GLOBAL ESG
STRATEGY

TOCOS®
東京コスモス電機株式会社
TSE Standard Market
code: 6772

Regarding shareholder proposal made to Tokyo Cosmos Electric

（Presentation materials）

May 29, 2024
Global ESG Strategy

0-1 Executive Summary

- In 2023, Global ESG Strategy (GES), an investment fund managed by Swiss-Asia Financial Services Pte Ltd (SFAS), began investing in Tokyo Cosmos Electric Co., Ltd ("TOCOS" or the "Company"; Securities Code: 6772), and has continued to engage with the Company since. 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.
- In April 2024, TOCOS issued a new medium-term plan (MTP) that aims to achieve a dividend-on-equity (DOE) ratio of 3.5%. In this and other ways, the Company has altered its shareholder returns policy, and such efforts deserve a certain level of recognition. However, the Company still retains an excessive amount of capital, and its management policy cannot be called adequately efficient.
- Moreover, TOCOS is not proactive in dialogue with shareholders, with only some directors responding to GES's requests for individual interviews. The fact that management is lacking efficiency also suggests to us that outside directors are unable to properly supervise TOCOS management.
- To resolve the management issues that TOCOS faces, GES has submitted the following three shareholder proposals ("our proposals") for the regular general shareholders' meeting to be held in June 2024. Our proposals are intended to improve capital efficiency and promote dialogue with shareholders.

Aim	Proposals	Proposal
Improve capital efficiency and alter shareholder returns policy	Proposal 1	Appropriation of surplus capital
	Proposal 2	Partial Amendment of Articles of Incorporation (dividend policy for surplus capital)
Promote dialogue with shareholders	Proposal 3	Partial Amendment of Articles of Incorporation (handling of meetings with shareholders by directors)

- Through these proposals, we will promote improvements to TOCOS's corporate governance, putting into effect management that pursues capital efficiency and the maximization of shareholders' common interests.

0-2 About Global ESG Strategy

■ 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, SAFS-managed funds own roughly 16% of all TOCOS shares with voting rights.

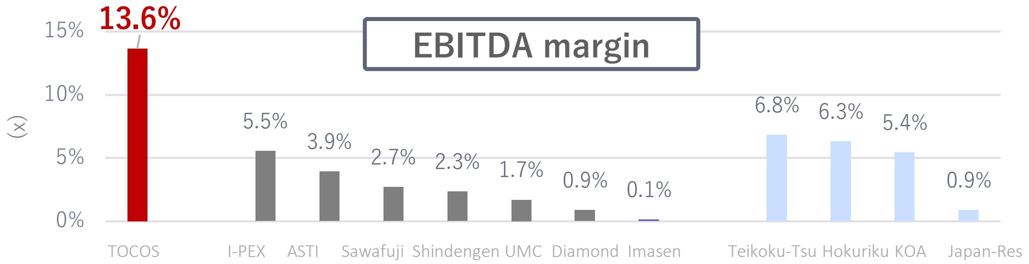
For more on Global ESG Strategy:
https://prtimes.jp/main/html/searchrlp/company_id/135781

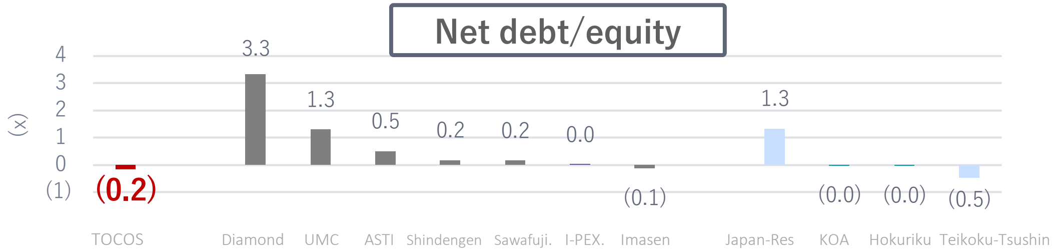
1-1 TOCOS: Current Status and Issues

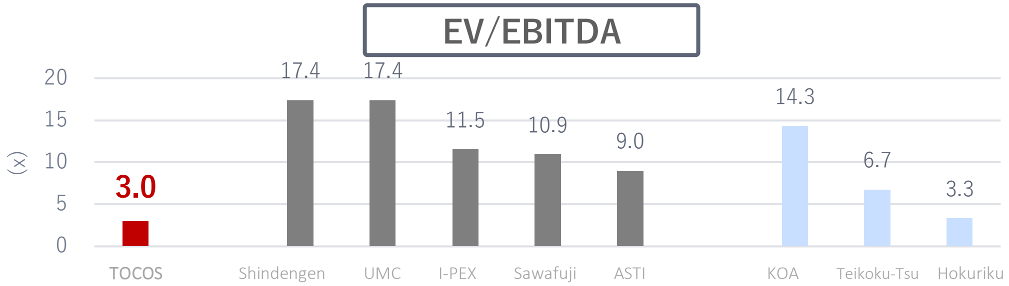
Tokyo Cosmos Electric (TOCOS) TSE Standard Market (ticker code: 6772)

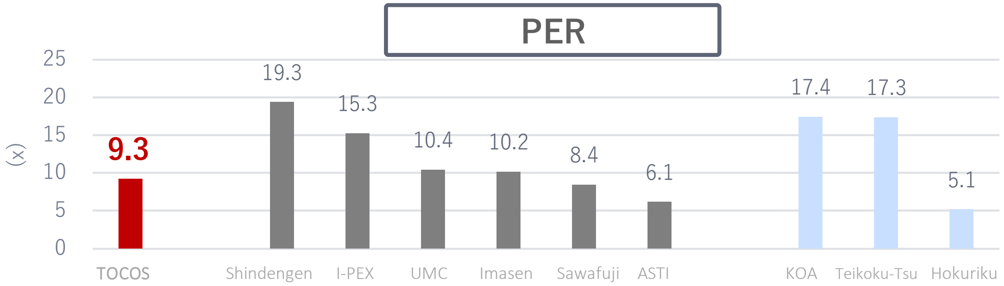
- Major manufacturer of variable resistors for industrial equipment. Also manufactures automotive sensors and flexible heating sheets for resistor applications.
- Sales: ¥10.43 billion; OP: ¥1.26 billion; net profit: ¥0.96 billion; net assets: ¥7.0 billion (FY2023)
- Market cap: ¥5.19 billion (as of May 20)

- TOCOS manufacturers variable resistors and automotive devices, and although it boasts an extremely high EBITDA margin, its poor capital efficiency means that its stock is extremely undervalued.
- Its forward EV/EBITDA margin is 3.0x (lowest in the industry) and its forward P/E ratio is a lackluster 9.3x.
- On the balance sheet, TOCOS has achieved a net cash position.





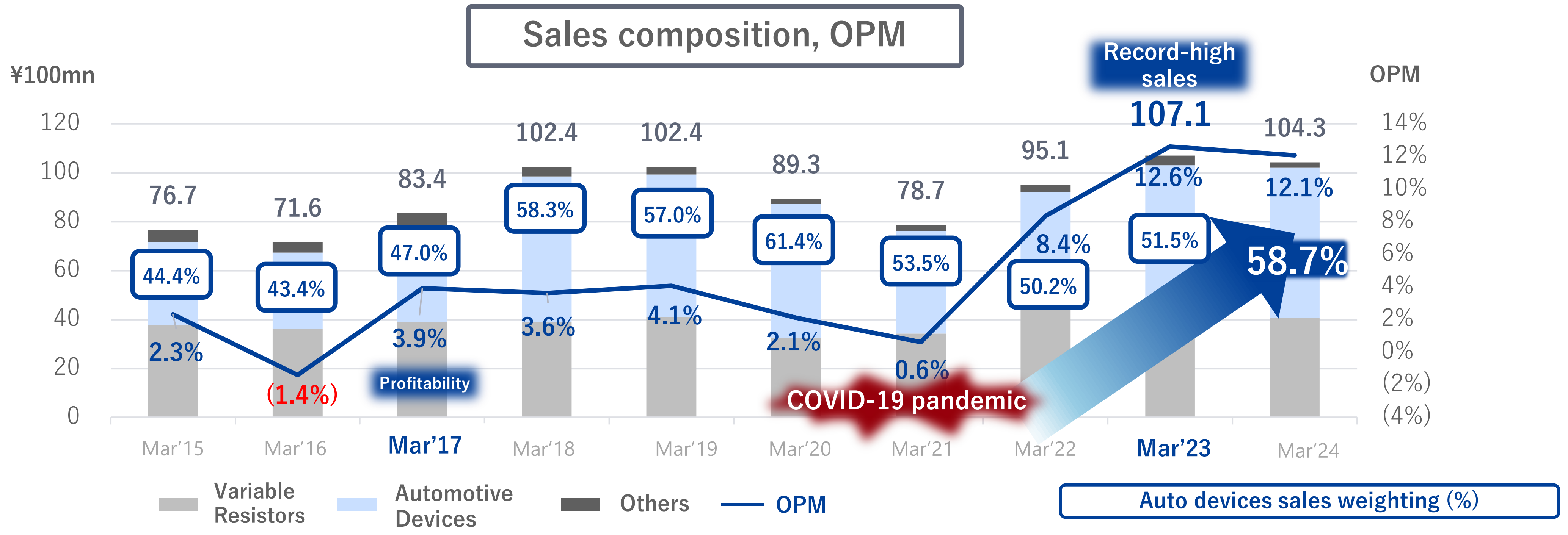




Source: Company presentation materials

1-2 Strong Earnings in the Last Two Years, with OPM Exceeding 10%

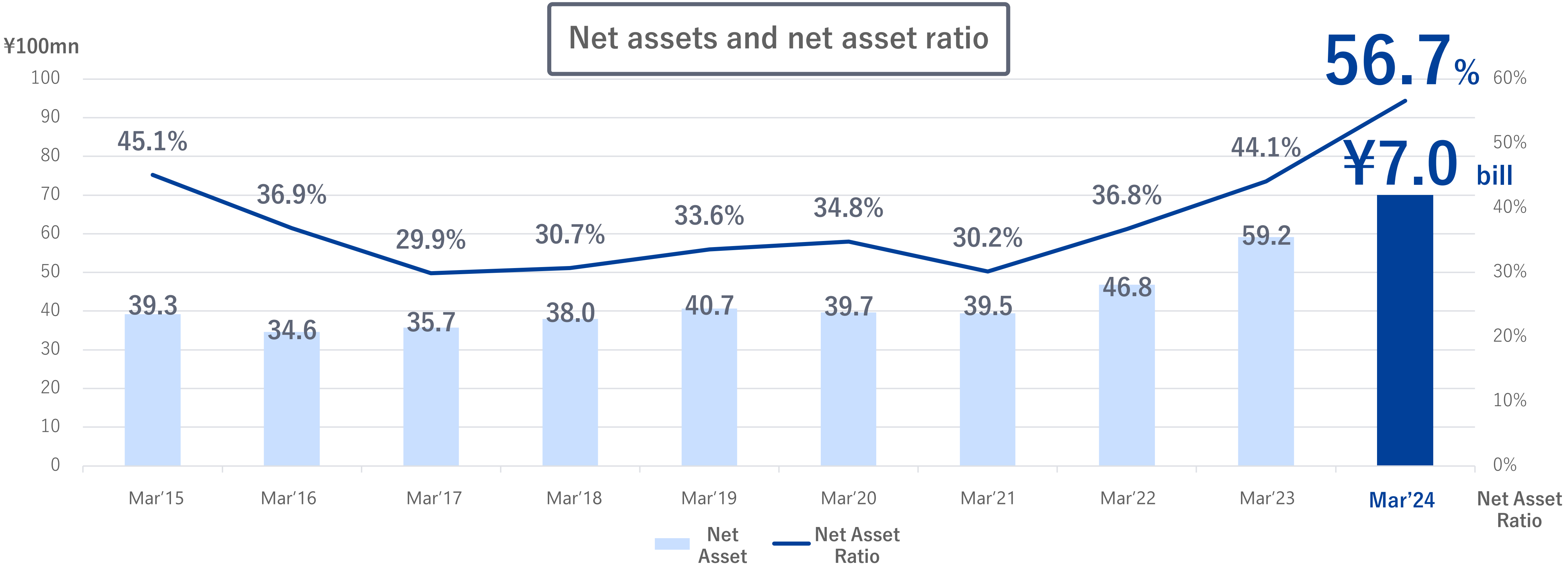
- In addition to its original core business of variable resistors, TOCOS operates an automotive devices business. In FY2017, the automotive devices business accounted for more than 50% of sales. Since then, TOCOS's earnings have increased further, and sales reached an all-time high in FY2022, once the 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 turned positive in FY2017. Operating profit has been positive since then, increasing sharply since FY2021. The consolidated operating profit margin has exceeded 10% in each of the past two fiscal years.



Source: Company presentation materials.

1-3 Net Assets Continue to Swell, Capital Efficiency Needs to Improve

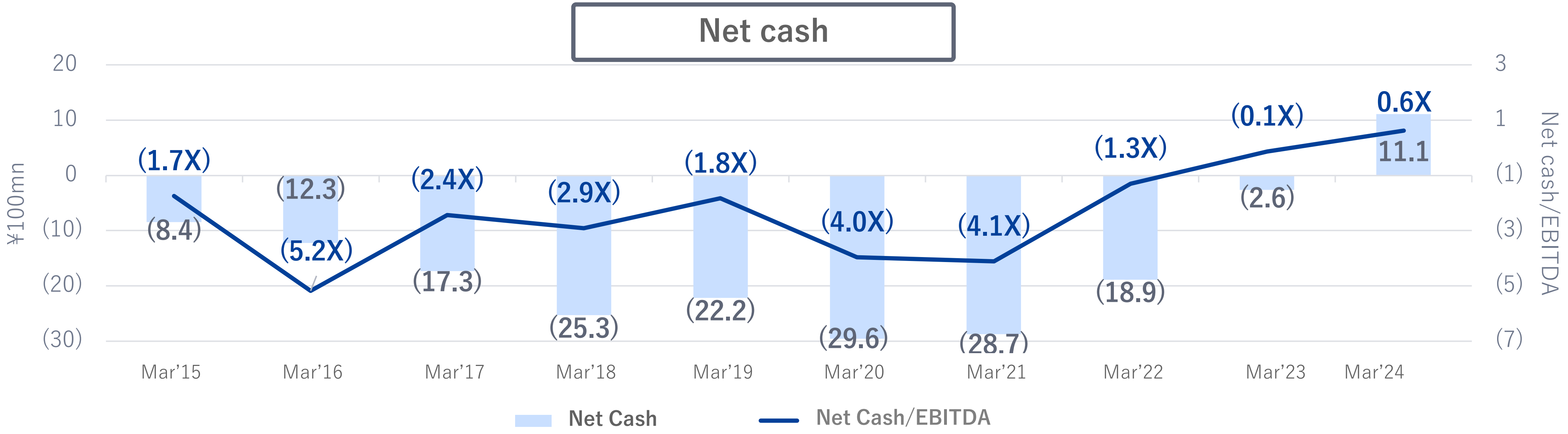
- Along with sales and profits, net assets have also increased.
- Net assets were at ¥4.0 billion at March-end 2019 and have increased at a growing pace since then. At March-end 2024, net assets exceeded ¥7.0 billion and the ratio of net assets to total assets exceeded 56.7%.



Source: Company presentation materials.

1-4 Necessary Level of Net Cash

- 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 <u>the Company continues to rapidly amass cash & equivalents and net assets to no end.</u>
- Having examined the financial impact of our proposals (regarding dividend policy), 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%.
- <u>It is clear the adoption of our proposals would not damage TOCOS's financial health, and the Company would continue to have sufficient financial strength.</u>



Source: Company presentation materials.
Note: based on rational examination of 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.

Proposal 1 Appropriation of Surplus Capital

- To make TOCOS capital-efficient, we have submitted Proposals 1 and 2, which aim to increase enterprise value and the stock price through a utilization of capital considered optimal by all stakeholders.
- 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%.
- Assuming a dividend in line with this proposal (see note) 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).

Overview of proposal

Surplus capital is to be appropriated as follows. If the Company's board of directors or shareholders in the Company other than us make a proposal regarding the appropriation of surplus capital, our proposal shall be made in addition to and independent of such proposals.

(1) Type of dividend property: Cash

(2) Dividend per share: ¥571, less the dividend of surplus capital per share of common stock in any proposal related to the appropriation of surplus capital that is submitted by the company's board of directors or shareholders in the company other than us at this General Shareholders' Meeting and approved (¥571 if no proposal related to the appropriation of surplus capital is submitted by the company's board of directors or shareholders in the company other than us at this General Shareholders' Meeting).

(3) Matters related to the allocation of dividend assets and their total amount: The total amount will be calculated by multiplying the dividend per share of common stock in (2) by the total number of shares issued (excl. treasury stock) as of March 31, 2024.

(4) Date on which dividend of surplus capital becomes effective: Date of this General Shareholders' Meeting.

Reasons for proposal

In April 2024, 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 its shareholder returns policy. These new efforts deserve a certain level of recognition. However, the Company's dividend payout ratio has remained low for the past several years, and even though the Company has conducted share buybacks, its net cash has reached roughly ¥0.7 billion. Company officials have indicated to us that they foresee a modest net cash position at FY2026-end, which cannot be called an adequately efficient capital plan. The Company is also still far from fulfilling the Tokyo Stock Exchange's request for management that is conscious of the cost of capital and return on capital based on the balance sheet. Since no adequate investment plan has been presented to date, we propose bolder shareholder returns in the form of a 100% dividend payout ratio (see note). Assuming a dividend yield of 3.0%, we would expect the share price to rise to around ¥19,000 (roughly 5x the current share price).

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 in fiscal year 2023. However, when the Company reported fiscal year 2023 earnings, net profit was higher than expected, bringing the dividend payout ratio on a ¥571 dividend to around 80%.

Proposal 2 Partial Amendment of Articles of Incorporation (dividend policy for surplus capital)

- 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.

Overview of proposal

The following article will be newly established as Article 41 of Chapter 7 of the Articles of Incorporation, and Article 41 and subsequent articles in the current Articles of Incorporation will be moved down by one article. Note that, in the event that formal adjustments need to be made to the articles contained in our proposals (including, but not limited to, adjustments to article numbers) as a result of the passage of other proposals (including proposals related to company proposals) at the General Meeting of Shareholders, the articles in our proposal shall be replaced by articles to which the necessary adjustments have been made.

(Dividend policy for surplus capital)
Article 41: During the period from FY2024 through FY2026, the company, when determining the annual dividend of surplus capital, shall use a dividend policy in which the amount of the annual dividend is the higher of either a dividend payout ratio (based on the sum of the total dividends and net profit figures in the consolidated financial statements) of 100% or a dividend-on-equity (DOE) ratio (based on the sum of total dividends and net assets figures in the consolidated financial statements) of 10%, and to the extent permitted by law, determine the annual dividend in accordance with this dividend policy.

Reasons for proposal

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, and that the dividend be kept at this level through to 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.
Having rationally examined the financial impact of the dividend policy in our proposals based on assumptions accounting for sales, profit, and capex projections in TOCOS's new MTP, we believe it is possible for the company to achieve a D/E ratio of 0.3x, a net debt/EBITDA ratio of 1.0x, and a net asset ratio of 47% at end-FY2026.
TOCOS says that based on the new MTP, it foresees a modest net cash position at FY2026-end, 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.

2-1 Potential for Significant Revaluation of Stock

- If TOCOS commits to a consistently high dividend and becomes considered a high-dividend stock, there would be substantial potential for a revaluation.
- Assuming a dividend payout ratio of 100% and a rise in the dividend yield to around 3%, TOCOS's share price should rise to ¥23,752.

	Company's proposed dividend		Dividend payout ratio		Dividend in our proposal (Proposal 1)	Dividend in our proposal (Proposal 2)
Dividend per share	¥145	¥178	¥356	¥534	¥571	¥713
Dividend payout ratio	20%	25%	50%	75%	80%	100%
Dividend yield						
7.50%	1,933	2,375	4,750	7,126	7,613	9,501
7.00%	2,071	2,545	5,090	7,634	8,157	10,179
6.50%	2,231	2,741	5,481	8,222	8,785	10,962
6.00%	2,417	2,969	5,938	8,907	9,517	11,876
5.50%	2,636	3,239	6,478	9,717	10,382	12,955
5.00%	2,900	3,563	7,126	10,688	11,420	14,251
4.50%	3,222	3,959	7,917	11,876	12,689	15,834
4.00%	3,625	4,453	8,907	13,360	14,275	17,814
3.50%	4,143	5,090	10,179	15,269	16,314	20,359
3.00%	4,833	5,938	11,876	17,814	19,033	23,752
2.50%	5,800	7,126	14,251	21,377	22,840	28,502
2.00%	7,250	8,907	17,814	26,721	28,550	35,628

Roughly current share price level

Share price level assuming 100% dividend payout ratio

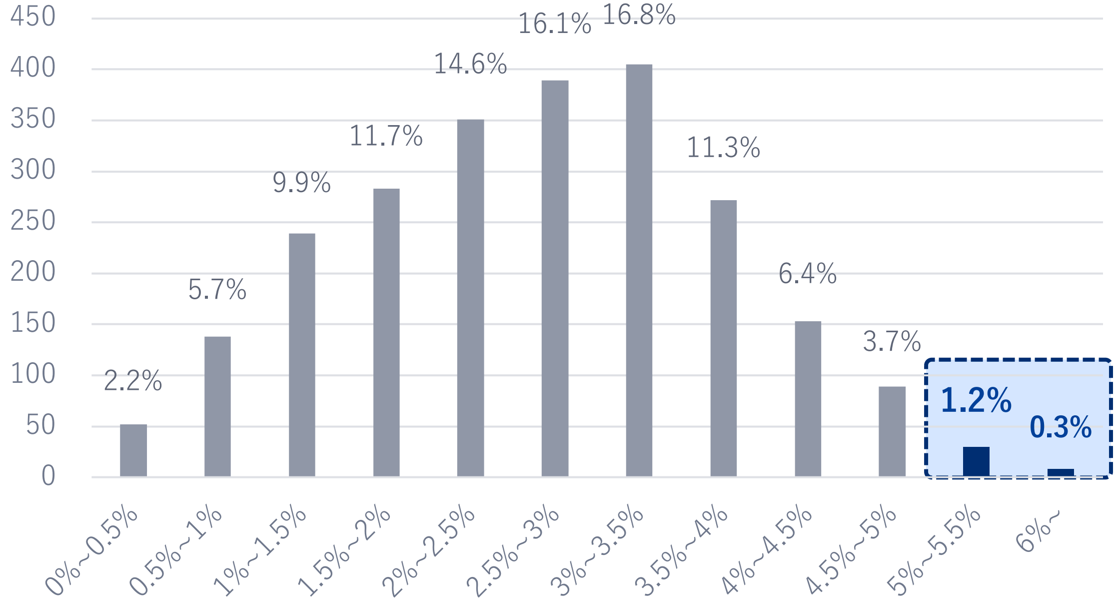
Share price level assuming ¥571 dividend

Note: GES estimates.

2-2 Distribution of Dividend Yields in the Japanese Capital Markets

- The distribution of dividend yields in the Japanese capital markets is concentrated in the 2-3% range, and is seldom higher than 6% (except in temporary situations).
- If a company were to raise its dividend, its share price is likely to rise by at least 5-6% after temporarily showing a high dividend yield.

Distribution of dividend yields among listed companies



Companies with dividend yields of 5.5% or more

Company	Industry	Forecast dividend yield
SOMPO Holdings	P&C insurance	9.7%
Kyokuto Securities	Securities	7.1%
SK-Electronics	Photomasks	6.0%
Araya Industrial	Steel tubes	6.0%
Meitec Group Holdings	Temporary staffing (manufacturing-, IT-related)	6.0%
Toyo Construction	Marine general contracting	5.9%
Tokai Lease	Temporary building sales and leasing	5.9%
Mugen Estate	Renovation	5.8%
Mars Group Holdings	Amusement equipment	5.8%
Yodogawa Steel Works	Steel sheet	5.7%
FaithNetwork	Real Estate Investment	5.7%
Arisawa Mfg	Electronic materials	5.6%
Tokyo Sangyo	Industrial machinery, machinery wholesaling	5.5%
Grandy House	Detached housing development	5.5%

Source: Company disclosure materials (as of May 16, 2024)

Sources: SPEEDA, company disclosure materials.
Note: Encompasses listed companies with dividend yields of more than 0% (excluding J-REITs).

Proposal 3 Partial Amendment of Articles of Incorporation (handling of meetings with shareholders by directors)

- To enable the construction of a more open corporate governance system, we have submitted Proposal 3, which aims to foster constructive dialogue to increase enterprise value and the stock price, as well as serve the common interests of all shareholders.
- We propose that when a shareholder with 3% or more of total voting rights requests an individual meeting, the meeting will be conducted within 20 business days. In addition, directors who are not members of the Audit & Supervisory Committee hold individual meetings at least once a quarter, and directors who are members of the Audit & Supervisory Committee once a year.

Overview of proposal

The following article will be newly established as Article 33 of Chapter 4 of the Articles of Incorporation, and Article 33 and subsequent articles in the current Articles of Incorporation will be moved down by one article. Note that, in the event that formal adjustments need to be made to the articles contained in our proposals (including, but not limited to, adjustments to article numbers) as a result of the passage of other proposals (including proposals related to company proposals) at the General Meeting of Shareholders, the articles in our proposal shall be replaced by articles to which the necessary adjustments have been made.

(Handling of meetings with shareholders by directors)
Article 33: When a director is asked for an individual meeting by a shareholder with 3% or more of total voting rights, or by a corporate manager with the necessary authority to make investments (based on a discretionary investment contract, other type of contract, or as established by law), an individual meeting shall be held 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 shall be notified that this is the case within five business days, and the time when the meeting can take place shall be set separately. Regarding the number of individual meetings that are to be held when such meetings are requested, for each investor or corporate manager involved, directors who are not members of the Audit & Supervisory Committee shall meet at least once a quarter and directors who are members of the Audit & Supervisory Committee share meet at least once a year.

Reasons for proposal

Ahead of the General Shareholders' Meeting, we have repeatedly asked for individual meetings with all directors, but we have met with only some directors. 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. Moreover, the principle of shareholder equality permits a company to treat shareholders differently, within reason, depending on how many shares they own, and therefore does not prohibit individual meetings with major shareholders as part of a dialogue from the perspective of increasing enterprise value. We propose that the Articles of Incorporation specify that Company directors have an obligation to meet individually with major shareholders. Implementing this will not only help to increase TOCOS's enterprise value by promoting constructive dialogue with shareholders, it will demonstrate the transparency and openness of TOCOS's management team. This would be groundbreaking, and present TOCOS (both internally and externally) as a pioneer among listed companies, leading to a revaluation of the Company's stock.

3-1 Achieving the Common Interests of all Shareholders Through Dialogue between Shareholders and Directors

■ In advance of the FY2023 General Shareholders' Meeting, GES repeatedly requested individual meetings with all of TOCOS's directors (including director candidates), but only two meetings with some directors were held.

Name	Current position	Age	2015 2016 2017 2018 2019 2020 2021 2022 2023 2024	Had individual meeting?
Yoshiki Iwasaki	Representative Director, President	69	Exec. Director Industrial → Rep. Director, President	Yes (note)
Hideo Nakajima	Executive Managing Director, Head of Sales Division, Manager of Industrial Division	64	Advisor → Director → Managing Director → Exec. Managing Director	Yes
Kazutomo Miyata	Executive Director, Deputy Head of Technology Division	57	Advisor → Exec. Director → Director	No
Jun Kubota	Executive Director, Head of Business Planning	62	Advisor → Exec. Director → Director	No
Masanori Ono	Director (Audit & Supervisory Committee Member)	75	Outside Director (Audit & Supervisory Committee Member)	Yes
Takako Morita	Director (Audit & Supervisory Committee Member)	54	Outside Director (Audit & Supervisory Committee Member)	No
Takaaki Yamamoto	—	63	Outside Director (Audit & Supervisory Committee Member) (full-time)	No
Kaneki Yamaguchi	—	57	Outside Director (Audit & Supervisory Committee Member)	No

Source: Company disclosure materials.
Note: Participating in a meeting along with another director, not an individual meeting.

3-2 Achieving the Common Interests of all Shareholders Through Dialogue between Shareholders and Directors

- TOCOS has declined to hold the individual meetings that GES requested, saying that individual meetings with either individual shareholders or all shareholders would not be appropriate from the perspectives of shareholder fairness or regulatory compliance.
- Moreover, the principle of shareholder fairness that TOCOS cites permits a company to treat shareholders differently, within reason, depending on how many shares they own. Thus, the true reason the Company refuses dialogue remains unclear.

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Repeated requests for individual meetings with **All Directors**

Individual meetings with only **2 Directors**

Company cites shareholder fairness and legal compliance, but true reasons for shunning dialogue unclear

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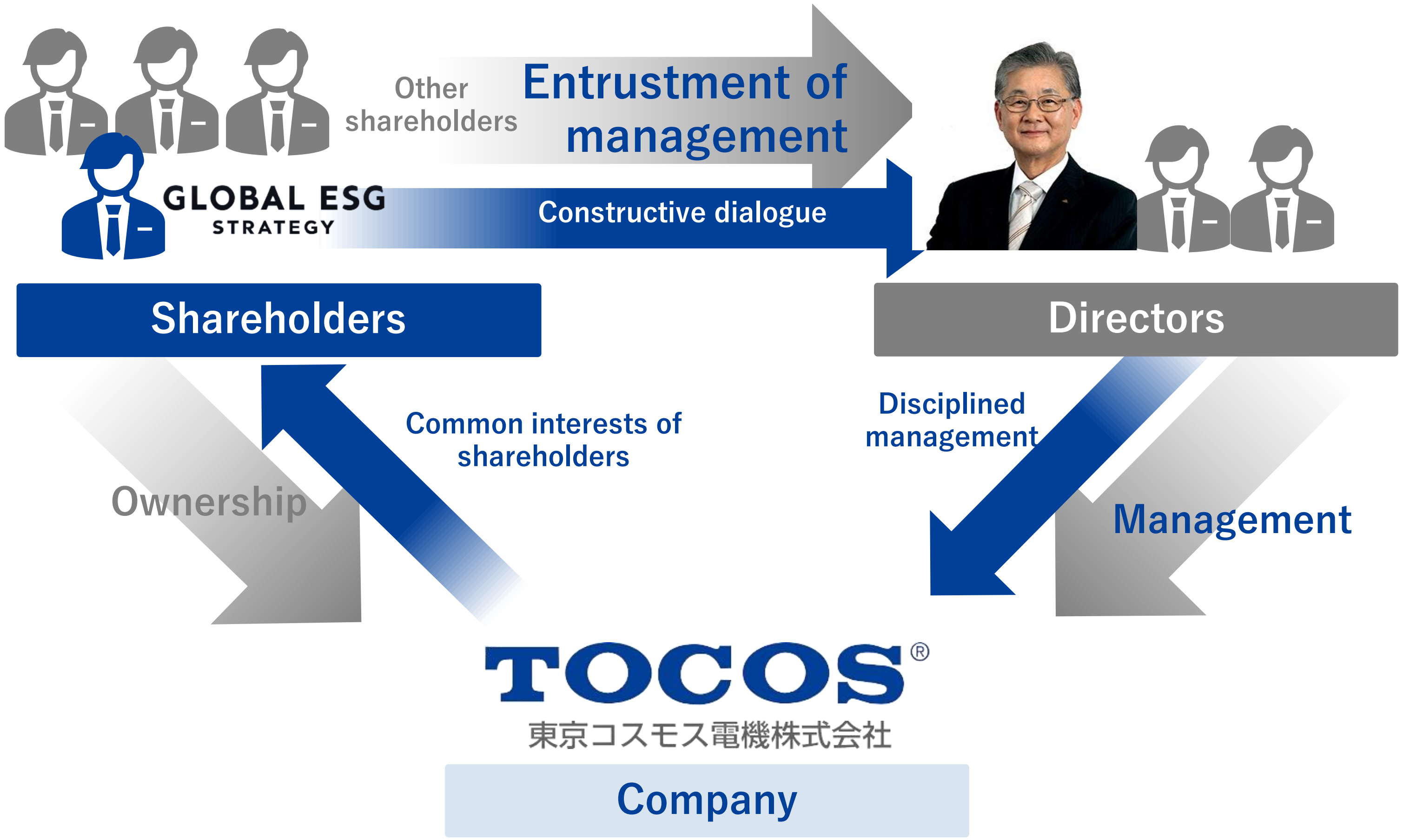
TOCOS's directors ought to proactively engage in dialogue with shareholders, as this would benefit all shareholders by increasing enterprise value

Source: Company disclosure materials, minutes of dialogues at GES and TOCOS
Note: Pictured above the TOCOS graphic is Representative Director & President Yoshiki Iwasaki

Achieving the Common Interests of all Shareholders Through Dialogue between Shareholders and Directors

- Listed companies with dispersed shareholders are vulnerable to the problem of poor management going unaddressed. We believe that it serves the common interests of all shareholders for large shareholders, representing the numerous small shareholders, to meet individually with directors.



- Although shareholders own a company, appoint directors at the general shareholders' meeting, and entrust them with company management, it is not necessarily the case that the management team will run the company in an efficient manner. It is thus important for shareholders to impose discipline on management.
- Listed companies with dispersed shareholders are vulnerable to a problem: highly-dispersed small shareholders have no incentive to bear the expense (money and time) of imposing discipline on management, so poor management can go unaddressed.
- In economics, the term "agency problem" describes a situation in which a management team, having been entrusted by shareholders to run a company (i.e., to act as agents) fail to do so in an efficient manner. When shareholders are highly dispersed, the problem of poor management can continue indefinitely.
- When large shareholders, representing numerous small shareholders and at their own expense (in money and time), impose discipline on management through constructive dialogue in meetings with individual directors, it promotes increased enterprise value, and the benefits thus obtained accrue to all shareholders. Thus, having major shareholders take the initiative in meeting with directors individually is in the common interest of all shareholders.

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 Pte Ltd.

SAFS is 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).

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