Q&As at the Financial Results Briefing for FY2022 of Lawson, Inc.	
Date	April 14, 2023, Friday, 10:00–11:30
Attendees	Sadanobu Takemasu, President and CEO, Representative Director, Chairman of the Board Masayuki Itonaga, Member of the Board, Executive Managing Officer, Chief Financial Officer Tomoki Takanishi, Senior Vice President, Division Director of Financial Administration Division Kino Arai, General Manager, Investor Relations Dept.

Q: Can you tell us some details about the marketing measures, etc. included in your FY2023 plan, which are expected to increase by approximately 10.0 billion yen year on year?

A: First, we will continue to pursue our HAPPY LAWSON PROJECT. We started implementing this project in June FY2022, so we expect to be spending more on marketing the project between March and June 2023 than we did in March to June 2022. We will also focus our attention on supporting product ranges in order to eliminate differences between individual stores. Instead of concentrating on temporary support for utilities and personnel costs, we intend to implement support measures that will help boost customer appreciation and to build systems that will help franchise owners gain a real sense of how profits are improving.

Q: Please tell us about IT-related costs, etc. in the FY2023 plan, which are expected to increase by approximately 4.0 billion yen year on year?

A: (CFO) The main elements here include upfront costs relating to the introduction of new semi-automated ordering systems from early spring 2024 and expenditure on systems improvements relating to the invoice system that we will be introducing from October 2023. While depreciation costs will increase to a certain extent as we start to use the new semi-automated ordering system, we will depreciate some assets in FY2023, so we do not expect any significant increase in depreciation expenses from FY2024 onwards.

Q: You say that you are aiming to achieve consolidated operating income of at least 100.0 billion yen in FY2025, but what income trajectory do you envisage through FY2025?

A: After firmly securing the everyday demand that we acquired during the COVID-19 pandemic, we believe it is important to increase daily sales by tapping into the recovery in people flows and inbound demand. If we are able to successfully achieve that in FY2023, we feel that we will be able to accumulate greater profits from our Domestic CVS business and the other businesses in FY2024 and then work towards our target for FY2025.

Q: You plan to inject 10.0 billion yen in marketing measures, etc. in FY2023, but how much of this has already been earmarked, and do you think you will use the whole amount? Regarding your business portfolio strategy, you view Domestic CVS business as your core business, but would it not be better to channel your investment into businesses that offer higher growth potential, such as Overseas business and Entertainment-related business? Also, what is your capital policy for Seijo Ishii?

A: We will implement marketing measures on the premise that they will help eliminate discrepancies between individual stores. Regarding investment into other areas outside of our Domestic CVS business, we have been exploring options for investing in our Overseas business, especially in China, but we have not finalized any specific projects at this time. We are also looking at potential M&A options to help promote our Entertainment-related business, but we currently have no concrete proposals, so we have based this latest plan on organic growth potential. As for Domestic CVS business, we believe that we will be able to continue to achieve stable growth by improving the attractiveness of our stores and offering delivery and other services. Regarding Seijo Ishii, we withdrew the company's public listing application last year. We need to arrive at some conclusions on capital policies regarding not only Seijo Ishii, but also our partnership strategies in China. We intend to consider various options to help determine a comprehensive overall capital policy as we approach FY2025.

Q: Can you update us on latest developments in your Overseas business (China)?

A: At our Overseas business, we are looking to achieve operating income of roughly 10.0 billion yen in FY2025 from the China and Asia-Pacific regions combined. We are looking to steadily increase daily sales in China from April as that market recovers from the pandemic. We also hope to be able to generate operating income of over 7.0 billion yen in FY2025 by exploiting economies of scale as we increase store numbers and purchasing volumes. As for the Asia-Pacific region, we have high expectations regarding our business potential in the Philippines. We want to create a framework that will help generate operating income of 3.0 billion yen from that region in FY2025.

Q: Does your FY2025 target for 10,000 stores in China include stores acquired through partnership strategies?

A: The 10,000 store target does not include any increase based on partnership agreements. Naturally, we will consider M&A opportunities, but we believe that we can develop a 10,000 store network even without any additional partners.

Q: What approach are you taking with regards to cash flow as you seek to strengthen shareholder returns?

A: (CFO) Our adjusted operating cash flow figure for FY2022 stood at approximately 120.0 billion yen. If we take cash spent on investment activities into account, then free cash flow stood at approximately 80.0 billion yen. We repay borrowings and pay dividends of approximately 15.0 billion yen from within that amount, resulting in a positive net cash flow. If you look at our current cash flow levels and consider the specific characteristics of our business model, which is able to accumulate profits and recover cash fairly easily from our future Domestic CVS business and the other businesses, we do not believe there is any need for concern on the cash flow front.

Q: To achieve a consolidated operating income of 100 billion yen in FY2025, you would need to increase income by approximately 43 billion yen over a period of 2 years. I think that is a high hurdle, but what discussions have you had within the company on this point?

A: We have had considerable internal discussions about achieving a consolidated operating income of 100 billion yen and an EPS of 500 yen in FY2025. We decided to challenge these specific targets after conducting a thorough review and discussing our Domestic CVS business and the other businesses from scratch.

Q: Are we right in thinking that you are committed to providing a minimum dividend per share of 250 yen for FY2025, even if business growth proves sluggish?

A: Our current dividend policy for FY2025 involves setting a minimum dividend per share of 250 yen or applying a dividend payout ratio of 50%, whichever is higher.

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