

## Shareholder Proposal

Japan Absolute Value Fund, L.P. (the "Requestor"), a fund managed by Kaname Capital, L.P., as a shareholder who has continuously held 300 or more voting rights for the past six months, requests to Fukuda Denshi Co. Ltd. (the "Company"), pursuant to Article 303, Paragraph 2 of the Companies Act, that the matters described in "Item 1" below be included in the purpose of the 77th Annual General Meeting of Shareholders to be held in June 2024, and, pursuant to Article 305, Paragraph 1 of the Companies Act and Article 93 of the Ordinance for Enforcement of the Companies Act, that the outlines and reasons of the proposal described in "Item 2" be notified to the shareholders.

In the following descriptions, the Requestor may include and refer to Kaname Capital, L.P.

### 1. Matters to be Dealt with at the General Meeting of Shareholders

- (1) Election of Two (2) Directors
- (2) Revision of Compensation Amount for Directors
- (3) Elimination of the Maximum Amount of Compensation for Outside Directors
- (4) Increase in the Salary of Employees
- (5) Abolition of the "Basic Policy on Countermeasures to Large-Scale Purchases of Fukuda Denshi Shares (Takeover Defense Measures)"

### 2. Outlines and Reasons for Proposals, etc.

#### (1) Election of Two (2) Directors

##### (a) Outline of the Proposal

The following two persons shall be elected as directors.

(i) Madoka Sato (New appointment) (Outside Director)

[Date of Birth]

November 20, 1963.

[Biography]

October 1984    Joined Schroeder Banking Group Tokyo Representative Office (currently Schroeder Investment Management K.K.)

January 1990    Analyst, Japanese Equities, Research Department of the same (concurrently served as

Head of Research Department from April 1998 to September 2006)

November 2023 Retire at the mandatory retirement age

December 2023 Strategy Advisors, Inc. (part-time)

[Significant Concurrent Positions]

Strategy Advisors, Inc.

[Number of Company Shares Held]

0 shares

(ii) Yusuke Nakamura (New appointment) (Outside Director)

[Date of Birth]

July 15, 1982

[Biography]

September 2008 Registered as an attorney-at-law and joined Ushijima and Partners

August 2013 Joined Shuichi Kawasaki Law Office (currently Hisaya Sogo Law Office)

June 2015 Partner at the same

April 2024 Representative Partner of the same

[Significant Concurrent Positions]

Representative Partner, Hisaya Sogo Law Office

[Number of Company Shares Held]

0 shares

- (Notes) 1. There are no special interests between the candidates and the Company.
2. Each candidate is a candidate for outside director.
3. Each candidate satisfies the requirements for independent directors as stipulated by the Tokyo Stock Exchange. Each candidate has consented to the Company's notification of his or her appointment as an independent director if the appointment is approved.
4. Pursuant to Article 427, Paragraph 1 of the Companies Act, the Company has entered into an agreement with each of the current outside directors that limits their liability for damages under Article 423 of said Act to the amount specified by law. The Requestor requests that the Company enter into a similar liability limitation agreement with each of the candidates if the election of each candidate is approved.

5. Company has entered into a directors' and officers' liability insurance policy with an insurance company, as stipulated in Article 430-3, Paragraph 1 of the Companies Act, to cover damages that may arise from the insured being held liable for the performance of his or her duties or being subject to claims related to the pursuit of such liability, as stipulated in the said insurance policy. The following is a summary of the terms and conditions of the policy. The Requestor requests that the Company include each candidate as an insured under such insurance policy as well, if the appointment of each candidate is approved.
6. Biographies of each candidate above are as of April 18, 2024.

Article 18 of the Company's current Articles of Incorporation stipulates that the Company shall have no more than ten (10) directors, and if another proposal (including a proposal pertaining to a Company proposal) includes the election of nine (9) or more directors, the total number of candidates for directors would exceed the maximum number of directors stipulated in the Articles of Incorporation. Therefore, in such a case, the Company should vote on all director candidates for this proposal and such other proposals, and if the number of director candidates receiving a majority of votes in favor exceeds ten (10), the Company should elect the director candidates in the order of the number of director candidates receiving more votes in favor until the number reaches ten (10).

## **(b) Reasons for the Proposal**

### **(i) Background and Purpose of the Series of Proposals**

The Company is one of the leading medical equipment manufacturers in Japan, maintaining the top market share in the field of electrocardiographs and other products for many years. Since its establishment in 1939, the Company has supported the medical field in Japan by providing a variety of equipment, thereby contributing to the maintenance and improvement of the health of the Japanese people. The Requestor would first like to express its respect for the past efforts of the founding family, management team, and employees who have built and operated such a company.

The Company's business is highly profitable, and over the past three years, the Company has further increased its revenues significantly. However, the market's evaluation of the Company's value is not high. Although the Company's stock price has risen significantly from last year to this year, as shown in the table below, the P/B ratio and P/E ratios are still far below those of its industry peers. In the following analysis, we will make comparison with Nihon Koden as a representative competitor of the Company and Terumo as a comparator in the medical equipment industry.

PBR (times)	19.3	20.3	21.3	22.3	23.3	23.12
Company	0.96	1.02	0.92	0.79	0.79	1.05
Nihon Koden	2.41	2.84	1.98	1.59	1.80	1.95
Terumo	3.64	3.71	3.53	2.78	2.40	3.23

PER (times)	19.3	20.3	21.3	22.3	23.3	23.12
Company	11.9	13.2	8.6	7.3	7.5	9.5
Nihon Koden	25.0	35.1	15.1	10.6	17.7	20.6
Terumo	32.0	32.8	39.1	31.7	29.8	39.7

Compared to the share prices of Nihon Koden and Terumo, the Company's share price is undervalued by approximately 50% to 70%. This undervaluation can be attributed to a number of factors, but the Requestor believes that there are three main reasons: (a) it is difficult to have growth expectations for the Company because the Company only accumulates earnings as retained earnings and does not allocate them to growth investments such as overseas expansion, capital expenditures, and research and development; (b) the Company does not aim for the Prime market segment and remains in the Standard market, which makes its stock illiquid and poses unnecessary risks as an investment target, and (c) the Company's management team has taken questionable corporate actions to date, such as a share exchange with a company controlled by the founding family, and has not shown a succession plan, making it difficult to have confidence in the Company's current and future governance.

The Requestor began investing in the Company in January 2019 and has made various requests through dialogue with the Company, including a stock split, elimination of takeover defenses, cancellation of treasury stock, and establishment of a nominating and compensation committee. However, the Company's response to date has been passive and insufficient. Moreover, the Company has yet to disclose its response to the TSE's request to achieve cost of capital and stock price conscious management (as of April 18, 2024).

In the Company, Chairman Fukuda, the second generation of the founding family, has remained in the position of representative director for nearly 40 years since 1985. The Requestor believes that during the long period of control by the second generation of the founding family, the Company's management has lost the spirit of entrepreneurship that existed at the time of its founding and has become imbued with a disposition to maintain the status quo.

This year, Chairman Fukuda will turn 79 and President Shirai will turn 72. Both are at an age when they should generally consider retirement. How the Company will structure its next management is an

extremely critical issue that will affect the future of the Company.

If the next management of the Company can break away from the status quo and earnestly work to manage the Company with an awareness of the cost of capital, 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, we fear that the Company will eventually lose competitiveness in its business.

(ii) Reason for Proposing the Appointment of Outside Directors

Chairman Fukuda, who is from the founding family, is not only the largest shareholder of Company, but also in a position to exert strong influence within the company, as he has been a Chairman entrusted with the authority to determine the compensation of directors. Therefore, there is a concern that the Company's next management structure will strongly reflect the wishes of the founding family and ignore the interests of minority shareholders. In the event of an MBO or a takeover bid from another company, there is also a risk that the interests of minority shareholders will be sacrificed in favor of the convenience of the founding family. In order to protect minority shareholders from conflicts of interest by the founding family, the role of outside directors who are independent from the founding family and management under its influence is extremely important.

However, in light of what is revealed in the minutes of the Board of Directors meetings disclosed to the Requestor by the Company, the current outside directors of the Company cannot be expected to play a role in protecting the interests of minority shareholders.

- (a) At no time did any of the Company's outside directors express any opinion, let alone object, to the resolution to entrust Chairman Fukuda with the authority to determine directors' compensation, the renewal of takeover defense measures, or any other resolutions that were problematic from the standpoint of conflicts of interest.
- (b) The Nominating and Compensation Advisory Committee, of which the Company's outside directors are members, met only three times during the year, and one of those meetings was only to determine the acting order of the chairperson. In particular, the committee has issued a report on the nomination of candidates for directors after only one meeting, just before deciding on the candidates to be proposed by the Company in May. As can be 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.
- (c) Regardless of the age of Chairman Fukuda or President Shirai, the Company's Board of Directors has not discussed any succession planning. The Company's outside directors are considered to have left such a situation unresolved.

The Company's outside directors have long tolerated a system dominated by the founding family and are considered to have been beholden to Chairman Fukuda. Therefore, the Company's Board of Directors

needs a new outside director who can supervise the execution of operations from a position that is truly independent of the founding family and management.

(iii) Relationship of Each Candidate to the Requestor

The Requestor sought candidates for the Board of Directors who do not have any relationship with the Company through its own network and was introduced to Ms. Madoka Sato and Mr. Yusuke Nakamura. Both of them agreed to be candidates for the Board of Directors, understanding the challenges that the Company is facing, and the roles expected of outside directors.

Ms. Sato and Mr. Nakamura do not have any business relationship, employment, mandate, or any other interest with the Requestor, nor do they have any relationship involving the payment of compensation. In addition, neither Ms. Sato nor Mr. Nakamura has entered into any contract or agreement with the Requestor with respect to their duties, exchange of information, or other matters in the event that they are appointed as a director, nor do they have any obligation or liability to the Requestor.

Therefore, Ms. Sato and Mr. Nakamura can appropriately fulfill their responsibilities as directors from the perspective of the common interests of the Company's shareholders, without representing the interests of any particular shareholder.

(iv) Reason for Appointing Ms. Madoka Sato as a Candidate for Outside Director

Ms. Sato has many years of experience in Japanese equity research as an analyst at Schroeder Investment Management, a global asset management firm. Ms. Sato has regularly covered approximately 25 companies, primarily in the pharmaceutical, medical device, and biotechnology sectors, and has continuously analyzed approximately 150 companies in a broader universe.

As an analyst in the healthcare field, Ms. Sato's duties include analyzing the future earnings of companies and identifying promising companies by forecasting trends and developments three to five years in the future. Over the course of her career, Ms. Sato has built close relationships with executives in the healthcare sector and has continued to follow trends overseas through exchanges of views with analysts at the group's overseas offices. This experience and knowledge has enabled Ms. Sato to form deep insights on trends in the healthcare industry.

Ms. Sato's insights into the medical field are more than just numbers. While working, Ms. Sato enrolled in Waseda University's School of Human Sciences, where she majored in bio functional biology and studied the drug response of rats' spleens to beta blocker administration. Ms. Sato's corporate analysis is also supported by this academic knowledge.

As an analyst, Ms. Sato has analyzed numerous cases of successful and unsuccessful M&A and overseas expansion for healthcare-related companies. Ms. Sato can use this knowledge to provide useful oversight and advice in setting the strategic direction that the Company should take going forward and in creating an environment that supports appropriate risk-taking by the management team. In addition, in her many

years of experience, Ms. Sato has seen instances where a lack of governance has led to catastrophic situations for the Company. Therefore, Ms. Sato can also be expected to provide useful suggestions regarding the Company's current governance issues and how to improve them in the future.

Ms. Sato is also someone who can complement the knowledge of corporate finance and cross-sectional analysis of the healthcare industry that is lacking in the Company's current directors. Therefore, Ms. Sato is qualified to serve as a director of the Company.

(v) Reason for Appointing Mr. Yusuke Nakamura as a Candidate for Outside Director

Mr. Nakamura started his career in 2008 at a prominent law firm in Tokyo, and is currently the managing partner of Hisaya Sogo Law Office, a law firm comprised of former judges and lawyers from other prominent law firms, focusing on corporate legal affairs. Mr. Nakamura is committed to providing legal advice with a sense of professionalism and without pandering to his clients, and this attitude has led to his gaining the trust of many clients.

Mr. Nakamura routinely provides legal advice to various client companies, including on issues related to board management. In particular, Mr. Nakamura has extensive experience in contentious matters such as business disputes, corporate litigation, and handling misconduct cases. He has represented listed companies in shareholder derivative suits in which directors were alleged to be liable for breaches of their duty to establish internal control systems and breaches of monitoring duties. Through these cases, Mr. Nakamura has practical experience, not merely abstract knowledge, of how appropriate governance should be in a company.

In order to appropriately oversee the risk of conflicts of interest in a company like the Company, having a risk of structural conflicts of interest between controlling shareholders and minority shareholders, it is essential to have personnel with legal expertise. The Company has never appointed an outside director with legal expertise, and the claimant believes that this is one of the reasons Chairman Fukuda's numerous conflicts of interest have gone unnoticed.

Mr. Nakamura has the knowledge and experience necessary to ensure the governance of the Company. In addition, Mr. Nakamura is an up-and-coming attorney in his early 40s, and can be expected to bring a fresh perspective to Company's Board of Directors, which is primarily comprised of individuals in their late 60s and 70s.

As stated above, Mr. Nakamura is qualified to serve on the Company's Board of Directors because he is able to fill a legal expertise that is currently lacking on the Company's Board of Directors.

## **(2) Revision of Compensation Amount for Directors**

### **(a) Outline of the Proposal**

The amount of compensation for Company directors shall be revised to a maximum of 600 million

yen per year. This amount shall not include employee salaries for directors who concurrently serve as employees of the Company, or the stock compensation plan.

**(b) Reasons for the Proposal**

Currently, the amount of compensation to Company directors is set at no more than 1 billion yen per year (including no more than 20 million yen for outside directors), and a separate performance-based stock compensation plan, the "Stock Benefit Trust (BBT)," has been established with a maximum contribution amount (amount of compensation, etc.) of 108 million yen (for three fiscal years). Based on this, in the fiscal year ended March 31, 2023, compensation, etc. of 434 million yen was paid to Chairman Fukuda and 209 million yen to President Shirai.

To begin with, the Company's Board of Directors, at the 74th Ordinary General Meeting of Shareholders held on June 29, 2021, proposed that the maximum amount of compensation for directors be increased from 600 million yen to 1 billion yen, citing "the need to maintain a compensation level appropriate to recruit competent personnel" and "to increase the number of directors" (p. 45 of the Notice of Convocation). However, of the 159-million-yen net increase in total director compensation for the year, 92.4% (147 million yen) was paid to Chairman Fukuda and President Shirai for their increased compensation. For the other directors, while the number of directors increased by three, their total compensation increased by only 12 million yen, resulting in a decrease in the amount of compensation per director. Increasing only the compensation of Chairman Fukuda and President Shirai has nothing to do with "recruiting competent personnel" or "increasing the number of directors".

Given this, it is clear that the true purpose of raising the cap to 1 billion yen was to increase the compensation of Chairman Fukuda and President Shirai. Nevertheless, it is deceptive to ask the General Meeting of Shareholders for an increase, citing "recruiting competent personnel" and "increasing the number of directors" as reasons for the increase. This increase was made before the establishment of the Nomination and Compensation Advisory Committee in October 2022, and the outside directors were not fully involved in the decision-making process.

In light of this history, the increase in the maximum compensation limit to 1 billion yen is inappropriate, and the limit should be returned to 600 million yen. The appropriate level of director compensation at the Company should then be reexamined with the appropriate involvement of the Nomination and Compensation Advisory Committee, which is composed of outside directors.

**(3) Elimination of the Maximum Amount of Compensation for Outside Directors**

**(a) Outline of the Proposal**

The maximum amount of compensation for outside directors of the Company, which is limited to 20 million yen per year, shall be eliminated from the amount of compensation for directors of the Company.



#### **(b) Reasons for the Proposal**

As mentioned above, the maximum amount of compensation for Company directors was raised from 600 million yen to 1 billion yen due to the "need to maintain a level of compensation appropriate to recruit competent personnel" and "to increase the number of directors". However, the limit for outside directors remains unchanged at 20 million yen per year. Therefore, it is impossible for the Company to increase the compensation for outside directors despite the substantial increase in compensation for Chairman Fukuda and President Shirai. Furthermore, it is also difficult for the Company to appoint new outside directors because increasing the number of outside directors would reduce the amount of compensation per director. In other words, the maximum annual compensation limit of 20 million yen for outside directors makes it difficult for the Company to "recruit competent personnel" for outside directors.

As explained in the reason for the proposal for "(1) Election of Two (2) Directors" above, outside directors have an extremely important role: to protect the interests of minority shareholders from conflicts of interest by the founding family. For example, in the event of an MBO proposal, the outside directors will form a special committee and play a role in ensuring the fairness of the transaction. Although four outside directors are currently appointed at the Company, the annual amount of no more than 5 million yen per person is not commensurate with the heavy responsibility required of outside directors at the Company. The maximum amount of compensation for two outside directors at Nihon Koden, excluding members of the Audit Committee, is 30 million yen or less, and at Terumo, there is no maximum amount set for outside directors.

It is essential to pay appropriate compensation to outside directors in order to secure competent personnel for outside directors and to ensure that they devote sufficient time to the Company's business. Therefore, the cap on outside director compensation should be eliminated, making it possible to pay appropriate compensation to outside directors within the limit of the cap on director compensation.

#### **(4) Increase in the Salary of Employees**

##### **(a) Outline of the Proposal**

The salaries of employees of the Company and its consolidated subsidiaries shall be increased to an extent deemed reasonable by the Board of Directors in light of the Company's improved performance to date.

##### **(b) Reasons for the Proposal**

From the fiscal year ending March 2014 to the fiscal year ending March 2023, the Company's operating profit more than doubled. During this period, Chairman Fukuda's compensation continued to increase

regardless of whether profits increased or decreased, with total compensation increasing 3.2 times and bonuses increasing approximately 10 times. However, the average employee salary of the Company on a non-consolidated basis increased only 1.1 times over the same period.

Actual amount (Millions of yen)	Fiscal year ended March 2014	Fiscal year ended March 2015	Fiscal year ended March 2016	Fiscal year ended March 2017	Fiscal year ended March 2018	Fiscal year ended March 2019	Fiscal year ended March 2020	Fiscal year ended March 2021	Fiscal year ended March 2022	Fiscal year ended March 2023
Consolidated Operating Profit	11,783	10,303	10,649	12,062	12,334	12,645	13,283	19,811	22,708	24,093
Employee Salaries	7.6	7.8	7.4	7.5	7.8	7.8	7.8	7.7	8.2	8.4
Fukuda Chairman's Compensation	136	136	141	154	190	232	278	349	452	434
basic compensation	116	116	120	122	132	146	157	165	199	228
bonus	20	20	21	31	57	75	110	170	240	195
Other	-	-	-	1	1	11	11	14	13	10

The Company's improved performance has been made possible by the daily efforts of the employees. If they have achieved good performance as a company, the employees should be rewarded for their contributions.

Fair employee treatment is the key to securing human resources. In order for the Company to increase its corporate value over the medium to long term, it is essential that the results of the Company's performance be appropriately distributed to its employees and that talented people continue to work for the Company. It is impossible to keep employees motivated if their salaries increase only slightly even when the company's performance improves and Chairman Fukuda's compensation continues to grow.

In fact, word-of-mouth information from (former) employees of the Company on the Internet includes the following comments: "The Fukuda family is in control of the Company. The salary is too low for a medical equipment manufacturer. I don't feel motivated" and "I have the impression that many people are changing jobs because the salary is low compared to rival companies.

The Requestor would like to note to shareholders that this proposal is related to "(2) Revision of Compensation for Directors". In other words, the Requestor is asking the Company to correct the excessive compensation payment to Chairman Fukuda, which has been inflated through a deceptive

process, and to use the amount to improve the treatment of its employees. In order for the Company to "retain competent personnel," it would be much more beneficial to increase the salaries of its employees than to increase the compensation of Chairman Fukuda, who is nearing retirement.

While this proposal leaves specific decisions on the extent and method of salary increases to the Board of Directors, the Requestor hopes that the Company's Board of Directors fully understands that the fair treatment of employees is the most direct way to create incentives to increase corporate value.

**(5) Abolition of the "Basic Policy on Countermeasures to Large-Scale Purchases of Fukuda Denshi Shares (Takeover Defense Measures)**

**(a) Outline of the Proposal**

The "Basic Policy for Countermeasures to Large-Scale Purchases of Fukuda Denshi Shares (Takeover Defense Measures)" (hereinafter referred to as the "Plan", including subsequent amendments, etc.), the introduction of which was resolved at the Company's Board of Directors meeting held on May 31, 2006 and approved by shareholders at the 59th annual general meeting of shareholders held on June 29, 2006, and the continuation (extension of the effective period) of which is resolved every year at the first Board of Directors meeting following the annual general meeting of shareholders, shall be abolished.

**(b) Reasons for the proposal**

The Requestor, following the shareholder proposal made at last year's annual general meeting of shareholders, proposes to abolish the Plan, which neglects the will of the shareholders.

The Plan is structured to allow the Board of Directors to trigger a countermeasure without going through a general meeting of shareholders, even if the acquirer complies with the purchase rules stipulated in the Plan and provides information, if the Board of Directors determines that "the terms of the acquisition are insufficient or inappropriate in light of the Company's corporate value" (Plan 4. (Plan 4. Countermeasure Policy in the Event of a Large-Scale Purchase / (3) Requirements for Triggering of Countermeasures / (iv)).

If the acquirer complies with the purchase rules and provides information, there is no obstacle for shareholders to judge the appropriateness of the acquisition, and there is no reason to trigger countermeasures only by the Board of Directors. The Plan permits the triggering of countermeasures only by the Board of Directors even in such a case, and lacks a mechanism to prevent abuse by management for its own protection.

The Plan gives the Board of Directors unlimited authority to take countermeasures, and the requirements for triggering the countermeasures are abstractly defined as "the conditions of the purchase are insufficient or inappropriate in light of the Company's corporate value". As a result, it lacks predictability as to what types of acquisitions will be subject to countermeasures, and this has an extremely

strong demotivating effect on potential acquirers. On the other hand, the Plan has shielded the Company's management from the possibility of an outside takeover and has allowed it to continue to manage the Company in a perfunctory manner without regard to its stock price or cost of capital. As described above, the existence of the Plan itself has a significant negative effect on the Company's corporate value.

In August last year, the Ministry of Economy, Trade and Industry (METI) formulated the "Action Guidelines for Corporate Takeovers" and clarified that the rational will of shareholders should be relied upon in matters involving the right to control the management of a company (the principle of shareholders' will). Now that the Action Guidelines have been formulated, it is inappropriate to maintain the Plan in violation of the principles set forth therein. The Company should reconsider its policy for responding to takeover bids and countermeasures in line with the purpose of the Action Guidelines, rather than remaining fixated on the Plan that was formulated 18 years ago.

End.