

Summary of Consolidated Financial Results for the First Quarter of Fiscal Year Ending March 31, 2021 (Japanese Accounting Standards)

August 7, 2020

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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: August 7, 2020

Scheduled date for payment of dividends: —

Supplementary documents for quarterly results: Yes

Quarterly results briefing: Yes (for institutional investors)

(Figures rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Quarter (April 1, 2020 to June 30, 2020)

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

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2020	128,373	(16.3)	(7,970)	—	(8,135)	—	(6,382)	—
June 30, 2019	153,319	6.4	4,434	49.9	4,082	42.5	1,917	66.1

Note: Comprehensive income Three months ended June 30, 2020 (6,645) million yen(- %)
Three months ended June 30, 2019 (680) million yen(- %)

	Basic earnings per share	Diluted earnings per share
Three months ended June 30, 2020	Yen (41.71)	Yen -
June 30, 2019	13.19	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per share
	Million yen	Million yen	%	Yen
June 30, 2020	379,672	77,019	20.2	502.17
March 31, 2020	365,853	86,793	23.7	563.30

Note: Shareholders' Equity: June 30, 2020 76,816 million yen March 31, 2020 86,613 million yen

2. Dividends

	Dividend per Share				
	End of Q1	End of Q2	End of Q3	Year-end	Full year
Fiscal year ended March 31, 2020	Yen -	Yen 10.00	Yen -	Yen 10.00	Yen 20.00
Fiscal year ending March 31, 2021	-	-	-	-	-
Fiscal year ending March 31, 2021 (forecast)	-	10.00	-	10.00	20.00

Note: Revisions to dividend forecasts published recently : Yes

Following the calculation of the consolidated financial forecasts, we announce the dividend forecast as above.

3. Consolidated Forecasts for Fiscal Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(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)	291,486	(8.9)	(3,009)	—	(3,630)	—	(3,916)	—	(25.47)
Full year	625,403	(0.8)	8,839	(57.7)	7,396	(62.8)	1,000	(91.7)	6.50

Note: Revisions to consolidated financial forecasts published recently : Yes

We announce the consolidated forecasts for fiscal year ending March 31, 2021, which were calculated based on the information available at the time of announcement.

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, 2020	154,862,825 shares	As of March 31, 2020	154,862,825 shares
(ii) Number of treasury stocks at the end of the period	As of June 30, 2020	1,893,754 shares	As of March 31, 2020	1,102,736 shares
(iii) Average number of shares outstanding during the term (quarter cumulative)	As of June 30, 2020	153,022,740 shares	As of June 30, 2019	145,388,910 shares

* **This quarterly consolidated financial results report is exempt from quarterly review of certified accountants and/or auditing firms.**

* **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.4 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, 2020

(1) Details of Consolidated Financial Results

In the first quarter of the fiscal year under review (from April 1, 2020 to June 30, 2020), economic conditions in Japan deteriorated sharply due to stagnant personal consumption and economic activities resulted from the global spread of the COVID-19.

In the restaurant industry, business environment became stringent, as the COVID-19 prevention measures, such as self-quarantine and the shorter operating hours and/or temporary store closures, were taken under the emergency declaration. Although the economic activities are recovering since the state of emergency has been officially lifted, the concerns for the spread of infection is still prevailing and the situation is remaining uncertain.

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 85.9%, 57.9%, and 75.2% year-on-year, respectively.

At the end of June, 2020, the number of stores stood at 9,856 (including 4,316 franchised restaurants), as a result of 74 store openings and 44 closures.

Consequently, the business performance in the first quarter of the fiscal year under review showed sales of 128,373 million yen (down 16.3% year-on-year), operating loss of 7,970 million yen (profit of 4,434 million yen in the same period of previous year), ordinary loss of 8,135 million yen (profit of 4,082 million yen in the same period of previous year), and loss attributable to owners of parent of 6,382 million yen (profit of 1,917 million yen in the same period of previous year).

An overview of conditions by business segment is provided below.

i) Restaurant business

Sales of the restaurant business in the first quarter of the fiscal year under review were 104,950 million yen (down 21.2% year-on-year), and the operating loss was 8,809 million yen (profit of 4,441 million yen in the same period of previous year) due to an impact of the spread of COVID-19.

After the government/municipalities declared the state of emergency and issued a self-quarantine request, sales decreased as a result of the temporary closure and/or shorter operating hours at restaurants. However, various initiatives, such as introducing take-out and delivery services to meet the customers' increasing needs, strengthening sales systems, expanding menu, and implementing a web reservation system, were taken in order to secure sales. Since the state of emergency has been lifted, the restaurants resumed normal operations while continuously taking prevention measures, and the business is showing signs of recovery.

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

(Gyudon category)

Sales in the Gyudon category in the first quarter of the fiscal year under review totaled 46,443 million yen (down 12.7% year-on-year).

Sukiya, a Gyudon chain operated by Sukiya Co., Ltd., has made efforts to enhance the product competitiveness by launching "Gyudon w/Kale, Lettuce" (regular size: 550 yen [tax included]), "Gyudon w/ Caesar Salad" (regular size: 530 yen [tax included]), and "Gyudon w/ Lettuce, Walnut, & Honey Mustard Sauce" (regular size: 530 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, improvement of existing products, and expansion of take-out product line-up.

The number of restaurants in the Gyudon category at the end of June, 2020 stood at 3,013 (including 9 franchised restaurants), as a result of 25 restaurant openings and 9 closures.

(Family Dining category)

Sales in the Family Dining category in the first quarter of the fiscal year under review were 17,723 million yen (down 41.4% year-on-year).

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 dishes, improving the standard of

service across the chain, and further expansion of take-out product line-up.

Big Boy, the chain of hamburger steak and steak restaurants and other chain operated by Big Boy Japan, Inc., sought to improve its business performance by various ways, such as brushing up the main products, enriching salad bar and soup bar, which are highly supported by customers, and enhancing the take-put products.

Jolly-Pasta, the pasta specialty restaurant chain, operated by Jolly-Pasta Co., Ltd., seeks to provide further deliciousness and fun to customers by expanding the lineup of the menu, introducing new dishes using safe seasonal ingredients as a “pasta specialty restaurant that pursues deliciousness and fun.”

Barbeque restaurants including Takarajima, Jukusei Yakiniku Ichiban, Gyu-An, and Ichiban, operated by TAG-1 Co., Ltd., have been working to brush up the business concept, while making efforts to provide high quality products with carefully selected beef and seasonal ingredients, and to improve the quality of service levels at restaurants.

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 attractive Japanese style products using seasonal ingredients, improvement of service levels at restaurants, and improvement of labor productivity.

The number of restaurants in the Family Dining category at the end of June, 2020 stood at 1,360 (including 79 franchised restaurants), as a result of 8 restaurant openings and 9 closures.

(Fast Food Service category)

Sales in the Fast Food Service category in the first quarter of the fiscal year under review were 27,762 million yen (down 21.9% year-on-year).

Hamazushi, 100-yen sushi chain stores (kaiten-sushi restaurants) operated by Hamazushi Co., Ltd., sought to expand its businesses by increasing the number of restaurants, while working on various issues such as introducing special menu using seasonal ingredients, improving quality of products, enhancing service level, conducting promotions at stores, and expanding take-out products lineup.

The Chicken Rice Shop, specialty chicken rice chain stores operated by TCRS Restaurants Sdn.Bhd., obtained a halal certificate and developed shops throughout Malaysia, which are supported by families regardless of age and sex.

The number of restaurants in the Fast Food Service category at the end of June, 2020 stood at 935 (including 1 franchised restaurant), as a result of 4 restaurant openings and 2 closures.

(Other category)

Sales in the Other category in the first quarter of the fiscal year under review were 13,020 million yen (down 7.6% year-on-year).

Main businesses in this category include Advanced Fresh Concepts Corp., which operates takeout Sushi stores in US, Canada, and Australia; 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.

The number of stores in the Other category at the end of June, 2020 stood at 4,416 (including 4,227 franchised stores), as a result of 37 store openings and 23 closures.

ii) Retail Business

Sales in the retail business in the first quarter of the fiscal year under review were 23,423 million yen (up 15.9% year-on-year), and the operating profit was 839 million yen (operating loss of 6 million yen in the same period of last year).

Sales and profits in the retail business increased as a result of stable provision of safe and secure products, which was enabled by implementing proper measures to prevent infection at stores, while stay-at-home demand increased as the state of emergency measures such as self-quarantine, telework, and school closures were taken.

The retail business includes the supermarket business operated by Maruya co., Ltd., Maruei Co., Ltd., Owariya Co., Ltd., Fresh Corporation Co., Ltd., Attack 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 379,672 million yen as of June 30, 2020, an increase of 13,818 million yen compared with the previous fiscal year-end. This increase was mainly due to increases in cash and deposits and property, plant and equipment.

(Liabilities)

Liabilities amounted to 302,652 million yen as of June 30, 2020, an increase of 23,592 million yen compared with the previous fiscal year-end. This increase was mainly due to an increase in interest-bearing liabilities.

(Net Assets)

Net Assets came at 77,019 million yen as of June 30, 2020, a decrease of 9,773 million yen compared with the previous fiscal year-end. This decrease was mainly due to a decrease in retained earnings and purchase of treasury shares.

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

The consolidated business performance forecasts for the fiscal year ending March 31, 2021 were released in “Notice Concerning the consolidated business performance and dividend forecasts” issued on August 7, 2020.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

	End of Previous fiscal year (As of March 31, 2020)	End of 1Q, Current fiscal year (As of June 30, 2020)
(Million yen)		
Assets		
Current Assets		
Cash and deposits	28,928	36,237
Notes and accounts receivable - trade	13,937	15,491
Merchandise and finished goods	20,779	21,961
Work in process	782	1,021
Raw materials and supplies	6,237	5,895
Other	18,319	19,293
Allowance for doubtful accounts	(131)	(130)
Total current assets	88,853	99,771
Non-current assets		
Property, plant and equipment, net		
Buildings and structures	205,939	205,487
Accumulated Depreciation	(121,479)	(121,327)
Buildings and structures, net	84,459	84,159
Machinery, equipment and vehicles	14,833	15,023
Accumulated Depreciation	(8,985)	(8,675)
Machinery, equipment and vehicles, net	5,847	6,348
Other	120,537	123,735
Accumulated Depreciation	(59,622)	(61,171)
Other, net	60,915	62,564
Total property, plant and equipment	151,223	153,072
Intangible assets		
Trademark right	37,992	37,648
Goodwill	17,426	16,982
Other	3,428	3,481
Total intangible assets	58,846	58,112
Investments and other assets		
Investment securities	2,507	2,467
Guarantee deposits	33,405	33,335
Other	30,924	32,833
Allowance for doubtful accounts	(14)	(14)
Total investments and other assets	66,823	68,622
Total non-current assets	276,894	279,807
Deferred assets	105	93
Total assets	365,853	379,672

	(Million yen)	
	End of Previous fiscal year (As of March 31, 2020)	End of 1Q, Current fiscal year (As of June 30, 2020)
Liabilities		
Current Liabilities		
Notes and accounts payable, trade	20,261	20,949
Short-term loans payable	1,441	1,558
Current portions of bonds	1,600	1,600
Current portion of long-term loans payable	23,647	25,246
Income taxes payable	3,269	3,280
Provision	2,269	1,060
Other	37,574	37,467
Total current liabilities	90,064	91,162
Non-current liabilities		
Bonds payable	25,600	25,600
Long-term loans payable	128,500	150,264
Net defined benefit liability	714	715
Asset retirement obligations	3,336	3,388
Other	30,845	31,520
Total non-current liabilities	188,996	211,489
Total liabilities	279,060	302,652
Net assets		
Shareholders' equity		
Capital stock	26,996	26,996
Capital surplus	24,817	24,817
Retained earnings	42,090	34,111
Treasury shares	(2,260)	(3,791)
Total shareholders' equity	91,643	82,133
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(79)	(78)
Deferred gains or losses on hedges	(66)	6
Remeasurements of defined benefit plans	(35)	(32)
Foreign currency translation adjustment	(4,849)	(5,212)
Total accumulated other comprehensive income	(5,030)	(5,317)
Non-controlling interests	179	203
Total net assets	86,793	77,019
Total liabilities and net assets	365,853	379,672

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)
(First Quarter, Fiscal Year ending March 31, 2021)

	(Million yen)	
	1Q, Previous fiscal year (From April 1, 2019 to June 30, 2019)	1Q, Current fiscal year (From April 1, 2020 to June 30, 2020)
Net Sales	153,319	128,373
Cost of Sales	65,496	57,558
Gross Profit	87,822	70,814
Selling, General and Administrative Expenses	83,388	78,785
Operating Profit (Loss)	4,434	(7,970)
Other Income		
Interest income	142	96
Dividend income	1	1
Foreign exchange gains	75	115
Share of profit of entities accounted for using equity method	4	0
Subsidy income	51	175
Other	202	216
Total non-operating income	478	605
Non-operating expenses		
Interest expenses	505	506
Other	325	264
Total non-operating expenses	830	770
Ordinary profit (Loss)	4,082	(8,135)
Extraordinary income		
Insurance income	21	21
Other	16	0
Total extraordinary income	37	22
Extraordinary losses		
Loss on retirement of non-current assets	172	192
Impairment loss	374	—
Other	116	129
Total extraordinary losses	663	321
Profit (Loss) before income taxes	3,455	(8,435)
Income taxes - current	1,007	306
Income taxes - deferred	626	(2,367)
Total income taxes	1,633	(2,060)
Profit (Loss)	1,821	(6,374)
Profit (Loss) attributable to non-controlling interests	(96)	8
Profit (Loss) attributable to owners of parent	1,917	(6,382)

(Quarterly Consolidated Statements of Comprehensive Income)

(First Quarter, Fiscal Year ending March 31, 2021)

	(Million yen)	
	1Q, Previous fiscal year (From April 1, 2019 to June 30, 2019)	1Q, Current fiscal year (From April 1, 2020 to June 30, 2020)
Profit	1,821	(6,374)
Other comprehensive income		
Valuation difference on available-for-sale securities	(3)	0
Deferred gains or losses on hedges	(133)	72
Remeasurements of defined benefit plans, net of tax	93	2
Foreign currency translation adjustment	(2,454)	(343)
Share of other comprehensive income of entities accounted for using equity method	(4)	(2)
Total other comprehensive income	(2,502)	(271)
Comprehensive income	(680)	(6,645)
(Breakdown)		
Comprehensive income attributable to owners of parent	(580)	(6,669)
Comprehensive income attributable to non-controlling interests	(100)	23

(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, 2019 to June 30, 2019)

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	133,105	20,213	153,319	—	153,319
Intersegment Sales or Transfers	590	7	598	(598)	—
Total	133,696	20,221	153,918	(598)	153,319
Segment Profit/(Loss)	4,441	(6)	4,434	0	4,434

(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)

In the "Restaurant Business" segment, impairment losses of 374 million yen were recognized during the three months ending June 30, 2019. This was relating to the fixed assets at restaurants and at a food processing plant.

(Major change in goodwill)

In the "Restaurant Business" segment, Zensho Holdings Malaysia Sdn. Bhd., a consolidated subsidiary of Zensho, has acquired all the shares of TCRS Restaurants Sdn. Bhd., and it has been included in the scope of consolidation with effect from the three months ended June 30, 2019. With this acquisition, goodwill increased by 1,685 million yen.

(Major negative goodwill profit)

Not applicable.

II First quarter of Fiscal Year under review (From April 1, 2020 to June 30, 2020)

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	104,950	23,423	128,373	—	128,373
Intersegment Sales or Transfers	963	6	970	(970)	—
Total	105,914	23,430	129,344	(970)	128,373
Segment Profit/(Loss)	(8,809)	839	(7,970)	(0)	(7,970)

(Note) 1. Adjustment amount of segment profit/(loss) of (0) million yen 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.

4. In line with the significant revision to the initial allocation of the acquisition cost as described in the following “Significant revision to the initial allocation of the acquisition cost in the comparative information” of “Business combinations, etc.” section, the segment information included in the quarterly consolidated financial statements for the three months ended June 30, 2019 have been revised to reflect the change.

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.

(Business combination, etc.)

Significant revision to the initial allocation of the acquisition cost in the comparative information

During the first quarter ended June 30, 2019, a provisional accounting treatment was applied for the business combination on May 31, 2019 with TCRS Restaurants Sdn.Bhd., and said accounting was finalized on March 31, 2020. In line with the finalization of the provisional accounting treatment, the comparative information included in the quarterly consolidated financial statements for the three months ended June 30, 2020 have been revised to reflect a significant change to the initial allocation of the acquisition cost.

The amount of goodwill totaled 1,685 million yen, a decrease of 3,382 million yen from 5,067 million yen which was calculated on a provisional basis

As a result of the above, each of ordinary profit, profit before income taxes, profit, and profit attributable to owners of the parent decreased by 6 million yen in the quarterly consolidated statements for the three months ended June 30, 2019.