

Flash Report on the Consolidated Financial Results

for the Third Quarter of the Fiscal Year Ending February 28, 2023

January 10, 2023

Listed Company Name: Lawson, Inc.

Tokyo Stock Exchange

Code No.: 2651

(URL <https://www.lawson.jp/en/ir>)

Company Representative: Sadanobu Takemasu, President and CEO, Representative Director,
Chairman of the Board

Contact: Tomoki Takanishi, Senior Vice President, Financial Administration Division Director

Tel.: +81-3-5435-2773

Scheduled date for submission of quarterly securities report: January 13, 2023

Scheduled date for payment of dividend: —

Supplementary materials for quarterly financial results: Yes

Holding of presentation of quarterly results: None

(Amounts less than one million yen are truncated)

1. Consolidated operating results for the third quarter ended November 30, 2022 (from March 1, 2022 to November 30, 2022)

(1) Consolidated operating results (cumulative)

Note: Percentages represent increases (decreases) compared with the corresponding period of the previous fiscal year.

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the third quarter ended								
November 30, 2022	737,385	41.1	45,154	16.8	44,570	13.0	26,123	7.2
November 30, 2021	522,489	5.0	38,651	19.5	39,440	30.3	24,378	104.8

Note: Comprehensive income:

For the third quarter ended November 30, 2022	29,535 million yen	13.2 %
For the third quarter ended November 30, 2021	26,094 million yen	68.6 %

	Profit per share	Diluted profit per share
	Yen	Yen
For the third quarter ended		
November 30, 2022	261.03	260.80
November 30, 2021	243.61	243.39

Note: “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 31, 2020) and other standards are applied from the beginning of the first quarter of the fiscal year ending February 28, 2023.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of			
November 30, 2022	1,363,571	289,136	20.8
February 28, 2022	1,337,245	278,473	20.4

Reference: Shareholders' equity:

As of November 30, 2022	283,286 million yen
As of February 28, 2022	272,891 million yen

2. Dividends

	Annual dividends per share				
	1Q	1H	3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
2021 fiscal year	—	75.00	—	75.00	150.00
2022 fiscal year	—	75.00	—		
2022 fiscal year (forecast)				75.00	150.00

Note: Revision of the most recent dividends forecast: None

3. Forecast of consolidated operating results for the 2022 fiscal year ending February 28, 2023 (from March 1, 2022 to February 28, 2023)

Note: Percentages represent increases (decreases) compared with the corresponding period of the previous fiscal year.

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
2022 fiscal year	1,024,000	46.6	53,000	12.5	48,500	2.0	22,000	22.9	219.83

Note: Revision of the most recent consolidated operating results forecast: None

4. Notes

(1) Change in significant subsidiaries during the quarterly consolidated period (Changes in certain specified subsidiaries resulting in changes in scope of consolidation): None

Added: None

Excluded: None

(2) Adoptions of specific accounting methods for preparing quarterly financial statements: None

(3) Changes in accounting policies, changes in accounting estimates or restatements

1. Changes in accounting policies associated with revision in accounting standards: Yes

2. Changes in accounting policies other than 1. above: None

3. Changes in accounting estimates: None

4. Retrospective restatements: None

(4) Number of shares outstanding (common stock)

1. Number of shares outstanding at the end of period (including treasury shares)

As of November 30, 2022: 100,300,000 As of February 28, 2022: 100,300,000

2. Number of treasury shares at the end of period

As of November 30, 2022: 223,012 As of February 28, 2022: 228,807

3. Average number of shares during the period (cumulative nine months)

As of November 30, 2022: 100,075,705 As of November 30, 2021: 100,070,354

Note: This flash report is exempt from quarterly review.

Note: Descriptions on appropriate use of financial performance forecasts and other special notes

Forward-looking statements presented herein such as financial forecasts are based on currently available information and certain presumptions deemed to be reasonable as of the date of announcement. The achievement of said forecasts cannot be guaranteed. Actual results may be materially different from those in the forecast as a result of various factors. For preconditions of these financial forecasts and notes concerning their use, please refer to "1. Qualitative Information Regarding Quarterly Financial Results, (3) Explanation Regarding Forward-looking Statements" on page 9.

Contents

1. Qualitative Information Regarding Quarterly Financial Results	2
(1) Explanation Regarding Consolidated Operating Results	2
(2) Explanation Regarding Consolidated Financial Position	8
(3) Explanation Regarding Forward-looking Statements	9
2. Consolidated Financial Statements and Main Notes	10
(1) Consolidated Balance Sheet	10
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income	12
Consolidated Statement of Income	12
Consolidated Statement of Comprehensive Income	13
(3) Notes to Consolidated Financial Statements	14
(Going Concern Assumption)	14
(Notes to Significant Changes in the Amount of Shareholders' Equity)	14
(Changes in Accounting Policies)	14
(Additional Information)	15

1. Qualitative Information Regarding Quarterly Financial Results

(1) Explanation Regarding Consolidated Operating Results

During the third quarter of fiscal 2022, nine months from March 1 to November 30, 2022, we continued to take rigorous prevention measures against the infection of the novel coronavirus and responded to new normal demand by exerting concerted Group-wide efforts. Specifically, under the leadership of our Lawson Group Sweeping Transformation Executive Committee, which was launched in September 2020 to realize “Challenge 2025” formulated for 2025, the 50th anniversary of our foundation, we renovated our stores and revamped our product lineups in Domestic Convenience Store Business in response to changes in the business environment, and the whole Lawson Group endeavored to resolve medium- to long-term issues for sustainable growth, acquire new revenue opportunities and foster job satisfaction. Upholding a strategic concept of focusing on community, individual customers, and individual stores in fiscal 2022, we are introducing an area company system to build a stronger structure for rigorously pursuing the creation of value for customers at locations closer to them.

As a result, for the third quarter of fiscal 2022 on a consolidated basis, gross operating revenue increased to 737,385 million yen (141.1% year on year), operating income increased to 45,154 million yen (116.8% year on year) and ordinary income increased to 44,570 million yen (113.0% year on year). Profit attributable to owners of parent was 26,123 million yen (107.2% year on year).

The Company has adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of the fiscal year ending February 28, 2023. Therefore, year-on-year comparative figures for the third quarter of the fiscal year ended February 28, 2022 represent amounts based on the previously adopted accounting policies. For information on the changes in relation to the application of the new accounting standards, please refer to “2. Consolidated Financial Statements and Main Notes (3) Notes to Consolidated Financial Statements (Changes in Accounting Policies).”

We also focused on improving our group-wide internal control system and addressing operating risks based on the 2022 Basic Policy for Improvement of Internal Control Systems. We will continue promoting internal control going forward.

Operating results by business segment were as follows.

(Domestic Convenience Store Business)

During the third quarter under review, the number of new COVID-19 cases, which had previously peaked in August 2022, started to increase again in October 2022. Nevertheless, an overall rising trend was seen in the movement of people.

Amid such drastic shifts in the business landscape, Lawson has been proceeding with store renovations in line with the business environment surrounding each store, helping them expand their merchandise assortment of frozen foods and other daily necessities to adapt to changes in customers’ lifestyles and better address customer needs. By the end of November 2022, we had completed the renovation of some 1,865 stores, and the total number of stores renovated since fiscal 2021 reached 6,170. Installation of the Machikado Chubo in-

store kitchen service at stores also progressed, with 8,970 stores equipped with the service as of the end of November 2022. In addition, we implemented a full-scale introduction of MUJI products at LAWSON stores in May 2022, with a total of 6,569 stores including those in the previous fiscal year offering the merchandise as of the end of November 2022.

In store operations, as we work our way toward 2025, our 50th anniversary year, we launched the HAPPY LAWSON PROJECT in June 2022 with the aim of creating “new hubs of refreshment in every community,” and promoted measures to fulfill the three promises of our business policy—“Superior taste,” “Human kindness,” and “Environmental (Machi) friendliness”—in an effort to operate LAWSON stores endorsed by all our customers.

In addition to further strengthening our distinctive products that focus on taste and health, we are also working to provide heartfelt customer service in our stores. As part of our efforts to achieve a decarbonized society, we opened an energy-saving model store in Kawasaki City, Kanagawa Prefecture. With approximately 80% of its refrigerated/frozen display cases equipped with doors and solar panels installed on its roof, the store achieves reductions of 40% and 55% in electricity consumption and CO₂ emissions, respectively, from its fiscal 2013 levels. We will be launching similar stores in other regions to verify the effectiveness of this initiative, after which we will seek to make this a standard for new and renovated stores from fiscal 2024. Furthermore, in Toshima Ward, Tokyo, we opened a Green Lawson store, which has incorporated over 20 sustainability measures including endeavoring to decrease its environmental impact by reducing food loss and plastic usage, serving customers with on-screen avatars to realize less restrictive work options for employees, and leveraging digital transformation to facilitate smooth communication with customers as well as to reduce manpower tasks of stores.

[Store Operations]

In store operations, we continued to focus on reinforcing adherence to the Three Essential Practices, which emphasizes (1) serving customers courteously; (2) offering a merchandise assortment focused on basic items with high demand; and (3) keeping our stores and communities clean. In our efforts to respond to customer needs and increase sales, we also focused on expanding our merchandise assortment to respond to changes in customer lifestyles and values. Furthermore, we kept up our initiatives to increase the profitability of franchise stores, including helping them streamline their store operation and control costs associated with food waste and utility expenses.

[Merchandising and Service Strategies]

Sales continued to surge in frozen foods and fast-food counter items, whose assortments we have been endeavoring to expand with the aim of supporting the daily lives of customers with store renovations. In the frozen food range, sales were strong for ingredients and deli items that fulfill customers’ pantry needs as well as for groundbreaking items such as frozen desserts. In the fast-food counter range, new flavors of “Kara-age-kun” chicken nuggets and “Protein Chicken” for protein lovers enjoyed robust sales. We strengthened our merchandise assortment of regular products and rolled out sales promotional measures, which resulted in the strong performance of onigiri rice balls and the “Korega BENTO” box lunch series in the rice range and deli items in the daily food range. In addition, new dessert products such as “Rich Canelé” and “Rich Fresh Cheesecake” also contributed to sales. With regard to products offered by the Machikado Chubo in-store kitchen service, we saw strong performance for regular items such as the “Thick-Sliced Sangenton Pork Cutlet Sandwich” and “Mixed-seafood Tempura Rice Bowl” as well as deli items launched in October. In daily necessities, MUJI cosmetics,

which we are currently in the process of introducing, recorded strong sales.

In food delivery service, the combined number of stores listed on 4 food delivery services such as Uber Eats, reached 3,556 in 45 prefectures as of November 30, 2022. In addition, Uber Eats delivers over-the-counter (OTC) drugs sold at 86 LAWSON stores in 16 prefectures.

[Breakdown of Sales by Merchandise Category at Chain Stores in Domestic Convenience Store Business]

Fiscal year Product group	Previous fiscal year From March 1, 2021 To November 30, 2021		Current fiscal year From March 1, 2022 to November 30, 2022	
	Sales (Millions of yen)	Percentage of total (%)	Sales (Millions of yen)	Percentage of total (%)
Processed foods	903,417	53.9	929,928	53.7
Fast foods	363,818	21.7	388,438	22.4
Daily delivered foods	261,438	15.6	265,839	15.3
Nonfood products	148,235	8.8	149,389	8.6
Total	1,676,910	100.0	1,733,595	100.0

[Store Development]

In opening new stores, the Group continued to focus on developing profitable stores.

During the third quarter under review, the total number of LAWSON, NATURAL LAWSON and LAWSON STORE100 stores opened in Japan stood at 176 stores. Meanwhile, we closed a total of 204. As of the end of November 2022, the total number of domestic stores was 14,628 ^{*1}.

In an effort to establish convenience store models catered to an aging population and a trend toward self-treatment, we are building partnerships with dispensing pharmacy and drug store chains to operate healthcare-oriented LAWSON stores that offer over-the-counter pharmaceuticals and prescription drugs, as well as a wider assortment of cosmetics and daily necessities than conventional LAWSON stores. The number of stores offering non-prescription drugs has reached 297 stores (includes 50 pharmacy LAWSON stores equipped with drug-dispensing pharmacies) as of the end of November 2022. Moreover, the number of stores with nursing care consultation desks for seniors has reached 21 as of the end of November 2022. Furthermore, we have also been expanding our chain of “in-hospital LAWSON stores,” which feature strengthened focus on medical, sanitary and nursing supplies in addition to merchandise and services offered at standard convenience stores. The number of such stores has reached 342 as of the end of November 2022. Building on our expertise developed through operation of in-hospital LAWSON stores, we will continue to support the lives of all people interacting with hospitals.

Our NATURAL LAWSON stores, which are popular among customers for supporting their beauty, health, and comfortable lifestyles, offer an exclusive selection of finely picked items of value, including food made with healthy ingredients and environmentally friendly detergents and cosmetics. Meanwhile, our LAWSON STORE100 stores offer high quality, safe and reliable fruits and vegetables with a focus on freshness and daily necessities, supporting customers’ daily dietary lives by helping them plan their meals. The stores are visited by customers of all ages including children and the elderly, and particularly single people and homemakers. As of the end of November 2022, we operate 131 NATURAL LAWSON stores and 664 LAWSON STORE100 stores.

*1 The numbers of store openings and closings and total number of stores in Japan include stores operated by Lawson, Inc. and three equity-method affiliates, Lawson Kochi, Inc., Lawson Minamikyushu, Inc. and Lawson Okinawa, Inc.

[Change in the Total Number of Domestic Stores]

	Total stores as of February 28, 2022	Change during period	Total stores as of November 30, 2022
LAWSON	13,851	(18)	13,833
NATURAL LAWSON	136	(5)	131
LAWSON STORE100	669	(5)	664
Total	14,656	(28)	14,628

[Number of LAWSON stores by prefecture (As of November 30, 2022)]

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	680	Ibaraki	215	Kyoto	328	Ehime	217
Aomori	277	Tokyo	1,674	Shiga	153	Tokushima	137
Akita	179	Kanagawa	1,064	Nara	133	Kochi	137
Iwate	180	Shizuoka	274	Wakayama	152	Fukuoka	525
Miyagi	256	Yamanashi	136	Osaka	1,183	Saga	75
Yamagata	109	Nagano	169	Hyogo	699	Nagasaki	123
Fukushima	169	Aichi	718	Okayama	240	Oita	201
Niigata	226	Gifu	178	Hiroshima	300	Kumamoto	161
Tochigi	198	Mie	136	Yamaguchi	127	Miyazaki	109
Gunma	244	Ishikawa	103	Tottori	138	Kagoshima	200
Saitama	696	Toyama	177	Shimane	141	Okinawa	257
Chiba	597	Fukui	105	Kagawa	132	Total (domestic)	14,628

(Note) These figures include stores operated by Lawson, Inc. and equity-method affiliates, Lawson Kochi, Inc., Lawson Minamikyushu, Inc. and Lawson Okinawa, Inc.

As a result, Domestic Convenience Store Business posted gross operating revenue of 518,849 million yen (161.0% year on year) and segment profit of 32,438 million yen (127.0% year on year).

(Seijo Ishii Business)

Seijo Ishii Co., Ltd provides customers with well-selected, and highly original foods under its philosophy of “Quality food for a quality life.” Operating diverse store formats including street-side stores and stores in station buildings and commercial facilities, the supermarket chain leverages its distinguished product development expertise to offer original products and food items made in-house under the Seijo Ishii brand. The number of directly operated Seijo Ishii Co., Ltd stores reached 174 as of the end of November 2022. Sales were slow for perishable food and grocery items including fruit and vegetables, meat and fish, and confectionery, especially at

street-side stores. This was attributable to the high relative basis of comparison resulting from the spike in demand same period of last year from customers staying at home during the COVID-19 pandemic. However, dishes produced in-house at our central kitchen recorded steady sales, driven by promotional projects including the “Hokuhoku Autumn Delicacies Fair” and reinforced publicity activities. Furthermore, in July 2022 we started operating a new central kitchen, doubling our production capacity. By harnessing the expanded capacity, we are stepping up our efforts to develop new items in-house and to increase the proportion of items produced in-house. We will continue striving to elevate the brand power of Seijo Ishii Co., Ltd by promoting the sustainable development of products of value, effective promotional campaigns, and publicity activities as a manufacturing retailer eager to send messages out to consumers. In addition, on December 16, 2022, due to a comprehensive consideration of trends in the stock market and other factors, Seijo Ishii Co., Ltd withdrew its listing application filed with the Tokyo Stock Exchange on September 9, 2022.

As a result, Seijo Ishii Business posted gross operating revenue of 80,673 million yen (100.0% year on year) and segment profit of 7,771 million yen (99.6% year on year).

(Entertainment-related Business)

With respect to our ticketing business in our Entertainment-related Business undertaken by Lawson Entertainment, Inc., we enjoyed strong demand for concerts, sporting events, and dining coupons under the Go To Eat campaign. Under such circumstances, we focused our efforts on securing an expanded lineup of events in each genre with the aim of capturing the increased demand, which, as in the first half of the fiscal year, resulted in our ticket transaction value exceeding the pre-pandemic level recorded in the same period of fiscal 2019. Furthermore, sales for our product sales business also increased year on year at HMV music/video software stores and others. Meanwhile, demand from stay-at-home customers slowed in our e-commerce business, which resulted in decreased sales, but we are working to expand the scope of merchandise we handle to include entertainment and cosmetics goods. The number of stores has reached 55 as of November 30, 2022, including HMV stores, HMV&BOOKS, which markets books, CDs and DVDs, and HMV record shop stores specializing in analog records.

As in the first half of the fiscal year, United Cinemas Co., Ltd., an operator of cinema complexes, again attracted more moviegoers than in the same period of the previous fiscal year. Sales increased as a result of measures taken to attract customers, such as distributing discount coupons to members, and strengthening digital advertising and the rental theater service. As of November 30, 2022, 44 cinema complexes nationwide with 399 screens are operating.

As a result, Entertainment-related Business posted gross operating revenue of 53,718 million yen (114.6% year on year) and segment profit of 3,386 million yen (270.9% year on year).

(Financial Services Business)

With respect to our Financial Services Business, we endeavored to offer an expanded range of new services through Lawson Bank, Inc.’s ATMs and ATM settlement network. As of the end of November 2022, the number of ATMs installed nationwide reached 13,522, with each ATM used 52.2 times a day on average. The total number of our financial institution partners reached 384 nationwide. We now have seven partners for the

“smartphone ATM (QR code deposit/withdrawal)”^{*2} service, 23 for the “Immediate Account Settlement Service”^{*3} (18 financial institutions and five other service operators), and seven for international money transfer cards. In addition to conventional demand for cash withdrawal services, charging to cashless payment services has contributed to the increased use of ATMs.

Regarding LAWSON Ponta Plus credit cards issued by Lawson Bank, Inc, we are steadily expanding credit card membership by rolling out a range of promotional campaigns and strengthening promotional efforts at stores.

*2 A service where customers can deposit/withdraw cash or take out/repay a credit card loan at an ATM by using a smartphone app instead of a bank card. “smartphone ATM” is a registered trademark of Seven Bank, Ltd.

*3 A service that allows customers to top up their mobile payment app from their account with a financial institution by harnessing the ATM network.

As a result, Financial Services Business posted gross operating revenue of 26,014 million yen (102.7% year on year) and segment profit of 3,008 million yen (129.2% year on year).

(Overseas Business)

With regards to Overseas Business, the Group’s operating companies opened LAWSON stores in the People’s Republic of China, Thailand, Indonesia, the Philippines, and the United States of America (Hawaii).

The number of LAWSON stores in the People’s Republic of China, reached 5,540 as of the end of November 2022, up 980 stores from the end of previous fiscal year. In addition to opening new stores through our subsidiaries, we are also launching stores by concluding mega franchise agreements with local retailers in different cities, as well as area license agreements—where partner companies serve as headquarters in designated areas and assume overall operation and development—in efforts to accelerate the expansion of business areas and the number of stores. In July 2022, the number of stores exceeded 5,000, a milestone first for a Japanese convenience store chain. Due to the spread of COVID-19, large-scale movement restrictions were imposed across China in and after April 2022, and about half of the stores in the eastern part of the country suspended their operations due to the lockdown across Shanghai. Almost all stores were reopened after the lockdown was lifted in June, but lockdowns continued to be implemented intermittently in other regions, forcing some stores to suspend operations. The business environment thus remains challenging due to both government-imposed and self-imposed restrictions on movement. We will work to offer our signature high-quality original products including rice and dessert items, enhance the value of the Lawson brand in China, and increase earnings by strengthening our delivery business.

In other regions, stores that had been suspending their operations or operating with shorter hours have resumed normal operations in phases and are gradually recovering from the impact of COVID-19. We will continue to operate our stores to sustain the daily lives of our customers and strive to further expand our earnings. Furthermore, from the third quarter of the year, Lawson Philippines, Inc. has been included in the scope of consolidation.

[Distribution of LAWSON Brand Stores Overseas by Region]

Country/Region	Number of stores (As of February 28, 2022)	Change during fiscal year	Number of stores (As of November 30, 2022)
China Shanghai and surrounding area (Shanghai, Zhejiang, Jiangsu)	2,349	172	2,521
China Chongqing and surrounding area (Chongqing, Sichuan)	489	292	781
China Liaoning (including Shenyang, Dalian)	461	109	570
China Beijing and surrounding area (Beijing, Tianjin, Hebei)	343	70	413
China Guangdong and Fujian (including Shenzhen, Xiamen)	—	140	140
China Hubei (including Wuhan)	526	73	599
China Anhui (including Hefei)	175	63	238
China Hunan (including Changsha)	117	35	152
China Hainan (including Haikou)	100	26	126
China Subtotal	4,560	980	5,540
Thailand	166	15	181
Indonesia	65	80	145
Philippines	69	23	92
United States of America Hawaii	2	—	2
Total	4,862	1,098	5,960

As a result, Overseas Business posted gross operating revenue of 66,454 million yen (118.9% year on year) and segment loss of 1,468 million yen (segment profit was 1,853 million yen in previous fiscal year).

(2) Explanation Regarding Consolidated Financial Position

Current assets increased by 28,736 million yen from the end of the previous fiscal year to 696,363 million yen, mainly reflecting an increase of 35,150 million yen in accounts receivable-trade, an increase of 5,890 million yen in accounts receivable-due from franchised stores and a decrease of 12,243 million yen in cash and deposits. Non-current assets decreased by 2,410 million yen from the end of the previous fiscal year to 667,207 million yen, mainly reflecting a decrease of 11,931 million yen in investments and other assets, a decrease of 1,577 million yen in intangible assets and an increase of 11,098 million yen in property and store equipment. Consequently, total assets increased by 26,326 million yen from the end of the previous fiscal year to 1,363,571 million yen.

Current liabilities increased by 92,984 million yen from the end of the previous fiscal year to 797,675 million yen, mainly reflecting an increase of 60,857 million yen in accounts payable-trade, an increase of 60,000 million yen in current portion of long-term loans payable and a decrease of 26,134 million yen in accounts payable-other. Non-current liabilities decreased by 77,320 million yen from the end of the previous fiscal year to 276,759 million yen, mainly reflecting a decrease of 80,000 million yen in long-term loans payable.

Consequently, total liabilities increased by 15,663 million yen from the end of the previous fiscal year to 1,074,435 million yen.

Net assets increased by 10,662 million yen from the end of the previous fiscal year to 289,136 million yen, mainly reflecting an increase of 7,290 million yen in retained earnings and an increase of 3,395 million yen in foreign currency translation adjustment. Consequently, shareholders' equity ratio was 20.8%, up from 20.4% as of the end of the previous fiscal year.

(3) Explanation Regarding Forward-looking Statements

Regarding the financial forecasts for the full fiscal year ending February 28, 2023, the financial forecasts remain unchanged from those announced on April 11, 2022.

2. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

As of February 28, 2022 and November 30, 2022

(Millions of yen)

	Previous fiscal year As of February 28, 2022	Current 3rd Quarter As of November 30, 2022
Assets		
Current assets:		
Cash and deposits	388,463	376,219
Accounts receivable-trade	4,990	40,141
Accounts receivable-due from franchised stores	47,202	53,093
Lease receivables	15,071	13,968
Merchandise	22,128	27,544
Accounts receivable-other	146,443	142,711
Other	43,344	42,703
Allowance for doubtful accounts	(17)	(17)
Total current assets	667,627	696,363
Non-current assets:		
Property and store equipment:		
Buildings and structures, net	189,190	195,013
Tools, furniture and fixtures, net	22,762	25,316
Land	8,507	8,429
Leased assets-net	124,978	127,267
Construction in progress	4,720	2,245
Other-net	18,609	21,594
Total property and store equipment	368,768	379,867
Intangible assets:		
Software	34,884	35,477
Goodwill	34,459	32,634
Trademark right	7,721	7,329
Other	680	727
Total intangible assets	77,746	76,168
Investments and other assets:		
Investment securities	21,738	17,103
Long-term loans receivable	38,044	35,749
Guarantee deposits	103,277	102,271
Deferred tax assets	34,736	31,530
Other	26,066	25,317
Allowance for doubtful accounts	(759)	(800)
Total investments and other assets	223,103	211,172
Total non-current assets	669,618	667,207
Total assets	1,337,245	1,363,571

(Millions of yen)

	Previous fiscal year As of February 28, 2022	Current 3rd Quarter As of November 30, 2022
Liabilities		
Current liabilities:		
Accounts payable-trade	125,681	186,538
Short-term loans payable	47,072	27,853
Current portion of long-term loans payable	20,000	80,000
Lease obligations	45,955	46,735
Accounts payable-other	90,412	64,277
Income taxes payable	7,368	6,240
Deposits received	151,809	157,166
Provision for bonuses	4,854	3,274
Call money	108,000	107,000
Deposits received for banking business	91,420	101,420
Other	12,117	17,170
Total current liabilities	704,691	797,675
Non-current liabilities:		
Long-term loans payable	160,000	80,000
Lease obligations	118,445	119,061
Deferred tax liabilities	449	423
Provision for retirement benefits to executive officers and audit and supervisory board members	248	278
Net defined benefit liability	17,438	18,011
Asset retirement obligations	36,622	37,780
Other	20,875	21,203
Total non-current liabilities	354,080	276,759
Total liabilities	1,058,771	1,074,435
Net assets		
Shareholders' equity:		
Capital stock	58,506	58,506
Capital surplus	46,495	46,495
Retained earnings	161,299	168,590
Treasury shares	(973)	(949)
Total shareholders' equity	265,327	272,642
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,585	1,192
Revaluation reserve for land	(69)	(69)
Foreign currency translation adjustment	6,273	9,669
Remeasurements of defined benefit plans	(227)	(148)
Total accumulated other comprehensive income	7,563	10,643
Subscription rights to shares	368	328
Non-controlling interests	5,213	5,522
Total net assets	278,473	289,136
Total liabilities and net assets	1,337,245	1,363,571

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income**(Consolidated Statement of Income)**

For the third quarter of the fiscal year ended February 28, 2022 and the third quarter of the fiscal year ending February 28, 2023

(Millions of yen)

	Previous 3rd Quarter From March 1, 2021 to November 30, 2021	Current 3rd Quarter From March 1, 2022 to November 30, 2022
Gross operating revenue	522,489	737,385
Net sales	216,946	449,260
Cost of sales	148,398	355,009
Gross profit	68,548	94,250
Operating revenue:		
Income from franchised stores	222,621	189,541
Other operating revenue	82,921	98,584
Total operating revenue	305,543	288,125
Operating gross profit	374,091	382,376
Selling, general and administrative expenses	335,440	337,222
Operating income	38,651	45,154
Non-operating income:		
Interest income	713	706
Dividend income	368	677
Gain on investments in investment partnerships	1,634	—
Employment adjustment subsidy due to novel coronavirus disease	1,040	536
Other	1,323	1,712
Total non-operating income	5,080	3,632
Non-operating expenses:		
Interest expenses	2,607	2,654
Loss on cancellation of leases	1,075	947
Other	608	613
Total non-operating expenses	4,291	4,215
Ordinary income	39,440	44,570
Extraordinary income:		
Gain on sales of investment securities	1,025	—
Total extraordinary income	1,025	—
Extraordinary losses:		
Loss on retirement of non-current assets	961	866
Impairment loss	2,105	1,227
Loss on novel coronavirus disease	639	1,091
Other	510	331
Total extraordinary losses	4,217	3,516
Profit before income taxes	36,248	41,053
Income taxes-current	7,775	11,104
Income taxes-deferred	3,978	3,692
Total income taxes	11,754	14,796
Profit	24,493	26,257
Profit attributable to non-controlling interests	115	133
Profit attributable to owners of parent	24,378	26,123

(Consolidated Statement of Comprehensive Income)

For the third quarter of the fiscal year ended February 28, 2022 and the third quarter of the fiscal year ending February 28, 2023

	(Millions of yen)	
	Previous 3rd Quarter From March 1, 2021 to November 30, 2021	Current 3rd Quarter From March 1, 2022 to November 30, 2022
Profit	24,493	26,257
Other comprehensive income		
Valuation difference on available-for-sale securities	(237)	(393)
Foreign currency translation adjustment	1,760	3,593
Remeasurements of defined benefit plans	77	78
Total other comprehensive income	1,600	3,278
Comprehensive income	26,094	29,535
Comprehensive income attributable to		
Owners of parent	25,901	29,203
Non-controlling interests	193	332

(3) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not Applicable.

(Notes to Significant Changes in the Amount of Shareholders' Equity)

Not Applicable.

(Changes in Accounting Policies)

(Application of Accounting Standards for Revenue Recognition, etc.)

Effective from March 1, 2022, the Company applies the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020, "Accounting Standard for Revenue Recognition") and other standards and recognizes revenue at an amount that it expects to receive in exchange for promised goods or services when control of the goods or services is transferred to a customer.

The changes in relation to the application of the accounting standards for revenue recognition are stated below:

(1) Sales transactions involving a subsidiary

Sales transactions involving SCI, Inc., a subsidiary of the Company in the domestic convenience store business, that were previously recognized on a net basis are now recorded on a gross basis in consideration of the subsidiary's role in sales to customers (whether it is principal or agent).

(2) Consideration paid to customers

Sales promotion costs and other costs were previously recognized as selling, general and administrative expenses, such as sales commission and advertising expenses, but such consideration paid to customers is now deducted directly from revenue.

(3) IT systems fees received from customers

Fees received from customers for IT system utilization and data provision were previously deducted from selling, general and administrative expenses, but transactions based on contracts with customers are now recognized as revenue.

(4) Points program operated by a subsidiary

With respect to the in-house points program operated by United Cinemas Co., Ltd., a subsidiary of the Company in the Entertainment-related Business, points awarded were previously recognized as revenue on a gross basis at the time the services were sold. However, the points awarded at the time of sales are now recognized as a separate performance obligation to be executed when customers choose to purchase additional services in the future. As a result, transaction values allocated to points are recognized as contract liabilities at the time the points are awarded, and later recognized as revenue when services are sold in exchange for the points. Transaction values are allocated in proportion to the independent selling prices. The membership fees for the points program were previously recognized as revenue in a lump sum at the time of receipt, but they are now recorded based on the elapsed period.

The Accounting Standards for Revenue Recognition have been applied in accordance with Proviso of Paragraph 84 of the Accounting Standards for Revenue Recognition with the cumulative effect of retrospective application added to or deducted from the beginning balance of retained earnings of the first quarter of the current fiscal year, thus, the new accounting policy has been adopted from the first quarter of this fiscal year.

As a result, compared with the amounts based on the previously adopted accounting policies, accounts receivable-trade increased by 32,405 million yen, accounts receivable-other decreased by the same amount, accounts payable-trade increased by 35,418 million yen and accounts payable-other decreased by the same amount, net sales and operating revenue increased by 176,035 million yen, cost of sales increased by 198,882

million yen, and selling, general and administrative expenses decreased by 22,979 million yen for the third quarter under review, while operating income, ordinary income, and profit before income taxes increased by 132 million yen, respectively. The balance of retained earnings at the beginning of the fiscal year decreased by 723 million yen.

In accordance with the transitional treatment set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the Company has not restated the financial results for the previous fiscal year to reflect the new method of presentation. Furthermore, in accordance with the transitional treatment set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), a breakdown of revenue from contracts with customers for the third quarter of the previous fiscal year has been omitted.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The “Accounting Standard for Fair Value Measurement” (ASBJ Statement No.30, July 4, 2019; hereafter “Fair Value Accounting Standards”) has been applied prospectively from the beginning of the first quarter of the current fiscal year as prescribed by the Fair Value Accounting Standards in accordance with the transitional treatment set forth in Paragraph 19 of Fair Value Accounting Standards and Section 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, July 4, 2019). This change had no effect on the quarterly consolidated financial statements.

(Additional Information)

(Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system)

The Company and certain domestic consolidated subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities in accordance with tax laws in effect before amendment based on the treatment of Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ Practical Issues Task Force No.39, March 31, 2020) instead of applying the provision in Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No.28, February 16, 2018), regarding the transition to group tax sharing system established in “Act for Partial Amendment of the Income Tax Act, etc.” (Act No.8 of 2020), and items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system.