



Dear Fellow Shareholders of Fukuda Denshi

June 2024

Request for Endorsement of Shareholder Proposals

We, Kaname Capital, are a Boston-based investment management firm specializing in long-term investments in Japanese listed equities. We are sending this letter to fellow shareholders of Fukuda Denshi to register our concern for the state of governance that is presently destroying upwards of 180 billion yen in potential market capitalization. In order to set the company on the path to shareholder value creation, we ask for your support in passing our shareholder proposals which will be presented at the Annual General Meeting of Shareholders to be held on June 27, 2024.

Summary: The Board of Directors of Fukuda Denshi has long tolerated the management's disregard for shareholders, making it necessary to appoint truly independent outside directors as proposed and supported by return seeking shareholders. Furthermore, Fukuda Denshi should abolish its takeover defense measures, commonly known as a "poison pill," which enable Chairman Fukuda and others to protect themselves at the expense of corporate value. This year's General Meeting of Shareholders is a crucial one that will determine the future of our company. With growing awareness of the "majority of minority" concept, every vote from concerned shareholders counts and we thank you in advance for your time and consideration.

Vote: We would like to request that Fukuda Denshi shareholders exercise their voting rights at the Annual General Meeting of Shareholders in June of this year as follows:

- **VOTE NO!** Reject the re-election of "Chairman Kotaro Fukuda" and "CEO Daijiro Shirai," who engaged in non-arm's length transactions in the recent past that unilaterally benefited the Fukuda family. Vote against "Masaaki Sugiyama," who has been on the Board for 16 years and proven to have a compromised history of tolerating activity that injured the interests of minority interest shareholders.
- **VOTE NO!** Reject the Company's Proposal No. 4, "Partial Amendment and Continuation of Countermeasures Against Large-Scale Purchases of the Company's Shares (Takeover Defense Measures Policy)." To normalize the company, it should operate without a Poison Pill like almost all of listed Japan.
- **VOTE YES!** Support appointment of Ms. Madoka Sato and Mr. Yusuke Nakamura as directors, to enhance the supervising function of the Board.
- **VOTE YES!** Support the proposal to amend the Board compensation, to correct the excessive and ill-gotten compensation of Fukuda Kotaro and Daijiro Shirai.
- **VOTE YES!** Support the proposal to eliminate the cap on outside director compensation, to make the outside directors fully functional and allow the Board compensation to flow to others, not just Fukuda Kotaro and Daijiro Shirai.

Kaname Capital does not normally look for confrontation, but instead seeks to unlock potential corporate value through dialogue with our investees. We have invested in Fukuda Denshi for over 5 years since 2019 and over the course of that period have uncovered a history of continued prioritization of the interests of the Fukuda Family over all shareholders. After several years of trying to bring our concerns to Chairman Fukuda Kotaro, CEO Daijiro Shirai and independent directors, we continued to be stymied in our access to hear an explanation for past pernicious activity. We are forced to speculate that only a company ashamed of their past would be this protective. The time for inaction is over. For the sake of the Fukuda Denshi employees and customers, we are working to rebuild the trust that has been broken with the market.

Fukuda Denshi's Product Excellence is Held Back by Governance Weakness:

Fukuda Denshi is an outstanding company that has earned stable profits for many years in the socially important and mission-critical business area of medical equipment. However, the company's management has been geared toward securing profits for the Fukuda family, the founding family, and has neglected the interests of other ordinary shareholders.

Fukuda Denshi's management continues to pay outrageously high compensation of over 400 million yen annually to Chairman Fukuda, who is from the founding family, and in the past has repeatedly engaged in questionable corporate actions with Fukuda family-controlled companies and organizations. For example, the company's 2015 share swap with Atomic Sangyo resulted in an outflow of economic benefits to the founding family amounting to approximately 50 billion yen, according to our calculations.

On the other hand, the dividend payout ratio of Fukuda Denshi remains at 30%, and the return of profits to shareholders is limited. Fukuda Denshi has been piling up profits as internal reserves without effectively utilizing them, which is a factor worsening capital efficiency. As a result, Fukuda Denshi's stock price is "perennially undervalued" and its P/B ratio and P/E ratios are far below those of its peers. In addition, we estimate that the value of the company lost due to the undervaluation of its value in the market is in the order of 180 billion yen.

This year, Chairman Fukuda will reach the age of 79 and President Shirai will turn 72. Both are at an age when they should generally consider retirement. How Fukuda Denshi will build its next management structure is an extremely critical issue that will affect the company's future. To date, the Board has been more interested in enabling bad behavior in service to Fukuda and Shirai, neglecting their obligation to put in place a succession plan for the next generation of leadership.

If Fukuda Denshi's next management team can break free of the status quo and make a sincere effort to manage the company with an awareness of the cost of capital and equal treatment of all shareholders, we can expect the company to increase its corporate value many times over. On the other hand, if the company maintains the founding family's control and remains in the status quo, it will be left behind by the changing times and will eventually lose competitiveness in its business. Corporate decline is completely preventable but demands action now.

Concern with Outside Directors:

Corporate Governance Code Supplemental Principle 4-1 (iii) requires the Board of Directors to be

proactively involved in the formulation and operation of succession plans. However, at Fukuda Denshi, regardless of the age of Chairman Fukuda or President Shirai, the Board of Directors does not discuss succession planning at all. As a result, there is concern that the company's next management structure will strongly reflect the wishes of the founding family and ignore the interests of minority shareholders.

To protect Fukuda Denshi's minority shareholders from conflicts of interest by the founding family, the role of genuinely independent outside directors is extremely important. Despite repeated requests to meet the independent directors—our Board room proxy—being consistently denied, we have been forced to request and review the Board minutes of Fukuda Denshi through court proceedings. Although the company currently has four outside directors, none of them expressed any opinion, let alone any objection, to the Board resolutions that allowed material leakage out of shareholder accounts and into Fukuda Kotaro's pockets. For example, resolutions to delegate the authority to Chairman Fukuda to decide the remuneration of directors, or those concerning the renewal of the takeover defense measures, have routinely been approved without question by the outside directors. To reiterate, the outside directors that are supposed to protect our interest do nothing in meetings to prevent conflicts of interest and then further shirk their obligation to shareholders by refusing to meet the people they are supposed to represent.

In addition, the Nomination and Compensation Advisory Committee consisting of outside directors was only created after our pressure but remains a false promise. According to the Board minutes, the committee meets only three times a year, and one of those meetings is for the sole purpose of deciding the order of the acting chairman. In particular, the committee issues a recommendation on the nomination of candidates for directors after only one session of deliberation in May, just before deciding on the candidates to be proposed by the company. As can be plainly seen, the Nomination and Compensation Advisory Committee is a committee in name only and cannot be considered to be meaningfully involved in the process of selecting directors or determining their compensation.

The Importance of Truly Independent Director Nominees:

We submitted a total of five shareholder proposals to Fukuda Denshi at this year's General Meeting of Shareholders. Of these five, the proposal for the appointment of two independent outside directors is key.

Fukuda Denshi's current outside directors have long tolerated a system dominated by the founding family and have become subservient to Chairman Fukuda. For example, Director Sugiyama was appointed as an outside director in 2014, approximately 10 years ago, and has enabled the Atomic Sangyo faulty transaction, the allocation of treasury shares to Fukuda Kotaro's Non-profit for 1 yen, the increase in compensation to Fukuda Kotaro and Shiri Daijiro under false pretenses, making it clear that independent directors have repeatedly failed. Given the repeated history of failure of the Board, new outside directors chosen by minority interest shareholders for all shareholders is essential.

We propose the election of Ms. Madoka Sato and Mr. Yusuke Nakamura. Ms. Sato has many years of experience as an analyst analyzing the healthcare industry from a cross-sectional perspective and is capable of providing useful supervision and advice to Fukuda Denshi in setting the strategic direction the company should take in the future and creating an environment that supports appropriate risk-taking by the management team. Mr. Nakamura is an up-and-coming lawyer in his early 40s specializing in

corporate legal affairs and has practical experience to guide the company to a better governance regime.

As both Ms. Sato and Mr. Nakamura have never had any relationship with Fukuda Denshi or the founding family, they will be able to represent the interests of minority shareholders and provide oversight from a position that is truly independent of the founding family and the management team. In addition, Fukuda Denshi's current Board of Directors consists exclusively of male members, predominantly in their late 60s and 70s. The appointment of the two new members will enhance the Board's diversity and introduce fresh perspectives.

In its opinion on the shareholder proposal published on May 15, 2024, Fukuda Denshi's Board of Directors stated that it believes it is not appropriate to appoint both individuals as directors after careful deliberations by the Nomination and Compensation Advisory Committee. However, the reasons given here only state that the current Board members are well-balanced and able to cover a wide range of areas of expertise but make no mention of their independence from the founding family, which is the key issue. Moreover, the Nomination and Compensation Advisory Committee reached this conclusion without even meeting Ms. Sato and Mr. Nakamura. This alone is a clear indication that the deliberations of the Nominating and Compensation Advisory Committee are merely superficial and that no substantive deliberations have taken place.

Delete, Do Not Amend the Takeover Defense Measures:

The Board of Directors of Fukuda Denshi submitted a proposal to this year's General Meeting of Shareholders to continue the "Basic Policy for Countermeasures to Large-Scale Purchases of Fukuda Denshi Shares (Takeover Defense Measures)" approved at the 59th Annual General Meeting of Shareholders held on June 29, 2006, with partial amendments. The company has made no credible argument for the linkage between the Takeover Defense Measures and increased shareholder value creation. As a result, the amended version should be deleted.

Prior to the amendment, Fukuda Denshi's Defense Measures were renewed only with the Board resolution. The amended version at least require the approval at a General Meeting of Shareholders when renewed every three years. However, confirmation of shareholder intent when triggering Takeover Defense Measures is not mandatory, thereby not sufficiently reflecting shareholder intent. Furthermore, the requirements for triggering countermeasures remain abstract, stipulating only that "the terms of the purchase are insufficient or inappropriate in light of the Company's corporate value," and there is a lack of predictability as to what types of acquisitions will be subject to defense measures.

Takeover defense measures inherently carry the risk of becoming a tool for management's self-entrenchment. It's crucial that these measures are properly managed under the watchful eye of independent outside directors. However, as we've discussed, the outside directors at Fukuda Denshi have unfortunately become mere followers of Chairman Fukuda, making it unlikely that they can effectively oversee the implementation of these defense measures. For any shareholder that votes to implement even the revised takeover defense measures would be well advised to appoint truly independent outside directors, as we've proposed, to make sure this potentially anti-shareholder tool is exercised by pro-shareholder Board. Anything less is bad governance.

While the defense measures have an extremely strong chilling effect on potential acquirers, the

measures have exempted Fukuda Denshi's management from the possibility of external takeover bids, a natural check on mismanagement. They are allowed to continue to manage the Company without any awareness of the share price or cost of capital or age and competence of leadership. We continue to call for the abolition of the said Defense Measures, as their very existence has a significant negative effect on the Company's corporate value. It is time to end the irresponsible and perpetual entrenchment mechanism.

Other Shareholder Proposals:

In addition to the above, we have submitted a shareholder proposal requesting a reduction in the maximum amount of director compensation as the previous increase from 600mn yen to 1bn yen was pushed through the AGM under false pretenses. We are also proposing the elimination of the cap on outside director remuneration, which is set low at 5mn yen per person, which is low even compared to our competitors. Aside from the low level, it means any increase in Board compensation flows to Chairman Fukuda and CEO Shirai, this year being no exception. When the company asks for Board compensation increases at the AGM, the resolution advertises the need to attract talent, but only a close read of the Board bylaws reveal that outside director compensation is capped, with all increases flowing to Fukuda and Shirai. The resolution to increase compensation were presented to shareholders in bad faith.

We also introduced a shareholder proposal to consider the increase in employee salary levels. All of these proposals are aimed at putting a stop to the privatization of the company by Chairman Fukuda and ensuring that the value created by Fukuda Denshi is widely distributed among employees and shareholders.

Fukuda Denshi's Board of Directors did not accept our proposal to examine the compensation level of employees, claiming that it was an unlawful proposal with no basis in law or the Articles of Incorporation. This conclusion was shocking, especially considering Kaname Capital's prior proposals, including those not involving amendments to the Articles of Incorporation, were all accepted. We regret the Board's inconsistent responses, which systematically sidestep addressing on unfair treatment of its employees.

Fukuda Denshi's improved business performance has been made possible by the daily efforts of its employees, and those employees who have contributed to the company's success should be rewarded. We demand that the excessive compensation paid to Chairman Fukuda, which has been inflated through false pretenses, be corrected and that the amount be used to improve the treatment of employees.

Conclusion: Request for Exercise of Voting Rights to Make the Company Stronger:

We would like to request that Fukuda Denshi shareholders exercise their voting rights at the Annual General Meeting of Shareholders in June of this year as follows:

- **VOTE NO!** Rejection of the election of "Kotaro Fukuda" and "Daijiro Shirai," who led the company's profit inducement to the founding family, and "Masaaki Sugiyama," who tolerated such inducement for many years, among the proposals for the election of directors proposed by the company
- **VOTE NO!** Rejection to the Company's Proposal No. 4, "Partial Amendment and Continuation of Countermeasures Against Large-Scale Purchases of the Company's Shares (Takeover Defense

Measures Policy). To normalize the company, it should operate without a Poison Pill like almost all of listed Japan.

- **VOTE YES!** Support appointment of Ms, Madoka Sato and Mr. Yusuke Nakamura as directors, to enhance the supervising function of the Board.
- **VOTE YES!** Support the proposal to amend the Board compensation, to correct the excessive and ill-gotten compensation.
- **VOTE YES!** Support the proposal to eliminate the cap on outside director compensation, to make the outside directors fully functional.

Appropriate exercise of voting rights by shareholders is essential to improve Fukuda Denshi's governance and enhance its corporate value. Fukuda Denshi is a public interest company with an important mission in the medical device business, and we believe that leaving the company privatized by the founding family is a great loss to society. Any responsible vote would seek to eliminate the Defense Measures and install accountability via truly interdependent directors. Anything less is simply out of step with the direction of the governance upgrade underway across the Japanese market. We would like to ask our fellow shareholders to exercise their voting rights responsibly.

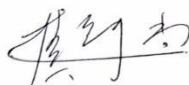
Lastly, if you would like to arrange an interview with any of our proposed independent outside director candidates, or if you have any comments regarding our proposal or Fukuda Denshi, please contact us at our e-mail address (contact@kanamecapital.com).

We sincerely hope that you will join us in making Fukuda Denshi a more transparent and stronger company.

Kaname Capital



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