

First Half Results for FY2020

(Six months ended August 31, 2020)

Lawson, Inc.

October 9, 2020

Financial Results for First Half for FY2020

Satoshi Nakaniwa
Executive Managing Officer
Chief Financial Officer

Lawson, Inc.

Consolidated Financial Results for FY2020 1H

(Billions of yen)	FY2019	FY2019		
	1H Results	1H Results	Year-on-year change	Initial full-year plan
Operating income	36.7	16.6	-20.0	35.0
Ordinary income	35.1	14.8	-20.2	30.0
Net income	20.1	3.3	-16.7	5.0
(Non-consolidated) <small>(excl. Lawson Store 100)</small>				
Comparable store sales YoY	100.4%	91.0%	-9.4pt	95.2%
Gross profit margin	31.2%	31.3%	+0.0pt	31.3%
Domestic CVS stores (stores)	14,721	14,500	-221	14,544

1. Consolidated operating income 16.6 billion yen (-20.0 billion yen YoY, 48% of initial full-year forecast)

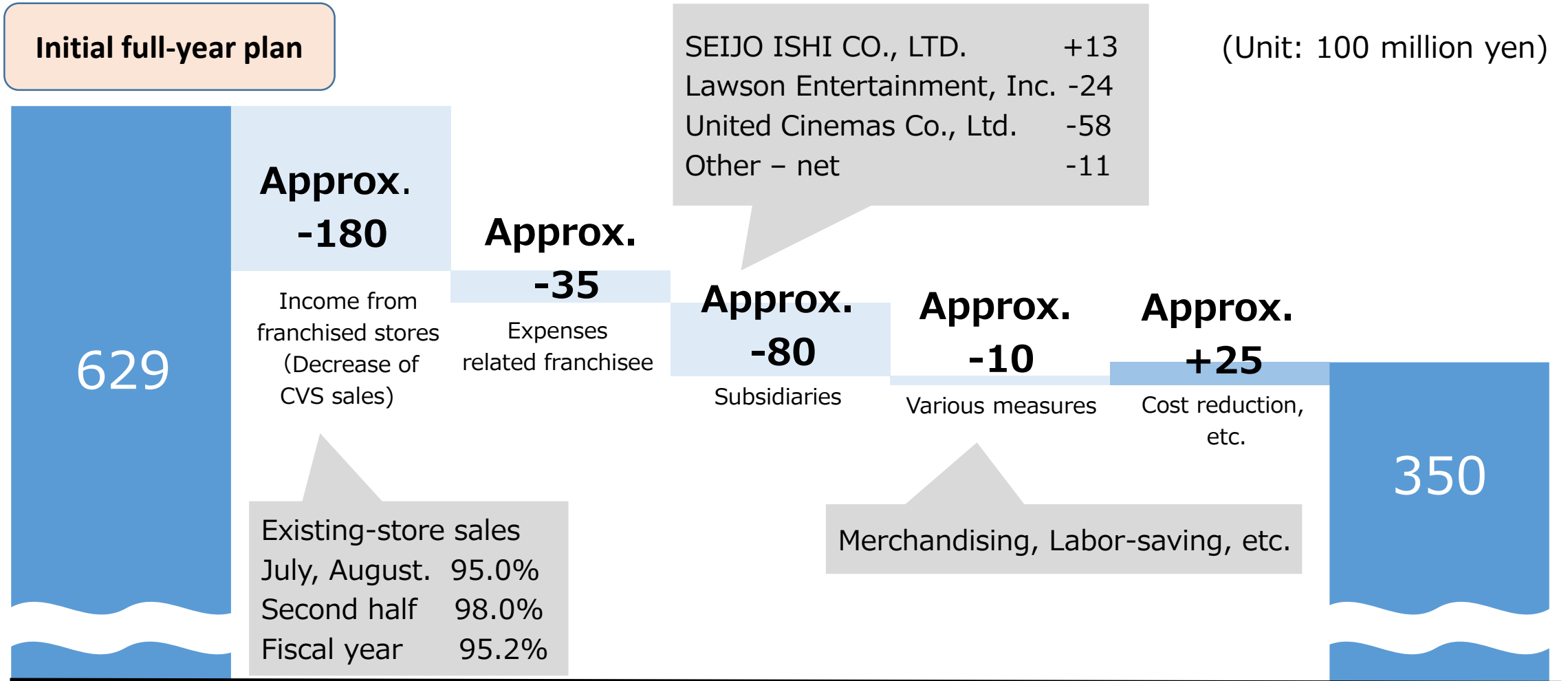
Profit down on lower charge income, which declined in line with declining Japan CVS franchise store sales, and stronger franchise store support measures in the face of COVID-19. Entertainment business profit also down on cancellation of performances and events and postponement of new movie releases.

2. Consolidated net income 3.3 billion yen (-16.7 billion yen YoY, 66% of initial full-year forecast)

In addition to the above factors, profit down primarily due to the recording of losses relating to COVID-19 as special losses.

3. Existing-store sales -9% YoY (Number of Customers -15.5%, Spending per Customer +7.7% YoY)

FY2020 Consolidated Operating Income



FY2019
Consolidated
operating income

*Financial image rounded to the nearest 0.5 billion yen for clear viewing

FY2020
Consolidated
operating income
(Plan)

FY2019 Initiatives Review

(Billion of yen)

Units: Billions of Yen)	FY2019	FY2020		
	Full-year actual	Full-year initial plan	1H actual	Full-year revision plan
Consolidated operating income	62.9	35.0	16.6	35.0

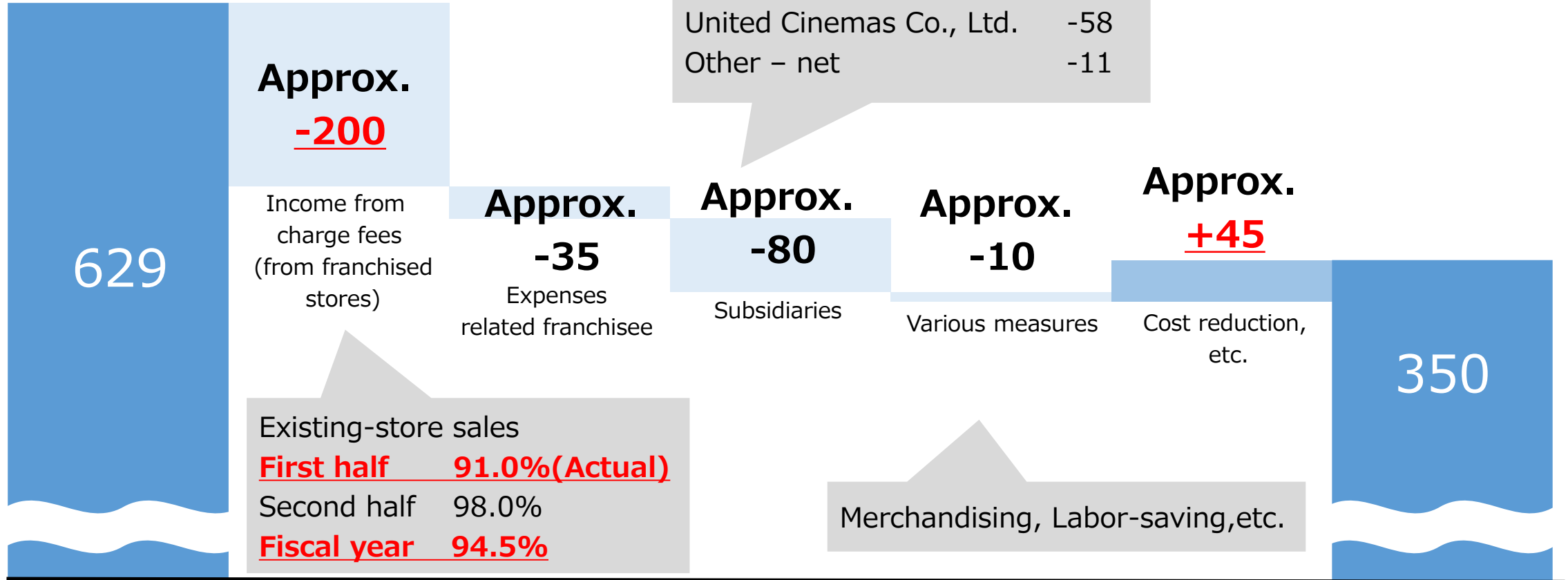
Various measures	Initiatives taken and progress made	Initial plan (full year)	Actual (1H)	Revisions (full year)
Income from charge fees (from franchised stores)	<ul style="list-style-type: none"> Working on reducing disposal losses and other cost-control measures to help improve franchise store profits. While gross profit margin held steady YoY, we were unable to fully respond to changing customer needs, resulting in a 9% decline in daily sales at existing-stores. Working to achieve initial plan for a 2% year-on-year decline in daily sales at existing-stores in 2H. 	-18.0	-16.0	<u>-20.0</u>
Franchise store support	<ul style="list-style-type: none"> Currently helping low profit-generating stores with product lineups. 	-3.5	-2.5	-3.5
Group companies	<ul style="list-style-type: none"> Seijo Ishii: Remains strong on buoyant eat-at-home demand, Entertainment business: Faced inevitable event cancellations or postponements, lower ticket handling volumes, and smaller movie theater audiences, but restrictions on events and numbers appear to be easing. 	-8.0	-5.0	-8.0
New measures, etc.	<ul style="list-style-type: none"> Scheduled to implement measures to strengthen the power of our products and introduce instore labor-saving initiatives in 2H of FY2020. 	-1.0	0	-1.0
Cost-cutting, etc.	<ul style="list-style-type: none"> Persistent cost-control measures such as reducing sales charges by cutting disposal losses and reducing advertising expenses and head office costs, etc. 	+2.5	+3.5	<u>+4.5</u>
Total	<ul style="list-style-type: none"> *Estimated financial magnitude rounded up to the nearest 0.5 billion yen for simplicity. *Numbers that have changed plans are underlined in red. 	-28.0	-20.0	-28.0

FY2020 Consolidated Operating Income

Full-year revision plan

(Unit: 100 million yen)

SEIJO ISHI CO., LTD.	+13
Lawson Entertainment, Inc.	-24
United Cinemas Co., Ltd.	-58
Other – net	-11



Existing-store sales	
First half	<u>91.0%(Actual)</u>
Second half	98.0%
Fiscal year	<u>94.5%</u>

Merchandising, Labor-saving, etc.

FY2019
Consolidated
operating income

FY2020
Consolidated
operating income
(Plan)

*Estimated financial magnitude rounded up to the nearest 0.5 billion yen for simplicity.
*Numbers that have changed plans or assumptions are underlined in red.

(Unit: billion yen)

	FY2020		
	Initial plan (full year)	Actual (1H)	Revisions (full year)
Consolidated operating income	35.0	16.6	35.0
Main company operations			
Lawson	25.0	12.5	25.0
SEIJO ISHI	10.4	5.1	10.4
Lawson Entertainment	-0.1	0	-0.1
United Cinemas	-2.4	-0.8	-2.4
Consolidated net income	5.0	3.3	5.0
Dividends per share	150 yen	-	150 yen

(Note) • Existing stores sales: 94.5% (YoY-5.5%)

• Gross profit Margin : 31.3%(YoY ±0%P)

• Store number : Store opening 400 Store closure 350 Net store numbers 50

FY2020 Initiatives

Sadanobu Takemasu
President and CEO
Representative Director
Chairman of the Board

Lawson, Inc.



Goals for 2030 (KPI)

Reducing food waste Reduce by **50%**
v. 2018 levels

Reducing plastic
Plastic for containers and packaging Reduce by **30%**
v. 2017 levels

(Lawson's original products Eco-friendly materials **50%** used)

Plastic shopping bags Reduce by **100%**

Reducing CO₂ emissions
CO₂ emissions per store Reduce by **30%**
v. 2013 levels



Lawson's Vision 2050

Take on more difficult challenges!!
Lawson Blue Challenge 2050!
Save our blue planet!

Reducing food waste Reduce by **100%**

Reducing plastic
(for containers and packaging)
Lawson's original products Eco-friendly materials **100%** used

Reducing CO₂ emissions
CO₂ emissions per store Reduce by **100%**

SUSTAINABLE DEVELOPMENT GOALS



Plastic reduction

- Compatible with charging for plastic shopping bag. Promote the popularization of portable bags.
 - A total of 5.41million portable bags had been distributed
- Reducing containers and packaging Plastic Consumption
 - Changed MACHI café's ice coffee S-cup to paper materials
 - Sales of boxed meals (NATURAL LAWSON) using paper containers



Reduction of food loss

- Promoting the recycle of unsold food products.
- Conducting experimental food waste collection utilizing Lawson's distribution network.



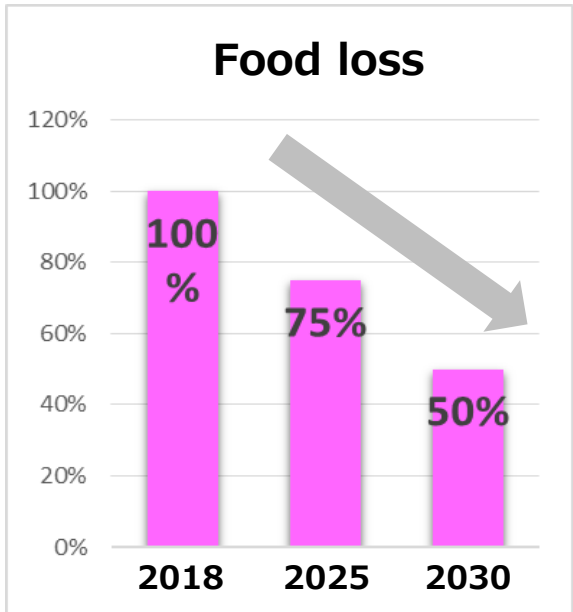
CO₂ savings

- Installing CFC-free (CO₂ coolant) freezing and refrigeration systems.



Sustainable Growth Initiatives (2)

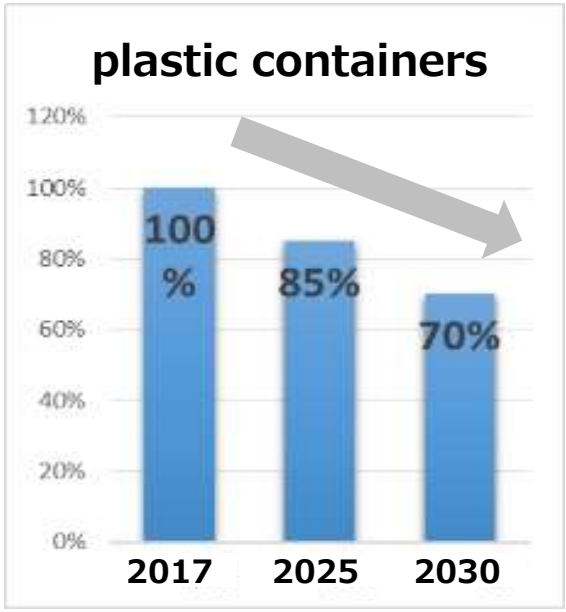
2030 50% cut



2020 target -2.25%
1H result -4.5%
 (preliminary)

Disposal rate: 4.43%
 Improving ordering accuracy and reducing unnecessary disposal

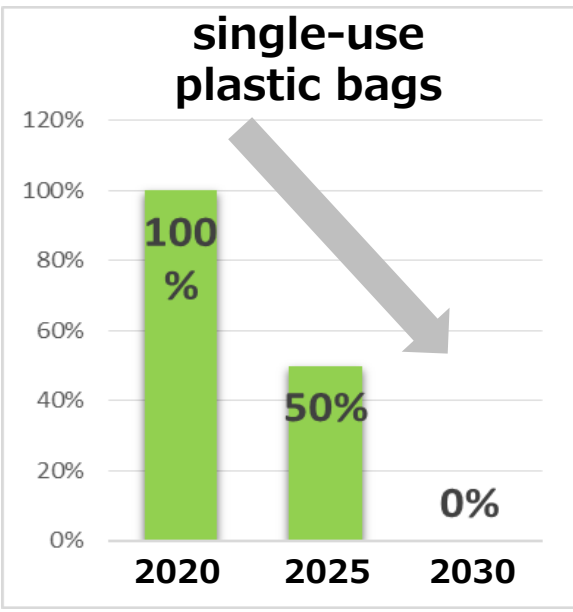
2030 30% cut



2020 target -5.0%
1H result -5.2%
 (preliminary)

Ahead of plan. Offset slow progress caused by lower sales with greater enforcement

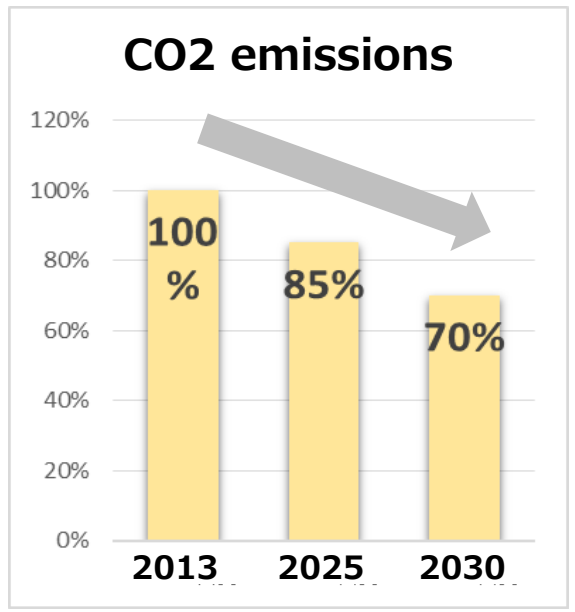
2030 100% cut



2020 target -40.0%
1H result -75.3%
 (preliminary)

More people declined paid bags than expected. Simplifying checkout operation

2030 30% cut



2020 target -6.0%
1H result -8.6%
 (preliminary)

Faster progress on switching power companies and installing store LED

**Announcement
of state of
emergency**

**Authorities request people to
refrain from all unnecessary,
non-urgent excursions**

**Fear of prolonged
infection risk**

Stay-at-home consumption

Hoarding

Strengthen our strengths

Desserts/Machi Café/Fast food/Machikado Kitchen



Strengthen 5 categories

**Fresh food/frozen food/ Daily food/Alcoholic
beverages/Japanese & Western sweets**



Many customers living nearby visited stores during voluntary lockdown period

Rise in Lawson card members

(Pre- COVID-19 rise v. voluntary lockdown period)

*Used card member data to analyze members by distance



100%+

Analysis of visit times showed more visits in evening.

Strong sales of daily living categories on stay-at-home demand

Strong-selling Categories (YoY)

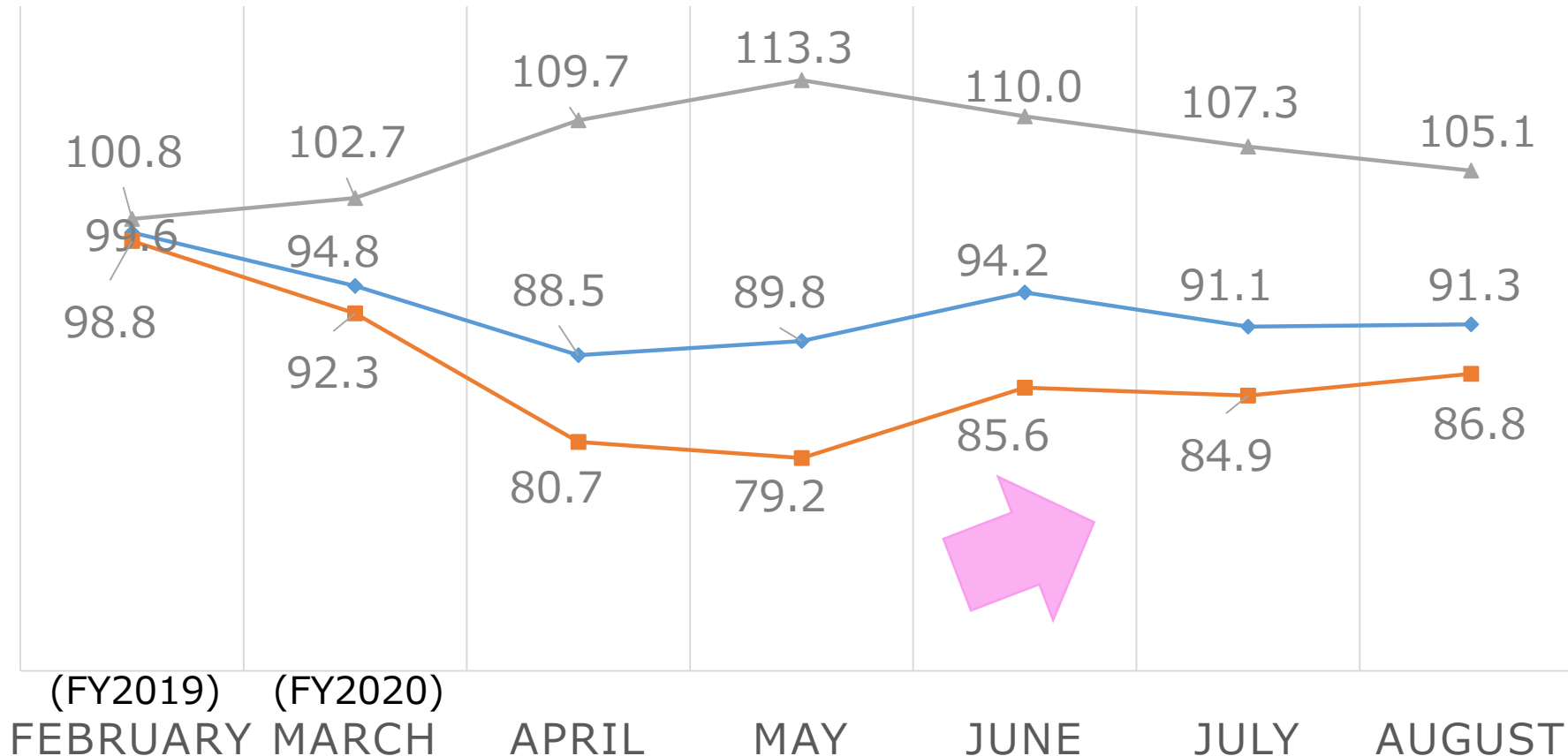
DEPT	FY2020 1H (YoY)
Paper, femine hygiene, sanitary goods	+10% or more
Frozen foods	
Cooking sauces & spices	
Convenience food	
Alcoholic beverages	+0-9.99%
Fast food	
Desserts	
Japanese and Western sweets	
Daily goods	
Fresh food	

FY2020 1H: Daily Sales, Visits, APP (YoY)

Customer visits, which plummeted in April-May, began to recover from June onwards

JAPAN CVS: EXISTING-STORE SALES (YOY)

— Sales — Visits — APP



Daily sales
1H -8.4%
Customer visits
1H -15.1%
Spending per Customer
1H +7.9%

*Includes LAWSON STORE 100

Franchise Store Costs (YoY)

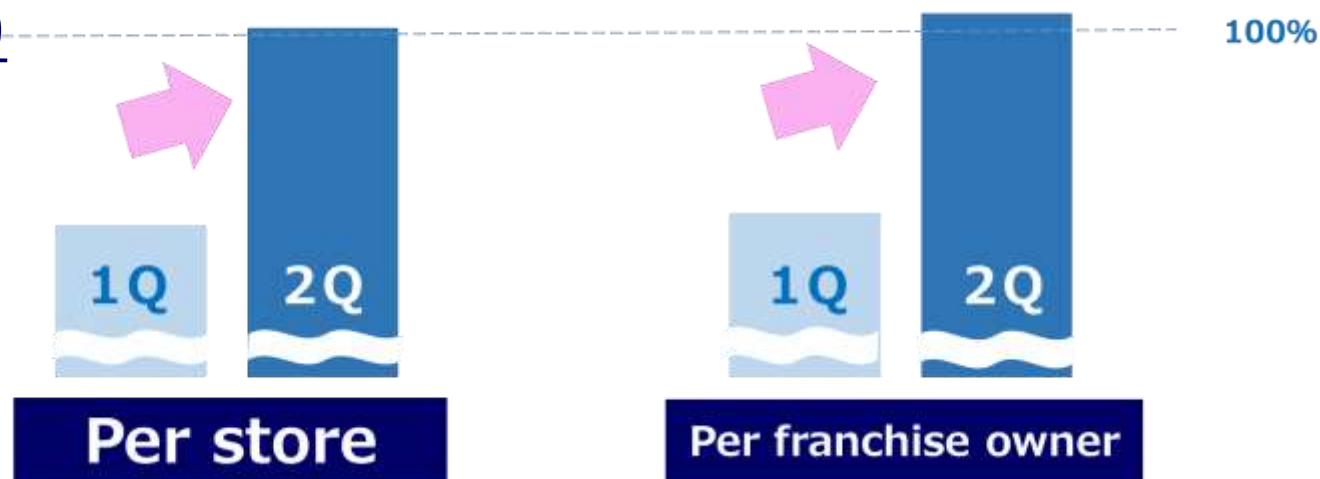
Successfully cut three top costs and other expenses to contribute to store profits

Reducing store costs

- Personnel
- Utilities
- Disposal losses
- Instore supplies

Franchise Store Profits (YoY)

1Q profits down on lower sales but 2Q profits up YoY on successful cost cutting



Securing profits even during COVID-19 helps create lean, efficient store structure

Hammer

Spreading COVID-19 infections

- Stay-at-home
- Restricted movement inside/outside Japan

Dance

With-corona, after-corona

- Invigorated activity
- Invigorated consumption

Everyday Demand

- More visits from nearby customers
- More demand for evening visits
- Higher demand for daily essentials

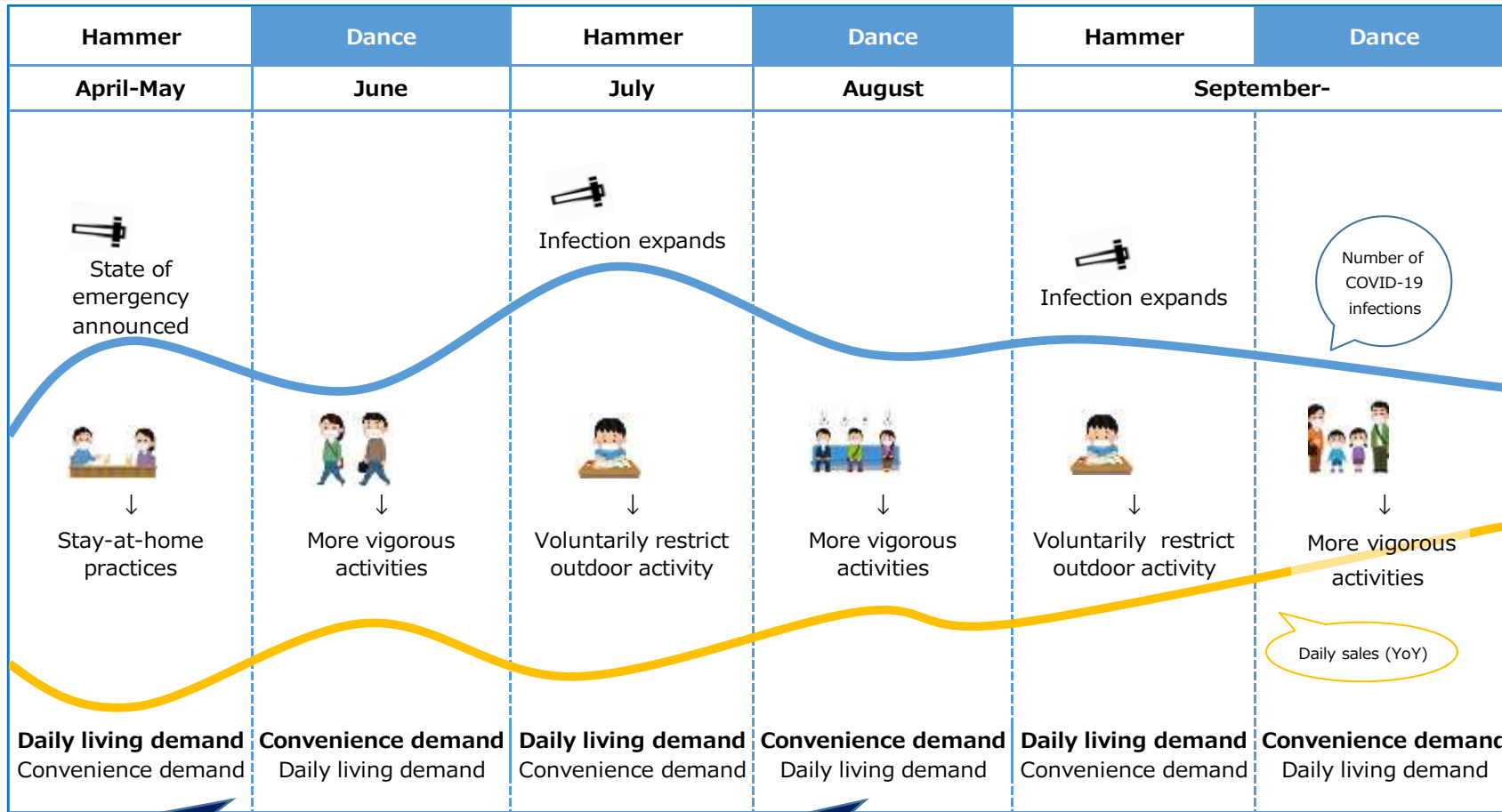
Concern over future income stream

Everyday & Convenience Demand

- Boost strong areas
- Offer products with strong value

Opportunity for Sweeping Transformation

COVID-19 created fertile ground for convenience stores to truly support daily living



Daily Living
+
Convenience

Encourage stores to make as sweeping a transformation as possible to ensure they can cater for both daily living and convenience demand under any circumstances.

Daily living demand rises on stay-at-home demand

Convenience demand rises as people's activity increases

→ Repeated pattern

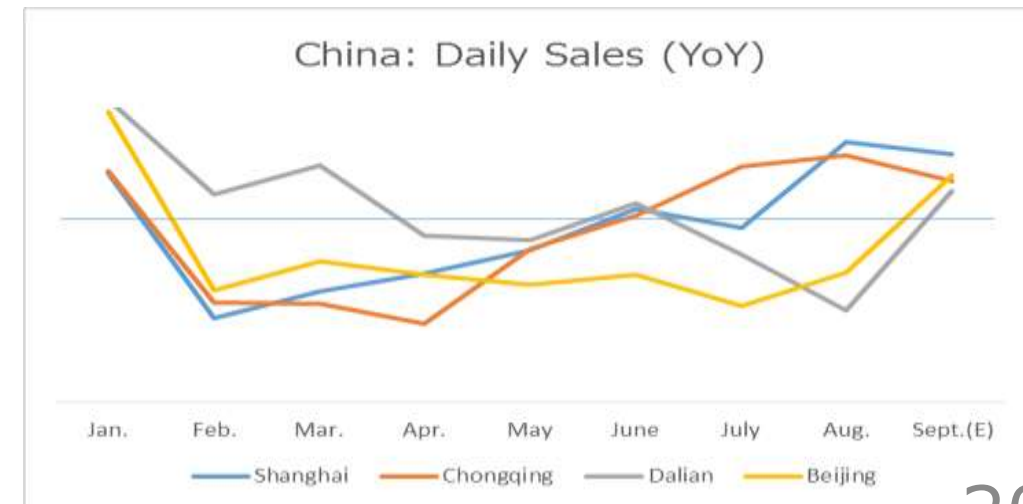
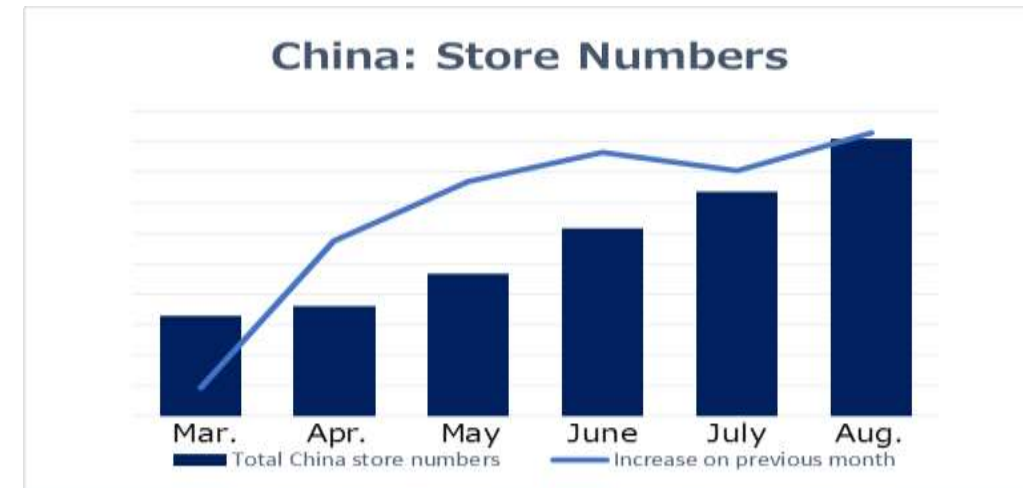
Intend to open more stores on the back of Chinese government plan to double convenience store business (300,000 stores by 2022)

- **China**

Swift post-COVID 19 recovery resulted in YoY sales gains in some areas from June. Aim to capture more demand by strengthening delivery and use government subsidies to grow operations even with COVID. Expand new store locations by cultivating mega and area franchises.



- ❑ Expand mega franchises and area franchises
- ❑ Strengthen delivery, introduce more self-service checkouts
- ❑ Use live shopping, etc. to attract more new customers



Signs of entertainment operation recovery



Lawson Entertainment

- Ticket handling fell sharply but we responded to changes by strengthening sales of tickets for live online shows.
- 2Q business picked up after event restrictions eased. 1H operating profit on strong EC sales and cost-cutting. Aiming for stable operational management through online-merge-offline (OMO) and digital transformation (DC) initiatives.

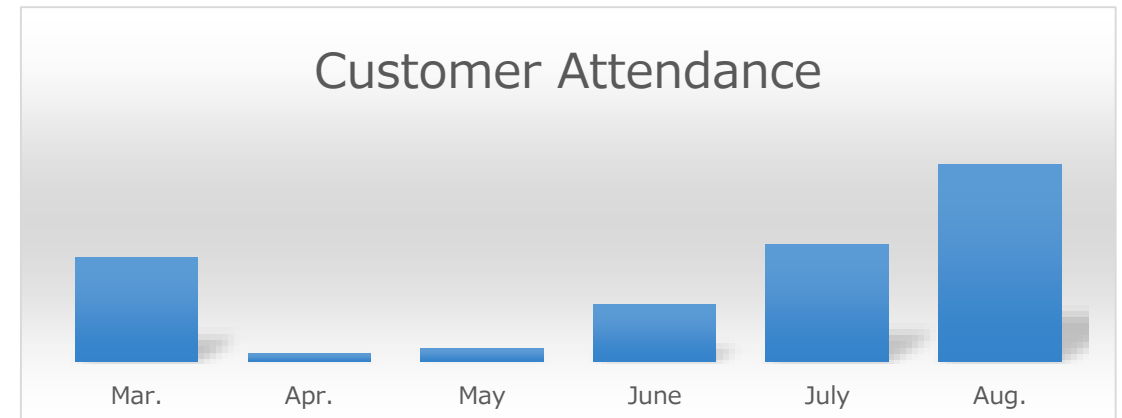
Ticket Sales



United Cinemas

- Sales down sharply on temporary closure of movie theaters in April, May. Business was tough as government restricted customer entry or forced postponement or cancellation of movie releases, but August turned a profit on hit products.
- Gradual return as restrictions eased.

Customer Attendance

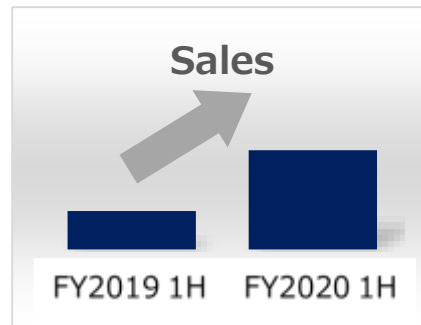




Seijo Ishii

Strive to become a company that customers trust by strengthening business model and improving brand power

- Strengthen supply infrastructure building and management platform to support high-quality store creation.
- Establish and strengthen online sales and delivery to suit changing customer behavior towards food.
- Expand and deepen store footprint in capital cities, build a solid presence in other commercial areas.



Financial services

Aim to become the nearest bank for all customers

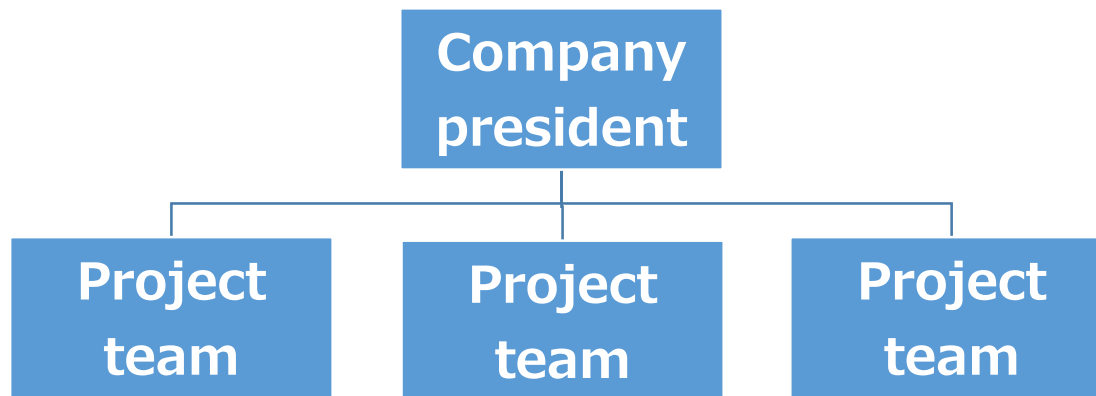
- Improve awareness of Lawson Bank ATMs
- Improve members' use of Lawson Ponta Plus credit card and encourage larger financial totals.
- Expand cooperation with financial institutions offering cashless payment platforms and payment operators and extend available functionality and services.



Whole Group to create “Hot Station (Best Relief Hub) in Our Communities” fit for a new era that transcends current convenience store formats

Lawson Group Sweeping Transformation Executive Committee

Launch 11 projects overseen by company president



- Product development
- Pursue ideal store format
- Utilize Group data
- Reform supply chain
- Reform job satisfaction...

Reference Materials

Earnings Summary: FY2020 1H Results

(Consolidated : Billions of yen)

	FY2019-1H	FY2020-1H		FY2020
	Actual	Actual	Y/Y	Initial plan
Net sales of convenience store	1,276.9	1,173.2	91.9%	2,400.0
Operating income	36.7	16.6	45.4%	35.0
Operating income ratio	2.9%	1.4%	- 1.5%P	1.5%
Ordinary income	35.1	14.8	42.3%	30.0
Net income	20.1	3.3	16.4%	5.0
EPS (Yen)	200.95	33.05	- 167.90	49.96
Total no. of stores in Japan	14,721	14,500	-221	14,494
Opening	307	236	-71	400
Closure	245	180	-65	350
Net Increase	62	56	-6	50

(Non-consolidated*)*excluding LAWSON STORE100 business

Existing store sales (Y/Y)	100.4%	91.0%	-	94.5%
Gross profit at existing stores (Y/Y)	100.8%	88.4%	-	92.7%
Gross profit margin	31.2%	31.2%	+0.0%P	31.3%
difference excl. cigarette sales (Y/Y)	+0.1%P	+0.3%P	-	+0.2%P

Note: Total chain store sales (Net sales of all stores) include sales from the convenience store operation in Japan, international operations and sales from Seijo Ishii (consolidated items only). Regarding Seijo Ishii, only the store sales of directly operation are included.

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

Note: Net sales at existing stores (YoY) do not include the impact of tickets, etc.

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

Key Components of SG&A Expenses

(Billions of yen)

		FY2019-1H	FY2020-1H	
		Actual	Actual	Y/Y
Non-consolidated	Selling, general & administrative expenses	155.4	154.0	-1.3
	<Major Expenses>			
	Personnel expenses	23.4	22.7	-0.6
	IT-related expenses (Hardware leasing, software amortization, maintenance, etc.)	5.0	6.4	+1.4
	Advertising and promotional expenses	7.6	5.2	-2.4
	Sales commission	9.6	8.5	-1.1
	Facilities expenses	86.2	86.7	+0.5
Consolidated SG&A expenses		229.5	217.5	-12.0

Y/Y

Non-consolidated

IT-related costs: Increase in depreciation costs for next-generation systems, etc.

A&P: Reduction due to review of sales promotion / campaign due to the influence of the COVID-19 infection and efficiency improvement by digital utilization such as speed lottery.

Sales commissions: Reduction of the burden on the franchiser due to reduction of disposal loss of franchisee.

Consolidated

In addition to the above non-consolidated upward factors, the decrease was due to the transfer of rent and labor costs of Lawson stores and movie theaters, which were closed due to the effects of the COVID-19 infection, to extraordinary losses.

Segment profit

LAWSON

(Billions of yen)

Segment	FY2020-1H		
	Actual	Y/Y	Year-on-year difference factor
Domestic convenience store business	13.7	-15.8	In addition to a decrease in charge income due to a decrease in sales, profits decreased due to the planned support for low-profit stores from the beginning and additional support for franchisee that were significantly affected by the COVID-19.
Seijo Ishii business	4.8	+0.9	Increased demand in supermarkets has led to a significant increase in fresh food, groceries and alcoholic beverages. Same-store sales increased significantly due to strong sales of 106.3% year-on-year.
Entertainment-related business	-1.0	-4.7	Profit decreased due to lower revenues due to the temporary closure of movie theaters, as well as lower ticket sales fees due to entertainment suspensions and restrictions on large-scale events.
Financial services business	0.7	-0.5	Profit decreased due to a decrease in the number of ATMs used due to a decrease in the number of customers at LAWSON stores, shortened business hours and temporary closures of stores.
Overseas business	-1.3	+0.3	In China, recovery from the effects of the COVID-19 infection was relatively quick, and profits improved due to an increase in the number of stores.
Other business	-0.2	-0.2	
Total	16.6	-20.0	

Consolidated Capital Expenditures & Cash Flows

● Consolidated Capital Expenditures

● Consolidated Cash Flows

(Billions of yen)

	FY2019-1H	FY2020-1H
	Actual	Actual
New stores	13.4	6.2
Existing stores	4.2	4.4
IT-related	6.6	4.7
Other	0.6	0.2
Subtotal for capital expenditure	24.9	15.5
Leases	25.6	12.7
Depreciation and amortization	38.4	40.5

(Billions of yen)

	FY2019-1H	FY2020-1H
	Actual	Actual
Cash flows from operating activities	136.0	118.3
Cash flows from investing activities	-26.2	-17.7
Free cash flows	109.8	100.5
Cash flows from financing activities	-89.5	-117.1
(Cash dividends paid)	-12.7	-7.5
Cash and cash deposits	374.1	326.8

Consolidated Balance Sheet at the end of FY2020 1H

	As of Feb. 28, 2020	As of Aug. 31, 2020	Change from Feb.		As of Feb. 28, 2020	As of Aug. 31, 2020	Change from Feb.
Total current assets	636.6	589.3	- 47.3	Total current liabilities	561.9	589.1	+27.1
(Cash and deposits)	343.5	326.8	- 16.7	(Accounts payable-trade)	129.3	137.3	+7.9
(Accounts receivable)	159.1	150.5	- 8.6	(Short-term loans payable)	39.8	36.3	-3.5
Total noncurrent assets	721.0	705.1	- 15.8	(Deposits payable)	193.0	142.1	-50.9
Property, plant and equipment	392.9	384.0	- 8.8	Total noncurrent liabilities	520.4	431.0	-89.4
Intangible assets	97.0	91.5	- 5.4	(Long-term loans payable)	310.0	230.0	-80.0
(Goodwill)	42.3	40.1	- 2.1	Total liabilities	1,082.3	1,020.1	-62.2
Investments and other assets	231.0	229.5	- 1.5	Net Assets	275.3	274.4	-0.9
(Long-terms loans receivable)	42.4	42.5	+0.0	(Common stock)	58.5	58.5	±0.0
(Guatantee deposits)	107.1	104.0	- 3.0	(Retained earnings)	165.0	160.6	-4.4
Total Assets	1,357.7	1,294.5	- 63.1	Liabilities and net assets	1,357.7	1,294.5	-63.1

(Billions of yen)

Note: The amount of cash and deposits for financial services business as of August 31, 2020 is 306.5 billions of yen, most of which is used for refilling ATMs.

Note: The amount of loans payable for financial services business as of August 31, 2020 is 108 billions of yen.

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.