Consolidated Financial Report
For the Fiscal Year Ended December 31, 2019 (IFRS)

February 13, 2020

Company Name	SKYLARK HOLDINGS CO., LTD.	Stock Exchange Listing: Tokyo Stock Exchange, 1st Section
Securities Code	3197	URL https://www.skylark.co.jp
Representative	Makoto Tani, Chairman, President and Chief Executive Officer	
Contact for enquiries	Takuya Aizawa, Managing Officer Managing Director of Finance Division	(TEL) 0422-51-8111

Date of general shareholders' meeting (as planned)	March 27, 2020
Dividends payable date (as planned)	March 13, 2020
Annual securities report filing date (as planned)	March 30, 2020
Supplemental material of annual results	Yes
Convening briefing of annual results	Yes (for financial analysts and institutional investors)

(Millions of yen; amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2019

(1) Consolidated Operating Results

(Percentages represent year-on-year changes)

	Revenue		Operating profit		Income before income taxes		Net income		Net income attributable to owners of the Company		Total comprehensive income	
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)
Fiscal year ended December 31, 2019	375,394	2.5	20,562	(10.0)	16,729	(10.0)	9,487	(17.1)	9,487	(17.1)	9,753	(7.3)
Fiscal year ended December 31, 2018	366,360	1.9	22,857	(18.7)	18,596	(20.9)	11,438	(26.4)	11,438	(26.4)	10,521	(34.7)

	Basic earnings per share	Diluted earnings per share	Ratio of net income to equity attributable to owners of the Company	Ratio of income before income taxes to total assets	Ratio of operating profit to revenue
	(Yen)	(Yen)	(%)	(%)	(%)
Fiscal year ended December 31, 2019	48.07	48.04	7.2	4.3	5.5
Fiscal year ended December 31, 2018	58.04	57.95	8.9	5.7	6.2

(Reference) Profit of investments accounted for using the equity method	Fiscal year ended December 31, 2019	– million yen		Fiscal year ended December 31, 2018	– million yen	
EBITDA	Fiscal year ended December 31, 2019	71,941 million yen	(93.3%)	Fiscal year ended December 31, 2018	37,226 million yen	(-11.0%)
Adjusted EBITDA	Fiscal year ended December 31, 2019	76,237 million yen	(94.1%)	Fiscal year ended December 31, 2018	39,276 million yen	(-9.3%)
Adjusted net income	Fiscal year ended December 31, 2019	10,067 million yen	(-21.4%)	Fiscal year ended December 31, 2018	12,815 million yen	(-24.4%)

(Note 1) The Company uses EBITDA, adjusted EBITDA and adjusted net income to evaluate the results of our operations. Refer to "* Notes for using forecasted information and other matters (3) ~ (5)" below for details.

(Note 2) Year-on-year changes for the fiscal year ended December 31, 2017 are not stated due to retroactive adjustments made in accordance with changes in accounting policies.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets	Equity per share attributable to owners of the Company
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(%)	(Yen)
As of December 31, 2019	453,979	132,817	132,817	29.3	672.48
As of December 31, 2018	330,671	130,453	130,453	39.5	661.92

(3) Consolidated Cash Flows

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents at the end of the year
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Fiscal year ended December 31, 2019	67,825	(20,446)	(47,350)	18,949
Fiscal year ended December 31, 2018	31,571	(19,667)	(8,049)	18,908

2. Dividends

	Dividends per share					Total dividends	Payout ratio (Consolidated)	Ratio of dividends to equity attributable to owners of the Company (Consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	(%)	(%)
Fiscal year ended December 31, 2018	—	16.00	—	22.00	38.00	7,489	65.5	5.8
Fiscal year ended December 31, 2019	—	9.00	—	10.00	19.00	3,753	39.5	2.8
Fiscal year ending December 31, 2020 (Forecasted)	—	9.00	—	10.00	19.00		37.5	

3. Forecasts on the Consolidated Financial Results for the Fiscal Year Ending December 31, 2020 (January 1, 2020 - December 31, 2020)

(Percentages represent year-on-year changes)

	Revenue		Operating profit		Income before income taxes		Net income attributable to owners of the Company		Basic earnings per share
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Yen)
Fiscal year ending December 31, 2020	383,000	2.0	20,500	(0.3)	17,500	4.6	10,000	5.4	50.63

(Reference)

Adjusted net income Fiscal year ending December 31, 2020 (Forecasted) 10,000million yen (-0.7%)

*** Notes**

(1) Changes in status of significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in scope of consolidation): No
Number of subsidiaries newly consolidated: -
Number of subsidiaries excluded from consolidation: -

(2) Changes in accounting policies and accounting estimates
(i) Changes in accounting policies required by IFRSs: Yes
(ii) Changes in accounting policies other than those in (i): No
(iii) Changes in accounting estimates: No

(3) Number of issued shares (common stock)

(i) Number of issued shares (including treasury stock)	As of December 31, 2019	197,502,200	As of December 31, 2018	197,083,700
(ii) Number of treasury stock	As of December 31, 2019	–	As of December 31, 2018	–
(iii) Average number of issued shares during the period	Fiscal year ended December 31, 2019	197,342,674	Fiscal year ended December 31, 2018	197,061,340

* This financial report is not subject to audit procedures by independent auditors.

* Notes for using forecasted information and other matters

(1) The Group has adopted International Financial Reporting Standards (IFRSs).

(2) The forecasts above are based on information available at the date of this report and certain assumptions deemed to be reasonable. The Company does not provide any assurance as to achievement of these forecasts. In addition, the actual results may vary materially from the forecasts due to various uncertainties. Refer to page 5 of Appendix "1. Overview of Consolidated Operating Results etc. (4) Forecasts for the Next Fiscal Year" for further details and disclaimer regarding the use of the forecasts and certain assumptions used in developing them.

(3) Refer to page 2 of Appendix "1. Overview of Consolidated Operating Results etc. (1) Overview of Consolidated Operating Results for the Current Fiscal Year" for the details of EBITDA, adjusted EBITDA and adjusted net income.

(4) EBITDA, adjusted EBITDA and adjusted net income are not measures prescribed in accordance with IFRS but are financial measures that the Group believes are useful for investors to assess the operating results of our business. These measures exclude the effect of items which we consider not to be indicative of the results of our normal operations or comparable to our competitors' operating results, such as non-cash or cost items not expected to recur following the listing, including the advisory fees in accordance with the BCPL management agreement, IPO and public offering-related expenses, loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions and amount associated with the change in accounting estimates due to qualified listing, and gain and loss from modification of financial liabilities in accordance with the adoption of International Financial Reporting Standard (IFRS) 9 "Financial Instruments" (2014) (including readjustment of the amount of impact from the retroactive application of changes in accounting policies). (The BCPL management agreement was terminated upon the Company's listing in accordance with the amendment to the agreement dated July 17, 2014.)

(5) Our definition of EBITDA, adjusted EBITDA and adjusted net income may not be comparable to similarly titled measures of other companies in our industry, which may define these or similarly titled measures differently, thereby diminishing their usefulness.

(Appendix)

1. Overview of Consolidated Operating Results etc. …… 2
   (1) Overview of Consolidated Operating Results for the Current Fiscal Year. …… 2
   (2) Overview of Consolidated Financial Position for the Current Fiscal Year. …… 4
   (3) Overview of Consolidated Cash Flows for the Current Fiscal Year. …… 4
   (4) Forecasts for the Next Fiscal Year …… 5
   (5) Fundamental Policy for Distribution of Profit and Dividends for the Current and Next Fiscal Years …… 6
2. Basic Policy Regarding Selection of Accounting Standards …… 8
3. Consolidated Financial Statements and Notes …… 9
   (1) Consolidated Statements of Financial Position …… 9
   (2) Consolidated Statements of Income …… 10
   (3) Consolidated Statements of Comprehensive Income …… 11
   (4) Consolidated Statements of Changes in Equity …… 12
   (5) Consolidated Statements of Cash Flows …… 14
   (6) Notes to Consolidated Financial Statements …… 15

1. Overview of Consolidated Operating Results etc.

(1) Overview of Consolidated Operating Results for the Current Fiscal Year

The Company has promoted the creation of restaurants rooted in local communities. Our corporate philosophy is “creating richness with value to society.” We will achieve our mission of “offering great-tasting food at affordable prices with good service in our clean restaurants to as many people as possible” by striving to create enjoyable stores that will enrich the life of our customers.

Under the current tough market conditions, we will continuously implement initiatives with “investment in stores and employees” as our top priority in order to meet customer expectations in 2019.

In order to respond to our customers' diverse lifestyles and region-specific customer needs through our brand portfolio and to provide the best store experience, we have opened 86 new stores, converted the brands of 62 restaurants to different concepts, and remodeled (revamping designs to bring them up to date with the times) 175 stores. As key highlights, we have rapidly increased the number of Syabu-yo restaurants, positioned as a new style family restaurant, and Karayoshi restaurants meet takeout demands. (Number of stores as of December 31, 2019: Syabu-yo 268 stores, Karayoshi 66 stores). We have accelerated the openings of Musashino Mori Coffee stores which provides a relaxing and comfortable space, established private rooms at seniors-oriented Aiya and Yumean stores, and resumed regional store openings of Bamiyan. We also made repairs to improve store environments, strengthened expenditures for expendable items, and made efforts to improve in-store experiences. The delivery business (home delivery) has recorded sales growth of + 7.4% compared to the same period of the previous year, based on improved customer order systems, shortened delivery times, and enhanced operational efficiency.

We are reviewing store opening hours to improve the working environment for employees and work-life balance. At the end of the year, we reduced store opening hours from approximately 2,700 stores, 80% of all stores, from Omisoka to New Year's Day, so that employees can spend important time during the year-end and New Year holidays with their families. In 2020, we will further optimize business hours, beginning with the shortening of opening hours of all 24-hour stores announced on January 20, 2020. In addition, the Group has started to prohibit smoking on the premises of all of the group restaurants (approximately 3,200) since September 1, 2019. This effort was implemented before the ordinance by the Tokyo Metropolitan Government to ban smoking in and around public facilities took effect in order to support the health of our customers and employees and to improve the work environment

In this way, we are actively investing in our restaurants and employees and engaged with the improvement of the store environment and work-life balance of employees.

As a cost reduction measure, we are continuously optimizing our purchasing, processing and distribution processes. We have achieved the top class cost ratio in the industry and optimized all the processes of purchasing, processing, logistics, and services at restaurants, by switching the location of food preparation from the restaurant kitchens to the central kitchen to increase the productivity and further increasing capital investment on automation of the production lines. In the fiscal year 2019, cost of sales as a percent of revenue was 30.4%, at the same level compared to the previous fiscal year.

Selling, general and administrative expenses as a percent of revenue was 63.1%, increase of 0.2% compared to the same period in the previous year, due to increase in the number of restaurants and the labor costs due to the increase of the minimum wages and the salaries for our regular employees, though the working hours at restaurants and utility costs were reduced.

As for labor costs, it is necessary to adopt multiple measures due to the continuously rising unit labor costs and hiring difficulties in the job market. As a strategy to cope with the rising labor costs, we are planning to improve productivity by establishing employee-friendly work environments, reducing workloads at restaurant sites, and reinforcing the business infrastructure through digitization.

In the current fiscal year, an impairment loss of 1,358 million 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.

As a result, the Company achieved revenue of 375,394 million yen (an increase of 9,034 million yen compared to the previous

year), operating profit of 20,562 million yen (a decrease of 2,295 million yen compared to the previous year), income before income taxes of 16,729 million yen (a decrease of 1,867 million yen compared to the previous year), and net income attributable to the owner of the Company of 9,487 million yen (a decrease of 1,951 million yen compared to the previous year) for the year ended December 31, 2019.
EBITDA (Note 2) was 71,941 million yen (an increase of 34,715 million yen compared to the previous year), adjusted EBITDA (Note 3) was 76,237 million yen (an increase of 36,961 million yen compared to the previous year) and adjusted net income (Note 4) was 10,067 million yen (a decrease of 2,748 million yen compared to the previous year). The significant increases in EBITDA and adjusted EBITDA are due to the adoption of IFRS 16 "Leases". The number of restaurants was 3,258 as of the fiscal year ended December 31, 2019 (3,200 as of January 1, 2019).

(Note 1) Remodeling represents remodeling of interior and exterior of restaurants. The Company remodels approximately 200 to 300 restaurants annually.

(Note 2) EBITDA = Income before income taxes + Interest Expense + Loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions + Other financial expense (excluding loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions) – Interest income – Other financial income + Depreciation and amortization + Amortization of long-term prepaid expense + Amortization of long-term prepaid expense (deposit)
- Other financial expenses are disclosed as "Other expenses" in the Consolidated Statements of Income.
- Other financial income is the amount of "Other income" in the Consolidated Statements of Income from which gain on lapse of statute of limitation of other payables is deducted. During the period from the 3rd term to the 5th term and from the 7th term to the 8 th term, the amount of "Other income" in the Consolidated Statements of Income equals the amount of other financial income.

(Note 3) Adjusted EBITDA = EBITDA + Loss on disposal of fixed assets + Impairment loss of non-financial assets － Reversal of impairment loss of non-financial assets + Advisory fees in accordance with the BCPL management agreement (including periodic payments) + IPO and public offering-related expenses (including special bonus for initial public offering) + Amount associated with the change in accounting estimates due to qualified listing

(Note 4) Adjusted net income = Net income + Advisory fees in accordance with the BCPL management agreement (including periodic payments) + IPO and public offering-related expenses (including special bonus for initial public offering) + Loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions + Amount associated with the change in accounting estimates due to qualified listing + gain and loss from modification of financial liabilities in accordance with the adoption of IFRS 9 "Financial Instruments" (2014) (including readjustment of the amount of impact from the retroactive application of changes in accounting policies) + Tax effects of adjustments

(Note 5) The BCPL management agreement represents the management agreement between the Company and Bain Capital Partners LLC. (The agreement was terminated upon the Company's listing in accordance with the amendment to the agreement dated July 17, 2014.)

(Note 6) IPO and public offering-related expenses are one-time expenses incurred at the time of IPO and public offering of the Company's share such as advisory fee and cost associated with purchase of mementoes, etc., which do not include the amount associated with the change in accounting estimates due to qualified listing as noted at (Note 7) below.

(Note 7) As a result of qualified listing (i.e. it refers to an event under which more than 50% of the Company's voting rights are offered to the public or sold for cash consideration following the submission of the registration statement required under the applicable Securities Act or the listing of the Company's stock at the security exchange in Japan), (1) all or a part of equity-settled share-based payments (the first, second and third stock option tranches) (collectively referred to as "SO") granted to the Company's directors and employees ("executives") became exercisable, (2) all or a part of cash-settled share option plans ("Stock Appreciation Right" or "SAR") under the Cash-Settled Stock Appreciation Right Agreement ("SAR agreement") which had been entered into between the Company and the Company's executives became exercisable, and (3) the Company incurred an obligation to pay certain monetary consideration ("DC") as determined in the Deferred Compensation Agreement ("DC agreement") to a counterparty of the DC agreement, which had been entered into between the Company and the Company's certain executives. Satisfaction of the terms and conditions of qualified listing has significant impact on accounting estimates used for SO, SAR and DC. Since the Company's share has satisfied the terms and conditions of qualified listing, it resulted in change in accounting estimates used for the accounting treatments. "Amount associated with the change in

accounting estimates due to qualified listing" refers to the amount of the effect on the estimates used for the accounting treatments associated with the change in estimating the vesting period and the number of rights to be forfeited relevant to SO, SAR and DC.

(2) Overview of Consolidated Financial Position for the Current Fiscal Year

Analysis of assets, liabilities, and equity as of the fiscal year ended December 31, 2019, is summarized as follows:

Current assets were 36,658 million yen, a decrease of 1,078 million yen, mainly due to a decrease in other current assets compared to the end of the previous fiscal year. Non-current assets were 417,321 million yen, an increase of 124,386million yen mainly due to an increase in property, plant and equipment in accordance with the adoption of IFRS 16 "Leases" and decrease of other non-current assets compared to the end of the previous fiscal year.
Total assets were 453,979 million yen, which an increase of 123,308 million yen compared to the end of the previous fiscal year.

Current liabilities were 97,588 million yen, a decrease of 59,689 million yen mainly due to a decrease in short-term borrowings and an increase in other financial liabilities in accordance with the adoption of IFRS16 "Leases", compared to the end of the previous fiscal year. Non-current liabilities were 223,574 million yen, an increase of 180,633 million yen mainly due to an increase in long-term borrowings and other financial liabilities in accordance with the adoption of IFRS 16 "Leases", compared to the end of the previous fiscal year.

Total liabilities were 321,162 million yen, an increase of 120,944 million yen compared to the end of the previous fiscal year.

Equity was 132,817 million yen, an increase of 2,364 million yen mainly due to a decrease of 1,486 million yen in accordance with the adoption of IFRS 16 "Leases", dividends paid of 6,113 million yen, and an increase in net income of 9,487 million yen for the current nine-month period.

(3) Overview of Consolidated Cash Flows for the Current Fiscal Year

Cash and cash equivalents as of the fiscal year ended December 31, 2019, were 18,949 million yen, an increase of 40 million yen compared to the end of the fiscal year ended December 31, 2018. Conditions and factors for each category of the cash flows for the fiscal year ended December 31, 2019, were as follows.

Cash flows from operating activities:
Net cash provided by operating activities was 67,825 million yen, an increase of 36,254 million yen compared to the same period in the previous year. This was primarily due to an increase of 36,986 million yen in depreciation and amortization in accordance with the adoption of IFRS 16 "Leases".

Cash flows from investing activities:
Net cash used in investing activities was 20,446 million yen, an increase of 779 million yen compared to the same period in the previous year. This was primarily due to an increase of 2,141 million yen in payments for acquisition of property, plant and equipment including investments in new, converted and remodelled restaurants and a increase of 1,057 million yen in sales of tangible assets. We normally make payments of cash and cash equivalents one or two months after an increase in assets from investing activities.

Cash flows from financing activities:
Net cash used in financing activities was 47,350 million yen, an increase of 39,301 million yen compared to the same period in the previous year. This was primarily due to an increase of 35,743 million yen in repayments of lease liabilities in accordance with the adoption of IFRS 16 "Leases", a decrease of 13,500 million yen in the proceeds from short-term borrowings, a decrease of 18,500 million yen in repayments of short-term borrowings, an increase of 95,000 million yen in the proceeds from long-term borrowings, an increase of 107,175 million yen in repayments of long-term borrowings.

(Reference) Indexes Related to Cash Flows

	Fiscal Year Ended December 31, 2015	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2017	Fiscal Year Ended December 31, 2018	Fiscal Year Ended December 31, 2019
Ratio of equity attributable to owners of the Company to total assets (%)	32.8	37.1	40.0	39.5	29.3
Ratio of equity attributable to owners of the Company to total assets based on a fair value basis (%)	96.8	94.9	99.2	103.4	92.9
Net leverage ratio (multiple)	2.9	2.5	2.7	3.0	3.1
Interest coverage ratio (multiple)	14.3	22.5	22.3	24.0	30.8

(Note) Ratio of equity attributable to owners of the Company to total assets: Equity attributable to owners of the Company / Total assets
Ratio of equity attributable to owners of the Company to total assets based on a fair value basis: Total market value of the Company's shares / Total assets
Net leverage ratio: Net interest-bearing liabilities / Adjusted EBITDA
Interest coverage ratio: Cash flows from operating activities / Interest paid
* Each measure is calculated using financial figures on a consolidation basis (IFRSs).
* Total market value of the Company's shares is calculated using share price at the end of the period multiplied by the number of issued shares at the end of the period (after deducting treasury stock).
* Net interest-bearing liabilities are calculated by subtracting cash and deposits from the interest-bearing liabilities.
* The amounts of cash flows from operating activities and interest paid are obtained from "Cash flows from operating activities" and "Interest paid" on the consolidated statements of cash flows.

(4) Forecasts for the Next Fiscal Year

The Company expects to achieve revenue of 383,000 million yen (an increase of 7,606 million yen), operating profit of 20,500 million yen (a decrease of 62 million yen), income before income taxes of 17,500 million yen (a increase of 771 million yen), net income attributable to owners of the Company of 10,000 million yen (a increase of 513 million yen)and adjusted net income of 10,000 million yen (a decrease of 67 million yen).

The Skylark Group 2020 Management Policy
Promote drastic structural reform to improve store operations to achieve sustainable growth and increase corporate value over the medium to long term

The business environment surrounding the Company is uncertain, such as decline in the labor force due to declining birthrate and the aging population and the political and economic situations in Japan and other countries. On the other hand, there are many factors for growth, including expectations of economic recovery toward the Tokyo Olympics and Paralympics, rising demand from the inbound tourism, and increasing dining occasions due to the lifestyle changes of consumers.

In order to achieve continuous growth beyond 2020, we are committed to implementing "sales and marketing-driven structural reform" to generate enough revenue to cover the labor costs by improving productivity. We will promote customer and employee-oriented management and aim to continuously increase corporate value.

1) Improve customer service levels at restaurants

To aim for further growth in the future, it is essential to improve productivity. In order to overcome the rising labor costs, which has become serious in recent years, we have fundamentally reexamined our store operations. Also, to reduce approximately 30% of floor services time and use the savings to improve customer service by implementing digitalization programs to be able to:
・establish a system to make managers with advanced customer service skills available to get more involved on the restaurant floors,
・Develop and produce highly processed ingredients by in procurement and production in order to reduce the workload of kitchens
・Help managers to be fully involved in staff training and coaching to enable staff to become effective workforce from early stages and improve the overall service levels at restaurants.

・Optimize business hours and increase the efficiency in the restaurant operation.

2) Strengthen digitalization

We will further strengthen our IT digital investment as an important measure to improve productivity through operational reforms. The introduction of the “Digital Menu Book”, which began the testing in 2019, to all of our restaurants will be completed in the first half of this fiscal year. Regarding digital promotion, we will more actively introduce new systems to strengthen interaction with customers and continue to develop new systems to support their lifestyles. In addition, to respond to the rising labor costs, we will increase efficiency through digitalization of restaurant and back-office operations, reduce the workload of employees, improve store productivity, and improve store management capabilities.

・The digital menu book will be introduced gradually from the first quarter of 2020, to improve convenience for customers and increase the productivity of store operations. In addition, by improving the usability and functions of the Skylark application, we will strengthen more personalized services to customers and efficiency of our promotional activities.

・We will encourage employees to use digital devices to enhance communication and further increase productivity.

・Expand and promote adoption and use of robotic process automation (RPA) to reduce the burden on the back office operations

3) Increase the number of customers for stable sales growth

As people’s lifestyle changes, the purpose of visits to full-service restaurants has become more various. We will focus to accurately understand customer needs and evolve our menu offerings. We create a system to improve efficiency to generate more time available to offer services to customers by implementing the following measures:

・We will reconstruct a highly efficient promotion system as a restaurant chain with many outlets.

・Our nation-wide restaurant chain Gusto is planning to increase the number of customer visits by holding campaigns using local dishes and ingredients.

・Increase the menu of alcoholic drinks at all formats of restaurants. By increasing orders to accompany with food menus, we will achieve higher revenue per customer without increasing the price of individual items

・Increase healthy and hypoallergic menu items in support of customers’ wellbeing

・In our home delivery service "RAKURU", we will start using an efficient system for delivery staff and sharing the delivery service among different restaurant chains within the Group. We will strengthen our home delivery and takeout businesses, which are expected to expand in the future.

4) Pursue sales growth by strengthening existing stores and opening new restaurants

We own and operate various format of restaurants ready to open and adapt to the Japanese domestic market, and opening of new restaurants will continue as planned in 2020. We will carefully select locations where investment can be quickly recovered by responding to the rapidly changing commercial characteristics of each location. Specifically, we will:

・Open Approximately 90 stores in 2020, contributing to improvements in our business performance.

・Clarify our brand and store portfolio and open restaurants to meet customer needs.

・Focus on store renovation to improve the safety and comfort of customers.

・Optimize store layouts to increase profit margins by responding to the increase in the number of customer visits at peak hours.

5) Fulfill our mission to achieve the SDGs as a restaurant chain

We recognize that our business is closely related to the Sustainable Development Goals (SDGs), and we are committed to implementing measures in line with the global goals set by the United Nations. From procurement and production to store operations, we will contribute to social development and global environmental protection through our products, services and corporate activities, by:

・Promoting reduction of conventional petroleum-derived plastic products,

・Reducing food loss during procurement, production and cooking,

・Reducing CO2 emissions from production and logistics,

・Promoting diversity and improving the work environment for all of our employees,

・Accelerating energy-saving of air-conditioning equipment and kitchen equipment, and

・Maintaining and promoting employees’ wellbeing and improving their performance.

Our corporate philosophy is “creation of richness with value to the society.” We will achieve our mission of “providing quality food with everyday value with warm and friendly services in spotless environment to as many guests as possible ” by focusing on creation of restaurants where our customers can enrich their everyday lives and feel more comfortable.

(5) Fundamental Policy for Distribution of Profit and Dividends for the Current and Next Fiscal Years

We aim to provide stable dividend payments to our shareholders while ensuring that adequate internal reserve is maintained in preparation for future business deployment and investments to further improve corporate value.

Under the policy, we have declared dividends of 10.00 yen per share for the fiscal year ended December 31, 2019. (19.00 yen annually)

For the fiscal year ending December 31, 2020, we will continue to make dividend payments stably twice a year with a total

payout ratio of roughly 30% of our adjusted net income considering our capacity of future investments for business growth, accordingly, an annual-dividend of 19.00 yen per share is planned (including an interim dividend of 9.00 yen per share) subject to achievement of the business forecast as discussed in page 5 of Appendix.

(Note) Adjusted net income = Net income + Advisory fees in accordance with the BCPL management agreement (*) (including periodic payments) + IPO and public offering-related expenses (including special bonus for initial public offering) + Loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions + Amount associated with the change in accounting estimates due to qualified listing + gain and loss from modification of financial liabilities in accordance with the adoption of IFRS 9 “Financial Instruments” (2014) (including readjustment of the amount of impact from the retroactive application of changes in accounting policies) + Tax effects of adjustments

(*) The BCPL management agreement represents the management agreement between the Company and Bain Capital Partners LLC. (The agreement was terminated upon the Company’s listing in accordance with the amendment to the agreement dated July 17, 2014.)

2. Basic Policy Regarding Selection of Accounting Standards

The Group has adopted the International Financial Reporting Standards (IFRSs) effective from the fiscal year ended December 31, 2013 to improve effective usage for stakeholders such as domestic and foreign shareholders, investors and trading partners.

3. Consolidated Financial Statements and Notes

(1) Consolidated Statements of Financial Position

As of the Fiscal Years Ended December 31, 2018 and 2019 (Unaudited)

(Millions of yen)

	As of the fiscal year ended December 31, 2018	As of the fiscal year ended December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	¥ 18,908	¥ 18,949
Trade and other receivables	9,714	10,689
Other financial assets	310	323
Inventories	4,282	4,899
Other current assets	4,522	1,798
Total current assets	37,736	36,658
Non-current assets		
Property, plant and equipment	104,447	230,040
Goodwill	146,098	146,072
Other intangible assets	6,602	5,835
Other financial assets	24,494	25,346
Deferred tax assets	8,034	9,071
Other non-current assets	3,260	956
Total non-current assets	292,935	417,321
Total assets	¥ 330,671	¥ 453,979
Liabilities and equity		
Liabilities		
Current liabilities		
Short-term borrowings	¥ 111,379	¥ 18,459
Trade and other payables	26,299	26,349
Other financial liabilities	3,487	32,757
Income tax payable	2,651	4,242
Provisions	2,093	2,064
Other current liabilities	11,368	13,716
Total current liabilities	157,277	97,588
Non-current liabilities		
Long-term borrowings	21,675	110,859
Other financial liabilities	5,364	96,511
Provisions	15,080	15,499
Other non-current liabilities	822	705
Total non-current liabilities	42,941	223,574
Total liabilities	200,218	321,162
Equity		
Share capital	3,511	3,634
Capital surplus	56,509	56,595
Other components of equity	(917)	(640)
Retained earnings	71,350	73,228
Equity attributable to owners of the Company	130,453	132,817
Total equity	130,453	132,817
Total liabilities and equity	¥ 330,671	¥ 453,979

(2) Consolidated Statements of Income

For the Fiscal Years Ended December 31, 2018 and 2019 (Unaudited)

(Millions of yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Revenue	¥ 366,360	¥ 375,394
Cost of sales	(111,401)	(114,045)
Gross profit	254,959	261,348
Other operating income	881	899
Selling, general and administrative expenses	(230,538)	(236,930)
Other operating expenses	(2,445)	(4,755)
Operating profit	22,857	20,562
Interest income	14	12
Other income	7	2
Interest expense	(4,214)	(3,816)
Other expenses	(68)	(31)
Income before income taxes	18,596	16,729
Income taxes	(7,158)	(7,242)
Net income	¥ 11,438	¥ 9,487
Net income attributable to:		
Owners of the Company	¥ 11,438	¥ 9,487
Net income	¥ 11,438	¥ 9,487
Earnings per share		
Basic (Yen)	¥ 58.04	¥ 48.07
Diluted (Yen)	57.95	48.04

(3) Consolidated Statements of Comprehensive Income

For the Fiscal Years Ended December 31, 2018 and 2019 (Unaudited)

(Millions of yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Net income	**¥ 11,438**	**¥ 9,487**
Other comprehensive income		
Items that are not reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	**(52)**	**87**
Remeasurements of the net defined benefit liability (asset)	**(4)**	**(10)**
Total items that are not reclassified to profit or loss	**(56)**	**77**
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(101)**	**19**
Cash flow hedges	**(760)**	**170**
Total items that may be reclassified to profit or loss	**(861)**	**189**
Other comprehensive income, net of tax	**(917)**	**266**
Total comprehensive income	**¥ 10,521**	**¥ 9,753**
Comprehensive income attributable to:		
Owners of the Company	**10,521**	**9,753**
Total comprehensive income	**¥ 10,521**	**¥ 9,753**

(4) Consolidated Statements of Changes in Equity

(Millions of yen)

	Share capital	Capital surplus	Other components of equity				
			Financial assets measured at fair value through other comprehensive income	Remeasure-ments of the net defined benefit liability (asset)	Exchange differences on translation of foreign operations	Cash flow hedges	Total
As of January 1, 2018	¥ 3,456	¥ 56,470	¥109	¥ －	¥ 367	¥ (484)	¥ (8)
Net income	－	－	－	－	－	－	－
Other comprehensive income, net of tax	－	－	(52)	(4)	(101)	(760)	(917)
Total comprehensive income	－	－	(52)	(4)	(101)	(760)	(917)
Dividends	－	－	－	－	－	－	－
Exercise of stock options	55	38	－	－	－	－	－
Share-based payments	－	1	－	－	－	－	－
Transfer from other components of equity to retained earnings	－	－	4	4	－	－	8
Total contributions by and distributions to owners of the Company	55	39	4	4	－	－	8
Total transactions with owners of the Company	55	39	4	4	－	－	8
As of December 31, 2018	¥ 3,511	¥56,509	¥ 61	¥ －	¥ 266	¥ (1,244)	¥ (917)
Adjustments due to changes in accounting policies	－	－	－	－	－	－	－
As of January 1, 2019	¥ 3,511	¥ 56,509	¥ 61	¥ －	¥ 266	¥ (1,244)	¥ (917)
Net income	－	－	－	－	－	－	－
Other comprehensive income, net of tax	－	－	87	(10)	19	170	266
Total comprehensive income	－	－	87	(10)	19	170	266
Dividends	－	－	－	－	－	－	－
Exercise of stock options	123	85	－	－	－	－	－
Share-based payments	－	－	－	－	－	－	－
Transfer from other components of equity to retained earnings	－	－	－	10	－	－	10
Total contributions by and distributions to owners of the Company	123	85	－	10	－	－	10
Total transactions with owners of the Company	123	85	－	10	－	－	10
As of December 31, 2019	¥ 3,634	¥ 56,595	¥149	¥ －	¥ 285	¥ (1,075)	¥ (640)

	Retained earnings	Equity attributable to owners of the Company	Total equity
As of January 1, 2018	¥ 67,406	¥ 127,324	¥ 127,324
Net income	11,438	11,438	11,438
Other comprehensive income, net of tax	—	(917)	(917)
Total comprehensive income	11,438	10,521	10,521
Dividends	(7,486)	(7,486)	(7,486)
Exercise of stock options	—	93	93
Share-based payments	—	1	1
Transfer from other components of equity to retained earnings	(8)	—	—
Total contributions by and distributions to owners of the Company	(7,494)	(7,392)	(7,392)
Total transactions with owners of the Company	(7,494)	(7,392)	(7,392)
As of December 31, 2018	¥ 71,350	¥ 130,453	¥ 130,453
Adjustments due to changes in accounting policies	(1,486)	(1,486)	(1,486)
As of January 1, 2019	¥ 69,865	¥ 128,968	¥ 128,968
Net income	9,487	9,487	9,487
Other comprehensive income, net of tax	—	266	266
Total comprehensive income	9,487	9,753	9,753
Dividends	(6,113)	(6,113)	(6,113)
Exercise of stock options	—	209	209
Share-based payments	—	—	—
Transfer from other components of equity to retained earnings	(10)	—	—
Total contributions by and distributions to owners of the Company	(6,123)	(5,905)	(5,905)
Total transactions with owners of the Company	(6,123)	(5,905)	(5,905)
As of December 31, 2019	¥ 73,228	¥ 132,817	¥ 132,817

(5) Consolidated Statements of Cash Flows
For the Fiscal Years Ended December 31, 2018 and 2019 (Unaudited)

(Millions of yen)

	For the fiscal year ended December 31, 2018	**For the fiscal year ended December 31, 2019**
Cash flows from operating activities		
Income before income taxes	**¥ 18,596**	**¥ 16,729**
Adjustments for:		
Depreciation and amortization	**14,075**	**51,061**
Loss on impairment of non-financial assets	**1,191**	**3,503**
Loss on sale and disposal of fixed assets	**855**	**802**
Interest income	**(14)**	**(12)**
Other income	**(7)**	**(2)**
Interest expense	**4,214**	**3,816**
Other expenses	**68**	**31**
	38,978	**75,928**
Changes in working capital, etc.:		
Decrease (increase) in trade and other receivables	**(1,063)**	**(972)**
Decrease (increase) in inventories	**391**	**(616)**
Increase (decrease) in trade and other payables	**691**	**(147)**
Other	**203**	**2,019**
Cash generated from operations	**39,200**	**76,212**
Interest and dividends received	**9**	**4**
Interest paid	**(1,315)**	**(2,205)**
Income taxes paid	**(6,418)**	**(6,187)**
Income taxes refunded	**95**	**—**
Net cash from operating activities	**31,571**	**67,825**
Cash flows from investing activities		
Payments into time deposits	**(827)**	**(794)**
Proceeds from withdrawals of time deposits	**827**	**794**
Acquisition of property, plant and equipment	**(15,728)**	**(17,869)**
Proceeds from sale of property, plant and equipment	**0**	**1,057**
Acquisition of intangible assets	**(3,292)**	**(2,517)**
Proceeds from sale of intangible assets	**8**	**5**
Payment of loans	**—**	**(7)**
Proceeds from collection of loans	**—**	**7**
Payment of lease deposits and guarantee deposits	**(792)**	**(1,170)**
Proceeds from collection of lease deposits and guarantee deposits	**563**	**527**
Other	**(426)**	**(479)**
Net cash used in investing activities	**(19,667)**	**(20,446)**
Cash flows from financing activities		
Proceeds from short-term borrowings	**27,000**	**13,500**
Repayments of short-term borrowings	**(27,000)**	**(8,500)**
Proceeds from long-term borrowings	**15,000**	**110,000**
Repayments of long-term borrowings	**(11,000)**	**(118,175)**
Proceeds from exercise of stock options	**93**	**209**
Repayments of lease obligations	**(2,488)**	**(38,231)**
Dividends paid	**(7,470)**	**(6,110)**
Payments of commissions related to borrowings	**(2,184)**	**(43)**
Net cash used in financing activities	**(8,049)**	**(47,350)**
Effect of exchange rate on the balance of cash and cash equivalents held in foreign currency	**(41)**	**12**
Net increase (decrease) in cash and cash equivalents	**3,814**	**40**
Cash and cash equivalents at the beginning of the year	**15,094**	**18,908**
Cash and cash equivalents at the end of the year	**¥ 18,908**	**¥ 18,949**

(6) Notes to Consolidated Financial Statements

(i) Notes on the Going Concern Assumption

No items to report.

(ii) Newly-adopted accounting standards and amendments

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended December 31, 2018, except for the following standards, which have been newly adopted.

The Group calculates income taxes for the nine-month period ended September 30, 2019, based on the estimated average annual effective tax rate.

Annual improvement of IFRS 3 "Business Combinations", IFRS 11" Joint Agreements", International Accounting Standards (IAS) 12 "Income Taxes", IAS 23 "Borrowing Costs" is effective from January 1, 2019. The Group has applied these standards since the three-month period ended March 31, 2019.

The Group has adopted the following standards from the three-month period ended March 31, 2019.

IFRSs	Title	Description of New Standards/Amendments/Transitional Provisions
IFRS 9 (2014)	Financial Instruments	Accounting for financial assets that contains prepayment features with negative compensation
IFRS 16	Leases	Revised lease accounting standard
IAS 19	Employee Benefits	Accounting for plan amendment, curtailment or settlement during the fiscal year
IAS 28	Investments in Associates and Joint Ventures	Accounting for long-term investments in associates and joint ventures
IFRIC 23	Uncertainty over Income Tax Treatments	Measurement and recognition in case of uncertainty over income tax treatments

Adoption of IFRS 16 “Leases”

The Group assesses whether the contract is, or contains, a lease based on the substance of the contract even if it is not legally in the form of a lease.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

If a contract is, or contains, a lease, except for short-term leases and leases of low-value assets, the Group recognizes right-of-use assets and lease liabilities on the annual consolidated statement of financial position at the commencement date. The Company recognizes the lease payments associated with short-term leases and leases of low-value assets as an expense on a straight-line basis or on any other regular basis over the lease term.

Right-of-use assets are measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

An acquisition cost of a right-of-use asset includes the amount of the initial measurement of the lease liability adjusted for initial direct costs and any lease payments made at or before the commencement date, and the restoration costs required based on the lease contract. The right-of-use asset is depreciated using the straight-line method over its lease terms. The lease liability is initially measured at the present value of the lease payment that are not paid at the commencement date. The lease payments are apportioned between the financial cost and the reduction in the lease liability based on the effective interest method. The financial costs are recognized in the condensed interim consolidated statement of income.

In adopting IFRS 16, the Group used a transition method by which the cumulative effect of initially adopting this standard was recognized at the date of initial application.

The weighted average of the Group’s incremental borrowing rate applied to the lease liabilities on the condensed interim

consolidated statement of financial position at the date of initial application is 0.9%.
In adopting IFRS 16, the Group has elected the practical expedient and grandfathered the assessment of whether contracts contain leases based on IAS 17 “Leases” (IAS 17) and IFRIC 4 “Determining whether as Arrangement Contains a Lease”. From date of adoption, the assessment is determined based on the provisions of IFRS 16.
The following is a reconciliation of non-cancellable operating lease contracts based on IAS 17 as of December 31, 2018 and the lease liabilities recognized in the condensed consolidated statement of financial position at the date of initial application:

（Millions of yen）

Non-cancellable operating lease contracts as of December 31, 2018	3,560
Non-cancellable operating lease contracts discounted at an incremental borrowing rate as od December 31, 2018	3,399
Finance lease liabilities as of December 31, 2018	4,813
Accounting for short-term lease expenses	(1,006)
Cancellable operating lease contracts, etc.	108,788
Lease liabilities as of January 1, 2019	115,994

As a result of adopting IFRS 16, in comparison to the previous accounting standard, property, plant and equipment increased 111,794 million yen, deferred tax assets increased 614 million yen, and other financial liabilities increased 111,181 million yen and other financial assets decreased 50 million yen, other current assets decreased 2,631 million yen, other non-current assets decreased 31 million yen, and retained earnings decreased 1,486 million yen.

In addition, “Repayments of lease obligations” which was presented in “Cash flows from financing activities” of the consolidated statement of cash flows for the year ended December 31, 2018, has been presented as “Repayments of lease liabilities” from the first quarter ended March 31, 2019.

Other than the above noted, the adoption of these standards had no material impact on the condensed interim consolidated financial statements.

(iii) Segment Information

The reportable segments of the Group are determined based on the operating segments that are components of the Group for which discrete financial information is available and whose operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segments and assess its performance. Operating segments are components of business activities from which the Group may earn revenues and incur expenses, including revenues and expenses relating to transactions with other operating segments.

The Group’s business segment includes *Gusto*, *Jonathan’s, Bamiyan, Syabu-yo* , *Yumean*, *Steak Gusto* and others. These are aggregated in the “Restaurant Business”. The gross profit ratio of each business segment in the restaurant business is at a similar level, and it shares similar economic characteristics. In addition, each business segment in the restaurant segment has similarities in procurement, production, cooking, and distribution methods to each restaurant as the “table service” restaurant business which targets consumers.

1) Revenues and Performance of Segments
The restaurant business is the only reportable segment. Accordingly, the Group has not disclosed reportable segment information.

2) Geographic Information
The Group’s revenue in the consolidated statements of income mainly consists of revenues from domestic sales to external customers. Accordingly, the Group has not disclosed revenue by region or geographic information.

In addition, the carrying amount of non-current assets mainly consists of those attributable to domestic locations. Accordingly, the Group has not disclosed non-current assets by region or geographic information.

3) Information about Major Customers
The Group operates in the consumer industry and has no single external customer (and a group of customers) that accounts for 10% or more of revenue of the Group. Accordingly, the Group has not disclosed major customer information.

(iv) Earnings per Share

(Millions of yen, except per share amounts)

	For the fiscal year ended December 31, 2018	**For the fiscal year ended December 31, 2019**
Net income attributable to common shareholders of the Company	**¥ 11,438**	**¥ 9,487**
Net income not attributable to common shareholders of the Company	**—**	**—**
Net income attributable to common shareholders used for calculation of basic earnings per share	**11,438**	**9,487**
Adjustment	**—**	**—**
Net income attributable to common shareholders used for calculation of diluted earnings per share	**¥ 11,438**	**¥ 9,487**
Weighted-average number of common shares during the period (Share)	**197,061,340**	**197,342,674**
Increase in number of common shares used for calculation of diluted earnings per share (Share)		
Increased number of common shares by stock options	**304,580**	**115,126**
Weighted-average number of common shares used for calculation of diluted earnings per share (Share)	**197,365,920**	**197,457,800**
Basic earnings per share (Yen)	**¥ 58.04**	**¥ 48.07**
Diluted earnings per share (Yen)	**57.95**	**48.04**

(v) Significant Subsequent Events
No items to report.