

# First Half Results for FY2019

(Six months ended August 31, 2019)

Lawson, Inc.

October 10, 2019

# Financial Results for First Half for FY2019

Satoshi Nakaniwa  
Executive Managing Officer  
Chief Financial Officer

Lawson, Inc.

# Consolidated Financial Results for FY2019 1H

LAWSON

(Billions of yen)	FY2018 1H	FY2019 1H		
	Act	Act	y/y	V. Plan
<b>Operating income</b>	34.4	<b>36.7</b>	+2.2	+3.2
<b>Ordinary income</b>	33.5	<b>35.1</b>	+1.6	+4.6
<b>Net income</b>	17.9	<b>20.1</b>	+2.1	+4.6
(Non-consolidated %)				
Existing store sales	99.2%	<b>100.4%</b>	+1.2%	-0.1%
Gross profit margin	31.4%	<b>31.2%</b>	-0.2%	-0.3%
No. of CVS stores (Japan)	14,340	<b>14,721</b>	+381	+62
Number of new store opening	525	307	-218	-23
Number of store closure	177	245	+68	-85

Note: the Japan CVS total store numbers refers to the total number of stores operated by the Lawson Group.

## **1.Consolidated operating income 36.7 billion yen**

- (1)Y/Y: income from the Japan CVS operation rose, as, despite higher SG&A costs relating to higher store numbers, and higher IT costs, the operation reduced its food disposal support and worked to cut overall costs. Operating income also rose on a consolidated basis thanks to strong results from group subsidiary firms.
- (2) v. plan: Japan CVS gross profit margin (GPM) fell short of plan, but Lawson operating income exceeded expectations on lower food disposal support and cost-cutting. Consolidated operating income also outstripped plan on strong results from group subsidiaries.

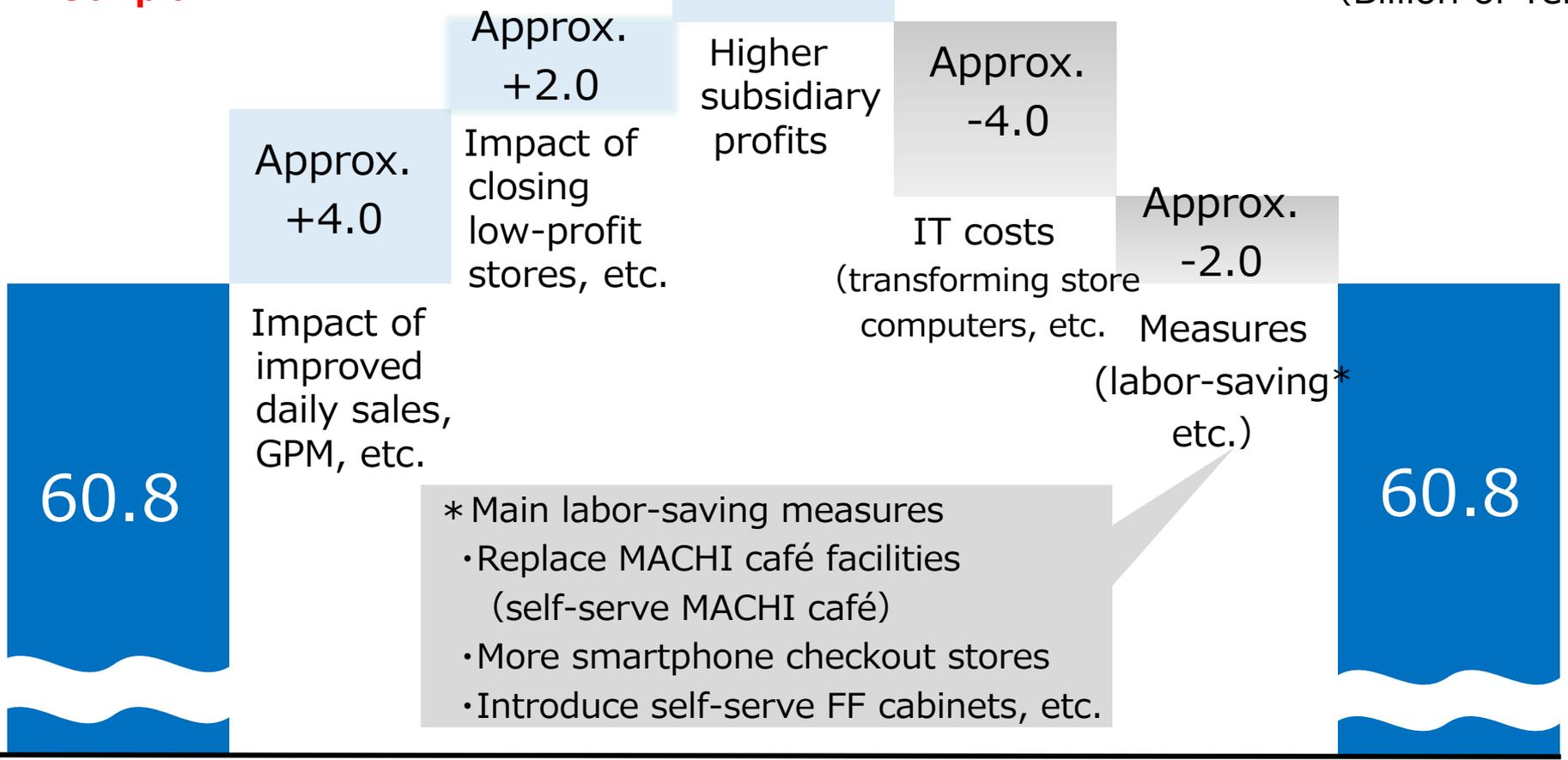
## **2.Consolidated net income 20.1 billion yen**

- (1)Y/Y: Net income up on large rise in operating profit, despite higher interest paid relating to Lawson Bank launch, and increased store-closure losses.
- (2)v. plan: Higher than plan due to on-plan operating income result and deferral of some store-closure losses, originally expected in the 1H, until the 2H.

# Factors affecting FY2019 Consolidated Operating Income

**Initial plan**

(Billion of Yen)



- \* Main labor-saving measures
- Replace MACHI café facilities (self-serve MACHI café)
  - More smartphone checkout stores
  - Introduce self-serve FF cabinets, etc.

\*Financial image rounded to the nearest 0.5 billion yen for clear viewing

**FY2018 Consolidated Operating Income**

**FY2019(E) Consolidated Operating Income**

# Progress on FY2019 Initiatives

(Billion of yen)	FY2019 1H		
	FY2019 initial plan	Actual	Difference
<b>Operating income</b>	<b>33.5</b>	<b>36.7</b>	<b>+3.2</b>

Various measures	Initiatives taken and progress made	Evaluation	v. plan
<b>Improve daily sales, GPM, etc.</b>	<ul style="list-style-type: none"> <li>✓ Existing-store daily sales +0.4% YoY, gross profit margin 31.2%. Both below plan, but overall result was above plan thanks to lower food disposal at franchise stores and cost-cutting, etc.</li> </ul>	△	<b>+0.5</b>
<b>Reorganize/close low-profitability stores</b>	<ul style="list-style-type: none"> <li>✓ Closed 245 stores, less than the planned 330 closures.</li> <li>✓ Expect large 2H profit impact, but 1H was roughly on plan</li> </ul>	△	<b>±0</b>
<b>Group subsidiaries contributions</b>	<ul style="list-style-type: none"> <li>✓ Strong performances from Seijo Ishii and entertainment-related businesses</li> </ul>	○	<b>+2.0</b>
<b>IT costs</b>	<ul style="list-style-type: none"> <li>✓ Completed introduction of new store computers</li> </ul>	○	<b>±0</b>
<b>Countermeasures (including tight-labor supply)</b>	<ul style="list-style-type: none"> <li>✓ Largely in line with plan. The cost for some measures, originally planned for the 1H, will now be incurred in 2H</li> </ul>	△	<b>+0.5</b>

\*Financial image rounded to the nearest 0.5 billion yen for clear viewing

**+approx. 3.0 billion yen**

# FY2019 Full-year Plan

(Billion of yen)	FY2019	
	Plan	Difference
Consolidated operating income	60.8	±0.0
Main company operations		
Lawson parent*	45.3	-0.4
Seijo Ishii	8.5	+0.3
Lawson Entertainment	2.3	±0.0
United Cinemas	2.7	+0.1
Consolidated net income	18.0	-7.5
Dividend per share	150 yen	

Note: Existing-store sales Y/Y : +0.5% (diff. +1.0PP)

Gross profit margin : 31.3% (diff. +0.1PP)

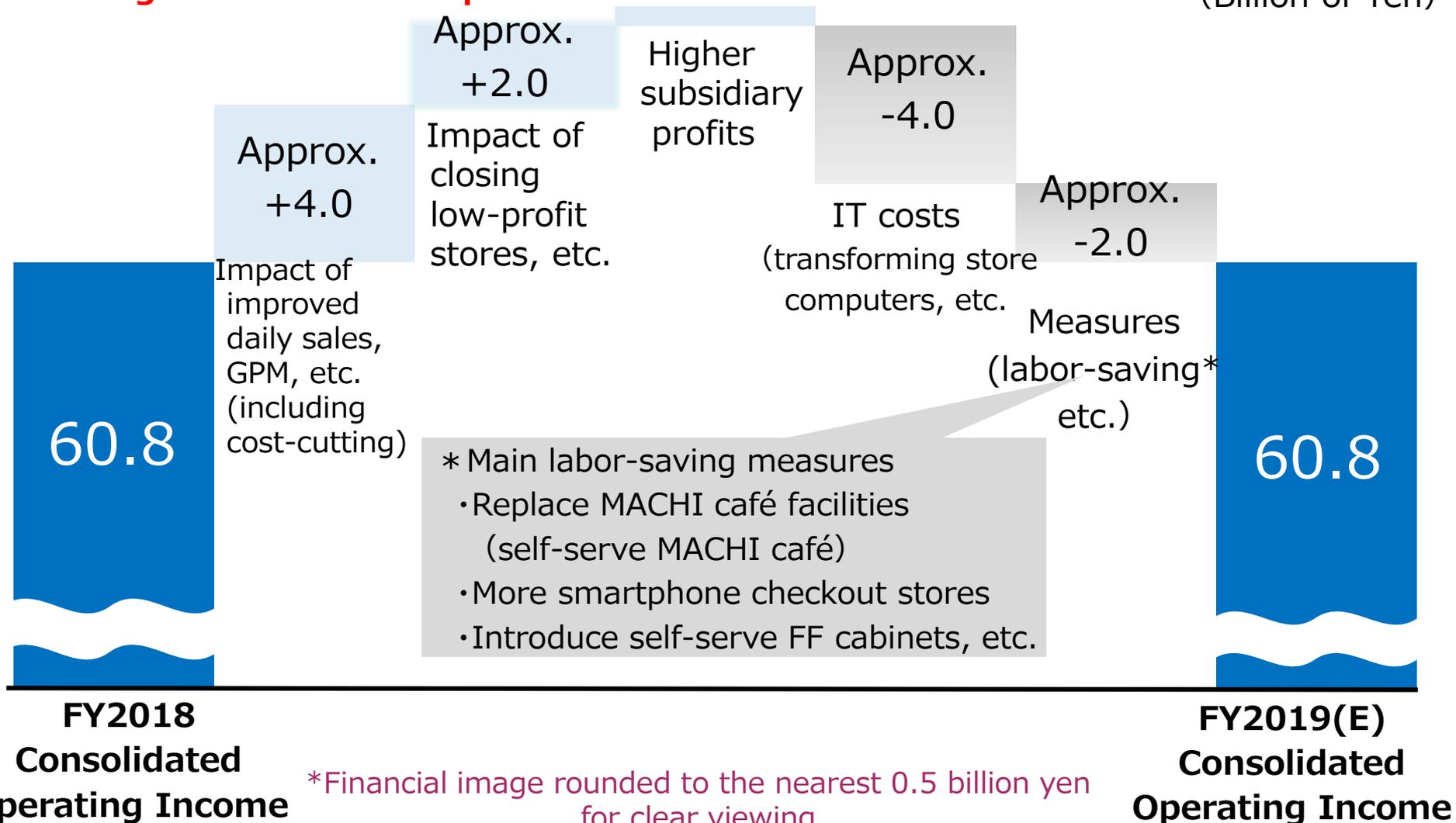
Store numbers : Opening 700 Closure 700 Net change 0

**Reorganization losses relating to store closure losses (recorded as non-operating costs or special losses): Some store closures originally planned for 1H were deferred to 2H. As a result, full-year net income forecast remains unchanged.**

# Factors affecting FY2019 Consolidated Operating Income

**No change from the initial plan**

(Billion of Yen)



# FY2019 Initiatives

Sadanobu Takemasu  
President and CEO  
Representative Director  
Chairman of the Board

Lawson, Inc.

# Issues Facing Franchise Stores

**Rising  
personnel  
costs**

**Nurturing  
human  
resources**

**Labor  
shortage**

**24-hr  
operation**

**Disposal  
losses**

# Lawson's Ultimate Goals

**The No.1 recommendation  
from all customers**

**Promise 1  
Superior  
taste**

**Promise 2  
Human  
kindness**

**Promise 3  
Environmental  
(machi)  
friendliness**

**Inspire franchise  
store work**

# The Three Promises

Promise 1  
**Superior  
taste**

**Machi-no-pan**  
new bakery series



**BASCHEE**  
20 million+

**Super  
karaage-kun**



Promise 2  
**Human  
kindness**

**Service & Cleanliness**  
Stronger improvement



**Clean toilets**



Promise 3  
**Environmental  
(machi)  
friendliness**

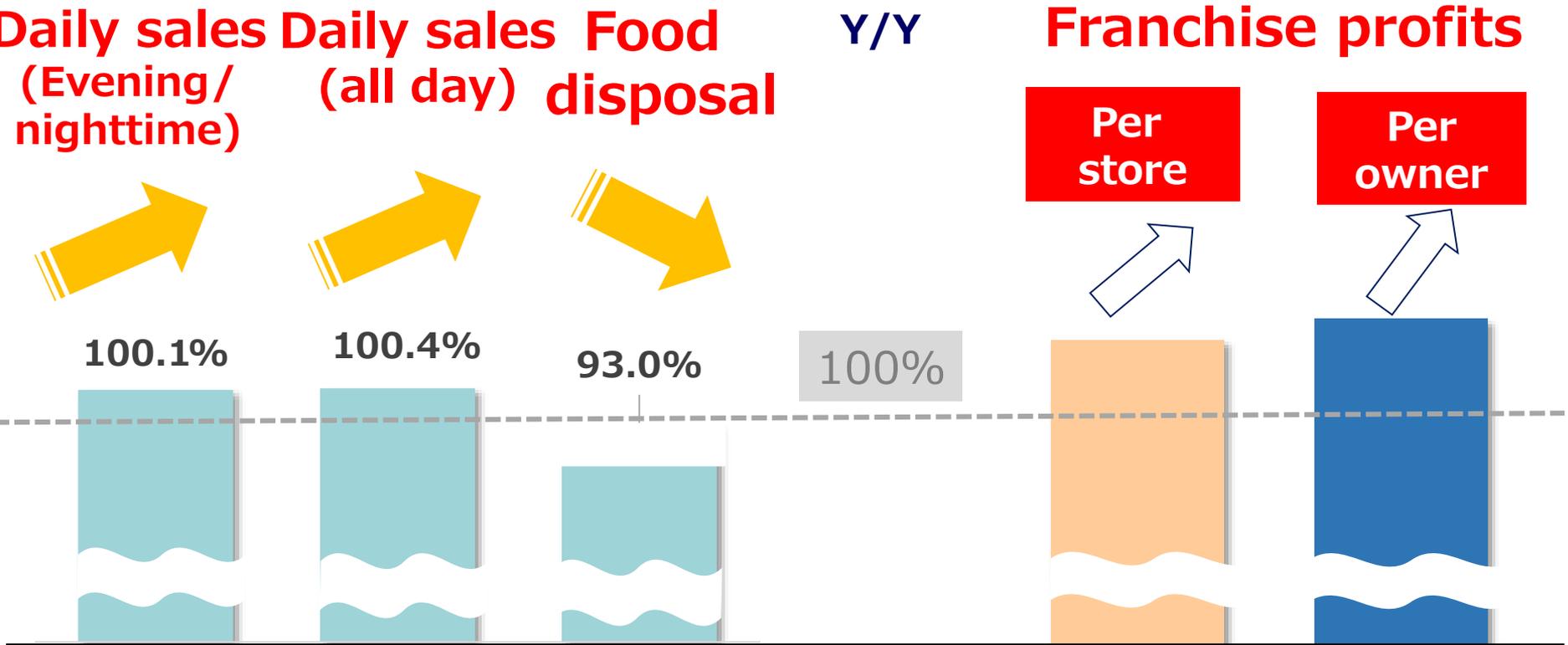
**Reducing food  
waste**

**Reducing plastic  
use**



# Promise 1: Superior Taste

**Sales up/waste down**  
**⇒ franchise store profits up**



\* Daily sales and disposal amounts per day/store  
\* Evening/nighttime period (16 : 00 - 24 : 00)

# Promise 1: Superior Taste Stronger Products

September

October

November

## Breads

## Bakery

## Dessert



**New full, scatter-style series**  
Fruit sandwiches



**New straight from the oven series**  
Microwave cheese cocotte with pepper & onion



**<CUPKE>**  
New style desserts  
Dessert in cup with large chestnut

November

November

December

## Rice balls

## Over-the-counter fast food



**Kinshari with new, better filings**  
Torosaba mackerel (grilled miso)



**Healthy, easy to eat, trendy**

L chiki Taiwanese style



**New easy-to-eat roast chicken**  
Golden chicken: roast leg

## Nov.: Use self-checkouts



Reduce checkout work

Promote other self-services

Self-operated shopping system

Improve cashless ratio



No change to attentive customer service

Cashless payment only

start



Partial use

Expand use  
1 manhour/person

More efficient operations

# Promise 2: Human Kindness Address labor shortage

## Multi-faceted response: Daily man-hour savings

**Lawson Staff**  
(est. 2016)  
**Staff dispatch**

**x20** use cases  
compared to former  
owner support service  
*covers over 200 shifts/day*

**POS cash  
registers with  
automatic change  
dispensers**

**1.5 man-hr/day**  
(account squaring,  
spot register checks)

**Lawson  
smartphone  
checkout**

**Reduce checkout  
time by 1/4**  
Now in 116 stores nationwide

**Introduce  
new store  
computers**

**3.0 man-hr/day**

### Future initiatives

**Self-  
checkout**

**Nov. 2019 -**  
(continual version upgrades)  
**3.0 man-hr/day**

**Self-serve  
fast food  
cabinets**

**1.0 man-hr/day**

**New over-  
the-counter,  
etc.**

**1.0 man-hr/day**

**Unmanned  
store trial**

**5.0 man-hr/day**

- **Stricter selection of new store candidates**
  - ✓ Must clear all new store standards
  - ✓ Improved new store daily sales
- **Close low-profitability stores**

### FY2019 progress (stores)

	1H	Full-year Plan
Opening	307	700
Closure	245	700
Net change	62	0

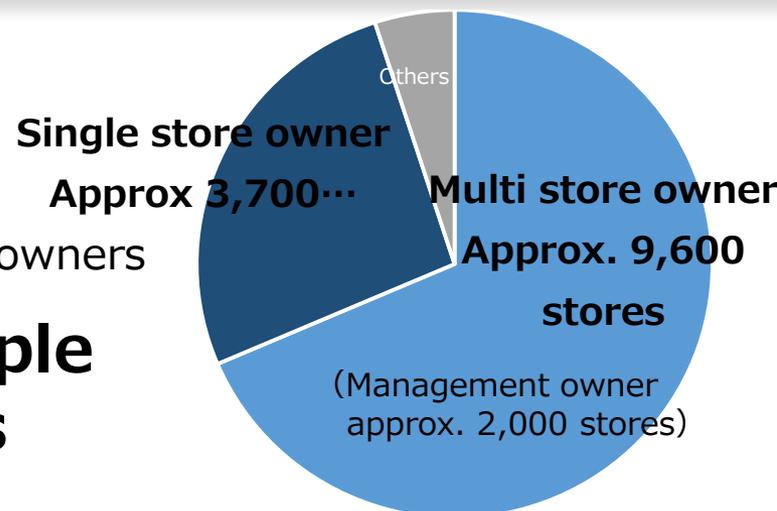
# Promise 2: Human Kindness

Promote multiple store franchises

## Steady rise in multiple store franchise owners

✓ Approx. 70% stores operated by multiple store owners

## More stores operated by multiple store- and management owners

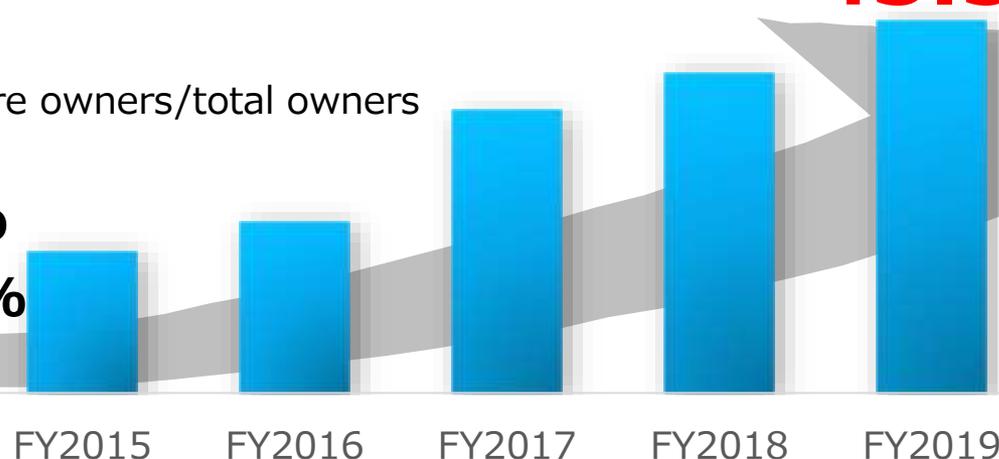


Approx. 13,900  
(excl. LS100, 2019 August)

## Ratio of franchise owners operating multiple stores

\*Multiple store owners/total owners

7 years ago  
Approx. 30%



## Initiatives to facilitate 24-hour operation

### ■ Reducing working hours at stores

- ✓ Switching to non-24-hour contracts to suit individual store conditions: **98 stores** (as of October 1, 2019)

### ■ Experimenting with non-24hr store operation

August 2019 -  
Smart store  
(nighttime labor-saving store)



Trial : 1 store in Yokohama  
Unmanned hours: 0~5am  
(excl. some products)  
Payment: Lawson smartphone  
checkout, self-checkout  
Store entry: certified via  
LAWSON app, face recognition



January 1, 2020

**Trial New Year's Day  
store closures  
100 stores nationwide**

Select from nationwide franchise stores mainly in urban areas where customers visits fall on New Year's Day

**Depending on results, will consider  
action for next financial year and beyond**

# Promise 3: Environment (machi) Friendliness

## Reduce food waste, plastics use

### ■ Reducing food waste

- ✓ Reduce food waste by encouraging instore sell-off operations, and extending permitted retail period **from stock ⇒ sell**
- ✓ Give customers points for buying goods new their use-by date/donate portion of sales to child-support organizations (trial in Okinawa and Ehime)

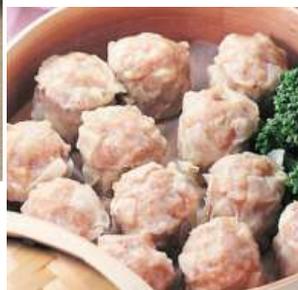
### ■ Reducing plastic use

- ✓ **Reduce plastic cups and packaging**  
Plan to reduce plastics by approx. 1,000 tons /year by switching MACHI café S-sized ice coffee to a paper cup, or switching to original cups
- ✓ **Reducing single-use plastic bags**  
Some Natural Lawson plastic bags made of polyethylene from sugarcane



# Growth as a Group

## Seijo Ishii



## Finance



## Entertainment

### LAWSON ENTERTAINMENT



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## Global



### China

Shanghai, Chongqing, Dalian, Beijing, Wuhan, Nanjing, Hefei, Yangtze

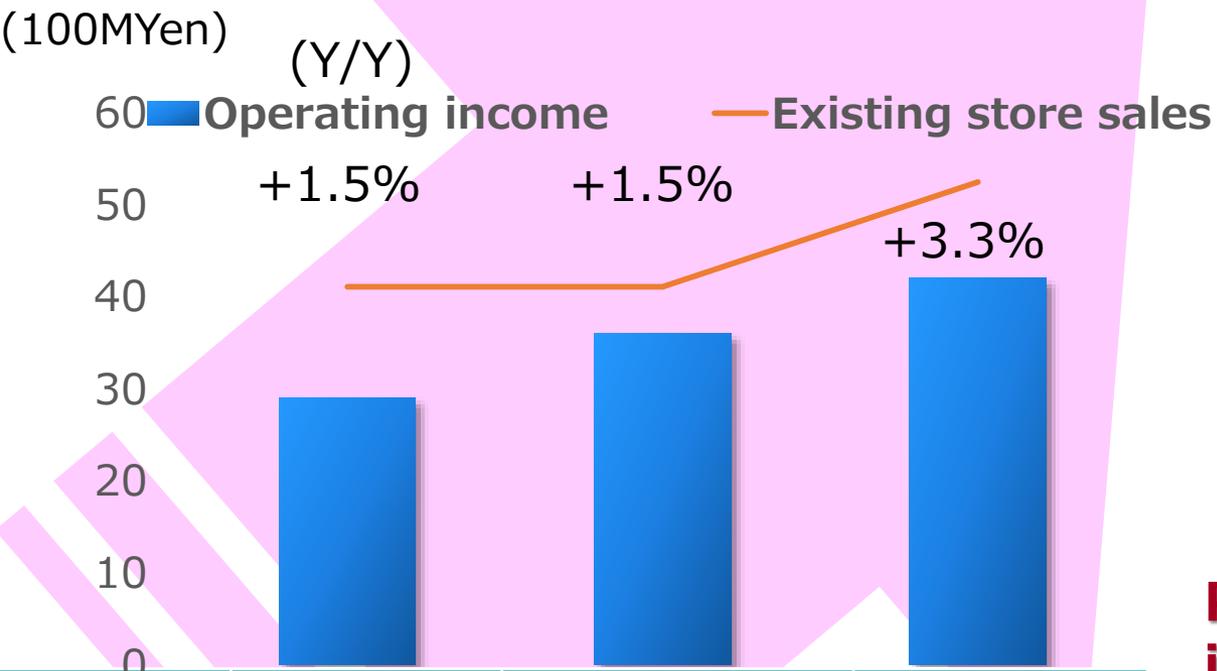
### Southeast Asia

Indonesia, Thailand, the Philippines

# Seijo Ishii Business



## Popular own-made deli items and breads



	2017H	2018H	2019H
Store nos.	137	142	151

## Products in focus

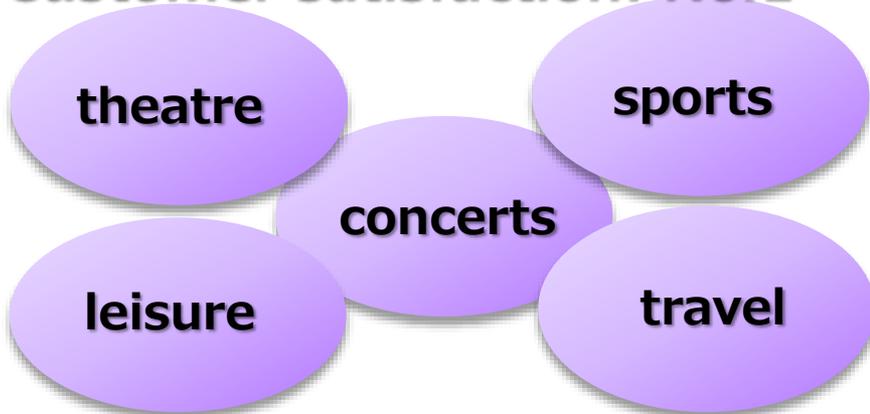


# Entertainment Businesses

## LAWSON ENTERTAINMENT



✓ Entertainment distribution:  
Customer satisfaction: No.1



✓ Highly realistic United Cinema 4DX



✓ Expanding business



## LAWSON Blue Challenge 2050!

Save our blue planet!

	2030	Where we want to be by 2050
<ul style="list-style-type: none"> <li>■ Reduce food waste</li> </ul>	v. 2018 levels <b>Reduce by 50%</b>	<b>Reduce by 100%</b>
<ul style="list-style-type: none"> <li>■ Reduce plastics</li> </ul>	v. 2017 plastic for packaging levels <b>Reduce by 30%</b>	
Plastic carrier bags	Original Lawson containers/packaging, Eco-friendly materials <b>50% usage</b>	Original Lawson containers/packaging, Eco-friendly materials <b>100% Usage</b>
	<b>Reduce by 100%</b>	-----
<ul style="list-style-type: none"> <li>■ Reduce CO2 emissions</li> </ul> CO2 volume per store	v. 2013 levels <b>Reduce by 30%</b>	<b>Reduce by 100%</b>

- Based on our business policy the "Three Promises," our initiatives are divided into six categories taking into account social issues and conditions.
- We decided our material issues from customers' standpoints emphasizing our initiatives as an organization responsible for safe and secure social infrastructures, which is the most important role for a retailer.



# Shareholder Return

## FY2019 Dividend Policy

**Reward shareholders by offering a minimum stable dividend of 150 yen per share dividend and targeting a consolidated dividend payout ratio of 50%.**

Lawson management places great store on returning a portion of our profits to our shareholders, and has paid out stable dividends on an annual basis.

While our fundamental stance has not changed, moving forward, we have decided to introduce a consolidated dividend payout ratio to make our profit-sharing stance even clearer for our shareholders, and to ensure we pursue a strategy that both maintains financial soundness and returns an appropriate portion of profits to our shareholders that directly reflects corporate performance.

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## Creating Happiness and Harmony in Our Communities



# Reference Materials

## Earnings Summary: FY2019 1H Results &amp; FY2019 Forecast

(Consolidated : Billions of yen)	FY2018-1H	FY2019-1H		FY2019
	Actual	Actual	Y/Y	Forecast
Net sales of convenience store	1,224.5	1,276.9	104.3%	2,520.0
Operating income	34.4	36.7	106.6%	60.8
Operating income ratio	2.8%	2.9%	+0.1%P	2.4%
Ordinary income	33.5	35.1	104.8%	54.5
Net income	17.9	20.1	112.1%	18.0
EPS (Yen)	179.32	200.95	+21.63	179.88
Total no. of stores in Japan	14,340	14,721	+381	14,659
Opening	525	307	-218	700
Closure	177	245	+68	700
Net Increase	348	62	-286	0
(Non-consolidated*)*excluding LAWSON STORE100 business				
Existing store sales (Y/Y)	99.2%	100.4%	-	100.5%
Gross profit at existing stores (Y/Y)	98.4%	100.8%	-	101.0%
Gross profit margin	31.4%	31.2%	-0.2%P	31.3%
difference excl. cigarette sales (Y/Y)	±0.0%P	+0.1%P	-	+0.2%P

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.

Note: Net sales at existing stores (YoY) do not include the impact of tickets, etc.

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

# Key Components of SG&A Expenses

(Billions of yen)		FY2018-1H	FY2019-1H		FY2019
		Actual	Actual	Y/Y	Forecast
Non-consolidated	Selling, general & administrative expenses	150.1	155.4	+5.2	Increase 5-10%
	<Major Expenses>				
	Personnel expenses	23.0	23.4	+0.3	Increase 0-5%
	IT-related expenses (Hardware leasing, software amortization, maintenance, etc.)	3.5	5.0	+1.5	Increase 50-60%
	Advertising and promotional expenses	7.2	7.6	+0.4	<i>Increase 15-20%</i>
	Sales commission	10.6	9.6	-1.0	<i>Decrease 5-10%</i>
	Facilities expenses	81.8	86.2	+4.3	Increase 0-5%
<b>Consolidated SG&amp;A expenses</b>		<b>217.8</b>	<b>229.5</b>	<b>+11.7</b>	<b>Increase 5-10%</b>

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

We changed some recorded items relating to A&P and sales commissions following a review of our business contracts consolidated subsidiaries, and full-year forecasts have been changed accordingly (No impact on consolidated results.)

Y/Y		vs. Forecast	
Non-consolidated	<p><u>IT-related costs</u>: Rose on higher depreciation costs on POS registers introduced in FY2018 and new store computers.</p> <p><u>A&amp;P</u>: While some of expected A&amp;P expenses were unused, A&amp;P increased on change in items relating to review of business contracts with consolidated subsidiaries</p> <p><u>Sales commissions</u>: Declined Y/Y. While store numbers increased, sales commissions decreased due to reduction of food disposal support costs, and change in items relating to review of business contracts with consolidated subsidiaries.</p> <p><u>Facilities expenses</u>: Stores rents and other items rose on increase in store numbers</p>	Non-consolidated	<p><u>IT-related costs</u>: In line with forecast</p> <p><u>A&amp;P</u>: A portion of allocated funds not used in 1H</p> <p><u>Sales commissions</u>: Lower than forecast on reduction in food disposal support costs</p>
Consolidated	<p>In addition to the above non-consolidated upward factors, amortization expenses on software relating to the launch of Lawson Bank also increased</p>	Consolidated	<p>See above factors</p>

# Segment profit

(Billions of yen)

	FY2019 1H		FY2019
	Actual	Y/Y	Forecast
Domestic convenience store business	29.5	+0.8	48.0
Seijo Ishii business	3.8	+0.6	7.7
Entertainment-related business	3.6	+1.1	4.5
Financial services business	1.2	-0.4	1.0
Other business	-1.6	+0.0	-0.4
<b>Total</b>	<b>36.7</b>	<b>+2.2</b>	<b>60.8</b>

Domestic convenience store business	Despite higher SG&A expenses in line with increased store numbers, and higher IT costs, profit rose on reduced food disposal support and cost-cutting efforts, etc.
Seijo Ishii business	Thanks to strong sales of original deli items, etc., Seijo Ishii Co., Ltd.'s existing-store sales rose a firm 3.3% YoY, and store openings were favorable. Profit increased.
Entertainment-related business	Profit higher as Lawson Entertainment, Inc. secured large-scale contents and United Cinemas Co., Ltd. handled some hit products.
Financial services business	Profit down following the recording of depreciation expenses relating to systems introduced for the launch of Lawson Bank, Inc., which were not recorded in the previous business year.
Other business	International business recorded an operating loss on higher facilities expenses and other store opening costs. Plan to curb FY2019 loss by reforming business structures from 2H onwards.

# Consolidated Capital Expenditures & Cash Flows

## Consolidated Capital Expenditures

(Billions of yen)

	FY2017-1H	FY2018-1H	FY2019-1H	FY2019
	Actual	Actual	Actual	Forecast
New stores	28.6	19.5	13.4	30.0
Existing stores	2.2	6.7	4.2	13.0
IT-related	9.0	10.4	6.6	12.5
Other	4.6	0.3	0.6	0.0
Subtotal for capital expenditure	44.5	36.9	24.9	55.5
Leases	22.1	26.1	25.6	<i>48.0</i>
Depreciation and amortization	27.9	31.8	38.4	80.2

## Consolidated Cash Flows

(Billions of yen)

	FY2017-1H	FY2018-1H	FY2019-1H	FY2019
	Actual	Actual	Actual	Forecast
Cash flows from operating activities	119.1	88.0	136.0	Approx. 125.0
Cash flows from investing activities	-44.4	-40.5	-26.2	Approx. -60.0
Free cash flows	74.7	47.5	109.8	Approx. 65.0
Cash flows from financing activities	-67.0	-33.0	-89.5	Approx. -63.0
(Cash dividends paid)	-12.5	-12.7	-12.7	Approx. -20.0
Cash and cash deposits	76.0	43.8	374.1	-

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

# Consolidated Balance Sheet at the end of FY2019 1H

(Billions of yen)				(Billions of yen)			
	As of Feb. 28, 2018	As of Aug. 31, 2019	Change from Feb.	As of Feb. 28, 2018	As of Aug. 31, 2019	Change from Feb.	
Total current assets	619.6	662.4	+42.8	Total current liabilities	598.5	643.6	+45.0
(Cash and deposits)	354.2	374.1	+19.9	(Accounts payable-trade)	123.4	151.9	+28.5
(Accounts receivable)	120.9	164.5	+43.6	(Short-term loans payable)	126.6	78.1	-48.4
Total noncurrent assets	722.7	738.0	+15.3	(Deposits payable)	131.8	177.1	+45.3
Property, plant and equipment	382.3	404.0	+21.7	Total noncurrent liabilities	461.8	472.9	+11.1
Intangible assets	106.6	102.6	-4.0	(Long-term loans payable)	260.0	260.0	±0.0
(Goodwill)	46.8	44.6	-2.2	Total liabilities	1,060.3	1,116.5	+56.2
Investments and other assets	233.7	231.3	-2.3	Net Assets	281.9	283.9	+1.9
(Long-terms loans receivable)	44.0	44.5	+0.4	(Common stock)	58.5	58.5	±0.0
(Guatantee deposits)	107.0	107.5	+0.5	(Retained earnings)	166.1	172.9	+6.7
Total Assets	1,342.3	1,400.5	+58.2	Liabilities and net assets	1,342.3	1,400.5	+58.2

Note: Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. have been applied to our consolidated financial statements since the beginning of the fiscal year 2019.

They have been retrospectively applied to major management indices related to the previous fiscal year.

Note: The amount of cash and deposits for financial services business as of August 31, 2019 is 328,460 millions of yen, most of which is used for refilling ATMs.

Note: The amount of loans payable for financial services business as of August 31, 2019 is 290,000 millions of yen.

### 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.