

Explanatory Materials on the Shareholder Proposals for Yakult Honsha Co., Ltd.



“Unlock Yakult”

April 2026

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Executive Summary

Executive Summary

Despite being a pioneer in the globally growing probiotics sector with a strong business foundation, including a brand underpinned by technology and know-how and sales channels, Yakult has not been able to fully realize its potential due to insufficient governance and lack of capital discipline.

The objective of these shareholder proposals is to strengthen the perspective of minority shareholders at the Board of Directors level and improve governance and capital discipline, thereby enabling the Company to grow into a truly leading company in the probiotics industry.

Overview of the Three Proposals

Overview of the Three Proposals

| | Election of Two Directors | Approval of Compensation Amount for Restricted Stock Compensation Plan | Amendment of Articles of Incorporation Regarding Record Date for AGM |
|-------------------------|--|---|---|
| Issues/ Concerns | <ul style="list-style-type: none"> ✓ Governance malfunction and deterioration of capital efficiency caused in part by a lack of shareholder perspective | | <ul style="list-style-type: none"> ✓ Investors are not provided with sufficient and timely information necessary for exercising voting rights ✓ AGMs of listed companies are concentrated in a short period, limiting investor access |
| Objectives | <ul style="list-style-type: none"> ✓ Strengthen minority shareholder perspective at the Board level to improve governance and capital efficiency | | <ul style="list-style-type: none"> ✓ Provide timely and sufficient information for voting decisions ✓ Disperse AGM dates |
| Proposal Details | <ul style="list-style-type: none"> ✓ Elect Mr. James B. Rosenwald III and Mr. Kota Isogai from our group | <ul style="list-style-type: none"> ✓ Grant monetary compensation claims for restricted stock of up to JPY 800 million per year, up to 300,000 shares | <ul style="list-style-type: none"> ✓ Change the record date for the AGM in the Articles of Incorporation from "March 31" to "May 15" |

Details explained in this presentation

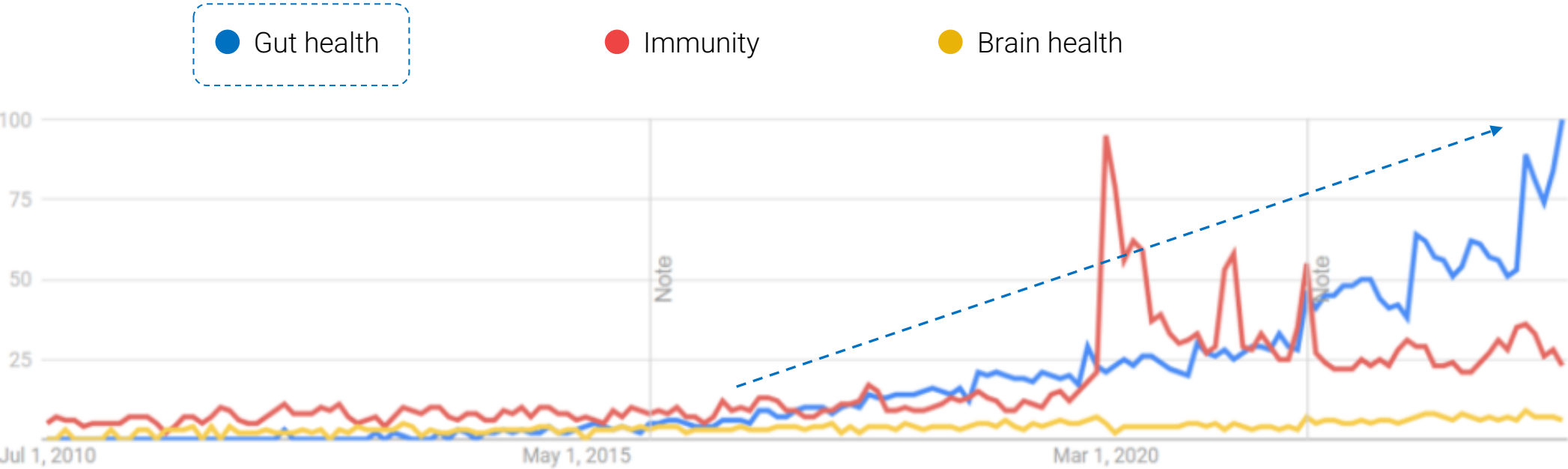
Further details regarding this proposal are available on our website (see URL).

<https://www.daltoninvestments.co.jp/news/20260302>

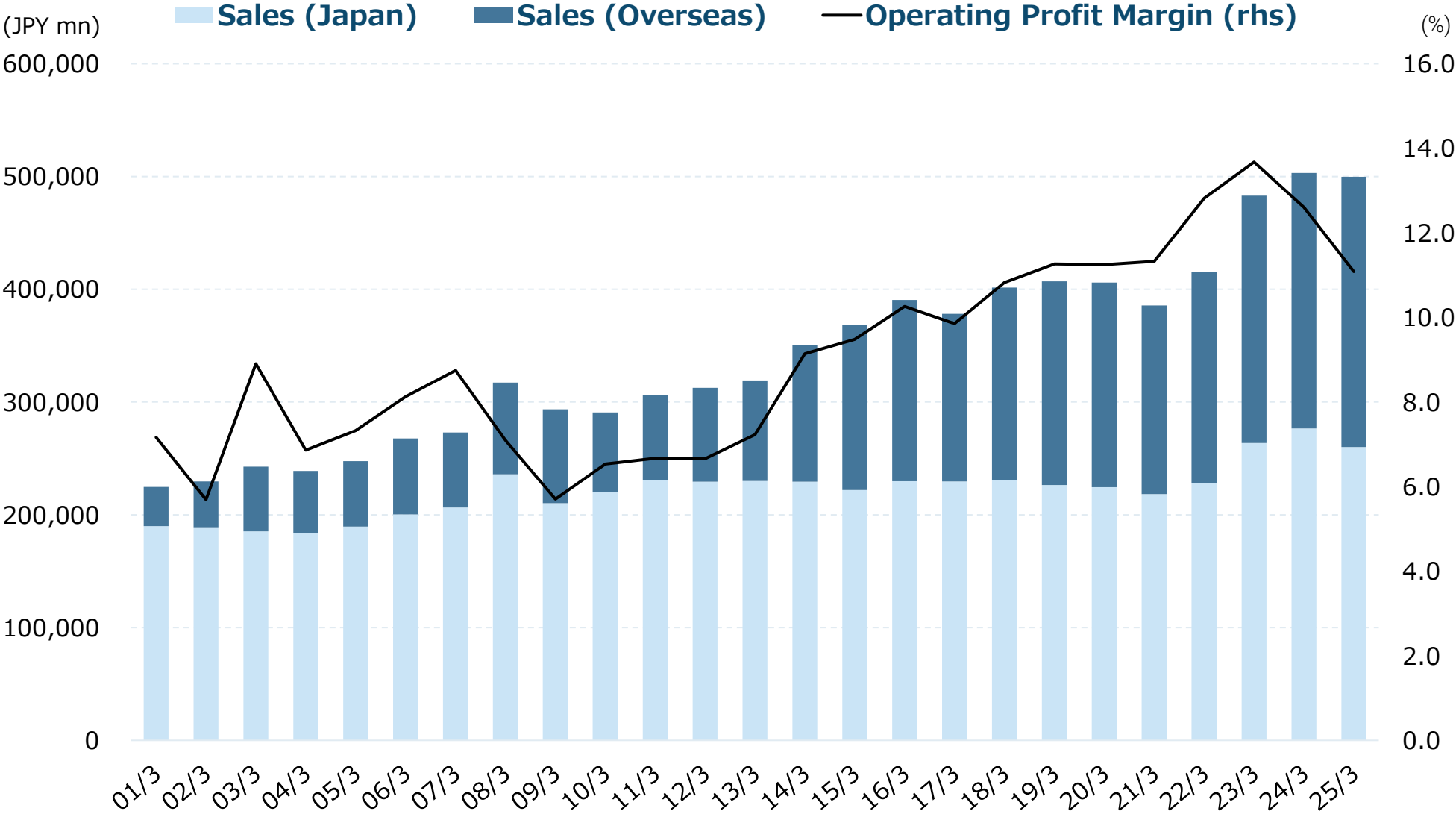
Current Status of Yakult

Global Interest in Yakult's Core Business Area Has Rapidly Increased in Recent Years

Trend in Google Search Volume (by keyword) July 2010 – May 2024

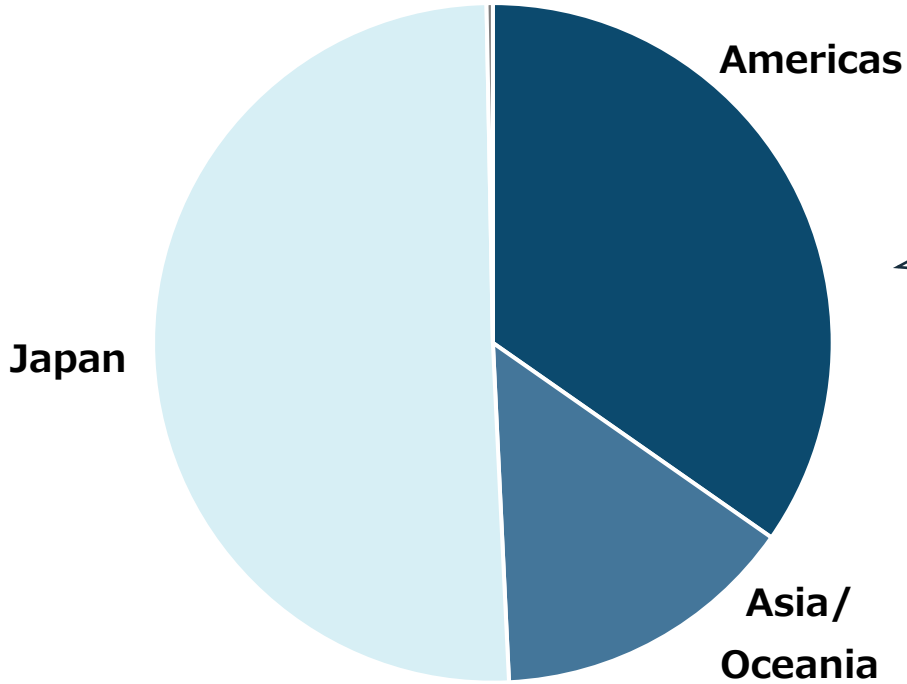


The Company Is a Global Enterprise Generating More Than Half of Its Profits Overseas, with Operating Margins Steadily Improving Along with Global Expansion



Long-Term Growth Is Expected to Continue, Particularly Overseas Where Price Pass-Through Is Relatively Easier

Breakdown of Consolidated Operating Profit* (25/3)



In particular, market coverage** in the U.S., a key market, remains at approximately 35%. As manufacturing capacity expands, which is currently a bottleneck, further sales expansion is expected.

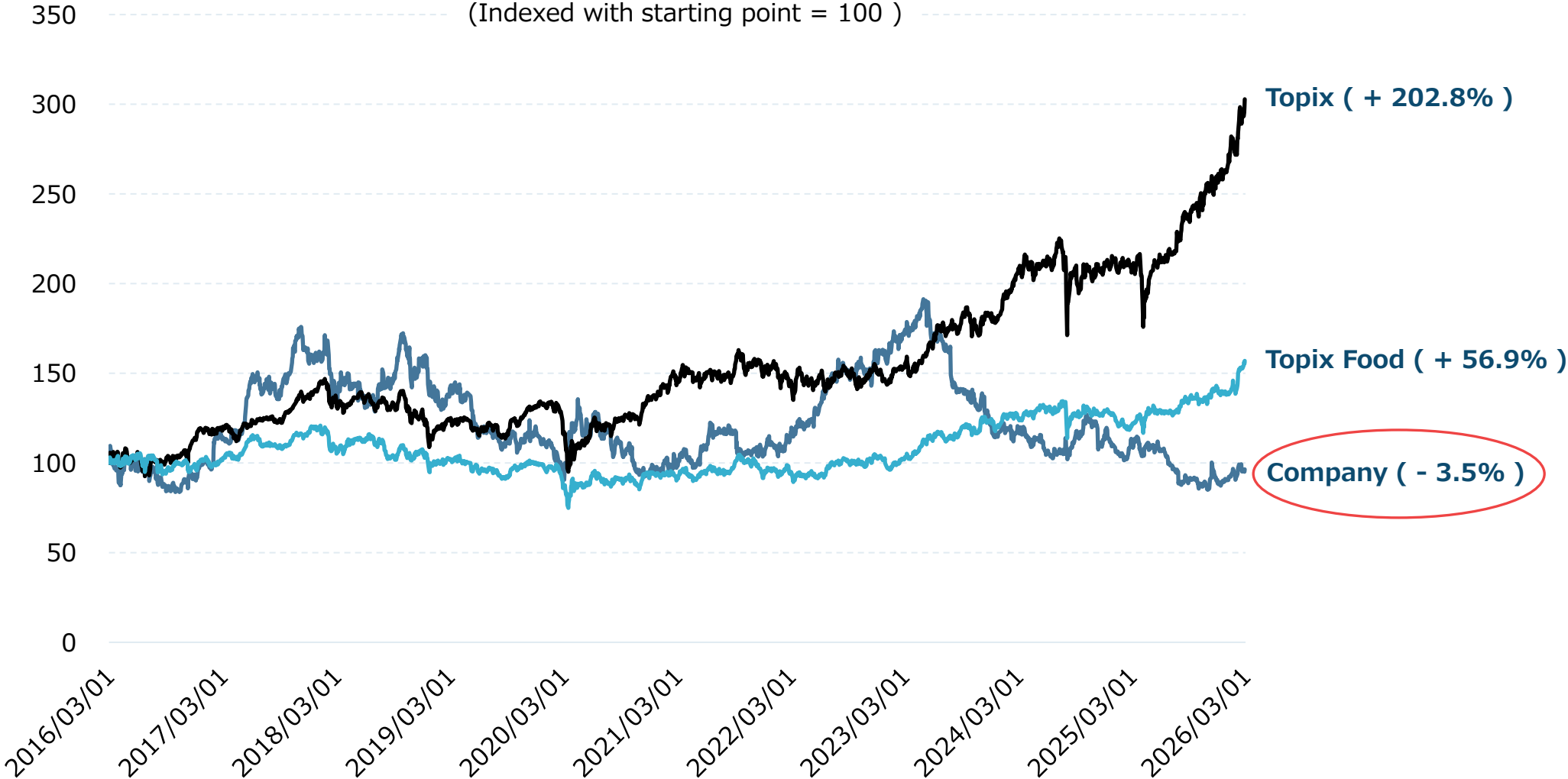
Currently only regular Yakult products are offered in the U.S. and sold at USD 0.65 per bottle (JPY 97.5 at USD/JPY 150). Introduction of higher value-added products is also a potential opportunity.

| | Americas | Asia/Oceania | Japan |
|----------------------------------|----------|--------------|-------|
| Potential Market Size | Large | Large | Small |
| Difficulty of Price Pass-Through | Low | Medium | High |

* Before adjustment items
 ** Market coverage estimated based on management interviews (stores carrying the Company's products vs. total retail stores)

On the Other Hand, Over the Past 10 Years, While the TOPIX Has Increased Approximately Threefold, the Company's Share Price Has Declined

Share Price Trend Over the Past 10 Years (As of End-Feb 2026)



Key Issues Facing Yakult

Issue 1 : Cash Generated Is Not Being Deployed with Sufficient Awareness of the Cost of Capital — Domestic Investment

According to management, the payback period for an approximately JPY 52 bn investment in a new domestic plant is 20 years (which, in other words, corresponds to an expected return of 3.5% compound / 5.0% simple). In a follow-up meeting, it was explained that the payback could be reasonable if new products and domestic capacity rationalization are achieved; however, the explanation lacks specificity and appears insufficient



Assumed Cost of Capital
(Companies with Net Cash)



≐ 8.0%*



The Expected Rate of Return
for the New Plant (Simple Basis)



5.0%



The Expected Rate of Return
for the New Plant
(Compound Basis)



3.5%

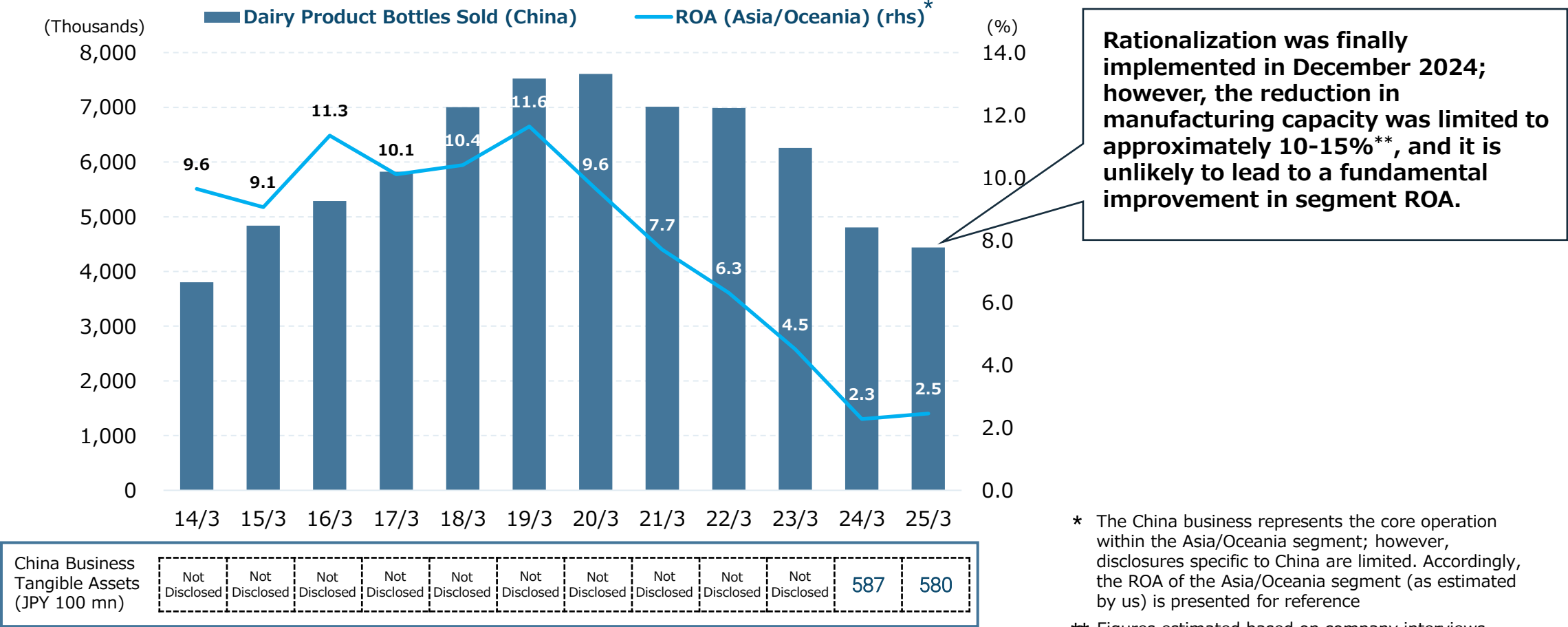
Construction began in July 2024 at a cost significantly exceeding the initially planned investment amount, due to rising material costs and an expansion of total floor area by more than 20%.

Why was such a large-scale investment undertaken with such a low expected rate of return, especially in a domestic market where population decline and intensifying competition are anticipated, and where even hit products may be at risk of peaking?

* The cost of equity is assumed to be 8.0%

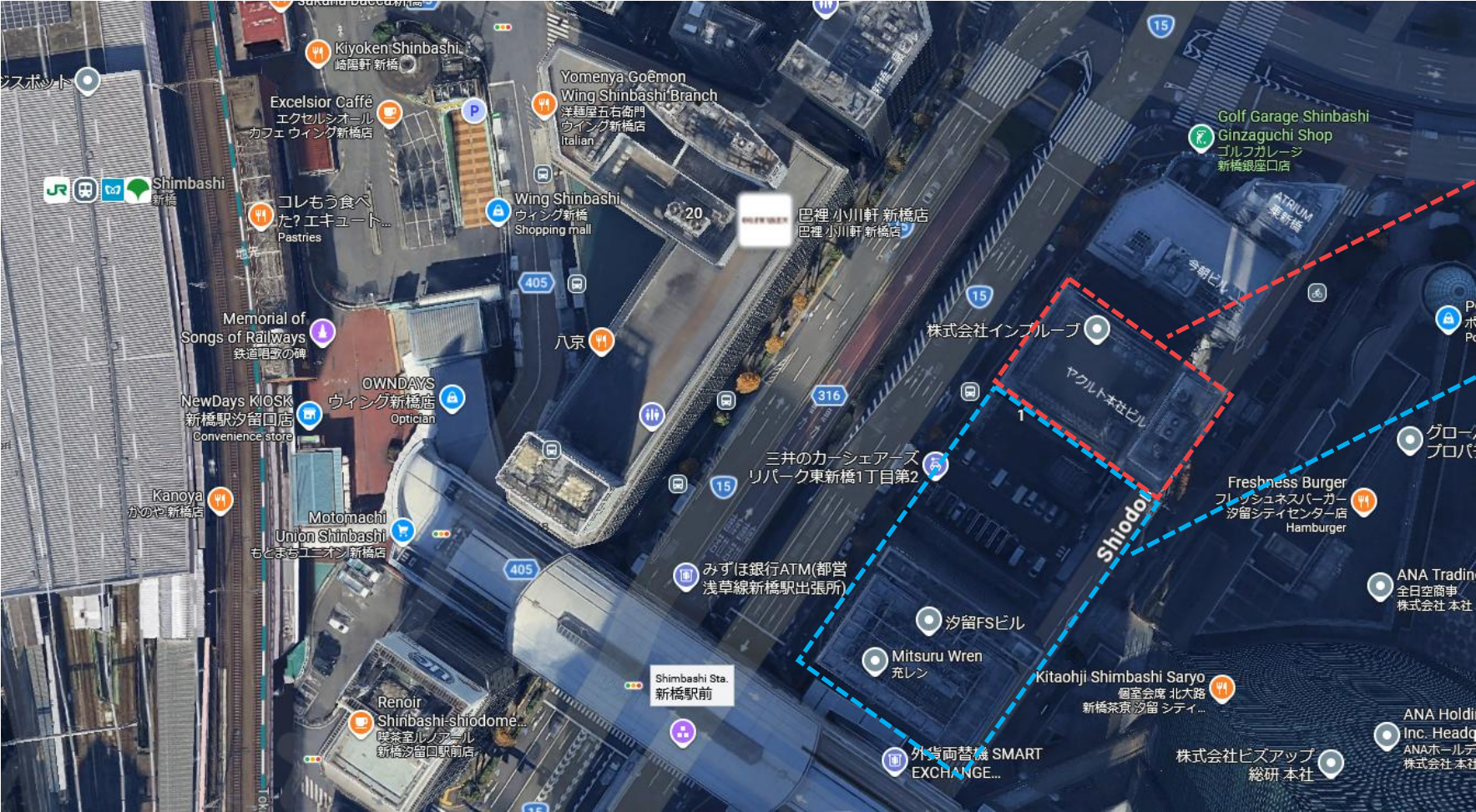
Issue 1 : Cash Generated Is Not Being Deployed with Sufficient Awareness of the Cost of Capital — Overseas Investment

In China, structural sales declines have reduced factory utilization to ~50–60%. Despite persistently low utilization, capacity rationalization was implemented at a later stage than would have been desirable, but the scale and speed appears to remain insufficient



Issue 1 : Cash Generated Is Not Being Deployed with Sufficient Awareness of the Cost of Capital — Real Estate

Even after the 2020 HQ relocation, the Company retains real estate around its former Shinbashi headquarters, which, given the implied costs, does not appear to meet the cost of capital

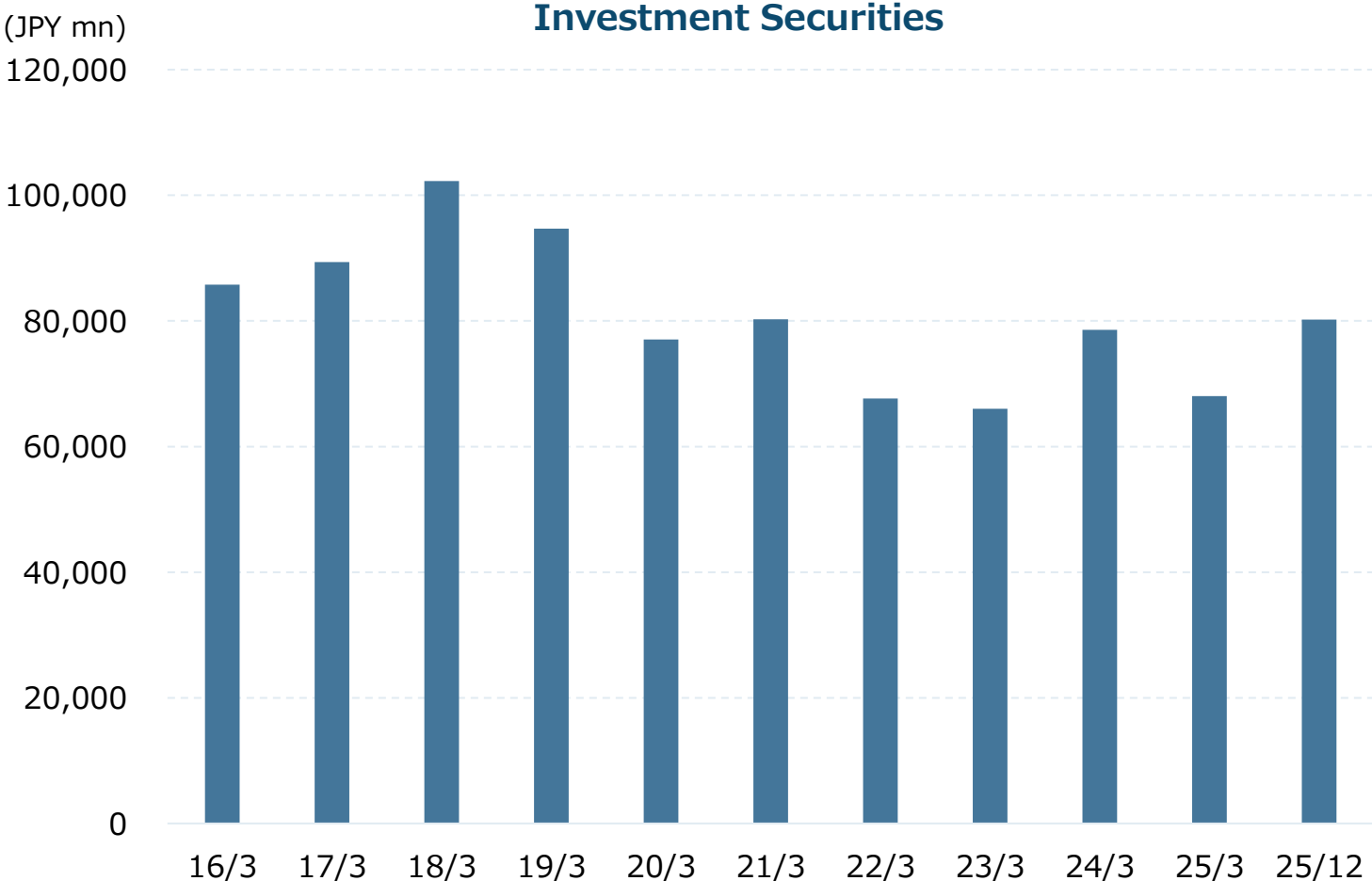


Former headquarters building (retained after the relocation of the head office)

Surrounding real estate (held, including properties acquired in 2024)

Issue 1 : Cash Generated Is Not Being Deployed with Sufficient Awareness of the Cost of Capital — Cross-shareholdings

The Company holds JPY 80.2 bn in cross-shareholdings (approx. 14% of net assets); however, the planned reduction under the current mid-term plan is too slow, and full early divestment is desirable



* The ratio of investment securities to net assets after deducting non-controlling interests as of Dec 31, 2025

Issue 2: Room for Improvement in Board Governance — Management Structure

The company's management structure is structurally prone to governance deficiencies



Number of Directors

- Board size of 14–15 members may hinder swift decision-making



Composition of the Board

- Majority of directors are internal, raising independence concerns
- Average age of Board members is 67, casting doubt on agility



Status of Retired Presidents and Other Executives

- Former top executives continue to serve for extended periods in paid advisory roles such as “Consultant and Honorary Chairman*” and “Executive Advisor**”, raising concerns about shadow governance, blurred accountability, and weakened board oversight

* Served as President and Representative Director from 1996 to 2011, and as Chairman and Representative Director from 2011 to 2017, before serving as Consultant and Honorary Chairman from 2017 to 2025

** Served as President and Representative Director from 2011 to 2021, and has served as Executive Advisor since 2021 to the present

Issue 2: Room for Improvement in Board Governance — Director Incentives (1/2)

Previously, 70% of director compensation consisted of fixed pay. Performance-based compensation (15%) was determined solely by sales, operating profit, and dairy product bottles sold, with no capital efficiency metrics included

(Excerpts from the Integrated Report for FY3/25)

2. Policy Determining Calculation Methods for Each Kind of Remuneration

1 Fixed remuneration

Within applicable monetary limits, our standard policy is to make decisions based on comprehensive consideration of internal and external environmental factors such as director responsibilities, business performance during the relevant fiscal year, standard worker salary and social conditions.

2 Performance-based remuneration

The indicators used to calculate performance-based remuneration include **consolidated net sales**, which represents the source of our business activities and measures the scale and growth potential of the Company, **consolidated operating profit**, which measures the profitability and efficiency of business activities, and **consolidated number of dairy product bottles sold**. We set the performance component to fluctuate between 0% and 150%.

Additionally, performance-based remuneration is not paid if consolidated operating profit has fallen below 70% of the previous fiscal year's figure.

3 Stock remuneration

With the aim of providing an incentive to sustainably increase corporate value and promoting additional shared value with our shareholders, eligible directors will be granted remuneration for restricted stock according to their job responsibilities and other factors. The transfer restriction period begins on the delivery date of the restricted stock and ends on the day the person in question steps down from their position as director.

3. Percentage of Remuneration by Type

To ensure that remuneration functions as an appropriate incentive, the proportion of each type of remuneration is as follows:

1 Fixed remuneration : 2 Performance-based remuneration : 3 Stock remuneration = 70 : 15 : 15 (%)

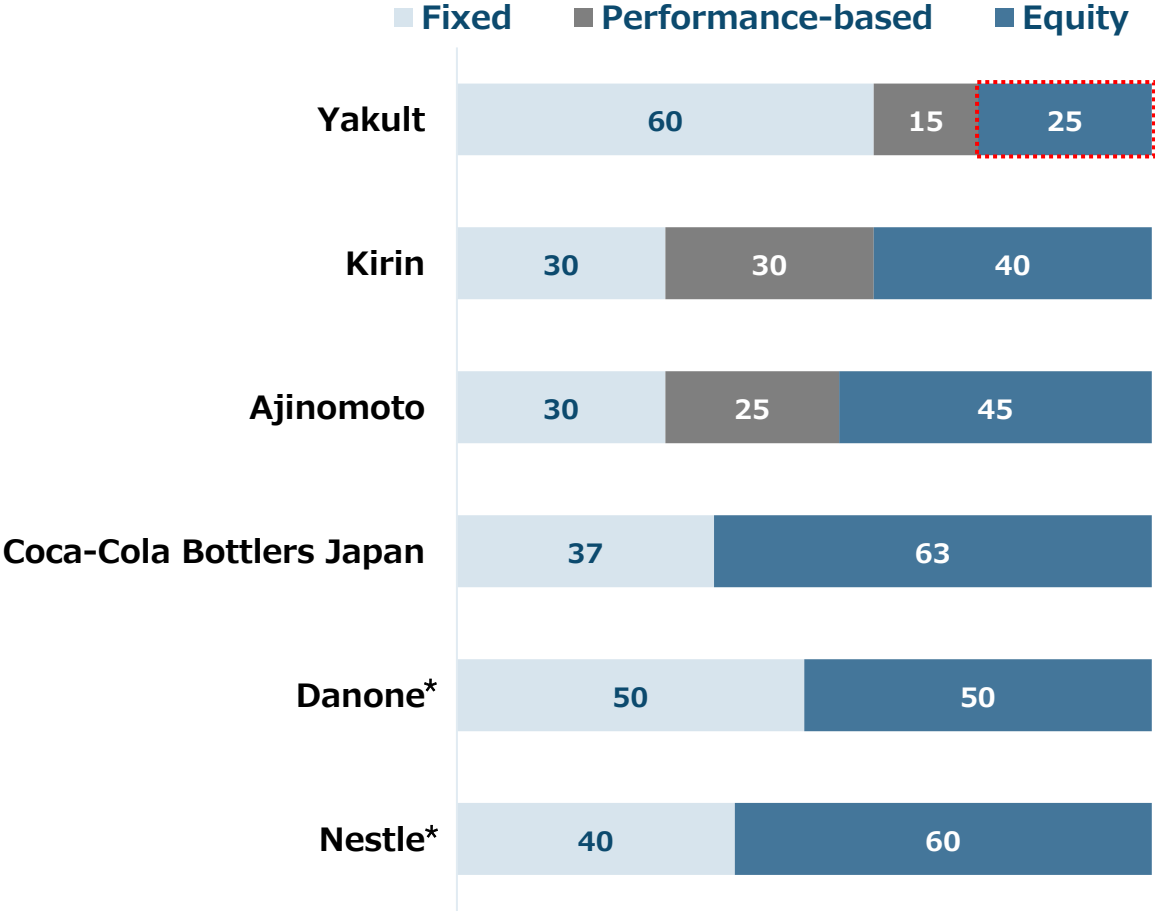
Note: Outside Directors and Non-Executive Directors receive only 1 fixed compensation.



Deterioration in ROIC or ROE may not have affected director compensation

Issue 2: Room for Improvement in Board Governance — Director Incentives (2/2)

Disclosure indicates an increase in stock-based compensation from 15% to 25%; however, the breakdown between performance- and non-performance-linked components is undisclosed, and the level remains relatively low vs. global peers



* For Danone and Nestle, base salary is presented as base pay plus performance-based incentive

Details of the Proposals

Details of the Proposals: Election of Two Directors

To enhance board independence and oversight and instill a cost-of-capital focus, we propose the following two outside directors

Mr. James B. Rosenwald III

1981 Oliver R. Grace & Family, Senior Investment Advisor, Portfolio Manager

1984 Rosenwald Capital Management, Inc., Founder, Chairman and CEO (current)

1996 Beach Front Properties LLC, Co-Founder, Managing Partner (current)

1998 Dalton Investments, Co-Founder, Chief Investment Officer (current)

2012 New York University, Leonard N. Stern School of Business, Adjunct Professor (current)

2019 Rising Sun Management Ltd., Chief Investment Officer (current)

2025 Hogy Medical Co., Ltd., Outside Director (current)

Mr. Kota Isogai

2005 Deloitte & Touche LLP (USA)

2009 PricewaterhouseCoopers Co., Ltd. (now PwC Advisory LLC)

2015 Dalton Investments Group

2019 T&K Toka Co., Ltd. (Outside Director)

2026 Dalton Advisory KK, Senior Vice President (current)

Rationale and Expected Roles

Mr. Rosenwald and Mr. Isogai bring extensive experience in investment and finance, global operations, capital markets, and corporate governance, and are expected to strengthen board oversight from a minority shareholder perspective and contribute to the Company's mid- to long-term value creation.

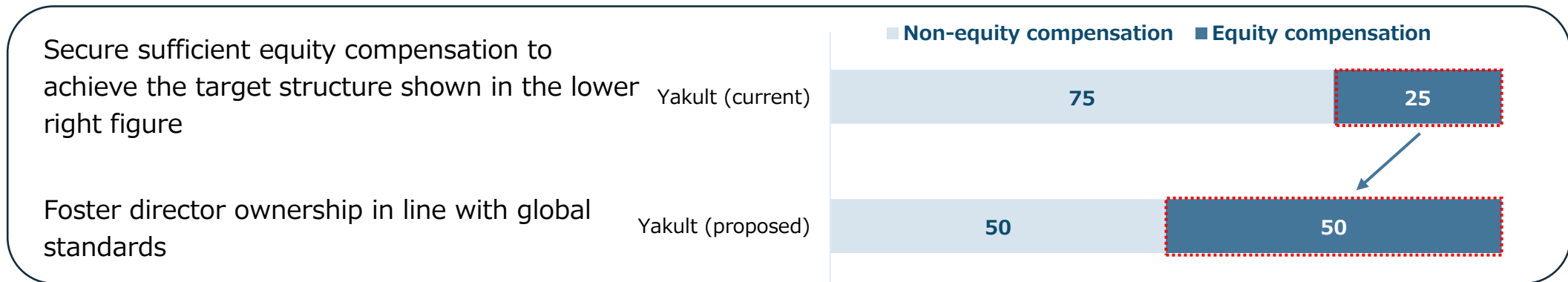
Details of the Proposals: Approval of Restricted Stock Compensation Amount

We propose expanding the stock compensation framework so that restricted stock equivalent to up to three times the fixed compensation can be granted over the next three years*

Current

Proposed

- Annual director compensation cap: JPY 1,000 million**
- Separate stock compensation cap: JPY 300 million per year, up to 150,000 shares***
- Grant monetary compensation claims for restricted stock of up to JPY 800 million per year, up to 300,000 shares



* The timing and allocation shall be determined by the Board, and the plan shall be designed as a performance-linked incentive scheme. Performance metrics may include ROE, TSR, and other KPIs; however, the specific indicators shall be appropriately determined by the Board in light of the Company's strategy and business environment

** Excludes employee salary and bonus of directors who concurrently serve as employees

*** Excludes employee salary and bonus of directors who concurrently serve as employees, and outside and non-executive directors

Conclusion

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Whether the Company's future earnings growth translates into increased corporate value depends on disciplined capital allocation by management.

We expect management to place as much, if not greater, emphasis on capital efficiency in decision-making, alongside day-to-day operations.

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