Press Release

Global ESG Strategy

May 22, 2024

Regarding shareholder proposal made to Tokyo Cosmos Electric

Global ESG Strategy ("GES"), an investment fund managed by Swiss-Asia Financial Services Pte Ltd (“SAFS”), makes medium- to long-term investments from an ESG (Environment, Social and Governance) perspective. As a responsible investor, the target is to promote improvements in medium- to long-term enterprise value and shareholder value of listed Japanese companies through constructive dialogue with management and other means.

In 2023, GES began investing in Tokyo Cosmos Electric Co., Ltd (“TOCOS” or the “Company”; Securities Code: 6772), which is listed on the Tokyo Stock Exchange’s Standard Market. GES has engaging with the Company for this entire period. Currently, SAFS-managed funds own roughly 16% of all TOCOS shares with voting rights. GES has held repeated dialogues with TOCOS executives, promoting changes to management to make it more focused on the Company’s share price, cost of capital, and return on capital. However, the Company has not provided a sufficient response to the concerns raised.

In addition to its original core business of variable resistors, TOCOS operates an automotive devices business. In FY2017 (the year to March 2018), the automotive devices business accounted for more than 50% of sales, and since then earnings have increased further. Sales reached an all-time high in FY2022 and the consolidated operating profit margin has exceeded 10% each year since. In April this year, TOCOS issued a new medium-term plan (MTP) that aims to achieve a dividend-on-equity (DOE) ratio of 3.5% in FY2026 and to increase the dividend in stages. The Company also stated its intention to alter the shareholder returns policy. These new efforts deserve a certain level of recognition.

However, despite the fact that TOCOS has grown its earnings and made progress in improving the financial base, it still retains an excessive amount of capital and its management policy cannot be called adequately efficient. This inefficiency has distorted the Company’s valuation and caused the stock to be extremely undervalued relative to industry peers. Moreover, TOCOS does not proactively engage in dialogue with shareholders – only some directors responded to GES’s requests for individual interviews with directors. The fact that board efficiency is lacking also suggests that outside directors are unable to properly supervise TOCOS management, and unless aggressive shareholder action is taken, the situation cannot be expected to improve.

To resolve the management issues that TOCOS faces, GES has submitted the following three shareholder proposals ("our proposals") to the regular general shareholders' meeting to be held in June 2024. Our proposals are intended to improve capital efficiency and promote dialogue with shareholders. See the attachment for further details.

Proposal 1: Appropriation of Surplus – Provide a dividend per share of ¥571

Proposal 2: Partial Amendment to the Articles of Incorporation (regarding surplus-capital dividend policy) – Maintain a dividend payout ratio of 100% or a DOE ratio of 10% from FY2024 to FY2026

Proposal 3: Partial Amendment to the Articles of Incorporation (regarding directors' meetings with shareholders) – Require directors to respond to requests to meet with major shareholders within 20 working days

Approving our proposals would send a clear message to the TOCOS board of directors – that they are fully accountable for maintaining inefficient management policies, and are expected to make capital allocation decisions that are more efficient and align with the interests of all stakeholders. Through these proposals, we aim to promote the necessary improvements to TOCOS's corporate governance, putting into effect a management that pursues capital efficiency, and the maximization of shareholders' common interests.

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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.

About Swiss-Asia Financial Services

SAFS was founded in 2004, and is a Singapore based investment management company that holds a Capital Markets Services (CMS) License under the Singapore Securities and Futures Act (SFA).

Disclaimer

This document is for the purpose of providing information on shareholder proposal by Global ESG Strategy ("**GES**") which is managed by Swiss-Asia Financial Services Pte Ltd ("**SAFS**") to TOCOS and should not be used for any other purpose.

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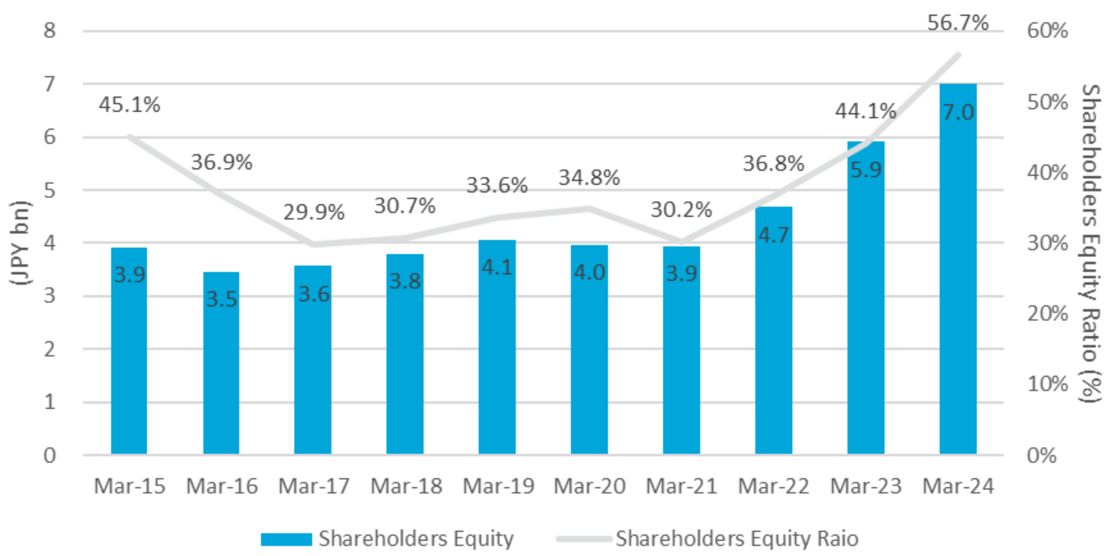
This document does not, and should not be construed as, a request for SAFS et al. to grant SAFS et al. or any other third party the authority to exercise voting rights on behalf of the shareholders of TOCOS with respect to the agenda at the General Meeting of Shareholders. In addition, it does not propose, encourage, solicit or aim to grant the shareholders of TOCOS the right to exercise their voting rights on their behalf by designating SAFS et al. or any other third party as their proxy.

Attachment

Need for improved capital efficiency

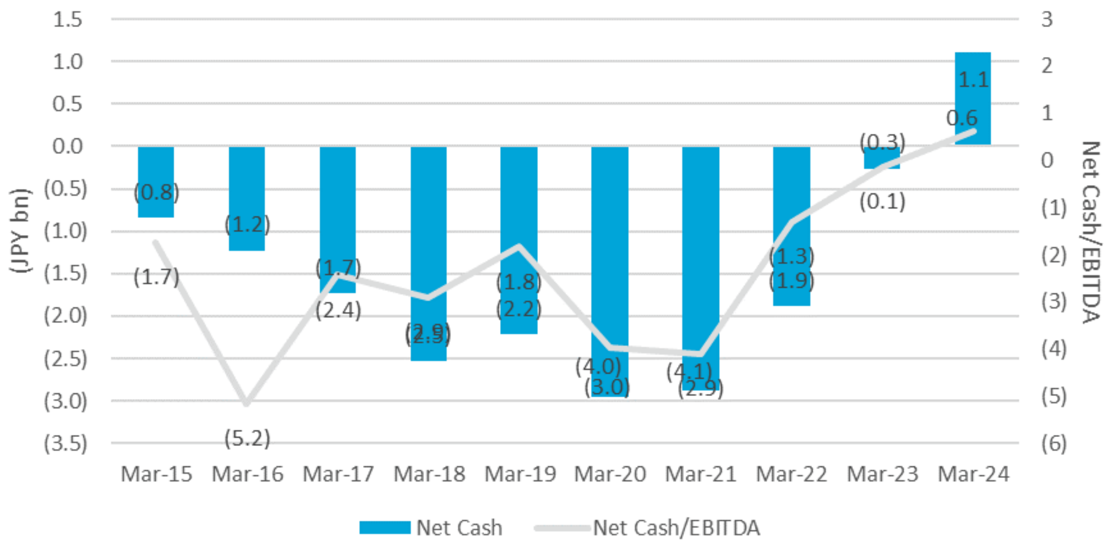
- In addition to its original core business of variable resistors, TOCOS operates an automotive devices business. In FY2017, the automotive devices business accounted for more than 50% of sales, and since then TOCOS's earnings have increased further. Sales reached an all-time high in FY2022, when the impact of the COVID-19 pandemic faded.
- The sales weighting of the automotive devices business reached 58.7% in FY2023. Thanks in part to the contribution from the automotive devices business, the Company's consolidated operating profit margin also turned positive in FY2017. Operating profit has been positive since, and increased sharply since FY2021. The consolidated operating profit margin has exceeded 10% in each of the past two fiscal years.
- Along with sales and profits, net assets have also increased. Net assets were at ¥4.0 billion at March-end 2019 and have increased at a growing pace since. At March-end 2024, net assets exceeded ¥7.0 billion and the ratio of net assets to total assets exceeded 56.7%.
- Turning to the balance sheet items of cash & equivalents and interest-bearing debt, since FY2020 net interest-bearing debt has decreased steadily amid earnings growth, and in FY2023, TOCOS achieved a net cash position.
- However, TOCOS has not increased capital expenditures, nor has it formulated a policy for utilizing capital for either appropriate growth investments or shareholder returns, and the company continues to amass cash & equivalents and net assets to no end.

Net assets and net asset ratio



Source: TOCOS presentation materials

Net cash



Source: TOCOS presentation materials

- Although TOCOS has made progress in terms of increasing earnings and improving its financial base, it has not been managed in a way that is cognizant of effective use of net assets and net cash. As a result, as of the end of FY2023, the Company's cash & equivalents exceeded its interest-bearing debt and was 0.6x EBITDA.
- This inefficiency has distorted the stock's valuation and led to the stock being extremely undervalued relative to industry peers. Based on estimates for FY2024, the stock trades at an EV/EBITDA multiple of 3.0x and a P/E ratio of 9.3x, while its P/B ratio based on BPS at the end of FY2023 is just 0.74x.
- **In order to free TOCOS from this situation, GES is calling on the company to improve its capital efficiency and provide a higher level of shareholder returns through either a dividend payout ratio of 100% or more or a DOE ratio of 10% or more, whichever is higher.**

Shareholder Proposal 1: FY2023 dividend per share of ¥571

- TOCOS's amassed internal reserves ought to be used for aggressive investment in new businesses. At this point, however, the Company has not presented a sufficiently specific investment plan, so we propose that it provide bolder shareholder returns, with a dividend payout ratio of 100% (see note). Assuming a dividend in line with this proposal and a dividend yield of 3.0%, we would expect TOCOS's share price to rise to around ¥19,000 (roughly 5x the current share price).

Shareholder Proposal 2: Maintain a dividend payout ratio of 100% or a DOE ratio of 10% from FY2024 to FY2026

- Although TOCOS's new MTP suggests that shareholder returns will improve, it is still insufficient in that there will continue to be excessive capital retention. We propose a dividend payout ratio of 100% for the FY2023-end dividend, that the dividend be kept at this level through FY2026 (as a temporary measure to return accumulated internal reserves to shareholders), and that the articles of incorporation specify a dividend payout ratio of 100% or more and a DOE ratio of 10% or more in the dividend determination policy.

Note: The dividend of ¥571 in Proposal 1 is an amount that would have resulted in a dividend payout ratio of 100% based on the company's forecast, at the time the shareholder proposals were submitted, for net profit attributable to owners of the parent company in FY2023. However, when the company reported FY2023 earnings, net profit attributable to owners of the parent company was higher than expected, bringing the dividend payout ratio on a ¥571 dividend to around 80%.

- Having rationally examined the financial impact of the dividend policy in our proposals based on assumptions that take into account the sales, profit, and capex projections in TOCOS's new MTP, we believe it is possible for the Company to achieve, at the end of FY2026, a D/E ratio of 0.3x, a net debt/EBITDA ratio of 1.0x, and a net asset ratio of 47%.
- TOCOS says that based on the new MTP, it foresees a modest net cash position at the end of FY2026, while the dividend policy in our proposals would lead to a modest net debt position. It is clear there would be no damage to the company's financial health, however, and that the company would continue to have sufficient financial strength.

Need for promoting dialogue with shareholders

- GES requested an individual interview with each director of TOCOS to discuss the above-mentioned issues regarding the distribution of surplus capital and insufficient capex, and as well as a venue for discussing with the board of directors the status of the Company's corporate governance and management strategy going forward.
- To date, however, there have been no meetings other than with Executive Managing Director Hideo Nakajima and Director and Audit & Supervisory Committee Member Masanori Ono.
- The Corporate Governance Code stipulates that to increase enterprise value, listed companies should engage in constructive dialogue with shareholders on occasions other than the general shareholders' meeting.
- GES proposes that TOCOS's articles of incorporation specify that Company directors have an obligation to meet individually with major shareholders.
- Listed companies have large numbers of highly dispersed small shareholders. Even if such shareholders, at their own expense (money and time), attempt to instill management discipline through dialogue with directors, the benefits gained through these efforts will likely be low relative to the cost, since such benefits accrue to all shareholders, not just the shareholders involved. Accordingly, such shareholders have no incentive to try to instill management discipline. Thus, listed companies have a problem: it is possible that even if the management team acts in a way that

damages enterprise value, no disciple will be imposed, since shareholders are highly dispersed. However, when large shareholders, at their own expense (money and time), representing numerous small shareholders, impose discipline on management through constructive dialogue in meetings with individual directors, it does promote increased enterprise value. Since the benefits thus obtained accrue not only to the large shareholders involved, but to all shareholders, having major shareholders take the initiative to meet with directors individually is in the common interest of all shareholders.

- Implementing this policy would not only help increase TOCOS's enterprise value by promoting constructive dialogue with shareholders, but would demonstrate a high degree of transparency and openness from TOCOS's management team. This would be groundbreaking, and present (both internally and externally) TOCOS as a pioneer among listed companies, leading to a revaluation of the company's stock.

Shareholder Proposal, Item 3: Dialogue between directors and shareholders

- We propose that when a shareholder with 3% or more of total voting rights, or a corporate manager with the necessary authority to make investments, requests an individual meeting, the meeting will be conducted within 20 business days (however, if an individual meeting cannot be held within this timeframe for unavoidable reasons, the shareholder or corporate manager requesting the meeting will be notified that this is the case within five business days, and the time when the meeting can take place will be set separately).
- Regarding the number of individual meetings to be held when such meetings are requested, for each investor or corporate manager involved, executive directors will meet at least once a quarter and non-executive directors will meet at least once a year.