Update to the Medium-Term Management Plan and the Results of the Group Strategy Reevaluation - Q&A (Summary)

Contained here is a condensed version of the questions posed during the Q&A Session for the presentation covering Group Strategy.

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

Q1:
On the strengths and challenges identified following the Group Strategy Reevaluation

A1:

The unbiased views from the new outside directors (6 directors, of which 4 are foreign nationals) allowed us to reach a number of realizations.
More specifically, following the Group Strategy Reevaluation, we reached the conclusion that our Group's strengths are "Food" and the Convenience Store Business. Furthermore, we also gained confidence in the infrastructure we are putting in place in the domain of "Food," such as our processing center and central kitchen, which are expected to become operational in fiscal year 2023.
In response to accelerating changes in Japan's demographics and consumption patterns, we intend to establish a new business format for Seven Eleven – one that allows consumers to purchase daily necessities close to their homes.
Additionally, following discussions within the Board of Directors, we will also newly establish the Strategy Committee. The Strategy Committee will monitor Group initiatives in an objective and transparent manner and advise the Board of Directors.

Q2:
On the main factors regarding the upward revision to the Medium-Term Management Plan

A2:

The first key factor was significant growth at 7-Eleven, Inc., as we now expect to achieve the synergy targets we had originally formulated for the third year after the integration of Speedway, after only 1 year and 7 months. Initiatives related to fresh food are seeing strong progress, and we believe we can deliver profit levels at least 10% and above the figures outlined in the initial Medium-Term Management Plan.

Additionally, in light of inflationary pressure in the United States, we have raised the hurdle rate for investments, which we continue being very selective about. As a result of this, free cash flow levels have surpassed our initial assumptions, so we have determined we will be able to exceed the initial forecast targets both from a quantitative as well as a qualitative point of view.

The second key factor is Seven Eleven Japan. It has been able to deliver profit levels matching those outlined in the plan, and since we applied some even more selective criteria to investment when compared to the initial forecast, we expect an increase in cash flow levels.

The Convenience Store business in Japan and Overseas therefore drove results, with significant growth in terms of EBITDA and free cash flow. In light of these results, we made the decision to raise our targets.

Lastly, while a weaker yen partially influenced results, the key factor lies in the fact that we have been able to deliver steady growth.

Q3:
On the results of initiatives to enhance proprietary products at 7-Eleven, Inc.
A3:

Sales growth for fresh food and for proprietary beverages like Slurpee, and the deliver business 7NOW exceed sales growth at existing stores. We are seeing a good response in spite of inflationary pressure. Additionally, fresh food has a high sales composition at 7NOW, and gross profit margins tend to be higher when compared to in-store purchases, so we are hopeful in terms of the growth prospects going forward.

Lastly, we expect to realize further improvements in sales and gross profit margins following the start of operations at our fresh food commissaries.

Q4:
On the strategy to achieve the quantitative targets for Seven-Eleven Japan
A4:

In fiscal year 2022, existing store sales and gross profit margins grew on a year-on-year basis, with sales per store at the highest level since 2001.

This was thanks to three key factors.

First, changes to store layouts allowed us to increase the number of items per store, and we are able to better address consumers' one-stop shopping needs.

Second, against a backdrop of inflationary pressure, we strengthened Seven Premium private brand products.

Third, we carried out regional fair events.

In fiscal year 2023 and beyond, we intend on carrying out initiatives focused on the following three strategies.

First, we will be further strengthening our competitive advantage in the domain of "Food." In addition to commissaries dedicated to the manufacturing of proprietary fresh food (163 locations nationwide), another strength our Group possesses is our ability to offer products from the Superstore business – products such as Ito-Yokado's proprietary frozen food product brand "EASE

UP.”

Second, we will endeavor to launch concept stores 50% to 100% larger than existing stores, allowing us to address the needs of customers in regions we previously had been unable to through our convenience stores.

The third initiative is enhancing 7NOW and retail media.

Going forward, we will continue carrying out initiatives, which we believe will translate into significant results.

Q5:
On the topic of structural reform at Ito-Yokado

A5:

Our structural efforts up until this point involved reducing floor sizes for apparel products – which show low profitability levels – and bringing in outside tenants. We also closed unprofitable stores. While we saw some results in stores that had undergone renovations, profitability and efficiency levels remained low. Consequently, we reflected upon this and reached the decision that there was a need to carry out further “selection and concentration,” as exemplified in our exit from the apparel business, which I discussed earlier in today’s presentation.

Another difference when compared to transformation we have carried out up until now is how our growth strategy focused on “Food” has become clear and well-defined, in terms of strategic investment in infrastructure positioned at the core of the value chain - in the form of our processing center and central kitchen and online supermarket center, and in terms of coordination with Seven-Eleven Japan.

Additionally, outside advisors, as well as Seven & i Holdings’ Board of Directors and Strategy Committee monitor the progress of initiatives, solving issues one by one, and all Company employees will be working as a cohesive unit toward achieving our targets.

Q6:
On the outlook for IY store closures and in terms of cash-in resulting from asset reduction in the Superstore business, including the exit from the directly operated apparel business

A6:

We believe there is a need to explain the decision to close IY store while keeping in mind all stakeholders. We are not yet able to disclose the specifics at this point in time, but the Company has decided on the closure of 14 stores,

from a total of 126 stores as of the end of February 2023. This, together with stores for which the decision had already been made, brings the planned total number of store closures as of the end of February 2026 – which corresponds to the end of the current Medium-Term Management Plan – to 93 stores. Additionally, as it pertains to the Ario business, we do not have plans for the opening of new large-scale stores. We view existing Ario facilities as necessary infrastructure to the local community, so we will be focusing on the domain of "Food," while also discussing what type of services we can offer in collaboration with existing tenants, as it pertains to the directly operated apparel business. As such, we will be innovative when it comes to providing a variety of products and services at existing Ario locations.
We will be completely exiting the directly operated apparel business, as it pertains to womenswear, menswear, and children's clothing, the sole exception to these being underwear. Each store is different in terms of location and structure, so we do not have plans to follow a united blueprint for the use of this empty sales space following our exit from the directly operated apparel business. We will look at each store individually, and decide on what type of store format and layout to adopt, with "Food" as the core concept. We will carry out this transformation process taking into account each store's customers, location, and status, and also considering a specialty store-approach as well.

Regarding cash-in from asset reduction, we expect to recover deposits following the closure of IY stores, as well as capital efficiency improvements resulting from our exit from the directly operated apparel business.
We will be investing these within the scope of cash flow in the Superstore business.

Q7:
On the decision of the policy of business transformation for the Superstore business

A7:

We carried out a quantitative evaluation of Group synergies while also appraising possible dis-synergies in case of the business being separated into two or more parts. We therefore, over the past six months, carried out an evaluation both quantitatively, as well as qualitatively. Following this comprehensive analysis, we reached a decision to revamp the Superstore business.

Within this scope, we will be carrying out a number of drastic initiatives –

which we hadn’t executed thus far - like the exit from the directly operated apparel business, area consolidation, brand restructuring and integration, etc. We will only consider these initiatives a success if and only if we achieve certain results in terms of capital and operational efficiency, and, by working to reach 55.0 billion yen in EBITDA, and an ROIC of 4% and above – within a time limit of 3 years – we seek to deliver further growth. Additionally, we could also potentially consider options including an IPO.

Q8:
On the topic of capital reallocation

A8:
As our cash flow-generating ability has increased, we believe we will be able to reach a lower Debt/EBITDA ratio within the revised Medium-Term Management Plan, when compared to the initial forecast.

Regarding 7-Eleven, Inc. and 7-Eleven International LLC, we would like to actively consider M&A as a tool to deliver growth. With that being said, we do not have plans any time soon to carry out large-scale investments like our acquisition of Speedway.

We will be working to expand operating cash flow and aim for 50% and above in terms of the total shareholder return ratio (after amortization of goodwill), while maintaining the right balance.