

First Half Results for FY2015

(Six months ended August 31, 2015)

Lawson, Inc.
October 8, 2015

Financial Results for First Half of FY2015

Yutaka Yoshitake
Chief Financial Officer

Earnings Summary: FY2015 1H (Consolidated)

(Billions of yen)	FY2013-1H	FY2014-1H	FY2015-1H		
	Actual	Actual	Actual	YoY	vs. Plan
Net sales for all stores	992.7	994.6	1,035.4	104.1%	99.0%
Operating profit	35.6	40.0	42.0	105.1%	113.6%
Operating profit ratio	3.6%	4.0%	4.1%	+0.1%P	+0.5%P
Recurring profit	35.5	39.6	40.7	103.0%	113.3%
Net profit	19.0	21.8	19.8	90.5%	107.7%
EPS (Yen)	190.67	219.15	198.11	▲ 21.04	107.7%
Dividend per share (Yen)	110	120	122.5	+2.5	±0
Total no. of stores in Japan	11,384	11,987	12,305	+318	▲ 11

Note: FY2015-1H total chain store sales includes sales from the convenience store operation in Japan, overseas operations and sales from Seijo Ishii (consolidated items only). Regarding Seijo Ishii, only the sales of directly operated stores are included.

Note: The number of stores in FY2015-1H is the total number of convenience stores in Japan operated by the Lawson Group plus the number of directly operated Seijo Ishii stores.

Note: Extra small stores have been included since FY2014-1H following changes in calculating stores counts.

■ Operating profit: 42.0 billion yen (+5.1% YoY), 5.0 billion yen above target

Gross profit margin was flat but achieved our operating profit target for the Lawson parent thanks to control of SG&A expenses. Contributions from newly consolidated subsidiaries, Seijo Ishii and United Cinemas, exceeded expectations.

■ Net profit: 19.8 billion yen (-9.5% YoY), 1.4 billion yen above target

Higher-than-expected operating profit helped push net profit above target. However, net profit declined YoY mainly on drawdowns on deferred tax assets following cuts in the statutory effective tax rate.

FY2015 Company Forecasts (Consolidated)

	FY2013	FY2014	FY2015 Forecast	
(Billions of yen)	Actual	Actual	Plan	YoY
Net sales for all stores	1,945.3	1,961.9	<i>2,062.0</i>	<i>105.1%</i>
Operating profit	68.1	70.4	<i>71.0</i>	<i>100.7%</i>
Operating profit ratio	3.5%	3.6%	<i>3.4%</i>	<i>▲0.2%P</i>
Recurring profit	68.8	71.7	<i>68.9</i>	<i>96.1%</i>
Net profit	37.9	32.6	<i>35.2</i>	<i>107.7%</i>
EPS (Yen)	380.04	327.08	<i>352.00</i>	<i>+24.92</i>
Dividend per share (Yen)	220	240	<i>245</i>	<i>+5</i>
ROE	16.1%	13.0%	<i>13.5%</i>	<i>+0.5%P</i>
Total no. of stores in Japan	11,606	12,383	<i>12,846</i>	<i>+463</i>
(Non-consolidated)				
Gross profit of existing stores (YoY)	101.5%	100.0%	<i>100.8%</i>	<i>+0.8%P</i>
Net sales of existing stores (YoY)	99.8%	99.0%	<i>100.9%</i>	<i>+1.9%P</i>
Gross profit margin ratio	31.0%	31.3%	<i>31.3%</i>	<i>±0.0%P</i>
Gross profit margin difference excluding cigarette sales (YoY)	<i>+0.4%P</i>	<i>±0.0%P</i>	<i>▲0.4%P</i>	<i>▲0.4%P</i>

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

Note: Overall chain store sales for FY2014 and FY2015(E) include sales from convenience store operations in Japan, Lawson's global operations, and Seijo Ishii (consolidated items only). Only directly operated Seiji Ishii stores are included in the calculation.

Note: Total store numbers for FY2014 and FY2015(E) include all convenience stores operated by the Lawson Group, and directly operated Seijo Ishii stores.

- FY2015 operating profit estimate unchanged at 71.0 billion yen. Existing-store sales target only reflects stronger-than-expected performance in 1H. 2H forecast unchanged.
- FY2015 2H: In light of the various policies implemented to attract customers, we revised forecast for gross profit margin forecast down to previous year's level, A&P budgeted increased from initial target. Aim to boost sales by attracting more customers.

Fiscal 2015:
A year to solidify our business foundation
toward the next generation

Genichi Tamatsuka
President and CEO
Representative Director

FY2015 : Actively Pursuing Medium-term Growth

Respond to social change + Leverage Lawson’s unique strengths

<p>Fresh from the oven</p> <ul style="list-style-type: none"> ● Fried foods, ready-made meals, snacks ● MACHI café ● Machikado Chubo in-store kitchens 	<p>Healthier communities</p> <ul style="list-style-type: none"> ● Tasty & healthy ● Healthcare-focused LAWSON ● Care-focused LAWSON 	<p>Everyday support</p> <ul style="list-style-type: none"> ● Everyday goods/ foods ● Safe vegetables ● Community-focused LAWSON ● SEIJO ISHII 	<p>Closer to customers</p> <ul style="list-style-type: none"> ● Concentrated-area delivery/dispatch ● Order directly or via visiting sales people ● Open platform 	<p>Fun in the community</p> <ul style="list-style-type: none"> ● Entertainment all-round ● Ticket, CD·DVD, Goods ● HMV, UNITED CINEMAS
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3 Key reinforcements

<p>Store</p> <ul style="list-style-type: none"> ● Overhaul franchise system ● New semi-automatic ordering system ● Guaranteed quality new stores 	<p>Product</p> <ul style="list-style-type: none"> ● CVS core & lead items ● Supermarket alternatives ● Overhaul supply chain management 	<p>Franchise Owners Support</p> <ul style="list-style-type: none"> ● Improve store hardware ● Accelerate new franchise package
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Based on our “Three Essential Practices”

Key success factors:

Franchise owners and supervisors

Every judgement and evaluation begins and ends at our stores with our customers.

Our main priority is to satisfy customers through better product offering and services at stores.

Revolutionize Business Operation

Maximize franchise store profitability by reinvigorating Lawson's unique, strong, sustainable "model" of business operation and store guidance.

Digital (Systems, IT)

- Semi-automatic ordering system
- Pre-planned orders
- Next-generation IT systems

Analog (Human, real-world)

- Improve training program for franchise owners, store crews and supervisors focusing on store operation and product offering
- Fundamental review of HQ operation

**Boost supervisors' business skills capability.
Judge everything from front line perspective
and not from the HQ.**

Revolutionizing Our Overall Corporate Business

Our aim:

Amass collective expertise and knowledge of all members
Execute as one, and strive to be a company where each
member takes actions

To be an:

An effective top-class company

FY2015 1H Strategies and Activities

Boost core strength of existing stores through stronger store power, product power and support for franchise owners.

3 Key reinforcements

Stores

- Overhaul franchise system
- New semi-automatic ordering system
- Guaranteed quality new stores

Products














- CVS core & lead items
- Supermarket alternatives
- Overhaul supply chain management

Franchise Owners Support

- Improve store hardware
- Accelerate new franchise package

Based on our “Three Essential Practices”

Strengthen Product Power

FY2015	1Q	2Q	3Q
<p>CVS core products</p>	<p>100 yen rice ball sale</p>  <p>New salad packaging</p> 	<p>Launch "Passionate and Delicious" project</p> <div style="display: flex; justify-content: space-around;"> <div data-bbox="1137 475 1384 630">  <p>▲ Sockeye salmon on Niigata koshihikari rice lunchbox</p> </div> <div data-bbox="1384 483 1574 619">  <p>▲ Premium roll cake</p> </div> <div data-bbox="1675 475 1832 611">  <p>▲ Cream puff</p> </div> <div data-bbox="1977 483 2179 643">  <p>▲ Miso-flavored mackerel lunchbox</p> </div> </div> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div data-bbox="1406 699 1597 874">  <p>▲ Steamed chicken salad bowl</p> </div> </div>	
<p>Differentiating products</p>	<p>MACHI café New café latte prices</p> 	<p>Natural Lawson's new green smoothie</p> 	<p>Natural Lawson's vegetable and fruit smoothie with chia seeds</p> 
<p>Products for everyday life</p>	<p>Lawson Select Renewed</p> <div style="display: flex; justify-content: space-around;"> <div data-bbox="454 1281 824 1345"> <p>Dining coupons</p> </div> <div data-bbox="544 1361 925 1465"> <p>10% off all fried foods</p>  </div> </div>		<p>Cold pasta with tomatoes</p>  <p>fully-filled cod roe rice balls</p>  <p>- Increase product range of fresh food - Invest in additional fridges and freezers.</p>

Strengthen Product Power

New, high value-added products, introduced to mark our 40th anniversary, helped boost core sales categories.

“Passionate and Delicious” project, launched in June, helped further strengthen product power.



40周年創業祭



▲ Shark's fin soup with rice from Kesenuma



▲ Bumper roe rice balls



▲ Cake roll topped with local melon



▲ Genkotsu cheese and mince croquet



▲ De-karaage fried chicken



The “Passionate and Delicious” project is revolutionizing our product processes, with a determined focus on ingredients, manufacturing and taste.



▲ Sockeye salmon on Niigata koshihikari rice lunchbox



▲ fully-filled cod roe rice balls

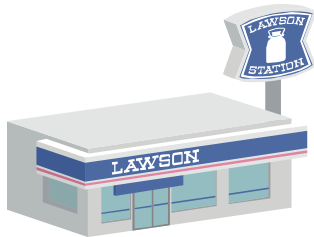
Strengthen Product Power

Semi-automatic ordering system for ready made food such as boxed lunch

Suggests optimum inventory levels, based on Ponta member data

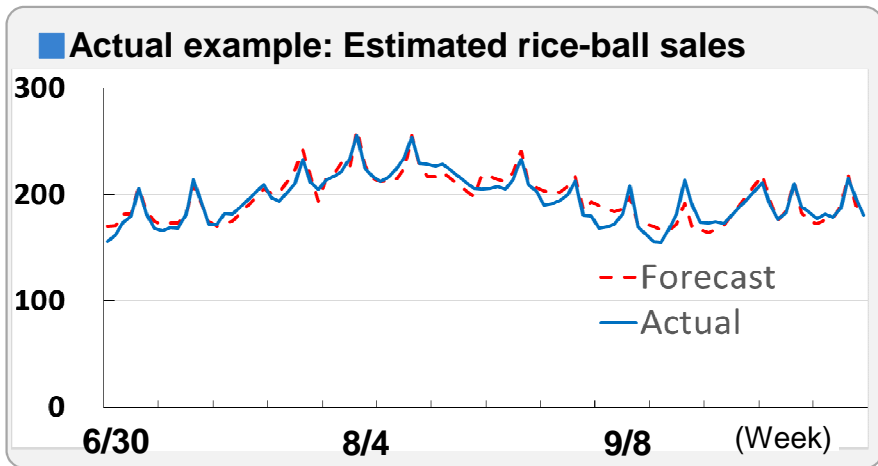
System

35,000 calculations a day



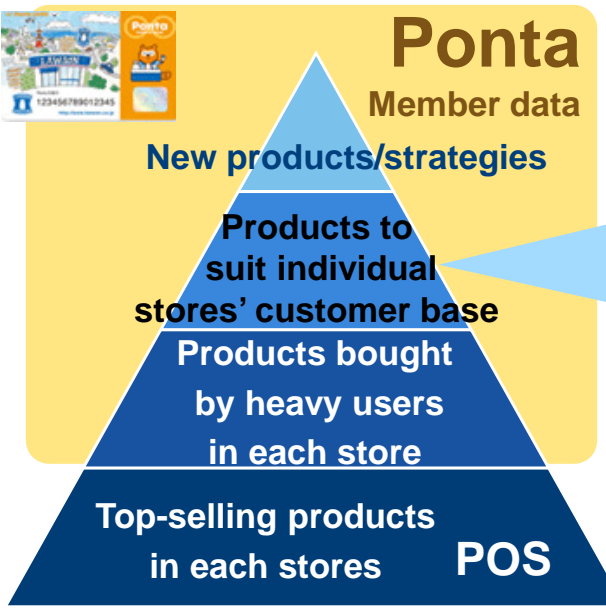
Stock recommendations

4 times a day



※Results from 3,200 stores which started SA since June. It excludes the sales of 100 yen rice ball sale.

Recommends merchandise assortment



Produces recommended levels by matching individual store data with **1.08 billion** total Ponta member data

Improvement

Creates more time to be spent on customers
(customer service, better in-store cooked food, etc.)

Strengthen Our Store Capability

Semi-automatic ordering system for ready made food such as boxed lunch



Sales Trend

3%UP *1

Gross profit Trend

2% UP *1

Time consumption for
daily ordering

Down by

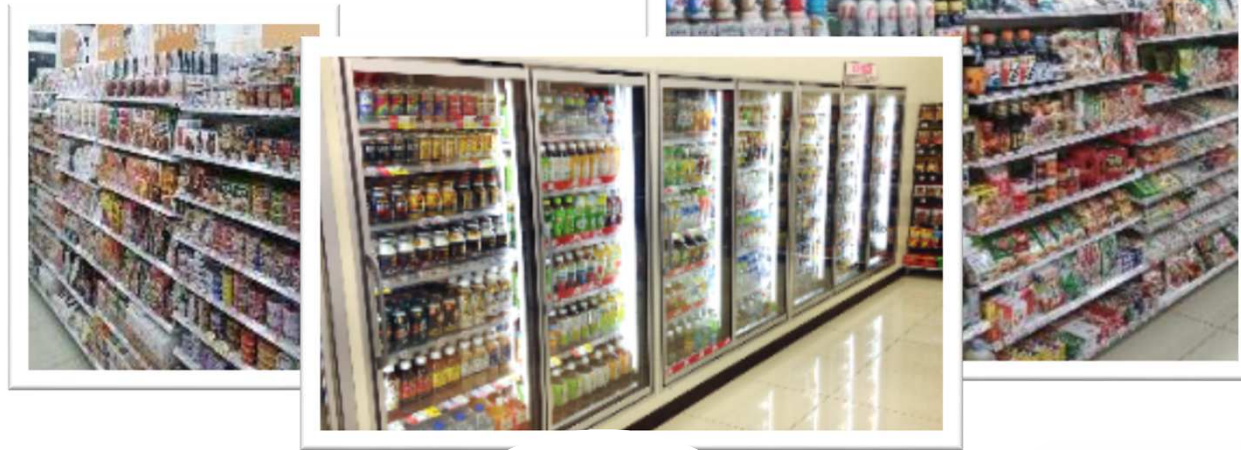
44 min. *2

1H: Introduced in approx. 7,500 stores by end August

2H: Plan to cover all stores by end October

Strengthen Store Power

Pre-planned ordering of dried foods, daily items and chilled drinks



Inventory

3% DOWN
Y/Y *1

Gross profit

3.5% UP
Y/Y *1

Out of stock
(number of times)

40% DOWN
Y/Y *2

Recommend the best level of inventory for each store to avoid opportunity loss without having excess inventory.

*1 Comparison of pre-planned ordering categories excluding cigarette (Aug. 2015) *2 Comparison between Apr 2015 and Aug 2015

Strengthen Support For Franchise Owners

Early shift to new franchise contracts

Encourage investment through risk-taking in inventory by FC owners

Improve product offering through better product ranges and adequate inventory

Sales trend

+1.3%

New franchise contracts

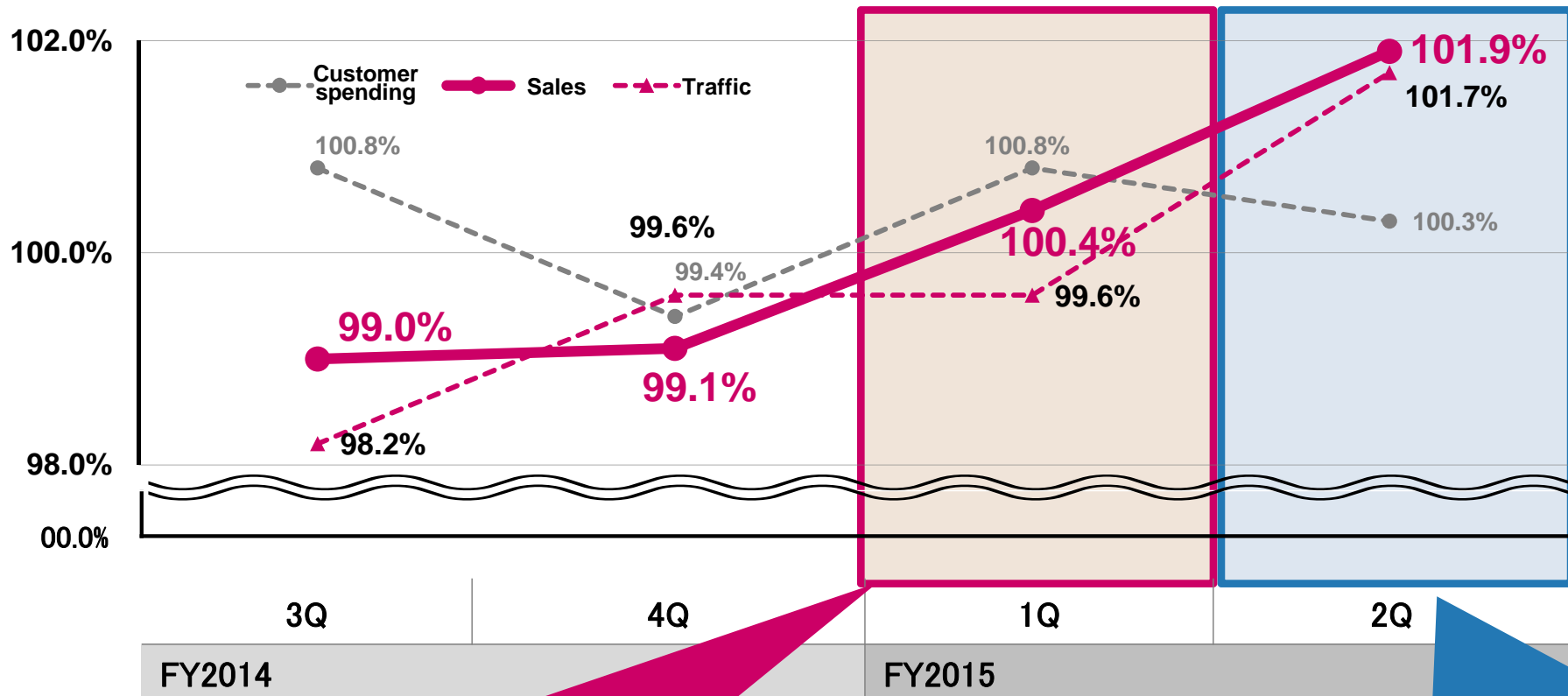
- HQ pays 50% of electricity bills
- HQ pays a portion of food disposal cost
- Includes revision of charge rates

New franchise contract stores

- Approx. 6,300 (end Aug. 2015)
(Up 3,000 stores v. end Feb. 2015)

FY2015: First Half Performance

Recovery in customer visits fuels a turnaround in existing-store sales



March – April : Influence from tax hike in Apr. 2014
April: Revised MACHI café café latte prices
 Encouraged early shift to new franchise contracts
May: Conducted successful 100 yen rice ball sale

June: Celebrated 40th anniversary
 Began introducing semi-automatic ordering
July: Launched the “Passionate and Delicious” project
 Conducted another 100 yen rice ball sale
August: Continued the 100 yen rice ball sale

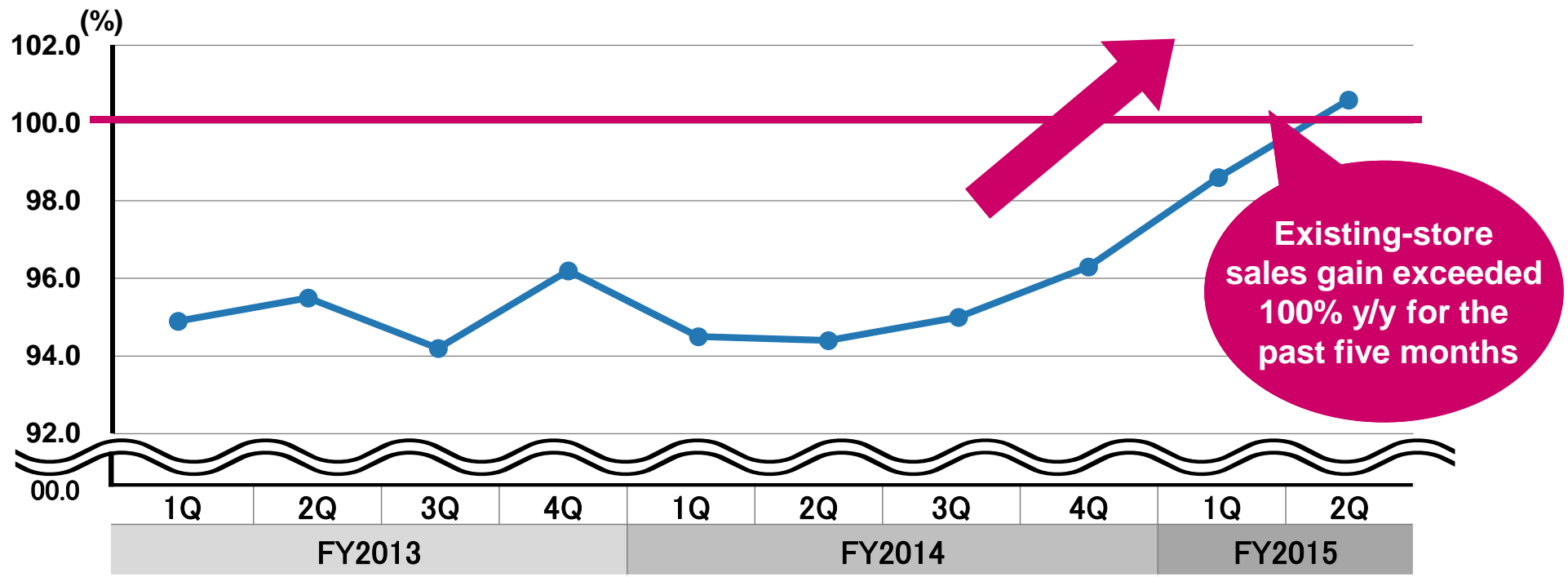
LAWSON STORE100 Business

Ongoing restructuring plan

- Closed approx. 300 stores through 1H
- Faster-than-expected recovery achieved by strengthening fresh produce, and expanding range of items for 100 yen (excl. sales tax)



Lawson Store100 existing-store sales trend



SEIJO ISHII Business

■ FY2015 1H (January to June 2015): Operating profit



Amount

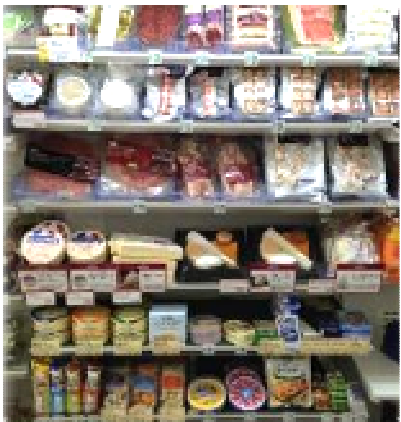
2.9
billion yen
(8% above target)

Y/Y change*

+19.0%

*compared to before acquisition

■ Synergy benefits for NATURAL LAWSON



More Seijo Ishii products.
Joint product development

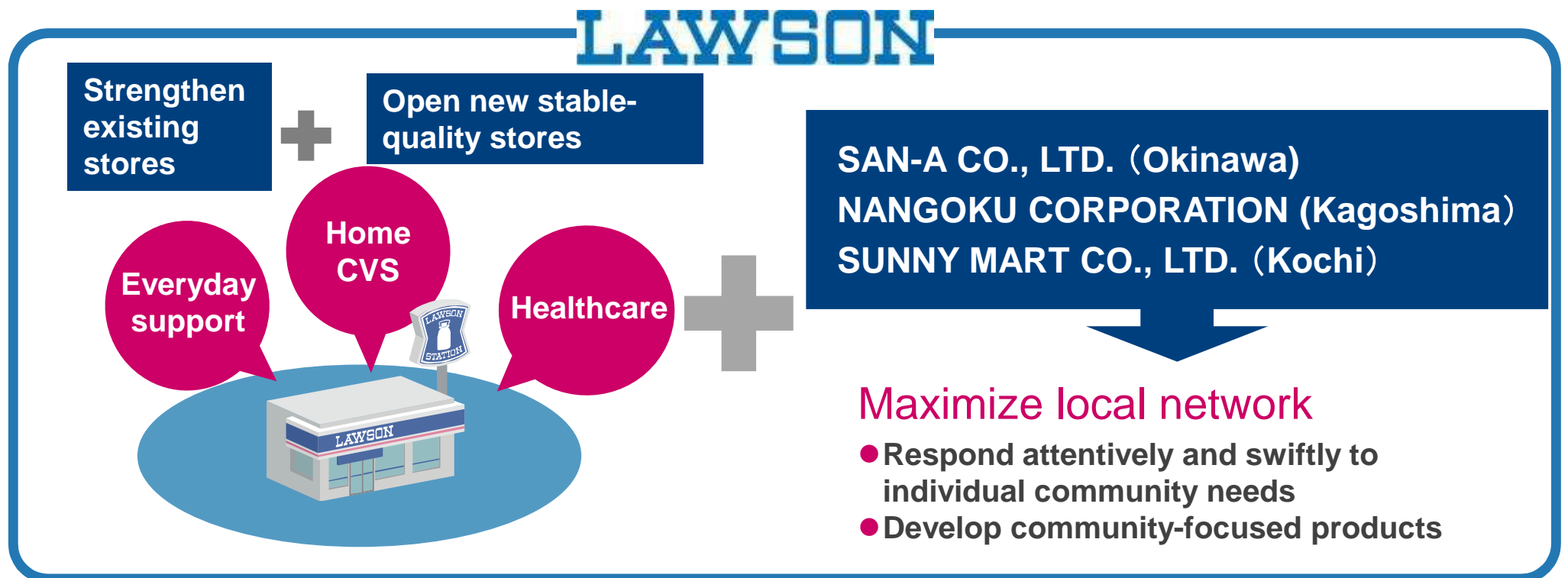
Joint procurement of
imported confectionery, etc.

Share marketing and
display improvements

Include in catalogue gifts

Regional Strategies

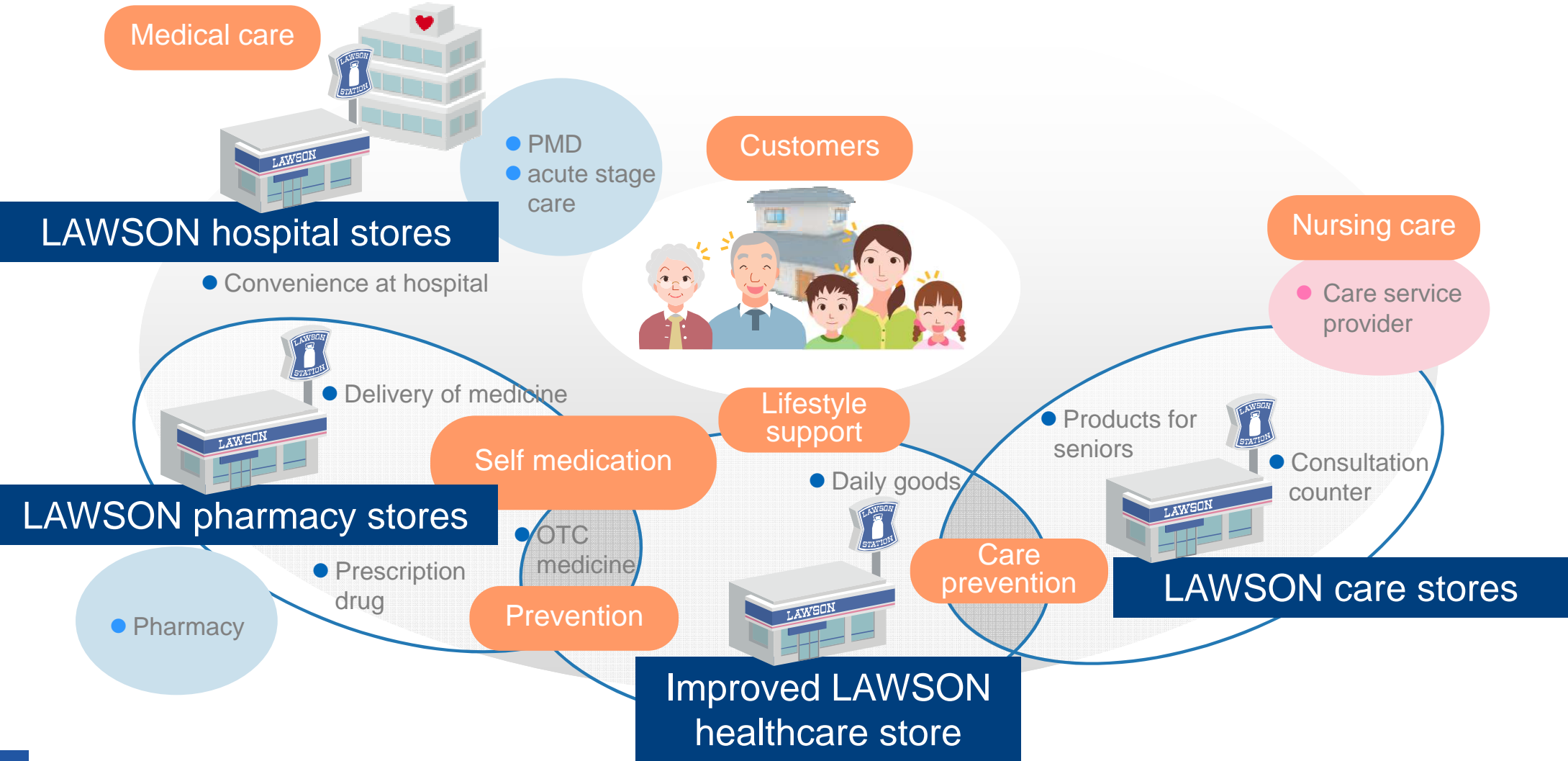
Drive growth by strengthening existing stores and opening new stores, joining together with leading local companies to capture mutual benefits.



Strive to create happiness and harmony in each local community.

Healthcare Strategy

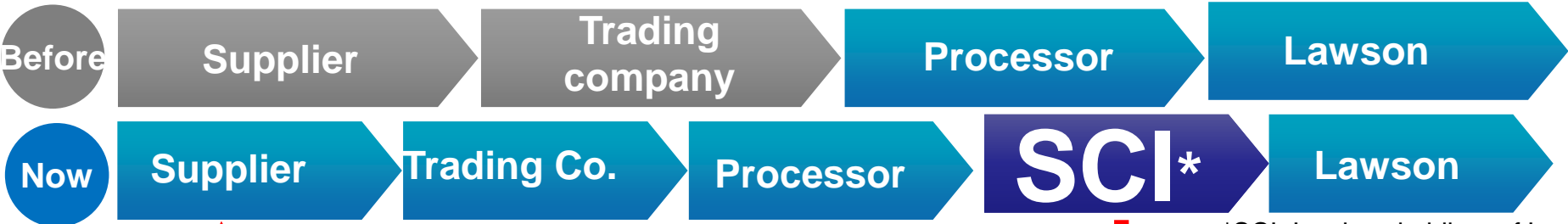
Help realize a society blessed with health and longevity.
 Help support the health and everyday lives of our customers.



Supply Chain Management

SCI, Inc. expanded to the new category of fast foods ingredients and rice to significantly boost volume.

Become more deeply involved in manufacturing and the development of high-quality, profitable items.



*SCI, Inc. is subsidiary of Lawson., Inc.

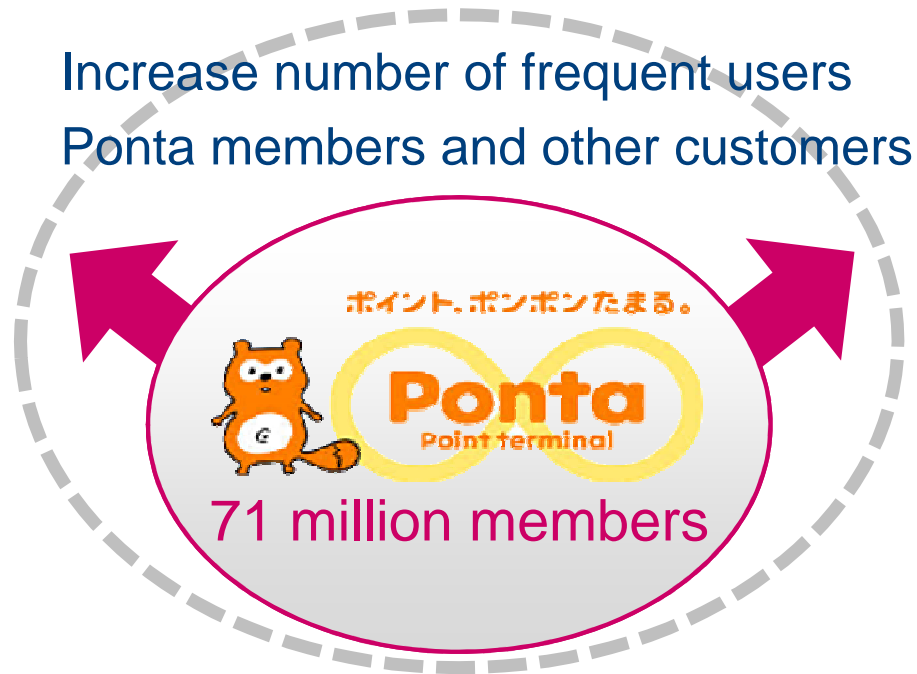
Direct Negotiation
 Ensure best timing by analyzing raw material procurement and conditions (market price, exchange rates)

Before Procure ready-made items
Now Heavy involvement from raw material stage



Customer Relationship Management

Boost convenience to capture even more Ponta heavy users.
Ensure more accurate demand forecast in semi-automatic ordering system by including new customer purchasing information.



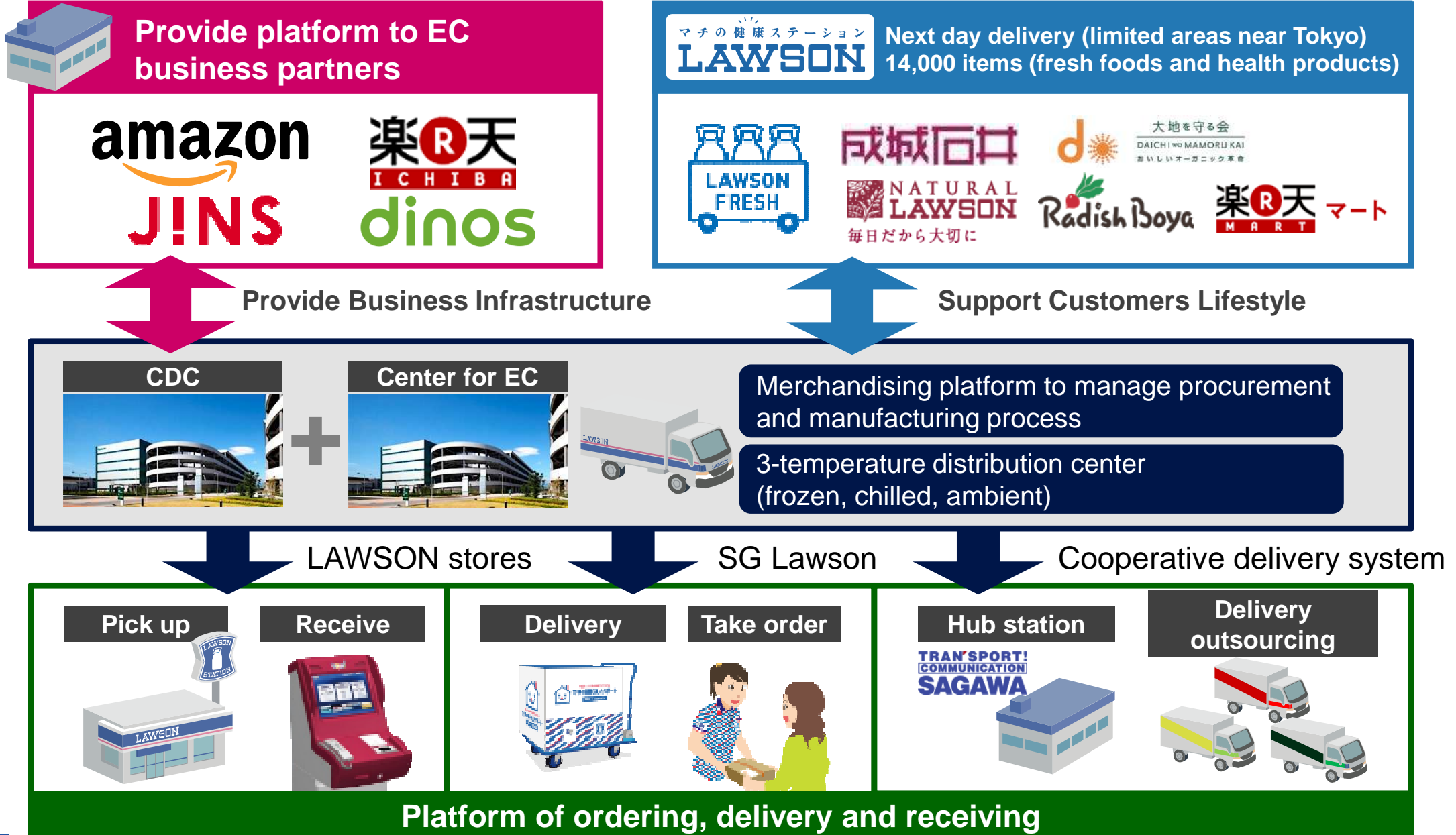
Other membership programs
Launch joint “d-point” initiative
with NTT Docomo in
December 2015.

d POINT



**Boost usage among existing Ponta members and encourage new Ponta members.
Strengthen links with other membership programs.**

Open Platform Strategy



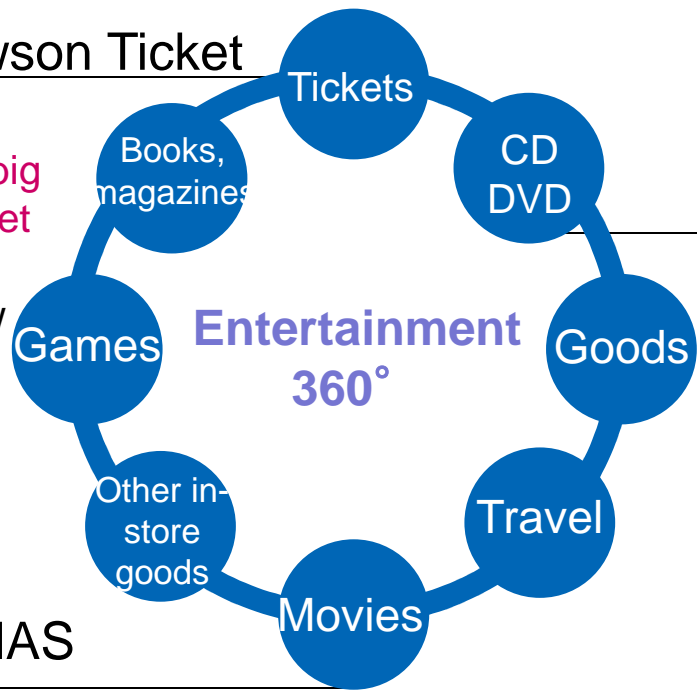
Entertainment

The Lawson Group is committed to fulfill entertainment needs of our customers.



Lawson Ticket

- Maintain No.1 market share as entertainment ticket agency, driven by big music events and amusement park ticket sales.
- 1H ticket billing rises 18% YoY to a new record high.



HMV



- Store and E-commerce sales up YoY, growing its market share.
- 1H sales up +4% YoY despite downturn in overall market.

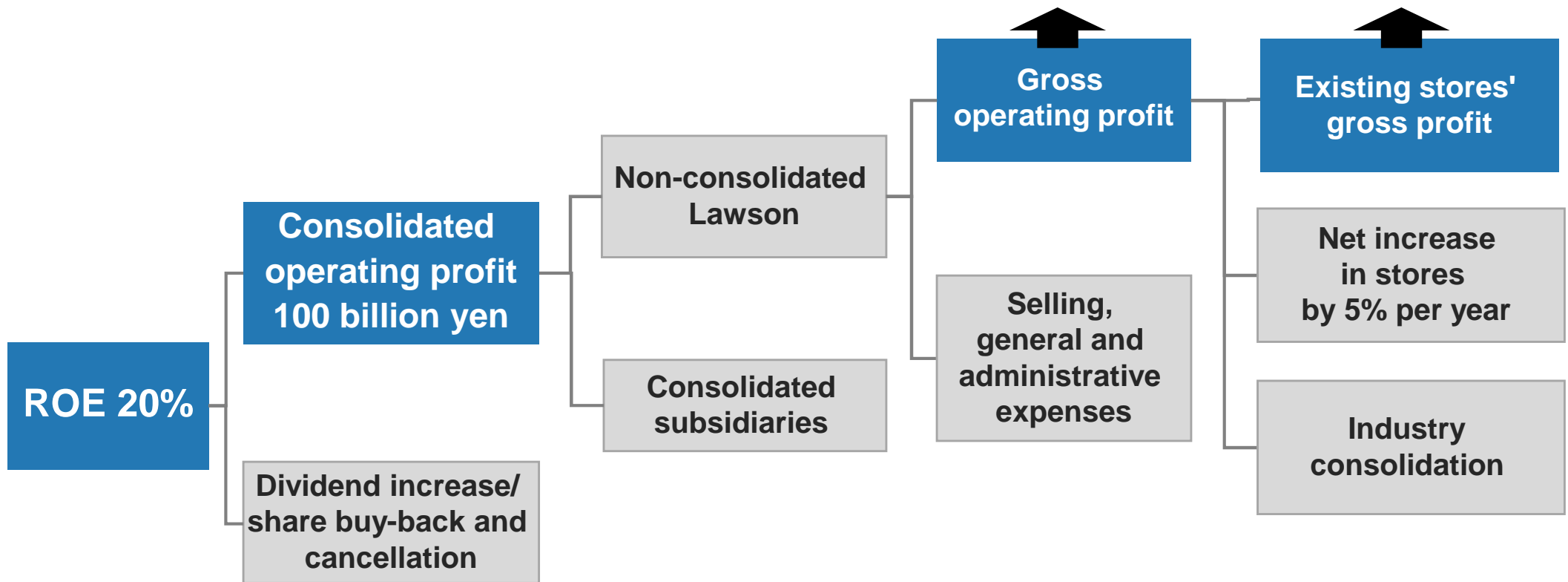


UNITED CINEMAS

- 1H operating profit outstrips target at 800 million yen.
- Better results of Live Viewing of popular singers and groups and new sensory 4DX cinema systems.
- Audience for 1H other than movies was more than quadruple YoY to approximately 200,000.
- Lawson in-theatre cinema ads triggered customer visits to LAWSON stores.

Medium-term Roadmap

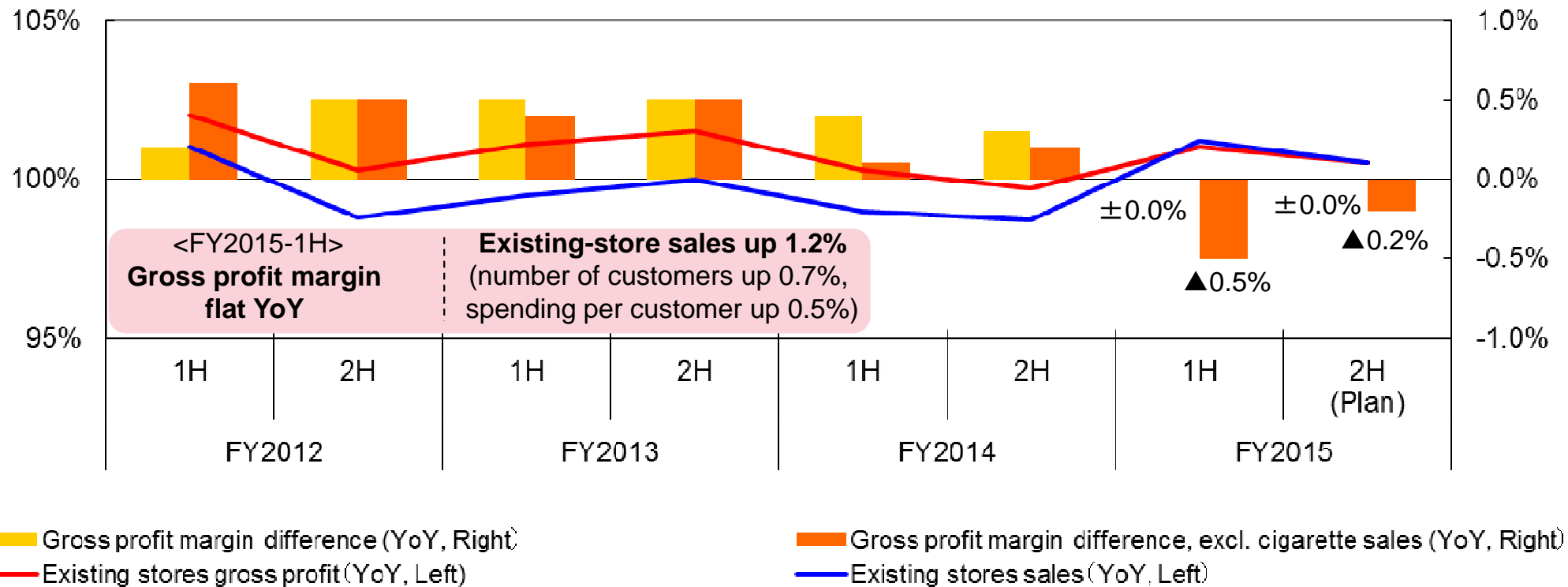
- Targeting 100 billion yen in operating profit and 20% ROE
- Maintain capital discipline with emphasis on ROIC
- Boost gross profit
- Capitalize on consolidation opportunities



Reference

Existing Stores (Non-Consolidated*)

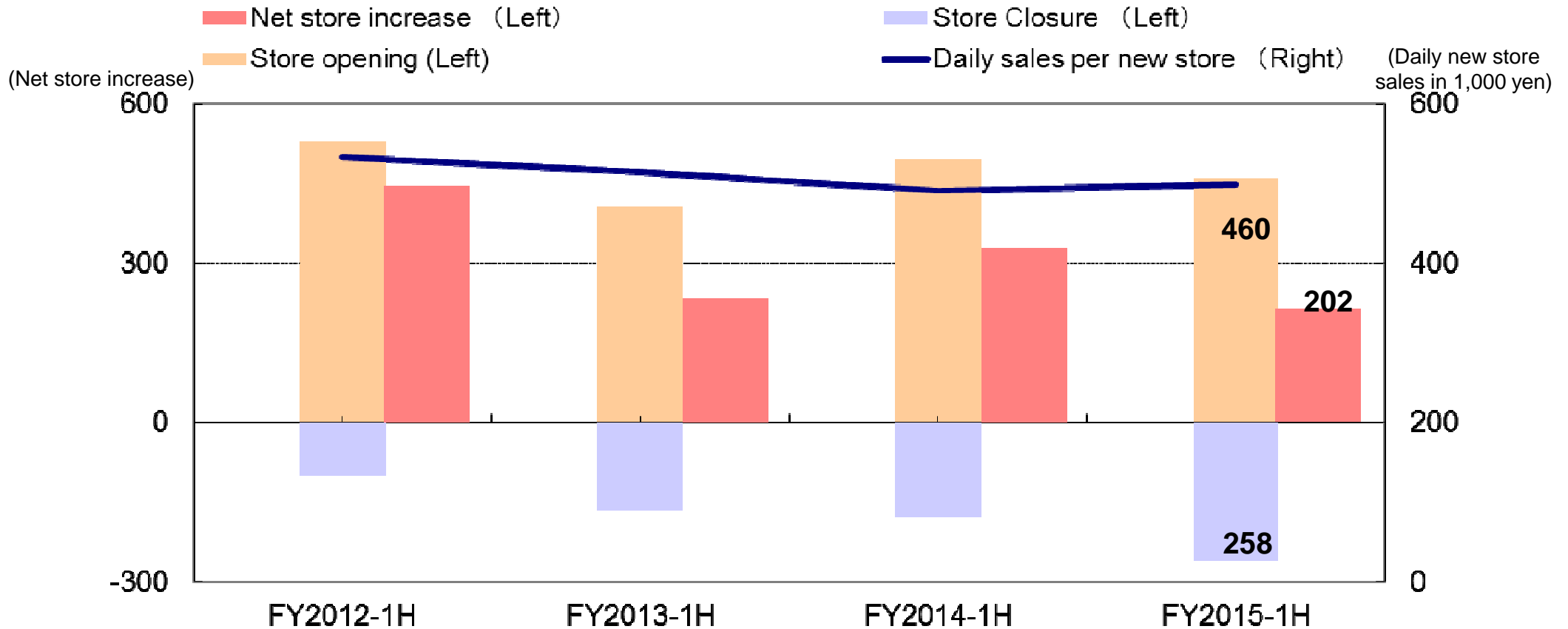
* Sums of 'LAWSON' and 'NATURAL LAWSON'



- Sales up 1.2% YoY on back of strong ticket and gift card sales, and hot summer weather.
- Gross profit margin flat YoY, 0.2pp below plan. Gross margin excluding cigarettes down 0.5pp YoY and down 0.5pp v. plan due to higher-than-expected café latte sales following price cut, poor sales of drinks, and stronger promotions.
- As a result, gross profit at existing stores, which correlates closely to profits at franchise stores, expanded 1.0% year on year.

Store Openings (Non-Consolidated*)

* Sums of 'LAWSON' and 'NATURAL LAWSON'



- New store openings, store closures: Opened 20 more stores and closed 28 more stores than initially planned. Net increase in store numbers down 8 stores v. plan as a result. Also changed 19 LAWSON STORE 100 stores (including LAWSON MART) to regular LAWSON stores.
- New-store daily sales: Up YoY to 498,000 yen.
- FY2012-2015: Opened a consistent 400 new stores, excluding stores converted from other chains' brands.

SG&A Expenses: Key Components

		FY2014-1H	FY2015-1H		FY2015
(Billions of yen)		Actual	Actual	Change vs. Plan	Forecast
Non-consolidated	Selling, general & administrative expenses	113.7	120.7	+6.9 ▲ 3.4	Increase 5-10%
	<Major Expenses>				
	Personnel expenses	18.4	19.3	+0.8 ±0.0	Increase 0-5%
	IT-related expenses (Hardware leasing, software amortization, maintenance, etc.)	6.9	4.9	▲ 2.0 ▲ 0.7	Decrease 5-10%
	Advertising and promotional expenses	4.0	5.1	+1.1 ▲ 0.7	Increase 20-30%
	Facilities expenses	62.4	67.1	+4.8 ▲ 0.3	Increase 5-10%
Consolidated SG&A expenses		143.8	171.8	+28.0 ▲ 3.9	Increase 15-20%

Compared to H1 FY2014

Parent

- A&P: Up on aggressive promotions.
- Others: Increased HQ expenses as encouraging existing franchise stores to commit early to new franchise contract where HQ pays a portion of food disposal and electricity costs.

Group

- Business expenses up on new consolidation of Seijo Ishii and United Cinemas.

Compared to plan

Parent

- 3.4 billion yen below plan
- A&P: Strong August sales enabled us to keep costs down.
- Others: Below plan on lower costs, expense reviews.

Group

- 3.9 billion yen below plan thanks to lower costs at parent company, and cost control efforts at consolidated subsidiaries.

Earnings at Major Subsidiaries

Operating Profit of Major Subsidiaries					(Billions of yen)
			FY2015-1H		FY2015
	FY-end	Ownership	Actual	YoY change	Forecast
Lawson Mart, Inc.	Feb.	100.0%	0.11	+1.09	<i>0.60</i>
SEIJO ISHII CO., LTD.	Dec.	100.0%	2.96	-	<i>5.10</i>
Lawson HMV Entertainment, Inc.	Feb.	100.0%	1.70	+0.15	<i>3.20</i>
Lawson ATM Networks, Inc.	Feb.	76.5%	3.29	+0.11	<i>5.80</i>
Chongqing Lawson, Inc.	Dec.	100.0%	▲ 0.45	▲ 0.07	▲ <i>0.80</i>
Shanghai Hualian Lawson, Inc.	Dec.	94.0%	▲ 0.75	▲ 0.30	▲ <i>0.80</i>

Note: Figures in italics indicate revisions to our initial plan.

Note: The operating result of Shanghai Hualian Lawson, Inc. is a sum of operating results of three companies located in Shanghai and surrounding area.

Lawson Mart

Reduced stores by 316 according to revitalization plan. 1H operating loss of 0.3 billion yen as combined operating profit of subsidiary and the business division of Lawson, Inc. Some of the store closure costs likely to bleed into 2H, so expect another operating loss in 2H.

SEIJO ISHII

Operating profit exceeded plan. Performance led by strong sales of super foods such as chia seeds and coconut oil. (January-June consolidated).

Lawson HMC Entertainment

Profit up on strong tickets sales to big events and theme parks, etc. CD and DVD sales also up YoY.

Lawson ATM Networks

Profit up with new store openings meaning more ATM installations. Downward trend in ATM usage seems to be easing. ATM operating cost review also contributed.

Capital Expenditure and Cash Flows (Consolidated)

● Capital Expenditure

(Billions of yen)

	FY2013-1H	FY2014-1H	FY2015-1H	FY2015
	Actual	Actual	Actual	Plan
New stores	16.0	21.3	18.2	53.5
Existing stores	3.5	2.9	2.4	<i>6.0</i>
IT-related	2.4	2.4	8.7	13.0
Other	1.0	0.8	0.4	1.0
Subtotal for capital expenditure	23.1	27.5	29.7	<i>73.5</i>
Depreciation and amortization	22.8	19.9	23.8	50.9

Note: Figures in italics indicate revisions to our initial plan

● Cash flows

(Billions of yen)

	FY2013-1H	FY2014-1H	FY2015-1H	FY2015
	Actual	Actual	Actual	Forecast
Cash flows from operating activities	61.7	92.1	92.6	Approx. 100.0
Cash flows from investing activities	▲ 29.8	▲ 38.2	▲ 33.2	<i>Approx. ▲ 76.0</i>
Free cash flows	31.9	53.8	59.3	<i>Approx. 24.0</i>
Cash flows from financing activities	▲ 19.4	▲ 8.6	▲ 24.1	Approx. ▲ 45.0
(Cash dividends paid)	▲ 9.9	▲ 10.9	▲ 11.9	▲ 24.2
Cash and cash deposits	86.2	113.7	112.1	–

Note: Figures in italics indicate revisions to our initial plan

IT-related costs up 8.7 billion yen following introduction of semi-automatic ordering system.
Operating cash flow increased temporarily on calendar factors, but came in roughly to plan overall.

Half Year Breakdown of FY2015 Forecast (Consolidated)

(Billions of yen)	FY2015 Forecast			
	1H Initial Plan	1H Actual	2H Plan	Full-Year Plan
Net sales for all stores	1,046.0	1,035.4	<i>1,026.5</i>	2,062.0
Operating profit	37.0	42.0	<i>28.9</i>	71.0
Operating profit ratio	3.5%	4.1%	<i>2.8%</i>	3.4%
Recurring profit	36.0	40.7	<i>28.1</i>	68.9
Net profit	18.4	19.8	<i>15.3</i>	35.2
(Non-consolidated)				
Gross profit of existing stores (YoY)	100.2%	101.0%	<i>100.5%</i>	100.8%
Net sales of existing stores (YoY)	99.5%	101.2%	<i>100.5%</i>	100.9%
Gross profit margin ratio	31.5%	31.3%	<i>31.3%</i>	31.3%

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

Note: Non-consolidated shows total sums of 'LAWSON' and 'NATURAL LAWSON'.

First Half of FY2014 Balance Sheet (Consolidated)

(Billions of yen)

	As of Aug. 31, 2015	Change from Feb. 28, 2015		As of Aug. 31, 2015	Change from Feb. 28, 2015
Total current assets	263.9	40.3	Total current liabilities	348.0	46.9
(Cash and deposits)	112.2	35.5	(Accounts payable-trade)	124.4	20.9
(Accounts receivable)	71.0	12.4	(Deposits payable)	116.3	12.7
Total noncurrent assets	565.1	24.2	Total noncurrent liabilities	207.5	7.7
Property, plant and equipment	290.1	15.7	(Long-term loans payable)	58.1	▲ 0.2
Intangible assets	84.4	4.8	Net Assets	273.6	9.8
(Goodwill)	47.8	▲ 0.3	(Common stock)	58.5	-
Investments and other assets	190.6	3.6	(Retained earnings)	155.2	8.1
(Long-terms loans receivable)	39.1	1.9			
(Guarantee deposits)	92.9	▲ 0.2			
Total Assets	829.1	64.5	Liabilities and net assets	829.1	64.5

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.