



# Adding Value through Brand Integration

Convenience store brand conversion is moving forward briskly, with post-conversion daily sales and customer numbers above their pre-conversion levels. In the next phase, our network of 17,000 stores in Japan will work in concert to accelerate initiatives to provide new added value.

## Brand Conversion on an Unprecedented Scale

After management integration, FamilyMart Co., Ltd., faced a daunting task. It had to convert the brands of roughly 5,000 convenience stores in just over two years. This was a project on an unprecedented scale. However, we realized that completing the brand conversion as quickly as possible was essential if we were to create management integration synergies and provide customers with new added value. Therefore, we made brand conversion our highest priority management strategy and took maximum advantage of know-how acquired from past brand integrations involving am/pm and Cocostore. As a result, the benefits of brand integration are emerging clearly, with sales and customer numbers up more than 10% compared with their levels before the conversion.



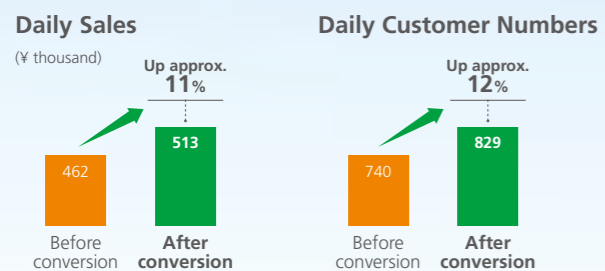
AFTER



BEFORE



### Circle K and Sunkus Stores after Brand Conversion



September 2016–February 2018 results, year on year

### Stores Converted to FM Brand

	17/2	18/2	19/2 Plan	Total
Brand conversion	829	2,720	1,045	4,594
Build & scrap	64	203	140	407
<b>Total</b>	<b>893</b>	<b>2,923</b>	<b>1,185</b>	<b>5,001</b>
Circle K and Sunkus store closures	244	664	396	1,304

## Converting Products, Infrastructure, and Stores

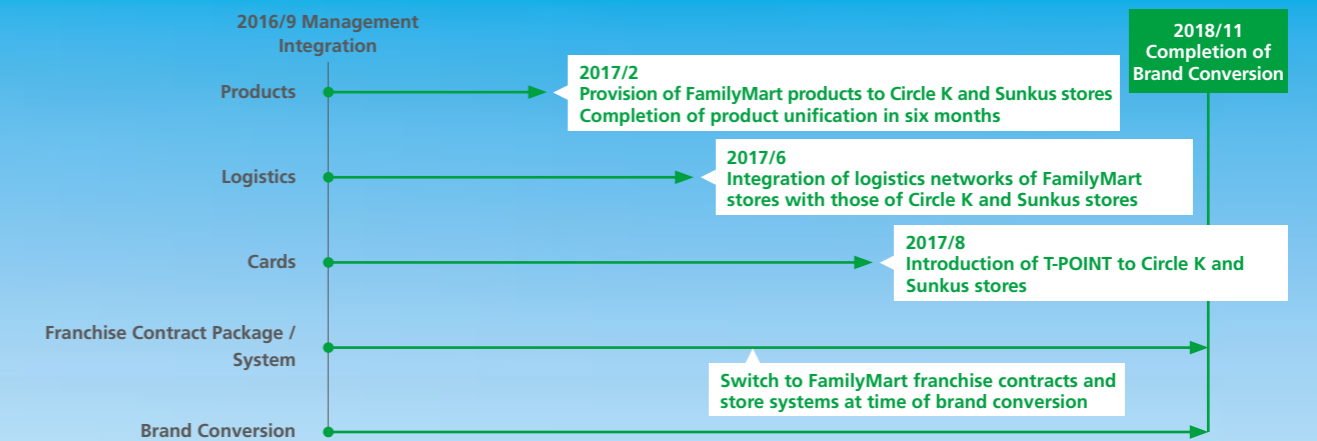
In preparation for brand conversion, we completed the conversion to FamilyMart products at Circle K and Sunkus stores by the end of February 2017 and unified logistics in June of the same year. Other preparations before the brand conversion included integrating services by enabling the use of T-POINT and other services at these stores in August 2017.

In addition, we increased efficiency by integrating a range of different functions and infrastructure related to store management. FamilyMart has been implementing *structural reform in ready-to-eat items* since fiscal 2014, the year ended February 28, 2015. This reform has two objectives: enhancing product quality through new investment and increasing efficiency through reorganization of production and distribution bases. Since management integration, FamilyMart has extended these initiatives to encompass reorganization of the entire supply chains of Circle K and Sunkus stores, including the production bases for ready-to-eat items, distribution bases, and logistics networks that have been producing and handling the stores' products.

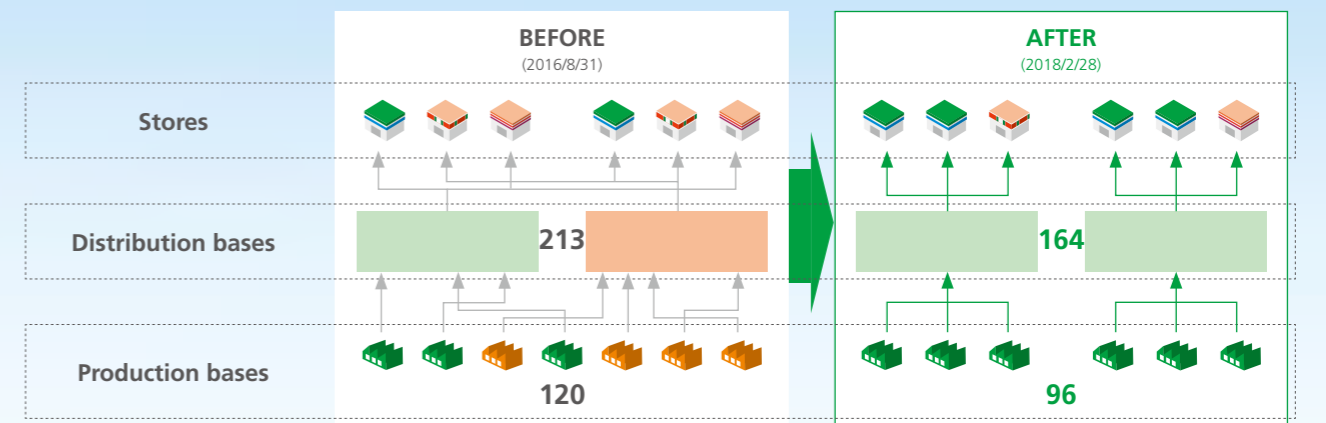
As of the end of February 2018, we had rightsized production bases for ready-to-eat items from 120 to 96 bases and distribution bases from 213 to 164 bases compared with their numbers at the time of management integration.

With respect to manufacturing bases, we aim to raise profitability through a reorganization that dedicates each plant to the manufacture of products within a specific temperature range. We will implement the new investment in plants that this reorganization requires. As for logistics networks, in addition to rightsizing distribution bases, we have streamlined delivery routes to achieve overall optimization. For the supply chain as a whole, a smaller fleet of delivery vehicles will result in approximate annual reductions of 53 million kilometers in delivery distances and 20,000 tons in CO<sub>2</sub> emissions compared with levels prior to management integration. Furthermore, amid concerns about a declining working-age population, reorganization measures promise to lower manpower requirements for driving and other operations.

### Timeline until Completion of Brand Integration



### More Efficient Supply Chain





Adding Value through Brand Integration

### Using Strong Area Dominance to Formulate New Strategies

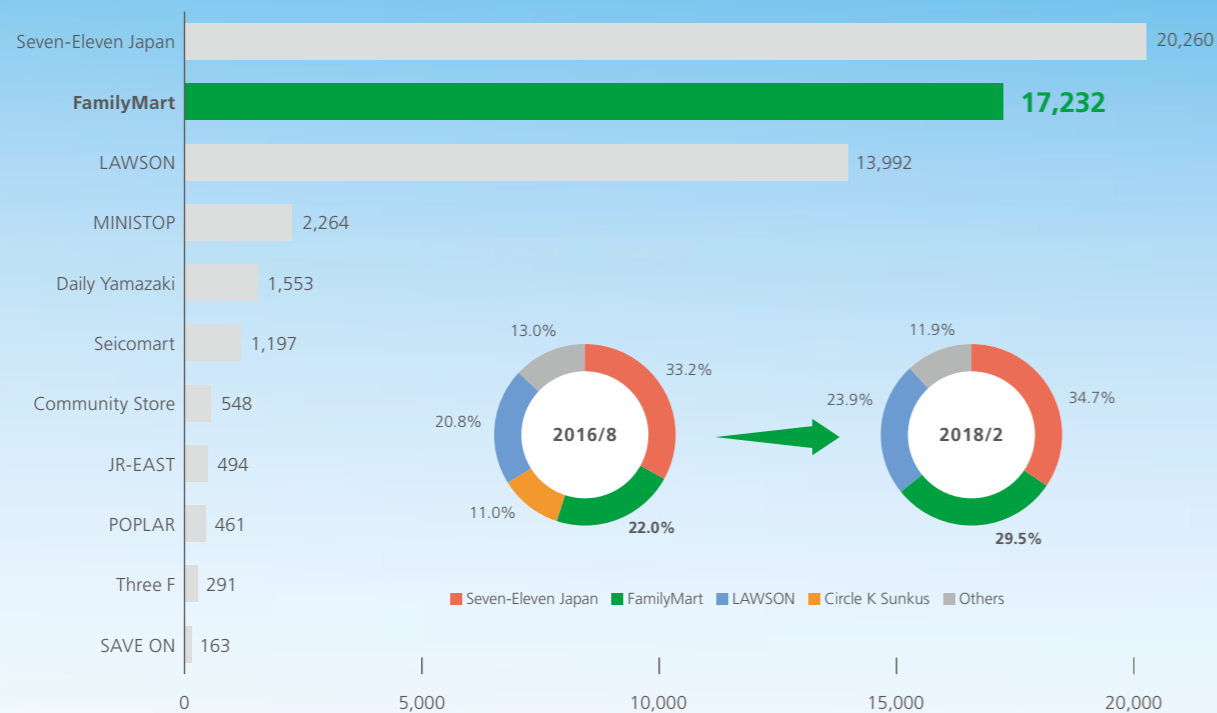
In developing the convenience store network, opening a new store normally requires an investment of about ¥50 million per store, including deposits and other costs. Meanwhile, the current brand integration has been allowing us to expand the convenience store network more efficiently. We are able to curb investment by remodeling a single store for a little over ¥10 million. Also, we have established three basic remodeling methods, which have enabled us to accelerate integration. The establishment of strong area dominance rapidly and efficiently in this way will be a significant advantage for the growth of the CVS business.

Having conducted several brand integrations through FamilyMart in the past, we appreciate the importance of establishing a common philosophy and values as well as relationships of trust among everyone involved, from

franchisees who manage convenience stores through to head office employees. For these reasons, we have built frameworks that grow the entire chain by uniting franchised stores and the head office. For example, every six months we hold forums in which franchisees, store staff, and members of the senior management team participate. Also, when convenience stores are very busy during seasonal promotions we send head office employees to provide support.

Having one of Japan's largest convenience store networks gives us the foundations for achieving economies of scale. With this in mind, we will move into a phase of setting out new strategies that increase the competitiveness of individual stores by making maximum use of these foundations.

Major Chains' Stores and Market Shares in Japan



As of February 28, 2018 (December 31, 2017 for certain chains)  
Sources: Data released by each company

### Adding Value through Brick-and-Mortar Stores

In Japan's retail industry, competition across industry boundaries is becoming fiercer as drugstores and specialty stores emerge and the e-commerce market expands. Consequently, FamilyMart needs to anticipate change and realize self-reform even more quickly than ever.

The CVS business has grown as a result of its 24-hour business format that caters to local customers and by adding store features that help provide the products and services that customers seek. To realize further growth in rapidly changing conditions, the business must fully exploit the advantages of its points of contact with customers—in other words, brick-and-mortar stores—to evolve into a presence that is even more familiar to, and convenient for, customers.

With brick-and-mortar stores at the core of its business strategies, FamilyMart will enhance the competitiveness of the entire chain by creating stores that provide customers

with even higher added value. Just as we have evolved brick-and-mortar stores by incorporating a range of added value, we believe that there are limitless possibilities for evolving business models that are based on convenience stores. We will pay close attention to society's needs and leverage the management resources of franchised stores and business partners to achieve further growth as a chain that stands apart from other chains.

