First Half Results for FY2014

(Six months ended August 31, 2014)

Lawson, Inc.

October 8, 2014

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Financial Results for First Half of FY2014

Yutaka Yoshitake
Chief Financial Officer

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Earnings Summary of First Half of FY2014

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(Consolidated : Billions of yen)	FY2012-1H	FY2013-1H	FY2014-1H		
	Actual	Actual	Actual	YoY	vs. Plan
Net sales of all stores	970.9	992.7	**994.6**	100.2%	97.1%
Operating profit	34.5	35.6	**40.0**	112.3%	105.6%
Operating profit ratio	3.6%	3.6%	**4.0%**	+0.4%P	+0.3%P
Recurring profit	34.2	35.5	**39.6**	111.5%	106.5%
Net profit	17.8	19.0	**21.8**	114.9%	112.8%
EPS (Yen)	178.82	190.67	**219.15**	114.9%	112.8%
Dividend per share (Yen)	100	110	**120**	+10	±0
Total no. of stores in Japan	10,912	11,384	**11,987**	+603	+29

Note: The number of stores is a total number of convenience stores in Japan operated by the Lawson group.

- Consolidated operating profit: 40.0 billion yen (+12.3% YoY). Up 2.1 billion yen versus plan, but roughly flat when excluding depreciation method changes, etc.

  Gross profit margin rose on stronger sales of fast food items and on the improvement of gross margin of non-food items.

  The impact from changes in depreciation calculations totaled 4.3 billion yen. SG&A expenses fell year on year, and versus our initial plan.

  Performance from Lawson subsidiary, Lawson Mart, Inc., fell short of plan.
- Consolidated net profit: 21.8 billion yen (+14.9% YoY, +2.4 billion yen versus plan)

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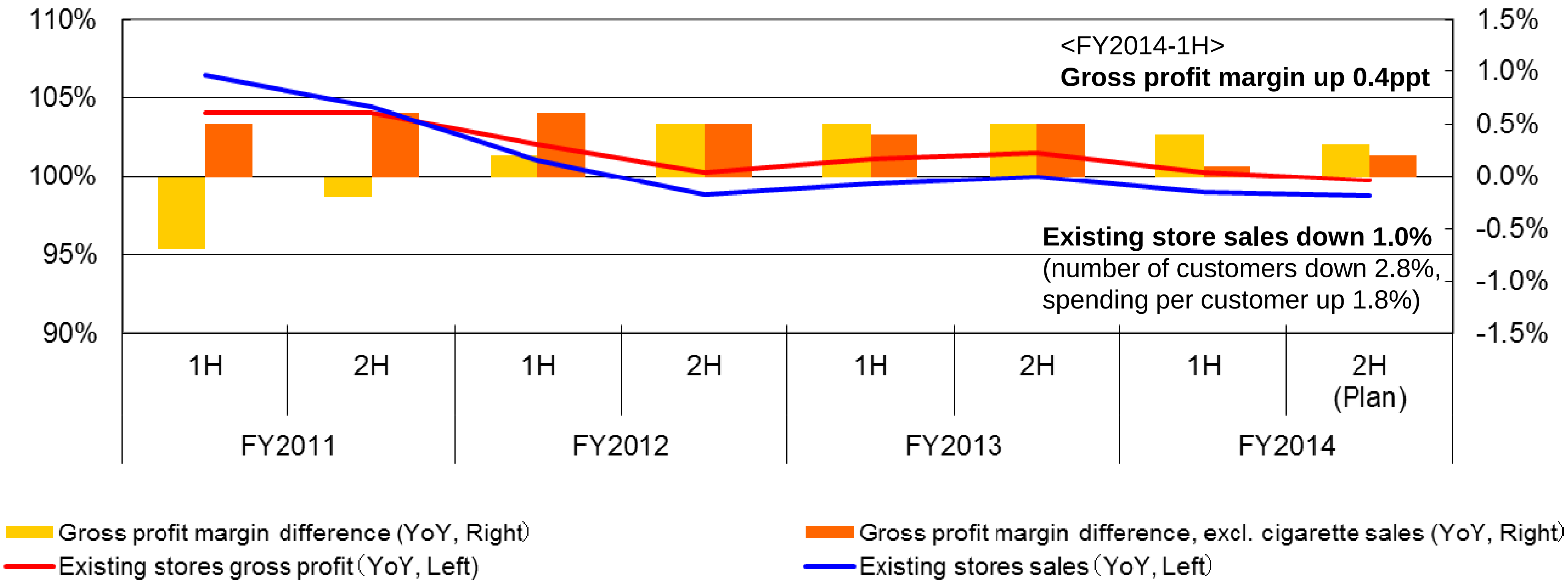
Existing Stores (Non-Consolidated*)

* excluding LAWSON MART/LAWSON STORE100 business



■ Existing-store sales contracted 1.0% YoY on continued slump in cigarette sales and poor summer weather. The same measure excluding cigarette sales rose 0.5% YoY.

■ Gross profit margin rose 0.4p to 31.3%. Over-the-counter fast food sales fell below target and soft drink sales were sluggish during the cool summer. However, strong sales of non-food items helped boost the gross margin. The gross profit margin excluding cigarette sales rose 0.1p YoY.

■ As a result, the gross profit figure for existing stores, which links directly to franchise store profits rose 0.3p YoY.

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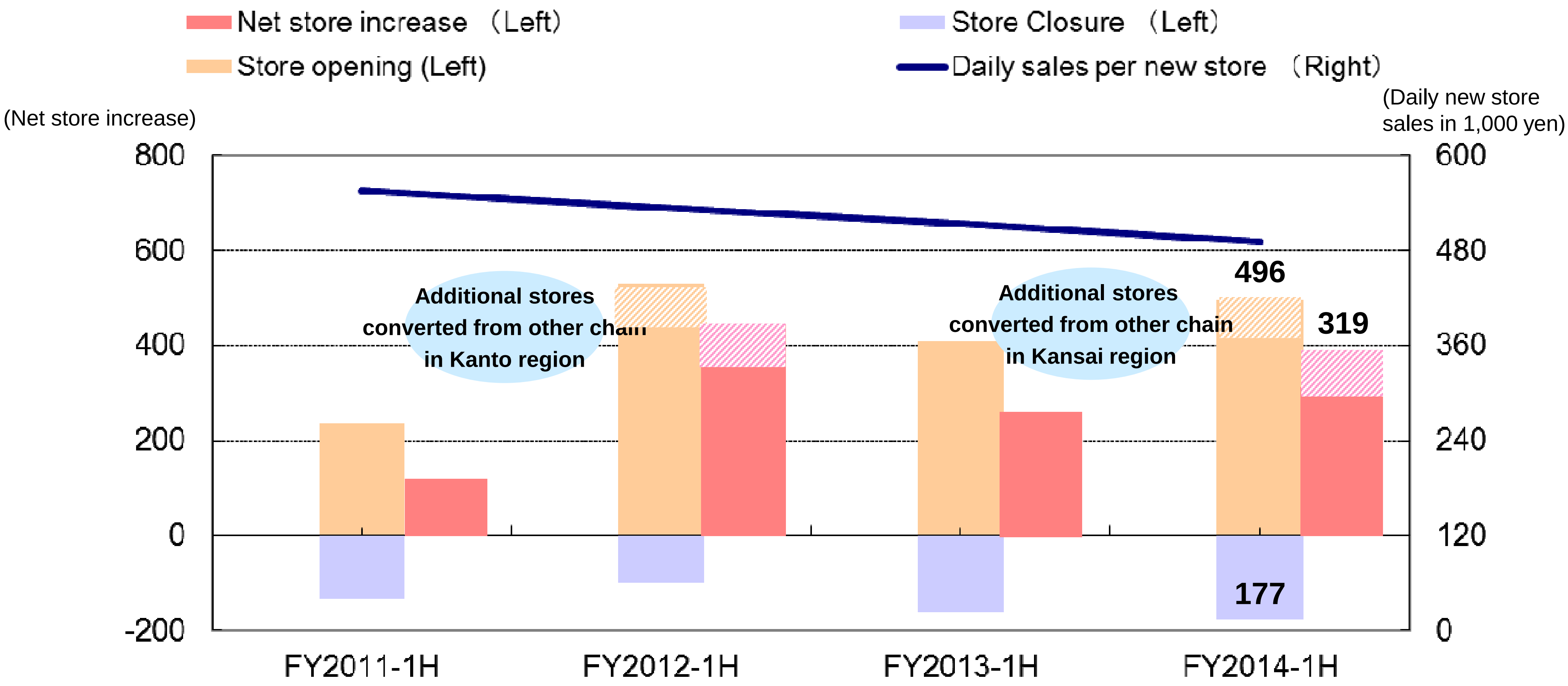
Store Openings (Non-Consolidated*)

*excluding LAWSON MART/LAWSON STORE100 business



- New store openings proceeded roughly to plan, but we closed 23 fewer stores than planned. As a result, the total number of stores increased by a net 29 stores.
- Average daily sales per new store fell year on year to 491,000 yen.
- Stripping out affiliates from other chains, the number of new store openings has been approximately 400 stores between 2012 and 2014.

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Key Components of SG&A Expenses

LAWSON

(Billions of yen)

		FY2013-1H	FY2014-1H		FY2014
		Actual	Actual	Change	Forecast
Non-consolidated	Selling, general & administrative expenses	105.8	113.7	7.9	*Increase 5-10%*
			*Including the impact of around 7.0 billion yen in the SGA change of FY2014-1H and around 5% in the SGA forecast of FY2014 respectively from the business restructuring of Ninety-nine Plus.		
	Major Strategic Expenses				
	Personnel expenses	17.9	18.4	0.5	Increase 0-5%
	IT-related expenses	7.5	6.9	▲ 0.6	*Decrease 5-10%*
	(Hardware leasing, software amortization, maintenance, etc.)				
	Advertising and promotional expenses	5.0	4.0	▲ 0.9	*Increase 15-20%*
Consolidated SG&A expenses		146.1	143.8	▲ 2.3	Increase 0-5%

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

Compared to H1 FY2013

Parent

- Other expenses: 4.3 billion yen impact from changes to depreciation calculations. Total expenses rose after facility expenses for the restructured Lawson Mart and Lawson Store 100 operations were recorded on the parent account.

Group

- Lower costs at Lawson HMV Entertainment, Lawson ATM Networks, and Lawson Fresh (included under the parent from July 1, 2014)

Compared to plan

Parent

3.2 billion yen below plan

- Other expenses: Changes to depreciation methods exceeded initial assumptions by 2.0 billion yen, leading to a larger fall in total SG&A.

Group

4.0 billion yen below plan
See parent above.
Plus determined efforts to control costs at all consolidated subsidiaries.

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Earnings of Major Subsidiaries

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(Billions of yen)

Operating Profit of Major Subsidiaries

	FY-end	Ownership	FY2014-1H Actual	FY2014-1H YoY change	FY2014 Forecast
Lawson Mart, Inc.	Feb.	100.0%	▲ 0.98	▲ 0.98	*▲ 1.60*
Smart Kitchen, Inc.	Feb.	100.0%	▲ 0.31	+0.51	▲ 0.30
Lawson HMV Entertainment, Inc.	Feb.	100.0%	1.53	+0.14	*3.20*
Lawson ATM Networks, Inc.	Feb.	76.5%	3.18	+0.00	5.80
Chongqing Lawson, Inc.	Dec.	100.0%	▲ 0.38	▲0.00	*▲ 0.70*
Shanghai Hualian Lawson, Inc.	Dec.	94.0%	▲ 0.45	▲ 0.10	*▲ 0.50*

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

Note: Smart Kitchen was absorbed into Lawson, Inc. on July 1, 2014. Its data spans the four months from March to June, 2014 only.

Lawson Mart	Expanded to 25 stores. Lawson Store 100 recovery in sales proved slow, pushing that operation below plan. Lawson Mart, Inc. and the Lawson Mart division reported a combined 1H profit of 30 million yen, and are forecast to generate a full-year profit of 300 million yen in FY2014.
Smart Kitchen	Absorbed into Lawson, Inc. on July 1, 2014. Lawson Fresh (including the portion under the parent) reported an operating loss of 400 million yen as expected..
Lawson HMC Entertainment	Profit up on strong ticket sales for large-scale concerts and theme park admissions. Newly-acquired United Cinema Holdings to be included in consolidated PL from 3Q.
Lawson ATM Networks	Profit held steady YoY. Lower income from fewer ATM transactions was offset by a net increase in new ATM machine installations, and revised ATM management costs.

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Capital Expenditures and Cash Flows (Consolidated)

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● Consolidated Capital Expenditures

(Billions of yen)

	FY2012-1H Actual	FY2013-1H Actual	FY2014-1H Actual	FY2014 Plan
New stores	18.6	16.0	21.3	*43.5*
Existing stores	3.9	3.5	2.9	*8.5*
IT-related	2.7	2.4	2.4	12.0
Other	1.3	1.0	0.8	1.0
Subtotal for capital expenditure	26.7	23.1	27.5	*65.0*
Depreciation and amortization	20.8	22.8	19.9	*42.6*

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

●Consolidated Cash flows

(Billions of yen)

	FY2012-1H Actual	FY2013-1H Actual	FY2014-1H Actual	FY2014 Forecast
Cash flows from operating activities	53.3	61.7	92.1	*Approx. 95.0*
Cash flows from investing activities	▲ 28.9	▲ 29.8	▲ 38.2	*Approx. ▲115.0*
Free cash flows	24.3	31.9	53.8	*Approx. ▲20.0*
Cash flows from financing activities	▲ 14.7	▲ 19.4	▲ 8.6	*Approx. ▲5.0*
(Cash dividends paid)	▲ 9.2	▲ 9.9	▲ 10.9	▲ 23.0
Cash and cash deposits	83.3	86.2	113.7	−

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

- Operating cash flow increased temporarily with the period-end falling on a Sunday, Approx total: 60.0 billion yen in real terms.
- Investing and financing cash flow temporarily affected by acquisition of United Cinema Holdings, Inc.

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FY2014 Consolidated Company Forecasts

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(Billions of yen)	FY2012 Actual	FY2013 Actual	FY2014 Forecast Plan	FY2014 Forecast YoY
Net sales of all stores	1,906.5	1,945.3	*1,982.0*	*101.9%*
Operating profit	66.2	68.1	75.0	110.1%
Operating profit ratio	3.5%	3.5%	*3.8%*	*+0.3%P*
Recurring profit	65.9	68.8	73.9	107.3%
Net profit	33.1	37.9	38.9	102.5%
EPS（Yen）	332.20	380.04	389.33	+9.29
Dividend per share (Yen)	200	220	240	+20
ROE	15.2%	16.1%	15.4%	▲0.7%P
Total no. of stores in Japan	11,130	11,606	12,288	+682
(Non-consolidated)				
Gross profit of existing stores (YoY)	101.2%	101.5%	*100.0%*	*▲1.5%P*
Net sales of existing stores (YoY)	100.0%	99.8%	*98.9%*	*▲0.9%P*
Gross profit margin ratio	30.5%	31.0%	31.4%	*+0.4%P*
Gross profit margin difference excluding cigarette sales (YoY)	+0.5%P	+0.4%P	*+0.2%P*	*▲0.2%P*

Note: The number of stores is a total number of convenience stores in Japan operated by the Lawson group.
Note: Figures in italic indicate the revised figures from the initial plan.

- Consolidated OP forecast unchanged at 75.0 billion yen. New conservative existing-store sales estimate.
- Improve sales trend through aggressive use of strategic promotional funds for non-Ponta customers.
- Gross profit at existing stores to hold steady thanks to 0.4-point YoY improvement in gross profit margin. FY2014 forecast of gross profit of existing stores (YoY) is 100%.

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Financial Discipline: Appropriate Control of Risk & Return

Acquisition of SEIJO ISHII CO., LTD.

SUPERMARKET 成城石井

EBITDA	Approx. 7.2billion yen (12-month basis from 13/9 – 14/8)
Corporate value	Approx. 47.0 billion yen (tax adjusted)⇒EV/EBITDA = 6.5 times (Ref.) 55.0 billion yen （tax unadjusted) ⇒ EV/EBITDA = 7.6 times
Profit for the year	Approx. 4.4 billion yen (12-month basis from 13/9 – 14/8)⇒ Consolidated ROE +1.0p

EV/EBITDA multiple near 7. High investment efficiency. Expected to boost Lawson consolidated ROE by over 1.0p.

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Risk Management

Improved information security system

Stores

Created the Lawson Group Personal Information Protection Policy.

Policy regarding in-store mistakes or customer complaints clearly laid out in store manuals.

HQ employees

Conduct regular checks to see if the Lawson Office Security Rules are being observed.

Business partners

Ensure any business that involves personal information is appropriately outsourced.
Check their systems for the protection of personal information.

Use own HACCP to ensure thorough hygiene management

We have established our own hazard analysis and critical control point (HACCP) system to prevent incidents of food poisoning or food tampering.

Example: We keep detailed records on important food processing management factors such as cooking times and product temperature. In the unlikely event of any incident occurring, we are able to swiftly locate the cause and take immediate action.

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Lawson's Management Policy and FY2014 2H Business Strategy

Genichi Tamatsuka

President and CEO

Representative Director

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Small Neighborhood Stores Strong Growth Potential

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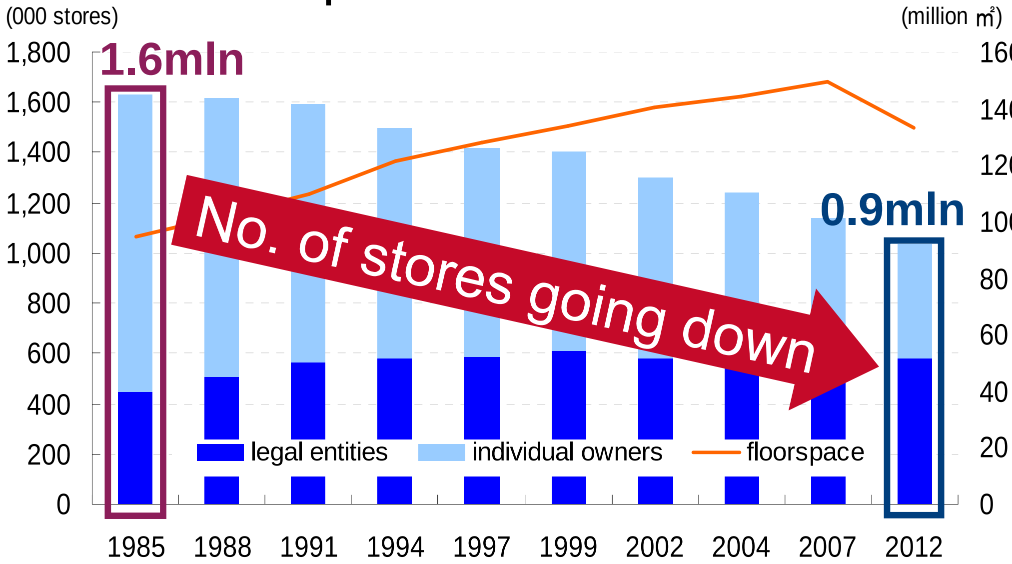
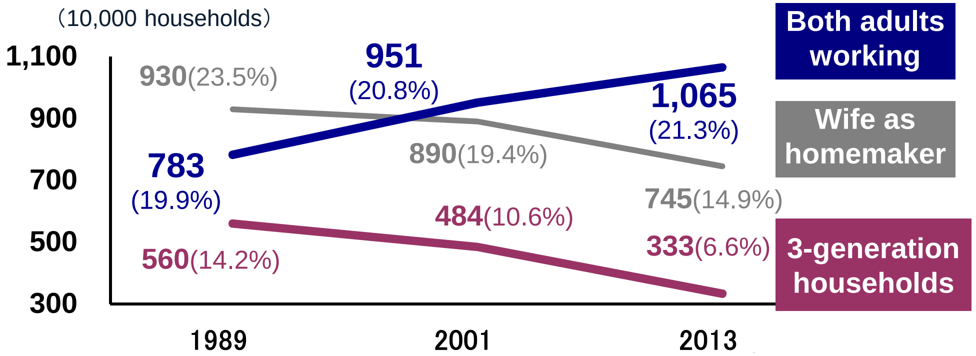
■Retail stores in Japan



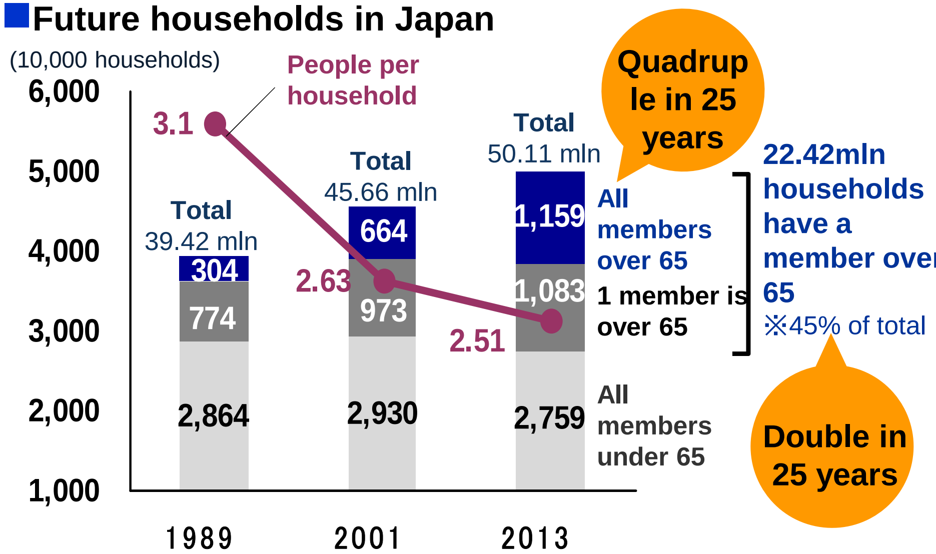
■Business surveys (1985～2007), Economic Census of Business Activity 2012

■Changing family structures



■National Livelihood Survey, Ministry of Health, Labor and Welfare

■Future households in Japan



■National Institute of Population and Social Security Research

Business Chance

Social change has huge implications for the convenience store industry.

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Develop Small Neighborhood Store Operation

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Expand customer base

Stronger products

- MACHI café, Machikado
- Over-the-counter fast food
- Health products
- Value-added items

Expand profit-generating opportunities

Small neighborhood store format

- Offer all basic CVS services
- Increase range of expected basic services

Product power

Three essential practices

Effective response to change

Multiple channels for maximum convenience

Responding to neighborhood changes

- NATURAL LAWSON, SEIJO ISHII
- LAWSON MART
- Stronger healthcare ranges
- Last one mile

Profit opportunities

Strengthen services

- Entertainment, ticket sales
- ATM, finance
- Admin services

Fresh business opportunities

Outside Japan

- China
- Southeast Asia
- North America

Supply chain management | Stronger distribution | Maximize ICT use | Stronger store operations | Stronger FC model | Customer relations management

Lawson's core focus is to strengthen its small neighborhood store response and presence, by strengthening its three essential practices, its product power and its ability to respond effectively to change.

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Product Strategy – Responding to Change ①

LAWSON

Stronger basic products

- Consistent improvements in basic necessities
- Far-reaching cost performance improvements, and consistent underlying efforts to boost value
- Earn wider customer respect

ex
- Tuna mayonnaise rice balls
- Mixed sandwiches
- White fish & seaweed lunchbox
- “Karaage-kun” fried chicken

Lawson’s own unique products Innovative product ranges

- Products unique to Lawson
- Value products with that little bit extra
- Revolutionary collaboration with manufacturers
- High repeat visits

ex
- Taste of Home!
- Pure Series
- Bran Bread

Support framework/infrastructure

SCM, raw materials procurement	Innovation lab, manufacturer collaboration
CRM, grasp needs of individual customers and stores	Comprehensive marketing strategy

Use SCM, CRM and marketing to support development of solid basic ranges, and unique, Lawson-defining items.

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New Store/Format Strategy- Responding to change②

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Regular LAWSON

Strengthen and refine product range to meet market and social changes

- Fresh produce
- Counter fast food & deli
- High value-added
- Cooked in store
- Health products
- OTC drugs

LAWSON MART
LAWSON STORE100

NATURAL LAWSON
SEIJO ISHII

Stores with a strong healthcare focus
Pharmacy LAWSON

Use lessons learned through multi-format stores to strengthen and refine regular LAWSON stores

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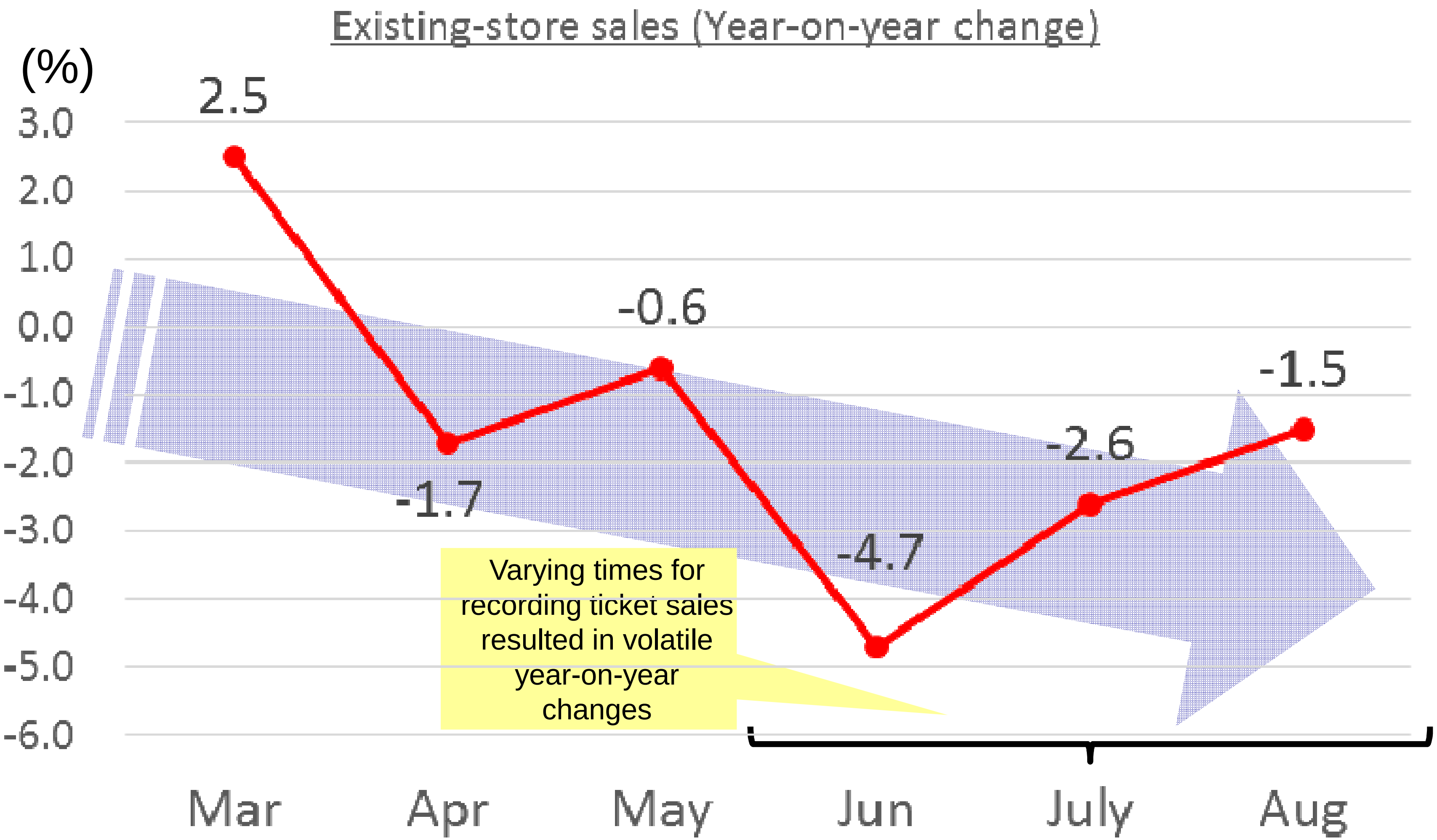
First Half Existing-store Monthly Sales Trends



Following the sales-tax hike, we saw volatile totals for ticket sales and poor weather. However, 1H sales contracted year on year mainly because the overall trend was weaker than expected.

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Getting customers to try something else, come back again.

Supporting customers' everyday living with ranges to rival any supermarket

Speedy polarization response

Promote Lawson's appeal to Ponta members and non-members alike

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Product Strategy - MACHI café: Bigger, Better Menu

Two unique Lawson flavors

Almost too good for a convenience store	Heartfelt hospitality
The flavor of wonderful taste	**The flavor of attentive service**

+

Pricing	Simplified pricing structure by removing special price for members. Introduced 100-yen start size.
Buying incentives	Attracted new customers through TV ads, etc.
Busy stores	Introduced ice machines, placed two machines side by side. Considering other ideas.

Encourage more customers to experience these two unique flavors. Offer superior quality to boost competitiveness and customer visits.

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Product Strategy - MACHI café: Effect of Broader Menu

Began offering Start (S) size at all MACHI café from September 30, 2014

Number of items sold
+35%

Total sales
+10%

Gross profit
+10%

After introducing lower-priced, low-margin S size,
number of items sold, total sales and gross profit all increased.

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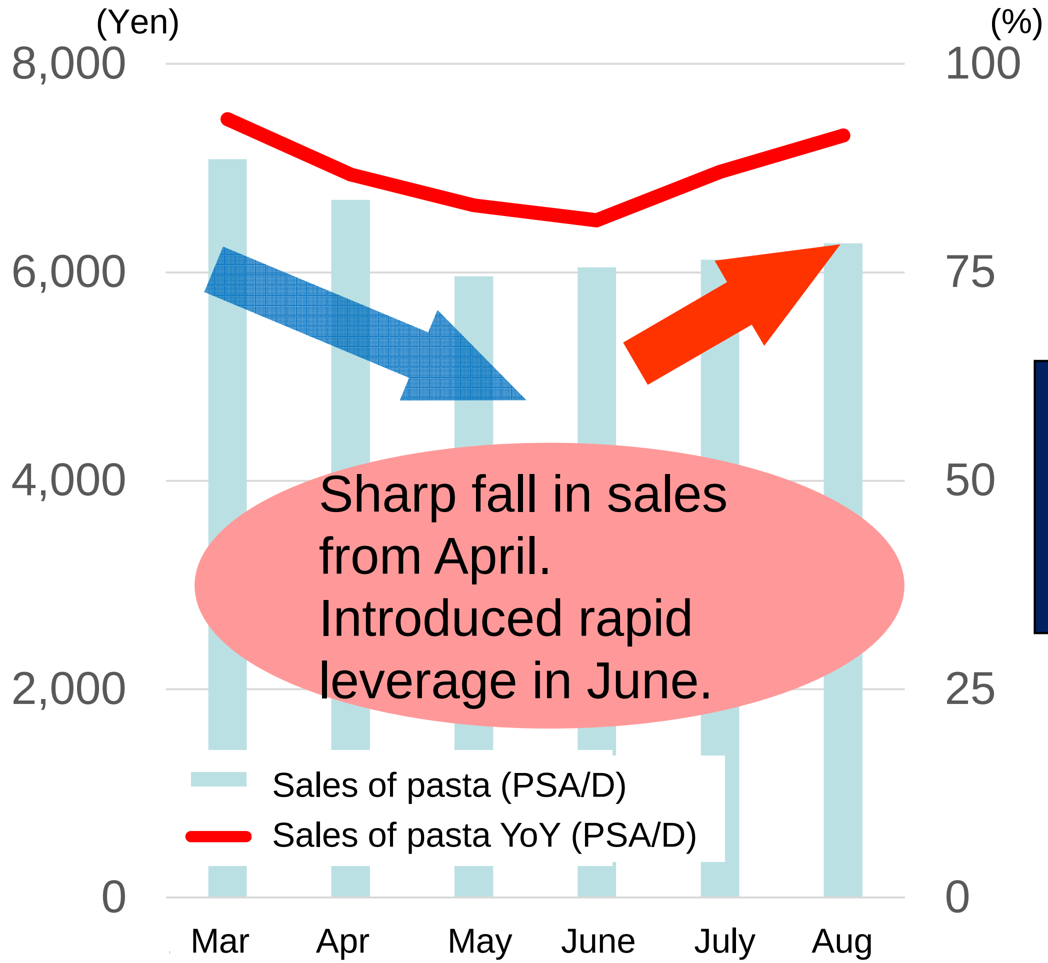
Product Strategy – Typical Price Revisions

Monthly pasta sales（PSA/D)



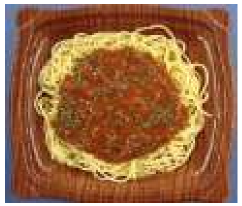
2014 Second Half pricing strategy

Beef bolognaise

450 yen → **530 yen**

Upgraded the beef and cheese ingredients for a higher-value product.

Meat sauce



409 yen → **399 yen**

Returnedd price to pre-sales tax hike level to help customers recognize it.

Carbonara

460 yen → **410 yen**

Reduced price after comparing with competitors.

Some categories suffered immediately after the sales tax hike.
Revised some prices in Second Half to make them more attractive to customers.

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Product Strategy – Overall Balance

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Value-added items: The challenge: - to create fresh customer value

Lawson's unique items: Use pride ingredients to differentiate with other companies

New series

More rice

As good as hand made

Taste of Home!

Niigata koshihkari rice series

	2013 Spring			2014 Spring
Proportion of sales	26.0%	→	Proportion of sales	33.3%
SKU	9		SKU	11

Regular basic products are the mainstay underpinning sales

More ingredients

Roll-your-own rice balls

Pre-rolled rice balls

Proportion of sales	74.0%	→	Proportion of sales	66.7%
SKU	23		SKU	21

Rice ball category

Concentrate equally on boosting value-added items and consistently improving our mainstay regular basic items and unique Lawson items.

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Sales Promotion – for Ponta Members & Non-members

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Ponta members

Continue current action

- Food tasting tokens
- Bonus points
- Boost Ponta member companies for added customer convenience

×

Non-Ponta members

Take stronger action

- Simple pricing
- Repeat action points until awareness improves

Maintain current promotions for Ponta members.
Take more aggressive action to attract non-Ponta members into stores.

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Achieve both of quality and quantity in store development

Area strategy
Ponta data
commercial area analysis

Property info
Regional branches
Regional offices

Property info
Owner candidate info
Area team meeting
(franchise store owners)

■Store format meeting

- **Area development strategy**
- **Merchandise assortment for customers in the area**
- **Strict ROI standards**

First Half result : Net increasing 299 stores
FY2014 target : Net increasing 600 stores (same as original plan)

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Recent M&A – United Cinemas

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Synergy with core business

- ✓ Stronger entertainment business = more ticket purchasers = greater attractiveness = stronger core business
- ✓ Films head the entertainment hierarchy. Acquiring better contents=better promotion for CVS business

Financial discipline

- ✓ Majority of funds for the acquisition sourced through non-recourse loans

(Leveraged buyout scheme)

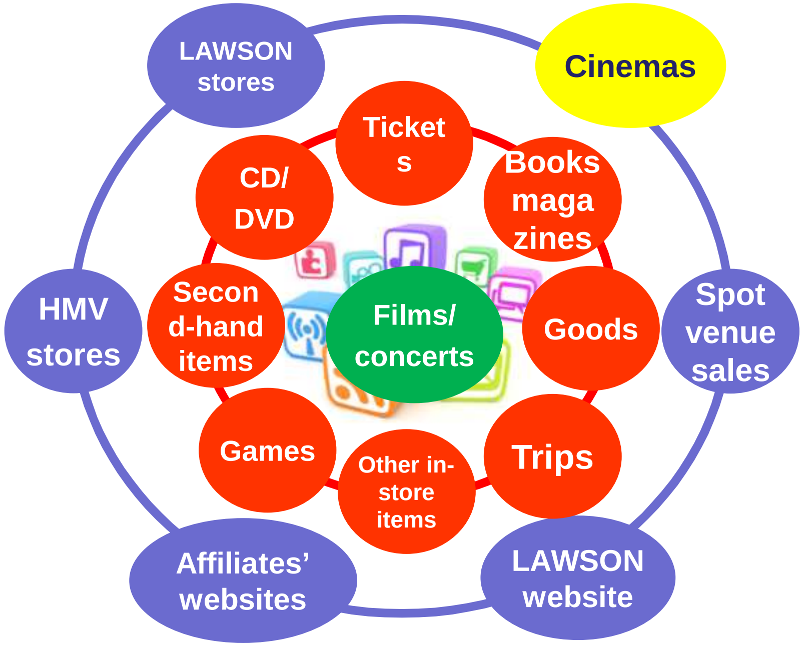
= Minimized risk money for Lawson parent

United Cinemas Co., Ltd.

FY13 sales: 20.0 billion yen

FY13 OP: 1.0 billion yen

36 theatres, 331 screens



Incorporating cinemas as a major channel of entertainment should attract more customers to the whole group, and strengthen core business.

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Recent M&A – SEIJO ISHII

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SUPERMARKET 成城石井

High value-added supermarket chain advocating "Quality food for a quality life."

- ✓ SEIJO ISHII uses its own business model to develop & manufacture tasty, safe, secure foodstuffs, and pursue high value-added products and services.
  - ⇒Many **common points** with Lawson in terms of manufacturer retailer skills**.**
  - ⇒Strengthen Lawson's core business through small-format neigborhood stores.
- ✓ Loyal customers value SEIJO ISHII's quality products, stores and customer relations.
  - ⇒**Protect** SEIJO ISHII's organizational culture, corporate DNA and inherent business strengths
  - ⇒**Maintain products & stores.** Lawson to provide infrastructure support on distribution, store development, etc.
- ✓ Stores currently located mainly in station buildings in major urban areas
  - ⇒Strengthen Lawson Group's geographical expansion strategy, especially in Kanto region.

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M&A – SEIJO ISHII's Brand Power & High Profitability

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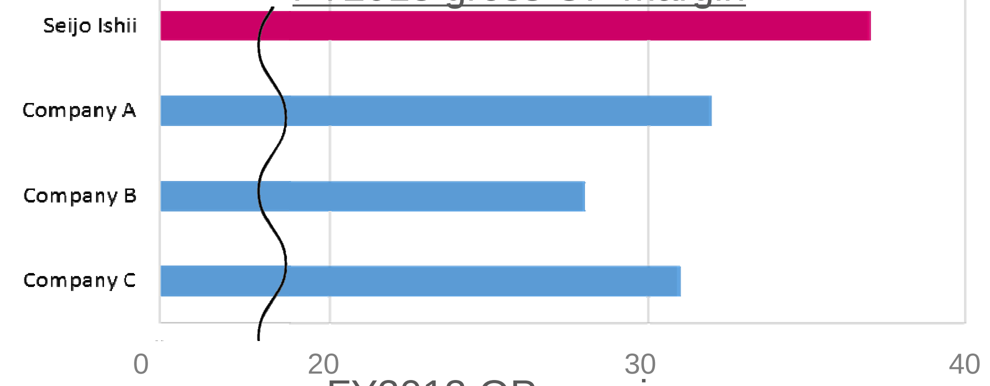
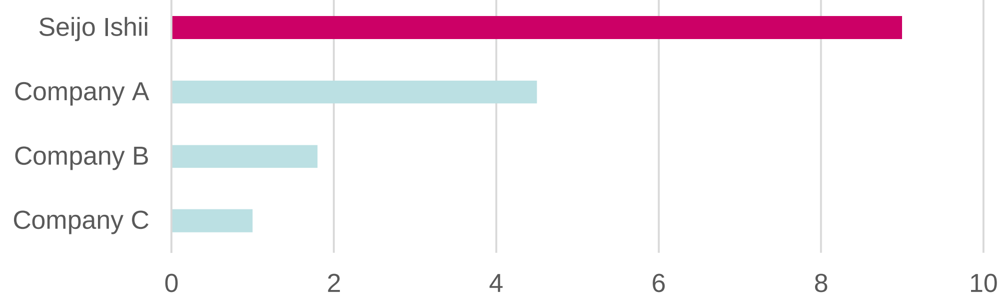
Profitability

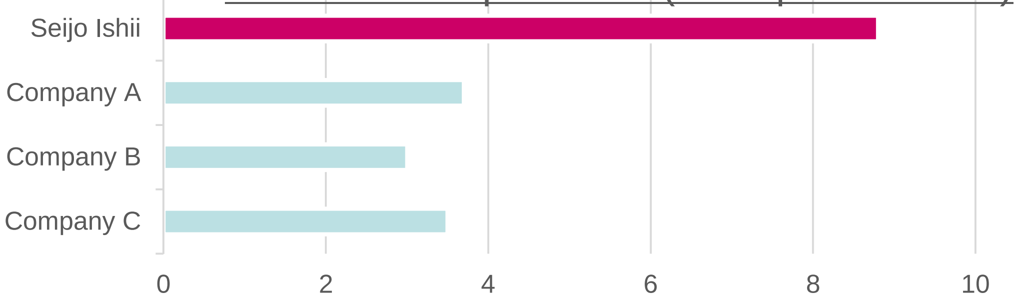
FY2013 gross OP margin



FY2013 OP margin



FY2013 sales per tsubo (3.3 square meters)

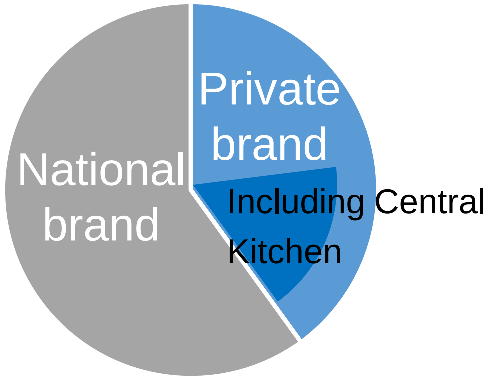


※Data taken from individual companies' financial reports

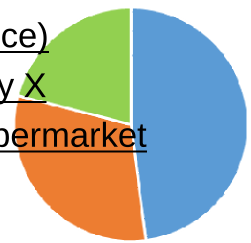
Product mix

Sales by category

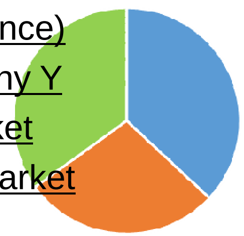
Sales by brand



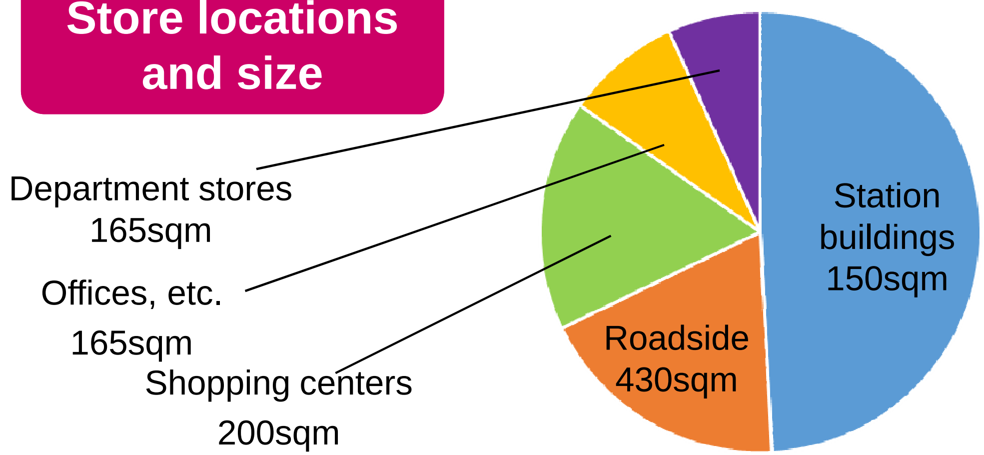
(Reference)
Company X
Food supermarket



(Reference)
Company Y
Upmarket supermarket



Store locations and size



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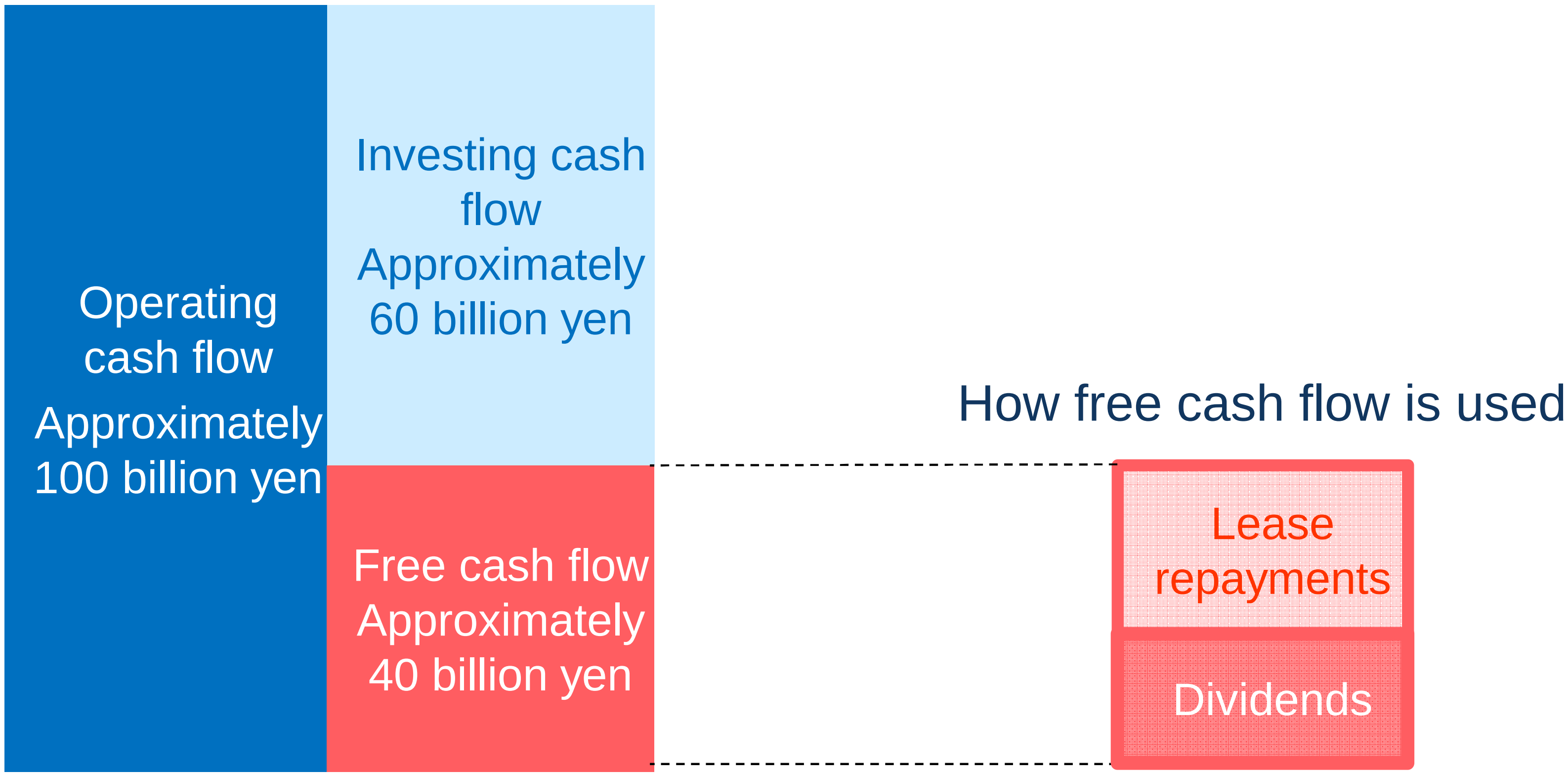
Financial Discipline – Cash Flow

Rough picture of cash flow based on convenience store business in Japan (opening 1,000 stores)



Free cash flow used to pay dividends and repay leases.
M&A is funded through leveraged debt.

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Medium-term Roadmap

- **ROE 20%**
  - **Consolidated operating profit 100 billion yen**
    - Non-consolidated Lawson
      - Gross operating profit
        - Increase gross profit margin by 0.4%point per year
        - Existing stores' gross profit
        - Net increase in stores by 5% per year
        - Industry consolidation
      - Selling, general and administrative expenses
    - Consolidated subsidiaries
  - Dividend increase/ share buy-back and cancellation

Initiatives toward 1) 100 billion yen in operating profit and 2) ROE 20%

- Maintain capital discipline with emphasis on ROIC
- Differentiation by products with high GPM and multiple store formats
- High customer retention through CRM leveraging Ponta card data analysis
- Productivity improvement through SCM reform
- Capitalize on consolidation opportunities

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Reference

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Half Year Breakdown of FY2014 Forecast

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	FY2014 Forecast			
(Consolidated: Billions of yen)	1H Initial Plan	1H Actual	2H Plan	Full-Year Plan
Net sales of all stores	1,024.0	994.6	*987.3*	*1,982.0*
Operating profit	37.9	40.0	*34.9*	75.0
Operating profit ratio	3.7%	4.0%	*3.5%*	3.8%
Recurring profit	37.2	39.6	*34.2*	73.9
Net profit	19.4	21.8	*17.0*	38.9
(Non-consolidated)				
Gross profit of existing stores (YoY)	101.3%	100.3%	*99.7%*	*100.0%*
Net sales of existing stores (YoY)	100.0%	99.0%	*98.7%*	*98.9%*
Gross profit margin ratio	31.3%	31.3%	31.4%	31.4%

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

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First Half of FY2014 Balance Sheet

LAWSON

(Billions of yen)

	As of Aug. 31, 2014	Change from Feb. 28, 2014
Total current assets	261.0	65.3
(Cash and deposits)	124.9	48.1
(Accounts receivable -other)	65.2	11.0
Total noncurrent assets	461.2	36.0
Property, plant and equipment	251.1	17.7
Intangible assets	36.3	7.8
Investments and other assets	173.7	10.4
(Long-terms loans receivable)	35.9	2.1
(Lease deposits)	90.0	3.8
Total Assets	722.3	101.3

	As of Aug. 31, 2014	Change from Feb. 28, 2014
Total current liabilities	317.4	70.7
(Accounts payable -trade)	113.7	24.5
(Deposits payable)	112.3	24.8
Total noncurrent liabilities	142.4	18.6
(Long-term guarantee deposits)	30.9	▲ 1.2
Net Assets	262.4	11.9
(Common stock)	58.5	–
(Retained earnings)	148.4	10.2
Liabilities and net assets	722.3	101.3

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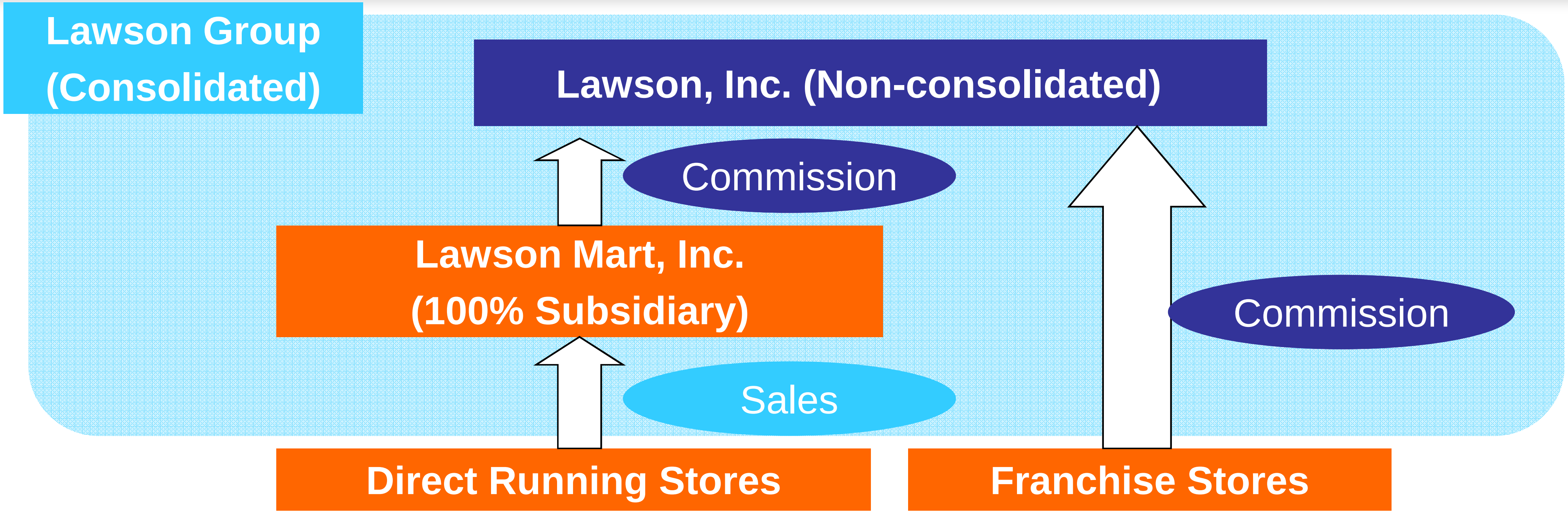

	Lawson Mart, Inc.	Lawson, Inc.	Lawson Group
Net Sales of all convenience stores	Direct	FC Direct	FC Direct
Net Sales	Direct		Direct
Franchise commission form franchise stores		FC Direct	FC

Direct = Direct Running Stores

FC = Franchise Stores

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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.

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