



May 15, 2023

Listed Company Name	TACHI-S CO., LTD.
Name of Representative	Yuichiro Yamamoto, President & CEO & COO
Stock Listing	Tokyo Stock Exchange - Prime Market
Code Number	7239
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Notice of Receipt of Letter Containing Shareholder Proposals, and Opinion of Board of Directors Regarding the Shareholder Proposals

TACHI-S CO., LTD. (the “Company”) hereby provides notification that we have received a letter (the “Shareholder Proposal Letter”) dated April 17, 2023, from a shareholder of the Company that contains proposals from such shareholder (the “Shareholder Proposals”) regarding the agenda for the 71st Annual General Meeting of Shareholders to be held on June 20, 2023 (the “Annual General Meeting of Shareholders”).

The Company also announces that the Board of Directors, at its meeting held on May 15, 2023, has resolved to submit the Shareholder Proposals to the Annual General Meeting of Shareholders and to oppose the Shareholder Proposals as follows.

I. Proposing Shareholder

INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP AND STRATEGIC CAPITAL, INC.

II. Details of the Shareholder Proposals and Reason for Proposals

1. Proposed Agenda

- (1) Appropriation of surplus
- (2) Appropriation of surplus (Dividend-in-kind for TOYOTA BOSHOKU CORPORATION shares)
- (3) Revisions to the Articles of Incorporation with regard to cross-shareholdings

2. Details of Proposed Agenda and Reasons for Proposals

The attached Shareholder Proposal Letter contains the relevant statements in the Shareholder Proposal Letter submitted by the proposing shareholder, after formatting adjustments.

III. Opinion of the Board of Directors regarding the Shareholder Proposals

1. Appropriation of surplus

(1) Opinion of the Board of Directors

The Board of Directors opposes this Shareholder Proposal.

(2) Reason for opposing the proposal

The Board of Directors opposes this proposal from the viewpoint of achieving our sound survival and sustainable growth, improving medium to long term corporate value and capital profitability, and improving our valuation from the stock market.

As announced in the Notice Regarding Mid-Term Management Plan dated May 27, 2021 (URL: https://www.tachi-s.co.jp/dcms_media/other/20210527_tachi-s_en.pdf), in order to provide new value through our business activities for sustainable growth, and to survive as a truly independent company, we have formulated a mid-term management plan “Transformative Value Evolution (TVE)” (the “Mid-Term Management Plan”) for the period from FY2021 to FY2024, and have been diligently carrying out such plan (*). In the Mid-Term Management Plan, as a financial and capital strategy, the period from FY2021 to FY2024 has been positioned to introduce “management with an awareness of the cost of capital” and we have set “FY2024 ROE Minimum: 8% / Target: 10%.” as strategic goals.

(*) As already disclosed, we are currently reviewing the progress of the Mid-Term Management Plan and are considering revising the same in part in response to the significant changes in the business environment since it was formulated. If we decide to formulate a revised plan in the future, we will promptly inform the shareholders of the revised plan and its contents as soon as it becomes available for disclosure. In addition, we do not plan to change the strategic goals of “FY2024 ROE Minimum: 8% / Target: 10%” in the Mid-Term Management Plan.

In the Mid-Term Management Plan, we adopt DOE (Consolidated Dividend on Equity Ratio) as the principal financial indicator for dividends, and aim to achieve a Minimum ROE of 8% in FY2024, taking cash flow, maintenance of a sound financial base over the medium to long term and other factors into account, while also aiming to actively and stably return profit to shareholders. In other words, we have set a target of “3%–4% DOE from FY2021 to FY2024,” which is based on our estimate of 11 billion yen in total dividends (over four years) based on the Mid-Term Management Plan. Based on these policies, we have currently achieved profit returns to shareholders of 3.0% DOE in FY2021 and 3.5% DOE in FY2022 (in terms of dividends per share, 63.60 yen in FY2021 and 73.60 yen in FY2022, for a cumulative total of 137.20 yen for the two years), and these dividends are 1.4 times the cumulative dividend per share of 97.50 yen over the five-year period covered by the medium term management plan for FY2016 to FY2020 (the “Previous Medium-Term Management Plan”). In this way, we are steadily achieving the policy of returning profit to shareholders as set forth in the Mid-Term Management Plan, and are diligently working toward achieving the DOE target of 4% in FY2024.

In terms of capital efficiency, we believe in the importance of realizing medium to long term improvements in corporate value and capital profitability by implementing the capital investment and further growth investment envisioned in the Mid-Term Management Plan, and further believe that we should ensure appropriate capital costs and financial soundness by utilizing external funds in an agile and flexibly manner, such as through borrowing in addition to utilizing our own funds as necessary for the continuous implementation of these business investments. In fact, our capital adequacy ratio was 47.2% at the end of March FY2023, a reduction from 48.0% which was the figure at the end of March FY 2021, while the total amount of capital investment for the two-year period was 8.07 billion yen. Through taking these measures, we are

making diligent progress toward achieving this medium-term management plan while ensuring appropriate capital costs and financial soundness.

In order to further improve our evaluation from the stock market, we believe in the importance of steadily implementing the policies and targets of the Mid-Term Management Plan (including any to be presented in the above-described revised plan), and to continuously communicate our medium to long term improvement in corporate value and capital profitability to shareholders to ensure their understanding and acceptance thereof.

As described above, the present proposal, which stipulates that the dividend for the end of March FY2023 shall be equivalent to 6% DOE, is based on a short-term perspective that does not take into account future changes in the business environment or the need for continuous business investment, and is inappropriate from the viewpoint of achieving stable and continuous management and sustainable growth and thereby increasing corporate value and maximizing the common interests of all shareholders.

2. Appropriation of surplus (Dividend-in-kind for TOYOTA BOSHOKU CORPORATION shares)

(1) Opinion of the Board of Directors

The Board of Directors opposes this Shareholder Proposal.

(2) Reason for opposing the proposal

Cooperative relationships with various stakeholders, regardless of the industry, are essential for the Group to survive global competition and continue to grow sustainably as an automotive parts manufacturer. Our basic policy regarding cross-shareholdings, which we hold for the importance of business strategy, the strengthening of relationships with customers and business partners, and the maintenance of our relationships with local communities, is to continue to maintain a reasonable number of cross-shareholdings that we consider necessary for our business in the future to a reasonable extent while changing the content of our holdings, including reducing the size, in accordance with new and evolving business opportunities. Specifically, with regard to listed stocks, our basic policy is to keep the balance of cross-shareholdings below 10% of consolidated net assets, and the Board of Directors then examines the appropriateness of holding each individual stock in consideration of the objectives of holding stocks and economic rationality, and we endeavor to reduce such stocks by, in principle, selling those that do not meet the objectives of holding, taking the impact on the market and other factors into account.

Based on the above-stated policy, the Board of Directors has examined the appropriateness of holding each individual stock, including the stocks of Toyota Boshoku Corporation (“Toyota Boshoku”), and will continue to review the appropriateness of holding each individual stock by examining and considering the purpose and economic rationale for holding the cross-shareholdings in detail. We also endeavor to obtain our shareholders’ understanding of our holdings and reductions in the cross-held shares by examining the appropriateness of holding each individual stock and explaining the purpose of keeping them and our policy regarding their sale. In addition, the Board of Directors will carefully consider and implement the most appropriate measures to reduce the amount of cross-shareholdings, taking the financial, tax, timing, and impact on our business into consideration in a comprehensive and multifaceted manner, so as to contribute to the common interests of shareholders.

Furthermore, if the stocks of Toyota Boshoku are to be distributed in kind in accordance with this proposal, since the dividends would fall under dividend income, we would be required to withhold income tax, etc. related to such dividends.

This is not a cash dividend, so we would be obliged to pay the amount of withholding tax related to the dividend in kind in advance, and the shareholders would in turn be required to pay the amount of withholding tax transferred by us in cash. In this way, our shareholders would be obliged to bear the burden, while we would also be obliged to bear unnecessary costs. In addition, in order to smoothly implement cash dividends, which are scarce in actual cases, it is expected that there would be significant consideration and response costs for many parties concerned, such as the Japan Securities Depository Center, securities companies, and securities agency, and that a considerable amount of related costs would also arise. In addition, since the cash dividends of the stocks of Toyota Boshoku do not fall under the category of a so-called tax-qualified share distribution, if the stocks of Toyota Boshoku are distributed in kind in accordance with this proposal, a certain amount of capital gains tax would be imposed on the difference between the market value of the shares to be allocated to cash dividends and their book value. In light of these facts, we believe that it would not be reasonable or optimal to choose the method of cash dividends in order to eliminate cross-shareholdings.

Therefore, the Board of Directors opposes this proposal.

3. Revisions to the Articles of Incorporation with regard to cross-shareholdings

(1) Opinion of the Board of Directors

The Board of Directors opposes this Shareholder Proposal.

(2) Reason for opposing the proposal

Cooperative relationships with various stakeholders, regardless of the industry, are essential for the Group to survive global competition and continue to grow sustainably as an automotive parts manufacturer. Our basic policy regarding cross-shareholdings, which we hold for the importance of business strategy, the strengthening of relationships with customers and business partners, and the maintenance of our relationships with local communities, is to continue to maintain a reasonable number of cross-shareholdings that we consider necessary for our business in the future to a reasonable extent while changing the content of our holdings, including reducing the size, in accordance with new and evolving business opportunities. Specifically, with regard to listed stocks, our basic policy is to keep the balance of cross-shareholdings below 10% of consolidated net assets, and the Board of Directors then examines the appropriateness of holding each individual stock in consideration of the objectives of holding stocks and economic rationality, and we endeavor to reduce such stocks by, in principle, selling those that do not meet the objectives of holding, taking the impact on the market and other factors into account.

Based on the above-stated policy, the Board of Directors has examined the appropriateness of holding each individual stock. As a result, the Company sold all of its shares in seven stocks (totaling 2,618 million yen) during the two years since the start of the current medium-term management plan (April 2021 to March 2023), thereby reducing the balance of cross-shareholdings of consolidated net assets from 11.1% at the end of March 31, 2021 to 7.2% at the end of March 2023. The Board of Directors will continue to examine the appropriateness of holding each individual stock by examining and considering the purpose and economic rationale for holding the cross-shareholdings in detail. We will also endeavor to obtain our shareholders' understanding of our holdings and reductions in the cross-held shares by examining the appropriateness of holding each individual stock and explaining the purpose of keeping them and our policy regarding their sale.

As described above, we are in the process of considering and making decisions on holding or selling each individual

stock through the above-described policies and initiatives. We believe that it is not necessarily an appropriate approach for us or our stakeholders to require us to inform the issuing company of our intention to sell its stocks, regardless of our intention or the intention of the issuing company, or to disclose the issuing company's response, as described in the present proposal. Rather, it is appropriate to maintain the current policy where the Board of Directors discusses and decides on the significance of holding stocks after carefully examining and considering the purpose and effect of holding each individual stock and its economic rationality, etc. We do not believe that it is appropriate to include this proposal in the Articles of Incorporation, which is a document that lays out the basic principles that guide the Company.

Therefore, the Board of Directors opposes this proposal.

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Attachment: Shareholder Proposal Letter

* The relevant statements in the Shareholder Proposal Letter submitted by the proposing shareholder have been adjusted in terms of format and are now presented here.

I. Proposed Agenda Items

1. Appropriation of surplus
2. Appropriation of surplus (Dividend-in-kind for TOYOTA BOSHOKU CORPORATION shares)
3. Revisions to the Articles of Incorporation with regard to cross-shareholdings

II. Details of Proposals

1. Appropriation of surplus

(1) Type of dividend property:

Cash

(2) Distribution of dividend property, and total amount distributed:

The sum of 127 yen minus the amount of dividends per ordinary share based on the proposal for disposal of surplus proposed by the Company's Board of Directors (the "Company's profit appropriation proposal") passed at the 71st Annual General Meeting of Shareholders as the dividend amount per ordinary share (the "Company Proposed Dividend Amount"), shall be added to the Company Proposed Dividend Amount.

Net assets per share at the end of the 71st fiscal year (in addition to deducting the number of treasury shares from the number of issued shares, the amount of net assets per share is calculated in accordance with ASBJ Guidance No. 4 "Guidance on Accounting Standards for Earning Per Share". If the amount (rounded down to the nearest whole number; the same shall apply hereinafter) multiplied by 0.06 ("DOE 6% equivalent") is different from 127 yen, then the amount of 127 yen at the beginning shall be read as the amount equivalent to 6% DOE.

The total dividend amount is the amount obtained by multiplying the number of shares subject to dividends as of the record date of voting rights at the 71st Annual General Meeting of Shareholders of the Company.

(3) Effective date of distribution:

The day after the date of the 71st Annual General Meeting of Shareholders of the Company.

If the Company's profit appropriation proposal is proposed at the 71st Annual General Meeting of Shareholders, this proposal will be additionally proposed as independent of and compatible with the proposal.

2. Appropriation of surplus (Dividend-in-kind for TOYOTA BOSHOKU CORPORATION shares)

(1) Type of dividend property:

Common shares of TOYOTA BOSHOKU CORPORATION (stock code: 3116; "TOYOTA BOSHOKU") in the amount of 1,316,700 ordinary shares ("Dividend Property in Kind").

(2) Distribution of dividend property, and total amount distributed:

2,636 million yen ("Amount recorded balance sheet" in the securities report dated June 24, 2022)

(3) Effective date of distribution:

(a) Base number of shares:

Allot one TOYOTA BOSHOKU share per 27 shares of our common shares.

(b) Rights to demand distribution of monies:

Shareholders with the base number of shares may request the Company to deliver money equivalent to the amount calculated in accordance with Article 455, Paragraph 2 of the Companies Act and Article 154 of the Ordinance on Accounting of Companies in place of TOYOTA BOSHOKU shares. The exercise period of the right to claim shall begin on the date of the 71st Annual General Meeting of Shareholders and end on the day on which one month has passed from the date of the same.

(c) Shares less than standard (meaning shares less than (a) above)

Instead of allocating TOYOTA BOSHOKU shares, shareholders with shares less than the standard shall be paid money equivalent to the amount calculated in accordance with the provisions of Article 456 of the Companies Act.

(3) Effective date of distribution:

The day when two months have passed from the date of the 71st Annual General Meeting of Shareholders.

This proposal is to be proposed additionally as it is independent of and compatible with the proposals other than this proposal approved at the 71st Annual General Meeting of Shareholders.

3. Revisions to the Articles of Incorporation with regard to cross-shareholdings

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

Chapter 7 Cross-Shareholdings

(Verification of the Purpose of Cross-shareholdings and Disclosure of the Results)

Article 37

- (1) At the Board of Directors, the Company shall verify whether or not to hold each individual cross-shareholding held by the Company, specifically examining whether the purpose is appropriate as well as whether the benefits and risks from each holding cover the company's cost of capital.
- (2) At least once a year, the Company shall communicate its desire to sell its cross-held shares to the issuers of those shares to verify whether the purpose of cross-shareholdings for "maintaining and strengthening business relationships" is actually fulfilled by maintaining the cross-shareholdings.
- (3) The Company shall disclose the validation result by the Board of Directors of (1) above and the response from each issuing company to the consultation regarding the sale of the shares discussed in (2) above in the Corporate Governance Report which the Company submits to the Tokyo Stock Exchange.

III. Reasons for the Proposals

1. Appropriation of surplus

This proposal is setting the dividend payment to a DOE of 6%.

The Company has set a "DOE of 3-4%" for its mid-term dividend target. The shareholder equity ratio is 46% as of March 31, 2023. In light of the fact that TOYOTA BOSHOKU, a peer company, has a ratio of 36%, the Company has already accumulated a sufficient level of funds. In addition, the Company held approx. 32 billion yen in cash and equivalents, and approx. 7.4 billion yen in cross-shareholdings, giving it a very strong financial base.

The Company has set a goal of 10% ROE with a minimum of 8% by FY 2024, so a further increase in equity capital will only result in a lower ROE.

Therefore, we would like to propose the company indicate its intention to improve capital efficiency and provide stable returns to shareholders over the medium to long-term by raising the current dividend target from a "DOE of 3-4%" to a DOE of 6%.

2 Appropriation of surplus (Dividend-in-kind for TOYOTA BOSHOKU CORPORATION shares)

Although we believe the Company should not be holding any cross-shareholdings, the proposal first calls for a dividend-in-kind of TOYOTA BOSHOKU shares, which is the largest such holding. The Company discloses the purpose of holding the shares is to “strengthen collaboration”, but TOYOTA BOSHOKU during the Q&A of its financial results briefing held on Oct 29, 2021, clearly stated that “business has nothing to do with whether or not the Company owns its shares”.

As TOYOTA BOSHOKU has publicly denied any relationship between business and holding shares, the purpose of holdings disclosed by the Company has no basis in fact. However, given that 18% of the total shares issued by the TOYOTA BOSHOKU are held by cross-shareholders, there may be some suspicion that TOYOTA BOSHOKU has requested its cross-shareholders including TACHI-S hold the shares.

To dispel such suspicion, the shares of TOYOTA BOSHOKU should first be disposed of.

3. Revisions to the Articles of Incorporation with regard to cross-shareholdings

Principle 1-4 of the Corporate Governance Code (“CGC”) requires companies to assess whether the benefits and risks for each cross-shareholding are commensurate with the cost of capital, and to disclose the details of the assessment.

As of March 31, 2022, the Company holds approx. JPY 7.4B in cross-shareholdings including TOYOTA BOSHOKU. While the Company states that it complies with CGC 1-4, it 3 has not disclosed specific assessments or verification. In comparison, almost all issuers of cross-shares held by the Company comply with CGC Supplemental Principle 1-4-1.

Therefore, in addition to disclosing specific assessments and verification as stipulated in CGC 1-4, at least once a year the Company shall inform the issuers of the cross-shares of the desire to sell the shares. The response by the issuer should also be disclosed.

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