

FY2023 Q1 Financial Results Briefing



Skylark Holdings Co., Ltd.
May 15, 2023

FY2023 Q1 Results: Executive Summary



■ Sales 84.6 bn yen (+17.5 bn yen, 126.1% YoY)

Same store sales:

YoY sales	128.1%	vs FY2019 Sales	91.4%
Traffic	113.8%	Traffic	80.5%
ATP	112.7%	ATP	113.6%

■ BP* 2.0 bn yen (+7.8 bn yen YoY)

■ OP (0.4) bn yen ((0.2) bn yen YoY)

Both business profit and operating profit exceeded guidance

- Business profit was positive. Reform of the earnings structure progressed more than expected
- Operating profit includes extraordinary costs
(Recording of loss on disposal of goodwill from store closures; payment of inflation allowance)

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

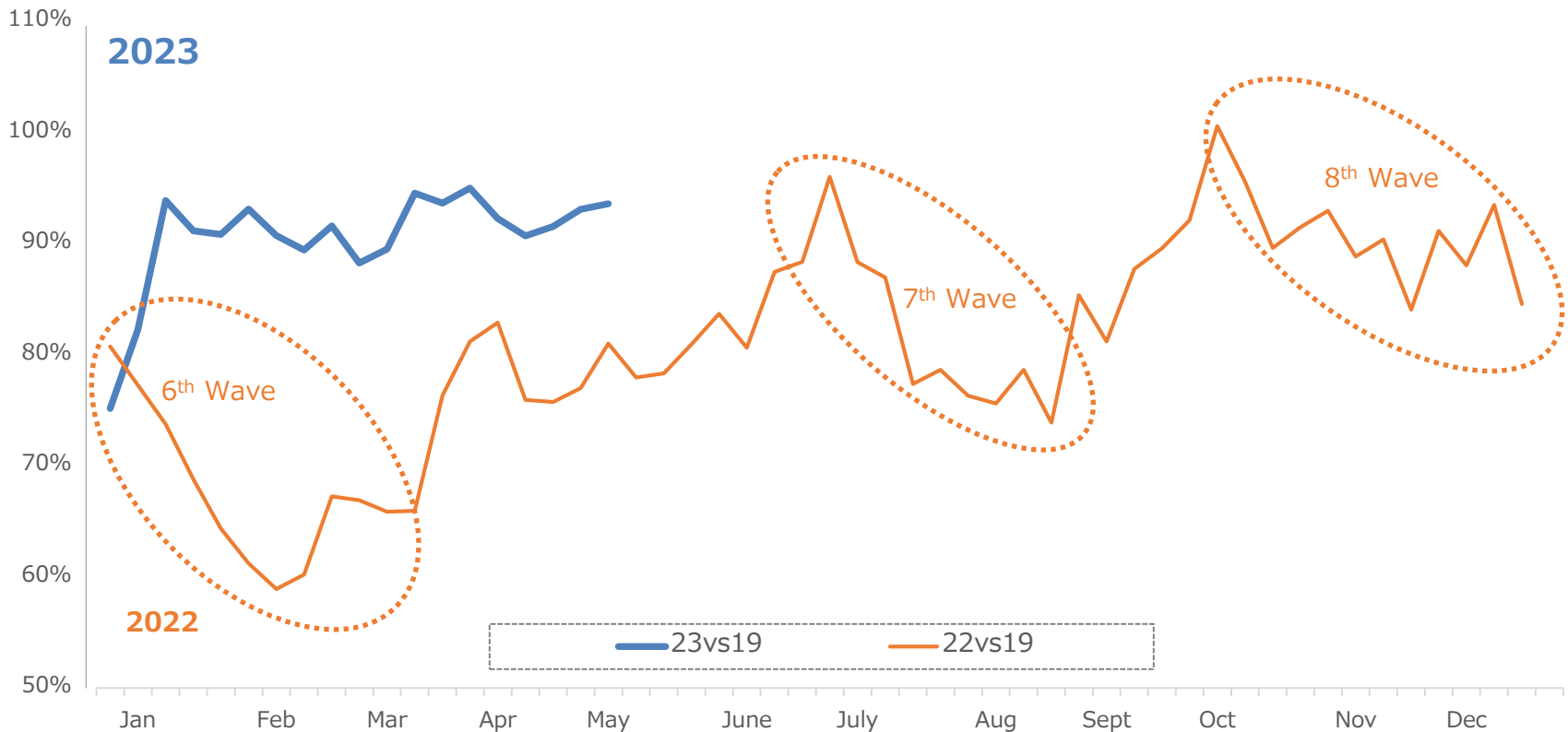


- **Q1 Business Environment**
- **Our Business Portfolio and Business Strategy for FY2023**
- **Q1 Financial Results**



Daily Sales Trend vs FY2019

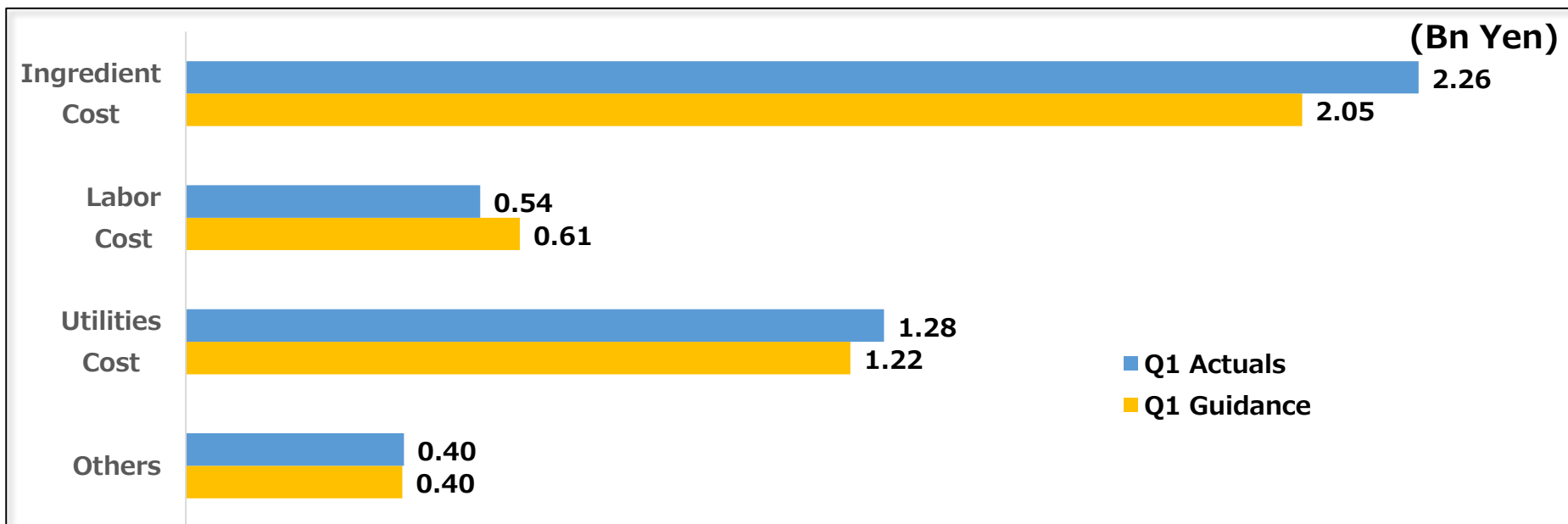
2022	6 th Wave: Government measures against COVID-19 2022/1/9 - 3/21	7 th Wave 2022/7/6 - 2022/8/30	8 th Wave 2022/11/30 - 2023/1/24
2023			





Impact of Inflation

■ Q1 results: Total 4.48 bn yen



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

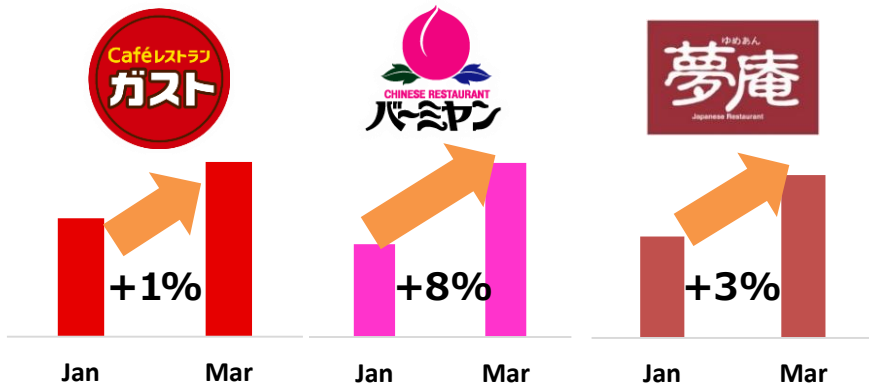
Reasons for increase in inflation

- ① Continued impact of weak yen
(JPY/USD exchange rate: JPY112 from January to March 2022 → JPY135 from January to March 2023)
- ② High energy prices
- ③ Rising logistics cost and increased difficulty of procurement
(economic recovery in Europe and U.S.)
- ④ High egg prices due to bird flu



Sales Trends①

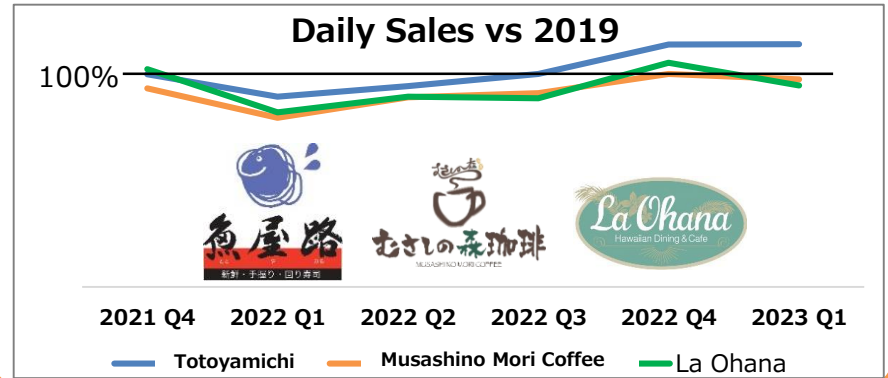
Family Dining Business



(Note) Day-of-week adjusted; January excludes New Year holidays

Casual Dining Business

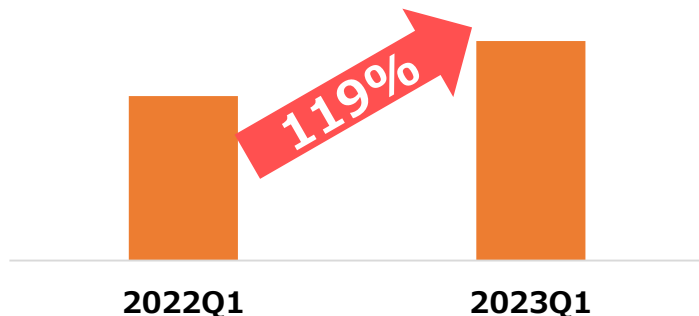
Casual dining brands have recovered to 100% levels



Young Family Segment

Young families are returning to our stores

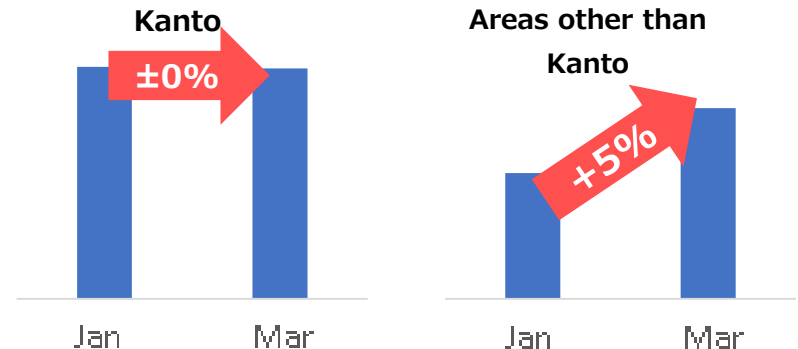
Kids menu sales per 100 customers



Local Area Stores

Guest count in local area stores are recovering gradually

Local area guest count vs 2019 (Gusto)



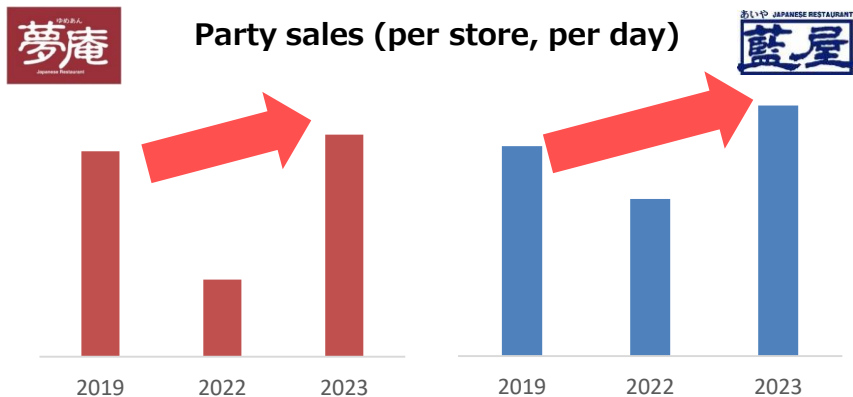
(Note) Day-of-week adjusted; January excludes New Year holidays

Sales Trends②



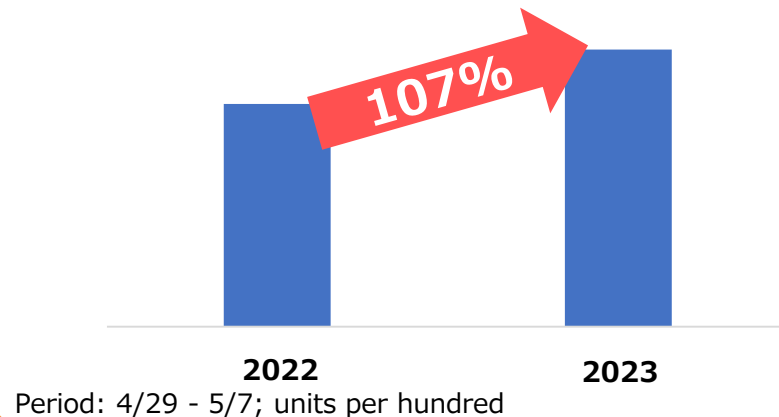
Party Reservations

Party sales increased significantly YoY and exceeded 2019



Alcoholic Drinks

Demand for alcoholic drinks are increasing



Late-night Demands

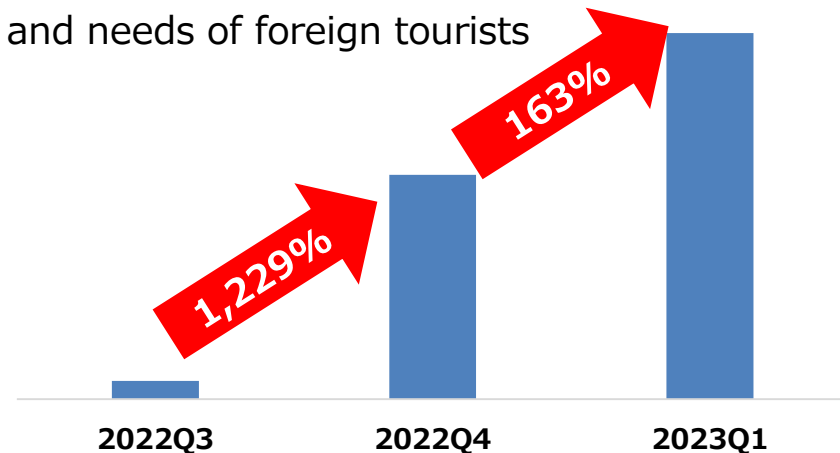
Performance of late-night sales with 2019 late-night sales as 100% (Gusto)



*Late-night sales: sales from 10pm to 5am the next day

Inbound

Menus are tailored to meet the tastes and needs of foreign tourists





- Q1 Business Environment
- **Our Business Portfolio and Business Strategy for FY2023**
- Q1 Financial Results

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



Business Environment

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

Management strategy

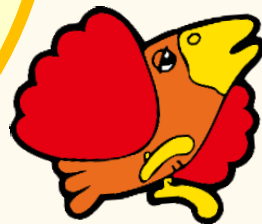
Profitability structure reforms for each and every store

- 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

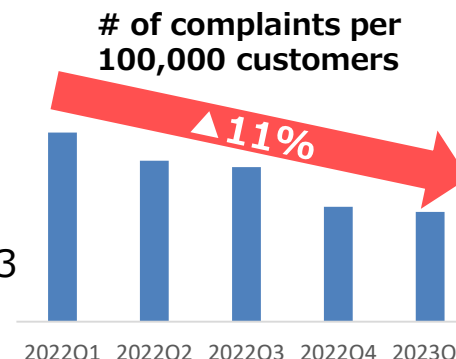




Profitability Improvement at Existing Stores

QSC[※] reforms

- # of complaints for Q1 improved 11% YoY
 - Online workshops held for part-time employees (36times/month)
 - 5 training centers to open during 2023



Sales growth

Major actions

- Extension of late-night operating hours (1,692 stores[※])
- Extension of hours accepting UberEats orders
 - Morning hours extended (541 stores[※])
 - Late-night hours extended (205 stores[※])

Assumed impact

Annualized impact 2 bn yen

Annualized impact 0.3 bn yen

Cost reductions

- Operational costs
 - Utilities usage[※]
 - Consumables cost
 - Repairs cost
- Food loss
 - Store loss reductions

Q1 YoY

7.4% improvement

14.2% improvement

9.0% improvement

Q1 YoY improvement vs target

0.2% improvement

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



DX Promotion = Productivity Improvement

Continue to develop DX to improve both customer convenience and employee productivity

Improve productivity with DX

Floor service robots

➔3,013 robots installed at 2,063 stores, running 3.98km per store

Introduction of new POS cash registers

➔Reduction of 32 mins/day at 2,800 stores

Annualized impact: 0.54bn yen

Introduction of self-serve checkout counters

➔Reduction of 27 mins/day at 759 stores

Annualized impact: 0.12bn yen

<Main projects under development>

Self-checkout for cash payments

Self-checkout counters for cash payments, approximately the same size as our current self-checkout counters, are under development
⇒To be gradually introduced from June



Pay-at-table

Pay-at-table using PayPay is being tested at 2 stores
⇒Current usage rate is about 15%

Restaurant seating system

Developing a system to usher customers to their seats when they enter the restaurant
⇒Test is scheduled to start from Q2

New store system (ordering)

Developing a new store ordering system to improve order accuracy and reducing losses at each store



Cost Reductions

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
- Modulization and process improvement
- Review of manufacturing sites and batches
- Improvement of logistic 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

Q1 Results
0.3 bn yen



Production and logistics reform
0.8 bn yen

Q1 Results
0.21 bn yen



Value and cost optimization
1 bn yen

Q1 Results
0.11 bn yen



Reduction of loss
0.2 bn yen

Q1 Results
0.19 bn yen



Annual target
3 bn yen

Q1 Results
0.81 bn yen

Menu Strategy



Family Dining Business

Major menu revisions introduced in all major brands in March-April

- ◆ Lowered entry price; enhanced line-up of small sized menu items



- ◆ Strengthened high-selling categories



- ◆ Regional pricing changed to 3⇒4 pricing patterns (Gusto)



Casual Dining Business

Maintain/enhance menus which express the brand concept. Introduce menus using seasonal ingredients or towards seasonal events

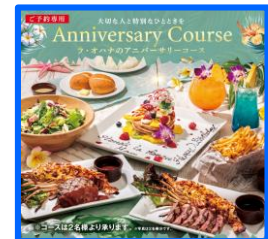
- ◆ Introduce ingredients with attractive value



- ◆ Continue to introduce seasonal menu items



- ◆ Enhance menus catered towards events and occasions





Optimization of Store Portfolio

■ New stores

- Opening stores mainly in front of major terminal stations and in furnished vacancies, and **sales is trending well**.
- 7 new stores have opened by Apr 2023; planning to **open around 40 new stores during the year**.

■ Brand conversions & New brand development

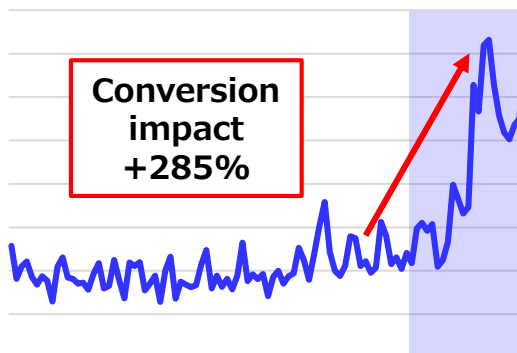
- Conversion to casual dining brands** such as La Ohana continue to perform well.
- New brands, **Toh-Sai and Hachiro Soba are performing well**. Each to open around 10 more stores in or after Q2.

of Converted stores

Brand	Category (*1)	Q1	April YTD	Sales impact after conversion
Toh-Sai	C/D	1	3	285%
Musashino Mori Coffee	C/D	4	4	212%
Syabu-Yo	C/D	3	4	188%
La Ohana	C/D	2	3	266%
Hachiro Soba	F/D	1	1	186%
Total		11	15	229%

(*1)C/D : Casual Dining F/D : Family Dining

Avg sales for 3 Toh-Sai stores



New opening

Gusto Machida Station-front store (Opened 4/16)



New brand

Toh-Sai Minami-suna store



■ Remodels

- As an effort to create a comfortable store environment, 32 remodels have been completed by end-April.
- Sales impact was +4.5%**; annually approximately 100 remodels scheduled.

Overseas & Retail Sales/EC Business



[Taiwan]

3 New Stores, Musashino Mori Coffee, Syabu-Yo and Yokohama Steakhouse, opened on the same day

Consumption has been active since the year-end, and sales have remained strong, including the Lunar New Year period.

January sales were the highest monthly sales ever.

Q1 results:

- Sales: 109% vs budget, 121% YoY
- Traffic: 110% vs budget, 113% YoY

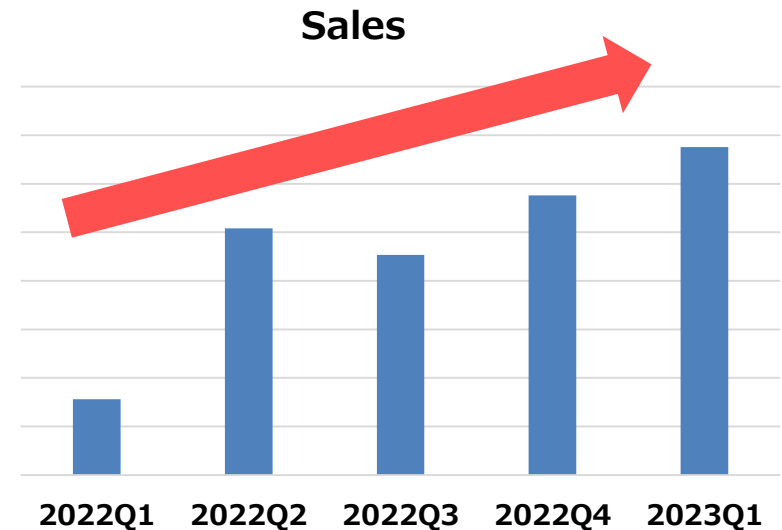
**Opened the first
Musashino Mori Coffee in
Taiwan!**

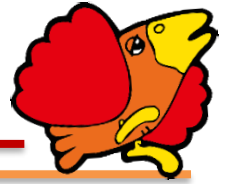


[Retail Sales/EC Business]

FY2022 sales: YoY428%;

2023Q1 sales: 434%. Growing rapidly.





- Q1 Business Environment
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Key Financials for Q1 2023



- ◆ Sales 84.6 bn yen, BP 2.0 bn yen, OP (0.4) bn yen
⇒ OP was 2.0 bn yen, as profit structure significantly improved through price increase and cost avoidance
- ◆ OP includes (2.3) bn yen recorded for loss on disposal of goodwill from store closures resolved in the previous fiscal year (in line with guidance)

(Unit: Bn yen)

	FY2023 Q1 (3-month)	FY2022 Q1 (3-month)	%YoY
Sales	84.6	67.1	26.0%
<i>Same store sales Growth</i>			128.1%
<i>Guest Count</i>			113.8%
<i>Average Ticket Price</i>			112.6%
Business profit	2.0	(5.8)	-
Operating Profit	(0.4)	(0.2)	-
Adjusted Net Income	(0.7)	(0.5)	-
Adjusted ROE	(4.1)%	7.5%	(11.6)%
Store Footprint	8 New Openings, 10 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.

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: Increase in labor cost
- ◆ Other SG&A increased by (2.5) bn yen: Utilities inflation (1.3) bn yen, expenses associated with sales increase (0.7) bn yen, depreciation due to installation of floor service robots and new POS cash registers (0.3) bn yen
- ◆ Other operating income decreased by (7.2) bn yen: Previous year's government subsidy for shortening of operating hours (7.5) bn yen
- ◆ Other operating expenses increased by (0.8) bn yen: Loss on disposal of goodwill for the current year (2.3) bn yen, previous year's extraordinary loss from change in payroll calculations+1.5 bn yen

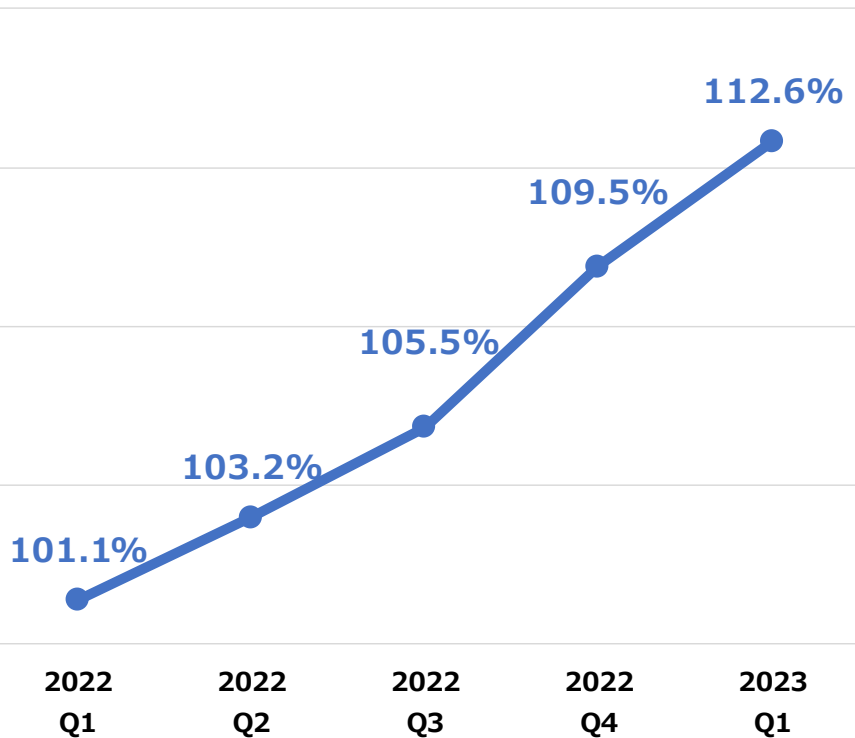
	Q1FY2023(3months)		Q1FY2022(3months)		Variance	
	Bn	%of Sales	Bn	%of Sales	Bn	%YoY
Sales	84.6	100.0%	67.1	100.0%	17.4	126.0%
COGS	(27.4)	(32.4)%	(21.5)	(32.0)%	(5.9)	127.6%
Gross Margin	57.2	67.6%	45.7	68.0%	11.5	125.2%
Labor	(28.5)	(33.7)%	(27.2)	(40.6)%	(1.2)	104.5%
Other SG&A	(26.7)	(31.6)%	(24.2)	(36.1)%	(2.5)	110.2%
Business profit	2.0	2.4%	(5.8)	(8.7)%	7.8	-
Non-operating incomes	0.6	0.7%	7.8	11.6%	(7.2)	7.7%
Non-operating expenses	(3.0)	(3.5)%	(2.1)	(3.2)%	(0.8)	138.4%
Operating Profit	(0.4)	-	(0.2)	-	(0.2)	-
Financing Costs	(0.7)	-	(0.7)	-	0.1	-
Income Before Income Tax	(1.0)	-	(0.9)	-	(0.1)	-
Tax Expenses	0.4	0.5%	0.4	0.7%	(0.1)	85.2%
Net Income	(0.7)	-	(0.5)	-	(0.2)	-
Adjusted Net Income	(0.7)	-	(0.5)	-	(0.2)	-

Improved PL Structure through Pricing

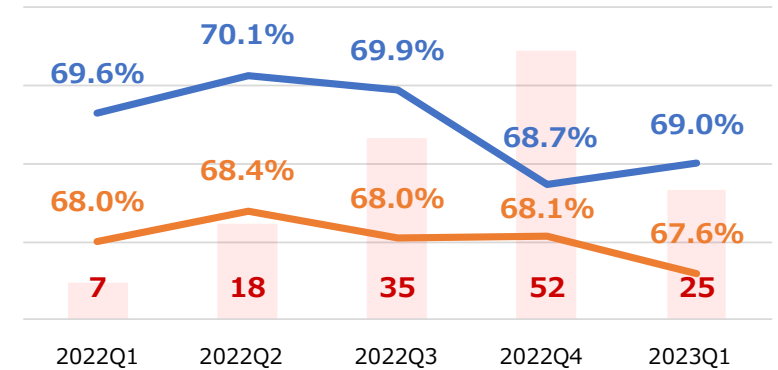


PL structure improved due to pricing in July and October last year

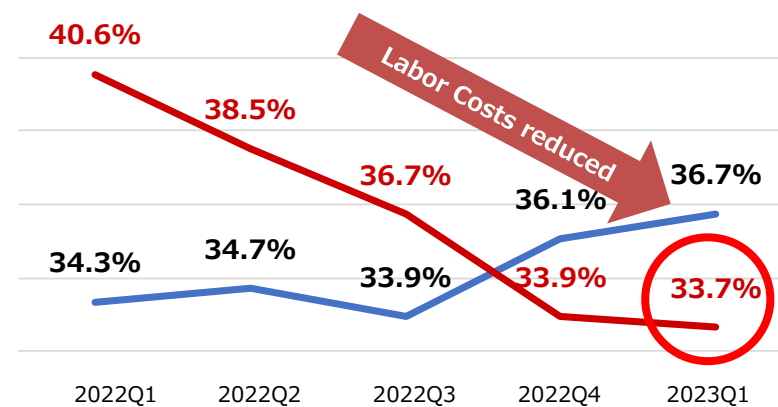
Existing store ATP (YoY)



Gross Margin % ■ Inflation Amt — 2019-2020 — 2022-2023



Labor Cost % — 2019-2020 — 2022-2023



Condensed Consolidated Balance Sheets



- ◆ Total shareholders' equity of 156.7 bn yen: exceeds goodwill of 142.6 bn yen
- ◆ Total borrowings of 108.8 bn yen: borrowings increased by 1.9 bn yen from 107.0 bn yen at the end of the previous year

(Unit : Bn yen)	Q1FY2023	Q1FY2022	Variance	Q 1 FY2023 notes
Assets:				
Current assets	42.2	41.8	0.4	Balance of cash and deposits 15.7 Bn yen
Non-current assets	380.0	382.9	(2.9)	Balance of goodwill 142.6 Bn yen
Total assets	422.2	424.8	(2.5)	Balance of right-of-use asset 97.1 Bn yen
Liabilities:				
Current liabilities	91.8	157.3	(65.5)	Balance of short-term debt 24.8 Bn yen
Non-current liabilities	173.7	109.8	64.0	Balance of long-term debt 84.0 Bn yen
Total liabilities	265.5	267.1	(1.6)	Balance of lease liability 100.8 Bn yen
Equities:				
Equity attributable to owners of the company	156.7	157.7	(1.0)	
Total shareholders equity	156.7	157.7	(1.0)	
Equity ratio	37.1%	37.1%	(0.0)%	
Adjusted ROE	(4.1)%	(3.9)%	(0.2)%	
Net D/E ratio	0.65	0.64	0.01	

(Notes) 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)

Condensed Consolidated Statements of Cash Flows



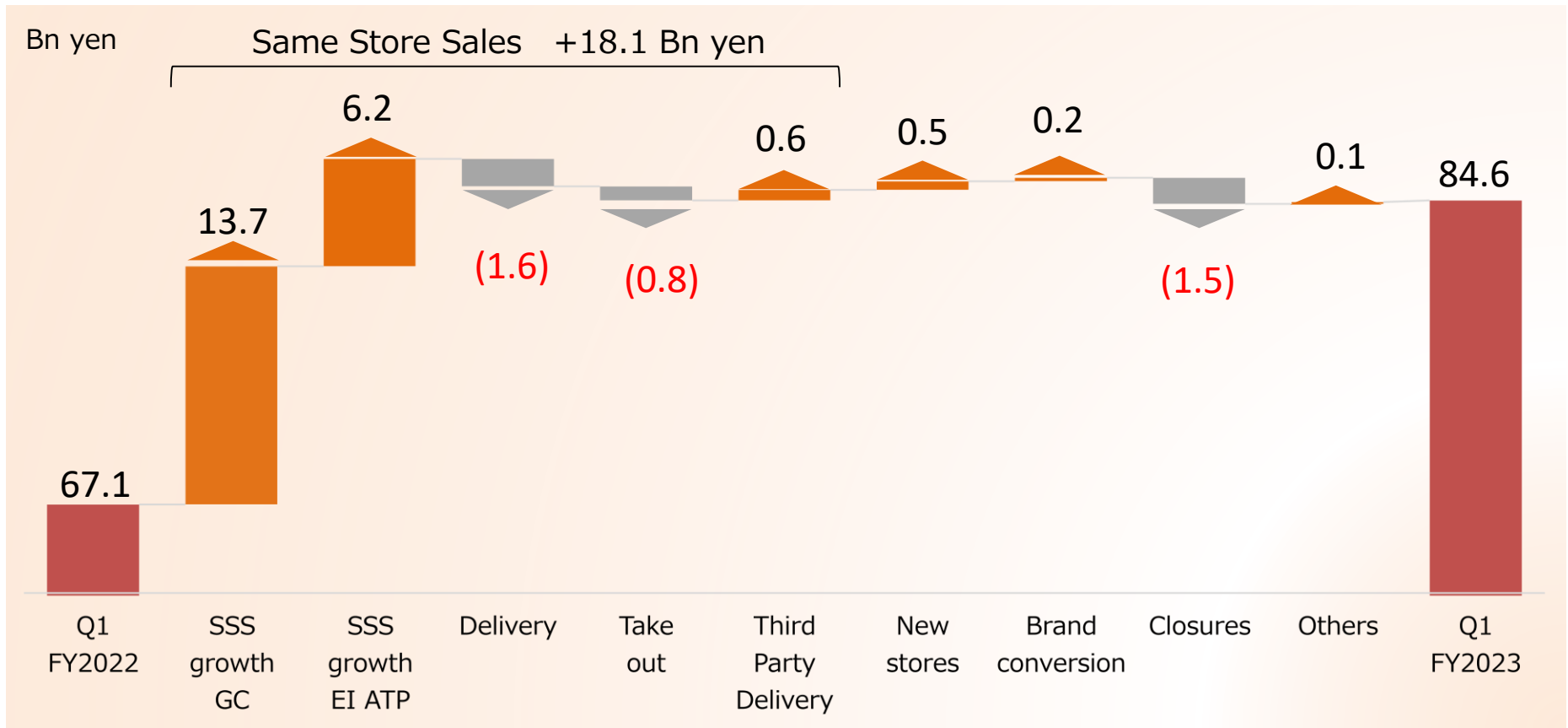
- ◆ Operating cash flow: 11.7 bn yen, an increase of 6.5 bn yen YoY. The difference from the previous year is due to an increase in business income and a decrease in income taxes paid
- ◆ Investment cash flow: (4.3) bn yen, a decrease in expenditures of 0.1 bn yen YoY. New store openings increased, but store remodels decreased compared to the previous year
- ◆ Financial cash flow: (7.0) bn yen, a decrease in expenditures of 7.1 bn yen YoY. Increase in short-term borrowings +5.0 bn yen and dividend payments in 2022 +2.6 bn yen

(Unit : Bn yen)	Q1FY2023	Q1FY2022	Variance
Operating cash flow	11.7	5.2	6.5
Investment cash flow	(4.3)	(4.3)	0.1
Free cash flow	7.5	0.9	6.6
Financial cash flow	(7.0)	(14.1)	7.1
Loan	1.8	(3.2)	5.0
Issuance of new shares	0.0	0.0	0.0
Lease debt repayment	(8.7)	(8.2)	(0.5)
Dividend	(0.0)	(2.6)	2.6
Others	(0.1)	(0.1)	(0.0)
Change in cash	0.5	(13.2)	13.7
Cash balance at closing	15.7	25.1	(9.4)

Sales Q1FY2023 vs. Q1FY2022 (3 months)



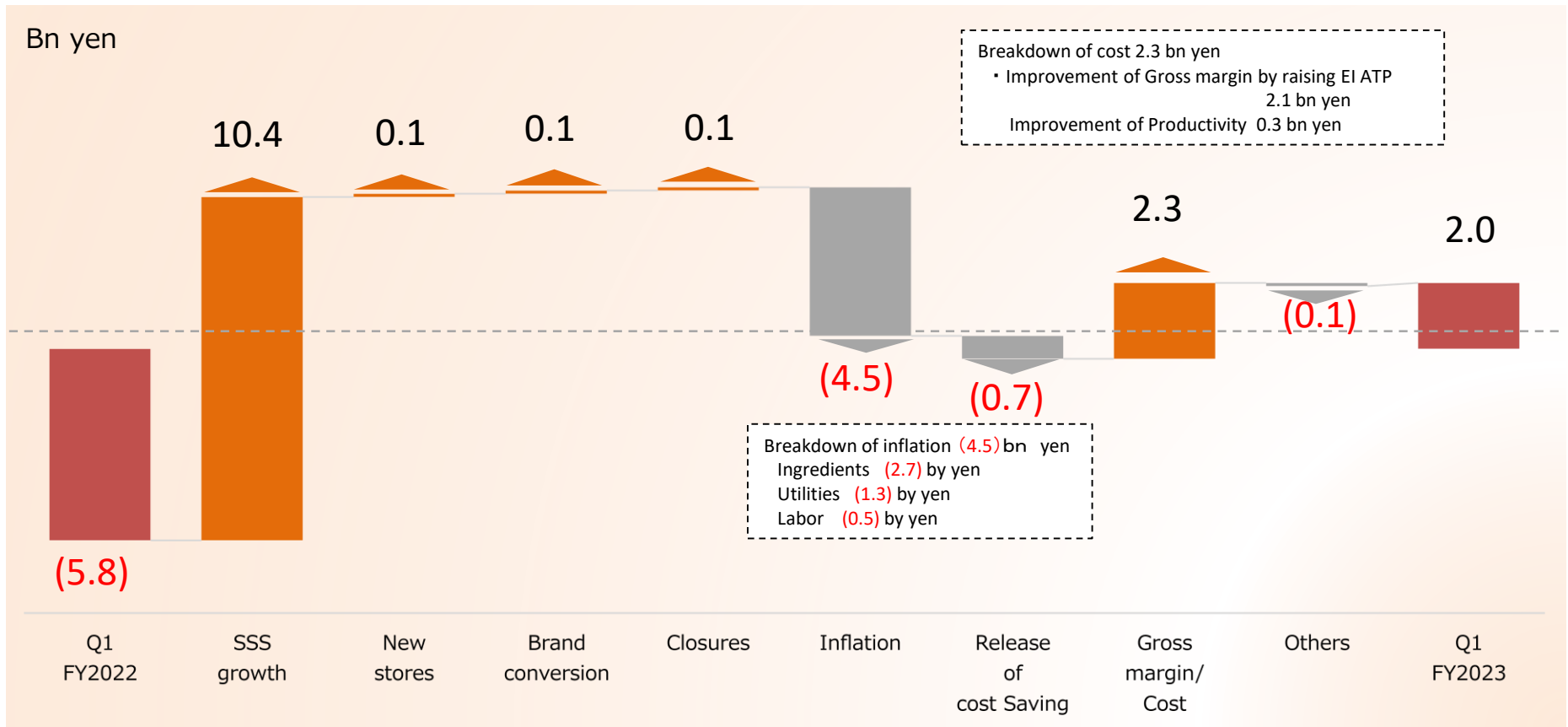
- ◆ Sales in Q1 FY2023 increased by 17.4 bn yen to 84.6 bn yen
- ◆ Delivery and take-out sales decreased as eat-in sales increased



BP Q1FY2023 vs. Q1FY2022 (3 months)



- ◆ BP was up 2.0 bn yen, +7.8 bn yen vs 2022
- ◆ Inflation impact was (4.5) bn yen, but profit turned positive due to sales recovery at existing stores and improvements in gross profit margin and costs
- ◆ Productivity in store operations improved due to the installation of floor service robots and self-serve checkout counters



ESG Initiatives



《Main items》

Promotion of activities towards sustainability

External assessment of ESG

MORNINGSTAR GenDi J

Japan ex-REIT Gender Diversity Tilt Index

TOP CONSTITUENT 2023



《Outline of activities》

Linking Sustainability KPIs to employee evaluations

Starting this fiscal year, we have introduced a system in which the achievement status of each KPI for activities towards sustainability is linked to the evaluation of division directors and above.

Selected as a constituent of the Government Pension Investment Fund (GPIF)'s newly adopted ESG index

We were selected in the highest rated group “1” of “Morningstar Japan ex-REIT Gender Diversity Tilt Index”. This is in recognition of our efforts related to gender and diversity, and with this, we have now been selected in five of the six ESG indices adopted by the GPIF.

B rating for “CDP Supplier Engagement”

CDP, a global environmental NGO, gave us a B rating for our efforts toward our business partners to reduce CO₂ emissions, following a B rating for “Climate Change”.

ESG Initiatives



《Main items》

《Outline of activities》

Consideration for the environment



Contribution to society



Results of environmental initiatives in 2022

CO ₂ emissions	-1.7% YoY
Amount of food waste	-1.9% YoY
Amount of plastics used*	-11.8% YoY

*Charging for plastic shopping bag from January 2023

This led to a reduction in plastic usage amount of approximately 22 tons in Q1.

Development of a human rights policy

Based on the UN's "Guiding Principles on Business and Human Rights", the Board of Directors resolved a human rights policy. We support and respect the international code of conduct on human rights and undertake human rights due diligence.

Turkey-Syria earthquake emergency support fund

We donated 8,460,000 yen, which was collected at all of our group stores in February and March, to Japan for UNHCR. The funds will be used to support the victims of the earthquake through Japan for UNHCR.



Appendix

Optimization of Store Portfolio

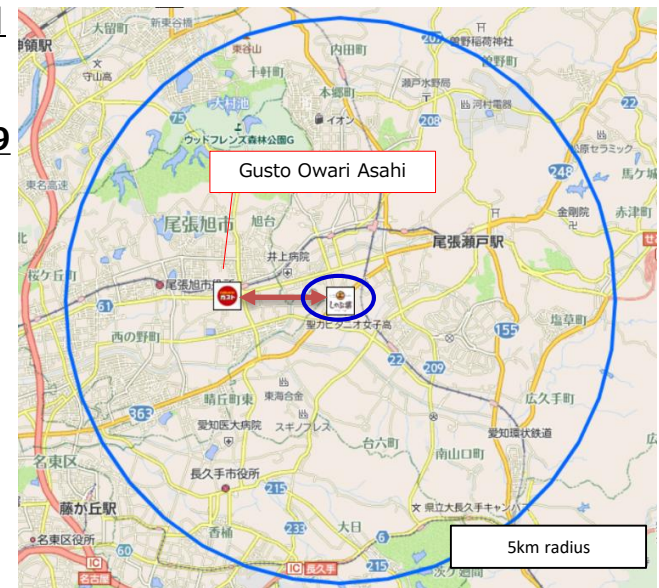


- Converted 5 stores to maximize area earnings by eliminating “self-cannibalization” (in-house competition) in local areas overcrowded with Gusto, **realizing a total sales impact of 24 million yen from the elimination effect alone**

[Example of Seto store converted from Gusto to Syabu-Yo]

- Conversion of Gusto Seto store to Syabu-Yo **increased sales of Seto store by 48 million yen**
- Furthermore, Gusto Owari Asahi store **increased sales by 9 million yen** due to the elimination of self-cannibalization, resulting in a **total area sales increase of 57 million yen**

Store	Sales difference before and after conversion (thousand yen)
SS Seto	48,018
GT Owari Asahi	8,806
Area total	56,825



● Converted stores aimed to eliminate self-cannibalization in local areas

No.	Converted store	Nearby Gusto	Sales impact of eliminating self-cannibalization (thousand yen)
1	Syabu-Yo Seto	Gusto Owari Asahi	8,806
2	Musashino Mori Coffee Shizuoka Chiyoda	Gusto Shizuoka Kuniyoshida	6,810
3	Musashino Mori Coffee Oyama Hongo	Gusto Oyama Inuzuka	4,181
4	Musashino Mori Coffee Shiroyama	Gusto Kagoshima Jonan	2,671
5	La Ohana Atsuta Ichiban	Gusto Nakajima	1,643
		Total	24,112

Store Development Summary



- New store openings: Selectively opened 8 stores
- Brand conversions: Converted 10 stores, mainly Syabu-Yo and Musashino Mori Coffee
- Remodels: Remodeled 24 stores, mainly Gusto

Brand	New Openings	Brand Conversion	Closure	End of Mar.2023	Remodels
Gusto	2	-	(24)	1,289	23
Bamiyan	1	-	(2)	354	-
Syabu-Yo	2	3	(5)	276	-
Jonathan's	1	-	(7)	199	-
Yumean	-	-	(4)	169	-
FLO Prestige	1	-	(1)	115	-
Steak Gusto	-	-	(7)	92	-
Karayoshi	-	-	(8)	78	-
Taiwan Skylark Co., Ltd.	-	-	-	68	1
Musashinomori Coffee	-	3	(1)	66	-
Aiya	-	-	(1)	40	-
chawan	-	-	-	21	-
La Ohana	-	2	-	19	-
Others	1	2	(16)	202	-
Group Total	8	10	(76)	2,988	24

of stores compared to end FY2022: (68)

*Conversions do not include 9 stores before opening due to preparations for conversion.

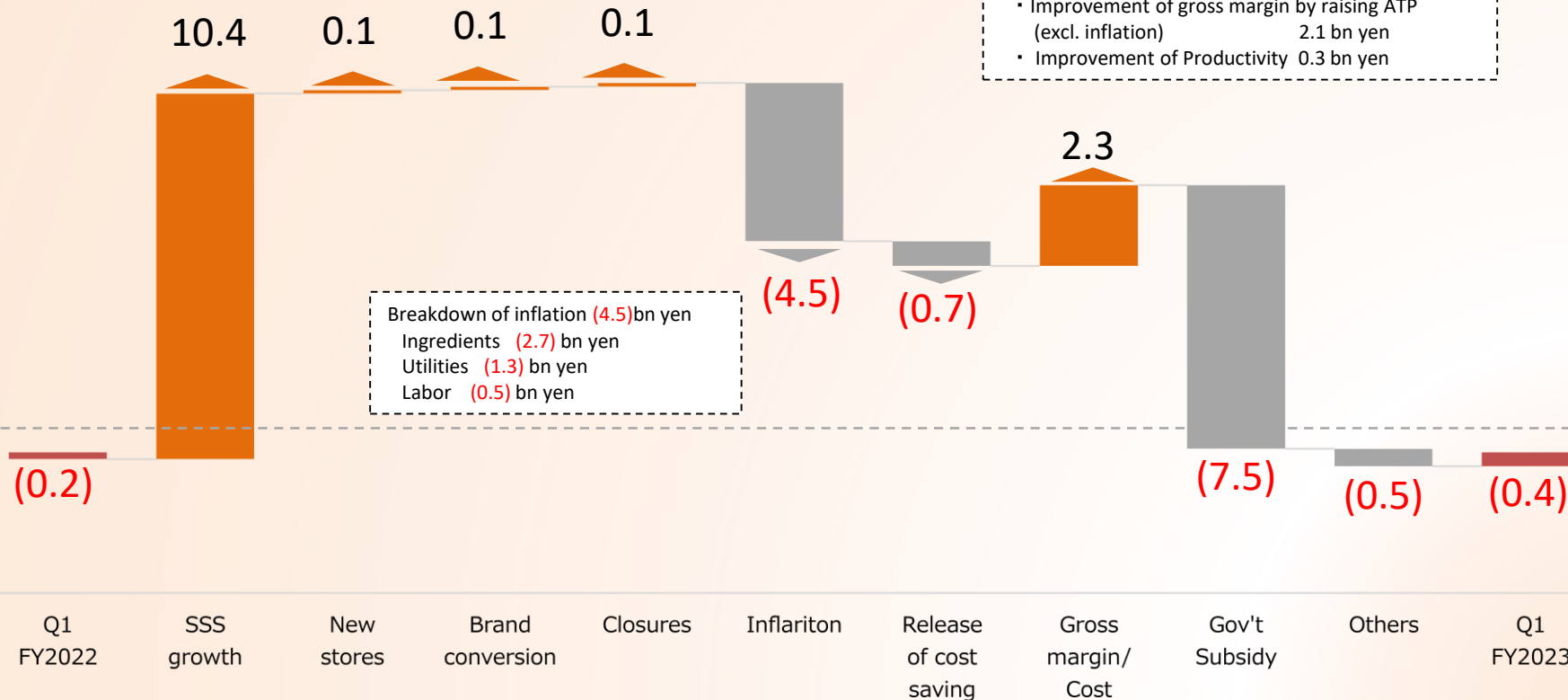
*Number of stores at end of month includes stores that are temporarily closed

OP Q1FY2023 vs. Q1FY2022 (3 months)

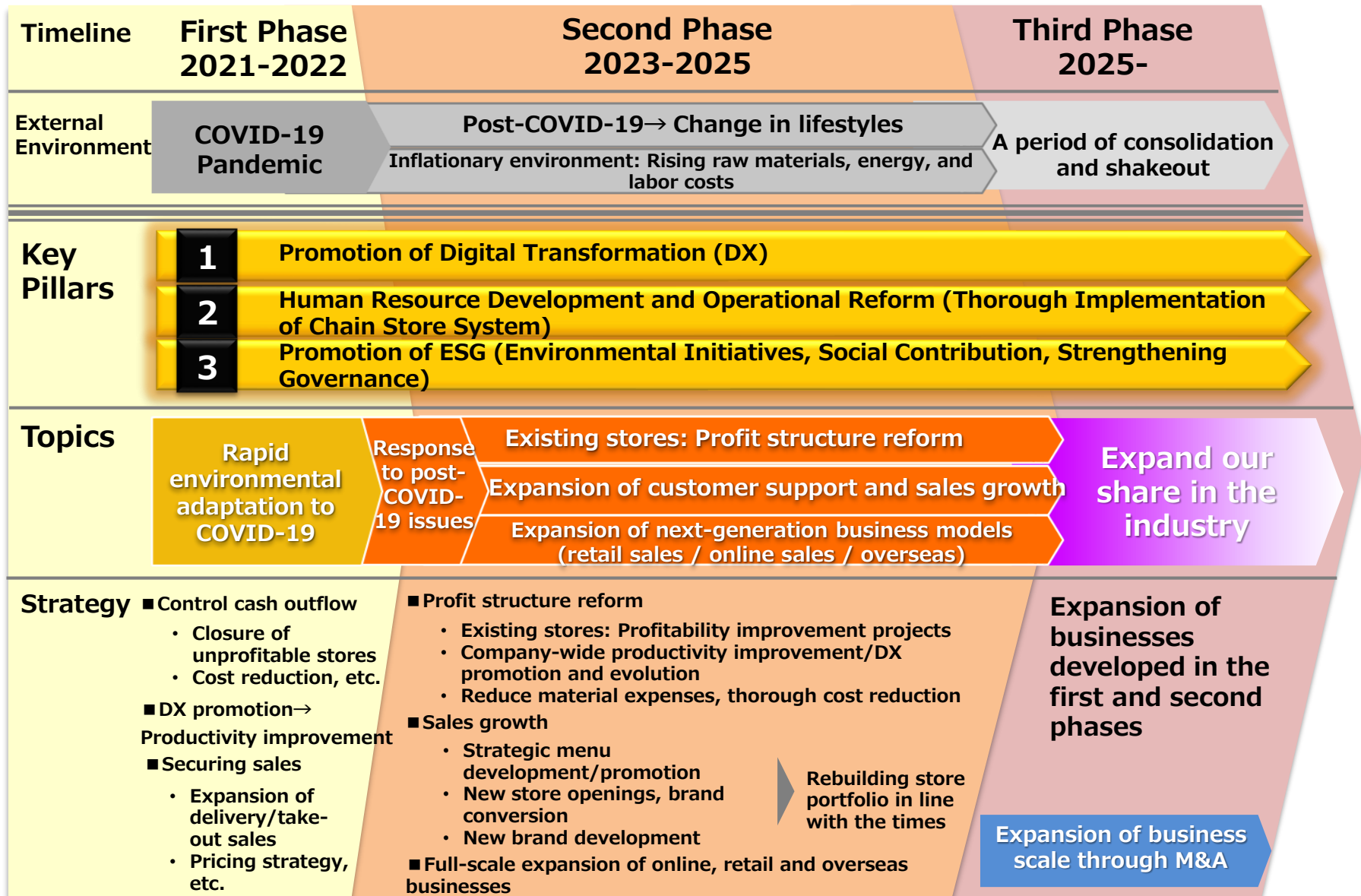


- ◆ OP was **(0.4)** bn yen, **(0.2)** bn yen vs 2022
- ◆ Impact of the 2022 government subsidy for shortening of operating hours is **(7.5)** bn yen

単位：億円



Growth Roadmap



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