

RIDE ON EXPRESS HOLDINGS Co., Ltd.

Top share in delivery of sushi (Gin no Sara) and other rice dishes; capturing expanding delivery demand with its own loyalty point system

TICKER: 6082 | TSE1 | HP: <http://www.rideonexpress.co.jp/> | LAST UPDATE: 2020.07.13

Business | Delivers sushi/kamameshi (Japanese pilaf); express delivery for partner restaurants

Business model: The company prepares sushi or kamameshi (traditional Japanese pilaf) and delivers to customers by motorbike. Delivery bases do not require prime locations, so business locations are located on the ground floor of apartment buildings in second- and third-tier areas. Each location has 20–30 staff, who take orders, prepare food, and arrange deliveries. 367 locations nationwide (102 directly managed, 265 franchises). Each business location secures a market of at least 50,000 households within a 30–40-minute delivery radius, and operates several brands. A multibrand strategy, comprising key sushi brand Gin no Sara, secondary sushi brand Sushi Joto!, and kamameshi brand Kamatora, aims to boost sales and cover fixed costs. In the fineDine business, the company handles orders, pick-up, and delivery of meals for 748 partner restaurants (data above as of end-FY03/20).

Top share in sushi, kamameshi delivery: According to Fuji Keizai, the company had a leading share in the markets for sushi delivery (51% of the JPY59.0bn market in 2018) and kamameshi (82% of the JPY4.7bn market) delivery.

Leading position in on-demand delivery market: Starting in the US, consumer demand for on-demand products and services is growing. The company has established an on-demand delivery system using motorbikes, which it has rolled out nationwide.

Earnings | FY03/21: Company forecasts higher online ordering ratio and higher sales and profits with help from its own electronic loyalty point system

FY03/20 results: Sales were JPY21.0bn (+2.6% YoY), operating profit JPY1.4bn (+33.0% YoY), recurring profit JPY1.3bn (+21.7% YoY), and net income attributable to parent company shareholders JPY799mn (+19.9% YoY). Sales rose 2.6% YoY due to factors such as extraordinary demand associated with the extended Golden Week holidays, loyalty point initiatives, and menu refinement. Higher sales and improved productivity meant a 33.0% YoY rise in operating profit. Recurring profit increased just 21.7% YoY, impeded by impact from a gain on sales of investment securities booked in FY03/19 and valuation loss on securities held.

FY03/21 company forecast: Sales of JPY22.1bn (+5.1% YoY), operating profit of JPY1.6bn (+16.3%), recurring profit of JPY1.6bn (+22.7%), and net income attributable to parent company shareholders of JPY1.0bn (+25.3%). There is an upward trend in food delivery demand due to the COVID-19 pandemic. The company aims to capture as much of this expanding demand as possible by leveraging its accumulated data and electronic loyalty point initiatives. It will increase its number of takeout and delivery combination stores and test new store formats (including in-store dining).

Medium-term strategy | Prioritizing management structure enhancement to handle increased delivery demand while targeting earnings expansion

In existing businesses, the company aims to capture expanding delivery demand caused by the COVID-19 pandemic by leveraging its accumulated data and proprietary loyalty point system to increase consumer familiarity with its brands (including Gin no Sara). In addition to the takeout service it has been promoting since FY03/18, it also began testing an in-store dining model in FY03/20 that will increase contact with customers and serve as a format for new store openings in regions where it does not yet have a presence. At end-March FY03/20, it closed 10 of its fineDine stores (as well as two business locations; the company had 44 fineDine stores before the closings). It aims to improve profitability by limiting service coverage, concentrating resources, and avoiding overlap with competitor brands.

Strengths and weaknesses

Strengths

Nationwide on-demand delivery network:

The company has a nationwide network to generate profits despite the effort and cost of delivery

Leading share in sushi and kamameshi delivery:

51% (sushi delivery) and 82% (kamameshi) market share in 2018. High share enables scale economies in ingredient procurement

Data mining: Customer and sales data from orders and surveys are stored, analyzed, and used via internal systems

Weaknesses

Delivery staff wages drag on margin

improvement: A barrier to entry but also a weakness in the business model (SG&A expense to sales ratio is about 45%, half of which is personnel)

Small size: Given the aim to become a mainstay on-demand service platform via alliances, small scale means lack of negotiating power

Few partner restaurants: Compared with rival delivery operator Demae-can (21,400 affiliate restaurants) Ride on Express's contracted delivery business fineDine only has 780 partner restaurants

Profit growth drivers

Currently: Delivery of sushi and kamameshi

Medium term: Delivery of sushi and kamameshi + on-demand delivery

Indices	
Market capitalization	JPY26.4 bn
Stock price (July 2, 2020)	JPY2,479
Shares issued	10,634,000 shares
Foreign stockholding ratio	19.43 %
BPS (FY03/20)	JPY563.39
PBR (FY03/20)	4.40 x
PER (FY03/21 Est.)	26.2 x
Dividend (FY03/21 Est.)	JPY10.00
Dividend yield (FY03/21 Est.)	0.40 %
ROE (03/21 Est.)	15.3 %
Net debt/Equity ratio (FY03/20)	-46.0 %

Note: After stock splits, issued shares include treasury shares

Earnings		Revenue (JPYmn)	YoY	Operating profit (JPYmn)	YoY	Recurring profit (JPYmn)	YoY	Net income (JPYmn)	YoY	EPS (JPY)	BPS (JPY)	ROA (RP-based)	ROE
FY03/12	Parent	14,684	14.1%	347	na	316	38.5%	72	41.4%	11.21	105.90	7.7%	11.2%
FY03/13	Parent	16,133	9.9%	542	56.3%	514	62.8%	230	220.5%	34.59	142.96	11.7%	27.9%
FY03/14	Parent	16,471	2.1%	917	69.2%	934	81.5%	504	119.0%	59.81	266.74	19.0%	29.4%
FY03/15	Cons.	17,247	4.7%	1,072	16.8%	1,050	12.5%	558	10.7%	58.76	317.96	17.7%	19.6%
FY03/16	Cons.	17,346	0.6%	1,214	13.3%	1,181	12.5%	673	20.5%	66.17	371.55	18.0%	19.1%
FY03/17	Cons.	17,988	3.7%	1,110	-8.5%	1,105	-6.4%	605	-10.0%	58.50	418.28	15.8%	14.8%
FY03/18	Cons.	19,141	6.4%	1,003	-9.6%	964	-12.8%	535	-11.6%	51.20	480.72	11.2%	11.4%
FY03/19	Cons.	20,504	7.1%	1,037	3.3%	1,080	11.9%	666	24.4%	63.59	497.74	10.8%	12.9%
FY03/20	Cons.	21,035	2.6%	1,379	33.0%	1,314	21.7%	799	19.9%	75.99	563.39	12.8%	14.3%
FY03/21	Est.	22,103	5.1%	1,604	16.3%	1,612	22.7%	1,000	25.2%	94.53	-	-	-

Source: Shared Research based on company data
 Note: Amounts below JPY1 mn rounded off (rounded down in company data)
 Note: ROA refers to recurring profit/net asset

Business

Delivers sushi and other rice dishes; offers express delivery for partner restaurants

Company overview

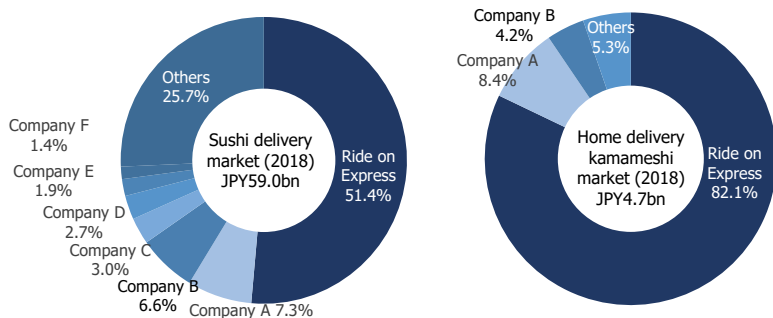
Ride on Express prepares and delivers sushi and kamameshi (Japanese pilaf) through directly owned and franchise stores, and also delivers meals from partner restaurants on a contract-basis. It had the leading share in the sushi and kamameshi delivery markets in 2018: 51% for sushi (JPY59.0bn market) and 82% for kamameshi (JPY4.7bn market) according to Fuji Keizai. The group includes holding company Ride on Express Holdings and consolidated subsidiaries Ride on Express, Ride on Demand, Ride on aSTART No. 1 Investment Limited Partnership, Ride on aSTART No. 2 Investment Limited Partnership, and non-consolidated subsidiary aSTART Co., Ltd.

Food delivery company: delivers proprietary dishes and meals from partner restaurants

Ride on Express became a holding company in October 2017. Behind the decision to become a holding company were establishment of the on-demand platform focused on providing on-demand services (providing services immediately in response to customer requests), development of new business formats for future service expansion, and consideration of M&A.

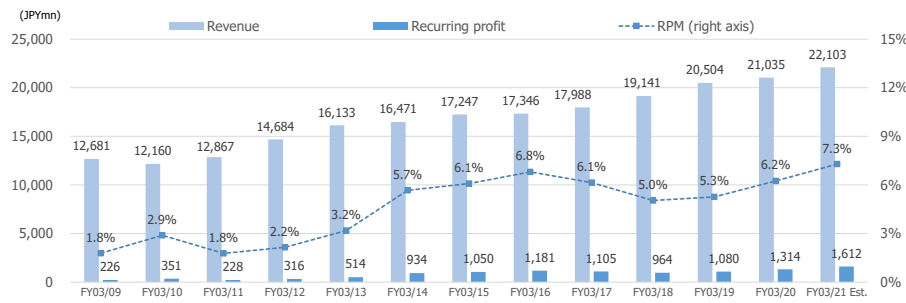
Sales and profits were on an uptrend from FY03/11 to FY03/16. In FY03/17 and FY03/18, however, sales promotion costs and upfront spending for medium-term growth grew, resulting in lower operating profit for two consecutive financial years despite an upward sales trend. The company achieved higher sales and profit again in FY03/19 (in line with its forecasts), recovering for the first time in three financial years, and set records for sales and recurring profit in FY03/20. It operated 748 partner restaurants (and 367 business locations) as of end-FY03/20.

Market size for sushi and kamameshi delivery, and Ride on Express market share



Source: Shared Research based on company data (Reference: "Food Service Industry Marketing Handbook 2019," Fuji Keizai Co., Ltd.)

Ride on Express: sales, recurring profit, RPM



Source: Shared Research based on company data
Amounts below JPY1mn rounded off

Background to establishment and nationwide rollout

The company was started in 1992 as a sandwich shop called Submarine in Gifu, Gifu Prefecture by current president and CEO Akira Emi and current vice president and COO Kazuyuki Matsushima. They entered sushi delivery business in 1998, and started recruiting franchisees primarily in the Nagoya region, acquiring current sushi delivery trademark Gin no Sara in 2000. In July 2001, Restaurant Express (name changed to Ride on Express in April 2013) was established as a joint venture with Venture Link (currently C&I Holdings) to roll out Gin no Sara franchises nationwide. (Currently no capital or business relationship with Venture Link.) The company listed on TSE Mothers in May 2013 and transferred to TSE First Section in November 2015.

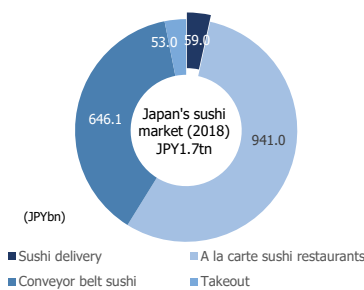
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Business model

The company mainly operates in the sushi delivery market, which accounts for about 3.5% (JPY59.0bn) of the JPY1.7tn sushi market in Japan (According to Fuji Keizai, the 2018 sushi market breakdown was à la carte sushi restaurants: JPY941.0bn, conveyor belt sushi: JPY646.1bn, takeout: JPY53.0bn, and delivery: JPY59.0bn).

Using the same business locations, personnel, and delivery infrastructure, the company delivers sushi, kamameshi, and other meals under a multibrand strategy. Aim is to grow sales and cover fixed costs. Also focusing on business handling meal orders, pick-up, and delivery for partner restaurants

Japan's sushi market (JPYbn)



Source: Shared Research based on company data ("Food Service Industry Marketing Handbook 2019," Fuji Keizai)

The company takes orders by phone or online. Employees prepare fish and other sushi toppings, hand-press the rice, arrange them on a tray or disposable container, and deliver to customers by motorbike about 30 minutes after the order is placed. The company also delivers kamameshi and other meals using the same location, personnel, and delivery infrastructure. It is now focusing on fineDine, a business that handles orders, pick-up, and delivery for partner restaurants (however, in FY03/21, it is enhancing the management structure of its existing businesses as a priority measure aimed at handling increased food delivery demand caused by the COVID-19 pandemic).

Key characteristics of food delivery

- **Does not require prime locations:** In contrast to the restaurant industry, where location has a major impact on customer footfall, delivery locations can be in residential areas, so properties are easy to find and rents are low (lower fixed costs).
- **Small initial investment:** Cost savings due to less spending on store exteriors and

interiors, as the company does not serve dine-in customers (per the company, initial investment for one directly managed shop is roughly JPY25–30mn).

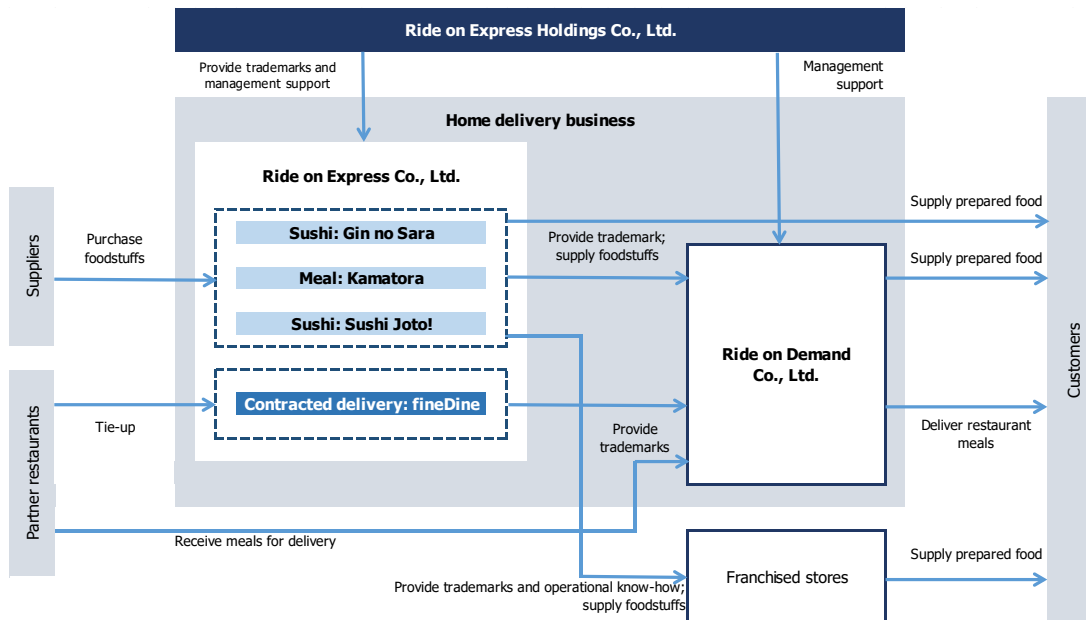
- No constraints from seat numbers or customer turnover:** There is no customer turnover, so there are no physical constraints such as seat numbers, enabling efficient sales. Further, it is possible to drive sales more directly and strategically than restaurants using flyers, etc.
- Personalized marketing relatively easy:** Delivery makes it possible to collect and store data such as customer names, phone numbers, and addresses. This data can be combined with survey results such as family names, birthdays, and anniversaries.
- Requires enough staff to carry out on-demand delivery at any time:** an inherent structural weakness of the delivery business is the necessity to have enough staff to cope with demand surges, often the times when part-time wages peak. It also requires expertise for efficient shift organization and instructions to reduce idle time of delivery staff, and to develop multiple brands.

Multibrand strategy: several brands in one location

Business locations are in rented locations on the ground floor of apartment buildings and with sufficient motorbike parking space. They do not require prime locations. Each location has a total of 20–30 employees who handle orders, food preparation, and delivery. Each location handles multiple brands, such as key sushi brand of Gin no Sara, and secondary brands Sushi Joto! and Kamatora (kamameshi). Using the multibrand strategy, the company aims to boost sales, improve productivity, and cover fixed costs by sharing equipment, delivery infrastructure, ingredients, personnel, and customer data across multiple brands*.

*Benefits of multibrand strategy: sales growth, lower initial investment, better coverage of rent and other fixed costs, lower variable operating costs, decreased idle staff time, constrained overall personnel expenses, and shared use of customer data.

Business flow



Source: Shared Research based on company materials

Becoming a holding company

On October 2, 2017, the company became a holding company via a company split by independent incorporation. The aim was to develop a structure for faster decision-making and business execution in order to improve corporate value through an on-demand delivery platform (providing services

immediately in response to customer requests). The company also aimed to develop new business formats for future service expansion and consider M&A. The company was split into two new succeeding companies: Ride on Express Co., Ltd. (newly established) and Ride on Demand Co., Ltd. (newly established). In addition, its consolidated subsidiary Ride on aSTART No.1 Investment Limited Partnership and Ride on aSTART No.2 Investment Limited Partnership also went under the umbrella of the holding company.

Ride on Express will serve as the franchise headquarters and supervise the directly managed stores outside the Greater Tokyo area. Ride on Demand will supervise the directly managed stores in Greater Tokyo and operate the contracted delivery business, because all new businesses, including fineDine are first tested in Greater Tokyo or used for business planning. The company expects to apply the knowledge gained from Ride on Demand at Ride on Express.

Delivery business: original brand overview

- ▶ **Gin no Sara:** Mainstay sushi delivery brand. Offers sushi at a reasonable price (JPY1,600-1,800 per person).
- ▶ **Kamatora:** Delivers a set meal of Japanese-style pilaf (kamameshi), along with seasonings, soup, and pickles. Prices average JPY1,300–1,500 per person.
- ▶ **Sushi Joto!:** Second sushi delivery brand. At an affordable price (averaging JPY900–1,000), customers can enjoy the same toppings or fillings as in Gin no Sara sushi (volume of topping or filling per piece is roughly 30% smaller than Gin no Sara).
- ▶ **fineDine:** A business that takes orders for partner restaurants, picks up the order from the restaurant, and delivers to customers (contracted services).

In FY03/18, the company closed one store each of lunch box delivery Gin no Obento, tonkatsu delivery Agezen, and curry delivery Curry Carry, concentrating the company's business formats to the above four brands.

Number of business locations and stores

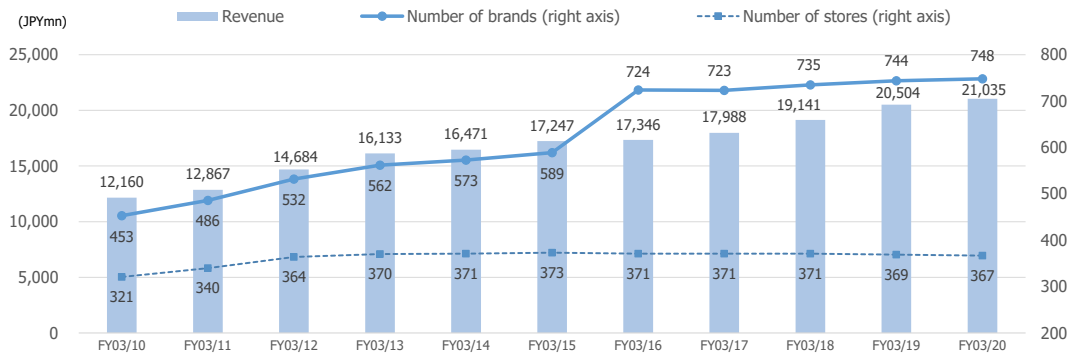
As of end-FY03/20, the company had 367 business locations nationwide (102 directly managed, 265 franchises). One location serves a market of at least 50,000 households within a 30–40-minute delivery radius. The company said it had locations in commercial areas of major cities throughout Japan. As of end-FY03/20, 6.6% of business locations were in Hokkaido/Tohoku, 62.3% in Kanto, 12.6% in Chubu, 8.6% in Kinki, 4.0% in Chugoku/Shikoku, and 6.0% in Kyushu/Okinawa. The company operates multiple brands at each location. As of end-FY03/20, the company had a total of 748 stores for deliveries, contracted deliveries, and in-store dining (702 delivery stores, 44 contracted delivery [fineDine] stores, and 2 in-store dining locations).

Number of stores by format

(end of period)	FY03/19		FY03/20	
	No. of stores	Openings	Closures	No. of stores
Home delivery				
Gin no Sara	359	-	3	356
Kamatora	191	8	1	198
Sushi Joto!	150	-	2	148
Contracted delivery				
fineDine	44	-	-	44
Others				
Restaurant	-	2	-	2
Total	744	10	6	748

Source: Shared Research based on company data

Sales, number of business locations, and number of stores

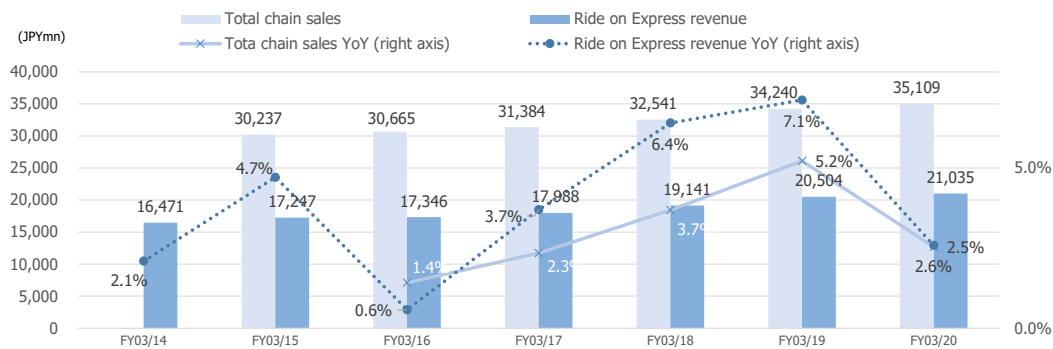


Source: Shared Research based on company data

Increasing number of takeout and delivery combination stores

The company is increasing the number of Gin no Sara takeout and delivery combination stores to respond to the needs of customers who want sushi at a reasonable price and do not find takeout burdensome. As of end-FY03/20, there were 14 Gin no Sara combination stores (plus five YoY). Ride on Express confirmed that by changing store locations, it can improve visibility and brand recognition, so it will also be gradually converting existing stores to the takeout and delivery combination format.

Total chain sales (sales at directly managed and FC stores)



Source: Shared Research based on company data

Customer demographics

Over 50% of Gin no Sara’s customers are over 50; Kamatora customers are mainly in their 30s (31.2%) and 40s (18.4%). Gin no Sara’s frequent customers (who order at least once a month) are mostly in their 50s (31.3%) followed by those 70 or older (25.0%). Kamatora’s frequent customers are mainly in their 40s (38.9%). Ride on Express’s on-demand delivery services have more recognition by those in their 40s through 70s.

Spend per customer

Management said average spend per customer is JPY5,200–5,300 for Gin no Sara (JPY1,600–1,800 per person). Gin no Sara had average monthly sales of roughly JPY6.5mn per (directly operated) store.

Franchises

Franchises account for 72% of business locations and 64% of stores (FY03/20). Ride on Express (the franchisor) receives royalties, franchise fee revenues, and food sales revenue from the franchisees.

- **Royalties:** 5% of monthly sales, excluding consumption tax
- **Franchise fees:** For a standalone Gin no Sara shop, fees are JPY8mn per shop excluding tax; for a combination Gin no Sara/Kamatora shop, fees are JPY8.8mn excluding consumption tax
- **Security deposits:** JPY1 mn (standalone), JPY1.5mn (multibrand locations)

High voltage electric field defrosting machine

Ride on Express has exclusive rights in the sushi delivery industry to use a high voltage electric field (HVEF) defrosting machine called Rejoice. (The machine uses technology to quickly defrost food by creating a magnetic field in water.) According to the company, drip volume is 1/10 that of ordinary defrosting machines. When frozen foods are thawed, drips form when ice within the cells melts and exits through fissures of cells in the flesh; these drips contain a great deal of flavor and nutrients. The technology allows Ride on Express to provide sushi toppings and fillings that are comparable in freshness to raw products.

Marketing

Ride on Express has used flyers placed directly in mailboxes as its main marketing method. It collects data on the responsiveness of customers and analyzes the frequency of customer orders, segmenting into categories such as area and day of the week. The company tailors flyers to suit the characteristics of each region. From the time it opened its first shop in Ryogoku Tokyo in 2001, it has been collecting various data including customer trends and sales, and using the data in store rollout and sales planning. According to the company, if a certain amount of time elapses since a customer has ordered, it may use personalized marketing, such as direct mailings with a discount, to engage the customer. As such, the repeat purchase ratio is over 80%. During the busy Golden Week, O-Bon, and New Year's holiday seasons, it broadcasts television commercials focusing on the freshness of the ingredients it uses. In March 2020, it broadcast a commercial in collaboration with Travis Japan, a popular male idol group included under Johnny's Jr, a category of entertainers represented by the Johnny & Associates talent agency.

The company has also focused on online marketing since 2010, aimed at sales promotion and customer relationship management (CRM). It is creating more opportunities for customer use through its proprietary delipoint loyalty point system, which it launched in FY03/18. It is testing the effectiveness of campaigns offering a strategically high loyalty point ratio during busy holiday periods or in situations in which it deems it can win a relatively high number of customers. In FY03/20, it says it increased the repeat purchase ratio, online ordering ratio, and ratio of orders through its own websites by granting well-timed bonus points in addition to the standard points awarded for purchases.

Orders through the company's own websites do not trigger fees the way that orders through other companies' websites do. In addition, they allow Ride on Express to accumulate customer data, so it can implement measures based on customer characteristics.

For existing customers, Ride on Express makes use of customer characteristics in its CRM activities to, for example, conduct direct marketing, distribute e-zines, send information via its official LINE account, or send push notifications via its official app. The direct marketing encourages customers to use online ordering. As of end-FY03/20, the annual average ratio of online orders was over 40% (targeting 45–50% in FY03/21).

Delivery business: contracted delivery services for partner restaurants

▀ **fineDine:** Provides delivery services for partner restaurants. Acquired in July 2008. According to Ride on Express, for the first five years post-acquisition it was operating in the red, but has been in the black since FY03/14. The company operates 20 directly managed stores, delivering meals to customers' homes or offices for restaurants without delivery capability. Partner restaurants can use deliveries to boost sales even if a restaurant is full, and can efficiently utilize excess staff through the new channel. The company had about 780 partner restaurants as of end-FY03/20 (vs. 840 at end-FY03/19), with an average order of roughly JPY1,500–2,000 per person. It collects a 15% fee from the end user. It also charges partner restaurants a monthly fee for using its systems.

Sales by segment

In FY03/20, 49% of the company's sales were from directly managed stores and 51% from franchises.

Delivery segment: directly managed

Share of sales by brand: Gin no Sara, 71.1%; Kamatora, 15.6%; Sushi Joto!, 8.1%; fineDine, 4.7%.

Delivery segment: franchises

Share of sales: ingredient sales, 69.1%; royalties, 10.4%; franchise fees, 0.4%; other, 20.1%.

Earnings by segment/brand

Revenue and sales by brand											
	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
(JPYmn)	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Revenue (external customers)	12,160	12,867	14,684	16,133	16,471	17,247	17,346	17,988	19,141	20,504	21,035
	-4.1%	5.8%	14.1%	9.9%	2.1%	4.7%	0.6%	3.7%	6.4%	7.1%	2.6%
Home delivery	na	na	na	16,110	16,454	17,225	17,321	17,973	19,141	20,504	21,035
YoY	na	na	na	na	2.1%	4.7%	0.6%	3.8%	6.5%	7.1%	2.6%
% of revenue	na	na	na	99.9%	99.9%	99.9%	99.9%	99.9%	100.0%	100.0%	100.0%
1. Directly managed stores	na	na	na	6,066	6,714	7,097	7,188	7,880	8,883	10,300	10,401
YoY	na	na	na	na	10.7%	5.7%	1.3%	9.6%	12.7%	16.0%	1.0%
% of revenue	na	na	na	37.6%	40.8%	41.2%	41.4%	43.8%	46.4%	50.2%	49.4%
Gin no Sara	na	na	na	4,291	4,937	5,301	5,295	5,441	6,298	7,341	7,396
YoY	na	na	na	na	15.1%	7.4%	-0.1%	2.7%	15.8%	16.6%	0.7%
% of revenue	na	na	na	26.6%	30.0%	30.7%	30.5%	30.2%	32.9%	35.8%	35.2%
Kamatora	na	na	na	1,154	1,342	1,254	1,140	1,139	1,248	1,514	1,624
YoY	na	na	na	na	16.3%	-6.6%	-9.1%	-0.1%	9.6%	21.3%	7.3%
% of revenue	na	na	na	7.2%	8.1%	7.3%	6.6%	6.3%	6.5%	7.4%	7.7%
Sushi Joto !	-	-	-	-	-	-	262	737	783	877	842
YoY	-	-	-	-	-	-	na	181.2%	6.2%	12.0%	-4.0%
% of revenue	-	-	-	-	-	-	1.5%	4.1%	4.1%	4.3%	4.0%
Gin no Obento	na	na	na	63	109	127	na	na	na	na	na
YoY	na	na	na	na	73.7%	16.6%	na	na	na	na	na
% of revenue	na	na	na	0.4%	0.7%	0.7%	na	na	na	na	na
fineDine	na	na	na	260	303	320	371	470	543	569	494
YoY	na	na	na	na	16.4%	5.8%	15.8%	26.8%	15.4%	4.8%	-13.2%
% of revenue	na	na	na	1.6%	1.8%	1.9%	2.1%	2.6%	2.8%	2.8%	2.3%
Others	na	na	na	298	23	95	120	93	11	0	45
YoY	na	na	na	na	-92.4%	319.0%	26.5%	-22.6%	-88.6%	-	-
% of revenue	na	na	na	1.8%	0.1%	0.6%	0.7%	0.5%	0.1%	-	0.2%
2. Franchisees	na	na	na	10,044	9,741	10,128	10,132	10,093	10,258	10,204	10,633
YoY	na	na	na	na	-3.0%	4.0%	0.0%	-0.4%	1.6%	-0.5%	4.2%
% of revenue	na	na	na	62.3%	59.1%	58.7%	58.4%	56.1%	53.6%	49.8%	50.6%
Franchise fees	na	na	na	100	66	111	106	42	43	50	38
YoY	na	na	na	na	-34.4%	70.0%	-5.3%	-59.8%	1.9%	14.8%	-24.2%
% of revenue	na	na	na	0.6%	0.4%	0.6%	0.6%	0.2%	0.2%	0.2%	0.2%
Royalties	na	na	na	931	910	952	1,013	1,027	1,043	1,058	1,106
YoY	na	na	na	na	-2.2%	4.6%	6.4%	1.3%	1.6%	1.5%	4.5%
% of revenue	na	na	na	5.8%	5.5%	5.5%	5.8%	5.7%	5.4%	5.2%	5.3%
Foodstuff sales	na	na	na	6,856	6,743	7,033	6,991	6,950	7,136	7,152	7,350
YoY	na	na	na	na	-1.6%	4.3%	-0.6%	-0.6%	2.7%	0.2%	2.8%
% of revenue	na	na	na	42.5%	40.9%	40.8%	40.3%	38.6%	37.3%	34.9%	34.9%
Others	na	na	na	2,157	2,021	2,032	2,023	2,074	2,036	1,944	2,140
YoY	na	na	na	na	-6.3%	0.5%	-0.4%	2.5%	-1.8%	-4.5%	10.1%
% of revenue	na	na	na	13.4%	12.3%	11.8%	11.7%	11.5%	10.6%	9.5%	10.2%
Others	na	na	na	23	17	22	25	15	-	-	-
YoY	na	na	na	na	-29.1%	32.0%	16.8%	-41.0%	-	-	-
% of revenue	na	na	na	0.1%	0.1%	0.1%	0.1%	0.1%	-	-	-

Source: Shared Research based on company data

Number of stores by brand

Number of stores by brand												
	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	
(Stores)	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	
Total	453	486	532	562	573	589	724	723	735	744	748	
	YoY	6.6%	7.3%	9.5%	5.6%	2.0%	2.8%	22.9%	-0.1%	1.7%	1.2%	0.5%
1. Directly managed stores	79	101	127	147	159	172	215	223	253	276	270	
	YoY	-11.2%	27.8%	25.7%	15.7%	8.2%	8.2%	25.0%	3.7%	13.5%	9.1%	-2.2%
	% of total	17.4%	20.8%	23.9%	26.2%	27.7%	29.2%	29.7%	30.8%	34.4%	37.1%	36.1%
Gin no Sara	na	na	na	72	79	83	79	86	92	95	92	
	YoY	na	na	na	na	9.7%	5.1%	-4.8%	8.9%	7.0%	3.3%	-3.2%
	% of total	na	na	na	12.8%	13.8%	14.1%	10.9%	11.9%	12.5%	12.8%	12.3%
Kamatora	na	na	na	58	58	58	52	54	62	70	69	
	YoY	na	na	na	na	0.0%	0.0%	-10.3%	3.8%	14.8%	12.9%	-1.4%
	% of total	na	na	na	10.3%	10.1%	9.8%	7.2%	7.5%	8.4%	9.4%	9.2%
Sushi Joto! (former Rokumeikan)	na	na	na	0	0	8	63	60	66	67	63	
	YoY	na	na	na	na	na	687.5%	-4.8%	10.0%	1.5%	-6.0%	
	% of total	na	na	na	0.0%	0.0%	1.4%	8.3%	8.3%	9.0%	9.0%	8.4%
Gin no Obento	na	na	na	9	9	7	1	1	-	-	-	
	YoY	na	na	na	na	0.0%	-22.2%	-85.7%	0.0%	-	-	-
	% of total	na	na	na	1.6%	1.6%	1.2%	0.1%	0.1%	-	-	-
fineDine	na	na	na	6	11	14	18	20	33	44	44	
	YoY	na	na	na	na	83.3%	27.3%	28.6%	11.1%	65.0%	33.3%	0.0%
	% of total	na	na	na	1.1%	1.9%	2.4%	2.5%	2.8%	4.5%	5.9%	5.9%
Others	na	na	na	2	2	2	2	2	-	-	2.0	
	YoY	na	na	na	na	0.0%	0.0%	0.0%	0.0%	-	-	-
	% of total	na	na	na	0.4%	0.3%	0.3%	0.3%	0.3%	-	-	0.3%
2. Franchisees	374	385	405	415	414	417	509	500	482	468	478	
	YoY	11.3%	2.9%	5.2%	2.5%	-0.2%	0.7%	22.1%	-1.8%	-3.6%	-2.9%	2.1%
	% of total	82.6%	79.2%	76.1%	73.8%	72.3%	70.8%	70.3%	69.2%	65.6%	62.9%	63.9%
Gin no Sara	na	na	na	292	286	282	284	276	269	264	264	
	YoY	na	na	na	na	-2.1%	-1.4%	0.7%	-2.8%	-2.5%	-1.9%	0.0%
	% of total	na	na	na	52.0%	49.9%	47.9%	39.2%	38.2%	36.6%	35.5%	35.3%
Kamatora	na	na	na	123	128	128	133	131	127	121	129	
	YoY	na	na	na	na	4.1%	0.0%	3.9%	-1.5%	-3.1%	-4.7%	6.6%
	% of total	na	na	na	21.9%	22.3%	21.7%	18.4%	18.1%	17.3%	16.3%	17.2%
Sushi Joto! (former Rokumeikan)	na	na	na	0.0%	0	7	92	93	86	83	85	
	YoY	na	na	na	na	nm	1214.3%	1.1%	-7.5%	-3.5%	2.4%	
	% of total	na	na	na	0.0%	0.0%	1.2%	12.7%	12.9%	11.7%	11.2%	11.4%

Average monthly sales by brand

	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	
(JPYmn)	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	
Average for all stores	na	na	na	na	2.42	2.47	2.20	2.07	2.19	2.31	2.35	
	YoY	na	na	na	na	2.3%	-11.0%	-5.9%	5.6%	5.6%	1.7%	
1. Directly managed	na	na	na	3.69	3.66	3.57	3.10	3.00	3.11	3.25	3.18	
	YoY	na	na	na	na	-0.9%	-2.3%	-13.4%	-3.1%	3.7%	4.3%	-2.2%
Gin no Sara	na	na	na	na	5.45	5.45	5.45	5.50	5.90	6.54	6.59	
	YoY	na	na	na	na	0.1%	-0.1%	0.9%	7.3%	11.0%	0.7%	
Kamatora	na	na	na	na	1.93	1.80	1.73	1.79	1.79	1.91	1.95	
	YoY	na	na	na	na	-6.6%	-4.1%	3.7%	0.1%	6.6%	1.9%	
Sushi Joto!	-	-	-	-	-	-	nm	1.00	1.04	1.10	1.08	
	YoY	-	-	-	-	-	na	na	3.7%	6.1%	-1.8%	
Gin no Obento	na	na	na	na	1.01	1.32	na	na	na	na	na	
	YoY	na	na	na	na	na	31.2%	na	na	na	na	
fineDine	na	na	na	na	2.97	2.14	1.93	2.06	1.71	1.23	0.94	
	YoY	na	na	na	na	-28.1%	-9.6%	6.8%	-17.3%	-27.9%	-24.0%	
2. Franchisees	na	na	na	na	1.96	2.03	1.82	1.67	1.74	1.79	1.87	
	YoY	na	na	na	na	3.7%	-10.2%	-8.6%	4.4%	2.8%	4.6%	
Royalties	na	na	na	na	0.18	0.19	0.18	0.17	0.18	0.19	0.19	
	YoY	na	na	na	na	4.3%	-4.5%	-7.0%	4.4%	4.9%	5.0%	
Foodstuff sales	na	na	na	na	1.36	1.41	1.26	1.15	1.21	1.25	1.29	
	YoY	na	na	na	na	4.0%	-10.8%	-8.8%	5.5%	3.6%	3.2%	

Source: Shared Research based on company data

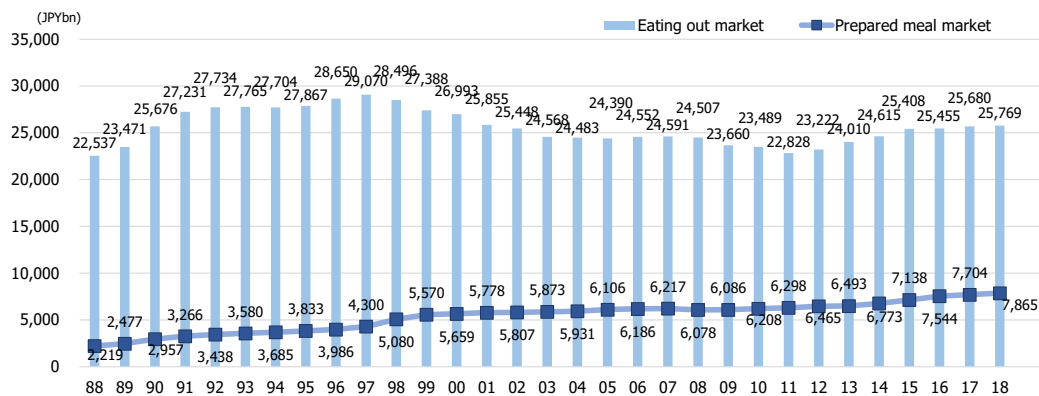
Prepared meal market

Prepared meals refer to meals that are either purchased and brought home or delivered. Prepared meals are halfway between eating out at a restaurant or other establishments and cooking meals from scratch. There are three main formats:

- **Takeout:** includes bento, prepared meals, and snacks customers purchase at supermarkets, convenience stores, bento shops, and food areas of department stores etc.
- **Delivery:** delivery of sushi, pizza, noodles, and Chinese food, etc.
- **Catering:** meals prepared by chefs at home or at a specific location

Although the restaurant business is slumping, the market for prepared meals is growing as more people eat alone. This is due to a rising number of single households amid a declining marriage rate and aging population, as well as more female participation in the workforce and other societal changes.

Long-term trends in Japan's restaurant and prepared meal markets (JPYbn)



Source: Shared Research based on Japan Food Service Association data

Competition

- **Sushi delivery:** Collectively, the top seven companies have a share of more than 70% in the domestic market. Ride on Express is the leader with 51.4%, and the number two player has 7.3% (Fuji Keizai survey). Ride on Express is the only listed company in the sector.
- **Kamameshi delivery:** Oligopoly with top three companies holding roughly 94.7% of market. Ride on Express leads with 82.1%, and the number two player has 8.4%. Ride on Express is the only listed company in the sector.
- **On-demand delivery:** Other representative companies with nationwide on-demand delivery chains include Pizza Hut Japan Ltd. (KFC Holdings Japan [TSE: 9873] sold the business to an investment fund in June 2017). Pizza Hut booked a loss of JPY351mn in FY03/16 and a profit of JPY153mn in FY03/17. An unlisted company, bento.jp, operates an on-demand delivery service called kaukul, which provides express delivery to certain areas of Tokyo. UberEats and Rakuten (Rakuten Delivery) operates contracted delivery services for restaurants. Online companies provide on-demand delivery services of their products to certain areas (e.g., Amazon's Prime Now and Rakuten's Rakubin). Overseas, meal kit delivery services are newly emerging in the on-demand delivery market.
- **Food delivery portal:** Yume no Machi Souzou linkai (JASDAQ: 2484) operates Demae-can (roughly 3.2mn members and 21,450 affiliated restaurants as of end-February 2020).

Earnings

FY03/21 forecast: Higher sales and profits achieved through a rise in the ratio of web orders and loyalty point utilization

FY03/20 earnings

Overview

- Sales were JPY21.0bn (+2.6% YoY), operating profit JPY1.4bn (+33.0%), recurring profit JPY1.3bn (+21.7%), and net income attributable to parent company shareholders JPY799mn (+19.9%). Versus the company's revised forecast (upwardly revised on November 2019), sales were in line with plan, but operating profit fell short by 11.4%.
- Sales achieved a YoY increase for the ninth consecutive financial year since FY03/11. Sales rose 2.6% YoY due to factors such as extraordinary demand associated with the extended Golden Week holidays, improved delivery quality, loyalty point initiatives and other marketing strategies focused on the company's online services*1, and menu refinement. Higher sales and improved productivity compensated for increased costs to enhance online ordering, so operating profit rose 33.0% YoY. GPM rose 0.1pp YoY to 50.0%, while the SG&A-to-sales ratio fell 1.4pp YoY to 43.4%, so OPM improved 1.5pp to 6.6%. Online membership rose above 2.5mn as of end-FY03/20.

*1Regarding the web ordering system (WOS), the company linked its websites with LINE, Twitter, Google, Facebook, and Yahoo! JAPAN—so that usernames and passwords of those sites can be used to access the company websites—and promoted cutover of the official Gin no Sara, Kamatora, Sushi Joto!, and fineDine ordering apps (launched iOS and Android versions on May 17, 2018). The company pre-released delipoint, a shared electronic point system in which users are awarded points that can be used with Gin no Sara, Kamatora, and Sushi Joto! for ordering via the company's homepage or by phone at directly managed stores starting in April 2018. Ride on Express is testing the effectiveness of campaigns offering a strategically high loyalty point ratio during busy holiday periods or in other situations in which it deems it can win a relatively high number of customers, with the aim of creating more opportunities for customer use through the delipoint system. Initiatives related to the delipoint system include a Golden Week 500 point present campaign for online members in April 2019, a 10% point rebate campaign for online ordering through the official app in June 2019, and the addition of a game function that allows users to win delipoint system points daily via the Gin no Sara, Kamatora, and Sushi Joto! apps. The Ride on Express group is not subject to the government's point-based rebate program (which targets SMEs) meant to promote cashless transactions in conjunction with the consumption tax hike. However, the company implemented a 10% maximum point rebate campaign for orders paid for by credit card on any of the company websites in October 2019. Furthermore, it conducted a 20% maximum point rebate campaign for early orders around the New Year.

- Recurring profit rose 21.7% YoY. The company booked a JPY44mn gain on the sale of directly managed stores to franchise operators, but a loss of JPY62mn associated with the purchase of franchise stores*2. In addition, although it booked JPY108mn in gain on sales of some investment securities held by consolidated subsidiary Ride on aSTART No. 1 Investment Limited Partnership in FY03/19, it booked a JPY30mn valuation loss on investment securities held by Ride on aSTART No. 2 Investment Limited Partnership in FY03/20. As a result, recurring profit did not grow to the same extent YoY that operating profit did. Net income attributable to parent company shareholders rose only 19.9% YoY due to JPY83mn in impairment loss on assets held by the fineDine contracted delivery service.

*2The company converted some of its franchise stores into directly managed stores based on its strategy. In principle, it will purchase any franchise a franchisee wishes to sell because of business succession issues or other reason. Such purchases result in a purchase loss (goodwill) that is recorded as a non-operating expense. These stores have robust earnings structures, so they continue to contribute to earnings.

Versus revised forecast

- Versus the company's revised forecast (announced November 14, 2019), sales exceeded the target by 0.1%, but operating profit fell short by 11.4%, recurring profit

FY03/20 earnings

- Sales JPY21.0bn (+2.6% YoY)
- Operating profit JPY1.4bn (+33.0%)
- Recurring profit JPY1.3bn (+21.7%)
- Net income JPY799mn (+19.9%)

by 15.8%, and net income attributable to parent company shareholders by 18.5%. Reasons for the shortfalls included food waste, an increase in costs related to loyalty point initiatives, costs for testing of the new in-store dining format, and costs related to the COVID-19 pandemic.

- The food waste occurred due to temporary factors, and the company says it has improved its food management in response.
- The increase in costs related to loyalty point initiatives was partly due to growth in reserves established to cover greater redemption of limited-time points than the company anticipated caused by the application of high-point initiatives that time bonus point awards according to individual customer attributes. This has a temporary negative impact on accounting, but such initiatives increase the repeat purchase ratio and the ratio of orders made through the company's own websites.
- Total delivery chain sales (directly managed plus franchise store sales) were JPY30.9bn (+1.7% YoY) for sushi and JPY4.2bn (+8.9% YoY) for kamameshi.

Performance of each brand

- ✔ **Gin no Sara:** The strategy was to develop and expand limited-time products using popular ingredients such as jumbo wild shrimp, toro salmon (fatty salmon), and otoro (special fatty tuna). In addition to conventional delivery, Ride on Express is testing takeout and delivery combination stores in response to takeout demand. The company is using the format to improve convenience and develop new customer segments. Furthermore, in July 2019, it opened a Gin no Sara Japanese restaurant offering the menus of Gin no Sara and Kamatora for a dining experience in a quality setting, while maintaining the worldview of the conventional Gin no Sara and Kamatora stores. In March 2020, it also opened and began testing a Gin no Sara restaurant with no delivery function.
- ✔ **Kamatora:** In response to customer demand, in June 2019, the company began offering hearty meals such as beef tongue kamameshi and grilled pork kamameshi, and also expanded its lunch menu. In January 2020, it offered amberjack kamameshi, using plenty of plump amberjack (yellowtail).
- ✔ **Sushi Joto!:** At its second sushi delivery brand Sushi Joto!, the company offered hand rolled sushi and rice bowl dishes as it aimed to differentiate the brand from Gin no Sara. It also worked to develop new customer segments by responding to diverse customer needs.
- ✔ **fineDine:** The company established systems and operations for taking orders, preparing food, and arranging deliveries, aiming to further improve productivity through combinations between fineDine and its other brands. As part of its sales promotions and measures aimed at increasing contact with customers and promoting use, Ride on Express offers friend referral and thank you coupon functionality to attract new customers and encourage repeat purchases, posts information regarding special deals on its official fineDine blog each month, and, in November 2019, conducted a free delivery campaign. At end-March 2020, the company closed 10 fineDine stores (two business locations). As of end-FY03/20, it had about 780 partner restaurants (about 840 at end-FY03/19). In May 2017, deliveries could be made in 22 areas of Tokyo, but this expanded to 27 areas of Tokyo and three in Kanagawa as of end-June 2020. At end-June 2019, the fineDine service had covered nine areas in Kanagawa and five in Saitama, but the company reduced service in Kanagawa and withdrew entirely from Saitama. For now, it aims to improve profitability by limiting service coverage and concentrating its resources.

Quarterly performance (cumulative)

Cumulative (JPYmn)	FY03/19				FY03/20				FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Revenue	4,552	9,416	15,123	20,504	4,784	9,745	15,550	21,035	100.1%	21,006
YoY	11.0%	10.3%	8.0%	7.1%	5.1%	3.5%	2.8%	2.6%		2.4%
Cost of revenue	2,338	4,746	7,747	10,277	2,345	4,798	7,846	10,526		
YoY	9.8%	7.8%	4.4%	3.6%	0.3%	1.1%	1.3%	2.4%		
Cost ratio	51.4%	50.4%	51.2%	50.1%	49.0%	49.2%	50.5%	50.0%		
Gross profit	2,214	4,667	7,377	10,227	2,440	4,947	7,704	10,508		
YoY	12.2%	13.0%	12.1%	11.0%	10.2%	5.9%	4.4%	2.8%		
GPM	48.6%	49.6%	48.8%	49.9%	51.0%	50.8%	49.5%	50.0%		
SG&A expenses	2,171	4,357	6,679	9,190	2,172	4,432	6,711	9,129		
YoY	16.9%	13.5%	12.3%	11.9%	0.0%	1.7%	0.5%	-0.7%		
SG&A ratio	47.7%	46.3%	44.2%	44.8%	45.4%	45.5%	43.2%	43.4%		
Operating profit	43	310	697	1,037	268	515	993	1,379	88.6%	1,557
YoY	-62.9%	5.5%	10.5%	3.2%	525.8%	66.1%	42.4%	33.0%		50.2%
OPM										
Recurring profit	35	377	743	1,080	267	510	963	1,314	84.2%	1,560
YoY	-69.2%	32.8%	20.2%	11.9%	657.4%	35.5%	29.7%	21.7%		44.5%
RPM	0.8%	4.0%	4.9%	5.3%	5.6%	5.2%	6.2%	6.2%		
Net income attributable to owners of parent	16	228	459	666	164	318	600	799	81.6%	979
YoY	-71.6%	39.0%	15.7%	24.4%	905.0%	39.4%	30.8%	19.9%		47.0%
Net margin	0.4%	2.4%	3.0%	3.2%	3.4%	3.3%	3.9%	3.8%		
Number of stores and locations										
Number of stores	735	741	746	744	747	747	747	748		
Directly managed	260	270	276	276	267	266	265	270		
Franchisees	475	471	470	468	480	481	482	478		
Number of locations	370	370	370	369	369	368	368	367		
Directly managed	103	104	104	104	101	100	100	102		
Franchisees	267	266	266	265	268	268	268	265		

Source: Shared Research based on company data

Quarterly performance

Quarterly (JPYmn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	4,552	4,865	5,707	5,381	4,784	4,961	5,805	5,485
YoY	11.0%	9.7%	4.4%	4.7%	5.1%	2.0%	1.7%	1.9%
Cost of revenue	2,338	2,409	3,000	2,530	2,345	2,453	3,048	2,680
YoY	9.8%	5.9%	-0.6%	1.1%	0.3%	1.8%	1.6%	5.9%
Cost ratio	51.4%	49.5%	52.6%	47.0%	49.0%	49.5%	52.5%	48.9%
Gross profit	2,214	2,453	2,710	2,850	2,440	2,508	2,757	2,804
YoY	12.2%	13.6%	10.6%	8.1%	10.2%	2.1%	1.9%	-1.6%
GPM	48.6%	50.4%	47.5%	53.0%	51.0%	50.5%	47.5%	51.1%
SG&A expenses	2,171	2,186	2,322	2,511	2,172	2,260	2,279	2,418
YoY	16.9%	10.2%	10.1%	11.0%	0.0%	3.4%	-1.9%	-3.7%
SG&A ratio	47.7%	44.9%	40.7%	46.7%	45.4%	45.6%	39.3%	44.1%
Operating profit	43	267	387	339	268	247	478	386
YoY	-62.9%	49.6%	14.8%	-9.1%	525.8%	-7.5%	23.4%	13.9%
OPM	0.9%	5.5%	6.8%	6.3%	5.6%	5.0%	8.2%	7.0%
Recurring profit	35	341	366	337	267	244	453	351
YoY	-69.2%	101.6%	9.5%	-2.7%	657.4%	-28.6%	23.7%	4.2%
RPM	0.8%	7.0%	6.4%	6.3%	5.6%	4.9%	7.8%	6.4%
Net income attributable to owners of parent	16	212	230	207	164	154	282	199
YoY	-71.6%	98.6%	-0.8%	49.4%	905.0%	-27.3%	22.2%	-4.1%
Net margin	0.4%	4.4%	4.0%	3.8%	3.4%	3.1%	4.9%	3.6%
Net increase in no. of stores and locations								
Number of stores	0	6	5	-2	3	0	0	1
Directly managed	7	10	6	0	-9	-1	-1	5
Franchisees	-7	-4	-1	-2	12	1	1	-4
Number of locations	-1	0	0	-1	0	-1	0	-1
Directly managed	2	1	0	0	-3	-1	0	2
Franchisees	-3	-1	0	-1	3	0	0	-3

Source: Shared Research based on company data

FY03/21 company forecast*

- ▶ The company expects sales of JPY22.1bn (+5.1% YoY), operating profit of JPY1.6bn (+16.3%), recurring profit of JPY1.6bn (+22.7%), and net income attributable to parent company shareholders of JPY1.0bn (+25.3%).

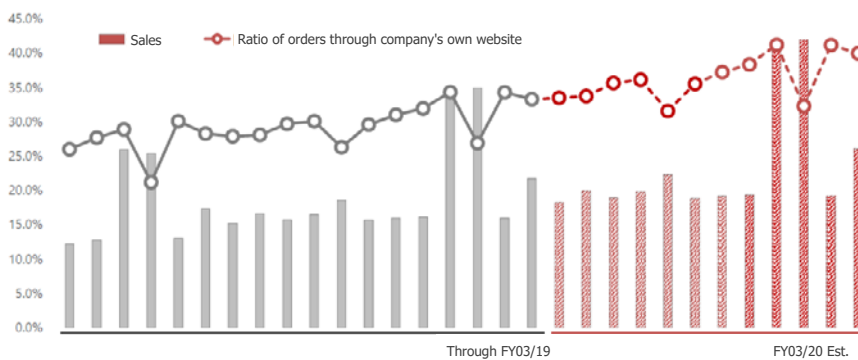
FY03/21 company forecast

- ▶ Sales JPY22.1bn (+5.1% YoY)
- ▶ Operating profit JPY1.6bn (+16.3%)
- ▶ Recurring profit JPY1.6bn (+22.7%)
- ▶ Net income JPY1.0bn (+25.3%)

*As of May 27, 2020, the company deems it difficult to determine the possible impact that the timing of the winding down of the COVID-19 pandemic and subsequent trends in dining out will have on its earnings, so its FY03/21 forecast is estimated based on current assumptions. Ride on Express assumes that robust food delivery demand will continue through Q1 and Q2 with the impact of the COVID-19 pandemic, but that the impact will gradually fade during Q3 and Q4. Actual results may deviate from estimates if the actual situation differs from these assumptions.

- Ride on Express expects increased food delivery demand due to the COVID-19 pandemic. For this reason, the company is prioritizing enhancement of its management structure in FY03/21. It will continue working to improve its various brands, raise the ratio of online ordering, and create more opportunities for orders using the company’s own loyalty points. It will also focus on improving sales per store through special 20th anniversary initiatives (detail follows). At the same time, it will lower the priority of developing and testing new earnings sources.
- At mainstay Gin no Sara, the company is planning various projects associated with the number 20 in honor of its 20th anniversary.
- It will focus on improving sales per store at existing stores, while also looking for appropriate timing to open additional Gin no Sara takeout and delivery combination stores. It is also testing new store formats suited to specific markets (including takeout and delivery combinations, in-store dining and delivery combinations, and stand-alone restaurant models) that can be used when developing new stores in regions it has yet to enter.

Sales and ratio of orders through company’s own websites



Source: Shared Research based on company data

- Ride on Express says work style reforms promoted in FY03/19 had the positive effects of making operations more efficient, improving employee retention rates, and lowering recruiting costs. Aiming to roll out fineDine nationwide, the company will work to increase the number of store openings, while also reducing delivery, delivery vehicle, and sales promotion costs (details follow).

Medium-term strategy

Sustain growth by development of non-delivery channels, better earnings capacity at fineDine

Specific strategies for the future

Develop new delivery, takeout, and in-store dining combination model

Takeout

- During FY03/19, in the case of Gin no Sara, Ride on Express tested a takeout and delivery combination model, using roadside locations formerly occupied by convenience stores. In addition to conventional delivery orders, it aims to improve user convenience and increase sales by addressing takeout demand (offering a 10% discount versus delivery). The company says that, at some locations, takeout sales exceeded 20% of total sales. It also says that the delivery and takeout did not interfere with one another. In fact, takeout sales simply accumulated above and beyond conventional delivery sales. As of end-June 2020, there were 14 Gin no Sara takeout and delivery combination stores (plus five YoY).
- Ride on Express confirmed that by changing store locations, it can improve visibility and brand recognition, so it will also be gradually converting existing stores to the takeout and delivery combination format. The problem lies in finding appropriate

Medium-term strategy

- In the delivery business, Ride on Express plans to develop a new delivery, takeout, and in-store dining combination model. In the contracted delivery business (fineDine), it aims to improve profitability in FY03/21 by limiting service coverage and concentrating its resources.

locations (its stores are typically situated on the first floor of condominium buildings in second and third-class locations). Existing stores do not have parking, so the company looks to transition gradually as stores are relocated or renovated.

In-store dining

- In FY03/20, Ride on Express opened two Japanese restaurants using a new format through which customers can enjoy set meals of sushi and dashi rice. The first, opened in July 2019, was the Gifu Kita Kamatora, which combines Gin no Sara and Kamatora delivery functions. The second, opened in March 2020, was the Akanabe Gin no Sara, which has no delivery function, serving only as an in-store dining Gin no Sara restaurant.
- The company is testing new store formats suited to specific markets (including takeout and delivery combinations, in-store dining and delivery combinations, and stand-alone restaurant models) that can be used when developing new stores in regions it has yet to enter.

fineDine

Strategy shift

- Ride on Express says it has completed one phase of testing for the fineDine business, which offers contracted delivery services to partner restaurants. The company had planned to use the fineDine brand as a base for creating a sales platform to serve as a customer portal in partnership with its existing brands and other companies. However, it is now changing that plan, since it has proven that its delipoint loyalty point initiatives effectively lead customers seeking delivery from company brands (including Gin no Sara and Kamatora) to the company's own websites (it assumes the same is true for other leading food brands).
- The company closed 10 of its fineDine stores (as well as two business locations; the company had 44 fineDine stores prior to the closings) on March 31, 2020, aiming to improve profitability by limiting service coverage and concentrating resources.
- It aims to further improve productivity through combinations between fineDine and its other brands and has established systems and operations for taking orders, preparing food, and arranging deliveries. As part of its sales promotions and measures aimed at increasing contact with customers and promoting use, Ride on Express offers friend referral and thank you coupon functionality to attract new customers and encourage repeat purchases, posts information regarding special deals on its official fineDine blog each month, and, in November 2019, conducted a free delivery campaign.

On-demand delivery platform

In this environment, Ride on Express intends to use its on-demand distribution network to cover the last mile (from the final business location to the delivery destination) in what it calls an "on-demand platform initiative."

On-demand platform initiative

- Contents: Ride on Express brands (Gin no Sara, Kamatora, Sushi Joto!), partner restaurants, and new services (e-commerce, home healthcare/nursing care, finance, etc.)
- Company resources: distribution network, accumulated customers and sales data, marketing expertise, fund for partner companies implementing on-demand services

Users: consumers who want on-demand delivery of services, content, and products

(Reference) Overview of the medium-term management plan, GRIP 2020

Following is an overview of the medium-term management plan, GRIP 2020 (a three-year plan spanning FY03/18 through FY03/20), which was withdrawn at end-FY03/18. (Some recent results have been added.) The reason for the withdrawal was that the business environment for fineDine, which Ride on Express aims to turn into an earnings pillar in the medium term, was changing rapidly.

According to the plan, the company targeted sales of JPY20.9bn (+116% over FY03/17) and recurring profit of JPY1.5bn (+135%) in FY03/20, the last year of the medium-term plan. As stated above, the company withdrew these numerical targets. In the plan, FY03/18 and FY03/19 were positioned as an investment period and FY03/20 onward as a growth period. The company expected higher sales and profits at existing businesses centered on sushi delivery and for the new business fineDine to contribute to profit growth from FY03/20 onward.

(Reference) Management goals of the withdrawn plan, GRIP2020

	FY03/17 Act.	YoY	Medium-term plan "GRIP 2020"				CAGR (FY03/17- FY03/20)	
			Investment stage		Growth stage			
(JPY mn)			FY03/18 Est. (MTP)	FY03/18 Act.	FY03/19 Est. (MTP)	FY03/19 Est. (Int. Est.)	FY03/20 Est.	
Revenue	17,988	+3.7%	18,412	19,141	19,500	19,912	20,900	5.1%
Recurring profit	1,105	-6.4%	1,008	964	1,000	1,012	1,500	10.7%
Sushi delivery total chain sales for Ride on Express	27,705	+3.3%	28,000	28,844	29,000	na	30,000	2.7%
No. of restaurants with fineDine contract	368	+28.1%	880	880	1,300	na	Around 2000	175.8%

Source: Shared Research based on company data

Strengths and weaknesses

Strengths

- Nationwide on-demand delivery network:** Amid sharp fluctuations in demand according to time of day, the on-demand delivery business requires constant availability of employees to immediately deliver once an order has been placed. Further, personnel costs in Japan are relatively high compared to other Asian countries, hurting profits. However, Ride on Express has flexible shifts for delivery workers and a proprietary delivery system able to cope with demand fluctuations, which it has rolled out nationwide. It uses a multibrand strategy coupled with accumulated expertise to boost sales and absorb fixed costs. This has enabled it to overcome the structural weaknesses of the on-demand delivery business and post profit for nine consecutive years since FY03/12 based on operating profit released for external viewing (FY03/20 OPM: 6.6%).
- Leading share in sushi and kamameshi delivery markets:** Ride on Express has top market share of 51% in sushi delivery and 82% in kamameshi delivery, and large leads versus the number two companies (7% and 8% respectively) (source: "Food Service Industry Marketing Handbook 2019," Fuji Keizai). High market share allows for enhanced brand power, easier development of new brands, scale economies in ingredient procurement, negotiating power with food manufacturers for primary processing of food materials, and easier staff recruitment.
- Data mining:** Ride on Express has been collecting data on customers and sales from orders and surveys using an internal system since opening its first shop in Ryogoku Tokyo in 2001. The company analyzes the data and uses it in store rollout and sales promotion activities. According to the company, if a certain time elapses since a customer has ordered, it will engage them by personalized marketing, such as direct mailings with discounts, so the repeat purchase ratio is over 80%.

Weaknesses

- Delivery staff wages drag on margins:** Although there are sharp fluctuations in demand according to time of day, on-demand delivery requires constant availability of staff to allow immediate delivery. The company needs enough staff to fulfill orders at peak demand times, but there tends to be long periods of idle time. This creates a barrier to

Strengths

- ▶ Nationwide on-demand delivery network
- ▶ Leading share in sushi and kamameshi delivery markets
- ▶ Data mining

Weaknesses

- ▶ Wages of delivery staff a drag on margin improvement
- ▶ Small size means lack of negotiating clout
- ▶ Few partner restaurants

entry, as competitors find it difficult to generate profits and many that enter the industry eventually quit, but also drags on the company's margin improvement. Even though Ride on Express was the market leader in sushi and kamameshi delivery, in FY03/20 its OPM was 6.6% (SG&A expense ratio of about 43%, half of which was personnel costs).

- ▀ **Company size:** The company aims to establish itself as a key on-demand delivery platform provider, but is smaller than potential alliance partners (Amazon, LINE, Rakuten, and Recruit, among others), who aim to dominate the on-demand delivery market. The company's small scale could mean lack of negotiating power when entering alliances.
- ▀ **Few partner restaurants:** Having a nation-wide delivery network is not enough to become a mainstay on-demand delivery platform; the number of partner companies that outsource delivery to Ride on Express is essential to adding value. However, compared with the portal delivery business operator Demae-can (21,450 affiliate restaurants as of end-February 2020), Ride on Express's fineDine only had about 780 partner restaurants as of end-FY03/20. In addition to developing well-known restaurants, the company began delivery operations in June 2018 for companies operating nationwide, such as Pepper Food Service Co., Ltd. (TSE1: 3053), which operates the Ikinari! STEAK restaurant chain.

Income statement

Income statement												
(JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21 Est.
	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Revenue	12,160	12,867	14,684	16,133	16,471	17,247	17,346	17,988	19,141	20,504	21,035	22,103
YoY	-4.1%	5.8%	14.1%	9.9%	2.1%	4.7%	0.6%	3.7%	6.4%	7.1%	2.6%	5.1%
Cost of revenue	na	na	8,707	9,194	8,971	9,340	9,291	9,390	9,923	10,277	10,526	
YoY	na	na	na	5.6%	-2.4%	4.1%	-0.5%	1.1%	5.7%	3.6%	2.4%	
Cost ratio	na	na	59.3%	57.0%	54.5%	54.2%	53.6%	52.2%	51.8%	50.1%	50.0%	
Gross profit	na	na	5,978	6,939	7,500	7,907	8,055	8,598	9,217	10,227	10,508	
YoY	na	na	na	16.1%	8.1%	5.4%	1.9%	6.7%	7.2%	11.0%	2.8%	
GPM	na	na	40.7%	43.0%	45.5%	45.8%	46.4%	47.8%	48.2%	49.9%	50.0%	
SG&A expenses	na	na	5,631	6,397	6,583	6,835	6,841	7,488	8,212	9,190	9,129	
YoY	na	na	na	13.6%	2.9%	3.8%	0.1%	9.5%	9.7%	11.9%	-0.7%	
SG&A ratio	na	na	38.3%	39.7%	40.0%	39.6%	39.4%	41.6%	42.9%	44.8%	43.4%	
Operating profit	na	na	347	542	917	1,072	1,214	1,110	1,003	1,037	1,379	1,604
YoY	na	na	na	56.3%	69.2%	16.8%	13.3%	-8.5%	-9.6%	3.3%	33.0%	16.3%
OPM	na	na	2.4%	3.4%	5.6%	6.2%	7.0%	6.2%	5.2%	5.1%	6.6%	7.3%
Recurring profit	351	228	316	514	934	1,050	1,181	1,105	964	1,080	1,314	1,612
YoY	55.2%	-35.1%	38.5%	62.8%	81.5%	12.5%	12.5%	-6.4%	-12.8%	11.9%	21.7%	22.7%
RPM	2.9%	1.8%	2.2%	3.2%	5.7%	6.1%	6.8%	6.1%	5.0%	5.3%	6.2%	7.3%
Net income attrib. to parent company shareholders	-66	51	72	230	504	558	673	605	535	666	799	1,000
YoY	-	-	41.4%	220.5%	119.0%	10.7%	20.5%	-10.0%	-11.6%	24.4%	19.9%	25.2%
Net margin	-0.5%	0.4%	0.5%	1.4%	3.1%	3.2%	3.9%	3.4%	2.8%	3.2%	3.8%	4.5%
Depreciation and amortization of goodwill	na	na	180	238	224	205	199	220	223	249	271	
EBITDA	na	na	526	780	1,141	1,277	1,413	1,330	1,226	1,286	1,650	

Note: Amounts below JPY1 mn rounded off

Source: Shared Research based on company data

Balance sheet

Balance sheet											
	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
(JPYmn)	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash and deposits	na	na	1,205	1,167	2,410	3,038	3,266	2,837	4,014	3,492	3,995
Accounts receivable	na	na	1,009	1,058	1,053	992	1,004	972	1,053	962	944
Securities									1,000	1,000	1,000
Inventories	na	na	115	117	133	346	440	213	297	455	342
Advance payments	na	na	4	4	4	-	-	-	-	-	-
Prepaid expenses	na	na	66	81	97	-	-	-	-	-	-
Accounts receivable—other	na	na	72	51	132	-	-	-	257	334	418
Others	na	na	23	14	12	256	252	1,062	117	243	134
Allowance for doubtful accounts	na	na	-23	-18	-32	-52	-53	-23	-20	-29	-25
Total current assets	na	na	2,471	2,474	3,808	4,580	4,908	5,060	6,718	6,458	6,807
Tangible fixed assets	na	na	756	741	666	578	541	634	570	681	906
Buildings and structures	na	na	501	535	487	430	398	469	418	491	660
Machinery, equipment and vehicles	na	na	15	10	22	16	31	32	16	10	19
Tools, furniture and fixtures	na	na	222	189	155	129	109	131	134	178	225
Land	na	na	2	2	2	2	2	2	2	2	2
Lease assets	na	na	15	4	1	-	-	-	-	-	-
Intangible fixed assets	na	na	198	238	252	245	394	293	422	369	430
Investment and other fixed assets	na	na	1,039	854	815	910	972	1,174	2,346	2,399	2,447
Investment securities	na	na	2	1	0	100	124	284	1,501	1,436	1,432
Long-term prepaid expenses	na	na	18	12	11	-	-	-	-	-	-
Deferred tax assets	na	na	214	209	191	182	202	200	170	275	319
Guarantee deposits	na	na	735	564	566	565	568	611	619	633	642
Long-term accrued revenue	na	na	162	156	124	-	-	-	125	110	90
Others	na	na	15	15	15	172	203	200	25	24	23
Allowance for doubtful accounts	na	na	-107	-104	-92	-109	-125	-121	-94	-81	-60
Total fixed assets	na	na	1,993	1,833	1,734	1,733	1,906	2,100	3,337	3,449	3,783
Total assets	3,573	3,724	4,464	4,307	5,542	6,312	6,815	7,160	10,055	9,906	10,590
Accounts payable	na	na	901	858	868	840	860	861	973	943	945
Short-term debt	na	na	550	-	-	-	-	-	-	-	-
Current portion of long-term debt	na	na	419	344	175	159	142	86	406	440	440
Lease obligations	na	na	11	4	0	0	0	-	-	-	-
Accounts payable—other	na	na	881	731	663	756	874	915	880	842	931
Accrued expenses	na	na	15	11	19	-	-	-	-	-	-
Income tax payable	na	na	50	211	315	280	312	195	290	136	320
Consumption tax payable	na	na	22	78	69	-	-	-	185	75	108
Advance received	na	na	52	26	52	-	-	-	-	-	-
Deposits received	na	na	52	79	62	-	-	-	-	-	-
Asset retirement obligations	na	na	27	11	5	3	2	-	-	-	-
Loyalty point reserves	na	na	-	-	-	22	2	2	-	92	219
Provision for shareholder benefits	na	na	-	-	14	22	51	74	68	55	44
Others	na	na	1	0	0	334	184	173	162	316	332
Total current liabilities	na	na	2,981	2,351	2,242	2,416	2,427	2,306	2,963	2,898	3,339
Long-term debt	na	na	340	567	392	234	92	5	1,550	1,276	832
Lease obligations	na	na	5	1	0	0	-	-	-	-	-
Provision for loss on contract termination	na	na	10	-	-	-	-	-	-	-	-
Asset retirement obligations	na	na	92	106	107	116	123	138	141	161	163
Guarantee deposits received	na	na	335	324	320	327	337	344	340	338	333
Total long-term liabilities	na	na	781	998	820	677	552	487	2,031	1,775	1,328
Total liabilities	na	na	3,762	3,349	3,061	3,093	2,978	2,792	4,994	4,674	4,667
Shareholders' equity	na	na	699	955	2,481	3,217	3,839	4,369	4,814	5,197	5,890
Treasury stock	na	na	-	-	-	-	-	0	0	200	200
Accumulated other comprehensive income	na	na	0	0	0	0	-4	-3	245	34	31
Non-controlling interests	na	na	-	-	-	2	2	1	2	2	2
Share subscription rights	na	na	3	3	-	-	-	-	-	-	-
Net assets	558	598	702	958	2,481	3,219	3,836	4,367	5,061	5,233	5,923
Net cash	na	na	-103	256	1,843	2,646	3,032	2,745	2,058	1,776	2,722
Working capital	na	na	223	317	318	497	583	324	378	475	341

Note: Amounts below JPY1 mn rounded off

Source: Shared Research based on company data

Per-share data (adjusted for stock splits)

Per-share data (adjusted for stock splits; JPY)											
	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Shares issued (year end)	6,600,000	6,600,000	6,600,000	6,680,000	9,302,000	10,118,400	10,320,000	10,438,400	10,522,800	10,634,000	10,634,000
EPS	-10.08	8.03	11.21	34.59	59.81	58.76	66.17	58.50	51.20	63.59	75.99
EPS (fully diluted)	-	-	-	-	50.49	52.67	62.81	56.48	49.85	62.32	74.96
Dividend per share	-	-	-	-	-	20.00	10.00	10.00	10.00	10.00	20.00
Book value per share	85.70	92.51	105.90	142.96	266.74	317.96	371.55	418.28	480.72	497.74	563.39

Source: Shared Research based on company data

Cash flow statement

Cash flow statement											
(JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities	na	na	784	830	783	858	744	1,151	905	583	1,711
Cash flows from investing activities	na	na	-466	-486	-193	-235	-297	-1,363	-1,500	-586	-658
Cash flows from financing activities	na	na	-68	-382	653	5	-210	-217	1,177	-522	-549

Note: Amounts below JPY1 mn rounded off

Source: Shared Research based on company data

Financial ratios

Financial ratios											
	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
ROA (RP-based)	9.8%	6.3%	7.7%	11.7%	19.0%	17.7%	18.0%	15.8%	11.2%	10.8%	12.8%
ROE	na	9.0%	11.2%	27.9%	29.4%	19.6%	19.1%	14.8%	11.4%	12.9%	14.3%
Inventory turnover	na	na	na	79.1	71.7	39.1	23.7	28.8	38.9	27.3	26.4
Fixed assets turnover	na	na	na	21.6	23.4	27.7	31.0	30.6	31.8	32.8	26.5
Current ratio	na	na	82.9%	105.2%	169.9%	189.5%	202.3%	219.5%	226.7%	222.8%	203.9%
Net assets ratio	15.3%	15.7%	15.7%	22.2%	44.8%	51.0%	56.3%	61.0%	50.3%	52.8%	55.9%

Source: Shared Research based on company data

Policy on shareholder returns

The company sees returns to shareholders as an important management priority. Its basic policy is to pay dividends considering performance, financial health, and future business development plans.

Shareholders

Top shareholders	As of end March 2020	
	Shares held	Shareholding ratio
Emi A&Y K.K.	2,113,700	20.1%
Japan Trustee Services Bank, Ltd. (Trust account)	941,800	9.0%
BNYM Non-Treaty DTT	722,800	6.9%
Akira Emi	678,000	6.5%
The Master Trust Bank of Japan, Ltd. (Trust Account)	490,800	4.7%
BNYM Treaty DTT 15	266,000	2.5%
Kazuyuki Matsushima	213,100	2.0%
Keiichiro Kinoshita	177,000	1.7%
Katsuyuki Tomisaka	173,900	1.7%
State Street Client Omnibus Account OD11	170,000	1.6%
Shares outstanding (excl. 124,988 shares of treasury stock)	10,509,002	100.0%

Source: Shared Research based on company data

Corporate governance

Organization type and capital structure	
Controlling shareholder	None
Parent company code	N/A
Directors	
Number of directors under Articles of Association	13
Directors' terms under Articles of Association	1 year
Number of independent outside directors	2
Audit & Supervisory Committee	
Number of members of Audit & Supervisory Committee	3
Number of outside directors	2
Other	
Number of independent officers (outside directors and Audit & Supervisory Committee members)	2
Participation in electronic voting platform	None
Other initiatives to enhance voting rights of investors	None
Providing convocation notice in English	None
Disclosure of directors' compensation	None
Disclosure of executive officers' compensation	N/A
Policy on determining amount of compensation and calculation methodology	Y
Takeover defenses	None

Source: Shared Research based on company data

Note: As of June 26, 2020

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