

April 27, 2023

To Whom It May Concern

Strategic Capital, Inc.  
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**Re: Shareholder Proposal to DAIDOH LTD. (3205) and the Launch of the Campaign  
Website on the proposal**

Strategic Capital, Inc. and funds managed by Strategic Capital (hereinafter referred to as “Strategic Capital” or “SC”) hold over 300 units of voting right of DAIDOH LTD. (hereinafter referred to as "DAIDOH" 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>, 2023, we notified DAIDOH of our execution of the shareholders’ right to make a proposal at the annual shareholder meeting held in the coming June.

For additional details please visit <https://stracap.jp/english/3205-DAIDOH.pdf> or by referring to the link “Campaign Websites” found on the upper right corner of our [website](#).

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

1. Abstract of the Proposals
2. Rationale for the Proposals

**[1] Abstract of the Proposal**

- (1) Revision of the Articles with regard to disclosure of the number of stock acquisition rights granted and held by directors, executive officers and corporate auditors based on the stock option plan (“SOP”)
- (2) Revision of the Articles with regard to disclosure of deliberations by the Nomination and Remuneration Committee (NRC) in relation to the SOP
- (3) Abolition of the SOP for corporate auditors
- (4) Revision of the Articles with regard to the persons eligible for the SOP
- (5) Revision of the Articles with regard to the exercise price etc. of the SOP
- (6) Determination of remuneration for granting restricted stock contingent on stock price conditional on abolition of the SOP
- (7) Revision of the Articles with regard to cancelling of treasury stock
- (8) Cancel treasury stock

## [2] Rationale for the Proposal

(1) Disclose the number of shares granted to directors, executive officers and corporate auditors.

The amount of stock options granted annually through the SOP is “determined based on the standard amount of total remuneration by position”, with an exercise price of one yen/share. This means the number of shares granted increases as the share price falls. In addition, the exercise period is 30 years, and the rights are exercisable for five years from the date one year after retirement. Therefore, while the number of shares increases even if the stock price declines while working, the design allows for greater profits if the successor is able to increase the stock price after retirement. This does not contribute to the Company’s stated objective for the SOP, which is “to motivate management to improve the stock price over the medium- to long-term.”

In addition, the stock price has been stagnant for a long time, but management has failed to implement drastic measures that are expected to increase shareholder value.

SC is concerned that, in light of the problems with the SOP, under which the number of shares granted increased as the share price declined and can be exercised for one yen, the president and other officers hold an excessive number of rights thereby causing a lack on incentive to increase shareholder value which in turn results in a weak share price.

To address this concern, the number of rights for each director, executive officer and corporate auditor should be disclosed.

(2) Disclose deliberations of NRC

First, as explained in (1), the SOP is designed so the number of shares granted increases as the share price falls.

In fact, the share price has fallen significantly since the introduction of the current SOP and the number granted has increased from 19,700 in 2006 to 92,500 in 2022.

Despite being clear that the SOP with an exercise price of one yen, and shares granted are determined based on total remuneration by position, is not functioning properly as an incentive, the NRC has continued to operate the SOP in a rambling manner since the committee’s inception in March 2019. As the proposing shareholder, we must question the effectiveness of the committee.

In order to address the above concerns, we propose that the full details of all the deliberations on the SOP by the NRC to date be disclosed.

(3) Abolition of SOP for corporate auditors

We have been discussing the problems with the SOP with the Company since investing, repeatedly pointing out the problem with corporate auditors being subject to the SOP.

As noted, the purpose of the SOP is “to provide an incentive to increase the share price over the medium- to long-term,” but under the Companies Act, the role of corporate auditors is to “audit the execution of duties by Directors.” As such it is not appropriate for corporate auditors to be subject to the SOP

The SOP, designed to increase the number of shares granted as the share price declines, is problematic in its own right, but first we request that corporate auditors be excluded from the SOP.

(4) Regarding persons eligible for the SOP

As stated in (3), corporate auditors whose duty is to “audit the execution of duties by Directors,” are not appropriate targets for the SOP or other such plans.

Therefore, we request that it be clearly stated in the Articles that corporate auditors shall not be subject to such plans.

(5) Exercise price of the SOP

As noted in (1), under the SOP, the rights are granted annually with an exercise price of one yen based on the total remuneration for each position. In other words, it is designed so the lower the stock price, the more shares are granted and since the exercise price is one yen, a profit can be made no matter when the stock is exercised.

As described in (6), we propose a new plan granting restricted shares based on share-price conditions to eligible Directors subject to the abolition of the current SOP. We request the Articles clearly state the exercise price, the paid-in-amount, or the acquisition price must exceed the closing price of the day immediately preceding the day when terms and conditions are to be determined.

(6) Granting restricted shares based on stock-price conditions subject to abolition of current SOP

The purpose of this proposal is for a new plan based on the abolition of the current SOP. The total number of shares to eligible Directors is limited to 1,500,000 shares which would account for a maximum of approx. 4.6% of total shares issued excluding treasury stock and the annual amount is limited to 600 million yen.

This is based on the current SOP not designed to provide adequate incentives to increase shareholder value.

In fact, the core clothing business has been continuously losing money, and the share price has fallen from 1,656 yen when the SOP was first introduced on June 26, 2006, to 258 yen as of April 5, 2023, a decline of more than 80%.

SC believes that this is contrary to corporate morality, as it has continued to damage shareholder value through the significant decline in the share price, while asking 150

employees to voluntarily retire since 2017 due to the difficult business environment caused by deteriorating performance. While only management has enjoyed the fruits of the SOP which will always yield a profit given the exercise price of one yen.

Therefore, we make this proposal to ensure the Company's officers are properly incentivized to increase shareholder value.

The proposed plan is linked to book value per share (BPS) but the amount is 487 yen, which is the BPS from March 31, 2019 immediately before President Tsukasa Nabewari became a Director of the Company. The reason is that BPS has declined significantly in recent years so the incentive should be to exceed the dissolution value from when he first assumed office.

We also expect the Board to introduce a similar plan for executive officers in addition to the Directors within the maximum number of shares and annual amounts in the proposal and expect the Company to work together to increase shareholder value.

(7) Revision of Articles regarding cancelling treasury stock

As of March 31, 2022, the Company held approx. 3.6 million treasury shares equal to 9.5% of total shares outstanding.

While there are cases where treasury stock is held with the expectation it will be used for M&A etc, for a company with ongoing losses in its core business, priority should be given to rebuilding the existing business. In addition, the Company owns rental real estate and other assets that exceed the market cap, and if good M&A opportunities were to arise, funds could be raised through the sale of such assets.

On the other hand, a situation where the Company continues to hold a large number of its own shares means that for shareholders, the shares could be diluted at any time. In light of the above, the retirement of the treasury stock can contribute to the improvement of shareholder value. Nevertheless, as the Board has not made a decision on the cancellation of treasury stock, we propose the Articles be amended to allow for it by a resolution of the General Meeting of Shareholders.

(8) Cancel treasury stock

As stated in (7), the cancellation of treasury stock can contribute to increasing shareholder value. Therefore if (7) above is approved, cancel all treasury stock (excluding those contributed to the Custody Bank of Japan Ltd. for the J-ESOP)

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