

April 28<sup>th</sup>, 2021

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 26<sup>th</sup>, 2021, 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>, 2021, 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 Stop holding and managing securities for investment purposes

One main reason for the low valuation of Arisawa is the large amount of low-return assets the Company holds, which results in the capital efficiency being lower than the return required by investors (i.e., Weighted Average Cost of Capital, WACC). Last year we proposed to sell securities held for investment purposes. Arisawa declared, in opposition to our proposal, that "the Company has recorded cumulative profits of 3.087B yen over an approximately 9 years since the commencement of operations". However, the IRR calculated from those numbers would only be 1.7%.

We propose to delete the provision referring to the holding and management of securities from the business objectives listed in the Articles of Incorporation. We

also propose to sell the securities by the end of March 2022 to improve capital efficiency.

② Sell cross-shareholdings

Cross-shareholdings reduce capital efficiency and lead to poor corporate governance. The price movement of these listed shares will also impact the stability of the Company's financial results, leading to a higher WACC.

We propose selling the cross-shareholdings within one year and using the proceeds as a source of funds for investing or payout as dividends to increase shareholder value.

③ Excessive accumulation of equity capital

The Company's equity capital ratio is already high at around 70% and if the Company continues current level of shareholder returns, the equity capital will only build up and capital efficiency will decline.

We propose a 100% dividend payout ratio to prevent further build-up of equity capital.

④ Eliminate reserves held for unclear purposes

Every year, the Company reduces the retained earnings brought forward which are the source of returns for shareholders, and transfers the amount in a general reserve. Arisawa provides no specific reason for such transfer and we cannot ignore the fact that Arisawa is accumulating reserves without purpose.

We propose withdrawing all assets from the general reserve and using the proceeds as a source of funds for share buybacks or payout as dividends to increase shareholder value.

2. The detailed translation of our proposal

① 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 end of March 2022

- ② 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.

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

(Dissolution of cross-shareholdings)

Article 41. The Company shall sell all the cross-shareholdings, as of the effective date of the revision of the Articles of Incorporation, immediately during the 74<sup>th</sup> fiscal period.

- ③ Appropriation of surplus

A) Type of dividend

Cash

B) 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 73<sup>rd</sup> Annual General Meeting of Shareholders and approved thereat, from JPY48.

In case Earnings Per Share rounded down to the nearest integer in 73<sup>rd</sup> fiscal period (hereinafter referred to as “actual EPS”) is different from JPY48, JPY48 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 the record date of voting rights at the 73<sup>rd</sup> Annual General Meeting of Shareholders.

C) Effective date of dividend payment from surplus

The day after the 73<sup>rd</sup> Annual General Meeting of Shareholders of the Company is held.

If the Board of Directors of the Company submits the proposal on appropriation of surplus at the 73<sup>rd</sup> Annual General Meeting of Shareholders, this proposal will be submitted to make an additional proposal separately from such proposal.

④ Reduction of general reserve

A) Item and the amount of surplus to increase

Item: Retained earnings brought forward

Amount: JPY24,020,000,000

B) Item and the amount of surplus to decrease

Item: General reserve

Amount: JPY24,020,000,000

Contact Information  
Dan Kato  
81-3-6433-5267