ValueAct Capital®

January 25, 2022

Via Electronic Mail

Seven & i Holdings Board of Directors
8-8, Nibancho
Chiyoda-ku, Tokyo 102-8452

Re: Strategic Alternatives

Dear Seven & i Board Members,

As you know, ValueAct Capital ("ValueAct", "we") has been a shareholder of Seven & i Holdings ("Seven & i", the "Company") since 2020 with a current position of approximately 4.4% of the outstanding shares. We understand ValueAct is the largest actively managed institutional shareholder of the company. We appreciate our private dialogue with you. In principle, we believe that private engagement is the most effective way for ValueAct to contribute to a company's strategy. ValueAct's support for successful transformations of leading global companies, including in Japan, under this model is well documented.

Nevertheless, we have decided to take the unusual step of writing a public letter because we believe Seven & i must pursue bold, structural reform, and pursue it with urgency. The company is strategically unfocused and vastly underperforming its potential. This, while the retail industry is evolving rapidly with new disruptive forces entering Seven & i's markets. The 7-Eleven convenience store business already accounts for 97% of operating profit and over 100% of corporate value creation per the recent medium-term management plan ("MTMP").[1] If Seven & i narrows its focus to 7- Eleven, it can become the global champion in a growing industry. If its attention remains scattered, it risks drifting into mediocrity or worse.

During our private dialogue, we have shared our research and proposed initiatives that would focus the corporate purpose onto the convenience store business with urgency, improve the performance of the overseas operations, and re-allocate capital for long-term growth. Summed up, we believe the initiatives we have discussed with you in detail represent a path to improve corporate value substantially from a medium to long-term perspective compared to the status quo and the MTMP.

The initiatives include seeking alternative ownership structures for the non-convenience retail businesses. This would free up capital and encourage these businesses to transform to meet the needs of today's society. The initiatives also include improving the earnings of the overseas 7-Eleven operations to well above the MTMP target through major overhead cost reductions and actionable growth initiatives. Based on our firm's extensive experience with corporate transformation, we believe these initiatives are readily executable. Further, they are highly likely to improve the company's employee alignment and satisfaction, which is currently at a low level according to Japanese media reports and publicly available workplace reviews.

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[1] Company operating profit forecast for current fiscal year updated January 13, 2022; Corporate Value Creation: Forecast ROIC by segment vs. consolidated WACC, Medium Term Management Plan presented July 1, 2021.

Management's response to our ideas and our offers to help has been unsatisfactory. For nearly a year, we have been sharing an overall strategic plan with management that is significantly more ambitious than the company's recent MTMP. We have explained that the MTMP includes an ambiguous strategic vision, confusingly low targets for the overseas 7-Eleven operations, and plans for the non-convenience retail businesses that do not create corporate value. The resulting earnings per share targets in the MTMP are far below the intrinsic potential of the core 7-Eleven business. Our assertion is supported by the "sum of the parts" valuation analyses which have been published in reports by third party securities analysts. These analyses highlight the potential to create value through a tax free spin-off of 7-Eleven, another option we have presented to management that we do not believe has been studied seriously.

Management's primary response in our dialogue has been to tell us that there is general alignment on "direction" while declining to act publicly or privately to address the big gaps between the existing plan and the much higher intrinsic potential. This lackluster response from management is especially troubling after many years of underperformance of Seven & i's share price, the underperformance of all the company's businesses other than 7-Eleven Japan, the very limited synergies inside the conglomerate, and the challenging execution environment.

We have been struck by the slow pace of decision making at Seven & i particularly as it relates to the imperative to truly focus and execute change. While we are not certain why the response and decision making has been slow, we have observed that there is a highly unusual management structure at the holding company, characterized by internal conflicts and oddly distant relationships between the holding company leaders and key subsidiary operations. Despite the presence of earnest staff and capable Outside Directors, we feel the overall governance and management structure is ineffective and requires changes which the company is not putting forth on its own. We have therefore lost confidence in management's ability to set the strategic course without direct and public input from independent shareholders.

Fortunately, Japanese corporate governance best practices and shareholders' legal rights provide effective ways to provide this shareholder input. In this spirit, ValueAct makes two official requests to the Board.

Request 1: We ask the Outside Directors to seek direct shareholder input on the key issues of strategy and management oversight

We formally request that one or more of your Outside Directors—the "lead independent director" if one is appointed—contact portfolio managers from between twenty and thirty of Seven & i's largest institutional investors to listen directly to their views on key topics through individual or group sessions in the coming days. We suggest prioritizing institutions with portfolio managers actively following Seven & i, because they most likely already have views on company performance and strategy. We have denoted such shareholders based on publicly available information in an appendix. We believe institutional investors will fulfill their stewardship responsibilities by responding promptly to the Board's inquiries.

In these shareholder interviews by your Outside Directors, there should be only secretarial involvement of company management or their advisors. The outside director(s) conducting the shareholder interviews should ask the following questions:

1. Do you believe that management has the right strategic vision, structure, ability to execute, and openness to pursuing strategic alternatives, or are changes needed?
2. Do you believe the recently announced Medium-Term Management Plan is the optimal way to create corporate value from a medium to long-term perspective?
3. Do you believe that there are alternative strategies or ownership structures with superior risk-adjusted potential that should be pursued? If so, what are the alternatives?

4. Do you believe that the board should form a "Strategic Review Committee" of Outside Directors to assess these alternatives?

Although ValueAct's views on these matters will be familiar from our private dialogue, we summarize them herein. We believe the current business plan is not the optimal way to create corporate value from a medium to long-term perspective. We believe the company should consider alternative ownership structures for its business units as well as the whole company to achieve the focus necessary to improve competitiveness and performance of the businesses, especially 7-Eleven. Given the ineffective management environment, we believe changes in management are likely necessary. For these reasons, we believe a "Strategic Review Committee" of Outside Directors should be formed to assess these alternatives.

Management may argue that the company's regular investor relations program has been sufficient for the Outside Directors to receive relevant feedback from shareholders. From public reporting as well as comparing views with fellow shareholders, we do not believe that shareholders have been able to express their views to the board on key issues effectively. More importantly, the responses on key issues have been unsatisfactory. Indeed, institutional shareholders recently received a survey from one of management's proxy solicitors that seemed to be designed to avoid the key strategic questions and perhaps even mislead the Board. We are convinced that with the backdrop of long-term underperformance, demoralized employees, and an ineffective management environment, direct interviews of shareholders by Outside Directors are now necessary to achieve understanding and alignment.

<u>Request 2: We ask the Board to officially create a "Strategic Review Committee" of Outside Directors</u>

We formally request that the Board officially create a "Strategic Review Committee", composed solely of Outside Directors, to consider strategic alternatives, and consider if alternative ownership structures including the sale or spin-off of divisions or a business combination with a third party would deliver superior value and strategic benefits to the company and its stakeholders.

This Committee should have publicly identified members and outside financial and legal advisors. We believe the Committee should publicly report its conclusions and recommended changes to strategy, management and corporate governance no later than one week prior to the distribution of the Convocation Notice of the next Annual Shareholders' Meeting ("the 2022 AGM")—the expected timing of this deadline for the Committee's report is the last week of April 2022. This would allow shareholders to exercise their shareholder rights at the annual meeting with highly relevant information. If necessary, ValueAct will consider pursuing its right to make shareholder proposals as the 2022 AGM approaches.

The Outside Director interviews with shareholders in the days ahead will give the Outside Directors a true representation of shareholder sentiment, unfiltered by management, which can better guide decision making on whether to form the Strategic Review Committee. The Committee can then help the Board restore strategic clarity for all.

We expect the Board to respond to the above-mentioned requests with a public announcement after the next regularly scheduled board meeting, which we believe is February 3rd, 2022.

We will be sharing our views, including the rationale for our requests to the Board, with other shareholders. Thank you for your service on behalf of the company's stakeholders.

Sincerely,

ValueAct Capital

Appendix

Seven & i's Top 30 Institutional Investors

The below list was assembled primarily using FactSet. Certain institutional investors' positions were aggregated, as such may appear higher on the list than what may be visible on FactSet. Based on the individual fund information available, as well as leveraging institutional investors' public disclosures, ValueAct identified in **bold** those investors believed to have an "active" position with portfolio managers actively following the company.

Investor Name	% of OS*
Nomura Asset Management	**4.48%**
ValueAct Capital	**4.40%**
Sumitomo Mitsui Trust Asset Management	**4.10%**
Asset Management One	**3.94%**
BlackRock	**2.59%**
The Vanguard Group	**2.42%**
Nikko Asset Management	**2.14%**
Nippon Life Insurance	**1.99%**
Daiwa Asset Management	**1.90%**
Norges Bank Investment Management	**1.68%**
MS&AD Insurance Group Holdings, Inc.	**1.04%**
T. Rowe Price	**0.96%**
Mitsubishi UFJ Kokusai Asset Management	**0.93%**
Geode Capital Management	**0.71%**
California Public Employees' Retirement System	**0.68%**
Artisan Partners	**0.68%**
Resona Bank	**0.63%**
Mackenzie Investments	**0.51%**
Dimensional Fund Advisors	**0.49%**
Amundi Asset Management	**0.27%**
J.P. Morgan Asset Management	**0.27%**
Fidelity International	**0.27%**
Macquarie Investment Management	**0.27%**
Bank of Yokohama Pension Fund	**0.25%**
Thompson, Siegel & Walmsley	**0.23%**
Charles Schwab Investment Management	**0.23%**
CPP Investment Board	**0.22%**
FMR - Fidelity Management & Research Company	**0.22%**
Nordea Investment Management	**0.21%**
Principal Global Investors	**0.19%**

***Position in Outstanding Shares**

Source: FactSet, last accessed 01/23/2022

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