



Strategic Capital

This campaign website is an abbreviated reference translation of the original in Japanese. In the event of any differences between the original and the English translation, the original Japanese version shall prevail



# Proposal for Toa Road Co., Ltd (1882) to pave the path to improved shareholder value





## Executive Summary

Strategic Capital, Inc.'s (SC) goal is to unlock enterprise and shareholder value through dialogue with the company management team and the exercise of shareholder rights.

SC and the funds managed by our company are shareholders of Toa Road Co., Ltd. (“Toa Road or the Company”). In order to increase shareholder value, we have submitted the following proposals to Toa Road by exercising our right to make a shareholder proposal

- i. Set shareholder return policy to a 100% dividend payout ratio and 8% dividend-on-equity (DOE)
- ii. Establish a third-party committee in the event of misconduct etc.,
- iii. Abolish advisors and consultants



\* Shareholder benefit programs are a distinctive characteristic of the Japanese market, whereby many companies offer goods, services (sometimes including their own products), discount coupons or prepaid cards (e.g. Quo Cards) once or twice a year to shareholders who hold a certain number of shares or more.





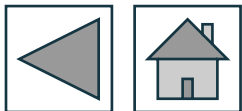
## Background & key points on the proposals

**Weak stock price and increasing equity capital → Set shareholder return policy to a 100% dividend PO ratio and 8% DOE (FSP 1)**

The Company's stock price has been stagnant for a long time. Although recently the stock price has improved, the P/B ratio is still well below that of TOPIX.

The shareholders' equity ratio is at a high level, and assets that are unrelated to the core business, such as cross-shareholdings and rental real estate, continue to be held.

For that reason, we propose the Company adopt a shareholder return policy that reduces the shareholders' equity and improve capital efficiency, while at the same time providing stable shareholder returns.





## Background cont'd

### **Insufficient measures to prevent recurrence of violations → Establish a third-party committee in the event of misconducts (FSP 2)**

Toa Road has violated the Act on Prohibition of Private Monopolization and Maintenance of Fair-Trade (Antimonopoly Act) multiple times in the past. These violations have caused the Company to lose public trust and significantly damaged shareholder value through the deterioration of business performance from the suspension of business operations.

In order to prevent recurrence, we propose that if serious misconduct, including violations of the Antimonopoly Act, occur again, a third-party committee will investigate, propose appropriate measures to be taken, and publicly announce such measures.

### **Insufficient pursuit of responsibility for the misconducts → Abolish advisors and consultants (FSP 3)**

Firstly, use advisors and consultants is not a desirable system for corporate governance, and we propose that the roles be abolished.

Amongst past violations of the Antimonopoly Act, the 2019 "Violation of the Antimonopoly Act concerning collusion on prices of asphalt mixture sold nationwide" resulted in a JPY 2.1707B fine, the impact of which was enormous. Despite that, some of the individuals who were Directors during the period for which the penalty was determined, continue to serve as Directors within the Company. Additionally, others were given positions such as advisors or consultants in the past.

It is not healthy for an individual, who resigned as a Director after admitting responsibility for violation of laws and regulations, be then granted the role of advisor, consultant etc.





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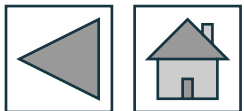
What's New

## What's New

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04.22.2024

Submitted Formal Shareholder Proposal to the Company



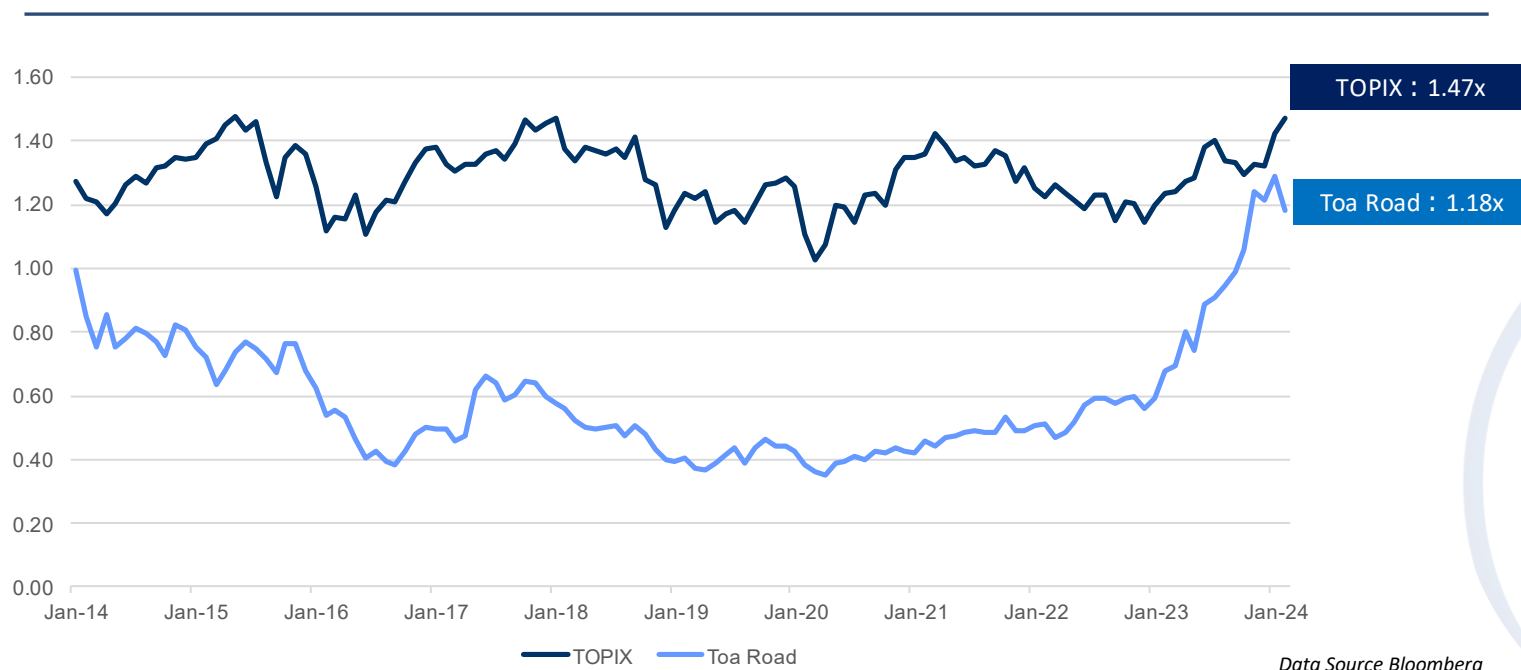


## Sluggish Stock

Toa Road's PBR has long remained below the TOPIX's. Although the stock price has increased recently, it still remains far below the TOPIX.

In March 2023, the Tokyo Stock Exchange requested for listed companies to take “Action to Implement Management that is Conscious of Cost of Capital and Stock Price” but as of April 2, 2024, the Company has yet to respond. We believe the Company should aim for at least a TOPIX-level PBR and as one of the measures to achieve this, we propose the shareholder return policy be set to an 8% DOE and 100% dividend payout ratio.

PBR (2014/1~)



Data Source Bloomberg

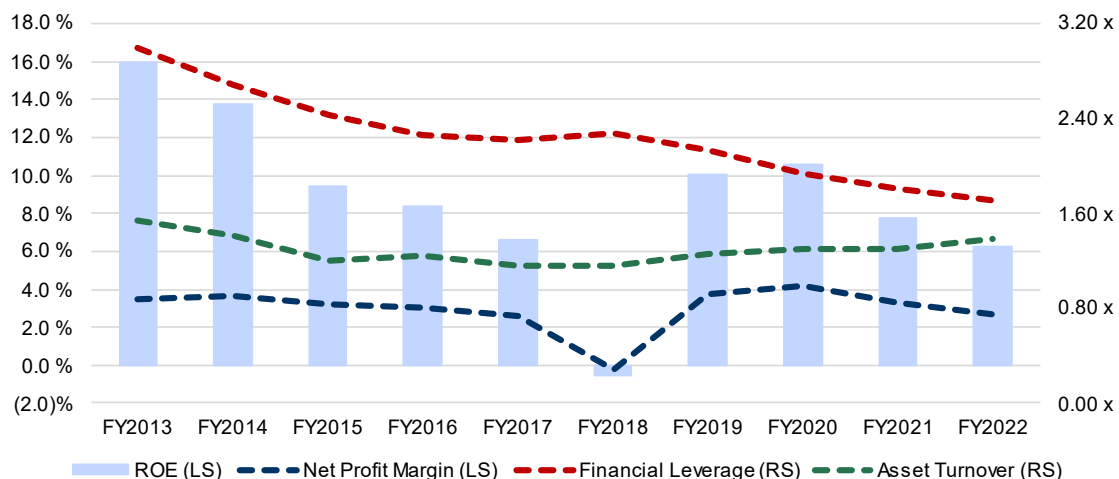




## Shareholders' equity ratio and ROE

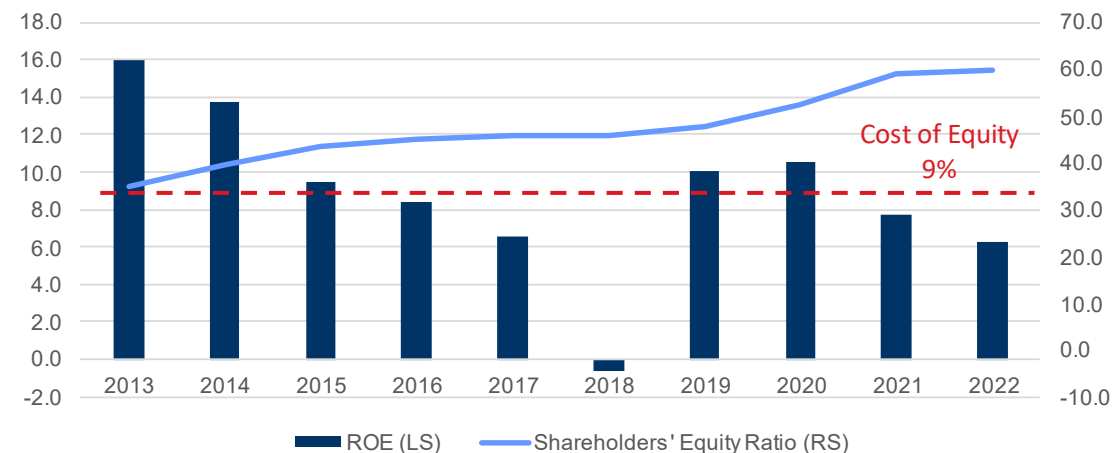
The shareholder's equity ratio has been continually increasing since 2007 and as of December 31, 2023, was at a high level of 62%. In comparison, the **ROE has been stagnant and is currently below our estimated cost of equity of around 9%** (As of April 2 2024, Bloomberg and Quick put the cost of equity at around 8.2% and 9.7% respectively).

ROE breakdown



Data Source: QUICK Workstation (Astra Manager)

ROE and Shareholders' Equity Ratio



Data Source: QUICK Workstation (Astra Manager), ROE is the avg. at the end of FY, shareholders' equity ratio is the quarterly average.

The **main reason for the decline in ROE is the decrease in financial leverage**. In addition to improving profit margins, the company should increase its leverage by using more interest-bearing debt. Increasing shareholders' equity will only lower ROE further.

By changing its shareholder return policy, the Company could **reduce equity capital, improve capital efficiency and demonstrate a policy of stable shareholder returns**.



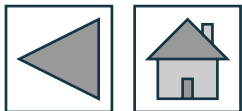


## Cross-shareholdings

As of March 31, 2023, the Company held approx. JPY3.5B in cross-shareholdings. Cross-shareholdings pose many problems.

In February 2024, in response to the matter where four major P&C insurers were accused of colluding on premiums for corporations, the Financial Services Agency (FSA) demanded that the insurers accelerate the reduction of their cross-shareholdings claiming the problem was caused by the companies pressuring corporations through their share ownership.

Given the long history of repeated violations of the Antimonopoly Act, Toa Road should immediately sell all cross-shareholdings, and use any proceeds which cannot be invested in the core business as a source of dividends.



### Issues with cross-shares

#### When purpose is to maintain, facilitate transactions etc.

- Benefiting from transactions due to the shareholding may be a violation of the companies act (prohibition of profit sharing).
- If stock ownership facilitates trading, there may be less incentive to improve products and services, resulting in less competitiveness.

#### Financial issues

- Impact to P&L and shareholder's equity due to price movement of stocks that have nothing to do with the performance of core business.

#### Issue when business partner forces stock to be held

- Could be victim similar to abuse of superior bargaining position, which is an unfair practice under Antitrust laws.

#### When held as a stable shareholder

- Using assets entrusted by shareholders to help protect Directors of a company.
- Basically the opposite of a wolfpack, a "stable shareholder pack."







## Strengthen, Reinforce Governance and Compliance

The Company has violated the Antimonopoly Act on multiple occasions. These violations have caused a loss of public trust and significant damage to shareholder value through the deterioration of business performance from the suspension of business operations. In particular, the impact from a JPY2.1707B fine for violations of the Antimonopoly Act in connection with the collusion on asphalt mixture prices sold throughout Japan was enormous.

While the Company announced the voluntary return of a portion of directors' remuneration, it was only 5% to 20% of their monthly remuneration from April to June 2019. This is hardly a response commensurate with the amount of damage suffered. In addition, some directors are still in their current positions, while in the past, others were given positions as advisors or consultants. We can only conclude that they are not sufficiently holding the subjects accountable.

Therefore, to thoroughly prevent recurrence, in the event of another serious misconduct, a third-party committee should investigate, propose measures to prevent recurrence, and publicly announce such measures. Also, the advisor/consultant system should be abolished to improve corporate governance.

### Past violations of the Antimonopoly Act

09/2016	Received a cease-and-desist order from the FTC and a JPY171m fine for violations of the Antimonopoly Act in connection with bidding for pavement restoration work related to the Great East Japan Earthquake order by the Tohoku Branch of Nippon Expressway Company Ltd. The Tokyo District Court later sentenced the Company to a JPY120M fine and suspended sentence.
03/2018	Received a cease-and-desist order from the FTC and a JPY93.55m fine for violations of the Antimonopoly Act in connection with pavement construction orders placed by the Tokyo Metropolitan Government, Tokyo Port Terminal Corp., and Narita International Airport Corp.
06/2019	Several businesses, including the Company, received cease-and-desist orders and surcharge payment orders from the FTC for violations of the Antimonopoly Act by manufacturers and distributors of modified asphalt. (The fine was waived through an application of the surcharge reduction and exemption system.)
07/2019	Received a cease-and-desist order from the FTC and a JPY2.1707B fine for violations of the Antimonopoly Act in connection with the collusion on asphalt mixture prices sold throughout Japan.





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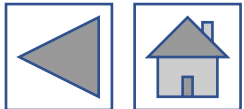
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## Revisions

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