

Nanahoshi Management Ltd.

Founder CEO

Satoru Matsushashi

12th June 2023

YAIZU SUISANKAGAKU INDUSTRY CO.,LTD.

President

Mr Jun Yamada

**RE: Followup of our meeting held last week**

To Mr Jun Yamada,

Thank you for taking the time last week. During the meeting, we reviewed the theoretical background on why we should have a sense of urgency regarding the unusually low valuation of YSK's share price—and then presented YSK's measures to increase shareholders' value.

YSK will review its current medium-term management plan ("MTMP"). We commend the decision to undertake a review. However, given YSK plans to review the MTMP, we would first like YSK to change the perception of our shareholder proposal based on the content of this meeting. And to reiterate, we ask you to withdraw your opposition to the shareholder proposal and express your support. As a reminder, we would like to reaffirm the below topics we gave YSK at the meeting.

1. Improve capital efficiency and, at the same time, tackling into reducing the level of the cost of capital.
2. The basic premise is that returning capital to shareholders from interest-bearing debt does not reduce invested capital (no change in ROIC); if this is evaluated in terms of capital efficiency, it will only improve the apparent ROE and is not an essential solution to increasing YSK's shareholders' value.
3. Both ROIC and ROE will be improved through more efficient investments with interest-bearing debt (lower funding costs)
4. Moreover, YSK is being evaluated by the market with a handicap in terms of capital efficiency (i.e. with massive invested capital (equity capital)), as YSK is storing up its net profit (of course, attributable to shareholders) as surplus cash. Therefore, instead of using interest-bearing debt as described in 2., YSK

returns surplus cash to shareholders, reduces its invested capital (equity capital) and improves ROIC (ROE).

5. From a cost of capital perspective, to reduce the level of WACC, the target value of the optimum capital structure (we estimate the equity capital-to-assets ratio to be around 40%), YSK shall share the target of 10% DOE with the market and position 10% DOE as a means to achieve the optimum capital structure.
6. From the perspective of the cost of equity, to reduce uncertainty by disclosing information on climate change risk, etc.
7. From a share price valuation perspective, aim for a P/B ratio of 1x or more by implementing a DOE of 10% to meet the cost of equity and further promote the initiatives described in 3.
8. In addition, in theory, YSK's cost of equity using CAPM with a market beta is significantly lower than calculated using the reverse DCF, etc in practice. We cannot agree with the cost of equity using CAPM.

Best wishes,  
Satoru Matsuhashi