

Nanahoshi Management Ltd. Founder CEO  
Satoru Matsuhashi  
1st June 2023

YAIZU SUISANKAGAKU INDUSTRY CO.,LTD.  
President  
Mr Jun Yamada

## **RE: The opposition to our shareholder proposals**

To Mr Jun Yamada,

Our views on YSK's opposition to the shareholder proposals are as follows. We want YSK to seriously consider why YSK received the shareholder proposal in the first place. We look forward to discussing these, including the topics to increase shareholder value. Please note that the italicised underlines are quotations from the Notice of Convocation.

### **1. Dividend on Equity ratio of 10%**

*The proposal is based on a short-term perspective that does not consider the need to secure cash reserves for growth investments, etc., for the future growth set out in this medium-term management plan and is outside the interests of the value of YSK.* is a delusion arising from the belief that the company must continue to hold cash on hand, funded by net incomes and past equity finances (referred to as “equity capital”), for future investment.

From a cost of capital perspective, adequate financial strategies for increasing enterprise and shareholder value are as follows<sup>1</sup>.

- ✓ Distribute cash to shareholders.
- ✓ Use borrowing when it is needed.

First, the need for YSK to utilise interest-bearing debt is obvious, given that YSK's equity-to-assets ratio is 89.8%, and YSK is virtually debt-free. If that is the case, this reason for YSK's opposition was devised on the unnatural premise of deliberately not using interest-bearing debt to oppose the shareholder proposal.

We must recognize this reason for the opposition as we believe it gives shareholders a false impression of the proposal. Given the financial strategy outlined above, we request that YSK withdraws the opposition to the proposal and express a favour opinion or correct the reasons for the opposition.

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<sup>1</sup> As YSK hold less interest-bearing debt, the CoE equals WACC. Therefore, the financial leverage effect is justified from the cost of capital perspective.

## **2. Nomination of an independent outside director from Nanahoshi Management Ltd.**

The candidate intends to promote the measures proposed by the campaign website and contribute to improving your company's shareholder value. If YSK opposes this proposal, we would like YSK to think flexibly about improving shareholder value rather than implementing the current medium-term management plan. And then, it is reasonable for YSK to give shareholders reasons to decide that the measures YSK considers achieving a P/B ratio of more than 1x are better than those we have proposed on the campaign website.

## **3. Decisions on dividend payment should not be left solely to the BoD, but to the AGM**

In our shareholder proposal, we pointed out that YSK's shareholders' interests, a.k.a. total shareholder return, had become significantly subordinated to the TOPIX after the Board of Directors alone began to decide on dividends. Nevertheless, YSK did not refer to the status of total shareholder return in its reasons for opposing the proposal.

A wrong assumption that allowing the board of directors to make decisions flexibly and agilely for the interests of shareholders should not be stated as a reason for opposition.

## **4. Disclose the net-zero transition plan to promote net-zero initiatives and reduce the cost of equity**

We understand that YSK, like us, recognises the importance of climate change measures. Still, YSK is opposed because the articles of association need to be revised. We aim to discuss YSK's transition risks at the AGM, and we do not intend to discuss the pros and cons of revising the articles of association. If we make a climate change-related shareholder proposal to YSK in the future, please allow us to propose it as an advisory resolution rather than an amendment to the articles of association.

## **5. Abolishing takeover defences**

The management believes that in the event of a takeover bid, they will make a new proposal to shareholders. Suppose the management is confident in making such a proposal. In that case, we request that the management save time and propose a measure to the equity markets now to achieve a P/B ratio of 1x, thereby increasing shareholder value.

As we have repeatedly informed YSK, the valuation of YSK's share price is at a P/B ratio of 0.5x, which is an extraordinary situation. The management has neglected this situation, and we want you to realise that you still need to fulfil your duties as a director.

Best wishes,  
Satoru Matsuhashi