



# Consolidated Financial Results Presentation for the Third Quarter of FY2018

January 11, 2018

Seven & i Holdings Co., Ltd.

# FY2018 Q3 cumulative



Achieved operating income target despite adverse weather conditions in the summer, and in the months of September and October  
(However, the mainstay segments of domestic CVS operations, as well as superstore operations, fell short of their respective targets)

## ◆ Consolidated results

	Results	YOY	YOY Change	Budget achieved
Group's total sales	¥8,265.4 bn	104.5%	+¥356.1 bn	Not Achieved
Revenues from operations	¥4,479.7 bn	104.4%	+¥190.7 bn	Not Achieved
Operating income	¥295.7 bn	108.0%	+¥21.7 bn	Achieved
Net income attributable to owners of parent	¥149.2 bn	197.6%	+¥73.7 bn	Achieved

## ◆ Operating income by segment

	Results	YOY	YOY Change	Budget achieved
Domestic CVS	¥188.4bn	100.6%	+¥1.0 bn	Not Achieved
Overseas CVS	¥63.9 bn	120.4%	+¥10.8 bn	Achieved
Superstore	¥9.0 bn	91.3%	¥(0.87) bn	Not Achieved
Department store	¥0.28 bn	-	+¥3.2 bn	Achieved
Financial Services	¥39.4 bn	101.4%	+¥0.54 bn	Achieved
Specialty store	¥0.69 bn	-	+¥6.7 bn	Achieved
Others	¥3.4 bn	114.1%	+¥0.42 bn	Achieved

# Environmental changes surrounding retail business



## ◆ Emergence of EC/IT Companies

- Amazon/Google
  - Real stores acquisition and alliance
  - Spread of AI speaker
  - Capturing customers and accumulate customer information
- Alibaba
  - Investment in major supermarket

## ◆ Reasons for changes in Japan and overseas

- Human resources shortage
  - Further expansion of gaps between industries
- Declining population, fewer children and aging society
- Decrease in the number of people per household, more working women
- Retailers close up stores, hollowing out community life

## Retail Business



## ◆ Diversity of Payments

- Further expansion of mobile payment
  - Particularly in China
- Development of cashless society
  - Emergence of self checkout and unstaffed stores
- Expansion of virtual currency
  - Extension of Bitcoin transaction

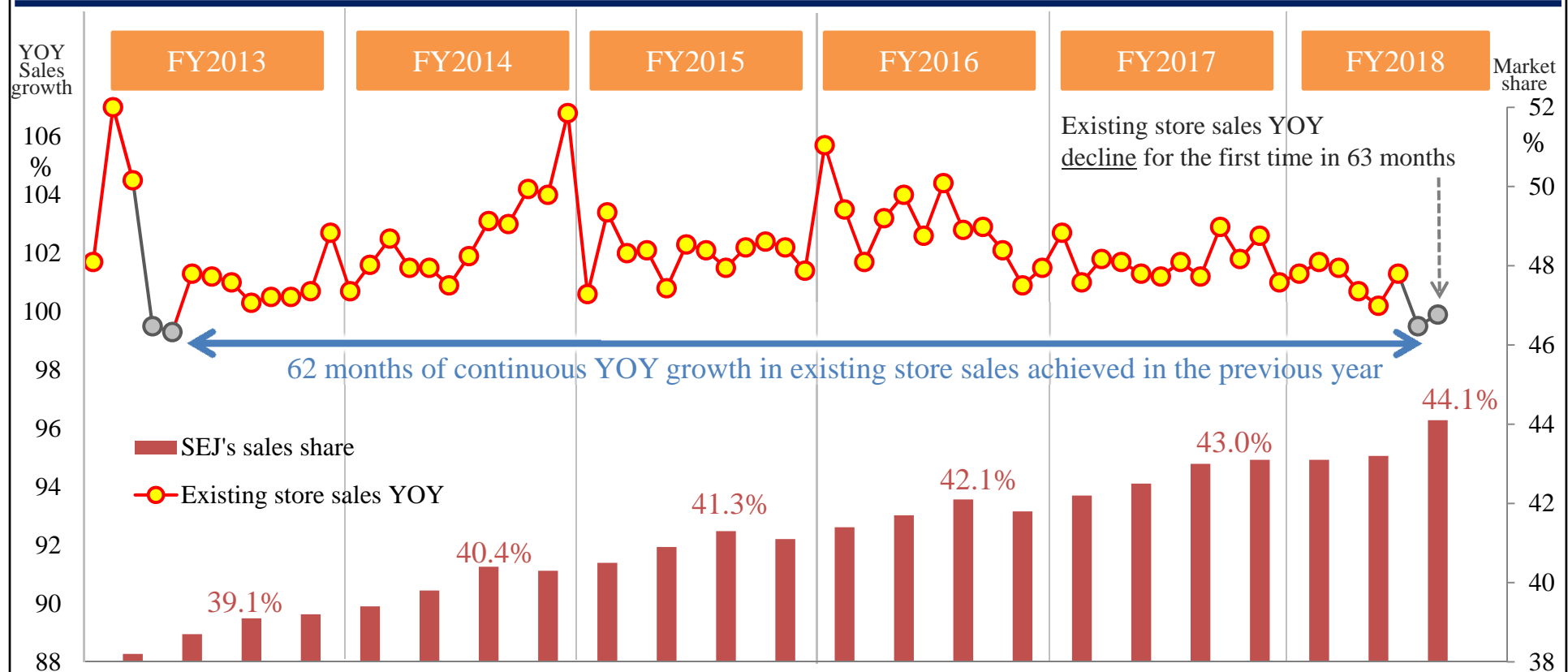
## ◆ Reasons for changes in the retail business

- Reduction barrier between industries
  - Drugstores expand food sales
- Price competition heats up
- Salary increase request by government
- Actualized rising logistics cost

Aiming to achieve sustainable growth through “Human resources development”, “Sales area reform”, “enhancement of product and service quality” while implementing PDCA cycles

# Seven-Eleven Japan SEJ

# SEJ's Existing Store Sales YOY and Sales Market Share



◆ Sales growth rank by MDSE category for Q3 (/day/ store)

Rank	Category	YOY difference
1	Fryer foods	+¥1,240
2	Noodles	+¥810
3	SEVEN CAFÉ	+¥680
4	Processed foods	+¥670
5	Cigarettes	+¥630

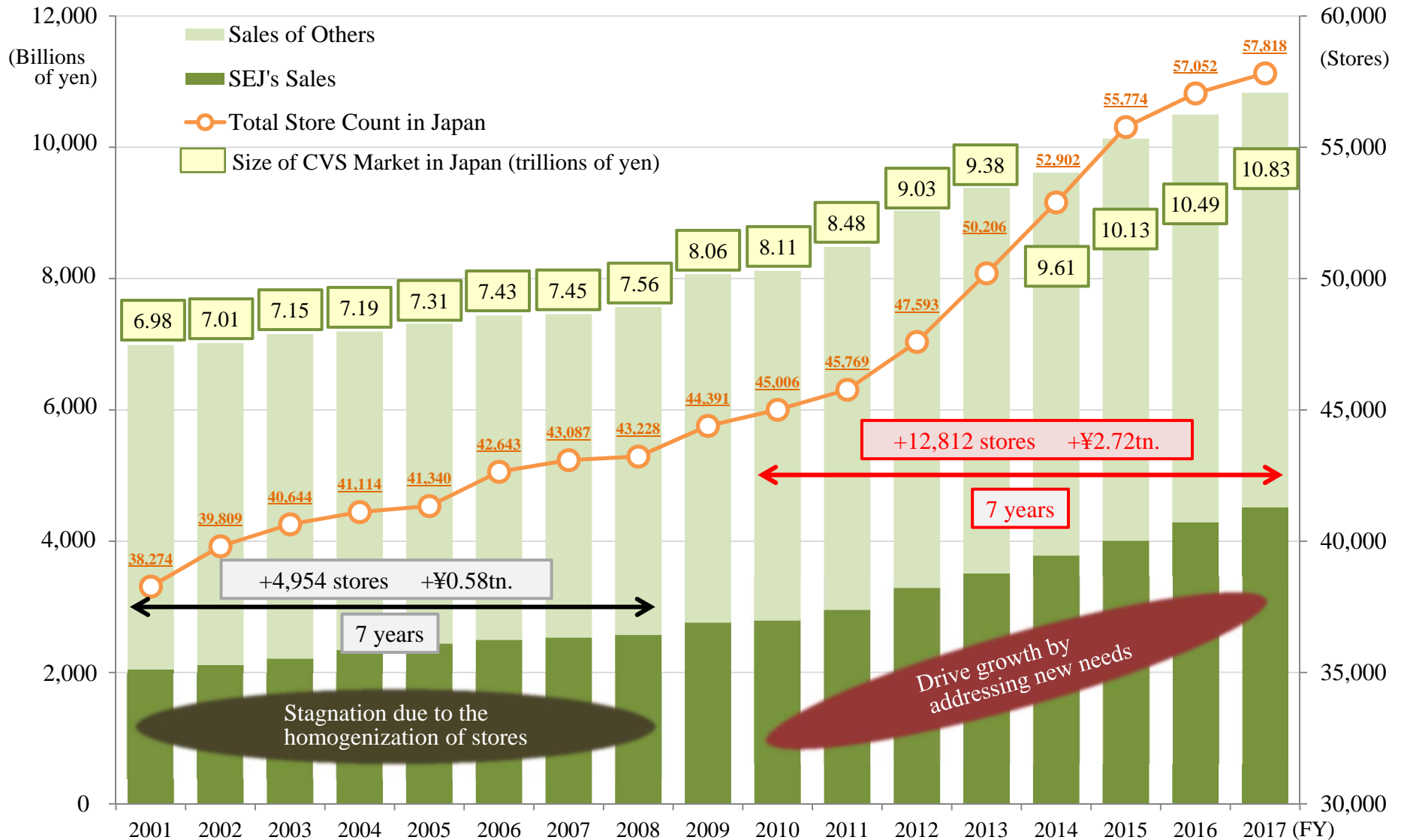
Sales in categories which have been a long-standing priority for reinforcement continued to expand, although existing store sales struggled to grow in Q3, due partly to inclement weather



Continue to strengthen initiatives centered on the take-home meal category, thereby paving the way for sustained growth

# CVS: Trend of Sales and Store Count

Further growth is possible by continuing to address social issues (customer needs)



Source: Japan Franchise Association convenience store survey

# Changes in Highest ranking Categories with Growing Sales from 2009 to 2016



## ◆ Highest ranking categories with growing sales

	Sales amount (versus FY2010)	Gross profit (versus FY2010)
Frozen foods (excl. ice cubes)	330%	374%
Counter products (incl. <i>Oden</i> Japanese stew, <i>SEVEN CAFÉ</i> and fryer foods)	187%	222%
Daily products	117%	118%
Cigarettes	111%	120%
Ice cream	110%	114%
Bread and pastries	104%	108%
Processed foods (incl. Seasonings & dried foods, rice, coffee & tea, and delicacies, etc.)	101%	105%

Delivered sustained growth by enhancing quality and product lineups in response to a shift in consumer needs to food service and home meal replacement amid changes in the social structure

# Aiming to Achieve Growth Over the Next 10 Years by Avoiding the Homogenization of Stores



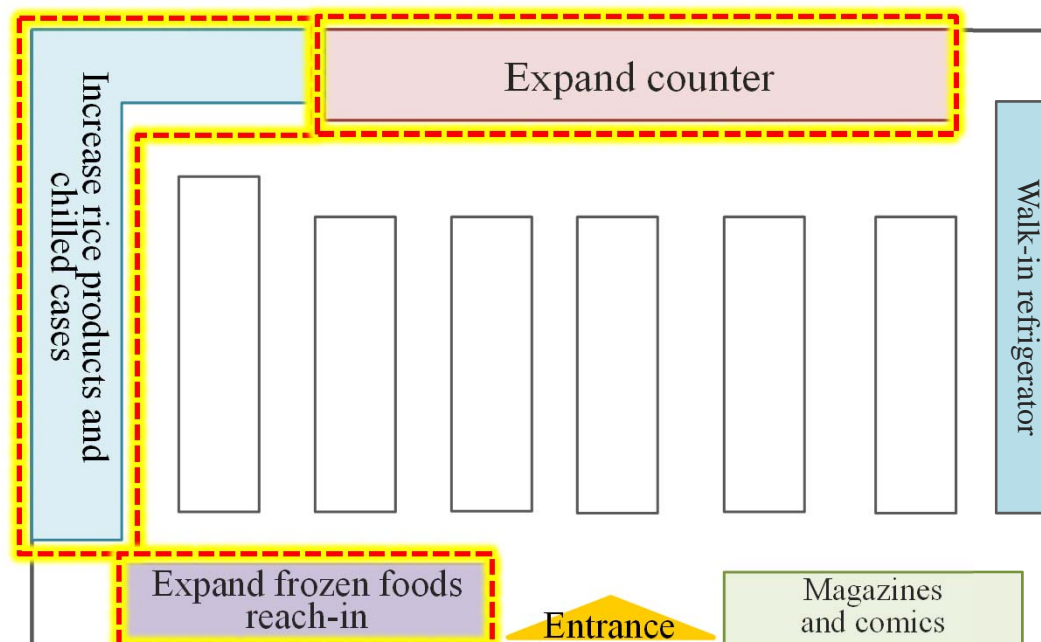
## ◆ Progress on introducing the new layout at stores

- Installation of the new layout was completed at 250 existing stores as of the end of November  
Positive impact on daily sales of approx. ¥15 thousand  
(69 stores renovated in June)
- New layout installed at 600 new stores as of the end of November

## Main categories with growing sales

Rank	Category	Versus other stores in the same regional unit
1	Pocket snacks and western confectionery	+¥2,000
2	Noodles and other	+¥1,900
3	Snacks	+¥1,500
4	Frozen foods	+¥1,300
5	Delicatessen	+¥1,100
6	Daily foods	+¥1,100
7	SEVEN CAFÉ	+¥1,100
8	Fast food and other	+¥900
9	Pastries	+¥900
10	Oden (Japanese stew)	+¥700

## Installation of the new layout (for stores with floor space of 199 sqm)



Bolster new items in the growing counter products category and new product categories

**Continuously implement tests (plans call for expanding the layout to more stores after verifying the impact)**

Sales grew in categories that were strengthened as a result of the new layout. Efforts will be made to further expand sales by closely coordinating these categories with product development



# Aiming to Achieve Growth Over the Next 10 Years by Avoiding the Homogenization of Stores



## Initiatives to Realize the “People- and Environment-Friendly Store” Concept

Reduce energy consumption and CO<sub>2</sub> emissions using cutting-edge technologies with a view to further increasing the number of stores, thereby helping to mitigate global warming and shape a sustainable society

### Reduce environmental impact: 22 technologies

#### <Examples of Technologies>

- Road surface solar panels  
(French technology, 1<sup>st</sup>. use in Asia)
- Use of pure hydrogen fuel cells for power generation  
(1<sup>st</sup>. use in the CVS industry)



### Enhance work conditions: 26 technologies

#### <Examples of Technologies>

- New type of walk-in refrigerator  
(1<sup>st</sup>. use in the CVS industry)  
⇒ Designed to operate without the circulation of cold air within the walk-in refrigerator, thereby improving the ease of work and reducing the physical burden on employees
- Adoption of sliding shelves for freezer and refrigerator facilities  
(freezer: 1<sup>st</sup>. mass production model used in the CVS industry)



### Build comfortable store environments: 10 technologies

#### <Examples of Technologies>

- Air conditioning unit  
⇒ Achieve a comfortable interior environment through “nanoe X” indoor air purification
- Comfortable toilet areas  
⇒ using floor, wall and ceiling materials with strong anti-bacterial and odor-eliminating features, etc.



Expand in stages by developing comfortable work environments and by starting trial tests from December 7, 2017.

- ◇ Electricity charges reduction **approx. 28%**<sup>\*1</sup>
- ◇ Working time reduction **approx. 5.5 hour / day**<sup>\*2</sup>

\*1: In case installing at standard store (versus FY2014)  
\*2: Comparing with case that carried out in a predetermined procedure

# Aiming to Achieve Growth Over the Next 10 Years by Avoiding the Homogenization of Stores



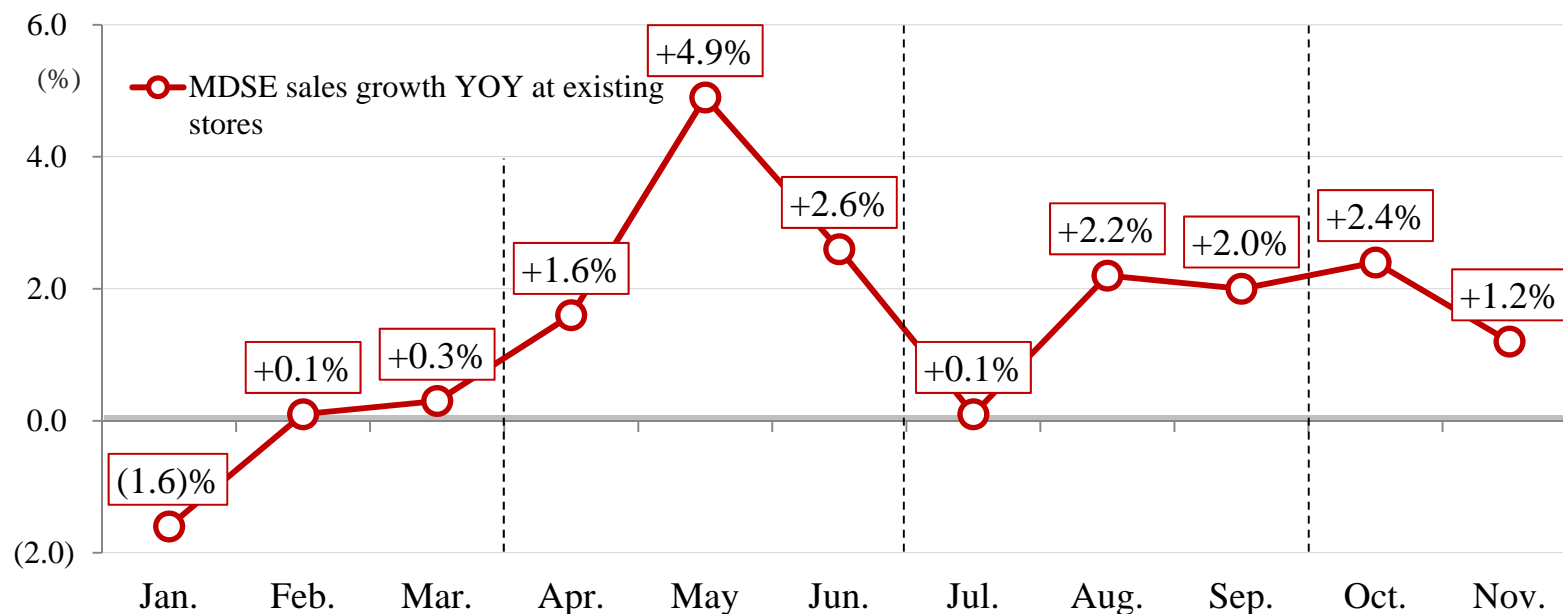
Strive to enhance productivity and customer service by developing comfortable work environments

<b>1% special discount on Seven-Eleven franchise royalty fees</b>	<ul style="list-style-type: none"> <li>▪ Pave the way for proactive sales ⇒ Enhance store configuration</li> </ul>						
<b>Expand new layout</b>	<p>Dramatically transformed the store layout in response to changes in customer needs          ⇒ Addressed growing needs stemming from the shift to “food service” and “home meal replacement”, including the expanding need for take-home meals</p>						
<b>Enhance labor savings and productivity</b>	<ul style="list-style-type: none"> <li>▪ Introduced dishwashing machines and disposal registration systems with portable terminal (to enhance work efficiency)</li> <li>▪ RFID trial tests (started tests in the daily food category, following tests of room-temperature products)</li> <li>▪ Trial tests of the “People- and Environment-Friendly Store” concept at the <i>Chiyoda Nibancho</i> store</li> </ul>						
<b>Employee training</b>	<ul style="list-style-type: none"> <li>▪ Customer service training (upgrade and expand courses)              Established a basic course since March 2017 in addition to a shift leader course</li> </ul> <table border="1" data-bbox="943 1034 1776 1166"> <thead> <tr> <th>Period</th> <th>Total from Mar. 2016 to Nov. 2016</th> <th>Total from Mar. 2017 to Nov. 2017</th> </tr> </thead> <tbody> <tr> <td>Total number of participants</td> <td>11,169</td> <td>29,585</td> </tr> </tbody> </table> <p>*Store participation rate 72.4% (as of Nov.)</p> <ul style="list-style-type: none"> <li>▪ Customer service training for non-Japanese employees (beginning in Mar. 2017)              A training program to learn Japanese-style customer service</li> </ul>	Period	Total from Mar. 2016 to Nov. 2016	Total from Mar. 2017 to Nov. 2017	Total number of participants	11,169	29,585
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In addition to the foregoing, enhance frontline execution (sales capabilities) by initiatives to improve the efficiency of various service operations and enhancing employee training in tandem with developing store environments

7-Eleven, Inc.  
SEI

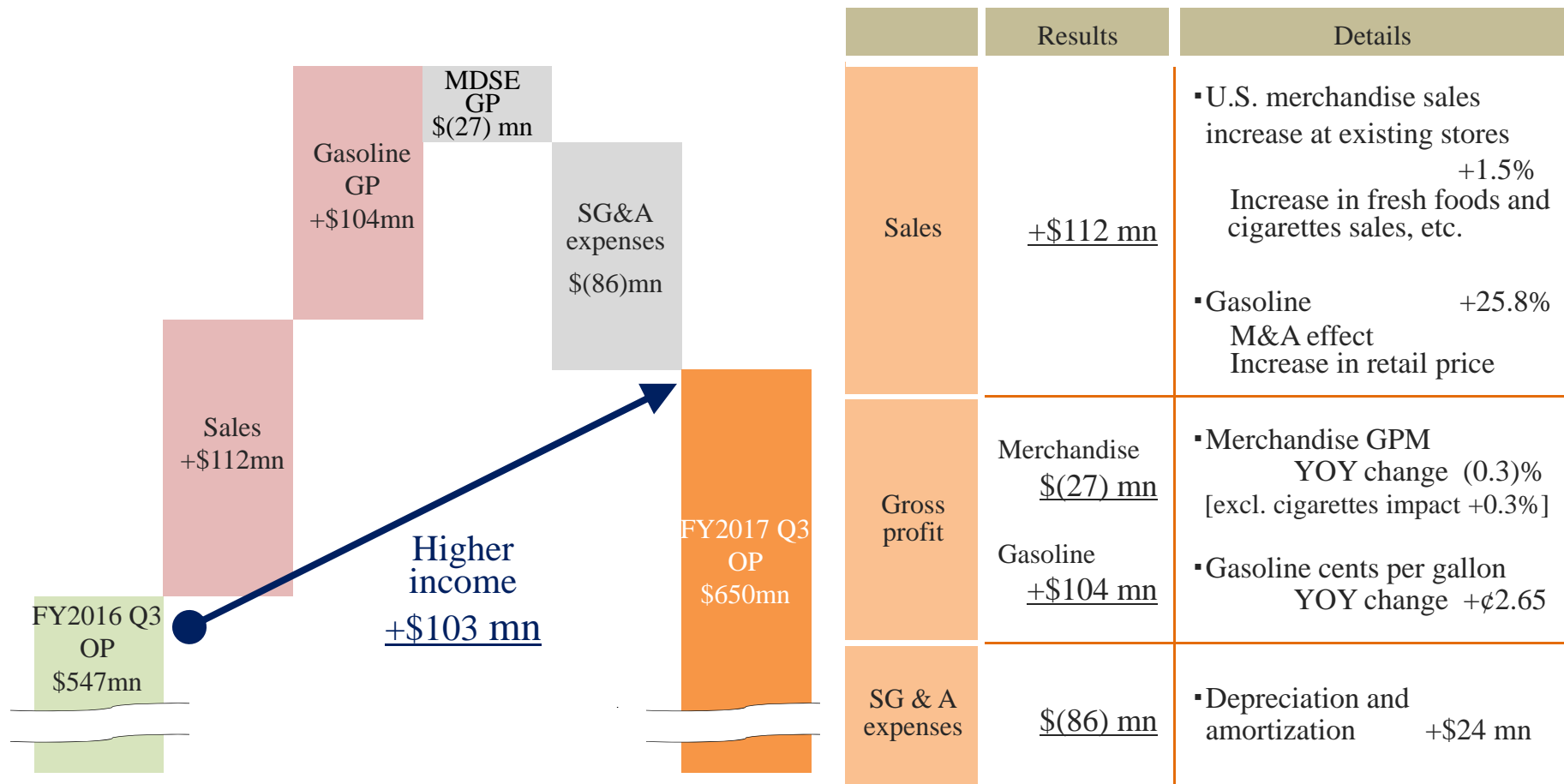
# Trends in Merchandise Sales Growth at Existing Stores and Operating Income



	Q1	Q2	Q3	YTD
OP	¥10.0 bn	¥29.3 bn	33.3 bn	72.7 bn
YOY Change	¥(2.1) bn	+¥4.9 bn	+¥10.5	+13.3 bn

Q1	Operating income declined, reflecting the impact of lower existing store sales, mainly due to inclement weather and special factors.
Q2	Operating income rose significantly due to stable weather conditions and solid existing store sales.
Q3	Operating income rose significantly due to firm sales of merchandise and gasoline, despite the impact of hurricanes and other factors.

# Factors in YOY Change of Operating Income



Achieved higher income as growth in primarily gasoline sales and its gross profit absorbed decline in merchandise gross profit and increase in SG & A expenses.

M&A results for FY2016	Jul. 2016: CST Brands (79 stores)	Sep. 2016: Imperial Oil (148 stores)
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# Growth Strategy: 6 Point Plan



To achieve sustainable growth, the following 6 actions are considered as priority measures, and these initiatives are promoted

## (1) Grow Food and Beverage



- Strengthen sales test and expand test area
- Strengthen initiatives with Warabeya Nichiyo Holdings Co., Ltd. (full-scale operations expected to start from FY2018)

## (2) Expand the Assortment Regional and Local Products



- Increasing approx. 300 SKUs by adding more product shelves
- Implement 2,090 stores in FY2017 (YTD 8,030 stores)
- Implemented stores boost store sales by approx. 1%

## (3) Build Private Brands



- Average yearly growth rate for the past 4 years :+23%
- GPM change for PB products: +0.7% (boost SEI's total GPM by approx. 0.1%)

## (4) Connect and Transact Digitally



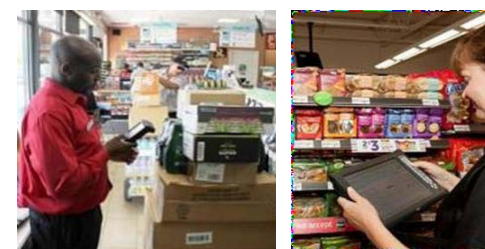
- Implement loyalty program "7Rewards"
- No. of customer approx. +2% growth YOY (result for Dec. in Canadian zone)  
⇒ CRM Strategy and utilization of big data

## (5) Improve the Store Base



- Open high-quality stores and close unprofitable stores
- Acquisition of Part of the Business of Sunoco LP  
⇒ Advance the market concentration strategy

## (6) Simplify Store Operations



- Improve operations (product inspection with mobile terminal, semi-automatic ordering system, data analysis system)
- Gross Profit Margin Improvement through Productivity Enhancement



# Acquisition of Part of the Business of Sunoco LP



## ◆ Delayed closing of a business acquisition

The transaction is in the latter stages of the regulatory approval process with the U.S. Federal Trade Commission (FTC)  
The acquisition is expected to be completed in January 2018 (as announced previously)

## ◆ Illustration of profit contribution: Gross profit per store

【Assumptions】 First year: Deploy Seven-Eleven systems  
⇒ Improve GPM to SEI's average (assume a growth of +0.1 point per annum thereafter)

Second year: Renovate into Seven-Eleven stores \*Estimating with reference to the results of past M&A projects  
⇒ Drive sales growth (assume a sales growth rate of +5% for the two years after renovations)

Gasoline sales volume is projected to remain mostly unchanged

Franchising will not be undertaken during the periods shown below

	Before M&A	1 <sup>st</sup> year	2 <sup>nd</sup> year	3 <sup>rd</sup> year
APSD	\$4,800	\$4,800	\$5,040	\$5,292
Growth	-	±0.0%	+5.0%	+5.0%
Merchandise GPM	31.5%	34.5%	34.6%	34.7%
Growth	-	+3.0%	+0.1%	+0.1%
Gasoline APSD	5,500 gallons	5,500 gallons	5,500 gallons	5,500 gallons
Growth	-	±0.0%	±0.0%	±0.0%
Total annual GP	-	Approx. \$1,006,000	Approx. \$1,040,000	Approx. \$1,070,000
Growth	-	-	+3.2%	+3.3%

\*Estimating the gross profit of gasoline on the assumption that a supply contract has been concluded with Sunoco LP

# Progress on Structural Reforms

Ito-Yokado (IY)  
Sogo & Seibu (SS)



# IY: Progress on Structural Reforms



\* The number of stores in FY2018 includes projections for Q4

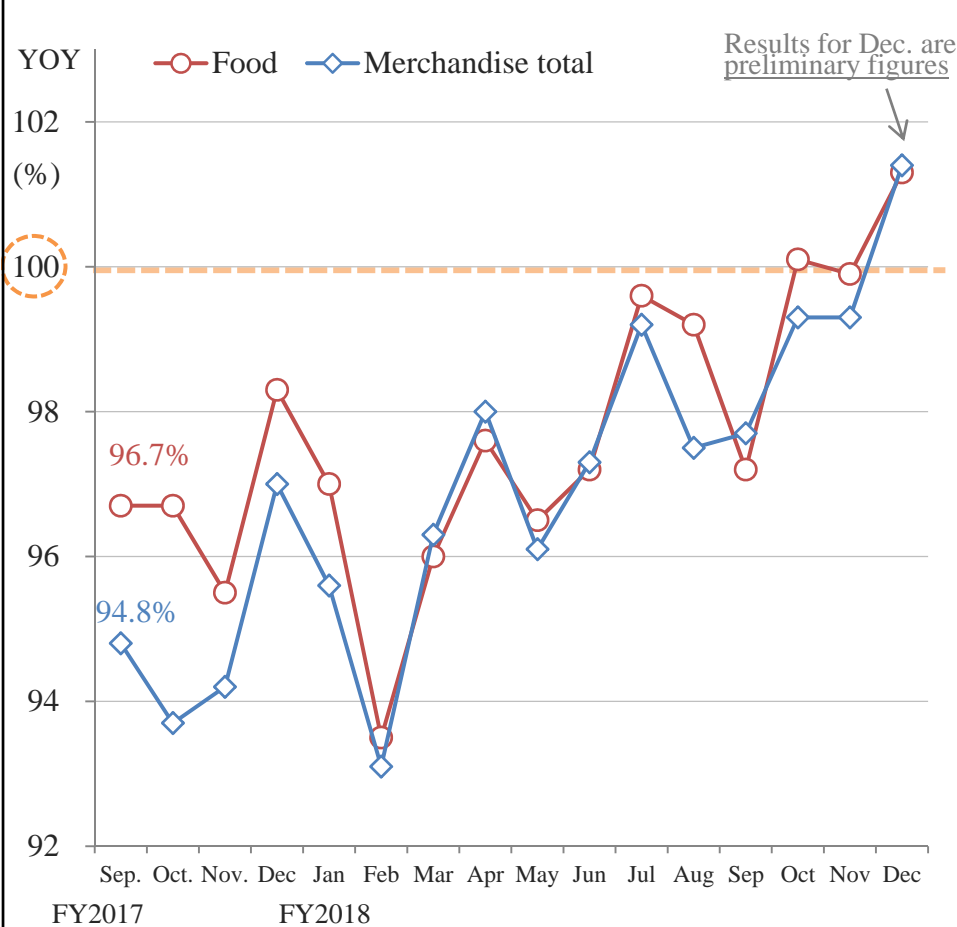
(1) Downsize the sales floor space for apparel, household goods and strive to convert sales areas to tenant space	Renovate 26 stores from FY2017 to FY2018
(2) Strengthen food	Renovate the food sales areas of 10 stores to new formats in 2H FY2018
(3) Close 40 stores from FY2017 to FY2021	Close 24 stores from FY2017 to FY2018
(4) Consider redeveloping stores that have been in business for 30 years or more	Plans call for redeveloping four stores in FY2020, followed by the successive redevelopment of stores thereafter

Store structural reforms are proceeding as planned

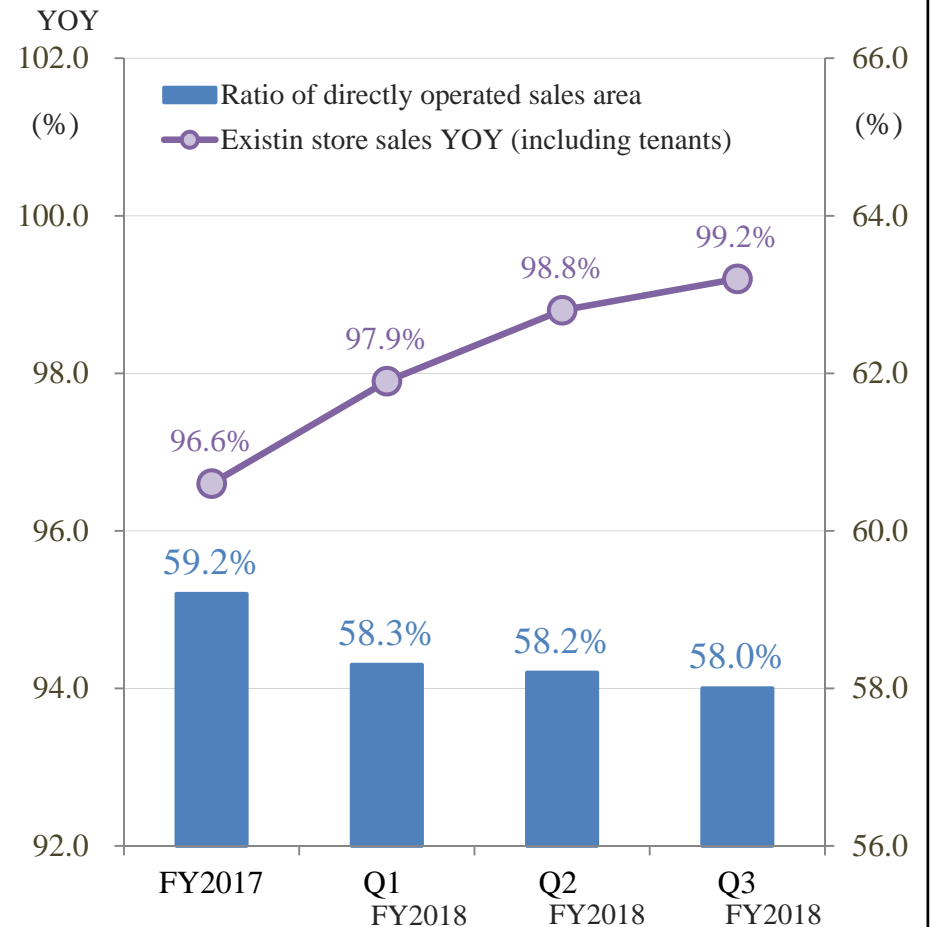
# IY: Progress on Structural Reforms



## Existing store sales YOY



## Ratio of directly operated sales area and existing store sales YOY (including tenants)



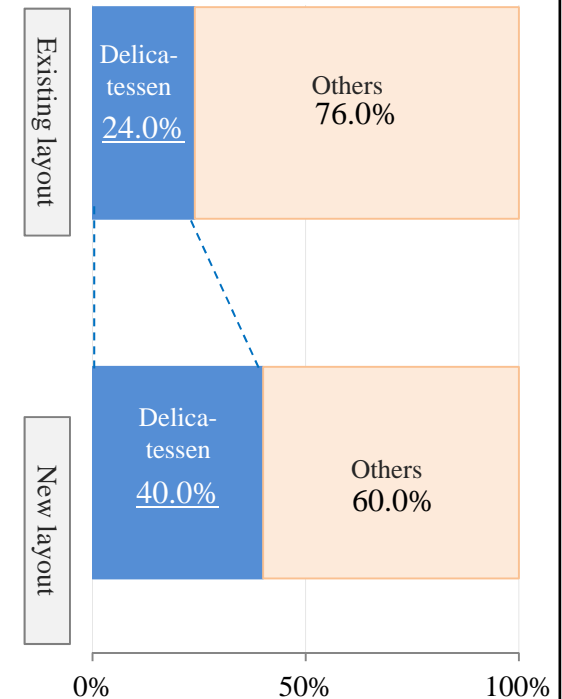
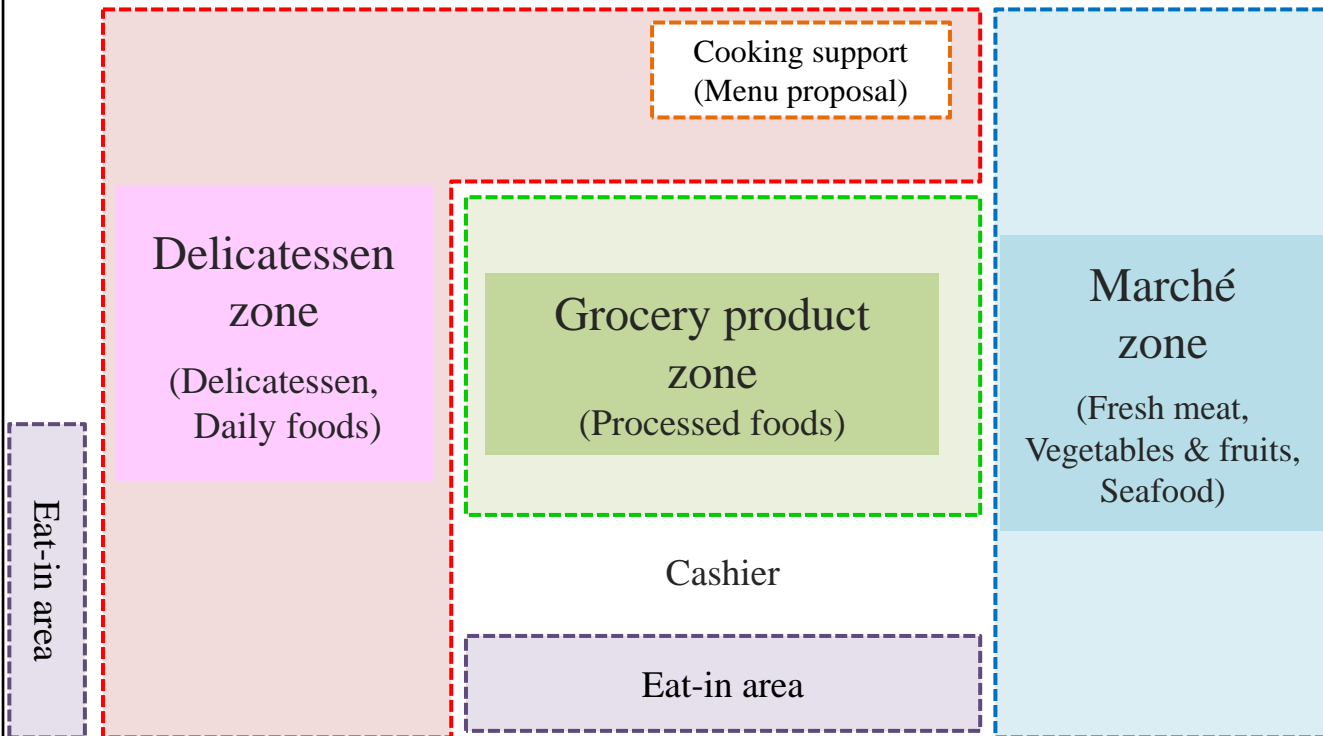
Existing store sales are on a recovery path, owing to measures to strengthen food, in tandem with striving to reduce directly operated sales areas and convert them into tenant spaces

# IY: Revision of Sales Area Formats to Strengthen Foods



◆ New layouts of food sales areas (Sales floor area: 2,975 sqm to 3,306 sqm)

◆ Comparison of the size of food sales areas



Sales area ratio

【Delicatessen sales area】 Increase from 24% ⇒ 40%

Renovation key point

Created separate zones for delicatessen, fresh food and grocery products  
Notably, a dining space was installed adjacent to the delicatessen products zone, and the sales area and product lineups were enhanced significantly.

Positive impact

Eight renovated stores were reopened on December 8 (Result for Dec. 8 – Dec. 31)

Number of customer at above 8 stores: **107% YOY** (all IY stores: **101%**)

Food sales: **109% YOY** (all IY stores: **102%**)\*

\*Food sales of renovated 8 stores boost IY's total food sales by 0.8%

# IY: Store Structure Reform Example

Example of Omiya-Miyahara store (reopened after renovation on December 8, 2017)



## ◆Details

Zone	Renovation details	Results for Dec. 8 to 31 Sales Growth YOY
Delicatessen	Introduce specialty eateries focused on handmade <i>karaage</i> fried chicken, rice balls and other dishes, and also buffet-style dining services where items are sold by weight	113%
Marché	Create an event-oriented space featuring generous portions centered on displays of fish, fresh meat, and fruits and vegetables adjacent to one another	111%
Grocery products	Upgrade and expand product lineups according to market needs (Japanese seasonings, health beverages, snacks and confectionery, etc.)	105%

## ◆Result after renovation (Results for Dec. 8 to 31)

	No. of customer	Sales			
	Store total	Store total	Food	Apparel	Household goods
Omiya-Miyahara	107%	107%	110%	108%	102%
All IY stores	101%	102%	102%	101%	101%

The positive effect of food contributed to growth in the number of customers and an improvement in the sales of the entire store

# IY: Progress on *IY Fresh*



## ◆ Overview of trial test

Commenced pilot test in Shinjuku and Bunkyo wards from November 28, 2017

Merchandise lineups: fresh foods and meal kits approx. 5,000 SKUs

Delivery fees: ¥350 (Free delivery on purchase of ¥4,500 or more)

## ◆ Customers feedback \*Conducted customer survey in December, 2017

MIDSE	Expand grocery product line up
	Expand meal kits lineups

Delivery	Expand delivery time (early morning, night time)
	Reduction in condition for free delivery (¥4,500)

## ◆ Issues

The repeat rate is trending upward	The satisfaction level receives an certain evaluation	Issue with new customer acquisition	Customer awareness must be increased
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## ◆ Countermeasures

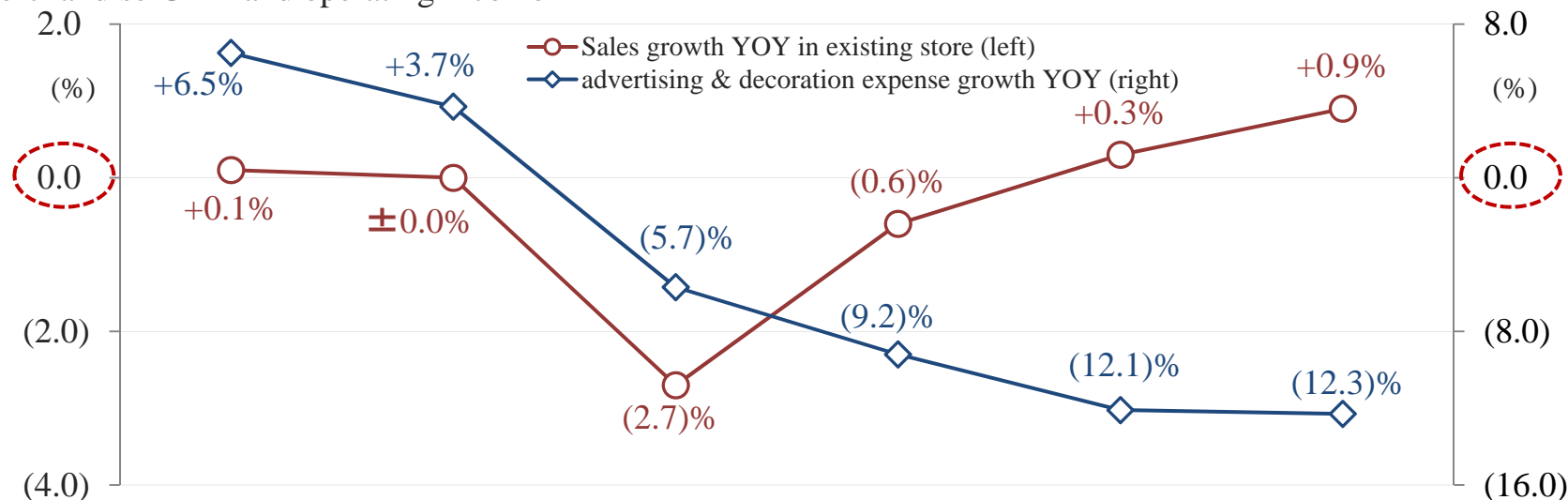
Introduce top-selling items from IY's <i>Net supermarket</i>	Flyer, displaying posters at major railway stations
Set menu proposal	Guidance offered from the website top page of LOHACO
Free delivery campaign with purchase of ¥4,500 or more (till February 28, 2018)	Distribute email newsletter to LOHACO customers

Address customer needs and pave the way for expand delivery areas by implementing PDCA cycles

# SS: Accomplishments of Operation Structural Reforms



◆ Trends in sales growth YOY in existing store, advertising & decoration expense growth YOY, Merchandise GPM and operating income



(%, millions of yen)	FY2015	FY2016	FY2017	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 YTD
MDSE GPM	24.6	24.3	23.9	24.5	23.5	24.8	24.3
YOY Change	(0.2)	(0.3)	(0.4)	(0.1)	(0.3)	+0.4	±0.0
OP	10,226	7,411	4,341	380	246	(769)	(142)
YOY Change	+85	(2,815)	(3,070)	+366	+216	+1,036	+1,619

Reexamine need for customer attraction and sales expansion strategies to rely on point sales

Plus Point Fair: Reduced **101** days YOY

Holding events and projects at the discretion of individual stores  
Enhance sales and gross profit by harnessing the capacity to reshape sales areas

Existing store sales increased, even while advertising and decoration expenses were being curtailed, leading to higher operating income

# SS: Results of Restructuring Reform

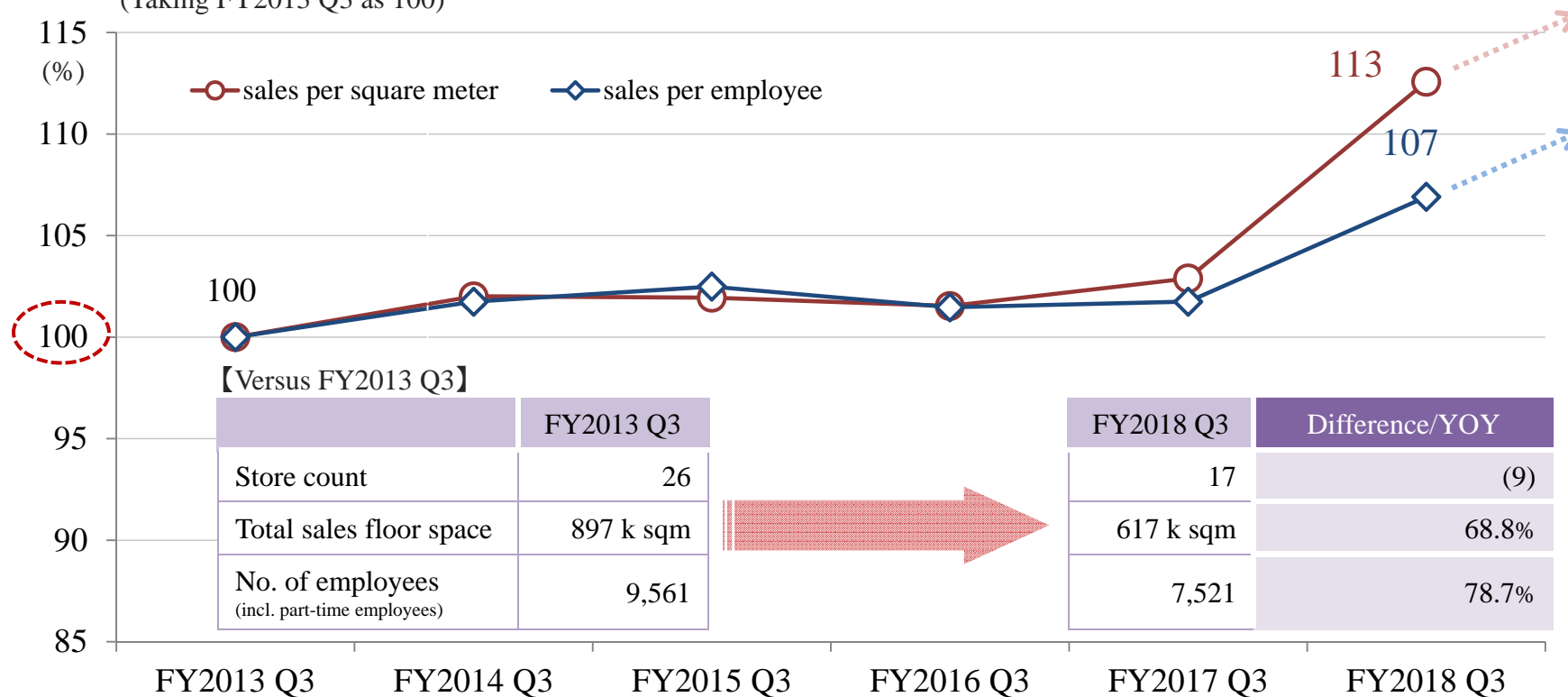


## ◆ Details

2016	Sep.: Closed Asahikawa and Kashiwa store	Oct.: Implemented voluntary retirement program
2017	Feb.: Closed Yao and Tsukuba store	Oct.: Transferred Kobe and Takatsuki store
2018	Feb.: Close Funabashi and Odawara store (plan)	

## ◆ Trend in the sales per square meter\*1 and sales per employee\*2 indexes (for Q3 cumulative)

(Taking FY2013 Q3 as 100)

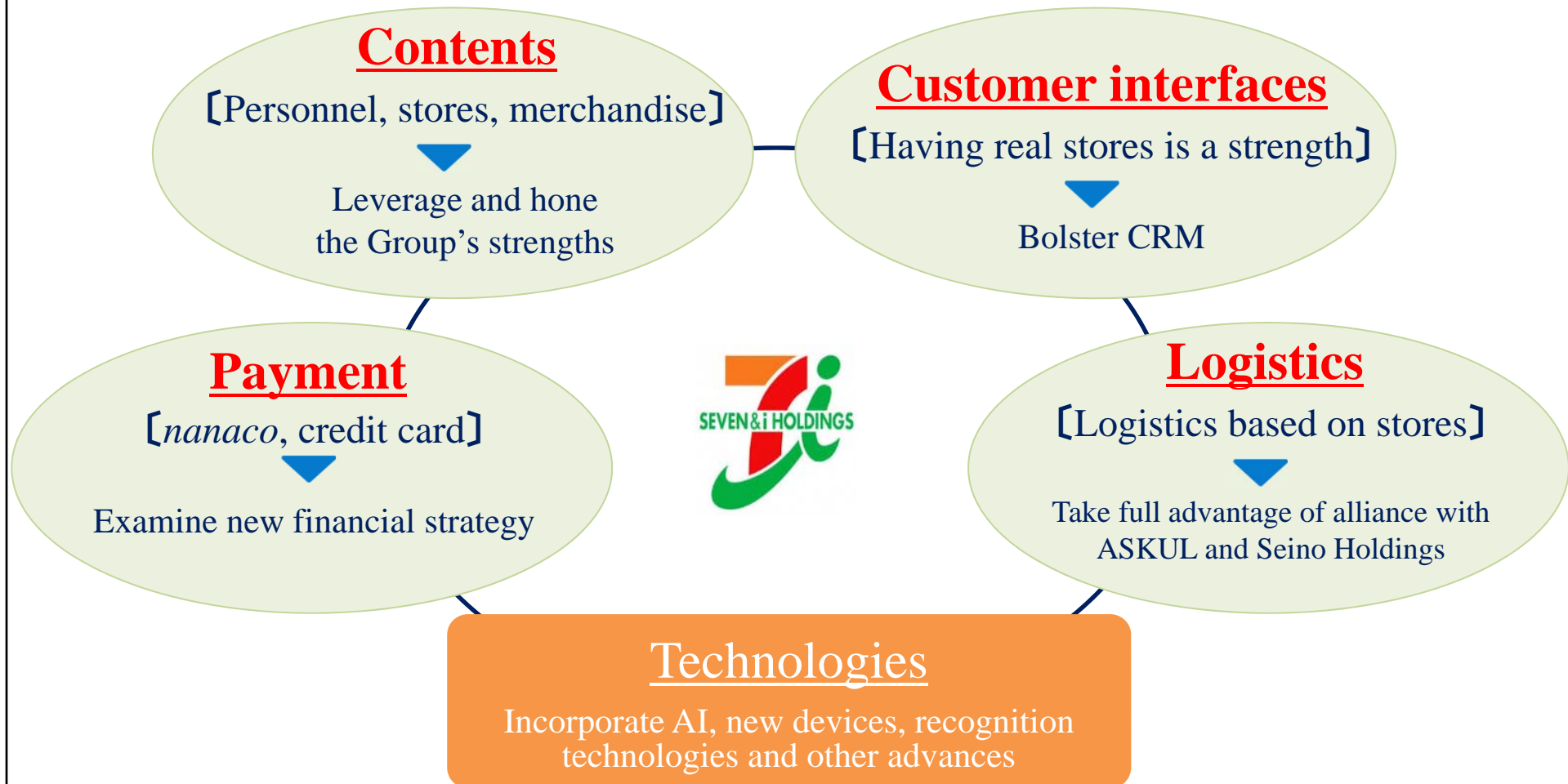


\*1 Sales per square meter: Net sales divided by active sales area

\*2 Sales per employee: Net sales divided by (average number of employees + number of part-time employees during the period)

# Group Strategy





Respond to an environment changing at unprecedented speed with a view to fostering collaboration with “external partners”.

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