

## SANKO MARKETING FOODS CO.,LTD.

Tokyo Stock Exchange Standard Market 1

17-Mar-2023

## 3.8x upside potential based on GCC Management™ analysis

\*2.9x for maximum dilution

## Firming up its position as a leader company in the 6th industrialization in the fisheries industry.

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J. Phoenix Research Corporation ("JPR") that emphasizes three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Corporate value analysis from the perspective of GCC Management™, which emphasizes the three elements of Confidence (improved trust = lower business risk).\*

## Proposal of "valuable food culture" by maximizing the value of marine resources

SANKO MARKETING FOODS Co., Ltd. ("SANKO") started in 1975 as a restaurant serving set meals, beef bowls, curry, etc. under the guard of JR Kanda Station. 1998 saw the launch of "Toho Mimonroku," a pioneer in private izakaya rooms, and in 2000, "Tsuki no Shizuku," which captured the social advancement of women and health consciousness. The remarkable growth of "Toukimonroku" in 1998, and "Tsuki no Shizuku" in 2000, which captured the social advancement of women and health consciousness, led the company to go public.

However, in recent years, large urban izakayas have been on the decline, and the COVID-19 pandemic hit izakayas hard, and SANKO has fallen on hard times, with recovery still slow. In the midst of this situation, SANKO reexamined the origins of food and found a new challenge and breakthrough by working together with the fishermen of Numazu. This is the sixth industrialization of agriculture, forestry, and fisheries.

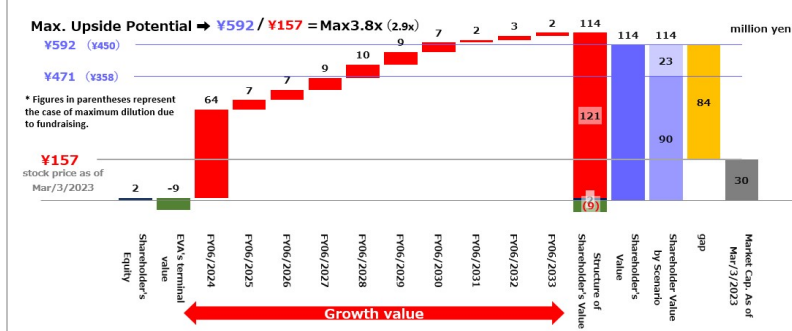
## Become a platform for revitalization of production areas through 6th industrialization and DXing of the fisheries industry

SANKO has been building a supply chain in the fisheries industry in rapid succession, including participation in the Numazu fishing industry, acquisition of purchasing rights, acquisition through M&A of Sogo Shokuhin, one of only seven large wholesalers in Toyosu, and Kaisyo (now SANKO Kaisyo), a Hamamatsu-based middle wholesaler and tuna specialist. The goal is to provide consumers with a better dining experience, and as feedback, to increase the happiness and value of all parties involved in the supply chain, including fishermen and wholesalers. SANKO believes that this cycle will further improve Japan's food culture and make it possible to achieve a "valuable food culture."

This cycle is supported by DX, in which SANKO's planning and development of buried marine resources is repeated in a cycle of test marketing that attempts to match consumer needs and feedback to the production areas. In the distribution process, Sogo Shokuhin and SANKO KAISHO will also promote DX, aiming to become a "platform for revitalizing production areas" that smoothly links production areas and consumers.

## Even assuming maximum fundraising, the share price is 471 yen, about 3 times the current price.

Shareholder value was estimated using the "excess profit method" (see "Appendix 2") according to the GCC Management™ framework. As a result, assuming that the concept of the value creation process is implemented and realized, if 10 years of growth value is factored in, shareholder value is 11.8 billion yen. This is approximately 3.8 times the current market capitalization, which was estimated to be 2.9 times in the case where stock acquisition rights were executed and diluted (see "Investment Summary" in the main text).



## Basic Report

Editing and writing  
J-Phoenix Research Inc.  
Yosuke Kasiwao

## Company Profile

Location of Head Office	Chuo-ku, Tokyo
Representative	Naruhiro Nagasawa
Date of Establishment	1-Sep-1975
Paid-in Capital	50 million yen
Date of Listing	2003/3/6
URL	<a href="https://www.sankofoods.com/">https://www.sankofoods.com/</a>
Type of Business	retail trade

## Key Indicators As of 3/16/2023

Stock Price	147yen
52-week high	293yen
52-week low	145Yen
Number of Shares Outstanding	18,911,901Share
Trading Unit	100Share
Market Capitalization	2,780Millions of yen
Company Projected Dividend	-Yen
Estimated Net Income Base EPS	0.53Yen
Forecast PER	300times
Actual BPS (June 30, 2022)	10.01Yen
Actual PBR	15.78times

Performance Trends	Sales Millions JPY	YoY %	Operating income Millions JPY	from the previous %	Ordinary income Millions JPY	YoY %	Net income Millions JPY	EPS JPY	DPS JPY	Stock price	
										High price	Low price
Full Year Results for the Year Ending June 30, 2020	7,391	-30.9%	-2,009	nm	-1,998	nm	-2,713	-174.7	0.00	436	224
Full Year Results for the Year Ending June 30, 2021	2,102	-71.6%	-1,747	nm	-1,426	nm	-1,817	-114.5	0.00	340	246
Full Year Results for the Year Ending June 30, 2022	2,410	14.7%	-1,097	nm	-305	nm	-439	-24.6	0.00	2,502	630
Results for the year ended June 30, 2022 2Q	932	-37.5%	-558	nm	54	returning to profit	32	1.9	0.00	2,502	1,000
Actual 2Q Results for the Year Ending June 30, 2023	2,913	212.5%	-356	nm	-351	nm	-361	-19.2	0.00	-	-
June 2023 Plan	9,900	310.6%	32	returning to profit	22	returning to profit	10	0.5	0.00	-	-

This report is prepared by J-Phoenix Research Inc. ("JPR") for the purpose of providing information to investors and is not intended as a solicitation to buy or sell securities. JPR shall not be liable for any consequences, including any direct or indirect damages, resulting from the use of or reliance on this report. The responsibility for securities and other transactions rests solely with the investor. Please refer to the last page of this report for more information on precautions.

## 1. Investment Summary

### Shareholder value analysis

**Maximum Upside 3.8x in Market Capitalization Estimated (2.9x for maximum dilution)**

### Estimation using the excess profit method

**Maximum upside 3.8x depending on realization of growth scenario**

SANKO, which started out as a restaurant business, has now expanded its supply chain from fishing to wholesale, with plans to expand into retail in the future, and its restaurant business of the founder's business also continues to develop, including nakashoku (ready-made meals), outsourced operations, and overseas expansion. JPR estimated shareholder value using the Excess Profit Method (see "Appendix 2") based on the GCC Management™ framework, taking into account the future potential regarding SANKO's business development. The following chart visualizes the qualitative/quantitative story outline and the results of the estimation. The prerequisites are explained on the next page and beyond.

### Shareholder Value Analysis

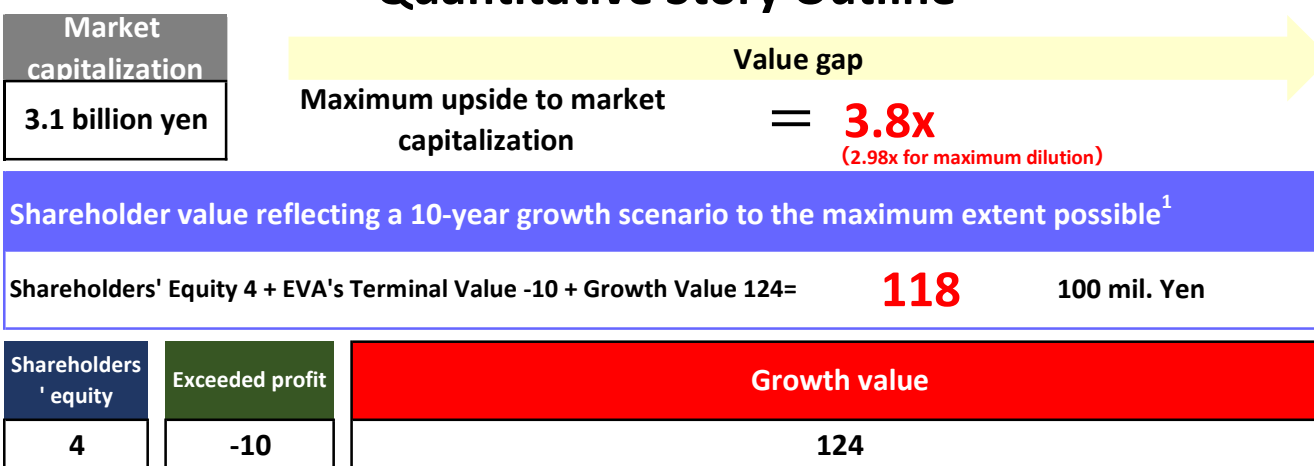
## Qualitative Story Outline

**Growth : Proposal of "valuable food culture" by maximizing the value of marine resources**

**Connection : Becoming a leader in the 6th industrialization**

**Confidence : Contributing to the revitalization of production areas through food**

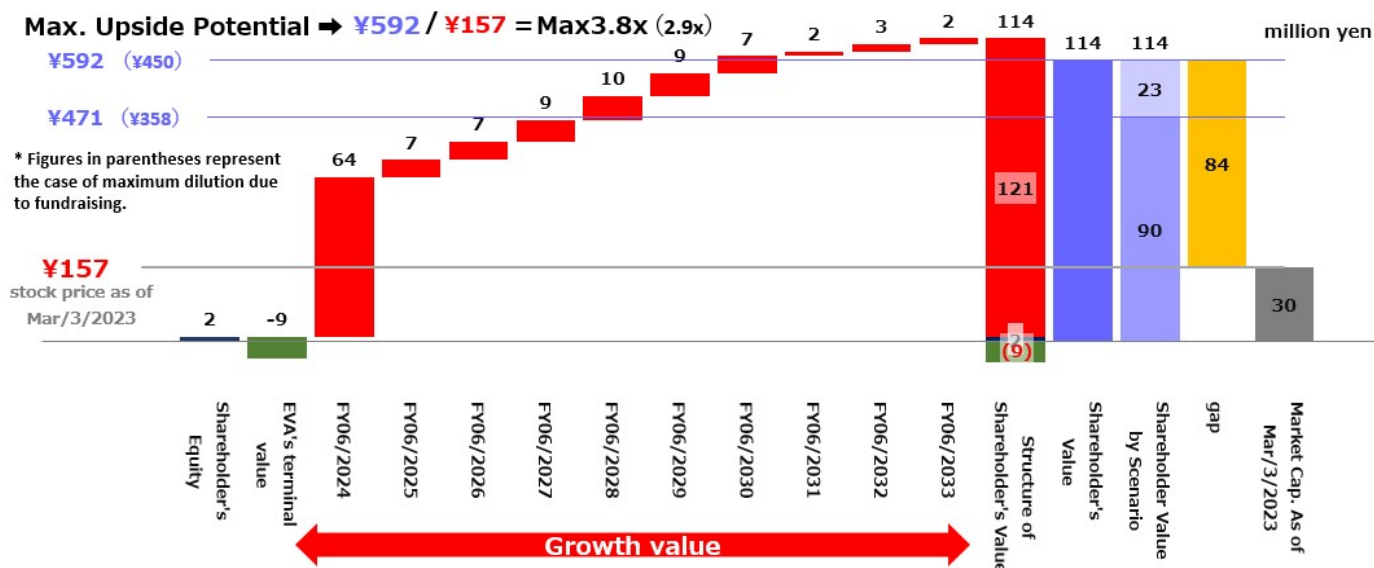
## Quantitative Story Outline



Source: JPR

1: Fractions do not match due to rounding.

## Shareholder Value Structure and Value Gap Analysis Using the Excess Profit Method



[Source] JPR

## Shareholder Value Structure and Value Gap Analysis Using the Excess Profit Method (details)

	[¥100mn]	[¥100mn]	Current Year 2023.06	1 year later 2024.06	2 years later 2025.06	3 years later 2026.06	4 years later 2027.06	5 years later 2028.06	6 years later 2029.06	7 years later 2030.06	8 years later 2031.06	9 years later 2032.06	10 years later 2033.06	11 years later 2034.06	12 Years later 2035.06
Basic financial indicator	Sales		99	115	134	155	180	209	239	263	276	289	298	298	298
	Operating income		0.3	7.0	8.1	9.4	11.0	12.7	14.5	16.0	16.8	17.6	18.1	18.1	18.1
	Operating margin		0.3%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
4 Driver	Sales growth rate		310.8%	16.2%	16.2%	16.2%	16.2%	16.2%	14.0%	10.0%	5.0%	5.0%	3.0%	0.0%	0.0%
	NOPAT margin		0.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
	Invested capital turnover ratio		12.2%	12.7%	13.9%	15.2%	16.0%	16.3%	16.5%	16.9%	18.1%	18.4%	18.3%	18.3%	18.3%
	Percentage-of-year invested capital net sales ratio		12.7%	13.9%	15.2%	16.0%	16.3%	16.5%	16.9%	18.1%	18.4%	18.3%	18.3%	18.3%	18.3%
	WACC		6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Creativity of corporate value	ROIC = NOPAT margin ÷ invested capital net sales ratio		1.8%	33.3%	30.3%	27.7%	26.3%	25.8%	25.5%	24.9%	23.2%	22.9%	23.0%	23.0%	23.0%
	ROIC / WACC (value created with the original hand of 1 y)		¥0.3	¥5.1	¥4.7	¥4.3	¥4.0	¥4.0	¥3.9	¥3.8	¥3.6	¥3.5	¥3.5	¥3.5	¥3.5
Excess profit	NOPAT		0.22	4.84	5.62	6.53	7.59	8.81	10.05	11.05	11.60	12.18	12.55	12.55	12.55
	Invested capital × WACC		0.79	0.95	1.21	1.53	1.87	2.22	2.56	2.89	3.25	3.46	3.55	3.55	3.55
	EVA		-0.56	3.89	4.42	5.00	5.71	6.59	7.48	8.16	8.36	8.72	8.99	8.99	8.99
	EVA = NOPAT - invested capital × WACC		-0.56	3.89	4.42	5.00	5.71	6.59	7.48	8.16	8.36	8.72	8.99	8.99	8.99
	Value created in each year		-9	69	8	9	11	14	14	10	3	6	4	0	0
	Discount Rate		100%	94%	88%	83%	78%	73%	69%	64%	60%	57%	53%	50%	47%
	Present value of EVA		-9	64	7	7	9	10	9	7	2	3	2	0	0
	Invested capital ① Origin		12												
	Over profit value (Permanent value of EVA of this term)		-9												
	Growth value (Present value of increase in EVA) ③		121												
	Non-business asset value ④		0												
	Corporate value = ① + ② + ③ + ④		124												
	Interest-bearing debt, etc.		-10												
	Shareholder value		114												

[Source] JPR

\*For NOPAT, since it is difficult to estimate the corporate tax rate due to accumulated losses, a conservative effective corporate tax rate of 30.9% is applied.

### Three qualitative and quantitative information assumptions set for estimating shareholder value\*1

#### Growth : Proposal of "valuable food culture" by maximizing the value of marine resource

Values and Worldviews	Value provided and Growth Potential	Net Sales
<b>Proposal of valuable food culture</b>	<b>Maximize value through the 6th industrialization</b>	<b>CAGR 12% expected</b>
SANKO aims to realize a "proposal of valuable food culture." With the COVID-19 pandemic, the restaurant operation, the core business of SANKO, saw a breakdown in its strategy of opening dominant large urban stores. In the fishing port of Numazu, where SANKO arrived in the process of transforming its business, SANKO saw the challenges of the fishing industry itself and the issues arising from supply chain relationships. SANKO has come to believe that contributing to the resolution of these issues will provide consumers with better food and realize a sustainable "valuable food culture".	By "maximizing value" through "optimization of utilization" of marine resources, SANKO aims to improve its presence among the seven large wholesalers in the Toyosu market, which has a current value of 500 billion yen. The imagined market share is about 10%. SANKO aims to expand not only in the market, but also in the entire seafood supply chain, from fishing to restaurants, retail, and beyond. After success in the fisheries sector, SANKO will look to expand into other food-related sectors such as agriculture and livestock production, aiming to maximize the value buried in the entire food-related supply chain.	<div>2023.6</div> <div>2033.6</div> <div>9.9 billion yen ▶ 29.8 billion yen</div> <div>Double sales in 5 years from the fiscal year ending June 30, 2023. Assume stable growth thereafter.</div>
		<b>Growth Value</b>
		<b>12.4 billion yen</b>

#### Connection : Promoting the 6th industrialization of the fisheries industry and DX

Strategy	Business Model	ROIC
<b>Becoming a Leader in the 6th Industrialization</b>	<b>M&amp;A utilization and DX in full scale</b>	<b>Expected to improve by 21.4 percentage points</b>
SANKO's goal is to create a sixth industry for marine products. SANKO plans to commercialize hard-to-distribute marine products, conducts test marketing at ancestral restaurants and e-commerce stores, and provides feedback to the production area. This loop is used to develop products that are accepted by the market. SANKO is also focusing on DX, aiming to provide new customer experience value by combining the strength of direct access to marine products with services at restaurants and e-commerce stores. Ultimately becoming a leader in the 6th industrialization of agriculture, forestry, and fisheries.	In the sixth industrialization of the fisheries business, SANKO became a member of the Numazu Ganyudo Fisheries Cooperative Association, and also obtained the right to participate in the purchase of fisheries products. To strengthen the supply chain, SANKO acquired SANKO KAISHO, a middle wholesaler in Hamamatsu, and Sogo Shokuhin, a large wholesaler in Toyosu, through M&A. These acquisitions cover upstream to downstream operations. The DXing of the supply chain is still in the early stages of reforming the paper-based paperwork that is often used in the field, but by dispatching employees from different fields to the fishing port, market, and restaurant, and having them interact with each other, the groundwork for change is being fostered.	<div>2023.6</div> <div>2033.6</div> <div>1.6 % ▶ 23.0 %</div> <div>Assumption is to promote the functioning of the fisheries supply chain and DXing.</div>
		<b>Exceeded profit</b>
		<b>-1.0 billion yen</b>

#### Confidence: Contributing to the revitalization of production areas through food

Financial Sustainability	Contribution to Social Sustainability	WACC
<b>Aiming for profitability and stable growth</b>	<b>Revitalizing the fisheries industry and fostering food culture</b>	<b>Maintaining the status quo</b>
The operating loss that has persisted since the fiscal year ended June 30, 2018 is on track to return to profitability in fiscal year 2023 at 32 million yen due to the expected recovery of the restaurant business by the COVID-19 pandemic and the contribution of the consolidated subsidiary. SANKO also released in December 2022 that it will raise 1.25 billion yen from EVO FUND through the issuance of bonds with stock acquisition rights and stock acquisition rights, which is expected to be invested in new businesses that will serve as growth engines for the future.	Upstream, the sixth industrialization of the fishery industry by SANKO is expected to improve the income and attractiveness of fishermen by revitalizing the fishing industry, thereby eliminating the shortage of bearers. SANKO will take over the genetic expertise through long experiences that belongs to the market and passes it on to the future. Consumers will be able to experience attractive foods and services that have not been distributed through the revitalized fishing industry.	<div>6.4 %</div> <div>Currently, the financial situation is relatively unstable. On the other hand, the business and its future potential will contribute greatly to the sustainability of society.</div>
		<b>Shareholders' equity</b>
		<b>4 100 mil. Yen</b>

\*1Compiled by JPR based on its own projections of post-company plan estimates based on company hearings.

## 2. Company Overviews

### Company Profile

Name	SANKO MARKETING FOODS CO.,LTD.
Year Established	1-Sep-75
Representative	Naruhiko Nagasawa
Head Office Location	1-10-14, Shinkawa, Chuo-ku, Tokyo
Capital stock	50 million yen
Number of Employees	166 people (Present on June 30, 2022)
Fiscal Year End	Jun.
Business	Restaurant Management, Fisheries
Date of Listing	6-Mar-03
Stock Exchange Listing	Tokyo Stock Exchange Standard [Securities Code: 2762]

Source: Compiled by JPR based on company data

### Company History

Year	Month	Contents
1975	Sept.	The first "Sanko-Tei" restaurant opened under the guard of JR Kanda Station.
1977	Apr.	Establishment of Sanko Foods Ltd.
1983	Mar.	Sanko Foods, Ltd. is reorganized into Sanko Foods Co. Ltd.
1998	Dec.	Opening of "Toho Kenbunroku", the starting point of our growth and the origin of the izakaya (Japanese style bar) business.
2002	Oct.	"Sanko Foods" changed to "Sanko Marketing Foods"
2003	Mar.	Listed on JASDAQ
2004	Sept.	Listed on the Second Section of the Tokyo Stock Exchange
2009	May	In the midst of the Great Recession, a low-priced, all-item (under 300 yen) business model was born.
2011	Jun.	Opened "Tokyo Chikara Meshi" Ikebukuro West Exit Store as a new brand of yaki-gyudon (grilled beef bowl).
2014	Nov.	Opened the first "Akamaruya" restaurant in Omiya-ku, Saitama City, Saitama Prefecture.
2015	Jan.	Opened the first "Yakiniku Banri" restaurant in Omiya-ku, Saitama City, Saitama Prefecture, offering meat directly from a meat wholesaler.
2019	Mar.	Bento box lunch business started at the head office location.
2020	Dec.	Joined Numazu Ganyudo Fisheries Cooperative Association
2021	Apr.	License agreement signed for "Tokyo Chikara Meshi" in Hong Kong.
2021	Jun.	Opened the first "Tokyo Chikara Meshi" franchise store in Hong Kong under the license agreement.
2021	Aug.	Acquired the right to participate in the Numazu Fish Market, a local wholesale market, with the approval of NUMAZU FISH MARKET CO.,LTD.
2021	Sept.	Commenced purchasing through the company's own purchasing rights.
2021	Oct.	Changed trade name to SANKO MARKETING FOODS CO.,LTD.
2021	Nov.	KAISHO Co., Ltd. (currently SANKO KAISHO Co., Ltd.) became a subsidiary through the acquisition of 100% of the shares issued
2021	Dec.	Acquired fishing boat "Bentenmaru" from Numazu Ganyudo Fisheries Cooperative Association as a training vessel for fishermen and as a company-operated vessel.
2022	Mar.	Opened a new business model, "Miyamasuzakashita Sakeba".
2022	Jul.	Acquired 100% of the shares issued by Sogo Shokuhin CO., LTD.

Source: Compiled by JPR based on company data

## Major Consolidated Subsidiaries and Group Companies

Business Line	Company Name	Business Outline	Capital	Shareholding Ratio
Marine Products Wholesale	SANKO KAISHO Co., Ltd.	Retail and wholesale of fresh fish, seafood and marine products, processing of marine products, etc.	10 million yen	100%
Wholesale of marine products	Sogo Syokuhin CO.,LTD.	Trading of marine products and import/export of marine products on consignment	99 million yen	100%

Source: Compiled by JPR based on company data

## Major M&A

Year	Month	Target Company	Objective
2021	Nov.	SANKO KAISHO Co., Ltd.	To establish the business as soon as possible by leveraging the strength of the marine products business that KAISHO has cultivated, strengthening the business category and products of SANKO's food and beverage business, developing new sales channels, and taking advantage of the synergy effects with the marine products business in Numazu.
2022	May	Sogo Syokuhin CO.,LTD.	(1) Speed up the establishment of a 6th industrialization model for the fisheries business by having the ability to collect cargo at the Toyosu market. (2) Acquisition of a thick pipeline with shippers and customers involved in market transactions.

Source: Compiled by JPR based on company data

## Major Business and Capital Alliances

Year	Month	Target Company	Objective
2020	Sept.	Numazu Ganyudo Fisheries Cooperative Association	The company, which operates a restaurant business including take-out and delivery mainly in the Tokyo metropolitan area, will collaborate with the Numazu Wairido Fishery Cooperative Association, the oldest fishing port in Numazu, to plan and develop ways to utilize, commercialize, and sell "Numazu fish," including sales through our existing directly managed restaurants (including those managed on consignment), lunch box business, and mail order website, in order to further develop Numazu's fishermen and the Numazu Fishery Port as a whole. To further develop Numazu's fishermen and Numazu Fishery Port as a whole by working to expand sales channels.

Source: Compiled by JPR based on company data



### 3. Growth Story and Assessment through the GCC Management™ Framework

#### Growth

The conceptual design is solid and the logic is of high social value

Progress: 80%

Full-scale development will be made in the future

Progress: 30%

Progress in reflecting in actual results: 10%.

**Expect accelerated implementation in the future to realize the values**

**Conceptual Design: "Proposal for a Valuable Food Culture"**

SANKO's concept of "valuable food culture" is delivered on the premise that all parties involved in the supply chain, including food producers, wholesalers and other distributors, and restaurants and retailers who serve food and cuisine, are happy. To achieve this, SANKO believes that the following issues need to be resolved.

#### Challenges faced by each supply chain

SANKO (restaurant)	Decline of past successful models, the COVID-19 pandemic, and discovery of new seeds
Distribution (wholesalers)	Demonstration of a distribution function that truly matches production areas with consumers
Fishermen (production area)	Difficult-to-distribute marine products, succession issues, revitalization of production areas

#### Maximizing the Value of Buried Fishery Resources

SANKO believes that optimal utilization of marine resources is necessary to realize its vision. A concrete example is the planning and development of marine products that have been excluded from distribution in a way that matches the needs of consumers. If successful, the fishermen's income will increase, the distribution value will rise, and consumers will be able to have a new dining experience.

#### TAM: 500 billion yen for the Toyosu market alone

SANKO's current involvement in the fisheries industry alone is vast, encompassing fishing, processing, distribution, and sales, and with further expansion into retail, agriculture, and dairy in the long term, the overall TAM is estimated to be in the trillions of yen. The company is also looking to expand its retail business in the future.

**Implementation Design: Supply chain construction in the fishing industry is in place.**

Currently, the focus is on converting the food and beverage business, which is the company's ancestral business. In the future, the company will accelerate the conversion of its business structure to establish a sixth industrialization by building a one-stop supply chain from Numazu Fishing Port, where it has acquired purchasing rights, to SANKO KAISHO, a marine products middle wholesaler in Hamamatsu, and SOHGOH SHOKUHIN, a large wholesaler in Toyosu that just completed an M&A deal.

**Results: Business turnaround is progressing steadily**

In FY6/2023, SANKO closed unprofitable large izakaya restaurants in urban areas and switched to opening suburban/low investment and profitable "Akamaruya" and "Yakiniku Banri" restaurants (17 restaurants in total). In the new business segment, the number of SANKO restaurants, which also requires little fixed investment, totaled 16, mainly in government offices, a proof that SANKO's values have been accepted by government offices. In addition, four "Chikara Meshi" restaurants have been opened under overseas licenses, and the company is making significant progress in the transformation of its core food and beverage business.

## Connection

**Conceptual design is solidified.**

**Progress: 80%.**

**Evolving into an integrated food value chain using DX is key**

**Progress: 30%.**

**Progress in DX is yet to be made Reflection of results**

**Progress: 10%**

## Sixth Industrialization of the Fisheries Industry

### Conceptual Design: Sixth Industrialization of the Fishery Industry

SANKO's first goal is to market and distribute marine products that are difficult to distribute, which is a challenge for production areas. Specifically, SANKO plans, develops, and adds value to marine products that are difficult to distribute. The products are then test-marketed at SANKO's restaurants and e-commerce stores, and the results are fed back to the production area. This cycle aims to develop products that fit the market and return profits to the production area through increased distribution.

### Implementation Design: Evolving into a "Platformer for Revitalizing Production Areas"

SANKO is currently building a seafood-related supply chain through M&A. The company's future goal is to DX the entire supply chain, including paper-based production areas and markets, restaurants, and retailers that it plans to enter in the future. The IT infrastructure as a "production area revitalization platform" is in the testing stage, but efforts are underway to share the same awareness among employees, such as by sending restaurant employees to fishing ports and markets, and the company is only waiting for the implementation of IT.

### Achievements: Supply chain construction is almost complete with the use of M&A.

#### Sweating together with the production area: Discovering issues at the fishing port and acquiring purchasing rights

In Numazu, the company operates a fishing business under the guidance of local fishermen, and in Yokosuka's Nagai fishing port, it conducts set-net fishing and has listed its products on the Numazu fish market. The company has become more deeply involved in the fishing industry, acquiring purchasing rights at the Numazu fish market and playing a role in the price formation of swordfish and nibe.

#### Acquisition of Sogo Shokuhin enables sales at Toyosu, Japan's largest consumer market.

In July 2022, the company acquired all of the shares of Sogo Shokuhin, entering the large wholesale market on Toyosu, where there are only seven companies and it is extremely difficult for new entrants to enter the market. This enabled the company to purchase marine products directly from producers and sell them to consumers, including its own customers.

#### Acquired KAISHO who is strong in tuna as well as middle wholesalers

In November 2021, SANKO acquired all shares of Hamamatsu-based middle wholesaler KAISHO (currently SANKO KAISHO). KAISHO has strong tuna connoisseurship and processing skills, and popular tuna is a good commercial product for restaurants. In January 2023, SANKO began to appeal to consumers by holding a tuna sales event for the general public, which is not normally held.

#### Fisheries DX is currently in beta operation within the company.

DX, which aims to become a platform, has begun beta operations within the company. After real platform verification in Numazu, Hamamatsu, and Toyosu, the company will proceed with full-scale system development in order to link with the market.



## Confidence

**Aiming to return to profitability this fiscal year**

**Leveraging Funding for Stable Growth**

**Efforts to improve profitability have just begun. Financial stability is currently rated at 30%.**

**Contribution to food culture, which is closely related to the agriculture, forestry, and fisheries industries and is also expected to be a tourism resource, is in line with national policy and is highly anticipated.**

**Contribution to society  
Evaluation: 80%.**

**Contribute to the revitalization of the production area and aim for stable growth**

**Financial Stability: Aim to return to profitability and achieve stable growth**

**Aiming to return to profitability after five consecutive terms of operating loss**

While demand for "sogo izakaya" has been declining in recent years, the company has posted operating losses for five consecutive fiscal years since FY06/2018, due in part to the impact of the COVID-19 pandemic. However, in FY6/2023, the company is on track to post an operating profit of 32 million yen due to an expected recovery in the food and beverage business with "the COVID-19 pandemic," business restructuring initiatives that have begun to take hold, and the contribution of a consolidated subsidiary.

**Accelerate investment for growth by raising funds**

On December 15, 2022, SANKO released its 1st unsecured convertible bond with stock acquisition rights and 5th series of stock acquisition rights to be allocated to EVO FUND. There are two main uses: to turn around the existing business of restaurants and to invest in the Fisheries DX and Fisheries platform. The existing business will also be used to invest in Akamaruya, which will utilize its own procured marine resources, and will be used in growth areas.

**Aiming for a solid financial foundation**

In addition to building a sixth industrialization model for the fisheries business, the company intends to increase profitability by proactively working on store operations that maximize group synergies and cost reductions such as labor saving in operations. Through these efforts, the company believes it will be able to secure stable earnings without being significantly affected by the COVID-19 pandemic, and it aims to achieve an operating income margin of 5% or more over the medium term.

**Social Contribution: Proposing "Valuable Food Culture"**

**Contribute to the development of the fishing industry, which is suffering from a lack of successors**

SANKO's goal of becoming a "platform for revitalizing production areas" starts with the issues faced by production areas. It is assumed that if this initiative is successful, it will contribute to improving the income of fishermen and production areas, and as a result, help realize "making fishermen the profession they want to be."

**Maximizing the Value of Buried Agricultural, Forestry, and Fishery Resources**

From the perspective of resource efficiency, SANKO's efforts will enable effective utilization of marine resources that have not been marketed due to the efficiency-oriented approach of major distributors. Despite being an island nation, Japan is unable to meet its domestic demand through self-sufficiency and imports the second largest amount of marine resources in the world. The project is expected to help change this situation.

**Contribution to the Development of Japanese Food Culture**

SANKO's main business is restaurants, so it has greater contact with consumers than in the past. The ultimate goal is to match the needs of consumers with attractive marine resources, and if this cycle continues, it is expected to contribute to the further development of Japan's food culture.

## 4. 2Q Results Summary for the Fiscal Year Ending June 30, 2023

### Profit and Loss Summary

Significant increase in sales, but still in the red due to higher cost of sales ratio

Exit unprofitable stores and shift to profitable Akamaruya stores

Collaboration with government agencies progressing

Establishment of product development system

Progress in other new businesses

### Profit and Loss Summary

#### Overall Summary

Net sales were 2,913 million yen (+212.5% YoY), and operating loss was 356 million yen (vs. an operating loss of 558 million yen in Q2 FY06/2022). The recurring loss was 351 million yen (vs. recurring profit of 54 million yen in Q2 FY06/2022), and net loss attributable to owners of the parent was 361 million yen (vs. net income attributable to owners of the parent of 32 million yen in Q2 FY06/2022).

#### Overview of each business segment

##### Izakaya shifted to "Suisan"

Akamaruya suburban-style pubs, the opening of new "Akamaruya fresh fish stores" with a particular focus on "fisheries," and the change in business format from Kinzura to "fisheries" izakaya. The overall number of Akamaruya stores declined to 43 from 48 in Q2 FY06/2022, but the number of Akamaruya stores rose to 13 from 9 in Q2 FY06/2022. In addition, all existing Akamaruya stores exceeded their pre-COVID-19 pandemic levels (vs. FY2019), except during the peak of the seventh wave of the COVID-19 pandemic, and all stores landed in the black.

##### Contract Management Business

In the contracted operation business, we utilize government cafeterias, mainly the Ministry of Agriculture, Forestry, and Fisheries' Afu Shokudo" as a "platform for revitalizing production areas". The public and private sectors work together to promote initiatives with production areas. Specific examples include a collaboration with Fukuoka Prefecture that developed into a major event spanning six ministries, and an initiative with JA Zen-Noh Fukushima that became an event spanning two ministries, proof that SANKO's efforts are also in line with national policy.

##### Mid-meal business

In the chushoku business, we have established the Kayabacho Factory in Kayabacho as a development function, aiming to strengthen the development system with strong support members. Through this, the company aims to address issues in the production area together with the production area and revitalize the area through product development. The Kayabacho Factory will establish a new 6th product development office, which will develop products based on the B to C experience in the food and beverage business to address the problems" of the production areas.

##### EC Business/Licensing Business

In the EC business, the company refined and expanded the product lineup of Hitoma, a select store that delivers renowned products and particular gourmet foods from the production areas carefully selected by its buyers. The licensing business is steadily expanding with the opening of two "Chikara Meshi" stores in Japan and three stores in Hong Kong overseas, as well as the opening of the first store in Thailand in January 2023.

This report is prepared by J-Phoenix Research Inc. ("JPR") for the purpose of providing information to investors and is not intended as a solicitation to buy or sell securities. JPR shall not be liable for any consequences, including any direct or indirect damages, resulting from the use of or reliance on this report. The responsibility for securities and other transactions rests solely with the investor. Please refer to the last page of this report for more information on precautions.

## 5. Appendix: Details of the financial model

### Detailed financial model of actual results, company plan and JPR projection, and 10-year projection

	[1 million yen]	Corporate plan JPR projection	JPR projection	JPR projection	JPR projection	JPR projection	JPR projection	JPR projection	JPR projection	JPR projection	JPR projection	JPR projection
FY	0	2023.6	2024.6	2025.6	2026.6	2027.6	2028.6	2029.6	2030.6	2031.6	2032.6	2033.6
PL	Sales	9,900	11,500	13,359	15,518	18,025	20,939	23,870	26,257	27,570	28,948	29,817
	COGS	4,153	4,824	5,604	6,510	7,562	8,784	10,014	11,015	11,566	12,144	12,508
	SGA	5,715	5,976	6,942	8,063	9,367	10,880	12,404	13,644	14,326	15,042	15,494
	OP	32	700	813	945	1,097	1,275	1,453	1,598	1,678	1,762	1,815
	Interest rate	2	2	1	1	1	1	1	1	1	1	1
	CP	22	698	812	943	1,096	1,273	1,452	1,597	1,677	1,761	1,814
	Tax	7	216	251	291	339	393	449	493	518	544	560
	NP	15	483	561	652	757	880	1,003	1,103	1,159	1,217	1,253
	Outstanding shares (Thousands)	18,790	24,735	24,735	24,735	24,735	24,735	24,735	24,735	24,735	24,735	24,735
	EPS (JPY)	0.8	19.5	22.7	26.3	30.6	35.6	40.6	44.6	46.8	49.2	50.7
	Dividend	0	0	56	130	227	352	502	552	579	608	627
	Retained Earning	15	483	505	521	530	528	502	552	579	608	627
BS	Operating cash	1,136	1,320	1,533	1,781	2,068	2,358	2,594	2,724	2,860	2,946	3,034
	Excess cash	0	459	656	818	932	1,040	1,200	1,564	1,946	2,430	2,929
	Working Capital	447	647	752	873	1,014	1,157	1,272	1,336	1,403	1,445	1,488
	Tangible Fixed Assets	238	1,231	1,430	1,661	1,930	2,200	2,420	2,541	2,668	2,748	2,830
	Goodwill	0	0	0	0	0	0	0	0	0	0	0
	Other assets	742	742	742	742	742	742	742	742	742	742	742
	Total Assets	2,563	4,400	5,112	5,875	6,686	7,497	8,228	8,906	9,618	10,310	11,023
	NIBCLs	1,108	1,287	1,495	1,737	2,018	2,300	2,530	2,657	2,790	2,873	2,959
	ST debt	83	0	0	0	0	0	0	0	0	0	0
	LT debt	200	200	200	200	200	200	200	200	200	200	200
	Other fixed liabilities	598	598	598	598	598	598	598	598	598	598	598
	Paid Capital	998	2,256	2,256	2,256	2,256	2,256	2,256	2,256	2,256	2,256	2,256
	Retained Earnings	-424	59	564	1,085	1,615	2,143	2,644	3,196	3,775	4,384	5,010
	Debt&Equity	2,563	4,400	5,112	5,875	6,686	7,497	8,228	8,906	9,618	10,310	11,023
CF	Operating cash	-158	-184	-213	-248	-288	-290	-236	-130	-136	-86	-88
	Working Capital	-62	-200	-105	-122	-141	-142	-116	-64	-67	-42	-43
	NIBCLs	154	179	208	242	281	282	230	127	133	84	86
	Depreciation of tangible fixed assets	19	65	117	136	158	181	203	218	229	238	245
	Goodwill depreciation	1	0	0	0	0	0	0	0	0	0	0
	Gross Investment	-53	-1,058	-316	-367	-426	-451	-423	-339	-356	-318	-327
	Retained Earnings	15	483	505	521	530	528	502	552	579	608	627
	CF from operation	-83	-715	196	163	113	109	160	364	382	484	499
	ST debt	83	-83	0	0	0	0	0	0	0	0	0
	LT debt	0	0	0	0	0	0	0	0	0	0	0
	Equity Financing	0	1,258	0	0	0	0	0	0	0	0	0
	CF from finance	83	1,174	0	0	0	0	0	0	0	0	0
	Increase in Excess Cash	0	459	196	163	113	109	160	364	382	484	499
	Check	0	-0	-0	0	-0	0	0	0	0	0	0
	Initial invested capital sales ratio	0	0	0	0	0	0	0	0	0	0	0
	Initial invested capital	1,357	1,455	2,653	2,962	3,320	3,737	4,156	4,498	4,685	4,883	5,007
KPI	sales growth	310.8%	16.2%	16.2%	16.2%	16.2%	16.2%	14.0%	10.0%	5.0%	5.0%	3.0%
	Working Capital DOH	14	14	18	18	18	18	18	18	18	18	18
	COGS/Sales	42%	42%	42%	42%	42%	42%	42%	42%	42%	42%	42%
	NIBCLs DOH	35	35	35	35	35	35	35	35	35	35	35
	CASH required	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
	ST interest rate	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
	DT interest rate	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
	Tax rate	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%
	Pay out ratio	0%	0%	10%	20%	30%	40%	50%	50%	50%	50%	50%
	Depreciation Ratio	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%

Source: JPR

This report is prepared by J-Phoenix Research Inc. ("JPR") for the purpose of providing information to investors and is not intended as a solicitation to buy or sell securities. JPR shall not be liable for any consequences, including any direct or indirect damages, resulting from the use of or reliance on this report. The responsibility for securities and other transactions rests solely with the investor. Please refer to the last page of this report for more information on precautions.

## Reference 1. For those new to JPR reports

### GCC Management™ Analysis

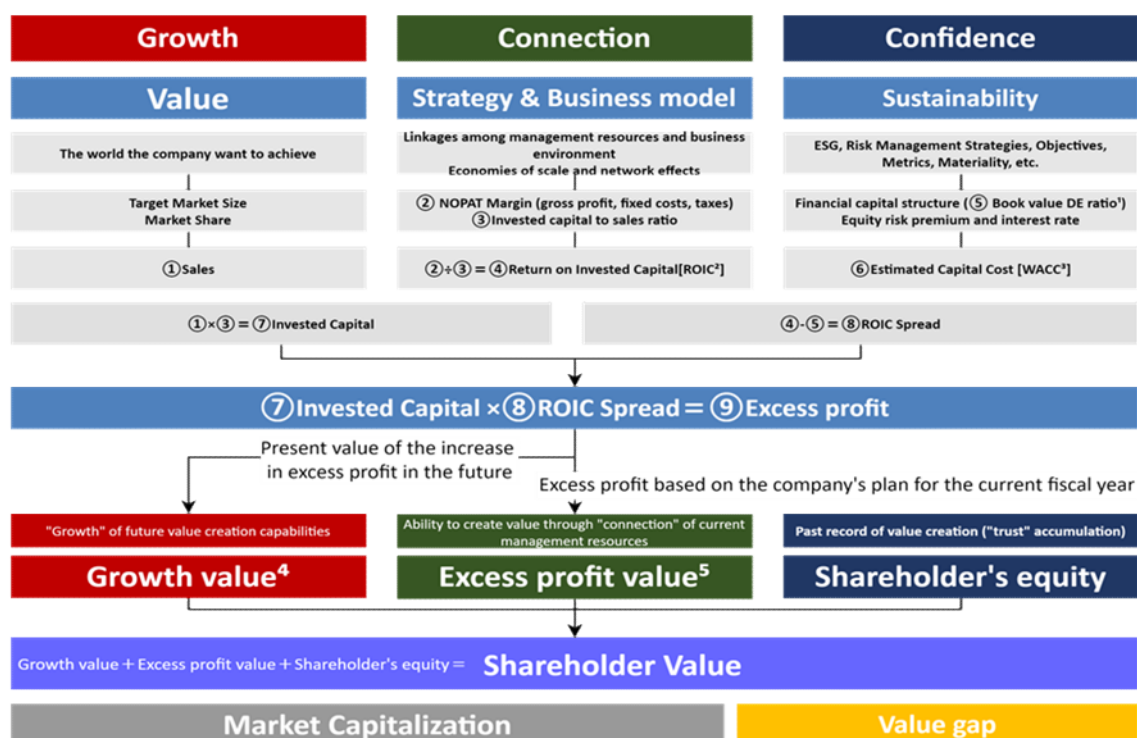
Visualize the value gap between theoretical shareholder value and market capitalization

Analyze by the three elements of Growth, Connection, and Confidence

A framework for directly linking qualitative stories to shareholder value

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J-Phoenix Research Corporation ("JPR"), emphasizing three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Confidence (improved trust = lower business risk). The following chart shows the overall picture of the GCC Management™ framework. The following diagram shows the overall picture. The qualitative future story is linked to financial indicators, which are finally integrated to estimate shareholder value. Using the excess profit method (see "Appendix 3. Basis of Calculation" at the end of this report), JPR estimates the final theoretical shareholder value and visualize the value gap by comparing it with the market capitalization.

### GCC Management™ Analysis Framework



[Source: JPR] [Notes] 1. Book value DE ratio: Ratio of interest-bearing debt to shareholders' equity.

2. ROIC: Return on Invested Capital, See "Appendix 3." at the end of this document. 3. WACC: Weighted Cost of Capital, see "Appendix 3." at the end of this document. 4. growth value = cumulative present value of the perpetuity value of the excess profit increment through year X. The perpetuity value is calculated as the excess profit increment divided by WACC. The present value of that amount is discounted by the WACC. Cumulative future value up to year X as assumed by the growth scenario. 5. Excess profit value = the perpetual value of excess profit based on the current year's company plan. The excess profit value is estimated by dividing the excess profit calculated from the current year's company plan and the invested capital at the beginning of the period by the WACC.

Source: JPR

## GCC Management™ Evaluation System

Evaluate the feasibility of  
the Growth and  
Connection story of the  
value creation process  
from three perspectives

## Evaluation of Growth and Connection

Evaluate the feasibility of qualitative stories from three perspectives

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: conceptual design, implementation design, and actual performance. "Conceptual design" is defined as "conceptualizing the concept of the value creation process" and "implementation design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process. Value creation becomes an "achievement" only when "conceptual design" becomes "implementation design. JPR conducts subjective evaluations of "conceptual design," "implementation design," and "performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

### "Conceptual Design," "Implementation Design," and "Performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
"Conceptual design"	Conceptual design is very logically organized	Conceptual design is approximately logically organized	Conceptual design is about halfway organized	Conceptual design is organized to a certain degree	Conceptual design is organized to a certain degree
"Implementation design"	Conceptual design is almost implemented	Conceptual design is approximately implemented	Conceptual design is about half implemented	Conceptual design is implemented to a certain degree	Conceptual design has been implemented, albeit marginally
"Performance"	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results as intended by the conceptual design about half way through	Targeted outcomes are observed as actual results to a certain degree, as intended by the design	Targeted outcomes are observed as achievements, albeit slight, as intended by the conceptual design

Source: JPR

## Evaluation of Confidence

### Evaluation of financial stability and social contribution

#### Credibility of the value creation process

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: "Conceptual Design", "Implementation Design", and "Actual Performance." "Conceptual Design" is defined as "conceptualizing the concept of the value creation process" and "Implementation Design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process." Value creation becomes an "Actual Performance" only when "Conceptual Design" becomes "Implementation Design." JPR conducts subjective evaluations of "Conceptual Design," "Implementation Design," and "Actual Performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

#### "Conceptual Design," "Implementation Design," and "Performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
<b>Financial Stability</b> The evaluation is based on a five-point scale from the viewpoint of sufficient experience in the value creation process, differentiated value creation capabilities that are difficult to imitate, low risk of fluctuations such as economic and seasonal fluctuations due to stockholding, and an optimized capital-liability structure.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable
<b>Social Contribution</b> The social issues addressed are generally of great importance to society, the path to their solution is not yet clear, and they are tackling a challenging task that requires both the creation of a new concept and the systematic creation of the optimal governance structure for its implementation.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable

[source] JPR



## Visualization of value gap through 10-year growth scenario analysis

### Comparison of increase in shareholder value and market capitalization by year

The potential increase in shareholder value generated by a 10-year growth scenario based on the future story is visualized for each year and compared to the market capitalization. This allows us to visualize how many years of the future story are reflected in the market capitalization. 10 years of shareholder value is expected to be reflected in the market capitalization as the expectations for the achievability of the 10-year future story increase. The difference between the market capitalization and the estimated shareholder value reflecting up to 10 years of future story is the estimated upside potential. As investors' expectations of the feasibility of the future story are raised by the specific current performance, the likelihood of the realization of that value gap increases.

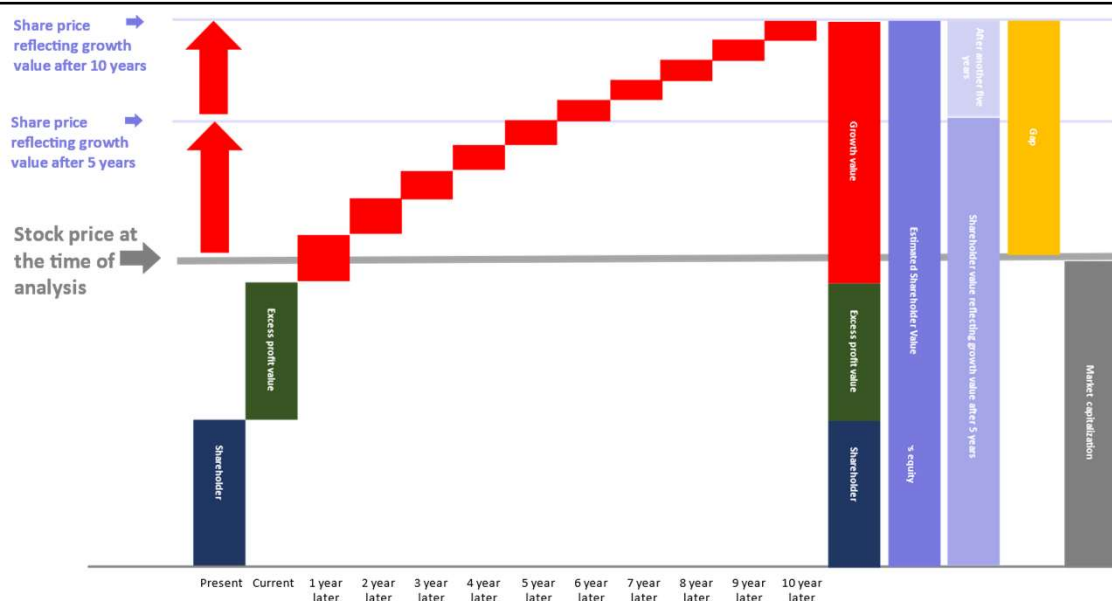
### Conservative Growth Scenarios and Scenarios Reflecting Change in Future Stories

This analysis is useful when the firm's strategy undergoes significant change. As shown in the figure below, it is also possible to visualize separately the growth potential under the conservative scenario and the growth potential under the change. Shareholder value without incorporating change represents a conservative amount.

Visualize how many years of future stories are reflected in the market capitalization

Visualization of various scenario analysis

### Visualizing the Value Gap



[source] JPR

## Appendix 2. Basis of Calculation

Corporate value  
estimated by  
use of ROIC and  
excess return

### Excess return analysis framework

Excess profit or economic value added is globally used as an indicator to estimate corporate value, evidenced by its adoption by Kao Corporation, a Grand Prix winner of the Tokyo Stock Exchange Fifth Corporate Value Improvement Award (FY2016). In the calculation of excess return, corporate value can be broken down into four elements: invested capital, excess return value, growth value, and non-business assets. This facilitates a better understanding of the structure that creates corporate value. A company might be overvalued or undervalued when its market cap is higher or is lower than its theoretical corporate value, respectively. The contribution of each year's corporate value can be visualized in the following figure, wherein shareholders' equity is simply represented as a sum of invested capital and non-business asset, subtracting interest-bearing debts. The figure below allows us to estimate how many years of growth might be incorporated into the stock price.

### Breakdown of corporate value using excess return



[source] JPR

Estimated excess return is profit that exceeds investors' return expectations against invested capital. Its present value is "excess return value," while a potentially growing portion of excess return is "growth value." Moreover, assets not used in business are added as non-business asset value in estimating a theoretical corporate value. Theoretically, the estimated corporate value using excess return should be the same as the value estimated using the discount cash flow (DCF) model. This report calculates excess return by using the following figures in a simplified manner.

Excess return = NOPAT – Invested capital X WACC

☐ Net Operating Profit After Tax (NOPAT) = Operating profit X (1 - Effective tax rate)

☐ Invested capital = Total assets – Non-business assets – Current liabilities excluding interest-bearing debt

☐ Non-business assets = Cash and deposits exceeding 10% of sales + Short-term investment securities + Investment securities + Deferred gains or losses on hedges + Land revaluation difference + Foreign currency translation adjustments

☐ Weighted average cost of capital (WACC) = After-tax interest rate of interest-bearing debt X (D/(E+D)) + Cost of shareholders' equity X (E/(D+E))

☐ Cost of shareholders' equity = 0.5% + 5% X β

☐ β = Slope of a linear regression line of five-year daily returns of TOPIX and the stock price of the target company

☐ E = Market cap at the time of calculation

☐ D = Short-term interest-bearing debt + Long-term liabilities + Minority interests in the latest

## Disclaimer

This report is issued by Toward the Infinite World, Inc. and IFIS JAPAN LTD. (hereafter “Issuers”) under the brand name “ANALYST NET” (a registered trademark) and written by external partners and analysts as its main authors.

- In the report issued under the brand name “ANALYST NET,” we aim to provide information and explanations about the target companies using a nontraditional approach. In principle, the Issuers do not seek a review of or authorization for the contents herein. (However, we highlight any errors or incorrect wording to the authors.)
- Issuers may receive compensation directly or indirectly from the target companies in the project proposal and infrastructure offering to issue this report.
- External partners and analysts may receive compensation directly or indirectly from the target companies for additional work apart from writing this report. The external partners and analysts may have already been involved or may be involved in some trading of securities of target companies in the future.
- This report is created for the purpose of providing information that investors can refer to when they are making decisions about investments and not for soliciting trading of securities or other financial products. Investors are responsible for their final decisions on the trading of securities or other financial products.
- Although the authors collected information during interviews with the target companies to create this report, the hypothesis and opinions in this report do not reflect the views of such companies and are from the authors' analyses and evaluations.
- Although this report is based on information that the authors believe to be reliable, we do not guarantee the accuracy, completeness, and/or timeliness of the contents. The opinions and forecasts in this report are conducted at the time of publication and may be changed without notice.
- In any event, Issuers and authors are not liable for any direct, indirect, incidental, or special damages that the investors may incur by relying on the information and analysis contained in this report.
- All contents of this report are the copyright of Issuers unless otherwise stated. No part of such information shall be reproduced, sold, displayed, distributed, published, amended, or used for commercial purposes without the Issuer's consent.