

(Translation)



Consolidated Financial Results for the Six Months Ended June 30, 2023

August 10, 2023

McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <https://www.mcd-holdings.co.jp/>)
Stock market: Tokyo Securities Exchange, Standard
Representative: Tamotsu Hiiro
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Schedule of dividends payment: —
Schedule of quarterly securities report submission: August 14, 2023
Preparation of supplementary materials for quarterly financial results: Yes
Quarterly results briefing: Yes (For analysts)

1. Consolidated operating results (From January 1, 2023 to June 30, 2023)

(1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2023	182,460	8.5	18,011	3.0	17,980	3.8	11,370	3.2
June 30, 2022	168,227	11.2	17,479	1.5	17,323	2.6	11,013	0.9

(Note) Comprehensive income:

Six months ended June 30, 2023: 11,357 million yen <3.2%>

Six months ended June 30, 2022: 11,004 million yen <0.9%>

	Net income per share	Net income per share, fully diluted
	(Yen)	(Yen)
June 30, 2023	85.52	—
June 30, 2022	82.83	—

(2) Consolidated financial position

(In millions of yen, with fractional amounts discarded)

	Total assets	Total net assets	Equity ratio
	(Millions of yen)	(Millions of yen)	%
As of June 30, 2023	275,659	212,897	77.2
As of December 31, 2022	277,365	206,724	74.5

(Note) Owner's equity: As of June 30, 2023: 212,897 million yen. As of December 31, 2022: 206,724 million yen

2. Dividends

	Dividends per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of year	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
December 31, 2022	—	0.00	—	39.00	39.00
December 31, 2023	—	0.00	—	—	—
December 31, 2023 (Forecast)	—	—	—	39.00	39.00

(Note) Changes to the dividend forecast from the most recently announced figures: None

3. Consolidated earnings forecasts for the year ending December 31, 2023

(From January 1, 2023 to December 31, 2023)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Annual	374,000	6.2	35,000	3.5	33,500	2.1	21,000	5.3	157.94

(Note) Change to the earnings forecast from the most recently announced figures: None

4. Others

(1) **Changes in significant subsidiaries (Changes in scope of consolidation):** None

Newly consolidated: — Excluded: —

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

(3) **Changes in accounting policies and accounting estimates**

1. Changes caused by revision of accounting standards: None
2. Changes other than (3) - 1. above: None
3. Changes in accounting estimates: None
4. Restatements: None

(4) **Number of shares outstanding (common stock)**

1. Number of shares outstanding (including treasury stock)
As of June 30, 2023: 132,960,000 shares As of December 31, 2022: 132,960,000 shares
2. Number of treasury stock
As of June 30, 2023: 1,094 shares As of December 31, 2022: 1,094 shares
3. Average number of common shares outstanding
As of June 30, 2023: 132,958,906 shares As of June 30, 2022: 132,958,906 shares

(Indication of quarterly review procedure implementation status)

This quarterly earnings report is not subject to quarterly review procedures based upon the Financial Instruments and Exchange Act.

(Forward - looking statements)

The financial forecasts and estimates in this release are based on information available at the time of disclosure and certain assumptions judged to be reasonable by the Company. Actual results may differ materially from expectations due to various factors.

The governing language of this quarterly earnings report is Japanese. An English translation hereof is provided for reference purpose only.

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1. Qualitative Information on Financial Results for the Second Quarter Ended June 30, 2023

(1) Qualitative information on consolidated operating results

In February 2022, McDonald's Holdings Company (Japan) Ltd. and its subsidiary (the "Group" or "we") announced its medium-term management plan (from 2022 to 2024) with the aim of sustainable growth, stronger profitability, and further enhancement of the corporate value of the Group. We will strengthen the foundation of the McDonald's business and actively invest in areas for the future to realize steady growth and meet the increasingly diverse and growing expectations of our customers. We will focus on the three pillars for future growth in the areas of "Brand," "Menu & Value," and "Restaurant, Digital, and People," aiming for an average annual growth rate of around 5% for all store sales, 3-5% for operating income, and 10% or more for operating income ratio and ROE over the next three years.

In the consolidated cumulative second quarter, we continued to listen to the voices of our customers and made efforts to enhance their restaurant experience through store hygiene management and improving QSC and convenience. As a result of various menu strategies, marketing activities, and increased investment in hiring and training personnel, an increase in same-store sales was gained for 31 consecutive quarters from 2015 Q4 to 2023 Q2.

On the other hand, the business environment remained challenging due to the weak yen, soaring raw material prices, and rising energy, labor, and logistics costs. In addition to the revision of over-the-counter prices and utmost corporate efforts in procuring raw materials on a global scale and establishing a more efficient logistics network, foreign exchange hedging and cost reduction efforts, and more efficient and stronger marketing activities, which contributed to improved profits due to increased sales, resulting in a year-on-year increase in profits.

<Three Pillars for the Medium-term Management Plan>

(1) Brand

As a member of the local community, we have positioned sustainability as an essential issue to be addressed proactively and have designated "Food Quality & Sourcing," "Our Planet," "Community Connection," and "Jobs, Inclusion & Empowerment" as the four areas to be focused on. In March 2023, we published McDonald's concept and initiatives as Sustainability Report 2022 on our website.

"Food Quality & Sourcing": As a company that provides food, we prioritize ensuring "food safety" and are committed to the accurate operation of its food management system so that customers can enjoy safe meals. In addition to complying with relevant laws and regulations, we have established a strict quality control system that is compliant with the Global Food Safety Initiative (GFSI) and consists of McDonald's own standards. In addition, to enhance customer trust in our products, we are building and strengthening a thorough quality control system by disclosing information on the country of final processing and the main country of origin of major raw materials, as well as conducting audits of targeted suppliers.

"Our Planet": We use materials certified as sustainable, such as MSC (Marine Stewardship Council) and FSC (Forest Stewardship Council), recycle Happy Set toys, reduce the use of plastic materials by introducing paper straws and wooden cutlery, and reduce greenhouse gas emissions by introducing energy-saving equipment in our restaurants and electric three-wheeled bikes for delivery.

"Community Connection": We will strive to contribute to the local community through support to the Ronald McDonald House Charities Japan, sports support, education support, and the provision of safety whistles.

"Jobs, Inclusion & Empowerment": As an employer of 190,000 crew members nationwide, we are going to create a work environment in which a diverse range of people with different personalities and backgrounds, including gender, age, and nationality, can leverage their strengths and feel motivated to work.

In the consolidated cumulative second quarter, in addition to continued brand communication through TV commercials, websites, and social media, we have further enhanced the store experience through QSC improvements, which has further increased customers' favorable impression of the trust in our brand. We will continue to strengthen our ties with customers by continuing and reinforcing our current efforts.

(2) "Menu and Value"

To meet our customers' expectations, we have strengthened our menu lineup for each time zone and implemented various initiatives to provide customers with a sense of value for their money which is in line with the "value-for-money" strategy. As for limited products, we launched "Chicken Tatsuta®" series, and "Heisei Burger," a revival of a very popular burger born in the Heisei era, as well as "Otona no Gotochi Teriyaki," which is based on the theme of the combination of Teriyaki taste and local gourmet foods. Also, based on the concept of the world of retro coffee shops, we launched three limited menu items as "Café Mac" to enjoy the taste of standard coffee shop menu items, which were well received by many customers. In addition, we have renewed the name of our weekday lunchtime special set menus, the more familiar "Hiru-Mac," while maintaining the best price. We continue to offer the "Choi-Mac" series, in which customers can easily choose from a variety of products to provide products that let customers experience McDonald's value through "Deliciousness," "Value," and "Convenience."

(3) "Restaurant, Digital and People"

Restaurant development: For future growth, we will actively invest in new restaurant openings, including relocations, reimages, and rebuilds to evolve our store portfolio to better meet the needs of our customers and local communities. We will provide a more convenient and comfortable environment for our customers by increasing the manufacturing capacity of our kitchens, adding drive-through lanes, and optimizing our delivery services.

In the cumulative second quarter of the current consolidated accounting period, we opened 28 and closed 30 restaurants, and the total number of restaurants at the end of this fiscal year is 2,965. With regards to capacity expansion, we are gradually introducing kitchen systems with enhanced manufacturing capacity and stores with increased product delivery outlets. In order to effectively utilize management resources, we will continue to invest in improving customer satisfaction and business performance by flexibly allocating investments to new store openings, reimages and rebuilds.

Classification	Previous year-end	Newly opened	Closed	Classification change		Current reporting period
				Increase	Decrease	
Company-operated	859	16	(10)	4	—	869
Franchised	2,108	12	(20)	—	(4)	2,096
Total	2,967	28	(30)	4	(4)	2,965

Digital: We have introduced "Mobile Order & Pay" as one of our "Experience of the future" to provide better services through the fusion of digital and people. By integrating our mobile ordering and delivery apps into our official app, we aim to provide our customers with seamless service and further convenience to continue to meet their needs and increase the number of users. In addition to improving convenience, we are also promoting the use of digital technology to provide a more enjoyable in-store experience, such as the use of AR for Happy Set toys.

Delivery is a marketable area with great potential for growth moving forward. We offer delivery services through McDelivery Service (MDS) by McDonald's crew and external delivery partners such as UberEats, Demaegan, and others. As of June 2023, MDS is available in 977 restaurants, UberEats in 1,920, Demaegan in 1,938, making the total number of restaurants that offer delivery service to 2,203. We will continue to expand the number of stores that can offer delivery services to improve customer convenience.

With drive-thru, we are increasing its capacity and introducing "Park & Go" to even more restaurants, allowing customers to receive items at their parking spot using "Mobile Order & Pay,"

which is available at 1,126 restaurants as of June 2023. In addition, the “Drive-Thru Mobile Order” function, which enables drive-thru pickup, has been added to the mobile ordering function of the official McDonald’s app, and is now available at drive-thru restaurants nationwide (excluding some restaurants).

People: We believe that we have been able to meet our customers’ expectations despite the rapidly changing business environment because of our people, or human resources, including approximately 190,000 crew members and restaurant employees. As such, we believe that hiring and training excellent human resources is the most important factor for business development, and we will continue to expand our investment in human resources. In order to recruit talented people, we organized campaigns such as the “Crew Experience” event, which was the first time in four years that the store held such an event. Digital CDP, training material that leverages digital devices, is available in 5 languages in addition to Japanese, contributing to improved understanding and reduced training hours of our crew. Hamburger University offers online and in-person training, and more than 10,000 participants took the course during the cumulative second quarter. In addition, we have introduced a regional employee system to provide a flexible career path for our diverse workforce as employees to suit their various lifestyles. We will continue to provide an environment where people with diverse personalities and backgrounds, regardless of gender, nationality, age, or other attributes, can work and grow in their own way by utilizing their strengths, leading to human resource development and retention.

As a result of the above initiatives, same-store sales grew by 7.4% during the consolidated cumulative second quarter of this year. System-wide sales were 372,148 million yen (a 30,127 million yen increase from the same period last year), revenue was 182,460 million yen (a 14,232 million yen increase from the same period last year), and operating income was 18,011 million yen (a 532 million yen increase from the same period last year), ordinary income was 17,980 million yen (a 657 million yen increase from the same period last year). Net income attributable to owners of the parent was 11,370 million yen (a 357 million yen increase from the same period last year).

- (*) 1. Same-store sales are the total sales of restaurants operating for 13 months or longer.
2. System-wide sales are the combined net sales of company-operated and franchised restaurants; the amount does not equal to net sales presented in the quarterly consolidated statements of operations.
3. Operating results are not presented in relation to the segment information as the business of our Group is based solely on operations of hamburger restaurants.

We will continue to evolve so that we can always be close to our customers and flexibly respond to changing society and customer needs, while placing the highest priority on the safety and health of our customers, employees, and all other people. We are committed to providing delicious menu items, value for money, convincing value, and a convenient and comfortable restaurant experience on a daily basis, while working toward the realization of a sustainable society and providing “Feed and Foster Communities”.

(2) Qualitative information on consolidated financial position

1) Analysis of financial position

At the end of the second quarter, current assets totaled 85,066 million yen, a 5,701 million yen decrease from the end of the previous fiscal year. This was mainly due to a 9,588 million yen decrease in cash and deposits, a 3,013 million yen increase in current portion of long-term deferred accounts receivable and a 1,455 million yen increase in accounts receivable-trade.

Non-current assets totaled 190,592 million yen, a 3,995 million yen increase from the end of the previous fiscal year. This was mainly due to a 4,565 million yen increase in property and equipment, a 2,098 million yen increase in lease and guarantee deposits and a 3,137 million yen decrease in long-term deferred accounts receivable.

Current liabilities were 55,884 million yen, a 7,942 million yen decrease from the end of the previous fiscal year. This was mainly due to a 4,259 million yen decrease in accounts payable-other

and a 3,783 decrease in other.

Non-current liabilities totaled 6,878 million yen, a 64 million yen increase from the end of the previous fiscal year. This was primarily due to a 53 million yen increase in provision for directors' bonuses.

2) Cash flow summary

Cash and cash equivalent at the end of the second quarter was 51,774 million yen, increase 15,411 million yen from the end of the previous fiscal year.

(Cash flow from operating activities)

A total of 16,119 million yen was provided by operating activities. (Increase of 1,761 million yen from the same period previous last year) This was primarily due to a pre-tax income of 17,687 million yen.

(Cash flow from investing activities)

A total of 4,580 million yen was provided in investing activities. (A decrease of 14,334 million yen was reported for the same period last year) This was mainly due to proceeds from withdrawal of time deposits for 25,000 million yen and purchases of property and equipment of 15,397 million yen.

(Cash flow from financing activities)

A total of 5,288 million yen was used in financing activities. (Decrease of 14 million yen from the same period last year) This was primarily due to dividend payments of 5,185 million yen.

(3) Qualitative information on consolidated earnings forecasts

No change has been made to the forecast on the consolidated operating results for the fiscal year ending December 31, 2023, announced on February 8, 2023.

2. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

Millions of yen	December 31, 2022	June 30, 2023
(Assets)		
Current assets		
Cash and deposits	61,362	51,774
Accounts receivable-trade	19,997	21,452
Current portion of long-term deferred accounts receivable	693	3,707
Raw materials and supplies	1,428	1,346
Other	7,297	6,792
Allowance for doubtful accounts	(11)	(6)
Total current assets	90,768	85,066
Non-current assets		
Property and equipment		
Buildings and structures, net	70,620	71,880
Machinery and equipment, net	12,472	13,622
Tools, furniture and fixtures, net	7,685	7,197
Land	21,498	23,422
Lease assets, net	386	404
Construction in progress	571	1,272
Total property and equipment	113,234	117,799
Intangible assets		
Goodwill	596	945
Software	10,023	9,861
Other	694	694
Total intangible assets	11,314	11,501
Investments and other assets		
Investment securities	4,056	6,056
Long-term loans receivable	9	9
Long-term deferred accounts receivable	11,632	8,494
Deferred tax assets	8,449	6,732
Lease and guarantee deposits	35,921	38,020
Other	3,180	3,188
Allowance for doubtful accounts	(1,202)	(1,209)
Total investments and other assets	62,048	61,292
Total non-current assets	186,597	190,592
Total assets	277,365	275,659

Millions of yen	December 31, 2022	June 30, 2023
(Liabilities)		
Current liabilities		
Accounts payable-trade	1,080	61
Lease obligations	218	240
Accounts payable-other	32,919	28,660
Accrued expenses	8,266	7,251
Income taxes payable	5,277	6,925
Consumption taxes payable	1,274	2,352
Contract liabilities	5,216	5,012
Provision for bonuses	2,257	1,849
Provision for loss on disposal of inventories	8	6
Other	7,307	3,523
Total current liabilities	63,826	55,884
Non-current liabilities		
Lease obligations	262	255
Provision for bonuses	258	252
Provision for directors' bonuses	173	227
Provision for directors' retirement benefits	261	254
Liabilities for retirement benefits	1,268	1,279
Asset retirement obligations	4,050	4,077
Deferred tax liabilities	44	37
Deferred tax liabilities due to land revaluation	289	289
Other	204	204
Total non-current liabilities	6,814	6,878
Total liabilities	70,641	62,762
(Net assets)		
Shareholders' equity		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	144,580	150,766
Treasury stock	(3)	(3)
Total shareholders' equity	210,815	217,001
Accumulated other comprehensive income		
Revaluation reserve for land	(4,202)	(4,202)
Remeasurements of retirement benefits	111	98
Total accumulated other comprehensive income	(4,091)	(4,104)
Total net assets	206,724	212,897
Total liabilities and net assets	277,365	275,659

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income for the Six months ended June 30, 2022 and 2023

Millions of yen	Six months ended June 30, 2022	Six months ended June 30, 2023
Net sales	168,227	182,460
Cost of sales	136,228	149,331
Gross profit	31,999	33,128
Selling, general and administrative expenses	14,519	15,117
Operating income	17,479	18,011
Non-operating income		
Interest income	48	73
Compensation income	34	157
Insurance income	18	68
Subsidy income	—	163
Other	116	326
Total non-operating income	218	790
Non-operating expenses		
Interest expenses	2	4
Provision of allowance for doubtful accounts	1	7
Loss on disposals of company-operated restaurants	347	683
Other	22	125
Total non-operating expenses	373	820
Ordinary income	17,323	17,980
Special income		
Gain on sales of non-current assets	41	72
Total special income	41	72
Special loss		
Loss on sale of non-current assets	—	3
Loss on disposals of non-current assets	190	153
Impairment loss	149	208
Total special loss	340	365
Income before income taxes	17,024	17,687
Income taxes	6,011	8,323
Income taxes refund	—	(2,006)
Total provision for income taxes	6,011	6,316
Net income	11,013	11,370
Net income attributable to owners of parent	11,013	11,370

Quarterly consolidated statements of comprehensive income

For the six months ended June 30, 2022 and 2023

Millions of yen	Six months ended June 30, 2022	Six months ended June 30, 2023
Net income	11,013	11,370
Other comprehensive income		
Remeasurements of defined benefit plans	(8)	(12)
Total accumulated other comprehensive loss	(8)	(12)
Comprehensive income	11,004	11,357
Comprehensive income attributable to:		
Owners of parent	11,004	11,357

(3) Quarterly consolidated statements of cash flows

For the six months ended June 30, 2022 and 2023

Millions of yen	Six months ended June 30, 2022	Six months ended June 30, 2023
Net cash provided by operating activities		
Income before income taxes	17,024	17,687
Depreciation and amortization	6,818	7,516
Impairment loss	149	208
Increase (decrease) in allowance for doubtful accounts	1	2
Increase (decrease) in other provisions	△993	△369
Increase (decrease) in pension liabilities	△11	10
Interest income	△48	△73
Interest expenses	2	4
Gain on sales of non-current assets	△41	△72
Loss on disposals of non-current assets	288	587
Decrease (increase) in accounts receivable-trade	853	△1,455
Decrease (increase) in raw materials and supplies	59	82
Increase in goodwill from acquisition of franchised restaurants	△84	△455
Increase in Long-term deferred accounts receivable	—	124
Decrease (increase) in other assets	△1,647	△38
Increase (decrease) in accounts payable-trade	101	△1,019
Increase (decrease) in accounts payable-other	△1,071	△4,047
Increase (decrease) in accrued expenses	△498	△1,014
Increase (decrease) in other liabilities	△1,072	1,015
Other, net	0	△240
Subtotal	19,829	18,451
Interest income received	20	26
Interest expenses paid	△2	△4
Proceeds from commercial agreement fund	179	327
Income taxes paid	△6,749	△5,423
Income taxes refunded	1,080	2,740
Net cash provided by operating activities	14,357	16,119
Net cash used in investing activities		
Proceeds from withdrawal of time deposits	—	25,000
Purchase of investment securities	—	△2,000
Purchases of property and equipment	△11,695	△15,397
Proceeds from sales of property and equipment	467	753
Payments for lease and guarantee deposits	△1,576	△2,776
Refunds of lease and guarantee deposits	622	656
Purchases of software	△2,122	△1,606
Payments for assets retirement obligations	△38	△57
Other, net	8	8
Net cash used in investing activities	△14,334	4,580
Net cash used in financing activities		
Repayments of lease obligations	△117	△103
Repurchase of treasury stock	△0	—
Dividends paid	△5,185	△5,185
Net cash used in financing activities	△5,303	△5,288
Effect of exchange rate changes on cash and cash equivalents	1	0
Net increase in cash and cash equivalents	△5,279	15,411
Cash and cash equivalents at beginning of period	50,266	36,362
Cash and cash equivalents at end of period	44,987	51,774

**(3) Notes to quarterly consolidated financial statements
(Notes for assumption of going concern)**

None

(Notes for significant changes in the amount of shareholders' equity)

None

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

Income taxes:

Income taxes are determined based on an effective tax rate, multiplied by the estimated annual pre-tax income. Income tax adjustments are included in income taxes.

(Segment information)

Business segment of the Group is only hamburger restaurant operation therefore business segment information is omitted.