



QB Net Holdings / 6571

COVERAGE INITIATED ON: 2019.07.29

LAST UPDATE: 2019.08.13

Shared Research Inc. has produced this report by request from the company discussed in the report. The aim is to provide an “owner’s manual” to investors. We at Shared Research Inc. make every effort to provide an accurate, objective, and neutral analysis. In order to highlight any biases, we clearly attribute our data and findings. We will always present opinions from company management as such. Our views are ours where stated. We do not try to convince or influence, only inform. We appreciate your suggestions and feedback. Write to us at sr_inquiries@sharedresearch.jp or find us on Bloomberg.



Research Coverage Report by Shared Research Inc.

INDEX

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.

Executive summary	3
Key financial data	5
Recent updates	6
Highlights	6
Business Trends	7
Business	16
Business description	16
Earnings structure	28
Strengths and weaknesses	34
Group company	36
Market and value chain	37
Historical performance and financial statements	46
Income statement	49
Balance sheet	50
Cash flow statement	53
Other information	54
History	54
News and topics	55
Major shareholders	55
Dividend policy	56
Corporate governance and top management	56
Profile	57

Executive summary

Business overview

- Business description:** QB Net Holdings is the holding company of QB Net Co., Ltd., which operates QB House, Japan's largest chain of haircut-only salons, by number of locations and sales. QB House is the first in the Japanese haircut industry to offer quick haircuts in approximately 10 minutes, recognizing the value of customers' time. By offering only haircuts, it is able to serve customers at a very affordable standard price of JPY1,200 (including tax) in Japan. As of end-FY06/18, the company operated 552 salons in Japan and 119 salons outside Japan (in Singapore, Hong Kong, Taiwan, and the US).
- Characteristics of haircut-only salons:** Traditional hairdressers in Japan require reservations and provide a full set of services (including haircut, shampoo, shaving, and styling), take around 60 minutes, and charge JPY5,000 to JPY6,000. QB Net has two brands, QB House and FaSS. QB House salons mainly target businessmen and provide haircuts in only roughly 10 minutes at the standard price of JPY1,200 (including tax) in Japan. Meanwhile FaSS salons, which target men and women in their 20s through 40s, provide haircut and styling services in around 20 minutes for JPY2,160 (including tax). At QB Net salons, specially designed equipment helps streamline salon operations.
- How the company stands out from peers:** QB Net distinguishes itself from the competition in several ways. It is the largest operator of haircut-only salons (671 in Japan compared with 277 by 3QCUT, the second-largest operator), it opens salons mainly in prime locations in shopping centers and stations, with average floor space of around 33sqm. The company's salons are primarily directly managed and operated by its own staff (franchises are more common at peers). It is the only haircut-only company whose shares are listed. The company has built its own proprietary salon management systems. It collects daily sales and customer data for each salon. This data includes the time of day customers come, as well as their ages, genders, and whether they are new or returning. It also includes haircut times, waiting times, and utilization rates. The data are collected and analyzed at the head office to help allocate staff, standardize services, boost efficiency, and develop store opening plans. The company also runs its own personnel training center (LogiTHcut Professional Stylist School), utilizing the expertise it gained from training newcomers in other countries, which typically do not have national certification systems. The company actively recruits people in Japan who have a barber/beautician certificate but no prior haircutting experience and gives them all the training they need to become full-fledged hairdressers in six months, a relatively short period of time (it generally takes about two years to train a newcomer to cut hair in a typical salon). The company opened its Tokyo school in 2012, and, as of July 2019, it has schools in Osaka, Nagoya, Hakata, and Sendai. With these schools nurturing talent nationwide, the company is securing the personnel it needs to open new salons.
- Revenue, number of customers, unit price per customer:** In FY06/18, the company had 532 salons and around 17.9mn customers in Japan, with 33,000 customers per salon. The unit price per customer was JPY1,200 (including tax; JPY1,100 for seniors [65 and over, weekdays only]) at QB House salons in Japan and JPY2,160 (including tax) at FaSS salons (providing haircuts and styling services mainly to customers in their 20s to 40s. Overseas, the company had 119 salons and around 3.4mn customers with roughly 29,000 customers per salon. Unit price per overseas customer was JPY800–2,200, depending on the region.
- Expenses:** Cost of revenue mainly comprises personnel expenses (for directly managed/direct labor [DM/DL] salons, where the company employs its own staff), outsourcing expenses (for directly managed/outsourced labor [DM/OL] salons, where it employs people from its partner companies), and rent expenses. SG&A expenses include personnel expenses related to the administrative department, employees and trainers involved in training at the company's internal personnel training centers (LogiTHcut Professional Stylist Schools), and area managers. Other expenses, which include advertising costs, commissions paid, and recruitment costs, are primarily fixed costs that are generally not directly related to revenue fluctuations. Over the three years between FY06/16 and FY06/18, the cost of revenue ratio hovered around 78%, while the SG&A expenses-to-revenue ratio fluctuated around 13%.
- Other (substantial goodwill and interest-bearing debt):** The company has substantial goodwill resulting from three private-equity-driven changes of ownership. Each of those transactions involved leverage. As a result, as of end-FY06/18, goodwill was JPY15.4bn, and interest-bearing debt was JPY12.0bn. As the company has adopted IFRS, goodwill is not amortized. Under JGAAP, goodwill is subject to straight-line amortization, but under IFRS, it is subject to an impairment test

every fiscal year. According to the company, as of end-FY06/18, the estimated recoverable amount of goodwill was JPY9.5bn above book value. If the pre-tax discount rate climbed by 4.6pp or estimates of future annual cash flows declined by 30.6%, the recoverable amount would be equivalent to book value, but there is little risk of goodwill impairment.

Earnings trends

- ▀ In FY06/19, the company reported revenue of JPY20.9bn (+8.2% YoY), operating profit of JPY2.0bn (+20.0% YoY), pre-tax profit of JPY1.9bn (+21.5% YoY), and profit attributable to owners of the parent of JPY1.3bn (+22.2% YoY).
- ▀ Company forecasts for FY06/20 call for revenue of JPY22.3bn (+7.1% YoY), operating profit of JPY2.2bn (+11.7% YoY), pre-tax profit of JPY2.1bn (+11.5% YoY), and profit attributable to owners of the parent of JPY1.4bn (+10.3% YoY).
- ▀ The company had not disclosed medium-term forecasts as of March 2019. Medium-term growth drivers are price revisions, growth in the number of salons in Japan and overseas, and outlet openings in the company's new FaSS format.

Strengths and weaknesses

Shared Research thinks that the company's strengths are: 1) strong brand recognition thanks to its supremely large salon network and prime locations, as well as customer peace of mind stemming from a uniform quality of services at all its salons, 2) ongoing workflow efficiency and service improvements through analysis of salon data and mystery shopper surveys, and 3) in-house training systems that widen the potential recruiting pool beyond experienced hairdressers. We think its weaknesses include: 1) limitations due to a high debt level and financial covenants, 2) directly managed/outsourced labor (DM/OL) salons account for one third of directly managed domestic salons, hindering service standardization, and 3) salon opening pace has slowed due to focus on direct management and direct labor performed by its own staff, who take time to recruit and train (see "Strengths and weaknesses" section for details).

Key financial data

Income statement (JPYmn)	FY06/13 J-GAAP	FY06/14 J-GAAP	FY06/15 J-GAAP	FY06/16 IFRS	FY06/17 IFRS	FY06/18 IFRS	FY06/19 IFRS	FY06/20 Est.
Revenue	12,802	14,280	15,536	16,675	17,971	19,287	20,864	22,342
YoY	-	11.5%	8.8%	-	7.8%	7.3%	8.2%	7.1%
Gross profit				3,773	3,966	4,248	4,851	
YoY				-	5.1%	7.1%	14.2%	
GPM				22.6%	22.1%	22.0%	23.3%	
Operating profit	1,520	1,539	1,610	1,416	1,502	1,641	1,969	2,200
YoY	-	1.3%	4.6%	-	6.1%	9.3%	20.0%	11.7%
OPM	11.9%	10.8%	10.4%	8.5%	8.4%	8.5%	9.4%	9.8%
Pre-tax profit				822	1,417	1,560	1,895	2,112
YoY				-	72.4%	10.1%	21.5%	11.5%
Pre-tax profit margin				4.9%	7.9%	8.1%	9.1%	9.5%
Profit attributable to owners of the parent	782	913	866	565	1,023	1,041	1,272	1,403
YoY	-	16.8%	-5.1%	-	81.1%	1.8%	22.2%	10.3%
Profit margin	6.1%	6.4%	5.6%	3.4%	5.7%	5.4%	6.1%	6.3%
Per share data (split-adjusted; JPY)								
Shares issued (year-end; '000)	-	-	-	12,000	12,000	12,392	12,488	
EPS	-	-	-	47.2	85.3	86.7	102.6	112.4
EPS (fully diluted)	-	-	-	47.2	85.1	83.2	95.7	
Dividend per share	-	-	-	-	-	18.0	19.0	19.0
Book value per share	-	-	-	522.6	619.5	701.7	784.5	
Balance sheet (JPYmn)								
Cash and cash equivalent	-	-	-	1,928	1,962	2,018	2,489	
Total current assets	-	-	-	2,867	3,488	3,387	3,982	
Tangible fixed assets	-	-	-	1,958	2,357	2,355	2,327	
Goodwill	-	-	-	15,430	15,430	15,430	15,430	
Total noncurrent assets	-	-	-	19,305	20,085	20,167	20,299	
Total assets	-	-	-	22,173	23,573	23,555	24,282	
Trade and other payables	-	-	-	302	486	344	273	
Short-term debt	-	-	-	953	763	762	755	
Total current liabilities	-	-	-	2,560	3,439	2,848	3,185	
Long-term debt	-	-	-	12,607	11,917	11,226	10,498	
Total noncurrent liabilities	-	-	-	13,341	12,699	12,010	11,299	
Total liabilities	-	-	-	15,902	16,139	14,859	14,484	
Total equity	-	-	-	6,271	7,434	8,695	9,797	
Total interest-bearing debt	-	-	-	14,077	13,236	12,469	11,253	
Cash flow statement (JPYmn)								
Cash flows from operating activities	-	-	-	1,592	2,051	1,564	2,370	
Cash flows from investing activities	-	-	-	-918	-1,163	-943	-961	
Cash flows from financing activities	-	-	-	-799	-923	-548	-916	
Financial ratios								
ROA (RP-based)				7.4%	6.2%	6.6%	7.9%	
ROE				18.0%	14.9%	12.9%	13.8%	
Equity ratio				28.3%	31.5%	36.9%	40.3%	

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 13, 2019**, QB Net Holdings Co., Ltd. announced earnings results for full-year FY06/19; see the results section for details.

On **the same day**, the company announced a dividend of surplus.

The company decided to pay an annual dividend per share of JPY19.00 in FY06/19 (previous forecast was JPY18.00).

On **August 2, 2019**, the company announced domestic store sales for July, 2019; see the monthly trends section for details.

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

Business Trends

Monthly trends

(YoY)	FY06/19												Cumulative			
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Q1	Q2	Q3	Q4
All salons sales	2.0%	4.6%	2.1%	7.6%	4.0%	4.3%	6.8%	12.2%	12.3%	11.0%	12.0%	11.5%	2.9%	4.1%	6.2%	7.6%
Comparable-store sales	0.9%	3.3%	0.5%	5.7%	1.9%	2.1%	4.7%	9.6%	9.9%	8.7%	9.9%	9.6%	1.6%	2.4%	4.3%	5.6%

(YoY)	FY06/20												Cumulative			
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Q1	Q2	Q3	Q4
All salons sales	8.4%															
Comparable-store sales	7.0%															

Source: Shared Research based on company data

Quarterly trends

Quarterly results

Cumulative (JPYmn)	FY06/18				FY06/19				FY06/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Revenue	4,891	9,614	14,221	19,287	5,092	10,092	15,212	20,864	102.2%	20,406
YoY	10.3%	8.8%	8.2%	7.3%	4.1%	5.0%	7.0%	8.2%		5.8%
Gross profit	1,187	2,217	3,052	4,248	1,177	2,235	3,369	4,851		
YoY	9.4%	7.3%	5.7%	7.1%	-0.8%	0.8%	10.4%	14.2%		
GPM	24.3%	23.1%	21.5%	22.0%	23.1%	22.1%	22.1%	23.3%		
SG&A expenses	612	1,289	1,937	2,577	705	1,406	2,083	2,844		
YoY	25.7%	19.7%	20.9%	6.8%	15.2%	9.1%	7.5%	10.4%		
SG&A ratio	12.5%	13.4%	13.6%	13.4%	13.8%	13.9%	13.7%	13.6%		
Operating profit	580	930	1,113	1,641	475	849	1,307	1,969	103.6%	1,900
YoY	-1.2%	-5.5%	-12.5%	9.3%	-18.1%	-8.7%	17.4%	20.0%		15.8%
OPM	11.9%	9.7%	7.8%	8.5%	9.3%	8.4%	8.6%	9.4%		9.3%
Recurring profit	559	888	1,051	1,560	456	811	1,250	1,895	104.1%	1,820
YoY	-1.1%	-5.6%	-13.0%	10.1%	-18.4%	-8.7%	18.9%	21.5%		16.7%
RPM	11.4%	9.2%	7.4%	8.1%	9.0%	8.0%	8.2%	9.1%		8.9%
Net income	329	594	743	1,041	313	582	834	1,272	103.8%	1,226
YoY	-22.0%	-11.9%	-15.5%	1.8%	-4.9%	-2.0%	12.2%	22.2%		17.8%
Net margin	6.7%	6.2%	5.2%	5.4%	6.1%	5.8%	5.5%	6.1%		6.0%

Quarterly (JPYmn)	FY06/18				FY06/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	4,891	4,723	4,607	5,066	5,092	5,000	5,120	5,652
YoY	10.3%	7.3%	7.1%	4.9%	4.1%	5.9%	11.1%	11.6%
Gross profit	1,187	1,030	835	1,196	1,177	1,058	1,134	1,482
YoY	9.4%	4.9%	1.8%	10.8%	-0.8%	2.7%	35.8%	23.9%
GPM	24.3%	21.8%	18.1%	23.6%	23.1%	21.2%	22.1%	26.2%
SG&A expenses	612	677	648	640	705	701	677	761
YoY	25.7%	14.7%	23.4%	-21.1%	15.2%	3.5%	4.5%	18.9%
SG&A ratio	12.5%	14.3%	14.1%	12.6%	13.8%	14.0%	13.2%	13.5%
Operating profit	580	350	183	528	475	374	458	662
YoY	-1.2%	-11.8%	-36.5%	129.6%	-18.1%	6.9%	150.3%	25.4%
OPM	11.9%	7.4%	4.0%	10.4%	9.3%	7.5%	8.9%	11.7%
Recurring profit	559	329	163	509	456	355	439	645
YoY	-1.1%	-12.5%	-39.0%	143.5%	-18.4%	7.9%	169.3%	26.7%
RPM	11.4%	7.0%	3.5%	10.0%	9.0%	7.1%	8.6%	11.4%
Net income	329	265	149	298	313	269	252	438
YoY	-22.0%	5.2%	-27.3%	106.9%	-4.9%	1.5%	69.1%	47.0%
Net margin	6.7%	5.6%	3.2%	5.9%	6.1%	5.4%	4.9%	7.7%

Source: Shared Research based on company data

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

In Q1 (Jul-Sep) and Q4 (Apr-Jun), quarterly revenue and gross profit tend to be higher than in Q2 (Oct-Dec) and Q3 (Jan-Mar). Profit lines from operating profit down tend to display the same sort of seasonality.

Domestic salon sales (YoY)

(cumulative)	FY06/18				FY06/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All salons sales			5.9%	5.2%	2.9%	4.1%	6.2%	7.6%
Comparable-store sales YoY			3.2%	2.6%	1.6%	2.4%	4.3%	5.6%

Source: Shared Research based on company data

Note: Comparable stores means operating salons that also operated throughout the entire previous fiscal year

Note: Covers Japanese salons including franchises; overseas salons are excluded

Note: Includes FaSS salons

Salon numbers

Number of salons (cumulative)	FY06/18				FY06/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All salons		664	668	671	676	684	692	694
YoY change			20	12	20	24	23	
Japan		544	548	552	556	563	567	
YoY change			13	10	19	19		
QB House		534	537	541	545	550	554	
YoY change			11	9	16	17		
FaSS		10	11	11	11	13	13	
YoY change			2	1	3	2		
Overseas		120	120	119	120	121	125	
YoY change			7	2	1	5		
Singapore		34	36	36	36	35	35	
YoY change			1	1	1	-1		
Hong Kong		59	57	57	57	58	61	
YoY change			1	-	-1	4		
Taiwan		26	25	24	24	25	26	
YoY change			3	-	-1	1		
US		1	2	2	3	3	3	
YoY change			2	1	2	1		

Source: Shared Research based on company data

Factors in earnings variation

Cumulative (JPYmn)	FY06/18				FY06/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	4,891	9,614	14,221	19,287	5,092	10,092	15,212	20,864
YoY change	457	777	1,081	1,316	201	478	991	1,577
Comparable stores			485	945	65	202	574	
New salon openings			600	413	158	318	462	
Other			-4	-42	-22	-42	-45	
Gross profit	1,187	2,217	3,052	4,248	1,177	2,235	3,369	4,851
YoY change	102	150	165	282	-10	18	317	603
Revenue					201	477	991	
Personnel costs at directly managed salons					-161	-350	-539	
Rents					-36	-86	-152	
Other					-14	-23	17	
SG&A expenses	612	1,289	1,937	2,577	705	1,406	2,083	2,844
YoY change	125	212	335	164	93	117	146	267
Personnel expenses at HQs, other			-	-	12	26	42	
Overseas and outside directors			33	30	21	23	34	
Stock market listing			40	40	7	14	-	
Other			262	94	53	54	70	
Operating profit	580	930	1,113	1,641	475	849	1,307	1,969
YoY change	-7	-54	-159	139	-105	-81	194	328
Comparable stores			302	322	35	104	398	
New salon openings			-137	-40	-45	-86	-81	
SG&A expenses			-334	-163	-92	-116	-145	
Other			10	20	-3	17	22	
Quarterly (JPYmn)	FY06/18				FY06/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	4,891	4,723	4,607	5,066	5,092	5,000	5,120	5,652
YoY change	457	320	304	235	201	277	513	586
Comparable stores				460	65	137	372	
New salon openings				-187	158	160	144	
Other				-38	-22	-20	-3	
Gross profit	1,187	1,030	835	1,196	1,177	1,058	1,134	1,482
YoY change	102	48	15	117	-10	28	299	286
Revenue					201	276	514	
Personnel costs at directly managed salons					-161	-189	-189	
Rents					-36	-50	-66	
Other					-14	-9	40	
SG&A expenses	612	677	648	640	705	701	677	761
YoY change	125	87	123	-171	93	24	29	121
Personnel expenses at HQs, other				-	12	14	16	
Overseas and outside directors				-3	21	2	11	
Stock market listing				-	7	7	-14	
Other				-168	53	1	16	
Operating profit	580	350	183	528	475	374	458	662
YoY change	-7	-47	-105	298	-105	24	275	134
Comparable stores				20	35	69	294	
New salon openings				97	-45	-41	5	
SG&A expenses				171	-92	-24	-29	
Other				10	-3	20	5	

Source: Shared Research based on company data

Full-year FY06/19 results

- ▷ Revenue: JPY20.9bn (+8.2% YoY)
- ▷ Operating profit: JPY2.0bn (+20.0% YoY)
- ▷ Pre-tax profit: JPY1.9bn (+21.5% YoY)
- ▷ Profit attributable to owners of the parent: JPY1.3bn (+22.2% YoY)

Overview of full-year FY06/19 results

Revenues were up YoY buoyed by domestic comparable-store sales growth (up 7.6% YoY), new store openings in Japan and overseas, and higher service prices following the price revision at all domestic QB HOUSE salons.

Gross profit was JPY4.9bn (+14.2% YoY) and GPM was 23.3% (+1.2 pp YoY). Cost of revenue increased, but profit rose as a result of higher revenue. Cost of revenue expenses increased YoY as the number of salon increased, as well as salon expenses such as rent and personnel costs for domestic store staff. The headcount expanded as salon worker turnover dropped and hiring was strong following the company's March 2018 listing on the stock market.

Profits from the operating profit down increased as gross profit growth offset the impact of higher SG&A expenses. SG&A expenses increased YoY due to an increase in end-of-term allowances for store staff in Japan to increase benefits following the price revision.

Company initiatives

- ▷ Following from the openings in Tokyo, Osaka and Nagoya, the company opened its own training center in Fukuoka in July 2018 to train and develop newcomers with no prior experience of haircutting. The company could secure staff and expand its salon network by recruiting new employees and train them at its own training center.
- ▷ In February 2019, the company revised prices for all QB HOUSE salons in Japan. It intends to improve benefits for salon staff and their working environment and continue to invest in education and training. By doing so, the company aims to secure staff, improve its haircutting services, and expand salon network.
- ▷ QB Net opened 44 salons (including relocations) and closed 21 for a net increase of 23. It had 694 salons as of end-FY06/19. In terms of openings by region, it opened 29 salons in Japan, 3 salons in Singapore, 7 salons in Hong Kong, 4 salons in Taiwan, and 1 salon in the US.

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

Full-year company forecasts

(JPYmn)	FY06/19			FY06/20			YoY		
	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.	1H Est.	2H Est.	FY Est.
Revenue	10,092	10,772	20,864	11,129	11,213	22,342	10.3%	4.1%	7.1%
Cost of revenue	7,856	8,156	16,012						
Gross profit	2,235	2,616	4,851						
GPM	22.1%	24.3%	23.3%						
SG&A expenses	1,406	1,438	2,844						
SG&A ratio	13.9%	13.3%	13.6%						
Operating profit	849	1,120	1,969	1,225	975	2,200	44.3%	-12.9%	11.7%
OPM	8.4%	10.4%	9.4%	11.0%	8.7%	9.8%			
Pre-tax profit	811	1,084	1,895	1,180	932	2,112	45.5%	-14.0%	11.5%
Pre-tax profit margin	8.0%	10.1%	9.1%	10.6%	8.3%	9.5%			
Profit	582	690	1,272	778	625	1,403	33.7%	-9.4%	10.3%
Profit margin	5.8%	6.4%	6.1%	7.0%	5.6%	6.3%			

Source: Shared Research based on company data

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

Company forecasts for FY06/20 call for revenue of JPY22.3bn (+7.1% YoY), operating profit of JPY2.2bn (+11.7% YoY), pre-tax profit of JPY2.1bn (+11.5% YoY), and profit attributable to owners of the parent of JPY1.4bn (+10.3% YoY).

Revenues are expected to increase as revenue at existing salons increase, along with a contribution from new store openings, as well as a full-year contribution from domestic price revision and the price revision in Hong Kong.

In terms of profit, although cost of revenue and SG&A expenses are expected to increase, profits from the operating profit down are expected to increase as a result of revenue growth. Cost of revenue will rise as personnel expenses (centering on salon staff) go up, with rent and depreciation costs also rising with the increase in the number of salons. Improvement of working conditions for salon staff is expected to lead to an increase in personnel costs. SG&A expenses will reflect an increase in personnel costs as the number of trainees at the company's training centers increases and also higher advertising expenses associated with the increase in salon openings.

The company plans to open 46 salons. The breakdown by region is 34 salons in Japan, 3 in Singapore, 4 in Hong Kong, 3 in Taiwan, and 2 in the US. In Japan, following openings in Tokyo, Osaka, Nagoya, and Fukuoka, the company opened a training center in Sendai in July 2019 to train and develop new hires with no prior experience of haircutting.

Medium-term outlook

The company had not disclosed medium-term forecasts as of March 2019. However, under the financial covenants of its borrowings, it must achieve a net leverage ratio of 3.1x or lower from FY06/20 (4.4x in FY06/18). (See “Balance sheet” section for details.)

Net leverage ratio: (interest-bearing debt - cash and cash equivalents)/EBITDA

QB Net needs to aim at EBITDA growth to meet net leverage ratio target. Shared Research thinks that the company can achieve double-digit operating profit growth in FY06/19 and FY06/20 thanks to price hikes in Japan. We also consider around 10% annual growth from FY06/21 onward through salon number growth in the absence of major investments to be possible.

Medium-term growth drivers are price revisions, growth in the number of salons, and opening outlets in the new FaSS format.

Price revisions (hikes)

The following discussion centers on the impact and timing of price revisions and hikes in the consumption tax rate on earnings in the medium term.

- ▷ **Price hikes:** In February 2019, QB Net revised prices at all of its Japanese QB House salons. It raised prices for regular customers from JPY1,080 (including tax) to JPY1,200 (including tax), and prices for seniors (age 65 and over, weekdays only) from JPY1,000 (including tax) to JPY1,100 (including tax). In real terms, excluding the consumption tax, prices for regular customers rose by JPY111 from JPY1,000 to JPY1,111 (+11.1%), and those for seniors by JPY93 from JPY926 to JPY1,019 (+10.0%). In April 2014, when the consumption tax was lifted from 5% to 8% in Japan, the company raised its prices for regular customers from JPY1,000 (including tax) to JPY1,080 (including tax), and left its price for seniors unchanged at JPY1,000 (including tax). The February 2019 price changes were the first in about five years.
- ▷ **Background to price hikes:** QB Net said that the February 2019 price revisions were conducted to enable it to invest in hiring and training barbers and beauticians and steadily and continuously improve its treatment of salon stylists. Third-party organizations conduct mystery shopper surveys and check on customer satisfaction at all of the company’s outlets once every two months. QB Net uses a combination of quantitative salon data and qualitative mystery shopper survey data to run a plan-do-check-act (PDCA) cycle, enabling the early discovery and amelioration of any shortcomings in salon operations. This has resulted in improved customer satisfaction. According to the company, hairdressing and restaurant businesses typically need to score 80 points on average to attract repeat customers. QB Net has exceeded this level since FY06/12, and its rating is on an uptrend (see “Business” section). Shared Research understands that, based on improving customer satisfaction, the company made this decision to raise prices with the view that the impact of higher spend per customer thanks to price hikes should outstrip the negative impact from lower customer count due to the loss of customers or a drop-off in customer visit frequency.
- ▷ **Comparable-store sales following price hikes:** Comparable-store sales following the February 2019 price hikes are trending at a level that is about 10% higher YoY, suggesting a limited drop-off in customer numbers.
- ▷ **Earnings impact:** Price hikes are positive for revenue and profit growth.
 - **Impact of price hikes on revenue:** QB Net had 17.9mn salon customers in Japan in FY06/18. Directly managed QB House salons, which directly affect revenue, accounted for 463 (86%) of the total 552 salons in Japan. Assuming that customer traffic does not decline due to the price hikes, there is an annual impact of roughly JPY1.6bn based on customer numbers, the proportion of directly managed QB House salons, and the price hikes. There will be a five-month benefit of the price hikes in FY06/19 and a seven-month benefit in FY06/20.
 - **Impact of price hikes on profit:** Because there are no direct costs in generating the extra revenue stemming from price hikes, the increase in revenue directly boosts short-term profit. However, the company says the price hike was meant to enable better treatment of employees, and Shared Research thinks the company will make one-off payments to employees and raise wages. The company said it had been raising wages by about 3% annually over the past several years. We think that personnel costs may rise by about JPY300mn annually assuming forthcoming wage hikes are the same amount.

- **Impact of consumption tax hike on earnings:** In Japan, the consumption tax is scheduled to be lifted by 2pp from 8% to 10% in October 2019. If the company does not raise prices, the consumption tax hike will result in an effective decline in prices for regular customers from JPY1,111 to JPY1,091 (down JPY20, or 1.8%), and for seniors from JPY1,019 to JPY1,000 (down JPY19 or 1.8%). For the domestic directly managed salons, this means a decline in revenue and profit of 1.8% or JPY300–400mn annually. The consumption tax hike impact will cover nine months of FY06/20 (October 2019 to June 2020) and three months of FY06/21 (July to September 2020). The company said that it was considering its pricing strategy to deal with the hike in the consumption tax.

Salon rollout strategy

Japan

- ▷ **Net increase slowed from late 2000s:** The company opened the first QB House salon in Japan in 1996. In the early 2000s, it had stepped up its salon-opening pace, achieving an annual net increase of around 50 salons. In 2006, it had over 300 salons. Spearheaded by the founder, QB Net expanded the network with franchises and outsourced labor (OL) salons. From the late 2000s, growth continued but the net increase slowed to around 20 salons per year. From 2006 through 2018, the company added just 215 salons in Japan. Following his appointment as president in 2009, Yasuo Kitano changed the salon opening model to focus on utilization rates and improving service quality. QB Net worked to build up in-house equipment, personnel, expertise, and standardized services. To this end, it shifted from opening new locations using franchises or outsourced labor (OL) salon formats to using directly managed/direct labor (DM/DL) salon formats. It thus needed to recruit employees for the directly managed salons by itself, and the salon opening pace slowed.

Salon and customer numbers: Japan

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
No. of salons	291	337	357	378	395	408	417	440	463	480	492	515	542	552
YoY	27.1%	15.8%	5.9%	5.9%	4.5%	3.3%	2.2%	5.5%	5.2%	3.7%	2.5%	4.7%	5.2%	1.8%
Customer count ('000)	8,034	9,534	10,590	11,341	12,034	12,554	12,736	13,370	14,064	14,637	15,156	15,958	17,023	17,901
YoY	23.8%	18.7%	11.1%	7.1%	6.1%	4.3%	1.4%	5.0%	5.2%	4.1%	3.5%	5.3%	6.7%	5.2%
Customer count per salon ('000)	30.9	30.4	30.5	30.9	31.1	31.3	30.9	31.2	31.1	31.0	31.2	31.7	32.2	32.7

Source: Shared Research based on company data

Note: The number of customers per salon is calculated by finding the average between the quotients obtained when dividing the number of customers by the number of salons at both the beginning and end of the fiscal year.

- ▷ **Recent net increases in Japan:** Growth slowed to 10 salons in FY06/18. Fourteen salons closed due to landlord circumstances such as train station renovations.
- ▷ **Recent developments:** According to the company, recruitment is the main determinant of new salon numbers. In September 2012, the company opened its own personnel training center, LogiTHcut Professional Stylist School, utilizing the expertise it gained from training newcomers with no prior haircutting experience in other countries, which typically do not have national certification systems. In September 2012, the company opened its LogiTHcut training centers and listed on the stock market in March 2018. From FY06/12 through FY06/18, employee turnover rates declined, price was revised in February 2019, and the company improved its treatment of employees. The groundwork has thus been laid to facilitate the recruitment of personnel, which should enable more salon rollout if it goes smoothly.
- **LogiTHcut Professional Stylist School opening in September 2012:** In September 2012, QB Net launched its LogiTHcut Professional Stylist School in-house training center. As of July 2019, it has training centers in Tokyo, Sendai (Miyagi Prefecture), Nagoya (Aichi Prefecture), Osaka, and Fukuoka. LogiTHcut Professional Stylist School has broadened the pool of potential recruits, extending it beyond experienced hairdressers to include certified applicants without prior experience and people who have some haircutting experience but have left the industry for an extended period. These people may be put to work in the salons within a short period of time (60.8% of the 1.9mn persons holding hairdressing certificates are not employed as hairdressers). In FY06/18, the company employed about 100 persons with no prior haircutting experience. According to the company, LogiTHcut Professional Stylist School has the unique expertise necessary to train someone with no haircutting experience to cut hair within only 10 minutes, and is contributing to salon openings and earnings.
- **March 2018 stock listing, declining turnover rate from FY06/12 to FY06/18:** Turnover rate of full-time employees declined to 9.6% in FY06/18 from 31.8% in FY06/10. According to the Ministry of Health, Labour and Welfare's Survey on

Employment Trends, turnover in the living-related and personal services and amusement services industries 22.1%, above that of QB Net. The company said that initiatives to improve skills and motivation (see “Business” section), wage rates for hairdressers that are above the industry average (salaries of around JPY3.6–3.8mn and an average age of about 40 years versus industry averages of about JPY3.02mn and 32.0 years), and initiatives aimed at improving interpersonal relations among employees were useful in lowering employee turnover. Another factor was the March 2018 stock listing, which boosted its employees’ perception of their own social status.

- **Salary hikes following price rises:** The company has raised average employee base pay at annual increments of about 3%. The February 2019 price revisions have given it the resources to raise salaries and further improve employee benefits, which should lead to declining employee turnover and increased recruitment, in Shared Research's view.
- ▷ **Targeting medium-term annual net increase of 30–40 salons, mainly in Japan:** In the medium term, QB Net would aim to open 40–50 new salons per year, mainly in Japan, including its new FaSS format salons. It closes an average of one or two underperforming salons every year, and expects to close around 10 salons in total every year, including salons that shut down due to train station renovations. The company plans for a net increase (openings minus closings) of 22 in FY06/19, and a net increase of around 30–40 salons annually in the medium term.
- **Personnel recruitment:** The company requires an average of 3–4 people to run a hair salon, so opening 30 requires about 100 additional employees. Given that there was turnover of 9.6% of the company's 1,315 full-time employees in directly managed salons in Japan as of end-June 2018, it needs to hire 130 full-time workers to replace those that have quit. QB Net thus needs to hire at least 230 full-time workers annually just to achieve a net increase of 30 salons in Japan. Its strategy is to recruit personnel through the initiatives outlined previously.
- **Scope for new openings:** The company has a presence in just 14% of commercial facilities with space of at least 10,000sqm (1,769 as of end 2016), so there is plenty of room to open salons here.
- **Cash flow required to open salons:** QB Net aims at a net increase of 40 salons a year including those overseas (discussed below). According to the company, it costs JPY20mn to open one salon, comprising JPY15mn for equipment and facilities, JPY3mn for guarantee deposits, and JPY2mn for sales promotion when the salon opens. 50 new salons and a net increase of 40 salons would require JPY1.0bn, which Shared Research thinks could be covered by operating cash flow (comprising depreciation [JPY748mn in FY06/18] and profit [company forecast of JPY1.2bn for FY06/19]).
- **Time until new salons turn a profit:** Customer numbers at QB's new salons tend to grow over time as local residents and those commuting to work or school become more aware of it (about JPY2mn for sales promotion when the salon opens). On a monthly basis, new salons therefore start in the red and take roughly 10 months until they are in the black. New salons are a drag on profit only during their first fiscal years.

Overseas

- ▷ **Net increases overseas:** The company's overseas expansion started in April 2002 with the opening of its first Singapore salon, followed by Hong Kong, Taiwan, and the US, at a pace of about 10 net increases per year. As of end-FY06/18, QB Net had 119 directly managed salons overseas (117 at end-FY06/17): 36 in Singapore (35), 57 in Hong Kong (57), 24 in Taiwan (24), and two in the US (one).

Salon numbers overseas

(salons)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Overseas	4	11	23	33	44	51	58	69	77	85	96	108	117	119
YoY	-	175.0%	109.1%	43.5%	33.3%	15.9%	13.7%	19.0%	11.6%	10.4%	12.9%	12.5%	8.3%	1.7%
Singapore	2	8	14	19	24	25	29	31	32	32	32	35	35	36
YoY	-	300.0%	75.0%	35.7%	26.3%	4.2%	16.0%	6.9%	3.2%	0.0%	0.0%	9.4%	0.0%	2.9%
Hong Kong	2	3	9	14	20	26	29	37	40	44	50	54	57	57
YoY	-	50.0%	200.0%	55.6%	42.9%	30.0%	11.5%	27.6%	8.1%	10.0%	13.6%	8.0%	5.6%	0.0%
Taiwan	-	-	-	-	-	-	-	1	5	9	14	19	24	24
YoY	-	-	-	-	-	-	-	-	400.0%	80.0%	55.6%	35.7%	26.3%	0.0%
US	-	-	-	-	-	-	-	-	-	-	-	-	1	2
YoY	-	-	-	-	-	-	-	-	-	-	-	-	-	100.0%

Source: Shared Research based on company data

Note: The number of customers per salon is calculated by finding the average between the quotients obtained when dividing the number of customers by the number of salons at both the beginning and end of the fiscal year.

- ▷ **Recent net increases overseas:** Growth slowed to two salons in FY06/18. A temporary labor shortage capped expansion activity.
- ▷ **Plans to add about 10 overseas salons per year on a net basis in the medium term:** Focus areas are Hong Kong, Taiwan, and the US.
 - ▷ Hong Kong: 58 salons at end-June 2018. The company aims to have one salon for every 100,000 members of the population, so it thinks there is room to open a maximum of 100 salons in Hong Kong. The company said it was conducting initiatives in the areas of training, personnel evaluations, and benefit improvement in order to increase salon numbers.
 - ▷ Taiwan: 24 salons at end-June 2018. The recruitment situation is improving, and the company thinks there is plenty of leeway for it to open salons moving forward.
 - ▷ US: The company opened its first salon in New York in June 2017. That city has over 8mn residents, so there is ample room for expansion.

New format

The company intends to roll out its new FaSS-format salons to expand profit opportunities in markets not covered by QB House in Japan in the medium term.

New format FaSS salons

- ▷ **FaSS format:** FaSS (Fast Salon for Slow Life) is targeted at men and women from their 20s to 40s. Services comprise haircuts and styling, taking roughly 20 minutes for JPY2,000 (excluding tax). It is possible to roll out this format without cannibalization due to its different positioning and the fact that the main target demographic for QB House is men aged over 30.
- ▷ **FaSS salon rollout:** The FaSS format was launched in July 2011. As of February 2018, the company had 11 salons in trendy areas such as Naka-Meguro, Futago-Tamagawa, and Daikanyama. From FY06/12 through FY06/18, the company opened around one salon per year and three at most. It planned to open two FaSS salons in FY06/19.

Business

Business description

- Business description:** QB Net Holdings is the holding company of QB Net Co., Ltd., which operates QB House, Japan's largest chain of haircut-only salons, by number of locations and sales. QB House was the first chain to offer 10-minute haircuts in Japan, providing the value of time to the customers. No reservations or designations of stylists are accepted. Offering only haircuts enabled it to provide services with affordable prices (standard price in Japan is JPY1,200 including tax). Since its founding in 1995, the company pioneered the quick haircutting business in Japan and expanded operations in the country's post-bubble deflationary economy. As of end-FY06/18, the company had operated 552 salons in Japan and 119 salons overseas (in Singapore, Hong Kong, Taiwan, and the US).
- Characteristics of haircut-only salons:** Haircutting specialized salons only give haircuts, which are completed in a short time. Traditional hairdressers in Japan require reservations and provide a full set of services (including haircut, shampoo, shaving, and styling), take around 60 minutes, and charge JPY5,000 to JPY6,000. The company has two brands, QB House and FaSS. QB House salons mainly target businessmen and focus on haircuts, which they provide in roughly 10 minutes at the standard price of JPY1,200 (including tax) in Japan. Meanwhile, FaSS salons, which target those in their 20s through 40s, provide haircut and styling services in around 20 minutes for JPY2,160 (including tax). QB House salons do not offer shampooing, shaving, and styling services, allowing them to reduce equipment. These salons operate efficiently with original devices developed in-house, such as an Air Washer (a special vacuum cleaner to remove hair clippings), a ticket vending machine, and a congestion indicator (that indicates waiting time to customers).
- How QB House stand out from peers:** QB Net stands out from peers in several ways. It has the most haircutting salons in Japan (671 compared with 277 by 3QCUT, the second-largest operator), it operates primarily in prime locations such as commercial facilities and train stations, it directly manages the majority of its salons with its own staff (franchises are more common at peers), its shares are listed, and it uses salon data to continuously improve its business and its services. The company also operates in-house personnel training centers, where stylists learn the necessary skills to give haircuts through six months of training (compared with roughly two years of training at other hairdressers).
- QB House salons:** QB House salons occupy a floor space of about 10 tsubo (33sqm) per salon and can be opened in "dead space" that may not be suitable for other commercial purposes. They are typically opened in areas with high foot traffic, such as inside train stations and commercial facilities, and concentrated in prime locations for a dominant presence. The initial cost to open a QB House salon is about JPY20 million (including salon equipment and guarantee deposit), and they typically turn profitable in about 10 months after opening.

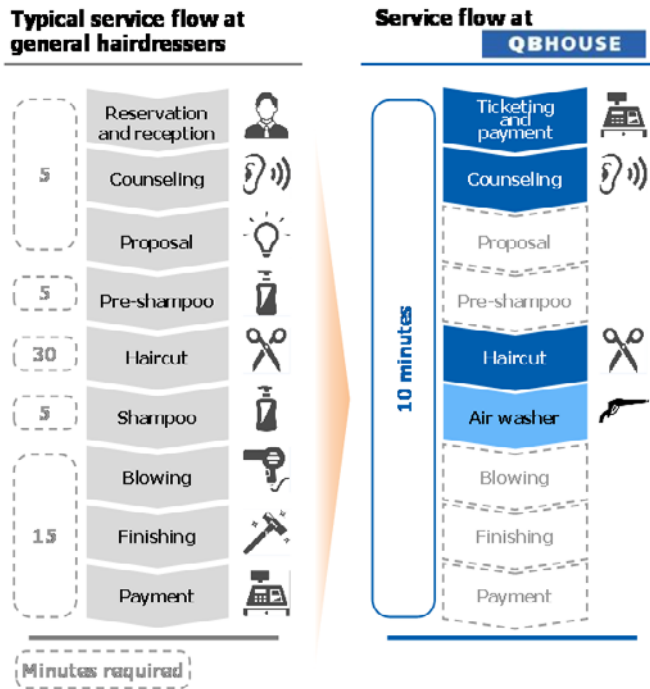
Company characteristics

- ▷ QB Net operates a chain of haircut-only QB House salons in Japan and overseas; it operates the largest number of haircut-only salons in Japan (671 compared with 277 by 3QCUT, the second-largest operator).
- ▷ It is the only listed company among haircut specialists (others are unlisted).
- ▷ It concentrates salons in prime areas with high foot traffic (e.g., inside train stations and commercial facilities) for a dominant presence.
- ▷ It directly manages most of its salons and operates them with its own employees (directly managed/direct labor [DM/DL] salons), while franchises are more common at peers.
- ▷ It collects work data from all seats at all salons to monitor service length and improve services.
- ▷ The company operates its LogiTHcut Professional Stylist Schools, in-house personnel training centers, in five locations in Japan. These schools have an established system through which stylists learn the necessary skills to give haircuts in six months of training (compared with roughly two years at other hairdressers).

Haircut-only salons

Haircutting specialized salons provide only quick haircuts. Traditional hairdressers in Japan require reservations and offer a full set of services (including haircut, shampoo, shaving, and styling) in roughly 60 minutes at prices ranging from JPY2,000 to JPY6,000. On the other hand, QB House salons mainly target businessmen and offer only haircuts, which they provide in roughly 10 minutes at the standard price of JPY1,200 (including tax) in Japan. Meanwhile, FaSS salons which target those in their 20s through 40s, provide haircut and styling services in around 20 minutes for JPY2,160 (including tax).

Comparison between services at QB House salons and typical hairdressers

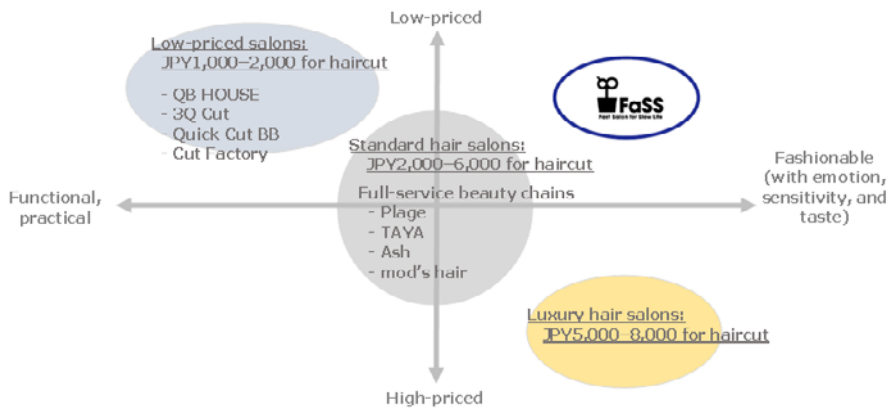


Source: Company data

In the following figure, we classify hairdressers into four quadrants, with service price on the y-axis (from low-priced on the top to high-priced on the bottom) and aesthetic satisfaction on the x-axis (from practical/functional on the left to fashionable on the right). According to this matrix, haircutting specialized salons fall under the second quadrant. Salons in this quadrant offer services targeted at customers who emphasize low price, practicality, and functionality. They occupy a unique position in Japan’s hairdressing industry, differing from traditional hairdressers (for more details, see the “Market and value chain” and “Main competitors” sections). Main customers of haircut-only salons are typically men in their 30s or higher. According to the company, about 90% of QB House’s customers are men, the majority of whom are in their late 30s or older, while customers in their 20s comprise about 10%.

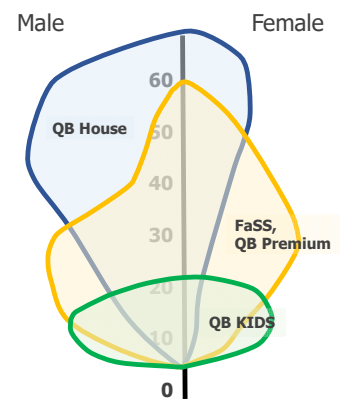
The company also operates FaSS salons, which offer haircut and styling services targeted at customers in their 20s to 40s who put a priority on aesthetic satisfaction (e.g., emotion, sensitivity, taste).

Position within hairdressing industry



Source: Shared Research based on company data

Customer composition by age and gender



Source: Shared Research based on company data

Haircutting specialized salons do not offer services such as shampooing, shaving, and styling and thus do not need equipment like reclining chairs used for shampooing. QB House salons streamline operations with devices such as an Air Washer (a special vacuum cleaner to remove hair clippings) and a ticket vending machine, so that stylists can focus on giving haircuts and complete the work quickly. These salons also display a congestion indicator* to show waiting times to customers.

*Congestion indicator: Located at the storefront. Lights up to three different colors (green, yellow, and red), indicating different levels of congestion. Green means there is no waiting time, yellow means a waiting time of five to 10 minutes, and red means a waiting time of over 15 minutes.

QB House salons do not need shampooing equipment, so the company has decided on a standard of compact salons, which only require very limited floor space. They come equipped with devices and tools that minimize the walking distance of stylists. The company leverages and continues to improve its originally-developed equipment, know-how, and systems, which were previously unused at full-service hairdressers. QB House salons systematize operations to ensure that the service is completed in about 15 minutes, including 10 minutes for cutting and 5 minutes for cleaning.

Equipment and salon operations at QB House

Equipment, seats and floor space per salon

“System unit” that makes work more efficient

At QB House salons, a “system unit” stores all the devices necessary for haircutting in one place. This equipment helps minimize the time stylists spend on activities other than cutting by reducing their walking distances.

QB House's system unit



Source: Company data

Main devices inside a system unit

- Air Washer (photo, right edge): A special vacuum cleaner to remove hair clippings used instead of shampooing. Eliminating shampooing equipment reduces equipment space and contributes to lower capex. (By reducing the time spent on shampooing, QB House salons can give a haircut at an affordable price (standard price in Japan is JPY1,200 [including tax]) and in a shorter time than conventional full-service hairdressers.)
- Terminal (photo, right): Records the number of customers served and the time spent per customer for each employee, as well as customer attributes. The device connects to the storefront congestion indicator, which provides customers with approximate waiting times.
- Ultraviolet sterilizer (photo, center): Most salons only have one unit per store, but QB House salons have one for each unit.
- Closet (photo, left): The space behind the mirror is used to store customer belongings (e.g., coat, luggage).

Each salon only has three seats and a floor space of about 33sqm, making it possible to open salons in very limited space

- ▷ The company typically opens QB House salons initially with three seats and expands that to four seats when the operating rate is high. Each salon only occupies about 33sqm of floor space, so they can be opened in “dead space” that is often too small for other commercial purposes.
- ▷ The company targets salon openings in areas with high foot traffic, such as inside train stations and commercial facilities, as this is conducive to high utilization rates (for more details, see the “Salon openings” section). It can attract customers without promotions (except when opening a new salon) and thereby reduce advertising expenses by opening salons in prime locations.
- ▷ The company strategizes its salon openings to gain a dominant presence in prime areas. For instance, when the number of customers increases at an existing salon, it opens another one nearby. This way, it boosts customer awareness, moves stylists between stores more easily, and uses data of the number of customers at existing salons to make an accurate prediction of the number of anticipated customers at a new salon.
- ▷ As of end-FY06/18, the company operated 541 QB House salons and 11 FaSS salons (haircut and styling targeted at customers in their 20s to 40s) in Japan. Outside of Japan, it operated a total of 119 stores in Singapore, Hong Kong, Taiwan, and the US.

Example of effectively using dead space (Chiba City Monorail Chiba Station store)**Before construction****After**

Source: Company data

QB House's salon operations

QB House's salon operations basically involve haircuts that last about 10 minutes and some cleanup afterward for a total time of 15 minutes spent per customer.

- ▷ Customer visit: The customer enters a salon, buys a ticket from the vending machine, and gets into the waiting line. The storefront congestion indicator shows the approximate waiting time.
- ▷ Haircut process:
 - The stylist makes preparations and guides the customer to the seat;
 - receives the ticket from the customer and stores the customer's coat or luggage (if any) into the closet;
 - scans the ticket with a ticket reader (the store computer logs the start time of the haircut);
 - consults with the customer about preferences and gives a haircut;
 - uses a new comb for each customer; and
 - uses the Air Washer to remove hair clippings after cutting.
- ▷ Finishing process: The stylist vacuums the floor to remove any hair, folds the barber's cape, and sterilizes the scissors with the ultraviolet sterilizer (included in all system units).

Tickets come with a number that helps calculate the time between buying the ticket and starting the haircut (this data is also used to estimate waiting times, which are transmitted to the congestion indicator). The stylists use the ticket reader to scan the tickets and also enter customer information, including their genders, ages, and whether they are new or repeat customers. By doing so, they help collect data on waiting times, time spent on haircuts, and customer demographics broken down by time, salon, and seat.

Streamline salon data, use data to improve service**Use salon data**

The company's original salon management system collects data, such as daily sales and number of customers per salon (broken down based on the time of day, the age and gender of the customer, and whether the customer is a new or returning customer.), as well as average time required for a haircut, average waiting time, and seat utilization rate (the data is aggregated and analyzed at the head office). The company uses this data to help optimize the allocation of stylists, produce a uniform quality of services, streamline operations, and plan new salon openings, as described below:

- ▷ Hourly seat utilization rates at salons are used to determine the shifts of stylists. The number of seats in operation are also increased as these utilization rates rise, and are decreased as they fall.

- ▷ The data about time spent on cutting per stylist is used to reduce the disparity in time by stylist and ensure the same quality of haircuts to all customers. The company prioritizes time management, because one of the main reasons why customers visit a haircut-only salons is the speedy service (value of time), and higher efficiency would translate into higher sales per stylist, helping to improve employee compensation.
- ▷ The seat utilization rates at existing salons are used to make an accurate projection of the anticipated number of customers of a new salon, if one were to be opened nearby.

“Mystery shopper” survey to improve customer satisfaction

The company asks a third party to conduct a “mystery shopper” survey once every two months to determine the level of customer satisfaction at each salon. The company combines this qualitative survey data with its quantitative salon data and implements a plan-do-check-act (PDCA) cycle. By doing so, it aims to identify and address problems in salon operation early on in order to improve customer satisfaction.

According to the company, barbershops, beauty salons, and restaurants typically need to score 80 points or higher on this survey (i.e., willingness to use service again) to enjoy repeat customers. The company data below shows QB House has scored above 80 points and has improved its score since FY06/12.

Results of customer satisfaction survey

(points)	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18
Revisit intentions	79.3	80.8	82.8	84.6	84.6	85.7	86.9	87.1

Source: Shared Research based on company data

Note: Based on “mystery shopper” survey by third party. Numbers represent the average of all salons nationwide. Scored on a scale of 100 (100 = will definitely return; 80 = would like to return; 40 = will probably not return; 20 = will definitely not return).

Personnel and training systems

Characteristics of the company’s personnel and training systems:

- ▷ Salary above industry average
- ▷ Fair career path compared with conventional hairdressers
- ▷ In-house personnel training center, LogiTHcut Professional Stylist School

These systems and initiatives aimed at improving interpersonal relationships among employees have helped the company reduce the turnover rate. Additionally, the in-house personnel training center has allowed it to secure employees from a broader pool of candidates who either have a barber/beautician certificate but no prior haircut experience or have experience but have left the industry for an extended period. It has succeeded in expanding this pool of candidates by teaching the skills that are necessary to give haircuts in a short period of time.

Turnover rate of full-time employees

	FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18
Regular employee turnover	31.8%	29.9%	20.7%	15.7%	18.2%	12.1%	13.5%	11.5%	9.6%

Source: Shared Research based on company data

Salary above industry average

QB Net Holdings’ pay scale outshines its peers. Although the price of a haircut is affordable, the company increases sales per stylist by raising seat utilization rates.

The average annual salary of a hairdresser or beautician in Japan (i.e., working at a company with at least 10 employees) was JPY3.02mn in 2018, up 2.2% from 2017, according to the Ministry of Health, Labour and Welfare’s “2018 Basic Survey on Wage Structure.” The average age was 32. The company paid its hairdressers considerably more, an annual average of JPY3.6–3.8mn. However, the average age for those working at QB Net was about 40.

Fair career path

We understand that employee performance reviews at most conventional hairdressers in Japan are conducted by the store manager or president. In our view, this invites the risk of vague or subjective standards when determining the career paths of employees, including decisions regarding salary raises and promotions. In contrast, at QB Net Holdings, performance reviews are conducted by at least two supervisors, and an in-house certification program is also used to determine salary raises and promotions, which employees are encouraged to pursue.

At QB Net, employees with no previous haircutting experience are assigned to a salon after completing about six-months of training at a LogiTHcut Professional Stylist School. Most employees are promoted to salon manager after working at a salon for three to five years. Because each salon is operated by three to four employees, one in every three employees become a salon manager. The positions above salon manager are area manager and senior manager. Other job titles include QB House trainee, QB House trainer, overseas trainee, and overseas trainer.

QB Net Holdings' employee retention rate has been improving, thanks to increasingly accurate performance reviews and feedback and individual support aimed at relieving any job-related anxiety or dissatisfaction. According to the company, another factor contributing to lower turnover is the listing of the company on the stock market in March 2018. The company believes this has helped boost employee morale by giving them the sense that their social standing has improved. Other in-house programs aimed at lifting the employee retention rate include a haircutting contest held with the goal of raising the motivation of stylists and an awards program conducted to recognize employees who have worked at the company for 10 or 20 years.

In-house training center LogiTHcut (LogiTHcut Professional Stylist School) develops stylists

LogiTHcut Professional Stylist School is the company's in-house training center. It helps employees with no prior experience of cutting, or employees who have experience but had left the industry for an extended period, develop the necessary cutting and customer service skills. LogiTHcut is able to turn employees with no prior experience into stylists that can give haircuts in just six months (compared with two years of training at conventional hairdressers), thanks to concentrated courses based on its original "theory of cutting" that ensure a uniform quality of service. These courses are taught by full-time trainers.

QB Net Holdings first opened LogiTHcut Professional Stylist School in September 2012 and schools are now opened in Tokyo, Sendai (Miyagi), Nagoya (Aichi), Osaka, and Hakata (Fukuoka) as of July 2019.

Haircutting skills acquired at LogiTHcut Professional Stylist School versus other barbershops or beauty salons

In Japan, barbers and beauticians must first complete two years of studying at a professional school designated by the Minister of Health, Labour and Welfare (three years for correspondence school), followed by a state examination for barbers or beauticians. However, according to the company, students who complete their education at professional schools learn the theory and techniques of hairdressing, but have not yet acquired the cutting skills necessary to give haircuts at a barbershop or beauty salon immediately after graduating.

At typical hairdressers, new graduates who are certified barbers or beauticians first work as an assistant or trainee in charge of shampooing, coloring, perming, and other routine tasks. After the store closes, they practice haircutting for about two hours a day on their own to hone their skills. As such, new graduates usually take about two years until they are allowed to give a haircut. This period of apprenticeship is characterized by low wages, rough hands caused by heavy exposure to shampoo and perm liquids, and other occupational hazards, resulting in a high turnover rate.

In contrast, LogiTHcut Professional Stylist Schools offer a fast track for new employees to become stylists, realized through concentrated courses (an average of eight hours per day over six months, totaling 1,152 hours) and QB Net Holdings' original cutting theory. The company makes it possible for even those with no prior experience to give haircuts in just six months through LogiTHcut. A variety of techniques is taught using the company's unique haircutting theory. This shortens processes and time, bang cutting techniques make for a clean finish, and hair on the nape of the neck is trimmed with electric shavers all at once rather than in stages.

Benefits from LogiTHcut Professional Stylist School

The opening of LogiTHcut Professional Stylist Schools has contributed to a broader pool of employees (by expanding job candidates), a higher job retention rate, and a uniform quality of service.

- ▷ Securing employees by broadening the pool of job candidates: QB Net Holdings is able to broaden its pool of job candidates beyond the typical pool of mid-career hires with prior experience to include those who have a certificate but do not have practical experience or those who have left the industry for an extended period. This advantage is due to LogiTHcut, which helps employees develop the necessary skills to give haircuts in a short period of time. According to the company, people who possess a barber or beautician certificate but have no practical experience exceeded 60% of the 1,855,000 certified barbers and beauticians in Japan in 2014.
- ▷ Higher retention rate: New employees can gain haircutting experience without undergoing the tough and long apprenticeship periods at other stores by completing training at LogiTHcut Professional Stylist Schools. As a result, employees tend to be more loyal to the company, leading to a higher retention rate.
- ▷ Uniform quality of service: LogiTHcut Professional Stylist Schools provide training based on QB Net Holdings' original cutting theory, which ensures a uniform and enhanced quality of service.

Store openings

As of end-FY06/18, QB Net Holdings operated 541 QB House salons, the majority of which are located inside train stations and commercial facilities in Japan. It also operated 11 FaSS salons, which provide haircuts and styling services targeted at men and women in their 20s to 40s. Outside of Japan, it operated 119 stores in Singapore, Hong Kong, Taiwan, and the US.

Number of salons

(salons)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
No. of salons	439	459	475	509	540	565	588	623	659	671
YoY	6.8%	4.6%	3.5%	7.2%	6.1%	4.6%	4.1%	6.0%	5.8%	1.8%
Domestic	395	408	417	440	463	480	492	515	542	552
YoY	4.5%	3.3%	2.2%	5.5%	5.2%	3.7%	2.5%	4.7%	5.2%	1.8%
Overseas	44	51	58	69	77	85	96	108	117	119
YoY	33.3%	15.9%	13.7%	19.0%	11.6%	10.4%	12.9%	12.5%	8.3%	1.7%
Singapore	24	25	29	31	32	32	32	35	35	36
YoY	26.3%	4.2%	16.0%	6.9%	3.2%	0.0%	0.0%	9.4%	0.0%	2.9%
Hong Kong	20	26	29	37	40	44	50	54	57	57
YoY	42.9%	30.0%	11.5%	27.6%	8.1%	10.0%	13.6%	8.0%	5.6%	0.0%
Taiwan	-	-	-	1	5	9	14	19	24	24
YoY	-	-	-	-	400.0%	80.0%	55.6%	35.7%	26.3%	0.0%
US	-	-	-	-	-	-	-	-	1	2
YoY	-	-	-	-	-	-	-	-	-	100.0%

Source: Shared Research based on company data

Classification of salon format and salon management style

- ▷ QB Net Holdings operates its salons in four different formats. Directly managed salons are set up by the company, while franchise salons are set up by a franchisee (mainly subsidiaries of railway operators) under a franchise contract.
- ▷ The company has two forms of salon operation. One is 'direct labor (DL)' operation. For salons under this form, the company hires employees to operate the salon. Another form is 'outsourced labor (OL)' operation, for which its external partners with hairdressing certificates ("area managers") hire employees to operate the salon.

Further, QB House salons are classified into the following four types depending on the salon format and salon operation style. There are no differences in the services provided to customers among the salon types, but there is an impact on company earnings.

Salon types

Store format	Salon owner	Operation	No. of salons	Revenue and cost of revenue
Directly managed/direct labor (DM/DL) salon	Set up and operated by QB Net Holdings	QB Net Holdings' employees	Japan: 302 Overseas: 119	Revenue: Salon sales Cost of revenue: Personnel expenses
Directly managed/outsourced labor (DM/OL) salon	Set up by QB Net Holdings. Operated by employees of area managers who are external business partners	Employees hired by the area manager	Japan: 172	Revenue: Salon sales Cost of revenue: Outsourcing expenses
Franchise/direct labor salon	Set up by a franchisee. Operated by QB Net Holdings	QB Net Holdings' employees	Japan: 21	Revenue: Royalty revenue, Outsourcing revenue Cost of revenue: Personnel expenses
Franchise/outsourced labor salon	Set up by a franchisee. Operated by employees of area managers who are external business partners	Employees hired by the area manager	Japan: 49	Revenue: Royalty revenue, etc. Cost of revenue: None

*Eight of the franchise salons in Japan are managed by employees of franchisees.
*FaSS salons are all directly-managed/direct labor salons.

Details of franchise and outsourcing contracts are described below.

Contract details	
Franchise contract	Franchise contracts are mainly between QB Net Holdings and subsidiaries of railway operators. These contracts require the company to provide a business operation manual and other expertise, the right to open and operate a franchise salon using the company's trademark, and a certain degree of training and assistance related to the operation of a franchise salon. In return, the company receives a lump-sum affiliate registration fee (paid upon the conclusion of the contract) and monthly royalties (paid on a recurring basis at a fixed rate of monthly salon sales). Franchise/direct labor salons are set up by franchisees but operated by the company under a labor/service outsourcing agreement. The company receives outsourcing fees on top of royalties for these salons.
Outsourcing contract	Through outsourcing contracts, the company outsources the management of some of its salons to external business partners (area managers), who possess a barber or beautician certificates. Area managers operate the salons by hiring barbers and beauticians on their own. The company pays 52% of monthly salon sales to area managers as outsourcing expenses.

Domestic stores

As of end-FY06/18, the domestic network comprised 541 QB House salons and 11 FaSS salons.

Number of stores and customers in Japan

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
No. of salons	291	337	357	378	395	408	417	440	463	480	492	515	542	552
YoY	27.1%	15.8%	5.9%	5.9%	4.5%	3.3%	2.2%	5.5%	5.2%	3.7%	2.5%	4.7%	5.2%	1.8%
Customer count ('000)	8,034	9,534	10,590	11,341	12,034	12,554	12,736	13,370	14,064	14,637	15,156	15,958	17,023	17,901
YoY	23.8%	18.7%	11.1%	7.1%	6.1%	4.3%	1.4%	5.0%	5.2%	4.1%	3.5%	5.3%	6.7%	5.2%
Customer count per salon ('000)	30.9	30.4	30.5	30.9	31.1	31.3	30.9	31.2	31.1	31.0	31.2	31.7	32.2	32.7

Source: Shared Research based on company data

Note: The number of customers per salon is calculated by finding the average between the quotients obtained when dividing the number of customers by the number of salons at both the beginning and end of the fiscal year.

Domestic salon: QB House

QB House is a chain of salons that specialize in haircuts only, enabling it to offer haircuts at an affordable price (regular price in Japan is JPY1,200, including tax) and in a short time (approx. 10 minutes), providing customers with the value of their time. No reservations or designations of stylists are accepted. QB House salons mostly serve men in their 30s or higher who emphasize practicality and functionality over fashion.

As of end-FY06/18, the company operated 541 QB House salons (up 9 salons or 1.7% from end-FY06/17). According to the company, about 90% of the salons in Japan are located in prime areas with high foot traffic, such as inside train stations and

commercial facilities, contributing to high utilization rates. Salon locations break down to roughly 30% inside train stations, 60% inside commercial facilities, and 10% in standalone sites.

Salons inside train stations

QB House salons (both directly managed and franchise salons) are located inside major train stations along the JR, Tokyo Metro, and other major railway lines. The franchise salons, in particular, are owned by subsidiaries of major railway operators and operated by the company under exclusive contracts that bar entry from competitors. The company explains that this is one of its advantages as a pioneer in Japan's low-price haircutting salon industry. Due to this exclusive contract, competitors cannot open haircutting salons in train stations in which QB House salons are located. We understand that franchise salons inside train stations only generate royalty revenue for the company and do not have a material impact on earnings, but we also note that these areas have high foot traffic and are conducive to brand buildup. We therefore think that one of the company's strengths is its virtual monopoly in the haircut-only market inside major train stations.

Salons inside commercial facilities

The company has opened QB House salons in commercial facilities operated by Aeon Co., Ltd. (TSE1:8267), Ito-Yokado (subsidiary of Seven & I Holdings Co., Ltd. [TSE1:3382]), and Marui Group Co., Ltd. (TSE1:8252). The company believes there is significant room for additional openings of salons inside commercial facilities, given that these salons have thus far been opened in only 14% of the total number of commercial facilities in Japan with floor spaces of over 10,000sqm (1,769 facilities as of 2016).

Speed of salon openings in Japan

QB Net Holdings opened its first QB House salon in November 1996. Since then, it raised its salon opening rate to an annual net increase of about 50 salons in the early 2000s, until it exceeded 300 salons in March 2005. The salon expansion during this period was driven by an increase in franchise and outsourced labor (OL) salons under the leadership of the company founder. From the late 2000s, however, the rate of salon openings decelerated to a net increase of just 20 salons per year. Following his appointment as president in 2009, Yasuo Kitano changed the salon opening model to focus on utilization rates and improving service quality. At this time, in order to provide a uniform quality of service through accumulation of its own equipment, human resources, and expertise, the company began to open more directly managed salons and hire more of its own employees, and the store opening pace slowed accordingly.

Domestic salon: FaSS

FaSS stands for Fast Salon for Slow Life. FaSS is the company's salon chain targeted at men and women in their 20s to 40s who have strong fashion preferences. These salons are QB Net Holdings' new salon chain format, offering both haircut and styling services that are completed in about 20 minutes for JPY2,000 (excluding tax). Like QB House salons, FaSS salons accept no reservations or designations of stylists, but they use automatic reception machines instead of ticket vending machines, and customers pay at the cash register following their haircuts.

Comparison of QB House and FaSS

	QB House	FaSS
Interior	Typical of a haircut-only salon	Employs a "friendly house" theme
Service	Haircuts only	Haircuts and styling
Time spent	About 10 minutes	About 20 minutes
Payment method	Ticket vending machine (payment before service)	Cash register (payment after service)
Price	JPY1,200 (excluding tax)	JPY2,000 (excluding tax)
Characteristics, customer base	Practicality, mostly men in their 30s or higher	Fashionability, targeting men and women in 20s to 40s

The first FaSS salon was opened in front of Nakameguro Station in Tokyo in July 2011. Subsequently, new salons have been opened mainly in areas popular among younger people living in Tokyo and Kanagawa. As of end-FY06/18, the company operated 11 FaSS salons. The company believes there is no cannibalization of customers between QB House and FaSS, as QB House mainly caters to men in their 30s or higher who focus on practicality, while FaSS targets both men and women who place a priority on fashion.

Overseas salons

As of end-FY06/18, the company directly managed 119 salons outside of Japan (vs. 117 as of end-FY06/17). This includes 36 salons in Singapore (35), 57 in Hong Kong (unchanged), 24 in Taiwan (unchanged), and two in the US (one). In FY06/18, overseas salons served a total of 3,432,000 customers (+10.1% YoY) and generated sales of JPY3.1bn (+13.5% YoY).

The company sees no border in the haircutting business and anticipates significant potential for growth in overseas markets. The company aims to open one salon for every 100,000 people in each country.

Overseas salons: Singapore

As of end-FY06/18, the company operated 36 salons in Singapore, including 27 QB House salons, seven QB House Premium salons, and two QB House Kids salons.

QB House salons offer haircuts for SGD12 (approx. JPY982), while QB House Premium salons offer services for SGD15 (approx. JPY1,227, and QB House Kids salons (for those 12 and under) offer services for SGD22 (approx. JPY1800 [calculated based on a foreign exchange rate of JPY81.8/SGD, the closing rate at end-March, 2019]).

According to the company, competitors in Singapore are mostly franchise salons that lack consistency in quality, whereas QB House salons are directly managed and offer a uniform and high-quality service. In 2016 and 2017, the company won first prize in the service category among participating banks, insurers, and retailers in a mystery shopper program (ACE) sponsored by the Singapore retail industry. The company has also been participating in an Excellent Service Award system (EXSA) sponsored by Enterprise Singapore, a government organization, since 2017. QB Singapore has subsequently had 25 employees win the silver award and seven win the gold award.

The company opened the first QB House salon in Singapore in April 2002, and it established local subsidiary QB Net International Pte. Ltd. in December 2002 to facilitate its business expansion in that country. From the late 2000s to the early 2010s, the number of salons increased to over 30, but the pace of new salon openings became more moderate in the 2010s. The company raised prices by 20%, from SGD10 to SGD12 in December 2012, and the number of customers reached 977,000 in 2013. It later dipped to 871,000 in 2014 but has been improving once again since 2016. From 2014, the company has been opening QB House Premium salons that offer haircutting and styling services.

Number of stores and customers in Singapore

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
No. of salons	2	8	14	19	24	25	29	31	32	32	32	35	35	36
YoY	-	-	75.0%	35.7%	26.3%	4.2%	16.0%	6.9%	3.2%	0.0%	0.0%	9.4%	0.0%	2.9%
Customer count ('000)	-	195	432	534	663	796	888	972	977	871	858	878	916	970
YoY	-	-	121.5%	23.6%	24.2%	20.1%	11.6%	9.5%	0.5%	-10.8%	-1.5%	2.3%	4.3%	5.9%
Customer count per salon ('000)	-	39	39	32	31	32	33	32	31	27	27	26	26	27

Source: Shared Research based on company data

Note: The number of customers per salon is calculated by finding the average between the quotients obtained when dividing the number of customers by the number of salons at both the beginning and end of the fiscal year.

Comparison of QB House and QB House Premium salons

	QB House	QB House Premium
Interior	Typical of haircut-only salons	Typical of conventional salons
Service	Haircuts only	Haircuts and styling
Time spent	About 10 minutes	15 to 20 minutes
Payment method	Ticket vending machine (payment before service)	Cash register (payment after service)
Price	SGD12	SGD15

Overseas salons: Hong Kong

The company has more salons in Hong Kong than anywhere else overseas, with a total of 57 (56 QB House, one QB Premium) operated as of end-FY06/18.

QB House salons offer haircuts for HKD60 (approx. JPY846), while QB Premium salons offer services for HKD100 (approx. JPY1,410 [calculated based on a foreign exchange rate of JPY14.1/HKD, the closing rate at end-March, 2019]). According to the company, customers in Hong Kong tend to be very time-conscious, and they have come to favor how the haircuts are completed in 10 minutes sharp. The salons in Hong Kong enjoy a large number of customers per salon. Out of all QB House salons, about 20 of the top 30, in terms of customers per seat, are located in Hong Kong.

In February 2005, the company established local subsidiary QB House (Hong Kong) Limited and opened its first salon in Hong Kong. Thereafter, it opened new salons at a rate of five salons per year, on a net basis. Until 2014, the number of customers in Hong Kong increased at a double-digit annual rate, supported by increases in both the number of salons and the number of customers per salon. The company then raised prices by 20%, from HKD50 to HKD60, in July 2014. However, since 2015, the rate of increase in the number of customers per salon has abated, but expansion is still in the high-single digits to double digits. From 2018, the company has operated QB Premium salons that offer both haircut and styling services.

Number of stores and customers in Hong Kong

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
No. of salons	2	3	9	14	20	26	29	37	40	44	50	54	57	57
YoY	-	-	200.0%	55.6%	42.9%	30.0%	11.5%	27.6%	8.1%	10.0%	13.6%	8.0%	5.6%	0.0%
Customer count ('000)	-	45	191	255	369	553	712	960	1,255	1,469	1,543	1,680	1,889	2,047
YoY	-	-	324.4%	33.5%	44.7%	49.9%	28.8%	34.8%	30.7%	17.1%	5.0%	8.9%	12.4%	8.4%
Customer count per salon ('000)	-	18	32	22	22	24	26	29	33	35	33	32	34	36

Source: Shared Research based on company data

Note: The number of customers per salon is calculated by finding the average between the quotients obtained when dividing the number of customers by the number of salons at both the beginning and end of the fiscal year.

Overseas salons: Taiwan

As of end-FY06/18, the company operated 24 QB House salons in Taiwan.

QB House salons in Taiwan offer haircuts for CNY300 (approx. JPY1,077 [calculated based on a foreign exchange rate of JPY3.59/CNY, the closing rate at end-March, 2019]). According to the company, haircuts are offered for CNY100 (approx. JPY359) by a competitor, but QB House differentiates itself through superior Japanese-style cutting ability and services that include styling with hair products, which customers appreciate.

The company entered the Taiwan market in February 2012, through the establishment of local subsidiary QB House (Taiwan) Limited, and opened its first salon in Taiwan in May 2012. Thereafter, it has opened salons at a rate of about five salons per year on a net basis. Although the number of customers has growth in tandem with the number of salons, the number of customers per salon is roughly 16,000, or less than half of the number of customers per salon in Hong Kong, and the company is working to boost productivity.

Number of stores and customers in Taiwan

	2012	2013	2014	2015	2016	2017	2018
No. of salons	1	5	9	14	19	24	24
YoY	-	400.0%	80.0%	55.6%	35.7%	26.3%	0.0%
Customer count ('000)	2	49	106	183	252	312	394
YoY	-	-	116.3%	72.6%	37.7%	23.8%	26.3%
Customer count per salon ('000)	-	16	15	16	15	15	16

Source: Shared Research based on company data

Note: The number of customers per salon is calculated by finding the average between the quotients obtained when dividing the number of customers by the number of salons at both the beginning and end of the fiscal year.

Overseas salons: United States

As of end-FY06/18, the company operated two QB House salons in New York.

In New York, QB House salons offer a haircut and styling service that is completed in about 10 minutes for USD20 (approx. JPY2,200 [calculated based on a foreign exchange rate of JPY110.8/USD, the closing rate at end-March, 2019]). Payments are made at a cash register. The price is set to reflect local price levels. QB House differentiates itself in the US market through the quick services and advanced skills of stylists.

The company opened its first salon in the US in June 2017, followed by the second salon in FY06/18.

Earnings structure

Revenue

Number of salons and customers

	FY06/16	FY06/17	FY06/18
All salons	623	659	671
YoY	6.0%	5.8%	1.8%
Domestic (directly managed salons and franchisees)	515	542	552
YoY	4.7%	5.2%	1.8%
QB House	508	532	541
YoY	4.5%	4.7%	1.7%
Net increase	22	24	9
New salons			23
Closures			14
FaSS (all are directly managed)	7	10	11
YoY	16.7%	42.9%	10.0%
Net increase	1	3	1
New salons	1	3	1
Closures			-
Domestic (directly managed salons and franchisees)	515	542	552
YoY	4.7%	5.2%	1.8%
Domestic directly managed		460	474
YoY			3.0%
Net increase			14
New salons			24
Closures			10
Franchisees		82	78
YoY			-4.9%
Overseas (all are directly managed)	108	117	119
YoY	12.5%	8.3%	1.7%
Net increase	12	9	2
New salons			9
Closures			7
Customer count (mn)	18.8	20.1	21.3
YoY	5.8%	7.3%	5.9%
Domestic (directly managed salons and franchisees)	16.0	17.0	17.9
YoY	5.3%	6.7%	5.2%
Customer count per salon ('000)	31.7	32.2	32.7
YoY	1.6%	1.6%	1.6%
Overseas	2.8	3.1	3.4
YoY	8.7%	10.9%	10.1%
Customer count per salon ('000)	27.5	27.7	29.1
YoY	-3.5%	0.6%	5.0%

Source: Shared Research based on company data

Breakdown of revenue

	FY06/16	FY06/17	FY06/18
(JPYmn)	IFRS	IFRS	IFRS
Revenue	16,675	17,971	19,287
YoY	-	7.8%	7.3%
Directly managed salons	15,804	17,108	18,464
YoY		8.3%	7.9%
Revenue per salon		29.6	31.6
Other (mainly royalties from franchisees)	871	862	822
YoY		-1.1%	-4.6%
Revenue per salon		10.5	10.3
Revenue	16,675	17,971	19,287
YoY	-	7.8%	7.3%
Domestic	14,046	15,216	16,159
YoY		8.3%	6.2%
Domestic directly managed	13,174	14,353	15,337
YoY		8.9%	6.9%
Revenue per salon		31.2	32.8
YoY			5.3%
Customer spend (JPY)		969	1,004
YoY			3.6%
Domestic other	871	863	822
Overseas	2,630	2,755	3,127
YoY		4.8%	13.5%
Revenue per salon	25.8	24.5	26.5
Customer spend (JPY)	936	884	911
YoY		-5.5%	3.1%

Source: Shared Research based on company data

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

Revenue is broken down to revenue of directly managed salons and other revenue (details disclosed in the annual and quarterly securities reports). Royalty revenue and outsourcing revenue account for the majority of the rest of revenue. Royalty revenue refers to the royalties received from franchisees. Outsourcing revenue is the compensation received from franchisees for outsourced labor/service from QB Net (booked as expenses by directly-managed franchise salons). In FY06/18, revenue of directly managed salons was JPY18.5bn (+7.9% YoY; 95.7% of total revenue), while other revenue totaled JPY822mn (-4.6% YoY; 4.3%).

The company also discloses revenue broken down by domestic and overseas revenue (disclosed only in the annual securities report). We understand that domestic revenue minus other revenue (outsourcing revenue, royalty revenue, and other revenue) equals domestic revenue of directly managed salons, while overseas revenue is equal to overseas revenue of directly managed salons because all overseas salons are directly managed. Based on this assumption, in FY06/18, domestic revenue of directly managed salons totaled JPY15.3bn (+6.9% YoY), while overseas revenue was JPY3.1bn (+13.5% YoY).

Key factors affecting revenue of directly managed salons (95.7% of total revenue in FY06/18)

Revenue of directly managed salons can be derived from the simple product of the number of customers at directly managed salons and the unit price per customer. The company discloses the number of customers in Japan, and the number of customers by each overseas region (changes are disclosed on the company website). Below, we will go over the key factors affecting the number of customers and unit price per customer along with recent trends.

Number of customers

The number of customers is the simple product of the number of customers per salon and the total number of salons. While the number of customers mainly rises along with the number of salons, the number of customers per salon has also been on a moderate uptrend, meaning that the number of customers is increasing faster than the number of salons.

In FY06/18, the total number of customers in Japan was 17.9mn (+5.2% YoY) and the number of customers overseas was 3.4mn (+10.1% YoY). We calculate the number of customers per salon* in Japan and overseas by dividing these numbers by the total number of salons in FY06/18 (552; versus 542 in FY06/17) in Japan and overseas (119; versus 117), and arrive at 327,000 (+1.6% YoY) in Japan and 291,000 (+5.0% YoY) overseas.

*We calculate the number of customers per salon by dividing the total number of customers by the average of the number of salons at the beginning and end of the fiscal year.

The company does not disclose the number of customers in Japan broken down by directly managed and franchise salons. Therefore, we cannot calculate the precise number of customers by salon format in Japan. However, Shared Research estimates the number of directly managed store customers in Japan to be 15.3mn and arrived at this figure by multiplying the total number of customers for all stores in Japan with the number of directly managed stores in Japan (474; versus 460 in FY06/18).

Number of customers at existing salons

Annual sales at the company's existing salons have never failed to show YoY thus far. We understand that restaurants and retailers usually conduct store opening sales and place advertisements to attract customers when opening new stores. As a result, new stores typically get a boost in customers. However, after the effects of opening sales wear off, comparable-store sales often trend downward. In contrast, according to the company, the company's salons tend to gain growing awareness among nearby residents and commuters to work or school, and the number of customers typically trend upward for about three or four years after the salon opens. Afterward, growth in customer numbers relaxes for a period of time and then trends sideways.

Additionally, the company secures a steady flow of repeat customers (90% or more) and a stable number of customers at existing salons that have been open for more than three or four years. It mainly does so by monitoring the evaluated results of customer satisfaction surveys conducted by an external party at all of its salons in Japan on an ongoing basis. The company then provides the survey results to all staff at each salon for use as a common performance indicator and to enhance the quality of service.

Through these measures, the company works to raise the level of customer satisfaction and build a highly loyal customer base that frequently visits the salons.

Number of customers at existing salons in Japan

(%)	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18
Domestic comparable-store customer count	-	-	-	-	101.6	104.3	102.9	
Domestic comparable-store sales								102.6

Source: Shared Research based on company data

Results of customer satisfaction survey

(points)	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18
Revisit intentions	79.3	80.8	82.8	84.6	84.6	85.7	86.9	87.1

Source: Shared Research based on company data

Note: Based on "mystery shopper" survey by third party. Numbers represent average for all salons nationwide. Scored on a scale of 100 (100 = will definitely return; 80 = would like to return; 40 = will probably not return; 20 = will definitely not return).

(Reference) Maximum number of customers per salon and salon operation rate: The number of customers per salon can also be calculated by multiplying the maximum number of customers per salon with the salon operation rate. This approach is useful in understanding the changes in salon operation rates as a reference. First, the maximum number of customers per salon can be calculated from multiplying the number of seats per salon, the time spent on services per customer, the salon business hours, and the number of operating days per year. Although each element would vary depending on the salon and work speed of stylists, for the sake of convenience, we assume that the average number of seats per salon is three, the time spent on service per customer is roughly 15 minutes, the business hours are between 10:00 a.m. and 8:00 p.m. (an average of 10 hours per day), and the salons are operated 364 days per year (closed on New Year's day). Calculated based on these assumptions, the maximum number of customers per salon is 43,700. Next, using the number of customers per salon in Japan described above and dividing that number with the maximum number of customers per salon would render a salon operation rate of 74.7% in Japan in FY06/18 (up 1.2pp from 73.5% in FY06/17), and a salon operation rate of 65.8% overseas (up 5.0pp from 60.8%).

Number of salons

As mentioned above, the number of customers is the simple product of the number of customers per salon and the total number of salons. Therefore, the number of salons is a key element affecting the total number of customers. Historical trends in the number of salons can be seen in the "Salon openings" section, and medium-term trends in salon openings can be viewed in the "Business trends" and "Medium-term outlook" sections.

Unit price per customer

As stated earlier, revenue is the simple product of the number of customers and the unit price per customer. The unit price per customer is JPY1,200 (excluding tax; JPY1,100 for seniors 65 and over, weekdays only) at QB House salons in Japan; JPY2,000 (excluding tax) at FaSS salons; JPY982 at QB House salons, JPY1,227 at QB House Premium salons, and JPY1,800 at QB House Kids salons in Singapore; JPY846 at QB House salons and JPY1,410 at QB PREMIUM salons in Hong Kong; JPY1,077 at QB House salons in Taiwan; and JPY2,200 at QB House salons in the US. The company basically offers a uniform level of service at a fixed price, so the unit price per customer only changes during price revisions. However, the average unit price per customer across all its salons is subject to fluctuation depending on the senior price at QB House in Japan, price at FaSS salons in Japan, differentials in price by overseas region, and the overall impact of foreign exchange rates.

Estimate of unit price per customer at directly managed salons

The company does not disclose the breakdown of the number of customers in Japan by salon format (directly managed or franchise). As a result, a precise unit price per customer at directly managed salons in Japan cannot be calculated. However, we can derive an estimated value by taking the revenue per directly managed salon and dividing that by the number of customers per salon in Japan, and use this as a reference to understand the changes in unit price per customer. For FY06/18, our estimated value for the unit price per customer at directly managed salons in Japan is JPY1,004 (+3.6% YoY). This value differs from the standard haircutting price of JPY1,080 (excluding tax) per customer in that it is only an estimate, it includes senior discounts (JPY1,000 including tax; JPY926 excluding tax), it includes revenue at FaSS salons (JPY2,000 per customer, excluding tax), and because revenue is booked exclusive of taxes. The unit price per customer overseas was JPY911 (+3.1% YoY).

The company increased prices at QB House salons in Japan in February 2019, raising the standard haircutting price from JPY1,080 to JPY1,200 and senior price (65 and over, weekdays only) from JPY1,000 to JPY1,100 (all including tax). We believe this price hike will be partially reflected in the unit price per customer in FY06/19, and fully reflected from FY06/20 onwards.

Expenses

Expenses and profits

(JPYmn)	FY06/16 IFRS	FY06/17 IFRS	FY06/18 IFRS
Revenue	16,675	17,971	19,287
YoY	-	7.8%	7.3%
Cost of revenue	12,901	14,005	15,039
Cost ratio	77.4%	77.9%	78.0%
Gross profit	3,773	3,966	4,248
YoY	-	5.1%	7.1%
GPM	22.6%	22.1%	22.0%
Other operating income	21	15	23
SG&A expenses	2,306	2,413	2,577
YoY	-	4.6%	6.8%
SG&A ratio	13.8%	13.4%	13.4%
Personnel expenses	1,016	1,071	1,341
% of revenue	6.1%	6.0%	7.0%
Advertising expenses	263	267	246
Commission fees	161	166	258
Hiring expenses	130	206	182
Rents	104	108	116
Depreciation and amortization	50	38	40
Other	580	555	390
Other operating expenses	71	65	53
Operating profit	1,416	1,502	1,641
YoY	-12.0%	6.1%	9.3%
OPM	8.5%	8.4%	8.5%
Pre-tax profit	822	1,418	1,560
YoY	-	72.4%	10.0%
Pre-tax profit margin	4.9%	7.9%	8.1%
Profit	566	1,023	1,041
YoY	-	80.8%	1.7%
Profit margin	3.4%	5.7%	5.4%

Source: Shared Research based on company data

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

Cost of revenue

Cost of revenue mainly breaks down to labor expenses (for employees at directly managed salons operated by consolidated subsidiaries and franchise salons operated by QB Net employees), outsourcing expenses (for directly managed/outsourced labor [DM/OL] salons), and rent expenses (for directly managed salons), with additional expenses arising from increases in the number of directly managed salons and wages. Over the three years between FY06/16 and FY06/18, the cost-to-revenue ratio has hovered around the 78% level.

The company has not disclosed the details of cost of revenue. However, it disclosed the details of cost of revenue at QB Net Co., Ltd. alone for FY06/16 in a securities filing when going public (i.e., before the trade name was changed to QB Net Holdings Co., Ltd. and the current QB Net Co., Ltd. was split off). In FY06/16, cost of revenue at QB Net alone was as follows:

▷ Cost of revenue: JPY10.9bn (77.4% of revenue)

- Personnel expenses equivalent (labor and outsourcing expenses): JPY7.5bn (68.5% of cost of revenue; 53.0% of revenue)
- Other expenses: JPY3.4bn (31.5%; 24.4%)
 - ✧ rent expenses: JPY1.9bn (17.6%; 13.6%)
 - ✧ depreciation expenses: JPY360mn (3.3%; 2.6%)
 - ✧ others: JPY1.1bn (10.6%; 8.2%)

Additionally, the company has disclosed personnel expenses contributing to cost of revenue (e.g., salary, legal welfare expenses) in its annual securities report since FY06/17. In FY06/18, it reported JPY6.7bn (+13.7% YoY) in personnel expenses contributing to cost of revenue.

Labor expenses (i.e., personnel expenses contributing to cost of revenue)

Personnel expenses contributing to cost of revenue include salary and social insurance expenses for full-time and part-time employees at DM/DL salons and franchise/DL salons (hereinafter “DL salons” [which are managed by QB Net employees]), excluding employees in the administrative department. These expenses can also be calculated by multiplying the personnel expenses per salon with the number of DL salons.

In-FY06/18, the company operated 421 DM/DL salons (vs. 395 at end-FY06/17) and 22 franchise salons (unchanged). Personnel expenses per salon (calculated by dividing aforementioned personnel expenses contributing to cost of revenue by the average between the number of DL salons at the beginning of the fiscal period and the number at the end of the period) were JPY15.8mn (+6.8% YoY). Personnel expenses per salon mainly fluctuate depending on personnel numbers, seat occupancy rate, and increases in base pay and salary. Personnel expenses overseas are also affected by changes in foreign exchange rates.

Weekly man-hours per salon, average annual salary of salon employee

The weekly man-hours per salon come to 210 hours when assuming that each salon has three seats, is operated for 10 hours per day, and is operated at full capacity. In reality, however, we estimate that the weekly man-hours per salon are adjusted to around 180 hours, because we subtract the idle time of stylists (i.e., when only two seats are used on weekdays) and take into account shorter business hours on holidays. We then distribute these man-hours to roughly 3–4 full-time employees per salon (i.e., 45 hours of work per employee [eight hours per day, five days per week, plus overtime]) and part-time employees.

According to the company, the average annual salary of salon employees is roughly JPY3.6–3.8mn.

Outsourcing expenses (for OL salons)

Outsourcing expenses are paid for directly managed/outsourced labor (DM/OL) salons, in which the salon is set up by the company but operated by an external party (area manager) who possesses a barber or beautician certificate. As of end-FY06/18, out of 474 DM salons in Japan (vs. 460 as of end-FY06/17), 172 salons (vs. 182) were OL salons.

Outsourcing expenses contributing to cost of revenue include outsourcing fees at DM/OL salons, which are monthly payments amounting to 52% of salon sales made to the area manager who manages the DM/OL salon. Although the company has not disclosed its outsourcing expenses since FY06/16, we can derive an estimated value of outsourcing expenses per salon if we assume that revenue at DM/DL salons are on par with revenue at DM/OL salons. First, we would calculate sales per DM salon in Japan of JPY33mn by taking FY06/18 sales at DM salons in Japan of JPY15.3bn (+6.9% YoY) and dividing this by the average of the number of DM salons in Japan during FY06/18 of 474 (vs. 460 in FY06/17). Next, we multiply this value by the outsourcing expenses-to-sales ratio of 52% to arrive at an estimated value of outsourcing expenses per salon of around JPY17mn. Additionally, by multiplying this estimated value with the number of DM/OL salons, we estimate the total outsourcing expenses at around JPY3.0bn.

Outsourcing expenses fluctuate depending on revenue at DM/OL salons. However, the company’s policy is to open more DM/DL salons going forward. We therefore believe that the number of DM/OL salons will not increase, and the ratio of outsourcing expenses-to-revenue will trend downwards.

Other expenses

Other expenses include rent expenses, depreciation expenses, and other types of expenses at directly managed stores. Rent expenses at directly managed stores comprise over 50% of other expenses. In many cases, rent expenses are further divided into a fixed portion and a variable portion (incurred as a percentage of revenue). As such, an increase in revenue per salon would also lift the amount of rent expenses.

In FY06/18, we estimate that other expenses totaled around JPY5.3bn. We derive this value by taking cost of revenue of JPY15.0bn, from which we subtract personnel expenses of JPY6.7bn and our estimated value for outsourcing expenses of JPY3.0bn. By dividing JPY5.3bn by the number of directly managed stores, we arrive at an estimated value for other expenses per salon of JPY9mn.

SG&A expenses

SG&A expenses mainly include personnel expenses and other fixed expenses such as advertising costs, commission paid, and recruitment costs. The ratio of SG&A expenses-to-revenue has fluctuated around the 13% level over the past three years.

Personnel expenses

In FY06/18, personnel expenses comprised 52% of SG&A expenses at JPY1.3bn (+25.2% YoY). Personnel expenses contributing to SG&A expenses mainly consist of personnel expenses in the administrative department as well as those related to employees and trainers involved in training at LogiTHcut Professional Stylist Schools (the company's in-house training centers), and area managers. Upon joining the company, 50 employees undergo training at LogiTHcut Professional Stylist Schools for six months, and 100 each year, before they are assigned to salons. An expansion of LogiTHcut Professional Stylist Schools in the future would mean an increase in personnel expenses contributing to SG&A expenses.

Capex and depreciation expenses

The company rents store space. The upfront expenses paid to open a salon amount to roughly JPY20mn, which breaks down to about JPY15mn in salon equipment, JPY3mn in guarantee deposits, and JPY2mn in sales promotion. In FY06/18, the company opened 24 new salons in Japan and nine overseas. Capex (acquisition of tangible fixed assets) for nine new salons overseas amounted to JPY748mn (-24.1% YoY). Capex exceeds the value of equipment per salon multiplied by the number of new salons opened, because it also includes investment in salon renewal.

As of end-FY06/18, the amount of tangible fixed assets totaled JPY2,355mn (vs. JPY2,357mn as of end-FY06/17), intangible fixed assets JPY167mn (vs. JPY135mn), and depreciation expenses were PY748mn (+10.5% YoY) in FY06/18. The company kept capex within the combined total of net profit and depreciation expenses.

Strengths and weaknesses

Strengths

- Strong brand recognition thanks to its supremely large salon network and prime locations, as well as customer peace of mind stemming from a uniform quality of services at all its salons:** QB Net is a pioneer in the low-price haircut business, with the largest network (671 salons versus 277 for 3Q Cut, the second-largest), focuses on direct management (competitors use mainly franchises), and is the only listed haircut-only salon chain. Being a pioneer in the haircut-only salon business, it has established a monopolistic position for salon locations at major stations, and its large network has boosted its profile among consumers (in surveys of haircut-only salons, 46% of respondents had a haircut at QB House salon, vs 10% for the next most popular). Due to its focus on direct management, it is able to offer better standardized service quality than franchises and train employees thoroughly.
- Ongoing workflow efficiency and service improvements through analysis of salon data and mystery shopper surveys:** QB Net has developed its own salon management systems. The head office collects and analyzes daily data for each salon on sales and the number of customers based on the times of day customers visit; customer ages and genders, whether customers are new or returning; average cutting times; average waiting times; and seat utilization rates. It uses the data to make decisions concerning employee allocation, service standardization, efficiency measures, and salon opening plans. By improving employee efficiency and productivity and reflecting this in their pay, it is able to offer higher wages than the industry average. It also uses third-party organizations to conduct mystery shopping surveys, and checks customer satisfaction at all salons once every two months. Combining quantitative salon data and qualitative mystery shopping data, the company runs a plan-do-check-act (PDCA) cycle to discover and alleviate problems at an early stage and boost customer satisfaction. QB Net's score reflecting customer intention to return rose from 79.3 points in FY06/11 to 87.1 points in FY06/18 (based on mystery shopper survey conducted by third party. Numbers represent average for all salons in Japan. Scored on a scale of 100 (100 = will definitely return; 80 = would like to return; 40 = will probably not return; 20 = will definitely not return.))
- In-house training center expands pool of potential recruits to those with no experience:** QB Net opened its first in-house training center, LogiTHcut Professional Stylist School, in September 2012, and, as of March 2019, had five locations including Tokyo. LogiTHcut Professional Stylist School is the company's in-house facility and teaches those with no haircutting experience or employees that have been out of the haircutting business for some time how to cut hair and deal with customers. QB Net says even a complete beginner is ready to cut hair in its salons after six months under its unique training system and approach to haircutting. In contrast, typical salons make new employees study on their own for about two hours every day after closing time, and it takes about two years before they actually start cutting clients' hair. The opening of LogiTHcut Professional Stylist School has broadened the pool of potential recruits beyond experienced mid-career hairdressers looking for a new employer to include applicants with certificates but without prior experience and those with some experience but a long absence of practice. Shared Research thinks that LogiTHcut Professional Stylist School is a unique company strength. It enables bulk (around 100 persons) systematic employee training not available to competitors. According to the company, as of 2014, over 60% of the 1.9mn people holding hairdressing certificates had never worked in the industry. By broadening the employment criteria to those with no industry experience, the potential pool of recruits effectively doubles.

Weaknesses

- Limitations due to high debt level and financial covenants:** The company has substantial goodwill (JPY15.4bn as of end-FY06/18), resulting from a series of private-equity-driven changes of ownership. Each of those transactions involved leverage. As a result, interest-bearing debt was JPY12.0bn as of end-FY06/18. The company is required to pay back JPY700mn annually (JPY175mn every three months). It also has financial covenants covering areas such as net leverage ratio and debt service coverage ratio (see "Balance sheet" section). QB Net must conduct stringent cash management under these covenants. In FY06/18, it had profit attributable to shareholders of the parent of JPY1.0bn, depreciation of JPY748mn, capex of JPY859mn, and simple free cash flow of JPY590mn. It had outflows of JPY106mn for guarantee deposits, and JPY700mn to repay interest-bearing debt.

- One third of domestic directly managed salons operated by outsourced labor, an obstacle to service consistency:** QB Net’s network includes its own directly managed salons operated by its own staff and those managed by external area managers. In FY06/18, it had 172 salons (182 in FY06/17) managed directly but operated by outsourced labor (i.e., under outsourcing contract), which accounted for one third of directly managed salons and one fourth of the total. Those operated under contract by external area managers are holdovers from the early stages of the company as it worked to grow the salon network. It started focusing on directly managed/direct labor (DM/DL) salons from the late 2000s to standardize service quality. QB Net said it is providing guidance to area managers at outsourced labor salons to enable the same level of service as directly operated salons. However, it does not provide specific instructions on how to operate outsourced labor salons to individual area managers. Shared Research understands that some salons operated by outsourced labor reduce the number of seats to maximize the number of customers per stylist in order to maximize profits. This may prove an obstacle to QB Net’s attempts to improve service, such as standardizing haircut quality and reducing customer waiting time at all of its salons.
- Salon opening pace has slowed due to focus on direct management and direct labor performed by its own staff, who take time to recruit and train:** QB Net shifted the focus of its salon rollout strategy to directly managed/direct labor (DM/DL) salons using its own employees from the late 2000s. It has been able to improve training of its employees and standardize and enhance services as a result. However, it needs to recruit and train personnel in house and is not able to rely on network growth via franchises, which is the strategy often adopted by competitors. This limits the speed of its rollout. The company was building its network using franchised salons or outsourced labor salons operated by external employees, achieving annual net increases of about 50 salons in the early 2000s. However, this salon opening pace slowed to around 20 in the late 2000s, as the company model shifted to a focus on utilization and improving service quality and moved towards mainly DM/DL salons. It is targeting annual net increases of 40 salons in the medium term, and is expanding its potential recruit pool and developing personnel training systems through its LogiTHcut Professional Stylist Schools. However, personnel availability due to the need to hire and train employees is a limiting factor, and the living-related and personal services industry (including hairdressing) has a job- to-applicants ratio of 4.7x, higher than the 1.5x average for all categories. In FY06/18, the number of salons grew by only 1.8% YoY as a labor shortage constrained its salon openings.

Group company

As of end-June 2018, the group consisted of QB Net Holdings Co., Ltd. and six wholly owned, consolidated subsidiaries

Company	Business	Number of salons	Number of employees
QB Net Co., Ltd.	Haircutting business in Japan	QB House 541 FaSS 11	1,383 (1,315 salon employees)
QB Net International Holdings Pte. Ltd.	Headquarters for overseas subsidiaries	-	-
QB Net International Pte. Ltd.	Haircutting business in Singapore	QB House 27 QB House Premium 9	119
QB House (Hong Kong) Ltd.	Haircutting business in Hong Kong	QB House 56 QB House Premium 1	207
QB House Taiwan	Haircutting business in Taiwan	QB House 24	91
QB House USA Inc.	Haircutting business in USA	QB House 2	9

Market and value chain

Market overview

Hairdressing market

Hairdressing market size



(JPYbn)	2011	2012	2013	2014	2015	2016	2017	2018E	CAGR 2011-2017
Beauty and haircut markets	2,241.0	2,226.5	2,208.7	2,175.8	2,165.8	2,157.5	2,147.4	2,138.4	-0.7%
YoY	-	-0.6%	-0.8%	-1.5%	-0.5%	-0.4%	-0.5%	-0.4%	
Beauty market	1,565.0	1,557.5	1,548.7	1,528.5	1,522.0	1,516.7	1,510.3	1,504.9	-0.6%
YoY	-	-0.5%	-0.6%	-1.3%	-0.4%	-0.3%	-0.4%	-0.4%	
Haircut market	676.0	669.0	660.0	647.3	643.8	640.8	637.1	633.5	-1.0%
YoY	-	-1.0%	-1.3%	-1.9%	-0.5%	-0.5%	-0.6%	-0.6%	

Source: Shared Research based on Yano Research Institute data

- ▷ According to Yano Research Institute, in 2018 the hairdressing market was worth JPY2,138.4bn (-0.4% YoY), comprising the beauty salon market (JPY1,504.9bn, -0.4% YoY), and barbershop market (JPY633.5bn, -0.6% YoY).
- ▷ The hairdressing market has been on a downtrend from 2011 through 2017, at a CAGR of -0.7% overall: -0.6% for the beauty salon market and -1.0% for the barbershop market.
- ▷ The beauty salon market is polarizing into value-added salons and affordable salon chains with a limited service offering. It is on a moderate downtrend.
- ▷ The barbershop market is suffering from demand shifting to beauty salons in addition to shrinking barbershop numbers, the aging of its customer base, the lengthening of time between visits, and the emergence of affordable salon chains.
- ▷ In FY06/18, QB Net's sales of directly owned salons in Japan was JPY18.5bn, so it had a 0.9% share of the hairdressing market and a 2.9% share of the barbershop market. According to QB Net, the top 10 companies have roughly 5.0% of sales in the whole hairdressing market, and there are no signs of consolidation.

Population trends

Japan's population has been falling since the late 2000s. Shared Research thinks that the downtrend in the hairdressing market stems partly from population decline, but the market is shrinking faster than the population, so this is likely not the main cause.

Population trends

('000)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	CAGR (08-18)
total population	127,692	127,510	128,057	127,799	127,515	127,298	127,083	127,095	126,933	126,706	126,443	-0.10%
YoY	-0.1%	-0.1%	0.4%	-0.2%	-0.2%	-0.2%	-0.2%	0.0%	-0.1%	-0.2%	-0.2%	
total male	62,251	62,130	62,328	62,184	62,029	61,909	61,801	61,842	61,766	61,655	61,532	-0.12%
YoY	-0.1%	-0.2%	0.3%	-0.2%	-0.2%	-0.2%	-0.2%	0.1%	-0.1%	-0.2%	-0.2%	

Source: Shared Research Based on Ministry of Internal Affairs and Communications, Population Estimates by Age (Five-Year Cohorts), and Sex and Share of Total (as of October 1 each year).

Trends in annual hairdressing expenditure per household

Annual hairdressing expenditure per household

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Annual spending (JPY)	5,621	5,530	5,307	5,169	5,199	5,033	4,782	4,846	4,771	4,516
YoY	-0.6%	-1.6%	-4.0%	-2.6%	0.6%	-3.2%	-5.0%	1.3%	-1.5%	-5.3%
Number of visits	1.9	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.7
YoY	1.0%	-1.5%	-1.0%	-1.1%	0.5%	0.0%	-4.3%	-1.1%	0.0%	-2.8%
Spending per visit (JPY)	2,897	2,895	2,808	2,764	2,765	2,677	2,657	2,722	2,680	2,610
YoY	-1.6%	-0.1%	-3.0%	-1.6%	0.0%	-3.2%	-0.8%	2.5%	-1.5%	-2.6%

Source: Shared Research Based on Ministry of Internal Affairs and Communications Annual Household Expenditure: Annual Spending by Category per Household (All Households)

According to the household survey conducted by the Ministry of Internal Affairs and Communications, annual hairdressing expenditure and frequency of visits are on a downtrend. In addition to falling frequency, the amount spent per visit is declining. Shared Research thinks that falling spending per visit is a more significant factor in the decline of the hairdressing market than population decline.

Results of survey on hairdressing salon usage

Number of hairdressing salon visits per annum

Number of barbershop visits per year

(times)	1H FY2013	1H FY2014	1H FY2015	1H FY2016	1H FY2017	1H FY2018
Total male	7.28	6.52	5.88	5.70	5.81	5.95
YoY		-10.4%	-9.8%	-3.1%	1.9%	2.4%
15-19 years old		-	-	4.33	4.53	4.02
20s		5.91	4.58	4.45	4.07	4.42
30s		6.07	5.51	4.05	5.12	4.95
40s		6.26	5.93	5.95	6.04	6.07
50s		6.90	6.09	6.63	6.15	6.41
60s		7.27	6.54	6.47	6.70	6.99
70s		-	-	8.17	8.06	7.50

Source: Shared Research based on Recruit Lifestyle materials

- ▷ According to hair clinic company Reve21, hair grows by about 1 cm per month.
- ▷ According to Recruit Lifestyle, men visit a barbershop about six times a year, or once every two months. This is different from the household survey results shown above, but Shared Research thinks that the Recruit Lifestyle survey is closer to the truth.
- ▷ It is clear that the frequency of visits to a barbershop increases with age.

Spending at barber

Amount spent per visit to barbershop

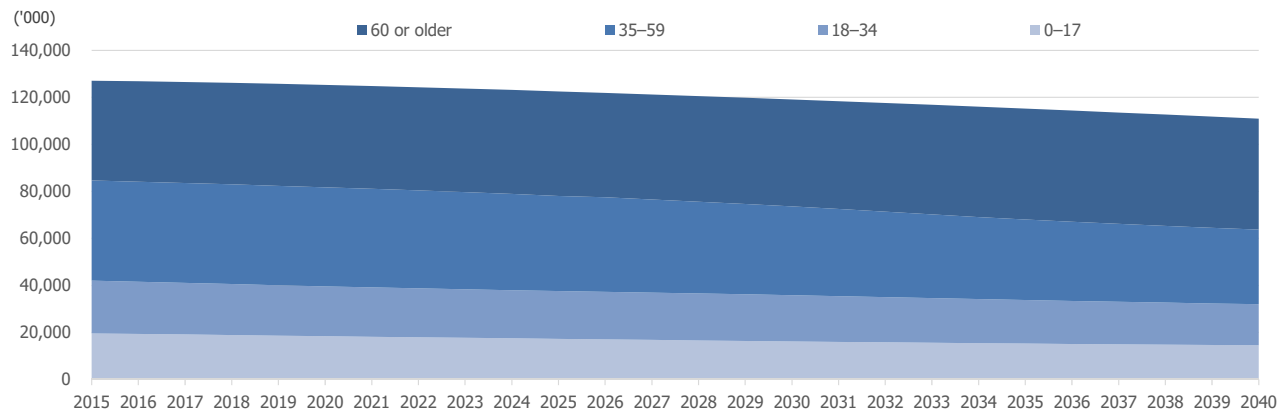
(JPY)	1H FY2013	1H FY2014	1H FY2015	1H FY2016	1H FY2017	1H FY2018
Total male	2,597	2,359	2,475	2,565	2,508	2,539
YoY		-9.2%	4.9%	3.6%	-2.2%	1.2%
15-19 years old	-	-	-	2,174	2,249	2,311
20s	2,460	2,466	2,418	2,306	3,155	2,653
30s	2,586	2,486	2,598	2,699	2,313	2,631
40s	2,595	2,297	2,091	2,441	2,240	2,482
50s	2,690	2,216	2,637	2,701	2,633	2,509
60s	2,572	2,508	2,590	2,671	2,462	2,562
70s	-	-	-	2,738	2,605	2,389

Source: Shared Research based on Recruit Lifestyle materials

- ▷ The amount spent per visit to a barbershop is JPY2, 539, and in a long-term downtrend. This trend is closely in line with the results of the household survey.

Future population estimates (slower pace of decline for those aged 35 or older)

Population projections for Japan ('000)



Source: Shared Research based on National Institute of Population and Social Security Research (Population Projections for Japan 2017)

Note: Population estimates for four age cohorts: 0–17, 18–34, 35–59, 60 and over. Structure coefficients using medium fertility and medium mortality assumptions

('000)	2015	2020	2025	2030	2035	2040	2015–2040	
							Rate of change	CAGR
Total population	127,095	125,325	122,544	119,125	115,216	110,919	-12.7%	-0.5%
0–17	19,568	18,374	17,270	16,166	15,245	14,504	-25.9%	-1.2%
18–34	22,451	21,224	20,347	19,657	18,562	17,489	-22.1%	-1.0%
35–59	42,655	42,116	40,437	37,778	34,237	31,739	-25.6%	-1.2%
60 or older	42,420	43,611	44,489	45,524	47,172	47,186	11.2%	0.4%

- ▷ According to the Population Projections for Japan (2017) from the National Institute of Population and Social Security Research, Japan's population will shrink by roughly 16mn or 13% from 2015 through 2040. During this time frame, the population of those aged up to 59 will decline by 20–30%, but those over 60 will increase by 11%.
- ▷ The fashion-conscious 18–34 demographic will decline by 22% from 2015 to 2040. Turning to the target demographics of QB House, while the population of those aged 35–59 will decline by 26%, the population of those aged 35 or older will shrink by just 7% due to the growing population of those aged 60 or over.

Barbers and beauticians

Definition

Barbers cut hair. Beauticians cut, color, set, shampoo, blow dry, and perm hair. The qualifications for barbers and beauticians in Japan differ somewhat. Barbers have ability to shave beards but beauticians do not. Beauticians are able to give their clients a perm but barbers are not.

Difference between barbers and beauticians

	Barbers	Hairdressers
Haircut and perms	Yes	Yes
Face shaving	Yes	No (okay if related to make up)
Hair setting	No	Yes
Makeup	No	Yes

Barber and beautician numbers

Barber and beautician numbers

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of beauticians and barbers	688,611	697,015	694,474	711,178	717,595	721,680	727,750	732,127	732,885	744,640
YoY	0.9%	1.2%	-0.4%	2.4%	0.9%	0.6%	0.8%	0.6%	0.1%	1.6%
% of total licensed registrants	39.7%	39.7%	39.1%	39.6%	39.5%	39.3%	39.2%	39.0%	38.6%	38.8%
Beauticians	443,944	453,371	456,872	471,161	479,509	487,636	496,697	504,698	509,279	523,543
YoY	2.0%	2.1%	0.8%	3.1%	1.8%	1.7%	1.9%	1.6%	0.9%	2.8%
% of total licensed registrants	38.8%	38.9%	38.6%	39.2%	39.3%	39.4%	39.5%	39.6%	39.4%	39.9%
Barbers	244,667	243,644	237,602	240,017	238,086	234,044	231,053	227,429	223,606	221,097
YoY	-0.9%	-0.4%	-2.5%	1.0%	-0.8%	-1.7%	-1.3%	-1.6%	-1.7%	-1.1%
% of total licensed registrants	41.5%	41.2%	40.0%	40.3%	39.9%	39.2%	38.6%	37.9%	37.1%	36.6%

Source: Shared Research based on Ministry of Health, Labour and Welfare, Report on Public Health Administration and Services

According to the Report on Public Health Administration and Services from the Ministry of Health, Labour and Welfare (MHLW), there were 745,000 barbers and beauticians (+1.6% YoY). Numbers continue to grow by the number of those who graduate from hairdressing school and pass the national examinations.

Becoming a barber or beautician

Number of licensed barbers and beauticians and newly registered

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Licensed beauticians and barbers registered	1,733,565	1,757,908	1,777,799	1,797,111	1,816,198	1,835,834	1,855,692	1,876,308	1,896,394	1,917,259
Net increase	25,744	24,343	19,891	19,312	19,087	19,636	19,858	20,616	20,086	20,865
New registrants	25,786	24,375	19,928	19,349	19,123	19,651	19,914	20,616	20,086	20,865
Total licensed beauticians	1,143,427	1,165,952	1,184,412	1,202,256	1,219,865	1,238,028	1,256,444	1,275,449	1,294,094	1,313,496
Net increase	23,784	22,525	18,460	17,844	17,609	18,163	18,416	19,005	18,645	19,402
Successful applicants	23,690	20,059	18,747	18,831	17,312	18,890	19,754			
New registrants	23,795	22,531	18,468	17,855	17,623	18,173	18,428	19,005	18,645	19,402
Total licensed barbers	590,138	591,956	593,387	594,855	596,333	597,806	599,248	600,859	602,300	603,763
Net increase	1,960	1,818	1,431	1,468	1,478	1,473	1,442	1,611	1,441	1,463
Successful applicants	1,896	1,610	1,490	1,687	1,403	1,514	1,656			
New registrants	1,991	1,844	1,460	1,494	1,500	1,478	1,486	1,611	1,441	1,463

Source: Shared Research based on Ministry of Health, Labour and Welfare, Report on Public Health Administration and Services and Japan Barber and Beautician Examination Training Center materials

Note: Cumulative figures for licensed barbers and beauticians exclude those who have issued a business closure notice

Becoming a barber or beautician requires obtaining certificates after taking a national exam. Examinations consisting of a knowledge test and practical exam take place twice yearly. Those who have done the necessary study and learned the appropriate skills at training facilities for barbers and beauticians designated by the Ministry of Health, Labour and Welfare are eligible for these examinations. Daytime and nighttime courses take two years, and correspondence courses take over three years. In 2017, there were 21,000 newly registered barbers and beauticians.

Average annual salary for barbers and beauticians

Average annual salary for barbers and beauticians (including annual bonus)

(JPY'000)	2010	2011	2012	2013	2014	2015	2016	2017	2018
Average salary: all industries	4,667	4,709	4,727	4,689	4,797	4,892	4,899	4,912	4,972
YoY	-0.8%	0.9%	0.4%	-0.8%	2.3%	2.0%	0.1%	0.3%	1.2%
Avg. salary: beauticians and barbers	2,671	2,676	2,727	2,797	2,627	2,855	2,877	2,958	3,023
YoY	-4.9%	0.2%	1.9%	2.6%	-6.1%	8.7%	0.8%	2.8%	2.2%

Source: Shared Research based on Ministry of Health, Labour and Welfare's Basic Survey on Wage Structure

According to the 2018 Basic Survey on Wage Structure, the average salary for barbers and beauticians, including annual bonuses, was JPY3.02mn. Although this is trending upward, it remains lower than the average for all industries.

Job-to-applicants ratio for barbers and beauticians

Job-to-applicants ratio (permanent including part time)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
All occupations	0.44	0.48	0.59	0.72	0.83	0.97	1.08	1.22	1.35	1.45
Life and hygiene services	1.82	1.65	1.54	1.90	2.15	2.47	2.90	3.53	4.04	4.52

Source: Ministry of Health, Labour and Welfare General Survey on Working Conditions (Labor Market Related Indicators by Occupation)

According to the MHLW General Survey on Working Conditions, the job-to-applicants ratio for life and hygiene services was above that for the overall industry total, at 4.52x versus 1.45x in 2018.

Occupations in the life and hygiene services industry include barbers, beauticians, beauty services, bath attendants, cleaners, and other life and hygiene services. According to the 2015 Census, there were 790,000 workers employed in the life and hygiene services industry, including 168,000 barbers and 350,000 beauticians, so those engaged in hairdressing accounted for roughly 70% of the total.

Barber and beautician employee turnover

Hiring and separation rates

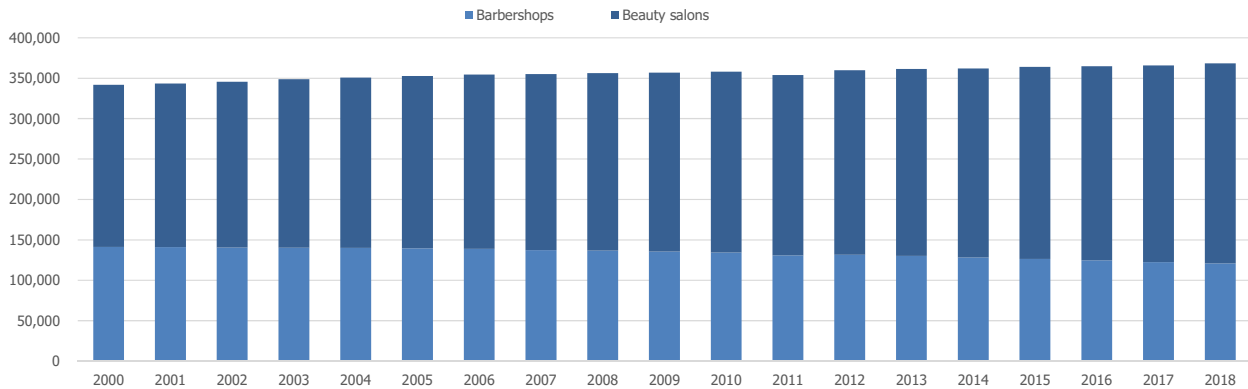
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
All industries: hiring rate	14.2%	15.5%	14.3%	14.2%	14.8%	16.3%	17.3%	16.3%	15.8%	16.0%
All industries: separation rate	14.6%	16.4%	14.5%	14.4%	14.8%	15.6%	15.5%	15.0%	15.0%	14.9%
Living-related and personal services, and amusement services: hiring rate	-	29.1%	20.4%	19.2%	21.2%	24.9%	28.0%	25.6%	24.1%	21.4%
Living-related and personal services, and amusement services: separation rate	-	28.2%	22.2%	22.8%	21.3%	23.7%	22.9%	21.5%	20.3%	22.1%

Source: Shared Research based on MHLW Survey on Employment Trends

According to the MHLW Survey of Employment Trends, hiring and separation rates in the living-related and personal services and amusement services industry, which includes hairdressers, were above those for all industries.

Main competitors

Competitors: number of barbershops and beauty salons



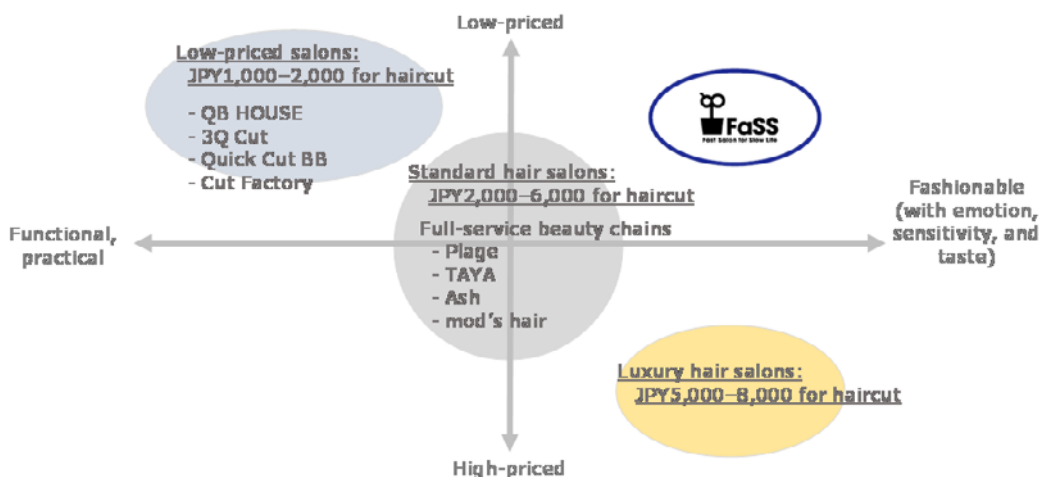
	1990	1995	2000	2005	2010	2015	2018
Beauty salons and barbershops	329,974	334,826	342,003	352,861	358,197	364,071	368,543
5-year CAGR	-	0.3%	0.4%	0.6%	0.3%	0.3%	0.6%
Beauty salons	185,452	192,111	200,682	213,313	223,645	237,525	247,578
5-year CAGR	-	0.7%	0.9%	1.2%	1.0%	1.2%	1.4%
Barbershops	144,522	142,715	141,321	139,548	134,552	126,546	120,965
5-year CAGR	-	-0.3%	-0.2%	-0.3%	-0.7%	-1.2%	-1.5%

Source: Shared Research based on Ministry of Health, Labour and Welfare, Report on Public Health Administration and Services

- ▷ According to the MHLW's Report on Public Health Administration and Services, as of March 2018, there were 368,000 barbershops and beauty salons (+0.7% YoY), around 7x the number of convenience stores.
- ▷ The number of barbershops and beauty salons continues to grow moderately despite overall market decline. Beauty salons are increasing while barbershops are declining.
- ▷ 94.3% of barbershops and beauty salons are run by individuals and 5.5% by companies. Based on market data above, sales per establishment are JPY5.8mn (-1.2% YoY).

Competitor position

Positioning within hairdressing industry



Source: Shared Research based on the company data

QB House counts as a low-price hairdressing salon.

Competitors: comparison with competitors

Overview of competitors (low-priced hairdressing salons)

	Establishment	Services	Salon numbers		
QB HOUSE (QB Net Holdings)	1995	Haircut specialist: JPY1,200	552 (in Japan)	Mainly directly managed/direct labor salons	Tokyo origin Expanding overseas Listed company
Cut-A (Cut Twin)	1964	Full hairdressing services through Riyo (barbershop) Cut-A and Biyo (beauty salon) Cut-A	330	Mainly franchises	
11 Cut (MYK)	2000	One minute consultation, 10 minute cuts: JPY1,500	187	Directly managed salons and franchises	
Quick Cut BB (SHOGUN JAPAN)	1996	Haircut specialist: JPY1,200	140	Mainly franchises	Hokkaido based
Cut Factory (Japan Produce Service. Inc)	2000	Haircut specialist: JPY1,000	154	Mainly franchises	Northern Kanto based
3Q Cut (Sun Quest)	2001	Haircut specialist: JPY1,200	276	Mainly franchises	Kyushu based

Source: Shared Research based on companies' data

Among the low-priced hairdressing salons, QB House stands out for its early establishment, large number of salons, focus on directly managed salons, status as a listed company, and overseas expansion.

Cut Twin (not listed)

Established in 1964. 1,300 employees and 330 salons (as of December 2017). Offers full hairdressing services at reasonable prices through mainly franchises.

MYK (not listed)

Established in 2000. Operates chain of 187 (109 directly managed, 78 franchises, as of January 2019) salons under the 11 Cut brand. These salons offer one minute consultations and 10 minute haircuts for JPY1,500 (excluding tax).

SHOGUN JAPAN (not listed)

Established in 1996. 140 salons nationwide, mainly in Hokkaido, offering 15-minute haircuts through Quick Cut BB for JPY1,200 (including tax). Has other barbershop, beauty salon, nail salon, and restaurant operations. Mainly franchises.

Japan Produce Service. Inc (not listed)

Established in 2000. Specializing in JPY1,000 haircuts offered by Cut Factory. Mainly franchises.

Sun Quest Co., Ltd. (not listed)

Launched first salon in Kumamoto in 2001.

Haircutting specialist offering haircuts in about 10 minutes for JPY1,200 (including tax) with 276 salons under the 3Q Cut brand. Mainly franchises.

Survey on reasons for using salons offering haircuts under JPY1,500

Market research company ASMARQ conducted a survey regarding which low-price hairdressing salons offering haircuts under JPY1,500 people had used and why (sample: 300 men and women aged 20–69 who had visited a hairdresser charging less than JPY1,500 in the past year). Responses other than price are shown below:

- ▷ 46.3% answered that they had a haircut at QB House (multiple responses permitted). 10.0% named Cut Factory, 9.7% Family Cut 1000, and 42.3% others.

- ▷ Reasons for using salons offering haircuts below JPY1,500 other than price (multiple responses permitted) included speed, 64.3%; price only, 48.7%; and location, 32.0%

Comprehensive hairdressing chains

The largest of the hairdressing chains is Hannan Ribiyu which runs a nationwide network of salons under the Plage brand. Listed companies include ARTE Salon Holdings, Inc. (TSE JASDAQ Standard: 2406) and TAYA Co., Ltd. (TSE1: 4679). Judging from the performance of listed hairdressing salon chains, sales and profit growth is not high.

Hannan Ribiyu (not listed)

Founded in 1960, operates more than 700 of its own beauty and barbershops nationwide under the Plage brand.

Sales: JPY33.6bn (FY 2018), employees: 5,900.

ARTE Salon Holdings (TSE JASDAQ Standard: 2406)

Beauty salon holding company. Manages beauty salon franchise chains run through subsidiaries Ash Co., Ltd. (Ash), New York New York Co., Ltd. (NYNY), and Style Designer Co., Ltd. (SD). Ash operates in the Tokyo region and NYNY in Kansai. Using Ash and NYNY, the company has developed a separate system with chains running beauty salons as so-called “partnership salons” (PFCs). Under its system, the company hands over the reins of its salons to managers, and these salons then become independently run PFCs. The managers remain in charge of the existing employees and customer base. Ash and NYNY provide the PFCs with rental salon equipment, management guidance, the sale of private brand products, sales promotion support, and training, for which they are compensated.

ARTE Salon Holdings earnings

(JPYmn)	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18
	Act.	Act.	Act.	Act.	Act.
Salon count	265	285	286	295	309
Domestic	265	284	284	293	307
Ash	114	115	116	122	127
NYNY	31	31	31	32	34
SD	120	121	74	97	94
Chokipeta	8	11	19	27	41
DE	13	10	10	10	11
Overseas	-	1	2	2	2
Salon sales	16,866	17,039	17,085	17,488	18,003
YoY	-1.1%	1.0%	0.3%	2.4%	2.9%
Revenue	6,715	7,112	7,324	7,567	8,063
YoY	-2.1%	5.9%	3.0%	3.3%	6.6%
Gross profit	1,958	2,071	2,130	2,262	2,321
GPM	29.2%	29.1%	29.1%	29.9%	28.8%
SG&A expenses	1,681	1,775	1,761	1,739	1,819
SG&A ratio	25.0%	25.0%	24.0%	23.0%	22.6%
Operating profit	277	295	369	522	502
YoY	-35.0%	6.5%	25.1%	41.5%	-3.8%
OPM	4.1%	4.1%	5.0%	6.9%	6.2%

Source: Shared Research based on ARTE Salon Holdings, Inc. materials

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

TAYA (TSE1: 4679)

Has 126 salons across Japan under the brands TAYA, TAYA & CO. GINZA, Capelli Punto N.Y., Shampoo, and MICHEL DERVYN.

Amid an earnings slump, it is renovating and rebuilding existing salons.

TAYA earnings

(JPYmn)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
	Act.	Act.	Act.	Act.	Act.
Salon count	151	149	143	135	126
YoY	1.3%	-1.3%	-4.0%	-5.6%	-6.7%
No. of employees	1,545	1,579	1,543	1,424	1,276
YoY	-0.8%	2.2%	-2.3%	-7.7%	-10.4%
Revenue	11,931	11,763	11,843	11,401	10,545
YoY	-1.0%	-1.4%	0.7%	-3.7%	-7.5%
Beauty treatment	10,601	10,382	10,428	10,067	9,393
YoY	-1.3%	-2.1%	0.4%	-3.5%	-6.7%
Merchandise	1,286	1,338	1,377	1,299	1,118
YoY	1.9%	4.0%	2.9%	-5.7%	-13.9%
Other	43	42	37	35	34
YoY	-10.4%	-2.3%	-11.9%	-5.4%	-2.9%
Cost of revenue	10,605	10,678	10,571	9,960	9,226
Cost ratio	88.9%	90.8%	89.3%	87.4%	87.5%
Beauty treatment	9,941	10,043	9,923	9,340	8,690
Cost ratio	93.8%	96.7%	95.2%	92.8%	92.5%
Merchandise	641	612	630	602	519
Cost ratio	49.8%	45.7%	45.8%	46.3%	46.4%
Other	22	22	18	17	16
Cost ratio	51.2%	52.4%	48.6%	48.6%	47.1%
Gross profit	1,326	1,084	1,272	1,441	1,319
GPM	11.1%	9.2%	10.7%	12.6%	12.5%
SG&A expenses	1,477	1,505	1,503	1,412	1,366
SG&A ratio	12.4%	12.8%	12.7%	12.4%	13.0%
Operating profit	-150	-421	-231	28	-46
YoY	-	-	-	-	-
OPM	-	-	-	0.2%	-

Source: Shared Research based on TAYA Co., Ltd. materials

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

Historical performance and financial statements

Cumulative Q3 FY06/19 results

▷ Revenue:	JPY15.2bn (+7.0% YoY)
▷ Operating profit:	JPY1.3bn (+17.4% YoY)
▷ Pre-tax profit:	JPY1.3bn (+18.9% YoY)
▷ Profit attributable to owners of the parent:	JPY834mn (+12.2% YoY)

Overview of cumulative Q3 FY06/19 results

Revenue grew YoY as domestic comparable-store sales trended at levels above the previous year's as the company continued its salon rollout in Japan and overseas, and price hikes came into effect in February 2019.

Gross profit was JPY3.4bn (+10.4% YoY) and GPM was 22.1% (+0.7pp YoY). Profit increased and margins widened as growth in revenue more than compensated for increased rents and other salon costs accompanying network growth and higher personnel costs for salon staff. The headcount expanded as salon worker turnover dropped and hiring was strong following the company's March 2018 listing on the stock market.

SG&A expenses increased YoY on higher head office personnel expenses due to a strengthening of headquarters capabilities and increased costs associated with the stock listing, including shareholders' meeting costs.

Progress vs full-year FY06/19 forecasts

Progress versus full-year FY06/19 forecasts was 74.5% for revenue (73.7% of full-year FY06/18 result as of end-Q3 FY06/18), 68.8% for operating profit (67.8%), 68.7% for pre-tax profit (67.4%), and 68.0% for profit attributable to owners of the parent (71.4%). In Q1 (Jul–Sep) and Q4 (Apr–Jun), quarterly revenue and gross profit tend to be higher than in Q2 (Oct–Dec) and Q3 (Jan–Mar). Cumulative Q3 results tend to be less than 75% of full-year company forecasts as a result. Other than profit attributable to owners of the parent, cumulative Q3 progress rates were better than those in Q3 FY06/18.

In February 2019, the company raised prices in Japan from JPY1,080 (including tax) to JPY1,200 (including tax) for regular customers and from JPY1,000 (including tax) to JPY1,100 (including tax) for seniors (65 and over, weekdays only). In its full-year forecasts, the company had assumed that the price hikes would result in about a 6.0% drop in customer count, but in Q3 (January–March 2019), customer count was only down about 2% YoY. The company said it had expected a drop in senior customers due to price hikes, but the fall was less than expected, and outflow of customers to nearby competitors was also less than anticipated. The company conducts third-party customer satisfaction surveys covering all domestic salons. The impact of price hikes was smaller at salons with high customer satisfaction ratings and greater on those salons with lower ratings.

Q4 (Apr–Jun 2019) revenue and profit will benefit from a full three-month impact of the domestic price hikes. According to the company, it is using the price hikes to improve conditions for its employees, and Shared Research thinks that the company may make a one-time payment to its employees in Q4.

Salon openings and closings

- ▷ QB Net opened 35 salons (including relocations) and closed 14 for a net increase of 21:
 - 24 newly opened salons in Japan (22 QB House, two FaSS), and nine closures (all QB House) for a net increase of 15 (13 QB House, two FaSS). The company looks likely to fall short of its forecast of opening 31 salons in Japan for FY06/19 as it converts contracts for some outsourced labor salons suffering from personnel shortages to direct labor salon contracts.
 - 11 newly opened salons overseas (one in Singapore, seven in Hong Kong, two in Taiwan, and one in the US) and five closures (two in Singapore, three in Hong Kong), for a net increase of six (decrease of one in Singapore, and increases of four in Hong Kong, two in Taiwan, and one in the US).

- ▷ The company had 692 salons as of end-Q3: 567 in Japan (+19 YoY) and 125 overseas (+5 YoY).

Factors in revenue growth

Revenue was JPY15.2bn (+JPY991mn YoY), driven mainly by the following factors:

- ▷ Comparable stores: +JPY574mn YoY. Domestic comparable-store sales were up 4.3% YoY. Following the price hikes in February 2019, comparable-store sales were up 9.6% YoY in February 2019 and 9.9% YoY in March 2019. In Q3, when the hikes took place, comparable-store sales added JPY372mn.
- ▷ New salons: +JPY462mn YoY.
- ▷ The closure of salons, primarily five domestic franchises, had a negative impact of JPY45mn on revenue.

Factors in gross profit growth

Gross profit was JPY3.4bn (+JPY317mn YoY).

- ▷ Increased revenue added JPY991mn to gross profit.
- ▷ Higher personnel expenses were a JPY539mn drag on gross profit. Headcount increased following the March 2018 listing thanks to declining salon staff turnover rates and solid growth in new hires.
 - ▶ In cumulative Q3, full-time employee turnover rate was 8.1% (10.0% in cumulative Q3 FY06/18). The company strived to improve retention rates by relieving unease and dissatisfaction felt by employees through improvement of employee evaluation and feedback interviews.
 - ▶ In cumulative Q3, the company added 201 full-time employees in Japan (175 in cumulative Q3 FY06/18). As of end-March 2019, QB Net had 1,802 employees in Japan (+197 YoY): 1,432 full-time employees (+178 YoY) and 370 part-time (+19 YoY).
- ▷ Increased rental payments due to new salons and revenue growth were a JPY152mn drag on gross profit.
- ▷ Other running costs had a negative impact of JPY32mn.

Factors in SG&A expense growth

SG&A expenses were JPY2.1bn (+JPY146mn YoY).

- ▷ Personnel expenses for head office staff in Japan and overseas aimed at strengthening the management structure ahead of the stock listing added JPY42mn.
- ▷ Cost growth accompanying expansion into the US, an increase in the number of outside directors, and a rise in area manager headcount added JPY34mn to expenses.
- ▷ Other running costs added JPY33mn.

Factors in operating profit growth

Operating profit was JPY1.3bn (+JPY194mn YoY).

- ▷ Comparable stores added JPY398mn to operating profit. An increase in comparable-store sales contributed to profit growth as it outpaced rising personnel expenses. In Q3, when the company raised prices, comparable stores added JPY294mn to profit growth.
- ▷ New salon openings reduced operating profit by JPY81mn due to increased personnel expenses and rental costs, despite revenue growth from the new outlets.
- ▷ SG&A expenses were a drag of JPY145mn on operating profit.

Other: Changes to borrowing terms

The company consolidated and updated the terms of JPY11.4bn worth of loans incurred under existing Term Loan A (JPY1.9bn outstanding) and Term Loan B (JPY9.5bn outstanding) contracts.

Details of the changes

	Previous terms	Current terms
Due date	Term Loan A: JPY175mn every three months until end-November 2021 Term Loan B: lump sum repayment (end-November 2021)	Repayment of JPY175mn every three months from end-June 2019 until end-December 2023 JPY8.1bn repayment on March 29, 2024
Financial covenants	Must maintain a debt service coverage ratio of at least 1.05x for each interim and full-year reporting period starting from the December 2015 interim report.	Removed
	Net assets at a minimum level of 80% of those recorded in the previous year's interim or full-year period for each interim and full-year reporting period starting from the December 2015 interim report. Net assets on balance sheet to be maintained at JPY4.0bn or greater for each interim and full-year period.	Net assets at a minimum level of 80% of those recorded in the previous year's interim or full-year period for each interim and full-year reporting period starting from the December 2019 interim report. Net assets on balance sheet must be maintained at JPY8.7bn or greater for each interim and full-year period
	Consolidated operating profit must not be in the red for any two consecutive interim or full-year reporting periods from the interim report in December 2015 onward.	Removed
Base interest rates	Term Loan A: Japanese Yen TIBOR Rate + 0.5% Term Loan B: Japanese Yen TIBOR Rate + 0.625%	Japanese Yen TIBOR Rate + 0.5%

Note: Debt service coverage ratio is consolidated free cash flow over the most recent 12 months/(interest payments + term loan scheduled payments)

Income statement

Income statement (JPYmn)	FY06/13 J-GAAP	FY06/14 J-GAAP	FY06/15 J-GAAP	FY06/16 IFRS	FY06/17 IFRS	FY06/18 IFRS
Revenue	12,802	14,280	15,536	16,675	17,971	19,287
YoY	-	11.5%	8.8%	-	7.8%	7.3%
Cost of revenue				-12,901	-14,005	-15,039
Gross profit				3,773	3,966	4,248
GPM				22.6%	22.1%	22.0%
Other operating income				21	15	23
SG&A expenses				-2,306	-2,413	-2,577
SG&A ratio				-13.8%	-13.4%	-13.4%
Other operating expenses				-71	-65	-53
Operating profit	1,520	1,539	1,610	1,416	1,502	1,641
YoY	-	1.3%	4.6%	-	6.1%	9.3%
OPM	11.9%	10.8%	10.4%	8.5%	8.4%	8.5%
Financial income				11	11	13
Financial expenses				-605	-96	-94
Pre-tax profit				822	1,417	1,560
YoY				-	72.4%	10.1%
Pre-tax profit margin				4.9%	7.9%	8.1%
Income tax expense				-256	-394	-518
Implied tax rate				31.1%	27.8%	33.2%
Profit	782	913	866	565	1,023	1,041
YoY	-	16.8%	-5.1%	-	81.1%	1.8%
Profit margin	6.1%	6.4%	5.6%	3.4%	5.7%	5.4%

Source: Shared Research based on company data

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

Please refer to "Earnings model" section for details of income statement from revenue through operating profit.

Financial revenue is primarily interest income and financial expenses are primarily interest payments. In FY06/16, financial expenses were large due the recording of JPY447mn in borrowing expenses related to refinancing contracts.

Balance sheet

Balance sheet (JPYmm)	FY06/13 J-GAAP	FY06/14 J-GAAP	FY06/15 J-GAAP	FY06/16 IFRS	FY06/17 IFRS	FY06/18 IFRS
Assets						
Cash and cash equivalents				1,928	1,962	2,018
Trad and other receivables				728	821	1,082
Inventories				55	81	94
Other current assets				155	622	192
Total current assets				2,867	3,488	3,387
Tangible fixed assets				1,958	2,357	2,355
Goodwill				15,430	15,430	15,430
Intangible fixed assets				56	135	167
Other financial assets				1,481	1,620	1,688
Deferred tax assets				300	420	419
Other noncurrent assets				78	121	106
Total noncurrent assets				19,305	20,085	20,167
Total assets				22,173	23,573	23,555
Liabilities						
Trade and other payables				302	486	344
Short-term borrowings				953	763	762
Income taxes payable				189	501	297
Other financial liabilities				311	316	325
Other current liabilities				803	1,371	1,118
Total current liabilities				2,560	3,439	2,848
Long-term borrowings				12,607	11,917	11,226
Other financial liabilities				449	457	426
Deferred tax liabilities				2	5	17
Provisions				275	308	326
Other noncurrent liabilities				6	10	12
Total noncurrent liabilities				13,341	12,699	12,010
Total liabilities				15,902	16,139	14,859
Equity						
Capital stock				2,961	1,000	1,103
Capital surplus				3,038	5,000	5,103
Retained earnings				473	1,496	2,538
Other components of equity				-202	-62	-49
Total equity				6,271	7,434	8,695
Total liabilities and equity				22,173	23,573	23,555
Working capital	-	-	-	429	427	767
Total interest-bearing debt	-	-	-	14,077	13,236	12,469
Net debt	-	-	-	12,149	11,274	10,451

Source: Shared Research based on company data

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

Assets

Assets comprise mainly cash and cash equivalents, operating and other receivables, tangible fixed assets, goodwill, and other financial assets.

Trade receivables and other receivables

These are mainly accounts receivable (JPY863mn in FY06/18) and franchise loans (JPY167mn).

Tangible fixed assets

These are mainly salon fixtures in domestic directly managed salons (JPY1.9bn in FY06/18) and at overseas subsidiaries (JPY367mn).

In FY06/18, the company opened 24 directly managed salons in Japan and nine overseas, spending JPY860mn on capex (JPY748mn on tangible fixed assets and JPY111mn on intangible fixed assets) and JPY748mn on depreciation and amortization.

Goodwill

Goodwill was generated following a takeover (July 2011) by a company established by an investment fund managed by Jafco (TSE1: 8595) and another takeover (June 2015) by a company established by Integral Corp. (See "Changes to major shareholders" portion of the "History" section). Straight-line amortization applies to goodwill under JGAAP, but under IFRS, goodwill is not

amortized, but subject to an annual impairment test. As a result, the company said that SG&A expenses were JPY791mn lower under IFRS than JGAAP.

QB Net conducts an impairment test on its goodwill each fiscal year. Under these tests, it calculates the recoverable amount as fair value less disposal costs. Fair value is calculated by starting with a business forecast of up to three years as a base and later discounting future cash flow estimates, which are calculated based on the assumption that the long-term growth rate following the end of the forecast period will be zero, to present values (the pre-tax discount rate in FY06/18 was 7.4%).

According to the company, in FY06/18, the estimated recoverable amount was JPY9.5bn greater than the book value of goodwill. It indicates that if the pre-tax discount rate rose by 4.6pp or the estimated future cash flow for each fiscal year declined by 30.6%, the recoverable amount might equal book value.

Other financial assets

Other financial assets are mainly guarantee deposits (JPY1.7bn in FY06/18). These are deposits the company places with real estate agents when it rents salon spaces, and are returned at the end of the contract, offset against the cost of restoration.

Liabilities

The main liabilities are borrowings.

Borrowings

Borrowings primarily comprise loans used to purchase the shares of the former QB Net for business transfers on two previous occasions (see sections on “History” and “Changes to major shareholders”).

In July 2016, the company entered a loan agreement with MUFG Bank as the arranger and agent as shown below (reflecting revised contract that took effect in March 2019):

Details of the revised contract:

- ▷ Parties to contract: MUFG Bank, Mizuho Bank, Sumitomo Mitsui Banking Corporation
- ▷ Initial loan amount in July 2016: JPY13.7bn, JPY11.4bn outstanding as of March 2019
- ▷ Due date: Payments of JPY175mn every three months from June 2019 until December 2023 and lump-sum repayment of JPY8.1bn in March 2024

Financial covenants

Under the financial covenants for the above borrowings, if the company is not able to meet any of the benchmarks specified below, it must repay the entire loan amount if demanded by the lender.

- ▷ The net leverage ratio must be below the values set out in the table below at the end of each interim and year-end fiscal period. In FY06/18, interest-bearing debt was JPY12.5bn (borrowings of JPY12.0bn and lease liabilities of JPY481mn). Cash and cash equivalents were JPY2.0bn and EBITDA JPY2.4bn, resulting in a net leverage ratio of 4.4x.

Net leverage ratio: (interest-bearing debt - cash and cash equivalents)/EBITDA

Period	Net leverage ratio
June 2019	4.2
December 2019	3.8
June 2020 onward	3.1

- ▷ Net assets for each interim and full-year reporting period from the December 2019 interim report onward of at least 80% of those at the previous interim or full-year reporting period. Moreover, net assets on the balance sheet must be maintained at JPY8.7bn or greater for each interim and full-year reporting period.

Base interest rate

JBA TIBOR Administration Official Japanese Yen TIBOR Rate + 0.5%

Cash flow statement

Cash flow statement (JPYmn)	FY06/13 J-GAAP	FY06/14 J-GAAP	FY06/15 J-GAAP	FY06/16 IFRS	FY06/17 IFRS	FY06/18 IFRS
Cash flows from operating activities (1)				1,592	2,051	1,564
Pre-tax profit				822	1,417	1,560
Depreciation and amortization				631	677	748
Financial expenses				605	96	94
Income taxes paid				-416	-152	-729
Cash flows from investing activities (2)				-918	-1,163	-943
Purchase of tangible fixed assets				-722	-986	-748
Purchase of intangible fixed assets				-23	-51	-111
Payments for guarantee deposit				-115	-138	-106
Proceeds from collection of guarantee deposits				36	25	35
Free cash flow (1+2)	-	-	-	674	888	621
Cash flows from financing activities				-799	-923	-548
Net change in short-term borrowings				-52	-200	-
Proceeds from long-term borrowings				13,700	-	-
Repayments of long-term borrowings				-14,350	-700	-700
Depreciation and amortization of goodwill (A)				631	677	748
Capital expenditures (B)				-745	-1,037	-859
Change in working capital (C)				-	-2	340
Simple FCF (NI + A + B - C)				-	665	590

Source: Shared Research based on company data

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

Cash flows from operating activities

No item impacting operating cash flows is particularly noteworthy. The main inflows are pre-tax profit, amortization and depreciation, and financing expenses. The main outflows are corporate income tax payments.

Cash flows from investing activities

Investing cash flows comprise outflows for the purchase of tangible fixed assets, outflows for the purchase of intangible fixed assets, and guarantee deposits.

- ▷ The purchase of tangible fixed assets comprises primarily fixtures for new salons and renovations. According to the company, fixtures cost about JPY15mn per salon.
- ▷ Outflows for the purchase of intangible fixed assets are primarily for software.
- ▷ Guarantee deposits are those paid when spaces are rented. They average roughly JPY3mn per salon.

Cash flows from financing activities

The main items in financing cash flows are inflows from borrowings and outflows from loan repayments (of JPY175mn every three months).

Other information

History

- ▷ The company was established in December 1995. The aim was to develop a business offering JPY1,000 haircuts in 10 minutes to busy businessmen in the wake of the collapse of the bubble economy. In November 1996, QB House Kanda-Mitoshiro, the company's first salon, was opened in the Kanda district in Chiyoda, Tokyo.
- ▷ The first franchise salon opened in April 1997, and, in the early 2000s, QB Net was opening 50 new salons per year on a net basis, reaching the 300 mark in March 2005. Spearheaded by the founder, the company built a network primarily through franchises and salons operated under contract with outsourced labor. In July 1998, it signed a franchise agreement with JR East Retail Net, aggressively opening salons in dead and unused space at train stations to boost its profile.
- ▷ In the late 2000s, QB Net shifted to a model focused on utilization and improving service quality under which new salons were primarily managed and staffed directly with QB Net employees. The salon opening pace subsequently slowed to a net increase of around 20 per year.
- ▷ Overseas: The company's Asia focused overseas expansion began with the opening of its first Singapore salon in April 2002, Hong Kong in February 2005, and Taiwan in May 2012. It opened its first US salon in January 2017.
- ▷ New formats: New brand FaSS salon targeting men and women in their 20s to 40s opened near Naka-Meguro station, Tokyo in July 2011. This provides services to customers outside the QB House demographic.
- ▷ The company launched its LogiTHcut Professional Stylist School in-house training center in September 2012, as part of its moves to develop personnel training systems.

Date	Event
Dec 1995	QB Net Co., Ltd. established in Chiyoda, Tokyo
Nov 1996	1st salon, QB House Kanda-Mitoshiro, opens
Apr 1997	1st franchise salon, QB House Suidobashi, opens
Jul 1998	Signs franchise agreement with East Japan Kiosk (currently JR East Retail Net)
Dec 2002	QB Net International Pte., Ltd. established In Singapore
Feb 2005	QB House (Hong Kong) Ltd. established in Hong Kong 1st Hong Kong salon, QB House Yau Ma Tei opens
Jul 2011	New brand FaSS salon targeting men and women in their 20s to 40s opens near Nakameguro station, Tokyo
Feb 2012	QB House Taiwan established in Taiwan
May 2012	Company's first salon in Taiwan, QB House Zhongxio Fuxing, opens
Sep 2012	In-house training center LogiTHcut Professional Stylist School launched
Sep 2014	Overseas QB House network exceeds 100 salons
Sep 2016	QB House USA Inc. established in US
Jun 2017	Company's first US salon, QB House Midtown East, opens in New York
Mar 2018	Lists on Tokyo Stock Exchange First Section

Changes in major shareholders

The company's major shareholders have been the founder, Orix, a fund managed by Jafco, and a fund managed by Integral Corporation. In 2018, the company listed, following the sale of shares by the fund managed by Integral.

- ▷ In December 1995, the founder established QB Net Co., Ltd. (former QB Net (1)).
- ▷ In June 2006, Orix (TSE1: 8591) purchased shares from the founder as an investment.

- ▷ In October 2010, JAFCO Super V3 Investment Limited Partnership made an investment to establish JAFCO SIG No.11, and in July 2011, it took over the haircut business through an absorption type merger with former QB Net (1). At the same time, it changed its name from JAFCO SIG No.11 to QB Net Co., Ltd. (former QB Net (2)).
- ▷ In October 2014, IQ Co., Ltd. was established through an investment by Integral Corp. (not listed), and in June 2015, it took over the haircut business through an absorption type merger with former QB Net (2), and changed its name from IQ Co., Ltd. to QB Net Co., Ltd. (former QB Net (3)).
- ▷ In July 2016, the company changed its name from QB Net (3) to QB Net Holdings (the company). The aim was to enhance its group business strategy capabilities and strengthen group synergies by moving to a holding company structure. Through an incorporation-type company split, it established QB Net Co., Ltd., which took over the haircut business.

Terminology

Former QB Net Co., Ltd. (1):	QB Net Co., Ltd. from December 1995 through June 2011
Former QB Net Co., Ltd. (2):	QB Net Co., Ltd. from July 2011 through May 2015
Former QB Net Co., Ltd. (3):	QB Net Co., Ltd. from June 2015 through June 2016
QB Net Co., Ltd.:	Wholly owned subsidiary of the company established through incorporation-type company split in July 2016

JAFCO Super V3 Investment Limited Partnership, which Jafco (TSE1: 8595) manages as a general partner, is a fund that invests in unlisted companies in Japan and overseas.

JAFCO SIG No.11 was established in October 2010 with an investment from JAFCO Super V3 Investment Limited Partnership to acquire shares via leveraged buyouts (LBOs)

IQ Co., Ltd. was established with an investment from Integral Corporation in October 2014 to acquire shares via LBOs. It raised capital through an investment from Integral Corporation and Integral 2 Limited Partnership in December 2014, and in January 2015, a portion of shares was transferred from Integral 2 Limited Partnership to Integral Fund II (A) L.P.

News and topics

Major shareholders

Top shareholders	Shares held	Shareholding ratio
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation, Ltd., Tokyo Branch, Custody Department)	987,400	7.96%
Japan Trustee Services Bank, Ltd. (Trust account)	729,900	5.89%
Integral Number Two Investment LLP	669,300	5.40%
The Master Trust Bank of Japan, Ltd. (Trust account)	609,500	4.91%
Integral Corporation	592,300	4.77%
Yasuo Kitano	392,000	3.16%
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) (Standing proxy: MUFG Bank, Ltd.)	307,513	2.48%
NOMURA PB NOMINEES LIMITED A/C CPB30072482276 (Standing proxy: Nomura Securities Co., Ltd.)	250,300	2.01%
J.P. MORGAN BANK LUXEMBOURG S.A.380578 (Standing proxy: Mizuho Bank, Ltd.)	213,600	1.72%
Japan Trustee Services Bank, Ltd. (Trust account 5)	182,800	1.47%
SUM	4,934,613	39.82%

Source: Shared Research based on company data
Note: Percentage shareholdings are as of end-June 2018.

Dividend policy

The company's policy is to pay an appropriate amount of profit as dividends while keeping a number of considerations in mind. It considers returning profits to shareholders through dividends while retaining earnings to strengthen its structure so it can respond promptly to business opportunities as well as provide incentives to directors and executives to carry out active management of the company. It plans that any distribution of surplus would take place once yearly, via a year-end dividend to be determined at the general meeting of shareholders.

The company forecasts a DPS of JPY19.0 for a dividend payout ratio of 16.9% in FY06/20 (DPS of JPY19.0 in FY06/19; dividend payout ratio of 18.5%).

Corporate governance and top management

Corporate governance

Corporate governance measures

Organization and capital structure	
Organization	Company with Audit & Supervisory Board
Controlling shareholder	N
Parent company code	-
Directors	
Number of directors (per Articles of Incorporation)	12
Directors' term of office (per Articles of Incorporation) (years)	1
Number of directors	7
Number of outside directors (independent directors)	3
Auditors	
Number of Audit & Supervisory Board members (per Articles of Incorporation)	4
Number of members of Audit & Supervisory Board	3
Number of outside Audit & Supervisory Board members (independent directors)	2
Other	
Participation in electronic voting platform	Participation in electronic voting platform operated by ICJ, Inc.
Submission of convocation notice (executive summary) in English	N
Disclosure of director compensation	Disclosure of total amount of annual compensations for directors and outside directors
Disclosure of compensation amounts and policy for determining calculation method	Y
Corporate takeover defenses	N

Top management

In FY06/18, the company's only representative director was Yasuo Kitano, president.

President: Yasuo Kitano

President Yasuo Kitano, born in 1969, joined Nippon Credit Bank (currently Aozora Bank). In February 2005, he joined QB Net. He was appointed senior managing director, manager of the corporate planning office, and the head of the business management office in September 2008. He assumed his current position in October 2009.

Profile

Company Name	Head Office
QB Net Holdings Co., Ltd.	Token Nagai Building 7F, 2-12-24 Shibuya, Shibuya-ku, Tokyo, Japan
Phone	Listed On
81-03-6418-9190	The First Section of the Tokyo Stock Exchange
Established	Exchange Listing
December 1995	March 2018
Website	Fiscal Year-End
http://www.qbnet.jp/	June
IR Web	
http://www.qbnet.jp/ir/	

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>.

Current Client Coverage of Shared Research Inc.

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.	Tempo 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 Jinkai Co., Ltd.
FRONTEO, Inc.	Nisshinbo Holdings Inc.	Yushiro Chemical Industry Co., Ltd.
	NS TOOL CO., LTD.	ZAPPALLAS, INC.

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

Disclaimer: This document is provided for informational purposes only. No investment opinion or advice is provided, intended, or solicited. Shared Research Inc. offers no warranty, either expressed or implied, regarding the veracity of data or interpretations of data included in this report. We shall not be held responsible for any damage caused by the use of this report. The copyright of this report and the rights regarding the creation and exploitation of the derivative work of this and other Shared Research Reports belong to Shared Research. This report may be reproduced or modified for personal use; distribution, transfer, or other uses of this report are strictly prohibited and a violation of the copyright of this report. Our officers and employees may currently, or in the future, have a position in securities of the companies mentioned in this report, which may affect this report's objectivity.

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer: The report has been prepared by Shared Research under a contract with the company described in this report ("the company"). Opinions and views presented are ours where so stated. Such opinions and views attributed to the company are interpretations made by Shared Research. We represent that if this report is deemed to include an opinion by us that could influence investment decisions in the company, such opinion may be in exchange for consideration or promise of consideration from the company to Shared Research.

Contact Details

Shared Research Inc.
3-31-12 Sendagi Bunkyo-ku Tokyo, Japan
URL: <https://sharedresearch.jp>
Phone: +81 (0)3 5834-8787
Email: info@sharedresearch.jp