



Strategic Capital

This campaign website is an abbreviated reference translation of the original in Japanese.

In the event of any differences between the original Japanese version and the English translation, the original Japanese version shall prevail

# Proposal to Daidoh Ltd. (3205) – Time to roll up the sleeves and increase shareholder value



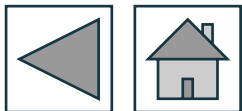


## Executive Summary

Strategic Capital, Inc.'s (SC) goal is to unlock enterprise and shareholder value through dialogue with the Company's Executive Management ("Management").

SC and the funds managed by our company are shareholders of Daidoh Ltd. ("Daidoh" or the "Company"). In order to increase shareholder value, we propose the following to Daidoh.

- i Strengthen disclosure related to current stock options
- ii Abolish stock option plan for corporate auditors
- iii Clearly state in the Articles who is eligible for the stock option plan and the exercise price
- iv Abolish current stock option plan for Directors and introduce a new plan
- v Cancel treasury stock

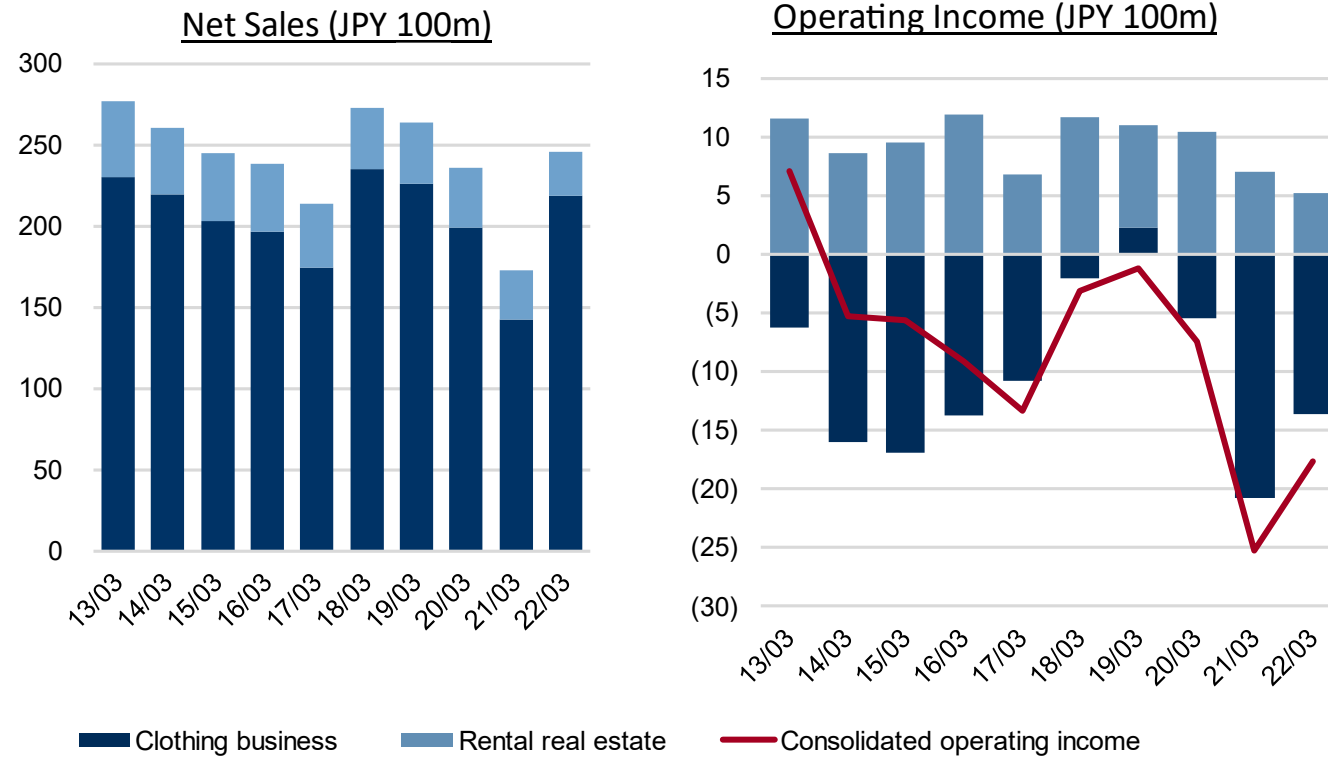




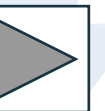
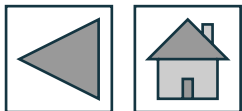
## Core business continues to lose money

Daidoh's core clothing business has seen a **continuous decline in sales** (it increased in FY2017 due to an M&A), and **operating income has been in the red in all but FY2018 for the last 10 years**. As a result, the Company has been losing continuously losing even on a consolidated basis.

### Net Sales and Operating Income



Data Source: Quick Astra Manager



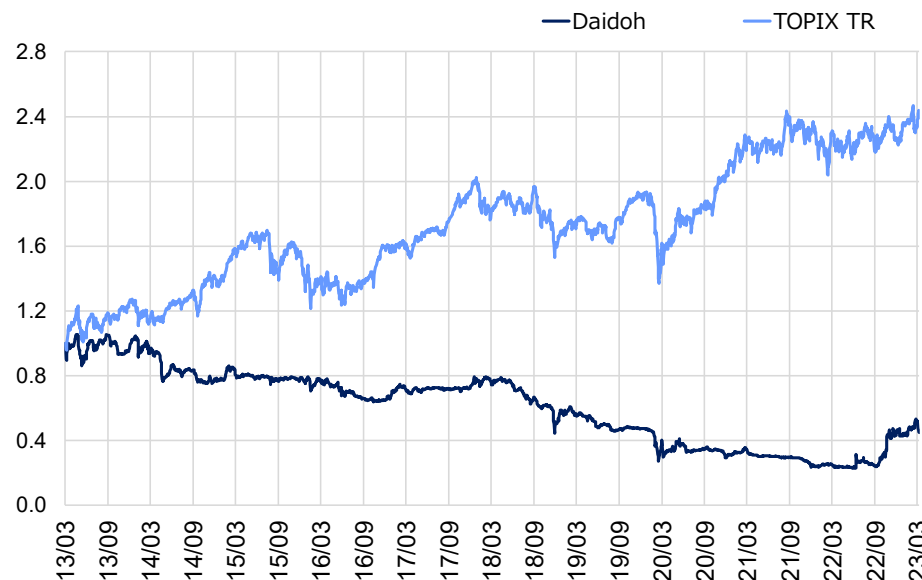


## Stock price that halved over the last 10 years

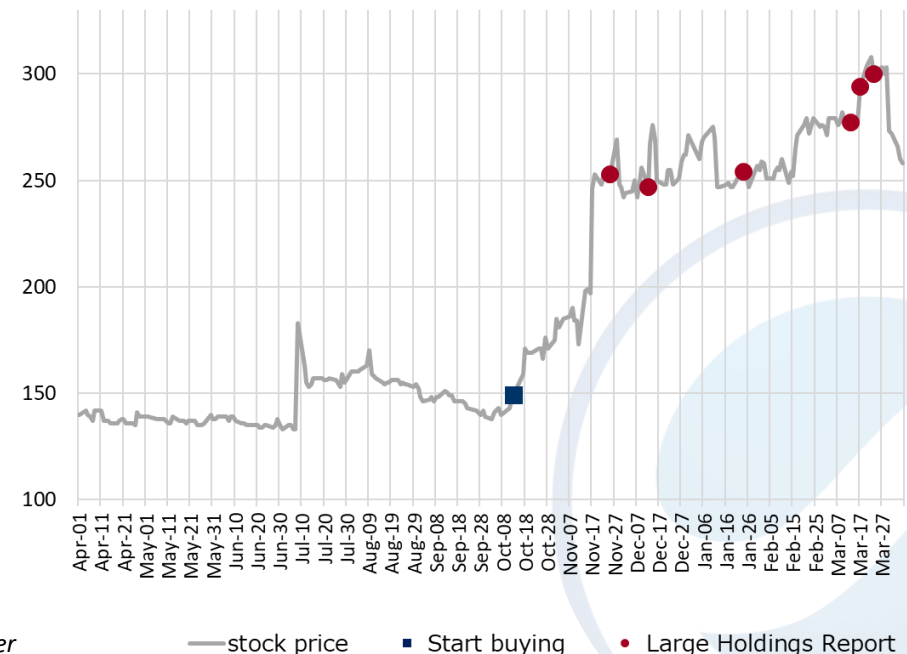
The stock price has also continued its downwards trajectory. Over the past 10 years, the TOPIX has increased approximately 2.5 times (including dividends), while the Company's value has more than halved (including dividends), significantly eroding shareholder value.

Although the stock price has increased since Oct 2022, there has been no significant change in fundamentals, instead it may have been influenced by SC purchasing the shares starting Oct 13, 2022.

Total Return 10 years



Stock price and SC buy timing



Data Source: Quick Astra Manager

— stock price ■ Start buying • Large Holdings Report

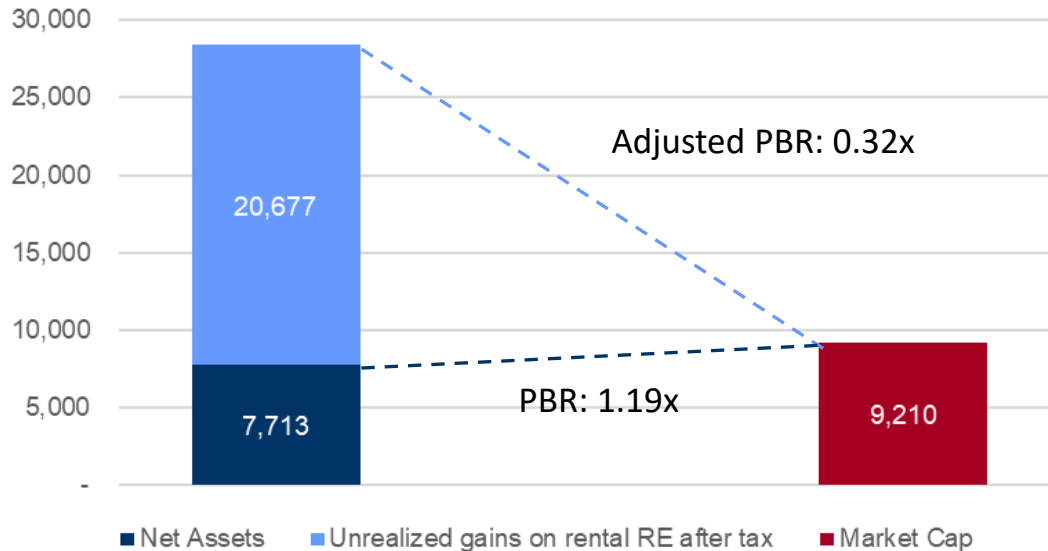




## Valuation well below dissolution value

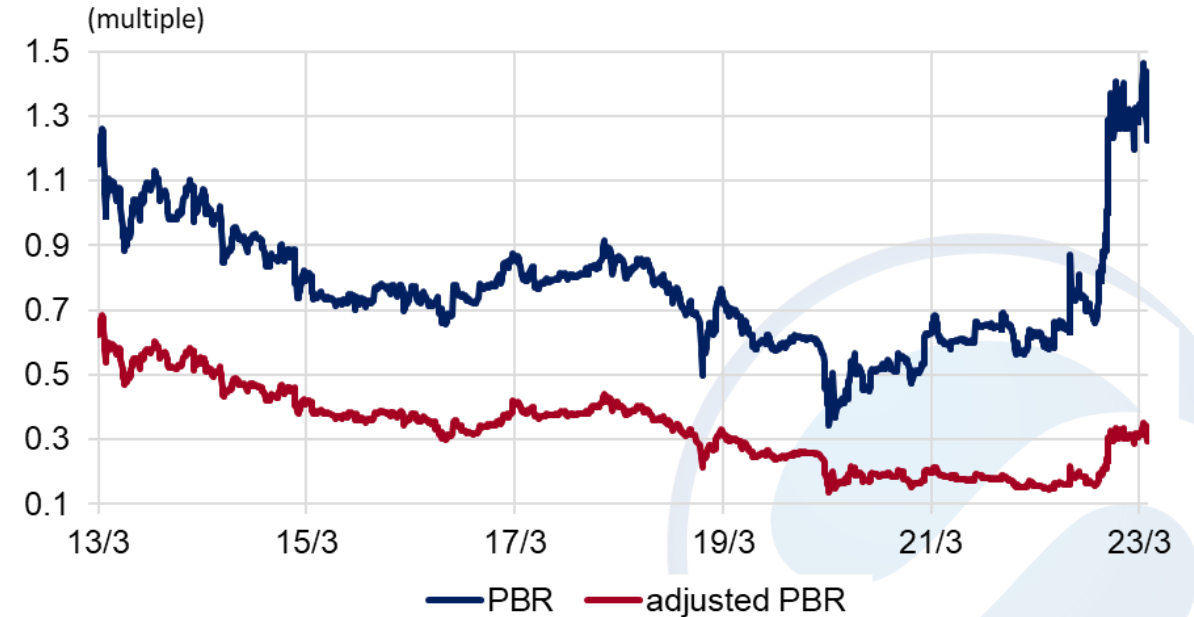
While the PBR of the Company seems to be around 1.19x, the book value of the net assets does not account for the unrealized gains on rental real estate, which amount to more than JPY 20B. Adjusting the PBR by accounting for the after-tax unrealized gains on rental real estate, the PBR is 0.32x, well below dissolution value.

PBR & Adjusted PBR

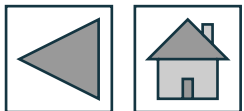


Unrealized gains on rental RE after taxes calculated as (MV of properties as of FY ending March 2022 - book value) × 0.7 market capitalization as of April 5, 2023.

PBR last 10-years



Data Source: Quick Astra Manager







## Problems with the stock option plan (“SOP”)

The Company’s stock option plan is as follows:

- **Exercise price:** 1 yen (acquisition rights granted to acquire shares at 1 yen)
- **Number shares:** based on total remuneration at each position (lower stock price, greater number of shares granted)
- **Exercise period:** 30 years and exercisable 1 to 5 years after retirement

In other words, the number of shares increases as the share price declines during the period when the management team is active, and the design allows for greater profit if the successor is able to raise the share price after retirement.

In addition, the plan is designed so that corporate auditors, who are tasked with auditing the duties of the directors, are also eligible, raising questions on both the plan design and the recipients.

### b. 役員の報酬等の構成及び算定方法

当社は、役員の各役位に対して総報酬の基準額を定めており、役員の報酬等は、固定報酬である「基本報酬」と「株式報酬（ストック・オプション）」及び業績連動報酬として短期インセンティブ報酬である「賞与」の三つにより構成されております。

#### (1) 基本報酬

役員に対して、固定報酬である基本報酬を支給しております。基本報酬額は、類似業種企業の水準を参考に、役位に応じて決定しております。

#### (2) 株式報酬（ストック・オプション）

役員に対して、中長期の株価向上への動機づけを目的として株式報酬を支給しております。支給額は、定められた役位別の総報酬の基準額を基に決定しております。

#### (3) 賞与

社外取締役及び社外監査役を除く役員に対して、業績連動報酬として短期インセンティブ報酬である賞与を支給しております。賞与は、業績回復を目指している状況下において事業業績と市場からの評価等を反映させることを理由に、主として連結営業利益及び株価向上率を指標にしており、各役員の職責に応じた指標に基づく評価と個人考課評価により金額を決定しております。当事業年度の連結営業利益は目標に対して損失増加となり、期末の株価は期首に比較して下落となりました。

なお、社外取締役及び社外監査役の報酬等については、その役割と独立性の観点から、賞与の支給はありませんが、株式報酬（ストック・オプション）については中長期的な企業価値向上を動機づけることを目的として支給しております。

### Composition and Calculation Method of Officers' Remuneration

The Company sets the standard amount of total remuneration for each executive position, which consists of three components: "base remuneration," which is a fixed remuneration, "stock-based compensation (stock options)," and "bonuses," which are short-term incentive remuneration linked to performance.

#### (1) Base Remuneration

<omitted>

#### (2) Stock-based compensation (stock options)

Stock-based compensation is paid to directors and corporate auditors to motivate them to improve the stock price over the medium and long term. The amount paid is determined based on the standard amount of total compensation for each position.

#### (3) Bonuses

<omitted>

In view of their roles and independence, no bonuses are paid to outside directors or outside corporate auditors. However, stock-based compensation (stock options) are paid to motivate them to improve corporate value over the medium to long-term

Data Source: Annual Securities Report,  
abbreviated provisional translation by SC





## Number of shares granted increases every year

The stock price has fallen significantly since the introduction of the current SOP, resulting in an **increase in the number of share granted from 19,700 in 2006 when the current plan was introduced, to 92,500 in 2022.**

### Status of Stock Options Granted

Date	No Shares	Exercise Price	Valuation Unit Price	Grantees		
				Director	Auditor	Executive Officer
6/29/2005	26,400	1	-	5	4	
7/10/2006	19,700	1	1,366	7	4	
7/9/2007	24,600	1	1,068	7	4	
7/7/2008	26,200	1	480	7	4	
7/6/2009	55,600	1	213	7	4	
7/5/2010	64,000	1	275	7	4	4
7/4/2011	53,800	1	385	7	3	5
7/2/2012	56,300	1	251	6	3	5
7/1/2013	75,000	1	361	6	4	9
7/7/2014	72,100	1	318	6	4	8
7/6/2015	79,600	1	332	7	4	7
7/5/2016	81,600	1	260	8	4	8
7/4/2017	89,400	1	314	6	3	8
7/3/2018	91,100	1	296	6	3	9
7/2/2019	86,800	1	227	7	3	9
7/2/2020	95,100	1	160	6	3	11
7/1/2021	91,500	1	174	6	3	10
7/1/2022	92,500	1	155	6	3	10
<b>Total</b>	<b>1,181,300</b>					

Data Source: Created by SC based on Annual Securities Report





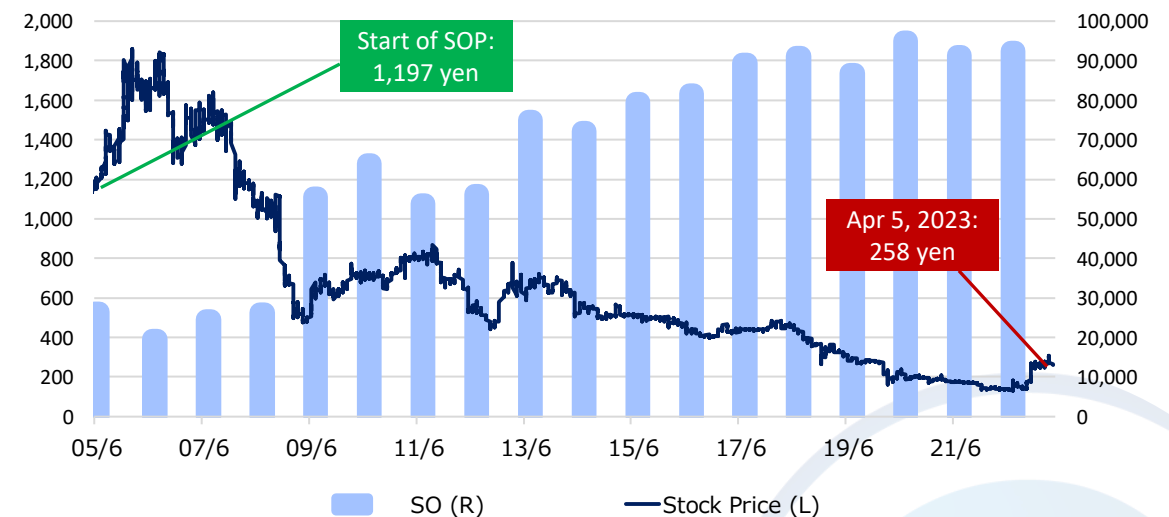
## Damaged to shareholder value, damage to the value of employee voluntary retirement and J-ESOP

Since the Company introduced the SOP, the Company's stock price has experienced a significant decline. While it briefly exceeded 1,800 yen the year following the introduction, since then **it has continued to fall and was trading at only 258 yen as of April 5, 2023.**

In addition, due to continued losses in the core clothing business, the Company has made **150 voluntary retirements,** and **no additional contributions have been made to the ESOP** since contributing 428,500 shares on Apr 1, 2009, and 1,500,000 shares on Dec 13, 2012.

In this way, management has continued to enjoy an SOP with an exercise price of 1 yen and guaranteed to yield a profit, while continuing to damage shareholder value and the value of the J-ESOP with a slumping stock price while also asking employees to take a voluntary retirement due to a deteriorating business.

### Share price after introduction of SOP



Data Source: Quick Astra Manage

Eligible Company	Eligible persons	Number	Applied	Date of retirement	Cost (million yen)	Est. per employee
Daido Ltd (+ Daido Forward)	Employees over 40/working at HQ	20	18	4/20/2022	95	5.3
Daido Forward	Permanent/temp store employees	100	104	2/10/2022	224	2.2
Daido Ltd	Employees over 50/groups domestic corps	30	29	10/20/2017	300	10.3

Data Source: Created by SC based on Annual Securities Report





## Proposed stock option plan

Therefore, SC makes the following suggestions

First, disclose the number of stock options held by Directors, Corporate Auditor and Executive Officer, and the deliberations of the Nomination and Remuneration Committee, to increase transparency.

Next, **abolish the SOP for corporate auditors** since their role is to “audit the execution of duties by Directors”, and so are not appropriate targets of the SOP.

In addition, we propose that the target persons and the exercise price be clearly stipulated in the Articles of Incorporation.

### Details of proposal

Disclosures	<ul style="list-style-type: none"><li>Specify in the Articles that the number of stock options held by each Director, corporate auditor and executive officer and the details of deliberations by the Nomination &amp; Remuneration Committee must be disclosed.</li></ul>
Abolish SOP for Corporate Auditors	<ul style="list-style-type: none"><li>Abolish the current SOP for auditors approved at the 2006 AGM</li></ul>
Amendments to the Articles	<ul style="list-style-type: none"><li>Specify who is eligible and the exercise price</li></ul>
Abolish SOP for Directors and introduce a new plan	<ul style="list-style-type: none"><li>Abolish the current SOP for Directors approved at the 2006 AGM</li><li>Introduce a new stock-based compensation plan (expectation that the same plan will be introduced for executive officers)</li><li>Corporate auditors exempted from new plan.</li></ul>



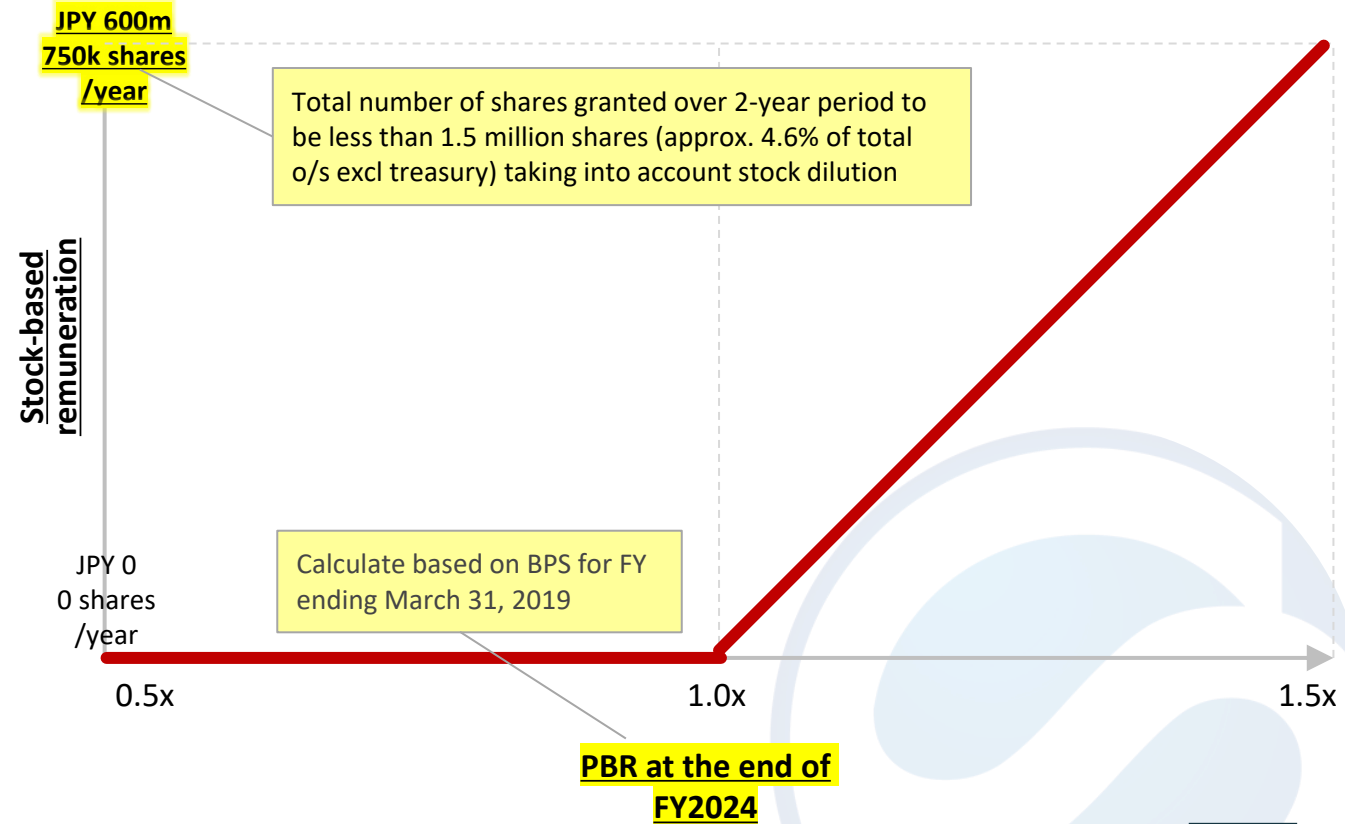


## Proposed stock option plan cont'd

**A new plan will be proposed for the Directors subject to the abolition of the current SOP.** The new plan will be linked to PBR but the amount of book per share (BPS) used to calculate PBR will be set to 487 yen which is the amount for FY2018 just before current CEO Tsukasa Nabewari became a Director. We would like the **goal to exceed 1x PBR be based this BPS because the BPS has been declining in recent years.**

We expect the Board to introduce a similar plan for executive officers within the overall number of stock grants and annual maximum amount and **hope the Company will work together to increase shareholder value.** Furthermore, given the many problems with the SOP, **we expect the Directors, corporate auditors and executive officers to voluntarily waive any stock option currently held.**

### Overview of new stock-based compensation plan



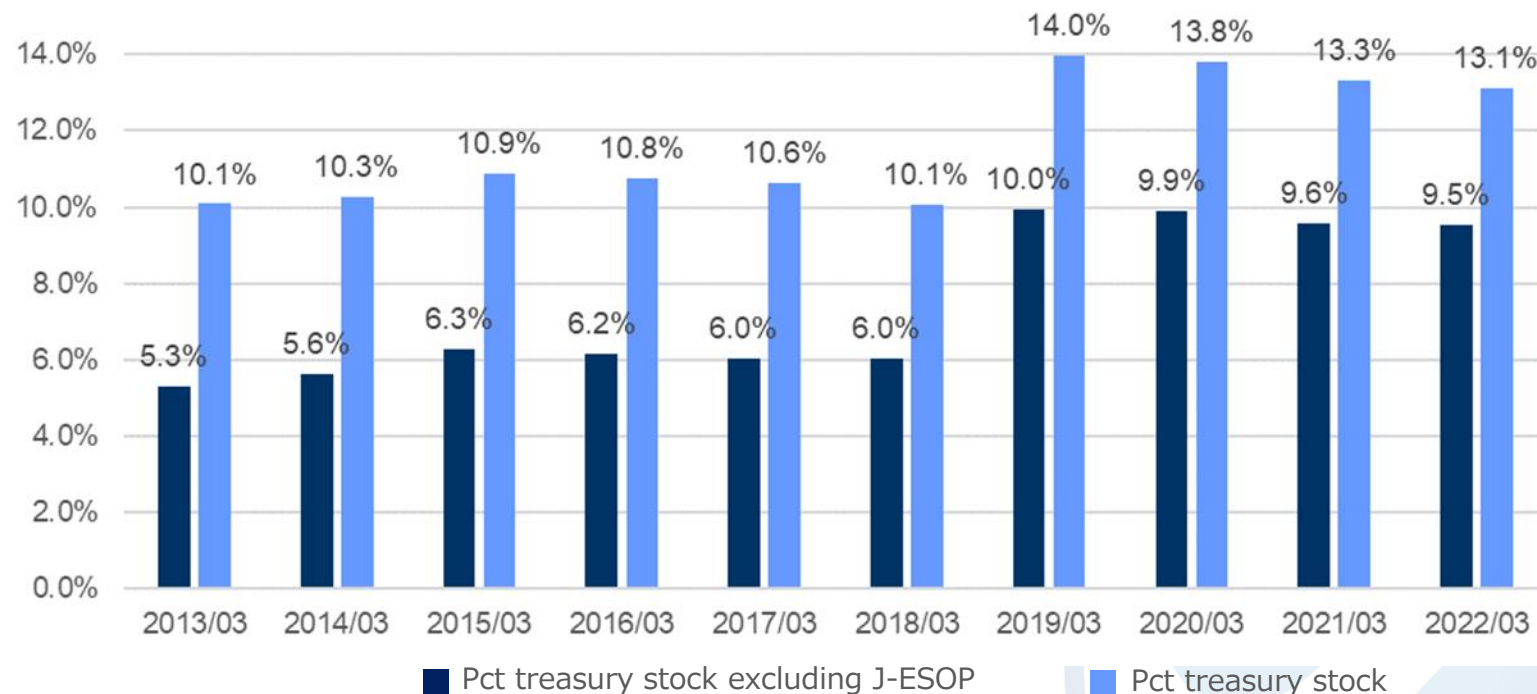


## Treasury stock equal to approx. 9.5% of O/S shares

As of March 31, 2022, the Company held approx. 3.6 million shares of treasury stock excluding the J-ESOP, equal to **9.5% of the total outstanding shares**.

The situation in which the Company continues to hold a large number of treasury shares, means that the shareholders' shares could be diluted at any time. We would like the Company to promptly cancel the treasury shares.

Ratio of treasury stock to total number of issued shares



Data Source: Created by SC based on Annual Securities Report





Strategic Capital

Shareholder  
Proposal

Current  
Situation

Stock Option  
Plan

Cancel treasury  
stock

Revision History  
Disclaimer

## Revisions

05.10.2023 Announced the rejection of Shareholder Proposal

04.26.2023 Campaign website opened





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