Presentation for the Third 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 third quarter of FY2022.

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

Q:
On the topic of possible reasons for concern in the fourth quarter and next fiscal year.

A:
In terms of the external environment in the fourth quarter, the eighth wave of COVID-19 has been weighing down on operations to a certain degree, primarily affecting large-scale stores.
In addition to keeping an eye on COVID-19 and its evolution toward an eventual end to the pandemic, other areas we are paying attention to are trends in consumer/producer prices and interest rates in Japan and North America.
While some estimate inflation in North America will come under control starting around the halfway point of 2023, another estimation is that a recession is inevitable.
In light of this, we are carrying out structural cost reforms at 7-Eleven, Inc., so that we can weather out any situation that ends up materializing.
Additionally, a resolution to the conflict in Ukraine is not expected in 2023, so the impact of Russia's invasion on energy prices and in other areas is expected to continue in the fourth quarter and in fiscal year 2023.
Against this backdrop of a challenging business environment, original merchandise and private brand (PB) merchandise in Domestic and Overseas convenience store operations – which are growth drivers for the Group – are experiencing tailwinds, and in light of this, we expect to realize profit growth by enhancing our PB strategy.

Q:
On the topic of the revised forecasts of operating income by operating segment, as it pertains to Superstore operations and Eliminations/Corporate.

A:
Regarding Superstore operations, York registered a large reactionary decline following special demand caused by the COVID-19 pandemic, and furthermore, sales at Chengdu Ito-Yokado saw a drastic drop resulting from the Chinese government's protracted Zero-COVID policy.
Reflecting this reality, we have lowered guidance.

In terms of Eliminations/Corporate, the upward revision reflects progress in the careful examination of DX investment allowing us to reduce costs, and cost reductions for Seven & i Holdings on non-consoildated basis.

Q:
On the topic of merchandise sales at 7-Eleven, Inc.

A:
In the United States, the Consumer Price Index has been outpacing existing store sales growth.
Additionally, against the backdrop of a decrease in consumer disposable income, it is undeniable that consumers are holding back on expenses, to some degree.
Despite this, we believe convenience store operations have a high level of resilience.
With further growing demand for PB merchandise offering an adequate balance between value and price, we have been promoting measures toward securing profits, measures such as further enhancing sales of PB merchandise – which offer high gross profit margins.
In doing so, we have had some success.

Q:
On the topic of integration synergies with Speedway.

A:
As of the end of the third quarter, we had already achieved the synergy target for the full fiscal year, which we had set at 450 million US dollars.
As such, we have raised guidance to 650 million US dollars, which matches the synergy target we had originally planned for the third year following the acquisition.
Additionally, the spring of 2023 will mark the completion of the necessary infrastructure allowing for the start of item-by-item management, merchandise management at the individual SKU level, which is one of Seven-Eleven Japan’s strengths at 7-Eleven, Inc.
We expect this to translate into an increase in sales and gross profit margin.
Additionally, we don’t view the review of expenses and expenditures carried out by the Cost Leadership Committee (CLC) – which is an initiative we started during fiscal year 2022 – as a short-term initiative, but rather are working to execute initiatives offering benefits over the long term.

Through these, in fiscal year 2023, we expect the full-year contribution to exceed that of fiscal year 2022.

Q:
On the fiscal year 2023 outlook for 7-Eleven, Inc.

A:
We view inflation and fuel GP (CPG) in the United States as crucial factors.
In terms of fuel operations, taking into account the defining characteristics of convenience stores in North America, we don't believe fuel GP will drop significantly.
We are currently carrying out analysis together with 7-Eleven, Inc. to determine whether we will be seeing levels similar to fiscal year 2022.
Furthermore, in order to prepare for further inflationary pressures and a possible recession, we are carrying out efforts to achieve a lean financial foundation.
In addition to initiatives by the CLC, we have also raised the hurdle rate when it comes to investments.
With that being said, we will continue, without delay, investment allowing us to greatly grow the food business, with a special emphasis on fresh food.

Q: Regarding discussions and considerations within the Board of Directors, on the topic of the Group strategy

A:
The policy of thorough revision of each initiative remains unchanged.
Underperforming operations are naturally a discussion theme, but we believe that another significant point of discussion is growth strategies going forward, pertaining to growth businesses.
In particular, we believe that discussing in detail the growth trajectory of 7-Eleven, Inc. and 7-Eleven International LLC, is important in that it is through these talks that we can decide on capital allocation for each operation.
In terms of capital allocation, we will be focusing management resources toward convenience store operations.
With that being said, we have received a variety of feedback from Outside Directors regarding the value of using management resources toward businesses in addition to convenience store operations, as a way to improve corporate value.

Regarding the re-evaluation of our Group strategy, we are carrying out thorough discussions, not just limited to a qualitative evaluation, but also an evaluation in quantitative terms.

We are making preparations so that we can announce the results of the aforementioned discussions regarding Group strategy re-evaluation, by March 10th, 2023.

Q:
On the topic of returns to shareholders.

A:
We believe it is premature to announce a revision to the dividend payout, considering when the closing of the transfer of Sogo & Seibu still isn’t in sight, meaning that the final net income figure is yet to be determined.
Following the closing of the deal, we will consider the execution of adequate returns to shareholders, including the capital recouped following the transaction.
We would like to explain the details at a later date.