

Presentation for the Second Quarter of FY2022

Main Q&A Items (Abridged)

Contained here is a condensed version of the questions posed during the Q&A Session for the presentation for the second quarter of FY2022.

Portions of the text were edited in the interest of readability.

Q1:

On the topic of recent possible areas of concern and a return to growth for Seven-Eleven Japan.

A1:

One area of concern is rising utility expenses, which increased by approximately 7.5 billion yen in the first half of the fiscal year, compared to the same period last year. Furthermore, it's not at all clear whether the expenses will reverse course and stabilize somewhat or not in the second half of the fiscal year and beyond.

Inflation is another area of concern, as there have been price increases, especially as it pertains to food. Again, it's impossible to predict what impact this dynamic will have on consumer psychology.

One of Seven-Eleven Japan's strengths is the development and sales of high value-added merchandise, so in light of the aforementioned areas of concern, we will be focusing on this core competency and aim for further growth by swiftly addressing changes in consumer needs.

Furthermore, the COVID-19 pandemic also brought massive changes to things like the concept of location within the context of store openings. We are currently in the process of ascertaining those changes, but we believe that by next year, COVID-19 is likely to be showing signs of coming to an end, so we are considering carrying our new store openings in areas with few previous store openings and with a small number of stores overall.

By executing our merchandise and store opening strategies, we seek to achieve sustainable growth.

Q2:

Regarding revision of the forecast for 7-Eleven, Inc.

A2:

Halfway through the second quarter, with fuel prices above \$5 per gallon, it became apparent that this would adversely affect consumer spending. In light of this, we decided to take a more conservative approach and therefore revised downward the forecasts for gross profit margin, existing store sales growth, and fuel sales volume.

In July and August, we started seeing positive synergy effects in areas where we carried out the integration of 7-Eleven, Inc. and Speedway merchandise. As such, on the whole, we are seeing an improvement in gross profit margin. We believe the crux of the matter is how and in what way to introduce fresh food at Speedway stores.

Q3:

On the topic of M&A by 7-Eleven, Inc.

A3:

While we believe 7-Eleven, Inc. has accumulated a significant amount of intellectual property on M&A, over the next one or two years, we would like to prioritize the repayment of interest-bearing debt and work toward rebuilding a stable financial foundation.

With that being said, M&A opportunities don't come by every day, nor do they last forever, so we would like to make adequate decisions, taking into account a potential target's market scale in relation to our financial situation.

Q4:

Regarding 7-Eleven International LLC.

A4:

We carried out a meeting in Hawaii in July of this year. Against this backdrop, both licensees and Japanese manufacturers showed a pro-active and forward-looking approach, and we would like to shift the value chain to licensees showing drive and enthusiasm.

Additionally, in terms of digital transformation as well, we would also like to create examples of success by dispatching qualified talent from 7-Eleven International LLC needed to construct and put these systems into place.

Rather than leaving it up to each regional licensee, we intend to further raise our brand value by providing proper support and guidance to licensees.

Q5:

Is the Medium-Term Management Plan EBITDA target for Ito-Yokado achievable?

A5:

Our strategy shifted from investment too heavily slanted toward new store openings, to one of focusing on the refurbishment of existing stores.

What's more, we see a steady increase in sales and the number of customers for stores that have undergone refurbishing.

Rationalizing sales floor area for apparel merchandise also produced some positive results.

Business structure reform will be complete by the end of fiscal year 2022, but one thing we learned through the execution of business structure reform was the importance of differentiated merchandising.

We want to accelerate things by going from overall store refurbishing to the horizontal expansion of a strategy centered on differentiated merchandising. For example, our *Net supermarkets* had reached their upper limit in terms of profitability and capacity for expansion, but we found a solution by utilizing centers.

Through the cumulative execution of these initiatives, we seek to reach the targets.

Q6:

What is your view on the cost burden associated with the creation of the Seven & i Group's infrastructure?

A6:

In terms of initiatives pertaining to the creation of the Group's infrastructure, we are currently executing measures such as the utilization of centers by *Net supermarkets*, as well as the deployment of processing centers and central kitchens.

This infrastructure isn't restricted exclusively to Ito-Yokado, but rather we expect each company that comprises the Group to make use of infrastructure, with an eye toward the future and in order to better address customer needs. As such, we are envisioning a cost proportionate to activities of this nature.

Q7:

On the topic of the Group's digital transformation and financial strategy.

A7:

The core of our digital transformation strategy consist of providing new experiences to customers and increasing store productivity.

This involves, for example, offering frictionless options when paying at the cash register while simultaneously striving for higher levels of productivity at our stores, or leveraging AI inventory ordering in the context of predicting

demand.

We will therefore aim to provide new experiences to customers.

Additionally, starting next year, Ito-Yokado's *Net supermarkets* will start utilizing centers and, furthermore, we will have in place a framework linking up the apps for Seven-Eleven and Ito-Yokado's *Net supermarkets* using a SSO (single sign-on) system.

As it pertains to other operating companies, we are considering the widespread adoption of OIDC (OpenID Connect) as a way to change our customers' experiences.

As online purchases become more and more common, this leads to payment options, which, in turn, lead to new financial services and technologies, which we would like to connect to these payments.

Q8:

On the topic of investment in digital transformation.

A8:

Within the context of offering new experiences to customers, we give top priority to investment in services and merchandise to complement and enhance the online shopping experience.

Toward this end, as well, 7iD is foundational for us and we continue building up this platform. It allows us to build a strong bond with our customers, and we dedicate our efforts to further enhancing this relationship.

Second, we consider digital transformation investment leading to productivity improvements offsetting the kind of inflation and increase in energy costs we are seeing these days.

Third is digital transformation investment allowing us to have in place a resilience security infrastructure capable of fending off or dealing with cyberattacks and system malfunction incidents, which have become so common nowadays.

Q9:

What are some topics of discussion and debate with the newly appointed Directors?

A9:

There are a number of discussions, but what we seek to do is to identify what

areas are our strong point and what is our social raison d'etre.

In the case of Outside Directors from overseas, they have had the opportunity to visit Japan and visit our stores and factories in person, and in doing so have offered a variety of suggestions.

This further solidifies the importance not just of domestic collaboration and partnerships, done for the purpose of enhancing food operations, but also collaboration between Seven-Eleven Japan and 7-Eleven, Inc.

The COVID-19 pandemic catalyzed changes in consumption habits, and working in collaboration with Ito-Yokado is a very effective and important way for Seven-Eleven Japan to go about addressing consumer preferences and needs.

Additionally, in terms of growth strategies, an area that saw a tremendous increase in demand was food delivery. Discussions with the new Directors have underscored the importance of utilizing 7NOW or Ito-Yokado's *Net supermarkets* in order to capture and address some of this demand.

Q10:

What is the company's full-year forecast in terms of energy costs?

A10:

Just for the major operating companies of the Group, in the first half of the fiscal year, energy costs rose by 14 billion yen.

For the full year, we expect at least double that amount.

We believe that it is important to be prepared for a surge in utility expenses, and to raise awareness for the importance of conserving energy at the store-level, by, for example, installing smart lasers.

We have photovoltaic panels installed at approximately 8,500 of our stores, and the amount of energy produced by these is just under 3% of the Group's annual energy consumption.

Going forward, we would like to continue increasing the area we dedicate to photovoltaic installations, as well as the number of stores running them.

Our goal is to reach 11.8% in terms of energy self-sufficiency for our operations in Japan.

Lastly, we intend to make advances in pursuing off-site PPA (Power Purchase Agreement) solutions as a countermeasure against rising utility expenses.

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