

The following is an English version of the official Japanese announcement, which has been given to the JASDAQ and the media in Tokyo, Japan.



January 19, 2018

Company: SPARX Group Co., Ltd.
(JASDAQ Standard Code: 8739)

SPARX: Shareholder Proposal to TEIKOKU SEN-I (3302 JP)

—Hoping to implement a dividend required to limit an increase in cash and to shorten director term of office. Second time in the past eleven years that SPARX has made a shareholder proposal to a listed company. —

Tokyo (January 19, 2018) –Today, SPARX Group Co., Ltd. announced that the fund managed by SPARX Asset Management Co., Ltd, (President CEO Shuhei Abe), a wholly-owned subsidiary of SPARX Group, (hereinafter collectively referred to as “SPARX”) exercised its shareholder proposal rights and requested that the following two items be made objectives at the ordinary general shareholders’ meeting of TEIKOKU SEN-I Co., Ltd. (“TEISEN” or the “Company”) for FY 12/17, the Company’s 92nd fiscal year, to be held in this March. This is the second time in the past eleven years that SPARX has made a shareholder proposal to a listed company.

1. Dividends from Retained Earnings
Set dividends at ¥90 per share for end-FY 12/17
(At the time of proposal, management projects ¥30 per share)
2. Partial Modification of the Articles of Incorporation
Shorten the term of office for board members from "up to two years from appointment" to "up to one year from appointment"

TEISEN’s business operations provide excellent disaster prevention products, but we believe that the Company is not sufficiently valued in the stock market, considering a market capitalization of ¥59.4bn¹, projected FY12/17 net profit of ¥3.0bn², and financial asset holdings of some ¥42.5bn³. SPARX believes that the main reason for this undervaluation is the Company’s inefficient capital allocation. TEISEN has roughly ¥22.5bn⁴ in cross-shareholdings in Hulic, whose business has little synergy with TEISEN’s, as well as some ¥20.8bn⁵ in cash and marketable securities that management is not using for either growth investment or shareholder returns, depressing ROE.

In an effort to ensure that TEISEN is valued appropriately by the stock market, SPARX has sought dialogue with management over the past four years, and proposed that TEISEN divest itself from Hulic within a reasonable timeframe, and that management demonstrate a clear plan on growth investment and shareholder returns.

To prevent further deterioration of capital efficiency and expansion of TEISEN’s cash holdings, SPARX requests that management implement a dividend at the level required (as estimated by SPARX, based on management’s FY12/17 earnings projections) to limit any increase in cash and

¹ As of December 29, 2017

² Based on TEISEN’s FY12/17 earnings projections.

³ The total of TEISEN’s cash equivalents, marketable securities, and investment securities as of end-September 2017.

⁴ Derived as the product of the 17,800,292 shares in Hulic that TEISEN held at end-December 2016 and Hulic’s share price as of December 29, 2017.

⁵ Figure as of end-September 2017.

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cash equivalents, while the Company sells its cross-shareholdings, reinvests earnings for growth, and increases shareholder returns

At the same time, SPARX also proposed that management shorten the term of office for board members, increasing the opportunities for approval by shareholders, and thereby building in a better means for incorporating shareholders perspectives on issues such as the massive amount of cross-shareholdings.

TEISEN has increased its retained earnings (also known as “internal reserves”) by some ¥20.7bn over the past ten years.⁶ The problem lies in how those internal reserves are utilized, and comparing the Company’s balance sheets from ten years ago and from just a few months ago, we can see that the increase in retained earnings has not been put towards business-related assets, but rather has mostly been stockpiled as cash and marketable securities. As criticisms grow that management is being unreasonable in keeping so much in internal reserves, we hope to use the opportunity of this shareholder proposal to prompt management to consider effective ways of utilizing TEISEN’s capital.

SPARX intends to continue dialogue with TEISEN management.

Refer to the following explanatory materials regarding these shareholder proposals.

URL: https://www.sparx.co.jp/opinions/pdf/stewardship-j_20180119.pdf (Japanese)

URL: https://www.sparx.co.jp/opinions/pdf/stewardship-e_20180119.pdf (English)

■ Contact Information

Finance & Management Control
SPARX Group Co., Ltd.
Telephone: +81-3-6711-9100
Fax: +81-3-6711-9101

⁶ Increase in retained earnings, derived by comparing the consolidated balance sheets from end-December 2007 and end-September 2017.