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For Immediate Release

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Notice Regarding Opinions of the Board of Directors on Shareholder Proposals

VITAL KSK HOLDINGS, INC. (hereinafter “The Company”) received a letter (hereinafter referred to as the “Shareholder Proposals Letter”) requesting the incorporation of shareholder proposals (hereinafter the “Shareholder Proposal(s)”) in the agenda of the 14th Annual General Meeting of Shareholders to be held on May 12, 2023. The Group announces that, at a meeting of the Board of Directors held today, it resolved to oppose the Shareholder Proposals as described below.

1. Shareholder making the proposals

Shareholder: Nippon Active Value Fund plc

2. Details of shareholder proposals

(1) Proposals

- (i) Approval of the amount of compensation under the restricted stock compensation plan
- (ii) To purchase treasury shares
- (iii) To partially amend the Articles of Incorporation in regard to the composition of Outside Directors

(2) Details of proposals

As stated in the attached “Details of the Shareholder Proposals.”

The Attachment “Details of the Shareholder Proposals” is the original text of a part of the Shareholder Proposals Letter, which has been submitted by the Proposing Shareholder.

3. Opinions of the Board of Directors regarding the shareholder proposals

(1) (i) Approval of the amount of compensation under the restricted stock compensation plan

(i) Opinion of the Group’s Board of Directors

The Board of Directors of the Company is against this Shareholder Proposal.

(ii) Reason for the opposition

The Company’s compensation for directors is linked to shareholder returns to fully function as an incentive to sustainably increase corporate value. Part of this is performance-linked compensation, as approved at the Annual Shareholders’ Meeting held in June 2016, and is designed as a system to incentivize directors to enhance corporate value with the introduction of a Board Benefit Trust (BBT) system that reflects performance indicators (KPIs) to raise awareness of improving business performance for each fiscal year. Target performance indicators and values are set when plans are formulated to be consistent with the medium-term management plan, and are reviewed from time to time in response to changes in the environment, based on the findings reported back from the Advisory Meeting.

With respect to performance-linked compensation such as this, the Company has been considering the possibility and appropriateness of introducing such a system based on various options, including the proposed restricted stock compensation system, as appropriate. However, at the Board of Directors meeting held today, the Company’s directors (excluding Directors who are members of the Audit & Supervisory Committee and outside Directors; hereinafter referred to as the “Subject Directors”) decided to introduce a performance-linked restricted stock-based compensation system (“the System,” hereinafter) as a compensation system that will allocate performance-linked restricted stock-

based compensation to the Subject Directors with ROE as the performance indicator, in order to share the benefits and risks of share price fluctuations with shareholders and enhance motivation to contribute to improved share price and enhanced corporate value from a medium-to-long-term perspective. A separate “Notice Concerning the Introduction of Performance-Linked Restricted Stock Compensation System” detailing that the System will be introduced as an agenda item at the Annual Shareholders’ Meeting was issued today.

In addition, as announced in the “Notice of Transition to a Company with Audit & Supervisory Committee” dated October 28, 2022 and the “Notice of Partial Amendments to the Articles of Incorporation” separately announced today, if the proposal for the transition to a Company with an Audit & Supervisory Committee is approved at this Annual Shareholders’ Meeting, the Company will transition to a company with an Audit & Supervisory Committee. This system will be introduced as part of the review of the executive compensation system in connection with this transition, and the maximum number of performance-linked restricted shares to be allotted to each eligible director during each applicable period will be 100,000 shares.

This system is to be used in conjunction with the aforementioned performance-linked compensation BBT system (annual amount not exceeding 45 million yen, with outside directors and non-executive directors not eligible; and with the number of points related to such performance-linked stock compensation not exceeding 50,000 points per year, also with outside directors and non-executive directors not eligible).

Furthermore, as announced in the “Notice of Introduction of Performance-Based Restricted Stock Compensation Plans for Executive Officers and Employees of the Company and Directors, Executive Officers and Employees of the Company’s Main Subsidiaries,” the Company resolved at the meeting of its Board of Directors held today to introduce a performance-based restricted stock compensation plan for executive officers, for department- and branch manager-level employees of the Company, and for directors (excluding outside directors), executive officers and department- and branch manager-level employees of its main subsidiaries. This system was introduced to ensure that executive officers and employees at the general manager and branch manager level, as well as directors (excluding outside directors), executive officers and employees at the general manager and branch manager level at our main subsidiaries are strongly aware of ROE in the same vector as our directors, in order to better enhance sustainable corporate value from the perspectives of our shareholders.

On the other hand, the content of the shareholder’s proposal is currently excessive in terms of the annual amount of 220 million yen or less and the maximum number of shares to be granted of 244,000 shares, considering the Company’s profit level, and also, while the Company’s plan includes employees of the Company and its main subsidiaries who meet certain conditions, the Shareholder Proposal may damage the sense of unity between management and employees because the Company’s plan is limited to directors, and it may also impede the audit and check functions because it includes directors who are members of the Audit Committee and outside directors.

Accordingly, the Board of Directors of the Company is against this Shareholder Proposal.

(2) (ii) To purchase treasury shares

(i) Opinion of the Group’s Board of Directors

The Board of Directors of the Company is against this Shareholder Proposal.

(ii) Reason for the opposition

The Company’s Articles of Incorporation allow the Board of Directors to make a resolution on the purchase of treasury shares, and the Company purchases treasury shares at the most effective time and on the most effective scale. In the past four fiscal years, the Company has also purchased treasury shares three times, despite a downturn in performance in the fiscal year ended March 31, 2021, and the total payout ratio for the fiscal year ended March 31, 2023 was 62.5% (Table 1), in line with our shareholder return policy. In addition, as separately announced today in the “Notice of Decision on Matters Concerning Purchase of Treasury Shares and Cancellation of Treasury Shares (Purchase of treasury shares in accordance with the Articles of Incorporation pursuant to Article 165, Paragraph 2 of the Companies Act and cancellation of treasury shares pursuant to Article 178 of the Companies Act),” the Company resolved at the Board of Directors meeting held today to purchase up to 1,000,000 treasury shares and cancel 9,321,000 treasury shares.

We have also defined the delivery of pharmaceuticals to those in need at all times as a key corporate issue (material

issue), and we aim to enhance our corporate value over the medium to long term while investing in systems to strengthen infrastructure functions and improve cost efficiency to achieve value creation at the Company.

On the other hand, this Shareholder Proposal suggesting the purchase of 5,178,000 shares at a total acquisition cost of 4,660 million yen, when added to the projected dividend of approximately 2,000 million yen and the aforementioned acquisition of 1,000,000 shares of treasury stock based on a resolution of the Board of Directors, is significantly larger than our net income for the year ending March 31, 2023, and exceeds our forecast for the year ending March 31, 2024. We believe that if such a proposal is passed, it will deprive our company, which is responsible for the distribution of pharmaceutical products, of the financial resources to make the necessary investments and jeopardize our company's medium- to long-term growth, and even our ability to fulfill our social mission of delivering pharmaceutical products to those in need at any time, as mentioned above.

Accordingly, the Board of Directors of the Company is against this Shareholder Proposal.

(3) (iii) To partially amend the Articles of Incorporation in regard to the composition of Outside Directors

(i) Opinion of the Group's Board of Directors

The Board of Directors of the Company is against this Shareholder Proposal.

(ii) Reason for the opposition

The Corporate Governance Code stipulated by the Tokyo Stock Exchange states that "Companies listed on the Prime Market that consider it necessary to appoint a majority of independent outside directors after comprehensively taking into account factors including the industry, size, business characteristics, institutional design and the environment surrounding the company should appoint a sufficient number of independent outside directors." As a supplement to the above, the code states that "listed companies with controlling shareholders should appoint at least a majority of independent outside directors who are independent from the controlling shareholders in the board of directors, or establish a special committee composed of independent persons, including outside directors, to deliberate and review important transactions and actions that may cause conflicts of interest between the controlling shareholders and the minority shareholders."

First, if each of the proposals submitted to the meeting is approved, the Company will transition to a company with an Audit & Supervisory Committee, and as separately announced today in the "Announcement of Personnel Changes of Directors and Executive Officers in Connection with Transition to a Company with an Audit & Supervisory Committee," five of the 14 directors will be outside directors. All of the candidates for director are familiar with the Company's business, including knowledge and experience in sales and marketing, financial accounting, and personnel and labor affairs, while the outside directors have expertise and experience as business managers, academic experts, lawyers, and certified public accountants, as well as deep knowledge of corporate governance.

Thus, we believe that the Board of Directors consisting of the candidates for director proposed by the Company maintains sufficient independence and has a well-balanced composition from the perspective of business execution to achieve the Company's medium-term management plan, which we believe will lead to the sustainable enhancement of the Company's corporate value, in turn benefitting all of our shareholders.

As shown in (Table 2), the composition of the Company's principal shareholders, the Company is not a company with a specific controlling shareholder and does not consider itself in a situation where it should immediately appoint a majority of outside directors; on the other hand, the Company has been holding regular "Advisory Meetings" consisting of two outside directors, two outside corporate auditors and three representative directors, the purpose of which is to ensure transparency and sound management by discussing important management issues such as nomination and compensation of directors, evaluation of the effectiveness of the Board of Directors, and corporate governance, while receiving advice from the outside members. After the transition to a Company with an Audit & Supervisory Committee, we will continue to hold regular meetings in a format with five outside directors (including two outside directors who are also Audit & Supervisory Committee members), three representative directors, and a majority of outside members.

At the Advisory Meetings, wide-ranging discussions take place regarding governance systems, including the assessment and analysis of Board of Directors effectiveness and the institutional design of the Company, in addition to discussions over policies for the appointment and dismissal of directors and evaluations of senior management. We

recognize that the Company's Board of Directors, which was constituted based on the discussions at such advisory meetings, has been conducting management aimed at sustainable enhancement of the Company's corporate value, such as new business development, capital investment, and human resource development, while placing emphasis on the return of profits to shareholders.

The Corporate Governance Code also states that the composition of the board of directors, that is, whether or not to appoint a majority of outside directors, should be determined by "comprehensively considering the industry, size, business characteristics, institutional design, and environment surrounding the company."

We believe that setting specific restrictions and conditions in the Articles of Incorporation, as proposed by this shareholder, would limit the scope of candidate selection and interfere with achieving the optimal composition of the Board of Directors at any given time.

Accordingly, the Board of Directors of the Company is against this Shareholder Proposal.

(Reference)

Table 1: Dividends paid by the Company in the past four fiscal years

	FY03/20	FY03/21	FY03/22	FY03/23
Dividend per share	24 yen = Interim dividend of 11 yen + year-end dividend of 13 yen	12 yen = Interim dividend of 12 yen + year-end dividend of 0 yen	26 yen = Interim dividend of 12 yen + year-end dividend of 12 yen + special dividend of 2 yen	39 yen = Interim dividend of 12 yen + year-end dividend of 27 yen
Consolidated payout ratio	28.8%	56.4%	29.6%	42.1%
Purchase of treasury shares	1,400 thousand shares (1,498 million yen)	-	2,000 thousand shares (1,559 million yen)	1,455 thousand shares (998 million yen)
Total return ratio	61.0%	56.4%	62.0%	62.5%

Table 2: Major shareholders (top ten)

Rank	Name or company name	Number of shares held (thousands)	Percentage of total shares issued (%)
1	Suzuhiko Co., Ltd.	4,892	9.42
2	The Master Trust Bank of Japan, Ltd. (trust account)	3,995	7.69
3	Mizuho Trust & Banking Co., Ltd. Employee Pension Trust (Daiichi Sankyo Company, Limited)	2,214	4.26
4	Custody Bank of Japan, Ltd. (trust account)	1,777	3.42
5	Ken Suzuki	1,364	2.62
6	Employee Stock Ownership Association of KSK Co., Ltd.	1,320	2.54
7	NIPPON ACTIVE VALUE FUND PLC	1,275	2.38
8	Sumitomo Pharma Co., Ltd.	1,199	2.31
9	Cueco Co., Ltd.	1,187	2.28
10	Koichiro Suzuki	1,025	1.97

(Notes) 1. The Company holds 9,321,000 treasury shares. However, the Company is excluded from the above major shareholders. Percentage of total is calculated based on total shares outstanding excluding treasury shares. Treasury stock does not include 116,879 shares of the Company's stock held by Japan Custody Bank (Trust Account), which was established upon the introduction of the board benefit trust (BBT).
2. 2,214 thousand shares in the name of Mizuho Trust & Banking Co., Ltd. are Company shares held by Daiichi Sankyo Company, Limited and placed in a retirement benefit trust, for which Daiichi Sankyo retains the right to direct voting rights.

(Attachment “Details of the Shareholder Proposals”)

* The original text of a part of the Shareholder Proposals Document, which has been submitted by the Proposing Shareholder

Part 1. The proposals

1. Approval of the amount of compensation under the restricted stock compensation plan
2. To purchase treasury shares
3. To partially amend the Articles of Incorporation in regard to the composition of Outside Directors

Part 2. Summaries of the proposals and the reasons for the proposals

1. Approval of the amount of compensation under the restricted stock compensation plan

(1) Summary of the proposal

At the Annual Shareholders’ Meeting held on June 29, 2010, the Company’s limit on director compensation was set to 220 million yen per year (of which outside director compensation was set to no more than 20 million per year. Additionally, at the Annual Shareholders’ Meeting held on June 29, 2016, a board benefit trust was approved. Recently, however, with the aim of continuously improving the Company’s corporate value and further promoting value sharing between the Company’s directors (including outside directors, “Subject Directors,” hereafter) and the shareholders, in place of the above-mentioned board benefit trust, the Company will newly grant monetary compensation claims in the form of the issuance of up to 224,000 shares in restricted stock-based compensation up to an amount of 220 million yen annually. The specific timing of payment and allotment shall be determined at the Board of Directors meetings.

(2) Reason for proposal

The Company has not introduced a restricted stock compensation plan (the “Plan”), suggesting that value sharing between directors and shareholders has been sufficiently promoted. We believe that the Plan should be introduced for directors, and that all directors of the Company, including outside directors, should be eligible. In order to share value between directors and shareholders, stock-based compensation needs to be granted during a director’s term of office until it reaches an amount equivalent to three times the fixed compensation, which is considered a guideline for effective stock-based compensation. A certain size of restricted stock needs to be granted in a shorter period of time.

Therefore, we propose that all directors of the Company (including outside directors) be eligible for the Plan, and that transfer-restricted shares equivalent to three times the fixed remuneration be granted over the next three years on a cumulative basis.

We also believe that the Company should establish stock ownership guidelines for the restricted stock compensation plan, set the target for acquisition of treasury shares by officers during their tenure at a level equivalent to three times the fixed base compensation, and disclose the status of the acquisition of treasury shares by individual officers in the Corporate Governance Report that the Company submits to the Tokyo Stock Exchange.

2. To purchase treasury shares

(1) Summary of the proposal

The Company should purchase treasury shares up to a total of 5,178,000 shares and a total acquisition price of 4,660,200,000 yen, within one year from the conclusion of this Annual Shareholders’ Meeting pursuant to Article 156, Paragraph 1 of the Companies Act.

(2) Reason for proposal

Based on a resolution made by the Board of Directors on June 21, 2022, the Company decided to acquire up to 1,500,000 treasury shares with an acquisition price up to 1,029,000,000 yen with an acquisition date of June 22, 2022. Based on this resolution, on June 22, 2022, the Company acquired 1,455, 200 treasury shares at an acquisition price of 998,267,200 yen. The Company’s implementation of measures to increase shareholder returns and improve capital efficiency can be recognized to a certain degree. Although our stock price has been on a gradual upward trend since June 22, 2022, the market still evaluates our measures as inadequate. Therefore, to further enhance the Company’s shareholder return and improve capital efficiency, we believe the Company should adopt a measure to acquire and turn

10% of total issued shares (excluding treasury shares) into treasury shares and cancel said shares, pursuant to Article 178 of the Companies Act.

3. To partially amend the Articles of Incorporation in regard to the composition of Outside Directors

(1) Summary of the proposal

The Company should amend Article 19 of its Articles of Incorporation as follows to ensure the Board is made up of a majority of Outside Directors.

Before revision	After revision
(Number of Directors) Article 19. The Company shall have no more than fifteen (15) Directors. <u>2. (Newly established)</u>	(Number of Directors) Article 19. The Company shall have no more than fifteen (15) Directors. <u>2. A majority of the Company's directors shall be outside directors as defined in Article 2, Paragraph 1, Item 15 of the Companies Act.</u>

(2) Reason for proposal

Principle 4-8 of the Corporate Governance Code stipulates that “Independent Directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. Companies listed on the Prime Market should therefore appoint at least one-third of their directors as Independent Directors that sufficiently have such qualities. Irrespective of the above, if a company listed on the Prime Market believes it needs to appoint the majority of directors as Independent Directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the Group, it should appoint a sufficient number of Independent Directors.” Meanwhile, Principle 4-7 of the Corporate Governance Code lists “Appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders” as one of the roles and responsibilities of Independent Directors.

With two Outside Directors out of a total of 10 Directors, the Company does not meet the requirements for one-third or more outside directors. However, by more actively seeking to establish outside directors as a majority on the Board of Directors, we believe it will be possible to improve capital efficiency, enhance shareholder return, and establish a governance framework that contributes to the Company’s sustainable growth and helps to enhance medium- and long-term corporate value.

Not only in terms of the number of Outside Directors but also in terms of the qualities of Outside Directors, we believe you need individuals who can contribute to the Company’s sustainable growth and enhancement of its corporate value in the medium and long term and, in this regard, we believe you need to consider appointing analysts with high levels of experience and skill.

As for the appointment of individuals with high levels of experience and skills as analysts, we believe this would be an effective way of bringing the perspective of outside investors and shareholders to bear on Board of Directors meetings and also contributing to enhancement of corporate value through healthy risk-taking. Whilst the Board of Directors of a listed company and investors and shareholders should share the same goal of long-term improvement in corporate value, unfortunately it is not unusual in Japan for antagonism to be seen between them. We believe that the participation of a director with the abovementioned experience and skills in the Board’s discussions and decision-making would ensure, through healthy risk-taking and capital allocation and good communication with the market, that the relationship between the Board and share market is the kind of constructive relationship it should be. Whilst a former banker or an accountant is sometimes said to be responsible for finance matters in the skills matrix of directors, accounting or debt market expertise alone is insufficient from the viewpoint of encouraging healthy risk taking and we believe that the appointment of an equity market expert would make sense.