FamilyMart UNY Holdings Co., Ltd.

Abbreviated Transcript of the Question and Answer Session for the Financial Results Teleconference for the Three-Month Period Ended May 31, 2019

Date: July 10, 2019 (Wednesday) 4:30PM–5:30PM

Abbreviations: FM = FamilyMart Co., Ltd. ; CVS = convenience store;

Q. How was progress versus first-quarter targets? Also, profit from discontinued operations was ¥1.3 billion in the first quarter. What is the forecast for profit from discontinued operations in the full fiscal year?
A. The top line and profit are both progressing favorably. Going forward, including the introduction of an open approach to loyalty points, we are viewing things positively because digital users will increase. With respect to profit from discontinued operations, a difference of ¥1.3 billion arose in the first quarter as a result of an adjustment to the transfer price after the transfer of UNY in December of last year. In the full fiscal year, however, nothing further is expected to arise. This has already been incorporated into targets.

Q. What caused the ¥4.0 billion year-on-year decrease in FM non-consolidated other operating revenues?
A. This mainly comprised a decrease of ¥1.7 billion in real estate rental revenues, which resulted from IFRS 16; a decrease of ¥1.3 billion in relation to logistics; and a decrease of ¥0.6 billion in ATM-related revenues.

Q. Cost reductions seem to have progressed well in the first quarter. What is the outlook for cost reductions from the second quarter onward?
A. The reduction in selling, general and administrative expenses in first quarter was ¥12.2 billion. Of this amount, the effect of making Kanemi an affiliate accounted for using the equity method was ¥2.0 billion, and the effect of IFRS 16 was ¥2.9 billion. Therefore, deducting these leaves approximately ¥7.0 billion. Further, the completion of brand conversion last year resulted in a ¥2.0 billion decrease in merger expenses. In addition, we curbed advertising expenses, occupancy expenses, and other expenses. Taking these factors into consideration, we believe that selling, general and administrative expenses can be reduced continuously by around ¥5.0 billion from the second quarter onward.

Q. What is the forecast for the full fiscal year with respect to the effect of IFRS 16 on core operating profit?
A. The effect on first-quarter results were minus ¥2.0 billion for gross operating revenue; plus ¥2.9 billion for selling, general and administrative expenses; and plus ¥0.9 billion for core operating profit. As for the full fiscal year, we expect an effect of ¥3.0–4.0 billion on core operating profit.

Q. What is outlook for the bottom line?
A. As a result of the decision in April this year to merge the Company and FM, it has also become possible to recognize local tax in tax effects. In the first quarter, tax effects were recognized, but this was a one-time factor. Conversely, in the previous fiscal year we recognized loss related to structural reform, but we recognized a portion of losses on store closures because the actual closures were postponed until the current fiscal year. Further, core operating profit is trending steadily, and we will take various types of measures with the aim of reaching ¥50.0 billion on our own merit.

Q. How are the priority measures of the current fiscal year progressing?
A. Investment in existing stores was just a little behind in the first quarter, but we plan to introduce new self-service coffee machines to all stores by September. Also, we will accelerate the expansion of frozen food sales areas from the second quarter onward, and we intend to complete expansion at 4,000 stores by September as planned.

Q. What is the approximate usage rate of *FamiPay*?
A. We launched it very recently, on July 1, so this is being analyzed at present.

Q. In June, existing store sales were a favorable plus 1.3%, and spending per customer is also growing. However, customer numbers have not returned to a recovery track. What is management's evaluation of this situation?
A. Due to low temperatures, frappe products and other summer products are performing sluggishly. On the other hand, we launched *FamiPay* in July, and downloads are increasing steadily. In the current fiscal year, we plan to focus sales promotions on *FamiPay*, we will leverage *FamiPay* to increase customer numbers and catch up in the midsummer period.

Q. What was the effect of cigarettes on existing store sales in the first quarter?
A. Cigarettes pushed up sales by around 1% in the first quarter and by about the same percentage in June. Partly due to the effect of smartphone payment campaigns, the sales growth of cigarettes is stronger than expected. Given such factors as the consumption tax increase in October, the effect on the full fiscal year is difficult to forecast. However, we will ensure that sales in categories other than cigarettes grow year on year. By taking priority measures focused on *FamiPay*, which began in July, we expect further increases in sales.

Q. What is the background to the deterioration in the gross profit ratio, and how is the reduction of head office expenses progressing?
A. We are currently analyzing the causes of the deterioration of the gross profit ratio of processed food. However, cigarettes are accounting for an increasing percentage of sales, and it is likely that this is having a significant effect. Gross profit, which we regard as important, is firm. Further, with respect to the reduction of head office expenses, we are progressing steadily, achieving a ¥1.5 billion year-on-year reduction in the first quarter.

Q. How are you progressing with ordering accuracy?
A. As a result of the replacement of existing devices with new tablet computers for ordering as well as efforts following the completion of brand conversion to increase supervisors and to provide franchised stores with detailed guidance, ordering accuracy has improved, and food wastage is also down year on year.

Q. What countermeasures are you taking in relation to food wastage?
A. Food wastage is down approximately 5.0% year on year, partly thanks to the introduction of a reservation-only system for *Doyo no Ushi no Hi* (Midsummer Day of the Ox, traditionally a day when eel dishes are eaten in Japan) and the expansion of our lineup of products with long shelf lives.

Q. What caused the increase in the commission rate?
A. The main reasons are such factors as the higher daily sales of stores converted to the FamilyMart brand. Going forward, we will endeavor to increase the commission rate by continuing to reduce utilities while strengthening sales of ready-to-eat items.

Q. What is the present status of operations in China?
A. It is true that we have filed a suit in relation to a joint venture. The situation is as reported in the media. However, we would like to refrain from disclosing details given that the case is pending.