DaltonInvestments

December 2025

Dear Board of Directors,

As the Chief Investment Officer of both Dalton Investments and Rising Sun Management (investment adviser for Nippon Active Value Fund plc), I am writing on behalf of our group's collective shareholdings in your company.

Driven by the capital market reforms led by the government and the Tokyo Stock Exchange, Japan's capital markets are entering a new golden era. Even amid this period of rapid change, the soft power that Japanese companies have cultivated remains as strong as ever. Having invested in Japan for half a century, I can say that there has never been a more exciting time than today.

We understand that the rising pressure for reform from the government and the market may appear to management teams of listed companies as a "time of hardship." However, we believe that, for executives who embrace an owner's mindset through meaningful share ownership, this is in fact a period of tremendous opportunity.

First, allow me to explain why this new environment may understandably feel like a "time of hardship." In 2023, following the request issued by the Tokyo Stock Exchange, management became explicitly accountable for running their businesses with a clear focus on both the cost of capital and the stock price. While many listed companies have now reached the stage of recognizing and disclosing their cost of capital, only a limited number have succeeded in consistently embedding it into all capital allocation decisions. The specific points include:

- Whether the company measures and monitors cost of capital, ROIC, and WACC at the individual business-segment level
- Whether the company consistently applies capital-cost discipline across all decision-making — not only growth and maintenance capex, but also M&A and share buybacks
- Whether the company provides the market with sufficient and appropriate disclosures and explanations on these matters

Based on our analysis, **most companies are easily capable of pursuing wage increases and growth investments, while also conducting annual share buybacks of 5–10%**. In many of the companies we invest in, valuation metrics such as EV/EBITDA indicate that their own shares are often a more attractive investment opportunity than any potential acquisition target. While we sometimes hear management say that they wish to prioritize growth investment over shareholder returns, we are not asking for buybacks that come at the expense of strategic investment. Indeed, if there are clear investment opportunities that exceed the cost of capital, we would actively support management in pursuing them.

In reality, situations in which growth investment and share buybacks are real trade-offs are quite limited. When considering not only on-hand liquidity but also financial assets and borrowing capacity, we often find that buybacks actually help companies move closer to an optimal capital structure and balance sheet. We intend to continue thoughtful and constructive dialogue with management on what you consider to be the appropriate capital structure for the company.

Next, the idea of "management with an awareness of the stock price" is inextricably linked to the series of guidelines published by the Ministry of Economy, Trade and Industry (METI). This is not simply about achieving a price-to-book ratio of one. Rather, the stock price that management should be seeking to achieve reflects the valuation that could be realized if each business were placed under its "best owner"—that is, the entity most capable of maximizing the value of that business—and capital were allocated accordingly. The corresponding share price, once such value is recognized by the market, is the true benchmark management should aim for. If this cannot be achieved, the danger may be more than mere criticism from public-market investors. Without making this effort, management may well face an unexpected acquisition proposal in Japan's rapidly evolving market for corporate control.

METI repeatedly emphasizes the "Best Owner" concept in its guidelines, including the Practical Guidelines for Business Reorganization and the Practical Guidelines for Group Governance Systems. In line with this philosophy, any acquisition proposal must be evaluated in accordance with the "Guidelines for Corporate Takeovers." In such an environment, management has nowhere to hide.

If a company's shares remain undervalued, it is only a matter of time before it becomes a target for strategic buyers, whether domestic or, increasingly, international. To ensure that Japanese corporations are not acquired by foreign buyers, it is essential that each member of management bears in mind their individual and collective responsibility for stewarding a historic Japanese enterprise. This is a time when we must build "strong" Japanese companies—firms that cannot be easily taken over.

Even when management practices 'stock-price-conscious' management on a daily basis, the reality is that the equity market does not always function as a perfect price-discovery mechanism. For various reasons, a company's intrinsic value may not be fully reflected in its share price. Many discounts can be tackled through measures such as capital policy and investor relations. In addition, it is necessary to evaluate changes to the business portfolio and ownership structure as potential strategic options. The tools required to execute these actions have been developed and provided by METI.

One of the strategic options we present to our portfolio companies—management buyouts (MBOs)—has faced noticeable backlash this year. In our view, this is largely due to fundamental misunderstandings. **We are merely asking management to examine *all* strategic options, including going private and/or undertaking spin-offs, without preconceived conclusions. They should be driven purely by the common interests of shareholders as reflected in the prism of corporate value.** Management teams are human. A bias toward maintaining the status quo is, to some degree, unavoidable. This is precisely why we, as outside shareholders, do not hesitate to provide the necessary tension that encourages a serious and open examination of the full range of alternatives.

Of course, if management ultimately concludes that remaining a listed company under the current structure represents the 'best ownership' and operating model, we will respect that decision—*provided* that this conclusion is clearly and convincingly communicated to shareholders and accompanied by a demonstrable commitment to continuously raising standards. In such cases, it is our duty to support the company as a committed long-term shareholder.

While we have described the "hardships" that management may feel, this is also an exceptional opportunity for executives to receive compensation that truly reflects their responsibilities and contributions. Historically in Japan, management positions were viewed merely as extensions of an employee's career path, and compensation was low and largely fixed. Yet without meaningful equity ownership, it is extremely difficult for individual managers to make decisions that truly enhance corporate value and discharge their responsibilities. We expect executives to hold equity worth at least three to five times their fixed compensation, and **we strongly recommend adopting restricted stock compensation plans along with adopting the equity ownership guidelines needed to provide this.**

Finally, with respect to board composition, we would like to see **at least half the members be independent outside directors**. This should include individuals with **deep expertise in finance and capital markets (for the avoidance of doubt, these people are *not* accountants, tax advisers, or commercial bankers)**. As outside shareholders, we find it difficult to prevent misallocation of capital *before* it occurs. To ensure that all strategic options—including possibly 'going private' or undertaking spin-offs—are evaluated in a timely, fair and objective manner, establishing such a governance structure is essential.

In addition, especially for companies in which we hold 5% or more of the outstanding shares, we are open to having one of our colleagues or associates serve as an independent director, so that our expertise can be leveraged directly within the boardroom. Beyond our knowledge of finance and capital markets, we believe we can support your efforts precisely because, as an institutional investor, we share the same objective as all outside shareholders: enhancing corporate value and advancing the common interests of shareholders.

Although we have reiterated these points over many years, we have taken this letter as a new opportunity to organize and update them. Through constructive engagement with many of our portfolio companies, we have seen steady and tangible progress on these initiatives year after year.

We plan to submit multiple shareholder proposals again next year. Our objectives remain the same:

1. To ensure that the board engages in timely, deadline-driven discussion and decision-making; and
2. To make the collective will of all shareholders visible.

At Dalton, we remain committed to advancing healthy shareholder democracy and will continue pursuing that goal in the coming year.

We would like to express our deep appreciation for your efforts over the past year, and we look forward to continuing our shared journey to enhance your company's corporate value in future. We wish you a festive holiday season and a wonderful New Year.

James B. Rosenwald III
Founding Partner and Chief Investment Officer
Dalton Investments, Inc.