



April 27, 2023

Dear Seven & i Board Members,

ValueAct Capital ("ValueAct", "we") would like to express disappointment for the position taken by the Seven & i Holdings ("Seven & i", "the Company") Board in its most recent public communication on April 25, 2023. In its letter, the Company makes the case for why shareholders should trust President Isaka to pursue his preferred conglomerate strategy, despite President Isaka's weak performance over his seven-year tenure, including the failure to realize synergies promised with the formation of the Holding Company 18 years ago, the disengagement of employees, the persistent governance failures, and the dissatisfaction of shareholders. Your letter and President Isaka's media interviews this week only reinforce our belief that under President Isaka's leadership, the Company will not consider strategic alternatives through an objective, transparent, fiduciary approach.

ValueAct will follow-up with a detailed presentation outlining the importance of our proposed supplement to the Board and removal of President Isaka. In the meantime, there are **three critical misrepresentations you made that we wish to bring to your attention.**

### **1. ValueAct's Proposals Relate to Seven & i's Leadership – NOT a Forced Spin-Off**

ValueAct rejects the Company's attempts to misinform shareholders by implying that ValueAct's campaign is to "force a hasty" spin-off of the CVS business. Shareholders are NOT being asked to vote on a spin-off.

Instead, through our proposed reinforcement to the Board and removal of President Isaka, we seek a board that will conduct a careful and deliberate succession process for the President and consider all alternatives available to the Company from the perspective of maximizing shareholder value and corporate value. Without permitting full discussion and quantitative analysis, the Company's continued assertion of the importance of its conglomerate strategy illustrates the problem with President Isaka's leadership: Under his leadership, the Company will not sincerely consider alternatives to the conglomerate strategy through a robust, fiduciary process. ValueAct believes that all stakeholders will benefit from a refreshed board, without President Isaka, that is free to consider all alternatives and how to strengthen the Company for its long-term benefit.

## **2. The “Recording Issue” is Emblematic of Weak Leadership and Governance Process. Improving Leadership and Governance Process is What is at Stake in ValueAct’s Proposals**

It is not enough that the company has a majority of Outside Directors when an entrenched President has exhibited a pattern of improperly influencing governance processes that should be independent. Rather than requiring unanimity, a fiduciary President should invite dissent and grant actual authority to independent procedures. In controversial situations, it is essential that processes are authorized to reach decisions without involving conflicted parties at all, including all of the following situations at Seven & i in recent history: a President Succession Review, a Strategic Review, the review of a take-over proposal, the review of a Shareholder Proposal, the investigation of the cybersecurity incident at 7-Pay, and the recent incident involving improper use of unauthorized recordings of a shareholder. Your response to the “Recording Issue”, as attached in your public communication, was disingenuous and dismissive of legitimate concerns. It was not aligned with expectations for a Board to independently respond to controversial issues with legal implications and impact on dialogue with shareholders at a critical time.

## **3. Seven & i Needs to Provide Clear Answers to have a “Substantive Strategy Discussion”**

To say that ValueAct has avoided the discussion of strategy by raising governance issues is absurd. We have shared thousands of pages of materials regarding strategy and spent countless hours without an adequate response. Our constructivist image comes from the time, energy, network and expertise we bring on behalf of all stakeholders to help improve our portfolio companies. To have an impact, our effort must be sincerely reciprocated.

Seven & i has refused to progress strategic conversations in a substantive manner with ValueAct in private, and Seven & i has refused to answer ValueAct’s clear and specific questions regarding strategy and the re-evaluation process in public.

In our April 2, 2023 presentation, we asked nine specific questions regarding strategy and the Group Strategy Re-Evaluation process. We requested a full response, so that the strategy discussion may progress. To date, the Company has provided no clear answers despite Mr. Isaka’s statement on April 6<sup>th</sup> that he would provide complete answers by mid-April.

We believe the Board’s answers should be clarified before the voting deadline for this year’s annual meeting as shareholders consider whether or not to maintain President Isaka’s leadership of the Company, and whether adding new independent perspectives could be helpful in the Company’s considerations of President succession and a wide range of strategic options.

Reinforcing the importance of our nine questions to a “substantive strategy discussion”, just this week in media interviews the President stated that Seven & i Holdings “would consider listing Ito-Yokado after three years,” thereby putting forward a specific strategy and timing that suits his interests with no mention of the independent Strategy Committee, which is supposedly tasked with the continuing objective review of strategic alternatives, including spin-offs, with an “open mind” as to timing.<sup>1</sup> Who is in charge? Was the President’s statement approved by the Strategy Committee?

President Isaka provided no transparency into why this strategic alternative for Ito-Yokado would be chosen over other alternatives, and contradicted his statements to other media outlets published just four

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<sup>1</sup> <https://www.nikkei.com/article/DGXZQOCD202Y90Q3A420C2000000/>

days later: “I disagree. It [Ito-Yokado] should not be separated.”<sup>2</sup> This confusion undermines confidence in the Company’s leadership and governance, including Mr. Isaka’s recognition of the scope and authority of the newly-appointed Strategy Committee to determine strategic options and their timing as per the Company’s official communications.

**Seven & i’s regrettable response to our letter reaffirms ValueAct’s conviction that the reforms proposed at the 2023 Annual General Meeting are fully warranted, and proportionate.**

**We are still waiting for the Board to respond to the questions that have been publicly communicated and included in this letter, to allow shareholders to make an informed decision as to who best would serve their interests, and who should lead Seven & i into its next chapter of growth and value creation.**

Sincerely,

ValueAct Capital

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<sup>2</sup> <https://toyokeizai.net/articles/-/669174>

## Appendix

### **Shareholder Questions for Seven & i Holdings Board of Directors**

We ask the Board to answer the 9 questions below during the Company's April 6 earnings announcement. Shareholders deserve simple, factual answers to each question. We also ask the Company to make the recording of the prepared remarks and Q&A of the April 6 announcement available in full in Japanese and English.

- 1. Does the Board recognize shareholder dissatisfaction with the current conglomerate structure?**
- 2. How did the Board's process for the "Group Strategy Re-Evaluation" control for the bias of management toward the status quo?**
  - a. Did Seven & i create an independent committee to conduct a strategic review or did the whole Board including management participate in the "Group Strategy Re-Evaluation"?
  - b. Which firm acted as financial advisor? Did the financial advisor report to the Independent Outside Directors or to management?
  - c. Did Seven & i allow the Independent Outside Directors to evaluate and vote on several strategic options that were all presented as viable? Or did management make a single strategy recommendation for up/down vote by the full Board?
- 3. Did the Board evaluate the conglomerate discount?**
  - a. How much corporate value did the financial advisor estimate would be created by eliminating the conglomerate discount?
  - b. What is the Board's plan to eliminate the conglomerate discount?
- 4. Which strategic alternatives were quantitatively considered?**
  - a. During the "Group Strategy Re-Evaluation", for which strategic alternatives did the financial advisor assign a corporate value estimate?
  - b. How did the corporate value estimates of these strategic alternatives compare to the current market value of Seven & i Holdings?
- 5. Why not pursue a tax-free spin-off of 7-Eleven?**
  - a. What reasons were discussed at the Board for why this tax-free spin-off plan was inferior to the plan announced on March 9?
  - b. Was increased vulnerability of the separated companies to a takeover among the reasons discussed?
- 6. Why not pursue a sale of the whole Company?**
  - a. Is the Board aware of any takeover approaches to Seven & i in the past five years?
  - b. If a sale of the whole Company was evaluated, what were the reasons that a possible sale of the Company was inferior to the plan announced on March 9?

- c. How did the Board ensure its evaluation of a company sale was not biased by the incumbent management's interests in retaining their executive positions in the Holding Company?
- 7. How do the supposed "group synergies" justify maintaining the conglomerate structure?**
  - a. During the "Group Strategy Re-Evaluation", did the Board quantify group synergies? If so, what is the contribution of group synergies to current operating profit and corporate value?
  - b. Did the Board evaluate options to maintain synergies through commercial agreements?
  - c. Did the Board evaluate the extent to which investing in group synergies in Japan under the conglomerate structure could limit its capacity to invest in the global growth of 7-Eleven?
  - d. After 18 years of pursuing and communicating group synergies under the conglomerate structure, why does a large conglomerate discount remain?
- 8. Does the whole Board agree with management's commentary?**
  - a. Does the Board unanimously agree with management's commentary during and after the March 9, 2023 announcement that the "Group Strategy Re-Evaluation" has "concluded" and that Ito-Yokado is "given three more years" before strategic alternatives can be pursued?
- 9. What will the newly formed Strategy Committee do?**
  - a. Will the Strategy Committee communicate its recommendations to shareholders? Or will communications be mediated by management?
  - b. Will the Strategy Committee establish its own timetable to evaluate strategic alternatives "objectively and comprehensively"? Or will the timetable be dictated by management?
  - c. Will the Strategy Committee recommend a strategic alternative to the Board and call for a vote? Or are its recommendations purely advisory?
  - d. In light of the negative capital markets reaction to management's March 9 announcement to continue the status quo, will the Strategy Committee consider and announce a new strategic alternative prior to the May 2023 Annual Meeting of Shareholders?