GLOBAL ESG STRATEGY

JBS

TSE Standard Market
Code: 5036

Getting Out of IPO Trap and Pursuing True Growth

Regarding Shareholder Proposals made to Japan Business Systems, Inc. (Presentation Materials)

7 November 2024
Global ESG Strategy

0 Contents

1-1 About Global ESG Strategy

Medium -to Long-term investment from an ESG perspective

Global ESG Strategy (GES) is an investment fund managed by Swiss-Asia Financial Services.

GES is an institutional investor with an investment policy to make medium- to long-term investments from an ESG (Environment, Social, and Governance) perspective, and promote improvements to enterprise value and shareholder value of investee companies through constructive dialogue with investee companies and other means.

Currently, GES own more than 2% of all JBS shares with voting rights.

For more on Global ESG Strategy：
https://prtimes.jp/main/html/searchrlp/company_id/135781

1-2 Executive Summary

- GES has engaged in constructive dialogue with portfolio companies to promote changes to management to make it more focused on cost of capital and return on capital and make effective use of their capital to increase corporate and shareholder value. GES started investing in Japan Business Systems, Inc. ("JBS") in 2023, and has been engaging with management since then. At present, GES holds more than 2% of the voting rights for JBS.

- **The Japanese capital markets are plagued by the IPO Trap**, a situation in which newly listed companies fail to generate growth owing to an inability to make effective use of the funds obtained through listing, thereby causing share prices to languish, while **founding families treat IPOs simply as the end-point of their personal wealth creation strategies.**

- JBS published a medium-term business plan shortly after listing in August 2022, through which it communicated its post-listing business strategy to shareholders and investors. However, in only two years from the IPO, **JBS had entered a cycle of cuts to guidance and shortfalls or withdrawals of its medium-term plans.**

- Additionally, a very short time after the acquisition of Nextscape immediately following the IPO and simultaneous with the medium-term plan announcement, JBS impaired the entire value of the goodwill arising from the acquisition. This and a series of other **errors in judgement have quickly forced JBS into a critical juncture, the outcome of which will determine whether it can return to a path of growth**.

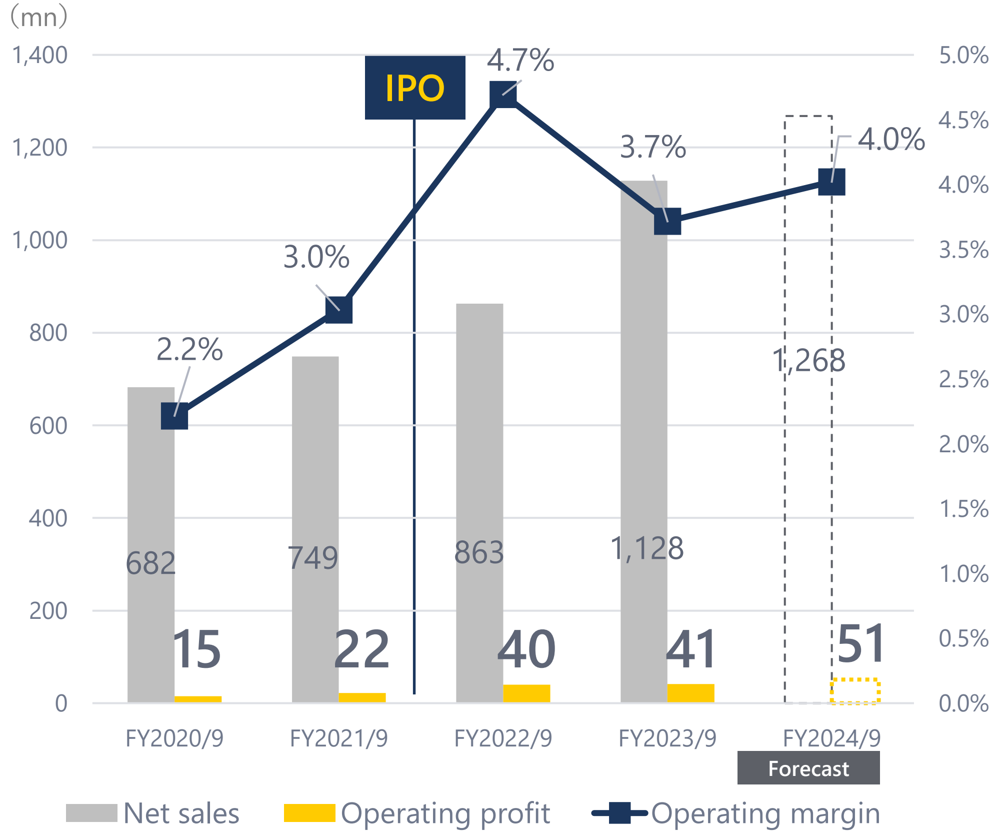
- In this context, the **JBS Board of Directors is failing to exercise its duty of governance effectively** and, as at the time of writing**, six months have passed without JBS having unveiled a new medium-term plan**, which will underpin the new business strategy. Moreover, **the investment in corporate housing engaged in prior to the IPO has even gained momentum in a way that runs contrary to guidelines set by the Tokyo Stock Exchange, despite the negative impact on capital efficiency**. Management has failed to provide a rational explanation for the investment, notwithstanding that **JBS now owns a total of 10 corporate residences at an estimated value of around 16.4 billion yen**.

- **JBS is stuck firmly in the IPO Trap, with a share price that has been languishing since the listing as shareholders and investors abandon the stock owing to the string of strategic errors and management's consistent lack of interest in giving ear to the concerns of the capital markets. In order that JBS can escape from this trap and return to a path of growth congruous with its listed status, GES has submitted the 6 shareholder proposals to the annual general meeting of JBS shareholders scheduled for December 2024.**

About Japan Business Systems

Japan Business Systems, Inc. TSE Standard Market 5036

- Sales: ¥112.8bn; OP: ¥ 4.19bn; Net Profit: ¥3.35bn; Net Assets: ¥22.2bn (FY2023/9)
- Market Cap: ¥45.18bn (as of 6 November 2024)



- As a cloud integrator, JBS has established a multi-vendor framework handling various products. It provides a wide variety of solutions to customers from varying sectors as well as varying type and size.
- JBS is expert in Microsoft cloud services and has a wide range of clients spanning manufacturing, distribution, telecommunications, media, and finance. It has entered into a capital/business tie-up with Mitsubishi Research Institute.
- JBS listed on TSE Standard Market in August 2022

Employees	Graduate and mid-career recruit rates
2,547	54% graduates 46% mid-career recruits
Average employee age 34	In April 2024, relocated headquarters to Toranomon Hills

Source: Company disclosure materials.、JBS Matters Concerning the Controlling Shareholder, Etc. (Japanese only)（22 Dec 2023), JBS Presentation Materials of Financial Results for Six Months of the Fiscal Year 2024 (14 May 2024), JBS Recruitment information (Japanese only) (as of 1 Nov 2024)

1-3 About Japan Business Systems Board of Directors

- JBS's Board of Directors consists of seven directors—three full-time directors and four outside directors (three independent outside directors). Outside directors are appointed from a wide range of backgrounds, including management consulting, trading houses, certified public accountants, and megabanks.
- As such, the majority of outside directors meet the requirements of outside directors on paper, but as we discuss later, no effective action has been taken, despite facing such urgent matters as a shift in business strategy, improved capital efficiency, and further fixing corporate governance failures.

	Yukihiro Makita	**President & CEO**	Japan Business Systems founder
	Yukimasa Goto	**Senior Managing Executive Officer & Director**	Business Group Head
	Kohei Katsuta	**Managing Executive Officer and Director**	CFO, Corporate Group Head, Human Resources Strategy Department, Finance & General Affairs Department, Governance Risk Compliance Department
	**Naoki Shimada**	**Outside Director Independent Director**	**Representative Director, P&E Directions** (ex BCG, ex ICG Japan MD)
	**Toshimitsu Urabe**		**Ridgelinez Advisor** (ex Mitsubishi Corp. MD, ex Mitsubishi HC Capital VP)
	**Shinya Deguchi**		**Deguchi CPA Office** (ex PwC Arata LLP audit partner)
	**Takashi Morisaki**	**Outside Director**	**Mitsubishi Research Institute Chairman** (ex MUFJ Bank VP, ex MUFG MD)

Source: JBS Notice of 33rd Annual General Shareholders' Meeting (Japanese only) (28 Nov 2023)

2. Reasons for Shareholder Proposals

JBS’s serious issues

Issues Behind our Shareholder Proposals

Issue 1: Share Price in Serious Doldrums due to IPO Trap

Repeated strategic missteps as well as failure to achieve and withdrawal of medium-term business plan (MTP), which represented JBS's commitment to shareholders and investors

Issue 2: Worsening Capital Efficiency Caused by Hefty Real Estate Investments

JBS further accelerating investments in housing real estate, undertaken for the self-satisfaction of the founder since before the IPO

Issue 3: Corporate Governance Failures

The Board of Directors ignoring calls from the capital market and shareholders and absentmindedly satisfying the whims of the founder and management team

Issue 1： Share Price in Serious Doldrums due to New Listing Trap

Repeated strategic missteps as well as failure to achieve and withdrawal of medium-term business plan (MTP), which represented JBS’s commitment to shareholders and investors

Issue 1-1 Post-IPO Share Price Performance and String of Downward Revisions for Profit Guidance

- JBS shares have been on a long-term downtrend since peaking at ¥2,057.5 (adjusted for stock split) at the time of its IPO in August 2022.
- JBS has revised down all profit projections for FY2023/9, FY2024/9, and FY2025/9, covered by the (MTP) announced immediately after the IPO.
- After announcing extraordinary losses stemming from NEXTSCAPE impairment and the withdrawal of profit targets for FY2025/9 in May 2025, the shares sank and have trended around ¥1,000. Since May 2024, disclosures about management policy have not been forthcoming.
- The biggest issue with Japan's IPOs are that shareholder value fails to rise after listing. Indeed, JBS is also at that crossroads.
- Amid the pronounced downtrend in the share price, countermeasures are an urgent issue, whether they be to immediately announce new profit targets, consider bold shareholder returns, or the like.

Source: SPEEDA

Issue 1-2 Management Strategy in JBS's Medium-term Business Plan

- In November 2022, JBS compiled and announced its MTP as its first commitment to shareholders and investors after the IPO in August 2022.
- Since the plan's announcement, JBS has allocated the bulk of engineers to Microsoft 365 (M365) projects, with adoption/operational support of M365 a key management policy, and it has been hiring a considerable 200 or so new college graduates each year with an eye to future business growth.
- The strategic focus in the plan is as follows.

Capture new customers and deepen ties with customers → **Achieve high profits through customers' DX moves**

Purchase

Client

License & Products (L&P) business

- The business re-sells Microsoft Azure, M365, and other licenses and related equipment, and is the entry point for capturing new customers
- Prompted by license purchases, ties with customers are deepened with an aim of sending customers to the CI and CS businesses

Upsell, cross-sell

Employees by business on consol. basis (FY2023/9)

Cloud Integration (CI) business

- M365 adoption support is the mainstay. Because it is a standardized service, margins readily increase on improved efficiencies
- Prompted by M365 adoption support, the business offers solutions and services utilizing the cloud, including Azure, ERP

1,198

Cloud Service (CS) business

- Mainstay is resident services at client companies
- Develops managed services unique to JBS, backed by knowledge obtained through system architecture ops
- Also gradually increases managed services

747

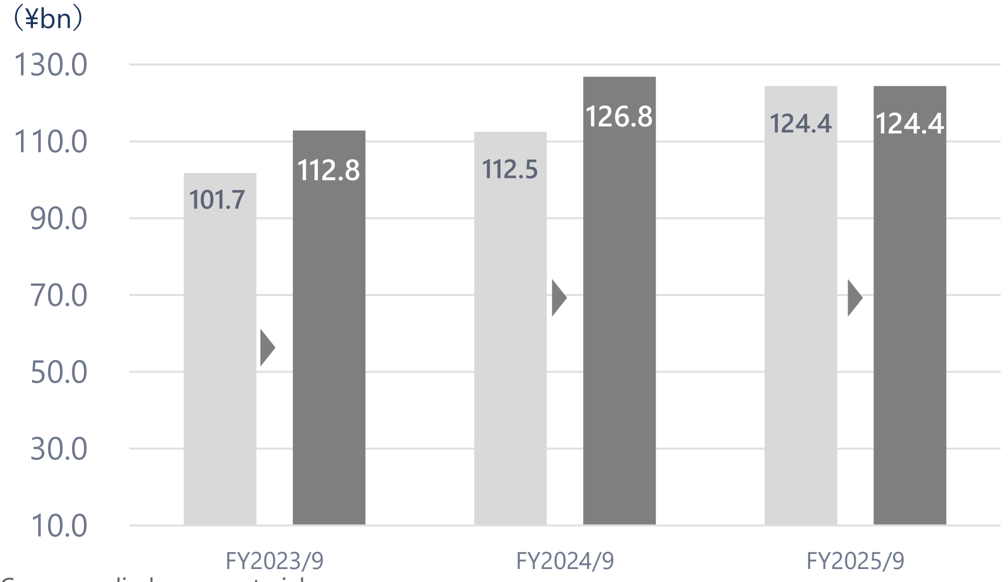
Source: Company disclosure materials
Note: In addition to employees belonging to the CI and CS businesses, there are another 602 corporate employees.

Issue 1-3 Guidance Misses and Withdrawn Medium-term Business Plan

- One year after announcing the MTP, JBS lowered its profit outlooks for FY2023/9 and for FY2024/9, and then half a year later, it withdrew its profit targets and is yet to reveal an MTP.
- **Current management failed to achieve the profit projections in the first year of the MTP following its August 2022 IPO**, and its abilities to project earnings as well as its management execution abilities for business growth are major disappointments.
- Despite **multiple downward revisions to profit projections on account of management missteps—poor sense of the business landscape and changing customer needs as well as unsuccessful allocation of personnel resources—management has taken no responsibility whatsoever** and continues to **manage without a plan.**

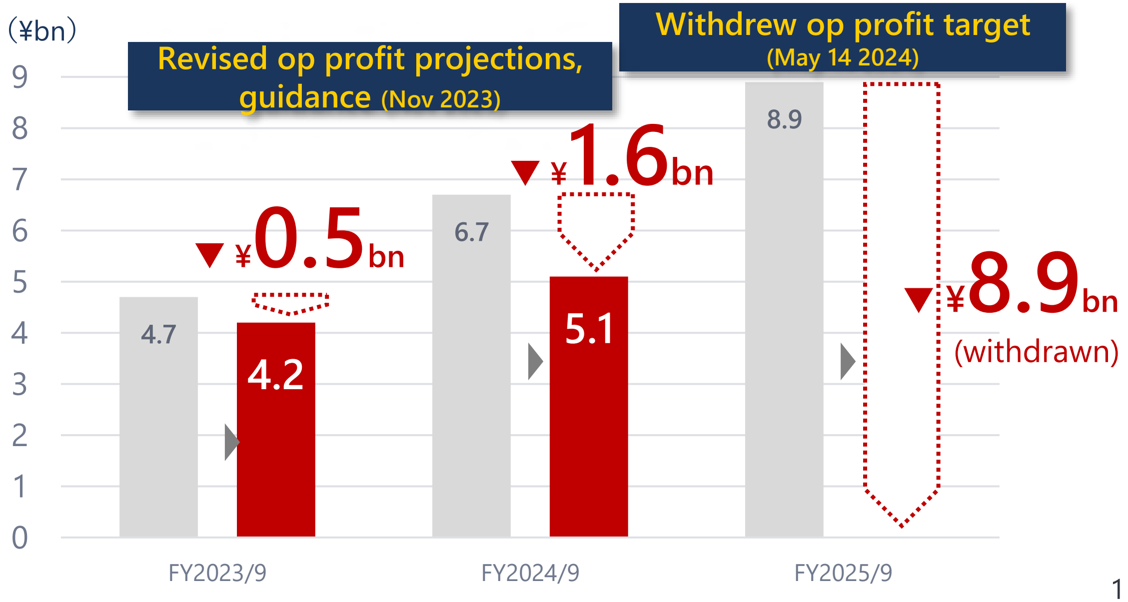
Net Sales Projections

- **MTP announced after IPO painted a scenario for strong growth**



OP Projections

- **Revised op profit projections and FY2024/9 earnings guidance**
- **Announced full impairment of NEXTSCAPE goodwill, withdrawal of FY2025/9 profit targets**



Source: Company disclosure materials

Profit Margins Bleak for All Businesses vs. Original Outlooks

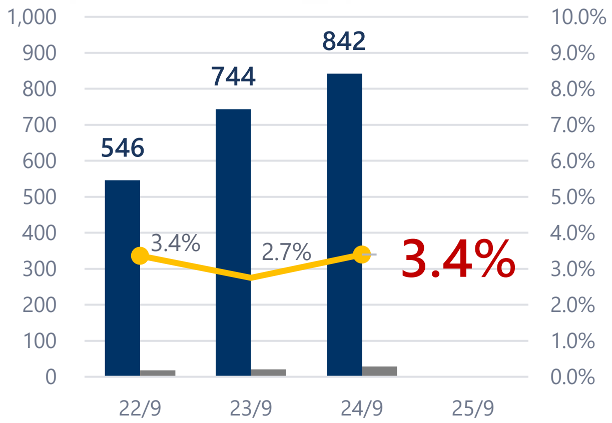
- Operating profit margins (OPM) for each of JBS' businesses look bleak, trailing the original MTP targets for FY2024/9 by between 0.6 percentage points and as much as 4.2 percentage points.
- Not only have there been management misjudgments for focus businesses but all businesses across the board are bleak.

OPM comparisons for individual businesses (FY2024/09 target vs. current forecast)

Current forecast

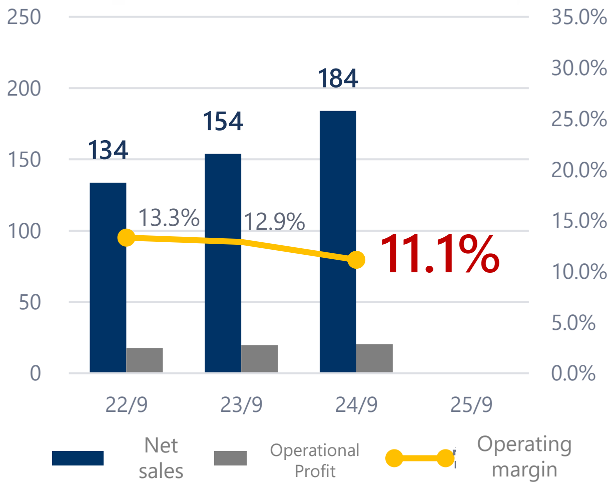
4.0% vs 3.4%

License & Products business



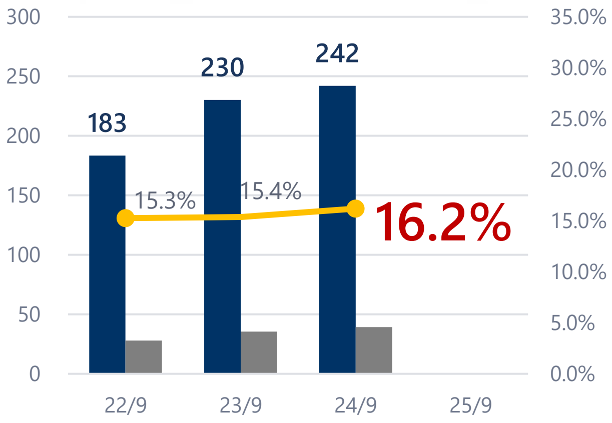
15.3% vs 11.1%

Cloud Service business



18.4% vs 16.2%

Cloud Integration business



Source: Company disclosure materials

Issue 1-5 What Changed from Medium-term Business Plan Assumptions?

- In IR materials, JBS explained that it withdrew its profit targets because it had become certain it would not achieve the MTP due to changes in the business environment.
- The explanation appears to point blame on some sort of external forces beyond its control for the MTP miss but, in fact, it is clear that the reason lies with misjudgments by JBS management.

	Developments after MTP announcement
License & Products business	■ Achieved net sales target in MTP due to projects from large customers ■ However, profit margins deteriorated due to discounted orders
Cloud Integration business (CI business)	■ Over 60% of JBS's engineers were assigned to M365 adoption support but M365 uptake by large corporations progressed faster than expected, with utilization of M365 engineers at one point slipping to the low 60% range. Plans also came undone for expansion by devoting considerable engineers to M365 (standardized service) projects and lifting profit margins via greater efficiencies. ■ CI profit margins are declining despite skill shift, allocating engineers to other businesses within the CI business, and improving utilization ■ In order to lift CI business margins, management is seeking to win orders for backbone systems but there is a huge gap with major player Sler, and acquiring highly skilled personnel looms as a challenge
Cloud Service business (CS business)	■ The mainstay is resident services at client companies. Profit margins are low even though utilization is being maintained at an elevated roughly 90%. ■ The company aims to gradually expand rollout of its proprietary management systems, but it has fallen behind its expectations, and profit margins for the CS business are also well below the plan

Source: Company disclosure materials

Issue 1-6 Management Missteps Quickly Derailed MTP Unveiled Immediately After Listing

- M365 adoption support had been a strategic focus in the MTP, but demand quickly petered out, and the initially expected growth looks unlikely. Additionally, for this business, it had been expected in the MTP that the use of considerable engineers would result in efficient improvement in profit margins, but JBS has been unable to realize higher profit margins due to slowing demand.
- Despite the major recruiting drive for M365 engineers, utilization has plunged due to demand petering out.

President Makita

- We actively recruited on the expectation of future continued growth in M365 projects, but most of the large companies we had focused on have adopted M365.
- The majority of engineers were engineers for M365 adoption but, ultimately, utilization of M365 engineers dropped to the low 60% range.
- Since then, we have shifted skills and reallocated M365 engineers to the CI business, but skill shift has also been limited.
- Additionally, rather than focus on lifting engineer utilization, engineers have been picked up by the low-margin CI business more than initially expected, and so profit margins for the CI business have also trailed medium-term targets.

Source: GES interview with JBS

Issue 1-7

Booked Impairment Charges for all NEXTSCAPE Goodwill Just 1.5 Years After Acquisition

- In November 2022, after the IPO in August, JBS announced plans to spend some ¥3bn to acquire all shares of NEXTSCAPE to make it a subsidiary.
- Then in May 2024, just one year and eight months after the acquisition announcement, JBS said it would book the entire remaining ¥1.72bn in goodwill, which it had recorded assuming excessive profitability at the time of purchase, as an extraordinary loss.
- JBS initially explained that this impairment loss arose due to projects growing larger in scale and delays, but there has been no subsequent talk about being able to catch up within the next few years. But the explanation changed to basically being unable to achieve the business plan envisioned at the time of the acquisition and not being able to form a future outlook.

2 Aug 2022	25 Nov 2022	14 May 2024	Mid-May 2024～
IPO	Announced NEXTSCAPE acquisition	Impairment of all goodwill; withdrew MTP	Slumped share price
	Purchase price approx. ¥3bn	Extraordinary loss approx. ¥1.7bn	Post-listing high ¥2,057.5 14 May 2024 close ¥1,367 6 Nov 2024 close ¥991

Source: SPEEDA

Issue 1-8 No Concrete Headway in Moving to Prime Market

- Management has explained to GES since last year that at some point it intends to realize a transfer to the Prime Market. Beyond making the decision to list, the company should strive for the Prime Market, which has higher liquidity and more investors participating, and its intention to do so is viewed positively.
- At this stage, however, even though JBS has sufficient market cap, it remains unable to transfer to the Prime Market due to not meeting other requirements such as tradable share ratio.

	Criteria for TSE Prime Market Listing			JBS	
Move to Prime Market	Liquidity	No. of shareholders	At least 800 shareholders	✓	2,792 shareholders
		No. of tradable shares	At least 20,000 units	✓	Over 140,000 units
		Tradable share market cap	At least ¥10bn	✓	Approx. ¥14bn
	Governance	Tradable share ratio	At least 35%	×	29.08%
	Business performance	Earnings base	・Total profit for recent 2 years at least ¥2.5bn, OR ・Sales at least ¥10bn & market cap at least ¥100bn	✓	Total profit for most recent two years over ¥2.5bn
	Financial status	Financial status	Consol. net assets of at least ¥5bn	✓	Consol. net assets of over ¥20bn

JBS should soon compile and announce a concrete plan for transferring to the Prime Market

Source: Company disclosure materials, Toyo Keizai

Issue 1-9 Summary: Management Policy and Strategy Overhauls Urgent Issues

- The cause for the long-term downtrend in the share price amid worsening earnings cannot be entirely explained just by changes in the market environment, rather responsibility should be pinned on the JBS Board of Directors for errant reading of customer needs and the business environment outlook, as well as managerial misjudgments based on that outlook.
- Rather than just disclosing a MTP in form, JBS must revise its current managerial policy based on a deep analysis of customer needs and the changing business environment, compile a substantive management policy and strategy, and rapidly work to achieve further growth for JBS.

M365 ops lackluster after expectations for high margins

Post-IPO acquisition failure
(full impairment of NEXTSCAPE)

Guidance misses

Withdrawal of OP targets in MTP

Absence of appropriate management plan, strategy

After reviewing management policy, JBS must compile a fundamental management plan and urgently take initiatives

Source: Company disclosure materials

Issue 1-10 Desired Future Management Policy

- Now that it appears that the M365 adoption support business is not set for continuous rapid growth, the original management policy of large-scale hiring engineers for M365 projects at low wages as well as recruiting and retaining these workers backed by employee benefits in the form of housing and corporate cafeterias, seems no longer feasible.
- Highly skilled human resources have a strong tendency to seek compensation in line with their skills rather than broad offerings such as corporate housing and cafeterias. **Rather than a policy of securing a workforce of engineers by acquiring PPE (property, plant and equipment), JBS must appropriately secure highly skilled human resources.**
- JBS is a typical company managed based on the income statement and the income statement is the sole focus. **It has become clear in GES's dialogue with all directors, including all outside directors, that there is lack of regard when it comes to asset efficiency.**
- While it must be determined that JBS is a company that is managed without thought to balance sheet effectiveness and profitability, **in the future, asset efficiency must be closely scrutinized in the future. Specific action includes the sale & lease backs of PPE and bold shareholder returns.**
- We call for enhanced detailed IR explanations and proactive dialogue with the capital market. Even for the withdrawal of the MTP, the causes have yet to be clarified and **just an explanation seemingly pointing blame at the external environment rather than managerial misjudgments, means that the capital market can only be worried about deceptive IR.**
- Based just on post-IPO share price performance, **JBS has clearly not achieved "management that is conscious of cost of capital and stock price," as required by the TSE. We look for JBS to exhaust various measures and aim to earnestly and quickly lift corporate and shareholder value.**

Given continued sluggish share price performance after the IPO and a lack of managerial policy means that quickly achieving "management this is conscious of cost of capital and stock price" is a matter of urgency

Issue 2：Worsening Capital Efficiency Caused by Hefty Real Estate Investments

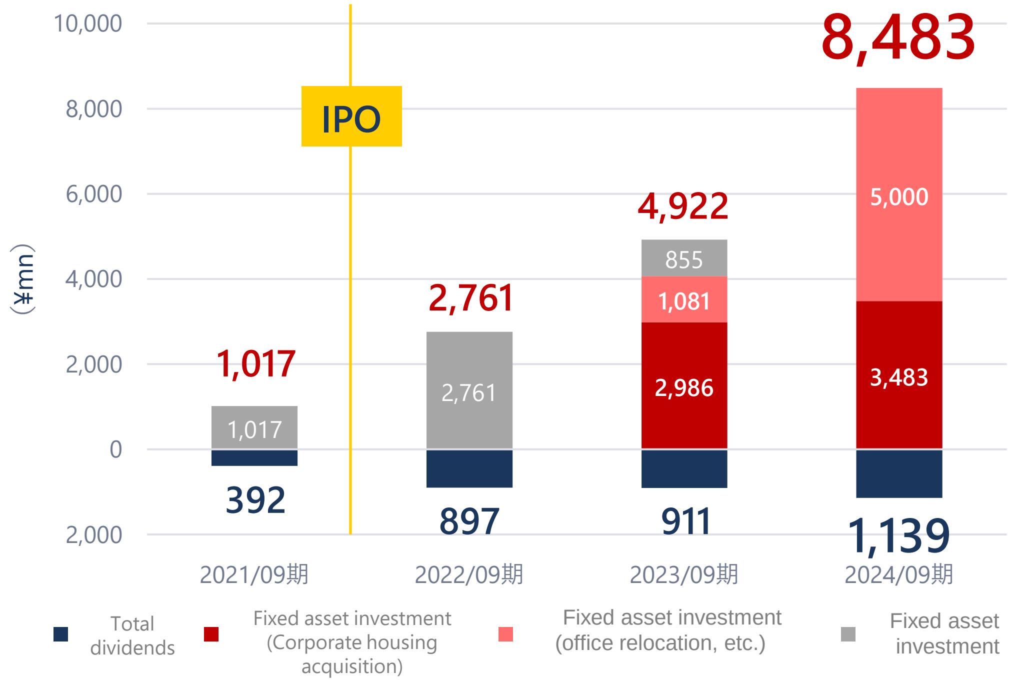
JBS further accelerating investments in housing real estate, undertaken for the self-satisfaction of the founder since before the IPO

Issue 2-1

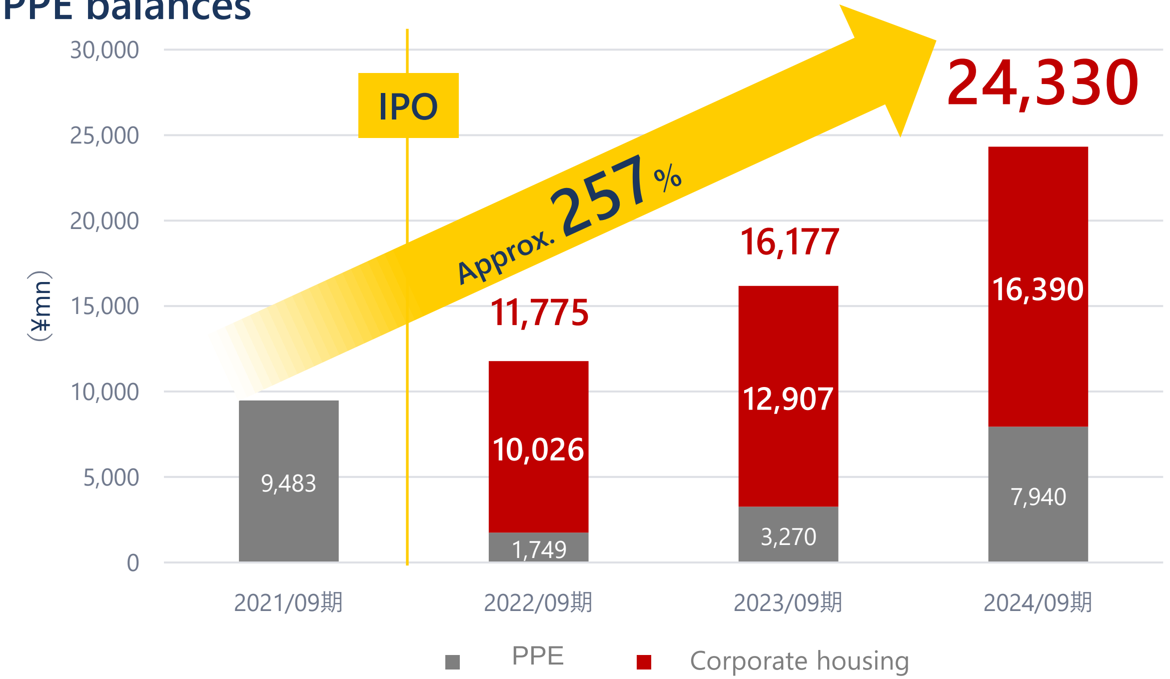
Excessive Investment in Corporate Housing, Unbalanced Employee Benefits

- JBS has, since its September 2022 IPO, spent ¥2.8bn-¥3.5bn yearly on buying corporate housing for employees. In FY9/2024, PPE is expected to rise to ¥24.3bn (including 10 corporate housing properties with book value ¥16.4bn, around ¥6.44mn per employee).
- Moreover, JBS booked office relocation costs of around ¥1bn in FY9/2023, and around ¥5bn in FY9/2024.
- However, since FY9/2022, total dividends to shareholders has been around ¥0.9-1.1bn, less than one third the value spend on corporate housing acquisition. While employee benefits are necessary to an extent, the investment is clearly excessive and disregards shareholders.
- JBS said it will continue investing in corporate housing properties ahead.

Fixed asset investment and total dividends



PPE balances

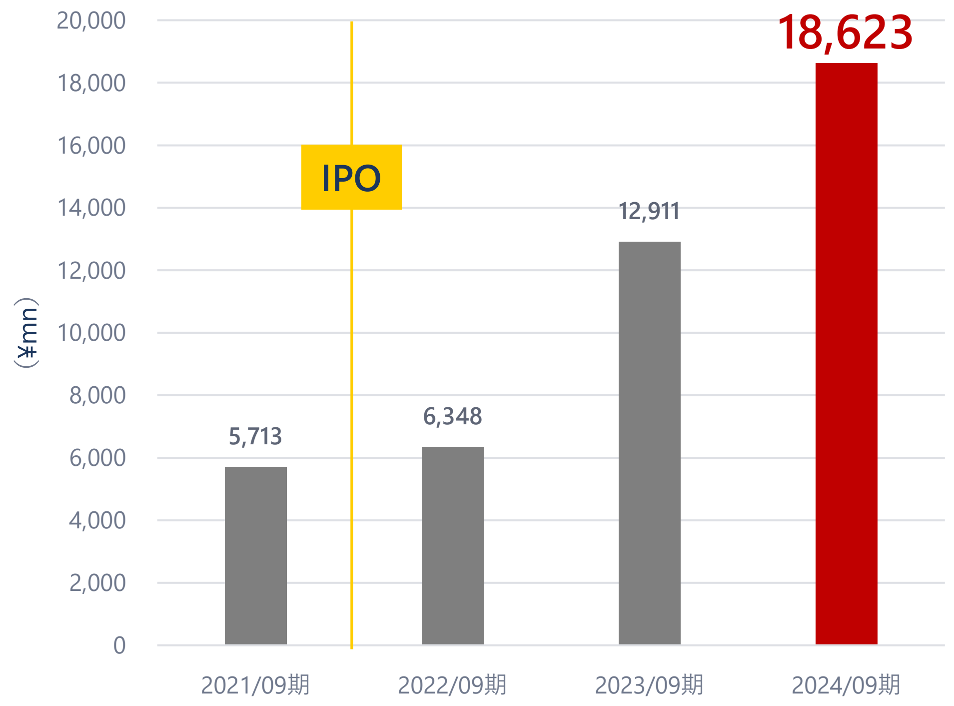


Source: Company disclosure materials

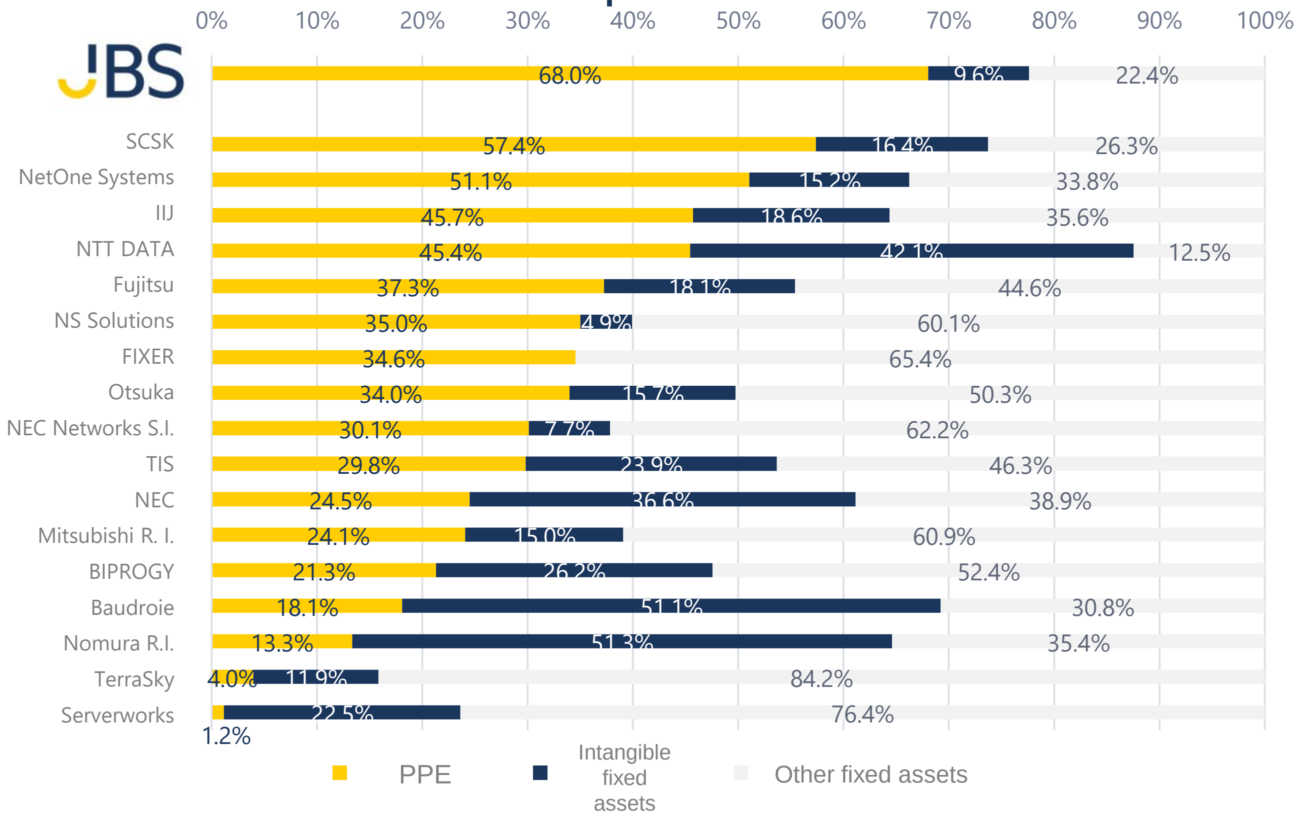
Excessive Investment in PPE

- JBS's business model does not require significant capital investment for growth. We believe the only investment that is indispensable for business growth is in human capital, specifically, the recruitment of highly skilled talent required to power cloud-related operations, and higher employee pay.
- Outside the area of human capital, sector peers invest in overseas subsidiaries, software data centers, and similar areas. JBS stands alone in that PPE makes up 68% of fixed assets, and corporate housing the majority of PPE.

Interest-bearing debt



Ratio of PPE/intangibles to fixed assets at comparable sector companies



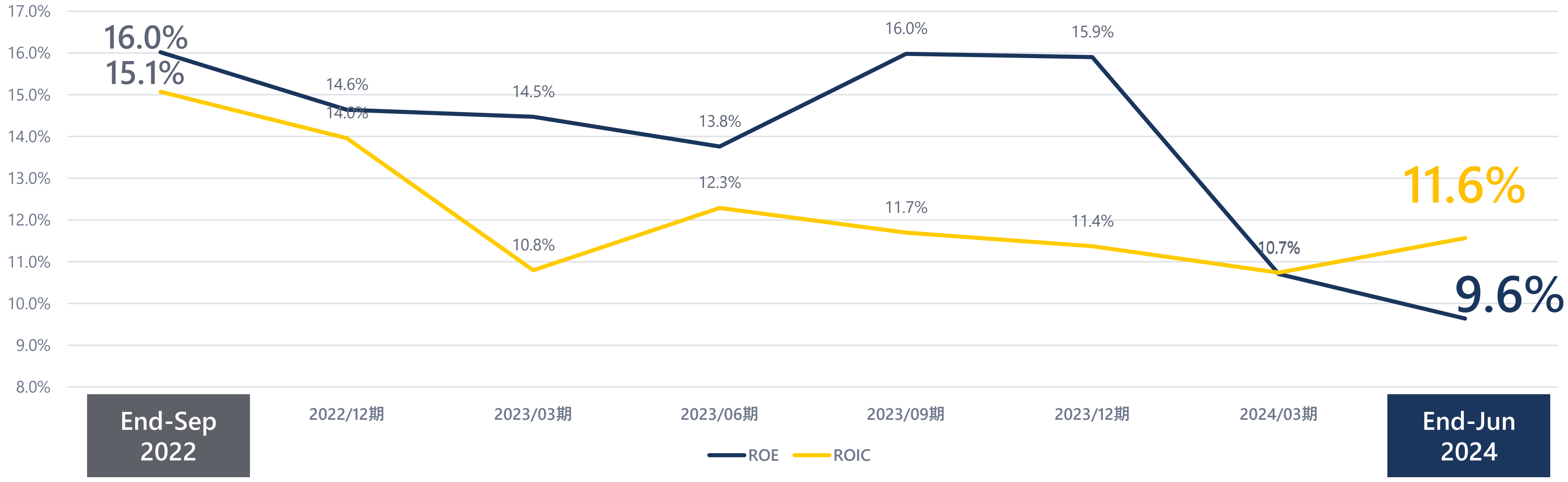
Source: Company disclosure materials, SPEEDA

Issue 2-3

Accelerating Investment in Corporate Housing Property Weighs Heavily on Capital and Asset Efficiency

- Office relocation and ongoing real estate (corporate housing) investment has consistently undermined JBS's capital and asset efficiency.
- As a result of real estate investment and eroding profitability, ROE and ROIC have fallen sharply from 15%+ at IPO to around 10%.

ROE and ROIC



Source: Company disclosure materials

Notes: ROE calculated by dividing most recent 12-month NP figure as at each date by simple average of period-start and period-end shareholders' equity; ROIC calculated by dividing most recent 12-month NOPAT (OP * (1-30.62%)) by the total of simple averages for period-start and period-end working capital, PPE, and intangibles.

Issue 2-4 The Impact of Sale & Leaseback on Owned Property

- JBS could arrange sale & leaseback on owned corporate housing, thereby maintaining present benefits while securing around ¥2.7bn of cash/deposits. This would be a more efficient deployment of assets/capital.
- In addition, improved asset efficiency would raise ROIC and other KPIs, and by extension could lift share price.

Financial impact of sale & leaseback (simple simulation)

	(¥mn)	Comment
Book value of owned corporate housing	16,390	End-Sep 2024 estimate
Estimated sale value	18,849	Assumed 115% of book value
Current-year OP forecast	5,100	OPM 4.0%
Decline in depreciation	375	Total depreciation allocated across PPE book value
Increase in rental cost	848	Assume rent at 4.5% of sale value (expected yield)
Adjusted current-year OP forecast	4,626	OPM 3.6%
Decline in long-term loans	16,123	Value of long-term loans
Decline in interest payments	81	Assumed 0.5% interest rate
Increase in cash/deposits	2,726	
Cash/deposits after sale	**8,277**	**Assumes cash balances as of end-June 2024**

- JBS owned corporate housing with book value of ¥12.9bn as of end-Sep 2023, and in FY9/2024 acquired an additional ¥3.5bn. Book value of corporate housing is estimated at around ¥16.4bn at present.
- If JBS were to sell its owned properties and change them into leased residences, it could reduce the total value of long-term debt, generate cash of around ¥2.7bn, and increase net cash to around ¥8.3bn, without changing its employee benefits.
- The decrease in depreciation and increase in leasing costs would boost the OPM by around 0.4ppt, while interest payments (non-operating costs) would decline by around ¥81mn.

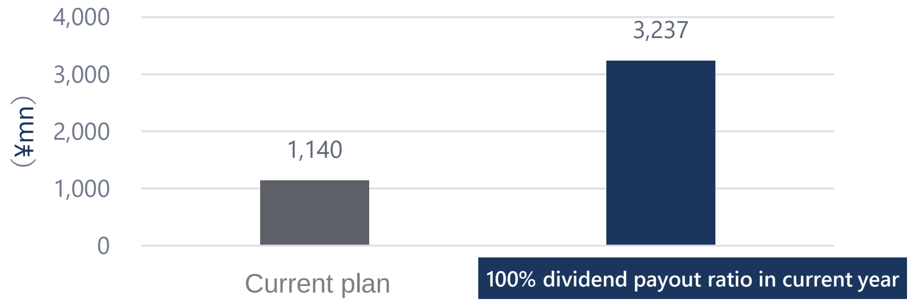
Source: Company disclosure materials

Notes: Book value of owned corporate housing calculated as end-June 2024 value plus expected acquisitions. Cash & deposits calculated based on end-June 2024 balances.

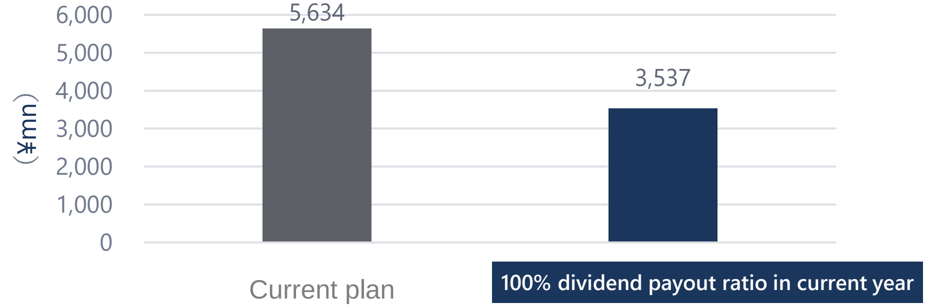
Issue 2-5 Simulation Assuming Greater Shareholder Returns

- If drawing up a growth story is difficult and would require JBS to lower MTP profit targets, the least it should do is use sale & leaseback arrangements on its assets to maximize shareholder returns.
- If, as GES proposes, JBS pays out 100% dividends on current-year NP (ex. extraordinary losses) of ¥3.22bn (¥71 DPS), and assuming the dividend yield stays at the current 2.5%, JBS shares could rise to ¥2,840.

Total dividend if dividend payout ratio at 100%
(ex. extraordinary losses)



Net cash if dividend payout ratio at 100%
(End-Sep 2024 estimate, after dividend payment and S&L of corporate housing)



Relationship between dividend payout ratio and dividend yield
(ex extraordinary losses)

	Dividend payout ratio (FY9/2024 estimate)			
Dividend yield (2023E)	50%	100%	150%	200%
5.0%	720	1,420	2,120	2,840
4.5%	800	1,578	2,356	3,156
4.0%	900	1,775	2,650	3,550
3.5%	1,029	2,029	3,029	4,057
3.0%	1,200	2,367	3,533	4,733
2.5%	1,440	2,840	4,240	5,680
2.0%	1,800	3,550	5,300	7,100
1.5%	2,400	4,733	7,067	9,467
1.0%	3,600	7,100	10,600	14,200

= Roughly equals current share price

Source: Company disclosure materials
Notes: Net cash estimated based on end-June 2024 balance and current-year estimates; assumes no new PPE acquisitions

Issue 2-6 Sufficiently Robust Financial Position Even With Dividend Payout Ratio of 100%

- Even if, as GES proposes, JBS pays dividends at a payout ratio of 100% for the next 3 years, assuming sales in FY9/2025 and beyond grow at past average and the OPM holds at FY9/2024 guidance level, the net debt/equity ratio at end-Sep 2027 would be 0.4x, net debt/EBITDA 1.0x, and net asset ratio 20%. This would not impede financial health and would clearly leave sufficient financial capacity.
- In addition, net debt and related financial indicators would likely fall in FY9/2025 and beyond.

(¥mn)	FY9/2022	FY9/2023	FY9/2024 (JBS estimates)	FY9/2025	FY9/2026	FY9/2027
Net sales	86,325	112,800	126,800	151,087	180,026	214,508
Sales growth (YoY)	15.2%	30.7%	12.4%	19.2%	19.2%	19.2%
Operating profit (OP)	4,052	4,192	5,100	6,077	7,241	8,628
OP margin	4.7%	3.7%	4.0%	4.0%	4.0%	4.0%
Dividend per share	20	20	71	84	100	120
Total dividend	897	897	3,220	3,837	4,572	5,447
Dividend payout ratio	33.9%	26.8%	214.7%	100.0%	100.0%	100.0%
Net debt (¥mn)	(1,222)	7,566	12,075	11,458	10,723	9,848
Net debt/E	(0.1x)	0.3x	0.5x	**0.5x**	**0.4x**	**0.4x**
Net debt/EBITDA	(0.3x)	1.5x	2.1x	**1.7x**	**1.3x**	**1.0x**
Net asset ratio	51%	45%	31%	**27%**	**23%**	**20%**

Notes: For net sales, past three-year average growth through FY9/2024 is assumed to continue through FY9/2027. OP assumes current margin of 4.0%. Net cash for each year from FY2024 onwards assumes capex carried out each year on par with yearly depreciation charge, net assets calculated by adding current-year NP and deducting dividend from prior year-end net assets. Assumes no new real estate acquisitions made between FY9/2025 and FY9/2027.

Source: Company disclosure materials

Items 2-7 Board of Directors Should Persistently Prioritize High Capital Efficiency

- **GES agrees that generous employee benefits are useful for attracting and retaining talent.** However, as noted above, JBS has **booked all corporate housing real estate on the BS as owned property, thereby sacrificing capital efficiency to inflate its investments at an accelerating pace, without rational justification**.
- Meanwhile, the use of sale & leaseback arrangements on corporate housing, in place of ownership, would clearly be an effective means of continuing to provide the same housing to employees but with improved capital efficiency, thereby contributing to a higher share price.

A listed company should not own patently excessive levels of corporate housing. Instead, the board should make capital-efficient choices that contribute to the share price

Source: Company disclosure materials

Issue 2-8 Refuses to Consider or Act on Strategy to Raise Capital Efficiency

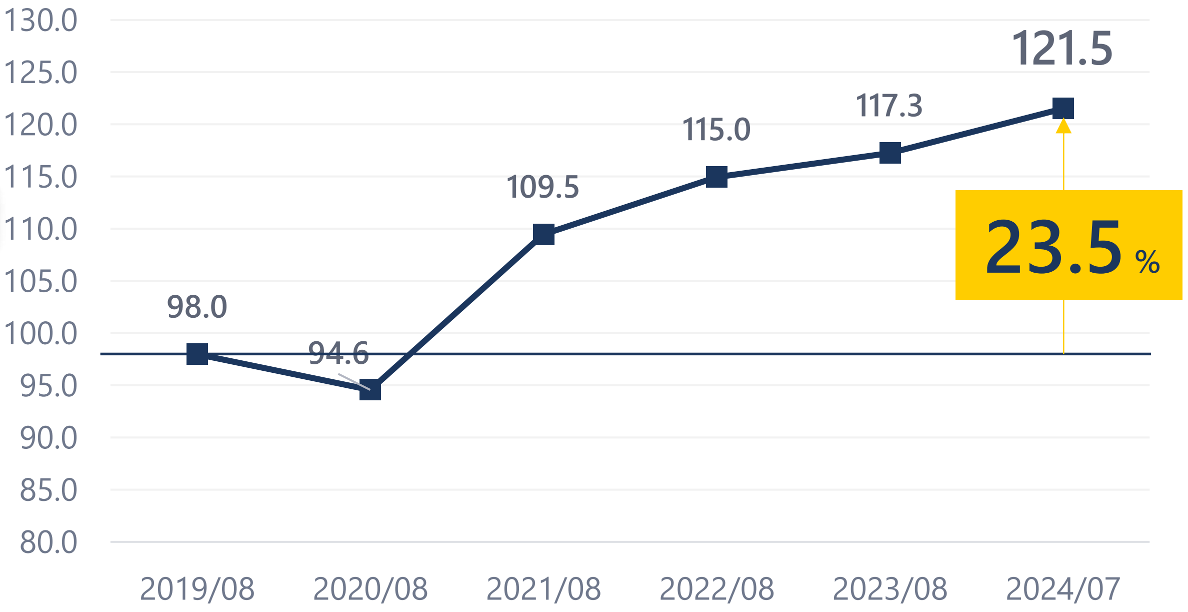
- As noted above, a S&L arrangement would help raise capital efficiency and the share price while maintaining the provision of corporate housing to employees, so should be considered by the Board. However, JBS has firmly rejected the idea, stating that selling the property now would generate losses.
- Meanwhile, residential real estate prices in the Kanto region have risen markedly in recent years, **and if the sale of corporate housing will generate losses even in this market, rather than providing a reason not to use S&L, it would show that the company's property acquisitions have been a failure. In this case, it ought to stop such real estate acquisitions immediately.**

JBS

Really?

Sales & leaseback: "Sale of corporate housing real estate would generate losses"

Property Price Index for past five years (Kanto, residential)



Source: Ministry of Land, Infrastructure, Transport and Tourism's Property Price Index (Japanese only) (as of 6 Nov 2024),

Issue 2-9 Irrational Explanation for Rejecting Sale & Leaseback

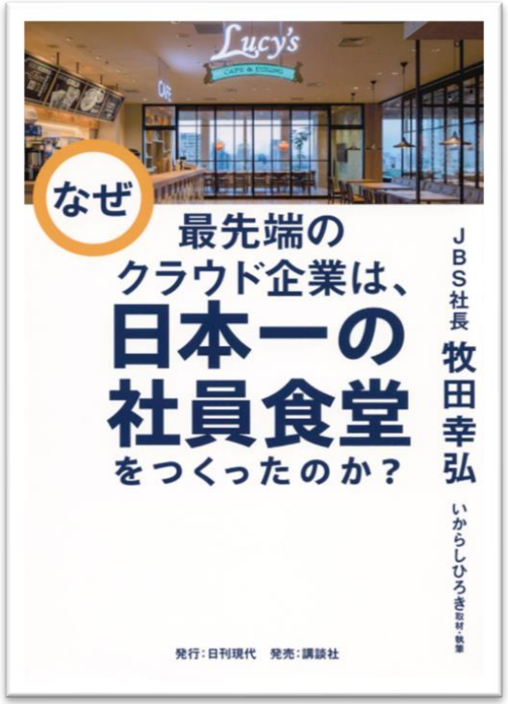
- Under a sale & leaseback, real estate is sold under guarantee of long-term rental payments.
- JBS explained that it had looked at S&L with both low and high leasing costs, but in all cases the arrangement resulted in losses. However, it is illogical to say that the arrangements will always result in losses irrespective of expected rents, since the sales price does not necessarily reflect market prices, but rather is calculated backwards from guaranteed rents divided by yields.

  - E.g. Guaranteed annual rents at ¥0.5bn and yield at 4.5% would result in sales price of ¥11.11bn (5 ÷ 4.5%).
    ¥0.5bn÷4.5%=¥11.11bn (¥11.11bn sale price & 4.5% yield equates to annual rent of ¥11.11bn/4.5%=¥500mn)
  - Guaranteed annual rent at ¥0.6bn, yield at 4.5% would result in sales price of ¥0.6bn÷5%=¥13.33bn

- There is **real concern that JBS has no intention to consider S&L, but only paid lip service to its obligation to do so by engaging external specialists who would arrive at the conclusion that losses would arise** irrespective of rent levels.
- JBS has said to GES that **all board members, including external directors, see low asset efficiency as unproblematic since the ROE is above the sector average.**
- GES proposes that JBS asks at least three real estate majors to draw up plans for the effective utilization of PPE, including sales & leaseback arrangements. GES believes this will, by giving access to appropriately competitive proposals, encourage JBS to seriously consider the most efficient means of asset utilization.

No Slowdown in Pursuit of Founder’s Pet Projects Even After Listing

- Published a PR book spotlighting ”The Best Employee Canteen in Japan”. Meanwhile, earnings are tanking.
- JBS should focus on raising earnings based on appreciation of external environment, business conditions, employee expectations.



“The Best Employee Canteen in Japan”

When JBS relocated its head office to Toranomon Hills in 2014, President Makita faced down the almost unanimous opposition of company executives to implement his vision of making the best employee canteen in Japan, called Lucy’s CAFÉ & DINING. The select offerings go way beyond the fare typically found in office canteens, including “authentic mapo tofu” (taught by a TV chef famous for Chinese cuisine), the way rice is cooked, and the range of beverages. As a systems integrator with many employees who are engineers stationed at client offices, does JBD really need a corporate canteen that feels more like a stylish bar? It may look contradictory, but this is part of President Makita’s shrewd growth strategy.
With many companies seeking to streamline and adapt to remote working following the pandemic, the Makita Way aims to promote growth for both employees by making the most of its workforce, raising satisfaction, and encouraging communication.

(Excerpt from book summary on Amazon)

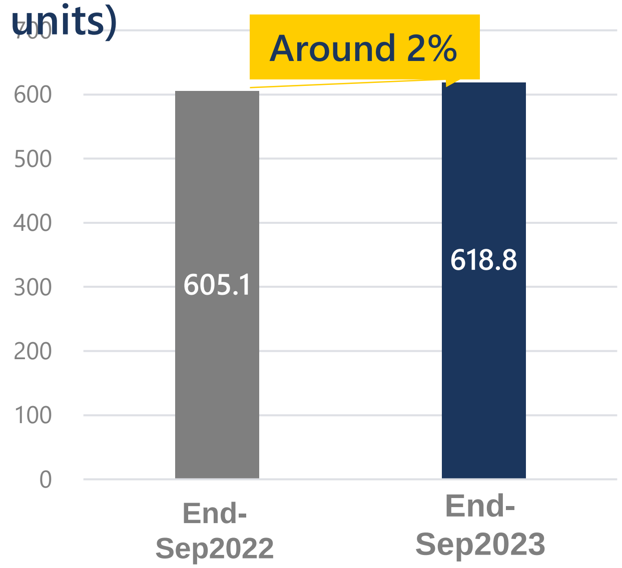
The book says the Makita Way includes Presidential fiat about the way rice is cooked.
The company’s attention should be on raising corporate/shareholder value in response to actual employee expectations, rather than worrying about how to cook rice.

Source: “Why did a leading cloud business make the best employee canteen in Japan?”, Nikkan Gendai (9 Apr 2024)

Ref 2 The True "Real Voice" of JBS Employees

- Given the need for a change in business strategy, **clearly it would be appropriate to abandon ownership of corporate housing and liquidate the assets (while continuing to provide access to employee housing). The proceeds could then be deployed more strategically and flexibly in the recruitment of highly skilled talent and raising pay and bonuses.**
- **JBS salaries are not especially high, and employees are clearly not convinced of the need to invest in corporate housing while average pay trends flat.** Employee comments on a job information site include the following criticisms:

Average pay (¥10,000 units)



JBS should stop investing in wasteful projects, and reward employees appropriately. If it really wants to claim to put customers first, it **should work on** improving its customer understanding. Without visible effort from executives and top management, no amount of temporary measures such as "excellence awards" will raise the overall quality of the company's services. (1 Jun 2024)

Female, grad recruit, engineer, 5-10 years in JBS

JBS should find policies or strategies that really contribute to employee satisfaction, **rather than wantonly invest their hard-earned revenues in lavish equipment** and prime-location offices. **Presenting a good appearance to outsiders is meaningless if earnings are lackluster. Maybe management should reflect more seriously on why it is hemorrhaging successful mid-level employees.** (7 Sep, 2024)

Female, mid-career hire, engineer, 5-10 years in JBS

「働く」のすべてを、オープンに。 openwork

JBS should abandon its current policy of excessive investment in corporate housing real estate

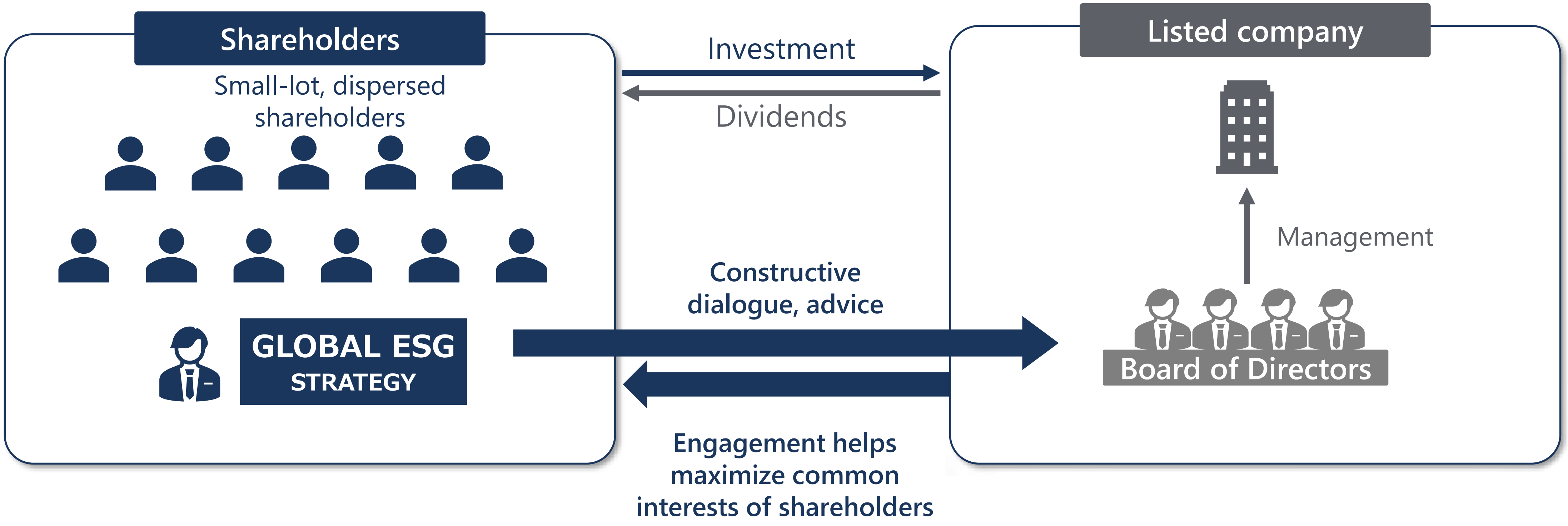
Source: JBS recruitment page "The Real Voice of Employees" (as at 24, Oct 2024), openwork "JBS page" (as at 24, Oct 2024)

Issue 3： Corporate Governance Failures

The Board of Directors ignoring calls from the capital market and shareholders and absentmindedly satisfying the whims of the founder and management team

Issue 3-1 The Importance of Dialogue Between External Directors and Shareholders

- The "agency problem" is the risk that directors, appointed at AGMs and entrusted with management, fail to run the company efficiently and in the interests of the shareholders. To avoid this situation, it is crucial that shareholders exercise oversight toward and promote discipline in management.
- However, in the case of listed companies with dispersed ownership, it is difficult for individual small-lot shareholders to exercise such oversight, potentially resulting in sloppy management being left unchecked. Large shareholders who can afford the time and expense necessary to engage with management through in-person discussion can represent small shareholders and promote discipline in management, thereby contributing to the common interests of shareholders.
- This is why GES emphasizes dialogue with its investees. However, when directors reject dialogue, the disciplinary function of engagement activity can be impeded.



Issue 3-2 Dialogue With GES Thus Far: Repeated Requests for Dialogue Ignored

- Following the release of FY9/2023 results and the cut to FY9/2024 profit forecasts, GES repeatedly asked JBS in writing and in person to consider the following measures, given the rising risk of a shortfall versus the MTP. This was before JBS lowered its medium-term profit targets on 9 May 2024.

  1. Consider designing and announcing a new business strategy if attainment of the MTP looks difficult
  2. If the announcement of a new business strategy is not feasible, then consider major shareholder returns; for example, leverage PPE through sale & leaseback or other arrangements and distribute the proceeds to shareholders
  3. If this is not possible and JBS intends simply to announce a MTP shortfall, then consider also announcing who among management would take responsibility for the shortfall, and how

- However, JBS followed poor IR practice by suddenly announcing a cut to MTP targets without establishing or announcing a new business strategy.
- Moreover, **it ascribed the MTP shortfall solely to "changes in the business environment", failing to provide a full explanation of the shortfall to shareholders, investors, and the capital market broadly.**
  - Additionally, Executive Director Katsuta said to GES that the **question of responsibility for the MTP shortfall has not even been raised at the Board of Directors.**
- **Nearly six months have passed** since the MTP shortfall was announced in May 2024, with no mention of how management intends to address it and **no new strategy announcements**.

Issue 3-3 JBS External Directors Refuse Dialogue With Shareholders

- JBS external directors refused in-person discussions with GES, with the IR department saying such discussions could compromise the equality of shareholders and the fair provision of information required of listed companies.
- Questions separately submitted to external directors were met with written responses that effectively continued to refuse in-person discussions with GES, despite saying that “meetings between external directors and shareholders or investors are not a problem if they are reasonable, and JBS does not refuse such discussion wholesale”. However, GES is in no way asking that JBS discuss important non-public information. Rather, it believes constructive dialogue contributes to the common interests of shareholders, and it is not clear why the external directors refuse to engage in it.

External directors are all shareholders of JBS, and have effectively rejected requests for dialogue

Naoki Shimada	Representative Director, P&E Directions (ex BCG, ex ICG Japan MD)	BCG BOSTON CONSULTING GROUP; Planning & Execution P&E DIRECTIONS

Toshimitsu Urabe	Ridgelinez advisor (ex Mitsubishi Corp. MD, ex Mitsubishi HC Capital VP)	Ridgelinez; Mitsubishi Corporation; MITSUBISHI HC CAPITAL

Shinya Deguchi	Deguchi CPA Office (ex PwC Arata LLP audit partner)	pwc

Takashi Morisaki	Mitsubishi Research Institute Chairman (ex MUFJ Bank VP, ex MUFG MD)	MUFG

Source: Company disclosure materials

Issue 3-4 Dishonest Explanation Fails to Mention Errors of Judgement by Management

- As noted above, in May 2024, only one year and eight months after announcing its MTP (November 2022) shortly after its IPO, JBS withdrew its OP target citing a likely shortfall, without providing a detailed explanation in its disclosure materials.
- However, from discussions with JBS directors, it has become clear that the root causes of the shortfall were errors of judgement by management, including the misreading of client needs and a failure to grasp changes in the business environment. The lack of an explanation to outsiders of the real nature of such errors in judgement is a breach of the corporate governance code, which obliges management to provide an explanation to shareholders in the event of a shortfall in MTP targets.


コーポレートガバナンス・コード
〜会社の持続的な成長と中長期的な企業価値の向上のために〜

Supplementary principle 4.1.2

<u>Should the company fail to deliver on its mid-term business plan, the reasons underlying the failure of achievement as well as the company's actions should be fully analyzed, an appropriate explanation should be given to shareholders</u>, and analytic findings should be reflected in a plan for the ensuing years.

MTP withdrawn (May 2024)

- Changes in business portfolio and rapid changes in environment surrounding IT industry
- OP short of target owing to upfront spending on building operating base and engineer skill set, as well as rising personnel costs

<u>Plan withdrawan with no detailed explanation of cause or remedial action, no plan for subsequent years</u>

Explanation through engagement

- Aimed to raise efficiency and profitability while expanding standard M365 service through large-scale engineer deployment, <u>but growth in M365 demand slower than expected, margins failed to improve, engineer utilization dropped sharply</u>
- Engineer utilization has recovered, <u>but excessive focus on utilization meant taking on projects with no need of high-level skills, fall in margins on non-M365 projects</u>

<u>Owes to errors in management judgement, including poor strategy, not to changes in external environment</u>

Issue 3-5 External Directors not Fulfilling Oversight Function

- External directors are required to exercise oversight of management's decision making and the execution of their duties from an "outside" perspective, but JBS external directors seem not to be functioning.
- For example, despite patently excessive investment in property, the external directors argue there is "no problem owning [excessive] corporate housing properties if the ROE is above the sector average".
- The external directors are carelessly allowing the founder/management to satisfy their own whims as before the IPO, indicating insufficient governance by the Board. Below is an extract of responses to questions put in writing by GES to external directors.

Responses to "Questions for External Directors"
(extract)

Q: What is your opinion on asset and capital efficiency at present?

A: JBS ROE in FY9/2023 was 16%, above the sector average of 13.2% (JBS estimate). The P/B also compares favorably with peers.

Q: What is your opinion on using sale & leaseback on owned corporate housing and allocating proceeds to expanded shareholder returns?

A: <u>Corporate housing is treated as shared assets (companywide assets), making it difficult to evaluate capital efficiency for housing specifically,</u> but we look at ROE across the company. <u>The company ROE compares favorably with peers.</u>

JBS external directors

- <u>The opinion that an ROE above the sector average obviates the need to consider asset efficiency is directly opposed to the TSE's call for "management conscious of asset efficiency and balance sheet-based profitability".</u>
- <u>While the president and management admitted during dialogue the need to improve capital efficiency, the external directors' toleration of investment with low capital efficiency if sector-relative ROE is favorable shows a failure of oversight.</u>

Issue 3-6 Unclear Allocation of Management Responsibility for Failure of MTP

- Although the Board discussed the responsibility for the failed Nextscape acquisition, no mention was made whatsoever of where responsibility lies for the rapid failure of the company's first MTP following listing: a failure that owed to strategic error.
- In order to raise corporate value, the JBS Board, including external directors, should thoroughly discuss and clearly allocate responsibility for withdrawing the MTP, and unveil new targets and a new plan.

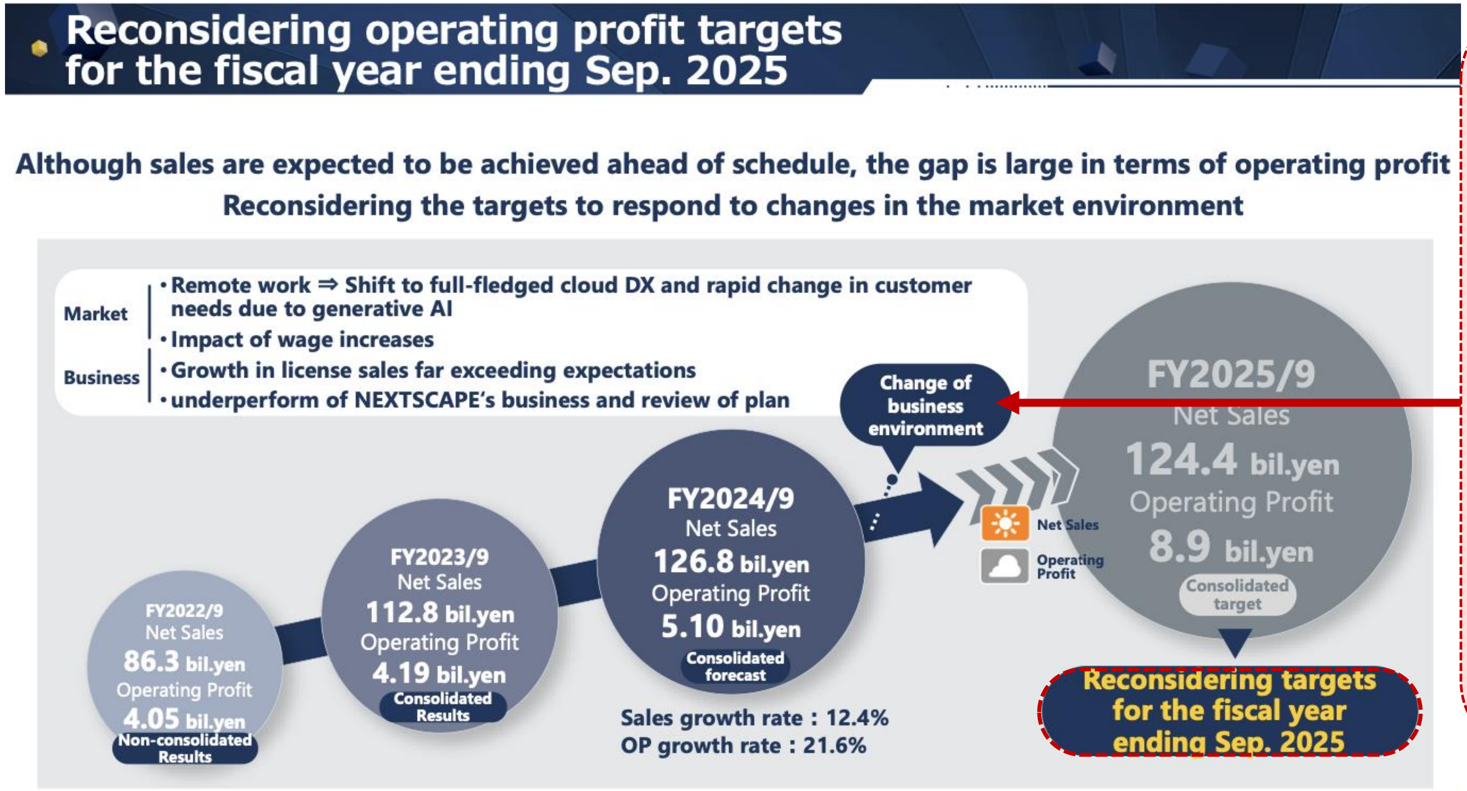
Issue		Discussion within JBS board	Position of JBS management
❶ Failed acquisition of Nextscape		Recognized responsibility, recommended reduction in executive pay, but external directors said voluntary repayment is preferable →President, SMD, MD surrendered part of monthly pay	Responsibility for failed acquisition lies with management
❷ Withdrawal of MTP OP target	Situation	**"No discussion of responsibility"** (What then are external directors doing?)	**Said targets withdrawn owing to "change in market environment"** (i.e., no responsibility lies with current mgt)
	Ideal	**Should be properly discussed at Board** (External directors should also aim to promote discussion)	**Should recognize error of judgement by management, who misread market environment** (Recognize mgt responsibility)

Needs to revise MTP and set & publish new OP targets urgently, and not just withdraw old targets. Should also disclose quickly if current targets are likely to be missed, or if MTP needs to be revised.

Source: GES discussions with JBS; JBS "Announcement Regarding Withdrawal of the Operating Profit Target as of the fiscal year ending 30 September 2025" (14 May 2024)

Issue 3-7 Are Shareholders and Investors Being Provided With Information Pertinent to the Situation?

- The JBS Board of Directors decided on 14 May 2024 to withdraw the FY9/2025 OP target in the MTP, which was announced on 11 November 2022.
- **The sole rationale given in the results briefing materials was a "change in the business environment".**
- However, as noted above, the withdrawal did not owe simply to a change in environment: rather, management had misread the market environment in its MTP, failing to anticipate waning demand for M365 among large companies, the target clientele.



- Only the OP target is withdrawn, suggesting the MTP shortfall is only partial
- However, no explanation has been given for the MTP shortfall, including the OP target
- JBS did not mention that it will not change its MTP policy, despite withdrawing the MTP owing to an unviable business strategy
- JBS has not provided shareholders and investors with necessary information relevant to the situation.

Source: Company disclosure materials

Summary of GES shareholder proposals

As noted above, JBS has not come up with a single effective strategy to address priority issues such as: reforming the business strategy, raising capital efficiency, and resolving governance inadequacies. The shareholder resolutions should be accepted for the benefit of shareholders and employees.

Issue 1: Serious share-price weakness owing to "IPO trap"

Issue 2: Huge real estate investment weighing on capital efficiency

Issue 3: Inadequate governance

GES shareholder proposals	
Proposal 1	Appropriation of Surplus ➢ ¥71 DPS (100% payout ratio before adjustment for extraordinary losses)
Proposal 2	Partial Amendment of Articles of Incorporation (Policy on Dividends from Surplus) ➢ Adjust dividend policy for next 3 years to 100% payout ratio
Proposal 3	Partial Amendment of Articles of Incorporation (Policy on Real Estate Acquisitions) ➢ Cap annual real estate investment at value of S/H returns
Proposal 4	Partial Amendment of Articles of Incorporation (Action to Implement Management That is Conscious of Cost of Capital and Stock Price) ➢ Include consideration of effective utilization of PPE
Proposal 5	Partial Amendment of Articles of Incorporation (Formulation and Disclosure of Plan to Change Listing Segment)
Proposal 6	Partial amendment of Articles of Incorporation (Directors' Consent to Individual Meetings with Shareholders)

3. Shareholder Proposals

To achieve management that is conscious of cost of capital and stock price

Proposal1

Appropriation of Surplus

Summary of the Proposal

The appropriation of surplus shall be as follows:
If the JBS Board of Directors or a shareholder other than GES submits a proposal for an appropriation of surplus at the General Shareholders' Meeting, this Proposal will be independently and additionally submitted.

(a) Dividend asset class : Cash

(b) Dividend per share : An amount calculated by deducting from 71 yen the value per common share of a dividend from surplus related to a proposal for appropriation from surplus submitted by either the Board of Directors or a shareholder other than GES, and approved, at the General Shareholders' Meeting (71 yen if the Board of Directors or a shareholder other than GES does not submit a proposal for an appropriation of surplus at the General Shareholders' Meeting). However, if the (consolidated) profit per share for the fiscal year ending September 2024 exceeds 71 yen, the value of the (consolidated) profit per share for the fiscal year ending September 2024 shall replace the 71 yen cited in the beginning of this paragraph.

(c) Matters regarding allotment of dividend property and total dividend :The dividend per share of common stock stated above in (b) (the total dividend is calculated by multiplying the dividend per share by the total number of issued common shares, excluding treasury shares, as of September 30, 2024).

(d) Effective date of dividend from surplus : The date of the General Shareholders' Meeting

Reasons for proposal

JBS paid an annual dividend for the fiscal year ending September 2023 of only 1,352 million yen (total dividend per share of 20 yen, converted based on the number of shares following the stock split effective April 1, 2023), in contrast to net profit of 3,522 million yen. This equates to a dividend payout ratio of only 25.7%. JBS has announced an interim dividend per share of 12 yen, which is 2 yen higher than the interim dividend for the fiscal year ending September 2023 (also converted based on the abovementioned stock split), with a date of record of March-end 2024. This totals to an annual dividend target of 25 yen per share, which is still unsatisfactory.

Having appropriate shareholder returns is crucial to maximizing shareholder value. GES proposes what it considers a bold return of profit to shareholders in which JBS pays out a dividend equivalent to a dividend payout ratio of 100% of net profit after adjusting to add back extraordinary losses. Even after this amount is paid in dividends, the total annual dividend would not exceed 3,220 million yen, which is considerably below the investment in real estate planned for the fiscal year ending September 2024 (acquisition of corporate housing, head-office relocation costs, total investment 8,483 million yen). Were JBS to pay a dividend with a payout ratio of 100% under the above assumptions, and assuming a present dividend yield of around 5% (the point at which a company might attract attention as a high-dividend stock), the share price would rise to approximately 1,420 yen. Should the dividend yield hold at around 2.5%, the share price could rise to 2,840 yen.

Proposal 2

Partial Amendment of Articles of Incorporation
(Policy on Dividend from Surplus)

Summary of the Proposal

Add the following text as Article 46 in Chapter 7, "Accounting," of the current Articles of Incorporation, and increase by one the numbering for current Article 46 and each subsequent Article.

Furthermore, if the text of this Proposal requires formal adjustment (including, but not limited to, a correction of numbering discrepancies) due to the approval of any other proposal at the General Shareholders' Meeting (including proposals by JBS), the text of this Proposal shall be read mutatis mutandis.

Policy on Dividend from Surplus

Article 46 The Company will adopt a dividend policy for the period encompassing the fiscal year ending September 2025 through the fiscal year ending September 2027 that stipulates, when setting the value of the annual dividend to be paid from surplus, a minimum annual dividend equivalent to a dividend payout ratio (calculated as the total dividend divided by net profit in the consolidated financial statements) of 100%. The annual dividend shall be determined in accordance with this dividend policy to the extent permitted by relevant laws and regulations.

Reasons for proposal

As noted above, the dividend from surplus paid by JBS in the prior year equates to a dividend payout ratio of only 25.7%. JBS has invested a huge amount in real estate, including eight corporate housing properties with book value of 12,907 million yen as of September-end 2023, and, by our estimates, the acquisition of two further corporate housing properties at a cost of 3,483 million yen in the fiscal year ending September 2024. In addition, JBS has unveiled a plan to spend 5,000 million yen on head office relocation in the fiscal year ending September 2024, including costs related to the construction of an employee canteen, while the planned dividend for fiscal year ending September 2024 is 25 yen per share or 1,137 million yen in total. Shareholder returns are currently conspicuously low, which makes it hard to avoid the conclusion that management neglects its shareholders. GES proposes that, in order to make a bold return of profit to shareholders, the dividend payout ratio be included in the dividend policy for a temporary period through the fiscal year ending September 2027.

The financial impact of the dividend policy suggested in this Proposal can be verified in the following way. Assuming net sales grow in the fiscal year ending September 2025 (fiscal September 2025) and beyond at the average growth rate for past fiscal years, and assuming the operating profit margin is on par with the JBS target for fiscal September 2024, then at end of fiscal September 2027 the net debt-to-equity ratio would be 0.4x, the net debt-to-EBITDA ratio 1.0x, and the net asset ratio 20%. Clearly, JBS would remain financially stable and continue to possess sufficient financial capacity. In addition, in fiscal September 2025 and beyond, net debt and related financial indicators are expected to fall. In testing the financial impact, we assume capital expenditure to equal depreciation for the fiscal September 2023, and did not assume any new real estate acquisitions for fiscal September 2025 through fiscal September 2027. However, even with a dividend payout ratio of 100% throughout this period as proposed here, the sharp improvement in financial ratios would offer JBS sufficient capacity to carry out further real estate investment.

Proposal 2 Continued

Projected changes in financial indicators if dividend policy in this shareholder proposal is adopted

(JPY mn)	FY9/2024	FY9/2025	FY9/2026	FY9/2027
Net sales	126,800	151,087	180,026	214,508
Sales growth (YoY)	12.4%	19.2%	19.2%	19.2%
Operating profit (OP)	5,100	6,077	7,241	8,628
OP margin	4.0%	4.0%	4.0%	4.0%
Net profit	1,500	3,837	4,572	5,447
Dividend per share	71	84	100	120
Total dividend	3,220	3,837	4,572	5,447
Dividend payout ratio	214.7%	100.0%	100.0%	100.0%
Net debt	12,075	11,458	10,723	9,848
Net debt-to-equity ratio	0.5x	0.5x	0.4x	0.4x
Net debt/EBITDA	2.1x	1.7x	1.3x	1.0x
Net asset ratio	31%	27%	23%	20%

Proposal 3 Partial Amendment of Articles of Incorporation (Policy on Real Estate Acquisitions)

Summary of the Proposal	**Add Chapter 8, "Acquisition of Real Estate," as a new chapter in the current Articles of Incorporation and include the following text as Article 47 in the new chapter.** Furthermore, if the text of this Proposal requires formal adjustment (including, but not limited to, correction of numbering discrepancies) due to the approval of any other proposal at the General Shareholders' Meeting (including proposals by JBS), the text of this Proposal shall be read mutatis mutandis. （**Policy on Real Estate Acquisitions**） **Article 47** The amount that the Company can use for the acquisition of real estate in a single business year shall be no more than the total of (a) the dividend from surplus for which the record date occurred in the business year immediately prior to the business year in which the acquisition of real estate will take place and (b) the value of JBS's own shares acquired in the business year immediately prior to the business year in which the acquisition of real estate will take place.
Reasons for proposal	JBS had around 16.2 billion yen in property, plant and equipment stated on the balance sheet at September-end 2023, even though the nature of its operations does not require large capital expenditure. Of these assets, eight corporate residences for employees have a total book value of 12,907 million yen, accounting for around 80% of property, plant and equipment. Moreover, in fiscal September 2024, JBS invested 3,483 million yen in the acquisition of two new corporate residences, and is estimated to have spent a total of 5.0 billion yen on relocating its head office, including the construction of an employee canteen, and as of June-end 2024, the value of property, plant and equipment had risen to around 24.3 billion yen. JBS justifies its provision of corporate housing as a means of attracting talent through housing employees in attractive city-center locations. However, no reasonable explanation has been given for the need to physically own company residences. JBS should aim to resolve the issue of attracting talent with a more fundamental measure, namely, higher pay, and it is not a given that first-party ownership of corporate housing is an effective way of securing employees. The average salary at JBS was 6.188 million yen as of September-end 2023, hardly a high level, and it is doubtful whether the investment of over 20.0 billion yen in property, plant and equipment is really more effective at recruiting and retaining employees than raising pay or other means, and indeed whether it is an efficient use of funds. JBS management has been consistently increasing the value of property, plant and equipment through the purchase of real estate for corporate housing, without rational cause, a course of action that is clearly contradictory to the TSE's requirement that management be "conscious of cost of capital and profitability based on the balance sheet." Management must be prevented from making unrestricted real estate acquisitions. GES therefore proposes setting an upper limit on the value of real estate acquisitions, while putting regulations in place that will improve management's appreciation of the balance between property investment and shareholder returns.

Proposal 4

Partial Amendment of Articles of Incorporation

(Action to Implement Management that is Conscious of Cost of Capital and Stock Price)

Summary of the Proposal

Add Chapter 8, "Measures Aimed at Encouraging Management to Take More Consideration of Cost of Capital and Profitability," as a new chapter in the current Articles of Incorporation, and include the following text as Article 47 in the new chapter.

Furthermore, if the text of this Proposal requires formal adjustment (including, but not limited to, a correction of numbering discrepancies) due to the approval of any other proposal at the General Shareholders' Meeting (including proposals by JBS), the text of this Proposal shall be read mutatis mutandis.

（**Measures to increase corporate value**）

Article 47 The Company shall, by March 31, 2025, establish measures to increase corporate value, and publish the details of the measures through TDnet (Timely Disclosure Network) operated by the Tokyo Stock Exchange.

2. The measures to increase corporate value shall include the following:
   - (1) Measures that can help increase corporate value across all businesses operated by the Company;
   - (2) Capital policy, including the analysis of the company's current cost of capital and market evaluation of the Company, and the setting of performance indicators aimed at increasing capital efficiency;
   - (3) Sale-and-leaseback arrangements over the Company's property, plant and equipment, including employee housing, and other measures aimed at the efficient use of property, plant and equipment (specifically, the Company shall ask several large real estate firms to propose ways of effectively utilizing its property, plant and equipment, and will decide how to proceed after receiving at least three proposals);
   - (4) Shareholder returns rooted in greater asset and capital efficiency; and
   - (5) Other measures that could contribute to increasing the corporate value of the Company.
3. The Board of Directors shall establish measures to increase corporate value based on the following processes:
   - (1) The Board of Directors shall draw up draft proposals for measures to improve corporate value after hearing, as necessary, the opinions of experts, external advisors, and shareholders and shall submit the proposals to a working group composed of outside directors. The working group shall summarize the expert opinions on the draft proposal, and present the summary to the Board of Directors. The Board of Directors shall give appropriate consideration to the findings of the working group when deciding upon initiatives to increase corporate value.
   - (2) When deciding upon initiatives to increase corporate value, the Board of Directors shall solicit the opinions of shareholders, or of persons authorized to invest in the shares of JBS by a discretionary investment agreement, other agreement, or laws and regulations ("Investment Manager"), that own at least 1.5% of the voting rights in JBS as of September 30, 2024.

Proposal 4

Continued

Reasons for proposal

JBS withdrew its medium-term business plan targets this year, which has made it an urgent priority to restore its market valuations by developing and announcing new initiatives to increase corporate value. In addition, JBS has still not published a plan to ensure management is sufficiently conscious of the cost of capital and profitability, as requested by the TSE. For this reason, JBS should consider and draw up initiatives to increase corporate value and announce these to investors as a matter of priority. It is especially critical that JBS release funds by reviewing its 24.3 billion yen of property, plant and equipment, and redeploy the funds to investment in new business development or shareholder returns. Although no rental payments are included in the income statement at present, in reality the huge sums invested have simply been included in the balance sheet as property, plant and equipment. As of June-end 2024, property, plant and equipment was 24,330 million yen, while net debt was 13,072 million yen, and it would be reasonable to expect the net proceeds obtained from sale & leaseback arrangements to exceed these liabilities by a considerable amount. JBS should enter into a sale & leaseback arrangement on its first-party corporate housing as part of measures to increase corporate value. Although entering into such an arrangement will trigger rental payments, it will also eliminate the drag on operating profit from the depreciation of property, plant and equipment when owned as real estate, and the overall impact on operating profit could be positive. JBS has rejected GES's suggestion, arguing that losses on sale would arise even after ignoring the rental costs. However, JBS's position that relatively new buildings with prime locations in central Tokyo such as Minato Ward and Shibuya Ward would necessarily result in losses on sale appears divorced from rational analysis and is difficult to accept. Rather than basing decisions on idiosyncratic opinions, JBS should ask major real estate companies (specific examples are Nomura Real Estate, Mitsubishi UFJ Real Estate Services, Mitsui Fudosan, Mitsubishi Estate, Sumitomo Realty & Development, and Tokyu Livable) to submit proposals for the effective utilization of its property, plant and equipment that are based on objective analysis, and consider specific measures based on those proposals. Outside directors of JBS told GES that the purchases of corporate housing are not an issue since the company's ROE of 16% is above the sector average. However, the idea that the use of company assets is beyond question if the ROE is above the sector average is contrary to the TSE request that management be "conscious of the cost of capital and profitability based on the balance sheet" and cannot be deemed appropriate. In addition to ROE, which gives no consideration to the efficient use of operating assets, JBS should pay close attention to measures of capital efficiency such as ROIC, which uses operating assets (working capital + non-current assets) as the denominator and NOPAT (OP – income taxes) as the numerator. It would be most appropriate for JBS to establish measures to increase corporate value, including detailed proposals that apply to all JBS operations without certain areas being fenced off.

Proposal 5

Partial Amendment of Articles of Incorporation

(Formulation and Disclosure of Plan to Change Listing Segment)

Summary of the Proposal

Add Chapter 8, "Plan to Change Listing Segment," as a new chapter in the current Articles of Incorporation, and include the following text as Article 47 in the new chapter.

Furthermore, if the text of this Proposal requires formal adjustment (including, but not limited to, a correction of numbering discrepancies) due to the approval of any other proposal at the General Shareholders' Meeting (including proposals by JBS), the text of this shall be read mutatis mutandis

（Formulation and Disclosure of Plan to Change Listing Segment ）

Article 47 The Company will, by June 30, 2026, formulate a plan to change the listing segment on the Tokyo Stock Exchange from the Standard Market to the Prime Market (Plan to Change Listing Segment), and publish the plan using the TDnet system run by the Tokyo Stock Exchange.

2. The Plan shall aim to change the listing segment by the end of the fiscal year ending September 2028 at the latest, and must be a reasonable and specific plan including details of the required processes and schedules.

Reasons for proposal

JBS has been listed on the Standard Market since 2022. Management has explained to GES that it intends to transfer its listing segment to the Prime Market. A clear intention to transfer its listing segment to the Prime Market, which has higher liquidity and more investors participating, should contribute to sustained growth and longer-term improvement in corporate value. Of course, transfer to the Prime Market would require a review by the TSE based on formal requirements and effective standards, and to this end JBS will need to both formulate a specific transfer plan, and plan and enact measures to address any unmet conditions or standards. However, at present JBS has provided no explanation whatsoever of a specific plan to support the change in the listing segment to the Prime Market. In light of this situation, GES proposes that JBS formulate and disclose a plan for the change to the Prime Market, including specific targets and a schedule based on these targets.

Proposal 6

Partial Amendment of Articles of Incorporation

(Board of Directors' Consent to Individual Meetings with Shareholders)

Summary of the Proposal

Add the following text as Article 31 in Chapter 4, "Directors and the Board of Directors," of the current Articles of Incorporation, and increase by one the numbering for current Article 31 and each subsequent Article.

Add the following text as Article 31 in Chapter 4, "Directors and the Board of Directors," of the current Articles of Incorporation, and increase by one the numbering for current Article 31 and each subsequent Article.

（Board of Directors' Consent to Individual Meetings with Shareholders ）

Article 31 If a shareholder, or a person authorized to invest in the shares of the Company by a discretionary investment agreement, other agreement, or laws and regulations ("Investment Manager"), that holds at least 1.5% of the voting rights in the Company, requests an individual meeting, the Board of Directors shall hold an individual meeting within 20 working days. However, if an individual meeting cannot be held within the specified period for unavoidable reasons, the Company shall notify the shareholder or Investment Manager that requested the meeting to this effect within five working days, and propose an alternative date and time when the meeting can be held. The minimum number of meetings per shareholder or Investment Manager to be held in the event of a request for individual meetings shall be one per quarter in the case of executive directors and one per year for non-executive directors.

Reasons for proposal

The Corporate Governance Code states that, in order to increase corporate value, publicly traded companies should engage in constructive dialogue with shareholders outside of general shareholders' meetings. In addition, the principle of equal treatment of shareholder permits difference in treatment, within reason, depending on the number of shares held. The principle therefore does not preclude individual meetings with major shareholders when used for the purposes of engaging in dialogue to increase corporate value.

On May 14, 2024, JBS withdrew its medium-term business plan while simultaneously lowering its net profit forecast for the fiscal year from 3.45 billion yen to 1.5 billion yen. However, it did not announce a new management policy or earnings targets in place of the old plan, which is problematic in terms of its duty of transparency and accountability to shareholders. Management is not sufficiently committed to providing explanations to shareholders and should attempt to engage much more proactively in dialogue with investors. If JBS were to amend the Articles of Incorporation to clearly state that management has a duty to respond to invitations from major shareholders for individual meetings, not only would it help increase corporate value by promoting constructive dialogue with shareholders, but the development would also be groundbreaking in terms of demonstrating a more transparent and open attitude among management, and could trigger a market reappraisal of the stock.

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About Global ESG Strategy

Global ESG Strategy ("GES"), an investment fund that is managed by SAFS, makes medium- to long-term investments from an ESG (Environment, Social and Governance) perspective, and its policy is to promote improvements on enterprise value and shareholder value of investee companies through constructive dialogue with investee companies and other means.

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