

## Message from the Director in Charge of Finance and Accounting



### Kunio Takahashi

Director, Executive Officer, Senior Officer of Financial Accounting and Investor Relations, and Senior Officer of the Financial Planning Department

Joined Seven-Eleven Japan Co., Ltd., in 2003. Executive Officer of the Company from 2005, and Director of the Company from 2011. Serves concurrently as President and Representative Director of Seven & i Asset Management Co., Ltd., and as President and Representative Director of SEVEN & i Financial Center Co., Ltd.

We will work to increase corporate value based on a medium- to long-term viewpoint.

### Increasing Corporate Value

The Seven & i Group is aiming for ROE of 10% in the fiscal year ending February 28, 2019. To achieve that goal, I think that we will need to expand Group synergies and raise our capital efficiency while maintaining a sound financial position. We will not utilize own-stock acquisitions or borrowing in pursuit of short-term increases in ROE. In accordance with this approach, we will break down ROE into the components of ROA and financial leverage. ROA will be managed by each operating company, while leverage will be controlled by the holding company. The ROA target is different for each operating company. Each company will determine specific KPIs and work to record improvement while also taking steps to appropriately implement portfolio replacement and asset disposal.

As the holding company, Seven & i Holdings will build a framework for rigorous monitoring on a more-frequent basis, track ROA improvement, and consider restructuring of the business portfolio. We have established the Management Committee (Portfolio Committee), which is led by the president. Prior to meetings of two key committees — the Group Strategy Meeting, in August, and the Budget Action Plan Meeting, in February — the Portfolio Committee formulates medium-term plans, confirms the progress of those plans, and verifies and evaluates the appropriateness of single-year budgets, resource allocation, and capital policy.

If large-scale investment projects go over budget, a meeting of the Portfolio Committee is held to verify the details of the situation. In addition to the four members of the Portfolio Committee, including the president, related departments also conduct a wide range of verification initiatives. The committee also plays an extremely important role in ensuring a common

Goal	Approach	Key indicators
<b>Increase in medium- to long-term corporate value</b>	Realize synergies Increase capital efficiency	Increase in operating income ROE (ROA)
<b>Sustainable growth</b>	Maintain a sound financial structure	Credit ratings Owners' equity ratio Interest-bearing debt ratio

  

$$\begin{aligned}
 \text{ROE} &= \frac{\text{Net income}}{\text{Net sales}} \times \frac{\text{Net sales}}{\text{Total assets}} \times \frac{\text{Total assets}}{\text{Owners' equity}} \\
 &= \text{ROA} \times \text{Financial leverage}
 \end{aligned}$$

understanding of the intentions and directions of managers throughout the entire Group.

### Cash Flow Management

We will maintain a sound financial position, and on that basis we will continue to invest aggressively in convenience store operations, which have a strong cash-generating capability and the potential for sustained growth. However, our basic approach is to implement investment within the limits of operating cash flow, and, in the event that those limits are exceeded, the holding company will consider the appropriate allocation of management resources for the Group as a whole. The introduction of the cash management system and the utilization of funds within the Group will lead to a streamlined balance sheet, improvement in net interest income/expense, and growth in ROA.

In addition, to achieve both the maintenance of a sound financial position and the strengthening of shareholder return, the holding company will carefully track free cash flow after the payment of dividends. Management is divided among multiple business groups, such as overseas businesses and domestic small retail businesses, and we will implement finely tuned cash flow management while tracking cash flow generation capabilities.

### Maintaining a Sound Financial Position

The Seven & i Group encompasses a broad range of businesses and has a large operational scale. Accordingly, we require a wide range of options in formulating our growth strategies. However, if our financial foundation is weak, those options narrow, potentially leading to a situation in which we are not able to implement the necessary strategies. Consequently, it is essential that we

maintain a sound financial foundation. To that end, our policy is to maintain a rating of AA as one standard for a sound financial position. We manage based on the owners' equity ratio and the interest-bearing debt ratio.

Of course, it is necessary to be prepared for urgent matters or large-scale investments, and accordingly we have made preparations for these situations by filing shelf registrations for corporate bonds and establishing credit lines. However, if we lack the necessary level of creditworthiness, then these preparations will not be effective. To earn the confidence of ratings agencies and financial institutions, I would like to further enhance our dialogues. It is uncommon for retail companies to obtain ratings from four ratings companies. The reason why we decided to obtain those ratings is the high priority that we place on our relationships with stakeholders. The words "trust" and "sincere" appear in our Group corporate creed, and moving forward we will also emphasize these words in the capital markets.

### Future Vision for Finance Planning and Accounting

The work of the Finance and Accounting departments is not simply daily cash management and budget control. It is also necessary for these departments to consider how to structure the business portfolio to raise ROE and to provide opinions about how management will be affected by future changes in accounting standards. They also need to provide opinions from a financial perspective about such matters as results evaluation systems and pension systems. All corporate activities involve funds, and accordingly the people in the Finance and Accounting departments will need to strive to increase corporate value while stepping up their training and collaborating with the operating companies.