



August 13, 2020
ITOCHU Corporation

ITOCHU Announces its Views Regarding the Tender Offer for Shares in FamilyMart Co., Ltd.

As of July 8, 2020, ITOCHU made an announcement in relation to the tender offer for shares in FamilyMart Co., Ltd. (hereinafter referred to as “FamilyMart”) (Note 1). As ITOCHU received a number of comments and questions regarding the Tender Offer, ITOCHU would like to hereby explain its position in this regard once again.

In recent years, the business environment surrounding FamilyMart is becoming more and more challenging year by year, especially in the saturated domestic market, due to competition with other convenience store chains and, in addition, the rise of platformers, drugstores, etc. Worse still, the recent trend shows that the spread of COVID-19 has widened the gap among competitors and the gap among different business categories, and FamilyMart, which has excelled in developing stores in urban areas, has unfortunately continued to struggle with its business performance. In addition, as the idea that the “new normal” will continue even after COVID-19 has been contained to a certain extent is becoming commonplace, it must be said that it is quite difficult to anticipate a rapid recovery in FamilyMart’s business performance by extending its existing business model.

ITOCHU believes, based on its analysis, that said concern about FamilyMart’s future performance was clearly evident in the fact that, at the time of the announcement of the Tender Offer, FamilyMart’s stock price was significantly lower than its pre-infection level, i.e., before the spread of COVID-19, in contrast with the Nikkei 225 stock price that recovered to about 90% of its pre-infection level.

Furthermore, taking into account ITOCHU’s accountability to its shareholders and other stakeholders, ITOCHU believes that there is no room to consider changing the purchase price of 2,300 yen per share in the Tender Offer because it is impossible to add a premium exceeding the appraised value that ITOCHU believes to be appropriate.

ITOCHU notes that whereas it has set a lower limit of 50,114,060 shares (ownership ratio: 9.90%) on the number of shares to be purchased through the Tender Offer, it believes there is a possibility that the FamilyMart Shares that may be tendered in the Tender Offer in effect would represent only approximately 20% of FamilyMart Shares excluding the treasury shares (Note 2). In that case, the Tender Offer will be completed only when approximately half of the said approximately 20% of FamilyMart Shares are tendered.

In the case where the total number of the tendered shares is less than the lower limit set on shares to be purchased through the Tender Offer and accordingly, the Tender Offer is not completed, ITOCHU, to its great regret, would abandon the Tender Offer and, consequently, as FamilyMart’s largest shareholder, it would cooperate in 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-subsidary listing relationship with FamilyMart.

The decision to conduct the Tender Offer was made by ITOCHU in response to the request of FamilyMart’s management in light of various factors, such as issues confronted by FamilyMart. ITOCHU is of the opinion that it is extremely important for FamilyMart and ITOCHU to work together to promptly resolve a mountain of issues in order for FamilyMart to survive the intense competition and achieve further growth.

FamilyMart declared an opinion supporting the Tender Offer. Thus, the common understanding between FamilyMart and ITOCHU is that taking FamilyMart private will contribute to enhancing the corporate value of FamilyMart.

ITOCHU would appreciate it if you could understand ITOCHU's views stated above. ITOCHU sincerely hopes that FamilyMart shareholders tender their shares in the Tender Offer.

(Note 1) For details of the Tender Offer, please refer to the “Announcement in Relation to Commencement of Tender Offer for Shares in FamilyMart Co., Ltd. (Code No. 8028)” (the timely disclosure material dated July 8, 2020 was amended by an announcement dated July 10, 2020).
Please note that the Tender Offer is conducted by Retail Investment Company, LLC, a subsidiary of ITOCHU.

(Note 2) For details, please refer to “2. Purpose of the Tender Offer, (1) Outline of the Tender Offer, (ii) Reason for setting a lower limit of 50,114,060 shares on the number of shares to be purchased through the Tender Offer” on page 6 of the “Announcement in Relation to Commencement of Tender Offer for Shares in FamilyMart Co., Ltd. (Code No. 8028)” (dated July 10, 2020).
Based on a trial calculation provided by ITOCHU's financial advisor, Nomura Securities Co., Ltd., ITOCHU believes, based on its analysis, that approximately 30% of FamilyMart Shares are being held by ETFs (Exchange-Traded Funds) that are listed on the Tokyo Stock Exchange and other passive index funds. ITOCHU assumes that under the form of their investment, they are generally by nature managed with a focus on linking to indices, and thus most refrain, as a matter of policy, from tendering their shares in tender offers regardless of the appropriateness of the terms of the Tender Offer.

<Document Attached>

Summary of Explanations for “Tender Offer for Shares in FamilyMart Co., Ltd.”

(Summary of explanations about the Tender Offer that were provided by ITOCHU's CFO at the briefing on FY2021 Q1 financial results.)

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

This document is an English translation of a statement written originally in Japanese. The Japanese original should be considered as the primary version.

Date: August 5, 2020 (Wed.) 16:00 to 17:15
Respondents: Tsuyoshi Hachimura, Chief Financial Officer
Tatsuya Izumi, General Manager, General Accounting Control Division
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-subsidary 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-subsidary 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-subsidary 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-subsidary 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-subsidary 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-subsidary 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.