

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

February 5, 2019

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Code Number: 7550 URL <http://www.zensho.co.jp/>
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Scheduled date for submission of quarterly securities report: February 5, 2019
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 Cumulative Third Quarter (April 1, 2018 to December 31, 2018)

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

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2018	454,845	4.4	14,660	7.2	13,962	0.7	6,394	(6.9)
December 31, 2017	435,753	7.3	13,672	(7.2)	13,861	(2.3)	6,869	(9.2)

Note: Comprehensive income Nine months ended December 31, 2018 6,420 million yen(-3.0 %)
Nine months ended December 31, 2017 6,621 million yen(-39.9 %)

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2018	43.74	-
December 31, 2017	46.37	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per share
	Million yen	Million yen	%	Yen
December 31, 2018	346,789	85,763	20.5	485.62
March 31, 2018	295,316	82,204	22.9	461.76

Note: Shareholders' Equity: December 31, 2018 70,983 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	-	9.00	-		
Fiscal year ending March 31, 2019 (forecast)				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)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent		Profit attributable to owners of parent per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	Yen
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
(changes in specified subsidiaries resulting in change in scope of consolidation) : 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 December 31, 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 December 31, 2018	3,469,646 shares	As of March 31, 2018	3,469,463 shares
(iii) Average number of shares outstanding during the term (quarter cumulative)	Nine months ended December 31, 2018	146,170,918 shares	Nine months ended December 31, 2017	148,131,468 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 Cumulative Third Quarter Ended December 31, 2018

(1) Details of Consolidated Financial Results

In the cumulative third quarter of the fiscal year under review (from April 1, 2018 to December 31, 2018), economic conditions in Japan continued a modest recovery with the backdrop of improvements in corporate earnings and employment environment, while the outlook remains uncertain mainly due to the impact of natural disasters and the global trade friction.

In the restaurant industry, business environment remained stringent, because of lackluster personal consumption, 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 103.4%, 100.2%, and 102.0% year-on-year, respectively.

At the end of the third quarter of the fiscal year under review, the number of stores stood at 9,329, resulting from the acquisition of Advanced Fresh Concepts Corp. and 181 openings and 60 closures of existing brand restaurants.

Consequently, the business performance in the cumulative third quarter of the fiscal year under review showed sales of 454,845 million yen (up 4.4% year-on-year), operating profit of 14,660 million yen (up 7.2% year-on-year), ordinary profit of 13,962 million yen (up 0.7% year-on-year), and profit attributable to owners of parent of 6,394 million yen (down 6.9% year-on-year).

An overview of conditions by business segment is provided below.

1) Restaurant business

Sales of the restaurant business in the cumulative third quarter of the fiscal year under review were 391,479 million yen (up 5.2% year-on-year), and the operating profit was 14,435 million yen (up 10.4% 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 December 31, 2018 stood at 2,872, as a result of 102 new restaurant openings and 28 closures. The breakdown is 1,933 restaurants of Sukiya, 457 restaurants of Nakau (including 11 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) (regular size: 500 yen [tax included]), "Yon-shu no Cheese-dori Gyu" (Gyudon topped with 4 types of cheese) (regular size: 480 yen [tax included]), "Shibi-kara Moyashi Gyudon" (Gyudon topped with bean sprouts with Chinese pepper sauce) (regular size: 500 yen [tax included]), "Okonomi Gyu-tamadon" (Gyudon topped with diced cabbage and egg-yolk with sweet and savory Okonomi sauce) (regular size: 500 yen [tax included]), "Gyu-sukinabe Teishoku" (Beef sukiyaki pot set meal) (regular size: 780 yen [tax included]), and "Shiraga-negi Gyudon" (Gyudon topped with fine strips of raw leek) (regular size: 500 yen [tax included]), to address the various needs of customers, under the theme of "Let's be Healthy at Sukiya".

Sukiya is striving to further 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 cumulative third quarter of the fiscal year under review totaled 161,796 million yen (up 5.4% year-on-year).

(Family Dining category)

The number of restaurants in the Family Dining category at the end of December 31, 2018 stood at 1,375 (including 79 franchised restaurants), as a result of 16 new restaurant openings and 11 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 cumulative third quarter of the fiscal year under review were 96,606 million yen (up 0.8% year-on-year).

(Fast Food Service category)

The number of restaurants in the Fast Food Service category at the end of December 31, 2018 stood at 774, as a result of 29 new restaurant openings and 8 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 cumulative third quarter of the fiscal year under review were 105,184 million yen (up 6.2% year-on-year).

(Other category)

Sales in the Other category in the cumulative third quarter of the fiscal year under review were 27,891 million yen (up 18.1% 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; Global Table Supply Co., Ltd., which procures uniforms, equipment etc.; and Advanced Fresh Concepts Corp. We have acquired shares of Advanced Fresh Concepts Corp., which operates take-out sushi shops in the US, Canada, and Australia, on November 16, 2018 to make it our subsidiary.

2) Retail Business

Sales in the retail business in the cumulative third quarter of the fiscal year under review were 63,365 million yen (down 0.6% year-on-year), and the operating profit was 224 million yen (down 62.1% 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 ¥346,789 million as of December 31, 2018, an increase of ¥51,473 million compared with the previous fiscal year-end. This increase was mainly due to increases in intangible assets and cash and deposits resulted from the acquisition of Advanced Fresh Concepts Corp.

(Liabilities)

Liabilities amounted to ¥261,026 million as of December 31, 2018, an increase of ¥47,913 million compared with the previous fiscal year-end. This increase was mainly due to an increase in interest-bearing liabilities resulted from subordinated loan financing and unsecured bond issuance.

(Net Assets)

Net Assets came at ¥85,763 million as of December 31, 2018, an increase of ¥3,559 million compared with the previous fiscal year-end. This increase was mainly due to an increase in retained earnings.

(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 Sheet

	(Million yen)	
	End of Previous fiscal year (As of March 31, 2018)	End of 3Q, Current fiscal year (As of December 31, 2018)
Assets		
Current Assets		
Cash and deposits	26,142	34,555
Notes and accounts receivable - trade	8,142	14,546
Merchandise and finished goods	15,965	20,974
Work in process	726	680
Raw materials and supplies	4,872	7,364
Other	15,916	17,075
Allowance for doubtful accounts	(11)	(96)
Total current assets	71,754	95,100
Non-current assets		
Property, plant and equipment, net		
Buildings and structures	188,654	196,043
Accumulated Depreciation	(107,400)	(112,204)
Buildings and structures, net	81,253	83,839
Machinery, equipment and vehicles	11,588	12,857
Accumulated Depreciation	(7,151)	(7,775)
Machinery, equipment and vehicles, net	4,437	5,081
Other	98,746	106,294
Accumulated Depreciation	(49,151)	(52,350)
Other, net	49,594	53,943
Total property, plant and equipment	135,285	142,864
Intangible assets		
Goodwill	17,833	38,525
Other	3,343	3,778
Total intangible assets	21,176	42,303
Investments and other assets		
Investment securities	1,328	3,282
Guarantee deposits	33,506	33,288
Other	32,189	29,840
Allowance for doubtful accounts	(14)	(14)
Total investments and other assets	67,009	66,396
Total non-current assets	223,471	251,565
Deferred assets	89	124
Total assets	295,316	346,789

	(Million yen)	
	End of Previous fiscal year (As of March 31, 2018)	End of 3Q, Current fiscal year (As of December 31, 2018)
Liabilities		
Current Liabilities		
Notes and accounts payable, trade	19,624	25,368
Short-term loans payable	783	918
Current portions of bonds	1,780	1,600
Current portion of long-term loans payable	35,509	29,401
Income taxes payable	2,113	2,212
Provision	2,131	1,235
Other	33,127	34,307
Total current liabilities	95,070	95,045
Non-current liabilities		
Bonds payable	13,800	28,000
Long-term loans payable	85,227	116,436
Net defined benefit liability	578	587
Asset retirement obligations	2,989	3,068
Other	15,446	17,888
Total non-current liabilities	118,041	165,980
Total liabilities	213,112	261,026
Net assets		
Shareholders' equity		
Capital stock	23,470	23,470
Capital surplus	24,261	24,261
Retained earnings	27,152	30,902
Treasury shares	(6,021)	(6,021)
Total shareholders' equity	68,863	72,612
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(29)	(69)
Deferred gains or losses on hedges	(605)	(43)
Remeasurements of defined benefit plans	(24)	(12)
Foreign currency translation adjustment	(707)	(1,503)
Total accumulated other comprehensive income	(1,367)	(1,628)
Non-controlling interests	14,708	14,779
Total net assets	82,204	85,763
Total liabilities and net assets	295,316	346,789

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(Quarterly Consolidated Statements of Income)

(Cumulative Third Quarter, Fiscal Year ending March 31, 2019)

(Million yen)

	Cumulative 3Q, Previous fiscal year (From April 1, 2017 to December 31, 2017)	Cumulative 3Q, Current fiscal year (From April 1, 2018 to December 31, 2018)
Net Sales	435,753	454,845
Cost of Sales	189,487	195,881
Gross Profit	246,265	258,963
Selling, General and Administrative Expenses	232,593	244,303
Operating Profit	13,672	14,660
Other Income		
Interest income	321	343
Dividend income	5	7
Rent income	148	104
Foreign exchange gains	434	—
Share of profit of entities accounted for using equity method	—	5
Other	473	559
Total non-operating income	1,383	1,019
Non-operating expenses		
Interest expenses	621	826
Rent expenses	94	55
Foreign exchange losses	—	155
Other	478	680
Total non-operating expenses	1,194	1,717
Ordinary profit	13,861	13,962
Extraordinary income		
Gain on sales of non-current assets	132	105
Gain on sales of investment securities	94	38
Compensation income	—	108
Compensation income for expropriation	259	19
Other	37	64
Total extraordinary income	524	336
Extraordinary losses		
Loss on sales of non-current assets	76	0
Loss on retirement of non-current assets	1,022	1,097
Other	702	492
Total extraordinary losses	1,800	1,590
Profit before income taxes	12,585	12,707
Income taxes - current	3,159	3,718
Income taxes - deferred	2,221	2,299
Total income taxes	5,380	6,018
Profit	7,205	6,689
Profit attributable to non-controlling interests	336	295
Profit attributable to owners of parent	6,869	6,394

(Quarterly Consolidated Statements of Comprehensive Income)
(Cumulative Third Quarter, Fiscal Year ending March 31, 2019)

	(Million yen)	
	Cumulative 3Q, Previous fiscal year (From April 1, 2017 to December 31, 2017)	Cumulative 3Q, Current fiscal year (From April 1, 2018 to December 31, 2018)
Profit	7,205	6,689
Other comprehensive income		
Valuation difference on available-for-sale securities	(570)	(43)
Deferred gains or losses on hedges	(186)	561
Remeasurements of defined benefit plans, net of tax	4	12
Foreign currency translation adjustment	168	(799)
Share of other comprehensive income of entities accounted for using equity method	—	(0)
Total other comprehensive income	(584)	(269)
Comprehensive income	6,621	6,420
(Breakdown)		
Comprehensive income attributable to owners of parent	6,283	6,133
Comprehensive income attributable to non- controlling interests	337	286

(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 Third quarter of Previous Fiscal Year (From April 1, 2017 to December 31, 2017)

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

(Units : Millions of yen)

	Reporting segments		Total	Adjustment (Note1)	Amount on consolidated balance sheet (Note2)
	Restaurant business	Retail business			
Net Sales					
Sales to External Customers	371,996	63,756	435,753	—	435,753
Intersegment Sales or Transfers	1,558	21	1,579	(1,579)	—
Total	373,554	63,778	437,332	(1,579)	435,753
Segment Profit/(Loss)	13,078	592	13,671	0	13,672

- (Note) 1. Adjustment amount of segment profit/(loss) of ¥0 million is 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, goodwill, etc. on non-current assets by reportable segment

(Important impairment loss on non-current assets)

Not applicable.

(Major change in goodwill)

Not applicable.

(Major negative goodwill profit)

Not applicable.

II Third quarter of Fiscal Year under review (From April 1, 2018 to December 31, 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	391,479	63,365	454,845	—	454,845
Intersegment Sales or Transfers	1,444	34	1,478	(1,478)	—
Total	392,924	63,400	456,324	(1,478)	454,845
Segment Profit/(Loss)	14,435	224	14,659	0	14,660

- (Note) 1. Adjustment amount of segment profit/(loss) of ¥0 million is 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, goodwill, etc. on non-current assets by reportable segment

(Important impairment loss on non-current assets)

Not applicable.

(Major change in goodwill)

With the acquisition of shares in Advanced Fresh Concepts Corp. in the “Restaurant Business” segment, the company has been included in the scope of consolidation with effect from the three months ended December 31, 2018. With this acquisition, goodwill increased by 21,698 million yen. This is a tentative amount, since we could not identify the identifiable assets and liabilities, estimate the fair value, and complete the allocation of acquisition cost due to the short period between the consolidated book-closing date and date of business combination.

(Major negative goodwill profit)

Not applicable.