December 1, 2023

Briefing on Group Strategy Execution Q&A Session

Questioner 1

Q)

・I understood the potential of the Australia business, but could you give us some background on how the Seven & i Group reached the conclusion that this acquisition would be the way to catalyze growth in this business after carrying out operations and initiatives in the Australian market over a period of many years?

・Could you share your thoughts in terms of the Group's strategy when it comes to store openings in the country and an estimate of the scale in terms of the number of stores needed for there to be a profit contribution?

A)

・Over the past 50 years, 7-Eleven Australia ("SEA") has opened a total of approximately 750 stores in Australia, the majority of which is in densely-populated metropolitan areas like Melbourne and Sydney. With that being said, we believe there is still further room to expand our store network in the country.

・We seek to utilize 7-Eleven Japan's site selection criteria and sales forecast model to enhance our store opening framework in Australia, allowing us to expand our network of high-quality stores.

・We anticipate that the total number of stores will exceed 1,000 after the sixth year, and with this level of scale, we expect it to contribute to the establishment of a value chain and increased frequency of product development. In addition to the effects of store expansion, we also anticipate significant growth from these factors.

Q)

・The Seven & i Group has committed to spending 110.0 billion yen on share buybacks. What prompted this decision?

・Additionally, how do you expect this acquisition will impact on future cash re-allocation?

A)

・We believe there is a need to strike a balance between the execution of investment toward growth and a policy that sufficiently rewards shareholders, and as a prerequisite for that, it is necessary to assess the level of financial soundness. Although the acquisition of Speedway weakened the Group's financial foundation somewhat, we have made progress in the pro-active execution of debt repayments between 2021 and 2023.

・We expect to close the fiscal year ending February 2024 with a Debt/EBITDA ratio decreased to 2.6, and we expect a further recovery to our financial foundation from 2024 to 2025. The recovery to a certain extent allowing us to strike a balance between growth and shareholder returns, and this formed the basis of our decision to return value to shareholders and execute strategic investment.

・We believe our growth investment initiatives will let us to generate cash, so – going forward - we intend to continue further expanding growth investment coupled with shareholder returns.

Q)

・Would it be correct to assume that further store openings leading to advantages of scale and other benefits will lead to contribution to cash flows by around year 6, with progress in return on investment?

A)

・That is correct. We position the first 3 years or so as a significant transformative period, but after that we expect EBITDA growth resulting from an acceleration in new store openings and thanks to our business transformation efforts.

<u>Questioner 2</u>

Q)

・Seven & i had operated a licensing business in Australia for years and SEA could have option to be listed, but chose to be acquired by Seven & i. What led to that outcome?

A)

・The legacy licensing model was a low-risk, low-return model whereby we would receive a certain percentage fee on sales. This model therefore offered low levels of profitability. What's more, there are disparities in terms of average daily sales from region to region, and we leaving things as they are without making efforts to correct the situation could potentially end up damaging our brand loyalty.

・We believe deploying capital resources to be the fastest and most effective way to reduce these disparities. In order to achieve this, we aim to share our expertise and understanding with SEA and, if they express any needs or desires, we are open to making capital investments to support their growth. Even in the case where we don't deploy capital, we can provide licensees with expertise in some areas like 7GT and value chain construction, in exchange for an additional fee. By carrying out these types of initiatives, we intend to raise quality standards at licensee stores.

・The decision to acquire the shares was made after considering the offer from the owner families of SEA during the timing of share inheritance in the fall of last year.

・In case of Vietnam, there is a situation in which foreign capital of more than 50% is subject to stricter regulations, so we carried investment at the request of counterparty within these parameters. Global deals are therefore decided on the basis of each country's circumstances and through negotiations with licensees.

Q)

・Is this case of transaction an exceptional example? Do you think it would not be very meaningful to invest in public companies that are operating steadily?

A)

・We could potentially do something like that, provided we receive such a request from one of our existing licensees – included publicly-listed companies – when expanding into a new region.

Q)

・Will the scale of future share buybacks be influenced by investments deals, etc.?

A)

・Our strategy to achieve the fiscal year 2025 KPIs set forth in the Medium-Term Management Plan forms the basis for the Group's basic policy as it pertains to shareholder returns and growth investment. From the beginning, we had expected to execute share buybacks to one degree or another, and also considered an appropriate course of action in case the opportunity for a strategic investment like the acquisition of SEA presented itself to us.

・Our financial foundation has staged a recovery to some degree, and additionally, we have set a Debt/EBITDA target of below 1.8 for fiscal year 2025. We will decide on how and to what extent to carry out share buybacks within an optimal capital structure, considering, for example, whether there really is a need to lower the Debt/EBITDA ratio target to such levels.

・As I mentioned earlier, unless there is a very significant strategic investment, we intend to continue returning value to shareholders. Additionally, I believe this will probably be something we do within the next Medium-Term Management Plan, we intend to further enhance shareholder returns.

Q)

・As it stands, I believe the Company is on the right track to achieving most of the targets outlined in the Medium-Term Management Plan. On the other hand, I view 18% or greater, the target CAGR of EPS to be perhaps too ambitious.

A)

・We believe we need to step up our efforts to achieve the financial KPIs outlined in the Medium-Term Management Plan, especially as it pertains to EPS and capital efficiency. In addition to delivering profit growth, we are enhancing our efforts in terms of strategic investment and capital policy, etc.

Questioner 3

Q)

・Reading yesterday's press release, one fact that stands out is the significant operating income growth at SEA over the past three years. Did a recovery from exogenous factors such as the COVID-19 pandemic pay a large role in this?

・While average daily sales seem to be lower compared to Japan, it would appear that SEA boasts high profitability levels. Is this a result of a profit contribution from the sale of fuel in the country?

・Lastly, how much does the Group expect to record in goodwill resulting from this acquisition?

A)

・The impact of the pandemic was particularly profound in Australia over these past three years, with lockdowns in major cities like Sydney, Melbourne, etc., resulting in a precipitous drop in customer footfall. We are now witnessing a similar dynamic in the opposite direction, with a significant recovery post-COVID.

・Average daily sales in Japan stand at approximately 650,000 yen, and we see similar levels in Australia as well. 7-Eleven has fuel sales in Australia, but an item category that has been doing well is the category of coffee (hot beverages), which boosts a gross profit margin of close to 40% and is the source of these profits.

・As it stands, profitability levels are mostly equivalent in Japan and Australia, but we believe SEA has further upside potential, which we believe we will be able to unlock following PMI through an expansion in store openings and by enhancing the merchandise assortment offered at stores.

・We are still in the process of determining the goodwill amount, so I am not yet at liberty to answer your question.

Q)

・The Seven & i Group uses the JGAAP accounting standard, which means that an increase in acquisitions translates into greater goodwill amortization expenses. This, in turn, leads to a widening gap between EBITDA and net income, and greater difficulty in the execution of shareholder returns. What is the Company's take on this dynamic?

A)

・Decisions pertaining to M&A are done taking into consideration ROIC under both the accounting standards used in the target country, as well as the JGAAP accounting standard. As it stands, we view it as inevitable that we will end up recording a certain amount in goodwill, but the crux of the matter here is by how much we will be able to raise profits going forward. Naturally, we will work to raise net income, but EPS and capital efficiency are also important. Within our efforts to optimize our business portfolio, we will be organizing and reducing assets that don't generate profits, and further catalyzing a transformation.

・We recognize the challenge of shareholder returns based on pre-amortization basis, but at the moment, our policy is to strengthen distributions based on post-amortization basis.

Questioner 4

Q)

・Could you share with us the Company's outlook in terms of the breakdown between franchise-operated stores and company-operated stores for SEA, as well as differences in profitability between the two?

A)

・Currently, franchise-operated stores account for around 60% to 70% of all stores in the country, and we have no plans to make any changes to this breakdown. However, as we mentioned earlier, we believe there is room for further store openings going forward, so we will be looking at each area individually and decide whether to open new stores on a franchised basis or operated directly by the Company.

・In terms of Headquarters profitability, as is the case in Japan, franchise-operated stores offer higher profit margins for us.

Q)

・If I remember correctly, at one point SEA came under scrutiny for the non-payment of wages and other employee payment practices. Within the context of this acquisition, what is your take on improvements to the governance structure?

A)

・We are aware of the issue of unpaid wages and the underpayment of immigrant workers. SEA worked with the public institution to pay an adequate amount in workers' compensation, and furthermore, a framework to prevent similar incidents from recurring is already in place, so we view this issue as having been resolved.

Questioner 5

Q)

・Could you give us a basic overview of the CVS market in Australia? 7-Eleven already boasts a high market share in the country, but could you tell us about the competitive environment? Also, you mentioned the need to transform operations, but could you share with us the ways the Company will be enhancing its merchandising capabilities?

A)

・The sale of alcoholic beverages at CVS is prohibited by law in Australia. Against this backdrop, SEA is dependent on the sale of tobacco products and fuel. Our strategy is therefore to reduce this dependency and focus more on food.

・CVS in Australia offer a rather eclectic assortment of merchandise, unlike Japan where stores offer convenient one-stop shop solutions for people – from the time they wake up in the morning to the time they go to bed at night. We therefore want to expand coverage at SEA.

・In terms of merchandising capabilities, we want to raise the SKU count to between 2,500 and 3,000 items, centered on missing categories. Lastly, fresh food currently accounts for 16% of sales, and we want to double this figure by improving quality and expanding the range of merchandise categories offered.

Q)

・In North America, 7-Eleven, Inc. has a partnership with Warabeya, which is a Japanese company. What plans does the Seven & i Group have to transform the business in Australia over the next 3 to 5 years?

A)

・It's not really feasible for us to ask Japanese companies to build commissaries like we did in North America, but there are things and systems we have in place in Japan and the U.S. that we don't yet have in Australia. For example, we want to start offering food prepared on premise, like the hot dogs we sell in the U.S. and fried chicken and other deep-fried products we offer in Japan. Through this, we seek to change customer perceptions.

・The CVS market in 2023 in Australia reminds me of CVS in Hawaii in the 90s and also in terms of the ways customers used these stores. Current assortment offerings in terms of groceries are insufficient, so we believe there is room for improvement. We will start by offering fresh food prepared on premise while changing local management's perspective, as we follow the aforementioned strategy of enhancing our offering of merchandise for everyday consumption.