Nanahoshi Management Ltd.
2-13-22 Higashinakano, Nakanoku
Tokyo, Japan, 164-0003
https://nanahoshimgmt.com

12th April 2024

WAKAMOTO PHARMACEUTICAL CO., LTD.
2-2-2, Nihonbashi Honcho, Chuo-ku,
Tokyo, 103-8330, Japan

Subject: Shareholder Proposals for AGM in June 2024

Dear Mr. Arata Igarashi, Representative Director, President:

Nanahoshi Management Ltd. ("the Proposing Shareholder"), which has held in excess of 300 voting rights in WAKAMOTO PHARMACEUTICAL CO. ("the Company") for the past six months, at this moment, exercises its rights under Articles 303(2) and 305(1) of the Companies Act. The Proposing Shareholder formally requests that the following agenda item be presented at the Company's 129th AGM. It is further ordered that this agenda item, along with its details and justification, be included in the convening notice of the General Meeting and the accompanying reference documents.

Items for Consideration on the Agenda:

1. Proposal for the Reinstatement of General Reserves
2. Allocation of Available Surplus
3. Amendment to the Articles of Association to Include a Requirement for Disclosure of the Purchase of Laboratory Animals by Species within the Corporate Objectives
4. Amendment to the Articles of Association Concerning the Reporting of Greenhouse Gas Emissions Related to Cross Shareholdings
5. Amendment to the Articles of Association to Mandate the Submission of the Annual Securities Report Before the AGM
6. Amendment to the Articles of Association to Require Disclosure of Strategies to Achieve Cost of Capital Efficiency and Enhance Share Price Awareness

1. Proposal for the Reinstatement of General Reserves

[Description of the Proposal]

(1) Specification and Quantum of Surplus Reduction:

Designated Fund: Separate Reserve Fund

Proposed Reduction Amount: ¥3,953 million

Should the motion for the reversal of the Separate Reserve Fund as put forth by the Company gain approval at the 129th AGM, the reduction will equate to ¥3,953 million less the current balance of the Separate Reserve Fund.

(2) Specification and Quantum of Surplus Increase:

Designated Fund: Retained Earnings Carried Forward

Proposed Increase Amount: An amount equivalent to the reduction in the Separate Reserve Fund

This proposal, which seeks to reverse the Company's Separate Reserve Fund, will be presented as an independent yet complementary proposal at the 129th AGM. It is intended that this proposal will be deliberated and voted upon before addressing the Proposing Shareholder’s item concerning the 'Appropriation of Surplus'. The enactment of this proposal is contingent upon its acceptance at the AGM.

[Justification for the Proposal]

The purpose of the separate reserve fund, recorded as JPY 3,953 million on the Company’s balance sheet, remains opaque and necessitates approval from the general shareholder's meeting to be reallocated. Although there have been instances where the Company could have issued dividends had this reserve been redistributed, it has elected not to distribute dividends in seven out of the last 15 fiscal years. This proposal advocates for the early transfer of the separate reserve into the carried forward retained earnings, allowing the Company to pursue a more adaptable approach to its capital management.

Nanahoshi Management Ltd.
2-13-22 Higashinakano, Nakanoku
Tokyo, Japan, 164-0003
https://nanahoshimgmt.com

For further details on the suggestions made by the shareholders proposing this change, as well as an insight into the Company's circumstances, please visit the campaign website at "Strengthen Wakamato (4512) [1] ". The site also includes calls for transparency concerning the abrupt resignation of the former Chairman and President, Nobuyuki Kamiya ('Mr Kamiya'), after it came to light that he had misappropriated funds personally, and for actions to ensure such an incident does not happen again.

1 https://www.strengthenwakamoto.com/english
The website's name is derived from Strong Wakamoto, which is the Company's flagship product.
https://www.wakamoto-pharm.co.jp/english/product/si-01/

2. Allocation of Available Surplus

[Description of the Proposal]

(1) Type of Dividend Distribution:

Cash

(2) Details Concerning the Allocation of Dividend Assets and Total Amount:

The proposed dividend per ordinary share, which is referred to as "dividend per share," is set at 31 yen. This figure is the sum of the amount of this proposal and the Company's Proposed Appropriation of Profits as approved by the Board of Directors and presented at the Company's 129th AGM. The final dividend payment will be made after appropriate adjustments to the initial dividend per share amount.

In the event that the final amount, when rounded down to the nearest yen from nine-hundredths of the net assets per share for the fiscal year ending 31 March 2024, deviates from 31 yen, the reference to 31 yen in this proposal will be adjusted to reflect the rounded-down amount.

The total dividend amount will be calculated by multiplying the adjusted dividend per share by the total number of shares eligible for dividends as recorded on the date of the 129th AGM.

(3) Effective Date of Surplus Distribution:

The distribution of surplus will take effect the day following the 129th AGM.

This proposal is set forth as a standalone and complementary motion in conjunction with the proposal for the appropriation of the Company’s profits at the forthcoming 129th AGM, subject to its introduction at said meeting.

[Justification for the Proposal]

This proposal advocates for the distribution of a dividend that mirrors 9% of the net assets per share, referred to as the Dividend on Equity (DOE). This index represents shareholder returns by dividing the annual dividend per share by the net assets per share. The Proposing Shareholder's analysis suggests that the Company's cost of equity is approximately 9%.

Recent trends show a general upswing in stock indices, with the Nikkei 225 Stock Average reaching unprecedented heights. Despite these market gains, the Company's share price lingers below the pre-Lehman Brothers collapse threshold of 500 yen, standing at 234 yen as of 11th April 2024. Compared to the Total Shareholder Yield of the TSE index, the shares have trailed by about 60 percentage points since the unexpected resignation of Mr. Kamiya on 17th June 2022.

The Price-to-Book (P/B) ratio, which reflects market valuation, is critically low at 0.55, based on last year's share prices starting from 11th April 2024. This valuation drops to 0.65 even when the unrealised profit from rental properties is excluded. Such undervaluation stems from the pharmaceutical sector's losses, a surplus of non-operational assets*, and the management's lax approach to capital efficiency, evidenced by a high equity ratio of 77% as of the end of December 2023, etc**.

The projected Return on Equity (ROE) for the final year of the five-year plan is a meagre 5% based on the Proposing Shareholder. This is far below the cost of equity, suggesting that without appropriate actions, the share price and valuation are likely to remain depressingly low.

The board's primary responsibility is to enhance shareholders' value through dividends and share price appreciation. Unfortunately, the current board has repeatedly failed in this duty, neglecting the low share price and omitting dividends in seven of the last fifteen years.

To address these issues, the Proposing Shareholder recommends establishing a shareholder return policy that aligns the DOE with the cost of equity, thus ensuring a consistent return of at least 9%. This approach is aimed at rectifying the undervaluation of the Company's shares.

*Details on Non-Operational Assets

As of the end of March 2023, the combined market value of the rental real estate and other assets was approximately 3.9 billion JPY, with cross-shareholdings valued at 2 billion JPY by the end of December 2023. After accounting for taxes on potential sales, the net worth of these non-operational assets stands at around 5.0 billion JPY, representing 65% of the average market capitalisation over the past year. Additionally, the Company holds substantial cash reserves of 3.6 billion JPY as of 31st December 2023, with minimal debt.

**Capital Efficiency Concerns

The rental properties have shown a dismal after-tax profitability of only 1% relative to their market value. This figure is significantly below the required return, indicating a misalignment with prudent capital management practices. Therefore, we urge the divestment of these properties at fair market prices, redirecting the capital towards enhancing core business activities and maximising shareholders' value.

3. Amendment to the Articles of Association to Include a Requirement for Disclosure of the Purchase of Laboratory Animals by Species within the Corporate Objectives

[Description of the Proposal]

The proposed amendments to Article 3(5) of the current Articles of Association are outlined below:

Current Articles of Association:

(Purpose)
Article 3:
(Omitted)
(5) Breeding, sale, and import/export of laboratory animals.

Proposed Changes:
(Purpose)
Article 3:
(Omitted)
(5) Breeding, sale, import, and export of laboratory animals<u>, including the disclosure of the number of animals purchased</u>.

[Justification for the Proposal]

Animal experiments are conducted in accordance with the 3Rs, the internationally recognised framework for conducting animal research ethically. The 3Rs encompass three key components:

<u>R</u>eplacement: using alternative methods where possible.

<u>R</u>eduction: minimising the number of animals used in experiments.

<u>R</u>efinement: alleviating suffering and enhancing animal welfare.

Transparently reporting on how these 3Rs are implemented is crucial for maintaining transparency and building trust among consumers and investors. For instance, Reduction is often quantifiable, such as in terms of the decreased use of laboratory animals, which can be clearly demonstrated with specific figures and percentages. The nature of the information disclosed can vary significantly, especially for Replacement and Refinement, which require a deeper understanding of technical data and research papers.

It is widely recognised that the risk associated with investing in a company that neglects the 3Rs is higher, whereas companies that demonstrate a robust commitment to these principles tend to present lower risks. Therefore, the Proposing Shareholder argues that by clearly showing its adherence to the 3Rs, the Company can potentially lower its cost of equity and enhance its value to shareholders.

Consequently, in terms of adhering to the 3Rs, it is proposed that the Company include detailed records of the number of laboratory animals purchased in the animal testing section already present in the Articles of Association. Additionally, it is expected that the Company will annually disclose the total number of laboratory animals purchased in the Annual Securities Report, which is to be reviewed at the AGM, as well as in the accompanying documents and on the Company's website.

4. Amendment to the Articles of Association Concerning the Reporting of Greenhouse Gas Emissions Related to Cross Shareholdings

[Description of the Proposal]

It is hereby proposed to amend the existing Articles of Association by incorporating the following new chapters and articles:

Chapter 8: Response to Climate Change Risks

(Disclosure of Proportional Greenhouse Gas Emissions and Emission Reduction Policies)

1. Disclosure of Proportional Greenhouse Gas Emissions: The Company commits to annually disclose the greenhouse gas emissions attributable to companies in which it holds as cross-shareholdings. This disclosure will include the proportionate share of emissions ("equity share emissions"), calculated by applying the Company's shareholding percentage to the total emissions of the invested companies. This information shall be reported as Scope 3 emissions within both the Annual Securities Report and the supplementary documents provided at the AGM.
2. Greenhouse Gas Emission Reduction Policy: The Company will also annually disclose its strategic approach and policies aimed at reducing its equity share of greenhouse gas emissions. These policies will be detailed in the Annual Securities Report and in the documents prepared for the AGM, outlining the Company's commitments to mitigating its environmental impact.

[Justification for the Proposal]

This proposal is designed to reduce the share of greenhouse gas emissions from the companies in which the Company holds cross-shareholdings by selling these stocks.

In June 2023, the International Sustainability Standards Board mandated the disclosure of "Scope 3" emissions, which include all indirect emissions in the supply chain. Consequently, financial institutions are now required to disclose their proportional share of greenhouse gas emissions from their equity investments. In Japan, a draft proposal including these disclosure requirements was published by the Sustainability Standards

Board of Japan in March 2024.

There is a view in Japan that these disclosure requirements might extend to business corporations holding cross-shareholdings (hereinafter referred to as "SCS: Shareholders of Cross-Shareholdings"). Although the Proposing Shareholders are opposed to holding cross-shareholdings, from the perspective of addressing climate change risks, it is believed that the emissions shares should be recognised as climate risks, similar to emissions from owned factories. Specifically, it is suggested that the emissions from the issuers of cross-shareholdings should be multiplied by the SCS's shareholding ratio and considered part of the SCS's Scope 3 emissions.

There are also social concerns (under the "S" in ESG) about holding cross-shareholdings; the Financial Services Agency has warned that cross-shareholding with client companies can distort fair competition and potentially breed corruption. From a governance perspective (the "G" in ESG), the existence of the SCS as stable shareholders can lead to lax management discipline. Moreover, holding cross-shareholdings can expose shareholders to unexpected risks unrelated to the core business, such as market value fluctuations.

As mentioned, holding cross-shareholdings is not justifiable from any ESG perspective and is considered a risk for investors in listed companies. It leads to increased cost of equity and potentially reduces shareholders' value. We hope that all cross-shareholdings will be promptly sold off to eliminate the emissions share entirely. Furthermore, we expect the net proceeds from these sales to be allocated towards business investments, research and development, or shareholder returns.

5. Amendment to the Articles of Association to Mandate the Submission of the Annual Securities Report Before the AGM

[Description of the Proposal]

It is hereby proposed to amend the existing Articles of Association by incorporating the following new chapters and articles:

Chapter 9: Requirement for Submission of the Annual Securities Report Before the AM

(Article on Submission of Securities Report)

The Company is required to submit its Annual Securities Report no later than the day preceding the scheduled date of the AGM.

[Justification for the Proposal]

As Prime Minister Kishida remarked during the discussion on the promotion of Corporate Governance Reforms[2], which took place at the Prime Minister's Office on 3rd April 2024, it is advantageous for shareholders to examine the Annual Securities Report before the AGM. This review helps them to make informed decisions on whether to approve or reject the proposals presented.

Therefore, the Company is expected to provide the Annual Securities Report well in advance of the AGM; ideally, this should be at least two weeks before the meeting is scheduled to occur.

2 Prime Minister's Office of Japan (3.4.2024, Exchange of Views on the Promotion of Corporate Governance Reforms)
https://japan.kantei.go.jp/101_kishida/actions/202404/03ikenkoukan2.html

6. Amendment to the Articles of Association to Require Disclosure of Strategies to Achieve Cost of Capital Efficiency and Enhance Share Price Awareness

[Description of the Proposal]

It is hereby proposed to amend the existing Articles of Association by incorporating the following new chapters and articles:

Chapter 10: Management Conscious of Cost of Capital and Share Price

(Details on initiatives for achieving management that is conscious of capital costs and share price)

Article 41: The Company is required to produce a Corporate Governance Report outlining the most recent evaluations of the present circumstances, strategies, objectives, actions, and scheduling related to the "Action on Cost of Capital-Conscious Management and Other Requests" as mandated by the Tokyo Stock Exchange, Inc. on March 31, 2023. The report must be submitted between ten to eight weeks prior to the AGM.

[Justification for the Proposal]

As of 11th April 2024, the Company has yet to reveal its strategies for 'managing with a keen sense of capital costs and share price'. However, according to a recent publication by the Tokyo Stock Exchange (dated 15 March 2024), which lists firms that have reported on such measures as of the end of February 2024, the Company is noted as having 'disclosed' these details.

To expand on this, the price-to-book (P/B) ratio is meagre, a situation linked to several factors: the pharmaceutical division's losses, substantial non-operating assets, and a lacklustre approach to capital efficiency, highlighted by the 77% capital-to-assets ratio at the close of December 2023. Moreover, it is anticipated that enhancing ESG practices could lower the cost of equity.

Hence, it is crucial for shareholders to understand how the Company plans to adopt 'measures to enhance management's focus on capital costs and share price' and to improve its valuation in the market. Ahead of the AGM, where shareholders will voice their opinions and cast their votes, we urge the Company to provide clear, updated information on these initiatives. We also expect swift public disclosure of these strategies to foster transparency and bolster shareholder engagement.

Kind regards,
Satoru Matsuhashi
Founder CEO at Nanahoshi Management Ltd.

(In the event of any discrepancies between this English translation and the original Japanese document, the Japanese document shall prevail.)