create restaurants holdings inc.

3387

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Summary

In FY2/23, revenue increased significantly on a partial recovery from the COVID-19 pandemic, and actual operating profit, which excludes subsidies, etc., returned to the black. The Company is also revising its portfolio to restore growth

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 Federal Management which involves the pursuit of growth in business areas with growth potential through proactive M&A. The Company had 1,145 outlets* in about 240 brands as of the end of FY2/23. The impact of the COVID-19 pandemic has weighed on the restaurant industry since 2020, but the Company has worked to strengthen its earnings structure through rigorous cost controls and is also revising its portfolio with a view to the post-pandemic situation. In December 2022, it acquired full ownership of Saint-Germain Co., Ltd. (and its subsidiary Hokkaido-Saint-Germain Co., Ltd.), which is in the bakery business, and added it to the scope of group consolidation. Going forward, the Company intends to transition its business from a focus on locations to a focus on brands.

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

2. FY2/23 results overview

The Company reported FY2/23 results (IFRS standards) that showed an increase in revenue but a decline in profits due to a decrease in subsidies and other factors, with revenue of ¥118,240mn (+51.0% YoY) and operating profit ¥5,083mn (-33.4%). Actual operating profit, which excludes subsidies, etc., improved by a large margin, and revenue increased in all categories owing to a partial recovery from the pandemic. Real same-store sales (consolidated) have returned to 79.5% of pre-pandemic levels (vs. FY2/20), after reaching 52.7% of the mark in the previous fiscal year. In addition, adding Saint-Germain and its subsidiary to the Group was a factor responsible for boosting results (three months' worth). Regarding profits, the decline in subsidies, etc. was within expectations, but booking additional impairment losses based on a conservative judgement resulted in profits falling short of the forecast. Excluding the effect of impairment losses, which are a temporary expense, however, the Company secured a profit of around ¥4.0bn, which is a point worth mentioning with respect to evaluating actual profitability. With the earnings environment particularly difficult of late due to inflation, the Company's ongoing efforts to convert to a muscular cost structure have been successful, and it has been able to maintain expense ratios (cost of sales ratio, personnel expense ratio, miscellaneous expense ratio) at stable levels even during the pandemic.

3. FY2/24 guidance

In FY2/24 guidance, the Company is projecting revenue to increase to ¥141,000mn (+19.2% YoY) and operating profit to increase to ¥6,500mn (+27.9%). Revenue and profits are both expected to increase despite subsidies, etc. being terminated. Revenue is premised on a tailwind from increased tourism that will be driven by a national travel subsidy program, a recovery in inbound demand, and COVID-19 being reclassified as a Category 5 disease (scheduled for May 8) and also on an increase in revenue from the effects of consolidating Saint-Germain, etc. (nine months' worth of results). Real same-store sales (consolidated) are expected to be 89.8% of pre-pandemic levels. The Company is planning to open 30 new outlets (and close 23 outlets) and intends to recommence investment aimed at restoring growth. With regard to profits, the earnings environment will continue to be difficult and the end of subsidies, etc. will be a negative factor, but the Company is projecting an increase in profits from growth in revenue and because it will maintain or strengthen its muscular cost structure, among other factors.

4. Future direction

The Company has announced a new three-year medium-term management plan (a rolling plan). Its three main growth strategies remain 1) revise the business portfolio with a view to the post-pandemic situation, 2) further evolve Group Federal 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." In particular, the plan positions FY2/24 as the "Step" phase and from FY2/25 on as the "Jump" phase, for which it intends to undertake initiatives such as further increasing the quality of existing outlets, recommencing investment while shifting from "defense" to "offense" and addressing personnel shortages. Its targets for FY2/26, the final year of the plan, are revenue of ¥154,000mn, operating profit of ¥10,800mn, and adjusted EBITDA of ¥26,600mn, and it envisions returning to a growth trajectory through measures such as opening 30 new stores/yr from FY2/25 to FY2/26.

Key Points

- Results for FY2/23 showed an increase in revenue and a decrease in profits on the surface due to a decline in subsidies, etc., but on a real basis excluding subsidies, both revenue and profits increased (a return to profitability)
- The Company made strategic progress in M&A that included Saint-Germain, a bakery operator
- For FY2/24, the Company is projecting increased revenue and profits on a recovery at existing outlets (to 89.8% of pre-pandemic levels) and new openings (30 outlets)
- The Company has announced a new three-year medium-term management plan. It aimed at restoring growth through growth strategies with a view to the post-pandemic situation

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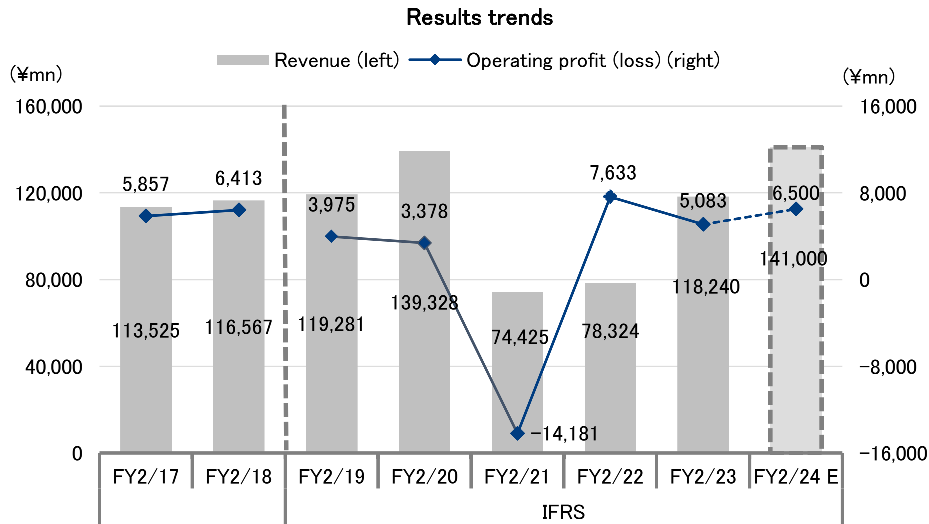

* Adopted IFRS from FY2/19
Source: Prepared by FISCO form the Company's financial results

Company profile

Involved in implementing Group Federal 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 FY2/23).

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 Federal Management which involves the pursuit of growth in business areas with growth potential through proactive M&A. The Company had 1,145 outlets in about 240 brands as of the end of FY2/23.

The pandemic has had an impact over the past three years, but the Company is revising its portfolio with a view to the post-pandemic situation, and in December 2022, it consolidated Saint-Germain (and its subsidiary Hokkaido-Saint-Germain), which operates a community-based bakery business primarily in the Kanto region and Hokkaido. Going forward, it intends to shift the focus of its business from locations to brands.

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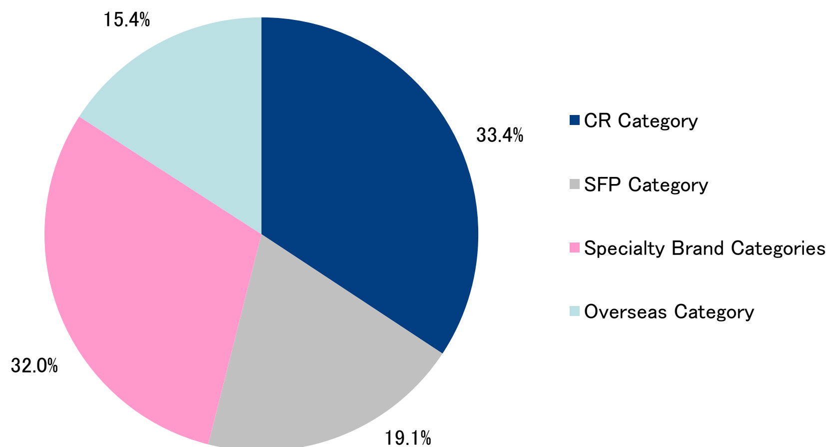
Overview of business categories (as of the end of FY2/23)

CR Category	It is comprised of the outlets operated by create restaurants (CR) and Create Dining (CD). 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 502 outlets at the end of FY2/23. The main brands include "shabu SAI", "Rio Grande Grill", "Roast Beef Hoshi", "Desert Oukoku", and "MACCHA HOUSE".
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. There were 208 outlets at the end of FY2/23. The main brands include the seafood izakaya "ISOMARU SUISAN", fried chicken wing specialty restaurants "Omotenashi Toriyoshi" and "Toriyoshi Shoten", and Japanese-style pubs "Go-no-Go", "Hamayaki Dragon", "Torihei-chan" and "Homebase".
Specialty brand categories	This business consists of LG&EW (LGEW), YUNARI (YNR), Gourmet Brands Company (GBC), KR Food Service (KR), Route 9g (RN), YUZURU (YZ), and ICCHOU (IC). It also includes the bakery brand Saint-Germain (and Hokkaido-Saint-Germain), which was added to the Group in December 2022. It operates specialty brand restaurants and other outlets centering on suburban roadside establishments and urban commercial facilities. There were 381 outlets at the end of FY2/23. 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" and "Saint-Germain", 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, and the United States. There were 54 outlets at the end of FY2/23. The main brands include "shabu SAI" and "MACCHA HOUSE", an outlet specializing in matcha green tea. In North America, the Company operates Italian restaurants including "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, involving the operation of restaurants in Singapore, Hong Kong, the United States, and so forth.

Revenue by category (FY2/23 results)



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

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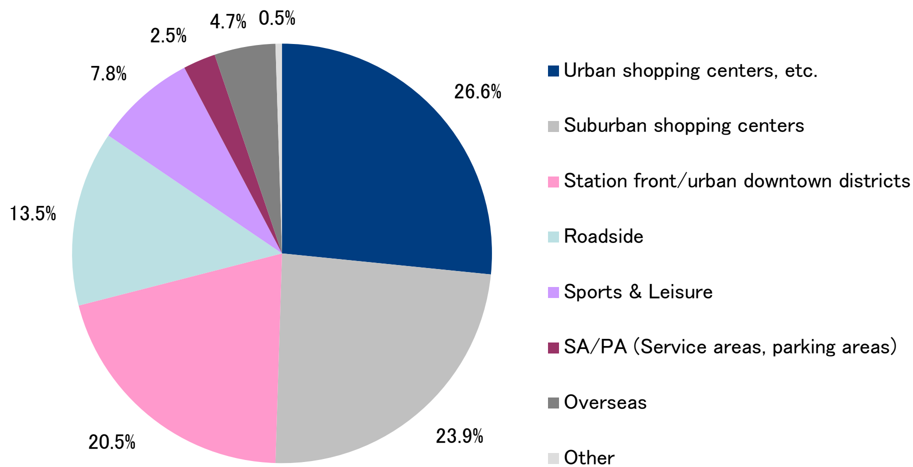
Further, the breakdown of restaurant numbers by location shows 26.6% for urban SC, etc., 23.9% for suburban SC, 20.5% for station front and urban downtown districts, 13.5% for roadside, 7.8% in Sports & Leisure*1, 2.5% for SA/PA (Service areas, parking areas)*2, and 4.7% overseas; having achieved a good, balanced distribution from the previous concentration in commercial facilities (as of the end of FY2/23).

*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.

Composition of restaurant numbers by location
(as of the end of FY2/23)



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

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.

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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 Federal Management." Subsequently, the Company has acquired LE MONDE DES GOURMET Inc. in 2012, SFP Dining Co., Ltd.* and eatwalk Co., Ltd. (now LG&EW Inc.) in 2013, YUNARI Co., Ltd. and Shanghai Bishoku Chushin Co., Ltd. (company name changed from R21 Cuisine) in 2014, KR Food Service Corporation and RC Japan Co., Ltd. (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). In April 2022, the listing was moved to the TSE's Prime Market. The Company acquired Kiya Foods Inc., Icchou Inc., and other companies in 2019 and Saint-Germain Co., Ltd and its subsidiary in 2022 through M&A.

* SFP Dining Co., Ltd. changed its name to SFP Holdings Co., Ltd. in June 2017.

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.

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 formats attuned to their local environments (regional characteristics and customer attributes, status of competition, etc.). The diversity of these formats, including Japanese, Western, and Chinese cuisine, ethnic food, cafes, and bakery, 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 formats attuned to their local environments. However, the Company's true worth lies in its capability to develop formats that maximize the ability to attract customers in prime locations, and the accumulation of know-how in format development and operations serves as the source of its value creation.

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On the other hand, the seafood izakaya "ISOMARU SUISAN", developed by SFP which was acquired in 2013, has a special characteristic in its 24-hour operation in station-front locations 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. One of the reasons for this is the high affinity with the Company's store opening strategy up to now in terms of its focus on locations with high customer attraction. Furthermore, the Japanese restaurant chain "Kagonoya" run by KR Food Service, acquired in 2015, operates mainly in roadside locations, and the contract business (operated by create restaurants), acquired in 2019, operates restaurants within golf courses on a consignment basis, further expanding its location diversity and brand specialization through aggressive M&A. Going forward, it will be shifting the focus of its business from locations to brands in light of changes in the behavior patterns of customers and plans to further strengthen the concepts and specialization of its core brands.

2. Growth model based on "Group Federal 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 and food courts in commercial facilities. 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 Federal 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.

Financial results overview

Past aggressive increases of new outlets, including through M&A, are driving high growth potential and profitability

1. "Group Federal 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 Federal 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 50.5% at the end of FY2/23 and diversification to sites by station front and urban downtown districts (20.5%), roadside sites (13.5%), and Sports & Leisure sites (7.8%). The Company established a balanced location portfolio during these years.

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Openings and closings (including M&A) and total at the end of the 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
FY2/23	25	63	146	1,145

Note: Since FY2/15, Total at the end of the period includes consignment outlets, franchise outlets, non-consolidated locations, and overseas JV locations.
Source: Prepared by FISCO from the Company's results supplemental briefing 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 (North America), etc.	8,050*1
September 2019	create sports and leisure	Operation of golf course restaurants	5,884
October 2019	Icchou	ICCHOU, etc.	7,010
December 2022	Saint-Germain (and Hokkaido-Saint-Germain)	Saint- Germain	2,362*2

*1 The acquisition price was converted at ¥107/$.
*2 The price has been adjusted since the shares were acquired and is subject to further change.
Source: Prepared by FISCO from Company materials

From a financial perspective, the equity ratio attributable to owners of the 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 the end of FY2/13. In FY2/14, equity attributable to owners of the parent was strengthened through the sale of treasury shares and the equity ratio attributable to owners of the 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 the end of 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 (changes the lease accounting standard), equity ratio attributable to owners of the parent decreased to 10.8% at the end of FY2/20. Despite the impact of the pandemic from FY2/21 onward, the Company raised the equity ratio attributable to owners of the 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).

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In cash flow trends, while cash flow deficits from investing activities (negative) steadily exceeded cash flow surpluses from operating activities (positive) during FY2/14–FY2/16 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–FY2/19, but then substantially expanded it with multiple M&A deals in FY2/20. In FY2/21, while the 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 cash flow from operating activities due to the booking of subsidies, etc. and cost curtailments.

Cash flows from operating activities and cash flows from investing activities, cash and cash equivalents balances

	Cash flows from operating activities	Cash flows from investing activities	Cash and cash equivalents balances at end of period
FY2/16	10,352	-20,540	15,136
FY2/17	10,054	-9,266	9,779
FY2/18	11,887	-5,677	12,685
FY2/19 (IFRS)	8,364	-4,886	13,248
FY2/20 (IFRS)	24,818	-25,672	17,918
FY2/21 (IFRS)	409	-3,855	37,312
FY2/22 (IFRS)	27,109	-759	21,502
FY2/23 (IFRS)	24,593	-2,311	23,895

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

In FY2/23, revenue increased significantly on a partial recovery from the COVID-19 pandemic, and actual operating profit, which excludes subsidies, etc., returned to the black

2. FY2/23 results overview

The Company reported FY2/23 results (IFRS) as follows. Revenue totaled ¥118,240mn (+51.0% YoY), operating profit was ¥5,083mn (-33.4%), profit before tax was ¥4,565mn (-36.0%), and profit attributable to owners of the parent totaled ¥3,385mn (-42.8%). Revenue increased but profits declined due to a decrease in subsidies and other factors. Actual operating profit, which excludes the impact of subsidies, etc., however, improved by a substantial margin. With regard to adjusted EBITDA as well, which the Company emphasizes, it decreased to ¥23,664mn (-12.6%) due to a decline in subsidies, etc., but it increased by a large margin when discounting this impact. At the same time, while revenue surpassed the Company's forecast, profits fell short due to additional booking of impairment losses in 4Q (based on a conservative judgement).

Revenue increased in all categories on a partial recovery from the COVID-19 pandemic. In addition, Saint-Germain (and Hokkaido-Saint-Germain) was added to the Group*, which contributed positively (three months' worth of result; FISCO estimates a revenue boost of around ¥3.1bn). Real same-store sales by quarter are generally recovering, and on an annual average basis, they returned to 79.5% of pre-pandemic levels (vs. 52.7% the previous fiscal year).

* Refer to the previous report (issued October 19, 2022) for a summary of the M&A deal for Saint-Germain (and its subsidiary Hokkaido-Saint Germain), including the deal's objectives, etc.

With respect to outlet openings and closings, under a policy of revising its portfolio with a view to the post-pandemic situation, the Company opened 25 new outlets and closed 63 outlets, including unprofitable establishments and outlets whose contracts ended. Also, Saint-Germain and its subsidiary were added to the Group, which resulted in an increase of 146 outlets, so the total number of stores at the end of the period increased to 1,145 (+108 from the end of the previous period). In addition, the formats of 22 outlets were changed to better match local conditions and customer needs.

As indicated above, profits decreased due to a decline in subsidies, etc., but this was within expectations. Operating profit fell short of the forecast because the Company took a conservative approach in booking additional impairment losses*1. Excluding the effect of impairment losses, which are a temporary expense, however, the Company secured a profit of around ¥4.0bn, which is a point worth mentioning with respect to evaluating actual profitability.*2 With the earnings environment*3 particularly difficult of late due to inflation, the Company's ongoing efforts to convert to a muscular cost structure*4 have been successful, and it has been able to maintain expense ratios (cost of sales ratio, personnel expense ratio, miscellaneous expense ratio) at stable levels even during the pandemic.

*1 The Company recorded approximately ¥3.4bn in impairment losses, ¥2.4bn above its forecast.
*2 The Company deducts subsidies and the impact of impairment losses, which are temporary factors, from operating profit and discloses this figure as actual operating profit. Actual operating profit in FY2/23 was ¥4,149mn (vs. a loss of ¥6,428mn in FY2/22).
*3 Sharp increases in crude oil prices, increases in raw materials from yen deprecation, and increases in personnel expenses and utility costs, etc.
*4 Maintaining the cost of sales ratio through centralized purchasing and incorporating increases into sales prices, rigorous shift management and the reining in of recruitment costs, reductions to personnel expenses by addressing personnel shortages via DX promotion (mobile ordering, self-checkout registers, serving robots, etc.), and reductions to miscellaneous expenses by consolidating head office functions and other measures.

Regarding the Company's financial position, total assets were ¥133,555mn, a decline of 0.0% compared to the end of the previous fiscal year. There was an increase with the consolidation of Saint-Germain and Hokkaido-Saint-Germain, but fixed assets decreased due to booking impairment losses. At the same time, equity attributable to owners of the parent increased 14.5% compared to the end of the previous fiscal year to ¥27,251mn due to bolstering internal reserves, so the equity ratio attributable to owners of the parent (equivalent to the equity ratio) was 20.4% (vs. 17.8% at the end of the previous fiscal year).

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Overview of FY2/23 results

(¥mn)

	FY2/22		FY2/23		Change		FY2/23 initial forecasts		
	Results	% of total	Results	% of total	Amount	%	Amount	% of total	Difference
Revenue	78,324	100.0%	118,240	100.0%	39,916	51.0%	115,000	100.0%	3,240
CR Category	30,098	37.8%	40,022	33.4%	9,924	33.0%	40,500	34.7%	-477
SFP Category	10,404	13.1%	22,913	19.1%	12,509	120.2%	24,500	21.0%	-1,586
Specialty Brand Category	26,772	33.6%	38,398	32.0%	11,626	43.4%	36,600	31.4%	1,798
Overseas Category	12,340	15.5%	18,506	15.4%	6,166	50.0%	15,000	12.9%	3,506
Adjustment	-1,291	-	-1,600	-	-309	-	-1,600	-	-
Operating profit (loss)	7,633	9.7%	5,083	4.3%	-2,550	-33.4%	7,300	6.3%	-2,216
Profit (loss) before tax	7,134	9.1%	4,565	3.9%	-2,569	-36.0%	6,800	5.9%	-2,234
Profit (loss) attributable to owners of the parent	5,919	7.6%	3,385	2.9%	-2,534	-42.8%	4,500	3.9%	-1,114
Actual operating profit*	-6,428	-	4,149	3.5%	8,840	-			
Adjusted EBITDA	27,088	34.6%	23,664	20.0%	-3,424	-12.6%	24,700	21.5%	-1,035
CR Category CF	7,812	26.0%	5,231	13.1%	-2,581	-33.0%	5,600	13.8%	-369
SFP Category CF	3,195	30.7%	2,447	10.7%	-748	-23.4%	3,000	12.2%	-553
Specialty Brand Category CF	4,598	17.2%	4,432	11.5%	-166	-3.6%	4,400	12.0%	32
Overseas Category CF	842	6.8%	1,818	9.8%	976	115.9%	1,200	8.0%	-618
Adjustment	10,639	-	9,734	-	-905	-	10,500	-	-766

* Actual operating profit is operating profit less subsidies and impairment losses. It is calculated as an indicator of actual profitability.
Note 1: 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 and subsidies, etc.)
Source: Prepared by FISCO from the Company's results supplemental briefing materials

Financial position

(¥mn)

	End of FY2/22	End of FY2/23	Change	
			Amount	%
Total assets	133,605	133,555	-50	-0.0%
Equity attributable to owners of the parent (equity)	23,788	27,251	3,463	14.6%
Equity ratio attributable to owners of the parent (equity ratio)	17.8%	20.4%		2.6pt
Interest-bearing debt	84,525	75,527	-8,998	-10.6%
Corporate bonds and loans	41,387	35,374	-6,013	-14.5%
Lease liabilities	43,138	40,153	-2,985	-6.9%

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

Category results are set out as below.

(1) CR Category

Revenue increased 33.0% YoY to ¥40,022mn and category cash flow*1 decreased 33.0% to ¥5,231mn. Revenue was impacted by COVID-19 (the sixth to eighth waves of the virus), but in 1H suburban SCs performed well and in 2H fine dining formats (non-everyday, formal occasions) in the Tokyo metropolitan area recovered and tourist locations performed well thanks to a national travel subsidy program and a recovery in inbound demand. Real same-store sales have been improving on a quarterly basis, and on a full-year average basis, they have risen to 75.2% of pre-pandemic levels (vs. 54.8% the previous fiscal year), and reached 86.0% of pre-pandemic levels in 4Q alone. At the same time, the decline in cash flow was caused by a decrease in subsidies, etc., and this was within expectations. By continuing to control costs, the Company has been able to maintain actual profitability. In this category, 7 new outlets were opened*2, 39 outlets were closed, and 8 outlets were added through intra-Group transfers and other changes, which resulted in a total of 502 outlets at the end of FY2/23.

*1 The percentages of the total for the category CF (cash flow) are from the percentages of sales per category.
*2 New business consignments for golf course restaurants (four outlets), etc.

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(2) SFP Category

Revenue increased 120.2% YoY to ¥22,913mn and category cash flow decreased 23.4% to ¥2,447mn. Revenue increased by a large margin compared to the previous fiscal year when there was a major slump caused by the pandemic (shortened operating hours, business suspensions, restrictions on the sale of alcohol, etc.). In particular, real same-store sales recovered in stages owing to late night operations partially recommencing (in 2Q), inbound demand recovering (in 3Q) and banquet demand picking up (in the year-end and New Year's holiday period). On a full-year average basis, the figure returned to 69.2% of pre-pandemic levels (vs. 30.1% the previous fiscal year), and looking at 4Q alone, it recovered to 77.5% of pre-pandemic levels. The pace of the recovery was apparently somewhat slower than expectations due to the impact of the pandemic (the sixth to eighth waves). At the same time, the decline in cash flow was caused by a decrease in subsidies, etc., and profits improved further thanks to the recovery in revenue and continuing cost controls. In this category, 5 new outlets were opened*, 10 outlets were closed, and 2 outlets were decreased through intra-Group transfers, etc., which resulted in a total of 208 outlets at the end of FY2/23.

* Four ISOMARU SUISAN outlets (including ISOMARU SUISAN Shokudo), etc. (one of which opened as a Group franchise)

(3) Specialty Brand Category

Revenue increased 43.4% YoY to ¥38,398mn and category cash flow decreased 3.6% to ¥4,432mn. Revenue was steady centering on the daily brand format (bakeries, soba noodles, tsukemen, etc.), and real same-store sales recovered to 77.7% of pre-pandemic levels (vs. 58.4% the previous fiscal year). In addition, including Saint-Germain (and Hokkaido-Saint-Germain) in the Group also boosted revenue (three months' worth of results). At the same time, the decline in cash flow was caused by a decrease in subsidies, etc., and real profitability has been improving alongside the recovery in revenue. In this category, 9 new outlets were opened*, 9 outlets were closed, and 6 outlets were decreased through intra-Group transfers, etc. In addition, 146 outlets were acquired via M&A, which resulted in a total of 381 outlets at the end of FY2/23.

* Including outlets opened in collaboration with the National Federation of Agricultural Cooperative Associations (ZEN-NOH) (Minori Café in Nagasaki and Ginga Rikyu in Iwate) and outlets opened at Michi-no-Eki roadside stations and service areas, etc.

(4) Overseas Category

Revenue increased 50.0% YoY to ¥18,506mn and category cash flow increased 115.9% to ¥1,818mn. Revenue was buoyant in North America in particular, which had made an early recovery from the pandemic, and real same-store sales were 122.8% of pre-pandemic levels (vs. 78.2% the previous fiscal year), so they were well above sales prior to the pandemic (even when excluding the impact of yen deprecation, recent sales are at 110% of pre-pandemic levels). There was major growth in cash flow as well. In this category, 4 new outlets were opened* and 5 outlets were closed, bringing the total at the end of FY3/23 to 54 outlets.

* Including the opening of OSTERIA del Fornaio in Santa Monica in the United States, a Kagonoya franchise in Thailand and an ENZO franchise in Hong Kong

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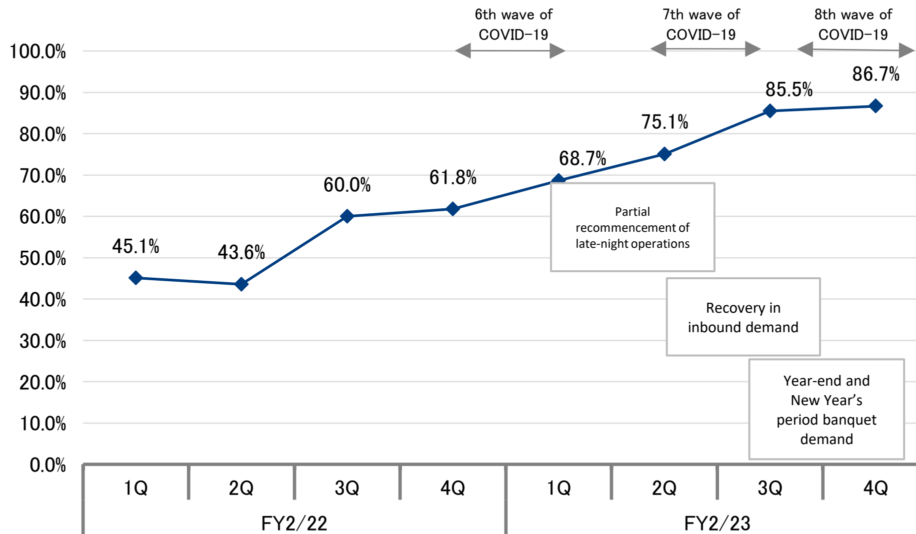
Trends in real same-store sales (vs. FY2/20)



Note: Periods listed are based on information disclosed by the government of Tokyo.
Source: Prepared by FISCO from the Company's results supplemental briefing materials

The numbers of outlet openings, closings, etc.

	As of the end of February 2022	New openings	Closures	M&A	Transfers, etc. (adjusted)	As of the end of February 2023	Format conversions
CR	526	7	39		8	502	10
SFP	215	5	10		-2	208	11
Specialty Brand	241	9	9	146	-6	381	1
Overseas	55	4	5			54	0
Total number of group outlets	1,037	25	63	146	0	1,145	22

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

3. FY2/23 overview

As explained above, to summarize FY2/23, the earnings environment continued to be challenging due to the impact of the pandemic (sixth to eighth waves of the virus), sharp increases in raw material and energy prices, and other factors, but thanks to a partial recovery at existing outlets and shifting to a muscular cost structure, real profitability has returned, a point that must be evaluated. Also, regarding its activities, the Company has successfully executed M&A deals, including for Saint-Germain, with a view to revising its portfolio and has achieved a measure of results as well through Group synergies (centralized purchasing, etc.) and promoting DX.

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Results outlook

Projecting increased revenue and profits as the pandemic recovery makes further progress in FY2/24. Planning to recommence investment to restore growth

1. FY2/24 outlook

In FY2/24 guidance, the Company is projecting revenue to increase to ¥141,000mn (+19.2% YoY), operating profit to increase to ¥6,500mn (+27.9%), profit before taxes to increase to ¥6,000mn (+31.4%), and profit attributable to owners of the parent to increase to ¥4,200mn (+24.1%), as both revenue and profits are expected to make significant gains. Though subsidies will be terminated, the Company is expecting to maintain a high level of profits and secure adjusted EBITDA of ¥22,600mn.

The forecasts are premised on a tailwind from increased tourism supported by a national travel subsidy program, a recovery in inbound demand, and COVID-19 being reclassified as a Category 5 disease (scheduled for May 8) and also on an increase in revenue from the effects of consolidating Saint-Germain and its subsidiary (nine months' worth of results). Real same-store sales (consolidated) are expected to be 89.8% of pre-pandemic levels (vs. 79.5% the previous fiscal year). The Company is planning to open 30 new outlets (and close 23 outlets) and intends to recommence investment aimed at a return to growth, which includes further increasing the quality of existing outlets (details provided later).

Regarding profits, a difficult earnings environment is expected to continue, marked by rising raw material prices, rising personnel expenses due to worker shortages, and sharp increases in electricity and gas utility expenses, and subsidies ending will have an impact, but the Company is expecting to secure an increase in profits through revenue growth, continuing to shift to a muscular cost structure, and other measures.

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FY2/24 outlook

(¥mn)

	FY2/23 results		FY2/24 outlook		Change	
	Amount	% of total	Amount	% of total	Amount	%
Revenue	118,240	100.0%	141,000	100.0%	22,759	19.2%
CR Category	40,022	33.4%				
SFP Category	22,913	19.1%				
Specialty Brand Categories	38,398	32.0%				
Overseas Category	18,506	15.4%				
Adjustment	-1,600	-				
Operating profit	5,083	4.3%	6,500	4.6%	1,416	27.9%
Profit before taxes	4,565	3.9%	6,000	4.3%	1,434	31.4%
Profit attributable to owners of the parent	3,385	2.9%	4,200	3.0%	814	24.1%
Adjusted EBITDA	23,664	20.0%	22,600	16.0%	-1,064	-4.5%
Actual operating profit	4,149	3.5%	7,500	5.3%	3,350	80.7%
CR Category	5,231	13.1%				
SFP Category	2,447	10.7%				
Specialty Brand Categories	4,432	11.5%				
Overseas Category	1,818	9.8%				
Adjustment	9,734	-				

Note 1: 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 and subsidies, etc.)
Note 3: Actual operating profit is operating profit less subsidies and impairment losses. It is calculated as an indicator of actual profitability.
Source: Prepared by FISCO from the Company's results supplemental briefing materials

2. FISCO view

With the outlook uncertain, it will be necessary to continue to monitor economic conditions, but FISCO believes that the Company's results forecasts are sufficiently achievable because existing outlets are recovering in stages and a muscular cost structure has taken hold. Recent real same-store sales in particular (in February 2023) have recovered to 92.5% of pre-pandemic levels, which is a positive development. With the Company recommencing investment to restore growth going forward, the focus should be on how much it can strengthen its portfolio by opening new outlets and improving the quality of existing outlets and how this translates into results growth. The Company's progress in this regard bears watching.

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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 Federal Management, and promoting DX

1. Direction of growth strategy

The Company has announced a new three-year medium-term management plan, but there has been no major change in the direction of its three growth strategies. Therefore, it has hit upon the following growth strategies. 1) Revise the business portfolio with a view to the post-pandemic situation, 2) further evolve Group Federal 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

The Company has drawn up a roadmap for reaching a new stage of growth through its three growth strategies, positioning FY2/23 as the "Hop" phase, FY2/24 as the "Step" phase and FY2/25 as the "Jump" phase. Progress as of FY2/23 is as follows.

(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. In FY2/23, Saint-Germain and its subsidiary, which are in the bakery business, were added to the Group.

(2) Further promote Group Federal Management

With the external environment unstable due to the ongoing pandemic and advance of inflation, the Company is promoting Unified Group Management by working to activate Group synergies (revising business formats within the Group and utilizing Group franchises), conduct cross-divisional placement of human resources throughout the Group, utilize food ingredients in common and revise logistics operations. It believes that a key factor in Group Federal 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

Led by the DX Promotion Office, which was established in August 1, 2021, the Company is introducing Group workflow systems, an expense settlement system, self-checkout registers, serving robots, and mobile ordering. These initiatives have increased business efficiency and improved convenience for customers while going some way in solving the bottleneck of personnel shortages and also presenting a direction for the future.

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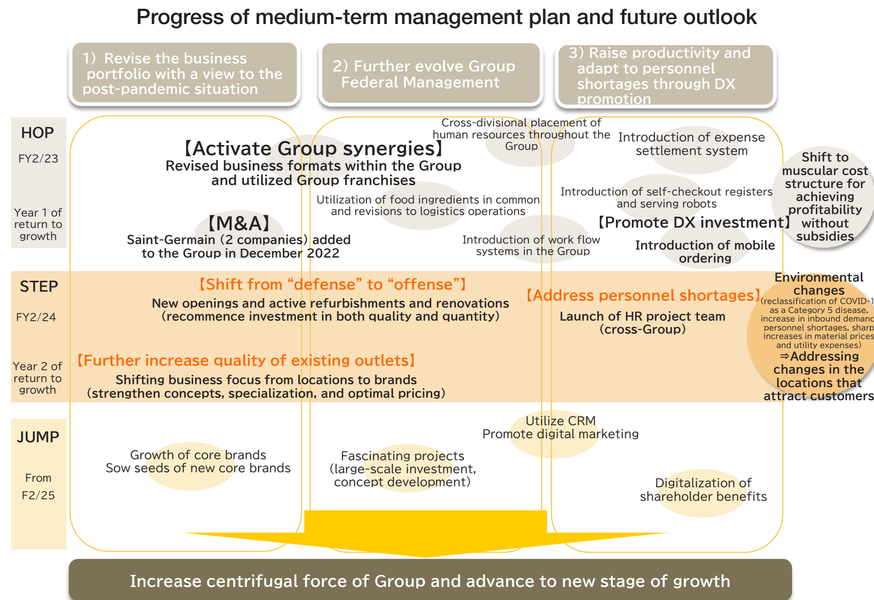
Progress of medium-term management plan and future outlook



Source: The Company's results supplemental briefing materials

3. Initiatives going forward

(1) Further increase the quality of existing outlets

With changes taking place in the lifestyle patterns of customers, the Company will work to shift the focus of its business from locations to brands. It will further strengthen the concepts and specialization of the 25 core brands it has identified* and will increase their appeal as brands by optimizing pricing. Specifically, it will clarify the reasons customers become loyal customers (concept) and narrow down menu and product items to further improve the quality of services and cuisine at existing outlets.

* The 25 core brands are: shabu SAI, Dessert Oukoku, MACCHA HOUSE, café formats, Hina Sushi, Ginza Kiya, Okinawa brands, Hainan Jeefan Restaurants, Kagonoya, Azusa Coffee, ICCHOU, Yorozu-Ya, AWkitchen, Mr. FARMER, TANTO TANTO, Yasaiyamei, Tsukemen TETSU, JEAN FRANÇOIS, YUZURU, ISOMARU SUISAN (Shokudo), Toriyoshi, popular izakaya, Saint-Germain, L'air bon, Cent Varie

(2) Shift from “defense” to “offense”

The Company plans to shift from a defensive to an offensive approach by recommencing investment and will expand DX investment, introduce CRM, actively conduct renovations, and promote openings by relaxing investment standards. In particular, for investment to further increase the quality of existing outlets in (1) above, the Company is planning to introduce CRM and make strategic renovations to increase loyal customers, invest in the challenge of new formats, open new outlets and change formats in its core brands. In addition, the Company will begin to prepare for large-scale investment and concept development that will be highlighted as fascinating projects expressing the Group's core identity.

(3) Address personnel shortages

The Company has launched the HR Project Team (as of March 1, 2023) to strengthen human resources on a cross-divisional basis throughout the Group and also established the Basic Policy on Human Resources*1. Human resources are recognized as an extremely valuable resource for generating sustainable growth and based on this the Company intends to expand pay raises for employees*2, increase hourly wages for crew members, enhance training programs and promote the creation of pleasant working conditions.

*1 The policy states that the Company recognizes human resources as an extremely valuable resource for generating sustainable growth and will actively conduct initiatives and make investments in line with priority items to secure and develop human resources. The priority items are: 1) Establish conditions and mechanisms that allow human resources to enthusiastically engage in their work, 2) Promote the active participation of diverse human resources, 3) Respect every individual worker as a colleague, and 4) Assist in the growth of human resources through education and training.

*2 Specifically, the total amount of the fund for employee pay raises was increased by 4.1%, more than in a regular year.

4. Numerical targets

In FY2/26, the final year of its three-year medium-term management plan, the Company is targeting revenue of ¥154,000mn (average annual growth of 9.2% over three years), operating profit of ¥10,800mn (28.6%), and adjusted EBITDA of ¥26,600mn (4.0%). The Company is expecting to open 30 new outlets each year from FY2/25 to FY2/26 and that real same-store sales will recover in stages to 95.9% of pre-pandemic levels (vs. FY2/20) in the final fiscal year, but adjusted EBITDA, which is emphasized by the Company, is projected to exceed the pre-pandemic level (¥25.2bn) in FY2/25.

Medium-term management plan

(¥mn)

	FY2/23		FY2/24		FY2/25		FY2/26		Average growth rate
	Results	% of total	Plan	% of total	Plan	% of total	Plan	% of total	
Revenue	118,240		141,000		148,000		154,000		9.2%
Operating profit	5,083	4.3%	6,500	4.6%	9,300	6.3%	10,800	7.0%	28.6%
Profit before taxes	4,565	3.9%	6,000	4.3%	8,800	5.9%	10,200	6.6%	30.7%
Profit attributable to owners of the parent	3,385	2.9%	4,200	3.0%	6,100	4.1%	7,100	4.6%	28.0%
Adjusted EBITDA	23,664	20.0%	22,600	16.0%	25,300	17.1%	26,600	17.3%	4.0%
Number of new outlets	25 (+146 from M&A)		30		30		30		
Real same-store sales (compared to pre-pandemic)	79.5%		89.8%		93.2%		95.9%		

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

5. Sustainability initiatives

The Company has established the Basic Policy on Sustainability, which declares its intention to work to raise long-term corporate value through contributing to the realization of a sustainable society. It also identifies social issues (materiality) that the Company will engage in on a priority basis. They are: 1) Food safety and security, 2) Coexistence and co-prosperity with production regions, 3) Contributing to a decarbonized society, 4) Reducing food loss, and 5) Promoting the participation of diverse human resources. As a part of this, the Company announced the following initiatives and targets.

(1) Climate change initiatives

In order to carry out climate change initiatives (contributions to a decarbonized society), the Company has identified the key areas of 1) governance, 2) strategy, 3) risk management, and 4) indicators and targets. Its target for CO_2 emissions (Intensity; Scope 1 and 2) is to achieve a reduction of 50% by 2030 compared to 2013.

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(2) Other initiatives

The Company has established the Sustainability Procurement Policy, which lays out the Company's policies on complying with laws and regulations, engaging in fair transactions, and conducting responsible procurement with consideration for human rights and the environment in all purchasing transactions and procurement activities. In addition, to promote the active participation of diverse human resources, the Company is actively investing in human capital and has set the following goals for FY2/25: 1) Raise the percentage of women managers from 9.9% to 15.0%, 2) Increase the percentage of foreign managers from 0.5% to 1.0%, 3) Raise the percentage of foreign employees from 4.6% to 7.0%, 4) Increase use of diverse work formats from 3.6% to 5.0%, and 5) Maintain the percentage of employees with disabilities at 2.5%.

6. 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. From a different vantage point, this strategic flexibility itself could be said to be demonstrating a characteristic quality of the Company, which has carried out Group Federated Management. While uncertainties remain, external conditions are gradually recovering, so the upcoming period will be critical in terms of whether the Company can return to a growth track while accommodating changes in consumer psychology and lifestyle patterns. Close attention should be paid in particular to the Company's efforts to shift the focus of its business from locations to brands. The key points are: 1) To what extent will the Company be able to polish their core brands and create relationships with loyal customers? 2) What impact will this have on the Company's growth and profitability? And, 3) By developing (or acquiring) new core brands, to what extent will the Company be able to revise (or renew) its portfolio? It will be necessary to monitor the details of the Company's investments and the progress it makes on strategies from a somewhat different perspective than before. In any case, with a view to the post-pandemic situation, attention should be given to developments going forward to assess how the Company will spearhead reforms and gain a competitive advantage in a restaurant industry whose methods and structure are changing greatly.

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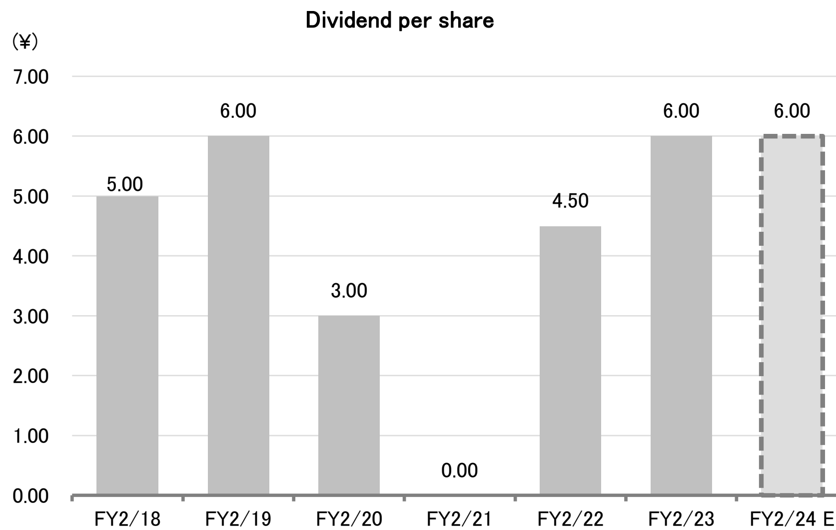
Shareholder returns

Annual dividend in FY2/23 increased ¥1.5 to ¥6.0 per share. Planning the same level in FY2/24

The Company paid an annual dividend for FY2/23 of ¥6.0 per share (¥3.0 interim dividend and ¥3.0 period-end dividend), an increase of ¥1.5 from the previous fiscal year. For FY2/24, it is planning a dividend of ¥6.0 per share (¥3.0 interim dividend and ¥3.0 period-end dividend), the same level as FY2/23.

Moreover, regarding the shareholder benefit program (complimentary coupons that can be used at Group outlets), it views this as an important shareholder return measures and plans to continue the program. A portion of outlets operated by Saint-Germain and Hokkaido-Saint-Germain, which were recently added to the Group, will be included in the program starting in February 2023.



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

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