

Summary of Consolidated Financial Results for the First Quarter of Fiscal Year Ending March 31, 2019 (Japanese Accounting Standards)

August 7, 2018

Company Name: **Zensho Holdings Co., Ltd.** Stock Listings Tokyo Stock Exchange
Code Number: 7550 URL <http://www.zensho.co.jp/>
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Scheduled date for submission of quarterly securities report: August 7, 2018
Scheduled date for payment of dividends: —
Supplementary documents for quarterly results: No
Quarterly results briefing: No

(Figures rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Quarter (April 1, 2018 to June 30, 2018)

(1) Consolidated Financial Results (Percentages (%) indicate changes from the previous year)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2018	144,047	1.6	2,958	(16.0)	2,865	(18.8)	1,154	(33.7)
June 30, 2017	141,816	10.4	3,520	33.9	3,526	61.3	1,742	146.3

Note: Comprehensive income Three months ended June 30, 2018 1,698 million yen(65.0 %)
Three months ended June 30, 2017 1,029 million yen(- %)

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2018	7.90	-
June 30, 2017	11.75	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per share
Three months ended	Million yen	Million yen	%	Yen
June 30, 2018	317,029	82,444	21.4	463.96
Fiscal year ended				
March 31, 2018	295,316	82,204	22.9	461.76

Note: Shareholders' Equity: June 30, 2018 67,817 million yen March 31, 2018 67,495 million yen

2. Dividends

	Dividend per Share				
	End of Q1	End of Q2	End of Q3	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	-	9.00	-	9.00	18.00
Fiscal year ending March 31, 2019	-				
Fiscal year ending March 31, 2019 (forecast)		9.00	-	9.00	18.00

Note: Revisions to dividend forecasts published recently : None

3. Consolidated Forecasts for Fiscal Year Ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(Percentages (%) indicate changes from the previous year for annual figures and year-on year changes for quarterly figures)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Q2 (Cumulative)	310,804	6.8	10,956	9.3	10,496	3.8	5,759	12.8	39.40
Full year	623,709	7.7	20,391	15.8	19,522	10.6	8,636	7.9	59.08

Note: Revisions to consolidated financial forecasts published recently : None

※ Notes

(1) Changes of important subsidiaries during the period : None

(2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements : None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies caused by revision of accounting standards : None

(ii) Changes in accounting policies other than (i) : None

(iii) Changes in accounting estimates : None

(iv) Restatement : None

(4) Shares issued and outstanding (common stock)

(i) Number of shares outstanding at the end of the period (including treasury stock)	As of June 30, 2018	149,640,445 shares	As of March 31, 2018	149,640,445 shares
(ii) Number of treasury stocks at the end of the period	As of June 30, 2018	3,469,463 shares	As of March 31, 2018	3,469,463 shares
(iii) Average number of shares outstanding during the term (quarter cumulative)	As of June 30, 2018	146,170,982 shares	As of June 30, 2017	148,244,096 shares

※ This quarterly consolidated financial results report is not subject to a quarterly review.

※ Explanation and other special notes concerning the appropriate use of forecasted business performance

(Notes on forecasted business performance and others)

The forecast figures indicated above are projections based on the information available at the time of the announcement and certain assumptions include some degree of uncertainty. Actual business performance and other results may differ from the forecast depending on the changes in business conditions and others. Please refer to p.3 of the Appendix for information on the above forecast.

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1. Qualitative Information on Results for the First Quarter Ended June 30, 2018

(1) Details of Consolidated Financial Results

In the first quarter of the fiscal year under review (from April 1, 2018 to June 30, 2018), economic conditions in Japan continued a modest recovery with the backdrop of improvements in corporate earnings and employment environment, while uncertainty over the future remained mainly due to the rising protectionism as in the trade friction between the U.S. and China.

In the restaurant industry, business environment remained stringent, because of lackluster personal consumption resulting from sluggish growth of real wages, surge in food prices, and rise in personnel expenses.

Under these circumstances, the same-store sales in the Gyudon category including Sukiya, the Family Dining category including Coco's and Jolly-Pasta, and the Fast Food Service category including Hamazushi were 101.1%, 97.3%, and 102.5% year-on-year, respectively.

At the end of June, 2018, the number of stores stood at 5,087, as a result of 40 new store openings and 18 closures.

Consequently, the business performance in the first quarter of the fiscal year under review showed sales of 144,047 million yen (up 1.6% year-on-year), operating profit of 2,958 million yen (down 16.0% year-on-year), ordinary profit of 2,865 million yen (down 18.8% year-on-year), and profit attributable to owners of parent of 1,154 million yen (down 33.7% year-on-year).

An overview of conditions by business segment is provided below.

i) Restaurant business

The sales of the restaurant business in the first quarter of the fiscal year under review were 122,902 million yen (up 2.4% year-on-year), and the operating profit was 2,886 million yen (down 9.5% year-on-year).

The performance of the restaurant business for each major category is as follows.

(Gyudon category)

The number of restaurants in the Gyudon category at the end of June, 2018 stood at 2,817, as a result of 29 new restaurant openings and 10 closures. The breakdown is 1,939 restaurants of Sukiya, 460 restaurants of Nakau (including 13 franchised restaurants), and others.

Sukiya, a Gyudon chain operated by Sukiya Co., Ltd., has made efforts to enhance the product competitiveness by launching "Caesar Lettuce Gyudon" (Gyudon topped with Caesar salad), which uses plentiful crunchy lettuce (regular size: 500 yen [tax included]) and "Caesar Lettuce Curry" (rice and curry with Caesar salad on top) (regular size: 640 yen [tax included]) to address the various needs of customers, under the theme of "Let's be Healthy at Sukiya".

Sukiya is striving to strengthen quality controls and improve its service to allow customers to continue to enjoy safe and delicious products, as well as to pursue the development of restaurants loved by customers.

Nakau, rice bowl dishes and Kyoto-style udon noodle chain, operated by Nakau Co., Ltd., sought to improve business performance by undertaking various sales promotions while enhancing product competitiveness through introduction of new and seasonal products and improvement of existing products.

As a result of the above, sales in the Gyudon category in the first quarter of the fiscal year under review totaled 50,674 million yen (up 3.7% year-on-year).

(Family Dining category)

The number of restaurants in the Family Dining category at the end of June, 2018 stood at 1,370 (including 79 franchised restaurants), as a result of 3 new restaurant openings and 3 closures.

Coco's, the standard restaurant chain operated by Coco's Japan Co., Ltd., has made efforts to improve its business performance by enriching the menu, introducing dainty campaign menus, and improving the standard of service across the chain.

Big Boy, the chain of hamburger steak and grill restaurants and other chain operated by Big Boy Japan, Inc., sought to improve its business performance by various ways, such as improving the main products, enriching salad bar and soup bar, and adding special menus.

Jolly-Pasta, the pasta specialty restaurant chain, operated by Jolly-Pasta Co., Ltd., expanded the lineup of the menu and introduced new dishes using seasonal ingredients to enhance the taste of products and to convey the pasta specialty restaurant's attractiveness to customers, under the slogan, "When you want pasta, it's Jolly-Pasta".

Hanaya Yohei, the Japanese-cuisine restaurant chain operated by Hanaya Yohei Co., Ltd., has been working to improve customers satisfaction by various ways, including development of products using seasonal ingredients, improvement of service standard with enhanced training of restaurant employees, and improvement of labor productivity.

Due to these efforts, sales in the Family Dining category in the first quarter of the fiscal year under review were 30,998 million yen (down 1.9% year-on-year).

(Fast Food Service category)

The number of restaurants in the Fast Food Service category at the end of June, 2018 stood at 758, as a result of 8 new restaurant openings and 3 closures.

Hamazushi, kaiten-sushi restaurants (sushi restaurants with conveying belts) operated by Hamazushi Co., Ltd., sought to expand its businesses by increasing the number of restaurants, enhancing quality of products and strengthening services at the restaurants.

Due to these efforts, sales in the Fast Food Service category in the first quarter of the fiscal year under review were 33,831 million yen (up 7.2% year-on-year).

(Other category)

Sales in the Other category in the first quarter of the fiscal year under review were 7,398 million yen (down 7.8% year-on-year).

Main businesses in this category include Tolona Japan Co., Ltd., which sells frozen pizza, etc.; Global Fresh Supply Co., Ltd., a company which handles logistics functions for the Zensho Group; and Global Table Supply Co., Ltd., which procures uniforms, equipment etc.

ii) Retail Business

Sales in the retail business in the first quarter of the fiscal year under review were 21,144 million yen (down 2.8% year-on-year), and the operating profit was 71 million yen (down 78.4% year-on-year).

The retail business includes the supermarket business operated by Maruya co., Ltd., Maruei Co., Ltd., Owariya Co., Ltd., and Fresh Corporation Co., Ltd., and fruit and vegetables stores operated by United Veggies Co., Ltd.

(2) Details of Consolidated Financial Position

(Total Assets)

Total assets stood at ¥317,029 million as of June 30, 2018, an increase of ¥21,713 million compared with the end of the previous fiscal year-end. This increase was mainly due to the increase in property, plant and equipment resulted from new store investments.

(Liabilities)

Liabilities amounted to ¥234,585 million as of June 30, 2018, an increase of ¥21,473 million compared with the previous fiscal year-end. This increase was mainly due to the increase in interest-bearing liabilities resulted from subordinated loan financing.

(Net Assets)

Net Assets came at ¥82,444 million as of June 30, 2018, an increase of ¥239 million compared with the previous fiscal year-end. This increase was mainly due to an increase in deferred gains or losses on hedges, which was partly offset by a decrease in retained earnings resulted from dividend payment.

(3) Information on the Future Outlook, Including Consolidated Business Performance Forecasts

There are no changes to the consolidated business performance forecasts announced on May 10, 2018, for the period ending March 31, 2019.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

	(Million yen)	
	End of Previous fiscal year (As of March 31, 2018)	End of 1Q, Current fiscal year (As of June 30, 2018)
Assets		
Current Assets		
Cash and deposits	26,142	44,722
Notes and accounts receivable - trade	8,142	8,094
Merchandise and finished goods	15,965	18,160
Work in process	726	750
Raw materials and supplies	4,872	4,789
Other	15,916	16,871
Allowance for doubtful accounts	(11)	(11)
Total current assets	71,754	93,378
Non-current assets		
Property, plant and equipment, net		
Buildings and structures	188,654	190,540
Accumulated Depreciation	(107,400)	(108,837)
Buildings and structures, net	81,253	81,703
Machinery, equipment and vehicles	11,588	11,914
Accumulated Depreciation	(7,151)	(7,358)
Machinery, equipment and vehicles, net	4,437	4,556
Other	98,746	100,159
Accumulated Depreciation	(49,151)	(49,812)
Other, net	49,594	50,346
Total property, plant and equipment	135,285	136,606
Intangible assets		
Goodwill	17,833	17,707
Other	3,343	3,414
Total intangible assets	21,176	21,122
Investments and other assets		
Investment securities	1,328	1,055
Guarantee deposits	33,506	33,471
Other	32,189	31,325
Allowance for doubtful accounts	(14)	(14)
Total investments and other assets	67,009	65,838
Total non-current assets	223,471	223,567
Deferred assets	89	84
Total assets	295,316	317,029

(Million yen)

	End of Previous fiscal year (As of March 31, 2018)	End of 1Q, Current fiscal year (As of June 30, 2018)
Liabilities		
Current Liabilities		
Notes and accounts payable, trade	19,624	19,164
Short-term loans payable	783	431
Current portions of bonds	1,780	1,780
Current portion of long-term loans payable	35,509	34,048
Income taxes payable	2,113	740
Provision	2,131	1,486
Other	33,127	32,597
Total current liabilities	95,070	90,248
Non-current liabilities		
Bonds payable	13,800	13,800
Long-term loans payable	85,227	110,529
Net defined benefit liability	578	586
Asset retirement obligations	2,989	3,022
Other	15,446	16,399
Total non-current liabilities	118,041	144,337
Total liabilities	213,112	234,585
Net assets		
Shareholders' equity		
Capital stock	23,470	23,470
Capital surplus	24,261	24,261
Retained earnings	27,152	26,977
Treasury shares	(6,021)	(6,021)
Total shareholders' equity	68,863	68,688
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(29)	(33)
Deferred gains or losses on hedges	(605)	85
Remeasurements of defined benefit plans	(24)	(20)
Foreign currency translation adjustment	(707)	(902)
Total accumulated other comprehensive income	(1,367)	(871)
Non-controlling interests	14,708	14,626
Total net assets	82,204	82,444
Total liabilities and net assets	295,316	317,029

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)
(First Quarter, Fiscal Year ending March 31, 2019)

(Million yen)

	1Q, Previous fiscal year (From April 1, 2017 to June 30, 2017)	1Q, Current fiscal year (From April 1, 2018 to June 30, 2018)
Net Sales	141,816	144,047
Cost of Sales	62,212	62,561
Gross Profit	79,604	81,485
Selling, General and Administrative Expenses	76,084	78,527
Operating Profit	3,520	2,958
Other Income		
Interest income	100	96
Dividend income	1	2
Rent income	56	33
Foreign exchange gains	154	—
Other	148	195
Total non-operating income	460	327
Non-operating expenses		
Interest expenses	222	179
Rent expenses	36	18
Foreign exchange losses	—	19
Other	194	202
Total non-operating expenses	453	420
Ordinary profit	3,526	2,865
Extraordinary income		
Gain on sales of non-current assets	3	114
Other	148	47
Total extraordinary income	152	162
Extraordinary losses		
Loss on sales of non-current assets	2	0
Loss on retirement of non-current assets	300	367
Other	134	123
Total extraordinary losses	438	491
Profit before income taxes	3,240	2,536
Income taxes - current	656	595
Income taxes - deferred	795	733
Total income taxes	1,452	1,329
Profit	1,788	1,207
Profit attributable to non-controlling interests	46	52
Profit attributable to owners of parent	1,742	1,154

(Quarterly Consolidated Statements of Comprehensive Income)

(First Quarter, Fiscal Year ending March 31, 2019)

(Million yen)

	1Q, Previous fiscal year (From April 1, 2017 to June 30, 2017)	1Q, Current fiscal year (From April 1, 2018 to June 30, 2018)
Profit	1,788	1,207
Other comprehensive income		
Valuation difference on available-for-sale securities	(585)	(5)
Deferred gains or losses on hedges	(180)	691
Remeasurements of defined benefit plans, net of tax	1	4
Foreign currency translation adjustment	4	(198)
Total other comprehensive income	(758)	491
Comprehensive income	1,029	1,698
(Breakdown)		
Comprehensive income attributable to owners of parent	983	1,650
Comprehensive income attributable to non-controlling interests	46	47

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes for Case Where Shareholders' Equity underwent Significant Changes in Value)

Not applicable.

(Segment Information)

【Segment Information】

I First quarter of Previous Fiscal Year (From April 1, 2017 to June 30, 2017)

1 . Information on net sales, profits or losses by reporting segment

(Unit : Millions of yen)

	Reporting segments		Total	Adjustment (Note1)	Amount on consolidated balance sheet (Note2)
	Restaurant business	Retail business			
Net Sales					
Sales to External Customers	120,061	21,755	141,816	—	141,816
Intersegment Sales or Transfers	615	5	620	(620)	—
Total	120,676	21,760	142,437	(620)	141,816
Segment Profit/(Loss)	3,190	328	3,519	0	3,520

(Note) 1. Adjustment amount of segment profit/(loss) of ¥0 million are mainly elimination of intersegment transactions.

2. The total amount of segment profit/(loss) is adjusted with the operating profit in the quarterly consolidated statements of income.

3. Intersegment sales or transfers amounts are calculated based on prevailing market prices.

2 . Information on impairment loss or goodwill on non-current assets by reporting segment

(Important impairment loss on non-current assets)

Not applicable.

(Major change in goodwill)

Not applicable.

(Major negative goodwill profit)

Not applicable.

II First quarter of Fiscal Year under review (From April 1, 2018 to June 30, 2018)

1 . Information on net sales, profits or losses by reporting segment

(Unit : Millions of yen)

	Reporting segments		Total	Adjustment (Note1)	Amount on consolidated balance sheet (Note2)
	Restaurant business	Retail business			
Net Sales					
Sales to External Customers	122,902	21,144	144,047	—	144,047
Intersegment Sales or Transfers	535	11	546	(546)	—
Total	123,437	21,155	144,593	(546)	144,047
Segment Profit/(Loss)	2,886	71	2,958	0	2,958

- (Note) 1. Adjustment amount of segment profit/(loss) of ¥0 million are mainly elimination of intersegment transactions.
2. The total amount of segment profit/(loss) is adjusted with the operating profit in the quarterly consolidated statements of income.
3. Intersegment sales or transfers amounts are calculated based on prevailing market prices.

2 . Information on impairment loss or goodwill on non-current assets by reporting segment

(Important impairment loss on non-current assets)

Not applicable.

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(Major negative goodwill profit)

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