

Royal Holdings (8179, JP)

Exchange: Tokyo Stock Exchange 1

Sector: Restaurant & Hotel

Market Cap: JPY114.1 billion

P/B: 2.2x (12/17 act)

Recommendation: Outperform

Share Price: JPY2,839 (5/11/2018)

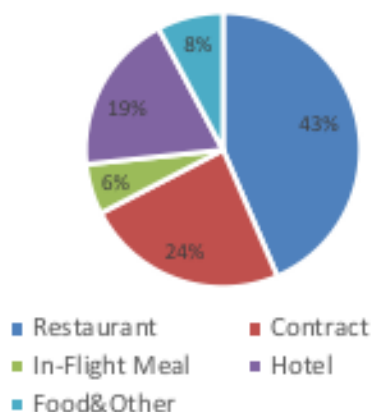
Target Price: JPY3,192

P/E: 33.7x (12/18 CE)

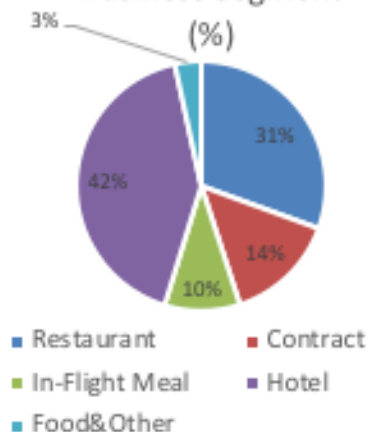
Div. Yield: 1.1% (12/18 CE)



Sales by Business Segment (%)



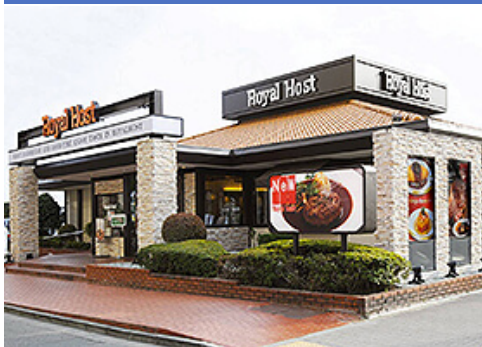
Recurring Profit by Business Segment (%)



Highlight – Positive sign: recovery of Royal Host, Further enhancement is expected on MTP

METRICAL maintains 'Outperform,' raising target price to JPY3,192 from the previous report on February 26th, 2016 after new mid-term-management plan (MTP) has been released.

Royal Host shows its recovery. Its strategy would benefit to positive existing store sale, as the family restaurant focuses on lunch and dinner customers and delivers hospitality service. Tenya, tempura fast food projects to fuel its growth after a respite. Mid-Term-Management plan (MTP) states to expand new outlets in shopping mall and reinforcing FC in Japan and overseas market for the next 3 years. Contract Food Service business looks mixed. Contract In-office is in the middle of improving profitability, shifting to health-care and nursery facility, whereas airport continues positive growth backed by the increase in foreign visitors. The tailwind also benefits to in-flight meal and Hotel business. In addition to the rising occupancy rate, the hotel expands at solid pace of 2 new hotels a year. Hotel business accounts for 19% of sale but 42% of profit as of FY12/2017 (see pie charts on left). Opening new hotels is scheduled 2 hotels for FY12/2018 and 2 for FY12/2019, and 1 new hotel will be added has for FY12/2020. Alongside the contribution of Hotel to the company gets larger, the profit margin will go higher. Meantime, further improvement of profitability in other segments is a key and MTP focuses on reducing such upcoming risks as the increase in labor cost, construction cost and food material cost, economic cycle and tax hike etc. and reinforcing cost management or productivity improvement. Valuation measures show still undervaluation. DCF valuation is based on the assumption that Hotel opens 2 new hotels for FY12/2018 and FY12/2019 and 1 for FY12/2020 and none for FY12/2021 based on the current schedule of the company, although company guidance of Hotel sale is likely to assume 2 hotels for FY12/2021. Even this assumption, DCF valuation shows 10% upside potential from the closing price on May 11th, 2018. In case of 2 new hotel for FY12/2020 as usual years, the valuation should be revised upward. The company does not look expensive in EV/EBITDA. Its EV/EBITDA of 9.0x should be revalued to Kyoritsu Maintenance (9616, JP) of 16.7x that operates hotel and dormitory business, although Royal Holdings runs more diversified business.



Royal Host



Tenya



Shakey's



Contract: Highway Service

Business Description

In 1951 as Japan Airlines began their domestic service, the company launched our in-flight catering and tea services at Fukuoka Airport, and opened Royal Bakery and Royal Nakatsu Restaurant in Fukuoka. Adopted central-kitchen in 1962 Royal Host family restaurant chain across nation-wide from 1971. Hotel business was consolidated in 2004. After moved to holding company in 2005, the company accelerated business acquisition in contract business and restaurant business.

The holding company is comprised of 5 business segment, Restaurant, Contract Food Service, In-Flight Meal, Hotel and Food Manufacturing & Other. As shown the pie charts on left, Sales by Business Segment and Recurring Profit by Business Segment as of FY12/2018, The largest and 2nd largest segment in sales are Restaurant and Contract food Service, whereas Hotel generates much larger recurring profit than Restaurant and Contract Food Service.

Restaurant

Restaurant segment consists 3 major restaurants of Royal Host, Tenya and Specialty. 218 family restaurants operating Royal Host has suffered sagging consumer spending for 3 years and decreased sale due to soft existing store sale and closure of unprofitable outlets.

However, the existing store sale for this year is likely to turn positive for the first time after negative YoY growth for 3 straight years. The sale grew 4.1% YoY for 1Q FY12/2018, although the restaurant closed New Year's Day. The restaurant projects to open at most 2 outlets a year selectively and continue improving customer satisfaction led by the renovation of outlets and enhancement of hospitality to customers.

Tenpura fast food chain, Tenya runs 153 direct run outlets. Supported by budget-minded customers, the fast food chain grew fast after consolidation into the company. The existing store sale maintained slightly negative number of -0.3% YoY despite of the price increase in January 2018. Standard tendon (tempura on rice) has been raised to JPY540 from JPY500. The tempura fast food plans to expand FC in Japan and direct run outlets in overseas.

Specialty operates Sizzler (steak), Shakey's (pizza) and other brand restaurants.

Contract Food Service

Contract Food service provides food, operating restaurants at airport & highway, restaurants in department stores and cafeteria in offices, hospital, nursing home, factory and school. The sale of airport gained buoyed by the increase of the number of foreign visitors, while the existing store sale grew positive, but the number of outlets grew at limited pace. Meantime, the sale of in-office grew slower as the outlets decreased from 185 in December 2015 to 167 in 1Q FY12/2018, as department stores closed their stores due to anemic retail sales.

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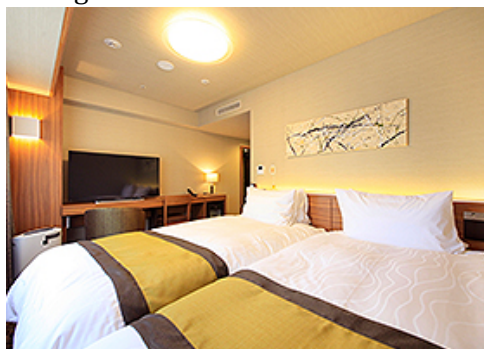
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In-Flight Meal

In-Flight Meal

The original business provides in-flight meals from 3 bases of Kansai, Fukuoka and Okinawa. Kansai airport grows positive led by the increase of foreign passengers, while the number of domestic passengers increases at modest rate.



Richmond Hotel

Hotel

Currently 39 direct run and 1 FC hotels are operated as 'Richmond Hotel' brand. The top brand budget hotel receives high reputation by business persons. Its occupancy rate is rising to 90.9% for FY12/2017. Due to the increase in the number of foreign tourists, the sale and occupancy rate is likely to continue rising. The operator increased 2 hotels a year and projects to open 2 hotels in 2019 and 1 hotel in 2020

Food Manufacturing

Food Manufacturing provides food staff to Royal group as a back kitchen from 2 locations of Fukuoka and Tokyo.

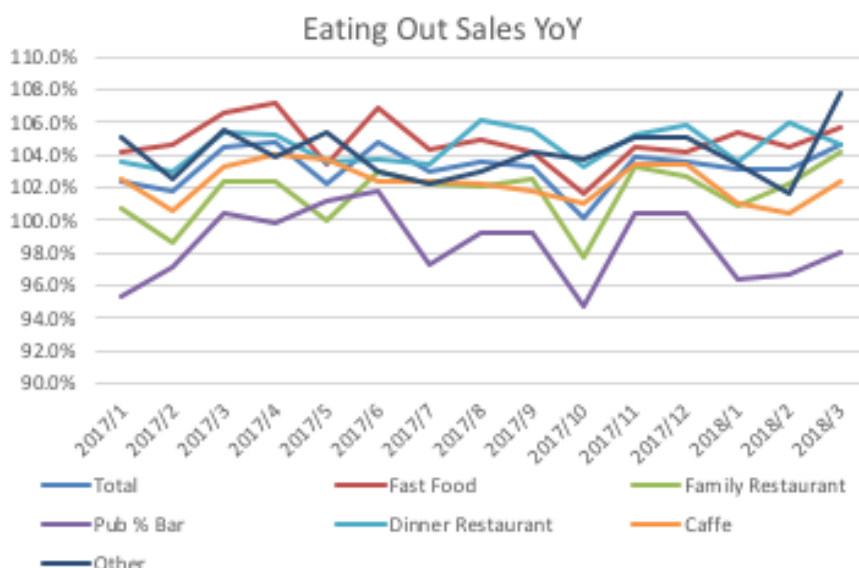
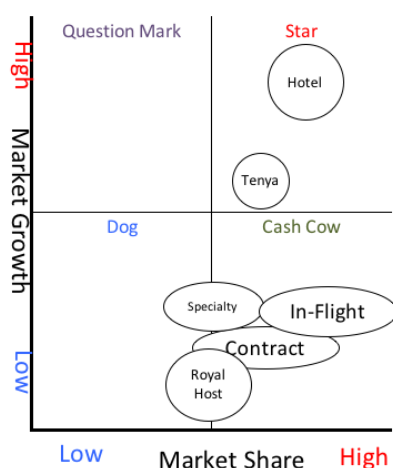


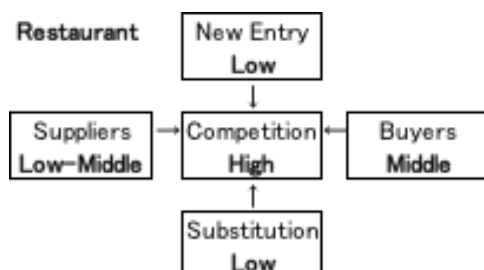
Food Manufacturing

Industry Overview and Competitive Positioning

Industry Overview

Food service industry in Japan grows at modest rate due to slower growth of population. According to Japan Food Service Association, the market for 2016 inched up 0.1% YoY to JPY25,416 billion. For contract Food Service business, school lunch inched up 0.2% YoY, Office was flat, and hospital fell 0.2% YoY. Lunch supply market in these institutions rose 0.4% YoY to JPY3,389 billion for 2016. For Restaurant business, family restaurant rose 1.5% YoY and fast-food gained 4.6% YoY for 2017.





Restaurant

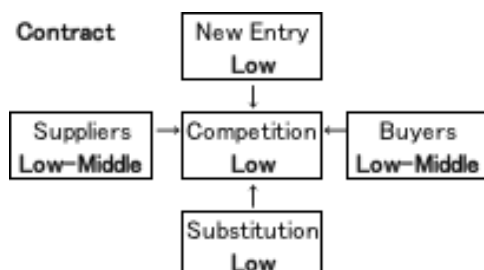
Buyers (Middle risk): Eating out industry has suffered soggy consumer spending under slower real wage growth in Japan. Budget mind of customers has not fully improved yet. Royal Host had weak store sale for a few years, but finally turned its store sale to positive, trying to strengthen its hospitality and pull up customer satisfaction in differentiation strategy. Tenya serves tempura for value price from JPY540, while Sizzler focuses slightly higher range and serves steak for reasonable price. The company diversifies customers in middle range and low price.

Suppliers (Low-Middle risk): Due to bad weather, vegetable price rose for 1Q FY12/2018. However, central-kitchen and bargaining power of group procurement soft the impact of price increase of material cost. However, Tenya, tempura fast food cooks fresh food at the store and the impact would be larger than Royal Host.

Competition (High risk): Due to sluggish retail sales and slower growth in population, the sale of eating-out is less likely to continue solid growth. The competition will continue high.

New Entry (High risk): Due to cost advantage of large operators, the company would maintain better position. However, barrier of new entrants is low for the industry, although the company seeks new opportunity in Specialty restaurant.

Substitution (Low risk): Food is one of necessities in our lives. Substitution risk is low. As aging population is increasing, and more women participate in labor market, eating out need is more demanding.



Contract Food Service

Buyers (Low-Middle risk): Expansion of operation at airport and highway service is limited but the increase of foreign visitors is a tailwind for airport. Due to anemic retail sale, the contract has decreased in department stores, whereas nursery home and hospital is increasing. However, the revenue is likely to grow at modest rate due to lower profitability of clients.

Suppliers (Low-Middle risk): Due to bad weather, vegetable price rose for 1Q FY12/2018. However, central-kitchen and bargaining power of group procurement might soft the impact of price increase of material cost.

Competition (Low risk): Due to advantageous location, operator at airport and highway, and in-office both is lower competition risk.

New Entry (Low

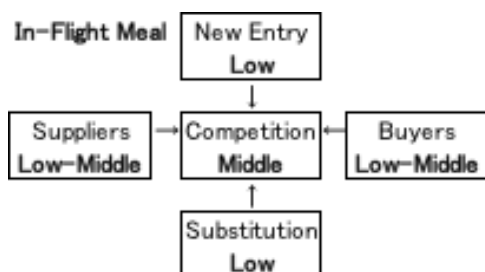
risk): Due to the space of location, new entrant risk is limited. In many cases, replacement to other operator would be more likely.

Substitution (Low risk): Food is one of necessities in our lives.

Substitution risk is low. As aging population is increasing, and more women participate in labor market, eating out need is more demanding. Facility operator is more likely to use outsourcing to contract food service operators rather than operate for itself.

In-Flight Meal

Buyers (Low-Middle risk): For domestic airlines the demand is limited to grow, while for international airlines the number of flights and passengers are increasing. On the other hand, the price per meal is less likely to grow positively due to intense competition of airlines as airfare is less likely to grow. The sales of the business segment have remained in a range.



Suppliers (Low-Middle risk): Due to bad weather, vegetable price rose for 1Q FY12/2018. However, central-kitchen and bargaining power of group procurement might soft the impact of price increase of material cost.

Competition (Middle risk): Due to limited number of suppliers who needs skills of the food service, competition would be middle.

New Entry (Low risk): Due to special skill of food service, new entry risk is low. The company maintain strong position as a supplier with longest experience in this country.

Substitution (Low risk): In-flight meal will be no longer needed if aircraft flew much fast. It would be possible for technology, but airline companies are less likely to buy and operate such ultra-speed aircraft so soon.

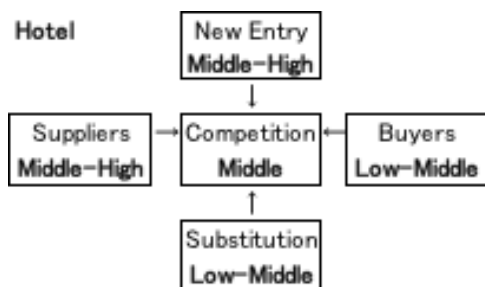
Hotel

Buyers (Low-Middle risk): Due to tight hotel market in Japan led by the increase in foreign visitors prior to Tokyo Olympic Games in 2020, The risk is low-to- middle. There are a number of rivals at terminal station or center of cities, but 'Richmond Hotel' offers quality of service and receive high reputation from guest.

Suppliers (Middle-High risk): Due to tight hotel market and labor shortage of construction industry, the leasing price is increasing. The company has added 2 new hotels a year and keeps profit margin supported by the increase in occupancy rate.

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Competition (Middle risk): Due to tight market, the competition is middle, although budget hotel is volume zone market. High reputation by users of 'Richmond Hotel' is advantage.

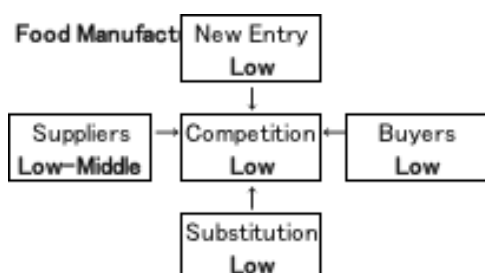
New Entry (Middle-High risk): The number of new entrants is increasing on the positive outlook of the industry. However, the raising construction cost and leasing price as well as labor shortage will ease the new entry.

Substitution (Low-Middle risk): Airbnb and renting private homes and rooms are alternative choice and would be a threat. However, offering budget hotel with quality of service for reasonable cost would be the strength for the company. Substitution risk is low-middle.

Food Manufacturing

Buyers (Low risk): Buyers are the Royal's group companies. The risk is low.

Suppliers (Low-Middle risk): Due to bad weather, vegetable price rose for 1Q FY12/2018. However, central-kitchen and bargaining power of group procurement might soft the impact of price increase of material cost.



Competition (Low risk): Only the suppliers is the segment of the company. who supplies food staff to the group companies. The risk is low.

New Entry (Low risk): Only the suppliers is the segment of the company. who supplies food staff to the group companies. The risk is low.

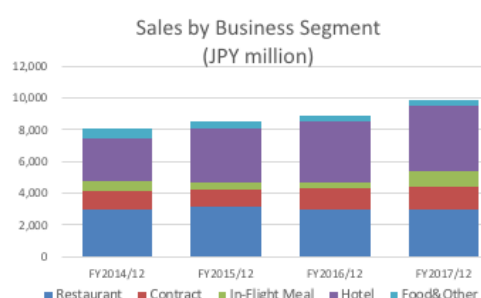
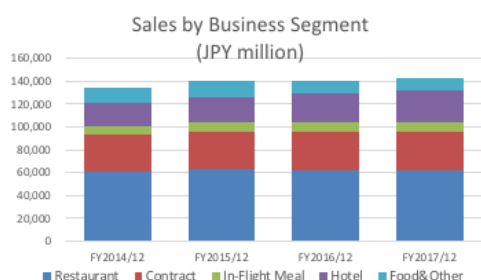
Substitution (Low risk): Only the suppliers is the segment of the company. who supplies food staff to the group companies. The risk is low. The company seeks innovation or improvement of food manufacturing and process for restaurant and contract food service operation.

Business Outlook

Restaurant

Royal Host Existing Royal Host store sale YoY in 1Q kept positive number of 4.1% after turning positive to 1.0% YoY 4Q FY12/2017. New store will strictly electively open 2 stores a year and Royal Host is likely to continue enhancing existing store sale rather than expanding new stores. The company plans to renovate 90 stores and 42 kitchens for the next 3 years and try to deliver value of the restaurant to raise customers satisfaction and raise sale of lunch and

dinner time. RP margin is improving from 4.8% for FY12/32016 to 5.3% for FY12/2017 and 6.4% for FY12/2018.



Tenya Existing store sale has softened for 2 years and the price increase has not offset the loss in the number of customers yet. 1Q existing store sale maintained slight down of -0.3% YoY but April sale increased the negative number to -2.5% YoY. It would take a little more time until full recovery. JPY540 tempura food would deliver value to customers, but other fast food chains promote relatively lower-price menu. Tenya should offer new menu to customers. For the next 3 years the company projects to accelerate expanding outlet, direct run stores in shopping mall and FC stores in Japan and increasing to more than 50 stores from 18 FC stores in overseas. Increase in FC would improve RP (Recurring Profit) margin from 2.8% for FY12/2017, the opening cost in shopping mall is lower than that of road side and in-city outlet.

Contract Food Service

Sale of airport and highway is expected to continue solid growth and 5% level RP margin, but the new store would be limited to grow. For in-office service, hospital and nursery home are expected to continue growing. However, the RP margin should raise from 2.6% for FY12/2017, but price increase is not easy for the above clients and cost reduction would be a key.

In-Flight Meal

Sales has remained at JPY8 billion, as passengers of domestic flights remain flat. Kansai base has benefit from the increase in passengers led by the increase of foreign tourists. The increasing number of foreign passenger benefits to the earnings of affiliates, JAL Royal Catering Co., Ltd that provides in-flight meals to JAL and foreign airlines. The equity in earnings of the affiliate company pull the profit higher to RP margin of 11.3%. Due to positive outlook on occupancy rate, RP margin is expected to rise and absorb the opening cost of 2 new hotels a year.

Hotel

Including a newly opened Richmond Hotel Yokohama Ekimae, the company operates 39 direct run and 1 FC hotels. Richmond Hotel Himeji Ekimae is scheduled to open for 2Q FY12/2018. Occupancy rate is rising to 90.9% and is expected to continue rising. The company has announced new hotels of Richmond Hotel Fukuoka Tenjin-Nishidori and Richmond Hotel Premier Kyoto Ekimae for FY12/2019 and 1 new hotel for FY12/2020. Renovation is planned 2 hotels for FY12/2018, 3 hotels for FY12/2019 and 5 hotels for FY12/2020.

1Q FY12/2018 Result

Sale inched up 1.1% YoY to JPY32,444 million, whereas due to the increase in IT investment and opening cost, OP, RP and NP fell 21.0% YoY to JPY768 million, 25.3% YoY to JPY730 million and 19.8% YoY to JPY381 million respectively. By segment, mainly due to opening cost of a hotel, Hotel pull the profit lower by JPY235 million in RP of total decrease in the RP of JPY246 million.

Full Year FY12/2018 Outlook by Company

Royal Holdings kept its guidance for full year FY12/2018 on hold at this moment. Sale is expected to increase 1.1% YoY to JPY137,500 million, OP up 4.2% YoY to JPY6,200 million and NP down 9.4.6% YoY to JPY3,200 respectively. NP for FY12/2017 included extraordinary profit of disposable gain of fixed assets. Dividend will increase by JPY4 a share to JPY30 a share annually.

Full Year FY12/2018 by METRICAL

Sale is likely to miss the company projection slightly, but profits is likely to move higher than the guidance slightly. Sale is expected to be up 0.9% YoY to JPY136,755 million, OP to increase 5.9% YoY to JPY6,304 million and RP to rise 3.5% YoY to JPY6,263 million and NP to decrease 4.9% YoY to JPY3,359 million respectively (see tables financial statements in Appendix).

Mid-Term Management Plan and METRICAL for FY12/2020

Royal Holdings posted its MTP for FY12/2020 aims at raising sale to JPY150,000 million and RP to JPY7,500 million. METRICAL expects sale to rise JPY148,570 and RP to gain JPY7,288 million for the year. The main reason of missing the target is Hotel business, as company projection of the segment targets JPY32,900 million in sale and JPY5,200 million in RP, whereas METRICAL expectation is JPY30,915 million in sale and JPY5,022 million in RP. The difference would be the number of new hotels for FY12/2020. METRICAL expectation is based on 1 new hotel based on the current schedule of 1 new hotel but MTP is very likely to include adding another new hotel (total 2 new hotels open for the year) and Richmond Hotel has opened 2 new hotels in each year. METRICAL expectation is based on 1 new hotel for 12/2020 and no new hotel open for FY12/2021.

IT investment

The company increases its IT investment for the next 3 years and aims to promote efficient operations in business segments and optimize operations in headquarters. Efficient operations expect to promote store IT system such as POS, tablet and IT solutions, refurbish each business segment such as Hotel, Food factory and In-Flight Meal, use it in human resource management and reform cloud and API. Optimization of headquarters projects to set-up centralized concierge setup/customer service function and free-address office layout for synergy of inter-business segment.

Valuation

DCF valuation shows 10% undervalued on the closing price (JPY2,839) on May 11th, 2018. DCF considers FCF of the period from FY12/2018 (E) to FY12/2021 (E). The projected FCF by METRICAL assumes that 1 new hotel for FY12/2020 (E) and no new hotel for FY12/2021 (E) is open. In case that new hotels are added for the years, DCF valuation would move higher.

Peer comparison on EV/EBITDA does not show higher valuation on the company. One of the reasons would be conglomerate discount. EV/EBITDA has been increased from 7.3x for FY12/2013 and FY12/2014 to 8.5x for FY12/2017, as its hotel business expanded to core business and occupancy rate goes higher. Hotel business is expected to lead its earnings from now, too and the EV/EBITDA would increase further.

| DCF - Royal Holdings (8179 JP) | JPY million |
|--------------------------------|-------------|
| PV of SUM of FCF | 9,728 |
| PV of Terminal Value | 103,172 |
| Enterprise Value | 112,900 |
| Non Business Assets | 18,102 |
| Debt | 9,802 |
| Equity Value | 121,200 |
| Equity Value/Share | 3,192 |

| WACC - Royal Holdings (8179 JP) | |
|---------------------------------|---------|
| Debt | 9,802 |
| Equity Market Value | 114,140 |
| Risk free Rate | 0.6% |
| Equity Risk Premium | 5.0% |
| Beta | 0.66 |
| Cost of Debt | 4.8% |
| Cost of Equity | 3.9% |
| WACC | 4.0% |

DCF Valuation

DCF valuation uses expected free cash flows from FY12/2018 (E) to FY12/2021 (E), as shown in Appendix. The DCF value was estimated based on the PV of expected FCFs for the next 4 years and the terminal value divided WACC of 4.06% (see tables on left). On this assumption, the valuation of DCF is estimated to be JPY3,192 a share.

EV/EBITDA

EV/EBITDA of hotel operators is shown the table below. The EBITDA of hotel of Royal Holdings accounts for slightly higher than 50% of its total EBITDA. Considering the size of EBITDA, the measure of Royal Holdings should approach to that of Imperial Hotel (9708, JP) and Kyoritsu Maintenance (9616, JP). In this sense, there would be room of revaluation.

| Name | Nippon View Hotel | AB Hotel | Kyoritsu Maintenance | Greens | Imperial Hotel | Rihga Royal Hotel | Royal Holdings |
|-----------|-------------------|----------|----------------------|----------|----------------|-------------------|----------------|
| Sec # | 6097, JP | 6565, JP | 9616, JP | 6597, JP | 9708, JP | 9713, JP | 8179, JP |
| EBITDA | 2,495 | 1,703 | 16,500 | 2,673 | 7,676 | 3,940 | 11,364 |
| EV | 19,797 | 38,931 | 274,851 | 21,580 | 108,555 | 52,337 | 102,662 |
| EV/EBITDA | 7.9 | 22.9 | 16.7 | 8.1 | 14.1 | 13.3 | 9.0 |

JPY million

As on the historical EV/EBITDA of the company, the multiple rose to 8.5x for FY12/2017 from 7.3x for FY12/2013 and FY12/2014 and is expected to rise to 9.1x for FY12/2018 (E) and to lower to 8.0x for FY12/2020 (E) and 7.4x for FY12/2021 (E).

| | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18(E) | Dec-19(E) | Dec-20(E) | Dec-21(E) |
|---------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|
| Avg. Mkt. Cap | JPY 50,945 | JPY 61,607 | JPY 77,969 | JPY 86,730 | JPY 97,589 | JPY 114,140 | JPY 114,140 | JPY 114,140 | JPY 114,140 |
| EV | JPY 56,526 | JPY 65,343 | JPY 80,951 | JPY 89,130 | JPY 96,871 | JPY 111,343 | JPY 108,808 | JPY 105,926 | JPY 102,662 |
| EV/EBITDA | 7.27 | 7.31 | 8.20 | 8.35 | 8.52 | 9.12 | 8.54 | 8.03 | 7.38 |

Sum-of-the Parts NAV

Sum-of-the-Parts (SOTP) NAV is business value of each business segment that is normalized EBIT, EBITDA and FCF from FY12/2014 to FY12/2018 (E) by multiples, added to net cash and long-term investment securities and land (75% of the book). SOTP value for FY12/2018 (E) is appraised to be JPY2,450 (16% premium of closing price of May 11th, 2018). SOTP NAV for FY12/2021 (E) is estimated to

be JPY3,070 (8% discount of closing price of May 11th 2018, as shown table below.

| NAVs: | | | NAVs: | | |
|-------------------------------------|-----------|------------|-------------------------------------|-----------|------------|
| Sum of the Parts NAV: (FY2018/12 E) | | | Sum of the Parts NAV: (FY2021/12 E) | | |
| Restaurant | 707 | 10x EBIT | Restaurant | 764 | 10x EBIT |
| Contract | 393 | 20x FCF | Contract | 439 | 20x FCF |
| In-Flight Meal | 195 | 10x FCF | In-Flight Meal | 215 | 10x FCF |
| Hotel | 1,000 | 13x EBIT | Hotel | 1,190 | 13x EBIT |
| Food&Other | 126 | 10x EBIT | Food&Other | 242 | 10x EBIT |
| Adjustment | (421) | 5x EBITDA | Adjustment | (447) | 5x EBITDA |
| Cash | 240 | 1x Book | Cash | 455 | 1x Book |
| Investment | 197 | 0.75x Book | Investment | 197 | 0.75x Book |
| Land | 183 | 0.75x Book | Land | 183 | 0.75x Book |
| Debt | (146) | 1x Book | Debt | (146) | 1x Book |
| Minority | (24) | 1x Book | Minority | (24) | 1x Book |
| Total SOTP NAV | JPY 2,450 | 115.9% | Total Future NAV | JPY 3,070 | 92.5% |

Financial Analysis

Yearly CapEx is slightly higher than depreciation and FCF continues generating steadily. Although dividend payout to net profit is scheduled to raise to 40%, projected CapEx could be covered by Operating Cash Flow. Interest bearing debts decreased to JPY5.4 billion for FY12/2017 from JPY9.5 billion for FY12/2013. Now what the company is needed is to improve the profitability from 4.4% in RP margin for FY12/2017. RP margin is very likely to go higher, as the percentage of earnings of Hotel rises year by year, but Restaurant and Contract Food Service should improve profitability further. The company invest in food factory and IT system of store operation for improving productivity. Key financial ratios are shown in Appendix.

Investment Risks

Restaurant industry competition (Very Likely, Middle Risk)

Competition within Restaurant industry would be very likely risk of all investment risk. Royal Host is recovering its store sale and profitability for a year. The family restaurant competes with not only Skylark (3197, JP) but also other many category of restaurants. Therefore, Royal Holdings seeks opportunity in other category or brand in its Specialty. Large operators have advantageous of procurement and cost of material backed by bargaining power and centralized kitchen. Also, Royal Host is trying to deliver value to customers and raise customer satisfaction as 'Hospitality Restaurant.' Currently, Tenya suffers weaker store sale after price increase in January 2018. Customers maintain budget mind and would often choose lower priced fast food chain. Tenya should deliver its value to customers in food and service. The risk is very likely and middle.

Consumption tax hike (Likely, Low-Middle Risk)

The previous consumption tax was raised in April 2014 from 5% to 8%. The next hike is scheduled in October 2019. The impact by the tax hike will be affected to all retail industry negatively, but the impact is estimated to be smaller than the previous time, as the tax rate will be up to 10% from 8%. Customers are used to the tax hike, as it will be raised in 3 years after the previous time, whereas they concerned about it as it took 17 years after the tax was raised to 5% from 3%. However, this will affect consumer spending negatively just after the hike, although it is possible the hike will be putting off. The risk is likely and low-middle.

Material Cost (Likely, Low-Middle Risk)

Food material cost is one of the risk of restaurant and food service operators. However, Royal Holdings uses centralized kitchen and can try to soften the impact of food cost increase. The risk is likely and low-Middle risk.

Labor Cost (Very Likely, Middle Risk)

Labor shortage is a material issue for all business in Japan. The increase in labor cost directly affect the cost and profitability. Royal Host closes 3 days a year and this aims at improving employee's satisfaction. This would result in leading to better service to customers and better recruiting new employees. The company projects to use IT and robotics in store operation and factory for the solution, too. The risk is very likely and middle risk.

Construction Cost (Very Likely, Middle Risk)

Labor shortage of particularly construction industry is very serious and increases construction cost. This would result in increase in the increase in leasing price of a building for hotel operator. This is a direct impact to the profitability. Due to higher leasing cost than projected if Richmond Hotel lose the opportunity in a location, the Hotel business will grow at slower pace. The company has already posted its new hotel plan of 2 hotels in 2019 and 1 hotel in 2020. This would affect the plan for additional hotel in 2020 and after. The risk is very likely and middle risk.

Global economy downturn (Likely, Middle -High Risk)

Global economy continues growing for over 8 years and Economy in Japan grows at mild rate backed by solid global economy but is likely to be affected by domestic factor such as consumption tax hike and Tokyo Olympic Game 2020. After tax hike in October 2019 and Olympic Game in August 2020, the economy would hit the peak of the business cycle. The business of the company such as the number of customers, the number of inflight-meals and occupancy rate of hotels are likely to come under pressure on the soft economy. The risk is likely and middle-high, but it is not certain when the risk arises.

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Appendix

Income Statement Analysis

| FY2014/12 JPY million | Revenue | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | RP | RPM | EBT | Tax | Minority | Net Profit |
|-----------------------|---------|---------|--------|--------------|---------|--------|-------|-------|------|-------|--------|----------|------------|
| 1Q | 29,312 | -9,370 | -32.0% | 19,942 | -19,223 | -65.6% | 721 | 714 | 2.5% | 659 | -345 | 4 | 318 |
| 2Q | 30,100 | -9,453 | -31.4% | 20,647 | -19,953 | -66.3% | 696 | 809 | 2.3% | 621 | -382 | -23 | 750 |
| 3Q | 33,341 | -10,406 | -31.2% | 22,935 | -20,809 | -62.4% | 2,124 | 2,178 | 6.4% | 2,081 | -869 | -59 | 618 |
| 4Q | 32,104 | -10,468 | -32.6% | 21,636 | -20,756 | -64.7% | 876 | 880 | 2.7% | 521 | -307 | -34 | 180 |
| Full Year | 124,857 | -39,697 | -31.8% | 85,160 | -80,741 | -64.7% | 4,417 | 4,581 | 3.5% | 3,882 | -1,903 | -112 | 1,866 |
| FY2015/12 | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | RP | RPM | EBT | Tax | Minority | Net Profit |
| 1Q | 30,499 | -9,819 | -32.2% | 20,680 | -19,943 | -65.4% | 740 | 717 | 2.4% | 673 | -330 | 3 | 345 |
| 2Q | 31,558 | -9,919 | -31.4% | 21,639 | -20,772 | -65.8% | 869 | 970 | 2.8% | 1,175 | -412 | -40 | 723 |
| 3Q | 34,986 | -10,892 | -31.1% | 24,094 | -21,565 | -61.6% | 2,526 | 2,546 | 7.2% | 2,592 | -1,078 | -79 | 1,434 |
| 4Q | 33,283 | -11,068 | -33.3% | 22,215 | -21,449 | -64.4% | 764 | 788 | 2.3% | 460 | -187 | -48 | 226 |
| Full Year | 130,326 | -41,698 | -32.0% | 88,628 | -83,729 | -64.2% | 4,899 | 5,021 | 3.8% | 4,900 | -2,007 | -164 | 2,728 |
| FY2016/12 | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | RP | RPM | EBT | Tax | Minority | Net Profit |
| 1Q | 32,102 | -10,290 | -32.1% | 21,812 | -20,898 | -65.4% | 915 | 887 | 2.9% | 891 | -443 | -10 | 437 |
| 2Q | 32,142 | -9,945 | -30.9% | 22,197 | -21,620 | -65.8% | 577 | 651 | 1.8% | 450 | -288 | -16 | 146 |
| 3Q | 34,993 | -10,614 | -30.3% | 24,379 | -22,052 | -61.6% | 2,326 | 2,264 | 6.6% | 2,180 | -856 | -78 | 1,246 |
| 4Q | 33,784 | -10,910 | -32.3% | 22,874 | -21,472 | -64.4% | 1,404 | 1,399 | 4.2% | 922 | -311 | -62 | 548 |
| Full Year | 133,021 | -41,759 | -31.4% | 91,262 | -86,042 | -64.7% | 5,222 | 5,201 | 3.9% | 4,443 | -1,898 | -166 | 2,379 |
| FY2017/12 | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | RP | RPM | EBT | Tax | Minority | Net Profit |
| 1Q | 32,087 | -10,099 | -31.5% | 21,988 | -21,018 | -65.4% | 973 | 975 | 3.0% | 752 | -267 | -19 | 475 |
| 2Q | 33,050 | -10,107 | -30.6% | 22,943 | -21,719 | -65.8% | 1,222 | 1,330 | 3.7% | 1,306 | -344 | -47 | 906 |
| 3Q | 35,922 | -11,017 | -30.7% | 24,905 | -22,461 | -61.6% | 2,445 | 2,425 | 6.8% | 2,275 | -838 | -79 | 1,357 |
| 4Q | 34,501 | -11,027 | -32.0% | 23,474 | -22,162 | -64.4% | 1,312 | 1,323 | 3.8% | 1,342 | -501 | -46 | 795 |
| Full Year | 135,560 | -42,250 | -31.2% | 93,310 | -87,360 | -64.4% | 5,952 | 6,053 | 4.4% | 5,675 | -1,950 | -191 | 3,534 |
| FY2018/12 | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | RP | RPM | EBT | Tax | Minority | Net Profit |
| 1Q | 32,442 | -10,173 | -31.4% | 22,269 | -21,502 | -65.4% | 768 | 727 | 2.4% | 632 | -379 | 2 | 381 |
| 2Q | 33,107 | -10,246 | -31.0% | 20,647 | -21,792 | -65.8% | 1,119 | 1,119 | 3.4% | 1,119 | -478 | -40 | 601 |
| 3Q | 36,281 | -11,870 | -32.9% | 22,935 | -22,363 | -61.6% | 2,729 | 2,729 | 7.5% | 2,729 | -1,166 | -95 | 1,469 |
| 4Q | 34,925 | -11,425 | -32.9% | 21,636 | -22,507 | -64.4% | 1,689 | 1,689 | 4.8% | 1,689 | -721 | -58 | 909 |
| Full Year | 136,755 | -44,055 | -32.3% | 92,331 | -88,164 | -64.5% | 6,304 | 6,263 | 4.6% | 6,168 | -2,744 | -191 | 3,359 |
| CE | 137,500 | | | | | | 6,200 | 6,200 | | | | | 3,200 |
| FY2019/12 | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | RP | RPM | EBT | Tax | Minority | Net Profit |
| 1Q | 33,760 | -10,901 | -32.3% | 22,859 | -22,075 | -65.4% | 784 | 784 | 2.3% | 784 | -335 | 2 | 451 |
| 2Q | 35,315 | -10,720 | -30.4% | 24,595 | -23,245 | -65.8% | 1,350 | 1,350 | 3.8% | 1,350 | -577 | -49 | 725 |
| 3Q | 38,548 | -11,875 | -30.8% | 26,673 | -23,761 | -61.6% | 2,912 | 2,912 | 7.6% | 2,912 | -1,244 | -101 | 1,567 |
| 4Q | 36,986 | -11,359 | -30.7% | 25,627 | -23,836 | -64.4% | 1,792 | 1,792 | 4.8% | 1,792 | -765 | -61 | 965 |
| Full Year | 144,610 | -44,855 | -31.0% | 99,755 | -92,917 | -64.3% | 6,838 | 6,838 | 4.7% | 6,838 | -2,921 | -209 | 3,708 |
| CE | | | | | | | | | | | | | |
| FY2020/12 | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | RP | RPM | EBT | Tax | Minority | Net Profit |
| 1Q | 35,239 | -11,265 | -32.0% | 23,974 | -23,042 | -65.4% | 932 | 932 | 2.6% | 932 | -398 | 3 | 537 |
| 2Q | 36,260 | -10,957 | -30.2% | 25,303 | -23,867 | -65.8% | 1,436 | 1,436 | 4.0% | 1,436 | -614 | -52 | 771 |
| 3Q | 39,441 | -12,088 | -30.6% | 27,353 | -24,311 | -61.6% | 3,042 | 3,042 | 7.7% | 3,042 | -1,299 | -106 | 1,637 |
| 4Q | 37,629 | -11,501 | -30.6% | 26,128 | -24,250 | -64.4% | 1,878 | 1,878 | 5.0% | 1,878 | -802 | -64 | 1,011 |
| Full Year | 148,570 | -45,811 | -30.8% | 102,759 | -95,471 | -64.3% | 7,288 | 7,288 | 4.9% | 7,288 | -3,113 | -219 | 3,956 |
| CE | 150,000 | | | | | | 7,500 | | | | | | |
| FY2021/12 | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | RP | RPM | EBT | Tax | Minority | Net Profit |
| 1Q | 35,860 | -11,203 | -31.2% | 24,658 | -23,449 | -65.4% | 1,209 | 1,209 | 3.4% | 1,209 | -516 | 4 | 696 |
| 2Q | 37,075 | -10,977 | -29.6% | 26,098 | -24,404 | -65.8% | 1,695 | 1,695 | 4.6% | 1,695 | -724 | -61 | 910 |
| 3Q | 40,364 | -12,861 | -31.9% | 27,503 | -24,880 | -61.6% | 2,623 | 2,623 | 6.5% | 2,623 | -1,121 | -91 | 1,412 |
| 4Q | 38,598 | -11,243 | -29.1% | 27,355 | -24,874 | -64.4% | 2,481 | 2,481 | 6.4% | 2,481 | -1,060 | -85 | 1,336 |
| Full Year | 151,897 | -46,283 | -30.5% | 105,614 | -97,606 | -64.3% | 8,008 | 8,008 | 5.3% | 8,008 | -3,421 | -233 | 4,354 |

(Source) Royal, METRICAL

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METRICAL INC.

corporate governance, investment research & solutions

Income Statement Analysis: By Segment

| (JPY million) | Restaurant | | Contract | | In-Flight Meal | | Hotel | | Food&Other | | Adjustment | | Total | |
|---------------|------------|-------|----------|-------|----------------|-------|--------|-------|------------|-----|------------|--------|---------|-------|
| | Sales | RP | Sales | RP | Sales | RP | Sales | RP | Sales | RP | Sales | RP | Sales | RP |
| FY2014/12 | | | | | | | | | | | | | | |
| 1Q | 14,555 | 766 | 7,372 | 229 | 2,132 | 172 | 4,485 | 279 | 3,045 | 96 | -2,277 | -828 | 29,312 | 714 |
| 2Q | 15,169 | 761 | 7,456 | 135 | 2,054 | 165 | 4,704 | 514 | 2,930 | 102 | -2,213 | -868 | 30,100 | 809 |
| 3Q | 16,292 | 1,097 | 8,783 | 513 | 2,095 | 173 | 5,526 | 1,063 | 3,016 | 199 | -2,371 | -867 | 33,341 | 2,178 |
| 4Q | 15,214 | 373 | 7,890 | 217 | 2,003 | 126 | 5,459 | 845 | 4,679 | 254 | -3,141 | -935 | 32,104 | 880 |
| Full Year | 61,230 | 2,997 | 31,501 | 1,094 | 8,284 | 636 | 20,174 | 2,701 | 13,670 | 651 | -10,002 | -3,498 | 124,857 | 4,581 |
| FY2015/12 | | | | | | | | | | | | | | |
| 1Q | 15,003 | 738 | 7,777 | 311 | 1,960 | 121 | 4,863 | 323 | 3,364 | 54 | -2,468 | -830 | 30,499 | 717 |
| 2Q | 15,560 | 682 | 8,027 | 186 | 1,913 | 60 | 5,315 | 797 | 3,037 | 80 | -2,294 | -835 | 31,558 | 970 |
| 3Q | 16,835 | 1,182 | 9,146 | 490 | 2,157 | 128 | 6,211 | 1,443 | 3,027 | 151 | -2,390 | -848 | 34,986 | 2,546 |
| 4Q | 15,495 | 511 | 8,040 | 121 | 2,116 | 101 | 5,857 | 841 | 5,089 | 175 | -3,314 | -961 | 33,283 | 788 |
| Full Year | 62,893 | 3,113 | 32,990 | 1,108 | 8,146 | 410 | 22,246 | 3,404 | 14,517 | 460 | -10,466 | -3,474 | 130,326 | 5,021 |
| FY2016/12 | | | | | | | | | | | | | | |
| 1Q | 15,170 | 616 | 7,994 | 252 | 2,030 | 94 | 5,826 | 646 | 2,752 | 139 | -1,670 | -860 | 32,102 | 887 |
| 2Q | 15,317 | 657 | 8,095 | 258 | 1,928 | 30 | 6,009 | 504 | 2,475 | 106 | -1,682 | -904 | 32,142 | 651 |
| 3Q | 16,394 | 1,054 | 9,227 | 592 | 1,974 | 100 | 6,907 | 1,414 | 2,321 | 18 | -1,830 | -914 | 34,993 | 2,264 |
| 4Q | 15,395 | 618 | 8,207 | 234 | 2,033 | 186 | 6,650 | 1,282 | 3,229 | 95 | -1,730 | -1,016 | 33,784 | 1,399 |
| Full Year | 62,276 | 2,945 | 33,523 | 1,336 | 7,965 | 410 | 25,392 | 3,846 | 10,777 | 358 | -6,912 | -3,694 | 133,021 | 5,201 |
| FY2017/12 | | | | | | | | | | | | | | |
| 1Q | 14,827 | 566 | 8,135 | 327 | 2,085 | 300 | 6,149 | 674 | 2,538 | 9 | -1,647 | -901 | 32,087 | 975 |
| 2Q | 15,469 | 794 | 8,243 | 313 | 2,039 | 198 | 6,528 | 870 | 2,482 | 51 | -1,711 | -896 | 33,050 | 1,330 |
| 3Q | 16,506 | 1,145 | 9,233 | 518 | 2,145 | 216 | 7,247 | 1,375 | 2,698 | 106 | -1,907 | -935 | 35,922 | 2,425 |
| 4Q | 15,303 | 494 | 8,398 | 262 | 2,207 | 246 | 7,019 | 1,190 | 3,354 | 169 | -1,780 | -1,038 | 34,501 | 1,323 |
| Full Year | 62,105 | 2,999 | 34,009 | 1,420 | 8,476 | 960 | 26,943 | 4,109 | 11,072 | 335 | -7,045 | -3,770 | 135,560 | 6,053 |
| FY2018/12 | | | | | | | | | | | | | | |
| 1Q | 14,883 | 586 | 8,172 | 286 | 2,133 | 281 | 6,373 | 438 | 2,633 | 103 | -1,752 | -967 | 32,442 | 727 |
| 2Q | 15,571 | 645 | 7,993 | 311 | 2,050 | 199 | 6,722 | 874 | 2,482 | 51 | -1,711 | -962 | 33,107 | 1,119 |
| 3Q | 16,577 | 1,308 | 9,028 | 524 | 2,201 | 222 | 7,684 | 1,573 | 2,698 | 106 | -1,907 | -1,003 | 36,281 | 2,729 |
| 4Q | 15,620 | 691 | 8,038 | 257 | 2,251 | 251 | 7,442 | 1,435 | 3,354 | 169 | -1,780 | -1,114 | 34,925 | 1,689 |
| Full Year | 62,651 | 3,230 | 33,231 | 1,378 | 8,634 | 953 | 28,222 | 4,320 | 11,167 | 429 | -7,150 | -4,046 | 136,755 | 6,263 |
| CE | 61,900 | 3,050 | 34,000 | 1,600 | 8,500 | 960 | 28,700 | 4,400 | 11,400 | 300 | -7,000 | -4,110 | 137,500 | 6,200 |
| FY2019/12 | | | | | | | | | | | | | | |
| 1Q | 15,313 | 624 | 8,644 | 319 | 2,261 | 298 | 6,661 | 478 | 2,633 | 103 | -1,752 | -1,038 | 33,760 | 784 |
| 2Q | 16,364 | 677 | 8,696 | 348 | 2,209 | 214 | 7,276 | 1,091 | 2,482 | 51 | -1,711 | -1,032 | 35,315 | 1,350 |
| 3Q | 17,664 | 1,392 | 9,677 | 576 | 2,326 | 234 | 8,090 | 1,681 | 2,698 | 106 | -1,907 | -1,077 | 38,548 | 2,912 |
| 4Q | 16,468 | 732 | 8,716 | 286 | 2,392 | 267 | 7,836 | 1,534 | 3,354 | 169 | -1,780 | -1,196 | 36,986 | 1,792 |
| Full Year | 65,808 | 3,425 | 35,734 | 1,530 | 9,188 | 1,013 | 29,863 | 4,784 | 11,167 | 429 | -7,150 | -4,343 | 144,610 | 6,838 |
| CE | | | | | | | | | | | | | | |
| FY2020/12 | | | | | | | | | | | | | | |
| 1Q | 16,115 | 705 | 8,829 | 326 | 2,312 | 305 | 7,102 | 531 | 2,633 | 103 | -1,752 | -1,038 | 35,239 | 932 |
| 2Q | 16,934 | 703 | 8,868 | 356 | 2,220 | 216 | 7,468 | 1,143 | 2,482 | 51 | -1,711 | -1,032 | 36,260 | 1,436 |
| 3Q | 18,001 | 1,427 | 9,960 | 595 | 2,387 | 240 | 8,303 | 1,750 | 2,698 | 106 | -1,907 | -1,077 | 39,441 | 3,042 |
| 4Q | 16,761 | 743 | 8,812 | 291 | 2,440 | 272 | 8,042 | 1,599 | 3,354 | 169 | -1,780 | -1,196 | 37,629 | 1,878 |
| Full Year | 67,811 | 3,579 | 36,468 | 1,569 | 9,359 | 1,033 | 30,915 | 5,022 | 11,167 | 429 | -7,150 | -4,343 | 148,570 | 7,288 |
| CE | 67,800 | 3,500 | 36,300 | 1,900 | 9,200 | 1,000 | 32,900 | 5,200 | 3,800 | | -4,100 | | 150,000 | 7,500 |
| FY2021/12 | | | | | | | | | | | | | | |
| 1Q | 16,324 | 695 | 9,103 | 345 | 2,451 | 323 | 7,102 | 781 | 2,633 | 103 | -1,752 | -1,038 | 35,860 | 1,209 |
| 2Q | 17,345 | 906 | 9,099 | 373 | 2,392 | 232 | 7,468 | 1,165 | 2,482 | 51 | -1,711 | -1,032 | 37,075 | 1,695 |
| 3Q | 18,621 | 952 | 10,126 | 614 | 2,522 | 254 | 8,303 | 1,775 | 2,698 | 106 | -1,907 | -1,077 | 40,364 | 2,623 |
| 4Q | 17,270 | 1,288 | 9,118 | 308 | 2,593 | 289 | 8,042 | 1,623 | 3,354 | 169 | -1,780 | -1,196 | 38,598 | 2,481 |
| Full Year | 69,560 | 3,840 | 37,446 | 1,640 | 9,959 | 1,098 | 30,915 | 5,344 | 11,167 | 429 | -7,150 | -4,343 | 151,897 | 8,008 |

(Source) Royal, METRICAL

METRICAL INC.

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Balance Sheet Analysis

| | 2012/12 | 2013/12 | 2014/12 | 2015/12 | 2016/12 | 2017/12 | 2018/12(E) | 2019/12(E) | 2020/12(E) | 2021/12(E) |
|--------------------------------------|----------|----------|----------|----------|----------|----------|------------|------------|------------|------------|
| Consolidated Balance Sheets | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Current Assets | | | | | | | | | | |
| Cash and Cash Equivalents | 4,964 | 4,851 | 4,725 | 4,456 | 5,058 | 7,552 | 9,631 | 12,166 | 15,048 | 18,311 |
| Short-Term Investments | - | - | - | - | - | - | - | - | - | - |
| Notes and Accounts Receivable, Trade | 4,498 | 4,761 | 5,381 | 6,054 | 6,061 | 6,303 | 6,359 | 6,724 | 6,908 | 7,063 |
| Allowance for Doubtful Receivables | (15) | (15) | (15) | (17) | (15) | (15) | (15) | (16) | (16) | (17) |
| Inventories | 1,884 | 2,003 | 2,287 | 2,374 | 2,388 | 2,436 | 2,457 | 2,599 | 2,670 | 2,730 |
| Deferred Income Taxes | 1,007 | 1,101 | 778 | 693 | 667 | 646 | 652 | 689 | 708 | 724 |
| Other Current Assets | 3,545 | 3,176 | 3,599 | 3,869 | 3,730 | 3,747 | 3,780 | 3,997 | 4,107 | 4,199 |
| Total Current Assets | 15,883 | 15,877 | 16,755 | 17,429 | 17,889 | 20,669 | 22,863 | 26,159 | 29,423 | 33,009 |
| Property, Plant and Equipment | | | | | | | | | | |
| Land | 11,918 | 11,918 | 11,729 | 11,581 | 11,226 | 10,532 | 10,532 | 10,532 | 10,532 | 10,532 |
| Buildings | 45,428 | 45,907 | 47,273 | 49,948 | 51,168 | 51,461 | 54,319 | 57,257 | 60,274 | 63,368 |
| Machinery and Equipment | 36,869 | 39,845 | 42,649 | 51,438 | 55,126 | 56,476 | 56,476 | 56,476 | 56,476 | 56,476 |
| Construction in Progress | 22 | 57 | 314 | 36 | 52 | 115 | 121 | 128 | 135 | 142 |
| Total | 94,237 | 97,727 | 101,965 | 113,003 | 117,572 | 118,584 | 121,448 | 124,393 | 127,417 | 130,518 |
| Accumulated Depreciation | (60,035) | (61,152) | (63,662) | (66,354) | (68,585) | (70,703) | (71,191) | (71,191) | (71,191) | (71,191) |
| Net Property, Plant and Equipment | 34,202 | 36,575 | 38,303 | 46,649 | 48,987 | 47,881 | 50,257 | 53,202 | 56,226 | 59,327 |
| Software & Other intangible assts | 491 | 625 | 667 | 619 | 703 | 729 | 729 | 729 | 729 | 729 |
| Goodwill | 298 | 145 | 30 | - | - | - | - | - | - | - |
| | 789 | 770 | 697 | 619 | 703 | 729 | 729 | 729 | 729 | 729 |
| Other Assets | | | | | | | | | | |
| Investments in and Advances to | - | - | - | - | - | - | - | - | - | - |
| Investment Securities | 7,290 | 8,764 | 8,987 | 9,038 | 9,877 | 11,333 | 11,333 | 11,333 | 11,333 | 11,333 |
| Software & Others | (9) | (8) | (7) | (7) | (44) | (7) | (7) | (7) | (7) | (7) |
| Deferred Income Taxes | 1,016 | 493 | 473 | 505 | 543 | 708 | 708 | 708 | 708 | 708 |
| Other | 17,585 | 17,110 | 16,706 | 16,677 | 16,113 | 11,823 | 11,823 | 11,823 | 11,823 | 11,823 |
| Total Other Assets | 25,882 | 26,359 | 26,159 | 26,213 | 26,489 | 23,857 | 23,857 | 23,857 | 23,857 | 23,857 |
| Total | 76,756 | 79,581 | 81,914 | 90,910 | 94,068 | 93,136 | 97,706 | 103,946 | 110,235 | 116,922 |
| Liabilities and Stockholders' Equity | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | |
| Bank Loans | 900 | 1,200 | - | - | - | - | - | - | - | - |
| Notes and Accounts Payable, Trade | 3,255 | 3,372 | 3,736 | 3,860 | 3,985 | 3,967 | 4,002 | 4,232 | 4,348 | 4,445 |
| Accrued Expenses | - | - | - | - | 0 | 0 | 0 | 0 | 0 | 0 |
| Income Taxes | 734 | 819 | 866 | 1,220 | 1,039 | 1,125 | 1,135 | 1,200 | 1,233 | 1,261 |
| Other Current Liabilities | 9,168 | 8,855 | 9,609 | 10,404 | 10,549 | 10,503 | 10,596 | 11,204 | 11,511 | 11,769 |
| Current Portion of Long-Term Debt | 1,608 | 2,800 | 2,320 | 1,770 | 1,360 | 1,890 | 1,890 | 1,890 | 1,890 | 1,890 |
| Total Current Liabilities | 15,665 | 17,046 | 16,531 | 17,254 | 16,933 | 17,485 | 17,622 | 18,526 | 18,982 | 19,364 |
| Long-Term Debt | 4,975 | 5,540 | 5,165 | 4,567 | 4,886 | 3,516 | 3,516 | 3,516 | 3,516 | 3,516 |
| Deferred Income Taxes | 6 | 135 | 307 | 353 | 628 | 988 | 988 | 988 | 988 | 988 |
| Termination and Retirement Benefits | 267 | 283 | 292 | 314 | 331 | 445 | 445 | 445 | 445 | 445 |
| Other Long-Term Liabilities | 12,104 | 13,241 | 15,032 | 21,790 | 23,057 | 22,730 | 22,730 | 22,730 | 22,730 | 22,730 |
| | 7,483 | 9,540 | 7,485 | 6,337 | 6,246 | 5,406 | 5,406 | 5,406 | 5,406 | 5,406 |
| Total Liabilities | 33,017 | 36,245 | 37,327 | 44,278 | 45,835 | 45,164 | 45,301 | 46,205 | 46,661 | 47,043 |
| Stockholders' Equity | | | | | | | | | | |
| Common Stock | 13,676 | 13,676 | 13,676 | 13,676 | 13,676 | 13,676 | 13,676 | 13,676 | 13,676 | 13,676 |
| Additional Paid-in Capital | 23,708 | 23,918 | 23,918 | 23,499 | 23,042 | 23,042 | 23,042 | 23,042 | 23,042 | 23,042 |
| Legal Reserve | 5,320 | 6,521 | 7,839 | 9,740 | 11,340 | 14,101 | 16,321 | 19,232 | 22,353 | 25,833 |
| Retained Earnings | 1 | - | - | - | 1 | 1 | 1 | 1 | 1 | 1 |
| Treasury Stock | (2,724) | (2,935) | (2,936) | (3,227) | (3,357) | (3,354) | (3,354) | (3,354) | (3,354) | (3,354) |
| Total Stockholders' Equity | 39,981 | 41,180 | 42,497 | 43,688 | 44,702 | 47,466 | 49,686 | 52,597 | 55,718 | 59,198 |
| Accumulated other Comprehensive | 155 | 1,549 | 1,407 | 2,159 | 2,651 | 3,524 | | | | |
| Minority Interests in Subsidiaries | 605 | 609 | 684 | 787 | 881 | 983 | 983 | 983 | 983 | 983 |
| Total Stockholders' Equity | 40,741 | 43,338 | 44,588 | 46,634 | 48,234 | 51,973 | 50,669 | 53,581 | 56,703 | 60,184 |
| Total | 73,758 | 79,583 | 81,915 | 90,912 | 94,069 | 97,137 | 95,971 | 99,787 | 103,364 | 107,228 |
| ROE | | 4.0% | 4.2% | 6.0% | 5.0% | 7.1% | 6.5% | 7.1% | 7.2% | 7.4% |

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Cash Flow Statement Analysis

| Cash Flow Analysis | Dec-12 | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18(E) | Dec-19(E) | Dec-20(E) | Dec-21(E) |
|-----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Net Income | 1,137 | 1,663 | 1,866 | 2,728 | 2,379 | 3,534 | 3,359 | 3,708 | 3,956 | 4,354 |
| Depreciation* | 4,203 | 4,282 | 4,519 | 4,977 | 5,448 | 5,412 | 5,900 | 5,900 | 5,900 | 5,900 |
| Amortization* | 192 | 153 | 114 | 30 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other non-cash charge | 961 | 1,543 | 2,248 | 1,079 | 1,239 | 644 | 0 | 0 | 0 | 0 |
| Changes in WC | -455 | -264 | -541 | -635 | 84 | -286 | -42 | -276 | -139 | -117 |
| Operating Cash Flow | 6,038 | 7,377 | 8,206 | 8,179 | 9,150 | 9,304 | 9,217 | 9,333 | 9,717 | 10,137 |
| Per share | JPY 156.56 | JPY 191.28 | JPY 212.79 | JPY 212.21 | JPY 239.27 | JPY 245.07 | JPY 242.79 | JPY 245.82 | JPY 255.94 | JPY 267.00 |
| Capex | -1,886 | -5,115 | -4,868 | -5,779 | -5,961 | -4,279 | -6,000 | -6,000 | -6,000 | -6,000 |
| Free Cash Flow | 4,152 | 2,262 | 3,338 | 2,400 | 3,189 | 5,025 | 3,217 | 3,333 | 3,717 | 4,137 |
| Per share | JPY 107.66 | JPY 58.65 | JPY 86.56 | JPY 62.27 | JPY 83.39 | JPY 132.36 | JPY 84.75 | JPY 87.78 | JPY 97.90 | JPY 108.96 |
| Beginning Cash | 5,370 | 4,964 | 4,857 | 4,736 | 4,467 | 5,067 | 7,558 | 9,631 | 12,166 | 15,048 |
| Net cash used | -406 | -107 | -121 | -269 | 600 | 2,491 | 2,073 | 2,535 | 2,882 | 3,264 |
| Ending cash | 4,964 | 4,857 | 4,736 | 4,467 | 5,067 | 7,558 | 9,631 | 12,166 | 15,048 | 18,311 |

Key Financial Ratios

| Other Ratios: | Dec-12 | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18(E) | Dec-19(E) | Dec-20(E) | Dec-21(E) |
|-----------------------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|
| ROE | 2.62% | 3.84% | 4.24% | 5.98% | 5.02% | 7.35% | 6.69% | 6.73% | 6.52% | 6.52% |
| Gross Margin | 67.05% | 66.50% | 66.04% | 65.57% | 68.61% | 68.83% | 67.70% | 68.98% | 69.17% | 69.53% |
| EBITDA Margin | 5.94% | 6.44% | 7.16% | 7.58% | 8.02% | 8.38% | 8.92% | 8.81% | 8.88% | 9.16% |
| EBIT Margin | 2.28% | 2.90% | 3.54% | 3.76% | 3.93% | 4.39% | 4.61% | 4.73% | 4.91% | 5.27% |
| Return on Assets | 1.43% | 2.09% | 2.28% | 3.00% | 2.53% | 3.79% | 3.44% | 3.57% | 3.59% | 3.72% |
| Return on Fixed Asset | 4.61% | 6.74% | 7.02% | 7.78% | 6.30% | 9.46% | 8.46% | 8.69% | 8.66% | 8.92% |
| Revenue / Assets | 144.42% | 151.71% | 152.42% | 143.36% | 141.41% | 145.55% | 139.97% | 139.12% | 134.78% | 129.91% |
| Depreciation / Capex | 222.85% | 83.71% | 92.83% | 86.12% | 91.39% | 126.48% | 98.33% | 98.33% | 98.33% | 98.33% |
| Depn / Sales | 3.66% | 3.55% | 3.62% | 3.82% | 4.10% | 3.99% | 4.31% | 4.08% | 3.97% | 3.88% |
| Capex / Sales | 1.64% | 4.24% | 3.90% | 4.43% | 4.48% | 3.16% | 4.39% | 4.15% | 4.04% | 3.95% |
| Depn / Net FA | 17.05% | 17.37% | 17.01% | 14.19% | 14.43% | 14.49% | 14.85% | 13.83% | 12.91% | 12.09% |
| Asset / Equity | 1.84 | 1.84 | 1.84 | 1.95 | 1.95 | 1.94 | 1.86 | 1.80 | 1.73 | 1.67 |
| Equity / Asset | 54.47% | 54.46% | 54.43% | 51.29% | 51.27% | 51.51% | 53.63% | 55.55% | 57.67% | 59.77% |
| Total Debt / EBITDA | 1.44 | 1.26 | 0.87 | 0.67 | 0.62 | 0.51 | 0.48 | 0.46 | 0.44 | 0.42 |

METRICAL INC.

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DCF Analysis

DCF - Royal Holdings (8179 JP)

| (In Y million) | Dec-12 | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18(E) | Dec-19(E) | Dec-20(E) | Dec-21(E) | SUM of Future FCF |
|--------------------------------------|--------|---------|---------|---------|--------|--------|-----------|-----------|-----------|-----------|-------------------|
| Restaurant | | | | | | | | | | | |
| Sales | 56,592 | 60,055 | 61,229 | 62,892 | 62,276 | 62,105 | 62,651 | 65,808 | 67,811 | 69,560 | 203,179 |
| EBIT | 1,987 | 2,618 | 2,996 | 3,112 | 2,945 | 2,999 | 3,230 | 3,425 | 3,579 | 3,840 | 10,843 |
| Dep | 2,169 | 2,155 | 2,192 | 2,272 | 2,121 | 1,924 | 2,098 | 2,098 | 2,098 | 2,098 | 6,295 |
| Capex | -1,837 | -2,957 | -2,924 | -3,089 | -2,648 | -3,010 | -3,010 | -3,010 | -3,010 | -3,010 | -9,030 |
| Contract | | | | | | | | | | | |
| Sales | 29,561 | 30,640 | 31,500 | 32,990 | 33,523 | 34,009 | 33,231 | 35,734 | 36,468 | 37,446 | 109,648 |
| EBIT | 1,038 | 1,117 | 1,093 | 1,107 | 1,336 | 1,420 | 1,378 | 1,530 | 1,569 | 1,640 | 4,738 |
| Dep | 532 | 497 | 442 | 393 | 409 | 387 | 422 | 422 | 422 | 422 | 1,266 |
| Capex | -662 | -484 | -393 | -575 | -532 | -426 | -426 | -426 | -426 | -426 | -1,278 |
| In-Flight Meal | | | | | | | | | | | |
| Sales | 7,540 | 8,221 | 8,284 | 8,146 | 7,965 | 8,476 | 8,634 | 9,188 | 9,359 | 9,959 | 28,505 |
| EBIT | 1,244 | 888 | 636 | 410 | 410 | 960 | 953 | 1,013 | 1,033 | 1,098 | 3,144 |
| Dep | 331 | 312 | 291 | 328 | 292 | 287 | 313 | 313 | 313 | 313 | 939 |
| Capex | -189 | -297 | -209 | -412 | -1,930 | -2,423 | -400 | -400 | -400 | -400 | -1,200 |
| Hotel | | | | | | | | | | | |
| Sales | 17,404 | 18,348 | 20,174 | 22,246 | 25,392 | 26,943 | 28,222 | 29,863 | 30,915 | 30,915 | 119,914 |
| EBIT | 1,292 | 1,982 | 2,701 | 3,404 | 3,846 | 4,109 | 4,320 | 4,784 | 5,022 | 5,344 | 19,469 |
| Dep | 863 | 997 | 1,193 | 1,466 | 2,045 | 2,077 | 2,265 | 2,265 | 2,265 | 2,265 | 9,060 |
| Capex | -1,510 | -2,702 | -2,621 | -8,627 | -3,533 | -1,811 | -2,019 | -2,019 | -2,019 | -2,019 | -8,076 |
| Food&Other | | | | | | | | | | | |
| Sales | 13,514 | 13,569 | 13,670 | 14,517 | 10,777 | 11,072 | 11,167 | 11,167 | 11,167 | 11,167 | 44,668 |
| EBIT | 537 | 746 | 671 | 460 | 358 | 335 | 429 | 429 | 429 | 429 | 1,716 |
| Dep | 297 | 298 | 313 | 348 | 371 | 503 | 549 | 549 | 549 | 549 | 2,194 |
| Capex | -351 | -359 | -367 | -828 | -2,638 | -806 | -899 | -899 | -899 | -899 | -3,596 |
| Adjustment | | | | | | | | | | | |
| Sales | -9,656 | -10,104 | -10,002 | -10,466 | -6,912 | -7,045 | -7,150 | -7,150 | -7,150 | -7,150 | -28,600 |
| EBIT | -3,283 | -3,392 | -3,498 | -3,474 | -3,694 | -3,770 | -4,046 | -4,343 | -4,343 | -4,343 | -17,074 |
| Dep | 201 | 172 | 199 | 197 | 207 | 232 | 253 | 253 | 253 | 253 | 1,012 |
| Capex | -225 | -392 | -259 | -187 | -247 | -229 | -1,229 | -1,229 | -1,229 | 0 | -3,687 |
| Total (Wkg Capital & CFs) | | | | | | | | | | | |
| Wkg Capital | -455 | -264 | -541 | -635 | 84 | -286 | -42 | -276 | -139 | -117 | |
| OCF | 6,038 | 7,377 | 8,206 | 8,179 | 9,150 | 9,304 | 9,217 | 9,333 | 9,717 | 10,137 | 29,186 |
| Capex | -1,886 | -5,115 | -4,868 | -5,779 | -5,961 | -4,279 | -6,000 | -6,000 | -6,000 | -6,000 | -18,000 |
| FCF | 4,152 | 2,262 | 3,338 | 2,400 | 3,189 | 5,025 | 3,217 | 3,333 | 3,717 | 4,137 | 11,186 |
| CAGR FCF | | | | | | | | | | 7.3% | |

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