

# Japan Catalyst, Inc.

## Report on Engagement with NIPPO CORPORATION

TOKYO, December 30, 2021 – Japan Catalyst, Inc. (hereinafter referred to as "JCI") carries out an engagement investment strategy towards Japanese companies through the Monex Activist Mother Fund, for which JCI provides investment advice.

The tender offer for NIPPO CORPORATION (hereinafter referred to as "NIPPO") by ENEOS Holdings, Inc., the parent company of NIPPO, and The Goldman Sachs Group, Inc. through a special purpose company, which we had recently raised concerns about over insufficient protection of minority shareholders' interests, has been completed. Unfortunately, we were not able to have NIPPO to reconsider the fairness assurance process that we had proposed to them. While we regret the final decision, we believe that our engagement sets an important example and will contribute to the advancement of Japan's capital markets.

After JCI raised the issue, we received inquiries from many investors and media in Japan and abroad. As widely known, this is an extremely rare case in which three major global investors have expressed their opinions and support for JCI. This is proof that new forces driving the evolution of Japan's capital markets are at work. In addition to this, we received many encouraging comments from experts who are concerned about the Japanese capital markets. We also had the opportunity to engage and discuss about this matter with various government ministries and regulators. All we met were consistently positive and encouraging, both about JCI raising this specific issues as well as our pro-active engagement to raise the broader issue of minority shareholders rights and the lack of a proper price-discovery process in this kind of the tender offer in Japan.

On the other hand, it is a fact that NIPPO didn't reconsider the process in the end, despite open opposition from many market participants. This reaffirms the great difficulty of ensuring fairness in Japan-style parent-subsidary listings in general, and its dissolution process in particular. The problem runs deep: In the case of an acquisition of a listed subsidiary by the parent company, since the parent company already owns a majority of the shares of the listed subsidiary, even if another acquirer implements a counterproposal, the counterproposal will not be approved unless the parent company accepts the proposal. Therefore, the protection of minority shareholders in the subsidiary, especially by the special committee established in the subsidiary, is extremely important. However, as the parent company effectively has the right to dismiss the directors, it is difficult for the directors of the subsidiary to take actions against the intention of the parent company due to the structure of the subsidiary. In addition, advisors have less incentive to give advice that goes against the wishes of their parent companies, which may be promising clients in the future.

That is why the special committees set up by subsidiaries are expected to play an extremely important role in the system, as they are the last line of defense for the protection for the interests of minority shareholders. However, we reaffirmed that the role of special committees is still not properly and strongly recognized by society in Japan, which is a major challenge for the Japanese capital market. As the TSE market reorganization process progresses, the number of cases of dissolving parent-subsubsidiary listings is expected to increase, and in order to protect the interests of minority shareholders of listed subsidiaries in such cases, JCI will continue to engage with various stakeholders to resolve these structural issues. Our goal is to revitalize Japanese capital market. In addition, we will continue to urge the relevant ministries and regulators to improve the various rules and guidelines. While we did not succeed with NIPPO, we did set the stage for a deeper debate for what needs to be done to help revitalize Japanese capital markets. JCI is excited to work holistically with all stakeholders to truly bring about corporate governance reform in Japan.

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