July 13, 2023

Presentation for the First Quarter of FY2023 – Q&A Session

Questioner 1

Q)

・ In the segments of Superstore operations and Financial services, while revenues from operations fell short of the plan, operating income met and exceeded the plan. Could you give us some background as to what led to these results?

・ Should a similar trend continue in the second quarter and beyond, I believe the Group will be able to close the gap versus the plan in consolidated operating income, which stood at 4.8 billion yen as of the end of the first quarter.
Does the Group expect to close this gap of 4.8 billion yen as soon as possible in the immediate future, or do you think this process will take place throughout the course of the full fiscal year?
I would appreciate it if you could give us a timeline, to the extent that it is possible for you to do so here.

A)

・ In Superstore operations, gross profit margins for Ito-Yokado, York-Benimaru, and York fell slightly short of the plan because of the negative impact of cost-push inflation.
With that being said, the various initiatives we have implemented have borne fruit, so even in light of these factors, sales have been showing a very strong year-on-year performance.

・ Regarding Ito-Yokado, in particular, the plan was for an operating income decrease throughout the full fiscal year, including in the first quarter. Indeed, we registered a decrease in operating income in the first quarter, but despite this, realized results exceeded the plan by 1 billion yen.
We believe this to be due to a recovery in the customer traffic, and in somewhat successful initiatives in attracting consumer footfall to our stores.
Additionally, “Peace Deli” – a central kitchen and process center – started operations in the latter half of the month of March, so going forward, we expect to derive benefits from this.
The Group will be keeping a close eye on how things develop in the second half of the fiscal year.

・ In the restaurant business, we posted significant losses in fiscal years 2020 and 2021, as a result of a worsening in restaurant operations derived from the negative impact of the COVID-19 pandemic. Despite this, we have made progress in the execution of the fundamental transformation of this business.
This transformation allowed Seven & i Food Systems to close the first quarter with a positive operating income. We furthermore expect this trend to continue for the full fiscal year, and we view this as a positive and encouraging factor.

・ Regarding Financial services, a recovery in the customer traffic has translated into a recovery in the use of ATMs and credit cards. This, in turn, has translated into a year-on-year increase in operating income and furthermore, we expect this trend to continue, going forward.

・ In light of the aforementioned factors, we expect results in domestic operations going forward to materialize according to plan. Please continue to keep a close eye on results going forward.

Q)

- The Group has announced similar strategies for Superstore operations multiple times in the past, so I can't tell the difference between these past strategies and the one to be executed now.
  Could you go over the differences compared to past transformation initiatives from the point of view of the Group's management?

A)

- Past transformation strategies were formulated under a top-down approach, and therefore lacked a sense of unity and integration involving the participation of employees working on-site.
  We have created 19 subcommittees, and our projects include the participation of a large number of employees working on-site in the frontlines. As outlined on page 20 of the presentation materials, approximately 4,800 proposed initiatives have emerged as a result of this bottom-up approach. While this number includes duplicates and conflicting proposals, we believe this large number is a positive development.
- Going forward, we will be organizing these proposed initiatives, and assigning priorities based on their feasibility and profit potential. Following this, we intend to formulate a schedule and go forward with their execution.
- This work is driven by members belonging to Superstore operations, for example at Ito-Yokado and York, but Managing Executive Officer Ishibashi also participates in these initiatives and so does Senior Managing Executive Officer and Representative Director Ito, in the role of Supervising Officer. This is a point of difference in that we employ a different organizational structure now.
- In terms of the initiatives to be carried out, the results derived from these initiatives and when we expect these to bear fruit are topics I would like to discuss during the Group's financial results presentation for the second quarter. We want to show other profit and loss statement line items beyond operating income, as well as go over the balance sheet statement, in doing so explaining to stakeholders the changes we expect to see in terms of capital efficiency. We expect this will allow stakeholders to further deepen their understanding of our operations, so for this reason we request stakeholders wait in the interim.

Q)

- You mentioned how the Group is considering initiatives for Superstore operations with on-site employees at the core. Does the Strategy Committee monitor these initiatives and offer advice?

A)

- The Strategy Committee doesn't exhaustively review every single initiative, but we believe the Strategy Committee goes over the content of initiatives once these cross into the phase of quantifying initiative effects, planning and execution.
  As such, the process of announcing initiatives in the second quarter will go through a screening by the Strategy Committee.

Questioner 2

Q)

- On the topic of retail fuel cents per gallon, you mentioned how the second quarter has shown a year-on-year improvement of 6 cents. Could you give us a more detailed background on the degree of volatility on a per-quarter basis and in terms of improvements in recent months?

A)

- Cents per gallon has remained at very elevated levels in 2022 and into 2023. In terms of normal seasonality, the fiscal year starts with both low demand and gross profits in the first quarter. This is then followed by a significant improvement starting in summer and beyond. In light of this, the period between June and August is a pivotal point.
- Approximately 65% of the convenience store industry is operated by small and medium enterprises, and against the backdrop of historic high levels of inflation, revenues for these small and medium enterprises are dependent on profits derived from the fuel business. Given this, these players take on the role of price leaders and this is how the retail price is derived. As it stands, we believe there is a need to watch these demand trends and how inflation will continue to evolve, and in light of this we believe it difficult to make pronouncements based on past trends.
- In 2023, starting in April we have seen some improvement to cents per gallon. Demand isn't high in April and May, so we view this improvement as an effort on the part of business players to secure profits. Of vital importance is whether there will be an increase toward the summer months in demand for fuel in the United States.
  On the other hand, some have more somber economic forecasts, so there is a need for us to continue keeping a close eye on how the situation evolves. We very much welcome stakeholders' opinions and prognostications.

Q)

- Page 32 of the presentation materials contains the progress and plan in terms of expenses and capital expenditure to be carried out within the scope of the Group strategy.
  How should we view this progress and plan?

A)

- The figures are rather subdued compared to the initial plan. In particular, realized investments pertaining to the Group strategy have fallen short of the initial plan.
  With that being said, this was the result of management on our part, as we attribute priorities to each project depending on expected return on investment and determine its investment efficiency.
- Going forward, we intend to continue accurately measuring the effectiveness of our investments, and continue executing investments with careful selection.

Questioner 3

Q)

- This question pertains to merchandise sales for 7-Eleven, Inc. While you mentioned that merchandise sales are progressing according to plan, taking into account the outlook on the US economy, do you expect growth in the second quarter and beyond? Monthly existing store sales appear to be in a gradual downward trend, so I would like to hear your appraisal of the current situation.

A)

- Against the backdrop of a significant slump in consumer confidence, merchandise sales for 7-Eleven, Inc., too, saw a year-on-year slowdown.
  In light of this, we want to introduce – as soon as possible – private brand merchandise allowing us to address price-oriented consumers. Additionally, another important aspect is further enhancing cost management, so we are working closely with 7-Eleven, Inc.'s Chief Financial Officer on this front.
- By enhancing these initiatives, we seek to secure profits even amidst a challenging sales situation.

Q)

- Could you give stakeholders an update in terms of progress made in closing the sale of Sogo & Seibu?

A)

- While there have been reports by the media and issues involving labor unions, the Group is working together with the Fortress Investment Group – which is the purchasing party – toward closing this deal.
- While we are not at liberty to reveal the details here, we are currently in discussions with a multitude of stakeholders, including the relevant organizations and municipalities. As of now, we are not in a confrontational relationship as reported in the media.
- For our Group, the sale of Sogo & Seibu isn't merely part of our business portfolio strategy, but rather we give thorough consideration to issues such as ensuring the creation of an optimal environment allowing for the revitalization of Sogo & Seibu as a department store, and ensuring the maximum employment assurances possible.
- I am afraid that the perception is that progress is behind schedule and isn't being made. In reality, steady progress is being made without delay. We therefore request your patience.

<u>Questioner 4</u>

Q)

- I believe the integration of Speedway in the first half of last year had a negative impact on merchandise gross profit margin at 7-Eleven, Inc. In light of this, shouldn't the Company be able to post a better year-on-year performance in fiscal year 2023? Does the Company expect to be able to realize further improvements to gross profit margin, going forward?

A)

- The closing of the acquisition of Speedway took place in May of 2021, and as a result of this integration, merchandise gross profit margin decreased on a year-on-year basis when comparing first quarter results for fiscal years 2021 and 2022.

- Consequently, the effects of the acquisition of Speedway are no longer in play in fiscal year 2023, and we consider the trend in terms of gross profit margin going forward to be important.
- Toward improving merchandise gross profit margins going forward, we consider important increasing the number of private brand merchandise items and the pro-active introduction of these at our stores. Private brand merchandise boasts gross profit margins approximately 20% higher than their national brand counterparts and furthermore match the needs of US consumers, who tend to be more price-conscious.
- Additionally, fresh food and proprietary beverages, etc. are merchandise lines featuring extremely high gross profit margins, so by enhancing merchandise development we seek to promote initiatives to improve gross profit margin. We view the expansion of the modernization program for coffee and accelerating merchandise development leveraging Warabeya Nichiyo's expertise – initiatives we touched upon in today's presentation – as being of the utmost importance. We expect the positive effects of these initiatives to start materializing, going forward.
- Over the medium term, our Virginia Commissary is scheduled to start operations in the third quarter, and our Ohio Commissary in the fourth quarter of next fiscal year. We therefore expect Japanese-style merchandise development methods to translate into very positive results in the United States.

Q)

- This question pertains to Seven-Eleven Japan's store opening strategy. During the results presentation for the fourth quarter, you mentioned how some regions in Japan still allow room for new store openings. Could you share with us the kind of discussions held at the management level, in terms of growth going forward, also in terms of the number of stores?

A)

- Over the past number of years, the net increase in the number of stores has been extremely subdued. While the COVID-19 pandemic was a contributing factor to this dynamic, we believe achieving growth requires increasing profitability at the individual store level.
- With regard to expanding the net increase in the number of stores, this is a topic we discuss on a regular basis, as it pertains to the timing of changes in this direction.
  As it stands, these efforts are yet to translate into a concrete and clear increase in the number of stores, but we believe we have good reason to be hopeful on this front, in the near future.
- By carrying out a variety of trials, in addition to carrying out legacy store openings, we are also considering diverse store opening models. In light of this, we expect that, going forward, the number of stores as a metric will be insufficient to capture the full picture of our results, so we would like to think of new and more accurate ways to disclose our efforts and results.

<u>Questioner 5</u>

Q)

- While fuel cents per gallon (retail) decreased in the first quarter, you mentioned how you expect a recovery in the second quarter, and I interpret this as meaning you expect a higher sales volume in the second quarter. As it pertains to the fuel business as a whole, would it be correct to assume you expect to be able to close the first quarter gap in the second quarter to achieve or exceed the full-year forecast, on a cumulative basis?

A)

- Allow me to go over the numbers once again so as to avoid any confusion. The year-on-year decrease of 9.3 cents in the first quarter refers to cents per gallon for the fuel business overall. On the other hand, the aforementioned increase of 6 cents in the second quarter (based on preliminary figures) refers to retail cents per gallon.
  7-Eleven, Inc.'s fuel business consists not just of retail, but also of wholesale and supply businesses. As you mentioned, in terms of operating income in the retail fuel business, we expect to cover the gap in the second quarter, but a metric to watch will be how results for wholesale and supply businesses fare year-on-year against the increase we registered in fiscal year 2022. We would like to go over this topic at a later date.
- In today's presentation we mentioned how we will be disclosing fuel cents per gallon levels ahead of the Group's quarterly results announcement. This disclosure will contain not just retail cents per gallon information, but also the cents per gallon level for the fuel business overall. We will be carrying out efforts to help stakeholders better understand our business.

Q)

- Page 29 of the presentation materials shows "Others-change in operating income", including a negative impact of 560 million yen from "Others." Could you share with us what accounts for this?

A)

- This was due to the weight of initial investment, corresponding to the launch and initial stages of our Group strategy. This wasn't therefore caused by issues in our existing businesses, but rather it reflects costs associated with investment in infrastructure with an eye toward the future. Peace Deli falls under the category of "Others."
- We would like to underscore the fact that results in Domestic operations have exceeded the plan and have been showing strength.

Q)

- The improvement in cents per gallon for the fuel business overall exceeded the improvement in cents per gallon for retail. Would it be correct to say that this was caused by the fact that the fuel wholesale business, etc. was affected by market fluctuations and that this impact was the greatest in the first quarter?
- I believe that the impact of fluctuations in the fuel market was greatest in the first quarter, and that the second quarter and beyond will be characterized by efforts to secure profits through overall distribution. In light of this, do stakeholders have reason for concern in terms of full fiscal year results?

A)

- Please refer to page 14. The surge in the price of crude oil and the retail price of fuel wasn’t restricted to the first quarter last fiscal year, but was also present in the second quarter. As such, we believe some of this impact will spill over into the second quarter of fiscal year 2023, as well.

Questioner 6

Q)

- Would it be correct to assume a downward trend in the second quarter, in terms of cents per gallon including wholesale business, etc.?

A)

- We mentioned the preliminary results for fuel retail business, but the corresponding information for wholesale and supply businesses is not yet available. As of April, overall cents per gallon were on an improvement trend, but it is still too early to make specific pronouncements about the second quarter.

Q)

- Operating income in Overseas convenience store operations fell short of the plan by 15.2 billion yen. Was this caused by cents per gallon falling below what the Group had expected? Or was this the result of an economic downturn steeper than expected in the United States?

A)

- To be honest with you, we were unable to accurately predict the price of crude oil and the retail price of fuel, meaning we had difficulty formulating an adequate cents per gallon forecast. However, it’s not like we expected cents per gallon in fiscal year 2023 to match fiscal year 2022 levels. We therefore believe that one shouldn’t take first quarter results and extrapolate for the full fiscal year.

Q)

- This question pertains to first quarter results for Ito-Yokado. Looking at the results trend in the Food department, which stands at the core of this business, one gets the impression that, against the backdrop of price increases, the degree of improvement in gross profit was smaller and fall in customer footfall was larger compared to other industry players. How does the Group interpret this?

A)

- We concur with your analysis. As it stands, the benefits of strategic investment on infrastructure – such as our process center – have not yet materialized, and we were unable to fully reap the benefits, as we are still in a transformation phase. We are aware of the challenges, and are starting to execute measures to address these, as we intend to pay close attention to changes in the second quarter and beyond. We intend to approach this topic in detail during the results presentation for the second quarter.