

**Pepper Food Service Co., Ltd.
Financial Results Briefing for the Second
quarter of Fiscal Year Ended December 31,
2019**

August 29, 2019

Stock listing: Tokyo Stock Exchange
(First Section)

Securities code: 3053

URL: https://www.pepper-fs.co.jp/main/business/overseas_dv/

1. Results for the First Half of Fiscal Year Ended December 31, 2019

2. Forecast for the Fiscal Year Ending December 31, 2019

3. Overview of First half of Fiscal 2019
and the Outlook for Second half of Fiscal 2019

Overview of Results for The First Half of Fiscal 2019

Unit: million yen

	First Half FYE December 31, 2018	First Half FYE December 31, 2019	Change	Y-o-y	Plan for the first half FYE December 31, 2019	Comparison with the plan
Sales	27,967	35,122	7,155	125.6%	42,187	83.3%
Cost of sales	15,902	20,620	4,718	129.7%	24,858	83.0%
Gross profit	12,064	14,502	2,438	120.2%	17,328	83.7%
(Gross profit ratio)	(43.1%)	(41.3%)	(▲1.8pt)	—	(41.1%)	—
Selling, general and administrative expenses	10,573	14,098	3,525	133.3%	15,460	91.2%
Operating profit	1,491	403	▲1,088	27.0%	1,867	21.6%
Non-operating income	37	66	29	178.4%	49	134.7%
Non-operating expenses	48	117	69	243.8%	29	403.4%
Ordinary profit	1,480	352	▲1,128	23.8%	1,888	18.6%
Extraordinary income (loss)	▲ 23	481	504	—	▲ 30	—
Income taxes	741	317	▲424	42.8%	788	40.2%
Net income	715	516	▲199	72.2%	1,069	48.3%

Net Sales for The First Half of Fiscal 2019

Unit: million yen

		First half of fiscal 2018	First half of fiscal 2019	Y-o-y change (percentage change)	Y-o-y change in the number of existing stores (percentage change)
Pepper Lunch Business	Franchise business (Japan)	1,848	2,039	191 (110.3%)	24 (101.5%)
	Franchise business (overseas)	180	204	24 (113.3%)	—
	Total of direct management & consignment	1,610	1,893	283 (117.6%)	▲6 (99.6%)
	Subtotal	3,640	4,137	497 (113.7%)	18 (100.6%)
Restaurant Business	Franchise business	107	93	▲14 (86.9%)	▲12 (88.3%)
	Total of direct management & consignment	660	581	▲79 (88.0%)	▲28 (95.2%)
	Subtotal	768	675	▲93 (87.9%)	▲41 (94.2%)
Ikinari! Steak Business	Franchise business	5,714	9,045	3,331 (158.3%)	▲789 (77.0%)
	Total of direct management & consignment	17,764	21,156	3,392 (119.1%)	▲2,668 (79.0%)
	Subtotal	23,479	30,201	6,722 (128.6%)	▲3,458 (78.6%)
Goods Sales Business		80	107	27 (133.8%)	—
Total		27,967	35,122	7,155 (125.6%)	



*The year-on-year change in the number of existing stores and the percentage change are for stores in Japan.

Segment Results for The First Half of Fiscal 2019

Unit: million yen

		First half of fiscal 2018	First half of fiscal 2019	Y-o-y change (percentage change)
Pepper Lunch Business	Sales	3,640	4,137	497 (113.7%)
	Operating profit	643	586	▲57 (91.1%)
Restaurant Business	Sales	768	675	▲93 (87.9%)
	Operating profit	58	23	▲35 (39.7%)
Ikinari! Steak Business	Sales	23,479	30,201	6,722 (128.6%)
	Operating profit	2,290	1,681	▲609 (73.4%)
Goods Sales Business	Sales	80	107	27 (133.8%)
	Operating profit	9	14	5 (155.6%)
Corporate expenses	Sales	—	—	—
	Operating profit (loss)	▲1,510	▲1,902	▲392 (—)
Total	Sales	27,967	35,122	7,155 (125.6%)
	Operating profit	1,491	403	▲1,088 (27.0%)

Segment profit (operating profit)

(million yen)



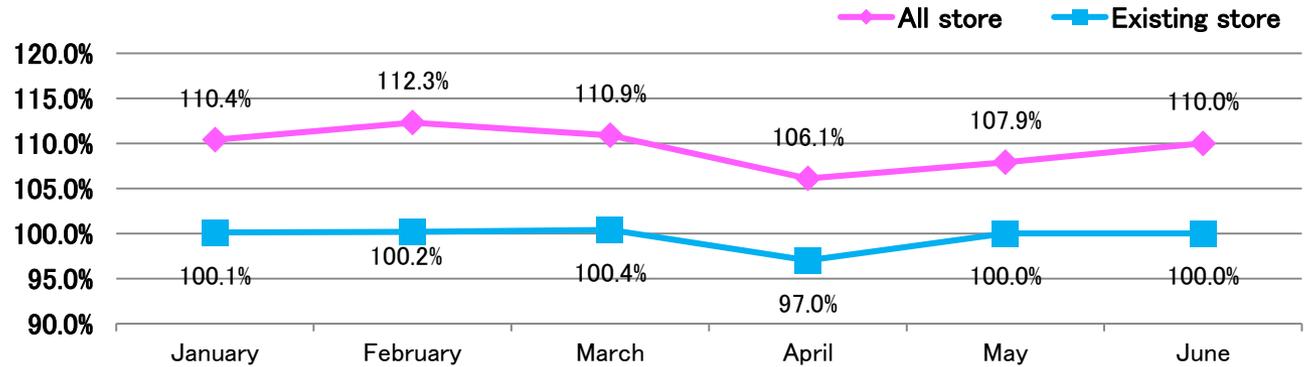
* Corporate expenses are mainly SG&A expenses including corporate expenses that are not attributable to reportable segments.

Developments in Monthly Net Sales

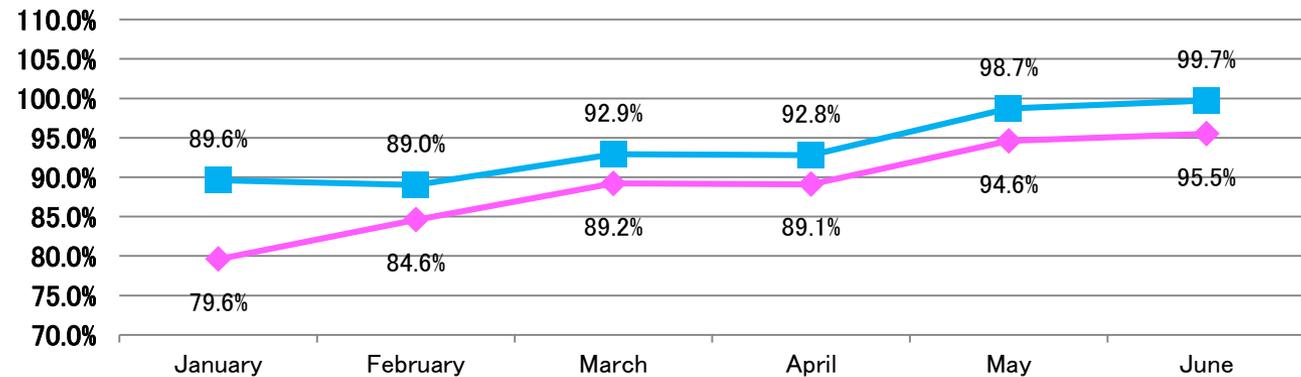
		January	February	March	April	May	June
All Pepper Lunch stores	Sales	110.4%	112.3%	110.9%	106.1%	107.9%	110.0%
	No. of customers	108.8%	113.1%	111.6%	106.5%	107.9%	111.9%
	Sales per customer	101.5%	99.3%	99.4%	99.6%	100.1%	98.2%
Existing Pepper Lunch stores	Sales	100.1%	100.2%	100.4%	97.0%	100.0%	100.0%
	No. of customers	98.7%	100.8%	100.5%	97.0%	99.5%	101.5%
	Sales per customer	101.4%	99.4%	99.9%	100.0%	100.5%	98.6%
All restaurant stores	Sales	79.6%	84.6%	89.2%	89.1%	94.6%	95.5%
	No. of customers	78.0%	84.0%	88.3%	89.4%	92.1%	94.1%
	Sales per customer	102.1%	100.7%	101.1%	99.7%	102.7%	101.5%
Existing restaurant stores	Sales	89.6%	89.0%	92.9%	92.8%	98.7%	99.7%
	No. of customers	88.7%	89.6%	93.1%	94.3%	97.4%	99.5%
	Sales per customer	101.1%	99.4%	99.8%	98.4%	101.3%	100.2%
All Ikinari! Steak stores	Sales	163.3%	147.6%	134.3%	126.2%	125.4%	122.5%
	No. of customers	164.3%	160.7%	137.8%	129.2%	124.8%	124.9%
	Sales per customer	99.4%	91.8%	97.5%	97.7%	100.5%	98.1%
Existing Ikinari! Steak stores	Sales	80.5%	75.1%	73.3%	75.2%	73.4%	76.2%
	No. of customers	81.4%	82.8%	75.1%	76.8%	73.5%	77.7%
	Sales per customer	98.8%	90.8%	97.6%	97.8%	99.8%	98.1%

Developments in Monthly Net Sales

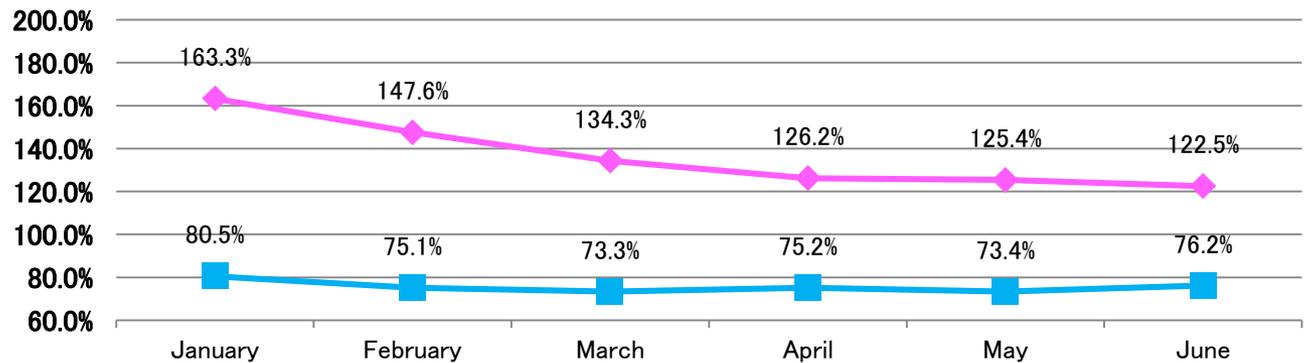
Pepper Lunch



Restaurant



Ikinari! Steak



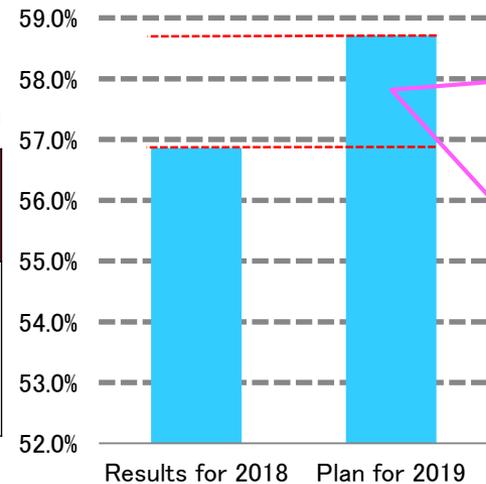
Cost of Sales and Corporate Expenses for The First of Fiscal 2019

Cost of sales

Unit: million yen

	First Half of Fiscal 2018	First Half of Fiscal 2019	Change
Cost of sales (Cost ratio)	15,902 (56.9%)	20,620 (58.7%)	4,718 (1.8 pt.)

Year-on-year comparison of the cost ratio (%)



1.8 pt. increase in the cost ratio

[Main factors]

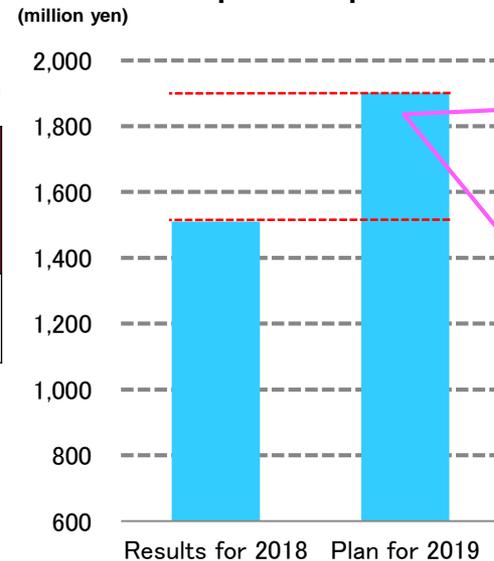
Increase due to changes in the sales composition such as franchise and direct management, etc. +1.8pt.

Corporate expenses

Unit: million yen

	First Half of Fiscal 2018	First Half of Fiscal 2019	Change
Corporate expenses	1,510	1,902	392

Year-on-year comparison of corporate expenses (million yen)



[Main Factors]

Personnel expenses, etc. +¥213 million

Office Supplies +¥34 million

Business Taxes +¥45 million

Developments of Stores during The First Half of Fiscal 2019

	December 31, 2018			Increase		Decrease		June 30, 2019								
	Free-standing stores	Shopping centers	Total	Free-standing stores	Shopping centers	Free-standing stores	Shopping centers	Free-standing stores	Shopping centers	Total						
Pepper Lunch																
Franchise stores (Japan)	16	86	102	0	6	1	0	15	92	107						
Franchise stores (Overseas)	18	297	315	0	24	0	14	18	307	325						
Direct management	15	30	45	1	7	0	1	16	36	52						
Consignment	3	5	8	0	0	0	0	3	5	8						
Subsidiary	0	0	0	1	0	0	0	1	0	1						
Subtotal	52	418	470	2	37	1	15	53	440	493						
Restaurant																
Franchise stores (Japan)	0	4	4	0	0	0	0	0	4	4						
Direct management	5	6	11	0	0	0	1	5	5	10						
Consignment	1	0	1	0	0	0	0	1	0	1						
Subtotal	6	10	16	0	0	0	1	6	9	15						
Ikinari! Steak																
Franchise stores (Japan)	106	41	147	14	8	1	0	119	49	168						
Franchise stores (Overseas)	0	0	0	0	1	0	0	0	1	1						
Direct management	140	66	206	47	14	0	1	187	79	266						
Consignment	33	0	33	0	1	1	0	32	1	33						
Subsidiary	11	0	11	0	0	7	0	4	0	4						
Subtotal	290	107	397	61	24	9	1	342	130	472						
Total	348	535	883	63	61	10	17	401	579	980						
	Singapore	Indonesia	Malaysia	Philippines	Hong Kong	China	Thailand	Taiwan	Macau	Vietnam	Australia	Cambodia	Canada	Brunei	America	Total
June 30, 2019	40 (+1)	60 (+8)	5 (-1)	58 (+7)	21 (-3)	45 (-9)	41 (+6)	13	6 (+1)	15 (+5)	9 (-2)	4 (-1)	3	2 (+1)	3 (+2)	325 (+15)

*Figures in parenthesis indicate net changes during fiscal 2019.

1. Results for the First Half of Fiscal Year Ended
December 31, 2019

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3. Overview of First half of Fiscal 2019
and the Outlook for Second half of Fiscal 2019

Overview of Plan for Fiscal 2019

Unit: million yen

	Results for fiscal 2018	Plan for fiscal 2019	Y-o-y change (percentage change)
Sales	63,509	76,423	12,914 (120.3%)
Cost of sales	36,275	45,050	8,775 (124.2%)
Gross profit	27,234	31,372	4,138 (115.2%)
(Gross profit ratio)	(42.9%)	(41.1%)	(▲1.8pt)
Selling, general and administrative expenses	23,370	29,310	5,940 (125.4%)
Operating profit	3,863	2,061	▲1,802 (53.4%)
Non-operating income	94	107	13 (113.8%)
Non-operating expenses	81	156	75 (192.6%)
Ordinary profit	3,876	2,012	▲1,864 (51.9%)
Extraordinary income (loss)	▲2,215	421	2,636 (—)
Income taxes	1,783	904	▲879 (50.7%)
Net income (loss)	▲121	1,529	1,650 (—)

Plans for store opening during fiscal 2019

		Free-standing stores	Shopping centers	Total
Pepper Lunch	Direct management	1	9	10
	Franchise	1	4	5
Restaurant	Direct management	0	0	0
	Franchise	0	0	0
Ikinari! Steak	Direct management	23	1	24
	Franchise	3	7	10

		Free-standing stores	Shopping centers	Total
Overseas	Franchise	0	23	23

* (Details of plan for overseas store opening)

Singapore: 1 stores, Hong Kong: 4 stores, Taiwan: 2 stores, China: 8 store, America: 2 store, Thailand: 2 stores, Philippines: 2 stores, Cambodia: 1 store, Myanmar: 1 store

		Free-standing stores	Shopping centers	Total
Pepper Lunch	Overseas subsidiary	1	0	1

* (Details of the overseas subsidiary's store opening) America: 1 stores,

Plans for store closing during fiscal 2019

		Free-standing stores	Shopping centers	Total
Domestic	Direct management	0	1	1
	Franchise	0	1	1
Overseas	Overseas subsidiary	1	0	1
	Franchise	0	11	11

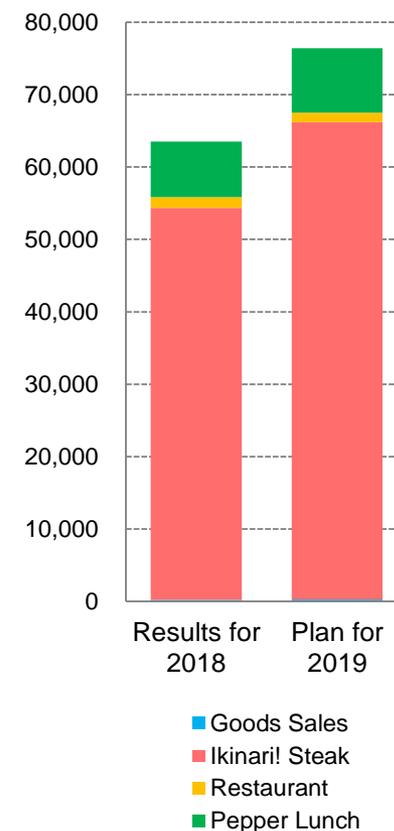
Net Sales Plans for Fiscal 2019

Unit: million yen

		Results for fiscal 2018	Plan for fiscal 2019	Y-o-y change (percentage change)	Y-o-y change in the number of existing stores (percentage change)
Pepper Lunch Business	Franchise business (Japan)	3,931	4,235	304 (107.7%)	▲20 (99.4%)
	Franchise business (overseas)	373	427	54 (114.5%)	—
	Direct management & consignment	3,349	4,227	878 (126.2%)	▲16 (99.5%)
	Subtotal	7,654	8,889	1,235 (116.1%)	▲37 (99.4%)
Restaurant Business	Franchise business	222	187	▲35 (84.2%)	▲33 (84.5%)
	Direct management & consignment	1,291	1,143	▲148 (88.5%)	▲60 (95.0%)
	Subtotal	1,513	1,330	▲183 (87.9%)	▲93 (93.4%)
Ikinari! Steak Business	Franchise business	14,488	19,157	4,669 (132.2%)	▲1,120 (83.1%)
	Direct management & consignment	39,642	46,805	7,163 (118.1%)	▲3,736 (84.9%)
	Subtotal	54,131	65,962	11,831 (121.9%)	▲4,856 (84.5%)
Goods Sales Business		209	239	30 (114.4%)	—
Total		63,509	76,423	12,914 (120.3%)	

Net sales by segment (all businesses)

(million yen)



*The year-on-year change in the number of existing stores and the percentage change are for stores in Japan.

Segment Information for Fiscal 2019 (Plan)

Unit: million yen

		Results for fiscal 2018	Plan for fiscal 2019	Y-o-y change (percentage change)
Pepper Lunch Business	Sales	7,654	8,889	1,235 (116.1%)
	Operating profit	1,348	1,403	55 (104.1%)
Restaurant Business	Sales	1,513	1,330	▲183 (87.9%)
	Operating profit	105	48	▲57 (45.7%)
Ikinari! Steak Business	Sales	54,131	65,962	11,831 (121.9%)
	Operating profit	5,311	4,333	▲978 (81.6%)
Goods Sales Business	Sales	209	239	30 (114.4%)
	Operating profit	23	33	10 (143.5%)
Corporate expenses	Sales	—	—	— —
	Operating profit (loss)	▲2,925	▲3,757	▲832 (—)
Total	Sales	63,509	76,423	12,914 (120.3%)
	Operating profit	3,863	2,061	▲1,802 (53.4%)

Segment profit (operating profit)



* Corporate expenses are mainly SG&A expenses including corporate expenses that are not attributable to reportable segments.

Plans for the Cost of Sales and Corporate Expenses during Fiscal 2019

Cost of sales

Unit: million yen

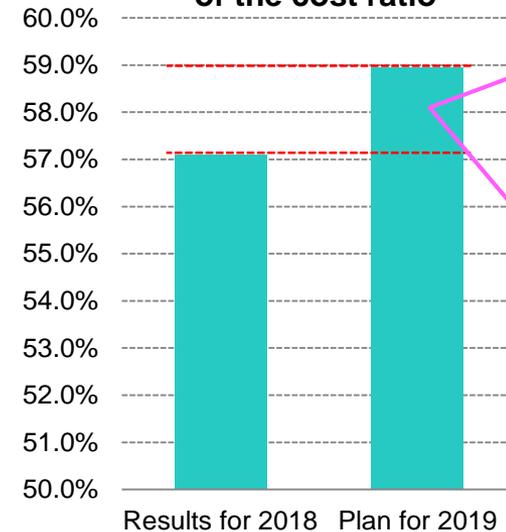
	Results for 2018	Plan for 2019	Change
Cost of sales (Cost ratio)	36,275 (57.1%)	45,050 (58.9%)	8,775 (1.8 pt.)

Corporate expenses

Unit: million yen

	Results for 2018	Plan for 2019	Change
Corporate expenses	2,925	3,757	832

Y-o-y comparison
of the cost ratio



1.8 pt.
increase in
the cost ratio

[Main factors]

Increase due
to changes in
the sales
composition
such as
franchise and
direct
management,
etc.
+1.6 pt.

Increase due
to other
factors
+0.2 pt.

Y-o-y comparison
of corporate expenses



[Main factors]

**Personnel
expenses,
etc.**
+¥479 million

**Sales
Promotion**
+¥120 million

**Business
Taxes**
+¥194million

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First Half of Fiscal 2019 in Retrospect

**Our basic policy for the 35th fiscal year:
Enjoy rapid growth, become an institution in
society by being honest without being arrogant**

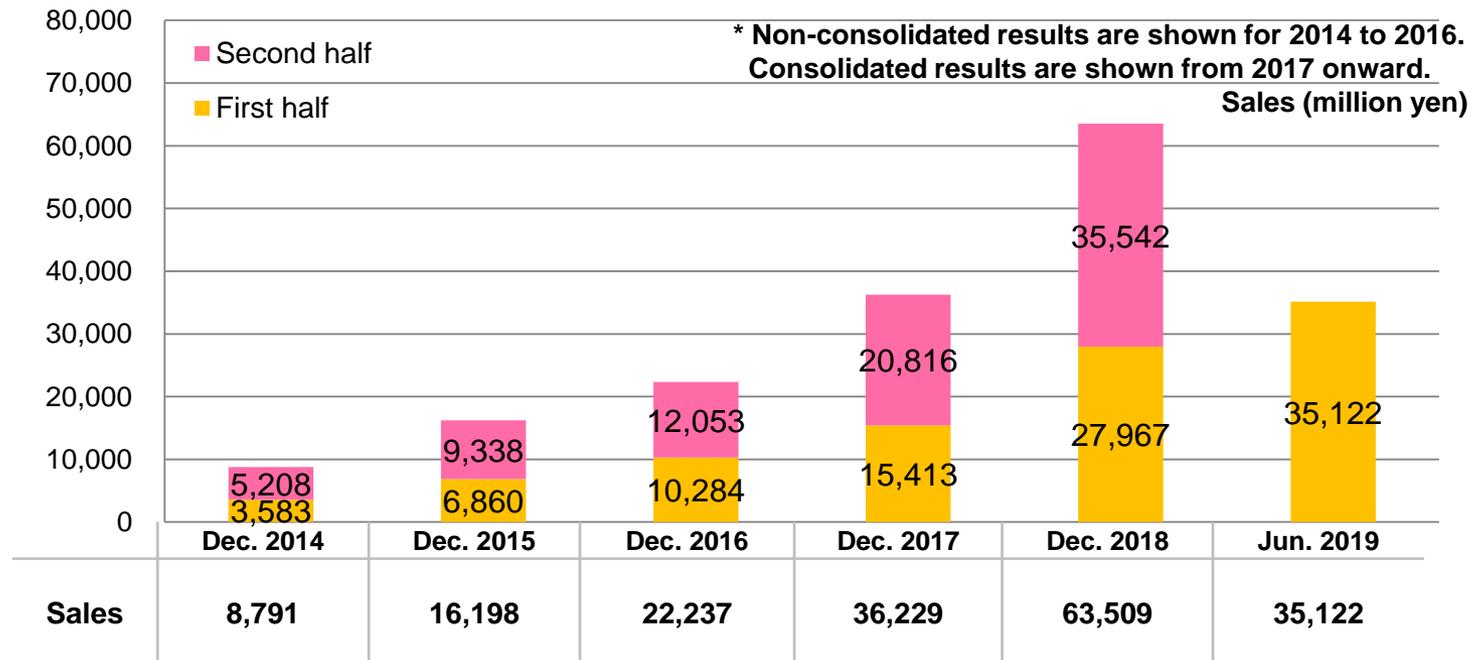
- **Ikinari! Steak ⇒ 81 stores openings in Japan**
- **Pepper Lunch ⇒ 14 stores openings in Japan**

Highlights of First Half of Fiscal 2019 (1)

Cumulative sales for first half of Ikinari! Steak business: 75.4% year on year to existing stores
 Cumulative sales for first half of Pepper Lunch business: 99.6% year on year to existing stores

Sales	35,122 million yen	(+25.6% increase y-o-y)
Operating profit	403 million yen	(-73.0% decrease y-o-y)
Ordinary profit	352 million yen	(-76.2% decrease y-o-y)
Profit attributable to owners of parent	516 million yen	(-27.8% decrease y-o-y)

(Unit: million yen)



Highlights of First Half of Fiscal 2019 (2)

De-listing from the NASDAQ finalized on July 18

Pepper Lunch Business

- **New store location** → Opened “Pepper Lunch Noda Miyazaki store” as the first roadside store on the main island of Japan
- **Expanded delivery service** → Expanded stores with delivery service in expectation of increased future demand
- **Docomo d POINT and Rakuten Point** → Implemented a campaign to commemorate 25th anniversary by offering fivefold points for both Docomo d POINT and Rakuten Point

Restaurant Business

- **Store-specific sales promotion** → Polished up main products in each business, created seasonal menus, etc.
- **Continued to host dining parties at Steak KUNI** → The Company hosts a dining party once a month catered by Chef Ichinose, the founder of the Company

Highlights of First Half of Fiscal 2019 (3)

Ikinari! Steak Business

- **Launched oyster sales** → Launched limited sales of oysters at Ikinari! Steak Ginza 6-Chome store, Shimbashi Hibiyauchi store, and Toranomom store
- **Expanded the Niku Mileage card** → (1) Began issuing the Niku Mileage card in July 2014; total number issued exceeded 12 million
(2) Niku Mileage gift cards sold at convenience stores and large-volume retailers
- **Collaboration with other companies** → Carried out tie-up campaigns, including with movies *Avengers: Endgame* and *Godzilla: King of the Monsters*
- **Expanded delivery service** → Expanded stores with delivery service
- **Sales at existing stores decreased from the previous year** → (1) Revised locations and number of new stores, and changed some business names of existing stores
(2) Installed low tables in stores and made walking surfaces flat to be friendlier to seniors and children

Highlights of First Half of Fiscal 2019 (4)

Goods Sales Business

◆ Record sales in first half

Specific measures

Collaborative projects with other companies



Launched limited-time sale (June 10 to August) of THE Otsumami BEEF with supervision of Ikinari! Steak, in collaboration with NATORI CO., LTD., at supermarkets and convenience stores nationwide

Expansion of online goods



Launched online sales from Rakuten market store, and worked to increase sales of popular goods at Pepper Lunch and Ikinari! Steak

Measures for Second Half of Fiscal 2019 (1)

- ◆ **Our basic policy for the 35th fiscal year: Enjoy rapid growth, become an institution in society by being honest without being arrogant**

- ◆ **Strengthening the organizational structure**
 - Measures for existing stores through thorough implementation of HQSCK checklist
 - Improvements to the Steak Academy (personnel development)
 - President's *dojo* (principle and technique)
 - Thorough pursuit of management philosophy, corporate credo, management policy, store motto, and president's passion

- ◆ **Aim to become the restaurant company that people most want to work for in Japan**
 - Company with closest distance between president and employees in Japan
 - Strive to create unity among employees in order to become the restaurant business that people most want to work for in Japan
 - Implement work-style reforms and improve labor productivity per employee

Measures for Second Half of Fiscal 2019 (2)

Pepper Lunch Business

◆ Aim to open more than 25 stores in Japan

Specific measures

Aim to open 25 stores during the year



Open new stores associated with increased offers from shopping centers
Change business name from Ikinari! Steak

Strengthen existing stores



Introduce high unit priced products such as filets and rib roasts

Expand delivery service



Aim to strengthen delivery and takeout services in anticipation of tax increases and reduced tax rates

Measures for Second Half of Fiscal 2019 (3)

Restaurant Business

◆ Aim to ensure that food is safe and secure

Specific measures

Reshuffling

Aim to build up the organization by encouraging personnel transfers between employees of Ikinari! Steak and Pepper Lunch and conducting optimal job rotation

Store-specific sales promotion

Polish up main products in each restaurant business, create seasonal menus

New businesses

Reopened Steak KUNI Akasaka store as Oyster + Steak Akasaka Store by Ikinari! Steak on August 1

Measures for Second Half of Fiscal 2019 (4)

Ikinari! Steak Business

◆ Slow down pace of store openings and improve existing stores

Specific measures

**Open 34 stores
in second half**



Carefully research and select new store locations to avoid competition within Company

**Measures for
existing stores**



- (1) Make delivery available at more stores with two delivery service companies
- (2) Offer expanded menu at more roadside stores
- (3) Offer set menus at more stores
- (4) Implemented weight fluctuation system for fair products from August 8
- (5) Happy Holiday Lunch (offer lunch sales on weekends)
- (6) Launch breakfast menu sales at Shimbashi Hibiya-guchi store
- (7) Niku Money Charge campaign
(one tenfold point day in August, three fivefold point days in September, and threefold points every day in October)
- (8) Effectively promote sales through year marketing calendar

Measures for Second Half of Fiscal 2019 (5)

Ikinari! Steak Business

Specific measures

**Tie-up project with
TV Asahi**



**Open first store in TV Asahi Roppongi Hills
Summer Festival SUMMER STATION and launch
limited menu**

**Vitalize
President's *dojo***



**Strive to improve cooking technique and level of
hospitality at stores through Training Center store**

Measures for Second Half of Fiscal 2019 (6)

Goods Sales Business

Specific measures

**Collaboration projects
with other companies**



**Aim to increase sales through royalty revenues
from collaborative items, etc.**

Bolster online store



**Aim to increase sales by expanding sales
channels**

Measures for Second Half of Fiscal 2019 (7)

Goods Sales Business

Bolster online store

Develop goods in collaboration with other companies



Strengthen wholesale sales

Introduce Ikinari! Steak goods

Development of Overseas Stores (1)

Overseas Business

Aim to proactively expand the business, targeting of the opening of 33 Pepper Lunch stores overseas

◆ Developments in the number of overseas stores



Number of stores

Dec. 2014

Dec. 2015

Dec. 2016

Dec. 2017

Dec. 2018

Jun. 2019

190

231

270

307

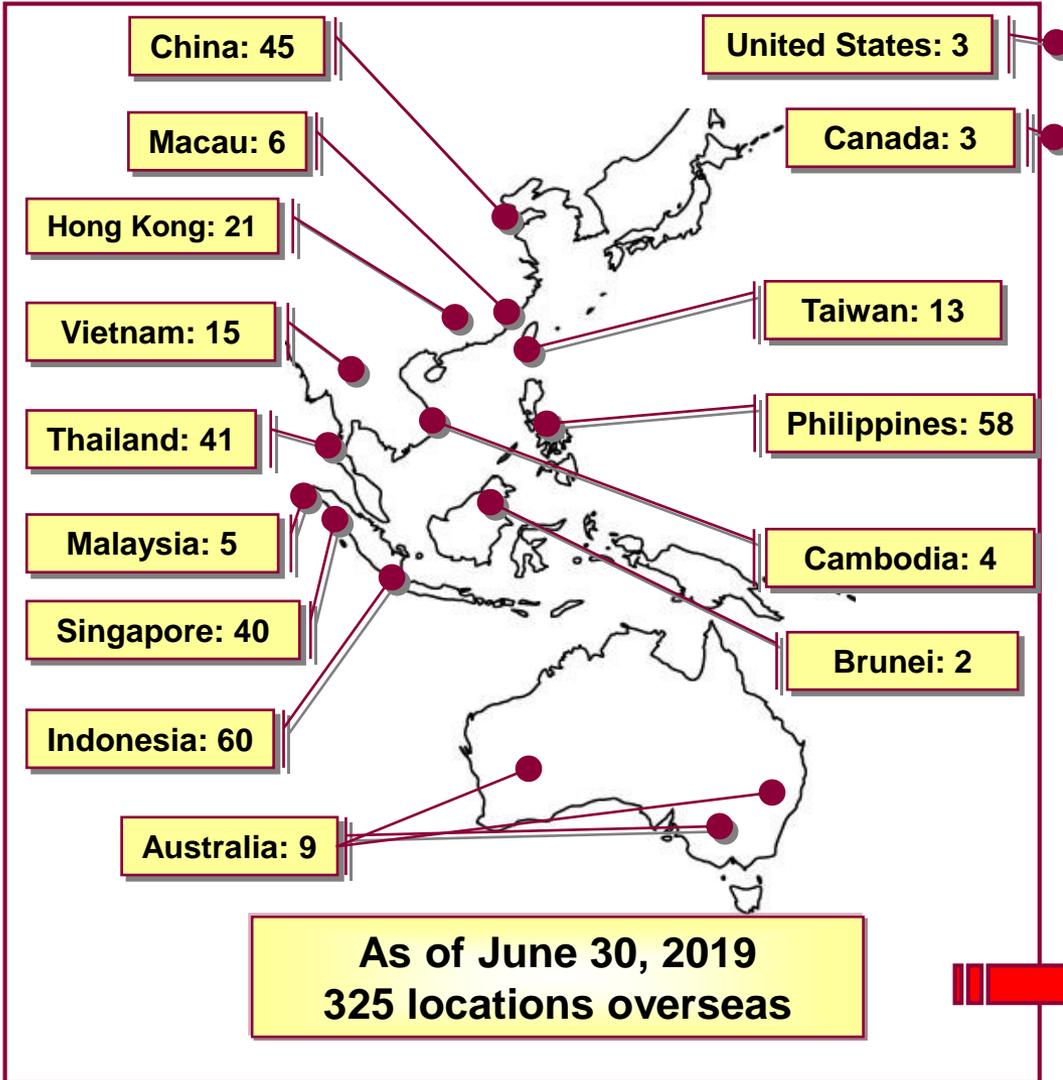
309

325

Development of Overseas Stores (2)

Overseas locations

Expanded into 15 areas overseas



Plan for fiscal 2019
337 stores overseas

Development of Overseas Stores (3)

First Ikinari! Steak store opening in Asia!

**Opened Ikinari! Steak City Link Nangang store on June 11
Location: A major terminal train station in Taiwan**



**Opening Ikinari! Steak in Taiwan,
the cornerstone for opening
stores in Southeast Asia**



Enjoy rapid growth, become an institution in society by being honest without being arrogant



Thank you for your attention