



Seven & i Holdings Co., Ltd.

100 Day Plan = Medium-Term Management Plan

October 7, 2016

Seven & i Holdings Co., Ltd.

# Contents = 100 Day Plan

## (1) Group's Management Policy

## (2) Medium-Term Management Plan

### i Growth Strategy in CVS Operations

### ii Structural Reform at Ito-Yokado and Sogo & Seibu

### iii The New Omni-Channel Strategy

## (3) Financial Strategy

Key assets handed down from our predecessors

Group Corporate Creed established in 1972  
The moral compass of all employees

We aim to be a sincere company that all of our stakeholders trust



The philosophy that has underpinned our growth to date

An approach relentlessly focused on the customer's perspective

“Responding to Change while Strengthening Fundamentals”  
“Item-by-item Management”

Continue to hone our ability to drive growth based on  
merchandising strategies

## Management priority = identify structural issues

Investment efficiency	I Y	Cumulative capital expenditures since the establishment of 7&iHD 413.6 bn yen	Cumulative EBITDA [after tax] 243.5 bn yen [146.1 bn yen]
M&A	S S	Acquisition cost in 2006 236.4 bn yen	Cumulative capital expenditures since acquisition 226.5 bn yen Cumulative EBITDA [after tax] 274.6 bn yen [164.7 bn yen]
Special losses	Cumulative special losses of <b>620.3 bn yen</b> over the past 11 years; our response to underperforming businesses presents issues		
The Omni-Channel Strategy	Situation differs from initial plans		

Pave the way for increasing corporate value by strengthening governance as a holding company

# Seven & i Group's Management Policy

## Basic policy:

“Sincere” and “Trust”

“Responding to Change while Strengthening Fundamentals”

## Goals

- Enhance convenience in daily life by supplying products and services, while staying closely attuned to the life stages and settings of customers
- Become an endearing group indispensable to communities

## Imperatives

- Harness all manner of resources, including business partners and technological innovation in society
- Pursue the absolute value of products and services and the maximization of customer satisfaction

Notice Regarding Memorandum of  
Understanding on Execution of a Capital  
and Business Alliance Agreement (MOU)  
with H2O Retailing\*

\* H2O

## Purpose of the MOU\*

= Future direction of new management

Promote the “selection and concentration” of each geographic area and business category

The Company

- Concentrate management resources in the Tokyo metropolitan area, which is the largest consumer market
- Re-allocate resources in the department store business which faces continued difficulties
- Necessity of strategic partner in areas with department store withdrawals

H2O

- Expand contact points with customers utilizing CVS network
- Cultivate market concentration strategy in Kansai area by succeeding stores

Execute the MOU on Capital and Business Alliance judged to link to realizing respective management strategies

To smoothly implement the MOU and to develop a strong relationship, mutually hold shares

\*Memorandum of Understanding toward Execution of a Capital and Business Alliance Agreement

# Details of business alliance for examination

## ■ Concrete Measures in the Agreement

Department  
Store  
Strategy

- Consider transferring the Kansai department store operations (Takatsuki, Kobe and Seishin)

Point Strategy

- System in which “S points”\* of the Hankyu Hanshin Group may be earned and redeemed at SEJ stores



Other

- Strongest department store in Kansai region  
× SEJ’s store network ?!

e.g.

- Handling and direct delivery at stores by SEJ of gift products of the Hankyu Hanshin Department Stores, which is a dominant brand in Kansai region

\* Points that may be “earned” and “redeemed” in the Hankyu Hanshin Group’s facilities and under various circumstances



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# Overview;

## 100 Day Plan = Medium-Term Management Plan

■ Numerical target in FY2020;

Consolidated operating income 450.0 bn yen · ROE10%

I Concentrate a management resources with a core focus on growth in CVS operations in both Japan and North America

II Promote “selection and concentration” of each geographic area and business category

(1) Memorandum of Understanding on Capital and Business Alliance with H2O  
Succession of the department stores in Kansai region  
Concentration of management resources on major stores in Tokyo metropolitan area

(2) IY: Start an examination measures focused on Tokyo metropolitan area and food business

III Adopting a perspective of property development in revival of GMS and department store

IV Reviewing the Omni-Channel Strategy:  
Prioritize customer lifetime value from the standpoint of the customer’s strategy

V Formulate our strategy, and revise our segments from the perspective of our management approach by next spring

# Approach to the Medium-Term Management Plan

## Three-year plan beginning in FY2018

F Y 2 0 1 7

Formulate growth strategy

+

Analyze and clarify issues from the past

F Y 2 0 1 8

Launch the new Omni-Channel Strategy

+

Dramatically reduce losses  
Start the food strategy in Tokyo metropolitan area

F Y 2 0 1 9

Drive growth through the Omni-Channel Strategy

+

Launch the food strategy

F Y 2 0 2 0

Final fiscal year

+

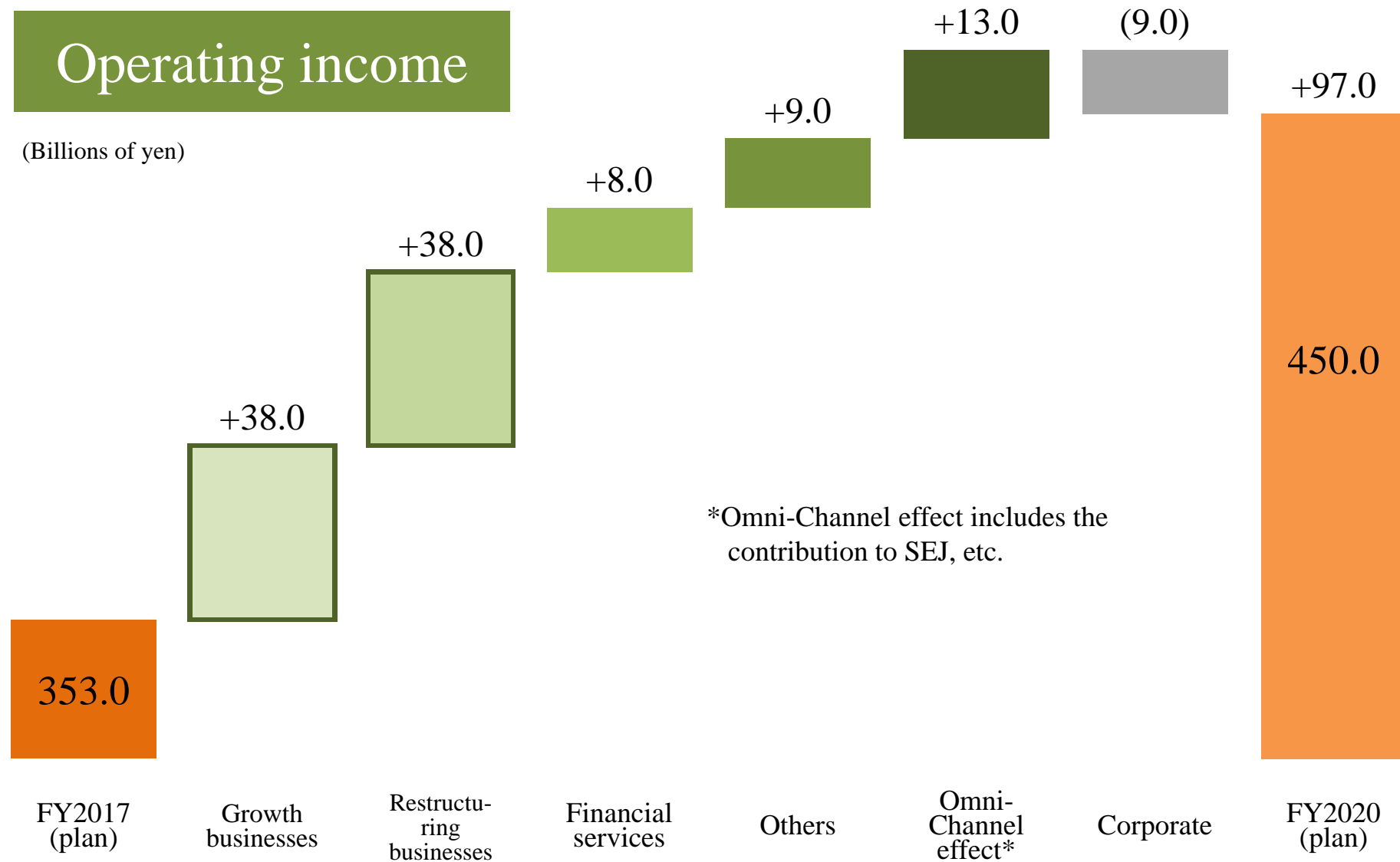
Announce the next Medium-Term Management Plan

Implement PDCA cycles based on the Medium-Term Management Plan

# Medium-term numerical targets for Seven & i Group

## Operating income

(Billions of yen)



\*Omni-Channel effect includes the contribution to SEJ, etc.

# Positioning of Group Strategies and Each Operating Company

	SEJ	SEI	IY	YB	SS	Financial Services	Specialty Stores
Growth strategy business	◎	◎					
Strengthen financial services	◎		○	○	○	◎	○
Strengthen food in the Tokyo metropolitan area	◎		◎	○	◎		
Promote structural reforms			◎		◎		
Property utilization business			◎		◎		○
The Omni-Channel Strategy	◎		○	○	○	○	○

◎ companies leading the promotion of strategies  
○ companies promoting strategies

Consider switching to segment management based on management approaches

# Contents = 100 Day Plan

(1) Group's Management Policy

---

(2) Medium-Term Management Plan

---

i **Growth Strategy in CVS Operations**

---

ii Structural Reform at Ito-Yokado and Sogo & Seibu

---

iii The New Omni-Channel Strategy

---

(3) Financial Strategy

---

**Seven-Eleven Japan**

**SEJ**

# Seven-Eleven Japan : Continuing Evolution

## An unwavering absolute competitive advantage

Differentiation of original daily products



- Manufacturing plants in 179 locations throughout Japan:  
Ratio of dedicated plants 92% (As of June 30, 2016)

Everything is developed from the customer's perspective, including exclusive recipes, raw materials, and equipment.

Dedicated combined distribution centers for each temperature range in 150 locations throughout Japan

Ceaselessly pursue the absolute value of products, with no end to the evolution of product supply infrastructure

Location × Merchandise × Service =

Enhancing quality through seamless three-way coordination, ultimately resulting in higher volume



# Seven-Eleven Japan : Transformation (1)

Further enhance the quality of existing stores

Revise store opening and closure standards

Purpose: Enhance franchisee satisfaction  
= improve Head Office profitability

Raise the hurdle rate for store openings; Revise planned store openings from 1,800 stores to 1,700 stores

Accelerate store closures raising standard for store-invigoration; Revise planned store closures from 600 stores to 800 stores

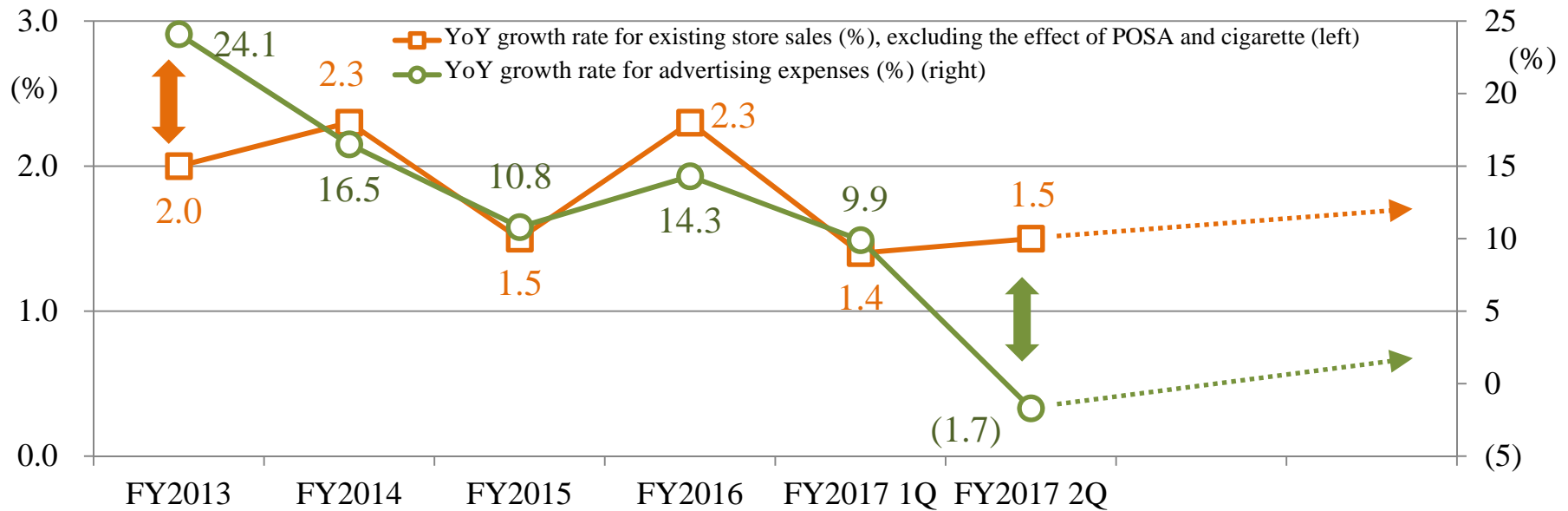
Further enhance the motivation of franchisees, the Group's greatest growth engine

Maximizing franchisee satisfaction will benefit all stakeholders

# Seven-Eleven Japan : Transformation (2)

## Revising sales promotions

### Trend in YoY growth rates for existing store sales and advertising expenses



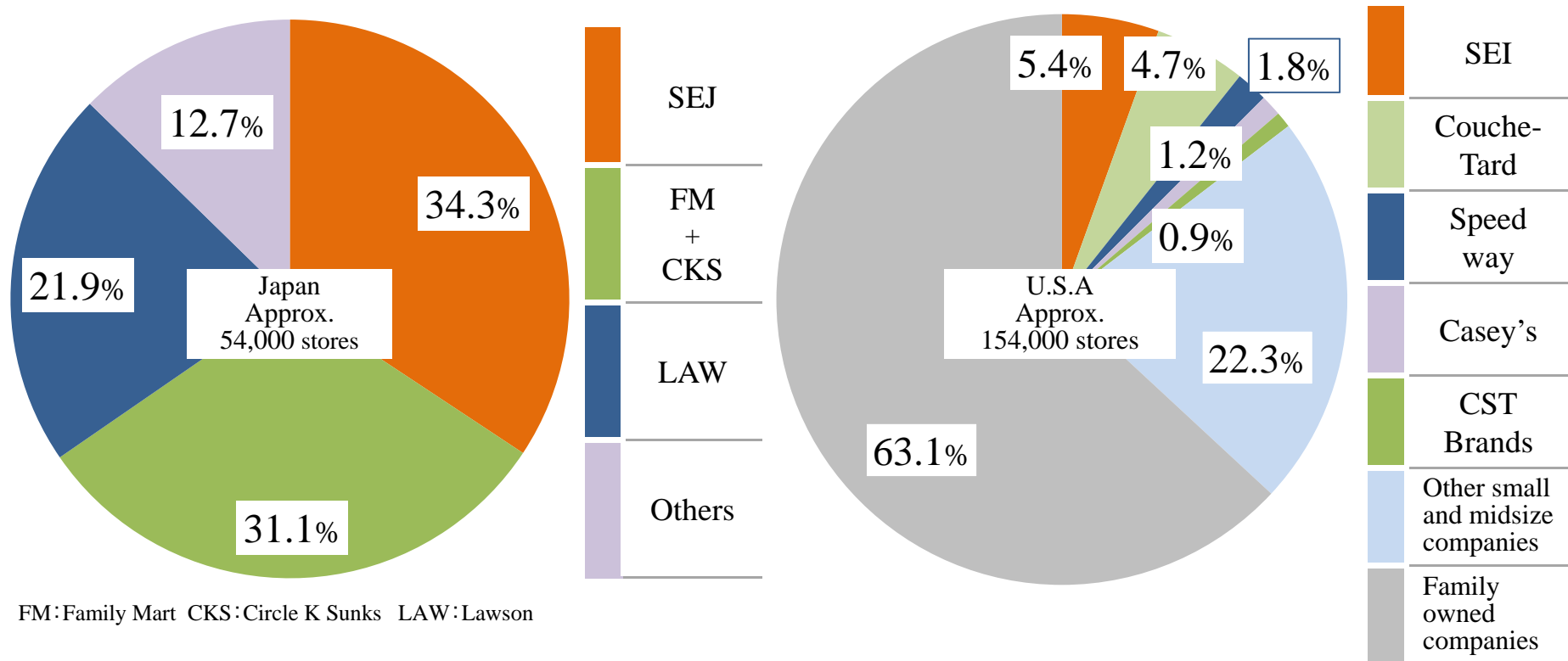
Examine the nature of sales promotions based on the New Omni-Channel Strategy

7-Eleven, Inc.

SEI

# CVS market in North America; Subdivided market centered on family owned companies

## ■ Share comparison in Japan and in U.S.A



Market share of top 3; Japan 87.3% vs North America 12.0%

Source: [Japan] Financial results of each companies and Japan Franchise Association as of February 2016  
 [USA] NACS 2015 as of December 2015  
 Figures of SEI, Coushe-Tard, and CST Brands include Canadian stores

CVS market in North America is at an inflection point and there are a lot of business opportunities in the market

■ Oil Majors exiting retail


2013 149,000 Stores

Rank	Name	Share
1	7-Eleven, Inc.	5.0%
2	Shell	3.3%
3	BP	3.0%
4	Chevron	2.7%
5	Couche-Tard	2.5%
6	ExxonMobil	2.3%
7	Speedway	1.3%
8	Rank 8~100 (60+ Stores)	19.9%
101	Rank 101~ (Less 60 Stores)	59.8%
Total		100.0%

■ Industry roll up and consolidation

2015 154,000 Stores

Name	Share
7-Eleven, Inc.	5.4%
Couche-Tard	4.7%
Speedway	1.8%
Casey's	1.2%
CST Brands	0.9%
Aplus	0.9%
Murphy	0.8%
Rank 8~100 (60+ Stores)	14.2%
Rank 101~ (Less 60 Stores)	70.1%
Total	100.0%



CVS Sector in North America has a huge potential to grow

# SEI: Store Opening Strategy = Market Concentration

2012 Policy Change

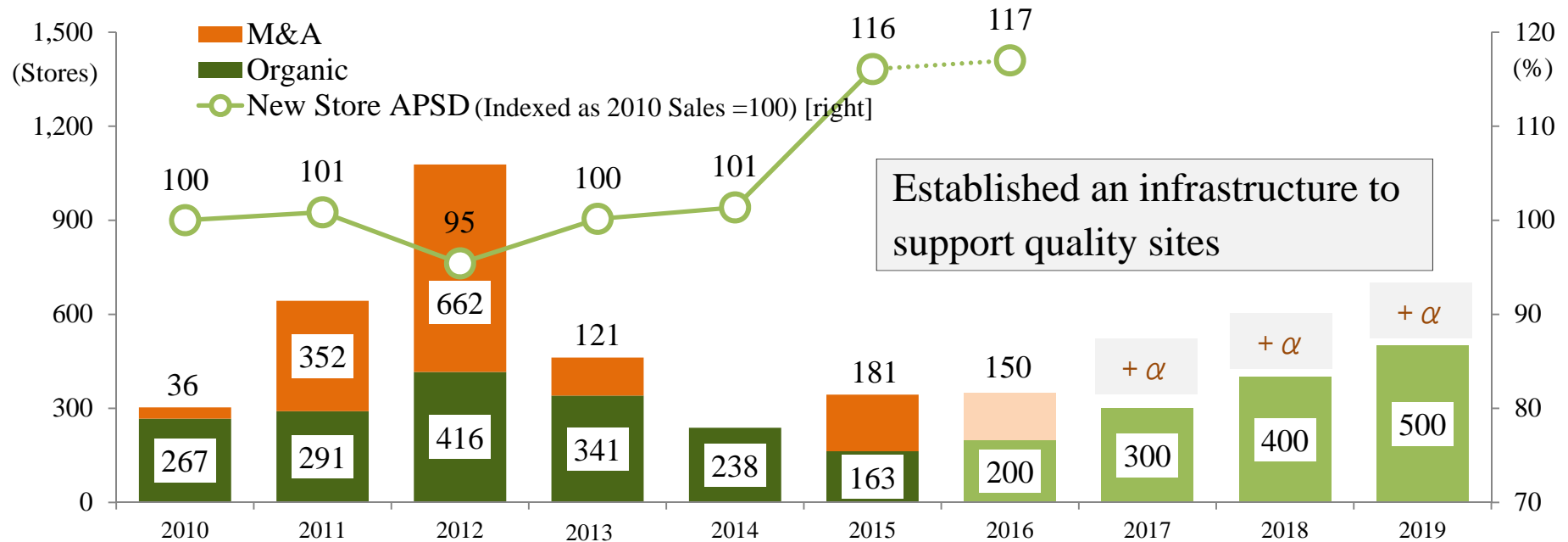
Since 2013 Organizational Changes

Quality over quantity

Strategy aligned with existing store base, quantitative analysis of trade area, defining best sites

Expand in urban areas, which has higher fast food sales

## SEI Store Opening and New Store APSD YoY Trend



Established an infrastructure to support quality sites

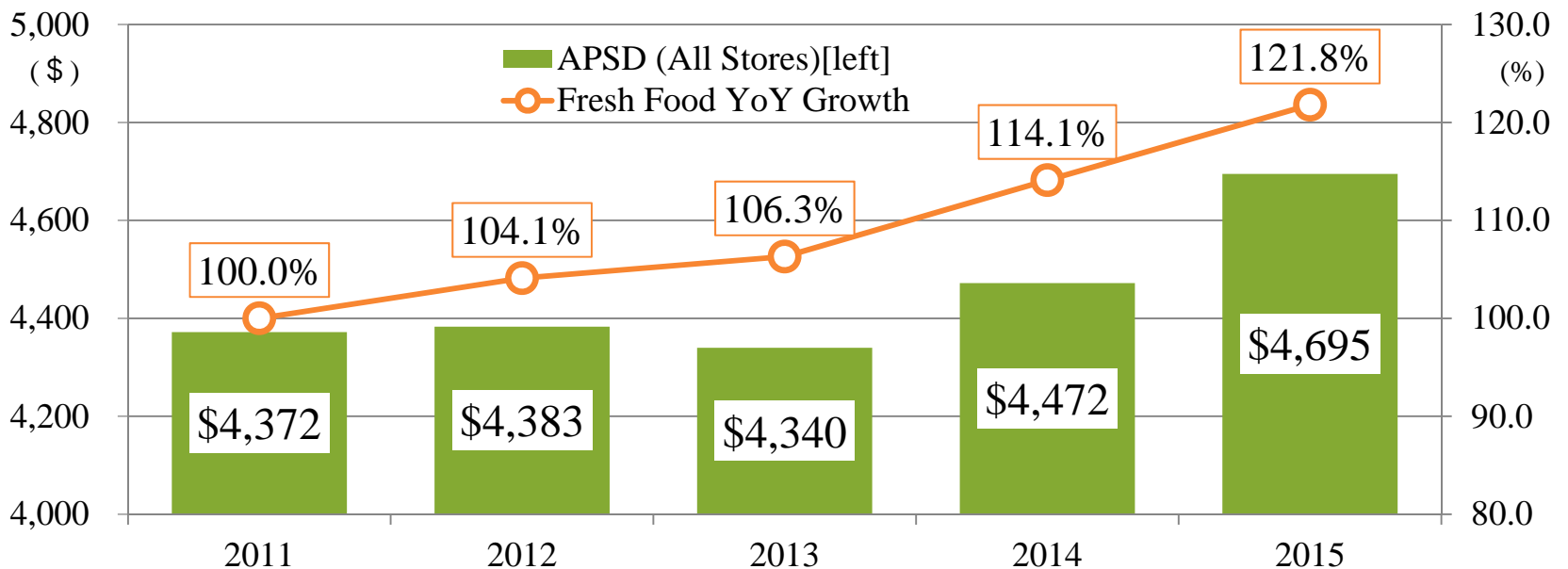
Achieve 10,000 stores in FY2019 via combination of organic store openings and M&A

# SEI Merchandising Strategy = Strengthening fresh food, led by Fast Food

Policy since FY2012

Introduction of equipment to enable hot food sales at the sales counter

## SEI APSD and Fresh Food YoY Trend



Stores with hot food	2011	2012	2013	2014	2015
	2,647	3,552	4,641	6,080	7,686

Installation of hot food equipment led to increased fresh food sales and the growth of APSD

# SEI Merchandising strategy

## Challenges

Fresh food mix to total sales is still low,  
and infrastructure to provide products are still in development

Warabeya Nichiyo HD announced to acquire 19.3% of  
Prime Deli\* shares (announced on April 13<sup>th</sup> )

Warabeya Nichiyo's partnership with SEVEN-ELEVEN HAWAII, INC. (SEH)  
since 1982

Providing rice and bread products.

Captured the local needs and developed items that became local favorites

Ex. Spam *Musubi* (Picture) increased sales successfully  
backed by customers' support



FY2015 SEH Results : APSD \$7,983    Fast food sales mix 35.4%

\*Note: Prime Deli is a company that supplies sandwiches and other products to approx. 600 7-11 stores in Texas

Warabeya's know-hows are applicable to mainland US, achieve FY2019  
goal of APSD \$5,000



# Contents = 100 Day Plan

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---

(2) Medium-Term Management Plan

---

i Growth Strategy in CVS Operations

ii **Structural Reform at Ito-Yokado and Sogo & Seibu**

iii The New Omni-Channel Strategy

---

(3) Financial Strategy

---

# Fundamental management issues common to IY and SS

A challenging environment to generate profit in excess of the cost of capital through store operations alone

■ Aging facilities are another problem.

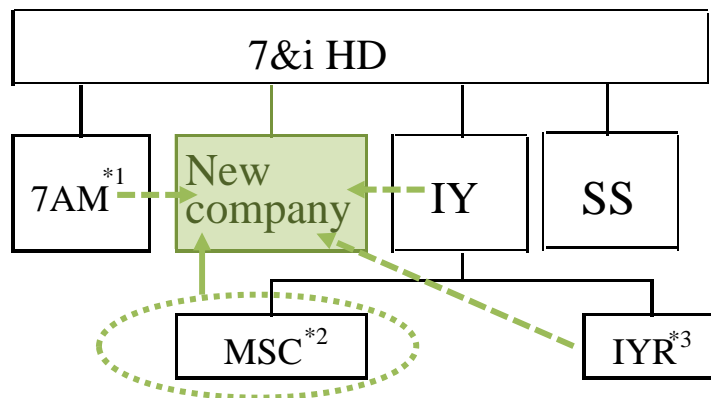
Reference)

Share of stores more than 30 years old IY [30%] and SS [67%]

Sharp increase in maintenance and refurbishment costs, the problem of deteriorating profitability, worsening efficiency of growth investments in aging stores

● Response : Carve out the relevant fixed assets and set up a company to manage the assets

● Goal : Make decisions from a Group-wide perspective, including using the assets for purposes other than each company's retail facilities



[Future image of the new organization]

- Planning for increasing the asset efficiency of the Group's real estate
- Formulating asset reutilization plans in line with changes in the surrounding environment
- A integration of the property management company will be considered

\*Strengthen the functions of Mall & SC Development, IY's development company, and convert to a wholly owned subsidiary.

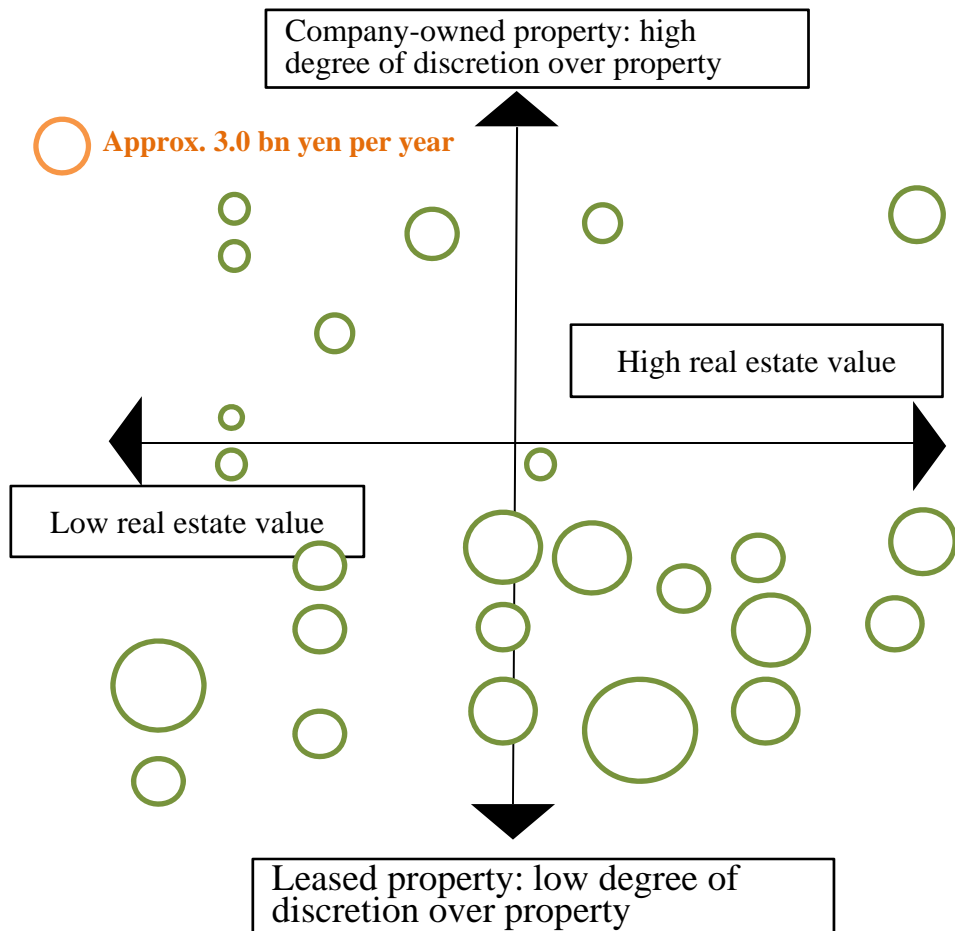
\*1. Owns land, buildings and other facilities of SEIBU Ikebukuro

\*2. Property management company for Ario \*3. Owns five IY stores

# Mission of the new company

## Scatter plot of the degree of discretion over IY stores and their real estate value

- IY Status of IY 27 stores within 3 minutes' walk of train stations in Tokyo and three other prefectures



## ■ Relationship between IY sales and real estate value

No correlation between sales and property value

High likelihood of using property for purposes other than retail facilities

## ■ Company-owned properties of stores closed in FY2017: 7

3 properties: land sold, *Shokuhinkan* (food specialty store) + condominiums

3 properties: sold, one property under review

## **Retail facility + community needs (by request)**

Executed deals beginning with aging Company-owned properties  
Coordinated with landowners on leased properties

Revive GMS and effectively utilize holding company assets

## Future direction of Ito-Yokado stores

Store closures will be decided based on operating cash flow, age of property, and community aspects

### Number of stores by store format(existing store basis in early FY2017)

	At the start of FY2017	Closures in FY2017	Closures between FY2018 to FY2021	At the end of FY2021
Ario <sup>*1</sup>	17	—	—	17
GMS <sup>*2</sup>	136	13	16	107
Food specialty store	29	7	4	18
Total	182	20	20	142

\*1. Shopping center with IY as core tenant (Share of sales by directly operated stores: Approx. 49% or less)

\*2. IY stores centered on directly operated stores (Share of sales by directly operated stores: Approx. 70% or more)

### Future direction by store format

Ario	Downsize directly operated sales floor space for apparel and household goods in line with the expiration of leases, targeting an operating profit margin of 3%
GMS	Simultaneously bring in tenants directly operated sales floor space for apparel and household goods, and increasing the share of food. Further, real estate redevelopment will be conducted.
Food specialty store	Food is a growth category; conduct operations primarily in the Tokyo metropolitan area

\*Ario's Operation income ratio for the 1st half of FY2017 ; 2.0%

# Ito-Yokado: Restructuring Reform through FY2020

Restructuring centered on GMS 107 stores:  
Promote real estate redevelopment and store restructuring

■ Vision for GMS stores (the 107 existing stores remaining after closing 40 stores) and medium-term plan through FY2020

	Goal	Scheduled for implementation from FY2017	Scheduled for implementation up to FY2020	Scheduled for implementation from FY2021
Conversion to <sup>*1</sup> <i>Ario</i>	10	-	8	2
GMS	(97)	(2)	(30)	(65)
Tenant mix *2	30	2	24	4
Redevelopment, etc.	67	-	6	61
Total	107	2	38	67

\*1. Directly operated sales floor space of 16,529 m<sup>2</sup> or more

\*2. Directly operated sales floor space less than 16,529 m<sup>2</sup>

## FY2020 endpoints for Ito-Yokado

■ Number of stores by format at the end of FY2020 based on the number of stores at the start of FY2017

	At the start of FY2017	At the end of FY2020	Notes
<i>Ario</i>	17	25	17 existing <i>Ario</i> shopping centers + 8 GMS stores undergoing restructuring
GMS	136	67	Existing 136 stores – 29 closed stores – 8 stores converted to <i>Ario</i> – 26 stores undergoing tenant mix initiatives – 6 redeveloped stores
Tenant mix	-	26	26 stores undergoing tenant mix initiatives
Redevelopment, etc.	-	[6]	6 stores converted to food specialty stores by redevelopment
Food specialty stores	29	24	29 existing food specialty stores – 11 closed stores + GMS redevelopment stores

Total

182

142

Notes: 1. In principle, new store openings will be frozen for the time being, except for food specialty stores

2. Investment amounts are as below;

Conversion to *Ario*: 1 bn yen

Tenant mix initiatives: 0.5 bn yen

3. Assuming that 40 stores have been completely closed by the end of FY2020

## Ito-Yokado: FY2020 KPI targets and future risks

Operating income

Operation income ratio 1.3 % 15.0 bn yen

Directly operated sales floor space ratio

58% in FY2016 ⇒ 49% in FY2020

Anticipated risks and countermeasures

■ Responses to regional stores

Deepen collaboration with partners

■ Response to further deterioration in the apparel and household goods businesses

Examine personnel cuts and further store closures

Seek to achieve the targets of the medium-term management plan while flexibly adjusting tactics by monitoring conditions

# Sogo & Seibu

## Positioning of department stores in the Seven & i Group

- Necessary as a special day consumption channel under our Omni-Channel Strategy
- In the midst of the inevitability of the shrinking department store market, there is a significant meaning in owning a No.1 store in the region
- Investigate Kansai region stores that have significant problems such as being an older store, on the assumption of succeeding to the business

## MOU on Capital and Business Alliance with H2O Retailing (H2O)

### Imperatives

- Realization of re-allocation of resources in the department store business, footing for creating the No. 1 store in the region



## Sogo & Seibu: FY2020 KPI targets and future risks

Operating income    Operating income ratio 1.8%    13.0 bn yen

Anticipated risks  
and  
countermeasures

■ Responses to regional stores

Consider changes in business format with a view to utilizing real estate

■ Further deterioration in the apparel business

Examine personnel cuts and further store closures

Seek to achieve the targets of the medium-term management plan while flexibly adjusting tactics by monitoring conditions

# Contents = 100 Day Plan

(1) Group's Management Policy

---

(2) Medium-Term Management Plan

---

i Growth Strategy in CVS Operations

---

ii Structural Reform at Ito-Yokado and Sogo & Seibu

---

iii **The New Omni-Channel Strategy**

---

(3) Financial Strategy

---

# The Omni-Channel Strategy

Reconsider from the customer's perspective by reviewing strategies focused on the e-commerce business

## Group Strengths

- 22.0 million customer visits per day, centered on SEJ
- A network of real stores that can cover all life stages from daily life to special days
- Possessing a wide range of settlement services, in addition to real stores and e-commerce sites

## Redefine the Omni-Channel Strategy

- Connect customers using Group-stores with the common ID and pursue service quality across all channels
  - ⇒ Customer strategy = Measures to increase the number of customers through unified management of customer information (purchasing behavior)
- CRM<sup>\*1</sup> = Conduct detailed personalized sales promotions, along with sales promotions based on LTV<sup>\*2</sup>

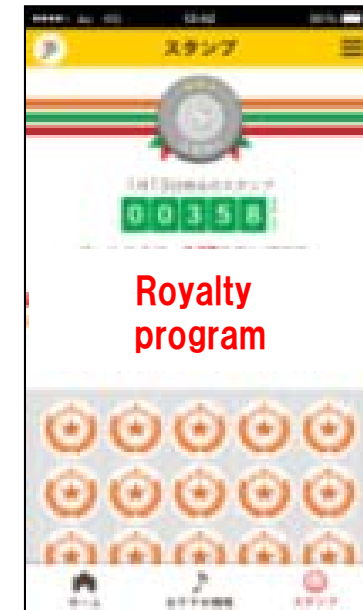
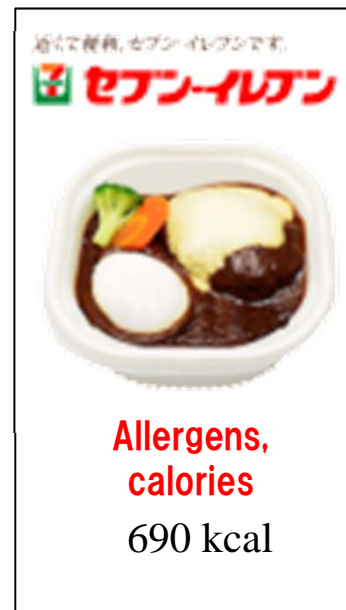
\*1. A massing and tracking customer information and customer service logs, and applying this data to personalized sales promotions and other initiatives

\*2. Life Time Value (LTV): Offering services according to the profit (value) derived from a single customer throughout the period he or she does business with the Group

An app you want to check everyday



Aiming to make the app an engagement tool with customers



- Collective sales promotions
- Purchase-linked games
- Information on purchased products (calories, allergens)
- Coordination with e-commerce sites (*omni7*)

# Main thrust is to capture Group synergies: Link all manner of consumption settings and add services based on LTV

## ● Akachan Honpo (AH) could become a key company for the Omni-Channel Strategy

Annual number of  
births 1 million\*<sup>1</sup>

Number of newly registered  
members 530,000 per year\*<sup>2</sup>

Market recognition  
rate 96%\*<sup>3</sup>

AH customers as seen by the Group until now

Future approach

Convenient to use until children  
reach an age of around 3 years old

⇒ Increase points if customers also shop at  
*IY Net Supermarket*

⇒ Propose ways to form a lifelong business  
relationship after customers stop shopping  
at AH

## ● Cover all life stages and LTV from “Close by, convenient” to “life’s most special days”

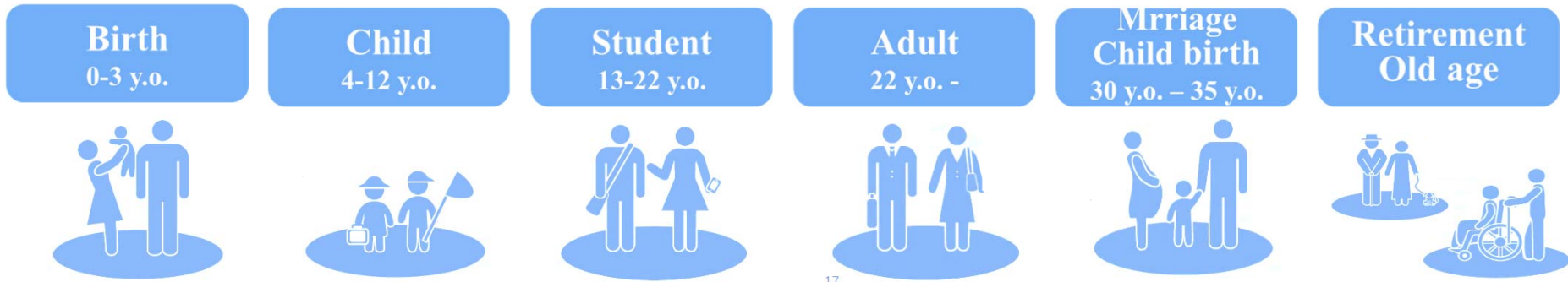
Aiming to growth while staying closely attuned to the life stages and settings of  
customers.

\*1. Ministry of Health, Labour and Welfare, 2015

\*2. FY2016 result

\*3. Questionnaire conducted by AH

# Seven & i Group covers all life stages and life scenes, aim to maximize LTV



# Contents = 100 Day Plan

(1) Group's Management Policy

---

(2) Medium-Term Management Plan

---

i Growth Strategy in CVS Operations

---

ii Structural Reform at Ito-Yokado and Sogo & Seibu

---

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---

(3) **Financial Strategy**

# Financial Strategy

## Capital expenditures

Disciplined investment aiming to achieve ROA which each operation set

- Examine investment efficiency through Portfolio Committee
- Priority allocation to growth businesses (M&As will also be considered in the North American CVS business)
- Restructuring businesses will invigorate existing stores

The scale of consolidated capital expenditures will peak out in the current fiscal year

## Fund procurement

While maintaining the Group's AA rating,

- Procure interest-bearing debt if funds are required for growth strategies
- Tolerate a debt/equity ratio of around 0.5 based on expectations of growth in financial services

## Shareholder returns

Maintain a consolidated payout ratio of 40%

- Adopt flexible capital policies, while considering the balance with investments in growth businesses

The dividend forecast will not be reduced even amid the business restructuring currently under way



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