



# Consolidated Financial Results Presentation for the First Quarter of FY2018

July 6, 2017

Seven & i Holdings Co., Ltd.

# Three Months Ended May 31, 2017 Summary



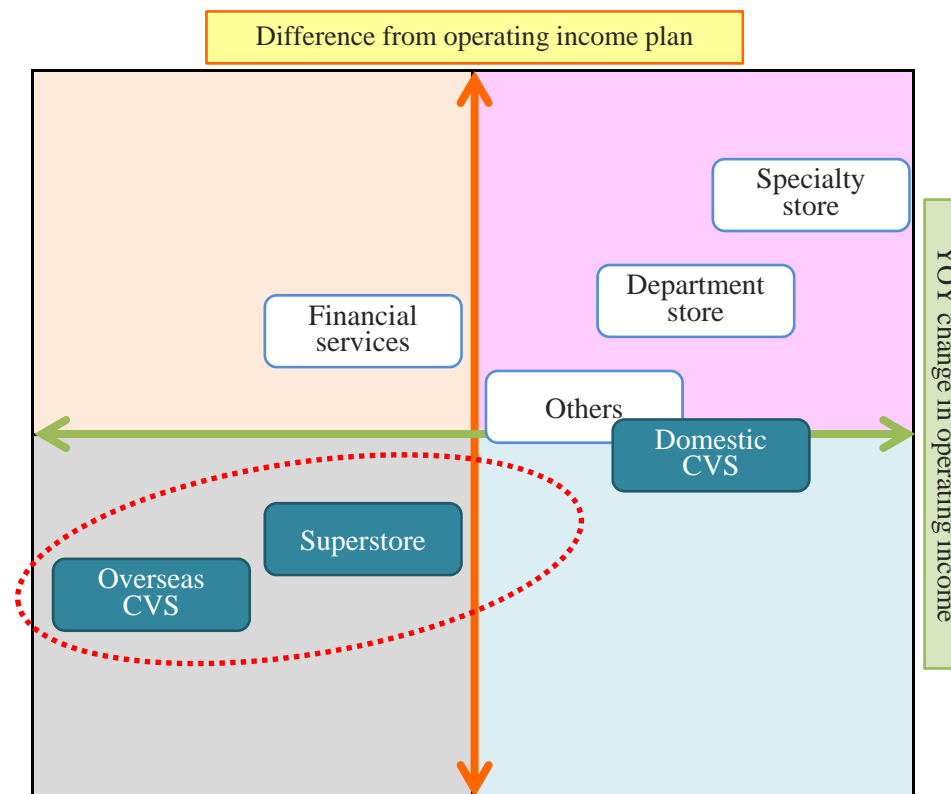
Mostly in line with plan  
Continue to aim for further growth by taking countermeasures against issues

## ◆ FY2018 1Q Summary

(Billions of yen)

	Results	YOY Difference	Budget achieved
Group's total sales	2,674.9	104.5% +114.0	Achieved
Revenues from operations	1,468.0	105.3% +73.3	Achieved
Operating Income	84.1	103.3% +2.6	Not achieved
Net income attributable to owners of parent	33.6	77.9% (9.5)	Not achieved

## ◆ Operating Income – YOY Change and Difference from Plan



Examine results and adjust necessary action to achieve targets with each operating company

# Seven-Eleven Japan SEJ



# 7-ELEVEN



Operating income		Existing store sales increase	GPM	SG&A expenses	
Amount	YOY difference			Amount	YOY difference
¥ 59.5 bn	102.1%	+1.4%	32.1%	¥ 132.9 bn	105.9%
	+¥ 1.2 bn		+0.2%		+¥ 7.4

## ■ Overall evaluation

Revenue: Effect of bringing forward store closures, despite existing store sales in line with plan.

GPM was affected by a stronger-than-expected negative impact from tobacco

Cost: SG&A expenses are in line with plan, controlled mainly advertising expenses

## ■ Measures

◎ Approach based on improving quality of basic MDSE and cutting opportunity loss

**[Short-Medium Term]** Lift existing store sales by promoting introduction of café latte machines

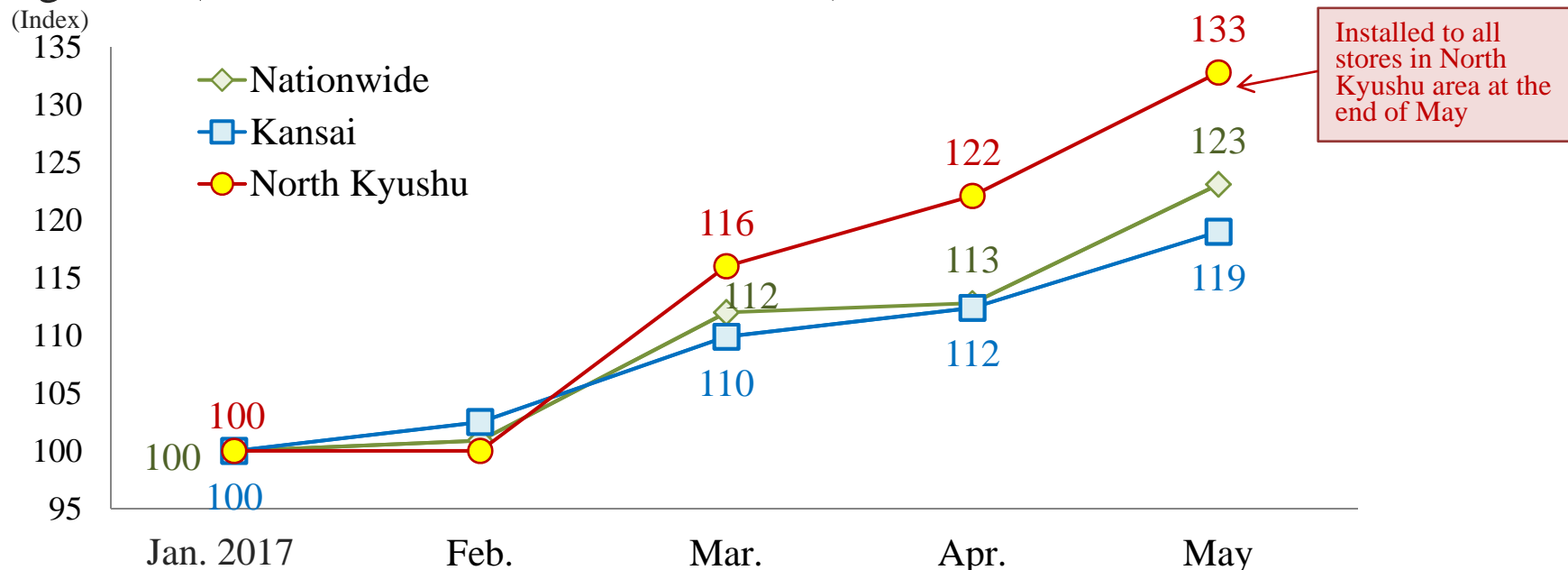
**[Medium-Long Term]** Expand sales through layout change and expand customer segment through new merchandising

# Effect of New Café Latte Machines



## Sales growth due effect of new café latte machines

### ◆ Sales growth (indexed as Jan. 2017 sales = 100)



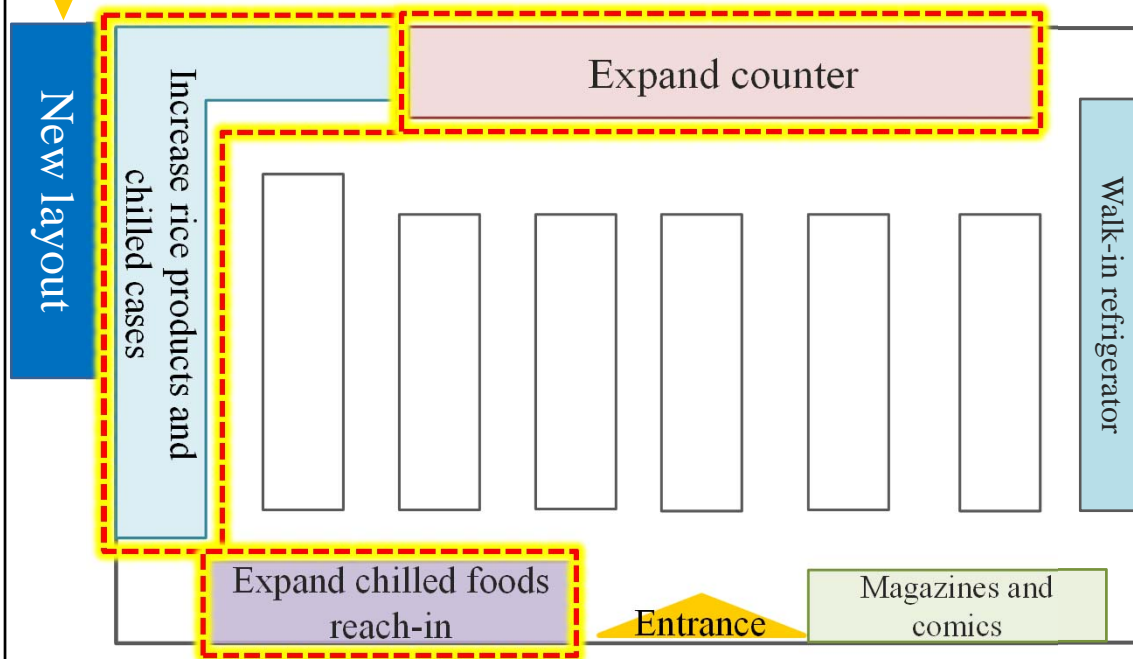
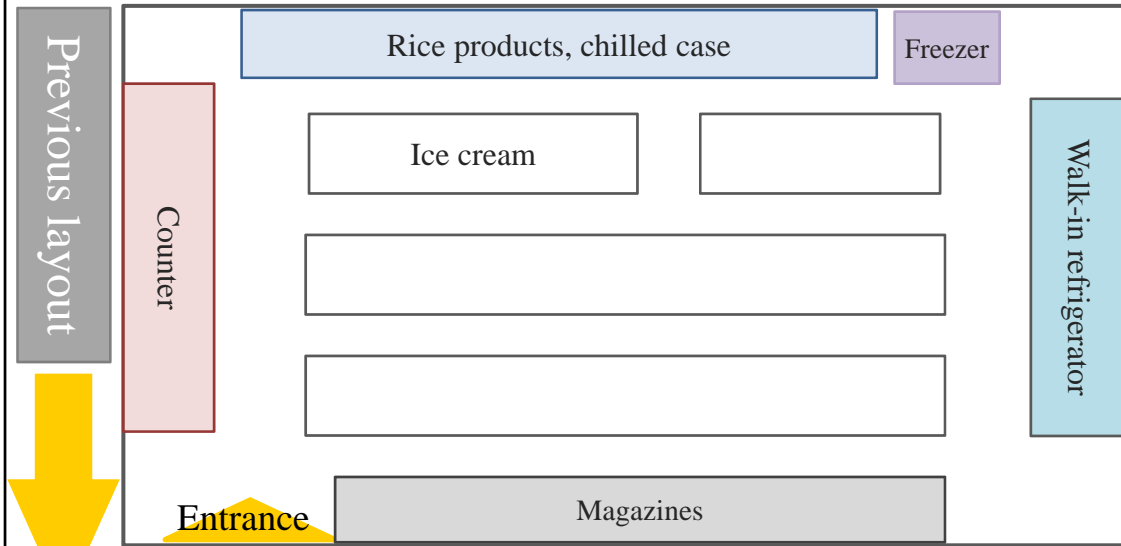
### ◆ Introduction rate of anew café latte machines at stores

North Kyushu	0%	1%	18%	53%	85%
Nationwide	12%	13%	15%	22%	31%
Kansai	0%	1%	3%	3%	4%

New café latte machines were installed at approx. 7,000 stores as of May 31, 2017  
(Expand to 12,000 stores during 1H)

# New Layout

(Disclosed in the company's financial results materials of FY2017)



Major change in sales area layout to respond to changes in customer needs driven by changing social structure



Pilot test stores (8 stores) saw an ASPD increase effect of 46.6 thousand yen

\*Plan to roll out at 800 existing stores and 1,100 new stores during FY2018

# Potential Seen from New Layout Pilot Test

## ◆YOY differences by MDSE area ◆GPM change

(Period: Feb. 20-Jun. 18)

Merchandise area	YOY difference
Fast foods	¥ +31.2 thousand
Daily foods	¥ +6.7 thousand
Processed food products	¥ +12.4 thousand
Nonfood	¥ (3.7) thousand
<b>Total</b>	<b>¥ +46.6 thousand</b>

Note: Results from eight stores where the new layout has been implemented since February 20

	FY16 1Q	FY17 1Q	Difference in GPM
Nationwide	31.9%	32.1%	+0.2%
Test stores	31.2%	31.6%	+0.4%

GPM improved on increase in sales of high-GPM fast foods and daily foods

Shift to eating out expected to expand market for take-home meals

# Work through PDCA Cycle to Expand New Layout Development



Continue to verify effect of pilot implementation stores, and expand development towards optimal layout by working through PDCA cycle

## ◆ Plan to Expand New Layout Development

	FY2018				
	1Q	2Q	3Q	4Q	Total
Existing stores	30	150	400	220	800
New stores	-	350	320	430	1,100
Total	30	500	720	650	1,900

Note: No. of stores above include scrap & build

Expand to 10,000 stores around the end of FY2022



7-Eleven, Inc.  
SEI

Operating income		Existing store sales increase	GPM	SG&A expenses	
Amount	YOY difference			Amount	YOY difference
¥ 10.0 bn [\$ 88.5 mn]	82.3% [83.6%]	(0.4)%	34.3%	¥ 96.7 bn [\$ 851.3 mn]	103.0% [104.6%]
	¥ (2.1) bn [\$ (17.3) mn]		(0.2)%		¥ +2.8 bn [+\$ 3.7 mn]

## ■ Summary

- Despite a rough start, recovery is possible
    - Existing stores YOY decline: Slump in U.S. GDP, weather factor, rebound from special factors in FY2017, and delayed tax refund
    - GPM YOY decline: Rebound from special factors in FY2017, downturn in high GPM drinks due to inclement weather
- ⇒ Existing store sales recovery from April (up +1.6% April, +4.9% in May), moving back in line with plan

## ■ Measures

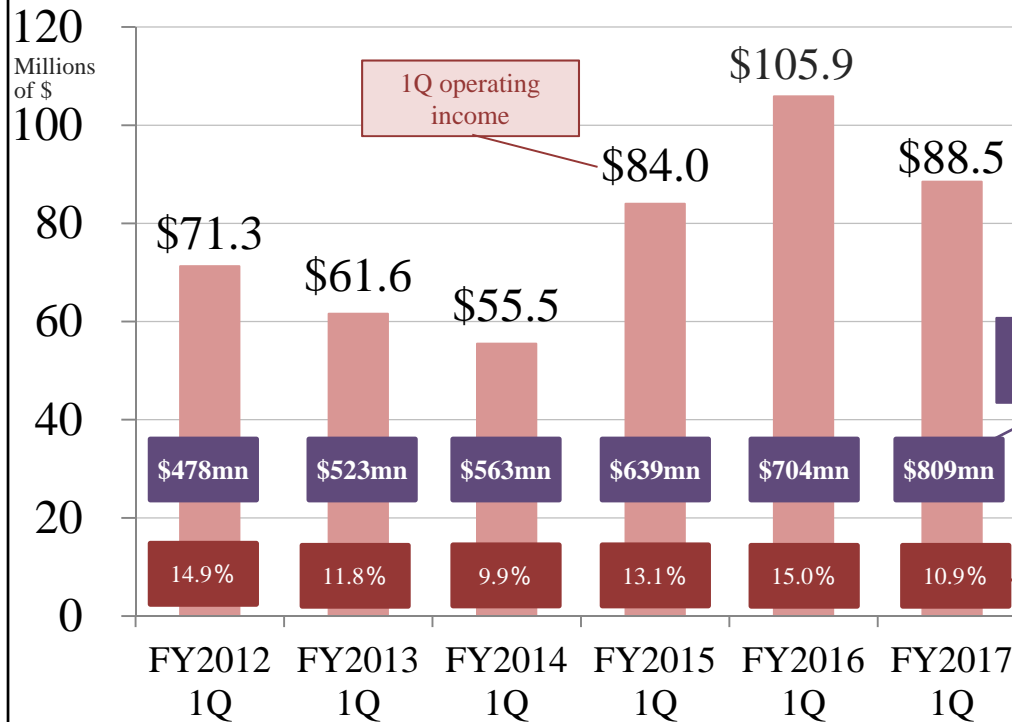
- Expand store openings, promote conversion to franchise stores
- Strengthen fast food and private brands

# SEI 1Q Characteristics and 2Q Initiatives

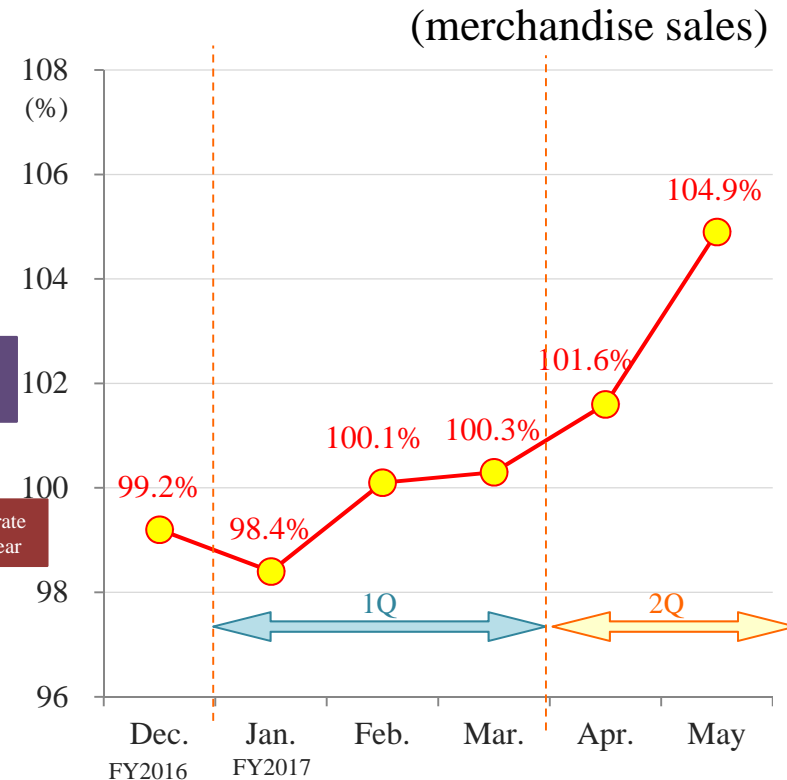


- Convenience stores typically have low sales in 1Q (Jan.- Mar. = winter), with low share of full-year sales
- Highly volatile and easily affected by weather conditions such as cold snaps and snow

## ◆ 1Q operating income and share of full-year result



## ◆ Monthly existing store sales growth (merchandise sales)

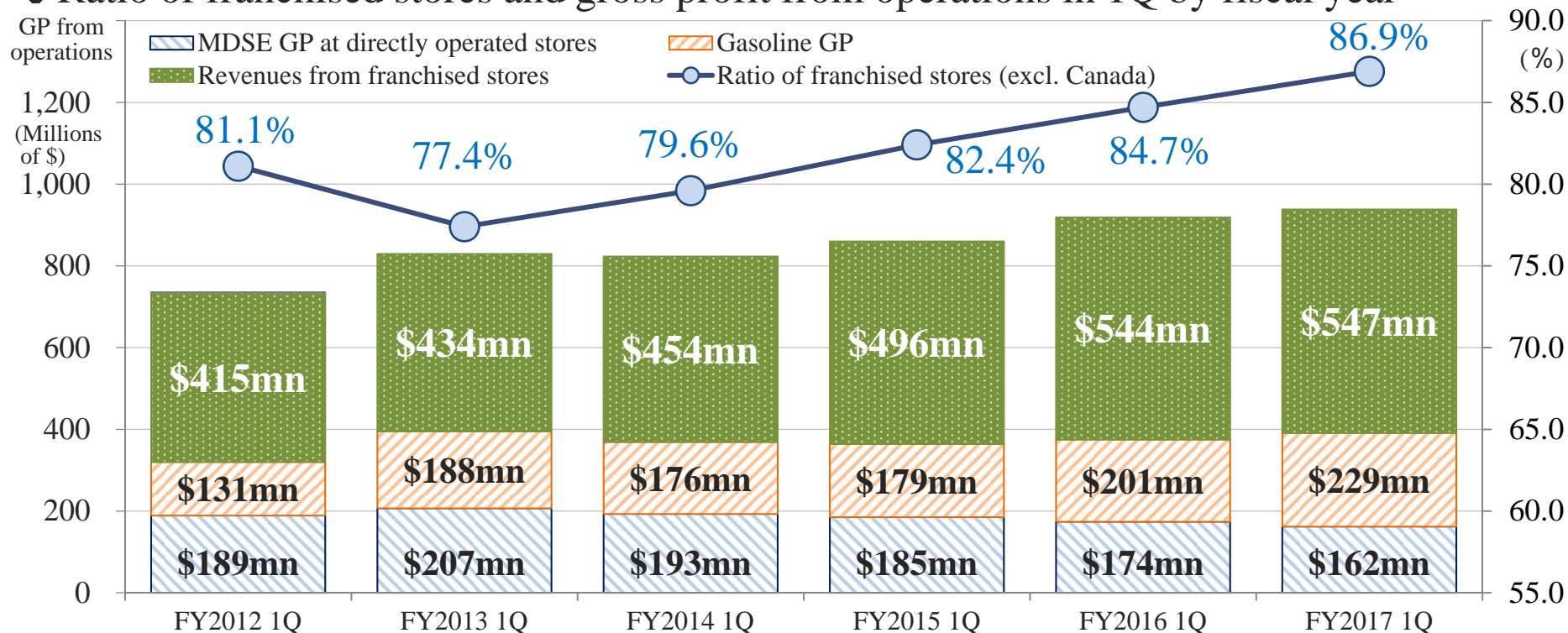


U.S. economic sentiment is improving and consumption is also recovering. 2Q has started strongly.

# Strengthen Earnings Base



## ◆ Ratio of franchised stores and gross profit from operations in 1Q by fiscal year



No. of stores with gas station	FY2012 1Q	FY2013 1Q	FY2014 1Q	FY2015 1Q	FY2016 1Q	FY2017 1Q
	2,807	3,339	3,265	3,152	3,176	3,371

Notes: 1) Store numbers as of end of 1Q for each year 2) Ratio in North America are excluding stores in Canada / Figures in brackets are including stores in Canada

### **(1) Progress in conversion to franchised store**

Franchised store conversion ratio trend FY2016 1Q 84.7% (79.6%) ⇒ FY2017 1Q 86.9% (80.4%)

\*Firm revenue from franchised stores

### **(2) M&A effect**

Eg.) Increase in gasoline GP FY2016 1Q \$201 million ⇒ FY2017 1Q \$229 million

Note: Stores in Canada are excluded from the franchised ratio as all Canadian stores are directly operated due to differences in the system compared with the U.S.

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# Sogo & Seibu

## SS



Operating income		Existing store sales increase	GPM	SG&A expenses	
Amount	YOY difference			Amount	YOY difference
¥ 0.38 bn	-	(0.6)%	24.5%	¥ 37.2 bn	91.7%
	+¥ 0.36 bn		(0.2)%		¥ (3.3) bn

## ■ Summary

- Cleared operating income budget despite adverse environment
- GPM improvements expected mainly for 2H  
(rebound from FY2017 store closure sales and inventory disposal)

## ■ Store structural reform

- **SEIBU Tokorozawa:** Leveraged high purchase ratio from residential areas around the store to complete store remodeling for shopping centered around food
- **Flagship stores:** Remodeling to start at Sogo Yokohama and Sogo Chiba in 2H

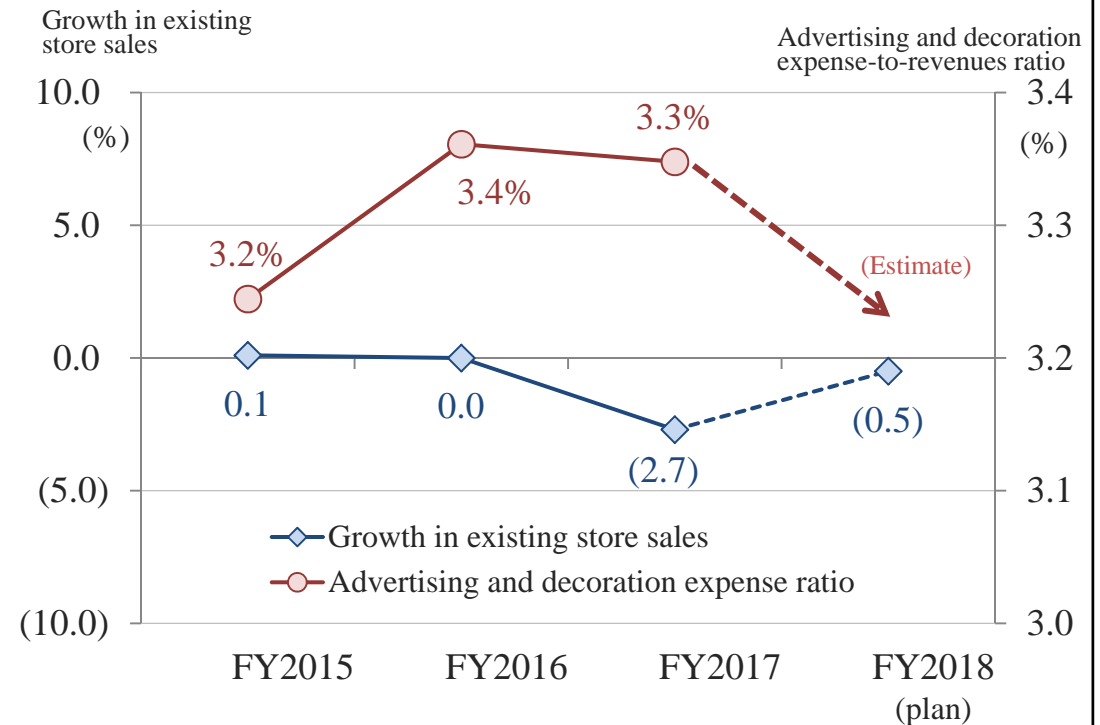
# Action from a Customer Perspective



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



Consider customer's perspective and cost effectiveness



## ■ Revise sales methods

- Reduction of *Plus Point Fair*: FY2017 1Q 49 days ⇒ FY2018 1Q 35 days
- Existing store sales YOY: 99.4% (in line with plan)  
1Q decoration and advertising expenses YOY difference (625) million yen
- Consider plans to attract customers through proposal capabilities and edit capabilities, rather than sales and reward points

# Potential for Suburban-Type Stores Emerges from Initiatives at SEIBU Tokorozawa



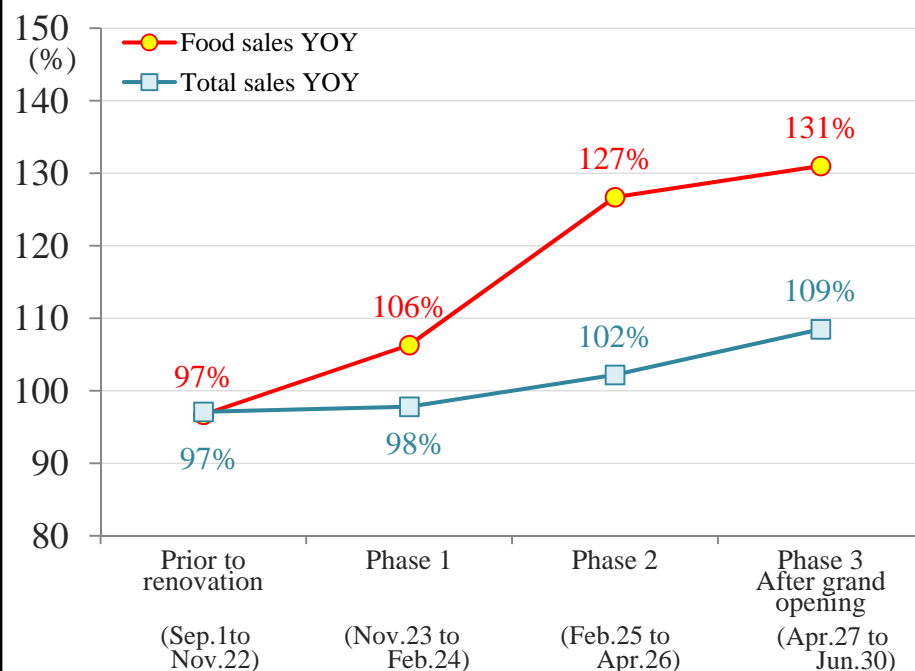
Reduced apparel sales area and expanded the food product sales area from one to two floors

Renovated stores used for daily needs by aligning the sales area to suit regional needs

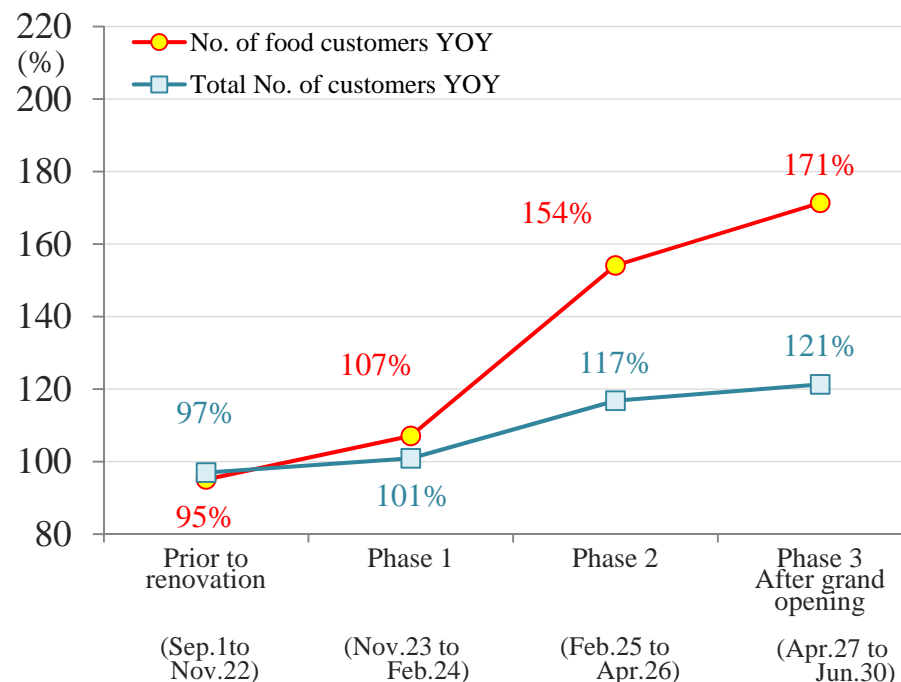
1F ... Proposed communication styles through food

B1 ... Daily gourmet food proposals bringing together seasonal stores, famous stores, and famous products

## ◆ Sales YOY



## ◆ Customer numbers YOY



Expanding the food market offers significant opportunities for all formats

⇒ Expand successful example of SEIBU Tokorozawa





## ● Business strategy

Transferring stores while maintaining employment of 350 personnel

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Future partnership with the H2O Group

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## ● Management strategy

First step towards “selection and concentration” for reproduction of an enlarged or expanded scale

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# Ito-Yokado

## IY



Operating income		Existing store sales increase	GPM	SG&A expenses	
Amount	YOY Difference			Amount	YOY Difference
¥ 0.69 bn	170.5%	(3.2) %	29.7%	¥ 77.4 bn	97.8%
	+¥ 0.28 bn		+0.5%		¥ (1.7) bn

## ■ Summary

- Rough start, but recovery in foods is the way forward
- GPM: In line with plan

## ■ Measures

- Food recovery
  - ⇒ management of opportunity loss reduction by individual store and time period
- Promoting structural reform

# Recovery in Food is Key



## ◆ Growth in existing store sales by MDSE

	FY 2017	FY 2018 1Q	Difference
MDSE total	(4.2)%	(3.2)%	+1.0%
Apparel	(6.3)%	(4.7)%	+1.6%
Household goods	(7.1)%	(1.4)%	+5.7%
<b>Food</b>	<b>(2.9)%</b>	<b>(3.3)%</b>	<b>(0.4)%</b>

## ◆ Growth rate in existing store sales and sales ratio for each merchandise category (1Q result)

Category	Sales composition ratio	Sales growth YOY	Contribution ratio
Food total	100%	(3.3)%	(3.3)%
Processed foods	31.8%	(2.6)%	(0.79)%
Fruit & vegetable	14.0%	(5.3)%	(0.74)%
Seafood	10.5%	(6.6)%	(0.71)%
Daily products	21.5%	(2.7)%	(0.58)%
Fresh meat	13.0%	(3.5)%	(0.45)%
Delicatessen	9.1%	(0.5)%	(0.04)%

Sense of crisis over slump in IYs mainstay product, foods

# Measures for Foods



## Merchandising

Fruit & vegetable	<ul style="list-style-type: none"><li>■ <u>Three fresh food divisions</u></li><li>○ Rigorous freshness management (two-hourly freshness checks on leafy greens)</li><li>○ Improve defects in the production area/price matrix</li></ul>
Fresh meat	
Seafood	
Daily foods	<ul style="list-style-type: none"><li>■ <u>Daily and processed food categories</u></li><li>○ Strengthen lineup of high-demand &amp; core merchandise and respond to prevailing prices</li><li>○ Strengthen product assortment of health-oriented products to meet demand</li></ul>
Processed foods	
Delicatessen	<ul style="list-style-type: none"><li>■ <u>Delicatessen category</u></li><li>○ Strengthen quality and merchandise assortment of basic menu for main customer segment</li><li>○ Expand in-store bakeries to meet high demand</li></ul>

## Operations

Launch “Food Reform Project” led by IY’s President Saegusa

# Revise the Omni-Chanel Strategy

Mission of the Mid-Term Management Plan:  
Reconsider from the customer's perspective by reviewing strategies focused on the e-commerce business



Today (July 6), concluded memorandum of understanding regarding business alliance with ASKUL Corporation

# Why with ASKUL?

Both companies have a corporate culture of thinking from the customers perspective

(1) Complementary status of management resources due to different business models

Real stores

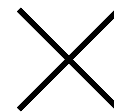


20,900 nationwide store network

22 million customers/day

Safe, reliable private brand products

Product procurement capabilities



Internet

**ASKUL**



くらしをかるくする

**LOHACO**

In-house delivery covering high-density urban areas

Hourly time designation utilizing Artificial Intelligence

Robotized logistics

Use of video, advanced purchase behavior analysis capability

# Why with ASKUL?

## (2) Different merchandising



イトーヨーカドーの  
ネットスーパー

Approx. 2.2 million items

Books, electronic books, music,  
video

Miscellaneous goods, stationery

Cosmetics, beauty products,  
supplements

Baby and children's products

Food, fresh foods, delicatessen



Approx. 0.4 million items

Stationery and office products

Fashion, interior, storage

Pharmaceuticals, healthcare,  
sanitary products

Detergents, kitchen products, daily  
products

PC and peripherals



Strong complementary relationship in business models and products enables strong synergies



# Business Alliance with ASKUL Corporation

## Elements of the business alliance agreement





- (1) *omni7* and LOHACO to start mutual customer referrals (end of Nov.)
- (2) Start trials of “*IY Fresh by LOHACO(Tentative naming)*” (end of Nov.)
- (3) Start of discussions towards joint development and operation of e-commerce logistics and ecommerce website

*IY Fresh Concept* ⇔ Realize a new food service that can deliver reliably

Target	Working women aged 30s - 40s
Concerns about cooking	Thinking up menus is burdensome ⇔ Desire for easy recipes
Product design	Proposal for a set centered on <i>Seven Premium</i> that can be prepared within 10 minutes
Menu proposal	Propose menus using video (starting with 50 + videos, adding around 5 per week)

# IY Fresh: Merchandising Images

Narrow down the range of MDSE handled and propose menus using fresh foods

Fresh meat	Narrow down the range of in-store processed products	Delivered items (Processed meat, etc.)	
Fruit & vegetable	Narrow down the range of products sold in store	Prepared vegetables (Cut vegetables, etc.)	
Seafood	Excluding <i>Sushi</i> , etc.	Prepared fish, Sliced fish, etc.	
Other food categories	LOHACO	Seven Premium, Mainstay national - brand products	
Non food	LOHACO		

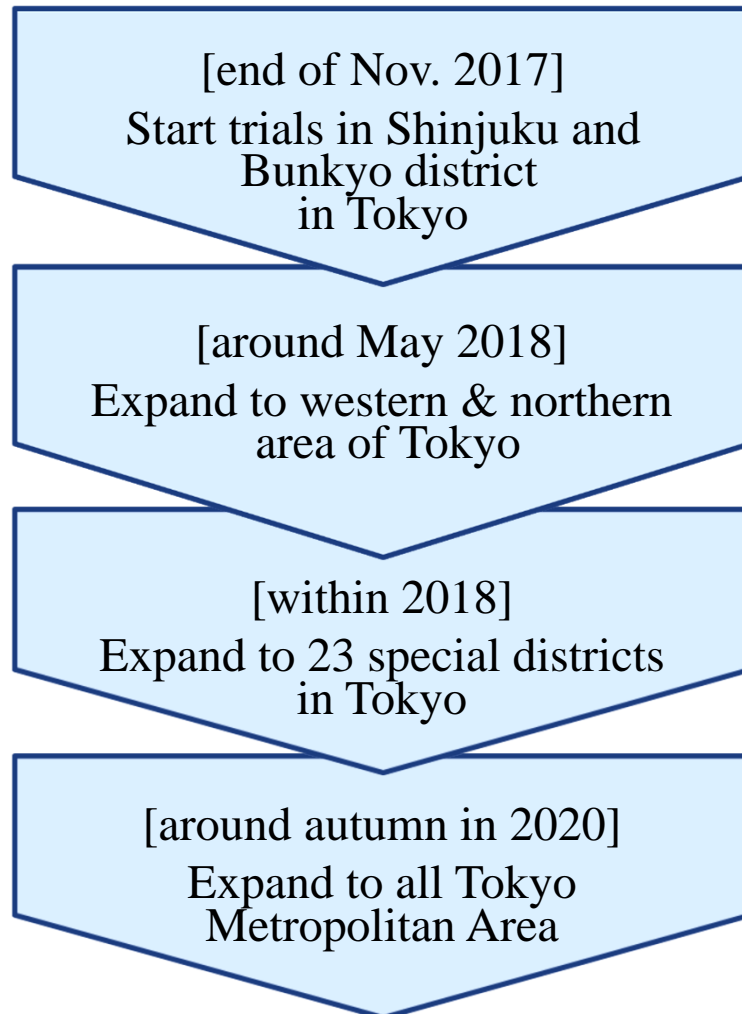
Easy prepared kit products

+

Menu proposals · Videos

# IY Fresh: Rollout Plan

## 【Rollout plan】



## 【Website image】



- Product supply: mainly by IY
- System development & logistics: by LOHACO

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