



Seven & i Holdings Co., Ltd.

Growth Strategy Presentation

March 9, 2016

Content

1. Group Management
2. Strengthening Governance
3. Reform of Ito-Yokado
4. Reform of Sogo & Seibu

1. Group Management

Seven & i Group Management

The Goal is to maximize Group value

Basic policy

“Shared strategies and independent brands”

Holding company
Seven & i Holdings

Operating Companies
Seven-Eleven Japan (SEJ), Ito-Yokado (IY), and Sogo & Seibu (SS), etc.

Reflect **shareholder** concerns

Reflect **customer** concerns

- 1) Control overall governance
- 2) Maximize enterprise value as the Group's listed representative






- 1) Fulfill responsibilities in each operational domain
- 2) Realize autonomy, seek profit growth and enhance asset efficiency

Realizing Group synergies

Pursuing Group Synergies

Drivers of Group synergy generation

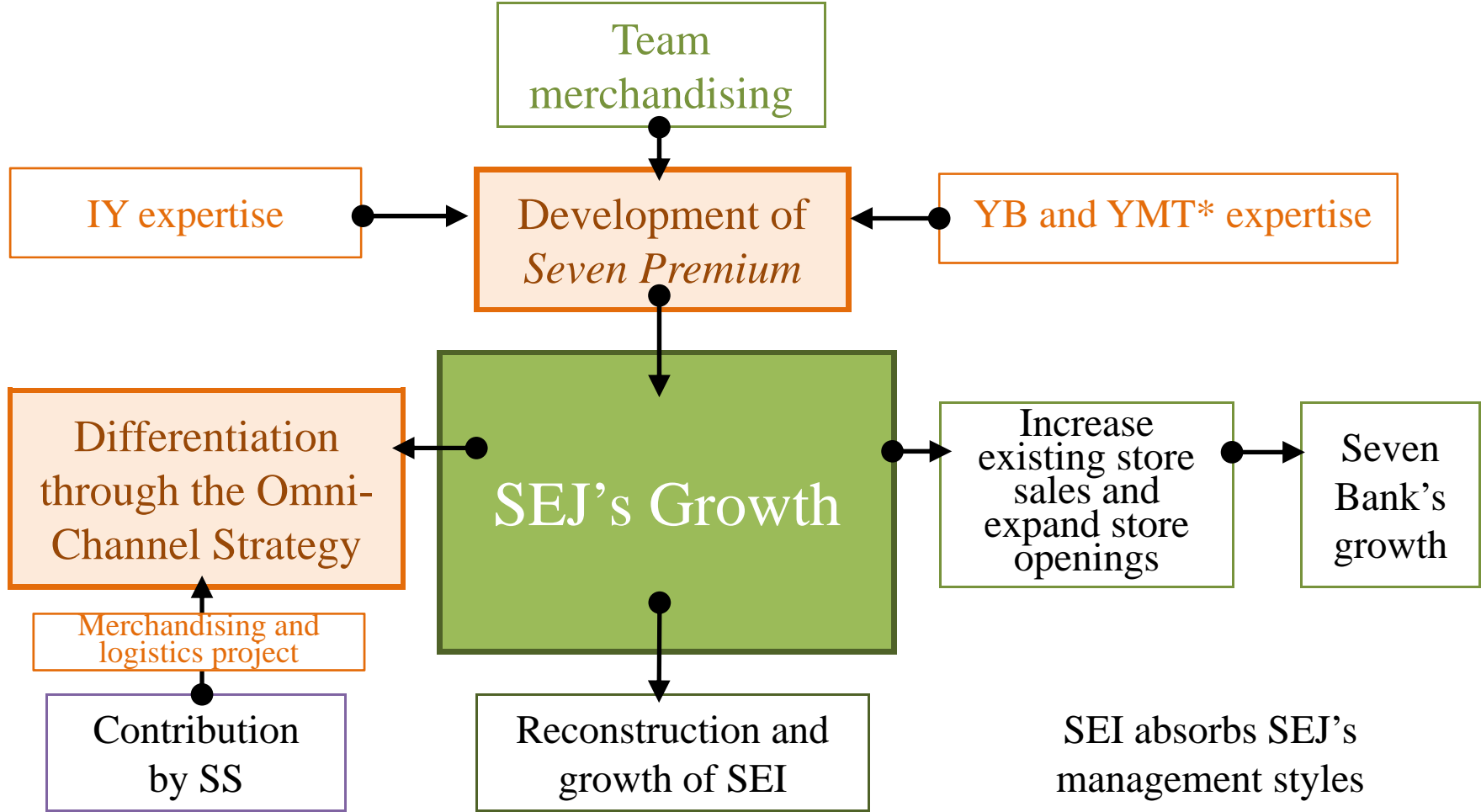
- (1) Group principle : “Responding to Change while Strengthening Fundamentals”
- (2) Marketing capabilities: Perceiving changes in consumer behavior through abundant customer-contacts

	Foundation of Seven-Eleven Japan	Modernization and revitalization of small and medium sized stores
	Reconstruction of 7-Eleven, Inc.	Reconstruction through relisting and becoming a wholly owned subsidiary
	Foundation of Seven Bank	Pursuing further convenience of SEJ
	Seven Premium	Synergies focused on products through team merchandising
	The Omni-Channel Strategy	Synergies focused on customer behavior and Internet infrastructure

Group management is crucial to grasp broad trends in consumer behavior and raise gross profit through purchasing power

Group Growth Strategy Matrix

“Responding to Change while Strengthening Fundamentals”

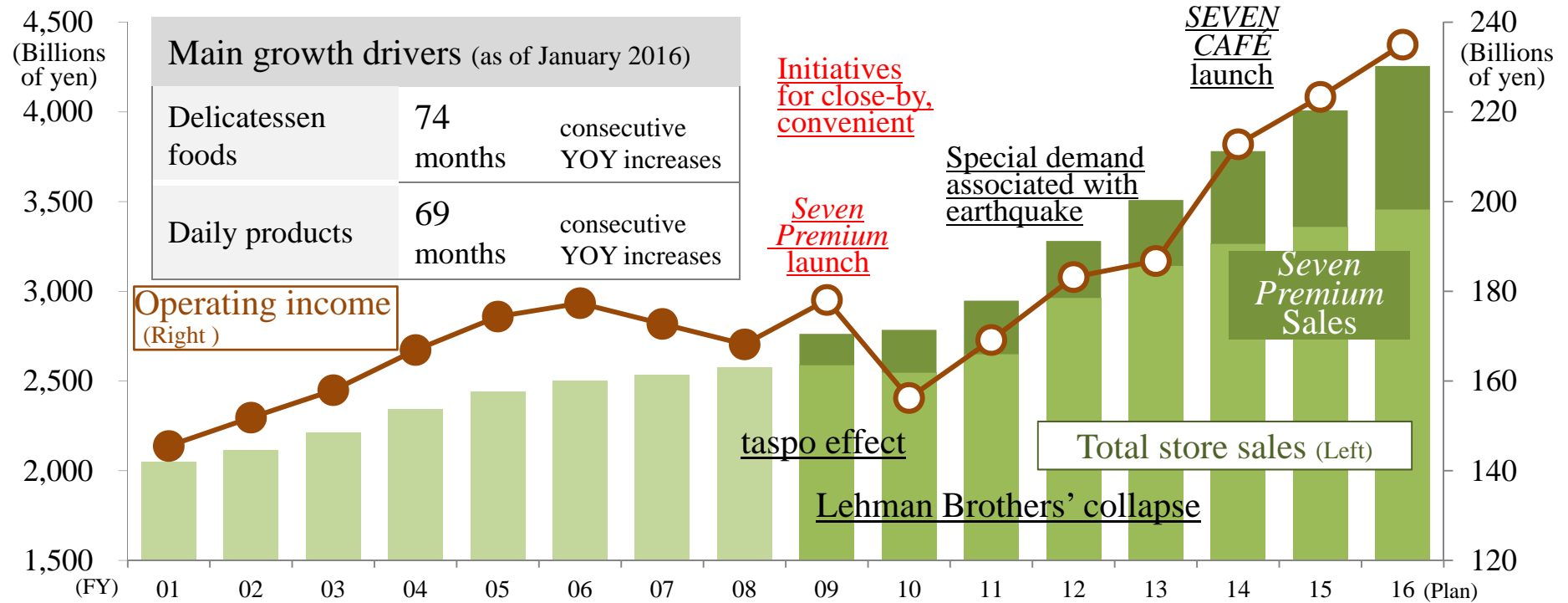


Grow CVS operations making full use of Group's resources

* YB (York-Benimaru) and YMT (York Mart) are Group's food supermarkets Copyright (C) Seven & i Holdings Co., Ltd. All Rights Reserved.

SEJ Could Never Have Grown without Realization of Group Capabilities, Including from IY and YB

■ Total store sales (including *Seven Premium* sales) [left scale, bar graph] and operating income [right scale, line graph] by fiscal year



Positive cycle: Social structure change ⇒ Product strategy change ⇒ Existing store sales increase ⇒ Increase store openings

Aging society and increase in dual-career couples, etc.

Seven Premium expansion

Realize synergies

Seven Premium Helps SEJ to be “Close-by, Convenient Stores” by Incorporating the Strengths of Supermarkets

Convenience stores product lineups meet meal needs through product development using supermarket knowledge and marketing capabilities

Previous lineup

Convenience stores

Ready-to-serve

Meal needs

Supermarkets

Since *Seven Premium* proposals (2009 onward)

Convenience stores

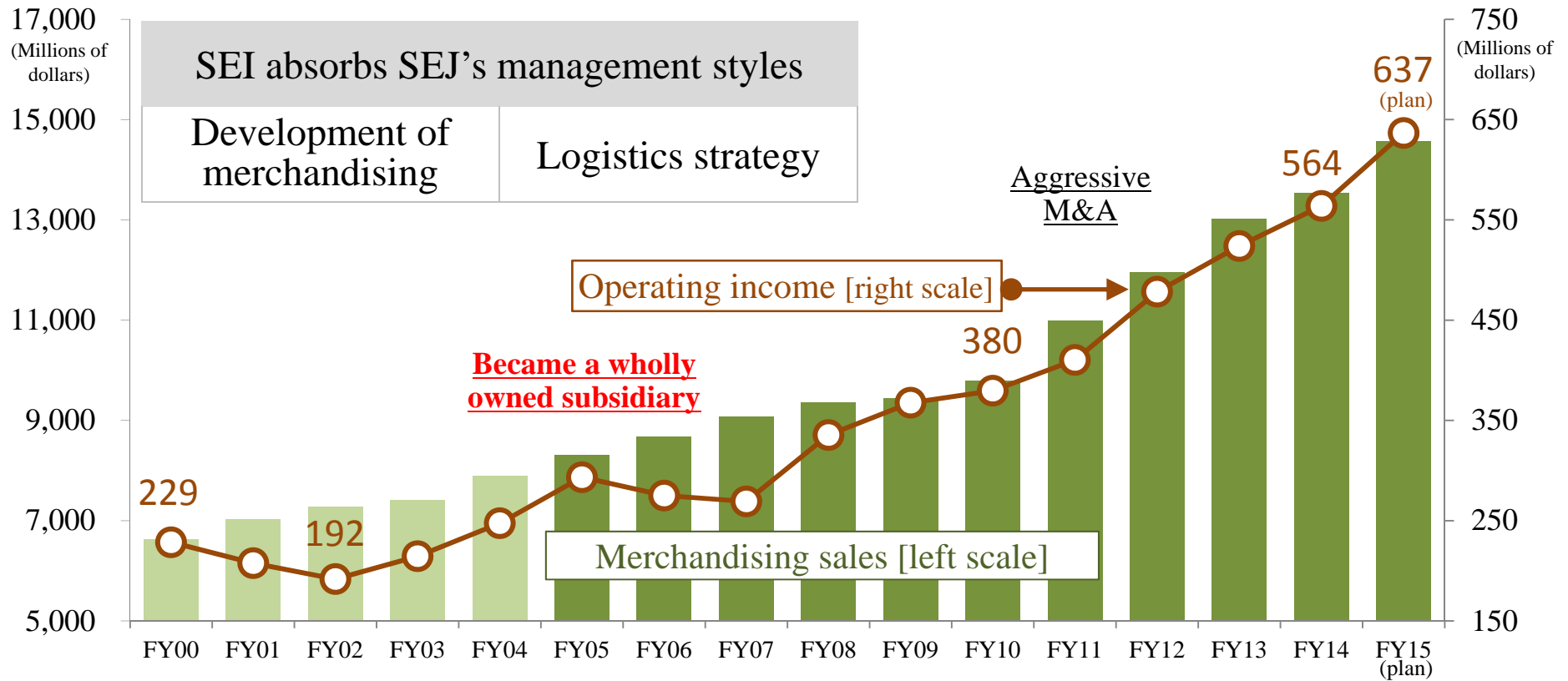
Ready-to-serve

Meal needs

Supermarkets

SEI Could Never Have Grown without Becoming a Wholly Owned Subsidiary

■ Trends of merchandising sales [left scale, bar graph] and operating income [right scale, line graph] on a dollar basis



Number of total stores	5,756	5,829	5,823	5,784	5,799	5,829	6,050	6,088	6,196	6,389	6,610	7,149	8,118	8,292	8,297	8,550
Number of franchised stores	3,118	3,173	3,276	3,338	3,422	3,508	3,828	4,041	4,220	4,649	5,064	5,437	5,870	6,219	6,390	6,678
Franchise ratio (%)	<u>54.2</u>	<u>54.4</u>	<u>56.3</u>	<u>57.7</u>	<u>59.0</u>	60.2	63.3	66.4	68.1	72.8	76.6	76.1	72.3	75.0	77.0	78.1

2. Strengthening Governance

Concept of Governance (1):

Realize Sustainable Growth and Medium- to Long-Term Enterprise Value Increase

● Approaches and key indicators for achieving goals

Goal	Approach	Key indicators
Medium- to long-term enterprise value increase	Realize synergies Increase capital efficiency	Operating income increase ROIC ROE (ROA)
Sustainable growth	Maintain a sound financial structure	Credit ratings Owners' equity ratio Interest-bearing debt ratio

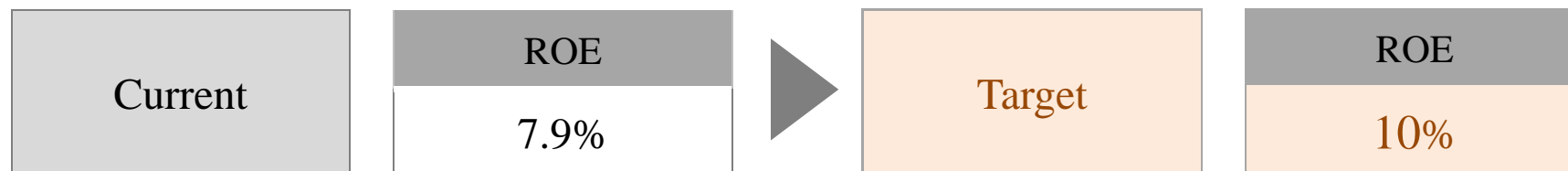
$$\begin{aligned}
 \text{ROE} &= \frac{\text{Net income}}{\text{Net sales}} \times \frac{\text{Net sales}}{\text{Total assets}} \times \frac{\text{Total assets}}{\text{Owners' equity}} \\
 &= \text{ROA} \times \text{Financial leverage}
 \end{aligned}$$

Business management of operating companies based on ROA and consolidated financial leverage

Concept of Governance (2):

Realize Sustainable Growth and Medium- to Long-Term Enterprise Value Increase

● Current ROE (FY2015) and target

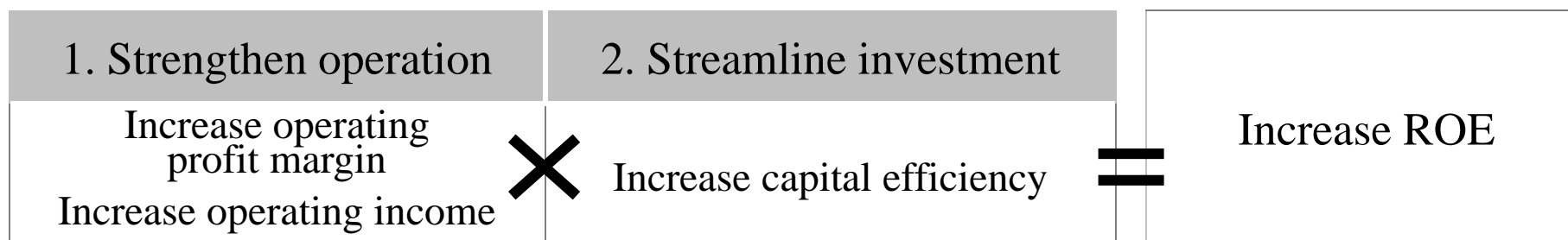


■ Governance for operating companies

Set increasing operating income as the most important indicator, since this is the result of our core business

- | | |
|-------------------------|--------------------------------------------------------------------------------------|
| 1. Operation | Support each company's sales strategies and create synergies across the organization |
| 2. Investment decisions | Make investment decisions based on a standard of ROIC 6%* |

*(Operating income + interest income) × 0.6 + dividend income / (non-current assets + investment and financing)



Strengthening Governance

Matters currently under consideration

Setting of targets with set deadlines

Specify when achieve the target of ROE 10%

PDCA cycle for achieving numerical targets

Deciding, executing, confirming on funds allocation and operating strategy

Implementation process example



The holding company will strive to realize a structure capable of allocating the management resources (funds) of the entire Group

As a result, we will create a framework that can generate cash flow that will enable continuous dividend increases

Maintain a Sound Financial Structure (Sustainable Growth)

Capital policies

Credit ratings

Maintain current rating

Owners' equity ratio

Manage the owners' equity ratio of around 45%

*Maintain around 55 % in retail business

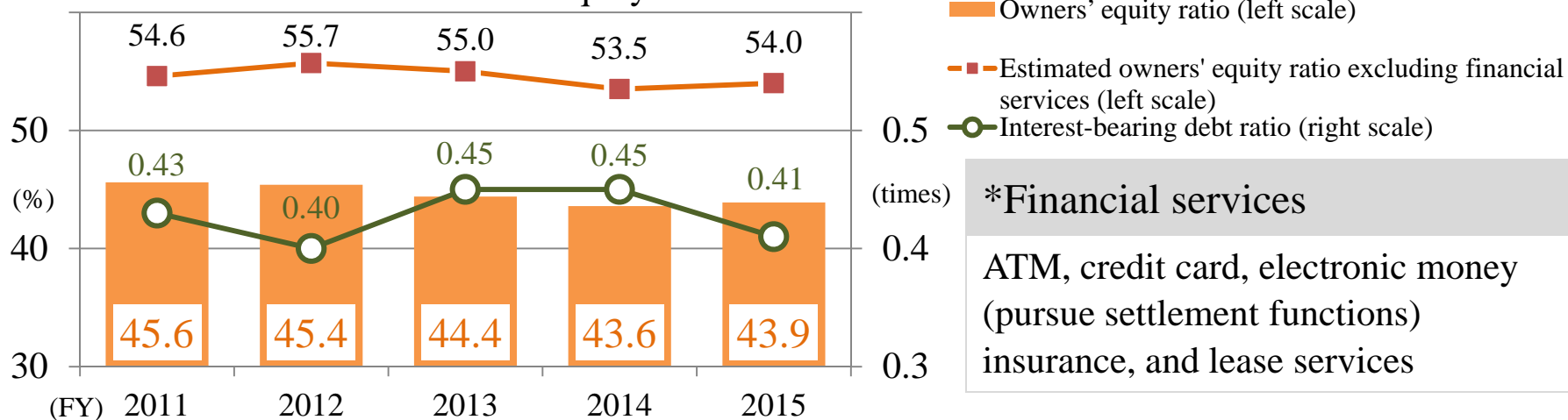
Interest-bearing debt ratio

Manage within 0.5 times

*Conduct fund procurement through large-scale investments, etc. using optimal methods considering management trends, financial status, market environment, etc.

With financial stability as the core focus, aim to also increase capital efficiency

Reference: Trends on owners' equity ratio



***Financial services**
 ATM, credit card, electronic money
 (pursue settlement functions)
 insurance, and lease services

Establishment of a Voluntary Nomination and Compensation Committee

Establish the Nomination and Compensation Committee as a voluntary advisory committee to the Company's Board of Directors

*Integrated committee

● Goal

Ensure objectivity and transparency for important matters relating to personnel and compensation

Committee chair	Kunio Ito, Director (Independent Outside Director): Nominated by the Board of Directors
Committee members	Chairman and Chief Executive Officer (CEO) , President and Chief Operating Officer (COO), Independent Outside Directors (Two members)

*Observer: One Internal Audit & Supervisory Board Member and one Outside Audit & Supervisory Board Member, without voting rights

● Deliberations

Deliberate on the following and report to the Board of Directors

Nominations	Formulation of basic policy and standard	7&i HD	: Representative Directors, Directors, Executive Officers, Audit & Supervisory Board Members
	Clarify reason for nomination	Subsidiaries	: Representative Directors*
Compensation	Formulate basic policy and standards relating to executive compensation, discuss and confirm compensation proposals		

*SEJ, IY, SS, YB, YMT, Seven & i Food Systems

3. Reform of Ito-Yokado

Earnings and Direction of Ito-Yokado (IY)

Base on individual store management, move away from mainly corporate general merchandise stores and change the earnings structure

Thoroughly
reinforce food

Downsize apparel
and household
goods in line with
individual store
characteristics

Strengthen *Ario*
(shopping center)
format

Leverage potential
in the Tokyo
metropolitan area

Utilize the
Omni-Chanel
Strategy

IY earnings

Apparel and
household
goods

Decrease in floor-space efficiency and gross profit margins resulted in a sharp increase in loss

Food

Breadwinner, mainly in the Tokyo metropolitan area

Tenants

Profit growth through increase in *Ario* stores and shift from corporate to emphasizing tenanting existing stores

Regional
characteristics

Continuing to make profit in Tokyo, Chiba, Saitama, and Kanagawa prefectures, loss in regional areas

Environmental changes

Consumption environment

- Further shortening of product life cycles
- Emergence of Internet drives demand for increased specialization

Internal issues

Break Away from Conventional Chain Store Concept

- Uniform companywide merchandizing
- Reliance on wholesaler merchandizing
- Increase in disposal loss and sales promotion expenses

Thoroughly Strengthen Food

IY's competitive advantages

Dominance in the Tokyo metropolitan area

High store density in Tokyo, Chiba, Saitama, and Kanagawa prefectures

Member of the Seven & i Group

Private brand strategy backed by unrivalled marketing power
Omni-Channel Strategy

Thoroughly strengthen food leveraging advantages

Develop thoroughly regional food products

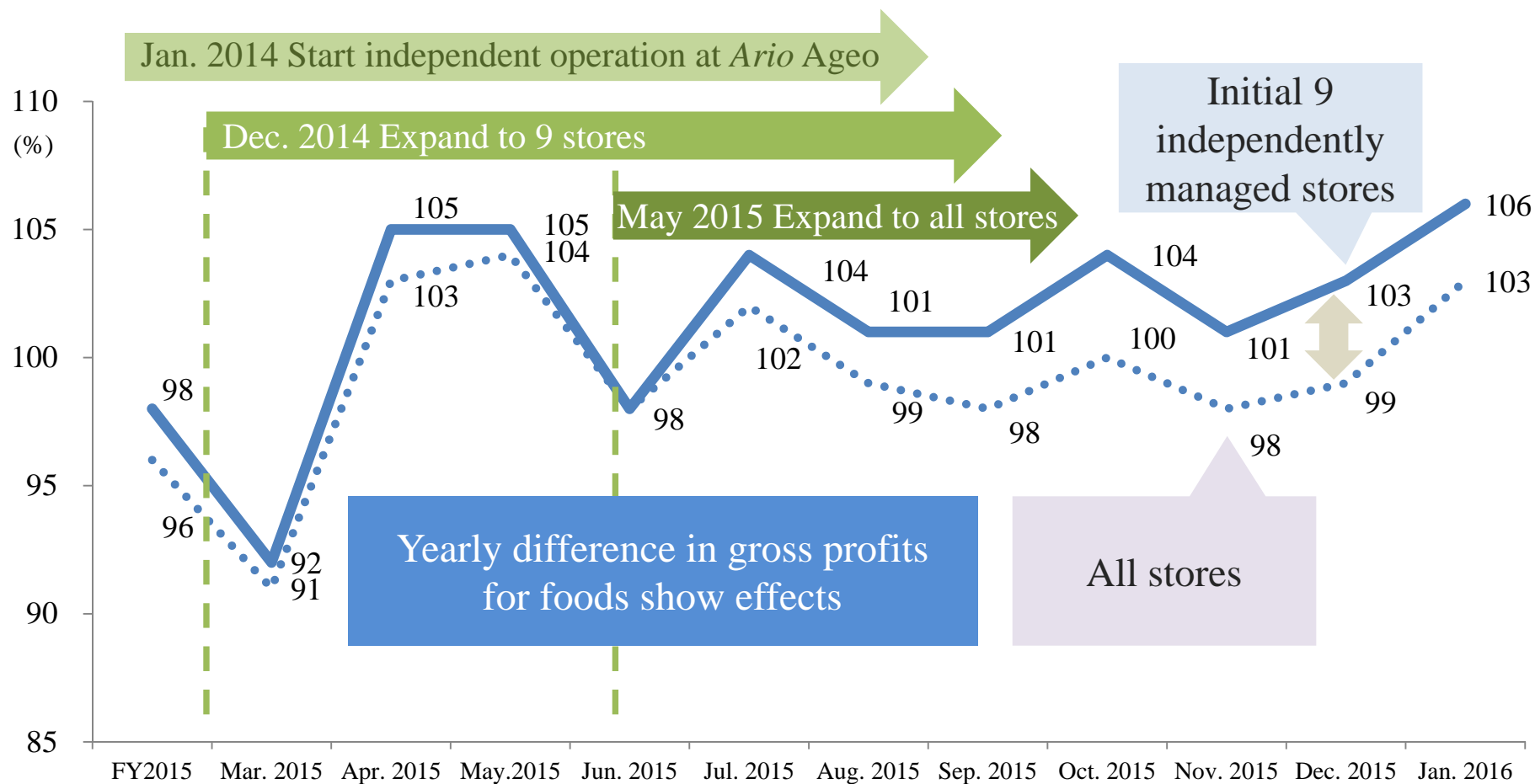
Strengthen fresh foods and prepared meals

Demonstrate price superiority

Aim to create shopping centers that enhance customer attraction through food and leverage tenant mix aligned to individual store catchment areas

Comparison of Gross Profit YOY between Independently Managed Stores and All Stores

At the initial 9 independently operated stores, the effects have begun to show in the food business



Finally, food gross profit of all stores has exceeded the previous year's performance

IY's Target Status

Start by conducting steady restructuring aimed at business structural reforms

- Steadily close stores that are unable to earn profit through food

Close 20 stores for FY2017

FY	February 2016	FY2017	– FY2021
No. of stores	182 stores	20 store closures	40 cumulative store closures 142 stores

Impact on profit / loss after 20 store closures for FY2017

Special loss	Approx. 11.0 billion yen Will record approx. 4.0 billion yen for FY2016
Revenue from operations	Approx. (77.0) billion yen
Operating income	Approx. 1.9 billion yen

Impact on profit / loss after 40 store closures

Special loss	Approx. 20.0 billion yen
Revenue from operations	Approx. (160.0) billion yen
Operating income	Approx. 4.0 billion yen

IY's Target Status

Status after Business Structural Reforms

Status of 142 stores in 2020

1	Structural reform to Ario shopping center format	Approx. 45stores	Over 16,500 m ² , including existing 17 stores
2	General merchandise stores + introduction of tenant mix	Approx. 60stores	Under 16,500 m ² , attract tenants to suit catchment area
3	Food + tenants	Approx. 15stores	Food specialty store format
4	<i>Shokuhinkan</i> and THE PRICE	18stores	18 existing stores
	Business alliance with Group supermarkets	Of which, 15 stores	Hokkaido, Tohoku

Create profitable formats while carrying out new store openings

4. Reform of Sogo & Seibu

SS Reforms Pillar: Business Reform

Thorough business reform

Close unprofitable stores

September 30, 2016 (Plan)

Sogo Kashiwa , SEIBU Asahikawa

*Will record a special loss of approx. 1.5 billion yen for FY2016

Promote reorganization

Reduce Head Office personnel (100 employees)

Introduce merchandiser system to Merchandising Dept.

Reduce the layers of management at Sales Dept.
(from 3 layers to 2 layers)

Use the reform as an opportunity to promote awareness reforms among employees and change the approach to work

Invigorate regional stores

▪ Promote reform toward shopping centers utilizing tenants

▪ Strengthen regionally-retailer-managed merchandising:

Limited Edition areamode

▪ Utilize Omni-Channel:

Establish centers where customers can “view, touch, and try” products not available in stores

SS Reforms Pillar: Growth Strategy

The meaning for Seven & i Holdings of positioning SS as the entire department store business

- Holds the highest location as a vital element in the market concentration strategy for the Tokyo metropolitan area
- Complements the holding company's branding capabilities
- Utilizes customer management systems

Draw out the SS's competitive advantage and latent capabilities through the Omni-Channel Strategy

Promoting new growth strategies = Expanding market share


Initiatives to cultivate areas using the Omni-Channel and utilize SS's location advantages

⇒ Form a strategic area for nationwide deployment

Choice of Format by Customer Objective

● Customers choose formats within their area depending on distance and frequency of use

7 & i HD	Customer needs (Way of use/characteristics)	Catchment area average distance	Average frequency of use
SS	Special (fancy) shopping Relaxed and refined (Customer service, consultation shopping)	30 km radius	0.6 times / month
IY	High quality daily shopping Daily needs and extras (Semi-self-service)	5 km radius	3.0 times / month
SEJ	Close-by, convenient/daily shopping Immediate needs (Quick self-service)	0.5 km radius	18.6 times / month [4.2 times / week]

	<p>Uniform management of customer information ⇒ Implement meticulous personalized sales promotions ⇒ Point promotion utilizing lifetime value*</p>	<p>Utilize SS expertise of customer management</p>
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*Profit for the Company ultimately derives from keeping individual customers for longer

Strengthen the Omni-Channel Strategy to nurture the entire Group's market concentration strategy

Collecting customer needs as a group – an example of Beauty

● Capture high-quality customers at SS. Use customer data to encourage them to use IY and SEJ

Consultant – SS

Kirei Station



Special needs
(consultant sales)

Semi-self service – IY

Bi no Garden



High quality day-to-day
(semi-self-service)

Self-service – SEJ

Seven Premium



Seven Lifestyle



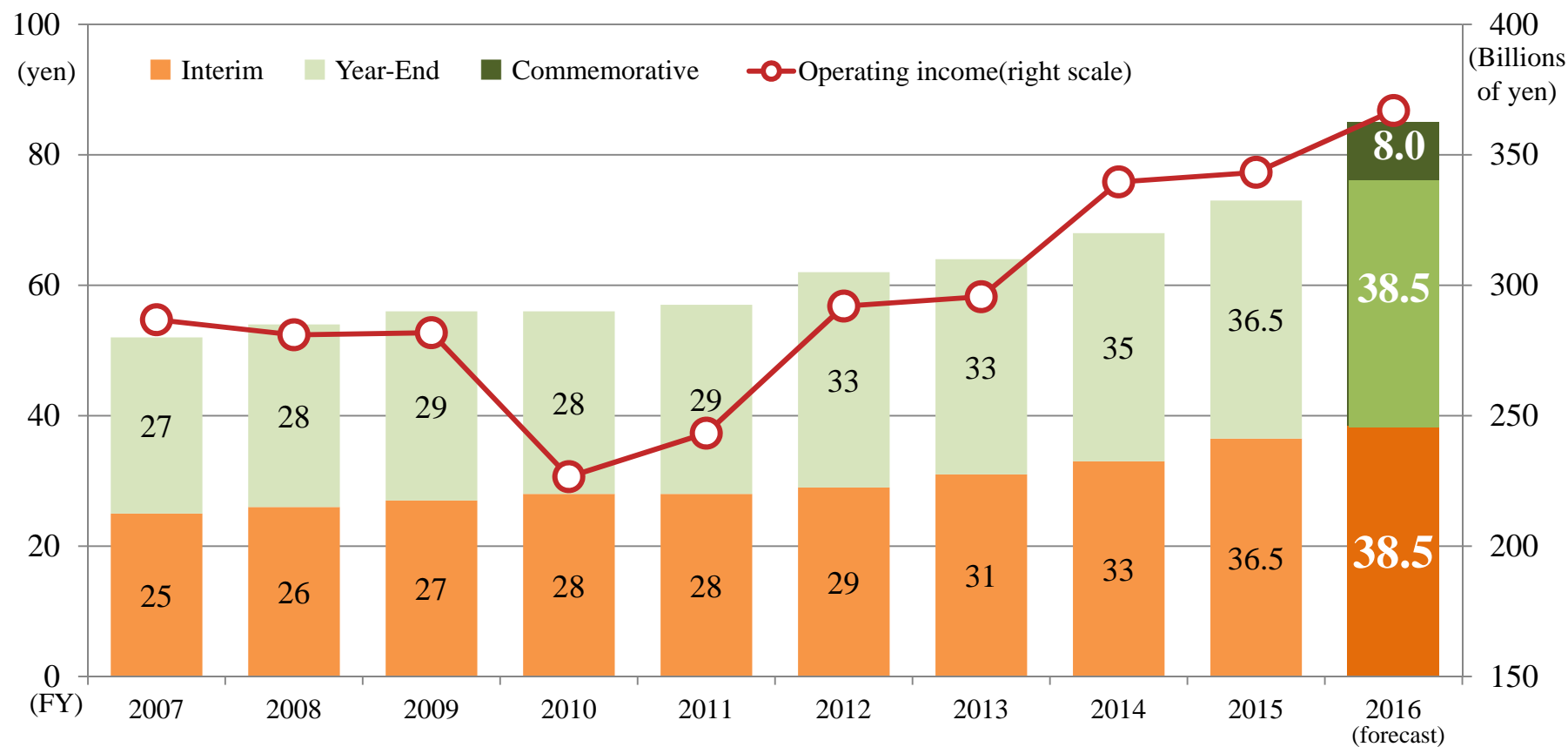
Close-by, convenient
(quick-self-service)

Capture high-quality customers
Databasing customer information

Customer data linkage

Seven & i Group meets all manner of customers living needs other than beauty

Trends on Operating Income and Dividend per Share Since the Foundation of 7&i HD



Net Income (billion yen)	133.4	130.6	92.3	44.8	111.9	129.8	138.0	175.6	172.9	183.0
Dividend per share	<u>52</u>	54	56	56	57	62	64	68	73	85
Payout Ratio (%)	36.4	39.4	55.7	112.7	45.2	42.2	41.0	34.2	37.3	41.1

Aim to the continuous increase of dividend and free cash flow

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