



Koshidaka Holdings

TSE 1st Section 2157 Industry: Leisure and amusement

Announced capital and business alliance with Advantage Advisors

Targeting long-term growth by leveraging external funds and talents

On February 25, 2022, Koshidaka Holdings (2157, the company) announced that it would enter into a capital and business alliance with Advantage Advisors. The company will allocate warrants and CBs to Advantage through a third-party allotment. The amount of financing is 3bn yen for warrants and 4bn yen for CBs. On the business alliance side, the company expects Advantage to introduce skilled talents and business partners that can develop new services beyond the conventional framework of karaoke rooms and enhance operational efficiency through DX. Advantage has a wealth of experience in providing hands-on management support to a number of restaurant companies.

Selecting a financing scheme that is unlikely to weigh on the stock price

Recent examples of capital and business alliances with Advantage include the issuance of CBs by Monogatari Corporation (3097) (announced on February 8, 2021) and the issuance of CBs and warrants by Saint Marc HD (3395) (announced on May 20, 2021). The share prices of both companies declined on the business day following the announcement, but then returned to their pre-announcement levels in about one to two weeks. Recent examples of capital raising by food service and amusement companies are summarized on page 2.

Koshidaka HD's capital raising scheme has a high minimum exercise/conversion price and a high base price (800 yen) for the sale of common stock after exercise/conversion, which gives us the impression that the company has given sufficient consideration to existing shareholders. In our view, the scheme is unlikely to weigh on the stock price.

- Monogatari Corporation: CBs are convertible after three years. Minimum conversion price / initial conversion price = 90.0%. Maximum dilution is 8.7%.
- Saint Marc HD: Warrants are exercisable after 1 year, and CBs are convertible after 1.5 years. Minimum exercise & conversion price / initial exercise & conversion price = 77.0%. Maximum dilution is 23.1%.
- Koshidaka HD: Both warrants and CBs can be exercised and converted after 2 years. Minimum exercise & conversion price 636 yen / initial exercise & conversion price 675 yen = 94.2%. Maximum dilution is 13.4%. Advantage can sell common stock only when the share price is 800 yen or higher.

Please refer to the report dated November 22, 2021, for the rationale of the rating and target price.

MITA SECURITIES Co., Ltd.

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Update

Rating

Buy

Target price (JPY)	820
Stock price (JPY) (Feb 25)	642
Market cap (JPYbn)	52.8

Key changes

Rating	No
Target price	No
Earnings forecast	No

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

		8/20	8/21	8/22E	8/23E	8/24E
Sales	JPYbn	43.3	20.8	36.7	42.7	46.0
OP	JPYbn	1.1	-7.6	1.9	3.3	4.1
RP	JPYbn	1.7	-3.1	3.5	3.6	4.4
NP	JPYbn	-0.2	-4.1	3.0	3.1	3.0
EPS	JPY	-2.8	-50.8	36.4	37.8	37.0
BPS	JPY	281.0	223.0	255.4	285.2	313.2
DPS	JPY	12.0	4.0	8.0	9.0	12.0
PER	x	NA	NA	17.6	17.0	17.3
PBR	x	1.6	2.9	2.5	2.3	2.0
Div. yield	%	2.6	0.6	1.2	1.4	1.9
ROA	%	-0.4	-9.6	6.7	6.3	5.8
ROE	%	-0.8	-20.2	15.2	14.0	12.4

Source: Company data, Mita Securities

Company profile

Koshidaka HD is a major karaoke room operator that operates "Karaoke Manekineko" stores nationwide. The total number of stores at the end of November 2021 was 581. In March 2020, it spun off the Curves business and is concentrating its management resources on the karaoke business.

Figure: Examples of capital raising by food service and amusement companies

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 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	
07/14/21	Round One	4680	Treasury share sale	8,041	Sales price 1,338 yen, Discount rate 7.03%
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	17,274	Public offering of new shares. Issue price 722 yen
11/30/21	Gourmet Kinoya	9850	Subordinated loans	4,000	
02/25/22	Koshidaka HD	2157	Warrants	3,003	Exercise price 675 yen (initial), with downward adjustment clause (minimum exercise price 636 yen)
			CB	3,986	Conversion price 675 yen (initial), with downward adjustment clause (minimum conversion price 636 yen) Maximum dilution of the above total 13.4%

Source: Companies' data, Mita Securities

Note: Shading indicates stocks covered by Mita Securities

Figure: Comparison of valuations for karaoke companies

Company name	Ticker	PX	Mkt cap	Net D/E	Sales YOY	EBITDA Mgn	ROE	ROE	ROE	PER	PER	PER	PBR	EV/EBITDA	EV/Sales	Div yield	1M	3M	1YR
		2/25	JPYbn	Last	LTM	LTM	LTM	Cur E	Nxt E	LTM	Cur E	Nxt E	Last	Cur E	Cur E	Cur E	Chg	Chg	Chg
KOSHIDAKA HOLDINGS CO LTD (TP 820 Buy)	2157	642	52.8	0.6	-39.8	-27.0	-19.9	15.2	14.0	NA	17.6	17.0	3.2	NA	1.8	1.2	3.9	7.4	12.8
TETSUJIN INC	2404	314	4.3	11.2	9.8	2.6	NA	NA	NA	14.3	NA	NA	14.8	NA	NA	NA	1.3	-30.1	15.0
ROUND ONE CORP	4680	1,332	127.1	1.1	28.7	11.8	-0.9	12.5	15.3	NA	22.6	17.4	2.6	9.8	1.6	1.5	-4.1	1.8	14.8
DAIICHIKOSHO CO LTD	7458	3,510	192.1	-0.2	-12.9	14.7	-9.2	3.2	9.6	NA	37.1	22.6	1.8	13.6	1.9	3.2	8.5	-2.0	-17.0
Average				3.2	-3.6	0.5	-10.0	10.3	13.0	14.3	25.8	19.0	5.6	11.7	1.8	2.0	2.4	-5.7	6.4
Median				0.9	-1.6	7.2	-9.2	12.5	14.0	14.3	22.6	17.4	2.9	11.7	1.8	1.5	2.6	-0.1	13.8

Source: Bloomberg Finance LP data, Mita Securities

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

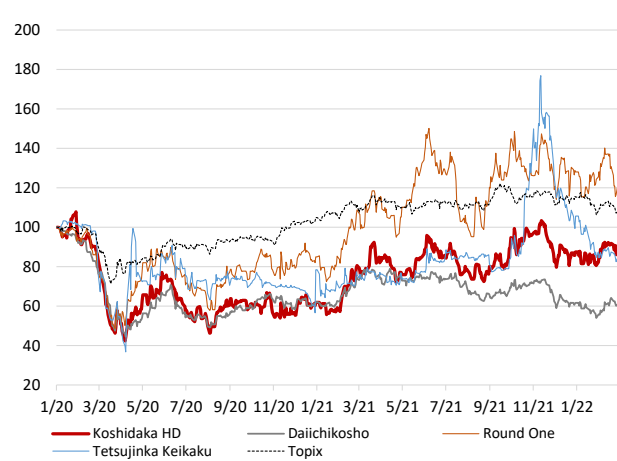
Figure: Comparison of valuations for amusement companies (reference)

Company name	Ticker	PX	Mkt cap	Net D/E	Sales YOY	EBITDA Mgn	ROE	ROE	ROE	PER	PER	PER	PBR	EV/EBITDA	EV/Sales	Div yield	1M	3M	1YR
		2/25	JPYbn	Last	LTM	LTM	LTM	Cur E	Nxt E	LTM	Cur E	Nxt E	Last	Cur E	Cur E	Cur E	Chg	Chg	Chg
ORIENTAL LAND CO LTD	4661	20,895	7,599.3	0.0	5.9	11.9	-3.5	-0.3	11.3	NA	NA	83.0	9.2	182.1	28.5	0.1	5.1	17.1	17.1
BANDAI NAMCO HOLDINGS INC	7832	8,439	1,873.5	-0.3	12.4	15.2	11.6	13.2	14.1	30.9	25.0	21.9	3.4	12.8	2.0	2.0	5.4	-4.5	3.6
SANRIO CO LTD	6071	2,355	209.7	0.2	17.9	9.8	4.0	7.5	11.2	120.8	68.6	58.4	4.6	63.7	3.7	0.7	6.4	-5.0	35.3
FUJI KYUKO CO LTD	9010	3,900	214.1	1.9	2.2	19.4	-1.6	2.2	NA	NA	404.9	121.0	8.6	NA	7.2	0.3	-4.4	-5.0	-28.8
KONAMI HOLDINGS CORP	9766	6,620	950.0	-0.3	13.0	18.1	15.3	15.8	14.8	18.5	18.2	16.2	2.7	8.8	2.7	1.7	8.0	13.9	-3.1
Average				0.3	10.3	14.9	5.2	7.7	12.9	56.8	129.2	60.1	5.7	66.9	8.8	1.0	4.1	3.3	4.8
Median				0.0	12.4	15.2	4.0	7.5	12.7	30.9	46.8	58.4	4.6	38.3	3.7	0.7	5.4	-4.5	3.6

Source: Bloomberg Finance LP data, Mita Securities

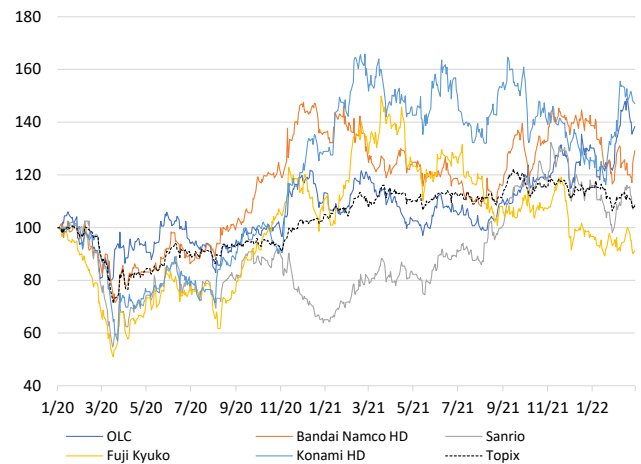
Note: Forecasts are based on Bloomberg consensus

Figure: Stock price trends for karaoke companies



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

Figure: Stock price trends for amusement companies



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

APPENDIX

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