



Round One / 4680

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

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Executive summary

Core business—operation of amusement complex centers

- Round One specializes in running amusement complex centers in Japan and North America. At end-March 2020 it operated 144 stores (103 stores in Japan, and 41 stores in North America). The amusement services include bowling as well as games, karaoke, and SPO-CHA (abbreviation for “Sports Challenge”).
- The company’s business segments consist of Japan (which accounted for 80.4% of sales and 101.4% of recurring profit in FY03/20) and the US (19.6% and 0.4%, respectively).
- In Japan, due to the continuing decline in the market for bowling, owing to a declining population and diversified entertainment choices, the company pressed on with its program of closing unprofitable stores and opening new ones. Through these measures, the company aims to eliminate cannibalization among stores and improve profitability to maintain and improve its current profit level. In the medium-term, the company will continue to close unprofitable stores and open new ones, maintaining approximately 100 stores.
- In the US, the company will accelerate store openings while leveraging the lessons it has learned from operating stores there, with the objective of establishing a network of 120 stores in the US over the medium term. The company opened its first US store in August 2010, and in FY03/16 achieved a current account surplus. Since then, it has gradually increased new store openings as it has accumulated operational expertise. As of May 2020, the COVID-19 pandemic had caused some construction to be suspended, but the company aims to open about 20 stores per year.

Trends and outlook

- For FY03/20, the company reported consolidated sales of JPY104.8bn (+3.4% YoY), operating profit of JPY8.9bn (-22.4% YoY), recurring profit of JPY8.7bn (-22.3% YoY), and net income of JPY4.8bn (-33.0% YoY). By segment, the Japan reported sales of JPY84.2bn (-0.9% YoY), operating profit of JPY8.8bn (-10.1% YoY), and recurring profit of JPY8.8bn (-9.5% YoY). The US segment reported sales of JPY20.5bn (+25.7% YoY), operating profit of JPY130mn (-91.5%), and recurring profit of JPY33mn (-97.7% YoY).
- The company’s full-year FY03/21 forecast is undetermined due to difficulties in making reasonable calculations as of May 2020. Since April 2020, the company suspended operations at all stores, including overseas stores, due to a sharp rise in the number of people with COVID-19 infection.

Strengths and weaknesses

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

Key financial data

Income statement (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
Bowling	31,000	32,400	29,700	27,200	24,520	23,030	22,910	24,520	24,290	24,460	
Amusement	35,224	36,400	34,500	34,900	36,520	36,580	40,530	45,340	49,680	52,660	
Karaoke	6,715	8,200	8,300	8,400	8,640	8,660	9,130	9,840	10,940	11,450	
SPO-CHA	8,748	9,400	10,300	10,900	11,500	12,190	12,270	13,280	13,460	13,020	
Other	2,613	3,000	2,900	2,700	2,700	2,920	2,920	2,900	2,920	3,160	
Total sales	84,303	89,568	85,903	84,272	83,905	83,516	87,776	95,910	101,318	104,779	-
YoY	2.7%	6.2%	-4.1%	-1.9%	-0.4%	-0.5%	5.1%	9.3%	5.6%	3.4%	
Gross profit	13,273	17,789	13,328	11,723	8,395	8,426	8,935	12,842	14,460	12,377	
YoY	-3.9%	34.0%	-25.1%	-12.0%	-28.4%	0.4%	6.0%	43.7%	12.6%	-14.4%	
GPM	15.7%	19.9%	15.5%	13.9%	10.0%	10.1%	10.2%	13.4%	14.3%	11.8%	
Operating profit	11,416	16,036	11,565	10,088	6,641	6,367	6,681	10,537	11,443	8,880	-
YoY	-5.1%	40.5%	-27.9%	-12.8%	-34.2%	-4.1%	4.9%	57.7%	8.6%	-22.4%	
OPM	13.5%	17.9%	13.5%	12.0%	7.9%	7.6%	7.6%	11.0%	11.3%	8.5%	
Recurring profit	6,929	11,481	8,217	7,818	6,150	5,402	5,858	10,267	11,220	8,721	-
YoY	-11.7%	65.7%	-28.4%	-4.9%	-21.3%	-12.2%	8.4%	75.3%	9.3%	-22.3%	
RPM	8.2%	12.8%	9.6%	9.3%	7.3%	6.5%	6.7%	10.7%	11.1%	8.3%	
Net income	-12,673	2,781	601	-19,681	-4,568	449	2,735	8,411	7,159	4,794	-
YoY	-	-	-78.4%	-	-	-	509.1%	207.5%	-14.9%	-33.0%	
Net margin	-	3.1%	0.7%	-	-	0.5%	3.1%	8.8%	7.1%	4.6%	
Per share data (split-adjusted; JPY)											
EPS	-136.8	29.2	6.3	-206.6	-48.0	4.7	28.7	88.3	75.2	50.3	-
Book value per share	829.4	838.4	826.1	603.8	541.9	522.0	534.0	595.4	656.0	681.9	
Dividend per share	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Cash flow statement (JPYmn)											
Cash flows from operating activities	22,418	32,852	26,418	20,456	22,576	15,955	17,217	24,210	20,871	20,585	
Cash flows from investing activities	-23,563	24,036	4,371	46,611	592	-5,082	-3,527	-7,448	-10,783	-12,108	
Cash flows from financing activities	-4,551	-45,981	-34,564	-66,200	-20,820	-15,309	-16,964	-13,286	-11,159	3,626	
Financial ratios											
ROA (RP-based)	2.8%	4.8%	3.8%	4.7%	5.2%	5.0%	5.7%	9.9%	10.0%	6.9%	
ROE	-	3.5%	0.8%	-	-	0.9%	5.4%	15.6%	12.0%	7.5%	
Equity ratio	31.3%	35.0%	38.2%	45.3%	46.3%	47.6%	50.0%	53.0%	53.3%	47.8%	
Net debt / Equity ratio	143.5%	101.9%	82.5%	20.2%	-1.3%	-0.8%	-7.4%	-17.2%	-14.4%	-10.9%	
Total asset turnover	0.3	0.4	0.4	0.7	0.8	0.8	0.9	0.9	0.9	0.8	

Source: Shared Research based on company data

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

*As of May 2020, there are no prospects for the COVID-19 infection to be contained, making it difficult to perform reasonable forecast calculations. Due to this, the company's full-year FY03/21 forecast is undetermined.

Recent updates

Highlights

On January 7, 2021, Round One Corporation released monthly sales data for December; see the trends and outlook section for details.

On January 6, 2021, the company announced the decision to open its first store in the People's Republic of China.

Details

The company aims to steadily expand its business in the People's Republic of China, where disposable income is on the rise and young people under the age of 30 and families, which are core customer groups for the company, are comprising larger portions of the population. In accordance with this aim, the company established Langwan (China) Culture & Entertainment Co., Ltd. on September 9, 2019 and had since been preparing to launch its first store in China. On January 6, 2021, the company announced its official decision to open its first Chinese store under the name "Langwan" within AEON MALL Guangzhou Xintang (Guangzhou, Guangdong Province), a shopping facility that AEON MALL Co., Ltd. plans to open during 1H FY03/22.

Store overview

- ▷ Store name: Langwan AEON MALL Guangzhou Xintang (tentative name)
- ▷ Floor space: 7,819 sqm
- ▷ Location: Zengcheng District, Guangzhou, Guangdong Province
- ▷ Business format: Bowling, amusement, karaoke, and SPO-CHA (amusement complex)
- ▷ Scheduled opening: 1H FY03/22

On December 25, 2020, the company announced that it procured funds through long-term borrowings.

- ▷ Amount borrowed: JPY36,550mn
- ▷ Principal repayment method: Lump-sum repayment due in five to six years

Purpose of fund procurement

Round One has suffered a prolonged effect of the COVID-19 pandemic and its business outlook remains uncertain. Against this backdrop, the company took out a loan to secure funding for capex aimed at future business development overseas and to establish a stable financial base.

On December 9, 2020, the company released monthly sales data for November.

On December 2, 2020, Shared Research updated the report following interviews with the company.

On November 6, 2020, the company announced earnings results for 1H FY03/21; see the results section for details.

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

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

Trends and outlook

Monthly performance

Monthly sales												
FY03/21	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total sales (JPYmn)	268	1,015	3,953	5,093	5,571	5,348	4,870	4,677	5,345			
Bowling	71	256	942	1,174	1,314	1,284	1,114	1,031	1,237			
Amusement	83	538	2,142	2,786	3,018	2,767	2,623	2,554	2,960			
Karaoke	12	45	302	366	383	390	361	340	357			
SPO-CHA	22	80	380	537	602	660	542	537	575			
Other	78	95	185	228	251	245	228	212	215			
Total sales YoY	-96.2%	-86.2%	-37.7%	-23.1%	-40.8%	-20.8%	-15.5%	-14.6%	-27.1%			
Bowling	-96.0%	-86.4%	-41.4%	-26.4%	-41.4%	-23.1%	-21.7%	-25.1%	-35.4%			
Amusement	-97.4%	-84.0%	-29.1%	-15.5%	-31.0%	-14.1%	-6.4%	-3.0%	-12.1%			
Karaoke	-98.0%	-93.1%	-48.3%	-39.1%	-52.7%	-34.8%	-28.2%	-30.0%	-49.8%			
SPO-CHA	-98.1%	-93.4%	-56.7%	-38.9%	-64.2%	-33.7%	-32.0%	-28.2%	-46.1%			
Other	-68.7%	-64.4%	-25.6%	-7.8%	-16.8%	-7.5%	-2.5%	-6.3%	-20.7%			
Sales YoY (comparable)	-96.1%	-86.1%	-37.4%	-22.9%	-40.8%	-20.8%	-15.5%	-14.6%	-27.1%			
Bowling	-95.9%	-86.1%	-40.9%	-26.2%	-41.4%	-23.1%	-21.7%	-14.6%	-35.4%			
Amusement	-97.3%	-83.9%	-28.8%	-15.4%	-31.0%	-14.1%	-6.4%	-3.0%	-12.1%			
Karaoke	-97.9%	-93.0%	-47.9%	-39.0%	-52.7%	-34.8%	-28.2%	-30.0%	-49.8%			
SPO-CHA	-98.1%	-93.4%	-56.7%	-38.9%	-64.2%	-33.7%	-32.0%	-28.2%	-46.1%			
Other	-68.1%	-63.7%	-24.5%	-7.2%	-16.6%	-7.5%	-2.5%	-6.3%	-20.7%			
Store count: all stores	103	103	103	103	103	103	103	103	103			
Store count: comparable	103	103	103	103	103	103	103	103	103			
Monthly sales												
FY03/20	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total sales (JPYmn)	6,969	7,382	6,341	6,620	9,412	6,750	5,756	5,472	7,327	8,513	6,691	6,954
Bowling	1,775	1,879	1,606	1,592	2,242	1,668	1,419	1,376	1,913	2,225	1,780	2,328
Amusement	3,163	3,374	3,021	3,297	4,373	3,221	2,801	2,634	3,366	3,853	2,984	2,673
Karaoke	621	648	584	603	811	599	503	486	711	748	588	519
SPO-CHA	1,159	1,212	879	879	1,682	996	797	749	1,066	1,392	1,064	1,148
Other	249	267	248	247	302	265	233	226	270	293	273	283
Total sales YoY	7.7%	8.0%	8.9%	2.5%	3.6%	-3.1%	-1.8%	-3.2%	-4.1%	0.0%	4.3%	-24.8%
Bowling	2.9%	4.4%	5.1%	2.6%	1.4%	-6.8%	-2.4%	-2.9%	-3.9%	-3.0%	3.9%	-12.5%
Amusement	11.7%	10.1%	11.7%	3.9%	5.8%	0.1%	-2.8%	-4.7%	-7.0%	-1.3%	3.5%	-25.8%
Karaoke	6.3%	6.6%	6.2%	-1.3%	3.5%	-6.3%	-2.8%	-3.6%	-4.1%	1.3%	2.7%	-34.7%
SPO-CHA	5.7%	8.3%	8.1%	-1.6%	0.1%	-7.4%	1.9%	-0.8%	2.8%	6.2%	6.0%	-39.4%
Other	7.8%	10.4%	10.7%	7.2%	10.5%	9.1%	4.6%	7.4%	8.0%	10.4%	15.0%	-1.8%
Sales YoY (comparable)	7.9%	7.6%	8.8%	3.0%	4.8%	-1.8%	-0.5%	-1.9%	-3.2%	0.9%	5.3%	-24.1%
Bowling	4.3%	4.7%	5.9%	4.1%	3.5%	-4.6%	0.0%	-0.6%	-2.2%	-1.5%	5.7%	-11.1%
Amusement	11.9%	9.7%	11.4%	4.1%	6.7%	1.0%	-2.0%	-3.9%	-6.5%	-0.8%	4.1%	-25.4%
Karaoke	7.3%	7.0%	7.4%	0.3%	5.7%	-4.2%	-0.4%	-1.4%	-2.3%	2.8%	4.4%	-33.7%
SPO-CHA	3.3%	6.3%	6.1%	-2.9%	0.1%	-7.4%	1.9%	-0.8%	2.8%	6.2%	6.0%	-39.4%
Other	9.5%	11.3%	11.7%	9.4%	13.7%	12.1%	7.7%	10.3%	10.2%	12.6%	17.3%	0.2%
Store count: all stores	105	105	104	103	103	103	103	103	103	103	103	103
Store count: comparable	104	104	103	102	103	103	103	103	103	103	103	103

Source: Shared Research based on company data

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

Quarterly trends and results

Cumulative (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	25,554	53,188	77,046	104,779	5,630	23,263		
YoY	14.1%	8.8%	7.2%	3.4%	-78.0%	-56.3%		
Gross profit	3,163	7,496	8,287	12,377	-10,364	-12,773		
YoY	70.0%	22.3%	11.0%	-14.4%	-	-		
GPM	12.4%	14.1%	10.8%	11.8%	-	-		
SG&A expenses	802	1,682	2,543	3,497	685	1,538		
YoY	21.1%	14.3%	15.0%	15.9%	-14.6%	-8.6%		
SG&A ratio	3.1%	3.2%	3.3%	3.3%	12.2%	6.6%		
Operating profit	2,360	5,813	5,744	8,880	-11,050	-14,311		
YoY	96.8%	24.7%	9.3%	-22.4%	-	-		
OPM	9.2%	10.9%	7.5%	8.5%	-	-		
Recurring profit	2,341	5,702	5,557	8,721	-11,052	-14,173		
YoY	106.6%	26.4%	10.3%	-22.3%	-	-		
RPM	9.2%	10.7%	7.2%	8.3%	-	-		
Net income	1,441	3,705	3,531	4,794	-8,559	-11,194		
YoY	84.5%	23.5%	7.7%	-33.0%	-	-		
Net margin	5.6%	7.0%	4.6%	4.6%	-	-		

Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	25,554	27,634	23,858	27,733	5,630	17,633		
YoY	14.1%	4.4%	3.6%	-5.7%	-78.0%	-36.2%		
Gross profit	3,163	4,333	791	4,090	-10,364	-2,409		
YoY	70.0%	1.5%	-40.7%	-41.5%	-	-		
GPM	12.4%	15.7%	3.3%	14.7%	-	-		
SG&A expenses	802	880	861	954	685	853		
YoY	21.1%	8.8%	16.2%	18.7%	-14.6%	-3.1%		
SG&A ratio	3.1%	3.2%	3.6%	3.4%	12.2%	4.8%		
Operating profit	2,360	3,453	-69	3,136	-11,050	-3,261		
YoY	96.8%	-0.2%	-	-49.3%	-	-		
OPM	9.2%	12.5%	-	11.3%	-	-		
Recurring profit	2,341	3,361	-145	3,164	-11,052	-3,121		
YoY	106.6%	-0.5%	-	-48.8%	-	-		
RPM	9.2%	12.2%	-	11.4%	-	-		
Net income	1,441	2,264	-174	1,263	-8,559	-2,635		
YoY	84.5%	2.0%	-	-67.5%	-	-		
Net margin	5.6%	8.2%	-	4.6%	-	-		

Source: Shared Research based on company data

Note: Company estimates are the most recent figures.

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

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

Performance by segment

Cumulative (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	25,554	53,188	77,046	104,779	5,630	23,263		
YoY	14.1%	8.8%	7.2%	3.4%	-78.0%	-56.3%		
Japan	20,702	43,491	62,058	84,233	5,237	21,253		
YoY	8.2%	4.4%	2.1%	-0.9%	-74.7%	-51.1%		
US	4,851	9,696	14,987	20,545	392	2,009		
YoY	48.3%	34.2%	35.1%	25.7%	-91.9%	-79.3%		
Other	-	-	-	-	-	0		
Recurring profit	2,341	5,702	5,557	8,721	-11,052	-14,173		
YoY	106.6%	26.4%	10.3%	-22.3%	-	-		
Japan	2,102	5,296	5,316	8,839	-8,192	-8,941		
YoY	101.5%	30.6%	17.7%	-9.5%	-	-		
RPM	10.2%	12.2%	8.6%	10.5%	-	-		
US	238	423	326	33	-2,748	-4,996		
YoY	167.4%	-7.4%	-37.5%	-97.7%	-	-		
RPM	4.9%	4.4%	2.2%	0.2%	-	-		
Other	-	-18	-85	-151	-112	-235		

Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	25,554	27,634	23,858	27,733	5,630	17,633		
YoY	14.1%	4.4%	3.6%	-5.7%	-78.0%	-36.2%		
Japan	20,702	22,789	18,567	22,175	5,237	16,016		
YoY	8.2%	1.2%	-3.1%	-8.3%	-74.7%	-29.7%		
US	4,851	4,845	5,291	5,558	392	1,617		
YoY	48.3%	22.6%	36.7%	5.9%	-91.9%	-66.6%		
Other	-	-	-	-	-	0		
Recurring profit	2,341	3,361	-145	3,164	-11,052	-3,121		
YoY	106.6%	-0.5%	-	-48.8%	-	-		
Japan	2,102	3,194	20	3,523	-8,192	-749		
YoY	101.5%	6.1%	-95.7%	-32.9%	-	-		
RPM	10.2%	14.0%	0.1%	15.9%	-	-		
US	238	185	-97	-293	-2,748	-2,248		
YoY	167.4%	-49.7%	-	-	-	-		
RPM	4.9%	3.8%	-	-	-	-		
Other	-	-18	-67	-66	-112	-123		

Source: Shared Research based on company data
Note: Other includes business activities by its subsidiary in Russia and other regions.

Store count

Store count (quarter-end)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total	136	137	142	144	144	146		
YoY	6.3%	4.6%	6.8%	5.1%	5.9%	6.6%		
Japan	104	103	103	103	103	103		
YoY	-1.0%	-2.8%	-1.9%	-1.9%	-1.0%	0.0%		
US	32	34	39	41	41	43		
YoY	39.1%	36.0%	39.3%	28.1%	28.1%	26.5%		

Source: Shared Research based on company data

Store sales in Japan

Domestic sales (YoY)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Comparable stores (cumulative)	8.1%	5.0%	2.8%	-0.1%	-74.5%	-50.9%		
Comparable stores (quarterly)	8.1%	2.2%	-1.9%	-7.5%	-74.5%	-29.7%		
All stores (cumulative)	8.2%	4.4%	2.1%	-0.9%	-74.7%	-51.1%		
All stores (quarterly)	8.2%	1.2%	-3.1%	-8.3%	-74.7%	-29.7%		

Source: Shared Research based on company data

Store sales in US

US sales (YoY)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Comparable stores (cumulative)	-2.4%	-5.4%	-4.5%	-11.1%	-93.6%	-86.1%		
Comparable stores (quarterly)	-2.4%	-7.9%	-2.9%	-25.3%	-93.6%	-78.7%		
Stores open for 25 months or more (cumulative)	0.2%	-1.5%	-0.4%	-7.1%				
Stores open for 25 months or more (quarterly)	0.2%	-3.0%	1.6%	-21.9%				
All stores (cumulative)	48.3%	34.2%	35.1%	25.7%	-91.9%	-79.3%		
All stores (quarterly)	48.3%	22.6%	36.7%	5.9%	-91.9%	-66.6%		

Source: Shared Research based on company data

Sales breakdown

Cumulative (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Domestic	20,702	43,491	62,058	84,233	5,237	21,253		
YoY	8.2%	4.4%	2.1%	-0.9%	-74.7%	-51.1%		
Bowling	5,265	10,775	15,490	21,830	1,271	5,047		
YoY	4.2%	1.6%	0.1%	-1.4%	-75.9%	-53.2%		
Amusement	9,560	20,453	29,256	38,767	2,764	11,338		
YoY	11.1%	6.9%	3.0%	-0.1%	-71.1%	-44.6%		
Karaoke	1,854	3,868	5,570	7,429	360	1,501		
YoY	6.4%	2.4%	0.6%	-2.9%	-80.6%	-61.2%		
SPO-CHA	3,252	6,810	9,422	13,028	483	2,283		
YoY	7.3%	2.0%	1.8%	-3.3%	-85.1%	-66.5%		
Other	766	1,582	2,314	3,167	357	1,081		
YoY	9.7%	9.5%	8.7%	8.4%	-53.4%	-31.7%		
US	4,851	9,696	14,987	20,545	392	2,009		
YoY	48.3%	34.2%	35.1%	25.7%	-91.9%	-79.3%		
Bowling	640	1,270	1,940	2,620	20	200		
YoY	39.1%	28.3%	30.2%	21.9%	-96.9%	-84.3%		
Amusement	3,290	6,620	10,090	13,900	340	1,630		
YoY	50.9%	36.2%	37.5%	27.6%	-89.7%	-75.4%		
Karaoke and other	910	1,790	2,920	4,020	10	170		
YoY	46.8%	31.6%	30.4%	22.9%	-98.9%	-90.5%		
Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Domestic	20,702	22,789	18,567	22,175	5,237	16,016		
YoY	8.2%	1.2%	-3.1%	-8.3%	-74.7%	-29.7%		
Bowling	5,265	5,510	4,715	6,340	1,271	3,776		
YoY	4.2%	-0.8%	-3.1%	-4.9%	-75.9%	-31.5%		
Amusement	9,560	10,893	8,803	9,511	2,764	8,574		
YoY	11.1%	3.4%	-5.0%	-8.5%	-71.1%	-21.3%		
Karaoke	1,854	2,014	1,702	1,859	360	1,141		
YoY	6.4%	-1.0%	-3.4%	-12.0%	-80.6%	-43.3%		
SPO-CHA	3,252	3,558	2,612	3,606	483	1,800		
YoY	7.3%	-2.5%	1.4%	-14.4%	-85.1%	-49.4%		
Other	766	816	732	853	357	724		
YoY	9.7%	9.2%	7.0%	7.7%	-53.4%	-11.3%		
US	4,851	4,845	5,291	5,558	392	1,617		
YoY	48.3%	22.6%	36.7%	5.9%	-91.9%	-66.6%		
Bowling	640	630	670	670	20	180		
YoY	39.1%	18.9%	34.0%	1.5%	-96.9%	-71.4%		
Amusement	3,290	3,330	3,470	3,790	340	1,290		
YoY	50.9%	24.3%	39.9%	6.8%	-89.7%	-61.3%		
Karaoke and other	910	880	1,130	1,080	10	160		
YoY	46.8%	18.9%	28.4%	4.9%	-98.9%	-81.8%		

Source: Shared Research based on company data

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

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

(JPY)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Average hourly wage	1,051	1,061	1,082	1,081	1,078	1,086		
YoY	2.5%	2.4%	2.9%	3.3%	2.6%	2.3%		

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

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

1H FY03/21 results

- ▷ Sales: JPY23.3bn (-56.3% YoY)
- ▷ Operating loss: JPY14.3bn (operating profit of JPY5.8bn in 1H FY03/20)
- ▷ Recurring loss: JPY14.2bn (recurring profit of JPY5.7bn in 1H FY03/20)
- ▷ Net loss*: JPY11.2bn (net income of JPY3.7bn in 1H FY03/20)

*Net income/loss attributable to owners of the parent

Sales declined sharply YoY due to the closure of all the company's stores in Japan in April and May 2020 following the government's declaration of a state of emergency and also the closure of stores in the US in line with requests by state governments and counties.

Although costs were down YoY, the company recorded losses at the operating level downward due to lower sales. Along with the decline in costs associated with lower sales, rents were reduced by JPY720mn (exemption) YoY during the period of closure of stores in Japan, and advertising expenses were down JPY650mn YoY as the company suspended advertising and promotion activities. The company also recorded JPY462mn in subsidies for employment adjustment as non-operating income.

Subsidies for employment adjustment are a system to pay business owners if their business is impacted by the COVID-19 outbreak by partially subsidizing allowances for employee leave of absence based on an agreement between labor and company to maintain staff in employment during the period of leave.

In Japan, Round One temporarily closed all 103 stores from early April 2020, but once the Japanese government lifted its state of emergency declaration and eased its request for store closings, the company reopened all domestic stores in early June after implementing thorough measures to prevent the spread of COVID-19. Further, the company continued its ROUND1 LIVE campaigns, and from mid-September it implemented “Student Gekiwari” (deep discount) and “Elementary and Junior High Gekiwari” campaigns allowing students to use bowling, SPO-CHA, or Karaoke facilities for JPY990 each.

In the US, it temporarily closed all stores from mid-March 2020. From mid-May, as various state and county governments began easing restrictions, Round One reopened some stores, but still had to limit business hours and faced restrictions on some business areas. As of November 2020, 29 of its 43 stores (including three stores opened so far in FY03/21) are operational, while 14 remain temporarily closed.

In Japan, with no openings or closures, the total store count was 103 at end-1H FY03/21 (versus 103 stores total at end-FY03/20). In the US, the company opened its Towne East Square store (Kansas), and Potomac Mills store (Virginia) for a total store count of 43 at end-1H FY03/21 (versus 41 stores at end-FY03/20).

As of November 2020, the company’s full-year FY03/21 forecast remains undetermined.

Japan

- ▷ Sales: JPY21.3bn (-51.1% YoY)
- ▷ Segment loss (recurring loss): JPY8.9bn (segment profit of JPY5.3bn in 1H FY03/20)

Sales declined YoY on the impact of the COVID-19 pandemic. Due to the pandemic, Round One temporarily closed all 103 domestic stores from early April 2020. Thereafter, it implemented measures to prevent infection, such as regularly disinfecting bowling and karaoke equipment and in-store facilities with alcohol and applying antimicrobial/antiviral coatings where possible, and reopened some stores in mid-May. All domestic stores resumed operation in early June. However, even after reopening, Round One maintained abbreviated business hours and limited some areas of business.

At the profit level, the company recorded a recurring loss as positive factors such as cost reduction were overshadowed by negative factors. Sales fell by JPY22.2bn YoY, but costs fell by just JPY8.1bn, for a net negative impact of JPY14.1bn. The drop in costs was just 36% of the drop in sales.

- ▷ Positive factors totaled JPY8.1bn. These included a decline in various costs, including promotion costs (amusement prize costs), purchasing costs, utility costs, communication costs, and other store costs as sales fell YoY. Other positive factors for profit were a decline in personnel costs as staff wages during the store shutdown period were switched to leave of absence allowances, and lower advertising expenses due to the suspension of advertising activities. Rents were also lower during the store shutdown period due to rent exemption.
- ▷ The main negative factor for profit was the drop of JPY22.2bn in sales.

Factors behind YoY earnings changes (recurring profit)

Positive factors	Negative factor		
Decrease in promotion costs	JPY1.7bn	Decrease in sales	JPY22.2bn
Decrease in personnel costs	JPY1.3bn		
Decrease in purchasing costs	JPY780mn		
Decrease in rents	JPY720mn		
Decrease in advertising costs	JPY650mn		
Decrease in utility costs	JPY630mn		
Decrease in communication costs	JPY580mn		
Decrease in other store costs	JPY1.8bn		

Source: Shared Research based on company data

The company ran “Rou-Challe” (Round Challenge), “Battle Bowling Battle Karaoke,” and other campaigns on its ROUND1 LIVE platform, and had fan events. Further, it introduced the latest medal game machine “Gyo-Turn! Gappori Sushi Extreme” and in mid-September implemented “Student Gekiwari” (deep discount) and “Elementary and Junior High Gekiwari” campaigns allowing students to use Bowling, SPO-CHA, or Karaoke facilities for JPY990 each.

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY5.0bn (-53.2% YoY; -52.8% YoY at existing stores)
- ▷ Amusement: JPY11.3bn (-44.6% YoY; -44.4% YoY at existing stores)
- ▷ Karaoke: JPY1.5bn (-61.2% YoY; -60.9% YoY at existing stores)
- ▷ SPO-CHA: JPY2.3bn (-66.5% YoY; -66.5% YoY at existing stores)

Q2 earnings

In Q2 (July–September 2020), the company reported segment sales of JPY17.6bn (-29.7% YoY, +205.8% QoQ) and a segment loss (recurring loss) of JPY749mn (segment profit of JPY3.2bn in Q2 FY03/20, segment loss of JPY8.2bn in Q1 FY03/21).

Sales and profit both declined YoY on the impact of the COVID-19 pandemic. After all domestic stores resumed operations from June 2020, sales grew substantially QoQ and segment loss narrowed QoQ.

Factors behind YoY earnings changes (recurring profit)

Positive factors	Negative factor		
Decrease in promotion costs	JPY530mn	Decrease in sales	JPY6.8bn
Decrease in personnel costs	JPY230mn		
Decrease in purchasing costs	JPY270mn		
Decrease in rents	JPY350mn		
Decrease in advertising costs	JPY430mn		
Decrease in utility costs	JPY120mn		
Decrease in communication costs	JPY100mn		
Decrease in other store costs	JPY760mn		

Source: Shared Research based on company data

Comparable store sales were down 22.9% YoY in July, down 40.8% YoY in August, and down 20.8% YoY in September. After stores resumed operations in June, comparable store sales began recovering to the extent that they were down only about 15% YoY by mid-July, but they were sluggish again from late July into August as the number of new infections grew once more. Comparable store sales began recovering again in September, and in October were down just 15.5% YoY. Round One says that recently the number of teenage customers has recovered to the same level as a year earlier, but families have not returned to the same degree. As a measure targeting families, the company says it will run a campaign where the first 50 families at each store can use some of the in-store facilities at no charge in exchange for uploading to social media a photo of the family playing at one of the company’s stores on a Saturday or Sunday in December 2020.

US

- ▷ Sales: JPY2.0bn (-79.3% YoY)
- ▷ Segment loss (recurring loss): JPY5.0bn (segment profit of JPY423mn in 1H FY03/20)

Round One opened two stores to strengthen its US operations, bringing the total number of US stores as of end-Q2 to 43 (+9 YoY). It temporarily closed all stores from mid-March 2020, but steadily reopened them as it gained permission from various state and county governments. Operations had resumed at 20 stores as of end-Q1 and 29 as of end-Q2. Each of the reopened stores has been taking precautions to prevent the spread of COVID-19, such as placing special staff in charge of alcohol sterilization of the premises and operating with reduced business hours. Measures to ensure social distancing are much the same as in Japan.

Sales declined YoY due to the aforementioned temporary closings and abbreviated business hours to prevent COVID-19 transmission, as instructed by the authorities. The company booked a loss for the segment due to the drop in sales, even though store opening expenses fell to some degree.

Factors behind YoY earnings changes (recurring profit)

Positive factor		Negative factors	
Decrease in initial investment	JPY60mn	Decrease in comparable store profit	JPY3.9bn
		Decrease in new store profit	JPY1.7bn

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY200mn (-84.3% YoY)
- ▷ Amusement: JPY1.6bn (-75.4% YoY)
- ▷ Karaoke and other: JPY170mn (-90.5% YoY)

Q2 earnings

In Q2 (July–September 2020), the company reported segment sales of JPY1.6bn (-66.6% YoY, +312.5% QoQ) and a segment loss (recurring loss) of JPY2.2bn (segment profit of JPY185mn in Q2 FY03/20, segment loss of JPY2.7bn in Q1 FY03/21).

Sales and profit both declined YoY on the impact of the COVID-19 pandemic. The number of operating stores increased QoQ, boosting sales and narrowing the segment loss. However, COVID-19 is continuing to spread in the US, and the various state and county governments are still imposing restrictions on business hours and some operations. The company expects sales of reopened stores to be 40–50% lower in Q2 and 30–40% lower in October 2020 compared to when operating at normal business hours.

Other regions

The loss for other regions (overseas subsidiaries excluding the US): JPY235mn (JPY18mn in 1H FY03/20)

The situation for prospective openings in Russia and China is as follows.

- ▷ Round One opened its first Russian store (Kievskaya, Moscow) in November 2020, but so far only the amusement (games) area is in operation. The company also plans to offer SPO-CHA at the store, but as of November 2020, the SPO-CHA facilities are still under construction. The COVID-19 outbreak remains an issue in Moscow, so related restrictions have negatively affected progress.

- ▷ In China, Round One is negotiating lease agreements in preparation for opening four stores (Shanghai, Hangzhou, Shenzhen, and Beijing) in FY03/22. The company plans to open a total of eight stores in China in the medium term as it aims to accumulate expertise in operating stores there. It plans to offer amusement (games), bowling, and SPO-CHA.

Financial condition

As of end-September 2020, the company had JPY24.1bn in cash and deposits and JPY8.7bn in guarantee deposits. In addition, it raised funds of JPY20.8bn mainly from its main banks during the September–October period. Further, the company plans to procure an additional JPY18.0bn before December. Adding the total value of financing facility of JPY16.0bn secured through committed credit line agreements it had entered with various banks in May 2020, the company, in effect, has access to approximately JPY83.0bn of funds.

According to the company, monthly cash outflows during its all-store closure were JPY3.9bn in Japan and JPY600mn in the US, for a total of JPY4.5bn, and the company believes it has secured necessary cash on hand for the foreseeable future.

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

Full-year company forecast

The company's full-year FY03/21 forecast was undetermined due to difficulties in making reasonable calculations as of November 2020. Since April 2020, the company had suspended operations at all stores, including overseas stores, due to a sharp increase in the number of people with COVID-19 infection. As of November 2020, all stores in Japan and 29 stores in the US had reopened.

The situation at stores in Japan (total of 103 stores) as of November 2020

The company temporarily closed some of its stores on April 2, 2020, and all its stores on April 7, 2020. It began gradually reopening its stores on May 15, 2020, eventually reopening all stores on June 1, 2020.

Each of the reopened stores has been taking precautions to prevent the spread of COVID-19, such as placing special staff in charge of alcohol sterilization of the premises, taking customers' temperatures on arrival, and operating with reduced business hours, in addition to which, the company has committed itself to the measures to ensure social distancing.

The situation at stores in the US (total of 43 stores, including three opened in FY03/21) as of November 2020

The company's stores were temporarily closed from mid-March 2020, but have been reopened one by one as permission has been granted by the administrative authorities. Operations had resumed at 20 stores as of end-Q1 and 29 as of end-Q2.

At reopened stores dedicated staff are in place to take measures to prevent the spread of infection, including the use of alcohol-based disinfectant in company facilities, and business hours have been shortened. Social distancing precautions appear to be generally in line with those in Japan.

Costs

The majority of the company's costs have no correlation to sales fluctuation. The company has not released the details of its consolidated cost of sales breakdown, but information on its parent-only (i.e. Japan segment) cost of sales breakdown can be obtained from its securities filings.

In FY03/20, parent cost of sales totaled JPY73.0bn (cost-to-sales ratio of 86.7%). The principal items were personnel costs of JPY19.4bn (23.1% as a ratio to sales), promotion costs of JPY9.4bn (11.1%), rents of JPY16.0bn (18.9%), and depreciation of JPY10.0bn (11.9%). Variable expenses within the cost of sales include promotion costs (amusement prize costs), utility costs, and communication costs, and the ratio of variable costs is about 30%. SG&A expenses totaled JPY2.5bn (SG&A ratio of 2.9%), with the principal items being taxes and dues and personnel expenses.

According to the company, total monthly costs during its all-store closure were generally JPY4.5bn to JPY5.0bn. It breaks that down to JPY800mn in personnel costs, JPY1.4bn in rents, JPY800mn in leasing costs, and JPY900mn in other costs, plus depreciation (which averaged JPY1.2bn per month in FY03/20). Measures undertaken in Japan and the US to reduce monthly costs include negotiations with real estate owners for reduction or waiver of rent as well as a freeze on any new advertising, and revision of existing advertising contracts.

The segment breakdown of monthly costs is as follows.

Japan

In Japan, we understand that monthly costs during the all-store closure were around JPY4.1bn. The breakdown was JPY700mn in personnel costs, JPY1.1bn in rents, JPY700mn in leasing costs, and JPY800mn in other costs, plus depreciation (which averaged JPY842mn per month in FY03/20). Regarding personnel costs, the company continued to pay both full-time employees and part-time workers compensation during the shutdown. The company says it will apply for employment adjustment subsidies to cover those compensation payments, and it says that its estimated personnel costs already take the receipt of those subsidies into account. It estimates monthly personnel costs excluding those subsidies at JPY1.0bn.

US

In the US, we understand that monthly costs during the all-store closure were around JPY1.0bn. The breakdown was JPY100mn in personnel costs, JPY300mn in rents, JPY100mn in leasing costs, and JPY100mn in other costs, plus depreciation (which averaged JPY345mn per month in FY03/20). Regarding personnel costs for store staff, the company shoulders only healthcare insurance during the shutdown, with staff receiving unemployment benefits from state governments.

Policy on store openings

In terms of future store openings, the company plans to open only 14 stores in the US, for which lease agreements are already in place. However, it is uncertain when construction of these will resume because of the pandemic, so the opening schedule remains undecided at present. Also, as of August 2020, the conclusion of any new lease agreements was suspended.

The situation for prospective openings in Russia and China is as follows.

- ▷ Round One opened its first Russian store (Kievskaya, Moscow) in November 2020, but so far only the amusement (games) area is in operation. The company also plans to offer SPO-CHA at the store, but as of November 2020, the SPO-CHA facilities are still under construction. The COVID-19 outbreak remains an issue in Moscow, so related restrictions have negatively affected progress.
- ▷ In China, Round One is negotiating lease agreements in preparation for opening four stores (Shanghai, Hangzhou, Shenzhen, and Beijing) in FY03/22. The company plans to open a total of eight stores in China in the medium term as it aims to accumulate expertise in operating stores there. It plans to offer amusement (games), bowling, and SPO-CHA.

Financial condition

As of end-September 2020, the company had JPY24.1bn in cash and deposits and JPY8.7bn in guarantee deposits. In addition, it raised funds of JPY20.8bn mainly from its main banks during the September–October period. Further, the company plans to procure an additional JPY18.0bn before December. Adding the total value of financing facility of JPY16.0bn secured through committed credit line agreements it had entered with various banks in May 2020, the company, in effect, has access to approximately JPY83.0bn of funds.

According to the company, monthly cash outflows during its all-store closure were JPY3.9bn in Japan and JPY600mn in the US, for a total of JPY4.5bn, and the company believes it has secured necessary cash on hand for the foreseeable future.

Dividends

For FY03/20, the company plans to pay a year-end dividend of JPY10 per share for a total annual dividend of JPY20 per share, including the interim dividend of JPY10 per share. For FY03/21, the company plans to pay an interim dividend of JPY10 per share and a year-end dividend of JPY10 per share, for a total annual dividend of JPY20 per share.

Results vs. company estimates

Results vs. Initial Est. (JPYmm)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales (Initial Est.)	86,000	88,000	90,000	86,000	85,500	85,000	87,100	92,200	101,400	109,300
Sales (Results)	84,303	89,568	85,903	84,272	83,905	83,516	87,776	95,910	101,318	104,779
Results vs. Initial Est.	-2.0%	1.8%	-4.6%	-2.0%	-1.9%	-1.7%	0.8%	4.0%	-0.1%	-4.1%
Operating profit (Initial Est.)	14,000	12,500	14,100	11,600	10,000	6,890	6,060	7,170	11,550	11,870
Operating profit (Results)	11,416	16,036	11,565	10,088	6,641	6,367	6,681	10,537	11,443	8,880
Results vs. Initial Est.	-18.5%	28.3%	-18.0%	-13.0%	-33.6%	-7.6%	10.2%	47.0%	-0.9%	-25.2%
Recurring profit (Initial Est.)	9,000	80,000	10,000	8,400	9,000	6,150	5,500	6,700	11,000	11,600
Recurring profit (Results)	6,929	11,481	8,217	7,818	6,150	5,402	5,858	10,267	11,220	8,721
Results vs. Initial Est.	-23.0%	-85.6%	-17.8%	-6.9%	-31.7%	-12.2%	6.5%	53.2%	2.0%	-24.8%
Net income (Initial Est.)	2,500	3,300	1,000	-7,500	5,000	1,200	1,500	3,600	6,320	6,900
Net income (Results)	-12,673	2,781	601	-19,681	-4,568	449	2,735	8,411	7,159	4,794
Results vs. Initial Est.	-	-15.7%	-39.9%	-	-	-62.6%	82.3%	133.6%	13.3%	-30.5%

Source: Shared Research based on company data

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

Long-term strategy

Round One has not released a medium-term management plan. However, since before the COVID-19 pandemic, it has been saying that it aims for medium-term growth by focusing on store openings in the US market, and that policy has remained intact even amid the COVID-19 outbreak. Among other measures that impact earnings in the medium term, the company intends to develop and introduce new ROUND1 LIVE bowling machinery in Japan, and promote automation and systemization to reduce total working hours. In addition, in the long term, it aims to develop stores in China in particular, but also in Russia and other Asian regions.

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

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

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

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

Out of a total of some 900 shopping malls in the US, there are about 300 locations where Round One could establish a store when considering the populations of various areas and location quality while ignoring possible effects of stores of competitor Dave & Buster's Entertainment, Inc. Dave & Buster's Entertainment had 137 stores as of May 2020, and, even when assuming the addition of 10 stores per year, that still leaves ample room for Round One to reach its target of 120 stores by FY03/24. In terms of investment, the company's basic policy is to conduct business within the limit of its operational cash flow. Financially, it plans to maintain its current level.

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

Expansion into China, Russia, and other Asian regions

Once Round One reaches its target of 120 stores in the US, it aims to open stores in China, Russia, and other regions, and concentrate investment in whichever market proves the most cost-effective. The company plans to open its first Russian store in Moscow in FY03/21 or not long after (as of May 2020, preparations for opening had been suspended due to the COVID-19 pandemic). It aims to open four to five stores in China starting in FY03/21. In China, it plans to erect barriers to new market entry by competitors by opening large SPO-CHA-equipped stores and leveraging its over-100-store-strong domestic operations in price negotiations with amusement equipment suppliers.

US stores: the present and the future

Every May the company reviews the criteria to rate the performance of each of its US stores as above average, average, or below average. In May 2020, however, it chose to forgo review due to the impact of its decision to temporarily close all stores in March

2020 to prevent the spread of COVID-19. The last time it revised its rating criteria was in November 2019 along with its release of its revised full-year forecast for FY03/20. As of that time, to be rated as average under the revised criteria, US stores had to achieve gross sales of USD5.6mn, operating profit in the first year of USD0, operating profit in years 2–7 of USD900,000, and operating profit in year eight and beyond of USD1mn.

Prior to the November 2019 revisions (i.e. under the May 2019 revisions) requirements for a rating of average were gross sales of USD6mn, first-year operating profit of USD300,000, operating profit in years 2-7 of USD1.2mn, and operating profit in year eight onward of USD1.4mn.

Capital expenditure and business performance

Category		High-performing stores	Average stores	Low-performing stores
Initial investment amount		USD7.2mn (approx. JPY780mn)		
Annual account	Total sales	USD7.2mn (approx. JPY780mn)	USD5.6mn (approx. JPY610mn)	USD3.4mn (approx. JPY370mn)
	Operating profit (first year)	USD700,000 (approx. JPY80mn)	USD0 (JPY0)	-USD1.3mn (approx. -JPY140mn)
	Operating profit (years 2–7)	USD1.6mn (approx. JPY170mn)	USD900,000 (approx. JPY100mn)	-USD400,000 (approx. -JPY40mn)
	Operating profit (8th year onward)	USD1.8mn (approx. JPY200mn)	USD1mn (approx. JPY110mn)	-USD200,000mn (approx. -JPY20mn)
	OPM (years 2–7)	22.2%	16.1%	-

Source: Shared Research based on company data

Note: USD/JPY109. First year operating profit includes store opening costs, with the exception of those of head office.

From FY03/21, Round One has plans to open 13 stores in the US for which it already has lease agreements in place, three of which are already open as of November 2020. However, the timing for opening the other ten stores remains pending due to construction delays caused by the COVID-19 pandemic. As of November 2020, the company is not pursuing any additional lease agreements.

Planned US store openings (as of November 2020)

	Store name / (planned) location	SPO-CHA equipped?	Opening
No. 42	Towne East Square / Wichita, Kansas		July 2020
No. 43	Potomac Mills / Woodbridge, Virginia		September 2020
No. 44	Deptford Mall / Deptford, New Jersey		November 2020
No. 45	Vancouver Mall / Vancouver, Washington		
No. 46	Cumberland Mall / Atlanta, Georgia	Yes	
No. 47	Park City Center / Lancaster, Pennsylvania	Yes	
No. 48	Quail Springs Mall / Oklahoma City, Oklahoma		
No. 49	Westfield Galleria at Roseville / Roseville, California		
No. 50	Pembroke Lakes Mall / Pembroke Pines, Florida	Yes	
No. 51	Willowbrook Mall / Houston, Texas	Yes	
No. 52	South Hill Mall / Puyallup, Washington		
No. 53	North Star Mall / San Antonio, Texas		
No. 54	Parkway Plaza / El Cajon, California	Yes	

Source: Shared Research based on company data

Introduction of ROUND1 LIVE

In FY03/20, Round One introduced ROUND1 LIVE as a new feature for bowling and karaoke. This facility allows customers to focus on their games without needing to be concerned about customers in neighboring lanes by utilizing many large-scale displays. Through the addition of network (LIVE) functionality, the facility offers customers a variety of ways to use it. Specifically, customers can connect to different lanes using “LIVE de Free Matching,” a video call service. Through use of the facility’s network features, pop idols and comedians can hold “Nationwide LIVE Fan Meet-Ups” and “Nationwide LIVE Offline Fan Meet-Ups,” for which participants are recruited beforehand by connecting people in remote locations with one another.

The company is aiming to expand its customer base and increase customer numbers and sales by offering various services that connect people in remote locations through a combination of large-scale displays and LIVE functionality. These services include both online and offline fan meet-ups. In April 2019, the company raised prices at stores that feature ROUND1 LIVE by about 5% for bowling and about 2% for karaoke. In FY03/20, due in part to the effect of the COVID-19 pandemic in March 2020, bowling sales fell 1.4% YoY to JPY21.8bn and comparable store sales were down 0.2% YoY.

As for cost, total capex, which includes expenses related to automated reception machines (mentioned below), will amount to about JPY7.0bn. Expenditures for the year will rise by JPY1.1–1.2bn, comprising an increase in depreciation cost of about JPY1.0bn and a rise of JPY100–200mn in communication and electricity costs. However, the company may be able to cancel out this increase in expenses by curtailing personnel costs through progress in automation and systematization (explained in detail below).

Automation and systematization aimed at curtailing total working hours

In addition to new bowling machinery, the company put automated reception machines and staff tablets into use in FY03/20. Installing these reception machines automates store reception, while introducing staff tablets will allow customers to see which facilities are in use, confirm device statuses, and view information concerning operational changes more easily. The company devotes about 10 million hours per year to customer services and aims to curtail this figure by 10% through automation and systematization. If the time devoted to customer services is lowered by one million hours per year, this will curtail personnel costs by about JPY1.1bn, assuming total hourly expenses of JPY1,100 per part-time worker (hourly wage plus other expenses).

Business

Summary

Core business: operation of amusement complex centers

Round One specializes in running amusement complex centers in Japan and North America. As of end March 2020, it operated 144 stores (103 stores in Japan, and 41 stores in the US). Its reporting segments are Japan (80.4% of sales and 101.4% of recurring profit in FY03/20) and the US (19.6% of sales and 0.4% of recurring profit).

Performance by segment

(JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Total sales	84,303	89,568	85,903	84,272	83,905	83,516	87,776	95,910	101,318	104,779
YoY	2.7%	6.2%	-4.1%	-1.9%	-0.4%	-0.5%	5.1%	9.3%	5.6%	3.4%
Japan					81,925	78,348	80,525	84,331	84,976	84,233
YoY					-	-4.4%	2.8%	4.7%	0.8%	-0.9%
US					1,979	5,168	7,250	11,579	16,342	20,545
YoY					-	161.1%	40.3%	59.7%	41.1%	25.7%
Recurring profit	6,929	11,481	8,217	7,818	6,150	5,402	5,858	10,267	11,220	8,721
YoY	-11.7%	65.7%	-28.4%	-4.9%	-21.3%	-12.2%	8.4%	75.3%	9.3%	-22.3%
RPM	8.2%	12.8%	9.6%	9.3%	7.3%	6.5%	6.7%	10.7%	11.1%	8.3%
Japan					6,278	5,159	5,416	9,335	9,769	8,839
YoY					-	-17.8%	5.0%	72.4%	4.6%	-9.5%
RPM					7.7%	6.6%	6.7%	11.1%	11.5%	10.5%
US					-127	243	441	932	1,450	33
YoY					-	-	81.5%	111.3%	55.6%	-97.7%
RPM					-	4.7%	6.1%	8.0%	8.9%	0.2%

Source: Shared Research based on company data

No. of stores, sales per store, recurring profit per store

(JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Store count	109	110	113	114	118	122	122	129	137	144
YoY	3.8%	0.9%	2.7%	0.9%	3.5%	3.4%	0.0%	5.7%	6.2%	5.1%
Japan	108	109	111	111	113	113	107	108	105	103
YoY	2.9%	0.9%	1.8%	0.0%	1.8%	0.0%	-5.3%	0.9%	-2.8%	-1.9%
Sales per store	-	-	-	-	731	693	732	784	798	810
RP per store	-	-	-	-	-	-	-	179	182	182
US	1	1	2	3	5	9	15	21	32	41
YoY	-	0.0%	100.0%	50.0%	66.7%	80.0%	66.7%	40.0%	52.4%	28.1%
Sales per store	-	-	-	-	495	738	604	643	617	563
RP per store	-	-	-	-	-	-	-	162	162	114

Source: Shared Research based on company data

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

In the US, its main services are bowling, amusement (games), and karaoke. Starting in FY03/21, the company plans to introduce SPO-CHA at new stores as well as some of its existing stores as a means of differentiating itself from competitors.

Bowling has high marginal profitability

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

US Moreno Valley Mall Branch



Okinawa Ginowan Branch



Source: Shared Research based on company data

Business description

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

Returning to the standard format from the stadium format

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

Bowling (23.3% of sales in FY03/20)

Revenues are mainly derived from fees for bowling rounds, bowling shoe rentals, and vending machines sales (such as drinks and snacks). Within the company's overall sales mix, although Bowling accounts for less than Amusement's 50.3% (FY03/20), Bowling is the company's core business and all stores include a bowling alley. Nearly all of Japan's existing bowling alleys opened during Japan's bowling boom from the mid-1960s to the mid-1970s, and have continued to operate in their original style. Round One's facilities were newly opened long after the boom period and feature a range of innovations, such as moonlight strike games (game rooms illuminated with black lights), which help boost bowling's leisure appeal and differentiate the facilities from those of competitors. From FY03/09 onward, Round One has grown faster than the market, but it suffered in FY03/13 as competitors drove down prices. Growth was also sluggish in FY03/15, owing to the prolonged effect of the consumption tax hike in April 2014, and poor weather over the year-end holiday season—normally a time of peak demand. The adverse effect of the consumption tax hike lingered on. However, it seemed to be finally bottoming out in FY03/17.

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

Round One has a membership program that offers discounted rates for its facilities. The annual membership fee is JPY300. The membership discounted rates per game are JPY720 for general members, JPY710 for vocational and university students, JPY680 for middle and high school students, and JPY580 for elementary school and younger members. Standard non-member rates are JPY730, JPY720, JPY690, and JPY590, respectively.

Bowling business performance

(JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Bowling sales growth YoY: Market	-5.1%	-4.1%	-3.7%	-6.2%	-8.3%	-6.9%	-4.3%	0.6%	-3.3%	-5.9%
Bowling sales: Round One	31,000	32,400	29,700	27,200	24,520	23,030	22,910	24,520	24,290	24,460
YoY	0.7%	4.5%	-8.3%	-8.4%	-9.9%	-6.1%	-0.5%	7.0%	-0.9%	0.7%
% of consolidated sales	36.8%	36.2%	34.6%	32.3%	29.2%	27.6%	26.1%	25.6%	24.0%	23.3%
Japan	-	-	-	-	-	22,060	21,680	22,720	22,140	21,830
YoY	-	-	-	-	-	-	-1.7%	4.8%	-2.6%	-1.4%
US	-	-	-	-	-	960	1,220	1,790	2,150	2,620
YoY	-	-	-	-	-	-	27.1%	46.7%	20.1%	21.9%

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



Source: Company data

Amusement (50.3% of sales in FY03/20)

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

Amusement business performance

(JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Amusement sales growth YoY: Market	-1.7%	-1.7%	-3.6%	-2.9%	-7.5%	2.8%	6.5%	5.2%	7.0%	-
Amusement sales: Round One	35,224	36,400	34,500	34,900	36,520	36,580	40,530	45,340	49,680	52,660
YoY	5.4%	3.3%	-5.2%	1.2%	4.6%	0.2%	10.8%	11.9%	9.6%	6.0%
% of consolidated sales	41.8%	40.6%	40.2%	41.4%	43.5%	43.8%	46.2%	47.3%	49.0%	50.3%
Japan	-	-	-	-	-	33,390	35,900	37,700	38,790	38,767
YoY	-	-	-	-	-	-	7.5%	5.0%	2.9%	-0.1%
US	-	-	-	-	-	3,180	4,620	7,640	10,890	13,900
YoY	-	-	-	-	-	-	45.3%	65.4%	42.5%	27.6%

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



Source: Company data

Karaoke (10.9% of sales in FY03/20)

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

Karaoke business performance

(JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Karaoke sales growth YoY: Market	-1.6%	1.6%	1.6%	1.2%	0.6%	0.4%	-1.9%	-0.5%	-1.5%	-
Karaoke sales: Round One	6,715	8,200	8,300	8,400	8,640	8,660	9,130	9,840	10,940	11,450
YoY	11.2%	22.1%	1.2%	1.2%	2.9%	0.2%	5.4%	7.8%	11.2%	4.7%
% of consolidated sales	8.0%	9.2%	9.7%	10.0%	10.3%	10.4%	10.4%	10.3%	10.8%	10.9%
Japan	-	-	-	-	-	7,750	7,730	7,700	7,650	7,429
YoY	-	-	-	-	-	-	-0.3%	-0.4%	-0.6%	-2.9%
US	-	-	-	-	-	900	1,390	2,130	3,290	4,020
YoY	-	-	-	-	-	-	54.4%	53.2%	54.5%	22.2%

Source: Shared Research based on company data and the All-Japan Karaoke Industrialist Association's Karaoke White Paper

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

Note: Market data on a calendar year basis.



Source: Company data

SPO-CHA (12.4% of sales in FY03/20)

Sales mainly comprise admission tickets for SPO-CHA ("Sports Challenge") and food and beverages consumed by SPO-CHA customers. Up through FY03/20, SPO-CHA was only available at the company's stadium format stores in Japan, which are larger than its standard store format. Nearly all stadium stores are standalone. Usually, the roof area and floor directly below are dedicated to SPO-CHA, which includes futsal, bubble soccer, three-on-three basketball, segway, batting practice, roller skating, and trampolining. Once customers enter the area, all these services (with the exception of some food services) are available at no additional cost within the time period specified by the ticket, distinguishing it from its competitors. Furthermore, Kid's SPO-CHA targets families with children and includes play items such as slides, ball pools, and a children's only karaoke area.

Starting in FY03/21, the company has been installing SPO-CHA facilities in its overseas stores as a way of differentiating itself from competitors.

SPO-CHA business performance

(JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SPO-CHA sales	8,748	9,400	10,300	10,900	11,500	12,190	12,270	13,280	13,460	13,020
YoY	-2.4%	7.5%	9.6%	5.8%	5.5%	6.0%	0.7%	8.2%	1.4%	-3.3%
% of total sales	10.4%	10.5%	12.0%	12.9%	13.7%	14.6%	14.0%	13.8%	13.3%	12.4%

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

SPO-CHA facilities



Source: Company data



Source: Company data

Other (3.0% of sales in FY03/20)

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

Other business performance

(JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Other sales	2,613	3,000	2,900	2,700	2,700	3,040	2,920	2,900	2,920	3,160
YoY	-10.5%	14.8%	-3.3%	-6.9%	0.0%	12.6%	-3.9%	-0.7%	0.7%	8.2%
% of total sales	3.1%	3.3%	3.4%	3.2%	3.2%	3.6%	3.3%	3.0%	2.9%	3.0%

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

Development of new centers

As of end-March 2020, the company had 144 amusement complex centers (standard stores: 51; stadiums: 52; US: 41).

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

In the US, the company will accelerate store openings while leveraging the lessons it has learned from operating stores there, with the objective of establishing a network of 120 US stores. The company opened its first US store in August 2010, and, in FY03/16, achieved a current account surplus. Since this achievement, it has gradually increased new store openings as it has accumulated operational expertise. In FY03/19, the company opened 11 stores and plans to open 11 more during FY03/20. From FY03/21 onward, although construction work has been suspended due to the COVID-19 pandemic as of May 2020, it aims to continue opening new stores.

In FY03/20, per-store earnings, staff, and fixed assets were as follows.

Per-store status in Japan

- ▷ Sales of JPY810mn (+1.5% YoY) and recurring profit of JPY182mn (-0.1% YoY)
- ▷ Staff numbered 12.1 (11.9 in FY03/19), and temporary staff numbered 40.7 (43.9 in FY03/19).
- ▷ Fixed assets totaled JPY572mn

Per-store status in the US

- ▷ Sales of JPY563mn (-8.7% YoY) and recurring profit of JPY114mn (-29.3% YoY)
- ▷ Staff numbered 12.9 (9.3 in FY03/19), and temporary staff numbered 21.9 (23.8 in FY03/19).
- ▷ Fixed assets totaled JPY673mn

Store count

	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Total store count (year-end)	109	110	113	114	118	122	122	129	137	144
Openings	4	1	4	1	4	5	8	7	12	9
Closures	0	0	1	0	0	1	8	0	4	2
Owned	69	63	58	21	29	28	24	24	21	21
Leased	40	47	55	93	84	94	98	105	116	123
Japan	108	109	111	111	113	113	107	108	105	103
Standard	65	66	66	66	67	67	60	61	57	51
Roadside	57	58	57	57	58	57	50	51	47	42
Busy street	8	8	9	9	9	10	10	10	10	9
Stadium	43	43	45	45	46	46	47	47	48	52
Roadside	43	43	44	44	45	45	46	46	47	51
Busy street	-	-	1	1	1	1	1	1	1	1
US	1	1	2	3	5	9	15	21	32	41

Source: Shared Research based on company data

Cost structure analysis

While the company does not disclose detailed information on its consolidated cost of sales, it does release details of non-consolidated (the Japan segment) cost of sales. In FY03/20, the company's non-consolidated cost-to-sales ratio was 86.7%. Cost-to-sales ratios of main items were 23.1% for personnel costs, 11.1% for promotion costs, 18.9% for rents, and 11.9% for depreciation. Promotion costs mainly consisted of the cost of prizes in the amusement service, which is tied to amusement service sales. The other main costs were fixed costs, which are not affected by changes in sales.

Looking at cost-to-sales ratios over the past 10 years, personnel costs have trended upward while promotion costs have remained flat around 10% and rents have trended downward. A change in accounting method for depreciation of leased assets in FY03/11 from the straight-line method to the declining balance method brought the depreciation costs ratio up 4.7pp YoY to 17.3% for the fiscal year. In FY03/13, it rose up to 17.9% but have since trended downward.

Parent earnings

Income statement (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Sales	83,995	89,037	85,193	82,998	81,925	78,348	80,525	84,331	84,976	84,233
YoY	2.3%	6.0%	-4.3%	-2.6%	-1.3%	-4.4%	2.8%	4.7%	0.8%	-0.9%
Cost of sales	78,160	78,738	78,855	77,207	75,775	72,410	73,933	72,831	72,889	73,008
Cost of goods sold	1,804	2,002	1,991	2,081	2,340	2,470	2,713	2,729	2,867	2,725
Personnel costs	17,262	17,766	17,789	17,883	18,413	18,449	19,069	19,587	19,284	19,417
Various costs	59,093	58,969	59,074	57,241	55,020	51,490	52,149	50,514	50,737	50,865
Promotion costs	8,144	8,090	7,628	7,972	8,804	7,444	7,934	8,984	9,661	9,356
Utility costs	4,616	4,707	5,095	5,729	6,129	5,720	5,124	4,805	4,713	4,499
Repair costs	1,047	1,158	1,476	1,381	1,299	1,437	1,601	1,711	1,296	1,498
Consumables costs	4,430	2,100	2,293	2,565	2,856	2,759	2,979	2,900	2,850	2,892
Rents	23,052	22,016	21,588	20,913	18,390	18,474	18,431	16,159	16,161	15,959
Depreciation	14,526	15,715	15,276	12,667	11,466	9,423	9,583	9,749	9,588	10,035
Taxes and dues	861	755	732	711	736	755	787	855	895	893
Other	2,414	4,425	4,983	5,299	5,336	5,475	5,707	5,348	5,570	5,730
Gross profit	5,835	10,299	6,338	5,791	6,150	5,938	6,591	11,499	12,086	11,225
YoY	-25.6%	76.5%	-38.5%	-8.6%	6.2%	-3.4%	11.0%	74.5%	5.1%	-7.1%
Cost ratio	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Cost of sales	93.1%	88.4%	92.6%	93.0%	92.5%	92.4%	91.8%	86.4%	85.8%	86.7%
Cost of goods sold	2.1%	2.2%	2.3%	2.5%	2.9%	3.2%	3.4%	3.2%	3.4%	3.2%
Personnel costs	20.6%	20.0%	20.9%	21.5%	22.5%	23.5%	23.7%	23.2%	22.7%	23.1%
Various costs	70.4%	66.2%	69.3%	69.0%	67.2%	65.7%	64.8%	59.9%	59.7%	60.4%
Promotion costs	9.7%	9.1%	9.0%	9.6%	10.7%	9.5%	9.9%	10.7%	11.4%	11.1%
Utility costs	5.5%	5.3%	6.0%	6.9%	7.5%	7.3%	6.4%	5.7%	5.5%	5.3%
Repair costs	1.2%	1.3%	1.7%	1.7%	1.6%	1.8%	2.0%	2.0%	1.5%	1.8%
Consumables costs	5.3%	2.4%	2.7%	3.1%	3.5%	3.5%	3.7%	3.4%	3.4%	3.4%
Rents	27.4%	24.7%	25.3%	25.2%	22.4%	23.6%	22.9%	19.2%	19.0%	18.9%
Depreciation	17.3%	17.6%	17.9%	15.3%	14.0%	12.0%	11.9%	11.6%	11.3%	11.9%
Taxes and dues	1.0%	0.8%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.1%	1.1%
Other	2.9%	5.0%	5.8%	6.4%	6.5%	7.0%	7.1%	6.3%	6.6%	6.8%

Source: Shared Research based on company data

Cost per store and leasing costs by length of operation

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

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

Leasing costs by length of operation

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

Source: Shared Research based on company data

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

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

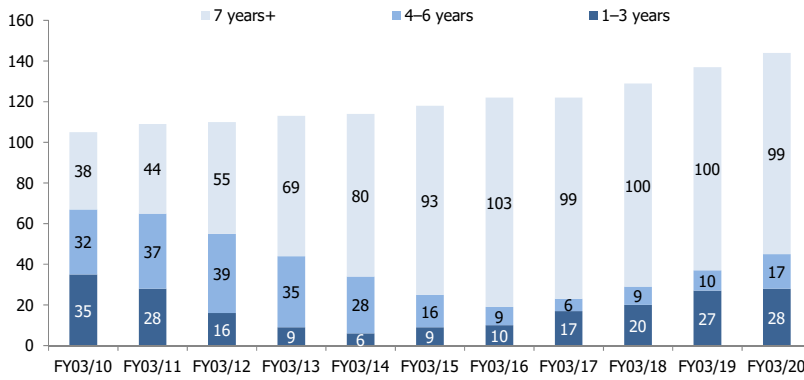
Bowling has the lowest leasing costs compared with other facilities, and it has the lowest variable costs (meaning high marginal profits), making it a key earnings pillar for the company. After the seventh year bowling leasing costs come down to 1.1%, with higher profit margins expected. Bowling requires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

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

Ages of centers

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

Store breakdown by age



Source: Shared Research based on company data

Group companies

The company group comprises the parent, its consolidated subsidiary Round One Entertainment Inc., which operates Round One stores in the US, and two consolidated subsidiaries.

Strengths and weaknesses

Strengths:

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

Weaknesses:

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

Market and value chain

Market overview

4000 bowling centers when the market was at its peak; presently 521 centers

Bowling gained wide popularity in Japan in the 1960s when it was first imported. In those days, many companies with suitable idle land aggressively built bowling alleys for customers, who often lined up for hours to bowl. After peaking at around 4,000, by 2016 the number of centers had declined to about 521, according to the 2016 Economic Census for Business Activity (Statistics Bureau of Japan). Japanese people now have access to a wide variety of entertainment options, leading to a smaller portion of disposable income for bowling.

Competition with other amusement or entertainment influences bowling demand

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

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

Market size (JPYbn)	2010	2011	2012	2013	2014	2015	2016	2017	2018
Bowling	82.0	76.0	75.0	72.0	65.0	66.0	64.0	63.0	62.0
YoY	-	-7.3%	-1.3%	-4.0%	-9.7%	1.5%	-3.0%	-1.6%	-1.6%
Karaoke	379.0	385.2	391.2	395.7	397.9	399.4	399.4	390.1	384.4
YoY	-12.0%	1.6%	1.6%	1.2%	0.6%	0.4%	0.0%	-2.3%	-1.5%
Arcade games	504.3	495.8	487.5	470.0	456.4	422.2	433.8	462.0	485.9
YoY	-12.0%	-1.7%	-1.7%	-3.6%	-2.9%	-7.5%	2.7%	6.5%	5.2%

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

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

With 103 centers nationwide at end-FY03/20 (105 centers at end-FY03/19), the company’s domestic sales for bowling were JPY21.8bn (-1.4% YoY). Round One has approximately 30% of the market (by value). While its market share based on the number of bowling centers is only about 20%, it has a very high lane utilization rate compared with its peers.

The company entered the market late, in the early 1980s, at the end of an era of such commercially successful entries. The company not only opened bowling alleys but also introduced a completely new model (under the Round One brand), combining bowling with games, karaoke, and other amusement options. The market size was about JPY60–70bn as of 2019 with approximately 30 centers closing each year, and expectations for continued contraction of the market. However, Round One has the potential to improve sales by increasing its share as smaller competitors exit the market.

Shrinking arcade games market

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

US market

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

Overview

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

Other market features

- The two largest operators (Brunswick Corp. and AMF Bowling, Inc.) have approximately 400 stores with second-tier players having around 50 stores. Most of the other operators are family-owned businesses.
- Recession-resistant: the market has displayed continued stable growth over the past few years.
- Older bowling alleys have been closed down over the years and about 20–50 of these stores per year are then renovated into other facilities (such as go-kart tracks, video game arcades, and mini golf courses).
- Participation rates for bowling are very high compared to other leisure activities (such as golf, fishing, tennis, billiards, cycling, roller skating, ice skating and marathon running).
- Bowling alleys are viewed as social venues with a growing rate of patronage by above-average income earners.
- Outside of bowling alleys, the company competes with Dave & Buster's Entertainment, Inc. (NASDAQ PLAY), which operates venues that combine video arcades with full-service restaurants. As of May 2020, there were 137 Dave & Buster's stores.

Customers

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

Suppliers

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

Barriers to entry

A mature market with limited growth potential makes a profitable entry less possible and therefore less attractive. Both the existence of a national Round One franchise and its expertise in managing this franchise create high barriers to entry for mid- and small-sized competitors. Additionally, several billion yen is required to invest in facilities, which is a significant barrier to entry. Some game manufacturers abandoned their attempts to enter the bowling market after they found that their expertise (arcade games) was not transferable to bowling.

Competitors

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

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

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

Substitutes

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

Historical financial statements

Summary

Q1 FY03/21 results

▷ Sales:	JPY5.6bn (-78.0% YoY)
▷ Operating loss:	JPY11.1bn (operating profit of JPY2.4bn in Q1 FY03/20)
▷ Recurring loss:	JPY11.1bn (recurring profit of JPY2.3bn in Q1 FY03/20)
▷ Net loss*:	JPY8.6bn (net income of JPY1.4bn in Q1 FY03/20)

*Net income/loss attributable to owners of the parent

Sales declined sharply YoY due to the closure of all the company's stores in Japan following the government's declaration of the state of emergency and also the closure of stores in the US in line with requests by state governments and counties.

Although costs were down YoY, the company recorded losses at the operating level downward due to lower sales. Along with the decline in costs associated with lower sales, rents were reduced by JPY300mn (exemption) YoY during the period of closure of stores in Japan, and advertising expenses were down JPY220mn YoY as the company suspended advertising and promotion activities. The company also recorded JPY103mn in subsidies for employment adjustment as non-operating income. According to the company, subsidies for employment adjustment are booked as income when the company applies to the Ministry of Health, Labor and Welfare, and it expects to book them from Q2 onward.

Subsidies for employment adjustment are a system to pay business owners if their business is impacted by the COVID-19 outbreak by partially subsidizing allowances for employee leave of absence based on an agreement between labor and company to maintain staff in employment during the period of leave.

In Japan, Round One temporarily closed all 103 stores from early April 2020. Once the Japanese government lifted its state of emergency declaration and eased its request for store closings, the company reopened all 103 domestic stores in early June after implementing thorough measures to prevent the spread of COVID-19. In the US, it temporarily closed all 41 stores from mid-March 2020. From mid-May, as various state and county governments began easing restrictions, Round One reopened some stores, but still had to limit business hours and faced restrictions on some business areas.

In Japan, the total store count was 103 at end-Q1 FY03/21 (versus 103 stores as of end-FY03/20). In the US, the total store count was 41 at end-Q1 FY03/21 (versus 41 stores as of end-FY03/20).

As of August 2020, the company has left its forecast for FY03/21 undetermined. However, Shared Research thinks that, provided there is no second wave of COVID-19 infections, the company's business performance will start to recover from Q2 after bottoming out in Q1. All stores were closed during Q1, but in Q2 the company reopened all of its Japanese stores along with some of its US stores. The ratio of variable costs (costs that vary in line with sales, such as promotion costs [amusement prize costs], personnel costs, communication costs, and utility costs) to sales was around 30%, and the marginal profit ratio was around 70%.

Japan

▷ Sales:	JPY5.2bn (-74.7% YoY)
▷ Segment loss (recurring loss):	JPY8.2bn (segment profit of JPY2.1bn in Q1 FY03/20)

Due to the spread of COVID-19, Round One temporarily closed all 103 domestic stores from early April 2020. Thereafter, it implemented measures to prevent infection, such as regularly disinfecting bowling and karaoke equipment and in-store facilities

with alcohol and applying antimicrobial/antiviral coatings where possible, and reopened some stores in mid-May. All domestic stores resumed operation in early June. However, even after reopening, Round One maintained abbreviated business hours and limited some areas of business.

As a result, comparable store sales in Japan decreased by 96.1% YoY in April 2020, 86.1% in May, and 37.4% in June. Q1 sales were down YoY. Comparable sales in July were down 22.9% YoY. Earnings have been on an improving trend since the business reopened in June. By mid-July, sales were hovering around -15% YoY level, but the overall trend was sluggish again in late July as the number of new infections rose.

At the profit level, the company recorded recurring loss as positive factors such as cost reduction were overshadowed by negative factors.

- ▷ Positive factors included a decline in various costs, including promotion costs (amusement prize costs), utility costs, purchasing costs, communication costs, and other store costs as sales fell YoY. Other positive factors for profit were a decline in personnel costs as staff wages during the store shutdown period were switched to leave of absence allowances, and lower advertising expenses due to the suspension of advertising activities. Rents were also lower during the store shutdown period due to rent exemption.
- ▷ The main negative factor for profit was the drop in sales.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Decrease in promotion costs	JPY1.1bn	Decrease in sales	JPY15.5bn
Decrease in personnel costs	JPY1.1bn		
Decrease in utility costs	JPY510mn		
Decrease in purchasing costs	JPY510mn		
Decrease in communication costs	JPY480mn		
Decrease in rents	JPY370mn		
Decrease in advertising costs	JPY220mn		
Decrease in other store costs	JPY1.1bn		

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY1.3bn (-75.9% YoY; -75.5% YoY at existing stores)
- ▷ Amusement: JPY2.8bn (-71.1% YoY; -70.9% YoY at existing stores)
- ▷ Karaoke: JPY360mn (-80.6% YoY; -80.3% YoY at existing stores)
- ▷ SPO-CHA: JPY483mn (-85.1% YoY; -85.1% YoY at existing stores)

Situation of Japanese stores

As far as the running of the company's stores goes, in addition to the temporary closure of some stores on March 28 and 29, 2020, it implemented further partial temporary store closures from April 2, 2020, as well as the temporary closure of all stores on April 7, 2020. It gradually began resuming business on May 15, 2020, eventually reopening all stores on June 1, 2020.

Each of the reopened stores has been taking precautions to prevent the spread of COVID-19, such as placing special staff in charge of alcohol sterilization of the premises, taking customers' temperatures upon arrival, and operating reduced business hours, in addition to which, the company has committed itself to the following measures to ensure social distancing.

- ▷ Bowling: Limit use of each box (2 lanes) to a single group (maximum four players) with maximum three players per lane; require groups of five or more to use at least two boxes (four lanes).

- ▷ Karaoke: Limit the number of people per room to half of the room capacity. Require groups over half of room capacity to use two or more rooms. Stores equipped with ROUND1 LIVE can link video and audio between multiple rooms.

US

- ▷ Sales: JPY392mn (-91.9% YoY)
- ▷ Segment loss (recurring loss): JPY2.7bn (segment profit of JPY238mn in Q1 FY03/20)

Due to the spread of COVID-19, Round One temporarily closed all 41 US stores from mid-March 2020. At the end of Q1, it reopened 20 stores, primarily in central and eastern regions of the US, but rules put in place by various state and country governments meant it still faced limits on business hours and some areas of business. The remaining 21 stores were still temporarily closed, mostly in western regions.

As mentioned above, in order to prevent the spread of COVID-19, the company temporarily closed its stores and shortened business hours in accordance with instructions from the administrative authorities. In terms of profit, the company recorded a loss due to the decline in sales, although expenses decreased as a result of suspension of operation.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Decrease in expenses due to shutdown	JPY1.3bn	Decrease in sales due to shutdown	JPY4.5bn
Other	JPY50mn	Increase in initial investment costs	JPY20mn

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY20mn (-96.9% YoY)
- ▷ Amusement: JPY340mn (-89.7% YoY)
- ▷ Karaoke and other: JPY10mn (-98.9% YoY)

Situation of US stores

The company's stores were temporarily closed from the mid-March 2020, but they have been reopened one by one as permission was granted by the administrative authorities. Round One reopened three stores in May, 18 stores in June, and five stores in July. Of these, four stores have stopped operating again. At the end of Q1, 20 out of 41 stores had resumed operation.

At reopened stores, dedicated staff are in place to take measures to prevent the spread of infection, including the use of alcohol-based disinfectant in company facilities, and business hours have been shortened. Social distancing precautions appear to be generally in line with those in Japan.

Regarding future store openings in the US, the company plans to open 14 stores where lease agreements have already been signed. However, it is uncertain when construction of these will resume because of the pandemic, so the opening schedule remains undecided at present. Also, as of August 2020, the company had suspended conclusion of any new lease agreements.

Other regions

The loss for other regions (overseas subsidiaries excluding the US): JPY112mn (zero in Q1 FY03/20)

The current situation for prospective openings in Russia and China is as follows.

- ▷ Preparations for the opening of the first store in Russia are making progress with interior work underway. The company says it is preparing for opening by the end of the year.

- ▷ In China, the company says it is negotiating to conclude leases for four stores scheduled to open in FY03/22. The company plans to open a total of eight stores in China over the medium term and aims to build up its knowhow on store operation in this country.

Financial condition

As of the end of Q1, the company had JPY26.9bn in cash and deposits, JPY8.8bn in guarantee deposits, and JPY16bn in lines of credit through commitment line contracts with various banks. The company said it had around JPY51.6bn in adjusted cash on hand including its lines of credit.

According to the company, monthly cash outflows during its all-store closure were JPY3.9bn in Japan and JPY600mn in the US, for a total of JPY4.5bn, meaning its adjusted cash on hand equates to about one year's worth of working capital.

Full-year FY03/20 results

- ▷ Sales: JPY104.8bn (+3.4% YoY)
- ▷ Operating profit: JPY8.9bn (-22.4% YoY)
- ▷ Recurring profit: JPY8.7bn (-22.3% YoY)
- ▷ Net income*: JPY4.8bn (-33.0% YoY)

*Net income attributable to owners of the parent.

Sales were up YoY. In Japan, comparable store sales slipped 0.1% YoY, while in the US sales grew as the number of stores increased. At the profit level, owing to the impact of the COVID-19 pandemic (detailed later in this report), in Q4 FY03/20 operating profit came to JPY3.1bn (-49.3% YoY), and for the full year as well, operating, recurring, and net profits were also down YoY.

In Japan, the company worked to enhance the ROUND1 LIVE service. Additionally, the company started providing "LIVE Pro Challenge," "Battle Bowling Battle Karaoke," "National LIVE Fan Event," and "National LIVE Off Event" as new content services for customers to enjoy two-way communication. In the US, the company made service improvement efforts by offering hard liquor and operating during late night hours. However, to prevent the spread of COVID-19 infection, the company temporarily closed five stores in Hokkaido in early March 2020, ten stores in the Tokyo area in late March 2020, and all 41 stores in the US from mid-March 2020.

ROUND1LIVE: Facilities that connect distant stores in real time using monitors and cameras installed in bowling areas and karaoke rooms to provide performances and other content and services.

Round One closed two stores in Japan, bringing the total number of stores to 103 (versus 105 stores total as of end-FY03/19). In the US, the company opened nine stores, bringing the total store count to 41 (versus 32 stores as of end-FY03/19).

In Japan, the Musashimurayama, Narashino, Tsu-Takachaya, and Matsuyama stores were renovated into SPO-CHA attached stores to attract new customers.

In the US, the company opened nine stores in Southland, California (July 2019); Meadowood, Nevada (August 2019); Park Place, Arizona (October 2019); Meadows, Nevada (November); Fairfield Commons, Ohio (November); Towson Town Center, Maryland (December); and Fashion District, Pennsylvania (December); Valley River Center, Oregon (February 2020); and Burbank Town Center, California (March 2020).

Japan

Sales were JPY84.2bn (-0.9% YoY) and segment profit (recurring profit) was JPY8.8bn (-9.5% YoY).

The company enhanced content offerings and ran TV commercials to raise recognition for ROUND1 LIVE. Additionally, it reopened four stores as SPO-CHA attached stores after renovation. For Amusement service, the company implemented the latest large medal game unit StarHorse 4 as well as the latest music game unit beatmania IIDX LIGHTNING MODEL. For Karaoke, the company implemented the latest karaoke unit LIVE DAM Ai.

Sales declined since comparable store sales dipped 0.1%, as well as the fact that stores were not open for business for as many months as they were a year earlier.

Comparable store sales were up 8.1% in Q1 (April–June 2019) and 2.2% in Q2 (July–September 2019), but down 1.9% in Q3 (October–December 2019) and 7.5% in Q4 (January–March 2020).

- ▷ Comparable store sales were up YoY in Q1 and Q2 as price hikes drove up average customer spend.
- ▷ In Q3, comparable store sales were down due to the temporary dip in demand following the October 2019 consumption tax hike as well as the temporary closure of some stores due to Typhoon Hagibis.
- ▷ In Q4, comparable store sales were up 0.9% YoY in January 2020 and 5.3% in February. In March, however, comparable store sales fell 24.1% as customer traffic declined following the Education Ministry’s March 2, 2020, call for elementary, middle, and high schools to suspend classes. Another factor contributing to the decline in comparable store sales is that the company chose to temporarily close all stores in Tokyo as well as some stores in neighboring Kanagawa and Saitama prefectures (a total of 10 stores) on Saturday, March 28, and Sunday, March 29, 2020.

The company implemented price hikes of approximately 1% in Amusement and 4% in SPO-CHA in January as well as 5% in Bowling and 2% in Karaoke in April 2019.

At the profit level, recurring profit fell YoY as positive factors such as cost reductions were overshadowed by negative factors.

- ▷ Positive factors included declines in rents, utility costs, promotion costs (amusement prize costs), and communication costs. Rents declined YoY because whereas the company had previously stored amusement prizes in warehouses, in FY03/20 it cancelled its warehouse contracts and switched to storing prizes solely at its stores. The decrease in utility costs is attributable to the company’s effective efforts to reduce costs, while promotion and communication costs declined along with the drop in sales.
- ▷ Negative factors included the drop in sales as well as increases in commission expenses, depreciation, and repair costs.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Decrease in rents	JPY240mn	Decrease in sales	JPY740mn
Decrease in utility costs	JPY210mn	Increase in commission expenses	JPY380mn
Decrease in promotion costs	JPY200mn	Increase in depreciation	JPY350mn
Decrease in communication costs	JPY190mn	Increase in repair costs	JPY200mn
		Other	JPY20mn

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY21.8bn (-1.4% YoY; +0.2% YoY at existing stores)
- ▷ Amusement: JPY38.8bn (-0.1% YoY; +0.4% YoY at existing stores)
- ▷ Karaoke: JPY7.4bn (-2.9% YoY; -1.3% YoY at existing stores)
- ▷ SPO-CHA: JPY13.0bn (-3.3% YoY; -3.8% YoY at existing stores)

Note: From March 2020 forward, the company has been affected by the spread of COVID-19.

Impact of the COVID-19 pandemic in Japan

Q4 sales came to JPY22.2bn (-8.3% YoY) and recurring profit totaled JPY3.5mn (-32.9% YoY). As mentioned above, the COVID-19 pandemic caused a YoY drop in comparable store sales, resulting in both sales and profit decline. We understand that COVID-19 hurt sales by more than JPY2.0bn.

As far as the running of the company's stores goes, in addition to the temporary closure of some stores on March 28 and 29, 2020, it implemented further partial temporary store closures from April 2, 2020, as well as the temporary closure of all stores on April 7, 2020. It gradually began resuming business on May 15, 2020, eventually reopening all stores on June 1, 2020.

Each of the reopened stores has been taking precautions to prevent the spread of COVID-19, such as placing special staff in charge of alcohol sterilization of the premises, taking customers' temperatures upon arrival, and operating reduced business hours, in addition to which, management has committed itself to the following measures to ensure social distancing.

- ▷ Bowling: Limit use to one group (six players maximum) per box (two lanes), and require groups of seven or more to use at least two boxes (four lanes).
- ▷ Amusement: Arrange arcade seats and game machines to keep sufficient distance and prevent close-contact between patrons.
- ▷ Karaoke: Limit use to three persons per room, and require groups of four persons or more to use at least two rooms. Stores equipped with ROUND1 LIVE can link video and audio between multiple rooms.
- ▷ SPO-CHA: Set maximum customer admission to around half of the standard number of persons.
- ▷ Food services: Adjust refreshment area furniture count to ensure that tables are at least 1.5 meters apart.

US

Sales were JPY20.5bn (+25.7% YoY) and segment profit (recurring profit) was JPY33mn (-97.7% YoY).

To boost awareness in the US, the company ran TV commercials. In addition, with the extension of business hours, a late-night-only pricing plan was newly introduced. For Amusement services, the company implemented the latest arcade units in all US stores and offered party plans with bowling activities to differentiate itself from competitors. Additionally, some stores started operating during late night hours and offering hard liquor.

In FY03/20, comparable store sales fell 11.1% YoY. Since mid-March 2020 the company has been temporarily suspending business operations in compliance with instructions from the authorities to prevent the spread of COVID-19, and comparable store sales have declined as a result. In addition, according to the company, sales at stores in the US tend to fall 12 to 24 months after opening. The ratio of stores that fall under this category increased in 1H FY03/20, which factored into the decline in comparable store sales. Stores benefit from a new store effect that boosts sales for roughly one year after opening, but the impact subsequently winds down. On the other hand, the company says that stores that have been open for 25 months or more tend to see consistent sales recovery through word of mouth referrals as the sluggishness from the fall-off of new store effect runs its course. In FY03/20, since the company temporarily suspended business operations starting in mid-March, sales at stores that had been open for 25 months or longer fell 7.1% YoY.

Quarterly comparable store sales for existing stores that have been open for 25 months or more grew 0.2% YoY in Q1 (April–June 2019), declined 3.0% YoY in Q2, and grew 1.6% YoY in Q3, and fell 21.9% in Q4. Sales for stores that have been open for 25 months or more declined in Q2, but grew in Q3 thanks to effective measures taken by the company as described later in this report. Looking at Q4 sales at stores in operation for 25 months or longer, we see that sales were up YoY in January and February 2020, but fell sharply in March due to the aforementioned temporary closure of stores. Since Q3, the company has undertaken the following measures to prop up comparable store sales:

- ▷ Periodic shuffling of amusement machines and prizes between stores: The company will shuffle machines among stores and periodically renew each store’s amusement corner offerings. Additionally, it will periodically move around prizes won in redemption games (in which players win tickets based on game metrics that can be traded for prizes) between stores.
- ▷ Build a maintenance system for amusement machines: The company will build a maintenance system that prioritizes fixing machines with high utilization rates and high sales contributions over other machines.
- ▷ Review gameplay pricing: In the US, the company implemented price hikes in the Amusement service of 9–10% and in the Bowling service of 6–7%. As a result, gameplay prices for Amusement services at some stores were higher than nearby competitors. In December 2019, the company reviewed gameplay pricing for each store by game, and reduced prices to similar levels as its competitors.
- ▷ Introduce SPO-CHA: To differentiate itself from competitors, the company plans to introduce SPO-CHA, which it continues to deploy in Japan, to its American stores. The company is carrying out preparations in FY03/20 to install SPO-CHA at stores opening starting in FY03/21 along with at some existing stores.
- ▷ Review the management structure: The company replaced the representative director and president of its US subsidiary in November 2019, and the new representative director and president took office in January 2020. According to the company, the original management structure did not call for the president of the US subsidiary to be permanently stationed in the area of business operations. From January 2020 and on, the president will always be present on the scene, which will enable him to devise and execute initiatives more quickly than under the previous system.

Despite a rise in gross profit accompanying an increase in total store-operation months, profits fell YoY owing to lower gross profits at existing stores through February and profit decline resulting from the suspension of operations. In addition, increased initial investment costs for new store openings exerted further downward pressure on profits. Comparable store gross profit fell JPY490mn in Q3 (October–December 2019), but JPY750mn over the months of January and February in Q4. During those two months, the company took measures such as installing new amusement machines to prop up comparable store sales, and consequently costs increased compared to Q3.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Increase in gross profit due to increase in total store-operation months (through February 2020)	JPY890mn	Decrease in comparable store gross profit (through February 2020)	JPY1.2bn
		Decrease in gross profit due to suspension of operations in March 2020	JPY1.1bn
		Increase in initial investment costs	JPY60mn

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY2.6bn (+21.9% YoY)
- ▷ Amusement: JPY13.9bn (+27.6% YoY)
- ▷ Karaoke and Other: JPY4.0bn (+22.9% YoY)

Impact of the COVID-19 pandemic in the US

The impact of the COVID-19 pandemic in Q4 (January–March 2020), as stated above, caused a JPY1.1bn decline in gross profit stemming from the suspension of operations in March.

As far as store operation goes, the company suspended operations from mid-March 2020, but it says it will gradually resume business starting with stores that have received clearance from the authorities. As of June 1, 2020, three stores had reopened their doors to business.

Reopened stores have adopted the same kind of measures to prevent the spread of COVID-19 as those taken in Japan, such as assignment of special staff for alcohol sterilization of the premises and truncated business hours, the only exception being taking customers' temperatures upon entry, which is not being done in the US. Stores in the US are also taking the same sort of measures as those taken in Japan to ensure social distancing, the major difference being a four-person limit per bowling box (two lanes), rather than the six-person limit implemented in Japan. Party bookings for karaoke have also been suspended.

Comparison with company forecast

FY03/20 recurring profit came in JPY2.5bn below company forecast. Recurring profit fell below forecast by JPY1.3bn in Japan, JPY1.5bn in the US, and JPY150mn in other regions.

- ▷ In Japan, promotion costs (amusement price costs), leasing costs, purchasing costs, utility costs, and communication costs came in below expectation. On the other hand, sales fell below company forecast due to the drop in customer footfall in response to COVID-19 and the October 2019 typhoon as mentioned above, while personnel and repair costs came in above expectation. As a result, recurring profit fell below the company forecast.
- ▷ In the US, gross profit at new stores and existing stores fell below the company forecast from the start of the fiscal year through February 2020, in addition to which gross profit fell short of forecast in March 2020 as the company temporarily closed all stores to prevent the spread of COVID-19. In addition, the cost of initial investments in store openings exceeded forecast, which also contributed to underperformance in recurring profit.
- ▷ In other regions, preparation expenses for opening stores in China and Russia exceeded company expectation.

Japan			
Positive factors		Negative factors	
Decrease in promotion costs (amusement prize costs)	JPY350mn	Decrease in sales	JPY1.9bn
Decrease in leasing costs	JPY260mn	Increase in personnel costs	JPY180mn
Decrease in purchasing costs	JPY120mn	Increase in repair costs	JPY120mn
Decrease in utility costs	JPY70mn		
Decrease in communication costs	JPY70mn		

US			
Positive factors		Negative factors	
		Profit decline due to suspension of operations in March 2020	JPY1.0bn
		Decrease in gross profit at new stores (through February 2020)	JPY220mn
		Decrease in gross profit at existing stores (through February 2020)	JPY190mn
		Increase in cost of initial investments	JPY50mn

Source: Shared Research based on company data

Cumulative Q3 FY03/20 results

- ▷ Sales: JPY77.0bn (+7.2% YoY)
- ▷ Operating profit: JPY5.7bn (+9.3% YoY)

- ▷ Recurring profit: JPY5.6bn (+10.3% YoY)
- ▷ Net income*: JPY3.5bn (+7.7% YoY)

*Net income attributable to owners of the parent.

Sales increased YoY, up 2.8% at existing stores in Japan and rising in the US on an increase in the number of stores. Profits fell YoY in the US, but rose in Japan, pushing overall operating profit, recurring profit, and net income upward YoY.

In Japan, the company ran TV commercials to publicize ROUND1 LIVE. Additionally, it performed renovation work on four stores – Musashimurayama, Narashino, Tsu Takajaya, and Matsuyama stores – and reopened them as SPO-CHA attached stores.

ROUND1LIVE: Facilities that connect distant stores in real time using monitors and cameras installed in bowling areas and karaoke rooms to provide performances and other content and services.

In the US, the company opened stores in Park Place Arizona (October 2019), Meadows Nevada (November), Fairfield Commons Ohio (November), Towson Town Center Maryland (December), and Fashion District Pennsylvania (December).

Round One closed two stores in Japan, bringing the total number of stores to 103 (versus 105 stores total as of end FY03/19). In the US, total store count came to 39, from 32 at end FY03/19.

Japan

Sales were JPY62.1bn (+2.1% YoY) and segment profit (recurring profit) was JPY5.3bn (+17.7% YoY).

As mentioned above, the company ran TV commercials and reopened four stores as SPO-CHA attached stores after renovation. For Amusement service, the company implemented the latest large medal game unit StarHorse 4 as well as the latest music game unit beatmania IIDX LIGHTNING MODEL. For Karaoke, the company implemented the latest karaoke unit LIVE DAM Ai.

Sales were up overall thanks to a 2.8% YoY increase in comparable store sales despite total store-operation months declining 1.9% YoY to 932 months. An increase in customer spend stemming from the implementation of a price hike contributed to the increase in comparable store sales.

The company implemented price hikes of roughly 1% in the Amusement service and 4% in SPO-CHA in January 2019, and price hikes of approximately 5% in the Bowling service and 2% in Karaoke in April 2019.

Quarterly comparable store sales grew by 8.1% YoY in Q1 (April–June 2019), 2.2% YoY in Q2, and declined by 1.9% YoY in Q3. Q3 comparable store sales were down YoY due to a temporary decline in demand related to the consumption tax hike in October 2019 and some temporary store closures related to Typhoon Hagibis. According to the company, recent comparable store sales have been strong, and monthly comparable store sales were up 1.9% YoY in January 2020.

Profits increased as higher sales and lower rents, communication costs, and utility costs were able to offset several factors restraining profits such as increases in depreciation, leasing costs, commission expenses, and repair costs.

Factors behind YoY earnings changes (recurring profit)

Positive factors	Negative factors		
Increase in sales	JPY1.3bn	Increase in commission expenses	JPY340mn
Decrease in communication costs	JPY150mn	Increase in depreciation	JPY290mn
Decrease in rents	JPY150mn	Increase in leasing costs	JPY140mn
Decrease in utility costs	JPY110mn	Increase in repair costs	JPY130mn
Others	JPY10mn		

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY15.5bn (+0.1% YoY; +1.7% YoY at existing stores)
- ▷ Amusement: JPY29.3bn (+3.0% YoY; +3.5% YoY at existing stores)
- ▷ Karaoke: JPY5.6bn (+0.6% YoY; +2.2% YoY at existing stores)
- ▷ SPO-CHA: JPY9.4bn (+1.8% YoY; +1.0% YoY at existing stores)

US

Sales were JPY15.0bn (+35.1% YoY) and segment profit (recurring profit) was JPY326mn (-37.5% YoY).

To boost awareness in the US, the company ran TV commercials. In addition, with the extension of business hours, a late-night-only pricing plan was newly introduced. For Amusement services, the company implemented the latest arcade units in all US stores.

In cumulative Q3 FY03/20, comparable store sales fell 4.5% YoY. According to the company, sales at stores in the US tend to fall 12 to 24 months after opening. The ratio of stores that fall under this category increased in 1H FY03/20, which factored into the decline in comparable store sales. Stores benefit from a new store effect that boosts sales for roughly one year after opening, but the impact subsequently winds down. On the other hand, stores that have been open for 25 months or more tend to see consistent sales recovery through word of mouth referrals as the sluggishness from the fall-off of new store effect runs its course. Accordingly, cumulative Q3 sales at stores that had been open for 25 months or longer fell only 0.4% YoY.

Quarterly comparable store sales for existing stores that have been open for 25 months or more grew 0.2% YoY in Q1 (April–June 2019), declined 3.0% YoY in Q2, and grew 1.6% YoY in Q3. Sales for stores that have been open for 25 months or more declined in Q2 but grew in Q3. The company aims to maintain the sales growth trend for existing stores through the following measures:

- ▷ Periodic shuffling of amusement machines and prizes between stores: The company will shuffle machines among stores and periodically renew each store's amusement corner offerings. Additionally, it will periodically move around prizes won in redemption games (in which players win tickets based on game metrics that can be traded for prizes) between stores.
- ▷ Build a maintenance system for amusement machines: The company will build a maintenance system that prioritizes fixing machines with high utilization rates and high sales contributions over other machines.
- ▷ Review gameplay pricing: In the US, the company implemented price hikes in the Amusement service of 9–10% and in the Bowling service of 6–7%. As a result, gameplay prices for Amusement services at some stores were higher than nearby competitors. In December 2019, the company reviewed gameplay pricing for each store by game, and reduced prices to similar levels as its competitors.
- ▷ Introduce SPO-CHA: To differentiate itself from competitors, the company plans to introduce SPO-CHA, which it continues to deploy in Japan, to its American stores. The company is carrying out preparations in FY03/20 to install SPO-CHA at stores opening in FY03/21 along with at some existing stores. As of February 2020, it had decided to offer SPO-CHA in eight of the 14 stores it plans to open in FY03/21.
- ▷ Review the management structure: The company replaced the representative director and president of its US subsidiary in November 2019, and the new representative director and president took office in January 2020. According to the company, the original management structure did not call for the president of the US subsidiary to be permanently stationed in the area of business operations. From January 2020 and on, the president will always be present on the scene, which will enable him to devise and execute initiatives more quickly than under the previous system.

Despite a rise in gross profit accompanying an increase in total store-operation months, profits fell YoY owing to lower gross profits at existing stores, increased initial investment costs for new store openings, and increased SG&A expenses.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Increase in gross profit due to increase in total store-operation months	JPY760mn	Decrease in comparable store gross profits	JPY490mn
		Increase in initial investment costs for new store openings	JPY230mn
		Increase in SG&A expenses	JPY190mn
		Other	JPY30mn

Source: Shared Research based on company data

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY1.9bn (+30.2% YoY)
- ▷ Amusement: JPY10.1bn (+37.5% YoY)
- ▷ Karaoke and Other: JPY2.9bn (+30.4% YoY)

Comparison with company forecast

Cumulative Q3 FY03/20 recurring profit came in JPY520mn below company forecast. Recurring profit fell below forecast by JPY310mn in Japan, JPY130mn in the US, and JPY80mn in other regions.

- ▷ In Japan, promotion costs (amusement prize costs), leasing costs, communication costs, utility costs, and consumable costs came in below expectation. On the other hand, sales fell below company forecast due to a typhoon in October 2019 while personnel costs, repair costs, and commission expenses came in above expectation. As a result, recurring profit fell below the company forecast.
- ▷ In the US, gross profit at new stores and existing stores fell below the company forecast.
- ▷ In other regions, preparation costs for opening stores in China and Russia exceeded company expectation.

Japan			
Positive factors		Negative factors	
Decrease in promotion costs (amusement prize costs)	JPY100mn	Decrease in sales	JPY450mn
Decrease in leasing costs	JPY60mn	Increase in personnel costs	JPY60mn
Decrease in communication costs	JPY50mn	Increase in repair costs	JPY50mn
Decrease in utility costs	JPY40mn	Increase in commission expenses	JPY40mn
Decrease in consumables costs	JPY30mn		

US			
Positive factors		Negative factors	
Other	JPY10mn	Decrease in gross profit at new stores	JPY130mn
		Decrease in gross profit at existing stores	JPY10mn

Source: Shared Research based on company data

1H FY03/20 results

Earnings overview

- ▷ Sales: JPY53.2bn (+8.8% YoY)
- ▷ Operating profit: JPY5.8bn (+24.7% YoY)
- ▷ Recurring profit: JPY5.7bn (+26.4% YoY)

▷ Net income*: JPY3.7bn (+23.5% YoY)

*Net income attributable to owners of the parent.

Sales were up YoY, rising 5.0% at existing stores in Japan and rising in the US on an increase in the number of stores. Profits fell YoY in the US, but rose in Japan, pushing overall operating profit, recurring profit, and net income upward YoY.

The company announced revisions to full-year FY03/20 forecast at its 1H results briefing. The company left the forecast for recurring profit untouched, but revised forecast for sales and operating profit downward by JPY1.7bn and JPY60mn, respectively. It also revised the forecast for net income attributable to owners of the parent downward by JPY480mn.

The forecast revisions for sales, operating profit, and recurring profit are explained by segment as follows

- ▷ In Japan, the company revised full-year forecast upward by JPY240mn for sales, JPY840mn for operating profit, and 900mn for recurring profit. The company adjusted the full-year sales forecast upward by the amount (JPY241mn) they exceeded 1H FY03/20 forecast. As for profits, the number of game machines the company intends to buy fell since the company expects game machine manufacturers to release fewer game machines than it had anticipated in the initial forecast. Moreover, the company cancelled contracts for some leased inventory it had been periodically renewing, which caused leasing costs to fall below the previously forecasted level.
- ▷ In the US, the company revised full-year forecast downward by JPY1.9bn for sales, JPY910mn for operating profit, and 900mn for recurring profit. The company had expected a 0.5% drop in comparable store sales in 1H, but sales in fact fell by 5.4%. Revised company forecast reflected this decline as the company estimated comparable store sales would fall 6.1% YoY, down 5pp from the previous forecast of 1.1% drop.

The company did not change its recurring profit forecast, but revised its forecast for net income attributable to owners of the parent downward as it expects to book a JPY640mn impairment loss related to two poorly performing US stores.

In Japan, the company provided several new offerings in real time over ROUND1 LIVE, linking up all of its stores nationwide, including “National LIVE Challenge Match” (through which customers can challenge professional bowlers) and National LIVE Fan Event (fan events enabling customers to interact with celebrities). At stores providing karaoke services, the company began providing “JOYSOUND MAX GO,” allowing customers to watch content such as films, music videos, and live events.

ROUND1 LIVE: Facilities that connect distant stores in real time using monitors and cameras installed in bowling areas and karaoke rooms to provide performances and other content and services.

In the US, the company opened a store in Southland California in July 2019 and another in Meadowood Nevada in August 2019. It also distributed coupons using the US version of its Round One app, extended weekend opening hours, and started offering hard liquor.

Round One opened one store and closed three stores in Japan, bringing the total number of stores to 103 (versus 105 stores total as of end FY03/19). In the US, it opened two new stores in 1H FY03/20, bringing the total there to 34, from 32 at end FY03/19.

Japan

Sales were JPY43.5bn (+4.4% YoY) and segment profit (recurring profit) was JPY5.3bn (+30.6% YoY).

The company rolled out new offerings using ROUND1 LIVE including National LIVE Challenge Match, National LIVE Fan Event, and LIVE de Cashback Quest. In stores providing karaoke services, the company began providing “JOYSOUND MAX GO,” and the latest music arcade game machines in the amusement service including maimai Deluxe and WACCA.

Sales were up overall thanks to a 5.0% YoY increase in sales at existing stores despite store count falling 2.8% YoY to 103 stores. Crane games in the Amusement service performed well. In addition, an increase in customer spend stemming from the implementation of a price hike contributed to the increase in comparable store sales.

The company implemented price hikes of roughly 1% in the Amusement service and 4% in SPO-CHA in January 2019, and price hikes of approximately 5% in the Bowling service and 2% in Karaoke in April 2019.

Profits increased as higher sales and lower rents were able to offset several factors restraining profits such as increases in leasing costs, commission expenses, promotion expenses, and depreciation.

Factors behind YoY earnings changes (recurring profit)

Positive factors		Negative factors	
Increase in sales	JPY1.8bn	Increase in commission expenses	JPY250mn
Decrease in rents	JPY100mn	Increase in leasing costs	JPY200mn
Others	JPY10mn	Increase in depreciation	JPY190mn
		Increase in promotion costs (amusement prize costs)	JPY140mn

Source: Shared Research based on company data

The breakdown of sales by service was as follows. Sales for crane games in the Amusement service drove sales growth in Japan:

- ▷ Bowling: JPY10.8bn (+1.6% YoY; +3.0% YoY at existing stores)
- ▷ Amusement: JPY20.5bn (+6.9% YoY; +7.2% YoY at existing stores)
- ▷ Karaoke: JPY3.9bn (+2.4% YoY; +3.9% YoY at existing stores)
- ▷ SPO-CHA: JPY6.8bn (+2.0% YoY; +0.8% YoY at existing stores)

US

Sales were JPY9.7bn (+34.2% YoY) and segment profit (recurring profit) was JPY423mn (-7.4% YoY).

In order to expand its operating base, the company opened new stores. To boost its profile in the market, it opened a booth at Anime Expo 2019. It launched a US version of its Round One app and started distributing coupons, extended weekend opening hours, and started offering hard liquor.

In 1H FY03/20, comparable store sales fell 5.4% YoY. According to the company, sales at stores in the US tend to fall 12 to 24 months after opening. The ratio of stores that have been open longer than this period increased in 1H FY03/20, which factored into the decline in comparable store sales. Stores benefit from a new store effect that boosts sales for roughly one year after opening, but which subsequently fades away. On the other hand, stores that have been open for 25 months or more tend to see sales decline due to the absence of the new store effect run its course and continued sales growth through word of mouth referrals. Accordingly, sales at stores that had been open for 25 months or longer fell only 1.5% YoY.

Quarterly sales at existing stores fell 2.4% YoY in Q1 (April–June 2019) and 7.9% YoY in Q2. The company is investigating why the rate of decline was more pronounced in Q2 than Q1. As of November 2019, the company is examining the following policies as measures to lift sales at existing stores in the US.

- ▷ Investigate shuffling amusement machines and prizes between stores: According to the company, the amusement industry has a slow year every few years in which only a limited number of new machines are released. When this occurs in Japan, the company shuffles machines among its stores to refresh each store’s amusement corner offerings. In 1H, new machine releases in North America were limited, and it is possible the company was not able to sufficiently swap machines between stores. The company says it intends to examine the issue in detail. It will also examine whether the stores were able to move

around prizes won in redemption games (in which players win tickets based on game metrics that can be traded for prizes) to achieve novelty for their customers.

- ▷ Investigate the maintenance system for amusement machines: In Japan, when amusement machines break down, the company prioritizes fixing those with high utilization rates that make large contributions to sales. Since it is possible that the same system of priority is not in place in US stores, the company will investigate the maintenance system at those stores.
- ▷ Investigate the impact of the price hikes implemented in January 2019: In the US, the company implemented price hikes in the Amusement service of 9–10% and in the Bowling service of 6–7%. The company thinks it is possible the price hikes caused a decrease in the number of customers and will investigate their impact by returning prices to their previous levels at some stores.
- ▷ Introduce SPO-CHA: To differentiate itself from competitors, the company plans to introduce SPO-CHA, which it continues to deploy in Japan, to its American stores. The company is carrying out preparations in FY03/20 to install SPO-CHA at stores opening in FY03/21 along with at some existing stores. As of November 2019, it had decided to offer SPO-CHA in eight of the 16 stores it plans to open in FY03/21.
- ▷ Review the management structure: The company replaced the representative director and president of its US subsidiary in November 2019. According to the company, the original management structure did not call for the president of the US subsidiary to be permanently stationed in the area of business operations. From now on, the president will always be present on the scene, which will enable him to devise and execute initiatives more quickly than under the previous system.

Profits fell owing to lower comparable store sales YoY despite a rise in gross profit accompanying an increase in total store-operation months.

The breakdown of sales by service was as follows:

- ▷ Bowling: JPY1.3bn (+28.3% YoY)
- ▷ Amusement: JPY6.6bn (+36.2% YoY)
- ▷ Karaoke and Other: JPY1.8bn (+31.6% YoY)

Every May the company reviews the criteria to rate the performance of each of its US stores as above average, average, or below average. However, this year the company revised the rating criteria in November 2019 at the same time it announced full-year forecast revisions. To be rated as average under the revised criteria, US stores must achieve gross sales of USD5.6mn (down from USD6mn under the previous criteria), operating profit in the first year of USD0 (down from USD300,000), operating profit in years 2–7 of USD900,000 (down from USD1.2mn), and operating profit in year eight and beyond of USD1mn (down from USD1.4mn).

Comparison with company forecast

1H FY03/20 recurring profit surpassed company forecast by JPY172mn. Recurring profit in Japan was JPY710mn above forecast, while in the US and other areas (Russia) it fell below forecast by JPY520mn and JPY10mn, respectively.

In Japan, commission expenses were higher than expected and somewhat depressed profits, but recurring profit exceeded forecast as the effect was offset by lower-than-expected costs in other categories (leasing costs, consumable costs, utility costs, and depreciation) in addition to higher-than-expected sales and income from insurance claims. Leasing costs were lower because the company reduced the number of game machines it plans to buy in the expectation that game machine manufacturers will release fewer game machines than the company had originally anticipated. Another contributing factor was that the company cancelled contracts for some leased inventory it had been periodically renewing.

In the US, a downturn in comparable store sales caused sales and recurring profit to fall below forecast.

Japan			
Positive factors		Negative factors	
Increase in sales	JPY240mn	Increase in commission expenses	JPY160mn
Decrease in leasing costs	JPY320mn		
Decrease in consumable costs	JPY120mn		
Decrease in utility costs	JPY80mn		
Decrease in depreciation	JPY50mn		
Insurance claims income	JPY50mn		
Others	JPY10mn		

US			
Positive factors		Negative factors	
Reduced costs accompanying the decrease in sales	JPY210mn	Decrease in sales	JPY730mn

Source: Shared Research based on company data

Income statement

Income statement (JPYmm)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Sales	84,303	89,568	85,903	84,272	83,905	83,516	87,776	95,910	101,318	104,779
YoY	2.7%	6.2%	-4.1%	-1.9%	-0.4%	-0.5%	5.1%	9.3%	5.6%	3.4%
Cost of sales	71,030	71,779	72,575	72,549	75,509	75,090	78,840	83,067	86,858	92,401
Gross profit	13,273	17,789	13,328	11,723	8,395	8,426	8,935	12,842	14,460	12,377
GPM	15.7%	19.9%	15.5%	13.9%	10.0%	10.1%	10.2%	13.4%	14.3%	11.8%
SG&A expenses	1,856	1,753	1,762	1,634	1,754	2,058	2,253	2,304	3,016	3,497
SG&A ratio	2.2%	2.0%	2.1%	1.9%	2.1%	2.5%	2.6%	2.4%	3.0%	3.3%
Operating profit	11,416	16,036	11,565	10,088	6,641	6,367	6,681	10,537	11,443	8,880
YoY	-5.1%	40.5%	-27.9%	-12.8%	-34.2%	-4.1%	4.9%	57.7%	8.6%	-22.4%
OPM	13.5%	17.9%	13.5%	12.0%	7.9%	7.6%	7.6%	11.0%	11.3%	8.5%
Non-operating income	511	296	388	315	745	281	234	270	318	395
Non-operating expenses	4,999	4,850	3,736	2,585	1,236	1,246	1,058	540	541	553
Recurring profit	6,929	11,481	8,217	7,818	6,150	5,402	5,858	10,267	11,220	8,721
YoY	-11.7%	65.7%	-28.4%	-4.9%	-21.3%	-12.2%	8.4%	75.3%	9.3%	-22.3%
RPM	8.2%	12.8%	9.6%	9.3%	7.3%	6.5%	6.7%	10.7%	11.1%	8.3%
Extraordinary gains	0	373	434	2,515	204	-	124	-	-	-
Extraordinary losses	27,280	5,710	7,387	34,059	5,230	3,508	2,396	1,098	1,131	1,553
Pre-tax profit	-20,351	6,144	1,264	-23,725	1,125	1,894	3,586	9,168	10,089	7,168
Income taxes	-7,677	3,362	663	-4,044	5,693	1,444	850	757	2,929	2,373
Net income	-12,673	2,781	601	-19,681	-4,568	449	2,735	8,411	7,159	4,794
YoY	-	-	-78.4%	-	-	-	509.1%	207.5%	-14.9%	-33.0%
Net margin	-	3.1%	0.7%	-	-	0.5%	3.1%	8.8%	7.1%	4.6%

Source: Shared Research based on company data

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

Balance sheet

Balance sheet (JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Cash and deposits	22,773	29,487	25,324	25,172	27,777	23,199	20,197	23,439	22,524	34,515
Accounts receivable	414	557	605	648	671	647	744	932	1,182	971
Inventories	1,347	1,422	1,185	1,121	1,228	1,576	1,598	1,863	2,534	2,608
Other	12,637	3,764	4,143	4,099	2,416	2,295	2,893	2,015	2,431	4,136
Current assets	37,171	35,230	31,257	31,040	32,092	27,717	25,432	28,249	28,671	42,230
Tangible fixed assets	202,599	179,317	160,065	72,919	61,773	60,417	61,016	62,358	73,905	80,355
Intangible fixed assets	231	209	177	143	101	167	179	213	690	737
Investment securities, other	12,104	13,479	14,717	23,033	17,621	16,232	15,082	15,830	14,078	12,515
Fixed assets	214,934	193,005	174,960	96,097	79,496	76,817	76,279	78,403	88,674	93,608
Total assets	252,106	228,236	206,217	127,138	111,588	104,535	101,712	106,652	117,346	135,839
Accounts payable	189	211	196	257	337	477	676	960	350	204
Short-term debt	36,289	19,621	31,147	8,789	8,440	7,212	5,596	6,305	5,165	9,126
Other	15,007	15,857	16,003	15,460	15,409	13,401	15,460	17,526	19,573	18,647
Current liabilities	51,485	35,689	47,346	24,506	24,186	21,090	21,732	24,791	25,088	27,977
Long-term debt	99,870	91,293	59,077	28,025	18,652	15,614	10,844	7,408	8,350	18,283
Other	21,722	21,370	21,080	17,074	17,123	18,100	18,262	17,733	21,303	24,437
Fixed liabilities	121,592	112,663	80,157	45,099	35,775	33,714	29,106	25,141	29,653	42,720
Total liabilities	173,078	148,353	127,503	69,606	59,961	54,805	50,839	49,932	54,741	70,697
Shareholders' equity	79,950	80,825	79,519	57,443	50,967	49,508	50,336	56,838	62,089	64,976
Capital stock	25,021	25,021	25,021	25,021	25,021	25,021	25,021	25,021	25,021	25,021
Capital surplus	25,496	25,496	25,496	25,496	25,496	24,543	22,638	22,638	22,638	22,638
Retained earnings	29,749	30,625	29,321	7,249	775	272	3,007	9,513	14,767	17,657
Treasury stock	-317	-318	-319	-323	-326	-328	-330	-334	-337	-340
Valuation and translation adjustments	-922	-943	-805	88	659	221	535	-156	400	-18
Total shareholders' equity	79,028	79,882	78,714	57,531	51,626	49,730	50,872	56,683	62,490	64,958
Net assets	79,028	79,882	78,714	57,531	51,626	49,730	50,872	56,720	62,604	65,141
Total liabilities and net assets	252,106	228,236	206,217	127,138	111,588	104,535	101,712	106,898	117,346	135,839
Working capital	1,572	1,768	1,594	1,512	1,562	1,746	1,666	1,835	3,366	3,375
Total interest-bearing debt	136,159	110,914	90,224	36,814	27,092	22,826	16,440	13,713	13,515	27,409
Net debt	113,386	81,427	64,900	11,642	-685	-373	-3,757	-9,726	-9,009	-7,106
ROA (RP-based)	2.8%	4.8%	3.8%	4.7%	5.2%	5.0%	5.7%	9.9%	10.0%	6.9%
ROE	-	3.5%	0.8%	-	-	0.9%	5.4%	15.6%	12.0%	7.5%
Total asset turnover	0.3	0.4	0.4	0.7	0.8	0.8	0.9	0.9	0.9	0.8
Inventory turnover	52.7	50.5	61.2	64.7	61.5	47.6	49.3	44.6	34.3	35.4
Days in inventory	6.9	7.2	6.0	5.6	5.9	7.7	7.4	8.2	10.6	10.3
Quick ratio	45.0%	84.2%	54.8%	105.4%	117.6%	113.1%	96.4%	98.3%	94.5%	126.8%
Current ratio	72.2%	98.7%	66.0%	126.7%	132.7%	131.4%	117.0%	113.9%	114.3%	150.9%
Equity ratio	31.3%	35.0%	38.2%	45.3%	46.3%	47.6%	50.0%	53.0%	53.3%	47.8%
Net debt / Equity	143.5%	101.9%	82.5%	20.2%	-1.3%	-0.8%	-7.4%	-17.2%	-14.4%	-10.9%

Source: Shared Research based on company data

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

Assets

The bulk of fixed assets were tangible fixed assets associated with the company's operations of amusement complex centers.

Tangible fixed assets trended downward through FY03/16 owing to depreciation and sale-and-leaseback agreements, but have been trending upward since FY03/17.

Liabilities

Interest-bearing debt as of end-FY03/20 stood at JPY27.4bn, significantly down from the FY03/11 figure of JPY136.2bn. Net interest-bearing debt deducting cash and deposits was JPY111.4bn (JPY144.4bn including guarantee liability) at end-FY03/11, but the company achieved a net cash position at end-FY03/15, which it has maintained. At end-FY03/19, it had cash and deposits of JPY34.5bn against interest-bearing debt of JPY27.4bn.

Shareholders' equity

Shareholders' equity as of end-FY03/20 was JPY65.0bn. While Shareholders' equity continued to decline from FY03/14 to FY03/16 owing to the booking of losses and dividend payments from surplus funds, it started to increase from FY03/17 due to stronger profits.

Shareholder returns

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

Cash flow statement

Cash flow statement (JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Cash flows from operating activities	22,418	32,852	26,418	20,456	22,576	15,955	17,217	24,210	20,871	20,585
Cash flows from investing activities	-23,563	24,036	4,371	46,611	592	-5,082	-3,527	-7,448	-10,783	-12,108
FCF	-1,145	56,888	30,789	67,067	23,168	10,873	13,690	16,762	10,088	8,477
Cash flows from financing activities	-4,551	-45,981	-34,564	-66,200	-20,820	-15,309	-16,964	-13,286	-11,159	3,626
Pre-tax profit (A)	-20,351	6,144	1,264	-23,725	1,125	1,894	3,586	9,168	10,089	7,168
Depreciation (B)	18,824	19,702	18,960	15,928	12,956	11,444	11,940	11,843	12,481	14,241
Change in working capital (C)	-226	-196	174	82	-50	-184	80	-169	-1,531	-9
Income taxes (D)	-2,488	780	-361	-2,361	1,528	-97	-803	-628	-1,888	-2,347
Capital expenditures (E)	-6,259	-2,587	-5,241	-3,752	-4,818	-5,636	-5,237	-7,721	-10,892	-12,184
Simple FCF (A+B+C+D+E)	-10,500	23,843	14,796	-13,828	10,741	7,421	9,566	12,493	8,259	6,869

Source: Shared Research based on company data

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

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

From FY03/11, when it started improving its financial standing through its strategy of store sale-and-leaseback, the company has actively reduced interest-bearing debt, and consequently continued to have negative cash flows from financing activities, but in FY03/20 it turned around to achieve positive cash flows from financing activities with JPY15.8bn from long-term borrowings.

Other information

History

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

Dec. 1980	Sugino Kosan, the precursor of Round One, founded to manage a roller skating rink in Izumi-Otsu city, Osaka.
Mar. 1993	Round One established by the current President & CEO, Masahiko Sugino.
Aug. 1997	Listed on the Second Section of the Osaka Stock Exchange, ticker 4680.
Dec. 1998	Listed on the Second Section of the Tokyo Stock Exchange.
Sep. 1999	Moved to the First Section of the Tokyo Stock Exchange and Osaka Stock Exchange.
Mar. 2001	Acquired top shareholder (at the time), Wiz Co., Ltd. in absorption-type merger.
Jul. 2004	Opened first combined indoor leisure and SPO-CHA facility in Fushimi, Kyoto.
Sep. 2009	Established Round One Entertainment, Inc. (now a consolidated subsidiary).
Aug. 2010	Opened first overseas store in Los Angeles.
Aug. 2019	Established Round One Rus LLC (now a consolidated subsidiary) in the Russian Federation.
Sep. 2019	Established Langwan (China) Culture & Entertainment Co., Ltd. (now a consolidated subsidiary) in China.

News and topics

September 2020

On September 29, 2020, the company announced its plan to launch a new business (online crane game business).

The company plans to launch the online crane game business as part of its efforts to develop businesses that will enable customers to enjoy Round One services without visiting its stores in person.

The new business, slated for launch around April 2021, will offer an online game service in which customers can operate actual crane game machines using their smartphones or personal computers. The company plans to deliver prizes won to customers' homes or have them available for pick up at any of its nationwide Round One stores. It plans a total of JPY200mn as initial capital investment.

June 2020

On June 25, 2020, the company announced the resumption of normal operations at its domestic stores and the operational status of its US stores.

Resumption of normal operations at domestic stores

To prevent the spread of COVID-19, the company temporarily closed, partially closed, or shortened operating hours at its domestic stores. While the company had already resumed operations at all its stores, it decided to resume normal operations on June 26, as the company is now equipped to take all necessary infection prevention measures.

Normal operations: Open until 6:00 a.m. on weekdays and 24 hours on weekends (except for some stores)

Resumption of US store operations

In the US, all 41 stores have been temporarily closed since mid-March, but the company resumed operations at some stores as state and local governments relaxed restrictions. Of the 41 stores, 18 stores have resumed operations.

Business results of domestic and US stores for the most recent week

Domestic stores: Weekly sales were down 27% YoY at all domestic stores in the most recent week. By service, Bowling sales were down about 35% YoY, Amusement sales were down about 20% YoY, Karaoke sales were down about 35% YoY, and SPO-CHA sales were down about 45% YoY. Standalone stores and stores located in areas where the number of infected persons decreased quickly showed moderate recovery. Meanwhile, there was a relative delay in customer traffic recovery for stores located in busy shopping areas, partly due to a decline in inbound customers.

US stores: As noted above, 18 stores have resumed operations in the US, but are subject to state and local government restrictions such as shortened operating hours or partial closures. Under these circumstances, store sales in the first two weeks of reopening were down 70–80% compared to normal levels. However, sales started to recover afterward, and after around three weeks of reopening, sales were down 40–60% compared to normal levels.

May 2020

On May 1 2020, the company announced that it raised funds through long-term borrowings and entered into committed credit line agreements.

Fund procurement through long-term borrowings

On the same day, the company borrowed JPY10.0bn from financial institutions to fund its business operations in FY03/21. This was to increase its financial stability in response to temporary store closures due to the COVID-19 pandemic.

Details of the committed credit line agreements

- ▷ Total value of financing facility: JPY16.0bn
- ▷ Effective starting date of the agreements: May 1, 2020
- ▷ Expiration date of the agreements: April 30, 2021
- ▷ Financial institutions: Sumitomo Mitsui Banking Corp., Sumitomo Mitsui Trust Bank, Ltd., MUFG Bank, Ltd., Mizuho Bank, Ltd.

Duration of store closures

Currently all 103 of the stores in Japan and 41 stores in North America operated by the US subsidiary Round One Entertainment Inc. have temporarily closed. As of April 7, the company had planned to reopen its stores in Japan on May 7; however, the company is now undecided on the reopening date due to the extension of the national state of emergency.

April 2020

On April 7, 2020, the company announced that it will extend the temporary closures of all 103 of its stores nationwide to prevent the spread of COVID-19.

Extension of temporary closures

- ▷ Affected stores: All 103 stores in Japan
- ▷ Duration of closures: In principle, until Wednesday, May 6, 2020 (stores plan to reopen on Thursday, May 7 at 10:00 AM)

The company will continue to monitor the spread of COVID-19 and make further judgments regarding affected stores, closure durations, and opening times as necessary.

Reopenings

Normal business will resume starting at 10:00AM on Thursday, May 7, 2020. When reopening its stores, the company will thoroughly implement the following measures to ensure the safety of its customers:

- ▷ Thorough application of alcohol-based sanitizer
- ▷ Facial mask checks and body temperature measurements upon store entry (customers not wearing masks and with body temperatures above 37.3°C will be denied entry)
- ▷ Limits on number of customers and store usage (maintaining a predetermined distance between customers)

Round One's financial condition

As of end-March 2020, the company had a cash and deposits of approximately JPY34.0bn (excluding guarantee deposits of approximately JPY8.0bn). Total expenditures for Japan and the US combined during the month of store closures are roughly JPY5.0–6.0bn, so the company believes it has secured enough operating capital for the next five months, even when accounting for JPY5.0bn spent on share buybacks. If the closures are projected to last longer than six months, the company will procure the necessary financing from several financial institutions.

Other

As of April 7, 2020, Round One Entertainment Inc., a Round One subsidiary based in the US, was also enacting temporary closures at all 41 of its stores in North America. Moving forward, Round One Entertainment will reopen these stores in accordance with instructions from administrative authorities and while monitoring conditions affecting the shopping malls at which its stores are located.

On April 3, 2020, the company announced temporary closures of all 103 stores nationwide to prevent the spread of COVID-19.

Temporary closures

- ▷ Affected stores: All 103 stores
- ▷ Duration of closures: Saturday, April 4–Friday, April 10 (scheduled reopening at 10:00 AM on Saturday, April 11)

The company will make future decisions regarding the duration of closures while monitoring the spread of the virus.

On April 1, 2020, the company announced temporary store closures and shortened business hours aimed at curbing the spread of COVID-19.

Temporary closures (all stores in Tokyo and Osaka)

Affected stores

- ▷ All eight stores in Tokyo: Minamisuna, Tamachi, Itabashi, Musashimurayama, Fuchuhommachi Station Front, DiverCity Tokyo Plaza, Ikebukuro, and Kichijoji
- ▷ All 14 stores in Osaka: Higashiyodogawa, Joto Hanaten, Toyonaka, Takatsuki, Moriguchi, Higashiosaka, Sakai Chuo Kanjo, Sakai Station Front, Senboku, Hirakata, Kishiwada, Umeda, Sennichimae, and LaLaport Izumi

Duration of closures

Thursday, April 2–Friday, April 10 (scheduled reopening at 10:00 AM on Saturday, April 11)

The company will make future decisions regarding affected stores and closure durations while monitoring the spread of the virus.

Shortened business hours (all stores)

The following stores will close at 12:00 AM, regardless of the day of the week

- ▷ Affected stores: All 103 Round One stores
- ▷ Period: Thursday, April 2–Friday, April 10

The company will make future decisions regarding affected stores and the period during which shortened business hours will remain in effect while monitoring the spread of the virus.

March 2020

On March 31, 2020, the company announced its decision to acquire treasury shares.

- ▷ Type of shares to be acquired: Common shares of the company
- ▷ Total number of shares to be acquired: Up to 10mn shares (10.5% of total shares outstanding [excluding treasury shares])
- ▷ Total value of shares to be acquired: Up to JPY5.0bn
- ▷ Acquisition period: April 2, 2020–May 19, 2020
- ▷ Acquisition method: Market purchase on the Tokyo Stock Exchange

On March 27, 2020, the company announced temporary store closures and restrictive admission policies aimed at curbing the spread of COVID-19.

Temporary closures

Affected stores

Minamisuna, Tamachi, Itabashi, Musashimurayama, Fuchuhommachi Station Front, DiverCity Tokyo Plaza, Ikebukuro, Kichijoji, LaLaport Shonan Hiratsuka, LaLaport Shinmisato

Duration of store closures

The above-listed stores will be closed over the weekend of March 28–29, 2020. Following the two-day closure period, the situation will be reevaluated in light of the latest information on the spread of COVID-19 in the area.

Restrictive admission policies

Anyone who is not wearing a face mask must have their temperature taken and will not be admitted if their temperature reading is 37.3°C (99.1°F) or higher. Anyone seeking to use the company’s karaoke facilities, whether wearing a face mask or not, must have their temperature taken prior to admission and will not be admitted if they have a temperature of 37.3°C or above.

Affected stores

All stores in Metropolitan Tokyo, Kanagawa Prefecture, Saitama Prefecture, Chiba Prefecture, and Hokkaido.

Duration of restrictive admission policies

Company stores in Hokkaido already have restrictive admission policies in place. Restrictive admission policies for all other stores in the above-mentioned areas will go into effect starting Saturday, March 28, 2020.

Impact on earnings

The company expects the temporary store closures and restrictive admission policies to impact earnings and, in the event the impact leads to large differences between expected results and its current forecast, will revise its forecast accordingly.

On March 17, 2020, the company announced news regarding temporary store closings at the US subsidiary.

The company’s US subsidiary Round One Entertainment Inc. has taken the following actions in line with US government guidance and policies aimed at preventing the spread of COVID-19 infections in the United States.

Temporary store closures (as of March 17, 2020, JST)

- ▷ Western region (12 locations, in California, Oregon, and Washington): Six locations are temporarily closed, with the company planning to temporarily close three more on March 17 (local time).
- ▷ Central region (14 locations, in Texas, Illinois, Wisconsin, Nebraska, Nevada, Utah, New Mexico, and Arizona): Five locations are temporarily closed.
- ▷ Eastern region (15 locations, in Georgia, North Carolina, Kentucky, Maryland, Ohio, Michigan, Pennsylvania, New York, Massachusetts, and Maine): Eight locations are temporarily closed, with the company planning to temporarily close four more on March 17 (local time).

Round One currently expects the temporary closures to last for two to four weeks, though that period could be extended. For locations other than those mentioned above, the company could at any time enact temporary closures, restrictions on admission, shorter business hours, the suspension of food and drinks services, or an end to late-night operations.

Potential impact on earnings

The temporary store closures will likely have an impact on company earnings, and the company has indicated that it would promptly disclose relevant information should the temporary closures result in earnings deviating substantially from its forecast issued in November 2019.

Top management

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

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

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

Employees

At the end of FY03/20, the company reported a total of 6,884 employees on a consolidated basis (1,794 full-time employees and an average of part-time workers equivalent to 5,090, when assuming eight hours of work per person). At the parent level the company employed 5,438 employees with 1,246 full-time and 4,192 part-time workers.

At the parent level, on average, employees were about 35.3 years old, earning an average annual salary of JPY5.58mn. It requires about 10 to 15 full-time employees and 100 to 250 registered part-time employees on a registration basis to open a new center.

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Kimihiko Sugino	19,896	20.89%
Custody A027 (Trustee: SMBC Trust Bank Ltd.)	11,682	12.26%
The Master Trust Bank of Japan, Ltd. (Trust account)	8,156	8.56%
Japan Trustee Services Bank, Ltd. (Trust account)	3,433	3.60%
JP Morgan Chase Bank 385632	2,771	2.91%
Japan Trustee Services Bank, Ltd. (Trust account 9)	2,335	2.45%
Trust & Custody Services Bank, Ltd. (Pension specific money trust account)	1,457	1.53%
JP Morgan Chase Bank 380055	1,361	1.43%
JP Morgan Chase Bank 385151	1,141	1.20%
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,089	1.14%
SUM	53,326	55.98%

Source: Shared Research based on company data
As of end-March 2020

Company profile

Company Name	Head Office
ROUND ONE Corporation	23F Nanba Skyo 5-1-60 Nanba, Chuo-ku, Osakashi Osaka, Japan 542-0076
Phone	Listed On
+81-06-6647-6600	Tokyo Stock Exchange 1st Section
Established	Exchange Listing
December 25, 1980	August 28, 1997
Website	Financial Year-End
https://www.round1.co.jp/	March
IR Contact	IR Web
Jun Okamoto	https://www.round1.co.jp/company/ir/english.html
IR Mail	IR Phone
-	+81-66-647-6600

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Aeon Delight Co., Ltd.	Doshisha Corporation	KI-Star Real Estate Co., Ltd.	Sanrio Company, Ltd.
Aeon Fantasy Co., Ltd.	Dream Incubator Inc.	KLab Inc.	SATO HOLDINGS CORPORATION
Ai Holdings Corporation	Earth Corporation	Kodotec Inc.	SBS Holdings, Inc.
AI inside Inc.	Edion Corporation	Kumiai Chemical Industry Co., Ltd.	Seikagaku Corporation
AirTrip Corp.	Elecrom Co., Ltd.	Lasertec Corporation	Seria Co.,Ltd.
and factory, inc.	en-Japan Inc.	Locondo, Inc.	Serverworks Co.,Ltd.
ANEST IWATA Corporation	Estore Corporation.	LUCKLAND CO., LTD.	SHIFT Inc.
AnGes Inc.	euglena Co., Ltd.	MATSUI SECURITIES CO., LTD.	Shikigaku Co., Ltd
Anicom Holdings, Inc.	FaithNetwork Co., Ltd.	Media Do Co., Ltd.	SHIP HEALTHCARE HOLDINGS, INC.
Anritsu Corporation	Ferrotec Holdings Corporation	Medical System Network Co., Ltd.	SIGMAXYZ Inc.
Apaman Co., Ltd.	FIELDS CORPORATION	MEDINET Co., Ltd.	SMS Co., Ltd.
ARATA CORPORATION	Financial Products Group Co., Ltd.	MedPeer, Inc.	Snow Peak, Inc.
Artspark Holdings Inc.	First Brothers Col, Ltd.	Mercuria Investment Co., Ltd.	Solasia Pharma K.K.
AS ONE CORPORATION	FreeBit Co., Ltd.	Metaps Inc.	SOURCENEXT Corporation
Ateam Inc.	Fujita Kanko Inc.	Micronics Japan Co., Ltd.	Star Mica Holdings Co., Ltd.
Aucfan Co., Ltd.	Gamecard-Joyco Holdings, Inc.	MIRAIT Holdings Corporation	Strike Co., Ltd.
AVANT CORPORATION	GameWith, Inc.	Monex Goup Inc.	SymBio Pharmaceuticals Limited
Axell Corporation	GCA Corporation	MORINAGA MILK INDUSTRY CO., LTD.	Syncho Food Co., Ltd.
Azbil Corporation	Good Com Asset Co., Ltd.	Mortgage Service Japan Limited.	TAIYO HOLDINGS CO., LTD.
AZIA CO., LTD.	Grandy House Corporation	NAGASE & CO., LTD	Takashimaya Company, Limited
AZoom, Co., Ltd.	Hakuto Co., Ltd.	NAIGAI TRANS LINE LTD.	Take and Give Needs Co., Ltd.
Base Co., Ltd	Hamee Corp.	NanoCarrier Co., Ltd.	TEAR Corporation
BEENOS Inc.	Happinet Corporation	Net Marketing Co., Ltd.	Tempo Innovation Inc.
Bell-Park Co., Ltd.	Harmonic Drive Systems Inc.	Net One Systems Co.,Ltd.	3-D Matrix, Ltd.
Benefit One Inc.	HENNGE K.K.	Nichi-Iko Pharmaceutical Co., Ltd.	The Hokkoku Bank,Ltd.
B-lot Co.,Ltd.	Hope, Inc.	Nihon Denkei Co., Ltd.	TKC Corporation
Broadleaf Co., Ltd.	HOUSEDO Co., Ltd.	Nippon Koei Co., Ltd.	TKP Corporation
CarBas Co., Ltd.	H2O Retailing Corporation	NIPPON PARKING DEVELOPMENT Co., Ltd.	Tsuzuki Denki Co., Ltd.
Canon Marketing Japan Inc.	IDOM Inc.	NIPRO CORPORATION	TOCALO Co., Ltd.
Career Design Center Co., Ltd.	IGNIS LTD.	Nisshinbo Holdings Inc.	TOKAI Holdings Corporation
Carma Biosciences, Inc.	i-mobile Co.,Ltd.	NS TOOL CO., LTD.	Tokyu Construction Co., Ltd.
CARTA HOLDINGS, INC	Inabata & Co., Ltd.	OLBA HEALTHCARE HOLDINGS,Inc.	TOYOBO CO., LTD.
CERES INC.	Infocom Corporation	OHIZUMI MFG. CO., LTD.	Toyo Ink SC Holdings Co., Ltd
Chiyoda Co., Ltd.	Infomart Corporation	Oisix ra daichi Inc.	Toyo Tanso Co., Ltd.
Chori Co., Ltd.	Intelligent Wave, Inc.	Oki Electric Industry Co., Ltd	Tri-Stage Inc.
Chugoku Marine Paints, Ltd.	ipet Insurance CO., Ltd.	ONO SOKKI Co., Ltd.	TSURUHA Holdings
cocokara fine Inc.	Itochu Enex Co., Ltd.	ONWARD HOLDINGS CO.,LTD.	VISION INC.
COMSYS Holdings Corporation	JAFCO Co.,Ltd.	Pan Pacific International Holdings Corporation	VISIONARY HOLDINGS CO., LTD.
COTA CO.,LTD.	JMDC Inc.	PARIS MIKI HOLDINGS Inc.	World Holdings Co., Ltd.
CRE, Inc.	JSB Co., Ltd.	PIGEON CORPORATION	YELLOW HAT LTD.
CREEK & RIVER Co., Ltd.	JTEC Corporation	QB Net Holdings Co., Ltd.	YOSHINOYA HOLDINGS CO., LTD.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.	J Trust Co., Ltd	RACCOON HOLDINGS, Inc.	YUMESHIN HOLDINGS CO., LTD.
Daiseki Co., Ltd.	Japan Best Rescue System Co., Ltd.	Raysum Co., Ltd.	ZAPPALLAS, INC.
Demae-Can CO., LTD	JINS HOLDINGS Inc.	RESORTTRUST, INC.	
DIC Corporation	JP-HOLDINGS, INC.	ROUND ONE Corporation	
Digital Arts Inc.	KAMEDA SEIKA CO., LTD.	RYOHIN KEIKAKU CO., LTD.	

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