

Update on management measures: Questions and answers.

Questioner 1

Q)

- I would be very interested to hear your thoughts about your reformation and achievements you have accomplished over the past 16 years.

What would you expect from the new management team.

A)

- When I became president of 7-Eleven, we found ourselves in a challenging position where we had to reconsider the meaning of existence for convenience stores. There were times when sales at existing stores had always underperformed the market expectations and an occasion when the Fair-Trade Commission imposed an administrative sanction. It was during those times that I took over as President and decided to reestablish convenience stores.
- In response to the evolving landscape, the company crafted a corporate message centered upon the values of “*Chikakute Bennri*” meaning 'close and convenient' and initiated a thoughtful transformation of its product range and layout. As a result, the company achieved year-on-year same-store sales growth for 62 consecutive months and felt that we had achieved considerable transformational change.
- After joining 7&iHD, we did attempt to revitalize and redefine Ito-Yokado and department stores, but we found it difficult to grow within the group as we were not strong enough. Growth is essential for enabling employees and business partners to dream and have hopes for the future. It is for this reason that we proceeded with a business structure reform.
- We have endeavored to implement business structural reform, including search for optimal ownership of Oshman's, Barneys, Sogo/Seibu, and Ito-Yokado by extending invitations to strategic partners. The objective was to utilize strategic partner's management resources in order to plan a new course for growth with new partners and best owners.
- Meanwhile, the global CVS business has been operated using a licensing-type business model, and there are large regional disparities, with some areas generating only one-fifth of the daily sales of the top-performing licensee with the highest daily sales. After careful consideration, we concluded that transitioning from a licensing model to an equity model would be beneficial. This was due to our concern that if this discrepancy was not addressed, it could potentially impact the value of the 7-Eleven brand.
- We established 7-Eleven International LLC and launched the equity model. First, we invested in a company in Vietnam and acquired a company in Australia. I personally look forward to seeing how they develop over time.
- In North America CVS business, 65% of stores are small to medium-sized, with 10 or fewer stores, which suggests that there may be many opportunities through the acquisition. Through the acquisition of Speedway, we were able to acquire a promising asset.
- It is important to provide high quality food products tailored to each country and region, and to transform the content into something that will encourage customers to visit frequently.

- Mr. Dacus has knowledge of food, having run a chain of sushi restaurants in France and also launched *Sushiro*. At *Seiyu*, he was also involved in the reform of the delicatessen business. We hope that Mr. Dacus will use his skills to help us create high-quality stores centered around food on a global scale and to further develop the Seven-Eleven brand.
- We believe the Seven-Eleven brand will shine even brighter by developing fresh, high-quality products that meet the needs of the new era, using the expertise and the value chain we have in Japan, and transplanting these packages overseas. We look forward to seeing this vision realized under Mr. Dacus' outstanding leadership.

Q)

- I understand the potential and measures by SEI, but I was hoping to learn more about the company's growth prospects in addition to SEI's IPO. Could you please explain the reasons why growth is not being achieved despite the high potential?
- By going public, the company will have more US shareholders. How will you communicate with them in the future?

A1)

- Looking at the past, if we look at the growth of the US market from 2006 to 2023, the CAGR for product sales is 7%. However, the CAGR for operating profit was more than double that, at 15%. Therefore, it is not the case that the potential has not been realized at all, but we believe there is room for more growth.
- It is also true that growth has slowed down a bit recently. To maximize its potential in the future, it needs to focus on improving efficiency and productivity and reducing costs. It is important to reinvest the resources gained from this in new products, digital and delivery.
- Another key factor will be to bring the high quality of Japanese food to the American market. Although some progress has already been made, I feel that there is still more that can be done. To achieve this, it is essential to strengthen the supply chain.
- Excellent supply chains are already in place in Japan, and it is important to replicate and further accelerate these in the US. We believe this is the key to maximising potential.

A2)

- The most important thing would be to do our best to complete the disposal of assets that generates none or only low profits by the end of fiscal year 2024. This will allow us to concentrate all our efforts on growth areas in the future. The changes will be clearly seen in the numbers with visible impact in the consolidated figures.
- Furthermore, by creating an environment where people can concentrate, the distance between the management of 7&iHD and each of the operating companies will be minimized, and it is hoped that they will be able to move forward as unified group. This will further enhance our effectiveness.
- In the event of SEI going public, it will be necessary to take measures and considerations for minority shareholders. While pursuing synergy to the maximum extent, it is also important to maintain the arms-length principle and strike a balance between autonomy and synergy. We have already begun to develop a system for this.

Questioner 2

Q)

- The share price of 7&iHD has increased since 2021. It is believed that this change may be due to a number of initiatives, including the acquisition of Speedway, Sogo & Seibu, and the superstore (SST) business.
- Why did these specific measures emerge one after another, only in the latter half of your tenure as president? I believe you were involved in various initiatives even in the first half, but could you please explain the reason to why it took so long to materialize?

A)

- Major changes made to the executive officer and board of directors' systems and governance contributed greatly to the reforms from 2021. The addition of people with new perspectives to the management team has enabled us to think about reform plans from different angles.
- Of particular importance was Steve, who joined as an external director. He has put in a great deal of time and effort over the last three years, dedicating himself to his studies. Steve has a deep understanding of the Japanese market, as well as convenience stores and supermarkets, and has worked on this project in a friendly and open-minded way.
- Even when the SST reform project was undergoing, Steve visited the site every time he came to Japan and encouraged the people working there. I believe that these initiatives have taught us the importance of bringing new perspectives into our organisation. I am confident that we can continue to nurture and grow this new perspective without any bias.

Q)

- In which areas do you see growth potential in the domestic CVS operation?

A)

- There are several factors supporting the growth of convenience stores. First, customer needs are constantly changing and have evolved over the decades. Accordingly, expectations of convenience stores continue to change. We need to respond quickly to these changing needs and expectations.
- One example is the SIP store. As you may have visited, this next generation of stores has some great concepts. For example, it has increased the proportion of fresh food in addition to fast food prepared on the spot. In response to changing needs, the results have been very positive, and we hope to roll out elements throughout the chain.
- However, these successes are only possible with the high motivation of franchise store owners. We are now taking the time to consider this opportunity and seriously consider how we can help it succeed.

Questioner 3

Q)

- Background to SEI's IPO. What specific challenges did you face? And how will the IPO solve these issues?

A1)

- We have announced SEI's IPO recently, but the company had been considering it for some time.
- The reason we chose IPO was because we felt that the intrinsic value of our CVS business in North America was not reflected in our current share price. The board of directors thought it was important to clarify that value and attach a market value to it in order to return it to our shareholders.
- SEI has very strong businesses, and we believe that the market value of SEI will be reflected in the share price of 7&iHD through the IPO. We also want to seize the opportunity to return value to our shareholders through methods such as share buybacks. This is reflected in our future shareholder return policy.
- Furthermore, even after SEI has gone public, 7&iHD will continue to hold the majority of shares. This will enable the two businesses to continue to enjoy synergies and contribute to the prosperity of global business.

A2)

- Conducting SEI's IPO could be a way to consider recovering a significant amount of capital. This capital could potentially be used to return profits to shareholders. Furthermore, it is our belief that this move will also increase the debt capacity of 7&iHD, and that it will be used as a reserve for strategic investment for future growth.
- The funds obtained in this way can be used to accelerate growth. While there will be a short-term outflow of non-controlling interests, it may be possible to increase the value of the entire group in the medium to long term. Additionally, we believe that by returning profits to shareholders, we can also realize our intrinsic value.

Q)

- I would be very interested to know what message you are sending to your employees.

A)

- Firstly, I would like to express my sincere gratitude to you all. I would like to express my sincere appreciation for the contributions you have made to the activities that have laid the foundation for building this wonderful business. You all deal with customers and provide services on a daily basis, and I am extremely grateful for your commitment and hard work. It is the employees, with their dedication and hard work, who have created the brand that I am honored to lead.
- In terms of the CVS business, I believe that there is a bright future for Seven-Eleven stores in Japan, North America and other parts of the world, even in regions where we do not currently have stores. I am confident that, with a great team, we can achieve great results, and I believe that we already have such a great team within our company. I believe that we can achieve great results by working together.
- It is of great importance that we continue to work together to move forward into the future. We would like to work with you to move towards this goal.

Questioner 4

Q)

- How will the cash obtained from the deconsolidation of the SST business and the IPO be used? Could you clarify how the trillions of yen in funds will be used for share buybacks, investments, and the domestic CVS business?

A)

- In conjunction with the deconsolidation of the SST business and the IPO of SEI, the company announced that it would use the capital recovered to strengthen shareholder returns through the share buybacks worth 2 trillion yen. In addition to this, further cash generation is expected, and as growth continues, we believe that substantial investment capacity will be created.
- Looking ahead to 2030, we expect to have investment capacity at the same level as shareholder returns. We will explain in more detail how we will allocate this capital at the results presentation in April.

Q)

- At time of discussions with ACT, you stated that there is a major issue with the FTC. Please elaborate.

A)

- One of the key issues being discussed is that of US regulations. We are in dialogue with ACT, though there may be room for improvement in the tone of these discussions.
- For instance, the Kroger and Albertson case spanned two years and ultimately proved unsuccessful, largely due to the concerns raised by the FTC. During that period, Albertson may have struggled to maintain their effective competitiveness in the business. We believe this, in turn, had a negative effect on its shareholders.
- At the moment, we are having constructive conversations with ACT to see if we can find a way forward together. In fact, we had a dialogue with ACT today. This engagement is progressing smoothly.
- We will do our utmost to identify opportunities for minimizing the risk of opposition from regulatory authorities, such as by selecting a partner for the sale. This is a challenging step, but we are taking a cautious approach, as we believe that entering into an agreement and then experiencing insolvency within two years does not align with the interests of our shareholders.
- In particular, the number of stores to be divested is very large, at around 2,000, and it is necessary to find a partner who can buy these stores and maintain their current competitiveness. We are aware that this is a challenging task, but we are committed to address these issues.

Questioner 5

Q)

- With regard to the significance of SEI's IPO, if you look at the evaluation of competitors, do you think that being listed on the US market might lead to a more appropriate and higher evaluation?

A)

- Exactly.

Q)

- You mentioned you aim to realize SEI's value, enhance decision-making autonomy, and improve financial agility. Do you really need to go public to achieve these goals?
- As an IPO is a time-consuming and costly process, I think that by promoting the delegation of authority while maintaining governance under 7&iHD, it will be possible to increase the degree of freedom in SEI's management and achieve results in terms of business performance. What kind of discussions were held on this point?

A1)

- I believe that the most important element is a sense of speed. It is necessary to simultaneously and quickly realize shareholder value and improve business and corporate value.
- Specifically, it is a critical task for our group to recover a substantial amount of capital through SEI's IPO, using it to return profits to shareholders and accelerate strategic investments.
- If we decide not to pursue an IPO, it is possible to accelerate the business, but it will take time for the effects to appear on the balance sheet and profit and loss statement. Therefore, I believe it is particularly important to take actions now to unlock value as quickly as possible.
- Additionally, recovering capital through an IPO allows us to achieve these initiatives without compromising financial soundness, which is a significant point.

A2)

- There are approximately 150,000 convenience stores in the US, of which about 65% are small and medium-sized. It is clear that these stores have many growth opportunities, and there are many organic and non-organic opportunities. When such opportunities arise, capability to raise funds with speed is critical.
- We believe that one of the important purposes of the IPO is to secure the autonomy that will allow us to be flexible and agile in our decision-making.