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February 1, 2017

Summary of Financial Results of the Third 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: February 10, 2017
 Scheduled date of payment of dividend: N/A
 Preparation of supplementary references regarding quarterly results: None
 Holding the briefing of quarterly results: None

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 Third Quarter of the Fiscal Year Ending March 31, 2017 (Apr. 1, 2016 – Dec. 31, 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	%
3Q FY03/2017	31,696	5.9	101	△85.0	202	△67.3	△272	—
3Q FY03/2016	29,919	5.9	674	△32.3	620	△46.4	303	△59.8

(Note) Comprehensive income 3Q FY03/2017: △151 million yen (—%)
 3Q FY03/2016: 316 million yen (△61.0%)

	Net income per share	Diluted net income per share
	Yen	Yen
3Q FY03/2017	△8.20	—
3Q FY03/2016	9.56	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
3Q FY03/2017	31,981	14,213	44.1	425.02
FY03/2016	27,820	14,531	51.8	434.35

(Reference) Shareholders equity: 3Q FY03/2017: 14,114 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: None

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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) | |
| 3Q FY03/2017: | 33,209,080 shares |
| FY03/2016: | 33,209,080 shares |
| 2) Number of treasury stock at the end of the period | |
| 3Q FY03/2017: | 262 shares |
| FY03/2016: | 212 shares |
| 3) Average number of shares outstanding during the period (quarterly cumulative) | |
| 3Q FY03/2017: | 33,208,848 shares |
| 3Q FY03/2016: | 31,708,913 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.

○ Table of Contents: Appendix

1. Qualitative Information regarding the current quarter	2
(1) Descriptions regarding operating results.....	2
(2) Descriptions regarding financial position	3
(3) Descriptions regarding future prospects such as consolidated performance forecasts	3
2. Matters regarding summary information (Notes).....	4
(1) Changes in important subsidiaries during the current consolidated cumulative period	4
(2) Application of special accounting methods to the preparation of quarterly consolidated financial statements...4	
(3) Additional information	4
3. Summary of important information for going concern assumption	4
4. Quarterly Consolidated Financial Statements	5
(1) Quarterly Consolidated Balance Sheets.....	5
(2) Quarterly Consolidated Statements of Income and Statement of Comprehensive Income	7
Quarterly Consolidated Statements of Income	
Third quarter consolidated cumulative period	7
Quarterly Consolidated Statement of Comprehensive Income	
Third quarter consolidated cumulative period	8
(3) Notes on Quarterly Consolidated Financial Statements.....	9
(Going concern assumption)	9
(Notes in case of significant changes in the amount of shareholders' equity).....	9
(Segment information, etc.).....	9

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

(million yen; △ means negative)

	3Q FY03/2016			3Q FY03/2017		
	Actual results	+/- amounts YoY	+/-% YoY	Actual results	+/- amounts YoY	+/-% YoY
Net sales	29,919	1,670	5.9%	31,696	1,777	5.9%
Operating income	674	△321	△32.3%	101	△573	△85.0%
Ordinary income	620	△537	△46.4%	202	△417	△67.3%
Income attributable to owners of parent	303	△451	△59.8%	△272	△575	—

For the current third quarter consolidated cumulative period, financial results of Miyamoto Munashi Corporation and TWO SIX Corporation, which had become the wholly-owned subsidiaries of SRS as of September 1, 2016, have been consolidated into those of the entire Group for three months period from September 1, 2016 to November 30, 2016.

Miyamoto Munashi Corporation operates a restaurant chain named "Meshiya Miyamoto Munashi", and TWO SIX Corporation holds the premise of "Miyamoto Munashi JR Nagoyaekimae branch".

Expanded restaurant operations by opening new ones and further addition of sales by acquiring the above-mentioned "Meshiya Miyamoto Munashi" contributed to higher sales amount as compared to the same period of the previous year.

The Group unfortunately experienced lower profitability as compared to the previous year because, for example, 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, loss on evaluation of investment in overseas joint ventures, and allocating impairment loss due to decision to close two restaurants.

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 third quarter consolidated fiscal period	Planned to open during the current consolidated fiscal year
Washoku Sato	201 (—)	1 (—)	— (—)	202 (—)	4 (—)
Tendon & Tenpura restaurant Santen	22 (—)	11 (—)	— (—)	33 (1)	25 (5)
Sushi-han	14 (—)	— (—)	1 (—)	13 (—)	— (—)
Meotozenzai *1	— (—)	1 (—)	— (—)	1 (—)	— (—)
Nigiri Chojiro	53 (—)	3 (—)	— (—)	56 (—)	6 (—)
Nigiri Chujiro	6 (—)	— (—)	— (—)	6 (—)	— (—)
Miyakobito	18 (17)	— (—)	2 (2)	16 (15)	— (—)
Meshiya Miyamoto Munashi	— (—)	69 (7) *2	— (—)	69 (7)	— (—)
Katsuya	28 (14)	7 (4)	— (—)	35 (18)	11 (6)
Domestic total	342 (31)	92 (12)	3 (2)	431 (41)	46 (11)
Overseas restaurants	6 (5)	1 (—)	1 (1)	6 (4)	— (—)
Worldwide total	348 (36)	93 (12)	4 (3)	437 (45)	46 (11)

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

*1 Previously, financial results of Sushi-han's Houzenji main restaurant and the adjoining Meotozenzai branch had been included in the category of Sushi-han as such; but the former was closed on October 3, 2016 and therefore the latter has been treated as another category separated from the category of Sushi-han.

*2 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 third quarter consolidated cumulative period were as follows: 1 directly managed "Washoku Sato" restaurant; 11 "Tendon & Tenpura restaurant Santen" restaurants including 10 directly managed and 1 FC restaurants; 3 directly managed "Nigiri Chojiro" restaurants; and 7 "Katsuya" restaurants including 3 directly managed and 4 FC restaurants, totaling 22 restaurants were newly opened in all categories domestically; moreover, contracts have already been executed for opening 14 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 3 FC and 5 quasi-directly managed restaurants), resulting in 437 restaurants of the entire Group in operation domestic and overseas at the end of the current third 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, sales of all-you-can-eat style menu have become more prevalent in the overall sales composition to push up the customers' average spending, leading to higher sales in existing restaurants as compared to the previous year. In addition, facilities renovations were carried out at 7 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, and in October, AEON-Mall Yono branch (Saitama pref.) was also opened within the Mall's food court, resulting in broader area coverage and operation style with 33 restaurants currently in operation.

At "Nigiri Chojiro" restaurants, Chojiro's 15th anniversary special events were organized to roll out highly proactive commercial measures coupled with promotional activities, along with offering campaigns featuring seasonal dishes. In addition, 3 new restaurants were opened respectively in Shiga, Kyoto and Nara prefectures, resulting in 52 restaurants currently in operation in Kansai area.

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 third quarter consolidated fiscal period were 31,981 million yen (increase by 4,160 million yen from the end of the previous consolidated fiscal year).

(Assets)

Current assets was 11,564 million yen (increase by 798 million yen from the end of the previous consolidated fiscal year). It comprises mainly increase in cash and deposits by 330 million yen and increase in raw materials and supplies by 326 million yen.

Non-current assets was 20,327 million yen (increase by 3,273 million yen from the end of the previous consolidated fiscal year). This is mainly due to, for example, increase in goodwill by 1,555 million yen and in intangible assets - other by 417 million yen.

(Liabilities)

Current liabilities were 7,787 million yen (increase by 434 million yen from the end of the previous consolidated fiscal year). This is mainly due to, for example, increase in accounts payable - trade by 554 million yen.

Non-current liabilities was 9,980 million yen (increase by 4,043 million yen from the end of the previous consolidated fiscal year). It comprises mainly increase in bonds payable by 3,395 million yen and increase in long-time loans payable by 277 million yen.

(Net assets)

Net assets was 14,213 million yen (decrease by 317 million yen from the end of the previous consolidated fiscal year).

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

There is no change in consolidated performance forecasts for the full term, as announced in the Summary of Financial Results on November 2, 2016.

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

In the 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.

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

Not applicable.

(3) 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 third quarter consolidated fiscal period (December 31, 2016)
Assets		
Current assets		
Cash and deposits	8,616,381	8,920,315
Accounts receivable - trade	603,001	759,670
Merchandise	41,279	40,531
Raw materials and supplies	710,854	1,036,869
Deferred tax assets	312,739	171,630
Other	481,583	635,754
Total current assets	10,765,840	11,564,771
Non-current assets		
Property, plant and equipment		
Buildings, net	2,456,152	2,753,689
Land	4,742,506	4,742,506
Other, net	2,174,772	2,379,119
Total property, plant and equipment	9,373,431	9,875,315
Intangible assets		
Goodwill	1,116,373	2,671,452
Other	977,751	1,394,917
Total intangible assets	2,094,124	4,066,369
Investment and other assets		
Investment securities	805,407	1,036,727
Long-term loans receivable	833,744	917,599
Guarantee deposits	3,039,010	3,306,777
Deferred tax assets	445,963	481,401
Other	475,766	655,217
Allowance for doubtful accounts	△13,505	△12,354
Total investments and other assets	5,586,386	6,385,369
Total non-current assets	17,053,942	20,327,054
Deferred assets	649	89,308
Total assets	27,820,432	31,981,134

	(Thousand yen; △ means negative)	
	Previous consolidated fiscal year (March 31, 2016)	Current third quarter consolidated fiscal period (December 31, 2016)
Liabilities		
Current liabilities		
Accounts payable - trade	1,179,980	1,734,888
Current portion of bonds	50,000	475,000
Current portion of long-term loans payable	2,437,500	2,230,780
Accounts payable-other	2,137,639	2,054,150
Income taxes payable	230,746	242,713
Provision for bonuses	272,916	221,620
Other	1,043,361	827,884
Total current liabilities	7,352,143	7,787,037
Non-current liabilities		
Bonds payable	—	3,395,000
Long-term loans payable	3,759,945	4,037,105
Deferred tax liabilities for land revaluation	274,908	274,908
Deferred tax liabilities	83,745	256,397
Provision for directors' retirement benefits	29,578	29,578
Asset retirement obligations	510,772	637,274
Other	1,277,478	1,349,909
Total non-current liabilities	5,936,428	9,980,173
Total liabilities	13,288,571	17,767,211
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	962,783
Treasury shares	△173	△214
Total shareholders' equity	14,915,337	14,477,100
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	108,976	237,457
Revaluation reserve for land	△600,061	△600,061
Total accumulated other comprehensive income	△491,085	△362,604
Non-controlling interests	107,608	99,427
Total net assets	14,531,860	14,213,923
Total liabilities and net assets	27,820,432	31,981,134

(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 third quarter consolidated cumulative period (April 1, 2015 - December 31, 2015)	Current third quarter consolidated cumulative period (April 1, 2016 - December 31, 2016)
Net sales	29,919,031	31,696,429
Cost of sales	10,313,107	10,833,627
Gross profit	19,605,924	20,862,802
Selling, general and administrative expenses	18,931,132	20,761,793
Operating income	674,791	101,008
Non-operating income		
Interest income	10,433	10,532
Dividend income	15,862	15,752
House rent income	76,674	52,341
Foreign exchange gains	28,469	150,439
Miscellaneous income	42,861	38,001
Total non-operating income	174,301	267,068
Non-operating expenses		
Interest expenses	105,377	95,670
Rent expenses on real estates	62,126	44,405
Share issuance cost	28,261	—
Miscellaneous loss	32,588	25,196
Total non-operating expenses	228,353	165,273
Ordinary income or loss (△)	620,739	202,803
Extraordinary losses		
Loss on retirement of noncurrent assets	11,733	18,605
Loss on sales of noncurrent assets	12,216	—
Loss on cancellation of rental contracts	—	410
Loss on valuation of investment securities	—	59,315
Impairment loss	—	12,251
Loss on closing of stores	—	888
Total extraordinary losses	23,950	91,471
Income before income taxes and minority interests	596,789	111,331
Income taxes - current	195,577	226,509
Income taxes - deferred	109,632	165,153
Total income taxes	305,209	391,663
Net income or loss (△)	291,579	△280,331
Net income or loss (△) attributable to non-controlling interests	△11,632	△8,180
Net income or loss (△) attributable to owners of parent	303,212	△272,151

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

	(Thousand yen; △ means negative)	
	Previous third quarter consolidated cumulative period (April 1, 2015 - December 31, 2015)	Current third quarter consolidated cumulative period (April 1, 2016 - December 31, 2016)
Net income or loss (△)	291,579	△280,331
Other comprehensive income		
Valuation difference on available-for-sale securities	24,487	128,480
Total other comprehensive income	24,487	128,480
Comprehensive income	316,067	△151,851
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	327,700	△143,671
Comprehensive income attributable to non-controlling interests	△11,632	△8,180

**(3) 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.