



Skylark Holdings

TSE 1st Section 3197

Industry: Food service, retail

Earnings forecast update. Challenges in handling inflation

Maintaining TP of 1,600 yen and a Hold rating

We are updating our earnings forecast for Skylark Holdings (3197, the company). Although we slightly lower our OP forecast, the revision is minor, and we maintain our target price at 1,600 yen. We reiterate our Hold rating on the stock.

FY12/21 results and FY12/22 guidance

On February 14, the company announced full-year IFRS OP of 18.2bn yen (vs. -23.0bn yen loss in FY12/20), falling short of the 21.0bn yen guidance it announced in November. The main downside factors were higher food prices (e.g., potatoes), store impairment losses, and advance booking of consumables costs. OP includes 42.7bn yen in subsidies for shortening operating hours.

The company's FY12/22 guidance is for sales of 336.0bn yen (+27.0% YoY) and OP of 10.0bn yen (-45.1% YoY). OP includes 5.0bn yen in subsidies. OP guidance is -8.2bn yen YoY, and the company's assumptions are as follows: 1) same-store sales are expected to increase, but the decrease in subsidies will exceed this (a negative factor of 2.2bn yen); and 2) cost of sales and SG&A expenses will have a negative impact of 7.3bn yen, mainly due to inflation.

Mita Securities' earnings forecast: Increased focus on inflationary factors

Our new forecast for FY12/22 is for sales of 311.9bn yen (+17.9% YoY; previous forecast 311.8bn yen) and OP of 8.8bn yen (-51.5% YoY; previous forecast 10.4bn yen). We largely maintained our previous sales forecast. Compared to the company's guidance, we 1) estimated a slightly longer period of the current operating restrictions on restaurants, and 2) made slightly more conservative assumptions about the sales recovery after the restrictions are lifted. Currently, the number of cases of the new coronavirus remains high, and there are concerns about the negative impact of heavy snowfall in some areas. Also, we took into account the fact that the recovery of sales at family restaurants was relatively slow in the past when the number of infections declined. On the other hand, we have increased our assumption for the subsidies from 12.0bn yen to 13.0bn yen, which is higher than the company's assumption. The reason for lowering our OP forecast is that we expect 1) a rise in the cost of sales ratio due to higher food procurement costs and 2) additional increases in SG&A expenses such as utilities. For the time being, we would focus on the company's handling of inflation in assessing its business performance. Our OP forecast is 10.0bn yen for FY12/23 (previous forecast 12.0bn yen) and 17.6bn yen for FY12/24 (previous forecast 18.6bn yen).

Valuations and risk factors

In calculating our target price of 1,600 yen, we used a residual income model (RIM) with a cost of equity of 4.0% (unchanged) and a terminal growth rate of 0.3% (unchanged), based on our updated earnings forecast for FY12/22-FY12/26. Our target price is equivalent to 36.2x our FY12/24 EPS forecast of 44.15 yen.

Upside risks to our view include unexpectedly early earnings recovery and dividend hike. Downside risks include a significant increase in the number of new coronavirus infections, unexpected deterioration in same-store sales, reduction in subsidies, significant increase in costs, decrease in shareholder benefits, significant impairment of goodwill, violation of financial covenants, and customer defection due to food poisoning.

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Forecast change

Rating

Hold

Target price (JPY)	1,600
Stock price (JPY) (Feb 22)	1,483
Market cap (JPYbn)	337.4

Key changes

Rating	No
Target price	No
Earnings forecast	Yes

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

IFRS		12/20	12/21	12/22E	12/23E	12/24E
Sales	JPYbn	288.4	264.6	311.9	343.1	359.2
OP	JPYbn	-23.0	18.2	8.8	10.0	17.6
Pre-tax Profit	JPYbn	-26.4	14.3	6.2	7.4	15.1
NP	JPYbn	-17.2	8.7	3.8	4.6	10.0
EPS	JPY	-87.2	38.4	16.7	20.4	44.2
BPS	JPY	576	730	735	749	784
DPS	JPY	0.0	12.0	6.0	10.0	20.0
PER	x	NA	38.6	88.7	72.8	33.6
PBR	x	2.8	2.0	2.0	2.0	1.9
Div. yield	%	0.0	0.8	0.4	0.7	1.3
ROA	%	-3.8	1.9	0.8	1.0	2.1
ROE	%	-14.0	6.2	2.3	2.7	5.8

Source: Company data, Mita Securities

Company profile

Skylark HD is Japan's largest operator of family restaurants, including "Gusto," and "Bamiyan." The company had 3,098 stores at the end of December 2021. FY12/21 sales were 264.6bn yen.

Investment thesis

Outlook

Our new forecast for FY12/22 is for sales of 311.9bn yen (+17.9% YoY; previous forecast 311.8bn yen) and OP of 8.8bn yen (-51.5% YoY; previous forecast 10.4bn yen). We largely maintained our previous sales forecast. Compared to the company's guidance, we 1) estimated a slightly longer period of the current operating restrictions on restaurants, and 2) made slightly more conservative assumptions about the sales recovery after the restrictions are lifted. Currently, the number of cases of the new coronavirus remains high, and there are concerns about the negative impact of heavy snowfall in some areas. Also, we took into account the fact that the recovery of sales at family restaurants was relatively slow in the past when the number of infections declined. On the other hand, we have increased our assumption for the subsidies from 12.0bn yen to 13.0bn yen, which is higher than the company's assumption. The reason for lowering our OP forecast is that we expect 1) a rise in the cost of sales ratio due to higher food procurement costs and 2) additional increases in SG&A expenses such as utilities. For the time being, we would focus on the company's handling of inflation in assessing its business performance.

Our OP forecast is 10.0bn yen for FY12/23 (previous forecast 12.0bn yen) and 17.6bn yen for FY12/24 (previous forecast 18.6bn yen).

For FY12/22, we forecast OP of 8.8bn yen (-51.5% YoY). Earnings should be negatively affected by inflation

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

JPYm	12/19	12/20	12/21	12/22	12/23	12/24	12/25	12/26	12/22	12/22	12/23	12/24
IFRS	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	CoE	Consensus	Consensus	Consensus
Earnings												
Sales	375,394	288,434	264,570	311,893	343,082	359,153	370,652	380,485	336,000	326,000	334,000	347,000
(YoY, %)	2.5	-23.2	-8.3	17.9	10.0	4.7	3.2	2.7				
Operating profit	20,562	-23,031	18,213	8,832	9,955	17,600	22,270	25,721	10,000	10,750	11,500	13,000
(YoY, %)	-10.0	NA	NA	-51.5	12.7	76.8	26.5	15.5				
OPM (%)	5.5	-8.0	6.9	2.8	2.9	4.9	6.0	6.8				
Pre-tax profit	16,729	-26,433	14,325	6,205	7,393	15,121	19,846	23,352	7,500	7,850	8,600	10,500
(YoY, %)	-10.0	NA	NA	-56.7	19.1	104.5	31.2	17.7				
Net profit	9,487	-17,214	8,742	3,804	4,635	10,044	13,352	15,806	4,000	4,700	5,700	7,100
(YoY, %)	-17.1	NA	NA	-56.5	21.9	116.7	32.9	18.4				
Depreciation and amortization	51,061	51,168	47,293	48,712	48,907	49,102	49,250	49,397				
Capital expenditure	20,386	15,770	13,235	23,000	19,000	17,500	21,000	21,000				
Free CF	47,379	20,982	37,078	40,123	37,187	40,720	41,310	42,367				
KPI												
Number of stores	3,258	3,126	3,098	3,088	3,098	3,118	3,148	3,178				
(YoY, %)	1.8	-4.1	-0.9	-0.3	0.3	0.6	1.0	1.0				
Sales per store	116	90	85	101	111	116	118	120				
(YoY, %)	0.7	-22.3	-5.9	18.6	10.0	4.2	2.4	1.7				
Per share indicators												
EPS (JPY)	48.03	-87.16	38.43	16.72	20.37	44.15	58.69	69.48	17.58	20.66	25.05	31.21
BPS (JPY)	672.48	576.00	730.37	735.09	749.46	783.62	822.31	865.78				
DPS (JPY)	19.00	0.00	12.00	6.00	10.00	20.00	26.00	32.00	6.00			
Valuation, profitability, etc.												
PER (x)	44.4	NA	38.6	88.7	72.8	33.6	25.3	21.3				
PBR (x)	3.2	2.8	2.0	2.0	2.0	1.9	1.8	1.7				
Dividend payout ratio (%)	39.6	NA	31.2	35.9	49.1	45.3	44.3	46.1				
Dividend yield (%)	0.9	0.0	0.8	0.4	0.7	1.3	1.8	2.2				
ROA (%)	2.4	-3.8	1.9	0.8	1.0	2.1	2.8	3.3				
ROE (%)	7.2	-14.0	6.2	2.3	2.7	5.8	7.3	8.2				
Financial soundness indicators												
Capital ratio (%)	29.3	25.8	36.3	35.9	36.7	37.8	39.2	40.6				
Debt/Equity (x)	1.9	2.3	1.4	1.4	1.3	1.2	1.1	1.0				
Net debt/EBITDA (x)	3.3	8.8	2.9	3.3	3.2	2.7	2.5	2.4				

Source: Company data, QUICK data, Mita Securities

Note: Consensus forecasts are by QUICK consensus. Net profit stands for net profit attributable to owners of the company

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

JPYm	12/22	12/22	12/22	12/23	12/23	12/24	12/24
	CoE	Old Mita E	New Mita E	Old Mita E	New Mita E	Old Mita E	New Mita E
Sales	336,000	311,834	311,893	342,765	343,082	359,067	359,153
Operating profit	10,000	10,369	8,832	11,968	9,955	18,611	17,600
Pre-tax profit	7,500	7,646	6,205	9,245	7,393	15,998	15,121
Net profit	4,000	4,812	3,804	5,931	4,635	10,659	10,044
EPS (JPY)	17.58	21.15	16.72	26.07	20.37	46.85	44.15

Source: Company data, Mita Securities

Valuations

Stock valuation based on residual income model (RIM)

In calculating our target price of 1,600 yen, we used a residual income model (RIM) with a cost of equity of 4.0% (unchanged) and a terminal growth rate of 0.3% (unchanged), based on our updated earnings forecast for FY12/22-FY12/26. Our target price is equivalent to 36.2x our FY12/24 EPS forecast of 44.15 yen.

TP of 1,600 yen based on RIM

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	A	Mita E	Mita E	Mita E	Mita E	Mita E	Mita E
JPYbn	12/21	12/22	12/23	12/24	12/25	12/26	12/27
Shareholders' equity (EOP)	166.2	167.2	170.5	178.3	187.1	197.0	
Net profit		3.8	4.6	10.0	13.4	15.8	
Cost of equity		6.6	6.7	6.8	7.1	7.5	
Residual income		-2.8	-2.1	3.2	6.2	8.3	
PV of residual income		-2.7	-1.9	2.9	5.3	6.8	
PV of terminal value							185.4
Beta	0.70						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	4.00						
Terminal growth rate (%)	0.30						
Total equity value							362.0
Number of shares O/S (m)							228
Target share price							1,600

Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate (%)	0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0
Target price	1,550	1,550	1,550	1,600	1,600	1,650	1,650	1,700	1,700	1,750	1,800

Source: Mita Securities

Comparison of valuations with peers

Figure: Comparison of valuations for food service companies

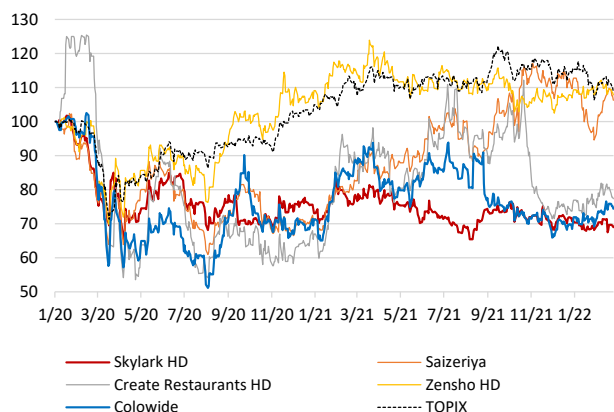
Company name	Ticker	PX 22-Feb	Mkt cap JPYbn	Net D/E Last	Sales YoY LTM	EBITDA Mgn LTM	ROE LTM	ROE Cur E	ROE Nxt E	PER LTM	PER Cur E	PER Nxt E	PBR Last	EV/EBITDA Cur E	EV/Sales Cur E	Div yield Cur E	1M Chg	3M Chg	1YR Chg
KURA SUSHI INC (TP 5,000 Buy)	2695	3,770	156.1	0.1	8.7	2.3	4.1	8.4	10.7	78.6	38.1	26.5	3.1	13.2	0.9	0.6	11.0	-3.7	3.6
MCDONALD'S HOLDINGS CO JAPAN	2702	4,920	654.2	-0.3	10.2	14.0	13.0	10.9	10.8	27.3	28.8	26.8	3.4	11.5	1.7	0.8	-2.6	-4.1	-5.9
OOTOA HOLDINGS CO LTD	2705	2,840	20.6	0.2	-0.4	6.0	NA	NA	NA	14.9	NA	NA	7.9	NA	NA	NA	3.3	4.5	11.4
FUJIO FOOD GROUP INC	2752	1,309	58.4	1.7	-5.0	-10.0	16.3	21.2	NA	80.8	35.7	39.1	11.2	NA	1.8	0.0	3.9	-6.5	-1.0
AMIYAKI TEI CO LTD	2753	3,005	20.6	-0.1	-14.5	-13.9	2.0	2.6	NA	50.7	39.6	38.1	1.0	NA	0.5	0.3	3.4	0.5	2.6
HIRAMATSU INC	2764	204	15.2	4.1	23.5	-21.8	-48.7	NA	NA	NA	NA	NA	2.2	NA	NA	NA	11.5	-3.8	12.7
PEPPER FOOD SERVICE CO LTD	3053	348	13.7	-0.1	NA	-8.4	20.7	NA	NA	44.1	NA	NA	4.2	NA	NA	NA	-1.1	-19.6	16.8
CHOUSHIMARU CO LTD	3075	1,122	16.3	-0.8	-1.7	1.3	10.2	NA	NA	21.5	NA	NA	2.1	NA	NA	0.5	1.4	1.2	2.2
ARCLAND SERVICE HOLDINGS CO	3085	2,222	73.5	-0.7	14.4	8.2	12.0	13.4	13.0	27.0	20.5	19.9	3.1	9.4	1.2	1.4	2.5	-2.8	4.5
DOUTOR NICHIRE HOLDINGS CO	3087	1,598	72.9	-0.3	3.3	5.0	-2.2	4.5	1.3	NA	16.4	50.1	0.7	15.9	0.4	1.6	1.9	0.1	-4.9
BRONCO BILLY CO LTD	3091	2,214	33.4	-0.3	-8.7	8.0	5.4	NA	NA	35.0	NA	NA	1.9	NA	NA	0.8	0.7	-8.3	-5.5
MONOGATARI CORP (TP 9,100 Buy)	3097	6,460	78.1	0.1	6.8	11.2	13.2	17.7	16.4	28.4	19.9	18.7	3.6	NA	1.1	1.1	4.4	-13.9	3.1
CHIMNEY CO LTD	3178	1,121	21.7	0.8	-50.5	-34.0	-8.9	NA	NA	NA	NA	NA	3.2	NA	NA	NA	-3.0	-17.0	-22.3
TORIKIZOKU HOLDINGS CO LTD (TP 2,100 Hold)	3193	1,830	21.3	0.6	NA	NA	NA	17.6	11.4	NA	NA	37.3	3.5	NA	1.2	0.0	5.6	1.6	0.9
HOTLAND CO LTD	3196	1,314	28.3	0.3	3.3	6.2	28.1	NA	NA	13.6	27.5	21.3	3.3	NA	0.9	0.4	6.8	-3.0	7.7
SKYLARK HOLDINGS CO LTD (TP 1,600 Hold)	3197	1,483	337.4	0.5	-8.3	22.3	6.2	4.3	4.2	39.2	60.0	54.2	2.0	6.6	1.4	0.6	-0.5	-1.8	-11.0
SFP HOLDINGS CO LTD	3198	1,419	36.6	-0.1	-58.6	17.7	0.3	14.4	NA	909.6	20.3	52.2	2.8	NA	3.3	0.0	0.3	0.4	-3.1
CREATE RESTAURANTS HOLDINGS	3387	731	155.6	3.5	-24.0	28.2	10.2	16.9	NA	59.4	22.9	39.3	3.9	NA	2.8	0.6	-1.7	3.4	-15.1
SAINT MARC HOLDINGS CO LTD	3395	1,609	36.6	-0.2	0.0	-6.4	-16.6	-12.9	2.8	NA	NA	59.2	1.0	NA	0.5	2.7	8.4	10.6	-3.7
TORIDOLL HOLDINGS CORP	3397	2,510	220.0	3.0	9.3	15.8	14.2	13.1	6.1	39.4	35.2	52.4	4.5	10.7	2.1	0.2	11.1	2.4	64.6
KOMEDA HOLDINGS CO LTD (TP 3,000 Buy)	3543	2,127	98.2	1.5	10.0	24.0	13.3	13.5	13.7	21.0	19.6	18.1	2.7	15.8	4.3	2.4	4.6	5.9	9.4
KUSHIKATSU TANAKA HOLDINGS C	3547	2,007	18.9	1.6	-42.8	-50.3	-38.2	51.1	35.2	NA	25.4	25.7	15.5	20.8	1.6	0.7	-4.4	-7.6	-0.4
CHIKARANOMOTO HOLDINGS CO LT	3561	558	15.1	3.7	-0.9	7.7	-9.8	NA	NA	NA	NA	NA	5.0	NA	NA	NA	1.5	-9.0	-9.6
FOOD & LIFE COMPANIES LTD	3563	3,690	428.3	2.2	21.1	15.5	21.4	19.6	22.6	34.3	32.5	24.0	6.8	13.5	1.9	0.6	7.3	-26.5	-9.4
ATOM CORP	7412	767	148.5	0.2	-13.6	1.2	-9.5	NA	NA	NA	NA	NA	19.6	NA	NA	NA	0.0	-0.1	-18.6
KAPPA CREATE CO LTD	7421	1,370	67.7	0.4	2.6	3.5	6.3	NA	NA	101.3	NA	NA	6.2	NA	NA	NA	2.3	-1.2	-10.7
WATAMI CO LTD	7522	934	39.9	3.5	-9.8	-2.1	-43.2	NA	NA	NA	NA	NA	2.5	NA	NA	NA	4.9	1.4	-10.5
ZENSHO HOLDINGS CO LTD	7550	2,690	416.6	2.2	6.8	6.8	18.1	16.6	5.7	25.6	26.4	42.6	4.2	15.0	0.9	0.8	-2.0	0.3	-6.2
KOURAKUEN HOLDINGS CORP	7554	1,425	23.9	1.1	-11.2	8.4	30.2	13.6	NA	20.3	42.9	2,035.7	5.3	NA	1.0	0.4	5.9	-2.1	-20.0
ANRAKUTEI CO LTD	7562	6,460	13.8	1.6	5.1	-4.7	2.7	NA	NA	120.9	NA	NA	3.2	NA	NA	NA	2.1	7.1	24.5
SAIZERIYA CO LTD	7581	2,860	149.5	-0.2	5.0	7.9	4.8	10.6	7.0	35.1	15.0	20.8	1.6	7.2	0.8	0.6	9.5	-5.1	28.3
HIDAY HIDAKA CORP	7611	1,695	64.7	-0.3	-24.5	-12.0	-1.2	NA	NA	NA	NA	NA	3.0	NA	NA	0.7	2.2	4.6	-4.7
COLOWIDE CO LTD	7616	1,715	149.0	3.6	-4.4	13.1	-11.0	NA	NA	NA	NA	NA	4.2	NA	NA	NA	3.4	4.7	-15.6
UKAI CO LTD	7621	2,997	15.7	1.5	4.8	-5.1	-28.3	NA	NA	NA	NA	NA	6.1	NA	NA	NA	-0.3	-0.6	-1.6
GLOBAL-DINING INC	7625	316	3.3	0.9	68.9	7.0	25.6	NA	NA	4.9	NA	NA	1.1	NA	NA	NA	-2.5	-27.0	36.2
ICHBANYA CO LTD	7630	4,605	147.0	-0.5	-3.7	9.2	8.7	8.9	NA	56.8	54.4	38.7	5.0	NA	2.9	1.7	-0.3	1.1	-8.3
ASAKUMA CO LTD	7678	1,580	8.5	-0.4	-22.1	-22.4	-29.2	NA	NA	NA	NA	NA	3.3	NA	NA	NA	0.6	2.7	-2.6
MOS FOOD SERVICES INC	8153	2,992	95.8	-0.2	9.9	11.1	8.4	6.9	NA	23.9	28.0	29.9	1.9	NA	1.0	0.9	-0.8	-3.3	-4.7
KISOJI CO LTD	8160	2,190	58.7	0.0	0.1	NA	0.9	NA	NA	NA	NA	NA	2.3	NA	NA	NA	-1.0	1.2	-11.0
SRS HOLDINGS CO LTD	8163	823	32.2	0.5	-5.4	6.4	2.1	NA	NA	164.3	NA	NA	2.4	NA	NA	NA	6.6	6.6	-6.1
ROYAL HOLDINGS CO LTD	8179	1,954	88.7	1.1	-0.6	-0.3	-11.8	6.0	5.4	NA	38.5	32.6	3.0	15.5	1.3	0.5	9.2	-0.4	1.8
RINGER HUT CO LTD	8200	2,219	57.8	1.0	-10.6	-2.6	-6.8	6.3	NA	NA	76.1	151.5	4.9	NA	1.9	0.5	-0.9	1.2	-7.3
GIFT INC	9279	2,250	22.4	0.0	22.7	9.0	29.8	28.0	NA	21.0	15.1	15.3	5.4	NA	1.3	1.1	-5.5	-17.3	7.6
GENKI SUSHI CO LTD	9828	2,507	22.3	0.6	10.6	8.9	13.5	NA	NA	19.1	NA	NA	2.4	NA	NA	NA	1.8	-3.8	-2.6
GOURMET KINEYA CO LTD	9850	1,032	23.6	1.5	-8.2	11.2	-1.7	NA	NA	NA	NA	NA	2.6	NA	NA	NA	4.8	3.4	5.5
GINZA RENOIR CO LTD	9853	837	5.2	0.1	-13.2	-39.4	-37.8	NA	NA	NA	NA	NA	1.7	NA	NA	NA	1.8	1.7	1.5
YOSHINOYA HOLDINGS CO LTD	9861	2,402	156.4	0.8	-14.3	11.3	9.5	18.0	2.8	37.4	18.9	70.6	3.4	17.1	1.1	0.0	-0.4	4.3	9.7
KFC HOLDINGS JAPAN LTD	9873	2,870	64.4	-0.8	9.9	8.0	16.7	NA	NA	15.6	NA	NA	2.5	NA	NA	NA	0.9	1.4	0.4
MATSUYAFOODS HOLDINGS CO LTD	9887	3,610	68.8	0.3	-4.5	-0.8	5.0	NA	NA	33.0	NA	NA	1.6	NA	NA	NA	0.8	2.8	-3.0
SAGAMI HOLDINGS CORP	9900	1,212	36.7	-0.2	-4.1	-6.2	1.5	NA	NA	447.2	NA	NA	2.4	NA	NA	NA	15.6	17.6	3.9
OHSO FOOD SERVICE CORP (TP 7,250 Buy)	9936	6,030	140.4	-0.2	0.9	11.0	14.8	13.1	10.1	14.0	15.6	19.2	2.0	NA	1.4	1.8	2.2	-0.8	4.0
JOYFULL CO LTD	9942	822	26.2	4.9	-17.5	-6.8	72.4	NA	NA	9.5	NA	NA	5.0	NA	NA	NA	1.0	1.0	13.7
DAISYO CORP	9979	998	21.2	0.9	-23.9	13.1	-10.6	NA	NA	NA	NA	NA	1.7	NA	NA	NA	-0.9	0.7	-2.4
Average				0.8	-2.9	1.8	2.9	13.2	10.5	78.7	30.9	113.3	3.9	13.3	1.5	0.8	2.6	-1.8	0.9
Median				0.4	-0.9	6.4	5.0	13.2	10.1	33.7	27.5	37.3	3.1	13.5	1.3	0.6	1.8	0.3	-1.6

Source: Bloomberg Finance LP data, Mita Securities

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

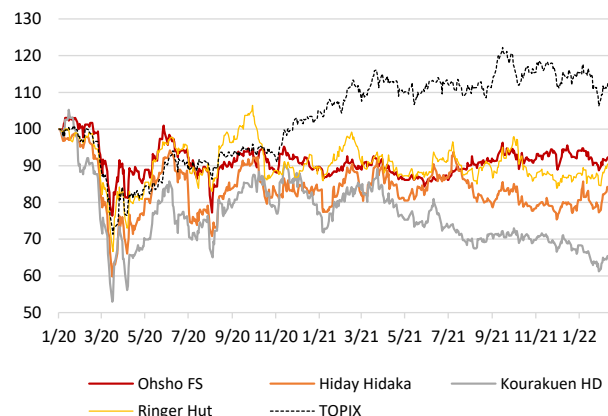
Stock price trends for food service companies

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



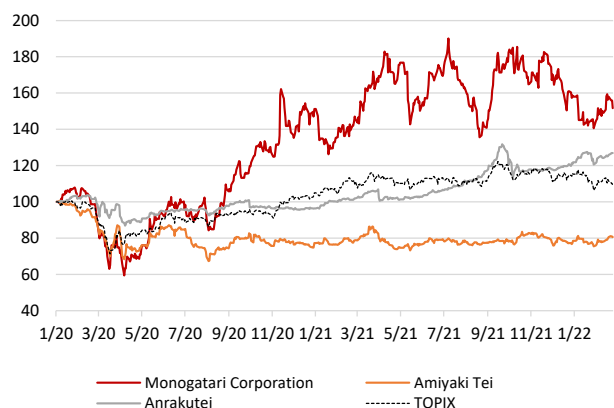
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Chinese restaurants)



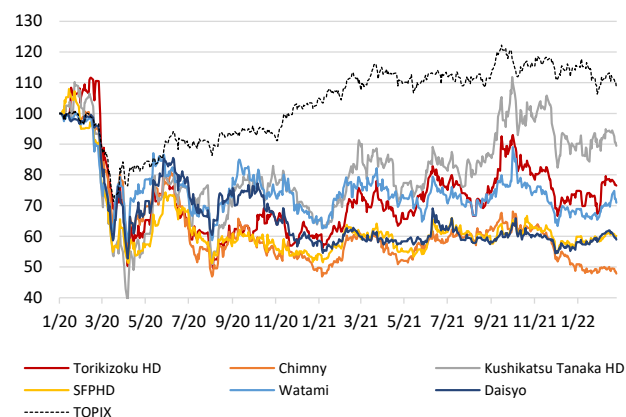
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Japanese BBQ)



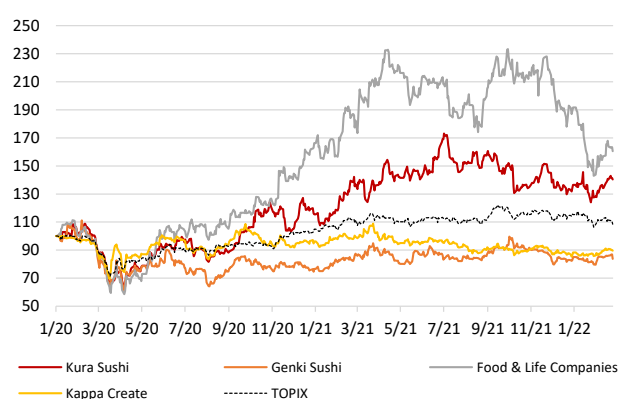
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (Japanese style pubs)



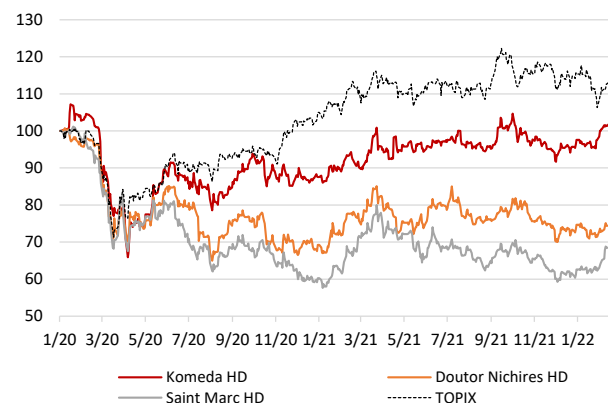
Source: Bloomberg Finance LP data, Mita Securities Note: Indexed to 100 at the end of 2019

Figure: Stock price trends (sushi restaurants)



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

Figure: Stock price trends (coffee shops)



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

Risk factors

Upside risks to our view include unexpectedly early earnings recovery and dividend hike.

Downside risks include a significant increase in the number of new coronavirus infections, unexpected deterioration in same-store sales, reduction in subsidies, significant increase in costs, decrease in shareholder benefits, significant impairment of goodwill, violation of financial covenants, and customer defection due to food poisoning.

Mita Securities' earnings forecast

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

Various indicators	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	12/26	5yr CAGR
Consolidated	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(%)
Sales growth (%)	1.9	2.5	-23.2	-8.3	17.9	10.0	4.7	3.2	2.7	
Same-store sales growth (%)	0.4	0.3	-24.3	-5.9	18.5	10.0	4.2	2.4	1.7	
Store count growth (%)	1.7	1.8	-4.1	-0.9	-0.3	0.3	0.6	1.0	1.0	
OP growth (%)	-18.7	-10.0	NA	NA	-51.5	12.7	76.8	26.5	15.5	
Pre-tax profit growth (%)	-20.9	-10.0	NA	NA	-56.7	19.1	104.5	31.2	17.7	
NP growth (%)	-26.4	-17.1	NA	NA	-56.5	21.9	116.7	32.9	18.4	
GPM (%)	69.6	69.6	68.4	69.2	69.2	69.3	69.4	69.5	69.6	
OPM (%)	6.2	5.5	-8.0	6.9	2.8	2.9	4.9	6.0	6.8	
EBITDA margin (%)	10.2	19.2	9.8	24.8	18.4	17.2	18.6	19.3	19.7	
ROA (%)	3.5	2.4	-3.8	1.9	0.8	1.0	2.1	2.8	3.3	
ROE (%)	8.9	7.2	-14.0	6.2	2.3	2.7	5.8	7.3	8.2	

Source: Company data, Mita Securities

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

PL	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	12/26	5yr CAGR
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(%)
Sales	366,360	375,394	288,434	264,570	311,893	343,082	359,153	370,652	380,485	7.5
Cost of sales	111,401	114,045	91,288	81,511	96,063	105,326	109,901	113,049	115,668	
Gross profit	254,959	261,348	197,146	183,059	215,830	237,756	249,252	257,603	264,818	
Other operating income	881	899	2,394	45,748	14,000	1,000	1,000	1,000	1,000	
SG&A	230,538	236,930	212,637	203,420	218,698	226,501	230,352	234,033	237,797	
Other operating expenses	2,445	4,755	9,935	7,174	2,300	2,300	2,300	2,300	2,300	
Operating profit	22,857	20,562	-23,031	18,213	8,832	9,955	17,600	22,270	25,721	7.1
Interest income	14	12	14	9	10	10	10	10	10	
Other income	7	2	2	3	3	3	3	3	3	
Interest expense	4,214	3,816	2,813	2,938	2,540	2,475	2,393	2,338	2,283	
Other expenses	68	31	605	962	100	100	100	100	100	
Pre-tax profit	18,596	16,729	-26,433	14,325	6,205	7,393	15,121	19,846	23,352	10.3
Corporate taxes	7,158	7,242	-9,219	5,582	2,402	2,758	5,076	6,494	7,546	
NP attributable to non-controlling interests	0	0	0	0	0	0	0	0	0	
NP attributable to owners of the company	11,438	9,487	-17,214	8,742	3,804	4,635	10,044	13,352	15,806	12.6
EBITDA	37,226	71,941	28,384	65,706	57,544	58,862	66,702	71,520	75,119	
Shares outstanding (m)	197	198	198	228	228	228	228	228	228	
EPS (JPY)	58.04	48.03	-87.16	38.43	16.72	20.37	44.15	58.69	69.48	
BPS (JPY)	661.92	672.48	576.00	730.37	735.09	749.46	783.62	822.31	865.78	
DPS (JPY)	38.00	19.00	0.00	12.00	6.00	10.00	20.00	26.00	32.00	
Payout ratio (%)	65.5	39.6	NA	31.2	35.9	49.1	45.3	44.3	46.1	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (store count)

Assumptions for store count	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	12/26	5yr CAGR
	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(%)
New openings	89	86	46	40	20	40	50	60	60	
Number of stores	3,200	3,258	3,126	3,098	3,098	3,098	3,118	3,148	3,178	0.5
(YoY, %)	1.7	1.8	-4.1	-0.9	-0.3	0.3	0.6	1.0	1.0	
Sales/Ave number of stores (JPYm)	115	116	90	85	101	111	116	118	120	7.2
(YoY, %)	-0.2	0.7	-22.3	-5.9	18.6	10.0	4.2	2.4	1.7	

Source: Company data, Mita Securities

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

BS	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	12/26	5yr CAGR
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(%)
Total current assets	37,736	36,658	36,317	67,446	67,505	63,163	63,093	60,585	59,281	
Cash and cash equivalents	18,908	18,949	17,030	38,331	40,969	33,291	32,736	29,996	26,448	
Trade and other receivables	9,714	10,689	13,588	24,247	18,478	19,120	20,239	20,380	21,317	
Inventories	4,282	4,899	4,304	3,972	5,625	4,932	5,330	5,260	5,611	
Other	4,522	1,798	1,350	846	2,378	5,765	4,727	4,889	5,845	
Total non-current assets	292,935	417,321	405,354	390,547	398,520	402,003	408,199	417,130	425,704	
Tangible fixed assets	104,447	230,040	210,530	199,468	205,468	207,195	211,835	219,243	226,281	
Goodwill	146,098	146,072	146,059	146,001	146,001	146,001	146,001	146,001	146,001	
Other intangible assets	6,602	5,835	4,726	4,179	4,926	5,419	5,673	5,855	6,010	
Other	35,788	35,373	44,039	40,898	42,125	43,389	44,690	46,031	47,412	
Total assets	330,671	453,979	441,672	457,993	466,025	465,166	471,292	477,715	484,985	1.2
Total current liabilities	157,277	97,588	203,726	89,863	102,776	105,634	107,032	107,652	107,984	
Short-term debt	111,379	18,459	125,845	17,810	23,000	22,000	21,500	21,000	20,500	
Trade and other payables	26,299	26,349	24,435	28,347	33,408	36,629	38,220	39,315	40,226	
Other financial liabilities	3,487	32,757	31,735	27,620	27,411	26,219	25,623	25,027	24,431	
Other	16,112	20,022	21,712	16,086	18,958	20,786	21,689	22,310	22,827	
Total non-current liabilities	42,941	223,574	124,185	201,968	196,014	189,027	185,986	182,987	180,033	
Long-term debt	21,675	110,859	20,000	104,634	91,763	80,821	75,370	69,988	64,572	
Other financial liabilities	5,364	96,511	88,311	81,691	87,826	90,960	92,507	93,985	95,496	
Other	15,902	16,204	15,873	15,643	16,425	17,246	18,109	19,014	19,965	
Total liabilities	200,218	321,162	327,911	291,831	298,791	294,661	293,017	290,639	288,017	-0.3
Total equity	130,453	132,817	113,761	166,161	167,235	170,505	178,274	187,076	196,967	3.5
Equity attributable to owners of the company	130,453	132,817	113,761	166,161	167,235	170,505	178,274	187,076	196,967	3.5
Non-controlling interests	0	0	0	0	0	0	0	0	0	
Total liabilities and equity	330,671	453,979	441,672	457,993	466,025	465,166	471,292	477,715	484,985	
Debt	141,905	258,586	265,891	231,755	230,000	220,000	215,000	210,000	205,000	-2.4
Net debt/EBITDA (x)	3.3	3.3	8.8	2.9	3.3	3.2	2.7	2.5	2.4	
D/E (x)	1.1	1.9	2.3	1.4	1.4	1.3	1.2	1.1	1.0	
Shareholders' equity ratio (%)	39.5	29.3	25.8	36.3	35.9	36.7	37.8	39.2	40.6	

Source: Company data, Mita Securities

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

CF	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	12/26	5yr CAGR
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(%)
Operating CF	31,571	67,825	36,724	50,065	64,350	57,451	59,522	63,650	64,748	
NP attributable to owners of the company	11,438	9,487	-17,214	8,742	3,804	4,635	10,044	13,352	15,806	
Depreciation and amortization	14,075	51,061	51,168	47,293	48,712	48,907	49,102	49,250	49,397	
Other	6,058	7,277	2,770	-5,970	11,835	3,909	375	1,049	-456	
Investing CF	-19,667	-20,446	-15,742	-12,987	-24,227	-20,264	-18,802	-22,341	-22,381	
Capital expenditure	-19,020	-20,386	-15,770	-13,235	-23,000	-19,000	-17,500	-21,000	-21,000	
Disposal of fixed assets	0	1,062	8	5	0	0	0	0	0	
Other	-647	-1,122	20	243	-1,227	-1,264	-1,302	-1,341	-1,381	
Financing CF	-8,049	-47,350	-22,921	-16,011	-37,485	-44,865	-41,275	-44,050	-45,915	
Dividends paid	-7,470	-6,110	-1,986	-17	-2,730	-1,365	-2,275	-4,550	-5,915	
Share capital issuance/buyback	93	209	0	42,808	0	0	0	0	0	
Debt issuance/repayment	1,512	-3,175	16,107	-23,849	-1,755	-10,000	-5,000	-5,000	-5,000	
Other	-2,184	-43	-565	-996	0	0	0	0	0	
Cash and cash equivalents	18,908	18,949	17,030	38,331	40,969	33,291	32,736	29,996	26,448	
Free CF	11,904	47,379	20,982	37,078	40,123	37,187	40,720	41,310	42,367	

Source: Company data, Mita Securities

Food service industry data

Monthly data for food service companies

Figure: Same-store sales for food service companies covered by Mita Securities

Ticker	Company name		1/20	2/20	3/20	4/20	5/20	6/20	7/20	8/20	9/20	10/20	11/20	12/20	1/21	2/21	3/21	4/21	5/21	6/21	7/21	8/21	9/21	10/21	11/21	12/21	1/22
2695	Kura Sushi	vs. prev yr	104.8	112.2	84.5	51.9	80.0	97.4	92.3	94.6	107.9	126.1	134.4	94.6	84.5	86.2	115.4	174.2	112.7	93.5	113.1	94.8	74.8	80.1	82.2	117.6	123.7
		vs. pre-COVID													88.6	96.7	97.5	90.4	90.2	91.1	104.4	89.7	80.7	101.0	110.5	111.2	109.5
3097	Monogatari Corporation	vs. prev yr	105.3	125.7	97.2	13.8	48.6	96.1	104.0	92.2	97.3	109.3	114.0	93.9	77.1	68.2	86.9	600.4	160.4	76.9	91.7	81.6	80.8	102.6	95.2	113.9	125.1
		vs. pre-COVID													81.2	85.7	84.5	82.9	78.0	73.9	95.4	75.2	78.6	112.1	108.5	107.0	101.6
	Yakiniku division	vs. prev yr	106.4	137.5	103.7	14.9	50.3	103.3	111.5	97.6	101.6	116.7	123.3	99.2	80.1	66.8	84.7	577.0	163.1	74.0	91.5	84.8	90.3	108.6	97.0	118.7	129.9
		vs. pre-COVID													85.2	91.9	87.8	86.0	82.0	76.4	102.0	82.8	91.7	126.7	119.6	117.8	110.7
	Ramen division	vs. prev yr	104.6	107.7	90.5	14.3	54.1	90.8	93.7	88.3	94.5	99.7	96.7	91.6	82.2	76.4	87.9	546.9	148.9	82.9	95.4	82.1	76.3	96.1	100.0	111.3	115.2
		vs. pre-COVID													86.0	82.3	79.5	78.2	80.6	75.3	89.4	72.5	72.1	95.8	96.7	102.0	99.1
	Yuzuan division	vs. prev yr	103.6	107.6	84.7	10.9	42.6	83.7	96.1	84.9	91.0	101.2	106.6	89.4	71.1	69.1	94.3	697.3	162.7	81.6	90.7	71.4	65.8	94.3	85.6	100.4	116.8
		vs. pre-COVID													73.7	74.4	79.9	76.0	69.3	68.3	87.2	60.6	59.9	95.4	91.2	89.8	86.0
3193	Torikizoku HD	vs. prev yr	107.5	106.0	83.9	3.9	12.1	73.2	76.8	59.1	77.2	93.1	81.3	51.9	28.1	32.7	55.4	948.7	41.5	18.0	38.9	16.6	8.8	66.7	92.7	155.0	200.1
		vs. pre-COVID													30.2	34.7	46.5	37.0	5.0	13.2	29.9	9.8	6.8	62.1	75.4	80.4	56.2
3197	Skylark HD	vs. prev yr	97.6	99.6	76.1	41.8	52.2	69.4	73.6	73.2	78.3	88.4	85.1	78.1	66.5	70.9	93.7	164.6	128.6	92.5	100.3	83.3	79.4	92.9	95.3	114.4	115.8
		vs. pre-COVID													65.3	70.7	70.9	70.0	67.1	64.7	74.7	61.5	62.5	82.5	81.0	89.8	75.5
3543	Komeda HD	vs. prev yr	101.8	112.9	90.5	53.1	71.3	85.5	89.9	92.5	101.0	101.6	96.0	95.2	89.2	93.8	109.5	188.1	134.0	108.2	119.7	98.7	89.6	104.0	105.9	107.6	109.4
		vs. pre-COVID													90.8	105.9	99.0	99.9	95.6	92.8	107.9	91.6	90.7	105.8	101.8	102.6	99.3
9936	Ohsho Food Service	vs. prev yr	109.9	111.3	96.6	78.3	88.2	93.5	93.9	95.8	94.6	100.7	97.5	96.1	88.8	89.5	95.8	121.2	103.7	102.4	104.6	91.4	90.6	101.9	100.6	105.4	106.9
		vs. pre-COVID													97.6	99.6	92.5	94.9	91.5	95.7	98.2	87.6	85.7	102.6	98.1	101.3	104.3

Source: Companies' data, Mita Securities

Note: 2019=100 for "vs. pre-COVID"

Figure: Same-store sales for food service companies not covered by Mita Securities

Ticker	Company name		1/20	2/20	3/20	4/20	5/20	6/20	7/20	8/20	9/20	10/20	11/20	12/20	1/21	2/21	3/21	4/21	5/21	6/21	7/21	8/21	9/21	10/21	11/21	12/21	1/22
2702	McDonald's HD Japan	vs. prev yr	102.6	114.7	99.9	106.5	115.2	96.8	101.0	112.4	106.3	110.7	109.6	107.2	118.7	101.0	107.5	109.2	105.7	114.7	121.0	105.3	114.7	113.4	105.4	102.4	101.2
		vs. pre-COVID													121.8	115.8	107.4	116.3	121.8	111.0	122.2	118.4	121.9	125.5	115.5	109.8	123.2
3053	Pepper Food Service (Ikinari! Steak)	vs. prev yr	66.5	61.3	51.1	37.4	49.4	57.6	64.0	62.0	67.1	74.6	71.1	67.6	64.6	71.5	86.9	144.7	157.4	80.5	81.2	79.9	76.3	84.3	98.2	104.4	106.3
		vs. pre-COVID													43.0	43.8	44.4	54.1	77.8	46.4	52.0	49.5	51.2	62.9	69.8	70.6	45.7
3085	Arcland Service HD (Katsuya)	vs. prev yr	104.3	106.3	94.6	89.6	97.7	96.4	106.9	103.2	94.7	101.7	104.7	100.6	100.2	99.0	100.9	114.1	104.8	101.2	106.8	95.2	99.8	102.7	103.4	104.2	105.8
		vs. pre-COVID													104.5	105.2	95.5	102.2	102.4	97.6	114.2	98.2	94.5	104.4	103.8	104.8	110.6
3087	Doutor Nichires HD (Doutor Coffee Shop)	vs. prev yr	100.6	96.2	77.9	35.9	36.5	67.0	68.8	69.3	71.8	79.6	76.2	77.2	68.4	73.5	97.4	204.6	192.3	113.5	112.8	96.3	95.9	102.0	109.2	110.6	117.6
		vs. pre-COVID													68.8	70.7	75.9	73.5	70.2	76.2	77.9	67.0	69.1	81.4	83.5	85.7	80.9
3397	Toridoll HD	vs. prev yr	106.4	108.9	84.7	50.0	63.2	83.6	85.5	88.4	86.2	94.6	93.4	87.0	79.1	78.4	99.5	184.8	147.6	108.3	113.5	94.5	103.2	101.9	101.7	106.2	113.3
		vs. pre-COVID													84.2	85.4	84.3	92.4	93.3	90.5	97.0	83.5	89.0	96.4	95.0	92.4	95.4
	Marugame Seimen	vs. prev yr	108.1	110.0	86.5	50.3	63.6	85.2	86.2	90.0	86.5	94.4	83.8	88.0	78.0	82.0	99.5	184.0	147.9	109.1	115.4	94.7	105.6	102.4	101.4	104.8	112.0
		vs. pre-COVID													84.3	90.2	86.1	92.6	94.1	93.0	99.5	85.2	91.3	96.7	85.0	92.2	94.4
3563	Food & Life Companies (Sushiro)	vs. prev yr	107.0	112.0	86.3	55.6	81.4	97.9	96.5	87.7	97.1	104.3	94.7	98.7	95.1	99.9	120.0	178.0	112.6	95.3	103.5	96.4	90.0	94.0	96.3	100.1	96.0
		vs. pre-COVID													101.8	111.9	103.6	99.0	91.7	93.3	99.9	84.5	87.4	98.0	91.2	98.8	97.7
7550	Zensho HD (Sukiya)	vs. prev yr	101.9	110.0	92.2	88.1	90.8	91.3	102.7	98.8	98.4	104.9	100.5	101.3	99.8	92.1	104.6	114.2	118.1	108.9	108.7	100.5	103.0	105.4	104.6	118.2	110.9
		vs. pre-COVID													101.7	101.3	96.4	100.6	107.2	99.4	111.6	99.3	101.4	110.6	105.1	119.7	112.8
7581	Saizeriya	vs. prev yr	105.1	106.6	78.5	38.6	47.8	66.5	72.9	71.5	77.3	90.1	84.0	75.2	62.0	67.1	91.3	192.3	139.7	98.9	101.1	83.4	76.7	98.7	104.6	115.8	125.3
		vs. pre-COVID													65.2	71.5	71.7	74.2	66.8	65.8	73.7	59.6	59.3	88.9	87.9	87.1	81.6
7611	Hiday Hidaka	vs. prev yr	100.8	104.7	82.0	49.3	48.0	65.8	73.9	75.7	80.7	87.0	82.3	77.9	55.7	54.3	70.5	118.3	99.3	78.9	74.2	62.6	62.2	81.6	95.4	103.5	129.2
		vs. pre-COVID													56.1	56.9	57.8	58.3	47.7	51.9	54.8	47.4	50.2	71.0	78.5	80.6	72.5
7630	Ichibanya	vs. prev yr	100.3	102.5	90.2	74.0	79.5	85.1	89.3	91.4	89.2	96.2	89.8	91.0	84.2	80.9	91.3	118.7	110.0	95.8	96.0	89.0	88.8	95.5	97.4	103.3	106.7
		vs. pre-COVID													84.5	82.9	82.4	87.8	87.5	81.5	85.7	81.3	79.2	91.9	87.5	94.0	90.1
8153	Mos Food Services	vs. prev yr	108.7	115.9	100.9	103.7	112.2	106.2	106.6	102.9	100.3	107.7	123.5	114.2	108.9	110.0	109.3	112.6	120.5	111.0	113.4	111.5	117.3	115.1	97.5	98.5	113.7
		vs. pre-COVID													118.4	127.5	110.3	116.8	135.2	117.9	120.9	114.7	117.7	124.0	120.4	112.5	134.6
8179	Royal HD	vs. prev yr	103.8	103.9	79.7	42.1	54.2	78.2	86.1	81.2	83.5	95.3	90.8	79.8	69.5	76.4	103.2	191.6	148.8	99.7	97.2	85.9	85.1	100.2	105.9	118.0	141.3
		vs. pre-COVID													72.1	79.4	82.3	80.7	80.6	78.0	83.7	69.8	71.1	95.5	96.2	94.2	101.9
	Royal Host	vs. prev yr	95.9	98.2	79.1	58.1	63.6	80.1	81.6	86.4	83.6	92.0	88.6	84.1	89.3	96.6	108.7	157.6	147.7	110.1	114.1	104.5	107.7	108.7	112.3	111.3	111.3
	Tendon Tenya	vs. pre-COVID													85.6	94.9	86.0	91.6	93.9	88.2	93.1	90.3	90.0	100.0	99.5	93.6	95.3
8200	Ringer Hut	vs. prev yr	98.1	97.5	74.8	42.6	51.3	70.9	74.9	73.3	76.9	87.2	84.7	79.5	69.2	76.3	96.2	173.4	136.2	101.6	107.8	98.0	97.3	100.5	103.7	109.0	114.5
		vs. pre-COVID													67.9	74.4	72.0	73.9	69.9	72.0	80.7	71.8	74.8	87.6	87.8	86.7	77.7
9861	Yoshinoya HD (Yoshinoya)	vs. prev yr	109.5	97.9	98.2	96.0	92.7	87.7	94.3	83.2	90.9	100.4	93.4	89.6	91.9	81.4	89.5	89.9	99.4	99.6	95.9	107.3	102.2	98.7	108.7	107.4	104.0
		vs. pre-COVID													100.6	79.7	87.9	86.3	92.1	87.3	90.4	89.3	92.9	99.1	101.5	96.2	104.7
9887	Matsuya Foods HD (Matsuya)	vs. prev yr	106.4	115.5	94.8	77.8	77.8	83.3	88.4	87.6	85.3	97.1	91.1	91.0	84.9	81.0	91.6	108.9	112.2	98.8	95.5	96.1	93.0	89.7	99.1	96.5	100.2
		vs. pre-COVID													90.0	93.6	86.8	84.7	83.3	84.4	84.2	79.3	87.1	90.3	87.8	90.5	

Monthly data for Skylark Holdings

Figure: Same-store sales

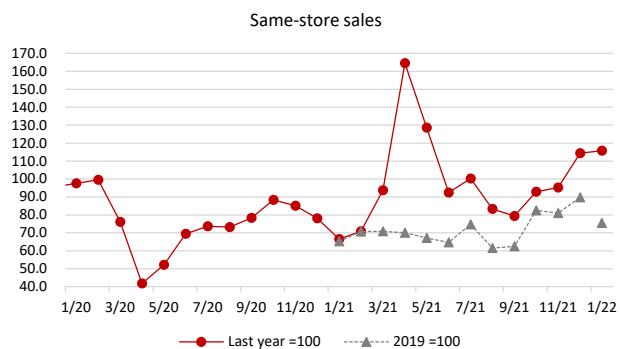


Figure: Same-store number of customers

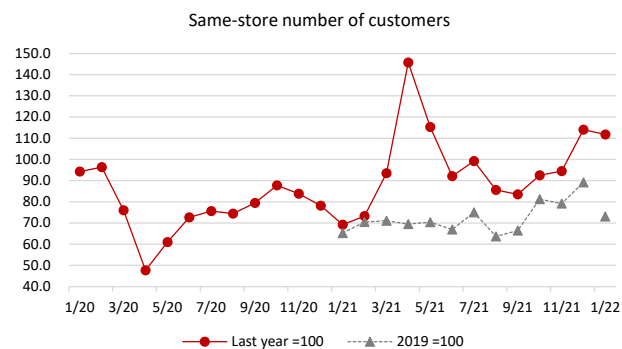
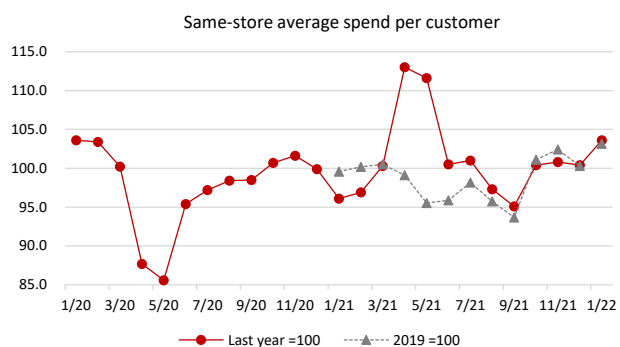
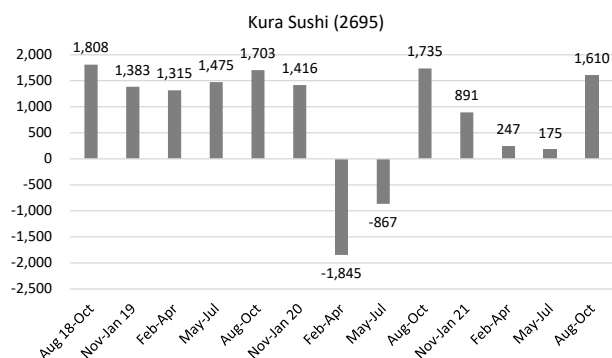


Figure: Same-store average spend per customer



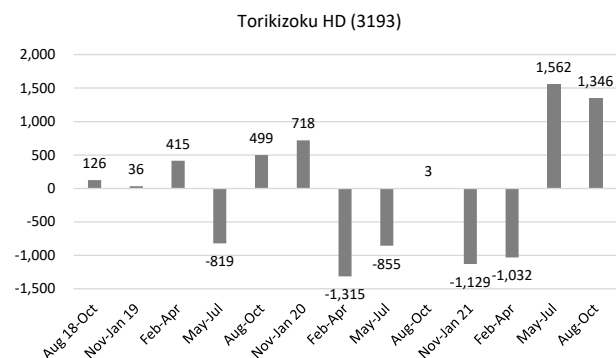
Pre-tax profits for food service companies covered by Mita Securities

Figure: Quarterly pre-tax profit (JPYm)



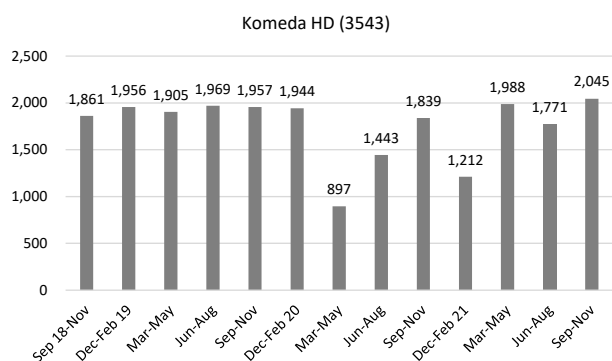
Source: Company data, Mita Securities

Figure: Quarterly pre-tax profit (JPYm)



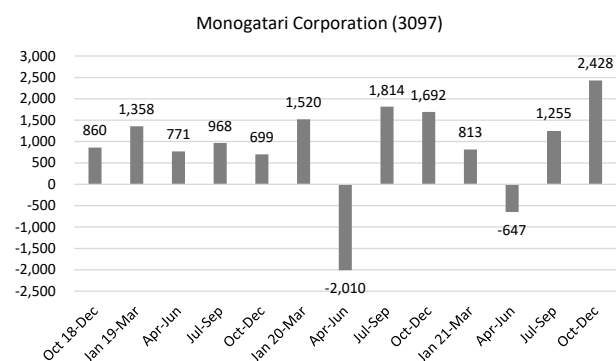
Source: Company data, Mita Securities

Figure: Quarterly pre-tax profit (JPYm)



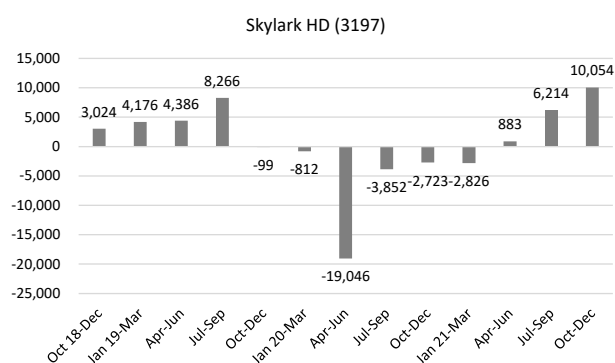
Source: Company data, Mita Securities

Figure: Quarterly pre-tax profit (JPYm)



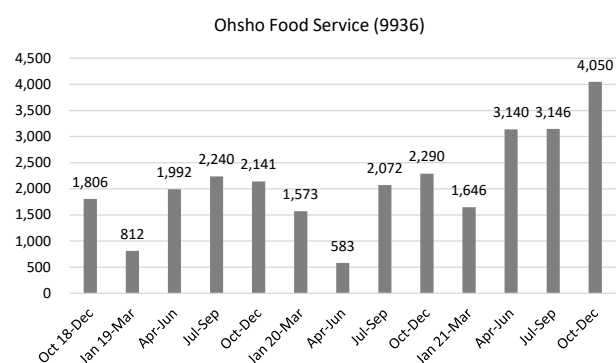
Source: Company data, Mita Securities

Figure: Quarterly pre-tax profit (JPYm)



Source: Company data, Mita Securities

Figure: Quarterly pre-tax profit (JPYm)



Source: Company data, Mita Securities

APPENDIX

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