

Skylark Holdings Co., Ltd.

FY2021 First Quarter Financial Results

May 14, 2021

Executive Summary

Q1FY2021 Results

- **Sales 64.8bn yen ((21.9)bn yen, (25)%)**
  - ✓ Same Store Sales (vs.2019) (31.1) %
  - ✓ Same Store Sales (YoY) (23.4) %, Traffic (29.6)%, ATP +8.7%
  - ✓ Delivery sales: 9.9bn yen (+47%YoY), Takeout sales: 5.5bn yen (2.3x YoY)
- **OP (1.3)bn yen ((1.3)bn yen YoY)**
  - ✓ OP decrease is limited to (1.3)bn yen vs. sales decline of (21.9)bn yen
  - ✓ Strengthen our high profit structure by reducing costs by 3.9 billion yen and improving productivity

FY2021 Guidance Revised

- **Sales** 310bn yen⇒ 285bn yen ((25.0) bn yen)
- **OP** 5.0bn yen⇒ 5.0bn yen (±0)
- **Dividend** TBD ⇒ TBD

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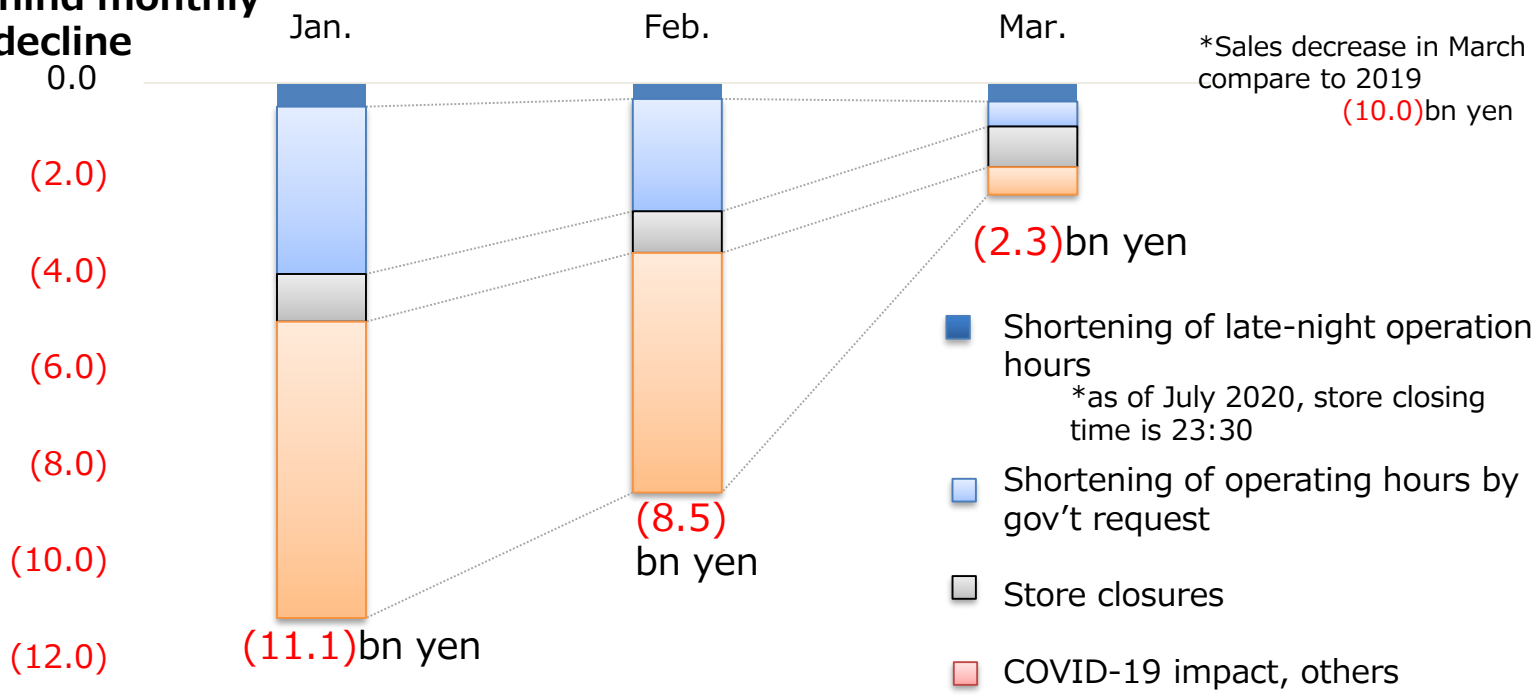
1Q2021 Sales Analysis

■ **The main factor behind the year-on-year decrease in sales of (21.9)bn yen was the impact of COVID-19 in January and February**

Sales (bn yen)

1Q2020	1Q2021	YoY
86.7	64.8	(21.9)

Factors behind monthly YoY sales decline



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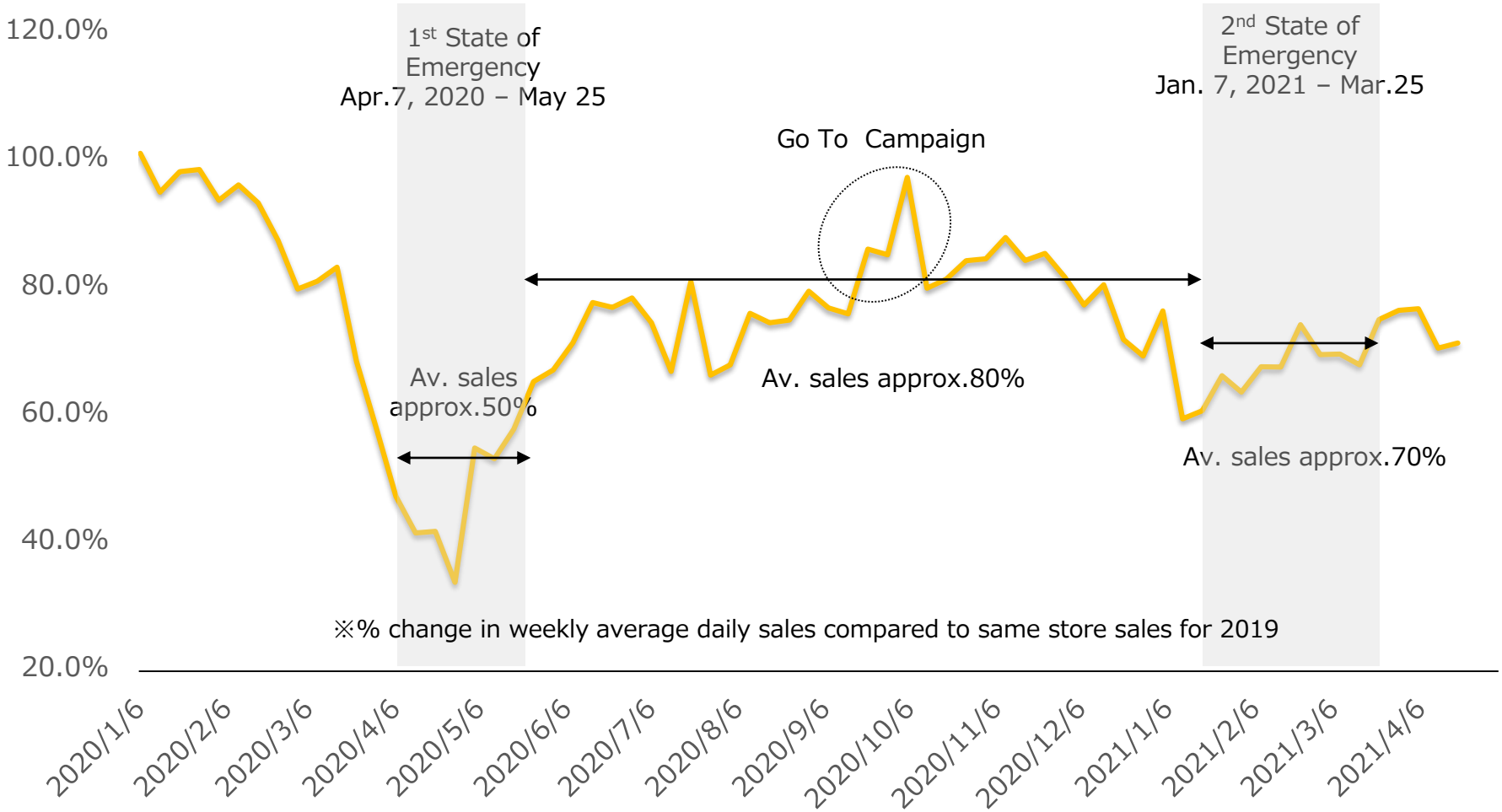
Same Store Sales (vs.2019)

- Under the 1st declaration of a state of emergency, sales declined to approx. 50% compared to 2019, but recovered to approx. 80% after the declaration was lifted
- Under the declaration of state of emergency in 2021, we were able to secure approx.70% of 2019



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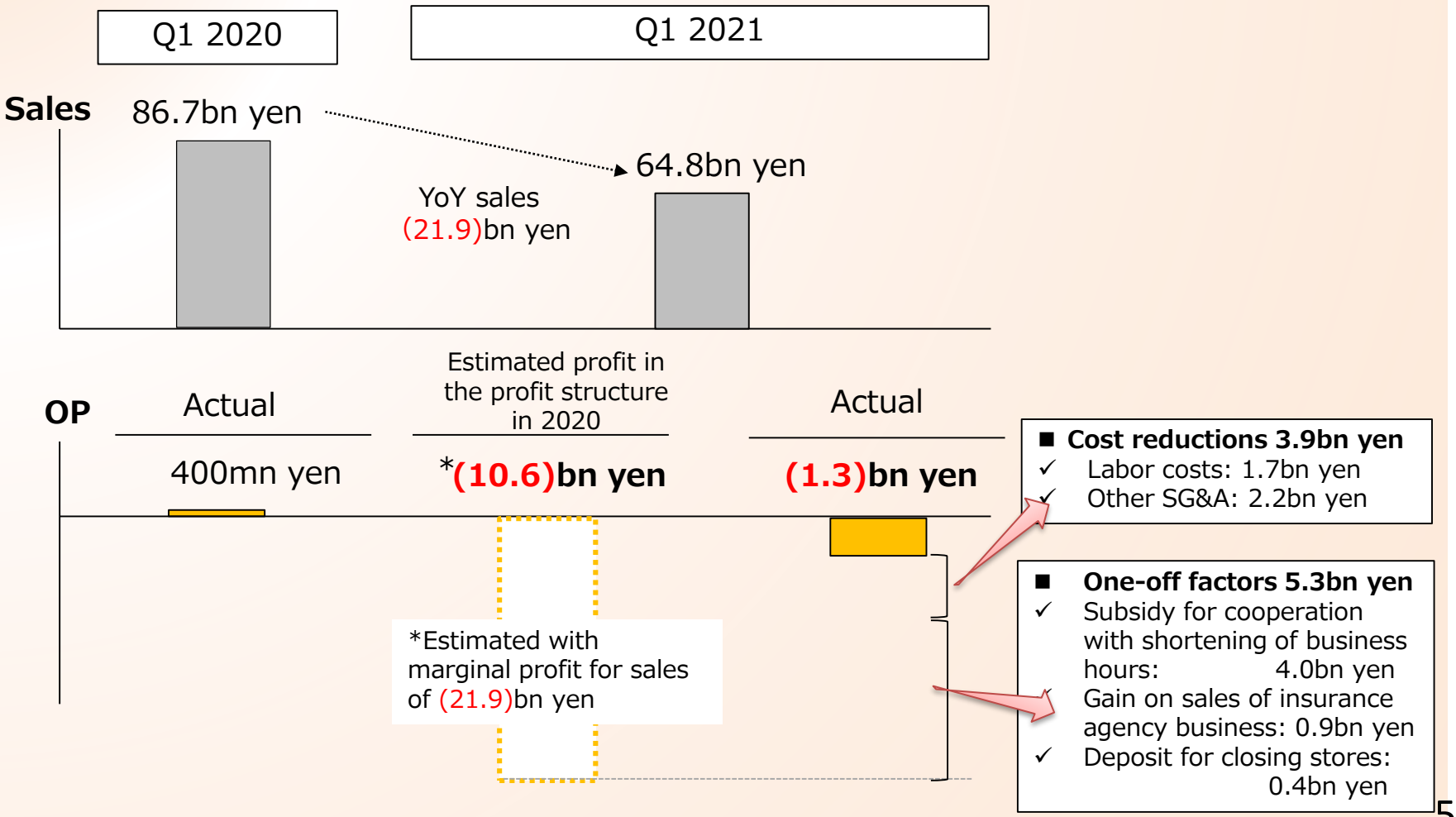
Establishing a High Profit Structure

- **Continue cost reduction in Q1**
- **Lowered the break-even point to establish a high profit structure**



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Revision of FY2021 Guidance



- **Sales revised down to 285bn yen from 310bn yen**
  Changed SSS (vs.2019) assumption to (23)% incorporating longer than previously estimated COVID-19 impact
- **Profit guidance remains the same**
  The initial profit guidance remains unchanged, considering further cost reductions, measures to improve profitability, and subsidy for cooperation with shortening of business hours

IFRS

(bn yen)	Previous Guidance	Revised Guidance	Difference
Sales	310.0	**285.0**	(25.0)
OP	5.0	**5.0**	-
Profit before tax	1.0	**1.0**	-
Net income	0.4	**0.4**	**-**
Dividend per share	TBD	**TBD**	**-**

Assumption

	Previous Guidance	Revised Guidance
SSS (vs.2019年)	▲16%	**▲23%**
New openings	40-50	**40-50**
Brand conversions	50-60	**50-60**
Capex	13.0-15.0 bn yen	**13.0-15.0bn yen**
Forex	¥106/$	**¥106/$**

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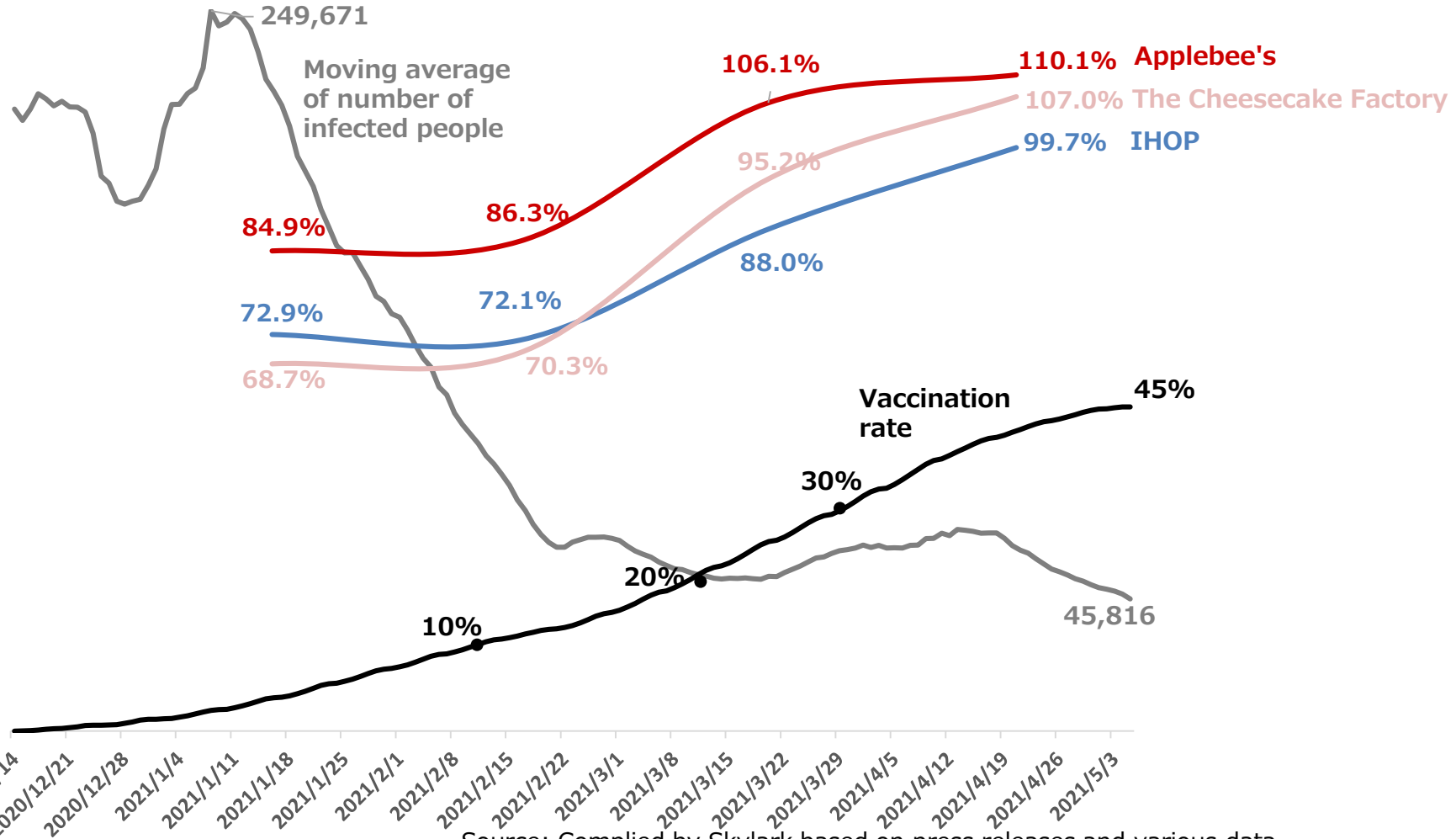
U.S. Vaccination Rate and Restaurant Company Sales (vs. 2019)

- Sales recovery of restaurant companies accelerates when vaccination rate reaches around 20%



Source: Complied by Skylark based on press releases and various data

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Financial Results for 3-month period ended March 31 2021

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Key Financials for Q1

- Sales 64.8bn yen (25.3)% YoY, OP (1.3)bn yen
- Adjusted net income (1.9)bn yen and adjusted ROE also turned into red
- New store openings and brand conversion progress on track. Remodeling has been discontinued to control cash out

	2020 Q1 (3 months)	2019 Q1 (3 months)	%YoY
Sales	**64.8bn**	**86.7 bn**	(25.3)%
Same Store Sales Growth	-	-	*(23.4)%*
Traffic	-	-	*(29.6)%*
Average Ticket Price	-	-	*8.7%*
Operating Profit	**(1.3)bn**	**0**	-
Adjusted Net Income	**(1.9)bn**	**0.2 bn**	-
Adjusted ROE	**(15.9)%**	**5.7%**	(21.6)%
Store Footprint	**New store 21, Brand conversions 51**		

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

- **Gross Margin :** Remained at 69.0%, deterioration of gross margin due to sales decline was covered by increased in-house production and improvement of logistics efficiency
- **Non operating incomes:** Increased 5.6bn yen YoY, mainly due to government subsidy and gain from sales of insurance agency business
- **Labor:** Decreased 5.6 bn yen YoY, mainly due to a decrease in fixed labor costs resulting from shortened operating hours
- **Other SG&A:** Decreased 2.6bn yen due to cash out control F
- **Financing Cost:** Increased temporarily due to the upfront fees of long-term commitment line which concluded on Feb 12, 2021

	Q1FY2021(3months)		Q1FY2020(3months)		Variance	
	Bn	% of Sales	Bn	% of Sales	Bn	%YoY
Sales	64.8	100.0%	86.7	100.0%	(21.9)	74.7%
COGS	(20.1)	(31.0)%	(26.9)	(31.0)%	6.8	74.7%
Gross Margin	44.7	69.0%	59.8	69.0%	(15.1)	74.8%
Non-operating incomes	5.7	8.8%	0.1	0.1%	5.6	5427.6%
Labor	(26.2)	(40.4)%	(31.9)	(36.7)%	5.6	82.3%
Other SG&A	(24.0)	(37.0)%	(26.5)	(30.6)%	2.6	90.3%
Non-operating expenses	(1.5)	(2.4)%	(1.5)	(1.7)%	(0.0)	101.4%
Operating Profit	(1.3)	(1.9)%	0.0	0.0%	(1.3)	(3140.6)%
Financing Cost	(1.6)	(2.4)%	(0.9)	(1.0)%	(0.7)	183.2%
Profit Before Tax	(2.8)	(4.4)%	(0.8)	(0.9)%	(2.0)	348.0%
Tax Expense	0.9	1.4%	1.1	1.2%	(0.1)	88.5%
Net Income	(1.9)	(2.9)%	0.2	0.3%	(2.1)	(761.8)%
Adjusted Net Income	(1.9)	(2.9)%	0.2	0.3%	(2.1)	(761.8)%

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Condensed Consolidated Balance Sheets

- **Goodwill 146.0bn yen: Limited possibility of large amount of impairment loss to occur, based on the assumption that earnings level will return to 2019 levels around 2023**
- **Debt 155.8bn yen: : Long-term debt moved to short-term debt because of a violation of financial covenants is moved back to long-term debt as the financial covenants have been lifted**

(Unit : Bn yen)	Q1FY2021	FY2020	Variance	Q1FY2021 notes
Assets:				
Current assets	36.1	36.3	(0.2)	
Non-current assets	408.4	405.4	3.0	**Balance of goodwill 146.0bn yen**
Total assets	444.5	441.7	2.8	**Balance of right-of-use asset 113.1bn yen**
Liabilities:				
Current liabilities	107.7	203.7	(96.0)	**Balance of short-term debt 36.8bn yen**
Non-current liabilities	224.6	124.2	100.4	**Balance of long-term debt 118.9bn yen**
Total liabilities	332.3	327.9	4.4	**Balance of lease liability 113.7bn yen**
Equities:				
Equity attributable to owners of the company	112.2	113.8	(1.6)	
Total shareholders equities	112.2	113.8	(1.6)	
Equity ratio	25.2%	25.8%	(0.5)%	
Adjusted ROE	(15.9)%	(14.0)%	(1.9)%	
Net leverage ratio	7.4 x	6.5 x		

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

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Condensed Consolidated Statements of Cash Flows

- Operating cash flow: decreased by (4.8)bn yen to 1.8bn yen, in addition to decrease of pre tax income, the impact of payment of consumption tax and social insurance of (7.8)bn yen, which had been deferred for one year due to COVID-19, +3.9 billion due to the decrease in corporate tax
- Investment cash flow: spending reduced by 0.6bn yen to (5.0)bn yen
- Financial cash flow: reduced spending by 3.2bn yen to 0.5bn yen, increase in borrowing of 0.8bn yen and decrease in dividend payment of 1.9bn yen

(Unit: Bn yen)		Q1FY2021	Q1FY2020	Variance
Operating cash flow	(a)	1.8	6.5	(4.8)
Investment cash flow	(b)	(5.0)	(5.6)	0.6
Free cash flow	(a)+(b)	(3.2)	0.9	(4.2)
Financial cash flow	(c)	0.5	(2.7)	3.2
Loan		9.8	9.0	0.8
Dividend		(0.0)	(1.9)	1.9
Others		(9.3)	(9.7)	0.5
Change in cash	(a)+(b)+(c)	(2.6)	(1.7)	(0.9)
Cash balance at closing		14.4	17.2	(2.8)

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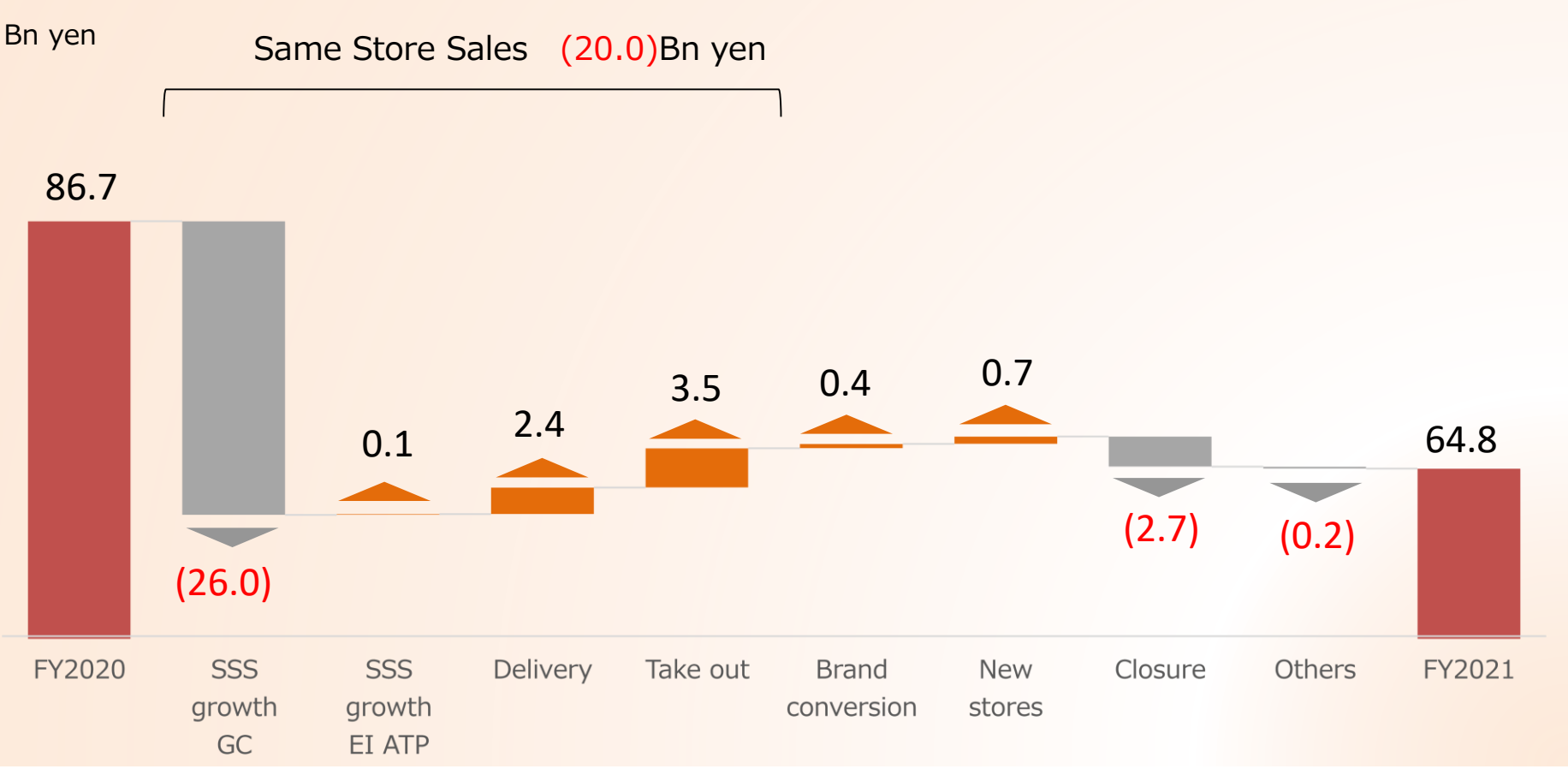
Sales Q1FY2021 vs. Q1FY2020 (3months)

- **Sales decreased by (21.9)bn yen to 64.8 bn yen.**
- **Customer traffic declined due to COVID-19 impact. However, sales from delivery and take out increased significantly**



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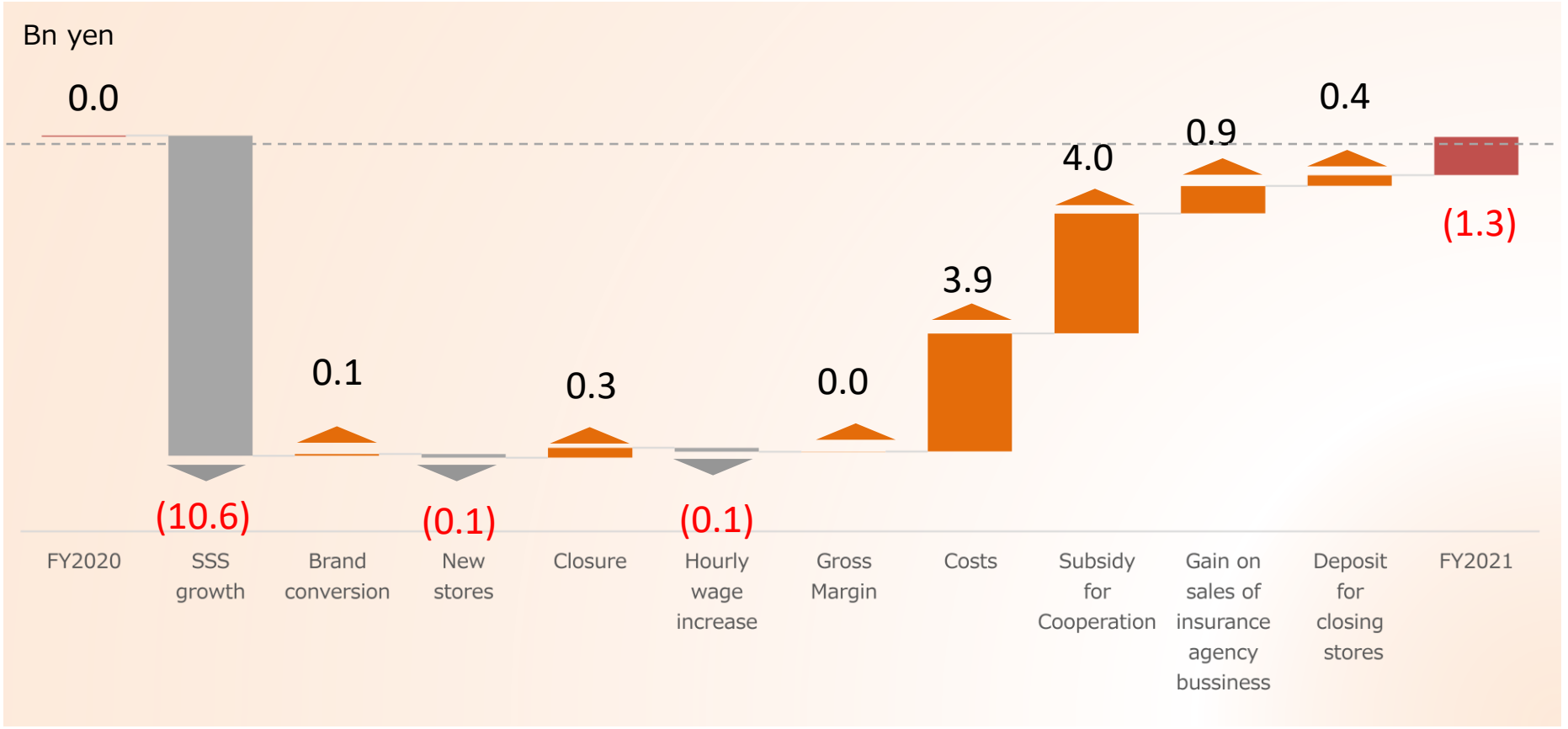
OP Q1FY2021 vs. Q1FY2020 (3months)

- **OP declined by (1.3) bn yen**
- **OP improved by cost reduction of 3.9 bn yen**
- **Booked government subsidy of 4.0bn yen for cooperation of shortening of operating hours, capital gain of 0.9bn yen from selling of insurance agency business. Subsidy includes amount for applications filed by March 31**



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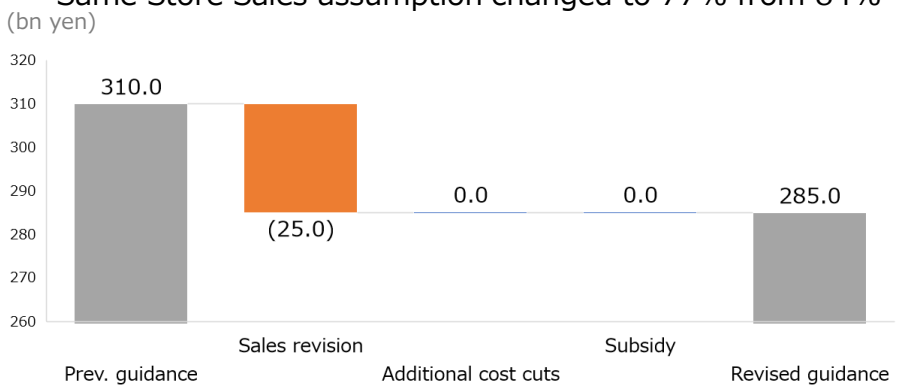
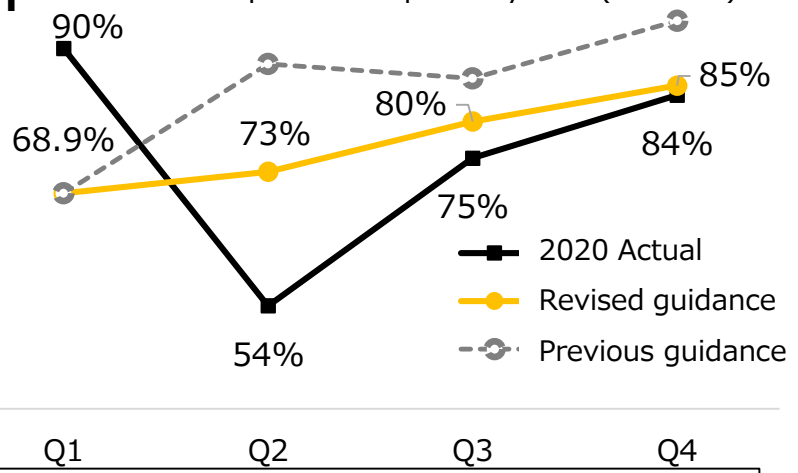
Revise FY2021 Guidance

■ Sales: revised to 285bn yen from 310bn yen

Same Store Sales assumption changed to 77% from 84%



Assumptions for quarterly SSS (vs.2019)

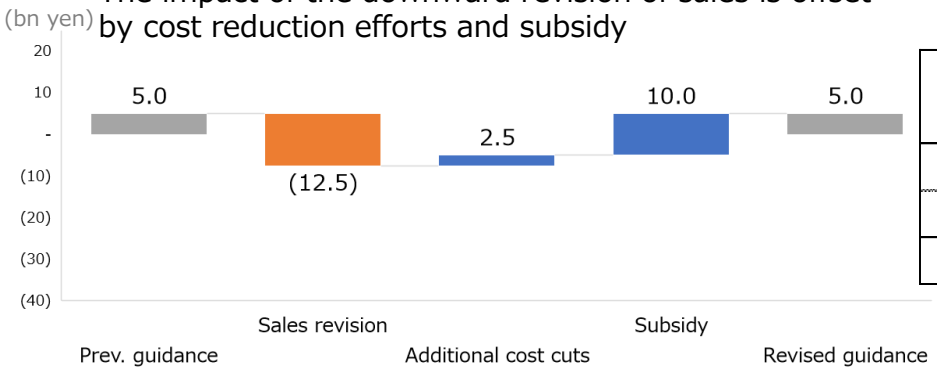


Reasons for changing SSS assumptions

Q2: Considering the impact of 4th wave of COVID-19 and the extension of the state of emergency
Q3: Considering slow down of the decrease of infected people due to the spread of variant virus
Q4: Vaccination is to gradually expand, although it is behind the initial expectations

■ OP: no change at 5.0bn yen

The impact of the downward revision of sales is offset by cost reduction efforts and subsidy



Cost reduction (vs.2019)

(bn yen)	2020 Actual	2021 Initial plan	2021 Additional	**Total**
COGS	0.8	1.5	0.7	**2.2**
SG&A	15.5	14.0	1.8	**15.8**
Total	16.3	15.5	2.5	**18.0**

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Restaurant Development for Q1FY2021



New Openings: 21 new openings mainly “Syabu-Yo” and “Gusto”
Brand Conversions: 40 stores were converted mainly to “Gusto”, “Musashino Mori Coffee”, and “La Ohana”
Closures: 31 stores closed (mostly included in 200 store closures announced in 2020)
Remodels: No remodeling in order to control cash out

Brand	New Openings	Brand Conversions	Closures	End of Mar.2021	Refresh
Syabu-Yo	5	5	-	272	-
Gusto	4	14	(9)	1,333	-
Bamiyan	3	4	(6)	339	-
Musashino Mori Coffee	2	8	-	55	-
Taiwan Skylark Co., Ltd.	2	-	(1)	62	-
Karayoshi	1	-	-	90	-
chawan	1	-	-	20	-
La Ohana	-	6	-	9	
Jonathan's	-	-	(3)	230	-
Yumean	-	-	-	177	-
Steak Gusto	-	-	-	126	-
Aiya	-	-	-	45	-
Others	3	3	(12)	357	-
Group Total	21	* 40	(31)	3,115 stores compared to end Dec.2020 (11)	-

*Total number of brand conversions excludes 11 stores that are temporarily closed for store renovations

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Appendix

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3 Phases to Transform into a “Integrated Food Service Company”

	First Phase 2021~2022	Second Phase 2022~2025	Third Phase 2025~
Target	Build High Profit Structure	Develop business model for the next era	Increase market share
Key pillars	1 Promote Digital Transformation 2 Strengthen Chain Store Foundation 3 Promote Environmental Initiatives		
Strategy	Strengthen SSS and build a solid foundation ① Expansion of delivery and take-out ② Brand conversions ③ Maximum use of business resources of existing stores ④ Menu development respond to consumer demands	① Franchise business ② Full scale expansion of EC business ③ Full scale expansion of overseas stores ④ Food distribution service to seniors and business offices	① Business scale expansion through M&A ② Expansion of business executed in the 1st and 2nd phases

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Strategies to Build High Profit Structure in Post Covid-19 Market

- **Transform into a “Integrated Food Service Company” from a Chain Restaurant**
- **Strengthen Same Store Sales and Build a Solid Foundation**

Expansion of delivery and take-out

Responding to diversifying consumer needs
Expansion of delivery format

Brand conversions

Reconstruction of store portfolio to meet consumer demand

Maximum use of business resources of existing stores

Cultivate new business opportunities utilizing existing resources

Menu development respond to consumer demands

Create value-filled menus with themes of "enjoying dining out" and "healthy choices"

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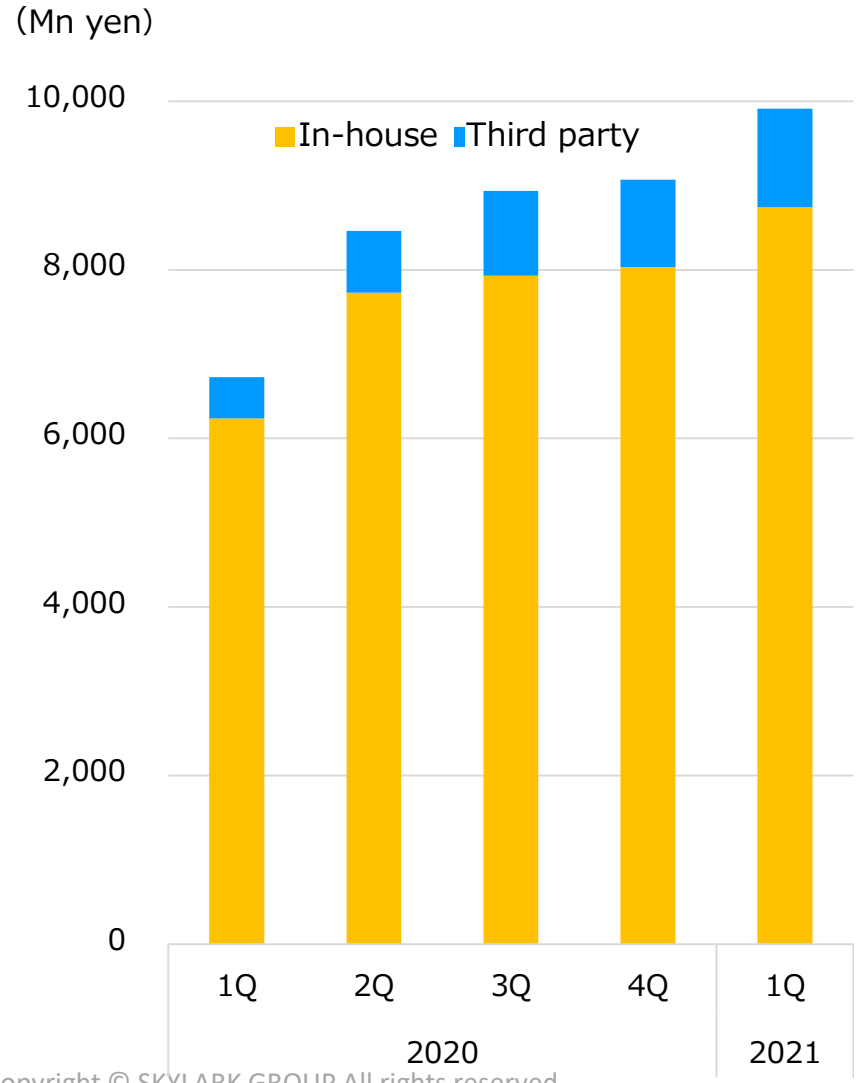
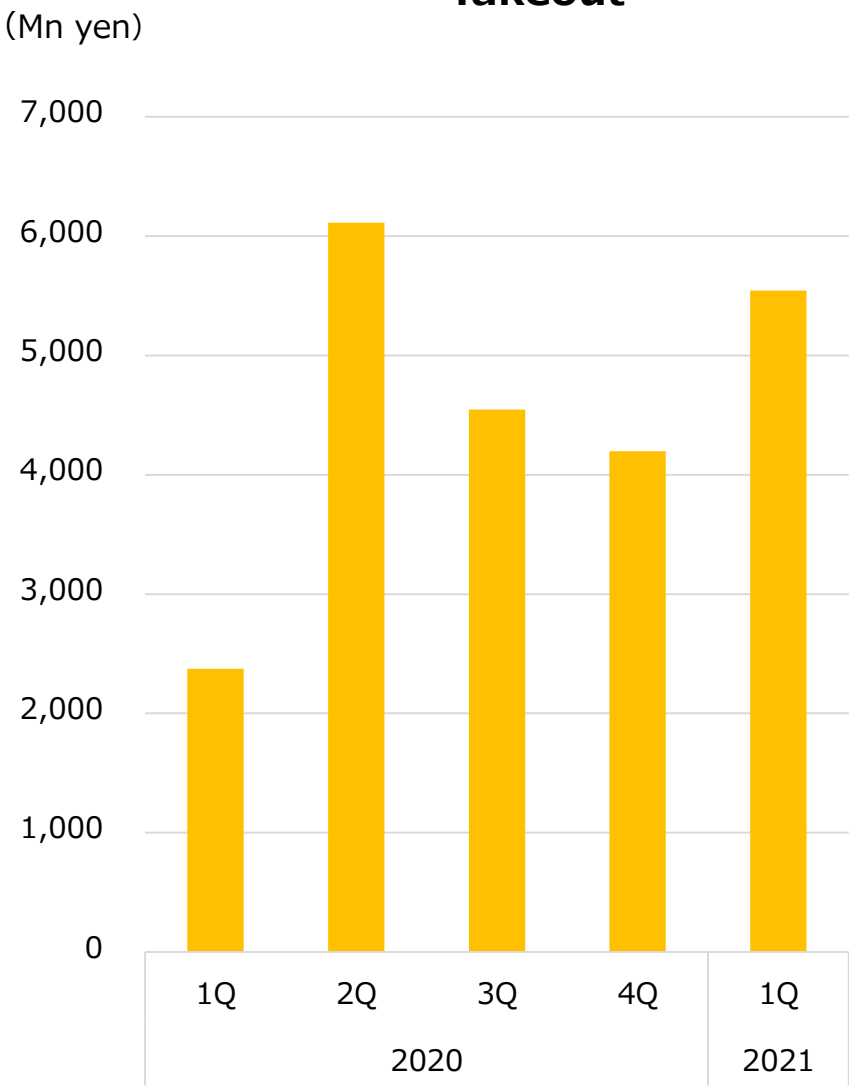
Delivery and Takeout Sales



Delivery



Takeout



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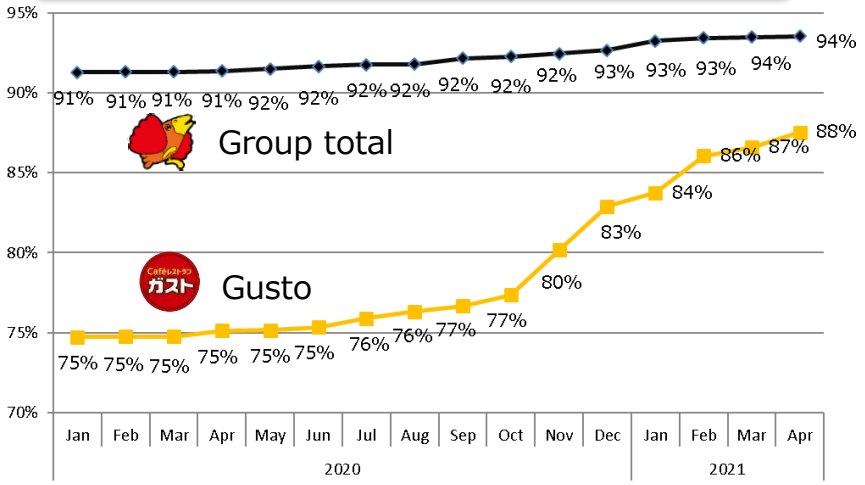
Sales Expansion of Delivery

Improved Delivery Efficiency

- ✓ Utilizing more than 20-year of in-house delivery experience
- ✓ Continuous improvement in delivery quality, customer support, and operation efficiency
- ✓ Strong delivery support function: 4,000 delivery vehicles, more than 10,000 drivers with proprietary delivery application

Delivery household coverage rate in Greater Tokyo

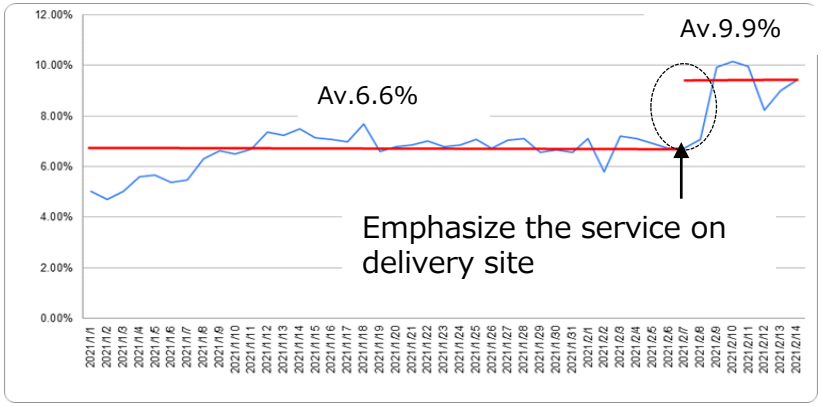


Delivery brand expansion

- ✓ # of delivery brands (in-house): 1,285 stores (as of March 2021)

- ✓ # of delivery stores (in-house & third party) : 2,000 stores

Door-step Drop-Off Delivery Service



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Delivery Format Expansion

Expansion of joint delivery

- **Joint delivery that shares delivery staff among multiple brands in the area**

  Utilize other stores' delivery staff at 186 stores

- **Delivery area expanded with improvement in delivery staff app**

delivery staff app



Cloud kitchen concept

To fill blank areas that cannot be covered by normal stores

- **Average daily sales after opening the cloud kitchen**

  Delivery: +160%

  Take-out : +420%

  Compared to Gusto average daily sales

- **7 more stores to be opened in 2021**



Available brands

Gusto / Karayoshi / Bamiyan

Shin-Nakano store opened on Feb 26, 2021

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Brand Conversions

Reconstruction of brand portfolio

■Opening Musashinomori Coffee in shopping malls



Sales after conversion +62%

Musashino Mori Coffee, AEON Mall Hinode in Tokyo

Opened on Feb.24,
90 days before opening vs. Feb.24 - Mar.14



Sales after conversion +32%

Musashino Mori Coffee, iias TSUKUBA in Ibaraki

Opened on Mar.27
90 days before opening vs. Mar.27 - Apr.13

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Brand Conversions

Reconstruction of brand portfolio

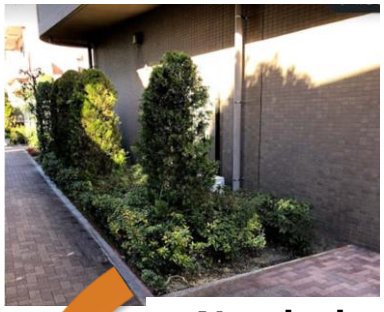
■ **Convert into high delivery sales brand, Bamiyan**



Sales after conversion +353%

Bamiyan, Heiwadai Station-Front Store in Tokyo

Opened on Mar.25,
90 days before opening vs. Mar.25 - Apr.13



Newly-built delivery vehicle parking



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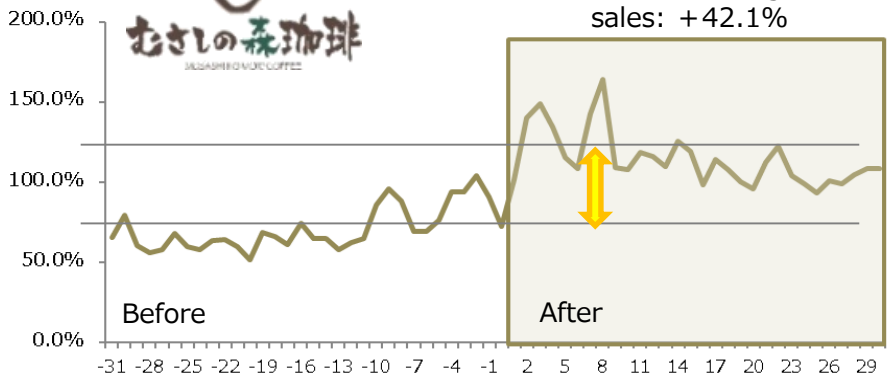
Brand Conversions

Reconstruction of brand portfolio

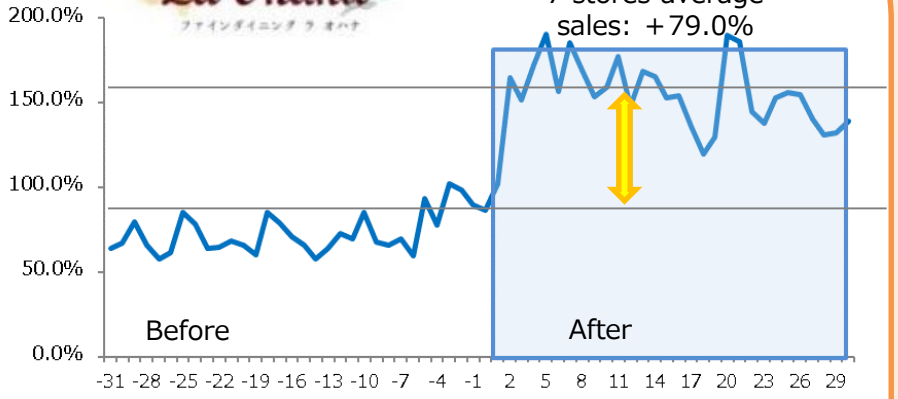
Musashino Mori Coffee

8 stores average
sales: +42.1%



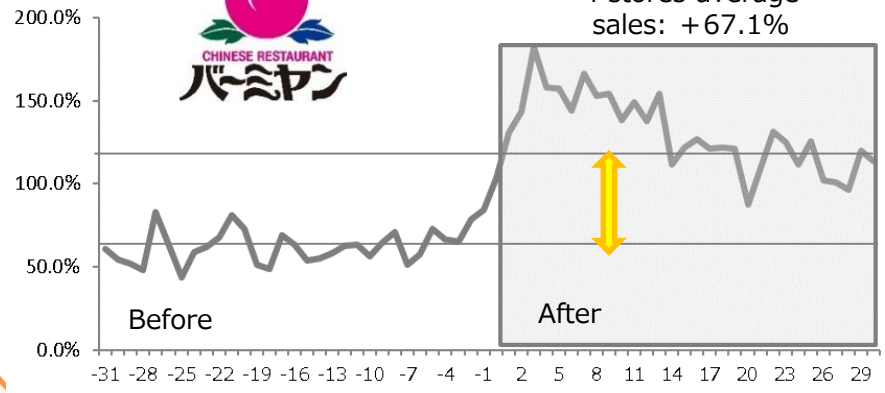
La Ohana

7 stores average
sales: +79.0%



Bamiyan

4 stores average
sales: +67.1%



Note: Comparison before and after conversion

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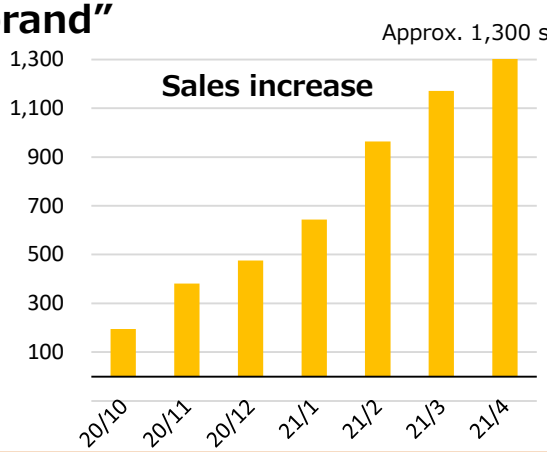
Maximum Use of Business Resources of Existing Stores

Karayoshi IN Gusto

Opened our own karaage brand, Karayoshi into 1,300 Gusto stores nationwide as "Brand within brand"

- Bringing in a new set of customers
- Sales after opening "Karayoshi" in Gusto
  - Take-out +32%
  - Delivery +6%

Comparison of sales of stores introduced up to February vs. of stores not implemented

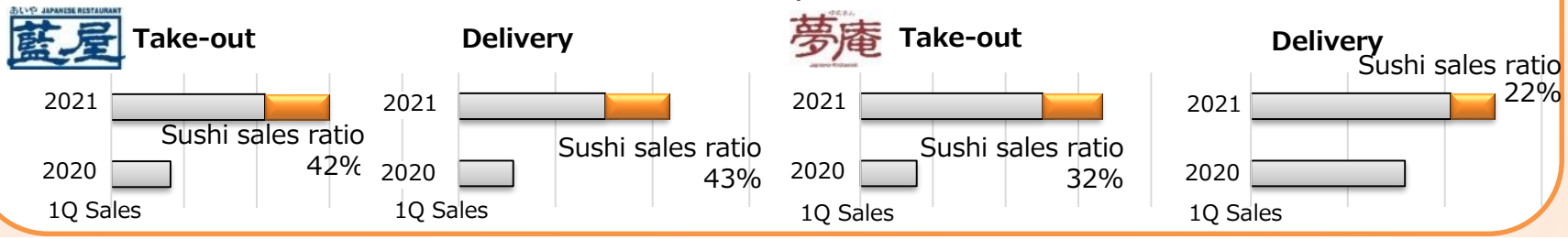






Expand the know-how of our own "sushi specialty store" to other Japanese brands

- As dining out becomes a more special opportunity, developed specialty menu items which contributed to take-out and delivery sales increase



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Menu Strategy

Creating value with the themes of "enjoying dining out" and offering menu items with "commitment to ingredients"













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Menu Strategy

Offering tourist-like experience with local menu ingredients and items

【Toyama Fair】

夢庵 Japanese Restaurant

あいや JAPANESE RESTAURANT 藍屋









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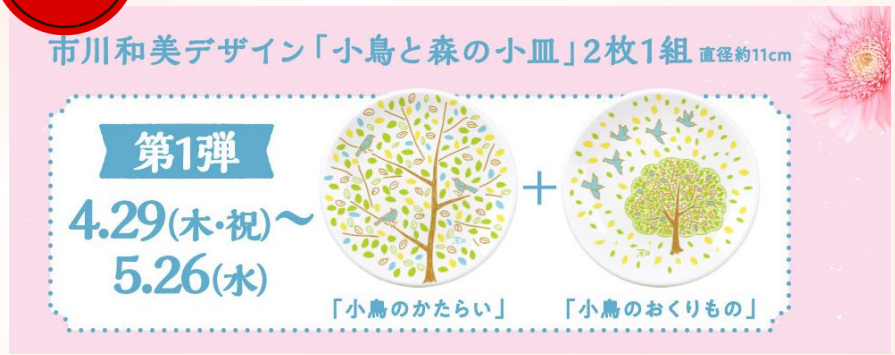
Promotion Strategy : Customer Retention

Implementing promotions which attract repeat customers

【Small plates offering】

Designed by recognized artist



【"Kutabe" paper charm offering】

夢庵 Japanese Restaurant / あいや JAPANESE RESTAURANT 藍屋

Zuiryuji Temple: National Treasure in Toyama



Charm from Zuirinji Temple



Attracting revisit by giving coupons exchangeable to special plates on customers' next visit

"Toyama Fair" sales were 150% higher than planned. Gave away lucky charms to customers who ordered special menus

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Digital Transformation

Value to customers **Improve employee productivity**

■ Digital Menu Book

Available at all main brands except Japanese brands
To expand to Japanese brands within 2021



■ New functions to be available on Skylark in-house apps

Enabling advance payment for take-out orders (Summer 2021)

Strengthen touch point with customers

- **Expansion of self checkout and table payments, etc.**
- **In the future, we plan to support a wider variety of payment methods, such as enabling shareholder benefit cards to be used for delivery and take-out**
- **Building systems for one stop provision of various services by integrating the authentication infrastructure (delivery / takeout / EC, etc.)**

Improve employee productivity

■ Order-stop Management System

Installed at All Group Restaurants (Apr. 2021)

■ Enhancing delivery staff app functions and automating delivery time to improve delivery efficiency

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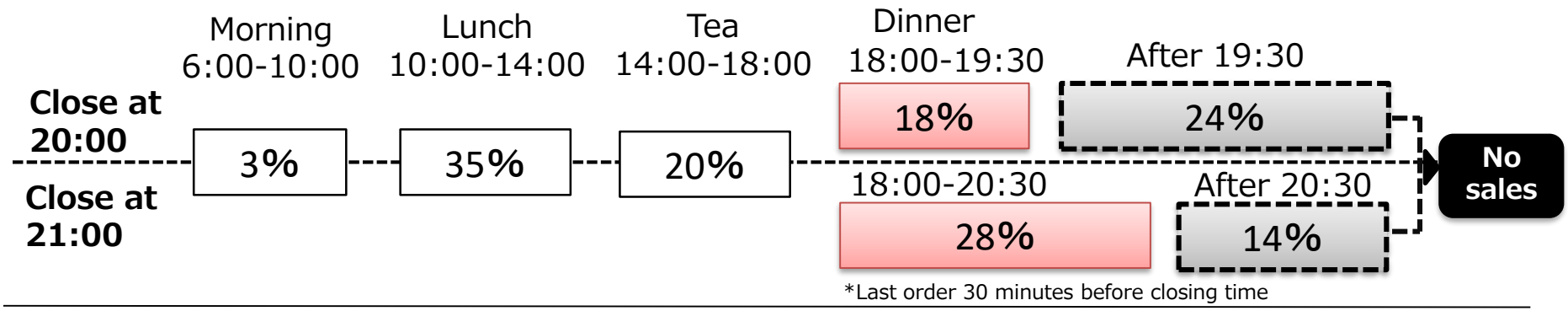
Sales Impact of Shortened Business Hours

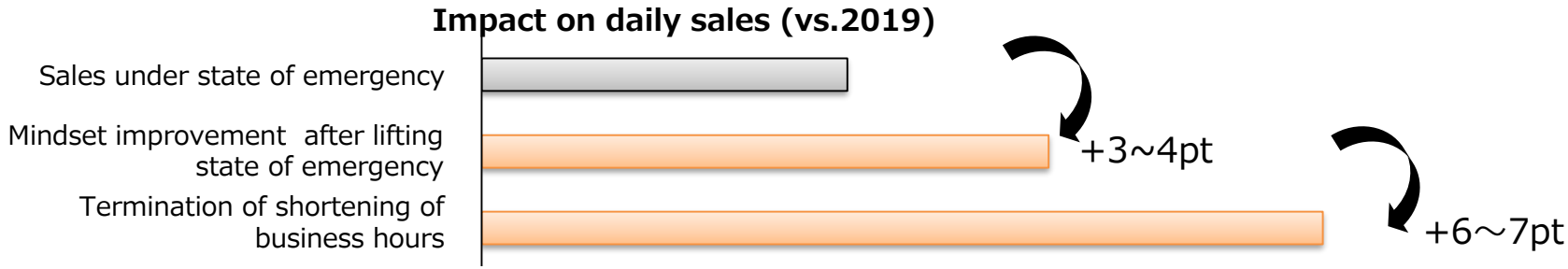
- **Sales are down by 24% when stores close at 20:00 and by 14% when stores close at 21:00**
- **Sales to recover approx. 10% by terminating the shortening of business hours**

Sales by daypart (Total daily sales=100%)



*Last order 30 minutes before closing time

- **Expected sales improvement after lifting declaration of state of emergency**



*Calculated from comparison before and after previous declaration of state of emergency

Total sales improvement effected by lifting declaration of state of emergency: 9~11pt

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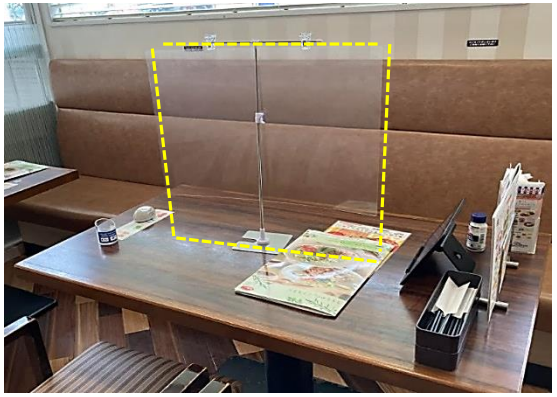
Initiatives for COVID-19 Prevention

- Asking Customer to check temperature and sanitize hands before entering stores
- Asking customers to wear masks unless eating or drinking
- Placing partitions on the customers tables
- Implementing in store ventilation using air conditioning systems
- Thoroughly sanitizing and disinfecting restaurants













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