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Financial Results Explanatory Materials for the First Half of the Fiscal Year Ending March 2019

November 16, 2018
SRS HOLDINGS CO., LTD.
(Securities Code: 8163)



SRS HOLDINGS marked the 50th anniversary of its foundation on August 27, 2018.

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1H FY3/19 Overview of Financial Results

Consolidated Financial Highlights

◆ **Net sales: ¥21,908 million** **Up ¥213 million YoY**

- Sales increased along with the increased number of restaurants due to newly opened locations and strong sales at existing locations while there was a negative effect on sales caused by natural disasters.

◆ **Operating profit: ¥510 million** **Up ¥249 million YoY**

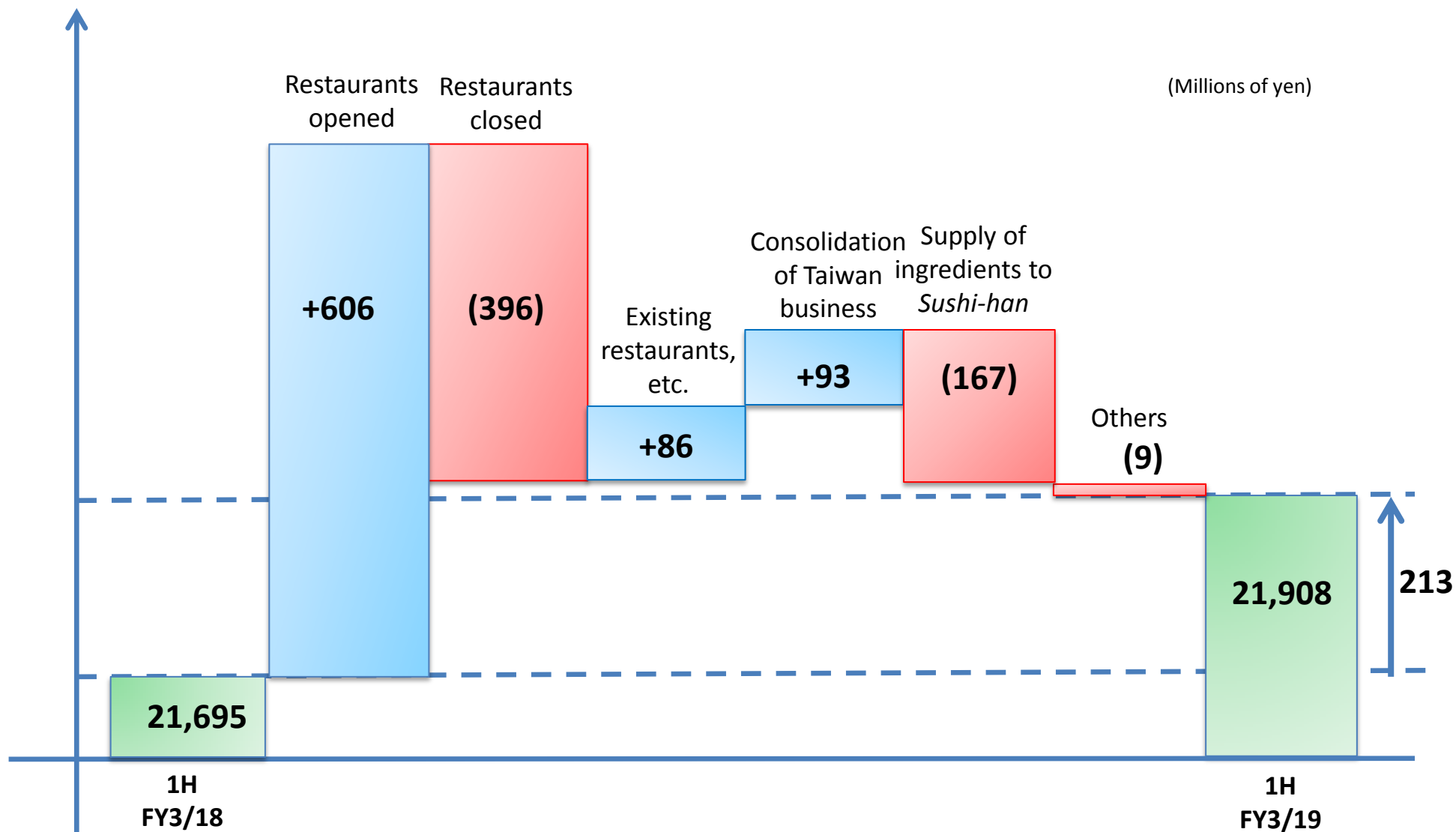
Ordinary profit: ¥483 million **Up ¥227 million YoY**

- Operating profit and ordinary profit increased due to higher sales and proper management of SG&A expenses while there was a negative effect on profits caused by higher personnel expenses.

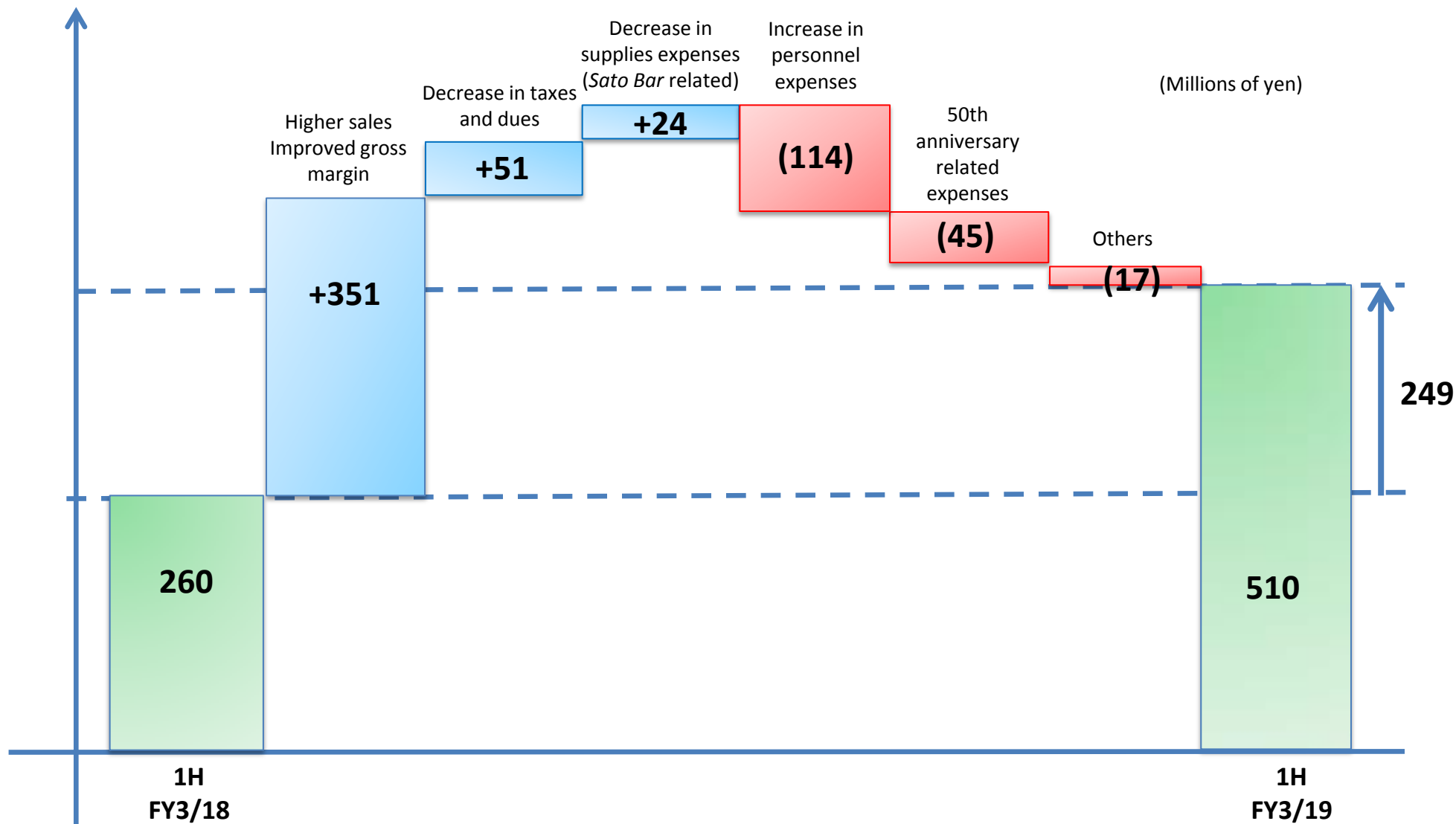
◆ **Profit attributable to owners of parent : ¥216 million** **Up ¥1 million YoY**

- Profit attributable to owners of parent was about the same as one year earlier because there was a gain on the sale of the shares of a subsidiary following the sale of the *Sushi-han* business in the first quarter of FY3/18.

Changes in Net Sales



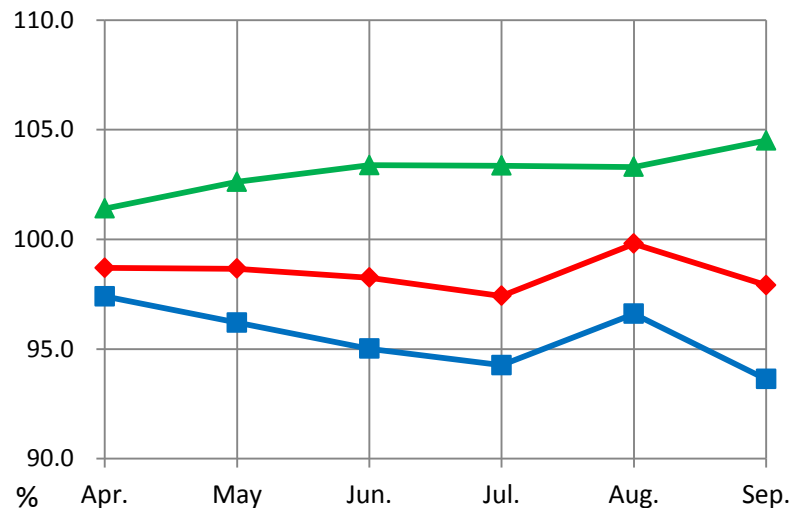
Changes in Operating Profit



Existing Restaurant Sales

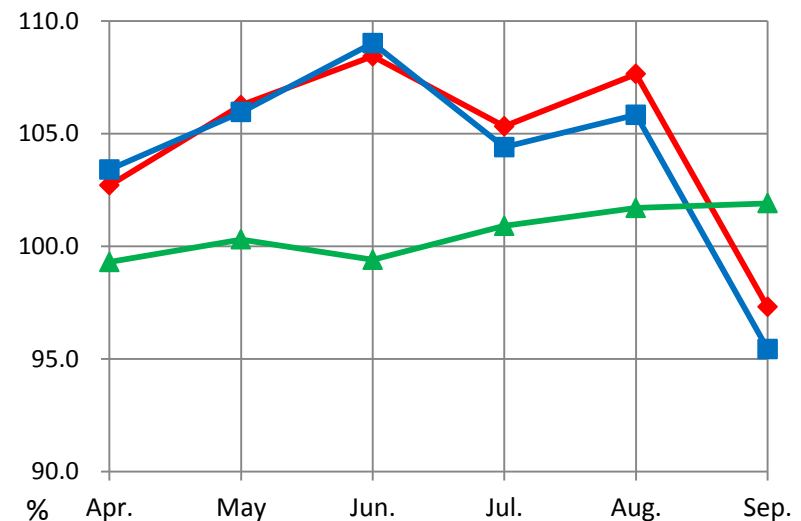
- Sales at existing restaurants were strong despite the negative effect of heavy rain, earthquakes, typhoons and other natural disasters.
- At *Washoku Sato*, sales per customer were higher than one year earlier due to higher sales of seasonal menu items, more use of *Sato Bar/Sato Café*, and an increase in the price of the *Sato-Shabu* (all-you-can-eat shabu-shabu) premium course from June.
- At *Nigiri Chojiro*, the number of customers was higher than one year earlier because of TV commercials, SNS campaigns and other activities. In June, limited-quantity menu items and a Father's Day fair produced a big increase in customer traffic.

© *Washoku Sato*: YoY change at existing restaurants adjusted for characteristics of day of week



—◆— Sales —■— Number of customers —▲— Average sales per customer

© *Nigiri Chojiro*: YoY change at existing restaurants adjusted for characteristics of day of week



—◆— Sales —■— Number of customers —▲— Average sales per customer

SRS Group Restaurants

	No. of restaurants at the end of FY3/18 (Mar. 31, 2018)		No. of restaurants opened/closed during 1H FY3/19		No. of restaurants at the end of 1H FY3/19 (Sep. 30, 2018)		No. of restaurants planned to open during FY3/19 (B)		No. of contracts for new restaurants signed during 1H FY3/19 (C)		Restaurant opening progress vs. plan ((A) + (C)) / (B)
			Opened (A)	Closed							
Washoku Sato/Nabeichi	200		3	1	202		7		4		100%
Santen	46	(2)	2	2	46	(1)	6	(3)	-		16%
Nigiri Chojiro/Chojiro	57		1	1	57		6		4		83%
Miyamoto Munashi	66	(6)	-	2	64	(6)	5		1		20%
Katsuya/Karayama	36	(16)	1	-	37	(16)	7	(2)	3		57%
Meotozenzai	1		-	-	1		-		-		-
Home Delivery Sushi (Nigiri Chujiro/Miyakobito)	20	(13)	-	-	20	(13)	3		-		-
Overseas restaurants	6	(4)	3	2	7	(4)	3	(1)	2		166%
Group total	432	(41)	10	8	434	(40)	37	(6)	14	(-)	62%

Note: Numbers in parentheses represent franchised restaurants (domestic) and joint venture restaurants (overseas).

* One newly opened *Santen* restaurant is not included in the calculation of restaurant opening progress ratio because it was converted from franchised to directly managed.

Progress Report on Consolidated Business Plan

(Millions of yen)



	FY3/18 Results	FY3/19 Forecast	Vs. FY3/18 Results	1H FY3/19 Results	Progress ratio
Net sales	44,155	46,000	+1,844	21,908	47.6%
Operating profit	741	1,000	+258	510	51.0%
Ordinary profit	592	1,000	+407	483	48.3%
Profit attributable to owners of parent	108	200	+91	216	108.3%

Progress of FY3/19 Consolidated Business Plan




- Sales were 1.6% below the plan mainly because of natural disasters.
- Operating profit was 39.6% higher than the plan as SG&A expense controls and other measures more than offset the negative effect of the sales shortfall.
- The FY3/19 earnings forecasts are unchanged considering higher personnel expenses and the possibility of higher prices of key ingredients for menu items.

Progress Report on Restaurant Measures




Progress Report on Restaurant Measures

#	Main Categories	Initiatives and Progress
1	 Washoku Sato  Nabeichi	<ul style="list-style-type: none"> ◆ Regularly upgrading the core all-you-can-eat menu <ul style="list-style-type: none"> → August: Southern Kyushu Fair → September: Added black hair wagyu (Japanese beef) course (+ ¥500) ◆ Conducting campaigns to increase the number of customers <ul style="list-style-type: none"> → July: Summer campaign (half-price shaved ice/¥200 discount for <i>Sato Café</i> (all-you-can drink beverage bar) when ordering <i>Sato-Shabu</i>) → September: Autumn campaign (reduced prices for desserts, <i>Sato Café</i> and draft beer when ordering akiwazen) → September: A campaign to celebrate the SRS Group's 50th anniversary (reduced prices for the <i>Sato-Shabu</i> premium course and <i>Sato Bar</i>) ◆ Continuing to open restaurants <ul style="list-style-type: none"> → Opened three restaurants (Toyota-higashi IC, Aichi Pref. on June 5, Kuise, Hyogo Pref. on June 15 and Nisshin, Aichi Pref. on August 23) ◆ Developing new restaurant formats <ul style="list-style-type: none"> → Formed a project team and planning to start tests for the new <i>Nabeichi</i> restaurant format (refer to p.18) ◆ Developing AI and robotic systems for more efficient restaurant operations <ul style="list-style-type: none"> → Planning to start using an automatic ordering system ◆ No smoking at all restaurants <ul style="list-style-type: none"> → All restaurants became completely smoke-free on April 1, 2018; ads announcing this new policy with coupons were placed in four Japan's morning newspapers

Progress Report on Restaurant Measures

#	Main Categories	Initiatives and Progress
2	 <p>Santen</p>	<ul style="list-style-type: none"> ◆ Further refining the <i>Santen</i> business and raising profitability by improving menus, promotions, sales systems and other aspects of operations <ul style="list-style-type: none"> → Revised core menu items, such as by adding noodle meal sets and providing teishoku (set meal) items with more value → Used short cycles for eel dishes as a seasonal item and for limited-time-only selections like tendon with pork and long sausage → Strengthened promotional activities using LINE@, Internet commercials and other media ◆ Continuing to open new directly operated and franchised restaurants <ul style="list-style-type: none"> → Opened a restaurant in Yonohonmachi (Saitama Pref.) on May 4 ◆ Developing AI and mechanical systems for improving productivity <ul style="list-style-type: none"> → Planning to start using an automated AI robot dish washing system (refer to p.21)
3	 <p>Nigiri Chojiro</p>  <p>Chojiro</p>	<ul style="list-style-type: none"> ◆ Continuing to open new restaurants in the Kansai area (retain position as the leading brand in Kansai for gourmet conveyor belt sushi) <ul style="list-style-type: none"> → Opened a restaurant in Kitatatsumi (Osaka) on April 13 ◆ Opening restaurants in new commercial areas <ul style="list-style-type: none"> → Planning to open one restaurant in the Chubu region (November) ◆ A <i>Chojiro</i> restaurant in Shijokiyamachi has received a Trip Advisor Certificate of Excellence for five consecutive years, which qualifies it for the Trip Advisor Hall of Fame

Progress Report on Restaurant Measures

#	Main Categories	Initiatives and Progress
4	 <p>Miyamoto Munashi</p>	<ul style="list-style-type: none"> ◆ Continuing to redecorate restaurants to create a new look (bright, clean interiors to serve a larger range of customer segments) <ul style="list-style-type: none"> → Renovated 14 restaurants during first half of FY3/19 ◆ Continuing to add a limited-time-only menu with substantial added value (raises sales per customers and the gross margin) <ul style="list-style-type: none"> → Continuing to use short cycles for limited-time-only menu items like tsuke-udon (udon with a dipping sauce), hamburger, yakiniku, beef tongue and other dishes → Conducted trial sales of a choi-nomi (quick and easy drink) menu and oden in order to increase sales per customer and attract new customer segments ◆ Continuing to open new restaurants <ul style="list-style-type: none"> → Opened one restaurant on November 1
5	 <p>Katsuya</p>  <p>Karayama</p>	<ul style="list-style-type: none"> ◆ Continuing to open new directly operated and franchised restaurants in the Kansai area <ul style="list-style-type: none"> → Opened a restaurant in Nara-kashiba (Nara Pref.) on May 11 ◆ Boosting the profitability of existing restaurants <ul style="list-style-type: none"> → Continuing to make menu items more appealing and serving food in a more timely manner ◆ Considering opening new restaurant formats <ul style="list-style-type: none"> → Planning to open <i>Karayama</i> restaurant (November)

Progress Report on Restaurant Measures

#	Main Categories	Initiatives and Progress
6	Optimized operations	<ul style="list-style-type: none"> ◆ Integrated accounting system for the entire SRS Group <ul style="list-style-type: none"> → In April, the FOODSNET CORPORATION (<i>Nigiri Chojiro</i> and other brands) accounting system was integrated with the SRS Group system to improve efficiency of accounting operations ◆ Planning to reduce expenses for deliveries and the oversight of logistics operations by optimizing logistics for the entire group
7	Innovative operation development	<ul style="list-style-type: none"> ◆ For restaurant operations with higher productivity and fewer workers, use AI and machines to end labor-intensive activities and improve efficiency <ul style="list-style-type: none"> → Planning to start using an automatic ordering system → Planning to start using an automated AI robot dish washing system ◆ Starting studies for sharing of a single app for the entire SRS Group, a QR payment system and other innovations
8	Overseas business	<ul style="list-style-type: none"> ◆ Taiwan <ul style="list-style-type: none"> → Opened the third restaurant in Taiwan (<i>Washoku Sato</i> in Tucheng, on June 27) → Planning to open the fourth restaurant (December) ◆ Thailand <ul style="list-style-type: none"> → Opened the first <i>Sato-don</i> restaurant specializing in rice bowl dishes, a new restaurant concept specifically for food courts (on April 29) → Opened the second <i>Sato-don</i> restaurant (on September 12) ◆ Indonesia <ul style="list-style-type: none"> → Relocated the first restaurant in Indonesia (on November 2)

Efforts for Improving Productivity

- ▶ The addition of Sato Bar/Sato Café at all restaurants was completed in November 2017 *excluding 2 restaurants



Sato Bar

- A self-service all-you-can-drink alcohol beverage bar (with a 2 hour time limit)
- Customers can prepare their own drinks as preferred
 - Weekdays all day ¥998 + tax *Price for a set
 - Saturdays from open to 15:00 ¥998 + tax
 - Saturdays from 15:00 to close ¥1,198 + tax
 - Sundays and Holidays ¥1,198 + tax



Sato Café

- A self-service all-you-can-drink non-alcoholic beverage bar
- One button for more than 50 types of beverages; a full line of non-alcoholic beverages including mixed drinks
 - Adults ¥238 + tax *Price for a set
 - Children (elementary school age and younger) ¥100 + tax



▶ Benefits of Sato Bar/Sato Café

- (1) Customers can enjoy the drinks they want at any time
 - Creating a new reason for people to use Sato Bar/Sato Café to increase sales and attract more customers
- (2) Using self-service format to reduce volume of work (reducing work to serve drinks, etc.)
 - Productivity is higher because restaurant personnel can spend time on tasks that add more value
- (3) Improving standards of service (not keeping customers waiting, shortening the time of food delivery, etc.)

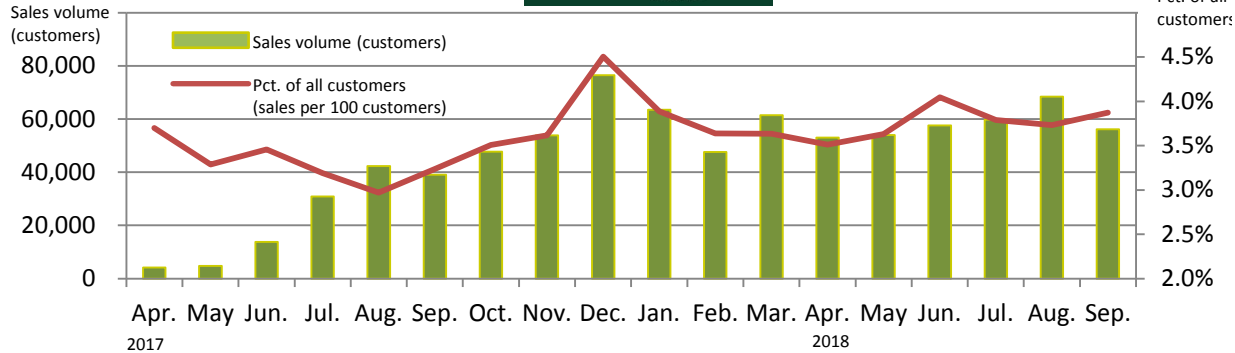


Sato Bar/Sato Café improves productivity while achieving the Washoku Sato goals of providing services without keeping customers waiting and increasing customer satisfaction

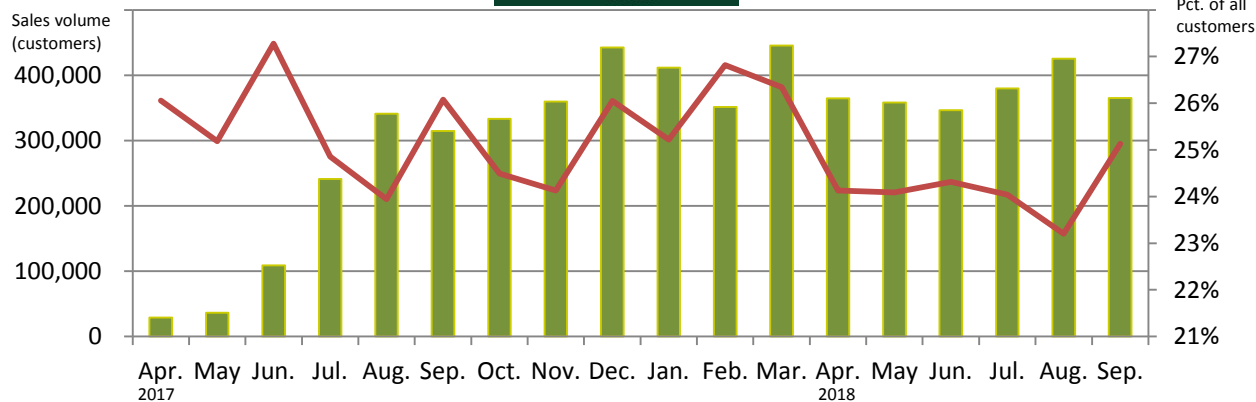
▶ Sato Bar/Sato Café Sales Growth



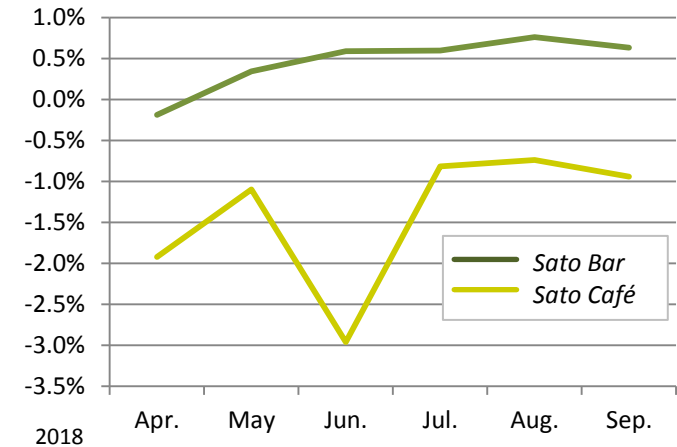
Sato Bar



Sato Café



▪ Order Rate vs. Prior Year



▪ The Sato Bar order rate is increasing steadily.

→ The goal is more growth in the number of customers by using measures like selling Sato Bar as a set with a single-dish all-you-can-eat menu.

▪ The Sato Café order rate initially increased but has been declining.

→ The goal is to give students and other new customers a reason to spend idle time at a Sato Café, such as by selling Sato café as a set with a soft-serve ice cream bar, which is to be newly added soon.

› Nabeichi

A restaurant format centered on *Sato-shabu* and *Sato-suki*, the core menu items of *Washoku Sato*

› Nabeichi basic policy

Exciting, delicious, reliable

› Nabeichi development concept

Achieve the three goals below by taking *Sato-shabu* and *Sato-suki*, the core menu items of *Washoku Sato*, to a higher level



1. Higher productivity

Reduce labor needed at restaurants by switching to a self-service format
→ Goal is sales per man hour of ¥6,000

2. Greater location flexibility

Restaurants require smaller sites because kitchens are smaller and sales per customer are higher; this allows placing *Nabeichi* restaurants in shopping centers, near railway stations and in many other types of locations

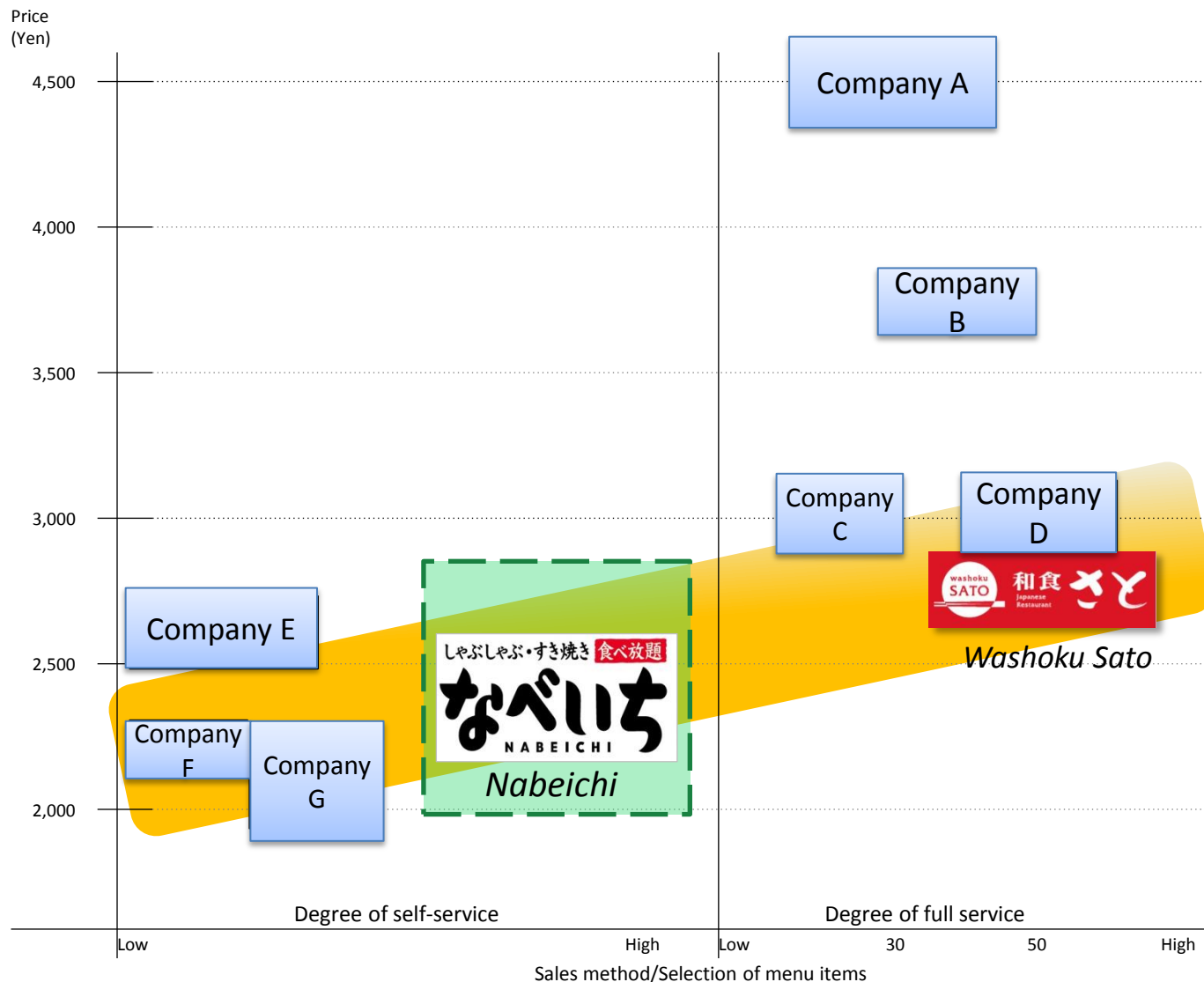
3. Smaller investment and higher profitability

Small number of menu items reduces the initial investment required for kitchen equipment and other items
→ A shorter investment recovery period



Positioning of Nabeichi

*Based on information obtained by SRS HOLDINGS



Prices and networks of other major restaurant companies

*Adult price for all-you-can eat beef/pork course for Sunday/holiday dinner

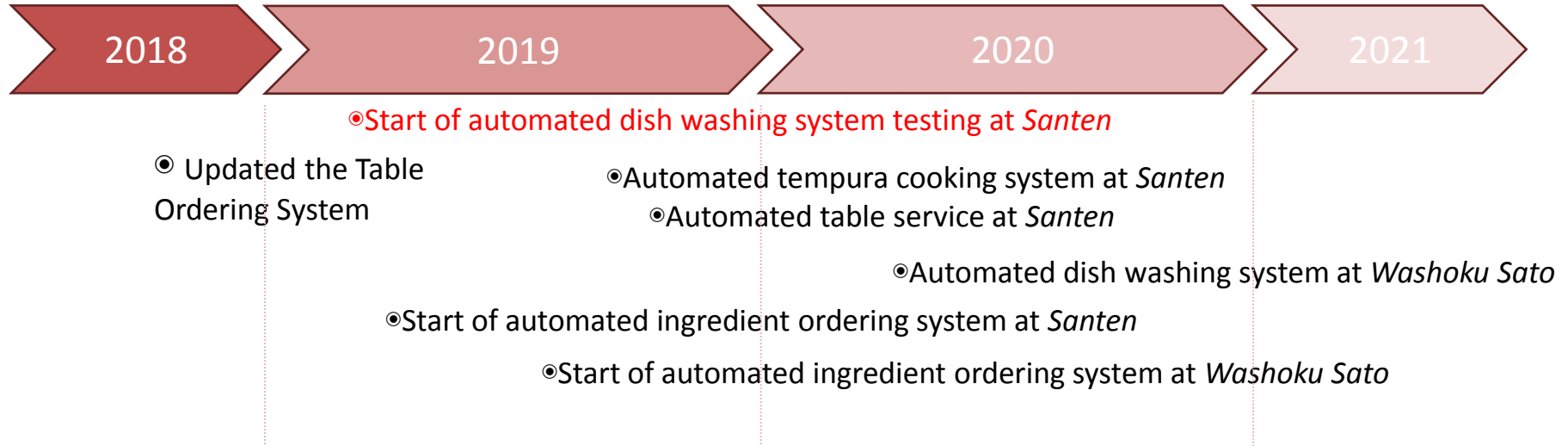
Name	Price	Menu items	No. of restaurants
Company A	¥4,480	About 30	24
Company B	¥3,690	About 40	102
Company C	¥2,980	About 20	360
Company D	¥2,980	About 50	62
Washoku Sato	¥2,790	About 50	202
Company E	¥2,600	-	19
Nabeichi	¥2,299	About 30	-
Company F	¥2,199	-	48
Company G	¥2,099	About 15	202

Comparison of Washoku Sato, Nabeichi and a Competitor *Based on information obtained by SRS HOLDINGS

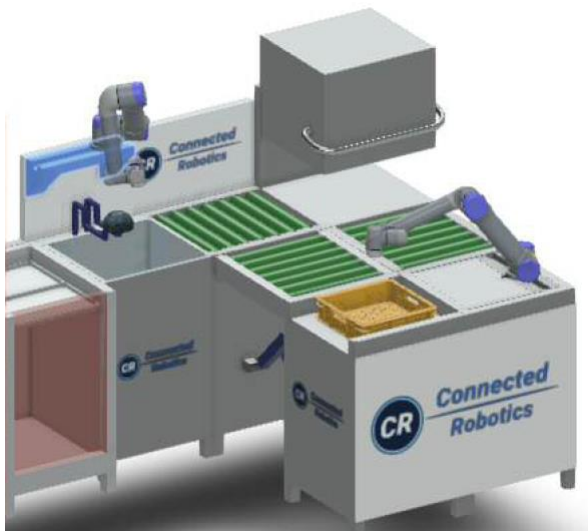
	Washoku Sato (premium course)	Nabeichi	Competing buffet restaurant
Main products	Shabu-shabu and Sukiyaki	Shabu-shabu and Sukiyaki	Only Shabu-shabu
Price	Beef/pork premium course ¥2,790 Discounts for seniors and children Alcohol bar ¥1,198 Drink bar ¥238	Beef/pork course ¥2,299 Discounts for seniors and children Minimum price with sushi ¥1,899 Alcohol bar ¥1,299 Drink bar ¥199	Beef/pork course ¥2,099 Discount for children but not for seniors Minimum price with sushi ¥1,999 Alcohol bar ¥1,500 Drink bar ¥220
Meat	Choice grade beef 6 types	Choice grade beef Beef is sliced at the restaurant Uses premium sangenton pork 7 types, including tsukune	Meat is sliced at the restaurant Uses premium sangenton pork 6 types plus 1 special promotion option
Hot pot/ vegetables	All ingredients grown in Japan 14 types	All ingredients grown in Japan About 17 types, including regular, seasonal and local vegetables	No statement about locally grown ingredients 17 types
Other menu items	Cooked to order, full service More than 50 items, including sushi, tempura, deep-fried items and other dishes	Buffet format Sushi, curry, seasonal rice , chirashizushi, tempura, deep-fried items, potatoes, hand- made tofu and other items	Buffet format Sushi, curry, wakame rice, chirashizushi and other items No side dish selections
Atmosphere	Kitchen is not visible from dining area	Customers can see meat slicing, deep-frying and other kitchen activities An active atmosphere, a restaurant people can use with confidence	Kitchen is not visible from dining area Sushi is made behind the bar at some locations
Dashi (Japanese soup stock)/Dipping sauce	2 types of dashi (selected from 6 options) Dipping sauce is only ponzu or sesame	2 types of dashi (1 fixed and 1 chosen from 5 options) 5 regular dipping sauces plus 1 special promotion option	2 types of dashi (1 fixed and 1 chosen from 5 options) 5 regular dipping sauces plus 1 special promotion option

Development of Dish Washing Robot

› Timetable for innovative restaurant operations



› Conceptual drawing of a dish washing system for *Santen*



- Using AI and robots will allow restaurant personnel to spend more time on tasks that add value
- Lowering the volume of cleaning tasks performed by people will reduce recruiting challenges created by Japan's tight labor market and hold down the growth of personnel expenses.



The goal is to improve productivity at restaurants and provide new added value to customers

The Parent-Child Discount for Employees

› Discount eligibility

Employees who dine at the restaurant where they work with one or more child not older than junior high school age receive a 50% discount.

› Purpose

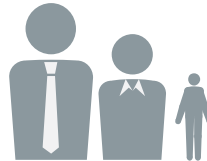
This new employee benefit was established for *Washoku Sato* restaurant employees who are raising children, including those in part-time positions. This benefit reduces the amount of meal preparation needed at home, thereby making it easier to work at the restaurant.

All *Washoku Sato*
restaurants



50% discount

Employees and
their children



- **Easier to work at restaurants**
 - **Easier to remain for many years**
- By providing this environment, *Washoku Sato* aims at increasing employee satisfaction, which will result in providing high-quality services to customers and improving productivity.

› Summary

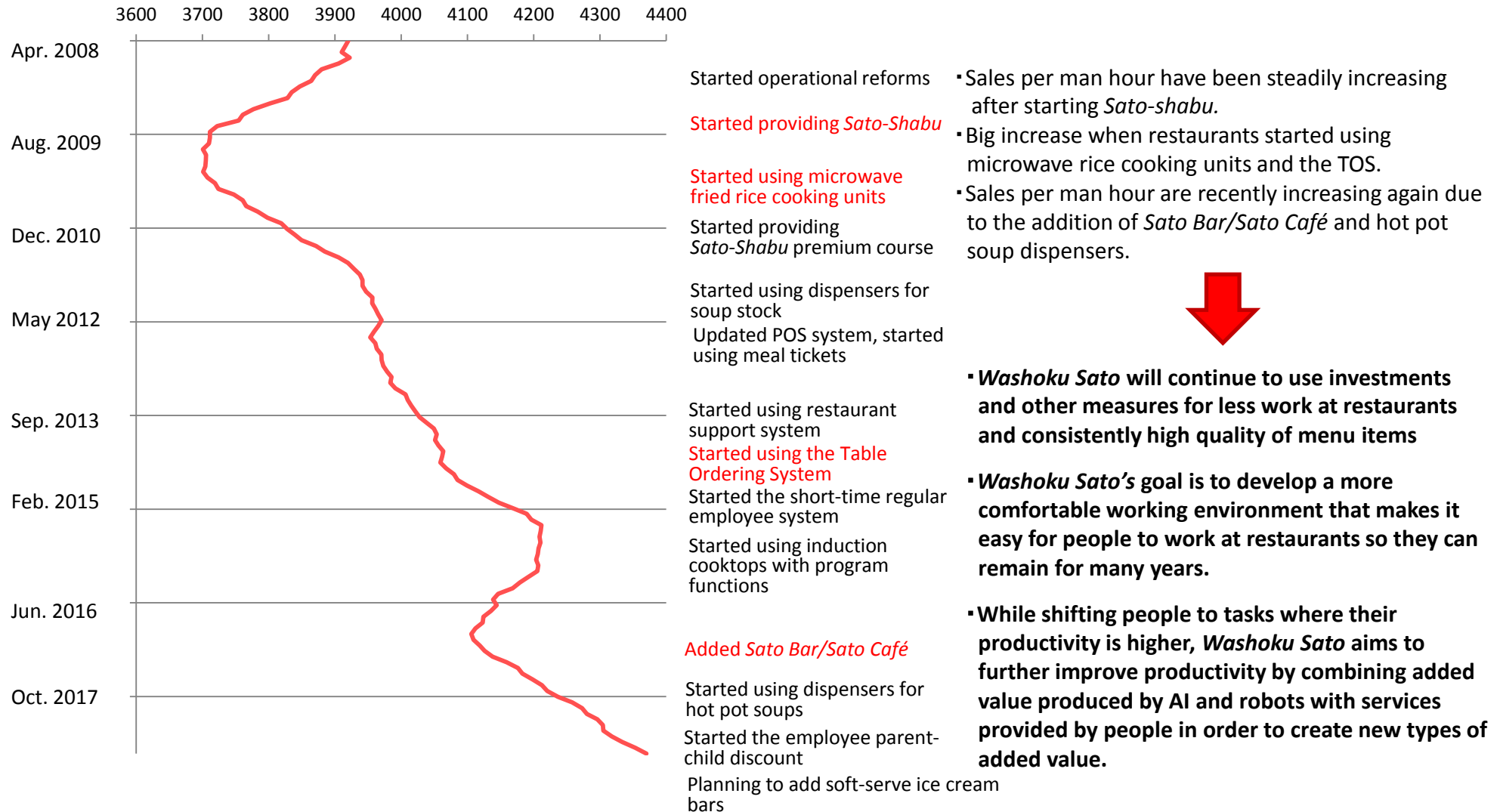
- ◎ *Washoku Sato* employees with children up to junior high school age are eligible
- ◎ The discount applies to meals at the restaurant where employees work (or a designated restaurant near the employee's home)
- ◎ Discount is not available during busy time periods and on weekends and holidays
- ◎ Discount is 50% of the total amount but not more than ¥5,000
- ◎ Discount applies to all eat-in or take-out meals



Eligible employees use this Family Passport to receive the discount

Washoku Sato Sales Per Man Hour

» Sales Per Man Hour at *Washoku Sato* (12-month moving average)





Appendix

Consolidated Balance Sheet (BS)

(Millions of yen)

	FY3/18 (As of Mar. 31, 2018)	1H FY3/19 (As of Sep. 30, 2018)	Change
Current assets	13,148	11,176	(1,972)
Non-current assets	17,513	17,360	(153)
Current liabilities	7,648	6,341	(1,306)
Non-current liabilities	8,905	7,982	(922)
Net assets	14,214	14,311	+96
Total assets	30,768	28,636	(2,132)

Cash Flow Statement (CF)

(Millions of yen)

	1H FY3/18	1H FY3/19	Change
Cash flows from operating activities	495	518	+22
Cash flows from investing activities	1,103	(642)	(1,745)
Cash flows from financing activities	(525)	(1,606)	(1,080)
Cash and cash equivalents at end of period	9,617	8,998	(619)

New Restaurants Opened in FY3/19



Washoku Sato Toyota-higashi IC, Aichi Pref. opened on June 5, 2018



Washoku Sato Kuise, Hyogo Pref. opened on June 15, 2018



Washoku Sato Nisshin, Aichi Pref. opened on August 23, 2018



Chojiro Kitatatsumi, Osaka opened on April 13, 2018



Santen Yonohonmachi, Saitama Pref. opened on May 4, 2018



Katsuya Nara-kashiba, Nara Pref. opened on May 11, 2018



Washoku Sato Tucheng, Taiwan, opened on June 27, 2018



Sato-don Mega Bangna, Thailand, opened on April 29, 2018



Sato-don, Central Rama 9, Thailand, opened on September 12, 2018



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