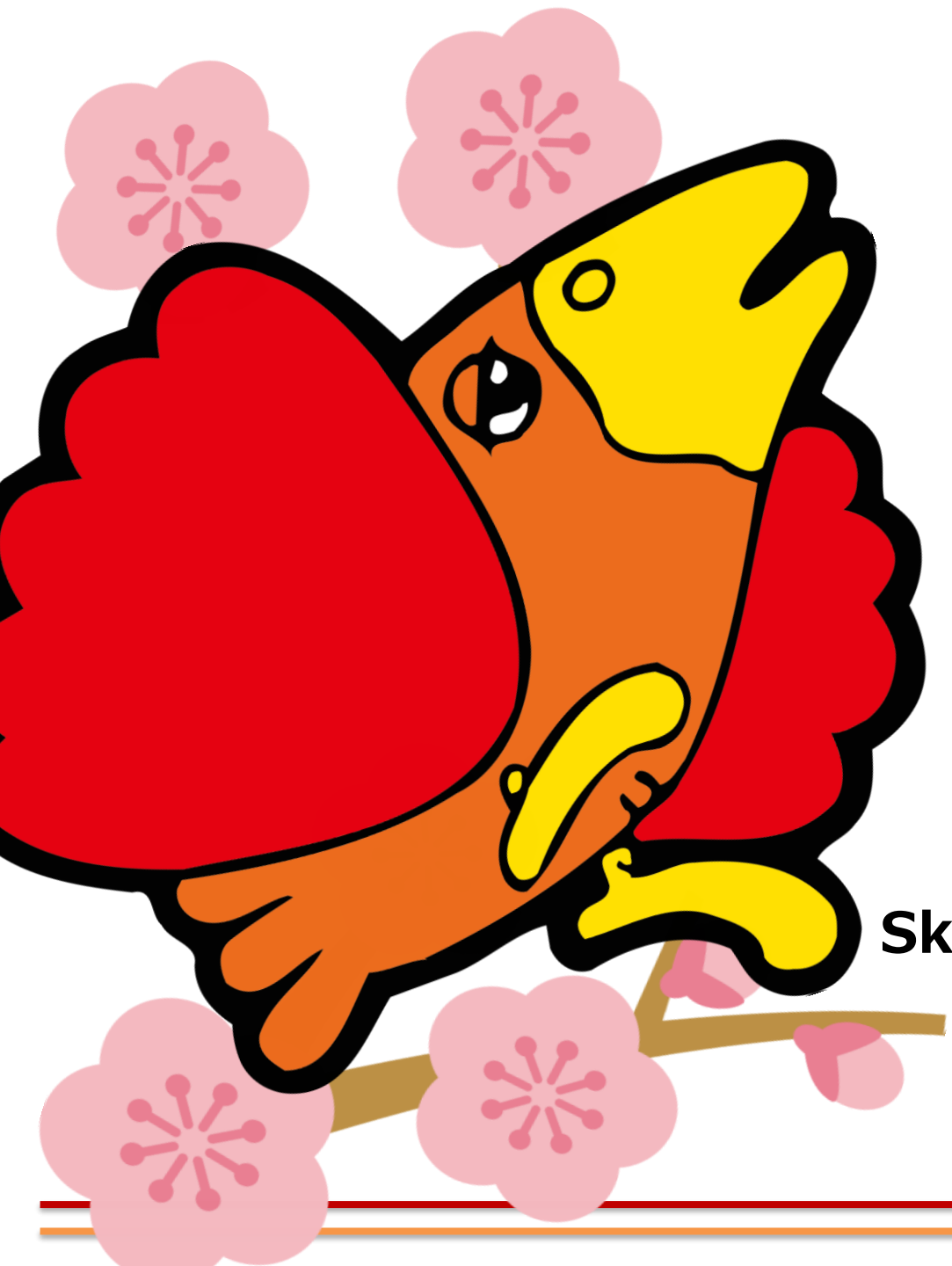

Skylark Group

Skylark Holdings Co., ltd.

FY 2019 Full Year

Financial results

February 13, 2020

Executive Summary



■ FY2019 Results

Sales　375.4bn yen（+9.0bn yen,+2.5%YoY）

- ✓ Same Store: Sales +0.3%, Traffic -3.2%, ATP +3.6%
- ✓ New Openings:　86 new openings, +10.3bn yen YoY
- ✓ Delivery Sales:　23.1bn yen, +7.4%

OP　20.6bn yen（-2.3bn yen, -10% YoY）

- ✓ Up to Q3, YoY OP increased, but OP declined due to impairment posted in Q4 and a decrease in the number of customer traffic

■ FY2020 Guidance

Sales　383bn yen（+7.6bn yen, +2.0%YoY）

- ✓ Same Store Sales:　-0.7%YoY
- ✓ New Store Openings　90 openings, +10.0bn yen YoY

OP　20.5bn yen（-0.1bn yen, -0%YoY）

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Financial results for FY2019

FY2020 Guidance

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Key Financials for FY2019



- Sales increased by 2.5% YoY
- Op fell by (10.0)%YoY, (2.3)bn yen to 20.6bn yen
- New openings, brand conversions and remodelings were in line

	FY2019	FY2018	%YoY
Sales	**375.4bn**	**366.4bn**	2.5%
Same Store Sales Growth			*0.3%*
Traffic			*(3.2)%*
Average Ticket Price			*3.6%*
Operating Profit	**20.6bn**	**22.9bn**	(10.0)%
Adjusted Net Income	**10.1bn**	**12.8bn**	(21.4)%
Adjusted ROE	**7.7%**	**9.9%**	(2.3)%
Store Footprint	**New store 86, Brand Conversion 62, Remodeling 175**		

Definition of Same Store Sales：13 month 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: high at 69.6%
- Labor cost: increased (2.8)bn yen due to expansion of number of stores, (2.6)bn yen due to hourly wage increase and (0.6)bn yen due to delivery sales increase. Fell 1.4bn yen due to decrease in traffic
- Other SG&A: Increased (2.3)bn yen due to new store openings, (0.6)bn yen due to investment in stores, (0.2)bn yen due to utility unit price increase and (1.4)bn yen due to system impairment

	FY2019		FY2018		Variance	
	Bn	%of Sales	Bn	%of Sales	Bn	%of Sales
Sales	375.4	100.0%	366.4	100.0%	9.0	102.5%
COGS	114.0	30.4%	111.4	30.4%	(2.6)	102.4%
Gross Margin	261.3	69.6%	255.0	69.6%	6.4	102.5%
Labor	130.4	34.7%	125.8	34.3%	(4.7)	103.7%
Other SG&A	110.4	29.4%	106.3	29.0%	(4.0)	103.8%
Operating Profit	20.6	5.5%	22.9	6.2%	(2.3)	90.0%
Financing Cost	(3.8)	(1.0)%	(4.3)	(1.2)%	0.4	89.9%
Profit Before Tax	16.7	4.5%	18.6	5.1%	(1.9)	90.0%
Tax Expense	7.2	1.9%	7.2	2.0%	(0.1)	101.2%
Net Income	9.5	2.5%	11.4	3.1%	(2.0)	82.9%
Adjusted Net Income	10.1	2.7%	12.8	3.5%	(2.7)	78.6%

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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 129.3bn 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. 29.3%
- Adjusted ROE decreased by (2.3)pt to 7.7%

(Unit : Bn yen)	FY2019	FY2018	Variance	FY2019 notes
Assets:				
Current assets	36.7	37.7	(1.1)	
Non-current assets	417.3	292.9	124.4	**Balance of goodwill 146.1bn yen**
Total assets	454.0	330.7	123.3	**Balance of right-of-use asset 126.8Bn yen**
Liabilities:				
Current liabilities	97.6	157.3	(59.7)	**Balance of short-term debt 18.5Bn yen**
Non-current liabilities	223.6	42.9	180.6	**Balance of long-term debt 110.9Bn yen**
Total liabilities	321.2	200.2	120.9	**Balance of lease liability 125.4Bn yen**
Equities:				
Equity attributable to owners of the company	132.8	130.5	2.4	
Total shareholders equities	132.8	130.5	2.4	
Equity ratio	29.3%	39.5%	(10.2) %	
Adjusted ROE	7.7%	9.9%	(2.3) %	
Net leverage ratio	3.1×	3.0×		

Adjusted ROE: LTM base. Not audited numbers.
Net leverage ratio=net interest bearing debt(loan-cash and cash equivalents)/Adjusted EBITDA

Condensed Consolidated Statements of Cash Flows



- Operating cash flow increased by 36.3bn yen to 67.8bn yen:
  Mainly due to increased depreciation and amortization expense of 36.1bn yen after application of IFIRS16
- Investment cash flow reduced by (0.8)bn yen to (20.4)bn yen:
  Due to investment for future growth such as new store openings and IT digital etc.
- Financial cash flow reduced by (39.3)bn yen to (47.4)bn yen:
  Of which (3.2)bn yen reduction is a net of repayment of old LBO loans and new borrowings. Of other reduction of (38.1)bn yen, lease obligation repayment accounts for (38.1)bn yen

(Unit : Bn yen)		FY2019	FY2018	Variance
Operating cash flow	(a)	67.8	31.6	36.3
Investment cash flow	(b)	(20.4)	(19.7)	(0.8)
Free cash flow	(a)+(b)	47.4	11.9	35.5
Financial cash flow	(c)	(47.4)	(8.0)	(39.3)
Loan		(3.2)	4.0	(7.2)
Dividend		(6.1)	(7.5)	1.4
Others		(38.1)	(4.6)	(33.5)
Change in cash	(a)+(b)+(c)	0	3.8	(3.8)
Cash balance at closing		18.9	18.9	0.0

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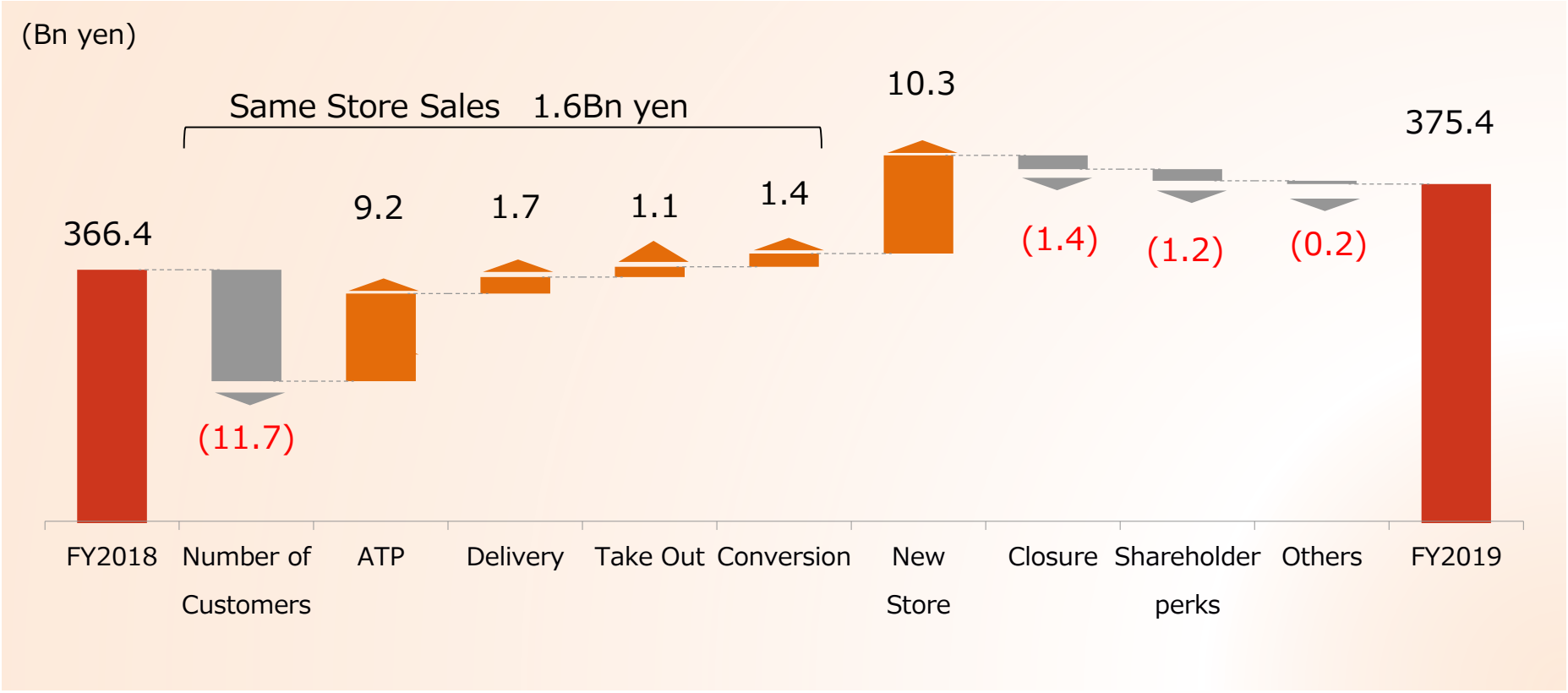
FY2019 vs. FY2018　Sales Analysis

- **FY2019 sales increased by 9.0bn yen to 375.4bn yen. +1.6bn yen from SSS growth and +10.3 bn yen from new store sales growth**
- **Customer traffic decreased due to smoking ban, tax hike etc.**



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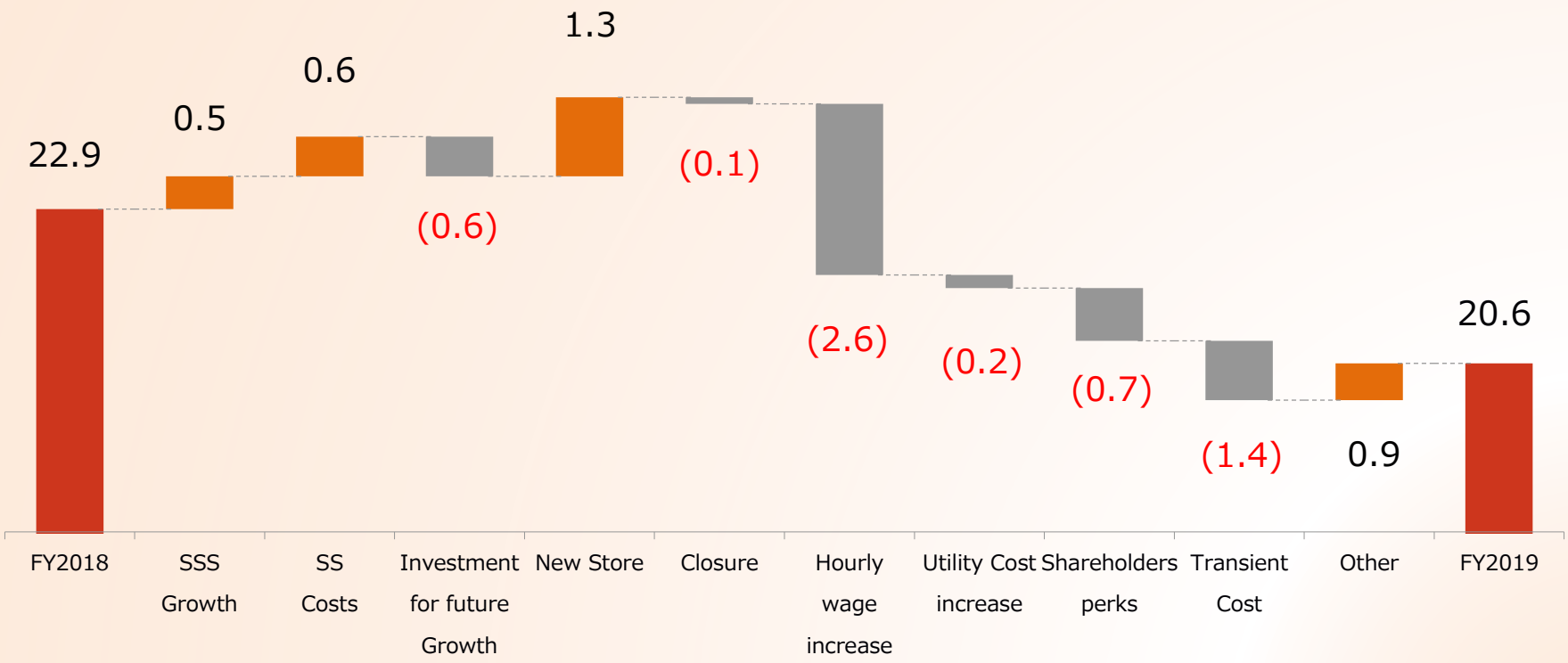
FY2019 vs. FY2018　OP Analysis

- **OP growth due to sales from new store openings, however, SSS growth only contributed to OP growth of 0.5bn yen**
- **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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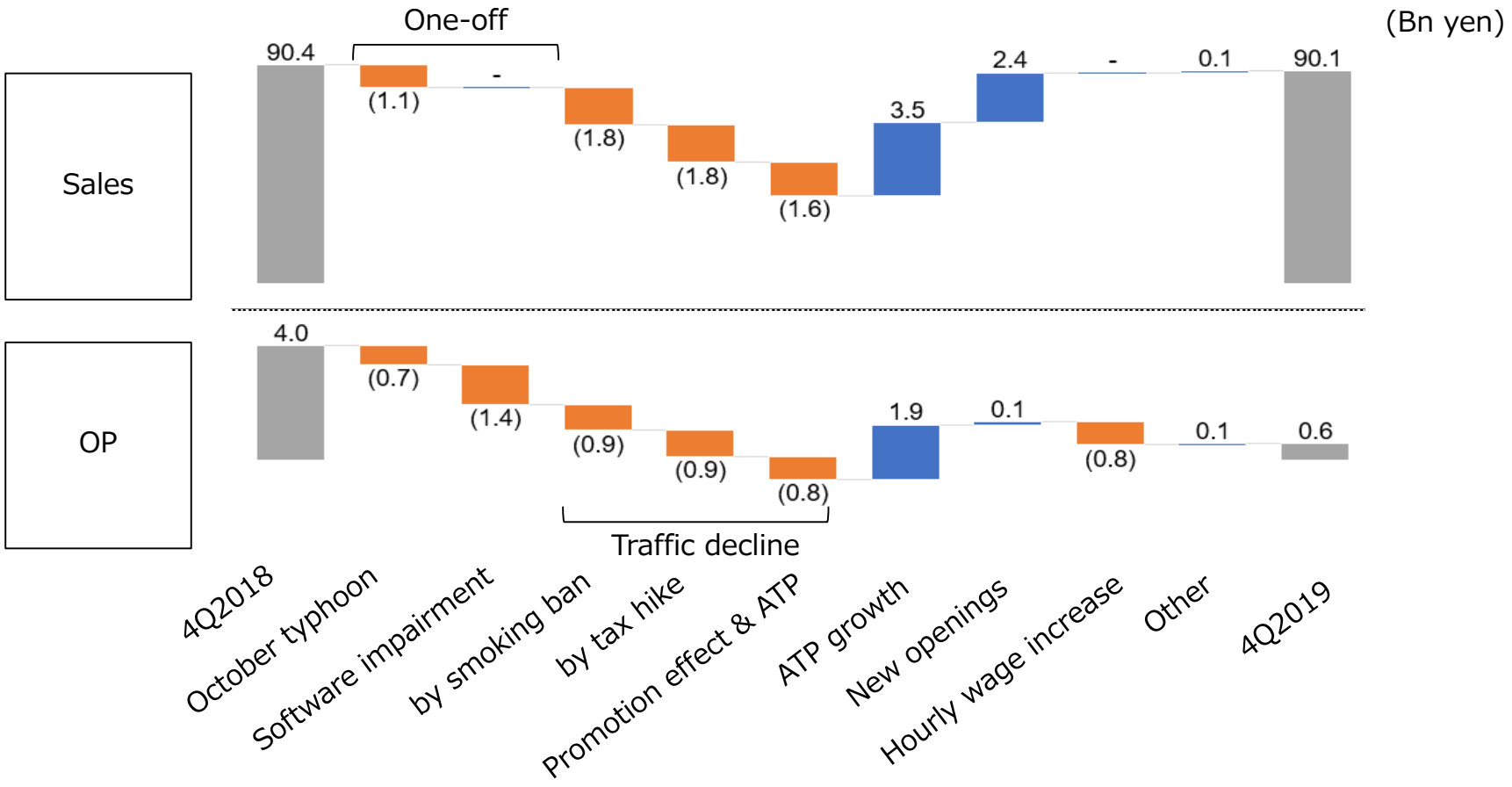
OP Q4FY2019 vs. Q4FY2018

- **One-off factors such as a typhoon and software impairment reduced OP by (2.1)bn yen**
- **In addition to the impact of smoking cessation and consumption tax hike, OP fell due to a decrease in the number of customers caused by a rise in unit price per customer and a decline in the promotion effect**



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Restaurant Development for FY2019

New Openings ： 86 new stores opened, mainly Karayoshi, Syabu-Yo and Musashinomori Coffee. Karayoshi increased to 66 stores

Brand Conversions: 47 stores were converted to Syabu-Yo. Brand conversion to Bamiyan in rural arera is in progress

Remodels ： 175 stores remodeled, mainly Gusto, Jonathan's, Bamiyan, Yumean and Steak Gusto

Brand	New Openings	Brand Conversion	Closure	End of Dec.2019	Remodeling
Karayoshi	23	2	-	66	-
Syabu-Yo	19	47	-	268	1
Musashinomori Coffee	13	1	-	37	-
FLO Prestige	6	-	(1)	118	1
Gusto	5	3	(5)	1,346	70
Taiwan Skylark Co., Ltd.	7	-	(3)	61	-
Steak Gusto	2	1	-	137	16
Yumean	-	-	-	188	30
Jonathan's	-	-	(2)	294	28
Bamiyan	2	6	(1)	334	25
Aiya	-	-	-	47	-
chawan	-	-	-	19	-
Others	9	2	(16)	343	4
Group Total	86	62	(28)	3,258 stores compared to end Dec.2018 +58	175

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FY2020 Guidance

(Bn yen)

	2020 Guidance	2019 Actual	Guidance vs.2019	Guidance %YoY
Sales	**383.0**	375.4	7.6	2.0%
Operating profit	**20.5**	20.6	(0.1)	(0.3)%
Profit before tax	**17.5**	16.7	0.8	4.6%
Net income	**10.0**	9.5	0.5	5.4%
Adjusted net income	**10.0**	10.1	(0.1)	(0.7)%
Dividend per share (¥)	**19.00**	19.00	-	-
Payout ratio	**37.5%**	37.3%	-	-

Guidance Assumption

SSS growth	**-0.7%**
New opening	**90 stores**
Brand conversion	**20-30 stores**
Remodeling	**Approx.120 stores**
Capex	**20.0-25.0bn yen**
Forex	**¥108／$**

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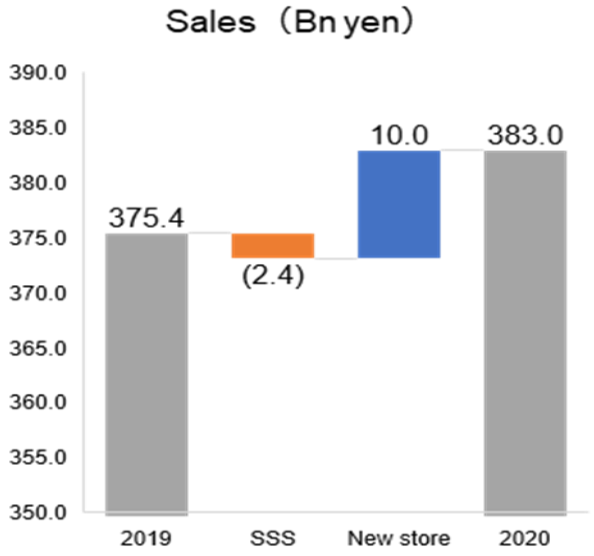
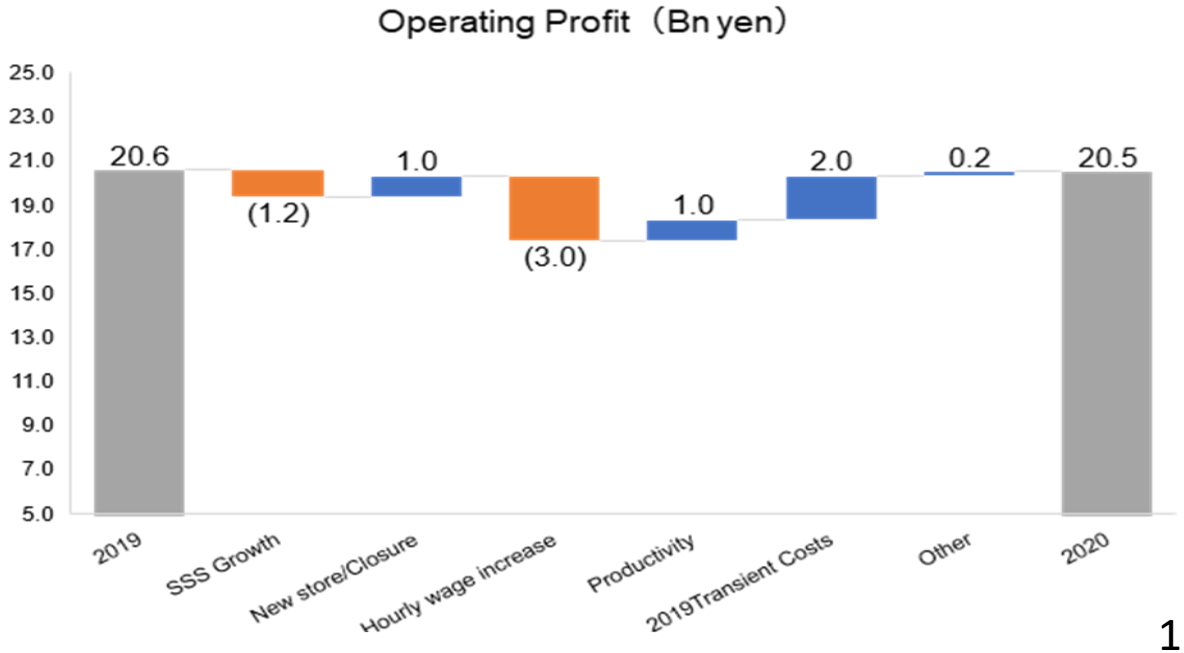
FY2020 Guidance vs. FY2019 Sales and OP Analysis

- **Sales 383.0bn yen, +7.6bn yen**
  New openings: 10.0bn yen sales increase
  SSS: (2.4)bn yen sales decrease
  - -Consumption tax hike and impact of non-smoking continued until Q3
  - -Olympics and Paralympic Games reduce customer numbers
  - -The effects of menu and promotion measures and the digital menu books expected to make a full-fledged contribution from H2
- **OP 20.5bn yen, (0.1)bn yen**
  - Decrease in SSS and increase in hourly wage
  - Expected to improve productivity through digital menu book in H2





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Business Strategy

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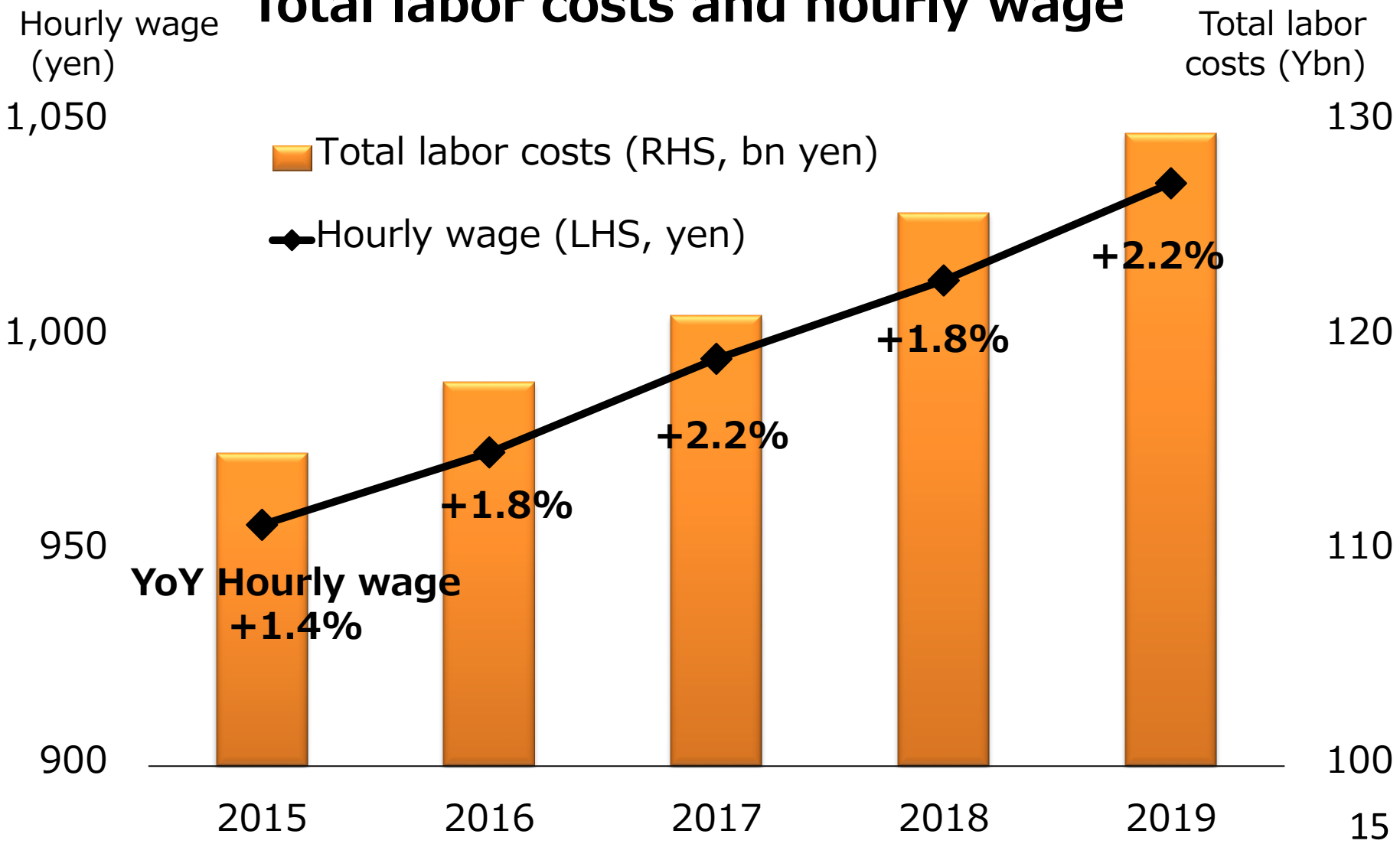
Labor Costs Continue to Rise

Total labor costs and hourly wage



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Measures to Increase the Number of Customers in 2020



▼Menu Strategies

- ✓ Review the menu structure that too many items were in the high price range in 2019 and strengthen the lower price menu items
- ✓ Expand menu items to improve kitchen productivity

▼Marketing Strategies

- ✓ Utilize data and technology

  Enhance promotion to clarify strategic targets with customers around stores

  Approach to customers around stores by increasing flyers and use geotechnology

▼Store Productivity Reforms

- ✓ Reduce the amount of work per employee through digital utilization

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Store Productivity Reform

Reduce employee workload

■ Floor operation reform

- Digital menu book
- Cashless payment system

■ Kitchen operation reform

- Reduce the number of cooking processes
- Expand highly processed in-house products
- Develop cooking equipment to reduce work burden such as lightweight iron plate

More traffic by promotion

Improve store services

Acquire new customers

Increase repeat customers

Implement sales growth by increasing the number of customers

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Effects of Introducing Digital Menu Book



▼Value by digitizing menu books

- ✓ Order entry by customers
- ✓ No need to replace menu books by time unit

→

- ■ Improve service speed
- ■ Additional orders can be made at any time without hesitation
- ■ Flexible menus for regions, climates, etc
- ■ Increased set menu options increases number of dishes

▼Value by adding accounting terminal function

- ✓ Cashless settlement at the table
- ✓ Point grant in apps

→

- ■ Offer a less stressed store experience without waiting
- ■ Increase customer retention by providing customer benefits

▼Developability

- ✓ Linking eating and apps data
- ✓ Management and grasp of table status and dessert request
- ✓ Providing entertainment (videos, book reading, games, etc.)

→

- ■ Coupon offers and recommendations tailored to individual customers based on data
- ■ Provide speedy and timely services
- ■ Provide value other than meals to increase value to visit stores

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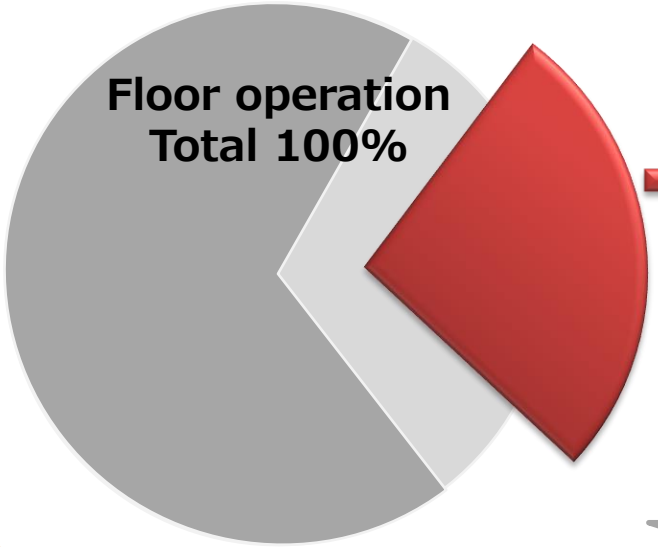
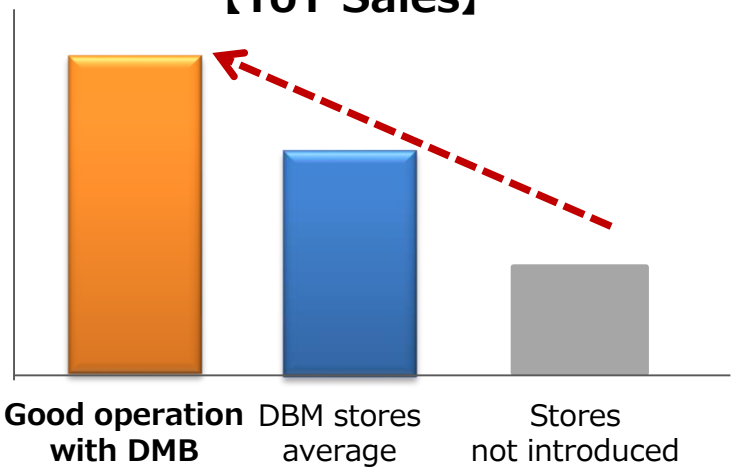
Improve Productivity with Digital Menu Book



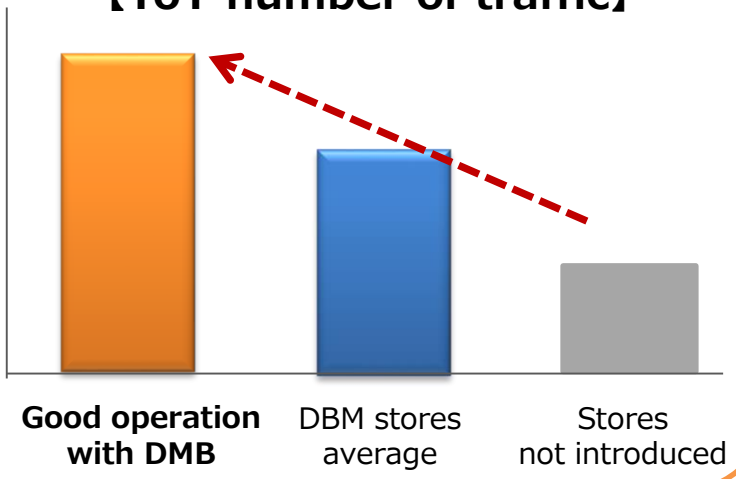
By introducing digital menu book (DMB), it become possible to reduce work such as receiving orders and replacing menus

Reduce time that tables are vacant

【YoY Sales】



【YoY number of traffic】



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Promote Cashless Payment

- QR payment introduced at all Gusto stores (January 27) followed by introduction at 2,800 stores
- Table settlement (QR settlement) linked with digital menu book (DMB), ordering and settlement linked with smartphone and self-checkout to be introduced
- Aim to improve both customer convenience and employee productivity

2020 plan

Introduce at 2,800 stores by March

QR settlement linked with DMB

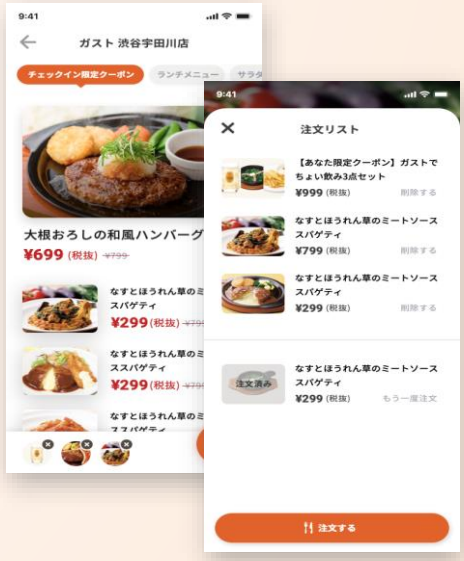
Ordering and settlement via smartphone
Able to keep one's own bottle at brand wide

2021 plan

Expand cashless self-checkout









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Work Style Reform

Non-smoking at all group stores

In response to the belief that non-smokers, including minors, should not be harmed by passive smoking, we ban smoking at all stores before April 2020, when the revised Health Promotion Law is fully enforced





Ended 24-hour Store Operations

With the thought of creating a rewarding work experience and delivering the best store experience to our customers

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Initiatives for a Sustainable Society

Fulfilling our mission as an operator of restaurant chains to achieve the SDGs

We are aware that our operations are closely related to the Sustainable Development Goals (SDGs), and will implement measures in line with the Global Goals set forth by the UN.
In all our operations from procurement and production to restaurant operation, we will contribute to the development of society and global environmental conservation through our products, services, and corporate activities.

- ✓ Promoting reductions in conventional, petroleum-based plastic goods.
- ✓ Reducing food waste at each stage of our process: procurement, production, and serving meals.
- ✓ Reducing CO2 emissions in production and distribution.
- ✓ Promoting diversity and develop workplace environments that are rewarding for all employees.
- ✓ Accelerating the saving of energy for air-conditioning equipment and kitchen equipment, which we have been promoting.
- ✓ Improving workplace environments, focusing on maintaining and increasing the health of employees and improving performance.

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Recognition of Management Issues



■ Labor cost increase

Hourly wage continues to increase as minimum wage rises

■ Consumption tax hike and diversifying lifestyle

The impact of consumption tax hike remains. Review menu strategy to enhance low-priced menu items

■ Environmental Responsibility

Promote initiatives for SDGs

■ Work style reform and job creation

Shortening of late-night business hours, diversification of employment forms

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Appendix

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Impairment Loss



- In the current fiscal year, an impairment loss of 1.4bn yen was recognized for intangible assets
- This is related to the development costs of the store systems, of which a portion has become unusable and unavailable for refurbishment or conversion due to policy changes such as introduction of digital menu books at each table and addition of new functions for cashless payments

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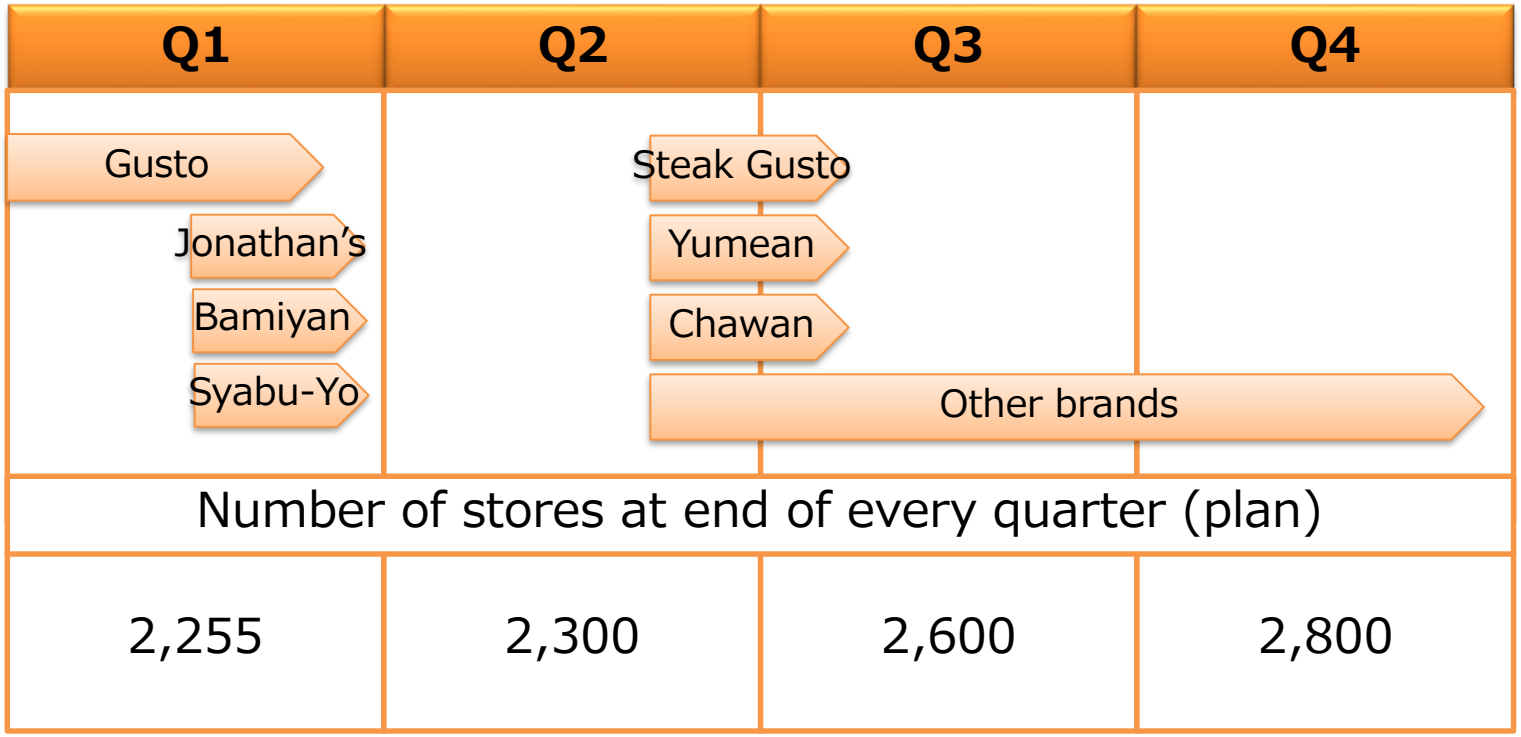
Plan for Digital Menu Book Introduction

- Installed at about 400 Gusto stores as of February 13
- Expand to 4 main brands by March
- Aim for introduction into other major brands before the summer



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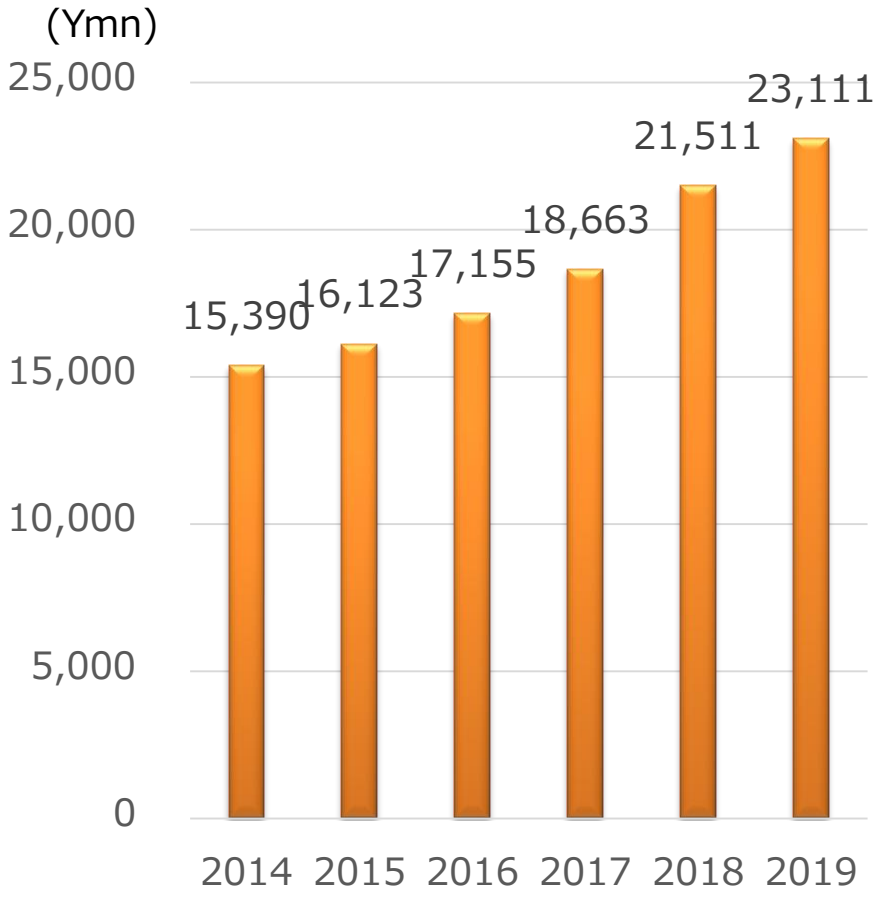
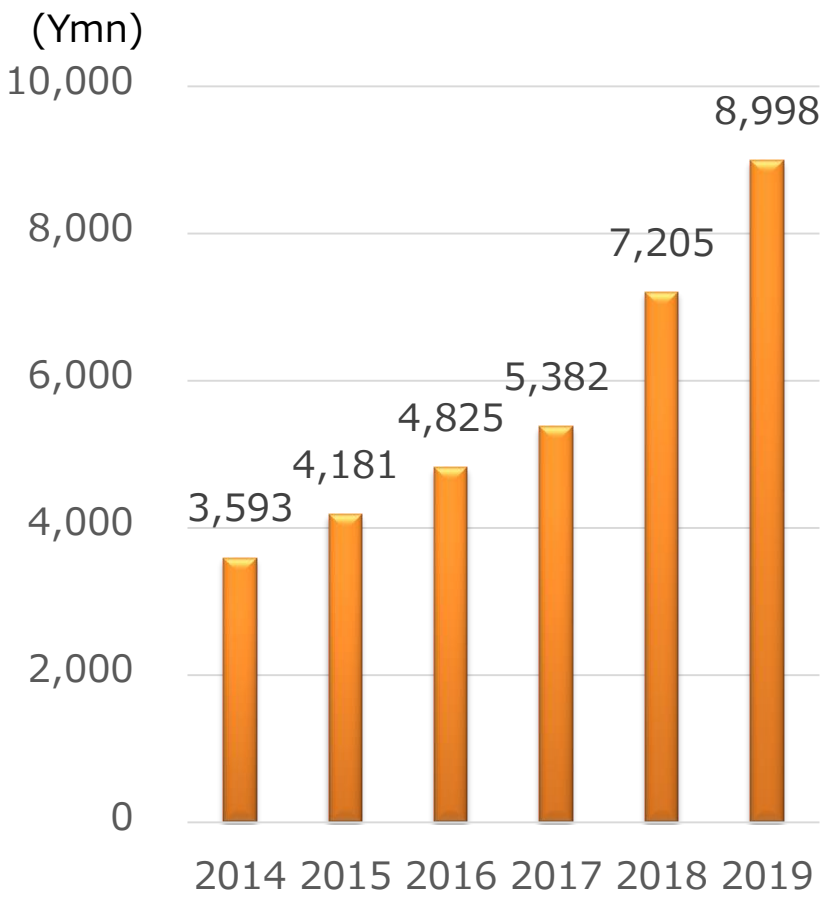
Delivery and Takeout Sales

■ 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)	FY2019	FY2018	Variance
Net income	**9.5**	**11.4**	**(1.9)**
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	1.9	(1.0)
Adjusted subtotal (before tax)	0.9	1.9	(1.0)
Tax effects for adjustments	0.3	0.5	(0.2)
Adjusted subtotal (after tax)	0.6	1.4	(0.8)
Adjusted net income	**10.1**	**12.8**	**(2.7)**

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