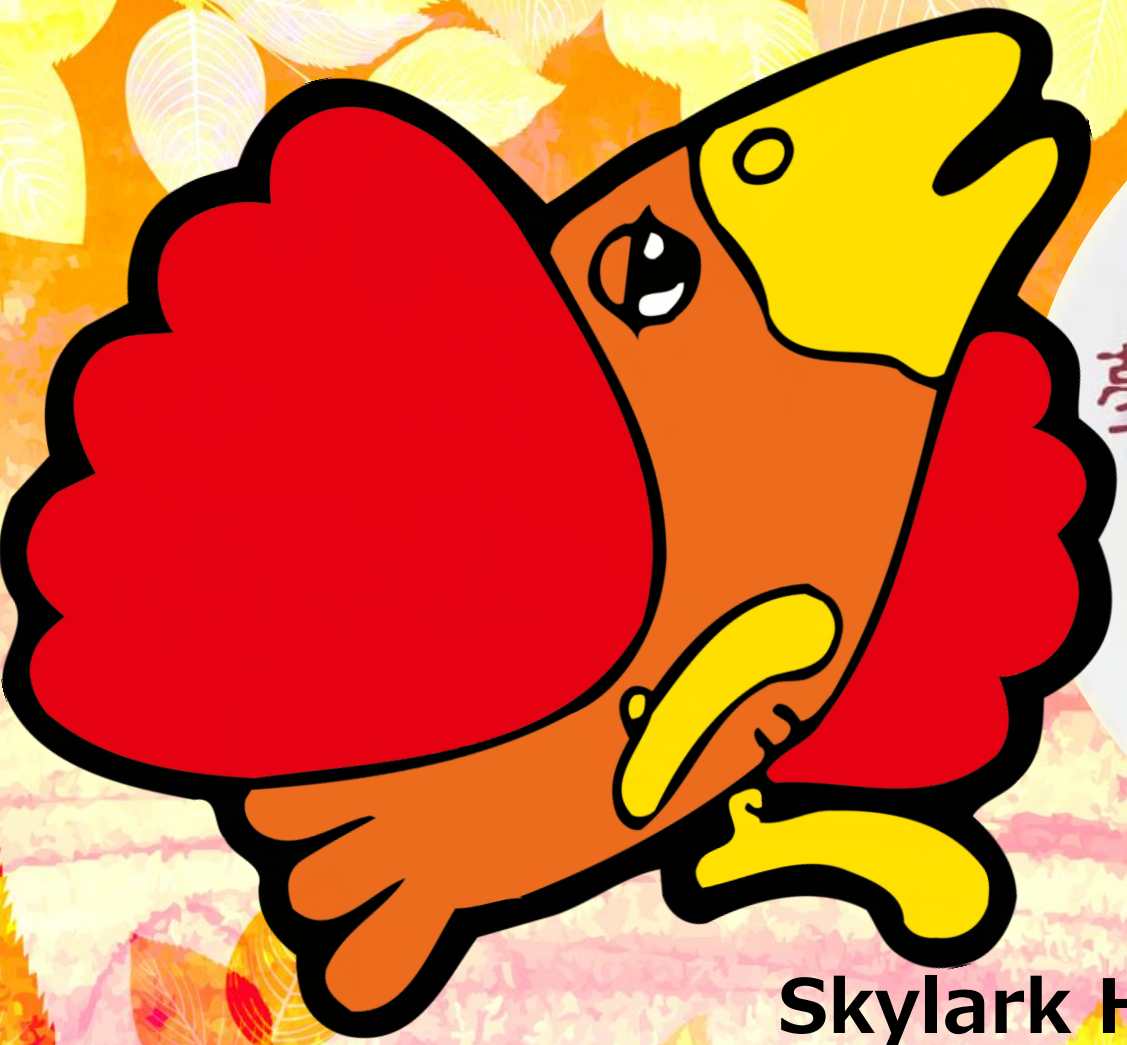



Skylark Holdings Co., Ltd.

FY 2019 Third Quarter Financial Results

November 14, 2019

Executive Summary

■ 3QFY2019 (9-month period) Results

Sales　285.3bn yen(+9.3bn yen +3.4%YoY)

- ✓ Same Stores:　Sales +1.7%YoY, Traffic −1.8%YoY, ATP+3.6%YoY
- ✓ New Openings:　58 new openings, +7.3bn yen YoY
- ✓ Delivery Sales:　17.4bn yen, +9%YoY

OP　20.0bn yen(+1.2bn yen, +6.3%YoY)

July-September: generally performed according to plan

- ✓ In July, traffic was suffered more than expected as rainy season lasted until end-July and the rainfall was twice as much as the previous year
- ✓ ATP grew because of increase sales of set menu and value-added menu items and this led to the sales increase
- ✓ Impact on traffic from smoking ban at all stores from September 1 progresses as expected

■ 4Q Outlook

- ✓ Negative impact of the tax hike and smoking cessation may gradually recover, the downside risk is still factored into the outlook
- ✓ The full-year OP target of 22 billion yen has been maintained

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Financial Results for 9-month period ended September 30 2019

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Key Financials for 3QFY2019

- FY3Q2019 sales increased by +3.4% YoY
- OP increased by 1.2bn yen, +6.3% YoY
- Maintain a solid business foundation by improving sales and gross margin
- New store openings, brand conversions and remodelings progress in line with plan

	3QFY2019 (9 months)	3QFY2018 (9 months)	%YoY
Sales	**285.3bn**	**276.0bn**	3.4%
Same Store Sales Growth			*1.7%*
Traffic			*(1.8)%*
Average Ticket Price			*3.6%*
Operating Profit	**20.0bn**	**18.8bn**	6.3%
Adjusted Net Income	**11.0bn**	**10.4bn**	5.9%
Adjusted ROE	**10.2%**	**10.5%**	(0.2)%
Store Footprint	**New store 58, Brand Conversion62, Remodeling154**		

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%, +0.2pt YoY
- Labor costs: Increased by (2.1)bn yen due to new store openings, (1.8)bn yen due to hourly wage increase and (0.7)bn yen due to same store sales increase
  Reduced by 0.4bn yen due to store disclosure
- Other SG&A: Mainly due to increased cost relating to new store openings

	Q3FY2019		Q3FY2018		Variance	
	Bn	%of Sales	Bn	%of Sales	Bn	%YoY
Sales	285.3	100.0%	276.0	100.0%	9.3	103.4%
COGS	85.9	30.1%	83.8	30.3%	(2.1)	102.5%
Gross Margin	199.4	69.9%	192.2	69.7%	7.2	103.7%
Labor	97.9	34.3%	93.7	34.0%	(4.2)	104.5%
Other SG&A	81.5	28.6%	79.7	28.9%	(1.8)	102.3%
Operating Profit	20.0	7.0%	18.8	6.8%	1.2	106.3%
Financing Cost	(3.2)	(1.1)%	(3.2)	(1.2)%	0.1	97.8%
Profit Before Tax	16.8	5.9%	15.6	5.6%	1.3	108.1%
Tax Expense	6.3	2.2%	6.0	2.2%	(0.3)	105.6%
Net Income	10.5	3.7%	9.6	3.5%	0.9	109.6%
Adjusted Net Income	11.0	3.9%	10.4	3.8%	0.6	105.9%

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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 129.7bn 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. 29.9%

(Unit : Bn yen)	Q3FY2019	FY2018	Variance	Q3FY2019 notes
Assets:				
Current assets	32.7	37.7	(5.0)	
Non-current assets	413.4	292.9	120.5	Balance of goodwill 146.1Bn yen
Total assets	446.2	330.7	115.5	Balance of right-of-use asset 123.4Bn yen
Liabilities:				
Current liabilities	86.7	157.3	(70.6)	Balance of short-term debt 13.5Bn yen
Non-current liabilities	226.1	42.9	183.1	Balance of long-term debt 116.2Bn yen
Total liabilities	312.8	200.2	112.6	Balance of lease liabilitiy 121.9Bn yen
Equities:				
Equity attributable to owners of the company	133.4	130.5	2.9	
Total shareholders equities	133.4	130.5	2.9	
Equity ratio	29.9%	39.5%	(9.6) %	
Adjusted ROE	10.2%	10.5%	(0.2) %	
Net leverage ratio	1.4×	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 25.5bn yen to 51.4bn yen:
  Mainly due to increased depreciation and amortization expense of 27.1bn yen after application of IFIRS16
- Investment cash flow reduced by (0.5)bn yen to (16.2)bn yen:
  Due to investment for future growth such as new store openings and IT digital etc.
- Financial cash flow reduced by (28.0)bn yen to (37.3)bn yen:
  Of which (2.7)bn yen reduction is a net of repayment of old LBO loans and new borrowings. Of other reduction of (28.6)bn yen, lease obligation repayment accounts for (28.8)bn yen (increased from the current fiscal year due to IFRS 16)

(Unit : Bn yen)		Q3FY2019	Q3FY2018	Variance
Operating cash flow	(a)	51.4	25.9	25.5
Investment cash flow	(b)	(16.2)	(15.7)	(0.5)
Free cash flow	(a)+(b)	35.2	10.2	25.0
Financial cash flow	(c)	(37.3)	(9.3)	(28.0)
Loan		(2.7)	2.0	(4.7)
Dividend		(6.0)	(7.3)	1.3
Others		(28.6)	(4.0)	(24.6)
Change in cash	(a)+(b)+(c)	(2.1)	0.9	(3.1)
Cash balance at closing		16.8	16.0	0.7

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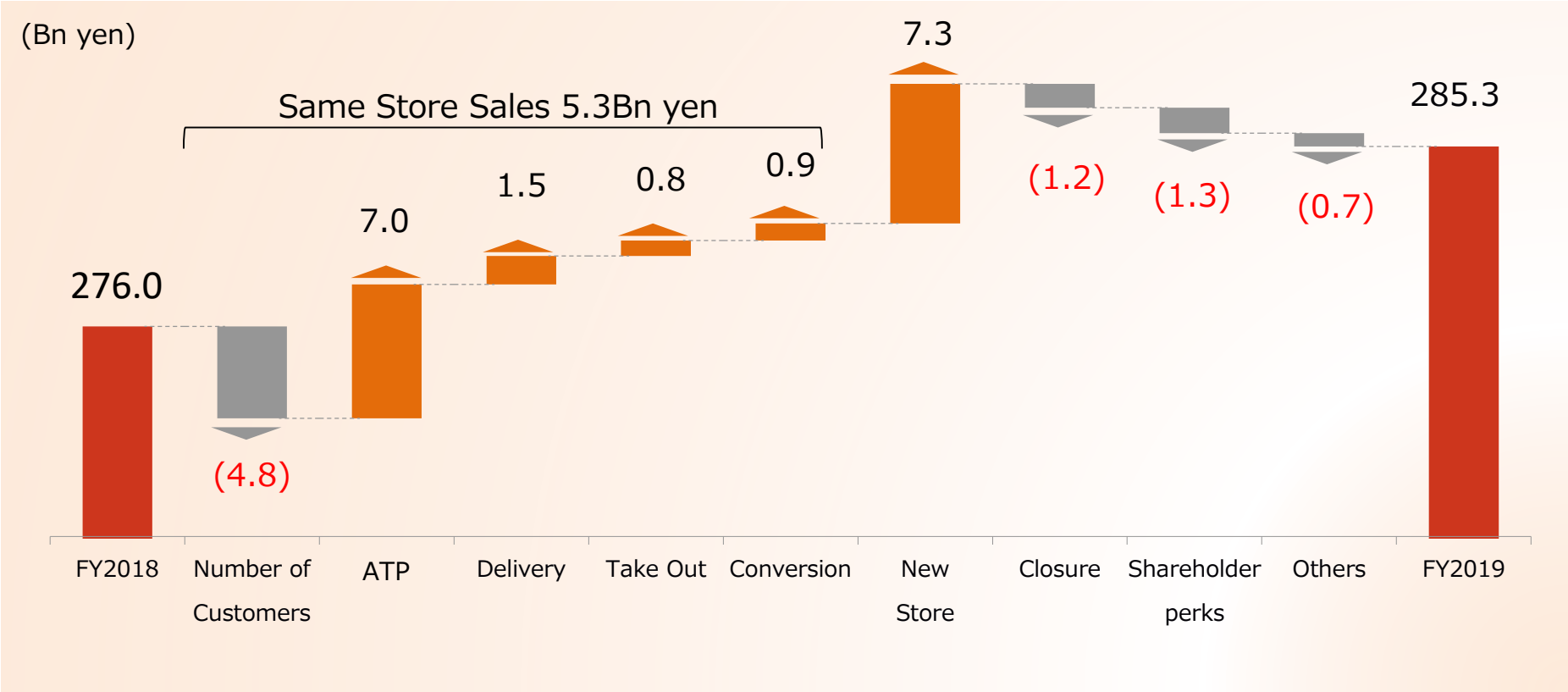
Q3FY2019 vs.Q3FY2018 Sales Analysis

- **Q3FY2019 sales increased by 9.3bn yen to 285.3bn yen. +5.3bn yen from SSS growth and +7.3 bn yen from new store sales growth**
- **Various marketing measures contributed to SSS growth**



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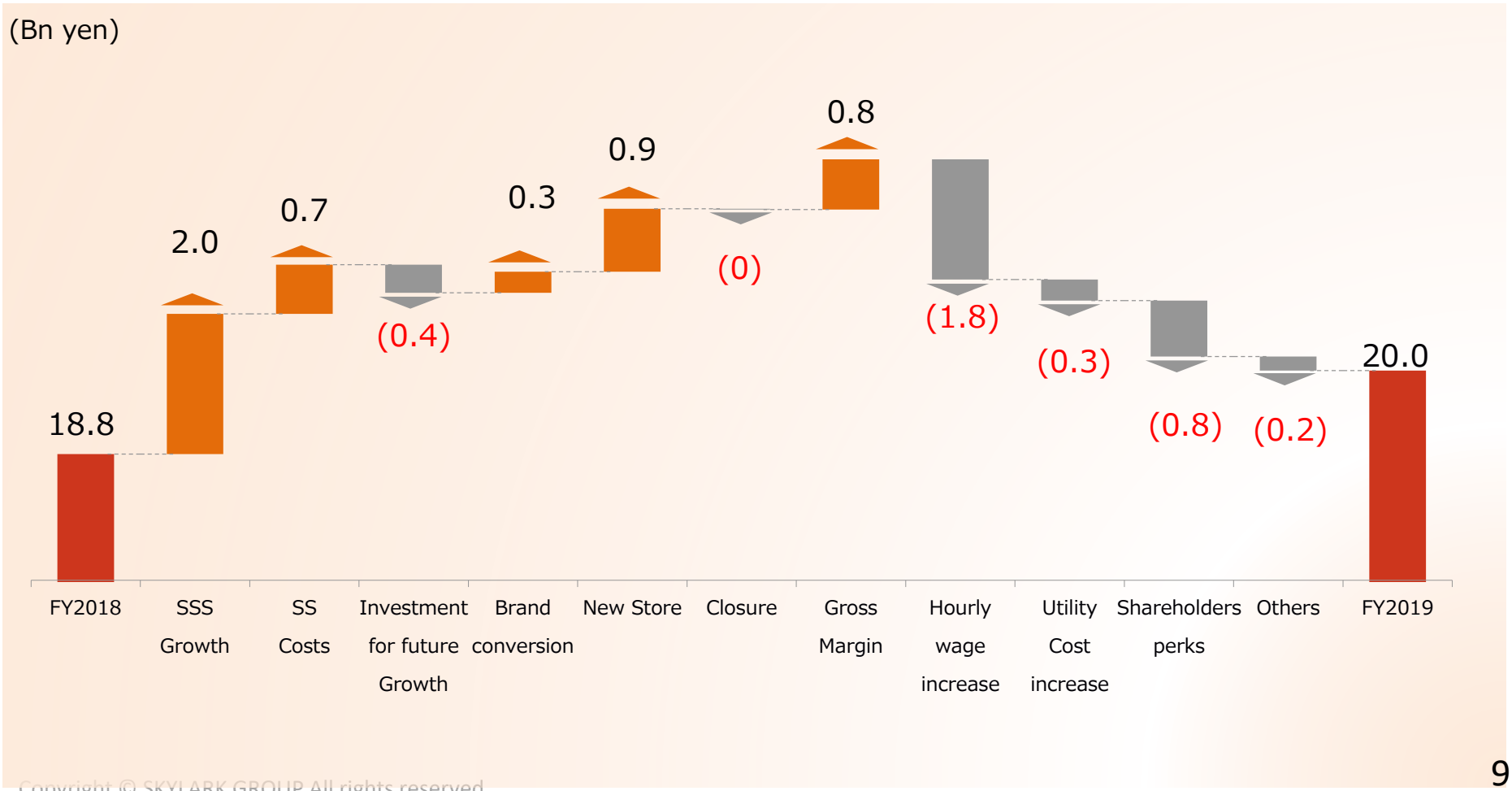
Q3FY2019 vs.Q3FY2018　OP Analysis

- **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 utility cost and cost for shareholder perks resulted in reduction of profit. YoY impact from shareholder perks was Q1 only**



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Restaurant Development for Q3FY2019

New Openings ： 58 new stores opened, mainly Karayoshi, Syabu-Yo and Musashinomori Coffee. Karayoshi increased to 58 stores
Brand Conversions: 46 stores were converted to Syabu-Yo. Brand conversion to Bamiyan in rural arera is in progress
Remodels ： 154 stores remodeled.

Brand	New Openings	Brand Conversion	Closure	End of Sep. 2019	Remodeling
Karayoshi	15	2	-	58	-
Syabu-Yo	14	46	-	262	1
Musashinomori Coffee	11	1	-	35	-
FLO Prestige	3	-	-	116	1
Gusto	4	2	(3)	1,346	59
Taiwan Skylark Co.,LTd.	5	-	(3)	59	-
Yumean	-	-	-	188	30
Steak Gusto	-	1	-	135	16
Jonathan's	-	-	(2)	294	23
Bamiyan	-	6	-	333	22
Aiya	-	-	-	47	-
chawan	-	-	-	19	-
Others	6	2	(13)	345	2
Group Total	58	60	(21)	3,237 Stores compared to end Dec.2018＋37	154

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Marketing & Technology Strategies

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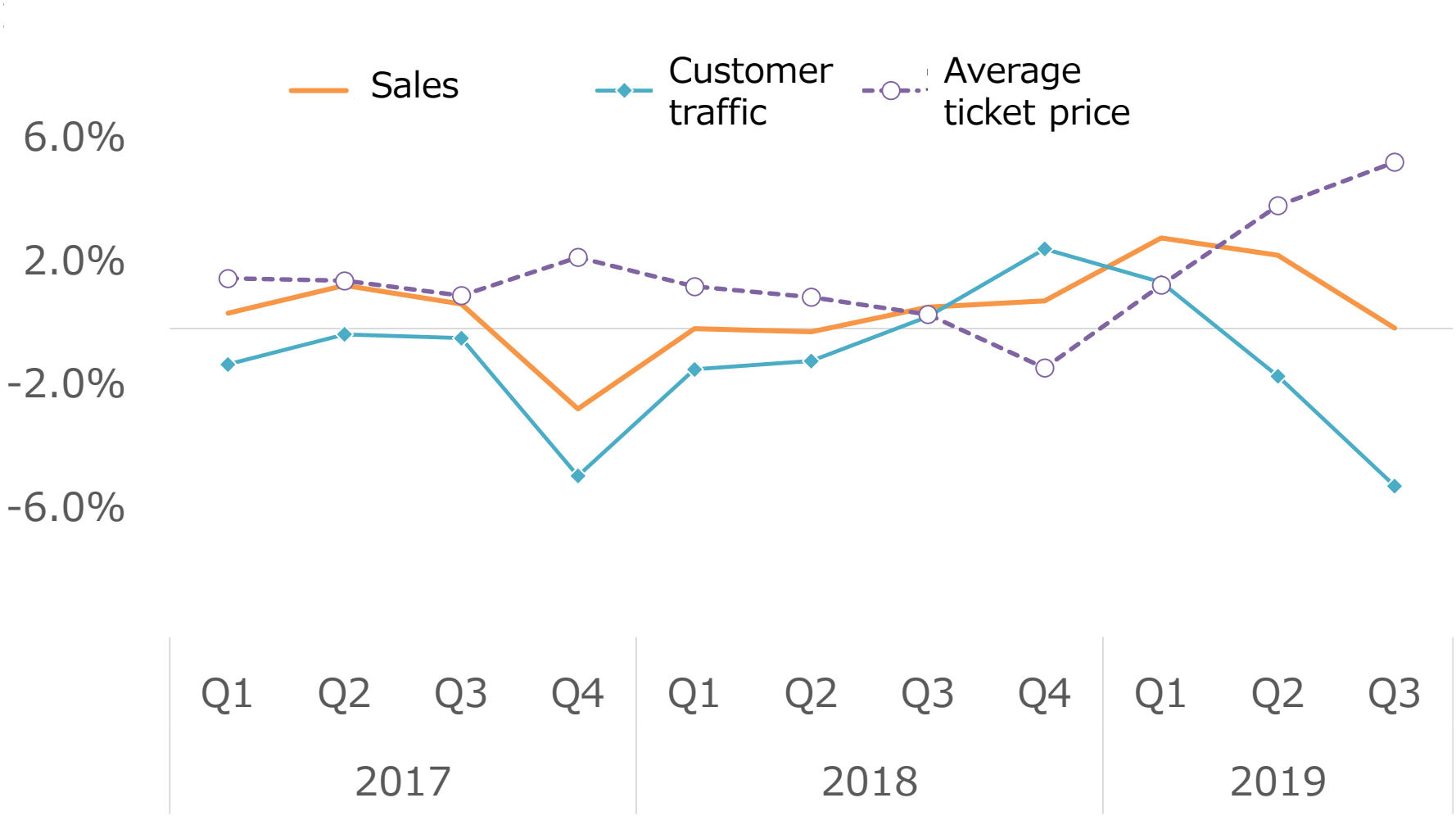
Same Store Sales

SSS increased YoY driven by higher average ticket price



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Menu Strategy: Limited-time Offering

- **ATP is increased as limited-time offering menu items sell well although the price level of limited-time offering menu items is set lower than last year**



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Menu Strategy: Main Menu

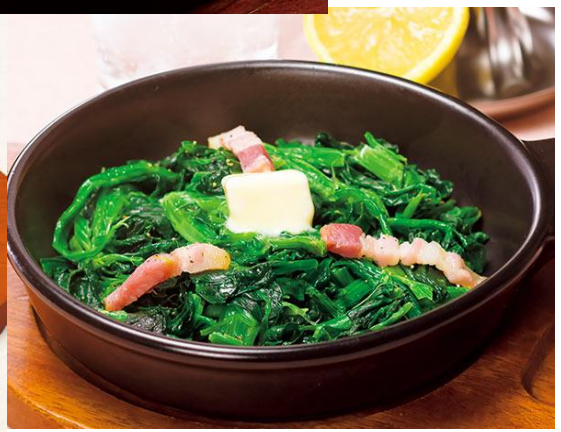
- **Maintaining entry prices on the main menu while increasing the options for customers who want to select menu items with high added value**











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Menu Strategy: Appeal to “Safety, Security and Health”

- All stores are non-smoking
- Now creating a strong brand identity as a “healthy restaurant”



No egg, wheat or milk

Those who gave up desserts because of allergens



Coming soon

Anti-allergic meal





healthy plant based meals





Soy meat

Upcoming

Gluten free menus





Rice flour noodles etc.

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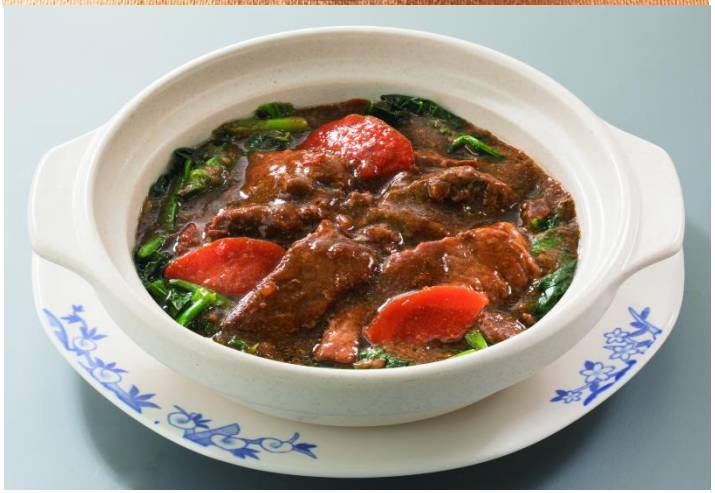
Operation Improvement Through Menu Strategy

- Expand menus developed to reduce workload on kitchen by increasing the degree of processing in central kitchen









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Marketing Strategy: Measures Against Consumption Tax Hike

■ Continuously introduce special discount coupons with large discounts

Café レストラン ガスト

September → October → November → December

Sep.12~25
Distribute discount coupons at stores

→ **Redemption till Nov.10**



Oct.24~Nov.20
Lottery: if you win, get discount from the bill



Sep.26~Oct.16
CheeseIN399, special offer for sweets

Oct.17~30
Mayonnaise Corn Pizza at ¥399



【ガスト全店でご利用可】
チーズINハンバーグ ~~¥599~~(税抜) ¥399



渋皮栗とさつまいものサンデー ~~¥399~~(税抜) ¥299

Oct.31~Nov.20
Mix grill/Mix fries /Fried oysters at ¥499



Dec.5~25 Trio the 399
CheeseIN hamburg, Grilled chicken and Fried oysters



キッズソフト（チョコ）またはキッズバニラア… ~~¥199~~(税抜) ¥39(税抜)



キッズプレート各種（お子さまドリン… ~~¥399~~~~¥699~~(税抜) ¥199(税抜)

Oct.17~Dec.31 Discount for various kids' menus

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Digital Marketing Strategy

■ Implement measures continuously, revere impact of tax increase

Effective use of the event function of the app

Promote customer participation campaigns on the most prominent pages in the app, such as popular menu polls to increase coupon recognition





Strategic targeting of digital advertising

Target ads to customers and regions where sales are declining significantly and deliver ads efficiently





Synergies between TVCM and digital video / reach complement

Maximize reach through optimal distribution of TVCM and digital video ads by region



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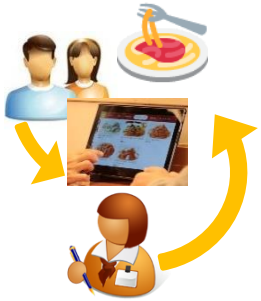
Effects of Introducing a Digital Menu Book ①

■ Operation reform

	Menu setting	Order taking, serving, using coupons	Serving desserts	Settlement	Store management
Current Customers					
Current Employees					
	Change menus (morning, lunch & dinner)	Order taking, Input coupon number	Serving dessert after while	Bring the bill to the casher	Cleanliness in the spare time
After Customers					
After Employees					
	Automatically change by time	Order and coupon input by customers Focus on other services	Additional order at customers' timing	Settle at table (under development)	More cleanliness, High quality service, Training employees

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Effects of Introducing a Digital Menu Book ②

■ Drive sales growth

Increase traffic

Improve customer experience by focusing on services other than order receipt

- ■Reduce waiting time
- ■Serve foods in appropriate time
- ■Provide additional orders and desserts in a timely manner
- ■Provide even higher quality customer service in the spare time





Increase ATP

Leverage digital flexibility to effectively increase ATP

■Utilize pop-up recommendations



More functions under development

- ■Increase flexibility in price strategy
  - ✓Local pricing
  - ✓Pricing by time zone
- ■Expand methods to increase the number of orders
  - ✓Personalized recommendations by linking with Skylark apps

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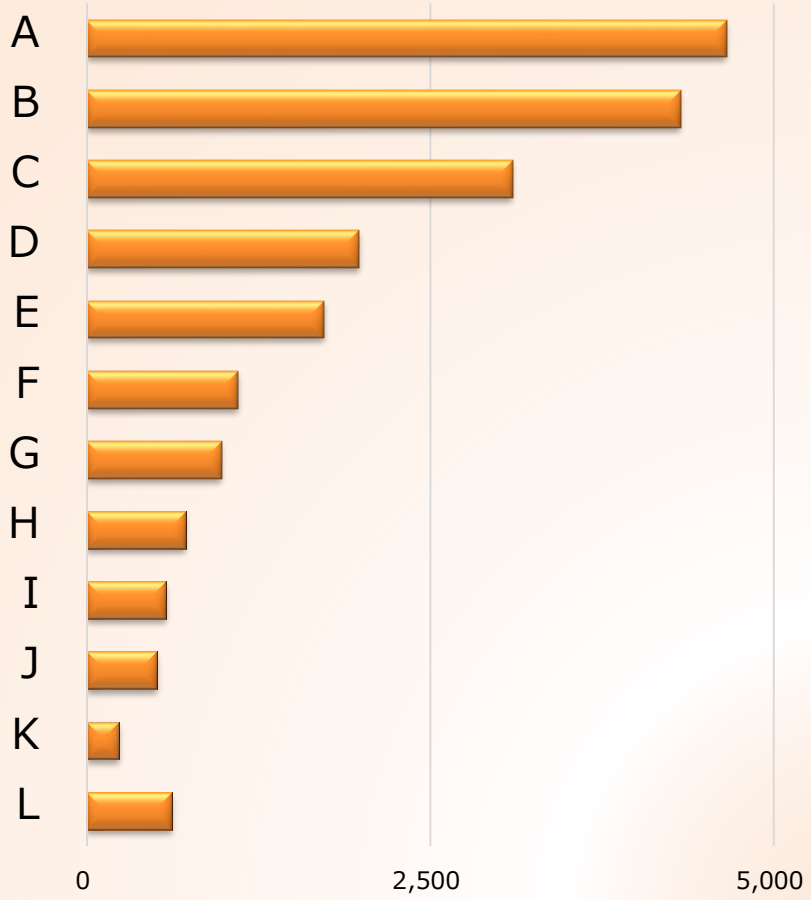
Progress of Improving Operational Efficiency by Introducing RPA

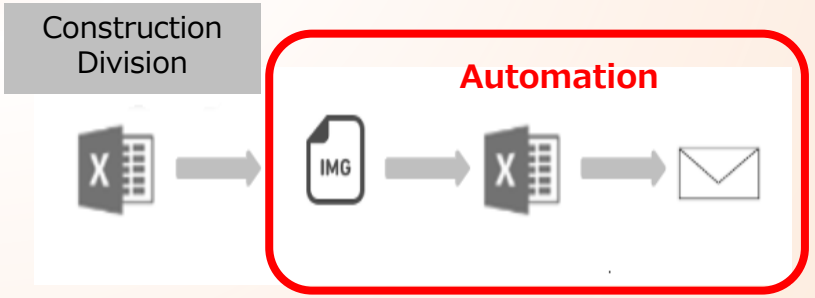
- **78 head office operations, approx. 20,000 hours reduction in 2019**

Hours reduced/annual by division

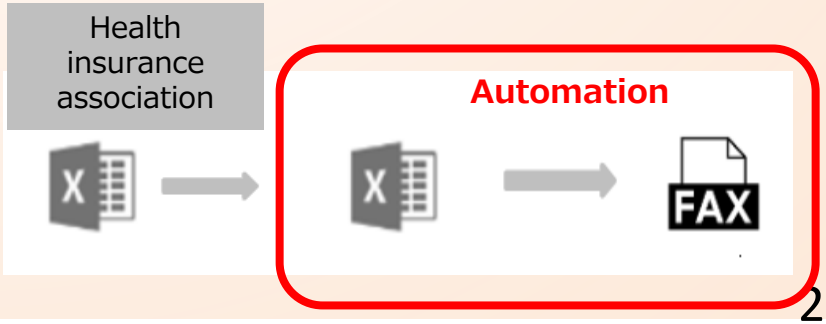


Reduced work examples

①Lead sign contract renewal evaluation list preparation work:
Reduction time 240 hours / year



②Fax transmission work to medical institutions for screening application:
Reduction time 230 hours / year



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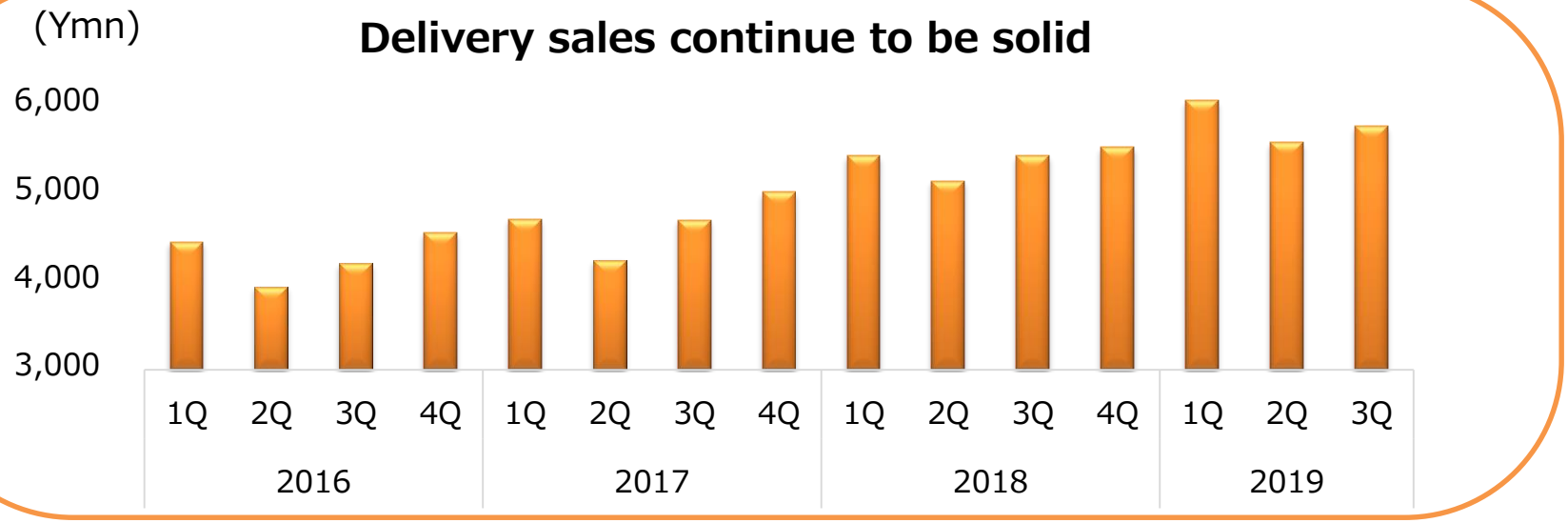
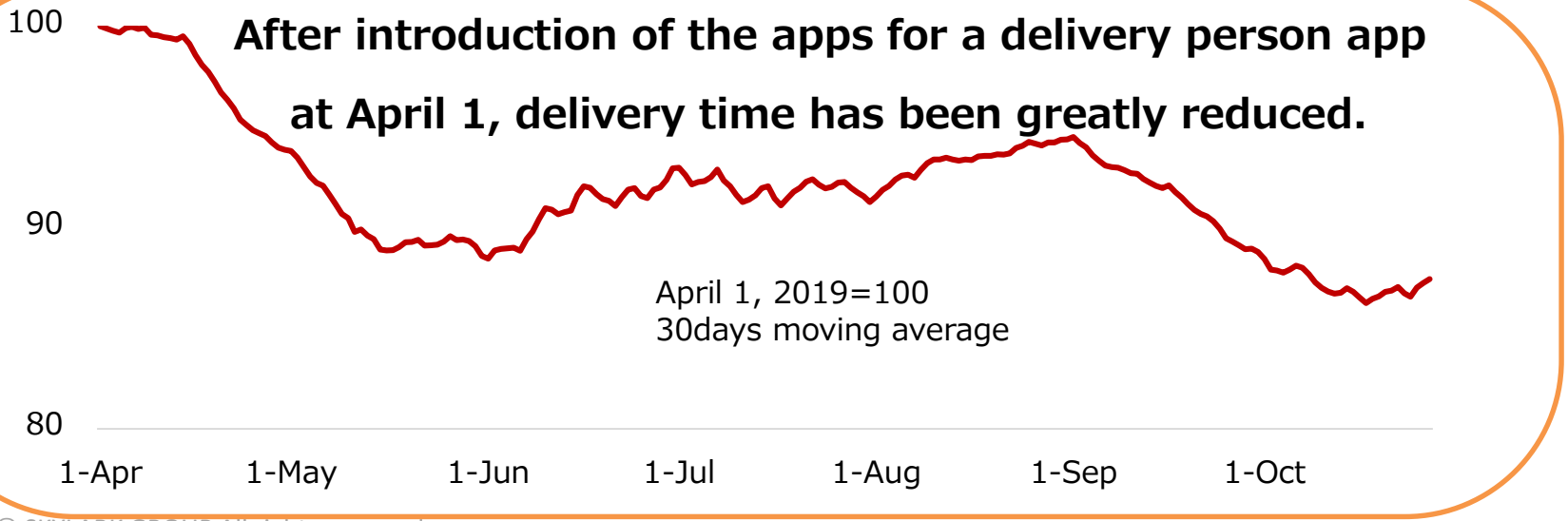
Delivery Business





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Appendix

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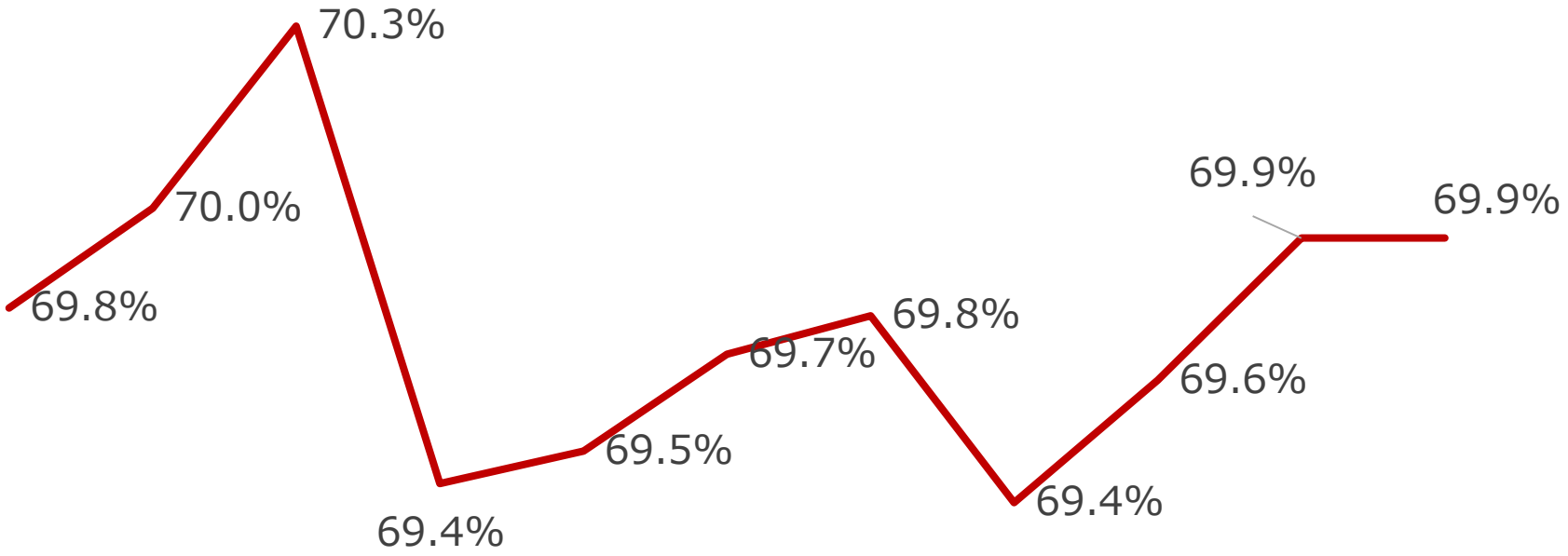
Gross Margin



Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
2017				2018				2019		

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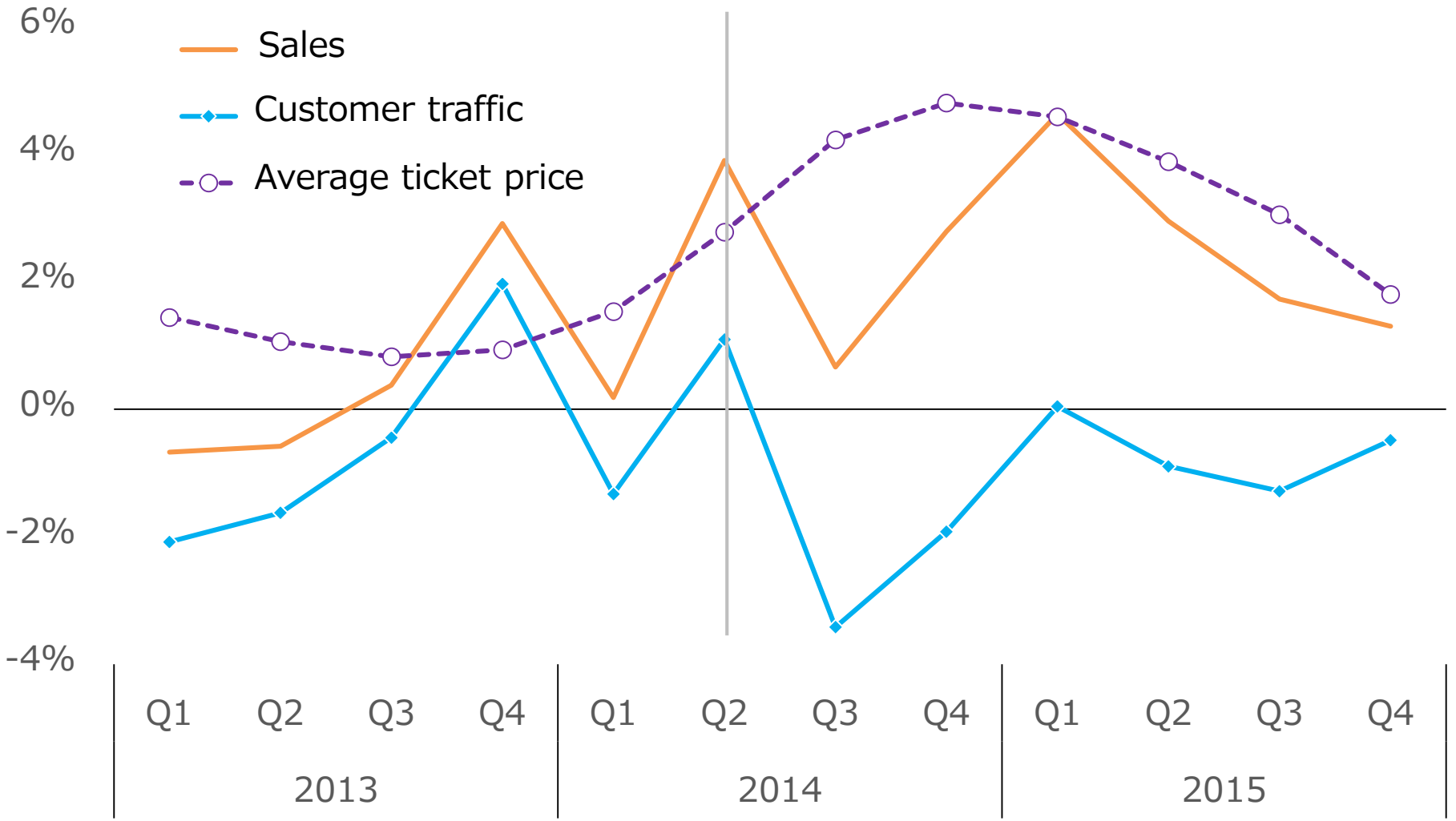
Trends in SSS Before and After the April 2014 Consumption Tax Hike



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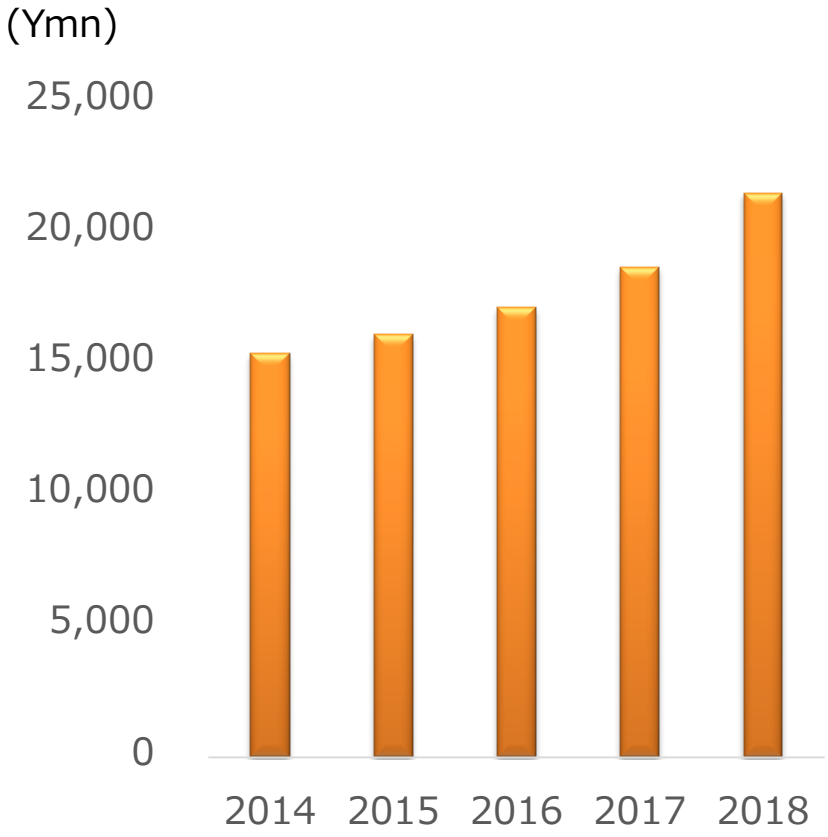
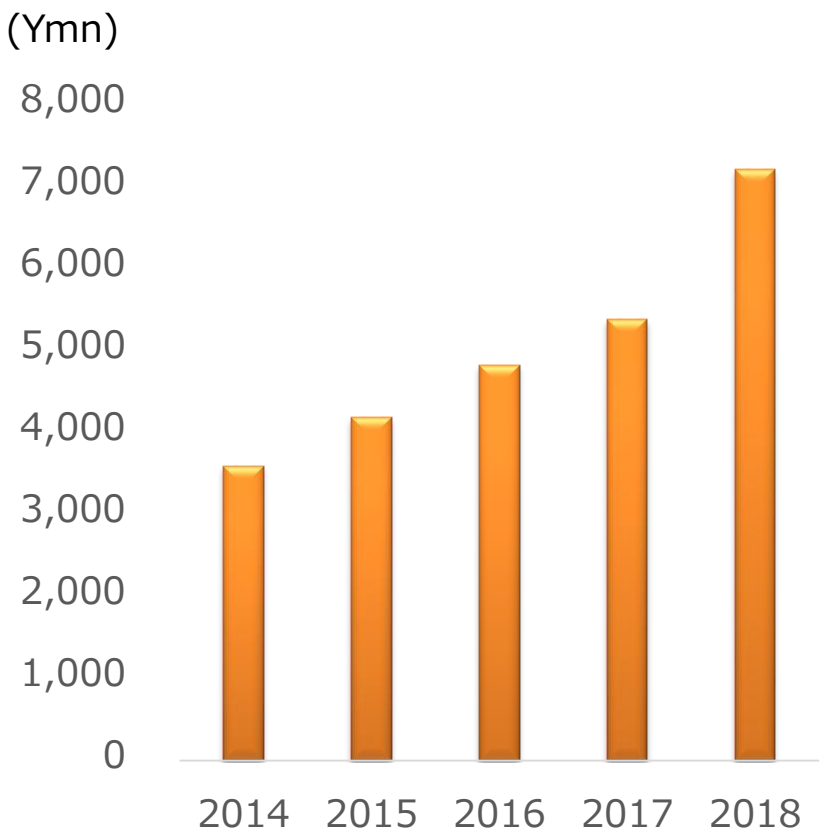
Delivery and Takeout Sales

■ Delivery



■ Takeout



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Adjustment 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)	Q3FY2019	Q3FY2018	Variance
Net income	**10.5**	**9.6**	**0.9**
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	1.4	(0.6)
Adjusted subtotal (before tax)	0.9	1.4	(0.6)
Tax effects for adjustments	0.4	0.6	(0.3)
Adjusted subtotal (after tax)	0.5	0.8	(0.3)
Adjusted net income	**11.0**	**10.4**	**0.6**

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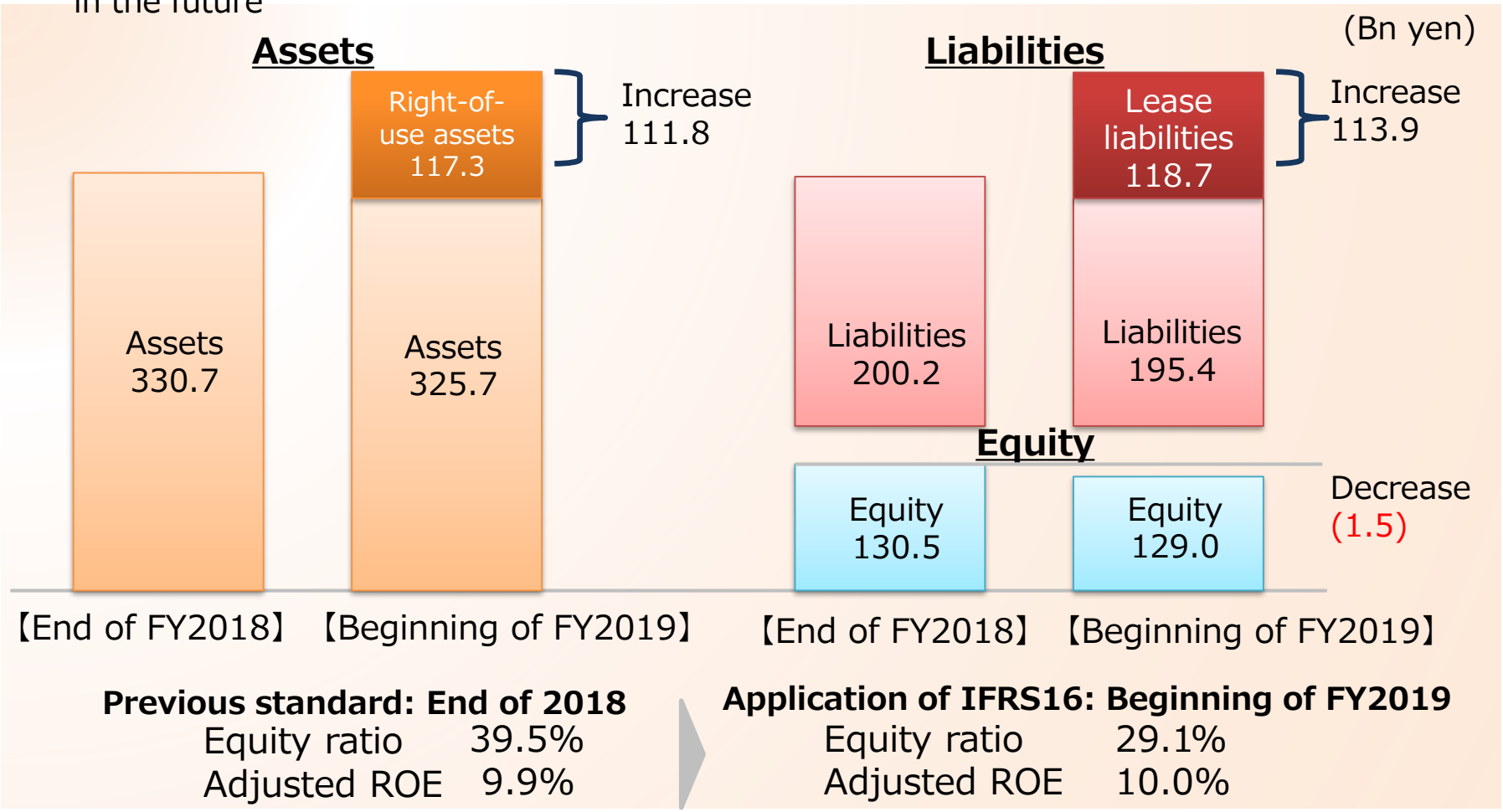
IFRS16 Key Impacts to BS

- 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
- Right-of-use assets are subject to impairment and the risk of impairment might increase in the future



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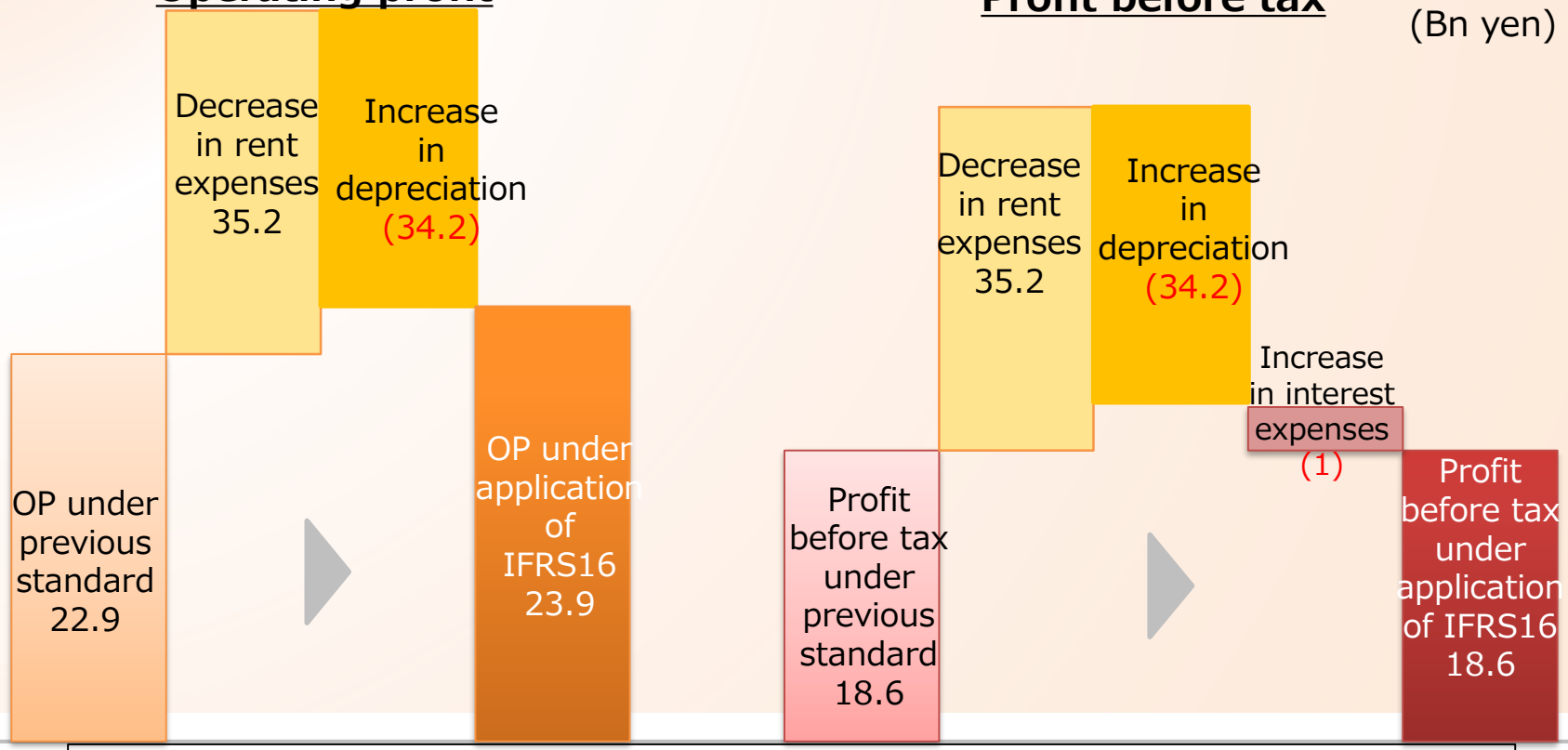
IFRS16 Key Impacts to PL

- 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
- 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)



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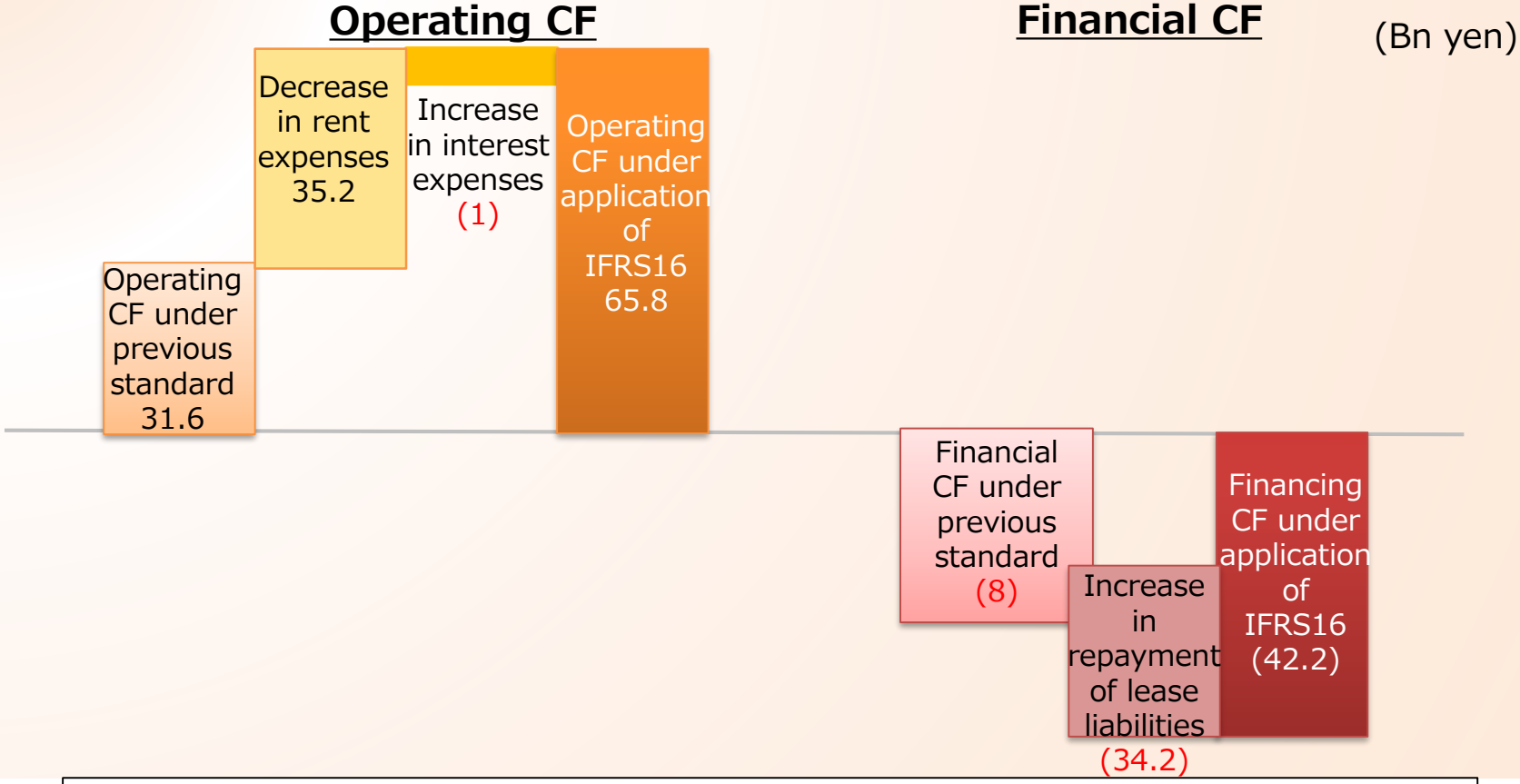
IFRS16 Key Impacts to CF

- 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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