



# Earnings Presentation

## for the Fiscal Year Ended February 28, 2011

April 11, 2011



*-Securities Code- 3337*

Circle K Sunkus Co.,Ltd.





# **Business Results**

## **for the Fiscal Year Ended February 28, 2011**

**Toshitaka Yamaguchi**  
**Head of Finance & Accounting Division**

# 1. Consolidated Financial Highlights



(Stores, Yen in millions)

	<b>FY2010/2</b>	<b>FY2011/2</b>	<b>Y-o-y</b>	<b>Versus Forecast</b>
Stores opened	<b>316</b>	<b>325</b>	<b>+9</b>	<b>-17</b>
Stores closed	<b>277</b>	<b>282</b>	<b>+5</b>	<b>-12</b>
Stores at term-end	<b>5,302</b>	<b>5,445</b>	<b>+143</b>	<b>-5</b>
Total store sales	<b>902,318</b>	<b>923,185</b>	<b>+2.3%</b>	<b>+1.7%</b>
Total operating revenues	<b>194,142</b>	<b>192,304</b>	<b>-0.9%</b>	<b>+0.9%</b>
Gross profit	<b>129,782</b>	<b>133,120</b>	<b>+2.6%</b>	<b>+2.0%</b>
SG&A expenses	<b>114,583</b>	<b>114,548</b>	<b>-0.0%</b>	<b>-0.1%</b>
Operating income	<b>15,199</b>	<b>18,571</b>	<b>+22.2%</b>	<b>+17.2%</b>
Recurring profit	<b>14,607</b>	<b>17,477</b>	<b>+19.6%</b>	<b>+19.3%</b>
Net income	<b>5,554</b>	<b>7,165</b>	<b>+29.0%</b>	<b>+23.1%</b>

## 2. Factors Behind Differences Between Consolidated Business Results and Initial Forecasts



(Yen in millions)

	Versus Forecast (%)	Versus Forecast
<b>Gross profit</b>	+2.0%	+2,600
<b>SG&amp;A expenses</b>	-0.1%	-121
<b>Operating income</b>	+17.2%	+2,721
<b>Recurring profit</b>	+19.3%	+2,827
<b>Net income</b>	+23.1%	+1,345

### Factors behind differences between consolidated business results and initial forecasts

- **Gross profit:** Reflects increases in franchise commissions from franchised stores (¥2,670 million higher than forecast) as total store sales were ¥15,500 million higher than forecast.
- **SG&A expenses :** Mostly on target (0.1% below forecast) → Store leasing expenses, depreciation and amortization + equipment leasing expenses and other expenses were reduced by ¥230 million, ¥220 million and ¥320 million, respectively, from forecasts, while advertising and sales promotion expenses increased ¥510 million from forecast.
- **Extraordinary losses:** ¥750 million higher than forecast → Impairment loss on fixed assets ¥670 million higher than forecast

### 3. Non-consolidated Financial Highlights



(Stores, Yen in millions)

	FY2010/2	FY2011/2	FY2011/2	
			Y-o-y	Versus forecast
Stores opened	285	301	+16	-9
Stores closed	266	258	-8	-12
Stores at term-end	4,958	5,001	+43	+3
Total store sales	852,154	855,010	+0.3%	+1.7%
Y-o-y change in existing store sales	-5.6%	-1.4%	-	+1.8%
Average product markup	27.64%	27.69%	+0.05%	-0.09%
Total operating revenues	169,552	163,253	-3.7%	+0.9%
Gross profit	122,192	122,899	+0.6%	+2.1%
SG&A expenses	106,795	104,584	-2.1%	+0.1%
Operating income	15,397	18,315	+19.0%	+14.7%
Recurring profit	13,959	16,888	+21.0%	+16.8%
Net income	5,091	7,277	+42.9%	+18.7%

Note: The year-on-year comparison for the average product markup represents the percentage-point change in this ratio.

## 4. Factors Behind Year-on-year Changes in Non-consolidated Results



### (1) Total operating revenues ¥163,253 million (-¥6,299 million; -3.7% y-o-y)

(Yen in millions)

	Y-o-y change	Y-o-y change	Factors
<b>Franchise commission from franchised stores</b>	+2.3%	+2,239	<ul style="list-style-type: none"> <li>▪ Average product markup: -0.05% year on year.</li> <li>▪ Franchised store sales increased ¥11,430 million year on year</li> </ul>
<b>Real estate rental income</b>	-4.5%	-246	The number of Type A stores decreased by 92 from the previous fiscal year
<b>Net sales of Company-owned stores</b>	-13.8%	-8,574	The number of Company-owned stores decreased by 67 from the previous fiscal year, mainly due to the closure of 114 stores and the conversion of Company-owned stores into franchised stores.
<b>Other total operating revenues</b>	+4.4%	+282	-

Franchise commission from franchised stores includes area license fees of ¥2,938 million.

## (2) SG&A expenses ¥104,584 million (-¥2,211 million; -2.1% y-o-y)

(Yen in millions)

	Y-o-y change	Y-o-y change	Factors
<b>Personnel expenses</b>	-1.8%	-349	<ul style="list-style-type: none"> <li>•Salaries and bonuses decreased ¥222 million year on year</li> <li>• Employee retirement pension benefit liability increased ¥110 million year on year.</li> </ul>
<b>Advertising and sales promotion expenses</b>	-3.1%	-199	<ul style="list-style-type: none"> <li>•Electronic advertising expenses and sales promotion expenses increased ¥266 million and ¥160 million, respectively, year on year</li> <li>•However, reductions in other nonessential outlays lowered these expenses by ¥630 million.</li> </ul>
<b>Store leasing expenses</b>	+1.7%	+692	<ul style="list-style-type: none"> <li>•The number of Type C stores increased by 233 from the previous fiscal year.</li> <li>•Building leasing expenses →Shifted ¥259million to depreciation and amortization.</li> </ul>
<b>Equipment leasing expenses</b>	-14.3%	-979	<ul style="list-style-type: none"> <li>•Reflects the impact of accounting for leasing on the balance sheet</li> </ul>
<b>Depreciation and amortization</b>	+10.3%	+1,022	
<b>Other</b>	-10.3%	-2396	<ul style="list-style-type: none"> <li>•Rigorous cost reduction measures →Travel and transportation expenses reduced by ¥195 million</li> <li>•Business contracting fees reduced by ¥1,226 million →Number of stores under consigned management reduced by 58 on a year-on-year basis</li> <li>•Reflects the impact of accounting for leasing on the balance sheet</li> </ul>

### (3) Non-operating income ¥1,020 million, Non-operating expenses ¥2,447 million

(Yen in millions)

	Y-o-y change	Y-o-y change	Factors
<b>Non-operating income</b>	-2.0%	-20	<ul style="list-style-type: none"><li>•Interest and compensation income increased ¥167 million year on year</li><li>•Dividend income increased by ¥145 million</li></ul>
<b>Non-operating expenses</b>	-1.2%	-30	<ul style="list-style-type: none"><li>•Provision to allowance for doubtful accounts decreased ¥130 million year on year</li><li>•Lease interest expenses increased ¥70 million year on year</li></ul>

### (4) Extraordinary gains ¥87 million, Extraordinary losses ¥3,861 million

(Yen in millions)

	Y-o-y change	Y-o-y change	Factors
<b>Extraordinary gains</b>	-50.6%	-89	—
<b>Extraordinary losses</b>	-3.4%	-134	<ul style="list-style-type: none"><li>•Booked impairment losses of ¥3,081 million (down ¥123 million year on year)</li></ul>

## 5. Consolidated Capital Expenditure and Cash Flows



### ■ Capital expenditures (includes leases)

(Yen in millions)

	FY2010/2	FY2011/2	FY2012/2 (Forecast)
New store investments	12,485	12,413	13,265
Existing store investments	1,803	1,681	1,850
System investments	2,816	1,806	1,835
Head office investments	1,218	966	1,450
Capital expenditures (1)	18,322	16,867	18,400
Leasing Expenditures (2)	8,115	5,207	7,390
<b>Total Investments (1)+(2)</b>	<b>26,437</b>	<b>22,073</b>	<b>25,790</b>

## 6. Non-Consolidated Earnings Forecasts for the Fiscal Year Ending February 29, 2012



(Stores, Yen in millions)

	FY2011/2 results	FY2012/2 forecasts	
		First half	Full year
Stores opened	301	150	315
Stores closed	258	140	255
<b>Stores at term-end</b>	<b>5,001</b>	<b>5,011</b>	<b>5,061</b>
<b>Total store sales</b>	<b>855,010</b>	<b>450,330</b>	<b>877,590</b>
Y-o-y change in existing store sales	-1.4%	+3.0%	+0.5%
<b>Average product markup</b>	<b>27.69%</b>	<b>27.42%</b>	<b>27.74%</b>
<b>Total operating revenues</b>	<b>163,253</b>	<b>81,560</b>	<b>157,910</b>
<b>Gross profit</b>	<b>122,899</b>	<b>62,470</b>	<b>122,150</b>
<b>SG&amp;A expenses</b>	<b>104,584</b>	<b>51,969</b>	<b>103,880</b>
<b>Operating income</b>	<b>18,315</b>	<b>10,500</b>	<b>18,270</b>
<b>Recurring profit</b>	<b>16,888</b>	<b>9,680</b>	<b>16,930</b>
<b>Net income</b>	<b>7,277</b>	<b>1,470</b>	<b>5,290</b>

## 7. Consolidated Earnings Forecasts for the Fiscal Year Ending February 29, 2012



(Stores, Yen in millions)

	FY2011/2 results	FY2012/2 forecasts	
		First half	Full year
<b>Stores opened</b>	325	173	357
<b>Stores closed</b>	282	151	277
<b>Stores at term-end</b>	5,445	5,537	5,595
<b>Total store sales</b>	923,185	491,040	957,990
<b>Total operating revenues</b>	192,304	97,250	188,790
<b>Gross profit</b>	133,120	68,560	134,110
<b>SG&amp;A expenses</b>	114,548	57,891	115,710
<b>Operating income</b>	18,571	10,670	18,400
<b>Recurring profit</b>	17,477	10,320	17,500
<b>Net income</b>	7,165	1,140	4,780

### [ FY2012/2 Earnings Forecast for Consolidated Subsidiaries ]

	Six area franchisers total	99 ICHIBA	ZERO NETWORKS	Retail Staff
Stores opened	37	5	-	-
Stores closed	20	2	-	-
Stores at term-end	470	64	-	-
Total store sales	69,574	10,826	-	-
Total operating revenues	13,702	10,826	5,906	1,956
Operating income	-24	-78	422	44



# **Management Policies**

## **for the Fiscal Year Ending February 29, 2012**

**Motohiko Nakamura, President**

# Review of the Fiscal Year Ended February 28, 2011

---

February 2011 Fiscal Year Management Policy

**Everyone should think  
and act together**

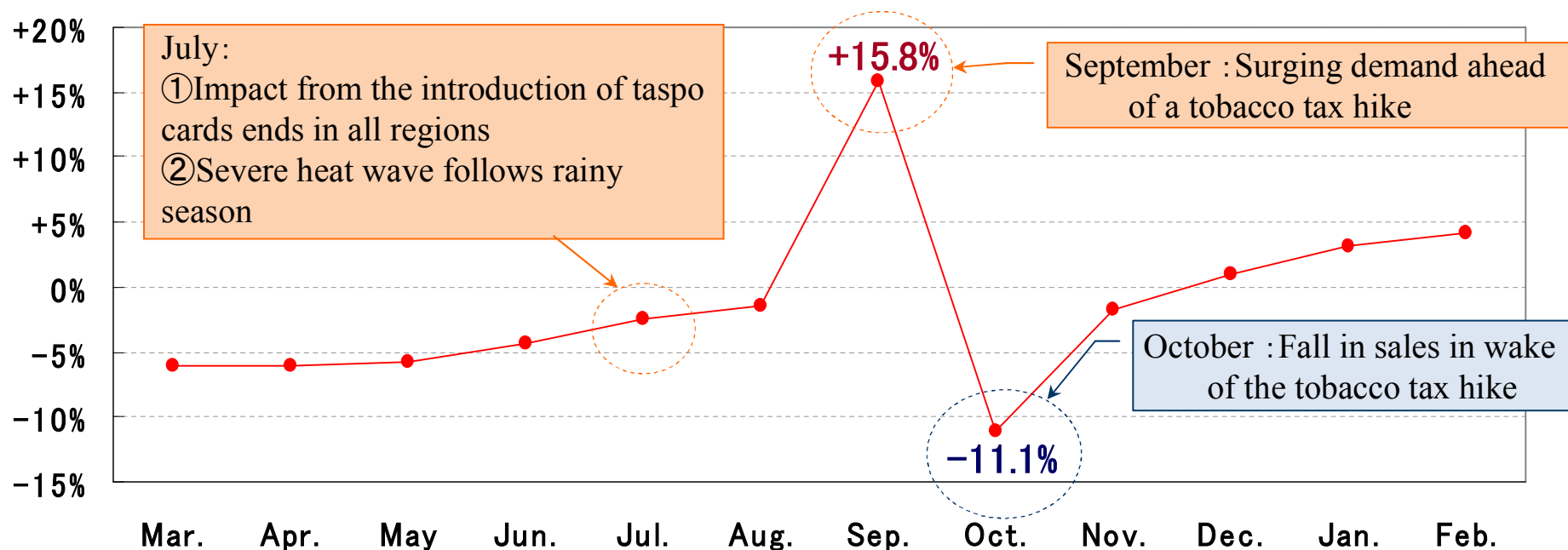
Key Words : 『Visualize』 『Enjoy』

# 1. Achieved Forecast for Year-on-Year Change in Existing Store Sales

- Year-on-year change in existing store sales -1.4% (1.8 points below forecast)**

→ Year-on-year change in average customer footfall: -2.5%

→ Year-on-year change in average purchase per customer: +1.1%



«Year-on-year change in average daily tobacco sales» First half: -6.7%; Second half: +10.1%; Full year: +1.4%

## [ Year-on-year Change in Existing Store Sales by Region ]

Hokkaido	Tohoku	Kanto	Koshinetsu	Hokuriku	Tokai	Kansai	Chugoku	Kyushu
-0.6%	+0.3%	-2.1%	-0.7%	-2.1%	-1.5%	-1.3%	-0.1%	+29.1%

## 2. Average Product Markup Fell Short of Forecasts



### ■ Average Product Markup: 27.69% (0.09 of a point below forecast)

[ Y-o-y sales, Share of sales and Gross markup by products ]

	FY2011/2			
	Sales		Markup	
	Y-o-y	Share		Y-o-y
Fast foods	- 10.5%	17.0%	36.3%	+0.1%
Perishable foods	- 4.9%	12.8%	34.4%	+0.1%
Processed foods	- 5.5%	29.2%	36.8%	+0.2%
Non-food items	- 1.3%	35.1%	16.2%	- 0.5%
Services	+5.0%	5.9%	5.9%	- 0.5%
<b>Total</b>	<b>- 4.3%</b>	<b>100.0%</b>	<b>27.64%</b>	<b>- 0.47%</b>

(1) Tobacco: sales up 3.9% year on year; share of sales rose to 27.1%

(2) Services: sales up 11.3% year on year; share of sales rose to 6.5%

### 3. Stores Opened, Average Daily Sales at New Stores, Company-owned Stores



#### 3. Stores were opened largely as planned; average daily sales at new stores fell short of target

(Stores, Yen)

(Non-consolidated)	FY2009/2	FY2010/2	FY2011/2			
			Forecast	Actual result	Versus Forecast	Y-o-y
Stores opened	265	285	310	301	-9	+16
Average daily sales at new stores	455,000	414,000	451,000	<b>431,000</b>	-20,000	-17,000

#### 4. Reduced 67 Company-owned stores from a year earlier

	FY2009/2	FY2010/2	FY2011/2			
				Stores opened	Stores closed	Change from previous fiscal year-end
<b>Company-owned stores</b>	<b>508</b>	<b>418</b>	<b>351</b>	<b>6</b>	<b>114</b>	<b>-67</b>
Stores under direct management	193	196	187	6	52	-9
Provisional Company-owned stores	315	222	164	0	62	-58

- **Reductions in operating expenses due to fewer Company-owned stores: approx. ¥1,226 million**

## 4. Cost Reductions Through Seven Urgent Measures in the Fiscal Year Ended February 28, 2011



### Seven urgent measures in the February 2011 fiscal year

1. Rigorously enforce inefficiency reduction measures and change approaches
2. Reduce transportation expenses for various activities
3. Review overtime work and use of temp-agency staff
4. Review outsourcing expenses
5. Negotiate reductions in store rent
6. Review operating expenses at Company-owned stores
7. Other measures (personnel expenses, etc.)

Annual reduction targets

**¥3.9 billion**



Annual reduction

Approximately  
**¥4 billion**

### ▶▶ Bolster franchisee support measures

- Supervisor-franchisee sales promotion expenses **¥0.8 billion**
- Launch of 6 nationwide television commercials
- 30th anniversary campaign of Circle K and Sunkus stores
- Franchisee forums at 44 locations nationwide



# 5. Main Initiatives in the Year Ended February 28, 2011



## Enhancement of boxed lunches

September ~ Product lineup enhanced in the intermediate price range

**The *Naruhodo! Bento* boxed lunch series**

- Year-on-year sales of boxed lunches improve in the second half

⇒ First half: Down 6.7%

Second half: Down 4.1%



## Enhancement of soup dishes

September ~ New series launched

**The *Oishii Soup & Soup Gohan* series**

⇒ Change in sales: Up 78% year on year



## Enhancement of *Cherie Dolce* desserts

November ~ ***Tenshi no Cheese Cake*** (Angel's Cheese Cake) launched

⇒ A major hit: Around 3 million servings sold in just the first month

⇒ Change in sales: Up 21% y-o-y in the four months from Nov 2010 through Feb 2011



## Implementation of discounts tied to specific time periods

November ~ ***Yoruwari*** Night Discount Service launched

- The fourth Night Discount Service was a ¥100 sale on rice balls

⇒ Sales composition of rice ball items rose in the 5 p.m. to 10 p.m. time period

⇒ Change in sales: Up 14% year on year during discount periods



# **Initiatives**

**in the Fiscal Year Ending February 29, 2012**

---

# 1. Management Policy

for the Fiscal Year Ending February 29, 2012



## February 2012 Fiscal Year Management Policy

**Rethink and Reform Everything and  
Put Innovation Into Action**

**Key Word** **Offense and Defense**

**Put Innovation  
Into Action**

Seeing the February 2012 fiscal year as the first year of a major drive to reinvent convenience stores, Circle K Sunkus will formulate and execute a new vision for stores

**Rethink and Reform  
Everything**

Rethink and reform the past, and formulate improved systems and frameworks for the sake of franchisees as well as customers

## 2. Implemented Organizational Changes

### 1. Appointed general managers to Store Development & Operations Divisions nationwide

- **Precisely coordinated store development and operations**

### 2. Consolidation of the Information Services and Information Systems Divisions

- **Improve speed and efficiency of Head Office functions**

### 3. Regional Administration Departments upgraded to Regional Strategy Departments

- **Assist franchisees in training staff, as well as strengthen and speed up store rental and lease administration**

### 4. Group Merchandise Planning Department established

- **Strengthen private label merchandise development of the UNY Group**

### 5. Daily Delivered Food Department established

- **Bolster the product lineup of fresh and perishable produce**

# 3. Store Development Strategy



## 1. Open mini-stores to drive faster net increases in stores

(Stores, Yen)

(Non-consolidated)	Stores opened (of which, mini-stores)	Stores opened	Net increase	Average daily sales at new stores
<b>FY2012/2 target</b>	<b>315(15)</b>	<b>255</b>	<b>60</b>	<b>440,000</b>



- Capital investment cost compressed to 1/3 of conventional convenience stores  
⇒ Low risk-low return
- Narrower product lineup emphasizing fast foods
- Open mini-stores in mainly captive retail areas  
⇒ Plan to open 100 mini-stores in three years

## 2. Rent reduction and franchise system reform

### ■ Planned reduction of existing store rents: **¥440 million**

⇒ Transfer of rent and lease administration to the Regional Strategy Department

⇒ Outsourcing to reduce rents

### ■ Reform of the registration fee to become a franchisee

⇒ A reduction in the registration fee for opening a new store from **¥1,000,000 to ¥500,000**

⇒ Repeal of restrictions on waivers for multi-store franchisees and store relocations



## 4. Operating Strategy~Measures for Increasing Customer Footfall~



### 1. Upgraded franchisee assistance measures

- **Strengthened education and training of franchisee staff**  
⇒ Assignment of 30 operation trainer-instructors to the Regional Strategy Departments
- **Continuation of the supervisor-franchisee sales promotion program (¥100,000 per store)**
- **Sales promotions synchronized with television commercials**  
⇒ This year, as in the last, 6 nationwide television commercials were aired to bolster salable merchandise

### 2. Measures to improve contract renewal rates, coupled with a reduction in Company-owned stores

- **A 0.5 percentage point reduction in royalty payments as a contract renewal incentive (starting March)**

(Non-consolidated)	Company-owned stores		Provisional Company-owned stores	Change from previous Fiscal year-end
		Stores under direct management		
<b>FY2012/2 target</b>	<b>300</b>	<b>180</b>	<b>120</b>	<b>-51</b>

- Phase out and convert provisional Company-owned stores to franchisees starting September

# 5. Merchandise and Service Strategy

## 1. Merchandising to accommodate older customers

### ■ Innovations in the delicatessen lineup

New, provisionally named *Aijo Hitosara* series

- Expanded lineup of appetizers and entrées
- Price range: ¥100 to ¥198
- Product lineup: 8 to 10 items

For launch  
June 28

Bolster lineup of delicatessen dishes with longer shelf lives

- **StyleONE** Expand the line-up of delicatessen items in stand-up pouches  
⇒ Price range: ¥118 to ¥238
- Delicatessen items with an insistence on quality  
⇒ Price range: ¥258 to ¥398

### ■ Group private label strategy

Bring synergies with the UNY Group into play

⇒ **StyleONE** Expand merchandise item count

From 148 items and ¥3 billion in the year ended February 28, 2011,



To **240 items and ¥6 billion** in the year ending February 29, 2012



## 2. Greater product category distinction

- Couple salable merchandise with television commercials and motivated franchisees



**Synergize mass retail of a single item**

For launch  
April 21



- Nurture more tremendously popular *Cherie Dolce* dessert selections

*Tenshi no Pudding*  
(Angel's Pudding, ¥150 per serving)

## 3. Measures to enhance the average purchase per customer

- Mini-sized product combinations as delicatessen sales enticements (starting April)

⇒ Start with the launch of mini-sized servings of rice bowls, sushi, noodles, salads and desserts

⇒ Select items offered in inexpensive, mini-sized servings

⇒ Enhance average purchase per customer by encouraging purchases of different product combinations

## 4. *KARUWAZA ONLINE* on-line shopping service

■ Integration of on-line shopping with the network of around 6,000 Circle K Sunkus stores



**Enhance both customer footfall and retention**

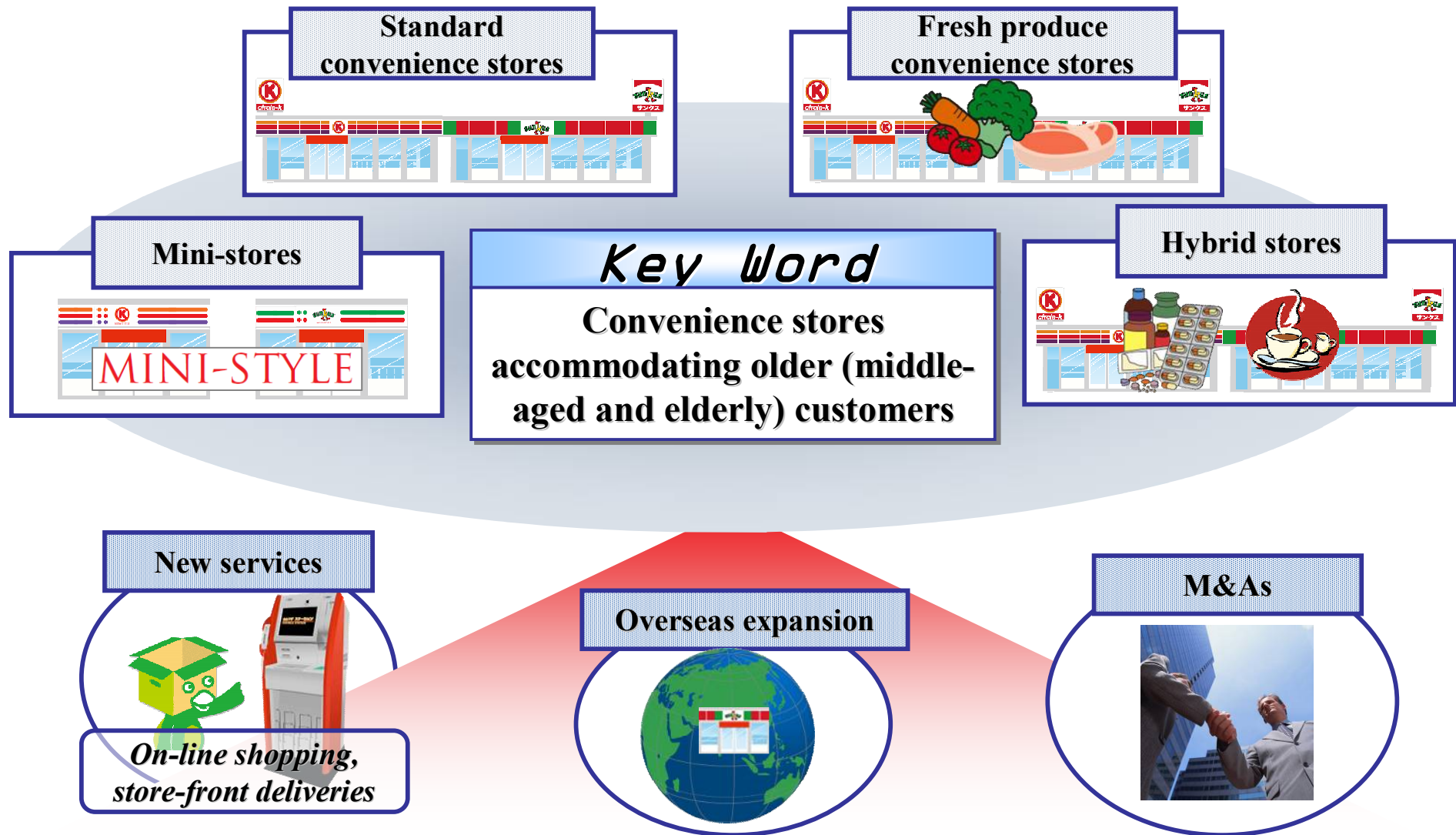
- Synchronization with over 1 million *KARUWAZA CLUB* members
  - Product lineups that exceed constraints in sales space
  - Free storefront-pickup deliveries
  - Fee and commission income for the franchise on home deliveries
- **Product lineup: Start from around 5,000 items**  
⇒ raise it to 10,000 items a year later
  - **Estimated sales: Around ¥1.3 billion in the first year**  
⇒ raised to ¥3.1 billion in the fifth year

Starting April 21



A mockup of the top page for the PC Web site

# 6. An Image of Circle K Sunkus in the Future



## Introduction of mini-stores

- Launch mini-stores less than 66 m<sup>2</sup> in footprint



MINI-STYLE



## Fresh produce convenience stores

- A proposed sales corner for fresh and daily produce

- Prices are about the same or up to 20% above most supermarkets
- Product range differs depending on the location



## Service enhancement

Circle K Sunkus on-line shopping portal  
*KARUWAZA ONLINE*

Nursing care/nursing services products  
A meals-on-wheels service

Expansion of the *Omise de Tsuuhan* store-front delivery service



UNY Group Internet supermarkets



UNY Group shopping malls

# 7. Shareholder Return Policy



## Basic Policy

Aim to pay out at least **30%** of consolidated net income in the form of dividends and maintain a stable dividend

Share buybacks will be considered while carefully monitoring capital investment plans and the Company's financial position

[ Consolidated basis ]

	FY2010/2	FY2011/2	FY2012/2 (Forecast)
Net income per share	<b>66.3</b>	<b>85.6</b>	<b>57.1</b>
Dividends per share (For the year)	<b>40</b>	<b>40</b>	<b>40</b>
Payout ratio	<b>60.3%</b>	<b>46.8%</b>	<b>70.1%</b>
Return on equity (ROE)	<b>4.2%</b>	<b>5.3%</b>	<b>3.5%</b>