



Skylark Holdings Co., Ltd.

FY 2019 First Quarter Financial Results

May 15, 2019

Executive Summary

- **Strong sales for both same store and new openings**
- **Successfully achieved average ticket price and customer traffic increase**
- **Higher gross margin than same period last year**

Sales 93.9bn yen (+3.8bn YoY, +4.2% YoY)

- SSS : 3.1bn yen YoY, +2.9% YoY
- New store openings : 26 stores, +2.6bn yen YoY
- Delivery : Sales 6.1bn yen, +11.5% YoY

Operating profit 5.5bn yen (-0.1bn yen YoY, -1.2% YoY)

- Improve in gross margin: +0.1pt YoY
- Increase in shareholder perks increase: (0.6)bn yen

YoY impact on profit from shareholder perks is expected to decline from Q2

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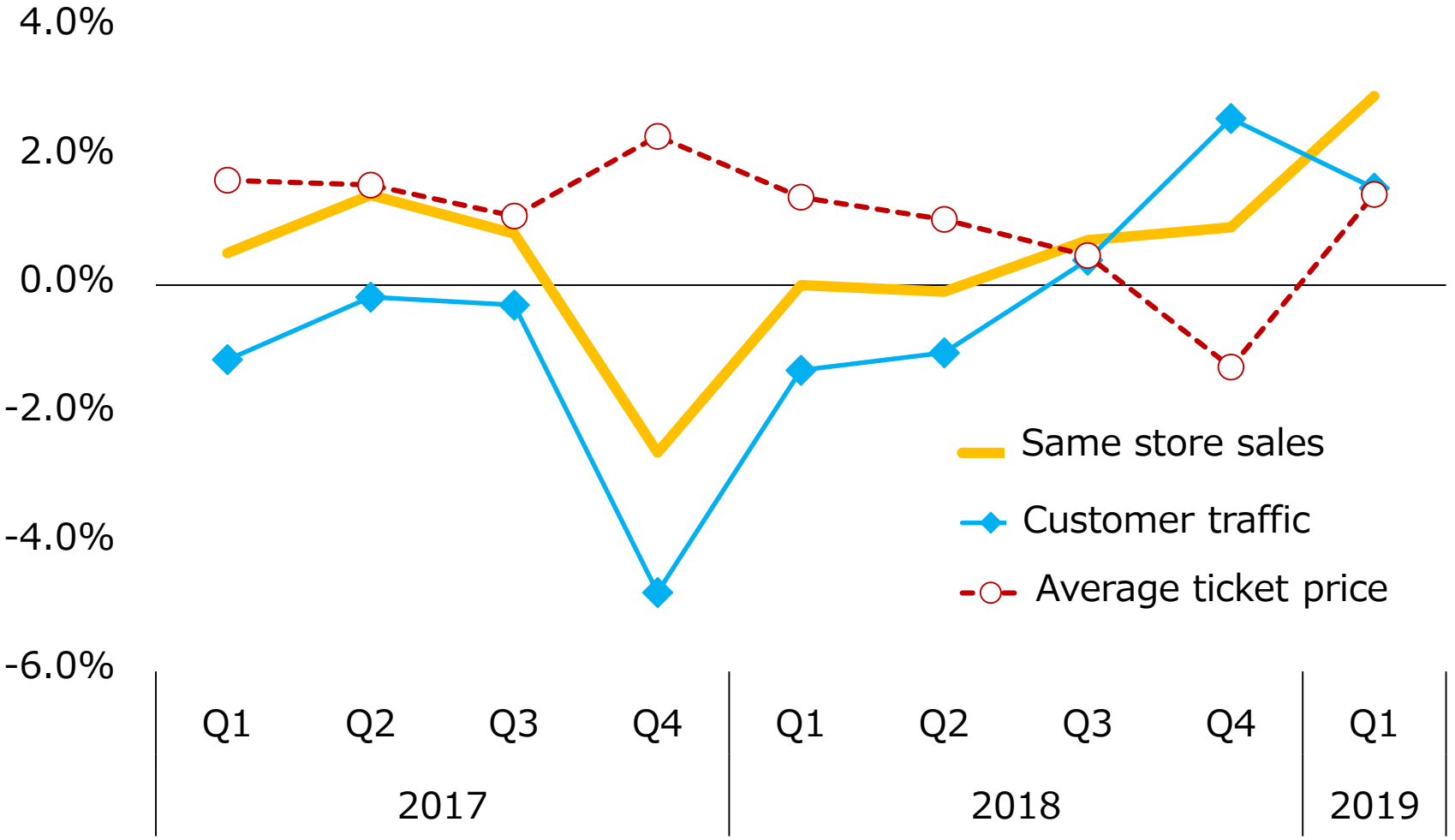
Same Store Sales

Both average ticket price and customer traffic increased YoY



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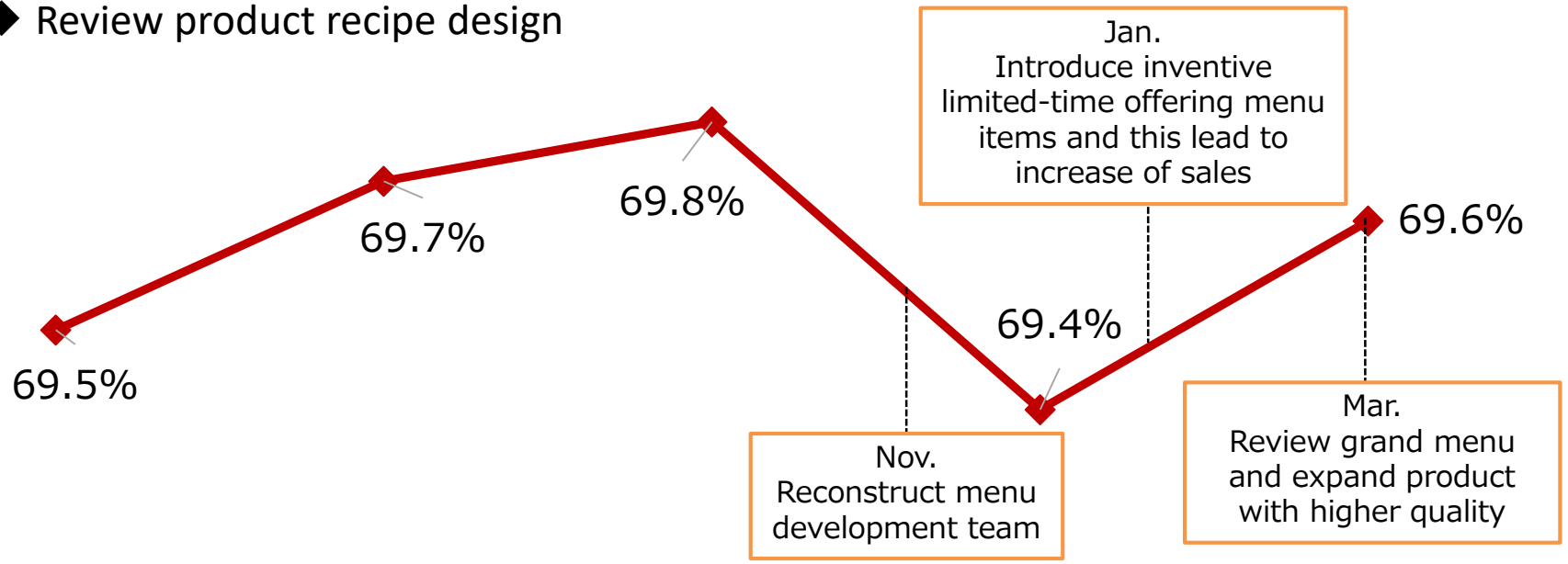
Gross Margin

Gross margin on a recovery trend

- Reconstruct menu development team to implement more efficient menu development under unified management of all brands
- Expand product with higher quality to induce trade up
- Review product recipe design



Q1	Q2	Q3	Q4	Q1
	2018			2019

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Financial Results for 3-month period ended April 30 2019

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Key Financials for Q1

- Sales increase by +4% YoY (Both ATP and customer traffic of existing stores are increased YoY)
- Operating profit is almost flat compared to the same period last year
- Maintain a solid business foundation by improving sales and gross margin
- Investments in stores / employees to improve store management quality and customer satisfaction are on track

	2019 Q1 (3 months)	2018 Q1 (3 months)	% YoY
Sales	**93.9bn**	**90.1bn**	4.2%
Same Store Sales Growth			*2.9%*
Traffic			*1.5%*
Average Ticket Price			*1.4%*
Operating Profit	**5.5bn**	**5.6bn**	(1.2)%
Adjusted Net Income	**3.0bn**	**3.1bn**	(3.8)%
Adjusted ROE	**10.1%**	**13.5%**	(3.4)%
Store Footprint	**Remodeling 61, Brand Conversion 36, New Openings 26**		

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: +3.8bn yen YoY, +4% YoY (SSS +3% YoY)
- Gross margin: as high as 69.6%, +0.1pt YoY
- Labor cost increase : 0.7bn yen due to the expansion of the number of stores, 0.6bn yen due to hourly wage increase and 0.4bn yen due to customer traffic increase
- Other SG&A includes cost increase of new openings of 0.6bn and improve quality of restaurant of 0.1bn
- The adoption of IFRS 16 has an impact of 0.3bn yen on OP and 9bn yen on EBITD in 1Q2019

	Q1FY2019		Q1FY2018		Variance	
	Bn	% of Sales	Bn	% of Sales	Bn	%YoY
Sales	93.9	100.0%	90.1	100.0%	3.8	104.2%
COGS	28.5	30.4%	27.5	30.5%	(1.0)	103.7%
Gross Margin	65.4	69.6%	62.6	69.5%	2.7	104.4%
Labor	32.2	34.3%	30.5	33.9%	(1.7)	105.7%
Other SG&A	27.6	29.4%	26.6	29.5%	(1.1)	104.1%
Operating Profit	5.5	5.9%	5.6	6.2%	(0.1)	98.8%
Financing Cost	(1.3)	(1.4)%	(1.1)	(1.2)%	(0.2)	119.0%
Profit Before Tax	4.2	4.4%	4.5	4.9%	(0.3)	93.8%
Tax Expense	1.5	1.6%	1.7	1.8%	0.2	89.0%
Net Income	2.7	2.9%	2.8	3.1%	(0.1)	96.6%
EBITDA	17.9	19.1%	9.0	10.0%	8.9	199.4%
Adjusted EBITDA	18.6	19.9%	9.7	10.7%	9.0	192.7%
Adjusted Net Income	3.0	3.2%	3.1	3.4%	(0.1)	96.2%

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Condensed Consolidated Balance Sheets

- Goodwill 146.1bn yen: 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 133.2bn yen: Net leverage ratio improved to 1.5 times. The main reason the adjusted EBITDA improved is due to the impact of IFRS 16, but even if the impact is excluded, the level is sound in view of our cash flow creation output.
- Application of IFRS 16 increased non-current assets and non-current liabilities. As a result, the equity ratio falls to approx. 29.2%
- Adjusted ROE improved by 0.2pt to 10.1%

(Unit : Bn yen)	Q1FY2019	FY2018	Variance	Q1FY2019 notes
Assets:				
Current assets	33.4	37.7	(4.3)	
Non-current assets	402.1	292.9	109.2	**Balance of goodwill 146.1Bn yen**
Total assets	435.5	330.7	104.8	**Balance of right-of-use asset 111.9Bn yen**
Liabilities:				
Current liabilities	183.5	157.3	26.2	**Balance of short-term debt 108.6Bn yen**
Non-current liabilities	124.7	42.9	81.8	**Balance of long-term debt 24.6Bn yen**
Total liabilities	308.3	200.2	108.1	**Balance of lease liability 111.6Bn yen**
Equities:				
Equity attributable to owners of the Company	127.2	130.5	(3.2)	
Total shareholders equities	127.2	130.5	(3.2)	
Equity ratio	29.2%	39.5%	(10.3) %	
Adjusted ROE	10.1%	9.9%	0.2%	
Net leverage ratio	1.5x	2.9x		

(Note) 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 9.2bn yen to 19bn yen. Increased depreciation and amortization expenses 9bn yen mainly due to the adoption of IFRS16. Maintain high level even if the influence is removed
- Investment cash flow reduced by 1.3bn yen to (6.0)bn yen. This is due to investment for future growth such as digital investment
- Financial cash flow reduced by 9.5bn yen to (13.8)bn yen. This is due to repayment of the loan (7.5)bn yen, the borrowing to invest for future growth 7bn yen and Lease debt repayment of (85)bn yen under the influence of IFRS16 application

(Unit : Bn yen)		Q1FY2019	Q1FY2018	Variance
Operating cash flow	(a)	19.0	9.8	9.2
Investment cash flow	(b)	(6.0)	(4.7)	(1.3)
Free cash flow	(a)+(b)	13.0	5.1	7.9
Financial cash flow	(c)	(13.8)	(4.3)	(9.5)
Loan		(0.5)	2.5	(3.0)
Dividend		(4.2)	(4.1)	(0.0)
Others		(9.2)	(2.7)	(6.5)
Change in cash	(a)+(b)+(c)	(0.9)	0.8	(1.7)
Cash balance at closing		18.1	15.9	2.2

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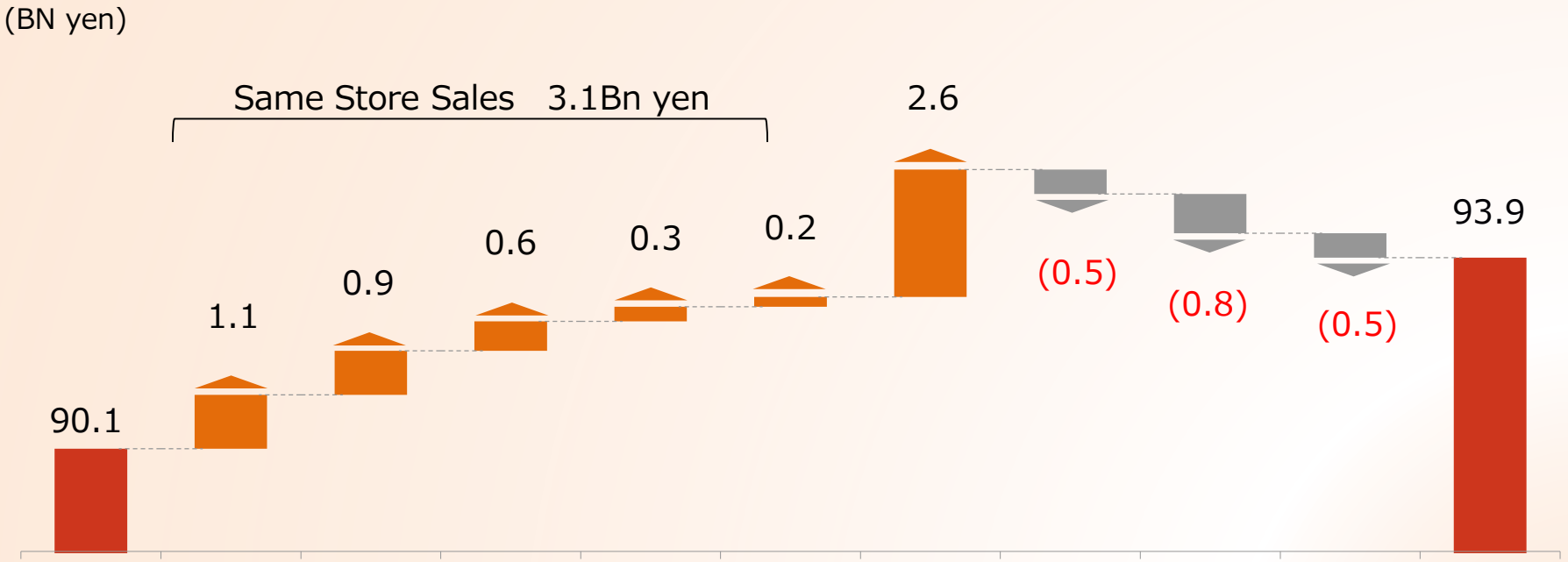
Sales Q1FY2019 vs. Q1FY2018 (3 months)

- **Sales at existing stores grow ¥ 3.1 billion due to various measures taken to expand SSS**
- **New store openings progress as planned, sales at non-existing stores increased ¥ 2.1 billion**
- **YoY impact on sales from shareholder perks is expected to slow down from Q2**



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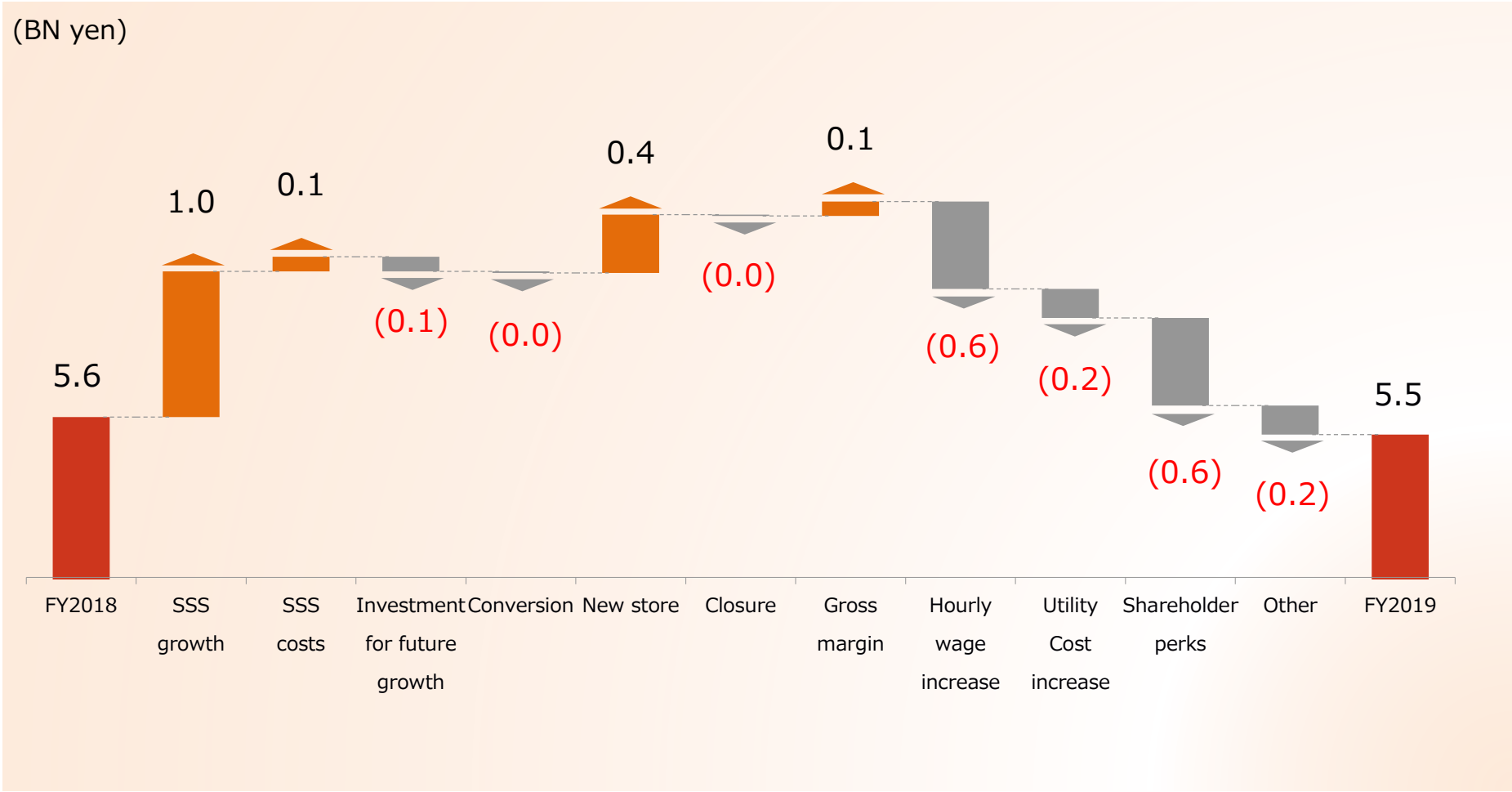
OP Q1FY2019 vs. Q1FY2018 (3 months)

- **OP growth due to growth of SSS and sales from new store openings. This absorbed the impact of rising labor costs**
- **YoY impact on OP from shareholder perks is expected to slow down from Q2**



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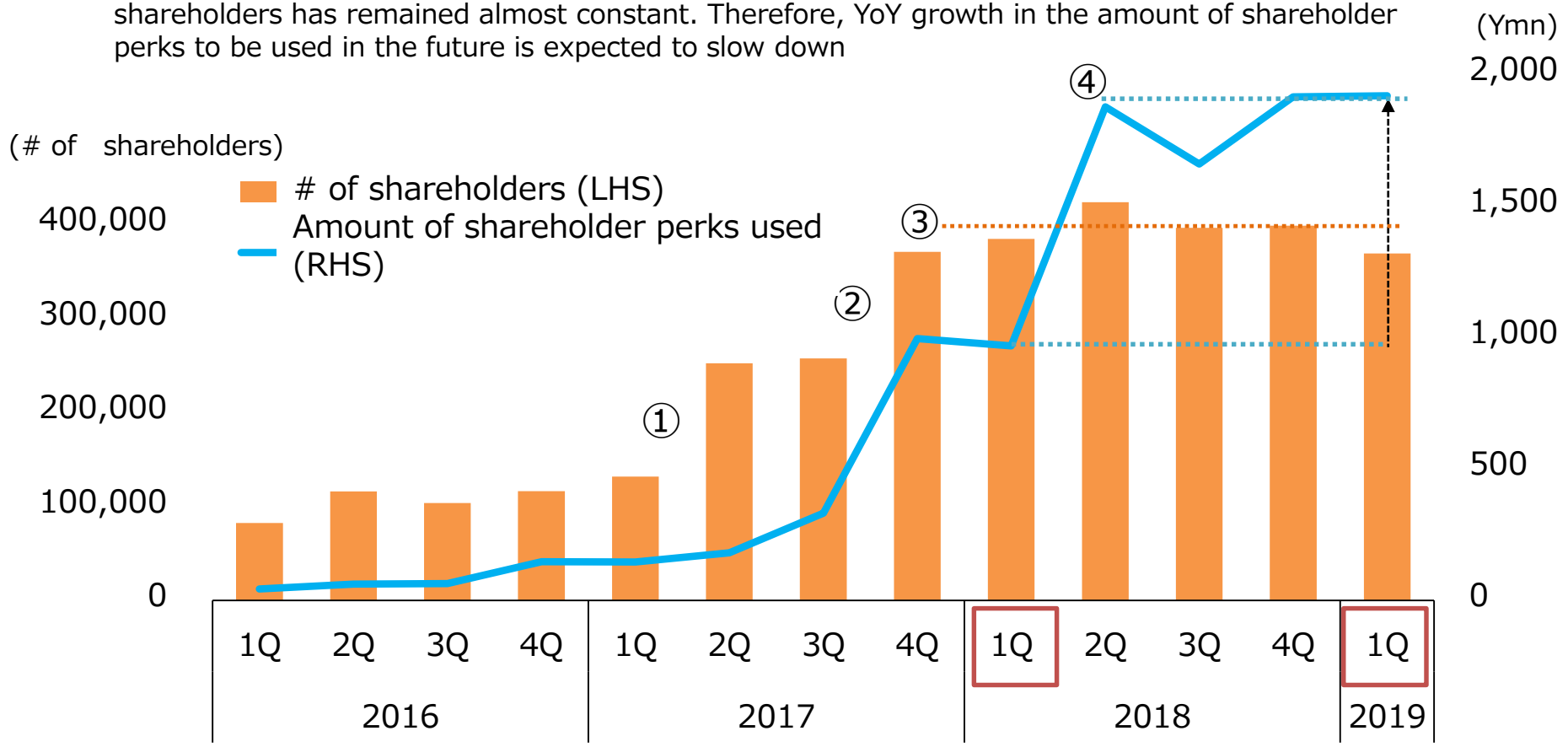
Number of Shareholders and Usage of Shareholder Perks

① The number of shareholders increased as a fund shareholder reduced the ownership from 44% to 20%
② As the fund shareholder sold all the ownership, the number of shareholders was further increased
③ The number of shareholders remains at the level of approx. 400,000 people since 4Q 2017
④ The increase of the amount of shareholder perks used began in 2Q2018 and the number of shareholders has remained almost constant. Therefore, YoY growth in the amount of shareholder perks to be used in the future is expected to slow down



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Restaurant Development for Q1FY2019

New openings: 26 new stores opened, focus on “Karayoshi” and “Syabu-Yo”
Brand conversions: 30 stores are converted to “Syabu-Yo”
Remodelings: 61 stores are remodeled, 16 Steak Gust and 12 Yumean

Brand	New Openings	Brand Conversion	Closure	End of Mar. 2019	Remodeling
Karayoshi	8	-	-	49	-
Syabu-Yo	5	30	-	237	-
Musashinomori Coffee	4	1	-	28	-
FLO Prestige	2	-	-	115	1
Taiwan Skylark Co., Ltd.	2	-	(2)	57	-
Gusto	1	2	-	1,364	19
Steak Gusto	-	1	-	136	16
Yumean	-	-	-	188	12
Jonathan's	-	-	-	296	7
Bamiyan	-	-	-	328	6
Aiya	-	-	-	47	-
chawan	-	-	-	19	-
Others	4	2	(4)	356	-
Group Total	26	36	(6)	3,220 stores compared to end Dec.2018+20	61

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Application of IFRS16

1. What is IFRS16 (lease accounting)

Basically, all lease contracts (except for some short-term leases and small-scale leases) are on-balance, with right-of-use assets on the asset side and lease liabilities on the liability side. Also, the right-of-use asset is depreciated over a fixed period.

2. Major impacts and views on applying IFRS16

Most of our stores are leased properties under a lease contract, and about 38bn yen a year of rent generated. Most are on-balance and are depreciated (some interest payments). In addition, IFRS16 is applied since the fiscal year ended December 2019.Therefore, no retroactive accounting will be conducted in the past fiscal year. **IFRS16 is a change in accounting standards, and there is no change in our business model itself. We understand that the business reality is the same as before.**

3. Impact of IFRS16 on the Company's financial figures

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

With the increase of assets of 112.4 billion yen and liabilities of 113.9 billion yen on BS, the equity ratio decreases by 10.4%. Although there is no change in net income under the PL and CF, operating profit is changed by changing the rent to depreciation and interest expense. It improves approx. 1 bn yen of OP, approx. 35.2 bn of adjusted EBITDA yen and approx. 34.2bn yen of operating CF.

(Bn yen)	FY2018	Application of IFRS16	Variance
Total Assets	330.7	443.1	112.4
Total liabilities	200.2	314.2	113.9
Total shareholders equities	130.5	128.9	(1.5)
Equity ratio	39.5%	29.1%	-10.4%
Operating profit	22.9	23.9	1.0
Net income	11.4	11.4	0.0
EBITDA	37.2	72.4	35.2
Operating CF	31.6	65.8	34.2

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Marketing Strategy

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Digital Marketing Strategy (1)

Create multiple digital ad creatives to match the target's degree of interest, lifestyle and information that are actively investigated.
YouTube takes advantage of Video Ad Sequencing (displaying different ads in order) to increase the probability of visiting stores



Instagram stories

Target:
Segment of people who didn't visit Gusto much in the past (Especially among the 20's and early 30's, who have basically high willingness to buy)



Get their attention

YouTube

Target:
Light to Middle users who sometimes visit Gusto

Video Ad Sequencing



Encourage to visit stores

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Digital Marketing Strategy (2)

Introduce the first technology in Japan that maximizes visits by machine learning

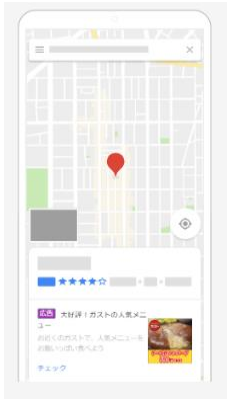
This technology works by matching our own data such as individual store addresses with visit probability data and local search behavior data by GPS / Wifi data.
Able to reduce the cost of advertisements for visiting stores



YouTube



Maps



Business profile



Display ad



Search results



Machine learning is used to select the most effective advertising media and creatives that are likely to be effective for users who are likely to visit the store (specify the target individual in terms of time, place, interest, etc.)

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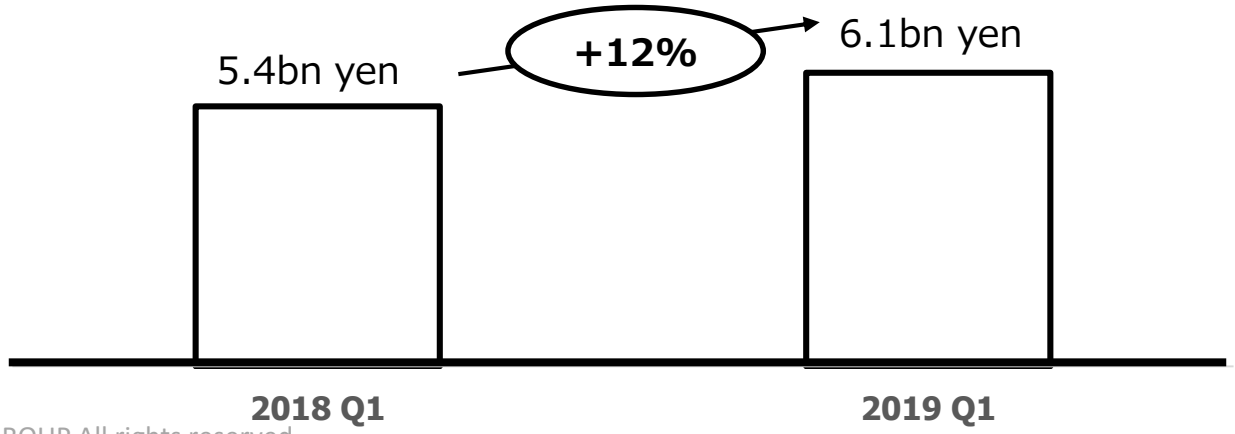
Delivery Enhancement Strategy

– Develop and introduce a “Deliveryman App” that integrates the regional delivery route data accumulated for about 20 years, real-time ordering system and digital map. More efficient delivery, including multiple delivery, enables new staff to select the optimal delivery route without training
–Increase the number of delivery staff by increasing part-time workers belonging to an area instead of a store

– Introduced smartphone application payment from June 2019 at all in-house delivery stores
– Expand number of stores using UberEats:
61 in Nov. 2018 ⇒ 444 in May 2019

– New web application for delivery that implements product recommendation functions etc. will be deployed at all stores by Oct. 2019



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Improve Working Environment for Employees

■Prohibit Smoking on the Premises of Restaurants

Prohibit smoking on the premises of Skylark Group restaurants from September 1, 2019. The group places importance on protecting the health of customers, advancing the health of its employees and preventing passive smoking.

As of the end of April, there were 553 stores totally non-smoking on the premises and 1,224 stores non-smoking inside restaurants

The Group fully supports employee's non-smoking promotion by delivering message from management and providing tools to help stop smoking

■Review of restaurant opening hours

Reviewed business hours at 374 stores from April 1 to improve work-life balance of employees

Will continue reviewing in the future

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Appendix

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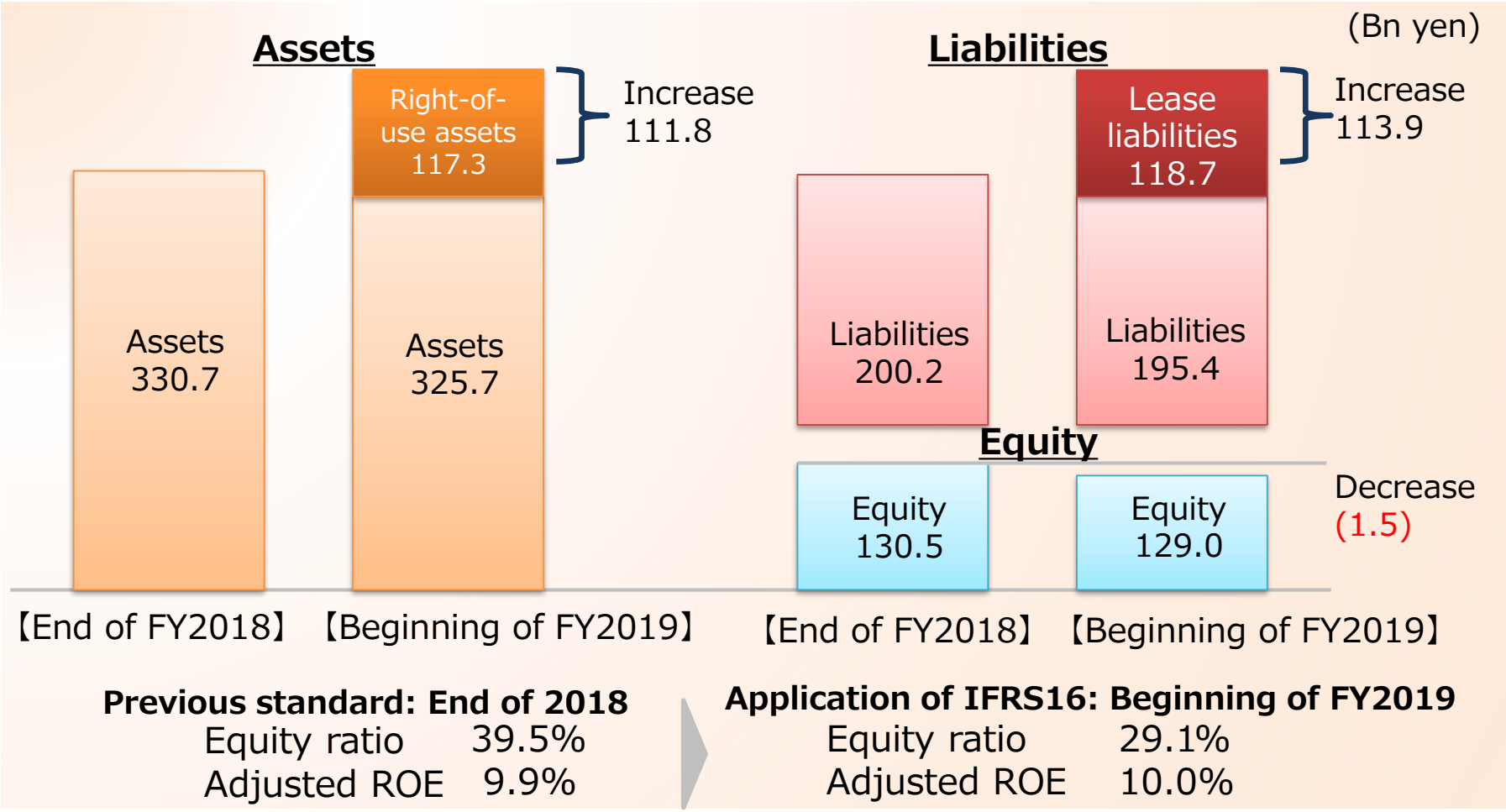
IFRS16 Key Impacts to BS

- 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



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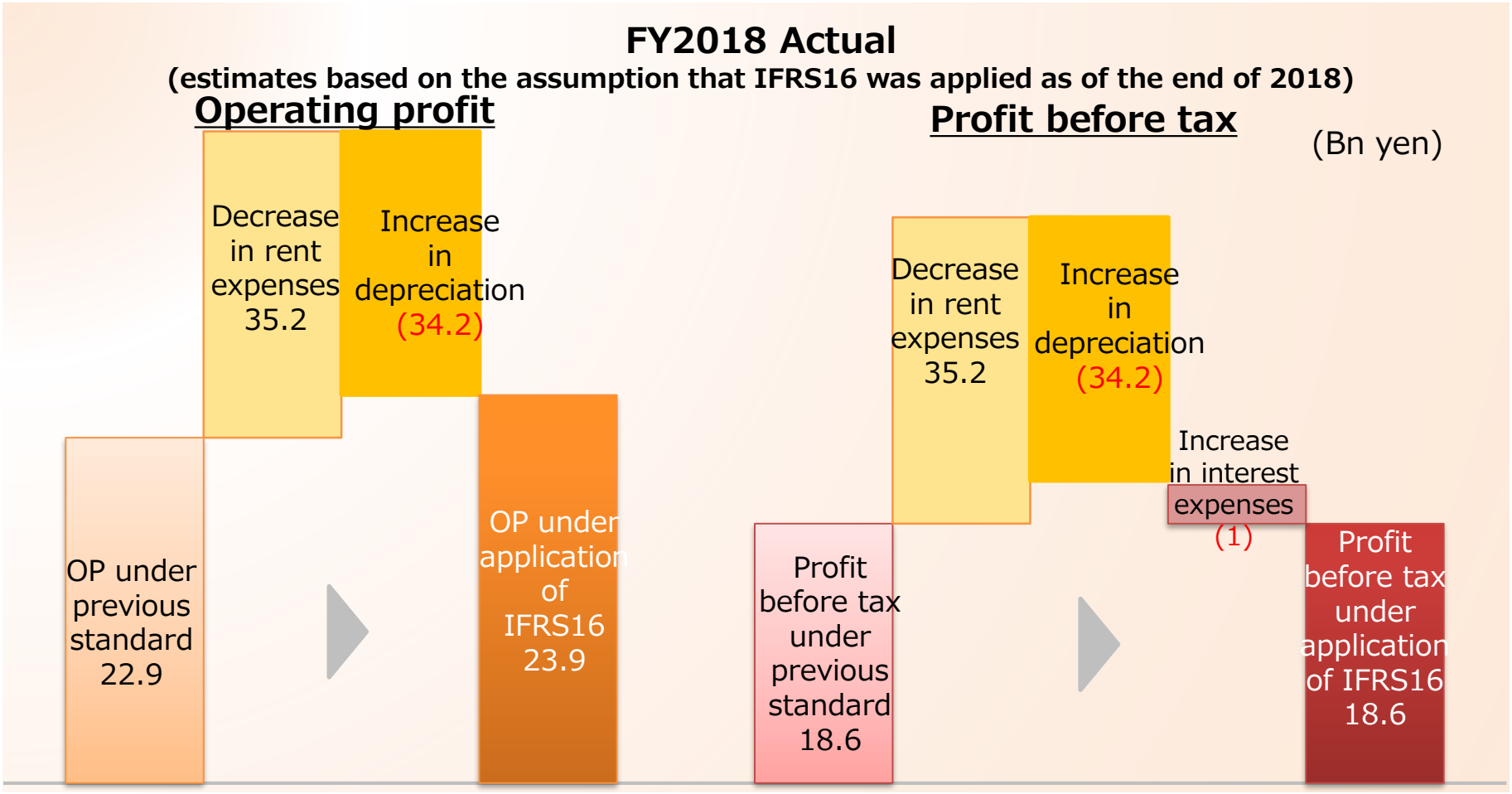
IFRS16 Key Impacts to PL

- 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



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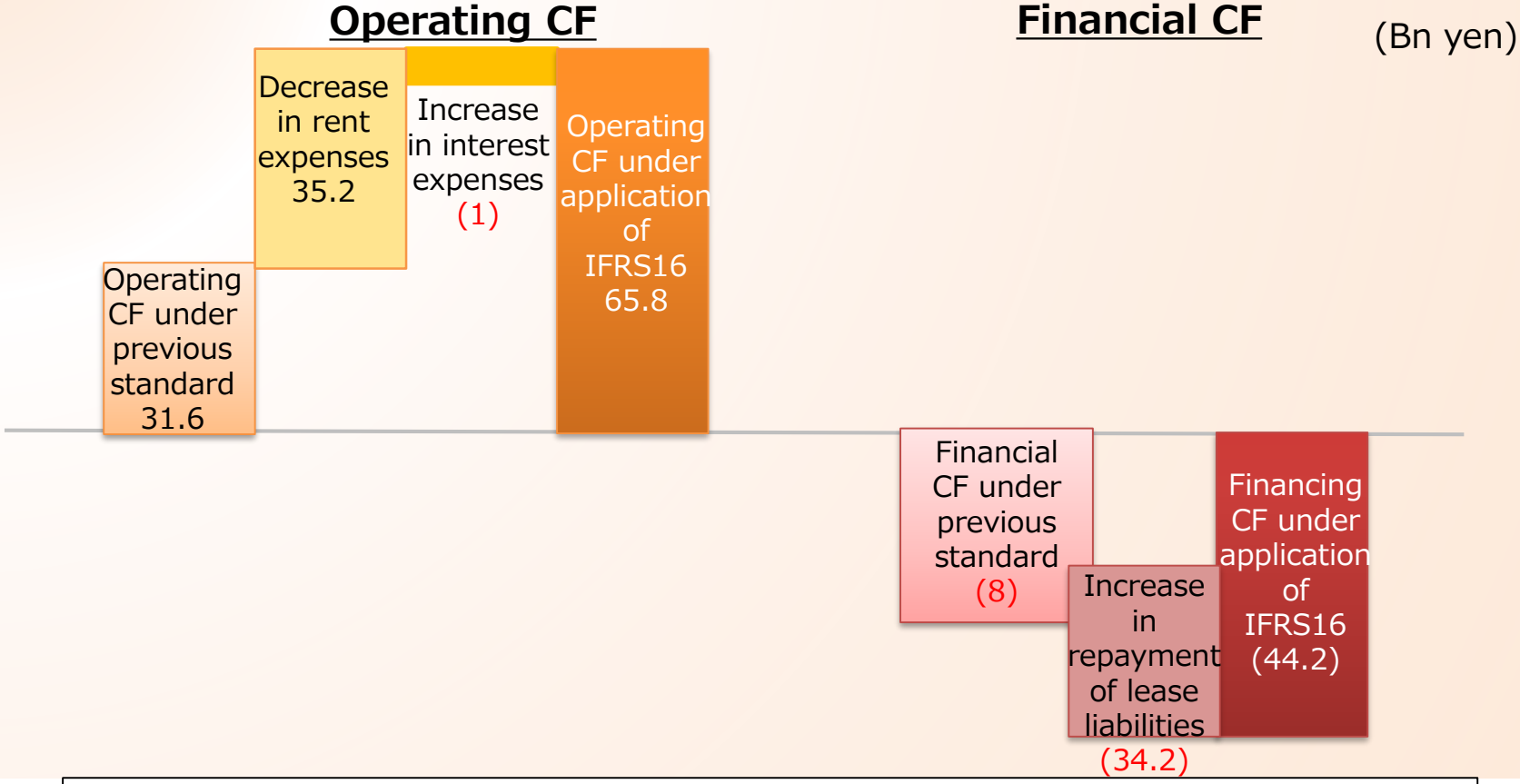
IFRS16 Key Impacts to CF

- 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)



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