Skylark Holdings Co., Ltd.
FY 2019 First Half
Financial Results
August 14, 2019
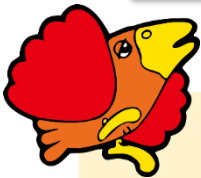
Management Policy

Operating environment

| More choices for consumer life style | Consumption tax increase; reduced tax rate not to be applied to restaurants | Uncertain economic condition | Worsening employment environment |

Continuous increase in labor cost

Management Policy

1. **Take measures against changes in the business environment surrounding the restaurant industry**

2. **Continue to invest in stores and employees**

Executive Summary

H1FY2019 Results

Sales   187.5bn yen(+8.0bn yen +4.5%YoY)

- ✓ Same Store Sales: +2.7%YoY
- ✓ New Openings: 40 new openings, +5.0bn yen YoY
- ✓ Delivery Sales: +8%YoY

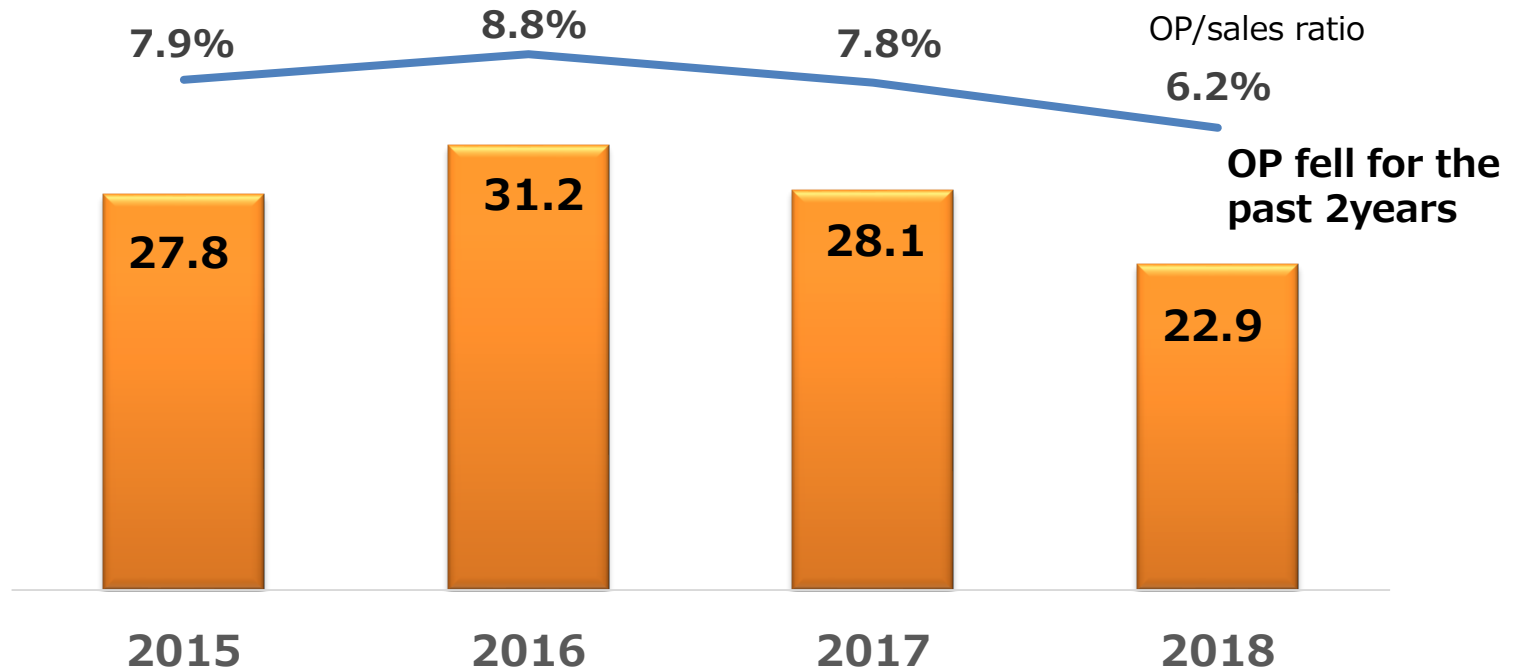### OP   11.1bn yen(+0.8bn yen, +7.4%YoY)

The business environment in the second half is expected to be extremely severe

- ✓ Consumption tax hike, Impact on guest count resulted from non-smoking at all restaurants, deterioration in consumer sentiment etc.
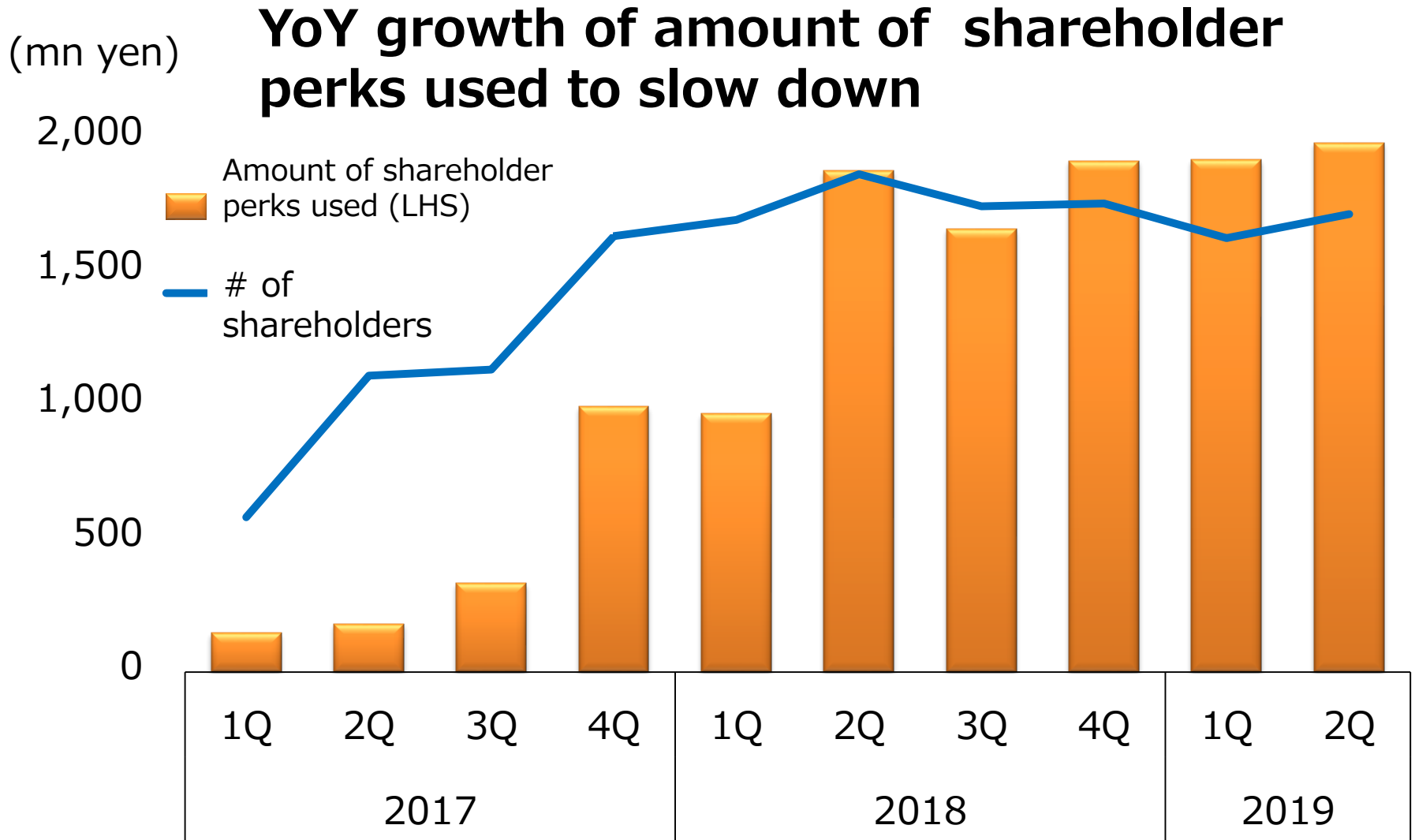
Recognition of Business Challenges

OP
(Bn yen)

7.9%   8.8%   7.8%   OP/sales ratio

6.2%

OP fell for the past 2years

2015	2016	2017	2018
27.8	31.2	28.1	22.9

2 Main reasons for OP decline

Increase in shareholder perks cost	Increase in labor cost

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Shareholder Perks Cost

YoY growth of amount of shareholder perks used to slow down

(mn yen)

Amount of shareholder perks used (LHS)

# of shareholders

2,000
1,500
1,000
500
0

1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
2017				2018				2019	

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Increase in Hourly Wage

Continuous hourly wage increase of 2.0bn-3.0bn yen/year is expected

（yen）

Minimum wage (National average)

Incase annual 3% increase in minimum wage continues

1,000

900

800

700

600

500

2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

Source: Ministry of Health, Labor and Welfare, Skylark Holdings

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Initiatives to Increase Sales①

▼Menu strategy

- ✓ Increase sales of set menu
- ✓ Strengthen noodle items to increase the frequency of visits
- ✓ Enrich healthy menu items and allergen free menu items

▼Digital marketing strategy

- ✓ Utilizes the latest technology that automatically optimizes ad delivery by machine learning
- ✓ Subdivide the area and automatically distribute coupons linked to the local weather and temperature to Skylark apps users

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Initiatives to Increase Sales②

## ▼Respond to customer needs

Gusto: table for one

Yumean: party room

- ✓ Increase tables for one at Gusto
- ✓ Change table positions at weekdays and weekends
- ✓ Add more party rooms at Japanese brands
- ✓ Prepare Wi-Fi and outlets for charging
- ✓ Non-smoking at all stores from September

▼ Restaurant development

- ✓ Improve new store performance
- ✓ Syabu-Yo to be opened in all prefectures in 1H 2020
- ✓ Promote new store openings of Karayoshi and brand conversions to Bamiyan

New store openings: Cash on cash return

30%

2017   2018   2019
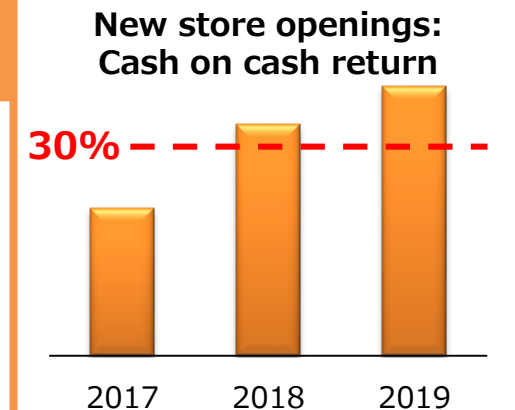
▼ Enhancement of Delivery business

- ✓ Streamline delivery operations by introducing apps for delivery personnel
- ✓ The number of UberEats stores has expanded to approximately 500 stores, 10 times the previous year

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Initiatives to Improve Productivity

▼Utilization of digital tools

Reduction of floor workload
- ✓Introduce digital menu book
- ✓Renew Skylark apps

Reduction of administrative workload
- ✓ Develop business system for smartphone
- ✓ Promote RPA

▼Operation improvement

Reduction of kitchen workload
- ✓ Use more ingredients which are more processed in central kitchen
- ✓ Minimize revisions of grand menu to improve cooking proficiency
- ✓ Modular ingredients to increase menu varieties

▼Organizational structure

- ✓ Area management system from store-dependent system
- ✓ Diversification of employment system / preparation of management system for non Japanese employees etc.

Financial Results for 6-month period ended June 30 2019

Key Financials for 2019 H1

- ◆ **FY2019H1 sales increased by 4.5% YoY**
- ◆ **OP increased by 0.8bn yen, +7.4% YoY**
- ◆ **Maintain a solid business foundation by improving sales and gross margin**
- ◆ **New store openings, brand conversions and remodelings progress in line with the plan**

	2019 H1 (6 months)	2018 H1 (6 months)	% YoY
Sales	**187.5bn**	**179.5bn**	4.5%
Same Store Sales Growth			*2.7%*
Guest Count			*0.0%*
Average Ticket Price			*2.7%*
Operating Profit	**11.1bn**	**10.3bn**	7.4%
Adjusted Net Income	**5.9bn**	**5.6bn**	4.8%
Adjusted ROE	**10.2%**	**11.9%**	(1.7)%
Store Footprint	**New Openings 40, Brand Conversion 57, Remodeling 112**		

Definition of Same Store Sales: 13month existing stores/including brand conversion/including Delivery GC (calculated by Delivery Sales divided by the average Eat In ATP)
ROE/Adjusted ROE : LTM base. Not audited numbers.

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Condensed Consolidated Income Statements

◆ **Gross margin: as high as 69.9% (+0.3pt YoY)**

◆ **Labor cost increase: 1.4bn yen due to new store openings, 1.2bn yen due to hourly wage increase and 0.5bn yen due to same store sales increase**

◆ **Other SG&A: 1.3 bn yen due to cost relating to new store openings, 0.4bn yen due to investment for improvement of stores**

	Q2FY019		Q2FY2018		Variance	
	Bn	**% of Sales**	**Bn**	**% of Sales**	**Bn**	**%YoY**
Sales	187.5	100.0%	179.5	100.0%	8.0	104.5%
COGS	56.5	30.1%	54.6	30.4%	(1.9)	103.5%
Gross Margin	131.0	69.9%	124.9	69.6%	6.1	104.9%
Labor	64.7	34.5%	61.6	34.3%	(3.2)	105.1%
Other SG&A	55.2	29.4%	53.0	29.5%	(2.2)	104.1%
Operating Profit	11.1	5.9%	10.3	5.8%	0.8	107.4%
Financing Cost	(2.5)	(1.4)%	(2.2)	(1.2)%	(0.4)	116.2%
Profit Before Tax	8.6	4.6%	8.1	4.5%	0.5	105.1%
Tax Expense	3.2	1.7%	3.1	1.7%	(0.1)	103.6%
Net Income	5.4	2.9%	5.1	2.8%	0.3	106.0%
Adjusted Net Income	5.9	3.1%	5.6	3.1%	0.3	104.8%

Condensed Consolidated Balance Sheets

◆ Goodwill 146.1bn yen: The risk of large impairment of goodwill is extremely low given that cash flows generated from our business are very solid against the goodwill and that goodwill is prorated to each brand and that revenue in each brand remains firm

◆ Debt 129.6bn yen: Short-term borrowing moved to long-term borrowing due to borrowing of 107.0bn yen for repayment of 107.2bn yen of former LBO loan that matured on June 24

◆ Application of IFRS16 increased right-of-use asset and lease liability. As a result, the equity ratio fell to approx. 29.3%

◆ Adjusted ROE improved by 0.3pt to 10.2%

(Unit : Bn yen)	Q2FY2019	FY2018	Variance	Q2FY2019 notes
Assets:				
Current assets	32.7	37.7	(5.0)	
Non-current assets	410.2	292.9	117.3	Balance of goodwill 146.1Bn yen
Total assets	442.9	330.7	112.2	Balance of right-of-use asset 120.3Bn yen
Liabilities:				
Current liabilities	87.0	157.3	(70.2)	Balance of short-term debt 11.0Bn yen
Non-current liabilities	225.9	42.9	183.0	Balance of long-term debt 118.6Bn yen
Total liabilities	313.0	200.2	112.7	Balance of lease liability 118.9Bn yen
Equities:				
Equity attributable to owners of the Company	129.9	130.5	(0.6)	
Total shareholders equities	129.9	130.5	(0.6)	
Equity ratio	29.3%	39.5%	(10.2) %	
Adjusted ROE	10.2%	9.9%	0.3%	
Net leverage ratio	1.5x	2.9x	Adjusted ROE : LTM base. Not audited numbers.	

Net leverage ratio = net interest bearing debt (loan - cash and cash equivalents) / Adjusted EBITDA

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Condensed Consolidated Statements of Cash Flows

◆ Operating cash flow increased by 19.3bn yen to 37.7bn yen: increased depreciation and amortization expense of 18.6bn yen mainly due to application of IFRS16

◆ Investment cash flow reduced by 1.6bn yen to 12.5bn yen: due to investment in future growth such as new store openings and IT digital etc.

◆ Financial cash flow reduced by 17.8bn yen to 26.0bn yen: Reduced by 17.8bn yen to 26.0bn yen. Of which 2.7bn yen reduction is a net of repayment of old LBO loans and new borrowings. Of other reduction of 19.0bn yen, lease obligation repayment accounts for 17.9bn yen (increased from the current fiscal year due to IFRS 16)

(Unit : Bn yen)		Q2FY2019	Q2FY2018	Variance
Operating cash flow	(a)	37.7	18.4	19.3
Investment cash flow	(b)	(12.5)	(11.0)	(1.6)
Free cash flow	(a)+(b)	25.2	7.5	17.7
Financial cash flow	(c)	(26.0)	(8.2)	(17.8)
Loan		(2.7)	(0.5)	(2.2)
Dividend		(4.3)	(4.3)	(0.0)
Others		(19.0)	(3.4)	(15.7)
Change in cash	(a)+(b)+(c)	(0.8)	(0.7)	(0.1)
Cash balance at closing		18.1	14.4	3.7

Sales Q2FY2019 vs. Q2FY2018 (6 months)

◆ **FY2019H1 sales increased by 8.0bn yen to 187.5bn yen. +5.3bn yen from SSS growth and +5.0 bn yen from new store sales growth**

◆ **Various marketing measures contributed to SSS growth**

◆ **YoY impact from shareholder perks was Q1 only**

（Bn yen）

Same Store Sales 5.3Bn yen

179.5	(0.3)	3.5	1.1	0.5	0.5	5.0	(0.9)	(1.0)	(0.4)	187.5

| FY2018 | SSS growth GC | SSS growth EI ATP | Delivery | Take out | Brand conversion | New stores | Closure | Shareholder perks | Other | FY2019 |

15
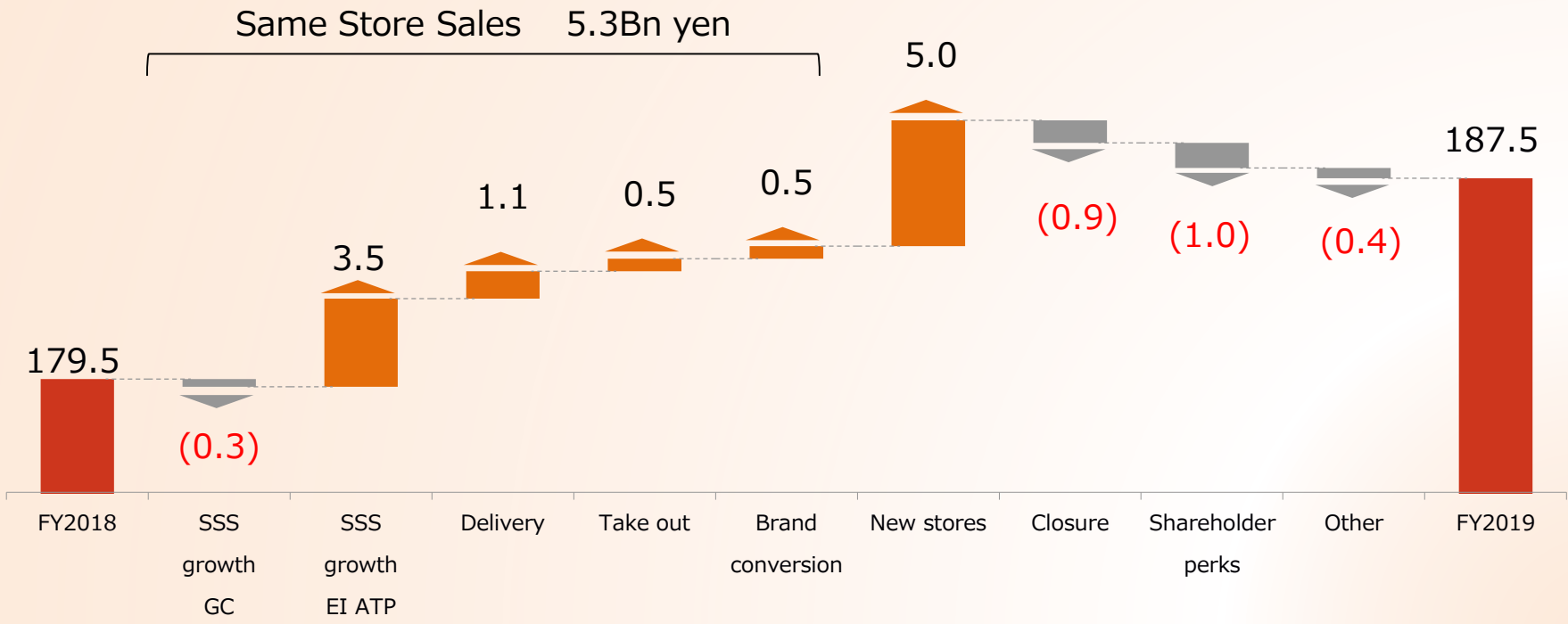
OP Q2FY2019 vs. Q2FY2018 (6 months)

◆ **OP growth due to SSS and sales from new store openings. Recovery of gross margin also contributed to OP growth**

◆ **Increase in hourly wage, unit price of water/heat and cost for shareholder perks resulted in reduction of profit. YoY impact from shareholder perks was Q1 only**

（Bn yen）

FY2018	SSS growth	SSS costs	Investment for future growth	Conversion	New store	Closure	Gross margin	Hourly wage increase	Utility cost increase	Shareholder perks	Other	FY2019
10.3	2.0	0.4	(0.4)	0.1	0.7	(0.0)	0.6	(1.2)	(0.4)	(0.6)	(0.4)	11.1

16
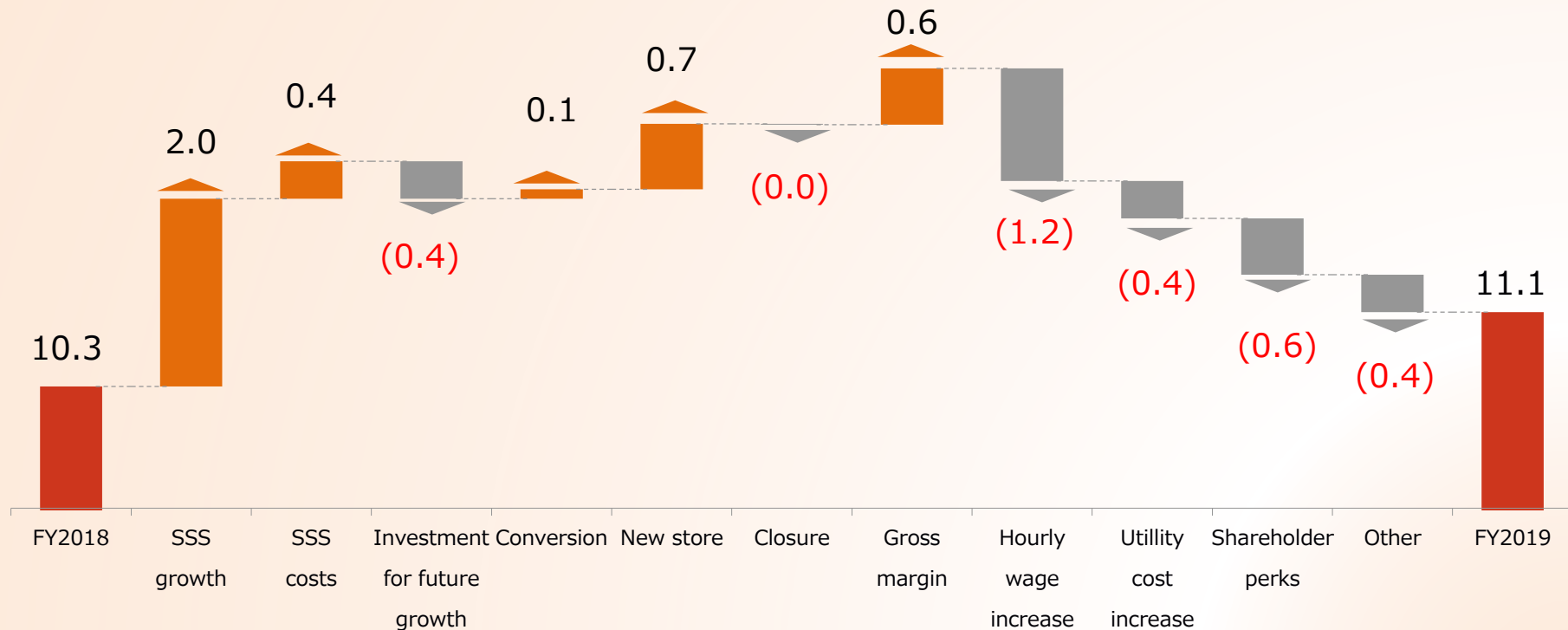
Restaurant Development for H1 2019

New Openings : 40 new stores opened. Karayoshi increased to 51 stores
Brand Conversions : 51 brand conversions
Remodels : remodeled 112 stores

Brand	New Openings	Brand Conversion	Closure	End of Jun.2019	Remodeling
Karayoshi	10	-	-	51	-
Syabu-Yo	10	40	-	258	1
Musashinomori Coffee	6	1	-	30	-
FLO Prestige	3	-	-	116	1
Gusto	3	2	(1)	1,347	41
Taiwan Skylark Co., Ltd.	2	-	(2)	57	-
Steak Gusto	-	1	-	135	16
Yumean	-	-	-	188	23
Jonathan's	-	-	-	296	14
Bamiyan	-	5	-	332	14
Aiya	-	-	-	47	-
chawan	-	-	-	19	-
Others	6	2	(7)	354	2
Group Total	40	51	(10)	3,230 stores compared to end Dec.2018 +30	112

Marketing & Technology Strategies

Same Store Sales

SSS increased YoY driven by higher average ticket price

Review grand menu in Feb. and Mar.
Good sales of limited-time offering items

Customer traffic fell due to bad weather on weekends and the effect of smoking cessation at all stores

Legend: Sales · Customer traffic · Average ticket price

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
			2017				2018			2019
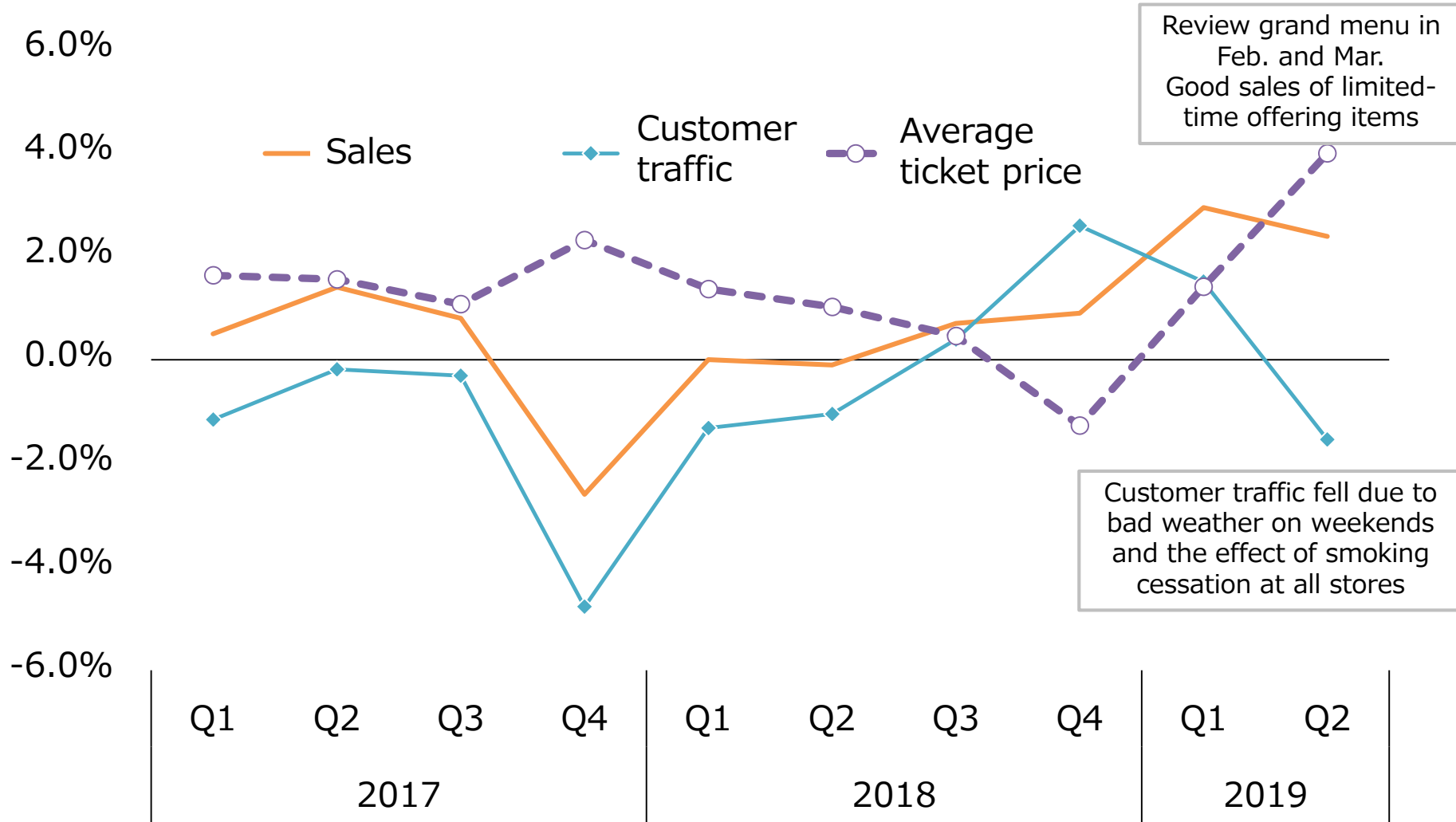
Menu Strategy: Increase Average Spending per Customer

✓Appealing side menus that are often sell together as a set, based on order performance data. Steady increase in average spending per customer

Noodles at Gusto (January)

✓Gusto branding strategy significantly changed and strengthened from Jan. 2019.
✓Sales ratio of limited-time offering increased significantly. This drives to higher
  spending per customer and increased heavy user ratio

✓A variety of healthy salad menus and a low allergen menu for kids. This leads to acquisition of new customers and contributes to increase in average ticket price

Digital Marketing Strategy

✓ The coupon discount on limited-time offering items is changed in a data-driven manner

✓ Use apps and digital advertising to deliver coupons focused on customers who are likely to visit the store. Also adjust the balance between unit price and number of customers in real time

Less discount: higher spending customers	**Less discount: higher spending customers**	**More discount: lower spending Customers**
Unit price up	Unit price up	Traffic up

50 yen discount

Add 100 yen, get second hamburg

200 yen discount

Change the discount amount to a smaller value
In addition to in-house apps, actively post on external media

Limited coupon to Skylark apps
Aim to elicit responses from only existing customers who is capable of paying more unit prices react

Implement only digital advertisement to 20 to 30 year old customers
Deliver only to those who need

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"Digital Menu Book"

Plan to introduce digital menu books to all stores
(Currently experimenting with 2 Gusto and 1 Syabu-Yo)

✓Order-receiving work will be almost zero. Greatly reduce floor workload
✓Increase the number of order items with the recommendation function of additional orders and set sales by introducing machine learning
✓Introduce QR settlement to realize table accounting. Accounting without waiting time
✓Skylark apps will be renewed and link the apps and digital menu book system. Additional functions such as personalized menu display in conjunction with the apps to be introduced
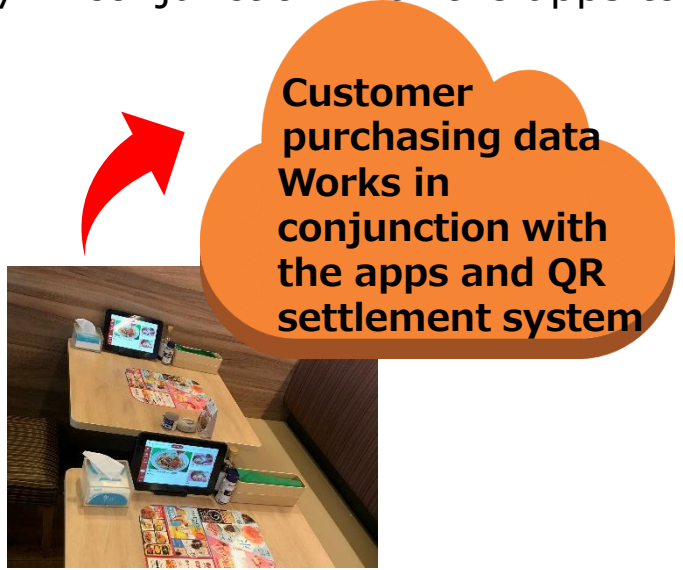
Customer purchasing data Works in conjunction with the apps and QR settlement system

Enhancement of Delivery Business

Scheduled to release new site / web apps in Q4 2019

Improved convenience

- The delivery status can be checked in conjunction with the delivery apps
- Register multiple delivery destinations with one ID
- ID integration with Skylark apps

Increase the number of orders and improve the repeat rate by machine learning

- Personalized recommendation function
- Implement dynamic promotion strategies such as limited time campaigns and personalized coupons
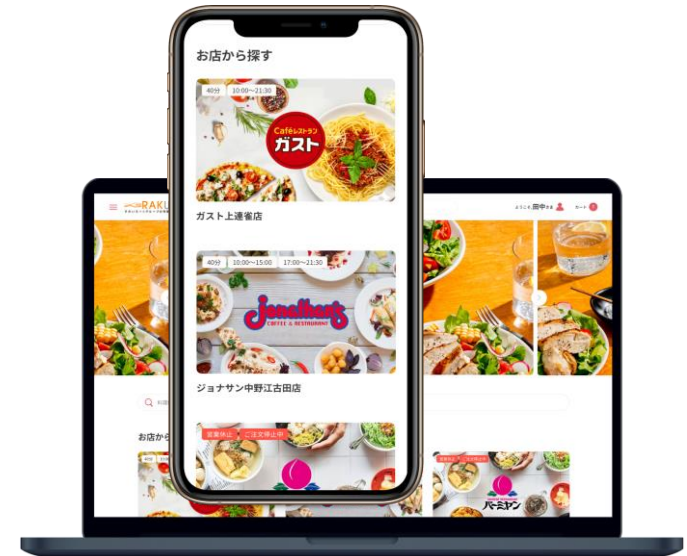
Renewed apps for delivery staff in April

- Simplify delivery operations and reduce training time. The number of delivery personnel is 1.5 times higher than the previous year
- "Veteran route function" that proposes efficient delivery routes through machine learning
- Automatic order assignment function that uses machine learning to assign orders to appropriate delivery personnel Delivery time is also automatically optimized
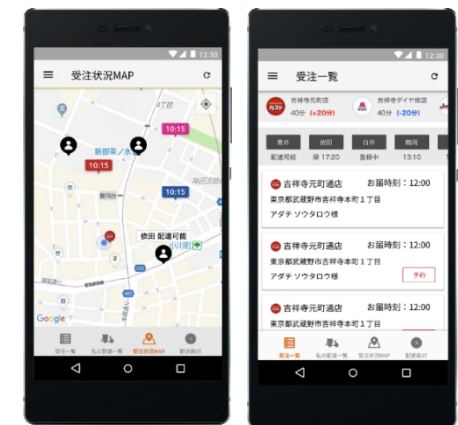
Appendix

Gross Margin

Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
2017				2018				2019	
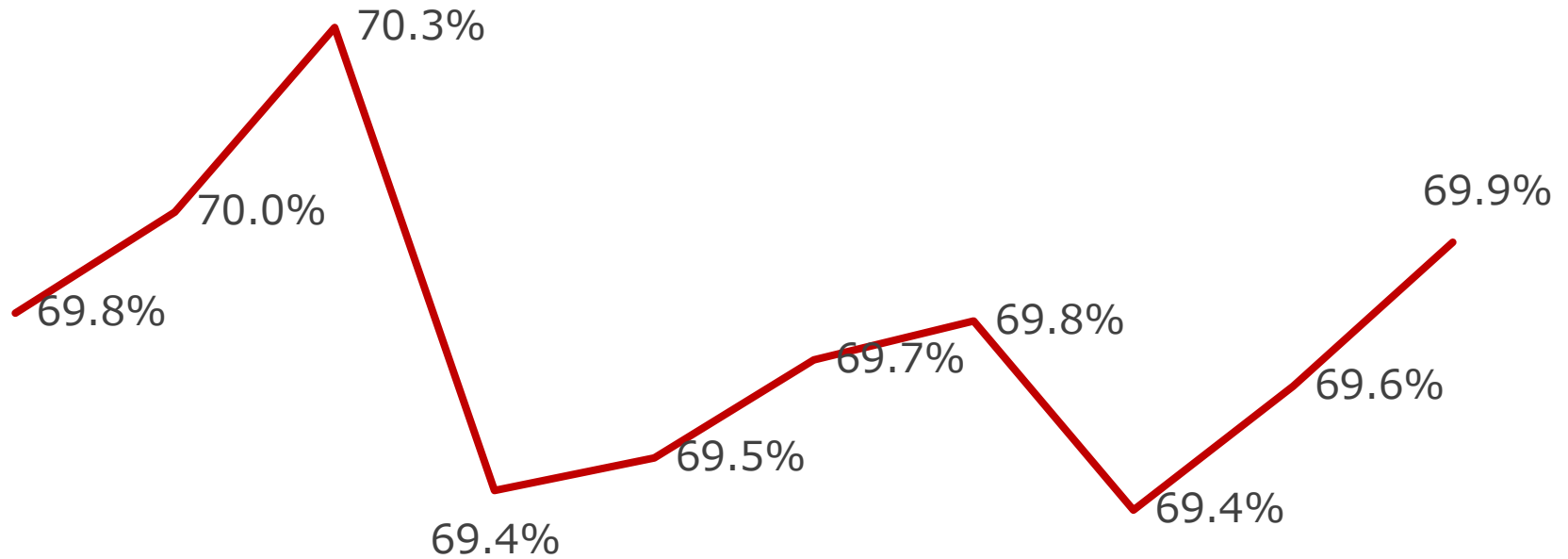
69.8%
70.0%
70.3%
69.4%
69.5%
69.7%
69.8%
69.4%
69.6%
69.9%

Digital Marketing ①

■ Automatic distribution of digital advertisements by machine learning

- ✓ First introduced in Japan
- ✓ Automatically optimizes ad delivery across search

Multiple ad materials

Store address of all stores

Current location data,
Behavior history and search history

Use machine learning to identify people who are likely to visit

YouTube

Maps

Business profile

Display ad

Search results
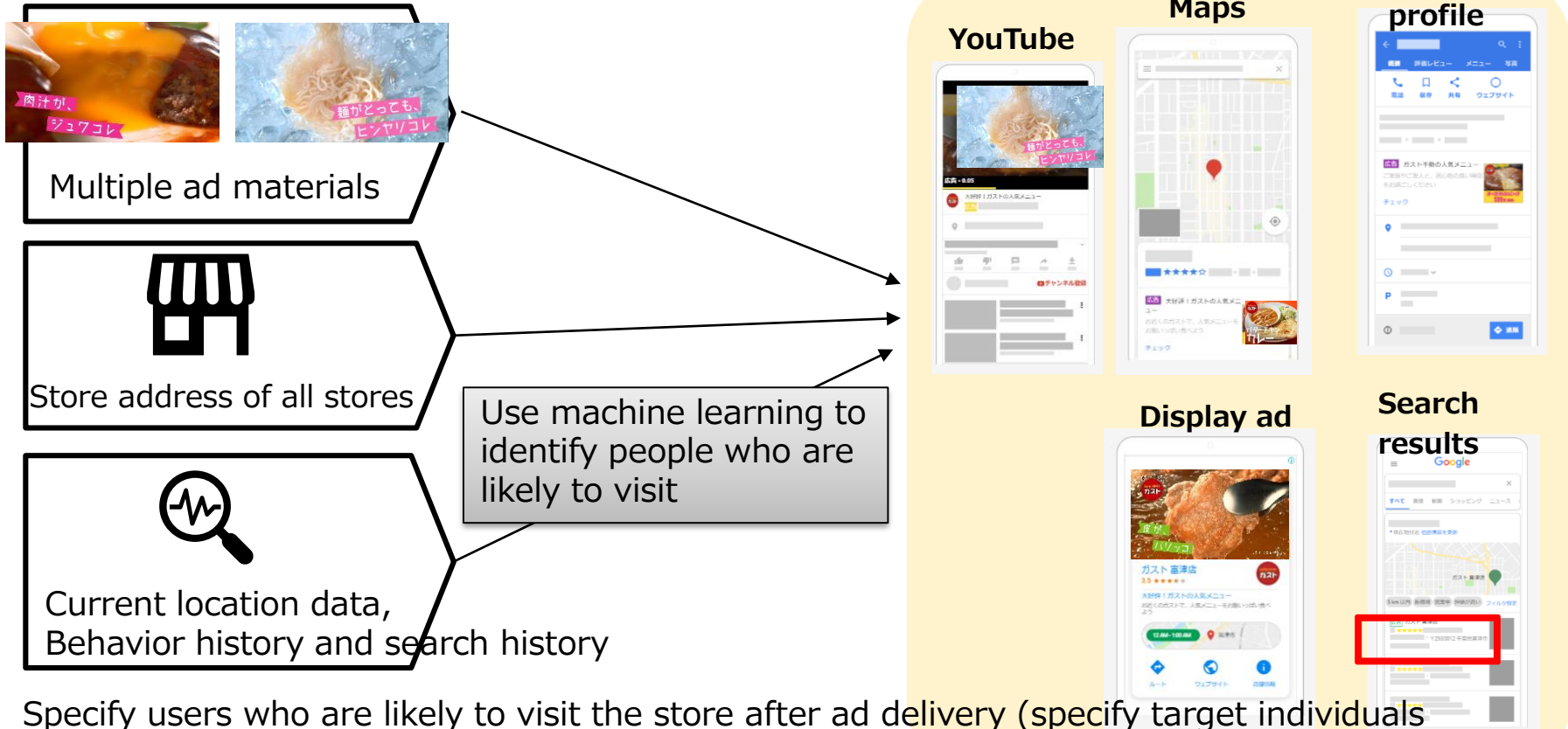
Specify users who are likely to visit the store after ad delivery (specify target individuals based on time, place, interest, etc.) The latest ad technology that selects and automatically delivers the most effective advertising media and creatives using Machine Learning

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Digital Marketing ②

■Utilization of Skylark apps

✓ Distribution of weather / temperature linked coupons
✓ Push delivery of coupons limited to the target store to users staying around the store
✓ Schedule to introduce new Skylark apps in September

■Automatic delivery of SNS and e-mail

✓ Robotize customer interactions and perform human touch interactions with a large number of users

Trends in SSS before and after the April 2014 consumption tax hike
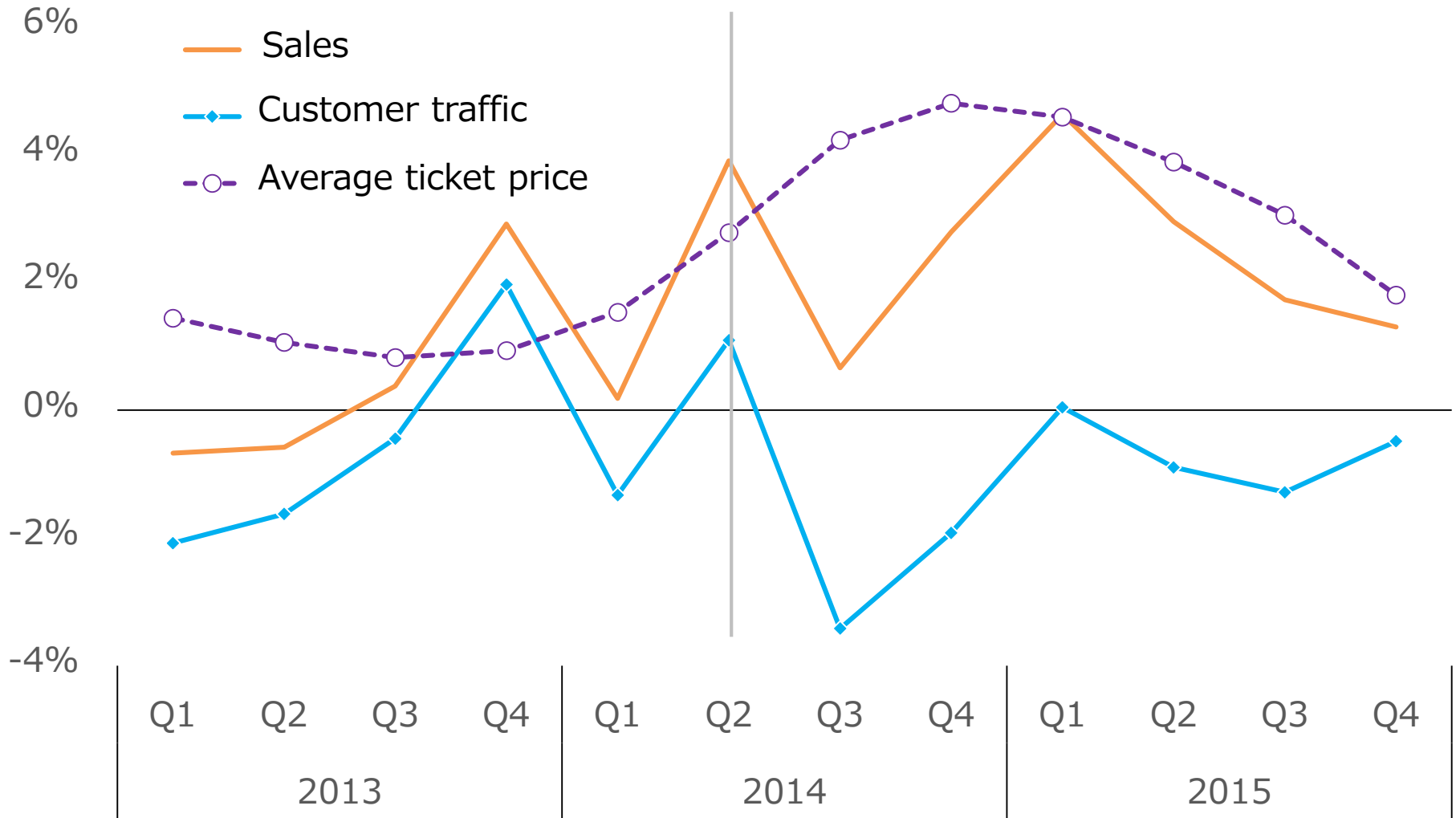
Delivery and Takeout Sales

■ Delivery

(Ymn)

Year	Value (approx.)
2014	15,000
2015	15,800
2016	16,800
2017	18,500
2018	21,000

■ Takeout

(Ymn)

Year	Value (approx.)
2014	3,500
2015	4,100
2016	4,700
2017	5,300
2018	7,100
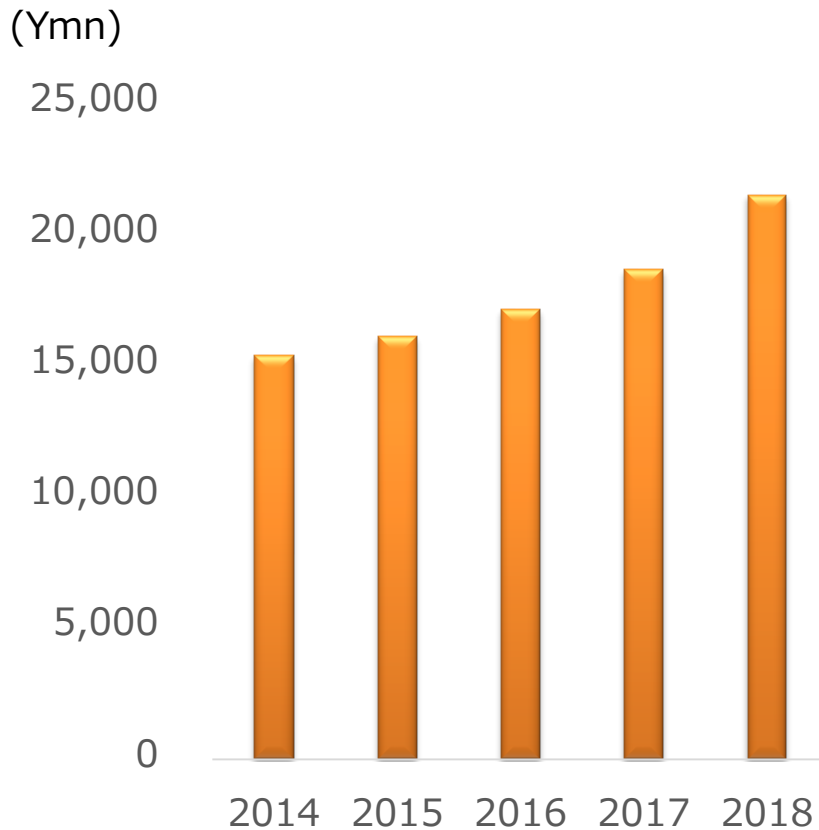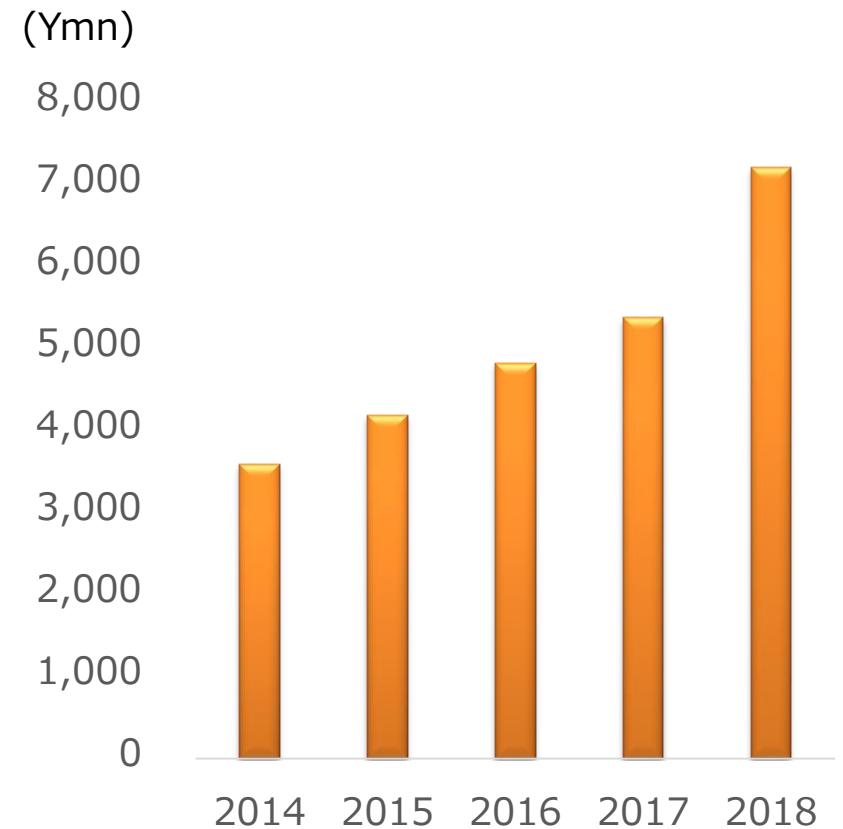
Non-Japanese Employees (as of June2019)

✓Employment Status

24 Full time staff, 100 Technical intern, 2,604 Part-time staff

✓The number of part-time staff increases approx.30% YoY

✓Concentrate on the metropolitan area

Tokyo 53%, Kanagawa 10%, Aichi 7%, Chiba 6%, Saitama 6 %, Osaka 3%

Number of non-Japanese employees

Year	Number
2015年	971
2016年	1,236
2017年	1,517
2018年	1,951
2019年	2,604

Nationality distribution

- Vietnam 30%
- China 22%
- Nepal 10%
- Sri Lanka 7%
- Korea 7%
- Philippines 5%
- Myanmar 4%
- Bangladesh 3%
- Brazil 2%
- Other 10%

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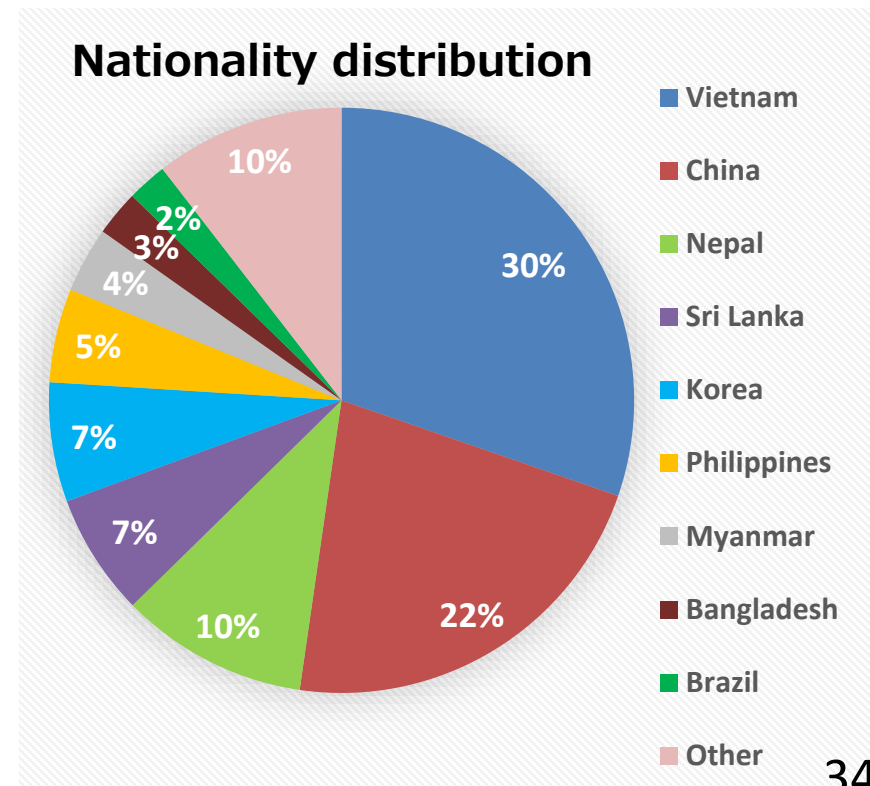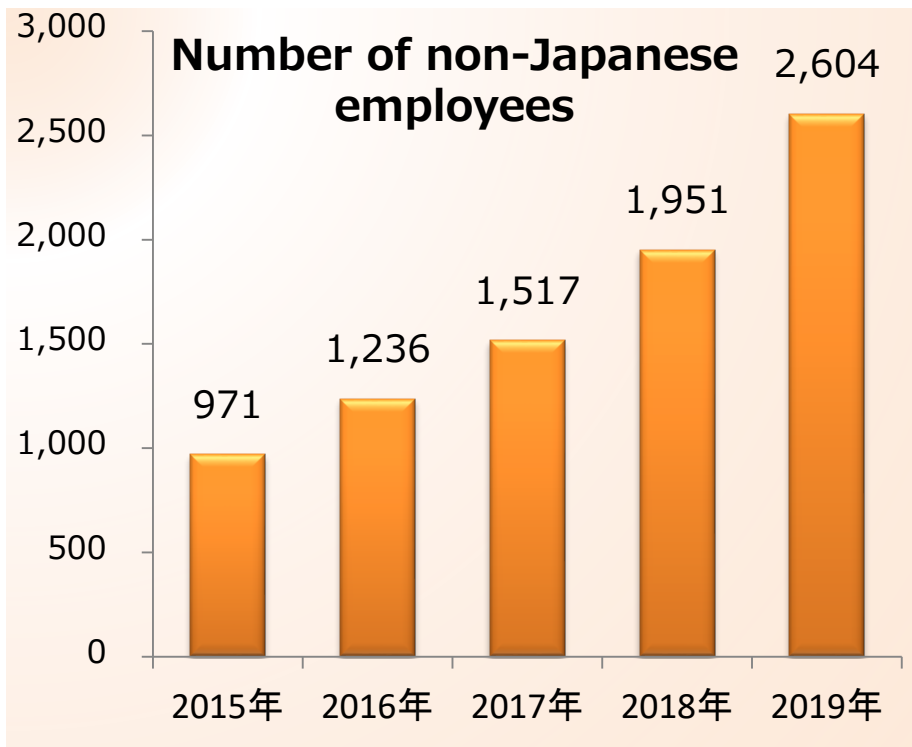
Creating Stores that are Friendly to People and the Environment

All stores to be non-smoking by September 1, 2019

Abolished plastic straws at all Skylark restaurants

Low allergen menu items

Introduced caffeine free drinks to drink bars at all Gusto

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Adjusted Items for Net Income

◆ Net income is adjusted as accounting policies for loan amendment under IFRS 9 are mandatorily applied.

◆ This accounting change is regarded as adjusted item for net income as below.

(Bn yen)	Q2FY2019	Q2FY2018	Variance
Net income	**5.4**	**5.1**	**0.3**
Recalculation of the effect of retroactive application by accounting policy change	-	-	-
Non-Recurring Items			
(+) Profit and loss of changed financial liability conditions by applying to IFRS9	0.9	1.0	(0.1)
Adjusted subtotal (before tax)	0.9	1.0	(0.1)
Tax effects for adjustments	0.3	0.4	(0.1)
Adjusted subtotal (after tax)	0.5	0.6	(0.0)
Adjusted net income	**5.9**	**5.6**	**0.3**

IFRS16 Key Impacts to BS

◆ Total assets increased by 111.8bn yen due to on-balance of leasing contract of stores
◆ Equity ratio decreased 10.4pt, adjusted ROE improved 0.1pt
◆ Right-of-use assets are subject to impairment and the risk of impairment might increase in the future

(Bn yen)

Assets

【End of FY2018】	【Beginning of FY2019】
Assets 330.7	Right-of-use assets 117.3 / Assets 325.7

Increase 111.8

Liabilities

【End of FY2018】	【Beginning of FY2019】
Liabilities 200.2	Lease liabilities 118.7 / Liabilities 195.4

Increase 113.9

Equity

【End of FY2018】	【Beginning of FY2019】
Equity 130.5	Equity 129.0

Decrease (1.5)

Previous standard: End of 2018
Equity ratio 39.5%
Adjusted ROE 9.9%

Application of IFRS16: Beginning of FY2019
Equity ratio 29.1%
Adjusted ROE 10.0%

Figures at the beginning of FY2019 are estimates made before audit and may change in the future.

IFRS16 Key Impacts to PL

◆ Operating profit increased by 1bn yen due to on-balance of lease contract
◆ Increase in interest expense has almost no impact on profit before tax
◆ If the right-of-use asset is impaired, there will be a negative impact on operating profit and profit before tax.at the time
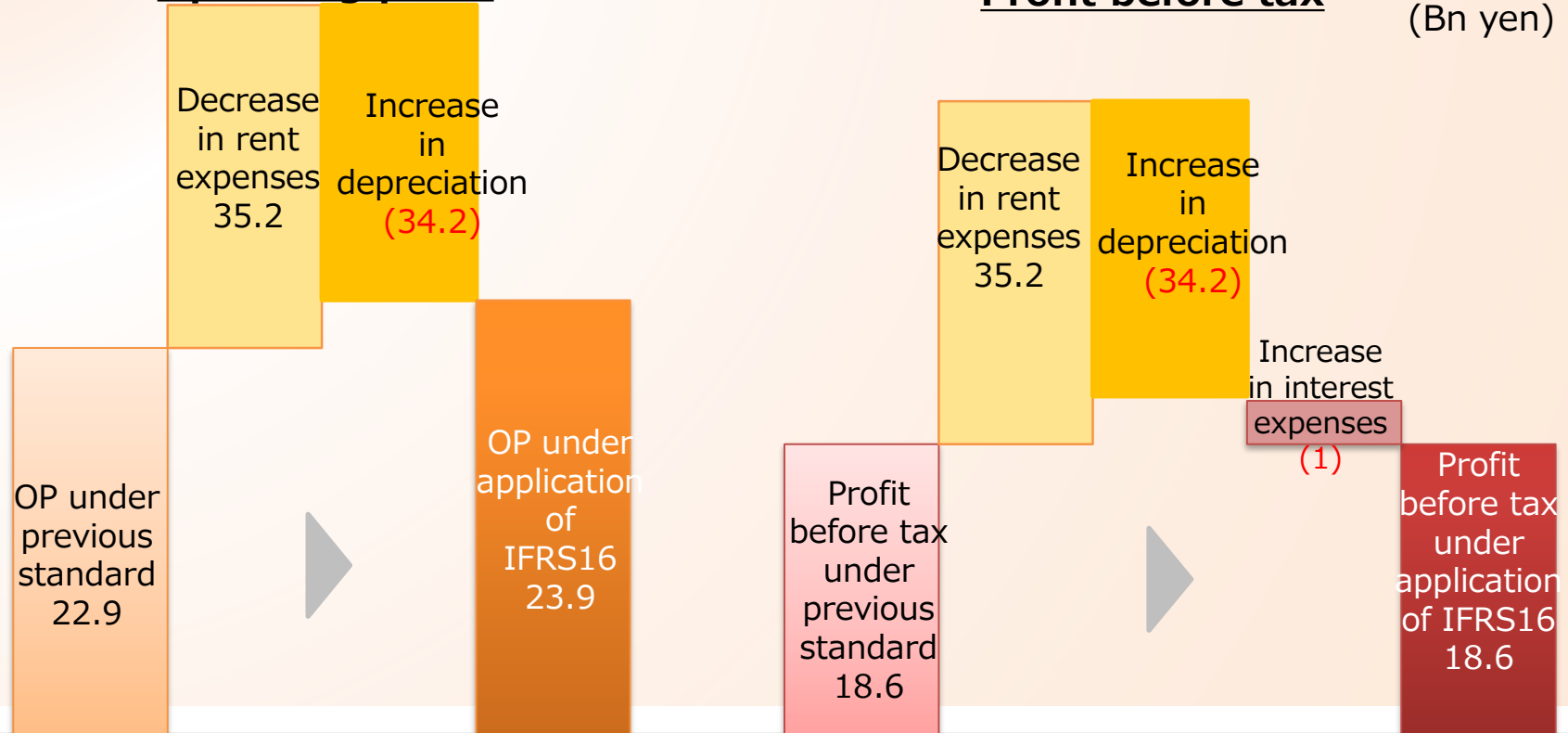
FY2018 Actual
(estimates based on the assumption that IFRS16 was applied as of the end of 2018)

Operating profit

Profit before tax

(Bn yen)

Operating profit:
- OP under previous standard 22.9
- Decrease in rent expenses 35.2
- Increase in depreciation (34.2)
- OP under application of IFRS16 23.9

Profit before tax:
- Profit before tax under previous standard 18.6
- Decrease in rent expenses 35.2
- Increase in depreciation (34.2)
- Increase in interest expenses (1)
- Profit before tax under application of IFRS16 18.6

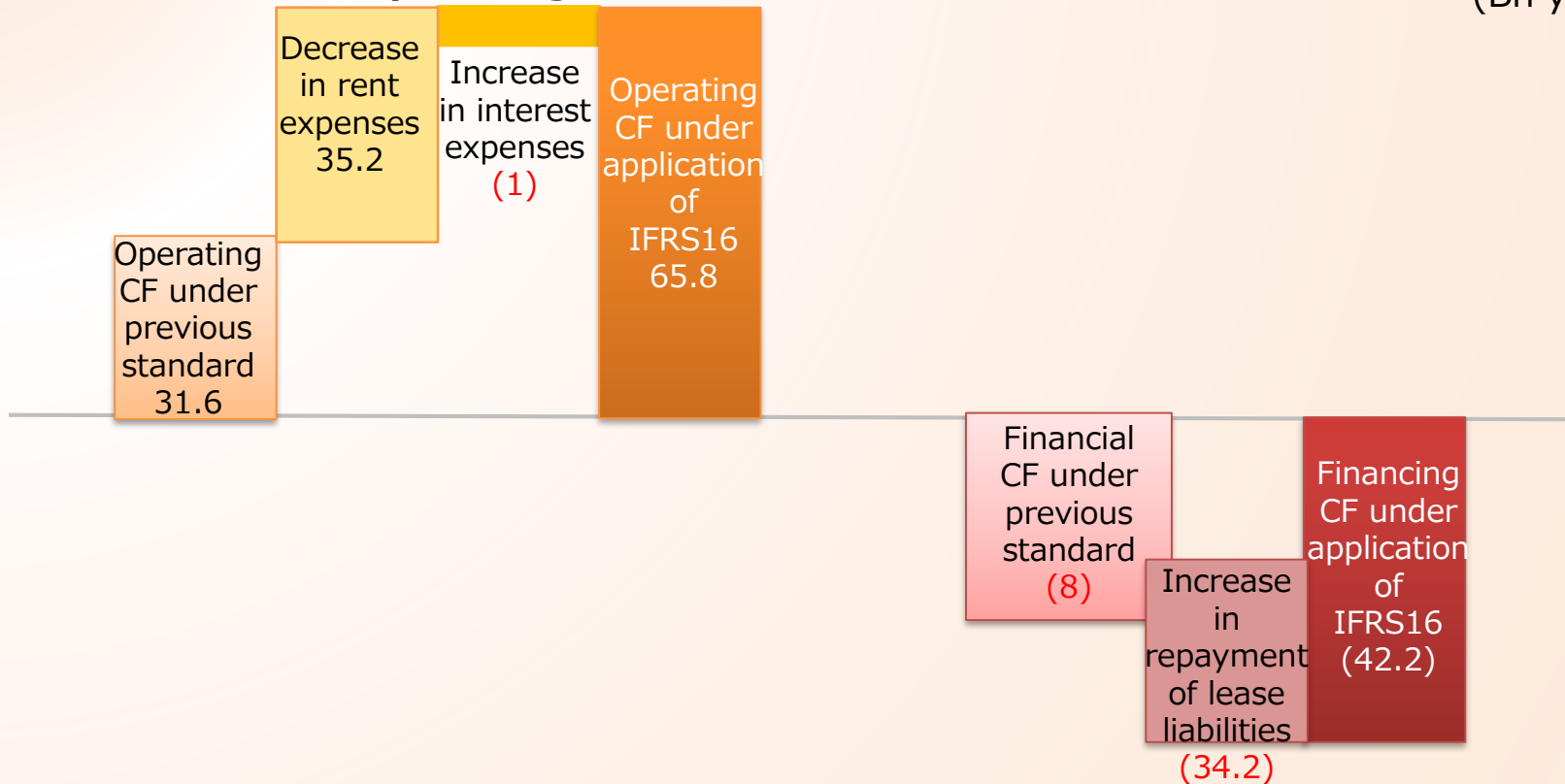Figures at the beginning of FY2019 are estimates made before audit and may change in the future.

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IFRS16 Key Impacts to CF

◆ Operating cash flow will increase as rent changes to depreciation, lease debt repayment and interest payment
◆ On the other hand, financial cash flow will decrease

FY2018 Actual
(estimates based on the assumption that IFRS16 was applied as of the end of 2018)

Operating CF　　　　　　　　　**Financial CF**　　(Bn yen)

- Operating CF under previous standard 31.6
- Decrease in rent expenses 35.2
- Increase in interest expenses (1)
- Operating CF under application of IFRS16 65.8

- Financial CF under previous standard (8)
- Increase in repayment of lease liabilities (34.2)
- Financing CF under application of IFRS16 (42.2)

Figures at the beginning of FY2019 are estimates made before audit and may change in the future.

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