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Consolidated Financial Results for the 2nd Quarter Ended March 31, 2018 [IFRS]

May 11, 2018

Listed company name Sushiro Global Holdings Ltd. Listed stock exchange: TSE
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 Scheduled filing date to file Quarterly Securities Report May 14, 2018 Scheduled date to commence dividend payment —
 Supplementary briefing materials on quarterly financial results prepared: Yes
 Quarterly financial results presentation meeting held: Yes (for institutional investors and analysts)

(Amounts of less than one million yen are rounded off to the million)

1. Consolidated Financial Results for the 2nd quarter Ended March 31, 2018 (October 1, 2017 to March 31, 2018)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes)

	Revenue		Operating profit		Profit before income taxes		Profit for the period		Profit for the period attributable to owners of the parent		Total comprehensive income for the period	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2nd quarter Ended March 31, 2018	84,696	10.2	5,829	31.6	5,721	30.9	3,945	32.1	3,946	32.1	3,916	30.5
2nd quarter Ended March 31, 2017	76,889	8.1	4,430	0.5	4,369	19.3	2,986	9.5	2,988	9.4	3,001	9.2

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
2nd quarter Ended March 31, 2018	137.51	136.02
2nd quarter Ended March 31, 2017	108.81	106.26

Reference: Adjusted profit for the period: 2nd quarter ended March 31, 2018: 4,001 million yen (+20.7% year on year)
 2nd quarter ended March 31, 2017: 3,315 million yen

Notes:

- (1) The Company uses adjusted profit for the period as an important management indicator. For more information about this indicator, refer to (2) and (3) under "Explanation of Proper Use of Financial Forecasts, and Other Special Matters."
- (2) The Company conducted a reverse stock split of its common shares at a ratio of one share for every 590 shares on December 22, 2016. The basic earnings per share and diluted earnings per share were calculated based on the number of issued shares after the stock consolidation on the assumption that the stock consolidation was conducted at the start of the previous consolidated fiscal year.

(2) Consolidated financial position

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
	Million yen	Million yen	Million yen	%
2nd quarter Ended March 31, 2018	129,381	37,770	37,770	29.1
Fiscal Year Ended September 30, 2017	125,562	31,800	31,853	25.0

2. Dividends

	Annual dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Fiscal year-end	Total
Fiscal Year Ended September 30, 2017	Yen —	Yen 0.00	Yen —	Yen 45.00	Yen 45.00
Fiscal Year Ending September 30, 2018	—	0.00			
Fiscal Year Ending September 30, 2018 (forecast)		—	—	85.00	85.00

Notes:

(1) Revisions to the most recently announced dividend forecasts: No

(2) The Company conducted a reverse stock split of its common shares at a ratio of one share for every 590 shares on December 22, 2016.

3. Consolidated Earnings Forecasts for the Fiscal Year Ending September 30, 2018 (October 1, 2017 to September 30, 2018)

(Percentages indicate year-on-year changes)

	Revenue		Operating profit		Profit before income taxes		Profit for the year		Profit for the year attributable to owners of the parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	
Fiscal Year Ending September 30, 2018	169,361	8.3	9,939	8.0	9,592	6.6	6,620	(4.7)	6,620	(4.8)	Yen 229.41

Note: Revisions to the most recently announced earnings forecasts: No

* Notes:

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): No

New: –

Excluded: –

- (2) Changes in accounting policies, changes in accounting estimates

1) Changes in accounting policies required by IFRS: None

2) Changes in accounting policy other than 1): None

3) Changes in accounting estimates: None

- (3) Total number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)	2nd quarter Ended March 31, 2018	29,012,496 shares	Fiscal year Ended September 30, 2017	27,458,920 shares
b. Number of treasury shares at the end of the period	2nd quarter Ended March 31, 2018	62 shares	Fiscal year Ended September 30, 2017	62 shares
c. Average number of shares during the period (cumulative from the start of the fiscal year)	2nd quarter Ended March 31, 2018	28,696,597 shares	2nd quarter Ended March 31, 2017	27,458,920 shares

Note: The Company conducted a reverse stock split of its common shares at a ratio of one share for every 590 shares on December 22, 2016. The total number of issued shares (common shares) was calculated on the assumption that the stock consolidation was conducted at the start of the previous consolidated fiscal year.

- * These financial results are outside the scope of quarterly review procedures by certified public accountants or accounting firms.

- * Explanation of Proper Use of Financial Forecasts, and Other Special Matters

- (1) Consolidated earnings forecasts

The earnings forecasts and other forward-looking statements presented in this document are based on information currently available to the Company and on certain assumptions deemed to be reasonable. They do not constitute guarantees by the Company of future performance. Furthermore, actual results and performance may differ materially from these forecasts due to various factors. In addition, for more details on earnings forecasts, please refer to “(3) Explanation of consolidated earnings forecasts and other forward-looking statements” under “1. Qualitative Information on Financial Results for the Period Under Review” on page 3 of the attached materials.

- (2) The Company calculates adjusted profit for the period using the formula below.

Adjusted profit for the period = Profit for the period + Management advisory fees based on management advisory agreement (Note) + Listing-related costs + Expenses related to management integration + Tax effect adjustments, etc.

Note: This refers to fees based on a consulting agreement with Consumer Equity Investments Limited which has been expired on December 31, 2016.

- (3) Adjusted profit for the period is a financial metric that is not a measure of performance under International Financial Reporting Standards (IFRS), but the Company regards it as a useful indicator for investor valuation of Sushiro Group results. This financial indicator excludes impact from non-recurring expense items (items deemed not to reflect ordinary operating activities, or items that do not appropriately reflect the earnings of the Sushiro Group relative to competitors) such as management advisory fees based on the management advisory agreement, listing-related costs that should not recur after listing, expenses related to a management integration under discussion with Genki Sushi Co., Ltd.

Note that adjusted profit for the period excludes some items that affect profit for the period and therefore has substantial limitations as an analysis tool. Accordingly, it should not be regarded as a replacement for other indicators that are presented in accordance with IFRS. Adjusted profit for the period at the Sushiro Group is calculated differently from the same or similar metrics used at other sector companies. Consequently, it may not be suitable for comparison with other companies, and therefore have reduced utility

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1. Qualitative Information on Financial Results for the Period Under Review

Explanation of operating results

During the 2nd quarter of the consolidated fiscal year ending September 30, 2018, the Japanese economy was on a gradual recovery path supported by a sustained improvement in corporate earnings and the employment environment. However, the economic outlook remains clouded by factors such as uncertainty over policy management in the US and heightened geopolitical risk.

The restaurant sector continued to face a challenging management environment distinguished by soaring raw material prices as well as rising labor costs and intensifying competition to secure human resources driven by worker shortages.

Under such circumstances, the Sushiro Group worked to enhance product development, in-store food preparation, and health and safety initiatives and services guided by our motto "Tasty sushi for all. Tasty sushi for the heart." and the desire to surprise and move our customers with delicious sushi.

In terms of store development, the group opened 16 new stores, bringing the total number of stores to 500 (domestic: 493, overseas: 7) at the end of the 2nd quarter of the consolidated fiscal year ending September 30, 2018. As a result, revenue for the 2nd quarter of the current consolidated fiscal year totaled 84,696 million yen (+10.2% year on year), operating profit 5,829 million yen (+31.6% year on year), profit before income taxes 5,721 million yen (+30.9% year on year), and profit for the period attributable to owners of the parent 3,946 million yen (+32.1% year on year).

In addition, adjusted profit for the period came to 4,001 million yen (+20.7% year on year).

Notes: Adjusted profit for the period = Profit for the period + Expenses related to management integration + Tax effect adjustments, etc.

(1) Explanation of financial position

1) Assets, liabilities and equity

(Assets)

The balance of total assets increased 3,820 million yen from the end of the previous consolidated fiscal year to 129,381 million yen.

The balance of current assets increased 2,804 million yen from the end of the previous consolidated fiscal year to 14,778 million yen. This was mainly attributable to a 2,205 million yen increase in cash and cash equivalents.

The balance of non-current assets increased 1,016 million yen from the end of the previous consolidated fiscal year to 114,603 million yen. This mainly reflected a 744 million yen increase in property, plant and equipment resulting from new store openings, and a 236 million yen increase in lease and guarantee deposits.

(Liabilities)

Total liabilities decreased 2,151 million yen from the end of the previous consolidated fiscal year to 91,611 million yen.

The balance of current liabilities increased 422 million yen from the end of the previous consolidated fiscal year to 28,145 million yen. This mainly reflected a 1,029 million yen increase in trade and other payables, alongside a 764 million yen decrease in income taxes payable.

The balance of non-current liabilities decreased 2,573 million yen from the end of the previous consolidated fiscal year to 63,467 million yen. This was mainly attributable to a 2,021 million yen decrease in borrowings.

(Equity)

Total equity increased 5,970 million yen from the end of the previous consolidated fiscal year to 37,770 million yen. This mainly reflected a 3,526 million yen increase in capital surplus from the exercise of subscription rights to shares and capital reduction, a corresponding 1,236 million yen decrease from cash dividends paid, and the booking of 3,945 million yen in profit for the period.

2) Cash flows

During the 2nd quarter of the consolidated fiscal year ending September 30, 2018, cash and cash equivalents (hereinafter "Cash") increased 2,205 million yen from the end of the previous consolidated fiscal year to 10,743 million yen.

The breakdown of cash flows by activities and underlying factors for the 2nd quarter of the current consolidated fiscal year is shown below.

(Cash flows from operating activities)

Cash provided by operating activities totaled 5,991 million yen (+48.9% year on year).

This mainly reflected the booking of 5,721 million yen in profit before income taxes and 2,144 million yen in depreciation and amortization, and an increase of 897 million yen in trade and other payables, alongside an increase of 317 million yen in trade and other receivables, an increase of 186 million yen in inventories, 91 million yen in interest paid, and 2,536 million yen in income taxes paid.

(Cash flows from investing activities)

Cash used in investing activities came to 2,939 million yen (+11.4% year on year).

This was mainly attributable to 2,392 million yen in purchase of property, plant and equipment accompanying store openings, and to 397 million yen in payments for lease and guarantee deposits.

(Cash flows from financing activities)

Cash used in financing activities amounted to 830 million yen (-71.9% year on year). This mainly reflected 3,287 million yen in proceeds from exercise of subscription rights to shares, 2,084 million yen in repayments of long-term borrowings, 1,227 million yen in cash dividends paid, and 611 million yen in repayments of lease obligations.

(2) Explanation of consolidated earnings forecasts and other forward-looking statements

There are no changes to the consolidated earnings forecasts announced on November 9, 2017. Furthermore, the consolidated earnings forecasts presented in this document are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Actual earnings and performance may differ materially from these forecasts due to various factors such as economic trends.

2. Condensed Quarterly Consolidated Financial Statements and Important Notes

(1) Condensed consolidated statement of financial position

(in millions, JPY)

	Fiscal Year Ended September 30, 2017	2nd quarter Ended March 31, 2018 (From October 1, 2017 to March 31, 2018)
Assets		
Current assets		
Cash and cash equivalents	8,538	10,743
Trade and other receivables	1,214	1,534
Inventories	1,174	1,364
Other financial assets	241	268
Other current assets	807	870
Total current assets	11,975	14,778
Non-current assets		
Property, plant and equipment	21,169	21,913
Goodwill	30,371	30,371
Intangible assets	54,550	54,524
Lease and guarantee deposits	6,969	7,205
Other financial assets	51	106
Other non-current assets	476	484
Total non-current assets	113,587	114,603
Total assets	125,562	129,381
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	16,719	17,748
Borrowings	4,114	4,123
Income taxes payable	2,028	1,264
Other financial liabilities	1,763	1,750
Provisions	1,179	1,308
Other current liabilities	1,920	1,951
Total current liabilities	27,722	28,145
Non-current liabilities		
Trade and other payables	—	39
Borrowings	44,747	42,726
Other financial liabilities	2,489	1,955
Provisions	1,646	1,613
Deferred tax liabilities	17,104	17,104
Other non-current liabilities	54	29
Total non-current liabilities	66,040	63,467
Total liabilities	93,762	91,611
Equity		
Capital stock	100	100
Capital surplus	13,573	15,863
Retained earnings	17,730	21,618
Treasury stock	(0)	(0)
Other components of equity	450	189
Total equity attributable to owners of the parent	31,853	37,770
Non-controlling interests	(53)	—
Total equity	31,800	37,770
Total liabilities and equity	125,562	129,381

(2) Condensed consolidated statement of profit and loss

(in millions, JPY)

	2nd quarter Ended March 31, 2017 (From October 1, 2016 to March 31, 2017)	2nd quarter Ended March 31, 2018 (From October 1, 2017 to March 31, 2018)
Revenue	76,889	84,696
Cost of sales	(37,111)	(41,266)
Gross profit	39,778	43,431
Selling, general and administrative expenses	(34,874)	(37,396)
Other income	20	19
Other expenses	(495)	(225)
Operating profit	4,430	5,829
Finance income	170	76
Finance expenses	(231)	(184)
Profit before income taxes	4,369	5,721
Income taxes	(1,384)	(1,775)
Profit for the period	<u>2,986</u>	<u>3,945</u>
Profit attributable to:		
Owners of the parent	2,988	3,946
Non-controlling interests	(2)	(1)
Profit for the period	<u>2,986</u>	<u>3,945</u>
Earnings per share		
Basic earnings per share (yen)	108.81	137.51
Diluted earnings per share (yen)	106.26	136.02

(3) Condensed consolidated statement of comprehensive income

(in millions, JPY)

	2nd quarter Ended March 31, 2017 (From October 1, 2016 to March 31, 2017)	2nd quarter Ended March 31, 2018 (From October 1, 2017 to March 31, 2018)
Profit for the period	2,986	3,945
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(92)	(27)
Effective portion of changes in fair value of cash flow hedges	107	(2)
Total of items that may be reclassified subsequently to profit or loss	15	(29)
Other comprehensive income after taxes	15	(29)
Total comprehensive income for the period	<u>3,001</u>	<u>3,916</u>
Attributable to:		
Owners of the parent	3,009	3,921
Non-controlling interests	(8)	(5)
Total comprehensive income for the period	<u>3,001</u>	<u>3,916</u>

(4) Condensed consolidated statement of changes in equity

2nd quarter ended March 31, 2017 (From October 1, 2016 to March 31, 2017)

(in millions, JPY)

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as of October 1, 2016	100	42,103	7,282	(25,028)	465	24,922	(64)	24,858
Profit for the period			2,988			2,988	(2)	2,986
Other comprehensive income					21	21	(6)	15
Total comprehensive income	—	—	2,988	—	21	3,009	(8)	3,001
Deficit disposition		(3,502)	3,502			—		—
Share-based payment transactions			0		(0)	—		—
Cancellation of treasury stock		(25,028)		25,028		—		—
Changes in ownership interests in subsidiaries that do not result in loss of control			(20)			(20)	20	—
Others						—	2	2
Total transactions with the owners	—	(28,530)	3,483	25,028	(0)	(20)	21	2
Balance as of March 31, 2017	100	13,573	13,752	—	485	27,911	(50)	27,860

2nd quarter ended March 31, 2018 (From October 1, 2017 to March 31, 2018)

(in millions, JPY)

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as of October 1, 2017	100	13,573	17,730	(0)	450	31,853	(53)	31,800
Profit for the period			3,946			3,946	(1)	3,945
Other comprehensive income					(25)	(25)	(4)	(29)
Total comprehensive income	—	—	3,946	—	(25)	3,921	(5)	3,916
Capital reduction	(1,715)	1,715				—		—
Exercise of subscription rights to shares	1,715	1,811			(239)	3,287		3,287
Share-based payment transactions			1		3	4		4
Dividends		(1,236)				(1,236)		(1,236)
Changes in ownership interests in subsidiaries that do not result in loss of control			(59)			(59)	58	(2)
Total transactions with the owners	—	2,290	(58)	—	(236)	1,996	58	2,054
Balance as of March 31, 2018	100	15,863	21,618	(0)	189	37,770	—	37,770

(5) Condensed consolidated statement of cash flows

(in millions, JPY)

	2nd quarter Ended March 31, 2017 (From October 1, 2016 to March 31, 2017)	2nd quarter Ended March 31, 2018 (From October 1, 2017 to March 31, 2018)
Cash flows from operating activities		
Profit before income taxes	4,369	5,721
Depreciation and amortization	1,857	2,144
Impairment losses	59	147
Finance income	(177)	(76)
Finance expenses	231	184
Amount of rent offset by lease and guarantee deposits	141	148
Increase/decrease in trade and other receivables, (increase)	26	(317)
Increase/decrease in inventories, (increase)	(53)	(186)
Increase/decrease in trade and other payables, (decrease)	(568)	897
Others	(884)	(45)
Subtotal	5,000	8,617
Interest and dividend income received	0	0
Interest paid	(136)	(91)
Income taxes paid	(842)	(2,536)
Net cash from operating activities	4,023	5,991
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,245)	(2,392)
Purchase of intangible assets	(158)	(134)
Payments for lease and guarantee deposits	(288)	(397)
Others	53	(17)
Cash flows from investing activities	(2,638)	(2,939)
Cash flows from financing activities		
Repayments of long-term borrowings	(2,419)	(2,084)
Repayments of lease obligations	(514)	(611)
Payments for commission fees	(31)	(4)
Proceeds from exercise of subscription rights to shares	—	3,287
Cash dividends paid	—	(1,227)
Others	7	(191)
Cash flows from financing activities	(2,957)	(830)
Net increase/decrease in cash and cash equivalents, (decrease)	(1,573)	2,221
Cash and cash equivalents at beginning of year	8,149	8,538
Effect of exchange rate changes on cash and cash equivalents	14	(17)
Cash and cash equivalents at end of year	6,590	10,743

(6) Notes on condensed consolidated financial statements

(Notes regarding assumption of a going concern)

Not applicable.

(Segment information)

Segment-specific revenue, income/loss and other items are omitted as the Sushiro Group operates in a single segment.

(Earnings per share)

	2nd quarter Ended March 31, 2017 (From October 1, 2016 to March 31, 2017)	2nd quarter Ended March 31, 2018 (From October 1, 2017 to March 31, 2018)
Profit for the period attributable to common shareholders of the parent (million yen)	2,988	3,946
Profit for the period attributable to common shareholders used in calculations for basic earnings per share (million yen)	2,988	3,946
Profit for the period attributable to common shareholders used in calculations for diluted earnings per share (million yen)	2,988	3,946
Average number of shares during the period	27,458,920	28,696,597
Increase in number of common shares used in calculation for diluted earnings per share	657,372	315,030
Average number of common shares during the period after dilution	28,116,292	29,011,627
Basic earnings per share (yen)	108.81	137.51
Diluted earnings per share (yen)	106.26	136.02
Outline of potentially dilutive shares excluded from the calculation of diluted earnings per share due to the absence of dilutive effects	Four types of subscription rights to shares (516,000 common shares)	—

(Note) The Company conducted a reverse stock split of its common shares at a ratio of one share for every 590 shares on December 22, 2016. The basic earnings per share and diluted earnings per share were calculated based on the number of issued shares after the stock consolidation on the assumption that the stock consolidation was conducted at the start of the previous consolidated fiscal year.

(Important subsequent events)

(Acquisition of subscription rights to shares)

At its Board of Directors meeting held on May 11, 2018, the Company resolved to acquire its 4th, 7th and 11th series of subscription rights to shares held by its management team and other parties.

(Note) "Management team and other parties" refers to Company directors and managing officers among holders of subscription rights to shares.

(1) Purpose of the acquisition of subscription rights to shares

While considering the conditions underlying the business of the Company and its profits/losses, the acquisition of the subscription rights to shares mainly aims to maintain financial soundness through application of appropriate tax systems, and prevent share dilution.

(2) Overview of the acquisition of subscription rights to shares

	4th	7th, 11th
Number of subscription rights to shares to be acquired	22,953,212 units	524,239,183 units
Number of shares to be allotted for the subscription rights to shares	15,289 shares	349,196 shares
Amount payable on the exercise of the subscription rights to shares	1,993.02 yen per share	3,493.39 yen per share
Method for determining acquisition price of the subscription rights to shares	Acquisition price per subscription right to shares = (Amount arrived at by multiplying the number of common shares to be allotted per subscription right to shares by the average closing price for the Company's shares during the acquisition price determination period) – (Amount arrived at by multiplying the number of common shares to be allotted per subscription right to shares by the exercise price for the subscription rights to shares per common share) * Acquisition price determination period: May 14–18, 2018	
Acquisition date	May 31, 2018	

(3) Impact on condensed quarterly consolidated financial statements

The exact impact of the acquisition of subscription rights to shares by the Company cannot be estimated at present as the acquisition price has yet to be determined. The Company plans to deduct the acquisition amount of subscription rights to shares from equity.