FamilyMart UNY Holdings Co., Ltd. Abbreviated Transcript of the Question and Answer Session for the Financial Results Conference for the Fiscal Year Ended February 28, 2019

Date: April 11, 2019 (Thursday) 10:00 a.m.—11:15 a.m.
Abbreviations: FM = FamilyMart Co., Ltd.; PPIH = Pan Pacific International Holdings Corporation

Q. Is it safe to assume that no changes have been made to the FY2020 target for profit attributable to owners of parent of ¥60.0 billion under the Medium-Term Management Plan?
A. While it will be no simple task to increase the forecasted ¥50.0 billion in profit attributable to owners of parent in FY2019 by ¥10.0 billion, time is still on our side, and we are currently examining collaborative projects with PPIH and other new projects. We therefore believe that the target for profit attributable to owners of parent of ¥60.0 billion is still attainable.

Q. Could you please comment on the role the top two members of the Company's management will play starting from May 1?

A. My role will essentially focus on FamilyMart. In regard to important management issues such as those pertaining to PPIH and overseas operations, I intend to work closely with Representative Director and Chairman Koji Takayanagi.

Q. Please comment on the forecast for FM's operations over the medium to long term.

A. We recognize that the retail industry is facing the issue of store saturation. Accordingly, with FM, we do not intend to substantially increase store numbers, and there is only so much space for further improving our top line. While taking into account the business environment surrounding the convenience store business, we will work over the next two years to establish a foundation for future growth, including efforts to pursue financial businesses and other businesses outside of the sale of goods.

Q. The amount the Company intends to invest in existing stores in FY2019 is ¥113.0 billion. Is this large amount something special just for this fiscal year, or does the Company intend to continue investment at this level in the fiscal years to come?

A. The investment amount for FY2019 is a special case and is not something we will continue in the future. In regard to store openings, we will continue to promote our build-and-scrap (B&S) strategy. At the same time, we will carefully select areas in Tokyo, Osaka, and Nagoya where there is still room to open new stores. In addition, we will pursue a wide range of other initiatives, including a collaborative verification test with Panasonic Corporation for “next-generation convenience stores” that utilize IoT.

Q. What is your outlook for return on investment?

A. Of the ¥113.0 billion we will invest in FY2019, ¥37.0 billion will be allocated to strengthening our product competitiveness. Specifically, in addition to installing 4,000 frozen food cases, we have begun to introduce new coffee machines. These efforts are already contributing to higher sales, so we believe we will realize a sufficient return from the money invested. In addition, ¥51.0 billion will be set aside for reinforcing store foundations. This will primarily involve making improvements centered on our B&S strategy, and realizing an investment return will therefore not be a problem. The remaining ¥25.0 billion will be used to improve operating procedures at our stores.

Q. We understand that the Company is enjoying an extremely high level of cash inflows. How will this cash be used to achieve growth going forward?

A. Our net D/E ratio is -0.06 times, and we have ample amounts of cash. While a certain amount of this cash will be set aside for ITOCHU Corporation, we are currently able to use this cash when we feel is necessary. In addition, our investment amounts will remain within the range of cash provided by operating activities. We are giving proper consideration to returns, we will utilize this cash in a flexible and efficient manner in order to promote growth going forward.

Q. What is your outlook for brand integration costs and the synergies created through this integration in FY2019?

A. We completed the brand integration at the end of November 2018, which means costs related to brand integration are starting to decline. Additionally, as these various synergies begin to accumulate, we expect that the benefits from synergies created by the integration will exceed related costs. Including the ¥3.0 billion reduction in system management costs, we expect these synergies to have an overall impact of ¥9.0 billion. Meanwhile, for brand conversion costs, while we expect a slight YoY increase in depreciation associated with our investment in brand conversion, funding to support brand conversion concluded during FY2018, so we anticipate funding amounts will decrease ¥1.0 billion year on year, to ¥7.0 billion.

Q. Could you comment on the cost reductions at the head office?

A. Our store numbers have increased by 1.5 times compared with the numbers before the management integration. At the same time, the number of personnel in management divisions at our head office has been rising. In light of this, we will reexamine head office costs, including giving consideration to the appropriate placement of employees who were engaged in the brand conversion process.

Q. In the forecast for FY2019, what are your assumptions regarding the corporate tax rate? Also, what is the cost impact associated with the launch of the FamiPay service?

A. We adopt a consolidated tax payment system, and in accordance with this system, we work to minimize taxes across the entire Group. In addition, we recorded losses related to store closings as structural reform expenses in FY2018, and we expect tax-related impacts to occur in the process of carrying out store closings in FY2019. These impacts are recorded in the ¥5.0 billion listed for HD and consolidated adjustments listed on page 10 of today's presentation materials.We are still examining promotional costs related to FamiPay, which will commence in July, and we do not have an exact figure at this time. However, we expect that these costs will be ¥3.0 billion or less.

Q. You explained that the Company faces issues in terms of barcode payment services, what specifically do you mean?

A. At the moment, the operation of these services at the register is a bit complicated. Accordingly, we need to make the overall process easier to reduce the burden on our stores.

Q. Going forward, what is the Company's policy for issues related to stores operating on a 24-hour basis?

A. Starting in June, we will experiment with set business hours at certain franchised stores. After doing so, we will need time to thoroughly examine the results as this is the first time we have carried out this kind of experiment on such a large scale.

Q. Please explain the details of this experiment with set business hours.

A. As store conditions vary by region, this experiment will be conducted in two ways, with each way being carried out in two different areas. Based on the results of this experiment, we will hold thorough discussions with the franchised stores and examine the practical application of set business hours.

Q. What is your policy regarding the subsidies you are providing stores that operating on a 24-hour basis?

A. We have thus far provided a set subsidy of ¥100,000 to stores that operate on a 24-hour basis. However, from FY2019, we will transition to a more flexible system in which we will revise subsidy amounts based on the rate of increase in minimum wage.

Q. What is your policy on acquiring shares of PPIH?

A. There is no change in our policy of acquiring 20% of shares in PPIH and turning the company into an equity-method affiliate in the future. However, at this time, the details regarding the timing and method in which to enact this policy have not been determined. We will continue to examine this policy while giving thorough consideration to market trends and other factors.

Q. In terms of the method for acquiring shares of PPIH, are you considering the option of borrowing shares in addition to buying them on the market?

A. We are considering the option of acquiring nearly 20% of shares independently and then borrowing shares from the founder of PPIH to reach a full 20% stake.