

May 14, 2020

To Whom It May Concern,

Company: Arisawa Mfg. Co., Ltd.  
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**Notice regarding Receipt of Shareholder Proposal and the Opinion of the Company's Board of Directors**

Arisawa Mfg. Co., Ltd. (“**Arisawa**” or the “**Company**”) received shareholder proposals for inclusion on the agenda for Arisawa’s 72<sup>nd</sup> general meeting of ordinary shareholders scheduled for June 25, 2020. Arisawa’s board of directors (the “**Board**”) deliberated on these proposals and resolved as follows at its May 14, 2020 Board meeting. Arisawa is publishing this notice to announce the Board’s views on these proposals.

1. Proposing Shareholders: INTERTRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP, and Strategic Capital, Incorporated

The shareholder proposals’ agenda items include: (i) deletion of the provision referring to the holding and management of securities for investment purposes from the objectives listed in the Articles of Incorporation; (ii) an amendment to the Articles of Incorporation with regard to disclosure of cost of capital; (iii) an amendment to the Articles of Incorporation with regard to the sale of strategically held shares; and (iv) an amendment to the Articles of Incorporation with regard to the abolition of takeover defense measures. The details of the shareholder proposals are as set forth in the attachment “Content of the Agenda Items of the Shareholder Proposals and Reasons for the Proposal,” including the relevant part of the shareholder proposal in its original form.

**1) The Board opposes the proposal to delete the provision referring to the holding and management of securities for investment purposes from the objectives listed in the Articles of Incorporation (Agenda item 3 of the Shareholder Proposals), for the following reasons:**

**The Board believes that the proposed amendment would shackle Arisawa’s investment strategy and risks interfering with our efforts to increase corporate value.**

The Company held 11,689,000,000 JPY transaction price of bonds, 1,838,000,000 JPY of listed stock, 1,470,000,000 JPY of listed investment trust interests, and 15,765,000,000 JPY of securities including stock of unconsolidated subsidiaries and affiliates worth 362,000,000 JPY on its balance sheet as of the end of March 2020. Arisawa purchased the above-referenced bonds worth approximately 11,700,000,000 JPY using US\$109,000,000 in proceeds from selling shares of two overseas affiliates. Arisawa aims to allocate such proceeds to strategic investment opportunities overseas, and has continued to hold these bonds accordingly. Arisawa established implementation standards for holding and managing securities, limiting ownership and management to investment grade stocks, and requiring Board approval for transactions over 200,000,000 JPY. The Company has recorded cumulative profits from such management of 308,700,000 JPY over the approximately 9 years since

the commencement of operations in May 2011. In addition, the Board regularly receives reports on the status of such management.

Moreover, these are strategic funds to allocate to new businesses that exhibit maximum synergies with existing business and have a high return on capital (“**Investment Targets**”) in the medium term management plan currently under development. The Board intends to consider significant investments as one strategic option, especially when investing in new businesses, after verifying the future potential of such businesses and the synergies with Arisawa’s existing businesses. The Board believes that Arisawa must “hold securities” for the management of its strategic funds for this type of process.

Accordingly, the Board concluded that restricting the management of funds in the Articles of Incorporation until allocated to an Investment Target is not appropriate. The Board believes that Arisawa should retain the ability to pursue various fund management measures going forward, including bonds, to pursue the targets the Board aims to achieve in the medium term management plan.

For these reasons, the Board opposes this proposal.

**2) The Board opposes the proposal to amend the Articles of Incorporation with regard to the sale of strategically held shares (Agenda Item 4 of the Shareholder Proposals), for the following reasons:**

**The Board believes that to amend the Articles of Incorporation in the manner proposed risks limiting Arisawa’s development. In addition, this proposal is not suitable for inclusion in the Articles of Incorporation, which set forth the basic rules of the Company.**

Arisawa acquires and holds stock of Arisawa’s transaction partners when the Board determines that such acquisition will contribute to the medium- to long-term increase in corporate value, taking into account the establishment of stable and long term business relationships with transaction partners, business alliances, and the facilitation and strengthening of cooperative business development. The Board verifies the effects of holding each of these strategically-held stock positions at the board meeting at the end of the fiscal year. The Board takes the reasonableness of the medium- to long-term contribution to shareholder value and the improvement and strength of the relationship with the transaction partner holistically into account in doing so. Arisawa sells those stock positions that the Board determines do not convey adequate benefits to Arisawa.

The Board evaluated 16 stock holdings at the Board meeting held on March 26, 2019, including the stock holdings identified in the proposal. Arisawa sold four stock holdings during the fiscal year ending March 2020. As a result, Arisawa had already reduced the 16 listed stock positions held as at the end of March 2019 to 12 stock positions as of the end of March 2020. The Board will continue to verify the effectiveness of Arisawa’s stock holdings in order to contribute to the improvement of corporate value and shareholder value. The Board will continue to work to further the medium- to long-term increase of corporate value, explain the stock holding policies, results and sales, and seek the understanding of shareholders on Arisawa’s acquisitions and sales of its transaction partners’ stock.

To require that Arisawa sell all stock positions during the next fiscal year ending March 2021 would require that Arisawa sell those strategically-held stocks that the Board determined were highly effective at facilitating and strengthening the maintenance and building of stable and long term business relationships, business partnerships and cooperative business development and contribute to the enhancement of corporate value. Accordingly, the Board believes such a change may have a negative effect on the Company’s relationships with transaction partners and other business partners. In other words, the Board believes that the proposed amendments may reduce Arisawa’s medium- to long-term development prospects, and diminish Arisawa’s corporate value.

For these reasons, the Board opposes this proposal.

**3) The Board opposes the proposal to amend the Articles of Incorporation with regard to disclosure of cost of capital (Agenda Item 2 of the Shareholder Proposals).**

**We have understood and respect the valuable opinion of our shareholders on information disclosure underlying this proposal. However, the Board believes that this proposal for the disclosure of the Company's cost of capital is not suitable for inclusion in the Articles of Incorporation, which sets forth the basic rules of the Company.**

Cost of capital is an indicator of the competitiveness of a company. The Board understands very well that the management needs to have an accurate understanding of the Company's cost of capital. However, the corporate governance code does not require disclosure of the weighted average cost of capital figures. The Company is currently formulating its mid-term management plan, and the Board believes that we are at an important stage for the Company's movement to disclose important information. However, the Board is concerned that we would risk not only damaging corporate value, but also reducing shareholder returns, were our competitors able to identify Arisawa's cost of capital from a web search. This is precisely because cost of capital is an important indicator of the Company's competitiveness at this stage while we aim for more growth. As a specific example, when Arisawa participates in an auction process, the Board believes the Company may be disadvantaged because competitors in the auction may calculate the maximum amount that Arisawa can bid based on our cost of capital and predict our bid price, depriving Arisawa of the opportunity to win the bid.

Arisawa has consistently responded to user needs in technological innovation and product development since the Company's founding in 1909. Arisawa has developed its own "weaving, painting, shaping" technology, has excellent labor relations, and has sought to increase corporate value by all means available, including by raising capital through investment. The Board will continue to work to increase Arisawa's medium- to long-term corporate value and achieve sustainable growth and stable existence by continuing to cultivate this accumulated history and technology. Concretely, the Board intends to make strategic investments in new businesses that exhibit maximum synergies with existing businesses and have a high return on capital, and in addition to invest in new product development that anticipates user needs, to enhance and expand our productivity in order to maintain and expand the profit base of our existing businesses.

Moreover, the Board is currently formulating the Company's medium-term management plan. The Board will set targets for profitability and capital efficiency based on our precise grasp of the weighted average cost of capital. However, the Board is concerned that making the precise value of Arisawa's cost of capital available to the public each time may have an adverse effect on Arisawa's future business strategy. Accordingly, the Board believes that it may not always be accretive to shareholders to include such a blanket requirement for periodic public disclosure in the Articles of Incorporation.

Accordingly, the Board believes disclosure that does not damage the competitiveness of the Company should be decided by the Board. The Board will decide whether information should be disclosed, or not disclosed, in its judgment at the time based on the Company's situation, including the timing of the announcement of the medium-term management plan, rather than uniformly setting out in the Articles of Incorporation a blanket requirement to disclose the weighted average cost of capital.

For these reasons, the Board opposes this proposal.

**4) The Board will be proposing an amendment to the Articles of Incorporation regarding the takeover defense measures at the Shareholders Meeting as Agenda Item Number 2 (Agenda Item 1 of the Shareholder Proposals)**

**The Board resolved to discontinue takeover defense measures at the Board meeting on May 30, 2019, and in 2020 the Board is proposing an amendment to the Articles of Incorporation regarding the takeover defense measures at the Shareholders Meeting as Agenda Item Number 2.**

In the past year, the Board has repeatedly considered measures to improve corporate value and shareholder value, including new measures against inappropriate acquisitions that would damage Arisawa's corporate value. The Board has begun to formulate a medium-term management plan to improve profitability and capital efficiency going forward, in addition to striving for greater maximization of corporate value. The Board also plans to oppose tender offer activity that would damage corporate value by making the management decision-making process more transparent. The Board decided to submit a proposal for an amendment to the Articles of Incorporation regarding takeover defense measures at the general shareholders meeting in light of such Board resolutions and plan.

End.

## **Attachment – Contents of the Agenda Items of the Shareholder Proposal and Reasons for the Proposal**

The relevant part of the Shareholder Proposal is shown in its original English form.

### 1. Proposed Agenda Items

- (1). Remove discontinued poison pill from the Article of Incorporation
- (2). Improve the low stock valuation
- (3). Dissolve bond investments to improve capital efficiency
- (4). Sell cross-shareholdings including those recently acquired to improve capital efficiency

### 2. Overview of our proposal

- (1). Remove discontinued poison pill from the Article of Incorporation

In May 2019, the Board of Directors' meeting resolved to discontinue its takeover defense measure. However, the provision stipulating such a measure still exists in the articles of incorporation. To eliminate such contradiction and make it clear that the Company no longer adopt a takeover defense measure, we are proposing to remove the provision from the articles of incorporation.

- (2). Improve the low stock valuation

Arisawa's capital efficiency is lower than its cost of capital, resulting in low stock price valuations. Our proposal is to request 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.

- (3). Dissolve bond investments to improve capital efficiency

One reason for Arisawa's low capital efficiency is that it owns more than 12 billion yen in bonds. Shareholders are investing in Arisawa for its main business, not for its bond investment. Therefore, we are proposing to sell securities including bonds held for investment purposes within one year. We hope that the proceeds from the sale will be used to enhance shareholder value.

- (4). Sell cross-shareholdings including those recently acquired to improve capital efficiency

While Arisawa sold some cross-shareholdings in the last fiscal year, they also acquired other shares as cross-shareholdings. Holding listed shares has unnecessarily impact on the financial results due to their price movements. As Arisawa has stated that it is “difficult to assess the quantitative effect” of holding such shares, we propose selling the cross-shareholdings. We further hope that the proceeds will be used to enhance shareholder value.

3. The detailed translation of our proposal

(1). Revision of the provisions of articles with regard to abolition of takeover defense measures  
Delete Chapter 7 of the current Articles of Incorporation.

(2). Revision of the provision of articles with regard to disclosure of cost of capital

Add the following chapter and article to the current Articles of Incorporation.

The chapter and article numbers are based on Proposals of (1) above being approved. In the event it is rejected, the chapter and article numbers will be adjusted as appropriate

CHAPTER VII. COST OF CAPITAL

(Disclosure of Cost of Capital)

Article 41. The Company shall disclose, in the Corporate Governance Report (hereinafter referred to as “Report”) which it submits to the Tokyo Stock Exchange, its Weighted Average Cost of Capital and its basis of calculation which it comprehends at the point of within 1 month before the submittal of the Report.

(3). Deletion of the provisions of articles with regard to Holding and Operation of Securities for investment purposes

Delete Article 2 (6) from the current Articles of Incorporation and renumber the items following the current Article 2 (6) accordingly. Add a new Supplementary Provision to the current Article of Incorporation.

Supplementary Provision Article 1

(Implementation Date)

Article 1 The amendment of Article 2 (6) of the Articles of Incorporation shall come into effect as of the recording date of voting rights at the 73<sup>rd</sup> Annual General Meeting of Shareholders, and this Supplementary Provision shall be deleted on the same day.

(4). Revision of the provisions of articles with regard to the Dissolution of Cross-shareholdings

Add the following chapter and article to the current Articles of Incorporation.

The chapter and article numbers are based on Proposals of (1) and (2) above being approved. In the event any are rejected, the chapter and article numbers will be adjusted as appropriate

CHAPTER VIII. DISSOLUTION OF CROSS-SHAREHOLDINGS

(Dissolution of cross-shareholdings)

Article 42. The Company shall sell all the cross-shareholdings, as of the effective date of the

revision of the Articles of Incorporation, immediately during the 73<sup>rd</sup> fiscal period.

A detailed explanation of the above proposal will be available from June 1, 2020 at <https://proposal-for-arisawa-from-sc-2020.com>, or please refer to the special websites linked at the top right of Strategic Capital's homepage at <https://stracap.jp/english/>.

End.