

May 12, 2023

Seven & i Holdings Co., Ltd.

## **Seven & i Holdings' Board Highlights Strong Governance Practices, Robust Nomination Process, and Clear Value Creation Mandate of Board**

- The Company's food-centric convenience store ("CVS") business growth strategy is the outcome of our Board's open and constructive discussions to enhance shareholder value, and we will continue to monitor and assess strategic options through the Strategy Committee composed solely of independent directors.
- In this letter, a few of our independent outside directors share their opinions that confirm the independence and effectiveness of Board discussions along with the nomination process's transparency, including the assessment of the Shareholder Proposal.
- Our Board holds a different opinion to that shared in the report by Institutional Shareholder Services Inc. ("ISS"), and urges shareholders to vote for the Company's slate of highly qualified Board nominees.

The Company's Board of Directors today issued the following letter to shareholders to set the record straight about the Company's strong governance practices and its rigorous Board nomination review process. The Board also expressed its opinion regarding the report issued by ISS that has not accounted for the significant progress the company has made since transforming its Board last year. The Company believes that electing the nominees proposed by ValueAct Capital ("ValueAct") will halt the Company's strong growth momentum and risks the Company's strategy to create long-term value.

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

*Dear Seven & i Shareholders,*

Since going public with its campaign, our promising plan and the Board and management's commitment to creating value for shareholders have not been correctly perceived by ValueAct. Of greatest concern is that they continue to advocate unseating the President of Seven & i just as we are gaining momentum and forcing a hasty spin-off of 7-Eleven in less than a year.

The Board believes it is important for shareholders to understand the following about our governance practices, Board nomination review process, and clear mandate for delivering growth with Board accountability and oversight. Most critically, the Company's strategy has been delivering results, demonstrated most recently by our record FY2022 consolidated results.

**Following thorough discussions, all of our directors in the reconstituted Board with a majority of independent directors have affirmed our strategy of driving investments in our CVS business while continuing to prioritize our resources and capital allocation to grow our CVS business with a food-centric focus. The Board conducted an objective strategic review process using external advisors and created a Strategy Committee composed only of independent directors to monitor performance and assess strategic options for the optimal course through which to create value for all stakeholders.**

- As members of the newly formed Strategy Committee, the Company's independent directors continue to monitor performance and hold management accountable as they advance the Company's transformation.
- We have never dismissed any strategic options that could create value for our shareholders, including a separation, spin-off, or IPO - the Board will continue to review optimal corporate structure and strategic alternatives comprehensively and objectively through the Strategy Committee.

*Stephen Dacus, Independent Director and the Chair of the Strategy Committee, said: "The entire Board, including my fellow independent directors, stands behind the Company's business plan and is confident that our ongoing investments in CVS and focus on our competitive strength in food will continue to drive global growth. This strategy has already begun to benefit our shareholders, while ValueAct's plan contains many significant unknowns that risk halting our momentum. We are committed to making sure that this performance continues while reviewing opportunities to create further value for shareholders including structural change."*

**Seven & i has transformed its governance over the past year, installing a highly effective, majority-independent Board in 2022 following discussions with dozens of shareholders and investors including ValueAct. This reconstructed and diversified Board is having effective and constructive discussions supported by the strong underlying independence of each Board member's opinions.**

- The new Board is comprised of a majority of independent directors and is among the most independent of major Japanese companies. Only 12% of major Japanese companies have a majority of independent directors.
- It also has 5 non-Japanese directors (~35% of total) and 3 female directors (~21%), while the averages for Japanese companies are only 5% and 15% respectively.

*Meyumi Yamada, Independent Director, said: "The governance transformation Seven & i undertook last year was intended for one reason – holding management accountable for evolving the Company and achieving the ambitious performance targets for the benefit of stakeholders including shareholders. In the past year, our reconstituted and highly independent Board has already driven significant change. The discussions in the Board are truly transparent, and independent directors with various backgrounds freely express their views and engage in deep discussions from various perspectives. I believe that agreeing to form the Strategy Committee composed only of independent directors is strong evidence of the effectiveness and independence of the Board. We will continue to make efforts to accelerate progress, while continuously evaluating opportunities for further corporate and shareholder value creation."*

**The Board conducted a rigorous and fair review of ValueAct’s proposal, with independent outside directors from the three approved by ValueAct conducting interviews with both ValueAct’s and the Company’s new director candidates. These directors concluded that the Company’s candidates were superior to ValueAct’s candidates given that three of ValueAct’s candidates have no food or retail experience, and the fourth has no relevant recent experience.**

*Yoshiyuki Izawa, Independent Director, said: “In conducting the process of reviewing ValueAct’s new director nominees, we followed all governance best-practices. Specifically, three independent directors, namely Mr. Dacus, Ms. Yamada and myself, interviewed the candidates proposed by both the company and ValueAct. In our interviews, it became clear that the nominees proposed by ValueAct were not the right directors to oversee the next chapter of the Company’s growth in light of the other Company-proposed nominees who have the experience of serving as a CEO. Our views were respected and supported by the Nomination Committee, and the Board unanimously approved through an appropriate process. The Company’s nominees bring strong track records and experiences as executives and retail leadership and proven expertise in streamlining the Company’s portfolio, a process we will ensure continues.”*

**The ISS report has not considered the full implications of the strong governance changes implemented by the Company last year, changes that even ISS states were “massive”.**

The ISS report has not taken into account the work undertaken by President Isaka and the highly qualified, independent Board in recent years to build a food-focused convenience store business and the fact that ValueAct’s plan to spin off 7-Eleven in less than a year would greatly disrupt our business momentum as we advance our transformation.

Additionally, even though the ISS report admits the governance changes implemented last year were “massive,” it glosses over the importance of these changes on the effectiveness of the Board in creating sustainable value for shareholders. Those governance changes led to our conducting a focused and fair review of ValueAct’s proposal, with the three independent outside directors approved by ValueAct holding interviews with both ValueAct’s and the Company’s new director candidates. These three directors concluded that the Company’s nominees were superior to ValueAct’s nominees given that three of ValueAct’s nominees have no food or retail experience, and the fourth has no relevant recent experience.

Most disappointingly, ISS’s recommendation against the Company’s nominees reflects a backward-looking view of the situation, and simply repeats many of ValueAct’s one-sided assertions. The Company has achieved strong performance, such as the record-high operating revenue and income in the fiscal year ending February 28, 2023 and the upward revision to the “Medium-Term Management Plan 2021-2025”. The ISS report neither credits the Company’s track record achieved through transformation, nor appropriately considers the continuous oversight of future transformations by the reconstituted Board.

It’s important for shareholders to be aware of the backward-looking view, and the information missing from the ISS report, which disappointingly has not considered the Company’s recent governance transformation and the record results the reconstituted Board and management achieved in FY2022.

We urge shareholders to endorse our strong governance model and business plan by voting for the Company’s slate of highly qualified Board nominees.

*Sincerely,  
Seven & i Board of Directors*