

CHIKARANOMOTO HOLDINGS CO LTD (3561 JP)

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Summary – Delivering the Most Popular Food Culture from Japan to the World

With its origins harking from the establishment of a restaurant bar in Hakata, Fukuoka City by founder and current President Mr. Shigemi Kawahara back in 1979, Chikaranomoto Holdings opened the first Ippudo ramen restaurant – the firm’s flagship brand to-date – in October 1985, in a back-alley of Fukuoka City.

In 1990, Mr. Kawahara appeared on a TV show to compete for title of Japan’s “master chef” of ramen. Not only did he win, but he went on to win on three consecutive occasions. This success gave him entry to Japan’s ‘*Ramen Hall of Fame*’ and boosted the brand awareness of the Ippudo flavour nationwide. In 1994, Ippudo was invited to open an outlet in the Shinyokohama Ramen Museum – the world’s first food museum. In 2005, Mr. Kawahara was also awarded the title of “Ramen King” after having come in the first place in the largest noodle competition ever.

The first overseas Ippudo store was opened in New York, in 2008. In 2014, the firm was selected as the first restaurant operation funded by Cool Japan Fund Inc. – a public-private fund with the aim of supporting Japanese companies that wish to cultivate demand for their products and services overseas. With this access to capital, the firm was able to expand into Europe and has become a multi-brand company with total of 151 restaurants in Japan and 115 restaurants in 13 countries overseas.

Ippudo is the company’s flagship brand with its staple menu of *tonkotsu* (pork bone broth) ramen, known as the “soul food” of Fukuoka region. The firm also adjusts its menu to provide customers with a unique dining experience by offering seasonal specials as well as creating regional specials catering to specific countries’ tastes. For example, vegan ramen was created in Paris because of the local demand. Unlike many Japanese restaurant chains that simply replicate their original menu options, Chikaranomoto finds it important to adapt to the local food culture. The reason behind this is to create an awareness of how versatile a ramen dish can be – i.e. not just a bowl of noodles – and the firm is hoping to educate the world to consider ramen as a regular dining option. Such efforts proved successful, for example, Ippudo’s reputation rose with the New York outlet being ranked as the best restaurant in 2010 by *Yelp*, as well as making it into the *Michelin Guide* every year.

Each brand has a slightly different store concept and format. Ippudo stores, at home and abroad, are located in prime urban areas, inside popular commercial buildings and on main roads; they have stylish décor with a high standard of hygiene. Ippudo RAMEN EXPRESS brand stores are located in food courts, along highways and at airports. In addition to these two core brands, the company opened a ramen dining restaurant Gogyo and sub-brands of Ippudo such as IPPUDO Stand (counter-only) and ½ IPPUDO (serving smaller portions: a ½ size bowl / ½ the carbs / ½ the sugar) in recent years.

Throughout the 30+ years since inception, its focus was to offer the taste and culture of Japanese food to the world. It serves 80,000 bowls of ramen a day and 25 million bowls a year across the globe.

The restaurant industry in Japan has been recovering from a disaster that was the Tohoku Earthquake in 2011. The market for the ramen, however, has been on an upward trend since 2000, excluding the post-Earthquake period. Chain operators such as Korakuen Holdings (7554 JP) and Hiday Hidaka (7611 JP) have been aggressively opening restaurants. Japan’s ramen industry is estimated to be worth around ¥600bil; Chikaranomoto is ranked 6th with a 3.3% market share, based on both sales and the number of stores as of CY2017, according to *Fuji Keizai Marketing Research and Consulting Group*.

The Ramen Shop Operators in Japan – a Highly Fragmented Market

Ramen is said to be originated from the noodles (called Shina soba back then) served in China Town in Yokohama and Kobe during the Meiji era (1868~1912). It spread across Japan and each region developed their own unique flavours. Considered to be a staple “soul food” in many regions, it is a dish that has remained popular and for which the average price remains affordable to many.

With the barrier to entry relatively low, however, there is fierce competition. Therefore, ensuring a sustainable business often proves challenging. Every year, there are 3,000 new ramen stores opened and 3,000 are closed down. As well as chain operators such as Chikaranomoto, there are many other listed and unlisted large operators as well as shops run by single owner chefs. According to *Fuji Keizai Marketing Research and Consulting Group*, the ramen market in Japan is highly fragmented, comprising over 18,000 stores as of CY2017.

The ramen restaurant industry appears resilient against economic downturns and lack of consumers' interest in eating-out in general, as it is a relatively a low-cost activity. However, with a shrinking population and constant pricing competition, many restaurant operators are finding it difficult to grow, hence the shift to overseas expansion. The trend to expand overseas picked up when WASHOKU (Japanese cuisine) was awarded the *Intangible Cultural Heritage* status by UNESCO in 2013. Unlike traditional sushi – the idea of eating raw fish is still a challenge for some – ramen has been more acceptable by a wide consumer base around the world.

The Peer Group

There are around 90 listed restaurant operators in Japan offering a variety of menus and formats. The table below highlights peer group companies that 1) are categorized as ramen / Chinese food restaurants, 2) operate overseas and/or 3) have a unique business format.

The Peer Group List

3053 JP	Pepper Food Service Co., Ltd
3397 JP	Toridoll
3399 JP	Maruchiyo Yamaokaya
3547 JP	Kushikatsu Tanaka
3561 JP	Chikaranomoto HDS
7554 JP	Korakuen HDS
7611 JP	Hiday Hidaka
8200 JP	Ringer Hut
9936 JP	Ohsho Food Service

Among chain operators specialising in ramen, one of the many unlisted companies – Ichiran – is considered to be a direct competitor to Ippudo as it is from the same region and also offers *tonkotsu* ramen, which is the local delicacy.

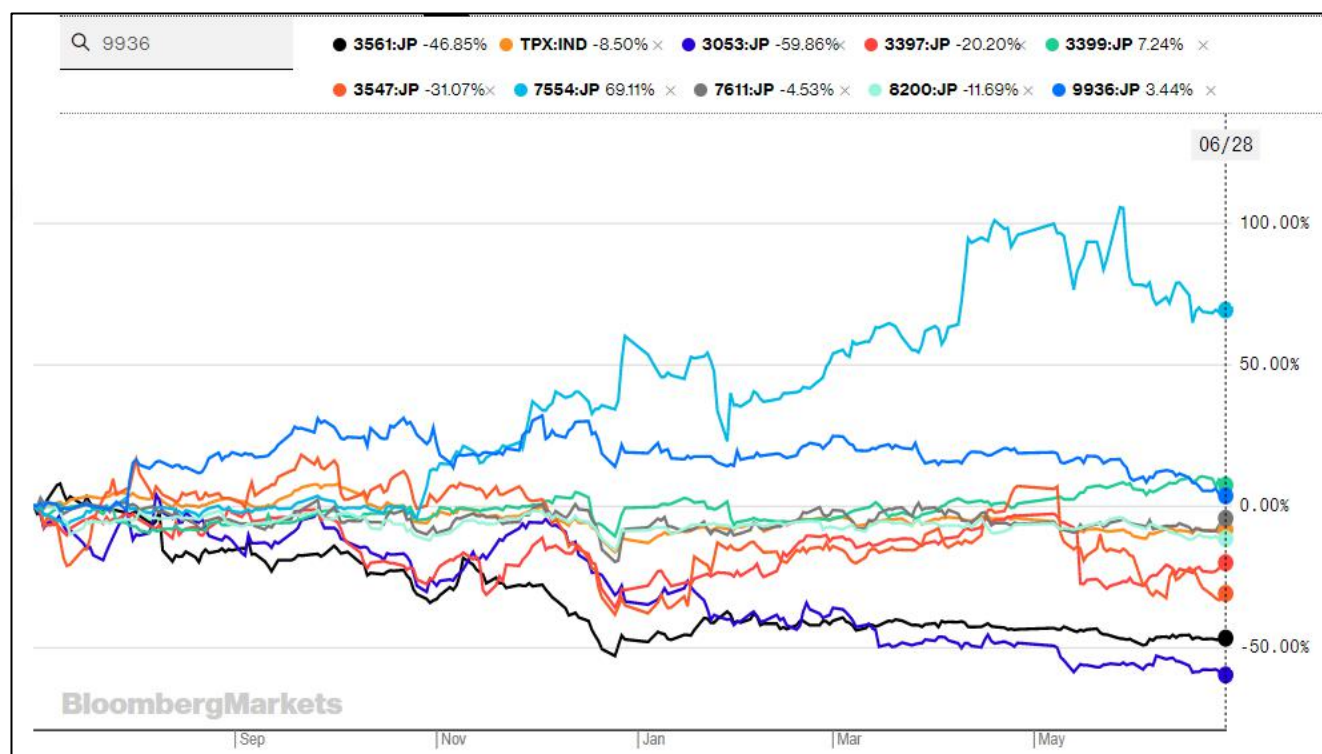
The table below compares earnings trends and valuations (forward PER and ROE) of each firm in the peer group.

The Peer Group Comparison

(¥million)	3053 JP	3397 JP	3399 JP	3547 JP	3561 JP	7554 JP	7611 JP	8200 JP	9936 JP
Fiscal Year, CE	FY12/19	FY3/20	FY1/20	FY11/19	FY3/20	FY3/20	FY2/20	FY2/20	FY3/20
Sales	90,000	156,790	13,700	9,700	30,010	42,000	43,500	50,000	84,936
YoY (%)	41.7	8.6	6.8	26.5	9.3	1.8	3.9	6.5	2.9
Overseas ratio (%)	0.0	20.8	0.0	0.0	33.4	0.0	0.0	0.0	0.3
Operating Profit	2,000	5,464	460	590	1,150	2,100	4,800	2,600	7,129
YoY (%)	-48.2	137.3	13.3	5.4	20.2	28.4	1.5	5.5	11.2
OP Margin (%)	2.2	3.5	3.4	6.1	3.8	5.0	11.0	5.2	8.4
RP	2,040	4,840	480	740	1,072	2,000	4,730	2,480	7,531
NP	1,670	2,589	250	440	700	1,100	3,115	1,000	4,696
EPS (¥)	79.7	60.8	103.3	48.3	29.66	73.93	81.98	40.11	250.39
Dividend (¥)	30	30	15	14	8	10	40	13	125
Dividend Pay-out ratio (%)	37.6	49.3	14.5	29.0	27.0	13.5	48.8	32.4	49.9
D/E Ratio	1.47	1.74	1.74	0.21	1.66	0.75	0.00	0.27	0.11
Stock Price (¥, 01/07/2019)	1,695	2,115	1,651	2,045	746	2,812	2,135	2,256	6,410
Market Cap	36,000	91,900	4,000	18,800	17,700	47,100	81,400	58,700	149,200
Daily trading volume (22-day avg)	238	634	4	815	30	647	95	190	252
Free float (%)	38.5	30.3	26.6	28.5	13.0	38.4	18.4	52.6	17.6
Forward ROE (%)	47.1	7.6	16.8	20.7	16.2	22.2	12.5	5.2	10.0
Forward PER (X)	21.6	35.5	16.0	42.7	25.3	42.8	26.1	58.7	31.8
PBR (X)	11.3	20.7	2.7	9.1	3.9	9.0	3.1	3.1	2.7

Source: Toyo Keizai, Nikkei Value Search and Nippon-IBR. CE=Company Estimate

Relative Stock Performance: Chikaranomoto (3561 JP) vs. the Peer Group and TOPIX (04/July/18=0)



Source: Bloomberg.com

Strength and Potential Risks

Strengths

Compared to the companies in the above table, Chikaranomoto's strength lies in:

1. Its profitable overseas business,
2. Having good licensees in the overseas business,
3. A multi-brand strategy in the domestic market, and
4. An innovative menu.

1) **Profitable overseas business:** One notable differentiating factor of Chikaranomoto is its overseas exposure, which is over 30% of revenues and generated an OPM of 7.6% as of FY3/19. With the domestic market saturated, it is inevitable for some to seek growth opportunities overseas. Toridoll (3397 JP) also has a profitable overseas business (20% of revenues): In FY3/19, the business generated OP of ¥3,258mil (+441%YoY) on revenue ¥30,242mil (+290%YoY) and an OPM of 10%+ after overseas asset impairment (¥700mil). Both companies have around 50% of their overseas stores under license / franchise (FC) agreements (including equity-method affiliates for Toridoll).

2) **Increase in licence-out of Ippudo brand in overseas:** The difference between the two companies' overseas business is their growth strategy: While Toridoll's overseas business has been expanding through acquisitions of local restaurants, that of Chikaranomoto was to raise the number of its directly-managed stores. That changed in FY3/19 when Chikaranomoto dramatically increased the number of licensed stores (+17 licensed stores YoY vs +4 stores in FY3/18). Licensed stores' revenue is largely made up of royalty payments and fees for operation support / consulting that the firm provides to the licensees. However, profitability tends to be larger than directly-managed stores due to lower operating costs.

The key to a successful licensed store is to have a good partner, one who can operate restaurants while meeting the standards / quality approved by the licensor. In the domestic market, the firm has two licensees that operate restaurants under the Ippudo brands. Overseas, there are eight partners under licensed agreements that operate Ippudo. The firm has some prominent licensees such as the Maxim's Group in

Hong Kong that operates 32 licensed stores under Ippudo brand in Hong Kong and China as of March 2019. There are 115 overseas restaurants, of which 66 are licensed, as of March 2019.

- 3) **Multi-brand strategy in Japan:** In Japan, each chain has different a strategy regarding location and pricing. Hiday Hidaka runs the Hidakaya chain and mainly operates in the Greater Tokyo area, charging ¥390 on average for a bowl of ramen. Hidakaya's strategy is to open restaurants in busy locations, many of which are open 24/7, and the reasonable price appeals to a wide range of customers, from *salarymen*, nightshift workers, students to the elderly and gets repeat business.

Chikaranomoto, however, offers multiple brands with different store formats and location preferences. The average price of a bowl of ramen at Ippudo and Ramen Express is ¥900, even though both brands have their own unique location preferences and clientele. Ippudo's Ginza branch may attract businessmen and inbound tourists while Ramen Express is found in suburban food courts, therefore is likely to have customers who live locally with his/her family. The same customer might visit Ippudo in an urban prime location for weekday lunches but who may go to a Ramen Express in his/her neighbourhood at weekends. This multi-brand strategy leads to an increase in customer traffic, building brand awareness, with the quality of the food and the attractiveness of the stores justifying the higher unit price.

- 4) **Innovative menu:** Since the beginning of Ippudo, the firm's menu has changed the one-dimensional (it's just noodles) perception long-held by many about ramen. For example, it launched a sub brand ½ Ippudo, offering a half-size portion as well as low sugar / low carb options to meet the growing numbers of people moving to a low GI diet. Menus developed at overseas branches have also been imported to Japan – one example being the vegan ramen created at its Paris restaurant and reimported to Japan. The company also takes advantage of seasonal produce to create new dishes. This is also one of the ways management believes it can educate customer awareness that ramen can be a diverse dish, further pushing the view that it can be a regular feature for one's meal. Having a creative menu is somewhat different from some ramen chains which have a basic staple menu to attract customers.

Weaknesses / Risks

Risks that could potentially harm its business and reputation, should they occur, include:

1. Pandemic such as swine flu that makes availability of the key ingredient extremely scarce.
 2. Incapability of finding the right personnel.
 3. Dependency on the founder.
 4. Interest rate risk
- 1) Potential risk: Classical swine flu could cause a shortage of pork supply and raise the cost of raw materials. The flu is now well under control in the areas that suffered from the spread of the disease. The firm does engage in the use of hedging mechanisms to counter such cost increases; therefore, the risk of immediate cost rises is unlikely.
- 2) As in any other restaurant operators, finding the right personnel is one of the key factors for a successful operation. The challenge of hiring the store managers both in Japan and overseas – finding the appropriate local staff – has proved more difficult in the international store operation. Many workers working in the restaurant industry are often said to have the desire to become independent and start up their own operation. To cater for those with such ambitions, the firm introduced a system that gives talented staff the opportunity to set up their own restaurant under the Ippudo brand.
- 3) The firm acknowledges the risk of dependency on the founder in its management policy and business strategy (reference: the latest *Yukashoken Houkokusho* – a periodical statutory publication and Japan's equivalent to an annual report). Not only is Mr. Kawahara the charismatic "face" of the firm, he and his family members together own more than 55% of the company; this appears to be one of the reasons that the stock is not liquid enough

to attract foreign investors. Currently, free float of the firm's stock is 13% and the foreign ownership (excluding stakes held by the founder family's asset management entity registered in Singapore) is estimated at 3.6% as of March 2019 according to *Toyo Keizai*.

- 4) Chikaranomoto's working capital [WC] as of the end of fiscal year was not enough (between ¥0~¥700mil depending on how one calculates WC) to support the capex for the store openings over the past two fiscal years. Therefore, it is assumed that further debt financing is likely to continue given the firm's store opening plans. Interest-bearing debt balance was ¥7,252mil as of March 2019, with mixture of fixed and variable rates. For the time being, the market consensus suggests that interest rates are unlikely to go up. Interest coverage in FY3/19 was 1.1x in FY3/19, above the theoretically acceptable level for a company with continuous investment for growth.

Chikaranomoto Holdings (3561 JP): Brands and Business Model

	Brands	Business Model
JAPAN	IPPUDO	Brand focusing on ramen. Serves original noodle, broth in comfortable and fashionable store space. Also focuses on education of staff. Flagship brand of the company. Located in various locations including prime urban areas including street-level, inside commercial buildings and roadside. Target customers are broad in terms of age group, gender, single and family.
	IPPUDO RAMEN EXPRESS	Launched in 2011. Offers authentic ramen with speedy service. Main location is food court inside shopping centres.
	GOGYO	A ramen dining brand that offers new style of dining. Serves alcohol and nibbles as well as ramen. Also has its original KOGASHI (<i>flambee</i>) ramen developed using a French cuisine technique, <i>flambee</i> . Offering cooking performance with fire flame in front of customers.
	Najimatei	Long-established ramen brand that the company took over from the founder-owner. Has roots in Kurume and Fukuoka's Nagahama district, two cities well known for ramen.
	PANDA EXPRESS	Brand the company licensed-in from Panda Express, US. Its flagship menu is "Orange Chicken. Mainly located at food courts.
	OTHERS	Various brands as well as diversified merchandises
OVERSEAS	IPPUDO	Offering the main menu of IPPUDO in Japan but dining styles are differentiated in each country to meet local demand. Appeals "Made in Japan" authenticities not just in food and atmosphere but also in services. Successful in drawing local crowds and achieving high spending per customer.
	IPPUDO EXPRESS	Brand specific to food court. Operates in locations such as airport and food court in commercial facilities in Asia and Oceania countries. As an IPPUDO's sub-brand, offers authentic Tonkotsu ramen.
	KURO-OBİ	Mainly operates in food courts in the US, offering eat-in service as well as take-away. Has its original soup mixed with Tonkotsu and chicken broth.
	GOGYO	In addition to signature KOGASHI (<i>flambee</i>) ramen, various Japanese dishes are served.

Source: Chikaranomoto Holdings Co., Ltd



Image of Ippudo Roppongi



Image of Ramen Express

Financials

FY18 Earnings Results

FY18 (year to March 2019) results were announced on 10 May: OP was ¥957mil (+5.8% YoY) on revenues of ¥27,466mil (+12.3% YoY). Net profit fell 3.0% YoY to ¥615mil due to impairment costs (¥250mil) associated with the domestic restaurant business (¥245.6mil), two stores in Singapore (¥1.4mil) and for the HQ facilities (¥3.3mil).

During the year, a total of 17 stores were opened in Japan, short of the 22 planned. Concurrently, 8 stores were closed. As a result, the firm has 151 stores in Japan, comprising 93 flagship brand Ippudo stores, 31 Ramen Express, 3 Panda Express and 16 in other brands. The remaining 9 brands operate as non-ramen restaurants.

Overseas, the firm opened 33 stores as planned, including 17 licensed branches – 2 in the US, 1 in Singapore, 9 in China, 3 in Taiwan, 1 in Australia, 2 in Malaysia, 8 in Thailand, 4 in the Philippines, 2 in Indonesia and 1 in Vietnam. As a result, overseas store numbers reached 115 in FY18.

DOMESTIC STORE OPERATION

The domestic restaurant business reported FY18 OP of ¥910mil (-9.0% YoY) on sales of ¥15,795mil (+4.9% YoY). Existing store sales gradually improved in the H2 (-1.7% YoY vs H1 -4.8% YoY) after the firm dedicated capital and human resources to its profitable branches, though full-year existing store sales fell 3.2% YoY. The segment revenue growth was mainly achieved by new store openings, customer traffic to the new stores (+6.4%YoY on the all-store basis) and a rise in the number of seats at the profitable restaurants. While the average spending per customer remained largely stable (+0.6% YoY on an all-store basis), the segment OPM fell 0.8ppts despite no change in the GPM. SG&A increased by ~¥2,300mil (+13.6%YoY) – major items that went up last year include salaries and allowances (+¥836mil, +12.6%YoY), rent (+¥312mil, +17.4%YoY) and fee payments (+¥315mil, +18.1%YoY). The firm saw improvement in the job retention ratio among its staff members. The OPM in H2 improved to 6.2% from H1's 5.3%, thanks to those efforts.

To counter rising costs, the firm has been working to introduce new IT systems for both front and back-office infrastructure with the aim to improve operational efficiency. Also, the physical distribution of produce has been under review as logistic costs have been rising at a double-digit rate. Personnel costs have also been rising by 2~3% YoY in restaurant industry overall.

INTERNATIONAL STORE OPERATION

The international store operation reported OP of ¥609mil (+24.3% YoY) on revenues of ¥8,578mil (+37.4% YoY¹) in FY18. The existing store sales dipped in Dec (-5.6% YoY) due to FOREX translation. Full-year existing store sales remained flattish – though spend per customer rose slightly (+2.1% YoY) – however, customer count remained in negative territory. A store is categorised as “existing” 13 months after the open. Branches in some regions, namely, large-scale branches in the South East Asian countries, tend to experience strong sales momentum during the first few months of opening, though customers’ curiosity tends to lose momentum thereafter and foot flow eases. This rather unique trend specific to the South East Asian branches somewhat affects the customer counts on the existing store basis.

As planned, 33 new restaurants were opened in FY18, including 17 licensed outlets. The OPM saw a slight decline to 7.1% (-0.7ppt YoY) due to costs incurred from delayed new store openings in the US (West Coast), but there was some improvement in H2 (OPM 7.3%) from the 6.9% reported in H1. An increase in the number of licensed stores is positive for the profitability as there are no operating costs for HQ. Fees from licensed stores are charged as a percentage of restaurants’ revenue. As of March 2019, the number of licensed stores, has reached 66, +17 stores YoY.

In both the domestic and the international store operation businesses, Chikaranomoto is unique in that it has rarely closed weak / underperforming stores, unlike many restaurant chain operators who do so to make improve the existing store figures. The firm is currently reviewing the existing store operations and might decide to begin closing underperforming stores going forward. For example, any store that is loss-making for the two consecutive years may become a candidate to be closed.

Segment Sales and OP

(¥million)		FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	YoY (%)	FY3/20 CE	YoY (%)
Domestic Store Operation	Sales	12,718	14,384	14,641	15,056	15,795	4.9	16,764	6.1
	OP	479	1,166	1,054	1,000	910	-9.0	943	3.6
	OPM (%)	3.8	8.1	7.2	6.6	5.8	-0.8ppt	5.6	-0.2ppt
International Store Operation	Sales	3,312	4,329	4,851	6,243	8,578	37.4	10,033	17.0
	OP	194	-104	141	490	609	24.3	747	22.7
	OPM (%)	5.9	-2.4	2.9	7.8	7.1	+0.7ppt	7.4	+0.3ppt
Domestic Merchandise Sales	Sales	1,681	1,961	2,294	2,254	2,086	-7.5	2,143	2.7
	OP	0	4	57	37	50	35.1	109	118.0
	OPM (%)	0.0	0.2	2.5	1.6	2.4	+0.8ppt	5.1	+2.6ppt
Others	Sales	132	190	643	896	1,005	12.2	1,070	6.5
	OP	-48	-93	-87	-20	-8	n/a	-9	n/a
	OPM (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	Sales	17,845	20,865	22,430	24,451	27,466	12.3	30,010	9.3
	OP	624	973	1,165	1,507	1,561	3.6	1,790	14.7
	OPM (%)	3.5	4.7	5.2	6.2	5.7	+0.5ppt	6.0	+0.3ppt
Adjustment	Sales	0	0	0	0	0	0	0	0
	OP	-494	-470	-555	-602	-605	n/a	-640	n/a
Figures as in P&L	Sales	17,845	20,865	22,430	24,451	27,466	12.3	30,010	9.3
	OP	130	502	609	905	957	5.7	1,150	20.2
	OPM (%)	0.7	2.4	2.7	3.7	3.5	-0.2ppt	3.8	+0.3ppt

Source: Based on Chikaranomoto Holdings Co., Ltd YUHO and presentation material

¹ There is a difference between annual sales figure and year-end quick report number of the international store operation because of difference in FOREX rates used. Quick report only includes directly-managed stores while annual figure reflects revenue from license royalty.

Monthly data (Restaurant Business in Japan) - YoY (%)

(YoY %)		2018										2019			2019	
		4	5	6	7	8	9	10	11	12	1	2	3	FY18	4	5
Sales	All Store	3.6	0.0	1.5	-0.9	8.8	9.2	8.0	9.9	12.1	11.5	9.7	10.4	7.0	9.9	9.8
	Existing Store	-4.6	-5.1	-4.7	-8.7	-3.1	-2.3	-5.3	-3.5	0.3	-0.5	-2.0	0.6	-3.2	0.0	1.1
No. of customers	All Store	2.0	-0.7	0.8	-2.5	7.4	8.3	7.4	9.0	11.9	11.8	10.1	11.3	6.4	10.3	9.4
	Existing Store	-6.2	-5.9	-5.6	-10.3	-4.4	-3.2	-5.8	-4.3	0.3	-0.1	-1.4	1.7	-3.7	0.6	0.9
Spending per customer	All Store	1.5	0.6	0.7	1.6	1.3	0.8	0.6	0.8	0.2	-0.2	-0.3	-0.8	0.6	-0.3	0.4
	Existing Store	1.7	0.9	0.9	1.7	1.3	0.9	0.5	0.8	0.0	-0.4	-0.6	-1.1	0.5	-0.6	0.2
Store counts at month's end	All Stores	106	108	110	111	111	113	115	116	116	117	117	117	117	116	116
	Ippudo	81	81	81	82	82	83	85	85	85	86	86	86	86	84	84
	Ramen Express	25	27	29	29	29	30	30	31	31	31	31	31	31	32	32
	Same Stores	95	98	100	100	100	100	101	101	103	104	104	104	104	104	104

Source: Chikaranomoto HDS (3561)

Monthly data (Overseas directly managed restaurants) - YoY (%)

(YoY %)		2018												FY18	2019				
		1	2	3	4	5	6	7	8	9	10	11	12	FY18	1	2	3	4	5
Sales	All Store	37.2	45.5	44.8	48.1	42.0	38.7	26.3	34.7	31.8	46.3	35.4	34.0	38.5	30.2	25.5	24.0	13.3	17.6
	Existing Store	3.2	5.9	5.5	0.1	-3.9	6.0	-0.5	-0.9	1.6	2.1	-2.7	-5.6	0.5	-4.0	-2.9	-2.1	-6.7	-2.2
Customer counts	All Store	25.6	24.5	26.4	35.7	35.3	35.9	25.4	44.2	26.1	60.3	48.7	54.7	38.1	50.0	50.2	47.2	34.1	37.7
	Existing Store	-3.3	-3	-2.9	-4.5	-5.1	6.4	0.9	1.6	-0.5	0.4	-3.3	-3.9	-1.5	-2.5	-0.6	-0.6	-4.9	-0.8
Spending / customer	All Store	9.2	16.9	16.9	9.2	4.9	2.0	0.7	-6.6	4.5	-8.7	-9.0	13.4	0.2	13.2	16.4	15.8	15.5	14.6
	Existing Store	6.7	9.2	9.2	4.8	1.3	-0.3	-1.3	-2.4	2.0	1.7	0.6	-1.7	2.1	-1.5	-2.4	-1.5	-1.8	-1.4
No. of stores	All Stores	29	28	31	31	31	31	31	34	34	44	46	47	47	49	49	49	49	49
	Existing Store	19	19	19	19	19	20	21	21	24	25	25	26	26	28	30	30	33	33

Source: Chikaranomoto HDS (3561)

Number of Directly-Managed and Licensed Stores by Region

Segment	Country	Brand	FY3/18		FY3/19		YoY Change	
			DM	Licensed	DM	Licensed	DM	Licensed
Restaurant Business in Japan	Japan	Ippudo	89	7	93	9	4	2
		Ramen Express	25	0	31	0	6	0
		Others	20	0	19	0	-1	0
		Ichikabachika	2	1	2	0	0	-1
		Inaba Udon	6	0	6	0	0	0
		No. of restaurants in Japan		142	8	151	9	9
Overseas	USA	IPPUDO	5	0	6	0	1	0
		KURO-OBI	4	0	5	0	1	0
	Singapore	IPPUDO	7	0	7	0	0	0
		IPPUDO EXPRESS	2	0	3	0	1	0
		Others	1	0	1	0	0	0
	China (incl. HK)	IPPUDO	22	22	31	31	9	9
		GOGYO	1	0	1	1	0	1
	Taiwan	IPPUDO	8	8	11	0	3	-8
	Australia	IPPUDO	6	1	7	2	1	1
		GOGYO	1	0	1	0	0	0
	Malaysia	IPPUDO	3	3	5	5	8	2
	Thailand	IPPUDO	8	8	16	16	4	8
	Philippines	IPPUDO	5	5	9	9	2	4
	Indonesia	IPPUDO	2	2	4	0	0	-2
	UK	IPPUDO	3	0	3	0	0	0
	France	IPPUDO	3	0	3	0	0	0
	Myanmar	IPPUDO	1	1	1	1	0	0
Vietnam	IPPUDO	0	1	1	1	1	0	
No. of restaurants overseas		82	49	115	66	33	17	
Total number of shops		224	57	266	75	42	18	

Source: Chikaranomoto Holdings FY3/19 Kessan Tanshin

Number of Stores at Year-End

(Stores)	FY3/18	FY3/19	FY3/20CE
Domestic (directly managed)	134	142	154
Domestic (license)	8	9	10
Overseas (directly managed)	33	49	63
Overseas (license)	49	66	83

Source: FY3/19 Earnings Result Presentation Material

FY19 Outlook and Beyond

Chikaranomoto is guiding for FY19 OP of ¥1,150mil (+20.1%YoY) on revenues of ¥30,010mil (+9.3%YoY) and for domestic restaurant sales to reach ¥16,764mil (+6.1%YoY), generating OP of ¥943mil (+3.6%YoY). The key goal for the firm is to recover existing store sales. The net increase of stores in the domestic store operation is 12 directly-managed stores and one licensed store in FY19 (increase by 13 stores in total).

The international store operation remains the growth driver for the firm. In FY19, overseas sales are expected to grow 17.0% YoY to ¥10,033mil. Both directly-managed and licensed stores are expected to rise by 14 stores and 17 stores, respectively (increase by 31 stores in total). Most of new stores will be located in areas where the firm already has a presence. The segment OP is estimated to grow +22.7% YoY to ¥747mil, generating an OPM of 7.4%. The main reasons behind the margin improvement are; 1) increase in licensed stores and 2) a review of license contracts in China from a fixed fee to one that reflects sales increases.

Chikaranomoto plans to open 300 stores in Japan and overseas, respectively, by 2025. Based on the assumption that the average annual sales/store remains the same at ¥100mil, sales are estimated at ¥60,000mil (CAGR 15% for the next 5 years). The OP target is linked to the 1) success in the improvements in operational efficiency from the new IT systems and 2) establishing a prominent position in overseas markets.

CAPEX (circa ¥1,500mil in FY18) is financed primarily by syndicate loans. As of FY18, the firm's working capital (current assets – current liabilities) was circa ¥657mil. In addition, it had retained earnings in total of ¥1,680mil. It is expected that the investments for expansion will continue to be financed by loans. For this reason, the firm focuses more on its debt-equity ratio than shareholder's equity.

The impact from changes in FOREX is, net-net, negligible, and any impact is mitigated by multicurrency syndicate loans.

Chikaranomoto does not explicitly state official shareholder return policy although it aims to pay out 20~30% of bottom line earnings as a dividend. Based on FY19 guidance, the annual cash dividend estimate is ¥8/share (flat YoY), which suggests a pay-out ratio of 26.9%. Management believes it is still in the stage of investing for growth, hence the priority is given to investment.

Corporate Governance

Although it was promoted to the Tokyo Stock Exchange First Section only a year ago, the firm is up to speed with the recommended corporate governance guidelines. As announced on 14 March, it proposed a vote for another external independent director, Ms. Hideko Toba, who has extensive background in managing prestigious brands such as Giorgio Armani and Theory (brand acquired by Fast Retailing (9983 JP)). Her nomination was put forward and voted for at the Annual Shareholders' Meeting in June. With her joining the Board, the proportion of external independent directors has become over 1/3 to the total (3/8).

Criteria the firm requires of external directors is that they are highly experienced in their professional fields such as lawyers who have expertise in corporate law and governance both in Japan and overseas. It also requires someone with management experience in listed companies in Japan. Experience in accounting and finance, such as chartered accountants, is also favoured.

Chikaranomoto has adopted the Board with Audit and Supervisory Committee system. The Committee is formed by 3 directors, of which 2 are external independent directors. On 24 June 2019, the firm announced two newly set up Committees - the Nomination and Remuneration Committee, and the Compliance Committee. Both Committees are formed of 5 directors of which 3 are external independent directors.

Financial Summary

Chikaranomoto HDS (3561 JP)

(¥million)	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20CE
Sales	17,845	20,865	22,430	24,451	27,466	30,010
Operating Profit	130	502	609	905	957	1,150
Recurring Profit	181	430	539	872	922	1,072
Net Profit	-229	125	271	634	615	700
EPS (JPY)	-25.38	12.16	26.28	27.85	26.26	29.54
Adjusted EPS (JPY)	-	-	24.25	26.23	25.45	-
Cash flow from operation (CFO)	724	1,087	914	1,411	2,207	-
Cash flow from investment (CFI)	-2,119	-1,670	-977	-1,583	-1,180	-
Cash flow from finance (CFF)	1,520	507	961	98	-260	-
Cash and cash equivalent	3,110	2,890	3,637	3,555	4,323	-
Free cash flow (FCF)	-1,395	-583	-63	-172	-	-
CFO per share (JPY)	79.94	105.53	88.50	61.92	-	-
FCF per share (JPY)	-154.03	-56.60	-6.10	-7.55	-	-
Total asset	11,977	12,784	14,323	15,306	16,392	-
Liabilities	9,390	10,119	10,746	10,585	11,668	-
Net asset	2,586	2,665	3,576	4,720	4,724	-
Capital	923	923	1,185	1,239	1,266	-
Shareholders' equity	2,581	2,637	3,424	4,249	4,323	-
BPS (JPY)	250.66	256.06	304.27	182.31	183.14	-
OPM (%)	0.73	2.41	2.72	3.70	3.48	3.83
ROE (%)	-	4.79	8.94	16.53	14.35	-
ROA (%)	-	3.48	3.98	5.70	5.64	-
Shareholder equity ratio (%)	21.55	20.63	23.91	27.76	26.37	-
D/E ratio (%)	363.81	383.73	313.84	249.12	269.91	-
Total asset turnover (X)	-	1.69	1.65	1.65	1.73	-
Interest coverage (x)	1.56	6.00	7.32	11.00	11.14	-
Current ratio (%)	119.02	98.15	113.32	121.26	112.79	-
Interest-bearing debt	6,373	7,011	7,378	7,142	7,190	-
EBIT	269	515	623	955	-	-
EBIT Margin (%)	1.51	2.47	2.78	3.91	-	-
EBITDA	865	1,239	1,345	1,733	1,944	-
EBITDA margin (%)	4.85	5.94	6.00	7.09	7.08	-
Dividend (JPY)	-	3.00	6.00	4.00	4.00	-
Dividend (JPY)	-	3.00	6.00	9.00	8.00	8.00
Total dividend payment from retained earnings	-	30	67	150	187	-
Dividend pay-out ratio (%)	-	24.70	22.80	23.30	30.50	-
Shares outstanding (shares)	10,300,000	10,300,000	11,253,500	23,307,300	23,693,500	-
Treasury (shares)	-	-	-	-	89,600	-

Source: Nikkei Value Search, CE=Company Estimate

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