

April 3, 2023

To Whom It May Concern

Strategic Capital, Inc.  
Tsuyoshi Maruki, President &CEO

**Re: Shareholder Proposal to WAKITA & CO., LTD (8125) and the Launch of the Campaign Website on the proposal**

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 Wakita & Co., Ltd. (hereinafter referred to as "Wakita" or the "Company" as the context requires) over 6 months.

The Fund and Strategic Capital are pleased to announce that, on March 24<sup>th</sup>, 2023, we notified the Wakita of our execution of the shareholders' right to make a proposal at the annual shareholder meeting held in the coming May and confirmed that, on March 27<sup>th</sup>, 2023, the Company certainly received the documents of the proposal.

For additional details please visit <https://stracap.jp/english/8125-WAKITA.pdf> or by referring to the link "Special Websites on Investees" found on the upper right corner of our [website](#).

Details

1. Details of the proposals

(1) Election of one director who is not a member of the Audit and Supervisory Committee

[Name (date of birth)]

Maruki Tsuyoshi

(July 23, 1959)

[Brief personal history]

April 1982

Joined Nomura Securities Co., Ltd.

August 1999

Executive vice-president, M & A Consulting Inc.

May 2006

CEO, MAC Asset Management Co., Ltd.

February 2010

Representative Director, TNP Strategic Capital Co., Ltd.

September 2012

Representative Director (current position), Strategic Capital

[Significant concurrent positions]

Representative Director, Strategic Capital Co., Ltd.

[Number of Company Shares Owned]

0 shares

[Reason for nomination for candidate as an outside director]

As a large shareholder of the Company, we are aware of the problem of the Company's stock price remaining below its dissolution value for a long time and are keen on increasing shareholder value through management based on the cost of capital.

We have selected the candidate based on the expectation he can contribute to the enhancement of the Company's shareholder value through his knowledge on capital markets gained from working at Nomura Securities Co., Ltd. and through his continued experience as a representative director and investment manager of an investment management company.

(notes)

1. There is no particular interest between the candidate and the Company.
2. Strategic Capital, whose representative is the candidate, holds 100 shares of the Company's shares as of the end of February 28, 2023. Also, Strategic Capital is under a discretionary investment contract with INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP (the Fund) and the Fund holds 4,161,000 shares of the Company's shares as of the same day. Strategic Capital Inc. and the Fund do not fall under the category of major shareholder of the Company.
3. If the candidate is elected, the Company will register him as an independent director in accordance with the Tokyo Stock Exchange's ("TSE") rules and regulations.

(2) 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 63<sup>rd</sup> Annual General Meeting of Shareholders and approved thereat or was determined by the Board of Directors of the Company prior to the day before the 63<sup>rd</sup> Annual General

Meeting based on articles 34 of the Articles of Incorporation, from JPY71.

In case Earnings Per Share rounded down to the nearest integer in the 63<sup>rd</sup> fiscal period (hereinafter referred to as “actual EPS”) is different from JPY71, JPY71 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 63<sup>rd</sup> Annual General Meeting of Shareholders

C) Effective date of dividend payment from surplus

The day after the 63<sup>rd</sup> Annual General Meeting of Shareholders of the Company is held.

In the event that a proposal of the Company’s retained earnings is made at the 63<sup>rd</sup> Annual General Meeting of Shareholders, this proposal will be made as an independent and compatible proposal with said proposal.

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

Add the following Chapter and Article to the current Articles of Incorporation.

CHAPTER VII. CROSS-SHAREHOLDINGS

(Assessment of the purpose for holding cross-shareholdings and disclosure of the results)

Article 37.

A) The Board of Directors shall examine the appropriateness of each cross-shareholding held by the Company by examining in detail whether the purpose of holding such stock is appropriate and whether the benefits and risks associated with holding such stock is commensurate with the cost of capital.

B) In order to examine whether the holding of cross-shareholdings is fulfilling its purpose of “maintaining and strengthening business relationships”, the Company shall, at least once a year, inform the issuer of the cross-shareholdings of its intention to sell the said shares.

C) The Company shall disclose, in the CG Report which it submits to the TSE, the details of the verification of the Board from A) and response obtained from each issuing company as the result of the assessment stipulated in B).

(4) Revision of the provisions of articles with regard to chairpersonship of the board of directors

Amend Article 22 of the current Articles of Incorporation as follows.

CURRENT ARTICLES OF INCORPORATION

(Persons authorized to convene and chair meetings of the board of directors)

Article 22

Except as otherwise provided by laws and regulations, the President shall convene and chair meetings of the Board of Directors. In the absence or incapacity of the President, another Director shall convene and preside at the meeting of the Board of Directors in accordance with the order previously determined by the Board of Directors.

PROPOSED AMENDMENT

(Persons authorized to convene and chair meetings of the board of directors)

Article 22

Except as otherwise provided by law and regulations, the President shall convene meetings of the Board of Directors. In the absence or incapacity of the President, another Director shall convene the meeting of the Board of Directors in accordance with the order previously determined by the Board of Directors.

The Board of Directors shall be chaired by an Outside Director previously determined by the Board of Directors. If such Outside Director is unable to act as Chair, another Outside Director shall take the chair in the order previously determined by the Board of Directors. In the absence or incapacity of all Outside Directors, a Director other than an Outside Director shall chair the meeting in other order previously determined by the Board of Directors.

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

Add the following Chapter and Article to the current Articles of Incorporation.

CHAPTER VIII. DISCLOSURE OF EXECUTIVE COMPENSATION

(Disclosure of individual remuneration of representative director)

Article 38.

The Company shall disclose, in the CG Report which it submits to the TSE, the amount paid as remuneration to representative director in the previous fiscal year (including non-monetary remuneration)

- (6) Revision of the provisions of articles with regard to disclosure of cost of capital

Add the following Chapter and Article to the current Articles of Incorporation.

CHAPTER IX. COST OF CAPITAL

(Disclosure of Cost of Capital)

Article 39.

The Company shall disclose, in the Corporate Governance Report (hereinafter referred to as “the CG Report”) which it submits to the TSE, its Weighted Average Cost of Capital (“WACC”) and its basis of calculation which it comprehends at the

point of within 1 month before the submittal of the CG Report.

- (7) Revision of the provisions of articles with regard to disclosure of a plan to achieve a PBR of 1x or more.

Add the following Chapter and Article to the current Articles of Incorporation.

#### CHAPTER X. MANAGEMENT PLAN

(Management Plan)

Article 40.

If the Price-to-Book Ratio (PBR\*) as of the last trading on the TSE during the previous fiscal year of the Company is less than 1x, the Company shall formulate a management plan that is considered reasonably necessary to achieve a PBR of 1x or greater and announce such plan through the Timely Disclosure Network (TDnet) operated by the TSE by the announcement of the 2<sup>nd</sup> quarter results of the current fiscal year.

\* PBR shall be calculated by dividing the share price of Company's common stock by the Company's consolidated net asset per share (the number of treasury stock is deducted from the number of shares issued, and the figure is calculated in accordance with ASBJ Guidance No. 4, Guidance on Accounting Standard for Earnings Per Share)

#### 2. Reason for the proposals

- (1) Election of one director who is not a member of the Audit and Supervisory Committee  
Since 2010, the Company's stock price has never exceeded its dissolution value, and as of March 20, 2023, the stock price was approximately 0.6 times its dissolution value. The investment in rental real estate for which the return is less than the WACC is one main reason for such low valuation.

As of the end of the FY ending February 28, 2022, the market value of rental properties owned by the Company was 58.5 billion yen. If these assets were transferred to a real estate investment trust ("REIT") at a reasonable price, and the Company or its subsidiary were to become a REIT operating company, capital efficiency of the Company would improve greatly. However, for a long time, the Board of Directors has neglected to take fundamental efforts to improve shareholder value and has left the stock price in the doldrums.

Therefore, we propose the election of the candidate with the expectation that he will play an active role in proposing measures such as utilization of REITs to the Board of Directors and promoting discussion of such measures.

- (2) Appropriation of the surplus

The proposal intends for all net income to be used for dividends.

As of the end of February 2022, the Company's equity capital ratio was approximately 68% which is very high. In addition, the Company also has an unusually high level of cash-like assets.

While the Company has pledged a 100% total return ratio, the market capitalization is approximately JPY 60B as of Feb 28, 2023, and stable shareholders, consisting of the Founder's family and corporate shareholders who are business partners, is estimated to account for over 50% and there is concern that acquiring treasury shares from the market will lead to a further decline in liquidity. Therefore a 100% dividend payout ratio rather than a total return ratio should be established as a shareholder return policy.

In light of the Company's excessive accumulation of equity capital and cash-like assets, while repurchasing shares is desirable, it is preferable that Company shares be repurchased from shareholders who have cross-shareholdings in order to prevent the decline as much as possible.

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

Principle 1-4 of the Corporate Governance Code ("CGC") requires companies to specifically examine whether the purpose of holding cross-shares is appropriate and whether the benefits and risks from each holding cover the company's cost of capital and to disclose the details of such examination.

As of the end of February 2022, the Company held approximately 3.1 billion yen in cross-shareholdings and while claiming compliance with CGC Principle 1-4 did not disclose specific scrutiny and verification of cross-shares held.

On the other hand, almost all of the issuers of stock held by the Company have complied with CGC Supplemental Principle 1-4-1, and the proposing shareholder has received responses from several of those issuers denying any relationship between holding stock and business transactions.

Therefore, in addition to the disclosure of specific examination and verification as stipulated in CGC Principle 1-4 above, at least once a year, the Company should inform the issuing company of the cross-shares held of its desire to sell the shares in order to verify that the purpose of the holdings is actually being fulfilled. The Company should also disclose the issuing company's response.

(4) Revision of the provisions of articles with regard to regard to chairpersonship of the board of directors

CGC Principle 4-3 requires the Board of Directors to fulfill a highly effective supervisory function over management from an independent and objective

standpoint.

In this regard, the supervisory function of the Board of Directors must be questioned, as Teiji Wakita, the founding family member is effectively the largest shareholder of the Company and serves as the President and Representative Director of the Company in addition to the Chairperson of the Board of Directors.

The Company's stock price has remained well below 1x PBR underlining the need for the Board of Directors to strengthen its function to supervise whether the management team is executing on its business operations that contribute to increasing shareholder value. To this end, the Board of Directors should be chaired by an outside director rather than an executive to further improve corporate governance.

- (5) Revision of the provisions of articles with regard to disclosure of individual remuneration of representative director

Despite a stock price well below its dissolution value, the Company's management has failed to implement significant measures to increase shareholder value. We are concerned that the President is receiving excessive compensation despite the depressed stock price and lacks the incentive to increase shareholder value, further depressing the stock price. To dispel such concerns, we request the disclosure of individual remuneration.

Although the Company does have a voluntary Nomination and Remuneration Committee, the final decision on individual remuneration for directors is entrusted to the President, and it is possible the supervisory function of individual remuneration is not sufficiently effective for the President. Therefore, the Company should disclose the individual remuneration of representative director to show the amount is appropriate.

- (6) Revision of the provisions of articles with regard to disclosure of cost of capital

CGC Principal 5-2 requires management to accurately understand its own cost of capital. In its "Council of Experts Concerning the Follow-up of Market Restructuring", the TSE has indicated that it intends to encourage management to raise awareness and literacy of its own cost of capital and stock price and to promote efforts for improvement.

However, in its Corporate Governance Report ("CG Report") dated June 1, 2020, the Company did not disclose the cost of equity despite its own admission that the ROE was below the cost of equity. Further, the statement regarding the cost of capital itself was deleted in the CG Report released after June 1, 2021. The same is true for the latest CG report dated May 30, 2022.

The Company should correctly identify its cost of equity and WACC and disclose the information in its dialogues with shareholders, and in its management planning.

- (7) Revision of the provisions of articles with regard to disclosure of a plan to achieve a PBR of 1x or more.

At the “Council of Experts Concerning the Follow-up of Market Restructuring”, the TSE indicated that it would take particularly aggressive measures against companies with PBR that were consistently below 1, including a strong request that they disclose their policies and specific efforts to improve their cost of capital and return of capital. The timing of these requests is set for spring 2023.

In addition, the company will be required to analyze its progress at least once a year and update its disclosures. For the Company with a PBR of less than 1, it will be necessary to respond to these requirements as soon as possible.

Since 2010, the Company’s PBR has never exceeded 1. It is clear that drastic management reform and changes to capital policies are necessary in order to break out of the long-term share price slump. To this end, we request that the Company formulate and announce a concrete plan to respond to the TSE’s request.

#### **Disclaimer**

This press release is a 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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