



May 18, 2023

Company name: Neturen Co., Ltd.
Name of representative: Katsumi Omiya, Representative Director, Member of the Board, President and Chief Executive Officer
(Securities code: 5976; Prime Market of the Tokyo Stock Exchange)
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Notice Concerning the Opinion of the Board of Directors on Shareholder Proposal

Neturen Co., Ltd. (the “Company”) has received a document (the “Shareholder Proposal Document”) from its shareholder to the effect that a shareholder proposal (the “Shareholder Proposal”) would be submitted to the 112th Annual Shareholders’ Meeting (the “Shareholders’ Meeting”) to be held on June 28, 2023. The Company hereby announces that it resolved to oppose the Shareholder Proposal at its Board of Directors’ meeting held on May 18, 2023, as described below.

1. Proposing shareholder

NORTHERN TRUST CO. (AVFC) RE NVI01

(Representative: Nippon Value Investors KK)

2. Details of the Shareholder Proposal

(1) Agenda

Purchase of Treasury Shares

(2) Outline and reasons for the Shareholder Proposal

As described in the Appendix, “Details of the Shareholder Proposal.”

The Appendix “Details of the Shareholder Proposal” is the translation of the relevant parts of the Shareholder Proposal Document submitted by the proposing shareholder. The original text of the Shareholder Proposal is in the Japanese version.

3. Opinion of the Board of Directors on the Shareholder Proposal

(1) Opinion of the Company’s Board of Directors

The Board of Directors opposes the Shareholder Proposal.

(2) Reason for opposition

In May 2021, the Company issued its long-term management vision “NETUREN VISION 2030” (the “long-term management vision,” covering 10 years from April 2021 to March 2031) and the 15th Medium-term Management Plan “Change!! New NETUREN 2023” (the “medium-term management plan,” covering three years from April 2021 to March 2024) to raise capital efficiency and increase corporate value over the medium to long term by using the generated funds to enhance investments for the company’s growth and shareholder returns.

Having positioned the three years covered by the medium-term management plan as the first phase for achieving the long-term management vision, the Company is driving initiatives to contribute to a sustainable society and increase corporate value with following four basic strategies:

Basic strategies — Aiming to increase corporate value

1. Increase profit by strengthening the competitiveness of core businesses and introducing new technologies, new products, and new businesses to market
2. Improve our information sharing system by promoting digitalization through the establishment of the N-DX (NETUREN Digital Transformation).
3. Place the SDGs as the core of management, promote CO₂ reduction, and contribute to the creation of a sustainable society.
4. Motivate human resources who can strengthen the Group’s global sales and marketing capabilities.

The outline of the capital policy and financial strategy for the medium-term management plan is stated below. The Company implements various measures to increase capital efficiency and manage its business in a way that emphasizes the perspectives of not only the profit and loss statement (PL) but also the balance sheet (BS) and cash flows (CF).

- 1) Set an appropriate capital ratio and generate cash flows through asset reduction.
 - (i) BS: Aim for an appropriate capital ratio
 - (ii) CF: Generate cash flows through asset reduction
- 2) Develop and implement measures for increasing ROE
 - (i) Reduce cross-shareholdings
 - (ii) Measures targeting a ROE of 5.0% or above, higher than the cost of capital
 - (iii) Measures targeting a PBR of 1.0 times or above
- 3) Financing
While the Company will basically use cash on hand for its capital investments, if it becomes necessary to make a large-scale investment, we will procure external funds according to the Group’s situation.
- 4) Reduce cross-shareholdings
The Company will steadily reduce its cross-shareholdings in accordance with Japan’s Corporate Governance Code. The cash from the sale of cross-held shares will be used to finance investments in various new businesses.

The main progresses of the above four basic strategies until now are as follows.

1. Increasing production capacity at the subsidiaries in the United States and Indonesia; installing the calculation programs of high-strength steel products for construction in design software which contributes to the improvement in the competitiveness of our core business; improving productivity by the automation of production facilities and the introduction of Internet of Things (IoT); the introducing 3D printers which contribute to significantly shortening the production term of induction heating coil and improving quality
2. Development of infrastructure at each site, including the adoption of information and communication technology (ICT)
3. Introduction of solar power generators which contributes to the reduction of CO₂ emission
4. Development of human resources with skills with the utilization of the mapping of skills

In addition, the Company is aggressively taking action for the corporate growth as a part of measures to improve its corporate value under the long-term management vision and the medium-term management plan.

Specifically, coping with the production increase plans of customers and the market expansion, the Company plans to make timely and aggressive investments, including the followings: The global expansion of the sales of high-strength spring steel wire (ITW), which contributes to weight saving and conversion to electric vehicles (EV); the enhancement of the production system of the induction heat treatment service in

overseas sites with adaptation to markets; the development of new sales formats with a subscription service in the sales of equipment; and the development of computer simulation program of induction hardening, etc.

Also, the Company is implementing measures toward the optimum balance sheet. Especially for capital ratio, the Company aims to achieve a capital ratio between 60% and 65% in the fiscal year ending March 31, 2031 as the final year of the long-term management vision, based on the balance between financial soundness and capital efficiency and considering various risks associated with the drastic changes in the business environment, including the paradigm shift in the automobile industry expected in the near future; the risk of soaring price for electricity which is essential for the business operation; and geopolitical risks, etc. (The Company's capital ratio in the fiscal year ended March 31, 2023 was 74.3%, and it will be reduced to around 70% in the fiscal year ending March 31, 2024.)

While focusing on these strategic investments toward growth and achieving its capital ratio from the medium- to long-term perspective, the Company addresses shareholder returns as one of the most important management issues, as raised in the long-term management vision and the medium-term management plan.

As the dividend policy, the Company has set the lower limit of 1.5% DOE ratio and targeted a consolidated dividend ratio of 40% or higher. However, as announced on May 11, 2023, the Company decided to revise the dividend policy with the lower limit of 3.0% DOE ratio from the fiscal year ending March 31, 2024. The revision aims to accelerate the initiatives toward the early realization of the optimum balance sheet, an ROE of 8%, and a price book-value ratio (PBR) of 1.0 time or above, materializing both the aggressive strategic investments toward growth in the future and the further expansion of shareholder returns, through the capital allocation with the cost of capital in mind.

The company has achieved the forecasted operating income announced on February 7, 2023, even though we decreased profit attributable to owners of parent significantly due to impairment losses, etc., Under these circumstances, and based on the dividend policy, we plan to propose a dividend of 15 yen per share as the year-end dividend for the fiscal year ended March 31, 2023, in the Company proposal on appropriation of surplus at the Shareholders' Meeting, comprehensively considering shareholders' return, its business performance, financial standing, and other factors. The total annual dividend per share will be 30 yen, in combination with the interim dividend of 15 yen, which is already distributed, and as a result, the DOE ratio for the fiscal year ended March 31, 2023, will be 2.0%. (Reference: Consolidated dividend ratio at 303.2%)

Due to the revised dividend policy as above, the annual dividend per share will be 48 yen (24 yen as the interim dividend and 24 yen as the year-end dividend) for the fiscal year ending March 31, 2024.

The Company purchased its own shares amounting to 1.5 billion yen in the period from May to December in 2022 and canceled them in February 2023, according to the capital allocation policy to cope with the changes in a business environment, The Company aims to purchase its own shares amounting to 3.0 billion in total to further expansion of shareholder's return, with the announcement of the implementation of another purchase of its shares amounting to 1.5 billion yen on May 11, 2023.

On the other hand, the Shareholder Proposal requests a drastic reduction of the capital ratio of the Company in short term, calling for reducing the capital ratio to approximately 67% by the large-scale purchase of its own shares, which amounts to 4.9 billion yen and accounts for 16.9% of the total number of issued shares, within one year after the upcoming Shareholders' Meeting.

As mentioned above, the Company aims for a capital ratio in the range of 60% to 65% in the fiscal year ending March 31, 2031, as the final year of the long-term management vision, considering the balance between financial soundness and capital efficiency, etc. Therefore, the Shareholder Proposal differs materially from the policy of the Company.

The Company's stagnant production due to the shortage of parts such as semiconductors and cost increases by soaring costs for materials, such as steel, electricity, and logistics, remains our serious concern to our business. Additionally, geopolitical risks, such as continuing conflict in Ukraine, global inflation, and financial instability, may bring about a strong sense of stagnation, and the Company believes that the maintenance of the financial soundness of the Company is especially important.

Based on the above, the proposal for the large-scale purchase of own shares related to the Shareholder Proposal sounds only coming from short-term perspective without considering the Company's situation. If approved, the proposal may harm the Company's financial soundness, entailing the risk of inhibiting growth in corporate value over the medium to long term and as a result, it harms shareholders' interests.

For the reasons stated above, the Company's Board of Directors opposes the Shareholder Proposal.

End

Appendix “Details of the Shareholder Proposal”

* The followings are the translation of the relevant parts of the Shareholder Proposal Document submitted by the proposing shareholder. The original text of the Shareholder Proposal is in the Japanese version.

Purchase of Treasury Shares

1. Details of proposal

Purchase common stock of the Company, up to 6,920,900 shares as the total number of shares, and 4,900,000,000 yen as the total amount of shares [or the maximum amount of shares allowed by the Companies Act, if the total amount of shares allowed by the Companies Act (the “Distributable Amount” pursuant to Article 461 of the Companies Act) is less than the said total amount of shares] in exchange for cash within one year after the conclusion of this Annual Shareholders’ Meeting pursuant to Article 156, Paragraph 1 of the Companies Act.

2. Reason for proposal

- This proposal aims to optimize the excessive capital accumulated until now.
- The Company’s capital ratio was as high as 72.9% on December 31, 2022, also its market capitalization of approximately 27.3 billion yen on April 3, 2023 was about the same as the sum of cash, cash equivalents (approximately 16.7 billion yen) and investment securities (approximately 9.2 billion yen) as of December 31, 2022. These facts suggest that the value of its core business is worth little.
- The total amount of the treasury shares to be purchased in this proposal for 4.9 billion yen is equivalent to approximately 10% of retained earnings of the Company as of December 31, 2022. With the Company’s capital ratio to be reduced from the current 72.9% to approximately 67% after the purchase of treasury shares of 4.9 billion yen, the proposal contributes to optimizing the excessive capital of the Company.