



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 to refill the value of Kyokuto Kaihatsu Kogyo Co., Ltd (7226)



**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") and the exercise of shareholder rights.

SC and the funds managed by our company are shareholders of Kyokuto Kaihatsu Kogyo ("Kyokuto", "Kyokuto Kaihatsu" or the Company"). We have exercised our shareholder right to submitted a single proposal this year. One which we believe is a viable and highly effective measure to increase shareholder value.

- i. Set dividend payout ratio to be 100% or DOE to 6% whichever is greater





Stock price that constantly trades below dissolution value

Kyokuto Kaihatsu has been **consistently below a PBR of 1x**. While the ratio has gradually increased since 2023 it is still well below that level.

PBR consistently below 1x



Data Source: Quick Astra Manager, PBR as of May 14, 2024

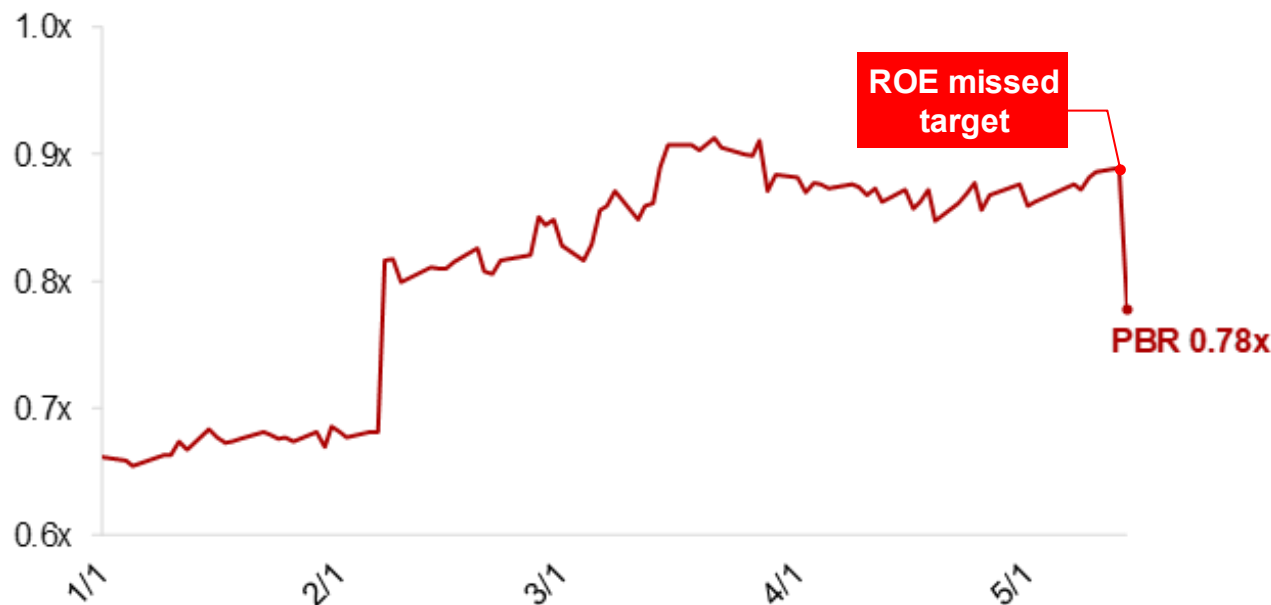




Earnings forecasts that fall short of shareholder expectations

While the PBR was steady at the start of 2024, exceeding 0.9x at its highest, the FY2024 ROE forecast announced at the same time as the FY2023 results was below the target set in the mid-term business plan (MTBP) and the stock price fell sharply.

ROE plunged after missing ROE Target



Data Source: Quick Astra Manager, PBR as of May 14, 2024





The Long-Term Vision and Medium-term Business Plan

In May 2022, the Company announced its long-term vision (LTV) which sets a target for FY2030. In addition, the released a medium-term business plan (MTBP) which would cover FY2022 to FY2024 as the first step to achieve the LTV.

Targets were set for net sales and operating profit margin as well as ROE.

Current MTBP is positioned as 1st STEP of LTV

	Long-term Vision			
	Actual	1st STEP	2nd STEP	3rd STEP
	FY2021	FY2024	FY2027	FY2030
Net Sales	JPY116.9B	JPY140B	N/A	JPY200B
Operating profit margin	6.0 %	9.0 %	N/A	10.0 %
ROE	4.8 %	7.7 %	N/A	10.0 %

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Current MTBP

Source: Based on disclosed materials; ROE for FY2021 is estimated without gain on sales of fixed assets; ROE for FY2024 is based on sales and operating profit margin targets; The ROE target for FY2024 was announced in May 2023.)





Two straight years of downwards revisions of targets

After the announcement, the MTBP was revised downward for the second consecutive year resulting in the LTV being greatly misaligned with the 1st STEP. Regarding **net sales** and **operating profit margins**, while it is fair to ask if there was more that could have been done or was the original outlook too naïve, given the business environment, there may have been some aspects that were unavoidable.

However, **management is responsible for ROE.**

An ROE of 6% for FY2024 is **a goal that CAN be achieved.** It is **a goal that SHOULD be achieved.**



MTBP has been revised downward every year

		Long-term Vision			
		Actual	1st STEP	2nd STEP	3rd STEP
		FY2021	FY2024	FY2027	FY2030
Net Sales	May 2022	JPY116.9B	JPY140B	N/A	JPY200B
	May 2023		"		"
	May 2024		JPY1,340B		"
Operating profit margin	May 2022	6.0 %	9.0 %	N/A	10.0 %
	May 2023		7.0 %		"
	May 2024		4.7 %		"
ROE	May 2022	4.8 %	7.7 %	N/A	10.0 %
	May 2023		6.0 %		"
	May 2024		3.7 %		"

Downward Revision

Downward Revision

Downward Revision

Source: Based on disclosed materials; ROE for FY2021 is estimated without gain on sales of fixed assets; ROE forecast for FY2024 is based on sales and operating profit margin targets



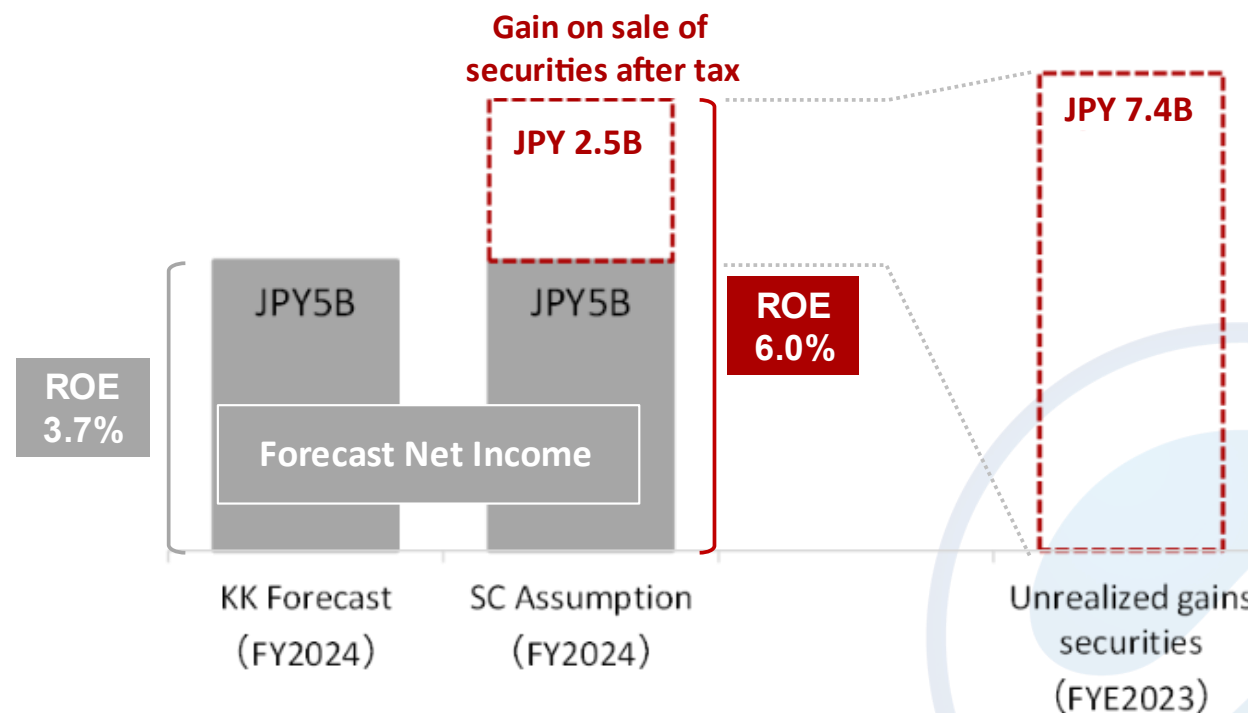


6% ROE target CAN be achieved

We estimate the Company holds securities with unrealized gains of approx. JPY7.4B at the end of FY2023 mainly through cross-shareholdings.

A 6% ROE could be achieved simply by realizing JPY2.5B of the JPY7.4B in profits. The Company has advocated a reduction in the cross-shareholdings, which is not inconsistent with the Company's management plan. This is why the forecast for FY2024 was disappointing to shareholders and led to the decline in share price.

MTBP revised downward each year



Source: Based on disclosed materials; Unrealized gains on securities refer to the amount of unrealized gains on available-for-sale securities on the balance sheet as of FY2023





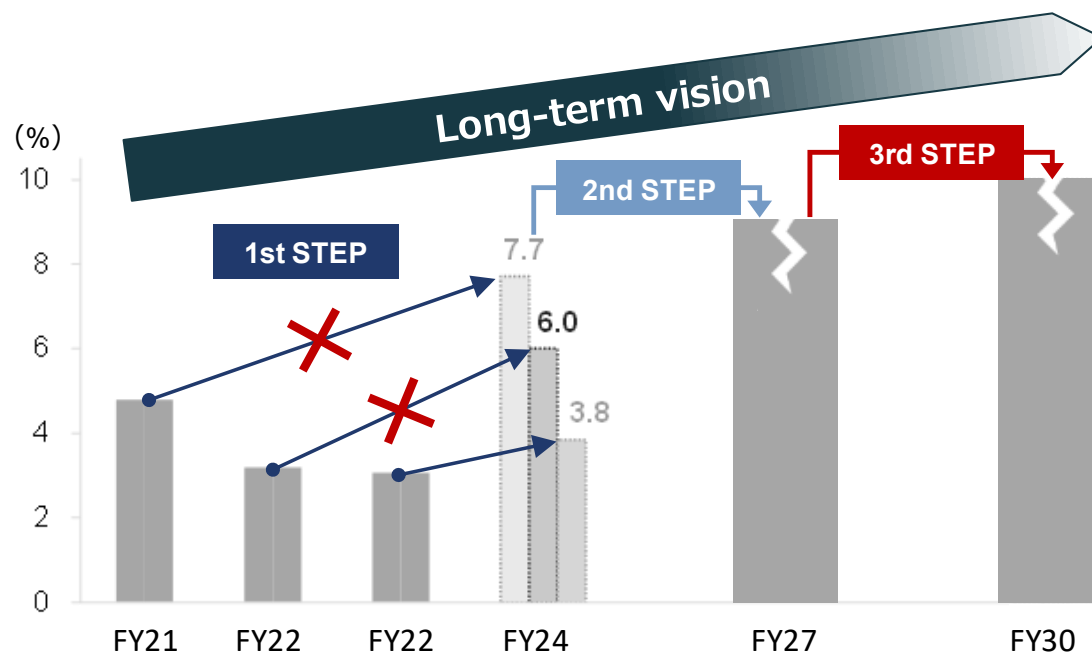
6% ROE target SHOULD be achieved

FY2024 is the last year of the MTBP as well as the final year of the 1st STEP of the LTV.

Repeatedly revising the targets downwards for every year of the 1st STEP without even really trying to realize goals that are quite achievable is not going to gain confidence in the 2nd or 3rd STEPs nor will it lead to a medium to long term increase in shareholder value.

Failure to meet goals that CAN be achieved and that SHOULD be achieved, is nothing less than management disregard for shareholders.

Kyokuto Kaihatsu has stumbled from 1st STEP of LTV



(Source: QUICK Workstation (Astra Manager) and disclosed materials; ROE for FY2021 is estimated without gain on sales of fixed assets; 7.7% ROE forecast for FY2024 is based on sales and operating profit margin targets)





6% DOE, 100% Dividend PO ratio

What we want from Kyokuto Kaihatsu

Strategic Capital wants Kyokuto Kaihatsu to **revise the forecasted ROE for FY2024 upwards to at least 6%** to demonstrate managements commitment to meeting announced targets.

In addition, as a shareholder proposal, we want the Company to **pay a full-year dividend of JPY183 for FY2023.**

JPY183 is equal to 6% DOE which is roughly equal to the dividend if Kyokuto Kaihatsu's ROE were 6% and the dividend payout ratio is 100%. For Kyokuto Kaihatsu 6% ROE is an achievable target and since the Company has adopted a shareholder return policy of 100% payout ratio, 6% DOE cannot be considered an excessive amount.

Kyokuto Kaihatsu should do all it can NOW to increase shareholder value over the MID / LONG - term.





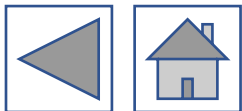
Revisions

04.22.2024

Notified Kyokuto Kaihatsu of our execution of shareholders' right to make a proposal at the AGM. See press release [here](#)

06.04.2024

Campaign website for Kyokuto Kaihatsu opened





Important Legal Disclaimer

- This presentation is a reference translation of the original website in Japanese. In the event of any differences between the original Japanese version and the English translation, the original Japanese version shall prevail.
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