

Japan Catalyst, Inc.

Shareholder Proposal to Sumitomo Densetsu Co., Ltd. (1949)

TOKYO, April 25, 2024 – Japan Catalyst, Inc. (hereinafter referred to as "JCI") implements an engagement investment strategy with regards to Japanese listed companies through the Monex Activist Mother Fund ("MAMF", a Japan-registered mutual fund) and the Japan Catalyst Fund ("JCF", a Cayman-registered corporate-type investment fund), to which JCI provides investment advice.

We have been engaged with Sumitomo Densetsu Co., Ltd. ("Sumitomo Densetsu"), a key investment for MAMF and JCF, from a long-term perspective. We have made a shareholder proposal* regarding the Appropriation of Surplus for Sumitomo Densetsu's 98th Annual General Meeting of Shareholders, scheduled to be held in June 2024. We are proposing an annual dividend per share for the fiscal year ended March 2024, equivalent to a Dividend on Equity ratio (DOE) of 6%. (See Chart 1)

Sumitomo Densetsu primarily operates in the design and construction of electrical systems for buildings, factories, and data centers. The company possesses extensive knowledge and technical expertise in cable installation, with strengths in long-distance projects and projects in areas where cable installation is difficult. After facing challenges with low-margin projects in the early 2000s, Sumitomo Densetsu significantly enhanced its profit margins through meticulous profitability management at the time of receipt of orders from customers. As a result, its consolidated operating profit margin for the fiscal year ending March 2023 improved to 7.7%, among the highest in the industry. The company's mid-term management plan also outlines a policy of increasing sales while enhancing profitability.

With its excellent business operations, Sumitomo Densetsu consistently generates an annual net income of approximately 10 billion yen. However, its enterprise value (EV) remains only about 40 billion yen, undervalued in the market relative to its profit-generating ability, because it holds financial assets (net cash and deposits and investment securities) of approximately 80 billion yen against a market capitalization of about 120 billion yen. The company's EBITDA, an indicator of corporate value, has remained stable at around 15 billion yen, resulting in an EV/EBITDA ratio of below 3 times, indicating that the stock price is significantly undervalued. (See Chart 2)

This undervaluation can be attributed to the fact that shareholder returns have been excessively conservative relative to its improvement in profits. Given Sumitomo Densetsu's business model is centered on the utilization of human capital for design and construction, the current level of financial assets is excessive relative to potential future risks. If the current level of shareholder returns is maintained under favorable business conditions in the medium term, it is expected that financial assets will continue to accumulate, leading to a decrease in capital efficiency.

In addition, Sumitomo Electric Industries, Ltd., the controlling shareholder, is planning significant investments beyond previous levels according to its mid-term management plan. Raising Sumitomo Densetsu's dividend policy will therefore not only increase returns to minority shareholders but also contribute to the growth strategy of the controlling shareholder.

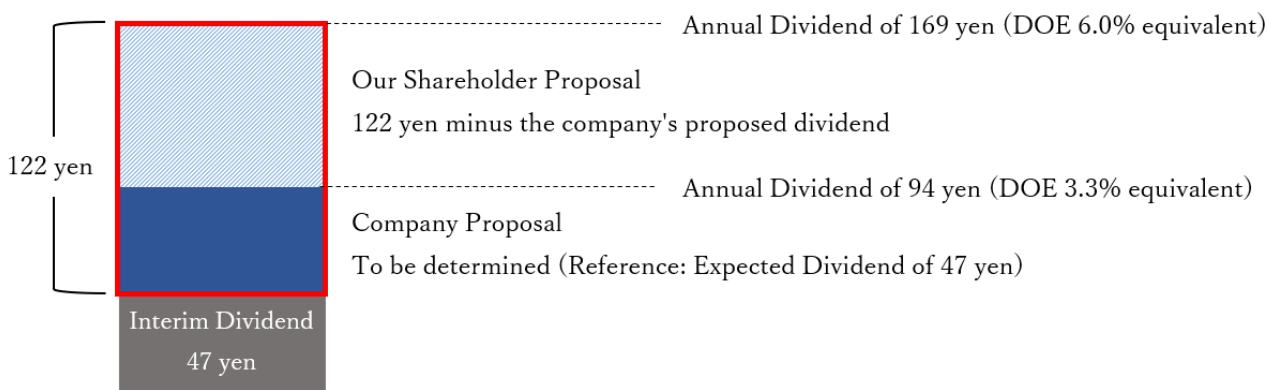
In light of the above, we believe that implementing and maintaining a 6% DOE dividend policy will enhance Sumitomo Densetsu's capital efficiency and lead to an upward revaluation of the stock.

Through dialogue with various stakeholders, JCI is committed to promoting genuine corporate governance reform that will advance Japan's capital markets, enhance corporate and stock values, and ultimately improve the productivity of Japan as a whole.

(Chart 1)

Proposal for the Appropriation of Surplus

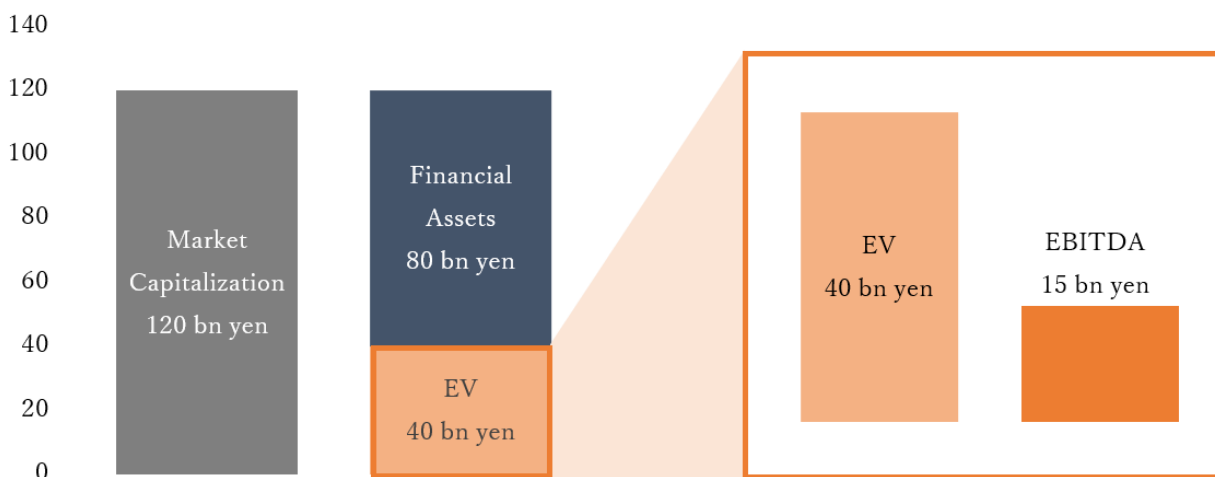
(A year-end dividend of 122 yen per share is required to achieve an annual DOE equivalent of 6%.)



(Chart 2)

Sumitomo Densetsu's EV/EBITDA Ratio

(Billion yen)



(The above figures are estimates calculated based on publicly announced performance forecasts and estimated market values of securities.)

*JCI has been delegated the authority to act as a sub-agent in this shareholder proposal by Monex Asset Management, Inc., the proxy agent for the Monex Activist Mother Fund.

This material is an English translation of a Japanese announcement made on the date above. Although the Company intended to faithfully translate the Japanese document into English, the accuracy and correctness of this English translation is not guaranteed and thus you are encouraged to refer to the original Japanese document.