



Strategic Capital

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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

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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") and **holds 32.2% of the voting rights**. In order to increase shareholder value, we **oppose the election of Tsukasa Nabewari, Katsuo Watabe, Kazuyuki Nishioka and Kensuke Narita out of the six incumbent Directors being proposed by Daidoh.**

To replace those 4, we **propose the election of six (6) new Directors**

- 1) Toshihiko Nakashima
- 2) Michio Osawa
- 3) Masaki Murata
- 4) Shingo Shinozaki
- 5) Takashi Shimamura
- 6) Kayo Iketeru

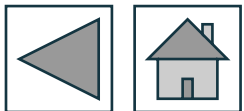
*Under the Company's Articles of Incorporation, the number of directors is eight. The Company plans to propose 6 directors at the next AGM so in addition to the 6 proposed by SC, a total of 12 directors will be up for election. Therefore, of the candidates who receive a majority of the votes in favor, eight will be elected in order of the percentage of votes in favor.





Shareholder value eroded by current management

The Company's management team has continued to undermine shareholder value. Full-time directors, Tsukasa Nabewari and Katsuo Watabe have served as executive officers since 2017 and 2013 respectively, and both have served as Directors since 2019 and during all this time the Company's performance has continued to decline. In addition, outside directors Kazuyuki Nishioka (Director since 2016) and Kensuke Narita (Director since 2020) have failed to fulfill their management oversight responsibilities and allowed the management team to run the Company at a loss.



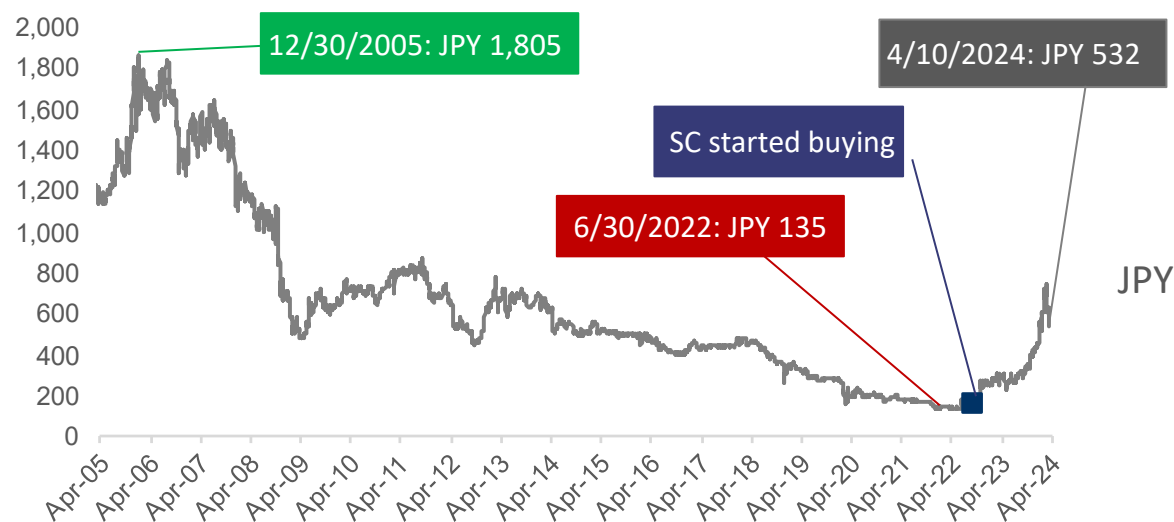
Stock Price decline due to LT losses

Decline in stock price due to long-term losses

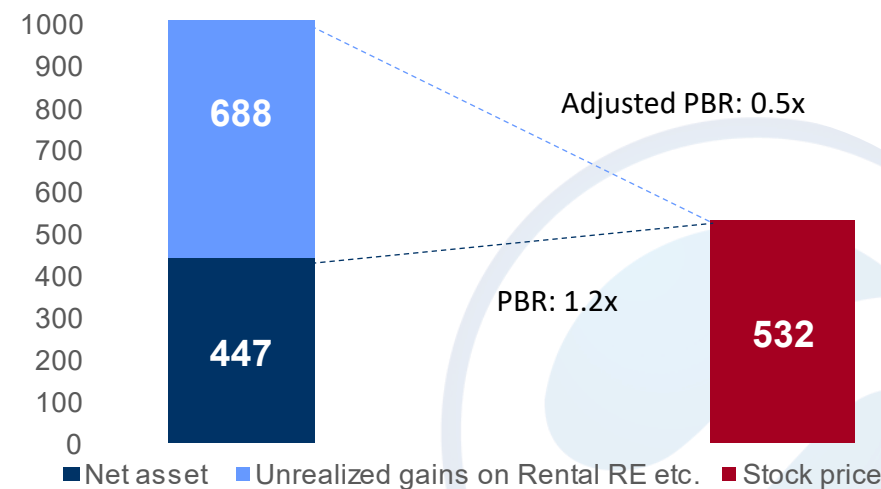
The Company's operating results have been in the red for the past 10 years. An extraordinary gain from the sale of its HQ building resulted in a positive net income for the fiscal year ending March 31, 2023, but this was a one-time event, and the core business continues to deteriorate.

As a result since 2006, the stock price has declined steadily and by 2022 was trading at less than one-tenth its value. The share price has risen since SC began buying but it is still well below dissolution value when accounting for the market value of the rental real estate and other real estate properties.

Price (JPY)



PBR, Adjusted PBR



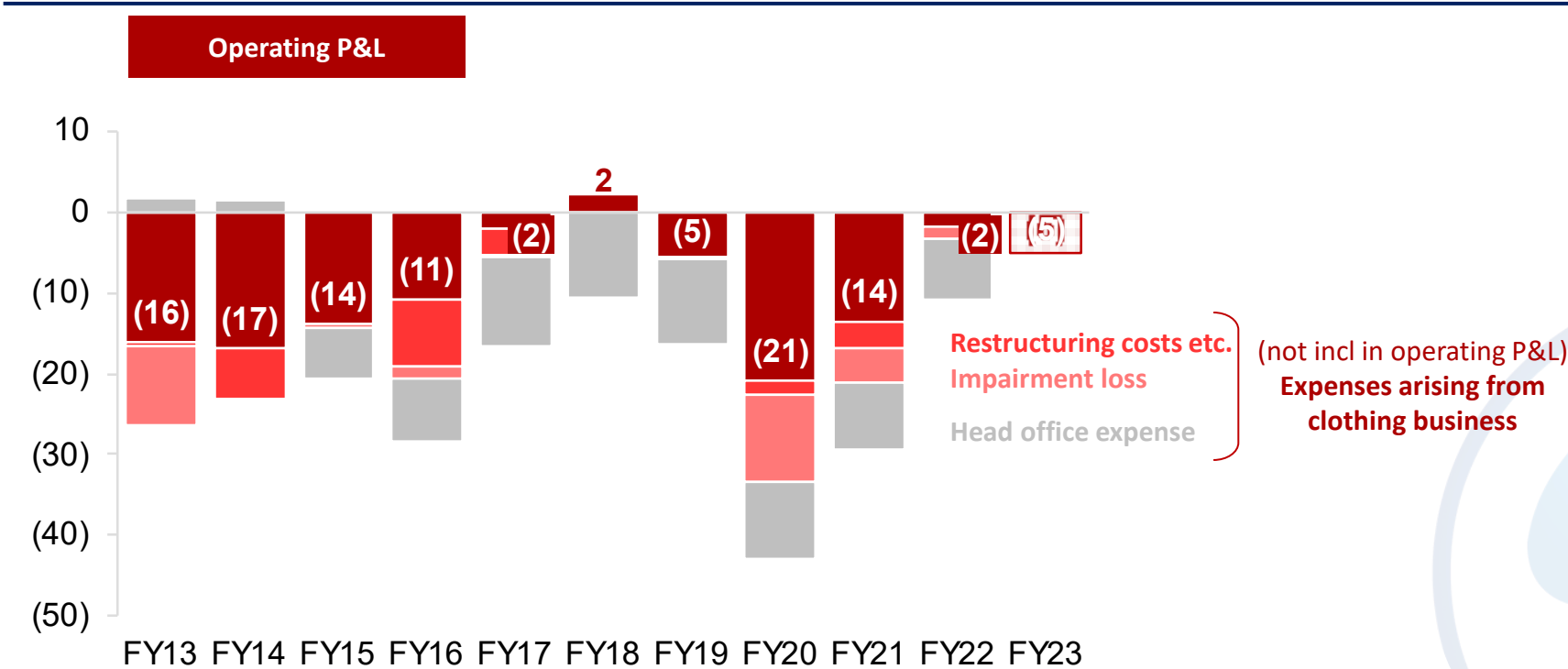
Source: QUICK Workstation(Astra Manager) Unrealized gains after tax on rental real estate is calculated as (MV of rental real estate in FY2022 – BV) x 0.85 (accounting for loss carried forward and 15% tax rate). Stock price as of April 10, 2024



Long-term slump in apparel business

Over the past 10 years, the Company's core clothing business has posted an operating loss every year with the exception of FY2018, for a **cumulative loss of JPY9.91B** over that time frame.

P&L of apparel business (JPY 100M)



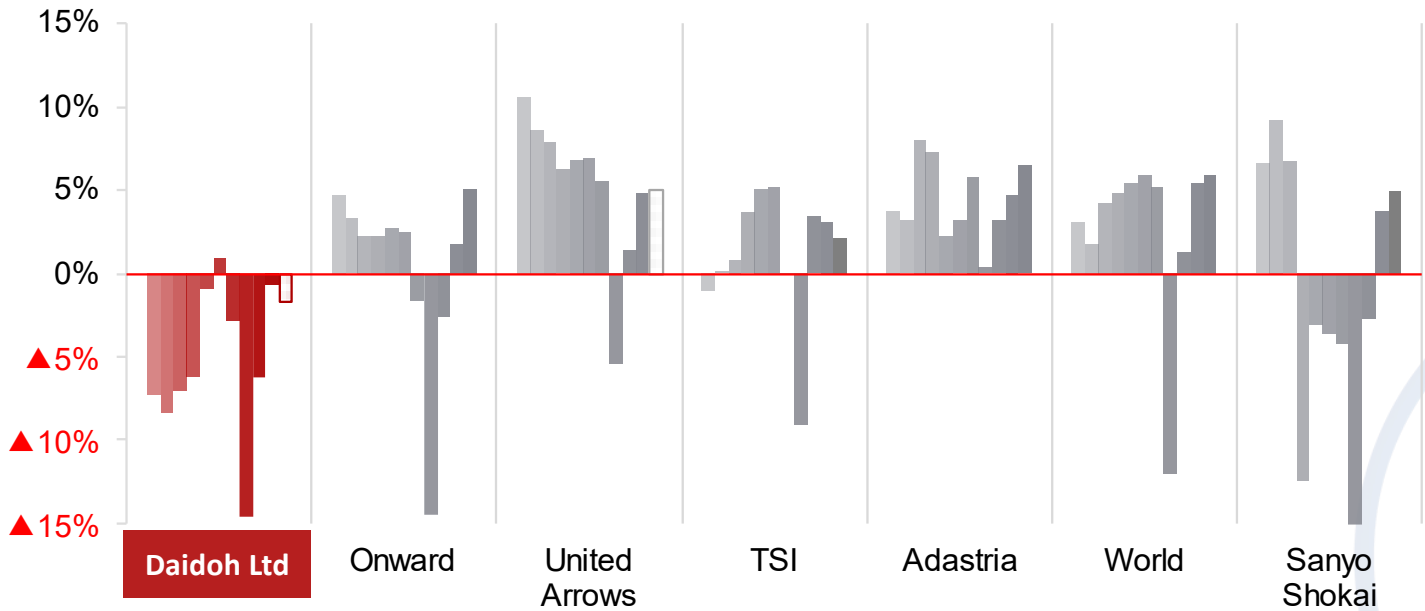
Data Source: QUICK Workstation(Astra Manager) Restructuring and other expenses are the sum of business structure improvement expenses and special severance payments. HO expenses are calculated by dividing expenses not allocated to each segment-by-segment sales. For FY2023, Company's forecast for consolidated operating income used.



Recovery relative to peers

While other apparel companies are recovering from the downturn due to the COVID pandemic, the Company is expected to remain in the red for FY2023 and shows little signs of improving.

Operating margin of apparel businesses (FY2013-2023)



Data Source: QUICK Workstation(Astra Manager) Daidoh Ltd is from its clothing business, Onward and TSI from its apparel-related business, other companies from consolidated P&L. For Daidoh and United Arrows, FY2023 is based on company forecasts of consolidated operating income.





Long-term slump in apparel business, failed M&A

The Company recorded a goodwill impairment loss of JPY553m in FY2020 as a result of its acquisition of PONTETORTO in November 2016. An impairment loss on fixed assets (which is believed to account for a certain percentage of the JPY 130m in the clothing business for FY2022) was recorded May 2023 with respect to Brooks Brothers Japan which became a consolidated subsidiary in November 2020.

Significant impairment losses have been recorded on their M&A activities.





Employee restructuring and the SOP

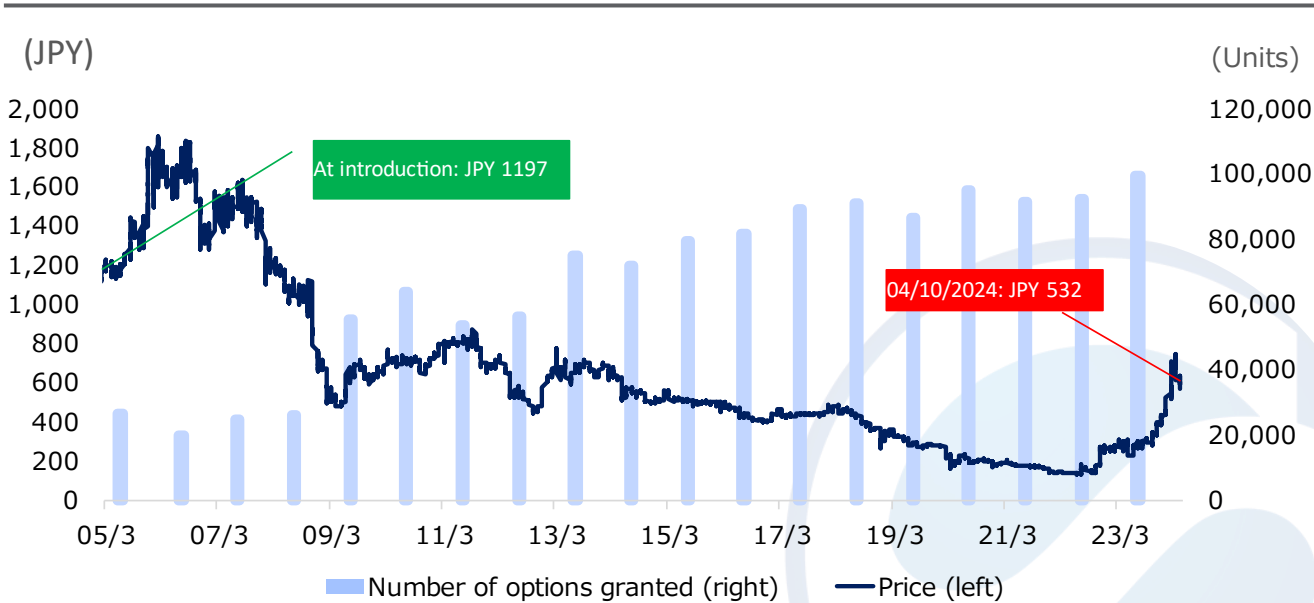
Employee restructuring and management benefiting from one yen stock options

The Company has executed voluntary retirement packages for approx. 150 employees in total in 2017 and 2021, and in 2024 newly announced a workforce reduction of approx. 120 employees in China. The Company’s non-consolidated headcount has decreased from 73 in FY2013 to 35 in FY2022, with average annual salaries decreasing from JPY 6.51m to JPY5.54m over that time.

On the other hand, since 2006, management and auditors have continued to be granted stock options that allow them to acquire shares of the Company for one yen, with the number of shares they earn increasing as the stock price declines. This continued last year, ignoring repeated requests for improvement by SC.

In this way, the Company continues to maintain a system that benefits only management and the auditors, while making employees bear the burden of poor performance.

Share price and stock options granted



Data Source: Disclosure materials, QUICK Workstation(Astra Manager)

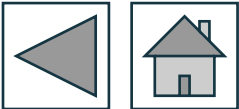
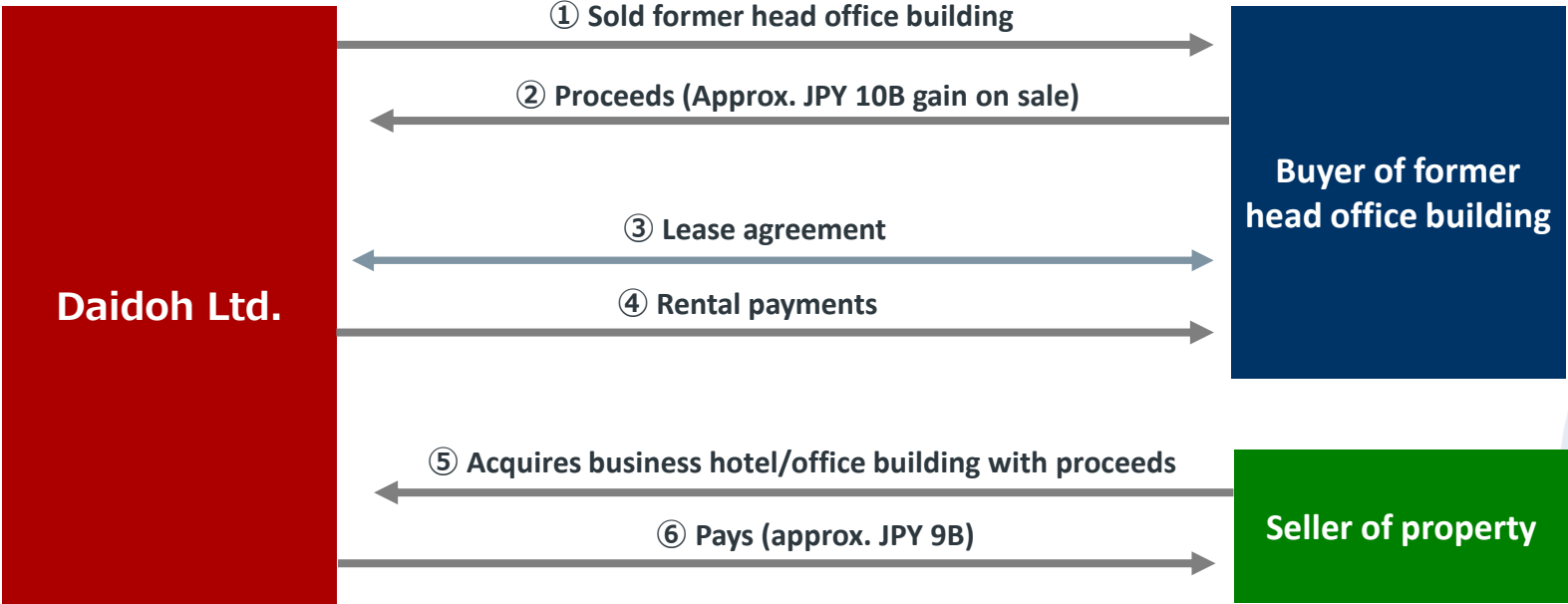




Continuation of real estate leasing business which earns less than cost of capital

Ignoring our repeated requests, Daidoh has not only continued to hold rental properties that provide a return far below the cost of capital, but also acquired a business hotel (acquisition price: approx. JPY 3B) and an office building (approx. JPY6B) using the proceeds from the sale and leaseback of its former head office building.

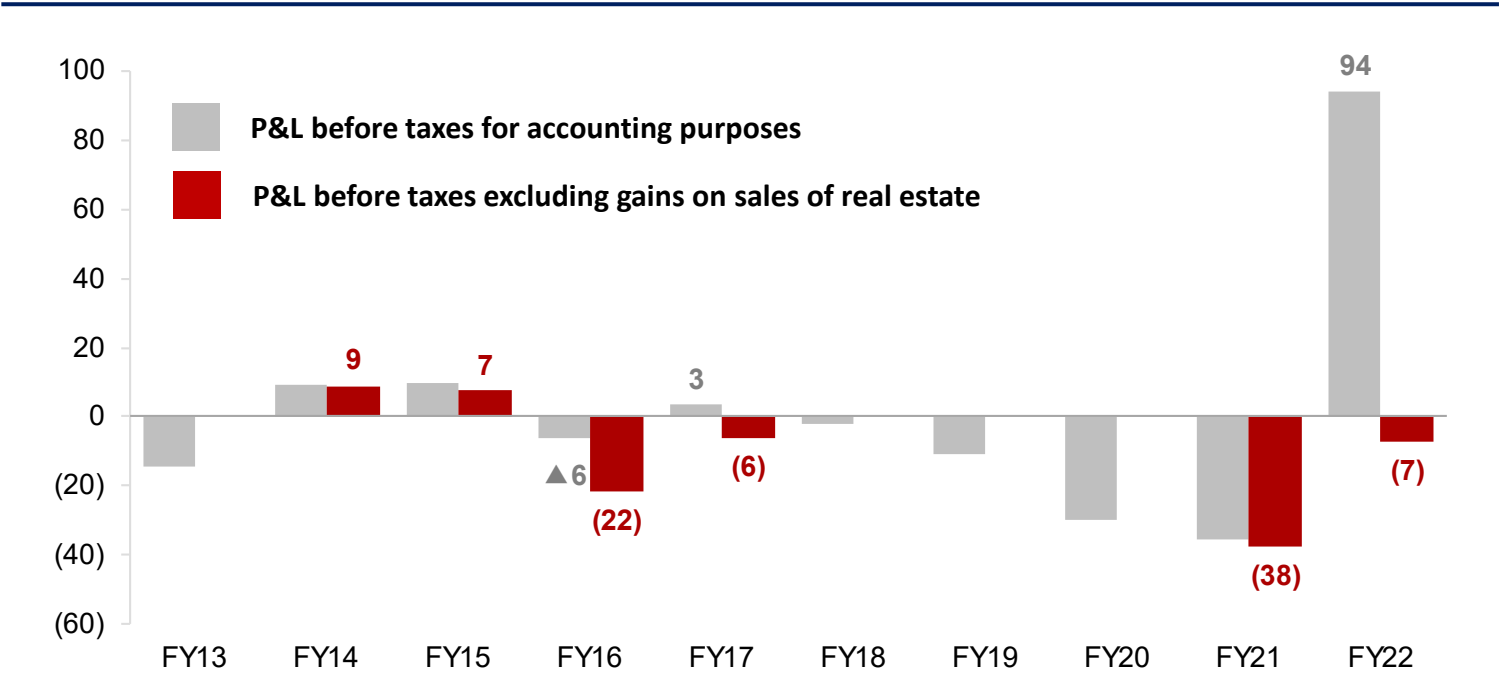
Real estate related transaction flow



Purpose of sale-and-leaseback transaction

Although sale-and-leaseback transactions are generally conducted for the purpose of improving capital efficiency, the sale of the former head office building did not improve capital efficiency as the Company acquired other real estate from the proceeds. We must assume that the purpose of the sale was to turn the Company's bottom line into a profit for accounting purposes in order to avoid criticism from shareholders for continuing to operate at a loss.

P&L before tax (JPY 100m)



Data Source: QUICK Workstation(Astra Manager)
Income (loss) before tax excluding gain on sale of real estate is calculated by subtracting gains on sale of buildings and land from income before taxes.





Overview of candidate for Board of Directors

SC has made several proposals to the Company since it began investing but they have rarely been adopted and we have determined that it is impossible to achieve an increase in shareholder value under the current structure. Therefore, we would like to reorganize the Board of Directors in order to restructure the business and establish a sound governance structure with the aim to improve shareholder value.

SC believes that the proposed candidates will contribute to enhance shareholder value. Specifically, we are proud to have selected candidates who have experience in the management of companies including apparel and real estate companies, and who have extensive experience in business restructuring. The identification of a female candidate will also help to promote diversity.

Since each candidate will be able to perform his/her duties independently and for the benefit of all shareholders, this proposal is not intended to acquire control over the Company.





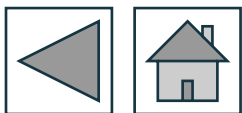
Candidates – Reasons for Nomination

Toshihiko Nakayama

Mr. Nakayama has extensive experience in M&A (especially hands-on corporate restructuring) having worked for a major foreign company for 10 years before helping found an investment company. He then moved to the fashion industry where he worked for 15 years as a CFO (concurrently as an HR manager), mainly in foreign companies. From December 2017 to May 2021, he was CFO of the Japanese subsidiary of Brooks Brothers, one of the main brands of the Company. With his experience in corporate restructuring and management in the fashion industry, he is expected to lead the Company's Management restructuring and is therefore proposed for appointment as executive director of the Company.

Michio Osawa

Mr. Osawa has held various important positions at Kashiya Co., Ltd. (currently Onward Holdings Co., Ltd.) and its affiliated companies, and has extensive experience in the apparel business and corporate management. He is currently engaged in the promotion of the supply chain management in the textile industry as the chairperson of FISPA (Fashion Industry SCM Promotion Association) and has a broad network in the textile industry, distribution industry and other industries in general. Therefore, he is expected to provide accurate management supervision and advice in the management reform of the Company's apparel business, especially in the optimization of production and logistics etc. We propose his appointment as outside director.





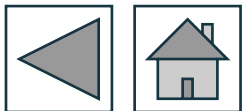
Candidates – Reasons for Nomination cont'd

Masaki Murata

Mr. Murata has a wealth of experience and expertise in real estate having served as representative director in several real estate-related companies. He also has international experience including a stint in London with Nomura Securities. Therefore, we propose that he be appointed as an outside director, and we expect that he will provide accurate management supervision and advice for the fundamental reform of the Company's real estate business.

Shingo Shinozaki

After working as a certified public accountant at a major auditing firm, Mr. Shinozaki has held key positions at several foreign companies, where he has a wealth of experience mainly in the field of accounting and finance. He also has experience leading the management restructuring of Lotteria Corp as its President and Representative Director. In light of his experience as a CPA and management restructuring, he is expected to provide accurate supervision and advice for the Company's overall management. We propose that he be appointed as outside director.





Candidates – Reasons for Nomination cont'd

Takashi Shimamura

Mr. Shimamura has extensive experience in business management in industries and management that require speedy management such as IT-related companies and start ups. He also has extensive experience in organization and human resources, risk management and ESG/SDGs initiatives in companies that require globalization as well as advising on business management, organization and human resources for new entries into Japan and Asia. Most recently as Executive Vice President of USJ LLC, he was responsible for the company's business management. In light of his background and experience he is expected to provide accurate supervision and advice for the Company's overall management. We propose that he be appointed as outside director.

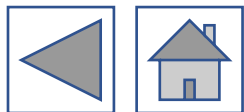
Kayo Iketeru

After starting her career at an English conversation school, Ms. Iketeru was engaged in all aspects of human resource management including the design and operation of human resource systems and the planning and implementation of programs to promote women's advancement at several, mainly foreign-related, companies. After returning to work, she is mainly involved in supporting companies in the design and implementation of HR systems, internal and external communications, education and career programs, consulting etc. She is also active as a management skills and workshop facilitator. As the Company has many female employees, she is expected to provide accurate supervision and advice regarding the creation of diverse personnel systems and mechanisms to motivate employees. Therefore, we propose that she be appointed as outside director.



Revisions

05.1.2024 Campaign website opened





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