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November 2, 2016

Summary of Financial Results of the Second Quarter of the Fiscal Year Ending March 31, 2017 [Japanese standards] (Consolidated)

Company name: SATO RESTAURANT SYSTEMS COMPANY LIMITED
 Securities code: 8163
 Representative: Yoshitaka Shigesato, President & Chief Executive Officer
 Contact: Masahiro Tanaka, Director & Head of Corporate Planning Division
 Scheduled date of filing of quarterly report: November 10, 2016
 Scheduled date of payment of dividend: N/A
 Preparation of supplementary references regarding quarterly results: No
 Holding the briefing of quarterly results: Yes (For institutional investors and analysts)

Stock Exchange listings: Tokyo
 URL: <http://www.sato-restaurant-systems.co.jp>
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(All amounts are rounded down to the nearest million yen)
 (△ means negative)

1. Financial results of the Second Quarter of the Fiscal Year Ending March 31, 2017 (Apr. 1, 2016 – Sep. 30, 2016)

(1) Consolidated operating results (cumulative total)

(Percentages represent changes from previous year)

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2Q FY03/2017	20,291	3.0	59	△88.2	△134	—	△511	—
2Q FY03/2016	19,704	5.7	504	△9.5	428	△26.7	182	△40.3

(Note) Comprehensive income 2Q FY03/2017: △528 million yen (—%)
 2Q FY03/2016: 163 million yen (△52.0%)

	Net income per share	Diluted net income per share
	Yen	Yen
2Q FY03/2017	△15.39	—
2Q FY03/2016	△5.88	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
2Q FY03/2017	28,930	13,837	47.5	413.94
FY03/2016	27,820	14,531	51.8	434.35

(Reference) Shareholders equity: 2Q FY03/2017: 13,746 million yen
 FY03/2016: 14,424 million yen

2. Dividends

	Annual dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY03/2016	—	—	—	5.00	5.00
FY03/2017	—	—	—	—	—
FY03/2017 (forecasts)	—	—	—	5.00	5.00

(NOTE) Revisions to dividend forecasts published most recently: None

3. Consolidated performance forecasts for the Fiscal Year Ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(Percentages represent changes from previous year; △ means negative)

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full term	44,000	9.8	550	1.4	300	△17.0	△300	—	△9.03

(NOTE) Revisions to performance forecasts published most recently: Yes

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***Notes**

- (1) Changes in important subsidiaries during the current period
(changes in specific subsidiaries resulting in modifications of the consolidation scope): Yes
New company: Two companies (Miyamoto Munashi Corporation; TWO SIX Corporation)
Excluded company: None
- NOTE: Please see the appendix page 4, "2. Matters regarding Summary Information (Notes), (1) Changes in important subsidiaries during the current consolidated cumulative period".
- (2) Application of special accounting methods to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting principles, changes and restatements of accounting estimates
- | | |
|---|------|
| 1) Changes in accounting principles caused by revision of accounting standards: | None |
| 2) Changes other than 1): | None |
| 3) Changes in accounting estimates: | None |
| 4) Restatements: | None |
- (4) Number of outstanding shares (common shares)
- | | |
|---|-------------------|
| 1) Number of shares outstanding at the end of the period (including treasury stock) | |
| 2Q FY03/2017: | 33,209,080 shares |
| FY03/2016: | 33,209,080 shares |
| 2) Number of treasury stock at the end of the period | |
| 2Q FY03/2017: | 262 shares |
| FY03/2016: | 212 shares |
| 3) Average number of shares outstanding during the period (quarterly cumulative) | |
| 2Q FY03/2017: | 33,208,861 shares |
| 2Q FY03/2016: | 31,066,059 shares |

*** Presentation concerning implementation status of quarterly review procedures**

These quarterly financial results are not the subject of a quarterly review procedure based on the Financial Instruments and Exchange Act, and at the time of disclosing these quarterly financial results, review procedures regarding the quarterly financial statements based on the Financial Instruments and Exchange Act had not been completed.

*** Explanation regarding appropriate use of the earnings forecast and other special notes**

Descriptions about the future such as performance forecasts contained in this document are based on information currently available to the Company and certain presumptions considered to be reasonable, and therefore actual business performance and other elements may differ substantially due to various factors.

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1. Qualitative Information regarding the Current Quarter**(1) Descriptions regarding operating results**

① Consolidated performance

(million yen; △ means negative)

	2Q FY03/2016			2Q FY03/2017		
	Actual results	+/- amounts YoY	+/- % YoY	Actual results	+/- amounts YoY	+/- % YoY
Net sales	19,704	1,057	5.7	20,291	586	3.0
Operating income	504	△52	△9.5	59	△444	△88.2
Ordinary income	428	△156	△26.7	△134	△562	—
Income attributable to owners of parent	182	△123	△40.3	△511	△693	—

During the current second quarter consolidated cumulative period, net sales increased as compared to the previous year due to increase in number of restaurants in operation.

The Group unfortunately experienced lower profitability as compared to the previous year because, for example, sales in existing restaurants could not achieve its goals as planned and labor cost increased due to arranging working environment, and also because of allocating advisory expenses and others associated with share acquisition of Miyamoto Munashi Corporation and TWO SIX Corporation, occurrence of foreign exchange losses due to stronger yen, loss on evaluation of investment in overseas joint ventures, and allocating impairment loss due to decision to close two restaurants.

In addition, as of September 1, 2016, the Group acquired 100% shares of two companies: Miyamoto Munashi Corporation which had operated "Meshiya Miyamoto Munashi" (a restaurant chain), and TWO SIX Corporation which had held the premise of "Miyamoto Munashi JR Nagoyaekimae branch"; both of which have become our subsidiaries and been included within the scope of consolidated accounting. Only the balance sheet has been consolidated for the current second quarter consolidated fiscal period and therefore there is no impact on the consolidated performance except for the aforementioned advisory expenses.

② Measures for opening new restaurants

(numbers of restaurants)

Category	As of end of the previous consolidated fiscal year	Newly opened restaurants	Closed restaurants	As of end of the current second quarter consolidated fiscal period	Planned to open during the current consolidated fiscal year
Washoku Sato	201 (—)	— (—)	— (—)	201 (—)	4 (—)
Sushi-han	14 (—)	— (—)	— (—)	14 (—)	— (—)
Tendon & Tenpura restaurant Santen	22 (—)	4 (1)	— (—)	26 (1)	25 (5)
Nigiri Chojiro	53 (—)	2 (—)	— (—)	55 (—)	6 (—)
Nigiri Chujiro	6 (—)	— (—)	— (—)	6 (—)	— (—)
Katsuya	28 (14)	5 (2)	— (—)	33 (16)	11 (6)
Miyakobito	18 (17)	— (—)	1 (1)	17 (16)	— (—)
Meshiya Miyamoto Munashi	— (—)	69 (7)※	— (—)	69 (7)	— (—)
Domestic total	342 (31)	80 (10)	1 (1)	421 (40)	46 (11)
Overseas restaurants	6 (5)	1 (—)	1 (1)	6 (4)	— (—)
Worldwide total	348 (36)	81 (10)	2 (2)	427 (44)	46 (11)

NOTE: Numbers in parentheses represent FC restaurants (domestic) and joint venture restaurants (overseas).

※ The number of newly opened "Meshiya Miyamoto Munashi" restaurants means that Miyamoto Munashi Corporation had its shares entirely acquired and has since been included within the scope of the consolidated accounting.

Newly opened restaurants during the current second quarter consolidated cumulative period were as follows: 4 "Tendon & Tenpura restaurant Santen" restaurants including 3 directly managed and 1 FC restaurants, 2 directly managed "Nigiri Chojiro" restaurant, and 5 "Katsuya" restaurants including 3 directly managed and 2 FC restaurants, totaling 11 restaurants were newly opened in all categories domestically; moreover, contracts have already been executed for opening 19 new restaurants. As for overseas development, "Washoku Sato Jung-Li branch" was newly opened in Taiwan, whereas "Washoku Sato AMATA Home Pro branch" was closed, which means the Company currently operates 6 overseas restaurants: 2 in Taiwan, 2 in Indonesia and 2 in Thailand.

In addition, Miyamoto Munashi Corporation has joined the Group to add 69 "Meshiya Miyamoto Munashi" restaurants (including 2 FC and 5 quasi-directly managed restaurants), resulting in 427 restaurants of the entire Group in operation domestic and overseas at the end of the current second quarter consolidated fiscal period.

③ Other measures

As operational measures at "Washoku Sato" restaurants, renewed menu has been introduced in July, 2016 including shifting vegetables used for "Sato-Shabu" (all-you-can-eat style Shabu-Shabu) to domestic ones for more added-value, and also in August "Sato-Suki" (all-you-can-eat style Sukiyaki) started, so that we could offer higher-value added items. As a result, average spending increased from the previous year in the current second quarter consolidated fiscal period, contributing to higher sales. For the second half as well, we will develop various promotional measures such as TV commercials aiming at further expansion of sales quantities of "Sato-Suki". In addition, facilities renovations were carried out at 3 restaurants.

At "Santen" restaurants, Narumi branch (Aichi pref.), the first restaurant in Chubu area was newly opened in May and Mikawa-Anjo branch (Aichi pref.), the first FC in the same area in August. Net sales of both have maintained good performance at higher levels than planned.

At "Nigiri Chojiro" restaurants, Chojiro's 15th anniversary special events were organized to roll out highly newsworthy commercial measures coupled with promotional activities including "Spring seasonal harvest festival" featuring seasonal fresh materials such as Sakuradai (Cherry Anthias), and "Summer seasonal harvest festival" featuring special menu designed in collaboration with popular talents.

It should be noted that the Group is a single segment of food service business and therefore description of segmental performance is omitted.

(2) Descriptions regarding financial position

(Status of assets, liabilities and net assets)

Total assets at the end of the current second quarter consolidated fiscal period was 28,930 million yen (increase by 1,109 million yen from the end of the previous consolidated fiscal year).

(Assets)

Current liabilities was 9,153 million yen (decrease by 1,612 million yen from the end of the previous consolidated fiscal year). It comprises mainly decrease in cash and deposits by 1,535 million yen.

Non-current assets was 19,735 million yen (increase by 2,681 million yen from the end of the previous consolidated fiscal year). It comprises mainly increase in goodwill by 1,755 million yen following acquisition of consolidated subsidiaries, increase in guarantee deposits by 238 million yen, and increase in buildings (net) by 186 million yen.

(Liabilities)

Current liabilities was 6,958 million yen (decrease by 393 million yen from the end of the previous consolidated fiscal year). It comprises mainly decrease in accounts payable-other by 392 million yen.

Non-current liabilities was 8,134 million yen (increase by 2,197 million yen from the end of the previous consolidated fiscal year). It comprises mainly increase in bonds payable by 1,720 million yen and increase in long-time loans payable by 286 million yen.

(Net assets)

Net assets at the end of the current second quarter consolidated fiscal period was 13,837 million yen (decrease by 694 million yen from the end of the previous consolidated fiscal year).

(Cash flow status)

Cash and cash equivalents (hereinafter, "business fund") at the end of the current second quarter consolidated fiscal period was 7,080 million yen (decrease by 1,535 million yen from the end of the previous consolidated fiscal year). Each cash flow status and factors thereof in the current second quarter consolidated fiscal period consolidated fiscal year are as follows.

(Cash flow from operating activities)

Business fund resulting from operating activities was 47 million yen (whereas it was 49 million yen in the previous fiscal year). It comprises mainly net income before income taxes of 216 million yen, depreciation of 665 million yen and decrease in accounts payable-other by 454 million yen.

(Cash flow from investment activities)

Business fund used for investment activities was 3,351 million yen (whereas it was 1,684 million yen in the same period of the previous year). This includes mainly expense by acquiring shares in subsidiaries resulting in change in scope of consolidation of 2,381 million yen, and expense by purchase of property, plant and equipment of 581 million yen.

(Cash flow from financial activities)

Business fund resulting from financial activities was 1,823 million yen (whereas it was 3,713 million yen in the previous consolidated fiscal year). It comprises mainly proceeds from issuance of bonds of 1,958 million yen and expense by paying dividends of 166 million yen.

(3) Descriptions regarding future prospects such as consolidated performance forecasts

Consolidated performance forecasts for the fiscal year ending March 31, 2017 have been amended from those as announced in the Summary of Financial Results on May 11, 2016. For details, please refer to "Notices concerning differences between performance forecasts and actual achievements, and amendment to full term performance forecasts for the second quarter cumulative period of FY03/2017" published on November 2, 2016.

2. Matters regarding summary information (Notes)**(1) Changes in important subsidiaries during the current quarterly consolidated cumulative period**

In the current second quarter consolidated cumulative period, the Group acquired 100% shares of two companies: Miyamoto Munashi Corporation which had operated "Meshiya Miyamoto Munashi" (a restaurant chain), and TWO SIX Corporation which had held the premise of "Miyamoto Munashi JR Nagoyaekimae branch"; both of which have been included within the scope of consolidated accounting.

Miyamoto Munashi Corporation is a specified subsidiary of the Group.

(2) Application of special accounting methods to the preparation of quarterly consolidated financial statements

Not applicable.

**(3) Changes in accounting principles, changes and restatements of accounting estimates
Additional information**

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan Guidance No. 26 of March 28, 2016) since the current first quarter consolidated fiscal period.

3. Summary of important information for going concern assumption

Not applicable.

4. Quarterly Consolidated Financial Statements**(1) Quarterly Consolidated Balance Sheets**

(Thousand yen; △ means negative)

	Previous consolidated fiscal year (March 31, 2016)	Current second quarter consolidated fiscal period (September 30, 2016)
Assets		
Current assets		
Cash and deposits	8,616,381	7,080,561
Accounts receivable - trade	603,001	609,142
Merchandise	41,279	40,232
Raw materials and supplies	710,854	700,180
Deferred tax assets	312,739	198,983
Other	481,583	524,128
Total current assets	10,765,840	9,153,230
Non-current assets		
Property, plant and equipment		
Buildings, net	2,456,152	2,642,408
Land	4,742,506	4,742,506
Other, net	2,174,772	2,229,607
Total property, plant and equipment	9,373,431	9,614,522
Intangible assets		
Goodwill	1,116,373	2,871,505
Other	977,751	1,207,928
Total intangible assets	2,094,124	4,079,434
Investment and other assets		
Investment securities	805,407	873,568
Long-term loans receivable	833,744	849,277
Guarantee deposits	3,039,010	3,277,942
Deferred tax assets	445,963	523,932
Other	475,766	529,746
Allowance for doubtful accounts	△13,505	△12,725
Total investments and other assets	5,586,386	6,041,741
Total non-current assets	17,053,942	19,735,699
Deferred assets	649	41,131
Total assets	27,820,432	28,930,061

	(Thousand yen; △ means negative)	
	Previous consolidated fiscal year (March 31, 2016)	Current second quarter consolidated fiscal period (September 30, 2016)
Liabilities		
Current liabilities		
Accounts payable - trade	1,179,980	1,116,995
Current portion of bonds	50,000	280,000
Current portion of long-term loans payable	2,437,500	2,340,500
Accounts payable-other	2,137,639	1,744,981
Income taxes payable	230,746	294,555
Provision for bonuses	272,916	319,684
Other	1,043,361	861,939
Total current liabilities	7,352,143	6,958,656
Non-current liabilities		
Bonds payable	—	1,720,000
Long-term loans payable	3,759,945	4,046,740
Deferred tax liabilities for land revaluation	274,908	274,908
Deferred tax liabilities	83,745	176,373
Provision for directors' retirement benefits	29,578	29,578
Asset retirement obligations	510,772	610,483
Other	1,277,478	1,275,954
Total non-current liabilities	5,936,428	8,134,037
Total liabilities	13,288,571	15,092,694
Net assets		
Shareholders' equity		
Capital stock	8,532,856	8,532,856
Capital surplus	4,981,675	4,981,675
Retained earnings	1,400,978	723,784
Treasury shares	△173	△214
Total shareholders' equity	14,915,337	14,238,101
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	108,976	108,286
Revaluation reserve for land	△600,061	△600,061
Total accumulated other comprehensive income	△491,085	△491,775
Non-controlling interests	107,608	91,041
Total net assets	14,531,860	13,837,367
Total liabilities and net assets	27,820,432	28,930,061

(2) Quarterly Consolidated Statements of Income and Statement of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Second quarter consolidated cumulative period)

	(Thousand yen; △ means negative)	
	Previous first quarter consolidated cumulative period (April 1, 2015 - September 30, 2015)	Current first quarter consolidated cumulative period (April 1, 2016 - September 30, 2016)
Net sales	19,704,981	20,291,683
Cost of sales	6,745,579	6,908,343
Gross profit	12,959,401	13,383,340
Selling, general and administrative expenses	12,455,178	13,323,697
Operating income	504,223	59,642
Non-operating income		
Interest income	6,881	7,070
Dividend income	8,938	8,824
House rent income	51,020	35,032
Miscellaneous income	25,098	24,143
Total non-operating income	91,938	75,070
Non-operating expenses		
Interest expenses	70,857	63,279
Rent expenses on real estates	41,320	28,398
Share issuance cost	28,261	—
Foreign exchange losses	4,695	160,114
Miscellaneous loss	22,929	17,397
Total non-operating expenses	168,064	269,190
Ordinary income or loss (△)	428,097	△134,477
Extraordinary losses		
Loss on retirement of noncurrent assets	8,423	10,056
Loss on valuation of investment securities	—	59,315
Impairment loss	—	12,251
Loss on closing of stores	—	888
Total extraordinary losses	8,423	82,512
Income or loss (△) before income taxes and minority interests	419,674	△216,990
Income taxes - current	190,774	178,531
Income taxes - deferred	62,532	132,195
Total income taxes	253,307	310,727
Net income or loss (△)	166,367	△527,717
Net income or loss (△) attributable to non-controlling interests	△16,374	△16,566
Net income or loss (△) attributable to owners of parent	182,742	△511,150

(Quarterly Consolidated Statement of Comprehensive Income)
(Second quarter consolidated cumulative period)

(Thousand yen; △ means negative)

	Previous second quarter consolidated cumulative period (April 1, 2015 - September 30, 2015)	Current second quarter consolidated cumulative period (April 1, 2016 - September 30, 2016)
Net income or loss (△)	166,367	△527,717
Other comprehensive income		
Valuation difference on available-for-sale securities	△2,474	△690
Total other comprehensive income	△2,474	△690
Comprehensive income	163,893	△528,407
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	180,267	△511,840
Comprehensive income attributable to non-controlling interests	△16,374	△16,566

(3) Quarterly Consolidated Cash flow Statement

(Thousand yen; Δ means negative unless otherwise stated)

	Previous second quarter consolidated cumulative period (April 1, 2015 - September 30, 2015)	Current second quarter consolidated cumulative period (April 1, 2016 - September 30, 2016)
Cash flow from operating activities		
Net income or loss (Δ) before income taxes	419,674	Δ 216,990
Depreciation	638,871	665,123
Amortization of goodwill	44,954	44,954
Impairment loss	—	12,251
Loss on store closing	—	888
Increase/decrease in reserve for bonuses (Δ means decrease)	Δ 154,877	46,768
Increase/decrease in allowance for doubtful accounts (Δ means decrease)	Δ 848	Δ 780
Increase/decrease in provision for directors' retirement benefits (Δ means decrease)	Δ 1,825	—
Increase/decrease in provision for loss on store closing (Δ means decrease)	—	Δ 8,599
Interest and dividends income	Δ 15,819	Δ 15,894
Interest expenses	70,857	63,279
Loss on valuation of investment securities	—	59,315
Loss on sales of non-current assets	8,423	10,056
Increase/decrease in sales credit (Δ means increase)	Δ 22,632	Δ 6,141
Increase/decrease in inventories (Δ means increase)	Δ 52,536	22,358
Increase/decrease in notes and accounts payable-trade (Δ means decrease)	19,183	Δ 62,985
Increase/decrease in accounts payable-other (Δ means decrease)	Δ 388,473	Δ 75,267
Increase/decrease in accrued consumption taxes (Δ means decrease)	Δ 15,473	Δ 454,742
Other	Δ 164,069	150,489
Subtotal	385,408	234,084
Interest and dividends income received	8,805	8,727
Interest expenses paid	Δ 72,038	Δ 64,184
Income taxes refund	—	40,865
Income taxes paid	Δ 273,122	Δ 172,367
Cash flow from operating activities	49,052	47,125
Cash flow from investment activities		
Payments into time deposits	Δ 1,000,000	—
Purchase of property, plant and equipment	Δ 424,319	Δ 581,940
Proceeds from sales of property, plant and equipment	—	825
Purchase of investment securities	Δ 21,147	Δ 125,072
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	Δ 2,381,665
Purchase of intangible assets	Δ 29,930	Δ 173,273
Payments for guarantee deposits	Δ 54,806	Δ 55,408
Proceeds from collection of guarantee deposits	42,203	42,399
Payments of construction assistance fund receivables	Δ 168,000	Δ 89,943
Collection of construction assistance fund receivables	47,484	45,267
Other	Δ 75,720	Δ 32,829
Cash flow from investment activities	Δ 1,684,235	Δ 3,351,639
Cash flow from financial activities		
Proceeds from long-term loans payable	1,000,000	1,500,000
Proceeds from issuance of bonds	—	1,958,347
Repayment of long-term loans payable	Δ 1,302,162	Δ 1,310,476
Repayments of finance lease obligations	Δ 106,749	Δ 108,453
Redemption of bonds	Δ 50,000	Δ 50,000
Proceeds from issuance of common stock	4,313,938	—
Purchase of treasury stock	—	Δ 41
Cash dividends paid	Δ 141,044	Δ 166,044
Cash flow from financial activities	3,713,981	1,823,330
Effect of exchange rate change on cash and cash equivalents	74,296	Δ 54,636
Increase/decrease in cash and cash equivalents (Δ means decrease)	2,153,095	Δ 1,535,819
Balance of cash and cash equivalents at beginning of the period	5,532,308	8,616,381
Balance of cash and cash equivalents at end of the period	7,685,404	7,080,561

**(4) Notes on Quarterly Consolidated Financial Statements
(Going concern assumption)**

Not applicable.

(Notes in case of significant changes in the amount of shareholders' equity)

Not applicable.

(Segment information, etc.)

The Group is a single segment of food service business and therefore description of segment information, etc. is omitted.