FamilyMart Co., Ltd.

Abbreviated Transcript of the Question and Answer Session for the Financial Results Conference for the Six-Month Period Ended August 31, 2019

Date: October 10, 2019 (Thursday) 11:15AM–12:00PM

Abbreviations: FM = FamilyMart Co., Ltd.; PPIH = Pan Pacific International Holdings Corporation

Q. It seems that there is an increasing possibility of profit attributable to owners of parent reaching the ¥60 billion target of the medium-term management plan in the fiscal year ending February 28, 2021. How will this be achieved?
A. The reduction of expenses and losses related to integration as well as the reduction of head office expenses are progressing. Going forward, there is scope for further reduction of such items as logistics costs and store-related expenses. Also, while the introduction of *FamiPay* has had the effect of attracting customers, for sales promotion costs we are implementing tie-ups with manufacturers, which is helping to reduce sales promotion costs. *FamiPay* and the introduction of an open approach to loyalty points are likely to continue producing solid benefits. Therefore, we believe that profit attributable to owners of parent can reach ¥60 billion in the fiscal year ending February 28, 2021.

Q. What are the premises for tax rates going forward?
A. At the time of management integration in 2016, in accordance with IFRS rules, we valued stores at market value and recognized impairment on assets. Further, while proceeding with brand conversion, we recognized restructuring costs. These became expenses on a tax basis when store closures were actually realized. As a result, the tax rate has become lower. We will use the recent merger as an opportunity to prepare a new tax schedule going forward and analyze future tax rates.

Q. How did the verification of support measures for franchised stores that was conducted in the first half progress?
A. Ideally, support measures for franchised stores would raise the top line. However, this is not easy, and we feel that the effect was not sufficient. Securing the income of franchised stores is challenging due to such factors as higher personnel expenses. After conducting further trails and verifications, we want to identify our future policy on support for franchised stores.

Q. What is the progress in and outlook for cost reductions and support for franchised stores?
A. Cost reductions are progressing steadily, with first-half progress of 67.0%. However, this reflects the emergence from the beginning of the fiscal year of the benefits of such factors as closures of underperforming stores that were implemented in the previous fiscal year as well as the benefits of such factors as the integration of systems accompanying the completion of brand integration in November last year. Meanwhile, expenses associated with support for franchised stores, including an increase in the incentive for opening 24 hours a day, are arising during the current fiscal year and will steadily accumulate going forward.

Q. While strengthening support for franchised stores, how will head office secure revenues?
A. With respect to becoming regionally rooted, we built systems in March 2019, and we are currently at the stage of accelerating measures. We want to ensure that these measures produce benefits. If we view the surrounding environment, this is not an era of "large-volume store openings, large-volume recruitment, and large-volume relocation." This is a period when a review of overall personnel policy is required. In future, we want to reorganize and clarify personnel policy in relation to such considerations as becoming regionally rooted and the head office's recruitment and assignment and establish a target organizational structure.

Q. What is the situation regarding the revenues of franchisees, and how is progress with respect to increasing the efficiency of store operations?
A. We do not disclose the specific revenues of franchisees. However, some franchisees are achieving adequate levels, while other franchisees are not. We are making efforts with the aim of ensuring that franchisees are as satisfied as possible. Also, as for increasing the efficiency of store operations, this is one of our priority measures in the current fiscal year. With a focus on franchised stores, we are reforming operations. Although we are beginning to see tangible benefits, these efforts are still in the process of developing.

Q. From the viewpoint of support for franchised stores, is there scope for revising the franchise contract package?
A. We will carefully analyze the pros and cons of revising the franchise contract package in light of the results of trials of shorter store opening hours.

Q. Franchisees are aging, and a decline in contract renewals could be envisioned. What type of countermeasures are you taking? Will you be able to continue securing people who want to become franchise contract franchisees?

A. Contracts are ended for a variety of reasons, and we understand the concern that you have pointed out. We want to establish capabilities and create systems that motivate people, including new franchisees, to say that they would like to conclude contracts with FM.

Q. What is the situation regarding trials of shorter store opening hours?
A. In June, we conducted the first phase of trials at 24 stores, of which 20 stores will continue the trials until the end of November. Further, a questionnaire of all franchised stores revealed that approximately half of them would like to consider shorter store opening hours. We held presentations nationwide, and this has resulted in the conducting of the second phase of trials at approximately 620 stores beginning from this month. From December onward, we will verify the results of trials and, based on sufficient consultations with franchisees, we will establish our policy going forward.

Q. What are your plans going forward in relation to the reduction of food wastage?
A. Our measures to introduce ready-to-eat items with longer shelf lives have just begun, and we will continue steadfastly implementing these measures. Also, in relation to lowering the pricing of products that are approaching their sell-by dates, at present the sale of products at lower prices continues to be implemented on an individual basis through applications on the part of franchisees. However, the type of measures that will be implemented for the FM chain as a whole is currently under consideration.

Q. Could you describe the timeline and future profile for expanding and improving the new services of the financial services business?
A. *FamiPay* was released in July. It has reached 3.7 million downloads to date and has made a good start, including usage at FM stores. The next step will be to begin multiple-loyalty-point compatibility in November. After that, within the current fiscal year we anticipate plans for linkage with bank accounts and the addition of auto-charge functions. When we reach the stage of having completed the introduction of these services, we believe that there will be ample potential for generating significant revenues in the financial services business by promoting the utilization of *FamiPay* in relation to settlement services. Given that such system-related events as multiple-loyalty-point compatibility are set to continue, we will proceed with respective types of measures while carefully prioritizing them.

Q. What are your plans for initiatives with PPIH?
A. In Tokyo, we are already operating three FamilyMart/Don Quijote stores, which are performing steadily, with sales up 30% year on year. Meanwhile, we are proceeding with improvements with respect to issues in relation to expenses, logistics, and products. Further, we are proceeding with examinations and discussions with a view to

realizing business collaborations in such areas as collaborative businesses in the financial services field and joint development of businesses overseas.