

May 27, 2024

To Whom It May Concern

Strategic Capital, Inc.  
Tsuyoshi Maruki, President & CEO

**Re: Candidates for the Board of Directors proposed by DAIDOH LTD (3205)**

Strategic Capital, Inc. ("Strategic Capital") is under a discretionary investment contract with INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP ("Fund") and the Fund and Strategic Capital (collectively referred to as "SC" or "we") holds approx. 32% of the Company's voting rights.

Daidoh's current management team has continued to undermine shareholder value with continuing losses and a variety of other problems. To help rectify this issue SC is proposing to appoint six new Directors at the upcoming AGM to replace the current management team.

In response, Daidoh announced a mid-term business plan (MTBP) on May 20 and in a press release on May 24 titled "Notice of the Receipt of a Shareholder Proposal in Written Form and the Opinion of the Board of Directors" (Japanese only), announced that five of the six current directors, excluding Keiichi Shirokoda, will retire from the Board, and that it will propose the appointment of five new Directors (four of whom will external) for the upcoming AGM.

After receiving the notice from Daidoh on May 21, SC met with Masahiro Yamada, Daidoh's proposed candidate for Representative Director the following day. Based on the explanations by Daidoh and Yamada, SC has concerns that the proposals made by Daidoh would significantly undermine Daidoh's shareholder value. Therefore, we are opposed to all six Directors proposed by Daido, who we believe will only approve or tacitly endorse those proposals. We instead vote in favor of electing the six Directors proposed by SC. The reasons for our opposition to Daidoh's proposals are as follows.

**Details**

**1) Candidates for Rep. Director hold numerous concurrent positions and desire to continue holding.**

Yamada and Koichiro Naruse, Daidoh's candidates for Representative Director, have the following concurrent positions

<b>Name</b>	<b>Concurrent Positions</b>
Masahiro Yamada	Gemini Strategy Group, Representative Director & CEO Gemini Solutions, Representative Director Gemini Career, Director Kamegaya Corp., part-time General Manager Oba Baking Co., President and Representative Director Bakery Innovation Co., President and Representative Director Ritsumeikan University, Graduate School of Business Administration, Professor of Tourism Management
Koichiro Naruse	Gemini Strategy Group, Senior Management Expert ForDi Inc., Representative Director Oba Baking Co., Director Bakery Innovation Co., Director

Source: Daido disclosure materials, Gemini Strategy Group website

Both candidates are proposed as full-time representative directors rather than outside directors, but Yamada, in particular, has numerous concurrent positions, including full-time roles, and we find it **difficult to see how they are committed to managing Daidoh**. SC communicated to Yamada that if he were to become a Daidoh director, he should immediately terminate these concurrent positions and concentrate on managing Daidoh, however, Yamada indicated that he would continue to hold these positions. It is **extremely unusual for a Representative Director of a listed company to concurrently serve as a Representative Director, etc., of a company other than a subsidiary or affiliated company to such an extent**.

By comparison, Toshihiko Nakayama, SC's candidate for full-time director, currently has a private management and investment consulting business, but has indicated that if he is elected, he will immediately terminate the business in order to concentrate on Daidoh.

## **2) Concerns of a serious conflict of interest between Yamada and Daidoh Shareholders**

Gemini Strategy Group (“Gemini”), which employs both Yamada and Naruse, currently provides management consulting and other fee-based services to Daidoh. In addition to these services, Gemini plans to serve as an M&A advisor to Daidoh.

In other words, **Gemini will continue to receive consulting and other fees from Daidoh in addition to Director fees for Yamada and Naruse**.

Yamada is the Founder and President of Gemini, and there are concerns that the **continuation and expansion of related party transactions could result in a significant conflict of interest between Yamada and Daidoh shareholders**.

## **3) Current Daidoh management continues to be involved with the company as advisors**

Tsukasa Nabewari, current President and Representative Director and Katsuo Watabe, Director and Sr. Executive Officer have informed SC that **they intend to remain with Daidoh as advisors** after stepping down. However, SC believes that the current management team should take responsibility for the poor management and end any involvement with the Company.

We suspect that they believed that it would be difficult to be reappointed after our shareholder proposal, so **they nominated an outside person as representative director in order to remain involved in the form of an advisor**.

## **4) Concerns over Gemini’s selection process and track record**

Gemini and Daidoh were introduced through an acquaintance of Nabewari, and there was no competition with other consulting firms when the consulting relationship started a year ago, nor when the relationship was expanded.

In its MTBP, Daidoh cites Baroque Japan Ltd., (“Baroque”) which operates an apparel business similar to Daidoh’s, as a Gemini achievement. Baroque announced in February 2021 that it would introduce the same Gemini service that Daidoh uses for its main brands, but Daidoh admitted when asked that it was not aware how Baroque’s performance improved. (Baroque’s consolidated operating income have declined steadily and its stock price since has been significantly below that of industry

peers and the TOPIX.)

Although Daidoh plans to rely on Gemini for everything from the appointment of the representative directors to management consulting, we cannot trust Daidoh’s restructuring to Gemini in light of the selection process and track record.

5) Unrealistic mid-term business plan

Gemini was involved in the preparation of the recently announced MTBP (for which they received fees from Daidoh). However, the plan lacks specifics, is unfeasible and the figures have not been verified. It is hard to believe that Yamada, who oversaw its creation, will contribute to the improvement of shareholder value. In fact, the share price has not risen at all since the announcement of the MTBP.

<SC opinion of the MTBP>

- Operating income target of JPY1.5B has not been verified and its feasibility is questionable.
  - Calls for an operating income target of JPY1.5B in FY2026, the final year of the MTBP.
  - First, the operating income target of JPY908m from existing businesses is wrong. Based on the figures in the MTBP it is JPY836m for FY2026 (gross profit of JPY17B – SG&A expenses of JPY16.173B). In addition, although SG&A expenses are “planned to increase by 1.7% in light of rising personnel costs”, they decline by approx. JPY400m in FY2026 (or approx. JPY500m if the above is corrected) there is no explanation as to why this is the case. (When SC asked about this at the financial results meeting and direct meetings, the response was “they couldn’t give an immediate answer.”)

既存事業の計画数値詳細



\*赤字数値は24年3月期との差

(単位:百万円)	実績	計画(既存事業のみ)			備考
	2024年3月期	2025年3月期	2026年3月期	2027年3月期	
売上高	28,697	30,312	31,280	31,621 (+10.0%)	-年率3.2%で成長
売上原価	13,778	13,887	14,325	14,612	
売上原価率	48.0%	45.8%	45.8%	46.2%	-SCM改革などにより25年3月期から原価率低減 -最終年度のみ微増を見込む
売上総利益	14,919	16,425	16,954	17,009	
売上総利益率	52.0%	54.2%	54.2%	53.8% (+1.8%)	
販管費	15,362	16,324	16,589	16,173	-人件費上昇などを踏まえ年率1.7%の増加を計画
営業利益	-442	100	365	908 (+1.350)	-既存事業の営業利益率は4.4pt改善
営業利益率	-1.5%	0.3%	1.2%	2.9%	

Planned increase of 1.7% p.a. in light of rising personnel costs

Doesn't compute based off gross profit and SG&A

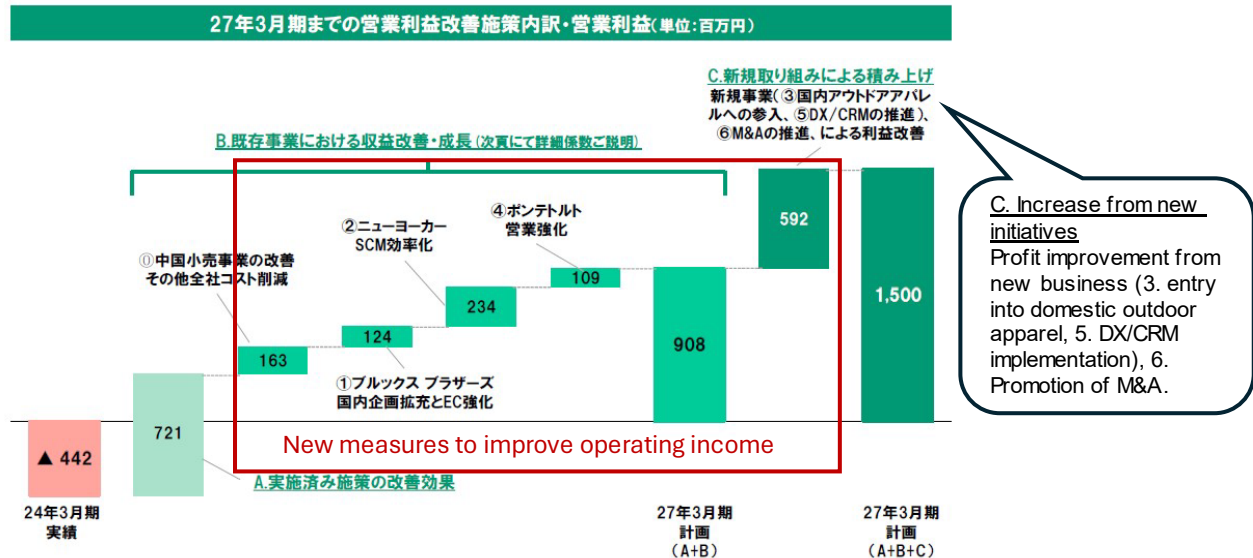
Source: Daidoh MTBP, comment, translation by SC

- In addition, of the new measures to improve operating income, about half (JPY592m) relies on new business and M&A. The M&A target is described as “apparel-related in general” with the explanation that “specific business targets, regions etc., will be extensively considered,” which is not specific at all.

## 27年3月期の営業利益15億円への施策



既に実施済みの施策による改善効果(下記A)に、0~6の施策を実施(下記B、C)し、27年3月期に営業利益15億円を目指します



Source: Daidoh MTBP, comment, translation by SC

### ■ 8% ROE goal is nothing more than an aspiration.

- Aims to achieve an 8% ROE in FY2026, the final year of the MTBP
- However, no B/S simulation or other information was prepared, and the rationale for setting an 8% target was explained as “to achieve a target that exceeds the cost of shareholders’ equity of 7%. In other words, it is an aspiration without any basis in fact. Further, it is also difficult to believe that an 8% ROE would exceed Daidoh’s cost of equity. (as of May 24 2024, Bloomberg and Quick had the cost of equity at 9.6% and 9.7% respectively.)
- Also, as the Company has unrealized gains on rental real estate of approx. JPY23B relative to a market cap of approx. JPY18B, any ROE based on book value is meaningless. Even if Daidoh were to achieve an 8% ROE, there is no prospect of an increase in stock price.

### ■ No rationale for excluding Dynacity from the sale of real estate holdings

- In order to secure funds for new businesses and M&A, the Company will consider selling its recently acquired business hotel (acquired April 2023) and office buildings (acquired December 2023) during the period of the MTBP. However, regarding the shopping center in Odawara City (Dynacity), which has an unrealized profit of about JPY23B, the stance from Daidoh is that it “will not be subject to sale during the period of the MTBP. We will consider it in the future.”
- Daido stated that it considers “Dynacity separately from other real estate because of its high rate of return.” Basing a return using a book value of approx. JPY3B instead of a market value of approx. JPY26B it is not surprising that it would be “highly profitable.”

- In addition, Daidoh has approx. JPY20B<sup>※</sup> in net operating loss carry forwards, of which approx. JPY6.4B will expire by FY2026, the final year of the MTBP. If Dynacity was to be sold, it could enjoy a large tax break by using the loss carryforward, but no consideration has been given from this perspective.

※Estimated by discounting the tax rate of 30% from the amount of net operating losses carried forward (multiplied by the legal tax effective rate) as stated in Daidoh's annual securities report for FY2022

FIN

**Disclaimer**

This press release is a reference translation of the original announcement in Japanese. In the event of any differences between the original and the English translation, the original Japanese version shall prevail.