Transforming Seven & i Holdings into Global Champion 7-Eleven

February 2022

www.valueact.com/presentations
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ValueAct Believes Transforming Seven & i Holdings into Global Champion 7-Eleven Can Accomplish The Following:

1. **Fix the corporate governance system** that has persistently failed to align to shareholder interests

2. **Remediate the dysfunctional management** environment and low employee morale

3. **Increase the focus on key competitive and sustainability risks** which will have consequences for the Company and its stakeholders over decades

4. **More than double the share price** and substantially increase long term corporate value
The Strategic Transformation: A Four Step Process

1. Announce a **bold strategy to truly focus on 7-Eleven** and to restructure the non-core businesses without limits.

2. **Complete the sale of Sogo & Seibu** and announce intention to **separate Ito-Yokado** through a sale or spin-off with plans to rapidly restructure the company to focus on its food retail operations.

3. **Exit the remaining non-core businesses** while maximizing value and paying due consideration to stakeholders until the convenience store operations are all that remain.

4. **Operational review of 7-Eleven outside of Japan**, including the US expense base and fresh food opportunity, as well as the international growth opportunity, culminating in new targets and a roadmap to achieve them.
The Governance Transformation: Board & Org Structure

1 Transition to a **Board with a majority of Outside Directors** that can objectively assess strategy, from a majority of Inside Directors with conflicts of interest

2 Transition to a **globally coordinated management structure** focused on 7-Eleven, from a complex holding company management structure
Introduction
ValueAct’s History of Stewardship Over 21 Years

Significant Board Experience and Partnership with Company Leadership

- Core Investments: 104
- Public Board Seats: 53
- Committees Served On: 86

Long-Term Active Role in the Stewardship Community

We partner with other institutional shareholders to propose and shape policies of responsible corporate governance that are being adopted by more and more public companies every year.

Present Affiliations

- Council of Institutional Investors (Corporate Governance Advisory Council)
- Investor Stewardship Group (Founding Member, Board of Directors)
- Commonsense Corporate Governance Principles
- Stanford Rock Center for Corporate Governance (Case Study Authors)

Sources: ValueAct Capital
Seven & i’s History of Unsatisfactory Response to Shareholders

Investors have repeatedly expressed similar feedback on strategy and performance; management has not provided strategic clarity or responded with real action, instead deflecting criticism with performative dialogue.

Abrdn (Aberdeen Standard Investments) Votes Against Directors “All directors should be responsible on company’s poor performance of the speed of restructuring. We think the board's actions are not reflective of good governance and they should be responsible.” Source

Third Point requests that the Company sell its underperforming operations (namely Ito-Yokado). Source

Franklin Templeton “…depressed valuations seem to indicate the market is ignoring the firm’s strong overseas operations, defensive domestic business, underleveraged balance sheet and continued scope for restructuring progress.” Source

Third Avenue Management “Finally, it is our view that if the U.S. 7-Eleven business were to be valued independently at a multiple similar to publicly-listed comparable companies, the undervaluation of Seven & I would become glaringly clear.” Source

Tokio Marine Voted against the re-election of President Ryuichi Isaka and Katsuhiro Goto. Source

Abrdn “We exited Seven & i due to slow progress on restructuring non-performing businesses in spite of our continued engagement.” Source

Artisan Partners “address the distinct differences between the company’s valuable convenience store assets and the company’s other retail businesses.” Source
Over the past year of engaging with Seven & i Holdings (“the Company”, “Seven & i”) in private dialogue, ValueAct Capital (“VAC”, “we”) observed slow, convoluted decision-making relative to the strategic imperative to truly focus and transform. The Company continues to pursue an ambiguous strategy rather than clarifying unequivocally that transforming into a global champion 7-Eleven is the strategic purpose. We lost faith in management’s ability to set the strategic course without input from shareholders.

On January 25, 2022 ValueAct released an open letter addressed to the Seven & i Board of Directors. The letter requested the Board (1) Allow the Company’s Outside Directors to formally and promptly seek direct input from top shareholders on key issues of strategy and governance, and (2) Form an independent committee to assess strategic alternatives.

On February 3, 2022 Seven & i issued a public response that created confusion in the media, but we understand that it denied both of ValueAct’s above requests.

ValueAct is always open to making progress through constructive private dialogue with its investee companies, including in this case, but the limited receptivity from Seven & i so far requires that alternatives be considered.
ValueAct is Seeking Input From Other Shareholders

The Seven & i Board is currently composed of a majority of Inside Directors many of whom have inherent conflicts of interests relative to the strategic imperative to transform. This board declined to formally allow the Outside Directors to ask shareholders the following key questions directly, as requested by ValueAct:

• Do you believe that management has the right strategic vision, structure, ability to execute, and openness to pursuing strategic alternatives, or are changes needed?
• Do you believe the recently announced Medium-Term Management Plan is the optimal way to create corporate value from a medium to long-term perspective?
• Do you believe that there are alternative strategies or ownership structures with superior risk-adjusted potential that should be pursued? If so, what are the alternatives?
• Do you believe that the Board should form a “Strategic Review Committee” of Outside Directors to assess these alternatives?

The Board of Seven & i has denied the Outside Directors formal permission to listen to shareholders promptly and to consider strategic alternatives independently. Therefore, we believe shareholders should now consider an additional question:

What kind of shareholder intervention is necessary to fix Seven & i’s corporate governance system and transform the Company for the benefit of all stakeholders?
Transformation Needed at Seven & i Holdings
Seven & i Holdings Today: Unfocused Holding Company of Diverse Retail Businesses, Many Facing Secular Headwinds
Seven & i Holdings Today: 15 Years of Limited Value Creation

Indexed TSR

<table>
<thead>
<tr>
<th>Company</th>
<th>TSR % p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seven &amp; i Holdings</td>
<td>+4.6%</td>
</tr>
<tr>
<td>Walmart</td>
<td>+10.2%</td>
</tr>
<tr>
<td>Pan Pacific</td>
<td>+12.5%</td>
</tr>
<tr>
<td>President Chain</td>
<td>+13.1%</td>
</tr>
<tr>
<td>FAST Retailing</td>
<td>+13.9%</td>
</tr>
<tr>
<td>McDonalds</td>
<td>+15.6%</td>
</tr>
<tr>
<td>Casey’s</td>
<td>+15.8%</td>
</tr>
<tr>
<td>Couche-Tard</td>
<td>+18.5%</td>
</tr>
</tbody>
</table>

Sources: FactSet (prices as of 1/20/2022), VAC analysis
Memo: Assumes dividends are reinvested back into company stock
Seven & i Holdings Today: Slow Pace of Change, Many Structural Issues Identified for Years Have Not Been Fixed

100 Day Plan Announced in 2016 (Medium-Term Management Plan)

- **Investment Efficiency**
  - Ito-Yokado
    - Low return on capital expenditures

- **M&A**
  - Sogo & Seibu
    - Low return on acquisition price

- **Special Losses**
  - “Our response to underperforming businesses presents issues”

Status 6 Years Later

- **ROIC still below WACC**
- **ROIC still below WACC** (Sale could address this)
- **Special losses continue**

Sources: Public company documents, VAC analysis
## Seven & i Holdings Today: 97% of Group Profit Generated by Core 7-Eleven Convenience Store Operations

<table>
<thead>
<tr>
<th>Seven &amp; i Business Segment</th>
<th>% of Group Operating Profit$^1$</th>
<th>Business Area</th>
<th>Core to Seven &amp; i Holdings?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic convenience store operations</td>
<td>57%</td>
<td>Convenience stores (7-Eleven)</td>
<td>Core</td>
</tr>
<tr>
<td>Overseas convenience store operations</td>
<td>40%</td>
<td>Convenience stores (7-Eleven)</td>
<td>Core</td>
</tr>
<tr>
<td>Superstore operations</td>
<td>6%</td>
<td>General merchandise and grocery</td>
<td>Non-Core</td>
</tr>
<tr>
<td>Department and specialty store operations</td>
<td>-2%</td>
<td>Department and various specialty</td>
<td>Non-Core</td>
</tr>
<tr>
<td>All others: financial services, others, corporate, eliminations</td>
<td>-1%</td>
<td>ATMs, credit cards, various others</td>
<td>Non-Core</td>
</tr>
</tbody>
</table>

**Sources:** Public company documents, VAC analysis

$^1$ Current fiscal year, reflecting latest full year company guidance released 1/13/2022
Seven & i Holdings Today: Core 7-Eleven Business is Strong, but the Non-Core Businesses Weigh on Overall Performance

- #1 brand in convenience
- 70,000+ stores in 18 markets
- Serves 65 million customers daily

Return on Invested Capital (FY 2021)

<table>
<thead>
<tr>
<th>Category</th>
<th>Return on Invested Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seven &amp; i Holdings</td>
<td>4.7%</td>
</tr>
<tr>
<td>Department / Specialty Stores</td>
<td>-7.0%</td>
</tr>
<tr>
<td>Superstores</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Overseas 7-Eleven</td>
<td>5.2%</td>
</tr>
<tr>
<td>Domestic 7-Eleven</td>
<td>19.1%</td>
</tr>
</tbody>
</table>

Sources: Public company documents, VAC analysis
### Seven & i Holdings Today: MTMP Omits Key Ambitions in the Core 7-Eleven Business That Would Drive Major Value Creation

<table>
<thead>
<tr>
<th>7-Eleven Value Driver</th>
<th>Part of MTMP?</th>
<th>Earnings Target?</th>
</tr>
</thead>
<tbody>
<tr>
<td>International expansion</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Fresh food innovation</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Global digital convenience strategy</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Expense efficiency opportunity in US</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Long-term strategy for US gas stations</td>
<td>✗</td>
<td>✗</td>
</tr>
</tbody>
</table>

**Source:** Seven & i Holdings Medium-Term Management Plan (2021)
Seven & i Holdings Today: MTMP Allocates >30% of CAPEX (~¥770 billion / $7 billion) to Support Non-Core Businesses, Even Though the MTMP Does Not Expect ROIC > WACC Outside the Core

Medium-Term Management Plan Capital Allocation

FY22 – FY26 MTMP Cumulative Capex (% Total)

- Non-Core Businesses: 31%
- 7-Eleven: 69%

Sources: Public company documents, VAC analysis
Memo: Non-Core businesses include Superstores, Department stores, Financial services, Group investments, and other businesses
Focus is Urgently Needed to Ensure That 7-Eleven Can Win in the Coming Decades

Core Business Competition is Intensifying

Inside Amazon's secret 'Bowser' project to build thousands of cashier-less Go stores in the suburbs: Talks with oil giant BP, 10,000 gas stations, and Walgreens-style retail pharmacies
Focus is Urgently Needed to Ensure That 7-Eleven Can Win in the Coming Decades

Core Business Competition is Intensifying

DIVE BRIEF
Gopuff raises another $1B to fuel rapid growth
Published July 30, 2021

Source: Grocery Dive Article
Focus is Urgently Needed to Ensure That 7-Eleven Can Win in the Coming Decades

Core Business Competition is Intensifying

DoorDash launches online DashMart convenience stores to sell snacks and groceries

DoorDash wants a slice of the grocery market

By Nick Statt | @nickstatt | Aug 5, 2020, 12:50pm EDT

Source: The Verge Article
Seven & i Holding’s urgent strategic imperative is to transform into global champion 7-Eleven and to address its structural issues in line with key stakeholder interests.
The Strategic Transformation
ValueAct Engagement With Seven & i on Strategic Initiatives

• ValueAct has presented specific value-creating initiatives to Seven & i’s management and Board that would result in over 40% higher earnings per share and 45% higher return on invested capital compared to the Company’s Medium-Term Management Plan (“MTMP”)

• We shared detailed research on these initiatives in the first half of 2021, prior to the release of the MTMP. Seven & i declined requests to discuss our input in detail until after the release of the MTMP, a missed opportunity for alignment

• After the release of the MTMP, we discussed and presented our plan side by side with the Company’s plan. Individuals from the Seven & i Board and management expressed that our ideas would improve corporate value. Nevertheless, we saw neither decisions from top leadership nor public comments showing the necessary drive to tackle key issues and focus

• In the recent public letter from Seven & i Holdings, management wrote, “We understand ValueAct has not expressly presented any strategic plans that the Company believes will contribute to enhance our corporate value.”

• With this context, we are presenting our strategic plan here. We invite ideas with superior value from other stakeholders, and expect with this dialogue the plan may improve further
Seven & i Holdings or Global Champion 7-Eleven?

Strategy of true focus on 7-Eleven creates significantly more corporate value

Current strategy promises
By FY Feb 2026

- **EPS**: 533 yen per share +
- **7-Eleven EBITDA**: 850 billion yen +
- **Valuation**: Low multiple conglomerate

OR

Global 7-Eleven potential
By FY Feb 2026

- **EPS**: 748 yen per share
- **7-Eleven EBITDA**: 1 trillion yen +
- **Valuation**: High multiple global champion company

Sources: Public company documents, VAC analysis
Memo: Adjusted EPS calculated as (pre-tax profit + amortization of goodwill + one-time items) x (1 – tax rate) / shares outstanding.
Four Step Process to Transform Seven & i Holdings

1. Announce a **bold strategy to truly focus on 7-Eleven** and to restructure the non-core businesses without limits

2. **Complete the sale of Sogo & Seibu** and announce intention to **separate Ito-Yokado** through a sale or spin-off with plans to rapidly restructure the company to focus on its food retail operations

3. **Exit the remaining non-core businesses** while maximizing value and paying due consideration to stakeholders until the convenience store operations are all that remain

4. **Operational review of 7-Eleven outside of Japan**, including the US expense base and fresh food opportunity, as well as the international growth opportunity, culminating in new targets and a roadmap to achieve them
Step 1. Bold Strategy of True Focus on 7-Eleven

Major valuation uplift opportunity if Seven & i Holdings chooses focus over diversification

<table>
<thead>
<tr>
<th>Conglomerate Average: 11x P/E</th>
<th>Focused Retail &amp; Quick Service Restaurant Company Average: 22x P/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsubishi Heavy 9.4x</td>
<td>FAST Retailing 34.6x</td>
</tr>
<tr>
<td>NTT 10.7x</td>
<td></td>
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<tr>
<td>Hitachi 11.5x</td>
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<tr>
<td>Itochu 11.8x</td>
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<tr>
<td>Seven &amp; i Holdings 12.9x</td>
<td></td>
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<tr>
<td>Kroger 13.4x</td>
<td></td>
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<td>Pan Pacific 15.4x</td>
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<td>President Chain 25.1x</td>
<td></td>
</tr>
<tr>
<td>McDonalds 26.1x</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Public company documents, Capital IQ (as of 2/3/2022), VAC analysis
Memo: Multiples adjusted for one-time expenses and goodwill amortization
Step 2. Complete the Sale of Sogo & Seibu

Sogo & Seibu has property value estimated by a leading advisory firm at 480-550 billion yen, indicating upside to the possible ¥200 billion sale price reported in the press. However, the most important priority is completing a 100% sale as soon as possible, with due consideration for affected stakeholders, to allow management to focus on 7-Eleven due to the competitive urgency.

Sogo & Seibu Valuation Under Two Strategic Alternatives

- Value to Seven & i Holdings (Status Quo Business Value): 49 billion yen
- Value to Third Party Buyer (Unlocking Property Value): > 200 billion yen

Sources: Public company documents, VAC analysis
Memo: Business value estimated as 5x FY Feb 2020 EBITDA, sale price based on media reports, real estate appraisal value based on leading global advisory firm analysis
Step 2. Separate Ito-Yokado With Restructuring Plan

Heavy transformation is required to reposition Ito-Yokado for the long term. The steps to concentrate the operations on food retail and find better owners for much of the owned real estate can be best accomplished as a separate company.

Ito-Yokado Can Become A Sustainable Business By Focusing on Food Retail

- Seven & i is not the best owner for the low ROIC tenant business. It is worth more to property specialist.
- Significant losses in non-food retail operations.

### Sources:
- Public company documents, VAC analysis
- Memo: Assumes Ito-Yokado food retail operations earn York-Benimaru level of profitability and sales per square meter. Assumes rent expense per square meter is the same across the Ito-Yokado food and non-food square footage.
Step 3. Exit Remaining Non-Core Businesses

Chart a path towards a standalone entity that is laser-focused on 7-Eleven growth and profitability
Step 3. Exit Remaining Non-Core Businesses

Limited group synergies – A leading global consultancy estimated Seven & i group synergies at less than 4% of FY21 operating profit, not significant enough to justify the significant conglomerate discount.

**Group Synergies (JPY bn)**

- **Seven Premium**: 14 bn yen
- **Centralized procurement**
- **Loyalty program**

**Synergies % FY21 Operating Profit**

< 4%

The Seven & i subsidiaries focused on food retail have significant standalone scale – enough to have robust private label product innovation and procurement leverage. Standalone competitors with less scale have strong capabilities in these areas.

**Sources:** Public company documents, consultancy analysis, VAC analysis

**Memo:** Operating profit adjusted for amortization of goodwill. Synergies analyzed between Seven-Eleven Japan, Ito-Yokado, and York-Benimaru, where the greatest synergies were expected.
Step 3. Exit Remaining Non-Core Businesses

Limited group synergies – subsidiaries’ underperformance relative to standalone competitors suggests that any benefits of group synergies are outweighed by the holding company’s lack of focus.

**GMS Pre-Tax ROIC (FY Feb ‘20)**

- Ito-Yokado: 1%
- Fuji: 6%
- Heiwado: 8%
- Izumi: 9%

**Department Store Pre-Tax ROIC (FY Feb ‘20)**

- Sogo & Seibu: 0%
- Isetan Mitsukoshi: 1%
- Takashimaya: 4%
- J. Front: 6%

**Sources:** Public company documents, FactSet, VAC analysis

**Memo:** Pre-tax ROIC defined as operating profit / average invested capital. Invested capital is the sum of net debt, leases, and equity.
Step 4. Operational Review of 7-Eleven Outside of Japan

Top-down benchmarking suggests significant operating expense inefficiency in the US 7-Eleven operations. As a result, strong gross profit at the store level is not converting into operating profit for Seven & i.

Corporate EBITDAR % Store-Level Gross Profit

<table>
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</thead>
<tbody>
<tr>
<td>EBITDAR %</td>
<td>32%</td>
<td>46%</td>
</tr>
</tbody>
</table>

**US Expense Efficiency**

- **MTMP Target?**: N/A
- **FY26 Profit Potential?**: ~$625m

**Sources**: Public company documents, 7-Eleven, Inc franchise disclosure document, VAC analysis

**Memo**: EBITDAR = Earnings before interest, taxes, depreciation, amortization, and rent
Step 4. Operational Review of 7-Eleven Outside of Japan

Consultancy analysis estimates $625 million of excess cost in US operations, primarily in US corporate headquarters (see chart below), but also in directly owned stores among other areas.

North American HQ Employees vs. Gross Profit of Leading USA Convenience Chains
(Leading Global Consultancy Analysis)

**Sources:** Public company documents, LinkedIn, Consultancy analysis.
**Memo:** FTE = full time equivalent employee. Per consultancy: Employees count from 2020 vs. Gross Profit in 2019 or most recent fiscal year.
Step 4. Operational Review of 7-Eleven Outside of Japan

Expanding 7-Eleven’s fresh food offer through Quick Service Restaurant ("QSR") and commissary is a high return way to replace declining foot traffic from fuel and make the business more sustainable.

Fresh Food Opportunity

Sources: Public company documents, VAC analysis
Memo: FY26 potential based on adding 400 QSR units per year to franchised 7-Elevens x VAC estimate of per-unit economics supported by third-party analysis.
Step 4. Operational Review of 7-Eleven Outside of Japan

Huge untapped earnings potential to expand 7-Eleven into new countries around the world, currently contributing less than $150m to earnings

White Space Outside Japan/US

Promote New Market Entry

Worldwide 7-Eleven

Having the largest store network in the world but only in 16 countries and regions

Enormous attractive markets and growth opportunities left for global expansion

Global Brand Comparisons

<table>
<thead>
<tr>
<th>No. of Stores</th>
<th>No. of Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-Eleven</td>
<td>approx. 72,000</td>
</tr>
<tr>
<td>McDonald's</td>
<td>approx. 38,000</td>
</tr>
<tr>
<td>SUBWAY</td>
<td>approx. 35,000</td>
</tr>
<tr>
<td>Starbucks Coffee</td>
<td>approx. 32,000</td>
</tr>
</tbody>
</table>

(As of December 2020)

Sources: Public company documents, VAC analysis
Memo: FY26 potential based on estimate of current earnings (FY21 level) plus 1,100 directly franchised new units per year x SEJ-level per-unit economics

International Expansion

MTMP Target?

N/A

FY26 Profit Potential?

>$700m
Transformation Leads to >40% Higher EPS Than The MTMP

Global Champion 7-Eleven Earnings Per Share Potential

Sources: Public company documents, VAC analysis

Memo: Core 7-Eleven earnings drivers included in the appendix. Non-core exits assume businesses are sold at a price based on detailed real estate appraisal, earnings potential following structural reform, and comparable company multiple analysis, with capital then reinvested in the core business. EPS is adjusted for amortization of goodwill and one-time expenses.
... And >85% Higher Per-Share Value Than The MTMP

Global Champion 7-Eleven Value Per Share Potential

Sources: Public company documents, VAC analysis
Memo: Seven & i current share price as of 2/4/2021 close. Exit P/E is 17x forward EPS. FX assumed to be 105 JPY / USD to align with MTMP. All EPS figures are adjusted for goodwill amortization and one-time expenses.
... And Enables Seven & i to Earn Returns In-Line With Convenience Peers and Outperform the MTMP ROIC Forecast

Global Champion 7-Eleven Return on Invested Capital Potential

- **Seven & i PF Speedway (FY2022)**: 6.3%
- **US operational improvement**: 1.6%
- **International expansion**: 0.6%
- **Organic growth and capital allocation**: 1.3%
- **Exit non-core businesses**: 2.0%
- **Seven & i potential (FY2026)**: 11.8%
- **Seven & i MTMP (FY2026)**: 8.1%

*Sources: Public company documents, VAC analysis*

*Memo: Both Seven & i potential and Seven & i MTMP ROIC figures are adjusted for goodwill amortization. ROIC calculated as NOPAT / (equity + debt) and assumes capital invested in 7-Eleven stays constant from Nov. 2021 levels*

*JPY / USD = 115*

~45% higher
The Governance Transformation
Summary of the Governance Transformation

• We believe the governance structure of Seven & i Holdings is dysfunctional, with distant relationships between the holding company and its subsidiaries, an overly complex organizational structure, infighting, and a Board that cannot act independently from management’s conflicted interests.

• Seven & i claims it has built a structure between the holding company and key subsidiaries which enables “smooth decision-making”, most recently in its public response to ValueAct, but there is ample long-term evidence that this is not the case.

• The governance of Seven & i Holdings could improve in two ways that are well accepted as modern global standards:

1. Transition from a majority of Inside Directors with conflicts of interest to a Board with a majority of Outside Directors that can objectively assess strategy.

2. Transition from a complex holding company management structure to a globally coordinated management structure focused on 7-Eleven.
Distant: Holdings Does Not “Own” Subsidiary Actions

US antitrust regulators at FTC alleged the $21 billion Speedway acquisition closed “illegally.” Instead of taking ownership at the parent company and standing behind the subsidiary’s significant decision, Seven & i deflected blame onto a subsidiary President just months after paying him a $24 million cash bonus.

Sources: 7-Eleven, Inc press release, Federal Trade Commission press release, Seven & i Holdings press release
Distant: No Clear Strategy for Key Environmental Risk

Seven & i has not explained its strategy to navigate and play a leadership role in the USA energy transition.

7-Eleven US Gas Stations

7-Eleven will now sell ~10% of motor gasoline consumed in the US.

Pre-Speedway Acquisition: 4,801

Current: 8,154

MTMP & Speedway Plan

Is 500 EV charging stations at 250 stores (out of 8,154) a strategy?

7-Eleven was the first convenience store to sell gas. Where is that vision now?

Sources: Public company documents, U.S. Energy Information Administration
Distant: Not Measuring USA Gasoline Retail Scope 3 Emissions

Inadequate oversight and lack of attention being devoted to navigating energy transition and opportunity

Scope 3 emissions (which Seven & i states accounts for 90% of overall CO2 emissions) are not measured in North America, where gasoline retail business has substantial adverse effects on Seven & i’s existing carbon footprint and exposure to climate-related risks (especially following the Speedway acquisition)

SCOPE 1 + 2
12 companies covered out of 170+

SCOPE 3
10 Japanese companies covered:
Seven-Eleven Japan, Ito-Yokado, Seven Bank, ...

UNMEASURED SCOPE 3 EMISSIONS
Scope 3 emissions are not measured in North America.

90% of measured emissions

CO2 Emissions (Tonnes)

On the Purchase of Speedway...
“The rationale is to acquire convenience stores, but petrol sales will increase as a result,” said Kazunori Tsuda, analyst at Daiwa. “With an increased focus on the ESG agenda, there could be investors who will hesitate from investing in Seven & i,” he added, saying the company needed to do more to increase its environmental, social, and governance disclosure.

Financial Times (Source)

1 Other entities covered: Sogo & Seibu, York-Benimaru, York Mart, SHELL GARDEN, Akachan Honpo, The Loft, and Seven & I Food Systems
Source: Seven & I, CSR Data Book 2020, p.100, 216
Distant: Weak Communication With Subsidiaries

Weak communication with operating subsidiaries makes the Holding company ineffective

“The company is a mess inside”

“The weak lines of communication are an organizational issue, said President Isaka when asked about the abnormal timing of the change in President at Seven-Eleven Japan”

“There have been persistent communication issues between the holding company and its subsidiaries”

“It took the President two months to realize that Seven-Eleven Japan had asked its franchisees to continue to operate during the record-breaking Fukui prefecture snowstorm, despite requests from the franchisees for temporary store closures during this time”

Source: Nikkei MJ Article, April 2019.

Sources: Nikkei Marketing Journal, VAC summary translation
Infighting: Internal Political Factions Frequently Cited

Many employee reviews and news articles cite factions, internal politics, and infighting at Seven & i

“Political factions are strong. I see how careful my boss is about what he says around his boss”

“The company has a very traditional culture with lots of internal conflict”

“Former CIO, Suzuki, talks about a bloody battle: The pathology of an organization where anonymous muckraking documents swirl around”

Sources: OpenWork 1/24/2022, Diamond 1/30/2022
Infighting: Low Employee Morale at Holdings and Group Cos.

Seven & i’s largest group companies are all below the Japan retail average on employee reviews

OpenWork Score Deviation from The Retail Average Score for TSE-Listed Retail Cos. >100Ybn Market Cap

Red text denotes percentile rank among 2,948 retail companies registered at OpenWork

11th Percentile Employee Review Score

28th Percentile

14th Percentile

5th Percentile

Source: OpenWork 1/24/2022
Memo: Average Retail Score = 3.02, Scale of 1-5, 5 being the best
Complexity: Indecipherable Organization Chart

Seven & i has over 170 group companies, making it more difficult for management to focus attention and resources on 7-Eleven, which is the overwhelming driver of corporate value.

Sources: Public company documents, VAC analysis

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"Evidence strongly suggests that diversified firms trade at a discount. [...] The results also suggest that managers of diversified firms resist the restructuring of inefficient businesses when they are ill-disciplined by a weak governance system."

**Complexity: Too Many Different Key ESG Issues To Focus On**

*Diversified business leads to complex ESG risk and opportunity profile with unique issues in each business.*

<table>
<thead>
<tr>
<th>Business</th>
<th>Industry</th>
<th>SASB Material Topics¹</th>
<th>VAC Evaluation*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience Stores</td>
<td>Food Retailers &amp; Distributors</td>
<td>Fleet Fuel Management</td>
<td><img src="green.png" alt="Green" /></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Food Waste Management</td>
<td><img src="green.png" alt="Green" /></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Food Safety</td>
<td><img src="yellow.png" alt="Yellow" /></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Product Health &amp; Nutrition</td>
<td><img src="yellow.png" alt="Yellow" /></td>
</tr>
<tr>
<td>Gasoline Stations</td>
<td>Oil &amp; Gas - Refining &amp; Marketing</td>
<td>GHG Emissions</td>
<td><img src="yellow.png" alt="Yellow" /></td>
</tr>
<tr>
<td>(North America)</td>
<td></td>
<td>Clean Fuel Blends</td>
<td><img src="yellow.png" alt="Yellow" /></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hazardous Materials Management</td>
<td><img src="yellow.png" alt="Yellow" /></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Critical Incident Risk Management</td>
<td><img src="yellow.png" alt="Yellow" /></td>
</tr>
<tr>
<td>Financial services</td>
<td>Consumer Finance</td>
<td>Customer Privacy</td>
<td><img src="green.png" alt="Green" /></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Data Security</td>
<td><img src="yellow.png" alt="Yellow" /></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Selling Practices</td>
<td><img src="red.png" alt="Red" /></td>
</tr>
</tbody>
</table>

**VAC Evaluation Framework:**
- **Green** (●): The Company discloses efforts to tackle the issue
- **Yellow** (○): The Company discloses efforts but there are inadequate or questionable practices
- **Red** (●): The Company does not disclose its efforts

*Source: Seven & I, *CSR Data Book 2020*, p.103, 105, 56, 67, 90, 18*

¹ Sustainability issues identified by SASB standards as most likely to impact the operating performance or financial condition of the typical company in these industries.
Complexity: Business Partnerships Have Been Bungled

Long history of weak execution in business partnerships including with H2O, Mandai, Odakyu, and Izumi

**Partnership with H2O (2016)**

<table>
<thead>
<tr>
<th>Sale of Dept Stores</th>
<th>S point</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>• H2O to take over Kobe, Takatsuki and Seishin stores</td>
<td>• Introduction of S point to 7-Eleven stores in Kansai Area</td>
<td>• Strongest department store in Kansai x SEJ store network</td>
</tr>
</tbody>
</table>

**Was Execution Followed-through?**

3 ---\(\rightarrow\) 2 stores  
**Yes but it took 2 years**  
**No Major Update**

*H2O ended up partnering with Lawson in 2021*

**Partnership with Mandai (2015)**

**Operational Collaboration**

• The areas of logistics, human resource development, and joint product development.  
• Financial services related to point schemes and settlement systems

**Was Execution Followed-through?**

**No Major Update**

*Mandai ended up leaving for new partner in 2021*

Sources: Public company documents, VAC analysis
Complexity: Collaboration Challenges Cited in 7Pay Failure

Several media reports suggest that Seven & i’s governance structure, which makes collaboration and communication across group companies difficult, contributed to the 7Pay failure.

July 2019: Seven & i launches the “7Pay” payment service.

Just days after the launch, the payment service is hacked, and 38 million yen is stolen from accounts.

August 2019: The Company shut down 7Pay.

Opposed the re-election of Ryuichi Isaka and Katsuhiro Goto due “the occurrence of security issues and after-the-fact disclosure.” 

Source: Public company documents, Nikkei Business, VAC analysis

Memo: Nikkei business article as translated by VAC

Nikkei Business Oct 8, 2019

“Trying to guess what Seven-Eleven Japan wanted, without engaging in dialogue with its leaders, led to 7Pay problems”

“The Company says there is collaboration within the Group, but in reality, it is difficult to commercialize 7Pay unless Seven-Eleven Japan approves.”

“The app’s convenience was prioritized over its security because the 7Pay developers assumed that is what Seven-Eleven Japan wanted.”

Source: Nikkei Business Article
Board: Not Independent, Not Positioned to Drive Change

Seven & i Board has majority of Inside Directors; the Board cannot independently assess strategy. A majority independent board is critical for corporations where crucial transformation is long overdue.

Seven & i Holdings Board of Directors

<table>
<thead>
<tr>
<th>Outside Directors</th>
<th>Inside Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>8</td>
</tr>
</tbody>
</table>

Board Independence Scorecard

- Majority Outside Directors? \(\times\)
- Lead Independent Director or Chairperson\(^1\)? \(\times\)

Sources: Public company documents, VAC analysis

(1) No publicly disclosed Lead Independent Director with specific responsibilities, including being the point of contact for shareholders
Inside Directors: Interests Conflict with a Strategy to Transform

Seven of eight Inside Directors inherently have interests in the subsidiaries in which they have overlapping executive or board roles. The subsidiary interests conflict with the interests Seven & i’s shareholders and stakeholders to whom Directors should owe fiduciary duty.

<table>
<thead>
<tr>
<th>Inside Director 1 (President)</th>
<th>Inside Director 2 (Vice President)</th>
<th>Inside Director 3</th>
<th>Inside Director 4</th>
<th>Inside Director 5</th>
<th>Inside Director 6</th>
<th>Inside Director 7</th>
<th>Inside Director 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allegiance solely to Holdings?</td>
<td>❌</td>
<td>❌</td>
<td>❌</td>
<td>❌</td>
<td>❌</td>
<td>❌</td>
<td>❌</td>
</tr>
<tr>
<td>Subsidiary Affiliation</td>
<td><img src="Image" alt="Bank" /></td>
<td><img src="Image" alt="SEIBU Bank" /></td>
<td><img src="Image" alt="SOGO" /></td>
<td><img src="Image" alt="Seven &amp; i Asset Management" /></td>
<td><img src="Image" alt="Seven &amp; i Financial Center" /></td>
<td><img src="Image" alt="Seven &amp; i Japan" /></td>
<td><img src="Image" alt="Seven &amp; i USA" /></td>
</tr>
<tr>
<td>Subsidiary Title</td>
<td>Director</td>
<td>Director</td>
<td>Director</td>
<td>President &amp; Rep. Director</td>
<td>Senior Managing Executive Officer</td>
<td>President &amp; CEO</td>
<td>President &amp; Rep. Director</td>
</tr>
</tbody>
</table>

Sources: Public company documents, VAC analysis
Outside Directors: Big Gaps in Key Skills Need to be Filled?

Outside Directors bring some relevant skills to Seven & i Holdings but additional outside perspectives could make the Board more effective at supporting and overseeing management.

Seven & i Holdings Outside Director Skills Representation

<table>
<thead>
<tr>
<th>Skill</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance &amp; Audit</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Legal, Risk Management</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Public Company Chief Exec</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Large Scale M&amp;A</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Digital &amp; E-Commerce</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Capital Markets</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Gender Diversity</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Non-Japanese Diversity</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Climate</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Business Portfolio Transformation</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Retail Operations</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

Sources: Public company documents, VAC analysis
Seven & i Holdings or Global Champion 7-Eleven?

Seven & i Current Governance

- **Board**: Majority Inside Directors, with no independent Board leadership
- **Org Structure**: Complex holding company structure with over 170 subsidiaries

OR

Proposed Global Governance

- **Board**: Majority Outside Directors, with independent Board leadership
- **Org Structure**: Globally coordinated management intently-focused on 7-Eleven
Board Structure: Global Standard Independence Needed?

From a Board with majority of Inside Directors with conflicts of interest to majority of Outside Directors with relevant skills and experience to monitor strategy and management

Seven & i Holdings Board of Directors

- 13 Total Directors
- 5 Outside Directors
- 8 Inside Directors

Outside Directors
- More Outside Directors with relevant skills and experience needed to support management through transformation

Inside Directors
- Inside Directors, many of whom are conflicted, cannot independently assess strategy and hinder transformation

Global Standard Board

- Majority Outside Directors?
- Lead Independent Director or Chairperson?
- Relevant skills to oversee management

Sources: Public company documents, VAC analysis
Management Structure: Simplification Needed?

Transformation from a complex Holding Company management structure to globally coordinated management intently focused on opportunities and risks of 7-Eleven

Current Org Chart

Representative Global Org Chart (Convenience Stores)

Representative Global Org Chart (Retail)

Sources: Public company documents, VAC analysis
Shareholder Input Needed on Seven & i Strategy and Governance
Seven & i’s History of Unsatisfactory Response to Shareholders

Investors have repeatedly expressed similar feedback on strategy and performance; management has not provided strategic clarity or responded with real action, instead deflecting criticism with performative dialogue.

**Abrdn (Aberdeen Standard Investments)**

*Votes Against Directors* “All directors should be responsible on company’s poor performance of the speed of restructuring. We think the board’s actions are not reflective of good governance and they should be responsible.” [Source](#)

**Tokio Marine** Voted against the re-election of President Ryuichi Isaka and Katsuhiro Goto. [Source](#)

**Abrdn** “We exited Seven & i due to slow progress on restructuring non-performing businesses in spite of our continued engagement.” [Source](#)

**Third Point** requests that the Company sell its underperforming operations (namely Ito-Yokado). [Source](#)

**Franklin Templeton** “…depressed valuations seem to indicate the market is ignoring the firm’s strong overseas operations, defensive domestic business, underleveraged balance sheet and continued scope for restructuring progress.” [Source](#)

**Third Avenue Management** “Finally, it is our view that if the U.S. 7-Eleven business were to be valued independently at a multiple similar to publicly-listed comparable companies, the undervaluation of Seven & I would become glaringly clear.” [Source](#)

**Artisan Partners** “address the distinct differences between the company’s valuable convenience store assets and the company’s other retail businesses.” [Source](#)
Dialogue With Shareholders Has Been Performative

Shareholder survey commissioned by Seven & i in 2021 is misleading and does not facilitate true strategic feedback. In fact, the data is likely to confuse or mislead the Board.

Questions do not allow investors to communicate ideas about strategies outside the scope of the MTMP.

Illustrative Question From Seven & i Survey

Q3: What are your thoughts on reforms at Seven & i Holdings’ business and stores at large commercial centers, with regard to workforce optimization, reviewing unprofitable stores?
   a. Positive: The company’s strategy of focusing on core businesses with high profitability is significant and highly evaluated.
   b. Neutral: Although this will have a temporary impact on earnings, we believe that their strategy is to capture both risk and opportunity.
   c. Negative: Please tell us more about improving productivity through AI orders and expanding customer contact points using DX.
   d. Others

Sources: Proxy solicitor survey sent on behalf of Seven & I, VAC analysis
Outside Directors Should Ensure the Company Actually Responds to Shareholder Feedback vs. Simply “Hearing” It

With BOD’s majority of Inside Directors, the Outside Directors have been prevented from playing the key role envisioned by Japan’s Ministry of Economy, Trade and Industry (METI).

Outside Director Responsibility According to METI:

“Engage in dialogue with investors and reflect their perspectives in the Board of Directors' discussions. Through dialogue with investors, outside directors should understand the capital market's perspective on how investors view the company's situation, listen to the opinions of investors, and consider what may be useful for the company's sustainable growth and enhancement of corporate value over the medium to long term. In addition, they are expected to listen to the opinions of investors and reflect those that may be useful for the company's sustainable growth and improvement of medium- to long-term corporate value in discussions at the Board of Directors meetings, and to act as a window (interface), so to speak, with investors.”

-- 2020 “Practical Guidelines for Outside Directors “, METI Source, p.42

Sources: METI (Japan’s Ministry of Economy, Trade and Industry)
ValueAct is Seeking Input From Other Shareholders

The Seven & i Board is currently composed of a majority of Inside Directors many of whom have inherent conflicts of interests relative to the strategic imperative to transform. This board declined to formally allow the Outside Directors to ask shareholders the following key questions directly, as requested by ValueAct:

• Do you believe that management has the right strategic vision, structure, ability to execute, and openness to pursuing strategic alternatives, or are changes needed?
• Do you believe the recently announced Medium-Term Management Plan is the optimal way to create corporate value from a medium to long-term perspective?
• Do you believe that there are alternative strategies or ownership structures with superior risk-adjusted potential that should be pursued? If so, what are the alternatives?
• Do you believe that the Board should form a “Strategic Review Committee” of Outside Directors to assess these alternatives?

The Board of Seven & i has denied the Outside Directors formal permission to listen to shareholders promptly and to consider strategic alternatives independently. Therefore, we believe shareholders should now consider an additional question:

What kind of shareholder intervention is necessary to fix Seven & i’s corporate governance system and transform the Company for the benefit of all stakeholders?
Appendix 1:
ValueAct Capital Stewardship
ValueAct Capital invests more than $15 billion on behalf of some of the world’s largest institutional investors.

We have now been in business for over 21 years. We have made over 100 core investments and have held 53 public company board seats.

We have been active investors in Japan since 2017 and believe in the long-term success and future growth of Japanese industry. We currently serve on the boards of JSR and Olympus and are investors in Nintendo and 7&i.
We place great value on our relationships with current and former portfolio companies, as well as with the institutional investor community. We always consider what is in the best interest of the company and all stakeholders.

Our team culture promotes openness, shared learning and shared rewards. We succeed or fail together. We apply this same approach to working with our portfolio companies.

We believe in investing for the long term and managing companies for the long term. This requires integrity, a deep understanding of industry structure and business strategy, and a consideration of relevant social, ethical and environmental issues.
Boards We Have Served

* Indicates BOD observation rights.
ValueAct’s History of Stewardship Over 21 Years

Significant Board Experience and Partnership with Company Leadership

- 104 Core Investments
- 53 Public Board Seats
- 86 Committees Served On

Long-Term Active Role in the Stewardship Community

We partner with other institutional shareholders to propose and shape policies of responsible corporate governance that are being adopted by more and more public companies every year.

Present Affiliations

- Council of Institutional Investors (Corporate Governance Advisory Council)
- Investor Stewardship Group (Founding Member, Board of Directors)
- Commonsense Corporate Governance Principles
- Stanford Rock Center for Corporate Governance (Case Study Authors)

Sources: ValueAct Capital
Our broad ‘Value Creation Toolkit’ and board membership have created unique opportunities to learn and develop a differentiated institutional skill set.

- Compensation Design & Structure Aligned with Shareholder Value Creation
- Management Selection
- Investor Relations
- Financial Planning & Analysis
- Tax & Corporate Structure
- Capital Allocation & Capital Structure
- Strategy & M&A
- Crisis Management
- ESG
Appendix 2: Analysis & Glossary
Transformation Leads to Over 1 Trillion Yen of EBITDA from 7-Eleven Alone, Over 25% Higher Than The MTMP Forecast

Global Champion 7-Eleven EBITDA Potential (JPY Bn)

<table>
<thead>
<tr>
<th>Source</th>
<th>Potential (JPY Bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seven &amp; i PF (FY 2022)</td>
<td>¥767</td>
</tr>
<tr>
<td>US operational improvement</td>
<td>131</td>
</tr>
<tr>
<td>USA fresh food</td>
<td>33</td>
</tr>
<tr>
<td>International expansion</td>
<td>59</td>
</tr>
<tr>
<td>Organic growth</td>
<td>93</td>
</tr>
<tr>
<td>Seven &amp; i potential (FY 2026)</td>
<td>¥1,083</td>
</tr>
<tr>
<td>Seven &amp; i MTMP (FY 2026)</td>
<td>¥850</td>
</tr>
</tbody>
</table>

Sources: Public company documents, VAC analysis
Memo: US operational improvement refers to $1.25 billion of Speedway synergies and SEI expense efficiencies. Fresh food assumes 400 QSRs added to US 7-Elevens per year. International expansion assumes adding 1,100 per year locations earning Japan-type store level economics. Organic growth captures FX and fuel margin improvement (31 CPG in FY26).
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>QSR</td>
<td>Quick Service Restaurant</td>
</tr>
<tr>
<td>MTMP</td>
<td>Medium-Term Management Plan</td>
</tr>
<tr>
<td>SEJ</td>
<td>Seven-Eleven Japan (Primary 7-Eleven entity focused on Japan operations)</td>
</tr>
<tr>
<td>SEI</td>
<td>7-Eleven, Inc (Primary 7-Eleven entity focused on US operations)</td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings per share</td>
</tr>
<tr>
<td>ROIC</td>
<td>Return on invested capital</td>
</tr>
<tr>
<td>WACC</td>
<td>Weighted average cost of capital</td>
</tr>
<tr>
<td>OP</td>
<td>Operating Profit</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings Before Interest, Taxes, Depreciation, and Amortization</td>
</tr>
<tr>
<td>P/E</td>
<td>Price to Earnings Ratio</td>
</tr>
<tr>
<td>METI</td>
<td>Ministry of Economy, Trade, and Industry</td>
</tr>
<tr>
<td>FTC</td>
<td>Federal Trade Commission</td>
</tr>
<tr>
<td>SASB</td>
<td>Sustainability Accounting Standards Board</td>
</tr>
<tr>
<td>ESG</td>
<td>Environmental, Social, and Governance</td>
</tr>
<tr>
<td>VAC</td>
<td>ValueAct Capital</td>
</tr>
</tbody>
</table>
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