



Seven & i Holdings Co., Ltd.

Financial Results Presentation  
for the First Quarter of FY2017

July 7, 2016

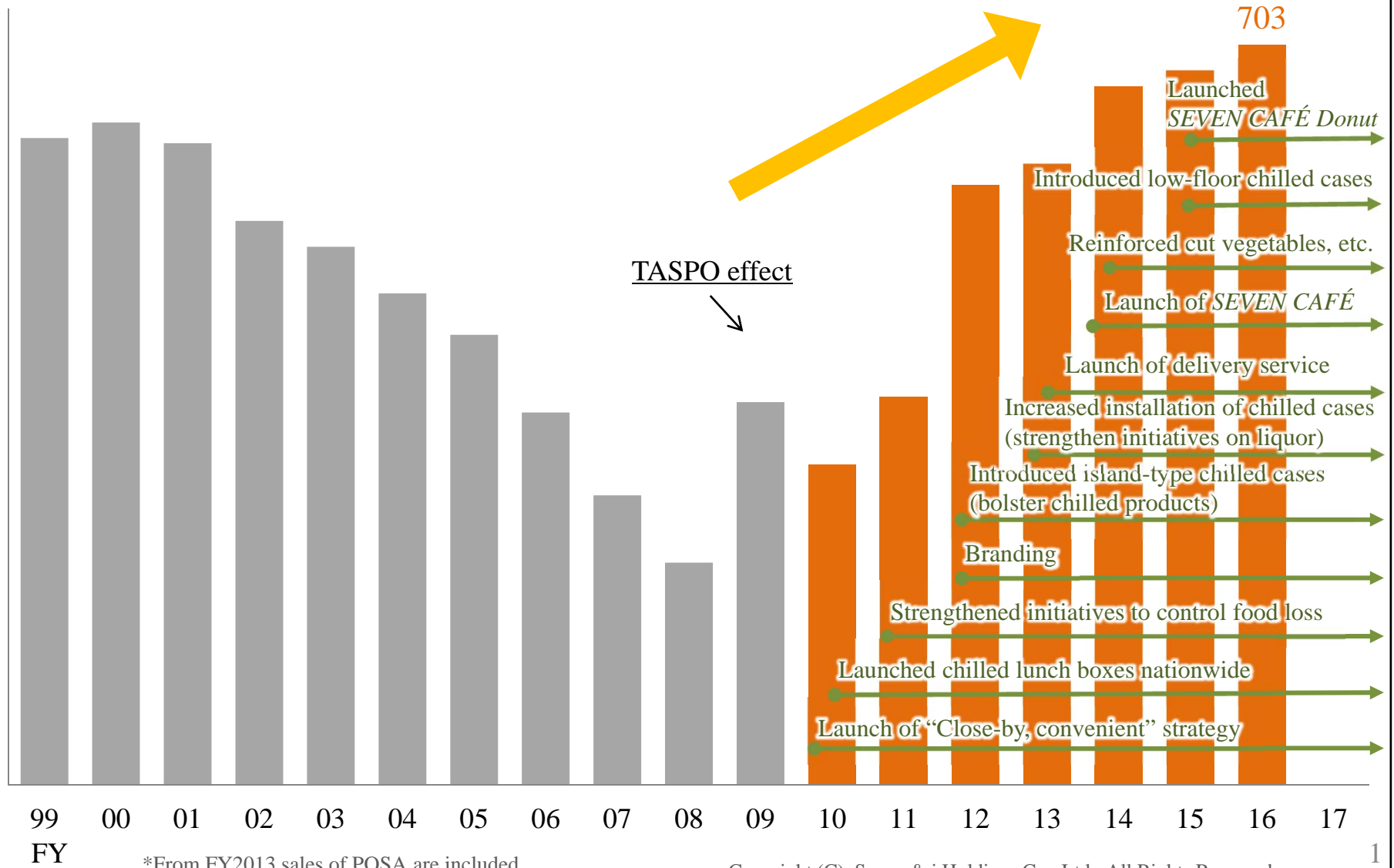
Seven & i Holdings Co., Ltd.

# Seven-Eleven Japan (SEJ) Era

One month after the appointment of the new president of 7 & i Holdings

# Review of the SEJ Era (Appointed president in FY2010)

## ■ Average daily sales at existing SEJ stores



Transfer the strategies implemented at SEJ to other operating companies



First month as the president of 7&i Holdings

Listened as much as possible to people in and outside the Company, including from other industries

Checked in person the actual sites, actual situations, and actual products (*genba*, *genjitsu*, *genbutsu*)

Align the Group's intended direction with holding company's function

# Group's Intended Direction

Everything stems from our philosophy of being a sincere company that our customers trust

- I will manage with an even stronger focus on the customer's perspective than before

Up until now

- Everything starts from “**products**” – the Group's unchanging assets



From now on

- **Balance Sheet** also to be carefully managed with focus on asset efficiency and sales floor efficiency
- Examine **added value other than products** for our 20 million plus customers per day

Remain all possibilities and pursue to increase corporate value

Group's Intended Direction

Three Pillars

(1) Leverage the combined power of the Group to grow the CVS operations

■ Items currently under consideration

i Pull SEJ up to the next growth stage

ii 7-Eleven Inc. (SEI)'s sustainable growth and review of global strategy



(2) Restructure Ito-Yokado (IY) and Sogo & Seibu (SS) business models for stable growth

■ First Phase: Stop the flow of red ink

Already announced items

I Y ● Close 20 stores in FY2017,  
close 40 stores in aggregate by FY2021

S S ● Close Seibu Asahikawa, Sogo Kashiwa  
(September 30th)

**In addition, we are currently conducting a full, detailed audit leaving no stone unturned**

(2) Restructure Ito-Yokado (IY) and Sogo & Seibu (SS) business models for stable growth

■ Second Phase: Put the Company on a stable growth track

Already announced items

I Y Restructure by conversion of existing stores to *Ario* and tenant mix

**Remain open to all possibilities and search for stable growth**

### (3) Promote the Omni-Channel Strategy (Revise)

Usability testing and business model examination in progress

#### ■ Items currently under consideration

Examine sweeping reforms incorporating objective opinions

## Seven & i 100 Day Plan

Specific strategies of the three main pillars explained previously

Plan to report at the 1H financial results presentation

# Clarify Holding Company's Functions

(1) Holding company and operating companies:  
create a monolithic organization

Launch President Meeting: Conduct individual monthly meetings with the six major operating companies

Share management challenges and solutions

Set KPIs and monitor

Work through the PDCA cycle by dialogue and deliver results

## (2) Strengthen governance to achieve targets

Clarify authority and responsibilities

**Make decisions using fair and highly transparent process**

Support for  
management  
execution

Assessment and  
supervision of  
management  
execution

Optimal resource  
distribution

Result: increase corporate value through sustainable growth  
and return to shareholders



Consolidated Financial Results  
for the First Quarter of FY2017

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# Overview of Consolidated Financial Results

(Billions of yen)

	Three Months Ended May 31, 2016		
	Amount	YOY	Change from the previous year
Group's total sales*	2,560.9	100.6%	+15.7
Revenues from operations	1,394.7	96.8%	(46.0)
Operating income	81.4	99.5%	(0.3)
Ordinary income	82.3	101.5%	+1.2
Net income attributable to owners of parent	43.1	102.2%	+0.9

Exchange rate [income statements]: 115.35 yen, rise 3.81 yen YOY

\*Group's total sales include the sales of Seven-Eleven Japan and 7-Eleven, Inc. franchisees.

## Operating Income by Business Segment

- CVS operations, Superstore operations and Financial operation increased in profit

(Billions of yen)

	Three Months Ended May 31, 2016		
	Amount	YOY	Change from previous year
Consolidated operating income	81.4	99.5%	(0.3)
Convenience store operations	68.8	104.2%	+2.7
Superstore operations	6.5	108.1%	+0.4
Department store operations [before amortization of goodwill]	(1.0) [(0.02)]	- [-]	(0.9) [(1.2)]
Food services	(0.1)	-	(0.5)
Financial services	12.7	110.6%	+1.2
Mail order services	(2.9)	-	(0.1)
Others	1.1	84.7%	(0.2)
Eliminations / corporate	(3.7)	-	(2.9)

# Operating Income for Major Operating Companies

## ● SEJ and SEI achieved record-high operating income

(Billions of yen)

	Three Months Ended May 31, 2016				Major factors on YOY changes
	Amount	YOY	Change from the previous year	Existing store sales increase	
Seven-Eleven Japan	58.3	100.4%	+0.2	+1.7%	Growth in existing store sales and improvements in merchandise gross profit margins
7-Eleven, Inc. [in dollar basis]	12.2 [\$ 105.9 mn]	122.0% [126.0%]	+2.2 [+\$ 21.8 mn]	+4.2%	Growth in existing store sales and improvements in merchandise gross profit margins
Ito-Yokado	0.4	-	+0.3	(2.9)%	Restraint in advertising and decoration expenses
York-Benimaru (including Life Foods* <sup>1</sup> )	4.8	106.6%	+0.3	+1.7%* <sup>2</sup>	Growth in existing store sales
Sogo & Seibu	0.01	2.6%	(0.5)	(4.6)%	Decreased sales of apparel and deterioration of gross profit margin

\*<sup>1</sup> Life Foods is a wholly owned subsidiary which produces and sells delicatessen in York-Benimaru stores.

\*<sup>2</sup> Existing store sales increase figures for York-Benimaru non-consolidated base.

Note: The combined operating income for YB and LF represents internal management reporting figures.



Plan for Consolidated Financial Results  
for the Fiscal Year ending February 28, 2017

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The consolidated financial results forecast for the fiscal year ending February 28, 2017, has been left undetermined.

The reason is that a business restructuring plan for the future of the Company's consolidated subsidiary Nissen Holdings Co., Ltd. is ongoing consideration at this point.

For reference, the figures excluding Mail order services are presented.

The consolidated financial results forecast will be announced without delay as soon as it becomes possible to make a rational projection.

## [Reference] Plan for Consolidated Financial Results

(Billions of yen)

	FY2017 Plan		
	Amount	YOY	Change from the previous year
Group's total sales <sup>*1</sup>	10,873.0	103.1%	+328.6
Revenues from operations	6,010.0	102.1%	+123.0
Operating income	389.0	107.8%	+28.2
Net income attributable to owners of parent <sup>*2</sup>	184.1	110.1%	+16.9

Exchange rate [income statements]: 115.00 yen, rise 6.10 yen YOY

\*1 Group's total sales include the sales of Seven-Eleven Japan and 7-Eleven, Inc. franchisees.

\*2 Estimate an increase in restructuring expenses [approx. +14.0 bn yen]



# Initiatives in Operating Companies

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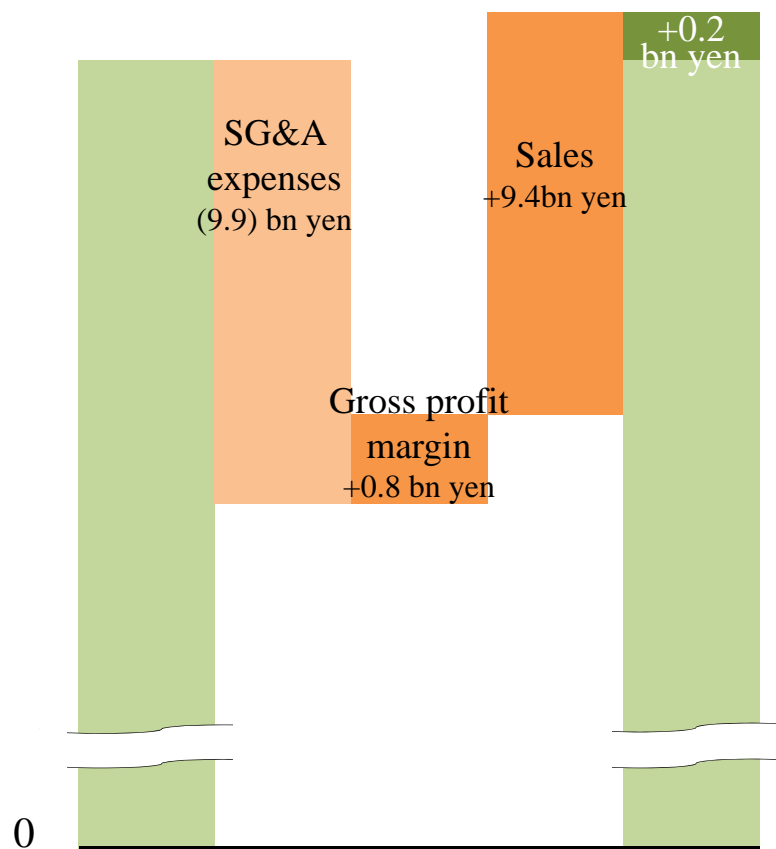
# Seven-Eleven Japan(SEJ)

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# SEJ: 1Q FY2017 Operating Income – Analysis Factors in YOY Change

## Operating income changes

FY2016 1Q operating income 58.0 bn yen → FY2017 1Q operating income 58.3 bn yen



Item	Results	Details
Sales	+5.4% <u>+9.4 bn yen</u>	<ul style="list-style-type: none"> <li>Existing store sales +1.7% +1.9 bn yen</li> <li>Increase in store numbers +7.5 bn yen</li> </ul>
Gross profit margin	+0.1% <u>+0.8 bn yen</u>	<ul style="list-style-type: none"> <li>Decline in composition ratio of cigarettes sales</li> </ul>
SG&A expenses	+8.6% <u>(9.9) bn yen</u>	<ul style="list-style-type: none"> <li>Special factors (Omni-Channel related, System related, etc.) +2.2 bn yen</li> <li>Increase in store number, etc. +7.8 bn yen</li> </ul>

Improve gross profit by strengthening fast food and control SG&A expenses by revising advertising expenses, etc.



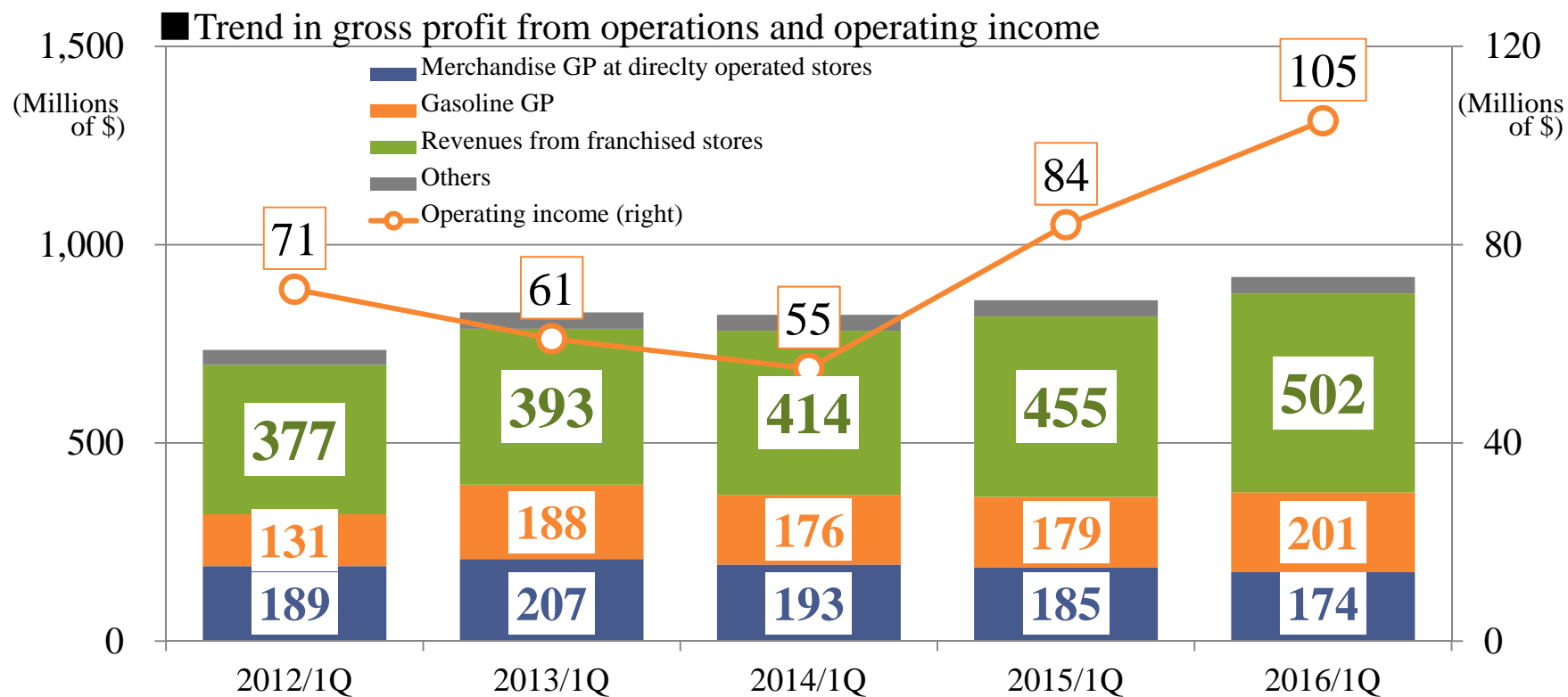


7-Eleven, Inc. (SEI)

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# SEI: Growth Drivers: Promotion of Conversion to Franchised Stores

## ● Increase revenues from franchised stores to enhance profitability



Number of directly operated stores	1,757	2,212	2,086	1,858	1,731
Number of franchised stores	5,506	5,953	6,216	6,411	6,771
Franchised ratio	75.8%	72.9%	74.9%	77.5%	79.6%

\*Gross profit from operations: Sum of merchandise GP at directly operated stores, gasoline GP and other operating revenues including revenues from franchised stores.

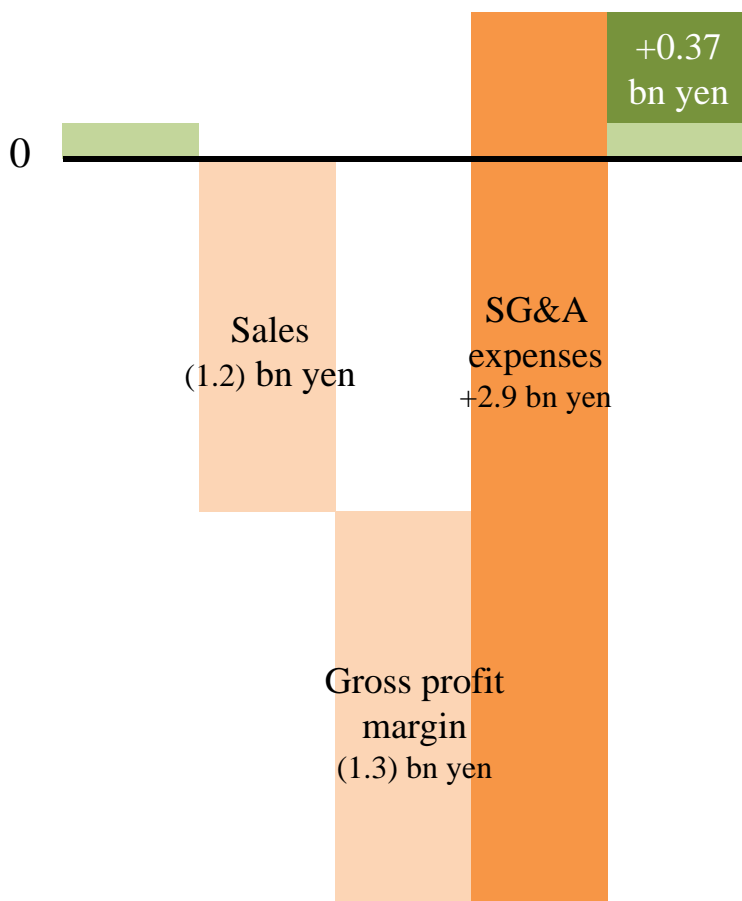
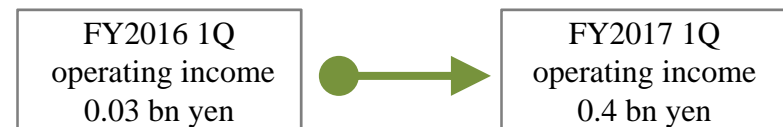


Ito-Yokado (IY)

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# IY: 1Q FY2017 Operating Income – Analysis Factors in YOY Change

## ■ Operating income changes



Item	Results	Details
Sales	(1.7)% <u>(1.2) bn yen</u>	<ul style="list-style-type: none"> <li>Existing stores (2.9)%</li> <li>Controlled sales promotion measures</li> </ul>
Gross profit margin	(0.6)% <u>(1.3) bn yen</u>	<ul style="list-style-type: none"> <li>Apparel gross profit margin (2.6)%</li> <li>Food products gross profit +0.3%</li> </ul>
SG&A expenses	(3.6) % <u>+2.9 bn yen</u>	<ul style="list-style-type: none"> <li>Existing stores (4.7) bn yen</li> <li>New stores +1.8 bn yen</li> <li>Advertising and decoration expenses (3.5) bn yen</li> <li>Other expenses +0.6 bn yen</li> </ul>

## IY: Status of the Apparel Business

Sales	47.5 bn yen	97.3% YOY
Gross profit margin	33.8%	(2.6)% YOY ▪ Decline in markup rate [due to the pricing policy from FY2016 2H] ▪ Price reductions have been suppressed since last year [revision of sales promotion strategy]
Inventory amount	53.7 bn yen	▪ +1.6 bn yen [difference at end of period] ▪ +6.8 bn yen YOY

Markup rate expected to decline through to spring-summer products, sweeping revision from procurement policy

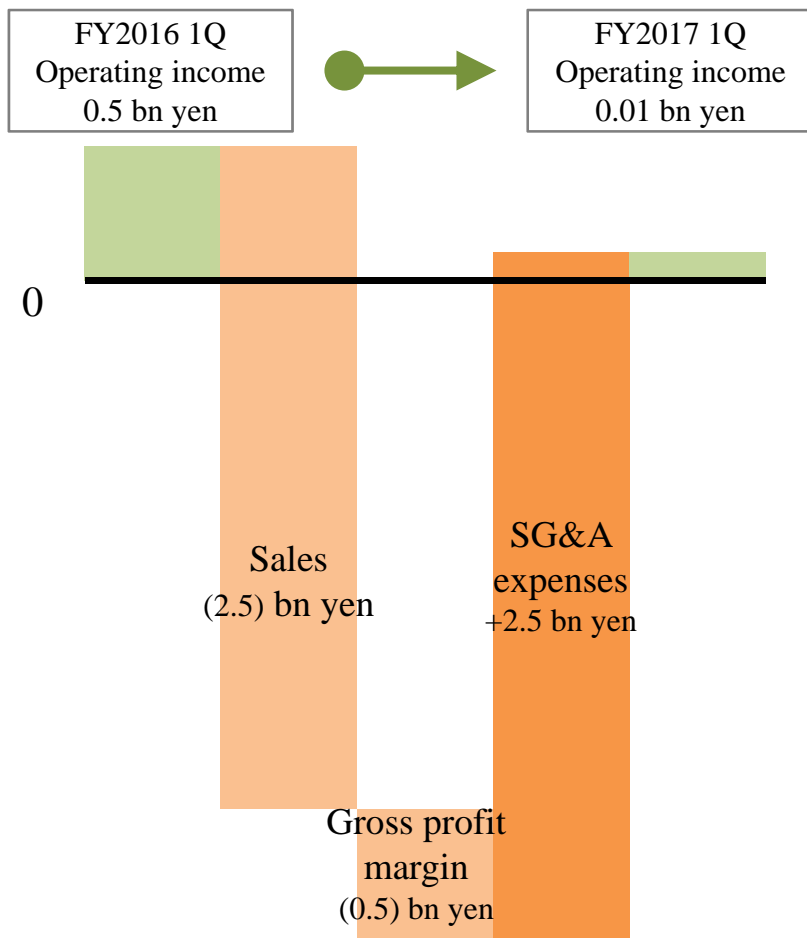


Sogo & Seibu (SS)

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# SS: 1Q FY2017 Operating Income – Analysis Factors in YOY Change

## Operating income changes



Item	Results	Details
Sales	(5.6)% <u>(2.5) bn yen</u>	<ul style="list-style-type: none"> <li>Existing stores (4.6)%</li> <li>Apparel sales declined mainly in women's apparel</li> </ul>
Gross profit margin	(0.4)% <u>(0.5) bn yen</u>	<ul style="list-style-type: none"> <li>Apparel sales declined</li> <li>Food product sales composition ratio increased</li> </ul>
SG&A expenses	(5.9)% <u>+2.5 bn yen</u>	<ul style="list-style-type: none"> <li>Advertising and decoration expenses (0.6) bn yen</li> <li>Utility expenses (0.4) bn yen</li> </ul>

Strengthen growth fields such as food and cosmetics while promoting expense reduction



# Appendix

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# Convenience Store Operations: Results (1)

## Seven-Eleven Japan

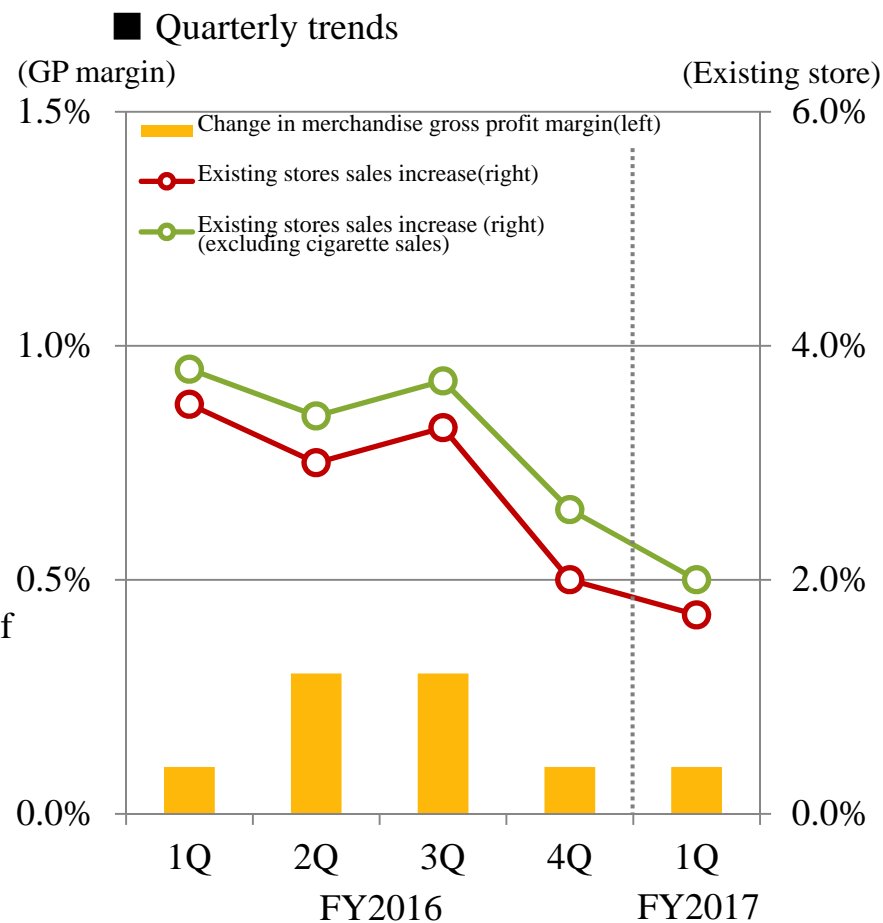


Record-high income for a fifth consecutive year resulted from increased existing store sales

	Results	YOY
Operating income	58.3 bn yen	100.4% +0.2bn yen
Existing store sales increase	+1.7%	
Merchandise gross profit margin	31.9%	+0.1%

### Overview

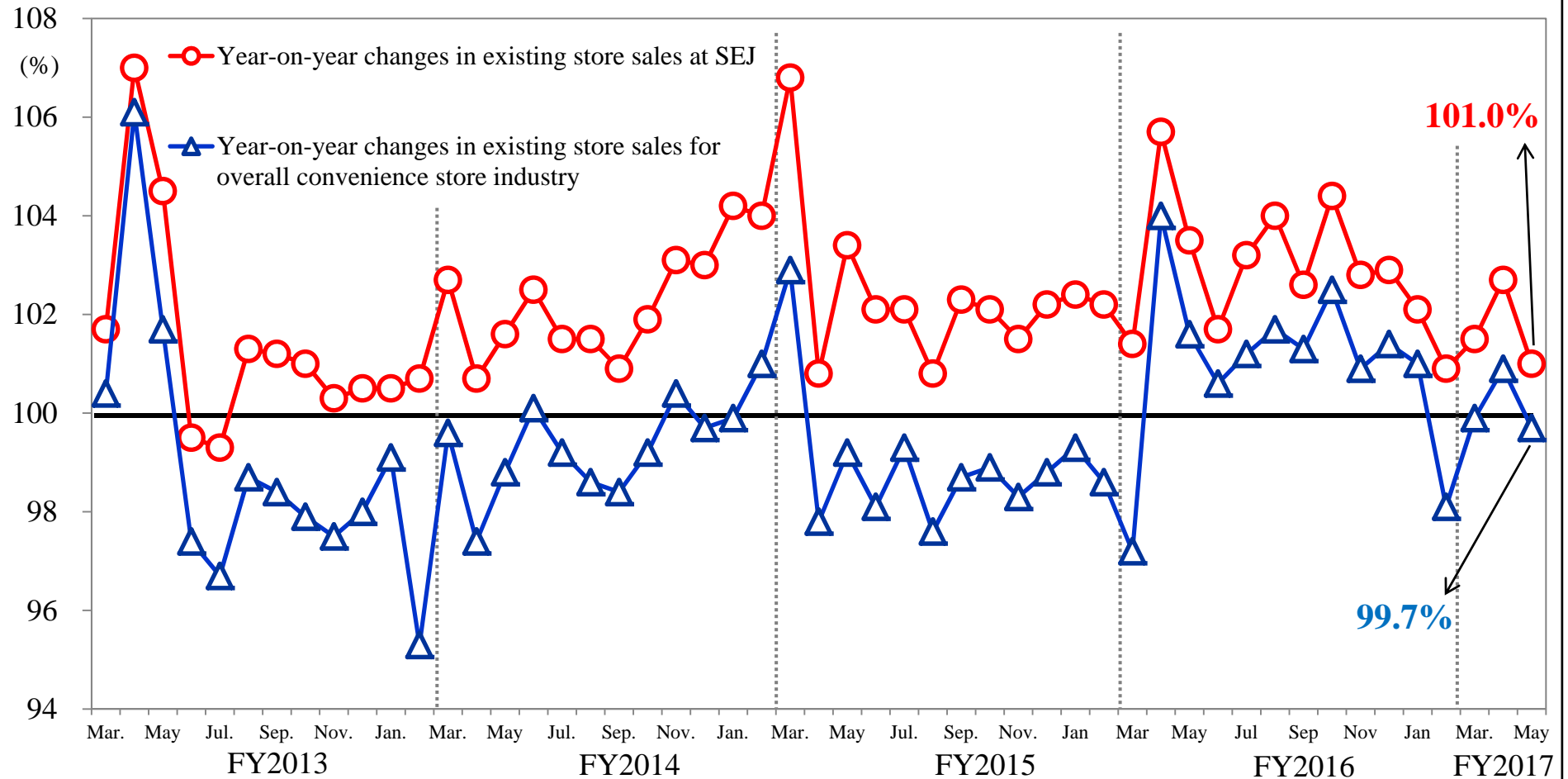
- Existing store sales: Increased sales due to recommendation of new products with value and further improvement of quality for standard products such as rice balls and pastry
- Gross profit margin: Improved due to effect of reduced sales composition of low gross profit margin cigarettes, among others
- Operating income: Robust sales absorbed growing SG&A expenses to achieve record income



# SEJ: Trend in YOY Changes in Existing Store Sales

● Rising **46** consecutive months despite a poor weather for 1Q FY2017.

■ Trend in YOY changes in existing store sales at SEJ



Note: February 2016 figures for existing store YOY change at overall convenience stores represent the YOY change in total sales [up 1.6%], including the impact of the leap year, converted to daily-sales basis.

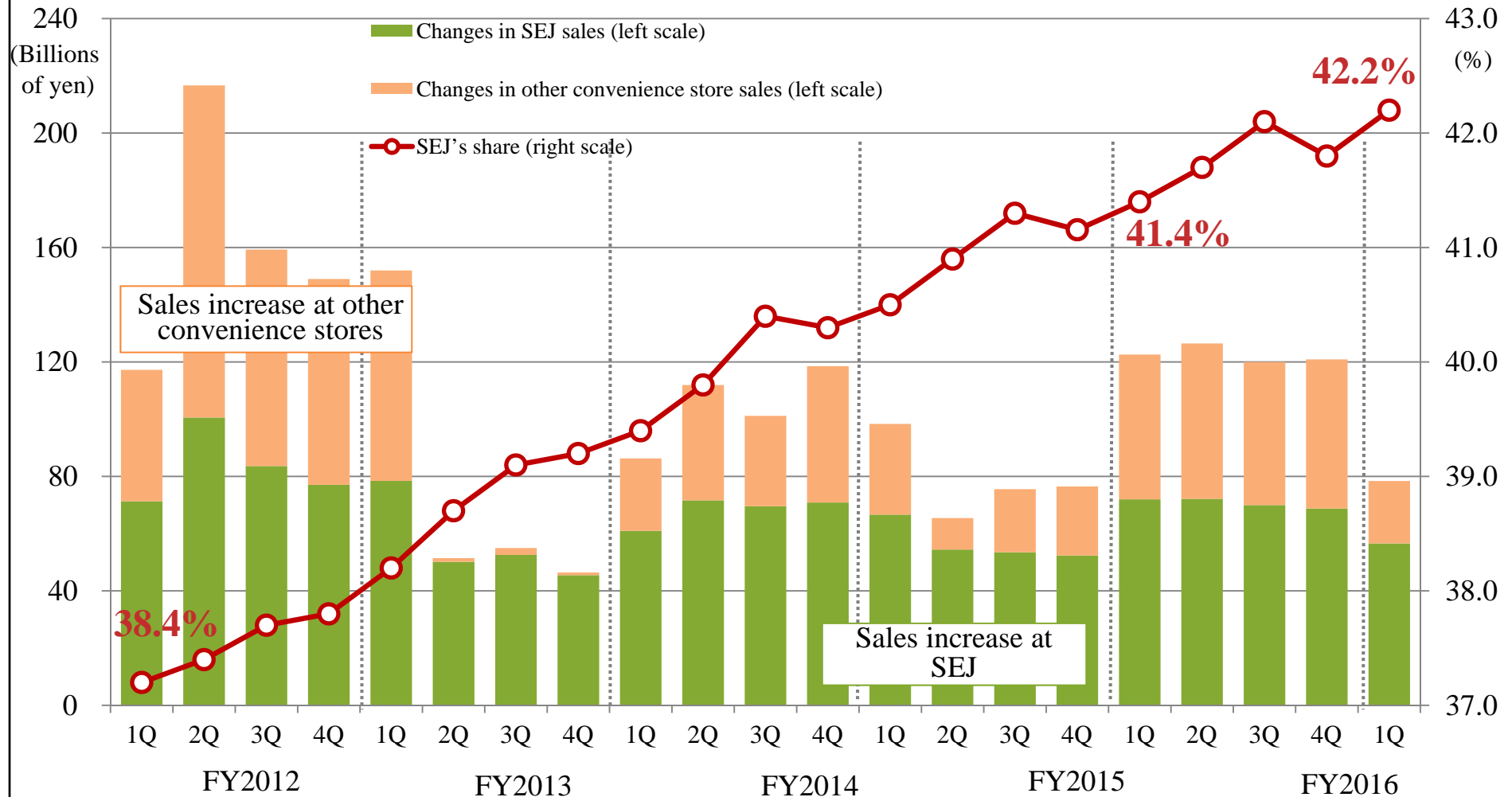
Source: Japan Franchise Association monthly convenience store survey

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# SEJ: Trend in SEJ's Share of Sales and Changes in Sales by Quarter

● Record-high sales share expanded to **42.2%** resulted from increased existing store sales

■ Trend in sales share of SEJ and increase/decrease of CVS sales



Source: Japan Franchise Association monthly convenience store survey

# Convenience Store Operations: Results (2)

7-Eleven, Inc.



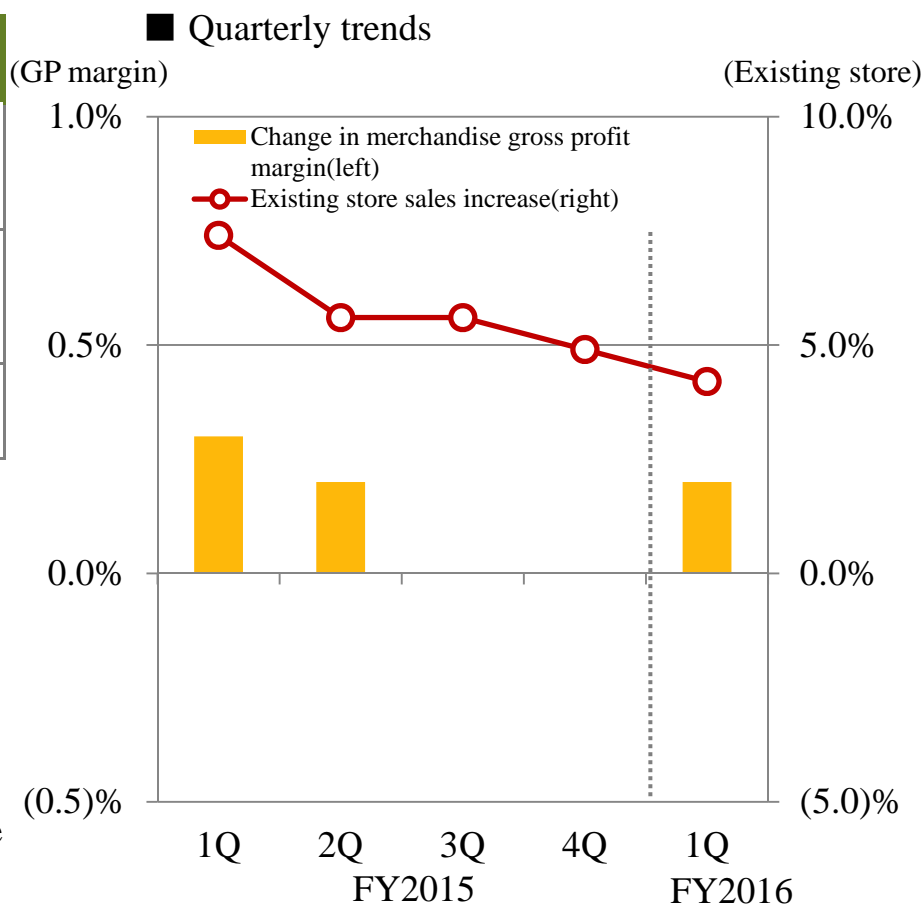
Growth in merchandise sales at existing stores driven by strong fresh foods sales resulted in record-high operating income growth

	Results	YOY
Operating income	12.2 bn yen	122.0% +2.2 bn yen
Existing store sales increase (U.S. merchandise sales in dollar basis)	+4.2%	
Merchandise gross profit margin	34.8%	+0.2%

## Overview

- Existing store sales: Increased due to growth in fresh foods sales centered on hot foods
- Gross profit margin: Increased due to brisk sales of fresh food and non-alcoholic beverages
- Significant profit increase due to growth in existing product sales and improved gross profit, despite negative impact of the strong yen

[The effect of a stronger yen: (0.4) billion yen]



# Superstore Operations: Results (1)

Ito-Yokado



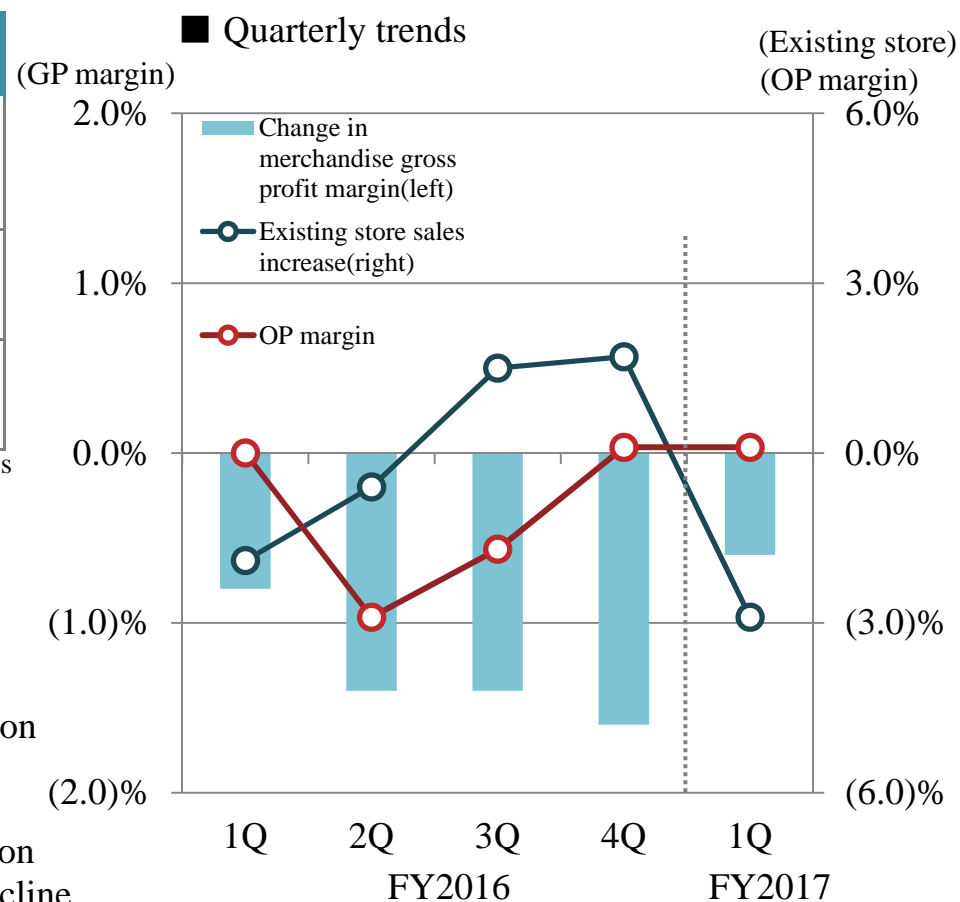
Higher income mainly due to optimization of advertising and decoration expenses despite the decrease in existing store sales and gross profit margin

	Results	YOY
Operating income	0.4 bn yen	- +0.3 bn yen
Existing store sales increase	(2.9)%	[(2.4)%]*
Merchandise gross profit margin	29.2%	(0.6)%

\*Existing store sales increase of total shopping centers sales

## Overview

- Existing store sales: Decrease caused by impact on customer numbers from a review of sales promotion measures including advertising and discounts
- Gross profit margin: Decreased, mainly due to deterioration in markup rate and other factors, following sales price revision in apparel
- Operating income: Controlled in advertising and decoration expenses [(3.5 bn yen)] and other measures covered a decline in existing store sales and gross profit margin, resulting in higher operating income



# Superstore Operations: Results (2)

## York-Benimaru

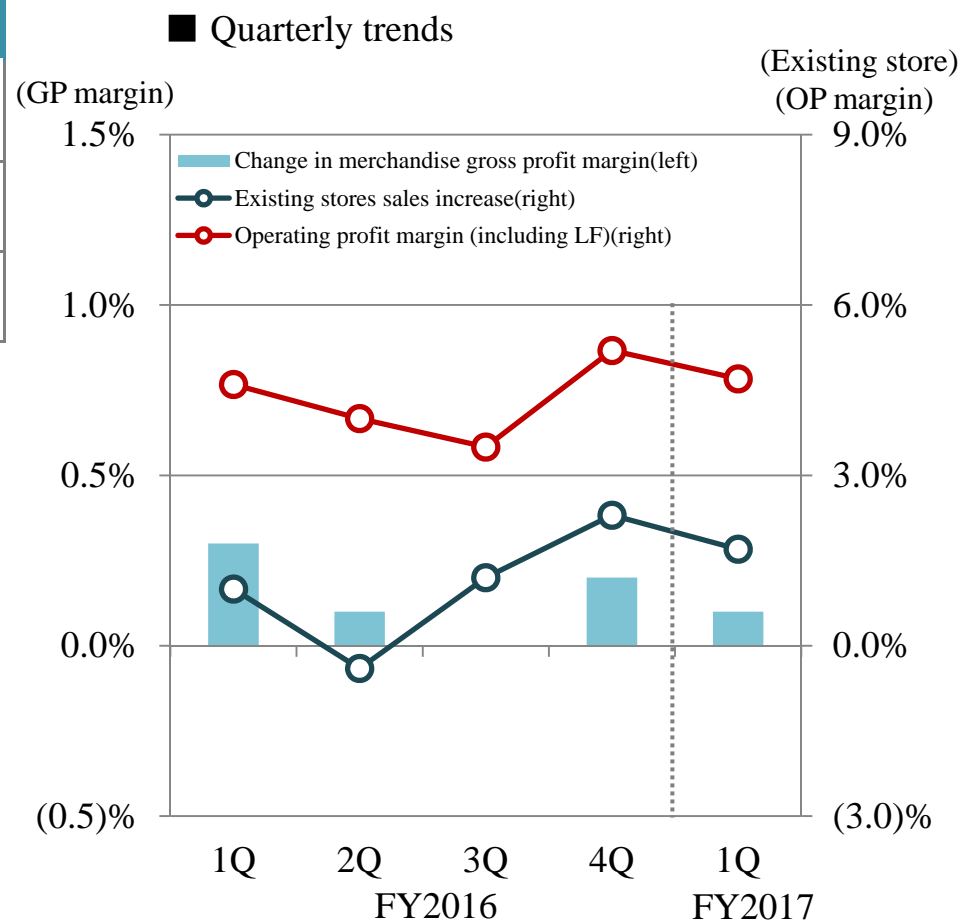


Higher income as increases in existing store sales and gross profit margin absorbed growth in expenses following the increase in stores, etc.

	Results	YOY
Operating income	3.6 bn yen	108.9% +0.2 bn yen
Existing store sales increase	+1.7%	
Merchandise gross profit margin	25.6%	+0.1%
Operating income (including Life Foods)*	4.8bn yen	106.6% +0.3 bn yen

### Overview

- Existing store sales: Food, apparel and household goods division have all increased YOY  
Strong performing food continue to drive the entire company
- Gross profit margin :Increased due to brisk sales of foods
- Operating income: Higher income due to increase in existing sales and improvement of gross profit margin



\*Life Foods (LF): Life Foods is a wholly owned subsidiary which produces and sells delicatessen items in York-Benimaru stores.

(Note) The combined operating income for YB and LF are management figures provided for reference purposes.

# Department Store Operations: Results

## Sogo & Seibu

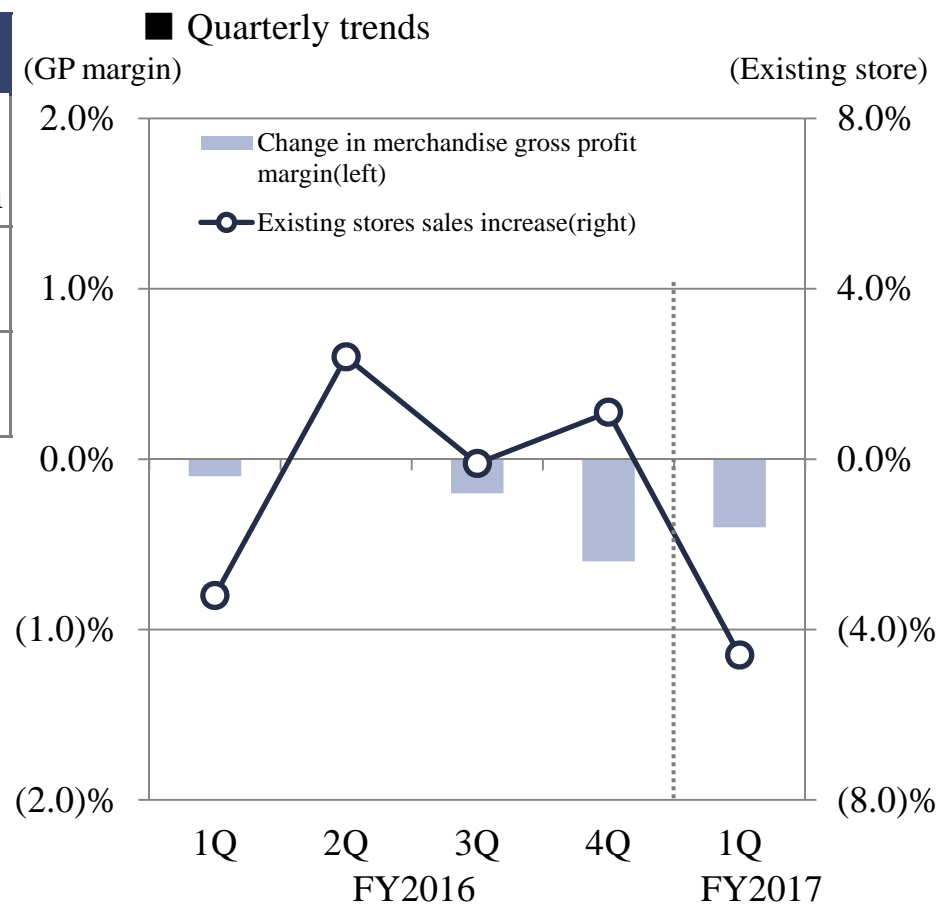


Lower income reflected a decrease in existing store sales and decline gross profit margin

	Results	YOY
Operating income	0.01 bn yen	2.6% (0.5) bn yen
Existing store sales increase	(4.6)%	
Merchandise gross profit margin	24.7%	(0.4)%

### Overview

- Existing store sales: Decreased mainly due to the struggling apparel sales
- Gross profit margin: Declined due to decrease in sales of apparel products with low gross profit and high sales composition ratio
- Operating income: Down, due to decreased mainly in apparel sales despite a decrease in SG & A



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