

# TENPO INNOVATION | 3484

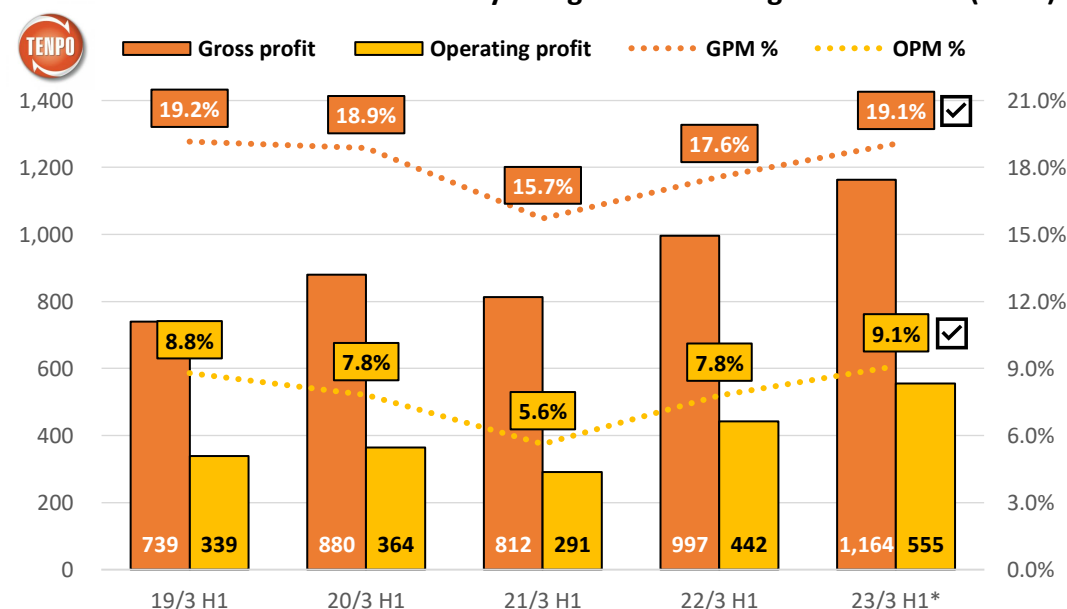
## 1H Profits nicely ahead of 4Y AVG progress ratios

Margins rising on increase in successor contracts and guarantee fees

### SUMMARY

- TENPO INNOVATION announced 1H FY23/3 results at 15:30 on Wednesday 11/2, and held an online briefing from 16:00 on Monday 11/14. Results briefing materials 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 were: net sales +7.7% YoY, gross profit +16.8%, OP +25.6% and profit ATOP +25.4%. GPM improved from 17.6% → 19.1%, and OPM improved from 7.8% → 9.1%. 1H progress ratios were net sales 48.2%, OP 52.4% and profit ATOP 54.4%, versus 4-year averages of 48.4%, 45.4% and 45.2%, respectively.
- The important takeaways from 1H 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 roughly 14%, 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, with potential rising for a full-year overshoot.

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



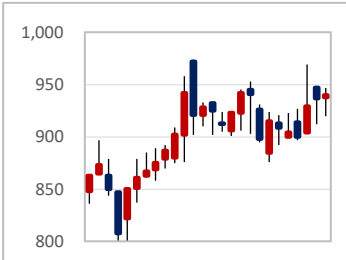
Source: compiled by Omega Investment from company TANSIN financial statements. \*Consolidated accounts from 23/3.

### Q2 Follow-up

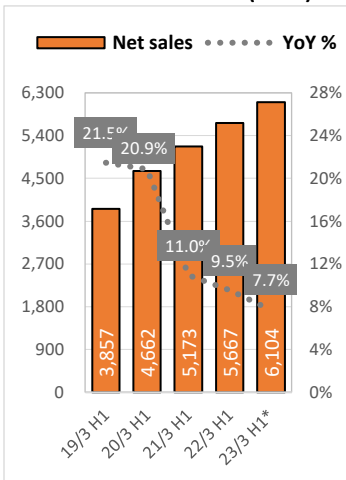
#### Financial Indicators

Share price (12/02)	992
YH (22/11/30)	1,024
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)	16.614
EV (¥ bn)	13.052
Equity ratio (9/30)	28.2%
23.3 P/E (CE)	22.7x
23.3 EV/EBITDA (CE)	11.9x
22.3 ROE (act)	21.1%
22.3 ROIC (act)	18.6%
22.9 P/B (act)	4.72x
22.3 DY (act)	1.28%

#### 6M weekly share price



#### Net Sales H1 Trend (¥ mn)



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Company Specialist

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## PART ① RESTAURANT INDUSTRY UPDATE



Link (Japanese-only) to METI FBI

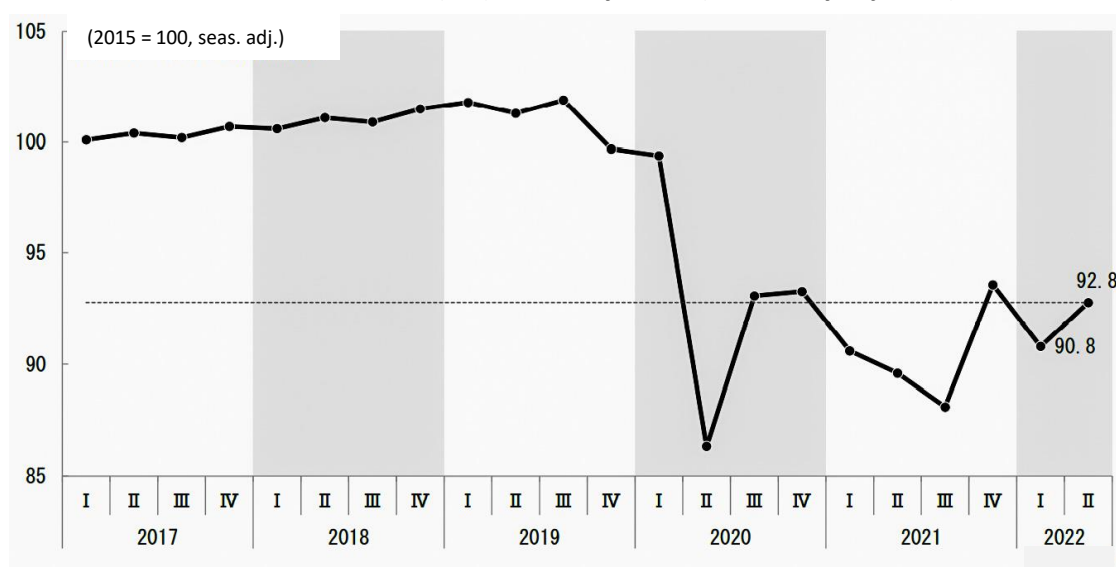
semi-annual analysis reports:

<https://www.meti.go.jp/statistics/toppage/report/minikeizai-result-fbi.html>

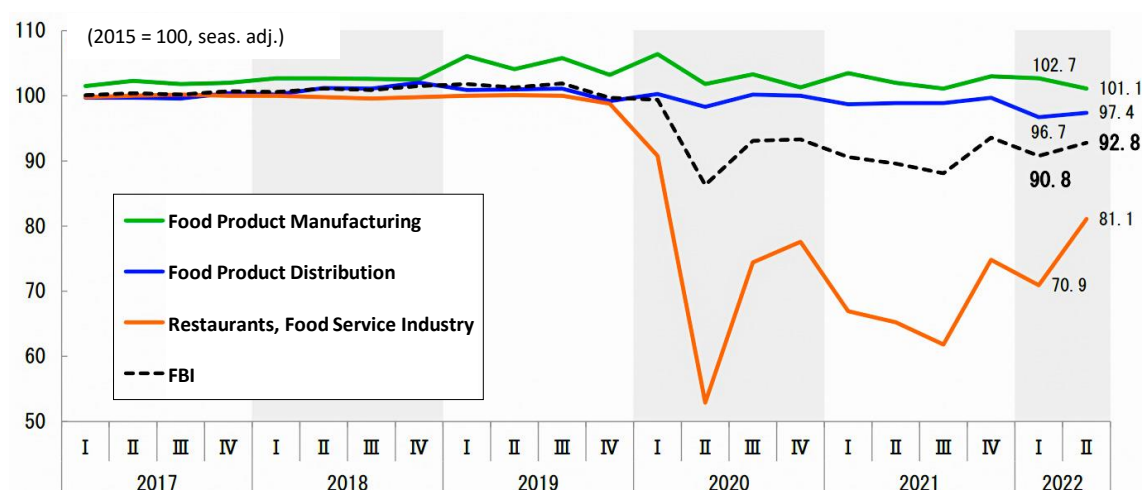


For macro-level data, we have found METI's semi-annual (May/Oct) **Trends in Food and Beverage Related Industries** provides the most useful top-down approach, which gives a handy snapshot overview of current trends in food service-related industries. The advantage of this index-based approach is that it provides an accurate picture of the trend level of an historical time series without suffering from the shortcomings of the base effect inherent in YoY statistical analysis.

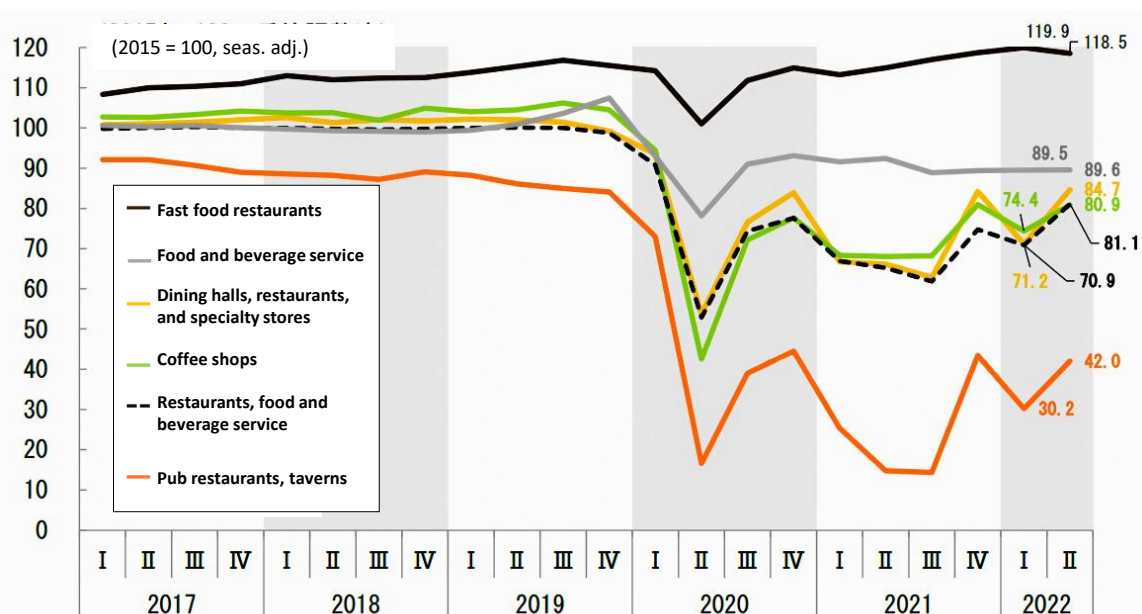
### 2022 1H METI Food Business Index (FBI) Quarterly Trend (seasonally adjusted)



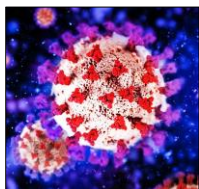
### FBI Quarterly Breakdown of Component Industries (seasonally adjusted)



### Restaurants, Food Service Industry Quarterly Breakdown of Component Industries (S.A.)

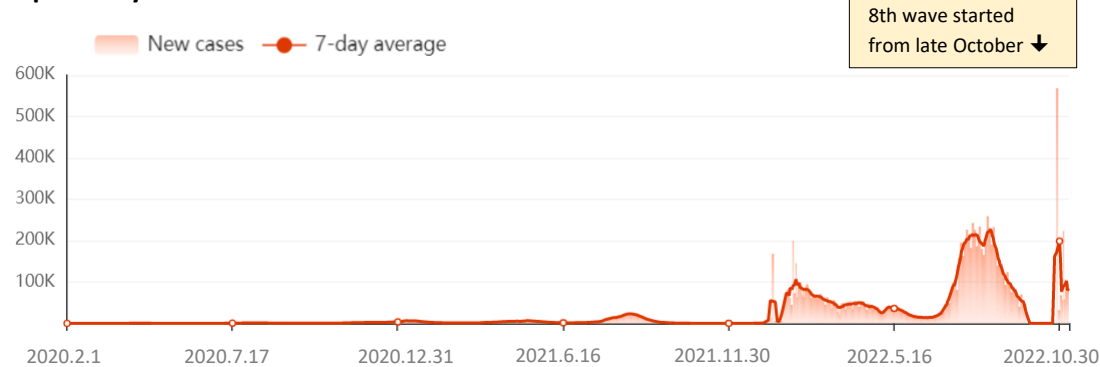


Source: METI Trends in Food and Beverage Related Industries in 2022 1H, Office of Economic Analysis, October 24, 2022.



New Omicron subvariant  
XXB (Gryphon)

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



Source: Microsoft Bing COVID-19 Tracker

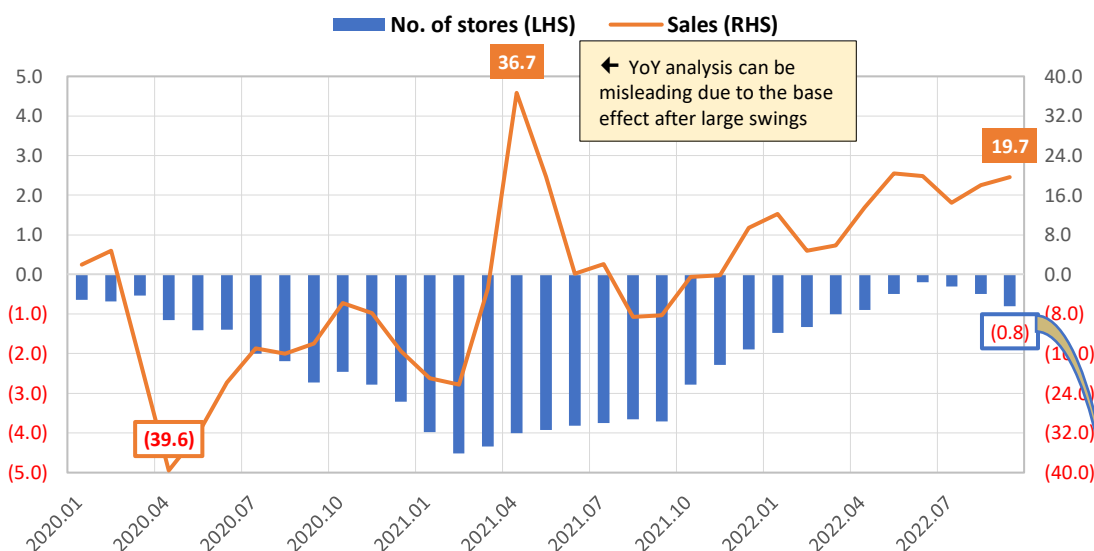


No. of stores



Sales

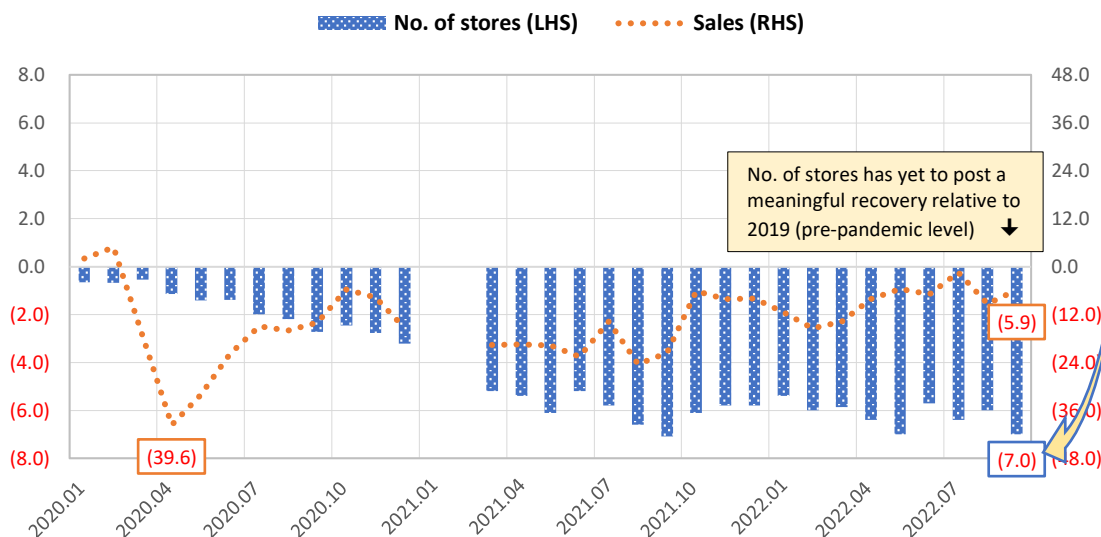
## JF Food Service Industry Market YoY Trend Survey – Monthly Results Reports



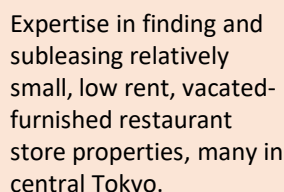
Net store closures of restaurants in the **all-stores** data on the right is clearly a lagging indicator relative to sales. The middle graph on the right suggests the impact from the global pandemic **appears** to be mitigating. However, YoY figures, by definition, are versus the same month in the previous 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).

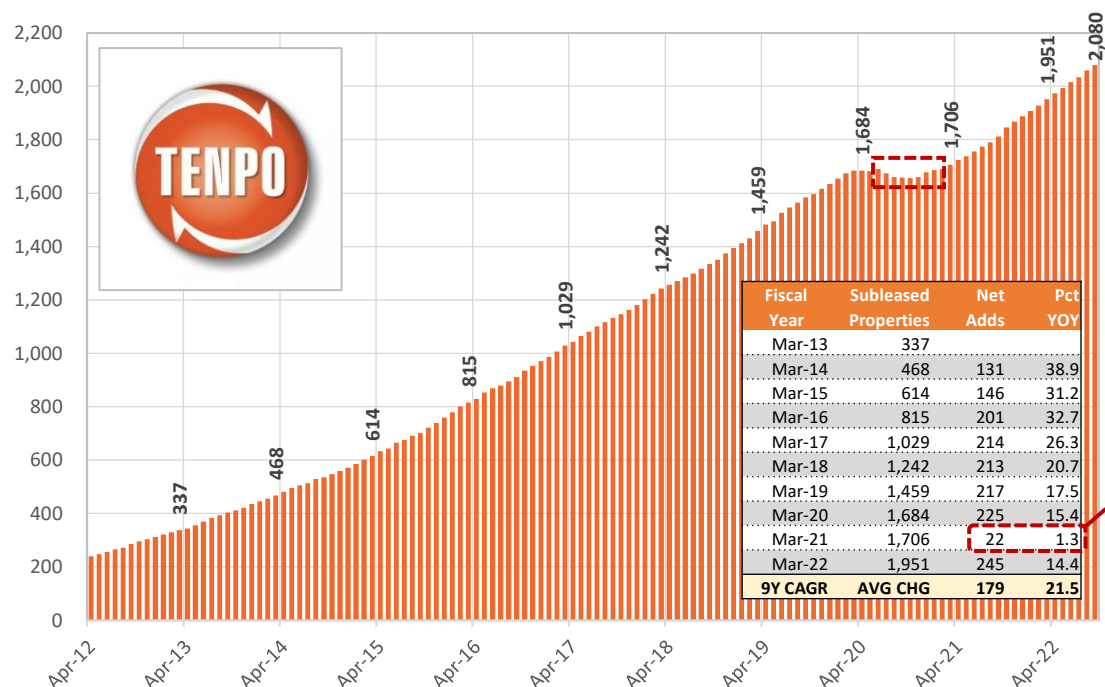
## JF Food Service Industry Market Monthly Trend Survey – adjusted vs. 2019 same month\*



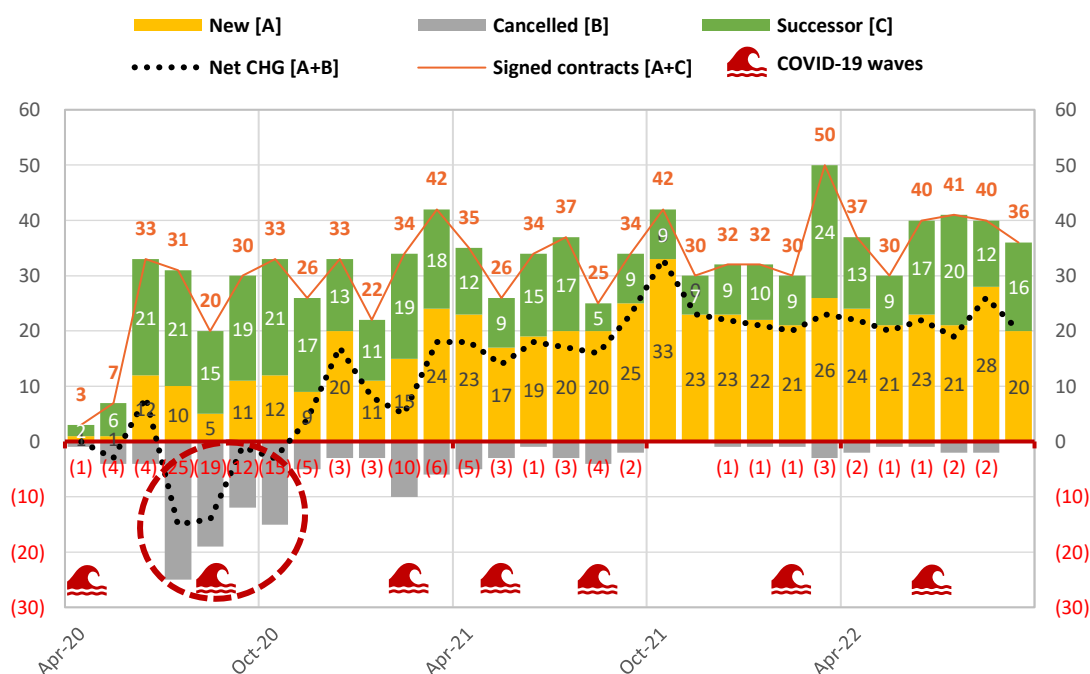
Source: Japan Foodservice Association (JF). Note: data for **all stores** incl. new opens. [http://www.jfnet.or.jp/data/data\\_c.html](http://www.jfnet.or.jp/data/data_c.html)



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



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

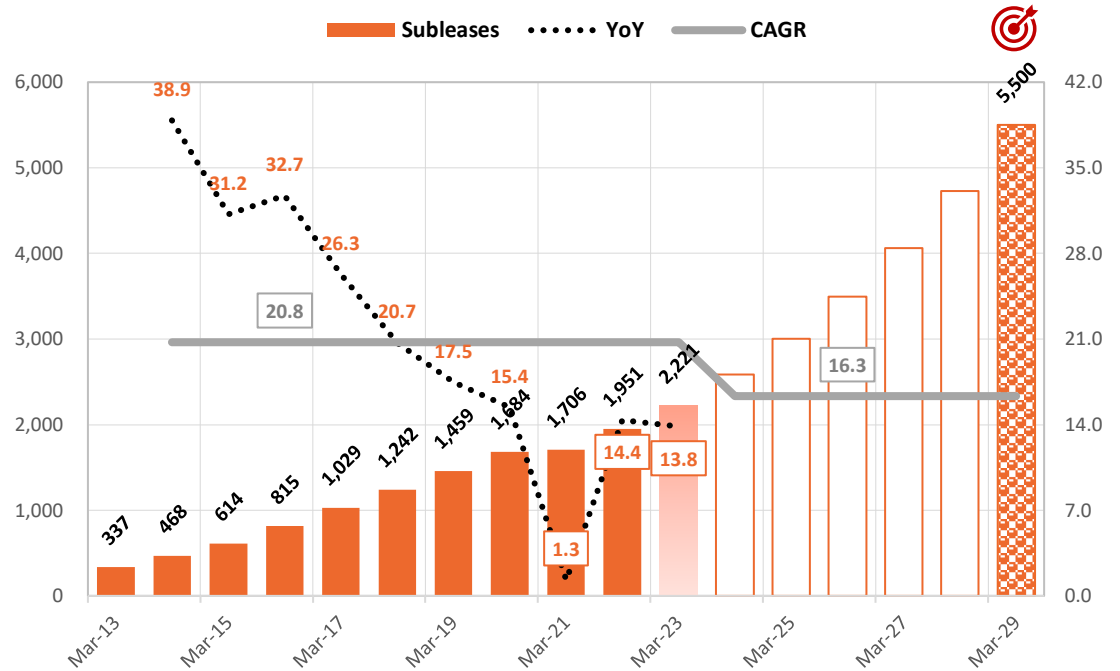


Source: compiled by Omega Investment from company IR results briefing materials.





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



## PART ② EARNINGS RESULTS

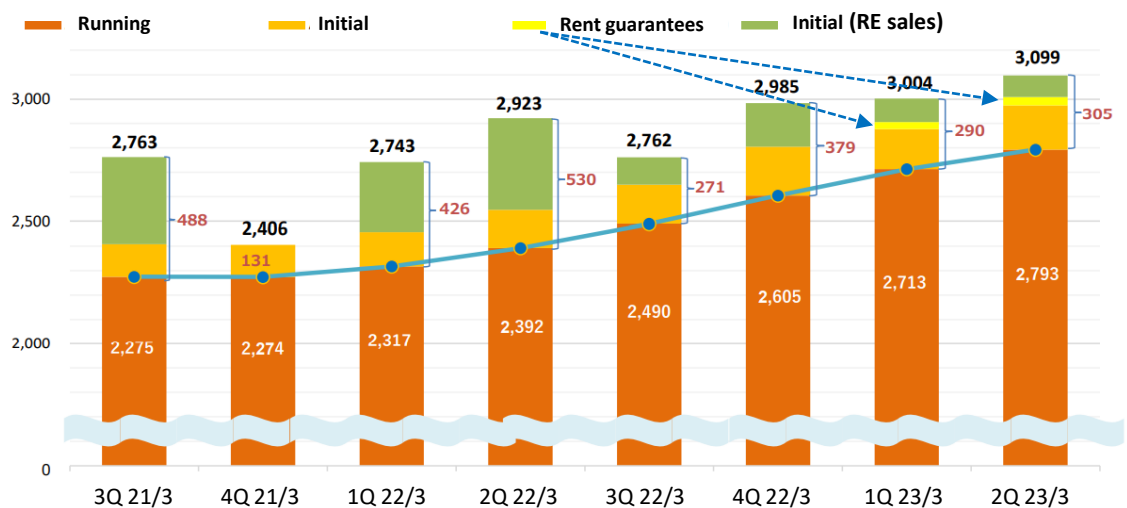


### FY23/3 H1 profits are running nicely ahead of 4Y AVG progress ratios

2Q results are summarized in the table below. The number of signed contracts topped 100 for the fourth consecutive quarter at 117 (new record), and the number of profitable successor contracts also increased to 48. Total active restaurant store sublease properties topped reached 2,080 (+14.8% YoY). The Company characterized the current business environment as extremely favorable to its business model given active turnover in restaurant openings and closings. 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, and as such, are always in high demand.

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 (2Q-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 summarize 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: excerpt from IR results briefing materials.

### TENPO INNOVATION FY23/3 H1 Consolidated Financial Results Summary

[J-GAAP] JPY mn, %	FY22/3 H1 act NC	ratio to sales	FY23/3 H1 act consol	ratio to sales	AMT CHG*	YOY CHG*	23/3 H1 ACH ratio	4Y AVG H1 ACH ratio	FY23/3 init CE consol	AMT CHG*	YOY CHG*
Net sales	5,667	100.0%	6,104	100.0%	437	7.7	48.2%	48.4%	12,655	1,240	10.9
Gross profit	997	17.6%	1,164	19.1%	167	16.8					
SG&A expenses	555	9.8%	609	10.0%	54	9.8					
Operating profit	442	7.8%	555	9.1%	113	25.6	52.4%	45.4%	1,059	149	16.4
Ordinary profit	468	8.3%	582	9.5%	114	24.3			1,074	87	8.9
Profit ATOP	318	5.6%	399	6.5%	81	25.4	54.4%	45.2%	733	71	10.7
Signed contracts <sup>*1</sup>	191		224		33	17.3			450	43	10.6
Sublease properties <sup>*2</sup>	1,812		2,080		268	14.8			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 FY end.

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

## PART ③ TOPICS



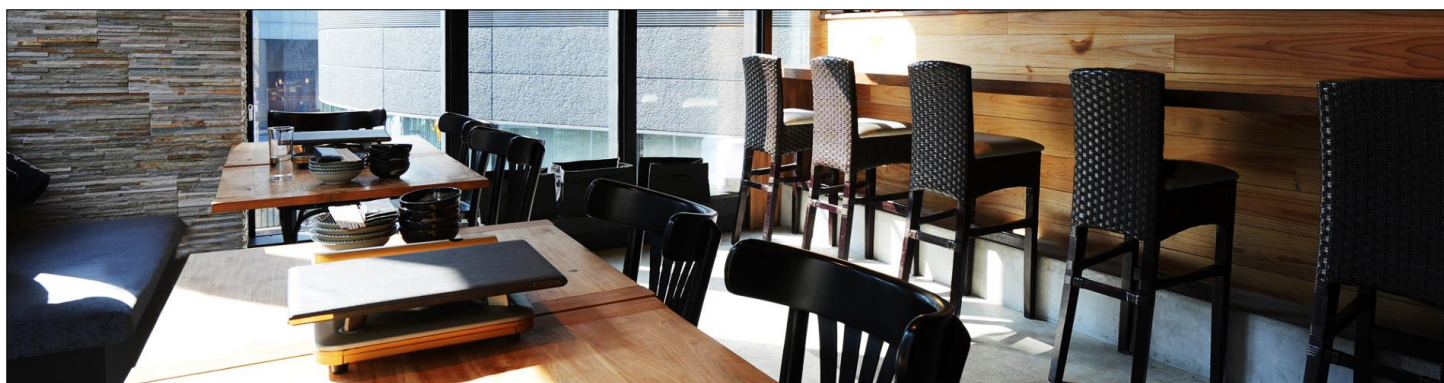
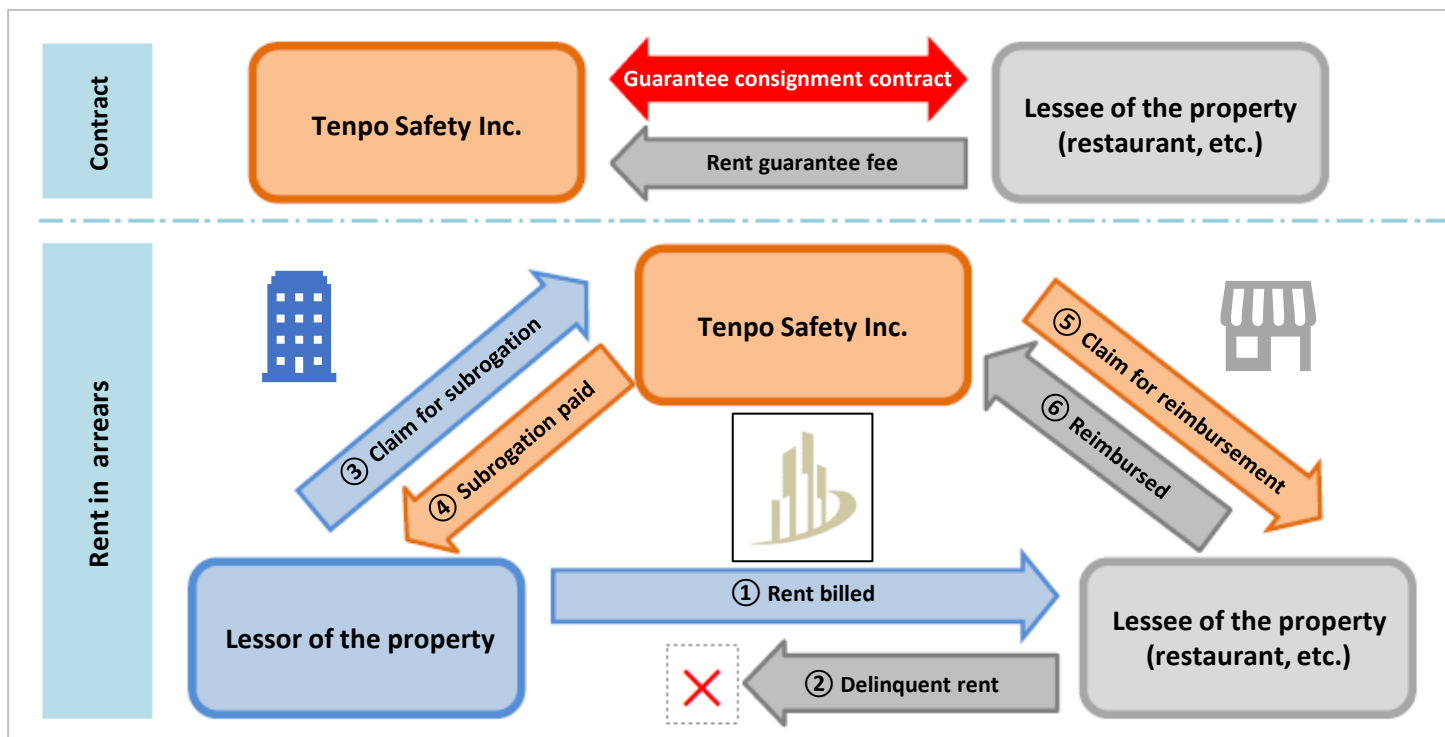
Tenpo Safety Inc.

### 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 automatically upon application, and the business was consigned to outside providers of rent guarantees. However, with over 17 years experience in subleasing over 2,000 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.

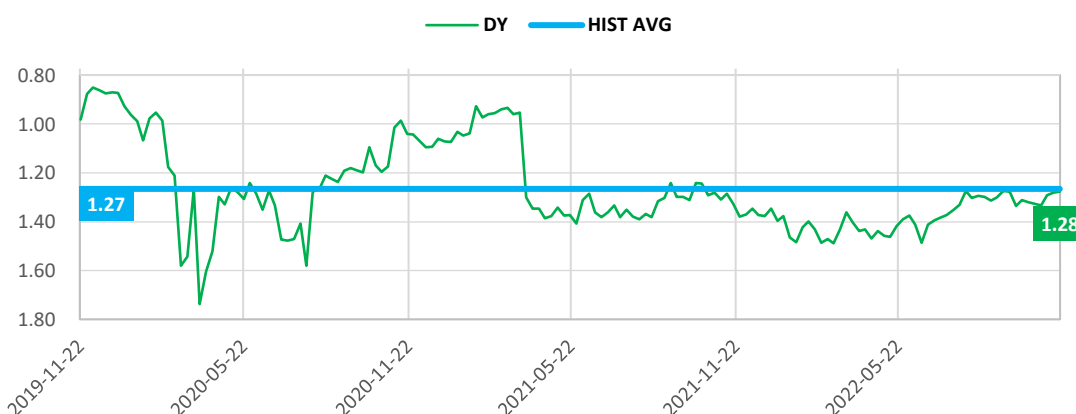
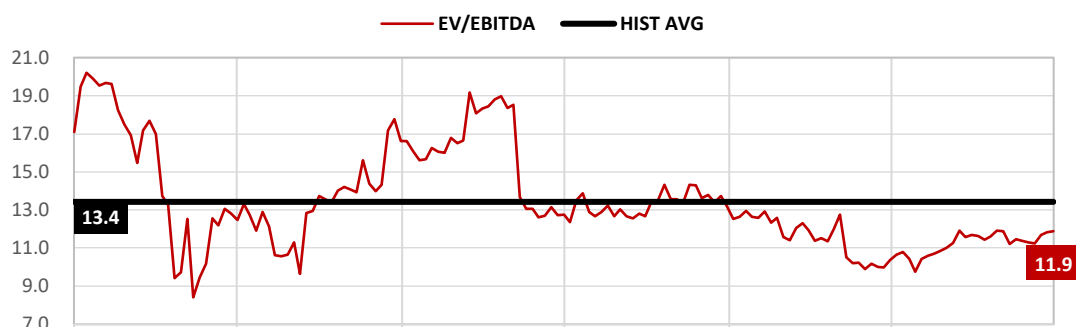
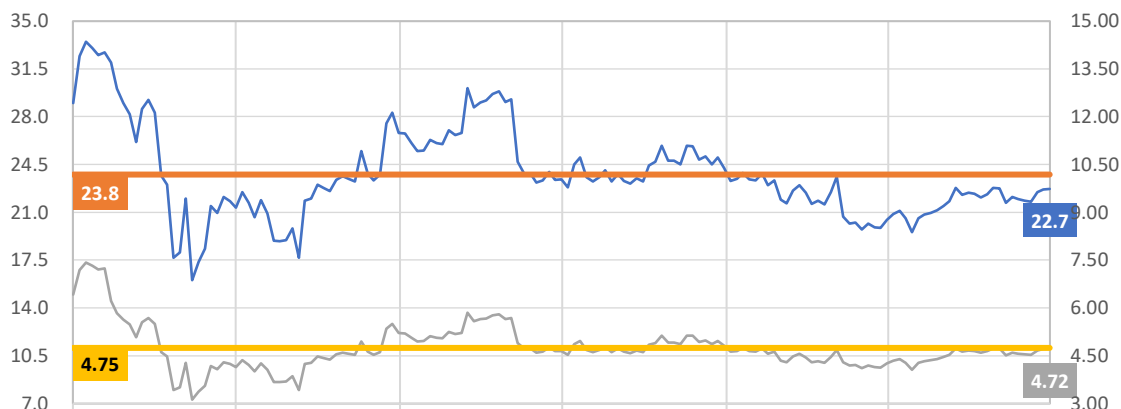
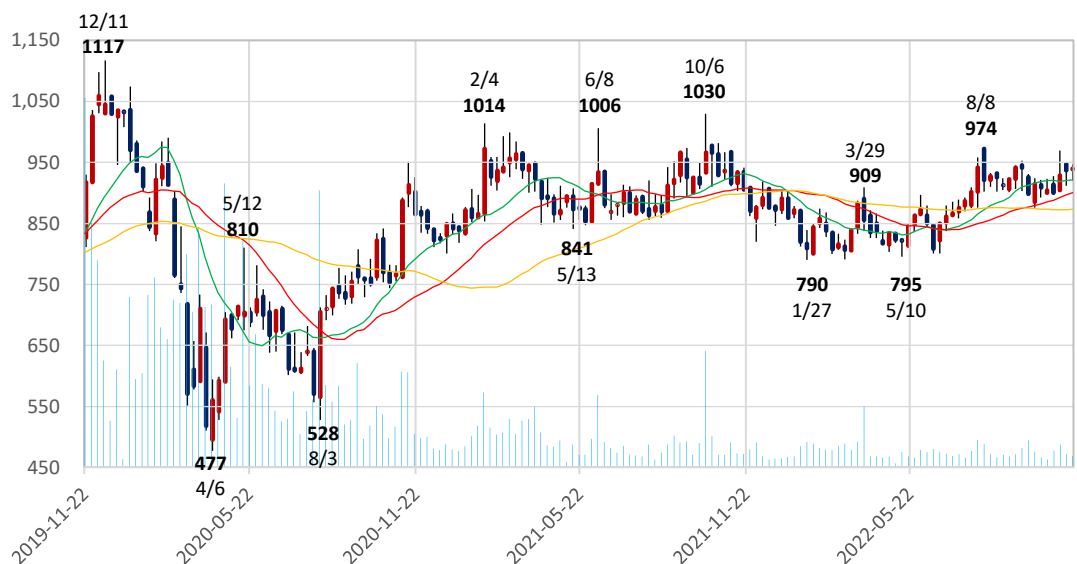
## PART ④ SHARE PRICE



### Key takeaways:

- ① The current P/E is trading on a 5% discount and EV/EBITDA is trading on an 11% discount, each to their respective historical averages. Based on H1 progress ratios for OP and profit ATOP, earnings may overshoot initial guidance, expanding the real discount.
- ② The equity ratio on the surface may appear low at 28.2%, 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.
- ③ 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.

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

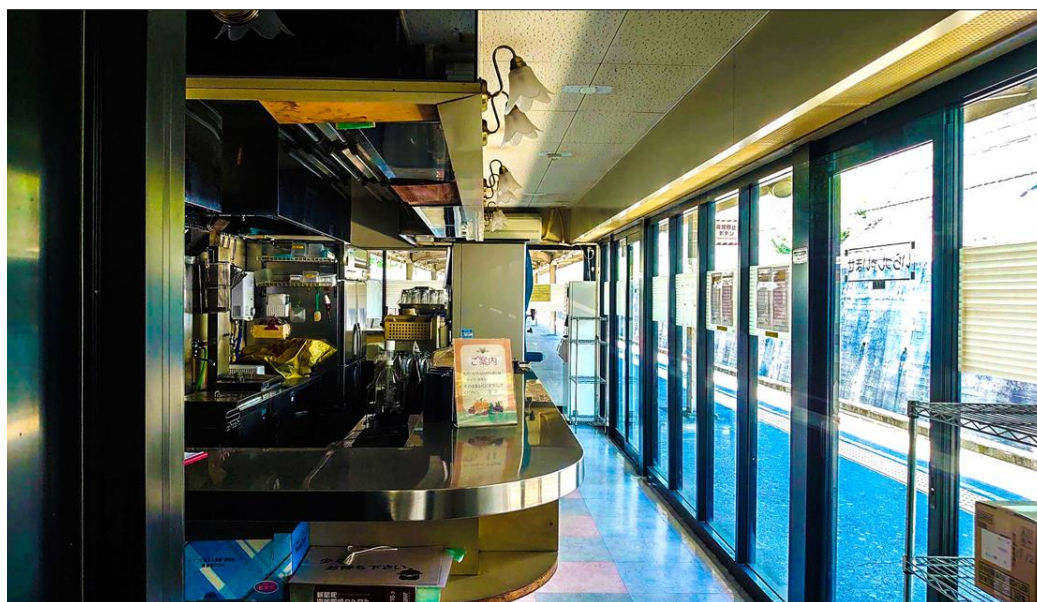
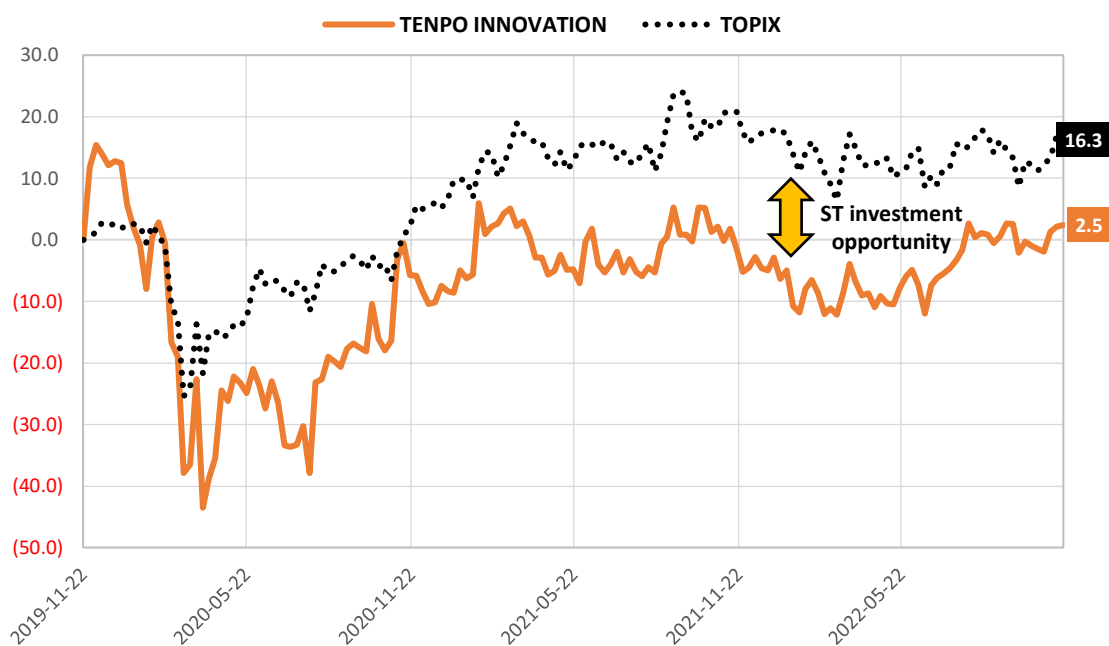






◆ The share price has underperformed TOPIX by 14% over the last 2½ years, largely due to association with the struggling restaurant industry under COVID-19. Not only has the Company resumed double-digit growth in net sales, growth in profits is accelerating due to the structural drivers of rising successor 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 act	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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