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Tenpo Innovation

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INDEX

Executive summary	3
Key financial data	5
Trends and outlook	7
Quarterly trends and results	7
Company forecast for FY03/25	11
Medium-term management plan	13
Business	16
Business description	16
Earnings structure	27
Market and value chain	31
Industry environment	31
Competition	33
Strengths and weaknesses	34
Historical performance and financial statements	36
Income statement	36
Balance sheet	37
Cash flow statement	38
Historical performance	38
News and topics	46
Other information	48
Company profile	53

Executive summary

Business overview

Tenpo Innovation (TSE Prime: 3484) is a real estate company specializing in restaurant properties. It earns revenue from subleasing to restauranters properties it has leased from restaurant property owners in the state of *"inuki" (with fixtures and furniture): fee revenue such as key money, and gains on the resale of fixtures in its Restaurant Subleasing business. Revenue comprises recurring revenue (rent and renewal fees), one-off revenue when a restaurant is sublet (key money and fixture sales), and (from FY03/19) real estate trading revenue. The company subleased 2,445 properties (+229 YoY) as of end-FY03/24 and concluded 466 new contracts (-16 YoY). Tenpo Innovation is the only Japanese company specializing in this business and leads the market in number of restaurant subleases (based on a company survey).

*Inuki: Refers to properties where equipment, fixtures, interior, etc., from the previous tenant remain intact. Properties with everything removed are known as skeletons. Fully furnished properties offer new prospective restaurant operators the advantage of using existing equipment and facilities (if they match the business type), thereby reducing initial costs and enabling a quick launch.

The company's business consists of the Restaurant Subleasing and Real Estate Trading businesses. In FY03/24, Restaurant Subleasing generated revenue of JPY13.6bn, accounting for 95.0% of total revenue, and operating profit of JPY810mn, accounting for 83.1% of total operating profit. Real Estate Trading generated revenue of JPY710mn (5.0% of total revenue) and operating profit of JPY164mn (16.9% of total operating profit).

In the **Restaurant Subleasing** business, Tenpo Innovation mainly handles fully furnished restaurants in prime urban Tokyo locations with many prospective restaurant operators. Some 67,000 restaurants are in business in Tokyo. Each year, about 7% either open or close, based on annual averages. Restaurant properties require knowledge and expertise different from office and residential properties, such as suitable locations and facilities like wastewater pipes and air extraction system ducting. Tenpo Innovation has steadily built up its management expertise by specializing in this area, including the ability to assess properties and troubleshoot.

This has enabled it to build a powerful network of leading local real estate businesses and agents for procuring properties and finding tenants. The owners and real estate agents have their properties leased with peace of mind while maintaining rents. Tenants can open restaurants in prime locations quickly, with low setup costs. While its margins are lower than companies that build and sublease residential properties, it has forged a unique position by focusing on highly specialized area.

Expanding the workforce is necessary to build a property portfolio that can directly contribute to growth the company had 48 salespeople (+12 YoY) as of end-FY03/24), but such expertise tends to lie with individuals. With this in mind, the company is promoting the sharing of sales expertise by its veteran employees, as well as providing employees with practical educational programs and creating a full-fledged training system as it works to strengthen its human resources base and promote growth through hiring.

Revenue from the Restaurant Subleasing business includes earnings from the rent guarantee operations of its subsidiary, Safety Innovation Inc. (formerly Tenpo Safety Inc.). In FY03/24, the rent guarantee business generated revenue of JPY148mn. The company has until now provided rent guarantees only for properties it subleases, but it intends to expand this service to other properties actively.

Asset Innovation Inc., established in February 2024, handles the **Real Estate Trading** business. This business initially aimed to cement ties with real estate agents to advance the Restaurant Subleasing business by purchasing and selling restaurant properties and constructing and selling buildings. However, about five years after its launch, the business accumulated sufficient track records in real estate transactions, expanding its procurement and sales network. By leveraging this network from FY03/24, the company promotes acquiring and selling high-quality properties with a focus on profitability.

In Real Estate Trading, the properties handled are restaurant properties with the same specifications as those in Restaurant Subleasing, primarily small and medium-sized properties in central urban areas with high marketability. The company can directly apply its expertise in evaluating properties accumulated through Restaurant Subleasing. It sources properties from real estate agents or property owners. The number of properties sold up to end-FY03/24 (excluding new buildings) totaled 27, with an average acquisition cost of approximately JPY79mn per property and an average holding period (from the point

of acquisition to sale) of about 7.5 months. As of end-FY03/24, the company held four properties worth a combined JPY824mn.

In October 2024, the company will transition to a holding company structure and change its name to Innovation Holdings Inc. With this transition, it established three operating companies under the holding company: Tenpo Innovation Inc. (Restaurant Subleasing), Asset Innovation Inc. (Real Estate Trading), and Safety Innovation Inc. (rent guarantee business), each with its CEO. While continuing to aim for growth in the Restaurant Subleasing business, the company will make the Real Estate Trading and rent guarantee businesses independent to develop them as the second and third pillars, thereby strengthening the group's revenue base. The holding company will oversee the management of the entire group, allowing each subsidiary to focus on pursuing its respective goals. This approach will optimize resource allocation, nurture management talent, and maximize the group's corporate value.

Earnings trends

FY03/24 results: Tenpo Innovation reported full-year revenue of JPY14.3bn (+9.1% YoY), operating profit of JPY874mn (-19.6% YoY), recurring profit of JPY1.0bn (-20.1% YoY), and net income attributable to owners of the parent of JPY666mn (-24.8% YoY). It concluded 466 contracts (-3.3% YoY) and had 2,445 subleased properties (+229 YoY) at the end of the period. The company recorded its highest-ever revenue due to an increase in subleased properties. However, operating profit declined YoY owing to higher costs associated with aggressive procurement of subleased properties, the absence of large high-margin property sales in the Real Estate Trading business that were present in the previous period, and increased strategic personnel expenses and system investments.

The company's FY03/25 forecast calls for revenue of JPY16.8bn (+18.1% YoY), operating profit of JPY907mn (-6.9% YoY), recurring profit of JPY942mn (-6.9% YoY), and net income attributable to owners of the parent of JPY630mn (-5.4% YoY). In the Restaurant Subleasing business, the company will continue to focus on acquiring highly marketable store properties with the right profile (good location, small size, and fully furnished). In the Real Estate Trading business, the company aims to strengthen its organizational and sales capabilities following the February 2024 establishment of a company that focuses on this business. Tenpo Innovation plans to adopt a holding company structure in October 2024.

On May 13, 2024, the company announced a new medium-term management plan for FY03/25–FY03/28. By the final year of the plan in FY03/28, the company targets revenue of JPY25.6bn, operating profit of JPY1.6bn, recurring profit of JPY1.7bn, and net income attributable to owners of the parent of JPY1.1bn. The key measures of the plan are:

1) Further expand the sales structure by strengthening recruitment and training comprehensively, 2) Create customer acquisition mechanisms and IT based on the characteristics of each business, 3) Pursue synergies through sharing customers and know-how across business segments, 4) Promote digital transformation by digitizing know-how and systematizing operations, 5) Empower subsidiaries to foster entrepreneurship and enable rapid decision-making

Strengths and weaknesses

Shared Research sees the company's strengths as: expertise in subleasing restaurants with fixtures and furniture; a powerful network of leading local real estate agents; and systematic training programs for increasing specialist personnel. Its weaknesses are low barriers to entry and lack of online procurement capabilities.

Key financial data

Income statement (JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons. Est.
Revenue	3,248	4,228	5,386	6,689	8,229	9,985	10,343	11,415	13,070	14,264	16,840
YoY	28.4%	30.1%	27.4%	24.2%	23.0%	21.3%	3.6%	10.4%	-	9.1%	18.1%
Gross profit	-	771	939	1,140	1,560	1,953	1,832	2,094	2,519	2,574	
YoY	-	-	21.8%	21.4%	36.8%	25.2%	-6.2%	14.3%	-	2.2%	
Gross profit margin	-	18.2%	17.4%	17.0%	19.0%	19.6%	17.7%	18.3%	19.3%	18.0%	
Operating profit	-	280	312	397	734	785	732	910	1,212	974	907
YoY	-	-	11.1%	27.4%	84.8%	7.0%	-6.8%	24.3%	-	-19.6%	-6.9%
Operating profit margin	-	6.6%	5.8%	5.9%	8.9%	7.9%	7.1%	8.0%	9.3%	6.8%	5.4%
Recurring profit	187	292	328	401	714	812	842	987	1,266	1,011	942
YoY	53.0%	56.7%	12.2%	22.3%	78.1%	13.7%	3.7%	17.2%	-	-20.1%	-6.9%
Recurring profit margin	5.7%	6.9%	6.1%	6.0%	8.7%	8.1%	8.1%	8.6%	9.7%	7.1%	5.6%
Net income	110	182	200	236	510	564	576	662	886	666	630
YoY	79.4%	64.6%	9.9%	18.0%	116.1%	10.7%	2.0%	15.1%	-	-24.8%	-5.4%
Net margin	3.4%	4.3%	3.7%	3.5%	6.2%	5.7%	5.6%	5.8%	6.8%	4.7%	3.7%
Per-share data (JPY, after stock split adjustments)											
Shares issued (year-end; '000)	16,000	16,000	16,000	16,849	17,824	17,824	17,824	17,674	17,674	17,674	
EPS	6.9	11.4	12.5	14.4	29.7	31.7	32.3	37.4	50.3	39.6	37.6
EPS (fully diluted)	-	-	-	13.8	-	-	-	-	-	-	-
Dividend per share	1.0	1.9	3.1	4.0	7.0	9.0	9.0	12.0	16.0	20.0	21.0
Book value per share	44.1	54.4	65.1	90.8	118.2	142.8	166.1	188.3	187.7	197.7	
Balance sheet (JPYmn)											
Cash and cash equivalents	-	-	1,164	1,686	1,862	2,543	2,909	3,468	3,501	3,331	
Total current assets	-	-	1,883	2,412	3,351	4,165	4,398	4,859	5,128	5,480	
Tangible fixed assets	-	-	15	356	303	315	446	697	667	677	
Investments and other assets	-	-	3,536	4,100	4,917	5,716	5,553	6,311	7,046	7,510	
Intangible assets	-	-	2	13	16	36	32	31	42	31	
Total assets	-	-	5,437	6,974	8,587	10,233	10,429	11,898	12,882	13,697	
Accounts payable	-	-	0	0	0	0	0	0	0	0	
Short-term debt	-	-	0	0	0	0	0	0	0	0	
Total current liabilities	-	-	967	1,216	1,493	1,825	1,756	1,923	2,313	2,392	
Long-term debt	-	-	0	0	0	0	0	0	0	0	
Total fixed liabilities	-	-	3,429	4,228	4,987	5,862	5,712	6,647	7,374	7,981	
Total liabilities	-	-	4,396	5,444	6,480	7,687	7,467	8,570	9,687	10,373	
Total net assets	-	-	1,041	1,530	2,107	2,546	2,961	3,328	3,195	3,324	
Total liabilities and net assets	-	-	5,437	6,974	8,587	10,233	10,429	11,898	12,882	13,697	
Total interest-bearing debt	-	-	0	0	0	0	0	0	0	0	
Cash flow statement (JPYmn)											
Cash flows from operating activities	-	-	240	639	435	923	666	1,124	1,074	455	
Cash flows from investing activities	-	-	-16	-371	-325	-118	-140	-269	-22	-88	
Cash flows from financing activities	-	-	-30	253	67	-125	-160	-296	-1,018	-537	
Financial ratios											
ROA (RP-based)	-	-	6.0%	6.5%	9.2%	8.6%	8.1%	8.8%	9.8%	7.6%	
ROE	-	-	38.4%	18.3%	28.0%	24.3%	20.9%	21.1%	27.7%	20.5%	
Equity ratio	20.7%	19.3%	19.2%	21.9%	24.5%	24.9%	28.4%	28.0%	24.8%	24.2%	

Source: Shared Research based on company data. Pre-share data is split-adjusted.

Notes: * Figures may differ from company materials due to differences in rounding methods.

* Figures through FY03/15 were prepared under the Companies Act, so they are not subject to auditing based on the Financial Instruments and Exchange Act (listed on TSE Mothers in October 2017).

* The company implemented a 2-for-1 stock split with December 10, 2019 as the record date. Per share data is calculated to adjust for the stock split.

* As the Company has shifted to consolidated accounting from FY03/23, YoY comparisons are omitted.

Trends in revenue, subleased properties, contracts

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
(JPYmn)	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.
Revenue	3,248	4,228	5,386	6,689	8,229	9,985	10,343	11,415	13,070	14,264
YoY	28.4%	30.1%	27.4%	24.2%	23.0%	21.3%	3.6%	10.4%	14.5%	9.1%
Recurring revenue	2,856	3,729	4,816	6,061	7,378	8,715	9,164	9,806	11,338	12,658
YoY	32.6%	30.6%	29.1%	25.9%	21.7%	18.1%	5.2%	7.0%	15.6%	11.6%
% of total	87.9%	88.2%	89.4%	90.6%	89.7%	87.3%	88.6%	85.9%	86.7%	88.7%
One-off revenue (total)	392	498	570	628	851	1,269	1,178	1,608	1,731	1,605
YoY	4.8%	27.0%	14.5%	10.2%	35.5%	49.1%	-7.2%	36.5%	7.6%	-7.3%
% of total	12.1%	11.8%	10.6%	9.4%	10.3%	12.7%	11.4%	14.1%	13.2%	11.3%
No. of subleased properties (year-end)	614	815	1,029	1,242	1,459	1,684	1,706	1,951	2,216	2,445
YoY	30.6%	32.7%	26.3%	20.7%	17.5%	15.4%	1.3%	14.4%	13.6%	10.3%
Net YoY increase	144	201	214	213	217	225	22	245	265	229
Average no. of subleased properties during the period	542	715	922	1,136	1,351	1,572	1,695	1,829	2,084	2,331
YoY	33.5%	31.8%	29.0%	23.2%	18.9%	16.4%	7.9%	7.9%	13.9%	11.9%
Recurring revenue per property	5.27	5.22	5.22	5.34	5.46	5.55	5.41	5.36	5.44	5.43
YoY			0.1%	2.2%	2.4%	1.5%	-2.5%	-0.8%	1.5%	-0.2%
Number of contracts		269	306	333	362	397	314	407	482	466
YoY			13.8%	8.8%	8.7%	9.7%	-20.9%	29.6%	18.4%	-3.3%
YoY change			37	27	29	35	-83	93	75	-16
Churn rate										
Subleasing contract(tenants)		8.3%	8.9%	9.6%	10.1%	10.4%	17.0%	8.1%	9.9%	9.7%
Leasing contract(real estate owners)		0.6%	0.7%	1.1%	1.2%	1.1%	6.3%	1.2%	1.0%	1.1%

Source: Shared Research based on company materials (the churn rate is calculated by Shared Research based on company interviews and other sources)

Notes: Figures may differ from company materials due to differences in rounding methods.

Recurring revenue: Rental income from subleased properties, renewal fee income at the time of sublease contract renewals, and other income continuously recorded as long as there are subleased properties.

One-off revenue: Temporary income such as commission income from key money and sale income from fixtures related to transferred properties.

Store rent guarantee includes some recurring revenue.

Recurring revenue per property: Recurring revenue / average number of subleased properties during the period.

Trends and outlook

Quarterly trends and results

Cumulative (JPYmn)	FY03/24				FY03/25	FY03/25			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	% of Est.	1H Est.	% of Est.	FY Est.
Revenue	3,411	7,099	10,522	14,264	3,789	47.0%	8,066	22.5%	16,840
Recurring revenue	3,024	6,153	9,342	12,637	3,373				
One-off revenue	386	944	1,177	1,625	415				
YoY	13.5%	16.3%	6.6%	9.1%	11.1%		13.6%		18.1%
Recurring revenue	11.5%	11.8%	11.5%	11.5%	11.5%				
One-off revenue	33.1%	58.7%	-21.3%	-6.3%	7.5%				
Gross profit	606	1,267	1,858	2,574	690				
YoY	3.0%	8.9%	-4.7%	2.2%	13.8%				
Gross profit margin	17.8%	17.8%	17.7%	18.0%	18.2%				
SG&A expenses	361	741	1,137	1,600	418				
YoY	19.6%	21.7%	22.7%	22.4%	15.8%				
SG&A ratio	10.6%	10.4%	10.8%	11.2%	11.0%				
Operating profit	245	526	720	974	271	62.5%	434	29.9%	907
YoY	-14.6%	-5.3%	-29.6%	-19.6%	10.9%		-17.5%		-6.9%
Operating profit margin	7.2%	7.4%	6.8%	6.8%	7.2%		5.4%		5.4%
Recurring profit	277	559	761	1,011	274	60.7%	452	29.1%	942
YoY	-9.4%	-3.9%	-28.6%	-20.1%	-1.0%		-19.1%		-6.9%
Recurring profit margin	8.1%	7.9%	7.2%	7.1%	7.2%		5.6%		5.6%
Net income	189	381	519	666	184	59.2%	311	29.2%	630
YoY	-9.8%	-4.3%	-28.9%	-24.8%	-2.7%		-18.5%		-5.4%
Net margin	5.5%	5.4%	4.9%	4.7%	4.9%		3.9%		3.7%
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1				
Revenue	3,411	3,688	3,423	3,742	3,789				
Recurring revenue	3,024	3,129	3,189	3,295	3,373				
One-off revenue	386	558	233	448	415				
YoY	13.5%	19.0%	-9.2%	17.1%	11.1%				
Recurring revenue	11.5%	12.0%	11.2%	11.4%	11.5%				
One-off revenue	33.1%	83.0%	-74.1%	86.7%	7.5%				
Gross profit	606	661	591	716	690				
YoY	3.0%	14.9%	-24.8%	25.8%	13.8%				
Gross profit margin	17.8%	17.9%	17.3%	19.1%	18.2%				
SG&A expenses	361	380	396	462	418				
YoY	19.6%	23.9%	24.6%	21.6%	15.8%				
SG&A ratio	10.6%	10.3%	11.6%	12.4%	11.0%				
Operating profit	245	281	195	254	271				
YoY	-14.6%	4.7%	-58.4%	34.2%	10.9%				
Operating profit margin	7.2%	7.6%	5.7%	6.8%	7.2%				
Recurring profit	277	282	202	250	274				
YoY	-9.4%	2.1%	-58.2%	25.0%	-1.0%				
Recurring profit margin	8.1%	7.6%	5.9%	6.7%	7.2%				
Net income	189	192	138	147	184				
YoY	-9.8%	1.7%	-58.5%	-5.2%	-2.7%				
Net margin	5.5%	5.2%	4.0%	3.9%	4.9%				

Source: Shared Research based on company data

Notes: * Figures may differ from company materials due to differences in rounding methods.

** Real estate trading revenue is included under one-off revenue.

*** As the Company has shifted to consolidated accounting from FY03/23, YoY comparisons are for reference purposes only (This applies to all tables below).

Major indicators

	FY03/24				FY03/25
	Q1	Q2	Q3	Q4	Q1
No. of subleased properties (year-end)	2,272	2,335	2,382	2,445	2,487
YoY	12.8%	12.3%	10.7%	10.3%	9.5%
Net increase YoY	257	255	230	229	215
Net increase QoQ	56	63	47	63	42
Number of contracts (cumulative)	119	234	350	466	103
New contracts	63	132	191	258	51
Successor contracts	56	102	159	208	52
Cancellations	-7	-13	-23	-28	-9
Number of contracts (quarterly)	119	115	116	116	103
New contracts	63	69	59	67	51
Successor contracts	56	46	57	49	52
Cancellations	-7	-6	-10	-5	-9
Sales personnel at end of period	40	47	47	48	53
Procurement	15	16	15	16	17
Leasing	25	31	32	32	36
Both	0	0	0	0	0

Source: Shared Research based on company materials

Note: Figures may differ from company materials due to differences in rounding methods.

Restaurant Subleasing business

Cumulative (JPYmn)	FY03/24				FY03/25	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	
Revenue	3,263	6,626	10,044	13,554	3,596	
YoY	12.4%	12.2%	11.6%	11.2%	10.2%	
Operating profit	216	423	639	810	279	
YoY	-14.0%	-17.3%	-15.6%	-15.8%	29.6%	
Operating profit margin	6.6%	6.4%	6.4%	6.0%	7.8%	
Restaurant Subleasing (quarterly) (JPYmn)	FY03/24				FY03/25	
	Q1	Q2	Q3	Q4	Q1	
Revenue	3,263	3,363	3,417	3,510	3,596	
YoY	12.4%	11.9%	10.4%	10.0%	10.2%	
Operating profit	216	207	216	171	279	
YoY	-14.0%	-20.4%	-12.0%	-16.6%	29.6%	
Operating profit margin	6.6%	6.2%	6.3%	4.9%	7.8%	

Source: Shared Research based on company materials

Note: Figures may differ from company materials due to differences in rounding methods.

Real Estate Trading business

Cumulative (JPYmn)	FY03/24				FY03/25	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	
Revenue	148	473	478	710	192	
YoY	44.3%	139.1%	-45.2%	-19.0%	29.8%	
Operating profit	29	103	81	164	-8	
YoY	-18.4%	135.0%	-69.5%	-34.3%	-	
Operating profit margin	19.6%	21.8%	17.0%	23.2%	-	
No. of properties sold	2	6	6	10	1	
No. of properties acquired	5	6	8	8	1	
Quarterly (JPYmn)	FY03/24				FY03/25	
	Q1	Q2	Q3	Q4	Q1	
Revenue	148	324	6	232	192	
YoY	44.3%	241.6%	-99.2%	-	29.8%	
Operating profit	29	74	-22	83	-8	
YoY	-18.4%	799.3%	-	-	-	
Operating profit margin	19.6%	22.8%	-	35.9%	-	
No. of properties sold	2	4	-	4	1	
No. of properties acquired	5	1	2	-	1	
No. of properties held at end of quarter	FY03/24				FY03/25	
	Q1	Q2	Q3	Q4	Q1	
Balance of real estate for sale	9	6	8	4	4	
No. of properties held	9	6	8	4	4	
Real estate for sale(JPYmn)	571	372	945	824	711	
YoY	28.0%	-9.5%	400.0%	144.4%	24.6%	

Source: Shared Research based on company materials

Note: Figures may differ from company materials due to differences in rounding methods.

Q1 FY03/25 results (out August 8, 2024)

- Revenue: JPY3.8bn (+11.1% YoY, 22.5% of full-year target)
- Operating profit: JPY271mn (+10.9% YoY, 29.9%)
- Recurring profit: JPY274mn (-1.0% YoY, 29.1%)
- Net income attributable to owners of the parent: JPY184mn (-2.7% YoY, 29.2%)

Business environment

In the food service industry, sales increased mainly in urban areas and tourism spots due to increased customer traffic, including a recovery inbound tourism boosted by yen depreciation. However, profitability was challenged due to the soaring costs of raw materials and utilities, the frugal mindset among Japanese consumers, and the loss of business opportunities from staff shortages. In the beverage sector, small and midsize banquets increased, while the recovery was gradually seen in late-night customer traffic and demand for large-scale banquets. However, the decrease in the number of outlets affected this sector's recovery pace.

In the key districts in Tokyo where the company is primarily focused, it observed an increase in tenants and rent, predominantly in regions that benefit from inbound demand. However, weakness in demand persisted for large properties with expanding fixed costs and locations away from train stations that needed solid brand power. Additionally, those on the upper floors faced challenges in attracting customers.

Summary

For Q1, revenue reached JPY3.8bn (+11.1% YoY) due to increased subleased properties. As of end-Q1, the number of subleased properties was 2,487 (+42 YoY). Of the total revenue, recurring revenue (rental income and renewal fees from

subleased properties) was JPY3.4bn (+11.5% YoY). In comparison, one-off revenue (key money and sale of fixtures from the sublease business and property sales from the Real Estate Trading business) was JPY415mn (+7.5% YoY).

Gross profit was JPY690mn (+13.8% YoY), with a GPM of 18.2% (+0.4pp YoY). The increase in profit reflected higher revenue, the containment of costs for subleased properties (such as vacancy rents), and rising rental rates. In FY03/24, aggressive procurement of properties led to increased vacancy rents, which pressured the GPM. In Q1, the company mitigated vacancy rents by adopting a more selective pricing strategy.

SG&A expenses grew 15.8% YoY to JPY418mn, with the SG&A ratio rising 0.4pp YoY to 11.0%. This rise was due to higher personnel expenses accompanying recruitment activities, which progressed steadily.

Operating profit increased 10.9% YoY to JPY271mn, with an OPM of 7.2% (unchanged YoY). The breakdown of the JPY27mn YoY increase in operating profit includes a rise of JPY83mn from higher gross profit, a JPY43mn decrease due to higher personnel expenses, and a JPY13mn drop from higher system-related costs and statutory welfare expenses. The increase in gross profit outweighed the rise in SG&A expenses, resulting in higher operating profit.

Recurring profit was JPY274mn (-1.0% YoY), and net income attributable to owners of the parent was JPY184mn (-2.7% YoY). The slight decline in recurring profit for Q1 reflects the absence of a one-time non-operating income from relocation compensation received in Q1 FY03/24 related to redevelopment.

Progress rates against the full-year forecast were 22.5% for revenue, 29.9% for operating profit, 29.1% for recurring profit, and 29.2% for net income attributable to owners of the parent. According to the company, revenue is progressing almost as planned, while profits are ahead of the forecast. There are no changes to the 1H or full-year forecasts nor the dividend forecast (annual dividend of JPY21.00 per share).

Performance by business

Restaurant Subleasing business

- Revenue: JPY3.6bn (+10.2% YoY)
- Segment profit: JPY279mn (+29.6% YoY)

In its Restaurant Subleasing business, the company continued actively acquiring restaurant properties with the right profile—prime location, small size, and fully furnished—to meet strong demand from individuals and small businesses. To optimize leasing operations, the company transitioned from a traditional end-to-end model to a function-specific division of labor. The company has strengthened its sales capabilities through enhanced recruitment and training since FY03/24.

Q1 revenue rose 10.2% YoY to JPY3.6bn, driven by growth in subleased properties. At end-Q1, the segment had 2,487 subleased properties (+42 from end-FY03/24). The number of sublease contracts in Q1 was 103 (-16 YoY), including 51 new contracts (-12 YoY) and 52 succession contracts (-4 YoY), where new tenants signed subleasing contracts for previously closed properties. Contract cancellations remained low and stable at nine, compared to seven in Q1 FY03/24.

Since FY03/24, the company has been restructuring its sales organization, shifting from a lean, elite team to a more systematized and expanded team, by assigning veteran sales personnel to hiring and training roles to cultivate a new sales force. As a result of this ongoing restructuring, the number of contracts in Q1 did not grow significantly. The cautious approach to property acquisitions also contributed to the flat contract growth. However, according to the company, the restructuring is progressing steadily as sales personnel have improved their ability to assess properties, leading to more appropriate acquisitions.

Segment profit increased 29.6% YoY to JPY279mn, and the segment profit margin was 7.8% (+1.2pp YoY). This was due to increased rents paid for vacant properties caused by the aggressive acquisition of new properties in FY03/24. Additionally, the GPM deteriorated partly because proceeds from the sale of fixtures purchased from departing tenants fell short of expectations. Further, SG&A expenses increased due to active investments, such as higher personnel and recruitment costs from increased sales staff and system-related expenses.

In Q1, the gross profit margin improved due to decreased vacancy rents and rising rental rates. The company reduced vacancy rents by adopting a more strategic pricing approach during leasing. Rents were set carefully for new properties after thoroughly analyzing the surrounding market rates. Additionally, rents were increased for existing properties, particularly for those coming up for lease renewal, reflecting favorable real estate market conditions.

SG&A expenses increased primarily due to higher personnel expenses associated with strengthening the sales force. Investment costs for sales management systems and other areas were largely completed by FY03/24, resulting in no significant increase YoY. With the transition to a holding company structure, the company revised the allocation method for company-wide expenses starting in Q1. Due to this change, segment profit for the Restaurant Subleasing business rose by JPY9.1mn, while segment profit for the Real Estate Trading business declined by JPY9.1mn. In Q1 FY03/24, the company calculated the segment profit for each business based on the previous allocation method.

At end-Q1, sales personnel numbered 53, up five, a steady progression, from end-FY03/24. This included 17 in procurement sales (+1) and 36 in leasing sales (+4). In FY03/24, the company focused on transitioning from a personalized sales framework to a more organized and systematized structure, particularly in the leasing sales division. In FY03/24, the company aims to extend this approach to procurement sales by standardizing knowledge and experience. From Q2 onward, the company intends to continue selective procurement while increasing the number of contracts to achieve its full-year target of 570 contracts.

Rent guarantee business

The Restaurant Subleasing segment includes the performance of the rent guarantee business operated by the subsidiary Safety Innovation Inc. (formerly Tenpo Safety Inc.). So far, the company has only provided rent guarantees for properties it subleases to, but it plans to expand this service to other properties. In Q1, it began sales activities targeting approximately 1,000 existing clients in the subleasing business. For FY03/24, the company plans to hire around 10 to 15 sales personnel, mainly in 2H, and implement systems for operational management to enhance its organizational framework.

Real Estate Trading business

- Revenue: JPY192mn (+29.8% YoY)
- Segment loss: JPY8mn (a profit of JPY29mn in Q1 FY03/24)

Asset Innovation Inc., established in February 2024, handles the Real Estate Trading business. The company purchases and builds restaurant properties to strengthen its relationships with agents and promote its Restaurant Subleasing business. About five years have passed since the start of this business, and the company has accumulated a track record in real estate sales and purchases, expanding its procurement and sales networks. Based on these networks, the company aims to acquire and sell prime properties emphasizing profitability. In Q1, the company leveraged its establishment to strengthen organizational and sales capabilities, focusing on active information gathering and customer acquisition while continuing to obtain sales information on existing subleased properties through collaboration with the Restaurant Subleasing business.

In Q1, revenue was JPY192mn (+29.8% YoY), while the segment recorded a loss of JPY8mn (a profit of JPY29mn in Q1 FY03/24). Amid rising real estate prices for prime properties in city centers due to normalizing economic and social activities, the company sold one of its properties (two sold in Q1 FY03/24). According to the company, investor demand for high-quality properties remains strong, and the GPM on the sold property was not inferior to previous results. However, the increase in personnel expenses for strengthening the sales team and the impact of the revised company-wide expense allocation method led to a segment loss of JPY8mn in Q1.

In Q1, the company acquired one new property (five in Q1 FY03/24). As a result, the number of properties held at end-Q1 remained at four (unchanged from end-FY03/24), with the balance of real estate for sale at JPY711mn (JPY824mn at end-FY03/24).

Company forecast for FY03/25

(JPYmn)	FY03/23			FY03/24			FY03/25		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Revenue	6,104	6,967	13,070	7,099	7,165	14,264	8,066	8,774	16,840
Recurring revenue	5,506	5,826	11,332	6,153	6,484	12,637			
One-off revenue	595	996	1,591	944	681	1,625			
YoY	7.7%	21.2%	14.5%	16.3%	2.9%	9.1%	13.6%	22.5%	18.1%
Recurring revenue	16.9%	14.3%	15.6%	11.8%	11.3%	11.5%	-	-	-
One-off revenue	-37.8%	52.8%	-1.1%	58.7%	-31.6%	2.1%	-	-	-
Cost of revenue	4,940	5,612	10,551	5,832	5,858	11,690			
Gross profit	1,164	1,355	2,519	1,267	1,307	2,574			
YoY	16.8%	23.5%	20.3%	8.9%	-3.6%	2.2%	-	-	-
Gross profit margin	19.1%	19.5%	19.3%	17.8%	18.2%	18.0%			
SG&A expenses	609	698	1,307	741	858	1,600			
YoY	9.8%	10.9%	10.4%	21.7%	23.0%	22.4%	-	-	-
SG&A ratio	10.0%	10.0%	10.0%	10.4%	12.0%	11.2%			
Operating profit	555	657	1,212	526	448	974	434	473	907
YoY	25.6%	40.4%	33.2%	-5.3%	-31.8%	-19.6%	-17.5%	5.5%	-6.9%
Operating profit margin	9.1%	9.4%	9.3%	7.4%	6.3%	6.8%	5.4%	5.4%	5.4%
Recurring profit	582	684	1,266	559	452	1,011	452	490	942
YoY	24.3%	32.0%	28.3%	-3.9%	-33.9%	-20.1%	-19.1%	8.3%	-6.9%
Recurring profit margin	9.5%	9.8%	9.7%	7.9%	6.3%	7.1%	5.6%	5.6%	5.6%
Net income	399	487	886	381	285	666	311	319	630
YoY	25.4%	41.3%	33.7%	-4.3%	-41.5%	-24.8%	-18.5%	12.1%	-5.4%
Net margin	6.5%	7.0%	6.8%	5.4%	4.0%	4.7%	3.9%	3.6%	3.7%

Source: Shared Research based on company data

Notes: * Figures may differ from company materials due to differences in rounding methods.

* Real estate trading revenue is included under one-off revenue.

* As the Company has shifted to consolidated accounting from FY03/23, YoY comparisons are for reference purposes only.

Company forecast for FY03/25 (out May 13, 2024)

- Revenue: JPY16.8bn (+18.1%YoY)
- Operating profit: JPY907mn (-6.9%YoY)
- Recurring profit: JPY942mn (-6.9%YoY)
- Net income: JPY630mn (-5.4%YoY)
- EPS: JPY37.58 (JPY39.62 in FY03/24)
- DPS: JPY21.00 (JPY20.00)

Outlook for business environment

Tenpo Innovation continues to view its operating environment as uncertain. In Japan, socioeconomic activity has been returning to normal since the pandemic subsided, but the company remains concerned over an economic downturn overseas, volatility in the financial markets, and rising prices.

Regarding Japan's restaurant industry, the company expects a significant recovery in customer traffic, including inbound tourists. It anticipates demand in the drinking establishment (alcoholic beverages) sector, which has been slow to return, will fully recover. However, with worsening labor shortages, soaring raw material and utility costs, and the end of COVID-19 relief programs such as zero-interest loans, the company foresees the closure of some restaurants due to the resumption of loan repayments. It believes that while the demand for new restaurant openings will become apparent, closures of existing restaurants will create a favorable environment for both procurement and leasing in its Restaurant Subleasing business.

The company plans to transition to a holding company structure in 2H FY03/25. By actively expanding the Restaurant Subleasing business, rent guarantee business, and Real Estate Trading business through its subsidiaries, the company aims to accelerate continuous growth for the entire group.

Full-year company forecast

The company forecasts revenue to reach JPY16.8bn (+18.1% YoY). The number of subleased properties is expected to rise due to increased contracts, leading to revenue growth for the 16th consecutive year. However, operating profit is projected to decrease 6.9% YoY to JPY907mn. Although gross profit will increase due to higher revenue, SG&A expenses, including personnel expenses and recruitment costs, will rise as the company strengthens its workforce across all business segments, leading to a decline in operating profit.

Business-specific approach

Restaurant Subleasing

In this business, the company aims for 570 contracts in FY03/25 (+104 YoY) and targets 2,757 subleased properties by the end of the period (+312 YoY). To address the worsening labor shortage and rising raw material and utility costs, store operators are increasingly seeking small, fully-furnished properties in prime locations that can help control overheads. The company plans to expand its sales personnel and procure highly marketable restaurant properties. Additionally, with the potential increase in closures due to the resumption of repayments for zero-interest loans, the company views this environment as an opportunity to strengthen the procurement of prime properties and will continue its proactive and strategic procurement.

Sales strategies: Initiatives to expand procurement opportunities and the division/specialization of leasing operations

The company plans to increase procurement personnel and establish procurement routes centered around online purchasing to expand opportunities. Additionally, it will continue to build strong relationships with leading real estate agents. Within the sales department, the company will transition from the traditional integrated leasing framework to a segmented structure based on specific tasks, optimizing and specializing the overall business operations.

Education strategies: Implementing a training framework to quickly turn less experienced sales staff into valuable team members

Regarding education, the company will continue to utilize e-learning through videos to conduct efficient training. It will also organize and standardize procurement know-how into manuals. Additionally, each department will set specific "mission, vision, and values" and promote their integration within the department.

Recruitment strategies: Based on the previous year's hiring results, the company will continue to actively recruit personnel

In FY03/24, the company hired 23 sales personnel, bringing the total sales staff to 48 at end-FY03/24 (16 for procurement and 32 for leasing). The company established a "Recruitment Promotion Department," which succeeds the Sales Development Department set up in FY03/24 focused on recruiting sales personnel. The new department will actively recruit procurement and leasing staff and property management personnel. Additionally, the company will work to improve recruitment efficiency and reduce related costs.

Web strategies: Enhancing the appeal and presence of the company's websites, "inukitenpo.com" and "tenpokaitori.com."

The company plans to expand the range of properties available on its information website for restaurant properties, "inukitenpo.com," and improve user convenience through SEO optimization and using LINE and other tools. Additionally, the company will broaden the scope of properties handled on "tenpokaitori.com," a site focused on purchasing fully furnished restaurant properties following closures or withdrawals. The company intends to increase awareness through advertising and begin operations with a specialized team.

Rent guarantee business

In this business, the company aims to expand revenue by actively handling rent guarantees for projects within the group and those for specialized commercial real estate outside the group. Initially, the company will prioritize sales efforts toward existing clients in the sublease business (approx. 1,000) to enhance the recognition of this business in the Tokyo metropolitan area. From the second half of the year, the company plans to intensify recruitment activities, aiming to hire around 15 personnel and establish a branch in the Tokyo metropolitan area.

The company will focus on cloud services and OCR (optical character recognition: a technology that converts information from paper documents into digital data using scanners) to streamline and enhance the workflows and manuals for contracts, inspections, and collections. This approach aims to improve convenience and reduce client burden while strengthening the internal training framework.

Real Estate Trading

In this business, the company plans to strengthen organizational and sales capabilities following the establishment of a company (Asset Innovation Inc.) in February 2024, actively gathering information and acquiring new customers. By

accurately seizing property trading opportunities, the company aims to enhance its relationships with real estate agents and strengthen the group's overall network.

In FY03/25, the company plans to increase its sales personnel by two and strengthen procurement around train stations on the Yamanote Line. It will also explore sales channels beyond real estate agents. The company will actively gather information and acquire new customers through direct mail campaigns targeting real estate agents and property owners.

In terms of training sales personnel, the company aims to quickly develop new hires into effective team members by organizing know-how and creating manuals. The company will hold study sessions for the group companies twice a year to continue sharing information on property procurement and sales.

Transition to a holding company structure

In February 2024, the company announced that it would transition to a holding company structure, effective October 1, 2024, and change its name to Innovation Holdings Inc. The company will remain publicly listed as a holding company.

As part of the transition, Innovation Holdings will establish three operating companies under its umbrella: Tenpo Innovation Inc., Asset Innovation Inc., and Safety Innovation Inc., each with its own representative director. Tenpo Innovation will continue to manage the Restaurant Subleasing business, Asset Innovation (established in February 2024) will take over the Real Estate Trading business, and Safety Innovation (renamed from Store Safety Co., Ltd. in February 2024) will continue the rent guarantee business.

The holding company will oversee the management of the entire group, while each subsidiary will focus on operating their respective businesses. This structure aims to optimize the allocation of management resources, develop management talent, and maximize the group's corporate value. While striving for growth in its primary core business, the Restaurant Subleasing business, the company has decided to make the Real Estate Trading business and the rent guarantee business independent to cultivate them as the second and third pillars of the group's revenue base. Presidents for each subsidiary have been appointed from employees who have previously led these businesses. The collaborative framework between each business will remain unchanged.

Medium-term management plan

Medium-term management plan (FY03/25–FY03/28, out May 13, 2024)

In May 2023, the company announced its medium-term management plan for FY03/24–FY03/26 (the previous plan). The company plans a transition to a holding company structure in October 2024 and, in light of this, has formulated a new four-year medium-term management plan from FY03/25 to FY03/28 using a rolling method.

Basic policy for medium-term management plan and key initiatives

The medium-term management plan focuses on the expansion of specialized business segments: the Restaurant Subleasing business, the Real Estate Trading business, and the Rent Guarantee business. The key measures are as follows:

1. Further expand the sales structure by strengthening recruitment and training comprehensively
2. Create customer acquisition mechanisms and IT based on the characteristics of each business
3. Pursue synergies through sharing customers and know-how across business segments
4. Promote digital transformation by digitizing know-how and systematizing operations
5. Empower subsidiaries to foster entrepreneurship and enable rapid decision-making

Numerical targets in the medium-term management plan

(JPYmn)	FY03/24	FY03/25	FY03/26	FY03/27	FY03/28	
	Act.	Targets	Targets	Targets	Targets	CAGR
Revenue	14,263	16,840	19,190	22,138	25,644	15.8%
YoY		18.1%	14.0%	15.4%	15.8%	
Operating profit	974	907	1,035	1,268	1,645	14.0%
YoY		-6.9%	14.1%	22.5%	29.7%	
Operating profit margin	6.8%	5.4%	5.4%	5.7%	6.4%	
Recurring profit	1,011	942	1,070	1,303	1,680	13.5%
YoY		-6.8%	13.6%	21.8%	28.9%	
Recurring profit margin	7.1%	5.6%	5.6%	5.9%	6.6%	
Net income attributable to owners of the parent	666	630	697	848	1,094	13.2%
YoY		-5.4%	10.6%	21.7%	29.0%	
Recurring profit margin	4.7%	3.7%	3.6%	3.8%	4.3%	
Number of contracts	466	570	640	720	820	
No. of subleased properties (year-end)	2,445	2,757	3,110	3,520	3,994	13.1%
Net YoY increase	229	312	353	410	474	
Dividend forecast						
Projected annual dividend per share	20.00	21.00	22.00	-	-	
Payout ratio	50.5%	55.9%	52.9%	40~50%	40~50%	

Source: Shared Research based on company materials

Note: Figures may differ from company materials due to differences in rounding methods.

In the previous medium-term management plan, the company aimed to achieve operating profit of JPY1.7bn by FY03/26. However, under the new plan, this target has been adjusted to JPY1.6bn by FY03/28—a delay of two years. The primary reason is the restructuring of the sales framework in the Restaurant Subleasing business. The company determined that sustainable growth requires moving from the traditional personalized sales approach to a more systematized and organized structure.

The company organizes know-how, creates manuals, and establishes training systems that utilize IT tools. In FY03/24, it hired sales managers and appointed education officers. Although these initiatives led to progress in recruitment activities, they temporarily reduced the on-site sales force, decreasing the number of contracts to 466, down from 482 in FY03/24. However, according to the company, it has made steady progress in structural reforms, as well as in training new sales staff. Under the new medium-term management plan, the company will continue to push forward with structural reforms, aiming to build a solid organizational structure, different from the traditional personalized sales approach.

Key initiatives for building the sales structure

Aggressive recruitment of sales staff (quantitative strengthening)

Regarding sales personnel, the company aims to hire 24 people annually, targeting an increase from 48 sales staff at end-FY03/24 (16 for procurement and 32 for leasing) to approximately 100 by end-FY03/26. However, if sales operations become more efficient, the company will consider adjusting the target to around 80 to 90 personnel and conduct recruitment and training activities accordingly.

Optimization of the organization

The company will divide the leasing division into specialized roles to optimize overall efficiency and quickly develop effective team members. Additionally, it will focus on individual aptitudes to ensure effective placement and maximize productivity.

Education structure (qualitative strengthening)

The company will visualize, systematize, and convert its unique leasing know-how (237 items) into e-learning modules to efficiently train new employees. For procurement, where experience and networks with real estate agents are crucial, the company will also work on visualizing and systematizing this know-how to ensure efficient training and rapid development of effective personnel.

Revision of dividend policy

Regarding the dividend policy during the medium-term management plan, the company plans an annual dividend of JPY21 per share (payout ratio of 55.9%) for FY03/25. For FY03/26, it plans an annual dividend of JPY22 per share (payout ratio of 52.9%). For FY03/27 and FY03/28, the company aims for a payout ratio of 40–45%.

Medium-term targets

By FY03/31, the company aims to increase the number of subleased properties to 5,500 (+3,055 from end-FY03/24). As mentioned earlier, this goal will be achieved by building a robust sales structure and implementing area-specific procurement strategies to accumulate the number of subleased properties. Comprising about 40 members, the purchasing department will focus on about 1,000 stations and 2,000 real estate agents, mainly in Tokyo, as they seek out properties for development. When looking at stations, the company will focus particularly on terminals servicing at least 1mn passengers. If the real estate partner turns out to be a large company, management may assign additional purchasing department personnel. Under this system, the company aims to boost property purchases to 50 per month and 600 per year by FY03/27.

CSR and ESG initiatives

Since June 2019, the company has been promoting Children's Cafeterias utilizing restaurant spaces and working to reduce greenhouse gas emissions related to fixtures through a business scheme that leverages fully-furnished properties. The company will continue these CSR and ESG activities. For more details, refer to the "CSR and ESG" section under "Other Information."

Previous medium-term management plan (FY03/24–FY03/26, out May 11, 2023)

Reference: [Numerical targets outlined in the previous medium-term management plan](#)

(JPYmn)	FY03/23	FY03/24	FY03/25	FY03/26
	Non-cons. / Act.	Cons. / Est.	Cons. / Target	Cons. / Target
Revenue	13,070	14,844	16,961	19,111
YoY		113.6%	114.3%	112.7%
Operating profit	1,212	1,276	1,481	1,679
YoY		105.3%	116.1%	113.3%
Operating profit margin	9.3%	8.6%	8.7%	8.8%
YoY		-0.7p	+0.1p	+0.1p
Number of contracts	482	570	630	700
YoY		118.3%	110.5%	111.1%
No. of subleased properties	2,216	2,527	2,881	3,275
YoY		+311	+354	+394

Medium-term plan (announced May 25, 2021)

Business description

Restaurant specialist real estate company subleasing popular properties

Tenpo Innovation's business model involves leasing restaurant premises from owners and subleasing them to those who want to open a restaurant. It also makes profits from receiving key money from restaurant operators at the time of sublease and purchasing restaurant equipment (cooking equipment, interior facilities, and fixtures) from restaurant operators leaving a property and reselling it to incoming tenants. Profit growth comes from increasing the number of subleased properties.

The term subleasing brings to mind the simple act of leasing one property to a second party. Refinements to the business model and growth scenarios are hard to picture. The company's key characteristics come into focus when looking at the business by type of property and competitiveness. It leases popular restaurant properties in Tokyo and the surrounding areas*—prime, fully equipped restaurant premises** where a vast number of individuals want to open restaurants. Its advantage is specialization, which it uses to structure subleasing transactions that generate revenue and provide benefits to all stakeholders. Shared Research believes keys to properly understanding the company's business are the superior value of the properties it deals with and the expertise that enables it to procure the properties.

*The company's operating area is Tokyo and three neighboring prefectures: Kanagawa, Saitama, and Chiba

** *Inuki*: Refers to a property sold or leased with its existing internal fixtures, equipment, and furniture. Properties with everything removed are known as skeletons. For prospective restaurant operators, being able to use all the equipment (assuming the *inuki* property is in a suitable format) reduces initial investment, and enables a quick launch.

This expertise takes a great deal of time and trouble to acquire, so the company positions subleasing as its main business pillar. The company has no plans to get into brokerage, management, office, residential, or other types of real estate businesses. Therefore, the main focus of the Real Estate Trading business is to maintain ties with real estate agents to gather information about restaurant properties. In this sense, Tenpo Innovation is a "restaurant-specific real estate company." This specialized knowledge and expertise concerning such a niche field is often the domain of certain individuals. For that reason, in many cases (and industries) this can be an obstacle to scaling up the business. In this respect, Tenpo Innovation has indicated that it plans to broadly share its expertise within the company and establish systems that will enable it to respond as an organization and accelerate growth.

Key point 1: Popular properties

While lacking statistics to back itself up, the company says that a surprisingly large number of people want to open restaurants in Tokyo. There appears to be a myriad of restaurants available, but management noted that there are not that many that meet the conditions required for operations, including in terms of location quality. Demand for properties that meet certain criteria vastly outstrips supply. Furthermore, the company says even fewer properties are already outfitted, which enables tenants to significantly reduce restaurant opening costs (from an investment of about JPY10mn down to JPY1–2mn). It deals in popular properties that meet these criteria and appear likely to attract large numbers of prospective tenants (see Market and value chain section). About 90% of the properties it subleases are for restaurants, with more than 90% in Tokyo (half are in the seven urban wards), and nearly 90% come previously outfitted.

Key point 2: Highly specialized

The second key point is that Tenpo Innovation is highly specialized and backed by a wealth of experience as exemplified in its troubleshooting ability. Its salespersons are not just experts in real estate deals. They also have developed the ability to judge properties by inspecting and handling numerous individual properties and can negotiate with multiple relevant parties*. Personnel assigned to areas around major train stations gather information on local eating and drinking establishments and accumulate a wealth of knowledge and data on location, facilities, and the market. They also have a great deal of knowledge about problems at restaurants and specific ways to deal with them, as well as expertise in rent collection, which steadily builds up as the number of subleased properties grows. Meanwhile, they use this specialized knowledge and expertise to build solid relationships with a variety of specialists, such as lessors, including local real estate agents, and

tenants, such as restaurant operators. The company believes its expertise in restaurant transactions in Tokyo is highly respected among these players.

*In *inuki*, parties involved include the property owner, real estate agent (only the owner in some cases), prospective tenant, and exiting tenant. Agreements must be reached with, and approvals obtained from, all four parties. Cash exchanges also occur between these parties.

Subleasing transactions that benefit all parties

In light of these two key points, actual transactions and benefits for involved parties (Tenpo Innovation, real estate agents, tenants) are as follows:

Tenpo Innovation: Setting advantageous rents

First, the company says virtually all of the perspective tenants prioritize locations over slight variations in the rent*. This allows Tenpo Innovation to set rents to those charged by the owner plus a margin, which means the owners can maintain their rental revenues. By leasing to a professional company backed by expertise, the owners (and real estate agents acting on their behalf) reap benefits as well as peace of mind. The company says that, generally, the owners are not necessarily positive about fully fitted out properties with the equipment of the previous tenants as is, due to liability for defect warranties. However, with Tenpo Innovation, which has considerable experience in troubleshooting restaurant structural issues as the lessee, the owner can lease the property with peace of mind and a shorter vacant period than a skeleton property. The owner receives a stable rental revenue by leasing to the company.

Real estate agents: Less management work

The real estate agents still get commission revenue (the company pays sublessee name-change fees whenever there is a change of tenant), while reducing the trouble involved in leasing (they get an additional brokerage commission for introducing a tenant). They also have less management involvement by leaving troubleshooting up to the company.

Tenants: Securing prime locations

For the tenant, one advantage is that there are a large number of furnished properties in prime locations offered by the company online, which can reduce restaurant opening costs and cut the time required to start operations. The tenant can also initiate a preview with an email or call and can discuss a range of matters with the company after occupancy given the company's wealth of specialized knowledge. The vacating tenants are also able to avoid work to restore the premises to their original condition and reduce exit costs by selling the fixtures.

*In the first place, restaurants have particular characteristics not comparable with offices or residential properties, and large variations in rent are normal even between adjoining properties, so it is not a simple, easy-to-understand market. Tenpo Innovation prioritizes the accumulation of contracts and the maintenance of good relationships with tenants over short-term profits. As such, it sets margins at a certain level and does not needlessly raise them (as discussed below, the company's margins are lower than usual subleasing margins of 20% to 30% for other companies).

Steady rent collections and growth possible

For Tenpo Innovation, leasing out properties means it has to deal with vacancy risk and rent collection risk. It minimizes these risks as the properties are in demand, it has property management capabilities, and is proactive in the search for succession tenants. The company has well-established rent collection capabilities.

The occupancy rate at properties leased by the company* is extremely high, and the rent collection rate was 99.0% in FY03/24 (average based on company data). While tenants' rights are protected** under the Act on Land and Building Leases, sometimes contracts are canceled due to the aging of the property or redevelopment efforts. Even when such cases are included, Tenpo Innovation has a cancellation rate of about 1%*** of its leased properties annually. With the number of leased properties increasing, the company's business model has prospects for steady growth.

*The occupancy rate refers to the proportion of properties subject to a lease agreement which are currently under subleasing contract after once having a subleasing contract signed.

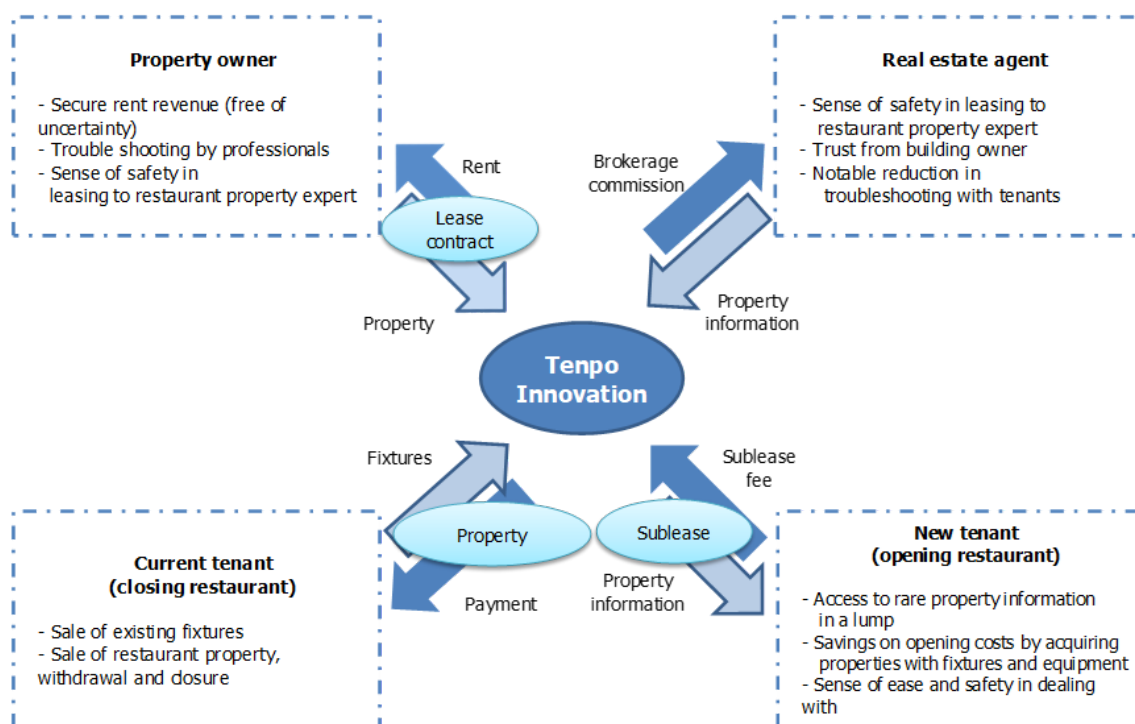
** Act on Land and Building Leases Article 28: A notice on the part of the building lessor set forth in Article 26, paragraph (1) may not be given, and a request to terminate a building lease may not be made, unless it is found, upon consideration of the prior history in relation to the building lease, the conditions of the building's use, the current state of the building and, in cases where the building lessor has offered payment to the building lessee as a condition for surrendering the buildings or in exchange for surrendering the buildings, the consideration of said offer, that there are justifiable grounds for doing so in addition to the circumstances pertaining to the necessity of using the buildings on the part of the building lessor and the lessee (including the sublessee; hereinafter the same shall apply in this Article).

***Building lease terminations come under three main categories: 1) there was originally a fixed-term leasehold contract (currently 95% are traditional lease contracts); 2) the owner decides to rebuild; and 3) there is a problem with the property.

Actual business flows

The company's business flows go from property leasing to subleasing to management, described in more detail as follows:

Counterparties in business and work/fund flows



Source: Shared Research based on company materials

Restaurant property leasing

Obtaining restaurant property information

The company targets properties with characteristics many prospective tenants prefer: roadside and ground floor, equipped, and relatively low face-value rent. Tenpo Innovation begins with sales activities aimed at leading local real estate agents and conducted by personnel assigned to a particular station area. It receives offers from people considering shutting down restaurants on its specialist restaurant acquisition website, tenpokaitori.com. It also gains information via business partners or existing restaurant clients. The most important route is leading local real estate agents, who provide 80% of the company's property leads by number, with the others accounting for 10% each*. There are almost inevitably competitors, but there is no specific information available on competition at this stage.

*The company almost exclusively procures via real estate agents and procures very little online. On the other hand, management says that other companies in the industry mainly procure over the internet. For Tenpo Innovation, online procurement offers room for growth, and the company said it hopes this route will expand in the future. In FY03/20, the company conducted a complete overhaul of its inukitenpo.com website, which attracts tenants through pull marketing strategy. It thinks that enhanced appeal of the website will boost its procurement capabilities as well.

Property survey

Upon obtaining a property lead, the salesperson in charge visits the site and does a simple check of location and condition of property. The salesperson conducts a detailed field survey of properties with good prospects (about 30% of initial leads) to gauge whether a restaurant opening is feasible. This takes into account marketability such as visibility from the road, volume of foot traffic, working population in nearby offices, and how well competing restaurants are doing. Salespeople also check details such as power supply, pipe conditions, and whether other elements of the facilities are suitable for opening a restaurant. Likely candidates for attracting restaurants are assessed internally, covering criteria such as rent and subleasing rent.

Once a decision is made within the company, the salesperson looks into contracts and restaurant facilities and equipment, while the property manager conducts another field survey. The property manager performs a thorough check of 50 items including legal compliance, with a key focus on avoiding problems, to decide whether it is indeed appropriate to lease the property. Checks include issues with facilities impinging on neighboring property boundaries, water leaks, insect droppings or other hygiene issues, and defective kitchen equipment. Executives also conduct site inspections, and a contract is signed if there are no issues.

Checkpoints for property management

Marketability



State of property boundary



Fire damage



Bug infestation



Sign visibility



Kitchen equipment



Neighbors' complaints



Restored to original condition



Equipment capacity



Exhaust equipment



Evacuation routes



Deterioration due to age



Source: Shared Research based on company materials

Negotiation and contract agreement with property owner or real estate agent

When Tenpo Innovation decides to handle a property, it negotiates with the owner or managing real estate agent, and pays a security deposit (usually eight to ten months' rent), key money, and brokerage fees, and ultimately enters an agreement. As a rule, the rent is set at a level equivalent to what it was in the past (the rent received by the owner) with a standard three-month notice period for cancellation. In the case of fully furnished properties, the company negotiates a purchase agreement of restaurant equipment and fixtures with the tenant who is leaving. Ultimately, 5% or less of the initial leads reach rental contracts.

Subleasing (customer acquisition or *Kyakuzuke* *)

Salespeople look for prospective tenants once the company has concluded a leasing agreement. Channels are real estate agents, established restaurant operators the salespersons have a connection with (about 800 companies), the company's website inukitenpo.com **, and others. The breakdown of new tenants by channel is 30% each for real estate agents, established restaurant operators, and company website above, and 10% for other channels.

The inukitenpo.com site provides information on restaurant properties, primarily those known as inuki (fully equipped), to its members***. The site enables prospective restaurateurs to search for properties, and had 100,298 members with the cumulative number of registered properties totaling 84,109 as of June 15, 2024. The company said it had over 70 properties available for lease at any one time.

There are no standard margins for subleasing rates or selling prices for fixtures. Tenpo Innovation negotiates prices on a case-by-case basis. It prioritizes increasing the number of subleasing contracts and has a rule of obtaining a minimum set margin (sublease rent minus rent) of JPY30,000. As of end-FY03/19, the average margin for all subleased properties was roughly JPY60,000, or about the 14% range. In succession contracts, the margin on fixtures does not depend on the selling price and is largely fixed (refer to Earnings structure)****.

When Tenpo Innovation settles on an applicant, it negotiates contract details following a credit check. It enters a subleasing agreement, and receives a security deposit (eight to ten months), key money, and fees. Terminating the contract requires seven months' notice. The company also enters fixture purchase agreements. New tenants are found via real estate agents (30%), restaurant operators (30%), website members (30%), and others (10%). Leasing generally takes about two months.

* *Kyakuzuke* is Japanese real estate industry terminology for finding a purchaser or tenant for a property that is for sale or lease. Conversely, looking for a seller is known as *motozuke*.

** In FY03/20, the company conducted a complete overhaul of inukitenpo.com to enhance its pull marketing strategy. The plan is to build a scalable owned media website that will be useful in the future.

*** Most are not properties the company has leased but come from REINS (the Real Estate Information Network System). The Real Estate Information Network (under the auspices of the Ministry of Land, Infrastructure, Transport and Tourism) operates the system. Property information (for sale or lease) from real estate agent members is managed under one umbrella, and the information that meets the company's criteria is reposted on its website. When there are inquiries regarding these properties, the company receives a partial commission by connecting with the relevant agent.

**** Strictly speaking, Tenpo Innovation is party to a purchase contract for fixtures in a new lease, but when tenants are replaced in an existing leased property (successor contract, discussed later), the company is not a concerned party. Accordingly, for accounting purposes, revenue the company receives is included in revenue for new contracts and commissions for successor contracts.

Properties subleased

When all subleasing processes are complete, the relevant property is considered subleased. These numbered 2,445 in FY03/24 (+229 YoY), adding more than 200 properties annually. Subtracting properties with canceled subleasing contracts (about 1% of total properties per annum: number of properties not disclosed) from new contracts gives the net increase in properties subleased.

Inevitably, some restaurateurs quit the business after subleasing a property. In these instances, the subleasing contract is canceled, and the company looks for a succession. Tenpo Innovation said such cancellations are trending at 8–10% of total properties subleased. Entering an agreement with the new tenant follows the same process as described previously (a name-change fee is paid to the real estate agent). The company calls the contract with the next tenant the “succession contract.” The sum of succession contracts and new contracts is the total number of contracts.

Unoccupied properties under subleasing contracts (when a tenant cannot be found) do not bring any revenue but only incur outgoing lease payments, but the company said its occupancy rate to date has been extremely high as it focuses on leasing superior properties. When tenants change, the new tenant likely retouches the interior and fixtures, which is a secondary benefit for the company as the property value increases.

Property management

Property subleasing takes into account the findings of the property manager's field survey. This survey's 50 check points reflect previous problems and focus on forestalling emerging issues. Relevant files are stored on the company's internal system along with restaurant blueprints. When a problem occurs, a property manager visits the site, looks for the cause with reference to files, and works to solve it after sharing photographs and other relevant information with superiors via social network sites and other methods.

The company classified problems by degree of severity. Serious ones are reviewed through progress reports presented at the weekly meeting, at which the company aims to quickly resolve problems, without neglecting them. The property manager is also responsible for collecting rent. The company targets 130 properties under management for each manager.

Business territory

The company subleases properties in Tokyo, Kanagawa, Saitama, and Chiba, with an overwhelming preponderance of restaurants and solid demand prospects. Tokyo accounts for over 90%. As of end-FY03/24, the three central wards in Tokyo (Minato, Chuo, and Chiyoda) roughly accounted for 24% of the 2,445 subleased properties, and the four sub-central wards (Shinjuku, Shibuya, Toshima, and Bunkyo) some 25%, with the other areas in Tokyo accounting for about 42%. Neighboring Kanagawa, Chiba, and Saitama prefectures hold the remaining share of about 9%.

Regional distribution of the company's subleased properties (as of end-FY03/24)

FY03/24		
	No. of properties	% of total
Three central Tokyo wards	593	24%
Four central Tokyo wards	617	25%
Tokyo, other	1,024	42%
Kanagawa Prefecture	122	5%
Chiba Prefecture	48	2%
Saitama Prefecture	41	2%
Total	2,445	100%

Source: Shared Research based on company interviews and other sources

Specialization and organizational structure underpin business model

Five arrangements/knowledge

Underpinning the company's business model is the specialization it has developed by focusing on fully furnished restaurant properties in Tokyo, with two key elements: vast expertise and a powerful network. Some of these were already mentioned in the business flow discussion, but we recap five key points as follows:

1) Procurement

Tenpo Innovation has a system to receive information from leading real estate agents near major train stations. Each salesperson responsible for property procurement covers five to ten stations. They leverage their ability to evaluate properties and a wealth of knowledge about restaurants and rents in the station vicinity, as well as general knowledge about restaurant transactions, to build close connections with local real estate agents. Real estate agents cannot afford a misstep when leasing to industry peers in view of their relationships with their clients (property owners). The hurdle to start doing business with these agents is high, but once the company has earned their trust and closes the first deal, it can expect a steady stream of leads from powerful information sources. While some relationships are deeper than others, the company said it has developed relationships with about 800 leading local real estate agents.

2) Customer acquisition

Tenpo Innovation has a two-pronged approach to finding prospective tenants, using push and pull marketing strategies. Each salesperson has about 40–50 blue-chip* restaurant operators as customers, and works to match them with properties by providing information swiftly. They also knock on the door at several hundred restaurants in the vicinity of train stations under their charge. The company said it is good at this slow but steady sales method as it builds relationships while getting to know its customers' needs. The company also focuses on maintaining ties with local real estate agents, because many referrals come from them. For pull marketing strategy, the company has its inukitenpo.com website which recruits prospective tenants by constantly posting fresh information. The company said leasing does not require a great deal of effort due to the high-demand properties posted on the website. Shared Research believes the website has become a platform that steadily attracts quality tenants.

*Blue-chip operator as the company defines it means one with a competitive format, clear restaurant opening plans, funding power, and speedy decision-making.

3) Preventing problems from arising

Problems with restaurants involved issues such as water, odors, and smoke, completely different from those of offices or housing. Tenpo Innovation manages over 2,000 restaurants, and including prospective properties, it has looked at restaurants in many formats and conditions. Therefore, it has a wealth of problem-solving knowledge. The company has a database of past problems categorized by type and a system for initial responses and solving/rectifying methodologies. It has also created property records with a checklist of items based on experience, works to prevent problems before they emerge, and keeps them from intensifying if they do emerge.

4) Ability to quickly resolve issues

Tenpo Innovation also deals with problems quickly. Once a problem arises, the property manager visits the restaurant and refers to the property records via its internal system to get a quick grasp of the issue and decide on a plan of action through

discussions with his or her superior over the internal system. It also manages issues that cannot be resolved on the spot by type and severity. Should there be the potential for legal action, the company brings in staff working in legal affairs. The company said that it makes more than 1,000 property visits per year for troubleshooting. In addition to its specialist expertise, this system is not available to real estate brokers or virtually any other subleasing operators, which the company feels the real estate owners (including real estate agents) and tenants both appreciate.

5) Rent collection ability

Tenpo Innovation had an average month-end rent payment rate of 99.0% in FY03/24. The company is constantly checking on conditions and frequently contacting tenants and has a step-by-step follow-up system to address any issues. In case of arrears, it contacts the joint guarantor at an early stage and also lets the tenant know there is a potential succession and recommends they withdraw before the situation worsens. In particular, the company can introduce successor tenants that enable a smooth withdrawal because of its proactive efforts to attract customers to popular properties. According to the company, the existing tenants often support this approach, as it enables them to avoid a worst-case scenario.

To mitigate the risk of rent collection, the company had previously outsourced its rent guarantee business to an external guarantee company. However, based on the accumulated management capabilities within the company, it has decided to bring the guarantee business in-house within the company group. Starting from FY03/23, the company's subsidiary, Store Safety Co., Ltd., is responsible for operating this business. (Please refer to "Earnings structure" below.)

The company has designated the department or person in charge of the areas noted above. This clarifies responsibility and allows a systematic response which makes these five strengths sustainable. Further, it has its own database, training program, and performance evaluation system to make these strengths available across the company.

Proprietary database

The company has stored property information it has collected since its founding in a database. This includes basic items such as rents, square footage, and other data, such as which street the restaurant faces, and also covers properties it does not sublease. It is searchable using various criteria and can be used to check on market conditions. Currently, the database covers more than 60,000 properties*, which makes it, according to the company, one of the largest detailed database covering restaurants in Tokyo and its three neighboring prefectures.

As mentioned previously, it has data on problems of properties by type, which can be used with property-specific reports. It is thus possible to attain a quick grasp of conditions, such as the probable cause of particular problems, and measures such as who should take charge, how long it will take, and how much it will cost.

*Of course, some data are from 10 years ago, but location takes top priority for restaurants, and the age of the building does not have a big impact on rents, according to the company. Further, local real estate agents have a sense of the local market, but they do not have systemized databases. The company said such objective, specific data are welcomed by real estate agents as well.

Training program

Landing a deal ultimately depends on an individual salesperson's sales activities and how well they are supported by his or her experience, expertise, and negotiating power. There is naturally a limit to how many properties one person can look after per year, considering workloads and required time. To maintain and accelerate growth, it is important to increase salespeople with professional skills in the eyes of stakeholders. The company has thus spent three years developing a training program and started applying this to midcareer hires in 2017.

The company offers 40 educational curriculum lectures on the basics of being a businessperson and 60 knowledge curriculum lectures on how to be a specialist restaurant real estate agent, for a total 100-hour program. In addition, it offers practical hands-on training in sales.

Once they are assigned to their sales areas, the company will check if they are properly carrying out what they should in terms of sales activities and has arrangements to attune them to the appropriate activities. Tenpo Innovation reviews these activities when necessary. In recent years, the company has been working on visualizing and systemizing its accumulated know-how in leasing (237 items) for new hires and allowing them to acquire such skills through e-learning. It is also providing related lectures to these employees. Through these efforts, the company aims to visualize and systematize procurement

expertise to train its sales force efficiently.

*The company's business requires highly specialized skills, and a small proportion of midcareer applicants is suitable. Many withdraw after getting a job offer. Some give up after joining the company, as they have trouble acquiring the necessary skills. Accordingly, the company recognizes that the development of human resources is an important challenge, with which it will continue to pro-actively engage in the future.

Educational curriculum

This covers a broad range, from responsibilities as a member of society to the thinking and skill set needed to be a businessperson. The lecturers are from outside the company, but the curriculum is customized to its business. Lecture titles include "listening ability," "communication ability," "how to think," "thinking power," "knowledge," "wisdom," "passion," and "readiness," for example.

Knowledge curriculum

These lectures teach the well-developed methodology and success patterns that enable the top salespeople to gain results. The company has systematized and visualized the associated learning and implicit knowledge and said it is easy for beginners to understand, enabling them to acquire professional knowledge. The company's senior management gives lectures. Lectures include "Contracts (Act on Land and Building Leases, registration etc.)," "Real Estate (real estate business, industry)," "Restaurant Companies (flows in opening business, restaurant companies by station and business format), "Properties (property customer survey, property presentation)," "Location (what is location?, rental market, area data sheets by station)," "Regulations (leasing business laws and regulations, Building Standards Act, City Planning Act)," and "Facilities (building structures kitchen equipment/facilities, what to watch out for in *inuki* properties)."

Practical training

The company has practical training programs to reinforce and instill knowledge learned in the classroom in a real environment. Key training is outlined as follows, and the company's senior executives will take on role-play situations.

- ▶ Production of station-specific area sheets: Hands-on learning at individual locations checking 70 points, such as which restaurants are doing well to interviews with the police and tobacco shop proprietors, to fill in knowledge.
- ▶ Preliminary inspection role-play using property survey sheets: Employees will fill in survey sheets after visiting one property the company subleases. Subsequently, they will conduct a preliminary inspection role-play and gain practical knowledge of what to look for in a property by answering various questions.
- ▶ Restaurant patrol: Go into a restaurant with a senior colleague, investigate why it is doing well and make an in-house presentation.

New graduate hires in training



Source: Shared Research based on company materials

Management of sales activities

The company has prepared check sheets to ensure that specified sales activities are thoroughly carried out and become habitual. Every evening, the new salespeople are interviewed by their business manager to make sure they are carrying out activities specified in the check sheet properly. Specific evidence is required for each item, and the business manager reports to a senior manager after checking all the items. The company introduced this system, as it did not previously have accurate monitoring of necessary day-to-day sales activities. It thinks it is meaningful that the business manager carries out these checks since the business manager can report on the checked items from a fair standpoint, making a third-party evaluation possible.

Performance-linked bonus system

In addition to incentives, the company provides performance-linked bonuses to salespeople. Points are allocated to each individual based on their history with the company and position. Performance-linked bonuses are awarded based on these points with a predetermined percentage of net income each quarter set aside to pay bonuses. The arrangements are transparent and criteria directly reflected in individual bonuses. To receive a larger bonus, an employee needs to get promoted, increase their tenure of employment, boost company profits, and achieve results with small team numbers. These factors lead to improved awareness of performance, personnel recruitment, and productivity improvements.

Promotions are available for improved performance. Incentives are provided depending on individual sales performance and the sales division's performance. A balance between the two points avoids the worst-case scenario whereby individuals blindly pursue profits at the expense of customer relationships. This thinking is in line with the company's policy of emphasizing growth in number of contracts rather than short-term gross profit.

Earnings structure

Income statement (JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.
Revenue	3,248	4,228	5,386	6,689	8,229	9,985	10,343	11,415	13,070	14,264
Recurring revenue	2,856	3,729	4,816	6,061	7,378	8,715	9,164	9,806	11,338	12,658
One-off revenue	392	498	570	628	851	1,269	1,178	1,608	1,731	1,605
YoY	28.4%	30.1%	27.4%	24.2%	23.0%	21.3%	3.6%	10.4%	14.5%	9.1%
Recurring revenue	32.6%	30.6%	29.1%	25.9%	21.7%	18.1%	5.2%	7.0%	15.6%	11.6%
One-off revenue	4.8%	27.0%	14.5%	10.2%	35.5%	49.1%	-7.2%	36.5%	7.6%	-7.3%
Cost of revenue	-	3,457	4,447	5,549	6,669	8,032	8,511	9,321	10,551	11,690
Recurring revenue	-	3,258	4,179	5,219	6,257	7,354	7,832	8,314	9,619	10,808
One-off revenue	-	198	269	331	413	678	678	1,007	932	881
Gross profit	-	771	939	1,140	1,560	1,953	1,832	2,094	2,519	2,574
YoY	-	-	21.8%	21.4%	36.8%	25.2%	-6.2%	14.3%	20.3%	2.2%
Gross profit margin	-	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
SG&A ratio	-	11.6%	11.6%	11.1%	10.0%	11.7%	10.6%	10.4%	10.0%	11.2%
Operating profit	156	280	312	397	734	785	732	910	1,212	974
YoY	-	79.8%	11.1%	27.4%	84.8%	7.0%	-6.8%	24.3%	33.2%	-19.6%
Operating profit margin	-	6.6%	5.8%	5.9%	8.9%	7.9%	7.1%	8.0%	9.3%	6.8%
Non-operating income	-	15	24	23	17	-	179	193	163	88
Non-operating expenses	-	4	7	19	36	-	69	117	108	51
Recurring profit	187	292	328	401	714	812	842	987	1,266	1,011
YoY	53.0%	56.7%	12.2%	22.3%	78.1%	13.7%	3.7%	17.2%	28.3%	-20.1%
Recurring profit margin	5.7%	6.9%	6.1%	6.0%	8.7%	8.1%	8.1%	8.6%	9.7%	7.1%
Extraordinary gains	-	0	0	0	0	6	0	0	0	0
Extraordinary losses	-	0	6	0	0	0	0	0	0	19
Income taxes	-	110	122	165	205	254	266	324	381	326
Implied tax rate	-	37.8%	37.9%	41.2%	28.6%	31.0%	31.6%	32.9%	30.1%	32.9%
Net income attributable to owners of the parent	110	182	200	236	510	564	576	662	886	666
YoY	79.4%	64.6%	9.9%	18.0%	116.1%	10.7%	2.0%	15.1%	33.7%	-24.8%
Net margin	3.4%	4.3%	3.7%	3.5%	6.2%	5.7%	5.6%	5.8%	6.8%	4.7%
Number of contracts	-	269	306	333	362	397	314	407	482	466
No. of subleased properties (year-end)	614	815	1,029	1,242	1,459	1,684	1,706	1,951	2,216	2,445

Source: Shared Research based on company materials

Notes: * Figures may differ from company materials due to differences in rounding methods.

* Figures through FY03/15 were prepared under the Companies Act and are not subject to auditing based on the Financial Instruments and Exchange Act (listed on TSE Mothers in October 2017).

Trends in revenue, subleased properties, contracts

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.
Revenue	3,248	4,228	5,386	6,689	8,229	9,985	10,343	11,415	13,070	14,264
YoY	28.4%	30.1%	27.4%	24.2%	23.0%	21.3%	3.6%	10.4%	14.5%	9.1%
Recurring revenue	2,856	3,729	4,816	6,061	7,378	8,715	9,164	9,806	11,338	12,658
YoY	32.6%	30.6%	29.1%	25.9%	21.7%	18.1%	5.2%	7.0%	15.6%	11.6%
% of total	87.9%	88.2%	89.4%	90.6%	89.7%	87.3%	88.6%	85.9%	86.7%	88.7%
One-off revenue (total)	392	498	570	628	851	1,269	1,178	1,608	1,731	1,605
YoY	4.8%	27.0%	14.5%	10.2%	35.5%	49.1%	-7.2%	36.5%	7.6%	-7.3%
% of total	12.1%	11.8%	10.6%	9.4%	10.3%	12.7%	11.4%	14.1%	13.2%	11.3%
No. of subleased properties (year-end)	614	815	1,029	1,242	1,459	1,684	1,706	1,951	2,216	2,445
YoY	30.6%	32.7%	26.3%	20.7%	17.5%	15.4%	1.3%	14.4%	13.8%	10.3%
Net YoY increase	144	201	214	213	217	225	22	245	265	229
Average no. of subleased properties during the period	542	715	922	1,136	1,351	1,572	1,695	1,829	2,084	2,331
YoY	33.5%	31.8%	29.0%	23.2%	18.9%	16.4%	7.9%	7.9%	13.9%	11.9%
Recurring revenue per property	5.27	5.22	5.22	5.34	5.46	5.55	5.41	5.36	5.44	5.43
YoY	-	-	0.1%	2.2%	2.4%	1.5%	-2.5%	-0.8%	1.5%	-0.2%
Number of contracts	-	269	306	333	362	397	314	407	482	466
YoY	-	-	13.8%	8.8%	8.7%	9.7%	-20.9%	29.6%	18.4%	-3.3%
YoY change	-	-	37	27	29	35	-83	93	75	-16
Churn rate	-	-	-	-	-	-	-	-	-	-
Subleasing contract(tenants)	-	8.3%	8.9%	9.6%	10.1%	10.4%	17.0%	8.1%	9.9%	9.7%
Leasing contract(real estate owners)	-	0.6%	0.7%	1.1%	1.2%	1.1%	6.3%	1.2%	1.0%	1.1%

Source: Shared Research based on company materials

Notes: Figures may differ from company materials due to differences in rounding methods.

Recurring revenue: Rental income from subleased properties, renewal fee income at the time of sublease contract renewals, and other income continuously recorded as long as there are subleased.

One-off revenue: Temporary income such as commission income from key money and sale income from fixtures related to transferred properties.

Store rent guarantee includes some recurring revenue.

Recurring revenue per property: Recurring revenue / average number of subleased properties during the period.

Revenue

The company earns recurring and one-off revenue, which it refers to as "running revenue" and "one-off revenue," respectively.

Recurring revenue: rent, renewal fees, and amortization

Recurring revenue is booked continuously (usually every month), and is mainly rent received from restaurant operators at the company's subleased properties. Renewal fees (1–1.5 months' rent) the company receives when a subleasing contact is renewed (once every three years) and security deposit deduction* are also included in recurring revenue, which depends upon number of subleased properties and rents.

From FY03/18 to FY03/20—before the COVID-19 pandemic— the company added subleased properties at a pace of about 200–220 each year. The average recurring revenue per subleased property (financial year average) is JPY5.2–5.6mn. According to the company, in FY03/24 the average rent was JPY440,000 per month. The procurement of new properties for subleasing is affected by the size of the sales force, so the number of new properties subleased trends largely with the number of salespeople devoted to the area.

One-off revenue: key money and revenue from fixture sales

In subleasing, the company receives one-off revenue mainly from key money (one or two months' rent) and real estate commissions (one month) when it sublets a rented property to a restaurant operator. The money the company receives when it sells fixtures to a restaurant operator in a fully furnished restaurant is also one-off revenue. When there is a succession contract (change of tenant), revenue is similarly generated (although fixture sales are a transaction between new and old tenants, so the company just receives a fixed commission). One-off revenue thus depends on the number of contracts signed (the aggregate of new subleasing and succession contracts). The company does not disclose the number of succession contracts or canceled subleasing contracts, but succession contracts can be simply estimated assuming they are the difference between net increase and new contract numbers. Succession contracts are running at about 10% of the leasing stock (financial year average number of subleased properties). Real estate trading revenue has been added to one-off revenue from FY03/19, and proceeds from the store rent guarantee business (including part of recurring revenue) have also been added from FY03/23.

Cost of revenue

Cost of revenue comprises rental payments and other. Rental payment is rent paid to property owners and main items of other are key money paid to the property owner when the company leases the property (zero or one month's rent), brokerage fee (one month's rent), the cost of purchasing fixtures (for a fully outfitted restaurant), renewal fees for subleased properties (1.0–1.5 months' rent) and name-change fees (one month's rent).

Dividing cost of revenue into that related to recurring revenue and that related to one-off revenue, the cost of recurring revenue comprises rental payments, renewal fees paid to the owner (included in other), and cost of security deposit deduction **. The remainder is costs of one-off revenue. The previous figure shows a breakdown of costs allocated between recurring revenue and one-off revenue.

*Security deposit deduction: Under subleasing contracts, amortization of guarantee deposits is booked as revenue proportionally over the contract period (number of months). If the lease agreement for the property has been renewed under a succession agreement, there are no amortization costs, so all of the amortization revenue is earnings.

**Cost of security deposit deduction: Under subleasing contracts, amortization of the guarantee deposit is booked as costs proportionally over the contract period (number of months).

Gross profit

From FY03/21 to FY03/24, the GPM has trended from 17.7% to 18.3% to 19.3% to 18.0%. Shared Research believes this reflects fluctuations in the revenue mix from accumulation of properties, sales of fixtures, and the segment composition.

To recap, the company does not have a percentage target for the subleasing margin (subletting rent minus rent paid to owner), but just a minimum amount. It said the average margin on its total subleased properties is about JPY60,000. In FY03/24, gross profit from recurring revenue was JPY1.9bn (71.9% of the total) and JPY724mn (28.1%) from one-off revenue. The gross profit margin on recurring revenue was 14.6% (-0.5pp YoY) and the gross profit margin on one-off revenue was 45.1% (-1.0pp YoY).

There are two key points in relation to gross profit.

- ▶ As seen previously, the GPM on recurring revenue is less than that on one-off revenue, so as the subleased property portfolio grows and recurring revenue comprises a larger share, overall margins are pushed down.
- ▶ The GPM on contracts for one-off revenue is lower for new contracts (about 40%) than it is for succession contracts (about 70%)*. Considering this, as the share of succession contracts rises, the GPM on the one-off revenue portion related to the contract will tend to improve. Profitability could be impacted by the addition of real estate transaction revenue from FY03/19 and proceeds from the store rent guarantee business from FY03/23. The company's policy is to focus on the number of projects it acquires, as the possibility of liability issues arising from contractual conformity issues (defect warranties) increases with high-cost construction work.

*The company receives usually about three months' rent in key money and commissions from tenants for new contracts and pays the owner (or real estate agent) two months' worth. Meanwhile for succession contracts, it still receives three months' rent but only pays name-change fees of one month's rent.

**Store rent guarantee business

The company established Store Safety Co., Ltd. as a subsidiary on April 1, 2022, and the new company commenced operations in Q1 FY03/23. The business provides guarantees of rent to customers who sign new or successor sublease contracts with the company (one month's rent for the first year and 1/10th of one month's rent for following years). Until now, the Company has outsourced its rent guarantee business to an external guarantor company, but from Q1 03/23 most of this business has been transferred to the subsidiary. The company decided to leverage strengths like extensive management expertise that includes the ability to identify properties for restaurants, collect rent, and troubleshoot by incorporating this guarantee service as part of its business. The Company still manages projects it deems particularly risky by outsourcing to guarantor companies. Since practically speaking, there are almost no additional costs incurred, the business structure ensures that earnings from guarantee fees are almost entirely profit.

SG&A expenses

SG&A expenses

SG&A expenses (JPYmn)	FY03/17 Parent	FY03/18 Parent	FY03/19 Parent	FY03/20 Parent	FY03/21 Parent	FY03/22 Parent	FY03/23 Cons.	FY03/24 Cons.
Directors' bonuses				143	181	187	203	264
Salaries and allowances	229	258	290	353	343	378	401	497
Depreciation	5	5	11	19	15	22		
Bonuses		59	110	129	116	100		
Provision for bonuses	20	23	37	29	33	53	47	39
Retirement benefit expenses							28	22
Provision for directors' bonuses	46	61						
Other	326	336	378	495	411	443	627	778
Total	627	743	826	1,168	1,100	1,184	1,307	1,600
SG&A ratio	11.6%	11.1%	10.0%	11.7%	10.6%	10.4%	10.0%	11.2%
% of SG&A expenses(Parent)								
Selling expenses	4.2%	5.0%	4.4%	4.0%	3.9%	3.6%	3.5%	3.7%
General and administrative expenses	95.8%	95.0%	95.6%	96.0%	96.1%	96.4%	96.5%	96.3%
Personnel (salary + provision for bonuses)	250	341	437	511	492	532	448	536
% of SG&A expenses	39.8%	45.9%	52.9%	43.8%	44.7%	44.9%	34.3%	33.5%
% of revenue	4.6%	5.1%	5.3%	5.1%	4.8%	4.7%	3.4%	3.8%
No. of employees (year-end)	56	60	71	84	74	83	84	113
Personnel expenses per employee (avg.)	4.711	5.875	6.672	6.594	6.228	6.777	5.367	5.442

Source: Shared Research based on company materials

Note: Figures may differ from company materials due to differences in rounding methods.

The main item in SG&A expenses is personnel expenses. The company must increase sales and management headcount as the number of properties under management grows, so personnel expenses are steadily growing. There is more work involved with new contracts than succession contracts. On the assumption that margins per property are about the same and there is no dramatic decline in sales efficiency, personnel expenses, as a share of sales, should decline as succession contracts account for a higher share and recurring revenue increases.

Other than personnel, in May 2016, the company relocated and consolidated its offices in the current building, increasing rental expenses by JPY40mn. The SG&A ratio has been in the 10–11% range; specifically, it was 10.0%, 11.7%, 10.6%, and 10.4% in the four fiscal years through FY03/22. Office relocation to another floor in the same building, expanding office space, and increased shareholder benefit costs resulted in a one-time increase in other expenses. Expenses declined in FY03/21 due to limitations on sales activity due to the COVID-19 pandemic. While personnel costs increased in FY03/22, the SG&A ratio was lower YoY for two years in a row due to higher revenue in FY03/22 and FY03/23. For FY03/24, due to aggressive personnel increases and higher system costs, the SG&A ratio was 11.2%.

Operating profit

During the five years through FY03/24, the operating profit margin fluctuated along with the gross profit margin at 8.9%, 7.9%, 7.1%, 8.0%, 9.3%, and 6.8%, respectively. Assuming no sudden increase in personnel, the company can keep other SG&A expenses in check, making OPM largely dependent on GPM shifts. For FY03/24, as mentioned above, the strategic increase in SG&A expenses also contributed to a decline in OPM.

Non-operating income (expenses)

The main items in non-operating income (expenses) are penalty income and compensation income (usually totaling about JPY15–21mn, but was JPY132mn in FY03/21 due to an increase in compensation income). Penalty income is payments equivalent to rent when a tenant vacates premises without sufficient notice. The latter is compensation when a tenant is requested to vacate premises for redevelopment, for example. The main non-operating expenses are litigation costs and compensation expenses. The latter can be due to redevelopment (compensation expenses increased in FY03/22 to JPY108mn, and JPY93mn and JPY28mn were recorded in FY03/23 and FY03/24, respectively). Litigation cases have all been negligible. The company incurred JPY15.6mn in FY03/18 and JPY34.8mn in FY03/19 as expenses related to listing of its shares.

Extraordinary gains (losses) and net income

In FY03/17, the company posted losses of JPY2mn on sales and retirement of non-current assets and impairment losses of JPY4mn, and JPY6mn profit from the sale of fixed assets related to office expansion in FY03/20, but no other large items.

Market and value chain

Industry environment

There are no statistics on the size of the restaurant property subleasing business, but Shared Research thinks there are a suitable number of restaurants for Tenpo Innovation's business, both in terms of recurring revenue and one-off revenue.

Tokyo has approximately 67,000 restaurants, with around 50,000 small-scale establishments

From the viewpoint of leasing stock, the following table shows the data for the top 20 prefectures by the number of restaurants (based on the "2021 Economic Census for Business Activity Results" by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry). Tokyo has about 67,000 restaurants, representing 13.5% of all restaurants in Japan, far outnumbering the 40,000 in Osaka (7.9% share), which ranks second. The Tokyo metropolitan area (Tokyo, Kanagawa, Chiba, and Saitama prefectures) has around 132,000, accounting for over a quarter of all restaurants in Japan.

Number of restaurants by prefecture (top 20)

	No. of restaurants	% of total		No. of restaurants	% of total
1 Tokyo	67,185	13.5%	11 Kyoto	11,520	2.3%
2 Osaka	39,639	7.9%	12 Hiroshima	11,493	2.3%
3 Aichi	29,632	5.9%	13 Nagano	9,382	1.9%
4 Kanagawa	28,178	5.6%	14 Ibaraki	9,253	1.9%
5 Hokkaido	22,317	4.5%	15 Gifu	8,939	1.8%
6 Hyogo	22,055	4.4%	16 Niigata	8,616	1.7%
7 Fukuoka	21,096	4.2%	17 Okinawa	8,522	1.7%
8 Saitama	19,870	4.0%	18 Miyagi	8,448	1.7%
9 Chiba	17,212	3.4%	19 Tochigi	7,329	1.5%
10 Shizuoka Pref.	15,184	3.0%	20 Gunma	7,148	1.4%
			Total	132,445	26.5%
			Nationwide total	499,193	

Source: Compiled by Shared Research from "2021 Economic Census for Business Activity Results" by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry

Focusing on small-scale restaurants with nine or fewer employees, the company's main customers, there are approximately 50,000 such establishments in Tokyo, accounting for 74% of all restaurants in the city. In the Tokyo metropolitan area (Tokyo, Kanagawa, Chiba, and Saitama prefectures), the number of small-scale restaurants is about 98,000, representing 74% of the total.

Number of small-scale restaurants in Tokyo and three prefectures

	No. of restaurants	No. of small-scale restaurants	Share of small establishments
Tokyo	67,185	49,746	74%
Kanagawa	28,178	20,910	74%
Saitama	19,870	14,859	75%
Chiba	17,212	12,827	75%
Total	132,445	98,342	74%
Nationwide total	499,193	400,756	80%

Source: Compiled by Shared Research from "2021 Economic Census for Business Activity Results" by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry

Notes: * Excludes "non-corporate entities" and "corporate entities with only seconded or dispatched employees."

** "Small-scale restaurants" are defined as establishments with nine or fewer employees.

Huge market with 7% annual replacement

From the standpoint of one-off revenue, focusing on restaurant openings and closures, approximately 18,000 new restaurants opened, and around 32,000 were closed in Tokyo from 2016 to 2021 ("2021 Economic Census for Business Activity Results" by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry), averaging about 3,600 openings and 6,300 closures per year. This translates to an estimated annual ownership turnover rate of about 7%. Similarly, in Kanagawa, Saitama, and Chiba prefectures, the ownership turnover rate is also estimated to be around 7% annually.

Restaurant openings and closings in Tokyo and three prefectures

	No. of restaurants	New	Exiting	Ave. annual openings	Ave. annual closures
Tokyo	67,185	17,898	31,731	3,580	6,346
Kanagawa	28,178	7,218	12,584	1,444	2,517
Saitama	19,870	4,765	9,595	953	1,919
Chiba	17,212	4,089	8,367	818	1,673
Total	132,445	33,970	62,277	6,794	12,455
Nationwide	499,193	121,527	219,534	24,305	43,907

Source: Compiled by Shared Research from "2021 Economic Census for Business Activity Results" by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry

Notes: *Number of openings refers to establishments identified in the 2021 survey that were not included in the 2016 survey, including those that relocated from other locations or underwent changes in their business organization.

*Number of closures refers to establishments identified in the 2016 survey that no longer existed at the time of the 2021 survey, including those that relocated to other locations or underwent changes in their business organization.

The table below shows data for the top 10 prefectures by the number of restaurant openings and closures. Tokyo accounts for approximately 15% of the total openings and closures nationwide, while the Tokyo metropolitan area (Tokyo, Kanagawa, Chiba, and Saitama) represents about 28%.

Restaurant openings and closures by prefecture (top 10)

	New	% of total	Exiting	% of total
1 Tokyo	17,898	14.7%	1 Tokyo	14.5%
2 Osaka	9,975	8.2%	2 Osaka	8.5%
3 Kanagawa	7,218	5.9%	3 Aichi	6.1%
4 Aichi	6,695	5.5%	4 Kanagawa	5.7%
5 Hokkaido	5,665	4.7%	5 Hyogo	4.7%
6 Fukuoka	5,533	4.6%	6 Hokkaido	4.7%
7 Saitama	4,765	3.9%	7 Saitama	4.4%
8 Hyogo	4,637	3.8%	8 Fukuoka	3.9%
9 Chiba	4,089	3.4%	9 Chiba	3.8%
10 Shizuoka	3,525	2.9%	10 Shizuoka	2.9%
Total	33,970	28.0%	Total	28.4%
Nationwide total	121,527		Nationwide total	219,534

Source: Compiled by Shared Research from "2021 Economic Census for Business Activity Results" by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry

The restaurant industry has high opening and closure rates compared to other industries. According to the "2024 White Paper on Small Enterprises" by the Small and Medium Enterprise Agency (based on data from the Ministry of Health, Labour and Welfare's "Annual Report on Employment Insurance Business"), the opening and closure rates by industry for FY2022 show that the "Accommodation and Food Services" sector had the highest rates. The opening rate for this sector was 6.9%, and the closure rate was 5.0%, compared to the all-industry averages of 3.9% and 3.3%, respectively.

Opening and closure rates by industry

	Opening rate	Closure rate
Accommodation and food services	6.9%	5.0%
Living-related and entertainment services	5.7%	4.4%
Information and communications	5.6%	3.8%
Real estate and goods rental and leasing	5.0%	3.5%
Finance and insurance	4.8%	3.5%
Academic research, professional, and technical services	4.5%	3.4%
Construction	4.2%	3.2%
Electricity, gas, heat supply, and water	3.9%	3.1%
Services	3.8%	3.0%
Medical and welfare	3.8%	2.9%
Retail trade	3.7%	2.9%
Education and learning support	3.7%	2.8%
Transportation and postal services	2.6%	2.7%
Wholesale trade	2.4%	2.7%
Manufacturing	1.4%	2.5%
Mining, quarrying, and gravel extraction	1.1%	2.3%
Compound services	0.6%	1.1%
All industries	3.9%	3.3%

Source: Compiled by Shared Research from the "2024 White Paper on Small Enterprises" by the Small and Medium Enterprise Agency

Notes: *The opening rate is the number of establishments with newly established employment relationships in FY2022 divided by the number of applicable establishments at the end of FY2021.

*The closure rate is the number of establishments where employment relationships were terminated in FY2022 divided by the number of applicable establishments at the end of FY2021.

*"Applicable establishments" refers to the number of establishments with labor insurance coverage under employment insurance.

Generally, restaurants' closure rate is 30% within the first year of opening and 90% within 10 years. The high closure rate can be attributed to significant overhead burdens, such as personnel expenses and rent, intense competition, and sensitivity to trends, making it challenging to secure profit when revenue is sluggish. On the other hand, Shared Research believes the high opening rate is not only due to low entry barriers but also because many people aspire to run a restaurant.

Bankruptcies up following COVID-19 pandemic

The market size of the restaurant industry exceeded JPY29tn in 1997 but shrank to approximately JPY23tn in 2011 due to the economic downturn. After 2012, it gradually recovered, stabilizing at around JPY25–26tn. However, the COVID-19 pandemic decreased the market to about JPY18tn in 2020 and JPY17tn in 2021 (source: Japan Food Service Association).

While revenue significantly declined, various government and local support measures for restaurants kept the number of bankruptcies low in 2021 and 2022. However, bankruptcies have been on the rise since 2023. According to Tokyo Shoko Research, Ltd., the number of bankruptcies in the restaurant industry in 1H 2024 (January–June) with total liabilities of JPY10mn or more reached 493 (up from 424 in 1H 2023), hitting the highest 1H record (source: Tokyo Shoko Research, release dated July 11, 2024, “Record-high 493 restaurant bankruptcies in 1H; shakeout accelerates, with ‘bars and cabarets’ and ‘sushi restaurants’ doubling”).

According to the same release, the number of bankruptcies in the restaurant industry in 1H 2022 was only 237, the lowest since 2005, due to the widespread impact of various support measures. However, after the reclassification of COVID-19 to a Class 5 infectious disease, the termination or reduction of support measures, the start of full-scale repayment of “zero-zero” (no-interest) loans, and the rising costs of personnel, ingredients, and energy have further worsened profitability for restaurant operators.

Scope to expand business

Based on the above, it is clear that restaurants in Japan concentrate in the Tokyo metropolitan area (Tokyo, Kanagawa, Chiba, and Saitama), with a high number of openings and closures also occurring in this region. In particular, Tokyo, the company's main target for leasing stock (number of stores), stands out significantly and represents a highly dynamic market in terms of flow (openings and closures).

Comparing the above statistical data with the company's FY03/24 results, Shared Research believes there is significant potential for further market development. The company's share of small-scale restaurants (establishments with nine or fewer employees) is 4.5% in Tokyo (2,234 properties) and 0.4% across the three prefectures combined (122 in Kanagawa, 48 in Chiba, and 41 in Saitama, totaling 2,445). Although there is a difference between the statistical data survey period (2016–2021) and the company's data acquisition period, assuming the number of restaurants has not changed significantly, there is plenty of room for market expansion. The company has set a long-term goal of reaching 5,500 subleased properties by FY03/31.

According to the company, while most transactions around 2000 were for skeleton premises, the demand for fully furnished premises, which allow quick and inexpensive openings, has grown steadily in recent years. Shared Research thinks that the company still has growth opportunities. It can use its expertise to convince tenants to sublease from it rather than directly from owners, and there are business opportunities to buy fully furnished restaurants.

A high turnover rate has always characterized the restaurant industry, and with the termination and reduction of COVID-19-related support measures, the number of bankruptcies in the industry is rising. Shared Research believes this situation expands business opportunities for the company to acquire subleased properties and secure leasing contracts.

Competition

Demand for the properties Tenpo Innovation handles outstrips supply, and competition occurs only at the procurement stage.

It is the only subleasing company that specializes in restaurants, although approximately 20 companies sublease restaurants along with other real estate business (according to the company). Tenpo Innovation obtains leads mainly through real estate agents, while other companies (discussed later), such as ABC Tenpo and Restandard, mainly get information from owners and tenants online. The company said those that offer restaurant subleasing as ancillary business often consider a project finished once a contract is signed, and do not provide any troubleshooting support afterward.

Many other players are involved in some way. While they do not offer subleasing, local real estate agents provide brokerage services and online matching platform operators, and restaurant consultants deal in restaurants and properties with fixtures. Most of their business models rely on using properties procured to receive brokerage, referral, and system usage fees.

Tenpo Innovation relies on procurement from real estate companies, and its own customers (sublessees) can be considered rivals (although they do not compete head-to-head). The company said it sometimes subleases properties to former

competitors from the procurement stage.

Similar companies

ABC Tenpo (unlisted)

Established in September 2002, ABC Tenpo offers restaurant property leasing and subleasing, support services for new businesses (from property referral to support for writing business plans, interior decorating, purchasing, and recruitment), property matching service for restaurant owners/managers (matching potential tenants with fully equipped properties), and new business loan support services (loan consulting and management support for new business owners). It operates a website called inukiABCtenpo. In the restaurant subleasing business, the company according to its website; had 1,088 properties under lease management as of end-FY02/19, generating revenue of JPY3.6bn (+29.1% YoY). According to an article in the Shukan Zenkoku Chintai Jutaku Shimbun dated March 26, 2018, "subleasing rents are often set at about 70% of the original rent, but based on its track record, ABC Tenpo has been able to provide rents above the original rent in many cases. In 2015 the company set up a legal department and a construction department to deal with issues such as contracts, water leaks, and smells. When premises are closed, the company helps attract new tenants through media listings. The owners bear no burden as ABC Tenpo offers comprehensive leasing, legal and construction services."

Restandard (unlisted)

Established in 2011, Restandard provides restaurant property brokerage, subleasing, management, and restaurant asset brokerage services. It has divided up roles with its group company Resta Real Estate Management, and appears to be involved in brokerage and subleasing. It operates two websites, inuki-ichiba and inukibaikyaku-ichiba. Inuki-ichiba is a website for searching for furnished (inuki) restaurants, and has 3,558 listings, including 1,095 inuki properties. Inukibaikyaku-ichiba is a website for selling restaurants. It had 86,946 prospective buyers as registered members (all as of June 16, 2024).

While not a direct competitor, Synchro Food (TSE Prime: 3963) earns commissions by providing information about inuki restaurant properties. The company's main business is an online information-matching platform for restaurant operators (members pay monthly fees). Its business model is based on its mainstay inshokuten.com website. The company also operates inuki-info.com as part of the main website for those who want to sell restaurants or fixtures. These are listed on inshokuten.com to match buyers and sellers, which generates success fees.

Strengths and weaknesses

Strengths

Expertise in subleasing restaurants with fixtures and fittings

Tenpo Innovation has expertise in subleasing restaurants with existing furnishings and fixtures due to its exclusive focus and experience. It gathers a great deal of firsthand information and knowledge on individual restaurants and the local rental market in each of its territories. The company has a database, containing problems and exactly how to solve them, that it created using experiences in its subleased property portfolio and its abundant rent collections expertise. It also has practical knowledge of subleasing and bargaining power. There are no objective yardsticks to measure this, but the company manages over 2,400 properties, and is well-recognized by professionals such as property owners, real estate agents, and restaurant owners. The leading position Tenpo Innovation has built in this niche market is an indicator of the high level of its expertise.

Strong relationship with leading local real estate agents

Local real estate agents with large numbers of attractive properties are a potent source of ongoing property referrals. Real estate agents have a great deal of psychological resistance to leasing assets entrusted from their owner to a company in the same industry. This is a major obstacle to embarking on a business relationship with subleasing companies. By leveraging its expertise and persistent sales activities, however, Tenpo Innovation has cultivated business relationships with 1,100 real estate agents. They have provided leads in 80% of the company's deals and some tightknit relationships have yielded over 50 property referrals. This powerful real estate network is a strength unique to Tenpo Innovation.

Comprehensive training programs to replicate specialist knowledge: Tenpo Innovation's expertise does not just comprise information but is backed by a wealth of accumulated experience and knowledge, and tends to reside in specific individuals. The company has spent three years identifying the elements and using them to develop an educational curriculum. It has also developed numerous practical training situations as many business processes are learned through experience. For example, employees complete one of the company's property survey sheets and perform a private inspection role-play in

front of a manager. The company has developed a program that teaches everything necessary in a definite time span. The proof will be in the future as the full rollout has just begun, but the company's system for replicating the expertise of its salespeople is one of its strengths.

Weaknesses

Low barriers to entry

The business does not require much in the way of either materials or funding. A certain amount of working capital is necessary for personnel and security deposits until the business reaches sufficient scale because earnings on a single property are small, but there is no other major funding needed. Important expertise in running the business cannot be protected as intellectual property. Anyone with the requisite knowledge can start a business. A talented employee could strike out on their own or take their skills elsewhere, even if it would be difficult to reach the same level as Tenpo Innovation or catch up quickly.

Weak purchasing power in the web domain

Weakness in online procurement capabilities: Tenpo Innovation procures fewer properties online than other companies, partly because it focuses on relationships with real estate agents. Due to the characteristics of the company's business, there are often limits to speedy responses and transactions, which is usually an advantage of online transactions. Even if there is an inquiry from a restaurant seller online, the owner may not decide to sublease quickly. Meanwhile, it is relatively easy to set up an online business matching restaurant sellers and buyers, with many websites in operation. Many users appreciate low costs and speed even if they cannot look forward to the same sort of meticulous service that Tenpo Innovation provides. With the procurement battle likely to intensify, the company seems unlikely to obtain a significant number of properties online.

Historical performance and financial statements

Income statement

Income statement	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
(JPYmn)	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.
Revenue	3,248	4,228	5,386	6,689	8,229	9,985	10,343	11,415	13,070	14,264
Recurring revenue	2,856	3,729	4,816	6,061	7,378	8,715	9,164	9,806	11,338	12,658
One-off revenue	392	498	570	628	851	1,269	1,178	1,608	1,731	1,605
YoY	28.4%	30.1%	27.4%	24.2%	23.0%	21.3%	3.6%	10.4%	14.5%	9.1%
Recurring revenue	32.6%	30.6%	29.1%	25.9%	21.7%	18.1%	5.2%	7.0%	15.6%	11.6%
One-off revenue	4.8%	27.0%	14.5%	10.2%	35.5%	49.1%	-7.2%	36.5%	7.6%	-7.3%
Cost of revenue	-	3,457	4,447	5,549	6,669	8,032	8,511	9,321	10,551	11,690
Recurring revenue	-	3,258	4,179	5,219	6,257	7,354	7,832	8,314	9,619	10,808
One-off revenue	-	198	269	331	413	678	678	1,007	932	881
Gross profit	-	771	939	1,140	1,560	1,953	1,832	2,094	2,519	2,574
YoY	-	-	21.8%	21.4%	36.8%	25.2%	-6.2%	14.3%	20.3%	2.2%
Gross profit margin	-	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
SG&A ratio	-	11.6%	11.6%	11.1%	10.0%	11.7%	10.6%	10.4%	10.0%	11.2%
Operating profit	156	280	312	397	734	785	732	910	1,212	974
YoY	-	79.8%	11.1%	27.4%	84.8%	7.0%	-6.8%	24.3%	33.2%	-19.6%
Operating profit margin	-	6.6%	5.8%	5.9%	8.9%	7.9%	7.1%	8.0%	9.3%	6.8%
Non-operating income	-	15	24	23	17	-	179	193	163	88
Non-operating expenses	-	4	7	19	36	-	69	117	108	51
Recurring profit	187	292	328	401	714	812	842	987	1,266	1,011
YoY	53.0%	56.7%	12.2%	22.3%	78.1%	13.7%	3.7%	17.2%	28.3%	-20.1%
Recurring profit margin	5.7%	6.9%	6.1%	6.0%	8.7%	8.1%	8.1%	8.6%	9.7%	7.1%
Extraordinary gains	-	0	0	0	0	6	0	0	0	0
Extraordinary losses	-	0	6	0	0	0	0	0	0	19
Income taxes	-	110	122	165	205	254	266	324	381	326
Implied tax rate	-	37.8%	37.9%	41.2%	28.6%	31.0%	31.6%	32.9%	30.1%	32.9%
Net income attributable to owners of the parent	110	182	200	236	510	564	576	662	886	666
YoY	79.4%	64.6%	9.9%	18.0%	116.1%	10.7%	2.0%	15.1%	33.7%	-24.8%
Net margin	3.4%	4.3%	3.7%	3.5%	6.2%	5.7%	5.6%	5.8%	6.8%	4.7%
Number of contracts	-	269	306	333	362	397	314	407	482	466
No. of subleased properties (year-end)	614	815	1,029	1,242	1,459	1,684	1,706	1,951	2,216	2,445

Source: Shared Research based on company data

Notes: * Figures may differ from company materials due to differences in rounding methods.

* Figures through FY03/15 were prepared under the Companies Act and are not subject to auditing based on the Financial Instruments and Exchange Act.

Refer to Earnings structure section in Business description for details on income statement.

Balance sheet

Balance sheet (JPYmn)	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.
Assets								
Cash and deposits	1,164	1,686	1,862	2,543	2,909	3,468	3,501	3,331
Accounts receivable	7	9	12	13	27	8	17	9
Inventories (real estate for sale)	12	3	10	5	0	7	337	824
Prepaid expenses	554	641	749	879	826	954	1,104	1,195
Other	146	73	717	724	636	423	169	120
Total current assets	1,883	2,412	3,351	4,165	4,398	4,859	5,128	5,480
Total tangible fixed assets	15	356	303	315	446	697	667	677
Total intangible assets	2	13	16	36	32	31	42	31
Deferred tax assets	80	82	220	254	233	269	316	352
Guarantee deposits	3,313	3,849	4,503	5,228	5,123	5,784	6,423	6,842
Other	142	169	194	234	197	259	307	316
Investments and other assets	3,536	4,100	4,917	5,716	5,553	6,311	7,046	7,510
Total fixed assets	3,554	4,469	5,236	6,068	6,031	7,039	7,754	8,218
Total assets	5,437	6,974	8,587	10,233	10,429	11,898	12,882	13,697
Liabilities								
Short-term debt	0	0	0	0	0	0	0	0
Income taxes payable	55	106	182	170	132	252	265	162
Provision for bonuses	20	23	37	29	33	53	47	39
Unearned revenue	647	761	894	1,073	1,006	1,198	1,357	1,516
Other	245	325	380	553	586	419	644	675
Total current liabilities	967	1,216	1,493	1,825	1,756	1,923	2,313	2,392
Long-term debt	0	0	0	0	0	0	0	0
Asset retirement obligations					4	48	49	49
Retirement benefit liability							22	37
Guarantee deposits received	3,270	4,038	4,750	5,582	5,482	6,309	6,970	7,507
Other	159	189	237	280	225	290	334	389
Total fixed liabilities	3,429	4,228	4,987	5,862	5,712	6,647	7,374	7,981
Total liabilities	4,396	5,444	6,480	7,687	7,467	8,570	9,687	10,373
Net assets								
Capital stock	90	241	308	308	308	308	308	308
Capital surplus	322	473	540	540	540	540	540	540
Retained earnings	630	816	1,259	1,698	2,113	2,480	3,154	3,547
Treasury stock	0	0	0	0	0	0	-807	-1,079
Total shareholders' equity	1,041	1,530	2,107	2,546	2,961	3,328	3,195	3,317
Share subscription rights								2
Non-controlling interests							0	5
Total net assets	1,041	1,530	2,107	2,546	2,961	3,328	3,195	3,324
Total liabilities and net assets	5,437	6,974	8,587	10,233	10,429	11,898	12,882	13,697
Working capital	19	13	22	19	27	15	354	833
Total interest-bearing debt	0	0	0	0	0	0	0	0
Net debt	-1,164	-1,686	-1,862	-2,543	-2,909	-3,468	-3,501	-3,331
Current ratio	194.8%	198.3%	224.4%	228.2%	250.5%	252.7%	221.7%	229.1%
Fixed ratio	341.3%	292.0%	248.6%	238.3%	203.7%	211.5%	242.7%	247.8%
Net debt-to-equity ratio	-1.1	-1.1	-0.9	0.0	0.0	0.0	0.0	0.0
Equity ratio	19.2%	21.9%	24.5%	24.9%	28.4%	28.0%	24.8%	24.2%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Assets

The main items in current assets are cash and deposits and prepaid expenses. Prepaid expenses are upfront rent paid to property owners. The main items in fixed assets are guarantee deposits paid to property owners (usually about eight months' rent). As subleased properties increase, guarantee deposits and prepaid expenses also rise, increasing total assets each period. Properties purchased in the Real Estate Trading business are recorded as properties for sale under current assets.

Liabilities

The company has no interest-bearing debt. The main components of its liabilities are advance receipts from tenants and security deposits received.

Net assets

The company raised JPY303mn from listing on the TSE Mothers in October 2017. As stated, assets and liabilities contain prepayments and upfront rent from property owners and tenants, with each accounting for a large proportion of total assets. Thus, Tenpo Innovation has calculated an effective shareholders' equity ratio offsetting these items at 59.7% in FY03/23 and 58.6% in FY03/24.

Cash flow statement

Cash flow statement (JPYmn)	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.
Cash flows from operating activities (1)	240	639	435	923	666	1,124	1,074	455
Cash flows from investing activities (2)	-16	-371	-325	-118	-140	-269	-22	-88
Free cash flow (1+2)	224	268	110	806	526	854	1,052	367
Cash flows from financing activities	-30	253	67	-125	-160	-296	-1,018	-537
Depreciation and amortization (A)	5	5	18	23	20	40	37	50
Capital expenditures (B)	-13	-356	-315	-56	-130	-260	-12	-73
Change in working capital (C)	19	-7	9	-3	8	-12	339	479
Simple FCF (NI + A + B - C)	172	-109	203	535	457	454	571	164

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Cash flows from operating activities

The main items in operating cash flows, other than profit, are increases and decreases in prepaid rent, upfront rent payments received, and security deposits. The company usually has operating cash inflows, according to its business model.

Cash flows from investing activities

Property acquisitions in the Real Estate Trading business are classified as properties for sale, with minimal investment in fixed assets.

Cash flows from financing activities

The company is debt-free, so the main outflow item is usually dividend payments. In FY03/24, outflows narrowed in line with the reduced buyback of treasury shares compared with FY03/23. The company had inflows in FY03/18 and FY03/19 due to inflows of JPY303mn from issuing shares at the time of its stock market listing in FY03/18 and JPY134mn from issuing shares in FY03/19.

Historical performance

Full-year FY03/24 results (out May 13, 2024)

- Revenue: JPY14.3bn (+9.1% YoY, achieved 96.1% of target)
- Operating profit: JPY974mn (-19.6% YoY, 76.4%)
- Recurring profit: JPY1.0bn (-20.1% YoY, 77.4%)
- Net income attributable to owners of the parent: JPY666mn (-24.8% YoY, 74.8%)
- EPS: JPY39.62 (JPY50.33 in FY03/24)
- DPS: JPY20.00 (JPY16.00)

Business environment

In the domestic food service industry, sales and customer traffic increased mainly in urban areas and tourism spots due to the reclassification of COVID-19 to Class 5 infectious disease and a recovery in inbound tourism boosted by yen depreciation. However, profitability was challenged due to the soaring costs of raw materials and utilities and the loss of business opportunities resulting from staff shortages. Recovery is gradually seen in late-night customer traffic and demand for large-scale banquets, but the decrease in the number of outlets has affected the beverage sector.

In the key districts in Tokyo where the company is focused, it observed an increase in tenants and rent, predominantly in regions that benefit from inbound demand. However, weakness in demand persisted for large properties with expanding fixed costs and locations away from train stations that needed solid brand power. Additionally, those on the upper floors continued to face challenges in attracting customers.

Summary

For FY03/24, revenue reached JPY14.3bn (+9.1% YoY) due to an increase in subleased properties, marking a record high. As of end-FY03/24, the number of subleased properties was 2,445 (+229 YoY). Of the total revenue, recurring revenue (rental

income and renewal fees from subleased properties) was JPY12.6bn (+11.5% YoY), while one-off revenue (key money and sale of fixtures from the sublease business and property sales from the Real Estate Trading business) was JPY1.6bn (-6.4% YoY).

Gross profit was JPY2.6bn (+2.2% YoY), with a GPM of 18.0% (-1.2pp YoY). Although revenue increased, higher costs associated with aggressive procurement of subleased properties (such as increased vacancy rents) and the absence of several large, high-margin property sales in the Real Estate Trading business that occurred in the previous period were the main factors leading to a GPM decline.

SG&A expenses grew 22.4% YoY to JPY1.6bn, with the SG&A ratio rising 1.2pp YoY to 11.2%. This rise was primarily due to higher personnel expenses and recruitment costs accompanying increased sales staff. The company paid performance-linked directors' compensations based on FY03/23 results, and increased system-related costs. Recruitment activities progressed, with sales managers taking on hiring tasks from FY03/24. Sales staff increased from 36 at end-FY03/23 to 48 by end-FY03/24.

Operating profit declined 19.6% YoY to JPY974mn due to these upfront expenses for business expansion, resulting in an OPM of 6.8% (-2.4pp YoY). The breakdown of the JPY238mn YoY decrease in operating profit includes a JPY55mn increase from higher gross profit, a JPY143mn reduction due to higher personnel expenses, a JPY20mn decrease from shareholder benefit costs, and a JPY129mn decrease from higher recruitment, system, and advertising expenses.

Performance by business

Restaurant Subleasing business

- Revenue: JPY13.6bn (+11.2% YoY)
- Segment profit: JPY810mn (-15.8% YoY)

In its Restaurant Subleasing business, the company sought to bolster sales power and training to acquire new restaurant properties with the right profile (good location, small size, and fully furnished). To handle the increase in the number of subleased properties in the medium to long term, the company promoted digital transformation (DX) by leveraging operational management systems and utilizing electronic contracts, among other initiatives.

FY03/24 revenue increased 11.2% YoY to JPY13.6bn, driven by the growth in subleased properties. At end-FY03/24, the segment had a total of 2,445 subleased properties (+229 YoY).

The number of sublease contracts in FY03/24 was 466 (-16 YoY). New contracts totaled 258 (-27 YoY), and successor contracts (sublease agreements concluded with a new tenant for a store that has closed) stood at 208 (+11 YoY). By quarter, the company sealed contracts on 119 subleased properties in Q1, 115 in Q2, 116 in Q3, and 116 in Q4. While these figures were high, exceeding 115 each quarter, they were lower than the 131 and 127 contracts reported in Q3 and Q4 FY03/23, respectively. Starting in FY03/24, the company focused on cultivating a new sales force by assigning veteran sales personnel to hiring and training roles, which was a factor behind upfront expenditures for the sales structure reform.

Segment profit fell 15.8% YoY to JPY810mn, and the segment profit margin was 6.0% (-1.9pp YoY). This was due to increased rents paid for vacant properties caused by aggressive acquisition of new properties. Additionally, the GPM deteriorated partly because proceeds from the sale of fixtures purchased from departing tenants fell short of expectations. Further, SG&A expenses increased due to active investments, such as higher personnel and recruitment costs from increased sales staff and system-related expenses.

At end-FY03/24, sales personnel numbered 48 (+12 YoY). This included 16 personnel for procurement and 32 for leasing (compared to 14 for procurement, 19 for leasing, and three for dual roles in FY03/24). In FY03/24, the company focused on transitioning from a personalized sales framework to a more organized and systematized structure, especially in the leasing sales division. According to the company, the training of new hires in FY03/24 progressed, and it plans to continue their training.

The performance of the store rent guarantee business operated by the subsidiary Safety Innovation (formerly Store Safety) is included in this segment. Revenue from the store rent guarantee business for FY03/24 increased steadily to JPY148mn (to JPY145mn in FY03/23). Revenue from this business almost entirely translates to operating profit.

Real Estate Trading business

- Revenue: JPY710mn (-19.0% YoY)

- Segment profit: JPY164mn (-34.3% YoY)

In Real Estate Trading, the company purchases and builds restaurant properties to strengthen its relationships with agents and promote its Restaurant Subleasing business. About five years have passed since the start of this business, and the company has accumulated a track record in real estate sales and purchases, expanding its procurement and sales networks. Based on these networks, the company aims to acquire and sell prime properties with an emphasis on profitability.

In FY03/24, revenue was JPY710mn (-19.0% YoY). Segment profit was JPY164mn (-34.3% YoY), with a segment profit margin of 23.2% (-5.4pp YoY). As economic and social activities normalized, market hesitancy improved, and the company sold 10 properties (five in FY03/23). The property sales in FY03/23 included several high-priced and high-margin properties, leading to a YoY decline in both revenue and profit in FY03/24.

The company has stepped up property procurement efforts as part of its business strategy and acquired eight new properties in FY03/24 (flat YoY). As a result, the company held four properties at end-FY03/24 (six at end-FY03/23), with real estate for sale amounting to JPY824mn (+144.4% YoY).

Cumulative Q3 FY03/24 results (out February 2, 2024)

Summary

Results for Q3 FY03/24 (April–December 2023)

- Revenue: JPY10.5bn (+6.6% YoY)
- Operating profit: JPY720mn (-29.6% YoY)
- Recurring profit: JPY761mn (-28.6% YoY)
- Net income attributable to owners of the parent: JPY519mn (-28.9% YoY)

Market conditions for restaurant industry

In the food service industry, sales and customer traffic increased due to the reclassification of COVID-19 to Class 5 infectious disease, an increase in food and drink demand due to the intense heat, and a recovery in inbound tourism boosted by yen depreciation. However, profitability was challenged due to the soaring costs of raw materials and utilities and loss of business opportunities resulting from staff shortages. Recovery is gradually seen in late-night customer traffic and demand for large-scale banquets, but the decrease in the number of outlets has affected the beverage sector.

Market conditions for restaurant properties

In the key districts in Tokyo where the company is focused, it observed a decreasing trend in tenant recruitment, predominantly in regions where inbound demand can be expected. However, weakness in demand persisted for large properties with expanding fixed costs and locations away from train stations that needed solid brand power. Additionally, those on the upper floors continued to face challenges in attracting customers.

Conditions at the company's businesses

In Q3, revenue increased 6.6% YoY while operating profit decreased 29.6% YoY. Progress against the full-year forecast was 70.9% for revenue, 56.5% for operating profit, 58.3% for recurring profit, and 58.3% for net income.

The Restaurant Subleasing business posted revenue of JPY10.0bn (+11.6% YoY). The company sought to bolster sales capabilities and training to acquire new restaurant properties with the right profile (good location, small size, and fully furnished). To handle the increase in the number of subleased properties in the medium to long term, the company promoted digital transformation (DX) by leveraging operational management systems and utilizing electronic contracts, among other initiatives.

Revenue in the Real Estate Trading business fell 45.2% YoY to JPY478mn. During Q3, the company acquired and sold six properties. It actively acquired information regarding the sale of existing subleased properties through enhanced collaboration with the Restaurant Subleasing business. The company also revamped its organization, hiring more personnel and focusing on customer development.

Gross profit was JPY1.9bn (-4.7% YoY), with a GPM of 17.7% (-2.1pp YoY). Although revenue increased, gross profit and the GPM declined due to rising costs associated with aggressive subleasing property acquisitions (such as vacant rent, construction, and commissions) and the postponement of property sales in the Real Estate Trading business. SG&A expenses

reached JPY1.1bn (+22.7% YoY) with an SG&A ratio of 10.8% (+1.4pp YoY). The company made progress in its recruitment activities by placing sales managers in charge of hiring. Sales staff increased from 36 at end-FY03/23 to 47 at end-Q3. Operating profit was JPY720mn (-29.6% YoY), with an OPM of 6.8% (-3.5pp YoY) due to increased upfront expenses related to expanded operations.

Restaurant Subleasing business

Restaurant Subleasing(cumulative) (JPYmn)	FY03/22				FY03/23				FY03/24		
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3
Revenue (cumulative)	2,453	4,997	7,645	10,445	2,902	5,906	9,002	12,194	3,263	6,626	10,044
YoY	2.4%	5.0%	6.7%	9.2%	18.3%	18.2%	17.8%	16.7%	12.4%	12.2%	11.6%
Operating profit (cumulative)	180	340	535	724	251	511	757	962	216	423	639
YoY	79.7%	54.5%	51.3%	46.1%	39.1%	50.5%	41.4%	32.9%	-14.0%	-17.3%	-15.6%
Operating profit margin	7.3%	6.8%	7.0%	6.9%	8.6%	8.7%	8.4%	7.9%	6.6%	6.4%	6.4%
Restaurant Subleasing(quarterly)	FY03/22				FY03/23				FY03/24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	2,453	2,543	2,648	2,800	2,902	3,005	3,096	3,192	3,263	3,363	3,417
YoY	2.4%	7.6%	10.1%	16.4%	18.3%	18.1%	16.9%	14.0%	12.4%	11.9%	10.4%
Operating profit	180	159	196	189	251	260	246	205	216	207	216
YoY	79.7%	33.4%	46.1%	33.0%	39.1%	63.3%	25.7%	8.5%	-14.0%	-20.4%	-12.0%
Operating profit margin	7.3%	6.3%	7.4%	6.7%	8.6%	8.7%	7.9%	6.4%	6.6%	6.2%	6.3%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: As the Company has shifted to consolidated accounting from FY03/23, YoY comparisons are for reference purposes only. The same applies below.

For Q3 FY03/24, the Restaurant Subleasing segment reported revenue of JPY10.0bn (+11.6% YoY) and a segment profit of JPY639mn (-15.6% YoY).

Q3 revenue increased 11.6% YoY to JPY10.0bn, driven by the growth in subleased properties. At end-Q3, the segment had a total of 2,382 subleased properties (+166 from end-FY03/23), and contracted properties* totaled 350 (-1.4% YoY). (*Contracted properties include new and renewed contracts; renewed contracts are for properties subleased after a restaurant has closed, concluded with the person opening a new restaurant.)

The number of sublease contracts in FY03/24 was 119 in Q1 (April–June), 115 in Q2 (July–September), and 116 in Q3 (October–December). While these figures were high, exceeding 115 in each quarter, they were lower than the 131 and 127 contracts reported in Q3 and Q4 FY03/23, respectively. The company is focused on cultivating a new sales force by assigning veteran sales personnel to hiring and training roles starting this fiscal year, which was a factor behind upfront expenditures for the sales structure reform. Revenue from the store rent guarantee business operated by Tenpo Safety Inc. remained stable.

Segment profit fell 15.6% YoY to JPY639mn, and the profit margin was 6.4% (-2.0pp YoY). This was due to increased rents paid for vacant properties caused by aggressive acquisition of new properties and a rise in personnel and recruitment costs due to increased sales staff (11 more people compared to end-March 2023). Almost all revenue from the restaurant rent guarantee business is recorded as profit.

Real Estate Trading business

Real Estate Trading(cumulative) (JPYmn)	FY03/22				FY03/23				FY03/24		
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3
Revenue (cumulative)	291	670	784	970	103	198	872	877	148	473	478
YoY	2862.5%	61.7%	1.5%	25.3%	-64.7%	-70.5%	11.2%	-9.6%	44.3%	139.1%	-45.2%
Operating profit (cumulative)	44	102	106	186	36	44	266	251	29	103	81
YoY	7642.0%	44.1%	-57.7%	-21.3%	-18.3%	-57.1%	150.7%	34.7%	-18.4%	135.0%	-69.5%
Operating profit margin	15.0%	15.2%	13.5%	19.2%	34.6%	22.1%	30.5%	28.6%	19.6%	21.8%	17.0%
Real Estate Trading(quarterly)	FY03/22				FY03/23				FY03/24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	291	380	114	186	103	95	675	4	148	324	6
YoY	2862.5%	-6.2%	-68.2%	15063.5%	-64.7%	-75.0%	491.9%	-97.7%	44.3%	241.6%	-99.2%
Operating profit	44	59	4	80	36	8	222	-15	29	74	-22
YoY	7642.0%	-16.6%	-97.8%	-	-18.3%	-86.0%	5496.6%	-	-18.4%	799.3%	-
Operating profit margin	15.0%	15.4%	3.5%	43.0%	34.6%	8.6%	32.9%	-	19.6%	22.8%	-388.7%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Q3 segment revenue: JPY478mn (-45.2% YoY), segment profit of JPY81mn (-69.5% YoY).

In Real Estate Trading, the company purchases and builds restaurant properties to strengthen its relationships with agents and promote its Restaurant Subleasing business. About five years have passed since the start of this business, and the company has accumulated a track record in real estate sales and purchases, expanding its procurement and sales networks. Based on these networks, the company aims to acquire and sell prime properties with an emphasis on profitability.

During Q3, socioeconomic activities normalized, easing the market's wait-and-see attitude. The company sold six properties, bringing in revenue of JPY478mn (-45.2% YoY). The lower revenue was due to the absence of high-priced properties sold in Q3 compared to the same quarter of the previous year.

The company has stepped up property procurement efforts as part of its business strategy and acquired eight new properties in Q3 (versus five in Q3 FY03/23). As a result, the company held eight properties at end-Q3.

Segment profit declined 69.5% YoY to JPY81mn, with a profit margin of 17.0% (-13.5pp YoY). In Q3, profit declined YoY because the company did not sell any of its properties, and the properties sold in Q3 FY03/23 included profitable ones. According to the company, there was no particular change in real estate market conditions, and it prioritizes profitability. From Q4 onward, the company plans to carefully determine the timing of property sales.

1H FY03/24 results (out November 2, 2023)

Summary

Results for 1H FY03/24 (April–September 2023)

- Revenue: JPY7.1bn (+16.3% YoY)
- Operating profit: JPY526mn (-5.3% YoY)
- Recurring profit: JPY559mn (-3.9% YoY)
- Net income attributable to owners of the parent: JPY381mn (-4.3% YoY)

Market conditions for restaurant industry

In the food service industry, sales and customer traffic increased due to the first summer vacation season following the reclassification of COVID-19 from a Class 2 to Class 5 infectious disease in May 2023, an increase in food and drink demand due to the intense heat, and a recovery in inbound tourism boosted by yen depreciation. However, profitability was challenged due to the soaring costs of raw materials and utilities. Recovery is gradually seen in late-night customer traffic and demand for large-scale banquets, but the decrease in the number of outlets has affected the beverage sector.

Market conditions for restaurant properties

In the key districts in Tokyo where the company is focused, it observed a decreasing trend in tenant recruitment, predominantly in regions where inbound demand can be expected. However, weakness in demand persisted for large properties with expanding fixed costs and locations away from train stations that needed solid brand power. Additionally, those on the upper floors faced challenges in attracting customers.

Conditions at the company's businesses

In 1H, revenue increased 16.3% YoY while operating profit decreased 5.3% YoY. Progress against the full-year forecast was 47.8% for revenue, 41.2% for operating profit, 42.8% for recurring profit, and 42.8% for net income.

The Restaurant Subleasing business posted revenue of JPY6.6bn (+12.2% YoY). The company sought to bolster sales capabilities and training to acquire new restaurant properties with the right profile (good location, small size, and fully furnished). To handle the increase in the number of subleased properties in the medium to long term, the company promoted digital transformation (DX) by leveraging operational management systems and utilizing electronic contracts, among other initiatives.

Revenue in the Real Estate Trading business rose 139.1% YoY to JPY473mn. During 1H, the company acquired and sold six properties. It actively acquired information regarding the sale of existing subleased properties through enhanced collaboration with the Restaurant Subleasing business. The company also revamped its organization, hiring more personnel and focusing on customer development.

Gross profit was JPY1.3bn (+8.9% YoY), with a GPM of 17.8% (-1.2pp YoY). Although gross profit increased on higher revenue, the GPM declined due to more rent paid for vacant properties due to aggressive purchase of properties for subleasing. SG&A expenses reached JPY741mn (+21.7% YoY) with an SG&A ratio of 10.4% (+0.5pp YoY). The company made progress in its recruitment activities by placing sales managers in charge of hiring. Sales staff increased from 36 at end-FY03/23 to 47 at end-Q2. Operating profit was JPY526mn (-5.3% YoY), with an OPM of 7.4% (-1.7pp YoY) due to increased upfront expenses related to expanded operations.

Restaurant Subleasing business

Restaurant Subleasing(cumulative) (JPYmn)	FY03/22				FY03/23				FY03/24	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2
Revenue (cumulative)	2,453	4,997	7,645	10,445	2,902	5,906	9,002	12,194	3,263	6,626
YoY	2.4%	5.0%	6.7%	9.2%	18.3%	18.2%	17.8%	16.7%	12.4%	12.2%
Operating profit (cumulative)	180	340	535	724	251	511	757	962	216	423
YoY	79.7%	54.5%	51.3%	46.1%	39.1%	50.5%	41.4%	32.9%	-14.0%	-17.3%
Operating profit margin	7.3%	6.8%	7.0%	6.9%	8.6%	8.7%	8.4%	7.9%	6.6%	6.4%
Restaurant Subleasing(quarterly)	FY03/22				FY03/23				FY03/24	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	2,453	2,543	2,648	2,800	2,902	3,005	3,096	3,192	3,263	3,363
YoY	2.4%	7.6%	10.1%	16.4%	18.3%	18.1%	16.9%	14.0%	12.4%	11.9%
Operating profit	180	159	196	189	251	260	246	205	216	207
YoY	79.7%	33.4%	46.1%	33.0%	39.1%	63.3%	25.7%	8.5%	-14.0%	-20.4%
Operating profit margin	7.3%	6.3%	7.4%	6.7%	8.6%	8.7%	7.9%	6.4%	6.6%	6.2%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: As the Company has shifted to consolidated accounting from FY03/23, YoY comparisons are for reference purposes only. The same applies below.

For 1H FY03/24, the Restaurant Subleasing segment reported revenue of JPY6.6bn (+12.2% YoY) and a segment profit of JPY423mn (-17.3% YoY).

1H revenue increased 12.2% YoY, driven by the growth in subleased properties. At end-Q2, the segment had a total of 2,335 subleased properties (+119 from end-FY03/23), and contracted properties* totaled 234 (+4.5% YoY). (*Contracted properties include new and renewed contracts; renewed contracts are for properties subleased after a restaurant has closed, concluded with the person opening a new restaurant.)

The number of sublease contracts increased YoY, thanks to solid hiring and increased sales personnel. Sales activities were focused on aggressively sourcing new properties on the back of bolstered sales structure and personnel. The number of contract cancellations for Q2 (July–September) was roughly the same as that for Q1 (April–June). The store rent guarantee business operated by Tenpo Safety Inc. expanded in line with the growth in the number of contracts.

Segment profit fell 17.3% YoY to JPY423mn, and the profit margin was 6.4% (-2.3pp YoY). This was due to increased rents paid for vacant properties caused by increased acquisition of new properties and a rise in personnel and recruitment costs due to increased sales staff (11 more people compared to end-March 2023). Almost all revenue from the restaurant rent guarantee business is recorded as profit.

Real Estate Trading business

Real Estate Trading(cumulative) (JPYmn)	FY03/22				FY03/23				FY03/24	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2
Revenue (cumulative)	291	670	784	970	103	198	872	877	148	473
YoY	2862.5%	61.7%	1.5%	25.3%	-64.7%	-70.5%	11.2%	-9.6%	44.3%	139.1%
Operating profit (cumulative)	44	102	106	186	36	44	266	251	29	103
YoY	7642.0%	44.1%	-57.7%	-21.3%	-18.3%	-57.1%	150.7%	34.7%	-18.4%	135.0%
Operating profit margin	15.0%	15.2%	13.5%	19.2%	34.6%	22.1%	30.5%	28.6%	19.6%	21.8%
Real Estate Trading(quarterly)	FY03/22				FY03/23				FY03/24	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	291	380	114	186	103	95	675	4	148	324
YoY	2862.5%	-6.2%	-68.2%	15063.5%	-64.7%	-75.0%	491.9%	-97.7%	44.3%	241.6%
Operating profit	44	59	4	80	36	8	222	-15	29	74
YoY	7642.0%	-16.6%	-97.8%	-	-18.3%	-86.0%	5496.6%	-	-18.4%	799.3%
Operating profit margin	15.0%	15.4%	3.5%	43.0%	34.6%	8.6%	32.9%	-	19.6%	22.8%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

For 1H FY03/24, the Real Estate Trading segment reported revenue of JPY473mn (+131.9% YoY) and segment profit of JPY103mn (+135.0% YoY).

In Real Estate Trading, the company purchases and builds restaurant properties to strengthen its relationships with real estate agents and promote its Restaurant Subleasing business.

During 1H, socioeconomic activities normalized, easing the market's wait-and-see attitude. The company sold six of its properties (versus two in 1H FY03/23), bringing in revenue of JPY473mn (+139.1% YoY). Based on its strategy of reinforcing property purchases, it also acquired six new properties during 1H (versus two in 1H FY03/23). As a result, the company held six properties at end-Q2.

The company said about five years have passed since the launch of this business, during which time it has accumulated a track record in real estate transactions, widening the network for both procurement and sales. The number of properties sold

in Q2 (July–September) reached a record high of four on a quarterly basis. The company aims to set the Q2 FY03/24 level as a benchmark for future property procurement and sales and property sizes.

Segment profit rose 135.0% YoY to JPY103mn, with a profit margin of 21.8% (-0.4pp YoY)—roughly on par with the year-ago level.

Q1 FY03/24 results (out August 3, 2023)

Summary

Results for Q1 FY03/24 (April–June 2023)

- Revenue: JPY3.4bn (+13.5% YoY)
- Operating profit: JPY245mn (-14.6% YoY)
- Recurring profit: JPY277mn (-9.4% YoY)
- Net income attributable to owners of the parent: JPY189mn (-9.8% YoY)

Market conditions for restaurant industry

In the food service industry, sales and customer traffic increased due to the absence of restrictions during the Golden Week period (late April to early May) and an increase in inbound tourism, following the trend from the previous year. However, profitability was challenged due to the soaring costs of raw materials and utilities. Recovery in late-night customer traffic and demand for large-scale banquets remained limited, and the recovery remained slow in the beverage sector.

Market conditions for restaurant properties

In the key districts in Tokyo where the company is focused, the situation settled somewhat with the return of customer traffic and properties seeking tenants. However, weakness in demand for properties persisted in locations away from train stations that needed solid brand power. Additionally, large properties with expanding fixed costs and those on upper floors faced challenges attracting customers.

Conditions at the company's businesses

The results for Q1 showed a 13.5% YoY increase in revenue and a 14.6% YoY decrease in operating profit. Progress against the full-year forecast was 23.0% for revenue, 19.2% for operating profit, 21.2% for recurring profit, and 21.2% for net profit.

The Restaurant Subleasing business posted revenue of JPY3.3bn (+12.4% YoY). The company sought to bolster sales capabilities and training to acquire new restaurant properties with the right profile (good location, small size, and fully furnished). To handle the increase in the number of subleased properties in the medium to long term, the company promoted digital transformation (DX) by leveraging operational management systems and utilizing electronic contracts, among other initiatives.

In the Real Estate Trading business, the company actively acquired sales information regarding the sale of existing subleased properties through enhanced collaboration with the Restaurant Subleasing business. The company also revamped its organization, hiring more personnel and focusing on customer development.

Gross profit was JPY606m (+3.0% YoY), with a GPM of 17.8% (-1.8pp YoY). The main factors were the increased rent paid for vacant properties due to proactive rental property purchases, and the decline in the profit margin on real estate sales. SG&A expenses reached JPY361mn (+19.6% YoY) due to higher personnel expenses from increased sales staff, recruitment costs from intensified hiring, and system-related spending. Operating profit fell 14.6% YoY due to growing upfront costs for business expansion.

Along with its Q1 results, the company announced enhanced benefits for loyal shareholders as part of efforts to clarify its policy on shareholder returns. For more information, please see the "Dividend policy" section below.

Restaurant Subleasing business

Restaurant Subleasing(cumulative) (JPYmn)	FY03/22				FY03/23				FY03/24
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1
Revenue (cumulative)	2,453	4,997	7,645	10,445	2,902	5,906	9,002	12,194	3,263
YoY	2.4%	5.0%	6.7%	9.2%	18.3%	18.2%	17.8%	16.7%	12.4%
Operating profit (cumulative)	180	340	535	724	251	511	757	962	216
YoY	79.7%	54.5%	51.3%	46.1%	39.1%	50.5%	41.4%	32.9%	-14.0%
Operating profit margin	7.3%	6.8%	7.0%	6.9%	8.6%	8.7%	8.4%	7.9%	6.6%
Restaurant Subleasing(quarterly)	FY03/22				FY03/23				FY03/24
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	2,453	2,543	2,648	2,800	2,902	3,005	3,096	3,192	3,263
YoY	2.4%	7.6%	10.1%	16.4%	18.3%	18.1%	16.9%	14.0%	12.4%
Operating profit	180	159	196	189	251	260	246	205	216
YoY	79.7%	33.4%	46.1%	33.0%	39.1%	63.3%	25.7%	8.5%	-14.0%
Operating profit margin	7.3%	6.3%	7.4%	6.7%	8.6%	8.7%	7.9%	6.4%	6.6%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: As the Company has shifted to consolidated accounting from FY03/23, YoY comparisons are for reference purposes only. The same applies below.

For Q1 FY03/24, the Restaurant Subleasing segment reported revenue of JPY3.3bn (+12.4% YoY) and a segment profit of JPY216mn (-14.0% YoY).

Q1 revenue increased 12.4% YoY, driven by the growth in subleased properties and completed contracts. At end-Q1, the segment reported a total of 2,272 subleased properties (+56 from end-FY03/23); contracted properties* totaled 119 (+11.2% YoY). (*Contracted properties include new and renewed contracts; renewed contracts are for properties subleased after a restaurant has closed, concluded with the person opening a new restaurant.) During Q1, the company focused on proactively procuring new properties for future growth, backed by a bolstered sales structure and increased personnel. Seven contracts were terminated during the quarter due to transient factors such as the end of fixed-term leasing, issues related to redevelopment, etc. Revenue from the restaurant rent guarantee business operated by Tenpo Safety Inc. expanded in line with the growth in the number of contracts.

Segment profit fell 14.0% YoY, and the profit margin was 6.6% (-2.0pp YoY). This was due to an increase in rents paid for vacant properties caused by increased acquisition of new properties and a rise in personnel and recruitment costs due to an increase in sales staff (four more people compared to end-March 2023). Almost all of the revenue from the restaurant rent guarantee business is profit.

Real Estate Trading business

Real Estate Trading(cumulative) (JPYmn)	FY03/22				FY03/23				FY03/24
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1
Revenue (cumulative)	291	670	784	970	103	198	872	877	148
YoY	2862.5%	61.7%	1.5%	25.3%	-64.7%	-70.5%	11.2%	-9.6%	44.3%
Operating profit (cumulative)	44	102	106	186	36	44	266	251	29
YoY	7642.0%	44.1%	-57.7%	-21.3%	-18.3%	-57.1%	150.7%	34.7%	-18.4%
Operating profit margin	15.0%	15.2%	13.5%	19.2%	34.6%	22.1%	30.5%	28.6%	19.6%
Real Estate Trading(quarterly)	FY03/22				FY03/23				FY03/24
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	291	380	114	186	103	95	675	4	148
YoY	2862.5%	-6.2%	-68.2%	15063.5%	-64.7%	-75.0%	491.9%	-97.7%	44.3%
Operating profit	44	59	4	80	36	8	222	-15	29
YoY	7642.0%	-16.6%	-97.8%	-	-18.3%	-86.0%	5496.6%	-	-18.4%
Operating profit margin	15.0%	15.4%	3.5%	43.0%	34.6%	8.6%	32.9%	-	19.6%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

For Q1 FY03/24, the Real Estate Trading segment reported revenue of JPY148mn (+44.3% YoY) and segment profit of JPY29mn (-18.4% YoY).

The company's Real Estate Trading business purchases and builds restaurant properties to strengthen its relationships with real estate agents and promote its restaurant subleasing business. In Q1, the company sold two properties and bought five as most buyers shifted from the wait-and-see attitude as Japan's socioeconomic activity returned to normal. The company stepped up efforts to purchase properties in Q1 in line with its business strategy, and had nine properties at end-Q1.

Segment profit declined 18.4% YoY, with a profit margin of 19.6% (-15.0pp YoY). The profit margin for the quarter was on par with the 19.2% in full-year FY03/22, given that the properties sold in Q1 FY03/23 included high-margin projects.

News and topics

Medium-term management plan (FY2024–FY2027) and revision of dividend policy

2024-05-13

Tenpo Innovation Inc. announced a medium-term management plan for FY2024–FY2027 and the revision of its dividend policy.

The company plans a transition to a holding company structure and, in light of this, has formulated a new four-year medium-term management plan from FY03/25 to FY03/28 using a rolling method. In conjunction with this, the company revised its dividend policy (forecast for each period).

Medium-term management plan (consolidated earnings targets)

(JPYmn)	FY03/24	FY03/25	FY03/26	FY03/27	FY03/28
	Act.	Targets	Targets	Targets	Targets
Revenue	14,263	16,840	19,190	22,138	25,644
Operating profit	974	907	1,035	1,268	1,645
Recurring profit	1,011	942	1,070	1,303	1,680
Net income attributable to owners of the parent	666	630	697	848	1,094
No. of subleased properties (year-end)(No. of customers)	2,445	2,757	3,110	3,520	3,994
Dividend forecast					
Previous forecast					
Projected annual dividend per share(JPY)	20.00	24.00	28.00	-	-
Payout ratio	38.2%	39.6%	40.9%	-	-
Latest forecast(JPY)					
Projected annual dividend per share	20.00	21.00	22.00	-	-
Payout ratio	50.5%	55.9%	52.9%	40–50%	40–50%

Source: Shared Research based on company data

Basic policy for medium-term management plan

The medium-term management plan focuses on the expansion of specialized business segments: the Restaurant Subleasing business, the Real Estate Trading business, and the store rent guarantee business. The key measures are as follows:

1. Further expand the sales structure by strengthening recruitment and training comprehensively
2. Create customer acquisition mechanisms and IT based on the characteristics of each business
3. Pursue synergies through sharing customers and know-how across business segments
4. Promote digital transformation by digitizing know-how and systematizing operations
5. Empower subsidiaries to foster entrepreneurship and enable rapid decision-making

Revision of dividend policy

The company formulated the new medium-term management plan in light of the growth investments associated with transitioning to a holding company structure. Accordingly, it revised the dividend forecast for each period.

Company moving to holding company structure, changing trade name

2024-02-02

Tenpo Innovation Inc. announced plans to start preparations for a transition to a holding company structure through a company split and changes to its trade name.

In a meeting on February 2, 2024, the Board of Directors of the company decided to begin preparations to adopt a holding company structure and establish a wholly-owned subsidiary, Tenpo Innovation Split Preparation Company, in early February 2024 (scheduled).

The purpose is for the holding company to oversee management across the entire group, allowing each subsidiary to focus on pursuing its business goals, to maximize the group's corporate value.

The company plans to move to a holding company structure through a split. The decision on this matter is expected around May and will be subject to shareholders' approval at an ordinary general shareholders' meeting scheduled for mid-June

2024. It is also subject to the relevant authorities' approval of necessary procedures and permissions. Regarding the transition method, the company plans to carry out a company split (absorption-type split), with itself being the splitting company, and transfer the split businesses to the wholly-owned preparation company. The process is expected to be completed on October 1, 2024, and the company will continue to be listed as a holding company. On October 1, the company will also change its trade name to Innovation Holdings Inc.

In addition, the company decided to establish Asset Innovation Inc., a consolidated subsidiary with real estate sales as its primary business, and change the trade name of Store Safety Co., Ltd., a consolidated subsidiary, to Safety Innovation Inc., effective February 9, 2024.

Issuance of third series of share subscription rights via third-party allotment using treasury stock

2023-11-20

Tenpo Innovation Inc. announced the issuance of the third series of share subscription rights (with exercise price adjustment and suspension request clauses) through third-party allotment.

If all share subscription rights are exercised, the number of common shares to be issued by the company will be 900,000, causing a dilution of 5.09% against the total number of outstanding shares of 17,674,000. The common shares to be issued as a result of the exercise of the share subscription rights will be allocated from the company's treasury stock.

As of November 20, 2023, the company did not meet one of the Tokyo Stock Exchange's Prime Market listing maintenance standards: a total market capitalization of shares in circulation of JPY10.0bn. By allotting treasury stock when the share subscription rights are exercised, the company aims to increase the ratio of shares in circulation in efforts to comply with the standard.

The amount of funds to be raised

Estimated net proceeds: JPY1,077mn

Specific uses of the funds to be raised

Investment in business system development and promotion of digital transformation: JPY132mn (planned expenditure period: January 2024–March 2026)

Investment in operating funds and personnel recruitment (personnel expenses): JPY945mn (planned expenditure period: January 2024–March 2026)

Overview of share subscription rights	
Issuance resolution date/Allotment date	November 20, 2023/December 6, 2023
Exercise period	December 7, 2023–December 7, 2026(three years)
Total number of share subscription rights	9,000 units
Number of dilutive shares	900,000 shares
Dilution rate	5.09%
Amount to be raised (estimated net proceeds)	JPY1,077mn
Initial exercise price	JPY1,198
Upper limit for exercise price	No upper limit
Lower limit for exercise price	JPY1,198 (book value of treasury stock)
Amendments to exercise price	The exercise price will be adjusted to 91% of the closing price of the company's shares on the trading day immediately preceding the effective date of the exercise of the share subscription rights.
Exercisable share price	JPY1,340 (highest since listing, after taking into consideration stock split)
Restricted period	Two years from the payment date (six-month extension possible by a Board of Directors resolution)
Exercise suspension requests	The company may set the suspension period or the number of share subscription rights to be exercised at its discretion
Acquisition clause	When a resolution is passed by the Board of Directors or there are share subscription rights remaining at the end of the exercise period, etc.
Purchase clause	If the share price tracks below JPY896 (80% of the closing price on the trading day immediately preceding the issuance resolution date) for 20 consecutive trading days, etc.
Method of offering or allocation	By way of third-party allotment
Scheduled allottee	Tokai Tokyo Securities Co., Ltd.

Source: Shared Research based on company materials

Other information

History

Date		Overview
2007	Nov	Established Tenpo Renovation Bunkatsu Junbi K.K.
	Dec	Acquired a part of restaurant opening support business from Tenpo Renovation Inc. through a company-split
2008	Jan	Renamed to Tenpo Renovation Inc.
	May	Telewave Co., Ltd. (now iFLAG Co., Ltd.) acquired all shares; became a consolidated subsidiary
2009	Jun	Opened inukitenpo.com, a website for information on fully equipped restaurant properties
	Jul	Crops Corporation acquired all shares; became a consolidated subsidiary
2010	Jun	Opened website for purchase of fully-equipped properties, tenpokaitori.com
2013	May	Renamed to Tenpo Innovation, Inc.
2017	Oct	Listed shares on the Mothers market of the Tokyo Stock Exchange
2018	Oct	Listed shares on the First Section of the Tokyo Stock Exchange
2022	Apr	Established Store Safety Co., Ltd. (now a subsidiary) as a store rent guarantee business
2022	Apr	Moved to the TSE Prime market
2024	Feb	Established a Tenpo Innovation split preparation company (currently a consolidated subsidiary)
2024	Feb	Established Asset Innovation Co., Ltd. (currently a consolidated subsidiary)
2024	Feb	Renamed Store Safety Co., Ltd. as Safety Innovation Inc.

Source: Shared Research based on company materials

The company was established in 2007 (as Tenpo Renovation Bunkatsu Junbi) to take over part of the former Tenpo Renovation's restaurant opening and closing support business (brokerage of properties for those wanting to open a restaurant, support for restaurant opening, purchase of restaurant equipment from those closing restaurants, and support for restaurant closing).

Tenpo Renovation was dormant for some time after its establishment as a subsidiary of Reins International in 2001. In 2005 it launched a business using inuki restaurants, and worked on interiors for Gyu-Kaku Restaurant. It aimed to expand a restaurant opening and closing support (interior leasing) business, leveraging the restaurant construction expertise that made Gyu-Kaku a success. This effectively launched Tenpo Innovation's current business. Tenpo Renovation was restructured as part of a management buyout in the wake of poor performance by Reins International. In December 2007, business related to Reins International was split from other businesses, and the company took over these other businesses.

In May 2008 the company joined the Telewave Corporation group and attempted to use group resources to move to the next stage*, but the interior leasing and other support businesses required large amounts of funds and continued to perform poorly. The company once again looked for a sponsor amid management upheaval at Telewave. It received an equity injection from Crops Corporation (TSE Standard: 9428) in 2009, and continued in business, earning recurring revenue from various activities and one-off revenue from brokerage and commissions. It also started restaurant management.

In June 2011, the company aimed for a division of labor between sales and management and narrowed its focus to restaurant subleasing from restaurant opening support upon appointing its current president and executive directors. It shifted to the real estate industry (FY03/12 revenue was JPY1.5bn, and the company subleased 243 properties). At this time, the company's current business was positioned as its core business. This can be considered its second foundation period. In FY03/15, the company managed over 500 restaurant properties in its subleasing business, and they numbered 2,445 as of end-FY03/24. Following a review of operations in light of its accumulated expertise, the company has improved its performance significantly.

Trends in subleased properties

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.
No. of subleased properties	342	470	614	815	1,029	1,242	1,459	1,684	1,706	1,951	2,216	2,445
Net YoY increase	99	128	144	201	214	213	217	225	22	245	265	229

Source: Shared Research based on company data

* Information disclosed by Telewave shows it acquired the company to strengthen its opening support services.

Corporate governance and top management

Corporate governance

Corporate governance structure

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Committee
Controlling shareholder and parent company	Crops Corp. (TSE and NSE: 9428)
Directors and Audit & Supervisory Committee members	
Number of directors under Articles of Incorporation	15
Number of directors	9
Directors' terms under Articles of Incorporation	1
Chairman of the Board of Directors	President
Number of outside directors	3
Number of independent outside directors	3
Number of members of Audit & Supervisor Committee	3
Number of outside members of Audit & Supervisory Committee	3
Voluntary committees	Nomination and Remuneration Committee, Special Committee
Other	
Participation in electronic voting platform	Yes
Providing convocation notice in English	Yes
Implementation of measures regarding director incentives	No
Eligible for stock option	-
Disclosure of individual director's compensation	None
Policy on determining amount of compensation and calculation methodology	In place
Corporate takeover defenses	None

Source: Shared Research based on company materials

As of June 17, 2019, Tenpo Innovation transitioned from a company structure with a board of corporate auditors to a company structure with an audit and supervisory board. The board of directors has nine members (three outside directors) and meets once a month, as a rule, and as necessary. The audit and supervisory board has three members (three outside directors) and also meets once a month, as a rule, and as necessary. The board of directors monitors business execution and the audit and supervisory board audits company accounts. The management committee is made up of full-time directors and full-time corporate auditors, and also meets once a month, as a rule. The management committee deliberates on important management matters and those to be discussed by the board of directors in an appropriate and timely manner, with the aim of speedy execution.

Relationship with parent company

Parent company Crops Corporation owns 59.35% of Tenpo Innovation's outstanding shares. The Crops group's main business is mobile communications (dealer operations), and it is also involved in temporary staffing services, building maintenance, etc. The company's business is in the restaurant subleasing and real estate trading businesses. The combined revenue of the two businesses accounts for 26.2% of Crops revenue and 45.7% of operating profit in FY03/24.

Yuki Maeda, a director of Tenpo Innovation, is the president of Crops, but the company says that it has a degree of independence from the parent. There are three outside directors, no major business dealings with the parent company, and the company's business activities do not rely heavily on transactions with the parent company or group companies, so there are no obstacles to independent management decisions.

Crops performance

(JPYmn)	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
Revenue	34,701	37,311	41,030	42,934	41,041	45,318	48,380	54,487
YoY	4.9%	7.5%	10.0%	4.6%	-4.4%	10.4%	6.8%	12.6%
Mobile Communication	15,330	16,851	17,421	16,010	14,724	18,300	19,323	23,355
Staffing	2,180	2,495	2,782	2,728	2,316	2,190	2,451	2,614
Building Maintenance	4,133	4,252	5,508	5,623	5,872	5,956	5,914	6,120
Restaurant Subleasing	5,386	6,689	8,093	9,385	9,568	10,445	12,193	13,553
Real Estate Trading			135	599	774	970	876	710
Wholesaling	7,852	7,226	7,283	8,750	7,602	7,194	7,211	7,576
Overseas					298	347	472	613
Adjustments	-181	-203	-194	-162	-120	-85	-62	-56
Operating profit	1,182	1,059	1,316	2,021	2,061	2,508	2,272	2,127
YoY	30.4%	-10.4%	24.3%	53.6%	2.0%	21.7%	-9.4%	-6.4%
Mobile Communication	436	305	214	690	779	886	545	455
Staffing	9	63	85	80	15	3	54	58
Building Maintenance	213	219	295	314	388	339	394	270
Restaurant Subleasing	311	396	704	568	495	723	961	809
Real Estate Trading			28	216	236	186	250	164
Wholesaling	245	109	-20	193	228	292	-25	375
Overseas					-89	68	86	-2
Adjustments	-35	-34	8	-42	7	7	4	-4
Operating profit margin	3.4%	2.8%	3.2%	4.7%	5.0%	5.5%	4.7%	3.9%
Equity ratio	29.1%	30.6%	31.9%	30.2%	32.3%	34.3%	34.3%	4.7%

Source: Shared Research based on Crops data.

Note: Figures may differ from company materials due to differences in rounding methods.

Top management

President: Yasuo Hara

(born in 1964)

1988 Joins General Lux

1995 Appointed representative director at Nasci

2005 Joins Reins International, assigned to former Tenpo Renovation

2008 Dispatched to Tenpo Innovation as director in charge of sales

2009 Director of online sales and online planning and sales

2010 Director of restaurant opening support sales

2011 President and director of restaurant opening support sales

2012 President and director of eating and drinking establishment leasing

2014 President and director of restaurant leasing

2015 President (current position)

Dividend policy

Dividends (split-adjusted)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Dividend per share (JPY)	1.0	1.9	3.1	4.0	7.0	9.0	9.0	12.0	16.0	20.0
Payout ratio	14.3	16.3	24.6	27.7	23.6	28.4	27.9	32.1	31.8	50.5

Source: Shared Research based on company data

Note: The company conducted a 2-for-1 stock split with a record date of December 10, 2019

The company sees returns to shareholders as a critical management issue. Company policy is to maintain a stable dividend reflecting performance while maintaining enough retained earnings to strengthen the business foundation and fund business development. In FY03/24, the company achieved its third consecutive increase in dividends and continues to maintain its shareholder benefit program, which includes the provision of gourmet cards based on the number of shares held.

From FY03/24, the company has been reviewing its dividend policy to ensure early compliance with the listing maintenance standards of the Tokyo Stock Exchange's Prime market. It aims to clarify its stance on shareholder returns. Regarding its dividend policy during the medium-term management plan (FY03/25–FY03/28), the company plans an annual dividend of JPY21 per share for FY03/25 (payout ratio of 55.9%) and JPY22 per share for FY03/26 (payout ratio of 52.9%). For FY03/27 and FY03/28, the company aims for a payout ratio of 40-45%. Regarding the shareholder benefits program, the company has raised the eligible shareholder threshold from owning 300 shares to 500 (requisite shareholding period of over a year, announced on August 3, 2023). The company explains the move as an effort to return profits to those with a high interest in the company's management and investment in particular, rather than distributing profits uniformly to all shareholders.

Major shareholders

Top shareholders	Shares held	Shareholding ratio
Crops Corporation	9,956,300	59.35%
Union Bancaire Privee (Standing proxy: MUFG Bank, Ltd.)	784,000	4.67%
Youhei Shimura	254,000	1.51%
The Master Trust Bank of Japan, Ltd. (Trust account)	173,200	1.03%
Yasuo Hara	100,000	0.59%
Tenpo Innovation Employees Shareholding Association	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%
SUM	11,491,800	68.51%

Source: Shared Research based on company materials

Note: As of end-March 2024.

Refer to Corporate governance section for details on Crops.

Employees

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
(persons)	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.
No. of employees (year-end)	38	50	56	60	71	84	74	83	84	113

Source: Shared Research based on company materials

At end-March 2024, the company had 113 employees, with average tenure of 4.3 years and average annual salary (including bonuses and extra payments) of JPY6.7mn.

CSR and ESG

CSR initiative: Promoting “Kodomo Shokudo” (“Children’s Cafeteria”) restaurants

Since June 2019, the company has been promoting “Kodomo Shokudo” (“Children’s Cafeteria”) establishments as one of its CSR initiatives. Kodomo Shokudo establishments are intended to provide meals to children who are not able to get enough food, and a comfortable and safe place to stay until their parents get home. They are often run by local authorities or communities but can have an uncertain outlook due to difficulties in securing sufficient locations, personnel, and funding. As Kodomo Shokudo establishments also may be associated with poverty, sanitation concerns, and unstable management, they are not always well received by the broader community.

In addition to its restaurant partners, the company works in collaboration with government organizations and NPOs, suggesting that customer restaurants use their facilities to operate Kodomo Shokudo establishments and providing them with funding to do so.

In cooperation with a non-profit organization, the company is participating in an initiative in Toshima-ku, Tokyo that involves the distribution of *miseshoku* tickets to resident households receiving child support payments. Those receiving these tickets can exchange them for food free-of-charge at participating restaurants subleased by the company in the ward. The company will bear the cost of the meals provided under the program.

The company believes that operating Kodomo Shokudo establishments on restaurant premises solves or at least ameliorates the issues traditionally encountered. By their very nature, restaurants already have the space and personnel (cooks) needed to run these establishments, and by using “makanai” (food prepared for employees using the same ingredients already

procured for the restaurant), meals can be provided with minimal effort and at low cost. Moreover, as restaurant premises are also patronized by ordinary consumers they are not likely to draw attention for any association with poverty, and because the meals are prepared by professionals there are few concerns from a sanitation standpoint. Furthermore, as this is a project planned and executed by a TSE Prime-listed company as part of its CSR activities, locals can feel reassured about the establishments' patrons. For the company, having ready-made ties with restaurants renders the project easily scalable.

The company sees these Kodomo Shokudo establishments going beyond providing meals to children, ultimately becoming a form of social infrastructure by also evolving into local community venues and offering child-rearing support to parents.

ESG initiative: Reducing waste by utilizing “inuki” (fully furnished and equipped) properties

The company's business scheme includes the subleasing of “inuki” (fully furnished and equipped) properties, a practice that contributes to reduction of waste. At its mainstay Restaurant Subleasing business, the company subleases to restaurateurs properties it has leased from owners. When a lessee closes their restaurant, it is common to leave the premises in skeleton form, with the fixtures (e.g., kitchen equipment, air-conditioning, tables, floor concrete, drainage pipes, exhaust ducts, signage) ending up as waste. Tenpo Innovation subleases the premises to new tenants with these fixtures still in place (i.e., as “inuki” properties). By reusing fixtures in this manner, it helps to reduce waste.

Over the past five years (ending with FY03/24), the company has subleased 1,130 fully furnished properties with an average floor space of 56.3sqm. As the standard restaurant has an estimated 13,500kg of fixtures, the company has thus far prevented 15,255t from being discarded. In other words, over the past five years, the company has reduced restaurant fixture waste by an amount equivalent to about 1,525 heavy-duty trucks that can hold 10 tons each.

Profile

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2005-04-20

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