



# 3484 TENPO INNOVATION

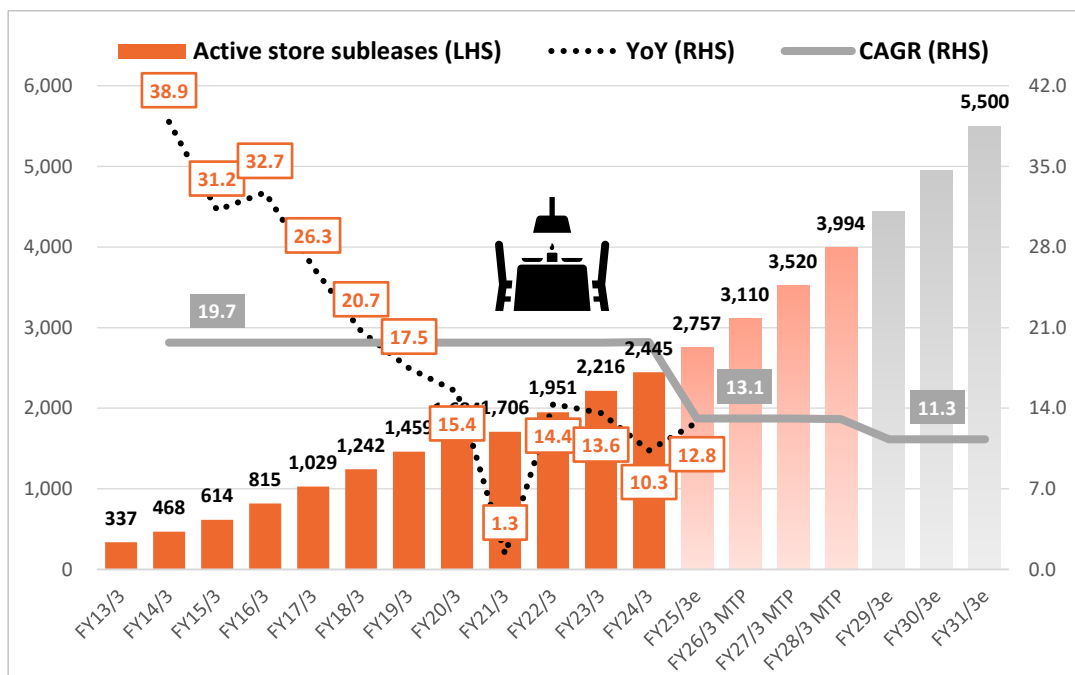
## Transition to a holdings company on October 1

Total cash dividends have grown at +31.5% CAGR since listing

### SUMMARY

- By transitioning to a holding company structure, the holding company will oversee the management of the entire Group, while each subsidiary will focus on promoting its own business, thereby maximizing the corporate value of the Group. FY25/3 net sales are forecast to increase +18.1% YoY, driven by robust increases in signed contracts (new + successor) 466 → 570 (+22.3% YoY) and active sublease store properties 2,445 → 2,757 (+12.8% YoY). OP is forecast to decline another -6.9% YoY due to the impact of higher SG&A expenses accompanying the increase in headcount for aggressive expansion of each business. **FY25/3 is positioned as a transition phase toward accelerating growth going forward, and profits will remain under pressure from upfront investments to strengthen the sales organization and support systems to secure the opportunity.**
- From FY24/3, the Company announced a change to its dividend policy, effectively raising the target payout ratio from the 30% level to the 40% level. Since listing, total cash dividends have grown at +31.5% CAGR, with DOE topping 10% in FY24/3, and the payout ratio forecast to exceed 50% for the second consecutive year in FY25/3. **While making the necessary investments to accelerate growth going forward, the Company is also strengthening shareholder returns as a priority management issue.**

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



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

### Full Report

#### Financial Indicators

Share price (7/29)	954
YH (24/1/4)	1,050
YL (24/5/30)	835
10YH (23/3/10)	1,340
10YL (20/4/6)	477
Shrs out. (mn shrs)	17.674
Mkt cap (¥ bn)	16.861
EV (¥ bn)	12.676
Equity ratio (3/31)	24.2%
25.3 P/E (CE)	25.4x
25.3 EV/EBITDA (CE)	13.2x
24.3 ROE (act)	20.5%
24.3 ROIC (act)	19.9%
24.3 P/B (act)	4.82x
25.3 DY (CE)	2.20%

#### 6M daily share price



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Company Specialist

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## Omega Investment's case for TENPO INNOVATION as an attractive opportunity

Over the last 7 fiscal years since listing in Oct-2017 through FY24/3, net sales have grown at +14.9% CAGR, OP has grown at +17.7% CAGR, and total cash dividends have grown at +31.5% CAGR, with DOE topping 10% in FY24/3, and the payout ratio forecast to exceed 50% for the second consecutive year in FY25/3. As can be seen from the graph on the bottom of P1, **double-digit growth in active store sublease contracts is both remarkably stable and sustainable**, uncorrelated with the underlying restaurant market, and this report examines TI's business model strengths, and outlook under the new MTP.

## TENPO INNOVATION Financial Highlights and Key Indicators

JPY mn, %	FY16/3	FY17/3	FY18/3	FY19/3	FY20/3	FY21/3	FY22/3	*FY23/3	FY24/3	FY25/3	FY26/3	FY27/3	FY28/3
[J-GAAP]	NC act	NC act	NC act	NC act	NC act	NC act	NC act	con act	con act	init CE	MTP CE	MTP CE	MTP CE
Net sales	4,228	5,386	6,689	8,229	9,985	10,343	11,415	13,070	14,264	16,840	19,190	22,138	25,644
YoY	30.1	27.4	24.2	23.0	21.3	3.6	10.4	14.5	9.1	18.1	14.0	15.4	15.8
• Store subleasing (running)	3,729	4,816	6,060	7,377	8,715	9,164	9,806	11,332	12,637				
• Store subleasing (initial)	498	570	628	729	715	430	656	735	794				
• Store subleasing rent guarantees	—	—	—	—	—	—	—	145	148				
• Sale of real estate (initial)	—	—	—	121	554	747	951	856	683				
No. of signed contracts* <sup>1</sup>	269	306	333	362	397	314	407	482	466	570	640	720	820
No. of active store subleases* <sup>2</sup>	815	1,029	1,242	1,459	1,684	1,706	1,951	2,216	2,445	2,757	3,110	3,520	3,994
Gross profit	771	939	1,140	1,560	1,953	1,832	2,094	2,519	2,574				
GPM (%)	18.2%	17.4%	17.0%	19.0%	19.6%	17.7%	18.3%	19.3%	18.0%				
SG&A expenses	490	627	743	826	1,168	1,100	1,184	1,307	1,600				
Ratio to sales (%)	11.6%	11.6%	11.1%	10.0%	11.7%	10.6%	10.4%	10.0%	11.2%				
Depreciation	6	5	5	18	23	20	40	37	50				
EBITDA	286	316	402	751	808	751	949	1,249	1,024				
Operating profit	280	312	397	734	785	732	910	1,212	974	907	1,035	1,268	1,645
YoY	—	11.1	27.4	84.8	7.0	(6.8)	24.3	33.2	(19.6)	(6.9)	14.1	22.5	29.7
OPM (%)	6.6%	5.8%	5.9%	8.9%	7.9%	7.1%	8.0%	9.3%	6.8%	5.4%	5.4%	5.7%	6.4%
Ordinary profit	292	328	401	714	812	842	987	1,266	1,011	942			
Total income taxes	110	122	165	205	254	266	324	381	326				
Profit attributable to owners of parent (ATOP)	182	200	236	510	564	576	662	886	666	630			
Total assets	4,508	5,437	6,974	8,587	10,233	10,429	11,898	12,882	13,697				
Total shareholders' equity	871	1,041	1,530	2,107	2,546	2,961	3,328	3,195	3,317				
Shareholders' equity ratio	19.3%	19.2%	21.9%	24.5%	24.9%	28.4%	28.0%	24.8%	24.2%				
Total cash dividends	30	49	67	125	160	160	212	272	335	352			
DOE	3.8%	5.1%	5.2%	6.9%	6.9%	5.8%	6.7%	8.4%	10.3%				
Net profit	182	200	236	510	564	576	662	886	666				
Payout ratio	16.3%	24.6%	28.5%	24.5%	28.4%	27.9%	32.0%	30.8%	50.3%	55.9%			
ROE	23.1%	20.9%	18.3%	28.0%	24.3%	20.9%	21.1%	27.1%	20.5%				
NOPAT (OP - income taxes)	170	190	232	529	531	466	586	831	648				
Invested capital (IBD + net assets)	871	1,041	1,530	2,107	2,546	2,961	3,328	3,195	3,324				
• Interest-bearing debt	—	—	—	—	—	—	—	—	—				
• Net assets	871	1,041	1,530	2,107	2,546	2,961	3,328	3,195	3,324				
ROIC	21.6%	19.8%	18.0%	29.1%	22.8%	16.9%	18.6%	25.5%	19.9%				

Source: compiled by Omega Investment from YUHO financial statements (Annual Securities Report) and IR results briefing materials.

No. of signed contracts\*<sup>1</sup> = new contracts plus successor contracts concluded during the period.

No. of active store subleases\*<sup>2</sup> = number of active store sublease contracts at the end of the period.

\*Note: the Company switched to reporting consolidated figures from FY23/3 with the addition of Tenpo Safety Inc. (sublease rent guarantees)

→ FY23/3 YOY figures, and DOE/ROE/ROIC figures which involve calculations of average equity are shown in italic gray for reference only.

Tokyo Shinjuku night skyline





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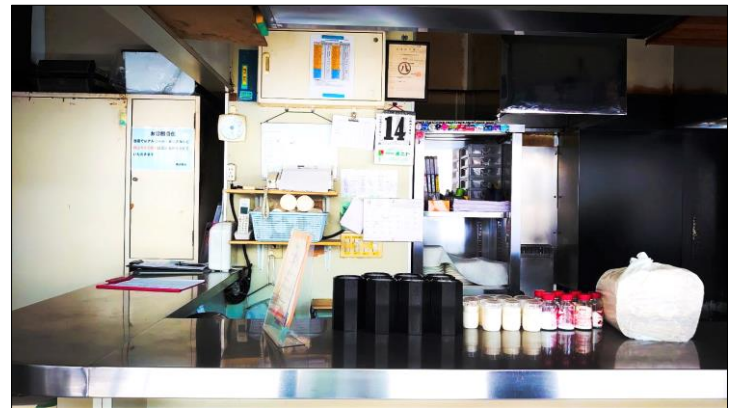
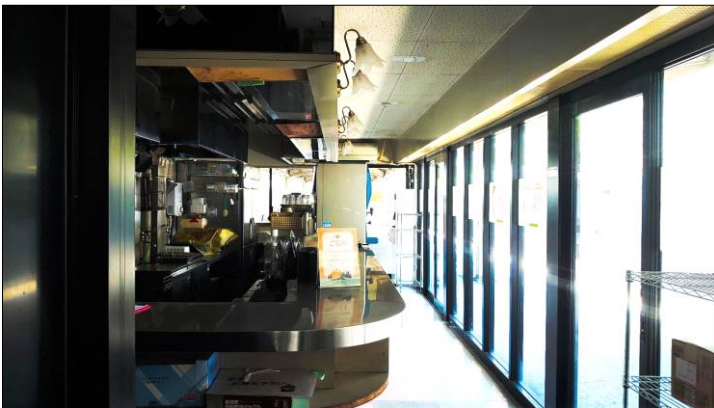
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### TENPO INNOVATION Metropolitan Tokyo restaurant store property subleasing specialist

#### TENPO INNOVATION's 3 Main Criteria for Selecting Store Sublease Properties Always in High Demand



- *The store property is on the 1F facing a street (regardless of station proximity)*
- *Monthly rent is affordable in absolute terms (averaging around ¥400k/mo.)*
- *The property is a vacated-furnished store (lowers the initial investment cost)*





TENPO INNOVATION

## PART ① INTRODUCTION

### JF Monthly and Annual Surveys of the Food Service Industry

For micro-level data, we have found the monthly and annual surveys by the Japan Foodservice Association (JF) provide a timely snapshot of trends in the restaurant industry based on surveys of direct responses from restaurants and food and beverage service providers. The Skylark Group is Japan's largest directly managed table service restaurant chain with over 3,000 restaurants nationwide and approx. 300 million guests every year. After the first Skylark restaurant was opened in Fuchu, Tokyo in Jul-1970, the Japan Foodservice Association (JF) was established in 1974 under approval of the Ministry of Agriculture, Forestry and Fisheries to contribute to the development of the food service industry and the creation of a rich food culture in Japan. JF celebrates its 50th anniversary in 2024. The number of regular and supporting member companies exceeds 800, including regular members (companies operating restaurant chains) and supporting members (food service-related manufacturers, trading companies, etc.), making it the largest food service industry organization in Japan.

The two pie graphs below show the "JF Food Service Industry Market Trend Survey May-2024 Results Report" was based on responses from 229 companies which operate 37,136 stores (see P9 for full survey data), a more than adequate sample size to accurately reflect the underlying trends, and the pie graphs present the breakdown by restaurant format. The table above the two pie graphs provides a description of each of the restaurant formats, which is based on definitions and the classification system adopted by METI. JF also produces an annual report "Food Service Industry Market Size Estimates," although finalized figures are released with a significant delay (see P5). Annual, quarterly and monthly data from JF Food Service Industry Market Trend Survey Results Reports from Jan-2019 through April 2024 (annual reports from 2014 through 2023) is summarized on PP6-9.

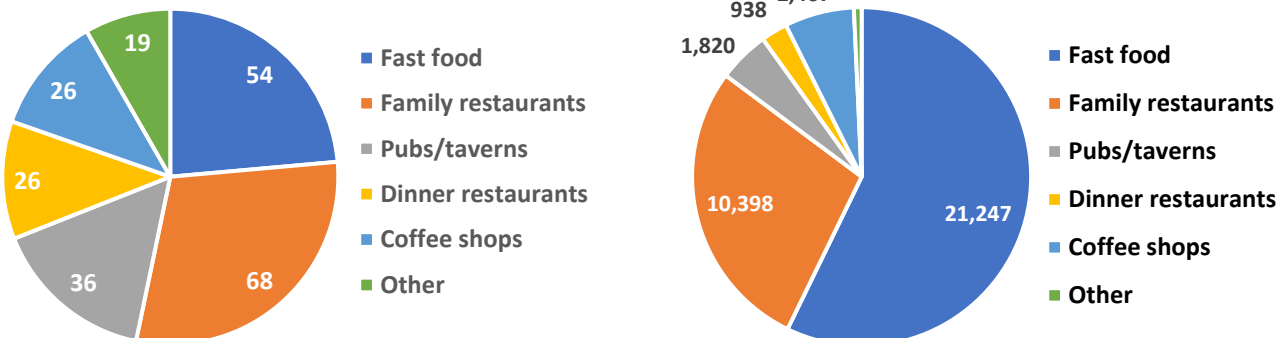
A key feature in JF survey results reports starting from Mar-2021 is, in addition to YoY trend figures, the inclusion of comparisons versus same month of 2019 (pre-pandemic), to help gauge the level of the recovery by stripping out the high volatility of YoY comparisons, which alone can be misleading. **As of May-2024, although total sales have recovered to +15.0% versus May-2019, the total number of stores is still down -6.7% (see upper chart on P7).**



### JF Restaurant Format Classifications Based on METI Statistics Definitions

Format	Form of use	What is served	Average spend
Fast Food	Eat-in and/or take-out	Mainly meals	Somewhat cheap
Family Restaurants	Mainly eat-in	Mainly meals	Average
Pub restaurants (IZAKAYA)	Mainly eat-in	Food and beverages	Somewhat expensive
Dinner Restaurants	Mainly eat-in	Mainly meals	Expensive
Coffee Shops	Eat-in and/or take-out	Mainly soft drinks	Cheap

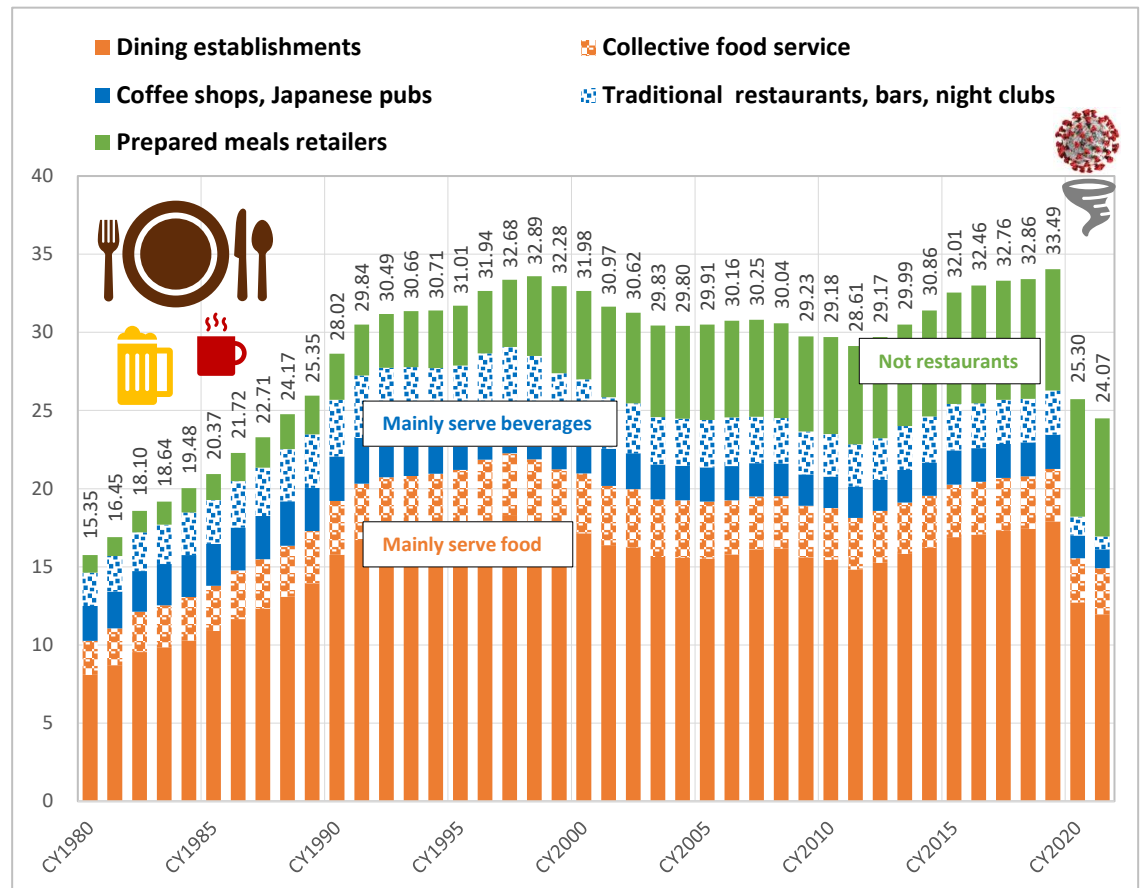
JF Food Service Industry Market Trend Survey May-2024 Results: no. of companies (left) and no. of stores (right)



Source: compiled by Omega Investment from 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)



## Japan Foodservice Association (JF) Food Service Industry Market Size Estimates (JPY trn)



## Japan Foodservice Association (JF) Food Service Industry Market Size Estimates (JPY bn)

JPY bn, pct total, % YoY	CY2019	pct total	% YoY	CY2020	pct total	% YoY	CY2021	pct total	% YoY
<b>Food Service Industry Total</b>	<b>26,268.7</b>	<b>78.4</b>	<b>2.1</b>	<b>18,212.2</b>	<b>72.0</b>	<b>(30.7)</b>	<b>16,949.4</b>	<b>70.4</b>	<b>(6.9)</b>
<b>☉ Mainly meals served</b>	<b>21,253.8</b>	<b>63.5</b>	<b>2.2</b>	<b>15,545.5</b>	<b>61.5</b>	<b>(26.9)</b>	<b>14,904.8</b>	<b>61.9</b>	<b>(4.1)</b>
<b>1. Dining establishments</b>	<b>17,899.3</b>	<b>53.4</b>	<b>2.7</b>	<b>12,717.5</b>	<b>50.3</b>	<b>(28.9)</b>	<b>11,963.9</b>	<b>49.7</b>	<b>(5.9)</b>
Restaurants	14,577.6	43.5	2.1	10,978.0	43.4	(24.7)	10,401.8	43.2	(5.2)
Cafeterias & Restaurants	10,322.1	30.8	2.1	7,378.0	29.2	(28.5)	6,804.6	28.3	(7.8)
Noodle shops	1,314.4	3.9	1.0	961.3	3.8	(26.9)	946.4	3.9	(1.5)
Sushi shops	1,546.6	4.6	0.1	1,263.9	5.0	(18.3)	1,217.9	5.1	(3.6)
Other restaurants	1,394.5	4.2	4.9	1,374.8	5.4	(1.4)	1,432.9	6.0	4.2
In-flight meals, etc.	271.4	0.8	0.0	93.4	0.4	(65.6)	93.9	0.4	0.5
Hotels and lodgings	3,050.3	9.1	6.0	1,646.1	6.5	(46.0)	1,468.2	6.1	(10.8)
<b>2. Collective food service</b>	<b>3,354.5</b>	<b>10.0</b>	<b>(0.2)</b>	<b>2,828.0</b>	<b>11.2</b>	<b>(15.7)</b>	<b>2,940.9</b>	<b>12.2</b>	<b>4.0</b>
Schools	482.6	1.4	(1.2)	401.1	1.6	(16.9)	467.9	1.9	16.7
Offices	1,725.6	5.2	(0.3)	1,386.0	5.5	(19.7)	1,396.4	5.8	0.8
Employee cafeterias	1,187.6	3.5	(0.4)	967.8	3.8	(18.5)	976.8	4.1	0.9
Lunch box meals	538.0	1.6	(0.2)	418.2	1.7	(22.3)	419.6	1.7	0.3
Hospitals	790.1	2.4	(0.2)	749.4	3.0	(5.2)	742.8	3.1	(0.9)
Child day-care centers	356.2	1.1	1.9	291.5	1.2	(18.2)	333.8	1.4	14.5
<b>☉ Mainly beverages served</b>	<b>5,014.9</b>	<b>15.0</b>	<b>1.4</b>	<b>2,666.7</b>	<b>10.5</b>	<b>(46.8)</b>	<b>2,044.6</b>	<b>8.5</b>	<b>(23.3)</b>
<b>1. Coffee shops, Japanese pubs, etc.</b>	<b>2,192.2</b>	<b>6.5</b>	<b>1.2</b>	<b>1,454.4</b>	<b>5.7</b>	<b>(33.7)</b>	<b>1,225.0</b>	<b>5.1</b>	<b>(15.8)</b>
Coffee shops	1,178.4	3.5	1.2	805.5	3.2	(31.6)	776.7	3.2	(3.6)
Japanese pubs, beer halls, etc.	1,013.8	3.0	1.2	648.9	2.6	(36.0)	448.3	1.9	(30.9)
<b>2. Traditional JP restaurants, bars, etc.</b>	<b>2,822.7</b>	<b>8.4</b>	<b>1.6</b>	<b>1,212.3</b>	<b>4.8</b>	<b>(57.1)</b>	<b>819.6</b>	<b>3.4</b>	<b>(32.4)</b>
Traditional Japanese restaurants	337.3	1.0	1.6	144.9	0.6	(57.0)	98.0	0.4	(32.4)
Bars, cabarets, nightclubs	2,485.4	7.4	1.6	1,067.4	4.2	(57.1)	721.6	3.0	(32.4)
<b>▶ Prepared meals retailers</b>	<b>7,759.4</b>	<b>23.2</b>	<b>1.3</b>	<b>7,502.3</b>	<b>29.7</b>	<b>(3.3)</b>	<b>7,535.7</b>	<b>31.3</b>	<b>0.4</b>
Excluding boxed lunches	7,221.4	21.6	1.4	7,084.1	28.0	(1.9)	7,116.1	29.6	0.5
Lunch box meals	538.0	1.6	(0.2)	418.2	1.7	(22.3)	419.6	1.7	0.3
<b>TOTAL (incl. prepared meal retailers)</b>	<b>33,490.1</b>	<b>100.0</b>	<b>1.9</b>	<b>25,296.3</b>	<b>100.0</b>	<b>(24.5)</b>	<b>24,065.5</b>	<b>100.0</b>	<b>(4.9)</b>

Source: Japan Foodservice Association (JF) "Food Service Industry Market Size Estimates," March 2023. [http://www.ifnet.or.jp/data/data\\_c.html](http://www.ifnet.or.jp/data/data_c.html)



## CY2020 total sales down -15.1% YoY, the largest drop since the survey began in 1994

In the wake of the outbreak of COVID-19, the government issued a state of emergency declaration in Apr-2020, and total monthly sales dropped -39.6% YoY, ranging from -95.9% for pubs and taverns due to avoidance of the “3Cs” described below, to +2.8% for western fast food chains able to maintain sales through drive-thru/take-out, etc. Although total sales posted a second consecutive YoY gain in 2023, boosted by MHLW downgrading COVID-19 to a class 5 infectious disease (same as flu) in May-2023 and resumption of inbound demand after the easing of immigration restrictions (no longer require valid vaccination certificate or proof of negative test for COVID-19) at the end of Apr-2023, **relative to 2019 (pre-pandemic), total sales in 2023 were up only +7.7%, and total number of stores was still down -7.6%. Demand has entered a steady recovery, but it is lacking strong momentum.**



No. of stores



Sales

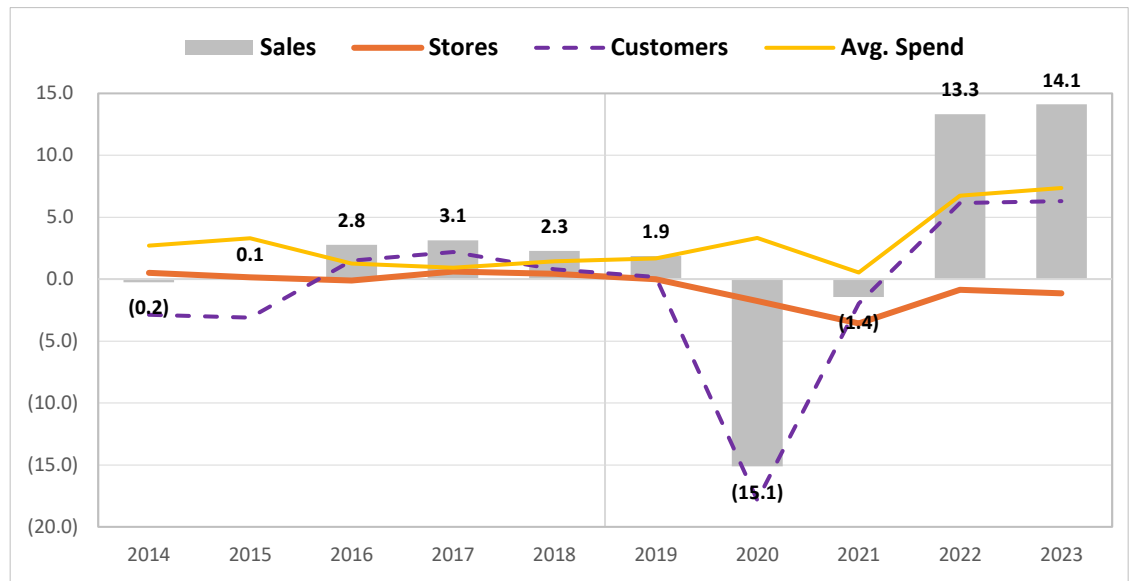


No. of customers

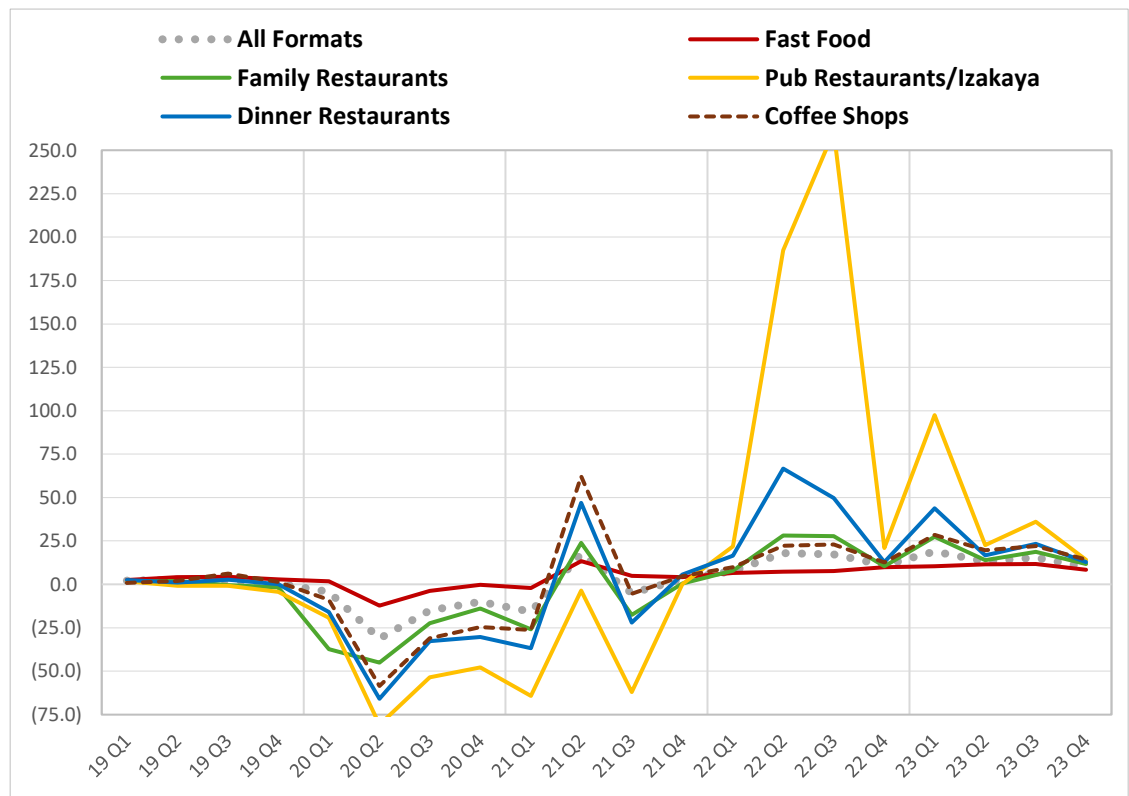


Avg. spend

### JF Food Service Industry Market Trend Survey Annual Results Report



### Quarterly YoY Trends by Format from Annual Results Reports



#### Impact of the “3Cs” under COVID-19:

Pub restaurants/Izakaya were hit hardest during COVID-19 due to government policy restrictions such as shortened operating hours, etc. aimed at **avoiding the 3Cs: closed spaces, crowded places, and close-contact settings.**

As of May-2024, relative to May-2019 (ie 5 years later), Japanese pubs (IZAKAYA) **total sales were still down -32.8% and the total no. of stores was still down-34.4%.**

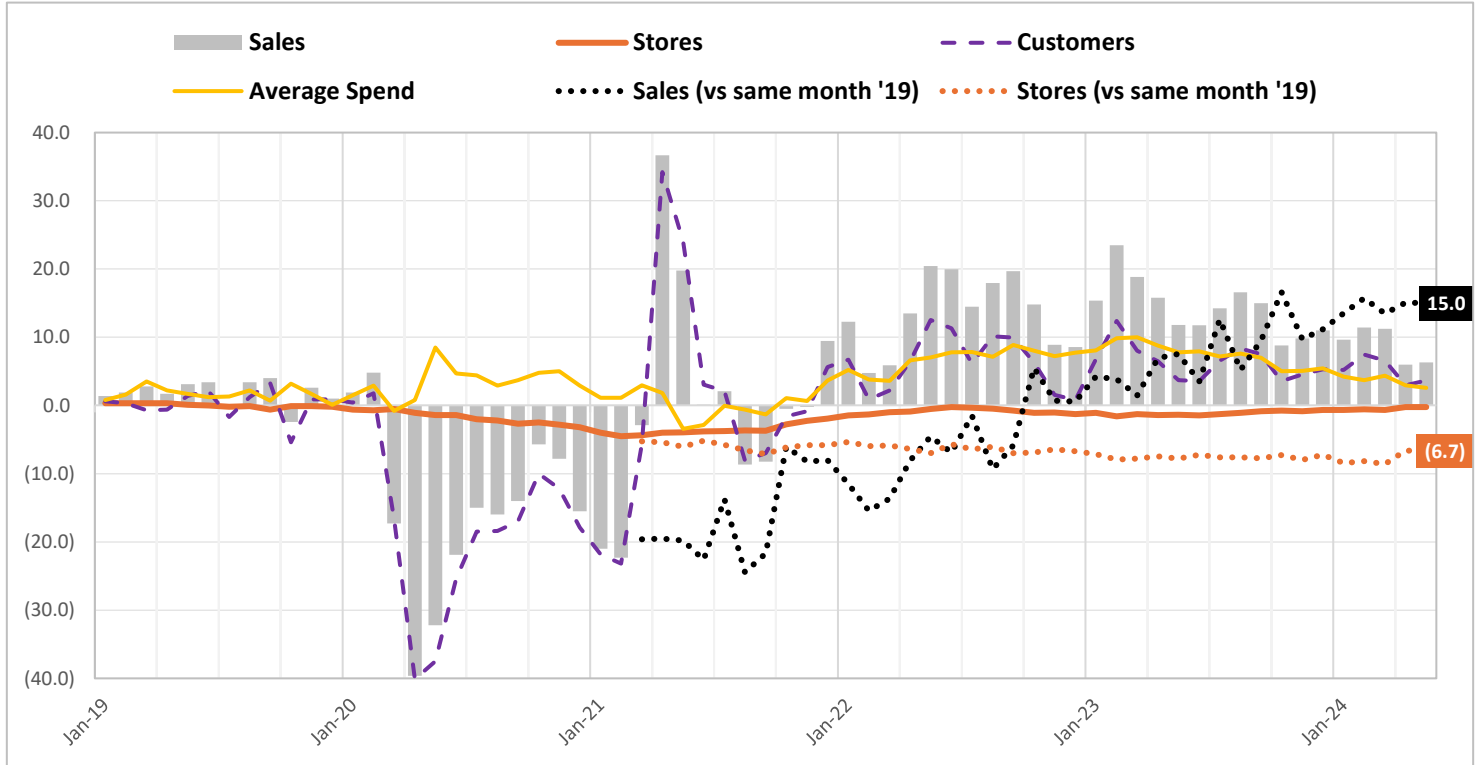
Source: both graphs compiled by Omega Investment from JF annual reports. Note: data is for all stores including new opens.



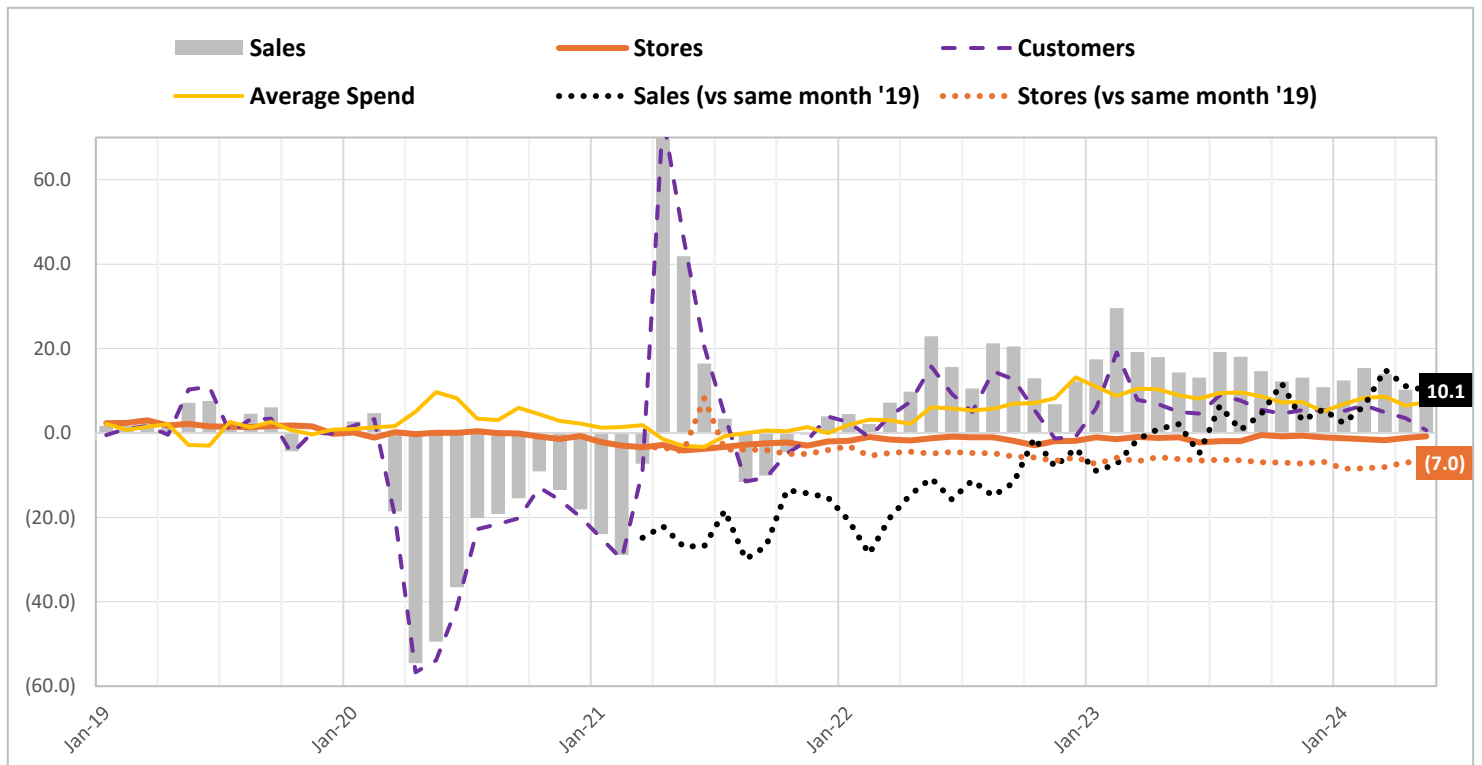
## Monthly trends for All Formats and 4 selected, relevant sub-sectors

It is important to keep in mind that JF data is mainly for restaurant chains, and while TENPO INNOVATION tenants include unlisted FTG Company, which operates Futago brand yakiniku and deli stores, and TSE 3198 SFP Holdings, which operates Toriyoshi yakitori and ISOMARU SUISAN seafood pub izakaya stores, the majority of TI tenants are small business owner-operators with one or more restaurants, including ramen, Chinese, yakiniku and izakaya, etc.

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



### JF Food Service Industry Market Trend Survey Monthly Results Reports – Fast Food, Noodles

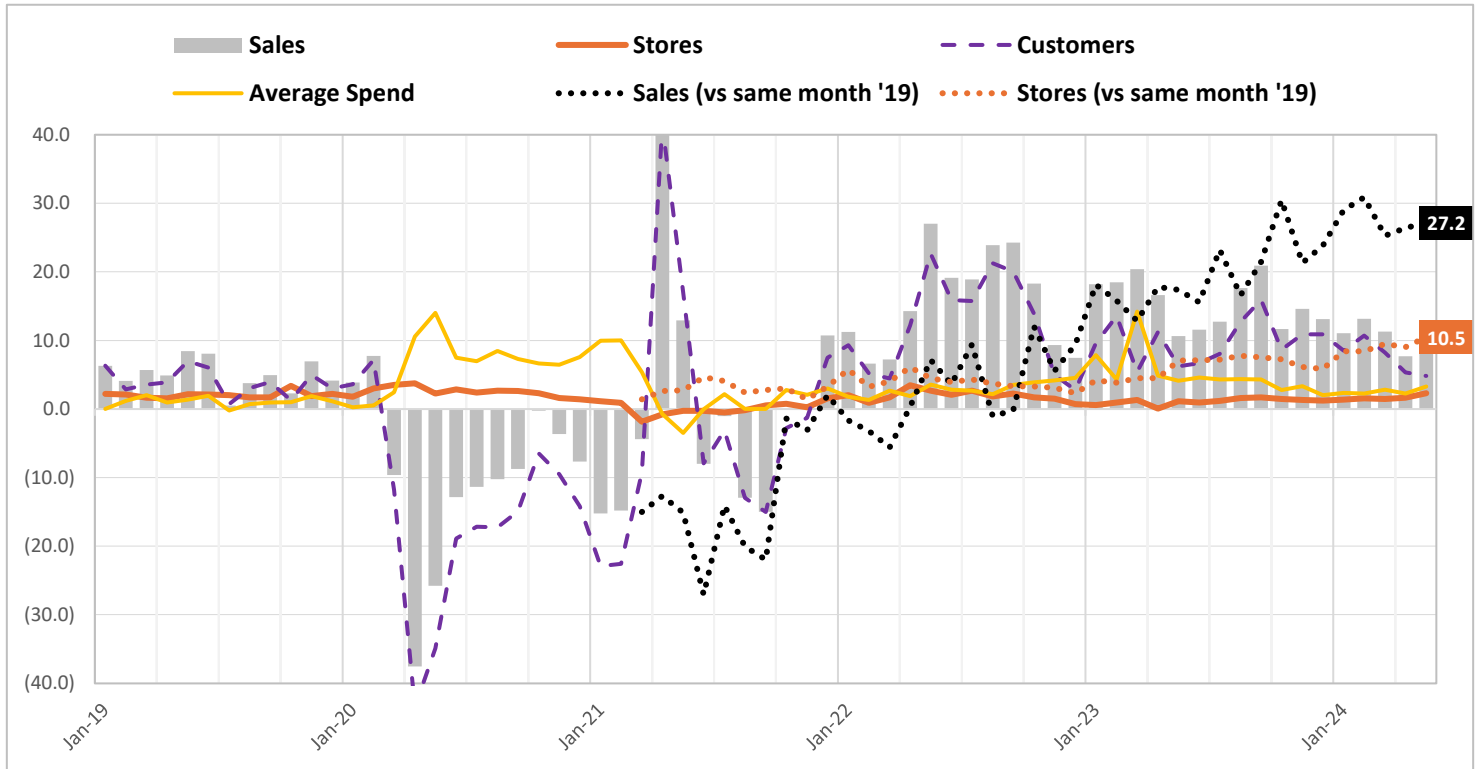




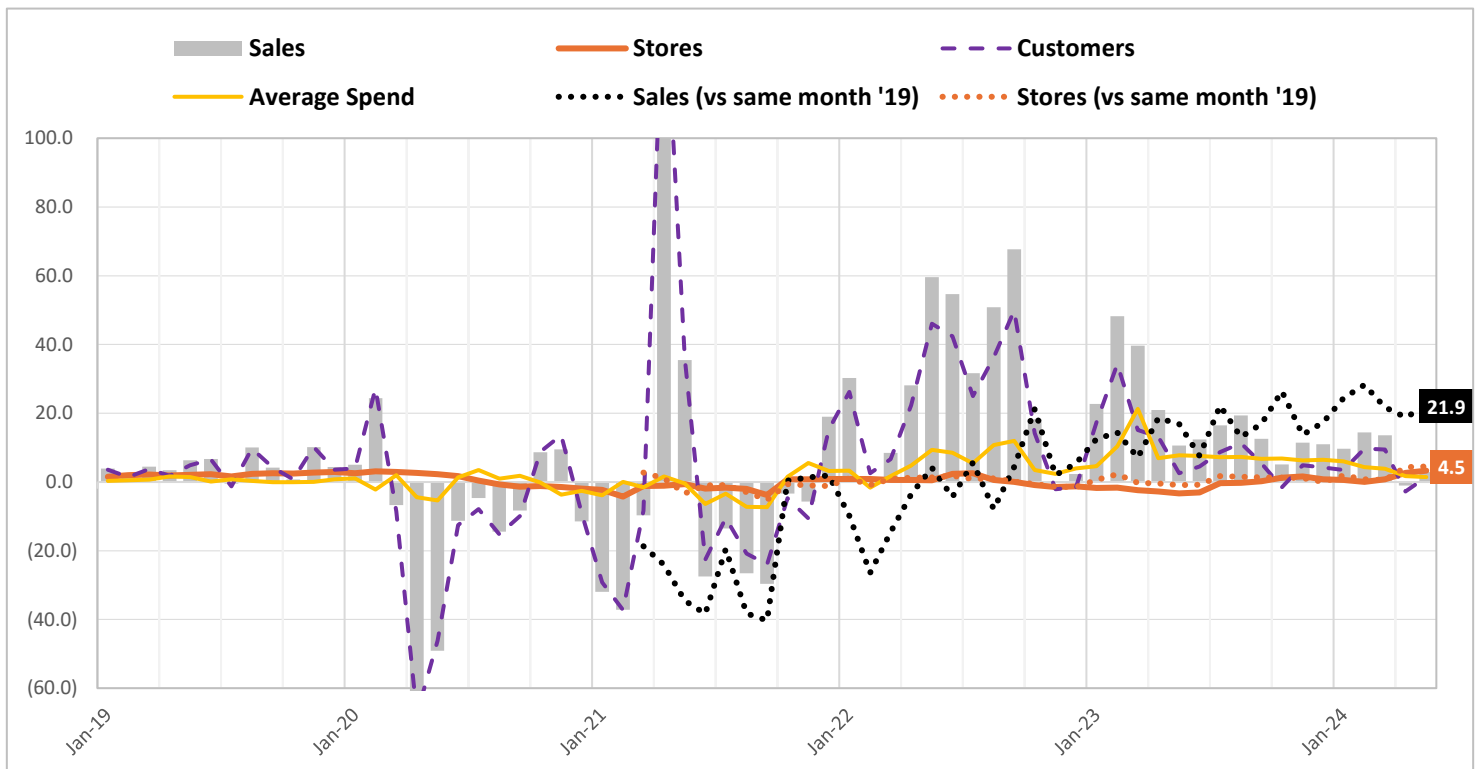
### Of the 4 selected subsectors, casual dining Chinese and Yakiniku are up sharply

As mentioned earlier, a key feature of JF Food Service Industry Market Trend Survey Results Reports is the inclusion of comparisons versus same month of 2019 (pre-pandemic), to help gauge the level of the recovery by stripping out the high volatility of YoY comparisons. The dotted black line is for sales versus same month 2019, and the dotted orange line is for no. of stores versus same month 2019. No. of stores vs 2019 for both sub-sectors below are up.

#### JF Food Service Industry Market Trend Survey Monthly Results Reports – Family Restaurants, Chinese



#### JF Food Service Industry Market Trend Survey Monthly Results Reports – Family Restaurants, Yakiniku (Korean BBQ)



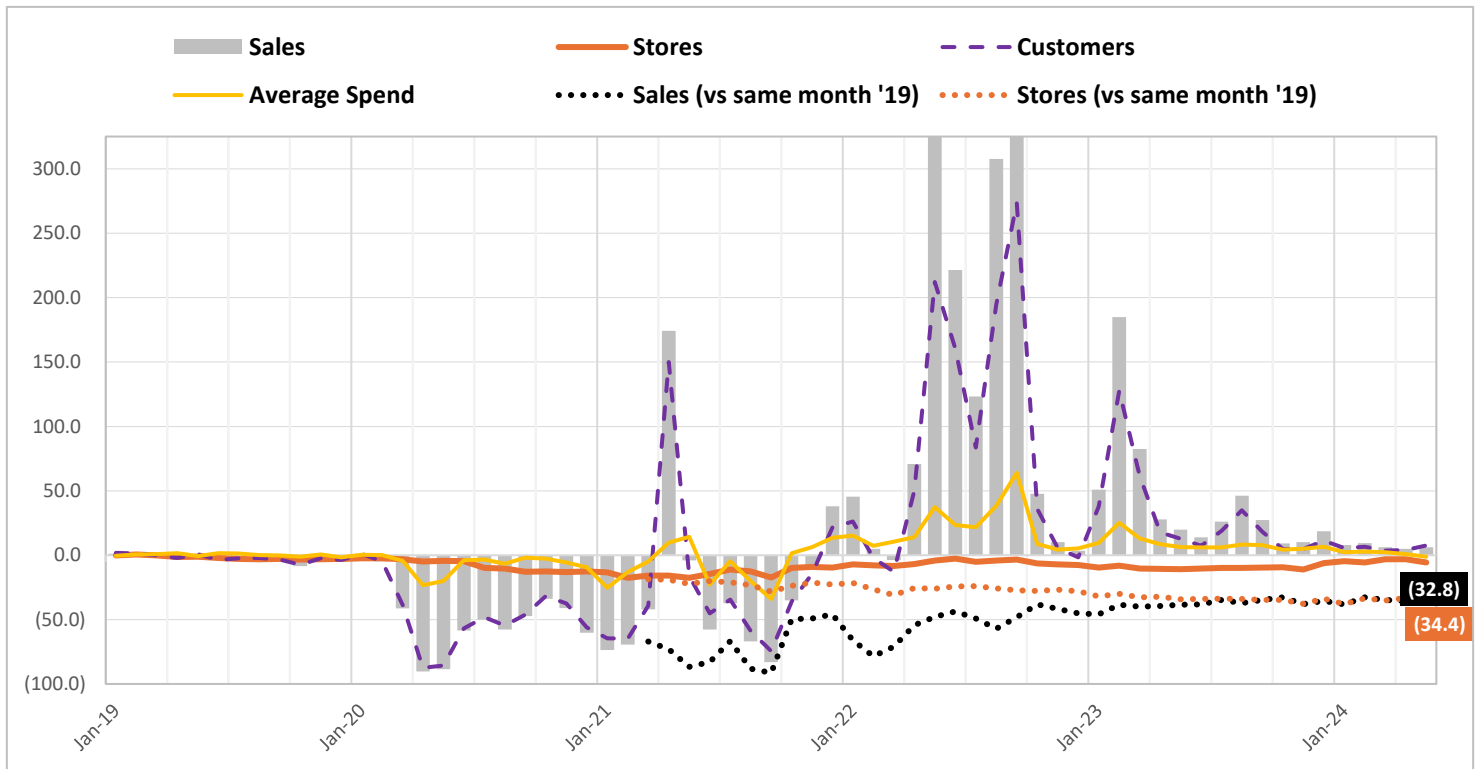




## Peak repayment of COVID “zero-zero loans” for SMEs in 2024

TENPO INNOVATION expects a full-fledged recovery for the restaurant industry, including pub restaurants shown below where the recovery has been delayed, with the normalization of customer movement, including inbound traffic. However, in addition to difficult conditions for operators including the worsening labor shortage, and soaring utility and raw materials costs, repayment of zero-zero loans (effectively zero interest with no collateral) to SMEs during COVID is set to peak in 2024, and some restaurant operators may decide to exit.

### JF Food Service Industry Market Trend Survey Monthly Results Reports – Pub Restaurants, Izakaya



### JF Food Service Industry Market Trend Survey May-2024 Results Report

	No. of cos.	No. of stores	Sales YoY	Stores YoY	Customers YoY	Avg. spend YoY	Sales vs 2019*	Stores vs 2019*
<b>All categories</b>	<b>229</b>	<b>37,136</b>	<b>6.3</b>	<b>(0.3)</b>	<b>3.7</b>	<b>2.6</b>	<b>15.0</b>	<b>(6.7)</b>
<b>Fast food total</b>	<b>54</b>	<b>21,247</b>	<b>6.1</b>	<b>0.6</b>	<b>3.7</b>	<b>2.3</b>	<b>27.7</b>	<b>(4.1)</b>
• Western	18	6,322	4.0	0.7	2.0	2.0	43.0	0.2
• Japanese	14	5,247	10.7	3.6	8.8	1.8	30.6	2.5
• Noodles	18	3,128	8.0	(0.8)	0.6	7.3	10.1	(7.0)
• Take-out bentos / revolving sushi	20	4,215	2.1	(1.4)	0.0	2.0	9.6	(11.0)
• Other	7	2,335	12.8	(0.4)	7.8	4.7	16.6	(11.5)
<b>Family restaurants total</b>	<b>68</b>	<b>10,398</b>	<b>7.0</b>	<b>(1.0)</b>	<b>3.7</b>	<b>3.2</b>	<b>5.5</b>	<b>(8.8)</b>
• Western	32	4,995	7.6	(3.8)	3.9	3.6	(2.6)	(16.6)
• Japanese	32	2,710	7.7	0.6	3.1	4.4	5.2	(6.5)
• Chinese	14	1,246	8.3	2.3	4.8	3.3	27.2	10.5
• Korean BBQ (YAKINIKU)	17	1,447	2.8	3.3	1.4	1.4	21.9	4.5
<b>Pubs and taverns total</b>	<b>36</b>	<b>1,820</b>	<b>5.5</b>	<b>(4.6)</b>	<b>5.1</b>	<b>0.4</b>	<b>(28.3)</b>	<b>(31.7)</b>
• Pubs, beer halls	11	394	4.4	(0.8)	1.4	2.9	(17.6)	(19.3)
• Japanese pubs (IZAKAYA)	30	1,426	6.1	(5.6)	7.4	(1.2)	(32.8)	(34.4)
<b>Dinner restaurants total</b>	<b>26</b>	<b>933</b>	<b>3.3</b>	<b>(1.9)</b>	<b>3.2</b>	<b>0.0</b>	<b>0.5</b>	<b>(15.6)</b>
<b>Coffee shops total</b>	<b>26</b>	<b>2,467</b>	<b>7.9</b>	<b>(0.8)</b>	<b>3.2</b>	<b>4.5</b>	<b>14.5</b>	<b>11.9</b>
<b>Others total</b>	<b>19</b>	<b>271</b>	<b>4.5</b>	<b>2.3</b>	<b>0.8</b>	<b>3.7</b>	<b>20.7</b>	<b>5.9</b>

Source: compiled by Omega Investment from JF monthly disclosure announced June 25, 2024. Note: data is for all stores including new opens.

Note: comparisons are made excluding tax. Both the YoY and \*2019 comparisons are calculated from the data collected for the current month.

Note: total number of companies for fast food, family restaurants and pubs/izakaya do not match because some companies overlap.

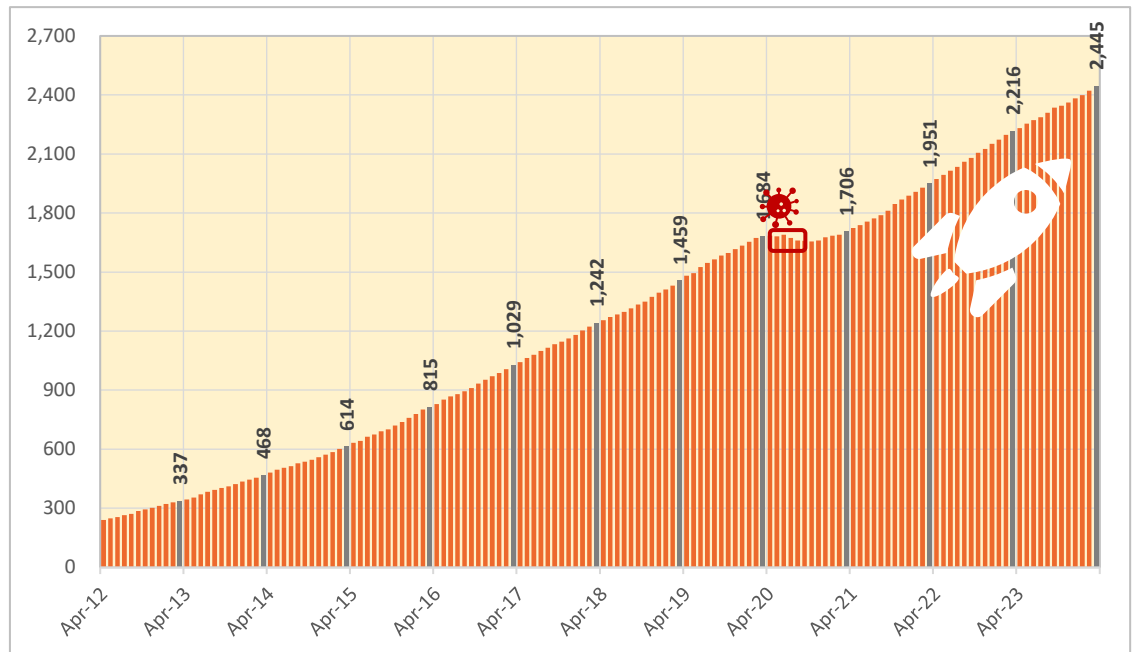


TENPO INNOVATION

## TENPO INNOVATION subleased store properties are uncorrelated with the market

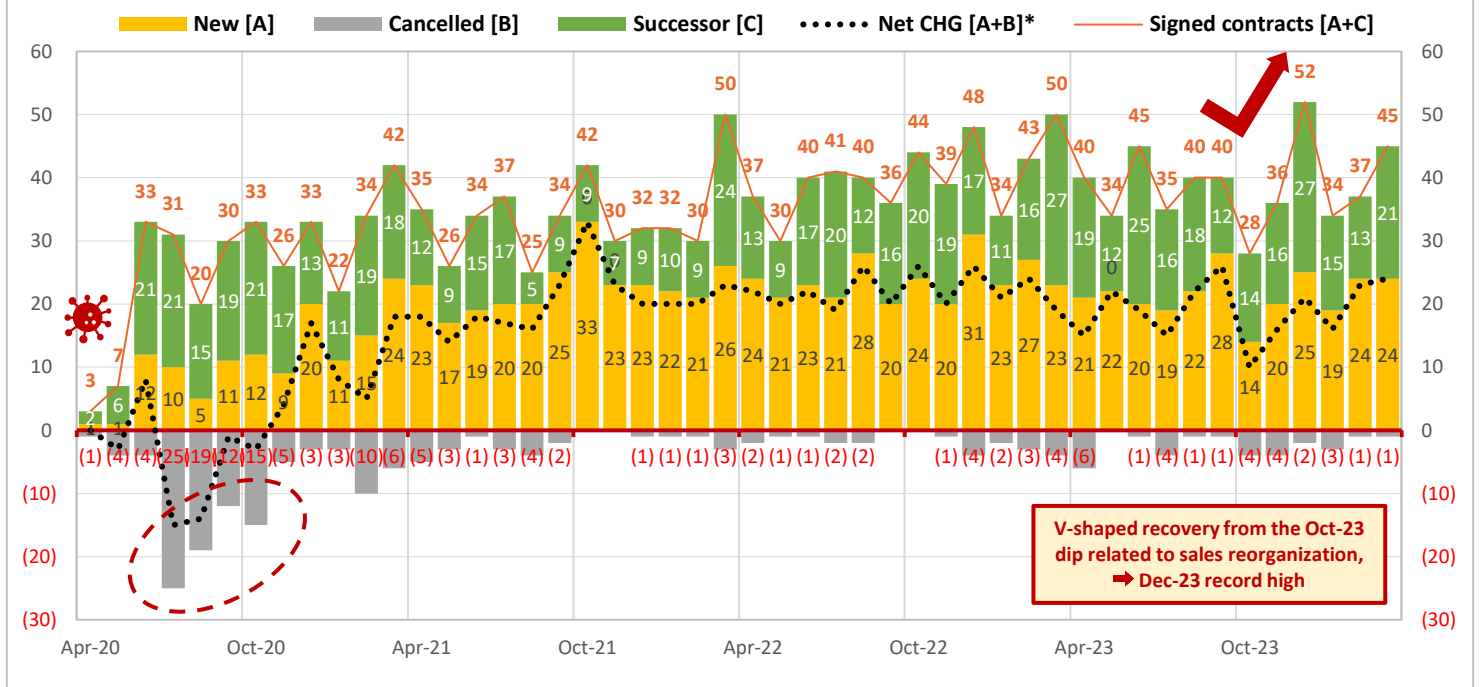
Even during the height of COVID-19 in 2020, active subleased stores only dipped slightly, closing up YOY for the fiscal year. We examine strengths of the business model in Part 2, but the bottom line is **careful selection of store properties mainly in central Tokyo** (①the store property is on the 1F facing a street (regardless of station proximity), ②monthly rent is affordable in absolute terms (averaging around ¥400k/mo.), and ③the property is a vacated-furnished store (lowers the initial investment cost)) **are ALWAYS in high demand**. Average turnover has been quite consistent over time, equivalent to roughly 10% every year, or 50% every 5 years. **Relative to Mar-2019, TI active subleased store properties increased +67.6% (or +10.9% CAGR over 5 years), versus JF all formats down -8.6%!**

## Monthly trend of subleased store properties: **stable and sustainable high growth**



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

## Monthly Trend of Sublease Contract Transactions



Source: compiled by Omega Investment from company IR results briefing materials. \*Note: net change = "New - Cancelled" as well as reflects transfer from "sublease to leasehold" and "leasehold to sublease" (Dec 2021: -2; Jan 2022: -1; Oct 2021: +2; Nov 2022: +1; Dec 2022: -1; Aug-23 +1; Sep-23 -1, Dec-23 -2, Mar-24 +1).

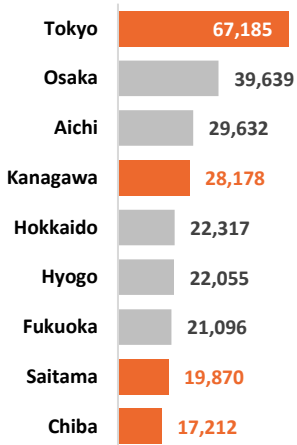


TENPO INNOVATION

## PART ② BUSINESS OVERVIEW



### Ranking of No. of Restaurants by Prefecture



Note: 4 Tokyo area = roughly 132K  
Source: 2021 Economic Census of  
Business Activity (METI)



### Business description and strengths / attractive features of the business model

When you go to the Company's website and open the home page, you are presented with an aerial view of central Tokyo. Then if you click on the lower right-hand corner, a 1:24 minute flashy YouTube video with a catchy soundtrack starts playing, highlighting some headline bullet points about the attractiveness of the Tokyo restaurant market.

<https://www.tenpo-r.co.jp/>

### 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 → to so we will do it.**





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

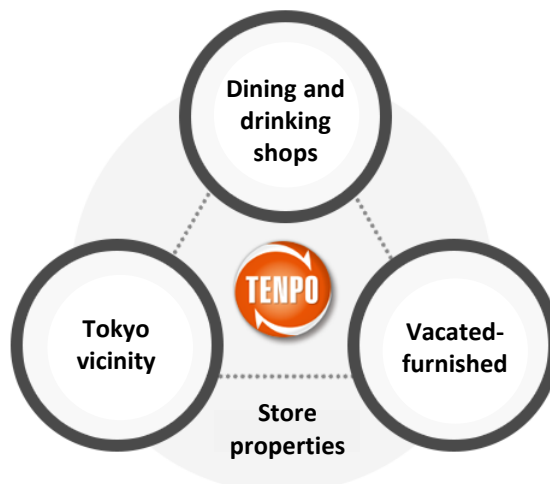


### TENPO INNOVATION: Restaurant store property subleasing specialist

TENPO INNOVATION is a real estate company, but it does not handle agency brokerage business and management business as in the case of a general real estate company. Further, TENPO INNOVATION is a real estate company specializing in stores. General real estate companies handle residential properties, offices, warehouses, parking lots, among others. The Company doesn't handle any of these, and only specializes in store properties. And roughly 90-95% of contracts are for restaurants, so the Company is a specialist in store subleasing business for restaurants.

The Company leases mainly vacated-furnished store properties from real estate owners, and then subleases them to restaurant operators. According to the Company, the standard format of lease contracts with owners stipulates 3-months notice required to cancel a contract, and it is automatically granted a lease right, whereby unless the Company cancels a contract, in principle it can continue to renew the lease. This lease right is a key factor in the long-term stability of the Company's subleasing business, as demonstrated in the exhibits on P10. Standard sublease contracts with restaurant operators stipulate 7-months notice required to cancel a contract. Store operators are required to give a deposit equivalent to 10-months rent, provide a co-signer on the lease, and enter a rent fulfillment guarantee agreement, now handled mainly in-house, as described on the following page.

Revenue from store subleasing business is divided into "initial" and "running." Initial revenue consists of 1) non-refundable "key money," a custom specific to the Japanese market, which is a mandatory payment from a new tenant to a landlord, and is not returned when the lease is cancelled, and 2) proceeds from the sale of fixtures to the new tenant entering a vacated-furnished property. Running revenue consists of monthly rent payments from store tenants. According to the Company, the breakdown is roughly 10% from initial revenue and 90% from running. While the restaurant industry itself is known to be plagued with a relatively high number of failures, making average contract length effectively immaterial, the Company says average turnover has been quite consistent over time, equivalent to roughly 10% every year, or 50% every 5 years.





## Store rent guarantee business of Safety Innovation CO., LTD.

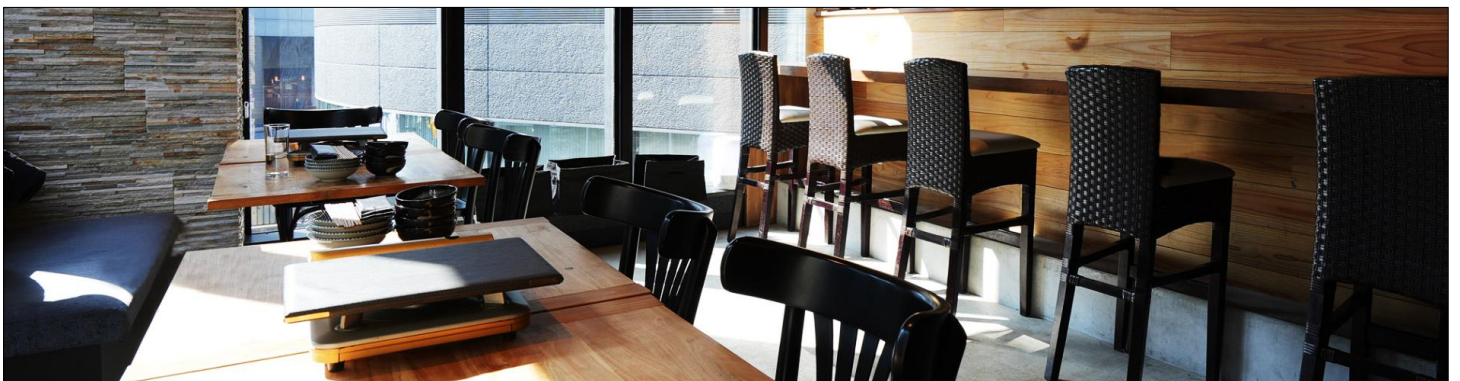
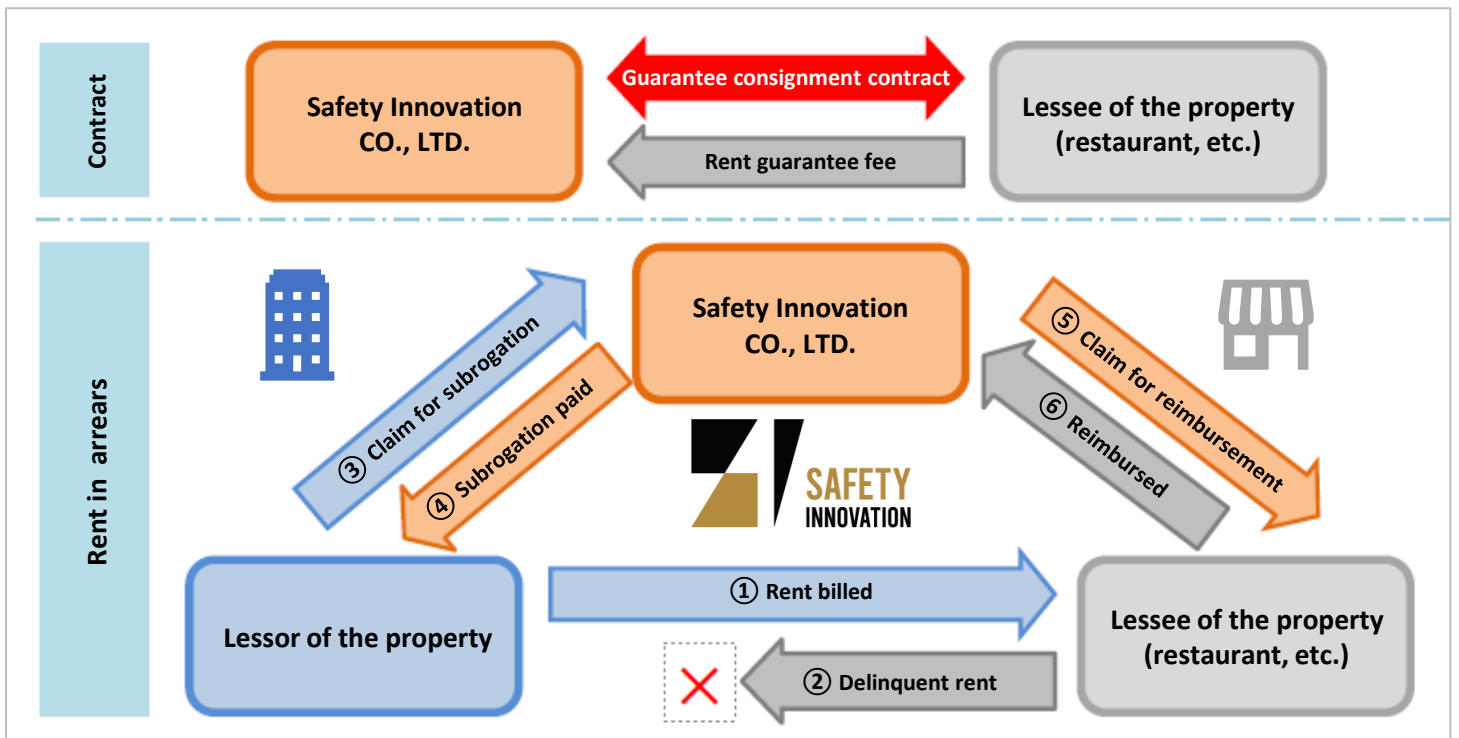
Since the Revised Civil Code went into effect from April 2020, rent guarantees for store lease properties are expanding socially as a system that benefits both property landlords and tenants. In the past, the Company had tenants enter a rent guarantee contract automatically upon application, and the 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. In April 2022, the Company established Tenpo Safety Inc. (currently Safety Innovation CO., LTD.) with the aim of bringing 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 majority of these contracts are handled by the newly established Safety Innovation CO., LTD., while a portion deemed high-risk is outsourced. Thus, the number of contracts signed exceeds 100 per quarter, the majority of which directly contribute to the Group's profit each quarter. 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.

\*Note: The trade name was changed from Tenpo Safety Inc. to Safety Innovation CO., LTD. in February 2024.

## Safety Innovation CO., LTD. Store Rent Guarantee Business Overview



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

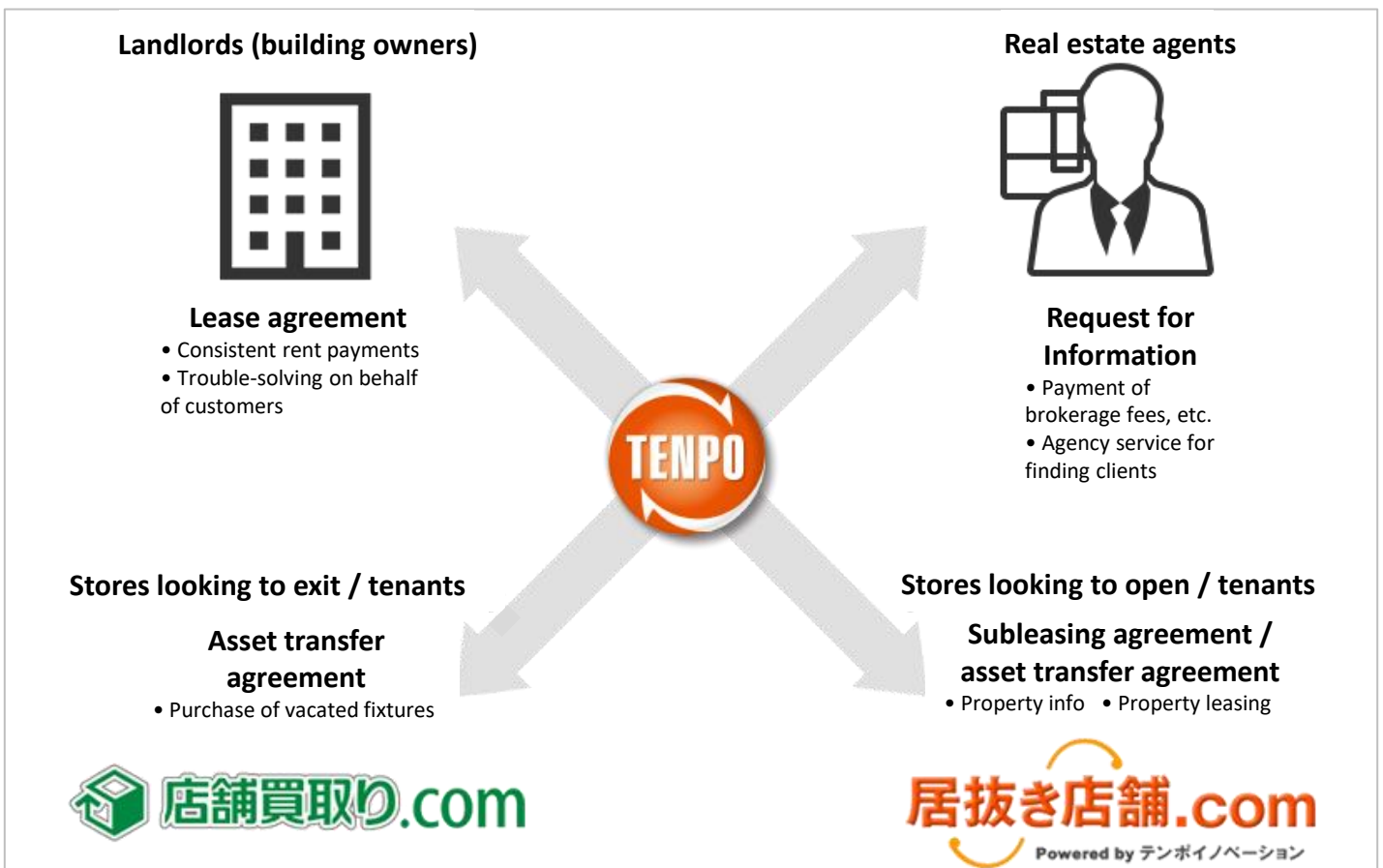


The company is also engaged in real estate trading business, which is revenue recorded from the sale of real estate for sale, etc. For subleasing business, procuring attractive store properties is a key point, and real estate agents are a prime source of good information on viable candidate properties meeting the Company's requirements. However, from a real estate agent's point a view, one month's rent, or roughly 200-300,000 yen, is the standard commission to find a tenant, which is not a significant amount of money. At the same time, commission on the purchase or sales of a property can be several million yen up to 10,000,000 yen.

Since real estate agents have valuable information on subleased properties, the intent is to strengthen relationships with real estate agents and to meet the real estate transaction needs of clients. Since the average purchase price of real estate is small, around 80 million yen, and the properties are quickly resold, the average holding period is about 7.5 months (sometimes more than a year), and the average gross profit margin is about 35%, and properties procured as vacant units are sometimes leased within the Group and then sold at a higher value. Next, we look at the typical workflow for the 3 main areas of operation for mainstay restaurant store subleasing business.

### Store property leasing from owners (procurement)

Through sales activities to real estate agents by sales representatives assigned by major train station areas, introductions from business partners and existing store operators, etc., as well as through in-house website "TENPOKAITORI.com," ("Store buy-backs'.com) which specializes in store purchases, the Company collects information on stores that are considering withdrawing from the market, and proceeds to research properties to be handled by the Company. TENPO INNOVATION has accumulated expertise in property evaluation based on lengthy experience in handling store properties and subsequent verification and analysis of such properties.



Note: [TENPOKAITORI.com](http://TENPOKAITORI.com) ("Store buy-backs'.com) and [INUKITENPO.com](http://INUKITENPO.com) ("Vacated-furnished stores'.com) are websites operated by the Company.



## INUKITENPO.com website specialized in vacated-furnished store properties

As of the writing of this report, there were 100,617 members (registered applicants to open stores), with a cumulative record of listing 84,280 properties, currently listing 2,680 properties, mainly in Tokyo's 23 Wards, but including Greater Tokyo, Kanagawa, Saitama and Chiba Prefectures, leveraging direct introductions from RE brokers to identify hidden gem vacated-furnished store properties not yet on the market.



## 居抜き店舗.com





In addition, each property survey is conducted based on the know-how cultivated through the experience and expertise of our procurement staff, which supports the handling of properties. After the property survey, we negotiate with the lender or real estate agent of the candidate property, negotiate the details of the lease agreement, pay the deposit and other contractual fees, and conclude the lease agreement between the property owner and the Company.

### Store property subleasing to tenants

For store properties for which we have concluded lease contracts, we solicit prospective tenants by using real estate agents as intermediaries and by introducing them to members of our website "INUKITENPO.com" ('Vacated-furnished stores'.com), which provides information mainly on vacated-furnished store properties, a mechanism that facilitates those who wish to open stores to search for properties. The site enhances the value of information by quickly posting and updating property information obtained daily, which is one of the Company's strengths in matching prospective tenants with stores. After receiving an application for a property from a prospective tenant, staff conduct a credit screening, negotiate the details of a sublease agreement, receive a security deposit and other contractual payments, and conclude a sublease agreement with the tenant.

### Property Management

Property management is based on the results of on-site surveys of subleased properties. The survey of each property is based on the know-how cultivated through the experience and expertise of the Company's procurement staff, and this supports the handling of properties. The company focuses on preventing problems before they occur, and from the property procurement stage, a detailed inspection record is prepared for each property, including leaks and equipment problems.

Screening management is conducted according to the nature and stage of the problem, and an organizational structure has been established to respond to the problem in the shortest possible time and to do everything possible to prevent serious problems. The number of properties handled by each property management staff member is approximately 140, and the department is dispatched more than 1,000 times a year.

### Store property management

In property management work, TENPO INNOVATION is utilizing its accumulated know-how to address issues such as rent collection and troubleshooting that plague real estate owners and property management companies, performing the work itself on their behalf. In addition, in order to prevent problems or detect and deal with them at an early stage, it checks properties, collects information, and builds relationships with store operators, etc.

### TENPO INNOVATION Corporate History

Date	Summary
2007.11	In preparation for spin-off, Tenpo Renovation Spin-off Unit Co., Ltd. established in Roppongi, Minato-ku, Tokyo (capital 50,000 yen, now the Company)
2007.12	Took succession of a portion of the restaurant store open and exit support business from the former Tempo Renovation Co., Ltd. through spin-off
2008.01	Company name changed to Tenpo Renovation Co., Ltd. Increased capital to 10 million yen
2008.05	Telewave Co., Ltd. (now iFLAG Co., Ltd.) acquired all shares (became a consolidated subsidiary of Telewave Co., Ltd.) Head office relocated to Nishi-Shinjuku, Shinjuku-ku, Tokyo
2009.06	Launched INUKITENPO.com (i-tenpo.com), a website for information on vacated furnished properties for restaurant stores
2009.07	CROPS CORPORATION acquired all shares (became a consolidated subsidiary of CROPS CORPORATION)
2009.09	Head office relocated to Ebisu, Shibuya-ku, Tokyo
2010.04	Increased capital to 90 million yen
2010.06	Launched TENPOKAITORI.com (k-tenpo.com), a website for buyout of vacated furnished properties for restaurant stores
2012.02	Head office relocated to Nishi-Shinjuku, Shinjuku-ku, Tokyo
2012.12	Shinbashi Branch opened in Shinbashi, Minato-ku, Tokyo
2013.04	Ikebukuro branch opened in Higashi-Ikebukuro, Toshima-ku, Tokyo
2013.05	Company name changed to Tenpo Innovation CO., LTD.
2014.11	Ueno Branch opened in Ueno, Taito-ku, Tokyo
2015.05	Roppongi Branch opened in Roppongi, Minato-ku, Tokyo
2016.05	Head office relocated to Shinjuku, Shinjuku-ku, Tokyo (4 branches including Shinbashi branch closed and integrated into head office)
2017.10	Listed on the Tokyo Stock Exchange Mothers Market
2018.10	Changed listing designation to the First Section of the Tokyo Stock Exchange
2022.04	Established Tenpo Safety, Inc. (now a consolidated subsidiary) and commenced store rent guarantee business
2022.04	Moved to the Tokyo Stock Exchange Prime Market
2024.02	Established Tenpo Innovation CO., LTD. Split Preparation Company (currently a consolidated subsidiary)
2024.02	Established Asset Innovation CO., LTD. (currently a consolidated subsidiary)
2024.02	Changed trade name of Tenpo Safety Inc. to Safety Innovation CO., LTD.

Source: compiled by Omega Investment from FY24/3 Annual Securities Report (YUHO financial statements).





## Corporate history

In November 2007, the Company was established as Tenpo-Renovation Inc. to prepare for the spin-off of Tenpo-Renovation Inc. in December 2007, and took over a part of the restaurant exit support business (introduction of properties and support for those who wish to open new restaurants, and purchase of restaurant facilities and support for those who wish to exit) from Tebpo-Renovation.

The former Tenpo-Renovation Inc. was established in October 2001 as a subsidiary of REINS International Inc. for the purpose of managing restaurants (the trade name at the time of incorporation was Rayfields Corporation, with brands such as “Gyu-Kaku,” the largest yakiniku chain in Japan, as well as Izakaya and Shabu-Shabu restaurants).

In April 2005, the company started a new restaurant opening/closing support business (the actual beginning of the present Company’s business activities). At the time of the corporate spin-off in December 2007, the restaurant opening/closing support business was divided into the business related to REINS International properties and the business related to properties other than REINS International properties, and the Company took over the business related to properties other than those related to REINS International properties.

It became a consolidated subsidiary of Telewave (now iFlag) in the same year, a consolidated subsidiary of CROPS CORPORATION (9428) in 2009, and changed the Company’s name to TENPO INNOVATION in 2013.



**Representative Director and President Yasuo Hara**

### Yasuo Hara (born December 25, 1964)

Date	Career summary, and positions and responsibilities in the Company
Nov-2005	Joined REINS International inc. Seconded to the former Tenpo Renovation Inc.
May-2008	Director, General Manager of Sales Department of the Company
Oct-2009	Director, supervising WEB Sales Department and Planning & Sales Department, and General Manager of WEB Sales Department
Jan-2010	Director, supervising Opening Support & Sales Department
Jun-2011	Representative Director and President, General Manager of Opening Support & Sales Department
Oct-2015	Representative Director and President (current position)

Note: Yasuo Hara owns 100,000 shares of the Company.



**Senior Managing Director Yohei Shimura**

### Yohei Shimura (born August 20, 1977)

Date	Career summary, and positions and responsibilities in the Company
Apr-2001	Joined Reins International Inc.
Apr-2005	Director, the former Tenpo Renovation Inc.
Nov-2007	Director, General Manager of Administration Department of the Company
Jun-2011	Managing Director, supervising Administration Department, and General Manager of Administration Department
Jun-2016	Managing Director, supervising Business Administration Department
Apr-2019	Senior Managing Director, supervising Business Administration Department
Oct-2023	Senior Managing Director, in charge of the Corporate Administration Division and General Manager of the Corporate Administration Division (current position)
Feb-2024	Director of Safety Innovation (current position)
Feb-2024	Director of Asset Innovation (current position)
Feb-2024	Director of Tenpo Innovation Split Preparation Company (current position)

Note: Yohei Shimua owns 254,000 shares of the Company.

Source: compiled by Omega Investment from NOTICE OF THE 18TH ANNUAL GENERAL MEETING OF SHAREHOLDERS.



### Major Shareholders (as of March 31, 2024)

Name or designation	Shares Owned	*Pct Owned
CROPS Corporation	9,956,300	59.35%
UNION BANCAIRE PRIVEE (Standing proxy: The Bank of Mitsubishi UFJ, Ltd.)	784,000	4.67%
Yohei Shimura	254,000	1.51%
The Master Trust Bank of Japan, Ltd.	173,200	1.03%
Yasuo Hara	100,000	0.59%
TENPO INNOVATION Employee Stock Ownership Plan	83,700	0.49%
Yujun Moriyama	40,400	0.24%
Yuji Kondo	34,400	0.20%
Kentaro Mamiya	33,800	0.20%
Junichi Maruyama	32,000	0.19%
<b>Top 10 total</b>	<b>11,491,800</b>	<b>68.51%</b>
Total number of shares issued and outstanding	17,674,400	
Treasury shares	900,600	

Source: compiled by Omega Investment from FY24/3 Annual Securities Report (YUHO financial statements).

\*Note: pct owned excludes treasury shares.

### Origin of TENPO INNOVATION's current attractive business model

When the Company was originally established in 2007, it was not real estate business, rather, consulting business to support restaurant store exiting and opening. The only thing that had been decided was to engage in business related to restaurant store openings in Tokyo, but it was not clear in what form the business would be monetized. The most important focus at that time was not only handling restaurant store properties, but also introducing the business model of prosperous restaurants in the form of franchises, undertaking construction work on store properties, consulting work for unprofitable restaurants to help them improve their sales, etc., however, the Company stopped all of these activities when demand was low and the business was unprofitable. **Management found the highest demand was for introductions to vacated-furnished store properties in good locations in Tokyo**, and accordingly focused efforts in that area.

TI converted its consulting business into real estate business in order to earn recurring stock income from subleasing. This was a critical turning point for the Company. It would likely have been difficult for professionals well-versed in real estate to be successful in this area. The market for store properties is quite small and highly specialized, even within the real estate industry. Management's background was in a company that operated "Gyu-Kaku" yakiniku restaurants, and they were admittedly amateurs in the real estate field. However, they did have professional expertise in restaurant business, and significant accumulated store property know-how.

Management's aim was to engage in a unique business specializing in store properties rather than plan to engage in the real estate business in a comprehensive manner. It took a while to find the right model, but this put the Company on a sustainable growth path.



### Subleasing store property selection criteria, general policy on tenant selection

There are 3 main criteria when selecting properties to lease for the purpose of subleasing: 1) The store is on the ground floor facing a street, 2) rent is affordable in absolute terms, and 3) it is a vacated-furnished store. Conventional wisdom is that a “good store property” has high pedestrian traffic, is near a station and/or is located on a main street. For fast food and other major restaurant chain stores, that is likely a requirement. However, for individual or small business restaurant operators, the corresponding high rents for those store properties is simply a non-starter economically, considering initial start-up costs in addition to running costs. In TI’s accumulated experience, there is always high demand for store properties with low rent and that are vacated-furnished stores, even if the location is slightly further away from a station. Similar to low rent, the key point about vacated-furnished properties is lowering the initial investment cost.

According to the Company, there are actually not many requirements when selecting prospective tenants. The Company is quite strict in selecting store properties to procure for subleasing, however in the case of prospective tenants, after undergoing a routine credit screening, incoming tenants are required to put down a 10-month security deposit, have a co-signer on the lease as guarantor, and enter a rent guarantee agreement. In the end, it is very difficult to judge whether a new tenant will have a successful restaurant business or not, since the restaurant industry itself has a high open and close ratio, and many restaurants are prone to failure. **TENPO INNOVATION’s business model is designed such that, even if a tenant opens a restaurant that fails, if the store property meets the aforementioned criteria, the Company can simply recruit the next tenant, as these store properties are always in high demand.**

Attributes of prospective tenants that work in their favor would include having existing store (s) with a good track record, as well as being able to fund the opening without taking out a loan. Regarding type of restaurant format, TENPO INNOVATION’s portfolio reflects general trends in the overall market. For example, there are a large number of Izakaya (Japanese-style pubs) and ramen (Chinese noodles) shops as tenants.

### Reasons TENPO INOVATION’s business model can deliver both growth and stability

Regarding stability, a key point is the lease right automatically granted when TI leases a store property from an owner. In principle, unless the Company cancels the lease contract, it can continue to renew it. In the case of the global outbreak of COVID-19 from Feb-2020, confronted with declarations of a state of emergency, stay-at-home orders and shortened/suspended business hours for restaurants by the Governor of Tokyo, out of an abundance of caution, TI decided to give 3-months notice on a certain number of lease contracts in April, resulting in the pickup in contract cancellations in July through October of that year. However, strong underlying demand for TI’s carefully selected store properties supported a rapid turnaround.

Regarding growth, there is the growth achieved from steadily increasing the number subleased store properties. However, there is also a less understood structural growth element from rising profit margins on store subleasing business. Specifically, there are initial acquisition costs associated with entering a new lease agreement, including one-time costs of non-refundable key money, contract-related costs, etc. Annual subleasing contract cancellations have been consistent over time, averaging 10% every year, or 50% every 5 years. When one of TI’s existing tenants exits the business, and a new tenant is recruited, the aforementioned acquisition costs of the store property were sunk on the first subleasing contract, and from the second contract onward, key money and other initial income are effectively pure profits, without an associated acquisition cost. Roughly 35% of current sublease contracts have been replaced by successor tenants, but this ratio is steadily rising over time, resulting in a steady structural increase in profit margins going forward.





## Transition to a Holdings Company Structure

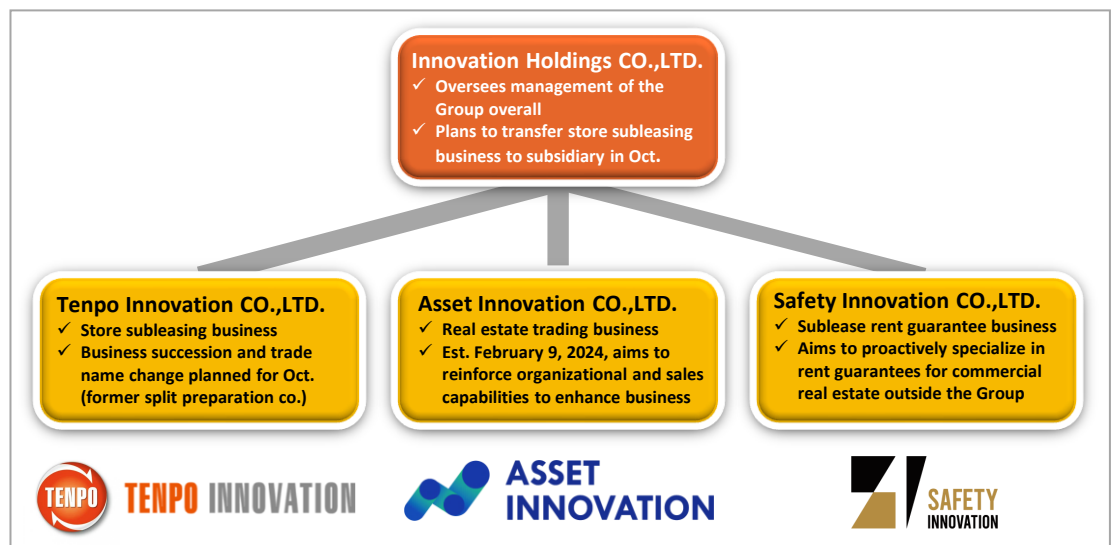
The Group has decided to begin preparations for the transition to a holding company structure in order to optimize the allocation of management resources, to promote the development of the next generation of management personnel, and to create a structure that will enable flexible decision-making and flexible responses to changes in business conditions in order to promote business expansion by focusing more on each of the Group's businesses. By transitioning to a holding company structure, the holding company will oversee the management of the entire Group, while each subsidiary will focus on promoting its own business, thereby maximizing the corporate value of the Group.

The business to be divested will be transferred to a wholly owned subsidiary (split preparation company) through a company split (absorption-type split) with the Company as the splitting company, and the split preparation company as the successor company. In addition, the Company will continue to be listed as a holding company on the TSE Prime market. The 18th Annual General Meeting of Shareholders held on June 17, 2024 approved the absorption-type split agreement and partial amendment to the Articles of Incorporation to change the trade name to Innovation Holdings CO.,LTD. (effective date of the absorption-type split: October 1, 2024). Details of the new holding company structure, new trade names/corporate logos, etc., are outlined in the exhibit below.

### Schedule of the company split

- 1) Board of Directors' meeting resolved to approve the establishment of the successor split preparation company: February 2, 2024
- 2) Establishment of the successor split preparation company, Tenpo Innovation Split Preparation Company: February 9, 2024
- 3) Board of Directors' meeting resolved to approve the transition to a holding company structure: May 17, 2024
- 4) Board of Directors' meeting resolved to approve the absorption-type split agreement: May 17, 2024
- 5) Conclusion of absorption-type split agreement: May 17, 2024
- 6) General Meeting of Shareholders approved the absorption-type split agreement and partial amendment to the Articles of Incorporation to change the trade name to Innovation Holdings CO.,LTD.: June 17, 2024
- 7) Effective date of the absorption-type split: October 1, 2024 (planned)

### New Group Holdings Company Structure from October 1, 2024



Source: compiled by Omega Investment from IR results briefing materials and related press releases regarding the transition to a holdings company structure.



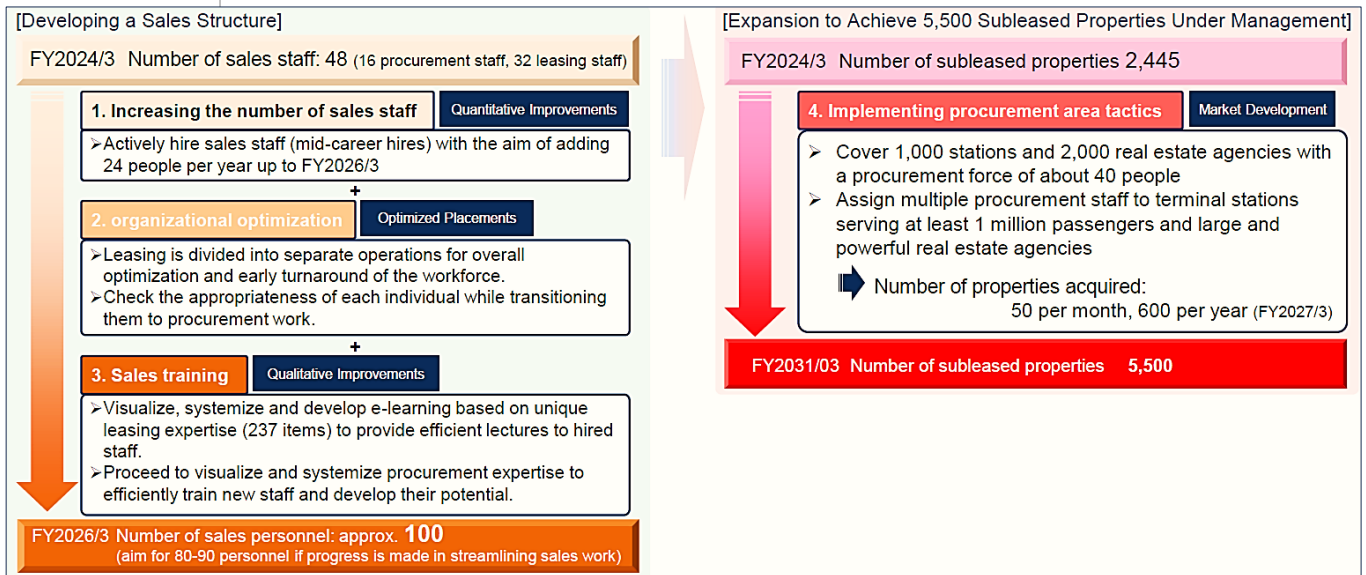
**FY25/3 Business expansion initiatives under the new holdings company structure**  
 Numerical targets for the new Medium-term Management Plan under the new holdings company structure are shown in the table on P2. During the first year of the new MTP in FY25/3, while net sales are forecast to increase +18.1% YoY, driven by robust increases in signed contracts (new + successor) 466 → 570 (+22.3% YoY) and active sublease store properties 2,445 → 2,757 (+12.8% YoY), operating profit is forecast to decline another -6.9% YoY due to the impact of higher SG&A expenses accompanying the increase in headcount for aggressive expansion of each business. **As year one of the new MTP, FY25/3 is positioned as a transition phase toward accelerating growth going forward, and while profits will remain under pressure from upfront investments to strengthen the sales organization, the growth opportunity going forward is substantial.**

## Tenpo Innovation CO., LTD. – Store subleasing business

**Vision: Change business practices in the subleasing industry and create a new standard for store properties**

### ① Sales

- Measures to expand purchasing opportunities (Property Development Department) and division of labor and specialization of leasing operations (Sales Department)
- Along with increasing procurement, establish procurement channels centered on web-based purchasing and implement measures to build relationships with leading suppliers
- Shift from traditional all-in-one leasing to a division of labor by business, pursuing total optimization and specialization



### ② Training

- Training system to quickly turn inexperienced sales representatives into an effective force
- Efficient education through active use of e-learning tools such as videos
- Establish and disseminate mission, vision, and values for each department, and organize and manualize procurement know-how

### ③ Recruitment

- Continue to actively recruit based on the previous year's results (23 sales hires)
- Established the "Recruitment Promotion Department" to succeed the Sales Development Department of the previous fiscal year, and plans to actively recruit property management staff in addition to sales staff
- Aiming to maximize the number of applicants, while increasing efficiency and reducing costs

### ④ In-house websites

- Improve the appeal and presence of our websites "INUKITENPO.com" (finding tenants for vacated-furnished stores) and "TENPOKAITORI.com" (purchase of vacated equipment)
- Expand the range of properties handled by "INUKITENPO.com" and improve convenience by using search engine optimization (SEO) measures and use of LINE, etc.; expand the range of properties handled by "TENPOKAITORI.com" and increase awareness through advertising, begin operations by a specialized team



## Safety Innovation CO., LTD. – Rent guarantee business

**Vision: Become No. 1 in the rent guarantee industry in terms of the number of commercial real estate rent guarantee contracts**

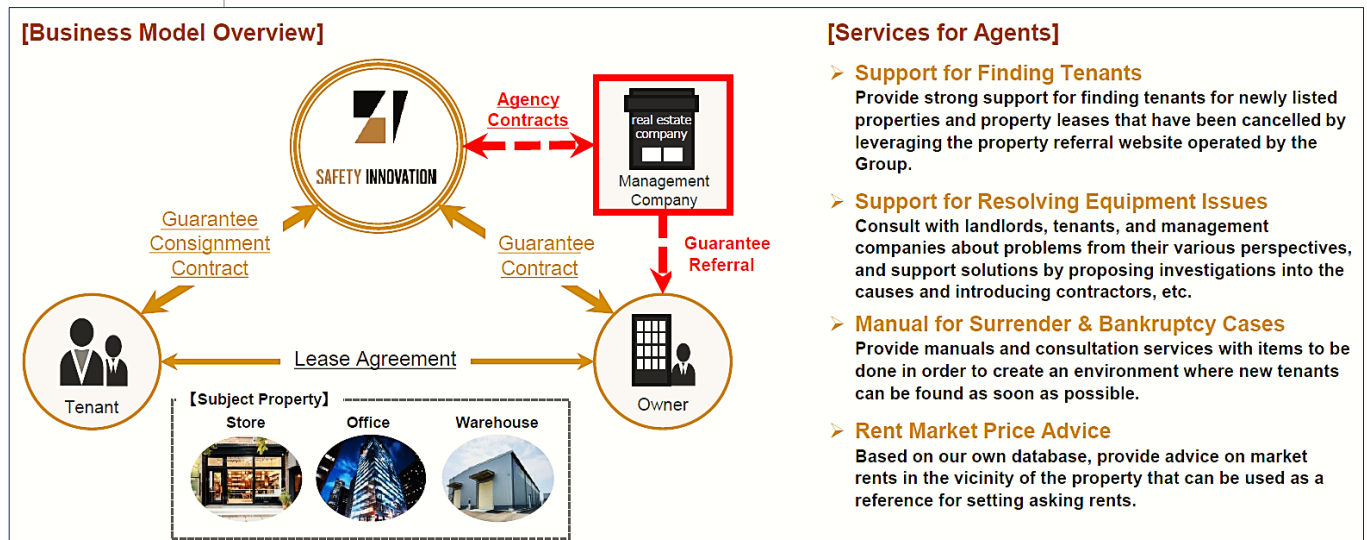
**Actively acquire projects outside the Group through rent guarantees specializing in commercial real estate properties. Expand business through synergies by leveraging store property know-how and providing added value to agents.**

### ① Startup preparations

- Initially, place priority on approaching Group business partners, with full-scale recruiting activities beginning in the second half of the fiscal year
- Conduct sales activities to real estate companies (on the scale of 1,000 companies) that deal with subleasing business to increase awareness in the Tokyo metropolitan area
- Full-scale recruiting activities are scheduled to begin in the 2H of the current fiscal year (planning to hire approximately 15 employees), and planning to establish a branch in the Tokyo metropolitan area

### ② Business flow

- Proactively utilize IT while improving workflow and manuals, and establish a training / education system
- Proactive use of cloud services and OCR to develop workflows and manuals for making contracts, screening, and collection
- Improve convenience and reduce the burden on clients, while improving operational efficiency and training systems



## Asset Innovation CO., LTD. – Real estate trading business

**Vision: Become a leading company in commercial real estate distribution**

### ① Developing customers

- Taking the opportunity of the company's establishment, strengthen organizational and sales capabilities, and actively collect information and cultivate customers
- Strengthen sales and marketing for purchasing to Yamanote Line and surrounding stations (plan to add 2 sales staff this fiscal year) and develop sales channels other than RE agents
- Strengthen purchasing capabilities through direct mailings to RE agents and property owners

### ② Training and collaboration

- Start compiling know-how and creating manuals, and hold study sessions for Group cooperation
- Through organizing know-how and creating manuals, aim to increase human resource short-term competitiveness
- Hold study sessions for Group companies twice a year to share information on purchases and sales



## PART ③ EARNINGS REVIEW

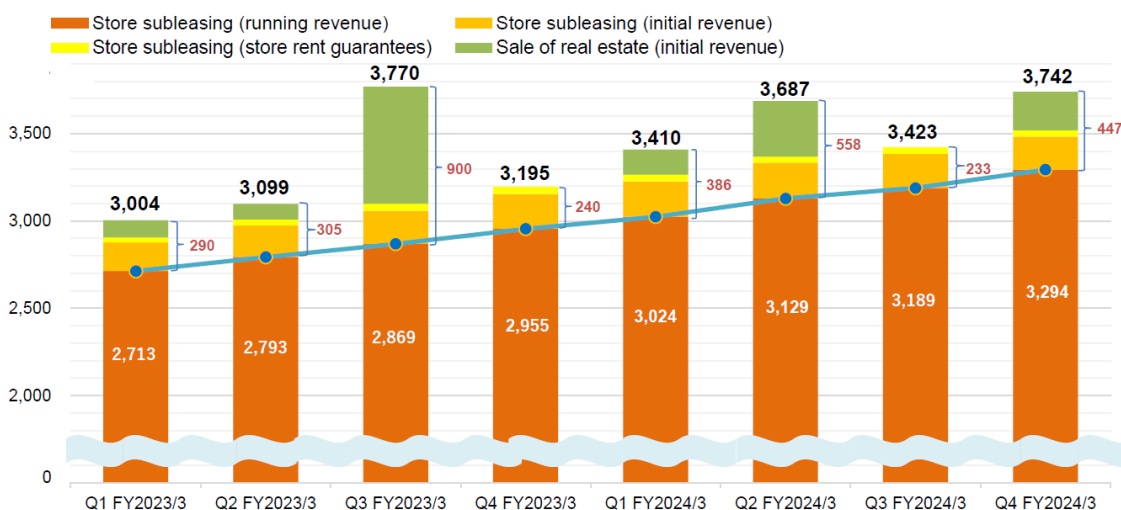
### FY24/3 consolidated net sales +9.1% and OP -19.6%

As described in Part 1, restaurant industry sales in 2023 increased for the second consecutive year, driven by steady normalization of customer traffic with the downgrade of COVID to Class 5 and lifting of immigration restrictions around golden week, prompting a recovery of inbound tourists. However, while total sales for all formats increased +14.1% YoY, a large component was the 7.3% increase in average spend reflecting inflation. The environment for restaurant operators was extremely challenging with soaring utility and raw materials costs, exacerbated by the worsening labor shortage. By formats, the recovery of Izakaya (Japanese pubs) was delayed due to the -9.7% YoY decline in the number of stores (-33.6% versus 2019).

Against this backdrop, TENPO INNOVATION still achieved net sales growth of +9.1% YoY, driven by the +10.3% increase in active store sublease properties to 2,445. While the number of signed contracts (new + successor contracts) dipped slightly by -3.3% YoY, in part due to the reorganization of sales in Oct-2023 (see P10), the quarterly average of 116.5 contracts was still a high level. **Ultimately, as described in Part 2, the strength of the business model of adhering to strict proven criteria when selecting store properties for subleasing ALWAYS results in being able to find demand in an industry known for constant turnover.**

Despite the increase in net sales, GPM declined 1.3pp as costs increased due to aggressive purchasing of subleasing properties (vacancy rents, construction, commissions, etc.) and the

### 4Q FY24/3 Quarterly Trend of Sales Breakdown by Revenue 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. Source: excerpt from IR results briefing materials.

### TENPO INNOVATION 4Q FY24/3 Financial Results Summary

JPY mn	FY23/3 act	ratio to sales	FY24/3 act	ratio to sales	AMT CHG	PCT CHG	ACH ratio*	FY24/3 init CE
<b>Net sales</b>	<b>13,070</b>	<b>100.0%</b>	<b>14,263</b>	<b>100.0%</b>	<b>1,193</b>	<b>9.1</b>	<b>96.1%</b>	<b>14,844</b>
Gross profit	2,518	19.3%	2,573	18.0%	55	2.2	—	—
SG&A expenses	1,306	10.0%	1,599	11.2%	293	22.4	—	—
<b>Operating profit</b>	<b>1,212</b>	<b>9.3%</b>	<b>974</b>	<b>6.8%</b>	<b>(238)</b>	<b>(19.6)</b>	<b>76.4%</b>	<b>1,276</b>
Ordinary profit	1,266	9.7%	1,011	7.1%	(255)	(20.1)	77.4%	1,306
Profit ATOP	885	6.8%	666	4.7%	(219)	(24.8)	74.8%	891
Signed contracts* <sup>1</sup>	482	—	466	—	(16)	(3.3)	81.8%	570
Sublease properties* <sup>2</sup>	2,216	—	2,445	—	229	10.3	96.8%	2,527

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.

\*ACH ratio = progress ratio relative to full-term guidance.

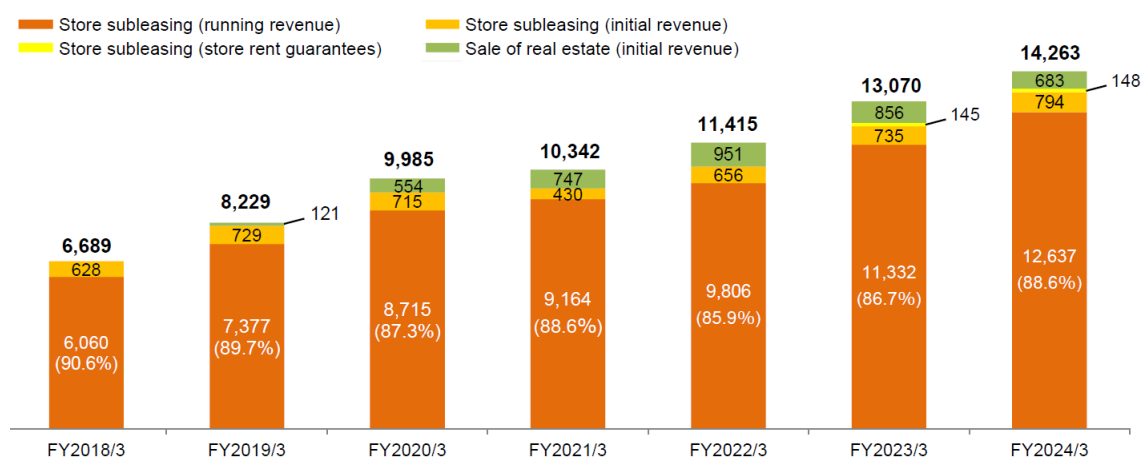


disappearance of the sale of several large and highly profitable properties in the real estate trading business in the previous fiscal year. OP declined -19.6% YoY mainly due to a higher ratio of SG&A to sales from increased salary and recruiting expenses, executive compensation linked to the previous year's strong performance, and DX system investments such as the move to electronic contracts, etc. Initial forecasts for FY25/3 are shown below. Net sales are forecast to increase +18.1% YoY (16th consecutive YoY gain), mainly driven by the resumption of double-digit growth in signed contracts following the reorganization of sales last term, and forecast +12.8% YoY increase in active store subleases. However OP is forecast to decline -6.9% YoY, a second consecutive YoY decline, due to the impact of higher SG&A expenses accompanying the increase in headcount for aggressive expansion of each business under the new holdings company structure to take effect from October 1, 2024. **As year one of the new MTP, FY25/3 is positioned as a transition phase toward accelerating growth going forward, and while profits will remain under pressure from upfront investments to strengthen the sales organization, the growth opportunity going forward is substantial.**

From FY24/3, the Company announced a change to its dividend policy, effectively raising the target payout ratio from the 30% level to the 40% level. As can be seen from the left-hand graph, along with making proactive upfront investments to capture the significant growth opportunity, **over the last 7 fiscal years since listing in Oct-2017 through FY24/3, total cash dividends have grown at +31.5% CAGR, with DOE topping 10% in FY24/3, and the payout ratio forecast to exceed 50% for the second consecutive year in FY25/3 (see table below).** The current DY of 2.36% is trading 75% above its historical average (see graph on P29).



### Store subleasing (running revenue) accumulation is the main growth driver (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. Source: excerpt from IR results briefing materials.

### TENPO INNOVATION New Medium-Term Management Plan

JPY mn, %	FY24/3	FY25/3	YOY	FY26/3	YOY	FY27/3	FY28/3	4-year
	act	init. CE	PCT	MTP	PCT	MTP	MTP	CAGR
Net sales	14,263	16,840	18.1	19,190	14.0	22,138	25,644	15.8
Operating profit	974	907	(6.9)	1,035	14.1	1,268	1,645	14.0
OPM	6.8%	5.4%	—	5.4%	—	5.7%	6.4%	—
Signed contracts* <sup>1</sup>	466	570	22.3	640	12.3	720	820	15.2
Sublease properties* <sup>2</sup>	2,445	2,757	12.8	3,110	12.8	3,520	3,994	13.1
DPS (¥)	¥20.00	¥21.00	5.0	¥22.00	4.8	—	—	—
Payout ratio	50.5%	55.9%	+5.4p	52.9%	-3.0p	40-45%	40-45%	—

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.





TENPO INNOVATION

## QUARTERLY RESULTS

### REFERENCE:

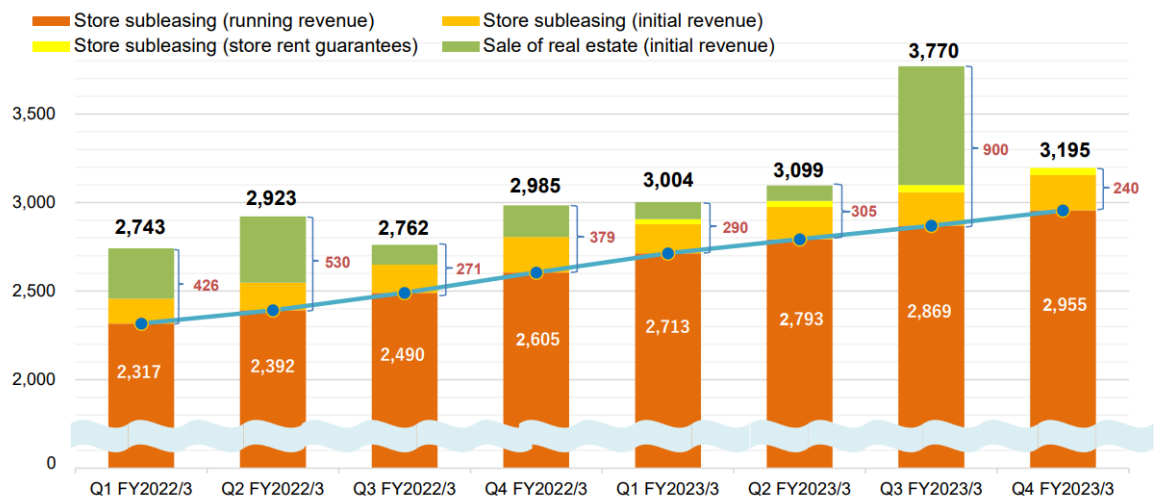
- FY23/3 4Q
- FY24/3 1Q – 3Q

### FY23/3 consolidated net sales +14.5% and OP +33.2%

Since the Company began consolidating the accounts of newly established wholly-owned subsidiary Tenpo Safety Inc. from FY23/3, YoY figures are provided for reference versus non-consolidated results the previous term. Net sales increased +14.5% YoY, OP increased +33.2% YoY, GPM rose from 18.3% → 19.3%, and OPM rose from 8.0% → 9.3%. In addition to the contribution from new high-margin rent guarantee business, store subleasing business got a boost from the increase in new successor contracts from 135 → 197 (+45.9% YoY). Store subleasing sales increased +16.7% (sublease properties rose to 2,216, +13.6%), and **store subleasing OP of ¥962mn increased +32.9%**.

Real estate trading business got a boost from the sale of 5 properties which included several large-scale profitable properties (see graph below). In FY23/3, 5 properties were sold and 8 properties were acquired (Q4-only: 0 properties sold, 3 properties acquired), bringing the number of properties held by the Company to 6 at the end of FY23/3. Real estate trading sales declined -9.6%, however **real estate trading OP of ¥251mn increased +34.7%**. Although the primary objective of this business was 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, and this is now a full-fledged business.

### 4Q FY23/3 Quarterly Trend of Sales Breakdown by Revenue 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 4Q FY23/3 Financial Results Summary

JPY mn	FY22/3 act	ratio to sales	FY23/3 initial CE	FY23/3 act	ratio to sales	AMT CHG	PCT CHG*	vs initial CE
<b>Net sales</b>	<b>11,415</b>	<b>100.0%</b>	<b>12,655</b>	<b>13,070</b>	<b>100.0%</b>	<b>1,655</b>	<b>14.5</b>	<b>3.3</b>
Gross profit	2,094	18.3%	—	2,519	19.3%	425	20.3	—
SG&A expenses	1,184	10.4%	—	1,307	10.0%	123	10.4	—
<b>Operating profit</b>	<b>910</b>	<b>8.0%</b>	<b>1,059</b>	<b>1,212</b>	<b>9.3%</b>	<b>302</b>	<b>33.2</b>	<b>14.5</b>
Ordinary profit	987	8.6%	1,074	1,266	9.7%	280	28.3	17.9
Profit	662	5.8%	733	886	6.8%	223	33.7	20.8
Signed contracts* <sup>1</sup>	407		450	482		75	18.4	7.1
Sublease properties* <sup>2</sup>	1,951		2,221	2,216		265	13.6	(0.2)

\*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.

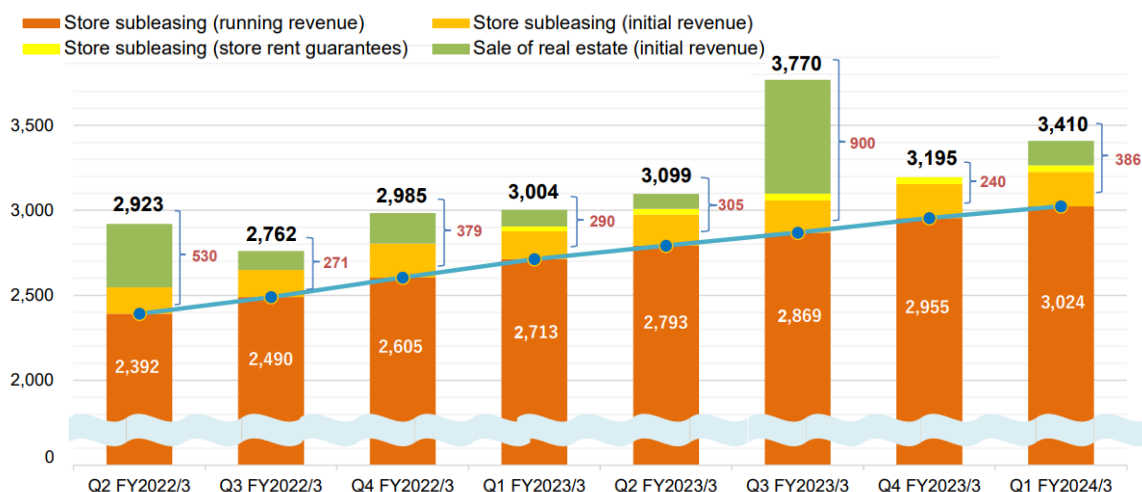


## 1Q FY24/3 consolidated net sales +13.5% and OP -14.6%

While the environment for the restaurant industry continued to gradually improve during the 1Q given the first Golden Week with COVID restrictions on movement lifted and resumption of inbound tourism, restaurant operators faced headwinds from the sharp rise in meal ingredients and utilities costs, as well as chronic labor shortage. Nevertheless, interest remained strong among individual and small restaurant business operators for the Company's relatively small, ground floor facing, affordable rent and vacated-furnished subleasing store properties. Store subleasing sales increased +12.4% (sublease properties rose to 2,272, +12.8%). However, store subleasing OP declined -14.0% due to GPM declining 1.8pp on the increase in vacant rents due to aggressive procurement of new sublease store properties, while the ratio of SG&A to sales deteriorated 0.5pp on increased salary and recruiting expenses, executive compensation linked to the previous year's strong performance, and DX system investments such as the move to electronic contracts, etc.

Real estate trading business sold 2 properties and acquired 5, bring the total inventory to 9 as of the end of June. While sales increased +44.3%, OP declined -18.4% on lower margins reflecting the weak market. Although the table below shows the 1Q progress ratio for OP was slightly behind at only 19.2%, **the key takeaway from 1Q results is that margins were depressed due to aggressive procurement of new sublease stores and recruitment, which the Company expects to leverage over the next 9 months.**

## 1Q FY24/3 Quarterly Trend of Sales Breakdown by Revenue 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. Source: excerpt from IR results briefing materials.

## TENPO INNOVATION 1Q FY24/3 Financial Results Summary

JPY mn, %	FY23/3 1Q act	ratio to sales	FY24/3 1Q act	ratio to sales	AMT CHG	PCT CHG	ACH ratio*	FY24/3 initial CE
<b>Net sales</b>	<b>3,004</b>	<b>100.0%</b>	<b>3,411</b>	<b>100.0%</b>	<b>407</b>	<b>13.5</b>	<b>23.0%</b>	<b>14,844</b>
Gross profit	588	19.6%	606	17.8%	17	3.0	—	—
SG&A expenses	302	10.1%	361	10.6%	59	19.6	—	—
<b>Operating profit</b>	<b>286</b>	<b>9.5%</b>	<b>245</b>	<b>7.2%</b>	<b>(42)</b>	<b>(14.6)</b>	<b>19.2%</b>	<b>1,276</b>
Ordinary profit	306	10.2%	277	8.1%	(29)	(9.4)	21.2%	1,306
Profit	210	7.0%	189	5.5%	(20)	(9.8)	21.2%	891
Signed contracts* <sup>1</sup>	107	—	119	—	12	11.2	20.9%	570
Sublease properties* <sup>2</sup>	2,015	—	2,272	—	257	12.8	—	2,527

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.

\*ACH ratio = percent progress relative to full-term initial guidance.



TENPO INNOVATION



### ★ 1H hiring of sales staff achieved success

The biggest risk to achieving medium-term targets lies in successful execution of its sales force recruitment • training • assignment plan, particularly for sublease store property procurement. **The number of procurement staff increased by 2 in 2Q, from 14 at the end of March to 16 at the end of September.** The effect of the transfer of purchasing authority is expected to be realized from 2H into the next fiscal year.

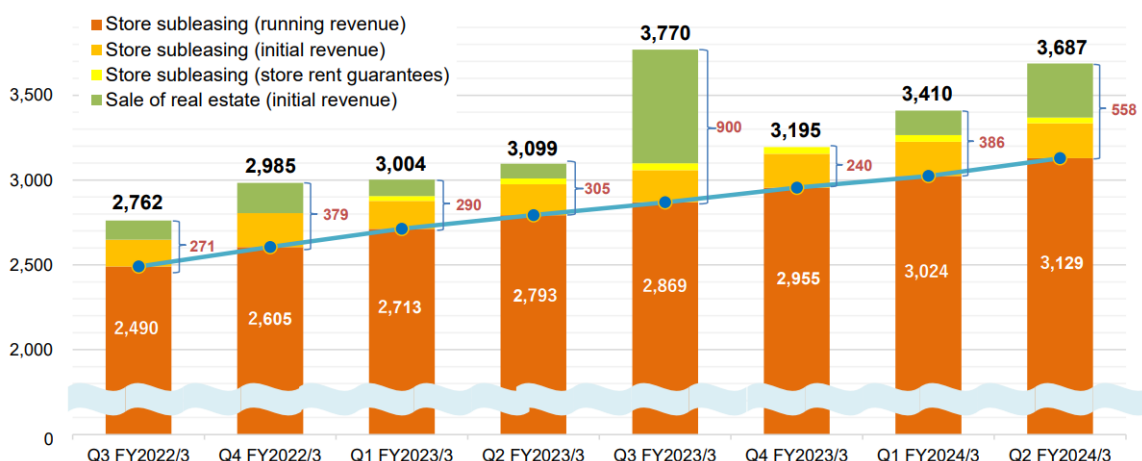
The newly established "Sales Development Department" specializing in sales recruitment (headed by a sales executive) **hired 15 new sales staff during the 1H.**

## 1H FY24/3 consolidated net sales +16.3% and OP -5.3%

In the restaurant industry, sales and the number of customers increased due to the first summer holidays since the downgrade of COVID-19 to "category 5," an increase in demand for eating out due to the extremely hot summer, and a recovery in inbound sales supported by the weak yen. For drinking establishments, the number of customers during late hours and the demand for large banquets gradually returned, but overall recovery was delayed due to the decrease in the number of establishments. Store subleasing sales increased +12.2% (sublease properties rose to 2,335, +12.3%). Although the number of contracts signed remained at a high level of 115 (2Q), the pace is expected to slow slightly in the near term due to reorganization of the sales organization. Store subleasing OP declined -17.3% due to GPM declining 1.3pp on the increase in costs (vacancy rent, construction, commissions, etc.) associated with aggressive sublease property purchases, while the ratio of SG&A to sales deteriorated 0.4pp on increased salary and recruiting expenses, executive compensation linked to the previous year's strong performance, and DX system investments such as the move to electronic contracts, etc.

Real estate trading business sold 6 properties and acquired 6 as the wait-and-see trend in the market diminished with the normalization of economic and social activities (2Q-only 4 sold, 1 acquired), bringing total inventory to 6 as of the end of September. Net sales increased +39.1%, and OP increased +35.0%. Although the table below shows a slight shortfall to 1H profits, **the key takeaway from 1H results is that margins were depressed due to aggressive procurement of new sublease stores and recruitment, which the Company expects to leverage in the 2H.**

## 2Q FY24/3 Quarterly Trend of Sales Breakdown by Revenue 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. Source: excerpt from IR results briefing materials.

## TENPO INNOVATION 1H FY24/3 Financial Results Summary

JPY mn, %	FY23/3 1H act	ratio to sales	FY24/3 1H act	ratio to sales	AMT CHG	PCT CHG	ACH ratio*	FY24/3 1H init CE
<b>Net sales</b>	<b>6,103</b>	<b>100.0%</b>	<b>7,098</b>	<b>100.0%</b>	<b>995</b>	<b>16.3</b>	<b>-0.8%</b>	<b>7,158</b>
Gross profit	1,163	19.1%	1,267	17.8%	104	8.9	—	—
SG&A expenses	608	10.0%	741	10.4%	133	21.7	—	—
<b>Operating profit</b>	<b>554</b>	<b>9.1%</b>	<b>525</b>	<b>7.4%</b>	<b>(29)</b>	<b>(5.3)</b>	<b>-13.9%</b>	<b>610</b>
Ordinary profit	581	9.5%	558	7.9%	(23)	(3.9)	-10.7%	625
Profit	398	6.5%	381	5.4%	(17)	(4.3)	-10.7%	427

Signed contracts* <sup>1</sup>	224	—	234	—	10	4.5	—	—
Sublease properties* <sup>2</sup>	2,080	—	2,335	—	255	12.3	—	—

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.

\*ACH ratio = percent progress relative to 1H initial guidance.

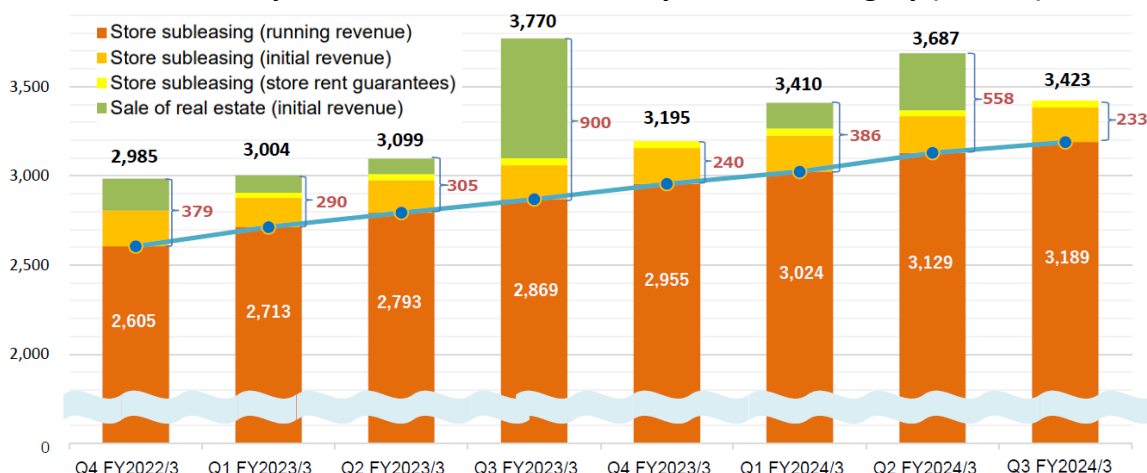


## 9M FY24/3 consolidated net sales +6.6% and OP -29.6%

In the restaurant industry, sales and the number of customers increased due to an increase in demand for eating out due to the extremely hot summer, and a recovery in inbound sales supported by the weak yen. For drinking establishments, the number of customers during late hours and the demand for large banquets gradually returned, but overall recovery was delayed due to the lower number of establishments in the wake of COVID-19. **Store subleasing sales increased +11.6%** (sublease properties rose to 2,382, +10.7%). Although the number of contracts signed remained at a high level of 116 (3Q), the pace dipped from 40 to 28 in Oct. due to reorganization of the sales organization, subsequently posting a V-shaped rebound to 52 in Dec., a record high (see graph on P2). **Store subleasing OP declined -15.6%** due to GPM declining on the increase in costs (vacancy rents, construction, commissions, etc.) associated with aggressive sublease property purchases as well as a higher ratio of SG&A to sales from increased salary and recruiting expenses, executive compensation linked to the previous year's strong performance, and DX system investments such as the move to electronic contracts, etc.

**Real estate trading business** sold 6 properties and acquired 8 as the wait-and-see trend in the market diminished with the normalization of economic and social activities (3Q-only 0 sold, 2 acquired), bringing total inventory to 8 as of the end of December. **Net sales declined -45.2%, and OP declined -69.5%** on postponed timing of property sales. **The key takeaway from the graph below is the lack of property sales in the 3Q due to timing, expected to rebound in the 4Q, bringing an associated rebound in 4Q profits. Full-term forecasts were left unchanged.**

## 3Q FY24/3 Quarterly Trend of Sales Breakdown by Revenue 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. Source: excerpt from IR results briefing materials.

## TENPO INNOVATION 3Q Cumulative FY24/3 Financial Results Summary

JPY mn	FY23/3	ratio to	FY24/3	ratio to	AMT	PCT	ACH	FY24/3
	9M act	sales	9M act	sales	CHG	CHG	ratio*	init CE
<b>Net sales</b>	<b>9,874</b>	<b>100.0%</b>	<b>10,522</b>	<b>100.0%</b>	<b>647</b>	<b>6.6</b>	<b>70.9%</b>	<b>14,844</b>
Gross profit	1,950	19.7%	1,858	17.7%	(92)	(4.7)	—	—
SG&A expenses	927	9.4%	1,137	10.8%	211	22.7	—	—
<b>Operating profit</b>	<b>1,023</b>	<b>10.4%</b>	<b>720</b>	<b>6.8%</b>	<b>(302)</b>	<b>(29.6)</b>	<b>56.5%</b>	<b>1,276</b>
Ordinary profit	1,066	10.8%	761	7.2%	(305)	(28.6)	58.3%	1,306
Profit	731	7.4%	519	4.9%	(211)	(28.9)	58.3%	891
Signed contracts* <sup>1</sup>	355	—	350	—	(5)	(1.4)	61.4%	570
Sublease properties* <sup>2</sup>	2,152	—	2,382	—	230	10.7	—	2,527

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.

\*ACH ratio = progress ratio relative to full-term guidance.



TENPO INNOVATION

## PART ④ SHARE PRICE INSIGHTS



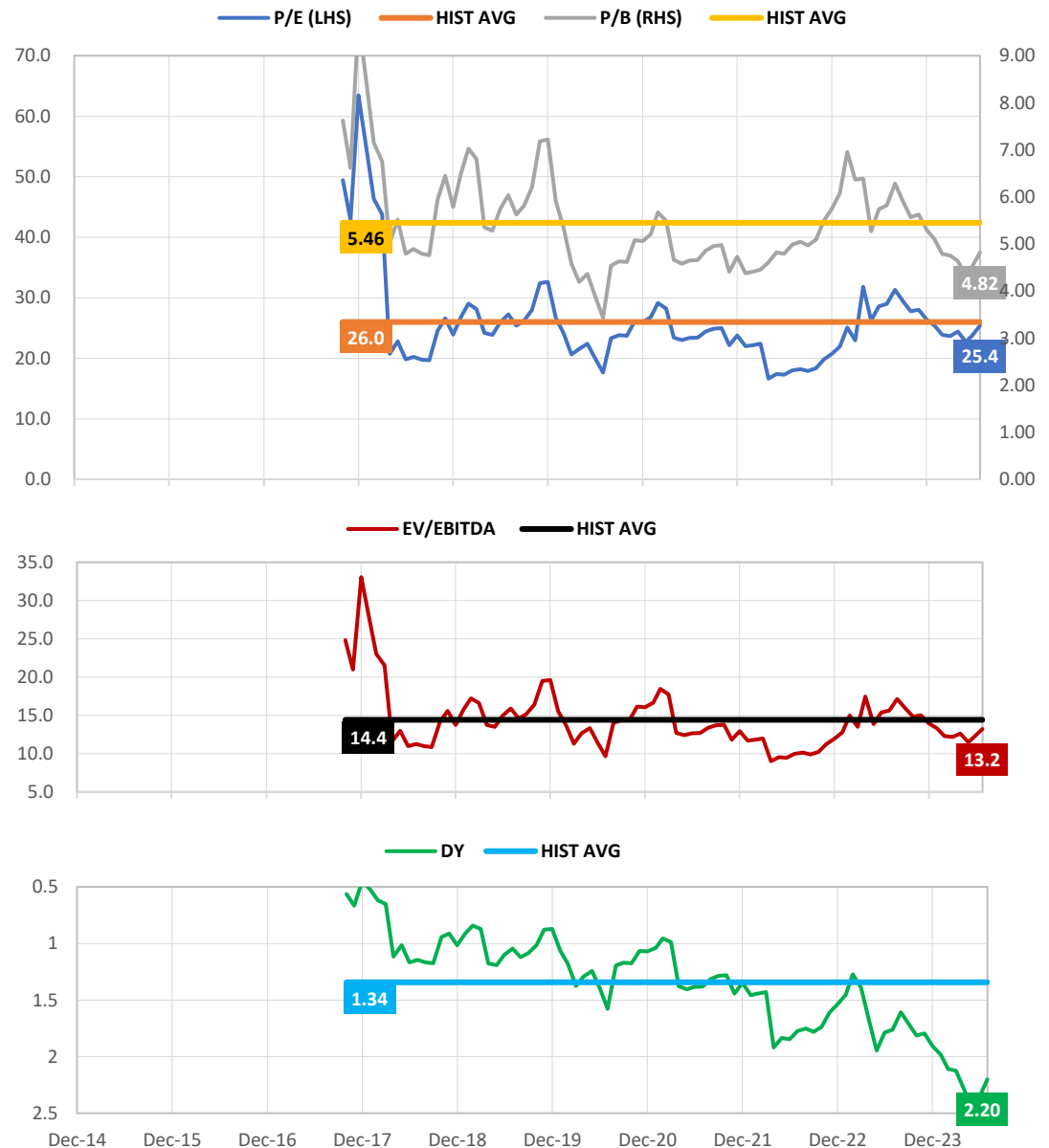
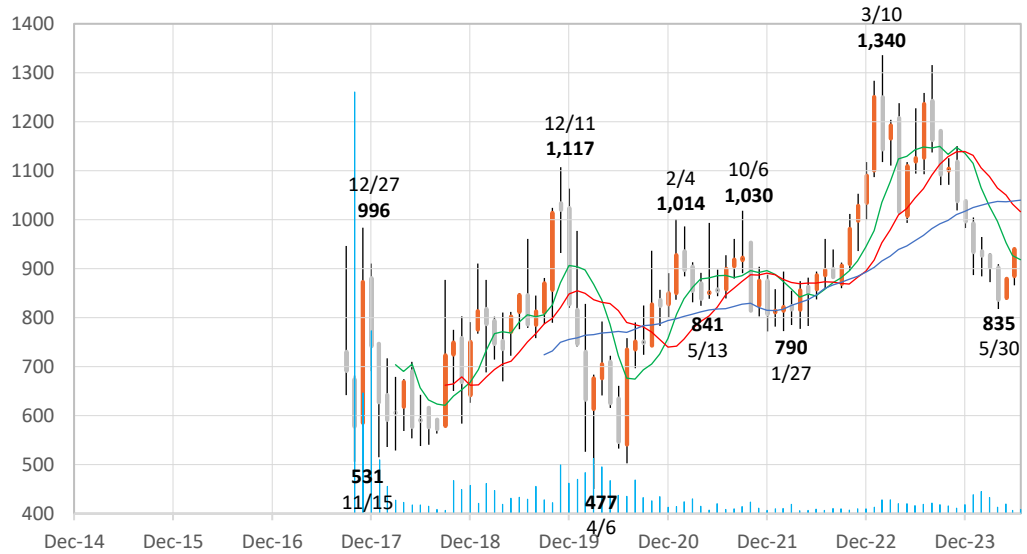
### Key takeaways:

❶ The current P/E and P/B are trading on discounts of 2.3% and 11.5%, respectively, to their historical averages. EV/EBITDA is trading on an 8.1% discount. **Importantly, DY is trading 63.9% above its historical average.**

❷ The equity ratio on the surface may appear low at 24.2%, however this reflects the fact that the B/S is comprised of a large amount of deposits paid and received (see B/S on P31). The Company is debt-free, and the B/S is extremely healthy.

❸ Following the revised dividend policy from FY24/3 raising target payout effectively from the 30% level → to the 40% level, **DOE topped 10% for FY24/3, and the payout ratio is on course for a second consecutive year above 50% in FY25/3.**

### 7-Year Monthly Share Price Chart, 6M/12M/24M MA, Volume and Valuation Trends



Source: compiled by Omega Investment from historical price data. Forecast values based on current Company estimates.



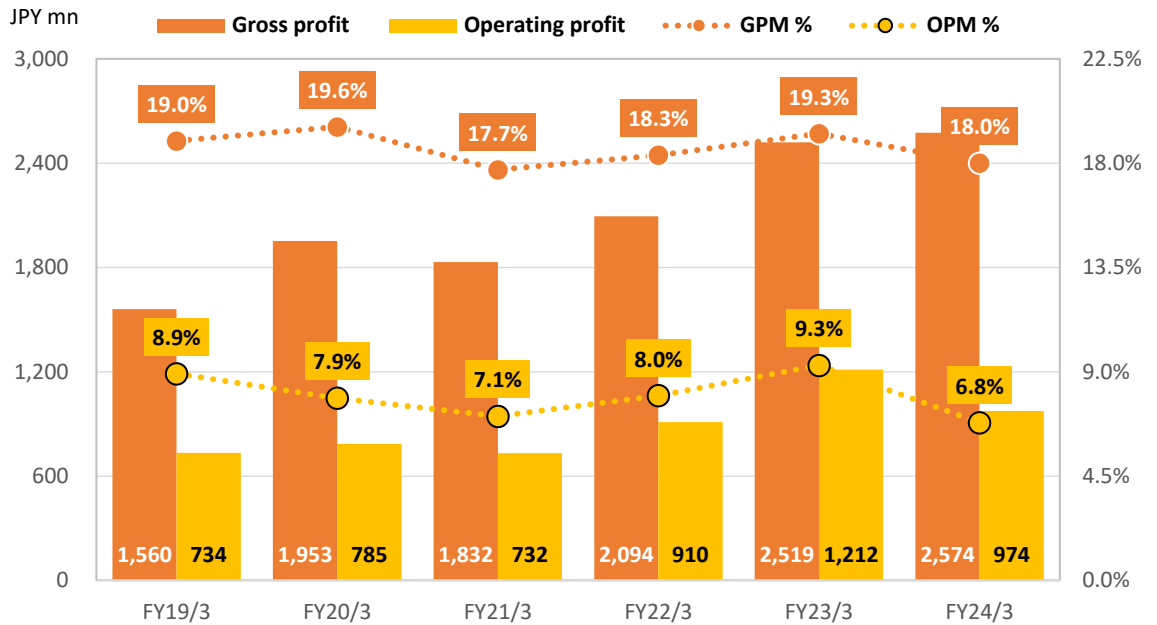
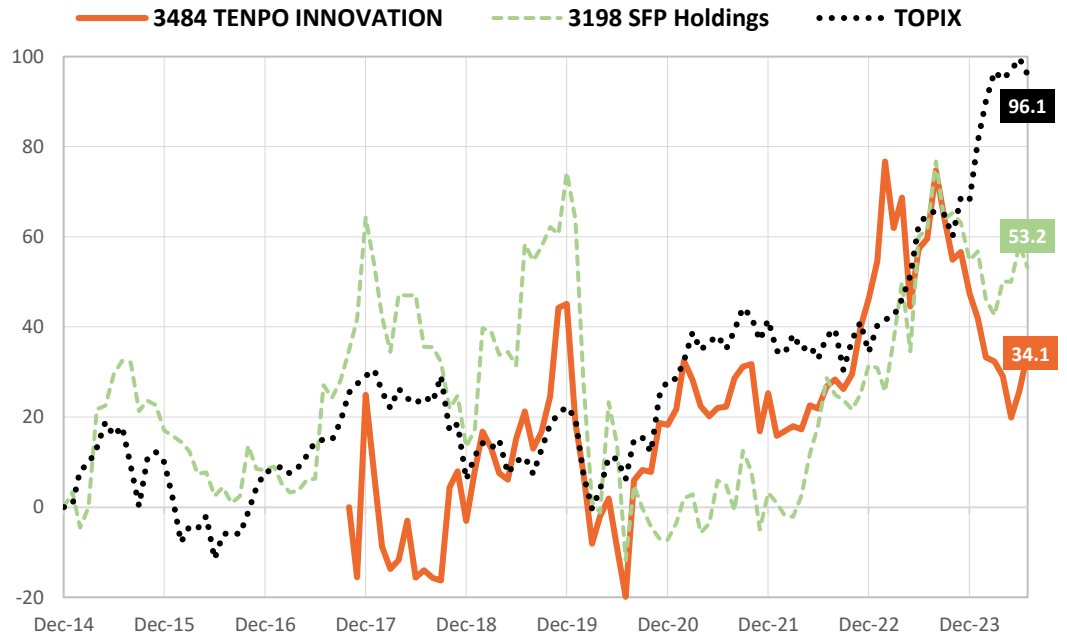
TENPO INNOVATION



Sharp underperformance over the last three quarters can clearly be attributed to discounting margin deterioration in the short-term from leading upfront investments to capture the substantial growth opportunity going forward under the new holdings company structure..

While a second consecutive year of OP declining YoY is disappointing, the share price decline would seem to largely have discounted that, lowering expectations and leaving room for upside positive surprises as the enhanced sales organization goes into full swing.

## 10-Year Monthly Relative Share Price Performance and Trend of GPM/OPM





## Consolidated Balance Sheets

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	3,501,245	3,331,233
Accounts receivable - trade	16,707	9,444
Real estate for sale	337,396	823,765
Prepaid expenses	1,103,740	1,195,477
Other	168,947	119,836
<b>Total current assets</b>	<b>5,128,037</b>	<b>5,479,757</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings, net	651,857	634,164
Other	14,658	42,596
<b>Total property, plant and equipment</b>	<b>1,666,515</b>	<b>1,676,760</b>
Intangible assets	41,863	31,165
<b>Investments and other assets</b>		
Deferred tax assets	316,219	351,715
Guarantee deposits	6,423,205	6,841,860
Other	306,546	316,052
<b>Total investments and other assets</b>	<b>7,045,971</b>	<b>7,509,628</b>
<b>Total non-current assets</b>	<b>7,754,351</b>	<b>8,217,554</b>
<b>Total assets</b>	<b>12,882,388</b>	<b>13,697,311</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Income taxes payable	265,275	162,074
Provision for bonuses	46,872	39,453
Unearned revenue	1,356,757	1,515,682
Other	2,644,363	2,674,587
<b>Total current liabilities</b>	<b>2,313,269</b>	<b>2,391,797</b>
<b>Non-current liabilities</b>		
Asset retirement obligations	48,609	48,824
Retirement benefit liability	21,500	37,000
Guarantee deposits received	6,969,768	7,506,961
Other	333,945	388,685
<b>Total non-current liabilities</b>	<b>7,373,823</b>	<b>7,981,471</b>
<b>Total liabilities</b>	<b>9,687,092</b>	<b>10,373,269</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Share capital	308,394	308,394
Capital surplus	539,930	539,930
Retained earnings	3,153,526	3,547,222
Treasury shares	(806,554)	(1,078,830)
<b>Total shareholders' equity</b>	<b>3,195,296</b>	<b>3,316,717</b>
Share acquisition rights	-	2,358
Non-controlling interests	-	4,967
<b>Total net assets</b>	<b>3,195,296</b>	<b>3,324,042</b>
<b>Total liabilities and net assets</b>	<b>12,882,388</b>	<b>13,697,311</b>

Source: compiled by Omega Investment from FY24/3 Annual Securities Report (YUHO financial statements).





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