

April 27, 2022

To Whom It May Concern

Strategic Capital, Inc.
Tsuyoshi Maruki, President &CEO
Attention: Dan Kato, Director
TEL: 03-6433-5277

Re: Shareholder Proposal to ARISAWA MFG. CO., LTD. (5208)

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 25th, 2022, 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 27th, 2022, the Company certainly received the documents of the proposal.

We would like to explain the context our proposal as follows.

1. The Company's Issues and Our Solutions
2. Abstract of the Proposal

1. The Company's Issues and Our Solutions

ISSUE – Excessive accumulation of equity capital

SOLUTION – Set the dividend payout ratio to 100%

The Company's equity capital ratio is already high at around 70% while ROE for FY21/3 was 4.7% and PBR was 0.68x. If the Company continues the 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.

ISSUE – General reserves held for unclear purposes

SOLUTION – Eliminate general reserves

Every year (with the exception of FY21/3), the Company reduces the retained earnings brought forward which are the source of returns for shareholders and transfers the

amount into 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.

ISSUE – Management of securities that do not meet investors’ expected returns

SOLUTION – Sell securities during the current MTBP

One main reason for the low valuation of Arisawa is the large amount of low-return assets the Company holds which reduces capital efficiency.

Arisawa has acknowledged “the return on the securities is less than the cost of capital” and announced it would “sell non business-related securities during the MTBP and use the proceeds to increase shareholder value.”

Therefore, per Arisawa’s management policy and upon completion of the MTBP we propose to delete the provision referring to the holding and management of securities from the business objectives in the Articles of Incorporation

ISSUE – A “reduction policy” on cross-shareholdings that is progressing too slowly

SOLUTION – Sell all cross-shareholdings by the end of September 2022

The Company disclosed in its Annual Securities Report for FY21/3, that it intends to reduce each of its listed cross-shareholdings, except for one stock. Subsequently, in a meeting with us on the remaining stock, Yuta ARISAWA, President of Arisawa, committed that the Company also intended to reduce that issue. However, despite ample liquidity that should make it possible to sell all the cross-shareholdings within a month, actual progress has been slow.

Therefore, in accordance with the reduction policy, we propose to sell the cross-shareholdings by the end of September 2022.

ISSUE – Management compensation may be excessive

SOLUTION – Disclose compensation for the President

We believe one reason for the inefficient management and weak stock price is inadequate corporate governance over the Company's compensation system. As the decisive recommendation on individual remuneration for Directors and Executives, including the Presidents, is made by the President, there is concern that corporate governance related to the Presidents compensation is insufficient.

We propose disclosing the President’s compensation to improve governance as it relates to remuneration.

2. Abstract of the Proposal

(1) Appropriation of surplus

Set the dividend payout ratio to 100%

(2) Reversal of General reserve

Decrease the full amount of General reserve and increase Retained earnings brought forward by the same amount.

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

For the end of March 2025, remove the Holding and Operation of Securities for investment purposes from the Articles of Incorporation.

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

Sell the cross-shareholdings by end of September 2022.

(5) Revision of the provisions of articles with regard to disclosure of individual remuneration of directors with representative authority

Disclose the individual remuneration of the Representative Director

Disclaimer

This press release is an abbreviated reference translation of the original announcement in Japanese ([here](#)). 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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