

April 25, 2023

To Whom It May Concern

Strategic Capital, Inc.
Tsuyoshi Maruki, President &CEO
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Re: Shareholder Proposal to KYOKUTO KAIHATSU KOGYO CO., LTD (7226)

Strategic Capital, Inc. (hereinafter referred to as “Strategic Capital” or “SC”) and funds managed by Strategic Capital hold approximately 7% of Kyokuto Kaihatsu Kogyo Co., Ltd. (hereinafter referred to as "Kyokuto Kaihatsu" or the “Company” as the context requires).

The Fund and Strategic Capital are pleased to announce that, on April 24th, 2023, we notified Kyokuto Kaihatsu 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/7226-Kyokuto.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 Proposal
2. Background of the Proposal

[1] Abstract of the Proposal

1. Set dividend payout ratio to be 100% or DOE to be 8% whichever is greater
2. Grant stock price-linked compensation to directors
3. Disclose the calculation method of bonuses paid to President Tatsuya Nunohara
4. Grant stock price-linked bonuses to employees
5. Sell cross-shareholdings and distribute proceeds as a dividend

[2] Background of the Proposal

<Outline of Kyokuto Kaihatsu>

Kyokuto Kaihatsu is one of the leading companies in the Japanese special purpose vehicle market* forming an oligopoly. However, despite its excellent business, the Company’s poor capital policy has resulted in a shareholders’ equity ratio of approx. 70% and a low ROE and as a result, a stock price that has been below dissolution value for more than 10 years. In other words, management of Kyokuto Kaihatsu has damaged the value of its outstanding business and caused the share price to stagnate.

* Kyokuto Kaihatsu makes and sells many products where they have the largest (tank

trucks, trailers, concrete pump trucks etc.) or second largest (dump trucks, garbage trucks, tailgate lifters etc.) market shares in Japan.

<Responsibility of management including Representative Director, President, and CEO Tatsuya Nunohara>

President Nunohara was appointed to his current position in April 2020 (0.57x PBR) and announced the current MTBP in May 2022 (0.49x PBR), but the stock price remains depressed (0.55x PBR as of March 22, 2023). Just before his appointment, the equity ratio was 67.5% at the end of FY2019 but had increased to 73% by FY2021 and was at 69.8% as of December 31, 2022, indicating that the Company has further built up its already excessive equity capital since Nunohara took over.

Also, the current MTBP shows that the management team has no intention of resolving the share price slump during Nunohara's tenure. The plan sets only sales and operating targets until FY2024 (the period of his expected tenure as President), and the 10% ROE target is set for FY2030, far after Nunohara's retirement. It is irresponsible to announce a MTBP without disclosing ROE or setting an ROE target for after his retirement.

It has been 2-years since SC, as the largest shareholder of Kyokuto Kaihatsu, began dialogues with Nunohara et al. However, during that time, they have announced the irresponsible MTBP and have taken no action to revise the plan even after SC pointed out the issues, leaving the stock price mired at its current low level.

SC has submitted its shareholder proposals to help remedy the corporate governance deficiencies and other factors causing the slump in the share price.

Disclaimer

This press release is a reference translation of the original announcement in Japanese. 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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