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 build the shareholder value of Keihanshin Building Co., Ltd (8818)

Disclaimer

Last updated April 25, 2024

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 Keihanshin Building Co., Ltd. ("Keihanshin" or "the Company"). In order to increase shareholder value, we have submitted the following proposals to Keihanshin by exercising our right to make a shareholder proposal

i. Develop a two-year plan to correct the share price below dissolution value

ii. Introduce a stock-price based compensation linked to adjusted PBR

What's New

04.15.2024

Submitted Formal Shareholder Proposal to the Company

Proposal I - Develop a two-year plan to correct the share price below dissolution value

SC would like to see the establishment of a two-year plan that can correct the share price, which is trading below its dissolution value.

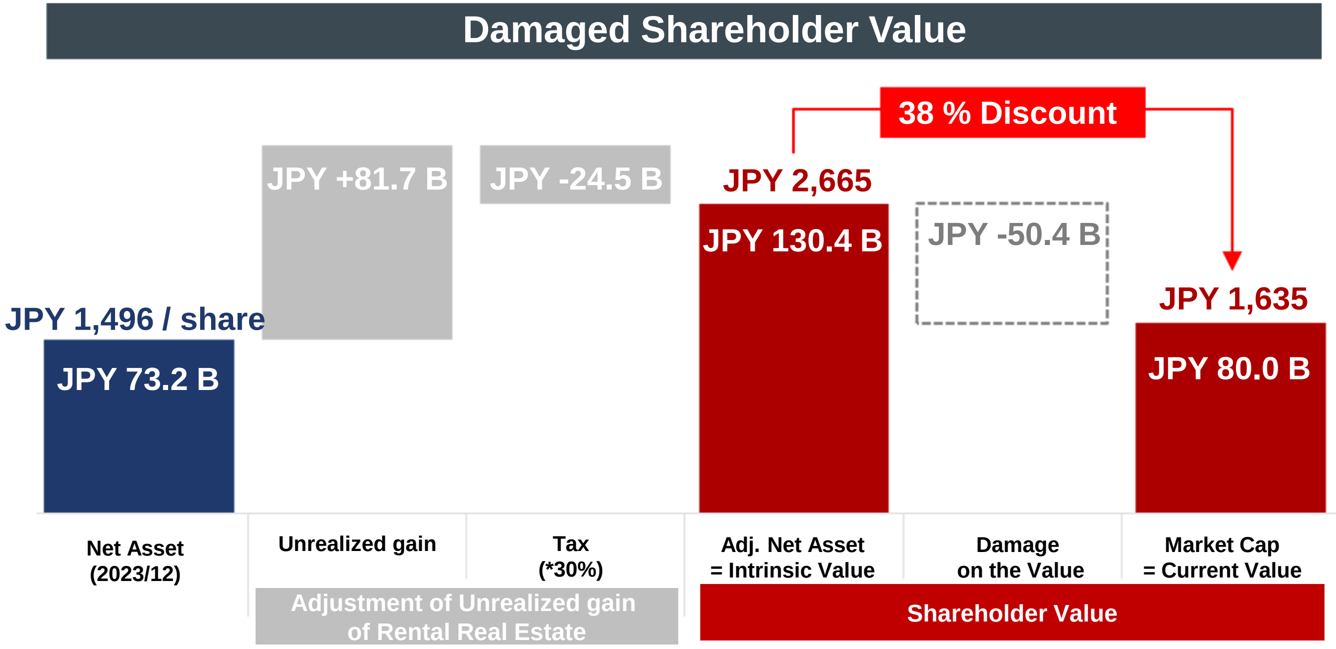
In other words, we requests that Keihanshin's share price which is anchored by the asset value of rental real estate be repaired and that the correction be done in a more predictable two-year period, rather than in a 10-year period that is highly uncertain and for which the current management team may not be responsible.

Damaged Shareholder Value

Keihanshin is trading at a **38% discount to its intrinsic shareholder value**.

This is based off a straightforward assessment where Keihanshin's **intrinsic value is JPY 130.4B** compared to a **market cap (current value) of JPY 80B** under the current management approach.

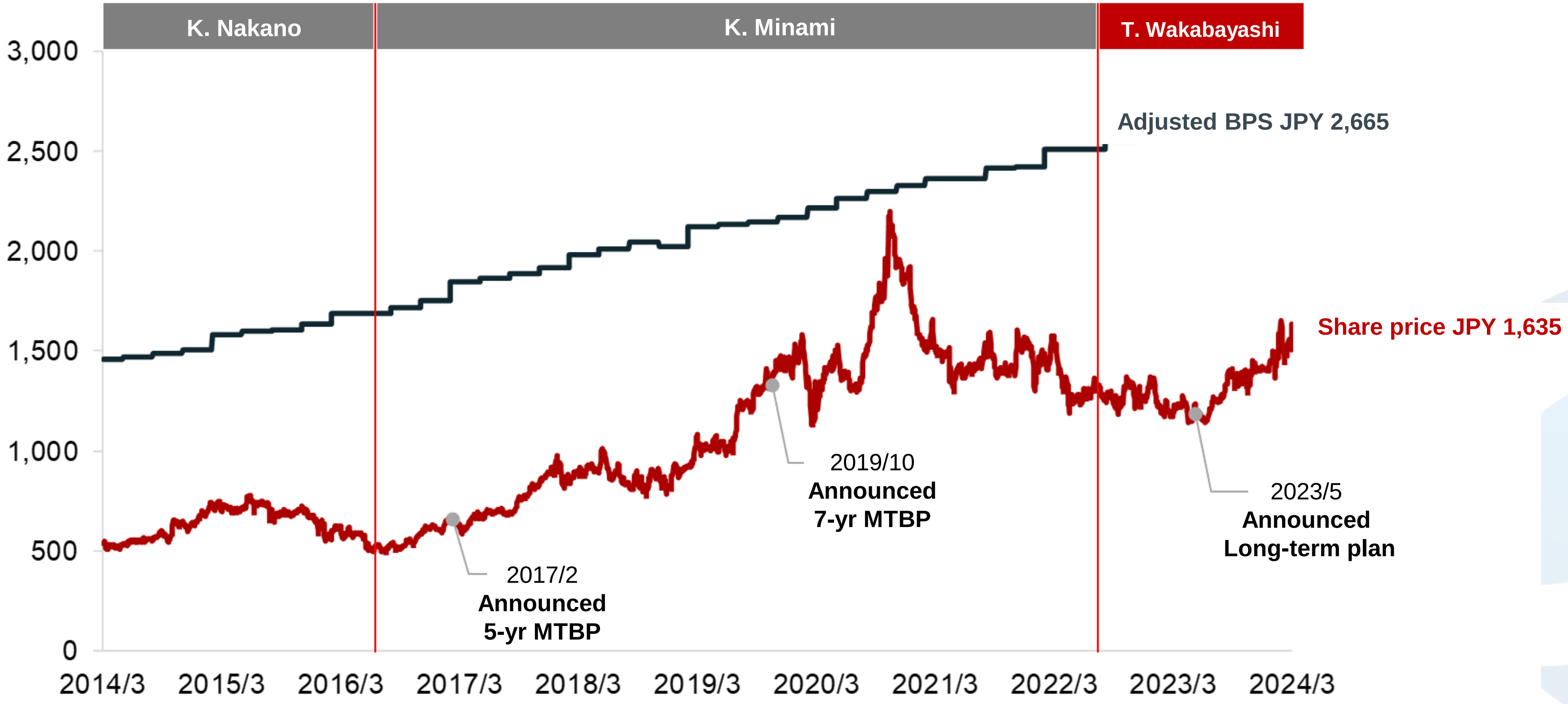
The adjusted PBR relative to the adjusted shareholder equity is 0.62x.



Data Source: QUICK Workstation (Astra Manager), as of March 29, 2024

Normalized Discounted Valuation

The share price of Keihanshin has routinely been subject to discount valuations. Even with management changes and updated management plans, the discounted valuation of Keihanshin has not been corrected. **The management of Keihanshin has not been able to achieve the "medium- to long-term improvement in corporate value"** that many companies aspire to.



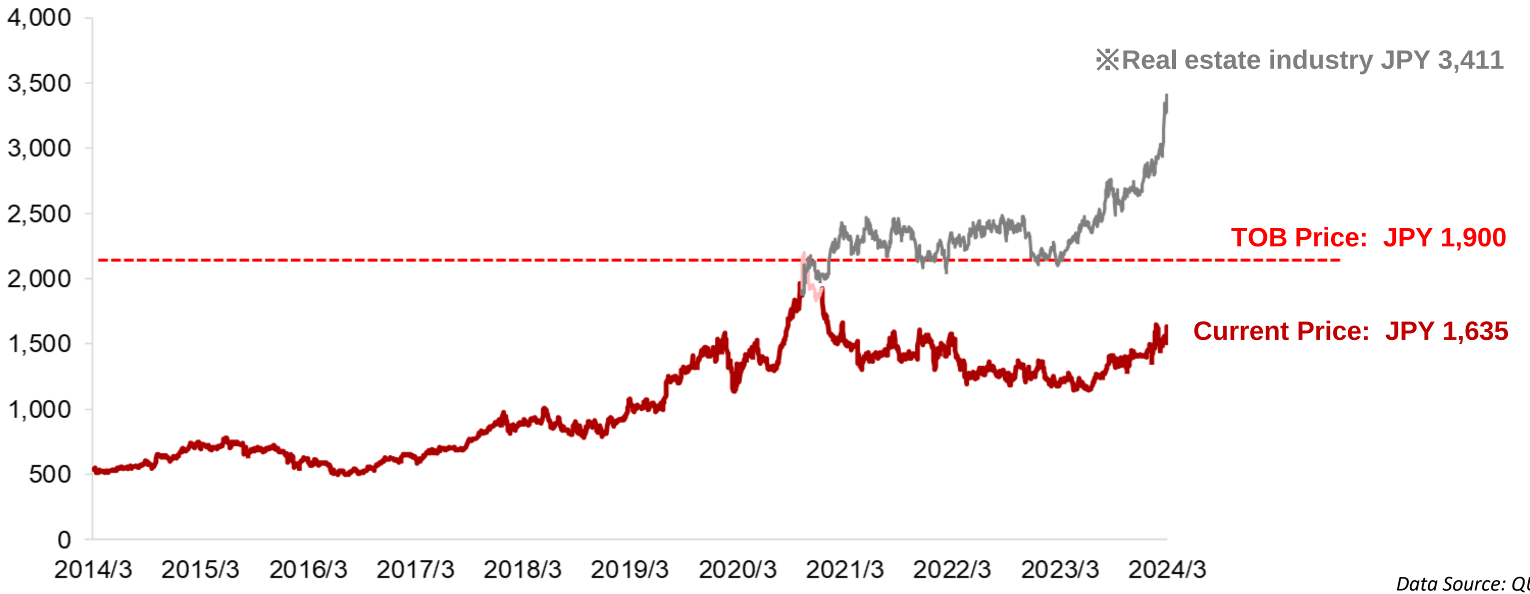
Data Source: QUICK Workstation (Astra Manager), as of March 29, 2024

Opposition to the TOB and current status

When we conducted a TOB in November 2020 at JPY 1900 per share, Keihanshin's management opposed it.

Since the unsuccessful completion of the TOB, **the Board has been unable to improve the share price above the JPY 1900 TOB price** or **deliver in line with the average performance of the real estate industry.**

After the TOB close, they have failed to exceed the JPY1900 TOB price, and the stock price has been sluggish compared to industry peers



Data Source: QUICK Workstation (Astra Manager)
※Real estate industry is the assumed share price of Keihanshin assuming that the Share price of Keihanshin performs the same as the TOPIX Industry Index (Real estate industry) from the date of TOB announcement.

Irresponsible Management Plan

One of the reasons why the Board opposed the TOB was the discrepancy between Keihanshin's MTBP and SC's proposal.

If the management plan at the time of the TOB resulted in a share price above the TOB than there is a certain justification for opposing the proposal.

Keihanshin management's opposition to our TOB (excerpts)

1. It is Doubtful that the Measures Enhance Mid-to-Long Term Corporate Value

Our growth strategies, which aims to improve the corporate value in medium-to-long term, differs significantly from the Measures. The Company considers the Measures are aiming at pursuit of profit in extremely short term perspective.

The Company's medium-term management plan (for 7 years from fiscal year ending March 2020 to fiscal year ending March 2026)

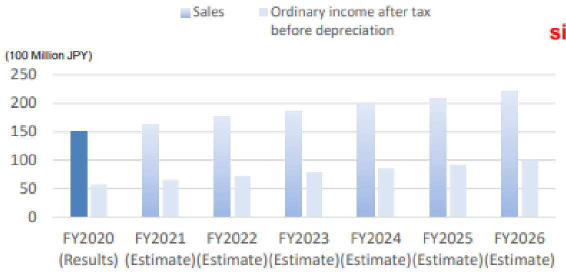
"Challenges from here: Into the new stage of growth"

Basic Policy

- Further growth and expansion of distinctive existing 4 businesses
- Expanding sustainable growth and size of business, by looking at the change in investment environment
- Looking for new business coming after existing business

Realize sustainable growth and improvement in corporate value with society

Performance Plan for 7 years



Differs significantly

The Measures Strategic Capital proposes

Sell real estates for leasing etc. to REIT or others

Return the proceeds from sale after tax reduction to the shareholders as special dividends

If real estates for leasing etc. is sold to REIT, the Company's only business is to manage and operate such REIT

Details of growth strategies and business plans after selling real estates for leasing etc. are not provided

Source：Keihansin's English Disclosure material November 19, 2020

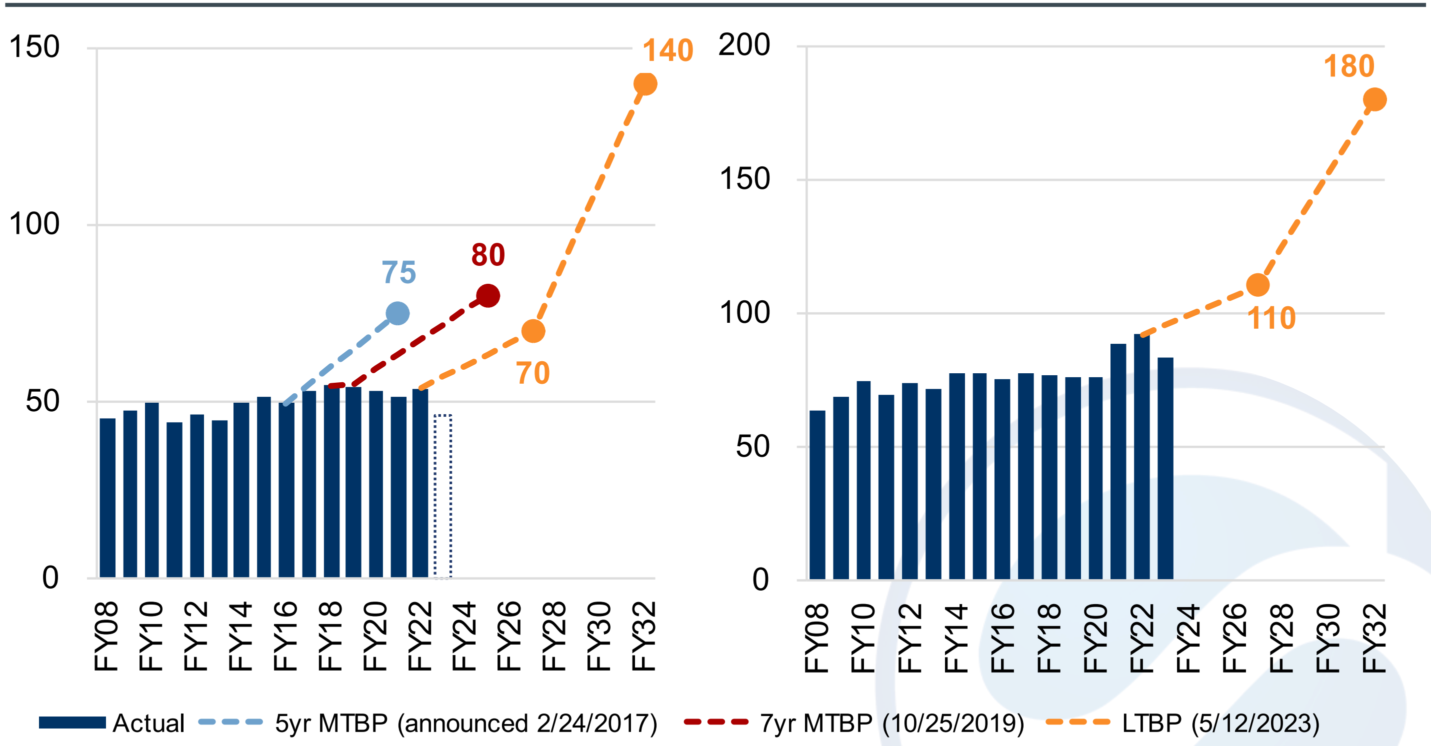
Five- and Seven-year plans that have come up short

However, comparing past business plans and actual results shows their plans were unrealistic.

Keihanshin first withdrew its 5-year plan only 2-years in after falling well short of its goals. Similarly, it withdrew its 7-year MTBP after 4-years. In 2023, the Company announced a 10-year long term business plan (LTBP).

We believe that, despite that fact that both 5- and 7-year plans have fallen well short of their goals, to release an even longer **10-year plan is simply to postpone the task of increasing shareholder value.**

Unrealistic business plans



Source：QUICK Workstation (Astra Manager) and Keihansin's Disclose material November 19, 2020

Low, Slow and Unclear – the ten-year plan

In 2014, the Ito Review issued by the Ministry of Economy, Trade and Industry (METI) explicitly stated that, **at a minimum, an ROE of more than 8% must be achieved** to generate corporate value.

2014 Ito report calling for an ROE above 8%

As a pillar of any capitalist economy, **a stock company can generate corporate value and sustainable growth only if it is achieving a ROE in excess of its cost of capital over the mid/long-term**. The capital markets will naturally eliminate companies that fail to do so. A key tenet of capitalism is to maximize capital efficiency while carefully considering labor's share of income. Although the actual cost of capital differs between companies, **the first step in receiving recognition from global investors is for a company to commit to achieving a minimum ROE of 8%.** Needless to say, this 8% ROE is a minimum level and companies should seek to generate higher ROEs.

Source: METI (2014) Ito Review of Competitiveness and Incentives for Sustainable Growth – Building Favorable Relationships between Companies and Investors – Final Report

Low, Slow and Unclear – the ten-year plan cont'd

In 2023, the TSE also called for companies to achieve an ROE of 8%

In 2023, the Tokyo Stock Exchange disclosed "Measures to Achieve Management Conscious of Cost of Capital and Stock Price," again raising issues for listed companies with ROE below 8%.

Source: TSE (2024) "Action to Implement Management that is Conscious of Cost of Capital and Stock Price"

Background and Purpose

JPX

Background

- In Japan's Corporate Governance Code (Principle 5.2), management with consciousness of cost of capital is mentioned from the perspective that the allocation of resources with sufficient consideration of cost of capital and profitability is important for companies to meet the expectations of investors and other stakeholders and to achieve sustainable growth and enhancement of corporate value over the mid- to long-term.
- However, approximately half of the listed companies on the Prime Market and 60% in the Standard Market have ROE below 8% and P/B ratios below 1, indicating that there are issues in terms of profitability and growth potential. In response to this, the Council of Experts Concerning the Follow-up of Market Restructuring pointed out the need for reform in the thought processes of management to be more conscious of cost of capital and stock prices in order to improve the corporate value of each company in the future.
- In light of these circumstances and discussions, this document summarizes actions that can be considered important for achieving management that is conscious of cost of capital and stock price, and requests that listed companies actively implement them.

Purpose

- The purpose of these actions is to have the management of the company carry out their management duties with more consideration of cost of capital and profitability based on the balance sheet, rather than just sales and profit levels on the income statement, in order to achieve sustainable growth and increase corporate value over the mid- to long-term.
- Specifically, based on the basic management policy established by the Board of Directors, the management team is expected to take the lead in appropriately allocating resources with sufficient consideration of cost of capital and profitability by pushing forward initiatives such as investment in R&D and human capital that leads to the creation of intellectual property and intangible assets that contribute to sustainable growth, investment in equipment and facilities, and business portfolio restructuring.

Note: While share buybacks and dividend increases are considered effective means of improving profitability, if shown as such by the company's analysis of whether the balance sheet effectively contributes to value creation, TSE is not necessarily expecting companies to use only these or solve issues with a one-off response. Efforts are expected on a fundamental level to attain profitability in excess of cost of capital on a sustained basis and achieve sustainable growth.

- In taking these initiatives forward, companies are expected to enable investors to assess their progress by presenting clear information on related policies, targets, and specific details in whatever way they see fit, and to gradually improve their initiatives through proactive dialogue with investors based on this disclosure.

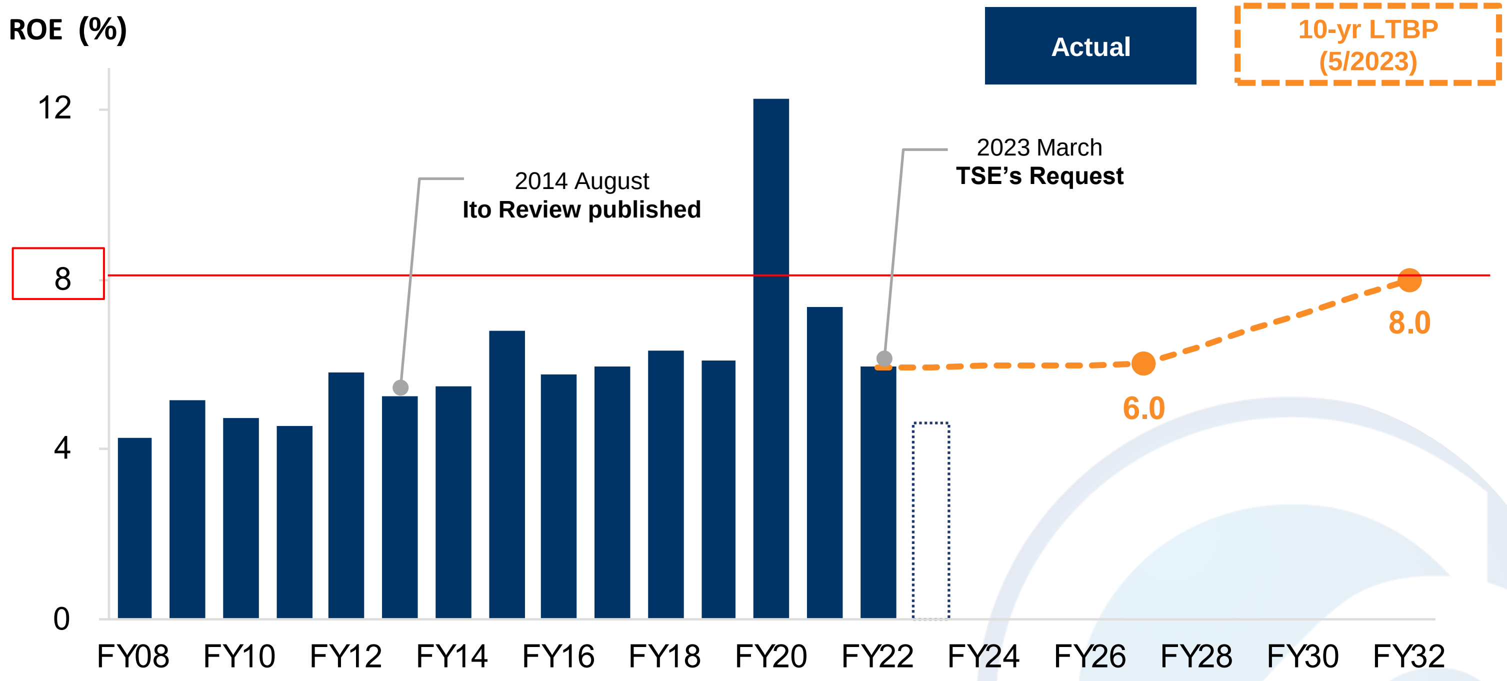
Low, Slow and Unclear – the ten-year plan cont'd

However, the ROE targets in 2023 LTBP is **6% by 2028 and 8% by 2033.**

Even though a minimum target of 8% was clearly stated in 2014's Ito Review, Keihanshin took nearly 10 years to release a plan calling for an 8% target and allowed themselves to achieve it over 10 years. Given the track record of substantially underachieving management plans, it is doubtful that even this low, slow 8% target can be achieved.

Therefore, we propose the development of a management plan to achieve an adjusted PBR of at least 1x within two years to promptly correct its discounted valuation and increase shareholder value.

Low ROE target of 6% by 2028 and 8% by 2023



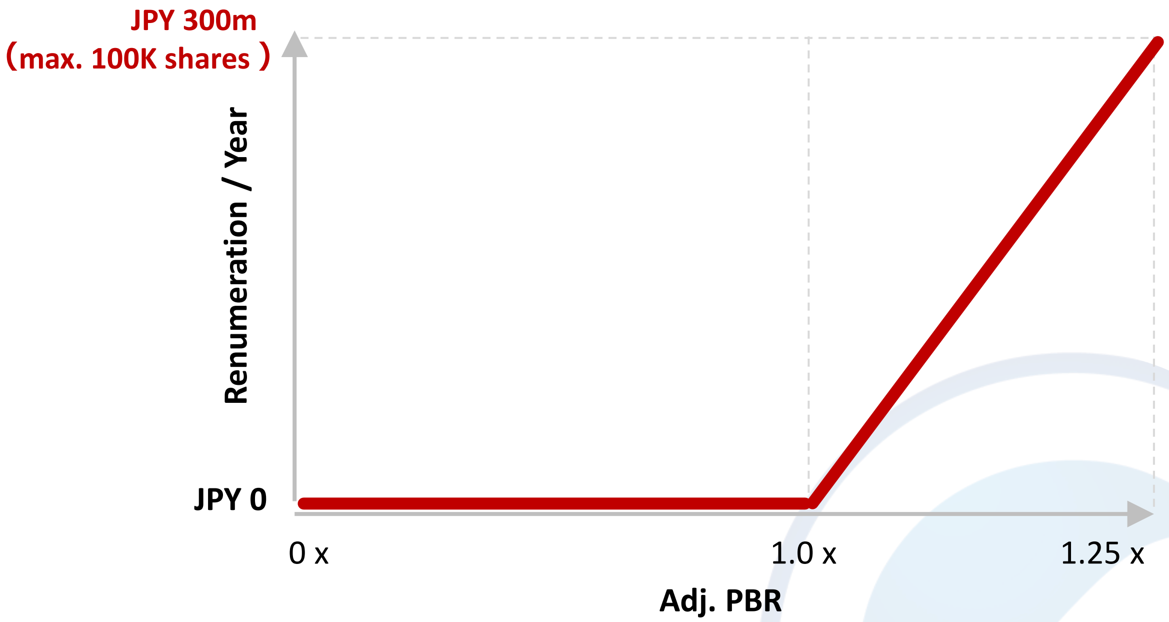
Data Source: QUICK Workstation (Astra Manager) and Company Disclosures

Proposal II – Introduction of variable compensation plan linked to adjusted PBR

We also propose the introduction of a variable stock-price based remuneration linked to adjusted PBR. There would be no compensation until the adjusted PBR reaches 1x. Once adjusted PBR exceeds 1x they could receive up to JPY 300mm.

A similar compensation system would be introduced for executive officers and other senior executives, and a company-wide awareness reform should be implemented to change "normalized" discounted valuation to a premium.

No payout if discounted valuation cannot be eliminated
Up to JPY 300m if premium valuation obtained



Adj. PBR for FYE 2025 (3 mos avg)	OR	Adj. PBR based on offer price (in case of being acquired)

Compensation plan that leads to overly conservative management plans

Ownership of Company shares by President Wakabayashi

President **Wakabayashi owns approx. JPY 22.89m in Company stock** at market value. This is **less than the average base compensation of JPY 33.43m (JPY 2.78m/month) for Directors**.

A situation where top management, who should be committed to increasing shareholder value, does not even own the same amount of stock as their base compensation, must be unsatisfactory for ordinary shareholders.

President Wakabayashi owns less stock than his base salary

Value of Wakabayashi's s Keihanshin Shares	
Market Value of Wakabayashi's Stock	JPY 22.8 mm
*No. of Shares	14,000 shares

Breakdown of Wakabayashi's Renumeration	
Base	JPY 33.4 mm
Performance-linked	JPY5.3 mm
Non - Cash	JPY11.2 mm

Source: FY2022 YUHO

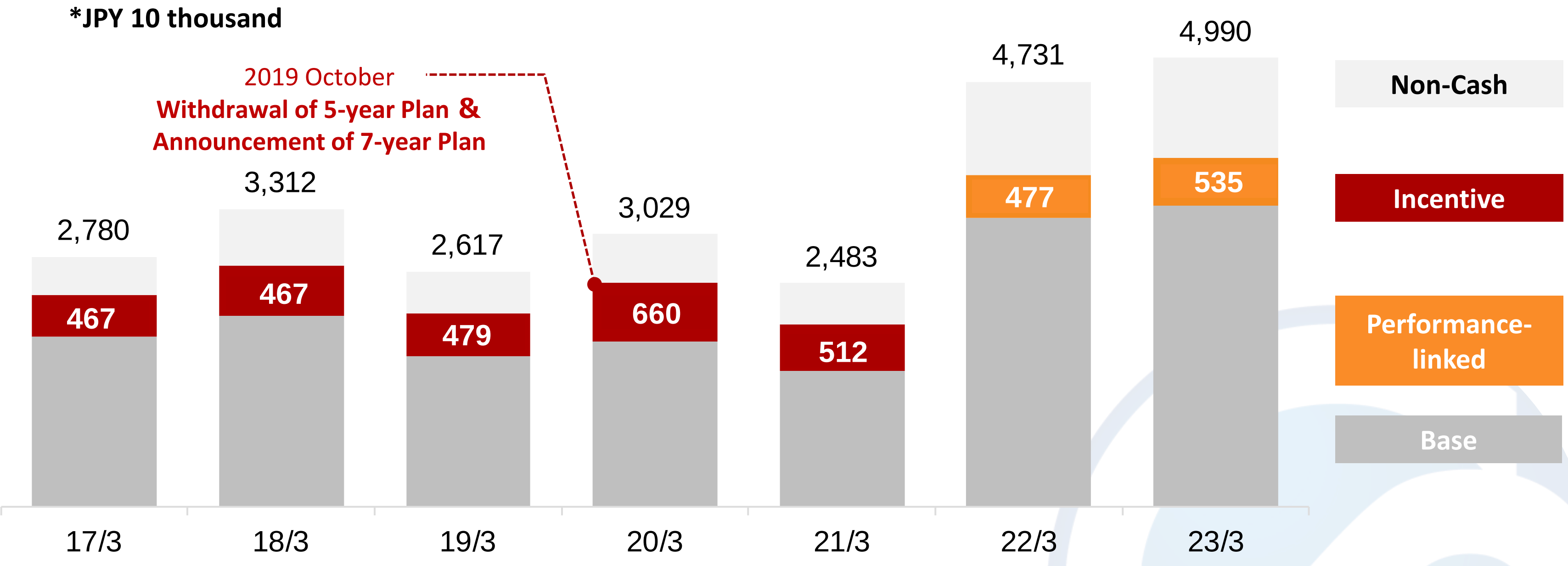
Compensation plan not linked to management performance

Despite the failure to achieve either the five- or seven-year MTBP, executive bonuses and performance-linked compensation was not affected.

Under these circumstances, it would be difficult to gain the market's trust even if management showed commitment to the 10-Year LTBP.

Therefore, we propose a remuneration system that is linked to adj. PBR to provide appropriate incentives for executives and to increase shareholder value.

Management performance not linked to executive compensation



Source: YUHO, based on the average renumeration of non-outside director

Revisions

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