

First Half Results for FY2018

(Six months ended August 31, 2018)

Lawson, Inc.
October 12, 2018

Financial Results for First Half of FY2018

Satoshi Nakaniwa
Senior Vice President
Chief Financial Officer
Lawson, Inc.

Financial Results for 2018 1H: Overview

LAWSON

(Consolidated : Billions of yen)	FY2017 1H	FY2018 1H			FY2018 Forecast
	Act	Act	Diff.	v. Plan	
Operating profit	38.9	34.4	-4.4	+3.9	60.0
Recurring profit	38.4	33.5	-4.9	+4.5	57.0
Net Profit	23.6	17.9	-5.7	+0.9	28.0
(Non-consolidated %)					No change from initial plan
Existing store sales	100.5%	99.2%	-1.3%pt	-1.3%pt	
Gross profit margin	31.3%	31.4%	+0.1pt	+0.0pt	
No. of CVS stores	13,450	14,340	+890	- 52	

Consolidated operating profit: -4.4 bil yen YoY, +3.9 bil yen v. plan

- YoY: Gross operating revenue increased thanks to the increase number of stores, although operating profit decreased due to increased costs relating to franchisee support and next generation system, and opening of Lawson Bank business
- v. plan: profit rose on the back of lower business expenses and unused advertising and promotion spending.

Non-consolidated existing-store sales: -0.8% YoY, -1.3pp v. plan

- YoY & v. plan: Successful evening/nighttime range strengthening and stronger everyday living support boosted customer spend (+1.5%), but sluggish customer numbers (-2.2%) led to fall in sales.

FY2018 Full-year Plan (Consolidated Operating Profit)

(Billions of yen)	FY18 Initial Plan			FY18 Revised Plan			Diff	
	1H	2H	Full Year	1H Act	2H Revised	Full Year	1H (Initial v. Actual)	2H (Initial v. Revised)
Operating Profit	30.5	29.5	60.0	34.5	25.5	60.0	Approx.+4.0	Approx.-4.0

	Initial Plan	Revised Plan	Diff	
Next Generation System	Approx. -7.0 bil.	Approx. -5.0 bil.	Approx. +2.0 bil.	<p>1H (approx+4.0 bil yen)</p> <ul style="list-style-type: none"> Next-generation systems Cost cuts (installation efficiency etc.) (+1.0) CVS etc. Cost cuts etc. (+0.5) A&P unused etc. (+2.5)
New businesses	Approx. -2.0 bil.	Approx. -2.0 bil.	±0.0 bil.	<p>2H (approx-4.0 bil yen)</p> <ul style="list-style-type: none"> Next-generation systems Cost cuts (installation efficiency etc.) (+1.0) CVS etc. Daily sales review etc. (-1.0) Natural disaster costs etc. (-1.5) Unused expenses in 1H (A&P etc.) (-2.5)
CVS etc.	Approx. +3.0 bil.	Approx. +1.0 bil.	Approx. -2.0 bil.	
Total	Approx. -6.0 bil.	Approx. -6.0 bil.	±0 bil.	

※ Data rounded to the nearest 0.5bil yen for simplification purposes

FY2018 Full-year Forecast

Consolidated OP 60.0 bil yen (YoY -5.8 bil yen)

Consolidated Net Profit 28.0 bil yen (YoY +1.1 bil yen)

(Billions of yen)

	FY2018	
	Forecast	vs PY
Non-consolidated operating profit		
Existing-store sales (yoy)	100.0%	
Gross profit margin (yoy)	+0.1%P	
Operating profit	44.5	-6.5
Diff. cons./ non-cons.	15.5	+0.7
Consolidated operating profit	60.0	-5.8
Consolidated net profit	28.0	+1.1
Dividend (yen)	255	±0

Note: Existing-store sales and overall gross profit margin (YOY) include LAWSON and NATURAL LAWSON.

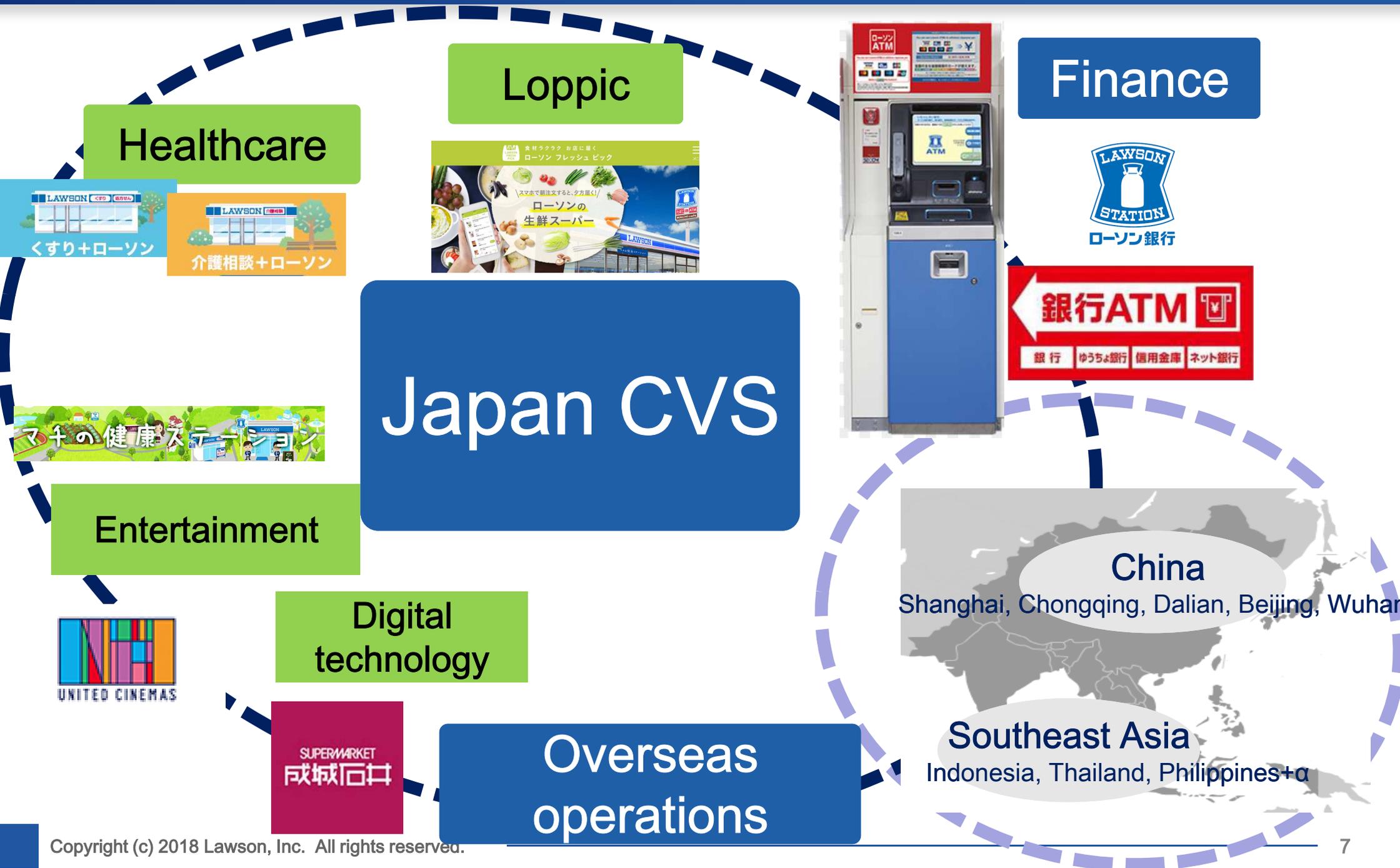
FY2018 Initiatives

Sadanobu Takemasu

President and CEO
Representative Director
Chairman of the Board

Lawson, Inc.

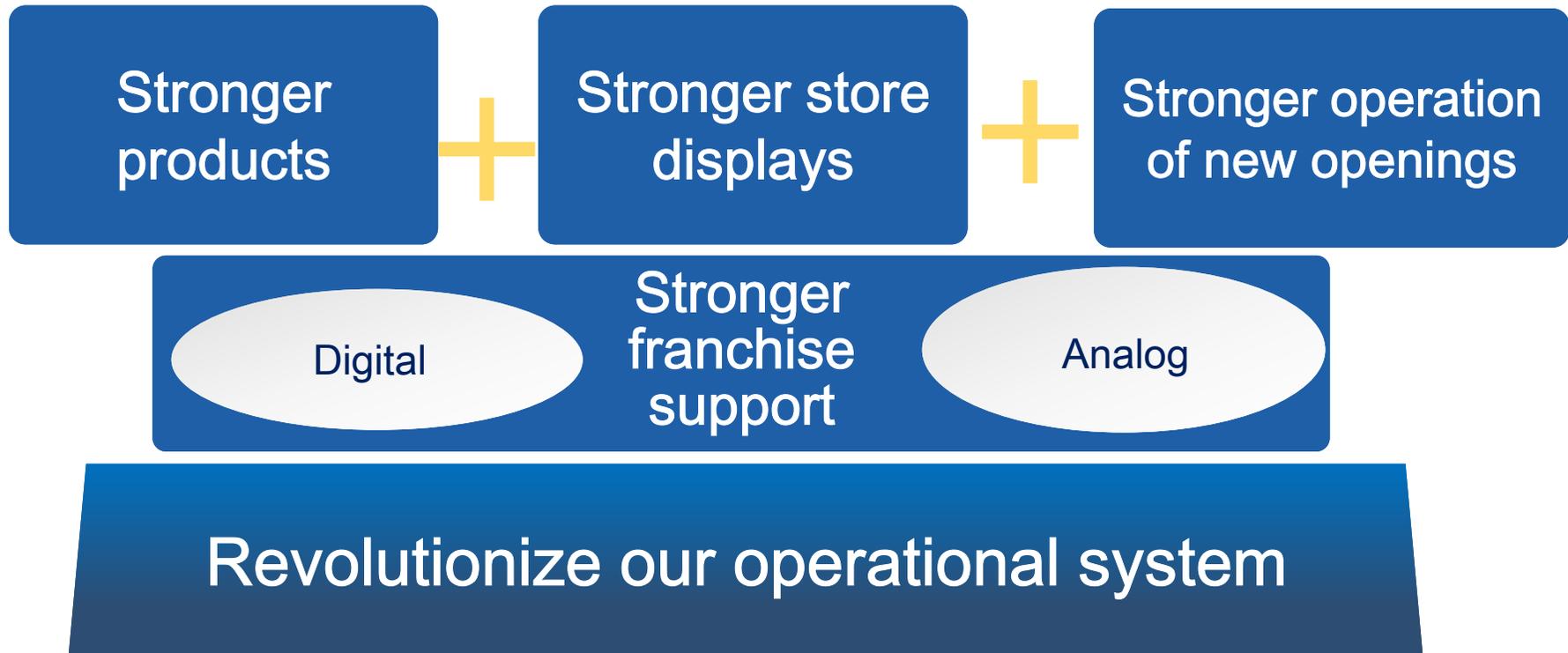
Lawson Overview



Become an essential part of our communities

Build Next-generation LAWSON CVS model

Create appealing stores for evening/night-time customers



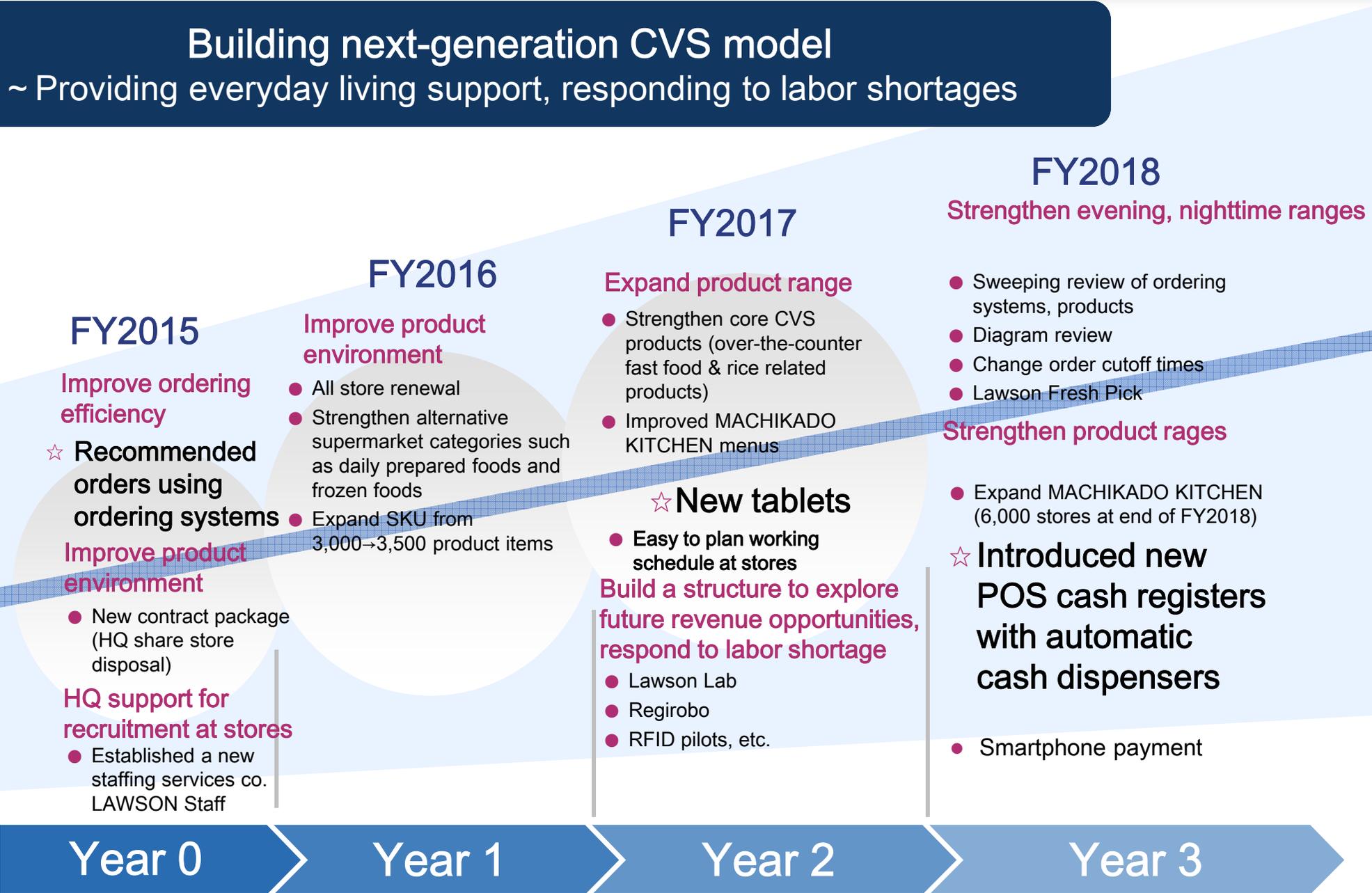
Challenge for future growth opportunities and revolution

Japan CVS: 1000-Day Action Plan Project

Building next-generation CVS model
 ~ Providing everyday living support, responding to labor shortages

Stronger everyday living support

Labor shortage response



FY2015

Improve ordering efficiency

- ☆ Recommended orders using ordering systems

Improve product environment

- New contract package (HQ share store disposal)

HQ support for recruitment at stores

- Established a new staffing services co. LAWSON Staff

FY2016

Improve product environment

- All store renewal
- Strengthen alternative supermarket categories such as daily prepared foods and frozen foods
- Expand SKU from 3,000→3,500 product items

FY2017

Expand product range

- Strengthen core CVS products (over-the-counter fast food & rice related products)
- Improved MACHIKADO KITCHEN menus

☆ New tablets

- Easy to plan working schedule at stores
- Build a structure to explore future revenue opportunities, respond to labor shortage

- Lawson Lab
- Regirobo
- RFID pilots, etc.

FY2018

Strengthen evening, nighttime ranges

- Sweeping review of ordering systems, products
- Diagram review
- Change order cutoff times
- Lawson Fresh Pick

Strengthen product ranges

- Expand MACHIKADO KITCHEN (6,000 stores at end of FY2018)

☆ Introduced new POS cash registers with automatic cash dispensers

- Smartphone payment

Year 0

Year 1

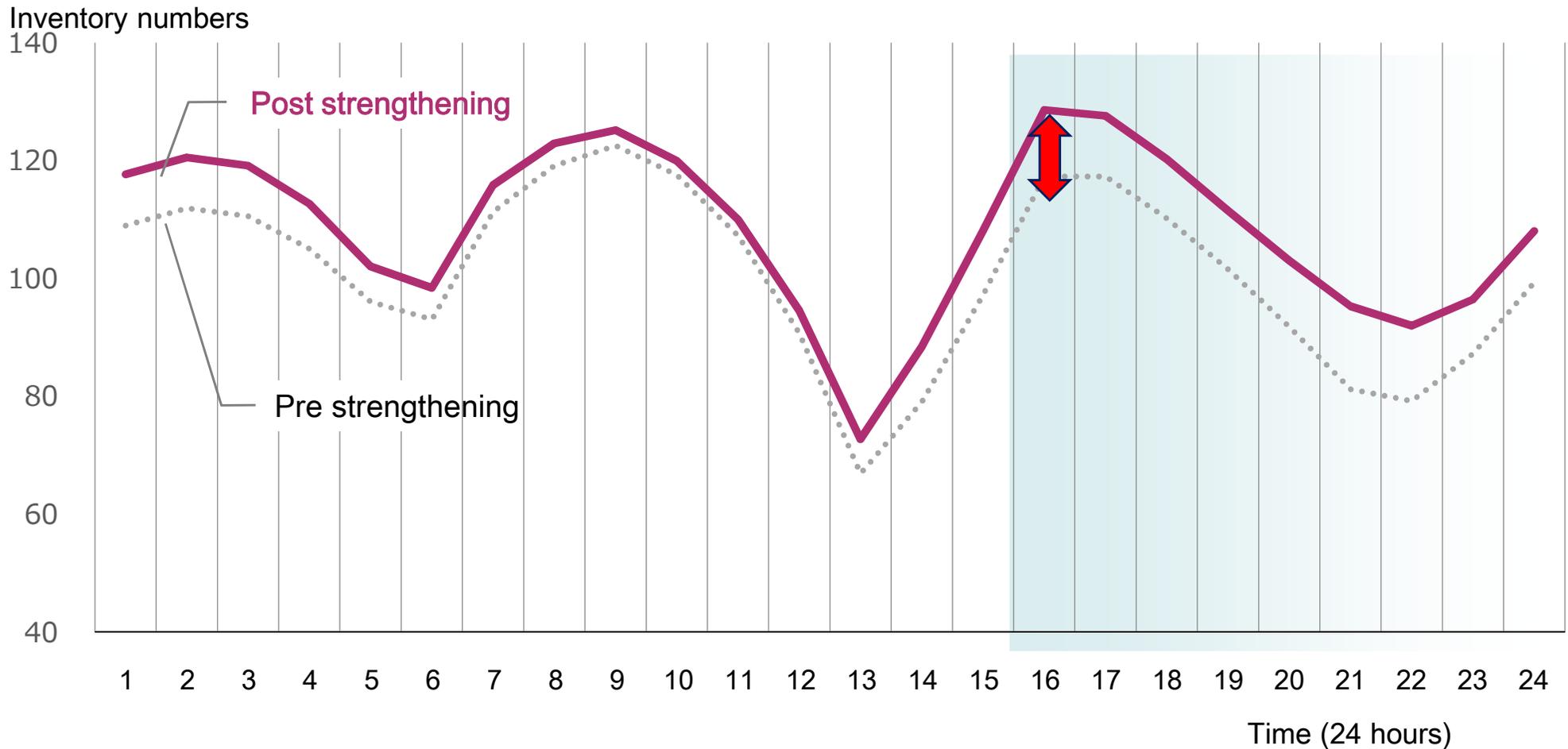
Year 2

Year 3

FY2018 First-half Results Review

Orders & Logistics Review, Inventory Changes

Evening/nighttime strengthening products
Inventory increase after 16:00



Successful Strategy to Strengthen Evening/Nighttime Range

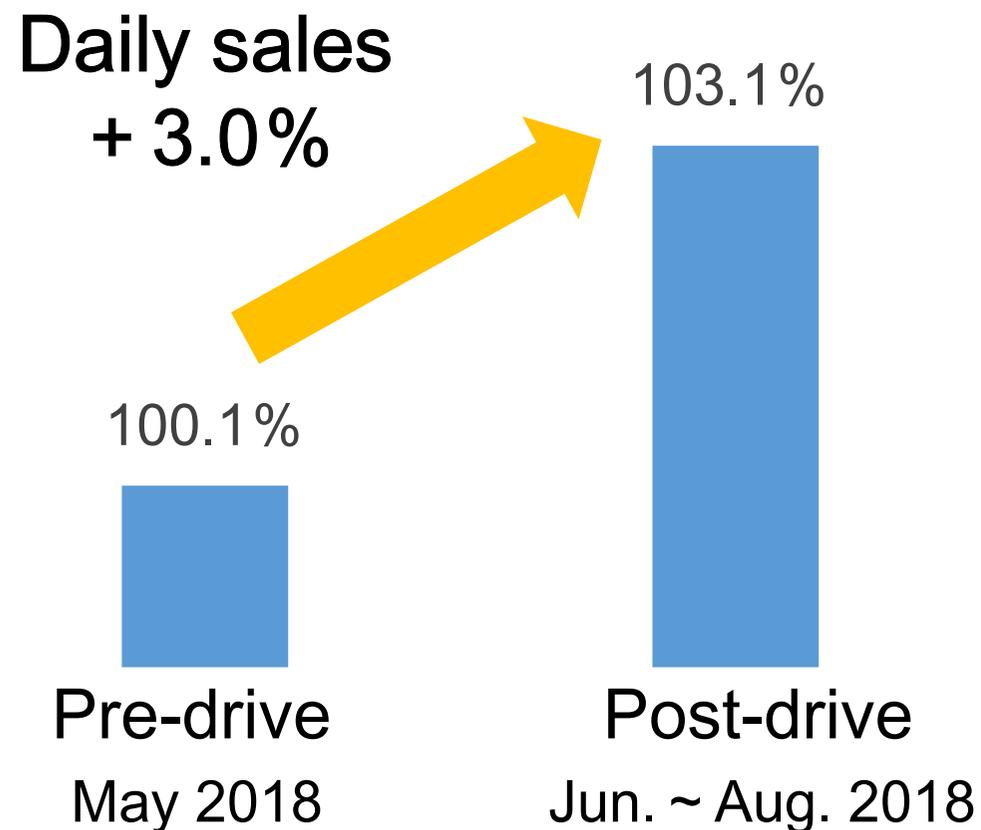
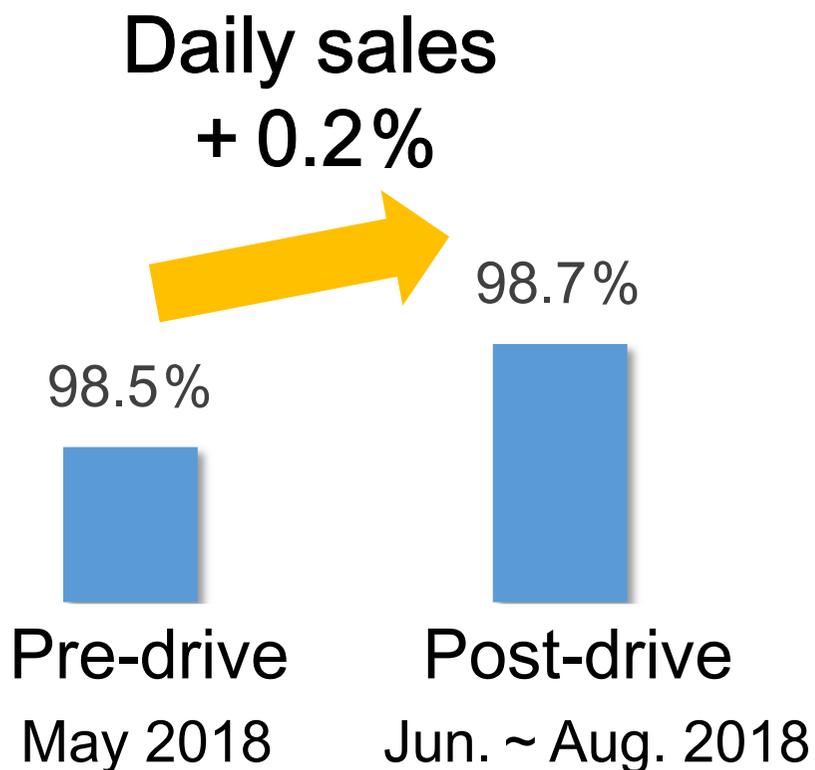
- ✓ Daily sales on stronger evening/nighttime category increased following strengthening drive

Morning, lunchtime

Evening, nighttime

Customer Spend + 2.4% → +2.7%

Customer Spend + 5.0% → +7.5%



Successful First-half Initiatives ~ New POS Cash Registers ~

New POS Cash Registers are so easy to use

Multilingual response



Speedy / Easy to operate



Automatic change dispenser

Space saving

Won Good Design Award
FY2018

Successful First-half Initiatives ~ "Loppic" "Lawson Smartphone Pay" ~

Lawson Fresh Pick (Loppic)

Shop on your smartphone



Popular items: Meat, fish, vegetables you can't buy instore, meal kits, specialty store taste



Lawson Smartphone Pay

No more checkout lines



Barcode payment via a specialist app
Buy what you want without waiting in line



Sales down on Lower Customer Visits

Severe competition with restaurants, online sales, drugstores and other retail formats

Daily sales
-0.8%

~~Customer visits **-2.2%**~~
(-2.2% v. plan)

Customer spend **+1.5%**
(+1.0% v. plan)

Potential target
Steady growth
(Men/women over 50)
YoY

+3~+5%

Heavy CVS users
(Men/women in 30s, 40s)

YoY

-3.0~-8.0%

Broad age and customer range

YoY

+1.5%

FY2018 2H Initiatives

~ Further Improve Everyday
Customer Support ~

Being an essential part of community life

Japan CVS

Product Strategy

Ever stronger evening, nighttime range



Loppic

Convenience via your smartphone



Bank

The closest bank for our customers

Product Strategy: Stronger Evening, Nighttime ~ Staple Items ~

Counter FF, lunches to appeal to avid consumers in 30s, 40s

OTC fast food

- More fried deli items
- Packaged items
- Dinner & snacks



Ready-made meals

- Strengthen staple items



Renewal “staple items” to satisfy broad customer range

Sandwiches, bakery



- Special bread, bumper fillings

Desserts



Superior ingredients, method, quality

- First fresh cream range renewal for 10 years

Noodles



- Superior flour, noodles, soy sauce

Riceballs



- Top quality rice & cooking, improved seaweed

Products: Stronger Evening/Nighttime Ranges ~ Differentiation ~

MACHIKADO KITCHEN



- ✓ Expand joint stores nationwide, 4,900 stores
(at end August 2018)
- ✓ Repeat customers, customer numbers up
- ✓ Positive effect on daily sales per store

Joint Seijo Ishii ranges



LAWSON



Expand Lawson Fresh Pick (Loppic)



食材ラクラク お店に届く
ローソン フレッシュピック



- ✓ Introduced in 1,200 stores by mid October
 - ⇒ 70% of 23 Tokyo districts, all of Kanagawa pref.
- ✓ Aiming for 3-4 instore pickups/day, adding 3,000-4,000 yen to daily sales for each store
- ✓ Four most popular categories:
 - ① Meat kits, ② Daily delivered foods, ③ Desserts, ④ Fresh fruit and vegetables



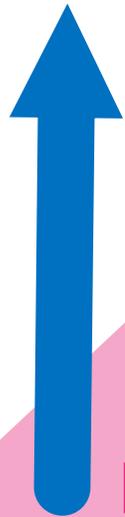
ローソン商品と組み合わせ

Lawson Bank Business Concept and Direction of Aiming Financial Services

President and CEO Masashi Yamashita
Lawson Bank, Inc.

Source : Lawson Bank, Inc.

To New Business



Growing to business to secure stable cash flow



Over **13,000** Cash points

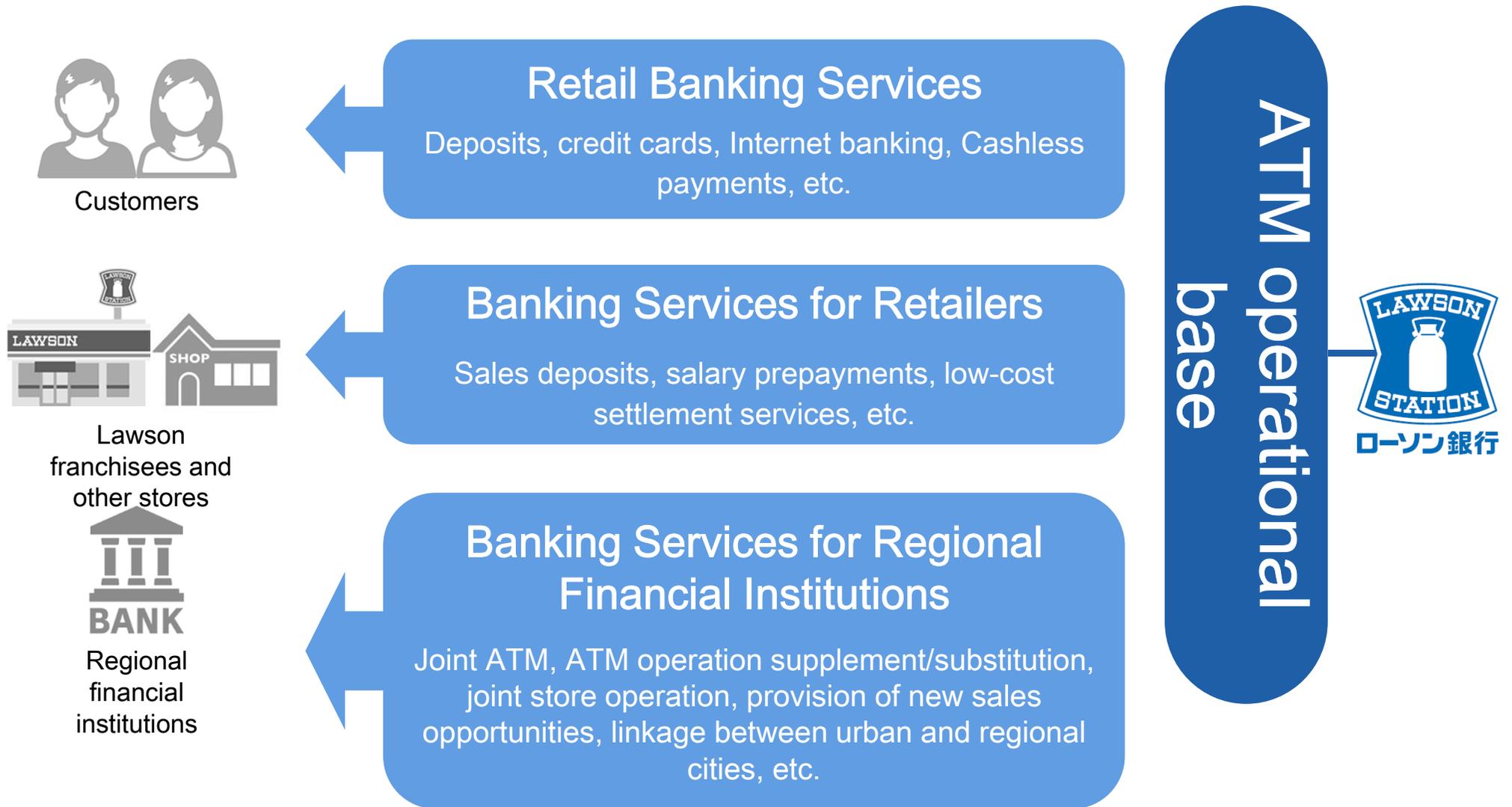
More than **200 million** customers

Over **90** affiliated financial institutions



Banking Business

ATM Business





- Immediate use after registering existing account
- Remittance between individuals
- Provision of personalized services

- Dealing with cashless settlements
- Reduction of burden of settlement commissions
- Data marketing initiatives

New Settlement Platform

- Improvement of convenience of affiliated financial institutions
- Increase revenue from commissions

Affiliated financial institutions



Ultimate Financial Services Aiming Lawson Bank



- Including services to be provided with partners
- LB : Lawson Bank

**ATM operation
supplement/substitution
Operation of joint outlets
with Lawson**

Support of business efficiency

**Expansion of sales
opportunities for financial
products**

Provision of new sales channels
including Lawson stores, ATMs and
website

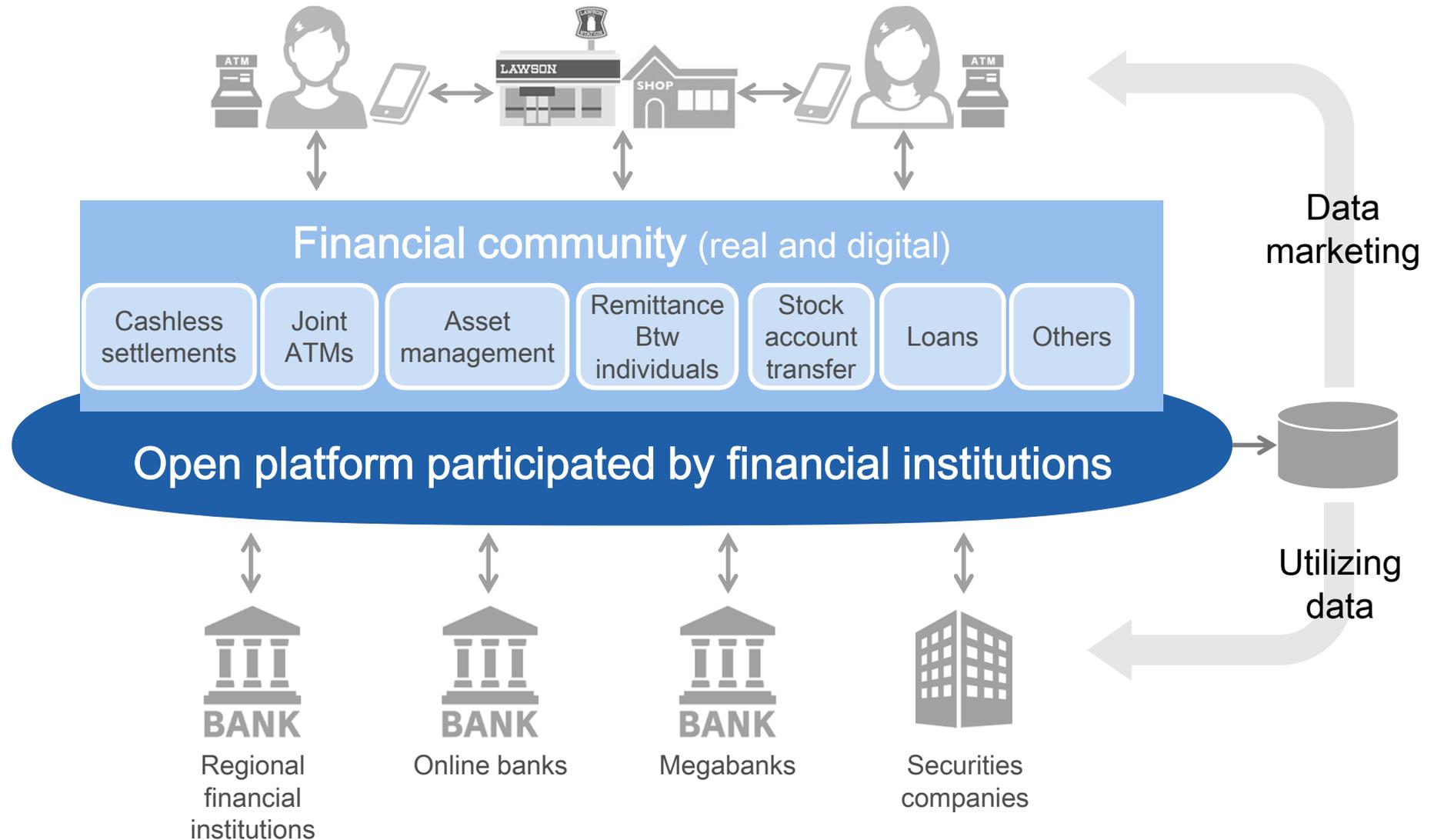
**Joint promotion of cashless
settlements**

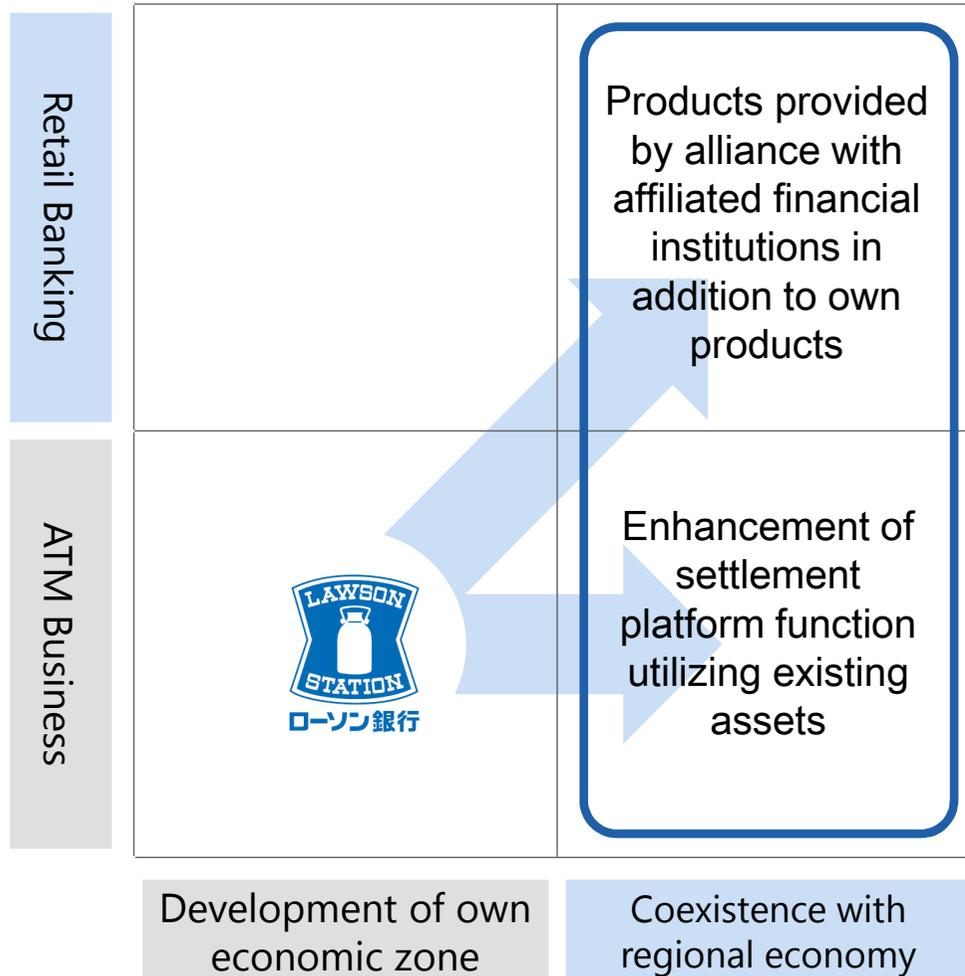
Support of cashless settlements in
regional economy from both users
and franchisees



**Linkage of distance
customers in regional and
urban areas**

Support of Lawson Bank and nationwide
ATM network to customers moving to
urban cities for study or work





Aiming to contribute to revitalization of regional economy together with customers, Lawson franchisees and other stores, and regional financial institutions

朝昼守って夕夜間

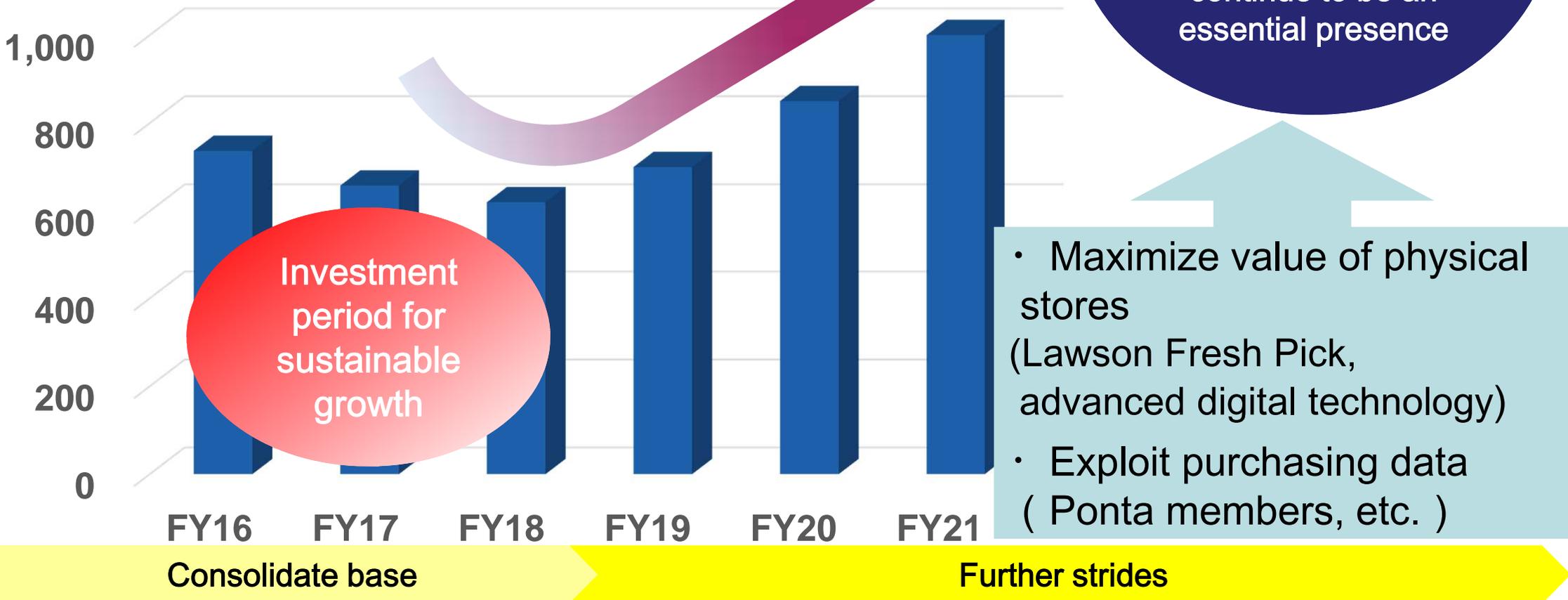
夕夜間元年

Maintain morning and daytime sales,
offer attractive products during evening and nighttime

To Continue Our Essential Presence

Firm growing profit base from FY2019
Further strides in
FY2021 Medium-term Business Vision

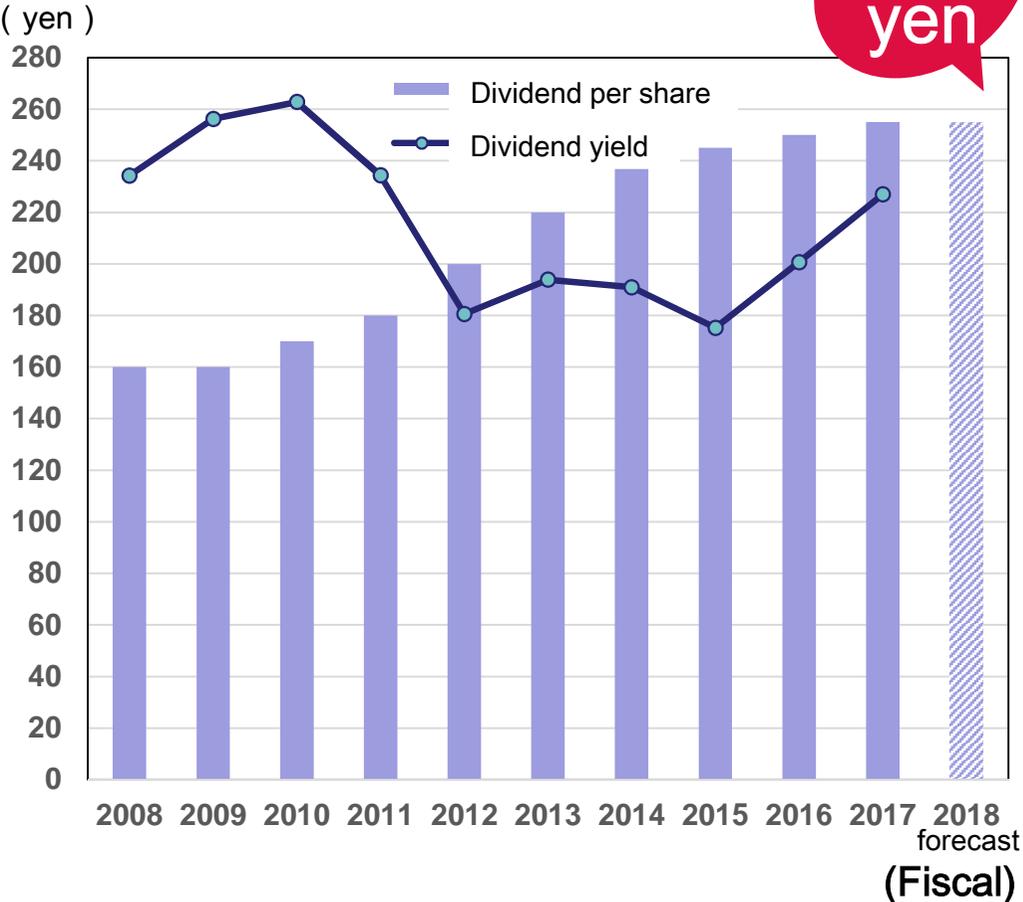
Pursue further
sublimation and
fulfilment of our
corporate philosophy
to ensure we
continue to be an
essential presence



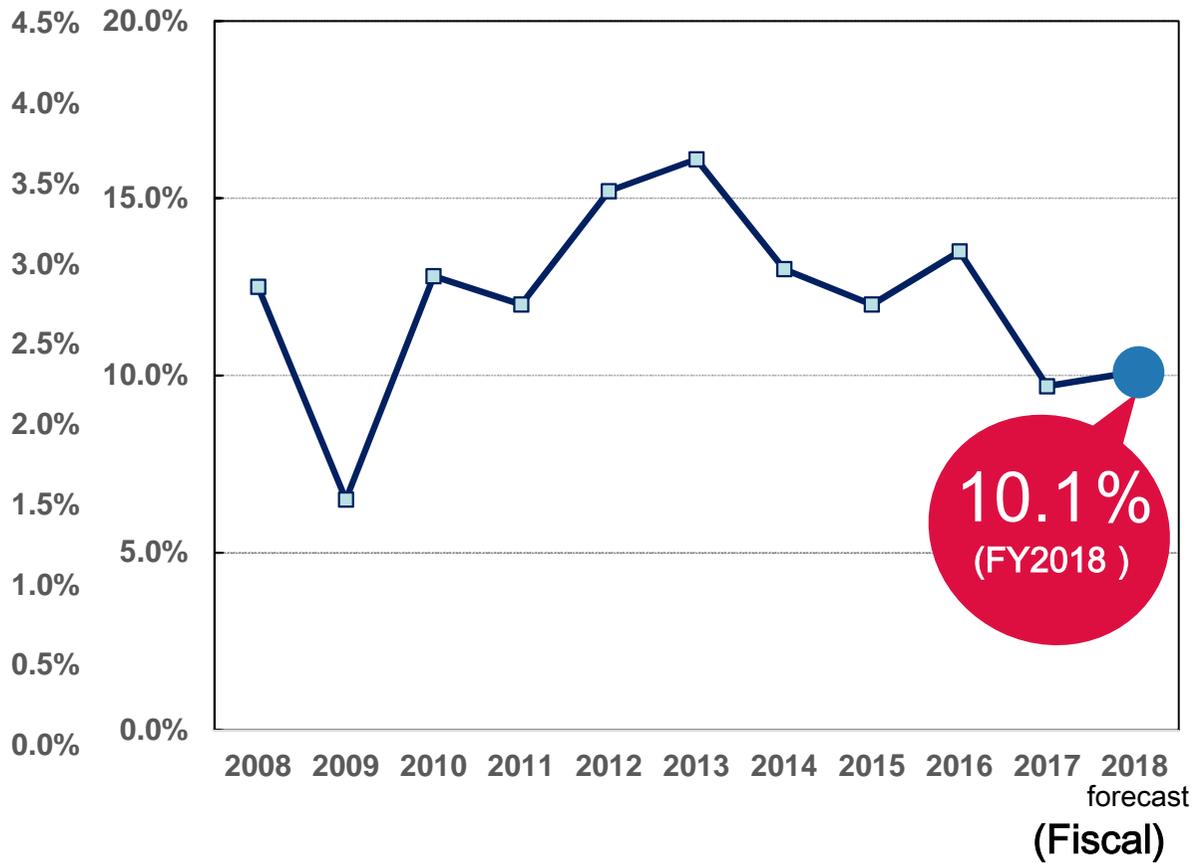
Shareholder Returns

Dividend: Maintain fundamental stance of providing consistent and stable shareholder returns
 ROE : Increase to over 15%

Dividend per share and Dividend yield



ROE





Creating Happiness and
Harmony in our Communities

To become a top-class effective company
To remain an essential part of community life

Reference Materials

Earnings Summary: FY2018 1H

(Consolidated: Billions of yen)	FY2016-1H	FY2017-1H	FY2018-1H		
	Actual	Actual	Actual	YoY	vs. Plan
Net sales of all stores	1,076.5	1,148.5	1,224.5	106.6%	98.8%
Operating profit	39.9	38.9	34.4	88.5%	113.1%
Operating profit ratio	3.7%	3.4%	2.8%	- 0.6%P	+0.4%P
Recurring profit	38.3	38.4	33.5	87.2%	115.6%
Net profit	22.6	23.6	17.9	75.9%	105.5%
EPS (Yen)	226.07	236.36	179.32	- 57.04	+9.42
Dividend per share (Yen)	125.0	127.5	127.5	+2.5	±0
Total no. of stores in Japan	12,733	13,587	14,482	+895	-

Note: Total chain store sales (Net sales of all stores) include sales from the convenience store operation in Japan, international operations and sales from Seijo Ishii (consolidated items only). Regarding Seijo Ishii, only the store sales of directly operation are included.

Note: The number of stores is the total number of convenience stores in Japan operated by the Lawson Group plus the number of stores directly operated by Seijo Ishii.

Note: Changes vs. plan indicates comparison with the plan announced along with the FY2017 results.

■ Operating profit down 11.5% YoY, but up 13.1% v. plan

Profit declined a yoy basis on the back of increased sales strategies relating to the strengthening of evening and nighttime food ranges, increased costs relating to franchisee support, and higher investment costs to encourage future growth. However, profit rose versus our latest plan on the back of lower business expenses and unused A&P.

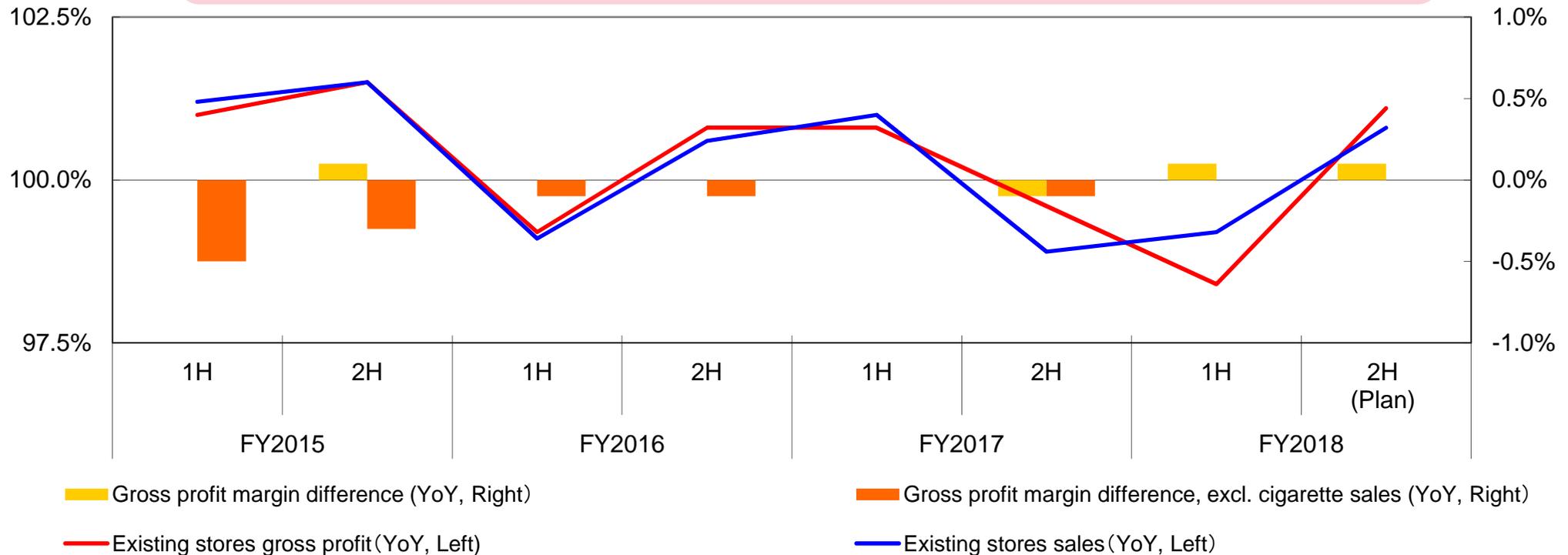
■ Net profit down 24.1% YoY, but up 5.5% v. plan

Down YoY on lower operating profit, and higher special losses relating to increased store closures. Up v. plan primarily on higher-than-expected operating profit.

Existing Stores (non-consolidated*) *exc. Lawson Store 100

FY2018 1H

Existing-store sales fell 0.8% YoY
 Overall gross profit margin improved 0.1p YoY to 31.4%.
 (no. of customers -2.2%, spending per customer +1.5%)



Note: From FY2018 1H, Lawson has changed its disclosure figures of the existing-store sales to exclude the effect of the ticket sales including concerts, sporting events and gift card sales etc.

- First-half existing-store sales fell short of plan, declining 0.8% YoY. Customer visits declined 2.2% on a waning generation of avid consumers, and the adverse impact of poor weather. Average customer spend up 1.5% YoY on efforts to improve evening and nighttime food offerings.
- Gross profit margin improved 0.1p YoY to 31.4%. The main reasons for this were increased commissions in non-food products, and improved profit margins for over-the-counter fast food.

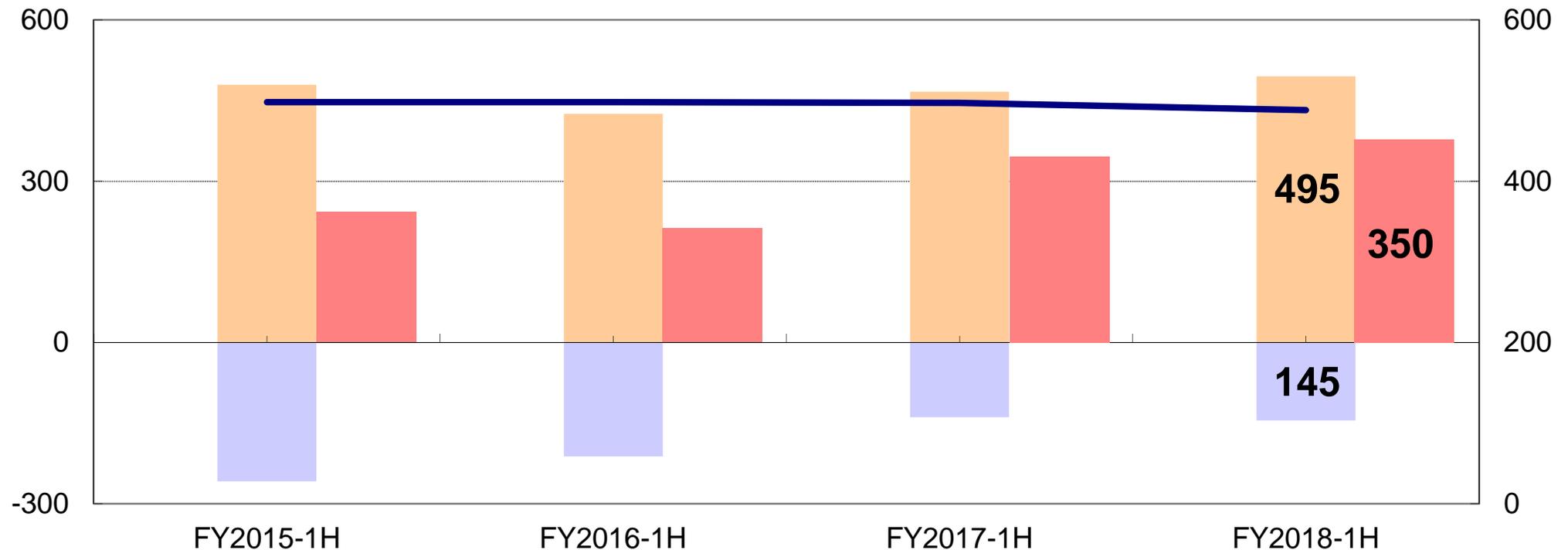
Store Openings (non-consolidated*)

*exc. Lawson Store 100

Net store increase (Left) Store Closure (Left) Store opening (Left) Daily sales per new store (Right)

(Store numbers)

(Daily new store sales in thousand yen)



- Opened 495 stores (including 73 Save On and 63 Three F brand changes), so roughly on target.
- Closed 145 stores (28 above plan), resulting in a net increase of 350 stores. Progress was favorable when comparing with financial year plan.
- Daily sales per new store dipped slightly YoY to 490,000 yen.

Note: Changed standard to count business category changes between Lawson Store100, Natural Lawson and Lawson in the store opening/closing data from FY2015.

Note: Store openings/closures linked to the transfer of control from Lawson to Lawson San-in Co., Ltd. are not included.

Key Components of SG&A Expenses

		FY2017-1H	FY2018-1H		FY2018
(Billions of yen)		Actual	Actual	Change	Forecast
Non-consolidated	Selling, general & administrative expenses	138.9	150.1	+11.2	Increase 10-15%
	<Major Expenses>				
	Personnel expenses	22.4	23.0	+0.5	Increase 0-5%
	IT-related expenses (Hardware leasing, software amortization, maintenance, etc.)	2.4	3.5	+1.0	Increase 90-100%
	Advertising and promotional expenses	6.3	7.2	+0.8	Increase 10-15%
	Sales commission	8.8	10.6	+1.7	Increase 15-20%
	Facilities expenses	75.9	81.8	+5.9	Increase 5-10%
	Consolidated SG&A expenses	200.3	217.8	+17.4	Increase 10-15%

YoY		vs. Forecast	
Non-consolidated	<ul style="list-style-type: none"> ➤ IT costs: Higher investment in next-generation systems ➤ A&P: Increased sales strategies relating to the strengthening of evening and nighttime food ranges ➤ Sales charges: Increased franchisee disposal loss support 	Non-consolidated	<ul style="list-style-type: none"> ➤ Down v. plan primarily on the back of lower business expenses and unused A&P.
Consolidated	<ul style="list-style-type: none"> ➤ In addition to the non-consolidated factors, higher costs for our finance-related operation. 	Consolidated	<ul style="list-style-type: none"> ➤ Down v. plan on above-mentioned factors and cost-cutting at subsidiary firms.

Earnings of Major Subsidiaries

(Billions of yen)

< Operating Profit of Major Subsidiaries >

	FY-end	Ownership	FY2018 1H		FY2018
			Actual	YoY change	Forecast
Lawson Store100, Inc.	Feb.	100.0%	-0.1	-0.1	-0.0
SEIJO ISHII CO., LTD.	Feb.	100.0%	3.6	+0.2	8.0
Lawson Entertainment, Inc.	Feb.	100.0%	0.9	+0.3	2.4
United Cinemas Co., Ltd.	Feb.	100.0%	1.8	-0.2	2.4
Chongqing Lawson, Inc.	Dec.	100.0%	-0.1	+0.0	-0.1
Shanghai Hualian Lawson, Inc.	Dec.	100.0%	-0.8	-0.0	0.1

Lawson Store 100, Inc.

Lawson Store 100 operation reported an operating loss of 100 mil. yen. Existing-store sales down 1.5% YoY. Estimate a slight operating loss for FY2018.

SEIJO ISHII CO., LTD.

Existing-store sales up 1.5% YoY on continued strong sales, OP expands. Expect full-year profit gain.

Lawson Entertainment, Inc.

Profit increased thanks to the securing of large-scale content, and strong sales of HMW goods.. Expect full-year profit gain.

Shanghai Hualian Lawson, Inc.

Operating loss steady YoY, in line with plan. Expect performance to improve from the 2H. Aiming for a full-year profit.

Consolidated Capital Expenditure & Cash Flow

Consolidated Capital Expenditures

(Billions of yen)	FY2016-1H	FY2017-1H	FY2018-1H	FY2018
	Actual	Actual	Actual	Forecast
New stores	16.8	28.6	19.5	56.0
Existing stores	3.3	2.2	6.7	9.5
IT-related	7.6	9.0	10.4	20.0
Other	0.9	4.6	0.3	5.5
Subtotal for capital expenditure	28.8	44.5	36.9	91.0
Leases	25.1	22.1	26.1	80.0
Depreciation and amortization	26.9	27.9	31.8	71.4

Consolidated Cash Flows

(Billions of yen)	FY2016-1H	FY2017-1H	FY2018-1H	FY2018
	Actual	Actual	Actual	Forecast
Cash flows from operating activities	91.4	119.1	88.0	Approx. 128.0
Cash flows from investing activities	-28.9	-44.4	-40.5	Approx. -95.0
Free cash flows	62.4	74.7	47.5	Approx. 33.0
Cash flows from financing activities	-27.7	-67.0	-33.0	Approx. -17.0
(Cash dividends paid)	-12.2	-12.5	-12.7	Approx. -25.0
Cash and cash deposits	104.0	76.0	43.8	-

- The decline in first-half new store investment reflects a comparison with when we recorded initial investment related to store brand name changes.
- Increase of financial cash flow compared to the first half of fiscal 2017 repayment of short-term borrowings.

FY2018 Company Forecasts (Consolidated)

(Billions of yen)	FY2016	FY2017	FY2018 Forecast	
	Actual	Actual	Forecast	YoY
Net sales of all stores	2,157.9	2,283.6	2,450.0	107.3%
Operating profit	73.7	65.8	60.0	91.2%
Operating profit ratio	3.4%	2.9%	2.4%	-0.5%P
Recurring profit	73.0	65.1	57.0	87.5%
Net profit	36.4	26.8	28.0	104.4%
EPS (Yen)	363.96	268.16	279.83	+11.67
Dividend per share (Yen)	250	255	255	±0
ROE	13.5%	9.7%	10.1%	+0.4%P
Total no. of stores in Japan	13,243	14,132	14,932	+800
(Non-consolidated)				
Gross profit at existing stores (YoY)	100.0%	99.6%	99.8%	-
Net sales at existing stores (YoY)	99.8%	99.9%	100.0%	-
Gross profit margin ratio	31.4%	31.3%	31.4%	+0.1%P
Gross profit margin difference excluding cigarette sales (YoY)	+0.1%P	-0.1%P	+0.1%P	-

Note: From FY2018, Lawson has changed its disclosure figures of the existing-store sales to exclude the effect of the ticket sales including concerts, sporting events and gift card sales etc.

Note: Figures in italic indicate the revised figures from the initial plan.

Note: Total chain store sales (Net total of all stores) include sales from the convenience store operation in Japan, international operations and sales from Seijo Ishii (consolidated items only).
Regarding Seijo Ishii, only the sales of directly operated stores are included.

Note: The number of stores is the total number of convenience stores in Japan operated by the Lawson Group plus the number of directly operated Seijo Ishii stores.

- As in FY2017, FY2018 OP will likely contract due to the downward impact of growth investment.
- Expect FY2018 net profit to increase when compared to FY2017, which reported significant system-related impairment losses.

FY2018 1H&2H Forecast

(Consolidated: Billions of yen)	FY2018 Forecast			
	1H Initial Plan	1H Actual	2H Plan	Full-Year Plan
Net sales of all stores	1,240.0	1,224.5	<i>1,225.4</i>	2,450.0
Operating profit	30.5	34.4	<i>25.5</i>	60.0
Operating profit ratio	2.5%	2.8%	<i>2.1%</i>	2.4%
Recurring profit	29.0	33.5	<i>23.5</i>	57.0
Net profit	17.0	17.9	<i>10.0</i>	28.0
(Non-consolidated*) *excluding LAWSON STORE100 business				
Gross profit at existing stores (YoY)	100.8%	98.4%	<i>101.1%</i>	99.8%
Net sales at existing stores (YoY)	100.5%	99.2%	<i>100.8%</i>	100.0%
Gross profit margin ratio	31.4%	31.4%	<i>31.3%</i>	31.4%

Note: From FY2018 1H, Lawson has changed its disclosure figures of the existing-store sales to exclude the effect of the ticket sales including concerts, sporting events and gift card sales etc.

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Note: The number of stores is the total number of convenience stores in Japan operated by the Lawson Group plus the number of directly operated Seijo Ishii stores.

Consolidated Balance Sheet at the end of FY2018 1H

(Billions of yen)	As of Aug. 31, 2018	Change from Feb. 28, 2018		As of Aug. 31, 2018	Change from Feb. 28, 2018
Total current assets	263.7	+31.9	Total current liabilities	430.1	+50.8
(Cash and deposits)	43.8	+13.6	(Accounts payable-trade)	144.4	+26.2
(Accounts receivable)	100.8	+18.2	(Short-term loans payable)	41.6	+5.3
Total noncurrent assets	696.9	+28.5	(Deposits payable)	111.2	+1.6
Property, plant and equipment	364.0	+14.1	Total noncurrent liabilities	242.4	+2.8
Intangible assets	106.8	+6.6	(Long-term loans payable)	50.0	-5.4
(Goodwill)	49.0	+1.1	Total liabilities	672.5	+53.7
Investments and other assets	226.0	+7.8	Net Assets	288.1	+6.7
(Long-terms loans receivable)	48.4	+1.0	(Common stock)	58.5	-
(Guatantee deposits)	101.5	+0.9	(Retained earnings)	171.3	+5.1
Total Assets	960.7	+60.5	Liabilities and net assets	960.7	+60.5

- Accounts payable up on different number of business days in February and August.
- Long-term loans payable declined after subsidiary firms repaid high-interest bank loans before the period end..

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 facts. 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.