July 10, 2025

Presentation for the First Quarter of FY2025 Q&A Session

Questioner 1

Q)

- My impression is that Seven-Eleven Japan (hereafter ‘SEJ’) appears to be less energetic in recent years. I would like to ask SEJ President Akutsu what he perceives as SEJ’s greatest challenge going forward and what areas he is focusing on, in particular.
- In the U.S. market, my impression is that while there has been an improvement in terms of merchandise appeal at 7-Eleven, Inc. (hereafter ‘SEI’), consumers are becoming more defensive and discerning in their spending habits. Do you think the initiatives the company has in place will be enough in light of the current business climate, or do you think additional initiatives and measures are needed?

A1)

- The biggest challenge for SEJ is for us not to be caught up with successful experiences in the past and instead foster a culture focused on trying out new things. Growth in the past had been led by the corporate culture of the thorough and precise execution of necessary initiatives under strong leadership. That said, we live in an increasingly diverse world with a plurality of intersecting worldviews and value systems, meaning this approach alone may no longer be sufficient to allow us to continue delivering growth like we have in the past.
- Specifically, Seven-Eleven has long been viewed as a ‘model student,’ if you will, but while this is the case, we feel that perhaps our merchandise and stores lack the elements of ‘fun’ and ‘novelty,’ which are something consumers look for. In order to change this status quo, I want to prioritize and value dialogue with employees, so I took it upon myself to interview approximately 2,000 SEJ employees over the course of 2 months following my appointment as Company President. More and more, we are seeing the gradual emergence of an innovative and proactive mindset amongst employees.
- For example, the Merchandise Development Department develops new merchandise, and it is then incumbent on operation field counselors and franchise store owners to convey the value proposition of these merchandise. We want to deploy interesting and novel marketing initiatives and will enhance our branding through previously unutilized vectors such as social media.
- In summary, we want to promote a corporate culture based on an "Error and Learn," allowing us to try new things without fear of failure, and to leverage unsuccessful initiatives as a learning opportunity.

A2)

- We had negative 1.1% sales growth in the U.S. market; if we exclude cigarettes, results were basically flat. It’s a tough retail environment in the U.S., as well, with traffic down. What we are doing to address that is really leaning in on our proprietary product business. Our first-quarter proprietary products grew by 0.5%, and we did see growth there and this was also very margin accretive from an operating income perspective. It’s a challenging business environment, but we continue focusing on enhancing our merchandise offerings and on improving both profitability and the value proposition of our merchandise.

- We rolled out about 2,500 stores cumulatively with our food and beverage modernization program. We are seeing a nice lift in sales, and we are planning another 1,000 installs this year.
- Regarding digital/delivery, 7NOW grew 18.2% steadily. That continues to be a high-growth area we are investing in, and we continue putting 7NOW into new stores. Also, from the digital side, we are investing in more personalized offers, which are helping to drive sales, and really leveraging tailored offers to our loyalty members.
- Traffic is a challenge throughout retail in the U.S. We are really leaning into growing the basket size, and we have seen some nice improvements in units per transaction. Specifically, we position merchandise categories with 4-pack beverage and energy drinks as key drivers in growing average customer spend.
- These efforts will continue to help us grow, even under the current challenging climate.

<u>Questioner 2</u>

Q)

- While CVS operations in the U.S. faced headwinds last year, I believe that SEI has showed a significant recovery in 2025, compared to other industry players. Was this recovery the result of effective initiatives enacted by the Company? I would like to know its background.
- My second question is on the topic of shareholder returns also within the scope of SEI's IPO, which is slated for first half of 2026. You announced the expected total amount in returns to shareholders over the next 3 years. I would like to know, if there is a possibility that you consider a large-scale M&A deals or growth investment over the course of this period if there's a chance. Also, do you think there's a chance of a change in the Company's stated cash allocation policy when it comes to growth investment?

A1)

- Drivers of the profitability improvement were really two major areas: margin and expense control. On the margin side, we have focused on cost of goods negotiation with our major suppliers/vendors and really utilizing our scale to push back on cost increases, which we've had some success with. We have also really focused on optimizing discount offers, while at the same time trying to balance that with margin enhancement by driving traffic and working on controlling costs. That was a big driver of the profit enhancement in the first quarter.
- The second big thing is taking costs out of the business. We established the Cost Leadership Committee 2 years back and we continue to look at everything we buy, really utilizing the combined buying power of the legacy 7-Eleven business and the Speedway business, really sharpening the pencil on everything we do, and particularly over sourcing activity. These efforts are gradually starting to bear fruit.
- We are certainly not happy with negative 1.1% sales growth, but we have mitigated a lot of this impact with more units per basket and the other focus areas around initiatives to capture consumer demand after nightfall, digital, and loyalty programs. We intend to continue mitigating this decrease to ultimately return to a growth trajectory.

A2)

- In terms of the planned cash allocation between 2025 and 2030, just over 40% has been earmarked for growth investment, just under 40% for shareholder returns, and the remaining approximately 20% for debt repayments. Prior to the planned deconsolidation of Superstore operations this September, we are currently carrying out ¥600 billion in share buybacks. We are targeting second half of 2026 as a date for SEI's IPO, but please note that the IPO itself isn't the goal, but rather the means to an end, namely the ability to improve corporate and shareholder value. We are focusing on spinning off SEI and ensuring its continued growth, and are working toward this end.
- The main thrust of our growth investment will focus on organic growth, and, while this can potentially include smaller M&A deals, large M&A deals are not in the plan for SEI at the moment. That said, as we continue making debt repayments – thus strengthening our financial standing – we expect to be able to secure a debt capacity allowing us to consider large M&A deals in the future.
- We feel we haven't been able to return enough value to shareholders and we regret this. Due to this reflection , we will be executing share buybacks and a progressive dividend policy in line with the plan.

<u>Questioner 3</u>

Q)

- You list rather ambitious existing store sales growth percentage and gross margin improvement targets within FY2025 guidance for Domestic CVS Operations. Despite this, realized customer footfall numbers were somewhat lackluster in first quarter. What accounts for this difference versus initial Company expectations?
- I have a concern on talent retention at the Seven & i Group, amidst protracted negotiations with ACT. What's your assessment of this risk?

A1)

- We ran our "Rice Ball Super Sale" campaign in June, and this campaign drove a YoY recovery in the sale of daily merchandise, boosting existing store sales by 2% on a YoY basis. That said, this lift was the direct result of a sales promotion and therefore temporary, whereas we need a continuous improvement. Going forward, we will be reviewing our merchandise development process and restructuring our annual marketing schedule in order to drive even more effective and impactful sales promotions in the future. Additionally, we will enhance information sharing within operations and put in place an integrated framework coordinating our production centers with Seven-Eleven franchise member stores. Through the consistent execution of these initiatives over time, we seek to drive sales and profit growth.
- In terms of the difference versus initial expectations, the most relevant disconnect was in the topline results. While our "Pleasant Value! Declaration" campaign did indeed drive an improvement in customer footfall, the rising raw material costs have weighed down on gross profit margins. We attempted to improve gross margins through high value-add merchandise and various merchandise fair campaigns, but we feel our efforts to attract customers came in short of expectations, amidst changes in the pricing environment.

- We had touted our efforts to enhance and prioritize our fast food offerings as a way to improve margins, but since we have plans to roll out Seven Café Bakery at more stores in second half, we focused our efforts in first half on the redevelopment of existing merchandise like deep-fried food offerings, so these dynamic impacted results.
- Sluggish customer footfall growth primarily boils down to the fact that our efforts to gain customer loyalty and brand appeal were not sufficient. We feel we haven't been able to fully convey the value proposition of our brand, and this has directly translated into declining customer traffic at our stores. By improving merchandise quality and reviewing our marketing strategy, we want to prioritize improving brand recall and mind share.
- In terms of future initiatives, we will first review the development process so as to allow us to create more attractive offerings. Also, there is a need for us to restructure our annual marketing schedule and improve the effectiveness and attractiveness of each of our initiatives.
- Furthermore, we will be enhancing information sharing functions within operations and put in place an integrated framework coordinating our production centers with Seven-Eleven franchise member stores. For example, we will leverage initiatives like our rice ball sales campaign to drive close cooperation with our production centers and continue working to communicate our value proposition.
- It may take a little while for these various initiatives to bear fruit, but we seek to grow sales and profits through the steady execution of these initiatives.

A2)

- Negotiation with ACT is ongoing, and this does indeed give the impression that things are taking longer than expected. That said, we are the party that stands to be acquired, and we have a fiduciary responsibility to protect the interests of shareholders and maximize corporate value, which is why we take these negotiations seriously and with a cautious approach. The process falls primarily within the remit of the Special Committee, and we continue making steady progress on the negotiation front.
- As it stands, we don't think we currently face the talent retention risk. The Group is in the process of carrying out a new strategy under the new management, with the objective of raising our corporate value. We have in place an environment conducive to active employee participation, and we haven't seen talent drain at the management level. That said, we will continue to taking thorough precautionary actions to prevent these risks from materializing.

Questioner 4

Q)

- I believe the impact of changes in merchandise mix at SEJ will be a determining factor as it pertains to the gross profit margin. Could you please share with us your outlook in terms of standard merchandise and high value-add merchandise, progress in the development of new merchandise, and also in terms of challenges?
  Additionally, I believe results at SEI last year make for relatively easier comps. Against this backdrop, could you share with us the progress you've made in first quarter toward the full fiscal year growth target of +0.4%, and the forecast for second quarter and beyond?

- In terms of operating income on a per segment basis, it appears the Company recorded a significant overperformance from Eliminations/Corporate. Could you share the details of this overperformance with us? Also, I believe the segment of Others will be negatively impacted by your operations at York Holdings, so could you share the full-year forecast for Others, together with the numbers for Eliminations/Corporate?

A1)

- Improving daily merchandise – which boast high gross margins – is really the key to improving gross profit margin at SEJ. Our "Rice Ball Super Sale Campaign," held in June, led to YoY sales growth of daily merchandise and to gross margins in line with last year's results.
- Fast food is also a key merchandise category that can contribute to higher gross profit margins. We couldn't get our merchandise lineup in place in first quarter, so we didn't see sales growth, but, starting in June, we expect to expand our Seven Café Bakery offerings to 8,000 stores. Due to the sheer size of the chain, we can't roll out these offerings at all stores all at once, but we continue making steady progress in growing sales from fast food offerings, and these have a positive impact in improving the gross profit margin. We expect further sales increases and gross profit margin improvements going into second half.
- We offer different price tiers, and our high value-add merchandise in the highest tier have positively impacted the gross profit margin. Here, what is crucial for us is to come up with a strong value proposition and enticing campaigns that drive consumers to purchase these merchandise, even at higher price points. This involves improving not just the quality of the merchandise we offer, but also requires us to deploy an effective overall marketing strategy that successfully conveys the value of our merchandise to consumers.
- With an eye toward second half, we will be enhancing our merchandise development and marketing strategy, leveraging a framework integrating franchise stores and the operation side, thus allowing us to improve the gross profit margin.

A2)

- We raised margins at SEI by 1.1%, ahead of full-year guidance. To your point, the first quarter in 2024 had a weaker margin, so this made for a little easier comp, but I'd say we are on track with the targets for the year.
- Our focus is on balancing traffic building and growing the basket, where I think we have had some good success, with, at the same time, enhancing our margin. That was the focus in the first quarter. I think we're on track for the full year, and that will continue to be our focus.

A3)

- In the Others segment, Akachan Honpo and Loft saw increases in existing store sales and gross profit margins, which contributed significantly to operating income exceeding the plan.
- Expenses related to our holdings structure, especially system-related expenses, account for the bulk of Eliminations/Corporate. We have been reviewing a variety of system costs in preparation for the deconsolidation of the Superstore operations, and within this scope, we have been able to significantly reduce these costs. Structurally, the deconsolidation of the Superstore operations will result in the reduction of expenses within Eliminations/Corporate, coupled with a profit reduction in

the segment of Others.

- That said, we only expect these effects to be fully realized at the P/L level once the transition service period (approximately 2 years) following the deconsolidation has elapsed. We expect certain changes to materialize starting September 1, 2025, as a result of the Seven & i Group's transition to a corporate Group that now operates exclusively in the CVS industry. We will explain the details of this transformation at a later date.

Questioner 5

Q)

- What changes have you observed internally since Mr. Dacus assumed the position of CEO of the Group? Back in April, you mentioned a desire to engage in dialogue, so could you share any further developments on this front? Also, could you share with us the types of discussions that are taking place internally at the Company pertaining to strategies – including the Company's Strategy Session slated for the month of August – and the execution of these strategies?
- Could you also update us on the ongoing negotiations with ACT?

A)

- The new management marks a departure from the previous top-down structure and focuses more on team efforts to drive strategies and management ideas. In particular, leadership at the Seven & i Group values our franchise store owners and the people who operate the stores. There was a bit of puzzlement to this change at first, but as we exchanged ideas and feedback and dialogued with employees, we believe these new management principles are now more well-understood and internalized by the workforce.
- Going forward, we are confident in the creative process resulting from each member putting their ideas out there and opening themselves up to constructive criticism. I'm a member of these teams myself – the motivation is high, and I'm excited to drive these initiatives forward together with the other team members.
- Another aspect is significantly more opportunities for dialogue. The Group's five Executive Officers meet almost every morning to discuss issues, and there are also monthly meetings with the heads of each of the Group's core operating companies. These are energetic, proactive efforts to prevent misunderstandings and miscommunications.
- We believe it's important that we articulate in a clear manner the fruits of these efforts as strategies and policy direction, and the track record resulting from this.
- Negotiation with ACT is ongoing. ACT is conducting their due diligence efforts, and we are currently waiting for them to present new proposals and conditions resulting from this due diligence process. At the same time, we are also advancing strategies of our own and considering our relationship with ACT.
- Negotiation is not at its final stages yet, so there is a chance it could still take a while before we see any further progress on this front. This is the extent of what I can share with you here today.