

Summary of Business Results for the Second Quarter Ended August 31, 2018 [Japan GAAP] (Consolidated)

October 12, 2018

Company **create restaurants holdings inc.** Listed on the TSE
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 Expected date of filing of quarterly report: October 12, 2018 Expected starting date of dividend payment: November 12, 2018
 Preparation of quarterly supplementary financial document: Yes
 Quarterly results briefing: Yes (for institutional investors and analysts)

(Rounded down to million yen)

1. Consolidated business results for the six months ended August 2018 (March 1, 2018 through August 31, 2018)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Aug. 2018	60,594	2.1	2,868	-22.4	3,261	-17.3	1,356	-16.2
Six months ended Aug. 2017	59,322	4.1	3,698	5.6	3,944	5.3	1,617	-26.0

(Note) Comprehensive income

Six months ended August 2018: 1,669 million yen (-22.7%)

Six months ended August 2017: 2,158 million yen (-8.3%)

	Net income per share		Diluted net income per share	
	Yen	Yen	Yen	Yen
Six months ended Aug. 2018	14.37		14.35	
Six months ended Aug. 2017	17.14		17.10	

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of Aug. 2018	73,701	27,519	27.4
As of Feb. 2018	72,222	26,548	28.0

(Reference) Shareholders' equity:

As of August 2018: 20,200 million yen

As of February 2018: 20,197 million yen

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended Feb. 2018	—	5.00	—	5.00	10.00
Year ending Feb. 2019	—	6.00	—	—	—
Year ending Feb. 2019 (forecast)	—	—	—	6.00	12.00

(Note) Revisions to dividend forecast for the current quarter: None

3. Forecast of consolidated business results for the fiscal year ending February 2019

(March 1, 2018 through February 28, 2019) (% change from the previous corresponding period)

	Revenue		Operating profit		Profit before taxes		Profit for the year		Profit attributable to owners of parent		Basic profit per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	Yen
Year ending Feb. 2019	125,000	-	7,600	-	7,400	-	5,100	-	4,000	-	42.38	

(Note1) Revisions to business forecast for the current quarter: None

(Note2) The Company has adopted IFRS (International Financial Reporting Standards) in place of Japanese GAAP from the fiscal year ending February 2019. Therefore, figures for consolidated business forecasts for the fiscal year ending February 2019 are prepared in conformity with IFRS.

□ **Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements:
Yes

(3) Changes in accounting policies, accounting estimates and restatement

① Changes in accounting policies associated with revision of accounting standards: : None

② Changes in accounting policies other than ① : None

③ Changes in accounting estimates : None

④ Restatement : None

(4) Shares outstanding (common stock)

① Number of shares outstanding at the end of period (treasury stock included)

As of August 2018 94,722,642 shares

As of February 2018 94,722,642 shares

② Treasury stock at the end of period

As of August 2018 333,275 shares

As of February 2018 333,275 shares

③ Average number of stock during period (quarterly cumulative period)

Six months ended August 2018 94,389,367 shares

Six months ended August 2017 94,389,367 shares

***Quarterly financial summary is not subject to the quarterly review procedures by certified public accountants or auditing firms**

***Explanation regarding appropriate use of business forecasts and other special instructions**

Forecasts regarding future performance in this material are based on information currently available to the company and certain assumptions that the company deems to be reasonable at the time this report was prepared. Actual results may differ significantly from the forecasts due to various factors.

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1. Qualitative Information on Results for the Current Quarter

(1) Qualitative information on the consolidated financial results

In the second quarter of the current fiscal year, the Japanese economy continued to recover moderately against the backdrop of the effects of various policies and improvements in corporate earnings, employment environment and income environment. However, the outlook remained uncertain, due to concerns over the effects of unstable political trends overseas and continued geopolitical risks.

In the restaurant industry, although consumer sentiment is improving moderately, the business environment remains severe due to the effects of natural disasters such as the Northern Osaka Prefecture Earthquake and unseasonable weather, mainly in western Japan, in addition to the persistently high price of raw materials due to the rise in logistics costs and the rise in labor costs due to the prolonged labor shortage.

In this environment, our Group was entrusted with the collective management of "HIBIYA FOOD HALL" in March, which is located on the first basement floor of Tokyo Midtown Hibiya, and opened eight outlets with our three Group companies. In addition, the Group systematically opened specialty restaurants and new brands, such as Japanese cafe formats and Gyoza Izakaya (Japanese dumplings bar) formats, in commercial facilities, downtown districts, station fronts, and suburban roadside locations. Moreover, since the first quarter of the current fiscal year, 17 outlets of Create Bayside Inc. have been newly included in the scope of consolidation. Furthermore, the Group has actively changed its brands and renovated its outlets, and opened 36 new outlets and closed 10 outlets. As a result, the number of consolidated outlets including subcontracted outlets at the end of the second quarter was 907.

As a result, in the second quarter of the current fiscal year, net sales were 60,594 million yen (up 2.1% year on year), operating income was 2,868 million yen (down 22.4% year on year), ordinary income was 3,261 million yen (down 17.3% year on year), and net income attributable to owners of parent was 1,356 million yen (down 16.2% year on year).

(2) Qualitative information on consolidated financial position

① Assets, liabilities and net assets

(Assets)

Current assets at the end of the second quarter of the current fiscal year was 19,669 million yen, increased by 1,641 million yen from the end of the previous fiscal year. This was mainly due to an increase of 1,051 million yen in accounts receivable-trade and 262 million yen in cash and deposits.

The balance of fixed assets at the end of the second quarter of the current fiscal year was 54,031 million yen, decreased by 162 million yen from the end of the previous fiscal year. This was mainly due to an increase of 144 million yen in property, plant and equipment, despite a decrease of 395 million yen in goodwill.

(Liabilities)

Liabilities at the end of the second quarter of the current fiscal year was 46,182 million yen, increased by 507 million yen from the end of the previous fiscal year. This was mainly due to increases of 2,926 million yen in long-term loans payable and 562 million yen in accrued expenses, despite a decrease of 3,000 million yen in short-term loans payable.

(Net assets)

Net assets at the end of the second quarter of the current fiscal year were 27,519 million yen, increased by 971 million yen from the end of the previous fiscal year. This was mainly due to an increase of 884 million yen in retained earnings.

② Cash Flow

Cash and cash equivalents (hereinafter referred to as "cash") at the end of the second quarter of the current fiscal year increased by 262 million yen from the end of the previous fiscal year to 12,947 million yen.

Cash flows for the current consolidated cumulative second quarter and their factors are as follows.

Cash flows from operating activities

Net cash provided by operating activities for the second quarter of the current fiscal year was 3,938 million yen (down by 40.2% year on year). This was mainly due to income before income taxes of 2,942 million yen and depreciation of 2,119 million yen.

Cash flows from investing activities

Net cash used in investing activities for the second quarter of the current fiscal year was 2,631 million yen (down by 19.9% year on year).

This was mainly due to purchases of property, plant and equipment of 1,991 million yen.

Cash flows from financing activities

Net cash used in financing activities for the second quarter of the current fiscal year was 994 million yen (down by 6.9% year on year). This was mainly due to payments for repayment and redemption of interest-bearing debt of 5,951 million yen, cash dividends paid of 473 million yen, and payments for purchase of treasury stock of consolidated subsidiaries of 104 million yen, despite proceeds from long-term loans payable of 5,700 million yen.

(3) Qualitative information on the consolidated business forecasts

In the current fiscal year, our Group will continue to develop new core concept brands, change business formats, and upgrade existing businesses in order to further enhance its ability to respond to changes in consumer needs, which is the strength of the Group Federation Management, and to strengthen its business foundation. Furthermore, the Group will continue to actively consider M&A, aiming to further increase corporate value.

Our Group will voluntarily apply the International Financial Reporting Standards (IFRS) accounting from the full-year business results for the fiscal year ending February 2019. The objectives are to improve the foundation for promoting M&As in Japan and overseas, to improve the international comparability of capital markets, and to optimize management through the unification of accounting standards within the Group.

The results of operations for the second quarter have been generally favorable, and no revisions have been made to the full-year forecasts for the fiscal year ending February 2019 announced on April 25, 2018.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheets

(Unit: Million yen)

	Previous Fiscal Year (February 28, 2018)	Current Second Quarter (August 31, 2018)
Assets		
Current assets		
Cash and deposits	12,685	12,947
Accounts receivable	2,614	3,665
Raw materials and supplies	550	556
Other	2,178	2,500
Total current assets	18,028	19,669
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	20,337	20,563
Other, net	6,819	6,739
Total property, plant and equipment	27,157	27,302
Intangible assets		
Goodwill	13,166	12,771
Other	1,710	1,670
Total intangible assets	14,877	14,441
Investments and other assets		
Guarantee deposits	9,451	9,672
Other	2,708	2,614
Total investments and other assets	12,159	12,287
Total noncurrent assets	54,194	54,031
Total assets	72,222	73,701

(Unit: Million yen)

	Previous Fiscal Year (February 28, 2018)	Current Second Quarter (August 31, 2018)
Liabilities		
Current liabilities		
Accounts payable-trade	2,641	3,488
Short-term borrowings	3,000	-
Current portion of bonds payable	510	510
Current portion of long-term loans payable	5,118	5,284
Accounts payable	2,722	3,165
Accrued expenses	2,001	2,563
Income taxes payable	1,865	44
Provision for bonuses	620	716
Provision for discount points	266	248
Provision for shareholder benefit program	364	389
Provision for loss on store closing	22	16
Asset retirement obligations	201	241
Other	1,355	1,787
Total current liabilities	20,691	18,457
Long-term liabilities		
Corporate bonds	2,050	1,795
Long-term debt	17,736	20,663
Obligations for retirement pay	635	702
Asset retirement obligations	2,658	2,775
Other	1,902	1,787
Total long-term liabilities	24,983	27,724
Total liabilities	45,674	46,182
Net assets		
Shareholders' equity		
Capital stock	1,012	1,012
Capital surplus	3,792	2,962
Retained earnings	14,947	15,831
Treasury stock	-20	-20
Total shareholders' equity	19,732	19,785
Other accumulated comprehensive income		
Deferred gains or losses on hedges	0	-0
Foreign currency translation adjustments	486	436
Remeasurements of defined benefit plans	-21	-21
Total other accumulated comprehensive income	465	414
Non-controlling shareholders' equity	6,350	7,319
Total net assets	26,548	27,519
Total liabilities and net assets	72,222	73,701

(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income

Quarterly Consolidated Statements of Income
Consolidated Cumulative Second Quarter

(Unit: Million yen)

	Previous Second Quarter (from March 1, 2017 to August 31, 2017)	Current Second Quarter (from March 1, 2018 to August 31, 2018)
Net sales	59,322	60,594
Cost of sales	17,017	17,351
Gross profit	42,305	43,242
Selling, general and administrative expenses	38,606	40,373
Operating income	3,698	2,868
Non-operating income		
Income from sponsorship	297	298
Other	82	209
Total non-operating income	380	507
Non-operating expenses		
Interest expenses	97	84
Other	37	29
Total non-operating expenses	134	114
Ordinary income	3,944	3,261
Extraordinary income		
Reversal of allowance for loss on store closings	-	7
Gain on exemption from consumption tax	486	-
Other	0	4
Total extraordinary income	486	11
Extraordinary loss		
Impairment loss	538	253
Provision for loss on closure of stores	65	41
Other	163	37
Total extraordinary loss	767	331
Net income before income taxes	3,664	2,942
Income taxes	1,502	1,222
Net income	2,161	1,719
Net income attributable to non-controlling interests	543	363
Net income attributable to owners of parent	1,617	1,356

Quarterly Consolidated Statement of Comprehensive Income

Consolidated Cumulative Second Quarter

(Unit: Million yen)

	Previous Second Quarter (from March 1, 2017 to August 31, 2017)	Current Second Quarter (from March 1, 2018 to August 31, 2018)
Net income	2,161	1,719
Other comprehensive income		
Deferred gains or losses on hedges	0	-0
Foreign currency translation adjustments	-2	-50
Adjustments for retirement benefits	-0	0
Total other comprehensive income	-2	-50
Comprehensive income	2,158	1,669
Breakdown		
Comprehensive income attributable to owners of parent	1,615	1,305
Comprehensive income attributable to non-controlling interests	542	363

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: Million yen)

	Previous Second Quarter (from March 1, 2017 to August 31, 2017)	Current Second Quarter (from March 1, 2018 to August 31, 2018)
Cash flow from operating activities		
Current net income for the quarter before income taxes and minority interests	3,664	2,942
Depreciation and amortization	2,165	2,119
Impairment loss	538	253
Amortization of goodwill	477	451
Increase (decrease) in allowance for doubtful accounts	-	0
Increase (decrease) in accrued bonuses	63	96
Increase (decrease) in provision for point card certificates	-20	-17
Increase (decrease) in provision for shareholder benefit program	48	24
Increase (decrease) in provision for loss on store closing	52	-6
Increase (decrease) in provision for directors' retirement benefits	-45	-
(Decrease) increase in liability for retirement benefits	21	4
Interest expenses	97	84
Loss on retirement of noncurrent assets	101	8
Decrease (increase) in notes and accounts receivable-trade	-853	-1,030
Increase (decrease) in notes and accounts payable-trade	774	778
Increase (decrease) in accrued expenses	387	393
Other	-377	919
Sub-total	7,094	7,023
Interest and dividend received	5	4
Interest expenses paid	-97	-84
Income taxes paid	-990	-3,006
Income taxes refunded	576	0
Cash flow from operating activities	6,587	3,938

(Unit: Million yen)

	Previous Second Quarter (from March 1, 2017 to August 31, 2017)	Current Second Quarter (from March 1, 2018 to August 31, 2018)
Cash flow from investing activities		
Purchases of property, plant and equipment	-2,964	-1,991
Payments for asset retirement obligations	-151	-46
Payments for short-term loans	-	-399
Payment on guaranty money deposited	-439	-311
Collection of fixed leasehold deposits	195	129
Proceeds from sale of investments in subsidiaries	70	-
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	-14
Other	4	3
Cash flow from investing activities	-3,285	-2,631
Cash flow from financing activities		
Net increase (decrease) in short-term loans payable	-	-3,000
Proceeds from long-term debt	3,900	5,700
Repayment of long-term loans payable	-3,465	-2,607
Redemption of bonds	-265	-255
Repayments of lease obligations	-152	-88
Expenditure for acquisition of treasury stock by consolidated subsidiaries	-333	-104
Cash dividends paid	-612	-473
Proceeds from share issuance to non-controlling shareholders	33	-
Cash dividends paid to non-controlling interests	-127	-121
Other	-45	-45
Cash flow from financing activities	-1,068	-994
Effect of exchange rate change on cash and cash equivalents	-9	-50
Net (decrease) increase in cash and cash equivalents	2,223	262
Cash and cash equivalents at beginning of period	9,779	12,685
Cash and cash equivalents at end of period	12,003	12,947

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumptions)

None

(Notes on significant changes in shareholders' equity)

None

(Application of accounting procedures specific to preparation of the consolidated quarterly financial statements)

(Calculation of tax expenses)

Excluding some consolidated subsidiaries, tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to net income (loss) before income taxes for the current fiscal year including the second quarter, and multiplying net income (loss) before income taxes by the estimated effective tax rate.