HIBIKI PATH ADVISORS

PROPOSAL FOR DOE IMPLEMENTATION

MARCH 2022

ISSUES WE OBSERVE AND PROPOSALS

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- BoD except founding families only own small stake in Arcland, making it difficult to achieve mutual benefits between BoD and shareholders
  As such, investors become concerned about its corporate governance, which increases risk for investment
  - ✓ Implementing stock-based compensation for directors and stock options for employees (=> Link business development to employee happiness based on the idea that happiness will arrive when people forget about it)

- Insufficient dividend compared to ROE
  - ✓ Dividend on equity (DOE) implementation ⇒Dividends link to increase in Book Value ⇒Share price should also follow the trend
  - ✓ Financial measures are directly related to corporate evaluation, not to mention business growth (Dividends should be higher than 1/3 of ROE)

HISTORICAL DIVIDEND

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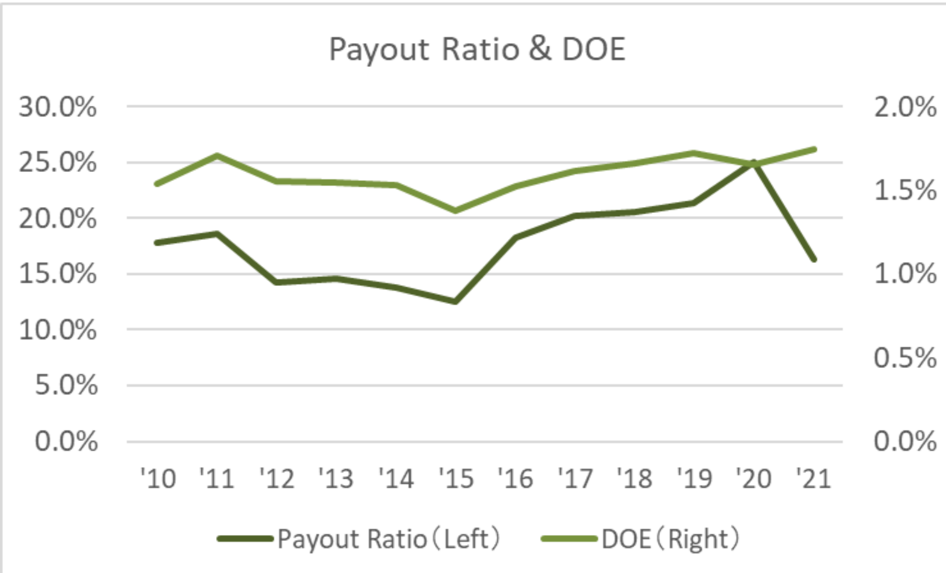

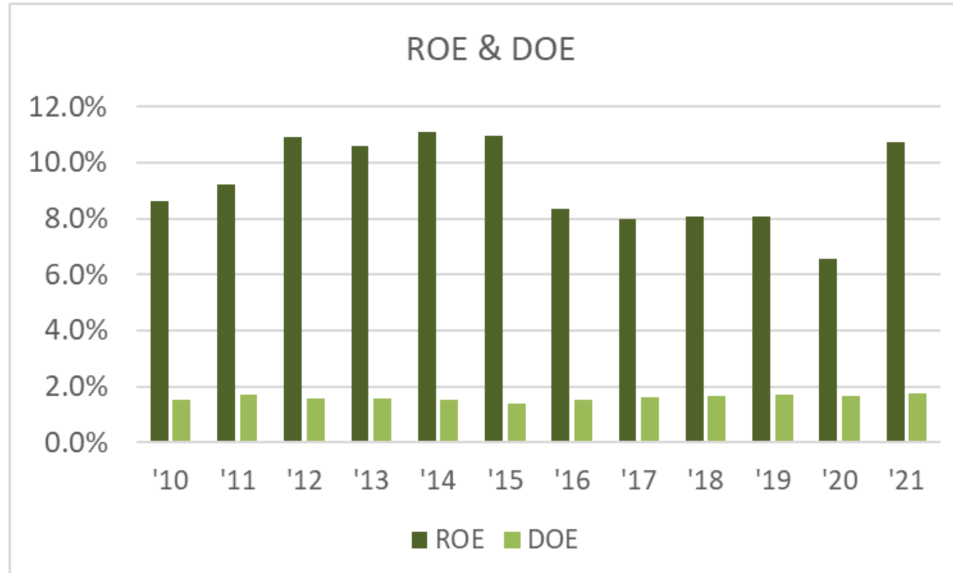

- ✓ Commitment to a DOE of 3% (1/3 of ROE) would be desirable
- ✓ Strongly recommend DOE as it is suitable for Arcland's stable dividend policy
- ✓ DOE prevents volatility of dividends regardless of profit and increases dividend predictability
  Low predictability of earnings and dividends increases cost of capital

*Compiled by Hibiki from Bloomberg

BENEFITS OF DOE IMPLEMENTATION

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For Company

- DOE supports the stock price when business performance is weak while DOE reserves dividend for investment when performance is strong
- Attract shareholders who wish to support the company over the mid-to-long term
- Can imply the company's attitude towards capital efficiency to investors

For Shareholders

- A strong indication of the company's desire to continue to return profits to shareholders over the long term
- Benefit from capital efficiency commitments

DOE target will (1) reduce resources for difficult decision-making, (2) optimize capital structure, and (3) help increase the number of supportive and stable shareholders.
→Triple-win dividend policy.

(FYI) DOE VS. PAYOUT RATIO

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Assumption：

Total assets 20bn.
(cash 10bn, liabilities 5bn, shareholders' equity 15bn.)

Net income fluctuates as 1.5bn., 3bn., and zero in 3-year cycle (assuming a company with high profit volatility)

Case (1) 40% payout ratio
Case (2) 6% DOE

(1) Case of 40% payout ratio	1yr	2yr	3yr	4yr	5yr	6yr	7yr	8yr	9yr	Total
Net income	15	30	0	15	30	0	15	30	0	
Dividends (40% payout ratio)	6	12	0	6	12	0	6	12	0	54
Cash at year end	109	127	127	136	154	154	163	181	181	
3-year average ROE			8.8%			7.6%			6.7%	
Cash Ratio	52%	56%	56%	58%	61%	61%	62%	64%	64%	
Shareholders' equity ratio	76%	78%	78%	79%	80%	80%	81%	82%	82%	

(2)Case of 6% DOE	1yr	2yr	3yr	4yr	5yr	6yr	7yr	8yr	9yr	
Net income	15	30	0	15	30	0	15	30	0	
Dividends (6% DOE)	9	9	11	10	10	11	11	11	12	95
Cash at year end	106	127	116	121	141	129	134	153	140	
3-year average ROE			8.9%			8.2%			7.7%	
Cash Ratio	51%	56%	54%	55%	58%	56%	57%	60%	58%	
Shareholders' equity ratio	76%	78%	77%	77%	79%	78%	79%	80%	79%	

Payout ratio	1yr	2yr	3yr	4yr	5yr	6yr	7yr	8yr	9yr
(1)Case of payout ratio 40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
(2)Case of DOE 6%	60%	31%	∞	66%	34%	∞	72%	37%	∞

DOE	1yr	2yr	3yr	4yr	5yr	6yr	7yr	8yr	9yr
(1)Case of payout ratio 40%	4%	8%	0%	3%	6%	0%	3%	6%	0%
(2)Case of DOE 6%	6%	6%	6%	6%	6%	6%	6%	6%	6%

Unit : Yen

DISCLAIMER

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