

— Operating Environment and Growth Strategies —

Convenience stores have grown by increasing their existential value through measures that address changes and issues in society.

At present, FamilyMart is seeing its operating environment change on an unprecedented scale.

Welcoming this change as an opportunity to launch our next phase of growth, we are forging ahead with a range of different initiatives in the areas of brick-and-mortar stores, products and information infrastructure, and personnel and knowledge.

Changes in society*

Percentage of the population aged 65 or above:

28.1%

In addition to such demographic trends as the population's aging and concentration in cities, lifestyles and consumer behavior are changing. In particular, women's entry into the workforce and workstyle reform are diversifying why and when people shop. Moreover, attitudes to consumption itself are changing, as demonstrated by the shift in consumption from goods to services.

* Based on the *Labor Force Survey* and information on population, demographics, and households of the Basic Resident Register of the Ministry of Internal Affairs and Communications

Percentage of the population living in the three major metropolitan areas:

51.7%

Percentage of women aged between 15 and 64 in employment:

69.9%

Social issues



As society changes structurally, demand is growing for products that are safe, reliable, and healthy. Many global issues are emerging that we should help tackle as a responsible retailer with a store network and supply chains. These include climate change, natural disasters, food wastage, and plastic trash. Other pressing tasks are the hiring and development of personnel who will lead the Group's growth as well as their appropriate evaluation and deployment.

Changes in the competitive environment

Size of the convenience store market*

	Fiscal 2012	Fiscal 2018
Sales	¥9.5 trillion	▶ ¥12.0 trillion
Number of stores	49,147	▶ 58,313

In addition to competition among convenience store chains, competition from other industries, including online businesses, has begun in earnest. Also, pressure to reduce operational costs is increasing due to changes in the environment, such as raw material price hikes and labor shortages. In response, the retail industry is taking advantage of AI and other leading-edge technologies to realize next-generation stores and creating new businesses with the aim of developing future earnings mainstays.

* Prepared by the Company based on the *Current Survey of Commerce* of the Ministry of Economy, Trade and Industry



Brick-and-Mortar Stores

■ P20

Maximizing the Value of Stores

- Strengthening support for franchised stores
- Increasing the efficiency of store operations
- Developing support systems for the management of franchised stores
- Exploring ideas for next-generation stores that incorporate the latest technologies
- Encouraging local communities Material Issue 2 (P23)
- Developing appealing products and services
- Developing products that cater to health needs Material Issue 4 (P25)
- Reducing the environmental burden of store operations Material Issue 1 (P38)
- Increasing the profitability of stores by carefully selecting regions and store formats



Products and Information Infrastructure

■ P26

Maximizing the Value of Infrastructure

- Optimizing distribution bases
- Enhancing the productivity of production bases for ready-to-eat items
- Creating high-value-added products through *structural reform in ready-to-eat items*
- Strengthening relationships with business partners in supply chains
- Preparing business continuity plans covering entire supply chains Material Issue 3 (P27)
- Reducing plastic trash and product wastage Material Issue 1 (P38)
- Using information infrastructure in marketing
- Expanding the customer base through proprietary payment channels
- Creating new businesses through the leveraging of data on customer purchases



Personnel and Knowledge

■ P30

Maximizing the Value of Personnel and Knowledge

- Enhancing the capabilities of supervisors
- Delegating authority and redeploying personnel with the aim of being regionally rooted
- Building systems for sharing examples of good practice in store operations
- Promoting diversity Material Issue 5 (P33)
- Hiring and developing personnel who will lead the Group's growth
- Advancing workstyle reform as well as health and productivity management



Brick-and-Mortar Stores

Strengthening Support for Franchised Stores

Brand integration has given us a network of approximately 16,500 convenience stores in Japan.

To heighten the competitiveness of the whole store network,
we will focus investment on existing stores.

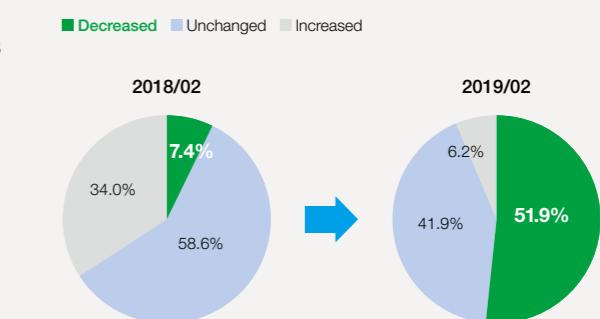
Increasing the Efficiency of Store Operations

Enhancing work efficiency at stores is a pressing task for us as the headquarters. For many years, we have been expanding and improving our lineup of products and services to reflect changes in society's needs and maximize convenience for customers. Since fiscal 2016, however, we have also been analyzing, reorganizing, and drastically reducing store workload.

In fiscal 2018, we reduced workload by 5.5 hours per store per day through improvements in store equipment. For example, we introduced larger fryers for *FAMICHICKI* fried chicken and other fried items. Through the continued introduction of such equipment, we will reduce workload by a further five hours per store per day in fiscal 2019.

Reducing the Workload of Stores

(Results of a survey of franchised stores)



Fiscal 2019 Measures to Increase the Efficiency of Store Work (Investment: ¥25 billion)

	New tablet device for placing orders	Cashless payment services	Increased introduction of self-checkout registers	Increased introduction of new pullout shelves	System improvements
Reduction in hours per day	32,000	+4,000	1 hour	1 hour	0.5 hours
Implementation status	Replacement began in May 2019	In-house payment service began in July 2019	By the end of fiscal 2019	Expand introduction to existing stores	Began in May 2019

Maximizing the Value of Stores



Brick-and-Mortar Stores

Providing Support Systems for the Management of Stores

We provide a range of support aimed at increasing the profitability of franchised stores. Under the current franchise contract, the head office provides support for losses from food waste to enable strengthening of the lineup of ready-to-eat items. Also, in accordance with the contract, we provide support for utilities as well as store management support, which reduces operating costs that franchised stores incur. Moreover, in 2001 FamilyMart became the first convenience store operator to introduce a system that encourages the management of multiple stores, which we call the multiple-store promotion system. The system is available to any motivated business owner, and as of the end of February 2019 more than 70% of all stores were operated based on a multiple-store management system.

Further, in the current fiscal year we have already revised the incentive for opening 24 hours a day based on the percentage increase in the minimum wage. Under this incentive scheme, we previously paid ¥1.2 million per year to stores that operate 24 hours a day. Also, we are establishing conditions that allow franchisees to manage their businesses with peace of mind. For example, we are promoting health management by waiving fees for health checkup support services, and we are encouraging store managers to take more vacations by enhancing the support system for them.

For details on the multiple-store promotion system, please see page 86.

Measures for Franchised Stores

Measure	Implementation commencement	Summary and aim
Increase in incentive for opening 24 hours a day	June 2019–	Revised annually based on the percentage increase in the minimum wage Compensates for increases in a range of costs associated with store operations
Promotion of health management	June 2019–	Health checkup support services for the store staff of franchised stores Paid for by the head office, thereby dispensing with fees
Enhancement of support system for store managers (encouragement to take more vacations)	June 2019–	Significantly eased the conditions for using the system. Provided gratis during disasters or times of bereavement, and one day per year provided gratis mainly to individually managed stores, etc.
Store staffing support	June 2019–	Strengthened system for dispatching personnel from partner staffing agencies Plan to extend the system used in Kanto and Kansai regions nationwide during fiscal 2020
Enhancement of dialogue with the head office		
<i>Kansha no Tsudoi</i> ("Gratitude Gathering") (held 16 times at 11 venues nationwide)	Held continuously	Intended to show gratitude to owners for operating franchised stores and enable the senior management team to explain the fiscal year's strategies
Increase in holding of store manager assemblies (organized by district managers)	Held as needed	Study groups comprising store managers and with themes set by district
Establishment of store business management enhancement seminars	June 2019–	Holding seminars for the owners and managers of franchised stores with themes selected to help with the business management of stores
Increase in the functions and scale of the Franchisee Relations Office	September 2019–	A dedicated head office organization that not only provides consultations on store management but also seeks solutions to all kinds of inquiries received from the owners and managers of franchised stores

Action Plan to Support Franchised Stores

Aiming to grow and develop with franchised stores, we prepared an action plan to support FamilyMart franchised stores in April 2019. Given the emergence of differences in social conditions among regions, such as changes in their respective

demographics, in June 2019 we began implementing trials of shorter opening hours at stores in specific areas for periods of up to six months. We will conduct verification with a view to store operations that match society's current needs.

Summary of Trials of Shorter Opening Hours

Trial (1)	Trial (2)
Shorter opening hours once a week (Sunday) Region: Tokyo (Bunkyo), Nagasaki (Isahaya)	Shorter opening hours every day Region: Tokyo (Ikebukuro), Akita (Akita Minami)

The names of FamilyMart Co., Ltd. organizations (operating bases) are in parentheses.

Incorporating IoT to Realize Next-Generation Convenience Stores

Through a partnership with Panasonic Corporation, in April 2019 we opened a prototype convenience store, FamilyMart Saedo Store, in Yokohama, Kanagawa Prefecture. We are using the store to jointly conduct proving tests of IoT-related technologies, including object detection based on image processing technology, payment through authentication by facial recognition, and point-of-purchase displays and digital shelf labels that automatically change their displays of product prices and other information. Taking into consideration issues in society at large as well as in store operations, we will find solutions and roll them out across our store

network. In this way, we will establish customer-focused, next-generation convenience stores.



Inside the FamilyMart Saedo Store

Material Issue 2



Contributing to the development of vibrant local communities as social and living infrastructure

In April 2019, we launched *Famima Kodomo Shokudo* ("FamilyMart Children's Cafeteria") as part of our efforts to promote exchanges within local communities and support children—who after all are the future. Our hope is to help invigorate local communities by using FamilyMart stores nationwide to offer opportunities for local children and residents to chat as they dine together around the same table. By opening *Famima Kodomo Shokudo* in respective regions, we will continue to advance initiatives that are close to local communities and which meet customers' needs.



Maximizing the Value of Stores



Brick-and-Mortar Stores

Strengthening the Profitability of Stores

We will heighten the profitability of stores even further by focusing on ready-to-eat items in product value enhancement efforts and by improving store environments through a build-and-scrap (B&S) strategy.

Enhancing the Value of Products

We must develop and provide products that reflect the new needs emerging as the structure of society changes. Focusing on ready-to-eat items, we will cater to diversifying demand by continuing to concentrate on strategic products that exploit the advantages of our convenience store chain and encourage store visits and shopping.

With respect to ready-to-eat items, we will expand and improve our lineup of chilled boxed lunches and their sales areas. For these chilled products, we conduct quality control at a lower temperature than we do for boxed lunches that have constant temperatures. This enables us to use eye-catching colorful vegetables and reduce additives while preserving the lunches' tastiness. Moreover, chilled

boxed lunches heighten profitability because they have longer sales periods than conventional boxed lunches with constant temperatures, which reduces lost sales opportunities and product disposal.

At the same time, FamilyMart will further improve product lineups that accentuate its particular strengths. For example, plans call for expanding the product lineup and sales areas of prepared dishes and frozen food offered under the "Mother's Kitchen" brand. Also, we will bring to market appealing new strategic products that generate popular interest and motivate customers to shop. As part of these efforts, we are introducing new-model self-service coffee machines and revamping hot snacks and other counter products that are positioned next to cash registers.

Strengthening the Foundations of Our Store Network

In fiscal 2018, we focused on ensuring the quality of new stores by introducing stricter criteria for store openings. At the same time, to reduce future risk, we brought forward the closure of stores that had seen a decline in profitability. We will continue to focus strongly on profitability when opening new stores and to advance a B&S strategy, which redeploys stores to prime locations that are likely to attract more customers. These strategies will strengthen the foundations of our store network, thereby enabling us to develop and maintain a store network that is able to withstand competitive and environmental changes.

In addition, FamilyMart will concentrate on developing stores in three major metropolitan areas: Tokyo, Osaka, and Aichi. Further, by leveraging its

long-standing competence in the opening of stores under many different formats, the Company will cater to the needs of even more customers. We will open stores in hospitals and railway stations and establish "automatic vending machine" convenience stores.

Store Openings and New Store Daily Sales



In fiscal 2019, we increased ready-to-eat items. Also, in response to changing lifestyles and growing awareness of the need to reduce food wastage, FamilyMart enlarged its lineup of frozen food and focused efforts on prepared dishes for which gas-exchange packaging is used to extend their sell-by dates.

Material Issue 4



Responding to increasingly sophisticated and diverse consumer needs

In response to increasing health awareness in today's society, we are developing rice balls, sandwiches, and other products that include "super barley," rich in dietary fiber. In particular, rice balls—developed based on the concept of a product that helps customers to keep eating healthily every day—have garnered support not only from health-conscious women but also from a wider group of women, specifically those aged between 20 and 60, as well as from men in their 40s and 50s. As of the end of June 2019, we had sold 70 million of these rice balls.



Sockeye salmon and seaweed rice balls with "super barley"

Maximizing the Value of Infrastructure



Products and
Information Infrastructure

Upgrading Supply Chains

As part of reorganization of the Group, we have optimized distribution bases.

Going forward, we will transition into a phase of rationalizing supply chains with the aim of enhancing earnings.



A FamilyMart production base for ready-to-eat items. Plans call for capital investment with a view to automation.



Following brand integration, we rationalized distribution bases to reflect our new store network, and we will continue to revise delivery routes.

Building an Optimal Distribution Network for the Store Network

Aiming to market ready-to-eat items that have even greater value and appeal, since fiscal 2014 FamilyMart has been advancing *structural reform in ready-to-eat items* by fundamentally reforming all processes from product planning and development through to manufacturing and sales. In accordance with the integration of Circle K and Sunkus stores under the FamilyMart brand, we have dramatically reformed and consolidated both store chains' distribution networks, work processes at distribution bases, and delivery routes. Consequently, we had reduced the number of distribution bases from the pre-integration level of 213 to 160 as of the end of February 2019.

From fiscal 2019 onward, we will realize optimal distribution in each region and by developing sales areas that cater to their retail zones—which is the proper role of convenience stores. In addition, we are reforming the timing and frequency of ordering and the management of delivery vehicles to reflect the circumstances of individual retail zones. In the future, we will rationalize all supply chains, including raw material procurement and production through to delivery and in-store ordering systems. We plan to complete reorganization of distribution infrastructure by the beginning of fiscal 2020.

Enhancing Product Appeal Tirelessly

We are also rationalizing production bases for ready-to-eat items. Specifically, FamilyMart is steadily switching from integrated plants that produce offerings in a variety of categories to plants aligned to the temperature zones of products, such as plants specializing in rice products and plants specializing in chilled products. By reducing the number of items produced by each plant, we aim to improve product quality and production efficiency. As of the end of February 2019, our optimization efforts had reduced the number of production plants to 92, compared with 120 at the beginning of brand integration. Moreover, the percentage of these production plants dedicated to manufacturing FamilyMart items has risen to approximately 80%.

The aforementioned reorganization of overall product supply is minimizing lead times in ordering, production, and delivery processes while optimizing store inventories and reducing food wastage. In addition,

our series of reorganization measures is generating earnings, which we are reinvesting in production plants and distribution bases to boost product quality even further. Through this virtuous cycle, we are enhancing the appeal not only of ready-to-eat items but also of other products and services and thereby driving earnings growth across the entire store chain.



The introduction of new tablet devices is greatly increasing the efficiency of ordering and inventory control.

Material Issue 3



Strengthening of supply chain management that delivers safe and reliable products

To ensure that we can continue functioning as part of the infrastructure of society and daily life even if natural disasters disrupt our supply chains, we have prepared a Supply Chain Business Continuity Plan. Based on this plan, we are building support systems in which nearby bases help with raw material procurement or delivery to stores. At the same time, to ensure that the production of ready-to-eat items that have long shelf lives or which can be supplied with ease does not become concentrated on specific plants, we disperse the production of products during normal operating conditions. This dispersal increases the likelihood of our being able to provide basic supplies even during disasters.



Products and
Information Infrastructure

Leveraging Information Infrastructure to Expand Businesses

Through digitization that utilizes points of contact with customers, we will increase shopping convenience and raise the profitability of franchised stores.

Adopting Openness as a Basic Policy

FamilyMart's approach to digitization is founded on openness. We are digitizing payment in a manner that allows customers to use our services or a selection of other services in accordance with their preferences. We have introduced other

companies' barcode payment services, such as PayPay and LINE Pay. Moreover, we have launched our own smartphone app with a barcode payment service, *FamiPay*, and linked it to a range of loyalty point programs.

Launching the *FamiPay* Service

July 2019 saw the introduction of our *FamiPay* smartphone app payment service. Specifically, we have renewed our official app and enhanced its menu of services by adding *FamiPay*, FamilyMart's barcode-based payment function. Furthermore, we plan to link the loyalty point card services T-POINT, d POINT, and Rakuten Super Point with *FamiPay* in November. Every day, roughly 15 million customers shop at FamilyMart stores. When these

customers visit our stores, we will recommend *FamiPay* to them as a highly convenient service. Our goal is to reach 10 million downloads by fiscal 2020. Approximately 20% of payments at FamilyMart stores were cashless as of the end of February 2019. By increasing this percentage, we will reduce store workload while increasing shopping convenience.

Creating New Businesses through Digitization

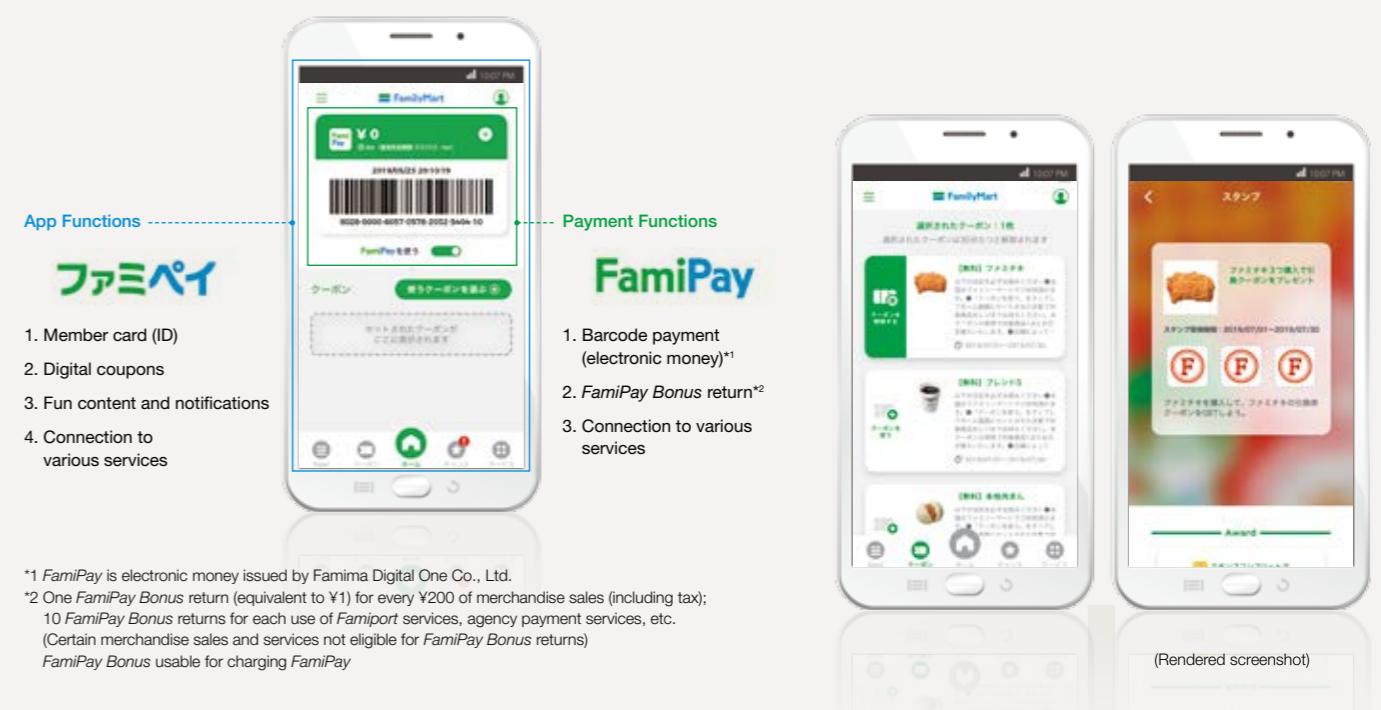
FamilyMart's brick-and-mortar stores provide points of contact with customers. In pursuing a digitization strategy, we believe that leveraging data on consumer purchases acquired from day-to-day store operations and, more than anything, leveraging our connection with customers are important.

In the medium-to-long term, FamilyMart will establish a customer base through *FamiPay* and explore the potential for using resources from

within the Group as well as external resources to create new businesses beyond the merchandising field. Specifically, we will consider the possibility of developing businesses in financial services and advertising and marketing because such businesses would enable us to offer customers highly convenient services and to take advantage of our management resources.



By simply holding an app barcode under a scanner, customers not only can pay but also use coupons or loyalty points.



Maximizing the Value of Personnel and Knowledge



Personnel and Knowledge

Accumulating Business Know-How

By establishing systems that encourage active dialogue between franchised stores and the head office, we use the know-how of personnel on the sales front line to heighten the competitiveness of the store chain as a whole.

Increasing the Capabilities of Supervisors

We provide franchised stores with information on convenience store business know-how and information on products and services through supervisors, who are head office employees. Based on the belief that allowing supervisors to make maximum use of their knowledge, experience, capabilities, and drive will enhance the value of individual stores and lift the competitiveness of the whole store chain, we are focusing efforts on increasing the capabilities of supervisors as our interface with franchised stores.

We are standardizing workflows and systematizing development and evaluation to objectively measure the degree to which supervisors are realizing the range of duties and the performance expected of them. Further, we will regularly revise these development and evaluation systems in light of the diversification of our workforce and workstyles, the evolution of stores, and

feedback from frontline operations. Recently, we have been reducing the number of stores that each supervisor manages. At the end of fiscal 2018, each supervisor managed 6.3 stores on average, down from 7.9 at the end of fiscal 2016. As a result, supervisors are able to devote more time to visiting franchised stores and talking with store owners and their managers.

Also, mindful of the need to be regionally rooted, FamilyMart is delegating authority to regions. We believe that partnership between franchised store owners and managers and supervisors who have an attachment to and are knowledgeable about their stores' regions can realize store operations that reflect regional characteristics and benefit the local community, thereby heightening the presence and competitiveness of stores. Accordingly, we are redeploying supervisors or reallocating stores based on the regions supervisors are from or live in.

Developing Systems for Sharing Good Practices

We are building a system to actively gather and share information that will benefit the entire store chain. This information includes needs relating to products and services that have become apparent to franchised store managers through interaction with customers in day-to-day operations. The system also encourages managers to share good examples of creative measures that individual stores have devised to increase earnings.

Through the *FAMILY* public relations magazine for franchised stores, we inform the whole store chain about initiatives that franchised stores are taking to increase daily sales or improve operations. On occasion, the magazine also includes the results of head office surveys on day-to-day work as well as the details and progress of improvement measures

taken in light of these results.

Also, we hold meetings in which the president and other members of the senior management team explain management strategies in each fiscal year directly to all owners and managers of franchised stores. We also use these meetings as an opportunity to present awards to store owners and managers who have realized outstanding quality or performance in store operations. Proactive communication between the head office and franchised stores provides the senior management team with a timely understanding of the ideas for improvements as well as the issues that exist on the sales front line. We then use such insights to enhance the competitiveness of the entire store chain.

Supervisors visit stores under their management and perform a role that enhances the quality of the entire store chain. They provide store managers with the latest information from the head office. At the same time, supervisors gather information on issues at stores and exemplary store operations, which they share with the head office.



Maximizing the Value of Personnel and Knowledge



Personnel and Knowledge



Creating Environments Where Diverse Personnel Can Work



We are developing workplaces in which all employees can take maximum advantage of their talents so that the overall store chain grows both through support for franchised stores and through the creation of new businesses.

Reforming Head Office Functions

In February 2019, we relocated our head office to Tamachi in Tokyo's Minato Ward, consolidating office functions that had been separated by division on multiple floors. The new office has many open areas that encourage more discussion and information sharing across divisional lines. Moreover, we are reducing head office expenses and increasing work efficiency by digitizing and eliminating paper.

As well as such concrete changes, we are continuing to develop systems that promote such

intangibles as employee creativity. For example, in July 2018 we began encouraging employees to wear casual clothing at work. This measure is not simply aimed at giving employees more freedom with respect to how they work. We hope that the process of selecting what to wear on a daily basis will cultivate out-of-the-box thinking and an appreciation of the viewpoint of the consumer. The resulting creativity will help the head office continue offering novel suggestions for daily life.

Promoting Health through a New Health Management Office

We are advancing health and productivity management measures because managing the health of individuals underpins their ability to fully realize their talents. Our goal is for employees to take charge of their own health so that they can work healthily and with vitality. To this end, the Health Management Office, established in

March 2019, holds health seminars and events themed on diet and exercise and takes other measures to change employees' attitudes. The office's other initiatives to support employees' self-management include the introduction of a cancer screening support system and a program for improving body mass index (BMI).

Spreading Workstyle Reform

We are conducting a range of initiatives to increase each employee's awareness of workstyle reform, including a Companywide No Overtime Day, a Finish Work by 8 p.m. Rule, and a Paid Leave Promotion Month. Further, with "a total of 2,000 actual working hours

in fiscal 2020" as a target, the president and other members of the senior management team are taking the lead in efforts to improve the work environment and have established a Workstyle Reform Declaration, which sets specific targets for each fiscal year.

Please see page 63 for further information.



Material Issue 5

Enhancing diversity

The Company is promoting diversity based on three principles: commitment from senior management, appropriate training of leaders, and bottom-up initiatives. We are creating new value by enabling personnel from a wide variety of backgrounds to fully utilize their experience and abilities through the activities of the Diversity Promotion Committee at the executive level, managerial study groups in respective divisions, and area committees.

Also, empowering women is one of the Company's top priority tasks. By fiscal 2020, we aim to have women account for 20% of employees and 10% of managers. We are designing environments and systems that enable employees to continue working regardless of their stage of life or the changes in their work format. In this way, we hope to incorporate women's perspectives and a broad variety of other perspectives into the process of developing new products and services. Both the number of supervisors using a reduced working hour format and the number of male employees taking childcare leave are rising. Gradually, we are developing a corporate culture in which both women and men can build their careers while raising children.

