

Skylark Co., Ltd.
FY 2018 First Half Financial Results

Aug. 9, 2018

Financial Results for 6-month period ended June 30 2018

CFO
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Key Financials for H1

- Maintain full year forecasts
- YoY OP declined 20%, mainly due to the increase of controllable and one-off costs
- Interim dividend of 16yen per share as planned

	2018 Q2 (6 months)	% YoY	2017 Q2 (6 months)
Sales	**179.5bn**	1.9%	**176.2bn**
Same Store Sales Growth		*(0.1)%*	
Traffic		*(1.2)%*	
Average Ticket Price		*1.1%*	
New Store Sales		*2.0%*	
Operating Profit	**10.3bn**	(19.9)%	**12.9bn**
Adjusted Net Income	**5.6bn**	(27.8)%	**7.8bn**
Adjusted ROE	**11.9%**	(4.2)%	**16.1%**
Store Footprint	**Remodeling 166, Brand Conversion 11, New Openings 56**		

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

- Sales increased by 3.3bn yen (+2%YoY) with flat SSS and 2% sales increase in new stores
- Gross margin stays at high level of 69.6%
- Labor cost increased by 1.7bn yen due to the expansion of the number of stores
- Other SG&A includes following costs ; new openings, improve quality of restaurant and shareholder perks

	H1FY2018		H1FY2017		Variance	
	Bn	% of Sales	Bn	% of Sales	Bn	%YoY
Sales	179.5	100.0%	176.2	100.0%	3.3	101.9%
COGS	54.6	30.4%	53.1	30.1%	(1.5)	102.8%
Gross Margin	124.9	69.6%	123.1	69.9%	1.8	101.5%
Labor	61.6	34.3%	59.8	34.0%	(1.7)	102.9%
Other SG&A	53.0	29.5%	50.4	28.6%	(2.7)	105.3%
Operating Profit	10.3	5.8%	12.9	7.3%	(2.6)	80.1%
Financing Cost	(2.2)	(1.2)%	(2.3)	(1.3)%	0.1	94.0%
Profit Before Tax	8.1	4.5%	10.6	6.0%	(2.4)	77.0%
Tax Expense	3.1	1.7%	3.5	2.0%	0.4	88.2%
Net Income	5.1	2.8%	7.1	4.0%	(2.0)	71.5%
EBITDA	17.3	9.7%	19.6	11.1%	(2.3)	88.3%
Adjusted EBITDA	18.6	10.4%	20.5	11.6%	(1.9)	90.9%
Adjusted Net Income	5.6	3.1%	7.8	4.4%	(2.2)	72.2%

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Condensed Consolidated Balance Sheets

- Goodwill: 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 and that the goodwill is prorated to each brand and that revenue in each brand remains firm.
- Debt: The ratio that is obtained by dividing the balance of net interest-bearing debt by adjusted EBITDA is around 2.7and this is at sound level

(Unit : Bn yen)	H1FY2018	FY2017	Variance	H1FY2018 notes
Assets:				
Current assets	31.0	33.0	(2.0)	
Non-current assets	291.8	285.2	6.6	Balance of goodwill 146.1 Bn yen
Total assets	322.8	318.2	4.6	
Liabilities:				
Current liabilities	162.7	54.9	107.8	Balance of short-term debt 115.5 Bn yen
Non-current liabilities	32.7	136.0	(103.3)	Balance of long-term debt 11.8 Bn yen
Total liabilities	195.4	190.9	4.5	
Equities:				
Equity attributable to owners of the Company	127.4	127.3	0.1	
Total shareholders equities	127.4	127.3	0.1	
Capital adequacy ratio	39.5%	40.0%	(0.5)%	
Adjusted ROE	11.9%	13.8%	(1.9)%	
Net leverage ratio	2.7x	2.6x		

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

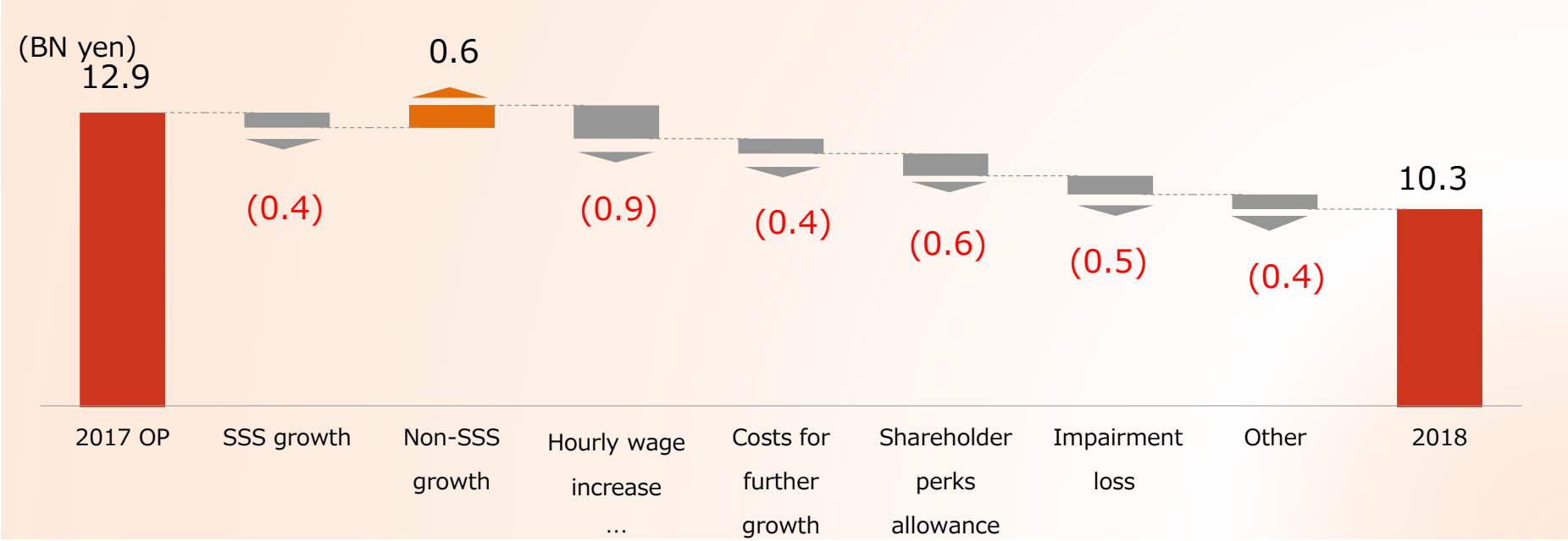
- Operating cash flow increased by 4.3bn yen to 18.4bn yen
- Investment cash flow reduced by 1.9bn yen to -11bn yen. This is due to acceleration of new store openings and investment in new restaurant operation systems
- Financial cash flow reduced by 4.6bn yen to -8.2bn yen. This is due to repayment of the LBO loan (5.5bn yen), the borrowing to invest for further growth (5.0bn yen) and payment of the commission for syndicated loan (2.1bn yen)

(Unit : Bn yen)		H1FY2018	H1FY2017	Variance
Operating cash flow	(a)	18.4	14.1	4.3
Investment cash flow	(b)	(11.0)	(9.1)	(1.9)
Free cash flow	(a)+(b)	7.4	5.0	2.4
Financial cash flow	(c)	(8.2)	(3.6)	(4.6)
Loan		(0.5)	2.0	(2.5)
Dividend		(4.3)	(4.5)	0.2
Others		(3.4)	(1.1)	(2.3)
Change in cash	(a)+(b)+(c)	(0.7)	1.4	(2.1)
Cash balance at closing		14.4	17.6	(3.2)

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OP H1 2018 vs. H1 2017

◆ **Foundation of our business remains firm. The decline in OP was mainly due to the one-off costs**



- Same Store Sales decline resulted in 0.4 billon yen in OP cut but SSS is recovering from June
- Non-SSS (New store openings) contributed to profit increase
- Hourly wage increased by 0.9 billion yen. This increase is smaller than our initial expectations
- Costs for SSS growth increased by 0.4 billon yen, this was spent on restaurant repairs and buying new dishware to improve restaurant operations.
- Allowance for shareholder perks increased by 0.6 billion yen. This is because both the number of shareholders and the rate of use of perks increased
- Impairment loss increased by -0.5 billion yen. Most of this was NOT caused by same store sales decline but (1) restaurant closure due to external reasons such as urban development and owners' reasons and (2) impairment loss occurring during the test stage of new brands
- Reminder of the cost increase (0.4 billion yen) is mainly for non-recurring reasons, such as a volatility in profit from a one-time lift in profits same time last year

Restaurant Development for H1 2018

Restaurant Development Progressing as Planned

New Openings : 56 new stores opened. Karayoshi (concept: fried chicken) rapidly increased to 33 stores

Brand Conversions : 8 brand conversions

Remodels : 166 stores remodeled. Of which 66 were Japanese Brands (Yumean & Aiya)

Brand	New openings	Conversions	Closures	End-June	Remodels
Karayoshi	21	8	-	33	-
Syabu-Yo	11	-	-	192	-
Musasinomori Coffee	4	-	-	21	-
Flo Prestige	5	-	(5)	114	2
Taiwan	4	-	(2)	54	3
Gusto	3	-	(2)	1,368	55
Steak Gusto	2	-	-	139	6
chawan	3	-	-	19	-
Yumean	-	-	(1)	193	42
Aiya	-	-	-	47	24
Jonathan's	-	-	(1)	300	5
Bamiyan	-	-	-	332	13
Other	3	3	(4)	375	16
Group total	56	11	(15)	3,187 +43 stores compared to end-Dec 2017	166

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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 (please refer to slide 15 for details)
- This accounting change is regarded as adjusted item for net income as below.

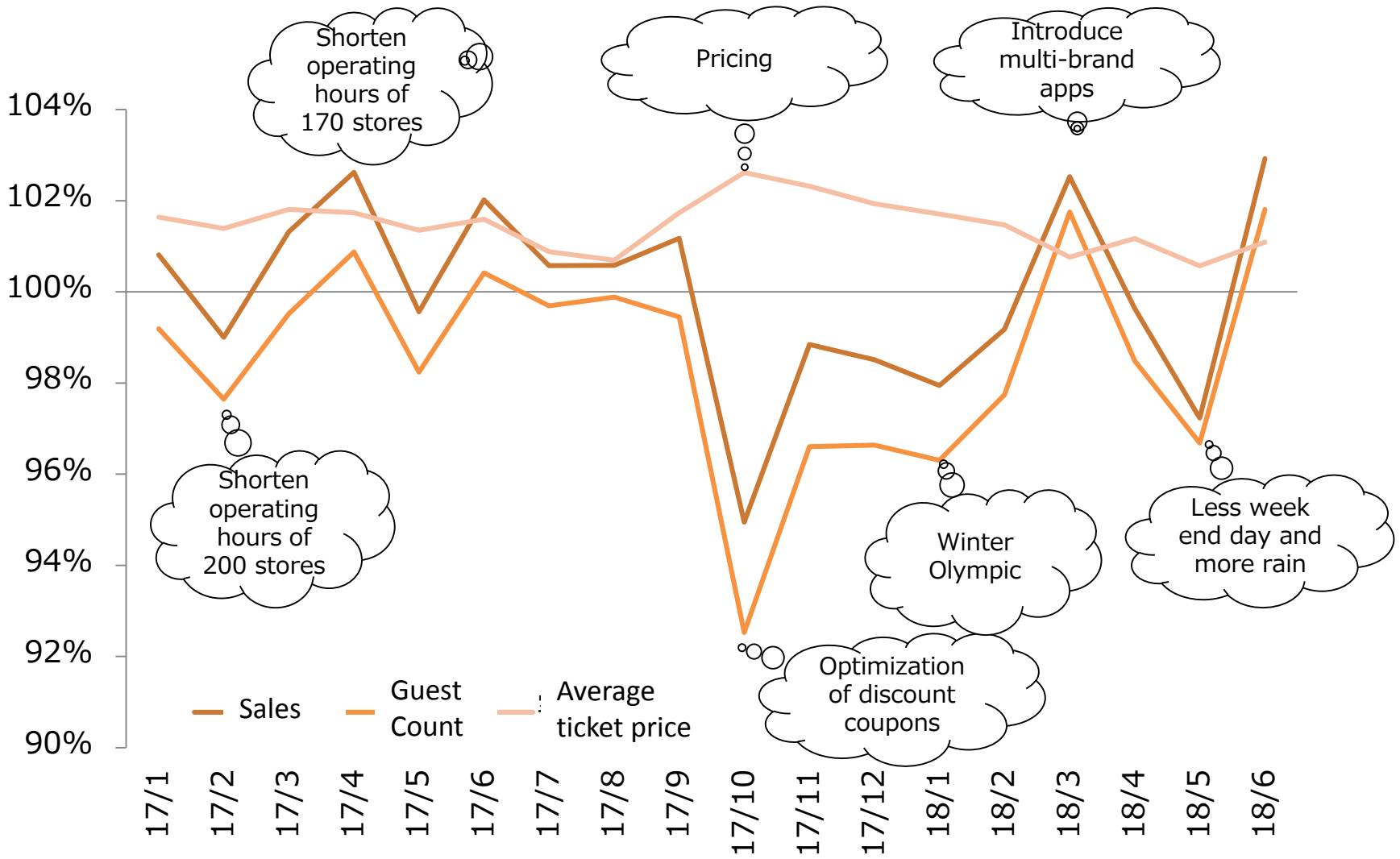
(Bn yen)	H1FY2018	H1FY2017	Variance
Net income	**51**	**71**	**(20)**
Recalculation of the effect of retroactive application by accounting policy change	-	7	(7)
Non-Recurring Items			
(+) IPO and public offering-related expense	-	0	(0)
(+) Profit and loss of changed financial liability conditions by applying to IFRS9	10	-	10
Adjusted subtotal (before tax)	10	0	10
Tax effects for adjustments	4	0	4
Adjusted subtotal (after tax)	6	0	6
Adjusted net income	**56**	**78**	**(22)**

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Appendix

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Same Store Sales Trend %YoY



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Expansion of Same Store Sales: Summer Campaign

Gusto
Summer Campaign

20人に1人0円

This is to offer happy dining out experience

- Total bill will be free when winning the lottery using the Skylark apps.
- In order to participate this campaign, the installation of the Skylark apps is mandatory

Promotion

- Owned media: Apps, flyers and banner
- Twitter etc.
- TVCM



Skylark apps download



June 2018 total download 13.9 million

The campaign started on the July 19th

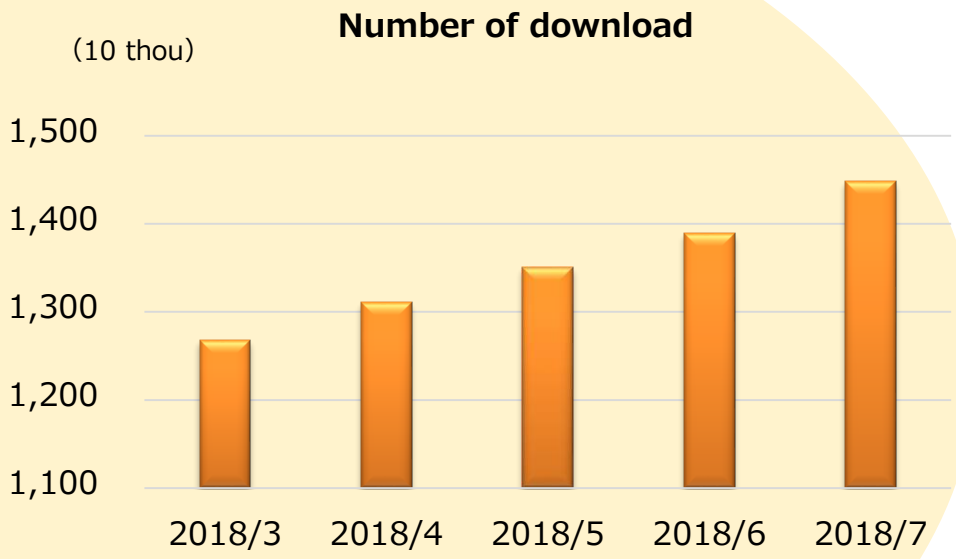
July 2018 total download 14.5 million

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Expansion of Same Store Sales: Apps

Introduced Skylark Group integrated mobile apps in March 2018





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Expansion of Same Store Sales: Menu

Gusto

■ **Pizza renewal**



■ **Expansion of items with cheese**



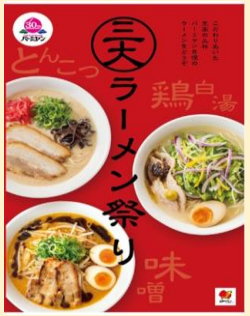
■ **Quality improvement in sauce and cheese used in CheeseIN hamburg**

Bamiyan

■ **Change menu items to familiar Japanese style Chinese food from authentic Chinese food**

Lots of ramen menu

『Sep. 2016』



『Apr. 2017』



『Jun. 2017』



『Sep. 2017』



■ **Current limited-time offerings**

Ramen served with warm soup as well as cold noodle







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Restaurant Development

Brands		End of Dec. 2017	New	Conversion (+)	Conversion (-)	Close	Closed for Conversion	End of June. 2018	Increase and Decrease	Remodel
ガスト	Gusto	1,367	3	-	-	(2)	-	1,368	1	55
Jonathan's	Jonathan's	301	-	-	-	(1)	-	300	(1)	5
バーミヤン	Bamiyan	332	-	-	-	-	-	332	-	13
夢庵	Yumean	194	-	-	-	(1)	-	193	(1)	42
しゃぶ葉	Syabu-Yo	181	11	-	-	-	-	192	11	-
ステーキガスト	Steak Gusto	137	2	-	-	-	-	139	2	6
	Others	632	40	11	(9)	(11)	-	663	31	45
	Total	3,144	56	11	(9)	(15)	-	3,187	43	166

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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

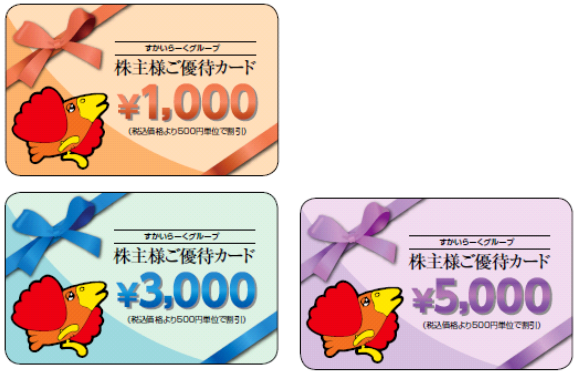
Aim to achieve a consolidated dividend payout ratio of 40% based on the adjusted net income

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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