



Yasutaka Kodama President

WASHHOUSE Co., Ltd. (6537)



Company Information

Market	TSE Mothers, FSE Q-Board
Industry	Service business
President	Yasutaka Kodama
HQ Address	86-1, Shinei-cho, Miyazaki-shi, Miyazaki prefecture
Year-end	End of December
HOME PAGE	https://www.wash-house.jp/

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
877	6,866,800 shares		6,022 million	0.1%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Est.
8.00	0.9%	17.64	49.7 x	322.91	2.7 x

*The share price is the closing price on December 3. Shares Outstanding, ROE and BPS are the values at the end of the previous term.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Dec. 2015 Act.	2,050	219	219	131	38.21	8.00
Dec. 2016 Act.	3,118	294	284	192	35.25	8.00
Dec. 2017 Act.	3,375	243	247	156	22.94	8.00
Dec. 2018 Act.	2,749	12	16	2	0.33	8.00
Dec. 2019 Est.	3,675	200	200	121	17.64	8.00

* Estimates are those of the Company. Consolidated values have been used from the term ended December 2018.

*The Company conducted a 100-for-1 share split on April 2, 2016, a 2-for-1 share split on April 1, 2017. EPS and DPS have been revised retroactively.

This Bridge Report presents the earnings results of WASHHOUSE Co., Ltd.

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Key Points

- The sales for the term ended Dec. 2018 were 2,749 million yen, down 18.5% year on year. The number of new franchised shops was 86, smaller than the previous term's number: 105. SG&A expenses was 927 million yen, nearly unchanged from the previous term, but it was not offset, and operating income dropped 94.9% year on year to 12 million yen. Neither sales nor profit reached the estimated amount. This is mainly because the opening of new franchised shops was delayed due to the shortage of managers in charge of development of urban shops and disasters, such as the torrential rain in western Japan and the typhoons hindered the further cultivation of the existing territories; so the company opened only 86 franchised shops, while it first planned to open 130 shops. However, its non-consolidated performance was almost as mentioned in the revised forecast.
- The sales for the term ending Dec. 2019 are projected to be 3,675 million yen, up 33.7% year on year, while operating income is estimated to rise significantly from the previous term to 200 million yen. The number of new franchised shops is forecasted to increase significantly from 86 in the previous term to 116. As Washhouse Financial started the moneylending business and the urban shop model was completed, it became possible to open shops more swiftly in a broader range of sites in addition to suburban areas. Therefore, the company will actively open urban shops in the Kanto and Kansai areas. The dividend is to be 8.00 yen/share like in the previous term. The estimated payout ratio is 45.4%.
- Unfortunately, the company revised its earnings forecast downwardly and saw profits dropping considerably for two consecutive terms, but the company reaped some results in the term ended Dec. 2018, as the full-scale operation of Washhouse Financial already showed some effects. In addition, the construction of a factory for detergents and overseas business expansion, which had been envisioned, came in sight. Since the company needs to bear the costs for investment, depreciation, etc., it will take some time to earn profits, but it is noteworthy that the company is proceeding to a totally different stage from competitors' in the laundromat industry, by utilizing its abilities to design a concept and take action. In the short term, we would like to pay attention to whether the company can open the target number of shops in this term, especially 65 urban shops, which will account for a majority of 116 new franchised shops.

1. Company Overview

WASHHOUSE operates laundromats mainly based on the franchise system, with the aim of creating the global standard in the self-service laundry industry.

The company has developed an unprecedented franchise chain (FC) business system, which unifies the quality of stores by managing and operating all stores concurrently, so that both the FC headquarters and franchised shops can thrive. As a great advantage, the company has a stable earning structure with recurring revenue.

It made inroads into Osaka and Tokyo, embarking on nationwide business on a full-scale basis. It also plans to expand its business outside Japan.

As of the end of December 2018, 583 laundromats (551 franchised ones and 32 directly managed ones) are in operation in Tokyo, Osaka and 20 other prefectures.

1-1 Corporate History

When starting up this business, President Kodama pondered over how to keep increasing sales and profit eternally in the age that will certainly witness the decreased birthrate and aging and declining population, whether the business has social meanings, whether there are any forerunners, whether the company can survive competitions, whether the business can be imitated easily, whether it is possible to achieve recurring revenue, and so on from various aspects, and decided to do the laundromat business.

For expanding the scale of business, the FC system is effective, but the FC business is accompanied by the problem of the conflict between the FC headquarters and franchised stores. In order to solve this problem, the company immediately introduced a call center that is in operation 24 hours a day all year round and the “system for managing and operating all stores at the same time,” which is composed of the swift support based on management webcams and remote control, etc. and reduced the burdens of franchised stores considerably. Its business grew steadily, partially thanks to the expansion of needs due to the increase in the number of working females. From the Kyushu area, including Miyazaki Prefecture, where the business was launched, the company expanded its sales territory, entering Osaka in Dec. 2015 and Tokyo in Jul. 2016.

Then, in Nov. 2016, WASHHOUSE got listed on Mothers of Tokyo Stock Exchange and Q-Board of Fukuoka Stock Exchange.

2001	Nov.	Mr. Yasutaka Kodama, the representative director and president of the present WASHHOUSE, established KDM Co., Ltd. as a company for offering consulting services regarding the effective use of real estate, etc. in Miyazaki City, Miyazaki Prefecture.
2002	Dec.	Started the FC business and the laundromat management business for the purpose of managing the real estate for laundromats.
2004	Feb.	Obtained the first business model patent in Miyazaki Prefecture, with a system for remotely managing laundromats based on in-store management webcams and remote control of self-service laundry equipment.
	May	Started a directly managed business.
	Nov.	Entered the market in Fukuoka Prefecture.
2005	Dec.	Renamed the company WASHHOUSE Co., Ltd.
2008	Aug.	Obtained a business model patent for a laundromat management system with which customers can solve troubles in equipment with a touch-panel device in a store.
2009	May	A total of 100 stores opened.
2010	Jan.	Obtained a business model patent for a system with which customers can transfer electronic vouchers for charge-free services from a touch-panel device in a store to their IC-mounted plastic cards, prepaid cards, or cell phones.
2014	Dec.	A total of 200 stores opened.
2015	Dec.	Entered the market in Osaka.
2016	Mar.	A total of 300 stores opened.
	Jul.	Entered the market in Tokyo.
	Nov.	Got listed on Mothers of Tokyo Stock Exchange and Q-Board of Fukuoka Stock Exchange.
2017	Mar.	A total of 400 stores opened.
	Jun.	Entered the markets in Okayama, Kagawa, and Ehime Prefectures.
	Nov.	Entered the market in Hyogo Prefecture.
	Dec.	Started an affiliated loan with Miyazaki Taiyo Bank. Entered the markets in Nara and Aichi prefectures. A total of 500 stores opened.
2018	Mar.	Established a wholly owned subsidiary WASHHOUSE FINANCIAL Inc.
	Jul.	Entered the market in Chiba Prefecture.
	Aug.	Entered the market in Aomori Prefecture.
	Dec.	Entered the market in Saitama and Mie Prefectures.

1-2 Management Philosophy

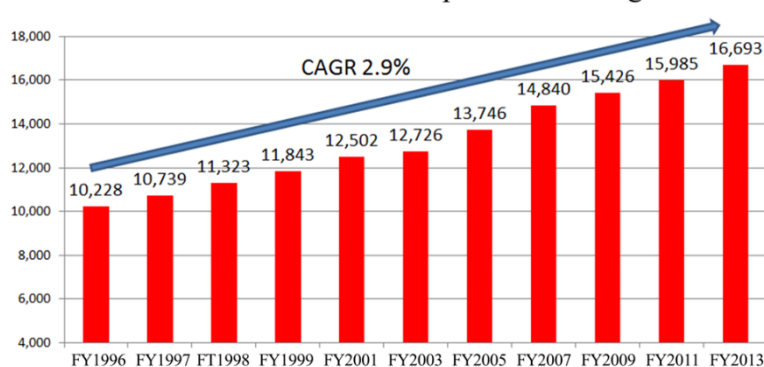
The ethos of WASHHOUSE is “to think about all matters from the viewpoint of customers and keep being demanded by society.” Under this ethos, the company is working on “creation of global standards in the laundromat industry” with the aim of continuously offering satisfactory services to users on behalf of store owners by fully managing laundromats after the opening of the store rather than “just selling self-service laundry equipment and instructing owners to operate it.”

1-3 Market Environment

◎ Growing laundromat market

According to the “Survey on coin-operated cleaning facilities” by the Ministry of Health, Labour and Welfare, although it is somewhat out of date, the number of laundromats in Japan in fiscal year 2013 was 16,693, and that in fiscal 1996 was 10,228, indicating a compound annual growth rate (CAGR) of 2.9%. If it keeps growing at a rate of 3%, it will exceed 18,000 stores in fiscal year 2016, which also exceeds the number of the stores (17,656) of FamilyMart ranking second in the convenience store field (as of the end of Nov. 2017), and is approaching the number of stores (19,970) of Seven-Eleven, which ranks first (as of the end of Nov. 2017).

Variation in the number of coin-operated cleaning facilities



Source: “Survey on coin-operated cleaning facilities” by the Ministry of Health, Labour and Welfare

◎ Growth factors

In the background of such growth, there are:

- Women’s needs for “the reduction in cleaning time” due to the increase of dual-earner households,
- Measures against allergies, such as the allergy to pollen,
- Decrease in the use of cleaning services due to the increase of low-priced high-quality clothes,
- Enhancement of awareness of cleanliness,

and so on.

In addition to these external factors, enterprises, including WASHHOUSE, started offering a variety of services considering the convenience for users, and so “users have increased” and then “the number of laundromats has grown.”

According to president Kodama, “rate of utilization,” which indicates how many households use laundromats among all households living within 2 km from a store, was about 3% on national average 10 years ago, but it is now 5-8%, and expected to increase further.

◎ Market players

It is difficult to obtain detailed information, but the number of main players in the self-service laundry market is said to be 4 to 5. WASHHOUSE has the largest number of laundromats with the same brand, and is the only listed company in this field.

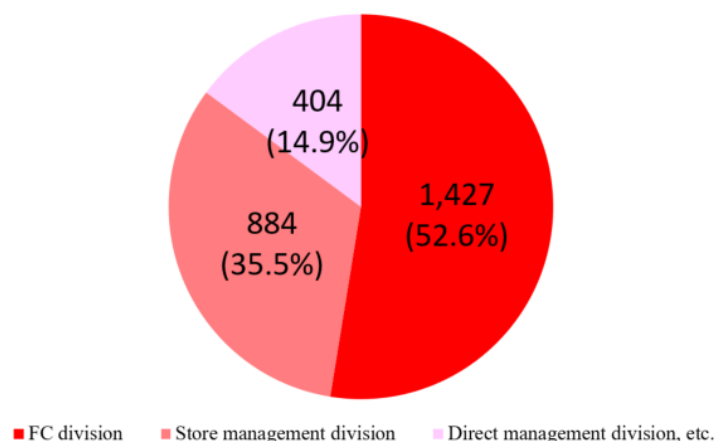
Although many enterprises carry out the FC business for growth (increasing in the number of stores), WASHHOUSE possesses an unparalleled “system for managing and operating all stores at the same time,” which was developed in pursuing the streamlining of business operation and unification of quality. (For details, see “1-5 Characteristics and Strengths.”)

1-4 Business Description

1. Composition

WASHHOUSE conducts the three kinds of business division: (1) FC division, (2) store management division, and (3) direct management division, etc.

Sales composition for business segments
(Term ended Dec. 2018; unit: million yen)



(1) FC division

WASHHOUSE created a unique operation-supported FC division.

The company selects candidate places for opening laundromats, sells “a set of WASHHOUSE laundromat systems,” which contains the design, interior finish work, equipment installation, etc. in a WASHHOUSE brand store, to franchisees, and receives the preparation fees for opening store, including advertisements, and fees for franchise rights.

For increasing franchisees, the company adopts the division system where sales staff visit possible franchisees, with which telephone staff set up an appointment, so that sales staff can concentrate on more active sales activities without the mental burden of sales calls. In addition, business simulation, contract production, etc. are conducted by other staff, so that sales staff can devote themselves to “footwork.”

Furthermore, by concluding business matching contracts with financial institutions, etc., the company is accumulating information on sites for building laundromats and candidate owners, and developing a “system” for increasing laundromats.

WASHHOUSE designs a plan to open new laundromats for each term based on the accumulated data on correlative relations of “the number of years of career of sales staff and achievements of opening franchised stores.”

Therefore, the company can achieve the target values set at the beginning of each term with overwhelming probability.

(2) Store management division

In order to keep each store “reliable, safe, and clean,” WASHHOUSE provides franchisees with such services as

- 24/7 Call centers
- Swift support based on management webcams and remote control
- Daily inspection and cleaning
- Replenishment of detergents
- Maintenance patrol
- Advertisement

Sales are composed of the fees for store management and system maintenance, sales of detergents, cleaning fees, advertising charges, etc.

Since franchisees need not manage their laundromats, if they can bear initial investment costs, they can own multiple stores, increase revenue, and reduce the risk of revenue fluctuation with stores being operated in different regions.

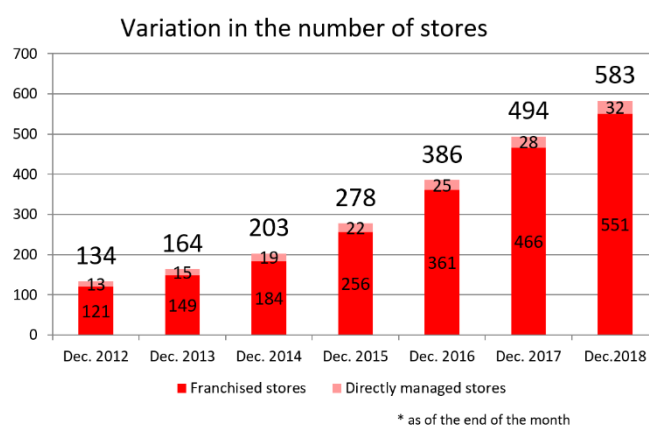
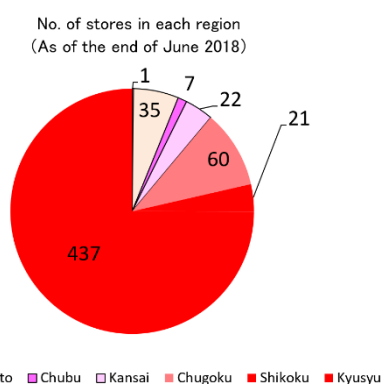
(3) Direct management division, etc.

The company directly manages some of “WASHHOUSE” laundromats, receiving the charges for washing and drying machines from users. A directly managed store is opened mainly when entering a new area. It takes the roles as an antenna shop, such as popularizing the “WASHHOUSE” brand as a “reliable, safe, and clean” laundromat, promoting possible users to use it, and offering a store model to franchisees and land owners (individuals and corporations that are thinking of utilizing their real estate).

In addition, the company receives commission fees related to the calculation of expenses for laundromat operation, etc. from enterprises.

2. Store operation

As of December 2018, WASHHOUSE operates 583 franchised stores and 32 directly managed stores, that is, a total of 551 stores in Tokyo, Osaka and 20 other prefectures. In 2018, the company opened laundromats in the Tohoku area (Aomori Pref.), Chiba, Saitama, and Mie Prefectures, for the first time. The company plans to continue nationwide development.



1-5 Characteristics and strengths

(1) Creation of a new FC business system

WASHHOUSE can be characterized most by its unique FC business model.

In ordinary FC business, a conflict between the FC headquarters and franchisees tends to emerge.

While franchisees pay franchise fees and royalties to the FC headquarters, the FC headquarters permit them to use a brand name, offers know-how to them, supply products to them, store operation, staffing, etc. must be carried out by franchisees on their own responsibility. For franchisees, the operation and management of stores are significant burdens. If their business performance is favorable, there are no problems, but if sales are sluggish, the franchisee complains, “the system of the headquarters is poor,” while the FC headquarters blames, “the education in the franchisee is poor,” and these complaints lead to a lawsuit in many cases.

Meanwhile, WASHHOUSE introduced the “system for managing and operating all stores at the same time.” The company conducts necessary tasks for operating and managing franchised stores:

- 24/7 Call centers
- Swift support based on management webcams and remote control
- Daily inspection and cleaning
- Replenishment of detergents
- Maintenance patrol
- Advertisement

As a consequence, franchisees are free from the burdens of store operation.

In addition, since the company targets real estate that would have sales of over 1 million yen, it has meticulously surveyed the market, including local population, age distribution, income state, etc. and accumulated know-how for cultivating profitable property.

Thanks to the combination of the system for managing stores fully and the capability of cultivating profitable real estate, the satisfaction level of franchisees is very high, and up until the 18th term (ended Dec. 2018), no laundromats have been closed down due to poor performance. This is an unrivaled record in this industry.

(2) Bright, clean, easy-to-use stores

A laundromat generally reminds us of a “dimly-lit, eerie and dirty” place, but WASHHOUSE operates “reliable, safe, and clean” stores with the unified brand targeting women and families including children.



Clean, bright store



The laundromats of WASHHOUSE are cleaned by specialized staff every day, so that customers can use them comfortably.

Webcam



Each store is equipped with multiple webcams, which record the inside of the store.

Information station



Each store is equipped with a touch panel for checking how to use a laundromat, weather forecast, fortune-telling, etc.

Spot remover



Stores are equipped with a stain removing machine, which can be used free of charge. (Not available at some of its stores)

(Taken from the website of WASHHOUSE)

In the past, using a laundromat was considered as one of “sloppy acts in homemaking.” However, there is a growing interest in laundromats, which can wash and dry a larger amount of clothes in a shorter period of time than household washing machines, as the employment rate for women rose, high-rise condominiums increased, and the life-work balance changed. Especially, the washing of large items, such as futons and carpets, for removing ticks and allergens is attracting attention, due to the rising health consciousness. In addition, the needs for laundromats mounted with equipment for washing and drying kids’ sneakers are getting stronger.

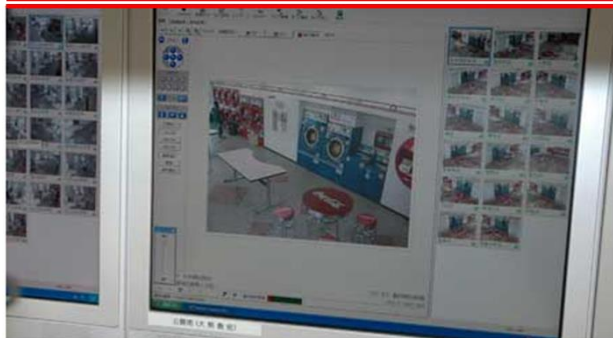
In these circumstances, the company installs the following equipment for meeting the needs of consumers:

- Washing machines with a capacity of 22 kg, which can wash a full-sized futon, and dryers with a capacity of 25 kg (in standard stores),
- Sneaker laundry equipment, which can wash sporting shoes, sneakers for commuting to school, etc.
- Devices for removing stains free of charge (Spot remover)

Furthermore, all stores are monitored by management webcams 24 hours a day, and mounted with IoT laundry equipment, which can be controlled remotely by the headquarters, so as to offer real-time support like manned stores, although the laundromats are unmanned.

Like this, the company has established a system that can be used by users without worry.

Remote control



Even when a machine cannot be activated or stops while washing, it can be remotely controlled by WASHHOUSE. Accordingly, users can use the machine without worry.

Call center in operation 24 hours a day all year round



WASHHOUSE operates a call center 24 hours a day all year round, so that call center operators can deal with troubles by telephone.

(Taken from the website of WASHHOUSE)

The company also indicates the components of detergents and the temperature in each dryer, to dispel the worries of consumers. In order to keep stores clean, the company cleans stores every day, including the cleaning of the filters of dryers and the sterilization of washing machines.

(3) Stable earning structure with recurring revenue

The sales from the store management business are composed of the monthly store management fee (50,000 yen per store), the fee for system maintenance (10,000 yen), ad charge (30,000 yen), cleaning charge (about 40,000 yen), etc., that is, a total of about 130,000 yen/month.

As of the end of Dec. 2017, the number of franchised stores of WASHHOUSE was 466. Accordingly, the sales from store management in the term ended Dec. 2018 can be calculated by adding the sales from existing stores (466 stores × 130,000 yen/store/month × 12 months = 726 million yen) and the sales from 85 new stores opened in the term ended Dec. 2018 (sales vary according to the date of opening).

The sales from store management in the term ending Dec. 2018 can be obtained by adding the sales from existing stores (563 million yen), the sales from new stores opened in the term ended Dec. 2017 (105 stores × 130,000 yen/store/month × 12 months = 164 million yen), and the sales from 133 new stores (estimated) opened in the term ending Dec. 2018.

The sales for the term ending Dec. 2019 are composed of the sales from existing stores (726 million yen), the sales from new stores opened in the term ended Dec. 2018 (85 stores × 130,000 yen/store/month × 12 months = 132 million yen), and the sales from 116 new stores (estimated) opened in the term ending Dec. 2019, and also the revenue from collection of loans by Washhouse Financial Co., Ltd., which is a 100% subsidiary and started its business in the term ended Dec. 2018.

Earning structure

Recurring revenue in the previous term

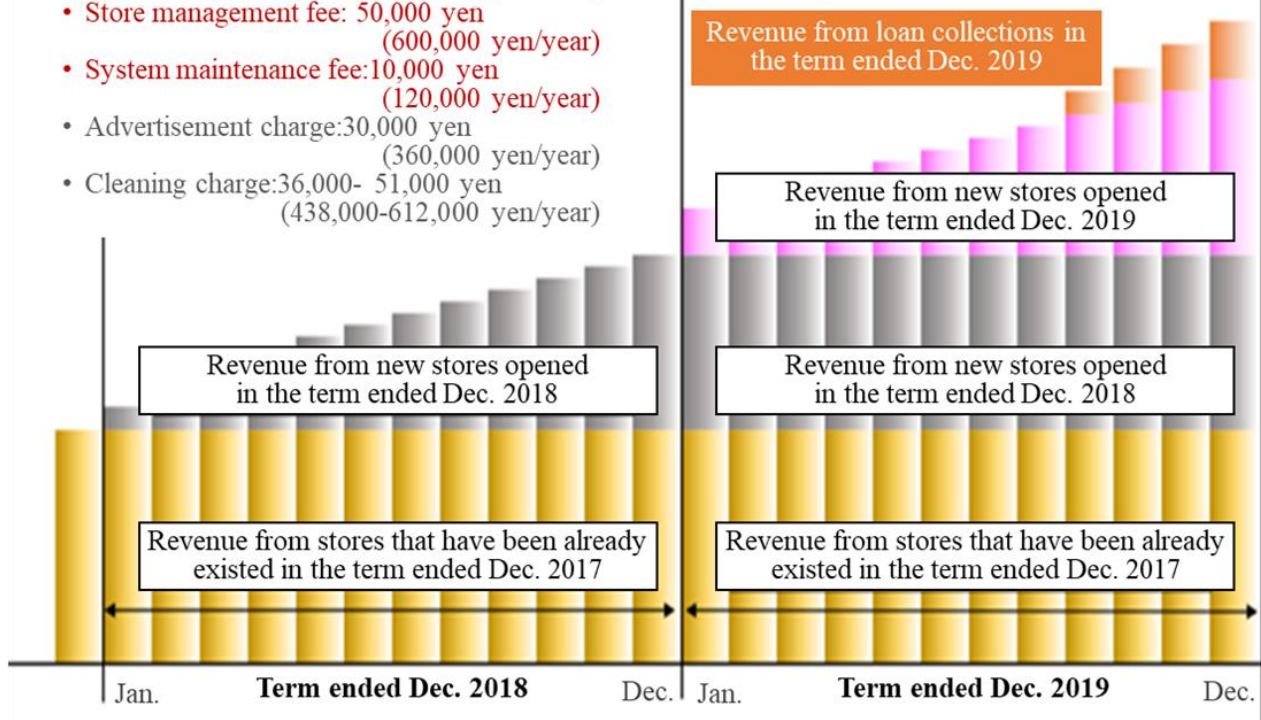
- || Revenue from **new** stores opened in the term ended Dec. 2018
- + Revenue from stores that have been already existed in the term ended Dec. 2017

Regular revenue from franchised stores
(monthly revenue per store)

- Store management fee: 50,000 yen
(600,000 yen/year)
- System maintenance fee: 10,000 yen
(120,000 yen/year)
- Advertisement charge: 30,000 yen
(360,000 yen/year)
- Cleaning charge: 36,000- 51,000 yen
(438,000-612,000 yen/year)

Recurring revenue in the current term

- || Revenue from **loan collections** in the term ended Dec. 2019
- + Revenue from **new** stores opened in the term ended Dec. 2019
- + Revenue from new stores opened in the term ended Dec. 2018
- + Revenue from stores that have been already existed in the term ended Dec. 2017



(Taken from the reference material of WASHHOUSE)

Like this, sales from the store management business grow steadily, as the sales from new stores are added to those from existing stores, year by year.

On the other hand, the satisfaction level of franchisees is very high, which can be represented by the fact that no stores have been closed because of poor performance up until the 18th term, and so there is a low possibility that the number of stores will decrease.

The revenue from Washhouse Financial is stable and recurring. This fortifies the stable revenue structure of the company.

(4) Efforts for improving the soundness of the self-service laundry market

Although the laundromat market is growing, president Kodama mentioned that there remain a lot of problems, including the issue of compliance with the law.

For example, the dryers in a laundromat consume a large volume of gas, and so the Fire Service Act, the Building Standards Act, etc. specify the materials for exhaust ducts, how to install them, etc. in detail, for safety reasons. However, there are many illegal installations. Some laundromat operators try to reel in users by offering to wash clothes on behalf of customers as a measure for differentiating their services from competitors, but they are very likely to be violating the dry cleaning business law.

The dry cleaning business law enforced in 1950 set forth the following provisions from the viewpoint of maintaining public health.

(Excerpt from the dry cleaning business law)

Section		Provision	In other words
Article 2	2	In this law, a “dry cleaning business operator” means a person who operates dry cleaning business (including a person who does not wash clothes, but receives and delivers the laundry).	A person who folds up clothes, too, is recognized as a dry cleaning business operator.
	3	In this law, a “dry cleaner” means a person who has obtained a license described in Article 6.	In order to conduct dry cleaning business, it is necessary to obtain a dry cleaner’s license.
	4	In this law, a “dry cleaning shop” means a facility of a dry cleaning business operator for handling, receiving, and delivering the laundry.	In order to open a dry cleaning shop, it is necessary to notify the governor of the prefecture. In addition, the dry cleaning shop needs to undergo the governor’s inspection before use. A dry cleaner needs to be employed at each dry cleaning shop.

In a nutshell,

- Even if a laundromat operator obtains a dry cleaner’s license, he/she cannot offer services of handling and folding up the laundry, etc. at a laundromat, which is not a dry cleaning shop.
- The washing machines and dryers inside a facility registered as a dry cleaning shop is exclusively for dry cleaning business operators, and so they cannot be used by others (users of laundromats) from the viewpoint of hygiene.

Despite the existence of these laws, in order to avoid the guidance from a public health center, some business operators set a counter inside their stores, install washing machines, explain “We use this washing machine,” but actually they wash the laundry of users with unregistered laundromat equipment outside the counter (not installed ones), and fold up the laundry.

In this situation, president Kodama considered that in order to promote the use of laundromats, it is indispensable to develop “reliable, safe, and clean” laundromats inside his company and improve the soundness of the self-service laundry industry, therefore established the National Association of Laundromat Operators in Dec. 2003.

This association specified the operation standards for equipment and hygienic management complying with laws, regulations, etc. At present, the directly managed stores and franchised laundromats of WASHHOUSE belong to this association, which takes the roles of improving the soundness of this industry and educating general consumers (about the usefulness of laundromats, etc.).

2. Fiscal Year ended December 2018 Earnings Results

(1) Business Results

	FY Dec. 17	Ratio to sales	FY Dec. 18	Ratio to sales	YoY	Compare to Initial Forecast	Compare to Revised Forecast
Sales	3,375	100.0%	2,749	100.0%	-18.5%	-31.4%	-1.9%
Gross profit	1,169	34.7%	939	34.2%	-19.6%	-	-
SG&A	925	27.4%	927	33.7%	+0.2%	-	-
Operating Income	243	7.2%	12	0.5%	-94.9%	-95.8%	-55.3%
Ordinary Income	247	7.3%	16	0.6%	-93.2%	-94.4%	-47.5%
Net Income	156	4.6%	2	0.1%	-98.6%	-98.8%	-89.3%

*Unit: million yen

*Non-consolidated values have been used from the term ended December 2017. Consolidated values have been used from the term ended December 2018.

*YoY is reference value

Sales and profit dropped.

The sales were 2,749 million yen, down 18.5% year on year. The number of new franchised shops was 86, smaller than the previous term's number: 105. Gross profit also dropped 19.6% year on year. SG&A expenses was 927 million yen, nearly unchanged from the previous term, but it was not offset, and operating income dropped 94.9% year on year to 12 million yen.

Neither sales nor profit reached the estimated amount. This is mainly because the opening of new franchised shops was delayed due to the shortage of managers in charge of development of urban shops and disasters, such as the torrential rain in western Japan and the typhoons hindered the further cultivation of the existing territories; so the company opened only 86 franchised shops, while it first planned to open 130 shops. However, its non-consolidated performance was almost as mentioned in the revised forecast.

(2) Sales trend in each business segment

	FY Dec. 18	Ratio to sales	YoY
Sales			
FC DIVISION	1,427	52.6%	-39.5%
Store management division	884	32.5%	+27.4%
Direct management division, etc.	404	14.9%	+25.6%
Gross profit			
FC DIVISION	484	33.9%	-42.2%
Store management division	311	35.3%	+28.8%
Direct management division, etc.	110	27.4%	+23.5%

*Unit: million yen

*A ratio of Gross profit to sales is gross margin ratio

*YoY is reference value because Consolidated values have been used from the term ended December 2018

① FC division

The number of newly opened franchised shops in each prefecture is as follows: [Kanto area (28)] Tokyo (26), Saitama(1), Chiba(1), [Chubu area (6)] Aichi (5), Mie(1), [Kansai area (9)] Osaka (5), Nara (2), Hyogo (2), [Chugoku area (6)] Okayama (2), Hiroshima (2), Yamaguchi (2), [Shikoku area (7)] Kagawa (5), Ehime (2), [Kyushu area (30)] Fukuoka (17), Nagasaki (2), Kumamoto (3), Miyazaki (4), Kagoshima (2), Saga(2) for a total of 86 stores. (The number of new store openings in Kyushu area was 20, but as one of the existing stores closed due to redevelopment of a neighboring commercial facility, the number of franchised stores increased by 85 during the term).

As a result, the number of FC stores as of the end of December 2018 was 551

The number of shops opened by using Washhouse Financial was 16, much larger than the estimate: 3 to 7.

② **Store management division**

Sales grew due to the increase of management-entrusted laundromats.

③ **Direct management division, etc.**

As directly managed laundromats, the company opened one shop in each of Aomori, Tokyo, Chiba, and Miyazaki Prefectures, that is, a total of 4 shops. The company did not purchase any franchised stores.

The number of directly operated stores is 32 at the end of December 2018

(3) Financial standing and cash flows**◎Main BS**

	FY Dec. 17	FY Dec. 18		FY Dec. 17	FY Dec. 18
Current Assets	3,462	3,363	Current liabilities	1,088	1,091
Cash	3,018	2,591	Payables	458	396
Receivables	127	139	Deposits received	322	451
Inventories	214	114	Noncurrent liabilities	682	819
Noncurrent Assets	575	765	Guarantee deposited	635	774
Tangible Assets	309	413	Total Liabilities	1,771	1,911
Intangible Assets	5	4	Net Assets	2,267	2,217
Investment, Others	261	347	Shareholders' Equity	2,267	2,218
Total assets	4,038	4,128	Total Liabilities and Net Assets	4,038	4,128

*Unit: million yen

*Non-consolidated values have been used from the term ended December 2017. Consolidated values have been used from the term ended December 2018.

*Increase/decrease is reference value in sentences.

Current assets declined 99 million yen from the end of the previous term, due to the decrease in cash and deposits, etc. Noncurrent assets grew 189 million yen from the end of the previous term due to the increase in property, plant and equipment (such as directly managed laundromats) and investments and other assets, and total assets rose 90 million yen from the end of the previous term to 4,128 million yen.

Total liabilities augmented 139 million yen from the end of the previous term to 1,911 million yen, due to the increase in deposits and guarantee deposits received.

Net assets declined 49 million yen from the end of the previous term to 2,217 million yen.

Consequently, equity ratio was 53.7%.

◎Cash Flow

	FY Dec. 17	FY Dec. 18	Increase/decrease
Operating Cash Flow	80	-314	-395
Investing Cash Flow	49	-28	-78
Free Cash Flow	130	-343	-473
Financing Cash Flow	-103	-89	+13
Term End Cash and Equivalents	3,018	2,591	-426

*Unit: million yen

*Non-consolidated values have been used from the term ended December 2017. Consolidated values have been used from the term ended December 2018.

*Increase/decrease is reference value in sentences.

Free CF turned negative. The cash position degraded.

(4) Topics**◎ The company acquired land for enriching its business base, including a site for manufacturing detergents.**

In Feb. 2019, the board of directors resolved to obtain a piece of land (about 2,000 tsubo ≒ 6,600 m²) owned by Miyazaki Prefecture. Its purpose is to fortify the business base by constructing a production site for detergents to be consumed in the laundromat business as the company had planned, developing a logistic center for the future, etc. The acquisition price was 182 million yen. We heard that the total investment amount for constructing factories, installing equipment, etc. for future business is about 1 billion yen, but it is being examined and calculated. The operation of the production site is scheduled to be started in fiscal 2020.

3. Fiscal Year December 2019 Earnings Estimates

(1) Earnings Forecasts

	FY Dec. 18	Ratio to sales	FY Dec. 19 Est.	Ratio to sales	YoY
Sales	2,749	100.0%	3,675	100.0%	+33.7%
Operating Income	12	0.5%	200	5.4%	-
Ordinary Income	16	0.6%	200	5.4%	-
Net Income	2	0.1%	121	3.3%	-

*Unit: million yen

*The estimated values are from the company.

To significant performance recovery

It is estimated that sales will rise 33.7% year on year to 3,675 million yen and operating income will increase considerably to 200 million yen.

The number of new franchised laundromats is projected to be 116, much larger than that in the previous term: 86.

As Washhouse Financial started the moneylending business and the urban shop model was completed, it became possible to open shops more swiftly in a broader range of sites in addition to suburban areas. Therefore, the company will actively open urban shops in the Kanto and Kansai areas. The dividend is to be 8.00 yen/share like in the previous term. The estimated payout ratio is 45.4%.

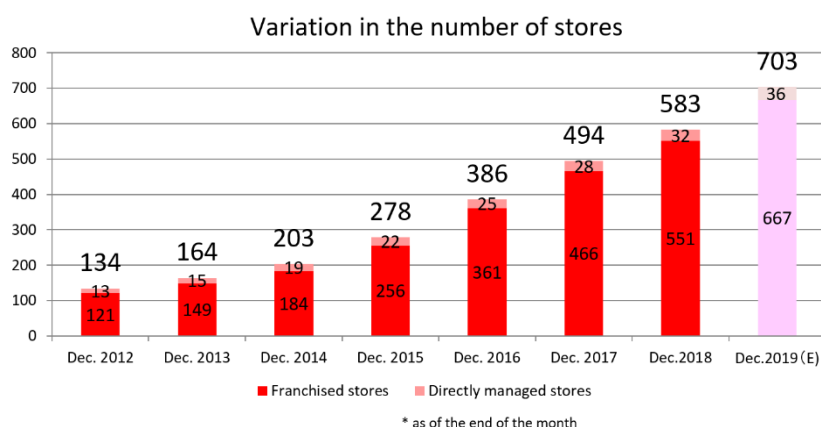
(Future efforts)

- The company will organize and deploy an elite team for developing laundromats, and accelerate the increase of franchised shops, while utilizing Washhouse Financial, which has already shown good results. Especially, since the company can significantly shorten the necessary period for concluding a contract, which has been about 1 month, by using Washhouse Financial, it becomes possible to occupy profitable sites in the Tokyo Metropolitan Area swiftly. This will bring significant advantages, including the enhanced capability of gathering information, to the company.
- As for overseas business expansion, which has been envisioned, the company plans to establish local corporations in China and Thailand and make inroads into them, and they are already at the final stage. Capital contribution ratio, etc. will be announced as soon as they are determined. It also plans to invite the employees in the two countries to Japan, and train them.
- As mentioned above, the company decided to acquire land for constructing a detergent factory and a logistic center in March 2019. The company defines the year 2019 as the year for transforming from a service provider into a manufacturer. It considers that the acquisition of the land will increase the scale as a manufacturer and profitability further.
- While competitors' laundromats are operated differently although they display the same signboard, the laundromats of Washhouse are operated in the same way; accordingly, it is possible to advertise its services via mass media, including TV, and the company is thinking of using this feature as a powerful driver for accelerating the opening of new laundromats.
- In addition, the company will endeavor to "make laundromats prefabricated," "supply LP gas by itself," and "produce washing machines and drying machines."

4. Conclusions

Unfortunately, the company revised its earnings forecast downwardly and saw profits dropping considerably for two consecutive terms, but the company reaped some results in the term ended Dec. 2018, as the full-scale operation of Washhouse Financial already showed some effects.

In addition, the construction of a factory for detergents and overseas business expansion, which had been envisioned, came in sight. Since the company needs to bear the costs for investment, depreciation, etc., it will take some time to earn profits, but it is noteworthy that the company is proceeding to a totally different stage from competitors' in the laundromat industry, by utilizing its abilities to design a concept and take action. In the short term, we would like to pay attention to whether the company can open the target number of shops in this term, especially 65 urban shops, which will account for a majority of 116 new franchised shops.



<Reference: Regarding Corporate Governance>

◎ Organization type and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	6 directors, including 1 outside one
Auditors	3 auditors, including 2 outside ones

◎ Corporate Governance Report

Last update date: Apr. 5, 2019

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

The company mentioned, "We will implement all of the basic principles."

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