

# Summary of Results for FY2011

Lawson, Inc.

April 13, 2012

# Financial Results for FY2011

Yoshiyuki Yahagi  
Chief Financial Officer

# FY2011 Earnings Summary

(Consolidated: Billions of yen)	FY2009	FY2010	FY2011		
	Actual	Actual	Actual	YoY	vs. Plan
Net sales of all stores	1,666.1	1,682.8	<b>1,825.8</b>	108.5%	101.0%
Operating profit	50.2	55.5	<b>61.7</b>	111.2%	100.4%
Operating profit ratio	3.0%	3.3%	<b>3.4%</b>	0.1%P	0%P
Recurring profit	49.4	54.5	<b>61.7</b>	113.1%	102.2%
Net profit	12.5	25.3	<b>24.8</b>	98.0%	105.9%
EPS (Yen)	126.67	254.61	<b>249.17</b>	97.9%	105.9%
Dividend payout ratio	126.3%	66.8%	<b>72.2%</b>	5.5%	—
Projected dividend per share (Yen)	160	170	<b>180</b>	105.9%	—
Total no. of stores in Japan	9,761	9,994	<b>10,457</b>	463	83

Note: Change vs. the plan indicates comparison with the revised plan at the second quarter.

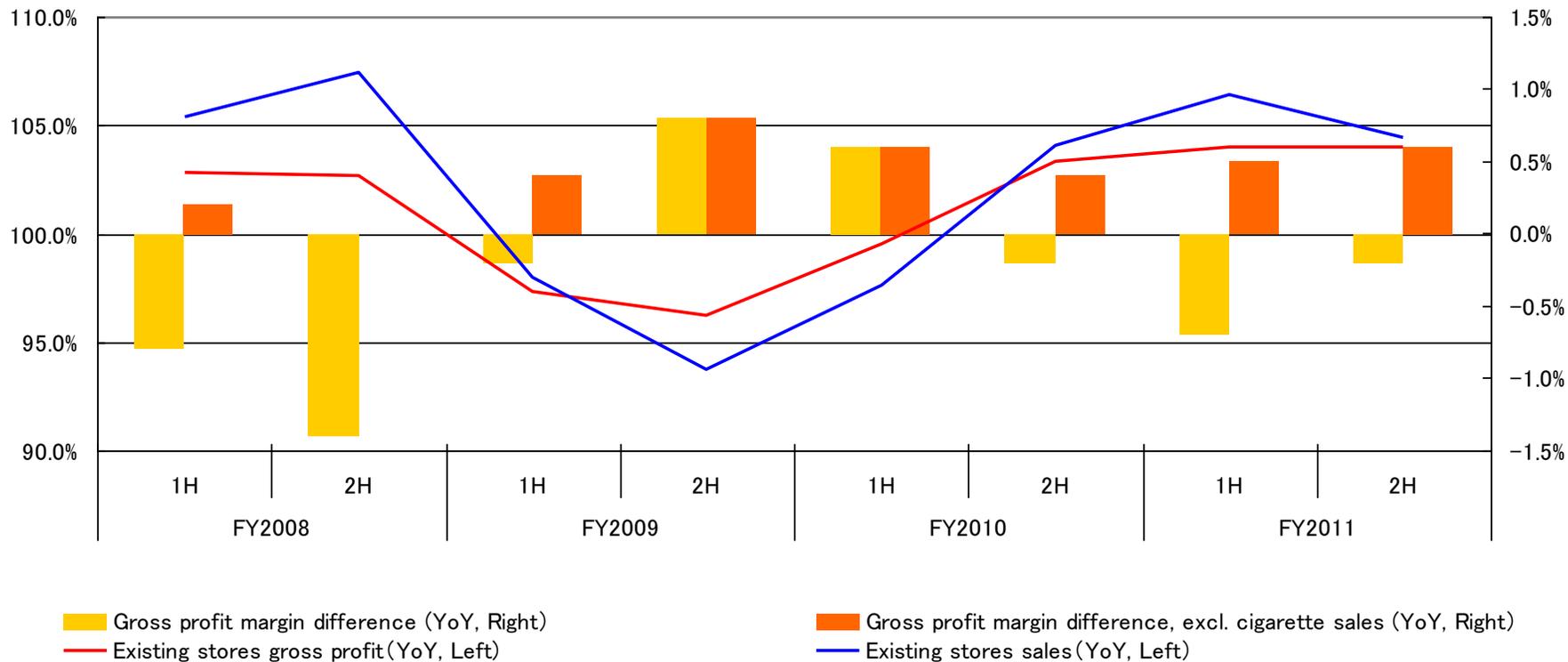
- Consolidated operating profit exceeded the revised plan announced at the second quarter by 0.3 billion yen, and increased by 11.2% yoy.

Sales of rice dishes, over-the-counter fast foods, desserts, daily delivered foods and cigarettes grew yoy. Partly due to growing handling of fresh foods, the customer base (women and seniors) steadily expanded and contributed to sales growth.

- Consolidated net profit exceeded the revised plan announced at the second quarter by 1.4 billion yen but slightly decreased yoy.

Affected by asset liability obligations (8.2 billion yen) and loss on disaster (3.4 billion yen).

# Existing Stores (Non-Consolidated)

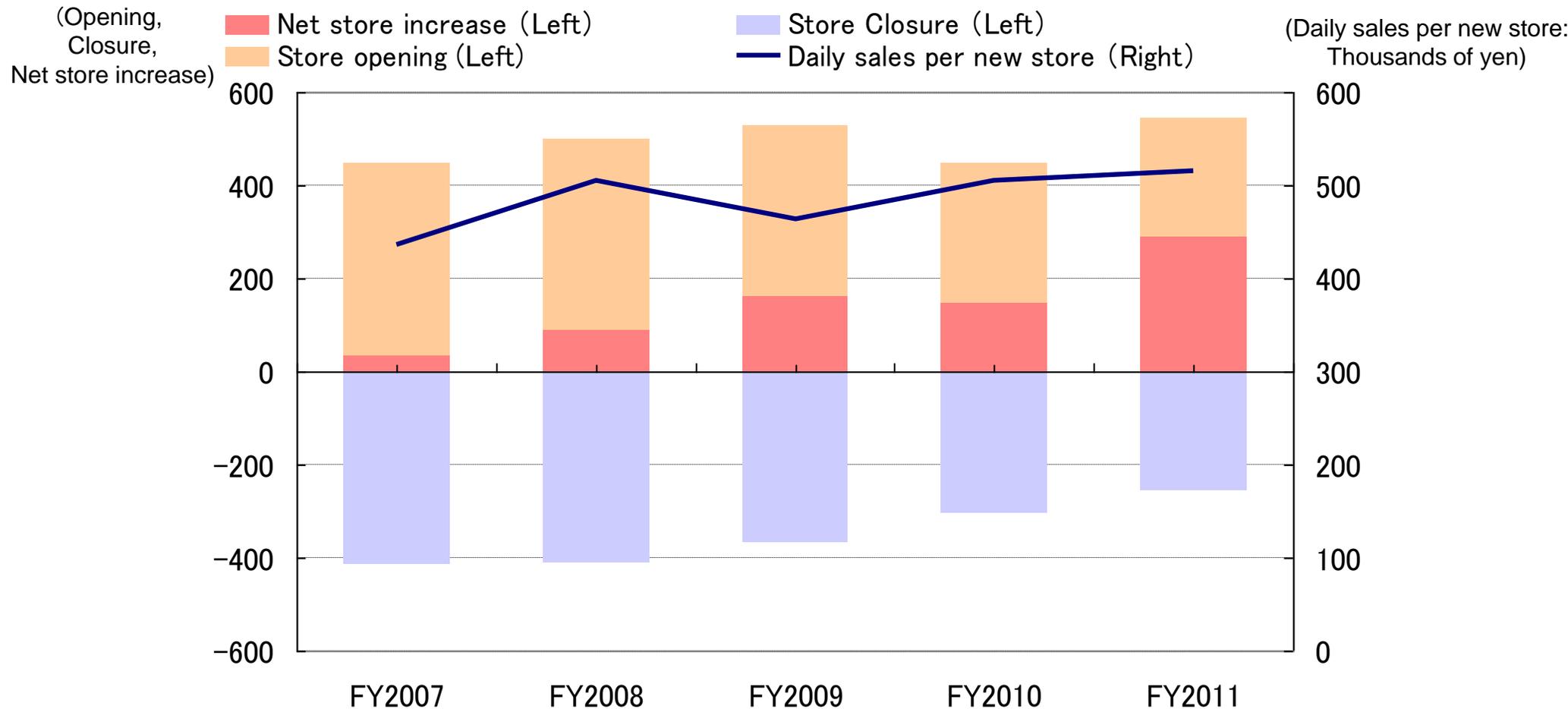


(Reference) FY2011 YoY Growth

Gross profit: 104.0%; sales 105.4%; number of customers 101.0%; spend per customer 104.3%

- Existing store sales increased by 6.4% yoy in the 1<sup>st</sup> half and by 4.4% in the 2<sup>nd</sup> half. Thanks to increased recognition as a small format retailer and progress in expanding customers, sales of ready-made meal items and cigarettes grew enough to offset the negative impact of the Great East Japan Earthquake.
- Overall gross profit margin deteriorated due to a drop in cigarette sales (decrease 1.0 pp) but improved by 0.5 pp yoy, which surpassed the plan when excluding cigarettes, thanks to combination of SCM and CRM.
- As a result, existing store gross profit exceeded the plan by 1.3% and increased 4.0% yoy, which raised franchise owners' profit as well.

# Store Opening (Non-Consolidated)



- Favorable operations of existing stores resulted in 94 less closures and 25 more openings than planned. A net increase of 289 stores exceeded the plan.
- Daily sales per new store increased by 10 thousand yen from a year ago to 516 thousand yen.

# Key Components of SG&A Expenses

		FY2010	FY2011		FY2012
		Actual	Actual	Change	Forecast
(Billions of yen)					
Non-consolidated	Selling, general & administrative expenses	179.9	188.1	8.2	Increase 5-10%
	<Major Strategic Expenses>				
	Personnel expenses	35.7	35.8	0.1	Slight increase
	IT-related expenses (Hardware leasing, software amortization, maintenance, etc.)	14.7	15.7	1.0	Increase 5-10%
	Advertising and promotional expenses	9.0	11.1	2.1	Increase 15-20%
Consolidated SG&A expenses		242.6	260.9	18.3	Increase 5-10%

## Compared to Fiscal 2010

Non-consolidated

- Personnel expenses: Provision for bonus increased resulting from favorable operating results
- IT-related expenses: Increased due to upfront investments in e-commerce and services
- Advertising and promotional expenses: Enhanced promotional activities targeted at Ponta card members
- Other: Expenses for facilities associated with net increase in stores

Consolidated

- Increased due to newly consolidating HMV Japan
- Increased due to an increase in installation of ATMs operated by Lawson ATM Networks (LANs)

## Compared to Plan

Non-consolidated

Exceeded the plan by 1 billion yen  
Enhance promotion of Lawson select and to Ponta card members

Consolidated

Exceeded the plan by 1.8 billion yen  
In addition to the reasons stated for the non-consolidated basis,

- Lawson HMV Entertainment, Inc. enhanced promotional activities reflecting favorable ticket sales and product sales (CD/DVD)
- LANs increased promotional activities

# Earnings of Major Subsidiaries & Affiliates

(Billions of yen)

## < Operating Profit of Major Subsidiaries >

	FY-end	Ownership	FY2011		FY2012
			Actual	YoY change	Forecast
Ninety-nine Plus, Inc.	Feb.	100.0%	1.88	0.11	2.1
Lawson HMV Entertainment, Inc.	Feb.	100.0%	1.65	0.53	2.3
Shanghai Hualian Lawson, Inc.	Dec.	85.0%	▲0.28*	▲ 0.29	▲ 0.9
Lawson ATM Networks, Inc.	Feb.	70.9%	3.63	0.48	4.3

\* Actual results for one year from January 2011 to December 2011

## < Operating Profit of Equity-method Affiliates >

			FY2011	
Lawson Okinawa, Inc.	Feb.	49.0%	0.77	0.17

### Ninety-nine Plus

Quake-led delay in introduction of PRiSM and shortage of merchandise resulted to OP lower than the planned, however, still OP increase in 6%. Steady progress in store openings and conversion to franchise stores.

### Lawson HMV Entertainment

The launch of a comprehensive entertainment mall and other measures had a positive effect and ticket sales were strong. The use of high-margin sales channels, such as Loppi and Lawson's own website, also contributed.

### Shanghai Hualian Lawson

Raised the equity stake from 49% to 85% and acquired a controlling interest. Consolidation of three-month (Oct. to Dec. 2011) results generated a 20 million yen loss in Lawson's consolidating operating profit.

### Lawson ATM Networks

The number of transactions rose due to growth in ATM installation in line with net growth in stores and a demand intake caused by financial institutions' shorter ATM operating hours aimed at saving electricity.

# FY2011 Balance Sheet & Cash Flows (Consolidated)

	As of Feb. 29, 2012	Change from Feb. 28, 2011
Total current assets	160.1	15.1
(Cash and deposits)	79.0	4.2
(Marketable securities)	4.9	1.9
(Accounts receivable)	32.6	3.3
Total noncurrent assets	371.2	40.2
Property, plant and equipment	183.8	25.0
Intangible assets	38.9	2.8
Investments and other assets	148.4	12.3
(Long-terms loans receivable)	32.1	0.3
(Guatantee deposits)	83.6	2.0
Total Assets	531.4	55.4

	As of Feb. 29, 2012	Change from Feb. 28, 2011
Total current liabilities	217.9	25.3
(Accounts payable-trade)	88.2	6.8
(Deposits payable)	75.0	12.6
Total noncurrent liabilities	98.8	23.8
(Long-term guarantee deposits)	35.7	▲ 1.4
Net Assets	214.6	6.1
(Common stock)	58.5	–
(Retained earnings)	107.2	7.6
Liabilities and net assets	531.4	55.4

Impact of adopting the new lease accounting:  
 Property, plant & equipment 54.1 bln yen  
 Current/noncurrent liabilities 49.1 bln yen

	(Billions of yen)		
	FY2009	FY2010	FY2011
Cash flows from operating activities	40.6	72.2	86.3
Cash flows from investing activities	▲ 42.5	▲ 30.5	▲ 52.9
Free cash flows	▲ 1.9	41.6	33.4
Cash flows from financing activities	▲ 27.2	▲ 28.7	▲ 27.5
(Reference) Cash and deposits	64.0	74.8	79.0

# FY2012 Forecast (Consolidated)

(Billions of yen)	FY2010	FY2011	FY2012 Forecast	
	Actual	Actual	Plan	YoY
Net sales of all stores	1,682.8	1,825.8	<b>1,964.0</b>	107.6%
Operating profit	55.5	61.7	<b>66.0</b>	106.8%
Operating profit ratio	3.3%	3.4%	<b>3.4%</b>	0.0%P
Recurring profit	54.5	61.7	<b>65.1</b>	105.5%
Net profit	25.3	24.8	<b>33.4</b>	134.2%
ROE	12.8%	12.0%*	<b>15.3%</b>	3.3%P
EPS (Yen)	254.61	249.17	<b>334.38</b>	134.2%
Dividend payout ratio	66.8%	72.2%	<b>56.8%</b>	▲15.4%P
Dividend per share (YoY)	170	180	<b>190</b>	10
Total no. of stores in Japan	9,994	10,457	<b>11,007</b>	550
(Non-Consolidated)				
Gross profit at existing stores (YoY)	101.4%	104.0%	<b>102.7%</b>	▲1.3%P
Net sales at existing stores (YoY)	100.8%	105.4%	<b>101.0%</b>	▲4.4%P
Gross profit margin ratio	30.6%	30.1%	<b>30.6%</b>	0.5%P
Gross profit margin difference excluding cigarette sales (YoY)	0.5%	0.5%	<b>0.5%</b>	0.0%P

\*Approximate estimated ROE of 15.1% when excluding the effects of the earthquake and asset retirement obligations

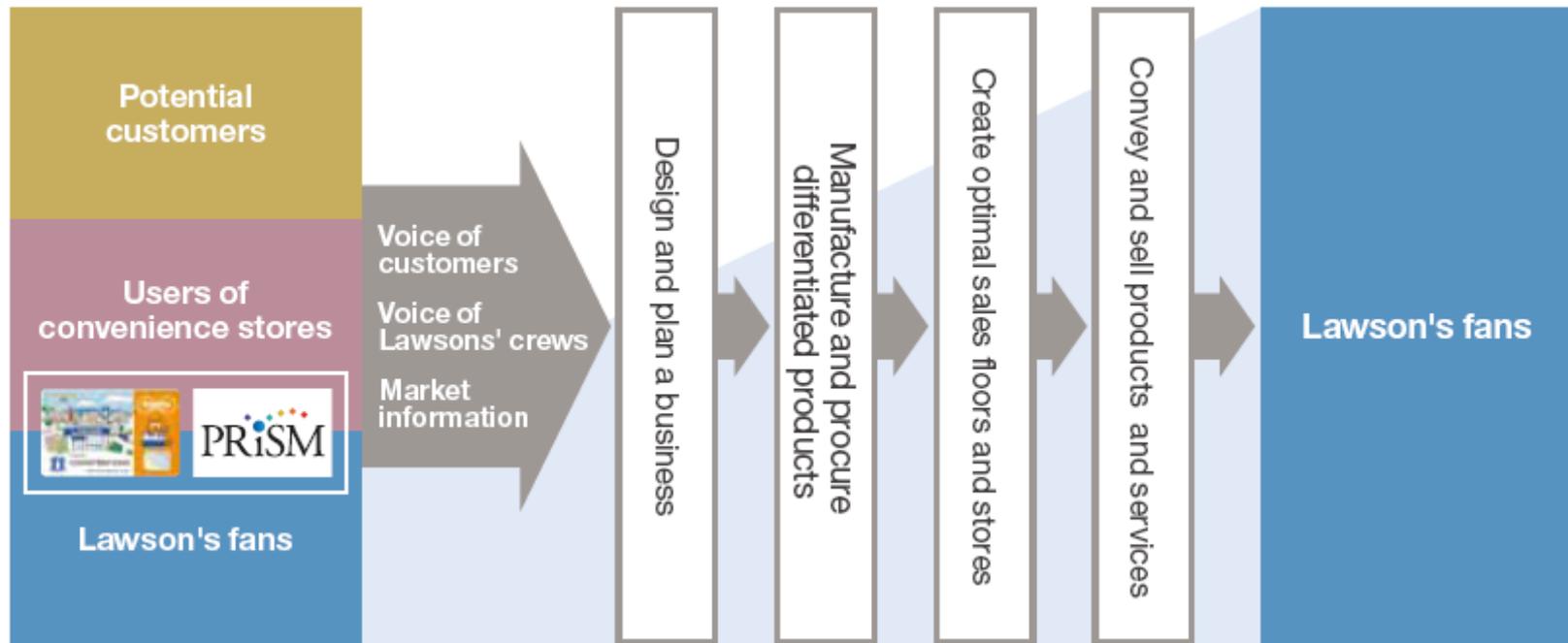
- Enhance sales promotion targeted at Ponta card members.
- Promote development of fresh foods, fast foods, ready-made meals, private brand Lawson select items, and other products to expand customer base.
- Gross profit margin is expected to increase by 0.5 pp, due to leveraging of raw material procurement advantages and combination of SCM and CRM.

# Initiatives for the CVS Business

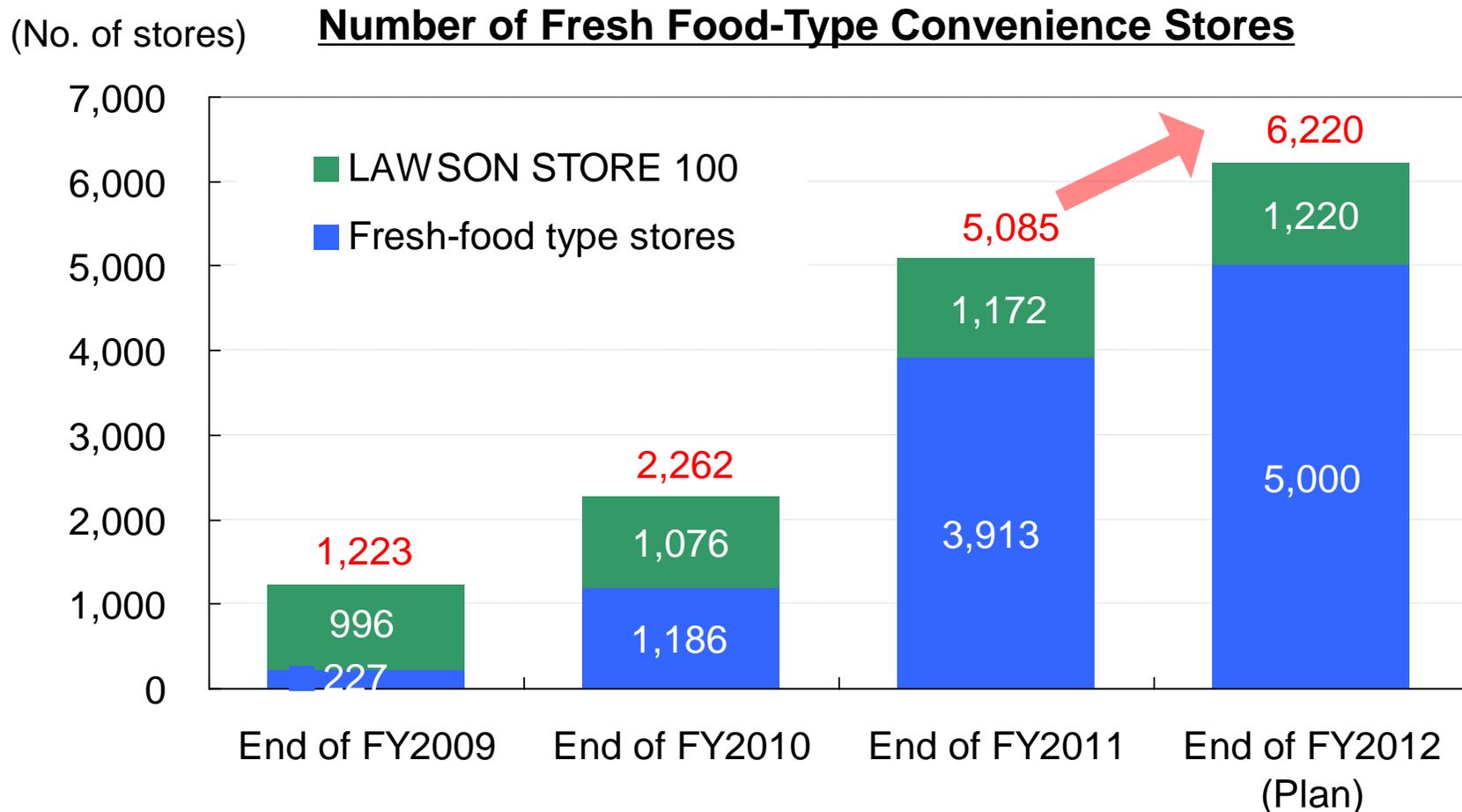
Genichi Tamatsuka  
Chief Operating Officer  
CVS Operating Group CEO

# Today's Topics

1. Expanding customer base
2. Enhancing product development capability
3. Promoting initiatives targeted at Ponta members



# 1. Expanding Customer Base: Enhancement of Fresh Food-Type CVS



Note: The number of LAWSON STORE100 stores includes the former SHOP99 stores. The number of fresh food-type LAWSON stores at the end of fiscal 2011 includes those with three rows of shelves in addition to the former hybrid type (with one line of gondola shelving.)

**A year-on-year increase of around 2,800 fresh food-type CVS in FY2011**

## Issues in FY2011

- Delay in realizing Lawson Group synergies
- Delay in advancement of product development
- Delay in launching a new system, due to the impacts of the Great East Japan Earthquake

## Solutions in FY2012

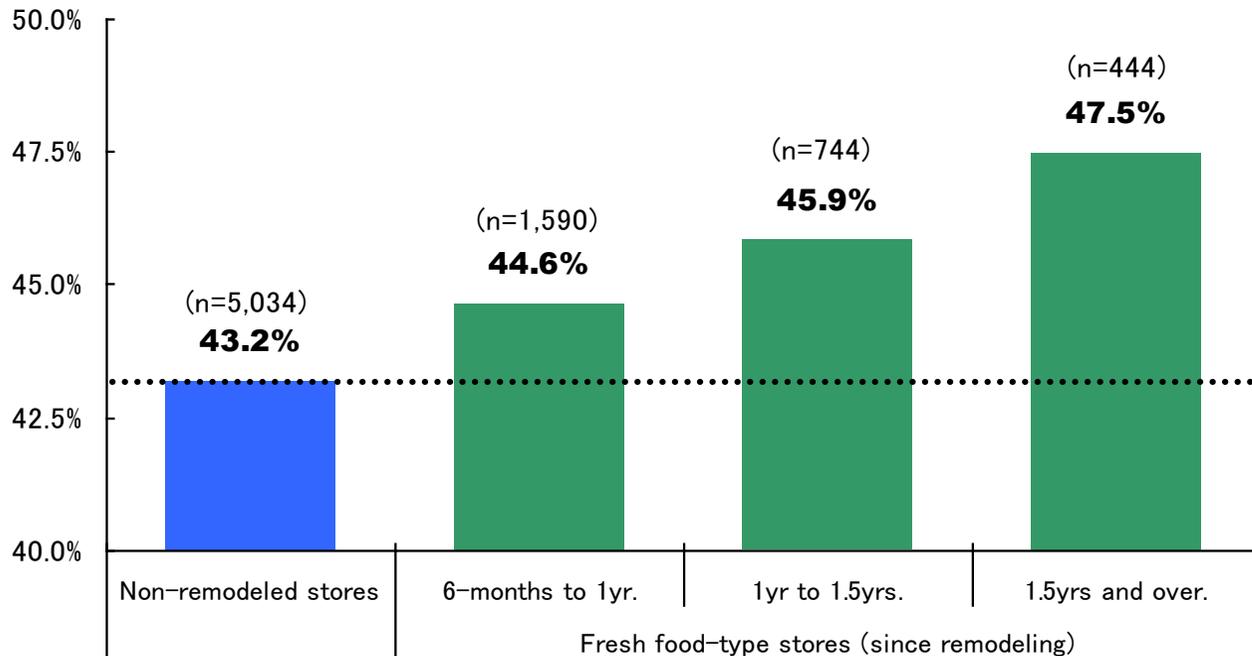
- Enhance synergies with Lawson by reviewing the management of Ninety-nine Plus, Inc.
- Strengthen the product line such as the private brand Value Line by using Lawson's product development expertise
- Strengthen fresh food items by using Lawson's purchasing capability and improve markups
- Raise accuracy in order placement by promoting the innovative operation process through PRiSM
- Promote the area strategy that is focused on fresh food convenience stores

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**Raise the number of customers and the spend per customer by leveraging Ponta loyalty card program**

# 1. Expanding Customer Base: Enhancing Fresh Foods (1)

## Ratio of Female Customers in 2<sup>nd</sup> Half of Fiscal 2011 (based on average purchase amount)

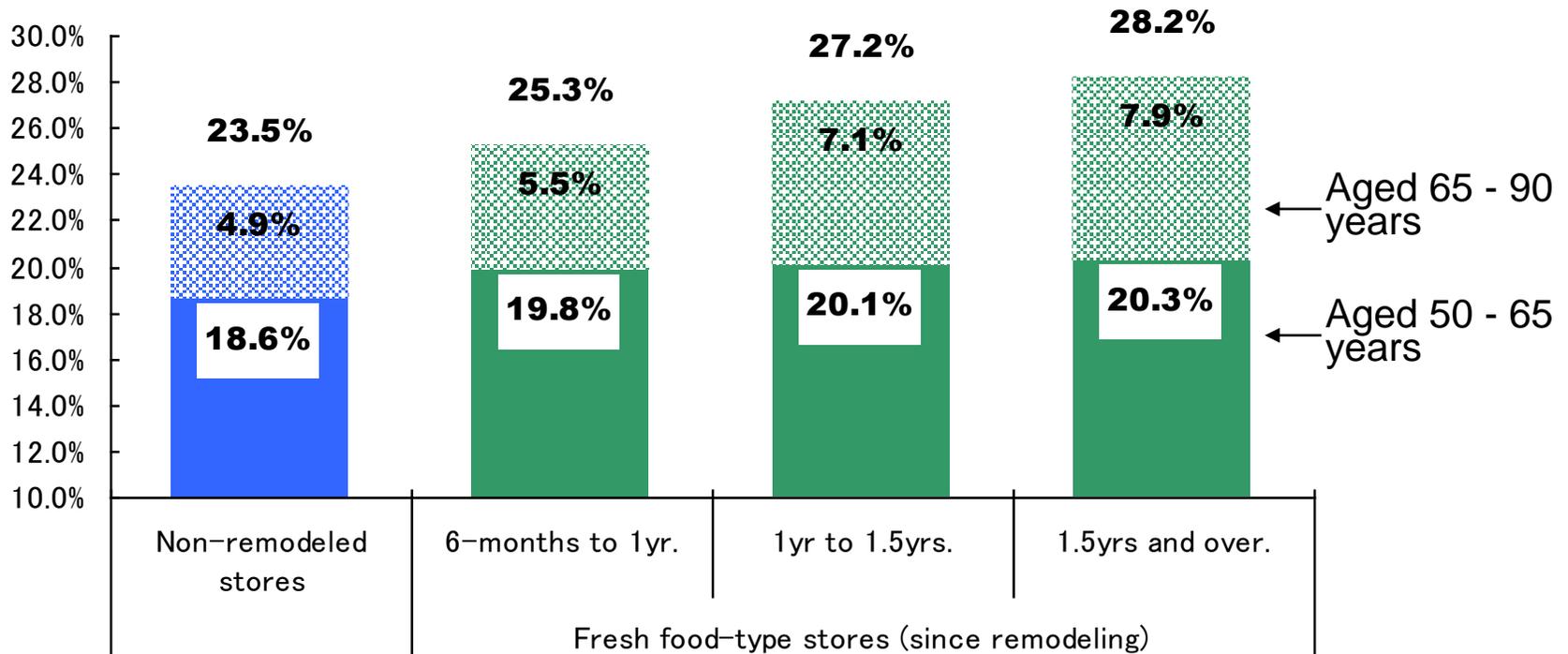


Note: Ratio of spending by female Ponta card customers to total spend by all Ponta card customers at 9,082 LAWSON stores which existed on February 28, 2011.

Increase in ratio of female customers at stores remodeled through strengthening of fresh food items.  
Store reforms led to new appeal to and increase in female customers, who have tended to stay as regular customers over time.

# 1. Expanding Customer Base: Enhancing Fresh Foods (2)

## Ratio of Senior Customers in 2<sup>nd</sup> Half of Fiscal 2011 (based on average purchase amount by store)



Note: Ratio of spending by senior Ponta card customers to total spend by all Ponta card customers at 9,082 LAWSON stores which existed on February 28, 2011. The number of samples for each category is the same as the data on the previous slide.

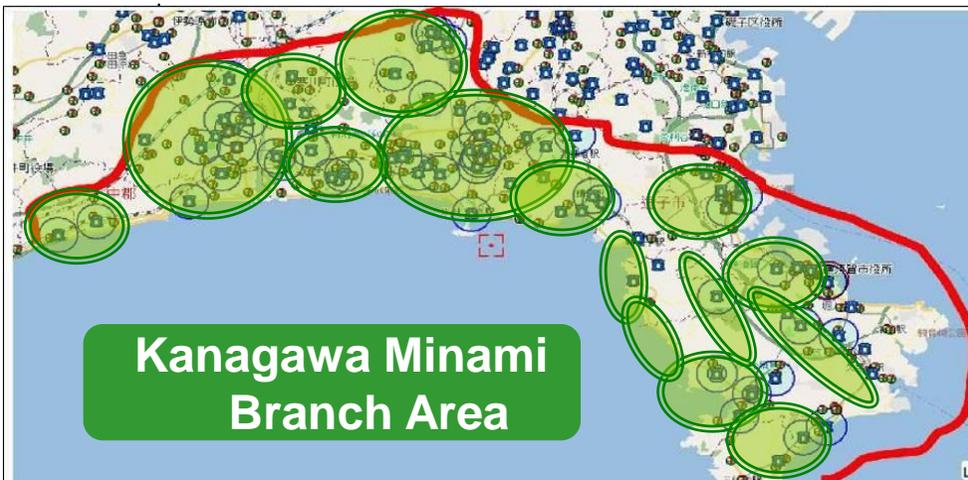
**Store reforms led to new appeal to and increase in senior customers (aged 65-90 years), who have tended to stay as regular customers over time.**

# 1. Expanding Customer Base: Images of Fresh Food-Type CVS (1)

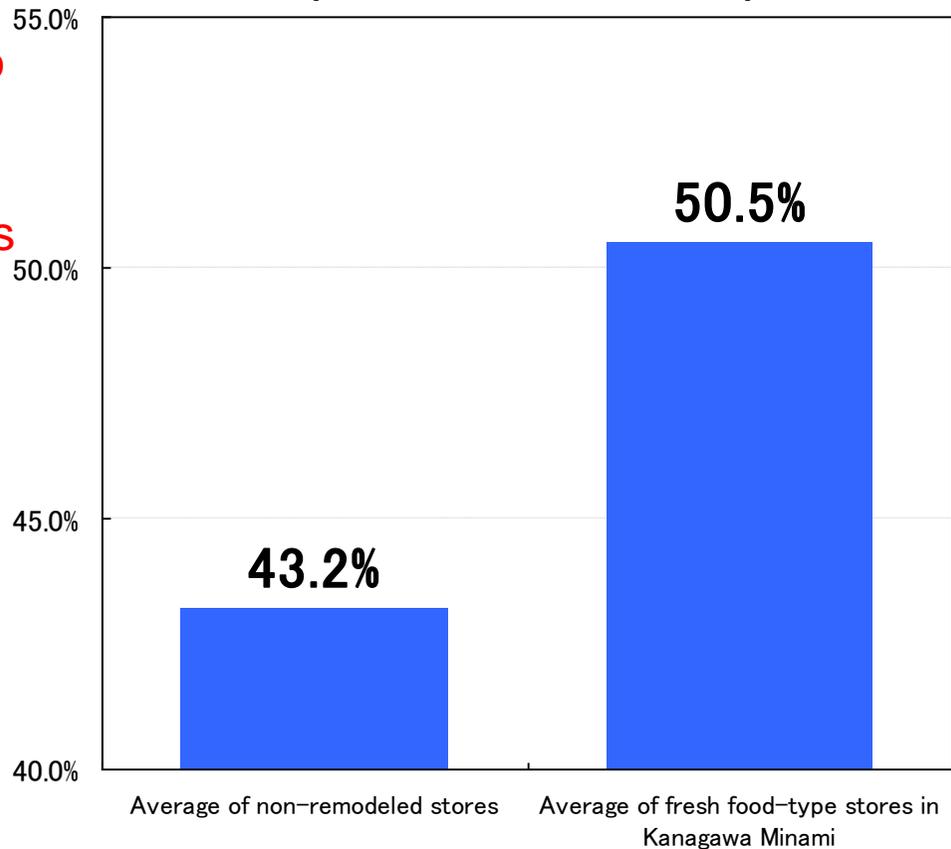
## (1) Expand the number of stores dominantly in residential areas.

Aim to raise the ratio of fresh food-type stores to over 60% of LAWSON stores within the area.

Aim to establish the recognition that “fresh foods equal LAWSON” within the area.



### Ratio of Sales to Female Customers (Ponta Card Members)



Note 1: Non-remodeled stores are non-fresh food-type stores out of 9,082 existing stores as of February 28, 2011.

Note 2: Average of 30 remodeled fresh food-type stores out of all 80 existing stores in the Kanagawa Minami Branch.

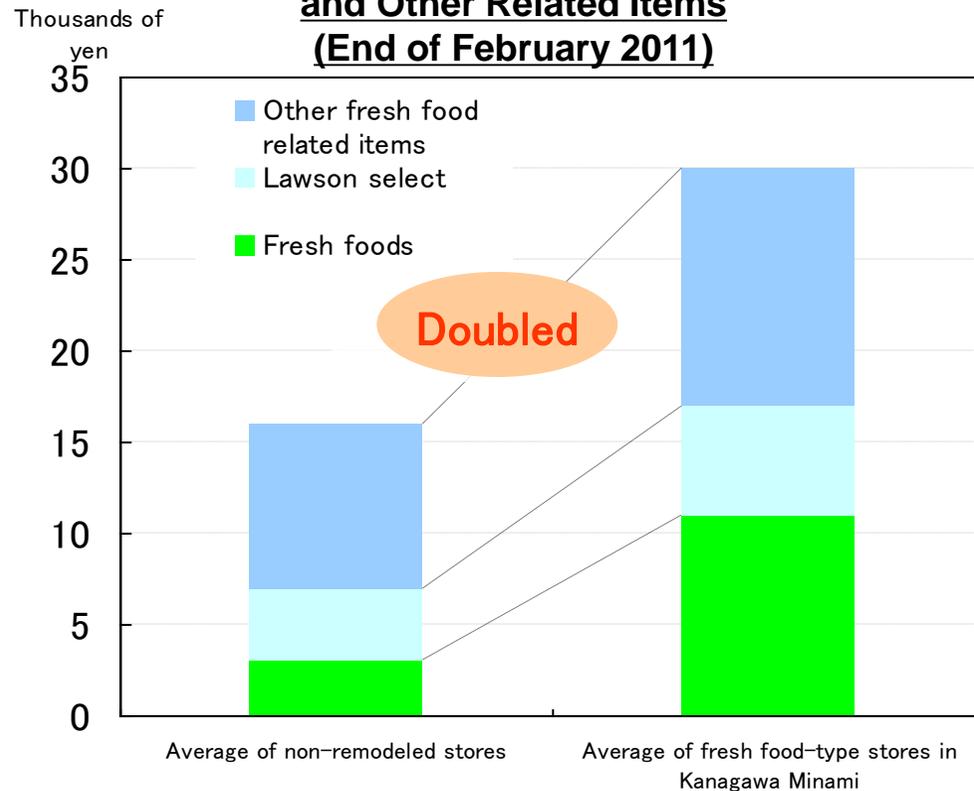
# 1. Expanding Customer Base: Images of Fresh Food-Type CVS (2)

## (2) Continue to focus on fresh foods and strengthen related merchandise assortments

Improve ways to display and sell fresh foods and grow out of the image of “conventional CVS.”



**Daily Sales of Fresh Foods and Other Related Items (End of February 2011)**



Note 1: Non-remodeled stores are non-fresh food-type stores out of 9,082 existing stores as of Feb. 28, 2011.

Note 2: Average of 30 remodeled fresh food-type stores out of all 80 existing stores in the Kanagawa Minami Branch.

**Promote the similar approaches in residential areas across Japan**

# 2. Enhancing Product Development Capability

### Rice dishes



### Chilled sushi



### Cooked noodles



### Cold noodles



### Desserts



Unrefrigerated Japanese and Western desserts



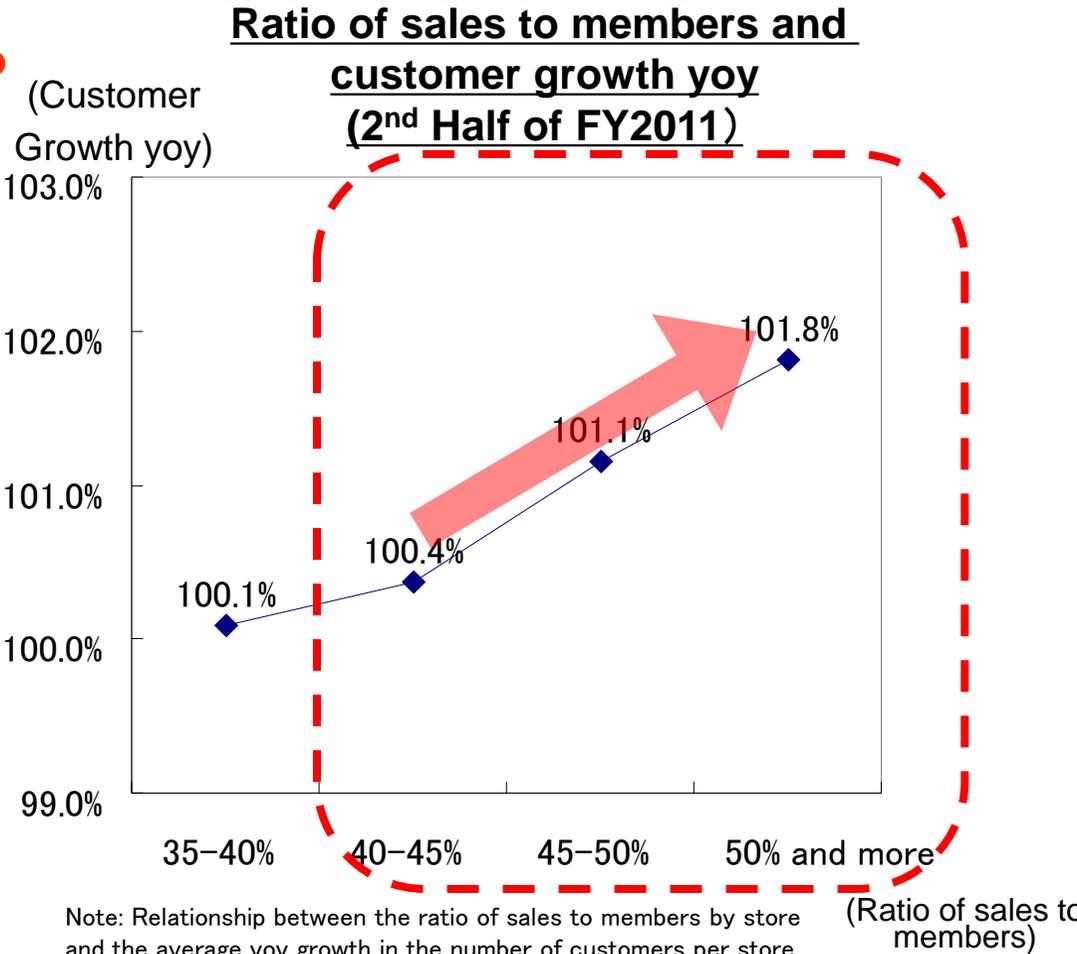
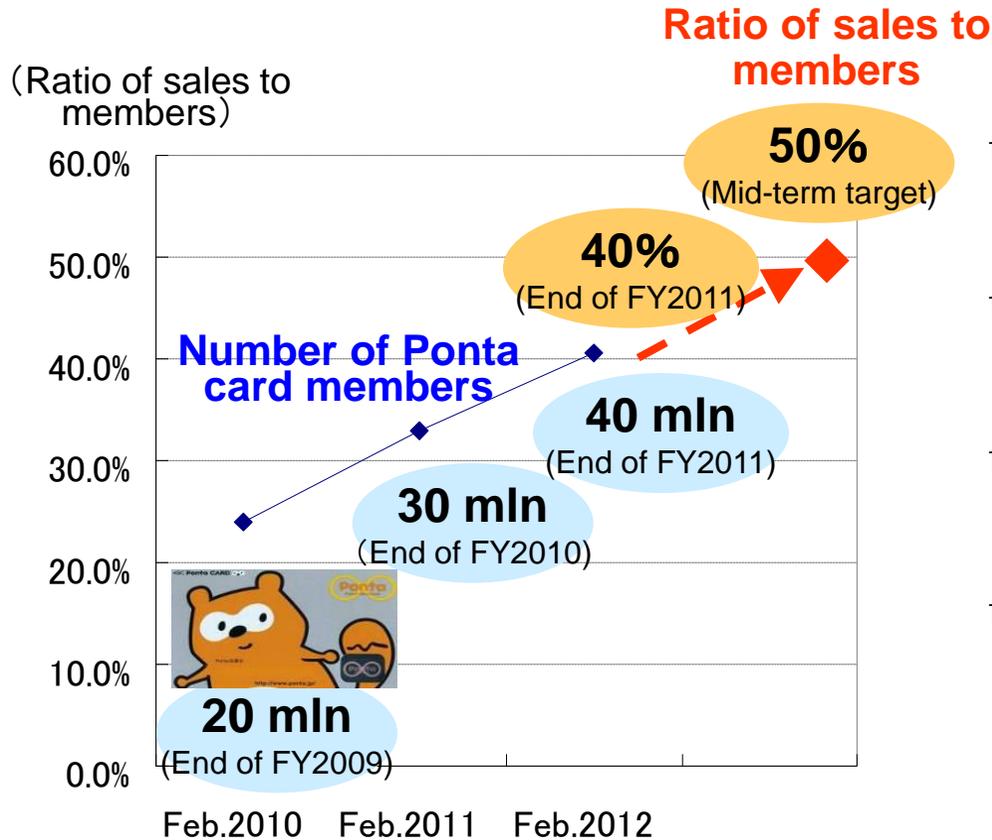
### Fast foods



### Lawson select (Private Brand)



# 3. Promoting Initiatives Targeted at Ponta Members



**Shift from a stage to increase the number of card members to a stage to increase the ratio of sales to card members. Take measures targeted at loyal customers and enforce promotions in a selective and focused way.**

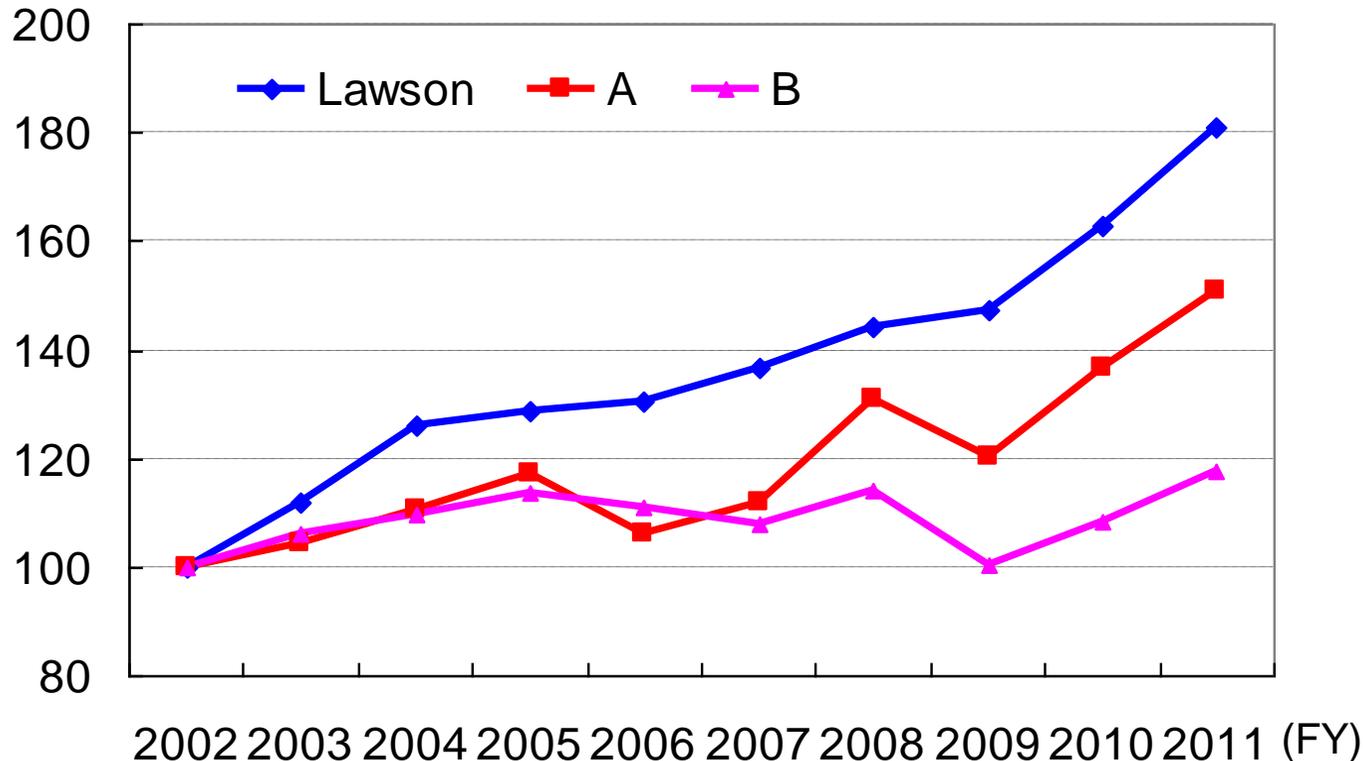
# Initiatives toward Sustainable Growth

Takeshi Niinami  
President & CEO

# Realized Sustainable Growth in Operating Profit

## Operating Profit of Three Major Convenience Store Companies

(FY2002=100) (Indexing based on the profit level of FY2002 being 100)

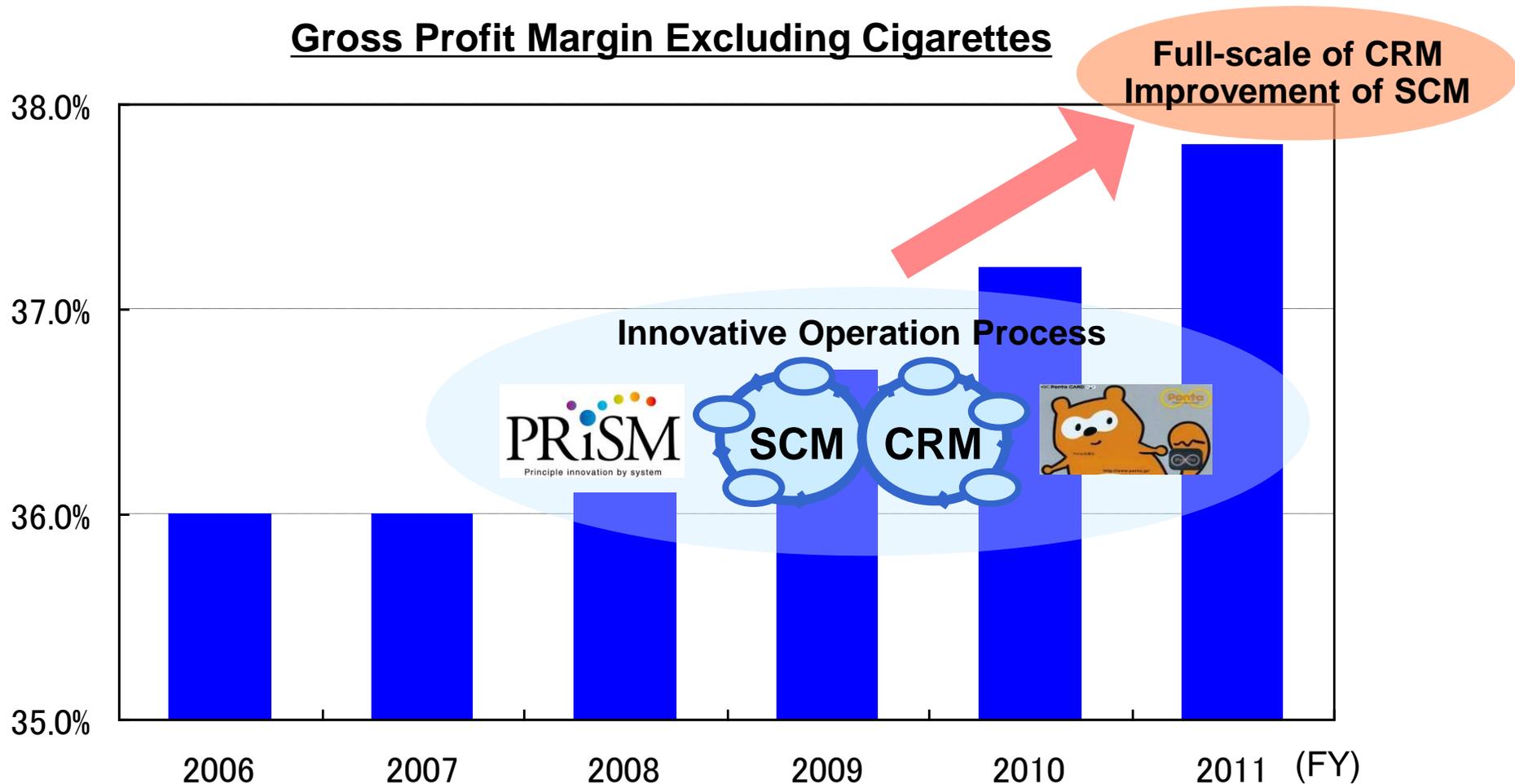


**Achieved Profit Growth for Nine Consecutive Years with CAGR\* of 7% (FY2002 to 2011)**

\*CAGR (Compound Annual Growth Rate)

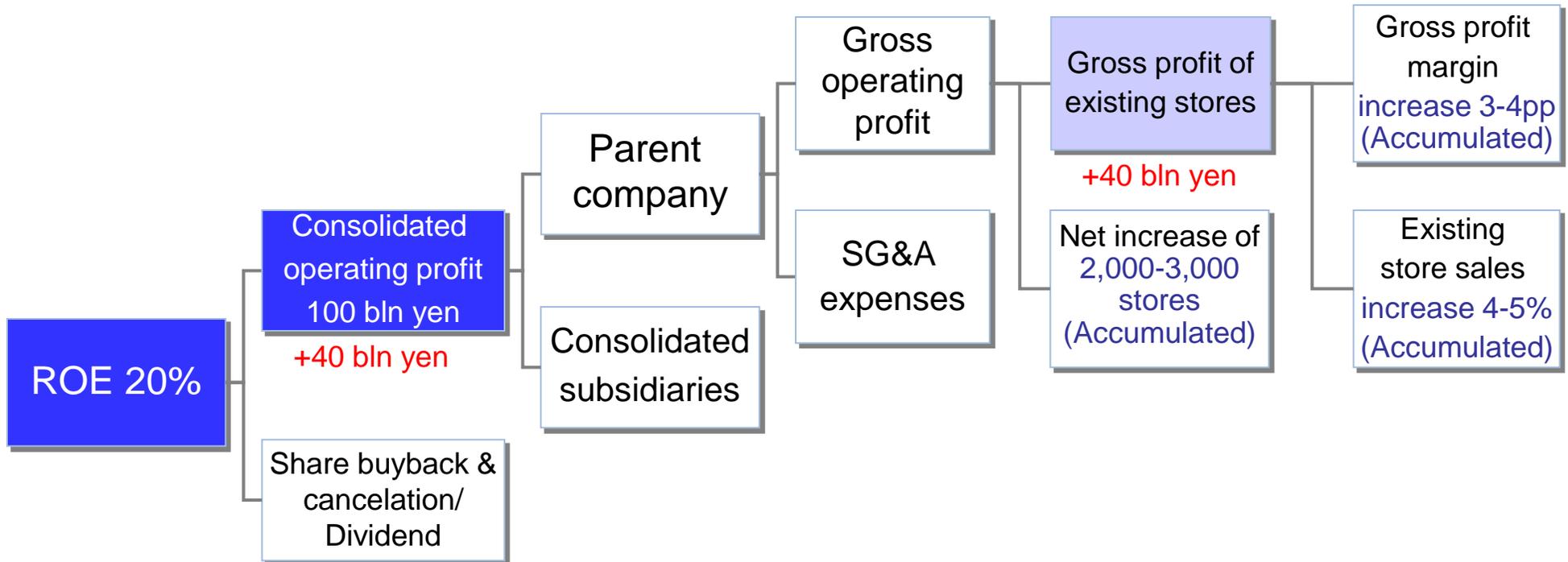
# Continually Improved Gross Profit Margin

## Gross Profit Margin Excluding Cigarettes



Since the launch of the innovative operation process “PRiSM”, gross margin has improved consistently

# Mid-Term Road Map Toward Achieving 100 Bln Yen in Operating Profit



Initiatives toward the goal of 100 billion yen in operating profit

- Full-scale CRM based on use of Ponta cards
- Visualization of cost structure in SCM
- Increase Ponta card members' wallet share through mutual movement of customers between the real store and e-commerce
- Overseas development through use of know-how of Japanese CVS

# Revisions of Franchise Package

## ■ New FC package's background and features

Reduce opportunity loss

Save electricity and introduce refrigerating/cooling equipment

Enhance fresh foods and promotion of Ponta cards. Secure attractive properties

Some waste is borne by the head office

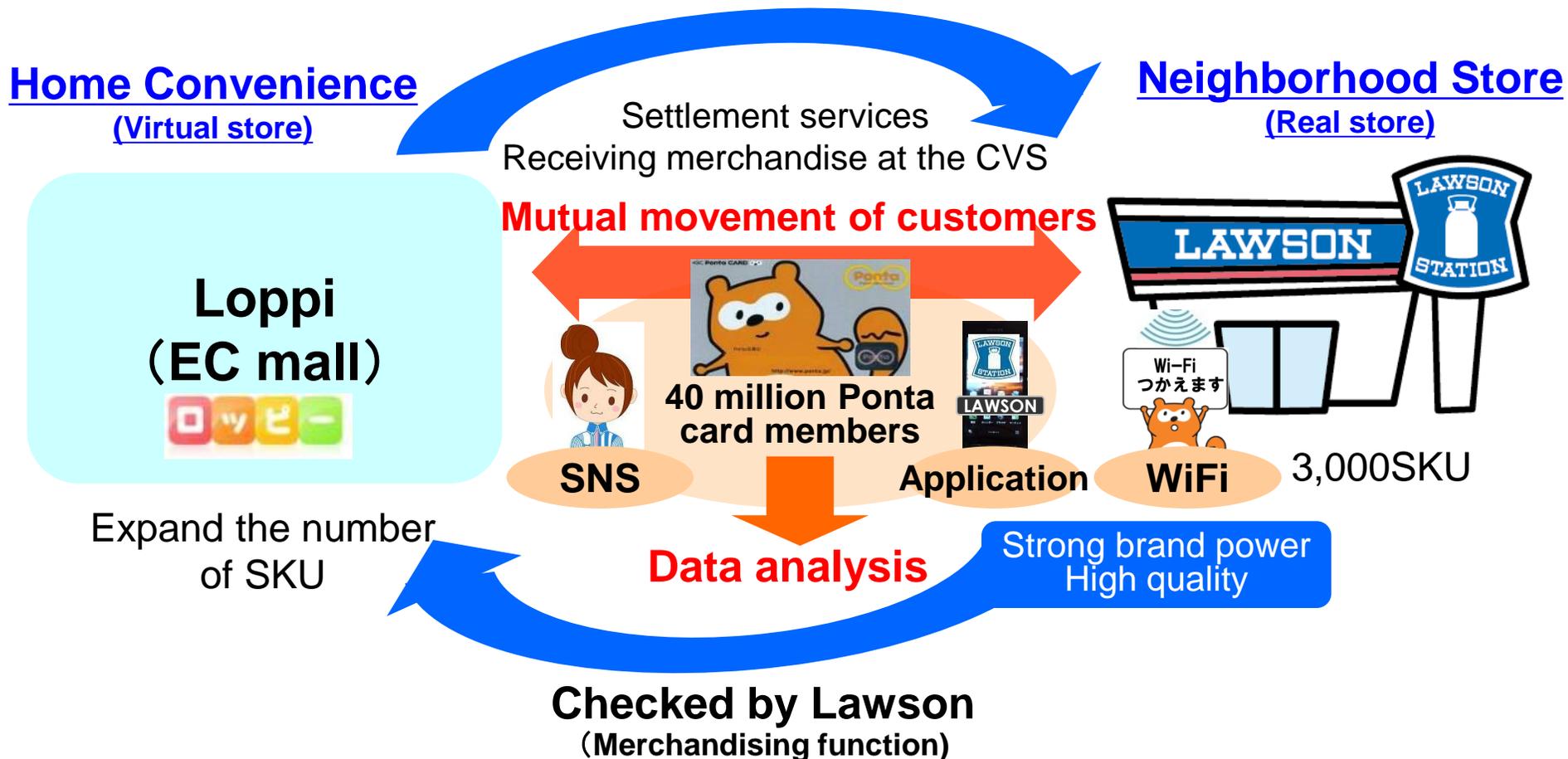
Half of electricity costs are borne by the head office

Revise the royalty rate  
Strengthen support for new stores



Realized through continual communication between franchise stores and the head office

# Online to Offline / Offline to Online through Ponta Cards



Aim to increase the wallet share of the spend of 40 million Ponta card members, by leveraging trust and CRM, which have been accumulated from CVS operations, in the EC business

# Develop Overseas Business

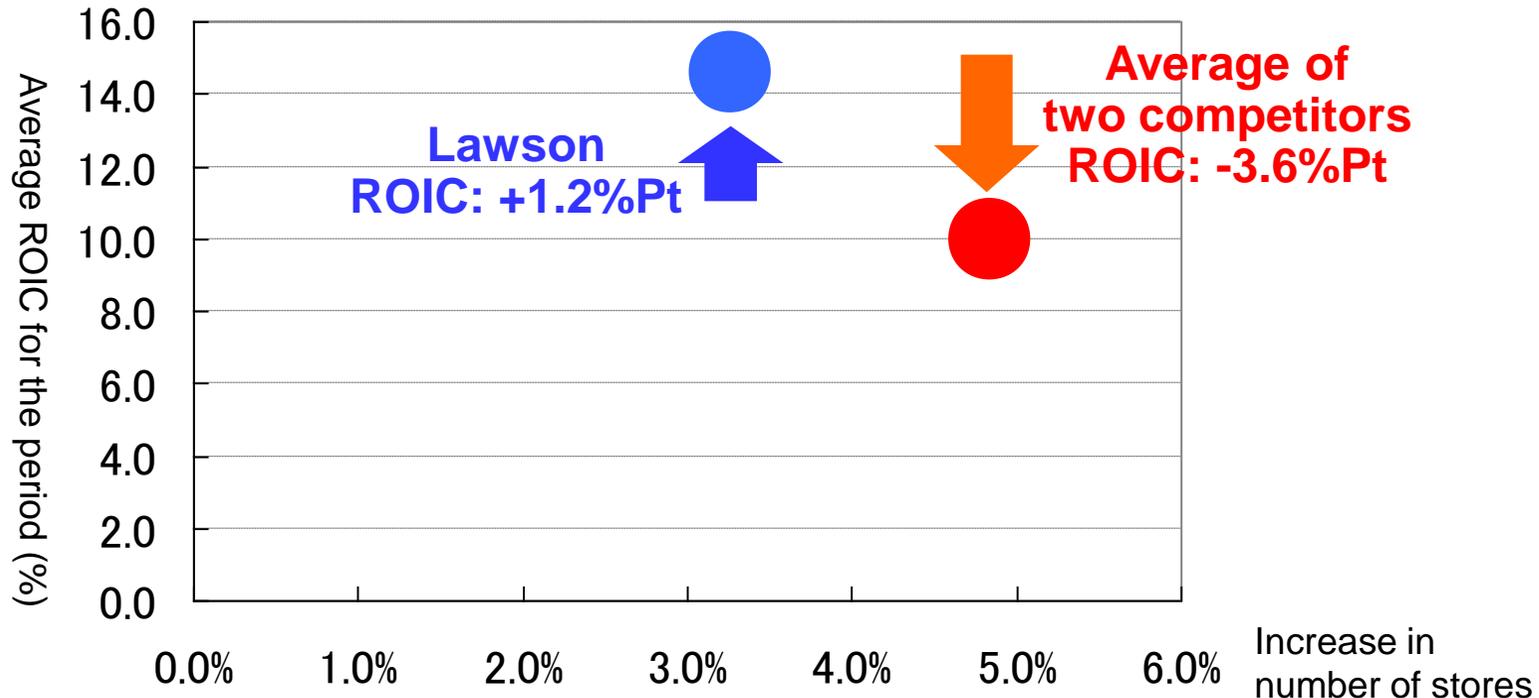
Entering a phase to expand Japanese-type CVS model that uses SCM and CRM



Open more stores by transplanting accumulated know-how regarding Japanese-type CVS and accelerating M&A activities  
 Plan to open 400 stores in China and 100 in Indonesia, making a total of 500

# Store Opening Strategy with Emphasis on ROIC

## Change in ROIC in Comparison to Competitors for Eight Years



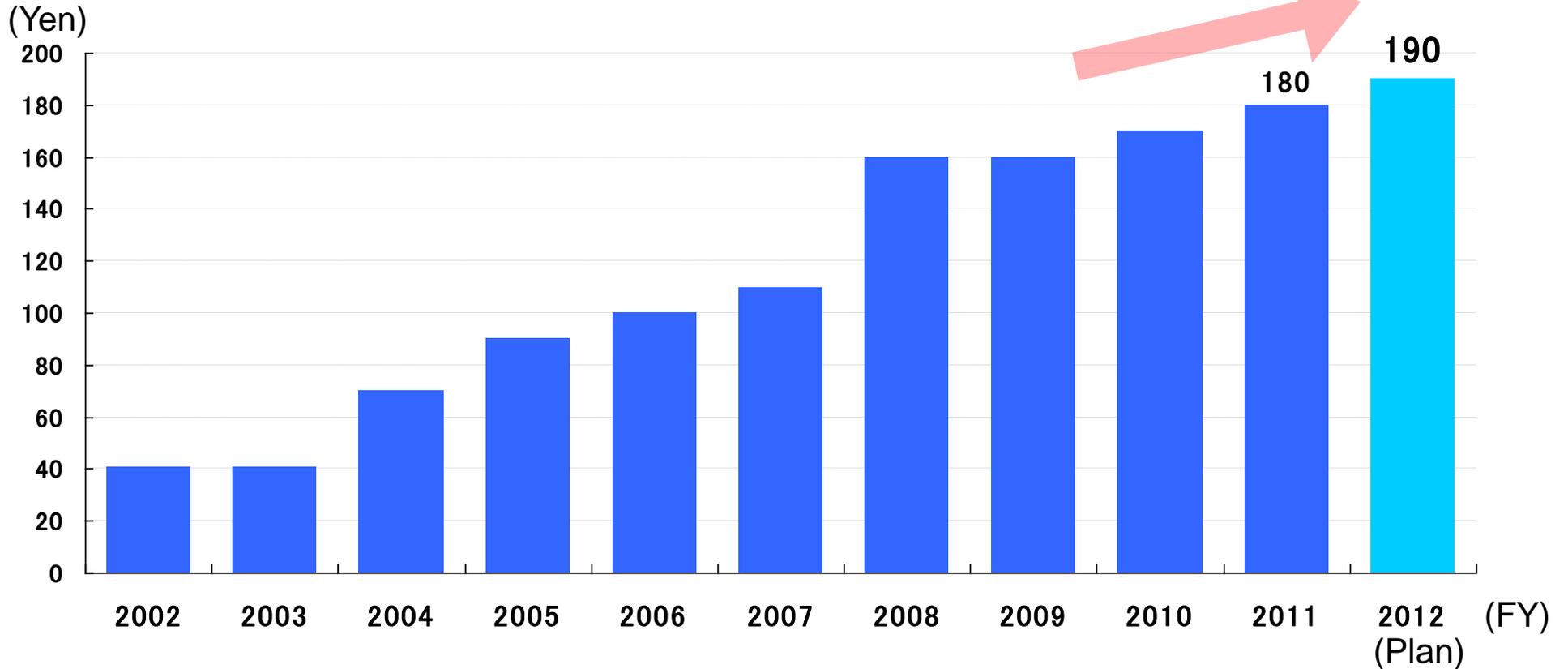
Note 1 ROIC = After-tax operating profit (@40% tax rate)/Averaged invested capital for the period (equity + interest-bearing debts)

Note 2 The horizontal axis indicates changes in number of stores (from fiscal 2002 to fiscal 2010)

Note 3 The arrows indicate changes in ROIC from fiscal 2002 to fiscal 2010

**Maintain store opening strategy emphasizing ROIC even during the phase of accelerating store openings**

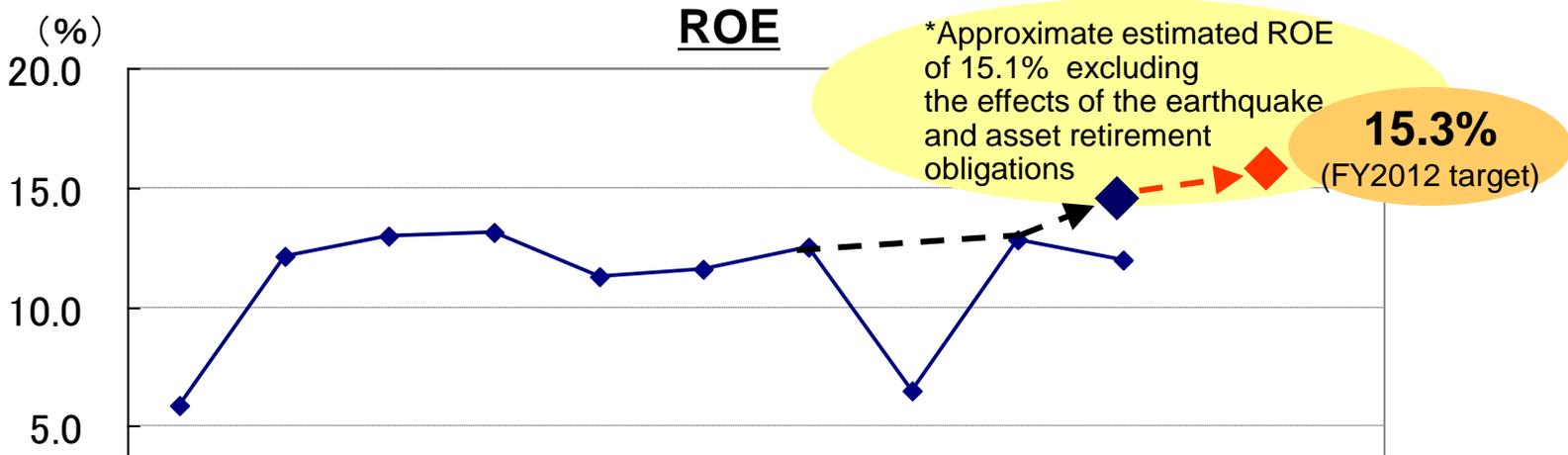
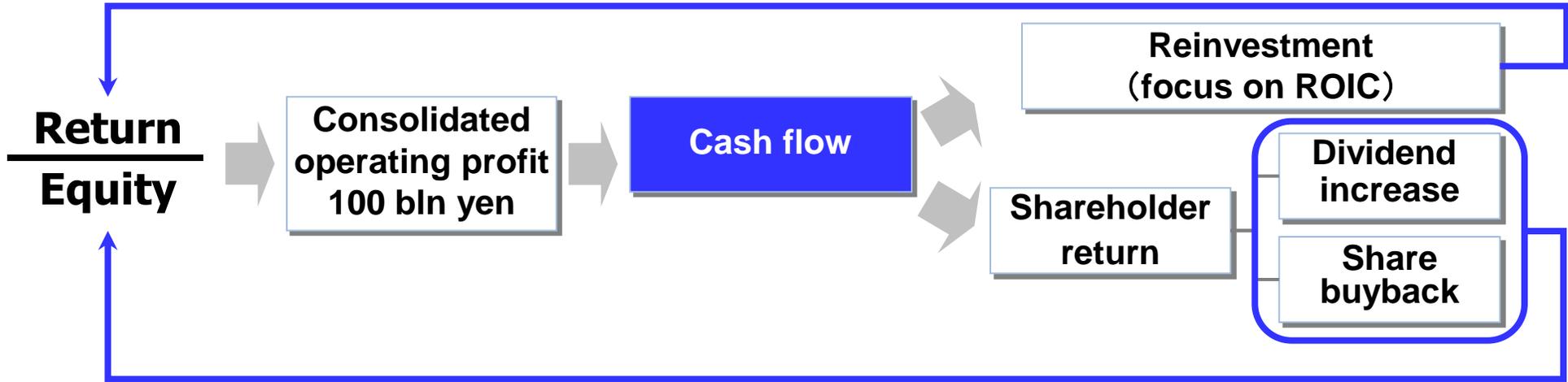
## Dividend per Share



Plan to increase dividend per share by 10 yen to 190 yen in FY2012, as in FY2011

# Sustainable ROE Growth and Shareholder Return

■ Improve ROE through optimal allocation of cash flow



**Achieve sustainable growth by allocating cash flow to reinvestment and shareholder return**

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 (Plan) (FY)

# Reference

# Half Year Breakdown of FY2012 Forecasts

	FY2012 Forecast		
	1st Half	2nd Half	Full year
(Consolidated: Billions of yen)			
Net sales of all stores	984.0	980.0	1,964.0
Operating profit	34.0	32.0	66.0
Operating profit ratio	3.5%	3.3%	3.4%
Recurring profit	33.6	31.5	65.1
Net profit	16.7	16.7	33.4
(Non-consolidated)			
Gross profit at existing stores (YoY)	102.4%	103.0%	102.7%
Net sales at existing stores (YoY)	101.0%	101.0%	101.0%
Gross profit margin ratio	30.6%	30.7%	30.6%

	FY2009	FY2010	<b>FY2011</b>	<b>FY2012</b>
(Consolidated: Billions of yen)	Actual	Actual	Actual	Forecast
New stores	19.8	13.6	21.5	31.0
Existing stores	8.1	8.9	10.2	13.0
IT-related	9.4	7.4	7.7	6.0
Other	0.6	0.1	0.6	–
Subtotal for capital expenditure	38.0	31.0	40.2	50.0
Depreciation and amortization	27.4	33.0	37.8	43.7

Allocate resources for new store investments based on the Group's store opening strategies  
Existing store investments are mainly for remodeling to fresh food-type stores

**Cautionary Statement**

This presentation contains forward-looking statements and forecasts regarding the future plans, strategies and performances of Lawson and its subsidiaries and affiliates. These statements and forecasts are not historical fact. They are expectations based on assumptions and beliefs derived from information currently available to the Company and are subject to risks and uncertainties including, but not limited to, economic trends, heightened competition in the domestic convenience store sector, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from estimates. Figures in this presentation have been rounded down.