

30 September 2015

Flash Note : Streamlining Business Process to Ensure Long Term Profitability.

Upon entering its 7th year of operation in upcoming 11th Nov, 7-Eleven business continued to be the focus of the PT Modern Internasional Tbk (“Company”) business as it keeps strengthening its position as the biggest contributor of revenue to the Company.

This challenging achievement has been attained by the hard work, trust, cooperation and commitment from all stakeholders including shareholders, employees and all business partners. In this current state, 7-Eleven business has expanded into 189 stores focusing in Jakarta area, having an integrated warehouse and logistic system that enables for a daily delivery, a Central Kitchen that continues to produces new products which are delicious, fast and hygiene to support up to 500 stores expansion and IT System enabling Retail Initiative to meet up customers’ needs and expectation at any 7-Eleven store at any time. Hence, The Company would like to express its gratitude to all stakeholders who has make this achievements possible.

Reporting Company achievement for 3Q15, 7-Eleven business contributes a strong 71.3% to total Company’s revenue, focusing in serving its positioning as Fresh Food Destination. In this early learning years, the 7-Eleven business shows a promising growth of its fresh food focused business by having a strong fundamental business proposition and infrastructure to ensure long term growth and profitability. Yet, both top and bottom line has dropped marginally due to global impact of economy slow down causing a drop in consumer confidence, in addition to recovery period upon the ban on sale of alcoholic drinks and increasing operational costs. For the rest of 2H15, The Company will focus its effort to improve operation efficiency and streamlining business process to ensure long term profitability.

I. Unaudited Consolidated Financial Highlights 3Q15

(In Rp bill unless otherwise stated)

	3Q14	%	3Q15	%	Growth
Consolidated revenue	1037.0	100.0%	962.8	100.0%	-7.2%
- 7-Eleven business	697.6	67.3%	686.6	71.3%	-1.6%
- Trading business	339.4	32.7%	276.2	28.7%	-18.6%
Gross profit	415.5	40.1%	416.0	43.2%	0.1%
EBITDA	208.0	20.1%	194.6	20.2%	-6.4%
EBIT	120.5	11.6%	77.3	8.0%	-35.8%
Net profit	39.0	3.8%	11.9	1.2%	-69.5%
Gearing ratio	71.2%		70.5%		

II. Highlights 7-Eleven Business 3Q15.

(In Rp mil unless otherwise stated)

	2014				2015			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	3Q YOY Growth
Sales	226,593	467,152	697,602	971,801	242,007	462,468	686,660	-1.6%
Gross profit	86,406	188,340	275,663	378,528	92,290	179,935	263,388	-4.5%
Gross profit margin	38.1%	40.3%	39.5%	39.0%	38.1%	38.9%	38.4%	
Operating income	15,849	40,333	57,075	77,861	26,773	42,380	49,349	-13.5%
EBITDA	39,790	80,434	120,018	159,360	50,533	84,167	115,893	-3.4%
EBITDA margin	17.6%	17.2%	17.2%	16.4%	20.9%	18.2%	16.9%	
Net Income/Loss	2,387	5,465	3,672	4,272	7,186	1,780	(11,091)	-402.0%
No. of operating stores	160	170	175	190	190	200	189	8.0%
SSSG	5.3%	9.0%	6.5%	8.0%	4.1%	-4.7%	4.70%	

- The Consolidated financial performance recorded a minus growth of -7.2% which was mainly affected by the loss of FUJIFILM trading business, i.e. photography business division and industrial printing business division as a result of 1st stage of FUJIFILM business divestment which the agreement was signed between the Company & FUJIFILM on July 2015.
- Although in short term the Company will loss a chunk of contribution from these FUJIFILM business, the divestment will help the Company to focus by using all available resources to grow the 7-Eleven business. As per 3Q15, the inventory of FUJIFILM was valued at IDR 77,7 bill which will be gradually sold and transferred to FUJIFILM. Also, per 3Q15, the AR from FUJIFILM business was recorded at IDR 103,2 bill which will be collected gradually from the consumers. The divestment of FUJIFILM Business will help the Company to ease the working capital needs which usually takes a longer time for the inventory to sit in the warehouse and longer collection for the AR account.

	Per FY14 (In Million IDR)				Per 30 Sept 15 (In Million IDR)			
	7-Eleven	Trade Fuji	Trade Non Fuji	Total	7-Eleven	Trade Fuji	Trade Non Fuji	Total
Revenue	971,771	313,504	152,666	1,437,940	686,661	186,440	89,702	962,803
Rev %	67.6%	21.8%	10.6%	100%	71.3%	19.4%	9.3%	100%
Net Profit	4,272	27,458	7,891	39,621	(11,091)	34,117	(11,040)	11,986
NP %	10.8%	69.3%	19.9%	100%	-92.5%	285%	-92.1%	100%
Inventory	90,516	85,436	72,571	248,523	103,241	77,780	35,754	216,774
Inv%	36.4%	34.4%	29.2%	100%	47.63%	35.88%	16.49%	100%
AR	224	91,963	44,783	136,970	-	104,272.8	32,970.8	137,243
AR %	0.2%	67.1%	32.7%	100%	0%	76%	24%	100%

- The 7-Eleven business recorded a slight negative growth of -1.6% compared with 3Q14 YOY. This was mainly due to the continuation from the effect of the loss of alcoholic sales ban and its affiliated sales. In this recovery period, new Fresh Foods SKU launch will be done continuously, and regularly to cover up the lost sales. In 3Q15 a total of 160 new SKUs launched since completion of its Central Kitchen Phase II.

a. New SKUs Launch.

Category (SKU no)	1Q15	2Q15	3Q15	Total
a. Fresh Food				
- New Addition	+ 48	+ 53	+59	+160
- Deletion	-11	-62	-9	- 82
- <i>Total Existing</i>	<i>203</i>	<i>194</i>	<i>244</i>	
b. Prop. Beverage				
- New Addition	+3	+5	+5	+13
- Deletion	-3	-9	-12	-24
- <i>Total Existing</i>	<i>57</i>	<i>53</i>	<i>46</i>	
c. COS				
- New Addition	+502	+298	+230	+1030
- Deletion	-208	-8	-225	-441
- <i>Total Existing</i>	<i>1949</i>	<i>2237</i>	<i>2247</i>	
TOTAL Stores SKUs	2209	2484	2537	

b. YTD Sept 2015 SSSG

	YTD June 15	YTD Sept 15
Overall SSSG	-0.3%	+0.57%
Fresh Food	14.48%	+10.52%
Proprietary Beverages	-2.23%	+0.44%
COS – Center of The Stores	-7.32%	-4.55%

c. SSSG With vs Without Alcohol

SSSG	With Alcohol	Without Alcohol
Total SSSG YTD June 2015	-0.30%	4.70%
Total SSSG YTD Sept 2015	0.57%	7.25%
1Q15	4.10%	5.10%
2Q15	-4.70%	3.80%
3Q15	4.71%	11.89%

- Fresh Food Sales especially in chilled food category and bakery category continued to grow, covering the declining trend of hot food fried items.

a. Best Seller Items includes :



Top Seller : RB Chicken Black Pepper, RB Ayam Cabe Merah, RB Chicken Sweet & Spicy, RB Chicken Curry, Gyu Don, Yakiniku Don, Fresh Chilled Tuna/Smoked Beef/Chicken & Egg Sandwich, Smoked-beef & cheese bread, Pillow Bread, Chocolate & Mango Pudding, Cinnamon Rolls & Chobanat Bread

b. New items includes :

Chilled Food Items :



RB Chicken Curry Fried Rice, RB Chicken Bolognaise, RB Fish Katsu, RB Chcken Saboro, Yakiudon, Seafood Ramen, Javanese Fried Mie, Medanese Fried Mie , Various of Chilled Sandwich and Mixed Salad.

New Bakery Item includes :



Cheese Mizza, Sweet Rustic, Choco Vanilla Custard, Chicken Teriyaki Pan, Choco Cheese, Sweet Corn Cheese, Choco and Vanilla Muffin, etc

c. Packages in focus :



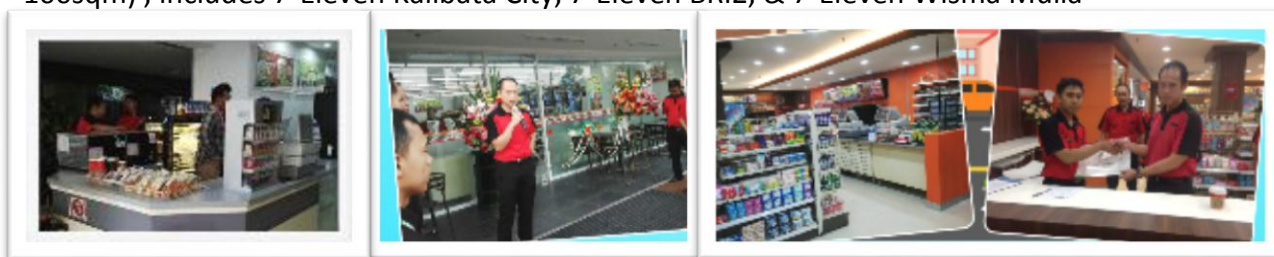
- Within the Fresh Food Category, Chilled Food Category (Rice Bowl, Sandwich, Salad, Nasi Tenggo, etc) recorded growth of **31-40%** compared to last year as a result of changing customer preferences to “Grab & Go” products offering.
 - Bakery category also recorded a growth of **11%-15%** compare to last year.
 - These positive increment has been helping to mitigate the slowing down on sales of Hot Food Category (Fried items) on around 30-35% y-o-y
 - As customer’s increasing awareness towards healthy food and drinks, sugary carbonated drinks sales has been slowing down between 10-15% y-o-y. While our fresh grounded coffee continues to increase its popularity, boosting the growth of Hot Drinks category to **8-10%** y-o-y
- The increased contribution of fresh food and proprietary beverage products however didn’t lead to an increase in gross profit margin due to the increase of raw material price and an under-capacity production of 2nd Central Kitchen. While on the other hand, due to the increase competition from other QSR, the high SRP increase would be considered unwise.
 - 7-Eleven SSSG for 3Q15 was 4.71% compare with 6.5% in 3Q14, still in a recovery period from the loss of sale on alcoholic drinks and its affiliated sales of salty snacks (used to contribute around 15-

20% to COS Category and associated effects on the sale of snacks contributes around 10-15% to COS Category). Maintaining price competitiveness has helped the positive SSSG through volume increase but at the expense of decrease of Gross Profit margin. Closing down underperforming stores also helped the positive SSSG for this quarter.

- Both Consolidation and 7-Eleven business recorded a decline to IDR 11,9 Bill and IDR (-11,0 Bill) respectively on bottom line. This was an immediate result of streamlining business process which incurred upfront cost and expenses and loss of a chunk of revenue from the closed stores (total 16 stores were closed up to 3Q15), but it is believed to improve the financial result in the long run.
 - Major factors causing this decline in Consolidation due to the increase of operating expenses & SG&A which included :
 - Allowance for FUJIFILM inventory obsolescence (+/- IDR 7.5Bill)
 - THR (Holiday Payment Bonus) payment (+/- IDR 10 Bill)
 - Property tax payment (PBB) (IDR +/- 2.5bill) .
 - While on 7-Eleven side , the decline was mainly affected by :
 - The decline of gross profit from 38.9% (in 2Q15) to 38.3% at the value of IDR 4,1 Bill
 - THR payment (+/- IDR 7 Bill)

III. Operation Updates 3Q15

- 15 new stores were opened and 16 under- performed stores were closed until 3Q15 , bringing the total operational stores to 189. Under- performed stores were closed due to frequent flood incidents , significant loss on alcoholic drinks and its affiliated sales as well as increasing rental rate for the finished store's rental contracts which caused the stores weren't able to sustain their operation costs as an independent business unit. Store opening will be done in more cautious manner amid the uncertainty of economy in the future and will be continued to focus on small compact format (100 – 120 sqm) to reach better capex efficiency as well as store productivity.
- 3 new store opening in October 2015 in a high density commercial area with compact format (< 100sqm) , includes 7-Eleven Kalibata City, 7-Eleven BRI2, & 7-Eleven Wisma Mulia



	< = 100 sqm	> 100 Sqm
Total Store	68 stores	121 stores

- Store Productivity Review (In Rp) :

	YTD Dec 14	YTD Mar 15	YTD Jun 15	YTD Sep 15
Revenue/sqm Overall	162.815	135.084	125.382	119.938
Rev/sqm (after Jan 2014)		124.741	128.786	133.162
Rev/sqm (before Jan 2014)	162.815	138.650	122.991	115.665

Store productivity for newly opened stores (more on compact format) continued to show better results continuing the Company's decision to focus more on opening small format stores in commercial area with Grab & Go concept.

- Efficiency in Business Operation

MSI (Store Level)	YTDE14	MTD JAN15	MTD FEB15	MTD MAR15	MTD APR15	MTD MAY15	MTD JUN15	MTD JUL15	MTD AUG15	MTD SEP15
Store No	190	190	188	190	194	197	199	198	198	189
New			1	2	4	3	2	3	0	0
Closed			3					6	5	2
Opex/sqm (Rp)	(48,114)	(41,002)	(41,944)	(37,745)	(33,902)	(32,480)	(37,072)	(35,340)	(34,621)	(38,879)
Salary/sqm (Rp)	(17,465)	(12,629)	(14,305)	(13,266)	(12,898)	(12,237)	(13,255)	(13,864)	(14,509)	(13,195)
Utilities/sqm(Rp)	(9,349)	(8,646)	(9,067)	(7,467)	(7,829)	(7,768)	(8,316)	(8,093)	(8,087)	(8,463)
Rental/sqm (Rp)	(8,952)	(8,454)	(9,166)	(8,230)	(7,861)	(7,919)	(8,128)	(8,052)	(7,879)	(8,002)
WO/Revenue	3.89%	2.62%	2.66%	3.50%	3.85%	3.87%	4.12%	3.68%	3.38%	3.41%

- Efficiency in business operation has been continuously attained with several possible ways, which includes opening smaller stores only, rightsizing existing store sizes and closing under-performing stores.
- Immediate impact on closing underperforming stores felt on the decreasing contribution on total revenue and in the near future will increase the associated cost of store closing, in the long run it will ease on the operation cost and will improve store cash flow.
- There's a declining trend in operation cost/sqm from Dec 2014 to Aug 15 from Rp 48,114/sqm to Rp34,621/sqm as a result of efficiency from salary, utilities and rental cost.
- Wastage cost maintaining at a similar percentage level as a more new fresh product launch requires some time for both sales associates and customers to adjust to their liking and preferences.

IV. Outlook and Focus for the remaining of 2015

- The management team will keep its commitment and focus to build, develop and expand the business of 7-Eleven and ensure its long term success.
- At a strategic level, streamlining business operation to ensure long term profitability will be the Company focus for the rest of 2015 and 2016. Focus remains on 7-Eleven business unit. Store opening plan will be done in more cautious manner, efficiently utilizing the existing cash flow instead of increasing borrowing, in facing the economic uncertainty and adjusting with ever changing customer behavior and needs.
- Emphasis will be placed on:
 1. Development of fresh food & proprietary beverages offerings with “Grab & Go” Concept while maintaining the hygienic, delicious and fast proposition as well as product range development under the private label of 7-Select to offer better value for customers.
 2. Promoting digital services through Sevelin Digital Kiosk & NEX KITA by expanding offerings to improve the convenience proposition to our customers.
 3. New Initiative : Grab Bike Payment Gateway.



GrabBike and GraB Taxi Drivers can use 7-Eleven stores as their payment getaway to pay their deposits in order to keep their applications open to customers. This is a commission-based cooperation which brings more cash –received to the stores.

4. Deeper engagement with customers through digital and mobile marketing, social media interaction, active engagement and in-store events
- Operation cost efficiency through :
 - The labor cut-down/un-renewed contract and transferred to FUJIFILM Indonesia as a result of FUJIFILM business divestment as well as closing down on underperforming stores of 7-Eleven. This initiative will continue where deemed necessary.
 - Tighter control on store operating cost which includes, utilities cost, supplies cost, and wastage cost by assigning target to stores to be an independent business units.
 - New store opening will be concentrated within high density commercial area (office, apartments, train stations, trade malls), with a small store format to reduce both capital expenditure and operational cost needs, hence increasing store/ sqm productivity.
 - Continue to review underperforming stores with a followed up action either to close down and relocate or to right size the existing stores.
 - Continues training and coaching to all sales associates and store managers to better understand their customers needs and anticipate their changing needs, to serve them in a better way, hence improve store performance as a whole.
 - To deal with high leverage on borrowing and cost of borrowing, the Company will strategies which will includes :

- Selling Non core assets, especially those fully depreciated assets located outside Java area which cannot be utilized for 7-Eleven business
- Selling core assets where deemed necessary.
- Negotiating and processing with banks to reschedule the principle payment (principle payment relaxation) to be able to manage usage of existing cash flow for 7-Eleven expansion and operation as well as servicing the current borrowing obligations.

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