



# Financial Results Presentation for the Third Quarter of FY2017

January 12, 2017

Seven & i Holdings Co., Ltd.

# Change to a Structure for Accelerating Progress on Medium-Term Management Plan

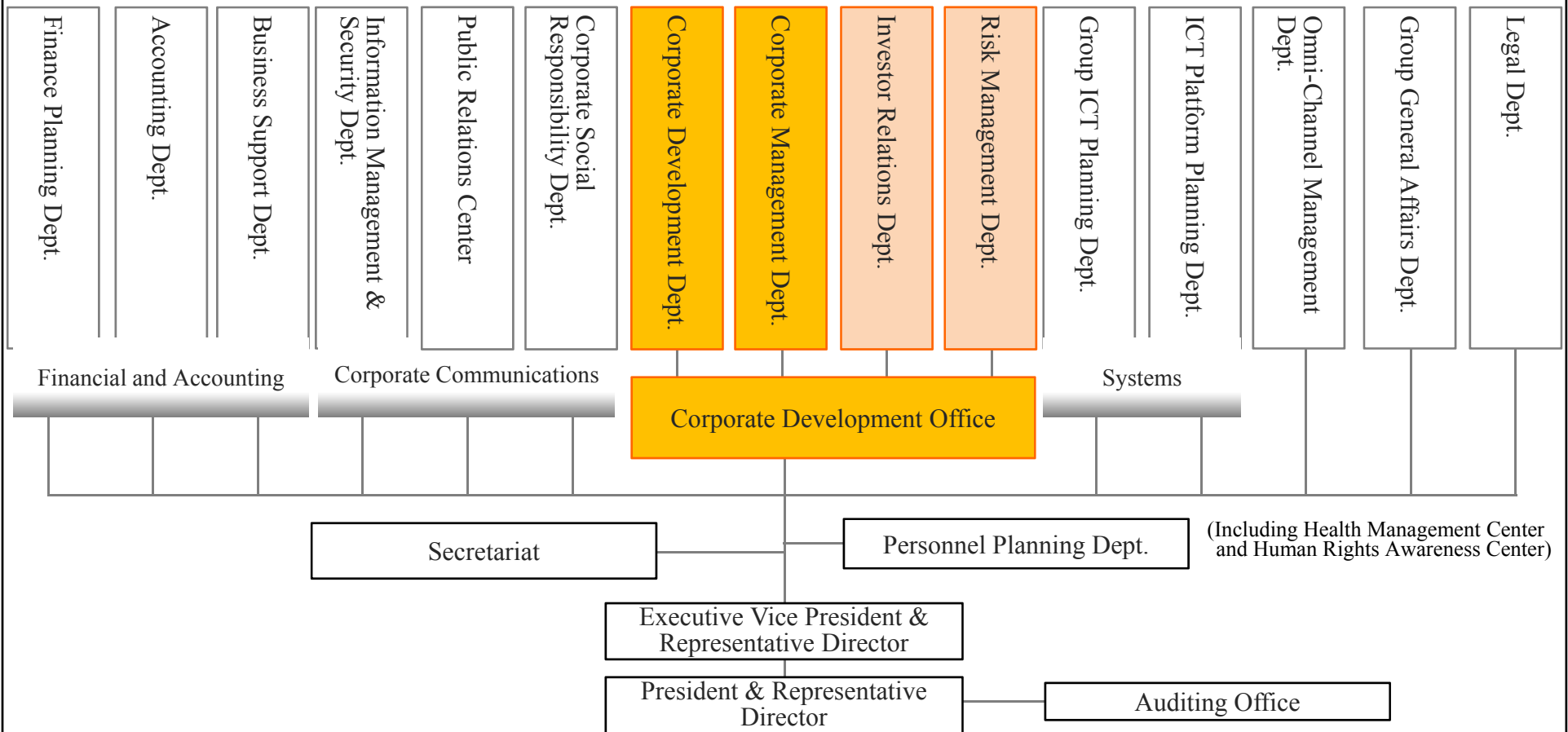
# Change to a Structure for Accelerating Progress on Medium-Term Management Plan



## 【Medium-Term Management Plan Numerical Targets】

⇒FY2020 consolidated operating income 450.0 bn yen; ROE 10%

### ◆ Organization change (execution start: December 19, 2016)

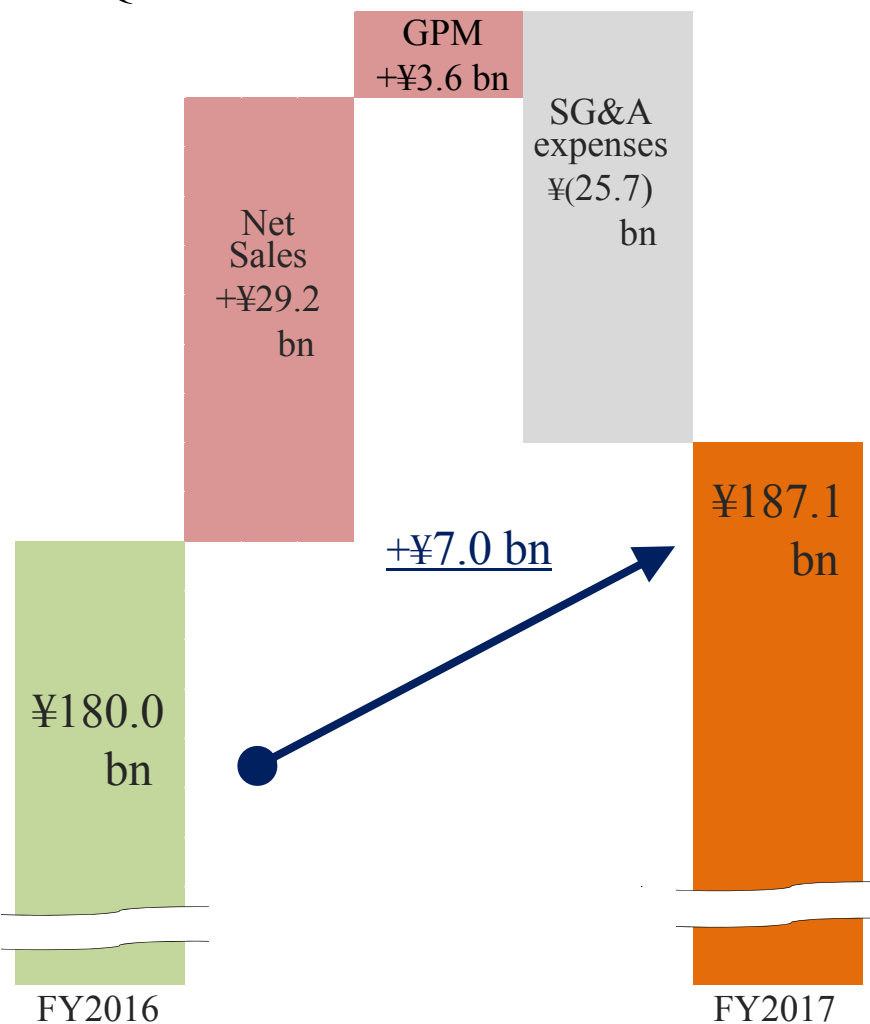


Core divisions for strategy promotion have been concentrated to accelerate progress

# Seven-Eleven Japan SEJ

# SEJ (Operating Income-Analysis Factors in YOY Change)

## ◆ Operating income changes of 3Q cumulative results



	Results	Details
Net Sales	+5.5% <u>+29.2</u> bn yen	<ul style="list-style-type: none"> <li>Existing stores +1.6% +6.9 bn yen (52 months of continuous YOY growth in existing store sales achieved in the previous year)</li> <li>Increase in store number +22.3 bn yen</li> </ul>
Gross Profit Margin	+0.2% <u>+3.6</u> bn yen	<ul style="list-style-type: none"> <li>Increase in sales from fryer foods and sandwiches, etc.</li> </ul>
SG&A expenses	+7.1% <u>(25.7)</u> bn yen	<ul style="list-style-type: none"> <li>Special factors (Omni-Channel related, System related, etc.) +5.4 bn yen</li> <li>Increase in store number, etc. +20.3 bn yen</li> </ul>

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

# Environmental Changes for the Convenience Store Operations



## ◆ Environmental changes

Increase in minimum wage and personnel expenses

Rigid enforcement of social insurance participation

Government policy on revising non-regular employment and inequality

Labor shortages

## ◆ Productive-aged population (15-64) trend

	2010	2011	2012	2013	2014	2015	2016	Change (2010→2016)
Productive aged population	81.7 mn	81.3 mn	80.1 mn	79.0 mn	77.8 mn	77.2 mn	76.3 mn	(5.4) mn

Source: Through 2014 Ministry of Internal Affairs "Population Statistics"

Note: Population as of October 1 each year

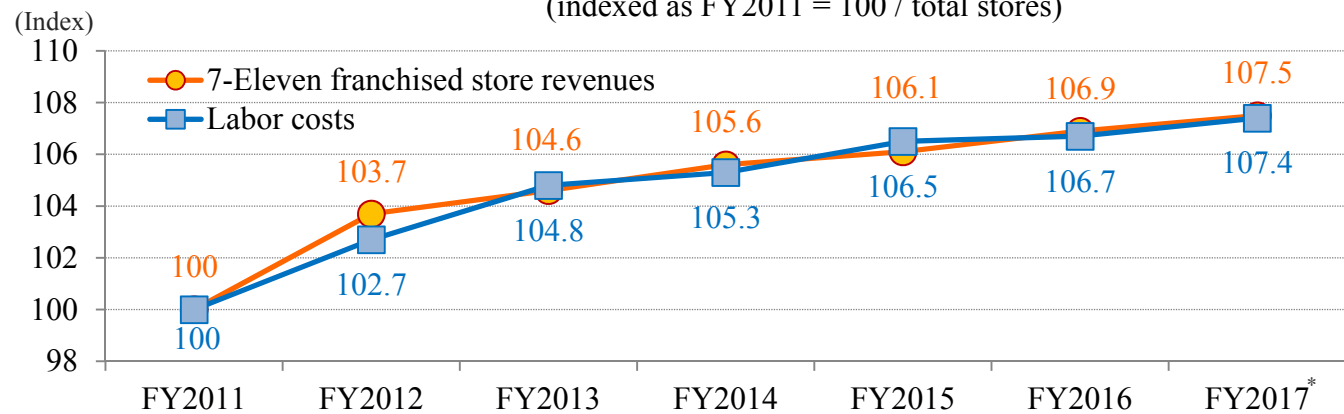
## ◆ Minimum wage trend

	2010	2011	2012	2013	2014	2015	2016	Change (2010→2016)
Tokyo	¥821	¥837	¥850	¥869	¥888	¥907	¥932	+¥111

Source: Ministry of Health, Labour and Welfare "List of Minimum Wages by Area in Japan"

## ◆ Trend in franchised store revenues and labor costs

(indexed as FY2011 = 100 / total stores)



\*Indexed as FY2011 3Q = 100

Revenues continue to expand steadily, but labor costs also remain rising

# SEJ (GPM Improvement through Productivity Enhancement)



## ◆ Methods of productivity enhancement

(1) Increase sales	Recommend product differentiation (continuous product renewal, new product development), revise store opening standards, etc.
(2) Improve gross profit margin	Increase the sales ratio of daily products and improve gross profit margin of top-selling and basic products, etc.
(3) Optimize expenses	Invest effective advertising expenses, etc.

## ◆ Gross profit margin improvement (merchandise total)

	1Q	2Q	3Q	Total for 1Q-3Q
YOY difference in gross profit margin	+0.1%	+0.2%	+0.3%	+0.2%

## ◆ Main categories contributing to improving the 3Q gross profit margin

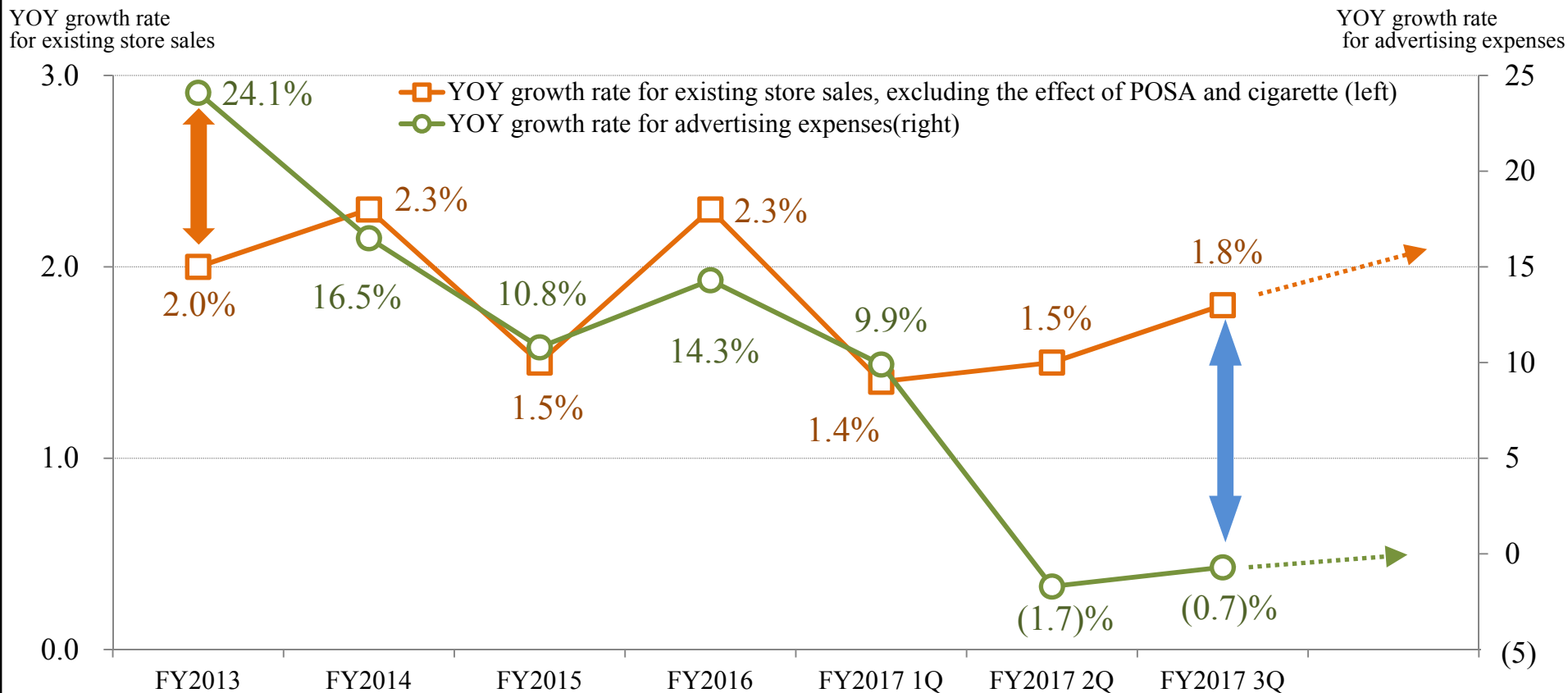
Category	Sales YOY	YOY change in GPM
Fryer products, etc.	107.0%	+0.14%
Sandwiches, etc	108.8%	+0.10%
Delicatessen	102.8%	+0.05%

Increase sales, centering on continually strengthening main categories of daily products to contribute to overall improvement of gross profit margin

# SEJ (Revision of Sales Promotion and Impact on Sales)



## ◆ Trend in YOY growth rates for existing store sales and advertising expenses



Make efficient use of advertising expenses to growth existing store sales while reducing costs

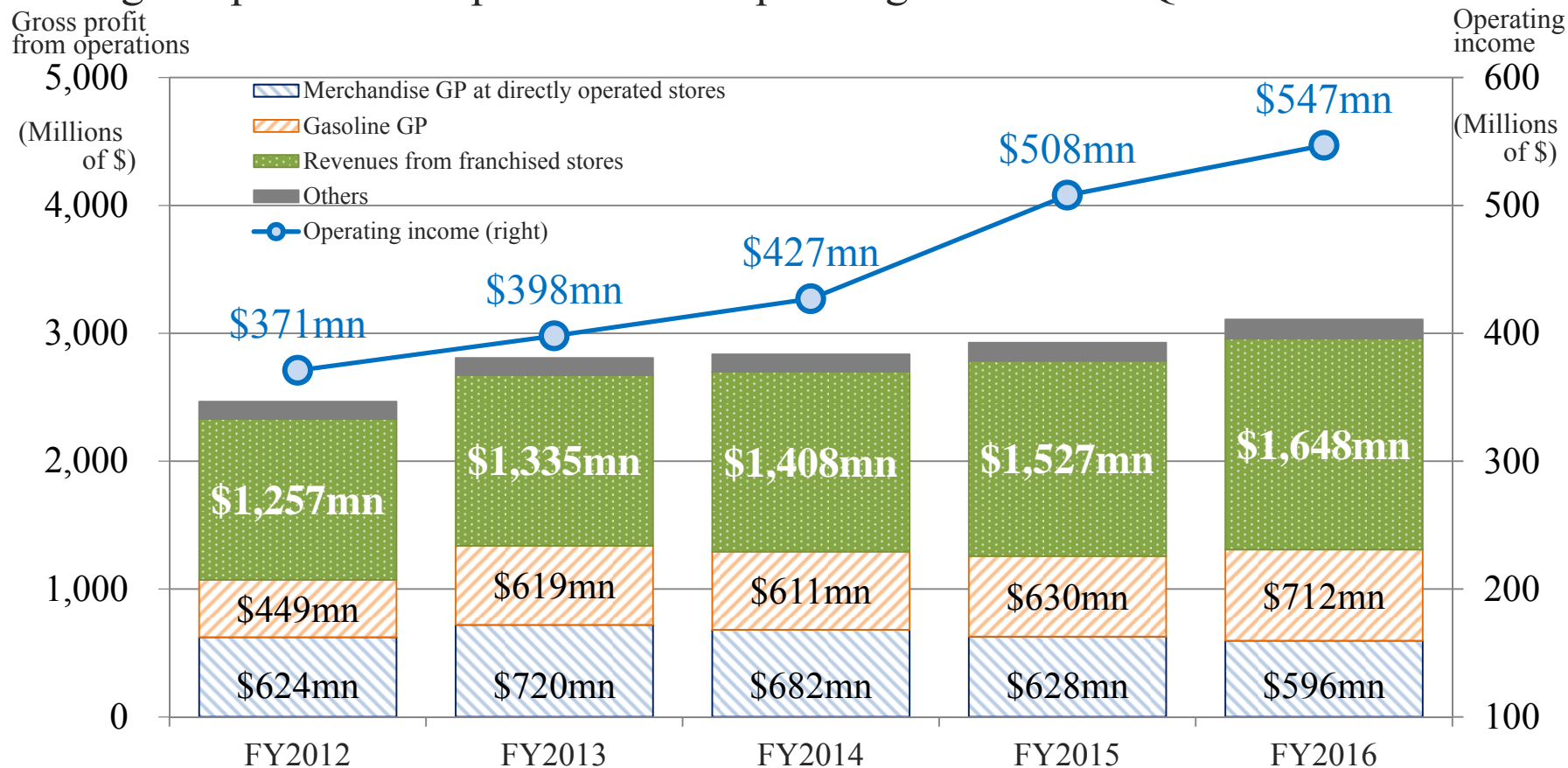


7-Eleven, Inc.  
SEI  
(Promoting Conversion to Franchise Stores  
and Strengthening Merchandizing Capabilities)

# SEI (Enhance Profitability by Promoting Conversion to Franchised Stores)



## ◆ Trend in gross profit from operations and operating income of 3Q cumulative results

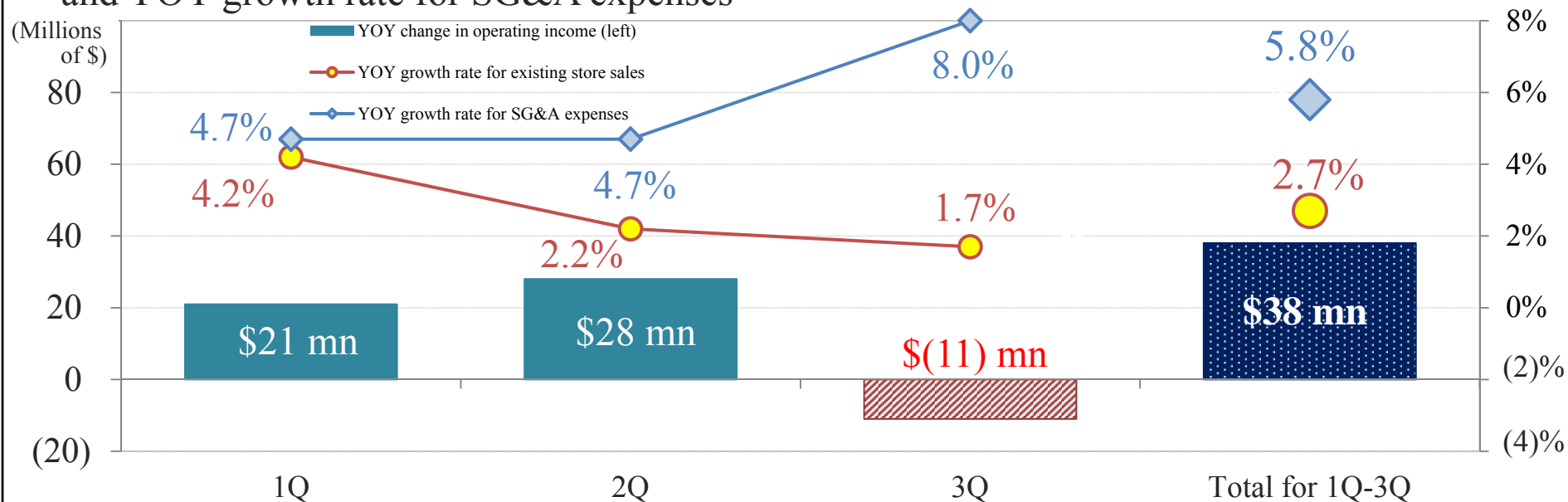


No. of directly operated stores	1,843	2,217	1,986	1,827	1,684
No. of franchised stores	5,703	6,071	6,293	6,622	6,884
Franchised ratio	75.6%	73.3%	76.0%	78.4%	80.3%

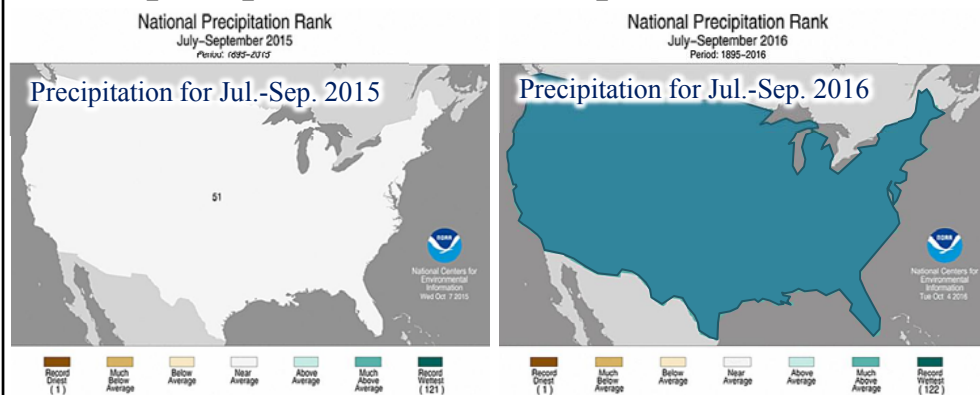
\*Gross profit from operations: Sum of merchandise GP at directly operated stores, gasoline GP and other operating revenues including revenues from franchised stores.

# SEI (3Q Operating Income Factors in YOY Change)

◆ Quarterly YOY change in operating income, YOY growth rate for existing store sales and YOY growth rate for SG&A expenses



◆ 3Q precipitation YOY comparison



2015 had the **70th** highest precipitation in the past 121 years

2016 had the **6th** highest precipitation in the past 122 years

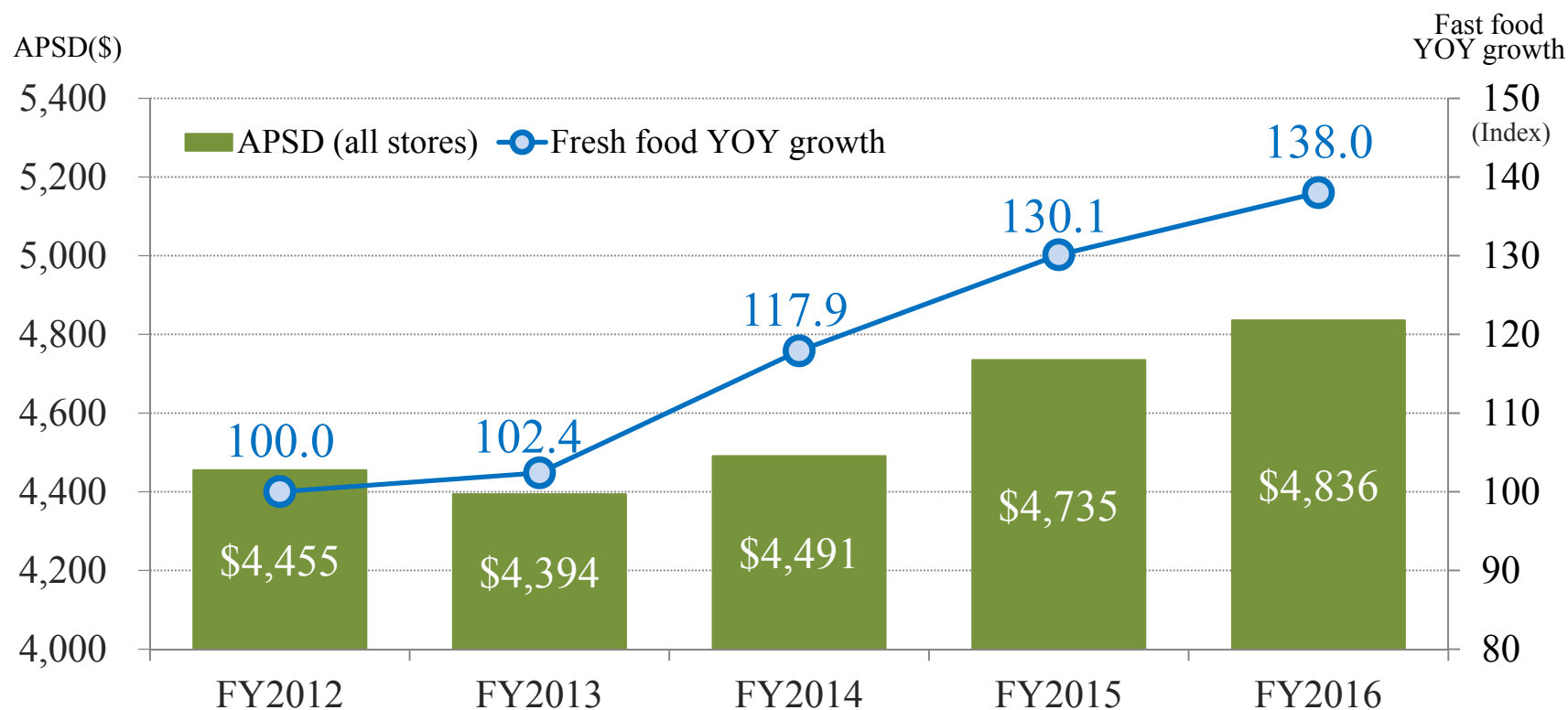
Source: National Oceanic and Atmospheric Administration

- Impact of deterioration in weather conditions  
(In particular, an increase in precipitation in Aug. and Sep. compared with the previous year)
- Increase in personnel expenses related to M&As and occupancy and related expenses, etc.

# SEI (Strengthen Merchandising Capabilities)



◆ APSD for all stores and fresh food YOY growth (indexed as 2012 sales = 100) of 3Q cumulative results



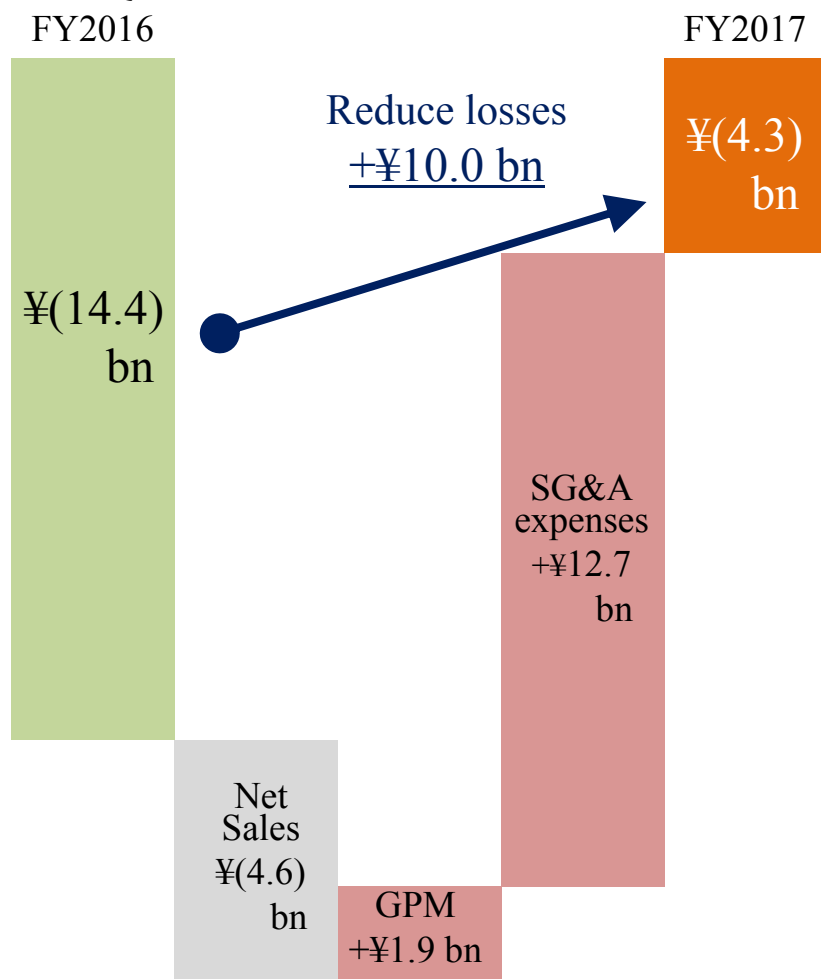
No. of stores with hot food	FY2012	FY2013	FY2014	FY2015	FY2016
	2,458	4,641	5,942	7,489	7,993

Hot food equipment was installed at almost all stores during the period, leading to growth in fresh food sales

Ito-Yokado  
IY  
(Promoting Structural Reforms)

# IY (Operating Income - Analysis Factors in YOY Change)

## ◆ Operating income changes of 3Q cumulative results

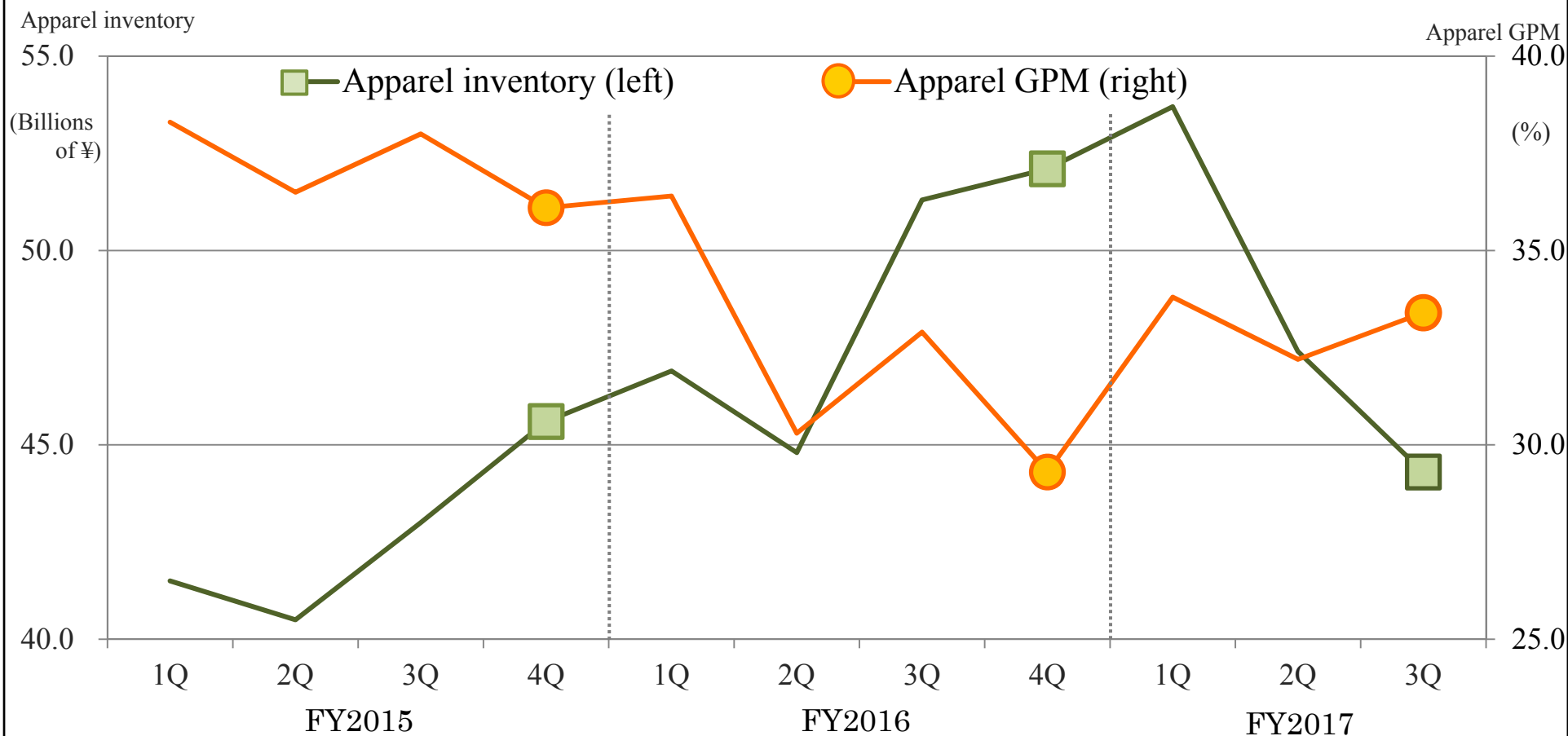


(Billions of ¥)

	Results	Details
Net Sales	(2.6)% <u>(4.6)</u> bn yen	<ul style="list-style-type: none"> <li>Existing stores (4.1)%</li> <li>Controlled sales promotion measures</li> </ul>
Gross Profit Margin	+0.3% <u>+1.9</u> bn yen	<ul style="list-style-type: none"> <li>Apparel (0.3)%</li> <li>Household goods +0.4%</li> <li>Food +0.6%</li> </ul>
SG&A expenses	(5.1)% <u>+12.7</u> bn yen	<ul style="list-style-type: none"> <li>Advertising and decoration expenses (11.6) bn yen</li> <li>Other expenses (1.1) bn yen</li> </ul>

# IY (Optimize Apparel Inventory Level)

## ◆ Past three years' apparel inventory and GPM – quarterly trends



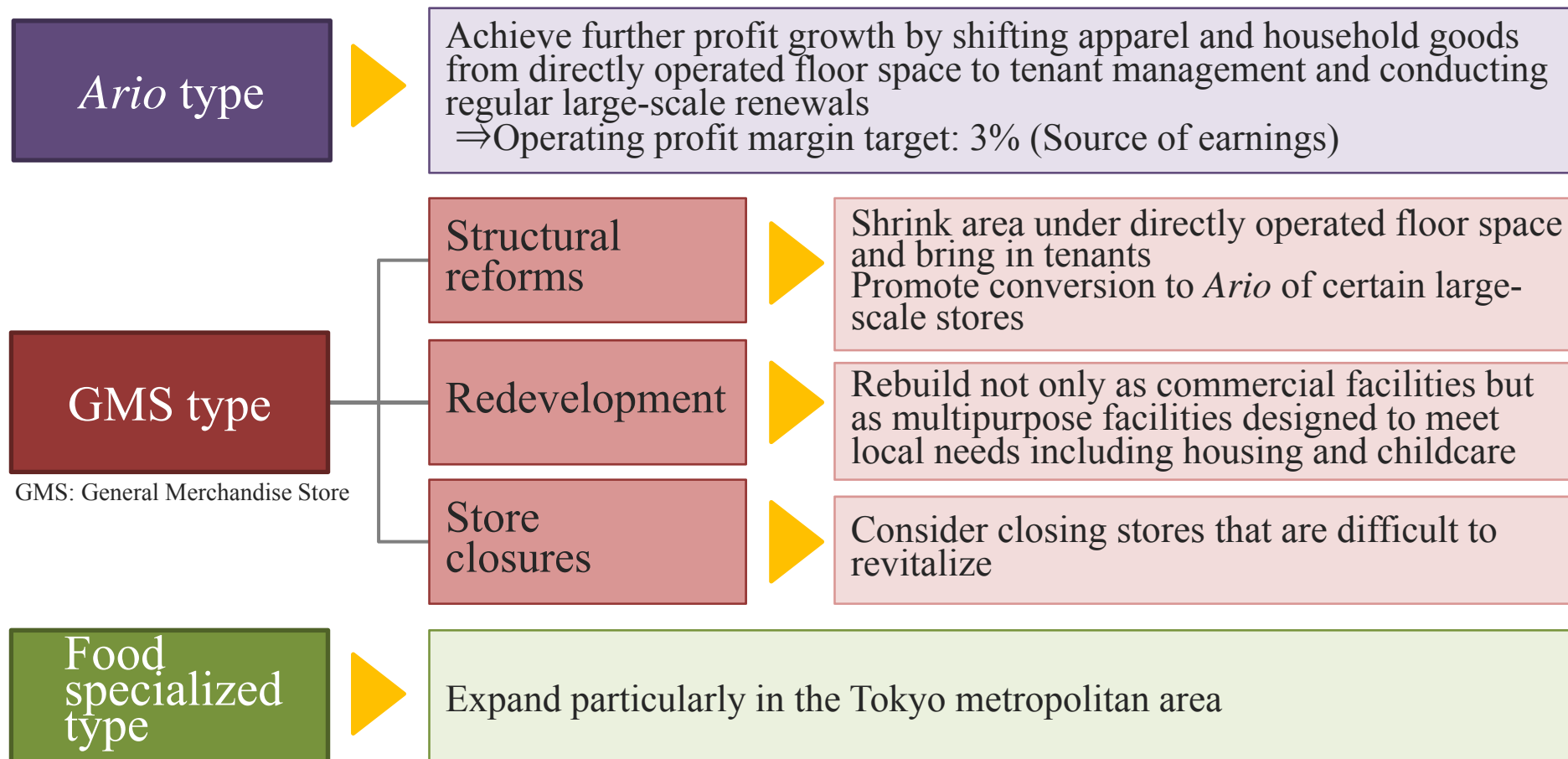
- Inventory expanded due to a pricing policy in FY2016 2H, but we have recently made progress on optimizing inventory level
- In FY2017 3Q, apparel gross profit improved by +0.5% amid progress in reducing inventory

# IY (Future Direction for Existing Stores)

Under the new organization (*SCL*) categorize all stores by profitability and age

*SCL: Seven & i Create Link*

## ◆ Approach to categorization





# IY: Store Structure Reform Example - *Ario Hashimoto* (Opened Sep. in 2010)



## ◆ *Ario Hashimoto* (implemented actions)

Sales area ratio	<b>【Directly operated ratio】 24 ⇒ reduced to 20*</b> <b>【Tenant ratio】 76 ⇒ increased to 80</b>	*reduced sales floor space for apparel
Remodeling key point	Zoning into four new areas responding to regional needs such as “kids” and “services”	
Strengthen foods	Strengthen the shopping center’s food merchandising through a mix of IY directly operated food sales floor revamps and food tenants	

## ◆ *Ario Hashimoto* sales before and after remodeling

	Week from Nov. 14	Weeks from Nov. 21 to Dec. 25
	Before remodeling	After remodeling
Sales YOY [IY total store sales]	93% [96%]	122% [98%]



Customer numbers grew for the entire shopping center by improving per square meter efficiency by reducing directly operated sales floor space for apparel and strengthening tenanting

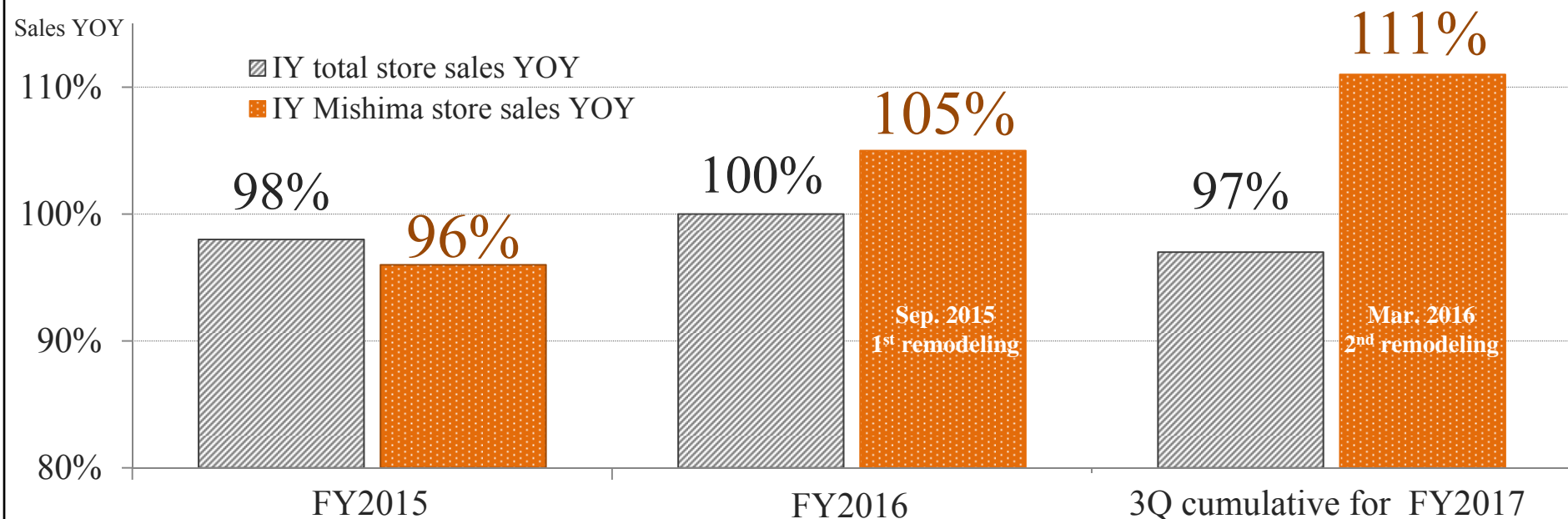
# IY: Tenant Mix Example - IY *Mishima* Store (Opened Mar. in 1995)



## ◆ IY *Mishima* Store (implemented actions)

Sales ratio	<p>【Directly operated sales ratio】 95 ⇒ reduced to 77</p> <p>【Tenant sales* ratio】 5 ⇒ increased to 23</p> <p><small>* Sales of tenants not included in sales management (<i>Seven Bi no Garden</i> and <i>Poppo</i>) and LOFT (franchised store) are included in tenant sales</small></p>
Tenants	SEIBU <i>Mishima</i> Shop, LOFT <i>Mishima</i> Store (franchised store), Akachan Honpo <i>Mishima</i> Store
Strengthen directly operated sales floor	Strengthen foods (enhance product sales to suit local market, fresh foods), increase sales area efficiency by reducing sales area of apparel and household goods

## ◆ IY *Mishima* storesales and IY total store sales before and after remodeling



# IY (Redevelopment Example – *Kawagoe Store*\*)

\*tentative naming



Rebuild using the equivalent exchange system  
(exchange of the land sale price for equity stake in the new building)



\*Image is for illustration purposes

1F-2F: supermarket 3F and upward: condominiums

Store opening	November 1967
Store closing	October 2016
Sales floor area	4,125 m <sup>2</sup>

Store opening	Planned for 2019
Sales floor area	1,419m <sup>2</sup> (plan)

# IY (Redevelopment Example – *Kita-Senju Store*\*) \*tentative naming



Condominium with tenant stores on 1<sup>st</sup> and 2<sup>nd</sup> floor  
(equivalent exchange method)



1F-2F: supermarket 3F and upward: condominiums

Store opening	April 1958
Store closing	April 2016
Sales floor area	4,191 m <sup>2</sup>

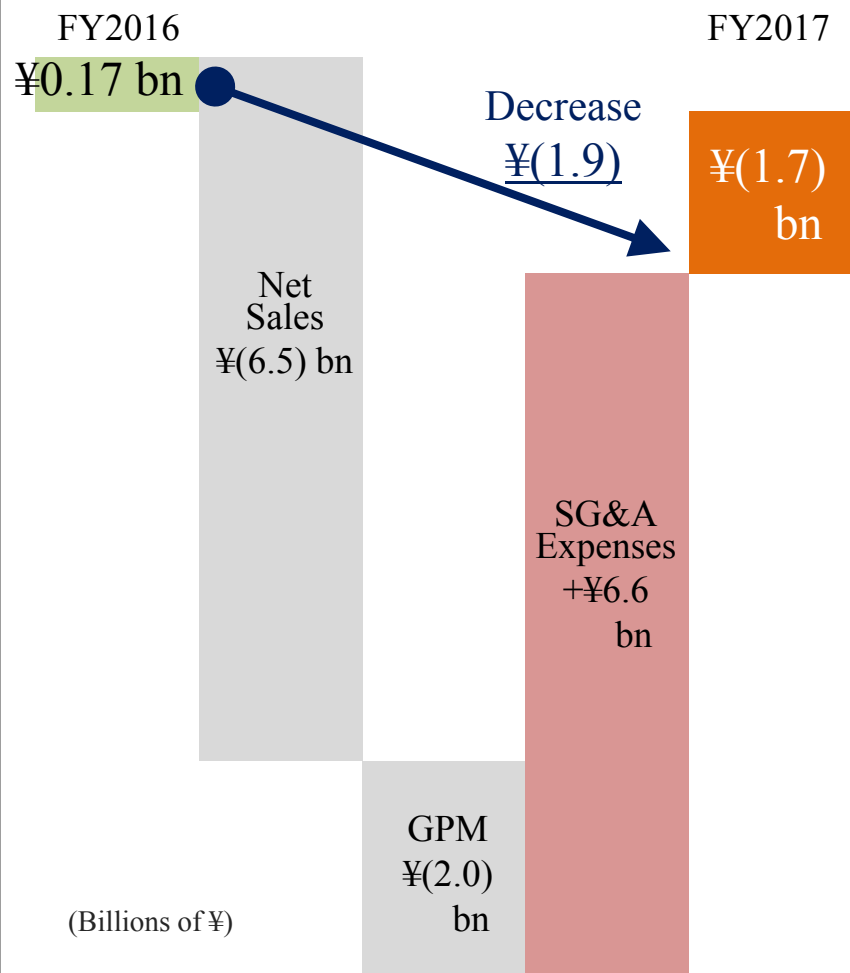
Store opening	Planned for 2019
Sales floor area	1,122m <sup>2</sup> (plan)

Sogo & Seibu  
SS  
(Promoting Structural Reforms)

# SS (Operating Income - Analysis Factors in YOY Change)



## ◆ Operating income changes of 3Q cumulative results



	Results	Details
Net Sales	(5.1)% <u>(6.5)</u> bn yen	<ul style="list-style-type: none"> <li>Existing stores (3.2)%</li> <li>Decline in apparel sales, primarily in women's apparel</li> </ul>
Gross Profit Margin	(0.4)% <u>(2.0)</u> bn yen	<ul style="list-style-type: none"> <li>Decline in apparel sales</li> <li>Increase share of food within product sales composition</li> </ul>
SG&A expenses	(5.1)% <u>+6.6</u> bn yen	<ul style="list-style-type: none"> <li>Advertising and decoration expenses (1.1) bn yen</li> <li>Personnel expenses (1.7) bn yen</li> <li>Utility expenses (1.3) bn yen</li> </ul>

Continue to reduce expenses while strengthening growth areas such as food

# SS (Management Direction)

Promote the “selection and concentration” of each geographic area and business category

Challenge to create department stores that are regional leader stores

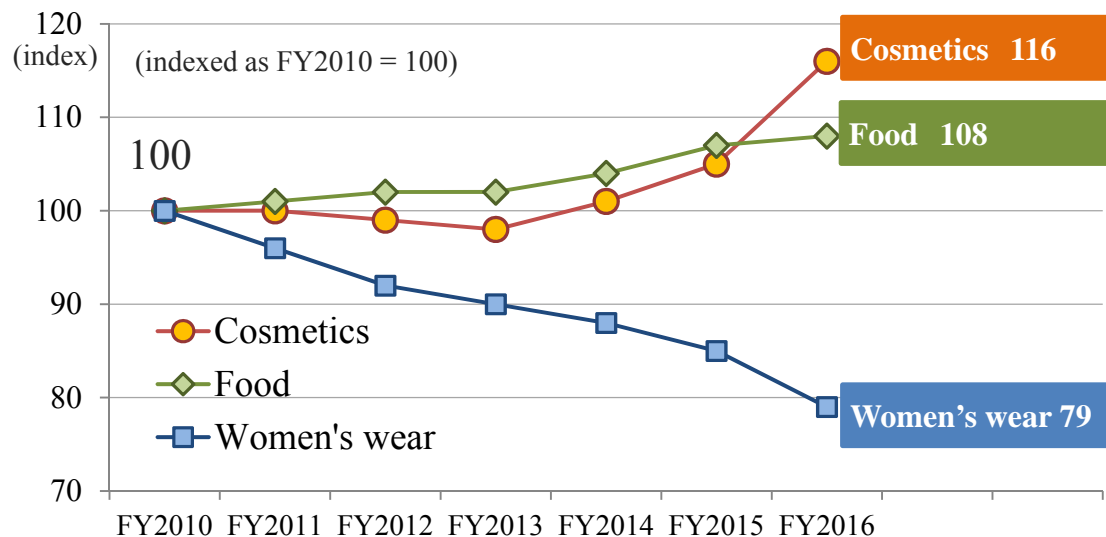
## ◇ Flagship Stores

Concentrate management resources on the flagship stores in the Tokyo metropolitan area, which is the largest consumer market

## ◇ Regional & Suburban-type Stores

Initiatives to develop new sales areas unconstrained by conventional department store models

### ◆ Sales trend by domains at Sogo & Seibu



Strengthen cosmetics and food as growth fields

● Flagship stores  
⇒ Cosmetics

● Suburban-type stores  
⇒ Food

# SS (Management Direction / Flagship Stores)



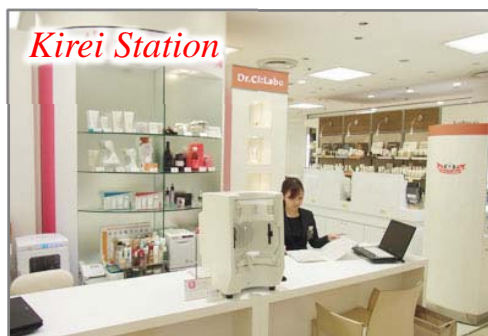
## ◆ Flagship stores: Strengthen “cosmetics”

### ● Strengthen customer attraction by responding to “Beauty Needs”

- Strengthen both domestic and foreign brands  
⇒ Product lineups as a No.1 store in the region
- Expand range of organic cosmetics and beauty appliance, etc.  
⇒ Respond to an increase in customers needs



- Free consultation services ⇒ Acquire new customers



Provide consultation supported for all brands

- Consultation made a reservation online
- Sales of an assortment of samples



Proposal for all brands as a stylish dresser

- Support for obsession with changing appearance
- Individually customized proposals for make up based on analysis of face shape, etc.

Strengthen the growth fields proactively (start at SOGO *Yokohama* in FY2018)



# SS (Management Direction / Regional & Suburban-type Stores)



## ◆ Regional & suburban-type stores: Strengthen “food”

- Attract new customers and enhance high-consumption products such as food and promote high-frequency of visits to stores

### [Example of SEIBU Tokorozawa]

Expand food sales area from one floor to two floors

Approx. 3,135m<sup>2</sup> ⇒ Approx. 4,950m<sup>2</sup>

<1<sup>st</sup> Phase> From Nov. 23, 2016

- Popular local bakery
- Eat-in corner (36 seats)
- Locally brewed craft beer factory
- Sales by weight of *Sake*, *Shochu* and Whiskey

<2<sup>nd</sup> Phase> Feb. 2017 <3<sup>rd</sup> Phase> Apr. 2017

- Popular local western confectionery stores, Japanese confectionery stores popular in Tokyo
- Gift salon (capture gift demand)
- Establish *Seven Premium* corner
- Strengthen fresh food, fresh meat and delicatessen and expand sales area



Bakery, Eat-in



Craft Beer Factory Tokorozawa



SAKAGURA (Liquor)

Steady growth in sales after 1<sup>st</sup> phase remodeling on Nov. 23, 2016, food sales are driving both store total sales and customer numbers.

Challenge to create a new regional & suburban-type department store model

## Domestic Consumption Trends

- The trend toward saving increased further and consumption changed to strict selection by value due to uncertainties about social security and stagnant real wages as well as factors including the rising price of crude oil and the rising consumer price index on food.
- Further changes from consumption of “objects” to “experience”.

## US Consumption Trends

- Poor weather from the 3Q onward affected results in retail and restaurants and the harsh conditions will continue going forward.
- Donald Trump won the US presidential election and will lead a new administration from Jan.  
→ The impact of new economic and foreign policies and other areas will need to be looked at.

## Summary

- ◇ Operating income → New operating income record for 4th consecutive year  
Significant contributors to the overall increase in income were improvements resulting from SEJ's continued increase in sales and aggressive offerings of product differentiation and IY's proactive structural reforms.
- ◇ Outlook for the full fiscal year → Maintain the forecast  
In 4Q, rigorous support and monitoring will be provided to operating companies to exceed targets while following the PDCA cycle in spite of the shorter year following a leap year.

Change to a Structure for Accelerating  
Progress on Medium-Term Management Plan  
(Operating Companies)

# To Enhance Management Driving Force

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## ◆ Holding company's function

- Share operating companies' management challenges and solution strategies

Management execution support and supervision

Management execution evaluation and supervision

Optimal resource distribution

Need to renew the organization to achieve the medium-term plan

Resolved operating company management personnel on Jan. 12 to enable moving ahead under new structures from the beginning of the year

## FY2018 Structure at Ito-Yokado

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Harmonize internal organization activities and strive to maximize profit

■ **Newly appointed President & Representative Director:**

**Tomihiko Saegusa 67**

Went to Chengdu in Sichuan province, P.R.C. and built the regional leader store in that sales area.

■ **Newly appointed Vice President & Representative Director:**

**Toshiaki Takeda** Senior managing executive officer, General operations group

■ **Newly appointed Director & Executive Officer:**

**Seiichiro Sato** Senior managing executive officer, Planning office

■ **Newly appointed Director:**

**Zenko Ohtaka** and concurrently Representative Director and Chairman of YB

■ **Newly appointed Director:**

**Junro Ito** and concurrently Managing Executive Officer and Senior Officer of Corporate Development Office of 7&iHD

Leading figure in Chengdu Ito-Yokado, division management for YB and Senior officer of Corporate development office at 7&iHD

# FY2018 Structure at Sogo & Seibu

## Change to System of Four Segments

Rigorously pursue PDCA management through  
visualization of business formats

### ■ Newly appointed President & Representative Director:

**Takuji Hayashi 63** implemented on Oct. 7, 2016

Has Served as Store Manager of SOGO *Kobe*, General Manager of Corporate Planning Office

Department store  
Division

Store-managed  
merchandising  
Division

Commercial  
business Division

Overseas  
business Division

Establish merchandising and planning headquarters in the Department store Dept. and unify merchandising and sales planning

Concentrate management resources on major stores and No.1 stores in the region

# FY2018 Structure at Seven & i Food Systems

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Innovate existing operations and establish a stable management foundation

■ **Newly appointed President & Representative Director:**

**Masami Komatsu 57**

Extensive frontline experience, has served as Head of Product Development

Increase customer numbers at existing stores of Denny's

Rigorous cost cutting

Enhance management quality

Expanding sales and boosting productivity at existing stores of Denny's are crucial issues

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