January 11, 2024

Presentation for the Third Quarter of FY2023 Q&A Session

Questioner 1

Q)

・Could you walk us through third quarter year-to-date results when compared to the revised forecasts as announced on October 12, 2023, on a consolidated basis and per segment (Domestic CVS operations, Superstore operations, Financial Services)?

A)

・Regarding third quarter year-to-date consolidated figures, realized results outperformed the revised forecast targets – as announced on October 12, 2023 – for each revenue and income line item.
(Revenues from operations +41.6 billion yen, Operating income +7.8 billion yen, Net income attributable to owners of parent +5.6 billion yen)

・I already went over the results for Domestic CVS operations earlier in my presentation today, so allow me to skip this segment. As it pertains to Superstore Operations, while Ito-Yokado is struggling, as it stands, results at York-Benimaru outperformed our plan. Additionally, we are also finding synergy contributions derived from the integration of Ito-Yokado and York. As such, in total, we do believe results at the Superstore operations are more or less in line with Group expectations.

・Regarding Financial Services, in the third quarter, Seven Bank recorded system upgrade expenses allowing us to accept the new Yen banknotes which will go into circulation this year. This business therefore incurred some costs, and this is why we are seeing a bit of a year-over-year decline.

Q)

・In regards to 7-Eleven, Inc., you mentioned a challenging consumption environment in the U.S. At the same time, we also understood that the Company's optimism as it pertains to potential over the mid-to-long term.

・However, looking at the next three to six months, I believe the outlook contains a number of further difficulties and obstacles. Against this backdrop, what kind of initiatives at the moment constitute 7-Eleven, Inc.'s top priority?

A)

・We are very excited at 7-Eleven, Inc. about the top line growth opportunities throughout the next 3 to 5 years.

・First is the opportunity to change our product mix to 34% proprietary products as a percentage of our overall merchandise business by fiscal year 2025. This is therefore an opportunity both to grow sales and increase gross profit margin.

・Second is delivery. That business showed a growth rate of 32% versus fiscal year 2022 results, and we see delivery growing up to a billion-dollar sales business by 2025.

・Growing the store base is also a significant opportunity. The retail market in the U.S. is a highly fragmented industry and we only have roughly 8% of the market share. We just announced the deal today for the acquisition of Sunoco-Stripes, and there are numerous opportunities for us to grow through acquisition and continue to grow organically.

・We are also excited about the synergy opportunity from Speedway. The target has been raised several times and now stands at 800 million dollars for fiscal year 2023, which is a target we are confident we will be able to achieve.

・There are some challenges with the consumer, but we think there are top line growth opportunities over both the short and medium-to-long term.

・There are also cost reduction opportunities, and we expect our efforts to continue bearing fruit in fiscal year 2024 and beyond.

・We do have some challenges, but we believe there are also numerous opportunities.

Q)

・Against the backdrop of a challenging consumer environment, I would like to ask you about the top priorities in driving your short-term strategy.

A)

・Our top priority consists of the four big initiatives we have laid out, namely growing proprietary products, accelerating digital and delivery, generating synergies from 7-Eleven, Inc. and Speedway integration, and growing and enhancing store network.

・Those are the differentiators, and I think we can execute these initiatives while simultaneously pursing cost efficiencies.

・Additionally, in the short term, we are very focused on driving traffic by providing tremendous value to the customer.

Questioner 2

Q)

・The sales trend for Ito-Yokado looks quite sluggish, so could you share with us the reason for this? How do you intend to improve the situation at Ito-Yokado?

A)

・Third quarter year-to-date, price increases have led to more defensive patterns on the part of consumers, and this has indeed translated into some more price-conscious consumers refraining from coming to our stores. COVID-19 was downgraded to a common infectious disease, and this led to a decrease in customer basket size and consequently to sluggish sales growth. Efforts to enhance tenants and non-food merchandise, as well as efforts to win over consumers who like to shop around with our food merchandise compensated for this to some extent in the first half, but in the second half of the fiscal year, apparel sales have been quite slow as a result of a warm winter this year. This was coupled with higher prices for vegetables and items like pork, which negatively impacted traffic to our stores. These are the main factors. Having said that, however, it’s not like this trend was seen across all of our stores. In fact, stores that underwent refurbishment toward our Food & Drug standard and a structural transformation have shown a pick-up in both sales and traffic, also as it pertains to existing stores. We made further efforts to win over consumers who like to shop around with our food merchandise, and these efforts have been successful to a certain extent, especially in regard to younger consumers. As such, we will continue these refurbishments this fiscal year and into the next.

・Following the integration of Ito-Yokado and York in September 2023, we do sales for merchandise from Ito-Yokado and York and in-store advertisements in an integrated manner. While this is a gradual process, we are starting to see positive effects from this integration. Furthermore, adding premium merchandise from SHELL GARDEN to our assortment allows us to appeal to both ends of the market spectrum.

・Our additional central kitchens will become operational next fiscal year and through the use of these we intend to enhance, in a swift manner, the creation and development of high-quality proprietary merchandise. Through this, we intend to improve sales.

Q)

・ Looking at the recent gross profit margin trend at 7-Eleven, Inc. (P13 of the presentation materials), it does not appear to have improved much in third quarter. How do you plan for gross profit margin to pick up going forward? Additionally, what is the reason behind the lack of improvement and how do you plan to improve gross profit margin?

A)

・ We have been able to grow margin on a full-year basis, as we did also in the third quarter, though not by as wide an increase as we had in the first half of the year.

・ In the U.S., retailers have really been able to push through cost increases over the last few years since COVID-19. However, as the consumers become challenged in the third and fourth quarter, the ability to push more price through has become more of a challenge across all retail sectors. This is true for us as well as for our competitors.

・ We have to sharpen our value offers because we really are in a traffic battle. While the rate of improvement was not as high as in the first half, gross profit margin did improve in the third quarter. We expect margins to continue to grow through to 2024, driven by a change in the product mix as we grow more proprietary products. Proprietary products have a margin in the low 40%, which is higher than margins for national brands merchandise. As such, as we grow the mix of proprietary products, we think this will translate into an increase in profits.

・ Going back to what I talked about earlier, we have pushed costs through during COVID-19. As inflation has cooled and commodity prices have come down, we believe that will be accretive to margins. It’s a bit more of a challenging environment short term for margins, but for the year, we think we’re still in good shape and we believe there is room to expand margins going into 2024 and beyond.

Questioner 3

Q)

・ My first question is about a simple confirmation around the numbers. This fiscal year’s results have seen quite a large impact coming from foreign exchange. In particular, you have given the details of the revision to each operating segment, with the operating income forecast for Overseas CVS operations having undergone a significant downward revision of 9 billion yen (P10 of the presentation materials). Could you share with us what these figures look like on a currency-neutral basis, in terms of profit levels and the revision amount?

- With a view toward next fiscal year, we are paying close attention to estimates as to when the U.S. economy is expected to bottom out. As a result, could you share with us the picture for Overseas CVS operations as things currently stand, as well as the direction for this business, going forward?

A1)

- For 7-Eleven, Inc. operating income on a dollar-denominated basis is something we do disclose. The initial forecast for fiscal year 2023 called for an operating income performance of 3.078 billion dollars. After revision, guidance was lowered to 2.935 billion dollars, meaning we have fallen behind compared to our stated target.
- As for currency exchange rate estimates, the initial forecast for fiscal year 2023 was 131 yen versus the U.S. dollar, but we have since changed these estimates, first to 137 in September 2023 and now to 140.60 yen.
- Through this revision, operating income on a yen-denominated basis has changed, but on a dollar basis that's where we are headed to versus the plan, as I went over earlier.
- Regarding the economic situation in the U.S., we're seeing inflation while interest rates remain at elevated levels. Additionally, COVID-19-related government stimulus is no longer at play, and that is really dampening people's mindset to consume. On the other hand, we have been able to take advantage of the significantly weaker yen resulting from the gap in interest rates between the Federal Reserve and the Bank of Japan. So, we find there are actually both positive and negative impacts, meaning that ultimately, it's a wash.
- Even if we do find a strong yen in fiscal year 2024, we are committed to outperform year on year on a dollar-denominated basis, and of course that is part of the discussion we're having with management at 7-Eleven, Inc.

A2)

- I think that part of your question was also about what would be the conditions for a recovery in the U.S.
- I think it comes down to lower inflation, a reduction in interest rates, and continued positive employment resulting in an increase in real income levels.
- I think it's going to be probably later in fiscal year 2024 before we see a real change with the consumer.
- The first half of fiscal year 2024 will probably be challenging for the consumer.

Q)

- My next question is about Ito-Yokado. You have made a downward revision to the forecast assumptions. Still, on a standalone basis, the full fiscal year operating income forecast has not been lowered, so could you help us understand this decision?

A1)

- We still believe we will be able to achieve the full fiscal year target for Ito-Yokado, which is why we have kept the operating income forecast unchanged.

A2)

・ Up until the third quarter, revenue and gross profit margin had fallen short of our expectations but despite this, we have nevertheless decided to keep the operating income forecast. We have been continuing efforts to enhance productivity and executing countermeasures against the increase in our electricity bill. It's really about controlling SG&A, and we have been making good progress so far versus the plan.

Questioner 4

Q)

・ While I believe this to be a result of the current macroeconomic situation, 7-Eleven, Inc. has been losing momentum when compared to other industry players. Against this backdrop, through what measures do you expect to ensure year-on-year growth in profits next fiscal year and beyond?

A)

・ For 2023, operating income is the second-best ever only surpassed by the record high 2022. If you look at fuel profits as if they were flat year-over-year, we would actually have high single-digit growth despite a very challenging consumer environment. The business is heavily influenced by fuel profit, but it has been growing at a good clip, even with a challenging consumer environment, so we are confident that we can continue that into 2024.

・ I think the product mix change is the biggest opportunity in terms of initiatives to drive profitability. Other opportunities are the growth of delivery and cost reduction.

・ For the full year 2023, in particular, we likely will be down year-over-year from a full operating expense perspective. We view accomplishing that despite the inflation we're seeing in the U.S. as a meaningful achievement, and we want to continue that into 2024, as well. We believe that changing the product mix with more proprietary products will allow us to grow our margin.

・ As we get into the second-half of 2024, we believe we will see a stronger sales environment and will be able to deliver an even better value proposition to consumers. We additionally expect growth in the delivery business and store growth, and we expect these elements to allow us to have good top line growth. As such, we believe we will be able to continue to generate the growth we have promised.

Q)

・ In terms of opportunities for M&A going forward, do you expect opportunities to emerge in the future, involving large chains like Speedway and Sunoco, each boasting store networks with more than 2,000 to 3,000 stores? Could you share with us the valuation situation, as well?

A)

・ Regarding M&A opportunities in the United States, there aren't that many really large chains left with a network of 1,000+ stores. However, there are many chains run by regional operators and consisting of several hundred stores. Historically, we have had success in acquiring operations of this size. About 60% of the CVS industry in the U.S. consists of chains with 10 stores or less, and we're looking at opportunities and deals of all sizes. We have purchased all of those over the last 20 years very profitably, and our team at 7-Eleven, Inc. is looking at deals of various sizes. Furthermore, we have a track record and a process for evaluating acquisition opportunities.

- As Mr. Maruyama has mentioned, the Group has deleveraged following the acquisition of Speedway, meaning we have debt capacity to aggressively participate in M&A if there's a good opportunity. In the U.S., convenience stores are the most fragmented sector of retail, so we're excited as we believe there are further opportunities for us out there.

Questioner 5

Q)

- Regarding Seven-Eleven Japan, you are going to resume opening new stores, but when you look into next fiscal year and two years from now, what is the Company targeting in terms of net increase in store numbers?
- Also, can you share with us what you're doing in terms of new store formats?

A)

- When it comes to opening new stores, this fiscal year, we are focusing on increasing the number of contracts. As such, we are only expecting a tangible net increase in the number of stores starting in fiscal year 2025.
- While at the moment the net increase is fairly limited, we have set a net increase target of 300 stores starting in fiscal year 2025.
- Regarding new store formats, we are already carrying out preparation to open the first SIP store during fiscal year 2023. Additionally, at the moment, we are searching for the right location for our second SIP store, following the first one. For us, it's really about opening this first store with this new format, followed by a few other stores. We will look at our progress to decide what future steps to take.

Q)

- 7-Eleven, Inc.'s M&A opportunities represent a very promising growth strategy to look forward to. However, when you look at the M&A environment, do you expect the Company to be able to find a lot of these good deals down the road? 7-Eleven, Inc. was presented with a rather large number of good M&A opportunities in the periods between 2011 and 2013, and also between 2019 and 2021 (P21 of the presentation materials), but do you expect further opportunities to present themselves going forward?

A)

- There is considerable deal flow activity in the U.S.
- We negotiated the Speedway deal in the summer of 2020, so we have dedicated the past three-and-a-half years to integrating Speedway and deleveraging our finances. The deal flow was as heavy as it has ever been during this period, and it remains strong now and going forward. We will find good opportunities within that deal flow activity.
- We do expect a continued challenging sales environment in retail, but I think that just creates

opportunities, as this will create some situations that bring assets to market that might otherwise not have been available for purchase. As such, we think that will create M&A opportunities, as well.

- Additionally, though interest rates have gone up, Seven & i Holdings has a pristine balance sheet and 7-Eleven, Inc. also has access to capital market. This advantages 7-Eleven,Inc. versus other competitors, given the superior liquidity and financial strength of Seven & i Holdings and 7-Eleven, Inc.