

JASDAQ

8920 TOSHO CO., LTD

sector: Service (Operation of fitness clubs)

31-Aug-10



Operates Holiday Sports Clubs mainly in the regions.

Boasts the highest profit and profit margin in the industry.

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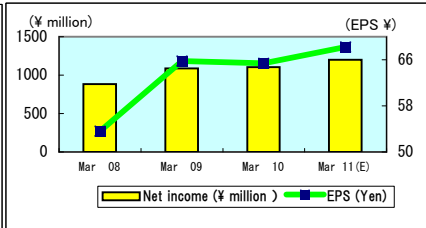
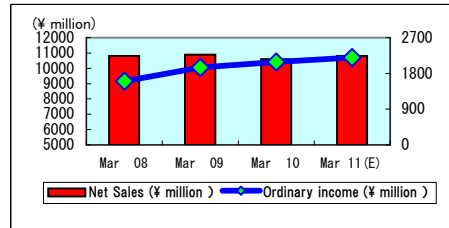
Company profile

Representative Toshihiro Kutsuna URL: <http://www.to-sho.net/>
Head Office 1-16-5 Mikawa-Anjo-cho, Anjo-shi, Aichi
Business line Holiday Sports Club business, Hotel business, lease business
Shraes issued 17,592,351
 (as of March 31, 2010) Special owners 87.2%, Foreign owners 0.5%, Japanese funds 0.1%, Floating stock 9.4%
Major Holders Toshihiro Kutsuna 61.4%, Yuuichiro Kutsuna 11.8%, Mayumi Kutsuna 4.1%, Kazuki Kutsuna 3.4%
 (as of March 31, 2010)

Established March 1979
Listed February 2004

27-Aug-10	
Stock price (¥)	442
PER (E)	6.5
PBR	1.2
ROE	18.5%
Market cap (¥ million)	7,776
Trade Unit	100

	Net Sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Dividend (Yen)	EPS (Yen)	ROE (%)
Mar 08	10,808	1,603	885	12	53.6	23.20%
Mar 09	10,901	1,954	1,087	10	65.8	23.6%
Mar 10	10,597	2,087	1,106	10	65.4	19.2%
Mar 11 (E)	10,815	2,200	1,200	10	68.2	
1Q Mar 11 (YoY)	2,674 (+1.9%)	576 (+25.2%)	277 (+9.1%)	-	-	-



(Corporate History)

The company was originally established as a construction company in Aichi Prefecture by the founder and current President, Mr. Kutsuna, in 1979. The company used the knowhow it had accumulated from its activities in building shops, condominiums and factories to begin its golf practice range business in 1989, its sports club operation in 1996 and its hotel business in 1999. The 'Holiday Sports' brand fitness club operation is the main growth driver amongst the company's businesses and accounts for approximately 80% of sales. The major companies in the sector, led by the top operator Konami Sports & Life, have built up their businesses by developing luxurious facilities aimed at city dwellers and have engaged in an ever-widening, highly competitive war of attrition centred on the concept of sports training. In contrast, 'Holiday Sports Club' concentrates on regional cities (with populations of 100,000 and above) and has leveraged both facets of its unique knowledge base - its 'hard' attributes such as its knowhow in building and operating its own, efficient facilities and its 'soft' features which include providing reasonably priced and enjoyable health-building services to first-timers - to become the eighth largest company in the sector by sales and by far the most profitable company in terms of ordinary income. By tapping latent demand resulting from insufficient physical exercise amongst adults in regional areas, Tosho aims to expand the number of its facilities from 37 at present to 100 by 2018. The company is already in the top class in the industry in terms of profitability, ROE and other financial metrics but, being a regional operator, the lack of name recognition for its 'Holiday Sports Club' brand in urban areas has also influenced the stock market, resulting in Tosho looking highly attractive as an investment prospect and extremely undervalued in relative terms given its low PER of less than 7x (less than half the sector average PER of 16x). FY3/2011 1Q results brought year-on-year growth in both sales and earnings. Ordinary income was particularly strong with earnings rising 25.2% year-on-year at this level. In terms of rewarding shareholders, Tosho has announced a dividend policy linked to earnings performance, and is currently engaged in further positive development of its IR activities.

(Business strategy)

With Japan facing the problems of an ageing society and a falling birth-rate and health-oriented consumption booming, the future growth prospects for this market look very promising. The sector which is made up of fitness clubs aimed at eliminating insufficient levels of physical exercise amongst urban dwellers is a business model characterized by a red ocean of excessive competition, huge amounts of capital expenditure and an extremely difficult environment in which to make money. By contrast, the development of the motorization of regional areas has created an environment in which the level of inadequacy in physical exercise amongst residents is even higher than that for urban dwellers resulting in latent demand for sports clubs to help them maintain good health and eliminate the problem of insufficient exercise from their lifestyles. That said, regional sports clubs have, to date, consisted of swimming schools aimed at children and the conventional wisdom in the sector has been that the prospects for making money from the development of sports clubs for adults are bleak. In the face of this commonly-held view, Tosho has built up its business model to suit the demands of adult residents of regional areas keen to improve their health on the foundation of its key principles of 'building low-cost, high-quality facilities by using its own knowhow', 'nurturing and training its employees to become instructors', 'running a varied range of new programmes' and 'creating a low-fee operating structure' and continues to win through with these core concepts. Tosho has created an astoundingly profitable business model with an ordinary income ratio of over 30% and an ROI against funds invested on an ordinary income basis of in excess of 18%. Its highly profitable model for new club openings targets regional cities with populations of 150,000 and over with a ¥400 million budget for investment per facility, 2,500 members, an average monthly membership fee of ¥7,000, annual revenues of ¥210 million and ordinary income of ¥75 million (ordinary income ratio of 35%). The fitness population is 3% in Japan (against 15% in America) which means that, with 4,000 members as the market, it is possible to run facilities with profit margins of over 40%. By keeping head-office costs low, Tosho aims to raise the overall ordinary income ratio for the company into the medium-term from 19.7% at present to 25% in FY3/2015 (raising ordinary income from ¥2.1 billion to ¥4.4 billion).

Corporate analysis by IR STREET

Strength	Opportunity
1.Has knowhow in building and operating facilities unlike any other companies 2.Most profitable company in the industry 3.The average age of employees is the youngest among the JASDAQ listed companies and conducts human resources programs	1.Health conscious associated with aging 2.Regional towns and cities with high potential demand 3.Drop in land prices and securing human resources will pave the way for business expansion
Weakness	Risk
1.Lack of recognition of individual investors, with many concentrated in urban areas 2.Demand for funds for the opening of new clubs (reliance on low-capital-cost bank loans)	1.Financial institutions' lending stance 2.Maintaining policy of opening facilities in suitable locations

《Peer comparison》 FY2009



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	Sales	Ordinary income (¥million)	YoY (%)	Net income (¥million)	Market cap (¥billion)	EPS (¥)	PER (times)	Dividend yield (%)
Tosho(Holiday Sports Club)	10,597	2,087	106.8%	1,106	80	65.4	6.9	2.2%
Central Sports	46,608	1,372	156.0%	632	100	55.1	15.9	2.2%
Renaissance	36,419	754	103.5%	142	65	6.7	45.7	1.0%
Megalos	13,694	419	66.8%	206	40	54.1	19.1	1.9%

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