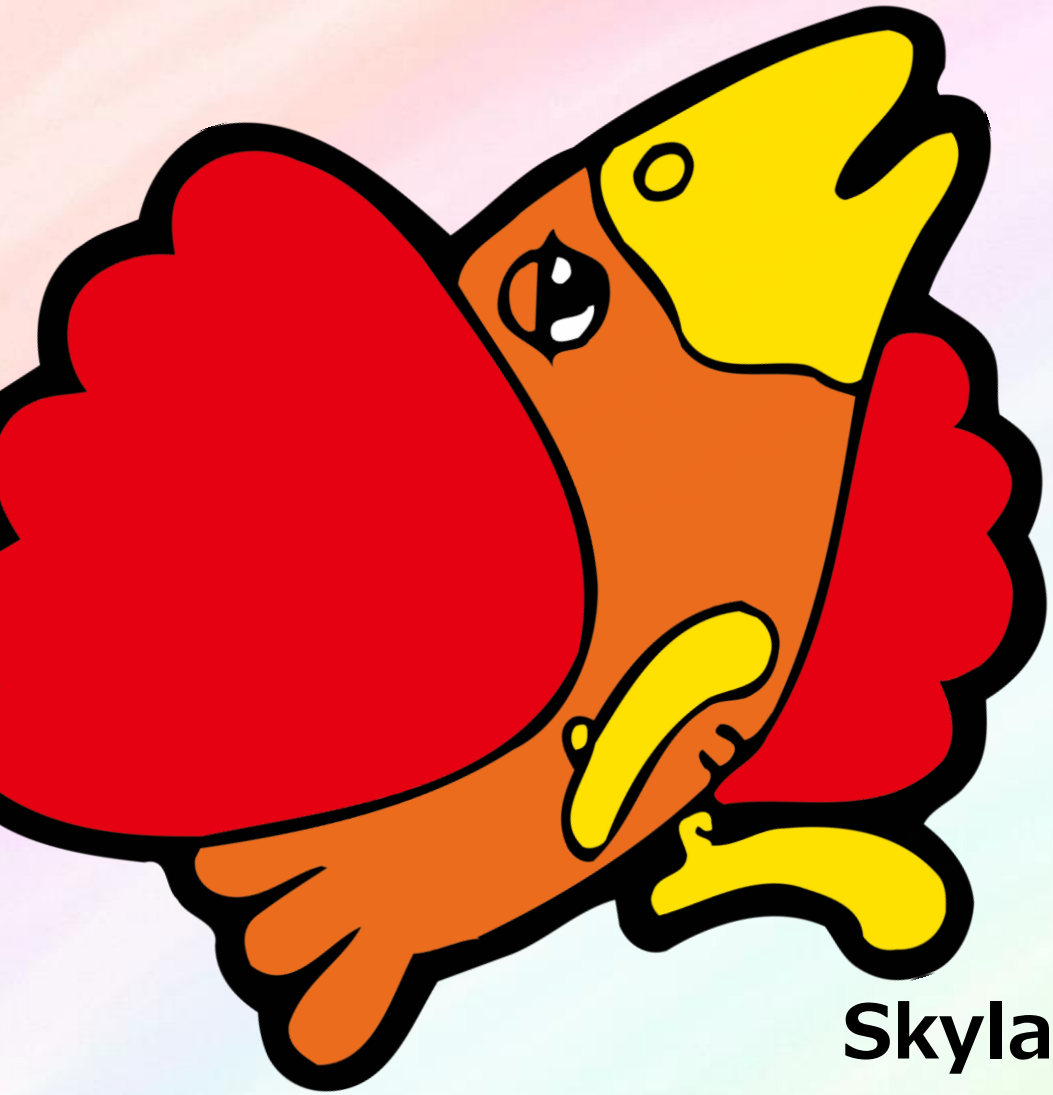

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Skylark Holdings Co., Ltd.

FY 2020 First Quarter Financial Results

May 21, 2020

Executive Summary



Q1FY2020 Results

Sales 86.7bn yen (-7.1 bn yen, -7.6%YoY)

- ✓ Same Store: Sales -9.8% YoY, Traffic -13.0% YoY, ATP+3.6% YoY
- ✓ New Openings: 18 new openings, +2.4bn yen YoY
- ✓ Delivery Sales: 6.2 bn yen, +3% YoY

OP 40mn yen (-5.5bn yen, -99.3% YoY)

- ✓ Profit significantly deteriorated due to a decrease in the number of customers affected by the COVID-19 pandemic, inventory loss at stores and MDCs and an increase in hourly wage

FY2020 Guidance

- ✓ Since it is difficult to calculate a reasonable forecast at this time, **the full-year guidance is changed to "undecided"**
- ✓ It is unclear how long the COVID19 impact is last, to forecast future sales trends are extremely difficult
- ✓ Dividend forecast changed to no dividend for the interim period and undecided for the full year
- ✓ We will disclose it as soon as it is possible to calculate the earnings forecast

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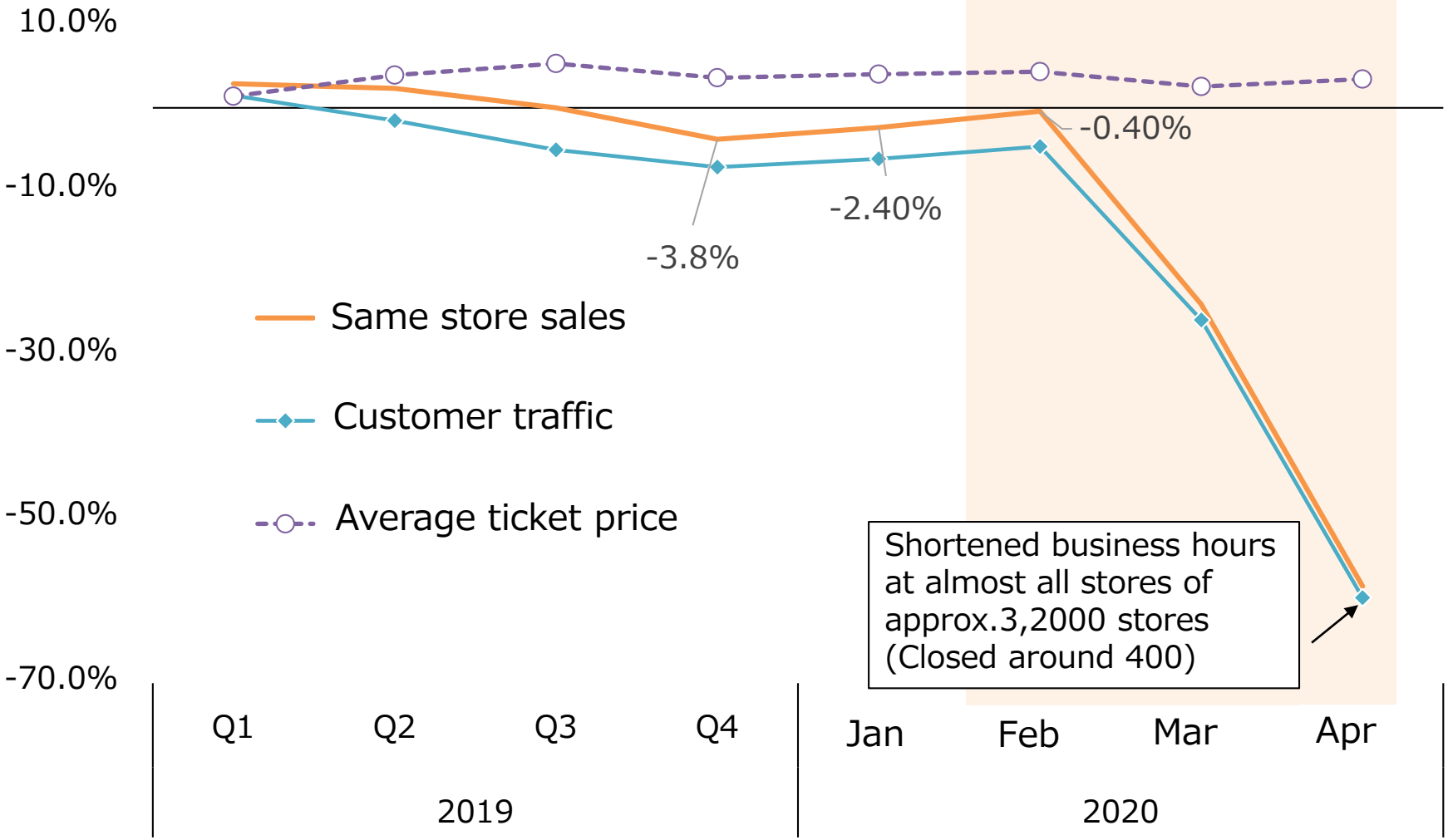
Same Store Sales

Sales were on recovery trend, but decreased significantly due to the COVID19 impact



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Operating Status and Measures Being Taken

Operating Status

- We believe consumption behavior will not return as before. Therefore, prompt strategic shifts such as reorganization of business formats are required
- Thorough safety and hygiene initiatives for eating and drinking in stores
- Secure cash reserves and maintaining employee employment

Measures Being Taken

- ✓ Strengthen sales of delivery / takeout
- ✓ Thorough cost reduction, freezing of new store openings, investment restraint and reduction of store work on the premise that all sales will not recover
- ✓ Establish a commitment line and considering further funding depending on the situation
- ✓ Thoroughly implement safety, health and hygiene measures to protect customers and employees

Initiatives for New Growth in Response to Changes in Lifestyle

Regarding food consumption behavior, it is assumed the lifestyle rhythm to shift to the daytime hours as lifestyle changes

Shorten midnight business hours, reform menus and business formats to meet demand during daytime hours

Business format change related to delivery/takeout sales and improve orders and operations using IT

Looking to the post-COVID19 market, need to pursue the essence of the restaurant experience

Improve the quality and taste of basic items as well as prices. Also improve individual customer service to meet the demands of mature consumers

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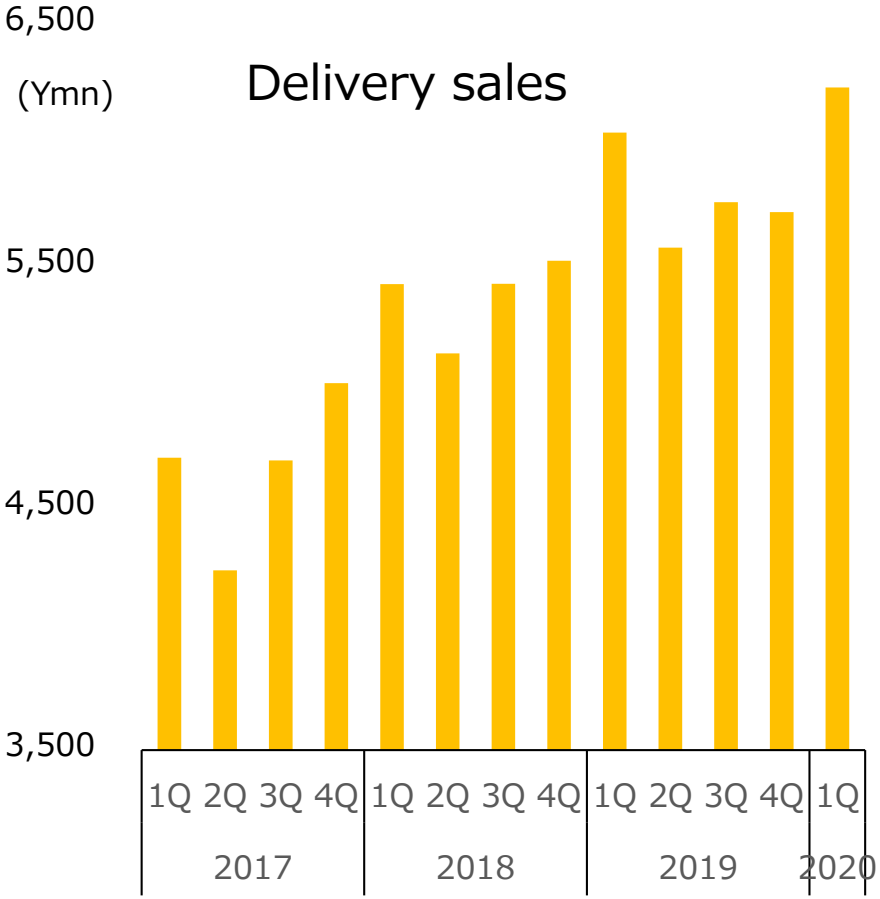
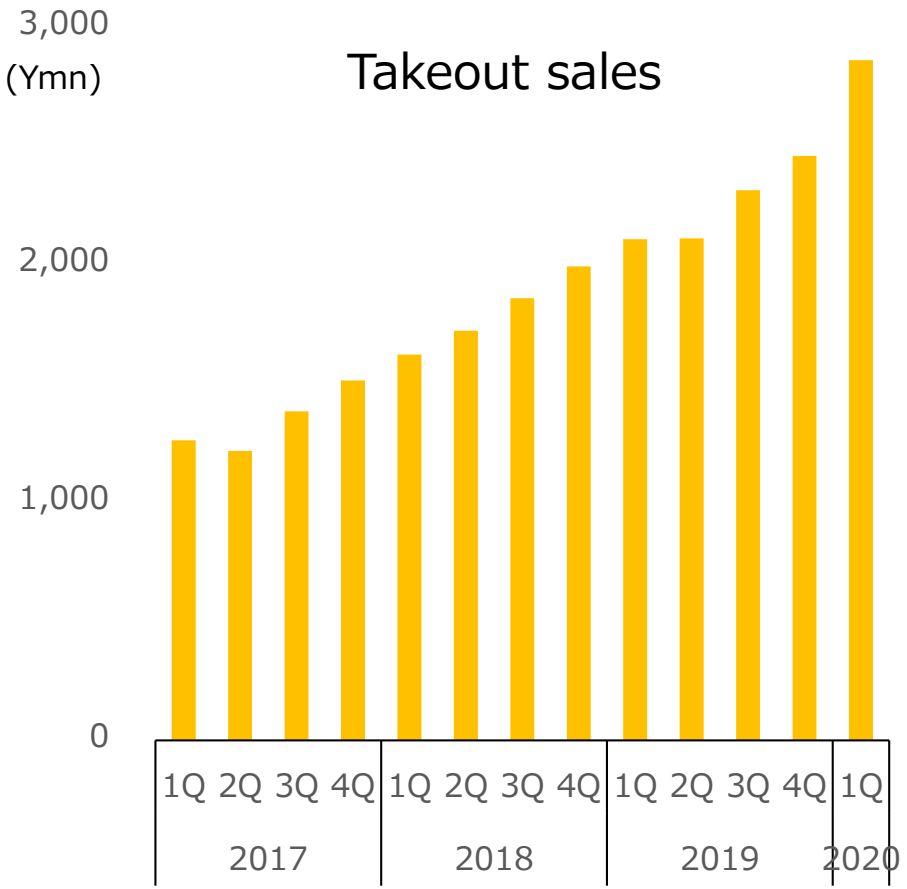
Delivery/Takeout: Sales

- **Approx. 1,500 restaurants offer a home delivery service and approx. 2,800 restaurants offer a takeout service**
- **In April, delivery sales were up 26% YoY, and takeout sales increased 2.6 times YoY**





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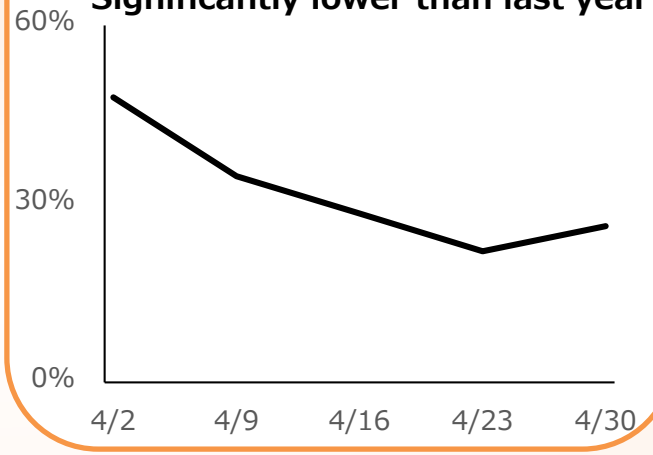
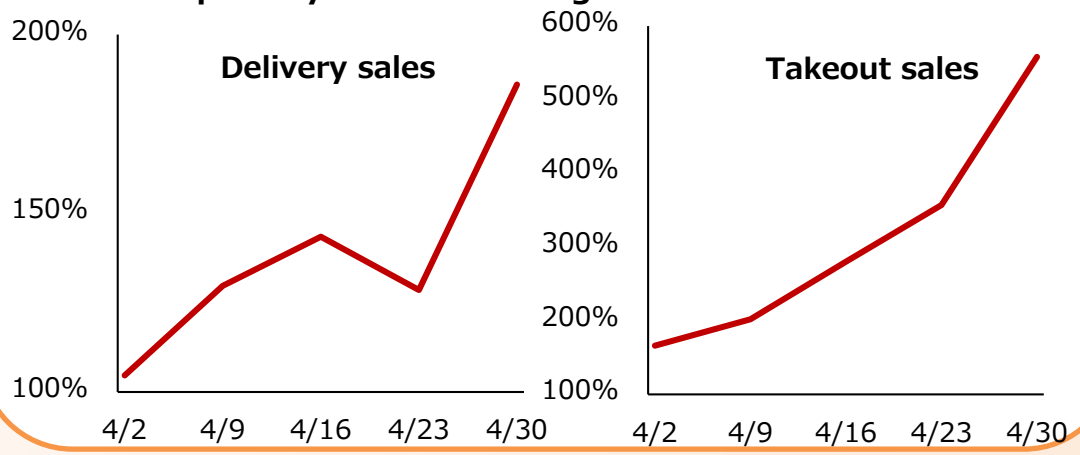
In-store sales vs. delivery/takeout sales

■ **Delivery and takeout sales to cover the in-store sales deterioration**
Need to strengthen delivery and takeout sales system

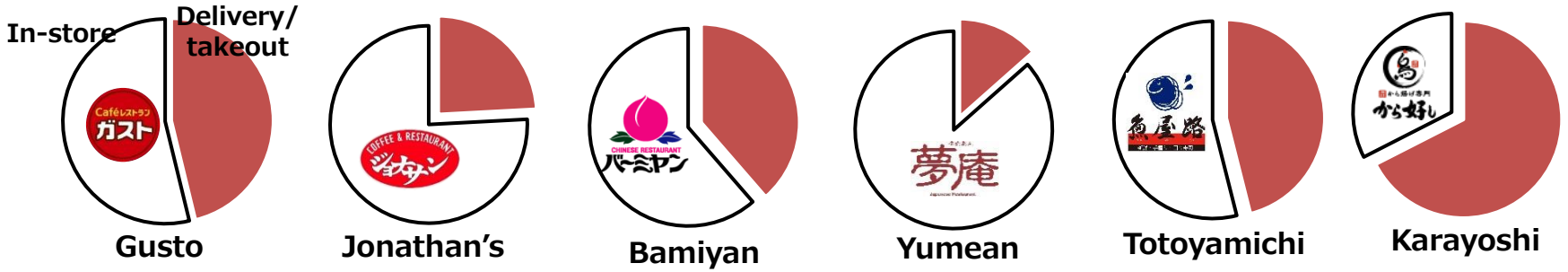
YoY sales of in-store sales:
Significantly lower than last year



YoY sales of delivery/takeout:
Especially takeout sales growth is remarkable



In-store sales vs. delivery/takeout sales by brands



*Use sales data from 2 Apr. to 30 Apr.

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Delivery/Takeout: Menu Enhancement

■ Enhancement of menu lineup

Gusto

Expand main dish products and pizza types



Jonathan's

Expand healthy items and products with a strong vegetable feel



■ New approach: Sale of in-house frozen products

Bamiyan

Started external sales experiment of frozen dumplings

In addition to lunch boxes, add products that can be easily cooked at home



■ Cross brand offering

Considering popularity of fried foods, "karayoshi" and "Tonkaratei" products to be taken out by other brands







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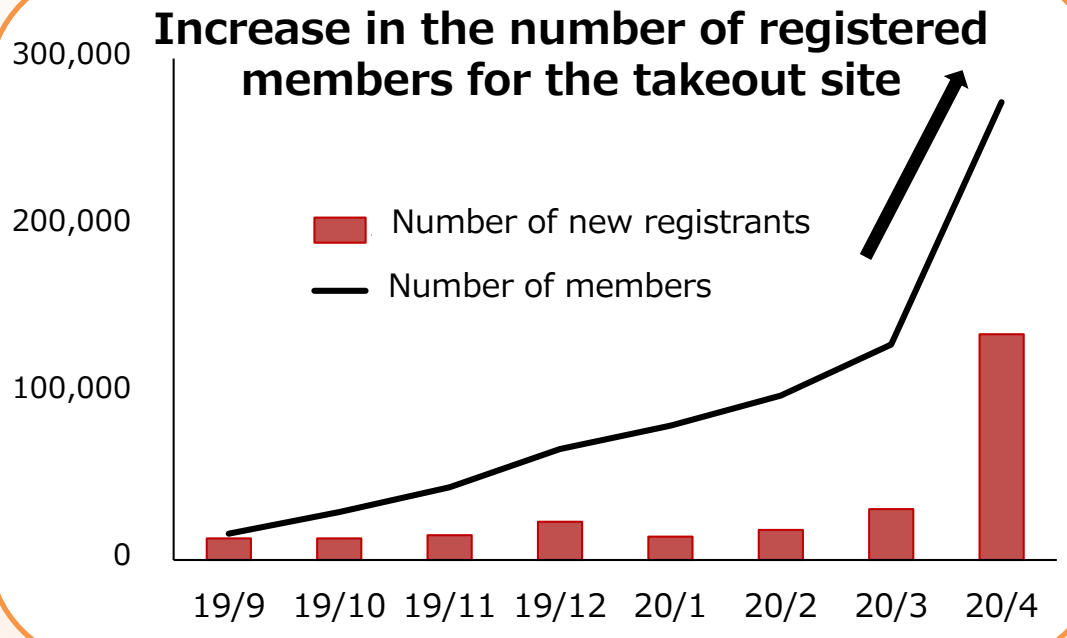
Creating a mechanism for future sales increase through campaigns

■ Gusto's take-out pizza half-price campaign triggers future sales expansion

Announced on Skylark app, homepage banner, Twitter, leaflet etc.





Succeeded in creating a base for future takeout sales expansion

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Delivery/Takeout: Marketing

■ Expand awareness to customers near stores

✓ Increase number of postings and leaflets
Succeeded in gaining customers who are not good at digital by listing store phone numbers



✓ Announcements using banners and store signs









■ Mutual customer transfer between brands

Distributing and guiding take-out discount tickets that can be used by all brands to customers visiting the restaurant



■ Digital marketing

✓ Increase the number of registered users by implementing a membership registration campaign for the Skylark app
⇒Increase the number of reach in the app

✓ Utilize coupon media of other companies such as Smart News and LINE

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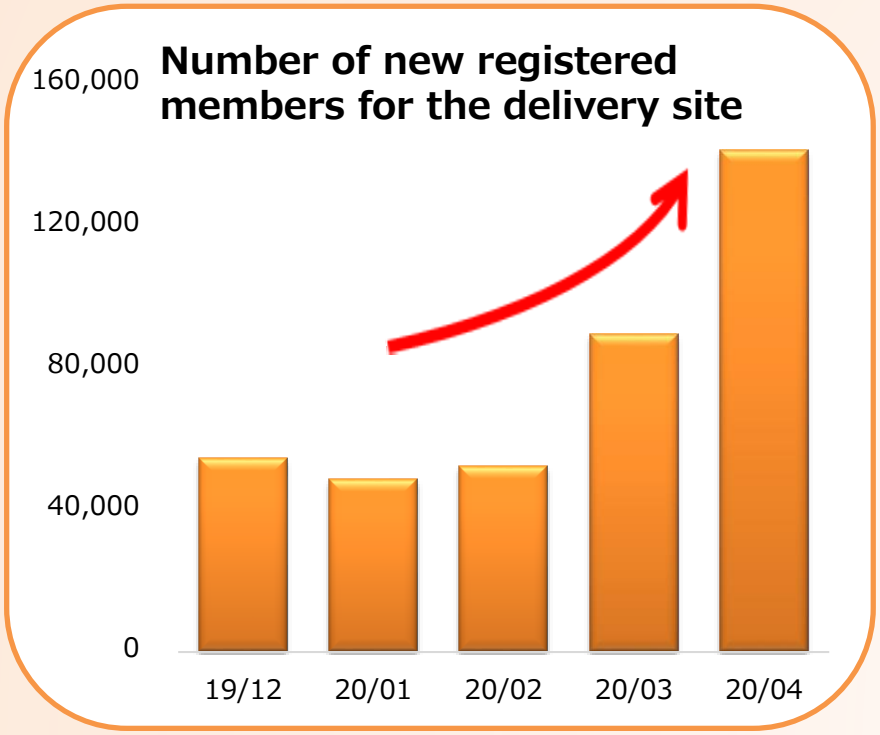
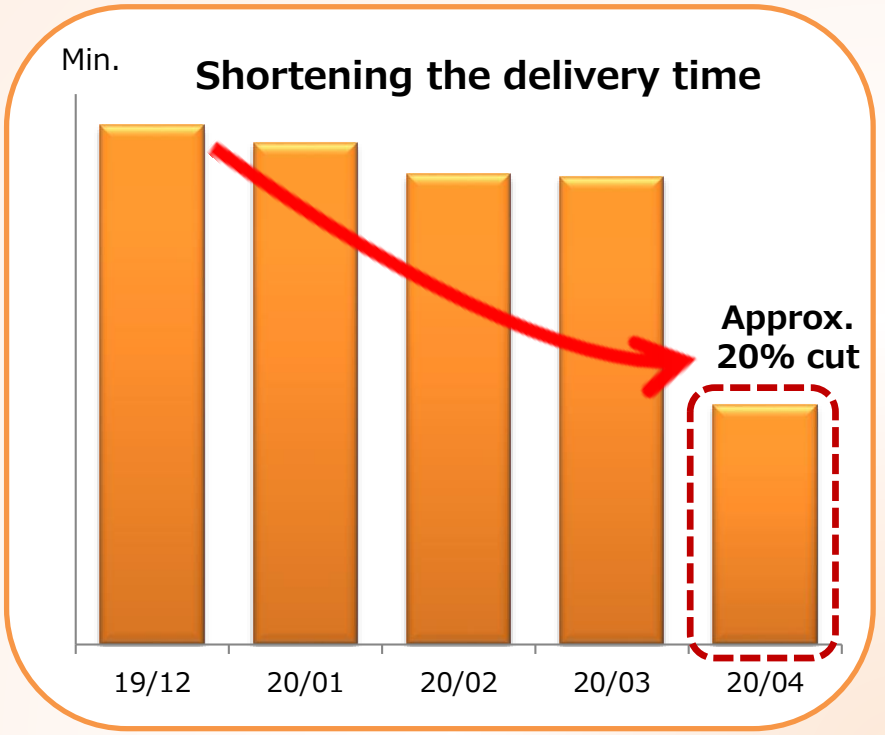
Delivery: Strengthening the sales system using IT

■ Expand sales by improving operation system

- ✓ Expand the number of new delivery site registrations. This leads to strengthen sales promotion by utilizing data
- ✓ By improving the usability of the app for delivery person, successfully shorten the delivery setting time
- ✓ Continuously improve the delivery site to make orders with simple operations
- ✓ Expand delivery staff to deliver products across brands





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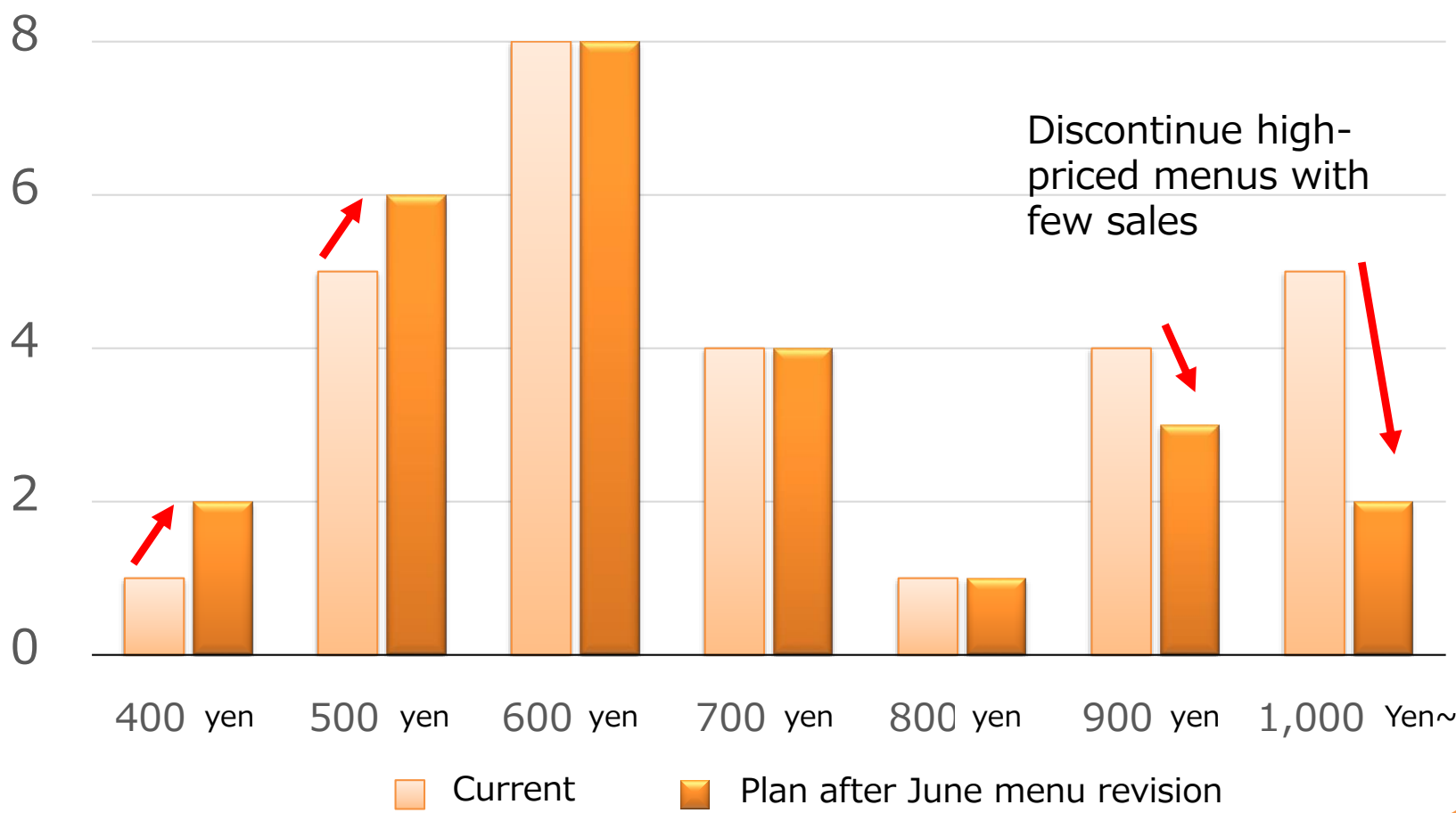
Menu Strategy: Revise Menu Structure

■ **Expand the low-priced menu in consideration of the economic downturn**



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Menu Strategy: Improving Quality and Taste

■ **Pursuing "delicious" as well as "low price"**

Price + Taste

Brush up the sauce and dressing, which is the basis of taste, in order to differentiate from other companies

- ✓ Recent examples
  - Tomato sauce
  - meat sauce
  - Domiglas sauce
  - Pizza sauce
  - Tartar sauce
  - Garlic sauce
  - Seasoning of Karayoshi's fried chicken





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Review of Costs and Investment

Build a leaner management system to overcome difficult times

■ **Cost reduction (SG&A)**

Reductions in compensation of officers and directors
Headquarters cost reduction
Rent negotiation

■ **Cost reduction (COGS)**

Review the production process of the factory
Change delivery route
Sharing ingredients between business formats
Revised to food loss reduction menu

Amount of reduction

8.0bn yen – 9.0bn yen

■ **Review of capital investment**

Freezing of new store openings
Review of IT investment

6.0bn yen – 7.0bn yen

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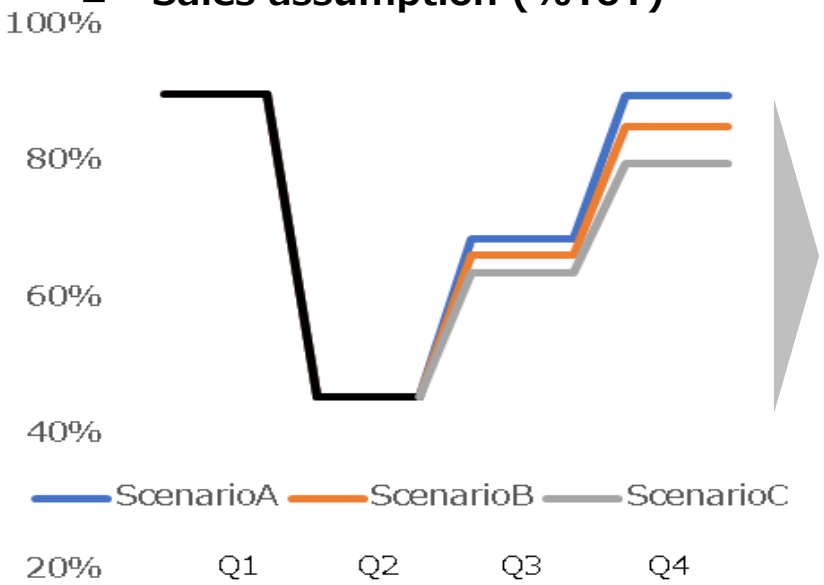
2020 Sale Simulation by Scenario

Three scenarios for 2020 sales

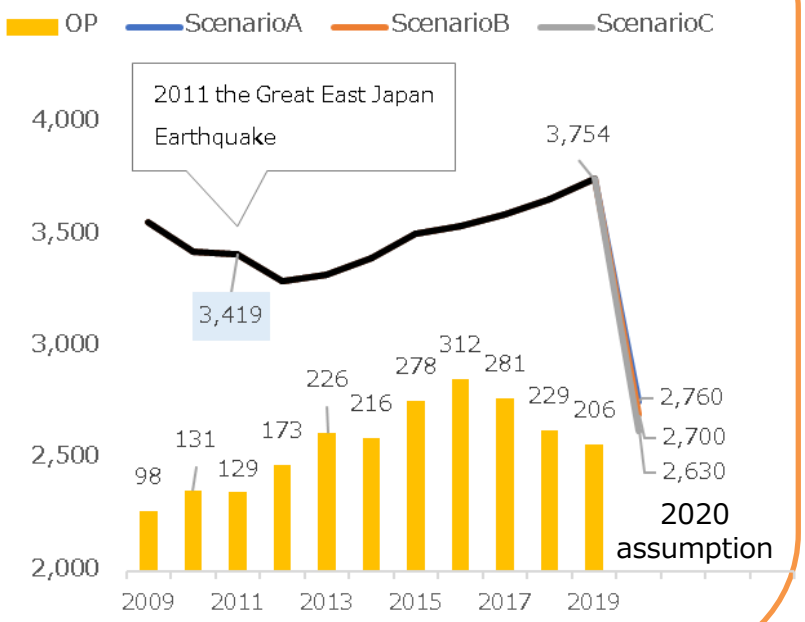
- Assume 2020 sales to recover to about 85% ± 5% in Q4 compared to the previous year
- Sales assumed with all the three scenarios to be significantly lower than the sales in 2011 after the Great East Japan Earthquake
- Sales measures and cost reduction effects are currently being calculated. There are also many uncertain factors for the end of COVID-19 spread, it is difficult to calculate a reasonable forecast at this moment. Therefore, the current 2020 financial forecast changed to “undecided”

■ **Sales assumption (%YoY)**



A: Scenario that returns to 90% year-on-year in Q4 (annual average of 74%)
B: Scenario that returns to 85% year-on-year in Q4 (annual average of 72%)
C: Scenario that returns to 80% year-on-year in Q4 (annual average of 70%)

■ **Sales and OP**



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Financial Results for 3-month period ended April 30 2020

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Key Financials for Q1



- Sales: 86.7bn yen, (7.1)bn yen, (7.6)%YoY
- OP: 40mn yen, (5.5)bn yen, (99.3)%YoY
- Profit significantly deteriorated due to a decrease in the number of customers due to the impact of the COVID19, a deterioration in gross profit margin, and an increase in hourly wage
- New store openings, business format conversions, and remodeling were as planned in Q1
  but plan is to be discontinued in the future, or postponed from the next fiscal year onwards to control cash out

	2020 Q1 (3 months)	2019 Q1 (3 months)	%YoY
Sales	**86.7bn**	**93.9bn**	(7.6)%
Same Store Sales Growth			*(9.8)%*
Traffic			*(13.0)%*
Average Ticket Price			*3.6%*
Operating Profit	**0.0bn**	**5.5bn**	(99.3)%
Adjusted Net Income	**0.2bn**	**3.0bn**	(91.7)%
Adjusted ROE	**5.7%**	**10.1%**	(4.4)%
Store Footprint	**New store 18, Brand Conversion 12, Remodeling 10**		

Definitionof Same Store Sales：13 month existing stores/including brand conversion/including Delivery GC(calculatedby 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

- Gloss margin: high at 69%
- Labor cost: increased (0.5)bn yen due to expansion of number of stores, (0.7)bn yen due to hourly wage increase. +1.3bn yen due to decrease in traffic, (0.1)bn yen due to delivery sales increase
- Other SG&A: (0.3)bn yen due to new store openings

	Q1FY2020		Q1FY2019		Variance	
	Bn	%of Sales	Bn	%of Sales	Bn	%YoY
Sales	86.7	100.0%	93.9	100.0%	(7.1)	92.4%
COGS	26.9	31.0%	28.5	30.4%	(1.6)	94.4%
Gross Margin	59.8	69.0%	65.4	69.6%	(5.5)	91.5%
Labor	31.9	36.7%	32.2	34.3%	0.4	98.8%
Other SG&A	27.9	32.2%	27.6	29.4%	(0.3)	101.1%
Operating Profit	0.0	0.0%	5.5	5.9%	(5.5)	0.7%
Financing Cost	(0.9)	(1.0)%	(1.3)	(1.4)%	0.5	64.6%
Profit Before Tax	(0.8)	(0.9)%	4.2	4.4%	(5.0)	(19.4%)
Tax Expense	(1.1)	(1.2)%	1.5	1.6%	2.5	(72.2%)
Net Income	0.2	0.3%	2.7	2.9%	(2.5)	9.2%
Adjusted Net Income	0.2	0.3%	3.0	3.2%	(2.7)	8.3%

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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 138.4bn yen: Commitment line agreement signed on March 31 to secure working capital and improve financial stability. Further funding is under consideration in case the corona impact is prolonged
- Adjusted ROE decreased by (2.0)pt to 5.7%

(Unit : Bn yen)	Q1FY2020	FY2019	Variance	Q1FY2020notes
Assets:				
Current assets	34.4	36.7	(2.2)	
Non-current assets	422.0	417.3	4.7	**Balance of goodwill 146.1Bn yen**
Total assets	456.4	454.0	2.5	**Balance of right-of-use asset 128.0Bn yen**
Liabilities:				
Current liabilities	98.5	97.6	0.9	**Balance of short-term debt 26.0 Bn yen**
Non-current liabilities	226.9	223.6	3.3	**Balance of long-term debt 112.4Bn yen**
Total liabilities	325.4	321.2	4.2	**Balance of lease liability 127.1Bn yen**
Equities:				
Equity attributable to owners of the Company	131.1	132.8	(1.8)	
Total shareholders equities	131.1	132.8	(1.8)	
Equity ratio	28.7%	29.3%	(0.5) %	
Adjusted ROE	5.7%	7.6%	(2.0) %	
Net leverage ratio	3.5x	3.1x		

(Note) 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 decreased by (12.3) to 6.8bn yen: of which pre-tax income decreased by (5.0)bn yen, working capital decreased by (5.8)bn yen and corporate income tax decreased by (1.7)bn yen
- Investment cash flow spending reduced by 0.4bn yen to (5.6)bn yen:
  Due to investment digital menu book etc.
- Financial cash flow reduced by 11.1bn yen to (2.8)bn yen: Overdraft borrowing of 9.0bn yen
  Of other (9.9)bn yen, repayment of lease obligations is (9.7)bn yen

(Unit : Bn yen)		Q1FY2020	Q1FY2019	Variance
Operating cash flow	(a)	6.8	19.0	(12.3)
Investment cash flow	(b)	(5.6)	(6.0)	0.4
Free cash flow	(a)+(b)	1.1	13.0	(11.9)
Financial cash flow	(c)	(2.8)	(13.8)	11.0
Loan		9.0	(0.5)	9.5
Dividend		(1.9)	(4.2)	2.3
Others		(9.9)	(9.2)	(0.8)
Change in cash	(a)+(b)+(c)	(1.7)	(0.8)	(0.9)
Cash balance at closing		17.2	18.1	(0.9)

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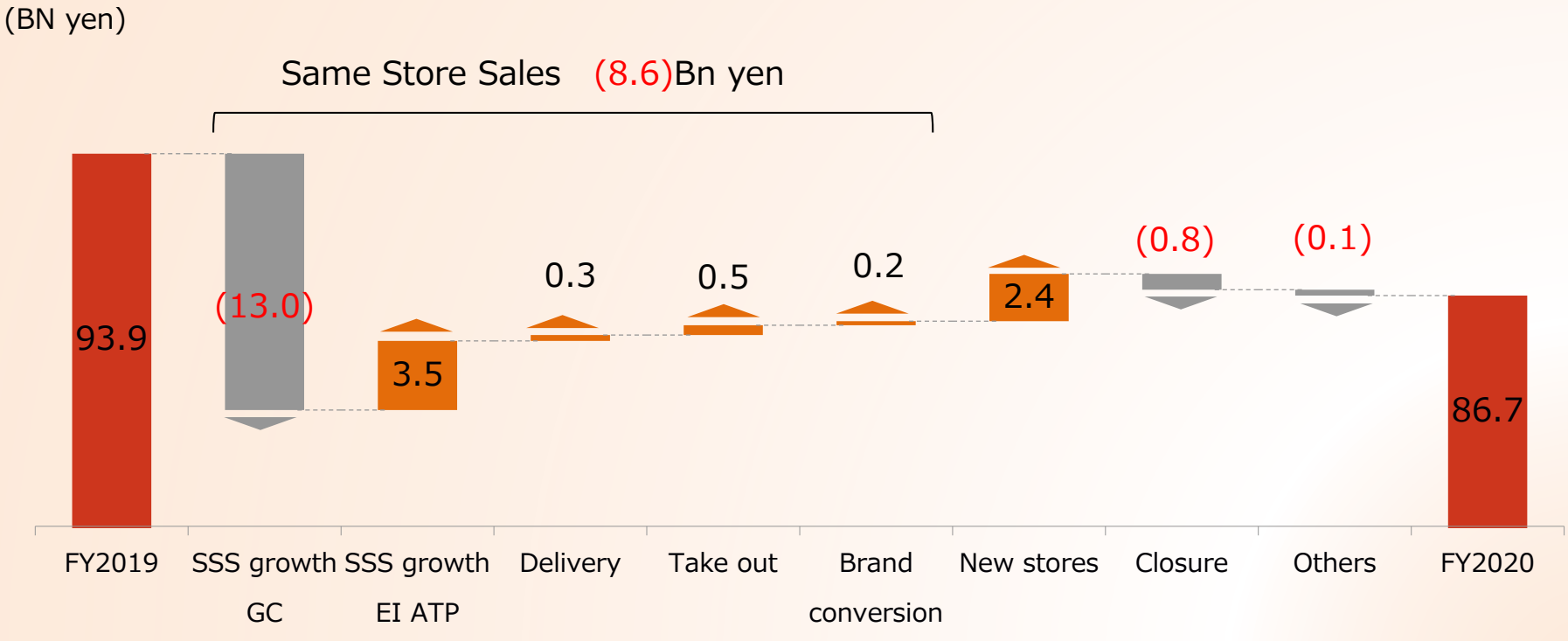
Sales Q1FY2020 vs. Q1FY2019 (3 months)

- **Q1FY2020 sales decreased by (7.1)bn yen to 86.7bn yen. (8.6)bn yen from SSS decrease and +2.4 bn yen from new store sales growth**
- **The decrease in the number of customer traffic due to the COVID19 is the main reason for the decrease in revenue**



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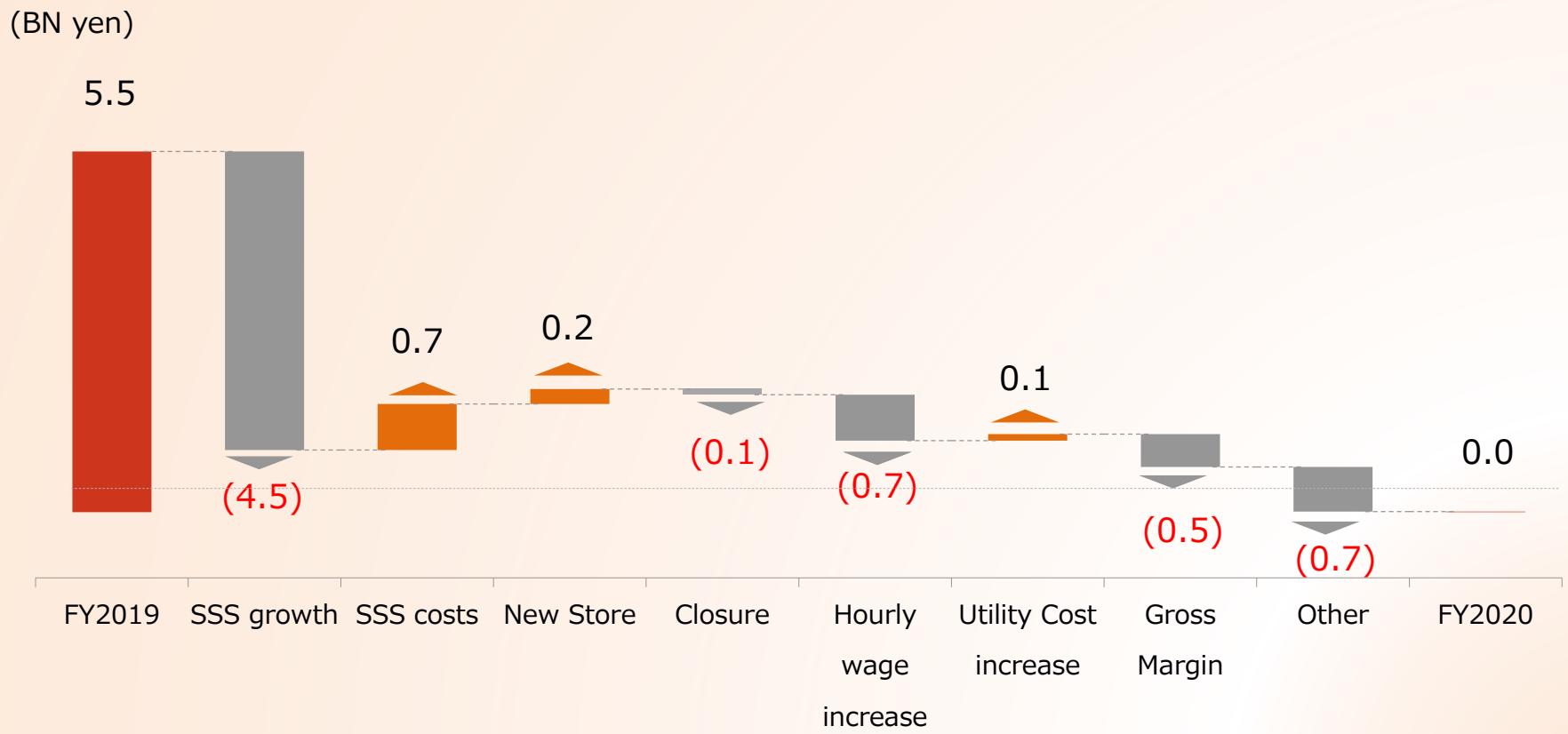
OP Q1FY2020 vs. Q1FY2019 (3 months)

- **OP decreased by (5.5)bn yen**
- **The deterioration of the gross margin is due to the increase in the fixed cost ratio of our own factory due to the large decrease in sales**
- **Existing store costs improved by 700 million due to reduction of advertising expenses**



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Restaurant Development for Q1FY2020



New Openings : 83 new stores opened, mainly Karayoshi, Syabu-Yo and Musashinomori Coffee. Karayoshi increased to 83 stores
Brand Conversions: 8 stores were converted to Karayoshi
Remodels : 10 stores remodeled

Brand	New Openings	Brand Conversion	Closure	End of Mar.2020	Refresh
Karayoshi	9	8	-	83	-
Syabu-Yo	3	-	-	271	-
Musashinomori Coffee	3	-	-	40	-
Jonathan's	1	-	-	295	4
Bamiyan	1	2	-	337	2
FLO Prestige	1	-	(2)	117	-
Steak Gusto	-	-	-	137	3
Gusto	-	1	(1)	1,346	1
Yumean	-	-	-	188	-
Taiwan Skylark Co., Ltd.	-	-	(1)	60	-
Aiya	-	-	-	47	-
chawan	-	-	-	19	-
Others	-	1	(9)	323	-
Group Total	18	12	(13)	3,263 stores compared to end Dec.2019 +5	10

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Appendix

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Safety and Hygiene Initiatives

For the safety and peace of mind of customers

- Customers are encouraged to use alcohol-based sanitizer upon entering the restaurants and after using the rest room
- Plastic protective screens have been installed in front of cash registers
- At the cash register, change trays are used instead of transferring cash directly from hand to hand
- Equipment for sanitizing and disinfecting the restaurant space is provided
- Nylon gloves are provided for customers who wish to use them

Initiatives for Eat-In

- Employees wash their hands frequently and use alcohol-based spray as disinfectant both at work and during serving times
- Employees must wear masks and masks have been distributed to all employees
- Entrance door knobs, handles, handrails, the drink bar corner, tables, order terminal screens and other surfaces are sanitized frequently
- Dusters are classified by use, color-coded, and sterilized with boiling water every day
- The serving tongs used by customers are regularly changed and washed (in the case of buffet-style dining, customers are given tongs for their own exclusive use)
- Customer seating areas are regularly ventilated

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Safety and Hygiene Initiatives



Initiatives for home delivery and takeout

- Employees use an alcohol-based sanitizer/disinfectant when packing products
- Upon arrival at the delivery destination, carriers always wear gloves
- Customers are advised to choose a safe place for deliveries and to pay by credit card to minimize contact with the carrier.
- Containers used to deliver products are regularly disinfected
- Delivery vehicles are also regularly cleaned

For the safety and peace of mind of restaurant employees

- Employees have their temperature checked and recorded when at work and anyone who is unwell (with a temperature over 37oC or other symptoms) is not permitted to work
- Employees wash their hands properly before and after their breaks and after using the rest room
- Employees who are in contact with customers always wear masks to prevent the spread of coronavirus
- Visors will be distributed to employees wanting to wear them from the end of May to stop employees from getting infected
- A route through which employees can report or seek advice on suspected coronavirus symptoms they or their families are experiencing has been established

Initiatives at headquarters

- Switch to remote work on a rotating basis, leave enough space between desks
- Suspend large meetings and corporate events
- Setting mandatory rules for regular hand wash, use of alcohol-based sanitizer, temperature check, and use of face masks
- Cross-division discussion to prevent infections and reinforcement of rules
- Use of desk divider screens

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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
- Regarding this adjustment, (1) the current interest expense is the low interest rate after the modification of the borrowing terms, (2) the consistency with the financial figures up to now, and from the above viewpoints, it is added back to the current profit as an adjustment item
- Eligible borrowings were repaid in June 2019 and this adjustment will no longer occur from this period

(Bn yen)	Q1FY2020	Q1FY2019	Variance
Net income	**0.2**	**2.7**	**(2.5)**
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 IFRS	-	0.5	(0.5)
Adjusted subtotal(before tax)	-	0.5	(0.5)
Tax effects for adjustments	-	0.2	(0.2)
Adjusted subtotal(after tax)	-	0.3	(0.3)
Adjusted net income	**0.2**	**3.0**	**(2.7)**

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