April 10, 2024

FY2023 Financial Results Presentation Q&A Session

Questioner 1

Q)

- My reading of the recommendation proposal by the Strategy Committee is that – amidst strong progress in structural reform, including SST operations – it would be beneficial for the Seven & i Group to invest aggressively in its core business of Domestic and Overseas CVS operations.
  The recommendation calls for globally-integrated CVS operations but doesn’t mention Domestic CVS operations, so should we take this omission to mean that you are fully satisfied with the state of operations in Japan? Could you provide us with more details regarding the way you intend to carry out globally-integrated operations in the CVS business and the policy for this business going forward?
- Also, can you comment on the relationship between investment in these areas and the Group’s agile approach to leveraging the Debt/EBITDA ratio?

A1)

- We already have in place a committee regarding globally-integrated CVS operations. This committee consists of Mr. DePinto, CEO at 7-Eleven, Inc., Mr. Reynolds, President at 7-Eleven, Inc., Mr. Nagamatsu, President at Seven-Eleven, Japan, Mr. Wakabayashi, CEO of 7-Eleven, International, and from 7&i HD we have President Isaka and CFO Maruyama, and these participants will be discussing and debating the best course going forward.
- The Strategy Committee suggested that there are actions that can be taken, such as standardizing some of the IT and DX specifications.. We will therefore be leveraging this committee in terms of aspects we can adopt and integrate across the various companies, like IT usability and mobile checkout system, etc.
- Our merchandise and supply chain network in each country and region is fairly localized, so we will focus on developing products and product mixes that are appropriate for the specific country or region, while also delegating authority accordingly.

A2)

- We have revised the Debt/EBITDA ratio guidance from a target of below 1.8x to a target range between 1.8x and 2.5x. In simple terms, in the absence of high-quality strategic investment opportunities, we will be lowering our operational leverage down to the initial Debt/EBITDA target of 1.8x and prepare to capitalize on future opportunities. On the other hand, we believe that issuing a target range gives a clearer picture to stakeholders in terms of our use of investment funds, premised first, of course, on maintaining the Group’s financial soundness.
  Additionally, while up until now we had made strategic investment deliberations on an

individual company basis, e.g., for 7-Eleven, Inc, 7-Eleven International LLC, etc., we are now moving toward globally-integrated operations in our CVS business so, within this scope, we will be shifting toward a structure allowing us to consider optimal strategic investments and optimal management resource allocation for CVS operations as a whole.

Q)

- Despite headwinds at the macro-economic level, the Company will be carrying out a number of measures and initiatives within its strategy for CVS operations in Japan and the United States.
- Could you share with us the downside risks and upside potential you have identified in the execution of the plan?

A1)

- Japan faces a population decline caused by an aging population with low birth rates, and we are now seeing a gap between the major metropolitan areas and rural areas. The trend also holds true in terms of sales by region for Seven-Eleven. Since the Company's establishment, we have been able to leverage a single format to expand the Seven-Eleven business, but we feel that while we have indeed made some progress over the past number of years, more needs to be done in terms of our efforts to close this regional gap between large urban centers and more rural areas.
  In terms of merchandising, consumers in the Tokyo Metropolitan Area have different preferences compared to consumers in Hokkaido and the Tohoku, Kyushu, and Chugoku areas. This means there is a need for us to really differentiate our products and tailor them to these regional preferences. Society keeps evolving, and we find ourselves in a race to address those changes so, for this reason, in 2024, we will work to thoroughly enhance our capabilities in this matter.
- The learnings from our SIP pilot store were very significant, with consumers purchasing items in novel areas. We view daily merchandise, frozen foods, and freshly-baked bread as important products going forward, so we will work to expand these product offerings on a nationwide scale in an effort to minimize underperformance risks versus the forecast.

A2)

- Since COVID-19 pandemic, in the United States, there has been dramatic change with the consumer, and it's our job as executives and as great retailers to keep up with those changes. I believe that, in the United States right now, the major change that's occurring is persistent inflation. However, I also believe that we have a great plan in place to address this, so let me explain. The low-income consumer has been hardest hit by this inflation. They seek value and quality, and we are aligned with providing high-quality and value with innovative foods, proprietary beverages, and private brands.
- Another major change that's occurring in the U.S. is the incredible growth in delivery. We are the leaders in the convenience store delivery space. We will continue to grow and will deliver on that trend. We are making it much easier for consumers not only to come to

our stores, but those who aren't leaving their homes as frequently as they were before, through our delivery services.

- Our 7REWARD program will also provide significant value at a time when consumers need it. Furthermore, we have approximately 95 million members on that program. Foundationally, we will continue to utilize the scale that we have through the integration with Speedway, and with discipline, continue to reduce our costs and become more productive and efficient.
- The growth opportunity in the United States market is significant. 7-Eleven, Inc. is the number one convenience store chain in the U.S., and we only have a share of 9%. There is significant opportunity to grow both organically and through acquisition.
  We are very confident with our plan, and the upside/downside is how quickly this inflation reduces. However, just like the Lehman Shock was a cycle, COVID was a cycle. We're in another cycle right now, and that's how I see the upside/downside. I have full confidence in our plan, and believe in the value of its execution.

Questioner 2

Q)

- I believe guidance revision to the Debt/EBITDA ratio from the previous Medium-Term Management Plan target leaves greater leeway for M&A and capex investment in North America. On the other hand, the Company is targeting ROE, ROIC, and EPS growth of 18% and absent significant non-linear growth, I don't see a path to meeting these targets for the next fiscal year.
- Additionally, the Strategy Committee recommended investment in food product production capacity – either at the Group's own plants or at those operated by its business partners – so I would like to ask you to share some more details on this front.

A)

- We are guiding for a Debt/EBITDA ratio range between 1.8x and 2.5x, but within the framework of carrying out strategic investment while absolutely maintaining strong financial discipline and keeping our A rating. Also, in the absence of high-quality opportunities for strategic investment, we will refrain from carrying out investment.
- In terms of ROE and ROIC, your assessment is correct, as we have indeed been experiencing headwinds in recent months. One factor here is a weaker yen, and also the recording of special losses as a result of store closures and business contraction within SST operations. We are carrying out the requisite measures to address these issues, by, for example, taking stock of non-performing assets in fiscal year 2024 and working to achieve our targets for fiscal year 2025.
- In regards to fresh food in the United States, we employ both a supply chain network similar to the one we have in Japan, as well as quick service restaurant (QSR) supply model like the one we use at Laredo Taco, so I believe the Strategy Committee's

recommendation is for us to further enhance our fresh food offerings.

Q)

・ Given the recent results instability, could you share with us the reason you believe the Company will be able to deliver a sales recovery in the second half of fiscal year 2024, in the North American market? Also, what is the outlook in terms of cents per gallon (CPG)?

A)

・ With regard to 7-Eleven, Inc.'s plan, it is, indeed, back-weighted toward the second half. Based on last year, we felt that was the appropriate approach.
Merchandise sales results at existing stores were very strong in the first quarter of last fiscal year, growing by 4.7%, year-over-year.
We're rolling over that number in the first quarter right now, amidst what I would say is some headwinds, but headwinds that I believe will dissipate over time.
In the second, third, and fourth quarters, we're rolling up against softer comps. In fact, we're already starting to see directional improvement, so we're optimistic about that.
The second reason we weighted it on the back end has to do with the maturity of the programs that we're putting in place, such as the work we're doing on fresh food, private brand, and proprietary beverages.

・ 7-Eleven, Inc. is not as leveraged in fuel as many of our competitors. Our fuel gross profit is about 40% of total gross profits, while our competitors tend to be more around 50% or higher. As such, they're much more leveraged and have a real interest in wanting to keep higher margins in that part of the business. Also, there are 150,000 convenience stores in the U.S., 90% of which are small-to-medium-sized chains that operate on a minimal product assortment coupled with a high dependence on fuel that is expected to become even more pronounced over time.
As such, with regard to cents per gallon (CPG), we feel very comfortable that it's going to stay within a consistent band that we have been seeing here over the last several years.

<u>Questioner 3</u>

Q)

・ I have a question pertaining to the IPO consideration of the SST business. The recommendation made by the Strategy Committee reads as follows: "An IPO of the SST business, to be carried out as soon as reasonably practicable, is a workable option toward realizing sustainable growth for the SST business." What are the risks in not going forward with this IPO? Additionally, what is the rationale for choosing the IPO route out of a number of viable options, and what needs to be done to move forward with the IPO?

A1)

・ SST operations currently face a very challenging business environment. We believe that, going forward, we will see progressively greater synergies in the domain of food product development between SST and CVS operations. The launch of Seven-Eleven Japan's new pilot SIP store brought very valuable insights for us. We want to ensure that we hold a stake in the SST business to ensure continued collaboration with CVS operations, going forward. At the same time, in its recommendation to the Board of Directors, the Strategy Committee suggested that it would be ideal for the SST business to be in a position where it has its own financial discipline and is capable of carrying out investment fueling its own growth. Over the course of discussions with the Strategy Committee, we reached the conclusion.

A2)

・ The ongoing fundamental transformation of SST operations is an absolute pre-requisite, but concurrent with this transformation, there is also a need to execute measures toward bringing back growth in the SST business.
We will be raising collaboration with the operating companies that make up the Group to levels not seen previously, but the only way for the SST operations to beat out the competition is for it to make decisions by itself on what course to take in terms of investment. We therefore view it as paramount that the SST operations relies on its own capital to carry out its own investment. Without this element, we don’t believe the SST operations will be able to deliver on sustained growth going forward, even if we achieve the target for fiscal year 2025

・ Fiscal year 2024 is a pivotal year. Through to fiscal year 2023, we focused on structural reform, and achieved some success in reviewing SG&A expenses and delivering productivity improvements.
Within the scope of investment in our growth strategy to improve our structure, in fiscal year 2024, we will be leveraging store renovations and our infrastructure within PEACE DELI to raise the bottom and achieve differentiation when it comes to our food products.

Questioner 4

Q)

・ Previously, outside investors had suggested a spin-off of SST operations. The Group has now announced an IPO consideration of the SST business, but some quarters claim that a more prompt decision at an earlier time would have been preferable. What are your thoughts on these claims?

A)

・ The suggestion to spin off SST operations had indeed been put forward, but we are aware that, within the scope of the same financial discipline framework, we’re looking at a lower investment efficiency in the SST operations, when compared to the CVS business.
On the other hand, as we have discussed repeatedly over the years, Seven-Eleven Japan’s growth has in part been thanks to its joint efforts with SST operations in the category of food. Additionally, we believe the food offerings and supply chain structure developed at Seven-Eleven Japan to be paramount to 7-Eleven’s global growth. Even if we continued

growing the number of stores, without this collaboration and integration, this would essentially amount to a house of cards.
While the timeline may be different from the one proposed by outside investors, we have made clear our commitment to making steady progress in our efforts. In light of the recommendation by the Strategy Committee and the fundamental reform we have achieved at Ito-Yokado, we believe we have been able to outline a new growth vision to be achieved in fiscal year 2025 and beyond.

Q)

・ I believe the company has carried out a painful structural reform program, and I believe Ito-Yokado's public listing will probably follow further reform efforts. On a scale of 1-to-10, how much progress would you say has been made?

A)

・ We are targeting 55.0 billion yen in EBITDA in terms of quantitative capital, so in terms of the progress estimate, I think we're about 2/3 of the way there already. Additionally, we continue iterating POC and will continue toward delivering steady results, so I would say that, on a scale of 1-to-10, we are at around the 6 or 7 mark when it comes to progress.
Up until now, we have carried out a somewhat painful structural reform plan, but now we will be growing the topline to deliver positive developments. In fiscal year 2024, we are currently doing our utmost to execute on our growth strategy and deliver results.

Questioner 5

Q)

・ SST operations consist of a number of businesses, such as York-Benimaru and SHELL GARDEN.
In the context of the IPO consideration, do you have plans to merge these with Ito-Yokado, or for business collaboration?

A)

・ We don't have plans for the management integration of Ito-Yokado and York-Benimaru. The two companies have rather distinct store formats with distinct regional characteristics. While we are considering a public listing for the SST operations, we don't have plans to integrate these two companies.

Q)

・ You mentioned Ito-Yokado in the generation of synergies with the Group's convenience stores. Does the fact that Ito-Yokado was the genesis of the Group hold any special importance in your view?

A)

・ The Group holds Ito-Yokado not because it was the genesis of our Company; rather, in a sense, Ito-Yokado played a role in incubating the Seven-Eleven business. Also, given Japan's aging population, we view the importance of the food offerings in the SST operations as a very valuable asset for Seven-Eleven Japan. We believe the results from our SIP store underscore this, so we intend for the SST operations to continue refining this and will continue collaborating going forward.

<u>Questioner 6</u>

Q)

・ Within the context of the sale of Sogo & Seibu and now an IPO consideration for Ito-Yokado, I believe Company employees working in the frontlines have expressed some anxiety about things, going forward. I believe you had to make a number of management decisions, so I would like to ask President Isaka to go over the past year in terms of the decisions made, and also of the management priorities.

A)

・ I would like to apologize to stakeholders for the inconvenience surrounding the sale of Sogo & Seibu. Sogo & Seibu was part of the Group for close to two decades, but we were unable to formulate a path toward growth using our own capital. Growth is necessary to keep employees happy, and we felt there was a need to change course. Our decision was therefore on the basis of finding the business model most conducive to bringing Sogo & Seibu back to a growth trajectory.
From what I gather, Sogo & Seibu is in the process of successfully executing its layout plan, and morale is strong, as employees are committed to turning the business around. The same holds true for Ito-Yokado, as we believe we need to focus on our core competencies in terms of areas and merchandise. Failure to do so would mean further business deterioration, which would have a negative impact on the happiness of its employees and would harm its growth. We have embarked on very challenging fundamental reform efforts, but there is a need for us to work with Group operating companies to choose the optimal option allowing us to return to a growth trajectory.

・ My top management priority is making sure we offer merchandise and services needed by and that are valuable to consumers. To do so, it is important for us to figure out a business structure allowing us to grow while also returning value. We need to figure out ways to adapt to today's ever-changing environment and stay competitive. Seven-Eleven Japan was in a similarly challenging situation back when I became President back in 2009. We adopted this new concept of Seven-Eleven offering close and convenient services to consumers. This marked a departure from past efforts and allowed us to return to a growth trajectory. In summation, I believe Company management's main mission is to devise ways to refresh old business models adapted to changing times.

Questioner 7

Q)

・ Will Ito-Yokado exit the scope of consolidation following its IPO, and will it cease to be a Group subsidiary? Additionally, is Ito-Yokado remaining within the Group a pre-requisite for product development collaboration initiatives?

A)

・ We have no plans to remove Ito-Yokado from the scope of the Group. The resources for food offerings within SST operations are important to ensure the further development of CVS operations. SEVEN PREMIUM boasts annual sales of 1.5 trillion yen, slightly over 70% of which come from Seven-Eleven. Earlier, we mentioned how the sale of frozen foods at Seven-Eleven has grown approximately twenty-fold since 2007, but the reality is that this wouldn't have been possible without the SST operations. We introduced SEVEN PREMIUM during my time as Head of Merchandising. SEVEN PREMIUM came about at Chairman Otaka's suggestion, and our frozen gyoza dumpling offering priced at 100 yen was the first step in building up Seven-Eleven's lineup of frozen food products.
These efforts were well received, not just by consumers, but also by franchised store owners. This led us to reinvest in sales space infrastructure, and we believe there is room for further efforts like these in the future. We have no particular preference regarding whether Ito-Yokado remains within the scope of consolidation, but we have no plans to remove it from the Group in a broad sense. Lastly, we're currently deliberating in terms of the stake percentage needed in order to generate synergies.

Q)

・ A review of the presentation materials underscores cost reduction and productivity improvements. However, it would appear that food at existing stores – an area the Company has been focusing on over the past number of years – have been performing poorly in terms of sales, so I would like to hear your thoughts on this? Also, what is the strategy to improve these results next fiscal year?

A)

・ Indeed, sales have been sluggish for food in recent months. This is the result of creeping inflation, cost-conscious consumers being more reluctant to buy our merchandise, and a stagnant basket size per customer, although our competitors face the same challenges.
On the other hand, results at Ito-Yokado stores that have undergone renovations actually exceeded our expectations, in terms of driving foot traffic and sales. That said, we will be closing down a number of stores in fiscal year 2024, so naturally, we won't be able to carry out investment in those stores. Consequently, when looking at the aggregate total, Ito-Yokado won't be seeing growth.
Another factor is our exit from Group-operated apparel sales. We began replacing product offerings starting with the spring/summer season, and optimizing sales spaces, so we

haven’t really been able to give consumers a reason to visit our stores, and this negatively impacted food sales as well.

- Going forward, the category we will focus on the most is delicatessen, as we believe we have an opportunity to grow sales here. Historically, everything is done in-store at Ito-Yokado. While this means tremendous value add in the form of freshly prepared food offerings, space constraints make it difficult to release new original products, and impose limits on work efficiency and productivity. Now that we have our Chiba kitchen, this will allow us to introduce new products and products to improve workability at stores. We have renovated sales areas for delicatessen, allowing us to expand sales spaces and deliver a robust topline improvement.
- Another challenge we face is consumer demographics. A large proportion of our customers are people over the age of 50, and we struggled to attract consumers in more family-oriented demographics, namely consumers in their 30s and 40s. By growing the percentage of customers in this age demographic we seek to deliver topline growth. Within this scope, we will work to grow our selection of original products geared toward young families. We will also coordinate with Group companies like Akachan Honpo, the LOFT, and Shell Garden, in an effort to attract customers in new demographics. We will be carrying out renovations over the course of the current fiscal year, expanding customer demographics and customer foot traffic so that we can grow the topline.