January 9, 2025

Presentation for the Third Quarter of FY2024 Q&A Session

Questioner 1

Q)

- You made a number of forceful comments indicating change in a positive direction and signs of the emergence of green shoots in terms of the Group's operational performance. Could you give us some specific examples because it's not clear to me what changed. What kind of changes have you observed for Seven-Eleven Japan (hereafter SEJ) and for 7-Eleven, Inc. (hereafter, SEI) compared to the initiatives and baseline results you mentioned during the Group's IR Day event held back in October of last year? Please share with us a more detailed outlook in terms of monthly same-store sales data and traffic, and the prospect of margin improvements at SEI.
- There have been various news reports in the media regarding the acquisition proposals from Couche-Tard and the Ito family. To the extent possible, could you please explain how these proposals are being considered by the special committee composed of outside directors, and what points the executive side is prioritizing in management? Shareholders are likely concerned as well, so we would appreciate a message to them.

A)

- These initiatives are designed to address changing consumer needs, who are now less willing to spend in light of the ongoing inflation that has been in place over the past two years, and the main issue we sought to address here was a decrease in store traffic. Within this scope, we launched our "Pleasant Value!! Declaration" campaign from September of last year, through which we offered an assortment of approximately 300 SKUs at affordable prices. The objective behind this campaign was growing store visit frequency in order to improve store traffic numbers, and we believe this campaign has seen some success. Furthermore, we have a number of exciting new campaigns and products coming down the pipeline this spring, so we will be leveraging these to raise spending per customer and sales. We also have plans to continue the "Pleasant Value!! Declaration" campaign, going forward.

A)

- Our short-term tactics are really focused around 4 areas. These are: 1) value and traffic driving initiatives, 2) growing our proprietary products, 3) growing the 7NOW delivery business, and 4) cost leadership. You can see the progress we've made in recent months in terms of KPIs like same-store sales and foot traffic. To give you an example, coming off Q3 – in which same-store sales growth was down 3.5% – in Q4, we had October, which was just slightly negative, then we turned positive in November, and we turned slightly negative in December. However, excluding the calendarization day effects I mentioned during my presentation, as well as cigarette sales, same-store sales growth for December would actually be positive. We're also seeing a positive improvement in traffic. We've also had an improvement in proprietary product sales, which saw a particularly significant increase in the second half of the year versus first-half performance. Our 7NOW delivery business continues to perform well and we have also increased our target for the year on the cost leadership initiative to $500 million in savings.

A)

- The special committee continues to engage with the acquisition proposals from Couche-Tard and the founding family. The most important goal is to maximize corporate value and shareholder value, but at this point, we still do not have enough information to evaluate these proposals. From the company management's point of view, we are focusing on initiatives including inorganic efforts to enhance value, even if we remain a standalone entity.
- Specifically, we are considering measures such as the separation and independence of the superstore business and unlocking the value of the undervalued North American business. Although we are not yet at a stage where we can make an announcement, we are also conducting specific considerations and negotiations behind the scenes to aim for growth in the financial business. Please understand that the company management is preparing to pursue growth at another level, regardless of the outcome.

Questioner 2

Q)

- My first question pertains to the delta between the result and the forecast target, as outlined on page 7 of the presentation materials. While realized operating income came in 7.1 billion yen above the revised target, the detailed breakdown reveals an underperformance from Domestic and Overseas CVS Operations and from SST Operations. In other words, this operating income overperformance is actually almost entirely the result of a lower than expected drag from eliminations/corporate. In light of this, what is your current outlook for eliminations/corporate in the fourth quarter and for the full fiscal year?
- My second question pertains to your strategy in Domestic CVS Operations and SST Operations, which seeks to drive store traffic through attractively priced offerings in today's inflationary environment characterized by rising food prices. Does this strategy mean we shouldn't be looking forward to margin improvements next fiscal year? What's your outlook on this front?

A1)

- First allow me to bring your attention to our results from Specialty Store Operations – within the segment of Other. We posted strong results here, which helped drive a positive operating income performance. Regarding eliminations/corporate, we made some progress in terms of cost reductions for Seven & i Holdings on a non-consolidated basis – including a reduction in system costs – and I would like to reiterate here that we are currently working toward the various targets we have set for ourselves for each segment.

A2)

- Within Domestic CVS Operations, we will continue our "Pleasant Value! Declaration" campaign. The situation of negative real wages continues to persist, so we continue focusing on affordable offerings benefiting the cost-conscious consumer. That said, we're also enhancing our efforts in counter fast food products as a way to grow sales and improve margins. More specifically, we plan to enhance our counter food offerings, for example, through the roll out of Seven Café donuts at all Seven Eleven stores, and of Seven Café Bakery at 10,000 stores. As we saw at our SIP store – which opened last year – there is demand for one-stop shop solutions, so we will be enhancing our efforts in this area by expanding the product assortment of frozen foods and daily necessities we offer. We will also work to capture growing inbound demand by offering products tailored to specific locations and nationalities. Lastly, customers who pay via credit card receive 10% of purchase value in loyalty points, and this reward system makes them more likely to shop again at our stores, thereby driving customer footfall. We will therefore continue enhancing our efforts on this front. All in all, and through these various initiatives, we ultimately seek to realize improvements to both sales and gross margin.

A3)

- Regarding SST Operations, the cost is expected to continue to raise for NB products next fiscal year as well. Our private brand lineup in the form of SEVEN PREMIUM and SEVEN THE PRICE offers a very strong proposition – both price and margin-wise – so the idea is to secure sales and margins by enhancing our PB offerings. Concurrently, Peace Deli – which we position as infrastructure of strategic importance – is now operational. This allows us to leverage our competitive differentiator-proprietary delicatessen offerings to improve sales and product mark-ups and better address the rising cost of inputs.

Questioner 3

Q)

- As one of initiatives including inorganic efforts, it is mentioned that measures to unlock the value of the North American business are being considered. Are there options such as listing the North American business or changing its capital structure? Additionally, could you please elaborate on what it means when the special committee says 'there is not enough information to evaluate the acquisition proposal'? Does that mean it will still take some time?

A)

- Our stance of considering all possible options without exclusion remains unchanged. We are exploring several alternatives as measures to unlock the value of SEI The explanation with 'not enough information' indicates that both acquisition proposals face hurdles for realization, and adequate solutions to address these challenges have yet to be fully presented.
- Furthermore, since the ball is in the court of the party making the acquisition proposal, we cannot specify a deadline from our side. However, for reference, please understand that we are working towards the shareholders' meeting in May of this year.

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Q)

- Could you share your growth outlook for SEI for the next fiscal year and the year after that, in terms of same-store sales and gross margin improvement?

A)

- What we have disclosed is a 1.5% same-store sales growth, a growth in gross profit margin of 0.8%, and the OSG&A ratio. We haven't really provided guidance on operating income for 2025, so we are not planning to do that today, but, as I said earlier, we have a long-term track record. In fact, this management team has grown operating income at a 13% clip over the past 18 years, so we're very focused on getting back to delivering earnings in a very healthy and sustained manner.

Questioner 4

Q)

- What is your outlook for 2025 for SEI? Would it be realistic to expect a profit recovery from Q1 following the closure of underperforming stores? Also, can we expect a further profit recovery following the full-scale execution of the holistic profitability uplift program slated for H2 deployment?

A)

- The core of our strategy is growing sales and gross margin, and we're particularly focused on fresh food and proprietary products. The closure of underperforming stores will have a positive impact in 2025 and we are launching a company-wide programs, focused on topline growth and margin expansion. Regarding margin expansion, we expect this will come from both growing our proprietary products and also from more leverage with our vendors to enhance our overall margin. Lastly, we will reconsider everything in our cost structure. So those elements will contribute to ongoing profitability, as well. The most important thing is to add more food and more proprietary products to the product range, and we hope that will be the catalyst for a gradual profit recovery with each passing quarter.

Q)

- Could you share with us some of the successes so far for the "Pleasant Value!! Declaration" campaign, as well as issues you are planning to address?

A)

- The core, base concept that underpins our operations at Seven Eleven is our commitment to being part of consumers' everyday shopping experience. Within this scope and given the current inflationary environment, we view the "Pleasant Value!! Declaration" campaign as being absolutely necessary and vital. Another key aspect over the past 50 years has been our relentless pursuit of excellence in terms of product taste and quality. We will be further refining the quality of our base offerings as a way to attract customers to buy these products and incentivize habitual purchases. Otherwise, customers will lose interest. Also, ensuring we retain our spot in consumers' everyday shopping routine requires us to be able to create a sense of excitement and anticipation surrounding our products. Last year, we held back on promotional campaigns and product launches designed to engender a sense of excitement with consumers, but this year, once the "Pleasant Value!! Declaration" campaign has reached good enough penetration; we want to bring back some of these initiatives once again. Through these efforts, we seek to cement our place in consumers' everyday shopping experience and incentivize store visit frequency.

Questioner 5

Q)

- There have been a number of media reports regarding the separation of SST Operations. Could you share your current outlook and risk assessment on this front?

A)

- Please bear in mind that these reports are not official announcements issued by the Company. One thing I can say, though, is that progress is indeed being made to separate SST Operations as a non-linear initiative designed to maximize corporate value. We will keep stakeholders abreast of any new developments as soon as they materialize, so we request your patience in this regard.