

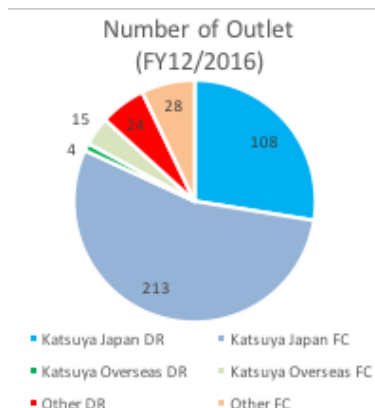
## Arcland Service Holdings (3085, JP)

Exchange: TSE 1<sup>st</sup>  
Sector: Restaurant  
Market Cap: JPY51.0 billion  
P/B: 3.4x (12/16 act)  
Div. Yield: 0.8% (12/17 CE)

Recommendation: Outperform  
Share Price: JPY3,080 (3/10/2017)  
Target Price: JPY3,234 (mid-term JPY4,073)  
P/E: 23.2x (12/17 CE)

### Highlight

Metrical maintains Outperform recommendation, raising TP to JPY3,234 on earnings for FY12/2017 (E). Arcland Service's competitiveness mainly comes from delivering customer value of quality food and budget price. Excellent store management such as customer service and cleanness raises its value. The low-cost operator has been gaining monthly store sale per outlet from JPY6.6million to JPY8.1 million, adding satisfied menu and sale channel such as delivery and take-out. Take-out is the key of further expansion of the company, as take-out sale adds 30% extra sale to in-store sale at the moment. Take-out sale would pull sale higher in particularly 'Karayama' fried chicken, as more female customers use 'Karayama' enjoying take-out items at home. This would meet demand of female workers who do not like cooking deep-fried staff at home and buy take-out items after work way to home. The share price is slightly discount on valuation for FY12/2017(E) but is likely to move higher in mid-term earnings prospect of the highest profit margin fast food.



### Business Description

Arcland Service Holdings was founded as an Eating-out business division of Arcland Sakamoto (9842, JP) in April 1986 and was split as 100% subsidiary of Arcland Sakamoto of in March 1993. Its core business of pork cutlet restaurant chain has been growing rapidly due to lower price pork cutlet fast food chain since the 1<sup>st</sup> outlet was open in August 1998 and expanded to overseas and added other category of restaurant such as Italian and fried chicken. The company went to public in June 2014, maintaining 52.9% ownership by the parent company. As shown on the pie chart on the left, 87% of the total number of outlet is 'Katsuya' pork cutlet restaurants and the rest of only 13% is other type of restaurants, hence most of revenue is reliant of 'Katsuya' but newly developed "Karayama" fried chicken business is aggressively expanding.

Revenue		FY12/2015		FY12/2016		CHG, YoY
Katsuy: DR		10,367	49.5%	10,884	46.7%	5.0%
Katsuy: FC	Royalty	8,552	40.8%	9,394	40.0%	9.8%
	FC Sales	773	3.7%	855	3.7%	10.6%
	Membership	159	0.8%	131	0.6%	-17.6%
	Foods sales	7,094	33.9%	7,955	34.2%	12.1%
	Other	525	2.5%	451	1.9%	-14.1%
Other Restaurant		1,559	7.5%	2,298	9.9%	47.4%
Other		463	2.2%	708	3.0%	52.9%
Total		20,942	100.0%	23,286	100.0%	11.2%

(Source) Arcland Service

## **Popular pork cutlet served at budget price**

'Tonkatsu' pork cutlet is one of popular food in Japan. In its pronunciation, the food is considered as a good-fortune food as 'katsu' means win. Pork cutlet is originally served at specialty restaurant for more than JPY1,000 that is relatively higher price among popular soul food such as Ramen noodle and Gyudon beef bowl. "Katsuya" operated by Arcland Service serves pork cutlet dishes lower prices ranging from JPY500 to JPY1,000. Fast food chain of pork cutlet has been only run by Arcland Service and rapidly growing since 1998, delivering customer value at quality food and lower price as a pioneer of low price 'tonkatsu' chain.

## **Fast food chain operation**

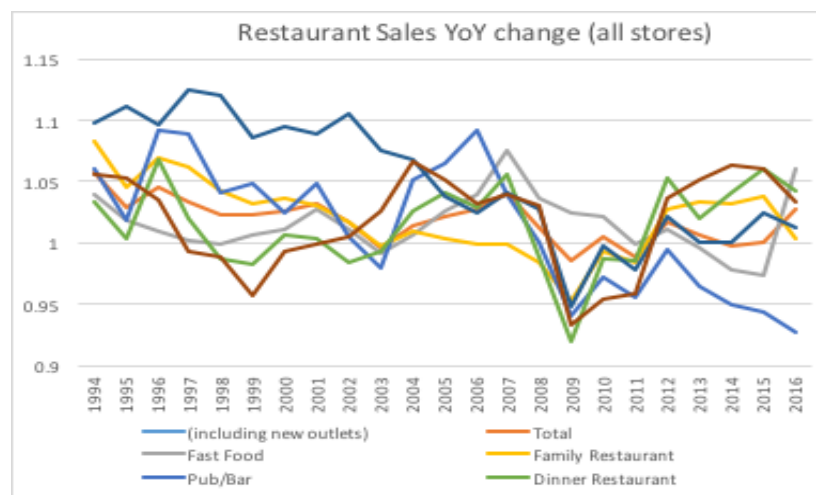
'Tonkatsu' pork cutlet fast food chain was developed by Arcland Service. Currently total 7 staff on average operate a store by turns that includes 2 regular employees and 5 part-time workers. 'Katsuya' limits 44 seats a store as serving food in 5 minutes. Such an efficient operation with excellent service and value food has incrementally raised monthly sale a store from JPY6.7 million for 2007 to 8.1 million for 2016, continuously enhancing its customer value. For instance, the company introduced special menu for certain period in 2007, increased pork meat volume in dishes and expanded channel to delivery service, breakfast and lunch box in 2010, increased breakfast outlets in 2013 and improved customer service and developed voluminous menu in 2015. Excellent cost management and store operation help operating profit margin keep increasing to 14% for FY12/2016 that is the top of the restaurant industry in Japan.

## **Industry Overview and Competitive Positioning**

### **Industry Overview**

Japan's eating-out market is estimated JPY25 trillion, growing slightly at 2.2% YoY to JPY25.181 trillion for FY2015. Of the market, fast food and small restaurant increased 2.1% YoY to JPY13.496 trillion for FY2015. By food category, fast food restaurant gained 2.7% YoY, Soba & Udon grew 5.8% YoY and Sushi inched up 1.3% YoY but other like Hamburger and Okonomiyaki lost 5.5% YoY. On the other hand, Bento lunch box and delicatessen increased 2.9% YoY for the same period. The chart below shows restaurant sales YoY change from 1994 to 2016 according to Japan Food Service Association. Fast Food sales rebounded to +6.0% YoY in 2016 from -2.6% YoY in 2015. For 2016, the number of customers increased +2.4% YoY and unit price a customer gained +3.6 % YoY, while the number of stores inched down -0.3%. Overall restaurant market remains slow and Fast food recovered sales for the first time since consumption slump hit by consumption tax hike in April 2014. Compared with other style of restaurant, Fast food sale was better +6.0% YoY than Family Restaurant of +0.4% YoY, Bars of -7.2% YoY and Dinner Restaurant of +4.3% YoY for 2016. But Fast-food market is likely to continue growing soft going forward due to anemic consumer spending, although inbound sale by foreign visitors will help sale higher.

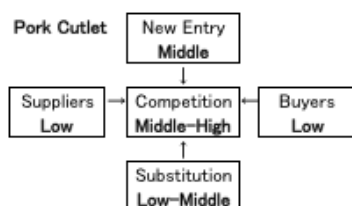
However, 'tonkatsu' fast food market has been rapidly growing to JPY40 billion in 2016 since Arcland Service opened the 1<sup>st</sup> outlet in 1998. Since 2015 other fast food operators such as Matsuya Foods (9887, JP), Zunsho Holdings (7550, JP) and Toridoll Holdings (7550, JP) and family restaurant Skylark (3197, JP) has come into the market. Fried food is popular menu and increasing number of people are eating out for deep-fried food instead of cooking deep-fried food at home, as they are reluctant to clean up oily kitchen after cooking. Competition is getting more intense but the market is expected to keep growing.



## Competitive Positioning

### Porter's 5 Forces: Pork Cutlet

**Buyers** (Low risk): 'Katsuya' is highly supported by customers, as the number of customers of existing stores increased 2.5% YoY and 2.2% YoY for 2015 and 2016. Due to slower growth in real wage in Japan, lunch budget for average office workers is estimated to remain at JPY510. Arcland has targeted such a customer, 43 years old male office worker of baby boomer's kid generation. Its budget price voluminous 'tonkatsu' menu really appeals target customers and 'katsu-don' ('tonkatsu' bowl) for JPY490 is within their lunch budget. Therefore, risk of buyers is minimal at this moment.



YoY,%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Year
Sales 2014	6.3	1.4	4.9	-0.2	0.9	-1.3	1.4	2.7	4.2	-3.3	-1.2	2.0	1.5
Sales 2015	-0.4	4.6	-1.0	4.5	3.0	2.9	0.4	4.2	0.0	5.2	1.2	3.9	2.3

(Source) Arcland Service, Metrical

Customer # 2015	-1.4	5.8	1.8	7	1.9	1.9	1.9	4.3	-0.2	3.5	1.3	3.6	2.5
Price 2015	1.1	-1.1	-2.7	-2.3	1.1	1	-1.4	-0.2	1.2	1.6	-0.1	0.3	(0.2)

YoY,%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Year
Sales 2016	2.7	6.4	3.8	1.0	2.2	3.8	4.6	-3.7	0.1	2.0	2.0	-0.1	2.0
Customer # 2016	5.2	7.4	4.6	0.9	1.8	2.3	3.0	-3.1	0.6	2.0	2.5	0.5	2.2
Price 2016	-2.4	-0.9	-0.7	0.0	0.4	1.4	1.6	-0.7	-0.5	0.0	-0.4	-0.6	-0.2

(Source) Arcland Service, Metrical

**Suppliers (Low risk):** Arcland has set up Arcland Maruha Meat Co. Ltd that is in charge of meat processing, collaborating a large food wholesaler Maruha Nichiro (1333, JP). This joint company would help procure and pork, securing certain volume at stable price. Pork meat price remains stable between JPY500 and JPY600 per kilo gram for 3 years. 'Katsuya' and pork cutlet fast food restaurant use a limited number of food material such as rice, vegetable (mostly cabbage) as well as pork. In case price of specific material such as rise and cabbage rises, cost of sales would be affected but long-term contract with wholesaler or farmer would be also effective on scale of economy or volume. The risk would be marginal.



('Katsuya' menu)



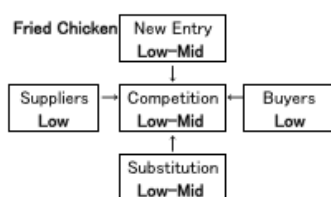
('Matsunoya' menu)

**Competition (Middle-High risk):** As mentioned earlier, fast food chains and a family restaurant operator entered into the pork cutlet market. The price of lowest menu 'katsudon' is offered at JPY490 by Arcland, Matsuya and JPY499 by Skylark, whereas Toridoll and Zensho offer at JPY550 and JPY590 of regular price. Matsuya 'gyudon' chain operator expanded 100 'tonkatsu' outlet as 'Matsunoya' brand and is competing each other with 'Katsuya' of Arcland in town. Skylark has just entered into the market at only 3 outlets, but has huge potential of expansion supported by its outstanding 3,000 outlets if the family restaurant operator changes its business line, as 'Tornkara-Tei' is projected to increase 100 to 200 outlets in 2019. Arcland estimates the market size of 1,000 to 1,200 outlets and aims to accelerate to gain majority (600 outlet) of the market as soon as possible, maintaining the top position as a market leader. Arcland projects to build 40 new outlets in 2017 after 29 'Katsuya' outlets were added in 2016 in Japan. In order to acceleration, Arcland raised the number of staff of store development and allied with a large construction company. For differentiation, Arcland plans to increase sale for take-out. Currently 'Matsunoya' and Skylark do not reinforce take-out so much, but sale for take-out lunch box added 30% higher sale than the sale of stores that do not offer lunch box. Also, a new interior outlet will be expanding that appeals sizzle and live feeling at open kitchen. The new type of outlet costs only 10% high than existing outlet for development, aiming at differentiating rivals like 'Matsunoya' in atmosphere in addition to "QSC" but Kawaguchi Minami-Hatogaya store raised 30% more customers than before renovation. The competition is likely to increase for the time being until total number of outlet reaches 1,200.

**New Entry (Middle risk):** A number of operators are entering into pork cutlet market as mentioned earlier. Other than those companies, competitors from different category has entered into the market. Soba noodle fast food operators offer 'katsudon' menu as well as soba noodles at their outlets. "Fuji Soba" serves 'katsudon' at JPY490. Seven Eleven and other convenience store operators sell 'katsudon' lunch box at JPY580. The entry barrier is not high enough. New entry risk is middle as a number of operators has already entered. As mentioned earlier, fried food eating-out market is growing, as this kind of food is so popular and people are more likely to eating out (including take-out) than cooking it at home. Therefore, the risk of new entry would middle, while the market is still expanding.



**Substitution** (Low risk): Pork cutlet fast food is relatively newer than beef bowl, ramen and soba and etc. For example, beef bowl is known as cheap food and served at 'gyudon' fast food chain at JPY300-JPY400. But pork cutlet is relatively higher priced food than other type of menu, as it has been served at specialty restaurant. "Katsuya" is a game changer and offer from JPY490 such a special menu. Fast food type of pork cutlet is operated by 5 operators and just started competition for a year. Currently +2% increase of customers shows solid support by customers and substitution risk would be low. 'Katsudon' lunch box by convenience stores is not significant threat at this moment due to prep food and higher price than "Katsuya" and "Matsunoya."



## Porter's 5 Forces: Fried Chicken

Arcland launched fried chicken ('karaage') fast food business as its 'Karayama' brand in December 2014 and has been accelerating developing outlets. "Karayama" outlets total 15 as of March 2017 and are projected to add 7 outlets for 2017.

## Buyers (Low risk):

The new business line is doing well and is expanding customer base that is broader than company expectation. 'Katsuya' focuses on mainly 40's office male workers, (male customer 80%: female 20%) whereas "Karayama" is supported by family and women (male 70%: female 30%). 40% of the sale is take-out, as women customers are more likely to buy fried chicken for their meal for lunch and dinner at home instead of cooking for themselves. Due to higher take-out demand "Karayama" performs well, expanding the sale to JPY14.8 billion for FY12/2016.



('Karayama' In-Store menu)



('Karayama' Take-Out menu)

**Suppliers** (Low risk): 'Karayama' business is also procured by Arcland as 'Katsuya' does. The risk would be marginal.

**Competition** (Low-Middle risk): Fried chicken fast food in Japanese style is unique and there are few competitors at this moment. Skylark has just launched 'Tonkara-Tei' brand that serves 'karaage' set menu at JPY699 besides 'tonkatsu' and 'katsudon', whereas Arcland 'Karayama' serves 'karaage' set menu at JPY620. Arcland aims to accelerate expansion its outlet, delivering high customer value in its quality and price. Currently fried chicken of 'Karayama' offers 7 kind of 'karaage' menu and 9 kind of take-out menu, and takes cooking 'karaage' seriously, serving a couple of different sauces. Competition in 'karaage' market is not intense at this moment, but is likely to increase, as Skylark expand its operation in this market.

**New Entry** (Middle risk): 'Karaage' is always listed as one of popular food in Japan. Meanwhile, increasing number of people are reluctant to cook 'karaage' at home, as they are dislike dangerous deep-fried cooking using hot oil and clean-up oily kitchen staff after cooking. People are more likely to eat-out at restaurant such a favorite food or buy take-out items for eating at home. The market is expected to grow led by the above tailwinds, but new entry is also

expected to increase from other fast food operators. The market size is estimated 600 outlets originally by Arcland, but revised upward to double recently as take-out demands are very solid at 'Karayama.' If a female customer takes 'karaage' out and enjoy at home while it is still warm, outlet should be located in 15 minutes' distance from her home. Thus, potential market is upgraded. In this sense, 'Karayama' road side is designed to build behind of wider parking lot for female drivers to park a car easily. Consequently, the risk of new entry is likely to increase going forward, while the market potential is still expanding.

Substitution (Low risk): Demand of deep-fried chicken fast food is increasing on the tailwinds as mentioned above. Customers support quality of favorite fried food with budget price. This kind of fast food will rather take over from specialty restaurants, while consumer spending remains slow due to soft real wage growth. Therefore, substitution risk is marginal.

## **Investment Summary**

### **Business Outlook**

Due to positive outlook of monthly sale and positive expectation of 'Karayama' business line, the earnings are expected to grow at solid pace until the market is mature for the mid-term.

### **Competitive Positioning and Risks**

Due to increasing demand of fried food, the market is expanding in both of pork cutlet and fried chicken. Alongside the market expansion, the competition is getting intense and new entry is likely to increase. However, its superior low cost operation enables to maintain lower price than competitors and quality of meal and customer service also help Arcland remain as a market leader of this niche market. Additionally, its diversified sale channel to delivery, take-out from in-store is the strongest point. As increasing number of women are advancing into workplace in Japan due to labor shortage, take-out needs of deep-fried food is increasing. This is an advantage of the company.

### **Valuation**

For early 2016, the share price seemed somewhat looked ahead on its favorable monthly sale. Toward the year end, the share price has cooled down and is slightly lower than its fair value right now. EV/EBITDA will decline to 15.70x in FY12/2017 (E) and 8.67x in FY12/2020 from 22.81x in FY12/2015 and 15.63x in FY12/2016. The SOTP NAV also shows slightly discount from the NAV for FY12/2017 (E). The NAV for FY12/2020 is expected to rise to JPY4,073 a share.

### **Financial Stability**

Arcland has no debt and much cash on hand. Financial stability is very sound and rich free cash flow will raise its excess cash on its balance sheet going forward, too.

## Business Outlook

### Existing Store Sale

Existing store('Katsuya') sales favorably grew 4.0% YoY in 2013, 1.5% YoY in 2014, 2.0% YoY in 2015 and 2.3% YoY in FY2016. METRICAL expects the store sale to maintain solid growth at 2.1% YoY until 2020 although demand of foreign tourists for Tokyo Olympic Game might push the sale much higher (see Table below). Major driver of sales growth is take-out and 'Karayama.' Store that is available for take-out earns 30% sale than that is unavailable. At this moment only 30% of stores are available for take-out sale and Arcland plans to increase stores that are available for take-out. 'Karayama' also helps sales increase, as average monthly sale of 'Karayama' is JPY11.6 million a store, whereas 'Katsuya' earns JPY8.1 million a store on average. Unit price of 'Karayama' is slightly higher and take-out sale is 10ppt higher than 'Katsuya' of total store sale.

Katsuya Existing Store Sales

Month	FY2013/12	FY2014/12	FY2015/12	FY2016/12	FY2017/12	FY2018/12	FY2019/12	FY2020/12
1	1.2	6.3	-0.4	2.7	0.9	3.3	0.9	3.3
2	-3.9	1.4	4.6	6.4	-3.2	7.4	-3.2	7.4
3	1.8	4.9	-1.0	3.8	0.4	3.8	0.4	3.8
4	6.7	-0.2	4.5	1.0	3.2	1.0	3.2	1.0
5	4.6	0.9	3.0	2.2	2.0	2.2	2.0	2.2
6	7.4	-1.3	2.9	3.8	0.4	3.8	0.4	3.8
7	5.2	1.4	0.4	4.6	-0.4	4.6	-0.4	4.6
8	3.1	2.7	4.2	-3.7	7.9	-3.7	7.9	-3.7
9	4.6	4.2	0.0	0.1	4.1	0.1	4.1	0.1
10	7.3	-3.3	5.2	2.0	2.2	2.0	2.2	2.0
11	8.0	-1.2	1.2	2.0	2.2	2.0	2.2	2.0
12	2.1	2.0	3.9	-0.1	4.3	-0.1	4.3	-0.1
1Q	-0.3	4.2	1.1	4.3	-0.6	4.8	-0.6	4.8
2Q	6.2	-0.2	3.5	2.3	1.8	2.3	1.8	2.3
3Q	4.3	2.8	1.5	0.3	3.8	0.3	3.8	0.3
4Q	5.8	-0.8	3.4	1.3	2.9	1.3	2.9	1.3
YR	4	1.5	2.3	2.0	2.0	2.2	2.0	2.2

### Company Outlook for Full Year FY12/2017

The company posted its full year outlook. Sale will be up 11.7% YoY to JPY26,000 million and OP, RP and NP are expected to gain 11.9% YoY to JPY3,750 million, 10.0% YoY to JPY38,000 million and 6.3% YoY to JPY2,200 million respectively.

### METRICAL forecast for FY12/2017

Based on positive outlook of monthly sale, earnings for the full year will move higher slightly than company forecast. Sales are expected to rise 17.8% YoY to JPY26,770 million and OP, EBT and NP are expected to gain 24.3% YoY to JPY3,947 million, 17.8% YoY to JPY3,828 million and 18.0% YoY to JPY2,441 million respectively (see Appendix)

### Mid-Term Outlook

For mid-term the earnings are expected to continue solid growth led by positive monthly sale of 'Katsuya' and increasing take-out demand of women customers for 'Karayama.' Total sale is expected to grow to JPY40,793 million and OP to grow to JPY6,439 million for FY12/2020 (see Appendix).

## Valuation

The share price does not look cheap on EV/EBITDA. However, taking account of its prospective earnings in mid-term, the multiple valuation will come down. SOTP NAV that is appraised on the business value plus net cash shows more attractive and is expected to be JPY3,234 for FY03/2017 (E) that is 5% discount of closing price on March 10<sup>th</sup> 2017.

## EV/EBITDA

EV/EBITDA for FY12/2017(E) is estimated to be 15.7x and will decline to 8.7x for FY012/2020 (E) from 22.8x for FY12/2015 and 18.9x for FY12/2016.

	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17(E)	Dec-18(E)	Dec-19(E)	Dec-20(E)
Avg. Mkt. Cap	JPY 10,161	JPY 14,929	JPY 24,126	JPY 80,741	JPY 80,741	JPY 80,741	JPY 80,741	JPY 80,741	JPY 80,741
EV	JPY 6,554	JPY 10,400	JPY 15,354	JPY 74,556	JPY 69,903	JPY 68,331	JPY 66,284	JPY 63,733	JPY 60,599
EV/EBITDA	2.82	3.84	5.40	22.81	18.85	15.70	12.99	10.66	8.67
EV*(LT Investment+Land)	JPY 6,332	JPY 10,141	JPY 15,069	JPY 70,729	JPY 69,590	JPY 68,018	JPY 65,971	JPY 63,420	JPY 60,286
EV*/EBITDA	2.72	3.75	5.30	21.64	18.77	15.63	12.93	10.61	8.63
EV/EBIT	3.34	4.48	5.92	25.51	20.87	17.29	14.24	11.64	9.41
EV/FCF	6.22	10.94	10.19	60.76	36.95	34.69	27.10	21.62	17.16

## Sum-of-the Parts Value

Sum-of-the-Parts (SOTP) value is business value of each business segment that uses normalized EBIT, EBITDA and FCF from FY12/2011 to FY12/2017(E), added to net cash and long-term investment securities and land. SOTP value for FY12/2017(E) is estimated to be JPY3,234 a share (5% discount of closing price of March 10<sup>th</sup> 2017). SOTP value for FY12/2020(E) is estimated to be JPY4,073 a share (24% discount of closing price of March 10<sup>th</sup> 2017), as shown table below.

NAVs:			NAVs:		
<b>Sum of the parts NAV (2016/12 ARJE):</b>			<b>Future NAV (2018/12 ARJE):</b>		
Restaurant	2,406	15x EBIT	Restaurant	3,185	15x EBIT
	-				
Cash	666	1x Book	Cash	885	1x Book
Investment	173	0.75x Book	Investment	14	0.75x Book
Debt	-	1x Book	Debt	-	1x Book
Minorities	(11)	1x Book	Minorities	(11)	1x Book
<b>Total SOTP NAV</b>	<b>JPY 3,234</b>	<b>95.2%</b>	<b>Total Future NA</b>	<b>JPY 4,073</b>	<b>75.6%</b>

## Financial Analysis

As shown key financial ratios in table below and financial statements summary in Appendix, Arcland has strong balance sheet and rich free cash flow. Free cash flow is steadily growing buoyed by high profit margins and is expected to exceed JPY4.5 billion for FY12/2020. The company projects to accelerate expansion of outlets but free cash flow generates far more than its CapEx. Arcland has no debt and has too much excess cash and should return shareholders in near future. Dividend is very likely to pull higher again, although the company raised JPY5 per share for FY12/2016, which still remains 19% payout ratio against net profit.



# METRICAL INC.

corporate governance, investment research & solutions

Financial Ratio:	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17(E)	Dec-18(E)	Dec-19(E)	Dec-20(E)
ROE	17.35%	21.68%	21.76%	17.82%	15.04%	15.24%	15.73%	16.05%	16.22%	16.32%
Gross Margin	59.29%	58.22%	57.53%	55.01%	52.92%	52.98%	52.98%	52.98%	52.98%	52.98%
EBITDA Margin	16.90%	18.18%	18.06%	16.13%	15.61%	15.92%	16.24%	16.56%	16.85%	17.13%
EBIT Margin	13.55%	15.33%	15.50%	14.71%	13.96%	14.39%	14.75%	15.10%	15.44%	15.78%
Return on Assets	12.37%	13.86%	13.90%	10.92%	10.76%	11.09%	11.53%	11.87%	12.13%	12.33%
Return on Fixed Assets	52.38%	69.14%	70.18%	72.16%	70.66%	72.03%	68.18%	66.88%	66.62%	67.26%
Revenue / Assets	168.41%	159.62%	153.92%	120.56%	125.78%	124.70%	126.41%	127.21%	127.05%	126.46%
Depreciation / Capital Expenditure	62.35%	51.63%	42.37%	33.33%	34.02%	44.53%	44.44%	50.00%	52.63%	55.00%
Depn / Sales	3.35%	2.84%	2.56%	1.42%	1.65%	1.54%	1.49%	1.46%	1.41%	1.35%
Capex / Sales	5.37%	5.51%	6.03%	4.26%	4.84%	3.45%	3.36%	2.92%	2.68%	2.45%
Depn / Net FA	23.87%	22.65%	19.87%	11.30%	13.60%	12.46%	11.17%	10.47%	9.85%	9.30%
Asset / Equity	1.40	1.43	1.43	1.32	1.31	1.29	1.28	1.26	1.24	1.23
Equity / Asset	71.26%	70.14%	70.00%	76.00%	76.44%	77.37%	78.30%	79.41%	80.51%	81.45%
Total Debt / EBIT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

## Investment Risks

### Industry competition (Very Likely, Middle Risk)

Competition within industry would be the most likely risk of all investment risk. Some investors worry about increasing competition of pork cutlet fast food. Matsuya Food projects to open 59 'Matsunoya' pork cutlet outlets for FY03/2017 (as of February 2017 total 112 outlets), and Skylark aims at expanding to 100 to 200 outlets for FY12/2019 (currently 3 outlets). If this is true that pork cutlet fast food market is 1,200 outlets ('gyudon' is 3,000 outlets), total 500 outlets is the half of the capacity at the moment. Currently a variety of pork cutlet menu and price (JPY490 of 'katsudon' is as low as 'Matsunoya') has competitive advantage. February existing store sale was down -3.2% YoY from a year ago, but this was mainly due to high sale performance of the previous year at +6.4% and would not have any trouble. Strengthening take-out and delivery would respond to right needs of society and will definitely support the business.

### Reversal of budget-minded consumption (Less Likely, Low Risk)

This would be a major risk for budget price fast food operators if consumers were more likely to buy luxury dinner restaurant rather than budget fast food. The risk would be less likely for the mid-term. In macroeconomic point of view in Japan, disposable income of consumers is hardly expected to grow further as social security expense is increasing at solid pace due to demographic structure in Japan. Also, a change in social structure would be a tailwind for the company, as fried-food is always one of the most popular food but many people are likely to be reluctant to cook deep-fried menu at home and an increasing number of women advances into workplace and buy such a take-out food for eating at home. Therefore, the risk that consumers will not enjoy luxurious restaurant rather than fast food is less likely.

### Inflation (Less Likely, Low Risk)

Inflation risk is concern about food material cost for the fast food chain operators. However, pork price has been stable, as government imposes additional dollar of tax on import pork that is lower than domestic pork. Thus,

pork price is relatively stable than beef and other meat. Rice and cabbage are domestic material and influenced by weather in Japan but could maintain to stabilize by long-term contract with wholesalers. For short term, weaker JPY and rise in crude oil price would influence to raise electricity cost. Consequently, inflation risk would be marginal at this moment.

### **Parent ownership (Less Likely, Low Risk)**

Parent company Arcland Sakamoto still owns 52.9% ownership and directors and key managers come from the parent company. Arcland Service significantly contribute to the parent's consolidated earnings. The parent company is unlikely to sell the shares of the subsidiary soon. Moreover, Arcland Sakamoto has been growing soft but marinating generating sufficient cash flow. The subsidiary would remain in the consolidation for the mid-term.

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## Appendix

	Sales	Sales chg	COGS	COGS/S	GP	SGA	SGA/S	OP	OPM	EBT	Tax	Minority	NP	EPS
FY2014/12 1Q	4,148		-1,798	-43.3%	2,350	-1,683	-40.6%	667	16.1%	755	-301	0	453	
2Q	4,098		-1,835	-44.8%	2,263	-1,687	-41.2%	575	14.0%	539	-214	0	343	
3Q	4,554		-2,127	-46.7%	2,427	-1,777	-39.0%	649	14.3%	670	-252	0	400	
4Q	4,823		-2,169	-45.0%	2,654	-1,954	-40.5%	701	14.5%	696	-297	2	401	
Full Year	17,623		-7,929	-45.0%	9,694	-7,101	-40.3%	2,592	14.7%	2,660	-1,064	2	1,597	211.26
FY2015/12 1Q	4,916	18.5%	-2,308	-46.9%	2,608	-1,917	-39.0%	690	14.0%	686	-259	-4	423	
2Q	5,054	23.3%	-2,384	-47.2%	2,670	-2,036	-40.3%	634	12.5%	610	-233	-3	373	
3Q	5,268	15.7%	-2,467	-46.8%	2,801	-2,071	-39.3%	730	13.9%	680	-264	-10	406	
4Q	5,704	18.3%	-2,700	-47.3%	3,004	-2,135	-37.4%	869	15.2%	882	-279	-12	590	
Full Year	20,942	18.8%	-9,859	-47.1%	11,083	-8,159	-39.0%	2,923	14.0%	2,858	-1,035	-29	1,792	112.58
FY2016/12 1Q	5,558	13.1%	-2,585	-46.5%	2,973	-2,155	-38.8%	817	14.7%	790	-300	-17	472	
2Q	5,672	12.2%	-2,690	-47.4%	2,982	-2,225	-39.2%	756	13.3%	736	-258	-11	468	
3Q	5,698	8.2%	-2,678	-47.0%	3,020	-2,232	-39.2%	789	13.8%	786	-264	-13	508	
4Q	6,358	11.5%	-2,995	-47.1%	3,363	-2,375	-37.4%	988	15.5%	936	-296	-19	621	
Full Year (E)	23,286	11.2%	-10,948	-47.0%	12,338	-8,987	-38.6%	3,350	14.4%	3,248	-1,118	-60	2,070	130.00
Full Year (CE)	23,800	13.6%						3,250	13.7%	3,300			1,900	119.37
FY2017/12 1Q	6,156	10.8%	-2,863	-46.5%	3,293	-2,373	-38.6%	920	14.9%	889	-338	-19	532	
2Q	6,504	14.7%	-3,085	-47.4%	3,420	-2,485	-38.2%	935	14.4%	910	-319	-14	578	
3Q	6,714	17.8%	-3,156	-47.0%	3,559	-2,621	-39.0%	938	14.0%	934	-314	-15	605	
4Q	7,395	16.3%	-3,483	-47.1%	3,911	-2,757	-37.3%	1,155	15.6%	1,094	-346	-22	726	
Full Year (E)	26,770	15.0%	-12,587	-47.0%	14,183	-10,235	-38.2%	3,947	14.7%	3,828	-1,317	-70	2,441	153.35
Full Year (CE)	26,000	11.7%						3,750	14.4%	3,800			2,200	138.21
FY2018/12 1Q	7,349	19.4%	-3,418	-46.5%	3,931	-2,817	-38.3%	1,114	15.2%	1,077	-409	-23	645	
2Q	7,510	15.5%	-3,562	-47.4%	3,949	-2,794	-37.2%	1,155	15.4%	1,124	-394	-17	713	
3Q	7,541	12.3%	-3,544	-47.0%	3,997	-2,933	-38.9%	1,064	14.1%	1,060	-356	-18	686	
4Q	8,418	13.8%	-3,965	-47.1%	4,453	-3,132	-37.2%	1,321	15.7%	1,251	-396	-25	830	
Full Year (E)	30,818	15.1%	-14,489	-47.0%	16,329	-11,675	-37.9%	4,654	15.1%	4,513	-1,555	-83	2,875	180.62
Full Year (CE)														
FY2019/12 1Q	8,140	10.8%	-3,786	-46.5%	4,354	-3,103	-38.1%	1,252	15.4%	1,210	-460	-26	725	
2Q	8,613	14.7%	-4,085	-47.4%	4,528	-3,120	-36.2%	1,409	16.4%	1,371	-481	-20	870	
3Q	8,886	17.8%	-4,176	-47.0%	4,709	-3,443	-38.8%	1,266	14.2%	1,261	-424	-21	817	
4Q	9,791	16.3%	-4,612	-47.1%	5,179	-3,635	-37.1%	1,543	15.8%	1,462	-462	-30	970	
Full Year (E)	35,430	15.0%	-16,659	-47.0%	18,771	-13,301	-37.5%	5,470	15.4%	5,305	-1,826	-97	3,382	212.46
Full Year (CE)														
FY2020/12 1Q	9,718	19.4%	-4,520	-46.5%	5,198	-3,683	-37.9%	1,515	15.6%	1,465	-556	-32	877	
2Q	9,945	15.5%	-4,716	-47.4%	5,228	-3,508	-35.3%	1,721	17.3%	1,675	-587	-25	1,063	
3Q	9,979	12.3%	-4,690	-47.0%	5,289	-3,853	-38.6%	1,436	14.4%	1,430	-480	-24	926	
4Q	11,145	13.8%	-5,250	-47.1%	5,895	-4,130	-37.1%	1,765	15.8%	1,672	-529	-34	1,110	
Full Year (E)	40,787	15.1%	-19,176	-47.0%	21,611	-15,173	-37.2%	6,438	15.8%	6,244	-2,153	-114	3,976	249.81
Full Year (CE)														

(Source) Arcland Service, Metrical

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		2011/12	2012/12	2013/12	2014/12	2015/12	2016/12	2017/12E	2018/12E	2019/12E	2020/12E
(貸借対照表)	Consolidated Balance Sheets										
資産の部	Assets										
流動資産	Current Assets										
現金及び現金等価物	Cash and Cash Equivalents	2,594	3,607	4,529	3,817	4,810	8,432	10,002	12,049	14,596	17,729
短期投資	Short-Term Investments	-	-	-	5,000	1,500	2,592	2,592	2,592	2,592	2,592
受取手形及び売掛金	Notes and Accounts Receivable, Trade Allowance for Doubtful	359	476	620	801	1,054	1,216	1,398	1,609	1,850	2,130
貸倒引当金	Receivables	(2)	(2)	(3)	(4)	(5)	(5)	(6)	(7)	(8)	(9)
棚卸資産	Inventories	113	125	226	210	273	287	330	380	437	503
繰延税金	Deferred Income Taxes	65	74	98	97	82	89	102	118	135	156
その他流動資産	Other Current Assets	169	245	217	269	258	441	507	584	671	772
流動資産合計	Total Current Assets	3,298	4,525	5,687	10,190	7,972	13,052	14,925	17,325	20,274	23,873
有形固定資産	Property, Plant and Equipment										
土地	Land	-	-	-	-	-	-	-	-	-	-
建物及び構築物	Buildings	2,245	2,400	2,796	3,209	3,588	4,055	4,802	5,570	6,397	7,282
機械その他	Machinery and Equipment	426	471	577	643	768	824	824	824	824	824
建設仮勘定	Construction in Progress	4	4	-	1	-	4	5	5	6	7
小計	Total	2,675	2,875	3,373	3,853	4,356	4,883	5,631	6,399	7,227	8,113
減価償却累計額	Accumulated Depreciation	(1,142)	(1,268)	(1,445)	(1,640)	(1,820)	(2,009)	(2,051)	(2,101)	(2,151)	(2,201)
有形固定資産合計	Net Property, Plant and Equipment	1,533	1,607	1,928	2,213	2,536	2,874	3,580	4,298	5,076	5,912
ソフトウェアその他無形固定資産	Software & Other intangible assets					7	7				
のれん	Goodwill	5	6	4	7	325	270	202	134	66	(2)
無形固定資産合計		5	6	4	7	332	277	202	134	66	(2)
投資その他の資産	Other Assets										
関連会社に対する投資及び貸付	Investments in and Advances to Associates	-	-	-	-	-	-	-	-	-	-
投資有価証券	Investment Securities	120	222	259	285	3,827	313	313	313	313	313
貸倒引当金	Software & Others	-	-	(28)	-	-	-	-	-	-	-
繰延税金	Deferred Income Taxes	48	50	76	53	65	104	104	104	104	104
その他の資産	Other	1,489	1,607	1,810	1,870	1,917	2,053	2,053	2,053	2,053	2,053
投資その他の資産合計	Total Other Assets	1,657	1,879	2,117	2,208	5,809	2,470	2,470	2,470	2,470	2,470
資産合計	Total	6,493	8,017	9,736	14,618	16,649	18,673	21,177	24,227	27,886	32,253
負債・資本の部	Liabilities and Stockholders' Equity										
流動負債	Current Liabilities										
短期借入金	Bank Loans	-	-	-	-	-	-	-	-	-	-
支払手形・買掛金	Notes and Accounts Payable, Trade	516	627	820	1,017	1,165	1,222	1,405	1,617	1,859	2,140
未払金		-	-	-	-	0	0	0	0	0	0
未払費用	Accrued Expenses	247	269	361	362	437	470	423	331	225	133
未払税金	Income Taxes	310	563	508	637	570	643	739	851	978	1,126
その他流動負債計	Other Current Liabilities	304	355	518	683	788	924	1,062	1,223	1,406	1,618
一年以内に返済予定の長期借入金	Current Portion of Long-Term Debt	-	-	-	-	-	-	-	-	-	-
流動負債合計	Total Current Liabilities	1,377	1,814	2,207	2,699	2,960	3,259	3,629	4,022	4,468	5,018
長期借入金	Long-Term Debt	-	-	-	-	-	-	-	-	-	-
繰延税金	Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-
退職給付引当金	Termination and Retirement Benefits	-	-	-	-	-	-	-	-	-	-
その他固定負債	Other Long-Term Liabilities	489	580	714	809	963	966	966	966	966	966
有利子負債		-	-	-	-	-	-	-	-	-	-
負債合計	Total Liabilities	1,866	2,394	2,921	3,508	3,923	4,225	4,595	4,988	5,434	5,984
資本	Stockholders' Equity										
資本金	Common Stock	456	456	456	1,932	1,932	1,932	1,932	1,932	1,932	1,932
資本剰余金	Additional Paid-in Capital	408	408	408	1,884	1,884	1,884	1,884	1,884	1,884	1,884
利益準備金	Legal Reserve	3,843	4,837	6,030	7,332	8,885	10,556	12,957	15,792	19,134	23,071
その他剰余金	Retained Earnings	-	-	-	-	-	1	1	1	1	1
自己株式	Treasury Stock	(78)	(78)	(79)	(79)	(79)	(79)	(79)	(79)	(79)	(79)
株主資本	Total Stockholders' Equity	4,629	5,623	6,815	11,069	12,622	14,294	16,695	19,530	22,872	26,809
その他の包括利益累計額	Accumulated other	-	-	-	-	(20)	(31)	(299)	(477)	(607)	(726)
少数株主持分	Minority Interests in Subsidiaries	-	-	-	45	125	186	186	186	186	186
純資産合計	Total Stockholders' Equity	4,629	5,623	6,815	11,110	12,727	14,449	16,582	19,239	22,451	26,269
負債・資本合計	Total	6,493	8,017	9,736	14,618	16,649	18,673	21,177	24,227	27,886	32,253