COMPANY RESEARCH AND ANALYSIS REPORT

create restaurants holdings inc.

3387

Tokyo Stock Exchange Prime Market

2-Jun.-2022

FISCO Ltd. Analyst
Ikuo Shibata

FISCO Ltd.
https://www.fisco.co.jp

Index

Summary — 01

1. Company profile — 01
2. FY2/22 results — 01
3. FY2/23 guidance — 02
4. Direction — 02

Company profile — 03

1. Business description — 03
2. History — 05

Corporate characteristics — 06

1. Multi-brand, multi-location strategy — 06
2. Growth model based on “Group Federation Management” — 06

Financial Results Overview — 07

1. “Group Federation Management” progress and results trends — 07
2. FY2/22 results overview — 09
3. Overview of FY2/22 — 12

Topics — 13

1. Consolidating the financial foundation through public offerings, etc. — 13
2. Pursuing further Group synergies — 13
3. Sustainability initiatives — 13

Results outlook — 14

1. FY2/23 outlook — 14
2. FISCO view — 15

Future direction — 15

1. Environmental awareness and direction of growth strategy — 15
2. Main points and current progress on each growth strategy — 15
3. Numerical targets — 17
4. FISCO’s focus points — 17

Shareholder returns — 18

We encourage readers to review our complete legal statement on “Disclaimer” page.

Summary

Although the COVID-19 pandemic continued in FY2/22, a significant return to profitability was realized by strengthening the income structure and booking subsidies, etc.
Also working on enhancing the financial foundation toward a return to growth through public offerings

1. Company profile

create restaurants holdings inc. <3387> (hereafter, also "the Company") focuses mainly on the operation of restaurants and food courts inside shopping centers, while also developing izakaya (traditional Japanese eating and drinking establishments) and restaurant formats acquired through M&A. The Company's characteristics include a distinctive multi-brand, multi-location strategy, which involves developing a variety of restaurant brands attuned to specific locations (regional characteristics, customer attributes, and competition status, etc.) that have been carefully selected because they attract large numbers of customers, and Group Federation Management which involves the pursuit of growth in business areas with growth potential through proactive M&A deals. The Company had 1,037 outlets* in about 250 brands as of the end of FY2/22. While impact from the COVID-19 pandemic is weighing on the restaurant industry, the Company aims to bolster its income structure with rigorous cost controls and revise its business portfolio with a view to the post-pandemic situation. In April 2022, its listing was moved to the Tokyo Stock Exchange ("TSE") Prime Market.

* Including all business consignment outlets and franchise outlets (same below)

2. FY2/22 results

The Company reported FY2/22 results (IFRS standards) that showed a revenue increase and a significant return to profitability with ¥78,324mn in revenue (+5.2% YoY) and a ¥7,633mn operating profit (vs. a loss of ¥14,181mn in FY2/21). Looking at revenues, amid the continuing COVID-19 pandemic, factors such as shortened business hours, suspensions, and restrictions on the supply of alcohol due to a succession of declarations of a state of emergency led to sluggish performance in the SFP Category, which is focused on the izakaya format. However, this was more than offset by recoveries in the CR Category and Overseas Category and contributions by daily brands (tsukemen, soba noodle, and bakery formats) in the Specialty Brand Category, so the Company was able to secure an increase in revenues. In income, it achieved a V-shaped recovery from losses in the previous fiscal year due to efforts to bolster the income structure and support in the form of subsidies for cooperating with requests to shorten business hours, employment adjustment subsidies, and other subsidies (hereafter "subsidies, etc."). It also booked a positive adjusted EBITDA* following improvements in each category. During the period, it worked to enhance its financial standing by implementing a public offering (procuring financing of approximately ¥16.2bn) and streamlining assets.

* Operating profit + other operating expenses – other operating revenue (excluding sponsorship income, employment adjustment subsidies, subsidy for shorten operation hours, rent reductions and exemptions, etc.) + depreciation and amortization + non-recurring expense items (advisory expenses related to share acquisitions, etc.)

We encourage readers to review our complete legal statement on "Disclaimer" page.

3. FY2/23 guidance

In FY2/23 guidance, the Company targets a large revenue increase of ¥115,000mn in operating revenue (+46.8% YoY). Although operating profit will decrease to ¥7,300mn (-4.4%) due to the disappearance of subsidies, etc.*, the Company expects to maintain high margins and secure adjusted EBITDA of ¥24,700mn. It has carefully assessed factors such as concerns about new COVID-19 variants and lifestyle changes and projects real same-store sales for the full year of around 78.5% of levels prior to the pandemic. In regard to openings and closings, it is planning to open 30 new outlets and exit from 24 outlets. It intends to create a foundation toward a return to growth by engaging in business development with a view to the post-pandemic situation and promoting new openings and revisions to business formats that are conscious of investment efficiency.

* Business forecasts take into account the amount spent on responding to quasi states of emergency (including approximately ¥2.2bn carried over from the previous fiscal year) from January 21 to March 21.

4. Direction

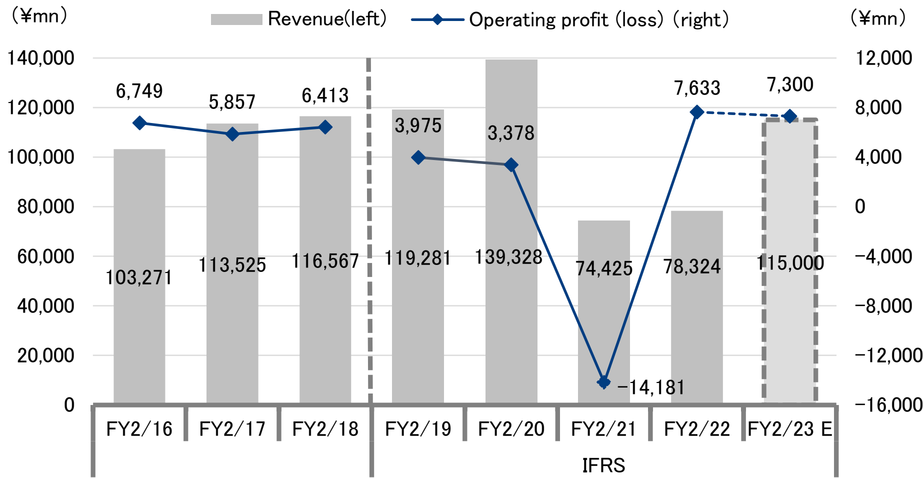
The Company has announced a new three-year medium-term management plan. Its three main growth strategies remain 1) revise the business portfolio with a view to the post-pandemic situation, 2) further evolve Group Federation Management, and 3) raise productivity and adapt to personnel shortages through the promotion of digital transformation (DX), and it aims to be a "group of companies that continuously provides enrichment to stakeholders through food." Its targets for FY2/25, the final year of the plan, are revenue of ¥140,000mn, operating profit of ¥10,900mn, and adjusted EBITDA of ¥28,400mn, and it envisions returning to a growth trajectory through measures such as opening 30 new stores each fiscal year.

Key Points

- Results for FY2/22 showed a significant return to profitability realized by strengthening the income structure and the booking of subsidies, etc., even amid the continuing COVID-19 pandemic
- The Company is working on enhancing its financial foundation toward a return to growth by carrying out public offerings and streamlining assets
- Business forecasts for FY2/23 predict a significant increase in revenue due to a certain amount of recovery in same-store sales by existing stores (78.5% of pre-pandemic levels)
- The Company has announced a new three-year medium-term management plan. It aims for sustainable growth through growth strategies with a view to the post-pandemic situation

We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends



* Adopted IFRS from FY2/19
Source: Prepared by FISCO form the Company's financial results

Company profile

Involved in implementing Group Federation Management that handles a variety of brands utilizing aggressive M&A
Also revising the business portfolio with a view to the post-pandemic situation

1. Business description

The Company mainly have operated restaurants and food courts at shopping centers and has moved into izakaya and other type restaurants acquired through M&A. As a holding company, it brings together 22 consolidated subsidiaries (including 5 overseas companies) (as of the end of FY2/22).

The Company's characteristics include a distinctive multi-brand, multi-location strategy, which involves developing a variety of restaurant brands attuned to specific locations (regional characteristics, customer attributes, and competition status, etc.) that have been carefully selected because they attract large numbers of customers, and Group Federation Management which involves the pursuit of growth in business areas with growth potential through proactive M&A deals. The Company had 1,037 outlets in about 250 brands as of the end of FY2/22. Although the COVID-19 pandemic has had an impact over the past two years, the Company is working on revising its business portfolio with a view to the post-pandemic situation (details later).

We encourage readers to review our complete legal statement on "Disclaimer" page.

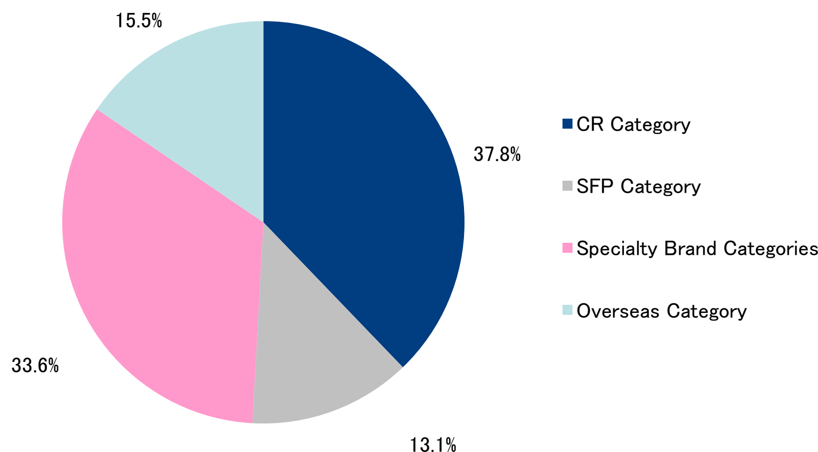
Overview of business categories (as of the end of February 2022)

CR Category	It is comprised of the outlets operated by create restaurants (CR), Create Dining (CD), and create sports and leisure (SL). In addition to operating a variety of brands of restaurants and food courts, primarily in commercial facilities, it also takes on the consignment operation of restaurants at golf courses, etc. There were 526 outlets at the end of February 2022. The main brands include Harvest, shabu SAI, Rio Grande Grill, Roast Beef Hoshi, Desert Okoku, and CHEESE RESTAURANT RICOTTA.
SFP Category	This business consists of stores operated by SFP Dining (now, SFP Holdings) (SFP) with which it formed a capital alliance in April 2013. It operates izakaya outlets in urban downtown districts. The Company aims to enter regional core cities with a unique alliance concept. There were 215 outlets at the end of February 2022. Main business formats at seafood izakaya ISOMARU SUISAN, fried chicken wing specialty restaurant Toriyoshi and Toriyoshi Shoten, gyoza (dumpling) izakaya Ichigoro, and Japanese-style pub Go-no-Go.
Specialty Brand Categories	This business consists of KR Holdings (KR), LG&EW (LGEW), YUNARI (YNR), Gourmet Brands Company (GBC), Route 9g (RN), YUZURU (YZ), and ICCHOU (IC). It is mainly focusing on Kagonoya, ICCHOU and Gomasoba YUZURU outlets for roadside locations, developing their respective specialty brands for urban commercial facilities. There were 241 outlets in total at the end of February 2022. The main brands include Japanese restaurants Kagonoya and ICCHOU, café Azusa Coffee, Italian restaurants TANTO TANTO, primarily vegetable-based Italian restaurant AW kitchen, Tsukemen TETSU, Café Boulangerie JEAN FRANÇOIS, Singaporean cuisine Hainan Jeefan Restaurants and Gomasoba YUZURU.
Overseas Category	It is comprised of restaurants operated by the Company's overseas subsidiaries in Singapore, Hong Kong, Taiwan, and the United States. There were 55 outlets in total at the end of February 2022. The main brands include shabu SAI and MACCHA HOUSE, an outlet specializing in matcha green tea. In North America, the Company operates Japanese restaurants, including SOBA TOTTO and the newly opened Sarashina Horii, and the Italian restaurant Il Fornaio.

Source: Prepared by FISCO from the Company's results supplemental briefing materials and interviews

The Company's businesses are divided into four categories: 1) the CR Category, involving the operation of restaurants and food courts with multiple brands mainly at commercial facilities, 2) the SFP Category, involving the operation of izakaya brands, 3) the Specialty Brands Category, involving the operation of various restaurant brands, and 4) the Overseas Category, which involves operation of restaurants in Singapore, Hong Kong, the United States, and so forth.

Revenue by category (FY2/22 results)



Source: Prepared by FISCO from the Company's results supplemental briefing materials

Further, the breakdown of restaurant numbers by location shows 22.2% for suburban SC, 24.3% for urban SC, 21.3% for station front and urban downtown districts, 15.2% for roadside, 8.6% in Sports & Leisure*1, 2.6% for SA/PA (Service areas, parking areas)*2, and 5.3% overseas; having achieved a good, balanced distribution from the previous concentration in commercial facilities (as of the end of FY2/22).

*1 Consignment operation of restaurants at golf course and theme parks, etc.
*2 Consignment operation of stores in highway service areas and parking areas, etc.

2. History

The Company was established in 1997 as the Yokosuka Brewing Company K.K. (the company name was changed to create restaurants inc. in 1999) by Tokuju, K.K., the family business of the Company's current chairman, Hitoshi Gotoh. However, its actual foundation was in 1999, when it took over the operation of five western-style restaurants from Tokuju and started the restaurant business in earnest. In 2000, then employee of Mitsubishi Corporation <8058> (hereafter "Mitsubishi") and former representative director, president and CEO Haruhiko Okamoto engaged with the Company through an in-house venture scheme, with the Company also receiving a capital investment from Mitsubishi (the capital relationship with Mitsubishi was terminated in 2012). Thereafter, backed by Mitsubishi's reputation and other resources, the Company accelerated its growth by increasing its number of restaurants, mainly opening them in commercial facilities and similar locations. In 2005, the Company listed on Mothers market of the TSE , changing to the First Section in 2013. In April 2022, the listing was moved to the TSE's Prime Market. Jun Kawai has served as representative director, president and CEO since May 2021.

The Company has also been aggressive in M&A, acquiring the Japanese cuisine chain KISSHO in 2007 and shifting to a holding company structure in 2010 to establish a platform for "Group Federation Management." Subsequently, the Company has acquired LE MONDE DES GOURMET in 2012, SFP Dining*1 and eatwalk (now LG&EW Inc.) in 2013, YUNARI and Shanghai Bishoku Chushin Co., Ltd. (company name changed from R21 Cuisine) in 2014, KR Food Service*2 and RC Japan (now Create Dining inc.) in 2015, successively bring them into the Group. SFP Dining was listed on the TSE Second Section in December 2014 (a subsidiary listing). (Its listing was changed to the TSE 1st Section on February 28, 2019). The Company acquired Kiya Foods, Icchou, and other companies in 2019 through a number of M&A.

*1 SFP Dining Co., Ltd. changed its name to SFP Holdings Co., Ltd. in June 2017
*2 KR Food Service Co., Ltd., changed its name to KR Holdings Co., Ltd., in December 2018.

In overseas deployment, the Company started in 2008 by establishing a joint venture with a local company in Shanghai, and among other initiatives went on to establish wholly owned subsidiaries in mainland China in 2010, Singapore in 2011, Hong Kong in 2012, and Taiwan in 2014. While the Company's overseas expansion is still considered to be in the experimental stage, it is preparing the groundwork for a full-fledged expansion in the future. The Company established a subsidiary in New York for the purpose of developing US business in March 2016 and opened its first Japanese food outlet for North America in New York in July 2017. In September 2019, the Company added California-based Il Fornaio (America) LLC to the Group, its first major overseas acquisition. The Company completed the exit of all restaurants from China (Shanghai) at the end of August 2017.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Corporate characteristics

Possesses a strong brand portfolio with industry development capabilities and robust M&A results

1. Multi-brand, multi-location strategy

The characteristics of the Company's main business are 1) opening restaurants in commercial facilities that attract large numbers of customers (shopping centers, station buildings, etc.) and 2) operating diverse brands attuned to their local environments (regional characteristics and customer attributes, status of competition, etc.). The diversity of these brands, including Japanese, Western, and Chinese cuisine, as well as ethnic food and cafes, enables the Company to open multiple restaurants within a single commercial facility and respond to various needs of the facility owner (developer, etc.). This has worked to the Company's advantage in opening restaurants inside commercial facilities, which typically have a higher barrier to entry. Naturally, there is also a cost factor involved in creating multiple brands attuned to their local environments; however, the capacity to develop brands that use the customer drawing power of favorable locations to maximum advantage is the Company's true worth. The source of its value creation is accumulation of know-how in brand development and operations.

On the other hand, the seafood izakaya ISOMARU SUISAN, developed by SFP which was acquired in 2013, has as a special characteristic in its 24-hour operation in station-front locations populated with convenience stores and drugstores. In challenging fierce competition with street-level locations, the chain deliberately selected high-cost station-front sites due to its insistence on locations that attract large numbers of customers. This may be cited as one reason why the chain has a strong affinity with the strategy employed by the Company thus far. Therefore, it can be seen as an extension of the scope of the multi-location strategy to include the street-level domain, and it could pave the way for future full-scale development of diverse brands among street-level locations in urban downtown districts, in addition to the existing commercial facilities. Although it has had to make minor adjustments to its business model, such as locations and usage scenarios, due to changes in the movement of people and lifestyles caused by the COVID-19 pandemic, it has not lost its substantive competitive edge. Furthermore, Japanese restaurant chain Kagonoya, which is operated by KR Food Service acquired in 2015, has stores mainly in roadside locations, and contract business (handled by create sports & leisure), which was acquired in 2019, engages in consignment operation of restaurants at golf courses. The Company is reinforcing location diversity and brand specialization with robust M&A activities.

2. Growth model based on "Group Federation Management"

In addition to organic (internal) growth, the Company's growth model is one where growth arises by supporting growth through engagement with high growth potential brands via M&A, creating various synergies and providing a platform (support from a funding and management perspective etc.). In the past, the Company expanded its operational base through operating restaurants in commercial facilities and food courts. However, given that it was a growth model that was readily influenced by the commercial facility's circumstances, along with the shift to a holding company structure, the Company sought to transition to a strategy that aims for autonomous growth via "Group Federation Management." Understandably, it is recognized the Company succeeded because it had been established from an internal Mitsubishi venture. Additionally, it was a management style familiar in terms of management resources (with staff etc. that were skilled in business management) and corporate cultural perspective. Furthermore, it was recognized as a partner with which a relationship could be readily formed, and done so with relatively little resistance from capital tie-up partners. Portfolio review leveraging M&A and maximization of group synergies are important themes for the future growth strategy. The Company's distinctive growth model clearly has advantages in a difficult industry environment, including shrinkage of the domestic market and manpower shortages.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Financial Results Overview

Past aggressive additions, including M&A, are driving high growth potential and profitability

1. "Group Federation Management" progress and results trends

Looking back at results prior to the COVID-19 pandemic (up until FY2/20), expansion of outlet volume with new openings and M&A deals fueled growth in earnings. In particular, the turning point was from FY2/13 with a shift to a new growth strategy through "Group Federation Management." By realizing high growth potential through bringing a range of formats with growth potential into the Group, while supporting further additions, the Company sought to enhance location diversity and specialty branding. However, the number of outlets shrunk in FY2/21 due to extensive closures of unprofitable outlets affected by the pandemic. Trends in the composition of outlet volume by locations show commercial facilities (total of suburban SCs and urban SCs) dropped from 78.4% at the end of FY2/12 to 46.5% at the end of FY2/22 and diversification to sites by train stations and in shopping districts (21.3%), roadside sites (15.2%), and sports and leisure sites (8.6%). The Company established a balanced location portfolio during these years.

Openings and closings (including M&A) and total at the end of period

	New openings	Closures	Acquired via M&A	Total at the end of the period
FY2/15	102	42	26	616
FY2/16	108	38	109	795
FY2/17	116	54	0	857
FY2/18	68	63	2	865
FY2/19	60	29	29	925
FY2/20	43	56	238	1,149
FY2/21	68	143	1	1,076
FY2/22	13	53	0	1,037

Note: Total at the end of the period includes restaurants where outsourced operations are provided, FC locations, non-consolidated locations and overseas J/V locations.
Source: Prepared by FISCO from Company materials

M&A track record

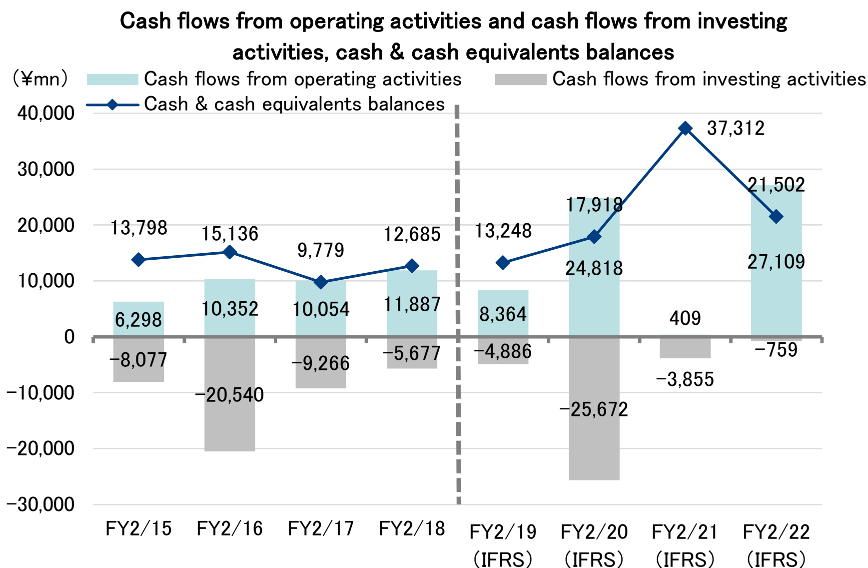
Date acquired	Company name	Main brand(s)	Acquisition price (¥mn)
April 2013	SFP Dining	ISOMARU SUISAN, Toriyoshi Shoten, etc.	6,573
April 2013	eatwalk	AW kitchen, Yasaiyamei, etc.	858
April 2014	YUNARI	Tsukemen TETSU, etc.	1,506
November 2014	Shanghai Bishoku Chushin	Nanxiang Mantou Dian	180
June 2015	KR Food Service	Kagonoya, etc.	14,979
August 2015	RC Japan	Rain Forest Café, etc.	65
January 2018	Route 9g	Hainan Jeefan Restaurants	Undisclosed
March 2018	Create Bayside	Opening restaurants, etc., at IKSPIARI	Undisclosed
December 2018	YUZURU	Gomasoba YUZURU	Undisclosed
March 2019	Kiya Foods	Ginza Kiya	Undisclosed
March 2019	Joh Smile (M&A by SFP)	Maekawa Suigun, etc.	Undisclosed
July 2019	CLOOC DINING (M&A by SFP)	Karaage Center, etc.	Undisclosed
September 2019	Il Fornaio (America)	Il Fornaio (America) LLC Il Fornaio (North America), etc.	8,050
September 2019	create sports and leisure	Operation of golf course restaurants	5,884
October 2019	Icchou	ICCHOU, etc.	7,010

Note: The acquisition price for Il Fornaio (America) LLC was converted at ¥107/$.
Source: Prepared by FISCO from Company materials

We encourage readers to review our complete legal statement on "Disclaimer" page.

From a financial perspective, the equity ratio attributable to owners of parent (corresponds to the equity ratio), which represents the stability of the financial foundation, achieved a level exceeding 35% by FY2/12. Mitsubishi's shares were acquired by way of TOB, and as a result of around 80% of those shares being retired, the equity ratio declined to 19.7% at end-FY2/13. In FY2/14, equity attributable to owners of parent was strengthened through the sale of treasury shares and the equity ratio attributable to owners of parent improved to 32.4% temporarily at the end of FY2/15 due to a new share issuance in line with the listing (subsidiary listing) of SFP Dining. The equity ratio dropped again to 24.1% at end-FY2/16 with the acquisition of KR Food Service. Since the Company subsequently carried out major acquisitions, such as Icchou and Il Fornaio, and adopted IFRS accounting (changes the lease accounting standard), equity ratio attributable to owners of parent decreased to 10.8% at end-FY2/20. Despite the impact of the pandemic from FY2/21 onward, the Company raised the equity ratio attributable to owners of parent to 17.8% at the end of FY2/22 by procuring funds with perpetual subordinated loans and implementing a public offering (repaying the perpetual subordinated loans).

In cash flow trends, while cash flow deficits from investing activities (minus) steadily exceeded cash flow surpluses from operating activities (plus) during FY2/14-16 because of aggressive new store openings and M&A activity, these additions fueled earnings growth. The Company temporarily lowered investment cash flow through curtailment of new openings and other measures during FY2/18-19, but then substantially expanded it with multiple M&A deals in FY2/20. In FY2/21, while pandemic impact caused declines in cash flow from operating activities and cash flow from investing activities, "cash and cash equivalents" expanded significantly on financing through perpetual subordinated loans. In FY2/22, which saw the continuing impact of the pandemic, there was a large increase in surplus cash flow from operating activities due to the booking of subsidies, etc. and cost curtailments.



Source: Prepared by FISCO form the Company's financial results

We encourage readers to review our complete legal statement on "Disclaimer" page.

Although the COVID-19 pandemic continued in FY2/22, a significant return to profitability was realized by strengthening the income structure and the booking of subsidies, etc.

2. FY2/22 results overview

The Company reported FY2/22 results (IFRS standards) with ¥78,324mn in revenue (+5.2% YoY), a ¥7,633mn operating profit (vs. a loss of ¥14,181mn in FY2/21), a ¥7,134mn profit before tax (vs. a ¥15,021mn loss in FY2/21), and a ¥5,919mn net profit attributable to owners of the parent (vs. a ¥13,874mn loss in FY2/21), showing a revenue increase and a significant return to profitability. Although the COVID-19 pandemic continued to have an impact, conversion to a lean income structure and support in the form of subsidies, etc., contributed to a significant return to profitability. Revenue and income levels missed revised guidance (disclosed on October 14) due to the spread of the omicron variant of COVID-19 from January 2022, but the Company was able to achieve adjusted EBITDA*, a key indicator, roughly in line with plans.

* Operating profit + other operating expenses – other operating revenue (excluding sponsorship income, employment adjustment subsidies, subsidy for shorten operation hours, rent reductions and exemptions, etc.) + depreciation and amortization + non-recurring expense items (advisory expenses related to share acquisition, etc.)

Looking at revenues, amid the continuing COVID-19 pandemic, factors such as shortened business hours, suspensions, and restrictions on the supply of alcohol due to a succession of declarations of a state of emergency led to sluggish performance in the SFP Category, which is focused on the izakaya format. However, this was more than offset by recoveries in the CR Category and Overseas Category and contributions by daily brands (tsukemen, soba noodle, and bakery formats) in the Specialty Brand Category, so the Company was able to secure an increase in revenues.

Looking at monthly trends in real same-store sales*, revenues from March to September 2021 slumped to the 35-50% level due to a succession of declarations of a state of emergency and the imposition of quasi-states of emergency. Once the fourth state of emergency was lifted in October, there was a tentative recovery to around 75% in November and December, but going into January 2022, the spread of the Omicron variant (and further quasi-states of emergency) has tampered this recovery trend. As a result, only about three months of the year in total were free from requests from local governments for shorter business hours and suspensions as the difficult business environment continued. In March 2022, the start of a new business year, revenue rose to 56.9% on a recovery trend and on April 10 in particular, it had returned to as high as 74.5%.

* Real same-store sales are a comparison with pre-pandemic results from FY2/20 (same below).

The Company only opened 13 new outlets under a policy aiming to control new investment and it closed 53 outlets because they were unprofitable, or because their contract had expired. As a result, the total number of stores as of the end of FY2/22 had fallen to 1,037. It also revised the business format of 12 outlets in line with the local environment and customer needs.

In income, the Company achieved a V-shaped recovery from losses in the previous fiscal year due to the completion of a conversion to a lean income structure through rigorous cutbacks in fixed costs, as well as support in the form of subsidies, etc. It also secured a positive adjusted EBITDA following improvements in all categories.

We encourage readers to review our complete legal statement on “Disclaimer” page.

The reasons for the shortfalls versus revised guidance (from October 14) were a downturn in revenues due to factors such as the spread of the Omicron variant from January 2022, as well as the booking of additional impairment losses (¥2.7bn) and the carrying over of subsidies, etc., for January and February (¥2.2bn) to the following fiscal year.

In financial conditions, gross asset value shrank 17.5% YoY to ¥133,605mn due to a decrease in cash and deposits accompanying the repayment of debt and the impact of losses and outlet closures. Equity attributable to owners of parent, meanwhile, saw a large increase of 39.5% YoY to ¥23,788mn, mainly due to the building up of the internal reserve following a significant return to profitability and the implementation of a public offering (procuring ¥16.2bn) and the equity ratio attributable to owners of parent*1 improved to 17.8% (vs. 10.5% at end-FY2/21). The net debt-to-equity ratio*2 decreased to 2.65 (vs. 4.79 at end-FY2/21) due to a decline in interest-bearing debt.

*1 The equity ratio attributable to owners of parent adjusted to exclude the effects of IFRS 16 improved to 28.0% (vs. 16.6% at the end-FY2/21).
*2 The debt-to-equity ratio adjusted to exclude the effects of IFRS 16 decreased to 0.79 (vs. 1.76 at the end-FY2/21).

Overview of FY2/22 results

(¥mn)

	FY2/21		FY2/22		Change		FY2/22 Revised forecasts (dated Oct. 14, 2021)		
	Results	% of total	Results	% of total	Amount	%	Amount	% of total	Difference
Revenue	74,425	100.0%	78,324	100.0%	3,899	5.2%	91,200	100.0%	-12,875
CR Category	27,253	36.2%	30,098	37.8%	2,845	10.4%	34,230	37.1%	-4,132
SFP Category	17,428	23.1%	10,404	13.1%	-7,024	-40.3%	15,000	16.3%	-4,596
Specialty Brand Category	25,542	33.9%	26,772	33.6%	1,230	4.8%	30,250	32.8%	-3,478
Overseas Category	5,146	6.8%	12,340	15.5%	7,194	139.8%	12,820	13.9%	-480
Adjustment	-945	-	-1,291	-	-346	-	-1,100	-	-
Operating profit (loss)	-14,181	-19.1%	7,633	9.7%	21,814	-	10,800	11.8%	-3,166
Profit (loss) before tax	-15,021	-20.2%	7,134	9.1%	22,155	-	10,200	11.2%	-3,065
Profit (loss) attributable to owners of parent	-13,874	-18.6%	5,919	7.6%	19,793	-	6,500	7.1%	-580
Adjusted EBITDA	5,130	6.9%	27,088	34.6%	21,958	-	27,100	29.7%	-11
CR Category CF	-1,374	-5.0%	7,812	26.0%	9,186	-	7,250	21.2%	562
SFP Category CF	-2,095	-12.0%	3,195	30.7%	5,290	-	3,950	26.3%	-755
Specialty Brand Category CF	-329	-1.3%	4,598	17.2%	4,927	-	4,640	15.3%	-42
Overseas Category CF	-494	-9.6%	842	6.8%	1,336	-	1,320	10.3%	-478
Adjustment	9,424	-	10,639	-	1,215	-	9,940	-	-

Note1: The percentages of the total for the category CF (cash flow) are from the percentages of sales per category.
Note 2: Category cash flow = Operating profit (Japan GAAP) + depreciation + amortization of goodwill + + sponsorship income + non-recurring expense items + limited-time earnings items (employment adjustment subsidy, etc.)
Source: Prepared by FISCO from the Company's results supplemental briefing materials

Financial position at end-FY2/22

(¥mn)

	as of the end of February 2021	as of the end of February 2022	Change	
			Amount	%
Total asset	161,966	133,605	-28,361	-17.5%
Equity attributable to owners of parent (equity)	17,052	23,788	6,736	39.5%
Equity ratio attributable to owners of parent (equity ratio)	10.5%	17.8%	-	7.3pt
Interest-bearing debt	119,033	84,525	-34,508	-29.0%
Corporate bonds and loans	70,265	41,387	-28,878	-41.1%
Lease liabilities	48,768	43,138	-5,630	-11.5%
	0	0	0	-

Source: Prepared by FISCO form the Company's financial results

We encourage readers to review our complete legal statement on "Disclaimer" page.

Category results are set out as below.

(1) CR Category

Revenue increased 10.4% YoY to ¥30,098mn, and category cash flow*1 had a ¥7,812mn surplus (vs. a ¥1,374mn deficit in FY2/21). Although the COVID-19 pandemic continued to have an impact, suburban shopping centers also performed well, resulting in an increase in revenue. Although the recovery in real same-store sales was relatively modest at 54.8% of FY2/20 levels (vs. 48.6% of FY2/20 levels in FY2/21, same below), a large cash flow surplus was achieved through the continuation of rigorous cost controls and the booking of subsidies, etc. This business had 526 outlets at the end of FY2/22 based on 1 opening*2 and 28 closures.

*1 Category cash flow = Operating profit (Japan GAAP) + depreciation + amortization of goodwill + + sponsorship income + non-recurring expense items + limited-time earnings items (employment adjustment subsidy, etc.) (same below).
*2 CHEESE RESTAURANT RICOTTA at LaLaport FUJIMI

(2) SFP Category

Revenue declined 40.3% YoY to ¥10,404mn, and category cash flow had a ¥3,195mn surplus (vs. a ¥2,095mn deficit in FY2/21). Revenue declined further than anticipated as a succession of declarations of a state of emergency and the imposition of quasi-states of emergency forced outlets to shorten business hours and suspend business, particularly in the Tokyo metropolitan area, and restrictions on the sale of alcohol were extended. Real same-store sales compared to FY2/20 also decreased further than in FY2/21, falling to 30.1% of FY2/20 levels (vs. 47.6%), resulting in the most difficult situation out of all the categories. Since mainstay ISOMARU SUISAN uses an income model that leverages the strength of its 24-hour operation at locations near train stations and in shopping districts, restrictions on the movement of people and shortened business hours heavily affected results, but in November and December, when all outlets resumed operation (with shorter operating hours), it was able to recover to around 70% and the format does not seem to have lost its competitive edge. Furthermore, a return to surplus cash flow was achieved through the cost controls and the booking of subsidies, etc. This business had 215 outlets at the end of FY2/22 based on 1 opening* and 13 closures.

* Isomaru Suisan Shokudo in Shinbashi, Tokyo

(3) Specialty Brand Category

Revenue increased 4.8% YoY to ¥26,772mn, and category cash flow had a ¥4,598mn surplus (vs. a ¥329mn deficit in FY2/21). A revenue increase was secured through contributions from daily brand formats (tsukemen, soba noodles, bakeries, etc.). Although the recovery in real same-store sales was relatively modest at 58.4% of FY2/20 levels (vs. 54.8%), a cash flow surplus was achieved through cost controls and the booking of subsidies, etc. This business had 241 outlets at the end of FY2/22 based on 7 openings* and 9 closures.

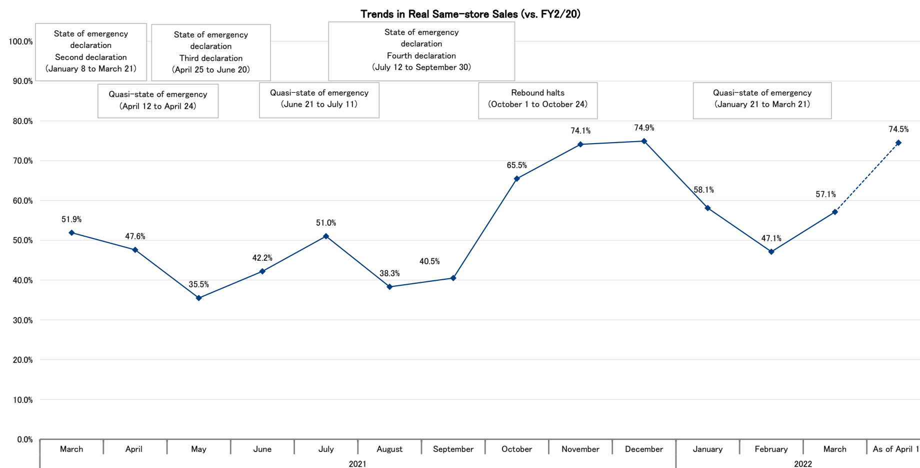
* Including two outlets in Kyoto Research Park (Kagonoya and GOCONC), and openings through a business alliance with the National Federation of Agricultural Cooperative Associations (ZEN-NOH), such as Minori Café Fukuoka Tenjin branch, Minoru Shokudo Amu Plaza Kumamoto branch, and ICCHOU Hanyu branch.

(4) Overseas Category

Revenue increased 139.8% YoY to ¥12,340mn, and category cash flow had a ¥842mn surplus (vs. a ¥494mn deficit in FY2/21). There was a significant recovery in revenue in North America (particularly the West Coast) following the spread of vaccinations. At present, measures to counter the pandemic seem to be relaxing, except in Hong Kong. Real same-store sales were at 78.2% of FY2/20 levels (vs. 31.5%), demonstrating the fastest recovery out of all the categories, and a cash flow surplus was achieved. This business had 55 outlets at the end of FY2/22 based on 4 openings* and 3 closures.

* Including Sarashina Horii in New York, USA, Kagonoya (FC) in Thailand, and Momiji Chaya (FC) in Hong Kong.

We encourage readers to review our complete legal statement on “Disclaimer” page.



Note: The dates of various government requests, etc., shown are based on the situation in Tokyo.
Source: Prepared by FISCO from the Company's results supplemental briefing materials

The numbers of outlet openings, exits, etc.

	as of the end of February 2021	New openings	Closures	Transfers, etc. (adjusted)	as of the end of February 2022	Brand conversions
CR	553	1	28	1	526	3
SFP	227	1	13		215	7
Specialty Brand	243	7	9	-1	241	2
Overseas	53	4	3	1	55	0
Total number of group outlets	1,076	13	53	1	1,037	12

Total number of outlets for the entire Group including business consignment outlets and FC outlets
Source: Prepared by FISCO from Company materials

3. Overview of FY2/22

As explained above, the impact of the COVID-19 pandemic over the entire year meant that FY2/22 results showed a second successive year of sluggish revenue (same-store sales). In particular, the spread of the Omicron variant at the start of 2022 tampered recovery trends and the outlook remains distinctly uncertain. However, the Company has been consolidating its financial foundation by strengthening its income structure over the two years of the pandemic, as well as implementing a public offering and booking subsidies, etc., which is clearly a positive sign for the pandemic and post-pandemic periods. Also, it is worth paying attention to how the pandemic has dramatically advanced cooperation between Group companies and continues to create new value, as will be discussed below. It will be interesting to see what chemical reactions occur when the finely tuned individualities of each company that have developed as a result of Group Federation Management begin to complement each other and combine, marking a positive effect of the pandemic.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Topics

Consolidating the financial foundation through public offerings and asset streamlining.
Additional focuses on strengthening Group cooperation and sustainability

1. Consolidating the financial foundation through public offerings, etc.

The Company decided to implement a public offering of new shares (including third party allotment) in October 2021, procuring funds of approximately ¥16.2bn. Accordingly, it is repaying perpetual subordinated loans (¥15.0bn) and reducing interest-bearing debt in line with period income, etc. It is also working to streamline assets, including by closing unprofitable outlets and eliminating losses, and as a result, it has raised equity ratio attributable to owners of parent to 17.8% (vs. 10.5% at end-FY2/21). Furthermore, in regard to liquidity on hand, it has erased any solvency concerns by securing a combined total of approximately ¥28.5bn in cash and deposits and commitment lines. It can be interpreted that the goal of these efforts to consolidate the financial foundation is to establish a starting point toward a return to growth.

2. Pursuing further Group synergies

The Company is working to ride out the pandemic through “Unified Group Management” which promotes cooperation that transcends boundaries between Group companies to create a positive effect. For example, it revised the business format of the CHEESE RESTAURANT RICOTTA (CR) into the café format Azusa Coffee (KR). Azusa Coffee mainly has outlets in roadside locations, so this first opening in a commercial outlet is providing an opportunity to explore new possibilities. Other examples, such as the Italian restaurant format TANTO TANTO (LGEW), which has begun serving a bread buffet using bread from the bakery format IKEDAYAMA (GBC), and a collaborative menu by tsukemen format Takakura (YNR) and vegetable café format Mr. FARMER (LGEW) served at golf course restaurants (CR), have also been well received. It is predicted that various other collaboration will follow, so developments are being closely watched.

3. Sustainability initiatives

The Company’s policy aiming to enhance its long-term corporate value by continuing to contribute to the realization of a sustainable society has been restated and clarified as its basic policy on sustainability. It states: “The create restaurants group aims to contribute to the realization of a sustainable society and increase the group's corporate value over the long term by continuing to provide "enrichment" to stakeholders through a variety of situations.” It has identified priority social issues (materialities) which are of high importance to the Company and its stakeholders. The five items selected are 1) food safety and security, 2) coexistence with production regions, 3) contributing to a decarbonized society, 4) reducing food loss, and 5) promoting the participation of diverse human resources. It has also established a Sustainability Committee and is advancing specific initiatives.

We encourage readers to review our complete legal statement on “Disclaimer” page.

Results outlook

Targeting significant revenue increase in FY2/23 through a degree of recovery from the pandemic. High margins to be maintained

1. FY2/23 outlook

In FY2/23 guidance, the Company targets a significant revenue increase to ¥115,000mn (+46.8% YoY). Although profits will fall YoY due to the disappearance of subsidies, etc., including operating profit of ¥7,300mn (-4.4%), profit before taxes of ¥6,800mn (-4.7%), and profit attributable to owners of the parent of ¥4,500mn (-24.0%), margins will remain high and it expects to secure adjusted EBITDA of ¥24,700mn.

Although overall revenue has been on a recovery trend since the lifting of the quasi-state of emergency (January 21-March 21), the Company is carefully assessing factors such as concerns about new COVID-19 variants and lifestyle changes and projects real same-store sales for the full year at around 78.5% of pre-pandemic levels. In regard to openings and closings, it is planning to open 30 new outlets and exit from 24 outlets. It intends to create a foundation toward a return to growth by engaging in business development with a view to the post-pandemic situation and promoting new openings and revisions to business formats that are conscious of investment efficiency based on the theme of "selection and concentration."

Furthermore, the anticipated decrease in profits is due to the disappearance of subsidies, etc., that bolstered profits in the FY2/22, and the Company plans to maintain high profit margins by booking subsidiaries received in response to the quasi-state of emergency (January 21-March 21), including approximately ¥2.2bn carried over from the previous fiscal year, and converting to a lean income structure (reducing the breakeven point).

FY2/23 outlook

(¥mn)

	FY2/22 results		FY2/23 results		Change	
	Amount	% of total	Amount	% of total	Amount	%
Revenue	78,324	100.0%	115,000	100.0%	36,676	46.8%
CR Category	30,098	37.8%	40,500	34.7%	10,402	34.6%
SFP Category	10,404	13.1%	24,500	21.0%	14,096	135.5%
Specialty Brand Categories	26,772	33.6%	36,600	31.4%	9,828	36.7%
Overseas Category	12,340	15.5%	15,000	12.9%	2,660	21.6%
Adjustment	-1,291	-	-1,600	-	-309	-
Operating profit	7,633	9.7%	7,300	6.3%	-333	-4.4%
Profit before taxes	7,134	9.1%	6,800	5.9%	-334	-4.7%
Profit attributable to owners of the parent	5,919	7.6%	4,500	3.9%	-1,419	-24.0%
Adjusted EBITDA	27,088	34.6%	24,700	21.5%	-2,388	-8.8%
CR Category CF	7,812	26.0%	5,600	13.8%	-2,212	-28.3%
SFP Category CF	3,195	30.7%	3,000	12.2%	-195	-6.1%
Specialty Brand Categories CF	4,598	17.2%	4,400	12.0%	-198	-4.3%
Overseas Category CF	842	6.8%	1,200	8.0%	358	42.5%
Adjustment	10,639	-	10,500	-	-139	-

Note1: Category cash flow share indicates the level versus category revenue.
Note2: Category cash flow = Operating profit (Japan GAAP) + depreciation + amortization of goodwill + + sponsorship income + non-recurring expense items + limited-time earnings items (employment adjustment subsidy, etc.)
Source: Prepared by FISCO from the Company's results supplemental briefing materials

We encourage readers to review our complete legal statement on "Disclaimer" page.

2. FISCO view

FISCO thinks the situation should continue to be monitored carefully due to the uncertainty of the outlook, including concerns over new variants. The restaurant (izakaya) industry in particular is facing the structural risk that customers may not return during the pandemic and post-pandemic periods, so ability to adapt to the changing environment will be the difference between success and failure. With this in mind, the fact that the Company was able to recover same-store sales to 75% of pre-pandemic levels in November and December 2021, when outlets resumed normal operations (with reduced business hours), is proof that the Group's business formats and its portfolio have not lost their competitive edge. Therefore, it is reasonable to expect the Company to achieve its guidance target of a recovery to 78.5% of pre-pandemic levels. Also, taking into account the carrying over of subsidiaries, etc., from the previous fiscal year and efforts to strengthen income structure, it should be able to achieve a recovery in profits alongside a recovery in revenue.

Future direction

Aiming to return to a growth trajectory by revising the business portfolio with a view to the post-pandemic situation, further evolving Group Federation Management, and promoting DX

1. Environmental awareness and direction of growth strategy

The Company has announced a new three-year medium-term management plan. However, growth strategies remain unchanged from the ones announced in July 2021. In other words, it recognizes that in the current environment, needs concerning location and business format are transforming rapidly due to changes in customer behavior patterns, restaurants are scaling back and closing down and there is an outflow of talent from the restaurant industry (therefore creating room for potential outlet openings and increasing M&A opportunities), and that the continuous consolidation of the financial foundation is essential for a company to overcome the pandemic and survive in the long term. Therefore, it is consolidating its financial foundation through public offerings and has hit upon the following growth strategies. 1) Revise the business portfolio with a view to the post-pandemic situation, 2) further evolve Group Federation Management, and 3) raise productivity and adapt to personnel shortages through DX promotion. It has also set the medium- to long-term management objective of being a "group of companies that continuously provides enrichment to stakeholders through food."

2. Main points and current progress on each growth strategy

(1) Revise the business portfolio with a view to the post-pandemic situation

One of the Group's strengths is its adaptability and in order to maximize this, it will develop brands that will be able to cater to demand in the post-pandemic period, including daily brands, standard brands, brands that are rooted in local communities, and low-investment brands. It has already achieved results, including revising formats to adapt to meal and takeout demand (SFP category) and entering the mobility business (Specialty Brand Category).

We encourage readers to review our complete legal statement on "Disclaimer" page.

(2) Further promote Group Federation Management

Amid the continuing impact of the COVID-19 pandemic, the Company is temporarily using the holding company to strengthen unity and promote Unified Group Management. Specifically, it is making communication between Group companies more dynamic, consolidating head office functions (including joint purchasing, and accounting and human resources operations), and implementing collaborations and business format revisions that involve multiple Group companies. It believes that the most important factor in Group Federation Management is to create variation by retaining the individuality and autonomy of each Group company.

(3) Raise productivity and adapt to personnel shortages through DX promotion

The Company is working to raise the efficiency and sophistication of head office functions. On August 1, 2021, it established the DX Promotion Office and in January 2022, it formulated an action plan to make operations paperless. It is also considering initiatives such as introducing workflow systems, an expense settlement system, and robotic process automation. It concluded a partnership agreement with SoftBank Corporation <9434> with the aim of digitally transforming restaurants, and it is utilizing AI and robots to make operations more efficient as a medium-term project.

Progress on the three growth strategies

	Specific progress
(1) Revise the business portfolio with a view to the post-pandemic situation	• Revised formats to adapt to meal and takeout demand - Isomaru Suisan Shokudo/SFP • Revised formats with the aim of providing services with higher added value -Omotenashi Toriyoshi/SFP • Entered into the mobility business -Introduction of kitchen cars/GBC
	• Revised business formats within the Group and utilized Group franchises • Strengthened contract and SAPA businesses -Integration of CR and SL • Utilized synergies to create menus that enhance the added value of outlet services
(2) Further promote Group Federation Management	• Made communication between Group companies more dynamic -Various types of meetings made collaborative -Cross-divisional placement of human resources, including management personnel, throughout the Group • Consolidated head office functions -Investment decisions made by aggregating locational information -Joint venture companies CMD Inc. (purchase planning operations) and Creative Service Inc. (accounting and human resources operations) -Concentration of outlet design and renovation operations -Scaling down of each Group company's head office
(3) Raise productivity and adapt to personnel shortages through DX promotion(3) Raise productivity and adapt to personnel shortages through DX promotion	• Introduced a mobile ordering system • Tested the introduction of robot servers • Promoted digital marketing
	• Considered the introduction of workflow systems, an expense settlement system, and robotic process automation • Formulated an action plan for making operations paperless • Considered digitalizing complimentary vouchers for shareholders

Source: Prepared by FISCO from the Company's results supplemental briefing materials

3. Numerical targets

In FY2/25, the final year of its three-year medium-term management plan, the Company is targeting revenue of ¥140,000mn (average increase of 21.4% over three years), operating profit of ¥10,900mn (average increase of 12.6% over three years), and adjusted EBITDA of ¥28,400mn (average increase of 1.6% over three years). It is focusing on quality over quantity, planning to open 30 new outlets each year and aiming to gradually recover real same-store sales to 90% of FY2/20 levels by FY2/25. However, it also anticipates that adjusted EBITDA, a key indicator, will exceed pre-pandemic levels (¥25.2bn) in FY2/24.

Medium-term management plan

(¥mn)

	FY2/22		FY2/23		FY2/24		FY2/25		Average growth rate
	Results	% of total	Plan	% of total	Plan	% of total	Plan	% of total	
Revenue	78,324	-	115,000	-	130,000	-	140,000	-	21.4%
Operating profit	7,633	9.7%	7,300	6.3%	8,500	6.5%	10,900	7.8%	12.6%
Profit before taxes	7,134	9.1%	6,800	5.9%	7,900	6.1%	10,300	7.4%	13.0%
Profit attributable to owners of the parent	5,919	7.6%	4,500	3.9%	5,000	3.8%	6,300	4.5%	2.1%
Adjusted EBITDA	27,088	34.6%	24,700	21.5%	25,700	19.8%	28,400	20.3%	1.6%
Number of new outlets	13		30		30		30		
Real same-store sales (compared to pre-pandemic)	52.7%		78.5%		86.0%		90.0%		

Source: Prepared by FISCO from the Company's results supplemental briefing materials

4. FISCO's focus points

FISCO's assessment is that the Company has responded swiftly and accurately to changes in the business environment driven by the pandemic and its strategy of aiming for a return to growth by revising its business portfolio, strengthening Group cooperation, and promoting DX is rational. Looking at it in a different way, this strategy is enabling the Company to demonstrate the unique characteristics that it has developed through Group Federation Management. The prolonging of the COVID-19 pandemic has resulted in two years of difficult business conditions and the outlook still remains unclear, but the Company has been working to quickly recover in terms of business results and return to growth through efforts such as converting to a lean income structure, consolidating its financial foundation, and strengthening Group cooperation. The true value of these efforts will be put to the test going forward. The period of living with the pandemic is now well established and the post-pandemic period is coming into view. The restaurant industry and its structural elements are changing dramatically, so we will carefully monitor whether the Company can lead this transformation and secure an advantage.

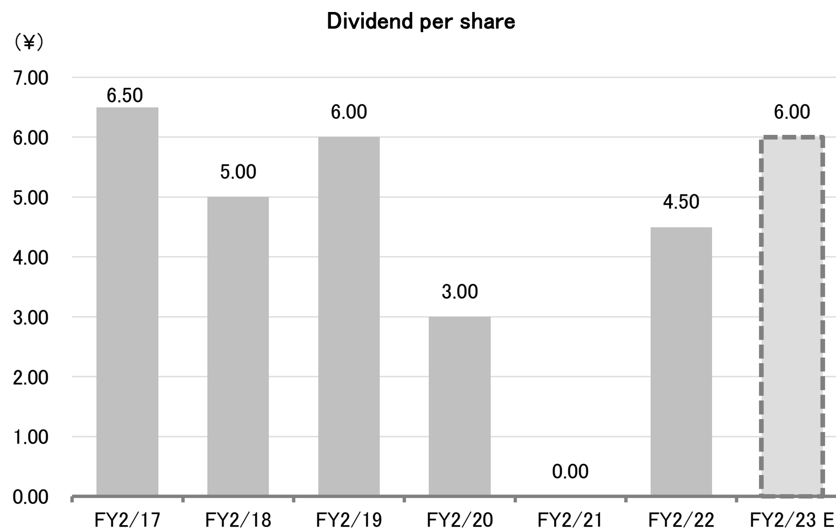
We encourage readers to review our complete legal statement on "Disclaimer" page.

Shareholder returns

Annual dividend in FY2/23 to increase ¥1.5 to ¥6.0 per share

In FY2/22, the Company decided to resume dividends based on the steady recovery of business results and paid an annual dividend of ¥4.5 (interim dividend of ¥1.5 and period-end dividend of ¥3.0). In FY2/23, it plans to increase the annual dividend by ¥1.5 to ¥6.0 (interim dividend of ¥3.0 and period-end dividend of ¥3.0).

Moreover, regarding the shareholder benefit program (complimentary coupons that can be used at Group outlets), meanwhile, it views this as an important shareholder return measures and plans to continue the program.



Note: On March 1, 2020, The Company carried out a 2-for-1 stock split of common shares. Figures up to and including FY2/20 have been retroactively adjusted accordingly.
Source: Prepared by FISCO form the Company's financial results

Disclaimer

FISCO Ltd. (“FISCO”) offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers’ securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp