is higher than SFPHD's

Comparison of SGA expenses

Of the SGA items, the biggest differences between the two companies are in rent and personnel costs. Torikizoku HD's rent was 7.3-8.4% of sales, or 6.95-7.17m yen per store; SFPHD's rent was 11.9-12.5% of sales, or 20.29-22.55m yen per store. Torikizoku HD's rent per store was about 1/3 of SFPHD's. Torikizoku keeps rents low by renting spaces on the upper floors or in basements of buildings in downtown areas, but it does not seem to have trouble attracting customers due to its high brand recognition. On the other hand, SFPHD's stores, such as Isomaru Suisan, are located on the first floor (and upper floors) of buildings with high visibility, even if the rent is high. The idea seems to be that by operating 24 hours a day and maximizing sales, the high rent can be covered.

Torikizoku HD saves on rent; SFPHD has large-scale stores in high-profile locations with high rent

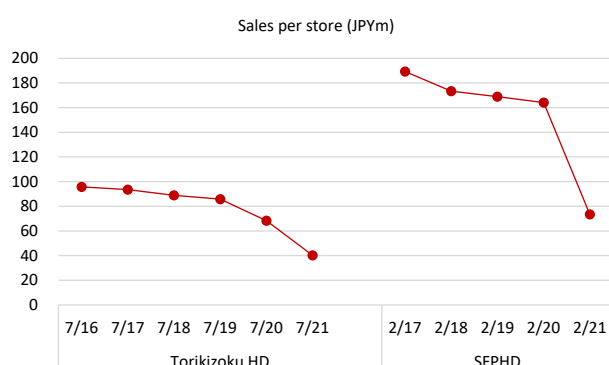
Torikizoku HD's personnel costs are 33.7-35.1% of sales, or 30.8-32.26m yen per store; SFPHD's costs are 27.6-28.9% of sales, or 47.46-52.16m yen per store. Torikizoku requires a lot of labor-intensive work, such as skewering chicken in its stores. At Isomaru Suisan, the main menu item is hamayaki (seafood BBQ), and customers cook the seafood themselves on a tabletop stove, which reduces the amount of labor required. Also, Isomaru Suisan's lunch menu mainly consists of easy-to-prepare items such as kaisen-don (rice bowl topped with raw seafood).

Personnel cost ratio is higher for Torikizoku HD

Summary of business model and profit structure comparison

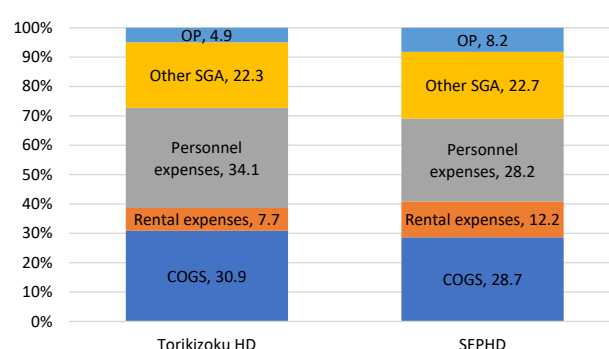
- Torikizoku: Attracting customers with strong brand recognition. Economies of scale in chicken procurement. Controlling rent while spending on ingredients and human resources.
- Isomaru Suisan: Maximizing sales by operating 24 hours a day in a high-visibility store fronting the street. Achieving a high profit margin by controlling personnel costs with menus that require minimal cooking.

Figure: Sales per store (JPYm)



Source: Companies data, Mita Securities

Figure: Cost structure (vs. sales, %)



Source: Companies data, Mita Securities

Note: FY17/16-FY19/18 average for Torikizoku HD, and FY21/20-FY22/21 average for SFPHD

Comparison of competitive environment

Rapid growth of businesses, emergence of competitors

We believe that both Torikizoku and Isomaru Suisan are brands that have demonstrated originality in the izakaya industry, where differentiation is generally difficult, and have succeeded in opening multiple stores ahead of the competition. Torikizoku, nicknamed "Toriki," reached its peak of 665 stores at the end of FY7/18. Isomaru Suisan reached its peak of 155 stores at the end of FY2/17, and its name became popular among teenage girls who do not visit izakayas, and it became the source of such buzzwords as "Azamaru Suisan" (meaning "thanks") and "Okemaru Suisan" (meaning "okay").

When a popular business model emerges in the izakaya industry, however, it is inevitable that others follow suit. Seeing the rapid growth of Torikizoku, some of the major izakaya operators responded by developing new formats such as Torimero (Watami) and Yakitori Center (Colowide). As a result of intensifying competition as well as its internal competition (cannibalization), Torikizoku was forced to scale back its store network just before the COVID-19 pandemic, but as a result, the company did not have to close many stores in the wake of the COVID-19. One of the main factors behind Torikizoku's low prices is its overwhelming brand power that allows it to attract customers in low-rent locations, which is difficult to imitate. We believe it is highly likely that the momentum of competitors will weaken in the post-COVID-19 period.

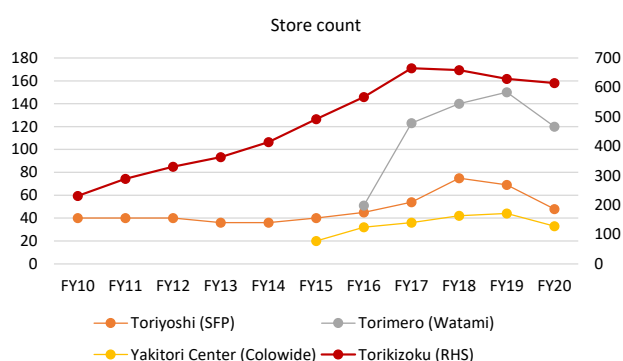
Isomaru Suisan's hamayaki (seafood BBQ) has also seen a number of competitors. Among them, Mekiki no Ginji (Monteroz) is probably the one with the largest number of stores. Although the number of stores is not disclosed, there are 174 stores registered on Tabelog. It is also well known that many seafood izakaya with the name "Suisan" have appeared. Major izakaya companies followed this trend by developing formats such as Toyomaru Suisan (Chimny) and Daisy Suisan (Daisy). Due to intensifying competition and the COVID-19 pandemic, the number of Isomaru Suisan stores has decreased to about 3/4 of its peak. This is probably due to the following reasons: 1) hamayaki, where customers cook their own food, is difficult to differentiate, and a large number of competitors appeared in a short period of time; 2) the number of locations where the business model of maximizing sales by operating 24 hours a day can work is relatively limited, and the COVID-19 pandemic made the situation even worse.

Both Torikizoku and Isomaru Suisan succeeded in expanding their stores by demonstrating originality

A variety of low-priced yakitori restaurants emerged following the success of Torikizoku. However, the company still has an overwhelming brand power

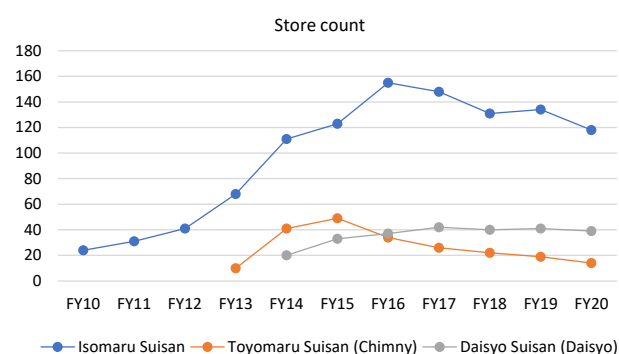
Success of Isomaru Suisan has led to the emergence of a variety of hamayaki restaurants. Differentiation appears to be difficult

Figure: Store count for yakitori (grilled chicken) izakaya



Source: Companies data, Mita Securities

Figure: Store count for hamayaki (seafood BBQ) izakaya



Source: Companies data, Mita Securities

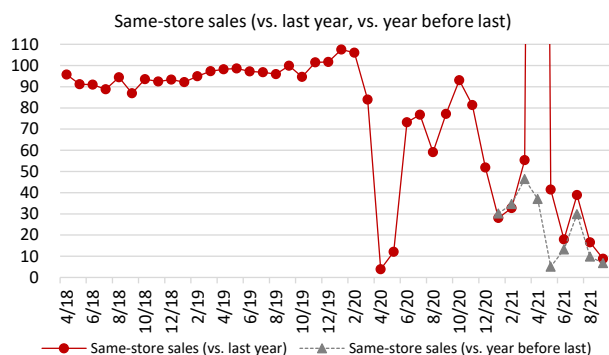
Earnings in the wake of the COVID-19 pandemic

Same-store sales trends

Same-store sales in the izakaya sector under the COVID-19 pandemic have been very weak in general. Comparing the same-store sales (vs. previous year and vs. year before last) of Torikizoku HD and SFPHD, it can be seen that both have been very weak, but Torikizoku HD has been doing slightly better. The possible reasons for this are: 1) Torikizoku HD's stores are more geographically dispersed; 2) Torikizoku HD's stores are not open for very long hours, so the impact of shortened hours on sales is relatively small, whereas SFPHD's main business model is basically open 24 hours a day, so the impact of shortened hours on sales is significant; 3) Torikizoku's core customer base is relatively young and active in eating out even under the COVID-19 pandemic; and 4) there may have been a difference in the number of stores that were able to resume operations when they were allowed to do so.

The COVID-19 pandemic has caused both companies to suffer from extremely poor earnings. In relative terms, Torikizoku seems to be doing better

Figure: Same-store sales for Torikizoku HD



Source: Company data, Mita Securities

Figure: Same-store sales for SFPHD



Source: SFPHD data, Mita Securities

Mita Securities' earnings forecast

Earnings forecast for FY7/22

We forecast FY7/22 consolidated sales of 17.7bn yen (+13.4% YoY), OP -3.5bn yen (vs. -4.7bn yen in FY7/21), RP -0.6bn yen (vs. -0.3bn yen in FY7/21), and NP -0.5bn yen (vs. -0.5bn yen in FY7/21). We assume subsidy income of 3.0bn yen as non-operating income. The company has not disclosed its FY7/22 forecast.

Our forecast is based on the assumption that, although demand for izakaya is likely to be out of its worst phase as a result of the lifting or easing of requests for shorter hours and restrictions on the serving of alcohol, the recovery process should be gradual due to changes in consumer lifestyles, such as the adoption of remote work, and that the recovery of sales, especially in the late-night zone, should not be sufficient for a while.

We assume that the number of stores at the end of FY7/22 will be 621 (+6 stores YoY), of which 389 will be directly managed stores (+6 stores YoY) and 232 will be franchise stores (unchanged YoY). We assume that three of the directly-owned stores will be Toriki Burger stores.

We expect OP to improve year on year to -3.5bn yen. However, the recovery process in the izakaya sector should be gradual

Outlook for FY7/23 and beyond

We forecast an OP of 0.6bn yen in FY7/23, and 1.3bn yen in FY7/24. Our forecast is based on the view that demand will return to the pre-COVID 19 level in around FY7/24.

We assume that the number of stores at the end of FY7/24 will be 642 (410 directly-owned stores and 232 franchise stores), and that the net increase of 27 stores from the end of FY7/21 will be all directly-owned stores, 15 of which will be Toriki Burger stores. We believe, however, that it is still too early to factor in franchise development of Toriki Burger. We believe there is room for expansion of Torikizoku, as there are many areas where it has not yet opened. However, the pace of new store openings should be moderate for the time being, as it is difficult to predict the impact of COVID-19 in the near future.

We expect demand to return to pre-COVID-19 pandemic levels around FY7/24. New store openings will be centered on Toriki Burger

Figure: Mita Securities' earnings forecast (various indicators)

Various indicators	7/18 Par A	7/19 Par A	7/20 Par A	7/21 Cons A	7/22 Cons Mita E	7/23 Cons Mita E	7/24 Cons Mita E	7/25 Cons Mita E	7/26 Cons Mita E	5-yr ave growth (CAGR, %)
Sales growth (%)	15.8	5.5	-23.2	-43.4	13.4	60.6	19.2	12.3	13.6	
Same-store sales growth (%)	-3.7	-5.2	-21.0	-41.7	14.1	58.0	16.2	8.5	8.5	
Store count growth (%)	23.7	-2.4	-4.8	-2.5	1.6	2.3	3.0	4.1	5.4	
OP growth (%)	15.4	-29.2	-17.4	NA	NA	NA	107.8	24.6	17.7	
RP growth (%)	13.1	-29.0	-16.5	NA	NA	NA	113.1	25.2	18.0	
NP growth (%)	-31.6	NA	NA	NA	NA	NA	111.9	12.9	-2.4	
Gross profit margin (%)	69.7	70.1	71.2	69.2	69.3	69.3	69.0	68.6	68.2	
OP margin (%)	5.0	3.3	3.6	-29.9	-20.0	2.3	4.0	4.4	4.6	
EBITDA margin (%)	9.0	7.6	8.3	-23.2	-14.1	6.1	7.3	7.4	7.4	
ROA (%)	3.8	-1.6	-4.1	-2.5	-3.3	3.2	6.0	6.0	5.3	
ROE (%)	10.0	-4.3	-12.5	-8.6	-10.9	11.4	20.7	19.3	16.0	

Source: Company data, Mita Securities

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

PL	7/18	7/19	7/20	7/21	7/22	7/23	7/24	7/25	7/26	5-yr ave growth
	Par	Par	Par	Cons	Cons	Cons	Cons	Cons	Cons	
JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Sales	33,978	35,848	27,540	15,591	17,682	28,399	33,839	38,014	43,185	22.6
COGS	10,305	10,719	7,936	4,806	5,425	8,724	10,497	11,931	13,745	
Gross profit	23,673	25,129	19,603	10,785	12,257	19,675	23,342	26,083	29,440	
SGA	21,991	23,938	18,620	15,447	15,801	19,027	21,995	24,405	27,466	
Operating profit	1,682	1,191	983	-4,663	-3,544	648	1,347	1,678	1,975	NA
Non-operating income	18	29	31	4,411	3,030	30	30	30	30	
Non-operating expense	86	74	58	64	61	60	60	60	60	
Recurring profit	1,613	1,145	956	-315	-575	618	1,317	1,648	1,945	NA
Extraordinary gains	14	44	832	53	0	0	0	0	0	
Extraordinary losses	506	1,431	2,741	334	100	50	50	50	50	
Pre-tax profit	1,122	-242	-953	-595	-675	568	1,267	1,598	1,895	NA
Corporate taxes	460	44	-189	-129	-135	0	63	240	568	
Minority interests	0	0	0	0	0	0	0	0	0	
Net profit	662	-286	-763	-466	-540	568	1,203	1,358	1,326	NA
EBITDA	3,069	2,717	2,280	-3,622	-2,489	1,725	2,454	2,828	3,185	NA
Shares O/S	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	
EPS	57.15	-24.69	-65.88	-40.25	-46.62	49.01	103.85	117.22	114.46	
BPS	595.71	562.98	489.08	450.58	403.96	452.97	552.83	662.04	766.50	
DPS	8.0	8.0	4.0	0.0	0.0	4.0	8.0	10.0	12.0	
Payout ratio (%)	13.9	-32.2	-6.0	0.0	0.0	8.2	7.7	8.5	10.5	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (store count)

Store count	7/18	7/19	7/20	7/21	7/22	7/23	7/24	7/25	7/26	5-yr ave growth
(End-FY)	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Total store count	665	659	629	615	621	630	642	662	690	2.3
(Net increase/decrease)	98	-6	-30	-14	6	9	12	20	28	
Directly-owned stores	423	413	393	383	389	398	410	427	450	3.3
(Net increase/decrease)	81	-10	-20	-10	6	9	12	17	23	
Torikizoku	423	413	393	383	386	390	395	402	410	
Toriki Burger					3	8	15	25	40	
Franchise stores (TCC stores)	242	246	236	232	232	232	232	235	240	0.7
(Net increase/decrease)	17	4	-10	-4	0	0	0	3	5	
Torikizoku	242	246	236	232	232	232	232	235	240	
Toriki Burger					0	0	0	0	0	
Sales per directly-owned store (JPYm)	88	85	68	40	45	72	83	90	98	19.8

Source: Company data, Mita Securities

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

BS	7/18	7/19	7/20	7/21	7/22	7/23	7/24	7/25	7/26	5-yr ave growth
JPYm	Par	Par	Par	Cons	Cons	Cons	Cons	Cons	Cons	(CAGR, %)
	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Assets										
Total current assets	5,708	5,736	10,175	8,011	8,134	11,127	13,603	15,577	17,227	
Cash and deposits	4,385	4,106	8,675	4,714	4,644	7,045	9,270	10,824	12,279	
Accounts receivable	309	343	343	161	226	396	345	488	459	
Inventories	165	144	125	84	137	197	179	221	211	
Other	849	1,143	1,032	3,053	3,126	3,489	3,808	4,044	4,279	
Total fixed assets	13,081	11,391	9,778	8,823	8,247	7,905	7,798	8,069	8,870	
Tangible assets	10,418	8,631	6,818	5,599	4,964	4,547	4,340	4,470	5,080	
Intangible assets	80	77	59	41	50	50	50	50	50	
Investment and other	2,584	2,683	2,901	3,183	3,233	3,308	3,407	3,549	3,740	
Total assets	18,789	17,128	19,953	16,835	16,381	19,032	21,400	23,646	26,097	9.2
Liabilities										
Total current liabilities	7,493	6,932	5,362	4,221	4,536	6,382	7,374	8,177	9,192	
Accounts payable	1,068	1,173	986	348	393	632	761	865	996	
Short-term debt	1,557	1,345	1,159	1,532	1,500	1,500	1,500	1,500	1,500	
Other	4,869	4,413	3,217	2,341	2,643	4,250	5,113	5,812	6,696	
Total long-term liabilities	4,393	3,672	8,924	7,392	7,164	7,402	7,620	7,798	8,023	
Long-term debt	3,160	2,477	7,754	6,254	6,000	6,000	6,000	6,000	6,000	
Other	1,234	1,196	1,170	1,138	1,164	1,402	1,620	1,798	2,023	
Total liabilities	11,887	10,604	14,286	11,614	11,700	13,784	14,995	15,975	17,215	8.2
Net assets										
Shareholders' equity	6,903	6,524	5,667	5,221	4,681	5,249	6,406	7,671	8,882	11.2
Warrants	0	0	0	0	0	0	0	0	0	
Minorities	0	0	0	0	0	0	0	0	0	
Total net assets	6,903	6,524	5,667	5,221	4,681	5,249	6,406	7,671	8,882	11.2
Debt	4,716	3,822	8,913	7,786	7,500	7,500	7,500	7,500	7,500	-0.7
Net debt	222	-369	175	2,979	2,856	455	-1,770	-3,324	-4,779	
Debt/EBITDA (x)	1.5	1.4	3.9	-2.1	-3.0	4.3	3.1	2.7	2.4	
D/E (x)	0.7	0.6	1.6	1.5	1.6	1.4	1.2	1.0	0.8	
Shareholders' equity ratio (%)	36.7	38.1	28.4	31.0	28.6	27.6	29.9	32.4	34.0	

Source: Company data, Mita Securities

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

CF	7/18	7/19	7/20	7/21	7/22	7/23	7/24	7/25	7/26	5-yr ave growth
JPYm	Par	Par	Par	Cons	Cons	Cons	Cons	Cons	Cons	(CAGR, %)
	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Cashflow from operations										
Net profit	3,307	2,172	-191	-2,688	743	3,261	3,371	3,126	3,591	
Depreciation and amortization	662	-286	-763	-466	-540	568	1,203	1,358	1,326	
Other	1,387	1,527	1,297	1,041	1,055	1,077	1,107	1,150	1,210	
	1,257	931	-724	-3,263	228	1,616	1,061	618	1,054	
Cashflow from investing										
Capital expenditure	-3,461	-1,331	-248	-111	-620	-860	-1,100	-1,480	-2,020	
Disposal of fixed assets	-3,236	-1,209	-237	46	-420	-660	-900	-1,280	-1,820	
Other	21	0	19	189	0	0	0	0	0	
	-246	-122	-30	-346	-200	-200	-200	-200	-200	
Cashflow from financing										
Debt issuance/repayment	-87	-1,144	4,986	-1,132	-286	0	-46	-93	-116	
Share issuance/buyback (net)	14	-1,050	5,087	-1,127	-286	0	0	0	0	
Dividend paid	0	0	0	0	0	0	0	0	0	
Other	-93	-92	-95	-1	0	0	-46	-93	-116	
	-8	-1	-6	-5	0	0	0	0	0	
Cash and cash equivalents	-8	-1	-6	-5	0	0	0	0	0	
Free cashflow	4,494	4,191	8,738	4,807	4,644	7,045	9,270	10,824	12,279	
	-154	841	-439	-2,799	123	2,401	2,271	1,646	1,571	

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.

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