

# First Half Results for FY2011

(Six months ended August 31, 2011)

## LAWSON, INC.

October 14, 2011

# Financial Results for the First Half of FY2011

Yoshiyuki Yahagi  
Chief Financial Officer

# First Half of FY2011 Earnings Summary

(Consolidated: Billions of yen)	1H of FY2009	1H of FY2010	1H of FY2011		
	Actual	Actual	Actual	YoY	vs. Plan
Net sales of all stores	840.7	837.8	<b>916.1</b>	109.3%	103.6%
Operating profit	30.1	30.1	<b>32.5</b>	108.0%	114.3%
Operating profit ratio	3.6%	3.6%	<b>3.6%</b>	0.0pp	0.4pp
Recurring profit	29.7	29.6	<b>32.6</b>	109.8%	118.1%
Net profit	15.8	12.2	<b>8.9</b>	72.9%	169.1%
EPS (Yen)	160.17	123.44	<b>89.72</b>	72.7%	169.1%
Dividend payout ratio	49.9%	68.9%	<b>97.0%</b>	28.0pp	-
Dividend per share (Yen)	80.0	85.0	<b>87.0</b>	2	-
Total number of stores in	9,629	9,860	<b>10,221</b>	361	57

Note: Change vs. the plan indicates comparison with the initial plan.

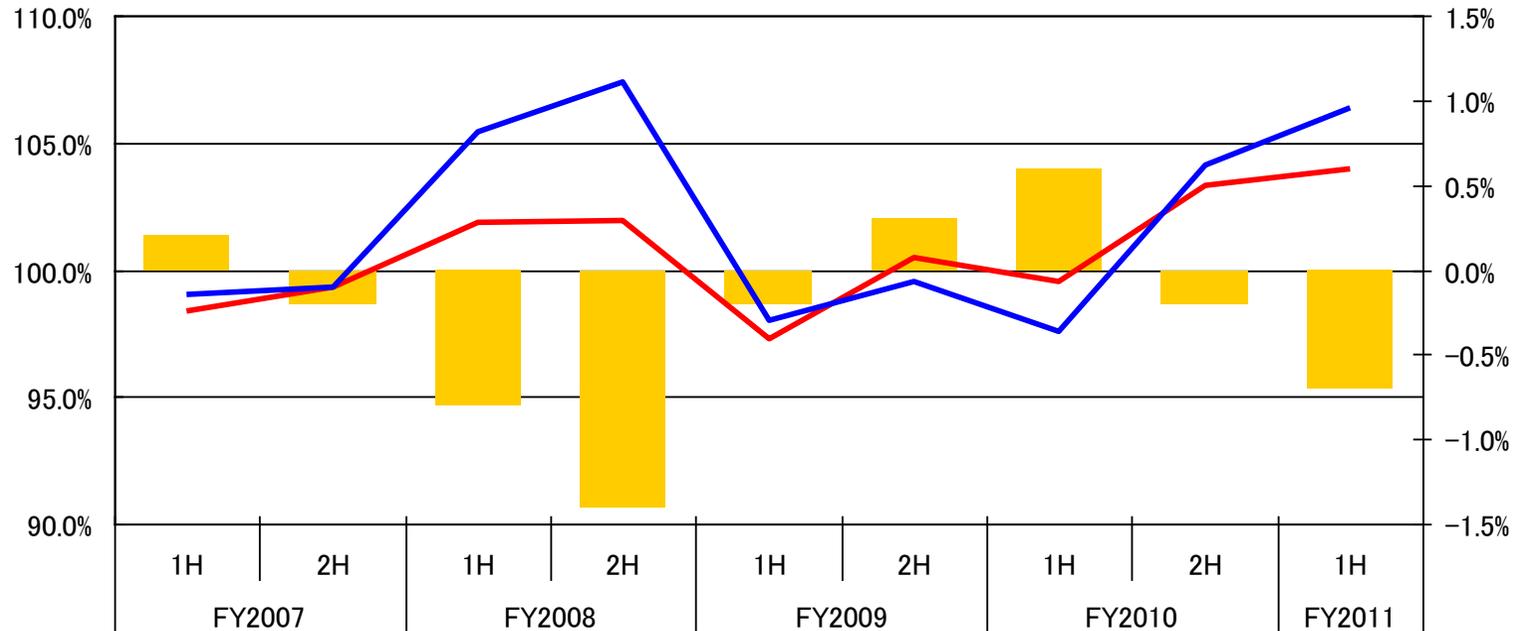
■ Consolidated operating profit exceeded the initial plan by 4.0 billion yen.

In addition to rice dishes, sales of over-the-counter fast foods and desserts remained strong and more than offset the earthquake effect in the first quarter. The hot summer also had positive impacts. 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 initial plan by 3.6 billion but recorded a year-on-year decrease.

Affected by asset liability obligation (8.3 billion yen) and loss on disaster (3.4 billion yen) as extraordinary loss.

# Existing Stores (Non-Consolidated)



(Reference)  
1H of FY2011  
Existing stores yoy

- ✓ Gross profit : 104.0%
- ✓ Sales: 106.4%
- ✓ No. of customers:  
100.9%
- ✓ Spend per customer:  
105.5%

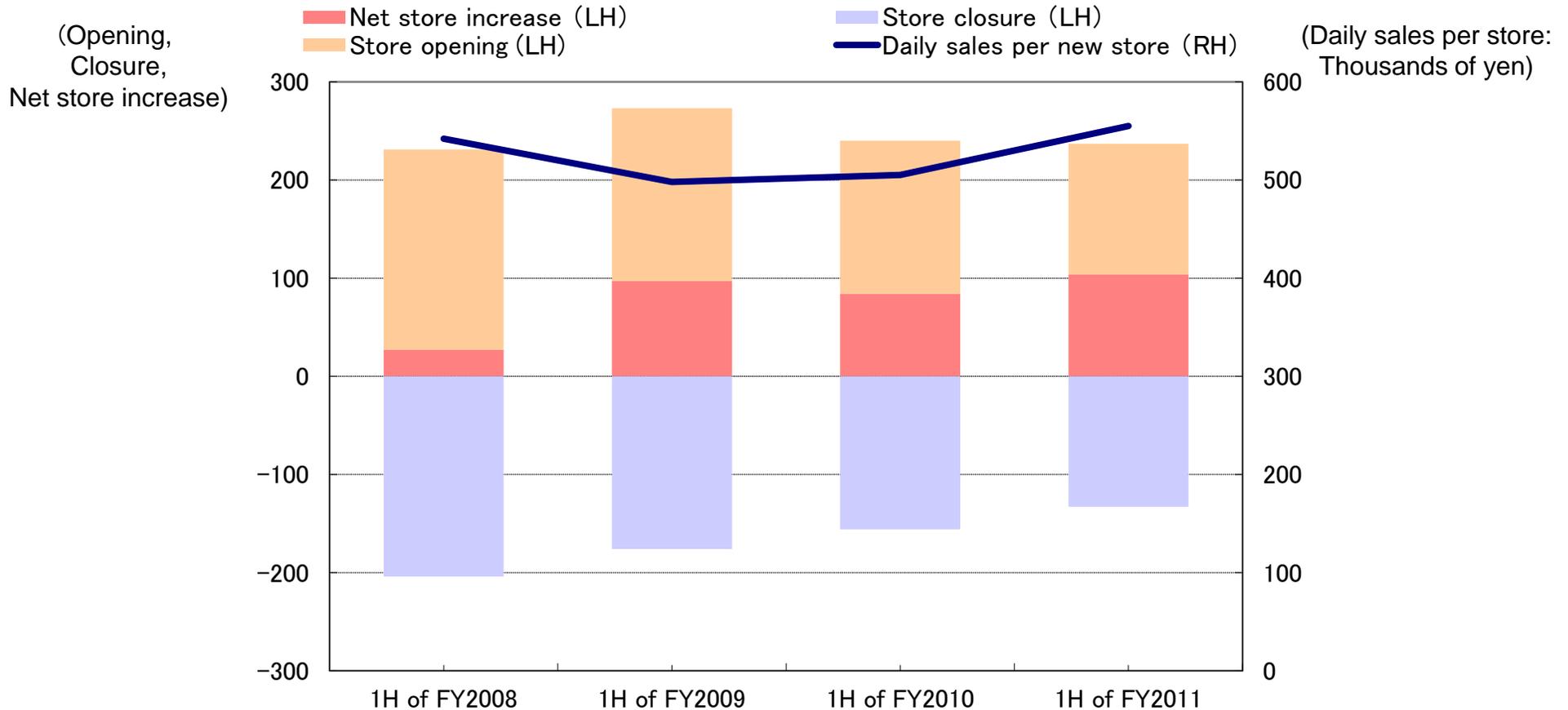
■ Gross profit margin change (RH)

— Change in existing stores gross profit (YoY, LH)

— Change in existing stores sales (YoY, LH)

- Existing store sales for the first six months increased by 6.4% year on year, thanks to strong sales of ready made meal items in the second quarter, despite a 3.3% growth in the first half, affected by the earthquake.
- The number of customers increased year on year, due to boosting recognition as a small catchment area retailer and expansion of customer base.
- Overall gross profit margin deteriorated due to the impact from a drop in cigarette sales (down 1.2 pp) but gross profit margin of products excluding cigarettes improved by 0.5 pp.

# Store Opening (Non-Consolidated)



- Favorable operations of existing stores resulted in 47 less closures and 7 more openings than planned. A net increase of 147 stores exceeded the plan.
- Daily sales per new store increased by 50,000 yen from a year ago to 555,000 yen.

# Key Components of SG&A Expense Items

(Billions of yen)		1H of FY2010	1H of FY2011	FY2011	
		Actual	Actual	Change	Forecast
Non-consolidated	Selling, general and administrative expenses	88.3	93.1	4.7	<i>Up 0-5%</i>
	<Major Strategic Expenses>				
	Personnel costs	17.0	17.5	0.4	<i>Down 0-5%</i>
	IT-related costs	7.0	7.6	0.6	<i>Up 5-10%</i>
	(Hardware leasing, software amortization, maintenance, etc.)				
	Advertising and promotional expenses	4.7	5.6	0.8	<i>Up about 15%</i>
<b>Consolidated SG&amp;A expenses</b>		<b>119.0</b>	<b>128.7</b>	<b>9.7</b>	<b><i>Up about 5%</i></b>

Note: FY2011 forecasts in italics have been revised from the initial plan.

Compared to 1H of Fiscal 2010		Compared to Plan	
Non-consolidated	<ul style="list-style-type: none"> <li>➤ Expenses for facilities associated with net increase in stores increased.</li> <li>➤ Personnel costs: Provision for bonus increased due to favorable results in the first half.</li> <li>➤ IT-related costs: Increased due to advance investments related to e-commerce and services.</li> <li>➤ Advertising and promotional expenses: Enhanced post-quake promotional activities.</li> </ul>	Non-consolidated	Basically in line with the plan (100 million yen more spent)
	Consolidated		<ul style="list-style-type: none"> <li>➤ Increased due to newly consolidating HMV Japan</li> </ul>

# Earnings of Major Subsidiaries and Affiliates

(Billions of yen)

## <Operating Profit of Major Subsidiaries>

	FY-end	Shareholding	1H of FY2011		FY2011
			Actual	Change	Forecast
Ninety-nine Plus Inc.	Feb.	100.0%	1.05	0.01	2.60
LAWSON ENTERMEDIA, INC. <sup>*1</sup>	Feb.	100.0%	0.94	0.32	1.30 <sup>*1</sup>
HMV JAPAN K.K. <sup>*1</sup>	Apr.	100.0%	▲ 0.08	▲ 0.08	
LAWSON ATM Networks, Inc.	Feb.	63.7%	1.75	0.09	3.20
Cross Ocean Media, Inc.	Feb.	42.0%	▲ 0.08	0.09	▲ 0.10

\*1 LAWSON ENTERMEDIA and HMV Japan merged on September 1, 2011 and became LAWSON HMV ENTERTAINMENT.

Forecasts are for the new company (change in fiscal year end to February).

## <Operating Profit of Equity-method Affiliates>

			2Q of FY2011	
LAWSON Okinawa, Inc.	Feb.	49.0%	0.40	0.11
SHANGHAI HUALIAN LAWSON CO., LTD.	Dec.	49.0% <sup>*2</sup>	▲ 0.16	▲ 0.10

\*2 Purchase of additional shares in September 2011 raised its shareholding ratio to 85%.

### Ninety-nine Plus, Inc.

Quake-led delay in introduction of PRiSM and shortage of merchandise resulted to a slight yoy increase in OP. Progress in store openings and conversion to franchise stores.

### LAWSON ENTERMEDIA, INC.

Post-disaster voluntary restraints on holding events ended earlier than expected. Use of high-margin sales channels, such as Loppi and own website, also contributed.

### HMV Japan K.K.

Recorded loss due to initial costs of new stores and other investments, but continued to make profits when excluding one-off expenses.

### LAWSON ATM Networks, Inc.

The number of transactions rose due to growth in ATM installation in line with net growth in stores, and a demand shift from financial institutions' shorter ATM operating hours triggered to save electricity.

# First Half of FY2011 Balance Sheet and Cash Flow (Consolidated)

LAWSON

	Aug. 31, 2011	Chg. From Feb. 28, 2011
<b>Total current assets</b>	177.0	32.0
(Cash and deposits)	94.3	19.5
(Marketable securities)	9.9	6.9
(Accounts receivable)	34.4	5.1
<b>Total noncurrent assets</b>	356.1	25.0
Property, plant and equipment	172.7	13.8
Intangible assets	36.9	0.8
Investments and other assets	146.4	10.3
(Long-terms loans receivable)	31.6	▲ 0.1
(Guatantee deposits)	82.9	1.2
<b>Total Assets</b>	533.2	57.1

	Aug. 31, 2011	Chg. From Feb. 28, 2011
<b>Total current liabilities</b>	231.2	38.6
(Accounts payable-trade)	101.5	20.1
(Deposits payable)	78.6	16.2
<b>Total noncurrent liabilities</b>	94.3	19.3
(Long-term guarantee deposits)	36.3	▲ 0.8
<b>Net Assets</b>	207.6	▲ 0.7
(Common stock)	58.5	-
(Retained earnings)	100.0	0.4
<b>Liabilities, and net assets</b>	533.2	57.1

Effects of adopting the new lease accounting: Property, plant and equipment 48.2 bln yen; Current/noncurrent liabilities 43.0 bln yen

	(Billions of yen)		
	1H of FY2009	1H of FY2010	1H of FY2011
Cash flows from operating activities	49.5	63.4	67.8
Cash flows from investing activities	▲ 15.8	▲ 12.6	▲ 28.4
<b>Free cash flows</b>	33.6	50.7	39.3
Cash flows from financing activities	▲ 11.2	▲ 16.1	▲ 13.2
(Reference) Cash and deposits	102.0	97.6	94.3

# Fiscal 2011 Consolidated Results Forecasts

(Billions of yen)	FY2009	FY2010	FY2011 (Forecast)	
	Actual	Actual	Plan	YoY
Net sales of all stores	1,666.1	1,682.8	1,808.0	107.4%
Operating profit	50.2	55.5	61.5	110.7%
Operating profit ratio	3.0%	3.3%	3.4%	0.1pp
Recurring profit	49.4	54.5	60.4	110.6%
Net profit	12.5	25.3	23.5	92.6%
ROE	6.5%	12.8%	11.4%*	▲1.4pp
EPS (Yen)	126.67	254.61	235.31	92.4%
Dividend payout ratio	126.3%	66.8%	76.5%	9.7pp
Dividend per share (Yen)	160	170	180	10
Total number of stores in Japan	9,761	9,994	10,374	380
(Non-Consolidated)				
Gross profit at existing stores (YoY)	96.8%	101.4%	102.8%	1.4pp
Net sales at existing stores (YoY)	95.9%	100.8%	104.0%	3.2pp
Gross profit margin ratio	30.4%	30.6%	30.3%	▲0.4pp

\*Approximate estimated ROE of 14.5% when excluding loss on disaster and asset retirement obligations

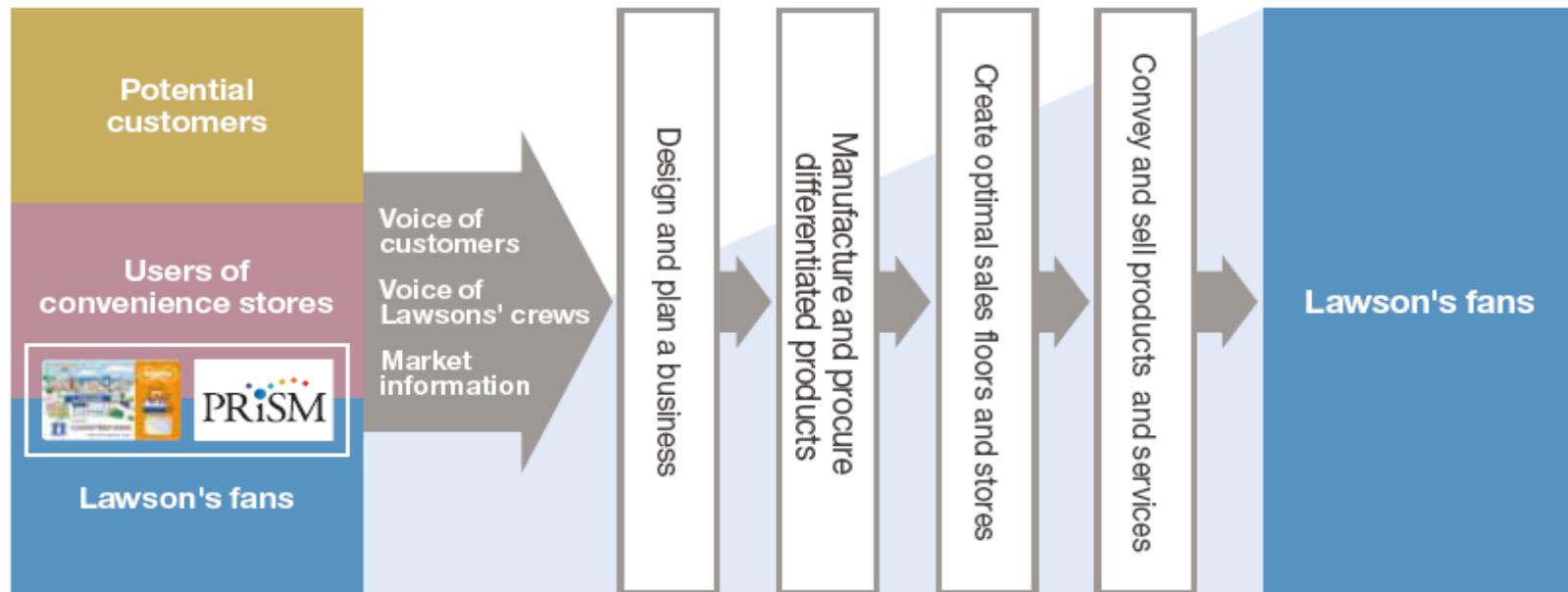
- Aim to increase operating profit by enhancing products and thoroughly implementing PRiSM.
- Use Ponta card purchase data analysis, provide merchandise assortment that matches each store location and area, and expand customer base so as to increase the number of customers.
- Gross profit margin is expected to deteriorate (down 0.8 pp) due to the effects of cigarette sales but improve by 0.4 pp excluding cigarettes, thanks to development of value-added products by leveraging raw material procurement advantages.

# Initiatives Adopted in the First Half of FY2011

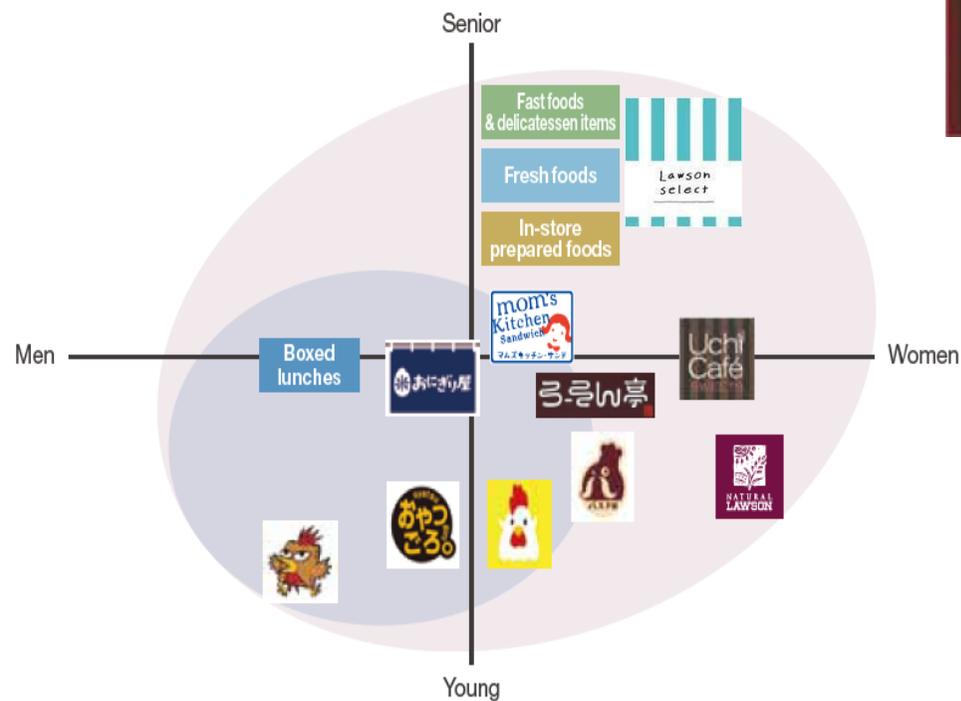
Genichi Tamatsuka  
Chief Operating Officer  
CVS Operating Group CEO

# Priority Issues in the First Half of FY2011

1. Expansion of customer base
  - Further development of Lawson's own products
  - Enhancement of fresh food-type convenience stores
2. Reduction in opportunity loss and status update on PRiSM
3. Promotion of direct communication with franchise owners



# 1. Expansion of Customer Base: Further Development of Own Products



Developed hit products through the spring and summer collections.

Lawson Tei



Launched new products to establish women-oriented products.



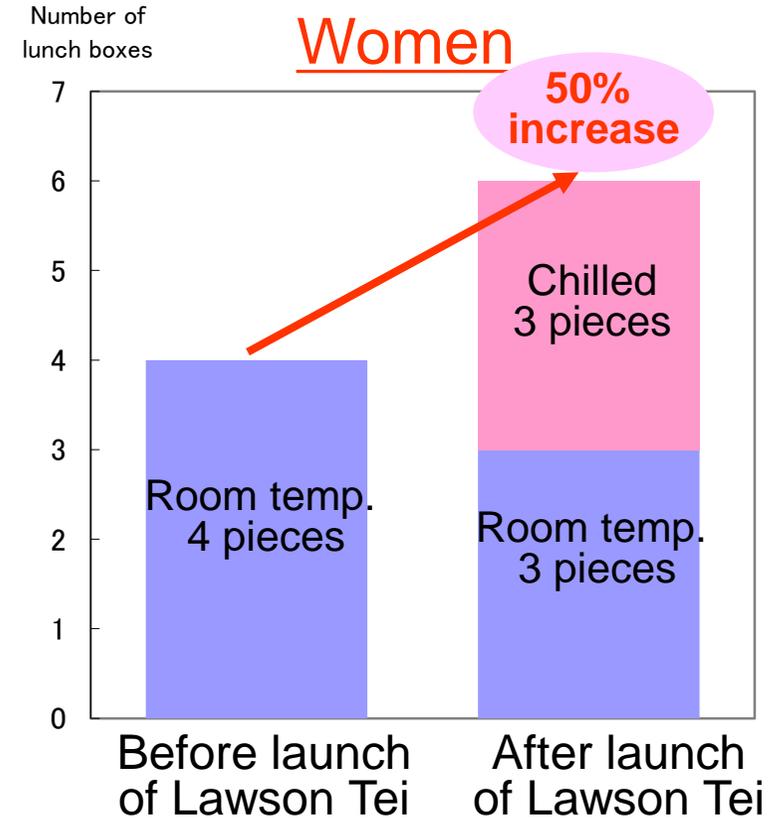
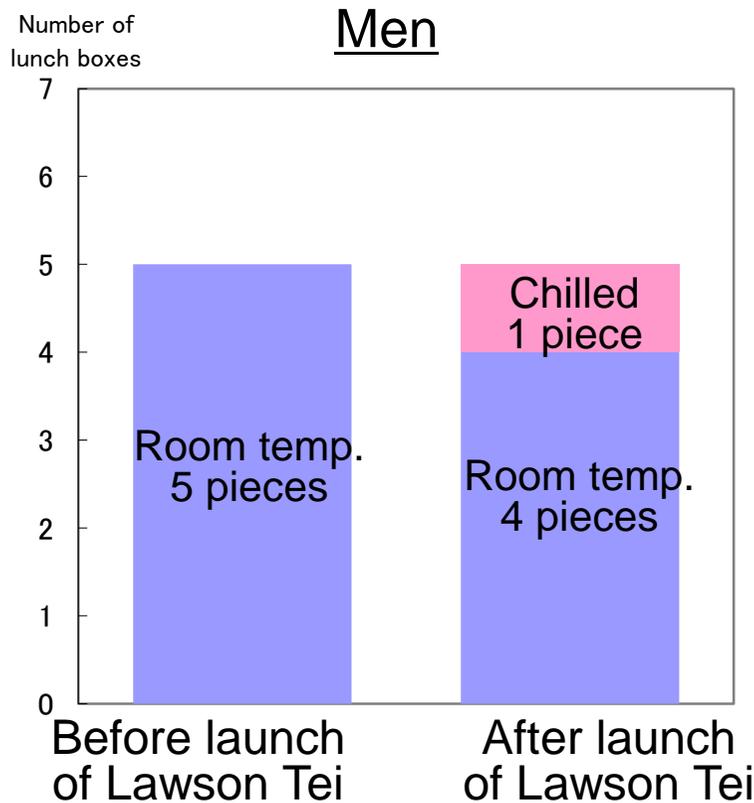
Expanded the category to become a brand that satisfies working housewives and seniors

**Lawson's own products targeting women and seniors have been developed by leveraging card data and advantages in raw material procurement.**

# 1. Expansion of Customer Base: Further Development of Own Products

Example:

Change in the number of lunch boxes purchased when 100 customers visit the store



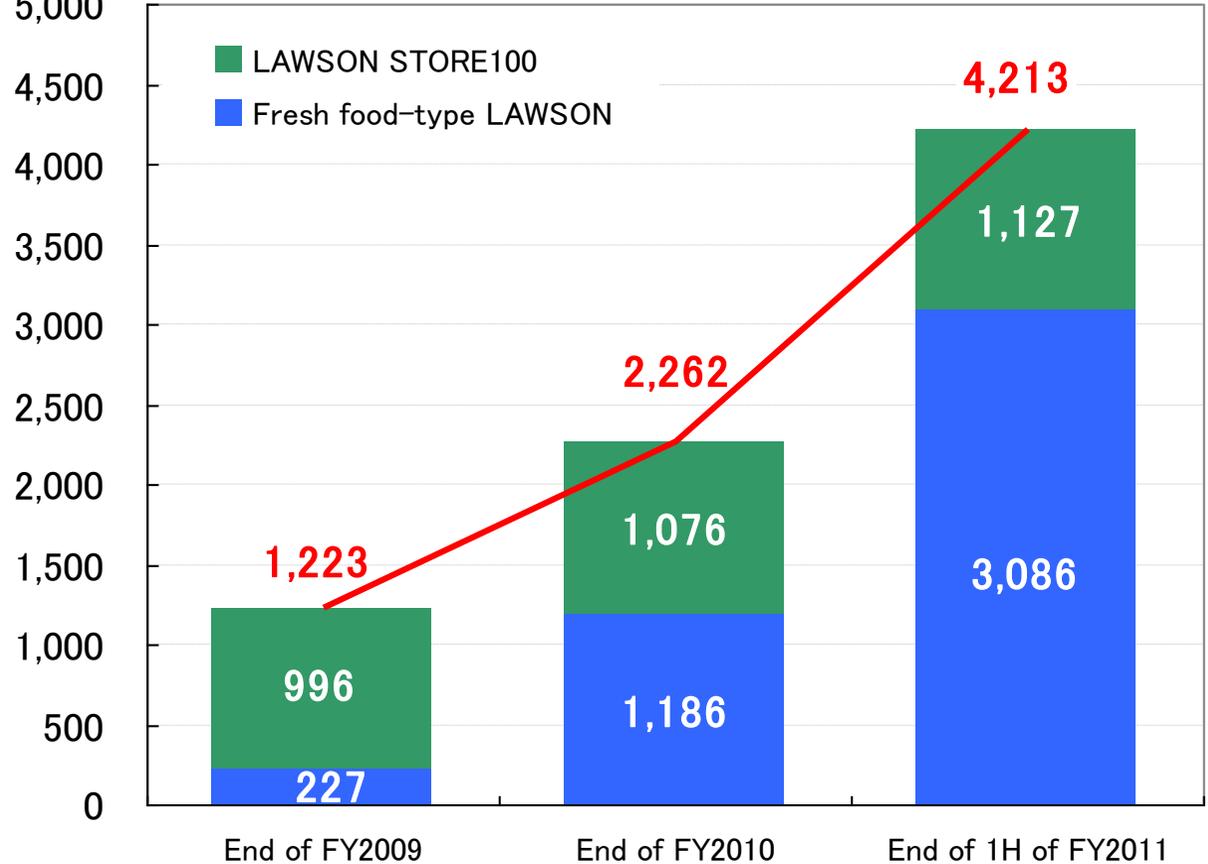
**Introduction of chilled lunch boxes increased the number of lunch boxes purchased by women.**

# 1. Expansion of Customer Base: Enhancement of Fresh Food-type CVS



No. of stores  
5,000

## Number of Fresh Food-Type Convenience Stores



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

# 1. Expansion of Customer Base: Enhancement of Fresh Food-type CVS

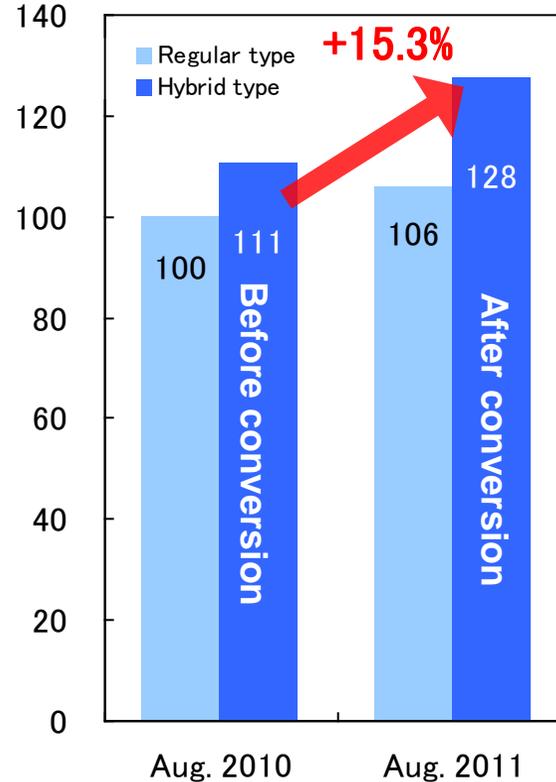
Example:

Survey sampling of a store in the north Chiba area (Comparison of data for August 2010 and 2011)



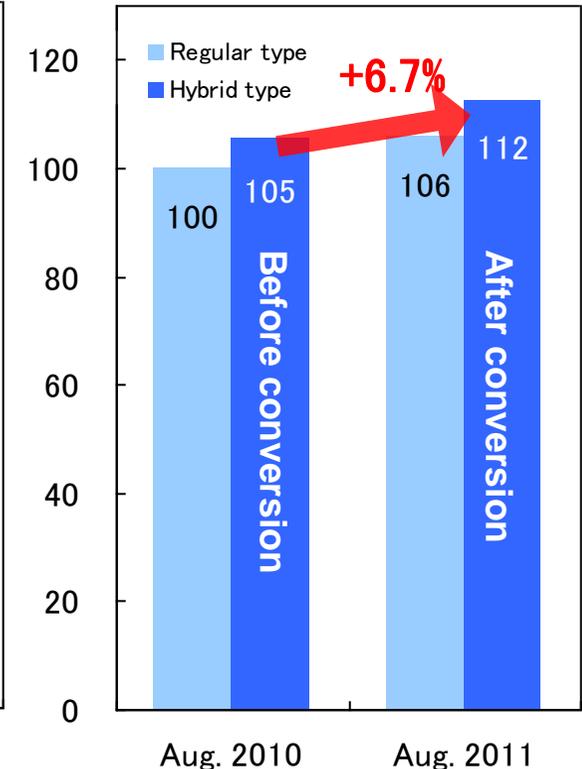
Note: Sampling of 12 converted stores to the hybrid type, excluding special cases, out of 180 stores in the north Chiba area

Hybrid Type vs. Regular Type  
Daily Sales



Daily sales of August 2010  
at the regular-type LAWSON store= 100

Hybrid Type vs. Regular Type  
Number of Customers



Number of customers of August 2010  
at the Regular-type LAWSON store= 100

**Thanks to conversion to the hybrid type, the number of customers and spend per customer increased sharply and boosted overall daily sales.**

# 1. Expansion of Customer Base: Increase in Senior and Female Customers

Example:

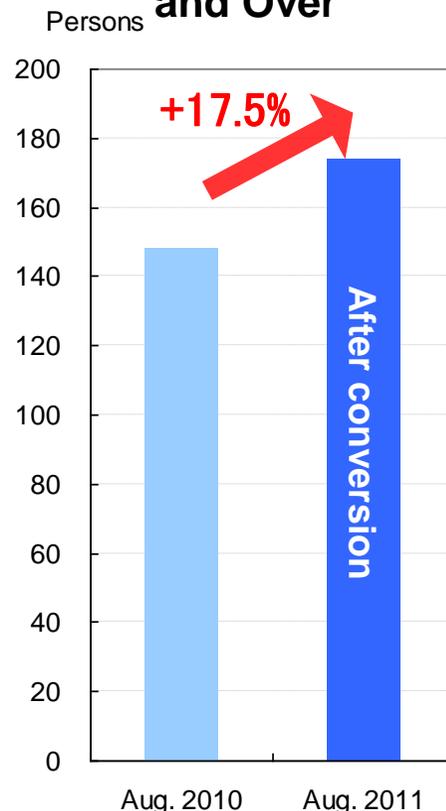
Survey sampling of a store in the north Chiba area (Comparison of data for August 2010 and 2011)

Effects of conversion to hybrid format

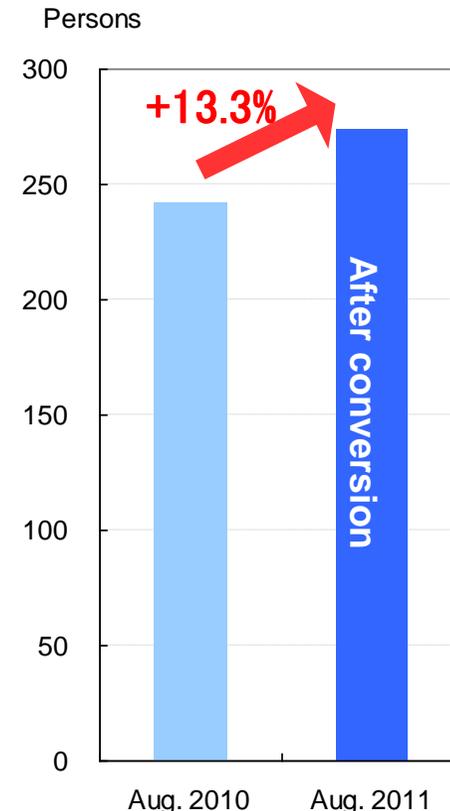
- Number of customers of sampling stores increased 7%, which was far beyond the growth rate for overall customers (1% increase).
- Customers aged 50 and over: Increased 18%
- Female customers: Increased 13%

Note: Sampling of 12 converted stores to the hybrid type, excluding special cases, out of 180 stores in the north Chiba area

### Customers Aged 50 and Over



### Female Customers



Number of customers of August 2010 at the Regular-type LAWSON store = 100

**Conversion to a hybrid format led to an increase in senior and female customers.**

# 2. Reduction in Opportunity Loss and Status Update on **LAWSON PRISM**

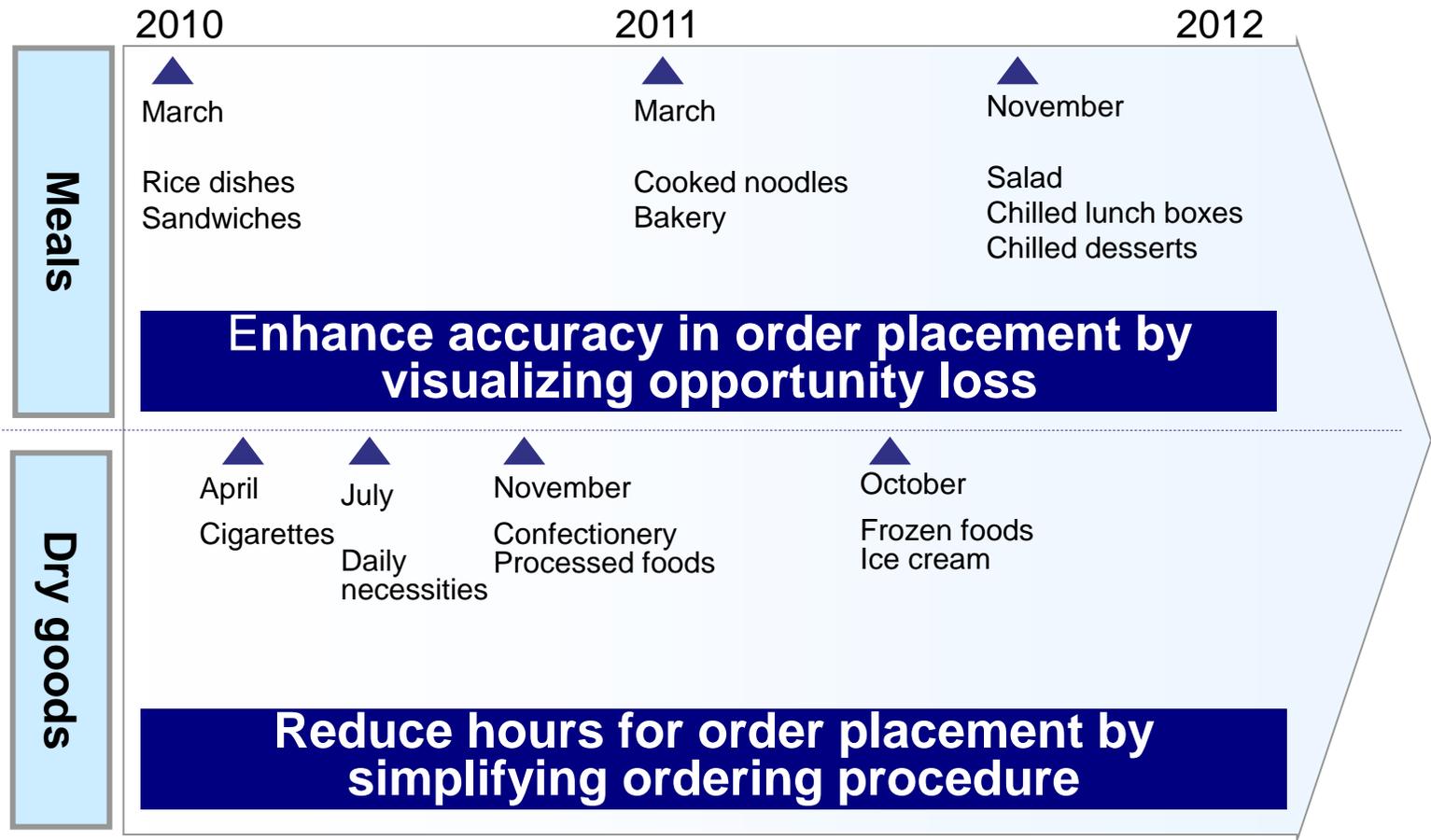
## Initiatives for Opportunity Loss Reduction

### Aims for PRISM introduction



||

Customer-oriented order placement for merchandise assortment



Note: Meal order placement method adopted to suit number of customers and purchase rate; dry goods order placement method adopted to maintain a certain level of inventories.

**More accurate order placement and less time-consuming ordering procedure result in reduction in opportunity loss.**

# 3. Promotion of Direct Communication with Franchise Owners

- Lawson seminars (14 seminars in 4 locations per year)  
※ Due to the earthquake in March, the number of seminars held has dropped in fiscal 2011.
- Franchise owners' meetings (20 meetings in 18 locations per year)
- Workshops at branches (76 branches, monthly)

Workshop at a branch



Franchise owners' meeting

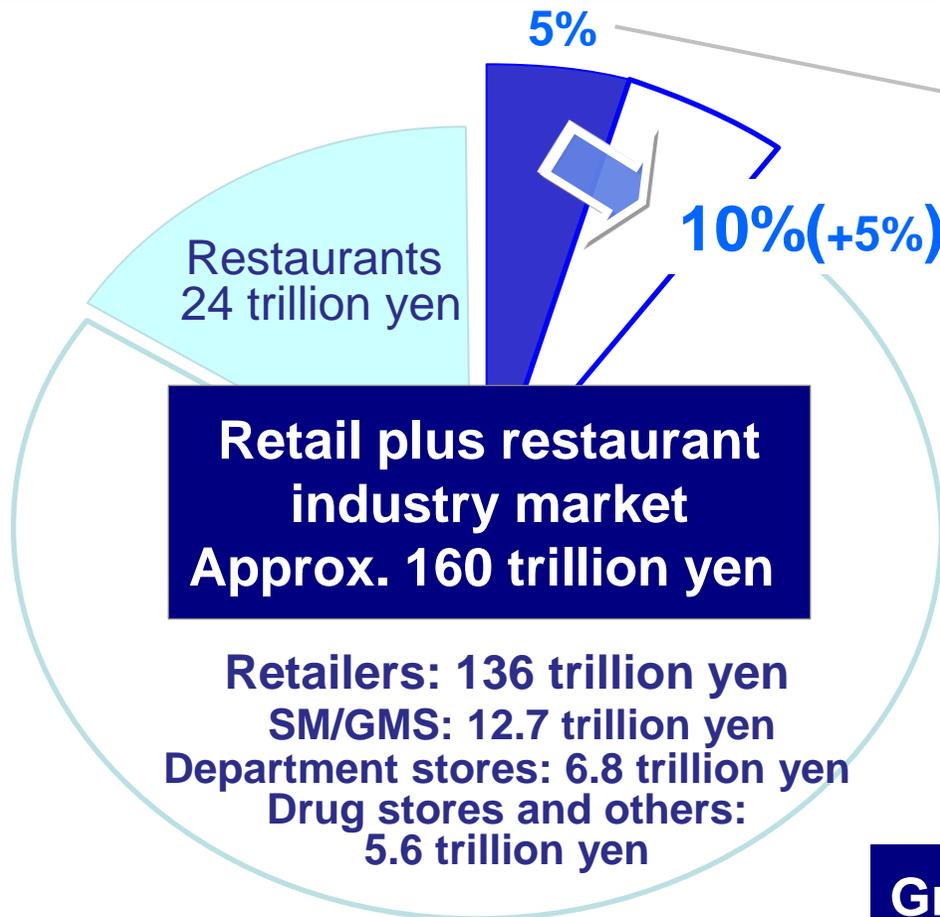


# Aiming to Become an SPA\*-Type (Real/Virtual) Retailer

Takeshi Niinami  
President & CEO

\* Specialty store retailer of Private label Apparel

# Japan's Retail and Convenience Store Industry



**Convenience store market**  
**8.1 trillion yen in size**  
(Core customers are men in 20's to 40's)

**The convenience store industry's share of retail is rising to 10%.**

## Growth drivers going forward

- ✓ Expansion of customer base (women and seniors)
- ✓ Increase in repeat rates (existing and potential customers)

Source:

"Survey of Commerce," Ministry of Economy, Trade and Industry, 2010

"Estimates of Market Size of Food Service Industry," Foodservice Industry Research Institute, 2010

"Drug Store Survey Data," Japan Association of Chain Drug Stores, 2010

# Initiatives Adopted in the First Half of FY2011

## Initiatives

Enhance fresh food-type convenience stores

Promote Lawson's Customer Relationship Management (CRM)

Develop e-commerce businesses

Develop overseas businesses

## Results

The number of fresh food-type convenience stores will increase to 5,000 by the end of FY2011.

Ponta card members numbered approx. 35 million. Sales to card members exceeded 35% of total sales. Products have been differentiated by adding more value in raw material procurement.

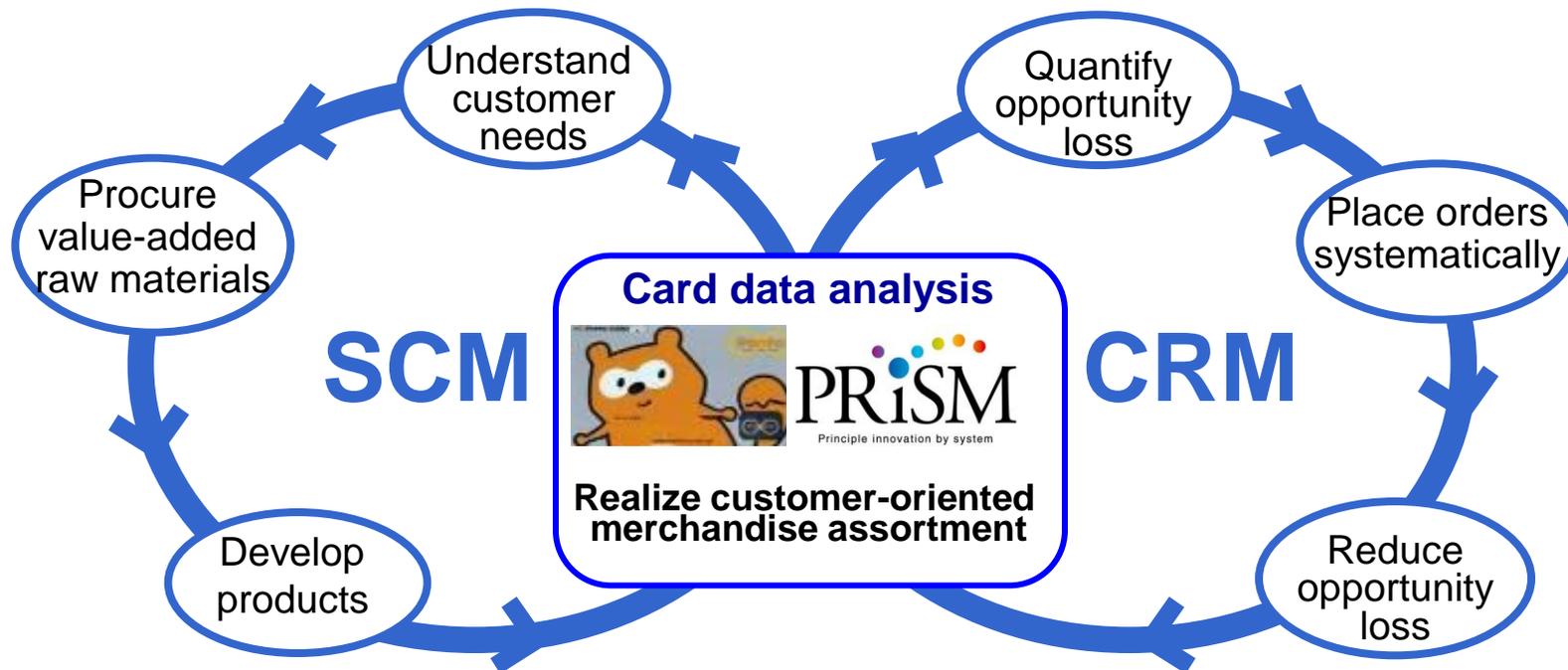
Further penetration to Ponta members  
Formed an alliance with Yahoo!  
Opened an online shopping mall

Reorganized operations of a subsidiary in Shanghai  
Opened stores in new areas in Asia

# SPA-Type Functions Strengthened by CRM and SCM

## Initiatives for the card data backbones

- 2008 Introduction of the concept of PRiSM
- 2009 Launch of the PRiSM system



## SCM-related initiatives

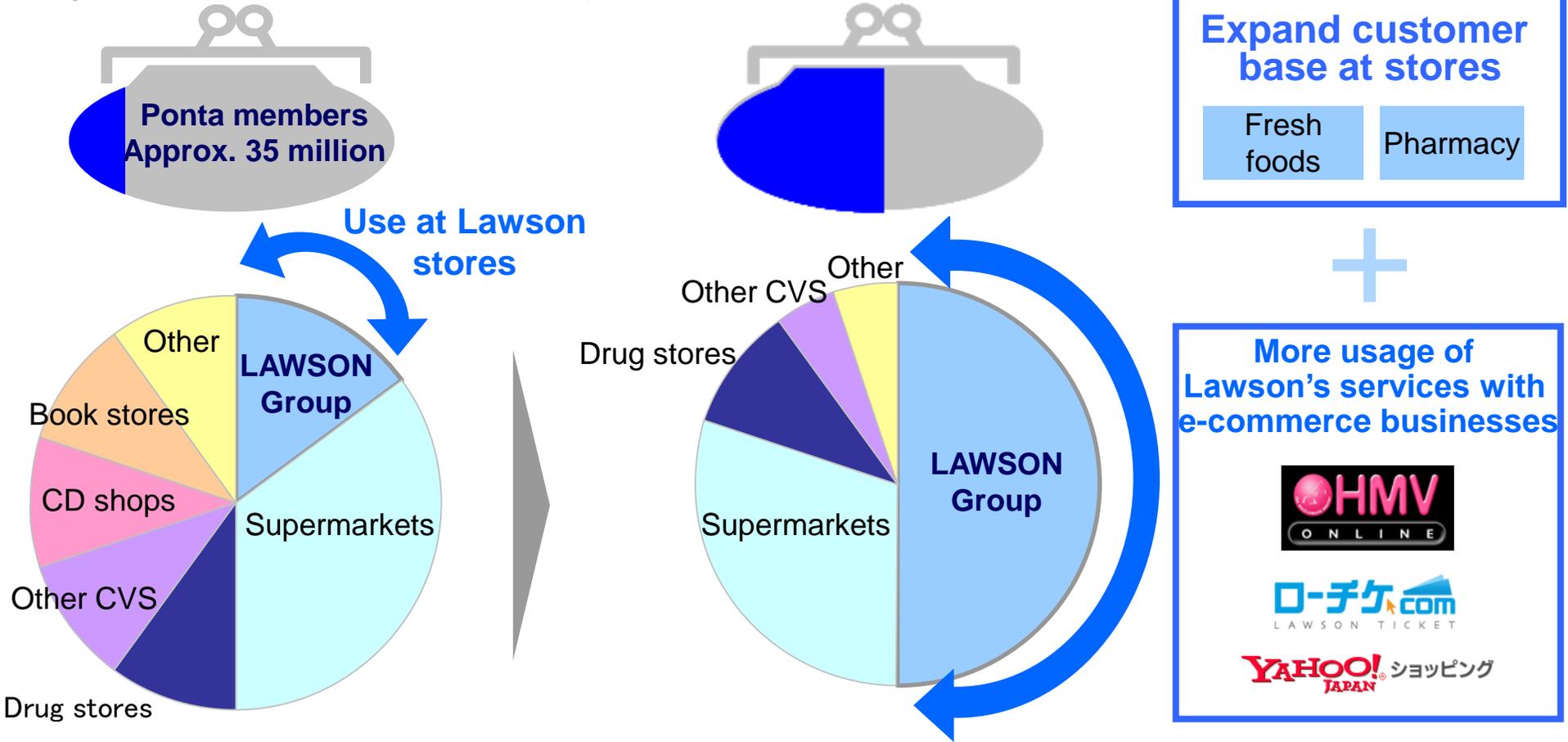
- 2009 Reduction in dry-type returned goods and raw material procurement
- 2010 Supply of data to manufacturers

## CRM-related initiatives

- 2010 Initiative to reduce sales opportunity loss

# Increase Customers' Wallet Share

Image of Wallet Share of Spend by Customers



**Lawson is expanding its share of spend by customers by increasing merchandise assortments and channels through its online shopping mall.**

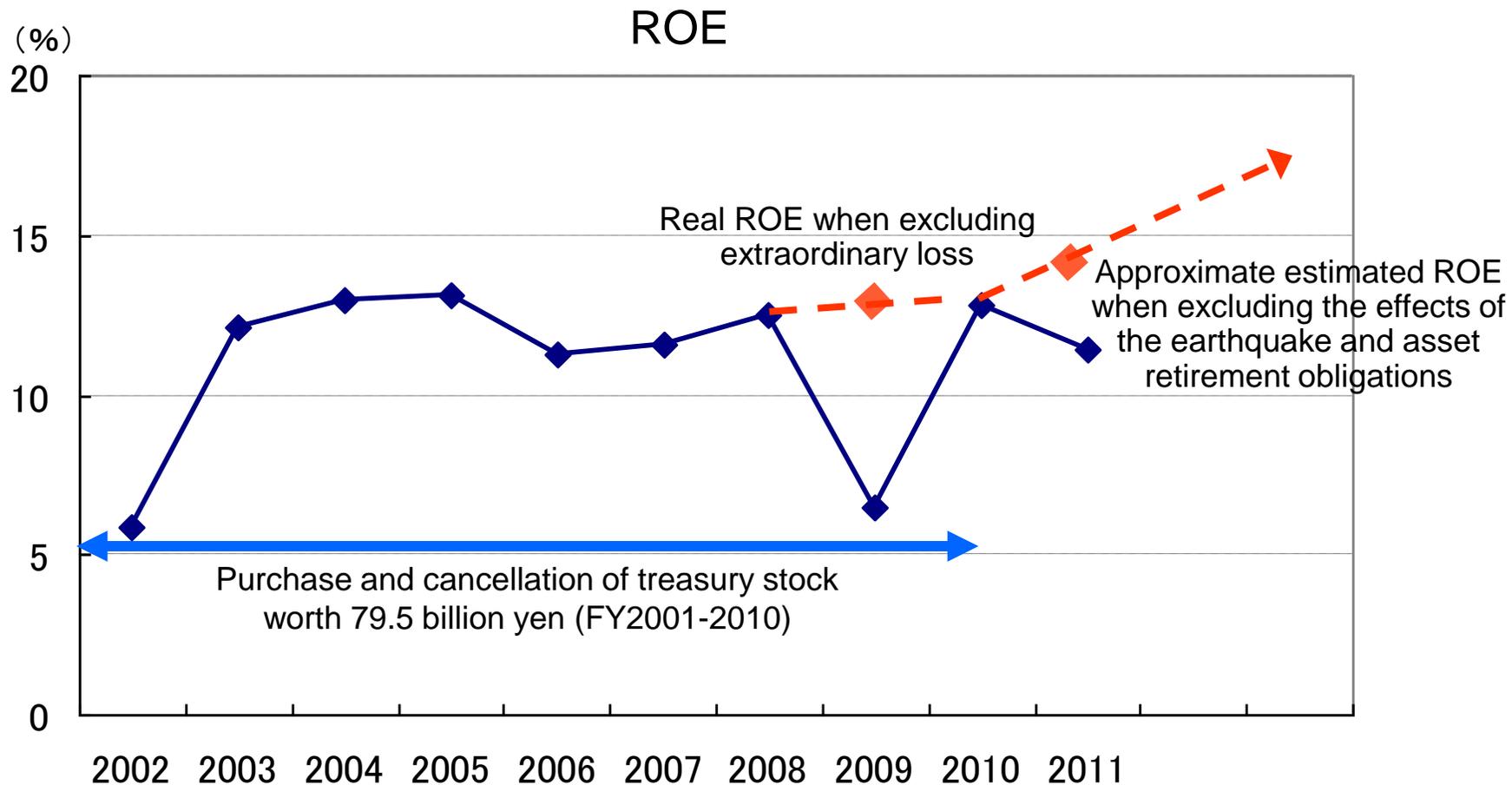
# Develop Overseas Businesses

Export accumulated know-how in “Japanese-type convenience stores that use SCM and CRM” to other countries



- Acquired a controlling interest in operations in Shanghai
- Established company supervising overseas operations (except China businesses) in Singapore
- Entered Dalian and other cities in China
- Entered Indonesia and India

# Targeting ROE of 20%



**We are aiming for an ROE of 20%, the global standard, while ensuring disciplined investments and dividend growth.**

# Medium- to Long-Term Goals for 2020: Achieve Earlier than Planned

**Lawson aims to become  
the world's top small  
format retailer as SPA**

**ROE target 20%**

**Sales growth**

Further penetration to Ponta card members  
 • Promote Lawson's CRM

Japan: Expand customer base (women and seniors)  
 • Fresh foods, healthcare  
 • EC businesses

M&A  
 • Overseas development  
 • Industry consolidation

**Profitability improvement**

**Operating profit ratio target 5%  
(for all chain store sales)**

SCM-based structural reform  
 • logistics reform

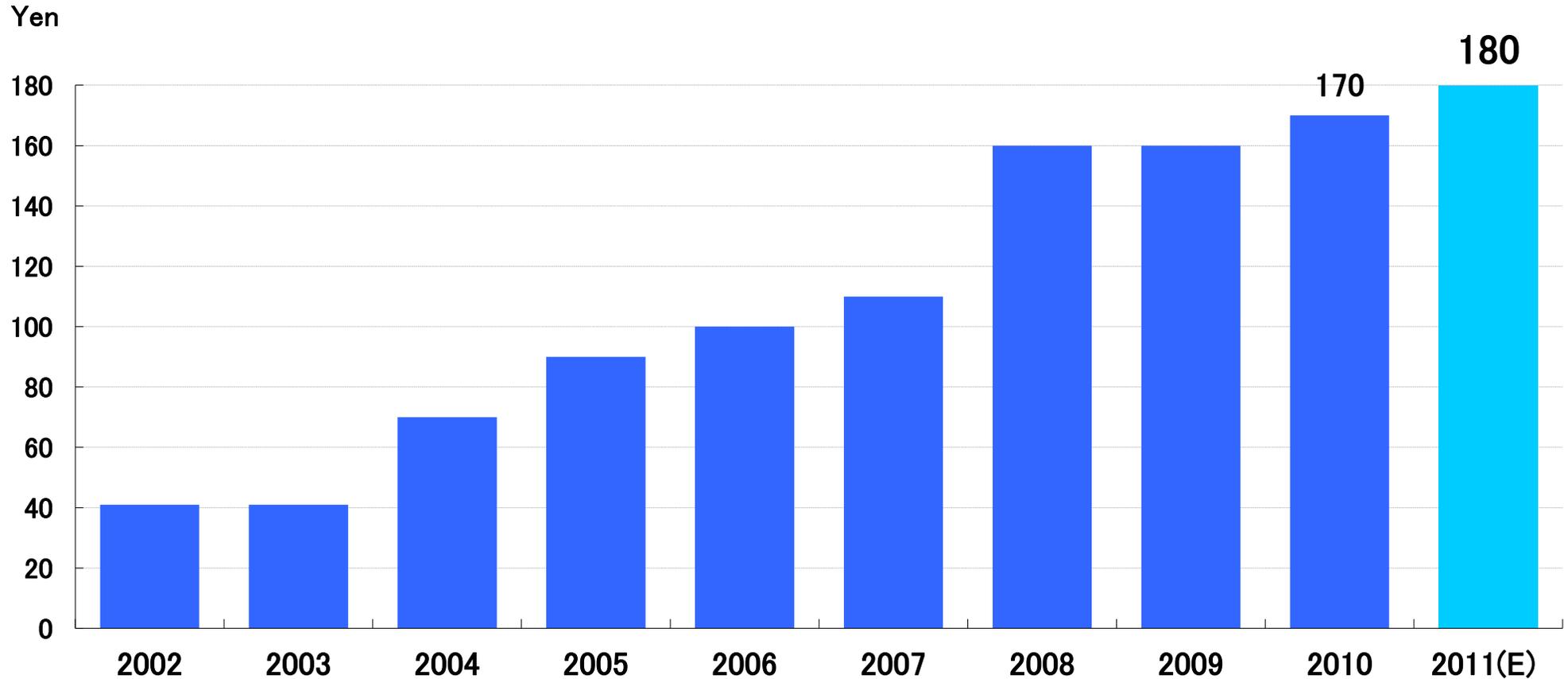
**Capital discipline**

Sustainable dividend growth

Share buybacks and cancellations

**Our target is to achieve operating profit of 100 billion yen.**

# Sustainable Dividend Growth



**Sustained dividend increase (Plan to increase per-share dividend by 10 yen to 180 yen)**  
**Continue to reward shareholders (dividend growth, share buybacks and cancellation)**  
**Improve capital efficiency while aiming for an ROE of 20%**

# Reference

# Half Year Breakdown of FY2011 Forecast

(Consolidated : Billions of yen)	FY2011 (Forecast)			
	1H Plan	1H Actual	2H Plan	Full-Year Plan
Net sales of all stores	884.0	916.1	891.8	1,808.0
Operating profit	28.5	32.5	28.9	61.5
Operating profit ratio	3.2%	3.6%	3.2%	3.4%
Recurring profit	27.6	32.6	27.7	60.4
Net profit	5.3	8.9	14.5	23.5
(Non-Consolidated)				
Gross profit at existing stores (YoY)	102.0%	104.0%	101.5%	102.8%
Net sales at existing stores (YoY)	103.5%	106.4%	101.5%	104.0%
Gross profit margin ratio	30.5%	30.2%	30.3%	30.3%

# Capital Expenditure

	1H FY2009	1H FY2010	1H FY2011	FY2011 (Full-Year)
(Consolidated : Billions of yen)	Actual	Actual	Actual	Plan
New Stores	9.6	7.1	9.8	19.0
Existing Stores	3.9	3.7	4.8	10.0
IT-related	4.6	4.3	3.7	8.5
Other	0.1	0.6	0.4	1.0
Subtotal for Capital Expenditure	18.3	15.8	18.8	38.5
Total depreciation and amortization	11.9	15.7	17.9	37.3

**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.