create restaurants holdings inc.

3387 Tokyo Stock Exchange First Section

22-May-15

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Realizing High Growth Potential by Engaging in "Group Federation Management" through M&As

create restaurant holdings inc. <3387> focuses mainly on operation of restaurants and food courts inside shopping centers, and is also developing izakaya (traditional Japanese eating and drinking establishments) and restaurant formats acquired though M&As. The company carefully selects locations that attract large numbers of customers, and employs a distinctive multi-brand, multi-location strategy, which involves developing a variety of restaurant formats attuned to specific locations (regional characteristics, customer attributes, and competition status, etc.). This strategy has supported the company's main business. Currently, the company has 616 restaurants in approximately 170 formats. Moreover, the company is achieving high growth by engaging in "group federation management," which involves incorporating formats with high growth potential into the company's growth through M&As. One example is a chain of seafood izakaya that has been gaining popularity with its 24-hour operation in favorable locations in front of train stations. In this way, the company appears to have entered a new growth phase.

In the company's business results for FY2/15 (the fiscal year from March 1, 2014 to February 28, 2015), it recorded significant increases in sales and profits and set new record for net sales and income levels, with net sales increasing by 32.0% year on year (YOY) to ¥69,309mn and ordinary income increasing by 15.5% to ¥4,383mn. The results reflected a significant contribution to sales from the start of the fiscal year by SFP Dining Co., Ltd. <3198> (izakaya format operator), with which the company made a capital alliance during FY2/14, and a greater-than-expected number of new restaurant openings. Meanwhile, the company increased its profits, with the increase in sales absorbing the effects of rising raw material prices due to the yen's depreciation and increases in start-up expenses and goodwill depreciation expenses associated with new restaurant openings.

In its business results forecast for FY2/16, the company is forecasting continued significant increases in sales and profits, with net sales projected to increase by 18.3% YOY to ¥82,000mn, and ordinary income to increase by 39.1% to ¥6,100mn. New restaurant openings in the izakaya format have proceeded more successfully than anticipated, and the company now expects to achieve the targets of its medium-term management plan ending in FY2/17 a year early.

The company has announced a new medium-term management plan ending in FY2/18, recognizing that its pace of growth may outstrip the initial plan. The company is aiming to achieve high growth through to FY2/18, targeting a network of 824 restaurants with net sales of ¥108,000mn (CAGR of 15.9% over three years) and ordinary income of ¥9,000mn (CAGR of 27.1% over three years). The strategy for achieving this is to promote 1) sustainable growth of group operating companies in Japan, 2) high quality M&As within Japan, and 3) global expansion. Furthermore, in terms of capital efficiency, the company aims to maintain its ROE at a level of 20% or more.

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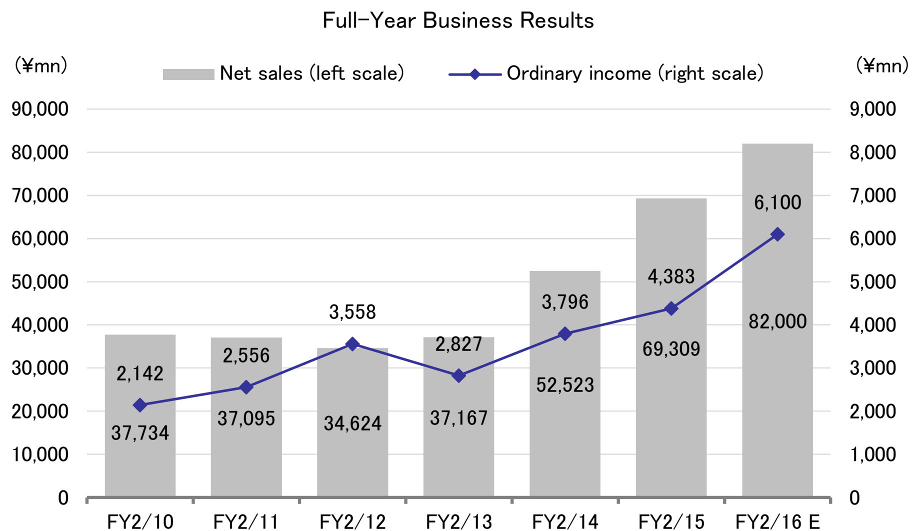
In particular, company plans to drive its growth through aggressive expansion in the number of restaurants in its strong-performing seafood izakaya chain. Moreover, in its mainstay business operation the company is also projecting steady growth given the ample scope for opening new restaurants targeting newly built shopping centers and tenant replacement at existing shopping centers, and so forth. Meanwhile, although M&As will also form an important growth strategy going forward, they are not included in the numerical targets. It is therefore worth noting their potential as a factor for boosting the company's operating results depending on the timing and scale of each M&A.

Check Point

- Meeting diverse needs with multi-brand, multi-location strategy
- Increase in sales and profit forecast for FY2/16 and steady openings of "ISOMARU SUISAN" restaurants to continue
- Medium-term management plan targets to be achieved a year early with higher pace of growth



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Business Overview

Developing the izakaya and restaurant formats with restaurant operation inside commercial facilities as the mainstay business

(1) Business Details

The company focuses mainly on operation of restaurants and food courts inside shopping centers and is also developing izakaya and restaurant chains acquired through M&As. As a holding company, the company has 11 consolidated subsidiaries (4 of which are overseas) and 2 affiliates (in Shanghai and Dalian).

The company carefully selects locations that attract large numbers of customers, and employs a distinctive multi-brand, multi-location strategy, which involves developing a variety of restaurant formats attuned to specific locations (regional characteristics, customer attributes, and competition status, etc.). This strategy has supported the company's main business. Recently, the company is achieving a high rate of growth by promoting "group federation management,"* which involves incorporating various formats with high growth potential into the company's growth through aggressive M&A activities. Currently, the company has 616 restaurants in approximately 170 formats.

* The company is promoting group management, in which it drives growth while achieving a balance between the centripetal force of the holding company and the centrifugal force of the group companies.

The company's businesses are divided into four categories: (a) the CR Category, involving the operation of restaurants and food courts inside shopping centers, (b) the SFP Category, involving the operation of izakaya formats, (c) the Specialty Brands Category, involving the operation of various restaurant formats, and (d) the Overseas Category, which involves operation of Japanese restaurants in Singapore, Hong Kong, mainland China, and so forth.

Overview of Business Categories

Category	Description
CR Category	The CR Category consists of outlets operated by create restaurants inc. In this category the company employs a multi-brand strategy to operate restaurants and food courts, mainly in suburban shopping centers. The company had 364 restaurants in this category as of the end of FY2/15. The main brands in this category are the all-you-can-eat shabu-shabu chain "shabu SAI," the natural food buffet chain "Harvest," and "Desert Okoku'
SFP Category	The SFP Category consists of restaurants operate by SFP Dining Co., Ltd., with which the company formed a capital alliance in April 2013. The company operates izakaya, mainly in urban downtown districts. The company had 137 restaurants in this category as of the end of FY2/15. The main brands in this category are the seafood izakaya "ISOMARU SUISAN" and the "Toriyoshi" specialty chicken restaurants.
Specialty Brands Category	The Specialty Brands Category consists of Create Kissho Inc., LE MONDE DES GOURMET Inc., eatwalk Co., Ltd., YUNARI Co., Ltd., and Shanghai Bishoku Chushin Co.,Ltd. The companies operate their respective specialty brands, mainly in urban commercial facilities. The company had 82 restaurants in this category as of the end of FY2/15. The main brands in this category are the traditional Japanese cuisine specialty chain "KISSHO," the Italian restaurant "TANTO TANTO," the vegetable-focused Italian chain "AWkitchen," "Tsukemen TETSU," and the steamed bun specialty chain "Nanxiang Steamed Bun Restaurant."
Overseas Category	The Overseas Category consists of restaurants operated by overseas subsidiaries in Singapore, Hong Kong, and mainland China. The company had 32 restaurants in this category in total as of the end of FY2/15. The main brands in this category include shabu SAI, the maccha (powdered green tea) speciality restaurant "MACCHA HOUSE"

The mainstay CR Category makes up 53.2% of the company's sales, while the SFP Category, which was made part of the group through an M&A, makes up 32.2%, the Specialty Brands Category 10.7%, and the Overseas Category 3.6% (as of the end of FY2/15).

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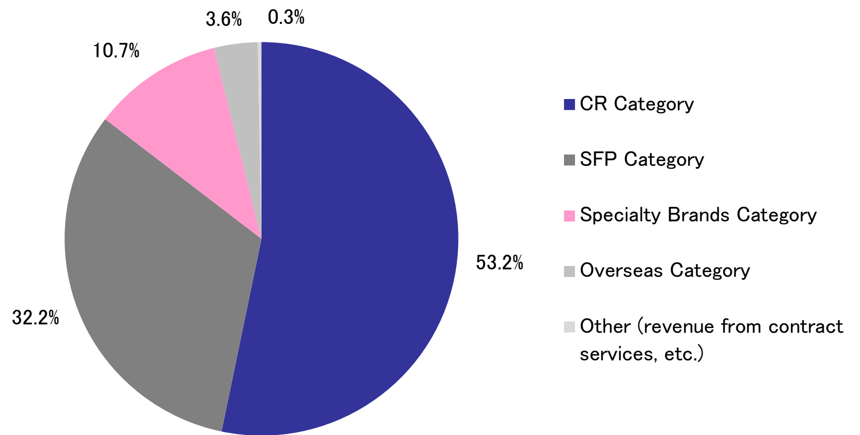
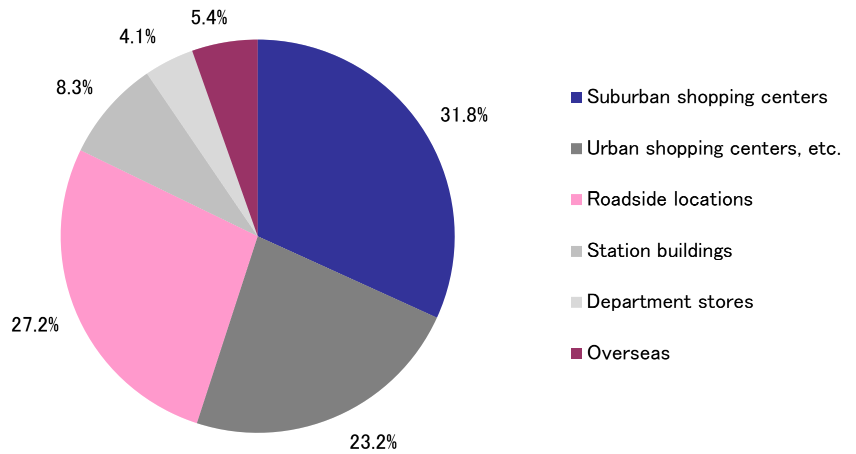
Net sales by category (FY2/15)



Looking at the composition of restaurants by location, 31.8% of the company's restaurants are in suburban shopping centers, with 23.2% in urban shopping centers, 27.2% in roadside locations, 8.3% in railway station buildings, 4.1% in department stores, and 5.4% overseas.

Composition of restaurants by location (FY2/15)



Starting out from the restaurant business to expand the number of restaurants mainly in commercial facilities

(2) History

The company was established in 1997 as the Yokosuka Brewing Company K.K. (the trading name was changed to create restaurants inc. in 1999) by Tokuju, K.K., the family business of the company's current chairman, Hitoshi Gotoh. However, its actual foundation was in 1999, when it took over the operation of five western-style restaurants from Tokuju and started the restaurant business in earnest. In 2000, then employee of Mitsubishi Corporation <8058> and current representative director, president and CEO Haruhiko Okamoto participated in the company through an in-house venture scheme, and the company also received capital investment from Mitsubishi (the capital relationship with Mitsubishi was eliminated in 2012). Thereafter, backed by Mitsubishi's credit capabilities and other aspects, the company accelerated its growth by increasing its number of restaurants mainly by opening them in commercial facilities and the like. In 2005, the company listed on the Tokyo Stock Exchange Mothers market, changing to the First Section of the Tokyo Stock Exchange in 2013.

The company has also been aggressive in M&A activity, bringing the Japanese cuisine chain KISSO under its umbrella in 2007 and shifting to a holding company structure in 2010 to establish a platform for group federation management. The company went on to acquire LE MONDE DES GOURMET (100%) in 2012, in SFP Dining (68.68%) and eatwalk (100%) in 2013, YUNARI (100%) and Shanghai Bishoku Chushin Co.,Ltd. (trading name changed from R21 Cuisine; 99.97%) in 2014, and others as it formed a group step by step. SFP Dining was listed on the Second Section of the Tokyo Stock Exchange in December 2014.

In overseas development, the company started in 2008 by establishing a joint venture with a local company in Shanghai, and went on to establish wholly-owned subsidiaries in mainland China in 2010, Singapore in 2011, Hong Kong in 2012, and Taiwan in 2014, among other initiatives. The company's overseas development is still considered to be in the experimental stage, but it is preparing the groundwork for a full-fledged expansion in the future.

Meeting diverse needs with multi-brand, multi-location strategy

(3) Characteristics

・Multi-brand, multi-location strategy

The characteristics of the company's main business are 1) opening restaurants in commercial facilities that attract large numbers of customers (shopping centers, station buildings, etc.) and 2) operating diverse formats attuned to their local environments (regional characteristics and customer attributes, status of competition, etc.). The diversity of these formants, including Japanese, western, and Chinese cuisine, as well as ethnic food and cafes, enables the company to open multiple restaurants within a single commercial facility and respond to various needs of the facility owner (developer, etc.). This has worked to the company's advantage in opening restaurants inside commercial facilities, which typically have a higher barrier to entry. Naturally, there is also a cost factor involved in creating multiple formats attuned to their local environments; however, the capacity to open formats that use the customer drawing power of favorable sites to maximum advantage is the company's true worth. It has accumulated format development and operational know-how that are the source of its value creation.

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Another pillar of the company's store-opening strategy is the seafood izakaya ISOMARU SUISAN. This chain's special characteristic is its 24-hour operation in station-front areas populated with convenience stores and drug stores. Despite facing harsh competition within urban downtown districts, the chain deliberately selects high-cost station-front sites due to its insistence on locations that attract large numbers of customers. This is one reason why, the chain has a strong affinity with the strategy employed by the company thus far. Therefore, it can be seen as an extension of the scope of the multi-location strategy to include roadside restaurants within urban downtown districts, and it could pave the way for future full-scale development of diverse roadside formats in urban downtown areas, in addition to the existing commercial facilities.

・Growth model based on group federation management

The company's growth model includes organic (internal) growth as well as the incorporation into the group of formats with strong growth potential through M&A. In addition, the company provides support for growth through various synergy effects and by providing a platform that includes funding and management support. Ultimately, it ties these aspects into the company's own growth. In the past, it made use of the backing from Mitsubishi and other advantages to expand its business base through the operation of restaurants and food courts inside commercial facilities. However, this growth model is heavily influenced by the conditions of the commercial facility side, prompting the company to transfer to a holding company structure and shift to a strategy that aims for autonomous growth through group federation management. Without a doubt, with its roots as a venture of Mitsubishi, the company has a familiar management style in terms of management resources (personnel highly skilled in management, etc.) and culture, and also is highly likely to be recognized by investees as a partner with whom it is easy to build relationships with relatively little friction or resistance.

Entrepreneurs who start up extremely attractive restaurant formats only to encounter barriers in terms of management when attempting to upscale their businesses are a common sight. The factors affecting the company's growth potential going forward are therefore how well it can find the optimal group management model, build trust between group companies, and support the growth of each company.

■ Past Performance

After passing through periods of rapid growth and adjustment, since FY2/13 the company has been in a period of group expansion

Looking at the company's past performance, its growth has been driven by increasing the number of restaurants through new restaurant openings and M&As. In accordance with the changes in its restaurant opening strategy, the company's growth can be divided into three periods: a rapid growth period from FY2/06 to FY2/08, an adjustment period from FY2/09 to FY2/12, and a group expansion period from FY2/13 onwards.

During the rapid growth period, amid a rush in construction of large-scale suburban shopping centers ahead of the full-scale enforcement of the three laws on city planning* scheduled for 2008, the company also opened a large number of new restaurants, achieving rapid growth in net sales.

* A coverall term for the City Planning Act, the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment, and the Act on Revitalization of Central Urban Areas. The enforcement of the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment in particular introduced mechanisms for adjustment for large-scale stores.

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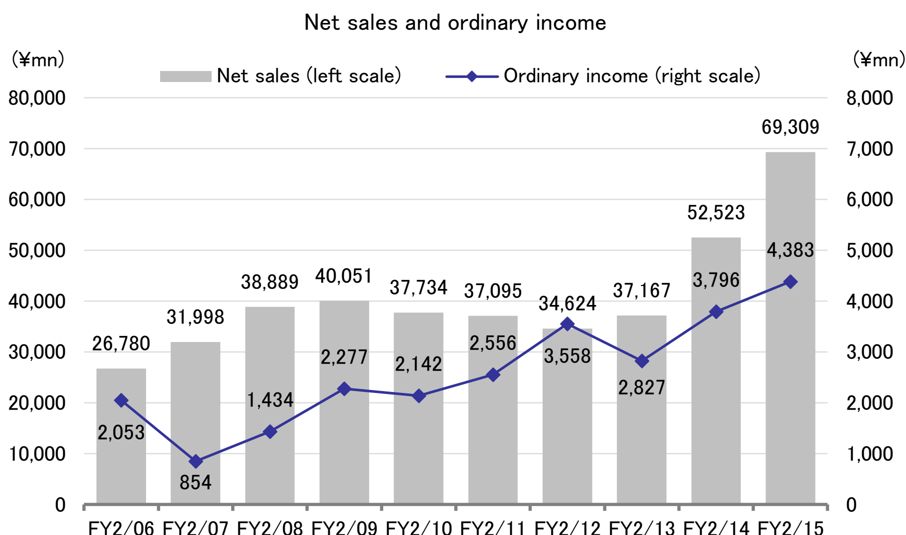
However, going into FY2/09, as the cycle of shopping center construction came to an end following the revision of the laws, in addition to elimination of the shopping centers that have been erected hastily ahead of the enforcement of the laws, there were also signs of distortion from the rapid opening of restaurants by the company (some formats were not compliant and so forth). The company therefore proceeded to liquidate unprofitable restaurants while restricting new openings, leading to temporary declines in the number of restaurants and net sales. However, the adjustments have delivered a significant improvement in profit margins, and the company has maintained earnings growth.

Having achieved a measure of success, such as an improved profit margin, through its adjustments including liquidation of unprofitable restaurants and format changes, and having shifted to a holding company structure, in FY2/13, the company embarked on a new growth strategy of group federation management predicated on M&As. By bringing various formats with growth potential into the group, while supporting further expansion of restaurant openings, the company has achieved a high growth rate and appears to have entered a new growth phase.

In the financial front, the company's equity ratio, a measure of financial base stability, achieved a level above 35% in FY2/12, but fell to 19.7% upon entering the group expansion period in FY2/13, due to acquiring the shares held by Mitsubishi through a take-over bid and cancelling approximately 80% of them (31.28% of the total number of issued shares at the time). However, the company has subsequently improved its equity ratio to 32.4% by bolstering its equity through a sale of treasury shares in FY2/14 and by issuing new shares in association with the listing of its subsidiary SFP Dining in FY2/15. Moreover, the net balance of interest-bearing debt fell to ¥2,413mn.

Looking at the status of cash flows, the company's cash flows for investment activities remained within the scope of stable operating cash flows until FY2/13, but have expanded significantly since FY2/14 due to aggressive new restaurant openings and M&As. However, the current ratio, an indicator of the company's ability to meet short-term obligations, is at 124.3%, a level that does not give cause for concern.



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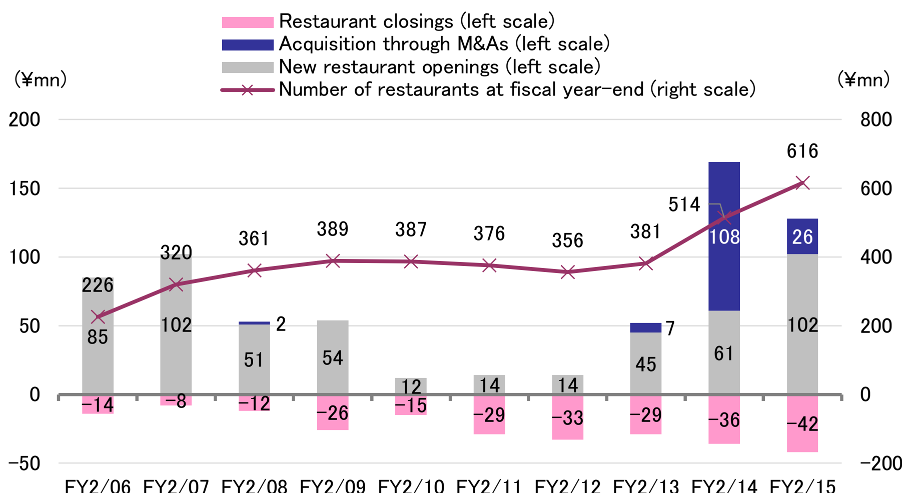
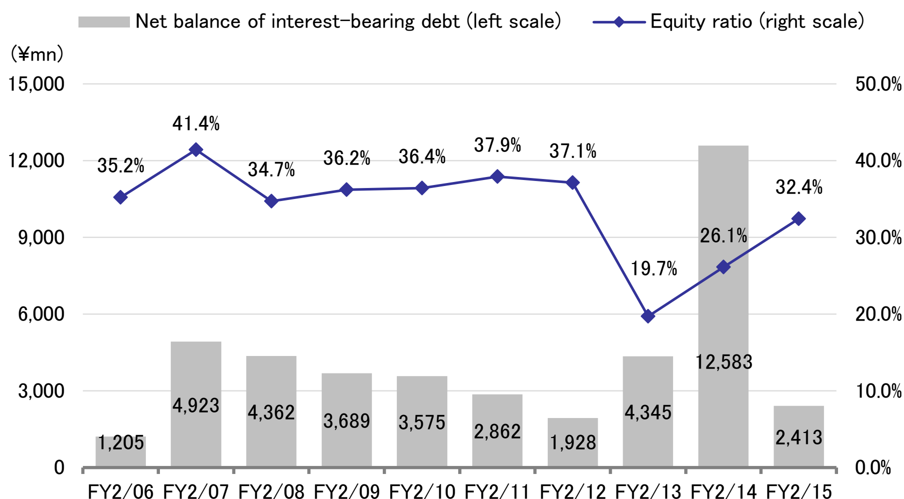
Restaurant openings and closings (including M&As) and number of restaurants at fiscal year-end

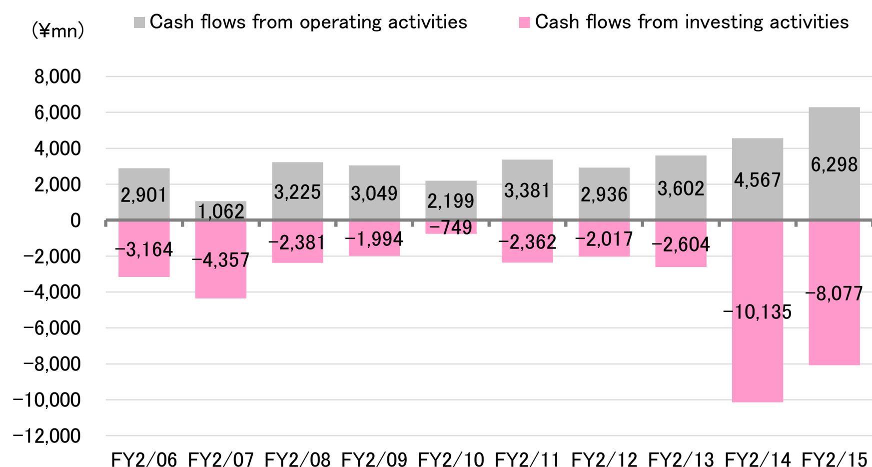


* The number of restaurants at the end of FY2/15 differs from the figure released in the company's financial report because it includes contract restaurants, franchisee restaurants, and overseas joint venture restaurants

Equity ratio and net balance of interest-bearing debt



Cash flows from operating activities and cash flows from investing activities



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Overview of Financial Results

Significant increase in sales and profit for FY2/15 with steady performance in CR Category and contribution from SFP Dining

(1) Overview of FY2/15 financial results

For FY2/15 the company recorded significant increases in sales and profits, with net sales increasing by 32.0% YOY to ¥69,309mn, operating income increasing 12.5% to ¥4,164mn, ordinary income increasing 15.5% to ¥4,383mn, and net income increasing 258.5% to ¥6,495mn. In particular, the prominent growth in net income was caused by a gain on changes in equity of ¥6,456mn, which was booked in relation to the company's shares of SFP Dining, following the latter's listing on the stock market.

The increase in net sales reflected strong performance in the mainstay CR Category, along with a greater-than-expected number of new restaurant openings in the SFP Category, which received a full-year contribution of SFP Dining following its acquisition in July 2013. Moreover, there was also growth in the Specialty Brands Category with the acquisition of YUNARI in April 2014 and the Overseas Category, which saw contribution to results from new restaurant openings.

Turning to profits, the company recorded a significant increase in ordinary income due to the increase in net sales, which absorbed the effects of a higher cost of sales ratio caused by rising raw material prices due to the yen's depreciation, as well as a decline in the ordinary margin to 6.3% (7.2% in FY2/14) reflecting an increased burden from start-up expenses associated with aggressive new restaurant openings as well as goodwill depreciation.

Looking at the balance sheet, total assets increased due to aggressive new restaurant openings and M&As, while the issuance of shares associated with the new listing of consolidated subsidiary SFP Dining also contributed to a significant increase in net assets. As a result, the equity ratio, a measure of financial stability, improved to 32.4% (26.1% in FY2/14). Moreover, the net balance of interest-bearing debt declined to ¥2,413mn (down 80.8% YOY), and the debt-equity ratio fell sharply to 0.16 times (1.35 times in FY2/14). This strengthening of the company's financial base appears likely to be linked to driving the company's growth strategy for the future.

Results by category are as follows.

In the mainstay CR Category, net sales climbed 3.8% YOY to ¥36,905mn, while ordinary income decreased by 17.5% to ¥3,648mn. Same-store sales slipped 0.1% due to an adverse reaction to the increase in the consumption tax rate. However, the company recorded an overall increase in sales for the category due to an increase in the number of restaurants, up by 14 at the fiscal year-end from the end of the previous fiscal year to 364, and the effects of format changes. Moreover, although same-store sales declined, they did outperform the forecast at the start of the fiscal year. In terms of profits, ordinary income for the Category declined, reflecting an increase in the cost of sales ratio due to rising raw material costs, an increase in hiring costs, and an increase in the cost of new restaurant openings.

In the SFP Category, net sales were up 103.2% YOY to ¥22,288mn, while ordinary income climbed 119.9% to ¥2,126mn. These significant increases in sales and profits reflected the full-year of contribution to earnings by SFP Dining, with which the company formed a capital alliance in April 2013, and faster-than-expected progress in new restaurant openings in the strong-performing seafood izakaya ISOMARU SUISEN.

In the Specialty Brands Category, net sales increased by 87.0% YOY to ¥7,422mn, while ordinary income rose 138.5% to ¥415mn. The increases reflected the contribution to results from YUNARI, which was acquired in April 2014. The number of restaurants at fiscal year-end also increased, rising by 36 from the end of FY2/14 to 82 (of which, 28 were YUNARI restaurants).

In the Overseas Category, sales increased and the loss narrowed, as net sales rose by 33% YOY to ¥2,483mn, while ordinary loss was ¥147mn (compared to ordinary loss of ¥243mn in FY2/14). Five new restaurant openings contributed to the increase in net sales, while closure of five unprofitable restaurants in mainland China helped to narrow the ordinary loss.

Overview of FY2/15 financial results

(¥mn)

	FY2/14		FY2/15		Change	
		Proportion		Proportion		%
Net sales	52,523	–	69,309	–	16,786	32.0%
CR	35,549	67.7%	36,905	53.2%	1,356	3.8%
SFP	10,966	20.9%	22,288	32.2%	11,322	103.2%
Specialty Brands	3,969	7.6%	7,422	10.7%	3,453	87.0%
Overseas	1,867	3.6%	2,483	3.6%	616	33.0%
Other	170	0.3%	209	0.3%	39	22.9%
Cost of sales	14,487	27.6%	19,370	27.9%	4,882	33.7%
SG&A expenses	34,332	65.4%	45,774	66.0%	11,442	33.3%
Operating income	3,702	7.0%	4,164	6.0%	462	12.5%
Ordinary income	3,796	7.2%	4,383	6.3%	587	15.5%
CR	4,424	12.4%	3,648	9.9%	-776	-17.5%
SFP	967	8.8%	2,126	9.5%	1,159	119.9%
Specialty Brands	174	4.4%	415	5.6%	241	138.5%
Overseas	-243	–	-147	–	96	–
Head office expenses, etc.	-1,526	–	-1,659	–	-133	–
Net income	1,811	3.4%	6,495	9.4%	4,683	258.5%

	FY2/14	FY2/15	Change
Same-store sales (YOY)	100.8%	99.6%	–
New restaurant openings	61	102	41
M&A additions	108	26	-82
Closures	36	42	6
Total number of restaurants for the group	530	616	86
Number of restaurants by category			
CR	350	364	14
SFP	102	137	35
Specialty Brands	46	82	36
Overseas	32	33	1

* Total number of restaurants for the group (and number of restaurants by category) include contract restaurants, franchisee restaurants, and overseas joint venture restaurants

(¥mn)

	FY2/14 end	FY2/15 end	Change
Total assets	35,819	47,034	11,215
Current assets	7,940	17,711	9,770
Non-current assets	27,878	29,322	1,444
Net assets	9,332	19,676	10,344
Equity ratio	26.1%	32.4%	–
Balance of interest-bearing debt	17,836	16,215	-1,621
Net balance of interest-bearing debt	12,583	2,413	-10,170
Debt-equity ratio	1.35 times	0.16 times	–

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Increase in sales and profit forecast for FY2/16 and steady openings of ISOMARU SUISAN restaurants to continue

(3) Forecast for FY2/16 business results

In its business results forecast for FY2/16, the company is forecasting continued significant increases in net sales and ordinary income, with net sales projected to increase by 18.3% YOY to ¥82,000mn, operating income to increase by 32.1% to ¥5,500mn, ordinary income to increase by 39.1% to ¥6,100mn, and net income to decrease by 46.1% to ¥3,500mn. New restaurant openings in the izakaya format have proceeded more successfully than anticipated, and the company now expects to achieve the targets of its medium-term management plan ending in FY2/17 a year early.

Net sales are expected to increase with the contribution of growth in the number of restaurants in the CR and SFP categories. In particular, the company intends to continue steadily opening restaurants in the strong-performing seafood izakaya chain ISOMARU SUISAN.

On the profit front, the ordinary income margin is projected to climb 7.4%, with the increase in net sales absorbing an expected increase in the cost of sales reflecting the persistently high prices of raw materials due to the continued depreciation of the yen, and increases in the cost of sales ratio due to format composition changes (increase in the proportion of izakaya formats), as well as a projected increase in start-up expenses associated with new restaurant openings.

The forecast by category is as follows.

In the CR Category, the company is projecting significant growth, with net sales expected to increase by 6.1% YOY to ¥38,382mn and ordinary income to increase 1.8% to ¥3,601mn. Aggressive new restaurant openings (31 restaurants planned) are expected to contribute to the increase in earnings.

In the SFP Category, the company is projecting significant increases in sales and profits, with net income expected to increase by 39.0% YOY to ¥30,970mn and ordinary income to increase by 59.8% to ¥3,397mn. Aggressive new restaurant openings, mainly in the high-performing seafood izakaya chain ISOMARU SUISAN (40 restaurants planned) are expected to drive earnings growth.

In the Specialty Brands Category, the company is expecting net sales to increase by 13.0% YOY to ¥9,374mn and ordinary income to increase by 99.4% to ¥995mn. A full year contribution from YUNARI, acquired in May 2014, and new restaurant openings within other group companies under the Specialty Brands Category, including from FY2/15 (12 new restaurants planned for FY2/16) are expected to contribute to earnings growth.

In the Overseas Category, the company is projecting an increase in sales and a return to profitability, with net sales expected to increase by 19.8% YOY to 2,974mn and ordinary income to reach ¥71mn (ordinary loss of ¥147mn was recorded in FY2/15). The company intends to improve its income with the contribution of new restaurant openings, including from FY2/15 (five new restaurants planned for FY2/16) and by closing unprofitable restaurants in mainland China (four restaurant closings planned).

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Forecast for FY2/16 business results

(¥mn)

	FY2/15		FY2/16 E		Change	
		Proportion		Proportion		%
Net sales	69,309	–	82,000	–	12,691	18.3%
CR	36,192	52.2%	38,382	46.8%	2,190	6.1%
SFP	22,288	32.2%	30,970	37.8%	8,682	39.0%
Specialty Brands	8,292	12.0%	9,374	11.4%	1,082	13.0%
Overseas	2,483	3.6%	2,974	3.6%	491	19.8%
Other	52	0.1%	297	0.4%	245	471.2%
Cost of sales	19,370	27.9%	23,306	28.4%	3,936	28.4%
SG&A expenses	45,774	66.0%	53,193	64.9%	7,419	64.9%
Operating income	4,164	6.0%	5,500	6.7%	1,336	32.1%
Ordinary income	4,383	6.3%	6,100	7.4%	1,717	39.1%
CR	3,537	9.8%	3,601	9.4%	64	1.8%
SFP	2,126	9.5%	3,397	11.0%	1,271	59.8%
Specialty Brands	499	6.0%	995	10.6%	496	99.4%
Overseas	-147	–	71	2.4%	218	-148.3%
Other	-1,630	–	-1,965	–	-335	–
Net income	6,495	9.4%	3,500	4.3%	-2,995	-46.1%

* FY2/15 figures for the CR and Specialty Brands categories and Other are adjusted to reflect the Gourmet Brands Company inc. (added to the Specialty Brands Category), which is to be established in FY2/16 by a corporate split

	FY2/15	FY2/16 E	Change
Same-store sales (YOY)	99.6%	96.9%	–
New restaurant openings	102	90	-12
M&A additions	26	–	–
Closures	42	22	-20
Total number of restaurants for the group	616	684	68
Number of restaurants by category			
CR	364	382	18
SFP	137	177	40
Specialty Brands	82	90	8
Overseas	33	35	2

* The number of restaurants (number of restaurants by category) includes contract restaurants, franchisee restaurants, and overseas joint venture restaurants.

■ Growth Strategy

Medium-term management plan targets to be achieved a year early with higher pace of growth

The company has been promoting a medium-term management plan covering the period from FY2/15 to FY2/17. However, the company now expects to achieve the targets of the plan a year early due to aggressive new restaurant openings and M&As that have outperformed the plan. Moreover, the company's growth pace seems increasingly likely to move faster than the initial plan. The company has therefore announced a new medium-term management plan covering the period form FY2/16 to FY2/18.

Continuing under the basic strategy of the medium-term management plan, "group federation management," the company is aiming to achieve high growth, targeting a network of 824 restaurants with net sales of ¥108,000mn (CAGR of 15.9% over three years) and ordinary income of ¥9,000mn (CAGR of 27.1% over three years). The strategy for achieving this is to promote 1) sustainable growth of group operating companies in Japan, 2) high quality M&As within Japan, and 3) global expansion. Furthermore, in terms of capital efficiency, the company aims to maintain its ROE at a level of 20% or more.

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create restaurants holdings inc.
3387 Tokyo Stock Exchange First Section

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In particular, company's growth over the medium term is expected to be driven by aggressive new restaurant openings in its high-performing seafood izakaya chain ISOMARU SUISAN (40 restaurants planned). Moreover, in the mainstay CR Category, the company is also planning to achieve steady growth by opening between 30 and 40 new restaurants a year, targeting newly built shopping centers and tenant replacement at existing shopping centers, and so forth. Meanwhile, although the company will continue to undertake M&As as an important growth strategy, they are not included in the numerical targets. It is therefore worth noting their potential as a factor for boosting the company's operating results depending on the timing and scale of each M&A.

Medium-term management plan

	FY2/15 (actual)	FY2/16 (plan)	FY2/17 (plan)	FY2/18 (plan)
Net sales	69,309	82,000	95,000	108,000
(Growth rate)	32.0%	18.3%	15.9%	13.7%
Ordinary income	4,383	6,100	7,400	9,000
(Margin)	6.3%	7.4%	7.8%	8.3%
Net income	6,495	3,500	3,800	4,700
(Margin)	9.5%	4.3%	4.0%	4.4%
Number of new restaurant openings	102	90	80	80
M&A additions	26	–	–	–
Number of restaurants at fiscal year-end	616	684	754	824

Shareholder Returns

Maintain a dividend payout ratio of around 30%, significant scope for dividend increased in line with profit growth

The company's basic policy is to pay stable dividends targeting a consolidated payout ratio of around 30%, taking into consideration factors such as operating results and future business development. For FY2/15, the company plans to pay an annual dividend of ¥22.70 per share, a YOY increase of ¥0.67 (after adjustment for a stock split). Discounting special factors associated with the new listing of consolidated subsidiary SFP Dining, the company appears to be maintaining a dividend payout ratio of around 30%. Based on the company's medium-term management plan, it is forecasting a high pace of growth driven by continued aggressive business development. It therefore seems likely that there will be significant scope for dividend increases in line with profit growth over the medium term.

In addition, with the goal of securing liquidity and expanding its investor-base, the company conducted a three-for-one stock split with a record date of August 31, 2014.

The company also conducts a shareholder benefits program by distributing meal vouchers in accordance with the number of shares held, twice a year. In tandem with the abovementioned stock split, the shareholder benefits program was also enhanced. It now includes shareholders holding between 100 and 299 shares, on a post-split basis, and offers a two-fold increase to some shareholders who were already eligible.

Shareholder benefits program

Number of shares held	Shareholder benefit details (twice a year at the end of August and the end of February)
100-299 shares held	Meal voucher: ¥3,000 (¥6,000 worth per year)
300-1,499 shares held	Meal voucher: ¥6,000 (¥12,000 worth per year)
1,500 shares or more	Meal voucher: ¥30,000 (¥60,000 worth per year)

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