

**FamilyMart Co., Ltd.**

**Abbreviated Transcript of the Question and Answer Session of the Financial Results Teleconference for the Six-Month Period Ended August 31, 2020**

Date: October 8, 2020 (Thursday) 10:00AM-11:15AM

Abbreviations: FM = FamilyMart Co., Ltd.; ITC = ITOCHU Corporation

**Q. Could you give an overview of the first half of the fiscal year and explain your initiatives for the second half of the fiscal year?**

A. Due to the impact of the COVID-19 outbreak coinciding with the implementation of dramatic structural reform at FM headquarters, such as the early retirement incentive scheme and area headquarter system, the Company's response to sales floor creation took a back seat. While the abovementioned challenging circumstances have not changed, we will continue to strive to implement measures that lead to positive results, such as initiatives at our store regeneration division headquarters. Additionally, we welcomed Mr Hikaru Adachi as our new Chief Marketing Officer (CMO) and, under his supervision, we aim to improve profitability by implementing measures to further appeal to customers with our products and services through digital sales promotion.

**Q. What is your progress with plans for the first half of the fiscal year?**

A. We have not disclosed our earnings forecast for the first half of the fiscal year. However, even though our top-line growth is weak, our core operating profit has not significantly deviated from the plan. The Company recorded a large impairment loss, but this was because it was judged that the impact of the COVID-19 outbreak would last longer than our initial forecast. Now that we are seeing a new way of life, we have determined now to be an important time to make a new start and recover profits through dispelling future concerns.

**Q. Could you explain the advertising and sales promotion expenses for the first half of the fiscal year and the future forecast?**

A. Our advertising and sales promotion expenses fell below those of the previous fiscal year, which was due to the suppression of costs, including advertising and sales promotion expenses, in light of the COVID-19 outbreak. However, while implementing sales promotion activities in line with the plan for the second half of the fiscal year, we will reform our PR structure under the supervision of the CMO and take a more offensive approach to advertising.

Q. Please explain your approach to the current number of stores.

A. While the number of stores is a significant factor for indicating market presence, revenue growth is no longer driven by the number of stores. The issue is not whether or not the current number of stores is suitable. What is important is carefully reviewing factors such as market environment and profitability. As a result of this review, we will open stores in markets we determine to be profitable in the future, and close stores with low profitability.

Q. Could you please evaluate the store regeneration division headquarters and its medium- to long-term significance?

A. While the achievements to date have been highly evaluated, from a medium- to long-term perspective, we wish to dissolve the store regeneration division headquarters as soon as possible and focus on our franchise business.

Q. Could you please explain the status of your initiatives, such as support for franchisees?

A. In the first quarter, there was a strong trend for a defensive approach, rather than offensive, such as launching support for franchisees and additional support during the COVID-19 outbreak. However, from the second quarter we switched to a more offensive approach, with measures such as support for reinforcing the lineup of products on the sales floor. We periodically implement consumer questionnaires, and this survey result shows that there are many issues to be addressed. In order to resolve these issues, we want to change our corporate culture and respond to all kinds of issues, not only by developing our existing personnel, but also recruiting personnel from outside the company and accepting secondees from the ITC Group.

Q. Please give us the details of the franchisee support and COVID-19 countermeasures, as well as their progress.

A. In this fiscal year, we plan to provide a total of ¥11.0 billion for franchisee support, including expanded incentives of ¥6.0 billion for opening multiple stores and re-contracting, ¥3.0 billion in increased contributions for operating stores 24 hours a day, and ¥2.0 billion through our revised scheme for assisting with losses from food waste. We established the store regeneration division headquarters, which tackles regeneration and monetization of stores temporarily converted to direct management. By the end of the fiscal year approximately 100 stores are expected to return to franchise. For stores

that improved their profitability, we will manage them by utilizing franchisee support measures and promote the creation of a “win-win” relationship between franchisees and headquarters. Additionally, there are problems with the lineup of goods on our sales floors, so we are striving to improve our daily sales by increasing the attractiveness of our sales floors through revision of our incentive scheme for assisting with losses from food waste. Furthermore, regarding COVID-19 countermeasures, there was a dramatic fall in daily sales during the state of emergency, so we are providing the necessary support to maintain and optimize the entire chain.

Q. Could you please explain your measures for franchisee contract renewal and policy for responding to recommendations by the Japan Fair Trade Commission?

A. We maintain a database of the status of periodical surveys and communication with franchisees, and use it for contract renewals. In addition, we have taken measures such as allowing franchisees to make decisions regarding operating stores 24 hours a day in consultation with headquarters. However, we sincerely accept the recommendations of the Japan Fair Trade Commission regarding this matter, and plan to summarize our response by November 2020.

Q. Please describe the status of and future plans for your digital finance businesses.

A. Regarding the advertising business as a part of our digital finance strategy, we established Data One Corp., a joint management business between four companies, which we plan to launch in December 2020. In addition to planning and sales of digital advertising that links FamilyMart’s purchase data and NTT Docomo’s customer data, this business will also realize targeted advertisement based on purchase information, which is popular in e-commerce, using purchase information from real stores. Additionally, we have been using digital signage for in-store advertising, and have been conducting a trial of digital signage at nine stores within the Tokyo metropolitan area since January 2020 with the support of ITC. In addition to improving the effectiveness of in-store sales promotion through digitalization, we are currently developing a business plan to generate new revenue from advertising. We plan to start microfinancing during the first half of the next fiscal year.

Q. What is the reason for the strong performance of your subsidiary, Taiwan FamilyMart?

A. Given the close relationship between franchisees and management at Taiwan FamilyMart, and that the franchise business is based on mutual trust between

franchisees and headquarters, we believe that this relationship of trust is extremely strong and has enabled the company to achieve healthy growth in spite of changes in the competitive and external environment.

**Q. What are your business strategies for the future?**

A. The environment surrounding Japanese retailers is changing rapidly, and we have moved from an era in which market share is acquired by opening a large number of stores to an era of sustainable growth through improving quality. For example, with regard to *FamiPay* as a part of our digital finance strategy, we are not just pursuing the number of downloads of the app, but we also want to provide even higher quality services while also utilizing ITC and outside expertise to further improve convenience for our customers.

**Q. Could you please tell us about your future business plan and future investment plan?**

A. First, it is important to steadily implement what we can to recover sales from their current status, and we will work to lay the foundation for a future business plan. Moreover, we will invest in digital finance and new revenue-generating businesses to increase revenues.

**Q. Please explain your future policy for disclosing information.**

A. Although the content of disclosure differs depending on whether a company is listed or unlisted, we would like to continue to disclose information in the future, and will make a decision after consulting with ITC.