

JASDAQ

8920 TOSHO CO., LTD

sector: Service (Operation of fitness clubs)

7-Feb-11



**Operates Holiday Sports Clubs mainly in the regions.
Boasts the highest profit and profit margin in the industry.**

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Company profile

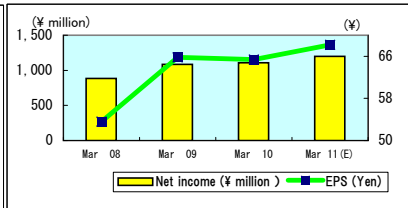
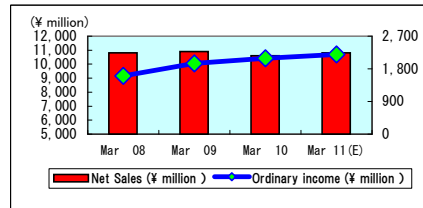
Representative Toshihiro Kutsuna URL: <http://www.to-sho.net/>
Head Office 1-16-5 Mikawa-Anjo-cho, Anjo-shi, Aichi
Business line Holiday Sports Club business, Hotel business, lease business
Shraes issued 17,592,351

Established March 1979
Listed February 2004

Major shareholders Toshihiro Kutsuna 60.0%, Yuuichiro Kutsuna 11.8%, Mayumi Kutsuna (as of the end of Sept. 2010)
 (as of the end of Sept. 2010) 4.1%, Kazuki Kutsuna 3.4%, Ai Kikuchi 2.9%, Masahiko Wada 0.9%

4-Feb-11	
Stock price (¥)	560
PER(est.)	8.2
PBR	1.2
ROE(est.)	18.5%
Market cap (¥million)	9,852
Trade Unit	100

	Net Sales	Ordinary income	Net income	Dividend	EPS	ROE
	(¥ million)	(¥ million)	(¥ million)	(Yen)	(Yen)	(%)
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	
3Q Mar 11 (YoY)	8,027(+1.3%)	1,699(+0.9%)	842(-1.9%)	-	-	-



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 about 8x (less than half the sector average PER of 16x)**. FY3/11 3Q results brought YoY growth in sales. However, because the company posted development costs of new sports clubs that have been expanding since this fiscal year, there was a slight decrease in operating income compared with the previous fiscal year (No. of sports clubs opened: 2 in FY3/10, 5 in FY3/11). This is within the scope of the assumption and the opening of new sports clubs and company performance are generally as expected. In 2011, an analyst in Ichivoshi Research Institute started covering Tosho. The company has received an A-rating with a target stock price of ¥1,200 (as of Feb. 4, 2011).

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 **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 percentage of the Japanese population who are sports club members is 3% (against 15% in America) which means that it is a market of 4,500 people in a city of 150,000 people. With more than 2,500 members, it is possible to run facilities with profit margins of over 40%. For hotel business and leasing business, there will be no new investments. Also, the company plans to lower depreciation expense year by year and improve profit margin. **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

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

《Peer comparison》

FY2009



	Sales	Ordinary income	YoY	Net income	Market cap	EPS	PER	Dividend yield
	(¥million)	(¥million)	(%)	(¥million)	(¥billion)	(¥)	(times)	(%)
Tosho(Holiday Sports Club)8920	10,597	2,087	106.8%	1,106	98	65.4	8.5	2.2%
Central Sports (4801)	46,608	1,372	156.0%	632	105	55.1	16.6	2.2%
Renaissance (2378)	36,419	754	103.5%	142	64	6.7	44.8	1.0%
Megalos (2165)	13,694	419	66.8%	206	42	54.1	20.3	1.9%

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