

April 26<sup>th</sup>, 2019

Dear Sirs and Madams,

Strategic Capital, Inc.

Tsuyoshi Maruki, President & CEO

**Re: Shareholder Proposal to SEIKITOKYU KOGYO CO., LTD. and**

**Announcement of the New Website Open for the Proposal**

Strategic Capital, Inc. (hereinafter referred to as "Strategic Capital") is under a discretionary investment contract with INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP (hereinafter referred to as the "Fund") and the Fund and Strategic Capital hold over 300 units of voting right of SEIKITOKYU KOGYO CO., LTD. (hereinafter referred to as "SEIKITOKYU" or the "Company" as the context requires) over 6 months.

The Fund and Strategic Capital are pleased to announce that, on April 24<sup>th</sup>, 2019, we notified SEIKITOKYU of our execution of the shareholders' right to make a proposal at the annual shareholder meeting held in the coming June and confirmed that, on April 25<sup>th</sup>, 2019, SEIKITOKYU certainly received the documents of the proposal.

We would like to explain the context of our proposal as following;

1. Overview of our proposal and
2. The detailed translation of our proposal.

For further information, please click the link to a special website regarding our proposal (<https://proposal-for-seikitokyu-from-sc.com/english/>) or the top right links in [our corporate website](#).

1. Overview of our proposal

- ① Disclosure of WACC and its basis of calculation for more effective dialogues.  
SEIKITOKYU's ROIC / ROE is lower than its WACC / cost of equity capital respectively. This resulted in its low valuation. The managements should be more aware of the gap between capital efficiencies and funding costs. Through the effective dialogue with shareholders, SEIKITOKYU can increase its shareholders' value. Therefore, we would like SEIKITOKYU to improve its valuation by disclosing

WACC and its basis of calculation.

- ② Increase of dividend to achieve 100% payout ratio.

SEIKITOKYU's target of total return ratio is 30%. If such current policy regarding shareholders return continues, it is inevitable to cause decline of ROE in the future. To prevent this, we would like SEIKITOKYU to achieve 100% payout ratio.

- ③ Establishment of Independent Investigation Committee to reduce cost of capital.

On March 2019, SEIKITOKYU announced that it may be going to pay 4.3 bil surcharge for the antitrust violation. SEIKITOKYU has committed antitrust violations several times before and set the recurrence prevention measures. As such measures had not worked, SEIKITOKYU could not apply for the leniency program of the Japan Fair Trade Commission whereby companies that provide information about a cartel in which they participated might receive full immunity from surcharge. Therefore, we would like SEIKITOKYU to establish an independent investigation committee in order to reduce the recurrence risk and lower the cost of capital.

2. The detailed translation of our proposal

- ① Revision of the provisions of articles with regard to disclosure of cost of capital

The following Chapter and Article shall be newly added to the current Articles of Incorporation.

CHAPTER VII. COST OF CAPITAL

(Disclosure of Cost of Capital)

Article 42. The Company shall disclose, in the Corporate Governance Report (hereinafter referred to as "Report") which it submits to the Financial Instruments Exchange, its Weighted Average Cost of Capital and its basis of calculation which it comprehends at the point of within 1 month before the submittal of the Report.

- ② Appropriation of Surplus

- (1) Type of dividend

Cash

- (2) Allocation and the total amount of dividends

The amount obtained by deducting the amount of dividend payment from surplus per common share of the Company which will be proposed by the Board of Directors

of the Company at the 70<sup>th</sup> Annual General Meeting of Shareholders and approved thereat, from JPY74.

In case Earnings Per Share rounded down to the nearest integer in 70<sup>th</sup> fiscal period (hereinafter referred to as “actual EPS”) is different from JPY74, JPY74 in the previous paragraph shall be replaced with actual EPS.

The total amount of dividends is calculated by multiplying the dividend amount per the one common stock described above by the number of shares subject to dividend payment as of March 31, 2019.

(3) Effective date of dividend payment from surplus

The day after the date of the Annual General Meeting of Shareholders to be held in June 2019.

If the Board of Directors of the Company submits the proposal on appropriation of surplus at the 70<sup>th</sup> Annual General Meeting of Shareholders, this proposal will be submitted to make an additional proposal separately from such proposal.

③ Revision of the provisions of articles with regard to Independent Investigation Committee

The following Chapter, Article and Supplementary Provision shall be newly added to the current Articles of Incorporation. And When the first proposal regarding Chapter VII Article 42 above is not approved, this proposal regarding CHAPTER VIII shall be replaced with CHAPTER VII and the number of article 43 and thereafter move up sequentially.

#### CHAPTER VIII. INDEPENDENT INVESTIGATION COMMITTEE

Article 43. The Company shall establish the Independent Investigation Committee (hereinafter referred to as “Committee”) that conforms to the guideline (except those specified by following Article) prescribed by the Japan Federation of Bar Association on July 15<sup>th</sup>, 2010 as an advisory organization for the board of directors in the event that the Company commit or is suspected to commit a crime, violate the law or commit a misconduct which may elicit social disapproval and significantly influence on the investment decisions of investors (hereinafter referred to as “scandal”).

Article 44. The Committee members are appointed by agreement of outside directors and outside auditors in each case the Committee is established.

- ii. The Committee shall be composed of 3 or more Committee members.
- iii. More than 1 member shall be selected from the candidates recommended by a

Bar association where the Company's head office is.

Article 45. The Committee shall investigate, discuss and advise the following items in response to the inquiries from the board of directors:

1. Finding facts pertaining to the scandal
2. Identifying the causes and finding the legal responsibilities
3. Recommendations about recurrence prevention measures
4. Other relevant items inquired from the board of directors with regard to the scandal.

Supplementary Provision Article 1.

Addition of Article 43 to Article 45 shall take effect on the scandal relating to the written notice of a cease and desist order (draft) and a surcharge payment order (draft) the Company received on March 6<sup>th</sup>, 2019 and on scandals discovered after this revision of the provisions of articles is approved.

Contact Information

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