

# 2006 Merrill Lynch Japan Conference One on One Meeting

September 8, 2006

Watami (7522)

**WATAMI**®

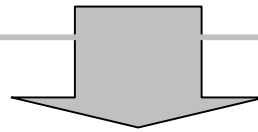
**Watami group aims to  
achieve sales of  
1 trillion yen in 2020**

## Sales Target by Business Division

- Domestic dining-out division 300 billion yen
- Overseas dining-out division 100 billion yen
- Nursing care division 300 billion yen
- Agricultural division 50 billion yen
- Environmental division 50 billion yen
- Home-meal replacement division 200 billion yen

Food Service Business : JPY 24,278.1 Billion

- Izakaya Market : JPY 1,074.7 Billion
- Family Restaurants Market : JPY 14,244.5 Billion
- Coffee Shops : JPY 1,103.2 Billion



Watami Group mainly focuses on Izakaya Market.



Reference

Department Stores · Supermarkets (JYP 16,408.7 B.)、Automobiles · Motorcycles (JPY 16,176.7 B.)

Clothing (JPY 10,982.1 B.)、Furniture · Equipments (JPY 11,467.6 B.)

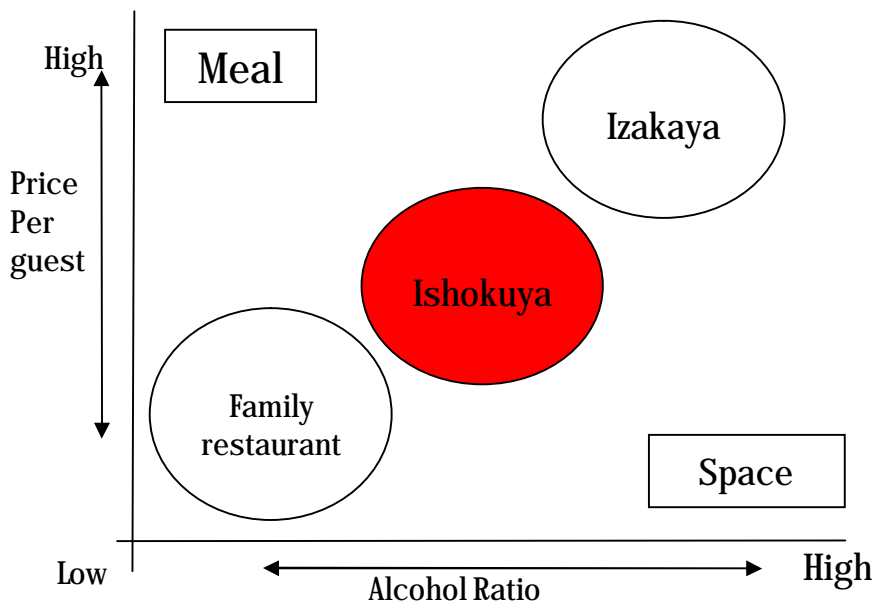
# WATAMI®

## Development of Unique Restaurant Business Market and Distinctive Business Portfolio

Creation of “Izakaya market”

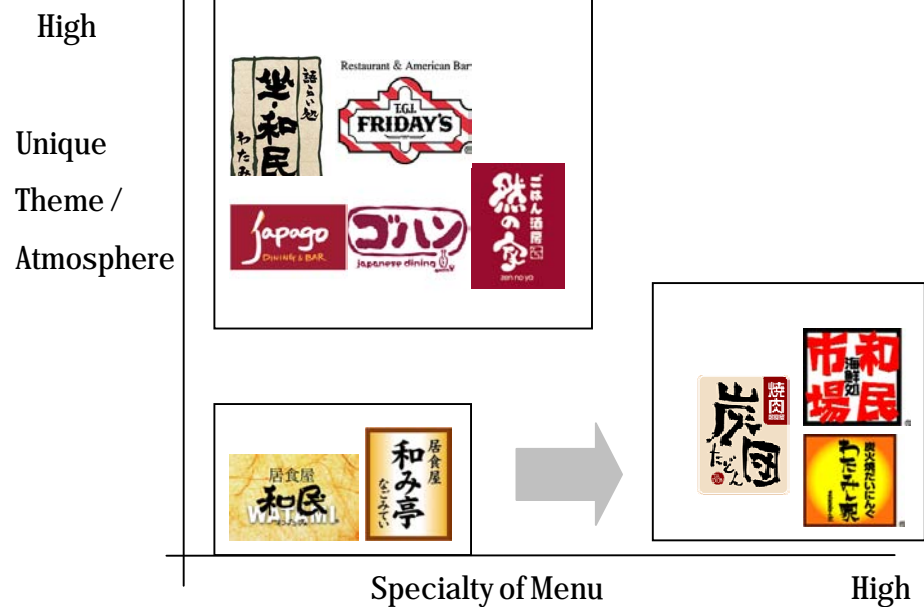
(Casual style restaurant)

Price per guest and alcohol ratio



**Prime Concept: Eating-out Space Business**  
 We developed innovative idea : Customers want not only places to drink and eat out but also to enjoy pleasant atmosphere. The place appeals to families and female customers as well.

Direction of our business model



As Izakaya business market is maturing, customers tend to become more selective. To meet this demand, we developed several types of eating-out places and unique business portfolio.

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## Watami's strategy to open outlets (Domestic)

Present: approx. 600 outlets

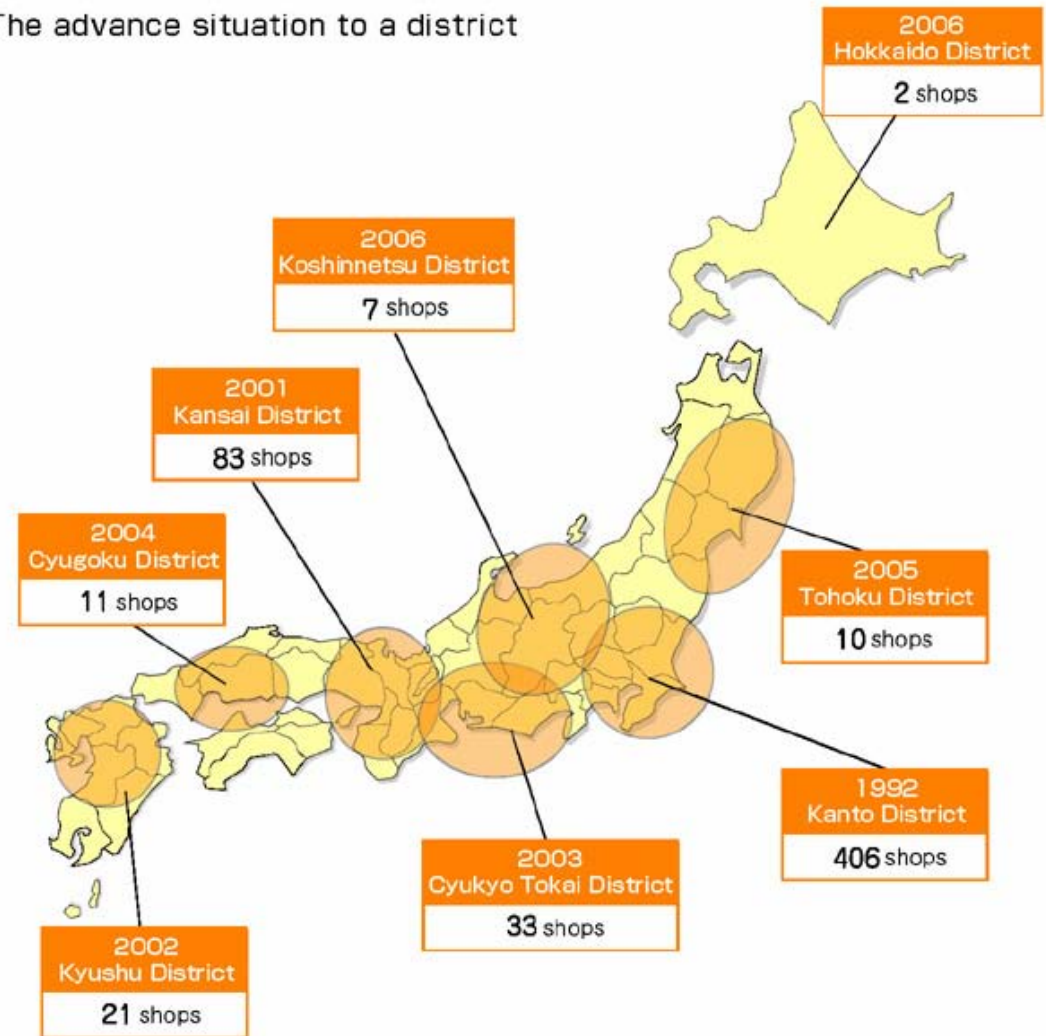


In 2020 : 2000 outlets

Izakaya market of 1 trillion yen  
Target : 20% of the market share  
200 billion yen

Plan to penetrate into other restaurant  
business (Korean and Chinese, etc.)  
100 billion

The advance situation to a district



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## Domestic restaurant business “Watami”

### Ishokuya “Watami” 263 outlets

### Ishokaya “Watami” ---- Icon of Izakaya

“Safety and Security”, “Hand-Made”, “Variety of Menu”,  
“High-quality ingredient (seasonal)”

Pursuit Low Price

In 2006 completely renewed “WATAMI” which had been running since 1992.

Change of logo , menu and interior without changing the concept.

Size:50~70 tsubo(165m<sup>2</sup>~231m<sup>2</sup>) Development Area :Nation wide.

Passenger usage of more than 30,000.

Price per guest 2,300yen 2,500yen .

Profit Model: Cost 25.8%, Labor Cost 24.5%, Profit 21.3%, Investment 67million yen, ROI40%.



# WATAMI®

## Domestic restaurant business “Za Watami”

### “Kataraidokoro Za Watami” (137 outlets)

Supplementary business for Ishokuya “Watami”  
– Feel of private dining, focus on interior

Open as new store or conversion from “WATAMI” since 2004.

Size 70~120 tsubo(231m<sup>2</sup>~397m<sup>2</sup>). Development area: Nation wide.

Passenger usage of more than 50,000.

. Price per guest 2,700yen.

Profit Model: Cost 25.1%, Labor Cost 23.8%, Profit 22.3%, Investment 78million yen, ROI40%.



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## Domestic restaurant business “Watamin-chi”

### Charcoal grill dining “Watamin-chi” 98 outlets

Supplementary business for Ishokuya “Watami”  
– Special focus on product menu

Started as lower price concept of “WATAMI” in 2002. Currently specializes higher in Yakitori (grilled chicken) and Oden.

Size: 40~60 tsubo (132m<sup>2</sup>~198m<sup>2</sup>) Development Area :Nation wide.

Passenger usage of more than 30,000.

Price per guest 2,300yen.

Profit Model: Cost 28.0%, Labor Cost 26.6%, Profit 19.5%, Investment 50million yen, ROI 40%.



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## Domestic restaurant business “Ta Don”

### Korean BBQ “Tadon” 5 outlets

Focus on “Charcoal grill, high-quality meat, sauce”.

Combination of charcoal grilled Korean BB and Ishokuya menu

Safe and Assurance, Delicious Meat – Involvement from Production

Environment Concern~ Building environment –friendly relationship.

Size:40~70 tsubo(132m<sup>2</sup>~231m<sup>2</sup>) Development Area :Nation wide.

Passenger usage of more than 50,000.

Price per guest 3,000yen.

Profit Model: Cost 32.0%, Labor Cost 19.5%, Profit 19.1%, Investment 68million yen, ROI40%.



短角和牛

低脂肪で旨味のあるおいしい肉質が特徴です。その中でも、特にやわらかいフィレとロースを選びました。両面をさっと焼いて、レアがおおすすめです。

○調味生醤油  
生醤油と味噌の割合は2:1で、こくよく、まろやかに仕上げられています。

短角サーロイン (120g)	1,480 (税別1,554)
短角リブロース (120g)	1,480 (税別1,554)
短角フィレ (120g)	1,480 (税別1,554)

※数量限定 / 品切れの場合はご容赦ください。

■WATAMI FARM 弟子屈牧場での取り組み  
トレーサビリティのほつりした、産地でおいしく牛肉の供給を目的に、北海道産の短角牛の生産者さんと提携をスタートしました。自然環境に負荷をかけない飼育環境づくりを目指しています。現在、肉本来の旨味の濃い、短角牛で20頭を育成しています。

■短角和牛とは  
和牛には、黒毛和牛、褐毛和牛、白毛和牛、短角和牛の4種があります。短角和牛は、あまり馴染みにはありませんが、脂肪成分が多く、低脂肪で牛肉本来のおいしさを味わえる和牛です。



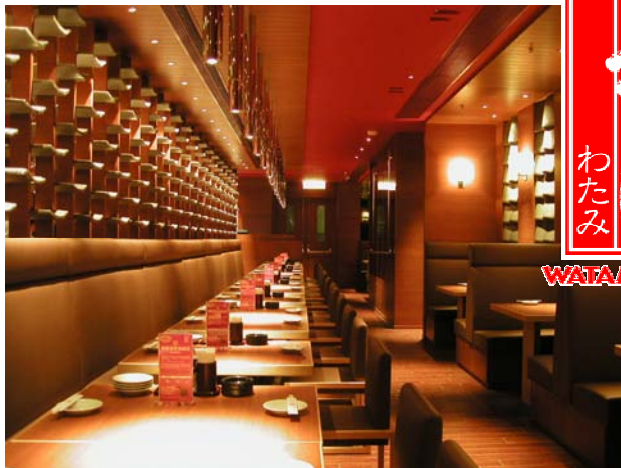
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## Overseas restaurant business “Watami Hong Kong”

# “Watami Hong Kong”

International version of utilizing success gained in Japan

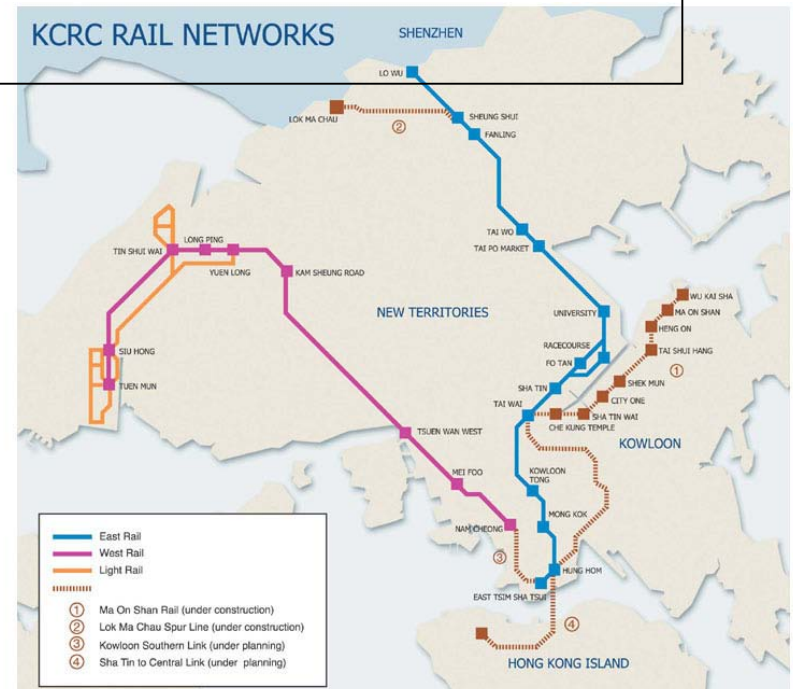
- Opened the first restaurant in Hong Kong in 2000.
- Serves genuine Japanese food with reasonable price
- Provides modern atmosphere with cutting-edge design, which is very popular among young people.
- Plans to open directly-operated restaurants as well as venture capital/franchise style- restaurants.



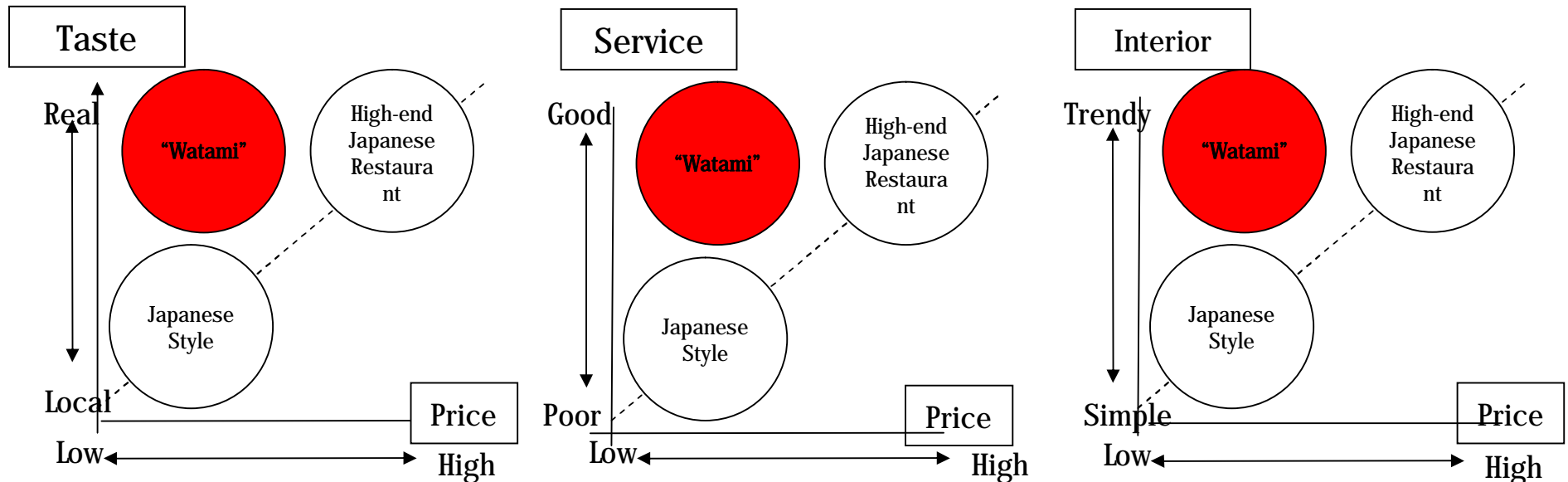
Japanese Casual Restaurant



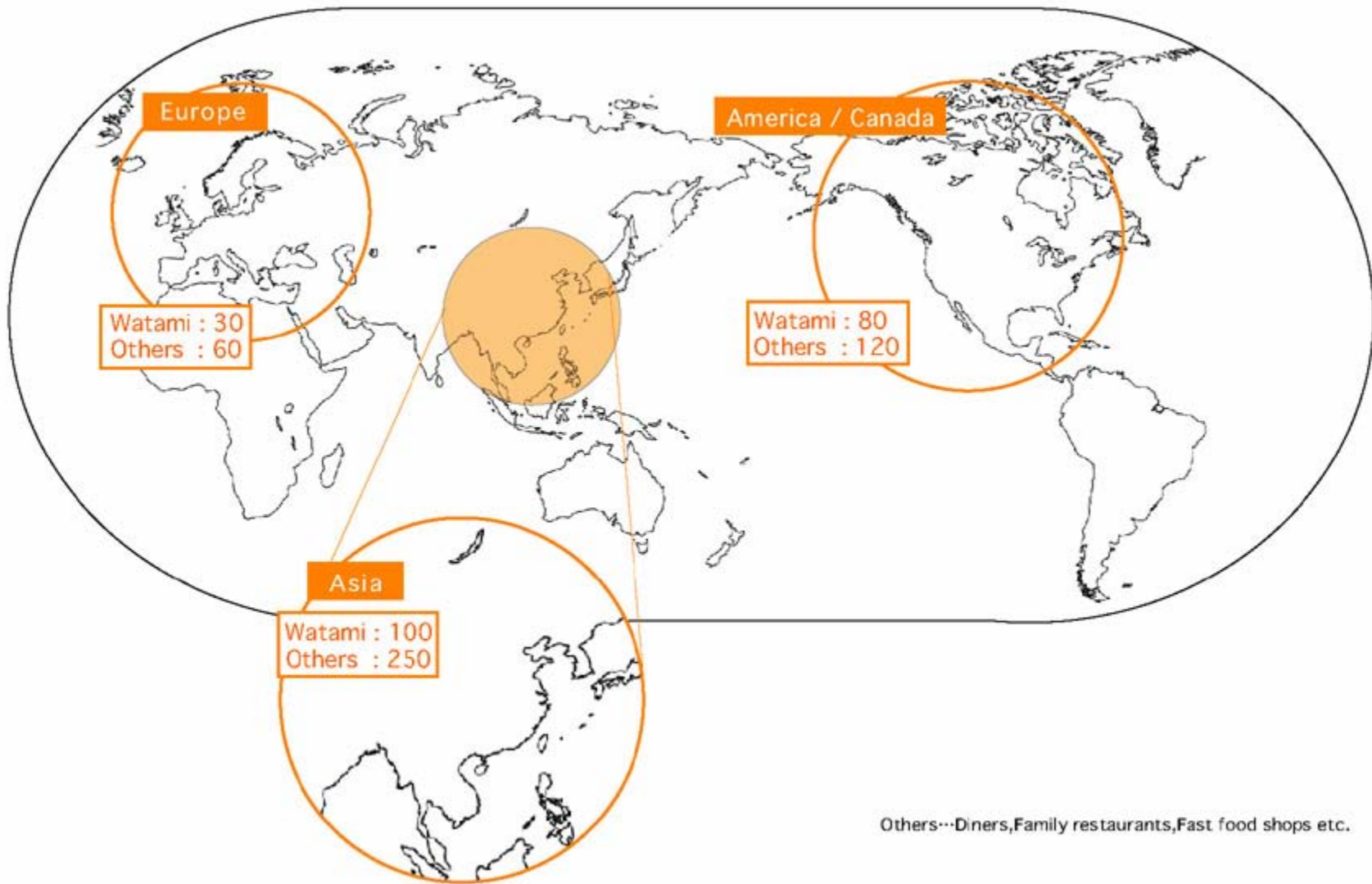
WATAMI Hong Kong



### “Watami in Hong Kong” (Positioning map)



Before Watami entered Hong Kong, there were only two types of Japanese restaurant. One is called “Nisshiki” with arranged Japanese food. (price per person : 50HKD=750 yen). The other is an expensive restaurant for Japanese expatriates (400HKD=6,000 yen). Watami entered this market and won popularity through authentic Japanese food, fashionable interior and reasonable prices.

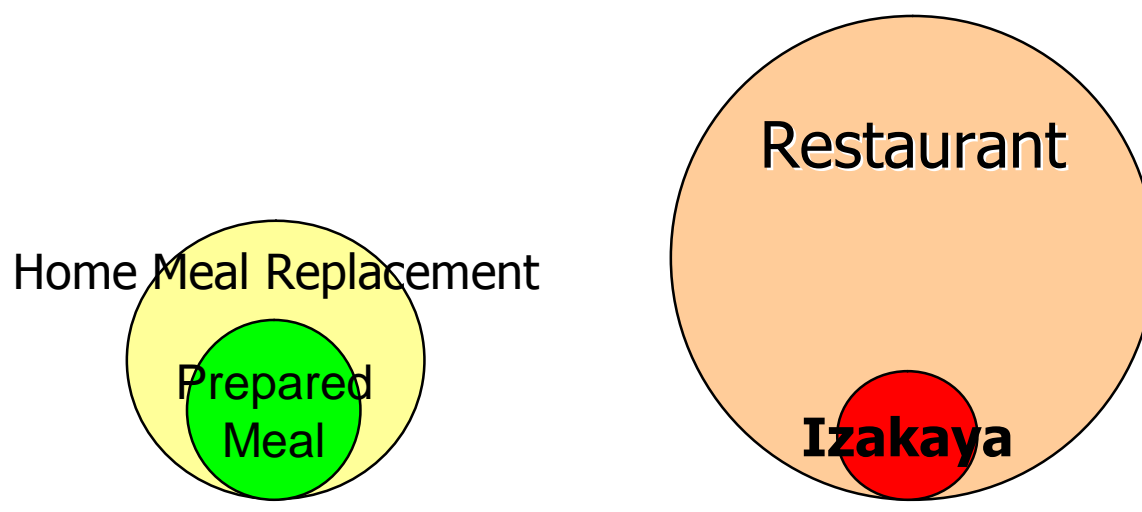


# Home Meal Replacement Business

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## Large Expansion of Home Meal Replacement Market

Market Size: 7,189.7 billion yen (+3.18% over previous year)  
of them, “prepared meal stores” market 2,783.1 billion yen  
-comparison- Restaurant 24 trillion, of them Izakaya 1 trillion yen



# WATAMI

## Home Meal Replacement Division ¥200 billion

### Story 1 Prepared Meal Store (Large Market)

Nov 2006 Establish Brand, Open in department stores

2009 Development of 2nd concept 《specialty store》

2020 Goal - 45 billion yen (100 Department + 100 Station + SC100 = 300 outlets)

### Story 2 Prepared Meal Store (Small Market)

Jan 2008 Rapid Development, M & A, Delivery Function

2020 Goal – 102 billion yen (200 Company operated + FC1,500)

28.8 billion yen (delivery)

### Story 3 Expand sales channels such as convenience stores to sell WATAMI's sauces, etc

2020 Goal-27.4 billion yen

# WATAMI

## Home Meal Replacement Division ¥200 billion



November 2006

Diamond City Tachikawa 「Mitsukoshi Musashimurayama」

Open in 1<sup>st</sup> floor (plan)

(イメージプラン)

# Nursing Care Business

**WATAMI®**

## Arrival of Rapid Aging Society

**25,268,000 in 2005 (19.7%)    35,559,000 in 2020 (28.1%)**

[USA]        40,961,000 in 2005 (12.4%)    60,273,000 in 2020 (16.1%)

[England]    9,525,000 in 2005 (16.0%)    11,740,000 in 2020 (18.8%)

Reference : UN

## Increase of Elderly Single Household

**3.86 M Household in 2005 (28.9%)    6.35M Household in 2020 (34.4%)**

Reference : Ministry of Welfare

## Supply of Pay Nursing Home

**10 Thousand Rooms in 2005    70 Thousand Rooms in 2020**

Supply Ratio of Facility is calculated by number of facilities / population over 65 yrs old < approx. 3.8% in Japan >  
Supply Ratios in US and Europe is 7% ~ 10% < Sweden 7.2%, Denmark 11.4% (2002), US 9.5% (2003) >

Reference : Independent Research

### 「Food」

Utilize system from Restaurant Division, Menu Development  
(Food conscious)

### 「Service (Care)」

Feeling for the customer (“hospitality” by well experienced staff )  
~ Staff to execute according to facility operating standard

### 「Maintenance / Facility」

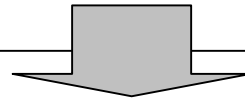
Utilize maintenance business company, Watami Ecology

### 「Low Cost Facility Construction」

Know how of low construction cost through mass construction

### 「Development Power」

Development power and creditworthiness of Development Dept.



## Realization of Low Price

~ ordinary people to have happy life with ordinary annual pension

### 「Management」

Utilize know how from restaurant chain

Area Manager system (manage by area), conduct family survey

### 「Education」

Establish Training Department in Watami Co., Ltd.

Facility Director Development Program, Care People Training

(Care Manager, Care Worker, Social Worker Exam Course)

Establish helper training / basic care officer course, etc.

Offer to working people seeking qualification, company seeking training

### 「HR Recruiting」

Many new graduates and mid-career workers relating to

Watami no Kaigo



July 2004 : Enter Nursing Care Business

March 2005 : Acquisition of R no Kaigo

April 2005 : Beginning of management / operation (occupancy rate little less than 60%)

Maximum usage of WATAMI group synergy

Offer "food" "service" based on restaurant service know-how.

Enhancement of management

Renovation of existing facilities

April 2006: Increase in occupancy rate of existing facilities (exceed 80%)

July - Opening of new facility (Significantly exceeding the initial occupancy goal)

August - Furthermore increase in occupancy of existing facility (occupancy rate of 90%)

Upwardly revised next years development plan from 8 facilities to 12 facilities.

**WATAMI**<sup>®</sup>

Target : 1000 facilities/300 bn yen in 2020

300 billion yen,  
1,000 facilities  
in 2020

Prediction of 700,000 people in the targeted market in 2020. Aim to take 70,000 people, or 10%.

# Agriculture Related

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## Issues in Domestic Agriculture ~ large turning point

For many years, farmland has been exhausted through usage of pesticides and chemical fertilizer and its recovery is in extreme critical condition.

Pesticides and chemical fertilizer triggers environmental destruction and has become a great social issue from the perspective of safe food.

Aging and lack of farmers

## Intent of establishing agriculture division

~ Supply the group and develop Japan agriculture

Stable supplier of organic vegetable to Watami group in pursuit of food safety/assurance

Contribute to various fundamental issues of Japan agriculture

Implementation of know how, HR training and management of a company

Nation's Largest Organic Agricultural Production Corporation.



Expansion of agricultural land.

Farm area of 450.5ha ~upland cropping 200 Dairy 50, Live stock 200

41.82% of Group's purchase of organic vegetables /special cultivated agricultural product (2.46% in 2004)

Watami Group produces 5~6% of nation's total organic production

Expansion of organic products

Organic vegetables, dairy, egg, breeding of short horn

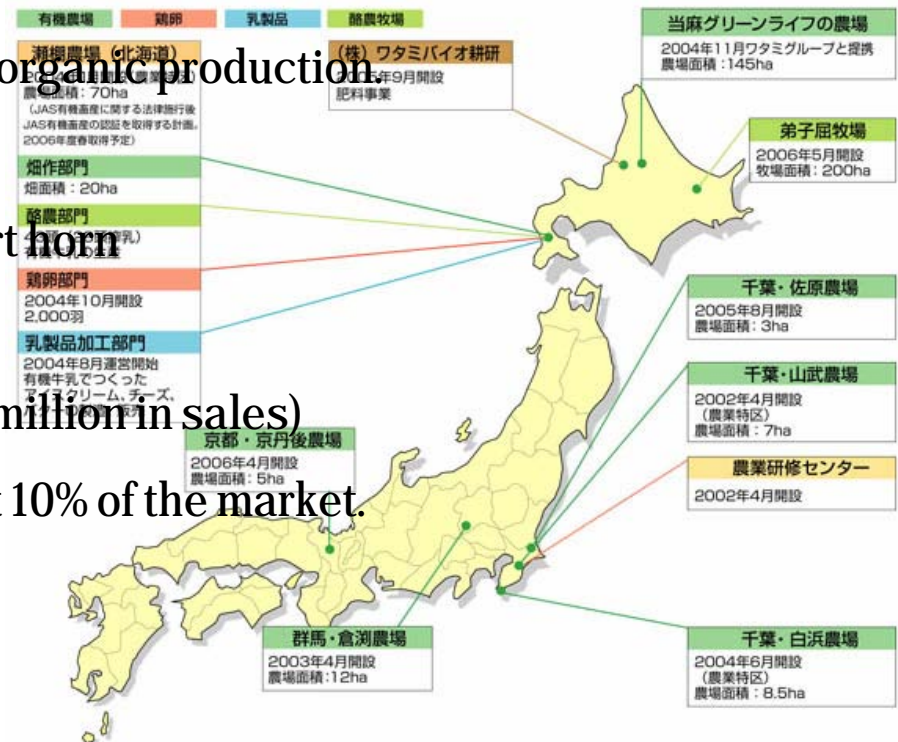
Organic fertilizer business

System to produce 2000 ton (Equivalent of 200 million in sales)

Japan Fertilizer Market 220 – 300 billion . Target 10% of the market.

Delivery Business

Watami Farm Club



1000ha in 2010 (currently 450.5ha)

Production ratio of organic vegetable to 10%.  
(currently little less than 6%)

1000 cattle in live stock (short horn)  
(currently 230 cattle)

Sales share to outside companies to 50%  
(currently approximately 20%)

Expansion of organic fertilizer business  
and delivery business.

# Environment Related

**WATAMI®**

### 「Low Burden on Environment Facility Management Business」

#### Business fusion of Maintenance Division and Environment Division

- Provide clients with high quality facility management including environment measure
- Provide to Watami group restaurant as well as nursing care facilities  
/business in Watami group and distribution facilities (5,000 facilities)

Recycle/Waste substance management

( waste material, oil waste, grease trap dirt )

Manage various, environment responsive facility

( implement power reduction machine, energy saving signage )

Environment measure consulting

( consultation on obtaining ISO14001 )

## Environment Business Market

Expand from 10.697 trillion in 2000 to 28 trillion in 2020

Effective utilization of resource (renovation / maintenance / repair / energy saving)

8,649 billion yen in 2000    12,200 billion yen in 2020.

Provide Service (process waster material, recycle related)

2,632.1 billion yen in 2000    12,200 billion yen

## 「Medium Term Business Plan」

(Unit: million yen)

Consolidated		2005	2006	2007	2008	2009	2010
<b>Consolidated Sales</b>		82,671	101,010	110,274	123,590	136,885	149,447
<b>Consolidated profit</b>		3,292	4,590	6,615	8,755	11,301	13,556
(Breakdown per business · total figure)							
Restaurant business	Sales	77,268	91,840	98,349	105,495	112,116	118,597
	profit	3,083	3,145	4,894	5,851	6,798	7,653
Nursing Care Business	Sales	4,599	6,270	9,483	15,079	21,160	26,792
	profit	561	1,004	1,903	3,035	4,563	5,897
Agriculture Business	Sales	1,664	2,336	2,770	3,290	3,967	4,425
	profit	67	0	0	0	0	0
Environment Business	Sales	4,383	4,740	5,750	6,770	7,872	8,662
	profit	218	220	288	339	410	476
Investment		8,449	8,545	5,985	6,640	6,670	6,670
Free Cash Flow		4,464	2,981	482	1,082	2,641	4,044
New Borrowing		9,312	0	0	0	0	0
Outstanding Balance		26,828	24,537	20,740	13,445	11,708	2656
Capital Ratio		31.20%	33.60%	36.70%	40.60%	46.40%	55.90%
R O C		6.90%	10.10%	14.90%	21.40%	25.30%	32.0%

Medium term figures of home-meal replacement business is not included as many uncertainty factors still remains

To be the group to collect most ' Thank you ' on the planet  
地球上で一番たくさんのありがとうを集めるグループになりたい。

**WATAMI**®