



Round One / 4680

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company’s most recent earnings. First-time readers should start at the business section later in the report.

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Executive summary

Core business—operation of amusement complex centers

- Round One specializes in running amusement complex centers in Japan and North America. At end of March 2019 it operated 137 stores (105 stores in Japan, and 32 stores in North America). The amusement services include bowling as well as games, karaoke, and SPO-CHA (abbreviation for “Sports Challenge”).
- In Japan, due to the continuing decline in the market for bowling, owing to a declining population and diversified entertainment choices, the company pressed on with its program of closing unprofitable stores and opening new ones. Through these measures, the company aims to eliminate cannibalization among stores and improve profitability to maintain and improve its current profit level. In the medium-term, the company will continue to close unprofitable stores and open new ones, maintaining approximately 100 stores.
- In the US, the company will accelerate store openings while leveraging the lessons it has learned from operating stores there, with the objective of establishing a network of 120 stores in the US by FY03/24. The company opened its first US store in August 2010, and in FY03/16 achieved a current account surplus. Since then, it has gradually increased new store openings as it has accumulated operational expertise. In FY03/19, Round One opened 11 stores and plans to open 11 more during FY03/20. From FY03/21 onward, it aims to open about 20 stores per year.

Trends and outlook

- FY03/19 sales were JPY101.3bn (+5.6% YoY), operating profit was JPY11.4bn (+8.6% YoY), recurring profit was JPY11.2bn (+9.3% YoY), and net income attributable to parent company shareholders was JPY7.2bn (-14.9% YoY). By segment, Japan sales were JPY85.0bn (+0.8% YoY), operating profit was JPY9.8bn (+2.8% YoY), and recurring profit was JPY9.8bn (+4.6% YoY). US sales were JPY16.3bn (+41.1% YoY), operating profit was JPY1.5bn (+56.7%), and recurring profit was JPY1.5bn (+55.6% YoY).
- In FY03/20, the company expects sales of JPY109.3bn (+7.9% YoY), operating profit of JPY11.9bn (+3.7% YoY), recurring profit of JPY11.6bn (+3.4% YoY), and net income attributable to parent company shareholders of JPY6.9bn (-3.6% YoY). It projects higher sales due to a higher store count in the US. The company expects the growth rate for operating profit to fall behind the growth rate for sales due to increases in leasing expenses and depreciation caused by capex for the ROUND1 LIVE systems (allowing communication between stores for bowling and karaoke services through a network using large display screens) and automatic reception and payment systems it has been installing since October 2018. The company plans to complete installation of ROUND1 LIVE in all stores in Japan by June 2019, but says it did not include in its initial forecasts the potential sales impact of increases in customer counts caused by these systems.

Strengths and weaknesses

Shared Research believes that the three main strengths of Round One are its unique business model, strong brand name, and cash-flow generating ability. Weaknesses include its higher risks on new store openings compared with retailers, shrinking market, and slower-than-expected industry shakeout (see Strengths and weaknesses).

Key financial data

Income statement (JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
Bowling	30,787	31,000	32,400	29,700	27,200	24,520	23,030	22,910	24,520	24,290	25,250
Amusement	33,405	35,224	36,400	34,500	34,900	36,520	36,580	40,530	45,340	49,680	55,230
Karaoke	6,037	6,715	8,200	8,300	8,400	8,640	8,660	9,130	9,840	10,940	12,280
SPO-CHA	8,963	8,748	9,400	10,300	10,900	11,500	12,190	12,270	13,280	13,460	13,630
Other	2,918	2,613	3,000	2,900	2,700	2,700	2,920	2,920	2,900	2,920	290
Total sales	82,113	84,303	89,568	85,903	84,272	83,905	83,516	87,776	95,910	101,318	109,300
YoY	5.3%	2.7%	6.2%	-4.1%	-1.9%	-0.4%	-0.5%	5.1%	9.3%	5.6%	7.9%
Gross profit	13,810	13,273	17,789	13,328	11,723	8,395	8,426	8,935	12,842	14,460	
YoY	-10.1%	-3.9%	34.0%	-25.1%	-12.0%	-28.4%	0.4%	6.0%	43.7%	12.6%	
GPM	16.8%	15.7%	19.9%	15.5%	13.9%	10.0%	10.1%	10.2%	13.4%	14.3%	
Operating profit	12,031	11,416	16,036	11,565	10,088	6,641	6,367	6,681	10,537	11,443	11,870
YoY	-11.6%	-5.1%	40.5%	-27.9%	-12.8%	-34.2%	-4.1%	4.9%	57.7%	8.6%	3.7%
OPM	14.7%	13.5%	17.9%	13.5%	12.0%	7.9%	7.6%	7.6%	11.0%	11.3%	10.9%
Recurring profit	7,848	6,929	11,481	8,217	7,818	6,150	5,402	5,858	10,267	11,220	11,600
YoY	-19.9%	-11.7%	65.7%	-28.4%	-4.9%	-21.3%	-12.2%	8.4%	75.3%	9.3%	3.4%
RPM	9.6%	8.2%	12.8%	9.6%	9.3%	7.3%	6.5%	6.7%	10.7%	11.1%	10.6%
Net income	3,396	-12,673	2,781	601	-19,681	-4,568	449	2,735	8,411	7,159	6,900
YoY	-14.6%	-	-	-78.4%	-	-	-	509.1%	207.5%	-14.9%	-3.6%
Net margin	4.1%	-	3.1%	0.7%	-	-	0.5%	3.1%	8.8%	7.1%	6.3%
Per share data (split-adjusted; JPY)											
EPS	46.8	-136.8	29.2	6.3	-206.6	-48.0	4.7	28.7	88.3	75.2	72.4
Book value per share	1,080.0	829.4	838.4	826.1	603.8	541.9	522.0	534.0	595.4	656.0	
Dividend per share	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Cash flow statement (JPYmn)											
Cash flows from operating activities	22,175	22,418	32,852	26,418	20,456	22,576	15,955	17,217	24,210	20,871	
Cash flows from investing activities	-35,616	-23,563	24,036	4,371	46,611	592	-5,082	-3,527	-7,448	-10,783	
Cash flows from financing activities	24,881	-4,551	-45,981	-34,564	-66,200	-20,820	-15,309	-16,964	-13,286	-11,159	
Financial ratios											
ROA (RP-based)	3.4%	2.8%	4.8%	3.8%	4.7%	5.2%	5.0%	5.7%	9.9%	10.0%	
ROE	4.3%	-	3.5%	0.8%	-	-	0.9%	5.4%	15.6%	12.0%	
Equity ratio	34.1%	31.3%	35.0%	38.2%	45.3%	46.3%	47.6%	50.0%	53.0%	53.3%	
Net debt / Equity ratio	126.2%	143.5%	101.9%	82.5%	20.2%	-1.3%	-0.8%	-7.4%	-17.2%	-17.1%	
Total asset turnover	0.3	0.3	0.4	0.4	0.7	0.8	0.8	0.9	0.9	0.9	

Source: Shared Research based on company data

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

Recent updates

Highlights

On **August 7, 2019**, Round One Corporation announced earnings results for Q1 FY03/20; see the results section for details.

On **the same day**, the company released monthly sales data for July; see the trends and outlook section for details.

On **July 4, 2019**, the company released monthly sales data for June.

On **June 6, 2019**, the company released monthly sales data for May.

On **May 31, 2019**, Shared Research updated the report following interviews with the company.

On **May 8, 2019**, the company announced earnings results for full-year FY03/19.

On **the same day**, the company released monthly sales data for April.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Monthly performance

Monthly sales												
FY03/20	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total sales (JPYmn)	6,969	7,382	6,341	6,620								
Bowling	1,775	1,879	1,606	1,592								
Amusement	3,163	3,374	3,021	3,297								
Karaoke	621	648	584	603								
SPO-CHA	1,159	1,212	879	879								
Other	249	267	248	247								
Sales YoY (total)	7.7%	8.0%	8.9%	2.5%								
Bowling	2.9%	4.4%	5.1%	2.6%								
Amusement	11.7%	10.1%	11.7%	3.9%								
Karaoke	6.3%	6.6%	6.2%	-1.3%								
SPO-CHA	5.7%	8.3%	8.1%	-1.6%								
Other	7.8%	10.4%	10.7%	7.2%								
Sales YoY (comparable)	7.9%	7.6%	8.8%	3.0%								
Bowling	4.3%	4.7%	5.9%	4.1%								
Amusement	11.9%	9.7%	11.4%	4.1%								
Karaoke	7.3%	7.0%	7.4%	0.3%								
SPO-CHA	3.3%	6.3%	6.1%	-2.9%								
Other	9.5%	11.3%	11.7%	9.4%								
Store count: all stores	105	105	104	103								
Store count: comparable stores	104	104	103	102								
Monthly sales												
FY03/19	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total sales (JPYmn)	6,470	6,833	5,819	6,457	9,082	6,963	5,860	5,647	7,632	8,509	6,409	9,238
Bowling	1,723	1,798	1,526	1,549	2,208	1,786	1,454	1,414	1,988	2,291	1,710	2,654
Amusement	2,832	3,065	2,704	3,173	4,135	3,219	2,882	2,763	3,619	3,903	2,883	3,604
Karaoke	584	608	550	610	784	639	518	504	737	738	572	795
SPO-CHA	1,097	1,119	813	893	1,680	1,075	782	755	1,036	1,310	1,004	1,896
Other	231	242	224	230	273	242	223	210	249	264	237	287
Sales YoY (total)	4.1%	-2.2%	0.6%	0.1%	1.1%	3.7%	-8.6%	-2.0%	2.1%	0.7%	2.0%	4.9%
Bowling	2.8%	-3.9%	-3.6%	-4.7%	-1.6%	1.6%	-10.2%	-3.2%	-1.0%	-3.5%	-4.3%	-2.4%
Amusement	3.7%	-1.3%	2.3%	2.9%	1.7%	2.8%	-5.0%	0.7%	5.8%	4.5%	6.6%	9.4%
Karaoke	4.8%	-3.1%	3.1%	-1.2%	1.3%	1.4%	-11.3%	-4.2%	-2.5%	-1.2%	0.1%	2.4%
SPO-CHA	8.2%	-1.6%	1.7%	1.3%	3.1%	13.2%	-16.9%	-7.3%	-0.5%	-1.7%	1.1%	8.4%
Other	-1.3%	-1.3%	0.1%	-3.4%	0.9%	-0.8%	-3.9%	-1.9%	0.9%	1.4%	4.9%	10.1%
Sales YoY (comparable)	3.5%	-2.0%	1.0%	0.2%	0.0%	3.0%	-8.4%	-1.7%	2.8%	1.4%	2.7%	5.4%
Bowling	2.1%	-3.5%	-2.9%	-4.1%	-1.8%	1.6%	-9.0%	-1.9%	0.9%	-1.5%	-2.6%	-0.7%
Amusement	3.2%	-1.0%	2.8%	3.0%	0.9%	2.4%	-4.7%	1.1%	6.5%	5.3%	7.4%	10.0%
Karaoke	3.4%	-3.8%	2.5%	-1.9%	0.3%	0.5%	-10.9%	-3.6%	-1.4%	-0.2%	1.1%	3.1%
SPO-CHA	8.2%	-1.6%	1.7%	0.6%	-0.1%	10.2%	-18.9%	-9.6%	-2.8%	-3.7%	-0.8%	6.0%
Other	-2.1%	-1.1%	0.6%	-3.0%	1.1%	-0.5%	-2.5%	-0.3%	3.3%	4.0%	7.3%	12.5%
Store count: all stores	107	105	105	106	106	106	106	105	105	105	105	105
Store count: comparable stores	106	104	104	104	104	104	105	104	104	104	104	104

Source: Shared Research based on company data

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

Quarterly trends and results

Cumulative (JPYmm)	FY03/19				Q1	FY03/20				FY03/20		FY03/20	
	Q1	Q2	Q3	Q4		Q2	Q3	Q4	% of 1H	1H Est.	% of FY	FY Est.	
Sales	22,404	48,869	71,896	101,318	25,554				47.6%	53,680	23.4%	109,300	
YoY	4.8%	5.7%	4.6%	5.6%	14.1%					9.8%		7.9%	
Gross profit	1,861	6,131	7,466	14,460	3,163								
YoY	21.6%	13.6%	8.2%	12.6%	70.0%								
GPM	8.3%	12.5%	10.4%	14.3%	12.4%								
SG&A expenses	662	1,471	2,212	3,016	802								
YoY	19.1%	30.8%	33.8%	30.9%	21.1%								
SG&A ratio	3.0%	3.0%	3.1%	3.0%	3.1%								
Operating profit	1,199	4,660	5,254	11,443	2,360				41.6%	5,670	19.9%	11,870	
YoY	23.0%	9.2%	0.1%	8.6%	96.8%					21.7%		3.7%	
OPM	5.4%	9.5%	7.3%	11.3%	9.2%					10.6%		10.9%	
Recurring profit	1,133	4,511	5,040	11,220	2,341				42.3%	5,530	20.2%	11,600	
YoY	28.6%	10.7%	1.3%	9.3%	106.6%					22.6%		3.4%	
RPM	5.1%	9.2%	7.0%	11.1%	9.2%					10.3%		10.6%	
Net income	781	3,001	3,278	7,159	1,441				40.8%	3,530	20.9%	6,900	
YoY	120.0%	22.2%	7.9%	-14.9%	84.5%					17.6%		-3.6%	
Net margin	3.5%	6.1%	4.6%	7.1%	5.6%					6.6%		6.3%	

Quarterly (JPYmm)	FY03/19				Q1	FY03/20			
	Q1	Q2	Q3	Q4		Q2	Q3	Q4	
Sales	22,404	26,465	23,027	29,422	25,554				
YoY	4.8%	6.4%	2.4%	8.3%	14.1%				
Gross profit	1,861	4,270	1,335	6,994	3,163				
YoY	21.6%	10.5%	-11.5%	17.8%	70.0%				
GPM	8.3%	16.1%	5.8%	23.8%	12.4%				
SG&A expenses	662	809	741	804	802				
YoY	19.1%	42.2%	40.3%	23.5%	21.1%				
SG&A ratio	3.0%	3.1%	3.2%	2.7%	3.1%				
Operating profit	1,199	3,461	594	6,189	2,360				
YoY	23.0%	5.1%	-39.4%	17.1%	96.8%				
OPM	5.4%	13.1%	2.6%	21.0%	9.2%				
Recurring profit	1,133	3,378	529	6,180	2,341				
YoY	28.6%	5.8%	-41.4%	16.8%	106.6%				
RPM	5.1%	12.8%	2.3%	21.0%	9.2%				
Net income	781	2,220	277	3,881	1,441				
YoY	120.0%	5.7%	-52.5%	-27.8%	84.5%				
Net margin	3.5%	8.4%	1.2%	13.2%	5.6%				

Source: Shared Research based on company data

Note: Company estimates are the most recent figures.

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

Seasonality: the company's sales and profits are not spread evenly across quarters. Q1 (April-June) is busy due to many events held to coincide with the beginning of the business and school year, as well as the "Golden Week" holiday season in early May. Q2 (July-September) includes the busy summer vacation period. Q4 (January-March) includes New Year events and the spring vacation period in late March. In contrast, Q3 (October-December) has few holidays and is comparatively quiet.

Performance by segment

Cumulative (JPYmm)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	22,404	48,869	71,896	101,318	25,554			
YoY	4.8%	5.7%	4.6%	5.6%	14.1%			
Japan	19,131	41,645	60,801	84,976	20,702			
YoY	0.8%	1.2%	0.0%	0.8%	8.2%			
US	3,272	7,223	11,094	16,342	4,851			
YoY	36.8%	41.6%	39.7%	41.1%	48.3%			
Recurring profit	1,133	4,511	5,040	11,220	2,341			
YoY	28.6%	10.7%	1.3%	9.3%	106.6%			
Japan	1,043	4,054	4,517	9,769	2,102			
YoY	38.9%	7.2%	-4.6%	4.6%	101.5%			
RPM	4.7%	8.3%	6.3%	9.6%	8.2%			
US	89	457	522	1,450	238			
YoY	-31.0%	56.5%	116.6%	55.6%	167.4%			
RPM	0.4%	0.9%	0.7%	1.4%	0.9%			

Quarterly (JPYmm)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	22,404	26,465	23,027	29,422	25,554			
YoY	4.8%	6.4%	2.4%	8.3%	14.1%			
Japan	19,131	22,514	19,156	24,175	20,702			
YoY	0.8%	1.6%	-2.5%	2.7%	8.2%			
US	3,272	3,951	3,871	5,248	4,851			
YoY	36.8%	45.7%	36.4%	44.2%	48.3%			
Recurring profit	1,133	3,378	529	6,180	2,341			
YoY	28.6%	5.8%	-41.4%	16.8%	106.6%			
Japan	1,043	3,011	463	5,252	2,102			
YoY	38.9%	-0.6%	-51.5%	14.2%	101.5%			
RPM	4.7%	11.4%	2.0%	17.9%	8.2%			
US	89	368	65	928	238			
YoY	-31.0%	125.8%	-	34.3%	167.4%			
RPM	2.7%	9.3%	1.7%	17.7%	4.9%			

Source: Shared Research based on company data

Note: In March 2018 the company changed the way it divides its business into segments, deciding to divide the former combined Amusement segment into two segments (Japan and US). For the purpose of YoY comparison, figures from the previous financial year have been adjusted based on the new segmentation.

Number of stores

	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Store count (quarter-end): Total	128	131	133	137	136			
YoY	4.9%	4.8%	4.7%	6.2%	6.3%			
Japan	105	106	105	105	104			
YoY	-1.9%	-1.9%	-2.8%	-2.8%	-1.0%			
US	23	25	28	32	32			
YoY	53.3%	47.1%	47.4%	52.4%	39.1%			

Source: Shared Research based on company data

Store-operation months

(months)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Store-operation months: Total	380	768	1,160	1,560	410			
YoY	3.8%	4.5%	4.3%	4.3%	7.9%			
Japan	317	634	950	1,265				
YoY	-1.2%	-1.2%	-1.6%	-1.9%				
US	63	134	210	295				
YoY	40.0%	44.1%	42.9%	43.2%				

(number of months)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Store-operation months: Total	380	388	392	400	410			
YoY	3.8%	5.1%	4.0%	4.2%	7.9%			
Japan	317	317	633	632				
YoY	-1.2%	-1.2%	-1.7%	-2.2%				
US	63	71	139	156				
YoY	40.0%	47.9%	40.4%	45.8%				

Source: Shared Research based on company data

Store sales in Japan

(sales YoY)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Comparable stores (quarterly)	0.8%	1.0%	-2.1%	3.3%	8.1%			
Comparable stores (cumulative)	0.8%	0.9%	-0.1%	0.9%	8.1%			
All stores (quarterly)	0.7%	1.7%	-2.5%	2.7%	8.2%			
All stores (cumulative)	0.7%	1.2%	0.0%	0.8%	8.2%			

Source: Shared Research based on company data

Sales breakdown

Cumulative (JPYmm)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Domestic	19,131	41,645	60,801	84,976	20,702			
YoY	0.8%	1.2%	0.0%	0.8%	8.2%			
Bowling	5,052	10,605	15,470	22,136	5,265			
YoY	-1.5%	-1.4%	-2.3%	-2.6%	4.2%			
Amusement	8,602	19,132	28,398	38,791	9,560			
YoY	1.4%	2.0%	1.6%	2.9%	11.1%			
Karaoke	1,743	3,778	5,539	7,651	1,854			
YoY	1.3%	0.9%	-1.3%	-0.8%	6.4%			
SPO-CHA	3,030	6,679	9,254	13,467	3,252			
YoY	2.7%	4.1%	0.4%	1.3%	7.3%			
Other	698	1,445	2,129	2,921	766			
YoY	-0.9%	-0.9%	-1.1%	0.8%	9.7%			
US	3,272	7,223	11,094	16,342	4,851			
YoY	36.9%	41.6%	39.9%	41.4%	48.3%			
Bowling	460	990	1,490	2,150	640			
YoY	17.9%	20.7%	18.3%	20.8%	39.1%			
Amusement	2,180	4,860	7,340	10,890	3,290			
YoY	41.6%	44.6%	41.7%	42.9%	50.9%			
Karaoke and other	620	1,360	2,240	3,270	910			
YoY	40.9%	49.5%	53.4%	54.2%	46.8%			

Quarterly (JPYmm)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Domestic	19,131	22,514	19,156	24,175	20,702			
YoY	0.8%	1.6%	-2.5%	2.7%	8.2%			
Bowling	5,052	5,553	4,865	6,666	5,265			
YoY	-1.5%	-1.3%	-4.3%	-3.2%	4.2%			
Amusement	8,602	10,530	9,266	10,393	9,560			
YoY	1.4%	2.4%	0.7%	6.7%	11.1%			
Karaoke	1,743	2,035	1,761	2,112	1,854			
YoY	1.3%	0.6%	-5.7%	0.6%	6.4%			
SPO-CHA	3,030	3,649	2,575	4,213	3,252			
YoY	2.7%	5.4%	-8.0%	3.4%	7.3%			
Other	698	747	684	792	766			
YoY	-0.9%	-0.9%	-1.4%	6.0%	9.7%			
US	3,272	3,951	3,871	5,248	4,851			
YoY	36.9%	45.8%	36.8%	44.6%	48.3%			
Bowling	460	530	500	660	640			
YoY	17.9%	26.2%	13.6%	26.9%	39.1%			
Amusement	2,180	2,680	2,480	3,550	3,290			
YoY	41.6%	48.1%	36.3%	45.5%	50.9%			
Karaoke and other	620	740	880	1,030	910			
YoY	40.9%	57.4%	60.0%	56.1%	46.8%			

Source: Shared Research based on company data

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

Average hourly wage for part-time workers in three major metropolitan areas (Tokyo, Tokai, and Kansai)

(JPY)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Average hourly wage	1,007	1,012	1,025	1,019	1,025	1,036	1,052	1,046
YoY	2.4%	2.5%	2.4%	2.2%	1.9%	2.3%	2.7%	2.6%

Source: Shared Research based on data provided by Recruit Jobs Co., Ltd.

*The average hourly wage is based on data for a three-month period.

Q1 FY03/20 results

Earnings overview

▷ Sales:	JPY25.6bn (+14.1% YoY)
▷ Operating profit:	JPY2.4bn (+96.8% YoY)
▷ Recurring profit:	JPY2.3bn (+106.6% YoY)
▷ Net income*:	JPY1.4bn (+84.5% YoY)

*Net income attributable to parent company shareholders.

In Japan, the company rolled out “ROUND1LIVE,” which connects distant stores in real-time through multiple monitors and cameras installed in bowling areas and karaoke rooms to provide various shows, content, and services. At stores providing karaoke services, the company began providing “JOYSOUND MAX GO,” allowing customers to watch content such as films, music videos, and live events.

In the United States, besides preparations for new store openings, the company continued to offer an all-you-can-eat party plan called “All Inclusive Party.”

Round One opened one store and closed two stores in Japan, bringing the total number of stores to 104 (versus 105 stores total as of end FY03/19). In the US, there were no new stores opened in Q1 FY03/20. The total number of stores in the US remained at 32 stores, same as end FY03/19.

Japan

Sales were JPY20.7bn (+8.2% YoY) and segment profit (recurring profit) was JPY2.1bn (+101.5% YoY).

The installation of new equipment in the bowling floors and karaoke rooms allowed the company to roll out services using “ROUND 1 LIVE.” The “LIVE de Free Matching”(allows users to connect between different Round 1 stores), “LIVE de Shitei Matching” (connects with specified users) and “National LIVE Challenge Match” (allows multiple customers from across the country to simultaneously challenge popular professional bowlers). The ground breaking simultaneous singing system (first of its kind in the industry) allowed the introduction of “LIVE de Duet,” which allow users to perform duets with users at other Round 1 stores. In stores providing karaoke services, the company began providing “JOYSOUND MAX GO.”

The breakdown of sales by service was as follows:

▷ Bowling:	JPY5.3bn (-4.2% YoY; +5.0% YoY at existing stores)
▷ Amusement:	JPY9.6bn (+11.1% YoY; +10.9% YoY at existing stores)
▷ Karaoke:	JPY1.9bn (+6.4% YoY; +7.3% YoY at existing stores)
▷ SPO-CHA:	JPY3.3bn (+7.3% YoY; +5.2% YoY at existing stores)

US

Sales were JPY4.9bn (+48.3% YoY) and segment profit (recurring profit) was JPY238mn (+167.4% YoY).

In order to expand its operating base the company prepared to open new stores. It launched the MONTHLY BOWLING CHALLENGE that awards prizes to players who achieve specific monthly targets as well as the All-Inclusive Party plan that offers unlimited gaming and food.

The breakdown of sales by service was as follows:

▷ Bowling:	JPY640mn (+39.1% YoY)
▷ Amusement:	JPY3.3bn (+50.9% YoY)

▷ Karaoke and Other: JPY910mn (+46.8% YoY)

For details on previous quarterly and annual results, please refer to the Historical financial statements section.

Full-year FY03/19 company forecasts

(JPYmm)	FY03/19			FY03/20		
	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Sales	48,869	52,449	101,318	53,680	55,620	109,300
YoY	5.6%	5.6%	5.6%	9.8%	6.0%	7.9%
Cost of sales	42,737	44,120	86,858			
Gross profit	6,131	8,329	14,460			
YoY	13.6%	11.8%	12.6%			
GPM	12.5%	15.9%	14.3%			
SG&A expenses	1,471	1,546	3,016			
SG&A ratio	3.0%	2.9%	3.0%			
Operating profit	4,660	6,783	11,443	5,670	6,200	11,870
YoY	9.2%	8.2%	8.6%	21.7%	-8.6%	3.7%
OPM	9.5%	12.9%	11.3%	10.6%	11.1%	10.9%
Recurring profit	4,511	6,709	11,220	5,530	6,070	11,600
YoY	10.7%	8.3%	9.3%	22.6%	-9.5%	3.4%
RPM	9.2%	12.8%	11.1%	10.3%	10.9%	10.6%
Net income	3,001	4,158	7,159	3,530	3,370	6,900
YoY	22.2%	-30.2%	-14.9%	17.6%	-19.0%	-3.6%
Net margin	6.1%	7.9%	7.1%	6.6%	6.1%	6.3%

Source: Shared Research based on company data

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

Segment forecasts

(JPYmm)	FY03/19 Act.			FY03/20 Est.		
	Cons.	Japan	US	Cons.	Japan	US
Net increase in store count	8	-3	11	9	-2	11
Total store count	137	105	32	146	103	43
Total store-operation months	1,560	1,265	295	1,667	1,241	426
Total sales	101,310	84,970	16,340	109,300	85,900	23,400
YoY	5.6%	0.8%	41.2%	7.9%	1.1%	43.2%
Bowling	24,290	22,140	2,150	25,250	22,380	2,870
YoY	-0.9%	-2.6%	20.1%	4.0%	1.1%	33.5%
Amusement	49,680	38,790	10,890	55,230	39,340	15,890
YoY	9.6%	2.9%	42.5%	11.2%	1.4%	45.9%
Karaoke	10,940	7,650	3,290	12,280	7,650	4,630
YoY	11.2%	-0.6%	54.5%	12.2%	0.0%	40.7%
SPO-CHA	13,460	13,460	-	13,630	13,630	-
YoY	1.4%	1.4%	-	1.3%	1.3%	-
Other	2,920	2,920	-	2,900	2,900	-
YoY	0.7%	0.7%	-	-0.7%	-0.7%	-
Operating profit	11,440	9,760	1,630	11,870	9,340	2,530
YoY	8.6%	2.8%	56.7%	3.8%	-4.3%	55.2%
Recurring profit	11,220	9,680	1,530	11,600	9,200	2,400
YoY	9.4%	3.8%	64.5%	3.4%	-5.0%	56.9%
RPM	11.1%	11.4%	9.4%	10.6%	10.7%	10.3%
Net income	7,150	6,420	720	6,900	5,650	1,250
YoY	-15.0%	-14.5%	-19.1%	-3.5%	-12.0%	73.6%

Source: Shared Research based on company data

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

For full-year FY03/20, the company forecasts sales of JPY109.3bn (+7.9% YoY), operating profit JPY11.9bn (+3.7% YoY), recurring profit JPY11.6bn (+3.4% YoY), and net income attributable to parent company shareholders JPY6.9bn (-3.6% YoY).

The company expects higher sales due to a higher store count in the US. It also projects that the growth rate for operating profit will fall behind the growth rate for sales due to increases in leasing expenses and depreciation caused by capex for the ROUND1 LIVE systems (allowing communication between stores for bowling and karaoke services via a network using large display screens) and automatic reception and payment systems it has been installing since October 2018. The company plans to complete installation of ROUND1 LIVE in all stores in Japan by June 2019, but says it did not include the potential sales impact of increases in customer counts caused by these systems in its initial forecasts.

Japan

For full-year FY03/20, the company forecasts sales of JPY85.9bn (+1.1% YoY), operating profit of JPY9.3bn (-4.3%), recurring profit of JPY9.2bn (-5.0%), and net income attributable to parent company shareholders of JPY5.7bn (-12.0%).

Despite fewer total store-operation months, the company expects higher comparable store sales to lift sales overall. Factors with a positive impact on sales include an increase in comparable store sales (JPY1.6bn impact) and favorable sales at new stores opened in FY03/19 (JPY250mn impact). At the same time, store closures are expected to have a negative impact of JPY890mn.

The company does not plan to open any new stores, but plans to close two stores. It ended FY03/20 with a total of 103 stores and 1,241 total store-operation months (-1.9% YoY). Despite total store-operation months decreasing due to the closure of non-profitable stores, the company expects comparable store sales to increase 1.9% YoY.

Regarding comparable store sales, the company expects customer spend to increase YoY due to the effect of price increases implemented in January 2019 for its amusement (about +1%) and SPO-CHA (about +4%) offerings and in April 2019 for its bowling (about +5%) and karaoke (about +2%) offerings. In addition to continuing its campaign providing free entry to elementary and junior high-school students, the company also plans to implement measures to increase customer numbers, including holding bowling classes and introducing new amusement machines.

Ever since Round One introduced an automatic scoring system in 1970, it has worked to improve its bowling-related products, and now plans to complete installation of ROUND1 LIVE systems (allowing communication between stores for bowling and karaoke services through a network using large display screens) in June 2019. From July 2019, the company will implement various promotional efforts, including TV commercials and pop idol events at stores. However, it has not included the potential impact of increases in customer counts triggered by the ROUND1 LIVE system in its full-year forecasts.

In quarterly comparable store sales, the company expects YoY increases of 6.0% in Q1, 3.1% in Q2, and 0.5% in Q3, but a decrease of 1.4% in Q4. Q1 and Q2 have three more weekend days and holidays YoY, a factor that, coupled with the aforementioned price increases, is projected to lead to higher comparable store sales. However, Q3 and Q4 each have one fewer weekend day or holiday YoY and there may be a negative impact from the consumption tax increase to be implemented in October 2019.

Although higher sales will have a positive impact on profit, the company expects operating profit to decline YoY as leasing expenses increase JPY960mn YoY and depreciation expenses increase JPY450mn YoY in connection with the installation of ROUND1 LIVE and automatic reception and payment systems between October 2018 and June 2019. Recurring profit and net income attributable to parent company shareholders will also likely decline due to lower operating profit.

The US

For full-year FY03/20, the company forecasts sales of JPY23.4bn (+43.2% YoY), operating profit of JPY2.5bn (+55.2%), recurring profit of JPY2.4bn (+56.9%), and net income attributable to parent company shareholders of JPY1.3bn (+73.6%).

The company expects higher sales due to a higher store count.

It plans to open 11 new stores, ending FY03/20 with a total of 43 stores, and 426 total store-operation months (+44.4% YoY). The company expects comparable store sales to decrease 1.1% YoY. For stores opened in FY03/19, the company expects sales to decline at stores that have been open for over a year, in contrast to strong sales during the opening period. In addition, the positive impact of word of mouth may begin to wear off at some stores that have been open for more than two years, even those at which comparable store sales had been trending upward.

Comparable store sales trends: According to the company, sales at stores opened in the US tend to decline in the period between 12 and 24 months after opening. This is because the new store effect that tends to produce strong sales at newly opened stores begins to wear off after about one year. The company maintains that the decline in sales that occurs as new store effects wear off tends to end by the 25th month after opening, after which comparable store sales tend to increase thanks to word of mouth.

As measures to increase customer numbers, the company will continue to implement its Round1 Bowling Challenge (in which players win prizes for achieving specific targets), All-Inclusive Party plan (offering unlimited gaming and food), and Kids BOGO (through which one kids club member can bowl one game for free when accompanied by an adult), and will continue selling beer at a price of USD1.99 and ice cream at USD0.99.

As a measure to increase customer spend at existing stores, in April 2019 the company raised the fee for the All-Inclusive Party plan by about 10%.

In the US, the company expects an increase in store-operation months to have a positive impact of JPY1.4bn on recurring profit, but increased rent paid during construction and higher advertising costs are projected to have negative impacts of JPY230mn and JPY110mn respectively.

Results vs. historical company estimates

Results vs. Initial Est. (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.
Sales (Initial Est.)	85,000	91,000	86,000	88,000	90,000	86,000	85,500	85,000	87,100	92,200	101,400
Sales (Results)	77,983	82,113	84,303	89,568	85,903	84,272	83,905	83,516	87,776	95,910	101,318
Results vs. Initial Est.	-8.3%	-9.8%	-2.0%	1.8%	-4.6%	-2.0%	-1.9%	-1.7%	0.8%	4.0%	-0.1%
Operating profit (Initial Est.)	19,000	16,500	14,000	12,500	14,100	11,600	10,000	6,890	6,060	7,170	11,550
Operating profit (Results)	13,611	12,031	11,416	16,036	11,565	10,088	6,641	6,367	6,681	10,537	11,443
Results vs. Initial Est.	-28.4%	-27.1%	-18.5%	28.3%	-18.0%	-13.0%	-33.6%	-7.6%	10.2%	47.0%	-0.9%
Recurring profit (Initial Est.)	16,700	13,000	9,000	80,000	10,000	8,400	9,000	6,150	5,500	6,700	11,000
Recurring profit (Results)	9,798	7,848	6,929	11,481	8,217	7,818	6,150	5,402	5,858	10,267	11,220
Results vs. Initial Est.	-41.3%	-39.6%	-23.0%	-85.6%	-17.8%	-6.9%	-31.7%	-12.2%	6.5%	53.2%	2.0%
Net income (Initial Est.)	9,600	6,300	2,500	3,300	1,000	-7,500	5,000	1,200	1,500	3,600	6,320
Net income (Results)	3,977	3,396	-12,673	2,781	601	-19,681	-4,568	449	2,735	8,411	7,159
Results vs. Initial Est.	-58.6%	-46.1%	-	-15.7%	-39.9%	-	-	-62.6%	82.3%	133.6%	13.3%

Source: Shared Research based on company data

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

Long-term strategy

Round One has not released a medium-term management plan. However, in the medium term, the company aims for growth by focusing on store openings in the US market. Among other measures that impact earnings in the medium term, the company intends to develop and introduce new ROUND1 LIVE bowling machinery in Japan, and promote automation and systemization to reduce total working hours. In addition, in the long term, it aims to develop stores in China in particular, but also in Russia and other Asian regions.

Accelerating store openings chiefly in the US, targeting 100 stores in Japan and 120 in the US, for a total of 220 in FY03/24

With regard to the domestic market, it plans to press on with closing unprofitable stores and opening new ones as the market continues to shrink owing to a decline in the bowling participation rate caused by a decline in the population and diversified entertainment choices. Through these measures, the company hopes to sustain its current profit level as the elimination of counterproductive intra-company competition leads to higher profitability.

The company is leveraging the lesson it learned from its US stores and is carefully vetting options with an eye to higher profitability. As of end FY03/19, it had 32 stores in the US. The company opened the first US store in August 2010, and it improved the effectiveness of store openings and operations as it accumulated experience operating stores at amusement complex centers in North America. Starting in FY03/17, the company has been gradually increasing the number of new store openings guided by this accumulated operation expertise. In FY03/19, the company opened 11 stores and plans to open 11 more during FY03/20. From FY03/21 onward, it aims to open about 20 stores per year. It plans to shorten the time required for making decisions on store openings by cutting back on management visits to potential sites.

Round One aims to generate the same level of recurring profit there as it does domestically (Japan segment recurring profit was JPY9.7bn in FY03/19), and its target is to double the consolidated recurring profit through these measures. Further, with the number of stores expanding, the company believes it is possible to ask game machine manufacturers to develop customized game machines. In May 2019, it submitted requests to multiple game machine manufacturers for development of music games, with completion tentatively scheduled for 2021.

Out of a total of some 900 shopping malls in the US, there are about 300 locations where Round One could establish a store when considering the populations of various areas and location quality while ignoring possible effects of stores of competitor Dave & Buster's Entertainment, Inc. Dave & Buster's Entertainment had 128 stores as of May 2019, and, even when assuming the addition of 10 stores per year, that still leaves ample room for Round One to reach its target of 120 stores by FY03/24. In terms of investment, the company's basic policy is to conduct business within the limit of its operational cash flow. Financially, it plans to maintain its current level.

The company, when opening a new store in the US, leases amusement equipment worth JPY210mn and amortizes this investment over seven years. As a result, the company's OPM usually increases from the eighth year as this expense disappears, comparing with first seven years.

Considering expansion into China, Russia, and other Asian regions after reaching target of 120 stores in the US

Once Round One reaches its target of 120 stores in the US, it aims to expand into China, Russia, and other Asian regions. In order to gain a better understanding of various countries' markets, the company is considering establishing stores in multiple countries by FY03/21.

US stores: the present and the future

Capital expenditure and business performance

Category		High-performing stores	Average stores	Low-performing stores
Initial investment amount		USD7.2mn (approx. JPY790mn)		
Annual account	Total sales	USD7.4mn (approx. JPY810mn)	USD6.0mn (approx. JPY660mn)	USD3.9mn (approx. JPY430mn)
	Operating profit (first year)	USD1.1mn (approx. JPY120mn)	USD0.3mn (approx. JPY30mn)	-USD0.9mn (approx. -JPY100mn)
	Operating profit (2–7 years)	USD2.0mn (approx. JPY220mn)	USD1.2mn (approx. JPY130mn)	-USD0mn (approx. -JPY0mn)
	Operating profit (8th year onward)	USD2.2mn (approx. JPY240mn)	USD1.4mn (approx. JPY150mn)	USD0.1mn (approx. JPY10mn)
	OPM (2–7 years)	27.0%	20.0%	-0.0%

Source: Shared Research based on company data

Note: USD/JPY110. First year operating profit includes store opening costs, with the exception of those of head office.

Summary of store opening policy:

Candidate locations:	Directly managed store openings using existing facilities in large-scale shopping malls across the US (approximately 900 shopping malls in the US are possible locations)
Floor area	42,000–64,000sqft (approx. 3,900–6,000sqm)
Population of surrounding area	150,000 persons in a 5-mile radius, 400,000 persons in a 10-mile radius
Target audience	Shopping mall visitors (At night, younger customers such as college students), assuming a 50/50 split between males and females
Average spend per customer	USD14 (JPY1,540)
Sales composition	Amusement, 67%; Bowling, 13%; Food, 13%; Karaoke (excluding food and drink) 1%; Other, 3%
Standard capex	USD7.2mn (approx. JPY790mn), composed of: leases of about USD2.0mn (approx. JPY220mn) and cash of about USD5.2mn (approx. JPY570mn) Uses: interior remodeling, JPY280mn; fixtures and fittings, JPY140mn; amusement machinery, JPY220mn; bowling machinery, JPY80mn; other related expenses, JPY70mn)
Characteristics of leasing expenses	Depreciated over seven years. From the eighth year onward, lease fees decrease and profit amounts (profit margins) increase.

Source: Shared Research based on company data

Note: USD/JPY110

Introduction of ROUND1 LIVE

Starting in October 2018, Round One began introducing ROUND1 LIVE as a new facility for bowling and karaoke. This facility allows customers to focus on their games without needing to be concerned about customers in neighboring lanes by utilizing many large-scale displays. Through the addition of network (LIVE) functionality, the facility offers customers a variety of ways to use it. Specifically, customers can connect to different lanes using “LIVE de Free Matching,” a video call service. Through use of the facility’s network features, pop idols and comedians can hold “Nationwide LIVE Fan Meet-Ups” and “Nationwide LIVE Offline Fan Meet-Ups,” for which participants are recruited beforehand by connecting people in remote locations with one another. The company will aim to introduce ROUND1 LIVE at all stores between October 2018 and June 2019 and began gradually launching LIVE functionality starting in mid-January 2019.

The company is aiming to expand its customer base and increase customer numbers and sales by offering various services that connect people in remote locations through a combination of large-scale displays and LIVE functionality. These services include

both online and offline fan meet-ups. In April 2019, the company will raise prices at stores that feature ROUND1 LIVE by about 5% for bowling and about 2% for karaoke.

As for cost, total capex, which includes expenses related to automated reception machines (mentioned below), will amount to about JPY7.0bn. Expenditures for the year will rise by JPY1.1bn–JPY1.2bn, comprising an increase in depreciation cost of about JPY1.0bn and a rise of JPY100mn–JPY200mn in communications and electricity costs. However, the company may be able to cancel out this increase in expenses by curtailing personnel costs through progress in automation and systematization (explained in detail below).

Automation and systematization aimed at curtailing total working hours

In addition to new bowling machinery, the company began launching automated reception machines and staff tablets in January 2019. Installing these reception machines automates store reception, while introducing staff tablets will allow customers to see which facilities are in use, confirm device statuses, and view information concerning operational changes more easily. The company devotes about 10 million hours per year to customer services and aims to curtail this figure by 10% through automation and systematization. If the time devoted to customer services is lowered by one million hours per year, this will curtail personnel costs by about JPY1.1bn, assuming total hourly expenses of JPY1,100 per part-time worker (hourly wage plus other expenses).

Business

Summary

Core business: operation of amusement complex centers

Round One specializes in running amusement complex centers in Japan and North America. As of end March 2019, it operated 137 stores (105 stores in Japan, and 32 stores in the US). Its reporting segments are Japan (83.9% of sales and 87.1% of recurring profit in FY03/19) and the US (16.1% of sales and 12.9% of recurring profit).

Performance by segment

(JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Total sales	82,113	84,303	89,568	85,903	84,272	83,905	83,516	87,776	95,910	101,318
YoY	5.3%	2.7%	6.2%	-4.1%	-1.9%	-0.4%	-0.5%	5.1%	9.3%	5.6%
Japan						81,925	78,348	80,525	84,331	84,976
YoY						-	-4.4%	2.8%	4.7%	0.8%
US						1,979	5,168	7,250	11,579	16,342
YoY						-	161.1%	40.3%	59.7%	41.1%
Recurring profit	7,848	6,929	11,481	8,217	7,818	6,150	5,402	5,858	10,267	11,220
YoY	-19.9%	-11.7%	65.7%	-28.4%	-4.9%	-21.3%	-12.2%	8.4%	75.3%	9.3%
RPM	9.6%	8.2%	12.8%	9.6%	9.3%	7.3%	6.5%	6.7%	10.7%	11.1%
Japan						6,278	5,159	5,416	9,335	9,769
YoY						-	-17.8%	5.0%	72.4%	4.6%
RPM						7.7%	6.6%	6.7%	11.1%	11.5%
US						-127	243	441	932	1,450
YoY						-	-	81.5%	111.3%	55.6%
RPM						-	4.7%	6.1%	8.0%	8.9%
Store count	105	109	110	113	114	118	122	122	129	137
YoY	-	3.8%	0.9%	2.7%	0.9%	3.5%	3.4%	0.0%	5.7%	6.2%
Japan	105	108	109	111	111	113	113	107	108	105
YoY	-	2.9%	0.9%	1.8%	0.0%	1.8%	0.0%	-5.3%	0.9%	-2.8%
US		1	1	2	3	5	9	15	21	32
YoY		-	0.0%	100.0%	50.0%	66.7%	80.0%	66.7%	40.0%	52.4%

Source: Shared Research based on company data

In Japan, services include bowling, amusement (games), karaoke, and SPO-CHA (short for "Sports Challenge"). As the company provides a wide range of services, understanding profit and loss at each service level is difficult. As all services are provided in the same location and for the same customers, it is hard to appropriately allocate direct costs and overhead to each category.

In the US, services include bowling, amusement (games), and karaoke. As of end FY03/19, the company does not provide SPO-CHA there.

Bowling has high marginal profitability

Marginal profitability appears to be the highest in bowling, followed by SPO-CHA. For bowling, the marginal profitability is suggested to be over 90% while gaming is relatively lower due to variable costs associated with prizes in redemption type machines etc. Karaoke has a high exposure to variable costs; this service includes foods and beverage sales. SPO-CHA has a marginal profitability structure similar to bowling.

US Moreno Valley Mall Branch



Okinawa Ginowan Branch



Source: Shared Research based on company data

Business description

The company's amusement centers are divided into "standard" and "stadium." Bowling, Amusement (games), and Karaoke are the three main revenue pillars at standard facilities, while SPO-CHA is the key feature for the stadium format.

Returning to the standard format from the stadium format

Stadium added SPO-CHA to become the newer format. However, this format requires a large land area. Consequently, excluding certain stores (Sennichimae store), most stadium format stores are standalone. The company's recent store opening strategy has been limited to tenancies within existing malls and commercial complexes. For this reason, when space sufficient for the stadium format cannot be leased, the company opts for the standard format.

Bowling (24.0% of sales in FY03/19)

Revenues are mainly derived from fees for bowling rounds, bowling shoe rentals, and vending machines sales (such as drinks and snacks). Within the company's overall sales mix, although Bowling accounts for less than Amusement's 49.0% (FY03/19), Bowling is the company's core business and all stores include a bowling alley. Nearly all of Japan's existing bowling alleys opened during Japan's bowling boom from the mid-1960s to the mid-1970s, and have continued to operate in their original style. Round One's facilities were newly opened long after the boom period and feature a range of innovations, such as moonlight strike games (game rooms illuminated with black lights), which help boost bowling's leisure appeal and differentiate the facilities from those of competitors. From FY03/09 onward, Round One has grown faster than the market, but it suffered in FY03/13 as competitors drove down prices. Growth was also sluggish in FY03/15, owing to the prolonged effect of the consumption tax hike in April 2014, and poor weather over the year-end holiday season—normally a time of peak demand. The adverse effect of the consumption tax hike lingered on. However, it seemed to be finally bottoming out in FY03/17.

Starting in October 2018, Round One began introducing ROUND1 LIVE as a new facility for bowling and karaoke. This facility allows customers to focus on their games without needing to be concerned about customers in neighboring lanes by utilizing many large-scale displays. Through the addition of network (LIVE) functionality, the facility offers customers a variety of ways to use it. Specifically, customers can connect to different lanes using "LIVE de Free Matching," a video call service. Through use of the facility's network features, pop idols and comedians can hold "Nationwide LIVE Fan Meet-Ups" and "Nationwide LIVE Offline Fan Meet-Ups," for which participants are recruited beforehand by connecting people in remote locations with one another. The company will aim to introduce ROUND1 LIVE at all stores between October 2018 and June 2019 and plans to begin gradually launching LIVE functionality starting in mid-January 2019.

Bowling business performance

(JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
Bowling sales growth YoY: Market	-6.8%	-3.7%	-6.7%	-1.3%	-9.2%	-5.4%	-7.3%	-4.6%	-2.0%	-0.9%
Bowling sales: Round One	30,787	31,000	32,400	29,700	27,200	24,520	23,030	22,910	24,520	24,290
YoY	8.7%	0.7%	4.5%	-8.3%	-8.4%	-9.9%	-6.1%	-0.5%	7.0%	-0.9%
% of consolidated sales	37.5%	36.8%	36.2%	34.6%	32.3%	29.2%	27.6%	26.1%	25.6%	24.0%
Japan	-	-	-	-	-	-	22,060	21,680	22,720	22,140
YoY	-	-	-	-	-	-	-	-1.7%	4.8%	-2.6%
US	-	-	-	-	-	-	960	1,220	1,790	2,150
YoY	-	-	-	-	-	-	-	27.1%	46.7%	20.1%

Source: Shared Research based on company data and Statistics of Production by Specialized Service Industry by the Ministry of Economy, Trade and Industry
 Note: Figures may differ from company materials due to differences in rounding methods.
 Note: Market data on a calendar year basis.



Source: Company data

Amusement (49.0% of sales in FY03/19)

This category mainly comprises revenue from medal games, prize games, virtual games, video games, and purikura (photo sticker booth) machines. Amusement accounts for the largest share of the company’s sales mix. While many of the major game arcade operators in Japan are affiliated with particular game manufacturers (Sega, Namco, Taito, etc.), the company is the largest independent game arcade operator in the country. That means the company is able to use its own judgment in choosing the best games for its arcades from a diverse range of machines. As the scale of the company’s operations has expanded, its purchasing power has increased, putting it in a strong bargaining position vis-à-vis arcade game vendors and giving it access to many of the latest game machines.

Amusement business performance

(JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
Amusement sales growth YoY: Market	-12.0%	-1.7%	-1.7%	-3.6%	-2.9%	-7.5%	2.8%	6.5%	-	-
Amusement sales: Round One	33,405	35,224	36,400	34,500	34,900	36,520	36,580	40,530	45,340	49,680
YoY	3.7%	5.4%	3.3%	-5.2%	1.2%	4.6%	0.2%	10.8%	11.9%	9.6%
% of consolidated sales	40.7%	41.8%	40.6%	40.2%	41.4%	43.5%	43.8%	46.2%	47.3%	49.0%
Japan	-	-	-	-	-	-	33,390	35,900	37,700	38,790
YoY	-	-	-	-	-	-	-	7.5%	5.0%	2.9%
US	-	-	-	-	-	-	3,180	4,620	7,640	10,890
YoY	-	-	-	-	-	-	-	45.3%	65.4%	42.5%

Source: Shared Research based on company data and the Japan Amusement Industry Association’s Amusement Industry Field Survey Report
 Note: Figures may differ from company materials due to differences in rounding methods.



Source: Company data

Karaoke (10.8% of sales in FY03/19)

Sales are mainly derived from karaoke room rental fees, and food and beverage services for karaoke customers. In the Karaoke business it is difficult to achieve differentiation apart from store location. However, the company has attempted to differentiate itself from competitors via inter-store networks and ranking systems, karaoke rooms with mini-stages, and rooms equipped with massage chairs.

Karaoke business performance

(JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
Karaoke sales growth YoY: Market	-8.6%	-1.6%	1.6%	1.6%	1.2%	0.6%	0.4%	-1.9%	-0.5%	-
Karaoke sales: Round One	6,037	6,715	8,200	8,300	8,400	8,640	8,660	9,130	9,840	10,940
YoY	6.2%	11.2%	22.1%	1.2%	1.2%	2.9%	0.2%	5.4%	7.8%	11.2%
% of consolidated sales	7.4%	8.0%	9.2%	9.7%	10.0%	10.3%	10.4%	10.4%	10.3%	10.8%
Japan	-	-	-	-	-	-	7,750	7,730	7,700	7,650
YoY	-	-	-	-	-	-	-	-0.3%	-0.4%	-0.6%
US	-	-	-	-	-	-	900	1,390	2,130	3,290
YoY	-	-	-	-	-	-	-	54.4%	53.2%	54.5%

Source: Shared Research based on company data and the All-Japan Karaoke Industrialist Association's Karaoke White Paper
 Note: Figures may differ from company materials due to differences in rounding methods.
 Note: Market data on a calendar year basis.



Source: Company data

SPO-CHA (13.3% of sales in FY03/19)

Sales mainly comprise admission tickets for SPO-CHA (“Sports Challenge”) and food and beverages consumed by SPO-CHA customers. SPO-CHA is only available at the company’s stadium format stores in Japan, which are larger than its standard store format. Nearly all stadium stores are standalone. Usually, the roof area and floor directly below are dedicated to SPO-CHA, which includes futsal, bubble soccer, three-on-three basketball, segway, batting practice, roller skating, and trampolining. Once customers enter the area, all these services (with the exception of some food services) are available at no additional cost within the time period specified by the ticket, distinguishing it from its competitors. Furthermore, Kid’s SPO-CHA targets families with children and includes play items such as slides, ball pools, and a children's only karaoke area.

SPO-CHA business performance

(JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
SPO-CHA sales	8,963	8,748	9,400	10,300	10,900	11,500	12,190	12,270	13,280	13,460
YoY	-3.4%	-2.4%	7.5%	9.6%	5.8%	5.5%	6.0%	0.7%	8.2%	1.4%
% of total sales	10.9%	10.4%	10.5%	12.0%	12.9%	13.7%	14.6%	14.0%	13.8%	13.3%

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.

SPO-CHA facilities



Source: Company data



Source: Company data

Other (2.9% of sales in FY03/19)

Sales mainly comprise rental income from tenants (food service operators, etc.) as well as revenue from such services as pool tables, dart boards and table tennis at standard stores.

Other business performance

(JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
Other sales	2,918	2,613	3,000	2,900	2,700	2,700	3,040	2,920	2,900	2,920
YoY	18.3%	-10.5%	14.8%	-3.3%	-6.9%	0.0%	12.6%	-3.9%	-0.7%	0.7%
% of total sales	3.6%	3.1%	3.3%	3.4%	3.2%	3.2%	3.6%	3.3%	3.0%	2.9%

Source: Shared Research based on company data

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

Development of new centers

As of end March 2019, the company had 137 amusement complex centers (standard stores: 57; stadiums: 48; US: 32).

In Japan, from FY03/06 to FY03/10, the company opened 10 or more new stores annually, but since FY03/11, has focused on rebuilding existing stores, with new store openings limited to one to three per year.

In the US, the company will accelerate store openings while leveraging the lessons it has learned from operating stores there, with the objective of establishing a network of 120 US stores by FY03/24. The company opened its first US store in August 2010, and, in FY03/16, achieved a current account surplus. Since this achievement, it has gradually increased new store openings as it has accumulated operational expertise. In FY03/19, the company opened 11 stores and plans to open 11 more during FY03/20. From FY03/21 onward, it aims to open about 20 stores per year.

Store count

	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
Total store count (year-end)	105	109	110	113	114	118	122	122	129	137
Openings	11	4	1	4	1	4	5	8	7	12
Closures	0	0	0	1	0	0	1	8	0	4
Owned	69	69	63	58	21	29	28	24	24	21
Leased	36	40	47	55	93	84	94	98	105	116
Japan	105	108	109	111	111	113	113	107	108	105
Standard	62	65	66	66	66	67	67	60	61	57
Roadside	55	57	58	57	57	58	57	50	51	47
Busy street	7	8	8	9	9	9	10	10	10	10
Stadium	43	43	43	45	45	46	46	47	47	48
Roadside	43	43	43	44	44	45	45	46	46	47
Busy street	-	-	-	1	1	1	1	1	1	1
US	-	1	1	2	3	5	9	15	21	32

Source: Shared Research based on company data

Cost structure analysis

According to the company, its marginal profit ratio is roughly 70–80%.

Round One’s business model is such that fixed costs per center have a tendency to decline in the medium or long term. The company’s typical model shows that the annual leasing expense through the first year to the third year is JPY203mn versus JPY123mn in the fourth year to the sixth year and JPY94mn in the seventh year and onward (see table below). When assuming constant sales levels, the leasing expenses equate to 16.9%, 10.3%, and 7.8% of sales, respectively, throughout the three periods. When other conditions remain unchanged, OPMs are expected to improve as leasing expenses decline.

Leasing costs by length of operation

(JPYmn)	First 3 Years	4th to 6th	7th and Later
Sales	1,200	1,200	1,200
Bowling	360	360	360
Amusement	340	340	340
Karaoke	60	60	60
SPO-CHA	440	440	440
Lease fees	203	123	94
Bowling	36	36	4
Amusement	150	77	79
Karaoke	17	10	11
SPO-CHA	77	18	19
Lease fees, % of sales	16.9%	10.3%	7.8%
Bowling	10.0%	10.0%	1.1%
Amusement	44.1%	22.6%	23.2%
Karaoke	28.3%	16.7%	18.3%
SPO-CHA	17.5%	4.1%	4.3%

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.

Leasing costs are declining because of the gradual effects from initial investments. Leasing contract renewals, except for bowling, are signed every three years, and the costs of the fourth year decrease as initial investments aren’t required to renew a lease. For bowling, leasing costs remain stable for the first six to seven years, after which costs will decrease.

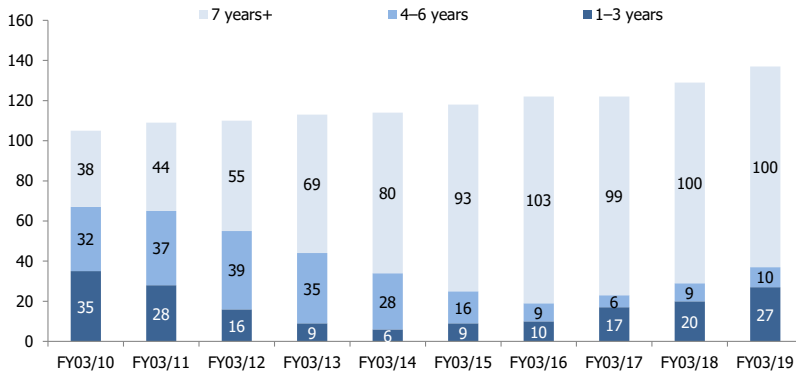
Bowling has the lowest leasing costs compared with other facilities, and it has the lowest variable costs (meaning high marginal profits), making it a key earnings pillar for the company. After the seventh year bowling leasing costs come down to 1.1%, with higher profit margins expected. Bowling requires almost no additional investments when renewing leasing contracts, unlike other categories, and therefore the rate of declines in leasing costs are large.

This analysis assumes constant sales; in reality comparable store sales significantly affect margins. Fluctuations in SPO-CHA sales mean leasing costs may account for a larger share of sales. But these numbers serve as a reference when analyzing Round One’s other services.

Ages of centers

The number of centers in their first to third year continued increasing through FY03/09, but since the substantial slowdown of new store openings from FY03/11, centers four years or older are becoming more numerous, lowering overall costs.

Store breakdown by age



Source: Shared Research based on company data

Group companies

The group is comprised of the parent and its five consolidated subsidiaries. With the exception of Round One Entertainment Inc., the remaining four subsidiaries are silent partnerships (Tokumei Kumiai) under the special-purpose company (SPC) scheme, established with the sole purpose of developing and renting stores for the parent.

In the past, the company had a consolidated subsidiary that issued point cards, but as it did not meet expectations, the business was liquidated in FY03/02 and from the following year the company excluded this subsidiary from its scope of consolidation. Meanwhile, in 2002 the company followed the suggestion of a leasing company and started to use SPCs. Under the prevailing accounting rules, development-type SPCs were off balance sheets and therefore did not require consolidated reporting. From FY03/07 the company began including all its SPC-related assets and liabilities in the scope of consolidation.

As a result, consolidated subsidiaries include silent partnerships. In addition, from FY03/11, US subsidiary Round One Entertainment Inc. has become included in consolidated results.

Strengths and weaknesses

Strengths:

- **Unique business model:** Combining bowling, Amusement (game arcades), Karaoke, and SPO-CHA (not in all centers) into one large amusement center proves to be a unique business model. When these are further combined with such offerings as pool tables and dart boards, synergies increase to attract customers. Synergies also smooth out revenues as fluctuations in individual services have less effect on the overall business. While core markets gradually shrink and competitors withdraw, Round One reaps benefits of being the country's sole nationwide operator of amusement complexes. In the past, large game machine manufacturers and developers have attempted similar operations, but these generally ended in failure due to lack of operational expertise and the need for a large level of capex.
 - **Strong brand name:** "Round One" is well recognized by consumers nationwide due to advertising on the major TV networks.
 - **Strong cash-flow generating ability:** Although the high earnings growth seen in the past has steadied to less-spectacular rates, it will be important for the company to maintain comparable store sales since the company's ability to generate free cash flow will weaken if comparable store earnings stagnate.
-

Weaknesses:

- **Compared with retailers, new store openings carry high risks:** While many retailers can close their stores relatively easily, the company's large-scale centers are unique and closures carry the risk of incurring major asset write-offs. However, from FY03/11, the company prioritized the leasing of vacant space in existing buildings. For example, the Fuchu Hommachi-ekimae store opened in FY03/11 in a building formerly occupied by a large supermarket operator. The company proved it was possible to hold down capex while sustaining growth. This also suggests that there may be room to reduce store-opening-related risks by using existing buildings.
- **Shrinking market:** Having a high presence in its market, it is harder for the company to find new venues of profitable growth, especially when only looking at its domestic operations. The company entered the North American market in 2010 as it looked to develop new markets that could sustain long term growth. Although overseas store openings carry country risk and face regulatory hurdles (e.g. medal games), the company generated a positive recurring profit in FY03/16 in North America and has continued growth in both sales and profit since then, demonstrating the success of its strategy.
- **Slower-than-expected industry shakeout:** As Japan continues to see bowling and amusement markets shrink, the number of industry players is on a downward trend. Because of these players generating steady operating cash flows, the pace of market shrinkage is slow. If industry shakeout accelerates, the company can benefit from being a survivor.

Market and value chain

Market overview

4000 bowling centers when the market was at its peak; presently 900 centers

Bowling gained wide popularity in Japan in the 1960s when it was first imported. In those days, many companies with suitable idle land aggressively built bowling alleys for customers, who often lined up for hours to bowl. After peaking at around 4,000, the number of centers declined to about 900 as of June 2011. Japanese people now have access to a wide variety of entertainment options, leading to a smaller portion of disposable income for bowling.

Competition with other amusement or entertainment influences bowling demand

The market for Round One's services is no longer in a secular growth stage. It goes through other cycles more related to product innovation and emergence of competing entertainment options rather than responding to normal economic cycles. For instance, when automatic scoring was introduced in bowling alleys in Japan, it fueled a temporary boom. On the other hand, when mobile phone content started rapidly gaining acceptance among young people, handsets took away a portion of their disposable incomes and negatively impacted other amusement alternatives, including bowling. The impact tends to wear off after an initial surge, creating a "hindsight cycle." Generally speaking, such cycles are short-lived, so Round One's markets (bowling, games) seem to have a slow contraction trend arguably driven by changing demographics.

Market size and participating population for bowling, karaoke, and arcade games

(JPYbn)	2001	2007	2008	2009	2010	2011	2012	2013
Bowling								
Market size	115.0	101.0	91.0	83.0	82.0	76.0	75.0	72.0
YoY		-1.0%	-9.9%	-8.8%	-1.2%	-7.3%	-1.3%	-4.0%
Number of participants (mn)	34.4	25.1	23.5	22.1	17.8	16.9	14.5	12.2
YoY		0.0%	-6.4%	-6.0%	-19.5%	-5.1%	-14.2%	-15.9%
Karaoke								
Market size	451.0	427.0	421.0	385.0	379.0	385.2	391.2	396.0
YoY		-2.1%	-1.4%	-8.6%	-1.6%	1.6%	1.6%	1.2%
Number of participants (mn)	51.5	43.1	44.3	50.0	46.8	39.1	36.5	33.6
YoY		0.5%	2.8%	12.9%	-6.4%	-16.5%	-6.6%	-7.9%
Arcade games								
Market size	546.0	678.0	595.0	515.0	476.0	466.0	460.0	443.0
YoY		3.0%	-12.2%	-13.4%	-7.6%	-2.1%	-1.3%	-3.7%
Number of participants (mn)	21.6	22.0	22.7	29.0	30.0	19.1	18.6	15.4
YoY		-2.7%	3.2%	27.8%	3.4%	-36.3%	-2.6%	-17.2%

Source: Shared Research based on Japan Productivity Center (JPC) data

Round One has 30% of the domestic bowling market (by value)

With 105 centers nationwide at end FY03/19 (108 centers at end FY03/18), the company's domestic sales for bowling were JPY22.1bn (-2.6% YoY). Round One has approximately 30% of the market (by value). While its market share based on the number of bowling centers is only about 10%, it has a very high lane utilization rate compared with its peers. The company entered the market late, in the early 1980s, at the end of an era of such commercially successful entries. The company not only opened bowling alleys but also introduced a completely new model (under the Round One brand), combining bowling with games, karaoke, and other amusement options. The market size is about JPY60–70bn as of 2018 with approximately 10 centers closing each year, and expectations for continued contraction of the market. However, Round One has the potential to improve sales by increasing its share as smaller competitors exit the market.

Shrinking arcade games market

The market for arcade games is saturated, due to relatively low entry barriers and over-expansion of market supply in the past. The total market size is just under JPY400bn, down from a peak of over JPY700bn. The contraction of the market has motivated some incumbents to reconsider participation, and some larger national operators are selling assets to smaller regional firms. The overcapacity has caused ripple effects through the value chain as game manufacturers reacted by limiting game title production.

Smaller arcade operators are slow to replace machines due to financing challenges, and manufacturers respond by making fewer games, which in turn limits choices for larger arcade operators.

US market

The company plans to open more US stores. According to FY03/14 company materials, the US bowling market had the following characteristics (market size and other data were company estimates based on the Japan Productivity Center's White Paper of Leisure 2014):

Overview

- ▶ Market size: USD7.0bn (approximately 9.7 times the size of the Japanese market, which is about JPY72.0bn)
- ▶ Number of centers: 5,350 centers (Private sector: about 4,800 centers; Others such as Military/Association-operated: about 550 centers)
- ▶ Bowling population: about 71mn people (people bowling at least once a year; 12.2mn people for Japan)

Other market features

- ▶ The two largest operators (Brunswick Corp. and AMF Bowling, Inc.) have approximately 400 stores with second-tier players having around 50 stores. Most of the other operators are family-owned businesses.
- ▶ Recession-resistant: the market has displayed continued stable growth over the past few years.
- ▶ Older bowling alleys have been closed down over the years and about 20–50 of these stores per year are then renovated into other facilities (such as go-kart tracks, video game arcades, and mini golf courses).
- ▶ Participation rates for bowling are very high compared to other leisure activities (such as golf, fishing, tennis, billiards, cycling, roller skating, ice skating and marathon running).
- ▶ Bowling alleys are viewed as social venues with increasing users with above-average incomes.

Customers

Customer breakdown by generations with the company is as follows: people in their teens and twenties collectively account for 50% of the total. The family segment with adults in their 40s accounts for about 30%. Other generations account for the remaining 20%. The population in Japan is unlikely to grow in the future, and the proportion of young people to the total population is likely to decline. Given this trend, the key customer base (younger people) should suffer proportionally larger declines than the overall Japanese population, and this could lead to future decreases in customers. However, current young customers (if they habitually come to amusement centers) could potentially become repeat customers even in their thirties and forties.

Suppliers

Round One sources equipment for its facilities, otherwise there are no major items to procure. All equipment is leased, not purchased. Suppliers of game machines include Sega Sammy Holdings Inc. (TSE1: 6460), Namco Bandai Holdings Inc. (TSE1: 7832), Taito Corporation, a subsidiary of Square Enix Holdings Co., Ltd. (TSE1: 9684), and Konami Corp. (TSE1: 9766). Excluding Konami, most game suppliers also operate their own arcade game chains, also making them competitors of the company. For these manufacturers, Round One is a major customer.

Barriers to entry

A mature market with limited growth potential makes a profitable entry less possible and therefore less attractive. Both the existence of a national Round One franchise and its expertise in managing this franchise create high barriers to entry for mid- and small-sized competitors. Additionally, several billion yen is required to invest in facilities, which is a significant barrier to entry.

Some game manufacturers abandoned their attempts to enter the bowling market after they found that their expertise (arcade games) was not transferable to bowling.

Competitors

There are no direct competitors that run national chains. Neighborhood operators of bowling centers, game arcades, and karaoke centers are all competitors to varying degrees. Sport Co., Ltd. (previously a subsidiary of Koshidaka Holdings Co., Ltd. (JASDAQ: 2157), sold in 2012 to Venus Fund Co., Ltd.) is considered a distant second runner in the industry, operating 12 plain-vanilla bowling centers as of May 2019. The second-largest operator in terms of store numbers is Next Co., Ltd. (formerly Tokori Global Co., Ltd.), which had around 40 centers under the T.T BOWL brand (as of March 2014). However, this operator filed for bankruptcy protection in March 2014 due to excessive price cutting and overextending itself in store openings.

No company has succeeded in replicating the national scale and highly standardized model that Round One has accomplished. In the words of management, “there is no Round 2” in the market using the same business model.

Arcade game operators such as Sega Sammy Holdings, Namco Bandai Holdings, and Taito are competitors, but none of them operate amusement complexes on a nationwide basis. Smaller players like Adores Inc. (Jasdaq 4712) and subsidiary of GEO Holdings Corp (TSE1:2681) Warehouse Co., Ltd., can also be cited as competitors, but they are not deeply involved in bowling operations and have a much smaller scale, so direct comparisons are not useful.

Substitutes

Essentially, Round One’s services provide customers with amusement and/or entertainment, and thus any other equivalents could be substitutes. However, the mainstay bowling has distinguished characteristics that make it popular—the rules are simple, skill is not required for enjoyment, and it is relatively inexpensive. Given these factors, it is unlikely that the market for bowling will quickly decline. The diversification of amusement and/or entertainment will most likely continue to progress, but bowling should survive as one of the key categories even in the long term.

Historical financial statements

Summary

Full-year FY03/19 results

Earnings overview

▷ Sales:	JPY101.3bn (+5.6% YoY)
▷ Operating profit:	JPY11.4bn (+8.6% YoY)
▷ Recurring profit:	JPY11.2bn (+9.3% YoY)
▷ Net income*:	JPY7.2bn (-14.9% YoY)

*Net income attributable to parent company shareholders.

Higher comparable store sales in Japan and an increase in store count in the US drove the increase in sales overall. Decreases in repair and personnel costs in Japan and the effect of higher sales in the US served to boost profits. January 2019 price increases of 1% in Amusement and 4% in SPO-CHA also contributed to higher sales and profits.

The breakdown by segment is as follows. In Q1 FY03/19 the company changed its segment classification, dividing the former Amusement segment into two segments (Japan and US). For the purpose of YoY comparison, figures from the previous financial year have been adjusted based on the new segmentation.

Japan

▷ Sales:	JPY85.0bn (+0.8% YoY)
▷ Segment profit (recurring profit):	JPY9.8bn (+4.6% YoY).

In addition to continually implementing the 1000-yen cash back campaign, free entry campaign for elementary and junior high school students, and Cheers at Round One!, the company installed brand-new equipment, ROUND1 LIVE, in its bowling areas and karaoke rooms, and provided demo content at these stores. The company introduced latest equipment for its amusement service. For SPO-CHA, it introduced the Segway Drift and expanded popular content. It also installed automatic reception and payment systems to reduce employees' working hours and improve labor efficiency.

Despite a 1.9% YoY decline in total store-operation months, comparable store sales were up 0.9% YoY, thanks in part to a positive impact from the aforementioned price increases. The number of stores in Japan was 105 (versus 108 at end FY03/18), and total store-operation months came to 1,265 (versus 1,290 in FY03/18).

Profit increased as positive factors (higher sales and decreases in repair and personnel costs) outweighed negative factors (increased sales promotion costs [higher prize expenses] in the Amusement business, greater procurement costs, and higher advertising expenses). The previously mentioned January 2019 price increases of 1% in Amusement and 4% in SPO-CHA produced a JPY640mn profit boost in Q4.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Sales increase	JPY640mn	Increase in Amusement segment sales promotion costs (more prizes in the Amusement segment)	JPY560mn
Decrease in repair costs	JPY410mn	Increase in procurement costs	JPY130mn
Decrease in personnel costs	JPY300mn	Increase in advertising expenses	JPY120mn
		Other	JPY100mn

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY22.1bn (-2.6% YoY; -1.7% YoY at existing stores)
- ▷ Amusement: JPY38.8bn (+2.9% YoY; +3.1% YoY at existing stores)
- ▷ Karaoke: JPY7.7bn (-0.8% YoY; -0.7% YoY at existing stores)
- ▷ SPO-CHA: JPY13.5bn (+1.3% YoY; -0.4% YoY at existing stores)

US

- ▷ Sales: JPY16.3bn (+41.1% YoY)
- ▷ Segment profit (recurring profit): JPY1.5bn (+55.6% YoY).

The company opened four new stores in Q4 (January–March 2019) in order to expand its operating base. It launched the Round1 Bowling Challenge that awards prizes to players who achieve specific targets and the All-Inclusive Party plan (offering unlimited gaming and food). It also continued with other promotions such as Kids BOGO (where one kids club member can bowl one game for free when accompanied by an adult) and selling beer at USD1.99 and ice cream at USD0.99.

Sales were up along with an increase in store count due to new store openings. With 11 store openings (versus six in FY03/18), the number of stores in the US came to 32 (versus 21 at end FY03/18) and total store-operation months to 295 (versus 206 in FY03/18).

Comparable store sales were down 0.8%. According to the company, sales at stores opened in the US tend to decline in the period between 12 and 24 months after opening. This is because the new store effect that tends to produce strong sales at newly opened stores begins to wear off after about one year. The company maintains that the decline in sales that occurs when new store effects wear off tends to end by the 25th month after opening, after which comparable store sales tend to increase thanks to word of mouth. Sales at comparable stores that had been open for 25 months or longer increased 2.4% YoY.

Profit increased as positive factors (including increased sales) outweighed negative factors (higher expenses as store count rose and greater initial investment costs that accompanied an increase in store openings).

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Sales increase due to an increase in store count	JPY4.8bn	Increase in expenses stemming from an increase in store count	JPY3.8bn
Other	JPY160mn	Increase in initial investment costs	JPY650mn

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JP2.2bn (+19.9% YoY)
- ▷ Amusement: JPY10.9bn (+42.6% YoY)
- ▷ Karaoke and Other: JPY3.3bn (+34.1% YoY)

Q3 FY03/19 results

Earnings overview

- ▷ Sales: JPY71.9bn (+4.6% YoY)
- ▷ Operating profit: JPY5.3bn (+0.1% YoY)

- ▷ Recurring profit: JPY5.0bn (+1.3% YoY)
- ▷ Net income*: JPY3.3bn (+7.9% YoY)

*Net income is net income attributable to parent company shareholders.

Sales in Japan remained similar to those of the same period during the previous year, but sales in the US increased due to a higher number of stores. Profit improved as profit growth in the US thanks to higher sales supplemented profit decline in Japan caused by higher sales promotion costs (prize expenses).

In Q1 FY03/19 the company changed the way it divides its business into segments, deciding to divide the former combined Amusement segment into two segments (Japan and US). For the purpose of YoY comparison, figures from the previous financial year have been adjusted based on the new segmentation.

The breakdown by segment is as follows.

Japan

Sales were JPY60.8bn (flat YoY), and segment profit (recurring profit) was JPY4.5bn (-4.6% YoY).

In addition to continually implementing the 1000-yen cash back campaign, free entry campaign for elementary and junior high school students, and Cheers at Round One!, the company introduced new arcade game machines Mobile Suit Gundam: Extreme Vs. 2 and Starwing Paradox for its amusement service at all stores.

In addition to a slight YoY decline in total store-operation months, comparable store sales were down 0.1% YoY. The number of stores in Japan was 105 (versus 108 at end FY03/18), and total store-operation months came to 950 (versus 965 in cumulative Q3 FY03/18). In cumulative Q3, comparable store sales were down 0.1% YoY. Comparable store sales declined 8.4% YoY due to the number of weekend days and holidays, and because of the weather. The company says that about 3% of this drop was due to October 2018 having one less day off (Saturday, Sundays, and holidays) than October 2017. October 2018 also included four or five more Saturday or Sunday with clear weather than October 2017, which was rainy. This factor accounted for just over 3% of the reduction in monthly sales in October 2018.

Profit declined as factors with a negative impact on profit (increased sales promotion costs [higher prize expenses] in the Amusement segment, higher advertising expenses, and greater procurement costs) outweighed factors with a positive impact on profit (decreases in repair costs and lease fees). Repair costs declined temporarily YoY because of the timing for booking. Lease fees fell due to the replacement timing to the new game machines.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Sales increase	JPY0mn	Increase in Amusement segment sales promotion costs (more prizes in the Amusement segment)	JPY480mn
Decrease in repair costs	JPY380mn	Increase in advertising expenses	JPY130mn
Decrease in lease fees	JPY190mn	Increase in procurement costs	JPY100mn
		Other	JPY70mn

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY15.5bn (-2.3% YoY; -1.8% YoY at existing stores)
- ▷ Amusement: JPY28.4bn (+1.6% YoY; +1.6% YoY at existing stores)
- ▷ Karaoke: JPY5.5bn (-1.3% YoY; -1.6% YoY at existing stores)
- ▷ SPO-CHA: JPY9.3bn (+0.4% YoY; -1.1% YoY at existing stores)

In the Amusement segment, games with prizes performed well, as did Mobile Suit Gundam: Extreme Vs. 2, introduced in Q3 FY03/19.

US

Sales were JPY11.1bn (+39.9% YoY), and segment profit (recurring profit) was JPY522mn (+116.6% YoY).

The company opened three new stores in Q3 (October–December 2018) in order to expand its operating base. The company launched the All-Inclusive Party plan, a new measure offering unlimited gaming and food. The company also continued with Kids BOGO (where one kids club member can bowl one game for free when accompanied by an adult) and selling beer at USD1.99 and ice cream at USD0.99.

Sales were up along with an increase in store count due to new store openings. The number of stores in US came to 28 (versus 21 at end FY03/18) and total store-operation months to 210 (versus 147 in Q1 FY03/18).

Comparable store sales decreased 0.4% in Q1 (April–June 2018), increased 1.6% in Q2 (July–September 2018), and decreased 0.5% YoY in Q3. According to the company, sales at stores opened in the US tend to decline in the period between 12 and 24 months after opening. This is because the new store effect that tends to produce strong sales at newly opened stores wears off after about one year. The company maintains that, although new store effects have typically worn off completely by the 25th month after opening, comparable store sales still tend to increase thanks to word of mouth. Sales at comparable stores that had been open for 25 months or longer increased 2.3% YoY in Q1, 4.1% YoY in Q2, and 4.4% YoY in Q3.

Expenses increased as store count rose and, due to changes in accounting methods, the company recorded operating expenses that included rent paid during construction. These factors held back overall profit. However, sales increased and lease fees fell due to accounting method revisions undertaken in Q4 of the previous year, which drove up profit, overpowering the hindering factors and producing gains.

The company changed amortization period of amusement machines and accounting period of rent during construction periods in Q4 FY03/18. The company changed the amortization period for all amusement machines from three years, the standard amortization period for machines in Japan, to seven years, the US standard. Also, the company decided to record rent proportionately over the period of the contract, including the construction period, rather than continue recording rent during construction periods as an expense on cash flow statement.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Sales increase due to an increase in store count	JPY3.2bn	Increase in expenses stemming from an increase in store count	JPY2.6bn
Decrease in lease depreciation	JPY540mn	Recording rent during construction period	JPY350mn
		Increase in other store opening expenses	JPY280mn
		Increase in advertising expenses (due to online and radio advertisements)	JPY90mn
		Increase in professional fees	JPY50mn
		Other	JPY50mn

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY1.5bn (+18.3% YoY)
- ▷ Amusement: JPY7.3bn (+41.7% YoY)
- ▷ Karaoke and Other: JPY2.2bn (+53.4% YoY)

Comparison with company forecasts

In Q3 FY03/19, recurring profit fell below the company forecast by JPY810mn, with the Japan segment falling JPY630mn below plan and the US segment JPY180mn below plan.

Repair expenses were lower than projected, which contributed positively to sales. However, this effect was cancelled out by factors with a negative impact on results: sales that fell below the company forecast as well as promotion expenses in the Amusement segment; personnel expenditures; water, electricity, and heating expenses; and advertising expenses that exceeded company predictions. Sales fell by approximately JPY500mn in October 2018 due to factors described above that included weather conditions.

In the US, although there was a reduction in expenses due to a shift in opening month, sales fell short of projections, primarily in new stores. Sales at new stores fell below projection by JPY340mn in 1H, but this gap improved to JPY10mn below projections in cumulative Q3.

Japan			
Positive factors		Negative factors	
Decrease in repair costs	JPY220mn	Decrease in sales	JPY230mn
		Increase in personnel expenses	JPY180mn
		Increase in supplies expenses	JPY180mn
		Increase in advertising expenses	JPY90mn
		Increase in procurement costs	JPY90mn
		Other	JPY80mn

US			
Positive factors		Negative factors	
Reduction in expenses due to shift in opening month	JPY150mn	Sales falling below forecasts (mainly at new stores)	JPY330mn

Source: Shared Research based on company data

Although cumulative Q3 results fell below company forecasts, the company has left its forecasts unchanged. In Q4 (during which the company sees the highest level of demand during the year), the company anticipates positive effects from the installation of new amusement machines and expects spreading price increases, customer acquisition thanks to ROUND1 LIVE, and other factors to contribute to increased sales and profit.

Other topics

Price increases implemented in January, 2019

In Japan, the company implemented price increases of approximately 1% in the Amusement segment, and of approximately 4% in the SPO-CHA segment. In the US, the company implemented price increases of 9-10% in the Amusement segment, and of 6-7% in the Bowling segment, both in January 2019. Although the company is currently examining the influence of these changes on sales as of February 2019, Shared Research believes that these changes could possibly contribute to increased sales and profit starting in Q4 (January–March 2019)

Introduction of ROUND1 LIVE

Starting in October 2018, Round One began introducing ROUND1 LIVE as a new facility for bowling and karaoke. This facility allows customers to focus on their games without needing to be concerned about customers in neighboring lanes by utilizing many large-scale displays. Through the addition of network (LIVE) functionality, the facility offers customers a variety of ways to use it. Specifically, customers can connect to different lanes using “LIVE de Free Matching,” a video call service. Through use of the facility’s network features, pop idols and comedians can hold “Nationwide LIVE Fan Meet-Ups” and “Nationwide LIVE Offline Fan Meet-Ups,” for which participants are recruited beforehand by connecting people in remote locations with one another. The company will aim to introduce ROUND1 LIVE at all stores between October 2018 and June 2019 (as at end December 2018, it had been introduced at 30 stores), and plans to begin gradually launching LIVE functionality starting in mid-January 2019.

The company is aiming to expand its customer base and increase customer numbers and sales by offering various services that connect people in remote locations through a combination of large-scale displays and LIVE functionality. These services include both online and offline fan meet-ups. The company is currently considering raising Bowling prices by about 5% and Karaoke prices by about 2% at stores that feature ROUND1 LIVE by spring 2019.

As for cost, total capex, which includes expenses related to automated reception machines (mentioned below), will amount to about JPY7.0bn. Expenditures for the year will rise by JPY1.1bn–JPY1.2bn, comprising an increase in depreciation cost of about JPY1.0bn and a rise of JPY100mn–JPY200mn in communications and electricity costs. However, the company may be able to cancel out this increase in expenses by curtailing personnel costs through progress in automation and systematization (explained in detail below).

Automation and systematization aimed at curtailing total working hours

In addition to new bowling machinery, the company plans to introduce and begin launching automated reception machines and staff tablets in mid-January 2019. Installing these reception machines will automate store reception while introducing staff tablets will allow customers to see which facilities are in use, confirm device statuses, and view information concerning operational changes more easily. The company devotes about 10 million hours per year to customer services and aims to curtail this figure by 10% through automation and systematization. If the time devoted to customer services is lowered by one million hours per year, this will curtail personnel costs by about JPY1.1bn, assuming total hourly expenses of JPY1,100 per part-time worker (hourly wage plus other expenses).

1H FY03/19 results

Earnings overview

▷ Sales:	JPY48.9bn (+5.7% YoY)
▷ Operating profit:	JPY4.7bn (+9.2% YoY)
▷ Recurring profit:	JPY4.5bn (+10.7% YoY)
▷ Net income*:	JPY3.0bn (+22.2% YoY)

*Net income is net income attributable to parent company shareholders.

1H sales increased as comparable store sales grew in Japan and sales in the US also increased along with a rising number of stores. Both promotion expenses (prize expenses in the Amusement segment) and rent rose in Japan, but profit grew thanks to higher sales.

In Q1 FY03/19 the company changed the way it divides its business into segments, deciding to divide the former combined Amusement segment into two segments (Japan and US). For the purpose of YoY comparison, figures from the previous financial year have been adjusted based on the new segmentation.

The breakdown by segment is as follows.

Japan

Sales were JPY41.6bn (+1.2% YoY), and segment profit (recurring profit) was JPY4.1bn (+7.2% YoY).

In addition to continually implementing the 1000-yen cash back campaign, free entry campaign for elementary and junior high school students, and Cheers at Round One!, the company introduced new machines for its amusement service Fate/Grand Order Arcade (arcade game), Ongeki (music game) at all stores.

Despite a slight YoY decline in total store-operation months for the quarter, comparable store sales were up 0.9% YoY. The number of stores in Japan was 106 (versus 108 at end FY03/18) and total store-operation months came to 634 (versus 642 in Q1

FY03/18). By service, in the Amusement segment, games with prizes and SPO-CHA performed favorably, contributing to growth in comparable store sales. Monthly sales at comparable stores in October 2018 fell 8.4% YoY. The company says that about 3% of this drop was due to October 2018 having one less day off (Saturday, Sundays, and holidays) than October 2017. October 2018 also included four or five more Saturday or Sunday with clear weather than October 2017, which was rainy. This factor accounted for just over 3% of the reduction in monthly sales in October 2018. The company estimates that the actual dip in October 2018 comparable store sales was only about 2% versus October 2017 when excluding these factors. Monthly sales for November 2018 are also trending slightly lower than their 2017 counterpart, but Shared Research thinks that the adoption of ROUND1 LIVE (mentioned below) and new amusement machines will put sales on a trend toward recovery starting in December.

Despite rising promotion expenses (prize expenses in the Amusement segment), profit rose on higher sales and lower repair expenditures and lease fees. Lease fees fell due to the replacement timing to the new game machines, and repair costs declined temporarily YoY because of the timing for booking.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Sales increase	JPY500mn	Increase in Amusement segment sales promotion costs (more prizes in the Amusement segment)	JPY430mn
Decrease in repair costs	JPY260mn	Increase in rent	JPY110mn
Decrease in lease fees	JPY210mn	Increase in advertising expenses	JPY100mn
Other	JPY50mn	Increase in supplies expenses	JPY100mn

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY10.6bn (-1.4% YoY; -1.3% YoY at existing stores)
- ▷ Amusement: JPY19.1bn (+2.0% YoY; +1.8% YoY at existing stores)
- ▷ Karaoke: JPY3.8bn (+0.9% YoY; +0.1% YoY at existing stores)
- ▷ SPO-CHA: JPY6.7bn (+4.1% YoY; +2.8% YoY at existing stores)

US

Sales were JPY7.2bn (+41.6% YoY), and segment profit (recurring profit) was JPY457mn (+56.5% YoY). The number of stores increased by eight YoY to 25 total stores.

The company opened two new stores in Q2 (July–September 2018) in order to expand its operating base. The company launched the All-Inclusive Party plan, a new measure offering unlimited gaming and food. The company also continued with Kids BOGO (where one kids club member can bowl one game for free when accompanied by an adult) and selling beer at USD1.99 and ice cream at USD0.99.

Sales were up as comparable store sales rose 0.7% YoY along with an increase in store count. The number of stores in US came to 25 (versus 21 at end FY03/18) and total store-operation months to 134 (versus 93 in Q1 FY03/18).

Expenses increased as store count rose and, due to changes in accounting methods, the company recorded operating expenses that included rent paid during construction. These factors held back overall profit. However, sales increased and lease fees fell due to accounting method revisions undertaken in Q4 of the previous year, which drove up profit, overpowering the hindering factors and producing gains.

The company changed amortization period of amusement machines and accounting period of rent during construction periods in Q4 FY03/18. The company changed the amortization period for all amusement machines from three years, the standard amortization period for machines in Japan, to seven years, the US standard. Also, the company decided to record rent proportionately over the period of the contract, including the construction period, rather than continue recording rent during construction periods as an expense on cash flow statement.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Sales increase due to an increase in store count	JPY2.1bn	Increase in expenses stemming from an increase in store count	JPY1.9bn
Decrease in lease depreciation	JPY340mn	Recording rent during construction period	JPY230mn
		Increase in other store opening expenses	JPY90mn
		Increase in advertising expenses (due to online and radio advertisements)	JPY60mn
		Increase in professional fees	JPY10mn
		Other	JPY30mn

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY990mn (+20.7% YoY)
- ▷ Amusement: JPY4.9bn (+44.6% YoY)
- ▷ Karaoke and Other: JPY1.4bn (+49.5% YoY)

Comparison with company forecasts

In 1H FY03/19, recurring profit fell below the company forecast by JPY220mn, with the Japan segment falling JPY20mn below plan and the US segment JPY200mn below plan.

Sales finished above company forecasts and repair expenses were lower than projected, which contributed positively to sales. However, this effect was cancelled out by increases in promotion expenses in the Amusement segment along with personnel expenditures; water, electricity, and heating expenses; and advertising expenses that exceeded company predictions. In the US, sales fell short of projections, primarily in new stores. Shortfalls in the company's Peoria, Illinois store (opened in November 2017) accounted for more than half of the difference between forecasts and actual results. According to the company, this store has a market area with a population of 300,000 people in about a 10-mile radius. The company projected that this store would achieve total sales that exceed the average of USD6mn for all US stores, but it fell short in the end. Round One's store opening policy in the US stipulates that new stores must have market area populations of 150,000 people or more in market areas with five-mile radiuses or 400,000 people or more in market areas with 10-mile radiuses.

Japan			
Positive factors		Negative factors	
Increase in sales	JPY270mn	Increase in Amusement segment sales promotion costs (increase in prize expenses)	JPY100mn
Decrease in repair costs	JPY170mn	Increase in personnel expenses	JPY90mn
		Increase in procurement costs	JPY80mn
		Increase in water, electricity, and heating expenses (fuel cost adjustments)	JPY50mn
		Increase in advertising expenses	JPY40mn
		Other	JPY100mn

US			
Positive factors		Negative factors	
Reduction in expenses due to shift in opening month	JPY230mn	Sales falling below forecasts (mainly at new stores)	JPY340mn
		Other	JPY90mn

Source: Shared Research based on company data

Other topics

Introduction of ROUND1 LIVE

Starting in October 2018, Round One began introducing ROUND1 LIVE as a new facility for bowling and karaoke. This facility allows customers to focus on their games without needing to be concerned about customers in neighboring lanes by utilizing many large-scale displays. Through the addition of network (LIVE) functionality, the facility offers customers a variety of ways to use it. Specifically, customers can connect to different lanes using “LIVE de Free Matching,” a video call service. Through use of the facility’s network features, pop idols and comedians can hold “Nationwide LIVE Fan Meet-Ups” and “Nationwide LIVE Offline Fan Meet-Ups,” for which participants are recruited beforehand by connecting people in remote locations with one another. The company will aim to introduce ROUND1 LIVE at all stores between October 2018 and June 2019 and plans to begin gradually launching LIVE functionality starting in mid-January 2019.

The company is aiming to expand its customer base and increase customer numbers and sales by offering various services that connect people in remote locations through a combination of large-scale displays and LIVE functionality. These services include both online and offline fan meet-ups. The company is currently considering raising prices at stores that feature ROUND1 LIVE by around 5% starting in January 2019.

As for cost, total capex, which includes expenses related to automated reception machines (mentioned below), will amount to about JPY7.0bn. Expenditures for the year will rise by JPY1.1bn–JPY1.2bn, comprising an increase in depreciation cost of about JPY1.0bn and a rise of JPY100mn–JPY200mn in communications and electricity costs. However, the company may be able to cancel out this increase in expenses by curtailing personnel costs through progress in automation and systematization (explained in detail below).

Automation and systematization aimed at curtailing total working hours

In addition to new bowling machinery, the company plans to introduce and begin launching automated reception machines and staff tablets in mid-January 2019. Installing these reception machines will automate store reception while introducing staff tablets will allow customers to see which facilities are in use, confirm device statuses, and view information concerning operational changes more easily. The company devotes about 10 million hours per year to customer services and aims to curtail this figure by 10% through automation and systematization. If the time devoted to customer services is lowered by one million hours per year, this will curtail personnel costs by about JPY1.1bn, assuming total hourly expenses of JPY1,100 per part-time worker (hourly wage plus other expenses).

Q1 FY03/19 results

Earnings overview

- ▷ Sales: JPY22.4bn (+4.8% YoY)
- ▷ Operating profit: JPY1.2bn (+23.0% YoY)
- ▷ Recurring profit: JPY1.1bn (+28.6% YoY)
- ▷ Net income*: JPY781mn (+120.0% YoY)

*Net income is net income attributable to parent company shareholders.

The breakdown by segment is as follows. In Q1 FY03/19 the company changed the way it divides its business into segments, deciding to divide the former combined Amusement segment into two segments (Japan and US). For the purpose of YoY comparison, figures from the previous financial year have been adjusted based on the new segmentation.

Sales were up in both Japan and US. Higher profit in Japan offset a decline in profit in US due to expenses stemming from new store openings and changes to accounting methods, leading to an overall increase in profit.

Japan

Sales were JPY22.4bn (+0.8% YoY), and segment profit (recurring profit) was JPY1.0bn (+38.9% YoY).

In Japan, the company continued implementing its 1,000 yen cash back campaign and its campaign allowing free entry to elementary and junior high-school students, and launched Cheers at Round One! (selling alcoholic beverages for JPY100) at all stores (excluding certain stores).

Despite a slight YoY decline in total store-operation months for the quarter, comparable store sales were up 0.8% YoY. The number of stores in Japan was 105 (versus 108 at end FY03/18) and total store-operation months came to 317 (versus 321 in Q1 FY03/18). Customer count at comparable stores was flat YoY, but customer spend seemed to have increased considering sales growth in the Amusement segment. In the Amusement segment, games with prizes performed strong, contributing to growth in comparable store sales. The arcade game Fate/Grand Order Arcade introduced in July is performing strong, posting weekly sales of around JPY60mn. Many of the machines for this game are in operation throughout Japan. However, the company is unsure whether this arcade game will be a long-running hit.

Profit rose on higher sales and lower lease fees and repair costs. Lease fees fell due to the replacement timing to the new game machines, and repair costs declined temporarily YoY because of the timing for booking.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Sales increase	JPY140mn	Increase in Amusement segment sales promotion costs (more prizes in the Amusement segment)	JPY100bn
Decrease in lease fees	JPY140mn	Increase in rent	JPY40mn
Decrease in repair costs	JPY100mn		
Lower communications costs (due to a decline in sales for game machines with communication function in the Amusement segment)	JPY50mn		

Source: Shared Research based on company data

Measures and sales by service

The company continued to implement its campaign allowing free entry to elementary and junior high-school students for Bowling, Amusement (medal games) and Karaoke. The company also implemented its Cheers at Round One! campaign, selling alcoholic beverages such as a draft beer or highball for JPY100 per drink.

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY5.1bn (-1.5% YoY; -1.4% at existing stores)
- ▷ Amusement: JPY8.6bn (+1.4% YoY; +1.5% at existing stores)
- ▷ Karaoke: JPY1.7bn (+1.4% YoY; +0.5% at existing stores)
- ▷ SPO-CHA: JPY3.0bn (+2.7% YoY; +2.7% at existing stores)

US

Sales were JPY1.0bn (+36.8% YoY), and segment profit (recurring profit) was JPY89mn (-31.0% YoY). The US segment had 23 stores (+8 stores YoY).

In the US, as well as launching its All-Inclusive Party plan (unlimited gaming and food), Round One continued Kids BOGO, and selling beer at USD1.99 and ice-cream at USD0.99, working to cultivate a future fan base and acquire a wide range of customers.

Sales were up as the increase in store count offset a 0.4% YoY decline in comparable store sales. The number of stores in US came to 23 (versus 21 at end FY03/18) and total store-operation months to 63 (versus 45 in Q1 FY03/18). Sales fell at existing stores

that have been in operation for a year to a year and a half since opening. According to the company, sales are strong for roughly the first half year since opening owing to the novelty of the store in the commercial area, but the new store effects wear off afterward. As a result, sales tend to fall YoY at stores that have been in operation for a year to a year and a half since opening. In Q1 FY03/19, comparable store sales rose 4–5%, excluding stores that have been in operation for between a year and a year and a half.

Higher sales and lower lease fees accompanied by changes in accounting methods carried out in Q4 FY03/18 positively impacted profit, but they were not enough to cover for higher expenses stemming from store openings and recording of rent during construction periods following changes in the accounting methods, leading to an overall decline in the segment profit.

The company changed amortization period of amusement machines and accounting period of rent during construction periods in Q4 FY03/18. The company changed the amortization period for all amusement machines from three years, the standard amortization period for machines in Japan, to seven years, the US standard. Also, the company decided to record rent proportionately over the period of the contract, including the construction period, rather than continue recording rent during construction periods as an expense on cash flow statement.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Sales increase due to an increase in store count	JPY880mn	Increase in expenses stemming from an increase in store count	JPY760mn
Decrease in lease depreciation	JPY150mn	Recording rent during construction period	JPY110mn
		Increase in other store opening expenses	JPY100mn
		Increase in advertising expenses (due to online and radio advertisements)	JPY50mn
		Increase in taxes and dues	JPY20mn
		Other	JPY30mn

Source: Shared Research based on company data

Measures and sales by service

The company opened two new stores in order to expand its operating base. The company launched the All-Inclusive Party plan, a new measure offering unlimited gaming and food. The company also continued with Kids BOGO (where one kids club member can bowl one game for free when accompanied by an adult) and to sell beer at USD1.99 and ice cream at USD0.99.

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY460mn (+17.6% YoY)
- ▷ Amusement: JPY2.2bn (+40.9% YoY)
- ▷ Karaoke and Other: JPY620mn (+27.5% YoY)

Comparison with company forecasts

In Q1 FY03/19, recurring profit exceeded the company forecast by JPY150mn, with the Japan segment falling JPY10mn below plan and the US segment JPY130mn below plan.

In Japan, sales finished above plan but higher sales were not enough to compensate for higher-than-expected Amusement service sales promotion expenses, water, electricity, and heating expenses, supplies expenses, and personnel expenses. In US, mainly sales at new stores fell below plan because the company had set the sales target for new stores higher than the average of previous years.

Japan			
Positive factors		Negative factors	
Increase in sales	JPY270mn	Increase in Amusement segment sales promotion costs (increase in prize expenses)	JPY130mn
Decrease in repair costs	JPY70mn	Increase in water, electricity, and heating expenses (fuel cost adjustments)	JPY70mn
		Increase in supplies expenses (karaoke supplies)	JPY50mn
		Increase in personnel expenses	JPY50mn
		Other	JPY50mn

US			
Positive factors		Negative factors	
Decrease in handling charges (license application fees)	JPY40mn	Sales falling below forecasts (mainly at new stores)	JPY150mn
Decrease in rent	JPY40mn	Increase in taxes	JPY30mn
		Other	JPY30mn

Source: Shared Research based on company data

Income statement

Income statement (JPYmm)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	82,113	84,303	89,568	85,903	84,272	83,905	83,516	87,776	95,910	101,318
YoY	5.3%	2.7%	6.2%	-4.1%	-1.9%	-0.4%	-0.5%	5.1%	9.3%	5.6%
Cost of sales	68,302	71,030	71,779	72,575	72,549	75,509	75,090	78,840	83,067	86,858
Gross profit	13,810	13,273	17,789	13,328	11,723	8,395	8,426	8,935	12,842	14,460
GPM	16.8%	15.7%	19.9%	15.5%	13.9%	10.0%	10.1%	10.2%	13.4%	14.3%
SG&A expenses	1,779	1,856	1,753	1,762	1,634	1,754	2,058	2,253	2,304	3,016
SG&A ratio	2.2%	2.2%	2.0%	2.1%	1.9%	2.1%	2.5%	2.6%	2.4%	3.0%
Operating profit	12,031	11,416	16,036	11,565	10,088	6,641	6,367	6,681	10,537	11,443
YoY	-11.6%	-5.1%	40.5%	-27.9%	-12.8%	-34.2%	-4.1%	4.9%	57.7%	8.6%
OPM	14.7%	13.5%	17.9%	13.5%	12.0%	7.9%	7.6%	7.6%	11.0%	11.3%
Non-operating income	357	511	296	388	315	745	281	234	270	318
Non-operating expenses	4,540	4,999	4,850	3,736	2,585	1,236	1,246	1,058	540	541
Recurring profit	7,848	6,929	11,481	8,217	7,818	6,150	5,402	5,858	10,267	11,220
YoY	-19.9%	-11.7%	65.7%	-28.4%	-4.9%	-21.3%	-12.2%	8.4%	75.3%	9.3%
RPM	9.6%	8.2%	12.8%	9.6%	9.3%	7.3%	6.5%	6.7%	10.7%	11.1%
Extraordinary gains	40	0	373	434	2,515	204	-	124	-	-
Extraordinary losses	1,822	27,280	5,710	7,387	34,059	5,230	3,508	2,396	1,098	1,131
Pre-tax profit	6,065	-20,351	6,144	1,264	-23,725	1,125	1,894	3,586	9,168	10,089
Income taxes	2,668	-7,677	3,362	663	-4,044	5,693	1,444	850	757	2,929
Net income	3,396	-12,673	2,781	601	-19,681	-4,568	449	2,735	8,411	7,159
YoY	-14.6%	-	-	-78.4%	-	-	-	509.1%	207.5%	-14.9%
Net margin	4.1%	-	3.1%	0.7%	-	-	0.5%	3.1%	8.8%	7.1%

Source: Shared Research based on company data

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

Balance sheet

Balance sheet (JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash and deposits	30,815	22,773	29,487	25,324	25,172	27,777	23,199	20,197	23,439	22,524
Accounts receivable	361	414	557	605	648	671	647	744	932	1,182
Inventories	1,141	1,347	1,422	1,185	1,121	1,228	1,576	1,598	1,863	2,534
Other	6,846	12,637	3,764	4,143	4,099	2,416	2,295	2,893	2,015	2,431
Current assets	39,163	37,171	35,230	31,257	31,040	32,092	27,717	25,432	28,249	28,671
Tangible fixed assets	202,298	202,599	179,317	160,065	72,919	61,773	60,417	61,016	62,358	73,905
Intangible fixed assets	169	231	209	177	143	101	167	179	213	690
Investment securities, other	9,609	12,104	13,479	14,717	23,033	17,621	16,232	15,082	15,830	14,078
Fixed assets	212,076	214,934	193,005	174,960	96,097	79,496	76,817	76,279	78,403	88,674
Total assets	251,240	252,106	228,236	206,217	127,138	111,588	104,535	101,712	106,652	117,346
Accounts payable	156	189	211	196	257	337	477	676	960	350
Short-term debt	25,569	36,289	19,621	31,147	8,789	8,440	7,212	5,596	6,305	5,165
Other	13,516	15,007	15,857	16,003	15,460	15,409	13,401	15,460	17,526	19,573
Current liabilities	39,241	51,485	35,689	47,346	24,506	24,186	21,090	21,732	24,791	25,088
Long-term debt	113,318	99,870	91,293	59,077	28,025	18,652	15,614	10,844	7,408	6,675
Other	13,051	21,722	21,370	21,080	17,074	17,123	18,100	18,262	17,733	22,978
Fixed liabilities	126,369	121,592	112,663	80,157	45,099	35,775	33,714	29,106	25,141	29,653
Total liabilities	165,611	173,078	148,353	127,503	69,606	59,961	54,805	50,839	49,932	54,741
Shareholders' equity	86,177	79,950	80,825	79,519	57,443	50,967	49,508	50,336	56,838	62,089
Capital stock	20,924	25,021	25,021	25,021	25,021	25,021	25,021	25,021	25,021	25,021
Capital surplus	21,399	25,496	25,496	25,496	25,496	25,496	24,543	22,638	22,638	22,638
Retained earnings	44,169	29,749	30,625	29,321	7,249	775	272	3,007	9,513	14,767
Treasury stock	-315	-317	-318	-319	-323	-326	-328	-330	-334	-337
Valuation and translation adjustments	-548	-922	-943	-805	88	659	221	535	-156	400
Total shareholders' equity	85,629	79,028	79,882	78,714	57,531	51,626	49,730	50,872	56,683	62,490
Net assets	85,629	79,028	79,882	78,714	57,531	51,626	49,730	50,872	56,720	62,604
Total liabilities and net assets	251,240	252,106	228,236	206,217	127,138	111,588	104,535	101,712	106,898	117,346
Working capital	1,346	1,572	1,768	1,594	1,512	1,562	1,746	1,666	1,835	3,366
Total interest-bearing debt	138,887	136,159	110,914	90,224	36,814	27,092	22,826	16,440	13,713	11,840
Net debt	108,072	113,386	81,427	64,900	11,642	-685	-373	-3,757	-9,726	-10,684
ROA (RP-based)	3.4%	2.8%	4.8%	3.8%	4.7%	5.2%	5.0%	5.7%	9.9%	10.0%
ROE	4.3%	-	3.5%	0.8%	-	-	0.9%	5.4%	15.6%	12.0%
Total asset turnover	0.3	0.3	0.4	0.4	0.7	0.8	0.8	0.9	0.9	0.9
Inventory turnover	59.9	52.7	50.5	61.2	64.7	61.5	47.6	49.3	44.6	34.3
Days in inventory	6.1	6.9	7.2	6.0	5.6	5.9	7.7	7.4	8.2	10.6
Quick ratio	79.4%	45.0%	84.2%	54.8%	105.4%	117.6%	113.1%	96.4%	98.3%	94.5%
Current ratio	99.8%	72.2%	98.7%	66.0%	126.7%	132.7%	131.4%	117.0%	113.9%	114.3%
Equity ratio	34.1%	31.3%	35.0%	38.2%	45.3%	46.3%	47.6%	50.0%	53.0%	53.3%
Net debt / Equity	126.2%	143.5%	101.9%	82.5%	20.2%	-1.3%	-0.8%	-7.4%	-17.2%	-17.1%

Source: Shared Research based on company data

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

Assets

The bulk of fixed assets were tangible fixed assets associated with the company's operations of amusement complex centers. Tangible fixed assets trended downward through FY03/16 owing to depreciation and sale-and-leaseback agreements, but have been trending upward since FY03/17.

Liabilities

Interest-bearing debt as of the end FY03/19 stood at JPY11.8bn, significantly down from the FY03/10 figure of JPY138.9bn. Net interest-bearing debt deducting cash and deposits was JPY108.1bn (JPY139.0bn including guarantee liability) at end FY03/10. The company reported a net cash position at the end of FY03/17, with cash and deposits at JPY23.4bn, against interest-bearing debt of JPY13.7bn. This meant the company achieved its goal of effectively becoming debt-free one year early.

Shareholders' equity

Shareholders' equity as of end FY03/18 was JPY62.5bn. While Shareholders' equity continued to decline from FY03/14 to FY03/16 owing to the booking of losses and dividend payments from surplus funds, it started to increase from FY03/17 due to stronger profits.

Shareholder returns

Round One generally pays a dividend per share of JPY20, and it plans to do the same in FY03/19. It has not disclosed any official target dividend payout ratio, but it plans to continue paying a dividend per share of JPY20 for the time being.

Cash flow statement

Cash flow statement (JPYmn)	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.
Cash flows from operating activities	22,175	22,418	32,852	26,418	20,456	22,576	15,955	17,217	24,210	20,871
Cash flows from investing activities	-35,616	-23,563	24,036	4,371	46,611	592	-5,082	-3,527	-7,448	-10,783
FCF	-13,441	-1,145	56,888	30,789	67,067	23,168	10,873	13,690	16,762	10,088
Cash flows from financing activities	24,881	-4,551	-45,981	-34,564	-66,200	-20,820	-15,309	-16,964	-13,286	-11,159
Pre-tax profit (A)	6,065	-20,351	6,144	1,264	-23,725	1,125	1,894	3,586	9,168	10,089
Depreciation (B)	14,358	18,824	19,702	18,960	15,928	12,956	11,444	11,940	11,843	12,481
Change in working capital (C)	-134	-226	-196	174	82	-50	-184	80	-169	-1,531
Income taxes (D)	-2,603	-2,488	780	-361	-2,361	1,528	-97	-803	-628	-1,888
Capital expenditures (E)	-33,787	-6,259	-2,587	-5,241	-3,752	-4,818	-5,636	-5,237	-7,721	-10,892
Simple FCF (A+B+C+D+E)	-16,101	-10,500	23,843	14,796	-13,828	10,741	7,421	9,566	12,493	8,259

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 company's cash flows from operating activities are mostly influenced by pretax profit and depreciation. In other words, changes in working capital have a limited impact. This is due to unique features of the company's business model, whereby customers largely pay in cash, there are no major procurement items, and the level of inventory is very low.

Cash flows from investing activities

Round One has exhibited meaningful outflows in free cash flows from FY03/07 to FY03/10. However, since FY03/12 the company has generated a positive free cash flow thanks to performance improvements, slower store openings, and sale-and-leaseback of existing stores.

Cash flows from financing activities

From FY03/11, when it started improving its financial standing through its strategy of store sale-and-leaseback, the company has actively reduced interest-bearing debt, and consequently has negative cash flows from financing activities.

Other information

History

Sugino Kosan (the predecessor to Round One) was founded in 1980. It was running a roller skating business but the company soon realized that sales were too concentrated on weekends, making the business unattractive. The company was going to close the rink and transform it into a warehouse until current CEO Sugino (at that time still a university student) suggested opening a bowling alley instead. Sugino set out to construct a bowling alley that he, the same age as his target consumer group, would enjoy. His bowling alley proved to be very successful and he proceeded to open similar centers across Japan. He formed Round One (the former one) in March 1993. Later he added other amusement services such as arcade games and karaoke, making Round One stand out from other game centers even today.

Dec. 1980	Sugino Kosan, the precursor of Round One, founded to manage a roller skating court in Izumi-Otsu city, Osaka.
Mar. 1993	Round One established by the current President & CEO, Masahiko Sugino.
Aug. 1997	Listed on the Second Section of the Osaka Stock Exchange, ticker 4680.
Dec. 1998	Listed on the Second Section of the Tokyo Stock Exchange.
Sep. 1999	Moved to the First Section of the Tokyo Stock Exchange and Osaka Stock Exchange.
Mar. 2001	Acquired top shareholder (at the time), Wiz Co., Ltd. in absorption-type merger.
Jul. 2004	Opened first combined indoor leisure and SPO-CHA facility in Fushimi, Kyoto.
Sep. 2009	Established Round One Entertainment, Inc. (now a consolidated subsidiary).
Aug. 2010	Opened first overseas store in Los Angeles.

News and topics

March 2019

On **March 29, 2019**, the company announced the commencement of preparation for opening new stores overseas.

The company has decided to start preparation for opening stores overseas, aiming to cultivate new customers and develop its business into Russia, China, and other Asian regions, which are considered promising markets for the Amusement business.

Top management

President **Masahiko Sugino** (born 1961) is also the founder of the company. He is the key driving force for the massive growth of Round One. He has been and is likely to remain a key player in all important decision making. According to the company, he has made it absolutely clear that he is prepared to take full responsibility for his decisions.

Managing director **Shinji Sasae** (born in 1956) joined Sumitomo Bank (now part of SMBC) in 1975, and joined the company in 2009. After serving as executive officer responsible for the corporate management division, he was appointed director and general manager of corporate affairs in 2012, and moved to the position of managing director in 2014.

Managing director **Naoto Nishimura** (born in 1963) joined Takii Kogyo Co., Ltd. in 1987, and joined the company in 1994. After serving as executive officer responsible for the comprehensive operations division, he was appointed director and general manager of operations, and moved to the position of managing director and vice general manager of comprehensive operations in 2014.

Employees

At the end of FY03/18, the company reported a total of 6,634 employees on a consolidated basis (1,838 full time employees and an average of part-time workers equivalent to 4,796, when assuming eight hours of work per person). At the parent level the company employed 6,073 employees with 1,277 full-time and 4,796 part-time workers.

At the parent level, on average, employees were about 33.4 years old, earning an average annual salary of JPY5.49mn. It requires about 10 to 15 full-time employees and 100 to 250 registered part-time employees on a registration basis to open a new center.

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Kimihiko Sugino	19,896	20.89%
Custody A027 (Trustee: SMBC Trust Bank Ltd.)	11,682	12.26%
Japan Trustee Services Bank, Ltd. (Trust account)	7,103	7.46%
The Master Trust Bank of Japan, Ltd. (Trust account)	5,950	6.25%
Japan Trustee Services Bank, Ltd. (Trust account 9)	2,014	2.11%
JP Morgan Chase Bank 385632	1,491	1.57%
Government of Norway	1,490	1.56%
State Street London Care Of State Street Bank and Trust, Boston SSTBC A/C London Branch Clients-United Kingdom	1,400	1.47%
Goldman Sachs International	1,393	1.46%
Chase Manhattan Bank GTS Clients Account Escrow	1,271	1.33%
SUM	53,694	56.36%

Source: Shared Research based on company data
As of end March 31, 2018

Company profile

Company Name	Head Office
ROUND ONE Corporation	23F Nanba Skyo 5-1-60 Nanba, Chuo-ku, Osakashi Osaka, Japan 542-0076
Phone	Listed On
+81-72-224-5115	Tokyo Stock Exchange 1st Section
Established	Exchange Listing
December 25, 1980	August 28, 1997
Website	Financial Year-End
http://www.round1.co.jp/	March
IR Contact	IR Web
Eishin Ikeda, General Manager	http://www.round1.co.jp/company/ir/english.html
IR Mail	IR Phone
-	+81-72-224-5115

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <http://www.sharedresearch.jp>.

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Accordia Golf Trust	Fujita Kanko Inc.	OHIZUMI MFG. CO., LTD.
ADJUVANT COSME JAPAN CO., LTD.	Gamecard-Joyco Holdings, Inc.	Oisix ra daichi Inc.
Aeon Delight Co., Ltd.	GCA Corporation	Oki Electric Industry Co., Ltd
Aeon Fantasy Co., Ltd.	Good Com Asset Co., Ltd.	ONO SOKKI Co., Ltd.
Ai Holdings Corporation and factory, inc.	Grandy House Corporation	ONWARD HOLDINGS CO.,LTD.
ANEST IWATA Corporation	Hakuto Co., Ltd.	Pan Pacific International Holdings Corporation
AnGes Inc.	Hamee Corp.	PARIS MIKI HOLDINGS Inc.
Anicom Holdings, Inc.	Happinet Corporation	PIGEON CORPORATION
Anritsu Corporation	Harmonic Drive Systems Inc.	QB Net Holdings Co., Ltd.
Apaman Co., Ltd.	HOUSEDO Co., Ltd.	RACCOON HOLDINGS, Inc.
ARATA CORPORATION	IDOM Inc.	Raysum Co., Ltd.
Arealink Co.,Ltd.	IGNIS LTD.	RESORTTRUST, INC.
Artspark Holdings Inc.	i-mobile Co.,Ltd.	ROUND ONE Corporation
AS ONE CORPORATION	Inabata & Co., Ltd.	RVH Inc.
Ateam Inc.	Infocom Corporation	RYOHIN KEIKAKU CO., LTD.
Aucfan Co., Ltd.	Infomart Corporation	SanBio Company Limited
AVANT CORPORATION	Intelligent Wave, Inc.	SANIX INCORPORATED
Axell Corporation	ipet Insurance CO., Ltd.	Sanrio Company, Ltd.
Azbil Corporation	istyle Inc.	SATO HOLDINGS CORPORATION
AZIA CO., LTD.	Itochu Enex Co., Ltd.	SBS Holdings, Inc.
AZoom, Co., Ltd.	JSB Co., Ltd.	Seikagaku Corporation
BEEENOS Inc.	JTEC Corporation	Seria Co.,Ltd.
Bell-Park Co., Ltd.	J Trust Co., Ltd	SHIFT Inc.
Benefit One Inc.	Japan Best Rescue System Co., Ltd.	SHIP HEALTHCARE HOLDINGS, INC.
B-lot Co.,Ltd.	JINS HOLDINGS Inc.	SIGMAXYZ Inc.
Broadleaf Co., Ltd.	JP-HOLDINGS, INC.	SMS Co., Ltd.
Canon Marketing Japan Inc.	KAMEDA SEIKA CO., LTD.	Snow Peak, Inc.
Career Design Center Co., Ltd.	Kenedix, Inc.	Solasia Pharma K.K.
Carna Biosciences, Inc.	KFC Holdings Japan, Ltd.	SOURCENEXT Corporation
CARTA HOLDINGS, INC	KI-Star Real Estate Co., Ltd.	Star Mica Holdings Co., Ltd.
CERES INC.	Kondotec Inc.	Strike Co., Ltd.
Chiyoda Co., Ltd.	Kumiai Chemical Industry Co., Ltd.	SymBio Pharmaceuticals Limited
Chugoku Marine Paints, Ltd.	Lasertec Corporation	Synchro Food Co., Ltd.
cocokara fine Inc.	LUCKLAND CO., LTD.	TAIYO HOLDINGS CO., LTD.
COMSYS Holdings Corporation	MATSUI SECURITIES CO., LTD.	Takashimaya Company, Limited
CRE, Inc.	Medical System Network Co., Ltd.	Take and Give Needs Co., Ltd.
CREEK & RIVER Co., Ltd.	MEDINET Co., Ltd.	Takihyo Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.	MedPeer, Inc.	TEAR Corporation
Daiseki Co., Ltd.	Mercuria Investment Co., Ltd.	Tenpo Innovation Inc.
DIC Corporation	Micronics Japan Co., Ltd.	3-D Matrix, Ltd.
Digital Arts Inc.	Milbon Co., Ltd.	TKC Corporation
Digital Garage Inc.	MIRAIT Holdings Corporation	TOKAI Holdings Corporation
Dream Incubator Inc.	Monex Goup Inc.	TOYOBO CO., LTD.
Earth Corporation	MORINAGA MILK INDUSTRY CO., LTD.	Toyo Ink SC Holdings Co., Ltd
Elecom Co., Ltd.	NAGASE & CO., LTD	Toyo Tanso Co., Ltd.
en-Japan Inc.	NAIGAI TRANS LINE LTD.	Tri-Stage Inc.
euglena Co., Ltd.	NanoCarrier Co., Ltd.	VISION INC.
Evolable Asia Corp.	Net One Systems Co.,Ltd.	VISIONARY HOLDINGS CO., LTD.
FaithNetwork Co., Ltd.	Nichi-Iko Pharmaceutical Co., Ltd.	WirelessGate, Inc.
Ferrotec Holdings Corporation	Nihon Denkei Co., Ltd.	YELLOW HAT LTD.
FIELDS CORPORATION	Nippon Koei Co., Ltd.	YOSHINOYA HOLDINGS CO., LTD.
Financial Products Group Co., Ltd.	NIPPON PARKING DEVELOPMENT Co., Ltd.	YUMESHIN HOLDINGS CO., LTD.
FreeBit Co., Ltd.	NIPRO CORPORATION	Yume no Machi Souzou Iinkai Co., Ltd.
FRONTEO, Inc.	Nisshinbo Holdings Inc.	Yushiro Chemical Industry Co., Ltd.
	NS TOOL CO., LTD.	ZAPPALLAS, INC.

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