

JASDAQ

8920 TOSHO CO., LTD

sector: Service (Operation of sports clubs) 9-Nov-11



Operates Holiday Sports Clubs. Boasts the highest profit and profit margin in the industry with its own business model by opening clubs in the regions.

<Recent financial summary> FY3/12 2Q: As planned. Highest sales and ordinary income since its listing.

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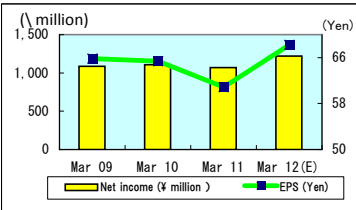
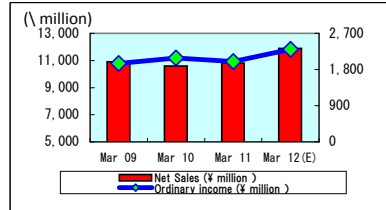
Company profile

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
 Shares issued 17,592,351 (as of end of Sept. 2011)
 Major shareholders Toshihiro Kutsuna 59.8%, Yuuichiro Kutsuna 11.8%, Mayumi Kutsuna (as of end of Mar. 2014. 1%, Kazuki Kutsuna 3.4%, Ai Kikuchi 2.9%, Masahiko Wada 0.9%

Established March 1979
 Listed February 2004

9-Nov-11 Stock price (¥)	553
PER(est.)	7.9
PBR	1.2
ROE(est.)	16.0%
Market cap (¥million)	9,729
Trade Unit	100

	Net Sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Dividend (Yen)	EPS (Yen)	ROE (%)
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	10,803	2,000	1,071	11	60.9	14.5%
Mar 12(E)	11,900	2,300	1,220	12	68.2	16.0%
2Q Mar 12 (YoY)	5,892(+10.2%)	1,171(+4.0%)	661(13.3%)	6	37.6	-



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 sports 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, 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 centered 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 8th 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 43 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).

Tosho realized "increases in sales and earnings" and "the highest sales and ordinary income since its listing" in FY3/12 2Q as the effect of the acceleration of opening sports clubs from the previous fiscal year started to show. (No. of sports clubs opened: 2 in FY3/10, 5 in FY3/11). Tosho also plans to open 8 clubs in FY3/12. Due to the delay in the process for construction because of the earthquake disaster, there is a possibility that the opening of 1 club will be postponed to the next fiscal year but others are making good progress.

Mr. Samejima, an analyst in Ichiyoshi Research Institute covers Tosho and the company has received an A-rating with a target stock price of ¥1,100 (as of Aug. 4, 2011).

Business Strategy

With Japan facing the problems of an aging society and a falling birth-rate and health-oriented consumption booming mainly among seniors, the future growth prospects for this market look very promising. The sector which is made up of sports 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 programs" 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 ROI against funds invested on an ordinary income basis of in excess of 18%. Tosho has developed a model capable of opening a sports club on a smaller land area by further developing the business model. Tosho's model will be focused on a "Comprehensive 2000" model to realize an annual sales of ¥168 million and an ordinary income of ¥55 million (a profit margin of 33%) with "an area of 4,959 square meters, a population of 100 thousand people, 2,000 members, an average fee of ¥7,000 and an investment of ¥350 million." 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 3,000 people in a city of 100,000 people. In addition, Tosho has developed a "No swimming pool" model which has no swimming pool and requires an even smaller land area and investment amount. With these compact business models, Tosho plans to enter into the Tokyo area next year. Due to the prolonged recession, the land prices are falling and Tosho's opportunities to open sports clubs are increasing. In October 2011, Tosho announced its midterm plan centered on the acceleration of the opening of "Holiday Sports Clubs." Tosho aims to open 74 clubs in FY3/15 and aims to raise sales to ¥17.5 billion, ordinary income to ¥4.4 billion and ordinary income ratio to 25%. 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. Regarding the shareholder return policy, Tosho plans to increase dividends by linking dividend payments to profits aiming a dividend payout ratio of 20%.

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 by developing its own business model 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 under the deflationary environment and opportunities for securing human resources
Weakness	Risk
1. Lack of recognition of individual investors, with many concentrated in urban area 2. Demand for funds for the opening of new clubs (reliance on low-capital-cost bank	1. Financial institutions' lending stance 2. Maintaining policy of opening facilities in suitable locations

(Peer comparison) FY2010



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	Sales	Ordinary income (¥million)	YoY (%)	Net income (¥million)	Market cap (¥billion)	EPS (¥)	P E R (times)	Dividend yield (%)
Tosho(Holiday Sports	10,803	2,000	18.5%	1,071	98	60.9	9.1	1.9%
Central Sports (4801)	46,135	1,719	3.7%	440	106	38.4	24.3	1.6%
Renaissance (2378)	37,048	1,049	2.8%	288	80	13.4	27.8	1.0%
Megalos (2165)	13,927	322	2.3%	72	38	18.9	53.2	1.9%

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