CFO Message

Kunihiro Nakade

Director, Senior Managing Executive Officer,
CFO

I want to enhance corporate value not only financially but in terms of our existential value in society.

Fulfilling the Changing Role of a CFO

Since I joined FamilyMart's management team by becoming general manager of the Management Division in May 2016, the Company's business conditions have changed dramatically. The convenience store (CVS) business has reached a juncture where it must begin adopting strategies that take into consideration not only competition from companies in the same industry but also competition from online retailers and other business formats. In response to these changes in business conditions, the Company has decided to reorganize the Group and has made a number of other significant decisions.

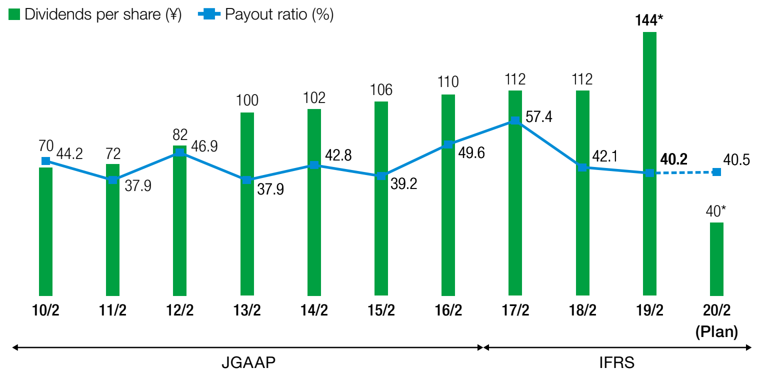
Under these circumstances, I have a tangible sense that the center of gravity of the Company's financial and capital strategies has shifted from growth investment aimed at increasing earnings toward the appropriate allocation of management resources within the Group as a whole. I also feel that the role the CFO should play has changed considerably. Further, the Group's strategies and financial and capital strategies have become even more indivisible. In response to the greater complexity of our organization due to M&As and group reorganization, we have introduced International Financial Reporting Standards (IFRS) and adopted a consolidated tax payment system. In the current business conditions, reforms such as these, which align business models and growth strategies, have become a new facet of the CFO's duties.

It goes without saying that one of my duties as CFO is to further understanding of the Company's business through dialogue with markets that are centered on investors. In recent years, however, informing the Company, particularly the senior management team, about details of dialogues with external stakeholders has become another important role of the CFO. This reflects how closely integrated financial and capital strategies and corporate strategies have become, and I feel that the chairman, the president, and other members of the senior management team understand this close relationship.

Maintaining Earnings Growth and Financial Soundness

Summarizing the past several years from the viewpoint of a CFO, I believe our performance merits some praise. Although the disposal of assets after management integration with UNY Group Holdings Co., Ltd., and the brand conversion of convenience stores have given rise to large-scale investment, steady accumulation of earnings has enabled us to reach targets in each fiscal year and return profits to our shareholders continuously. This performance is attributable to the senior management team's ability

Dividends per Share and Payout Ratio



* On March 1, 2019, the Company implemented a four-for-one stock split to shares of common stock. Dividends per share for fiscal 2018 was calculated based on the number of issued shares before the stock split, and dividends per share for fiscal 2019 was calculated based on the number of issued shares after the stock split.

to understand changes in business conditions, identify the attendant strategic tasks, and make timely, bold decisions. Demonstrations of the team's agility include the search for mold-breaking retail formats that resulted in an operational and capital tie-up with Pan Pacific International Holdings Corporation, and the proactive reorganization of Group companies engaged in the CVS business.

Turning to our financial standing, in fiscal 2019, the year ending February 29, 2020, we have a temporary abundance of capital, partly due to the sale of UNY CO., LTD., and its subsidiaries. We will apply IFRS 16 to financial statements in fiscal 2019. As a result, stores and many other leased assets will be put on the balance sheet. While a little more time is needed to discuss the type of balance sheet we should have, I believe that in deciding on how best to use the abundant cash on hand for growth we should act flexibly and in light of growth strategies.

Investing to Lay the Foundations of Our Next Growth Phase

In November 2018, we completed convenience store brand conversion, which had been our first priority task since the management integration of September 2016. With the prospect of completing the conversion in sight, we stepped up investment in existing stores in fiscal 2018. As for fiscal 2019, we will focus the majority of capital investment on supporting existing stores and strengthening the profitability of stores. We will adopt this approach because, as the front line of sales, franchised stores' day-to-day operations drive the Company's earnings growth. The Company's growth, as well as the business investment to realize it, should focus on allowing franchised stores to realize their existential value and on helping franchised store owners to develop as entrepreneurs.

Specifically, investment will concentrate on reducing the workload accompanying store operations. Stores continue to have difficulties in securing enough personnel to keep up with the increase in work at stores that has resulted from giving priority to store network expansion and the enhancement of store capabilities. Moreover, given that adding capabilities to brick-and-mortar stores is likely to be critical if the CVS business is to realize its next growth phase, lightening the load of store work is an equally pressing task for the Company.

For conventional investments in new stores, arriving at rational investment decisions is comparatively straightforward because we can use new stores' daily sales and other indicators to measure return on investment quantitatively. By contrast, objectively measuring the efficiency of investments in existing stores can be challenging because such investments are aimed at reducing stores' operational costs. In addition, rather than overall optimization, we have to consider partial optimization, which is based on the regions where stores open. Consequently, setting out across-the-board criteria for investment decisions is difficult. When deciding on investments, as in the past, our basic policy is to keep investments within the scope of operating cash flows. Now, however, we also carefully analyze profitability in light of strict investment criteria based on internal rate of return.

Aiming for Sustained Enhancement of Corporate Value

From September 2019, I will concurrently serve as the Company's CFO and chief administrative officer. Although this appears to be a different occupational field, I believe that the viewpoint that I need to adopt is the same. This is because society does not rate companies solely based on financial value. Society's evaluation of the corporate value of a company also encompasses consideration of its existential value. In my view, I will assume part of the responsibility for the corporate value of the Company, including intangible value, brand value, and other types of value that cannot be measured in financial figures.

The tasks that the CVS business faces at present and the Company's existential value in society may be opposite sides of the same coin. In other words, as a result of the diverse capabilities that our brick-and-mortar stores have acquired as well as the logistics and information infrastructure that the store network incorporates, we have earned recognition as part of the infrastructure of society and daily life. At the same time, however, we are being asked to maintain this infrastructure in a sustainable manner. For example, the decline in the working-age population is not simply a problem that affects maintenance of the store network. A hike in personnel expenses on the supply chain side could lead to neglect of appropriate ordering and inventory control in a bid to bolster profitability, which could produce increases in food wastage, plastic trash, and other sources of environmental burden. For this reason, we must be fully aware that we cannot measure our existential value in society through financial results alone. We have identified social issues that we should address through the CVS business and issues that we should address with reference to model businesses as "priority issues for sustainability." We are tackling these issues while keeping in mind the Sustainable Development Goals (SDGs).

As convenience stores conduct operations in small retail zones, I want to emphasize initiatives that are focused on becoming even more rooted in local communities. One example of such initiatives is *Famima Kodomo Shokudo*. Leveraging the potential that convenience stores have to become integral parts of local communities, we will offer local residents a place to meet and enhance the appeal of stores. In this way, we will make franchised stores indispensable to their local communities while creating more earnings opportunities.

Exploring the Development of New Core Businesses

I set myself the task of transforming from the general manager of the Management Division, where I was responsible for retail businesses, into a corporate group CFO who explores new retail formats. The prospect of this part of my role expanding is exciting. When I was appointed CFO, I never imagined that I would be exploring financial and capital strategies while discussing with the senior management team not only how to grow our merchandising-centered business entity but what kind of presence society hoped the Group would become. I feel that the possibilities for FamilyMart's business are limitless because it has brick-and-mortar stores nationwide and is able to add an array of capabilities to stores. From the standpoint of a CFO, I want to take on the challenge of completely new businesses that FamilyMart is uniquely qualified to realize and which provide value to both local customers and franchised stores. In the not-too-distant future, I would like to see these new businesses become FamilyMart's core businesses, and I believe that being FamilyMart's CFO places me in an optimal position to establish such a vision.