

Proceedings of WAKITA AGM

Date: May 26, 2022 10:00 – 11:50 am

Location: WAKITA Head Office, 9F

Session Agenda

- i. Explanation of report items President T. Wakita (including narration)
- ii. Explanation of resolutions (Company proposals) by President T. Wakita
- iii. Explanation of resolutions (Shareholder proposals) by Maruki
- iv. Q&A

The following is an excerpt of Maruki's comments and the Company's responses during the Q&A session

1 Regarding the limit on number of characters allowed for shareholder proposals

<Maruki>

Last year I also commented on the 400-character limit on the reasons for the proposals. The 400-character limit is imposed on shareholders, while the Board's reasons for opposing is unlimited. For example, the number of characters for the dissenting opinion on Proposal 5 was approx. 1100. As we noted last year, this is not fair. It may be on the guidance of lawyers who believe it is OK to limit the exercise of shareholder rights while allowing unlimited expression by the Board, because it is not illegal but that is not the issue. This is a serious violation of trust with shareholders. The lawyers may be saying there is no problem under the law but that is not the issue. It is a matter of trust.

This year, WAKITA's lawyer requested, in addition to the reasons, the content of the proposal be limited to 400 characters. Only after several emails were exchanged, the lawyer agreed to allow us to exceed 400 characters. What WAKITA entrusted to this lawyer was an unreasonable restriction on shareholder rights. They tried to restrict legitimate shareholder rights which of course they could not. A corporation is supposed to be run for the benefit of its shareholders, yet it is paying fees from the corporation i.e. from shareholder's assets, to the lawyers who tried to restrict the exercise of shareholder rights unreasonably. This is a waste of company resources.

Lawyers do not always work for the benefit of the Company or its shareholders. Some try to get paid for doing extra things for their own benefit, as in this case.

What is President T. Wakita's opinion on the matter?

<Managing Director Oda>

As that shareholder has pointed out there is no legal issue. The Company considered the appropriateness of the number of characters to be included in the reference materials for the AGM. We will take your valuable opinion under consideration.

2 Regarding the MTBP, capital costs (particularly the real estate business)

<Maruki>

With a targeted operating income of JPY 5.5B in FY2021 to JPY 8B in FY2024, the MTBP can be evaluated as an aggressive one. However, the reality is the market does not believe the plan is credible.

In addition, it is extremely disappointing to see an ROE target of only 5% in FY2024. This means

that even if the Company were to achieve its JPY 8B operating income target, the share price 3 years from now would still be below its dissolution value. In the dissenting opinion on Proposal 7 (*ed. note Amendment to the Articles concerning disclosure of cost of capital*), the Board in its “In the formulation process, upon accurately identifying the cost of shareholders’ equity, the Company comprehensively considered various management indicators rather than focusing most resources on only a portion of the management indicators, and carried out the setting of appropriate management indicators” (*ed. note from Company’s English translation of its dissenting opinion*) but this is completely unintelligible. You simply need to formulate a business plan that can generate a return greater than the cost of capital. To increase stock valuation, the business must increase returns above cost of capital and the real estate (“RE”) business which is only generating a 2.3% ROIC must be drastically reformed.

As we explained to President T. Wakita a year ago, Japan is the only developed country where common stock of companies engaged in rental RE is listed. There are a few in Taiwan and China but none in the West. This is because it is extremely difficult to meet the cost of capital demanded by equity investors in the rental RE business. This is the reason why REITs, a yield product, are listed on the stock exchange.

In its dissenting opinion to the shareholder proposal to elect a Director (*ed. note Proposal 5*) the Board stated, “the real estate business, including the real estate leasing business, is an important business to the Company, which it has identified as a source of stable revenue in its 2025 Medium-term Management Plan announced on April 8, 2022. The Company considers that continuing the real estate leasing business will contribute to stable shareholder returns in the future.” (*ed. note from Company’s English translation of its dissenting opinion*). Based on this approach, one the Company cannot grow and two, the Company’s valuations (i.e., the share price) will not increase. According to information disclosed on the internet at the time of this AGM, the market value of the Company’s rental RE for rent is approx. JPY 58.6B, which alone exceeds the Company’s market cap. The Company’s stock price is about half of its dissolution value.

In the explanation of the MTBP, “from stability to growth” is mentioned. However, the RE business is far from growing as only rental RE is held. It is more like stagnation than stability. If the objective is to grow the RE business, than you should stop holdings rental RE and specialize in management and operation and aim for growth by increasing the number of properties. If the Board does not determine and implement a fundamental reform of the RE business, then the share price valuation will not increase. If you establish a REIT structure it will be far superior in terms of capital efficiency because there is no need to allocate funds for RE acquisitions and lay them aside for a long period of time. You can aim for growth with a greater sense of speed. The business can be expanded using investor funds and not the Company’s. Hotels can be developed and then transferred to the REIT. I do not believe that management has a good understanding of the benefits of REITs. I would like you to think about why many RE companies are creating REIT management companies and why the REIT market has expanded so much in the 2000s. Again, why don’t you consider establishing a REIT.

<President T. Wakita>

The stock price has risen, although not so much since the announcement of the MTBP. I would like to ask you to keep a close eye on the situation. Last year, Maruki-sans proposal was to sell RE and pay a special dividend of JPY1000~1500 per share. The RE business generates JPY 2.2B after depreciation but it provides a steady source for ongoing shareholder returns. Certainly, creating a REIT would bring in JPY 60B in cash and allow us to pay a large dividend but we would like to consider whether it is a good idea to do so right now and whether it is in line with the wishes of our shareholders. We are not thinking about using a REIT right now.

3 Management should consider the stock price more

<Maruki>

In your response to the question regarding REIT, you questioned paying a dividend of JPY50~60B at one time. Certainly, we made such a proposal last year but I will add that it would be acceptable to use part of the proceeds for development. For example, buying office buildings are expensive these days, so you could develop them yourself and sell them to REITs. The same would go for hotels.

We proposed to disclose the President's remuneration separately. The Company's ROE is much lower than those of Nishio Rent All or Kanamoto. However, it can be inferred that the absolute amount the Presidents remuneration is considerably larger. Compared to the peers, the Company's stock price is low, capital efficiency is low, size is small but executive remuneration is high. I would like to make you aware that this is how you are viewed by shareholders. I would like the Board, starting with the President, to pay more attention to the stock price. For example, Nagamori-san of Nidec Corp returned as CEO because he could not stand the decline in stock price. Regardless of the outcome, it is very pleasing to me as a shareholder that he is willing to take responsibility for the share price to such an extent. I would like to see less cash-based compensation and more stock price-linked compensation for the Directors.

<Managing Director Oda>

Last year, the Nomination and Remuneration Committee was established and met four times to lower the cash portion. This is not the end of the process. We would like to make improvements every year.

4 Regarding the dividend payout ratio and share buybacks (Appropriation of surplus)

<Maruki>

I would like to explain why we did not withdraw our shareholder proposal for a 100% payout ratio despite the announcement of the MTBP which included a policy for a 100% shareholder return. In light of the Company's market cap and the liquidity of the stock in terms of trading volume and trading value etc., it should be a dividend, not a share buyback. A buyback based on the Company's market cap would siphon off shares trading in the market which would reduce liquidity (i.e. shrink future volume, trading value etc.). A large-scale buyback as suggested by another shareholder is fine, but this is the reason why it is better to have a 100% dividend payout ratio rather than a 100% total return policy including share buybacks.

5 Regarding cross-shareholdings

<Maruki>

The Company discloses the purpose for its cross-shareholdings is to "maintain and strengthen business relationships". We would like to know the causal relationship on how holding the stock will maintain and strengthen business relationships.

It is extremely unhealthy to obtain business through stock ownership. It means the Company expects to profit from the business based on shareholdings. This raises suspicion on violating the Companies Act. In addition, customers or business partners should choose WAKITA because of the quality of its products and services. If the Company drives business based on its shareholdings, there is concern that it will fail to improve the quality of its products and services and hence lose its competitiveness. Equity capital will change due to changes in the valuation of the stock holdings and if the losses are large, it will affect business performance. As a shareholder, I can accept risk in the core business, but I do not want to see risk from share price fluctuations. In the department where I worked at a securities company more than 30 years ago, we were in the

business of brokering cross-shareholdings. From that experience, I can say that cross-shareholders are in reality stable shareholders. That is, they side with the management of the Company that issues those shares. They are using the assets entrusted to them by the shareholders to help protect the management of the company with which they do business. There is suspicion that this is a breach of the duty of care of a good manager.

<President T. Wakita>

Perhaps the reason for holding cross-shareholdings should be written as "to create new business opportunities and further expand business." You would know if you are in business but even good products and services are useless if they do not reach the other party, and we hold shares in order to build that relationship. This is the reason why we hold shares in the company. A relationship of trust between managements makes it easier to discuss new business opportunities.

<Maruki>

Please answer my question. Why does holdings stock create the relationship of trust?

<President T. Wakita>

It is a relationship of mutual trust from the ownership of shares.

<Maruki>

I will ask again. Why would holdings shares create a relationship of trust? Is it because you are well-treated as a stable shareholder by the other company's management? Also, I believe you do not have to do business with such strange companies that will not do business unless you hold shares. Such companies will disappear over time.

<President T. Wakita>

We believe that the reason we have a relationship of trust is not because we are a stable shareholder. It is not that we cannot reach them if we do not hold their shares, but that our relationship with them deepens by holding their shares. This is my response to your question.

<Maruki>

I would like to discuss cross-shareholdings with you at the next opportunity.

Finally for the record, I vote against Proposals 3 and 4. For the others I vote favor for. I would like to have this on the record.

v. Voting

Proposals 1 through 4 were approved. Proposals 5 through 9 were not approved.

FIN.