



SATO
RESTAURANT
SYSTEMS GROUP

Materials for Financial Results Briefing Second Quarter, FY03/2016

SATO RESTAURANT SYSTEMS CO., LTD.
Listed on TSE 1st section: 8163

Table of Contents

Financial Results Overview: 2Q FY3/2016

Highlights	4
Newly opening / Renovation	5
Issues/measures in newly opening	6
Profit & Loss sheet (PL)	7
Balance Sheet (BS)	8
Cash Flow Statement	9
FY03/2016: Performance transition of existing Washoku Sato restaurants	1 0
Current situation: Progress in various measures	1 1
Performance forecasts	1 2
Towards realization of "Sato Pyramid"	1 4
< SRS Group restaurants composition >	1 5
Current composition	1 6
Evolution phase 1: Near-future shape	1 7
Mid-term management plan	1 7
Mid-term management plan: Numerical targets	1 8

Basic policy for corporate governance

Statement	2 0
Points of the basic policy	2 1
Establishing "Appointment and Remuneration Committee"	2 2
Setting numerical management objectives	2 3

Human Resources Strategy

No. 1 company in working environment	2 5
Point: Improved working environment	2 6
Short-time regular employee system	2 7
Minute-by-minute attendance management	2 8
Most recent topics	2 9
Branding document	3 0




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Financial Results Overview: 2Q FY03/2016

Highlights

2QFY03/2016

- 1 **Higher revenues**  **Net sales: 19,704 million yen** **up 5.7%** increase by 1,057 million yen
Gross profit: 12,959 million yen **up 5.5%** increase by 669 million yen (YOY)
 Increase in number of restaurants in operation and solid growth of sales of existing restaurants.

- 2 **Lower profit**  **Operating income: 504 million yen** **down 9.5%** decrease by 52 million yen
Ordinary income : 428 million yen **down 26.7%** decrease by 156 million yen (YOY)

This is due to increase in labor cost and expenses associated with capital expansion by public offering; but was better than the performance forecasts by virtue of reduction in utilities expenses and proper control over sales administrative expenses.

- 3 **Newly opened** **12 restaurants** **[Washoku Sato] DM: 1 [Santen] DM: 5** **DM: directly-managed**
[Katsuya] DM: 3 FC: 3 **FC: franchise chain**
 NOTE: In addition, **contracts have been executed for opening 12 new restaurants.** (as of Sep. 30, 2015)

Group total (domestic & overseas): 342 restaurants

DM restaurants: total 301

• Washoku Sato	1 9 9
• Sushi-Han	1 4
• Santen	1 7
• Nigiri Chojiro	5 2
• Miyakobito	1
• Nigiri Chujiro	3
• Katsuya	1 5

Group FC restaurants: total 34

• Miyakobito	2 0
• Katsuya	1 4

Overseas: total 7

• Taiwan	3
• Indonesia	2
• Thailand	2

Newly opening / Renovation

Planned

46

restaurants

2Q actual Contracted Total Achieved

Newly opened

1 2

1 2

2 4

52.2%

Planned: 46

Contracted
No. of contracts executed to open new restaurants as of 2Q end

Newly opened

Planned

Achieved

Washoku Sato

3



66.7%

Santen

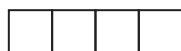
1 6



68.8%

Santen (FC)

4



0%

Nigiri Chojiro

4



50.0%

Nigiri Chujiro

3



33.3%

Katsuya

6



83.3%

Katsuya (FC)

1 0



30.0%

C: Contracted
N: Newly opened

Planned

4 6

52.2%

Renovation

Planned

Achieved

Washoku Sato

6



R:Renovation

100%

Nigiri Chojiro

4



100%

Planned

1 0

100%



Efforts to accelerate opening new restaurants

Issue Shortage of staff engaged in group restaurants development division

Measure Since the previous term more staff have been assigned through, for example, relocation to development division, and by the end of 2Q during this term 4 more staff have been scouted, totaling 14 staff currently available.

Issue Insufficient information about Kanto area

Measure Tokyo office was established on October 1 in order to obtain much more information, meanwhile anticipating enhanced development capabilities by means of having a local base in Kanto area.

Issue Area expansion to open Santen restaurants and integrating various functions of development HQ

Measure From the current FY, integration of restaurant development functions with SATO·ARCLAND FOODSERVICE CO., LTD. and area expansion to open Santen restaurants are underway, aiming at having more candidate locations available and obtaining more abundant and accurate information about real estates.

Profit & Loss sheet (PL)

Higher revenues



Increase in gross profit by 669 million yen
due to increase in sales

"△" means decrease

(million yen)	2Q FY03/2015		2Q FY03/2016			
	Amount	Ratio to sales	Amount	Ratio to sales	+/- (amount)	+/- (%)
Net sales	18,647	100.0%	19,704	100.0%	1,057	5.7%
Cost of sales	6,358	34.1%	6,745	34.2%	387	6.1%
Gross profit	12,289	65.9%	12,959	65.8%	669	5.5%
Selling, general and administrative expenses	11,732	62.9%	12,455	63.2%	※1 722	6.2%
Operating income	556	3.0%	504	2.6%	△52	△9.5%
Ordinary income	584	3.1%	428	2.2%	※2 △156	△26.7%
Profit attributable to owners of parent	305	1.6%	182	0.9%	△123	△40.3%

※1 Expenses on opening new restaurants and increase in labor cost Employees (unconsolidated): 619 (previous) → 910 (+291)

※2 Non-operating income [foreign exchange gains: 62 (previous) → 0 (current)]
Non-operating expenses [share issuance cost: +28]

Balance Sheet (BS)

Increase in shareholders' equity by 4,383 million yen due to share issuance

(million yen)

"△" means decrease

	End of FY03/2015 (Mar. 31, 2015)	End of 2Q FY03/2016 (Sep. 30, 2015)	+/-
Total current assets	7,526	10,852	3,325
Total non-current assets	16,742	16,959	216
Total assets	24,272	27,813	3,541
Total current liabilities	7,284	6,752	△532
Total non-current liabilities	6,530	6,239	△291
Total liabilities	13,815	12,991	△823
Total shareholders' equity	10,707	15,091	4,383
Total net assets	10,456	14,821	4,365
Total liabilities and net assets	24,272	27,813	3,541

Cash Flow Statement

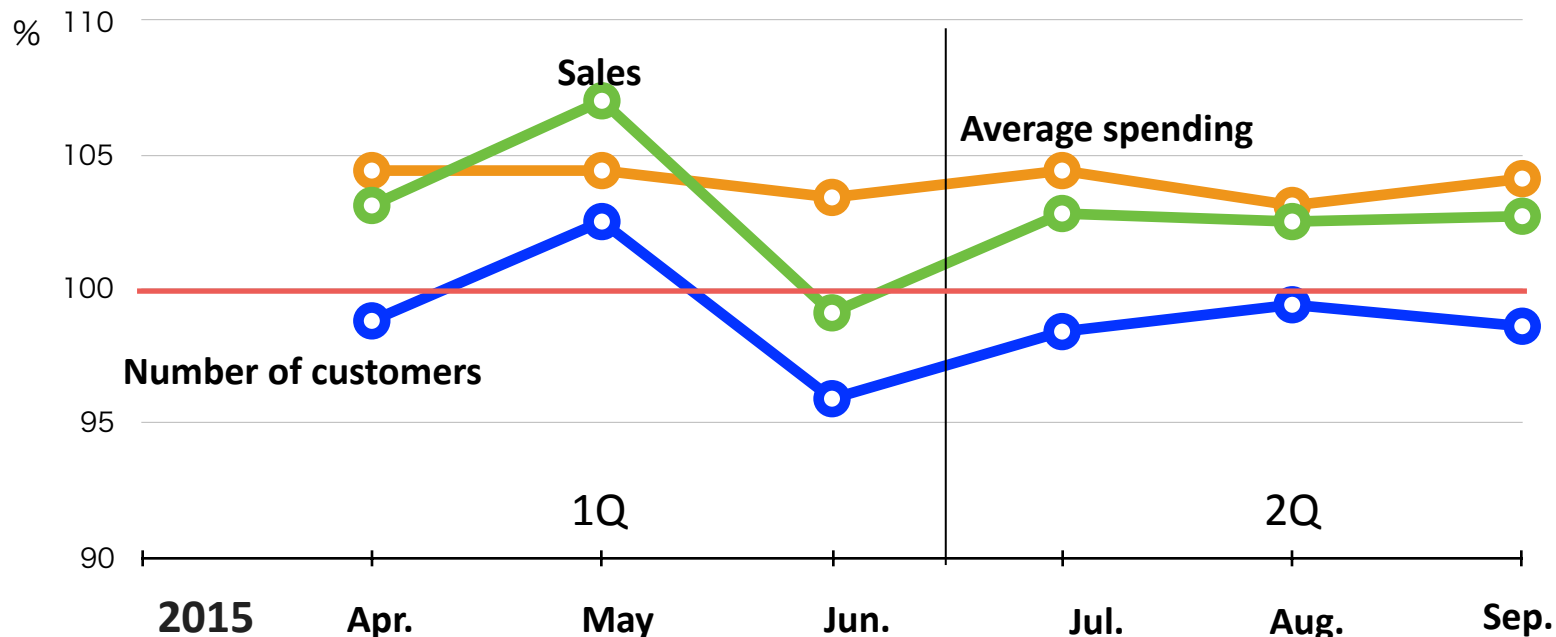
(million yen)

"△" means decrease

	2Q FY03/2015	2Q FY03/2016	
	2014.4.1 ~2014.9.30	2015.4.1 ~2015.9.30	
CF from operating activities	871	49	decrease in accrued consumption taxes by 388 million yen
CF from investments	△534	△1,684	Expense to time deposits of 1,000 million yen
CF from financial activities	△867	3,713	Proceeds from issuance of common stock of 4,313 million yen
Cash and cash equivalents at the end of period	5,013	7,685	

Performance transition of existing Washoku Sato restaurants

Stable performance during the first half



1Q

Due to public holidays, positive effect of about 4% was observed in May whereas negative effect of about 3.5% in June. In such context, sales at existing restaurants showed solid performance with no significant change in basic trends.

2Q

Although some weather impacts were observed such as Typhoons 11 (July), 15 (August) and 18 (September), negative effects were insignificant as compared to the broken weather as seen in the previous year. Public holidays in September gave positive effect of about 3.5%.

Current situation: Progress in various measures

Measures	▶▶▶	Current progress (as of Sep. 30, 2015)
1 Improved purchasing power and further streamlining by using foodstuff shared with FOODSNET Corporation	Continued	Continued using shared foodstuff. About 20 % of foodstuff used at Nigiri Chojiro has become procured as shared ones.
2 Full-blown operation of staff attendance management system using vein authentication terminals	Done	The system has been adopted at every restaurant since Apr. 1, with salaries calculated on minute-by-minute basis.
3 Outsourcing payroll-related operations, including those in response to the forthcoming *My Number system <small>*Japanese Social Security System</small>	Underway	Payroll-related operations have been outsourced since last Oct. As for the My Number system, collection/storage/administration system is being constructed according to the governmental guidelines.
4 Updating the core system: to start testing operation aiming for adoption in FY03/2017	Continued	System development completed and testing operation will start in Nov.
5 FC development of Santen restaurants	Underway	Backstage tour inviting FC candidate companies (18 companies) was organized and specific negotiations started.
6 Carrying on experiment and store development of "Home delivery Sushi - Nigiri Chujiro"	Underway	Structure of 1 unit comprising 3 stores was established and experimental operations started on 1 unit basis. New unit started to be deployed since last Oct., and 2 units comprising 6 stores should be established.
7 Enhancing promotion activities making use of popular talents, official mascot characters and SNS	Underway	New commercials featuring popular talents have been broadcasted since Oct. "Wassho-kun" character items started to be offered since Oct. 1.
8 Opening new restaurants more widely overseas	Underway	Second store in Indonesia, "Washoku Sato MOI store" opened in May. Second store in Thailand, "Washoku AMATA Home Pro store" opened in Sep.

Performance forecasts for FY03/2016

FY03/2016 Increase in income and in operating income are anticipated

"△" means decrease

(million yen)	FY03/2015 (actual)			Y03/2016 (forecast)		
	Amount	+/- (amount)	+/- (%)	Amount	+/- (amount)	+/- (%)
Net sales	37,969	5,206	15.9%	40,900	2,930	7.7%
Operating income	1,183	294	33.1%	1,260	76	6.5%
Ordinary income	1,330	483	57.2%	1,220	△110	△8.3%
Net profit attributable to owners of parent	840	326	63.5%	490	△350	△41.7%



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Mid-term management plan

Towards realization of "Sato Pyramid"



SRS group restaurants composition (current)

diamond shape

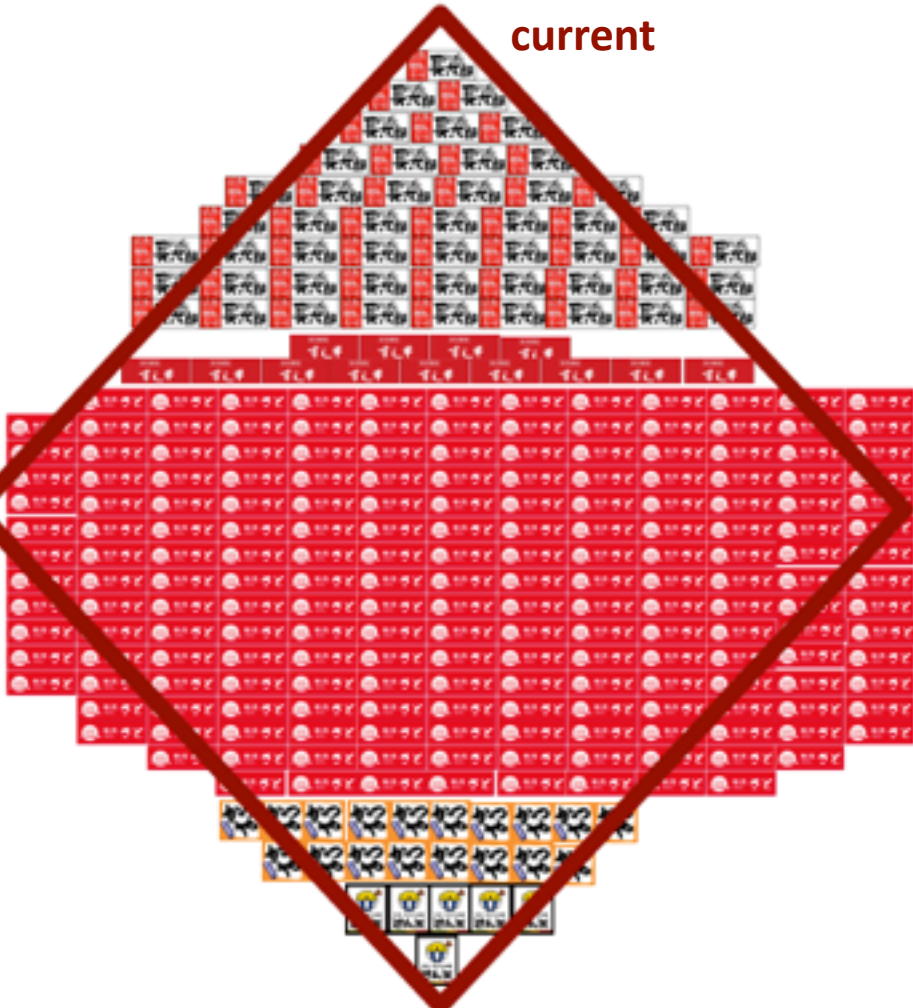
current

diamond shape

high

price

low

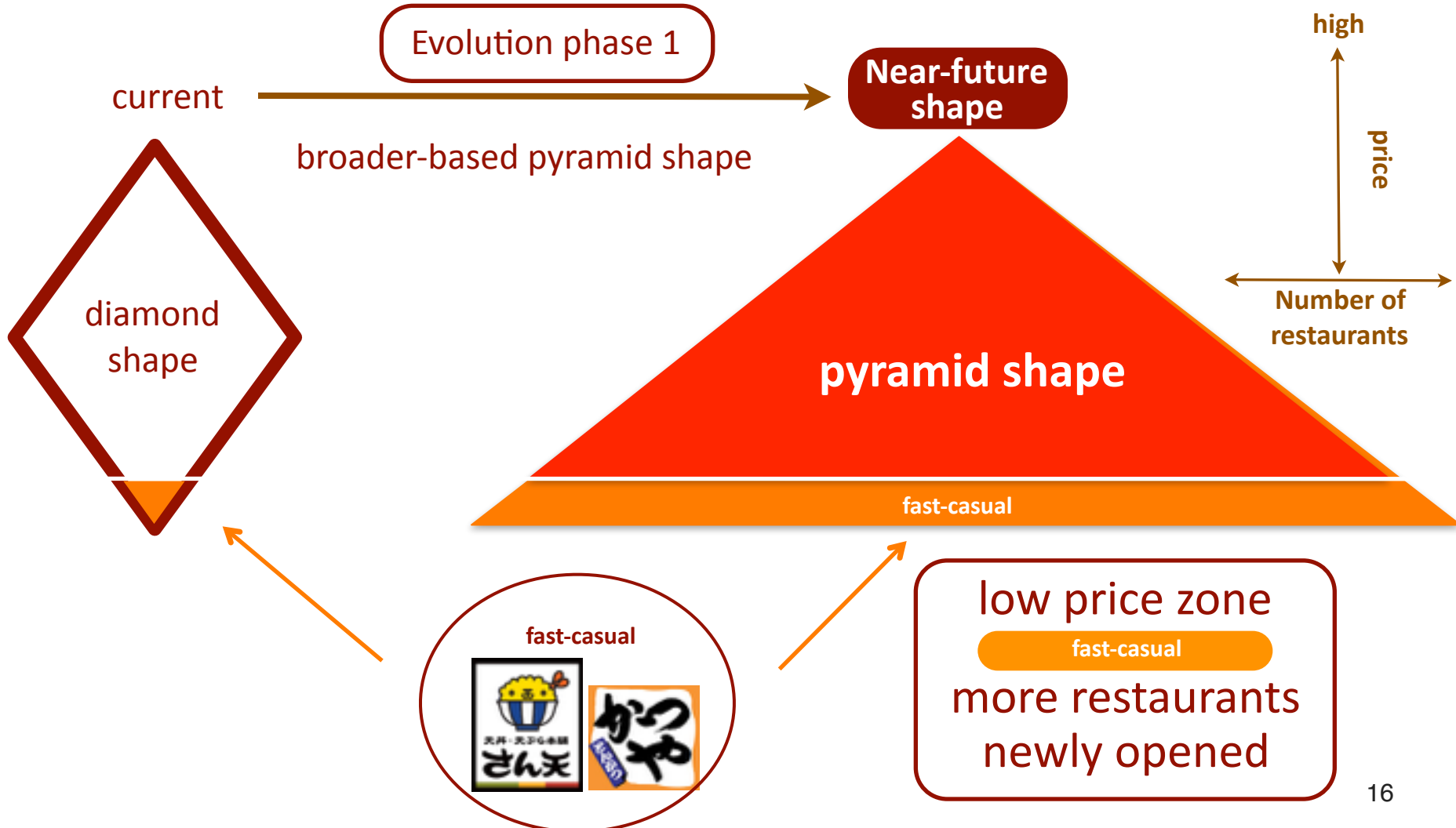


Number of restaurants

SRS Group restaurants composition

Evolution phase 1: Near-future shape

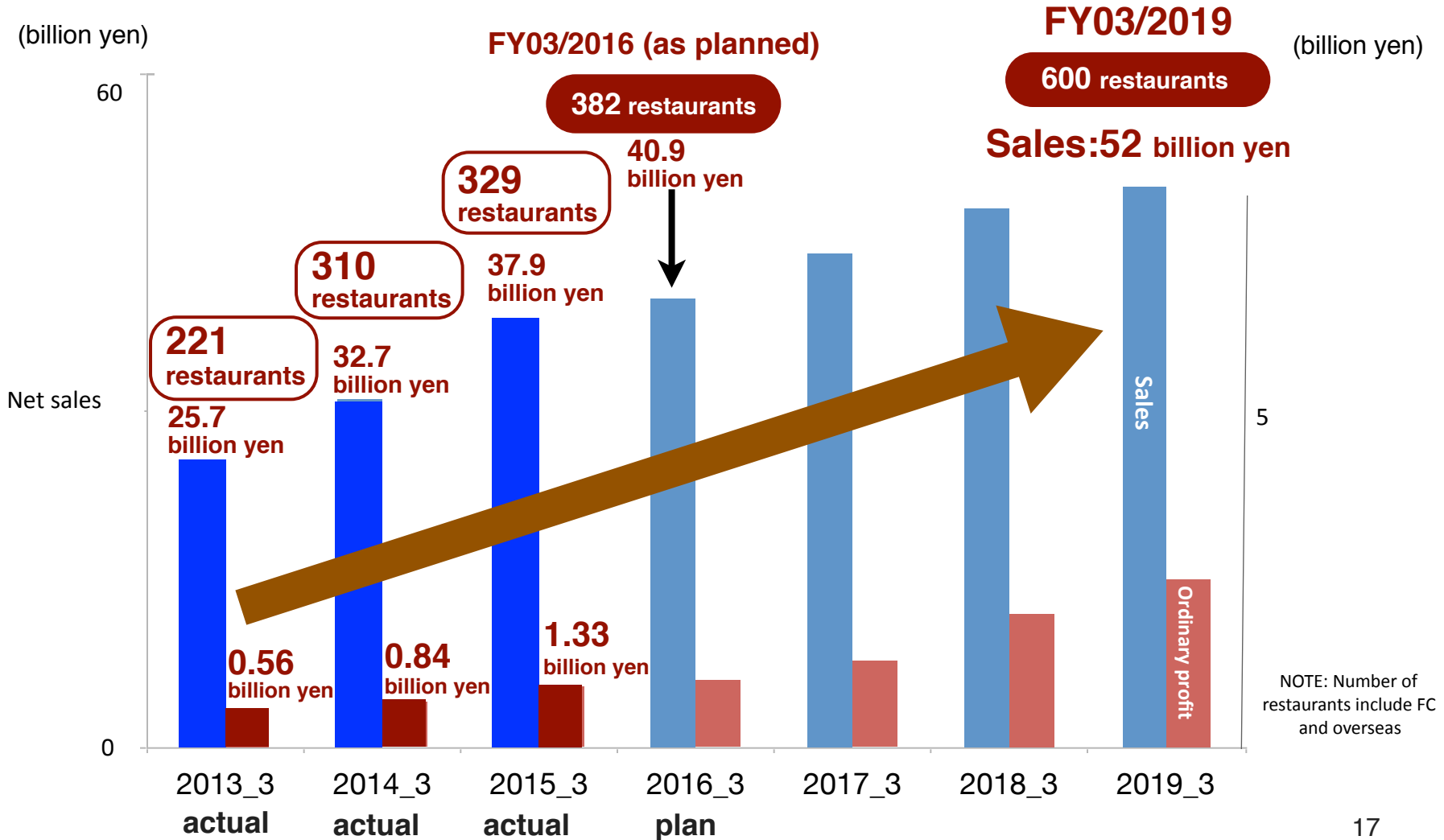
Diamond shape to pyramid shape



Mid-term management plan

FY03/2019

Sales: 52 billion yen Number of restaurants: 600



Mid-term management plan: Numerical targets

FY03/2019
51st Period

Net Sales: 52 billion yen

Number of restaurants: 600

Newly disclosed items

Ordinary income rate	5%
ROE	8%
Equity ratio	over 50%



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Basic policy for corporate governance

Basic policy for corporate governance

Statement

Point

In the Company's viewpoint, this should be an excellent opportunity for the directors to fulfill their accountabilities and to make the Board evolve into an effective one.

SATO RESTAURANT SYSTEMS CO., LTD. shall, in accordance with the Corporate Governance Code which came into force on June 1, 2015 and the revised Securities Listing Regulations, **proactively comply** with the implementation of the principles of the Code (draft) and will create and surely implement its basic policy about corporate governance.

Basic policy for corporate governance

Points of the basic policy

Establishing "Appointment and Remuneration Committee"

- ① Policy concerning selection criteria for directors/ executives and determination of compensation

Setting numerical management objectives

- ② Formulation and disclosure of the mid-term management plan which officers of the Company commit to the shareholders

Other points

- ③ Analysis/evaluation of functional improvement and effectiveness of the Board
- ④ Policy concerning cross-shareholdings
- ⑤ Planning for future successors to the CEO or others

Basic policy for corporate governance

Policy concerning selection criteria for directors/ executives and determination of compensation

Establishing "Appointment and Remuneration Committee"

In order to realize higher level of corporate governance, the Company will establish, as an advisory body reporting to the Board, voluntary "**Appointment and Remuneration Committee**" consisting of external board members being independent officers having no potential to create any conflict of interest against general shareholders, and will put its efforts to enhance objectivity and transparency of proposals from candidates for directors and executives as well as internal compensation system and suggested compensation.

(external directors)

Harumasa Sato Professor, Hirao School of Management,
Konan University

Masao Watanabe Former Representative Chief Executive Officer
and President, KFC Holdings Japan, Ltd.

Basic policy for corporate governance

Formulation and disclosure of the mid-term management plan which officers of the Company commit to the shareholders

Setting numerical management objectives

The Board and the top management will recognize that the mid-term management plan is one of the commitments directed to the shareholders, formulate plans for each fiscal year aiming at comprehension and analysis of progress in those plans and accomplishing them, and put their efforts to make easily understandable explanation about the plans by means of, for example, financial results briefing.

As its **goal for FY03/2019**, the final year of the "**mid-term management plan**", the Company aims at achieving **net sales of 52 billion yen** and **600 restaurants in operation**. Overview of business strategies and mid-term management plan will be disclosed in the Company's IR information provided on its website.



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Emphasizing Sato's attractiveness

Human Resources Strategy

Emphasizing Sato's attractiveness

Human Resources Strategy

Sato aims at becoming

**No.1 company
in working environment**

in the food-service industry

Emphasizing Sato's attractiveness

Human Resources Strategy

Point



Improved working environment

Short-time regular employee system

Minute-by-minute attendance management

long-term

short-term

cost increase

more profitability

Emphasizing Sato's attractiveness

Human Resources Strategy

improved working environment

short-time regular employee system



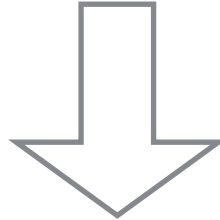
wage (cost) increase

human resources flowing out
recruitment cost || education cost
cost increase



Stop human resources flowing out
effect on cost reduction

community-based management



higher motivation

A company that is comfortable and stable for employees

BIG

more profitability

leveraging FEMALE talents

outstanding performance by FEMALE staff

80% of employees having shifted to short-time regular employees are[FEMALE].

It is planned that by the end of this term, 8 [FEMALE] short-time regular employees would be appointed as store managers.

Emphasizing Sato's attractiveness

Human Resources Strategy improved working environment

if no arrangement

wage (cost)
increase ←

**minute-by-minute
attendance management**

< issues for store managers >

**efficient
restaurant
operation**

cultivation of store managers

cultivating more
thoughtful and
talented store
managers

**store managers and restaurants
with more excellence
in revenue management**

increase

more profitability

Topics

Newly opened restaurants <domestic>

Newly opened restaurants <overseas>

- Jul. Katsuya: Osaka-Kashiwara branch (Osaka pref.)
- Jul. Santen: Sotokan-Zenkonji branch (Osaka pref.)
- Jul. Santen: Kadoma-Ohashi branch (Osaka pref.)
- Jul. Katsuya: Suminoe-Kitakagaya branch (Osaka pref.)
- Jul. Santen: Kongou branch (Osaka pref.)
- Aug. Katsuya: Akashi-Kokubo branch (Hyogo pref.)
- Aug. Santen: Minoo-Nishijuku branch (Osaka pref.)
- Oct. Santen: Nara-Sanjou branch (Nara pref.)
- Oct. Santen: Sakai-Otori branch (Osaka pref.)



- May Second branch in Indonesia
"Washoku Sato MOI branch"



- Sep. Second branch in Thailand
"Washoku Sato AMATA Home Pro branch"

- Oct. Third branch in Thailand
"Washoku Sato Sriracha AEON branch"



Topics

- Sep. Branding document titled "**Winning strategies for restaurant business learning from 'Sato', the No.1 Japanese food family restaurant company with the highest number of restaurants**" was published.
- Sep. Chojiro: Shijou-Kiyamachi branch was **introduced for the second consecutive year in the TOP 20 of "Japanese restaurants getting popularity among foreigners"** presented by TripAdvisor website.
- Oct. **Washoku Sato** started to offer **new menu**(including **Oyako-don** (rice bowl topped with chicken and egg) made available by installation of programmable IH cooker).
- Oct. Tokyo office was established
- Oct. New commercials started to be broadcasted.

Branding document

"Winning strategies for restaurant business
learning from 'Sato', the No.1 Japanese food family restaurant company
with the highest number of restaurants"

和食ファミリールレストラン
「さと」に学ぶ

店舗数
日本一の

外食
ビジネス
勝ち残り
戦略

「和」の
王道経営で
世界を目指す!

和食ファミリール
RESTAURANT



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