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Shibuya-ku, Tokyo 150-0011  
[Strategic Capital, Inc.](#)

June 9, 2020

Re: Strategic Capital placed an advertisement in the Nikkei newspaper on June 1, 2020

To Whom it may concern

We are writing to inform you that we posted an informational advertisement in the Nikkei newspaper on June 1, 2020 to convey our thoughts on the formal shareholder proposals we made this year to six of our investee companies.

As the advertisement was a full-page advertisement in Japanese, we have translated the contents into English for your convenience.

A soft copy of the original advertisement in Japanese can be found at the end of this letter.

Yours sincerely,

T. Maruki

Contact Information

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## **English Translation of Nikkei Advertisement placed by Strategic Capital on June 1, 2020**

**TITLE: To the Shareholders of Keihanshin Buildings, Chori, Toray, Seikotokyu, Kyokuto Boeki, and Asanuma**

Strategic Capital and the Japan-Up fund (hereinafter collectively “SC”) have made a shareholder proposal for the above companies at the upcoming AGM. Before exercising your voting rights as a shareholder, please read below in order to understand the issues and the intention of our shareholder proposal.

### **Keihanshin Building (8818)**

**Campaign website**

[LINK](#)

SC started investing in 2017, and on March 2020 held 5.6% of the voting rights and became the 2<sup>nd</sup> largest shareholder. During that time, we have continued to have dialogue to improve shareholder value.

SC finds the shares have been continuously undervalued relative to the rental real estate owned by the Company due to a improper composition of board of directors.

### **The challenges and our proposal**

**Challenge** Opaque corporate governance due to improper Board composition

With the majority of the Board of Directors occupied by the members from Sumitomo Mitsui Banking Corporation (hereinafter “SMBC”), they have virtually made the Company their own.

A vote in favor of Keihanshin’s proposal at the upcoming AGM will positively increase the number of outside directors from three to four, but two out of three full-time directors (including the Chairman and the President), and three out of five executive officers will still be from SMBC, which is still too many. Under such opaque corporate governance conditions, we cannot expect that the current management will enhance shareholder value.

**Proposal** Add outside director to promote measures to enhance shareholder value

In order to accelerate the policy to increase the number of outside directors and to promote measures to enhance shareholder value, we are proposing that Tsuyoshi Maruki, our representative, be elected as outside director and participate in the Company’s Board.

**Challenge** Transform business model that doesn’t meet investors’ return expectations

One of the reasons of its low valuation is that profitability of the Company does not meet the expected level required by investors.

**Proposal** Amend Articles of Incorporation to become a REIT management company

We propose that the Company establish a REIT operating subsidiary, transfer the rental real estate to it, and the Company control / manage the real estate via the subsidiary.

**Proposal** Transfer assets to realize value of real estate holdings

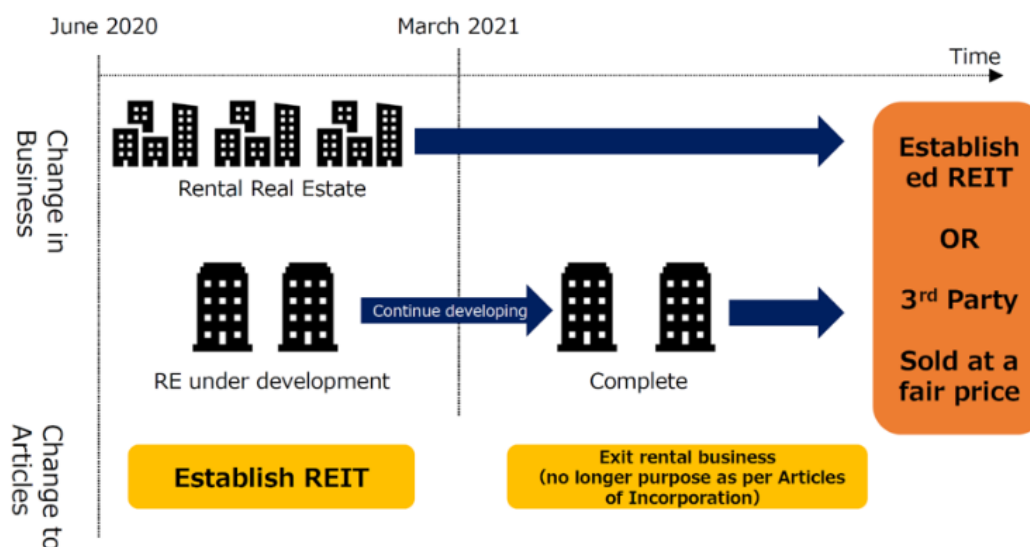
When the Company withdraws from the leasing business, it should transfer the rental real estate it currently holds at a fair price. The buyer should not be limited to the REIT and instead the Company should seek the best offer. At the very least, we propose that the real estate be transferred at price higher than the market price the Company disclosed in its financial statements.

**Proposal** Sell cross-shareholdings to improve capital efficiency

The Company discloses the purpose of cross-shareholdings as “for the rental leasing business”. Those shares give an unnecessary impact by their price movements on financial results of the Company. Also, in the case the Company no longer operates as a leasing business, the original

purpose above no longer exists. We therefore propose to sell these unnecessary assets and hope the proceeds will be used to enhance shareholder value.

<Image of Keihanshin's business if our proposal is approved>



Comparison of Share price (left) and Market Value BPS (right) including unrealized gain (top right)

【株価(左)と時価ベース1株純資産(右)の比較】

※2020年5月27日株価



Chori (8014) & Toray (3402)

Campaign website

[LINK](#)

This is the fourth time SC has made a shareholder proposal to Chori.

Toray holds 53% of the voting rights of Chori as of March 31, 2020 and they are in the relationship of a parent-subsidary listing. We believe that this relationship has resulted in the ignorance of Chori's minority shareholders' interests.

**The challenges and our proposal to Chori**

**Challenge** Lack of governance as a listed subsidiary

A TSE study group examined the role of independent outside directors and the impact on improving the corporate governance of listed subsidiaries. Also, Chori's disclosures on evaluations of Board effectiveness have generally been the same every year.

**Proposal** Increase the number of outside directors to protect minority shareholders.

We are proposing the majority of the Board of Directors consist of independent outside directors.

**Proposal**

Conduct evaluations of Board effectiveness including external analysis

We are proposing for a Board evaluation facilitated by a third party to be conducted every three years.

**Challenge**

Low stock valuation due to low capital efficiency

As a result of accumulated equity capital, capital efficiency has declined and shareholder value has been impaired despite increased profits. In addition, half of Chori's cross-shareholdings is the shares of Wacoal Holdings (3591) and while Wacoal acknowledges that "it will continue trading with Chori even if Chori sells its shares", Chori continues to hold Wacoal's shares.

**Proposal**

Determine dividend at AGM and increase payout ratio to 100%

We are proposing to enable shareholders to participate in dividend decisions We are also proposing to increase the dividend payout ratio to 100% in order to stop the further accumulation of capital that is reducing ROE.

**Proposal**

Disclose cost of capital and calculation basis

We are proposing the disclosure of the figures regarding the cost of capital and its basis of calculation, thus raising management's awareness of the cost of capital and promoting effective dialogue with shareholders to improve the stock valuation.

**Proposal**

Sell cross-shareholdings to improve capital efficiency

There is no reason to continue holding cross-shareholdings that are confirmed to have no effect on the business, and selling the shares will also eliminate the unnecessary impact by the stock's price movements on the financial results of Chori. We therefore propose to sell these unnecessary assets and hope the proceeds will be used to enhance shareholder value.

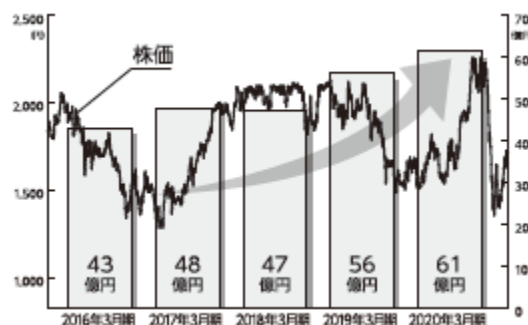
### The challenges and our proposal to Toray

**Challenge**

Ignoring interests of Chori's minority shareholders ( $\approx$  ignoring damage to subsidiary's stock value)

As the parent company of Chori, Toray's directors are responsible for its shareholders to supervise Chori and increase the value of Chori shares as one of Toray's assets. However, as shown in the figure below, Chori's shareholder value has not increased even though its profits have grown.

**Net income (bar) steadily increased but stock price (line) sluggish**

**Proposal**

Disclose suitability of maintaining subsidiaries

We are proposing that, in order to fulfill the responsibility as a parent company, Toray discloses the rationale for maintaining Chori as a subsidiary from the perspective of improving corporate

value and capital efficiency of the entire Toray group.

#### Opinion

##### Negative Impact of parent-subsidary listings

You can find Indication of government policy views on the matter of parent-subsidary listings in the explanatory materials from the Corporate Governance System Study Group held on June 22, 2018 by the Ministry of Economy, Trade and Industry (METI). In the materials it is stated, “In the discussion of the Legislative Council at the time, there were many opinions in favor of the view that the directors of the parent company have an obligation to manage the shares of the subsidiary as an asset, and there existed a consent that those directors are responsible for supervising the subsidiary”.

When SC met with Toray’s VP and representative director, Murayama (who is also a part-time director of Chori), he described Chori as a “good company” that contributes to consolidated business results. SC responded that Chori may be a “good company” for Toray from the perspective of parent company, but it is not a “good company” from the perspective of the minority shareholders. That’s because even if profits increase, Chori’s stock price does not rise.

We would like Toray’s Directors to fulfill their responsibilities as the parent company and stop the management of Chori from continuing the policy to accumulate equity capital that damages shareholder value.

#### Asanuma (1852)

Campaign website

[LINK](#)

As of March 31, 2020, SC held 9% of the outstanding shares of Asanuma, being the largest shareholder. When we made three shareholder proposals in 2019, the Company voluntarily adopted one of them, the disclosure of the cost of capital. Although dividends were also increased in 2019, our request was to increase the dividend payout ratio to 100% in order to stop the buildup of equity capital. We have to say that the shareholder return level is still insufficient. (Please see our opinion on capital policy below).

In 2019, we made the same shareholder proposals as we do this year and the favor ratio for our two proposals were nearly 30% last year. Asanuma should apply our ideas to its management policy for the improvement of its low stock valuation.

#### The challenges and our proposal to Asanuma

##### Challenge

##### Excess net cash and accumulated equity capital

One of the reasons for Asanuma 's low valuation is excessive cash and cross-shareholdings it holds. Due to low level of shareholder returns in the past, Asanuma's equity capital and net cash<sup>1</sup> have accumulated and account for 72% of its market capitalization as of April 27th, 2020.

<sup>1</sup> calculated by deducting interest-bearing debt and tax on sale of securities from cash and investment securities

##### Proposal

##### Sell cross-shareholdings

In order to improve capital efficiency and eliminate the unnecessary impact by the stock’s price movements on the Company’s financial results, we propose to sell the cross-shareholdings within 3 years. We hope that the proceeds from the sale will be used to enhance shareholder value.

##### Proposal

##### Increase payout ratio to 100%

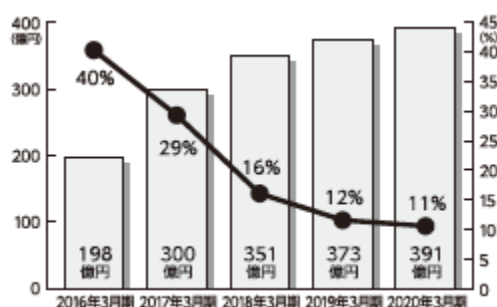
We are proposing a payout ratio of 100% to prevent further accumulation of equity capital.

#### Opinion

##### Capital policy

Asanuma has announced a policy of gradually increasing the dividend payout ratio to 50%, but the equity capital has already risen sufficiently and it is not necessary to increase it anymore.

Change in Equity Capital (bar, LHS) and ROE (line, RHS)



## Kyokuto Boeki (8093)

Campaign website

[LINK](#)

As of March 31, 2020, SC held 18% of the voting rights of Kyokuto Boeki, being the largest shareholder.

We made shareholder proposals in 2019 and 2020 with the same content and the favor ratio for our proposals were more than 30% last year. Given this strong result, we anticipated that Kyokuto would put more focus on increasing shareholder value. However, after reviewing the board minutes, we noted there was no sign of substantive debate other than on the cross-shareholdings, so our concern is increasing that Kyokuto does not recognize its challenges properly. We believe that Kyokuto should apply our ideas to its management policy for the improvement of its low stock valuation.

### The challenges and our proposal to Kyokuto

**Challenge** Poor understanding of Cost of Capital and Excessive stock investments

Kyokuto's capital efficiency is lower than the weighted average cost of capital (WACC), resulting in extremely low stock price valuations.

There is also a suspicion of misstatement that although Kyokuto holds certain listed shares that should be reported as a cross-shareholding, the purpose of holding them is announced as pure investment in order to avoid disclosure under the Corporate Governance Code. In addition, total shares held for the purpose of pure investment account for 37% of total assets of Kyokuto, but investment in securities is not stipulated as one of Kyokuto's "Purposes" in the Articles of Incorporation.

**Proposal** Disclose cost of capital and calculation basis

We are proposing the disclosure of the WACC and its basis of calculation, thus raising management's awareness of the cost of capital and promoting effective dialogue with shareholders to improve the stock valuation.

**Proposal** Sell cross-shareholdings and shares held without reason

From the perspective of improving capital efficiency and eliminating the unnecessary impact by the stock's price movements on the Company's financial results as is the case in FY2019, we propose the prompt sale of all such securities, whether it is reported as cross-shareholdings or pure investment. We further hope that the proceeds will be used to enhance shareholder value.

**Challenge** Capital policy that accumulates equity capital

Kyokuto has announced its goal of total return ratio as 35%. If Kyokuto continues its current

capital policy, equity capital will build up further and ROE will decrease as a result.

**Proposal** Increase payout ratio to 100%

(Withdrawn) We proposed a dividend payout ratio of 100% in order to prevent further decline in ROE, but withdrew the proposal because the dividend payout ratio for FY2019 exceeded 100%.

We hope that Kyokuto will adopt a capital policy with a dividend payout ratio of 100% for FY2020 and onwards to prevent the accumulation of equity capital.

**Opinion** Holding stocks

For FY2019, Kyokuto's ROE declined in part due to impairment losses on its affiliated companies affected by typhoon damage as well as the recording of valuation losses on stocks.

For the latter, we believe the Board of Directors is responsible for the damage to the Company as the holding of shares is not a purpose in the Articles of Incorporation.

Change in Equity Capital (bar, LHS) and ROE (line, RHS)



## Seikitokyu (1898)

Campaign website

[LINK](#)

As of March 31, 2020, SC held 7% of the voting rights of Seikitokyu, being the 2<sup>nd</sup> largest shareholder. We made the same proposal in 2019 as this year, however Seikitokyu has taken no action since then, even though it states in the notice of calling of AGM in 2019, for example, that “cost of capital would be reflected in their managerial decision”.

### The challenges and our proposal to Kyokuto

**Challenge** High cost of equity ( $\approx$  investment risk in Seikitokyu)

ROE has fallen below the Cost of Equity which has risen due to repeated anti-trust law violations. As a result, the stock valuation is low. Seikitokyu's target of total return ratio is 30%. If Seikitokyu continues its current policy regarding shareholders return, it is inevitable to cause decline of ROE in the future.

**Proposal** Disclose cost of capital and calculation basis

We are proposing the disclosure of the WACC and its basis of calculation, thus raising management's awareness of the cost of capital and promoting effective dialogue with shareholders to improve the stock valuation.

**Proposal** Change the current capital policy that is reducing ROE

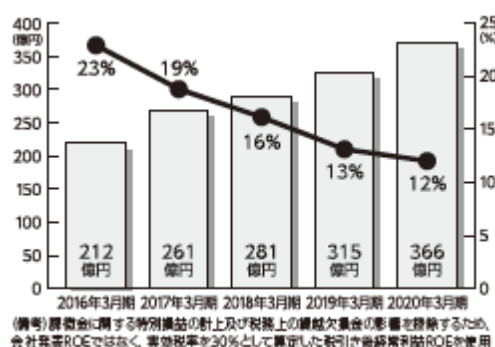
Seikitokyu has adopted a capital policy that accumulates equity capital, and actually is planning

to continue such accumulation in the medium-term management plan.

As a result, ROE continues to decline (as seen in the chart below).

We are proposing a payout ratio of 100% to maintain or improve ROE and increase shareholder value.

Change in Equity Capital (bar, LHS) and ROE (line, RHS)



## Opinion

### Repeated violations of anti-trust law by Seikitokyu

In July 2019, Seikitokyu received a cease and desist order and was ordered to pay a surcharge due to the price cartel. Since 1987, the Company has been involved in 10 anti-trust cases.

Seikitokyu also violated anti-trust law in 2016 on bid rigging. In response, the Company announced to establish the recurrence prevention measures that introduced an internal leniency program (a system of self-reporting where employees who report voluntarily the acts of violation are granted special leniency with regard to action taken against them) but the measures did not work and anti-trust violations continued.

We request the Company to take more appropriate preventative measures that will lower the high cost of equity ( $\approx$  risk when investing in Seikitokyu) and as a result improve shareholder value.

In 2019, the Company opposed to of our proposal to establish an Independent Investigation Committee, and established an investigation committee where the majority were lawyers who were not independent third parties. The content of the report published by the committee was insufficient, and based on that report the Company established the ineffective prevention measures mentioned above.

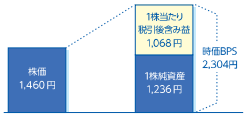
SC has proposed stronger measures including dissolution of a joint venture with other companies in the same industry but such proposal has not been adopted.

# 京阪神ビルディング、蝶理、東レ、浅沼組、 極東貿易 及び 世紀東急工業 の 株主の皆様へ

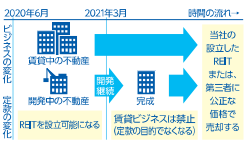
ストラテジックキャピタルは、来る定時株主総会に向けて株主提案を行いました。

株主の皆様が議決権行使を行う前に、弊社が考える各社の課題と株主提案の意図をご理解いただきたく、ご一読をお願いいたします。

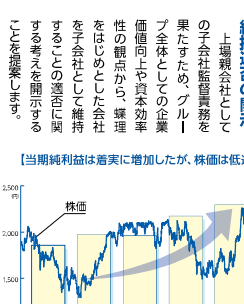
【株価(左)と時価ベース1株純資産(右)の比較】  
※2020年5月27日株価



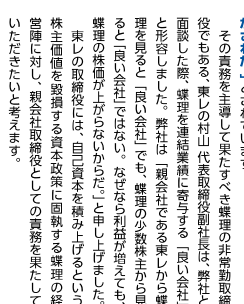
【弊社の提案のイメージ図】



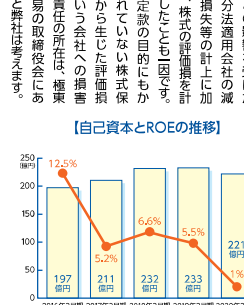
【当期純利益は着実に増加したが、株価は低迷】



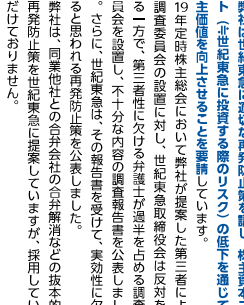
【自己資本とROEの推移】



【自己資本とROEの推移】



【自己資本とROEの推移】



## 京阪神ビルディングの課題と株主提案

【課題】  
定額配当のガバナンス  
【提案】  
株主提案の向上推進のための  
株主提案の向上推進のための

## 蝶理の課題と株主提案

【課題】  
定額配当のガバナンス  
【提案】  
株主提案の向上推進のための

## 東レの課題と株主提案

【課題】  
定額配当のガバナンス  
【提案】  
株主提案の向上推進のための

## 浅沼組の課題と株主提案

【課題】  
定額配当のガバナンス  
【提案】  
株主提案の向上推進のための

## 極東貿易の課題と株主提案

【課題】  
定額配当のガバナンス  
【提案】  
株主提案の向上推進のための

## 世紀東急工業の課題と株主提案

【課題】  
定額配当のガバナンス  
【提案】  
株主提案の向上推進のための