GLOBAL ESG
STRATEGY

株式会社ウィザス
TSE Standard 9696

# Unleash "With us Corporation" from the Founding Family

31 May 2024
Global ESG Strategy

# 0 Content

# Executive Summary

## Free With us from Subservience to Founding Family

- GES started investing in With us Corporation ("With us" or the "Company", securities code 9696), which is listed on the TSE Standard Market, in 2023, and has continued to engage with management since then. Over that period, GES has obtained confirmation of the company's high growth potential, but has also identified serious governance issues related to the founding family. It is clear that management is complacently unmindful of the levels of capital efficiency required of a listed company.
- More specifically, management policy at With us ignores both the cost of capital and capital efficiency, and its share price valuations have dropped to sector lows. One reason for this is the huge net cash position, which completely ignores capital efficiency and for which the company has no remedial financial policy in place. A corporate culture that allows such unjustifiable cash buildup is clearly contrary to the TSE's call for management with "more consideration of cost of capital and profitability based on the balance sheet" .
- Moreover, the Company awards a privileged position and special remuneration to the founder and the founding Horikawa family, which permits founding family members to serve simultaneously on rival company boards, distributes profits to the founding family through the acquisition of subsidiary equity, and has introduced and maintains takeover prevention measures designed to protect the founding family. As a result, despite being a listed company, With us gives excessive consideration to one group of shareholders – the founding family – and channels profits in their direction. This is detrimental both to the growth that a listed company ought to aim for, and the realization of the common interests of all shareholders.
- GES has reached out to With us management to request improvement in these issues. However, management has consistently argued that there is nothing inappropriate about its policies, demonstrating that there is no sign of the Company undertaking improvements on its own initiative. For this reason, GES has submitted the following shareholder proposals to the Annual General Meeting of Shareholders scheduled for June 2024, with the aim of achieving radical reform to governance and improving capital efficiency.
- The proposal consists of a total of 10 resolutions with the following four goals: **1) Large-scale shareholder returns to improve capital efficiency; 2) Governance reform to free the company from anachronistic management that favors the founding family; 3) The promotion of constructive dialogue with shareholders; and 4) The discontinuation of anti-takeover measures that protect the vested interests of the founder and associates.**
- GES hopes that by submitting these shareholder proposals and publicizing them to With us shareholders, it will be help resolve the critical governance failings at With us, promote management that genuinely pursues capital efficiency, and maximize the common interests of all shareholders.

# 0-1 About Global ESG Strategy

## Investing long term from ESG perspective

Global ESG Strategy (GES) is an investment fund managed by Swiss-Asia Financial services.
As an institutional investor that invests in companies over the medium to long term from an ESG (Environment, Social and Governance) perspective, GES's policy is to promote improvements in enterprise value and shareholder value of portfolio companies through constructive dialogue.

**Funds managed by SAFS hold around 19% of the voting rights in With us Corporation.**

**Refer below for information about Global ESG Strategy:**
https://prtimes.jp/main/html/searchrlp/company_id/135781

# About With us

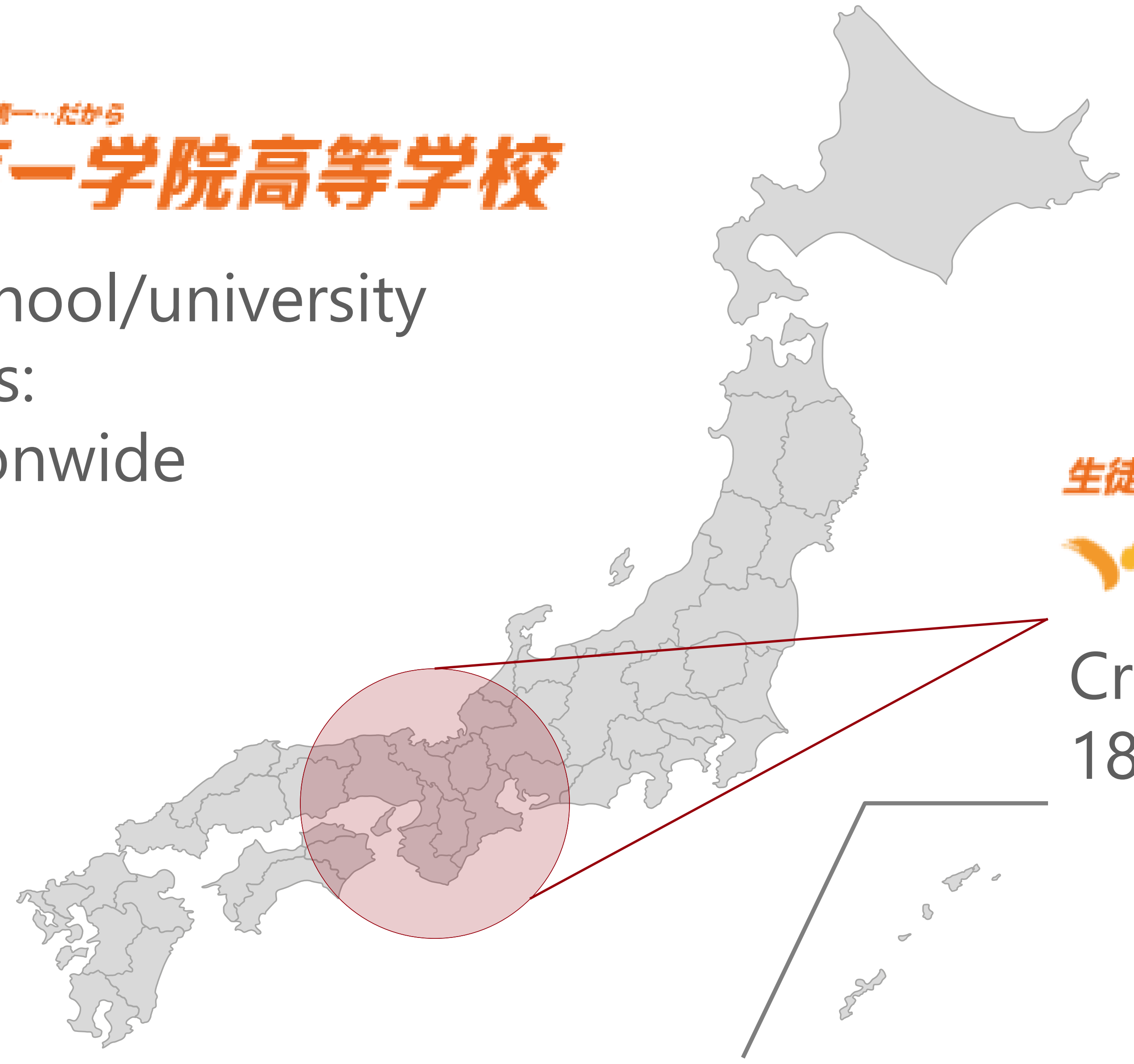
## Summary

- In 1976, Kazuaki Horikawa opened Gakken Juku (now Dai-ichi Seminar) in Osaka, and set up Gakken Kenshusha Co., Ltd. (now With us Corporation). Went public in 1990.
  Runs education services, incl. Dai-ichi Gakuin High School (distance learning) and Dai-ichi Seminar (cram school).

## Locations

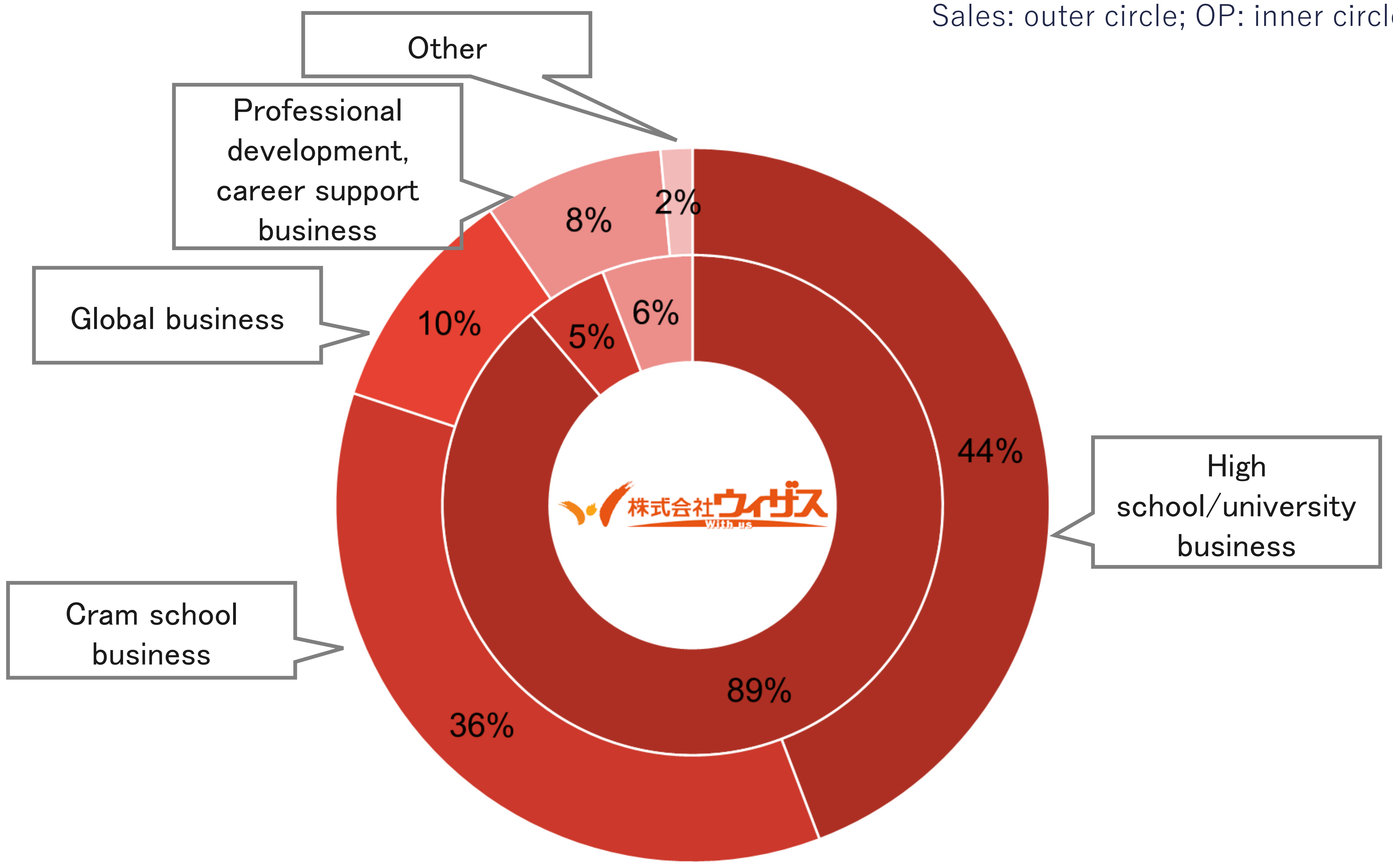
High school/university business:
42 nationwide

Cram school business:
185 mostly in Kansai



## Sales and OP weightings (FY2023)

Sales: outer circle; OP: inner circle

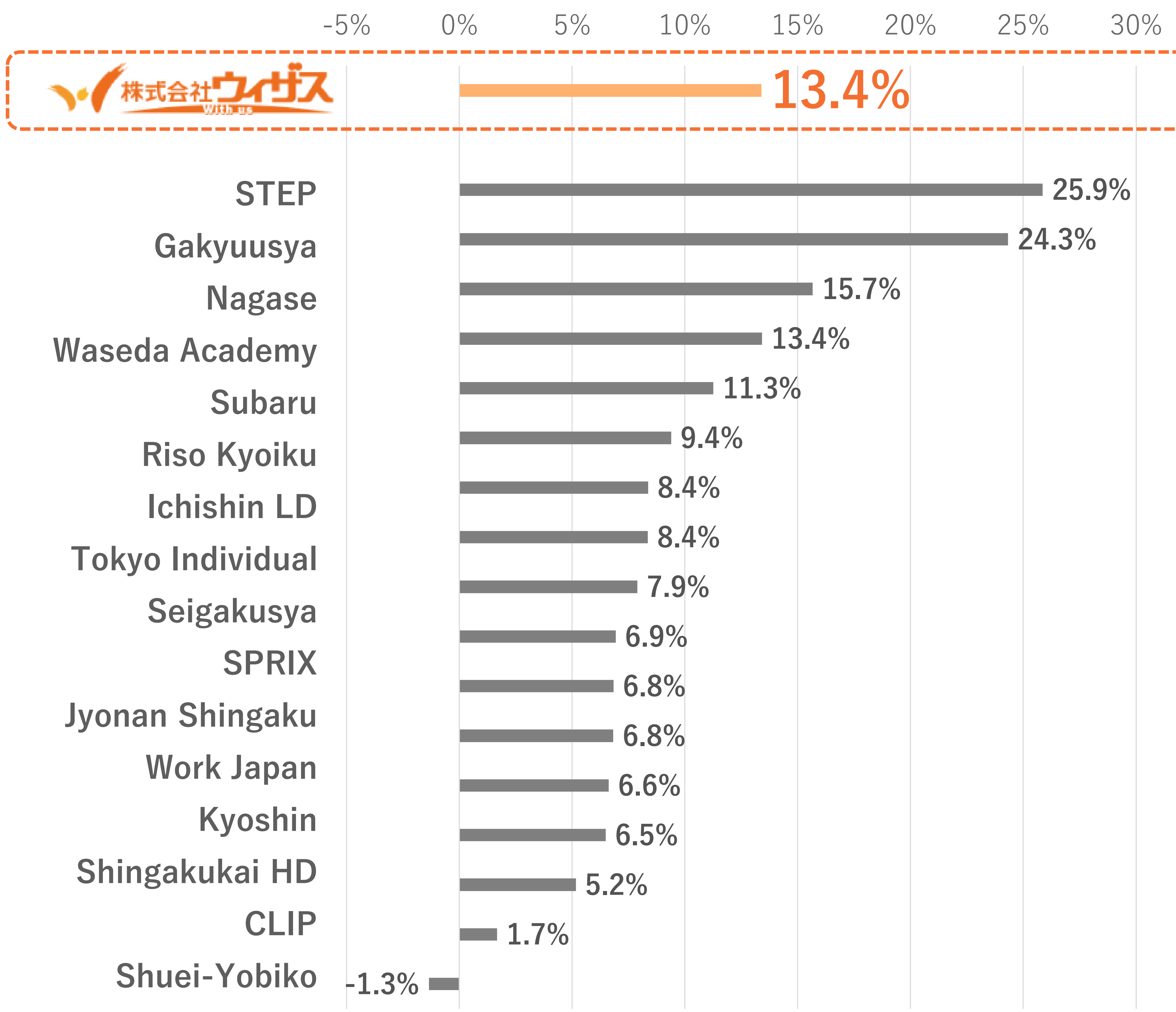



Source: With us Corporation FY3/24 results briefing material

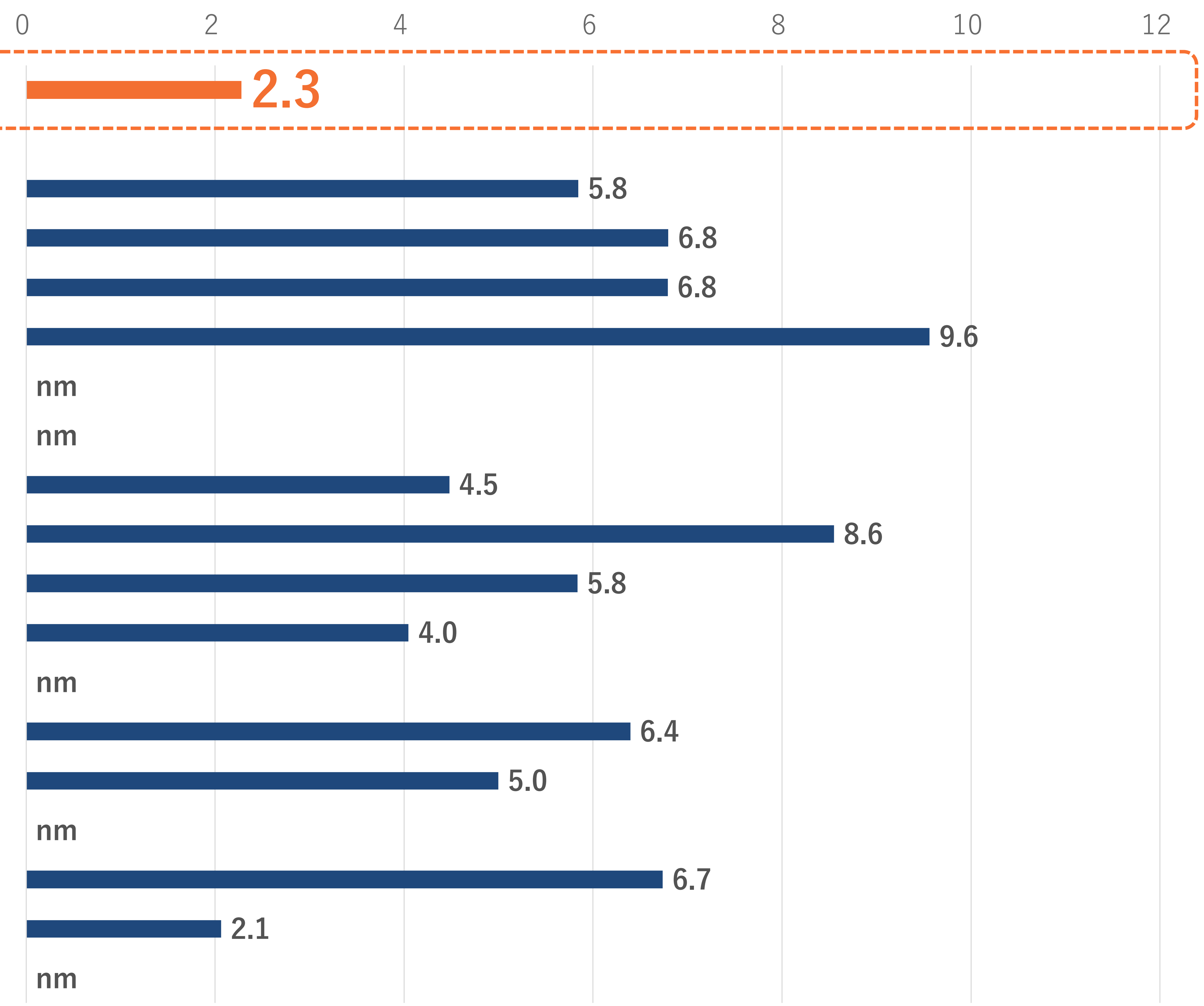
# 0-3 Share Price Valuations among Lowest in Sector

■ EBITDA margin markedly above peers, but share price valuation remains low.

EBITDA margin (%, FY2024)



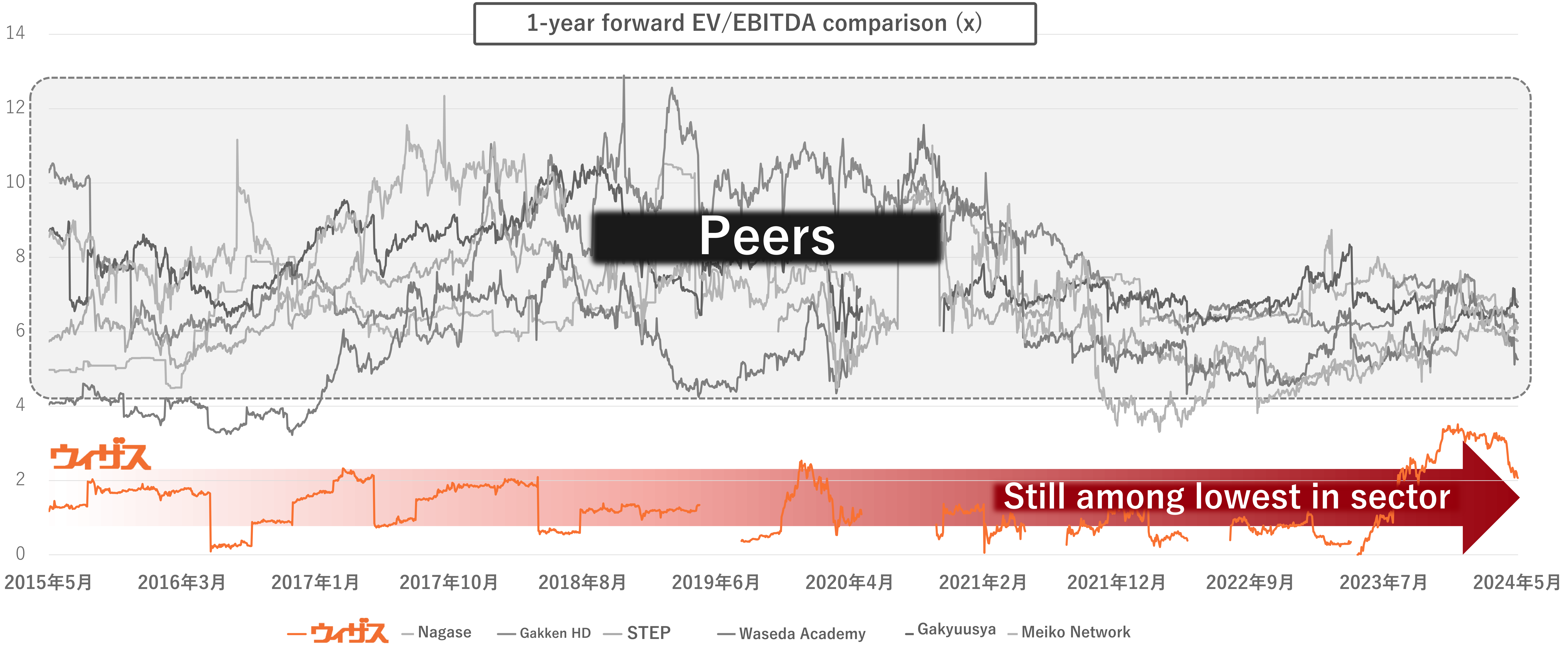

EV/EBITDA (x, FY2024)




Sources: Company materials, SPEEDA

# 0-3 Share Price Valuations among Lowest in Sector

■ Low sector-relative valuations (1-year forward EV/EBITDA) are not a recent development, but a long-lasting one that goes back many years.

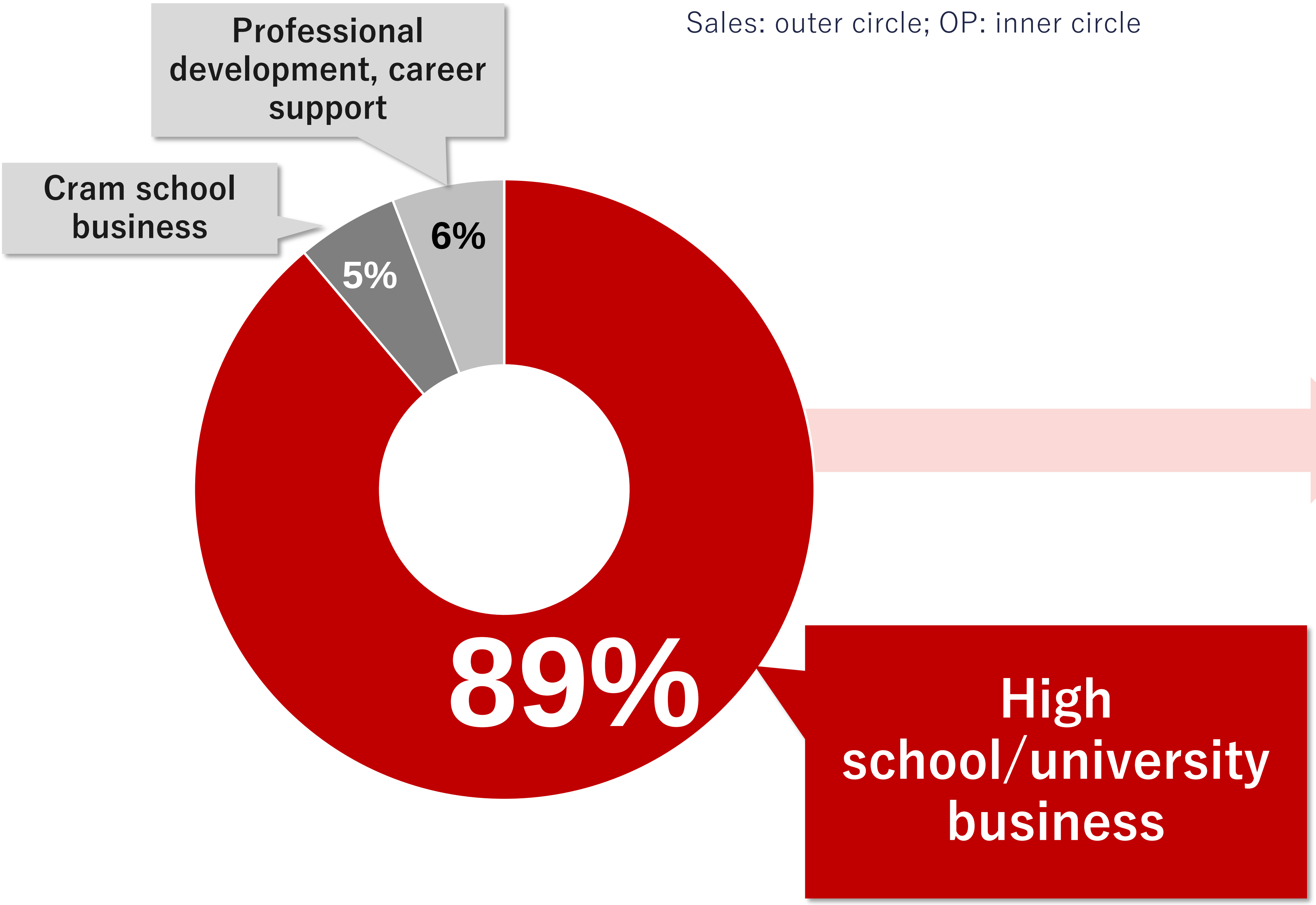



Sources: Company materials, SPEEDA

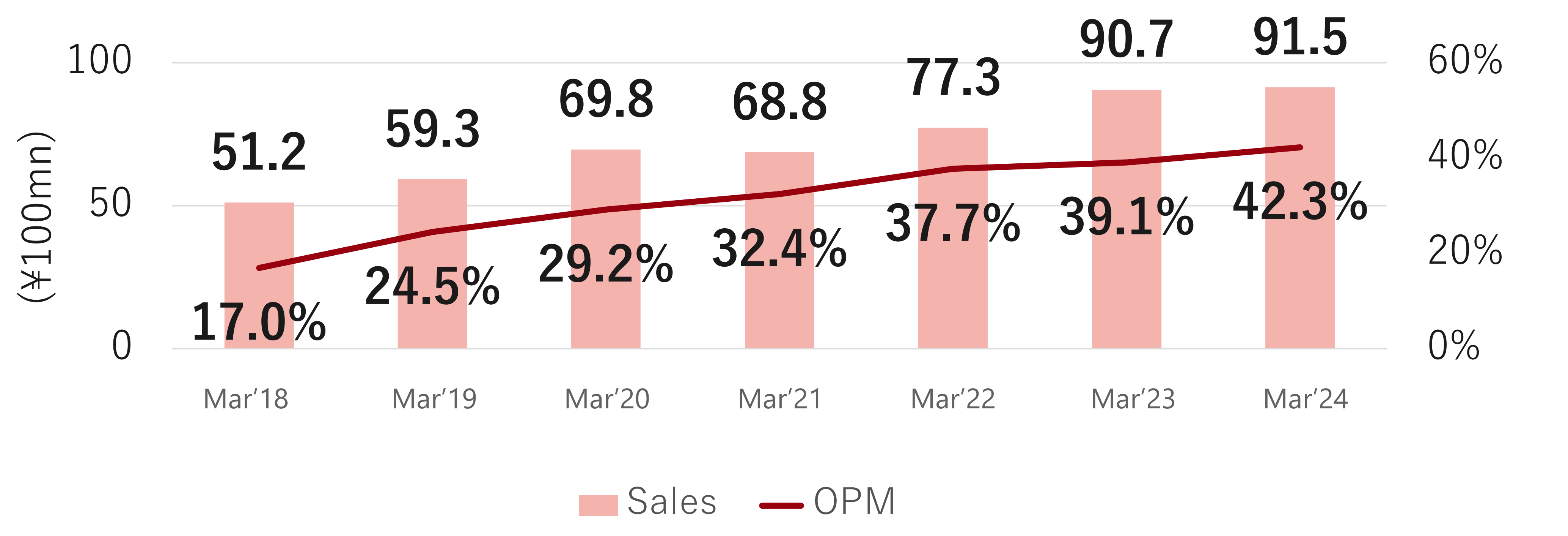
# 0-4 One of Few Education Providers with Steep Growth and High Profitability

- 89% of With us OP is generated through the high school/university business, with profit driven by Dai-ichi Gakuin a distance-learning high school run by a joint stock company. The business has achieved sharp growth and outstanding profitability, with a segment OPM of 42.3%.
- Share price valuations are lowest in sector despite being such a highly attractive business.

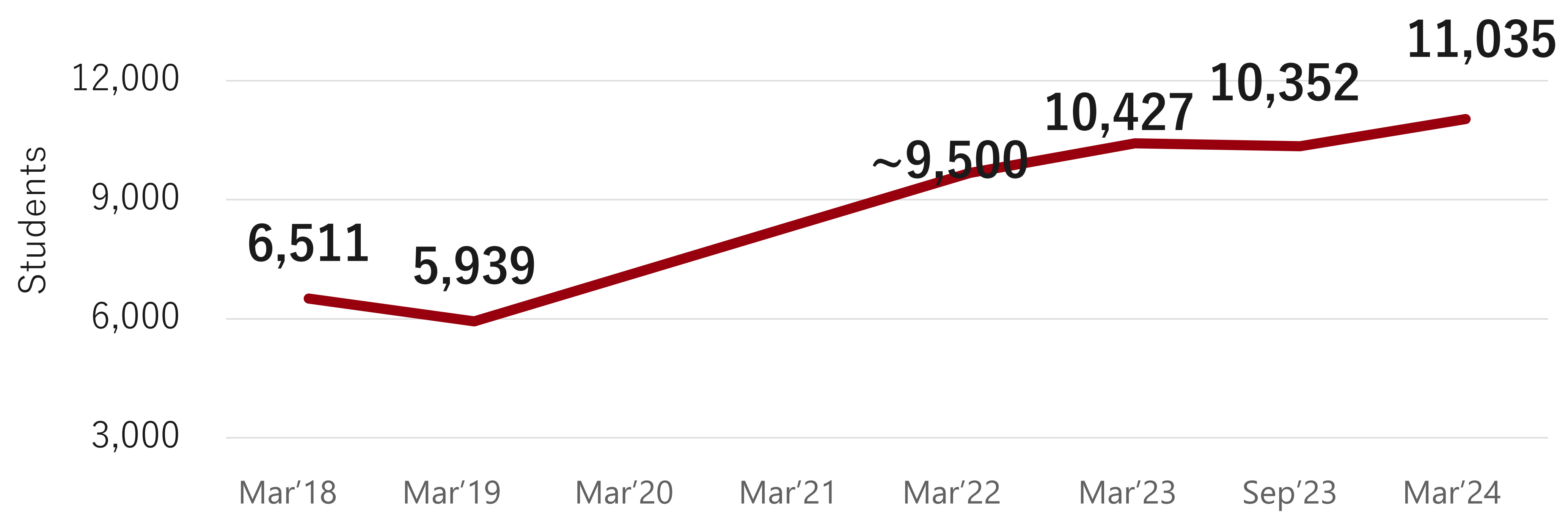
## OP weighting (FY2023)




## High school/university business is high-margin, high-growth



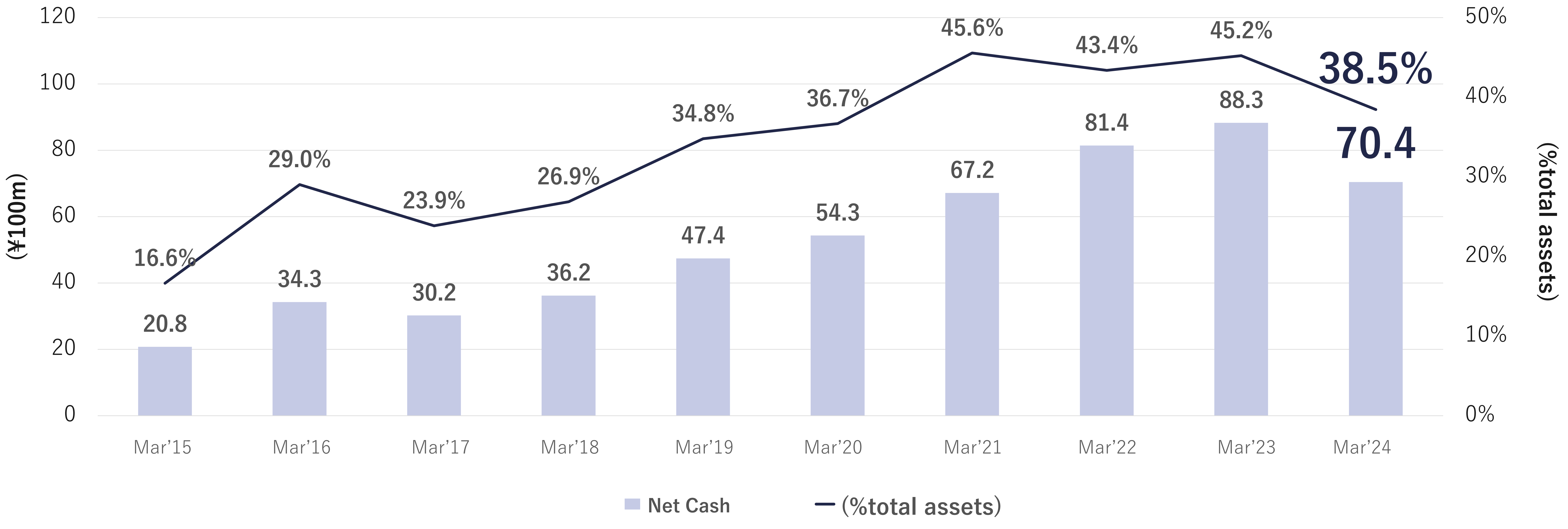

## Pandemic drove steep growth in student enrollment




Source: Company materials

# 0-5 Net Cash Piling Up

- With us has built up excessive net cash over many years without appropriately deploying funds and capital to either shareholder returns or growth investment (human capital, capex, new business development, M&A).
- Excessive net cash is evidence of management that pays little attention to cost of capital or capital efficiency – one key reason behind the low share-price valuations.




Sources: Company materials

# 0-6 Issues Affecting With us

- With us management's lack of concern about low valuations and the blind, ongoing build-up of retained earnings suggests that it is not pursuing improvement in corporate value.
- The likely cause is a company run in the favor of the founding family, not the shareholders.

**1. Sector-low valuations despite high-margin, high-growth operations**

**2. Ongoing, complacent build-up of retained earnings**

**3. Uninterested in constructive dialogue with shareholders, rejecting individual meetings between shareholders and directors**

**4. Founder treats company as private property; management subservient to founding family**

**Needs release from control by founding family, which confounds public and private interest**
**Needs management policies that aim to genuinely boost corporate value, common interests of shareholders**

# 1. Improve capital efficiency, enhance shareholder returns

Management completely ignores cost of capital & capital efficiency, share price valuations at sector bottom

# 1-1 Share Price Valuations among Lowest in Sector

■ With us management's total disregard for cost of capital and capital efficiency has dragged share-price valuations to sector lows.

- With us shares are trading at an EV/EBITDA of 2.8x FY2023 EBITDA forecasts, markedly lower than sector peers. One reason for this is the huge net cash position.
- The company's net cash equates to 45% of market cap, or 56% when combined with investment securities.
- In a sector with an average dividend payout ratio over 50%, topping 100% for some companies, With us has a dividend payout ratio (final dividend) that points to inadequate shareholder returns to date. Its new dividend policy only brings the company in line with peers and will result in net cash continuing to build.
- Management nevertheless stresses its belief that current net cash and capital structures are optimal, while failing to provide a specific policy on how far to build up retained earnings or what kind of capital structure it aims for.
- Current financial policy is devoid of direction and equates to management blatantly continuing to build up retained earnings. A corporate culture that permits such unnecessary cash build-up is contrary to the TSE's call for management to take "more consideration of cost of capital and profitability based on the balance sheet."

**Improved capital efficiency, expanded shareholder returns needed to remedy this issue**

# 1-2 Can Maintain Financial Health even with Dividend Payout Ratio of 150%

- Despite net cash at end-FY2023/2024 over ¥7bn, the upwardly revised full-year DPS is only ¥60 (total dividends around ¥540mn), meaning net cash will likely continue to build.
- Dividend payout ratio of 59.9% not within top of sector.
- Even three years of a 150% payout ratio would still leave ¥6.0bn in net cash at end-FY2025 and net cash/EBITDA of 2.19x.

**Company forecasts**

| | FY2023 | FY2024 | FY2025 |
|---|---|---|---|
| DPS (¥) | 60 | 60 | 60 |
| Dividend payout ratio | 59.9% | 45.2% | 45.2% |
| Net cash (¥mn) | 7,043 | 7,701 | 8,359 |
| as % market cap | 55.8% | 61.1% | 66.3% |
| Net cash/equity | 1.13 | 1.12 | 1.11 |
| Net cash/EBITDA | 2.71 | 2.82 | 3.07 |
| Net asset ratio | 32.8% | 35.2% | 38.6% |
| Est. max borrowing (¥mn) | 12,980 | 13,632 | 13,632 |
| Borrowing capacity (¥mn) | 20,023 | 21,333 | 21,991 |
| vs. EBITDA | 7.71 | 7.82 | 8.07 |

**Our proposal**

| | FY2023 | FY2024 | FY2025 |
|---|---|---|---|
| DPS (¥) | 183 | 200 | 200 |
| Dividend payout ratio | 182.8% | 150.6% | 150.6% |
| Net cash (¥mn) | 7,043 | 6,589 | 5,982 |
| as % market cap | 55.9% | 52.3% | 47.4% |
| Net cash/equity | 1.13 | 1.14 | 1.16 |
| Net cash/EBITDA | 2.71 | 2.42 | 2.19 |
| Net asset ratio | 32.8% | 29.5% | 26.4% |
| Est. max borrowing (¥mn) | 12,980 | 13,632 | 13,632 |
| Borrowing capacity (¥mn) | 20,023 | 20,222 | 19,614 |
| vs. EBITDA | 7.71 | 7.42 | 7.19 |

Notes: Sales, OP, NP assume FY2024 forecasts continue through FY2025. EBITDA calculated assuming depreciation/amortization unchanged from FY2023. Net cash and net assets for FY2024 onwards assume capex equals annual depreciation/amortization, and calculated by adding current-year NP less dividend to prior-year net assets. Estimated maximum borrowing assumed at 5x EBITDA. Market cap as of 17 May 2024 excluding treasury shares. GES estimated FY2023 dividend payout ratio applies DPS of ¥183 (150% dividend payout ratio) to NP forecast as of Feb. 2023.

Sources: With us Corporation materials

# 1-3 Potential for Considerable Share Price Revaluation

- A public commitment to sustained, high dividends could trigger major revaluation of share price if With us is reappraised as a high-dividend stock.
- An FY2024 dividend payout ratio increase to 150% and a stock price that rises to where dividends yield 3% would hold promise for the shares climbing to ¥6,667.

| Dividend yield \ Dividend payout ratio | 25% | 50% | 100% | 150% |
|---|---|---|---|---|
| 7.5% | 453 | 893 | 1,773 | 2,667 |
| 7.0% | 486 | 957 | 1,900 | 2,857 |
| 6.5% | 523 | 1,031 | 2,046 | 3,077 |
| 6.0% | 567 | 1,117 | 2,217 | 3,333 |
| 5.5% | 618 | 1,218 | 2,418 | 3,636 |
| 5.0% | 680 | 1,340 | 2,660 | 4,000 |
| 4.5% | 756 | 1,489 | 2,956 | 4,444 |
| 4.0% | 850 | 1,675 | 3,325 | 5,000 |
| 3.5% | 971 | 1,914 | 3,800 | 5,714 |
| 3.0% | 1,133 | 2,233 | 4,433 | 6,667 |
| 2.5% | 1,360 | 2,680 | 5,320 | 8,000 |
| 2.0% | 1,700 | 3,350 | 6,650 | 10,000 |
| 1.5% | 2,267 | 4,467 | 8,867 | 13,333 |
| 1.0% | 3,400 | 6,700 | 13,300 | 20,000 |

Broadly around current share price

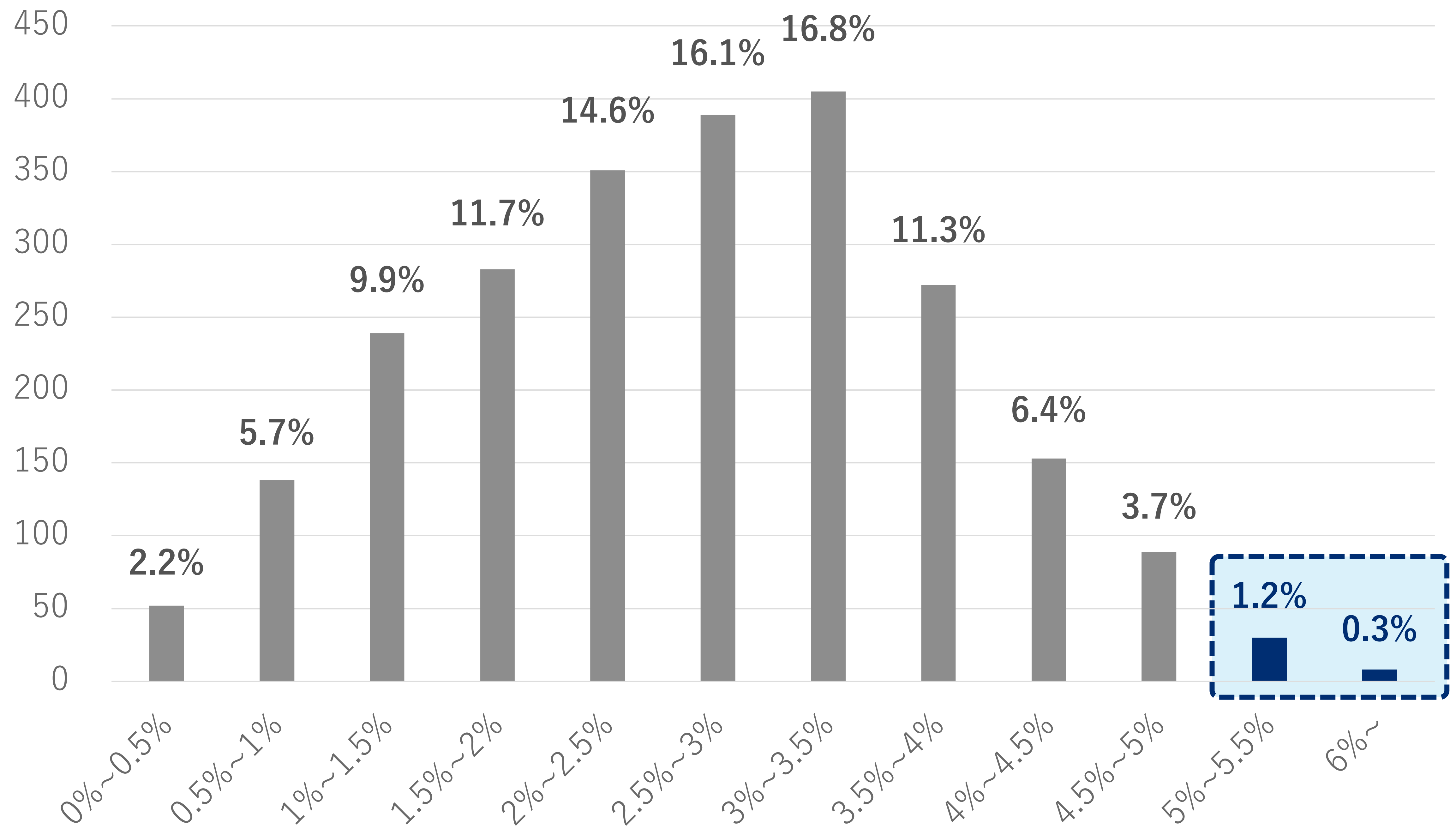
Expected share price level

Source: With us Corporation materials
Net cash and net assets calculated based on end-Dec 2023 levels and current FY forecasts

# 1-4 Dividend Yield Distribution in Japanese Capital Markets

- Median distribution of dividend yield for Japanese listed companies is 2-3%; generally trade at ceiling of 6% excluding one-off circumstances
- If a company raises the dividend, after the temporarily yield spikes, the share price can be expected to rise at least to where the dividend yield comes to around 5-6%.

Dividend yield distribution for listed companies




Sources: SPEEDA, company materials
Excludes companies with dividend yield of 0% and J-REITs

**Companies with dividend yield above 5.5%**

| Company | Industry | Expected div yield |
|---|---|---|
| SOMPO HD | P&C insurance | 9.7% |
| Kyokuto Securities | Securities | 7.1% |
| SK Electronics | Photomasks | 6.0% |
| Shinka Industries | Steel pipe | 6.0% |
| Meitec Group HD | Staffing (manufacturing, IT) | 6.0% |
| Toyo Construction | Marine general contractor | 5.9% |
| Tokai Leasing | Temp structure sales, leasing | 5.9% |
| Mugen Estate | Renovation | 5.8% |
| Mars Group HD | Amusement machines | 5.8% |
| Yodogawa Steel Works | Steel plate | 5.7% |
| Face Network | Real estate investment | 5.7% |
| Arizawa Manufacturing | Electronic materials | 5.6% |
| Tokyo Industries | Industrial machinery/wholesale | 5.5% |
| Grandi House | Single-family home development | 5.5% |

Sources: Company materials (as of 16 May 2024)

# 1-5 Summary

## The shareholder proposal must be passed if With us is to be freed from management that completely disregards cost of capital and capital efficiency

| | Shareholder proposal | Description |
|---|---|---|
| 1. Management unmindful of capital efficiency & allocation, failing to meet obligation to shareholders | Resolution 1 | End Board's discretion over distribution from reserves; leave decision with meetings of shareholders |
| 2. Blindly building up cash prevents latent rise in share price | Resolution 2 | Appropriately dispose of reserves, bring shares to proper level through shareholder returns |
| | Resolution 3 | Maintain appropriate dividend policy in FY2024 and FY2025 |

## 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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# Disclaimer

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