

Skylark Co., Ltd.

Financial Results

for the year ended 31 December, 2017

Feb. 14, 2018

Financial Results for FY 2017
Results Forecasts for FY2018

CFO
Atsushi KITAMURA

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Key Financials for FY2017

	FY2017	%YonY
Sales	**359.4bn yen**	1.4%
Same Store Sales	344.2bn	*(0.0)*%
Guest Count	Approx. 400mn people	*(1.6)*%
Average Ticket Price	989 yen	*1.6%*
Operating Profit	**28.1bn yen**	(10.1)%
Net Income	**16.9bn yen**	(7.1)%
Restaurant Development	**Remodel 295, Conversion 25, New Store 97**	

Same Store Sales don't include oversea or franchise sales

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Condensed Consolidated Income Statements

	FY2017		FY2016		Variance	
	Bn	% of Sales	Bn	% of Sales	Bn	YonY%
Sales	359.4	100.0%	354.5	100.0%	4.9	101.4%
YoY SSS Growth	(0.0)%	-	(0.1)%	-	+0.1%	-
Gross Margin	251.2	69.9%	248.1	70.0%	3.1	101.2%
Labor	121.0	33.7%	117.9	33.3%	(3.1)	102.7%
Other SG&A	102.0	28.4%	98.9	27.9%	(3.1)	103.1%
Operating Profit	28.1	7.8%	31.2	8.8%	(3.1)	89.9%
Profit before Tax	25.5	7.1%	29.0	8.2%	(3.4)	88.1%
Net Income	16.9	4.7%	18.2	5.1%	(1.3)	92.9%
EBITDA	41.8	11.6%	46.0	13.0%	(4.2)	91.0%
Adjusted EBITDA	43.3	12.0%	47.9	13.5%	(4.6)	90.4%
Adjusted NI	16.9	4.7%	18.2	5.1%	(1.3)	93.0%

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)
SSS: Same Store Sales

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Condensed Consolidated Balance Sheets

(Unit : Bn yen)	FY2017	FY2016	Variance	FY2017 notes
Assets:				
Current assets	33.0	39.0	(6)	
Non-current assets	286.1	279.3	6.8	Blance of goodwill 146.1 Bn yen
Total assets	319.1	318.3	0.8	
Liabilities:				
Current liabilities	55.0	61.7	(6.7)	Blance of short-term debt 11.0 Bn yen
Non-current liabilities	138.7	142.4	(3.7)	Blance of long-term debt 118.3 Bn yen
Total liabilities	193.7	204.1	(10.4)	
Equities:				
Equity attributable to owners of the Company	125.4	114.2	11.2	
Total shareholders equities	125.4	114.2	11.2	
Capital adequacy ratio	39.3%	35.9%	3.4%	
Adjusted ROE	14.1%	16.8%	(2.7)%	
Net leverage ratio	2.6x	2.4x		

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

(Unit : Bn yen)		FY2017	FY2016	Variance
Operating cashflow	(a)	31.5	36.0	(4.5)
Investment cashflow	(b)	(19.6)	(16.7)	(2.9)
Free cashflow	(a)+(b)	11.9	19.4	(7.5)
Financial cashflow	(c)	(13.1)	(21.3)	8.2
Loan		(3.5)	(10.0)	6.5
Dividend		(7.6)	(7.0)	(0.6)
Others		(2.0)	(4.3)	2.3
Change in cash	(a)+(b)+(c)	(1.1)	(2.0)	0.9
Cash balance at closing		15.1	16.2	(1.1)

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2018 Financial Guidance Summary

Key financial indicators

Item	Unit	2018 Guidance	2017 Actual	Growth rate	Variance
Sales	Bn yen	373.8	359.4	4.0%	14.4
Operating Profit	Bn yen	28.7	28.1	2.1%	0.6
Net Income	Bn yen	17.2	16.9	1.6%	0.3
Adjusted EBITDA	Bn yen	44.8	43.3	3.5%	1.5
Adjusted Net Income	Bn yen	17.2	16.9	1.5%	0.3
Dividend per Share	Yen	38.00	38.00	-	-
Dividend Payout Ratio	%	43.5%	44.0%	-	(0.5)%

Key Assumptions

Items	Assumption
SSS Growth	Approx..1.0%
# of New Opening Store	Approx. 100
# of Remodeling	Approx. 200
# of Brand Conversions	Approx. 10
Capex	25.0-30.0
FX	113 JPY / $

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Management Policy

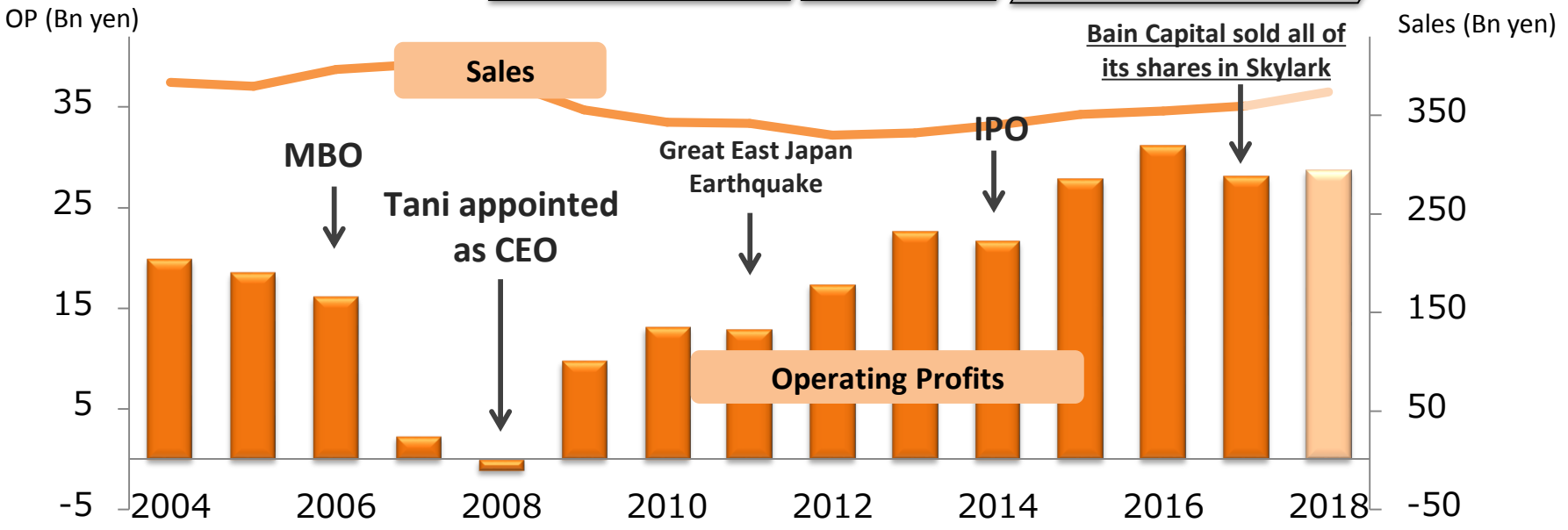
CEO
Makoto TANI

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Skylark's Growth Track

Managed by founding family	Nomura Principal Finance	Bain Capital LLC

Clearance of negatives → Reforms → Building Foundation

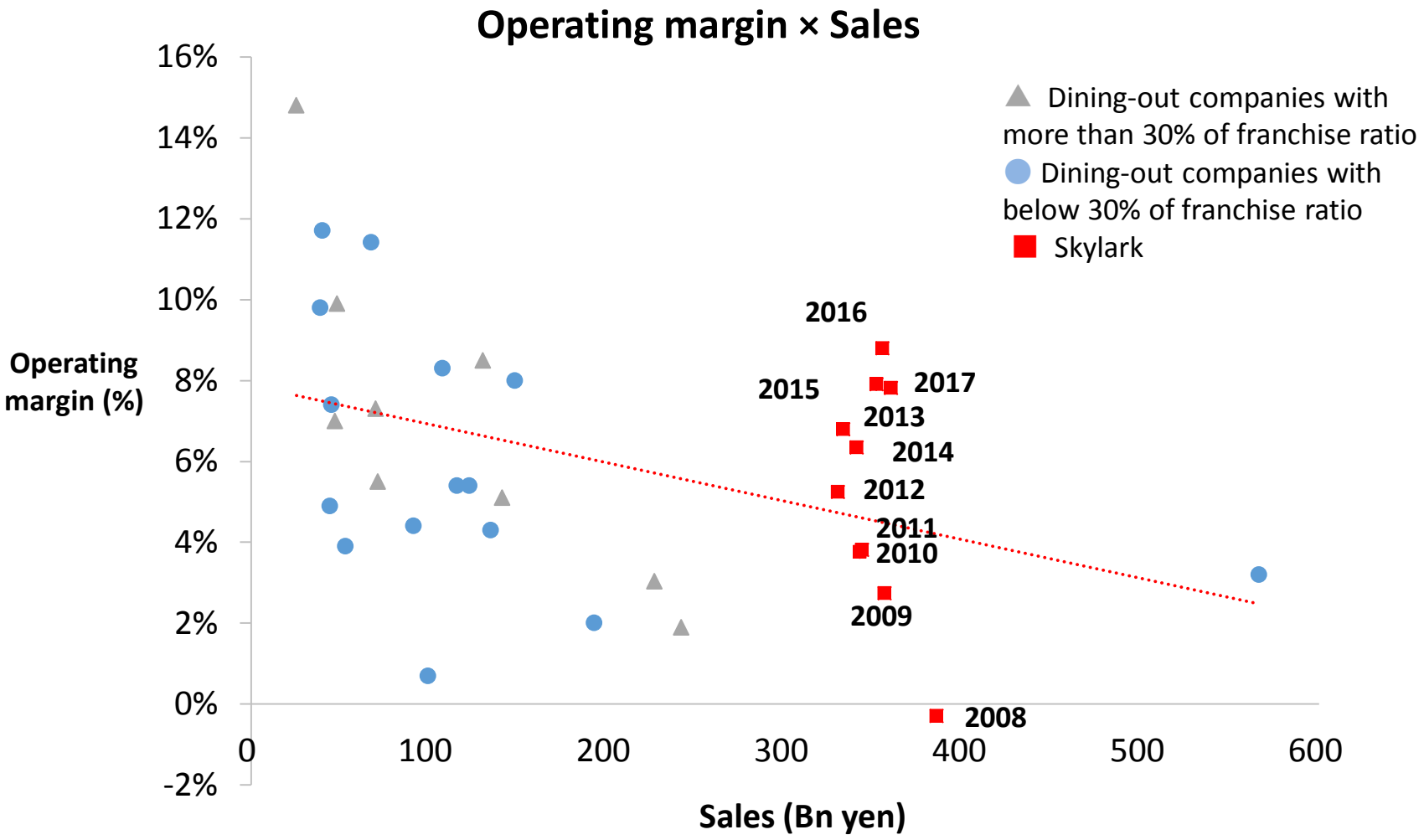


(Bn yen)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (E)
OP	-1.1	9.8	13.1	12.9	17.3	22.6	21.6*	27.8	31.2	28.1	28.7
Adjusted EBITDA	23.4	32.5	35.6	35.7	38.0	38.6	42.2	44.8	47.9	43.3	44.8

* IPO costs included

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Operating Margin Trend



Source: company data

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Basic Management Policy

Change in External Environment

I. Oct. 2019
Consumption tax increase and a reduced tax rate may not be applied to restaurants

II. 2020
Uncertain market conditions after Tokyo Olympic

III. 2022
The size of the population aged 75 or over to expand more quickly

Improve quality of restaurants to pursue customers' satisfactions

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Enhancement of Existing Store

Improve quality of restaurants and pursue customers' satisfaction

▼ Improve customers' convenience as well as store operation skills

- Renewal of training tool
- New store system installation
- Revision of personnel system for part-time employees
- Improve in employee retention

▼ Provide better dining experience

- Plan to remodel 200 restaurants in 2018
  - Gusto, Yumean and Aiya approx. 80, Other approx. 40
  - Remodeling picks up sales by approx.5%
- Progress equipment repair and renewal of uniforms

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Enhancement of Existing Store

▼ Boost delivery sales

- Average sales growth between 2015 to 2017: approx. 7%
- 2018 delivery sales plan: + 11%YoY
- Test internal cross brand delivery system (3 areas)
  - Sales increased by approx. 15%-30% in the test area
  - Plan to expand area by using IT system in future

▼ Enhance the efficiency of promotions

- Cross brand promotions
- One to one marketing
- More use of Twitter etc., to enhance communications

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Enhance the Efficiency of Promotions

◆ **Cross brand promotions**

Skylark app





To Launch March 1st 2018

◆ **One to one marketing**

T-POINT

Customer attribute data



Skylark app

Children's day	¥179 coupon for kids menu
Hot sunny day	¥99 coupon for beer
Sudden thunder shower	Notice for delivery service
Frequency of visit reduced	¥100 discount coupon
Birthday	10% off for sweets coupon

One to one promotions

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Sustainable New Store Openings

▼ New openings

- New store openings: 97 in 2017 and planned approx. 100 in 2018
- Profit contributions from new store opened in 2017 are expected to be approx. 1.6bn yen in 2018

▼ New brands

- Syabu-Yo, Karayoshi, Musashinomori Coffee
- La Ohana second store to be opened in March 2018

▼ Existing brands

Gusto, Jonathan's, Bamiyan and Yumean

- Strong results achieved in new openings at station-front
- Trial of small-sized Bamiyan development in urban areas progressed

▼ Overseas development

- Strong sales continued in Taiwan business
  - New openings in 2017: 6 restaurants (5 Syabu-Yo and 1 Grazie Gardens)
  - # of locations at end-2017: 52 restaurants

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New Brands Openings

Syabu-Yo



31 new openings and 5 brand conversions in 2017

Total number of restaurants at end-Jan 2018: 182

Musashinomori Coffee



4 new openings and 8 brand conversions in 2017

Total number of restaurants at end-Jan 2018: 18

La Ohana



1 brand conversion in 2017

Total number of restaurants at end-Jan 2018: 1

Karayoshi



8 new openings and 3 brand conversions from 2017 to Jan 2018

Total number of restaurants at end-Jan 2018: 11

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Existing Brands Openings

Gusto



12 new openings and 4 brand conversions in 2017

Total number of restaurants at end-Jan 2018: 1,367

Jonathan's



1 new opening in 2017

Total number of restaurants at end-Jan 2018: 301

Bamiyan



3 new openings in 2017

Total number of restaurants at end-Jan 2018: 332

Bamiyan-ken



Opened in July 2017

Total number of restaurants at end-Jan 2018: 1

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Diverse Brand Portfolio Strategy

- Opening new brands for further growth since the year of 2015
- New brands such as “Karayoshi (it is specialized in fried chicken)” and “Musashinomori Coffee (café)” enjoy good performance



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Initiatives for Labor Cost Increase

External environment

- Labor cost increase
  - ✓ Labor cost inflation
  - ✓ Hourly wage increase
  - ✓ Social insurance for part-time employees
- Change in hiring environment

Initiatives

- New system installation
  - ✓ Store system
  - ✓ Accounting system
- Renewal of training tool
  - ✓ Manual with moving image
- Revision of personnel system for part-time employees
- Simplify store operations
  - ✓ Reduce menu revision and types of table ware
  - ✓ Optimization of coupons

Expected results

- Enhanced store operation skills
- Improve in employee retention
- Empower store crew to manage store operation
- Productivity improvement
- Better working environment
- Motivation improvement

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2017 vs. 2016 Sales and Profits

■ Reasons for profit declines in 2017

① Deterioration in same store sales in Q4

- Due to reduced number of coupon issuing to less than one tenth to promote structural reform of existing stores
- In 2018 use coupons more strategically to maximize impact by utilizing what we learnt (Restart from March 1st)

② Increase in labor costs

- Continue to improve productivity and stability of labor force to suppress expected labor cost increase going forward

③ Increase in allowance for shareholder perks costs

- As shareholder special benefit system improved in 2017, its costs increased YoY

	Q1～Q3		Q４		Annual	
(Bn yen)	Sales	OP	Sales	OP	Sales	OP
2016 Results	264.8	23.8	89.8	7.4	**354.5**	**31.2**
SSS	2.0	0.2	(2.9)	(1.2)	**(0.8)**	**(1.0)**
Non-SSS	3.6	0.1	2.2	0.1	**5.7**	**0.2**
Labor cost increase	-	(1.7)	-	(0.7)	**-**	**(2.4)**
Share holder perks	-	(0.7)	-	(1.2)	**-**	**(1.9)**
Other	-	1.3	-	0.7	**-**	**2.0**
2017 Results	**270.4**	**23.0**	**89.1**	**5.1**	**359.4**	**28.1**

Note: ( ) means loss

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2018 Guidance vs. 2017 Sales and Profits

Sales

- +3.6bn yen by Same Store Sales (SSS) increase and +10.8bn yen by non-SSS increase
- 2018 assumption
  SSS growth: approx. +1% YoY
  New store openings: 100

Operating Profits

- +1.9bn yen by SSS growth, +1.6bn yen by non-SSS growth, (2.3)bn yen by increase in labor costs and (0.6)bn yen by other costs including shareholder perks

(Bn yen)	Sales	OP
2017 Results	**359.4**	**28.1**
SSS	3.6	1.9
Non-SSS	10.8	1.6
Labor costs increase	-	(2.3)
Allowance for shareholder perks	-	(0.2)
Other	-	(0.4)
2018 Guidance	**373.8**	**28.7**

Note: ( ) means loss

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Corporate Governance

Directors	Outside Directors
President and Chief Executive Officer: Makoto Tani	Atsushi Nishijo
Managing Director of Corporate Support Division and Managing Director of Human Capital Management Division: Minoru Kanaya	Atsushi Yokoyama
Managing Director of Finance Division: Atsushi Kitamura	Yukihiro Wada
Chief Executive Officer of Skylark Restaurants Co., Ltd.: Haruyoshi Sakita	Fumio Tahara
4 Corporate directors (previously 3)	**4 Outside directors (previously 3)**

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Appendix

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Restaurant Development

Restaurant Development Progressing as Planned

From the end of Dec. 2016 to the end of Dec. 2017

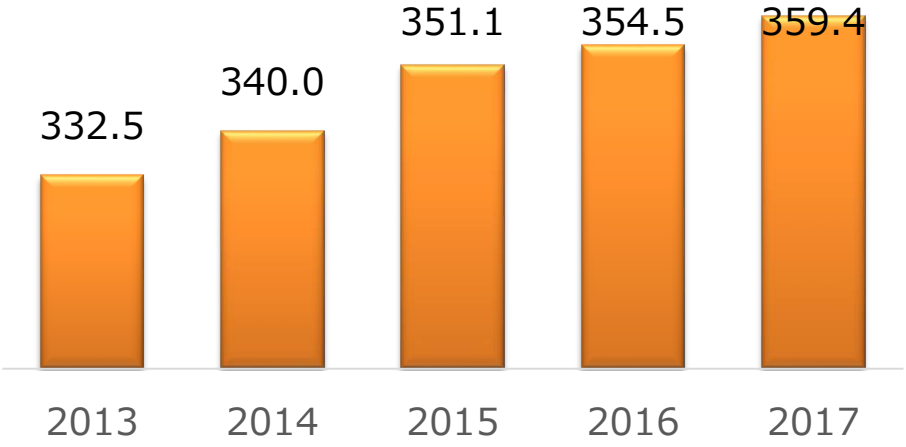
Brands	End of Dec. 2016	New	Conversion (+)	Conversion (−)	Close	Closed for Conversion	End of Dec. 2017	Variance	Remodel
Gusto	1,357	12	4	(6)	-	-	1,367	10	147
Jonathan's	303	1	-	(1)	(2)	-	301	(2)	40
Bamiyan	331	3	-	-	(2)	-	332	1	46
Yumean	195	1	-	-	(2)	-	194	(1)	21
Syabu -Yo	147	31	5	-	(2)	-	181	34	15
Steak Gusto	137	-	-	-	-	-	137	-	-
Others	598	49	16	(19)	(12)	1	633	35	26
Total	3,068	97	25	(26)	(20)	1	3,145	77	295

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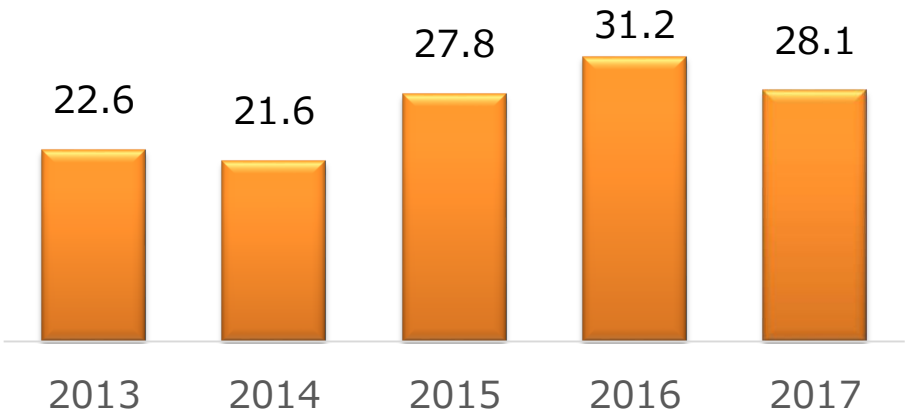
Historical Financial Data

(Bn yen)

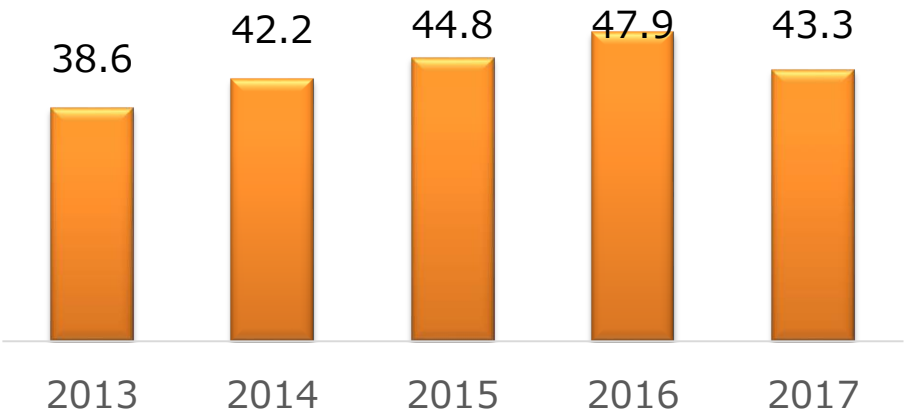
Sales



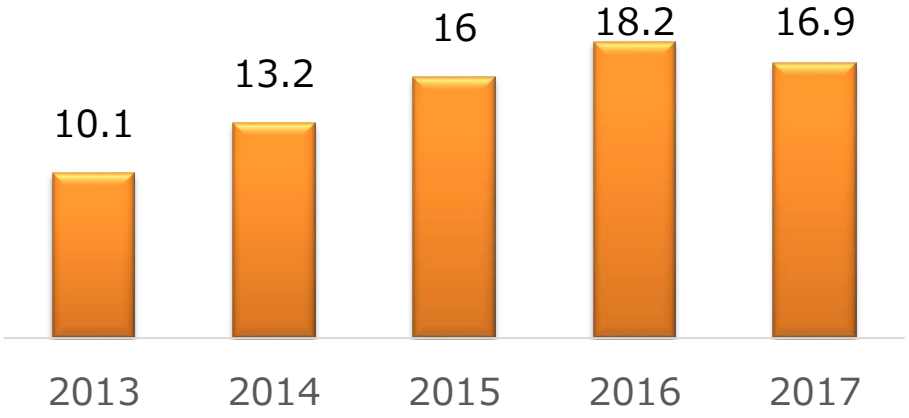
Operating Profit



Adjusted EBITDA



Adjusted Net Income



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