

Skylark Co., Ltd.

FY 2018 First Quarter Financial Results

May 10, 2018

Key Financials for Q1

- Achieved YoY sales increase of approx. 2%
- YoY OP decline of 11% is in line with our plan and aim to achieve annual target
- Change in accounting policies under IFRS9 (please refer slide5)

	2018 Q1 (3 months)	% YoY	2017 Q1 (3 months)	% YoY
Sales	**90.1bn**	2.2%	**88.1bn**	1.3%
Same Store Sales Growth		*0.0%*		*0.5%*
Traffic		*(1.3)%*		*(1.2)%*
Average Ticket Price		*1.3%*		*1.6%*
Operating Profit	**5.6bn**	(11.3)%	**6.3bn**	2.1%
Adjusted Net Income	**3.1bn**	(15.6)%	**3.7bn**	10.8%
Store Footprint	**Remodeling 88, Brand Conversion 8, New Openings 33**			

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Condensed Consolidated Income Statements

	2018 Q1		2017 Q1		Variance	
	Bn yen	% of Sales	Bn yen	% of Sales	Bn yen	% YoY
Sales	90.1	100.0%	88.1	100.0%	2.0	102.2%
Same Store Sales Growth	0.0%	-	0.5%	-	(0.5)%	-
Traffic	(1.3)%	-	(1.2)%	-	(0.1)%	-
Average Ticket Price	1.3%	-	1.6%	-	(0.4)%	-
Gross Margin	62.6	69.5%	61.5	69.8%	1.1	101.9%
Labor	30.5	33.9%	30.0	34.0%	(0.6)	101.9%
Other SG&A	26.6	29.5%	25.3	28.7%	(1.3)	105.1%
Operating Profit	5.6	6.2%	6.3	7.1%	(0.7)	88.7%
Profit before Tax	4.5	4.9%	5.1	5.8%	(0.7)	87.2%
Net Income	2.8	3.1%	3.3	3.8%	(0.5)	84.5%
EBITDA	9.0	10.0%	9.6	10.9%	(0.6)	93.5%
Adjusted EBITDA	9.7	10.7%	10.1	11.5%	(0.5)	95.3%
Adjusted NI	3.1	3.4%	3.7	4.2%	(0.6)	83.2%
Adjusted ROE	13.5%	-	17.0%	-	(3.5)%	-

*1 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)
*2 ROE/Adjusted ROE : LTM base. Not audited numbers.
*3 Retroactive amendment under IFRS 9 are applied to above numbers.

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Quarterly OP Trend

(Bn yen)	2017 Q1-Q3	2017 Q4	2017 Full year	2018 Q1	2018 Forecasts
Previous year OP	**23.8**	**7.4**	**31.2**	**6.3**	**28.1**
① **SSS Growth**	0.2	(1.2)	(1.0)	0.0	1.9
② **Non-SSS Growth**	0.1	0.1	0.2	0.2	1.6
③ **Hourly Wage Increase**	(1.7)	(0.7)	(2.4)	(0.5)	(2.3)
④ **Allowance for share holder perks**	(0.7)	(1.2)	(1.9)	(0.1)	(0.2)
⑤ **Other**	1.3	0.7	2.0	(0.2)	(0.4)
Total	(0.8)	(2.3)	(3.1)	(0.7)	0.6
This year OP	**23.0**	**5.1**	**28.1**	**5.6**	**28.7**
% YoY SSS growth	100.9%	97.4%	100.0%	100.0%	101.0%
New store openings	68	29	97	33	100

Note: ( ) means loss

① **Same Store Sales Growth**

Q4 2017 SSS growth resulted in -2.6%YoY. This is because we optimize types of discount coupons to improve store operations.

SSS sales growth shows recovery trend since March 2018 when the number of coupons carefully increased.

② **Non-SSS Growth**

Number of new openings increased from 2017 and profit contribution from new store openings expected to expand from Q2 2018.

33 New store openings in Q1 2018. This is in line with our plan.

③ **Hourly Wage Increase**

Hourly wage for part-time employees increases 2% YoY as we expected. This increase has slightly been slowing down in 2018.

④ **Allowance for share holder perks**

Allowance cost for 2017 increased as we tripled the perks as well as number of shareholders increased. (to 0.37mn in 2017 from 0.12mn in 2016.)

Allowance cost for 2018 is expected to stay almost same level as 2017.

⑤ **Other**

Other cost increased as compensation received was booked in Q1 2017 (this is discounted in the forecasts).

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Restaurant Development for Q1 2018

Restaurant Development Progressing as Planned

New Openings : 33 new stores opened – Karayoshi (concept: fried chicken) rapidly increased to 24 stores

Brand Conversion : 8 brand conversions – 5 Karayoshi

Remodeling : 88 stores remodeled – 33 Japanese Brands (Yumean & Aiya)

Brand	New Openings	Brand Conversion	Closure	End of Mar 2018	Remodeling
Karayoshi	15	5	-	24	-
Syabu-Yo	6	-	-	187	-
Musashinomori Coffee	4	-	-	21	-
FLO Prestige	2	-	(4)	112	1
Taiwan Skylark Co., Ltd.	2	-	-	54	2
Gusto	1	-	-	1,368	34
Steak Gusto	1	-	-	138	4
chawan	1	-	-	17	-
Yumean	-	-	(1)	193	21
Aiya	-	-	-	47	12
Jonathan's	-	-	(1)	300	4
Bamiyan	-	-	-	332	5
Others	1	3	-	379	5
Group total	33	8	(6)	3,172 28 stores increase compared to the end of Dec 2017	88

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Retroactive Adjustment of Financial Results Required by IFRS 9

- Accounting policies for loan amendment under IFRS 9 (2014) are mandatorily applied from January 1st 2018.
  - ✓ Accounting treatment for recognition of loan amendment benefit was changed as below table
  - ✓ IFRS 9 also requires to apply for the loan amendments made in the past.
    In our case, the amendments we had agreed with lenders in 2014 and 2015 (spread reduction) are subject to the retroactive adjustment.

	Previous treatment	New treatment
Accounting at amendment	-	Recognize full amendment benefits over the borrowing period as an amendment gain
Accounting over the borrowing period	Accounting cost for loan interest is recognized based on the new rate AFTER the amendment	Accounting cost for loan interest is recognized based on the pre-amendment rate

- The 2014/2015 amendments were retroactively applied to the beginning of 2017.
  This impacted on the 2017 Financial results as follows; (i) +3.3bn on the retained earnings at the beginning of 2017, and (ii) -1.4bn on the 2017 Net income.
- This is to recognize full amendment benefit for the remaining borrowing period (2017 to 2019) at the beginning of 2017.

2017 Financial result (JPY, bn)

	Retained Earnings (Opening)	Sales	Operating Profit	Net income	Adjusted net income	ROE	Adjusted ROE	Equity to total assets (%)
Pre-adjustment	54.2	359.4	28.1	16.9	16.9	14.1%	14.1%	39.3%
Post-adjustment	57.5	359.4	28.1	15.5	16.9	12.7%	13.8%	40.0%
Variance	3.3	–	–	-1.4	–	-1.4%	-0.3%	0.7%

- No impact on sales or operating profit
- No impact on adjusted net income because all impacts by this retroactive adjustment are recognized as an adjustment item.

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Shareholder Return

■ Dividends policy

Aim to achieve a consolidated dividend payout ratio of 40% based on the adjusted net income

Annual dividend per share (Yen)

2014	2015	2016	2017	2018 Forecast
13.52	33.00	38.00	38.00	38.00

■ Shareholder perks for individual shareholders

# of shares	Perks (Yen) Annual	End-June	End-Dec.
100-299	**6,000**	3,000	3,000
300-499	**20,000**	9,000	11,000
500-999	**33,000**	15,000	18,000
1,000-	**69,000**	33,000	36,000



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Financial Policy

■Goodwill: Risk of a large impairment is limited

✓Goodwill at end-Mach: approximately 146.1 billion yen

- This goodwill was not generated as a result of acquiring other companies, which is a typical way of recording goodwill, but was generated when Bain Capital Partners LLC became our shareholder.

✓The risk of a large impairment of goodwill is extremely low

- Given that cash flows generated from our businesses are very solid against the goodwill as well as it is prorated to each brand and that revenue in each brand remains firm.

■Borrowings: At a sound level

✓Borrowings at end-March: approximately 129.2 billion yen

- Most of which are LBO loans that were raised when Bain Capital Partners LLC became a shareholder in 2011.

✓The ratio that is obtained by dividing the balance of net interest-bearing debt by adjusted EBITDA is around 2.7.

- The balance of our borrowings is at a sound level, given that the funding costs for borrowings are lower than returns to shareholders under the current environment of low interest rates.

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Appendix

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Restaurant Development

Brands		End of Dec. 2017	New	Conversion (+)	Conversion (−)	Close	Closed for Conversion	End of Mar. 2018	Increase and Decrease	Remodel
ガスト	Gusto	1,367	1	-	-	-	-	1,368	1	34
Jonathan's	Jonathan's	301	-	-	-	(1)	-	300	(1)	4
バーミヤン	Bamiyan	332	-	-	-	-	-	332	-	5
夢庵	Yumean	194	-	-	-	(1)	-	193	(1)	21
しゃぶ葉	Syabu -Yo	181	6	-	-	-	-	187	6	-
ステーキガスト	Steak Gusto	137	1	-	-	-	-	138	1	4
	Others	632	25	8	(7)	(4)	1	655	23	20
	Total	3,144	33	8	(7)	(6)	1	3,173	29	88

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Impact of the Retroactive Adjustment on 2017 Financials

(Bn yen)

	Full-year 2016	2017				
		Opening	Q1	Q2 (YTD)	Q3 (YTD)	Full-year
(Pre-adjustment)						
Retained earnings	54.2	54.2	53.4	57.5	62.6	65.5
Net income	18.2		3.7	7.8	14.1	16.9
Adjusted net income	18.2		3.7	7.8	14.1	16.9
ROE	16.8%		17.3%	16.3%	16.0%	14.1%
Adjusted ROE	16.8%		17.3%	16.3%	16.0%	14.1%
Equity ratio to total assets	35.9%		36.6%	37.5%	39.0%	39.3%
(Post-adjustment)						
Retained earnings	54.2	57.5	56.3	60.1	64.9	67.4
Net income	18.2		3.3	7.1	13.0	15.5
Adjusted net income	18.2		3.7	7.8	14.1	16.9
ROE	16.8%		16.7%	15.5%	14.9%	12.7%
Adjusted ROE	16.8%		17.0%	16.1%	15.8%	13.8%
Equity ratio to total assets	35.9%		37.7%	38.4%	39.8%	40.0%
(Variance)						
Retained earnings	-	3.3	2.9	2.6	2.3	1.9
Net income	-	-	(0)	(1)	(1)	(1)
Adjusted net income	-	-	-	-	-	-
ROE	-	-	(0.6)%	(0.8)%	(1.0)%	(1.4)%
Adjusted ROE	-	-	(0.2)%	(0.2)%	(0.2)%	(0.3)%
Equity ratio to total assets	-	-	1.1 %	0.9 %	0.8 %	0.7 %

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