

Strategy for Creating Happiness through the Three Promises

Superior
taste

Domestic Convenience Store Business

Transforming store displays

Machikado Chubo in-store kitchens project

◀ Initiatives to date

Lawson has developed the Machikado Chubo in-store kitchen to provide boxed meals and sandwiches prepared in-store. Our aim is to offer people in the community the pleasure of a meal that has been made with care in our store.

The Machikado Chubo in-store kitchen concept developed from our in-store preparation initiative, which Lawson has been promoting since 2004. The project started from an idea among franchise store owners and Lawson employees who wanted to offer hot meals to customers who found themselves without access to lifeline services such as electricity, water, and gas due to the impact of the Great East Japan Earthquake in March 2011.

Since then, through repeated trial and error regarding food preparation processes and kitchen facilities, around 7,000, or 48%, of LAWSON stores throughout Japan are now able to offer this service, and with the support of customers, we have expanded the number of stores to reach the largest scale in Japan for retail stores with in-store kitchens.

The expansion of Machikado Chubo in-store kitchens would be impossible without the development of crews

who carry out food preparation, improvement of the kitchen facilities, and the cooperation of franchise store owners. We will promote a range of initiatives to expand the Machikado Chubo in-store kitchens such as making operations more efficient with the introduction of self-checkout cash registers and self-service microwave ovens, thereby creating time for franchise store owners and crews to increase their skills for in-store food preparation, and conducting human resource development.

▶ Strategies under Challenge 2025

Lawson will conduct various initiatives to expand Machikado Chubo in-store kitchens to even more stores and provide products that will satisfy customers.

We will develop products that are appealing to customers, such as collaboration products with specialty stores and leading restaurant chains and the development of local products that meet the different dietary needs of each region.

We will also proactively develop and sell health-conscious products. By fiscal 2022, we will reduce the equivalent salt

content of each meal to 3 g or less for all products, and reduce the use of additives to provide delicious and healthy meals.

We are also conducting environmentally conscious activities. Since Machikado Chubo in-store kitchens enable us to manage the number of items produced in each store, they contribute to reducing food losses due to overproduction. We are also making a proactive effort to eliminate plastic by changing the bowls used in our rice bowl category from plastic to cardboard. This is expected to reduce plastic use by around 250 t per year.

We will continue to add more initiatives such as these in order to provide Machikado Chubo products that can only be realized by Lawson.



Thick-cut Sangenton pork cutlet sandwich
(Made with sauce produced by the Tonkatsu Maisen)



Food being prepared in-store



Boxed lunch featuring fried chicken with spicy
nanban sauce and five types of vegetables



Chicken *nanban* rice bowl with Sakurajima
chicken raised in Kagoshima Prefecture



Beef curry developed in collaboration
with Nakamura-ya



Authentic Nagoya-style miso pork cutlet rice bowl

Domestic Convenience Store Business

Transforming store displays

Pursuit of Ideal Store Format Project

◀ Accelerating Change in the Role of the Convenience Store

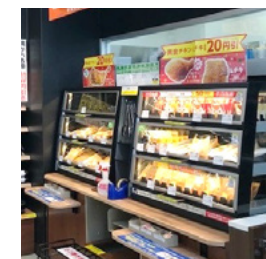
The COVID-19 pandemic has transformed the lifestyles of our customers, driving a marked shift toward buying products at convenience stores near suburban residential areas. In addition, the product lineups and services expected of convenience stores have changed due to the increased popularity of food delivery services. Customers' needs have shifted from the traditional need for so-called time-saving shopping that can be done conveniently nearby, to the need to buy products necessary for daily life. The role of convenience stores has begun to change in turn. For example, in areas where there are no fruit and vegetable stores, convenience stores sell fresh vegetables. In areas without fast food restaurants or bookstores, convenience stores serve as a substitute.

Over the course of their history, convenience stores have continued to respond flexibly to the changing needs of the times, making the most of their advantages as a small store. Amid the major changes to the environment triggered by the pandemic, we are now moving toward the realization of a new convenience store model.

▶ Strategies under Challenge 2025

To realize “new hubs of refreshment in every community” that suit the new era, we have started the Pursuit of Ideal Store Format Project.

First, we will differentiate our Machikado Chubo in-store kitchen products by offering boxed meals and fast food products that meet the needs of the three daily meals—breakfast, lunch and dinner—taking advantage of our ability to prepare and serve food immediately in the store. Next, we will gauge the needs and purchasing behavior of customers, which vary by location, and optimize individual stores through measures such as increasing the lineup of frozen foods and daily food products through the addition of fixtures. In addition, to encourage new customers to visit our stores, we will actively introduce delivery services and online payment services, offering new ways to use convenience stores. We will also promote self-service stores in response to the increasing customer preference for a contactless shopping experience and in preparation for long-term labor shortages. These efforts include the use of self-checkout services



Self-service sales of individually packaged over-the-counter fast food

We aim to realize an ideal store format that matches the needs of the times and of the local community.

Yuichi Wada

Senior Executive Managing Officer
Store Operations Division Director—
Corporate Sales and Store Development Division



and the introduction of fixtures for self-service sales of individually packaged over-the-counter fast food. As well as making it easier for customers to move around the store as they select items to buy, the use of round cases for multi-faceted display will also serve to present the sales floor transformation to the customer visually.



Round cases for multifaceted display of an assortment of desserts and deli items

We plan to renovate a total of 5,000 stores in fiscal 2021, including 500 pilot renovated stores. We will also build new kitchens. As of the end of July, 7,000 stores were equipped with kitchens. In fiscal 2021 we plan to expand this to a total of 8,400 stores.

In selecting stores to renovate, we will analyze the trends of pilot renovated stores in detail. We will assess quantitative data on the following four factors: whether the store has a kitchen or not; daily sales; the population of the commercial area, particularly the nighttime population; and the number of years since the store opened. In addition to these, the hardware condition of the store, the economic situation, and of course the management ability and motivation of the owner are also major factors.

Strategy for Creating Happiness through the Three Promises

Domestic Convenience Store Business

Transforming store displays
Product renewal project

Overview of Fiscal 2020

In fiscal 2020, the spread of COVID-19 caused significant changes in people's lifestyles, including increased time at home, mask-wearing, and restrictions on eating out. We responded to the situation by developing products to capture changes in consumer behavior, namely increased health awareness, increased hygiene awareness, increased thriftiness, and increased needs for eating at home.

One of our main initiatives is Machikado Chubo in-store kitchens. The sense of value attached to freshly prepared food is extremely important, and our numbers show the results of our efforts to strengthen this initiative, such as collaboration products with restaurants and products developed under the direction of partners. We have also seen huge growth in the daily food product and frozen food categories, where we have launched carefully selected products based on a tried-and-true lineup such as gyoza dumplings and sweet-and-sour pork. We have also strengthened our lineups of desserts and healthful food products.

To further improve our profit margin, we are cutting down on waste by promoting efforts to keep foods fresher for longer without compromising on taste in our ready-made meal products. As we continuously revised our ingredients and packaging, we worked to reduce the volume of plastic containers and film, making them thinner and converting to paper containers, as well as reducing plastic by changing the mix of biomass materials.

We will work to strengthen our merchandising by rapidly grasping changes in customer needs.

Hitoshi Fujii
Executive Vice President
Merchandising Division Director



Strategies under Challenge 2025

Product renewal is an important project within the theme of transforming store displays promoted by the Sweeping Transformation Executive Committee. We will dramatically upscale and further strengthen our merchandising to increase consumer recognition of the value of Machikado Chubo in-store food preparation. We will also address the issue of low recognition of daily food products and frozen foods, which is an area where customer needs are increasing, by rapidly developing products that will capture public attention with their delicious taste and lead to repeat purchases.

In daily food products, we will focus on increasing recognition with new designs, expanding the menu, and increasing the lineup of products with long best-before dates. In addition, we will emphasize the use of locally produced ingredients, pursuit of health, and reduction of additives. In frozen foods, we are seeing a shift from commercial use to household use, and from stock demand to instant meal demand. By focusing on new product proposals, we will realize new sales floor proposals.

In daily necessities, we will turn our attention to improving sales floor efficiency, continuing to consolidate existing products while taking steps to introduce MUJI products.

By implementing these measures, Lawson aims to acquire a new customer base and expand spending per customer by increasing the number of purchase items. In this way, we will achieve the targets of Challenge 2025.

A meal made up from products available at LAWSON stores



Lawson produce to brighten up meals at home



Hamburger Steak
—In rich demi-glace sauce made with sauteed onion—
(Launched on August 31, 2021)



Tokekoru "melted" croquettes



Bacon Caesar Salad



Cassata 2 pieces

Other products

- Potato Salad
- Lettuce Salad
- Mixed Salad
- Sesame Dressing 190ml
- Casa Subercaseaux Cabernet Sauvignon 750ml
- Gold Master 350ml
- Koshihikari Rice 180g

Domestic Convenience Store Business

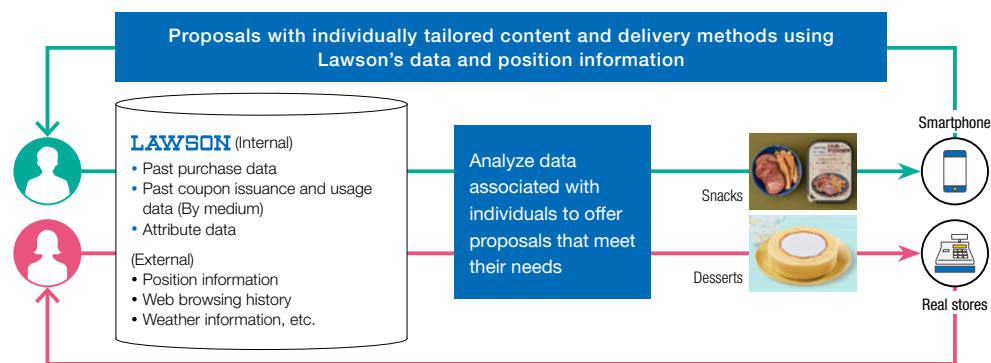
Transforming profit structures Unified use of Group data project

Using Data to Increase Customer Satisfaction

Lawson has been using the POS data and coalition loyalty program member data in store management and product development to meet customers' various needs in greater detail. The unified use of Group data project will widen the scope of data use to include not only Lawson but also data owned by Lawson Group companies and external data to provide customers with personalized product and service information tailored to their individual preferences. The information will be provided in the form of recommendations, coupons, and so forth related to products and services, using appropriate timing and methods of delivery corresponding to customers' different interests. Using these data, we aim to offer customers the experience of a new form of convenience and increase customer satisfaction.

Reflecting Data in Support for Store Operations

Going further, we will promote initiatives for even more sophisticated use of data. We will provide data on customer values and links with commercial area maps to support customized product lineups for each store. This will enable stores to match customers preferred timing in setting up displays, reducing cash register wait times, and providing freshly prepared products. In addition, we will support new store openings by franchise store owners by using data to help them understand commercial areas around the location and make decisions.



Transforming profit structures Customer-centric supply chain reform project

Tackling Food Loss by Optimizing the Entire Supply Chain

Under the customer-centric supply chain reform project, we are addressing food loss, which is one of Lawson's target social issues. We will use AI to predict demand for each product based on individual store data such as weather and sales, then work to optimize the entire supply chain by making product ordering recommendations based on the predictions.

We have been working to increase ordering accuracy at stores using the semi-automatic ordering system introduced in 2015, which uses AI to recommend order volumes based on store sales capabilities. Now we will increase accuracy using the latest AI technology and aim to completely sell all of the purchased products. Previously, discounted sales of products nearing their sell-by deadlines were heavily dependent on the level of experience at the store. Now, we will use AI to make recommendations on the amount and period of the discounts based on the inventory status of each store on the day in an effort to more effectively completely sell out of products. We launched a demonstration experiment for this initiative at certain stores in the Tohoku region in June 2021. Based on the results, we aim to introduce the initiative to all stores during fiscal 2023.

We also intend to expand the application of customer-centric demand prediction beyond increasing ordering accuracy and discounted sales. By optimizing the entire supply chain, including optimization of logistics aspects such as store deliveries and production control at our manufacturing plants, we will work to reduce food loss.



Image of a discount sale recommendation on screen



Applying discount stickers with prices recommended using AI

Domestic Convenience Store Business



◀ Overview of Fiscal 2020

In response to changes in the business environment caused by the COVID-19 pandemic, we strengthened our fresh meat, fish, fruits and vegetables, and daily delivery category, expanded our lineup of frozen foods, and introduced new merchandise to meet stock needs. As a result, amid a difficult environment we achieved existing-store sales of only 1.6% lower than those recorded in fiscal 2019. The cost structure reforms that we implemented early on were successful, leading to improved profits from the second half of the fiscal year. Many aspects of the value that we provide to our customers still need to evolve, however, and we are working to resolve these issues so that we can attract more customers.

▶ Strategies under Challenge 2025

As a lifestyle-based convenience store, we position fresh food and daily delivered foods as our strengths. We will continue refining our ability to support consumers in their daily lives by focusing on offering seasonal suggestions, communicating with customers, and providing safety and security. While examining macro-consumption trends such as the aging population and the increasing number of single-person households, we will also use customer segment data, which we have included from fiscal 2020, aiming to grow our market share within commercial areas by working with our franchise stores to accelerate individual store management.



Guided by the store concept of “a menu-support convenience store,” the store proposes fresh food and other grocery products to support people’s daily diets. The stores also offer its “100 Yen” series of original products.

Seijo Ishii Business



Seijo Ishii

The entire company is working together as one team to celebrate the 100th anniversary of our founding.

Hiroyuki Karasawa

Executive Vice President
Division Director, Corporate Strategy
and Planning Division



◀ Overview of Fiscal 2020

Guided by a corporate philosophy of “quality food for a quality life,” Seijo Ishii is working as one toward the milestone year of 2027, when it will celebrate the 100th anniversary of its founding.

In fiscal 2020, Seijo Ishii opened a total of 11 stores—9 company-operated stores and 2 franchise stores—including the Sun Station Terrace Okayama store, its first store in the Chugoku region, bringing the total number of stores to 193 at the end of fiscal 2019.

Seijo Ishii has differentiated itself from its competitors with its unique business model of “vertical integration of food,” in which all of its processes—from importing, logistics, and manufacturing to wholesaling, retail sales, and restaurant operations—are carried out in-house.

In addition, we are working to improve customer satisfaction by discovering and developing products that are unique to Seijo Ishii without being bound by existing ideas, and by training employees to refine their product knowledge and sales skills.

▶ Strategies under Challenge 2025

Seijo Ishii will start operations of a new central kitchen plant in fiscal 2022. It is advancing a number of initiatives in preparation for this, such as expanding its store network and developing new core products.

To expand the store network, as well as strategically opening new stores, we will cater to the new lifestyles that emerge after the pandemic by strengthening e-commerce and promoting last mile business initiatives using delivery services such as Uber Eats. We will use the LAWSON Group network to increase points of contact with customers and expand sales channels.

To respond to diversifying sales channels, Seijo Ishii will strengthen its efforts to provide delicious food when it tastes best and in perfect condition. It will focus not only on the direct imports that have traditionally been its specialty, but also by selling selected seasonal produce from all over Japan. By properly communicating the value of these products through stories, we will continue to create new Seijo Ishii fans and develop new customers beyond our existing base.



Image of the new central kitchen plant (Yamato City, Kanagawa Prefecture) scheduled to start operation in spring 2022

Entertainment-related Business

LAWSON
ENTERTAINMENT



We will respond to changes in the market environment and provide exciting shopping experiences.

Haruhiko Noborisaka
Deputy Senior Vice President
Division Director of Entertainment
Business Division

Overview of Fiscal 2020

Fiscal 2020 was a year in which the COVID-19 pandemic dealt a heavy blow to the entertainment industry, triggering drastic changes in our business environment. In this environment, we consider it our primary mission to respond to the changing needs of the community. In our entertainment-related business, as in our other businesses, we embraced the challenge of turning adversity into opportunity.

In the ticketing business of Lawson Entertainment, we expanded the scope of ticket offerings beyond the traditional event format to include tickets for viewing live online events. In the merchandise sales business, we targeted online shopping and holding events, for which demand has increased. In the cinema complex business of UNITED CINEMAS, we enhanced the variety of screening content and provided new ways of viewing, such as drive-in theaters, while also taking measures to ensure the safety and security of theaters. We have also adopted a leaner management structure aimed at making all our businesses more resilient against fluctuations in market conditions. Through these measures, we have put our business performance on a steady track for recovery.

UNITED
CINEMAS

Strategies under Challenge 2025

The entertainment-related business is much the same as our convenience store business, which provides an infrastructure for daily life. Our primary mission is to respond to the needs of the community and understand our customers, providing a social infrastructure, whatever the business environment may be.

Our business and all its business domains sit precisely at the center of a changing market environment where consumption is taking place across the boundaries of goods and services, real and digital. The COVID-19 pandemic has accelerated these changes, and we recognize that there can be no return to the past.

In fiscal 2021, which marks the start of Challenge 2025, we will seize the opportunity to reinforce and enhance our response to market needs, on which we have relentlessly focused our efforts to date. To enable our business to continue to create unique value, we will carry out digital transformation (DX) based on organic collaboration, strengthening our business foundation and expanding our customer touch points to create a hybrid business.

The world of entertainment nurtures dreams and hopes, offering many opportunities to experience happiness. By maintaining this business as a pillar for sustainable growth of the Lawson Group, we are responding to the demand of our customers for exciting shopping experiences and fulfilling Lawson's group philosophy of "Creating Happiness and Harmony in Our Communities."

Financial Services Business



Lawson Bank

Overview of Fiscal 2020

In fiscal 2020, the third year of operation of this business, we continued to achieve profitability as in the previous fiscal year amid a continuing severe business environment due to the impact of the COVID-19 pandemic. This was a result of our firm efforts in the ATM business and retail business, as well as our efforts to exercise cost control in our operations. This was an important year in which we were able to launch a variety of services. These included the Immediate Account Settlement Service, which allows customers to charge payment apps and electronic money from their accounts with financial institutions, and a service that allows customers to charge payment apps with cash from ATMs.

Strategies under Challenge 2025

Backed by a network of approximately 13,500 ATMs and more than 370 partner financial institutions, we will further expand our services by taking advantage of our unique position as a bank in a convenience store group, where we connect finance and distribution. We will adopt our customers' perspective as we work to deliver new levels of convenience to our customers amid a changing environment.



Overseas Business

China

“Creating Happiness and Harmony in Our Communities”—around the world. We will align our business development to the culture of each region.

Motonobu Miyake

Executive Vice President, China Business Division Director and Lawson (China) Holdings, Inc. General Manager



also developed an application for supervisors to manage the status of their guidance to franchise stores. The number of prospective franchisees increased due to LAWSON’s stance of supporting franchisees, and by matching this with an increase in vacant properties due to the impact of the COVID-19 pandemic, we were able to expand the number of our stores in various regions. As of the end of 2020, we had expanded our operations to 12 provinces and cities, including new entry into the Hebei and Hainan provinces. We have the largest number of Japanese-affiliated convenience stores in China and our entire China business has become profitable on an operating income basis.

◀ Our Expansion in China

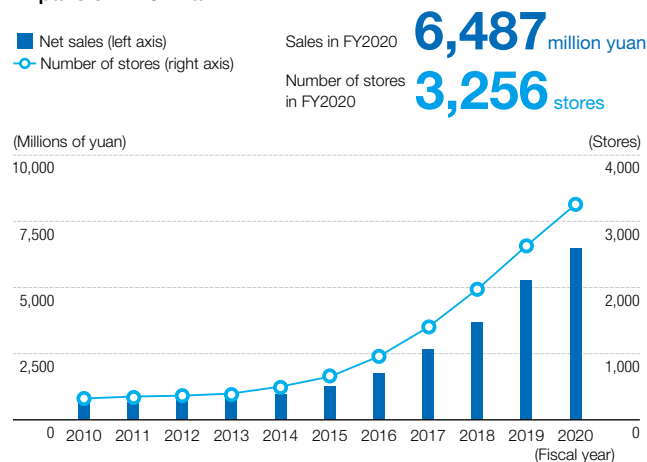
Lawson entered Shanghai in 1996, becoming the first Japanese convenience store to introduce the modern convenience store model to China. During the 2000s, we were unable to establish a brand image due to sluggish growth in the number of stores amid soaring rents and intensifying competition. In the 2010s, however, we reconfigured our basic strategy for China. We established a system for developing our own expertise and IT and core infrastructure to adapt to changes in local culture and

economic conditions. We then advanced our business expansion by sharing our accumulated expertise with our subsidiaries and area licensees. As a result, we have gained strong levels of recognition and brand reputation in various regions, recording roughly tenfold growth in our net sales and the number of our stores over the last ten years.

➤ Strategies under Challenge 2025

As of the end of May 2021, we had 3,640 stores throughout China. We are targeting 6,000 stores by 2022 and 10,000 stores by 2025. We have in place a system of accumulated expertise, IT, and core infrastructure that enables us to maximize growth of stores in each region in accordance with our China basic strategy and to accelerate regional expansion. As brand recognition of LAWSON increases in China, we have increasingly been approached by many regions about opportunities such as market entry or licensing offers. There are increasing possibilities for expanding new area licenses. The Chinese government has made the modernization and expansion of China’s convenience stores part of its policy toward driving growth in domestic demand and improving the lifestyles of Chinese people. However, the number of convenience stores relative to the population is still relatively small in China compared to Japan and other countries. We therefore see considerable room for expansion in the future. There are also many opportunities for area licensing and M&A given the large number of local convenience stores in each region. China is a vast country where cultural and economic levels vary between regions. We will therefore start with our Chinese subsidiaries that operate in each cultural zone as we aggressively expand our business in China. In doing so, we will contribute to the Lawson Group as a whole.

Expansion in China



◀ Overview of Fiscal 2020

In fiscal 2020, sales temporarily declined due to the impact of the COVID-19 pandemic. However, the recovery trend started relatively quickly as case numbers declined. We thus implemented a range of initiatives such as infection prevention measures, strengthening support for franchisees, delivery services, and live commerce. We strengthened our private brand products in China by locally manufacturing and selling product ranges that were major hits in Japan: BASCHEE- Basque-style cheesecake, and Akuma-no-onigiri (“Devil’s Rice Ball”=rice ball too delicious to stop eating). We also actively pursued collaboration around various types of intellectual property, advancing a brand strategy aimed at promoting purposeful purchasing inspired by a positive association with LAWSON. Another key focus has been digitalization. In addition to offering a variety of benefits through our members-only smartphone app, we have started taking advance reservations for pickup at designated stores. We have