



May 15, 2023

To whom it may concern:

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### **Notice Regarding Shareholder Proposal and Board of Directors Opposition**

NC Holdings Co., Ltd. (the “**Company**”) hereby announces that the Company received on April 20, 2023, a shareholder proposal (the “**Shareholder Proposal**”) from AVI Japan Opportunity Trust plc. (the “**Proposing Shareholder**”), a shareholder of the Company and a fund managed by Asset Value Investors Limited, for the Company’s seventh ordinary general shareholders meeting to be held in June 2023, with the contents attached hereto, and the Company’s Board of Directors, at its meeting held today, resolved to oppose the Shareholder Proposal.

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The Board of Directors opposes the Shareholder Proposal for the following reasons:

#### **(OUTLINE OF REASONS FOR OPPOSITION)**

##### **1. Proposal that may damage the Company’s corporate value**

The Shareholder Proposal is likely to hinder the Company’s sustainable business management and seriously damage the Company’s corporate value.

##### **2. Proposal that distorts the governance of the Company and harms the interests of general shareholders**

The Shareholder Proposal will likely distort the corporate governance of the Company and harm the interests of general shareholders of the Company.

##### **3. Proposal for the purpose of entrenchment (self-protection) in pursuit of the interests of the Proposing Shareholder**

While the Shareholder Proposal purports to pursue the common interests of shareholders, it is in fact a proposal to pursue the interests of the Proposing Shareholder to the utmost limit, and is harmful to the interests of general shareholders.

## **(REASONS FOR OPPOSITION)**

### **1. Proposal that may damage the Company's corporate value**

#### **(1) The Proposing Shareholder has no understanding of or interest in our business structure**

The Company's Conveyor business is, in addition to the conventional transportation for large plants, expected to expand into new application fields through the introduction of new products with an eye on the civil engineering field, energy-related fields, such as demand for truck replacement with a backdrop of ESG. Thus, the Company is working to expand sales in these new application fields, and in general, the Conveyor business has the highest growth potential among the Company's businesses.

The Company's Mechanical Parking Equipment business is carried out by applying Conveyor technology. While sales and earnings per project are high in the Conveyor business, there is a large gap between the order period and the delivery date, whereas in the Mechanical Parking Equipment business, individual projects are relatively small, but the maintenance business can generate stable earnings. Thus, the Conveyor and Mechanical Parking Equipment businesses complement each other technologically and financially, generating synergies.

These synergies between the Company's businesses have been successful, and our financial results for the fiscal year ending March 31, 2023 are solid, even under the severe business environment of the recent price hikes. In particular, the Conveyor business has increased its profit by 32.7% year-on-year.

Further, one of the major characteristics of the Conveyor business is that when it receives orders for large projects, the timing of delivery and cash-in can be significantly different because construction progresses over a multi-year period. Hence, it is necessary to hold a relatively large amount of cash on hand in order to win orders for large projects. In addition, public works projects in the civil engineering and energy-related fields, where we expect growth, require a certain level of capital adequacy ratio in order to win orders. In addition, we need to hold a certain amount of cash on hand to conduct flexible M&A, and a certain level of capital adequacy ratio is also required to procure funds through bank borrowings.

We have sincerely explained the above business structure of the Company through our engagement with the Proposing Shareholder.

However, the Proposing Shareholder, in its own Quarterly Newsletter published on April 19, 2023, stated with respect to the Company's business: "There are a few reasons for the undervaluation; an inefficient balance sheet, poor shareholder communications, and a conglomerate structure. With limited synergies, there is no rationale for holding such a disparate collection of businesses, and we see all the issues leading to NCHD's lowly valuation as fixable." (emphasis added) which unfortunately shows that the Proposing Shareholder did not properly understand the Company's business structure.

In addition, the Proposing Shareholder also perceives our Conveyor business as nothing more than a

“shrinking” business, as stated in the Shareholder Proposal “Where the Company is highly dependent on the coal-fired power generation domain, the market is expected to shrink in the future as the global trend toward decarbonization accelerates.” Unfortunately, the Proposing Shareholder still does not have a correct understanding of our business structure.

Rather, based on the fact that we have explained the aforesaid business structure many times through our engagement with the Proposing Shareholder, we suspect that the Proposing Shareholder, while understanding such business structure of the Company, is not even interested in it.

**(2) The Shareholder Proposal is an attempt to sell off Conveyer’s business and will destroy the Company’s business foundation**

The Shareholder Proposal is based on the typical logic of funds that focuses only on short-term share price and dividend payout ratio and tries to sell out in a short period of time, and is likely to sell out our business (especially the Conveyer business, which forms our management base) and destroy the source of the Company’s corporate value.

In particular, given that the duties of the “Strategic Review Committee” (as in Shareholder Proposal (3)) are considered to include “reviewing the business portfolio and capital relationship,” and that Mr. Yasu, who is intended to become the chairman of the committee, has clearly stated that his primary goal is to divest the Conveyer division, it is clear that the Proposing Shareholder is trying to destroy the Conveyer business, which is the source of our corporate value, in the name of improving capital efficiency.

In addition, the Shareholder Proposal is willing to realize a cash outflow of an extraordinary scale and hinder the Company’s sustainable business operations, and moreover, it will change the structure of the Company into one in which such an extraordinary increase in dividends can be easily implemented at the initiative of the Proposing Shareholders in the future as well.

As described above, the Shareholder Proposal will collapse the Company’s management base while benefiting the Proposing Shareholder itself, which pursues short-term profits while ignoring the sustainable enhancement of the Company’s corporate value.

**2. Proposals that distort the Company’s governance structure and harm the interests of general shareholders of the Company**

**(1) The proposal distorts the governance structure of the Company**

The Shareholder Proposal is extremely complicated and difficult to understand, with a total of eight proposals, but it is “Shareholder Proposal (3): Partial Amendment to the Articles of Incorporation (Strategic Review Committee)” that exactly expresses the true purpose of the Proposing Shareholder.

The Shareholder Proposal establishes a “Strategic Review Committee” consisting solely of outside Directors and obliges the Board of Directors to “respect to the maximum extent possible” the recommendations and opinions of the committee regarding “strategic options,” despite the fact that there is no typological or structural conflict of interest structure among the Company’s Directors.

This would allow the outside Directors on the Strategic Review Committee to execute the Company’s business itself, and not only that, the decisions of the Committee would effectively bind

the Company's Board of Directors. In other words, it effectively gives some outside Directors recommended by the Proposing Shareholder the authority to make decisions on the Company's important management strategies, and it creates an unusual distortion in the corporate governance structure of the Company. Further, it is also an unreasonable system in itself, since the activities of the Strategy Review Committee would cause the outside Directors who should be its members pursuant to the proposal to lose their outsider status (which requires non-execution of business operations).

In light of the above, the Shareholder Proposal is absolutely not acceptable.

**(2) The Proposal is an attempt to control the Company to conform to the intention of the Proposing Shareholder**

The Strategic Review Committee is to be chaired by an outside Director who has "experience in institutional investors," but the only person who has such experience is Mr. Yasu, who is a candidate for outside Director in the Shareholder Proposal, and it is clear that the Company intends to have Mr. Yasu serve as the committee chair. In fact, in an interview with members of our Audit and Supervisory Committee, Mr. Yasu clearly stated that he was asked by the Proposing Shareholder to become the chairman of the Strategic Review Committee.

Considering the fact that the agenda of the Strategic Review Committee is to be decided by the chairman in case of a tie vote (Article 35, Paragraph 3), the establishment of the Strategic Review Committee will not only unfairly restrict the management strategy of the Company's management, but also the Proposing Shareholder seeks to establish a mechanism that would effectively control the decision-making of the Board of Directors regarding the Company's management strategy through the "Strategic Review Committee."

**3. Proposal for entrenchment (self-protection) for the purpose of pursuing the interests of the Proposing Shareholder**

The Proposing Shareholder is attempting to protect itself by incorporating into its Articles of Incorporation a mechanism that would allow it to continue to secure a position from which it can pursue its own interests until it sells out its own shareholding.

The Company does not currently have any takeover defense measures in place and has no concrete plans to introduce such measures, but nevertheless, without any context, the Proposing Shareholder has suddenly proposed this proposal that would effectively allow the Proposing Shareholder to decide whether or not to invoke the takeover defense measures, in case the Company introduces takeover defense measures in the future. This is a proposal solely for the self-protection of the Proposing Shareholder, as the Proposing Shareholder fears that it will be unable to control the Company by jeopardizing the position of de facto controlling shareholder held by the Proposing Shareholder.

In addition, there is another problem with the proposal that if a shareholder whose ratio of voting rights exceeds 20% gives prior notice of opposition to the third-party allotment, the third-party allotment would require approval by a resolution of the shareholders meeting. Given that Asset Value Investors Limited, to which the Proposing Shareholder entrusts its management operations, holds shares of the Company equivalent to more than 21% of the voting rights, this proposal is also

a proposal for self-protection by the Proposing Shareholder, who fears that his position as a controlling shareholder of the Company will be jeopardized.

As described above, it is clear that if the Shareholder Proposal is resolved, it will cause significant hindrance to the Company's management and seriously damage the Company's corporate value and the common interests of shareholders.

Therefore, the Board of Directors is against the Shareholder Proposal.

## **(OPPOSITION TO EACH PROPOSAL)**

### **(1) Shareholder Proposal (1): Partial amendment to the Articles of Incorporation (Number of Directors)**

As stated in the reason for the proposal, this proposal is made solely to ensure that the election of two outside Directors in accordance with Shareholder Proposal (2): Election of Two Directors (Excluding Directors Who are Audit and Supervisory Committee Members) will not conflict with the maximum number of Directors provided for in the Articles of Incorporation of the Company. There is no necessity or rationality for increasing the number of Directors at the Company. The reasons for opposing Shareholder Proposal (2) also apply directly to this proposal.

Thus, the Board of Directors is against this Shareholder Proposal.

### **(2) Shareholder Proposal (2): Election of Two Directors (Excluding Directors Who are Audit and Supervisory Committee Members)**

The current ratio of outside Directors on the Company's Board of Directors already exceeds two-thirds, and the Proposing Shareholder itself evaluates the composition of the Board of Directors as effective.

The Audit and Supervisory Committee Members interviewed Mr. Yasu and Mr. Partnow. However, Mr. Yasu and Mr. Partnow had no understanding of the Company's business as the source of its corporate value, and Mr. Partnow's attitude during the interview was confusing to the Company's incumbent outside Directors, as he suddenly revealed his emotions in response to questions from the incumbent outside Directors. In addition, Mr. Yasu's comments during the interview show that his thinking is heavily biased, advocating only the improvement of capital efficiency, and his primary goal was to divest the Conveyer division as a way to realize his thinking, with little understanding or interest in the Company's business or management in general.

As mentioned above, this proposal is made for the purpose of appointing Mr. Yasu as the chairman of the Strategic Review Committee and Mr. Partnow as a member of the committee, which the Proposing Shareholder proposes to establish in the Shareholder Proposal (3): Partial amendment to the Articles of Incorporation (Strategic Review Committee). Thus, the reasons for opposing Shareholder Proposal (3) are directly applicable to this proposal.

The Audit and Supervisory Committee has determined that all of the candidates for the Board of Directors for this proposal are unsuitable.

Thus, the Board of Directors is against this Shareholder Proposal.

**(3) Shareholder Proposal (3): Partial Amendment to the Articles of Incorporation (Strategic Review Committee)**

As mentioned above, the Proposal would unusually distort the governance structure of the Company. It is clear that the Proposing Shareholder, as a fund, holds the Company's shares only for a short term due to its business model, and will sell its shares sooner or later. However, it is extremely unreasonable for the Proposing Shareholder to force the Company, a listed company, to change its Articles of Incorporation in areas related to the execution of the Company's business and to leave in place serious restrictions on the Company's management in the Articles of Incorporation which are permanent in nature. From the standpoint of the common interests of shareholders, the Board of Directors cannot support this proposal.

Thus, the Board of Directors is against this Shareholder Proposal.

**(4) Shareholder Proposal (4): Partial Amendment to the Articles of Incorporation (Policy against Large-Scale Purchases of Share Certificates, etc., of the Company)**

As stated above, the Company has not introduced any takeover defense measures at present and has no plan to do so. In addition, the voting standards of many institutional investors are against the introduction of takeover defense measures introduced in peacetime. Nevertheless, the reason why the Proposing Shareholder has gone to the trouble of making this proposal relating to the takeover defense measures is because the Proposing Shareholder fears that its current status which holds more than 21% of the voting rights will be jeopardized, and it is clear that the proposal is for the entrenchment (self-protection) of the Proposing Shareholder.

Thus, the Board of Directors is against this Shareholder Proposal.

**(5) Shareholder Proposal (5): Partial amendment to the Articles of Incorporation (Issuance of Shares, etc.)**

This proposal states that, in principle, a capital increase by way of third-party allotment requires a resolution of a shareholders meeting if the voting rights of shareholders who have given prior notice against the capital increase by way of third-party allotment account for one-fifth or more of the voting rights of the shareholders.

Given that Asset Value Investors Limited, to which the Proposing Shareholder has entrusted its investment management business, holds more than 21% of the voting rights, this would be tantamount to giving the Proposing Shareholder the right to veto the capital increase by way of third-party allotment, which would hinder our flexible fund procurement. In fact, it is clear that the Proposal is also for the entrenchment (self-protection) by the Proposing Shareholder, who fears that his position as the de facto controlling shareholder of the Company will be jeopardized.

Thus, the Board of Directors is against this Shareholder Proposal.

**(6) Shareholder Proposal (6): Partial Amendment to the Articles of Incorporation (Dividend of Surplus, etc.), and Shareholder Proposal (7): Appropriation of Surplus**

The distribution of surplus under these proposals will make it difficult for the Company to conduct

its business in a continuous and stable manner. As mentioned above, due to the nature of the Company's business, it is necessary for the Company to secure a certain amount of its own funds, and in order to realize stable dividends, a sudden increase in dividends should be avoided.

Thus, the Board of Directors is against this Shareholder Proposal.

**(7) Shareholder Proposal (8): Determination of Compensation for Performance-Based Stock Compensation Plan and Restricted Stock Compensation Plan for Directors (Excluding Directors Who are Audit and Supervisory Committee Members)**

The Company already has a restricted stock compensation plan, and there is no need to dare to introduce a performance-linked stock compensation plan. In addition, the voting standards of many institutional investors are against the granting of stock-based compensation to outside Directors, so there is very little need for the Company to introduce a restricted stock compensation plan for outside Directors. After all, the purpose of this proposal is to grant incentives to Mr. Yasu and Mr. Partnow, whom the Proposing Shareholder intends to dispatch.

Thus, the Board of Directors is against this Shareholder Proposal.