April 6, 2023

Fiscal Year 2022 Financial Results Presentation – Q&A Session

Questioner 1

Q)

- Over the past two or three years, a number of Seven & i Group ("Group") initiatives have been accelerated. What are your thoughts on this?
- I believe the Seven & i Holdings ("Company") views fiscal year 2025 – the final year of the Medium-Term Management Plan – as a milestone on the way to its 2030 target. What growth drivers do you envision beyond fiscal year 2025?

A)

Growth drivers beyond 2025

- In terms of this acceleration, the acquisition of Speedway – which we announced in August of 2020 – was a very big turning point for the Group.
- We invested vast amounts of capital, totaling 2.3 trillion yen, and made the decision to position the North America business, the Global business, and the Convenience store business as growth drivers, and at the same time decided to carry out a review of the business portfolio.

(1) Construction of the value chain

- We are seeing results, as we have opened new commissaries in the U.S. and are making steady progress in the execution of our "Six Point Plan". We want to move forward with creating value chains in order to unlock synergies between our operations in Japan and the U.S. These will be significant growth drivers in 2025 and beyond.

(2) Global expansion of the Group's knowhow and expertise

- We have decided to carry out additional investment in the Vietnam business. Up until now, the business model consisted of the collection of license fees within 7-Eleven's global business. By allocating capital to this business, we will be leveraging the expertise we have developed in Japan and in the U.S. – including personnel exchange – and execute initiatives across different regions worldwide, allowing us to raise sales per store and the number of customers to levels comparable to those seen in Japan and Hawaii.
- Japan has a rapidly aging population. We intend to adapt to the changing social structure – namely Japan's aging demographics, an increase in female labor participation and in single households, etc. - by launching SIP stores (which are joint project stores between Seven-Eleven Japan and Ito-Yokado), and through the opening of large-scale 7-Eleven stores and by expanding the merchandise assortment we offer.
- China and South Korea are also expected to face a similar aging population, so we want to create a

robust model case in Japan.

(3) New points of contact with customers (e-commerce)

・ As of this year, 7NOW delivery is now available at 12,000 7-Eleven stores, and additionally, Ito-Yokado's online supermarket service will go live in August. We will commence e-commerce operations in Japan in earnest in order to build points of contact with new customers.
・ We will be working to promote these new ways of shopping, as we position e-commerce as a growth driver for 2025 and beyond.

Q)

・ I have hopes that the realignment of the financial services will be fruitful.
・ Since Seven Bank is a publicly-traded company, I believe that from a governance point of view it is necessary to keep Seven Bank independent to a certain extent. However, in light of the Group's digital strategy, financial services are inseparable from the rest of Company operations. In order to derive synergies, I would like to know what the division and segregation of roles between Seven & i Holdings and Seven Bank will be.

A)

・ Indeed, Seven Bank is a publicly-traded company and therefore there is a need for it to be at arm's length from Seven & i Holdings. This is something we have been mindful of since the establishment of Seven Bank. As Seven Card Service will now fall under the umbrella of Seven Bank, Seven Bank has established a Special Committee comprising three outside directors, which has heard from and carefully considered minority shareholders' perspectives regarding the realignment, reaching the conclusion that it could proceed without any issues. Seven Bank is a publicly-traded bank, so we are fully cognizant that it must comply with banking law. Against this backdrop, it is important to fully leverage 7iD as a member ID platform common to the Group. This is the result of an analysis of the integration of retail and financial services.
・ 7iD itself is developed by the DX Division at Seven & i Holdings. Seven-Eleven Japan and Ito-Yokado occupy an extremely important position. Together with the restructuring of the financial services, we have also launched a financial services / retail task force, which carried out a series of discussions pertaining to the expansion of 7iD and rewards points, payments, use of data, etc., with the objective of raising corporate value.
・ The purpose of the realignment is to take a proactive approach to advancing the integration of financial services and retail, centered on 7iD, while keeping in mind Seven Bank's independence as a publicly-traded bank.

<u>Questioner 2</u>

Q)

・ Regarding the strategy of integrating retail and financial services, which hurdles do you expect you will need to overcome before efforts toward profitability bear fruit?

A)

- Toward monetizing retail media, we believe the key will be improving our data analysis capabilities and our ability to move in-house the merchandise coupons we offer customers and marketing in the form of advertising, etc. Outsourcing these means profits will go to third parties, so we view it as key to move these in-house by training the team that is capable of data analysis, and planning events that can attract our customers.
  We have created a new marketing team within Seven-Eleven Japan and have already started hiring outside talent as well as in-house training. Going forward, we will be further focusing on this.

Q)

- Regarding the forecast for 7-Eleven, Inc. What are the assumptions in terms of the business environment in the U.S.?
- Additionally, amidst rising inflation, the sales, general and administrative expenses forecast remains mostly unchanged year-on-year. Could you explain the background of this?

A)

- Regarding the business environment in the U.S., GDP growth has seen a bit of a slowdown recently, dropping from 3.2% in the third quarter to 2.9% in the fourth quarter. Despite this, the overall economic situation remains strong. On the other hand, labor shortages are an issue. While labor participation has increased, with unemployment rate at a 53-year low of 3.4%, more than 3 million people have lost their jobs since the start of the COVID-19 pandemic. While nominal wages have risen by 4.6% since the start of the pandemic, real wages have actually dropped by 1.8%. Against this backdrop, the Government executed a variety of measures including stimulus subsidies, which have cushioned the impact somewhat, but we continue to see record inflation in recent months, with PPI and CPI prints of 4.6% and 6%, respectively. In light of this, businesses are less likely to carry out capital expenditures, and there are fears of a possible recession.
- We have two measures to combat this. First, we seek to increase store footfall while simultaneously growing sales per store. Consumers prioritize value and quality. As was discussed in today’s financial results presentation, we are placing our focus on “food,” and, within this scope, we are focusing on fresh food, proprietary beverages, and on private brands (PB). PBs currently account for 24% of sales, but we plan to raise this figure to 34% by 2025. These merchandise categories boast high gross profit margins of 45%, so we would like to increase customer footfall while at the same time expanding store sales.
- Additionally, we established the Cost Leadership Committee and are leveraging our buying power to realize economies of scale combining 7-Eleven, Inc. and Speedway, and are carrying out cost control

measures to fight against inflation. 7-Eleven, Inc.'s CFO and COO head this joint Committee and are working diligently to reduce costs, such as indirect costs and procurement costs within the scope of operating the Convenience store operations.

Questioner 3

Q)

- Over the past year, a number of new directors have joined the Board and many discussions have been held. You mentioned how the topic of further Board of Director transformation will be brought up for discussion during this year's Annual Shareholders' Meeting. Could you share with us which aspects improved following the new Board structure, and which aspects you would like to further improve upon going forward?
- Additionally, the Company posted a notice regarding the receipt of a shareholder proposal, in which it stated it will consider the details of the proposal and announce them together with the Board of Directors' opinion in due course. I would like to hear your thoughts on this.

A)

- Discussions are still ongoing in terms of the Board's opinion regarding the shareholder proposal and regarding the new Board structure. As such, I am not at liberty to go into the details here. Outside directors currently make up a majority of the Board of Directors, and it boasts a multinational composition. These factors lead to active discussions. We have received advice from the outside directors, coming from perspectives we hadn't considered before, and in the process, we have been able to remove some of the unconscious biases we previously held.
- In terms of the new Board composition, by having individuals possessing skills we currently lack join the Board, we seek to accelerate management transformation and increase effectiveness.

Q)

- In the convenience store market in the U.S., in order to increase market share and grow – through store openings or M&A – what is required for there to be an acceleration on this front? Additionally, what timeline do you have in mind?

A)

- 7-Eleven, Inc. is the market leader in the convenience store market in the U.S., although its market share currently only stands at approximately 9%. In fact, adding up the top ten chains yields a combined market share of only approximately 20%. There are a total of approximately 150,000 convenience stores, of which 90,000 are run by small-scale chains operating between 1 and 10 stores, meaning there is plenty of potential for expansion. As such, we view consolidation in the convenience store market as a big opportunity.

- We can consider various candidates in terms of achieving external growth through M&A. Looking at 7-Eleven, Inc.'s balance sheet, the Debt/EBITDA ratio stands at 2.6x, and at 3.0x for Seven & i Holdings. Going forward, we will continue monitoring these numbers, considering a potential acquisition, should an adequate M&A candidate target present itself.
- In light of past M&A results, we are considering target returns of ROIC 15%. The U.S. has seen a sharp rise in interest rates, so we believe the acquisition multiples will go down further, should we wait. Now is not the ideal time to carry out mergers and acquisitions, but we believe the right time will come at some point. We are in a position to lead consolidation in the convenience store market, as we boast both tremendous strengths and the capacity to acquire other chains.
- On the other hand, we also want to deliver organic growth through new store openings. We are aiming for 200 store openings in 2023, of which half will have joint facilities with Laredo Taco and Raise the Roost restaurants.
- We will therefore be delivering organic growth through store openings, while also watching out for the correct timing to carry out M&A.

Questioner 4

Q)

- I would like to inquire about fiscal year 2023 guidance and the consolidated financial KPIs for fiscal year 2025, within the scope of the Medium-Term Management Plan.
- The Company is making strong progress toward achieving its EBITDA target of 1.1 trillion yen or more in fiscal year 2025. However, looking at ROI and EPS growth, it seems to me that this fiscal year's results might not be enough.
- The Company is forecasting an operating loss for Ito-Yokado, as well as a loss related to DX (Eliminations / Corporate). This fiscal year will see business restructuring and up-front investment. Coupled with these is an increase in energy and other costs, leading to a decrease in operating income. Would it be reasonable to assume that, should this investment bear fruit next fiscal year and the year after that, this will lead to an increase in operating income, allowing the Company to exceed its KPI of 1.1 trillion yen in EBITDA? I would like to know the reason the company is forecasting an operating loss for Ito-Yokado this fiscal year.

A)

- Regarding the KPIs within the scope of the Medium-Term Management Plan, I interpret your question as saying that, while we are making rather strong progress in terms of quantitative metrics, you would like to know the reasons behind what could be perceived as our falling a bit behind in terms of qualitative metrics. There are several reasons for this.
- The first reason is the acquisition of Speedway, since we financed the entire purchase price of 21 billion US dollars through debt, leading to a significant increase in the denominator.

  7-Eleven, Inc. is showing progress exceeding the plan. However, in light of the current interest situation, rather than repaying this debt ahead of time, we prioritized the generation of investment profits. As a result of this, on the surface, it appears that debt hasn't gone down. We expect our cash generating capabilities to increase significantly, especially in 2023 and 2024. In light of this, within the 5-year period that makes up the Medium-Term Management Plan, the period through 2023 is one to enhance our foundation, with the remaining two years being the time to deliver significant profit growth. Such was the plan we formulated, and we believe that we are making progress in excess of the plan.

- The second reason is foreign exchange impact. We initially formulated the Medium-Term Management Plan with an exchange rate of 105 yen to the US dollar in mind. However, realized results for 2022 were 131.62 yen to the US dollar, and the forecast for 2023 is 131 yen. As a result of this, the Company's equity ratio has expanded considerably compared to the initial forecast. In light of this, looking at the plan for fiscal year 2023, ROE and ROIC appear somewhat lackluster. As I mentioned earlier, we expect the numerator to increase significantly, accompanied by a decrease in the foreign exchange rate, so we believe the targets are well within reach.
- In terms of the third reason, throughout the duration of the Medium-Term Management Plan, we are planning on carrying out the purchase of treasury stock, so including this, we want to make sure we achieve our KPIs.
- Within the plan for fiscal year 2023, we are expecting an operating loss for Ito-Yokado. A plausible reason for this could be a challenging external business environment, but we believe we shouldn't be using this as an excuse. On this front, we believe the structural and store transformations we have carried out thus far more than offset this. However, within the scope of a drastic transformation of the profit structure toward 2025, we position 2023 as a year in which to establish a firm foundation.
  More specifically, the impact of upfront tests of the centralization of Ito-Yokado's online supermarket is significant, and DX expenses toward productivity improvements have increased significantly.
  Including these factors, we have recorded approximately 5 billion yen in upfront expenses, which we were unable to offset with profitability improvements resulting from our transformation efforts. In light of the factors I just discussed, the forecast is for an operating loss.
- I mentioned how the Company will be giving a detailed progress report in the financial results presentation for the second quarter. At that stage, we would also like to review the guidance for fiscal year 2023. We strongly desire to see progress in these initiatives and are looking forward to giving stakeholders a progress report.

Q)

- Up until now, the forecasts for Ito Yokado have been overly optimistic, with profit falling short, and this operating company posting a net loss. Would it be reasonable for us to interpret in a positive light the fact that this fiscal year's forecast expects losses?

A)

- That is correct. Our stance is not to announce plans that are unrealistic.

Questioner 5

Q)

・ The sale of Sogo & Seibu has been delayed twice, and there currently isn't an announced date, so I would like to know the outlook in terms of timing.

A)

・ Regarding delays in the sale of Sogo & Seibu, negotiations have yet to be fully finalized on some aspects of the deal, so I am not at liberty to discuss the timing. Following the signing of the share purchase agreement in November of last year, we have been in close talks with the relevant local municipalities, as well as with other stakeholders such as leaseholders. We have narrowed down the necessary pre-requisites to bring this deal to a close, which we intend to execute upon. Once this has been achieved, we will promptly issue an announcement.

・ As previously mentioned, we had a number of criteria in choosing a buyer, namely a commitment to continuing the Department store operations and the Sogo & Seibu brand, the continued employment of personnel, the capital needed in order to carry out new investment necessary to maintain competitiveness for Sogo & Seibu stores, and the ability to carry out re-development, executed in close cooperation with the local community. We are continuing talks with Fortress Investment Group toward closing this deal.

Q)

・ ValueAct Capital Master Fund L.P. – which is one of the company's largest shareholders – has Proposed the idea of separating the Superstore operations from the Convenience store operations, which has been delivering strong performances. Additionally, according to some reports, the shareholder proposal submitted is said to involve replacing a number of directors, including you, President Isaka. How is the Company considering this proposal?

A)

・ As reported in some media, the Company has indeed received a shareholder proposal containing changes to the Board structure that does not include the names of four current directors. The Board of Directors – which is composed of a majority of outside directors - will consider what is best for the company in terms of the director composition, in a decision free from personal self-interest.
We will make an announcement once a decision has been made, which we expect to happen by mid-April.

Questioner 6

Q)

・ Following the March 9 announcement of the reevaluation of the Group's strategy, I believe the company received a number of questions from a U.S. investment fund, which requested they be answered by today, April 6. What are your thoughts on this communication?

A)

- The announcement carried out on March 9 is the result of six months starting last summer, during which we consulted with financial advisors and a number of other experts. We carried out discussions in an objective manner, and the announcement was the result of such discussions involving the entire Board of Directors, which consists of a majority of outside directors.
  I briefly touched upon this when discussing the message from the outside directors in today's presentation, and we invite stakeholders to peruse the document we released on Tokyo Stock Exchange today, which was announced by our eight outside directors..
  We believe the content we announced on March 9 to be the most important, involving the sustained improvement of corporate value and a strategy to improve value over the medium-to-long-term.
- We have recently established the Strategy Committee, which is composed of eight outside directors. Unlike us, these outside directors are not resident directors at the Company and are therefore free from unconscious biases, and will continuously evaluate whether our strategy is the best course of action. In terms of the Board of Directors going forward, we would like the Committee to continue monitoring our initiatives and provide us with advice, and monitoring to see if the Company delivers growth according to plan, and whether we meet shareholder expectations in terms of our activities.
- We expect to respond to the shareholder proposal in mid-April, with the result of the deliberations carried out by the Board of Directors. I believe this response would also substantially cover the answers to the questions posed to us. Besides that, we invite stakeholders to review the message from the outside directors – which was released today – and which we believe somewhat answers these questions.

Q)

- You emphasized that fiscal year 2023 would be a year to strengthen the Company's foundation. Could you elaborate on this, in terms of initiatives to be carried out in the Company's core Convenience store operations and for Seven & i Holdings as a whole?
  Additionally, I believe the Company and the business place importance on employees. However, in recent months, employees working at the Company's department stores and supermarkets are experiencing a sense of uncertainty about the future, and consequently I have heard that it has been a challenge to maintain employee motivation.
  Could you therefore discuss what kind of dialogue the Company is having with employees and what kind of initiatives are moving forward?

A)

- In terms of initiatives, 7iD boasts 28 million registered members, and Seven-Eleven Japan's 7NOW delivery service – which will start in earnest this year – is expected to be available at 12,000 stores. The 7NOW app will also be available starting in August, so we expect a leap in user accessibility and usability.

- Also, the centralization of our online supermarket will also start in November of this year. Additionally, “Peace Deli”- a central kitchen and process center for Ito-Yokado, York, and Shell Garden – started operations in March. Furthermore, the integration of financial services and retail – which we announced today – will also take place, so 2023 will be a year of significant acceleration in intra-Group horizontal coordination.
  Another topic is additional investment in Vietnam.
  In the U.S., WARABEYA U.S.A. has plans to build a commissary in the state of Virginia in September. We believe the start of these new frameworks is the most important factor. As such, while the weight of upfront investment will be felt somewhat, we would like to reap next year and beyond the seeds we are sowing now.
- Regarding employee engagement, we have established an engagement committee and are working to develop closer ties between management and employees so that communication can improve. We have been informed of dissatisfaction on the part of work unions for Sogo & Seibu, but we continue carrying out serious discussions so that they can work with new partners.

Questioner 7

Q)

- Recently, there have been price hikes for a number of products. What impact do you expect these to have on the Convenience store and Superstore operations going forward, as the company now shifts to focus on “food”? Will consumers be less likely to spend, therefore leading to a decrease in sales? Or do you expect sales to increase in proportion to higher prices?

A)

- Since this is a case of cost-push inflation, we will be carrying out cost pass throughs to consumers wherever necessary. However, as you are aware, our Group possesses its own private brand in the form of “Seven Premium.” Starting last year, we have been carrying out a large-scale review of this, reducing 500 items last year and reviewing the product specifications for over 1,200 SKUs. This translated into a numerical improvement for Seven Premium, with sales corresponding to between 105% and 107% of the previous fiscal year’s results. This has therefore been an effective initiative to counteract cost-push inflation.
- Additionally, consumer behaviors and preferences have changed considerably throughout the COVID-19 pandemic. Starting in December 2021, at Seven-Eleven Japan, we began holding fairs and offering products in collaboration with famous restaurants. Ito-Yokado has also released products in collaboration with Mango Tree Café, which is an ethnic food restaurant. Price isn’t much of a factor for consumers of these types of merchandise, as for example, a curry product priced at around 800 yen was the best-selling item in the category of prepared lunches at Seven-Eleven Japan during its curry fair. As such, we will be addressing inflation while developing products and carrying out

promotions adapted to consumer behaviors and preferences, which have changed.

Questioner 8

Q)

・ Out of the nine questions from ValueAct Capital Master Fund L.P., dated April 2, what percentage of these do you believe have been answered in today's financial results presentation? Or will you be addressing these in mid-April?

A)

・ It's hard to put a percentage figure to it, but taking today's presentation and the press releases we have issued, I believe we have comprehensively answered these questions. In terms of the Company's final response, this will be announced in mid-April.

Q)

・ The Tokyo District Court recently rejected a provisional disposition request regarding Sogo & Seibu, negotiations for the sale of which are ongoing. Within the Court's decision, it stated that while the loss of jobs might be inevitable, the decision to carry out the sale cannot be said to be egregiously unreasonable. One of the criteria for the new owners is the preservation of employment, so could you tell us what the assumptions are for this, within the context of the negotiations?

A)

・ From the very beginning, we have been requesting that the buyer preserve employment to the greatest extent possible. In fact, we are carrying out negotiations with Fortress Investment Group and Seven & i is working to secure jobs to make up for employment losses at specific stores. We are therefore carrying out negotiations to maintain employment to the greatest extent possible.