



Lawson, Inc.
Management Policy

April 17, 2002 (Wed.)

10:00 ~ 11:30

Takeshi Niinami

Incoming President and CEO

(Royal Room, Royal Park Hotel)



✍ The Essence of Lawson:
“The ‘hot’ station in the neighborhood”

- 1. An integral part of the local community*
- 2. Warm and welcoming, a source of the ‘hottest’ products and latest information*
- 3. A magnet for local people*
- 4. Stores and sales areas in tune with customers’ lifestyles*
 - Will drive growth in card business*

My Goals: Energize Lawson



✍ Create an exciting company for customers, franchised storeowners and employees alike

Emphasize teamwork and a shared vision

Lawson has been defined by a spirit of challenge and energetic employees

Spirit of challenge is still alive and well in our corporate DNA!

My Goals: Medium- to Long-Term Earnings Growth



✍ Stable, medium- to long-term growth in franchised storeowner earnings—make franchised storeowners happy

✍ Ensure Lawson's earnings grow steadily over medium to long term – generate returns for shareholders

Increase corporate transparency to reassure investors and shareholders – attract investors

Fiscal 2002 Goal: Quickly deal with pressing issues to get on path to earnings growth



We won't be "The 'hot' station in the neighborhood" - an exciting Lawson - just by continuing business as usual!

✍ Our organization doesn't respond to customers' needs quickly enough

Head Office issued orders: Promoted methods used to run company-operated stores without giving enough thought to whether those methods were appropriate for franchised stores

✍ We have become too passive. We are scared of taking on new challenges and failure

Too passive; Seniority recognized over performance; A follower, not a leader

The Reality (2)

Medium- to long-term earnings growth won't be achieved by doing business as usual!

✍ Overly optimistic management...

“Things-will-work-out mentality”

Have lacked a sense of urgency...

✍ Have played a numbers game—thought that growing sales depended only on increasing the number of stores



Reform plan: Lawson Challenge 2004

- ✍ Deal with current realities
- ✍ Antidote: Quick, bold action



The challenge: 15% ROE

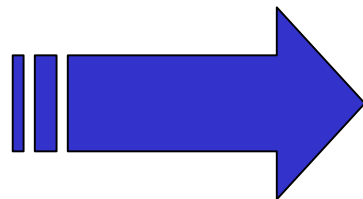
Increase shareholder value = Capital efficiency

Fiscal 2004 consolidated operating income target...

¥50 billion

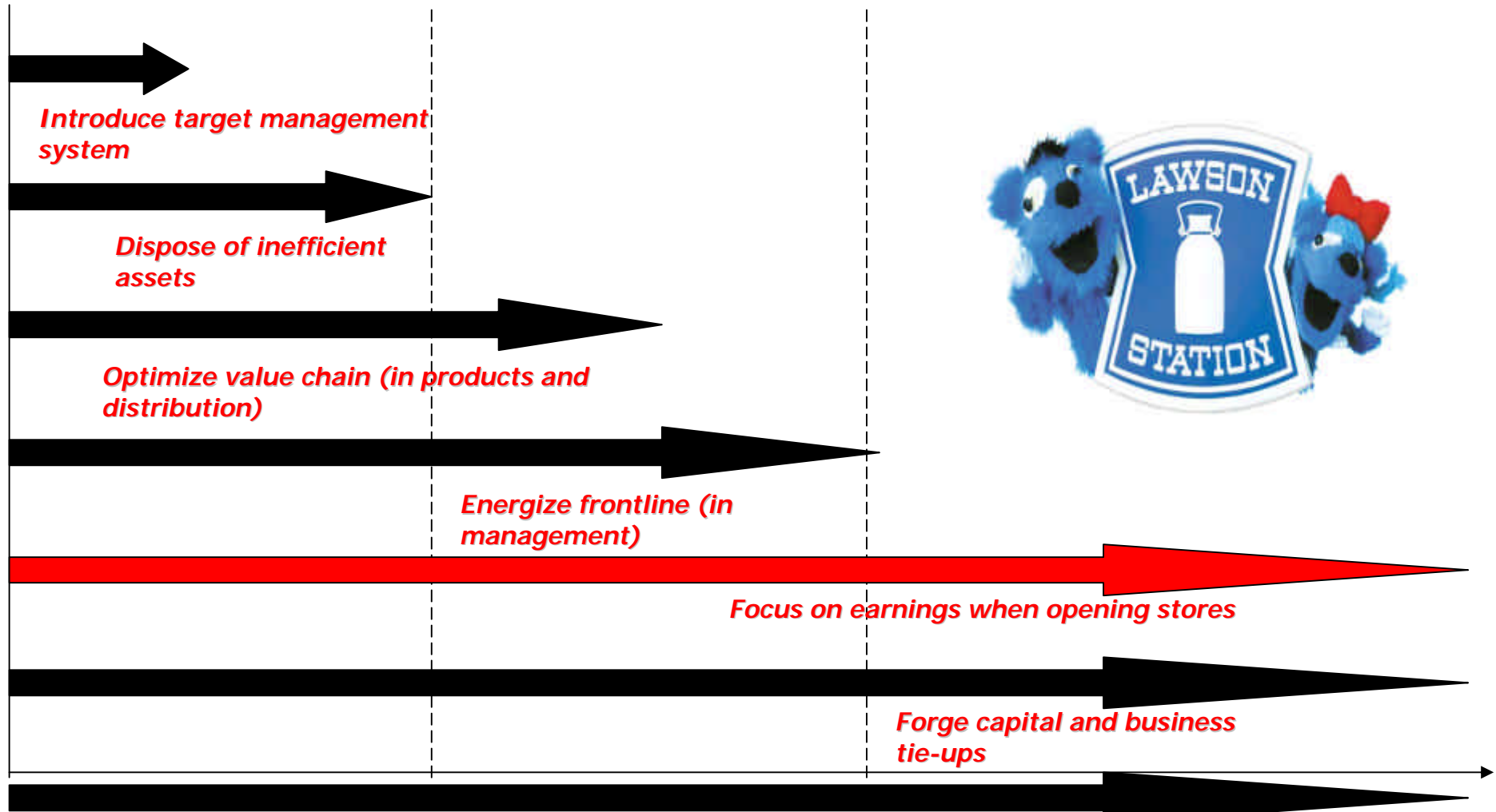
(Get everybody on board)

Set ambitious goals and carry out reforms that challenge our conventional thinking



Higher corporate value

Lawson Challenge 2004: Step-by-Step Achievement of Goals



After 1 year

After 2 years

Nurture talented employees



Build infrastructure to manage achievement of earnings targets

✍ Introduce earnings-centric management system

Basis of franchise business = maximize franchisee earnings

Use franchisee earnings as standard measure

Link employee evaluation to success in meeting “Franchisee and Head Office earnings targets”

✍ Link remuneration with results (company and individual business results)

Tie executive officers’ and managers’ remuneration to business results



✍ Reduce number of company-operated stores

From 550 to 300 (will be a testing ground for new ideas)

✍ Streamline information systems



Lawson Challenge 2004: Optimize the Value Chain

✍ Rebuild vendor network

Create better win-win relationships with vendors to strengthen product development

✍ Rebuild distribution network to make it more efficient

Rigorously review delivery efficiency and distribution costs. Also consider tie-ups

✍ Procure ingredients in best possible way

-Reduce costs of purchasing raw materials to maximize product value

Streamline purchasing channels to eliminate overlap

-Don't rely only on existing channels



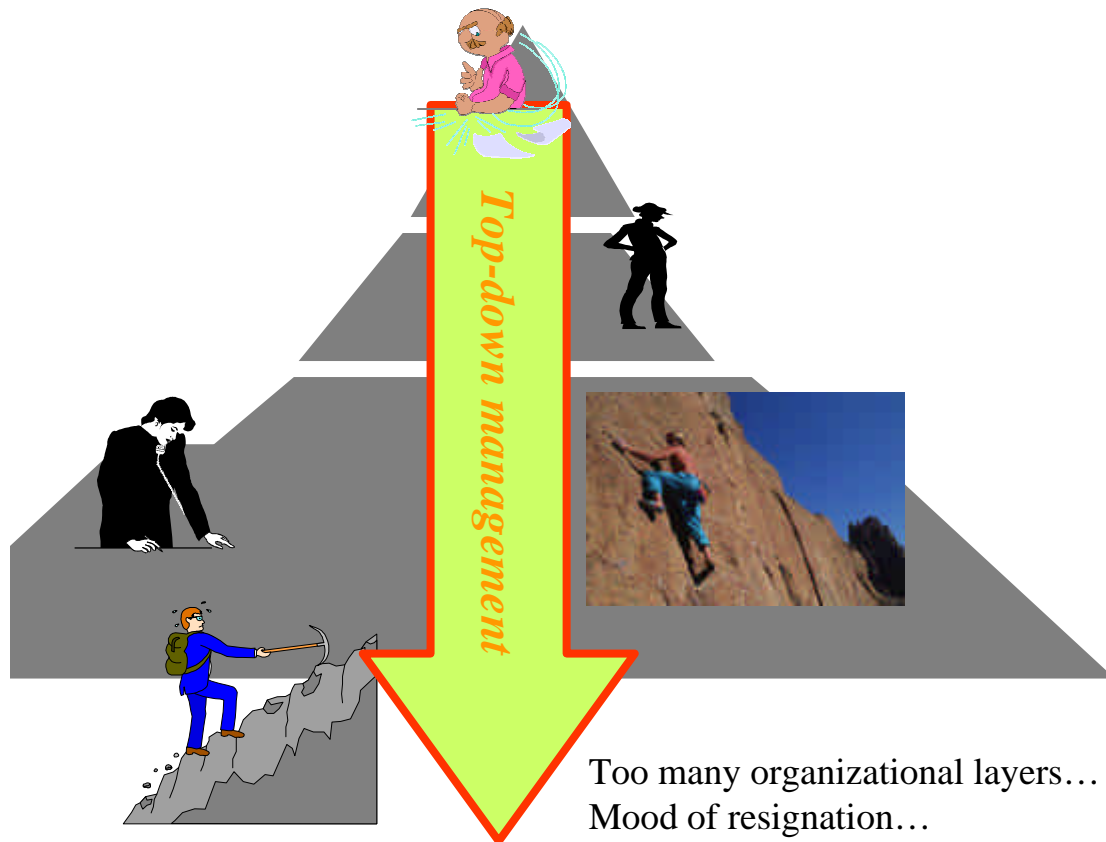
- ✍ Fiscal 2002: Reduce store openings from ~~600~~ to 500*

- ✍ Building model for store development that looks at store ROI by region*

- ✍ Aiming for net increase of around 300 stores from fiscal 2003*



Former Lawson management style...



- 1. Head Office driven*
- 2. Actions had little effect*
- 3. Many meaningless company reports*
- 4. Top-down management hierarchy*
- 5. Supply-side driven*
- 6. Disassociated with customers*

Too many organizational layers...

Mood of resignation...

(Information from frontline didn't reach top management
...stopped us from creating better sales areas attractive to customers)

Lawson Challenge 2004: Vitalizing the Frontline is Key to Success! (2)



*New Lawson...
...Focused on sales area creation*

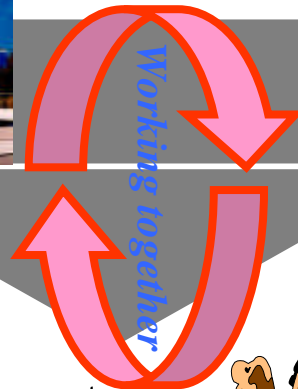


*Frontline driven
(Back office handles frontline administration)*



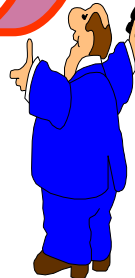
Actions will make a big difference

No meaningless reporting



Flatter organization

Customer- and franchisee-centric



Get closer to customers



A good workforce is key to medium- to long-term resilience

- ✍ Nurture employees who will carry Lawson into the future*
I want to breed top managers who have a strong management mindset !

- ✍ Nurture super SVs and super store managers*
...who must also possess specialized skills

- ✍ Recruit outside talent*
-Young, talented, highly skilled workers



Lawson Challenge 2004: Lawson Before and After

Old Lawson

D-Lawson

National chain

Went it alone

Overly optimistic

No. of stores & sales volume

Daily sales

Head Office-driven (gave orders to frontline)

Promoted methods for running company-operated stores

Employment systems based on seniority

and company association

New Lawson

Lawson

Nationwide development & close ties
with regional communities

Develop through alliances

Realistic

Earnings

Profitability (ROI)

Frontline-driven (support from Head Office)

Promote methods appropriate
for franchised stores

Merit- and results-based employment system

Fiscal 2001 Results and Fiscal 2002 Projections (Net Sales and Profits)



(Non-Consolidated)

	Fiscal 2001 Results	Fiscal 2002 Projections	YoY
	(¥ billions)	(¥ billions)	(%)
Total net sales	1,282.3	1,310.0	102.2%
Operating income	36.9	37.5	101.6%
Recurring profit	35.8	36.0	100.6%
Net income	16.7	12.2	73.1%

(Consolidated)

	(¥ billions)	(¥ billions)	(%)
Operating income	36.4	36.5	100.3%
Recurring profit	35.2	33.0	93.8%
Net income	16.1	10.0	62.1%



Fiscal 2001 Results and Fiscal 2002 Projections

	Fiscal 2001 Results	Fiscal 2002 Projections
Store openings	601	500
Store closures	550	500
Closures (RC)	170	200
Relocations (FC)	-	50
Reductions (FC)	380	300
Change	190	150
Daily sales at existing stores	98.4%	99.0%
Daily sales at new stores (¥ thousands)	431	460
Gross profit margin	30.3%	30.5%
Total no. of stores (Excluding stores in Shanghai, China)	7,734	7,734

Major P/L Items: Fiscal 2001 Results, Fiscal 2002 Projections and Outlook for Fiscal 2003 Onward



	(Non-Consolidated)			(¥ billions)
	Fiscal 2001 Results	Fiscal 2002 Projections	Change	Outlook for Fiscal 2003 Onward
Gross profit	176.1	182.1	6.0	Net increase in no. of stores, increase in markups, increase daily sales at existing stores year on year
SG&A expenses	139.2	144.6	5.4	Fixed costs will peak in fiscal 2003
Operating income	36.9	37.5	0.6	A leaner organization that produces earnings growth
Operating income ratio	2.9%	2.9%	0.0	
Fixed costs				
LETSS and other IT costs (Hardware leases, software amortization, maintenance costs)	6.0	17.0	11.0	Expected to peak in fiscal 2003, but will continue cost-cutting initiatives
Personnel expenses	37.9	35.4	(2.5)	¥3 billion decrease from fiscal 2002 to fiscal 2003
Advertising expenses	15.6	14.0	(1.6)	Reduce by changing media used

Cash Flows: FY2001 Results, FY2002 Projections and Outlook for Fiscal 2003 Onward



Cash flows from operating activities	43.6	38.0	Stabilized at around ¥50 billion
Cash flows from investing activities	-44.7	-43.0	Actively invest. LETSS largely completed. Keep total investment to ¥40-¥50 billion level
Free cash flows	-1.1	-5.0	Make positive
Term-end cash	64.1		
Equity ratio	44.7%	46.0%	
ROE	10.2%	7.9%	