

SAPPHIRETERRA CAPITAL

Sapphireterra Capital Urges Shareholder Support for Special Dividend Proposal at Sanyo Shokai's AGM

Sapphireterra Capital (“Sapphireterra”) is an investment management firm based in Chicago, USA, specializing in engagement-driven investments in Japanese equities. Through funds it advises (the “Fund”), Sapphireterra holds approximately 7% of the outstanding shares of Sanyo Shokai Ltd. (TSE: 8011, “Sanyo Shokai”).

To address Sanyo Shokai’s excess capital problem, prevent further erosion of corporate value, and enhance long-term shareholder value, Sapphireterra urges shareholders to support the shareholder proposal (the “Proposal”) regarding a special dividend at the upcoming 83rd Annual General Meeting of Shareholders scheduled for May 28, 2026.

Overview of the Shareholder Proposal (Special Dividend)

The Proposal seeks to strengthen shareholder returns and fundamentally resolve Sanyo Shokai’s excess capital issue (described below) by implementing the following special dividend:

- A special dividend of **JPY 1,200 per share** (totaling approximately **JPY 12 billion**).
- Record date: **August 31, 2026**
- Dividend payment start date: **September 16, 2026**

This Proposal is designed to coincide with Sanyo Shokai’s planned **three-for-one stock split** effective on August 31, 2026, thereby further enhancing the company’s corporate value.

Following the special dividend, Sanyo Shokai’s pro forma ROE (after deducting special gains) is expected to improve from the current 6% to approximately 8%, enabling the company to sustainably exceed its cost of capital. This improvement is expected to lead to a higher valuation in the equity market and contribute to further enhancement of corporate value.

As of February 28, 2026, Sanyo Shokai holds approximately **JPY 24 billion in cash and deposits** and **JPY 16 billion in retained earnings**. Implementing the proposed special dividend of approximately JPY 12 billion would not impair the company’s ability to meet its financial obligations, provide services to customers, or fulfill responsibilities to other stakeholders.

Background of Sapphireterra’s Capital Policy Proposals

Over the past several years, Sapphireterra has made numerous proposals aimed at enhancing Sanyo Shokai’s corporate value. We believe that the company’s excess capital has depressed its capital efficiency (ROE), resulting in the market undervaluing its intrinsic worth.

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In July 2025, Sapphireterra proposed that Sanyo Shokai either (i) eliminate excess capital through a **JPY 16 billion share repurchase**, or (ii) become a wholly owned subsidiary of Mitsui & Co., Ltd. (TSE: 8031).

1. **Pursue a focused, high-ROE business as an independent listed company by:**
 - Immediately announcing and executing a **JPY 4 billion share repurchase**.
 - Committing to an additional **JPY 12 billion** in share repurchases over the next three years (JPY 4 billion per year).
2. **Alternatively**, pursue business expansion under Mitsui & Co. through full acquisition.

Management completely rejected option (2), the Mitsui buyout. However, in October 2025, management executed a **JPY 1.635 billion share repurchase**. Further, following Sapphireterra's demand for more share repurchase, management announced an additional **JPY 2 billion repurchase** in December 2025.

While Sapphireterra acknowledges management's decision to pursue option (1) and begin repurchases, the total amount executed or announced to date (JPY 3.635 billion) is **wholly insufficient** to resolve the company's excess capital problem.

Sapphireterra's Concerns: Management's Undisciplined Investment Policy

Sapphireterra believes that Sanyo Shokai's current investment policy lacks discipline and is damaging corporate value, as evidenced by the following:

1. Excessive New Brands Launches with High Inventory Levels

Following the COVID-19 pandemic, Sanyo Shokai successfully implemented disciplined brand strategy and inventory control, reducing inventory from approximately JPY 13 billion (Feb 2020) to JPY 7.3 billion (Feb 2024). However, after shifting to a "growth strategy" and launching numerous new brands, inventory increased to **JPY 9.6 billion (Feb 2025)** and remained elevated at **JPY 9.8 billion (Feb 2026)**. As a result of this misguided expansion strategy, approximately **JPY 2 billion** of capital has been wasted as excess inventory over the past two years.

Despite Sapphireterra's repeated proposals to halt excessive brand launches and focus resources on core brands, management announced additional brand launches in its April 14, 2026 disclosure, further increasing the risk of corporate value destruction.

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2. Extravagant Headquarters Building Reconstruction Plan

In its April 14, 2026 disclosure, management announced plans to rebuild its headquarters in Yotsuya, Shinjuku, Tokyo. Such a project would require **tens of billions of yen**, with depreciation and temporary relocation costs likely reducing annual operating profit by several hundred million yen.

Management claims the rebuild is necessary to improve the working environment, but lower-cost alternatives, such as renovating the existing building or leasing a modern office, are readily available. Given soaring construction costs in Japan and the company's weak performance, this headquarters rebuild is an extravagant, value-destructive investment.

3. Aomori Factory Reconstruction with No Expected Return on Investment

At the April 14, 2026 earnings briefing, management announced a **JPY 2 billion investment** to rebuild the Sanyo Sewing Aomori factory. Although the facility is aging, productivity and working conditions could be improved through far less costly renovations. Given the company's current weak earnings, management should not undertake a large investment that will depress operating profit rather than contribute to it.

Management should withdraw these investment plans (new brands, headquarters rebuild, Aomori factory rebuild) and allocate capital only to growth investments with clear, measurable returns.

Excess Capital Must Be Returned to Shareholders and Reallocated to Truly Necessary Investments

Sapphireterra believes that the root cause of management's shift away from disciplined financial operations toward unrestrained investment is the company's excessive capital - cash, real estate, and investment securities far beyond what is necessary.

Entrusting excessive capital to a management team that has demonstrated an inability to maintain investment discipline is not only unproductive but harmful to corporate value.

For this reason, Sapphireterra strongly urges shareholders to support the Proposal to return excess capital through a special dividend and restore investment discipline at Sanyo Shokai.

We respectfully request that all shareholders give this Proposal serious consideration and vote in favor of it at the upcoming Annual General Meeting.

Contact: info@sapphireterra.com

Website: sapphireterra.com