FY2021 Q1 Financial Results Analyst Conference:
Summary of Explanations for "Tender Offer for Shares in FamilyMart Co., Ltd."

Date: August 5, 2020 (Wed.) 16:00 to 17:15
Respondents: Tsuyoshi Hachimura, Chief Financial Officer
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Terms: TOB=tender offer bid; FA=financial advisor

Given the extremely high interest in the market toward the "TOB for FamilyMart's shares" released by ITOCHU on July 8, 2020, CFO Hachimura explained ITOCHU's point of view, as summarized below.

First, this transaction is being proposed in response to the request of FamilyMart's management that "to achieve FamilyMart's recovery of earnings and growth going forward, it is imperative for ITOCHU and FamilyMart to work together and to take more concrete measures, such as by screening new partners to jointly accelerate product development, and digital and overseas strategies. To that end, it is not enough if ITOCHU keeps holding 50.1% ownership in FamilyMart as its controlling shareholder, but it is desirable for FamilyMart to be delisted and change its structure in a manner that allows for speedy decision-making."

FY2021 is a challenging year, requiring ITOCHU to suspend its ever-increasing growth due to the unprecedented impact of COVID-19 and to survive by adhering to a lean management approach with a principle of "cut" and "prevent." Against this backdrop, FamilyMart's FY2021 1Q results and performance at hand are facing greater difficulties than anticipated, due to the massive impact of COVID-19. Its performance has dropped more significantly than the performance of other companies in the same industry.

FamilyMart also has many challenges to resolve, such as the 24-hour operation issue, overseas business development, and the franchise system. As such, ITOCHU strongly senses a crisis where it will be difficult to maintain or improve the corporate value of FamilyMart, unless ITOCHU increases its involvement in FamilyMart proactively and swiftly addresses those issues to find a solution.

ITOCHU laid out the significance of maintaining a parent-subsidiary listing with regard to each of the listed subsidiaries and its management policy to respect subsidiary autonomy in the "corporate governance report" in order to actively share ITOCHU's thoughts on strengthening of corporate governance as required by the Financial Services Agency, the Tokyo Stock Exchange and the market and on the severe views against parent-subsidiary listing. In order to respond promptly to recent request of FamilyMart's management and the drastic changes in the management environment surrounding FamilyMart, ITOCHU determined that it is important to solve the relationship of the parent-subsidiary listing with FamilyMart at this time. In other words, ITOCHU determined that it would be possible for FamilyMart's shareholders to collect invested funds at an amount higher than the present value and that the corporate value of FamilyMart, which is a core business for the ITOCHU Group's growth strategy, may increase substantially.

Nomura Securities Co., Ltd., ITOCHU's FA, calculated the share value of FamilyMart's in consideration of the management environment surrounding FamilyMart, the speed of performance recovery, and securing new revenue sources, etc. As a result, the TOB was commenced at 2,300 yen/share, a premium of more than 30% over 1,754 yen, which was the closing value on the day immediately preceding the commencement of the TOB. Thereafter, FamilyMart regrettably has been unable to present an improvement in performance, which dropped in connection with the change in the management environment, yet, and in consideration of the current status, wherein the share value of other companies in the same industry whose performance is better than FamilyMart's is decreasing, the TOB price of 2,300 yen/share may be said to be at a premium higher than "more than 30%." The TOB price of 2,300 yen/share is within or above the upper limit of the range of the share value calculated by the "three methods (market price analysis, comparable company comparison analysis, and DCF analysis)" used by FamilyMart's FA, Merrill Lynch Japan Securities Co., Ltd., and FamilyMart's management can determine that it is reasonable.

However, among the share values calculated by PwC Advisory LLC using three methods similar to the above, upon the independent request of FamilyMart's special committee, only the lower limit of the range of the share value indicated by DCF analysis resulted in an amount 172 yen higher than the TOB price. In other words, among the results of a total of six calculations made by the FamilyMart side, five of those calculations evaluate the TOB price as appropriate. With the addition of three calculation results on ITOCHU's side, the TOB price was outside the range of only one calculation result among the total of nine calculation results, and as a result, the answer from FamilyMart's side was quite conservative: "although FamilyMart declared an opinion supporting the TOB, FamilyMart left the decision up to its shareholders as to whether they tender their shares in the TOB", which also may make FamilyMart's shareholders hesitate. Probably due to the above, recently FamilyMart's share value is shifting at a level exceeding the TOB price by about fifty yen. However, ITOCHU certainly does not believe that FamilyMart's share value is more than 2,300 yen/share at present.

ITOCHU listed "B/S control for maintaining A ratings" as one of the basic policies in its financial and capital strategies, and carefully selected and conducted investments within the range of its earnings. With regard to the TOB, the maximum price satisfying internal investment criteria is 2,300 yen/share, and an organizational decision was made with a limitation on payment of the aggregate amount of the TOB being 580.0 billion yen (ITOCHU exposure of 520.0 billion yen).

Investing more than 580.0 billion yen as additional funds for FamilyMart, which is currently in an extremely difficult management environment, will not reinforce ITOCHU's strength, which is its "business portfolio in diversified sectors in a well-balanced manner." From the perspective of corporate governance, in fulfilling ITOCHU's accountability to its shareholders, it would be worthwhile to pay a premium of more than 30% to terminate the parent-subsidiary listing relationship with FamilyMart; however, the maximum TOB price for such a transaction would be 2,300 yen/share, and the maximum total purchase price would be 580.0 billion yen.

Given the enormous impact of COVID-19, and the management environment, in which it is difficult to forecast the future, ITOCHU is eager for the FamilyMart's shareholders to agree with the belief that "it is important for ITOCHU and FamilyMart to work together to proceed with the reform of FamilyMart with a sense of urgency" and to positively tender into the TOB.

There is a risk that the TOB may not be completed in the unfortunate event that, ITOCHU is unable to obtain support from a large number of shareholders with respect to the TOB price of 2,300 yen/share, which is the maximum price that ITOCHU can offer. In such a case, ITOCHU would abandon the TOB and, consequently, as FamilyMart's largest shareholder, it would cooperate in and promote the recovery of earnings and the growth strategy led by FamilyMart as an extension of the current status quo, i.e., while maintaining the parent-subsidiary listing relationship with FamilyMart, which would be desired by the minority shareholders of FamilyMart, although this approach will be slow.

On the other hand, although it is very disappointing, in the event that FamilyMart's delisting is not successful, contrary to the hopes of FamilyMart's management, ITOCHU will remove the 580.0 billion yen of acquisition funds from the investment plan and return to the basic policy in its FY2021 management plan, to faithfully promote a lean management approach on the principle of "cut" and "prevent" in order to focus on achieving consolidated net income of 400.0 billion yen, as announced to the public, and striving to generate even higher profits. Since ITOCHU has no plans to make any other large investments of this scale at the moment, ITOCHU believes that the Net DER will continue to improve in FY2021 and that there is a better chance that ITOCHU will maintain positive Core Free Cash Flow after deducting Shareholder Returns.

In line with its existing financial and capital strategy, ITOCHU will use its surplus cash either to invest in quality projects, to return profits to shareholders, or to repay debts, in order to build a more resilient financial position, even in this difficult management environment.

Lastly, ITOCHU would like to remind you that it has decided that the best way to continue to make FamilyMart the core business for Group's growth strategy is to terminate its parent-subsidiary listing relationship with FamilyMart and take FamilyMart private, and thus initiated the TOB. As there are still more than 10 business days left to tender into the TOB, ITOCHU asks FamilyMart's shareholders to carefully consider the difference between the future of FamilyMart "where the TOB was cancelled and fell apart" and the future of FamilyMart "where the TOB was successfully completed," and to actively tender into the TOB.