

May 2, 2023

Seven & i Holdings Co., Ltd.

## **Seven & i Holdings' Board Outlines Competitive Advantages of "Food-Focused" Convenience Store Strategy**

- *Company's unique expertise in "food" drives growth at each stage of the value supply chain*
- *ValueAct Capital's (ValueAct) short-sighted demand would fragment food ecosystem and damage competitive position*
- *Clear intention by ValueAct to conduct quick spin-off, as stated in shareholder letter as well as in recent presentation dated April 2, 2023 based on plans that "the spin-off of 7-Eleven is executed on the last day of the fiscal year ended February 2024," only ten months away*
- *Board and management open to change and committed to maximizing long-term shareholder value through portfolio optimization initiatives undertaken in the right way and at the right time*
- *Urges shareholders to vote for Company's slate of Board nominees*

Seven & i Holdings' Board of Directors today issued the following letter to shareholders outlining the competitive advantages of its "food-focused" strategy and investments in its convenience store business ("CVS"). **It also reiterated its commitment to capital re-allocation and ongoing portfolio optimization undertaken in the right way and at the right time.**

Shareholders are urged to vote for the Company's slate of Board nominees in connection with its Annual General Meeting on May 25, 2023.

*Dear Seven & i Shareholders,*

Your company is in the midst of a significant business transformation designed to build on its unique competitive strengths, led by a committed and newly strengthened and aligned Board and management and overseen by a Strategy Committee comprised solely of independent outside directors. Most importantly, we have successfully transformed ourselves into a CVS-centric company, with more changes to come.

Today, our CVS business, which includes our domestic Seven-Eleven Japan Co., Ltd. (“SEJ”), North American 7-Eleven, Inc. (“SEI”) and other overseas 7-Eleven International LLC (“7IN”) businesses, contributes over 80% of the Company’s revenue and profit. We have achieved this through carefully planned strategic investments in CVS and divestitures of non-core assets. We are leveraging the food expertise of SEJ, including its private brand, product development and procurement networks, and delivery model, to expand private label food offerings throughout our global CVS business, including SEI, to enhance sales and margin expansion.

These initiatives are driving our strong performance, prompting us to raise our medium-term targets. **It’s important to understand that key to this successful strategy is a deep understanding of the role that our strength in “food” plays as a growth and profitability driver as we expand our global CVS business.**

ValueAct’s demands – forcing a change in governance, removing our President, and conducting a near-term spin-off of 7-Eleven – would hurt long-term value by disrupting our transformation, which has already begun to benefit our shareholders: We have achieved 88% total shareholder return since we announced our acquisition of Speedway in August 2020 and a total return of 9% since our Board refresh in May 2022, greatly exceeding our peers’ performance. We are confident that once our transformation is further along, we will be in a better position to consider further portfolio optimization.

### **The Seven “Food Ecosystem” Is Our Core Competitive Advantage**

SEJ’s competitive advantage in “food” is a result of collaboration with our group companies at each stage of the product development and procurement process. This network is difficult for peers to duplicate, and they afford our business competitive advantages:

- Our Company structure allows our CVS business to leverage the food procurement capabilities of our group company supplier network, which is approximately double the size of that of our CVS business.
- Additionally, over 70% of our Company’s integrated private brand product development team belongs to our group companies excluding the CVS business, and their expertise has enabled SEJ to offer over 1.7x more private brand food products compared to competitors. The increasing roll-out of these high-margin proprietary products will continue to drive performance across the CVS business.
- Given that there are 15,000 food-related items across the entire Company, we have a significant opportunity to leverage this network to continue growing the 2,000 food-related items currently offered by CVS.

Our food ecosystem makes essential contributions to the development of SEJ’s food offerings, empowering SEJ’s network of over 21,000 stores to produce half of the Company’s food-related sales from SEJ.

### **Our Food Expertise is the Core Driver of Global CVS and SEI Growth**

By leveraging our Company’s extensive product development and supply network, our global CVS business can provide the highest-quality food offerings compared to our competitors – a true differentiator in the industry. **In Japan, this has already resulted in SEJ’s average daily sales per store being approximately 30% higher and gross margins generally 100–200bps higher than domestic competitors.**

Fresh food\* offerings are particularly important, as there is a direct correlation between global CVS stores' sales composition of fresh foods and average daily customers per store. For example, the sales composition of fresh food in SEJ stores is 42%, with approximately 900 average daily customers per store, while the sales composition of fresh food in the other countries we serve is approximately 25%, with 550 average daily customers per store.

SEJ's competitive strength in food is currently being leveraged across our global CVS business. We are installing SEJ's private brand product development and food production processes at SEI and the other countries we serve through valuable business partnerships. For 7IN, further growth will also be pursued in East Asian countries achieving economic growth, with the benefit from our differentiated fresh food offerings.

\*Fresh food includes ready-to-eat meals, milk, eggs and other daily food essentials.

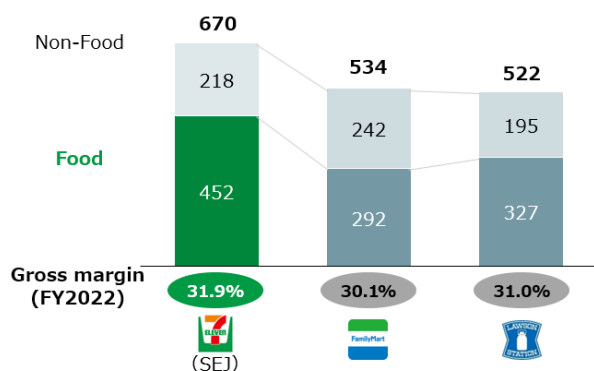
## Food Synergies are the Core Driver of 7-Eleven, Inc. ("SEI") Growth



**We Will Leverage Our Historical Strength in Food and Optimally Allocate Management Resources to Become a Global Retail Group with Food at its Core**

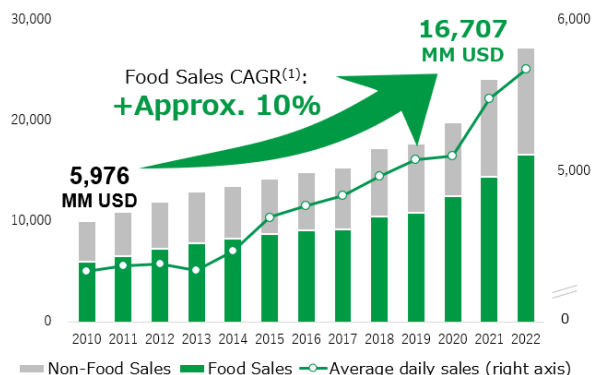
### SEJ's competitive strength is highlighted through food...

Daily sales by segment  
(thousands, JPY, FY2022)



### ...which also drives SEI growth

SEI sales by segment and average daily sales  
(MM USD)



(1) Compound Annual Growth Rate of SEI's food sales from 2010 to 2022

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ValueAct's demand to conduct a hasty spin-off of CVS would disrupt these critical product development efforts, fragment our food ecosystem in the supply chain network, and damage our competitive position before we are ready to embark on further portfolio optimization, risking the potential for long-term value creation.

### What Is ValueAct's True Agenda?

In its letter dated April 27, 2023, ValueAct denies the notion of pushing for a "hasty spin-off of the CVS business." ValueAct's own statements demonstrate their real intentions despite their repeated denials to the contrary:

- In its presentation to shareholders dated April 2, 2023, they clearly asserted their assumption in the "Methodology & Key Assumptions" section on page 37 that "the spin-off of 7-Eleven is executed on the last day of the fiscal year ended February 2024," a date less than 10 months away.
- Additionally, in its letter to Seven & i shareholders dated January 19, 2023 – issued privately but shared with media– ValueAct states that the Company could execute a spin-off of 7-Eleven "about 12 months from now" and based its analysis and estimates included in an attached presentation for a spin-off executed in February 2024.

ValueAct’s proposal to replace four experienced directors and remove our President is simply a means to force through this ill-conceived and disruptive plan to achieve a short-term payout.

In contrast, our Medium-Term Management Plan, unanimously endorsed by our majority-independent Board, outlines a carefully crafted strategy and our goal to increase the gross profit composition of merchandise products in SEI from 61.8% in FY22 to 67.1% in 2025, driving an increase in the average daily sales per store by 12%. We are committed to simultaneously raising our SEI merchandise margin 100bps by 2025.

### **We Have Best-In-Class Governance That Will Empower Additional Change and Value Creation**

- While our Board has concluded that now is not the right time to pursue a spin-off of our CVS business, we have NEVER said never to any strategic options that could create value for our shareholders, including a separation, spin-off, or IPO. We have simply said that, in view of the critical role that food currently plays in our business success, now is not the right time to pursue any of those options.
- On the contrary, the Board is reviewing optimal corporate structure and strategic alternatives comprehensively and objectively through the Strategy Committee, as repeatedly stated in public both by our President as well as by all eight independent outside directors.
- Our sole strategic objective is to build a world-class retail group with a competitive strength in our food offerings; our Board as well as the Strategy Committee – made up solely of independent outside directors – are committed to further transformation and continuous corporate structure optimization to achieve this objective.
- Different from ValueAct, which possesses very limited investment experience in the retail sector and little appreciation for the strategic role that food plays in our success, our Board is made up of inside and outside experts with highly relevant experience and retail expertise with a deep appreciation of our strategy. The input of our deeply knowledgeable directors ensures a thoughtful decision-making process to secure long-term value creation.

We are united as a Board in our strategic objectives and path, including our newest independent outside directors who were added to the Board with input from our shareholders, including ValueAct. We speak with one voice even as we use different channels to communicate our strategy to our shareholders. We are all aligned on continuing our transformation – in the right way and at the right time.

Despite their determination to appear constructive, ValueAct is not interested in realizing long-term value creation, and instead is pursuing a narrow agenda to achieve a short-term payout.

Our entire Board, including the majority independent outside directors, stands behind our business plan. We thank you once again for your support and urge you to endorse our growth and transformation efforts by voting for the Company’s slate of Board nominees.

*Sincerely,  
Seven & i Board of Directors*

Note: For reference, Seven & i’s April 25, 2023 letter to shareholders is available [here](#), and its April 18, 2023 presentation on ValueAct’s shareholder proposal is available [here](#).