



April 2, 2023

Via Electronic Mail

Seven & i Holdings Board of Directors

Seven & i Holdings Co., Ltd.  
8-8, Niban-cho  
Chiyoda-ku, Tokyo 102-8452  
Japan

Dear Seven & i Board Members,

As you know, ValueAct Capital (“ValueAct”, “we”) has been a major shareholder of Seven & i Holdings (“Seven & i”, the “Company”) since 2020.

ValueAct believes that Seven & i is at a pivotal point in its evolution, with a clear opportunity to create a global champion 7-Eleven company. We have had extensive dialogue with members of the Board and management. Despite this dialogue, we still do not know the Company’s answer to the fundamental strategic questions it faces. Moreover, we have been unable to establish confidence in the management or governance of Seven & i.

Shareholders have been asking for an objective review of the Company’s conglomerate structure for years due to its poor corporate value creation and operating performance since the creation of the conglomerate in 2005. We took in good faith the company’s promise one year ago – that the refreshed Board would “implement reforms in consideration of the voices from capital markets.” The Board’s “Group Strategy Re-Evaluation” which began in September 2022 held the promise of repairing lost shareholder trust and of restructuring the conglomerate, including the creation and listing of a global champion 7-Eleven company which itself could be worth around 8,500 yen per share.

Instead, Seven & i announced on March 9, 2023 the continuation of its status quo conglomerate structure, creating confusion and disappointment in the market. Management’s comments that followed undermined the authority of the Board to pursue meaningful strategic alternatives in the coming years.

ValueAct doubts the independence and efficacy of the Board’s “Group Strategy Re-Evaluation” and has little confidence in the outcome. We believe that shareholders’ message to the Board during collaborative engagement last year was clear, and yet the process to respond was opaque and inconsistent with governance best practices.

The Board’s “Group Strategy Re-Evaluation” and management’s subsequent communication has only served to increase our concern with the Company’s entrenchment.

We write this letter to the Board – and are sharing it publicly alongside a [presentation](#) with more details – because Seven & i is accountable to all of its shareholders for this ineffective review. There is an urgent need to answer shareholder questions fully and transparently to repair trust in management and in the governance of the Company.

**We ask the Board to answer the 9 questions below during the Company’s April 6 earnings announcement.** Shareholders deserve simple, factual answers to each question. We also ask the Company to make the recording of the prepared remarks and Q&A of the April 6 announcement available in full in Japanese and English.

Transparent and full answers to these questions will signal to the market that Seven & i hears the calls of shareholders and the substance of the issues at hand. Anything short of this will only increase shareholder perception of entrenchment and failed governance - the concerns which led ValueAct to recently submit shareholder proposals for the 18<sup>th</sup> Annual Shareholders’ Meeting of Seven & i. We have proposed a strengthened Board with the skills, independence, and mandate to address the key questions of leadership and governance that are inline with the expectations of shareholders.

We believe answers from management and the Board to the 9 questions below are necessary for all shareholders to evaluate the effectiveness of Seven & i's current leadership and governance.

Sincerely,

ValueAct Capital

## **Shareholder Questions for Seven & i Holdings Board of Directors**

We ask the Board to answer the 9 questions below during the Company's April 6 earnings announcement. Shareholders deserve simple, factual answers to each question. We also ask the Company to make the recording of the prepared remarks and Q&A of the April 6 announcement available in full in Japanese and English.

- 1. Does the Board recognize shareholder dissatisfaction with the current conglomerate structure?**
- 2. How did the Board's process for the "Group Strategy Re-Evaluation" control for the bias of management toward the status quo?**
  - a. Did Seven & i create an independent committee to conduct a strategic review or did the whole Board including management participate in the "Group Strategy Re-Evaluation"?
  - b. Which firm acted as financial advisor? Did the financial advisor report to the Independent Outside Directors or to management?
  - c. Did Seven & i allow the Independent Outside Directors to evaluate and vote on several strategic options that were all presented as viable? Or did management make a single strategy recommendation for up/down vote by the full Board?
- 3. Did the Board evaluate the conglomerate discount?**
  - a. How much corporate value did the financial advisor estimate would be created by eliminating the conglomerate discount?
  - b. What is the Board's plan to eliminate the conglomerate discount?
- 4. Which strategic alternatives were quantitatively considered?**
  - a. During the "Group Strategy Re-Evaluation", for which strategic alternatives did the financial advisor assign a corporate value estimate?
  - b. How did the corporate value estimates of these strategic alternatives compare to the current market value of Seven & i Holdings?
- 5. Why not pursue a tax-free spin-off of 7-Eleven?**
  - a. What reasons were discussed at the Board for why this tax-free spin-off plan was inferior to the plan announced on March 9?
  - b. Was increased vulnerability of the separated companies to a takeover among the reasons discussed?
- 6. Why not pursue a sale of the whole Company?**
  - a. Is the Board aware of any takeover approaches to Seven & i in the past five years?
  - b. If a sale of the whole Company was evaluated, what were the reasons that a possible sale of the Company was inferior to the plan announced on March 9?
  - c. How did the Board ensure its evaluation of a company sale was not biased by the incumbent management's interests in retaining their executive positions in the Holding Company?

- 7. How do the supposed “group synergies” justify maintaining the conglomerate structure?**
- a. During the “Group Strategy Re-Evaluation”, did the Board quantify group synergies? If so, what is the contribution of group synergies to current operating profit and corporate value?
  - b. Did the Board evaluate options to maintain synergies through commercial agreements?
  - c. Did the Board evaluate the extent to which investing in group synergies in Japan under the conglomerate structure could limit its capacity to invest in the global growth of 7-Eleven?
  - d. After 18 years of pursuing and communicating group synergies under the conglomerate structure, why does a large conglomerate discount remain?
- 8. Does the whole Board agree with management’s commentary?**
- a. Does the Board unanimously agree with management's commentary during and after the March 9, 2023 announcement that the “Group Strategy Re-Evaluation” has "concluded" and that Ito-Yokado is "given three more years" before strategic alternatives can be pursued?
- 9. What will the newly formed Strategy Committee do?**
- a. Will the Strategy Committee communicate its recommendations to shareholders? Or will communications be mediated by management?
  - b. Will the Strategy Committee establish its own timetable to evaluate strategic alternatives "objectively and comprehensively"? Or will the timetable be dictated by management?
  - c. Will the Strategy Committee recommend a strategic alternative to the Board and call for a vote? Or are its recommendations purely advisory?
  - d. In light of the negative capital markets reaction to management’s March 9 announcement to continue the status quo, will the Strategy Committee consider and announce a new strategic alternative prior to the May 2023 Annual Meeting of Shareholders?