

Issuer: Japan Foods Holding Ltd.

Security: Japan Foods Holding Ltd.

Meeting details:

Date: 24 July 2017

Time: 10:00AM

Venue: 231 Bain Street #04-41 Bras Basah Complex, Singapore 180231

Company Description

Japan Foods Holding Ltd., together with its subsidiaries, operates a chain of restaurants in Singapore, Malaysia, and Vietnam. The company operates its restaurants under the Ajisen Ramen, Botejyu, Hanamidori, Kazokutei, Keika Ramen, Menzo Butao, Menya Musashi, New ManLee Bak Kut Teh, Osaka Ohsho, Yonehachi, Dutch Baby Café, Fruit Paradise, Ginza Kushi-Katsu, and Japanese Gourmet Town brand names. It also sub-franchises the Ajisen Ramen restaurants to operators in Malaysia and Vietnam. In addition, the company supplies food ingredients to its sub-franchisees and franchisee. As of March 31, 2017, it operated 50 self-operated restaurants and food court outlets; 13 restaurants through associated companies; and 5 restaurants operated by sub-franchisees. The company was founded in 1997 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=50I)

Q1. As shown in the Value Added Statement (page 15 of the annual report), revenue increased from \$61.3 million in FY2013 to \$65.5 million in FY2017, an increase of 6.9% over 4 years. The depreciation and amortisation, impairment and write-off of plant and equipment over the same period is shown in the table below.

	FY2013 S\$'000	FY2014 S\$'000	FY2015 S\$'000	FY2016 S\$'000	FY2017 S\$'000
Revenue	61,311	62,758	62,682	62,804	65,467
Total value added	26,798	28,508	27,610	27,307	28,338
Depreciation and amortisation	4,107	4,242	4,946	5,308	5,173
--- as a percentage of revenue	6.7%	6.8%	7.9%	8.5%	7.9%
Impairment of plant and equipment	(65)	–	–	(810)	(259)
Plant and equipment written off	(579)	(268)	(188)	(131)	(86)

(Source: Company annual reports)

- a) Can management help shareholders understand if the higher depreciation and amortisation is a new norm? What are management’s plans to control and limit this?

In addition, the group has written off and impaired plant and equipment of \$0.93 million in FY2016 and \$0.35 million in FY2017.

- b) With an excellent 20 year track record at operating F&B outlets, how does the group manage and minimise the risks of new outlets and new brands underperforming? Is there a robust system of picking outlet locations and selecting the most appropriate brand for that location?
- c) Does management expect impairment and write-off of plant and equipment to remain high?

Q2. As stated in the company’s introduction (page 2 – At a Glance), the group’s network includes “Ajisen Ramen” restaurants in Malaysia and Vietnam operated by sub-franchisees and “Menya Musashi” restaurants in China and Hong Kong operated by associated companies.

In the Chairman’s Message (page 10), it was also stated that:

“In comparing our returns from the two models, we have a preference for the arrangement we have with Ajisen China and are exploring opportunities to replicate it in other overseas markets with strong and established local food & beverage operators”.

Having opened the first outlet in Hong Kong in FY2013 and in China in FY2014, the group today has 7 branches in Hong Kong and 6 branches in China.

- a) Given that these two markets can be potentially huge, what are management’s growth plans for these two territories in the near future? How many Menya Musashi restaurants can China and Hong Kong absorb?

In Malaysia, the number of outlets have decreased from 6 in FY2015 to just 3 branches in FY2017. For the Vietnamese market, there have been just 2 outlets for the past 2 years, down from 3 in FY2015. The group, through its sub-franchisee in Indonesia, operated 7 outlets in FY2012 before shutting the operations in FY2015.

- b) Can management elaborate further on the difficulties for the group to scale up the operations in the regional countries through the sub-franchise model?
- c) Is the current sub-franchise model sustainable? Is management looking to change the sub-franchise model in the South-east Asian countries?
- d) Are there new overseas markets that the group is looking to enter in the near term?

Q3. In the Chairman's message (page 8), it was disclosed that "a few of our stores started collaborating with food delivery companies including Deliveroo and Honest Bee..... Although we do not foresee food delivery to contribute materially to our sales, we recognise that this as a rising trend we should be a part of and will continue to monitor the effectiveness of this channel".

- a) **Can management elaborate further on how it plans to tap into disruptive model of the food delivery companies?** A successful collaboration can increase the productivity and sales of an outlet and it may lead to food delivery contributing materially to the group's revenue and profits.
- b) **On the other hand, in the tie-up with such food delivery companies, how does the group ensure that it captures a fair share of the value created and does not end up just servicing the food delivery companies?**