



Strategic Capital

The Board of Directors' Responsibilities

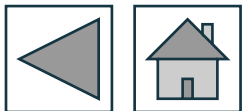
Kyokuto Boeki Kaisha, Limited (8093)



Executive Summary

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 BOEKI KAISHA LTD. ("Kyokuto or the Company"). In order to increase shareholder value, we are exercising our right to make a shareholder proposal. See [here](#) for details of the proposal.





Topics covered

Large net cash

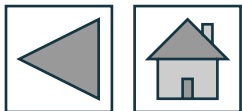
- i. Net cash that accounts for 60% of market cap
- ii. Trading below dissolution value

Issues with holding pure investment stock

- i. Decline in capital efficiency
- ii. Lack of stock management skills
- iii(a) Opaque decision-making process
- iii(b) Equity investments not for business purposes

Message to the Board

Shareholder Proposal





What's New

04.26.2022

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

06.03.2022

Withdrew part of our shareholder proposal. See press release [here](#)

06.07.2022

Campaign website created



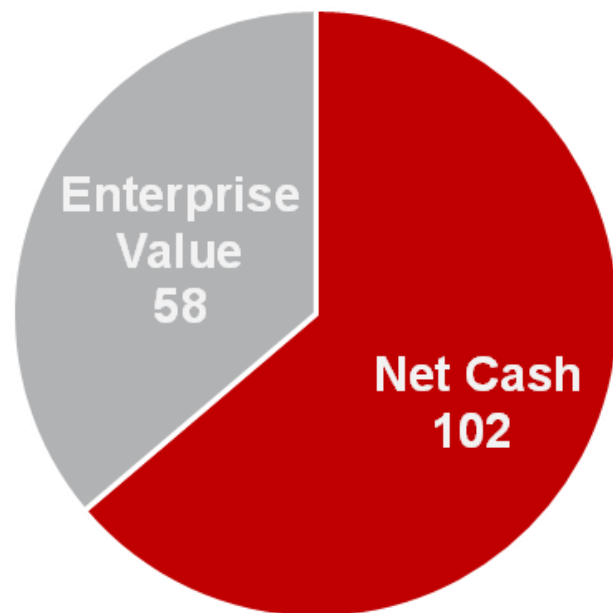


Net cash that accounts for 60% of market cap

As of March 31, 2022, the Company **held net cash equal to 60% of its market capitalization.**

Of the net cash, **investment stocks held for pure investment purposes ("Investment Stock") amounted to ¥3.2 billion, equal to approximately 20% of the market cap.**

Breakdown by Market Cap (JPY100m)



Net cash equal to approx 60% of market cap

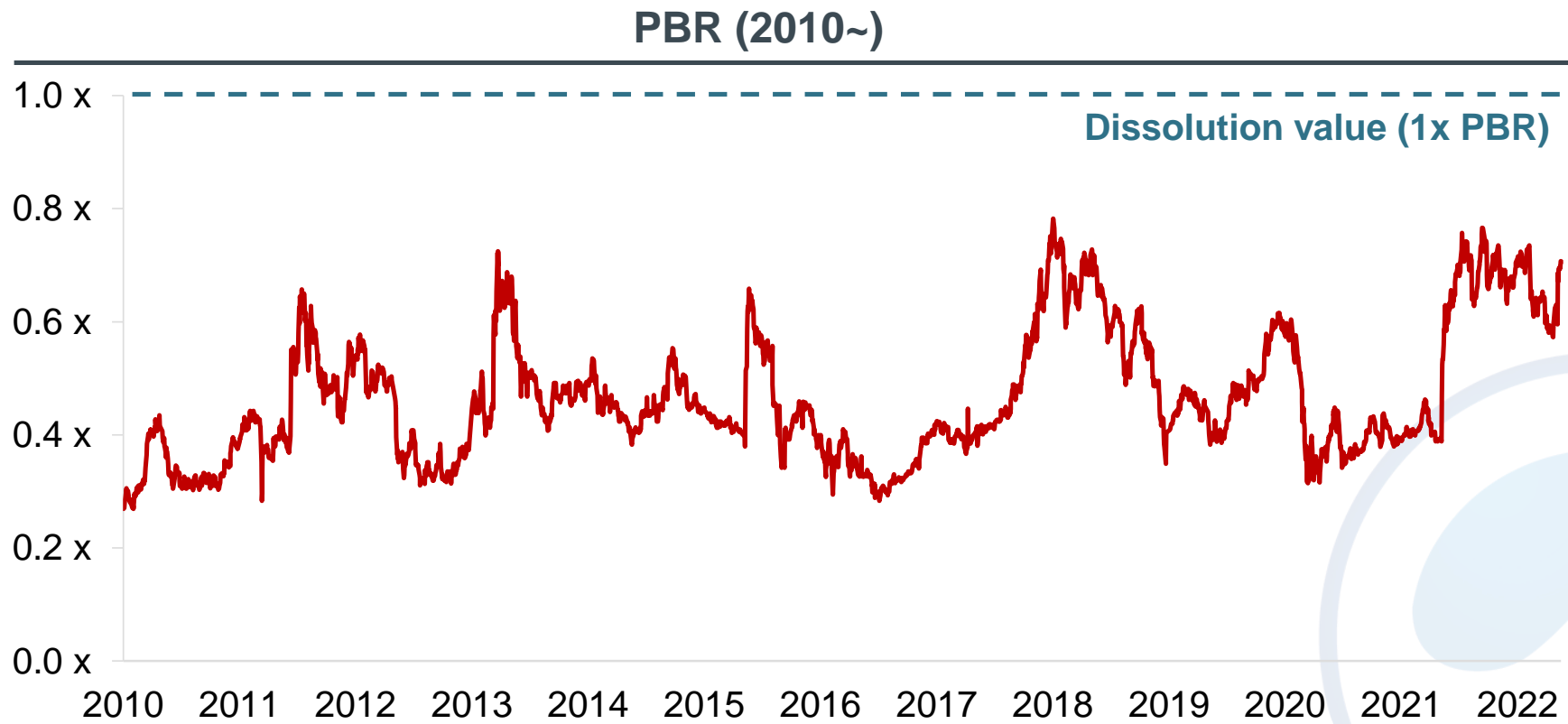
Source: QUICK ASTRA MANAGER, Market cap based on closing price 05/20/2022 (ex treasury stock).
Net cash = cash and cash equivalents + securities and investment securities after tax – lease obligations



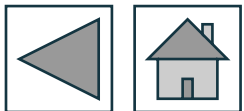


Trading below dissolution value

We believe holding the large amount of net cash, particularly the problematic Investment Stock, is the cause of the stock price being left below its dissolution value.



Source: QUICK ASTRA MANAGER





Why the Company should not hold Investment Stock

In our opinion, the problems associated with Investment Stock are as follows

- (i) The Company's capital efficiency has decreased by holding Investment Stock.
- (ii) The Company's Management does not have the skills to manage such stock.
- (iii) The holding of Investment Stock is not stipulated as a business purpose in the Articles of Incorporation (Articles), even though the size of the business is comparable to the core business.

We are totally opposed to the holding of Investment Stock from the viewpoint of capital efficiency, however, if the Company wishes to continue the investment management of such shares, we believe that an appropriate system should be put in place.

We believe that given the business purpose is not stated in the Articles; no personnel with investment management expertise is employed; no board oversight of large assets; and the Company does not respond to requests to disclose evidence of appropriate decision-making process; if a loss were to occur due to the Company holding Investment Stock, **it would be unavoidable for the Directors to be charged with a breach of their duty of care (Duty).**



Source: Excerpt from [Company press release](#); Japanese only, Provisional translation by SC





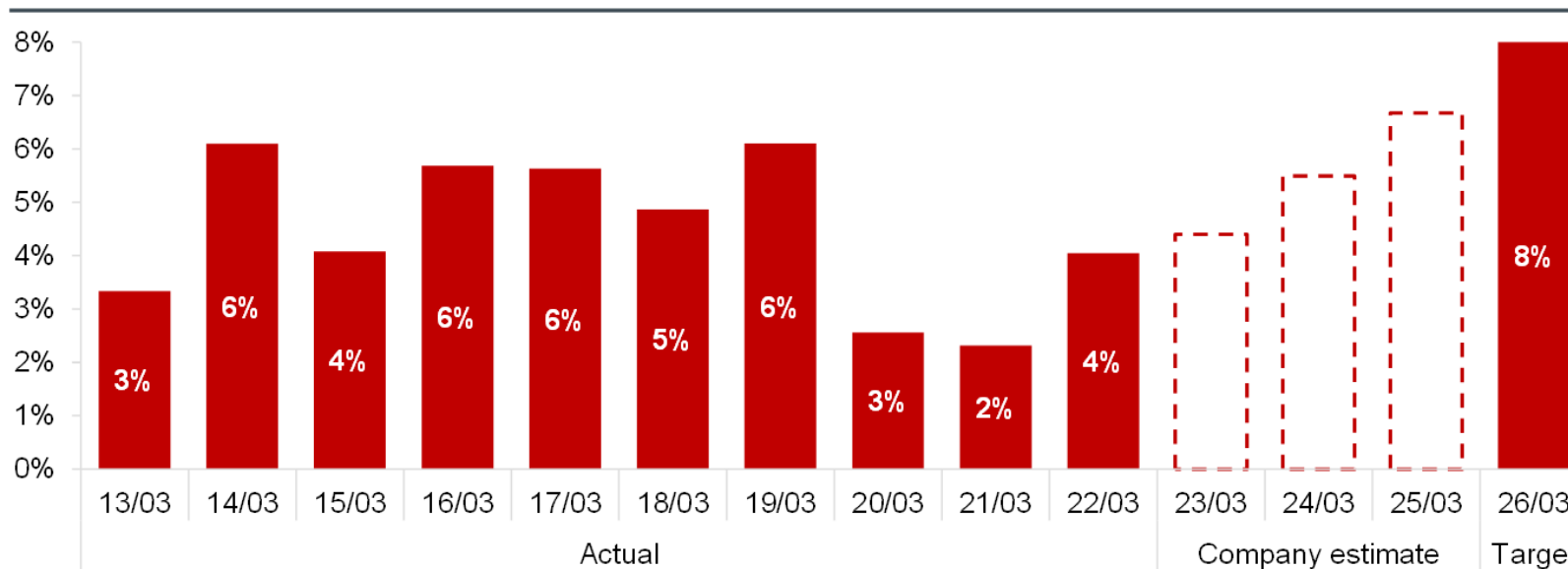
Decline in capital efficiency

Although the Company has set a target of achieving 8% ROE in the current medium-term business plan (MTBP) as long as they continue to hold publicly-listed Investment Stock with low returns, the 8% ROE target will only move further away. In fact, the **ROE has been stagnant for a long time.**

In our opinion, the stock trading below dissolution value is a result of the weak ROE.

As noted, another major problem is the lack of personnel with experience in equity management, even though JPY 3.2 billion of Investment Stock is held.

ROE over time



Source: QUICK ASTRA MANAGER. ROE is calculated using ordinary income after tax





Inadequate stock management system

The Company has a total of eight Board Directors (including Audit Committee members). Five full-time directors who are professionals at the Company, and three outside directors: Mr. Fujino from Asahi Glass, Mr. Kaizuka, a lawyer, and Ms. Hidaka, an accountant. Although the Company **owns and manages JPY 3.2B in Investment Stock, no Board Director has professional experience managing stock investments.**

One reason we have proposed Maruki as a candidate for director is that we believe his knowledge and experience in investment management and corporate finance will complement the skills of Management and contribute to improving shareholder value.





Opaque decision-making process

In addition to lack of experience, we suspect the investment management framework is inadequate. To confirm, we requested they disclose the below documents in order to confirm how decisions are made, including the control of insider information. The Company has refused to disclose such documents.



Research materials when considering a purchase or sale of stock



Approval documents when making the decision to buy or sell stock



Rules pertaining to trading (including but not limited to handling of information)

While the Company does comply with disclosing the stock trading records, we suspect that the reason the **Company refuses to disclose its internal rules, including the handling of information, is that it is aware internal stock management rules are inadequate and disclosure would serve to reaffirm that fact.**





Equity investments not for business purposes

For the Company, the business impact from holding and managing Investment Stock is as large as or larger than each of the business segments. Nevertheless, doubts have arisen regarding the inadequacies of the stock management system.

Not only does the Company not have an investment management system in place but "holding and managing pure investment stocks" is not stipulated as a business purpose in the Articles. Although investment management has reached the same scale as the business segments, it is difficult to see how this is an "incidental business" as stipulated in the Articles. We believe leaving the Company in violation of the Articles is a violation of the Duty of Care owed by the Directors.

Therefore, if the Company is to continue to hold and manage Investment Stock, an investment system should be established, and, in order to rectify the current state of violation, we propose adding "holding and managing pure investment stock" to the business purpose of the Articles.

Since we are opposed to the management of Investment Stock by the Company, we will vote against the proposal to add "holding and managing pure investment stock" to the business purpose of the Articles of Incorporation.

Profit by business(FY2020)

Fund mgmt./business	P&L	In Articles?
① Dividend on Investment Stock (non-op income)	JPY 189m	No
② Industrial materials (operating income)	JPY 135m	Yes
③ Electronic and control systems (operating income)	JPY 128m	Yes
④ Mechanical parts (operating income)	JPY 109m	Yes
⑤ Basic industries (operating income)	JPY -14m	Yes

Board of Directors asserts
"Holding the shares is an investment of surplus funds not a business"

We claim
"the scale is too large for a 'surplus of funds' and is a violation of the Articles
"the Company should not hold shares in the first place because it leads to a decline in capital efficiency."

Source: YUHO, securities report





To the Board of Directors of Kyokuto Boeki

We expect the Board of Directors to seriously consider whether or not it is appropriate, in light of the Duty, to continue to Investment Stock without stating so in the business purpose of the Articles of Incorporation.

In the unlikely event that the Company fails to achieve its business plan, expected performance promised to shareholders is not met, or shareholder value is damaged as a result of the excessive holdings of Investment Stock, we expect the Company's Board of Directors to be prepared to be held accountable for their actions as Directors.





Abstract of the proposal

(1) Election of one director not serving as an Audit and Supervisory Committee Member

Appoint Tsuyoshi Maruki, Representative Director of Strategic Capital, as a member of the Board of Directors. Note Strategic Capital is a PRI signatory and Maruki is an ICGN Member

(2) ~~Revision of the provisions of articles with regard to disclosure of cost of capital~~

~~Revise the Articles of Incorporation and disclose the cost of capital, that is, WACC in the Corporate Governance Report (CG Report)~~

(3) Revision of the provisions of articles with regard to cross-shareholdings

Once a year, sound the Company's intention to sell its cross-shareholdings with the issuer of the shares and disclose the issuer's response in the CG Report

(4) Partial revision to the purpose of the Articles of Incorporation to add holding and management of stocks for pure investment purposes

The proposal is to ask shareholders whether the Company should invest in equity stock, based on the reality that the Company derives the same or more income from the investment management of stock than from each business segment.

The proposing shareholder is opposed to the investment management of stocks by the Company, and therefore opposes this proposal

(5) Revision of the provisions of articles with regard to cancellation of treasury stock

Give authorization to cancel treasury stock to the General Meeting of Shareholders.

(6) Cancellation of treasury stock.

Subject to approval of Proposal (5), cancel all treasury stock

Proposal withdrawn June 3, 2022. See below for details

See [here](#) for details of the shareholder proposal.

See [here](#) relating to the withdrawal of part of our shareholder proposal





Strategic Capital

Overview

Large Net Cash

Pure Investment
Stock

Message to the
Board

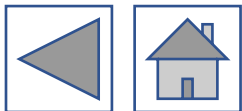
Shareholder
Proposal

Revision History

Disclaimer

Revisions

06.07.2022 Campaign website created





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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