
FamilyMart UNY Holdings Co., Ltd.

Fiscal 2016 Financial Review

April 2017

Cautionary Statement:

This report contains forward-looking statements, including the Company's strategies, future business plans, and projections. Such forward-looking statements are not based on historical facts and involve known and unknown risks and uncertainties that relate to, but are not necessarily confined to, such areas as economic trends and consumer preferences in Japan and abrupt changes in the market environment. Accordingly, the actual business performance of the Company may substantially differ from the forward-looking statements in this report.

Overview of Financial Results for Fiscal 2016

Kunihiro Nakade,

Director and Managing Executive Officer

Financial Results for Fiscal 2016: HD Consolidated (Japanese GAAP)

		FY2015 Results	FY2016 Results	YoY
P/L ¥ billion	Gross operating revenues	427.6	894.9	109.3%
	Operating income	48.7	56.0	15.0%
	Ordinary income	51.8	59.3	14.4%
	Profit attributable to owners of parent	21.0	19.0	(9.8%)
		FY2015 Results	FY2016 Results	YoY
B/S ¥ billion	Total assets	730.2	1,643.9	913.6

- ◆ Goodwill of ¥116.3 billion was recorded following the management integration (provisional figure).
 - Of the above amount, ¥35.2 billion was allocated to intangible assets, and ¥81.1 was allocated to goodwill (narrowly).
 - Both of these amounts will be amortized over 20 years in the convenience store (CVS) segment.

Financial Results for Fiscal 2016-2H: HD Consolidated (Japanese GAAP)

(Reference) Year-on-year comparisons including the FY2015 2H financial results of the former UNY Group Holdings

		FY2015-2H Results	FY2016-2H Results	(Reference) YoY
P/L ¥ billion	Gross operating revenues	746.0	683.5	(8.4%)
	Operating income	32.4	29.5	(8.9%)
	Ordinary income	34.2	31.1	(8.9%)
	Profit attributable to owners of parent	5.3	8.3	55.2%

◆Major factors for increases/decreases

- Gross operating revenues: Business reorganization and decreasing store numbers, etc., in the General Merchandise Store (GMS) segment
- Operating income: Amortization of goodwill of ¥3.3 billion following management integration, occurrence of anticipatory expenses following brand conversion, etc.
- Net income attributable to owners of the parent: Decrease of impairment loss, etc., in the GMS segment

Overview of Operations and Financial Results of the CVS Business

(Japanese-GAAP)

CKS:Circle K Sunkus		FY2016 Results	
Business Performance: FM (Non-consolidated)		FM	CKS
	Growth rate of average daily sales of existing stores	0.8%	(2.1%)
	Gross profit ratio	27.44%	26.25%
	Store openings	831	—
	Average daily sales at newly opened stores (¥ thousand)	486	—
	CKS brand conversion	829	—
	Number of stores	12,089	4,912
Segment P/L ¥ billion		CVS	
	Gross operating revenues	485.8	
	Operating income	40.3	
	Profit attributable to owners of parent	9.3	

- Completed brand conversion of 829 CKS stores, exceeding the planned number of 795 stores
- Growth in daily sales of approx. 15% after brand conversion compared to before brand conversion
- Comprehensive store number of 18,125, including domestic area franchising stores

Overview of Operations and Financial Results of the GMS Business

		FY2016(2H) Results	
Business Performance: UNY (Non- consolidated)	Y-o-y change in existing store sales	(0.9%)	
	Gross profit ratio	24.3%	
	Store openings (Full year)	2	
	Store closures (Full year)	20	
	Number of stores	210	
UNY (Non- consolidated) P/L ¥ billion		UNY	YoY
	Operating revenue	375.6	(3.1%)
	Operating income	12.0	55.3%
	Net income	(2.2)	—
Segment P/L ¥ billion		GMS	
	Operating revenue	410.5	
	Operating income	15.5	
	Profit attributable to owners of parent	9.0	

Planned Quantitative Totals of HD in Fiscal 2017 / Differences between Japanese Accounting Standards-1

	J-GAAP			IFRS		(B) – (A)
		FY2016 Results	(A) (Reference) FY2017 Plan		(B) FY2017 Plan	
P/L ¥ billion	Gross operating revenues	894.9	1,348.3	Gross operating revenues	1,237.3	(111.0)
	Operating income (J-GAAP)	56.0	58.2	Operating income (IFRS)	41.2	(17.0)
	Profit attributable to owners of parent	19.0	19.5	Profit attributable to owners of parent	24.0	4.5
			(Reference)	Core operating income	62.5	

- Voluntary adoption of the International Financial Reporting Standards (IFRS) is planned starting from the Securities Report for the fiscal year ended February 28, 2017.
- Figures for “gross operating revenues” represent gross operating revenues under the Japanese accounting standards less transactions with agents.
- Figures for “operating income” represent operating gross profit after adjusting for selling, general and administrative expenses, investment gains and losses on equity method, and other earnings and expenses (amount differs from operating income under Japanese accounting standards).
- Figures for “core operating income” represent operating revenue less sales cost and selling, general and administrative expenses. These figures are for reference and correspond with operating income under the Japanese accounting standards.

Planned Quantitative Totals of HD in Fiscal 2017 / Differences between Japanese Accounting Standards-2

FY2017 Plan		¥ billion	
J-GAAP	IFRS	Difference (impact to earnings)	IFRS revision details [amounts]
Gross operating revenues	Gross operating revenues	(111.0)	Offsetting of sales and sales cost for products with no inventory risk (CVS) Ticket, card, and service products (amount at directly managed stores) (GMS) Side dishes sold under consignment buying agreement
Cost of sales	Cost of sales	111.0	
Operating gross profit	Operating gross profit	0.0	
Selling, general and administrative expenses	Selling, general and administrative expenses	4.3	(CVS) Stoppage of integrated goodwill amortization [4.0] Other (stoppage of goodwill amortization other than integrated) [0.3] Investment gains and losses on equity method, addition of other earnings and expenses as operating item
	Operating expense items within IFRS	(21.3)	
Operating income (J-GAAP)	Operating income (IFRS)	(17.0)	
Non-operating income / expenses			
Extraordinary income /	Financial income / expenses	21.3	
Extraordinary loss			
Income before income taxes	Earnings before tax	4.3	
Income taxes	Income tax expenses	0.2	Impact related to fluctuations in selling, general and administrative expenses
Profit attributable to owners of parent	Profit attributable to owners of parent	4.5	
Core operating income (listed as reference materials for financial data)			
Operating income (J-GAAP)	Core operating income	4.3	*Operating gross profit less selling, general and administrative expenses (fluctuations are reflected)

Medium-Term Management Plan 2017

“Activation”

~ Everyday IMPROVE ~

Initiatives of the Medium-Term Management Plan

~Moving Toward a Complete Integration~

- 1. Allocate management resources with the aim of growth**
- 2. Add new store features that leverage strengths**
- 3. Maximize synergies**
- 4. Implement financial strategies that support continuous growth**

1. Allocate management resources with the aim of growth

◆ Enhancement of store quality

- CVS: Accelerate brand conversion and strengthen functions at existing stores, bolster overseas regions of existing operation
- GMS: Bolster the remodeling of existing stores to enhance them

◆ Further reinforcement in areas with a high competitive edge

- CVS: Further strengthen stores in Japan's three largest metropolitan areas
- GMS/SM: Bolster foundation in the Chukyo metropolitan area

◆ Further transition toward superior business domains

- Actively invest in new growth fields (finance, EC, and home delivery)
- Create futuristic stores through such means as cooperating with companies in other industries

◆ Appropriate allocation of human resources

- Deploy human resources in an optimum manner though HD leadership
- Promote the exchange of human resources between operating companies

2. Add new store features that leverage strengths

◆ Promoting business development through a cross-sectional organization that spans across HD, CVS, and GMS

Finance, EC/Omni-channel, Senior citizens/home delivery

◆ Further strengthen cooperation with the Itochu Group

Finance	<ul style="list-style-type: none"> - Establish customer foundation and promote compatibility with smart devices (smartphones) - Cultivate measures aimed at loyal customers by leveraging customer data
EC / Omni-channel	<ul style="list-style-type: none"> - Cooperate with IT operators to improve customer convenience - Advance actual stores to function as a contact point with customers
Senior citizens / home delivery	<ul style="list-style-type: none"> - Resolve last-mile issues → Cultivate measures aimed at senior citizens by leveraging SENIOR LIFE CREATE → Advance online supermarkets (drive-through method, etc.) - Generate profit from related businesses

3. Maximize synergies

Effect:

FY2017,FY2018 : ¥5.0–7.0 billion

Since FY2019 : ¥8.0–10.0 billion

Cooperation between different types of businesses	<ul style="list-style-type: none"> - Mutual development of products for GMS and CVS - Expand CVS service products at GMS (FamilyMart service spots, etc.)
Products	<ul style="list-style-type: none"> - Joint development and procurement of private-brand (PB) products between GMS and CVS - Re-examine existing suppliers - Reduce cost of materials for PB products - Reduce procurement costs for national-brand (NB) products (improve gross profit ratio)
Distribution	<ul style="list-style-type: none"> - Reduce operational costs through the integration of CVS distribution
Construction	<ul style="list-style-type: none"> - Shift toward lower costs through the blanket purchase of CVS construction materials (exclusive products)
Systems	<ul style="list-style-type: none"> - Reduce maintenance, operational, and procurement costs through the integration of CVS systems (starting from 2019)
Others	<ul style="list-style-type: none"> - Carry out joint purchasing of vehicles, packaging materials, store supplies, consumable goods, and sales promotion materials - Centralize employee divisions

4. Implement financial strategies that support continuous growth

Fund raising

- Strengthen and promote diverse fundraising methods, carry out strategic investments in growth fields
- Manage the balance of interest-bearing debt in an appropriate manner to reach an AA- credit rating (currently A+) and realize an enhanced financial foundation
- Set target for a D/E ratio of 0.7 times (by the end of fiscal 2020)

Shareholder returns

- Work toward a consolidated payout ratio of 40%
- Set a lower limit of ¥112 for the annual dividend per share in the fiscal year ending February 28, 2018

Fiscal 2017 Numerical Targets for HD

billions of yen		FY2016	FY2017 (est.)
P / L	Gross operating revenues	894.9	1,237.3
	Operating income	56.0	41.2
	Profit attributable to owners of parent	19.0	24.0
B / S	Total assets	1,643.9	1,714.1
	Interest-bearing Liabilities	492.6	540.4
	Shareholders' equity	512.4	527.5
	Debt Equity Ratio (time)	0.9	1.0
	Net debt Equity Ratio (time)	0.6	0.6
	ROE (%)	4.7	4.5

※FY2016 Japanese GAAP, FY2017 IFRS

Invest Plan by Business Segment (Fiscal 2017)

CVS total	¥130.0 billion
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(Investment in brand-converted stores, investment in new and existing stores, system investment, etc.)

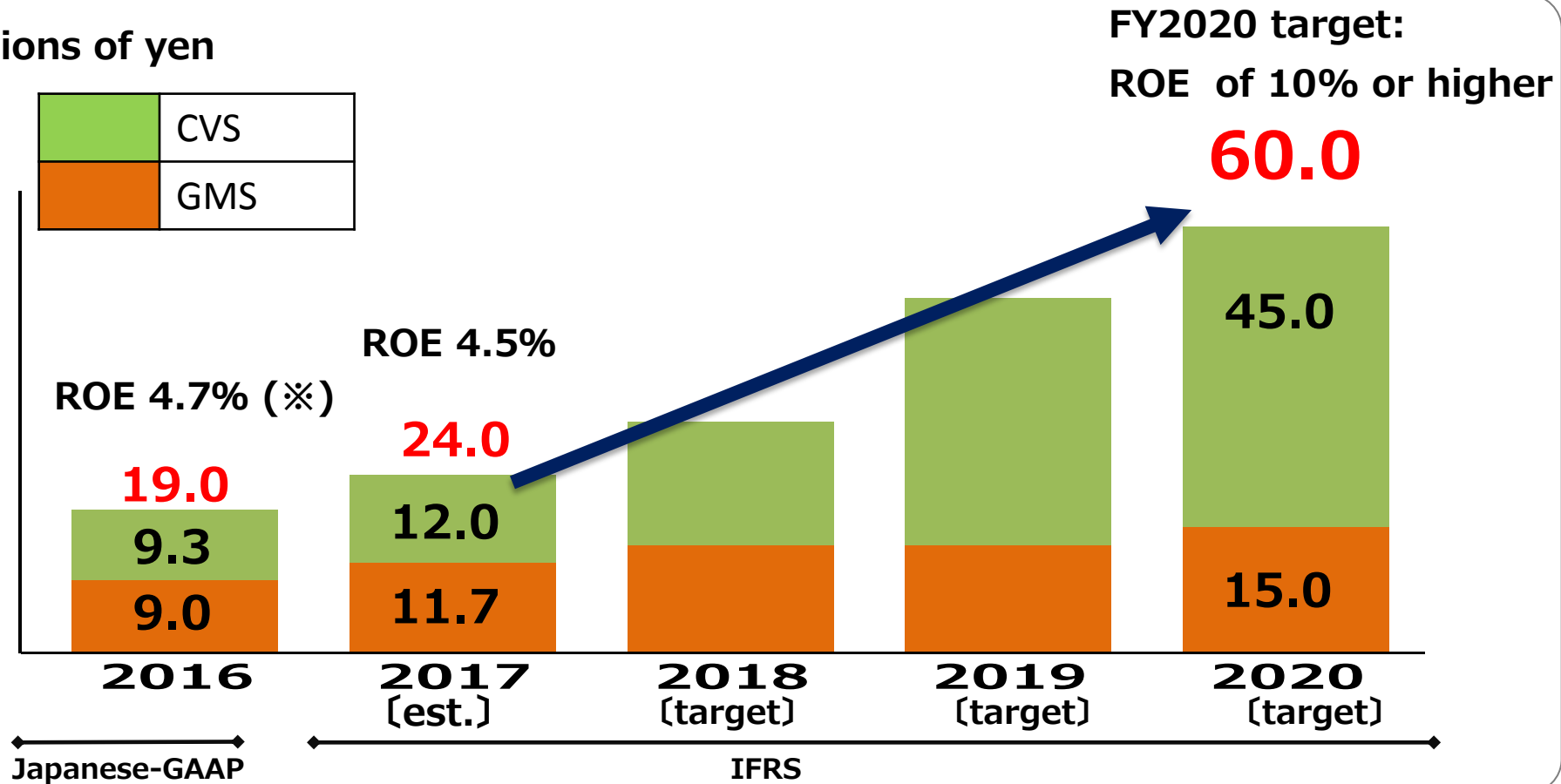
GMS/SM total	¥20.0 billion
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(Investment in new stores, remodeling/repair investment, etc.)

Comprehensive Group total	¥150.0 billion
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Graphic Target of Net income Growth

Billions of yen



*1 ROE in fiscal 2016 was calculated using the average of its denominator, shareholders' equity, throughout the year (shareholders' equity for the former FamilyMart at the beginning of the fiscal year + shareholders' equity for FamilyMart UNY Holdings at the end of the fiscal year ÷ 2). (Reference: ROE comes to 3.7% if the shareholders' equity at the end of the fiscal year is used as its denominator.)

*2 The differences between segment totals and consolidated totals for net income in fiscal 2016 as well as forecasts for net income in fiscal 2017 reflect non-consolidated values for FamilyMart UNY Holdings as well as the elimination.

【Reference】 CVS Segment: “Companywide Collaboration — Becoming an Even More Competitive Chain”

(1) Prompt completion of brand conversion

- Complete conversion by the end of August 2018, a half year ahead of schedule
- Further increase the number of brand-converted stores through investment in existing Circle K Sunkus (CKS) stores
- Increase daily sales at brand-converted stores

(2) Realization of Three Major Improvements

1) Ready-to-eat item improvement

- Further improve product strength in order to create “Fun & Fresh” products
- Carry out large-scale capital investment in such areas as manufacturing plants for ready-to-eat items

2) Marketing improvement

- Provide products that meet the needs of customers in a prompt manner and within an effective timeframe
- Maximize advertising activities, including sales promotion materials and television commercials
- Form organizations to carry out strategic marketing activities

3) Operational improvement

- Streamline store operations to reduce workload
- Reduce store operations through the utilization of AI and IoT technologies

【Reference】 Fiscal 2017 Numerical Targets for CVS

		FY2016		FY2017 (est.)	
		F M	C K S	F M	C K S
Business performance (Non-consolidated)	Average daily sales at total stores (thousands of yen)	522	425	528	408
	Growth rate of average daily sales of existing stores (%)	0.8	(2.1)	1.2	0.0
	Gross profit ratio (%)	27.44	26.25	27.93	26.58
	Store Openings (stores)	831	—	796	—
	Converting CKS stores to FM brand (stores)	829	—	2,600	—
	Number of stores (stores)	12,089	4,912	14,885	1,861
P / L billions of yen	Gross operating revenues	485.8		555.8	
	Operating income	40.3		21.5	
	Profit attributable to owners of parent	9.3		12.0	

※FY2016 Japanese GAAP, FY2017 IFRS

【Reference】GMS Segment: “Going Back to Our Starting Point — Establishing Stores for Our Customers and Headquarters for Our Stores”

(1) Reconstruction of existing businesses

- Raise profitability of existing stores
- Bolster the sales floor for food products, appropriately adjust the sales floor area for clothing and household products
- Improve the operational efficiency of stores through reinforced monitoring

(2) Establishment of management foundation

- Promote selection and concentration
- Improve the balance sheet (reduce interest-bearing debt)
- Improve in-house systems (clarify responsibility and authority)
- Develop human resources

(3) Preparation for the establishment of “New Retailing”

- Construct a new business model (model for the conversion of existing stores, model for opening new stores)
- Realize integrated synergies (product development, FamilyMart service spot expansion, etc.)
- Improve sales floor for side dishes

【Reference】 Fiscal 2017 Numerical Targets for GMS

billions of yen		FY2016	FY2017 (est.)
Business performance (Non-consolidated)	Gross operating revenues	742.0	712.1
	Net sales	699.8	669.9
	Y-o-y change in existing store sales (after day-of-the-week adjustment) (%)	(1.0)	(0.6)
	Gross profit ratio (%)	23.2	23.7
	Operating income	13.8	14.5
	Net income	(56.5)	8.6
	Interest-bearing Liabilities	235.6	200.0
	Number of stores (stores)	210	195
P / L	Gross operating revenues	410.5	683.1
	Operating income	15.5	19.7
	Profit attributable to owners of parent	9.0	11.7

FY2016 : J-GAAP and 2nd half of the fiscal 2016, FY2017 : IFRS