



# **LAWSON, INC.**

# **Fiscal 2003 Earnings**

# **Presentation**

**Year Ended February 29, 2004**

**April 15, 2004**

**Cautionary Statement**

This presentation may contain forward-looking statements about the future plans, strategies, beliefs and performance of Lawson and its subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the company and are subject to a number of risks, uncertainties and assumptions which, without limitation, include economic trends, competition in the Japanese convenience store industry, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.



## Earnings rose but were below projections

- ✓ **Daily sales at existing stores excluding Highway card toll cards were 99.2% of the previous year (Impact of Highway Card sales was 1.7%)  
(Customers per store per day: 99.0%; Amount spent per customer: 100.2%)**
  - **Customer numbers fell in first half due to the cool summer but recovered in the second half**
- ✓ **Markup target not achieved**
  - **(Management of markup insufficient in the second half)**
  - **Reflects effect of rice price spike**
- ✓ **New store profitability declined**
- ✓ **Raw material cost-cutting plan not achieved**
- ✓ **Improved operating results at Group companies**

# Fiscal 2003 Results



(Consolidated) ( ¥ billions)	FY2002	FY2003		
	Results	Results	YoY Change/Difference	Change/Difference From Projections
Total net sales	1,294.0	1,288.3	99.6%	99.3%
Operating income	34.1	38.1	111.7%	94.0%
Operating income ratio	2.6%	3.0%	0.4%	-0.2%
Recurring profit	30.7	36.6	119.3%	96.3%
Net income	8.9	18.6	209.6%	102.0%
ROE	5.9%	12.1%	6.2%	-
EPS( ¥ )	82.35	175.79	93.44	-

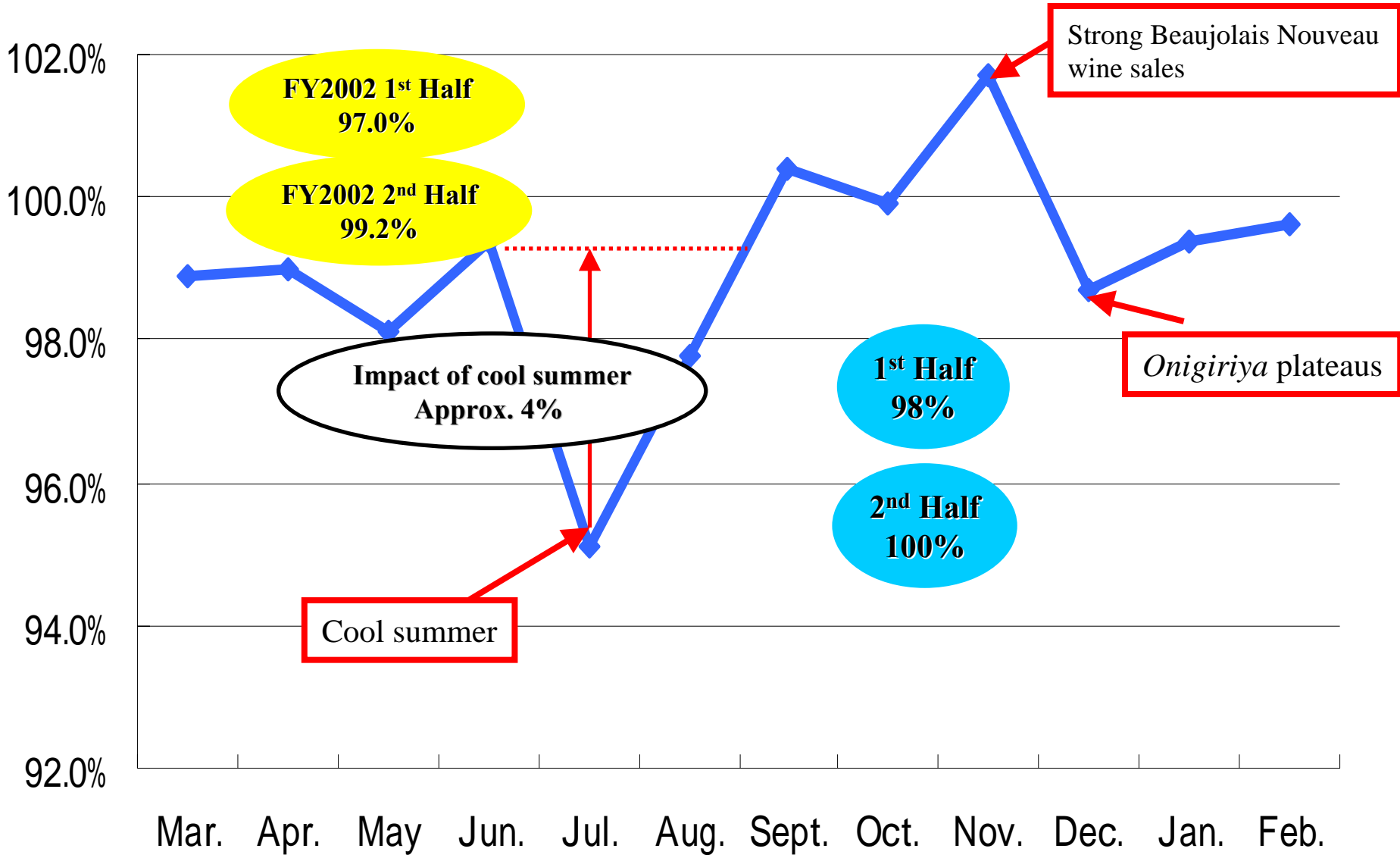
## (Store-related Data)

Daily sales at existing stores (YoY)	98.1%	99.2%	1.1%	0.2%
Daily sales at new stores (\ thousands)	457	436	-21	-19
Total no. of stores	7,625	7,821	196	-4

(Excluding stores in Shanghai, China)

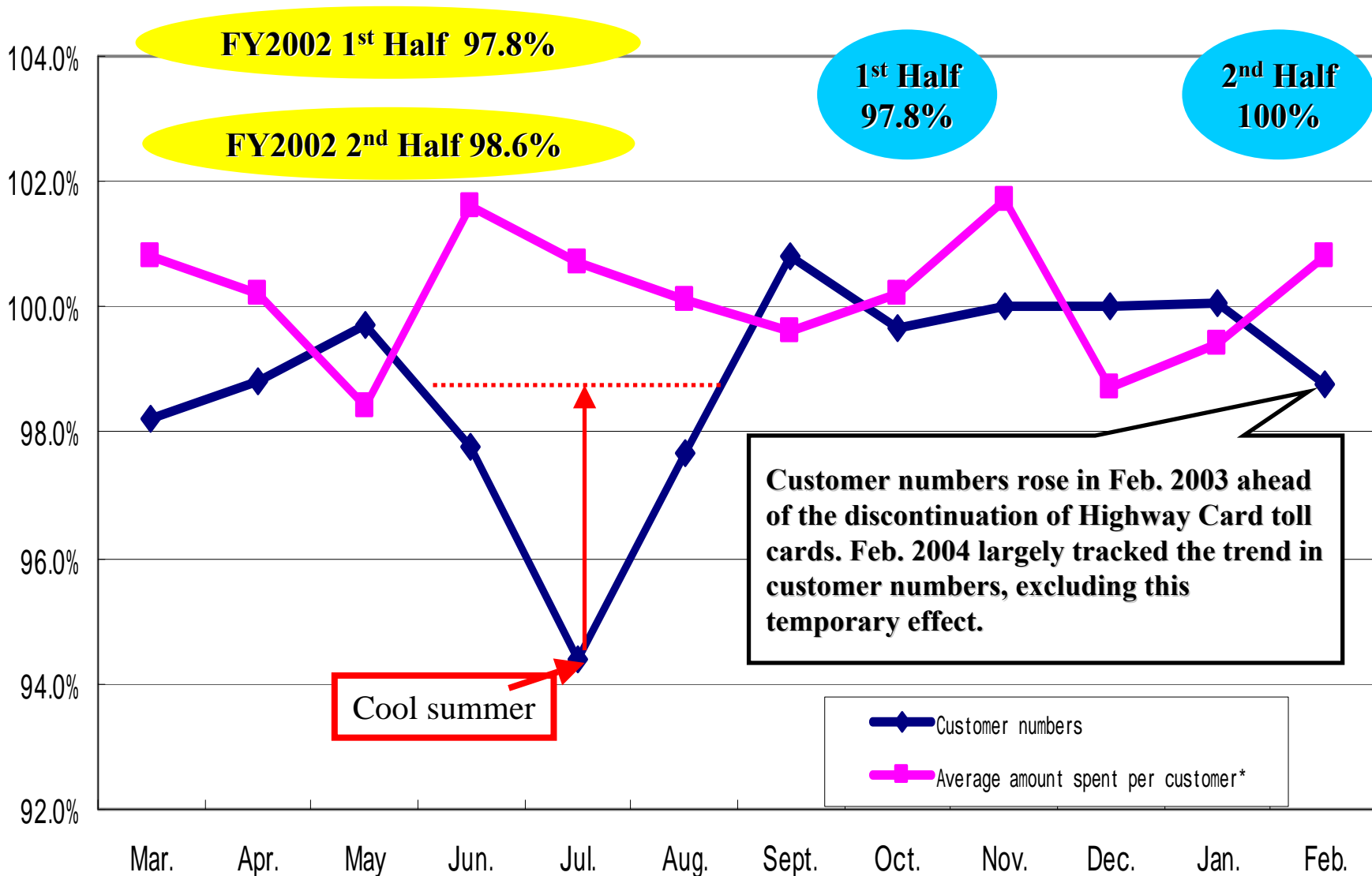
Gross profit margin	30.3%	30.7%	0.4%	-0.2%
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# YoY Comparison of Existing Store Daily Sales Exceeded Previous Year in Second Half



Note: FY2003 excludes Highway Card toll cards

# Customer Numbers Begin to Rebound




## YoY change in existing store sales

- 99.2% (Against projections: +0.2% / Against previous year: +1.1%)

## Gross profit margin fell short of target

- 30.7% (Against projections: -0.2% / Against previous year: +0.4%)

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- Effect of Highway Cards
  - Approx. ¥22 billion
  - Revenues increased excluding this effect

## Total net sales: ¥1,288.3 billion

(Against projections: -¥9.7 billion / Against previous year: -¥5.7 billion)

- Total net sales would have increased 1.6% year on year if the effects of Highway Cards and the cool summer were excluded

## Operating income: ¥38.1 billion (Against projections: -¥2.4 billion / Against previous year: +¥4.0 billion)

- Reflects improved results at Group companies against both projections and the previous year

# Markups Were Squeezed (The Main Reason for not Achieving Operating Income Target)



## ■ Markups not achieved

<Main factors>

- Sales targets not achieved for high-margin rice dishes
- Targeted markup rate not achieved

Impact

-¥2.3 billion

## ■ Decline in profitability at new stores

- Insufficient operating days at new stores and closed stores
- Decline in earnings at new stores

-¥0.3 billion

## ■ Head office absorbed impact of sudden rise in raw material prices (notably rice)

- Decided not to pass price rises on to franchise owners or customers—gave priority to franchise owners' earnings and value for customers

-¥1.3 billion

## Reduced selling and general expenses

- Advertising expenses, personnel expenses, IT expenses

+¥1.0 billion

## Improved earnings at consolidated subsidiaries

- Including consolidation adjustment

+¥0.5 billion

Difference from plan:  
-¥2.4 billion

# Earnings Improving at Consolidated Subsidiaries and Affiliates



( ¥ billions)

(Operating Income)	FY2003		
	Results	Difference From Projection	YoY Difference
Lawson Tickets Co., Ltd.	0.64	0.19	-0.15
i-Convenience, Inc.	-0.24	-0.01	0.14
LANs	-0.35	0.27	0.18
Shanghai Hualian Lawson Co., Ltd.	-0.08	0.0	0.11
<b><u>Subsidiary total</u></b>	<b>0.05</b>	<b>0.45</b>	<b>0.28</b>

**\*Figure after consolidation**

LAWSON CS CARD, INC.	-2.26	0.15	1.68
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\*Equity-method affiliate

# FY2004 Forecasts



	Results	Forecasts	YoY Change/Difference
Total net sales	1,288.3	1,360.0	105.6%
Operating income	38.1	42.1	110.5%
Operating income ratio	3.0%	3.1%	0.1%
Recurring profit	36.6	40.5	110.7%
Net income	18.6	20.0	107.5%

Existing store sales YoY	99.2%	101.0%	1.8%
Existing store markups YoY	-	101.3%	-
Gross profit margin	30.7%	30.8%	0.1%

Total no. of stores	7,821	8,081	260
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(Excluding stores in Shanghai, China)

ROE	12.1%	12.4%	0.3%
EPS( ¥ )	175.79	191.72	15.93

# Main P/L Items: Fiscal 2003 Results and Fiscal 2004 Forecasts



( ¥ billions)	FY2003	FY2004
Non-consolidated	Results	Forecasts
Operating gross profit	183.3	A pprox. 196.0
SG&A	-145.3	A pprox. 154.0
Fixed costs		
IT-related costs (Hardware leases/software amortization/ maintenance costs, etc.)	-16.9	Largely unchanged
Personnel expenses	-32.7	Largely unchanged
Advertising expenses	-11.4	
Operating income	38.0	42.0
Consolidated operating income	38.1	42.1



## <Revenues>

(1) Markups YoY: +1.3% (markup ratio control)

(2) Effect of net increase in store numbers

## <Expenses>

(3) Fixed expenses

- CRM and other advertising expenses
- Personnel expenses
- Education and training expenses
- Quality management
- Fixtures and energy-saving equipment, etc.

(1) - (2)  
+¥6.1 billion

(3)  
+¥2.1 billion

(4) Consolidated earnings flat

**Total: +¥4.0 billion (Operating income)**



# Investment Forecasts

(Consolidated, ¥ billions)

	FY2003 Results	FY2004 Projection	YoY Difference
New stores	14.3	14.5	0.2
Refurbishment	10.4	10.0	-0.4
Systems	2.2	4.0	1.8
Investments and loans advanced	6.3	6.5	0.2
Others	0.8	4.0	3.2

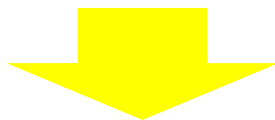
Total	34.0	39.0	5.0
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**Lawson Challenge**  
**Creating Enterprise Value**

# Problem Recognition—CEO's View

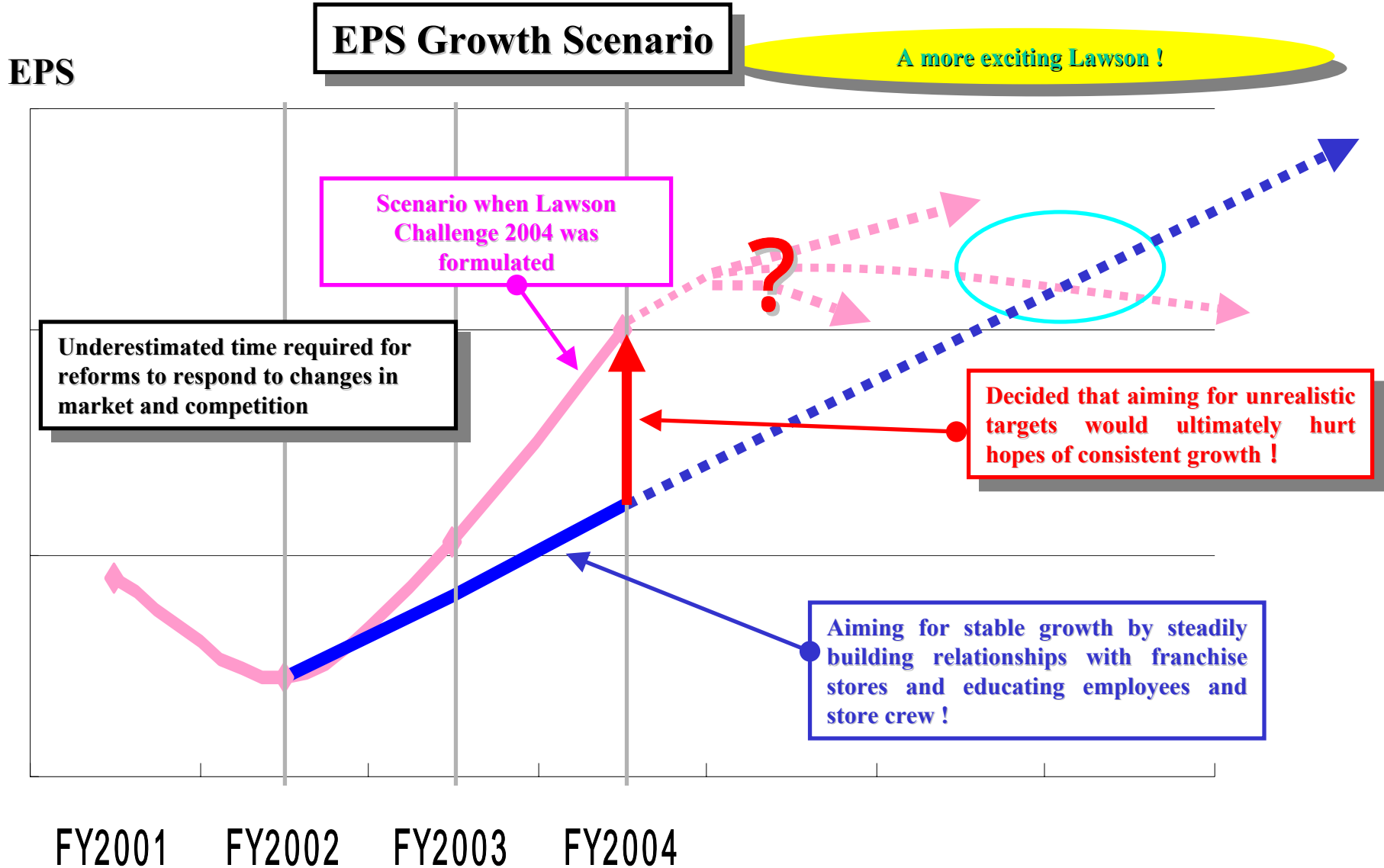


- **I'm convinced that reforms making Lawson focus more on customers and frontline operations was the correct course of action.**
- **But the past two years has taught me that more time than was expected is required to make Lawson more responsive to customers.**
- **We must fine tune the CVS model that we've tried to standardize across the country to respond to major shifts in customer needs.**
- **I'm convinced that rather than chase short-term gains, our decision not to change the quality of products when the rice price spiked in the second half of last fiscal year was an investment in our brand. This will ultimately underpin Lawson's stable growth and create enterprise value.**



**We aim to create more Lawson brand equity by treasuring our intangible assets and placing emphasis on the growth of the supportive Lawson family**

# Aiming for Stable Growth



# The Changing CVS Landscape



**Regional preferences  
are more important  
than ever**

**Concentrating only on  
Tokyo needs is unwise**

**Low birth-rate, aging  
population**

**The middle-aged and  
seniors are taking  
center stage**

**Limits to the chain store  
model**

**Must refine the standard  
CVS model**

**Rising health  
consciousness**

**Products must be safe,  
healthy and tasty**

**Intensifying competition**

**Increasing number of  
stores/competition from  
other businesses**

# A Differentiation Strategy to Boost Earnings



**Strategic positioning**

(New challenge)

**The Lawson CVS Model**  
Match neighborhood needs more closely

**Achieve consistently stable earnings with differentiation strategy**

**NEW CVS model to meet neighborhood needs**  
(E.g. Lawson in Obihiro, Hokkaido)

????

**A leaner Lawson that does the basics right!**

**Increase standardization and efficiency**

**Alliances**

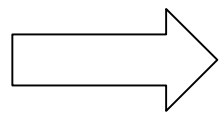
**Problem recognition: Avoid focusing solely on efficiency!**

**Standard model efficiency**

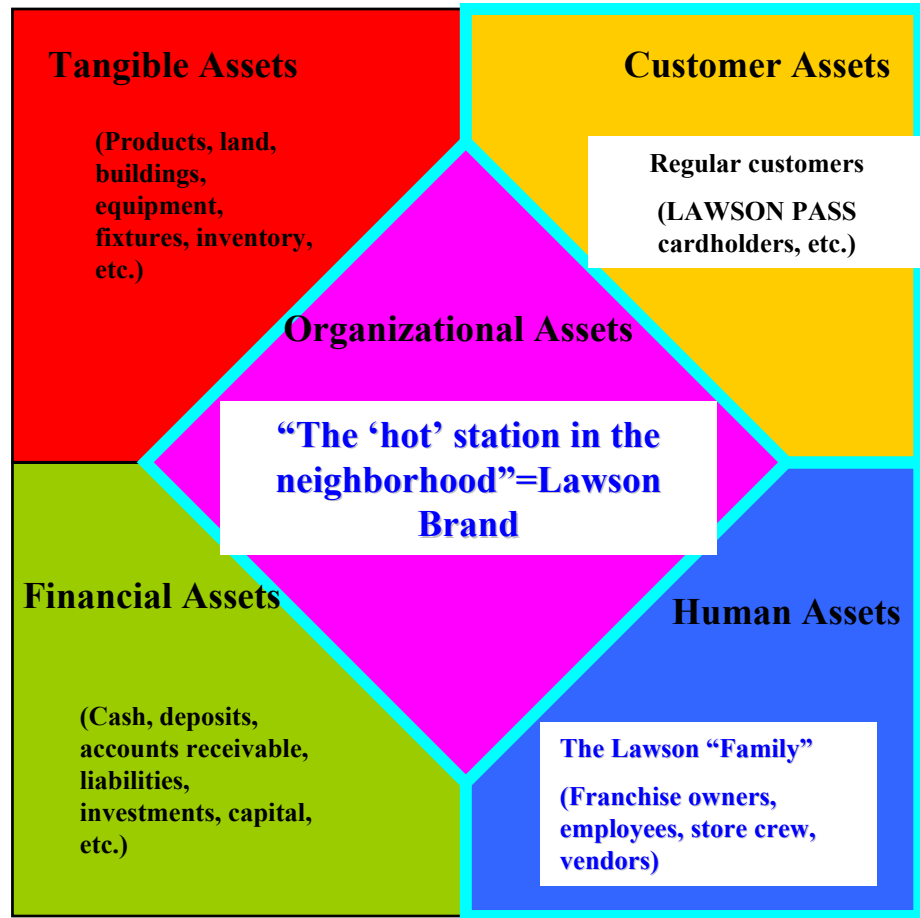
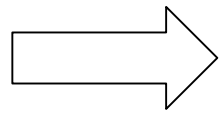
# Protect Intangible Assets



**Must focus on this to create a strong organization (establish a brand)**



**Previous Focus  
Balance Sheet  
Assets**



**Our focus now--  
“Intangible Assets”**

Note: Adapted from the “Value Code” by ARTHUR ANDERSEN

## **(1) Strengthen Product Lineup**

**1.Change MD operational approach**

**2.Improve product quality**

- **Aiming to offer safe, healthy and tasty products customers can trust**

**3.Strengthen development capabilities for original products**

## **(2) Further Enhance Operational Capabilities**

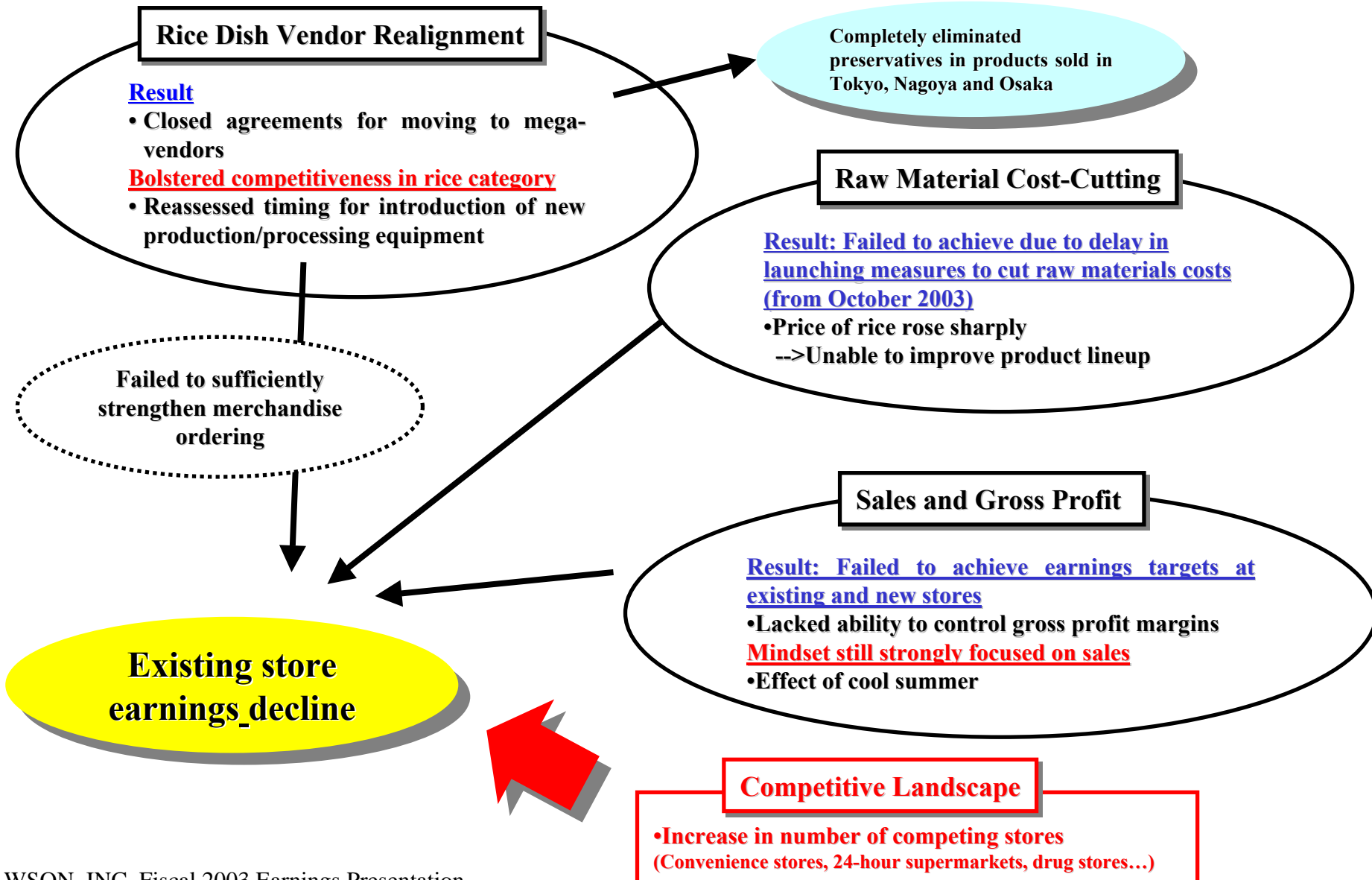
**Raise store owner earnings**

- **Improve merchandise ordering (Introduce new system + SV training)**
- **The 3 Challenge Practices (Focus on doing simple things well)**
- **Translation of successful actions/products to other parts of Lawson**

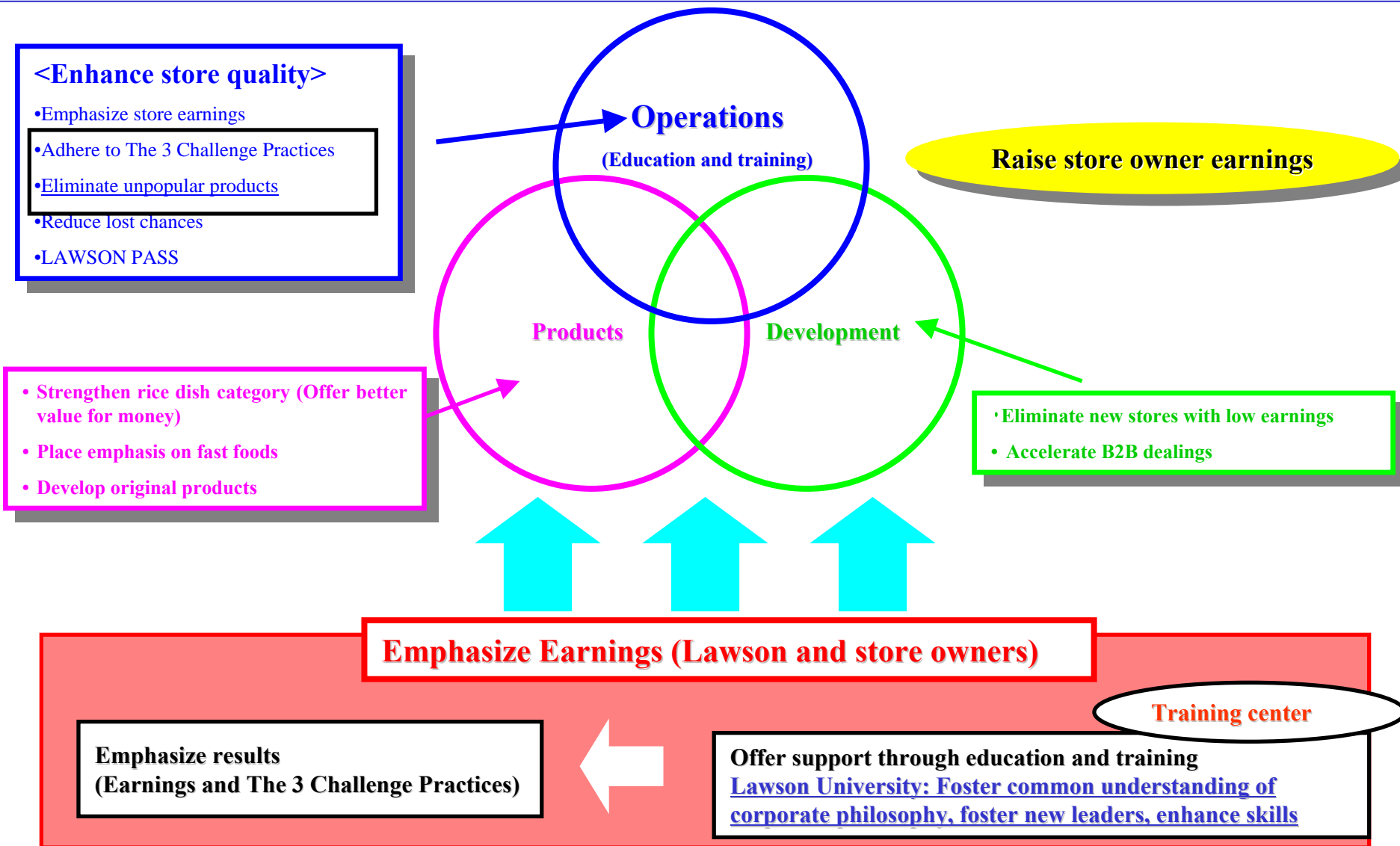
## **(3) Earnings-Focused Store Openings**

- **Raise productivity of Recruit Field Counselors (RFC) responsible for new store openings**
- **Bolster B2B through sales by management**

# Fiscal 2003 in Review



# Fiscal 2004 and Future Initiatives (Building a Base for Stable Growth)



**\*Understand local customer needs to create stores and layouts they enjoy; keep stores and surrounding areas clean; serve customers in a sincere way so they keep coming back**

**Revised the capital structure policy in light of higher earnings in FY2003**

**A business model for stable growth**

**Consider ways to return profits to shareholders on the premise that Lawson is on the path to stable EPS growth**

- **Dividend payout ratio 36%: ¥70 dividend per share for FY2004 (Stable return)**
- **Share buybacks assumed to be the same as previous year (Variable return)**
- **Consider retiring treasury stock**

**Supplementary Information**  
**(2 pages)**

# FY2003 Non-Consolidated Results



(Non-consolidated) ( ¥ billions)	FY2002	FY2003			
	Results	Results	Projections	Change/Difference From Projections	YoY Change/Difference
Total net sales	1,291.0	1,285.0	1,294.0	99.3%	99.5%
Gross profit	181.4	183.3	187.9	97.6%	101.0%
SG&A expenses	-146.9	-145.3	-146.9	1.6	1.6
Operating income	34.5	38.0	41.0	92.7%	110.1%
Operating income ratio	2.7%	3.0%	3.2%	-0.2%	0.3%
Recurring profit	33.2	37.6	40.0	94.0%	113.3%
Net income	10.3	19.0	19.9	95.5%	184.5%
ROE	6.7%	12.2%	-	-	5.5%
EPS ( ¥ )	95.38	180.01	-	-	84.63

## (Store-related Data)

Daily sales at existing stores (YoY)	98.1%	99.2%	99.0%	0.2%	1.1%
Daily sales at new stores (\ thousands)	457	436	455	-10	-21
Total no. of stores	7,625	7,821	7,825	-4	196

(Excluding stores in Shanghai, China)

Gross profit margin	30.3%	30.7%	30.9%	-0.2%	0.4%
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# FY2003 Results and FY2004 Projections



	FY2003 Results	FY2004 Projections
Store openings	625	600
Store closures	429	340
Closures (RC)	15	-
FC change	181	-
Relocations	205	-
Net change	196	260
Total number of stores at year-end	7,821	8,081
Contracts	391	-