

April 28<sup>th</sup>, 2020

To Whom It May Concern,

Strategic Capital, Inc.

Tsuyoshi Maruki, President & CEO

**Re: Shareholder Proposal to Arisawa Mfg. Co., Ltd.**

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 Arisawa Mfg. Co., Ltd. (hereinafter referred to as "Arisawa" 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>, 2020, we notified Arisawa 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 27<sup>th</sup>, 2020, Arisawa 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.

1. Overview of our proposal

(1). Remove discontinued poison pill from the Article of Incorporation

In May 2019, the Board of Directors' meeting resolved to discontinue its takeover defense measure. However, the provision stipulating such a measure still exists in the articles of incorporation. To eliminate such contradiction and make it clear that the Company no longer adopt a takeover defense measure, we are proposing to remove the provision from the articles of incorporation.

(2). Improve the low stock valuation

Arisawa's capital efficiency is lower than its cost of capital, resulting in low stock price valuations. Our proposal is to request the disclosure of the figures regarding the cost of capital and its basis of calculation, thus raising management's awareness

of the cost of capital and promoting effective dialogue with shareholders to improve the stock valuation.

(3). Dissolve bond investments to improve capital efficiency

One reason for Arisawa's low capital efficiency is that it owns more than 12 billion yen in bonds. Shareholders are investing in Arisawa for its main business, not for its bond investment. Therefore, we are proposing to sell securities including bonds held for investment purposes within one year. We hope that the proceeds from the sale will be used to enhance shareholder value.

(4). Sell cross-shareholdings including those recently acquired to improve capital efficiency

While Arisawa sold some cross-shareholdings in the last fiscal year, they also acquired other shares as cross-shareholdings. Holding listed shares has unnecessarily impact on the financial results due to their price movements. As Arisawa has stated that it is “difficult to assess the quantitative effect” of holding such shares, we propose selling the cross-shareholdings. We further hope that the proceeds will be used to enhance shareholder value.

2. The detailed translation of our proposal

(1). Revision of the provisions of articles with regard to abolition of takeover defense measures

Delete Chapter 7 of the current Articles of Incorporation.

(2). Revision of the provision of articles with regard to disclosure of cost of capital

Add the following chapter and article to the current Articles of Incorporation.

The chapter and article numbers are based on Proposals of (1) above being approved.

In the event it is rejected, the chapter and article numbers will be adjusted as appropriate

CHAPTER VII. COST OF CAPITAL

(Disclosure of Cost of Capital)

Article 41. The Company shall disclose, in the Corporate Governance Report (hereinafter referred to as “Report”) which it submits to the Tokyo Stock 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.

- (3). Deletion of the provisions of articles with regard to Holding and Operation of Securities for investment purposes

Delete Article 2 (6) from the current Articles of Incorporation and renumber the items following the current Article 2 (6) accordingly. Add a new Supplementary Provision to the current Article of Incorporation.

Supplementary Provision Article 1

(Implementation Date)

Article 1 The amendment of Article 2 (6) of the Articles of Incorporation shall come into effect as of the recording date of voting rights at the 73<sup>rd</sup> Annual General Meeting of Shareholders, and this Supplementary Provision shall be deleted on the same day.

- (4). Revision of the provisions of articles with regard to the Dissolution of Cross-shareholdings

Add the following chapter and article to the current Articles of Incorporation.

The chapter and article numbers are based on Proposals of (1) and (2) above being approved. In the event any are rejected, the chapter and article numbers will be adjusted as appropriate

#### CHAPTER VIII. DISSOLUTION OF CROSS-SHAREHOLDINGS

(Dissolution of cross-shareholdings)

Article 42. The Company shall sell all the cross-shareholdings, as of the effective date of the revision of the Articles of Incorporation, immediately during the 73<sup>rd</sup> fiscal period.

Contact Information

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