October 12, 2023

# Presentation for the Second Quarter of FY2023 – Q&A Session

**Questioner 1**

Q)

・ Now that the transfer of shares of Sogo & Seibu has been completed, I believe the Seven & i Group will start executing initiatives toward growth. Could you share with us the areas the Group will be focusing its efforts on, going forward?

A)

・ We believe the path to growth requires us to further refine our merchandise offerings in the Japanese market. Merchandise lineups at supermarkets and similar stores nowadays are characterized by significant levels of sophistication. What's more, we are yet to tackle and implement at our food sales spaces many of the elements our competitors already have as part of their offerings and operations, so we intend to accelerate efforts in this area.

・ We also want to dedicate our efforts to Overseas CVS operations. In July of last year, we invited licensees from various countries to Hawaii. We enlisted the participation of the four large, prominent companies responsible for the operation of the value chain in Japan, and of individuals in key positions at Seven-Eleven Japan and 7-Eleven, Inc., and the purpose of this event was for licensees to observe and learn about our operations in Hawaii.

・ What we wanted to drive home to licensees is that the type of store operations we carry out in Japan can be reproduced in Hawaii. In other words, it is perfectly possible to extend this model to countries other than Japan, and this is the message we shared with licensees. It resonated with licensees from Vietnam, Malaysia, and other countries, who expressed a desire in applying this model in their respective markets. Going forward, we want to fast track dialogue with these licensees and discuss the specifics of implementation.

Q)

・ Excluding the positive impact from M&A, I view growth in CVS operations as being less than satisfactory. Slide 23 states that the Strategy Committee carries out "active discussions also on Global CVS growth strategy," so could you share with us the Group's hopes and expectations in terms of growth in CVS operations?

A)

・ Warabeya's Virginia commissary started operations on September 1, and this translated into a sales growth of 28% for fresh food. This success was in no small part thanks to efforts by 7-Eleven, Inc. CEO Joseph DePinto and Chief Merchandising Officer Jack Stout, who invited franchised store owners in the region to visit the new commissary, and attend a tour of the facility, presentations, and tasting events.

・ Seven-Eleven Japan has always carried out the meticulous execution of these types of initiatives, and we believe that 7-Eleven, Inc. has also inherited this corporate DNA. First, we want to organize and prepare this type of supply chain.

・ Additionally, as I believe will be covered in our Group's IR Day, we have plans to offer 7GT (7-Eleven Global Technology) as a system package within the scope of our strategy for Overseas CVS operations. 7NOW features within this, as we offer licensees a package to improve the customer experience value, a package to increase store operation efficiency, a retail initiative package, that is, a package improving SKU management. Through these efforts, we seek to accelerate growth globally.

- We want to catalyze Global CVS growth by preparing these value chains and digital solutions.

Q)

- The Group has recorded a high merchandise average per store day in Domestic CVS operations in fiscal year 2023. Going forward, convenience stores are expected to function as infrastructure in the future, so do you concur in saying that this dynamic represents more opportunities for growth?

A)

- Indeed. In fact, I believe this is an area stakeholders have very good reason to be hopeful about. The trend in income of franchised stores, too, grew by 7.8% year-on-year in the first half, and morale is strong amongst franchised store owners. We also held a ceremony celebrating the Group's 50th anniversary and motivation on the part of employees is also high. Against this backdrop, under the leadership of Seven-Eleven Japan President Fumihiko Nagamatsu, the Company has made progress in merchandise development, store operations, and store development, and furthermore, the Company has plans to enhance human resources.
- In light of the above, we believe stakeholders can continue looking forward to seeing growth by Seven-Eleven Japan.

**Questioner 2**

Q)

- Could you share with us the rationale for lowering the existing store sales and merchandise GPM forecasts for 7-Eleven, Inc.?

A)

- We have lowered existing store sales growth guidance from an initial plan of +4.5% down to +1.3%, and merchandise GPM guidance from an initial plan of +0.9% down to +0.4%. Despite this, by keeping SG&A expenses down and through other initiatives, we hope to be able to achieve the initial operating income plan.
- One of the reasons for the downward revision of the merchandise GPM forecast is the worsening trend over the medium-to-long term for tobacco merchandise GPM. On the other hand, we have been making steady progress in enhancing proprietary products. Additionally, our PB merchandise lineup consisted of 900 items back in December 2022, and we have rolled out 150 new items since then in 2023. In summation, we have been in the process of enhancing our efforts toward an improvement in merchandise GPM.
- Consumers are much less likely to spend in the current climate, which we view as very challenging. While we experienced a slowdown in terms of top line results in 1H, initiatives by the Cost Leadership Committee functioned properly, allowing us to contain the increase in SG&A expenses to just 1.3%, even against the backdrop of inflationary pressures pushing up costs. We want to continue and further intensify cost controls in 2H.

- The retail price of fuel remains at elevated levels so, in light of this, we expect a decrease in fuel sales volume per store. On the other hand, and as I have mentioned in previous financial result presentations – CPG and fuel sales volume are inversely correlated, so we will continue aiming to achieve the gross profit amount targets as outlined in the initial plan.

Q)

- Results in SST operations in recent months have exceeded Company expectations. However, from the outside looking in, one doesn't really get the impression of higher profits. Could you share with us the results – as of the present date – of this business' fundamental transformation, as well as the ways in which the Company expects to be able to raise revenues?

A)

- We are in the process of executing a total of approximately 2,500 measures within the scope of the fundamental transformation of SST operations. As discussed in today's presentation, one of the initiatives we started executing ahead of others is the reorganization of sales spaces from the apparel business to Food & Drug, and these efforts have already translated into some level of success. Going forward, we will seek to further accelerate these initiatives.
- Regarding the management integration of Ito-Yokado and York, we have seen results from a Head Office review of personnel allocation in Divisions where there is an overlap. This limits Head Office expenses. Also, we carried out mutual complementation of merchandise lines within sales, and these efforts are showing results.
- In terms of infrastructure, as well, we have also made progress in the implementation of our processing center and central kitchen initiatives. Nagareyama Kitchen already supplies merchandise to both Ito-Yokado and York, and we have seen improvements in productivity.
  Regarding progress checkpoints, we have formulated not just financial KPIs but also numerous non-financial KPIs. We monitor progress toward our targets on a weekly and monthly basis. Lastly, we will continue carrying out robust efforts to ensure the linkage between our major initiatives and our 6 major KPIs – which we went over earlier in today's results presentation.

**<u>Questioner 3</u>**

Q)

- Could you give us some context on 7-Eleven, Inc.'s perceived results weakness when compared to its industry competitors? Additionally, what is the Company's strategy to ensure growth on a U.S. dollar base next fiscal year and beyond?

A)

- We believe differences in areas of store operation to be the main factor. 1/6 of our stores are located in the State of California, which enacted a ban on flavored tobacco. This ban led to lower sales, and this had a significant negative impact. In fact, this decrease in tobacco sales weighed down on overall 7-Eleven, Inc. results, pushing down year-on-year existing store sales by just under 1%. Another factor is the worsening of consumer spending and of the economy in the States of California and New York. We are therefore faced with a challenging business climate in the areas in which we operate.

- We will be addressing this first by enhancing our lineup of reasonably-priced proprietary merchandise, and our fresh food merchandise. Warabeya's Ohio and Texas commissaries will be undergoing an expansion in fiscal year 2024, expanding our supply network of fresh food merchandise – boasting top-of-the-line equipment – to cover a total of 2,000 stores. Furthermore, in fiscal year 2025, we have plans to enhance our infrastructure, resulting in an expansion of our supply network to 1,300 stores in Los Angeles.
- We will also continue accelerating digital transformation and growing the delivery business. 7NOW boasts an average per order spend of between approximately 15 and 17 US dollars, approximately 3 times the average amount spent in-store, and furthermore, these figures prove that market cannibalization between 7NOW and in-store purchases isn't taking place. We will be gearing up our efforts to expand the number of stores offering 7NOW delivery so that we can grow sales even further.
- Third, we will work to generate further synergies resulting from the integration of Speedway, as we are formulating initiatives to invigorate existing stores.

Q)

- Could you share with us some of the assumptions underlying the revised forecasts for 7-Eleven, Inc.?

A)

- Allow me to start with the CPG results in 1H of 2023. We had a year-on-year decrease of 2.55 cents in the fuel business overall, and a decrease of 0.06 cents in the retail fuel business in particular. Those weren't lower than these initially expected and we view it as a positive. On the other hand, fuel sales volume in the second quarter suffered a year-on-year decrease of over 3%, and this represents a decline significantly more pronounced than initially expected.
- We interpret this decrease in fuel sales volume as an effect of the economic environment in the U.S. The initial plan was premised on U.S. inflation coming under control in 2H of 2023 and a recovery in consumer spending. In reality, however, real wages have fallen and inflation persists, showing no signs of abating.
- In terms of the forecast for the fuel business, while there has been a slump in fuel sales volume in recent months, given how lower fuel sales volume tend to correlate with higher CPG we are not expecting any pronounced declines in gross profit.
- We believe the course of inflation in the U.S. over the remaining 3 months of the year will shape the way things play out. Some expect a slowdown in inflation and a recovery in consumer spending, but high levels of uncertainty remain and that is why we have left the profit forecasts unchanged. We would like to explain again once the situation is somewhat clearer.

Q)

- Would it be accurate to say that the benefits from the integration of Speedway have run their course?

A)

- We expect to unlock further synergies going forward. More specifically, we have only recently started executing improvements related to merchandise – such as efforts to enhance fresh food – and deploying a system allowing stores to take the initiative in choosing and ordering merchandise lineups.

Q)

- The Group has issued an upward revision to the Medium-Term Management Plan. This has been accompanied by improvements to financial indicators such as FCF and the Debt/EBITDA ratio, so is there a possibility for the Company to carry out further M&A?

A)

- We are seeing a gradual increase in our cash-generating capabilities, with improvements to financial KPIs following the course outlined in the Medium-Term Management Plan. Concurrently, we believe there is room for discussion whether there really is a need to bring Debt/EBITDA down to a ratio of 1.8, and furthermore, we still have untapped borrowing capacity even while keeping our status as an A-rated entity.
- A number of items of interest have sprung up, so we believe there is a need for the Group to consider investment through 2024 and into 2025. Within this scope, we will be holding discussions with CEO Joseph DePinto in the interest of carrying out investment in North America. What's more, we believe the time has come for us to consider the execution of strategic investment on a global scale and not just restricted to North America.

**Questioner 4**

Q)

- The Group significantly lowered sales and other guidance for 7-Eleven, Inc. However, this wasn't accompanied by a downward revision to the operating income forecast, which remains unchanged from the initial plan. This therefore indicates a proactive stance on the part of management, who seek to utilize their skills to achieve the Company's target results. What does the Group Head Office believe to be strengths on the part of 7-Eleven, Inc. management?

A)

- Starting with CEO Joseph DePinto, I believe 7-Eleven, Inc.'s management suite are very good team players who have been able to carry out a number of initiatives allowing the Company to curtail SG&A expenses, which grew only 1.3% on a year-on-year basis, even against the backdrop of inflation pushing up prices.
- These results don't derive exclusively from the reduction and elimination of overlapping positions and elements, within the PMI process for Speedway – which we acquired back in 2021. Rather, these results indicate a rather dynamic approach to cost reductions within 7-Eleven, Inc., and their anticipatory action approach in terms of initiatives has been a resounding success.
- Early on in the pandemic, convenience stores in Japan started using transparent plastic sheets to provide a barrier at the cash register. This became standard operating procedure throughout Japan, but in reality, 7-Eleven, Inc. was the originator of this idea, who made the suggestion over video conference, and that's how the idea spread.
- 7-Eleven, Inc. also executes a hands-on approach, with initiatives like, for example, inviting franchised store owners to visit the Virginia commissary. This is very much a Japanese-style approach, which management at 7-Eleven, Inc. follows. Another area worthy of praise is how they were able to put in

place a structure allowing for the introduction of single SKU management and retail initiatives – this in just two years following the acquisition of Speedway.

- They have also executed a number of excellent forward-looking initiatives, such as, for example, setting up a base for offshore digital development in India.
- I therefore put my full confidence in 7-Eleven, Inc.'s management suite, who work with a sense of urgency in the pro-active and forward-looking execution of initiatives, and feel I can entrust them with 7-Eleven, Inc.'s operations.

Q)

- I appreciate your detailed explanation of the fundamental transformation initiatives in SST operations. I think the message the Group is trying to convey is that it will take a completely different approach to this endeavor when compared to its past efforts, with a sense of accountability and through the execution of structural reforms. Against this backdrop, could you share with us what changes there have been when compared to past efforts?

A1)

- Previous transformation initiatives were limited to improvements, and the most decisive difference between current and past efforts is how we have clearly delineated a process of focusing on core competencies. In other words, we clearly divided things into two areas: one to which to focus management resources allowing us to score market victories, and others we should exit.
- We formed 19 teams across all operating companies, setting targets for each team, and taking a bottom-up approach in coming up with ideas to meet said targets, tracking our progress on a daily and weekly basis. Including Ito-Yokado and York members in all 19 teams leads to a united front in the drive to work as a cohesive unit to deliver improvements.
- Additionally, another thing that was lacking in previous transformation initiatives is monitoring, including by independent outside parties, and the drive to execute measures without compromising. These initiatives now count with the support of our holdings company and from each operating company that comprises the Group, and no areas are off-limits in the execution of initiatives. This commitment to move forward as a cohesive Group is also new.

A2)

- I believe the acquisition of Speedway was a significant turning point. It was at this point that we started dedicating serious thought to how the Group should operate as a player in the global arena, and to the elements necessary for further improving corporate value.
- We once again disclosed within the Medium-Term Management Plan – released in July of 2021 - the Company's basic financial policy. Over the past two years, the heads of each of our Group's operating companies have internalized this policy. As a result, awareness has taken root of the need for significant changes in governance and of the need to evaluate our portfolio in an objective way without any areas being off-limits.
- In particular, we followed through with the sale of Sogo & Seibu, even in the face of a number of challenges. One positive aspect in bringing to fruition each initiative, like the one I just mentioned in the form of Sogo & Seibu, is that it allows us to identify the steps that needs to be taken to further

improve corporate value and to spring into action.

- Whether the transformation of SST operations succeeds or fails is a crucible for us. The Group will be working as a cohesive unit and with an unwavering commitment to achieving the targets for 2025.

A3)

- The Strategy Committee plays a crucial role. Rather than just discussing initiatives internally, discussions carried out by neutral, independent third parties have been a significant driving force for change in our Group's corporate culture.
- Going forward, the Strategy Committee and independent outside directors will continue monitoring policy and progress, as we intend to execute robust measures not just in terms of the transformation of SST operations, but also in other growth domains.

**Questioner 5**

Q)

- I believe both Domestic SST operations and CVS operations face a challenging external environment. What is the Company's outlook in terms of the business climate? Could you share with us the transformation initiatives the Company intends to execute within SST operations and for Ito-Yokado?

A)

- Real wages in Japan fell for the $17^{th}$ consecutive month in August, within what we believe to be a very challenging consumption environment. What's more, going forward, we expect challenges to continue. With that being said, a recovery in consumer footfall in the first and second quarters partially offset the negative impact of falling real wages and lower consumer confidence.
- Within SST operations, York-Benimaru and York were able to address and capture demand from consumers, who are now increasingly cautious with their spending, and this translated into better results. While gross profit margins fell slightly, these businesses nevertheless posted year-on-year increases in the gross profit amount and operating income. Ito-Yokado offers an expansive merchandise assortment, with this year's sweltering summer resulting in lackluster sales of fall/winter apparel.
- In Domestic CVS operations, we leveraged our food fair initiatives and succeeded in developing merchandise adapted to a higher cost environment. Despite a challenging environment in terms of customer footfall, our merchandise development and promotion capabilities came together in a way that has allowed us to grow results.

Q)

- The sale of Sogo & Seibu was completed on September 1, and going forward, I believe other possibly unprofitable businesses will receive scrutiny. Could you share with us the Group' growth strategy, including as it pertains to operating companies outside of the Group's SST and CVS operations?

A)

- Our stance is that it is beneficial and ideal for all parties involved for each individual business and operating company in the specialty store domain to remain as part of the Group, provided these businesses have the capacity to grow alongside us. We would therefore like these businesses to share our operational philosophy and growth strategy and outlook.

- With that being said, food and global operations are the Group's central growth pillars, so we intend to make steady progress in the execution of initiatives, with the domain genres showing the greatest potential for growth taking center stage.
- Additionally, the sale of THE LOFT and Akachan Honpo merchandise at Seven-Eleven and Ito-Yokado has been very well received. Rather than growing the number of stores, it makes sense for specialty stores like these to leverage their ability to supply merchandise to large-scale stores and CVS. For example, THE LOFT used to deal primarily in stationery and miscellaneous household goods, but now cosmetics account for half of an overall sales volume of approximately 100 billion yen. We believe that each of our specialty stores has the ability to grow alongside changing customer behaviors and patterns.

**Questioner 6**

Q)

- There seems to be a slight increase in the number of announcements regarding to the Ito-Yokado store closures. Would it be correct to assume that in order to achieve the KPI targets for the final fiscal year within the Medium-Term Management Plan the Company wishes to complete all the necessary store closures by the end of next fiscal year? Looking at the assumptions made in the Company's KPIs and looking at the ROIC target, as well, one gets the impression that next fiscal year will see a wave of personnel downsizing. How much, if any, do you expect the number of store closures to go up next fiscal year? Also, could you share with us this breakdown in terms of next fiscal year and the fiscal year after that? Finally, what is your take on employment in regions that undergo store closures?

A)

- We will continue carrying out store closures, as we work to consolidate the number of Ito-Yokado locations down to 93 stores by the end of fiscal year 2025. Especially in the case of rural areas, some regions lack the Group stores nearby so, in the interest of the continuation of employment opportunities and taking into account the negative impact on local communities' economy resulting from our exit and the subsequent loss of a place for consumers to shop, we continue carrying out negotiations with parties in and outside the Group, with the objective of finding suitable successors to take over these businesses. As you so surmised, we are carrying out preparations to this end, with next fiscal year as a target date. In terms of stores in the Tokyo Metropolitan area, there are multiple other Group stores – including York – in the vicinity of these stores, so our broad strategy and outlook here is for nearby stores to absorb these human resources.

Q)

- Slide 20 of the presentation materials references planned asset sales totaling 30 billion yen, within SST operations. Could you share with us the specifics of this asset sale? Additionally, where do you derive this figure of 30 billion yen?

A)

- Within the scope of store closures, we are planning a reduction in assets of approximately 12 billion yen, resulting from the sale of company-owned stores and a reduction in inventories following our exit from the self-operated apparel business. We will be carrying out asset reduction with a focus on the items I mentioned just now and through to fiscal year 2025.

Q)

・ You mentioned stores in the Tokyo Metropolitan area in your first answer. Does the Company also have plans to carry out store closures in the Tokyo Metropolitan area as well? Could you share with us the criteria for the execution of store closures?

A)

・ As you are aware, we evaluate each store on an individual basis and begin the process of closing those stores that don't meet our ROIC criteria. In terms of specific criteria, we take a multifaceted approach to this, so I'm afraid I can't go into further detail here.

**Questioner 7**

Q)

・ Following the sale of Sogo & Seibu, a number of shareholders filed a lawsuit against the Board of Directors, arguing that the transfer of shares of Sogo & Seibu to the Fortress Investment Group caused reputational damage to Seven & i Holdings. Additionally, the completion of the transfer itself was delayed twice, and a labor union representing Sogo & Seibu employees staged a walkout and strike in August, with these events generating widespread interest by society at large. Do you believe the sale caused any reputational damage to the Company? Or do you believe it had no negative impact whatsoever? Also on a related topic, within the process of executing structural transformation of SST operations, I believe the relocation or closure of stores will likely necessitate further dialogue with employees and the relevant municipalities and commercial landlords. What lessons did the Company learn and how will these be applied in the Company's dealings with stakeholders?

A)

・ The sale of Sogo & Seibu received widespread attention as it had been 61 years since the last time employees had staged a walkout at a major department store. This caused concern and inconvenienced customers, for which we deeply apologize. We also feel a great deal of disappointment that the strike went ahead in that we had held comprehensive talks with the labor union beforehand. Our position was that, in the interest of ensuring business continuation, and the continuation of employment, rather than remaining a part of the Group, a more sensible option for Sogo & Seibu would be to look for a more suitable owner. We articulated this position in talks with the relevant parties, but we faced significant difficulties given the sheer number of stakeholders we needed to present a compelling case to. We carried out talks and made our case in a considerate and meticulous manner, and this process ultimately required a total of 9 months. With that being said, Seven & i Holdings had carried out a very large acquisition in 2021 and the Holding company itself held a considerable liability balance, making it impossible for us to allocate resources to growth investment directed toward Sogo & Seibu. It was for this reason that we set out in search of new shareholders best suited to own the business, and furthermore, we laid out the situation over the course of multiple financial results presentations and the announcement of the Medium-Term Management Plan.

- SST operations, too, involve and affect a wide range of stakeholders, so we will endeavor to carry out talks – centered around Ito-Yokado – in a considerate and meticulous manner, while at the same time carrying out a detailed review on a store-by-store basis. As it pertains to the Company's reputation, we deeply regret that we were unable to reach an agreement to prevent the labor union strike.

**Questioner 8**

Q)

- It appears that Sogo & Seibu's labor union ultimately couldn't agree on the terms of the sale, but could you share with us the specifics that prevented both sides from seeing eye to eye on this issue?

A)

- The strategy was to execute the sale of Sogo & Seibu's real estate property in Ikebukuro and use the capital resulting from this sale to repay in full Sogo & Seibu's liabilities, thus ensuring the continuation of operations. This was the strategy we continuously discussed with the Fortress Investment Group, with Yodobashi Camera, and with Sogo & Seibu. The sale of the Ikebukuro real estate property was a deal breaker for the labor union. We explained the situation to them on multiple occasions, but they ultimately couldn't agree on the sale, as Ikebukuro was the birthplace of the Seibu department store and Sogo & Seibu's flagship store. The labor union understood the need of the sale in order to be able to repay liabilities held by Sogo & Seibu, but ultimately couldn't agree with the execution of the sale.

Q)

- Did the Group consider any other options other than the sale of Sogo & Seibu – which was completed on September 1 - in order to avoid an employee strike and to ensure a soft landing?

A)

- As we continued engaging in talks, it became clear that postponing the sale would be ineffective as there wasn't a possibility for both sides to progress on discussions, so we decided to proceed with the sale. Our thought process was that it would be better to carry out the transfer as soon as feasible, rather than to further drag on the process, which had already gone on for a full 9 months, in the interest of assuaging uncertainty on the part of Sogo & Seibu's customers, employees and clients and painting a path forward. We were able to meet with our stakeholders in August, from whom we obtained some extent of support, so that's when we decided to proceed with the transfer.