

Questioner 1

Q)

- Regarding Domestic and Overseas CVS Operations. The first quarter results fell short of the forecast. What are the reasons for this underperformance and what is your strategy to offset this trend in the second quarter and beyond?
- The Group is undergoing a structural transformation, with the sale of Nissen Holdings and discussions regarding plans for a future IPO of Superstore Operations. Within this, I believe you have been seeing a strong cash flow recovery. Could you share your thoughts – as CFO – on Group policy regarding capital allocation, including, for example, shareholder return through share buyback and other means?

A1)

(Regarding Domestic CVS Operations)

- Challenges in terms of same-store sales and sales promotion efforts were two factors behind our underperformance in the first quarter.
- In the face of inflationary pressures and declining real wages, consumers are becoming more cautious and value-oriented with their purchases, so we put more emphasis on sales promotions featuring price discounts. This boost didn't outlast our promotional efforts, meaning we were unable to realize the sustained topline increase we had hoped for, and we view this as a significant challenge for us.
- Going forward, we will be shifting our promotion efforts away from temporary price discounts to focus on the rollout of attractively priced products on a permanent basis. As for sales promotion, we would like to deliver revenue growth in the second quarter and beyond by shifting our policy to appeal our valuable products which is our strength, to the customers.

A2)

- The shortfall for 7-Eleven, Inc. in the first quarter really comes down to merchandise gross profit. It's both a sales and margin issue. Given the slowness of traffic that we saw beginning in the fourth quarter of last year and then in the first quarter of this year, and, frankly, the overall weakness in traffic across all retail in the U.S., we absorbed a lot of cost increases and didn't push cost pass throughs to consumers as aggressively as we have in the past, during the first quarter. SG&A costs and fuel performance were generally in line with expectations.
- With respect to our strategy for the rest of the year, where necessary, we will be passing on costs to the consumer. Cost increases across all goods have been a major issue in the U.S., but as I said, where necessary, we will be passing those costs on now, and this will have a favorable impact in terms of sales and margin.
- The thrust of our strategic focus on driving sales consists of our food and beverage modernization program, which will be rolled out this year to 2,500+ stores, exterior refresh and enhance operations across 4,000 of our stores, the rollout of RIS and DEX to Speedway stores and further growth for 7NOW delivery. Those are the key growth drivers for the back-half of the year. And the last is the

focus on cost reduction as, due to inflation, we are very focused on taking costs out of the business and using that to help grow our profits in 2024.

A3)

- Steady progress is being made in effort to optimize the portfolio. One major point to be made in the future is that it is particularly important to advance specific initiatives to realize the IPO of the SST business.
- Excluding the fluctuations associated with the Banking business, the first quarter consolidated operating cash flow reveals a steady buildup in the Group's cash flow output, so it will be important to determine how to allocate this capital in the future.
- First, we recognize distributing dividends and carrying out share buybacks as important elements in achieving our commitment in order to deliver a total payout ratio of 50% through to 2025.
- That said, growth, too, is of vital importance. In April of this year, we revised the Debt/EBITDA ratio threshold, and announced we would be allocating capital toward investment leading to further growth. We are looking beyond quantitative expansion, as we also place importance on initiatives targeting the B/S statement with the objective of improving capital efficiency.
- We are in the process of deciding what elements to prioritize and on the most well-rounded way to proceed. It is our intention to move as fast as possible on this front so that we can announce our capital allocation policy for 2025 and beyond and receive feedback from our shareholders.

Questioner 2

Q)

- Previously, you attributed weakness on the part of 7-Eleven, Inc. compared to competitors like Couche-Tard and Casey's to differences in store location. Could you elaborate upon this a bit further with specific examples? Is this related to the number of stores with offering fuel?
- 7-Eleven, Inc. is targeting a sales rebound in the second half, but how confident are you that the measures implemented toward this end will bear fruit?

A1)

- The way I would analyze our performance versus Couche-Tard and Casey's is as follows. We made a decision to pursue traffic in the first quarter by sharpening our price points and not passing through some costs. Couche-Tard is definitely passing through costs, and this is bolstering their sales. Also, very importantly, I think we will see benefits from investments in food and beverage modernization, exterior refreshes, etc. We have seen good results from our pilot stores over the past few months, and I think that we will see a recovery in our performance compared to competitors, as we implement these strategies.
- Another relevant factor is a comparison in terms of location, namely the relative urban focus of our stores versus the rural focus of, particularly, Casey's. If you look at the percentage of stores in rural areas, Casey's is 83%, Murphy USA is 65%, Couche-Tard is 47%, while this percentage is only 28% for 7-Eleven, Inc. In the current environment of U.S. retail, rural-based retailers are doing much better than urban-based retailers.
- Specifically, I think there are a few factors for the relative underperformance of urban areas in the

U.S. First and foremost, the inflation impact has been greater in urban areas, particularly rent increases in cities. Second, the pullback in government benefits has generally been more severe in urban areas, and lastly, there is a greater impact from work-from-home in urban areas, and deliveries have had a bigger impact. Over the course of my career, I have seen this dynamic be either a headwind or a tailwind for 7-Eleven, Inc., so I don't necessarily see it as a longer-term disadvantage. That said, right now, given the current dynamics of the economy, this is hurting us and other urban-based retailers.

- Fuel is currently very profitable, and we expect it to remain so for many years to come. 7-Eleven, Inc. offers fuel at about 60% of our sites, while our competitors have fuel at virtually all of their store locations. However, we have fundamentally higher sales per store than competing chains, and that is a strategic advantage.
- In terms of the reason, we are confident about our prospects for the second half, it comes down to the fact that the second half will be measured against a much weaker baseline compared to the first quarter of fiscal year 2023, which saw a growth of +4.7%.

A2)

- We are currently continuing our effort to bring about a significant change in consumer perceptions of CVS in the United States, with special emphasis on the release of proprietary products around the category of food. We view these as key efforts allowing us to deliver sustainable growth over the long term, but we would like to underscore the fact that we don't expect things to happen overnight on this front, as this is a project to be carried out over a long-term time horizon.

Questioner 3

Q)

- Within Domestic CVS Operations, you mentioned that the boost to topline results had failed to outlast sales promotion initiatives featuring discounts, and how you will now be shifting to a strategy of offering attractively priced products on a permanent basis. Do you worry that raising the weighting of these lower-priced items could result in lower margins? The Seven & i Group's strategy has consisted of value offerings matching or even exceeding the price point of its products, so do you think placing emphasis on price attractiveness will translate into a recovery in terms of customer footfall?

A)

- Over the past 50 years, Seven-Eleven Japan has focused on offering a strong value proposition instead of price appealing, and we have leveraged shopping hours and the convenience of having our store locations close to the customers we serve, as competitive advantages. A deflationary climate in Japan's economy over the past number of decades was also a tailwind for us.
- Japan is now back to an inflationary climate for the first time in 40 years, and I believe that our focus on offering value means we are now about 6 months behind the curve when it comes to adapting to this new business climate. We have thought long and hard about the margin implications of moving forward with this push to offer lower-priced value items.
- Against the backdrop of today's polarized consumer loyalty and choices, we have adopted a pricing

strategy covering the whole gamut of purchasing habits: from high-quality products with a strong value-added proposition and priced more expensively, to consumer staples, and to affordably priced products. For example, in Okinawa, we reviewed our mainstay hand-rolled rice ball offerings with salmon fillings and tuna mayonnaise fillings and are piloting a new offering priced at 128 yen, alongside the previous price point of 175 yen. This pilot has translated into an increase in sales, customer footfall, and number of items per purchase. So, while profit margin percentages are down, the actual margin amount is up. In light of this, we expect to start nationwide distribution next week of the two items we ran this pilot program for.

- We will continue executing this strategy of presenting lower-priced offerings to consumers, but naturally, we have no intention of neglecting the mid-tier and high-end price points. In Hokkaido, we are testing the introduction of SEVEN THE PRICE and Seven Premium which has been introduced in supermarkets for about 50 items.
- In the face of aging population with declining birthrates and in light of business conditions in rural areas, pricing is not something we can ignore if we want to retain a loyal customer base. That said, we do need to secure adequate margins, so we will be leveraging our smoothie and fresh baked bread offerings. This strategy has been validated at our SIP store.
- We will be enhancing our fast-food offerings – which boast high margin percentages – while driving customer footfall with our lower priced offerings. Combining these two strategies will allow us to secure continued customer loyalty locally while achieving profits overall and growing our customer count.

Q)

7-Eleven, Inc. faces a challenging environment with cost-conscious consumers now less likely to spend as freely as before. Additionally, compared to other industry players, the Company has fewer stores in suburbia, meaning it has greater exposure in terms of changes in price sensitivity on the part of consumers. Since the store location cannot be changed overnight, this leaves the option of passing on costs to consumers. Do you think higher prices will lead to lower customer footfall? Also, even with higher margins, isn't there a risk that lower sales could mean a slower recovery than expected?

A)

- We will be employing a very thoughtful approach to any price increases that we implement and, certainly, we always look at the trend of demand. We will be in line with competitor prices and will continue to offer great value, so I do not think that pricing will be a detriment for our competitiveness.
- In the first quarter, we have taken aggressive measures to increase the number of customers. This is also just a change in approach, and there is no change in our long-term pricing strategy.
- Our real path toward growing margins is to increase our proprietary products, as these offer great value to the customer at lower price points. In other words, we provide value to the customer, but at a higher margin. We are introducing 215 new private brand (Hereafter, PB) items this year, and will also continue to grow our food business.

Questioner 4

Q)

- Starting in the third quarter of last year, Seven-Eleven Japan has gone over a number of product initiatives, but I feel these have failed to translate into results. What are the main reasons for this lackluster performance and what is the Company's strategy going forward on this front?

A)

- During COVID, store location was a major factor on sales performance. More specifically, sales were down in urban-based stores, but remained stable in the suburbs. Seven-Eleven Japan has a concentration of stores in suburbia, while our competitors' store footprint tends to cluster around more urban areas. Seven-Eleven Japan therefore saw a strong year-over-year increase in same-store sales in 2020-2021, but this trend has now reversed with a shift back to urban centers, meaning our competitors are now posting strong results.
- According to the latest monthly business performance statistics – which we released yesterday – Seven-Eleven Japan had a better performance versus a fiscal year 2019 baseline, compared to our competitors in the CVS space. In light of the difference in location trends for such a major change as COVID, we believe that a comparison with pre-COVID is appropriate.
- Another issue is store count. The overall CVS count has gone up by approximately 500 over the past 4 years. Seven-Eleven Japan accounts for the majority of this increase, with our competitors' store count remaining flat or decreasing during the same period. Generally speaking, a decrease in the store count means the closure of stores with low APSD. In other words, the greater the number of store closures, the greater the increase in average APSD. In light of this, correct decisions cannot be arrived at without looking at store count figures.
- We are the industry leaders when it comes to overall sales growth, and we will be incorporating this information into Company management decisions.
- Furthermore, our competition isn't so much the other players in the CVS business, but rather, the benchmark we are trying to beat is that of consumer needs and expectations, which we view as a vital element within our framework. The drugstore and supermarket count went up by approximately 2,500 and 900, respectively, over the past 4 years, and the Seven & i Group competes in these and other industries as well, and against this backdrop, we place special importance on our ability to address consumer needs in each respective market area.
- In light of recent inflationary pressures, ongoing population decline, and economic conditions in rural areas, we recognize the need for a bold departure from the kinds of initiatives we have carried out over the course of the past half century. More specifically, some of these new initiatives include converting existing stores into the SIP model and nationwide coverage for our 7NOW delivery service.
- Within this scope, we want to offer new services, improve product quality, and try new ideas not found in the traditional CVS model to further improve results. Some of these ideas include the rollout of "Freshly prepared Japanese pork cutlet dishes exclusive to 7NOW products" and "Launching mobile order service at the shop front (to be made available at 100 stores)." We will be rolling out these initiatives starting in Hokkaido next month.

Q)

- The Company is undergoing a period of fundamental transformation. Against this backdrop, and in the face of inflationary pressures and an aging population with declining birthrates, would it be correct to say that Seven-Eleven Japan is experiencing labor pains, if you will, in the process of birthing this new business model?

A)

- Correct. Over the past 50 years, we have focused not on affordability, but on offering a strong value proposition.
- Younger consumers face a climate of uncertainty marred by inflation and 26 consecutive months of declining real wages. This level of change has been unprecedented in the past several decades, and, against this backdrop, there is a need for us to bear in mind consumer demand for affordable products. Concurrently, we will also address other facets of demand: for new products, freshly prepared foods, and for a wider product assortment at our stores.

Q)

- As in Japan, starting in the third quarter of last year, the Company has described a number of product initiatives in the U.S. market, but I feel these efforts have yet to pay off. What are the main reasons for this lackluster performance and what is the Company's strategy going forward on this front?

A)

- It's a challenging environment in the U.S. right now, in retailing. We talked about the severe impact of inflation and the pullback of government benefits, and we are also working through other challenges, namely 7-Eleven, Inc. has a higher percentage of stores in urban areas and a lower percentage of stores with fuel than its competitors. Another factor is the concentration of stores in California, which has had a huge impact on our cigarette business. That said, I'm excited about our go-forward plan to grow profitability. Our long-term strategy is to grow our proprietary product mix, particularly fresh food, proprietary beverages and PB products.
- For example, margins on PB are at about 19 percentage points ahead of national brand margins and, overall, this is an opportunity for us to grow sales and profitability, as well as improve value to the customer. Proprietary products are a long-term strategy we are investing in, and we believe that growing them will be a source of growth in fiscal year 2024 and beyond.
- The second thing I would point out is how we expect further opportunities related to the Speedway acquisition. We reported synergies through the fiscal year 2023, well ahead of our original plan and which came in at over \$900 million. That said, Speedway is not yet fully integrated, as we are currently rolling out our full systems into the stores, and we expect this integration to allow us to unlock further synergies.
- 7-Eleven, Inc. has a great track record at M&A, having generated a return on invested capital of over 14% from 50 deals.
- The third important factor is our delivery business. 7NOW has an extremely strong position as a leader in delivery in the U.S. in the CVS industry, whereas retail in general in the U.S. is flat to slight decrease. First quarter sales for 7NOW were up approximately 30% year-over-year, with delivery

now accounting for approximately 6% of sales for stores that have 7NOW, and I believe this figure is likely to continue to grow further.

- 7-Eleven, Inc. has a natural advantage in terms of our store base being so close to the customer. We've invested in digital tools and our app to maximize this advantage, and we expect this delivery service to be a future growth driver.
- In the short term, we've got some challenging external factors, but we are confident that we will be able to handle the situation well and achieve success.