

# TENPO INNOVATION | 3484

## Tenpo Safety rent guarantee business commences Margins rising on increase in successor contracts and guarantee fees

### SUMMARY

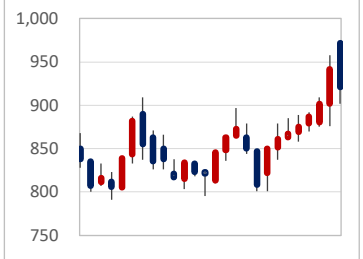
- ◆ TENPO INNOVATION announced 1Q FY23/3 results at 15:30 on Thursday 8/4 at 15:30. Results briefing materials disclosed at the same time provide YOY comparisons as reference values since the Company began preparing consolidated accounts from the 1Q of this FY following the establishment of wholly owned subsidiary Tenpo Safety Inc on April 1. Headline numbers: net sales +9.5% YoY, gross profit +18.1%, OP +27.9% and profit ATOP +28.6%. GPM improved from 18.2% → 19.6%, and OPM improved from 8.2% → 9.5% (see graph below). 1Q progress ratios were net sales 23.7%, OP 27.1% and profit ATOP 28.6%, versus 4-year averages of 23.2%, 20.1% and 19.6%, respectively.
- ◆ The important takeaways from 1Q results are: ① the difficult environment for the restaurant industry overall is actually a favorable opportunity for the Company as more properties become available to procure for subleasing, and turnover in existing contracts increases the number of profitable successor contracts (no acquisition costs such as key money), and ② newly established store rent guarantee business has no cost of sales or operating expenses such as personnel cost, so net sales are basically equivalent to operating profit (nearly 100% OPM), and revenue is linked directly to the number of signed contracts each quarter, so profits are set to grow at a faster pace than net sales going forward thanks to these two structural drivers boosting margins.
- ◆ Over the last 2½ years the share price has underperformed TOPIX by nearly 30%, mainly due to association with the struggling restaurant industry under the COVID-19 pandemic, despite TENPO INNOVATION's subleased store properties being uncorrelated to the trend of overall number of stores in JF data. Accelerating profit growth is making cheap valuations stand out further.

### Q1 Follow-up

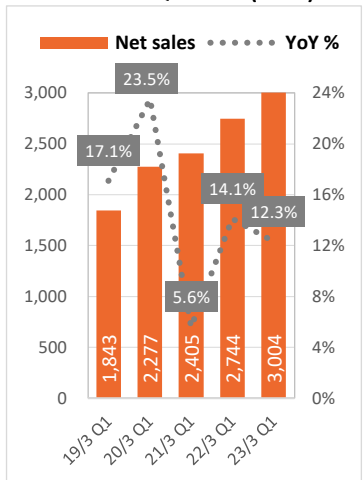
#### Financial Indicators

Share price (8/30)	915
YH (22/8/8)	974
YL (22/1/27)	790
10YH (19/12/11)	1,117
10YL (20/4/6)	477
Shrs out. (mn shrs)	17.674
Mkt cap (¥ bn)	16.278
EV (¥ bn)	12.811
Equity ratio (6/30)	27.6%
23.3 P/E (CE)	22.3x
23.3 EV/EBITDA (CE)	11.7x
22.3 ROE (act)	21.1%
22.3 ROIC (act)	18.6%
22.3 P/B (act)	4.90x
22.3 DY (act)	1.30%

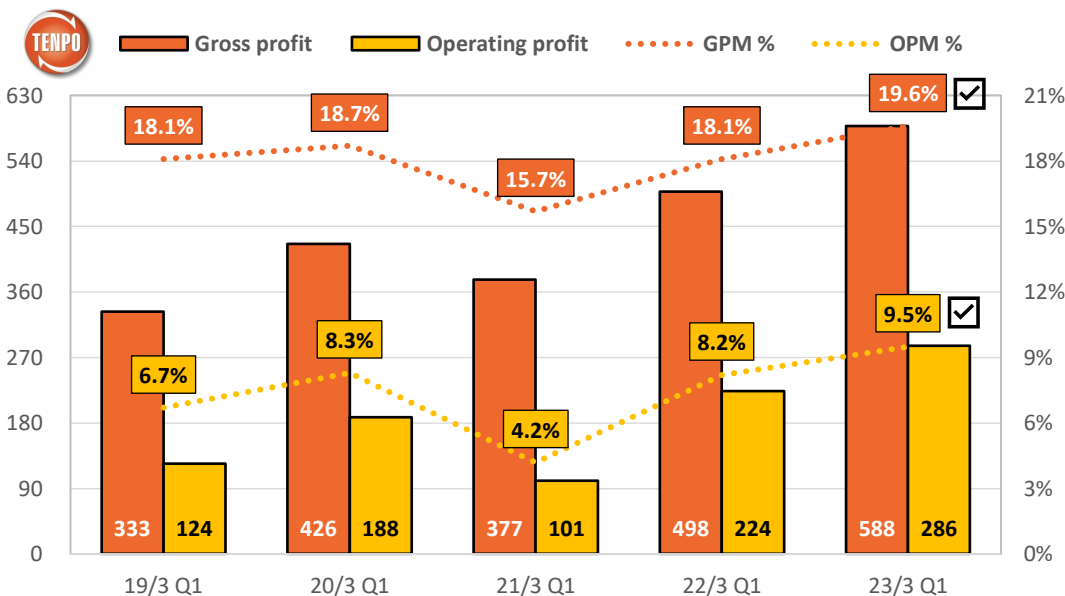
#### 6M weekly share price



#### Net Sales Q1 Trend (¥ mn)



### TENPO INNOVATION: Profitability rising on structural growth drivers (¥ mn)

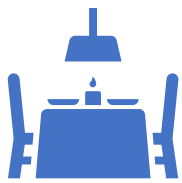
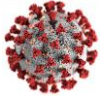


Source: compiled by Omega Investment from company TANSIN financial statements.

**Chris Schreiber CFA**  
Company Specialist

This report has been prepared at the request of TENPO INNOVATION. For details, please refer to the Disclaimer on the last page.

## PART ① RESTAURANT INDUSTRY UPDATE



No. of stores



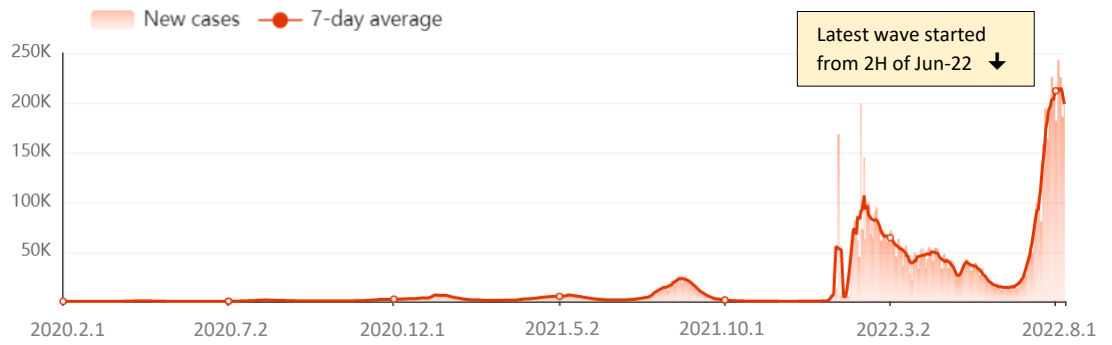
Sales

Net store closures of restaurants in the all-stores data on the right is clearly a lagging indicator relative to sales. The middle graph on the right suggests the impact from a once-in-a-century global pandemic *appears* to be mitigating finally.

However, YoY figures, by definition, are versus the same month in the previous year, which can be deceptive after large declines.

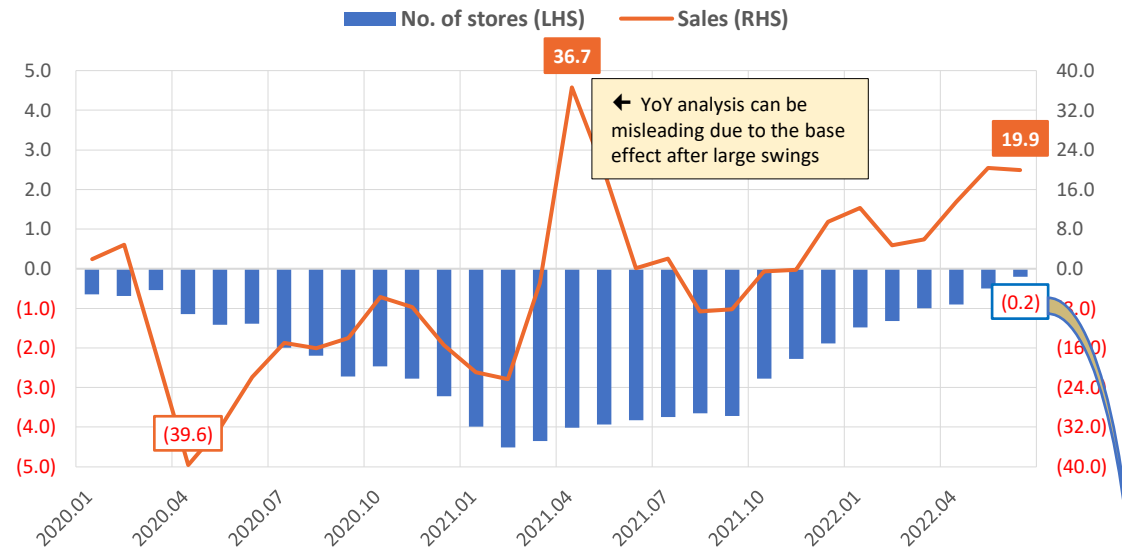
In order to strip out the base level effect, from Mar-2021, the JF monthly survey results report added two new columns to include sales and no. of stores comparisons versus the corresponding month in 2019 (see lower graph on the right).

### Japan daily trend of confirmed new cases of COVID-19

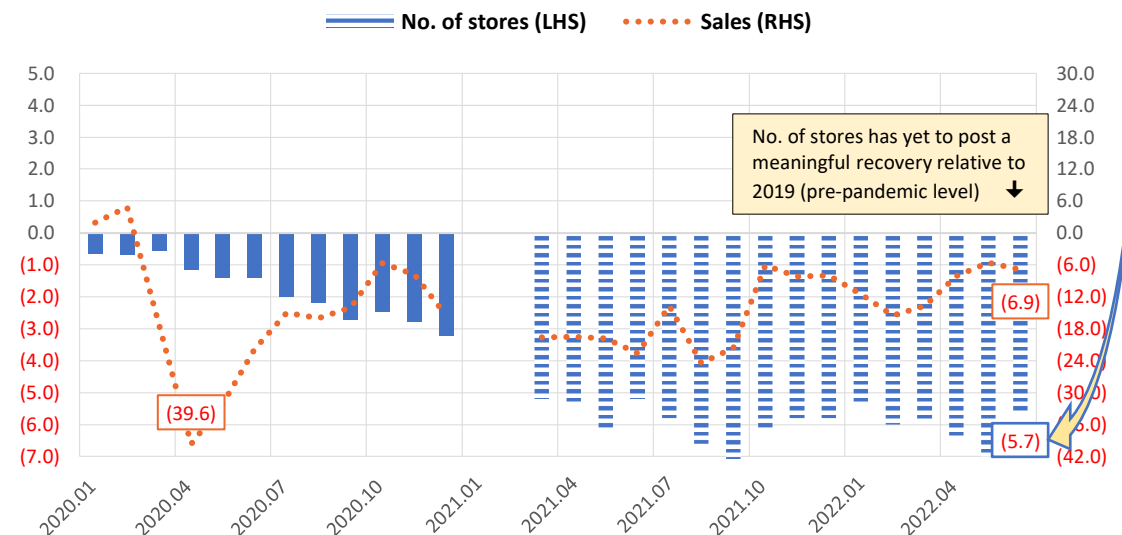


Source: Microsoft Bing COVID-19 Tracker

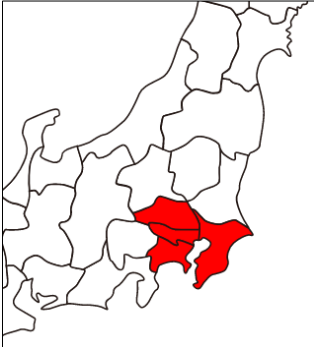
### JF Food Service Industry Market YoY Trend Survey – Monthly Results Reports



### JF Food Service Industry Market Monthly Trend Survey – adjusted vs. 2019 same month\*



Source: Japan Foodservice Association (JF). Note: data for all stores incl. new opens. [http://www.ifnet.or.jp/data/data\\_c.html](http://www.ifnet.or.jp/data/data_c.html)

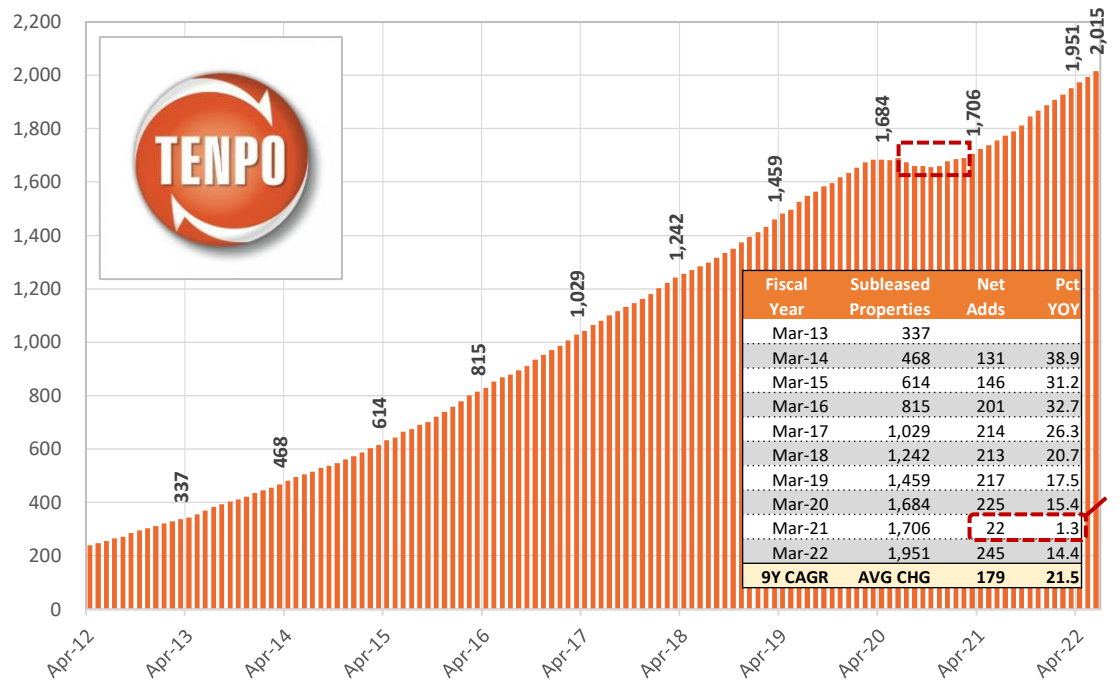


Expertise in finding and subleasing relatively small, low rent, vacated-furnished restaurant store properties, many in central Tokyo.

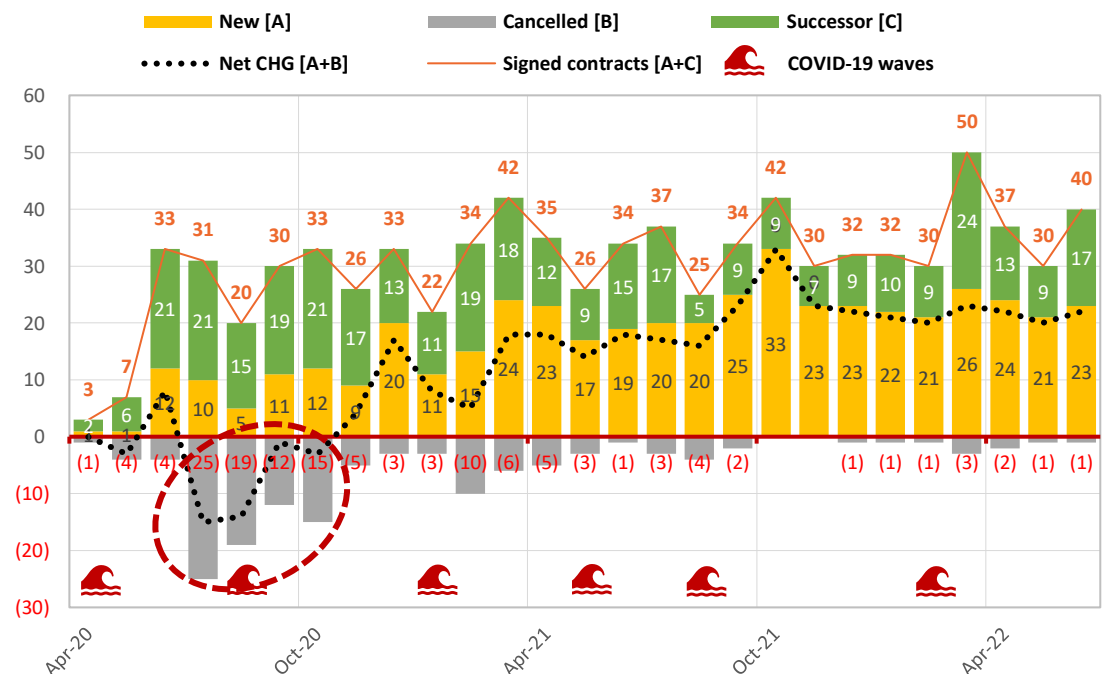


**TENPO INNOVATION subleased store properties are uncorrelated with the market**  
 According to the JF Food Service Industry Market YoY Trend Survey for June 2022, **total stores declined -0.2% YoY, but relative to June 2019, declined -5.7%**, yet to post a meaningful recovery. For the same period, **subleased restaurant store properties for TENPO INNOVATION increased +14.7% YoY, and relative to June 2019, increased +32.0%**. In other words, there is no correlation between TENPO INNOVATION subleased restaurant store properties and the underlying market trend for total stores. They are uncorrelated. The graph below shows the long-term monthly trend of the Company's subleased restaurant store properties.

### Monthly trend of subleased store properties: textbook definition of stable high growth



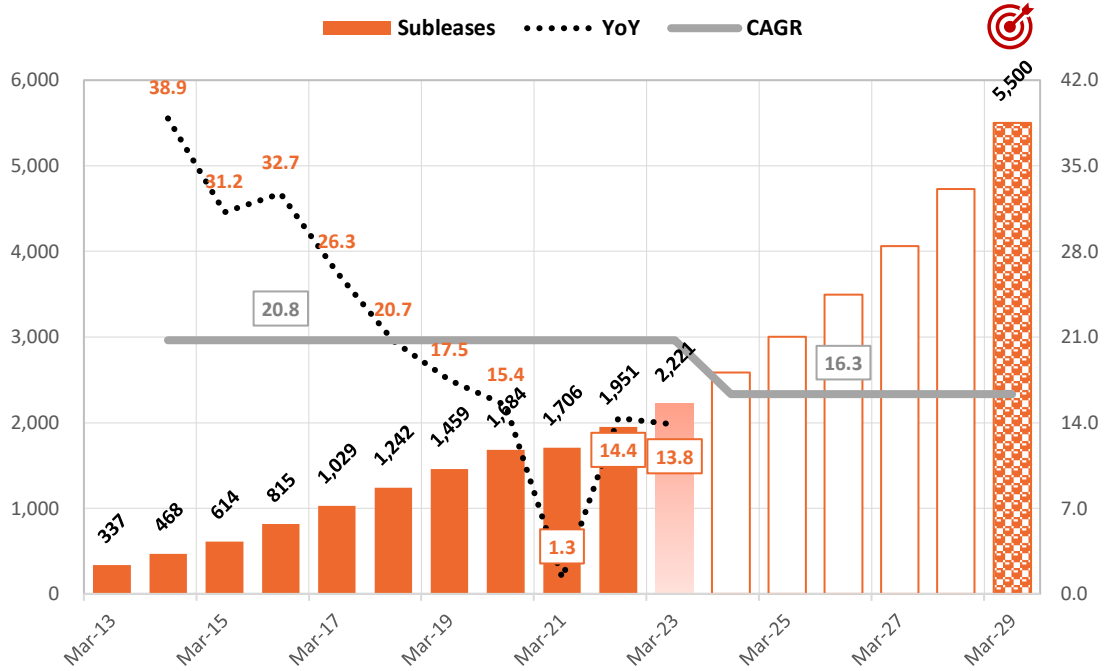
### Monthly trend of sublease contract transactions during the pandemic



Source: compiled by Omega Investment from company IR FY23/3 Q1 results briefing materials.



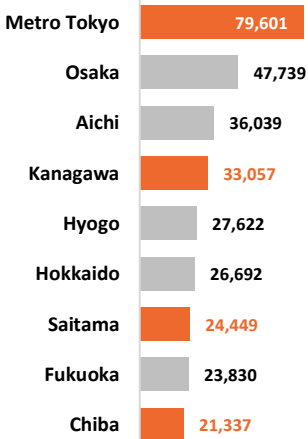
## TENPO INNOVATION: Sustainable double-digit growth with high stability



Source: compiled by Omega Investment from company IR FY22/3 Q4 results briefing materials.

The graph above shows the Company's medium-term target for 5,500 subleased properties by the end of FY3/29, implying 6-year CAGR of +16.3% per year. This target was not randomly formulated by simply assigning a certain CAGR growth rate, rather, it is equivalent to a roughly 5% market share of the estimated 110,000 viable candidate restaurant store property universe in Tokyo and the three surrounding prefectures, based on the total number of 160,000 restaurants from the 2016 Economic Census of Business Activity. In order to achieve this target, a key initiative in the Company's Medium-Term Management Plan is to boost its salesforce from the current 40 professionals (14 store procurement, 26 finding subleasing tenants) to 100 (30 store procurement, 70 finding subleasing tenants). Please refer to P9 in the REFERENCE section for details of initiatives in the MTP.

### Ranking of No. of Restaurants by Prefecture



Note: 4 Tokyo area = roughly 159K  
Source: 2016 Economic Census of Business Activity (METI)

## TOKYO × TENPO INNOVATION

### Grab Tokyo.

The world's largest number of passengers  
The world's largest number of restaurants  
The world's top gastronomic city

Shinjuku Station: 3.59 million  
Metropolitan Tokyo: 79,601  
No. of Michelin-star restaurants: 226

### We compete in this city with the highest potential.

The world's most traversed pedestrians  
The world's best subculture district

Shibuya  
Akihabara

### There is more we can do.

99% untapped market.  
We will not stop and will keep pushing forward.  
It will become a big swell and envelop this city.

**From because we can do it → so we will do it.**

## PART ② EARNINGS RESULTS

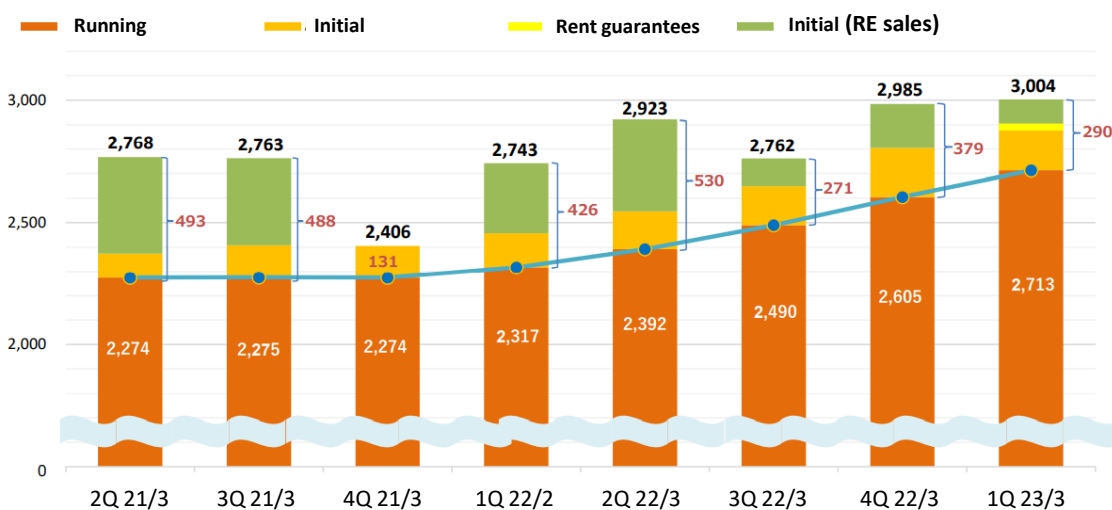


### FY23/3 1Q results are running ahead of initial guidance

1Q results are summarized in the table below. The number of signed contracts topped 100 for the third consecutive quarter at 107, and the number of profitable successor contracts also increased to 39. Total active restaurant store sublease properties topped 2,000 at 2,015 (+14.7% YoY). The Company characterized the current business environment as extremely favorable to its business model as turnover in restaurant openings and closings increases. As described in our Initiation Report dated June 13, TENPO INNOVATION specializes in relatively small properties having 1) cheap rent, 2) good location and 3) vacated furnished.

The key takeaway from the graph below showing the quarterly trend of sales by income category is that running income has resumed double-digit growth after a brief lull on the outbreak of COVID-19. While the quarterly sales amount for RE sales fluctuates from quarter to quarter, it is achieving its target of one property sale and one procurement each quarter (1Q-end inventory 3 properties). While the main objective of this business is to maintain a good relationship with RE brokers by paying meaningful commissions in return for good information on sublease candidates, the Company has recently also received interest from existing owner landlords to purchase properties, enhancing a stable supply pipeline without referrals. We examine new store rent guarantee business in Part 3.

### Quarterly Trend of Sales Breakdown by Income Category (JPY mn)



Note: initial income includes one-time payments of key money, contract-related fees and proceeds from the sale of fixtures from vacated-furnished store properties. Running income includes rent income and contract renewal fees from sublease tenants. Store sublease rent guarantees include some running income. Figures for 1Q FY23/3 are consolidated; figures for 4Q FY22/3 and earlier are non-consolidated. Source: FY23/3 1Q IR results briefing materials.

### TENPO INNOVATION 1Q FY23/3 Consolidated Financial Results Summary

[J-GAAP] JPY mn, %	FY22/3 1Q act NC	ratio to sales	FY23/3 1Q act consol	ratio to sales	AMT CHG*	YOY CHG*	23/3 1Q progress ratio	4Y AVG 1Q progress ratio	FY23/3 init CE consol	AMT CHG*	YOY CHG*
<b>Net sales</b>	<b>2,744</b>	<b>100.0%</b>	<b>3,004</b>	<b>100.0%</b>	<b>260</b>	<b>9.5</b>	<b>23.7%</b>	<b>23.2%</b>	<b>12,655</b>	<b>1,240</b>	<b>10.9</b>
Gross profit	498	18.2%	588	19.6%	90	18.1					
SG&A expenses	275	10.0%	302	10.1%	28	10.1					
<b>Operating profit</b>	<b>224</b>	<b>8.2%</b>	<b>286</b>	<b>9.5%</b>	<b>63</b>	<b>27.9</b>	<b>27.1%</b>	<b>20.1%</b>	<b>1,059</b>	<b>149</b>	<b>16.4</b>
Ordinary profit	234	8.5%	306	10.2%	71	30.4			1,074	87	8.9
Profit	159	5.8%	210	7.0%	50	31.6	28.6%	19.6%	733	71	10.7
Signed contracts* <sup>1</sup>	95		107		12	12.6			450	43	10.6
Sublease properties* <sup>2</sup>	1,756		2,015		259	14.7			2,221	270	13.8

\*YOY comparisons are provided as reference values versus the previous year's non-consolidated figures.

Note: \*1 = new plus successor contracts signed. \*2 = number of active sublease contracts at period end.

Source: compiled by Omega Investment from IR results briefing materials.

**PART ③**  
**TOPICS**



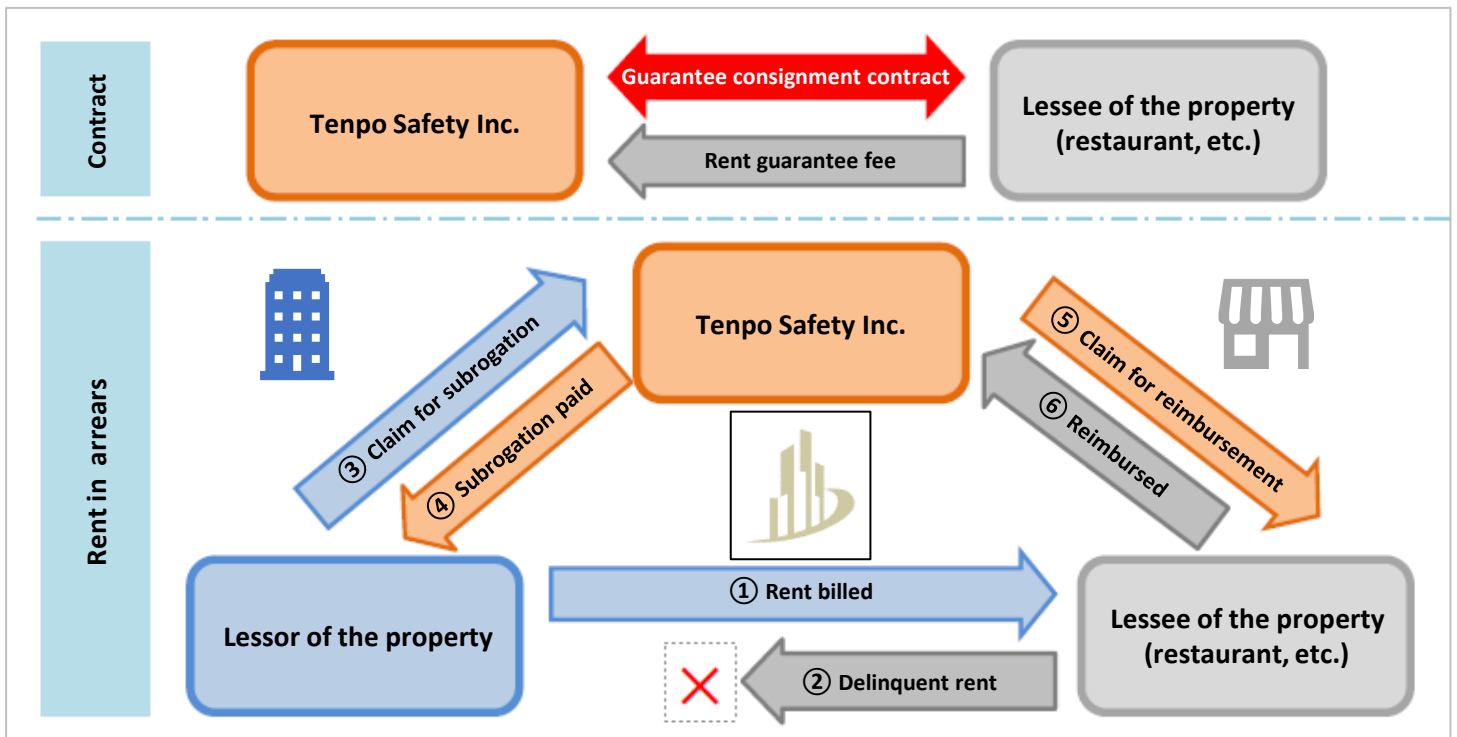
**Tenpo Safety Inc.**

**Store rent guarantee business of Tenpo Safety Inc. commenced on April 1**

Since the Revised Civil Code went into effect from April 2020, rent guarantees for store lease properties are expanding socially as a system that benefits both property landlords and tenants. In the past, the Company had tenants enter a rent guarantee contract upon application, and the business was consigned to outside providers of rent guarantees. However, with over 17 years experience in subleasing over 1,900 restaurant store properties, and unique screening know-how, the Company is fully capable of assessing the risk of its subleased properties. The Board of Directors resolved on March 24 to establish a wholly-owned subsidiary with the aim of keeping this income stream in-house.

According to the Company, every contract signed requires entering a rent guarantee agreement, and the rent guarantee fee is equivalent to roughly 1 month's rent. The newly established Tenpo Safety Inc. handles 70-80% of these contracts, the remainder deemed to carry a higher level of risk are outsourced. Therefore, with signed contracts running at over 100 per quarter, roughly 80 contribute directly to Group profits each quarter. As described on the cover page, this business carries a virtual 100% OPM, and growth is linked directly to signed contracts. Along with the rise in profitable successor contracts, store rent guarantee business will be a structural driver of margins going forward.

**Tenpo Safety Inc. Store Rent Guarantee Business Overview**



Source: FY22/3 4Q IR results briefing materials, restaurant store image from Tenpo Safety Inc. website.

## PART ④ SHARE PRICE



### Key takeaways:

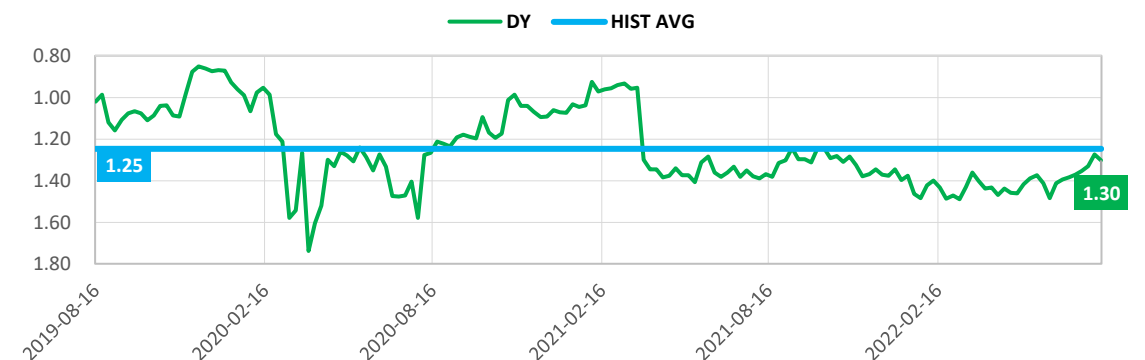
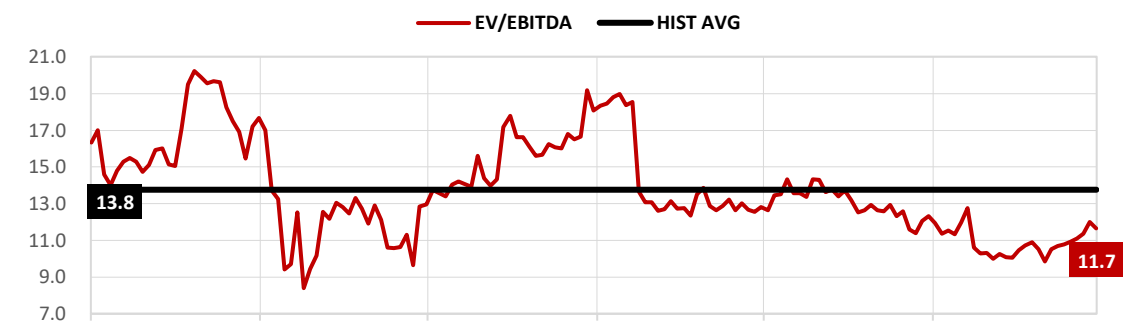
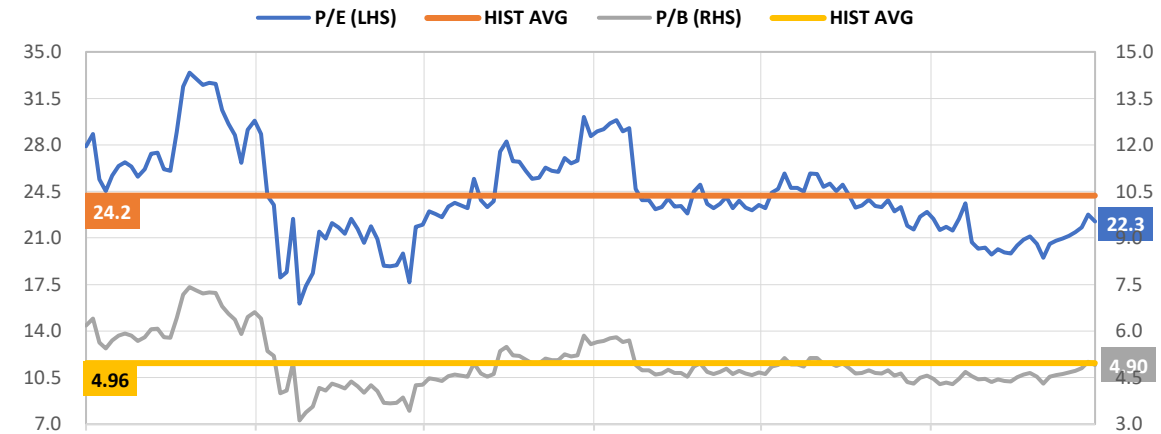
❶ The current P/E is trading on an 8% discount and EV/EBITDA is trading on a 15% discount, each to their respective historical averages, reflecting ongoing double-digit growth in earnings. Based on 1Q progress ratios, earnings may overshoot initial guidance.

❷ The equity ratio on the surface may appear low at 27.6%, however this reflects the fact that the B/S is comprised of a large amount of deposits paid and received. The Company is debt-free, and the B/S is extremely healthy.

❸ The company does not disclose initial guidance for the annual dividend, so the lower graph assumes the same dividend as last term of ¥12.00 per share.

❹ On technical indicators, the 13W MA closed above the 26W MA in the week ended June 10, forming a golden cross (GC). The 13W MA closed just on the 52W MA in the week ended August 12, forming a 2nd golden cross.

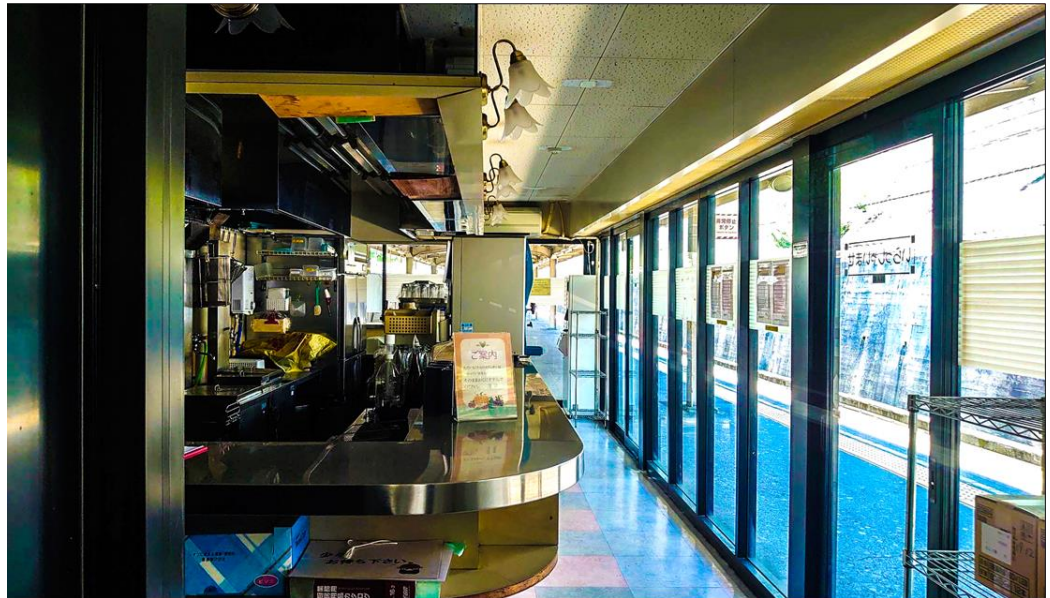
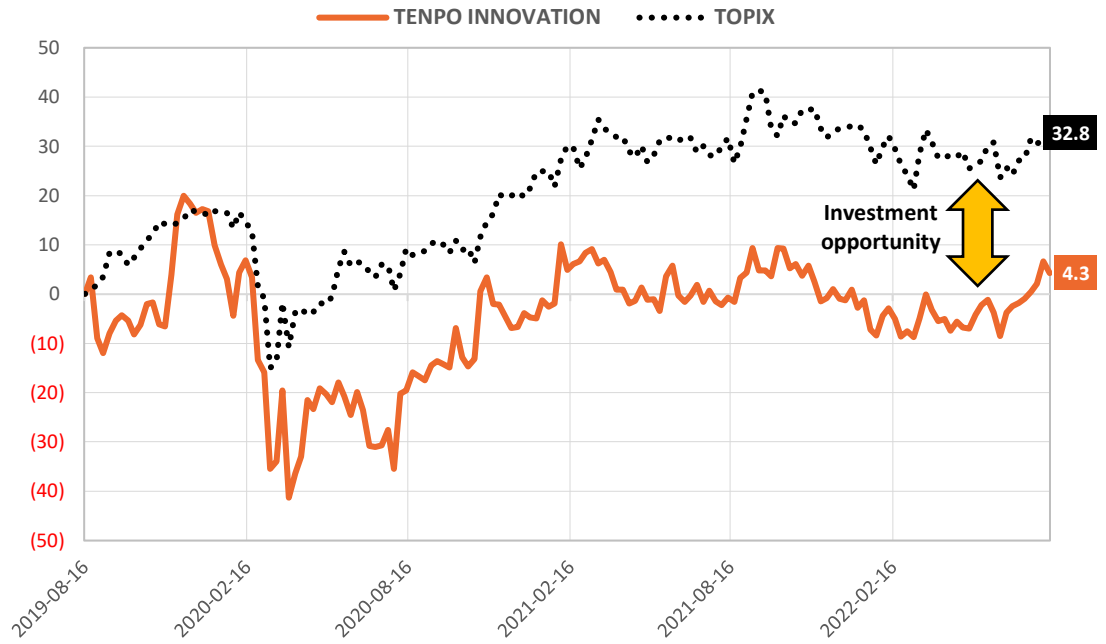
### 3Y Share Price Chart and Trend of Valuations





◆ The share price has underperformed TOPIX by 28.5% over the last 2½ years, largely due to association with the struggling restaurant industry under COVID-19. Not only has the Company resumed double-digit growth in net sales, growth in profits is accelerating due to the structural drivers of rising successor contracts and the new addition of extremely high margin rent guarantee business.

### 3Y Relative Share Price Performance





**REFERENCE**

**TENPO INNOVATION Medium-Term Management Plan**

JPY mn, %	FY3/22 act	FY3/23 init. CE	YoY pct	FY3/24 MTP	YoY pct	FY3/25 MTP	YoY pct
Net sales	11,415	12,655	10.9	14,437	14.1	16,417	13.7
Operating profit	910	1,059	16.4	1,257	18.7	1,471	17.0
OPM	8.0%	8.4%	—	8.7%	—	9.0%	—
Signed contracts	407	450	10.6	510	13.3	580	13.7
Sublease properties	1,951	2,221	13.8	2,527	13.8	2,879	13.9

Source: compiled by Omega Investment from IR results briefing materials.

**Priority initiative to strengthen and enhance the sales force**

The Company has the following medium-term and long-term targets.

By FY3/25, **increase the Sales Dept. from 40 professionals to 100** (currently 14 in charge of property procurement → 30, 26 in charge of finding tenants → 70)

- ▶ Subleased store property net adds to 600 per year (by FY3/26)
- ▶ Contracts signed to 1,000 per year (by FY3/27)

By FY3/29, **increase the number of active subleased store properties to 5,500**

- ▶ Net sales ¥30 billion
- ▶ Operating profit ¥3 billion
- ▶ OPM 10.0%

As TENPO INNOVATION is the only specialist firm engaged in this restaurant store property subleasing business, this is no easy task, and cannot be accomplished by simply directing a headhunting firm to find the required personnel (they simply do not exist). Management fully recognizes that the way forward is to find suitable personnel and provide advanced level on-the-job training by existing professional staff. The point is that there is a lot of technical background knowledge required about property specifications such as the correct amperage requirements for electricity supply, drainage pipe diameter, etc., as well as expertise and know-how in retail properties, the restaurant industry, the city, restaurant facilities, and legal matters.

The Company summarizes its HR strategy for the Sales Dept. in a 3-point plan: ① increase staff, ② provide advanced OTJ training and ③ transfer capable sales staff to property procurement. Management envisions this extensive training for sales staff to procure properties to lease for the purpose of subleasing will take one year. Specifically, it will try to develop a standard method of passing on the expert knowledge involving the 237 items/steps from introduction of the property to concluding a subleasing agreement. Then, recognizing that procurement has a high level of difficulty and strategically holds the highest importance to future growth, it will optimize transfer and assignment of capable sales staff.

Then, in order to achieve the second long-term goal above of increasing the number of active subleased store properties to 5,500 by FY3/29, management will employ a strategy of ④ procurement area focus. Specifically, roughly 30 procurement staff will cover approximately 1,000 station areas and 2,000 real estate agents. For terminal stations with more than 1 million passengers and major real estate agencies, multiple procurement staff will be assigned. The target is to achieve procuring roughly 600 store properties per year (or 50 per month) by FY3/26.



## Shareholder Return Policy

The Company's basic policy is to pay stable dividends while strengthening its management base. The dividend per share (DPS) for the fiscal year ending March 31, 2023 is currently undecided, to be disclosed as soon as it becomes available.

## Trend of Dividends Paid and Payout Ratio

JPY thou., %	FY3/19 act	FY3/20 act	FY3/21 act	FY3/22 CE	FY3/23 CE
Net profit	509,698	564,272	575,606	662,386	716,763
Total dividends	124,767	160,414	160,414	212,086	TBD
Dividend payout	23.6%	28.4%	27.9%	32.1%	TBD
DOE	6.7%	6.9%	5.8%	6.8%	—

DPS (yen)	7.00*	9.00	9.00	12.00	—
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Source: compiled by Omega Investment from IR results briefing materials.

Div. hike

\*Note: adjusted to reflect the stock split.

## Major Shareholders (as of March 31, 2022)

Shareholder Name	Shares Owned	Pct Ownership
CROPS Corporation	10,044,400	56.83%
The Master Trust Bank of Japan, Ltd. (trust account)	1,139,800	6.44%
UNION BANCAIRE PRIVEE	784,000	4.43%
Yasuo Hara	750,000	4.24%
Yohei Shimura	504,000	2.85%
Nomura Trust & Banking Co. (trust account)	364,700	2.06%
Custody Bank of Japan, Ltd. (trust account)	178,900	1.01%
TENPO INNOVATION Employee Stock Ownership Plan	159,200	0.90%
Yuji Kondo	34,400	0.19%
Kentaro Mamiya	33,800	0.19%
<b>Top 10 total</b>	<b>13,993,200</b>	<b>79.14%</b>
Total number of shares authorized to be issued	64,000,000	
Total number of shares issued and outstanding (including 514 treasury shares)	17,674,400	
Number of shareholders	13,372	

Source: Notice of the 16th Ordinary General Meeting of Shareholders.





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