FY2023 Q2 Financial Results Briefing

Skylark Holdings Co., Ltd.

August 10, 2023

H1FY2023 Results: Executive Summary

H1FY2023 Results

- **Sales 169.8 bn yen (+28.2 bn yen, 119.9% YoY)**

Same store sales:	YoY sales	121.3%	Vs FY2019 sales	92.1%
	Traffic	108.1%	Traffic	82.2%
	ATP	112.2%	ATP	112.0%

- **BP※ 5.6 bn yen (+14.6 bn yen YoY)**
- **OP 2.9 bn yen (+5.3 bn yen YoY)**
- **NI 0.5 bn yen (+3.3 bn yen YoY)**

Revised Forecast for FY2023

- **Sales 355 bn yen**
- **OP 10 bn yen**
- **NI 4 bn yen**
- **Dividend/share 6.00 yen**

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※BP (Business profit) is revenue minus cost of sales and SG&A costs

FY2023 Main Management Themes



I. With a business environment of increased costs, promoted profitability improvement reforms in all stores

1）Productivity improvement through DX
2）Cost reductions and reductions in various store operating costs
3）Extension of late-night operating hours and Uber Eats operating hours

II. Implemented experiments for further growth in the post-COVID market

1）Reconsider optimal store allocation for all 3,000 stores
2）Strengthen brand portfolio to respond to changing dining needs
3）Menu experiments to respond to “Cost Performance” needs

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- **Inflationary Environment**
- **H1FY2023 Specific Initiatives**
- **H1FY2023 Financial Results**

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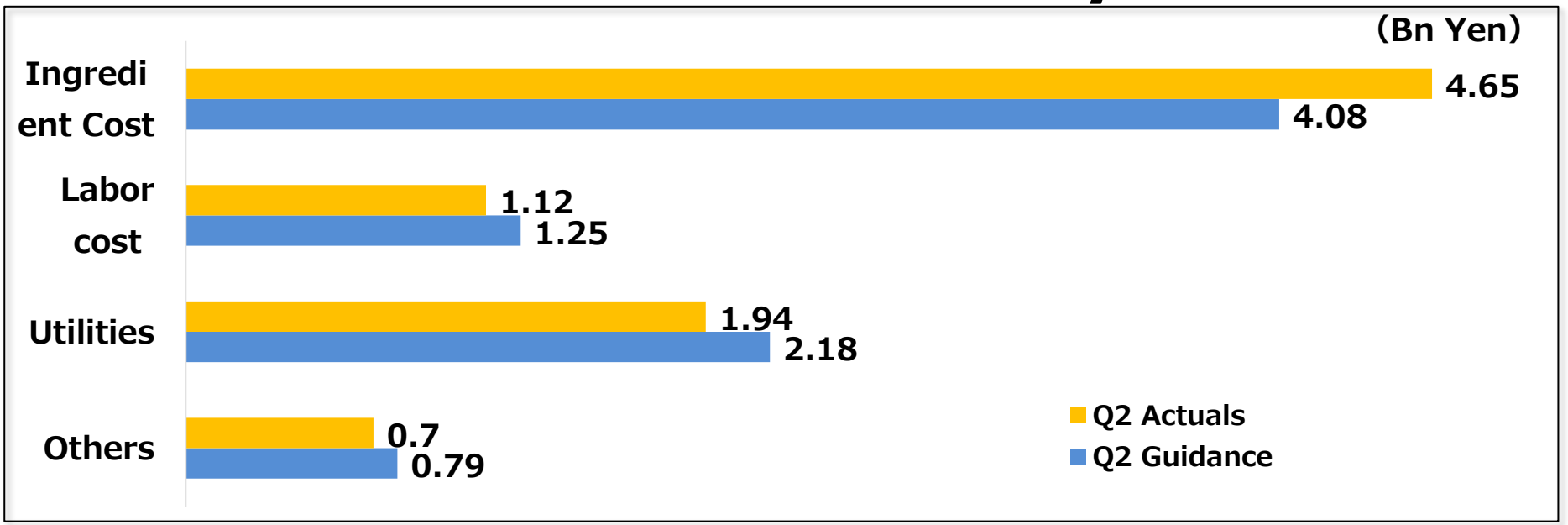
Impact of Inflation

Inflationary impact totals to 8.4 bn yen vs FY2022



※Others: Production and logistics costs, consumables and tableware costs

Reasons for increase in inflation

① Continued impact of weak yen (JPY/USD exchange rate: JPY131 from April to June 2022➡JPY140 from April to June 2023)
② High energy prices
③ Rising logistics cost and increased difficulty of procurement (economic recovery in Europe and U.S.)
④ Continuing high egg prices and soaring pork prices due to the spread of swine fever overseas
⑤ Increase in minimum wage

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Profitability Improvement Reforms in All Stores



Q2 YTD impact

1）Store productivity improvement (DX)
- ◆Floor service robots
- ◆POS system renewal
- ◆Cashless self-checkout counters
- ◆Table-top check-out via order tablets

1 BnYen

2）Reduce store operation costs
- ◆Reduce electricity, water and gas usage volume
- ◆Reduce consumables cost
- ◆Optimization of repair costs

0.7 BnYen

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DX Promotion＝Productivity Improvement

Improve productivity with DX

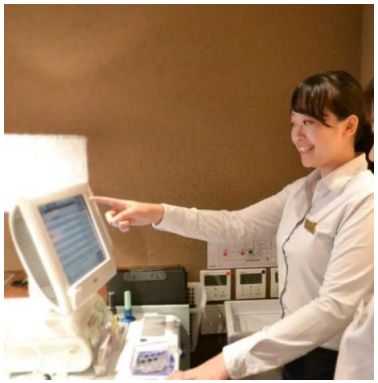
Floor service robots

- Reduced footsteps -42%



POS system renewal

- Reduced labor hours by 0.5hrs/day



Cashless self-checkout counters



- Usage rate: over 30%

Table checkout



- Introduced to 2,400 stores
- Usage rate: approx.10%

Projects under experiment

Self-checkout for cash payments, automated table seating system, coordination between robot and digital menu books

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Cost Reduction in Q2 (to Counter Inflation)

Level 1

- Price negotiations involving relaxation of standards and changes in contract terms
- Selection of suppliers through bidding
- Suppression through large-volume purchasing and long-term contracts

Level 2

- In-house production of outsourced products
- Module and process improvement
- Review of manufacturing sites and batches
- Improvement of logistical efficiency

Level 3･4

- Menu segmentation for efficiency
- Review recipes and ingredients
- Improve gross profit by optimizing prices

- Reduction of food loss in stores

Cross-divisional PJ team

Procurement reform
1 bn yen

H1 Results
0.7 bn yen



Production and logistics reform
0.8 bn yen

H1 Results
0.48 bn yen



Value and cost optimization
1 bn yen

H1 Results
0.57 bn yen



Reduction of loss
0.2 bn yen

H1 Results
0.28 bn yen



Annual target
3 bn yen

H1 Results
Total 2.03 bn yen

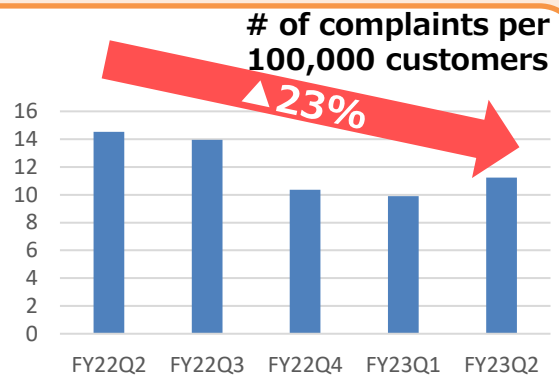
Profitability Improvement at Existing Stores

QSC※ reforms

■ **# of complaints for Q2 improved 23% YoY**

- Online workshops held for part-time employees (36 times/month)
- 4 training centers opened nationwide in FY2023Q2

➡ Started OJT



Sales growth

Major actions — **Assumed impact**

■ **Extension of late-night operating hours**
(Extended late-night operation to a total of 1,755 stores by the end of July※)
Annualized impact 3 bn yen

■ **Extension of hours accepting UberEats orders**

		vs end-March	
• Morning hours extended	860 stores※	(+319 stores)	**Annualized impact 0.6 bn yen**
• Late-night hours extended	650 stores※	(+445 stores)	

Reduction in store operational costs

■ **Operational costs** — **Q2 YoY**

・Utilities usage※	4%(electricity)/12%(water)/3%(gas) improvement
・Consumables cost	16% improvement
・Repairs cost	2% improvement

※QSC: Quality, Service, Cleanliness ※Utilities exclude the impact from extended operating hours
※Store count as of end-July 2023

Strategies/experiments towards sales growth



Q2 YTD impact

1）New stores
◆Careful and selective store opening at station-front locations

→ 13 stores (domestic and international)

2）Conversions
◆Optimal allocation of casual dining brands
◆Eliminate cannibalization between own brands

→ 24 conversions
Sales impact 230%
De-cannibalization impact 12%

3）Remodels
◆100 remodels scheduled for this year

→ 47 remodels (domestic)
Sales impact +3.8%

4）Responding to customer demands for Cost Performance
◆Introduce various cost-performance menus at various price ranges
◆Pricing change for set menus
◆Cost performance menus targeting various customer segments (volume menus, alcohol)

→ Implementing

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New Stores / Remodels

■New Store Openings

- Opened 8 new stores* around major terminal stations
- Continue to aim at opening stores in metropolitan station-front locations and large shopping facilities

New Store Openings: January to June 2023

Brand	# of stores	Sales vs existing stores
Gusto	4	191%
Syabu-Yo	2	136%
Bamiyan	1	135%
Jonathan's	1	213%

■Remodels

- 47 remodels completed by June (domestic)
- Sales impact is+3.8%; planning to remodel 100 stores by the end of the year

*8 new stores opened by Skylark Restaurants in 1H

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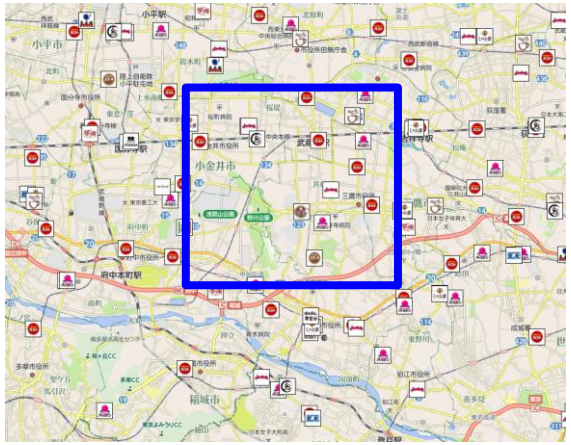
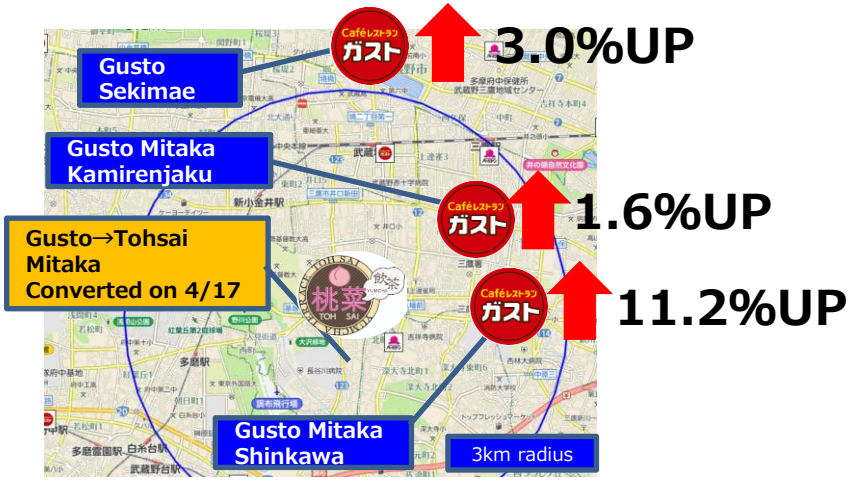
Reconsidering optimal locations for our 3,000 stores

Eliminate self-cannibalization through brand conversions

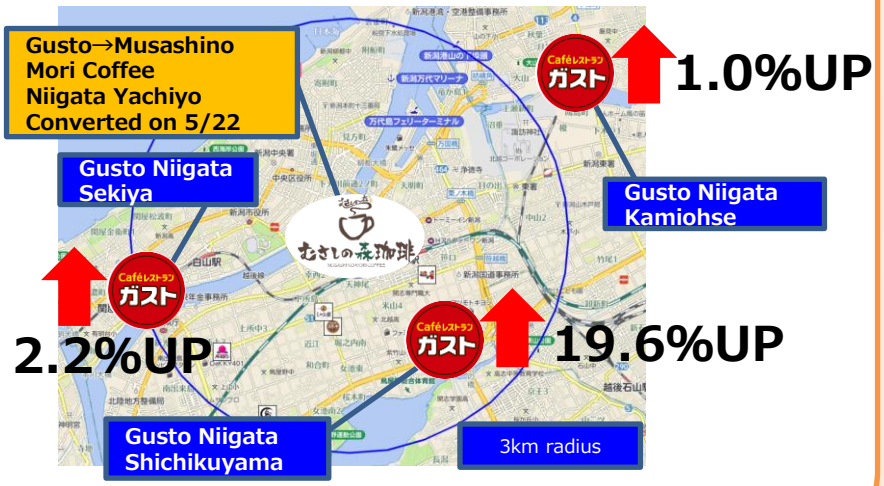
Mitaka store





Niigata Yachiyo store





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Strengthening our brand portfolio

- Improved sales and eliminated self-cannibalization in the area by conversion to casual dining brands
- In 2H, we will continue to convert stores to eliminate self-cannibalization of our stores

■Sales impact of conversion by brand (Stores converted in Jan to June 2023)

Brand	Category	# of stores	Post conversion sales impact	Avg impact of eliminating self-cannibalization※
Tohsai	C/D	7	289%	17%
Musashinomori Coffee	C/D	5	213%	9%
Syabu-Yo	C/D	5	198%	14%
La Ohana	C/D	5	247%	7%
Hachiro Soba	F/D	2	194%	13%
Total		**24**	**230%**	**12%**

Tohsai Mitaka store
Opened on 4/17



※C/D : Casual Dining　F/D : Family Dining
※Average impact of eliminating self-cannibalization at converted stores which have other Skylark brand stores close by

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Menu Experiment in the Family Dining Business①

Family dining business implemented various experiments to create a menu with the "cost performance" wanted by customers. Will reflect our learnings to menu revisions from October across brands.

①50% off coupon festival at Gusto

- 21 kinds of 50% off coupons for **side dishes, alcoholic drinks, and kids menus**
- Average daily traffic during the campaign was **+50ppl and +20 in item order count** (damage to ATP and gross margin was limited)

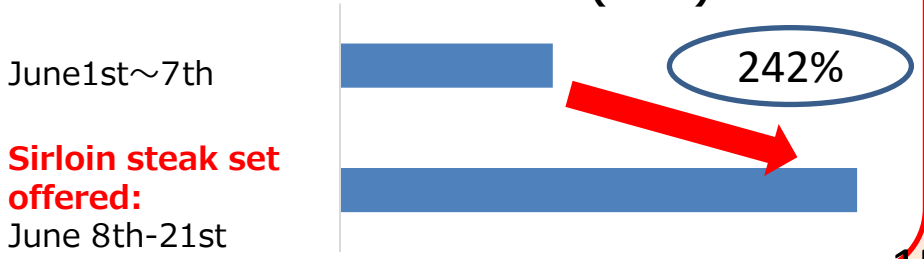


②Sirloin steak set

- Sirloin steak set targeting Father's Day
- **1,000yen more value** than ordering the same menu separately
- Sirloin steak sales soared to **2.4x**



Sirloin steak sales (UPH)



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Menu Experiment in the Family Dining Business②

③Set menus for noodles introduced

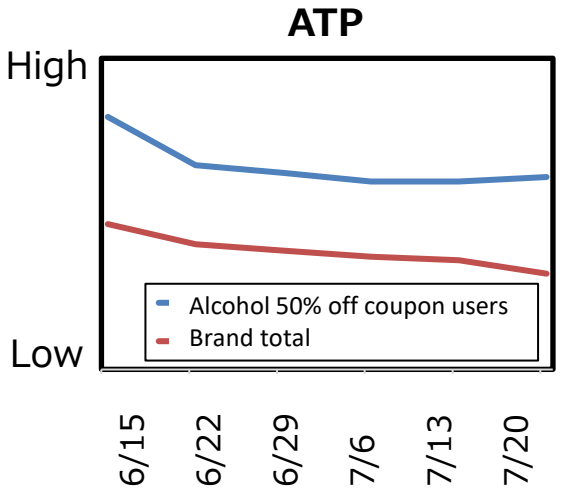
- Affordable set menus for noodles introduced. **Created menu choices to be full within 1,000yen**
- Set menu sales: **1.7x**



④Impact of discounting alcoholic drinks

- ATP of customers using 50% off coupons for alcoholic drinks was higher than brand average
- Number of customers ordering alcoholic drinks became **1.4x**





④Responding to demands for volume menus

- 7/20~Go!Go!CURRY collaboration menu starts
- **Menus with outstanding volume**
- Traffic for increased for both men and women under 29 yrs old



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- Inflationary Environment
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- **H1FY2023 Financial Results**

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Key Financials for Q2 and H1 of FY2023



- **H1 sales 169.8 bn yen, BP 5.6 billion yen**
  ⇒ Improved the profitability structure through price increases, COGS reduction and cost control.
- **OP was 2.9 bn yen. (2.6) bn yen for loss on disposal of goodwill from store closures decided during the previous year was recorded.**

(Unit : Bn yen)

	FY2023 Q2 (6-month)	FY2022 Q2 (6-month)	%YoY	FY2023 Q2 (3-month)	FY2022 Q2 (3-month)	%YoY
Sales	**169.8**	**141.6**	19.9%	**85.2**	**74.5**	14.5%
Same store sales Growth			*121.3%*			*115.2%*
Guest Count			*108.1%*			*103.1%*
Average Ticket Price			*112.2%*			*111.7%*
Business profit	**5.6**	**(9.0)**	-	**3.6**	**(3.2)**	-
Operating Profit	**2.9**	**(2.4)**	-	**3.2**	**(2.2)**	-
Adjusted Net Income	**0.5**	**(2.8)**	-	**1.2**	**(2.3)**	-
Adjusted ROE	**(1.9)%**	**4.1%**	**(6.0)%**	**(1.9)%**	**4.1%**	**(6.0)%**
Store Footprint	**13 New Openings, 24 Brand Conversions, 48 Remodels**			**5 New Openings, 14 Brand Conversions, 24 Remodels**		

Definition of Same Store Sales: 13-month existing stores/including brand conversion/excluding discount from shareholder benefit coupons.
GC includes delivery (calculated by delivery sales divided by the average eat-in ATP).
ROE: LTM base. Converted stores do not include 9 stores that have not yet opened.

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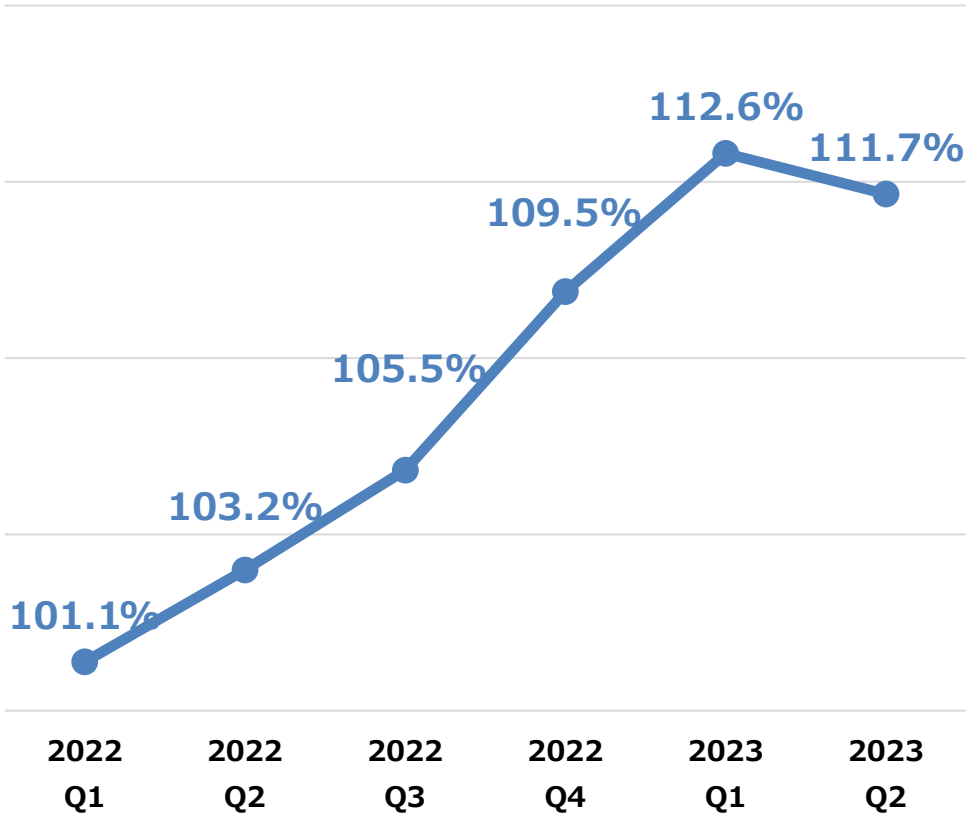
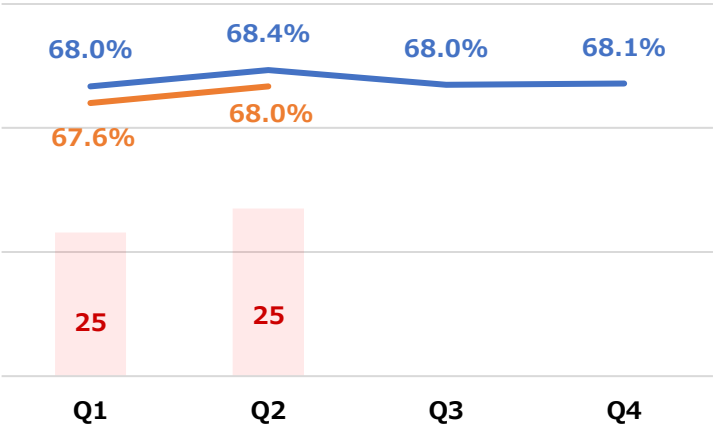
Improved PL Structure through Pricing

PL structure improved due to pricing in July and October last year

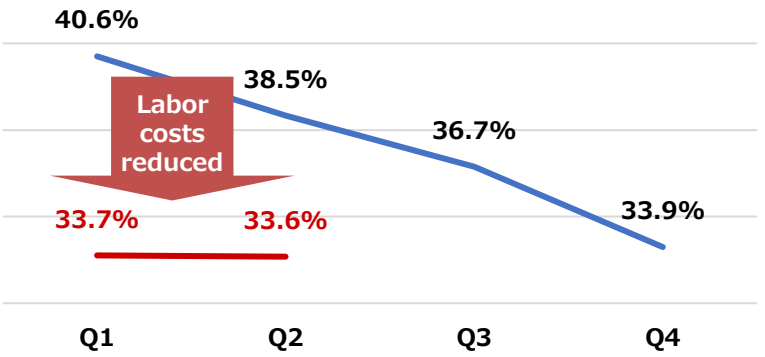
Existing store ATP (YoY)



Gross Margin %



Labor Cost %



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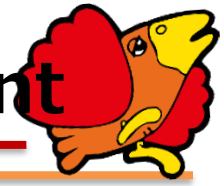
Condensed Consolidated Income Statement



- Gross profit margin decreased by (0.4)%: Due to the impact of inflation
- Labor cost increased by (1.2) bn yen: Labor cost increase due to sales increase
- Other SG&A increased by (2.7) bn yen: Utilities cost (0.8) bn yen, depreciation due to installation of floor service robots and new POS cash registers (0.9) bn yen, percentage rent associated with sales increase (0.8) bn yen
- Other operating income decreased by (10.9) bn yen: Previous year's government subsidy for shortening of operating hours (10.9) bn yen
- Other operating expenses decreased by 1.5 bn yen: Increase in loss on disposal of goodwill (2.1) bn yen, previous year's extraordinary loss from change in payroll calculations +2 bn yen, decrease in impairment loss +1.9 bn yen

	Q2FY2023(6months)		Q2FY2022(6months)		Variance	
	Bn	%of Sales	Bn	%of Sales	Bn	%YoY
Sales	169.8	100.0%	141.6	100.0%	28.2	119.9%
COGS	(54.7)	(32.2)%	(45.0)	(31.8)%	(9.7)	121.5%
Gross Margin	115.1	67.8%	96.6	68.2%	18.5	119.2%
Labor	(57.1)	(33.6)%	(55.9)	(39.5)%	(1.2)	102.2%
Other SG&A	(52.4)	(30.9)%	(49.7)	(35.1)%	(2.7)	105.4%
Business profit	5.6	3.3%	(9.0)	(6.4)%	14.6	-
Non-operating incomes	0.9	0.5%	11.8	8.3%	(10.9)	7.3%
Non-operating expenses	(3.6)	(2.1)%	(5.1)	(3.6)%	1.6	69.6%
Operating Profit	2.9	1.7%	(2.4)	-	5.3	-
Financing Costs	(1.3)	(0.8)%	(1.4)	(1.0)%	0.1	94.2%
Income before income Tax	1.6	0.9%	(3.8)	-	5.4	-
Tax Expenses	(1.0)	(0.6)%	1.0	0.7%	(2.0)	-
Net Income	0.5	0.3%	(2.8)	-	3.3	-
Adjusted Net Income	0.5	0.3%	(2.8)	-	3.3	-

Condensed Consolidated Balance Sheets



- **Total shareholders' equity of 158.0 bn yen: exceeds goodwill of 142.3 bn yen**
- **Total borrowings of 106.1 bn yen: borrowings decreased by 0.9 bn yen from 107.0 bn yen at the end of the previous year**

(Unit : Bn yen)	Q2FY2023	Q4FY2022	Variance	Q2FY2023 notes
Assets:				
Current assets	43.0	41.8	1.2	Balance of cash and deposits 22.3 Bn yen
Non-current assets	375.6	382.9	(7.3)	Balance of goodwill 142.3 Bn yen
Total assets	418.6	424.8	(6.1)	Balance of right-of-use asset 94.4 Bn yen
Liabilities:				
Current liabilities	96.8	157.3	(60.5)	Balance of short-term debt 29.8 Bn yen
Non-current liabilities	163.8	109.8	54.1	Balance of long-term debt 76.3 Bn yen
Total liabilities	260.7	267.1	(6.4)	Balance of lease liability 97.7 Bn yen
Equities:				
Equity attributable to owners of the company	158.0	157.7	0.3	
Total shareholders equity	158.0	157.7	0.3	
Equity ratio	37.7%	37.1%	0.6%	
Adjusted ROE	(1.9)%	(3.9)%	2.0%	
Net D/E ratio	0.58	0.64	(0.06)	

(Note) Adjusted ROE : LTM base. Not audited numbers.
Net D/E ratio = (borrowings at end of period + other financial liabilities at end of period -cash and cash equivalents at end of period -financial liabilities associated with IFRS16) / total equity (end of period)

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Condensed Consolidated Statements of Cash Flows

- Operating cash flow: 33 bn yen, an increase of 9 bn yen YoY. The difference from the previous year is due to an impact of increase in business income and other receivables (government subsidy for shortening of operating hours) and decrease in accrued expense
- Investment cash flow: (7.4) bn yen, a decrease in expenditures of 0.1 bn yen YoY. New store openings increased, but store remodels decreased compared to the previous year
- Financial cash flow: (18.8) bn yen, a decrease in expenditures of 9.9 bn yen YoY. Increase in long-term borrowings +10.0 bn yen

(Unit: Bn yen)	Q2FY2023	Q2FY2022	Variance
Operating cash flow	33.0	23.9	9.0
Investment cash flow	(7.4)	(7.5)	0.1
Free cash flow	25.6	16.5	9.2
Financial cash flow	(18.8)	(28.6)	9.9
Loan	(0.9)	(8.9)	8.0
Issuance of new shares	0.0	0.0	0.0
Lease debt repayment	(17.6)	(16.9)	(0.7)
Dividend	(0.0)	(2.7)	2.7
Others	(0.2)	(0.1)	(0.2)
Change in cash	7.0	(12.0)	19.0
Cash balance at closing	22.3	26.3	(4.0)

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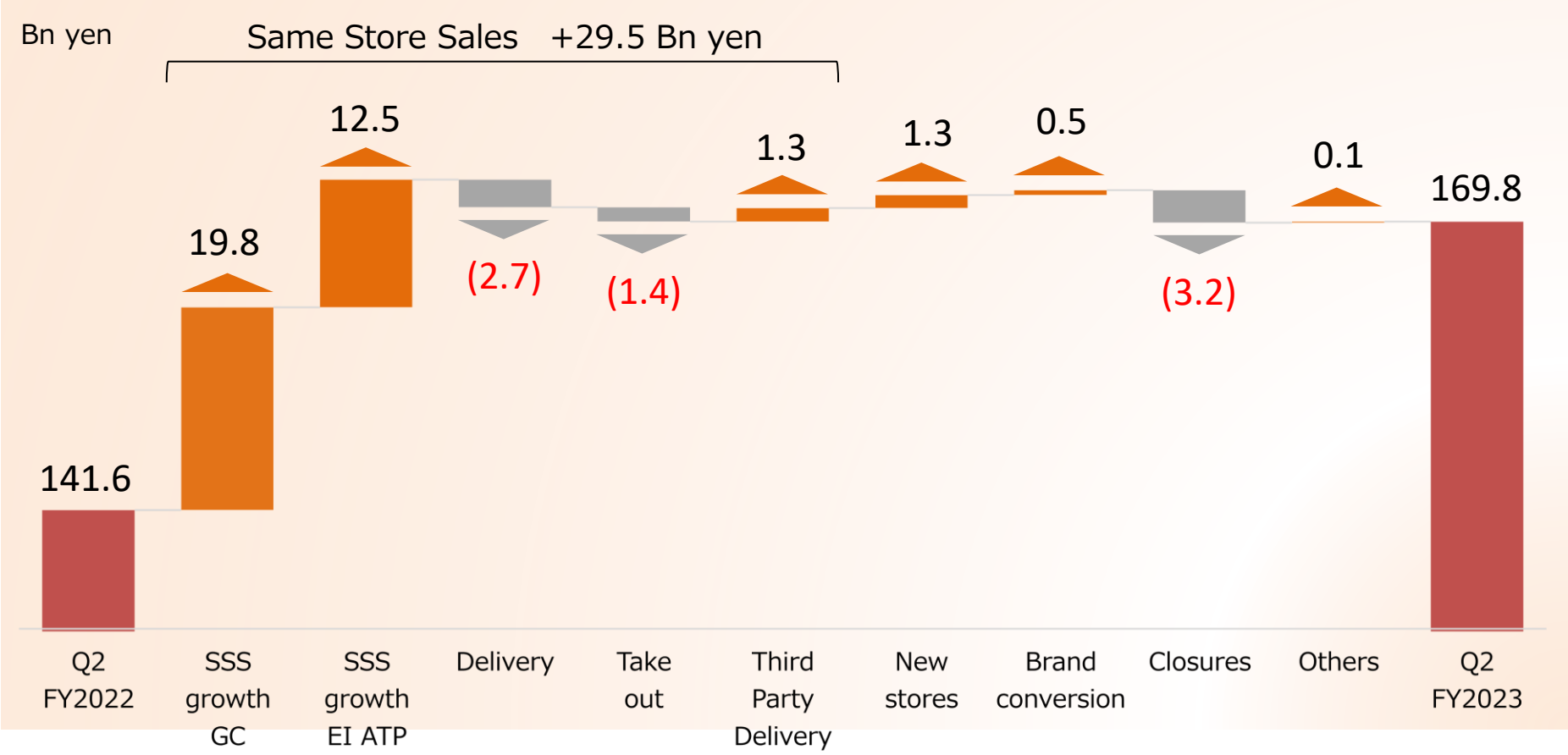
Sales H1FY2023 vs. H1FY2022

- **Sales in H1FY2023 increased by 28.2 bn yen to 169.8 bn yen**
- **Delivery and take-out sales decreased as eat-in sales increased**



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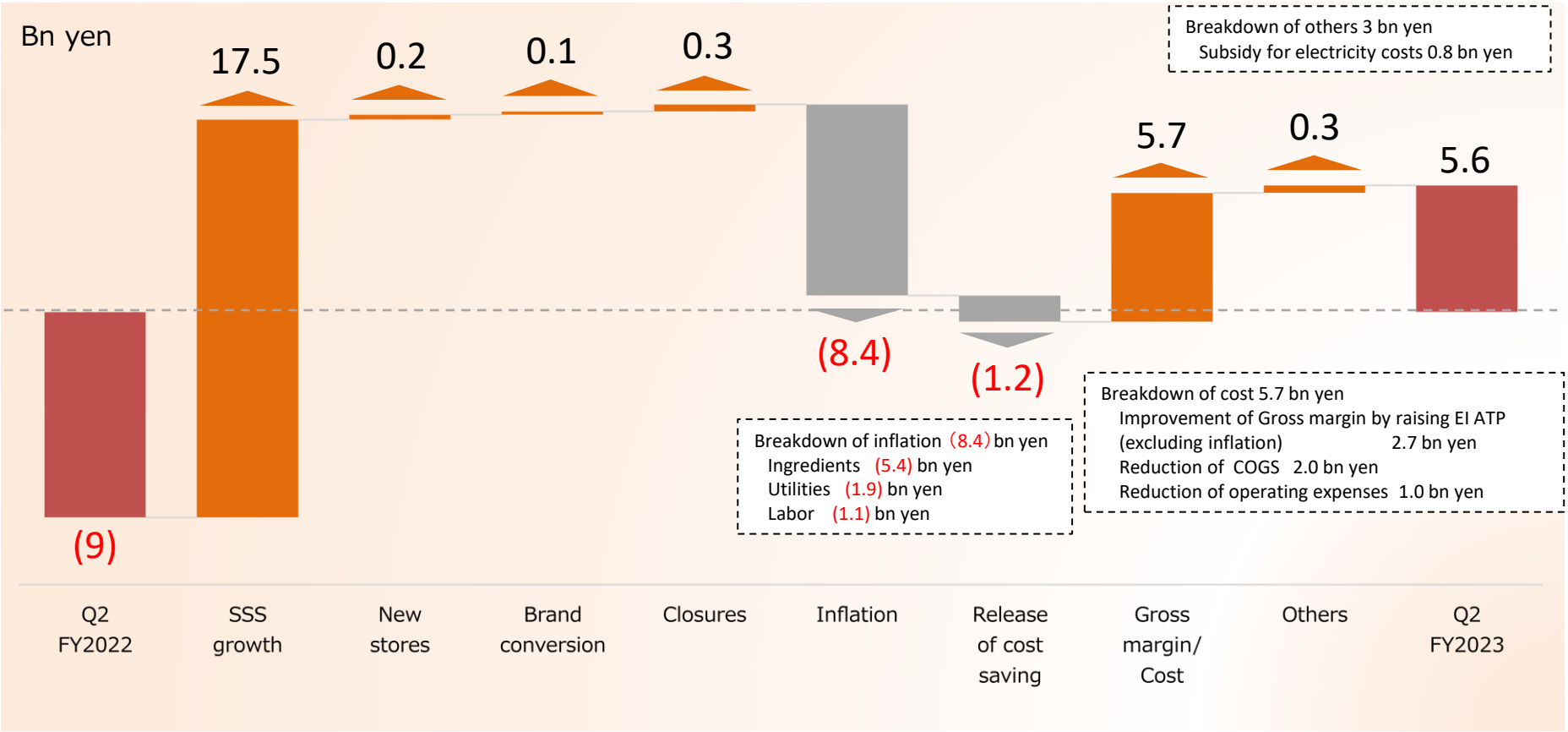
BP H1FY2023 vs. H1FY2022

- **BP was +5.6 bn yen, +14.6 bn yen vs FY2022**
- **Inflation impact was (8.4) bn yen, but profit turned positive due to sales recovery at existing stores and improvements in gross profit margin and costs**



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FY2023 Revised Full-Year Guidance

- Upward revision of OP from 6.0 to 10.0 bn yen; NI from 1.0 to 4.0 bn yen
- Upward revision of dividend per share from 3.00 yen to 6.00 yen

	FY2023 New guidance	FY2023 Previous guidance	Variance
Sales	355.0 bn yen	355.0 bn yen	- bn yen
Business Profit	13.5 bn yen	10.6 bn yen	+2.9 bn yen
Operating Profit	10.0 bn yen	6.0 bn yen	+4.0 bn yen
Income before Income Tax	7.5 bn yen	3.5 bn yen	+4.0 bn yen
Net Income	4.0 bn yen	1.0 bn yen	+3.0 bn yen
Dividend per share	6.00 yen	3.00 yen	+3.00 yen

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FY2023 Revised Full-Year Guidance

- **New guidance is based on “gross profit margin improvements and cost reductions progressing more than expected”**
- **Others includes 1.3 bn yen for government subsidy for electricity costs, 1.0 bn yen for loss on disposal of goodwill**



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ESG Initiatives

《Main items》

Consideration for the environment



Contribution to society



《Outline of activities》

Submitted a Commitment Letter to SBTi

We have submitted a letter of commitment to SBTi* and expressed our intention to obtain SBT certification within two years. Specifically, to reduce CO_2 emissions, we are actively working to conserve energy at each of our stores and factories, promote the introduction of renewable energy, and reduce waste and disposable plastics.

*Science Based Targets initiative
An organization that certifies greenhouse gas emission reduction targets that are scientifically consistent with the Paris Agreement standards

Donated a portion of sales to the Green Fund

We donated 399,507yen, 10% of sales of cutlery for take-out orders during April to June, to the Green Fund. The donation will be used to promote forest maintenance and greening.

Volunteer activities

We donated playground equipment to a children's home (Kiyose City, Tokyo) with 7,598,904 yen received through our in-store fundraising "Children's Playground Support Funds."
We have been donating in this manner every year since 2021, and this year's donation marks our third donation.
In cooperation with Playground of Hope, a non-profit organization, children at the facility and our volunteers assembled the playground equipment.

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ESG Initiatives

《Main item》	《Outline of activities》
External assessment of ESG	**Received MSCI ESG Ratings of "A"** We received an "A" rating in the MSCI ESG Ratings, a global ESG evaluation index, up one level from last year's "BBB" rating.
2023 CONSTITUENT MSCI日本株女性活躍指数 (WIN)	**Selected as a constituent of the MSCI Japan Empowering Women Select Index (WIN) for the fourth consecutive year** For the fourth consecutive year, we have been selected for inclusion in the GPIF (Government Pension Investment Fund) Index, which is used by the GPIF to invest in companies with outstanding gender diversity.
2023 Sompo Sustainability Index	**Selected as a constituent of the SOMPO Sustainability Index** We have been selected for the first time as a constituent of the SOMPO Sustainability Index, which is established by SOMPO Asset Management Co., Ltd. which evaluates overall ESG initiatives in selecting its constituents.

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Appendix

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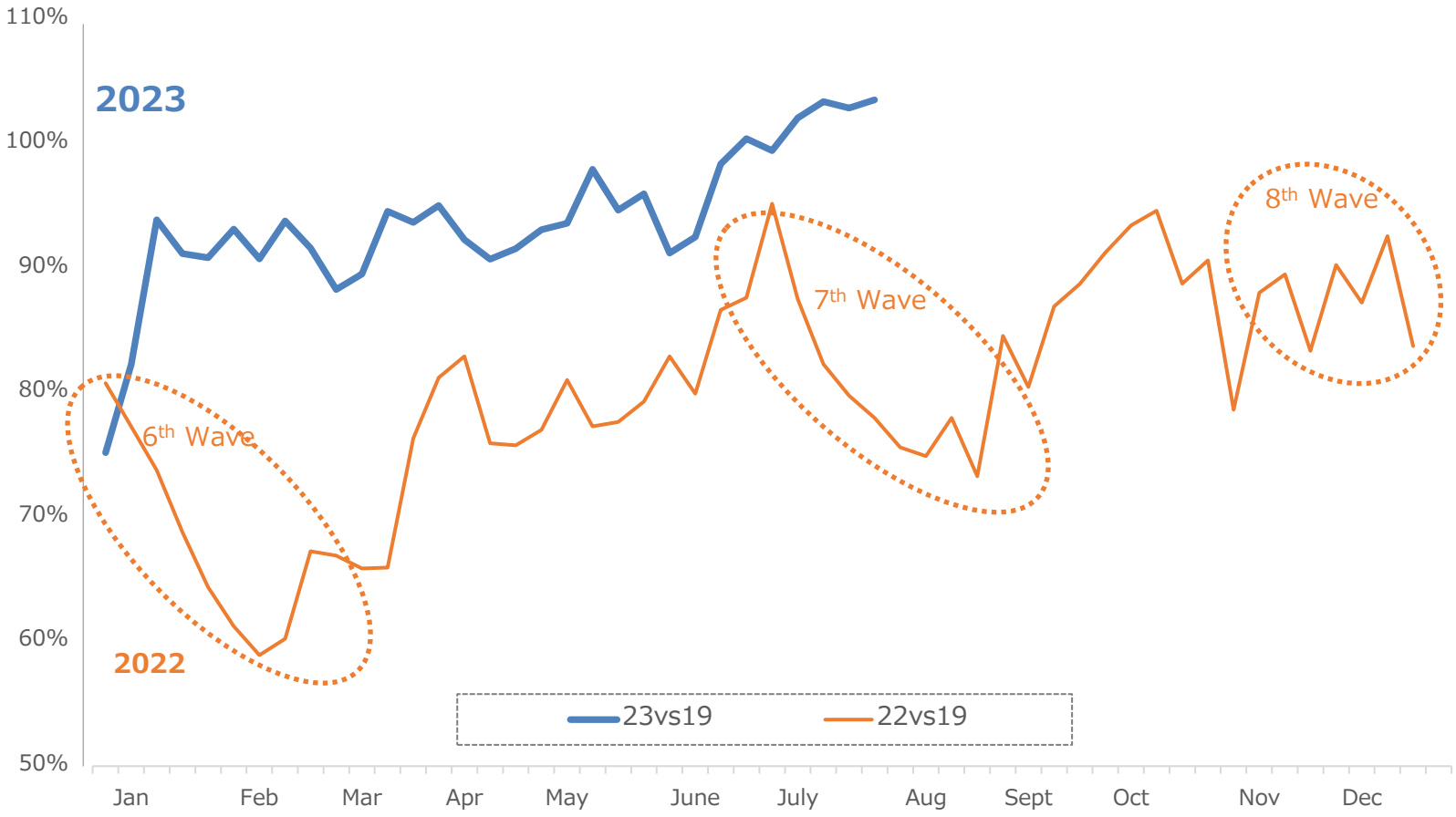
Daily Sales Trend vs FY2019

2022	6th Wave: Government measures against COVID-19 2022/1/9-3/21	7th Wave 2022/7/6-2022/8/30	8th Wave 2022/11/30-2023/1/24
2023			



(Note) Day-of-week adjusted vs2019

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External Environment: Food, Labor and Utility Costs

Egg price



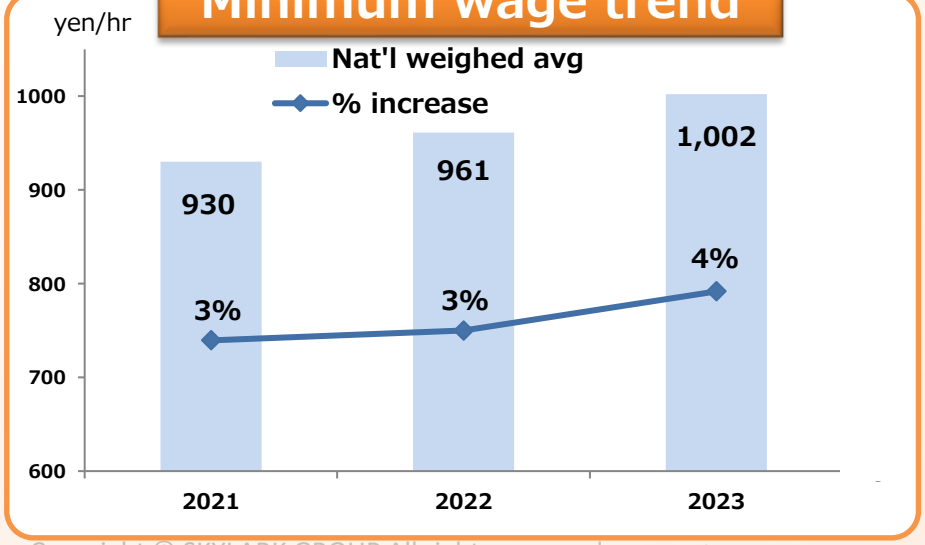
※Source: ja-z.tamago

Rice price



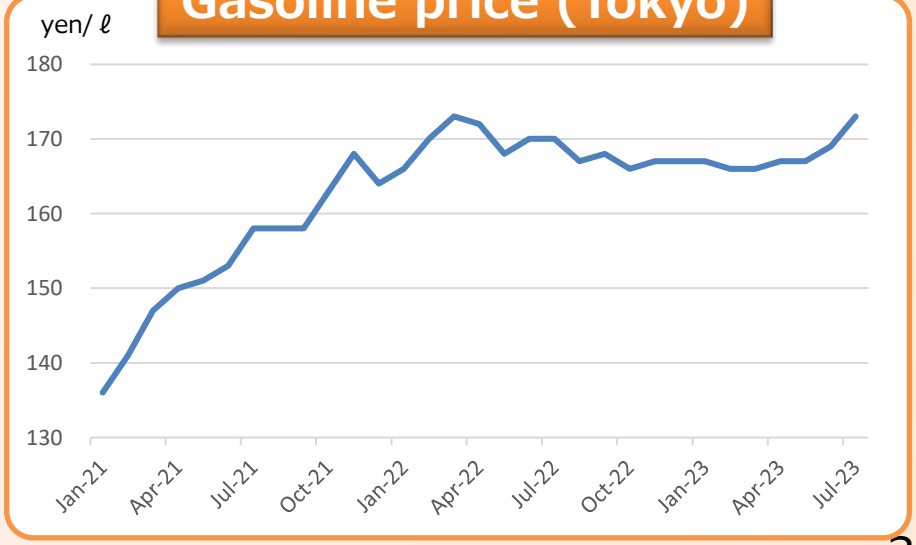
※Source: MAFF

Minimum wage trend



※Source: MHLW

Gasoline price (Tokyo)



※Source: e-stat

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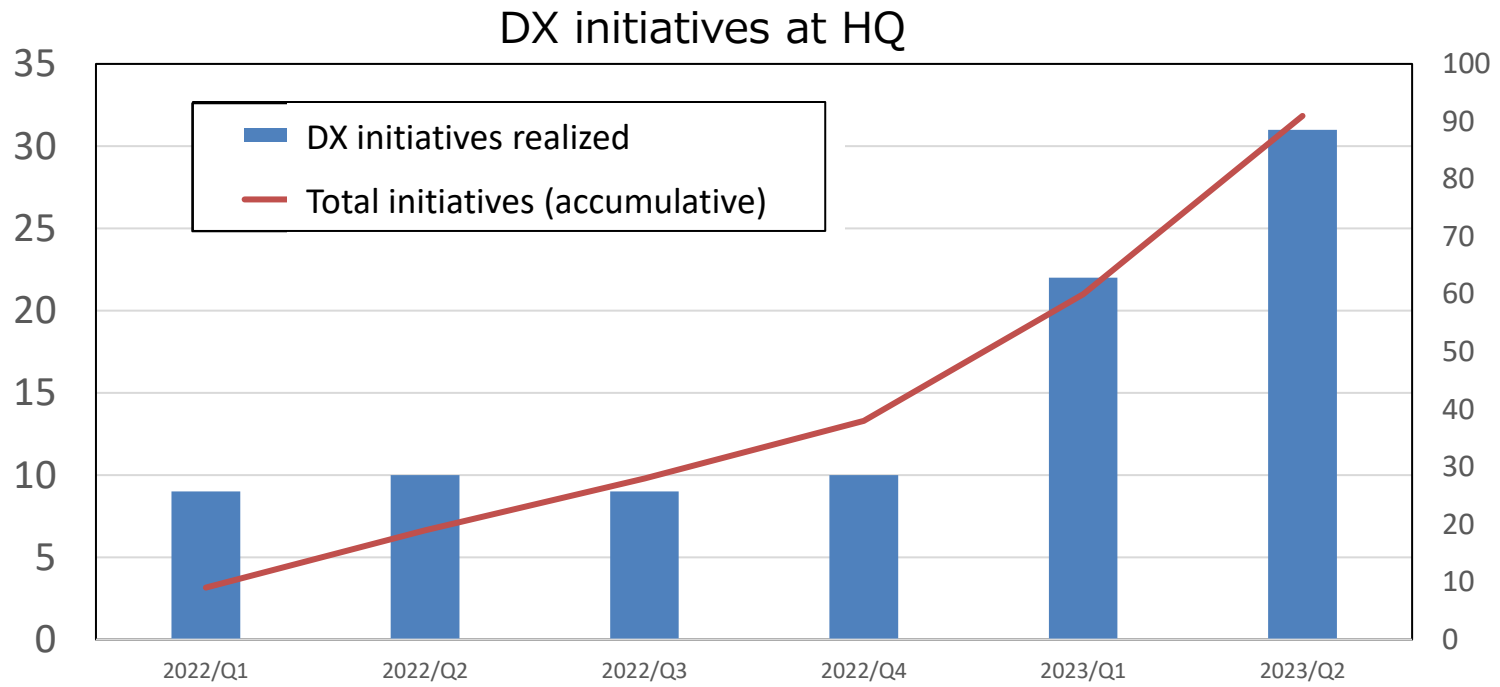
DX in Headquarters

1.5yrs have passed since the DX team started at HQ. Members have become more skilled, and number of DX cases are rising. Achieved over 90 DX cases accumulatively, and are contributing to HQ productivity improvement.



Major initiatives

- [Using Google Workspace] Standardization and digitalization of inbound reservation office
- [Using existing software] Electric signing of contracts; electric signing of meeting minutes
- [Picture analysis technology] Double-check procedure for any overlooked allergen information through the use of picture recognition functions
- [Using generative AI] Customer complaints / requests are summarized by AI; AI also suggests which department should respond.

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Overseas & Retail Sales/EC Business

【Taiwan】

Q2 results:
- Sales: 141.8% vs FY2019, 183.3% YoY
- Traffic:122.5% vs FY2019, 162.4% YoY

3 news stores, Musashinomori Coffee, Syabu-Yo and Yokohama Steakhouse, opened simultaneously in April.

Syabu-Yo set a new record for monthly sales per store in July.



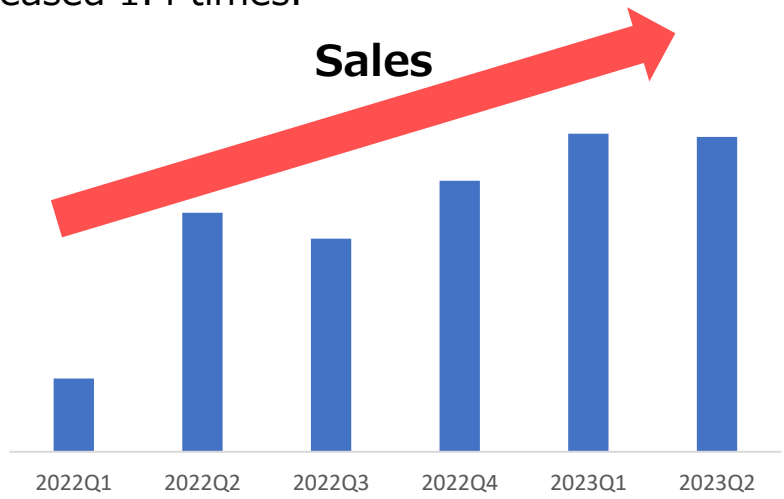
Syabu-Yo LaLaport Taichung

New factory opened in Taipei

Production efficiency and capacity are improved, and the number of stores that can be supplied has doubled.

【Retail Sales/EC Business】

Growth continued in Q1 2023 (434% YoY) and Q2 2023 (132% YoY).
Between January and June, the number of companies with which we do EC business increased 1.4 times.





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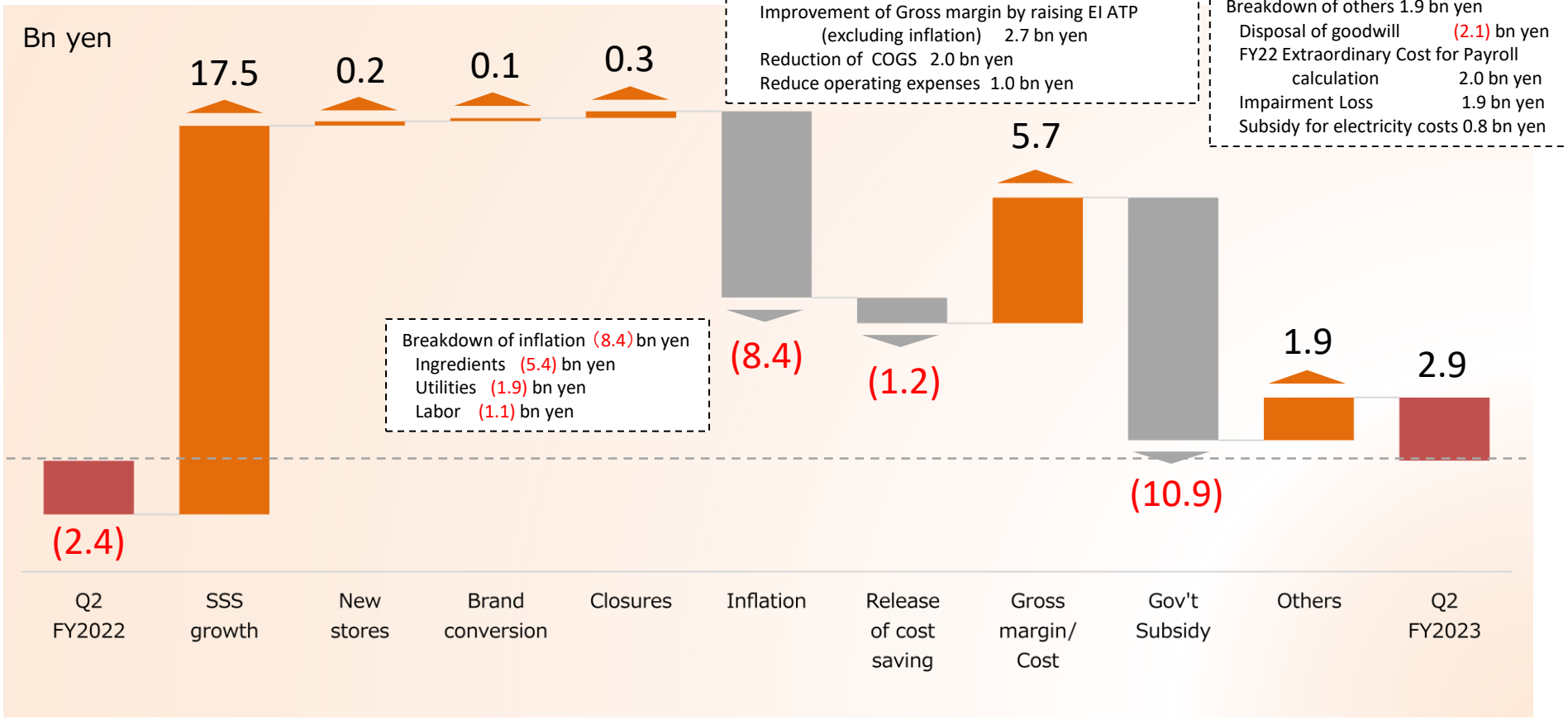
OP H1FY2023 vs. H1FY2022

- **OP was +2.9 bn yen, up 5.3 bn yen vs. FY2022**
- **Recorded extraordinary costs (loss on disposal of goodwill (2.1) bn yen)**
- **Impact of the 2022 government subsidy for shortening of operating hours is (10.9) bn yen**



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Store Development Summary



- New store openings: Selectively opened 13 stores
- Brand conversions: Converted 24 stores, mainly Syabu-Yo, Musashinomori Coffee, and La Ohana
- Remodels: Remodeled 48 stores, mainly Gusto

Brand	New Openings	Brand Conversion	Closure	End of June.2023	Remodels
Gusto	4	-	(27)	1,283	37
Bamiyan	1	-	(4)	352	6
Syabu-Yo	2	5	(5)	278	1
Jonathan's	1	-	(8)	193	3
Yumean	-	-	(5)	167	-
FLO Prestige	1	-	(1)	115	-
Steak Gusto	-	-	(9)	88	-
Karayoshi	-	-	(8)	78	-
Taiwan Skylark Co., Ltd.	3	-	(1)	70	1
Musashinomori Coffee	-	5	(1)	68	-
Aiya	-	-	(1)	39	-
La Ohana	-	5	-	22	-
chawan	-	-	-	21	-
Others	1	9	(17)	208	-
Group Total	13	24	(87)	2,982 stores compared to end Dec.2022 (74)	48

*Conversions do not include 9 stores before opening due to preparations for conversion.
*Number of stores at end of month includes stores that are temporarily closed

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Our Business Portfolio

Dining Out

Family Dining Business
Value price



Casual Dining Business
Moderate price



Home Dining / Home Cooking

Delivery
Take Out

EC Business
Retail Sales

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FY2023
Management Strategy & Business Environment

Business Environment

- Changes in consumer behavior : Decrease in dispensable income due to inflation; selective spending
- Rising costs: Utilities↑ Labor↑ Ingredients↑ Operation cost↑

Management strategy

Profitability structure reforms for each and every store

- Profitability improvement in existing stores
- Resume late-night operations
- DX promotion＝productivity improvement
- Cost reductions

ESG initiatives

Sales growth

- Menu strategy
- Optimization of store portfolio
  New store openings, brand conversions, and new brand development
- Overseas expansion
- EC business and retail sales

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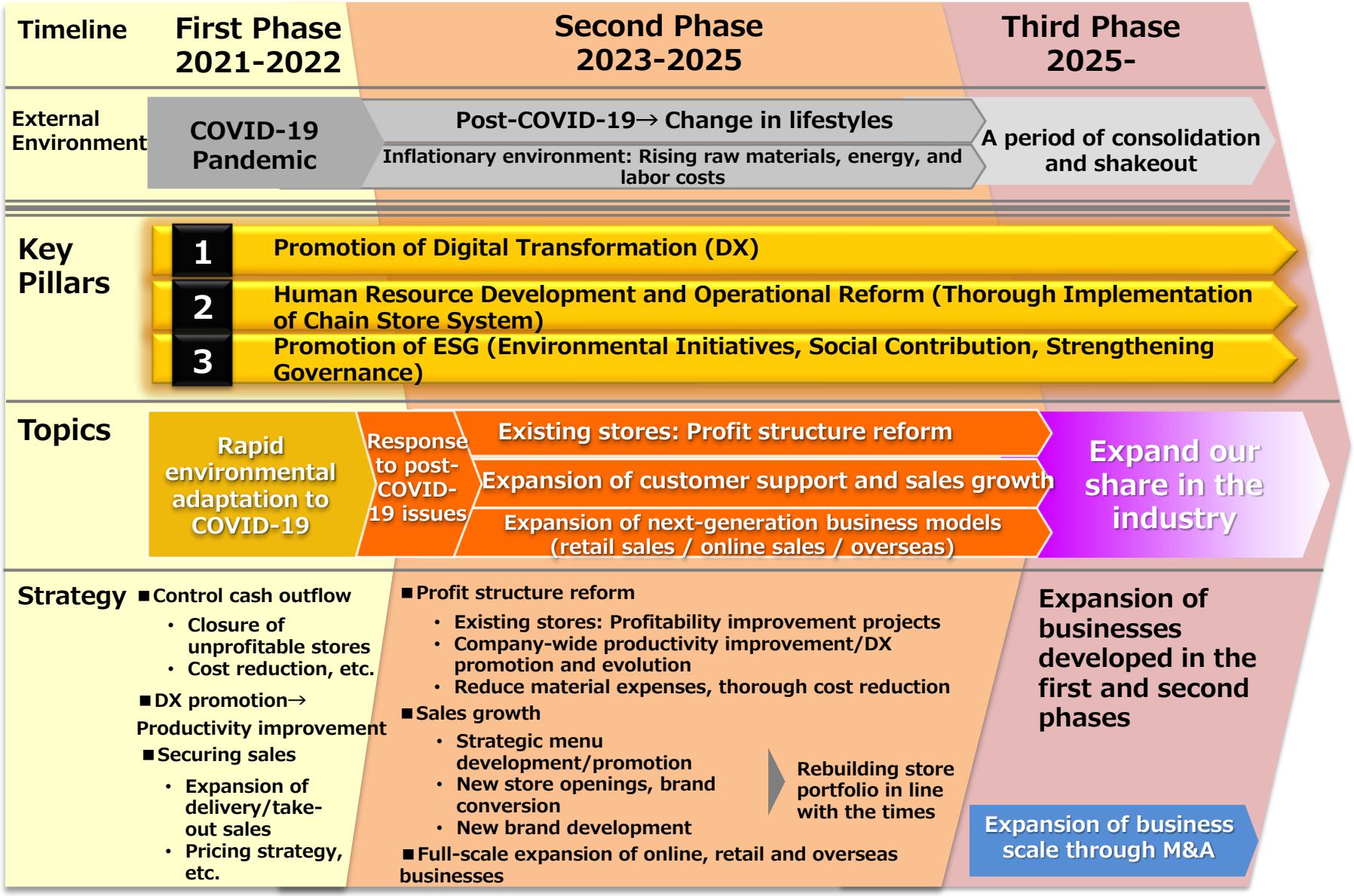
Growth Roadmap



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