

# **Corporate Governance For Kusuri No Aoki Holdings**

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**July 31<sup>st</sup>, 2023**

## **1. Oasis introduction and overview of shareholder proposals**

2. Key governance concerns behind Oasis's proposals

3. Details of Oasis's proposals

4. Summary

Appendix

# Summary: Vote AGAINST the re-election of Mr. Hironori Aoki, Mr. Takanori Aoki and the appointment of Mr. Hiromitsu Fujii. Vote FOR Oasis's proposals to address the corporate governance crisis at Aoki and enhance corporate value

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## Overview

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- **Oasis, the third-shareholder group of Aoki, holds more than 5% of Aoki's shares**, trailing only the founding family and Aeon.
- Over the past two years, Oasis has proactively shared its views with Aoki regarding its business strategy, corporate governance practices and disclosures, capital allocation, and communication with its shareholders.
- Unfortunately, Aoki has been uncooperative, refusing to arrange meetings between Oasis and its Board members. We are deeply disappointed by **President Hironori Aoki's continued refusal to meet us** and engage, in a clear breach of corporate governance best practices and recommendations around shareholder dialogue.
- The **issuance of stock options** to President Hironori Aoki and his brother, Vice President Takanori Aoki, leading to an 11.1% potential dilution for shareholders, **at a 99.28% discount to its fair value (52.5 Mn JPY against 7.256 Bn JPY)**, raises significant corporate governance concerns.
- There are serious concerns surrounding the potential misuse of corporate assets by the founding family, adding to the overall governance concerns.

## Oasis proposals & recommended voting actions for fellow shareholders

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- Oasis strongly recommends that shareholders:
  - **Vote FOR Oasis's series of corporate governance reforms including the election of a truly independent, highly qualified outside director candidate as well as the establishment of a Nomination and Compensation Committee to enhance oversight of the founding family**
  - **Vote AGAINST the re-election of President Mr. Hironori Aoki and his brother Vice President Mr. Takanori Aoki**
  - **Vote AGAINST the election of Aoki's newly proposed outside director candidate, Mr. Hiromitsu Fujii**

# Overview of the Presentation

## 1 Oasis intro & overview of our proposals

- Oasis is Aoki's third-largest shareholder, owning **5.5% of Aoki's shares**. As a long-term investor, Oasis seeks to achieve sustainable growth and enhancement of Aoki's corporate value over the long term.
- Oasis has submitted multiple shareholder proposals to address significant corporate governance weaknesses at Aoki and enhance the Company's long-term corporate value.
- Despite Oasis's engagement to improve the Company's corporate governance and enhance its corporate value, our repeated requests to meet with the President or outside directors have been declined, which is why we are bringing these issues to shareholders.

## 2 Governance concerns behind Oasis's proposals

- 2a Aoki issued stock options to President Hironori Aoki and Vice President Takanori Aoki, **at a 99.28% discount** to its fair value (**52.5 Mn JPY against 7.256 Bn JPY**), following **unusual forecast revisions** that significantly impacted the stock price. Shortly after the stock options were issued, the auditor, KPMG AZSA, resigned. These and other family-related transactions raise very serious governance concerns.
- 2b Oasis has identified potential misuse of Company assets by Mr. Keisei Aoki, Aoki's founder and the father of the current President & Vice President Aoki, as **the Company owns part of the large (1,700 sq.m.) complex where he resides**.
- 2c Doubts surround the suitability of the Company's nominated director candidate, given his questionable management capabilities, **history of running insolvent businesses**, and **potential lack of independence due to his past employment with the Company**.
- 2d Oasis has serious concerns about the Company's evaluation process for Oasis's director candidate, as **repeated requests for interviews with outside directors have been refused**.

## 3 Details of Oasis's proposals

- To provide for stronger independent oversight, Oasis proposes **an additional truly independent outside director candidate** to strengthen the board's independence in its decision-making as well as establish a culture of accountability.
- Additionally, Oasis proposes **the establishment of a Lead Independent Director role** to facilitate improved shareholder dialogue, establish an independent board leadership role, manage conflicts of interests, and improve decision-making transparency.
- Finally, Oasis proposes **the creation of a nomination and compensation committee**, free from the founding family's influence, to rigorously monitor directors' nominations and compensation, including stock issuance, stock options, and other forms of remuneration.

## 4 Summary

- Oasis recommends that shareholders **vote FOR Oasis's proposals** and **vote AGAINST** the re-election of President Mr. Hironori Aoki and Vice President Mr. Takanori Aoki, and **vote AGAINST** the company's proposed "independent" director candidate, Mr. Hiromitsu Fujii.
- Oasis is **considering all actions, including legal measures**, to address this series of egregious acts against the Company perpetrated by the Aoki brothers.

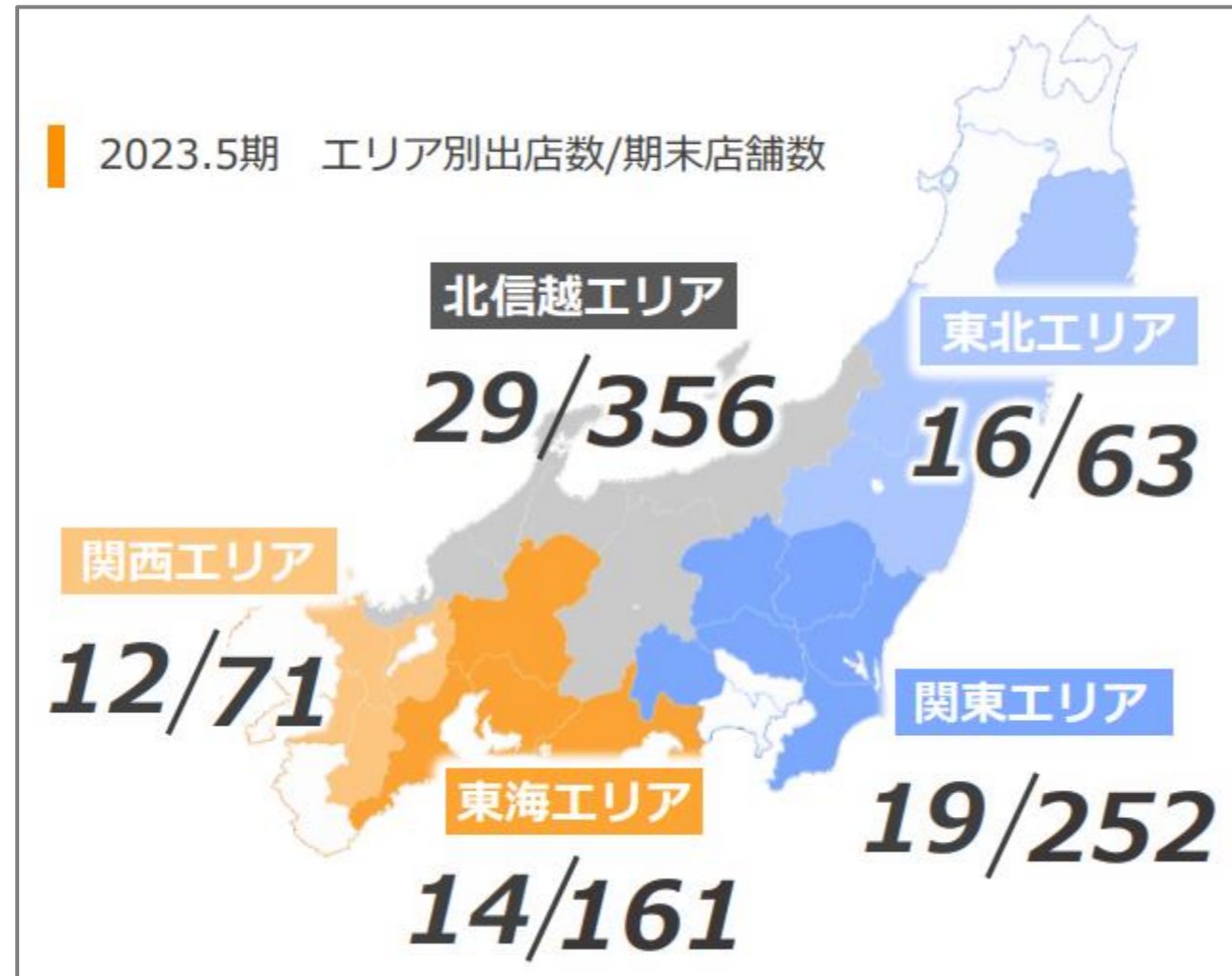
# Overview of key proposals and voting recommendations

Proposer	Proposals	Recommended voting actions					
<b>Company proposals</b>	<b>Agenda item 2: Re-election of President &amp; Vice President Aoki</b>	<ul style="list-style-type: none"> <li>▪ The Company proposes the re-appointment of the President, Mr. Hironori Aoki, and his brother, the vice-president, Mr. Takanori Aoki, who were the beneficiaries of the stock options.</li> <li>▪ The company proposes the appointment of Mr. Hiromitsu Fujii. We question his independence and management capabilities.</li> </ul>	<div style="background-color: red; color: white; text-align: center; padding: 10px;"><b>Vote AGAINST</b></div>				
	<b>Agenda item 2: Addition of an “independent” director</b>			<b>Shareholder proposals by Oasis</b>	<b>Agenda item 4: Addition of a truly independent director</b>	<ul style="list-style-type: none"> <li>▪ Oasis proposes the appointment of Mr. Yoshiaki Ikei.                             <ul style="list-style-type: none"> <li>– Mr. Ikei brings valuable expertise in M&amp;A .</li> <li>– His knowledge will be valuable even if the Company persists with smaller-scale M&amp;A</li> </ul> </li> <li>▪ To add stronger independent oversight, Oasis proposes an additional truly independent outside director candidate to strengthen shareholder communication and the board’s independence and decision-making.</li> <li>▪ Oasis proposes the creation of a nomination and compensation committee, free from the founding family’s influence, to rigorously monitor directors’ nominations and compensation, including stock issuance, stock options, and other forms of remuneration.</li> <li>▪ Ensuring an exceptional talent pool for the board requires a clear and substantial standard of compensation.</li> <li>▪ Implementing a balanced stock option plan will foster alignment of interests between external directors and shareholders.</li> </ul>	<div style="background-color: blue; color: white; text-align: center; padding: 10px;"><b>Vote FOR</b></div>
<b>Agenda item 5: Establishment of a lead independent director</b>	<b>Agenda item 6: Establishment of a nomination and compensation committee</b>						
<b>Agenda item 7, 8: Compensation</b>	<b>Request to the Aoki brothers</b>	<b>Pay the fair price or unwind</b>	<ul style="list-style-type: none"> <li>▪ Oasis requests that the Aoki brothers pay the full fair price of 7.256 Bn for the stock options or unwind the original transaction.</li> </ul>		<div style="background-color: gray; color: white; text-align: center; padding: 10px;"><b>N.A.</b></div>		

# Overview of Aoki

## Aoki's business

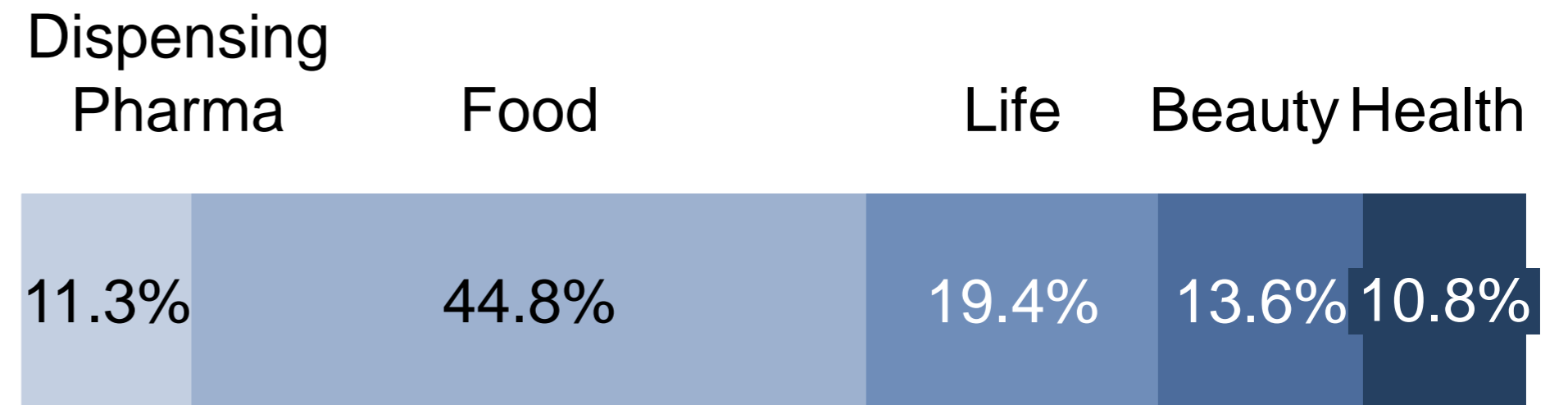
- Aoki is a drugstore chain that has a significant number of stores in its home market, the Hokushinetsu area



## Aoki by the numbers; As of May 20, 2023

<b>903</b>	<b>4,460</b>	<b>379</b> Bn JPY	<b>5.7%</b>
Stores	Employees	Revenue	Operating margin

## Aoki's revenue split; As of May 20, 2023

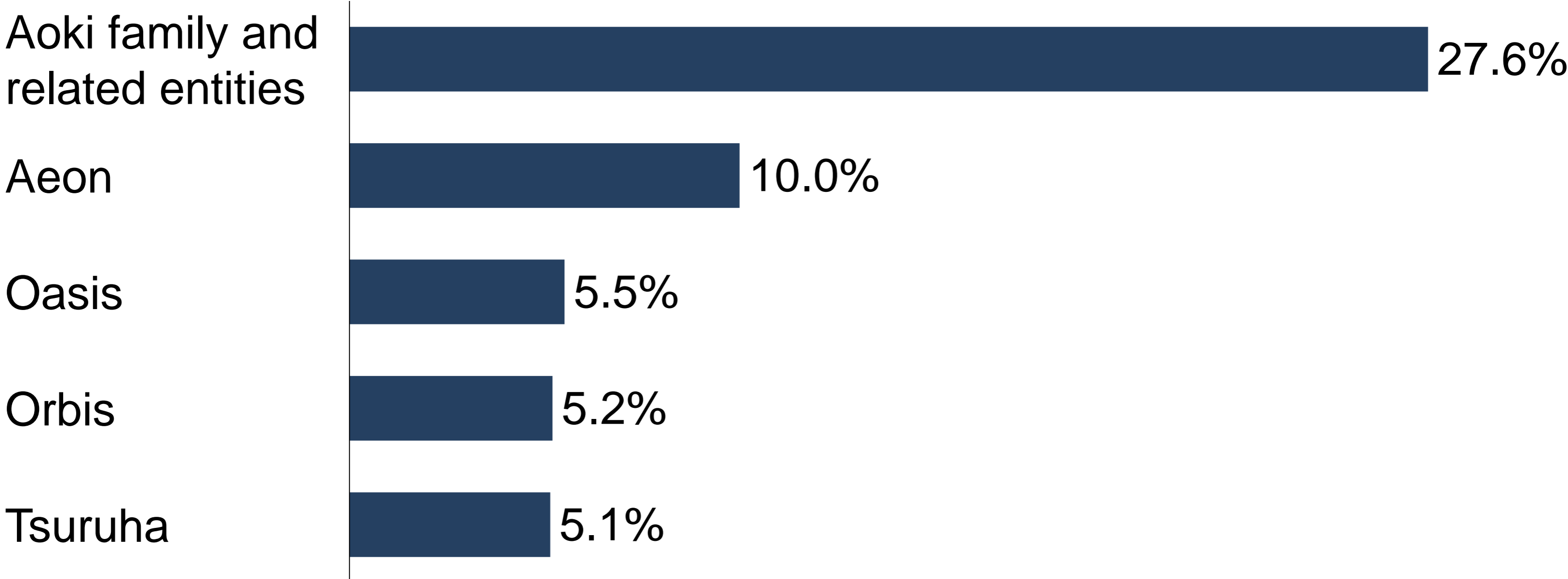


# Oasis is Aoki's third-largest shareholder, owning 5.5% of the Company's shares

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## Aoki's shareholders with more than 5% ownership<sup>1</sup>

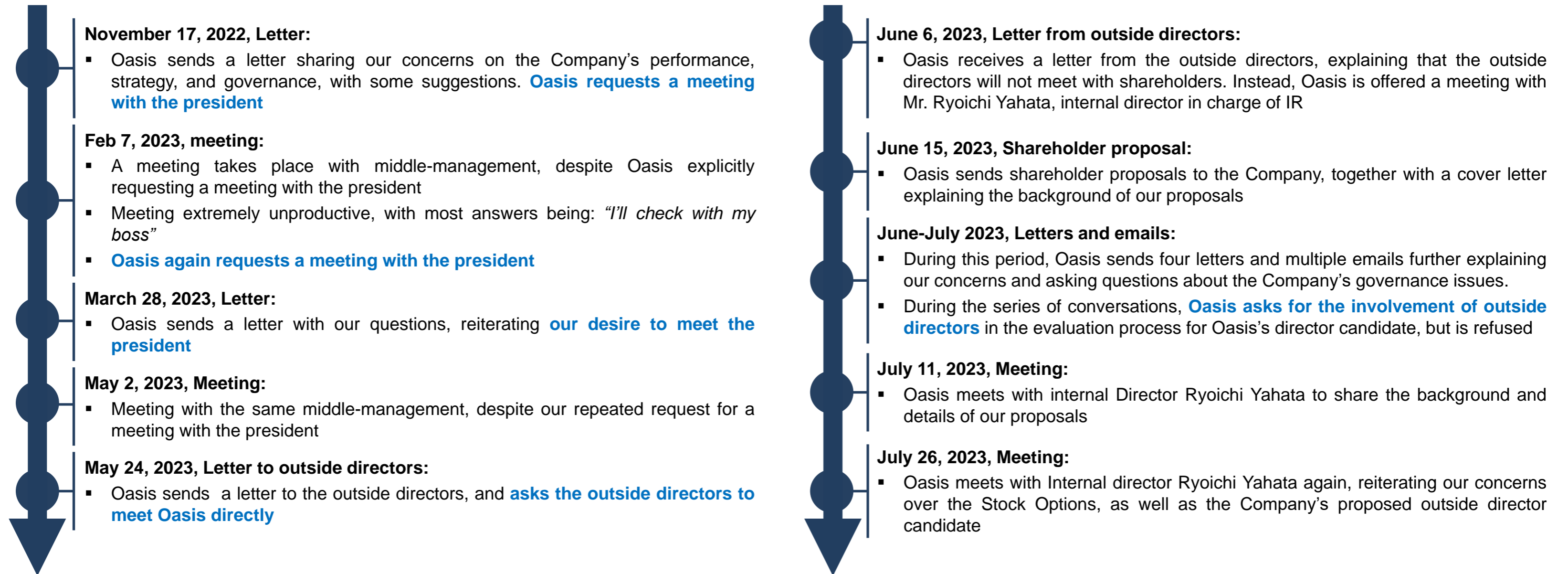
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<sup>1</sup>: Based on FYMay 2022 Yuho large shareholders and significant shareholder reports in the past year  
Source: Public disclosures

# President Hironori Aoki has refused to meet Oasis, despite repeated requests

## History of Oasis's engagement with the Company



- **First meeting with internal director only granted eight months after Oasis first requested a meeting with the President**
- **President Mr. Hironori Aoki and outside directors have not met Oasis even once**



1. Oasis introduction and overview of shareholder proposals

**2. Key governance concerns behind Oasis's proposals**

**2.a. Concerns over the Stock Options**

2.b. Concerns over potential misuse of Company assets by Mr. Keisei Aoki

2.c. Inappropriate company nominated candidate

2.d. Inappropriate evaluation process for Oasis's nominee

3. Details of Oasis's proposals

4. Summary

Appendix

# Overview of the Stock Options

## Overview of the stock options

- Issuance announced on **Jan. 9, 2020**
- **The issuance was done at a 99.28% discount against its fair price**
- **11.1% dilution to existing shareholders** if executed
- Approved solely at a board meeting and not an AGM on the basis that the stock option was not remuneration eligible for grants, but **issued at a “fair price” with paid-in capital**
- The execution price of the stock options was **determined based on the stock price on Jan. 8, 2020** (one day before the announcement)
- Issued only to **Mr. Hironori Aoki**, the current President, and his brother, Vice President **Mr. Takanori Aoki**, from the founding family



## Issues Oasis sees with the Stock Options

### Reasoning

- The Company claims the reason for issuing these Stock Options was **“increasing commitment” by the Aoki brothers**
- Oasis does not understand why this was needed when the family owns approximately 27.6% of the Company’s shares

### Pricing

- It is disclosed that the **fair price for the Stock Options was 7.256 bn JPY**
- The **actual paid in capital was 52.5 Mn JPY**, meaning the stock options were issued at a **significant discount of 99.28%**

### Downward revision

- The Company conducted an **unusual downward revision just before the issuance of the stock options**, which drove down the share price, and consequently the execution price for the stock option
- **Share sale from Mr. Keisei Aoki, the founder and father to the current president, to his sons, was conducted after the downward revision**, at a low price compared to before the revision

### Wrong incentive

- The major business-related execution condition for the stock option is an achievement of **22 Bn JPY in ordinary income**, which raises concerns about the Aoki brothers being incentivized to only look for absolute profits, disregarding capital efficiency
- Further, this target can be easily achieved through M&A

# On January 9, 2020, Aoki announced the issuance of paid stock options, potentially resulting in up to 11.1% dilution if exercised

## Disclosure regarding issuance of stock options



2020年1月9日

各位

会社名 株式会社クスリのアオキホールディングス  
代表者名 代表取締役社長 青木 宏憲  
(コード番号 3549 東証第一部)  
問合せ先 取締役管理部門担当 八幡 亮一  
兼経営企画室長  
(TEL 076-274-6115)

### 募集新株予約権（有償ストック・オプション）の発行に関するお知らせ

当社は、2020年1月9日開催の当社取締役会において、会社法第236条、第238条及び第240条の規定に基づき、当社及び当社完全子会社の取締役に対し、下記のとおり新株予約権を発行することを決議いたしましたので、お知らせいたします。なお、本件は新株予約権を引き受ける者に対して公正価格にて有償で発行するものであり、特に有利な条件ではないことから、株主総会の承認を得ることなく実施いたします。また、本新株予約権は付与対象者に対する報酬としてではなく、各者の個別の投資判断に基づき引受けが行われるものであります。

## Overview of stock options issued

- Approximately 11.1% dilution will occur if all stock options are exercised.
- The sizeable stock option issuance was approved solely at a board meeting and not by shareholders.
- The Company structured the stock option not as remuneration eligible for grant, but issued at a “fair price” with paid-in capital.
- The fair price of the stock options was determined based on the stock price on Jan. 8, 2020 (one day before the announcement).
- The stock options were issued to the current President, Mr. Hironori Aoki, and his brother, Vice President Mr. Takanori Aoki, respectively. Both are from the founding family.

# Unjustifiable discount given upon the issuance of the stock options to the Aoki brothers

## Fair price of the stock option

② 単価情報		
	第4回 ストック・オプション	第5回 ストック・オプション
権利行使価格 (円)	8,660	6,830
行使時平均株価 (円)	-	-
付与日における 公正な評価単価 (円)	2,244	2,073

Fair price of 2,073 JPY per share,  
according to Aoki's disclosures

## Actual sales price of stock option

2. 新株予約権と引換えに払い込む金銭
本新株予約権1個あたりの発行価額は、1,500円とする。なお、当該金額は、第三者評価機関である株式会社プルータス・コンサルティングが、当社の株価情報等を考慮して、一般的なオプション価格算定モデルであるモンテカルロ・シミュレーションによって算出した結果を参考に決定したものである。

Sold at 1,500 JPY per 100 shares  
i.e. 15 JPY per share

- Sale price and fair price disclosed by the Company means **a discount of 99.28% to fair value**
- The justification for the 99.28% discount is based on the fulfillment of the following conditions. Oasis believes all of these to **be easy to achieve and/or avoid**:
  - Ordinary profit of 22.0 Bn JPY in any of the fiscal years between FY May 2024 - 2029
  - No year of ordinary profit less than 11.0 Bn JPY after FY May 2020, and before the Company achieves the above target
  - The 42-day average closing price does not go below 70% (i.e. 4,781 JPY) of the strike price before May 20, 2024

# Auditor KPMG AZSA resigned following Stock Options issuance

## Release of change of auditor on July 16, 2020

### 1. 異動年月日

2020年8月19日（第22回定時株主総会開催予定日）

### 2. 就退任する会計監査人の概要

#### (1) 就任する会計監査人の概要

① 名称	仰星監査法人
② 所在地	東京都千代田区四番町6 東急番町ビル11階
③ 業務執行社員の名称	向山典佐、中山孝一
④ 日本公認会計士協会の上場会社監査事務所登録制度における登録状況	登録されております

#### (2) 退任する会計監査人の概要

① 名称	有限責任 あずさ監査法人
② 所在地	東京都新宿区津久戸町1番2号
③ 業務執行社員の名称	田名部雅文、篠崎和博、鹿島高弘

### 6. 異動の決定または異動に至った理由および経緯

当社の会計監査人である有限責任 あずさ監査法人は、2020年8月19日開催予定の第22回定時株主総会の終結の時をもって任期満了となります。当社は、**同監査法人より、次期以降の監査工数の増加見通しを考慮すると報酬希望額が増加していくこと等を理由に、監査契約を更新しない旨の申し出を受けました。**これを契機に、当社は、同監査法人と上場来監査継続年数が長期にわたることも勘案し、この申し出を了承し、その後任として新たに仰星監査法人を会計監査人として選任するものであります。

“

*“The auditor has asked the Company not to renew its contract with the Company”*

# Aoki issued the stock options after an unusual downward revision. Actual FY results exceeded initial guidance

## Annual Guidance and each quarter's fiscal result of FY2020/5

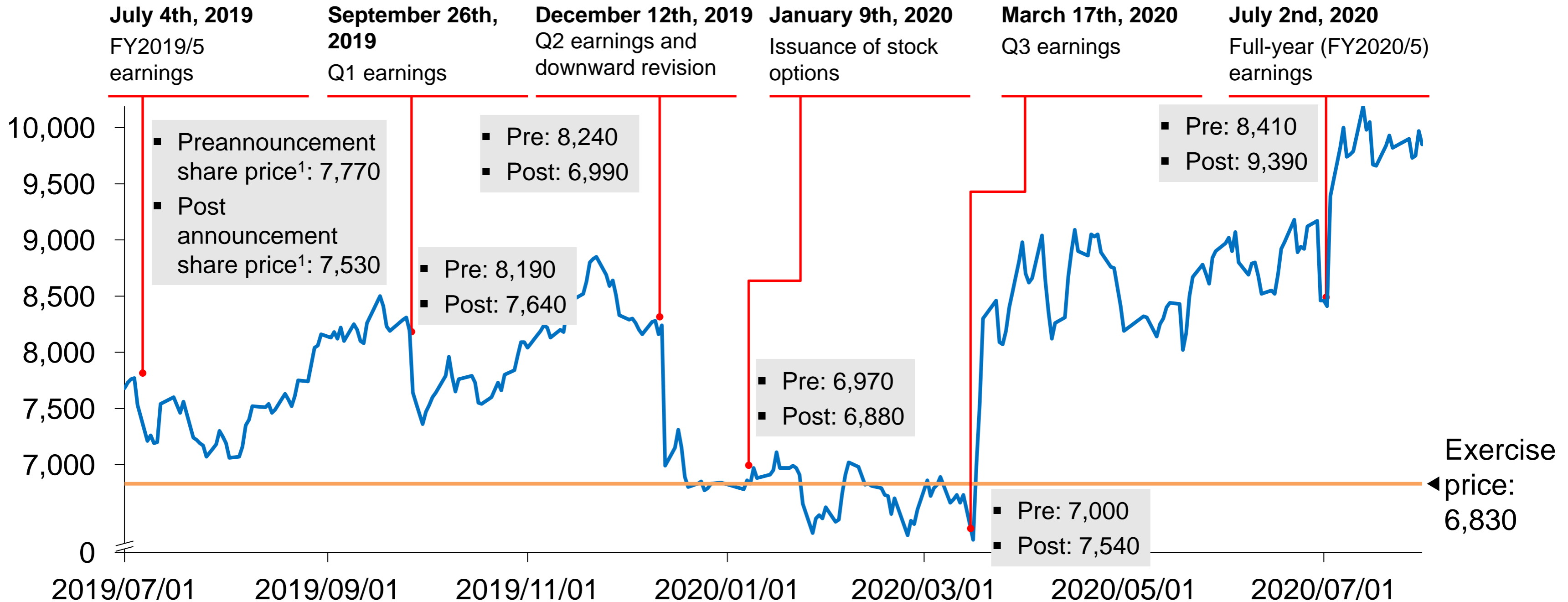
	July 4 <sup>th</sup> , 2019 Full-year earnings	September 26 <sup>th</sup> , 2019 Q1 earnings	December 12 <sup>th</sup> , 2019 Q2 earnings and downward revision	March 17 <sup>th</sup> , 2020 Q3 earnings	July 2 <sup>nd</sup> , 2020 Full-year earnings
Full-year Ordinary Profit	<b>Initial Guidance:</b> JPY15.3bn		<b>Downward Revision:</b> JPY12.9bn		<b>Actual Results:</b> JPY16.8bn
Full-year Ordinary Profit Margin	<b>Initial Guidance:</b> 5.1%		<b>Downward Revision:</b> 4.3%		<b>Actual Results:</b> 5.6%
Ordinary Profit Margin as of each Q		<b>Q1:</b> 4.9%	<b>Q2:</b> 4.4%	<b>Q3:</b> 5.5%	<b>Q4:</b> 5.7%

### January 9, 2020:

Issuance of stock options disclosed using Jan. 8 stock price as the exercising price

# As the market realized the Company's downward revision was overly bearish, the stock price recovered. As a result, the exercise price for the stock options was at historically low levels

## Stock Price around FY 2020/5



1: Pre refers to the closing price of that day, and post refers to the closing date of the following trade day

Source: Company disclosures

# Aoki made downward revisions just before issuing stock options despite no internal policy mandate

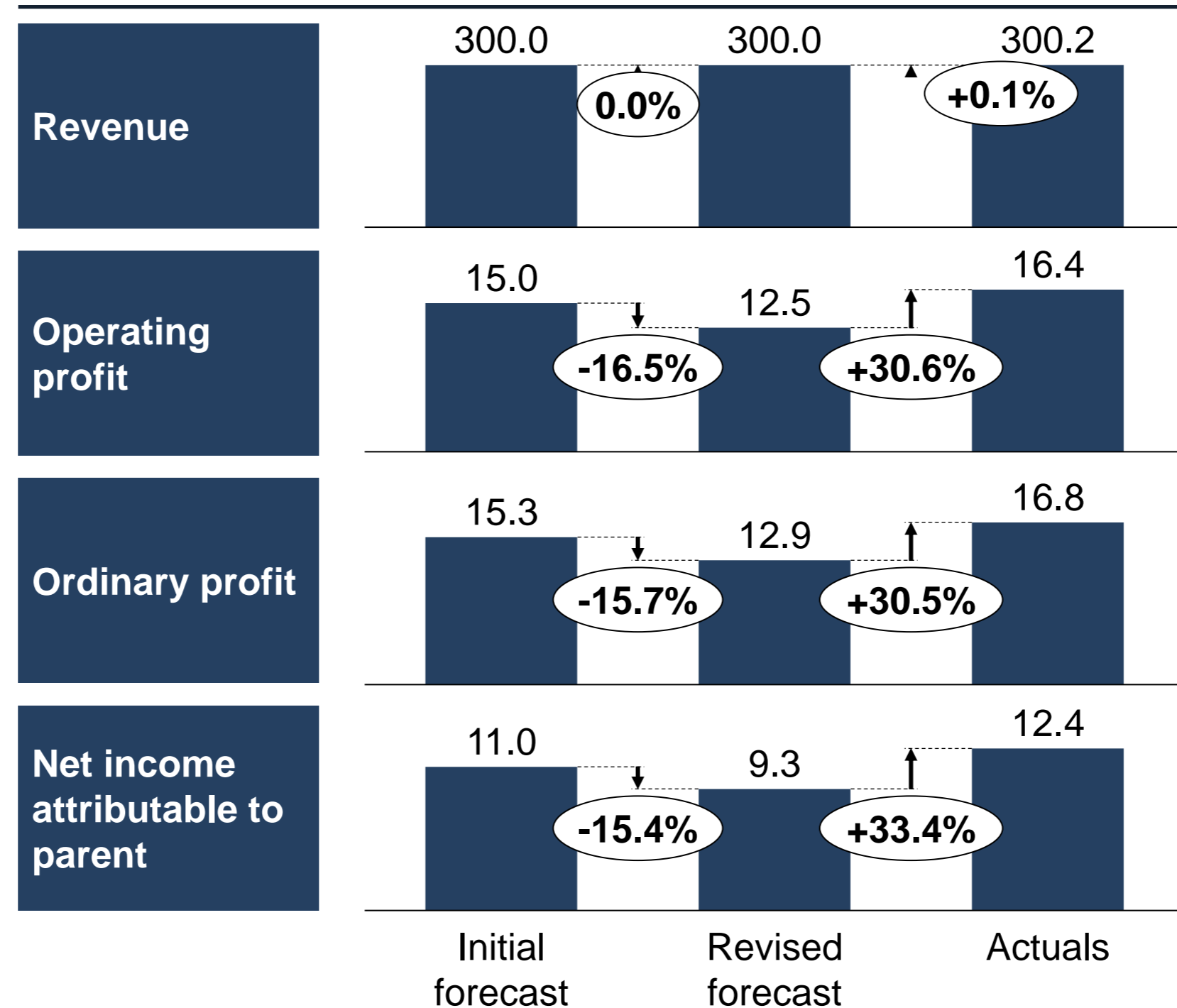
## Aoki's policy on earnings forecast revisions



*“We will make revisions in forecasts when we expect changes of more 10% in revenue and more than 30% in different profits (i.e. operating profit, ordinary profit, net income)”*

## Aoki's forecasts and actual results for FY May 2020;

Bn JPY



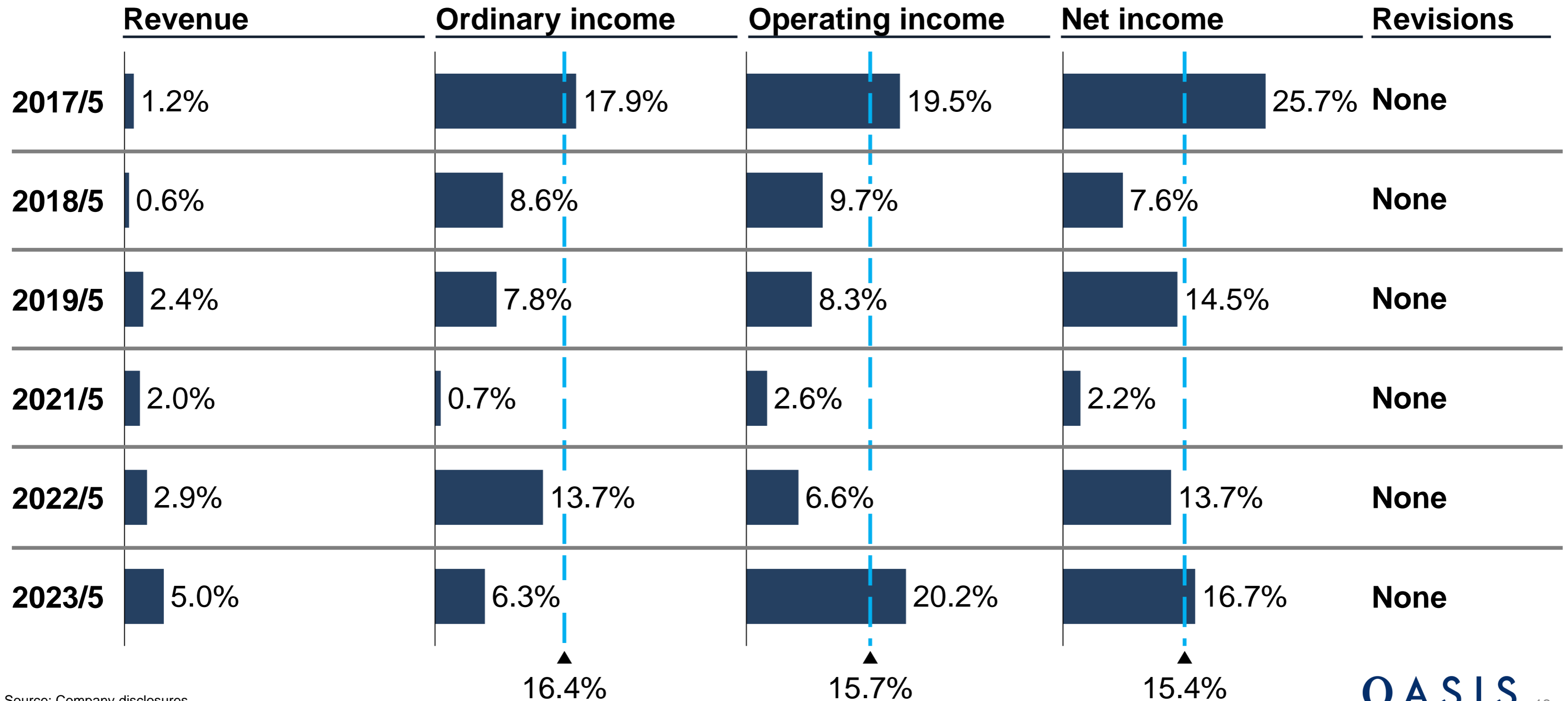
- Aoki revised its forecast down despite the forecast not aligning with the Company's internal policy (looking for changes of 30% or more in different profits).
- Even after it became evident that the initial downward revision was overly pessimistic, Aoki did not correct their revision.



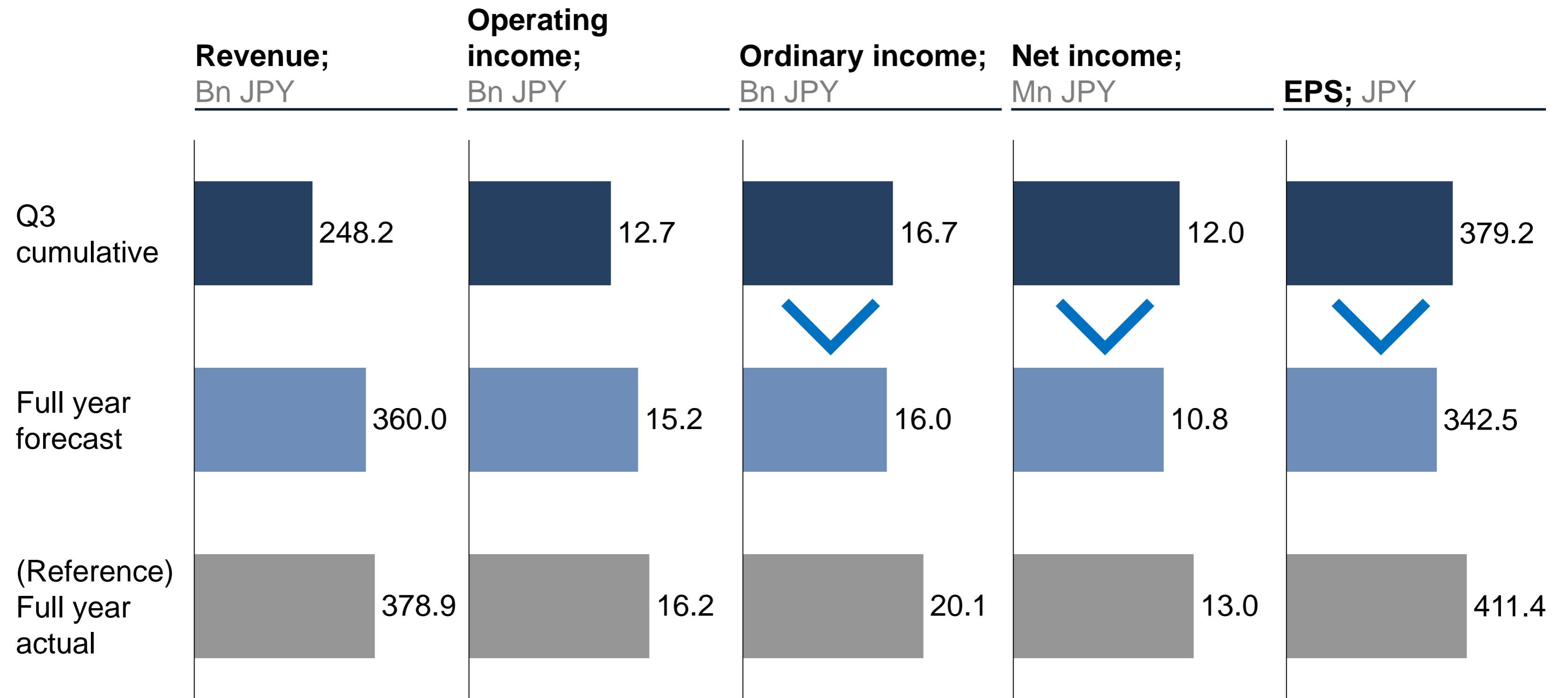
# Despite similar past discrepancies between forecasts and actual results, Aoki has not announced revisions under the current holdings structure except FY May 2020

## Difference between the initial forecast and actual results

--- Revision made in FY May 2020



**The latest financial year saw no revisions, despite Aoki meeting its full-year estimates in Q3, suggesting the Company has no habit of making abrupt revisions to their forecasts**



# The Company attributed its downward revisions to sales promotions; however, the promotions had ended before the disclosures

## Reasons provided for the downward revision, as disclosed on December 12, 2019



“The fiscal year ending May 2020 is the final year of the medium-term management plan, which targets a revenue of 300 billion JPY. To achieve this goal, **the Company has been implementing sales promotion measures and also taken initiatives to strengthen its price competitiveness.** However, these measures were not enough to compensate for the sluggish sales of seasonal products such as sunscreen and antiperspirants due to mainly the cool summer in July, resulting in a lower-than-expected gross profit margin, and as such, also in lower-than-expected operating income, ordinary income, and net income attributable to the parent. **Since the Company plans to continue these measures in the third quarter and beyond,** operating income, ordinary income, and net income attributable to the parent for the full year are expected to be lower than forecast.”

## Aoki's actual promotion measures

- The biggest promotion and the biggest downward pressure on the Q2 profitability, the 5% rewards program, ended on November 30, before the disclosure, and with minimum effect on Q4 (11/21-)

### Aoca プリペイドカード支払い・現金支払いによるポイント還元キャンペーンに関するお知らせ

当社は 2019 年 10 月 1 日より、当社メンバーズカード Aoca でのプリペイドカード払い、及び現金払いにおいて、以下のキャンペーンを開始いたしました。

今後もお客様の多彩なニーズにお応えし、サービス性と利便性の向上に取り組んでまいります。

#### 1. 対象店舗

クスリのアオキ全店舗

#### 2. キャンペーン期間

2019 年 10 月 1 日 火曜日 ~ 2019 年 11 月 30 日 土曜日

#### 3. キャンペーン内容

通常税抜 100 円毎に 1 ポイント還元のところ、上記期間中に Aoca プリカでのお支払い、現金でのお支払いに対して、ポイントの還元率をアップいたします。

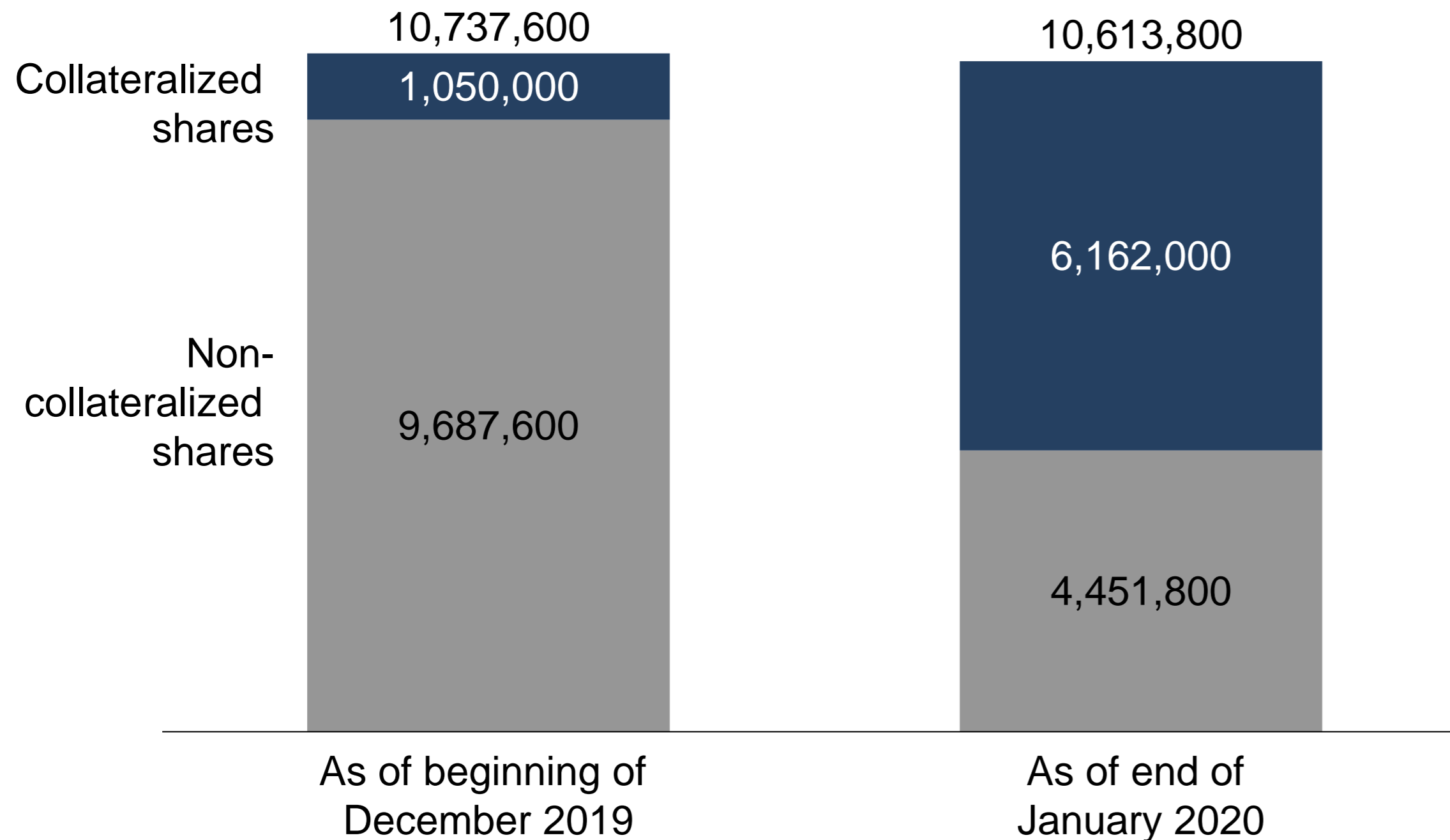
・Aoca プリカ支払いの場合: 毎日、税抜 100 円毎に 5 ポイント還元

・現金支払いの場合: 毎日、税抜 100 円毎に 2 ポイント、または 3 ポイント還元

(従来のポイントデーである水曜日、日曜日を除く全日)

# Oasis suspects that the stock options served as a risk hedge for the founding family's control, given sudden collateralization of Aoki family's shares during the same period

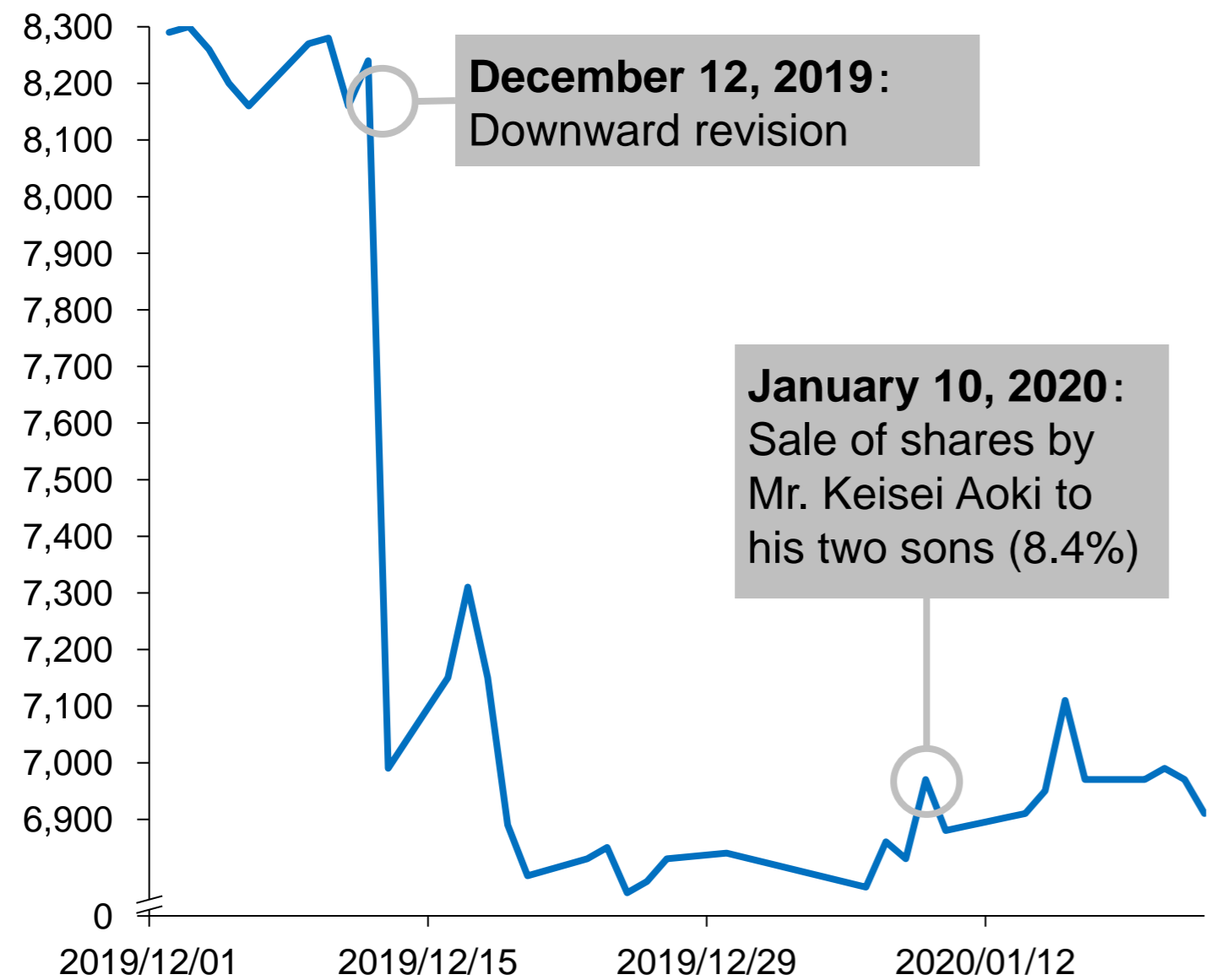
Status of collateral agreements of shares owned by the Aoki Family in Dec 2019 and Jan 2020; shares



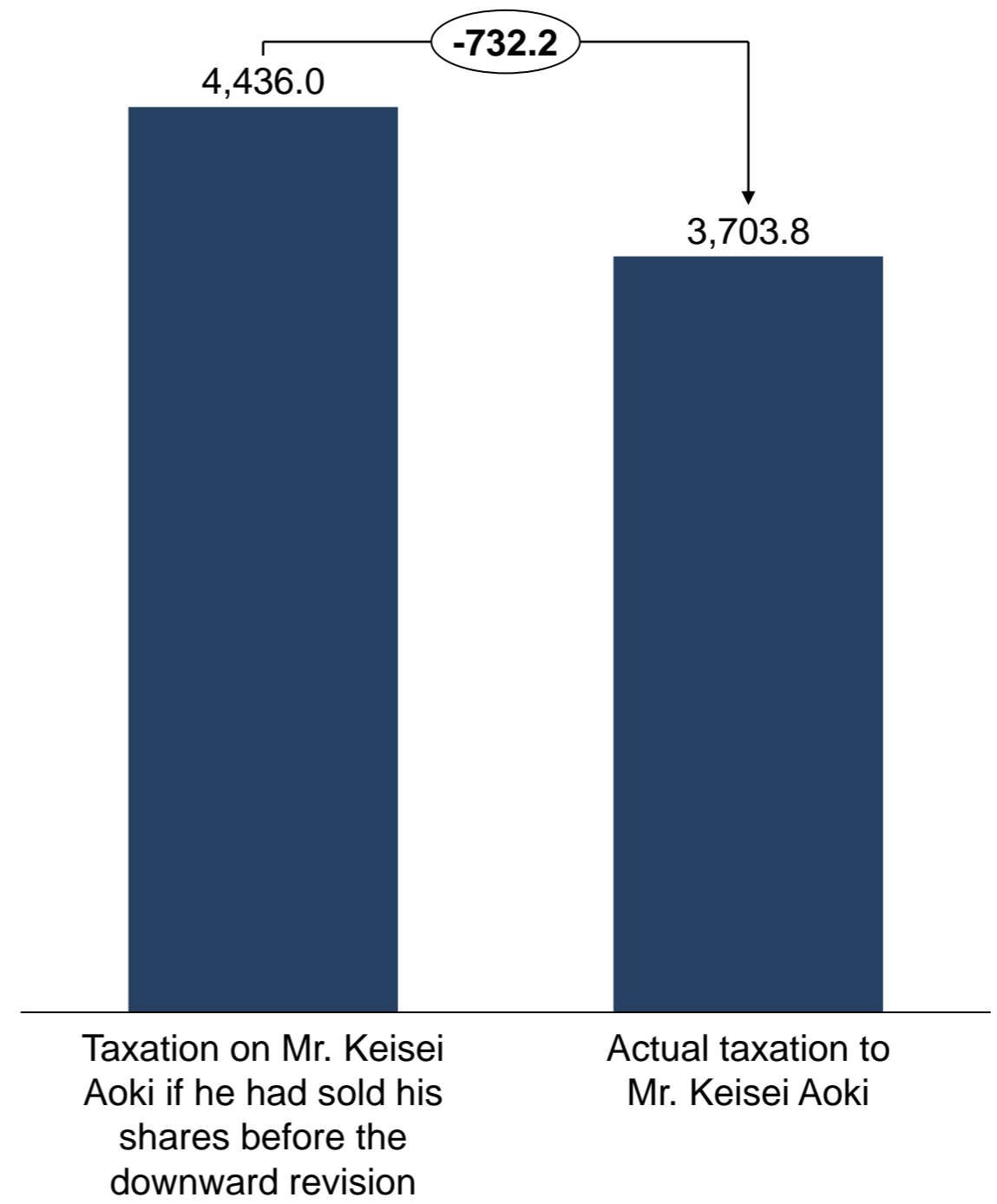
- As far as can be ascertained, Aoki's shares owned by the Aoki family are owned through 6 individuals and 4 entities.
- Large-scale liquidations of asset holders were conducted from Dec 2019 to Jan 2020 by these individuals and entities.
- Many shares were collateralized during this period. Oasis suspects that Aoki Family had capital needs. Stock options may have been issued as a risk hedge for these collateral agreements.

# Mr. Kesei Aoki, the President's father, saved JPY700 million in taxes on his share sales to his sons compared to selling them before the downward revisions

**Aoki's share price**



**Assumed taxation on his share sales; Mn JPY**



- By Oasis's review, it is likely that the book price of the shares Mr. Keisei Aoki owns have stayed the same throughout his holding period, including listing to the TSE secondary market, and to the first market, making the book price of his shares considerably smaller than his sales price
- For ease of analysis, we assumed a book price of zero for this analysis

Source: Bloomberg, Significant shareholder filings

# The company's explanation regarding the stock options does not clearly demonstrate how it will contribute to the enhancement of Aoki's corporate value

## Reasons for issuing stock options



*(In response to Oasis's question of how the issuance of stock options will enhance Aoki's corporate value)*

*“Amidst the revised downward outlook for the business performance, the strategic issuance of stock options serves as a compelling initiative to bolster the commitment of the Aoki brothers, who are members of the top management. Since the stock options were neither a favorable issuance nor compensation, the two Aoki family members paid an option fee in issuing the stock options, which was expected to increase their commitment to management through this option fee.”*

- Given the Aoki family's significant ownership and economic ties to the company (27.6% shareholder worth 59 Bn JPY at the time), the necessity of the stock options to increase their commitment (52.5 Mn JPY in paid capital) to management is highly questionable
- Further, none of the non-founding family member directors, who have significantly less shares than the founding family members, participated in this program
- The Company's explanation shows that this issuance was “compensation-like”, but this stock option was not approved by the shareholders, furthering adding to governance concerns at Aoki as compensation (especially for dilutive options) should be determined by shareholders.

# In addition, the stock option disclosures include misleading statements

## Disclosure of stock option issuance



*“However, the exercise of the Stock Acquisition Rights is subject to the achievement of pre-determined performance targets, specifically, ordinary income of 22 billion yen in the fiscal year ending May 31, 2024 and thereafter. **This target represents an increase of approximately 170% compared to the ordinary income in this fiscal year's forecast,** and we believe that achieving this target will contribute to the enhancement of our corporate value and shareholder value. Therefore, we recognize that the issuance of these warrants will contribute to the interests of our existing shareholders, and we believe that the impact on share dilution is reasonable.”*

- As mentioned in previous slides, the validity of the forecast (12.9 billion yen) for "this fiscal year" (FY5/2020) is questionable, as it is unreasonably low compared to the actual performance (16.8 billion yen). We believe choosing this target value as a comparison point is misguided.
- Moreover, the exercise condition of 22 billion yen being around 170% of the 12.9 billion yen target is inaccurately labeled as it is actually an increase of approximately 70%. Such misleading disclosure is concerning and demands honest representation from the Board as to what was really the target set for these founding family members to achieve.

# **The only profit related exercising condition for the exercising of the stock option is the absolute amount of ordinary income, which gives the Aoki brothers strong incentives to focus on absolute profits only, while disregarding capital efficiency**

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## **Extract from the exercising conditions for the Stock Options**

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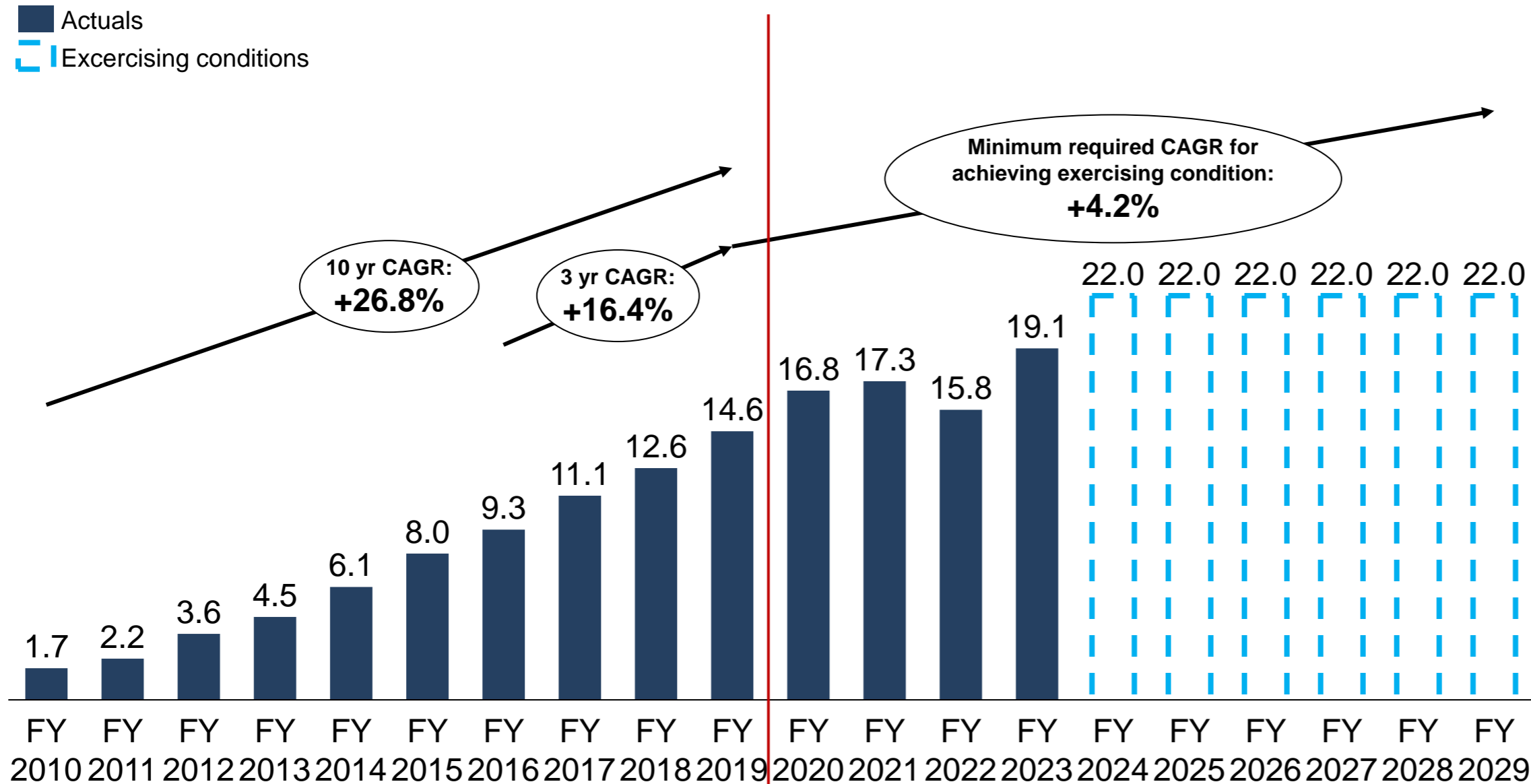


- (i) A person who has received an allotment of these Stock Options (hereinafter referred to as the “Stock Option Holders”) may exercise the stock options **if the Company's ordinary income exceeds 22 billion yen in any of the six fiscal years from the fiscal year ending May, 2024 to the fiscal year ending May, 2029**, from the day following the date of submission of the Annual Securities Report (Yuho) for the fiscal year in which the level of such ordinary income is first met. However, if, after the fiscal year ending May, 2020, the Company's ordinary income falls below 11 billion yen before achieving the above target, the Stock Options may not be exercised. In determining ordinary income, reference shall be made to ordinary income in the consolidated statement of income (or the unconsolidated statement of income if the Company does not prepare a consolidated statement of income) as stated in the Company's Annual Securities Report, if such consolidated statement of income includes goodwill amortization expenses and stock compensation expenses related to these Stock Options, the Company shall determine ordinary income before goodwill amortization expenses and stock compensation expenses by eliminating the effects of these expenses. If there is a significant change in the concept of items to be referenced due to the application of International Financial Reporting Standards, etc., the Board of Directors of the Company shall separately determine the indicators to be referenced.
- (ii) Notwithstanding (i) above, if the average closing price of the ordinary transactions of the Company's shares on the Tokyo Stock Exchange (the average price for the past 42 consecutive trading days including that day) falls below 70% of the exercise price even once during the period from the allotment date of the Stock Options to May 20, 2024, thereafter, holders of the Stock Options may not exercise their unexercised Stock Options.



# Exercising conditions for the stock options were extremely low

Ordinary income growth and targets;  
Bn JPY



**January 9, 2020:**  
Announcement of stock  
option issuance

- The major exercising condition is to achieve 22 Bn JPY in ordinary income in any year between FY 2024-FY 2029
- The minimum required annual growth rate to achieve this ordinary income target is only 4.2%, significantly lower compared to the Company's past track record of 14.7% CAGR growth in the past three years and 26.8% in the past ten years

Source; Company disclosures

# Oasis will consider all steps, including legal action, to ensure minority shareholder protection

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## Potential next steps

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**Pay the fair price or unwind**

- Oasis requests that the Aoki brothers pay the full fair price of 7.256 Bn or unwind the original transaction

**Establish a nomination and compensation committee**

- Oasis has proposed in its shareholder proposals the establishment of a nomination and compensation committee to enhance oversight of management compensation, which includes stock issuances, stock options, etc.

**Oasis considering potential legal action**

- Oasis will consider all possible options, including legal action, if the necessary steps are not taken by the Company and the Aoki brothers

1. Oasis introduction and overview of shareholder proposals

**2. Key governance concerns behind Oasis's proposals**

2.a. Concerns over the Stock Options

**2.b. Concerns over potential misuse of Company assets  
by Mr. Keisei Aoki**

2.c. Inappropriate company nominated candidate

2.d. Inappropriate evaluation process for Oasis's nominee

3. Details of Oasis's proposals

4. Summary

Appendix

# Mr. Keisei Aoki, the Company's founder and the father of the current President and Vice President, lives in a large Facility partially owned by Aoki

Building owned by Mr. Keisei Aoki and the adjacent historic site (collectively "the Facility")



Irrigation water

Part of the Facility is recognized as a historic site by the city

ページ番号1002312 更新日 2022年2月15日

印刷 大きな文字で印刷

白山市指定有形文化財 建造物

〔所在地〕  
〔指定日〕



天明2年（1782年）に立て直されたという記録が残っており、構造は切妻造り木羽葺石置屋根の民家建築で、御座之間（十畳）、式台之間（十畳）、仏間、控之間、書院、縁側など往時のままに残されています。  
特に襖の引手、なげしの釘隠しに用いられている加賀象眼の金七宝や、ぶどうの透彫欄間には、民家に見られない豪華さがうかがわれ、市指定文化財となっています。  
縁側からは、中村用水を挟んで、対岸の見事な庭園を眺めることができ、かつての歴代藩主もその趣向を大いに楽しんだと云われています。

- The Facility has a total land area of approximately 1,700 square meters
- It is recognized by the city as a historically important house

# Part of the Facility was acquired from Mr. Keisei's mother in the past

## Yuho at the sale of that building

当事業年度（自平成17年5月21日 至平成18年5月20日）											
属性	氏名	住所	資本金 又は出 資金 (千円)	事業の内容 又は職業	議決権等の 所有（被所 有）割合 (%)	関係内容		取引の内 容	取引金額 (千円)	科目	期末残高 (千円)
						役員の 兼任等	事業上 の関係				
役員及び その近親 者	青木数栄子	石川県 白山市	-	株式会社青 木桂生及び 当社代表取 締役社長青 木保外志の 実母	-	-	-	不動産の 賃借※1	460	-	-
役員及び その親近 者	北川忠夫	石川県 金沢市	-	当社監査役	-	-	-	不動産の 賃借※2	921	保証金 及び敷 金	500

（注）1. 上記の金額のうち、取引金額には消費税等が含まれており、

2. 取引条件及び取引条件の決定方針等

※1 当社が平成15年5月期に購入した福利厚生施設用建物の賃借契約を締結しております。契約に基づいて平成18年1月まで支払っております。賃料は不動産鑑定士の鑑定結果に基づいて決定しております。なお、平成18年1月の土地売買契約締結に伴い、当該土地の賃借契約は解約しております。

※2 当社が平成15年5月期に購入した福利厚生施設用建物の敷地として賃借していた土地を、平成18年1月に土地売買契約を締結し購入したものであります。売買代金は不動産鑑定士の鑑定結果に基づいて決定しております。

※3 当社が店舗駐車場用地として賃借しており、平成4年9月に契約しております。賃料は不動産鑑定士の鑑定結果に基づき平成17年6月に改定し支払っております。

## Land registry of this facility

権 利 部 ( 甲 区 ) ( 所 有 権 に 関 す る 事 項 )			
順位番号	登 記 の 目 的	受付年月日・受付番号	権 利 者 そ の 他 の 事 項
1	所有権移転	昭和25年3月20日 第1360号	原因 昭和22年8月4日相続 所有者 [Redacted] 青木信孝 順位1番の登記を移記
	余白	余白	Mr. Keisei's mother
2	所有権移転	平成12年10月11日 第8169号	原因 平成10年2月11日相続 所有者 [Redacted] 青木数栄子
3	所有権移転	平成18年1月31日 第2039号	原因 平成18年1月31日売買 所有者 白山市松本町2517番地 株式会社クスリのアオキ

\* 下線のあるものは抹消事項であることを示す。

The Company      Acquisition

**Due to this purchase, within the Facility, the land west of the water is owned by the Company, while the land east of this is owned by Mr. Keisei Aoki**

## Aerial view

- Owned by the Company
- Ownership purpose for recreation



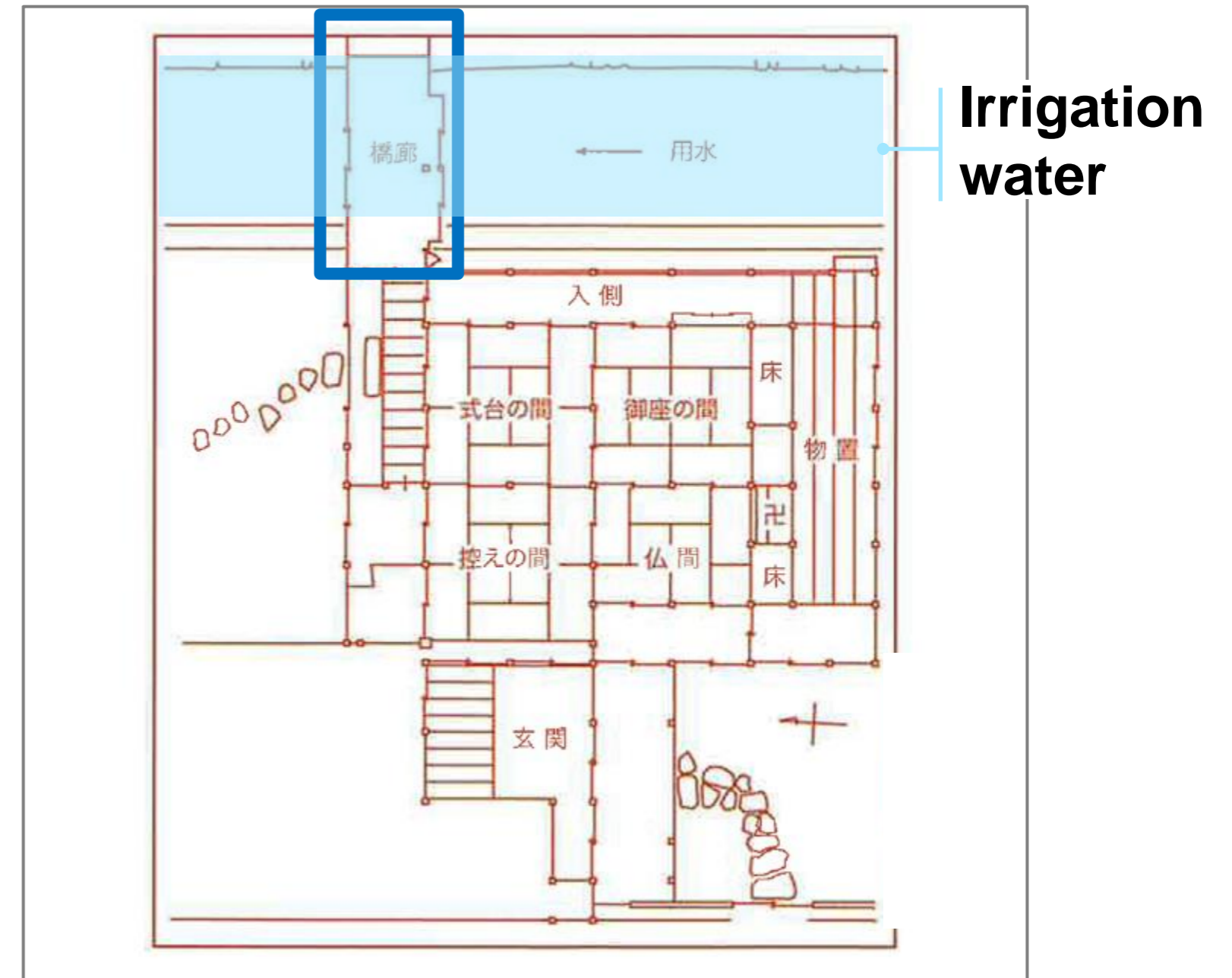
- Owned personally by Mr. Keisei Aoki

# Although the Facility spans over both banks of the water, evidence confirm both banks of the Facility are connected

Aerial view



The plan view of facility



# Potential inappropriate use of company assets

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## Facts that Oasis is aware of

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- Oasis has confirmed through on-site inspections that **Mr. Keisei Aoki's actual residence is at the Facility.**
  - According to the register of real estate owned by Mr. Keisei Aoki in Tokyo, as well as registry of an NGO where he was the representative in the past, **Mr. Keisei Aoki's address is registered as the part of the Facility owned by the Company.**
  - The Company-owned part of the Facility is designated as cultural property by the city. According to the Hakusan City Tourism, Culture and Sports Department's Cultural Affairs Division, which manages the registration of cultural properties, the said cultural property, or **the Company-owned part, is disclosed to be “occupied by an individual”.**
  - As far as Oasis has surveyed, and as far as neighbors are aware, **there is no history of the Facility being used as a Company-owned recreational facility.**
- Taking various factors into account, there is a possibility that the part of the facility owned by the Company, owned as a recreational facility, is being utilized in conjunction with Mr. Keisei Aoki's personal residence. This raises serious concerns with regard to the Board's oversight of corporate assets for the benefit of all stakeholders, and not only the founding family members.
  - The Board needs to explain to shareholders the facts surrounding the residence of Mr. Keisei Aoki, and whether the Company-owned facility is connected, and also used, by Mr. Keisei Aoki, and how this is beneficial for all stakeholders.



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4. Summary

Appendix

# **Suitability of Aoki's proposed director candidate, Mr. Fujii, is questionable from various perspectives**

## **Independence concerns**

- As disclosed, Mr. Fujii has worked for Aoki in the past, and there are concerns regarding his independence due to his former relationship with the Company.

## **Concerns about management capacity**

- Research reports indicate that Mr. Fujii's businesses are all significantly smaller, at about 1/1,000th the scale of Aoki. Moreover, many of these companies, including Taion Holdings and Taion 365, are operating with a debt burden and have failed to achieve stable profitability, facing challenges in generating consistent profits.
- A biomass project that is being undertaken has not started even two years after the scheduled start date of the project.

# Mr. Fujii used to work for Aoki, raising concerns about his independence

## Mr. Fujii's profile

### 1. 新任社外取締役候補者

氏名	藤井 大温 (ふじい ひろみつ)	
生年月日	1977年4月13日	
略歴	2002年7月	ドラッグストアモリ (現ナチュラルホールディングス) 入社
	2007年10月	株クスリのアオキ入社
	2008年4月	株クスリのアオキ退社
	2008年5月	Employed at Aoki
	2015年6月	代表取締役 (現任)
	2017年8月	タイオンホールディングス(株) 代表取締役 (現任)
	2017年10月	一般財団法人タイオン奨学基金 代表理事 (現任)

# Mr. Fujii's businesses are smaller-scale and many have struggled to make profits

<b>Mr. Fujii's entities</b>	<b>Business description</b>	<b>Balance sheet status</b>	<b>Unconsolidated revenue size</b>	<b>Profitability</b>
<b>Taion Holdings (As of Apr 2020)</b>	<ul style="list-style-type: none"> <li>Real estate business</li> </ul>	<ul style="list-style-type: none"> <li>Negative net assets</li> </ul>	<ul style="list-style-type: none"> <li>Approximately 100 Mn JPY</li> </ul>	<ul style="list-style-type: none"> <li>Loss-making until recently</li> <li>Not made stable profits</li> </ul>
<b>Taion 365 (As of Apr 2021)</b>	<ul style="list-style-type: none"> <li>Nursing related business</li> </ul>	<ul style="list-style-type: none"> <li>Negative net assets</li> </ul>	<ul style="list-style-type: none"> <li>Approximately 300 Mn JPY</li> </ul>	<ul style="list-style-type: none"> <li>Loss-making until recently</li> <li>Not made stable profits</li> </ul>
<b>Taion Trust (As of Mar 2015)</b>	<ul style="list-style-type: none"> <li>Boat racing related business</li> </ul>	<ul style="list-style-type: none"> <li>Healthy equity</li> </ul>	<ul style="list-style-type: none"> <li>Approximately 40 Mn JPY</li> </ul>	<ul style="list-style-type: none"> <li>Profit making</li> </ul>
<b>Taion Energy (As of Jun 2020)</b>	<ul style="list-style-type: none"> <li>Biomass plant</li> </ul>	<ul style="list-style-type: none"> <li>Negative net assets</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Loss-making</li> </ul>

# The biomass energy business that Mr. Fujii has been working on is behind schedule and construction is not progressing, creating doubts about his management skills

## Background

- Engaged in biomass business at Taion Energy
- The biomass power plant in Hyogo Prefecture was originally planned to start operation during the fiscal year ending June 2021 (info via research company)

## Current Situation

- As of June 2023, this biomass plan is disclosed to be “yet to be operational”

発電事業者名	代表者名	事業者の住所	事業者の電話番号	発電設備区分	発
タイオンエナジー株式会社	藤井大温	岡山県岡山市北区野田1-9-	086-805-0365	バイオマス	

法	廃棄費用の積立状況	調
	運転開始前	

Yet to be operational

## **A series of activities involving Mr. Fujii's entity as per a land registry**

- **In 2017, land owned by a particular individual in Nagasaki Prefecture, Mr. A, went into provisional seizure by another individual, Mr. B**
- **On February 16, 2018, a loan of 80 Mn JPY was made from Taion Holdings, one of Mr. Fujii's entities, to Mr. A**
- **On February 26, 2018, the provisional seizure by Mr. B on Mr. A was lifted, indicating Mr. A has repaid his debt to Mr. B**
- **In 2022, Mr. B was arrested for obstruction of enforcement against a government seizure through the use of threats**

# Aoki's appointment of Mr. Fujii as a director is a breach of corporate governance best practice, despite Oasis's warning

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## ISS Japan Proxy Voting Guidelines Benchmark Policy Recommendations

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*“General Recommendation: Generally vote for this proposal [Oasis note: proposal is “Decrease in maximum board size”], **unless the decrease eliminates all vacant seats, leaving no flexibility to add shareholder nominees or other outsiders to the board without removing an incumbent director.**”*

## Oasis letter to Aoki June 15, 2023

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*“As the below statement by ISS shows, it is widely seen as a show of good governance to have at least one vacant seat on the board to allow for shareholder proposals of directors without contesting company proposals. **For the Company to fill these vacant seats as a countermeasure against shareholder proposals of director candidates**, despite the Company showing these vacant seats to the capital markets, **would be another show of the Company's poor governance and apparent willingness to deceive shareholders. If the Company is looking to make proposals to nominate directors candidates, we ask the Company to make proposals to increase the board size by the same number too.**”*

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by Mr. Keisei Aoki

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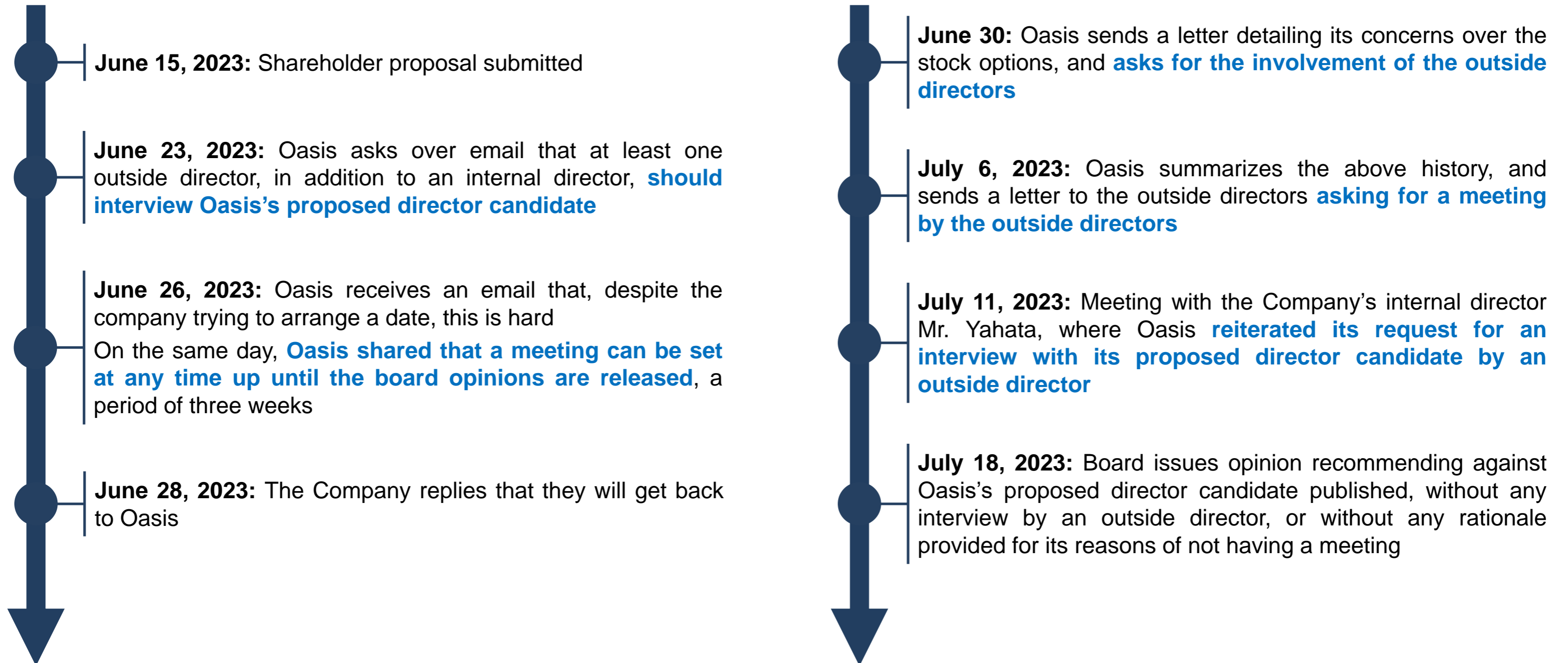
4. Summary

Appendix



# Oasis's repeated requests for an interview between our director candidate and Aoki outside directors were consistently ignored without any explanation

## History of Oasis requests and correspondence



1. Oasis introduction and overview of shareholder proposals

2. Key governance concerns behind Oasis's proposals

**3. Details of Oasis's proposals**

4. Summary

Appendix

# Oasis's proposals intend to address the set of issues Oasis sees at the Company

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## Issues we see

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## Solutions

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### **Inappropriate issuance of stock options**

The Company has issued value destructive stock options to the founding family members at an unfair price, following a questionable downward revision of its forecast

- **Establishment of a nomination and compensation committee, that oversees not only compensation, but also stock issuances, stock options, etc.**
- **Dismissal of Mr. Hironori Aoki and Mr. Takanori Aoki, who have benefited from the stock options**

### **Lack of investor communication**

The Company's governance lags behind its peers, with its President continuing to refuse to meet its shareholders

- **Establishment of a lead independent outside director role**

### **Lack of general oversight/governance**

The current outside directors have failed to prevent the above issues, demonstrating insufficient oversight


- **Appointment of a truly independent, capable outside director**


# Overview of key proposals and voting recommendations

Proposer	Proposals	Recommended voting actions					
<b>Company proposals</b>	<b>Agenda item 2: Re-election of President &amp; Vice President Aoki</b>	<ul style="list-style-type: none"> <li>▪ The Company proposes the re-appointment of the President, Mr. Hironori Aoki, and his brother, the vice-president, Mr. Takanori Aoki, who were the beneficiaries of the stock options.</li> <li>▪ The company proposes the appointment of Mr. Hiromitsu Fujii. We question his independence and management capabilities.</li> </ul>	<div style="background-color: red; color: white; text-align: center; padding: 10px;"><b>Vote AGAINST</b></div>				
	<b>Agenda item 2: Addition of an “independent” director</b>			<b>Shareholder proposals by Oasis</b>	<b>Agenda item 4: Addition of a truly independent director</b>	<ul style="list-style-type: none"> <li>▪ Oasis proposes the appointment of Mr. Yoshiaki Ikei.                             <ul style="list-style-type: none"> <li>– Mr. Ikei brings valuable expertise in M&amp;A .</li> <li>– His knowledge will be valuable even if the Company persists with smaller-scale M&amp;A</li> </ul> </li> <li>▪ To add stronger independent oversight, Oasis proposes an additional truly independent outside director candidate to strengthen shareholder communication and the board’s independence and decision-making.</li> <li>▪ Oasis proposes the creation of a nomination and compensation committee, free from the founding family’s influence, to rigorously monitor directors’ nominations and compensation, including stock issuance, stock options, and other forms of remuneration.</li> <li>▪ Ensuring an exceptional talent pool for the board requires a clear and substantial standard of compensation.</li> <li>▪ Implementing a balanced stock option plan will foster alignment of interests between external directors and shareholders.</li> </ul>	<div style="background-color: blue; color: white; text-align: center; padding: 10px;"><b>Vote FOR</b></div>
<b>Agenda item 5: Establishment of a lead independent director</b>	<b>Agenda item 6: Establishment of a nomination and compensation committee</b>						
<b>Agenda item 7, 8: Compensation</b>	<b>Request to the Aoki brothers</b>	<b>Pay the fair price or unwind</b>	<ul style="list-style-type: none"> <li>▪ Oasis requests that the Aoki brothers pay the full fair price of 7.256 Bn for the stock options or unwind the original transaction.</li> </ul>		<div style="background-color: gray; color: white; text-align: center; padding: 10px;"><b>N.A.</b></div>		

# Oasis's proposed outside director offers superior expertise and independence

## Company candidate Mr. Hiromitsu Fujii

 **Challenged business history**  
with many of his businesses facing insolvency and struggling to make profits, and much smaller scale

 **Ties with the founding family, having worked for the Company in the past**

## Oasis candidate Mr. Yoshiaki Ikei



**Esteemed professional in M&A**  
as one of the founding members of Recof, Japan's oldest M&A specialist boutique



**Independent of both the Company and Oasis**

# Candidate profile: Mr. Yoshiaki Ikei

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## Career history

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April, 1981	Joined Mitsubishi Corporation
April, 1996	Executive Officer and General Manager of Corporate Strategy at AUCNET Inc.
October, 2001	Managing Executive Officer and Osaka Branch Manager at Recof Inc.
November, 2007	Representative Director at MA Partners Inc. (current position)
July, 2012	Senior Managing Director at Strex Inc.
June, 2017	Outside Director at Japan Lifeline Co., Ltd. (current position)

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< Significant concurrent positions >

Representative Director at MA Partners Inc.

Outside Director at Japan Lifeline Co., Ltd.

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## Oasis's reason for proposal

- Mr. Ikei has been involved in the M&A industry for many years. He participated in the founding of RECOF Co., Ltd., the first M&A specialist company in Japan, from 1990. He has a wealth of experience in, and knowledge of, M&A, as well as extensive experience and broad insight as a corporate manager.
- Today's drugstore industry is increasingly dominated by the biggest players and becoming oligopolistic. With growing momentum for market consolidation, it is of critical importance to capture opportunities to increase corporate value through M&A, and Mr. Ikei's expertise will be valuable to the Company from this perspective.
- Additionally, even if the Company does not agree with Oasis on the increasing need to ready itself for the market consolidation, Mr. Ikei's knowledge on M&A can be useful for the Company even if it continues its current strategy of acquiring small scale supermarkets

# Oasis proposes introducing a new compensation plan that attracts top talent nationwide and aligns the incentives of outside directors with the shared interests of shareholders

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## Fixed remuneration of 10 Mn JPY

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- A more suitable payment range than the current payout to hire top talent
- Change of AGM resolution from determining total remuneration for all directors to individual amounts, enhancing remuneration transparency to attract highly qualified, genuinely independent director candidates



## 3 Mn JPY in RSUs

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- Introduce compensation by RSU for outside directors in order to attract exceptional candidates and align their interests with those of shareholders
- In line with the CGS guidelines, with no exercising conditions and amount not excessive compared to fixed compensation

1. Oasis introduction and overview of shareholder proposals

2. Key governance concerns behind Oasis's proposals

3. Details of Oasis's proposals

**4. Summary**

Appendix



# Summary: Vote AGAINST the re-election of Mr. Hironori Aoki, Mr. Takanori Aoki and the appointment of Mr. Hiromitsu Fujii. Vote FOR Oasis's proposals to address the corporate governance crisis at Aoki and enhance corporate value

## Overview

- **Oasis, the third-shareholder group of Aoki, holds more than 5% of Aoki's shares**, trailing only the founding family and Aeon.
- Over the past two years, Oasis has proactively shared its views with Aoki regarding its business strategy, corporate governance practices and disclosures, capital allocation, and communication with its shareholders.
- Unfortunately, Aoki has been uncooperative, refusing to arrange meetings between Oasis and its Board members. We are deeply disappointed by **President Hironori Aoki's continued refusal to meet us** and engage, in a clear breach of corporate governance best practices and recommendations around shareholder dialogue.
- The **issuance of stock options** to President Hironori Aoki and his brother, Vice President Takanori Aoki, leading to an 11.1% potential dilution for shareholders, **at a 99.28% discount to its fair value (52.5 Mn JPY against 7.256 Bn JPY)**, raises significant corporate governance concerns.
- There are serious concerns surrounding the potential misuse of corporate assets by the founding family, adding to the overall governance concerns.

## Oasis proposals & recommended voting actions for fellow shareholders

- Oasis strongly recommends that shareholders:
  - **Vote FOR Oasis's series of corporate governance reforms including the election of a truly independent, highly qualified outside director candidate as well as the establishment of a Nomination and Compensation Committee to enhance oversight of the founding family**
  - **Vote AGAINST the re-election of President Mr. Hironori Aoki and his brother Vice President Mr. Takanori Aoki**
  - **Vote AGAINST the election of Aoki's newly proposed outside director candidate, Mr. Hiromitsu Fujii**

1. Oasis introduction and overview of shareholder proposals

2. Key governance concerns behind Oasis's proposals

3. Details of Oasis's proposals

4. Summary

## **Appendix**

### **Appendix 1. Aoki's current strategy and challenges**

#### **Appendix 1.a. Aoki's profitability**

Appendix 1.b. Challenges in its dominance strategy

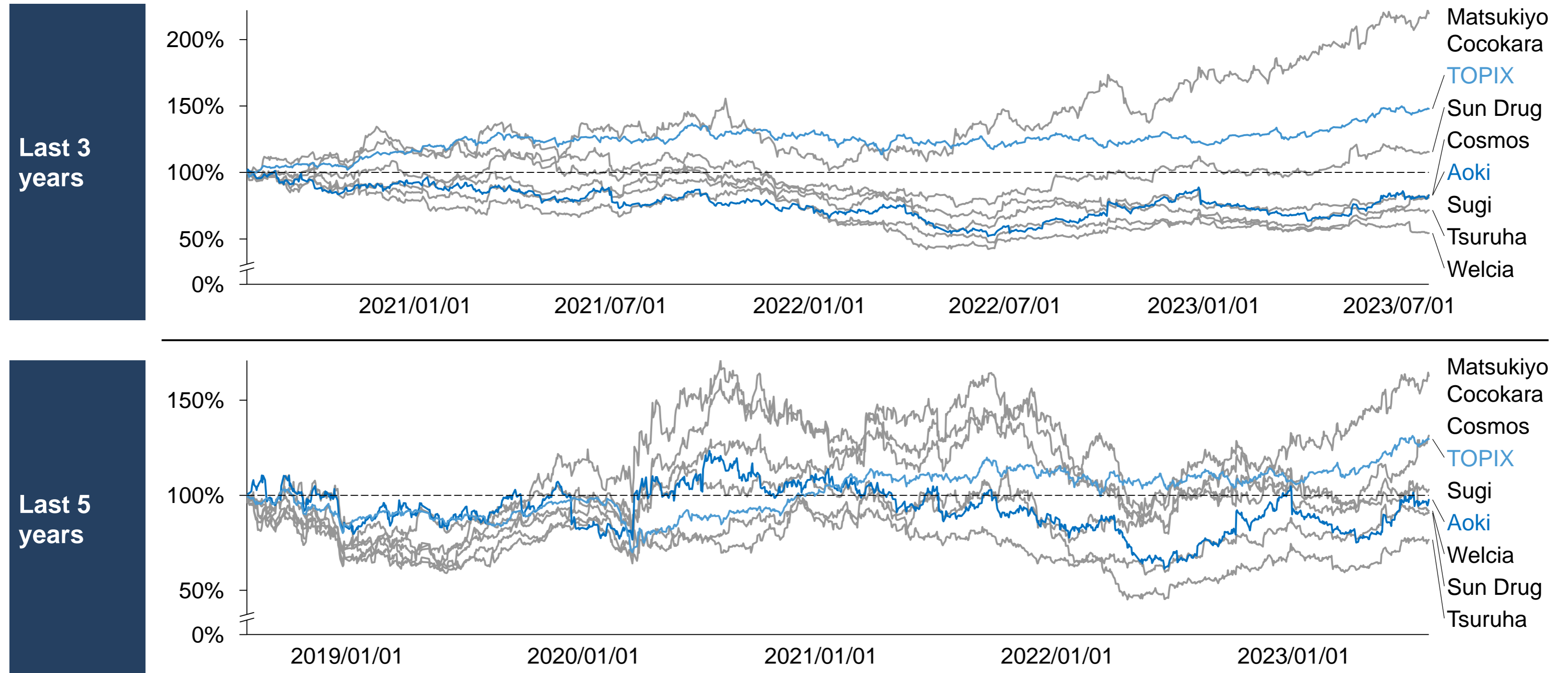
Appendix 1.c. Challenges in its food strategy

Appendix 2. Failures in dialogue with shareholders

Appendix 3. Overview of the industry and need for consolidation

# Kusuri No Aoki's stock price has underperformed its competitors

## 3-year and 5-year stock price movements of drugstore companies<sup>1</sup>

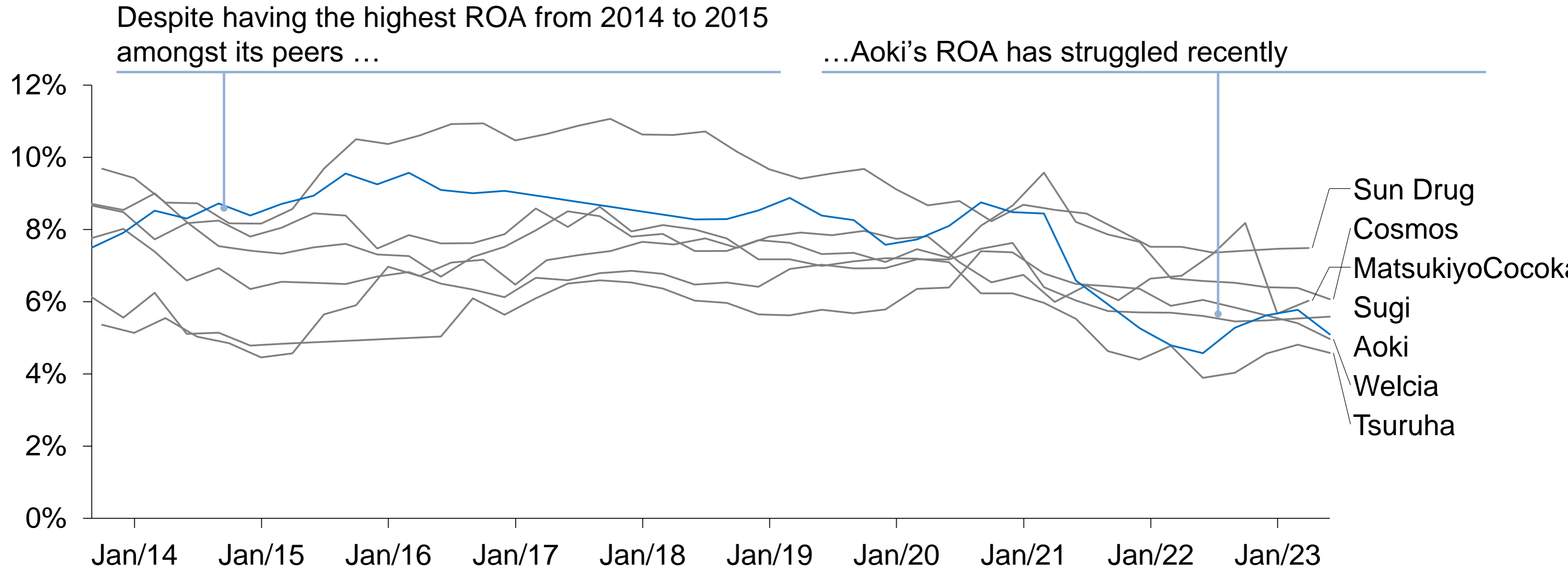


1: 3 years from July 29th, 2023 to July 28th, 2023; 5 years from July 30th, 2018 to July 28th, 2023

Source: Bloomberg

# Aoki's ROA, which used to be the highest amongst peers, has plummeted recently

## ROA of the drugstore industry; past 10 years



1. Oasis introduction and overview of shareholder proposals

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3. Details of Oasis's proposals

4. Summary

## **Appendix**

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Appendix 3. Overview of the industry and need for consolidation

# “Dominant strategy” is one of the key pillars of Aoki’s strategy, but...








**Vision2026 重点施策**

フード&ドラッグへの転換	調剤併設率向上	ドミナント強化
<p>400坪型を 主力フォーマットに変更</p> <p>生鮮の充実、地域特性に合わせた商品の強化、 安さの追求を図ります。</p> 	<p>2026年5月までに 調剤併設率70%を目指す</p> 	<p>エリア拡大から ドミナント強化へ移行</p> 
<p>400坪中型店のメリット</p> <ul style="list-style-type: none"><li>■ 狭小商圏での出店</li><li>■ 多店舗展開</li><li>■ 生鮮食品、地域商材、PB売り場面積の確保</li></ul>	<p>調剤併設のメリット</p> <ul style="list-style-type: none"><li>■ セルフメディケーションのサポート</li><li>■ 「かかりつけ薬剤師」による</li><li>■ おくすりの「一元管理」</li><li>■ 在宅患者様への訪問指導や介護のアドバイス</li></ul>	<p>ドミナント戦略のメリット</p> <ul style="list-style-type: none"><li>■ 「近さ」を提供</li><li>■ 進出エリアの地域シェア拡大</li><li>■ 商圏人口5,000人の地域に対応</li></ul>

# Aoki is far from building a dominant position outside of the Hokushinetsu area

Number of stores of 7 largest drugstores by area<sup>1</sup>; as of end of latest FY for each company<sup>2</sup>

XXX Share >20%  
XXX Share 10%-20%  
XXX Share <10%

Company	Hokkaido & Tohoku	Kanto	Hokushinetsu	Chubu	Kansai	Chugoku & Shikoku	Kyushu & Okinawa	Japan total	New stores open in the next FY
Welcia 	198	1,200	193	358	509	244	49	2,751	116
Tsuruha 	1,018	444	53	211	77	573	213	2,589	126
Cosmos 	0	107	35	68	225	337	609	1,381	130
Matsukiyo Cocokara 	131	1,414	228	274	764	213	301	3,325	140
Sundrug 	160	385	74	116	143	69	69	1,016	85
Sugi 	0	425	60	485	595	0	0	1,565	120
Aoki 	63	252	356	161	71	0	0	903	70
<b>Total</b>	1,570	4,227	999	1,673	2,384	1,436	1,241	13,530	787
<b>Aoki's share<sup>3</sup></b>	4.0%	6.0%	35.6%	9.6%	3.0%	0.0%	0.0%	6.7%	8.9%
<b>Aoki's rank<sup>3</sup></b>	5	6	1	5	7	7	7	7	7

1: Includes both drug stores as well dispensing-only pharmacies "Share" refers to share amongst top 7 companies.

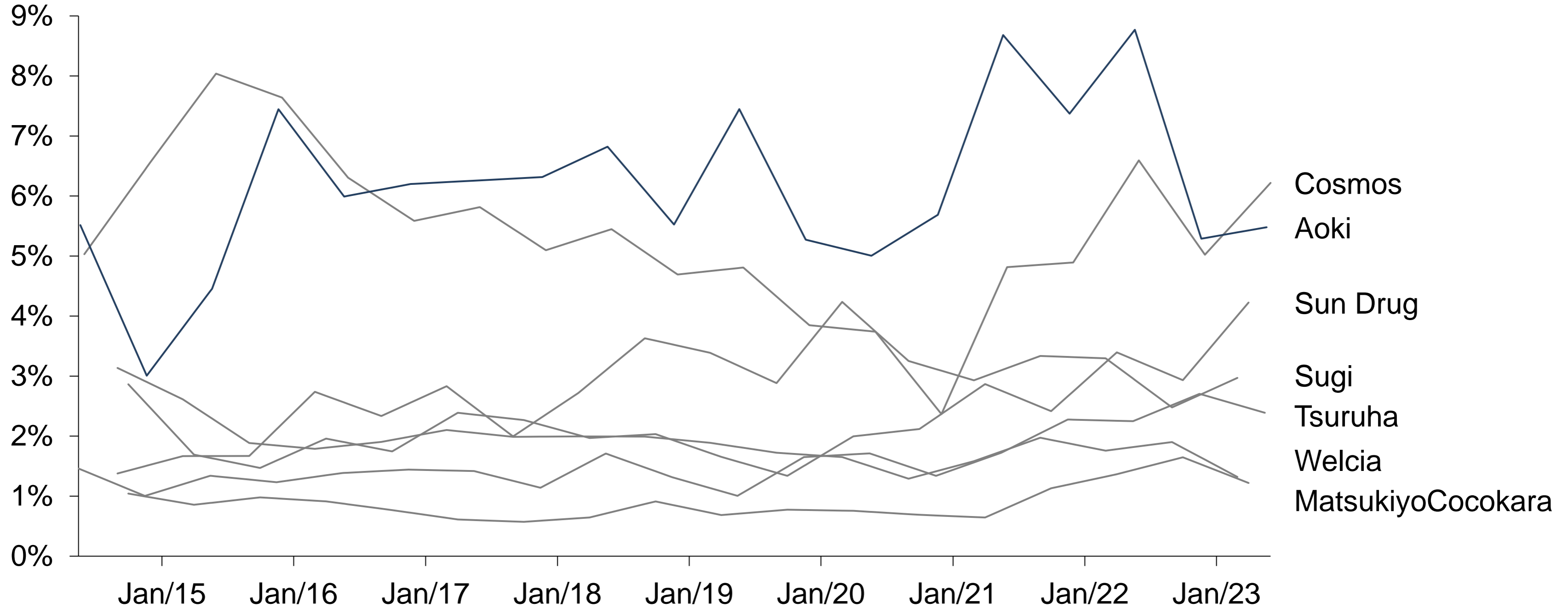
2: Data for Matsukiyo/Cocokara is as of March 31<sup>st</sup>, 2022, and Cosmos is as of June 30<sup>th</sup>, 2023

3: Within the top seven drugstores

Source: Company disclosures

# Aoki has limited capacity for additional CAPEX

## Capital Investment Ratio to Sales in drugstore industry; Past 10 years





# Aoki Has Failed to Show a Clear Direction about Debt to Capital Market even under these Circumstances

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## Kusuri No Aoki's Stance on Debt

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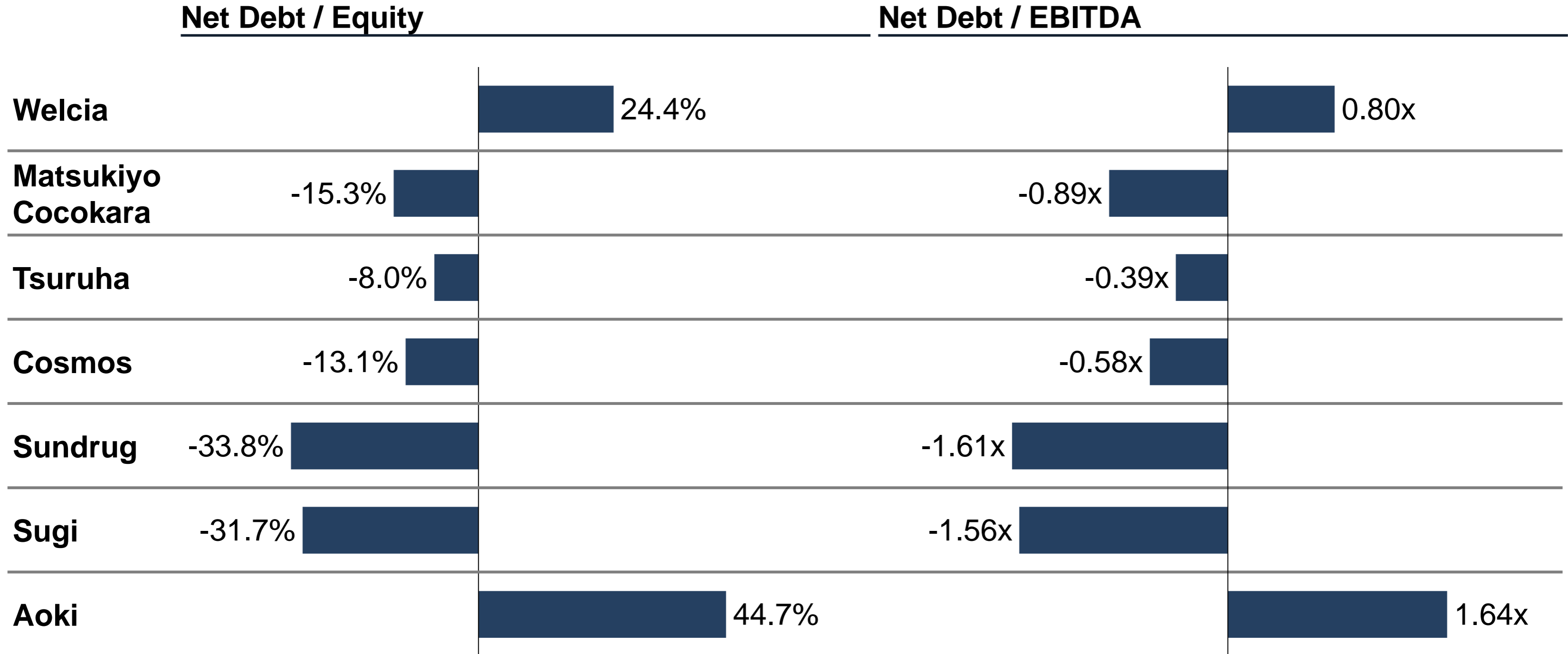


*“No, we do not have any specific barometer about leverage that can be shared.”*

*— Kusuri No Aoki's IR*

*(In response to Oasis's question about any limit to leverage based on metrics such as Debt/Equity ratio, Net Debt/Equity Ratio, and Net Debt/EBITDA)*

# As a result, Aoki is debt-heavy compared to peers



1. Oasis introduction and overview of shareholder proposals

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4. Summary

## **Appendix**

### **Appendix 1. Aoki's current strategy and challenges**

Appendix 1.a. Aoki's profitability

Appendix 1.b. Challenges in its dominance strategy

### **Appendix 1.c. Challenges in its food strategy**

Appendix 2. Failures in dialogue with shareholders

Appendix 3. Overview of the industry and need for consolidation

# Drugstore companies are focusing on new fresh food products which require completely different capabilities from conventional drugstore foods

## Conventional drugstore food products

- Most food products can be kept at room temperature
- Most food products have long shelf life
- Most products are National Brands (“NB”) which can be purchased in bulk nationwide or across broad regions



## New drugstore fresh food products require new capabilities

- In order to diversify the line-up of food products, drugstore companies are increasing the ratio of fresh products. As such, the following abilities are required:
  - Merchandise management at different temperatures (cool temperature, cold storage)
  - Sales period management for each product
  - Secure suppliers in each region

# Aoki has acquired small-scale supermarkets in order to acquire these capabilities, allocating significant resources to conducting M&A

## Aoki's Recent M&As of Supermarkets

June 2020	▪ Acquired 89.8% of NALX (5 stores)
October 2020	▪ Acquired 94.8% of Fukuya (8 stores)
February 2021	▪ Acquired Sun Flower Mariyama (2 stores)
April 2021	▪ Acquired supermarket business of SuperMarumo (7 stores)
November 2021	▪ Acquired Hifumiya (4 stores)
January 2022	▪ Acquired HoMass Kirinya (8 stores) ▪ Acquired Food Power Center Value (5 stores)
Dec 2022	▪ Acquired supermarket business of Misaki Store (2 stores)
Mar 2023	▪ Acquired supermarket business of Sanei (2 stores)

## Aoki's M&A team



*“In May 2022, in order to promote M&A and maximize synergies with group companies, Kusuri No Aoki increased its M&A team to 3 teams within the corporate strategy division. The Company is developing its M&A team so that it can obtain new deals and make smooth business integrations.”*

*Diamond Chain Store Online article  
April 12<sup>th</sup>, 2023*

# On the other hand, some competitors have formed comprehensive alliances with large-scale companies that already have a wide range of fresh food products

## Satudora and Coop Sapporo signs an alliance agreement

### サツドラホールディングス株式会社と生活協同組合コープさっぽろとの包括業務提携契約締結のお知らせ

平素は格別のお引き立てを賜り、厚く御礼申し上げます。  
生活協同組合コープさっぽろは、本日、サツドラホールディングス株式会社との包括業務提携契約を締結いたしましたので、下記のとおりお知らせいたします。

記

#### 1. 業務提携の背景及び目的

両者は、それぞれが持つ知識・技術・経験・資源等を提供し合い、相互に協力して北海道経済の活性化及び双方のお客さま及び組合員をはじめとする道民の皆さんの利便性向上に資する事業に取り組み、また、開発し、この実現により両者の企業・事業価値向上を図ることを目的とします。

#### 2. 業務提携の内容及び範囲

新たに設置する任意団体『北海道 MD 機構 (略称 HMD)』のもと、以下に取り組みます。

- (1) 取扱い品目の商流及び物流
- (2) 商品開発

## Welcia conducts joint development of stores with Aeon-related supermarkets

### ウエルシアHDとイオン九州が合弁会社設立 フード & ドラッグの新業態展開へ

2022/09/02 05:55

# ドラッグストア (DgS)

# ウエルシア

# イオン九州

# スーパーマーケット

雪元 史章 (ダイヤモンド・チェーンストア 副編集長)

📌 クリップ

👁️ 0

👍 いいね! 4

🔗 シェアする

🐦 ツイート

👛 Pocket

衝撃のニュースが舞い込んできた。ウエルシアホールディングス (東京都: 以下、ウエルシアHD) とイオン九州 (福岡県) は9月1日に共同記者会見を開き、同日付で2社の合弁企業、イオンウエルシア九州 (福岡県) を設立したことを発表した。同社は今後、ドラッグストア (DgS) であるウエルシアHDと、食品スーパー (SM) ・総合スーパー (GMS) を主軸とするイオン九州それぞれの知見とノウハウを生かした新業態の開発・出店を進めるといふ。イオン (千葉県) グループ傘下の上場企業同士が共同企業体 (JV) を設置するという異例の動き

# **Oasis believes forming a comprehensive alliance with large-scale firms is a better strategy for Aoki than the current small-scale M&A**

## **Financial constraints**

Kusuri No Aoki's balance sheet is already levered and has limited room for further investments compared to its competitors.

## **Opportunity constraints**

M&A cannot be done unless the target companies are "in play". To create a complete network through a series of small-scale M&A may take a lot of time.

Kusuri No Aoki itself is proving this because it keeps acquiring companies which have fewer than 10 stores.

## **Risks of human resource turnover**

In general, there are HR risks when it comes to M&A. There are inherent risks of losing specialist personnel even when the M&A was to be conducted to obtain a specific capability.

## **Loss of economies of scale**

By acquiring only smaller-scale supermarkets, it will be difficult to maximize economies of scale, as it is difficult to establish a large-scale fresh products network in a broad area by acquiring only small companies.

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4. Summary

## **Appendix**

Appendix 1. Aoki's current strategy and challenges

## **Appendix 2. Failures in dialogue with shareholders**

Appendix 3. Overview of the industry and need for consolidation



# Kusuri No Aoki Has Refused to Arrange Meetings between Oasis and Its Board Members. The Meeting with a Director Was Finally Set after Oasis Pointed out Issues Directly to Outside Directors

## The history of rejection of meetings by Kusuri No Aoki's internal directors

- November 17<sup>th</sup>, 2022 : Oasis sent proposals via e-mail and requested a meeting with Mr. Hironori Aoki (CEO). The request was rejected.
- February 7<sup>th</sup>, 2023 : A meeting with the deputy head of corporate strategy division was held based on our letter sent in November 2022. Oasis requested a meeting with the CEO once again. According to the Company, deputy head of corporate strategy division is in charge of IR, and he handles all investor meetings, and our request was rejected again.
  - We engaged based on the letter we sent, but ultimately could not have a very productive dialogue, as most of deputy head of corporate strategy division's answers were: "I will check with my boss".
- April 28<sup>th</sup>, 2023 : Oasis requested a meeting with the CEO and Mr. Yahata (head of IR, board member) once again during the meeting with the deputy head of corporate strategy division. Both requests were rejected again.



## Reactions since Oasis involved outside directors

- May 24<sup>th</sup>, 2023 : Oasis sent a letter directly to outside directors, noting our concerns about the Company's attitude towards its shareholders. A meeting with an internal director was subsequently arranged.
- The Company explained that previous actions taken by the Company did not mean that the Company rejected requests for meetings with internal directors.
- However, the Company said it had failed to set up meetings between Oasis and outside directors for the following reasons:
  - *"In the corporate governance report, we disclose that corporate strategy division is in charge of IR and we do not set opportunities for discussions with outside directors and audit members. In order to treat shareholders and investors equally, we believe it is difficult to set up meetings with outside directors."*

# Kusuri No Aoki's IR Team said Its Board Members Do Not Have Meetings with Investors and Do Not Receive Any Direct Feedback

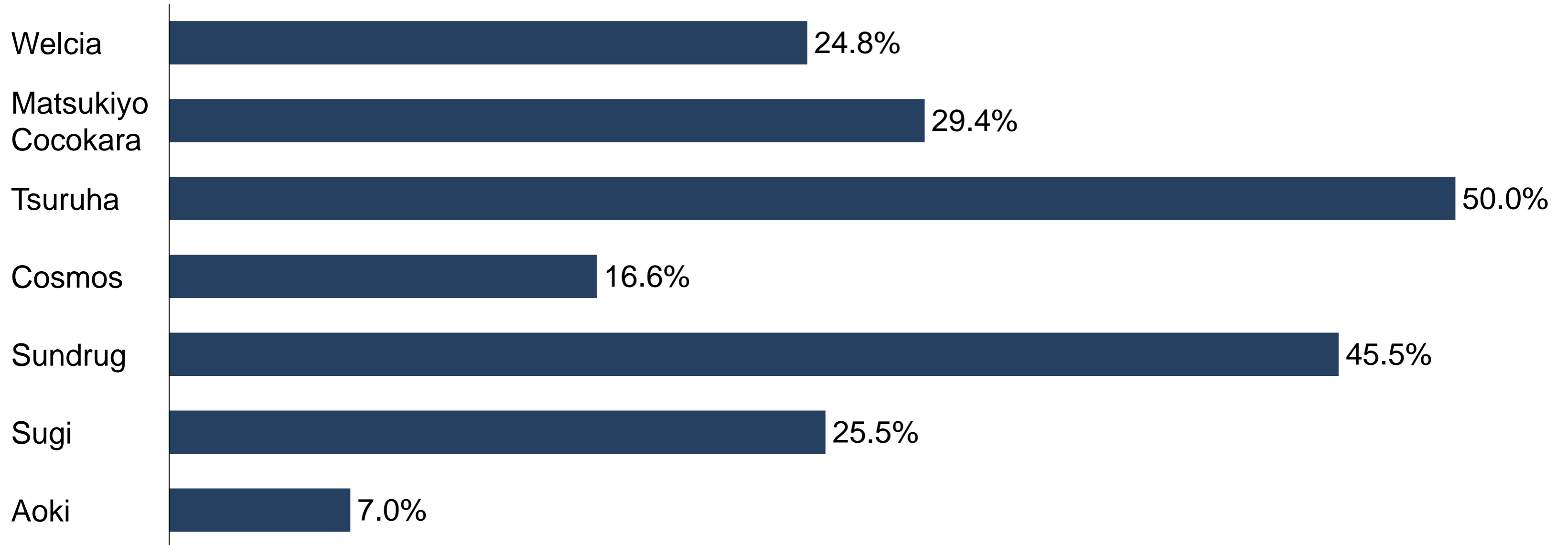
## Statement by Kusuri No Aoki's IR team



*In Principle, both Mr. Hironori Aoki (CEO) and Mr. Yahata (head of IR, board member) do not have meetings with investors and this is not limited to Oasis. In addition, they do not receive any direct feedback from investors.*

# Kusuri No Aoki's Shareholder Return Is One of the Lowest among Peers, as Its Strategy and Capital Policy reflect no shareholder input

## Dividend payout ratio of drugstore companies; top 7 companies by sales, last FY



# Aoki Has No Nomination and Compensation Committee and No Lead Independent Director – Important Protections for Minority Shareholders

## Extract from Kusuri No Aoki's Corporate Governance Report

【原則4.8. 独立社外取締役の  
【補充原則4.8.1.】 No regular meeting among  
outside directors

当社の独立社外取締役は、その豊富な知見を活かして、客観的な立場から取締役会における議論に貢献しております。当社は、現時点では独立社外者のみを構成員とする定期的な会合は開催していませんが、今後は、独立社外者要望等を踏まえ、その要否を検討してまいります。

【補充原則4.8.2.】

社外取締役は、取締役会において積極的に議論に参加し、活発な意見交換を行っており、また、当社の総務部門が補助することで経営陣や監査役又は監査役会と連携が十分図れていると考えているため、筆頭独立社外取締役を置く予定はありません。

【原則4.10. 任意の仕組みの活用】

【補充原則4.10.1.】

当社では、取締役の報酬及び指名等の事項を審議する任意の諮問委員会等は設置していません。ただし、取締役の候補者指名については、代表取締役社長が取締役会で候補者の選任基準や各候補者の経歴、有する知見等について十分に説明し、社外取締役及び社外監査役も交えて審議して決定しております。取締役の報酬についても、業績連動に十分配慮し、社外取締役や社外監査役も加わる取締役会で、報酬決定や改訂根拠を説明し月額報酬総額を決定するようにしております。

No lead outs

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3. Details of Oasis's proposals

4. Summary

## **Appendix**

Appendix 1. Aoki's current strategy and challenges

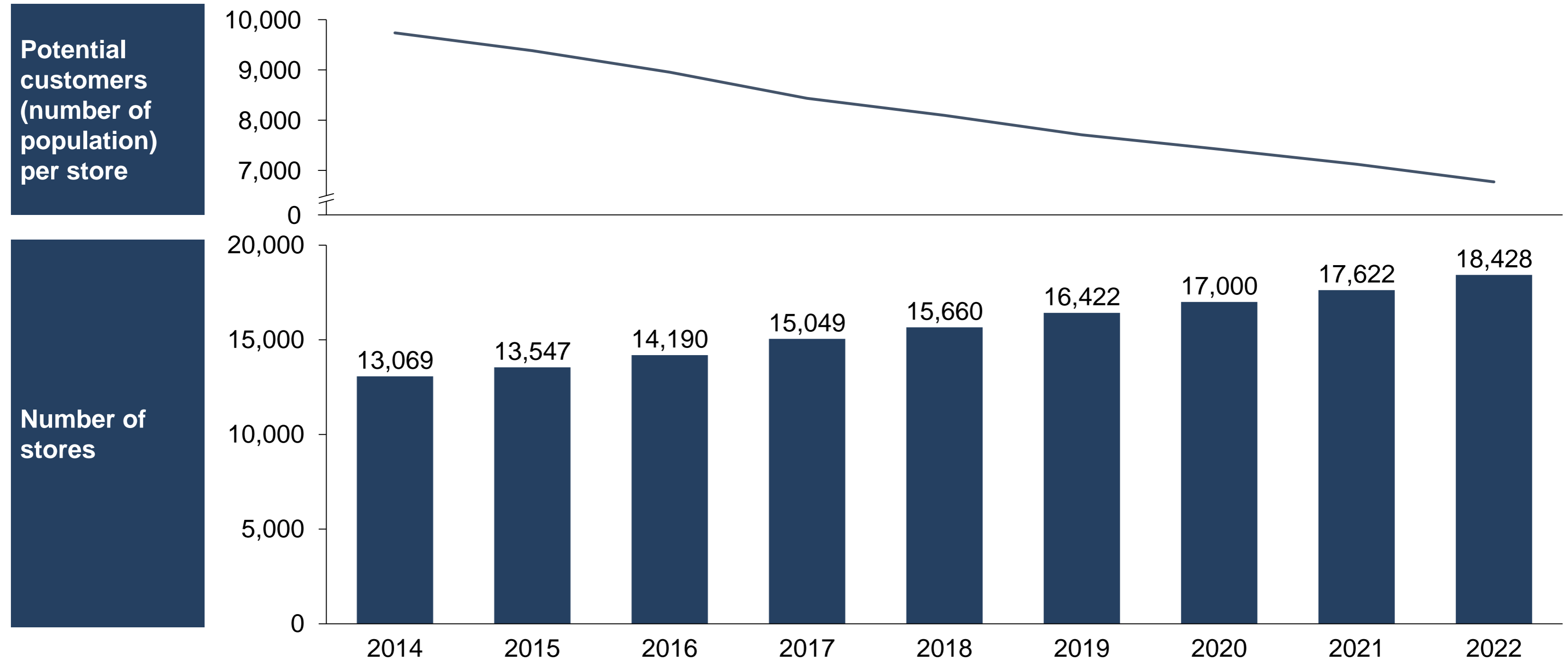
Appendix 2. Failures in dialogue with shareholders

## **Appendix 3. Overview of the industry and need for consolidation**

### **Appendix 3.a. Increasingly challenging market environment**

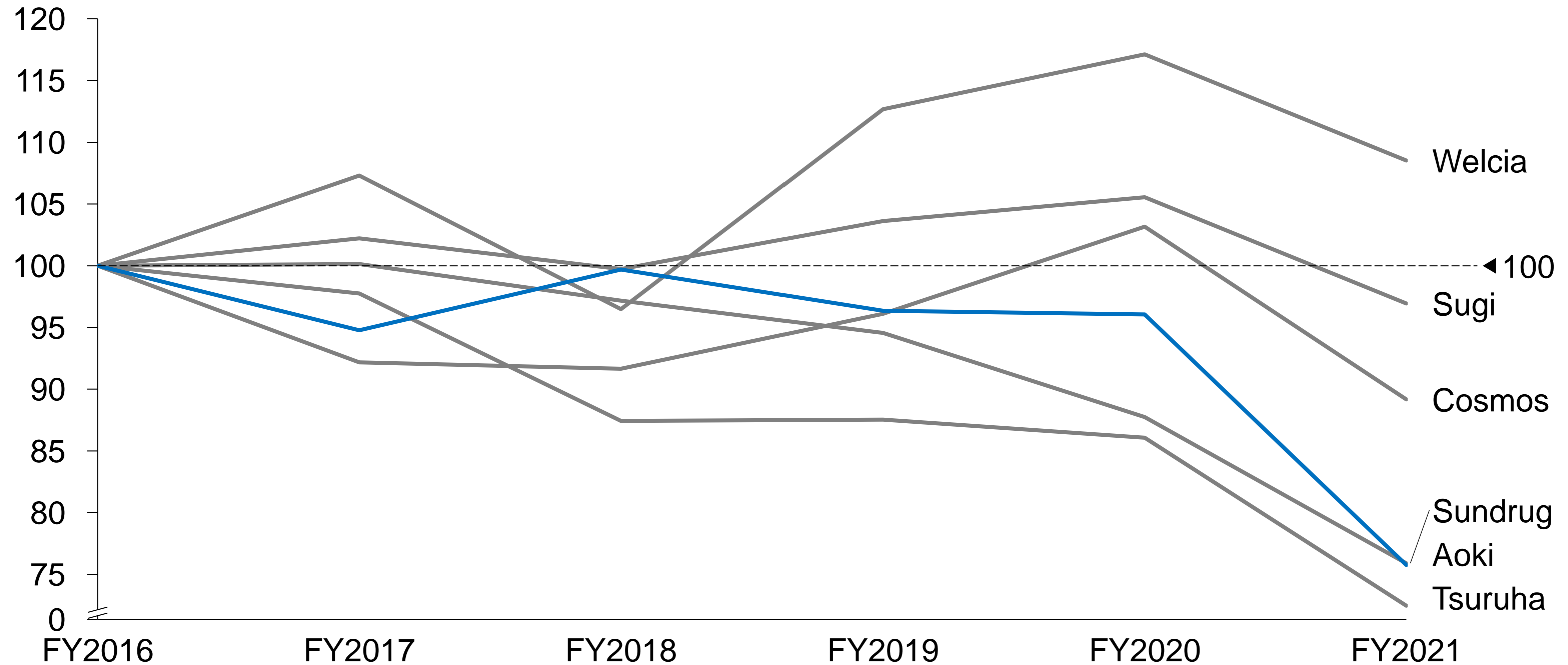
Appendix 3.b. Examples of corporate value enhancement through consolidations

# Due to increasing stores, potential customers per store have decreased significantly



# In most drugstores, the operating profit per floor area has decreased, and the importance of operational excellence to secure profitability is more important than ever

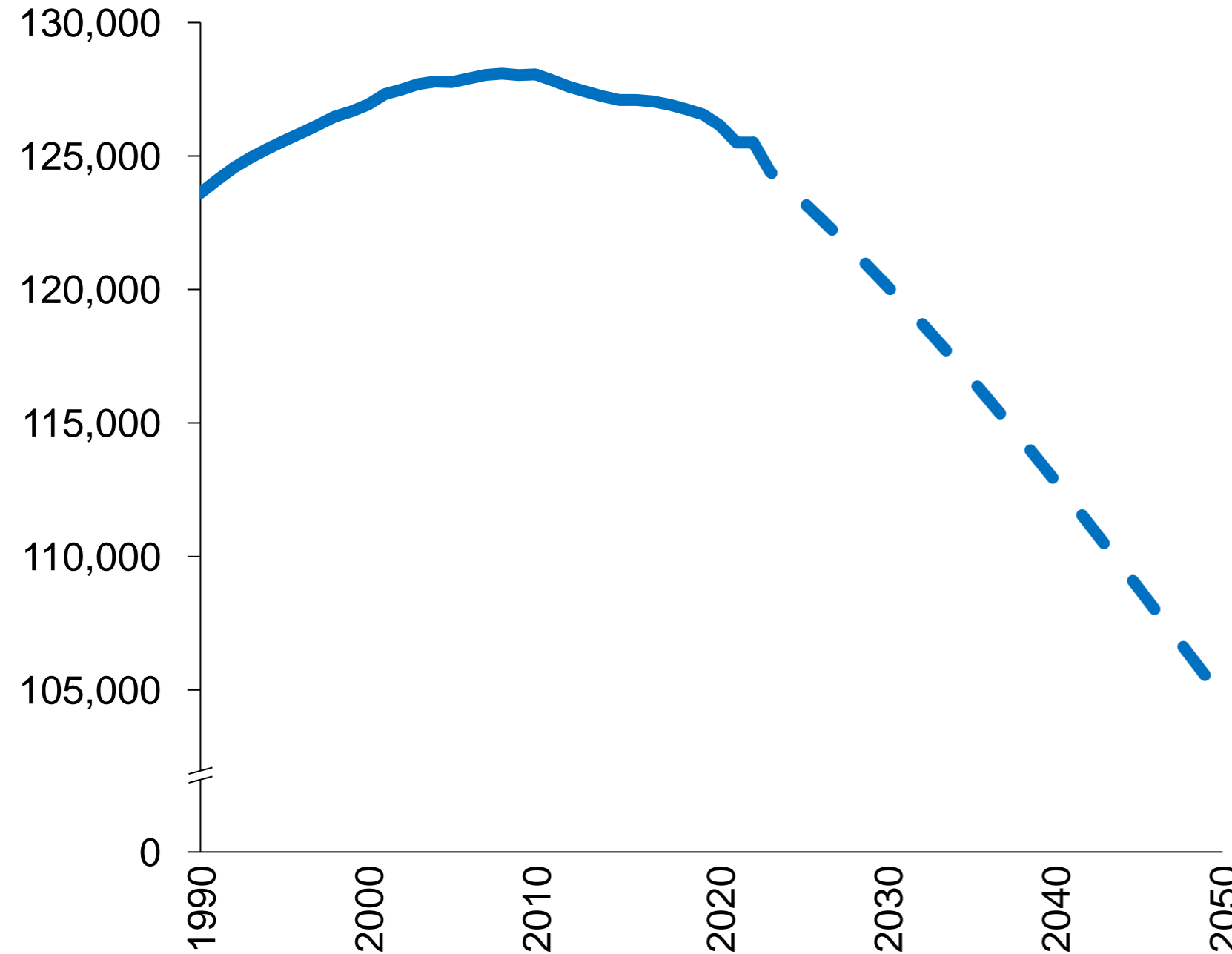
## Operating profit per floor area<sup>1</sup>; FY2016 as 100



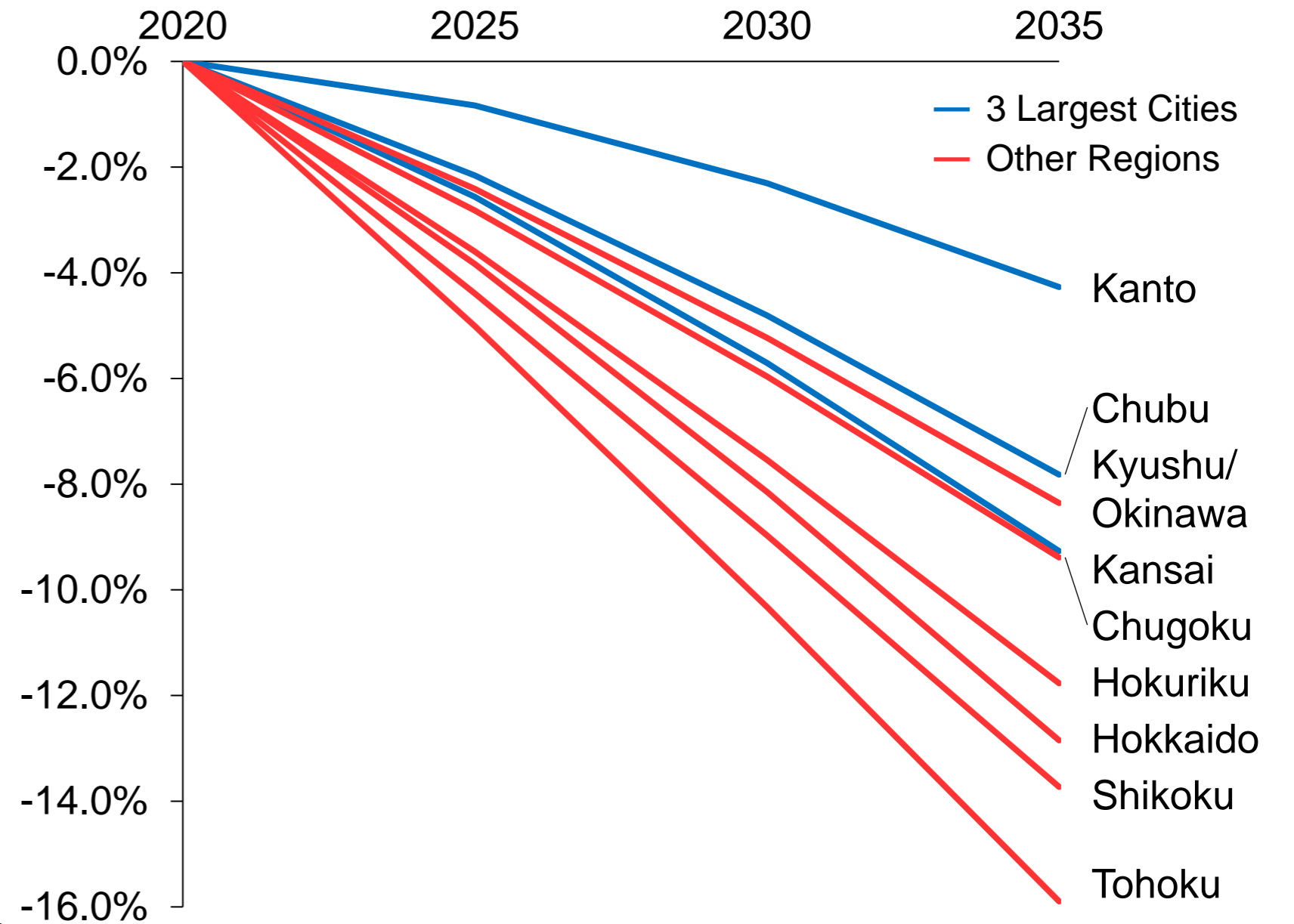
1: Floor area not disclosed in MatsukiyoCocokara  
Source: company disclosures

# An inevitably deteriorating business environment, especially in rural areas, due to declining population, is the most important macro factor for retail sales

**Japan population trends; thousand**



**Population estimate by region; 2022=0**





# From a cost standpoint, several factors necessitate a response from the retail industry regarding wage hike requests. Enhancing profitability is crucial to secure funds for these increases promptly

## Macro Environment

- The decline of Japan's working-age population, which has been steadily declining since 1995, is accelerating
- By 2030, there is **a projected shortage of 6~9 million workers**, according to multiple studies

## Wage increases by retailers

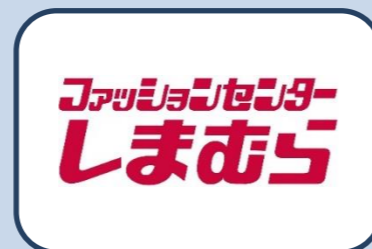
- Industry giants are aggressively raising wages, especially this spring, in order to secure high level talent



**Average increase of 7%** in hourly wage for part-time employees in the Group



**Up to 40%** wage increase. **18~36%** increase, for new graduate and younger employees.



**6.5% increase** for full-time employees and **5.2%** for part-time employees

## Government Policy

- The government is also proactively asking companies to respond to wage increases

Requests made by PM Kishida on wage increases:



*"I ask companies for **wage increases that exceed inflation rates**"*



*"**Wage increases that are in line with workers' capability is directly related to a company's competitiveness**"*



*"The outlook for the Japanese economy will depend on how wage increases are implemented this year"*



*"We want to encourage wage increase efforts"*

# In the short term, rising utility costs are weighing on the retail industry, especially firms lacking scale, testing their capability to make profits

Nikkei article; May 17, 2023

小売り・外食80社、3～8月販管費1割増 光熱費負担重く

業績ニュース

2022年10月24日 20:29 (有料会員限定)

保存

あA 印刷 共有 共有 共有 共有 共有



Olympicグループは巣ごもり消費需要がなくなったことと光熱費増のダブルパンチに

小売り・外食企業で販売費・一般管理費の増加が業績を圧迫している。2022年3～8月期の主要80社の合計額は前年同期比で1割増えた。円安やエネルギー資源価格上昇で光熱費が膨らんだ影響が大きく、人件費や広告宣伝費などを削りにくい中小規模の企業ほど利益を目減りさせている。電力使用量の削減などを進めるものの、光熱費は高止まりする公算が大きく、今後も重荷となりかねない。

日経NEEDSのデータを基に2月期決算の小売り・外食主要80社を対象に集計したところ、22年3～8月期の販管費は前年同期比9.8%増の5兆1972億円だった。伸び率としてはアベノミクス下で円安が進行した14年に10%増えて以来の高水準だった。

売上高が1000億円以上の相対的な大企業と、1000億円未満の小規模企業で見ると、小規模企業で売上高に対する販管費比率の負担の大きさが目立つ。1000億円以上の26社は前年同期比1.6ポイント減の30%の一方、1000億円未満の54社の売上高販管費比率は41%だった。今期から適用している新たな収益認識基準の影響を考慮せず単純比較すると、小規模企業全体で1.0ポイント悪化した。

Article excerpt

*Increases in retail, general, and administrative expenses **are weighing on earnings** at retail and food service companies. The total cost of the 80 major companies in the March-August 2022 period increased by 10% y/y. **The depreciation of the yen and rising energy and resource prices** have had a major impact on utility costs, and small-mid scale companies that have had difficulty cutting labor costs and advertising expenses, **have seen greater declines in their profits**. Despite efforts to reduce electricity consumption and other measures, utility costs are expected to remain high and may continue to be a burden.*

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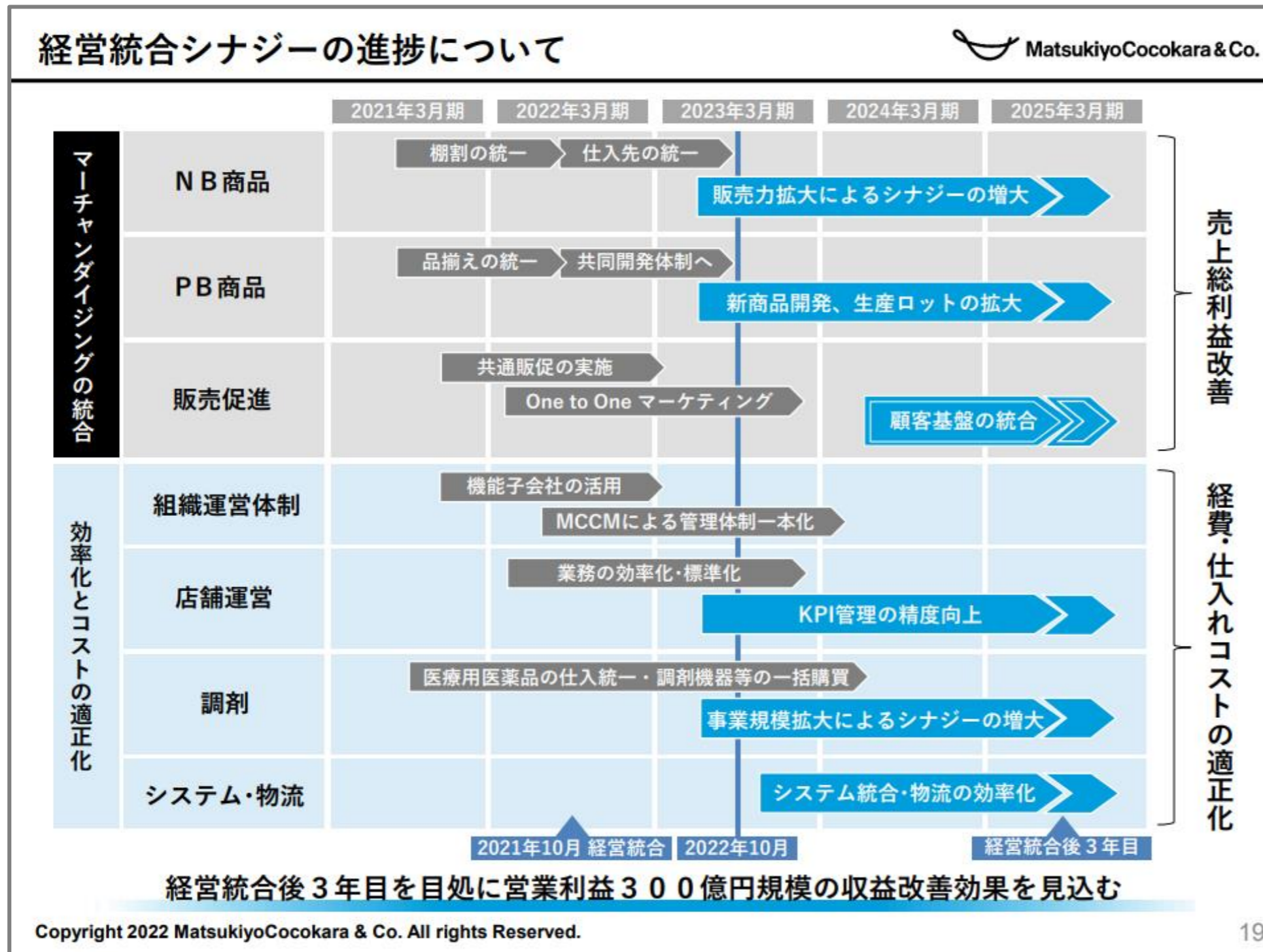
## **Appendix 3. Overview of the industry and need for consolidation**

Appendix 3.a. Increasingly challenging market environment

**Appendix 3.b. Examples of corporate value enhancement through consolidations**

# Consolidation generates enormous synergies. Operating margin is expected to increase by around 3 p.p. at MatsukiyoCocokara.

## Synergies between Matsukiyo and Cocokara



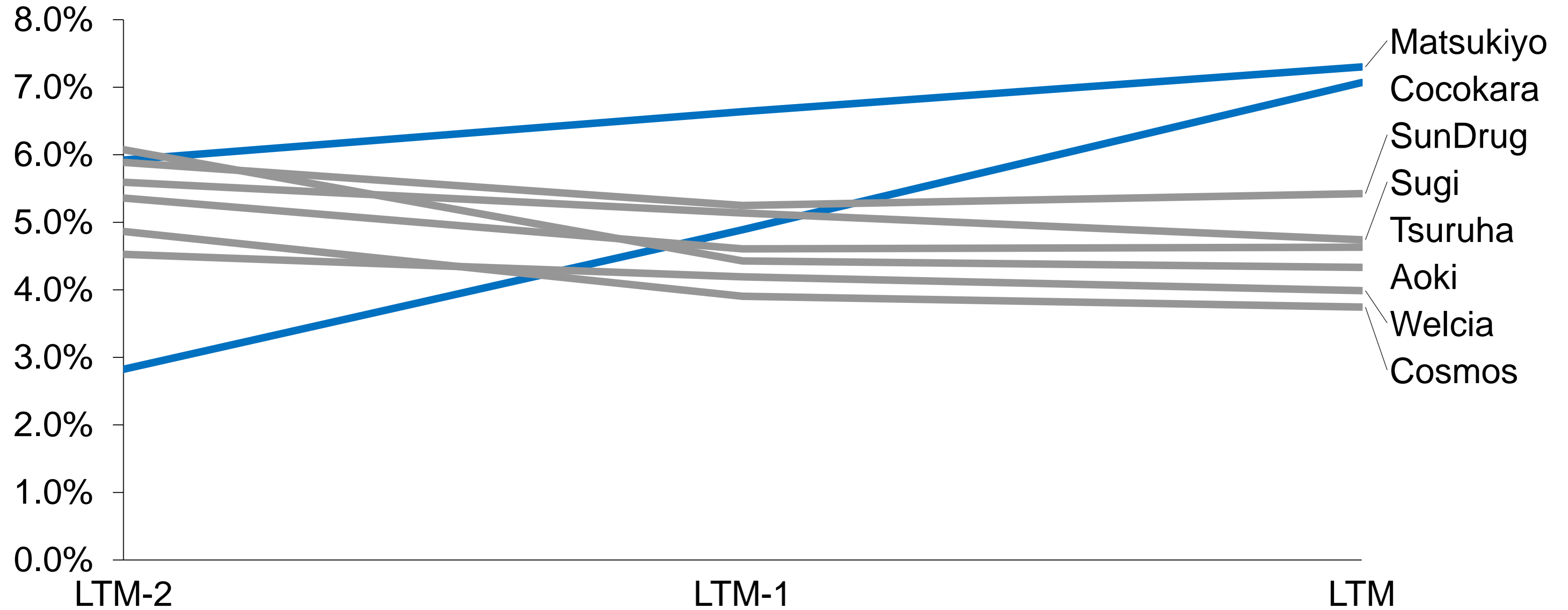
- MatsukiyoCocokara expects to improve profitability by 30 billion yen in operating profit through the merger



- The revenue of MatsukiyoCocokara in the past fiscal year was 951.2Bn JPY, and **the improvement in profitability equates to 3 p.p. in operating profits**

**While the OPM of ALL major drug stores declined in the past two years, the OPM of not only Cocokara, the target company, but also Matsukiyo, the acquirer, increased in this period**

**OPM of major drug companies; LTM-2 through LTM, as of 2023/7/30**



Source: Bloomberg; company disclosures

# Even Aoki admits that there will be more consolidation in the industry in its mid-term plan



# Multiple industry leaders have acknowledged there will be growing consolidation in the industry, especially in the rural areas of Japan

## Toyo Keizai Online Article;

December 1, 2019

The screenshot shows the top portion of a Japanese news article. At the top left is the logo '東洋経済 ONLINE' and the date '5月18日 (木)'. Below this is a navigation bar with categories like 'トップ', '連載・特集', '会員限定', 'ビジネス', '政治・経済', 'マーケット', and 'キャリア・教育'. The article title is 'ドラッグストアはいずれ「大手3社」に集約されていく' (Drugstores will eventually be consolidated into the top 3 major companies). Below the title is a sub-headline '業界首位ツルハホールディングスのトップが激白' (Top of the industry leader Tsuruha Holdings goes all out). The author is '若泉 もえな : 東洋経済 記者' and the date is '2019/12/01 17:00'. There are social media sharing buttons for Facebook, Twitter, and Email, along with a bookmark icon and a print icon. Below the text is a photograph of a man in a suit, identified as Masashi Horiuchi, CEO of Tsuruha Holdings.

## Article excerpt

*Within a few years, the drugstore industry will **consolidate to about three companies**... There are still about 10 drugstore groups that are loosely affiliated with each other. This is just my personal opinion, but I believe that they will be consolidated into about three groups.*

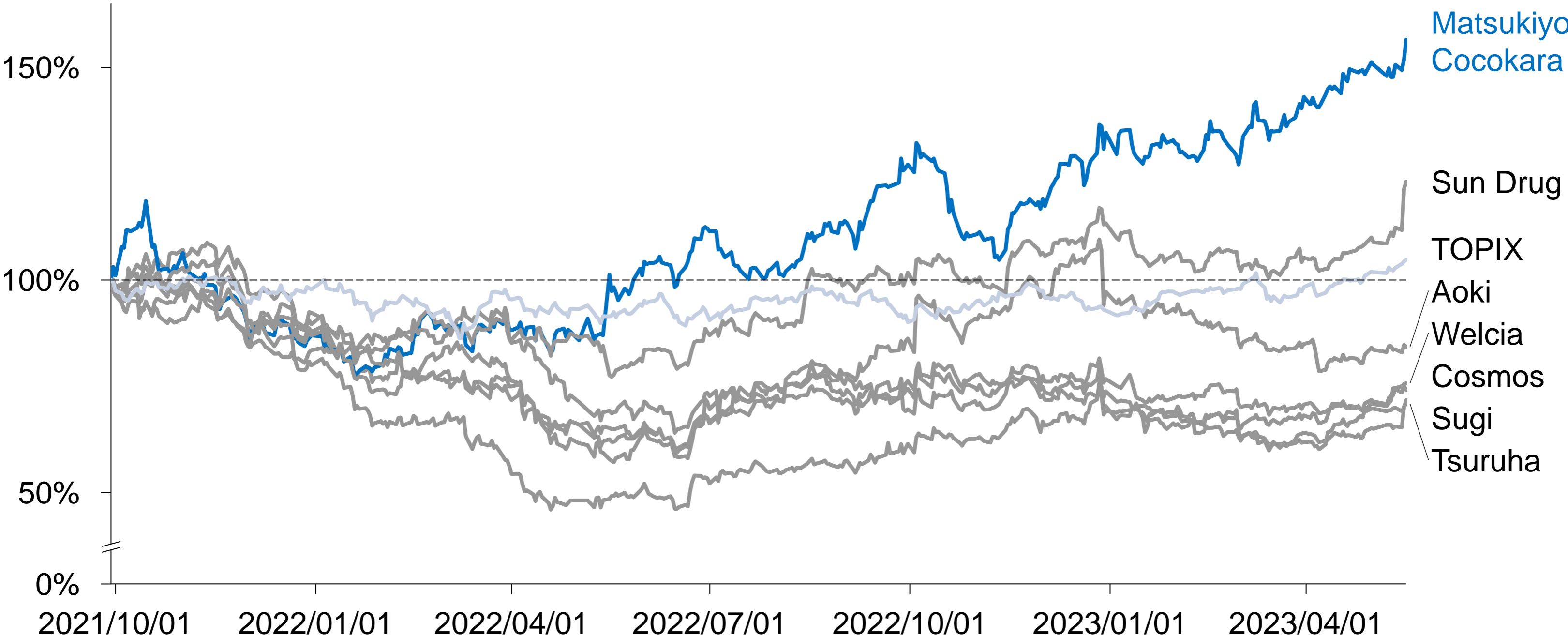
*Until now, in terms of company size, there has been M&A (mergers and acquisitions) where large companies were acquiring medium and small companies. But **from now on there will be M&A, in which large companies will acquire large companies as well. I believe the larger companies will work with other larger companies, and the groups will be consolidated.***

*I think the **local drugstores will start to struggle.***

# Following the merger, the stock price of MatsukiyoCocokara has significantly outperformed its competitors

## Stock prices of drugstore companies;

2021/9/29<sup>1</sup>=100%, until 2023/5/17<sup>2</sup>



1: MatsukiyoCocokara merger  
2: Day before Oasis's significant shareholder filing  
Source: Bloomberg



# In the near future, scale and efficiency will become increasingly important

01

## Private Brands ("PB"s)



- To create high-quality private brands, scale is essential in terms of product development abilities and negotiations with manufacturers

02

## Fresh Produce



- Store density for logistics efficiency will be crucial for temperature-controlled delivery
- In terms of scale, the cost burden will vary greatly depending on whether there are supermarkets or other store formats within a company's group

03

## DX Investment



- In DX investments, where economies of scale are highly effective, companies with strength in corporate capital will increasingly gain a competitive advantage in areas such as app development, e-commerce and same day delivery and others

04

## Logistic Costs



- As logistics costs continue to rise, store density will become increasingly important to control logistics costs, not only for fresh produce but also for general logistics

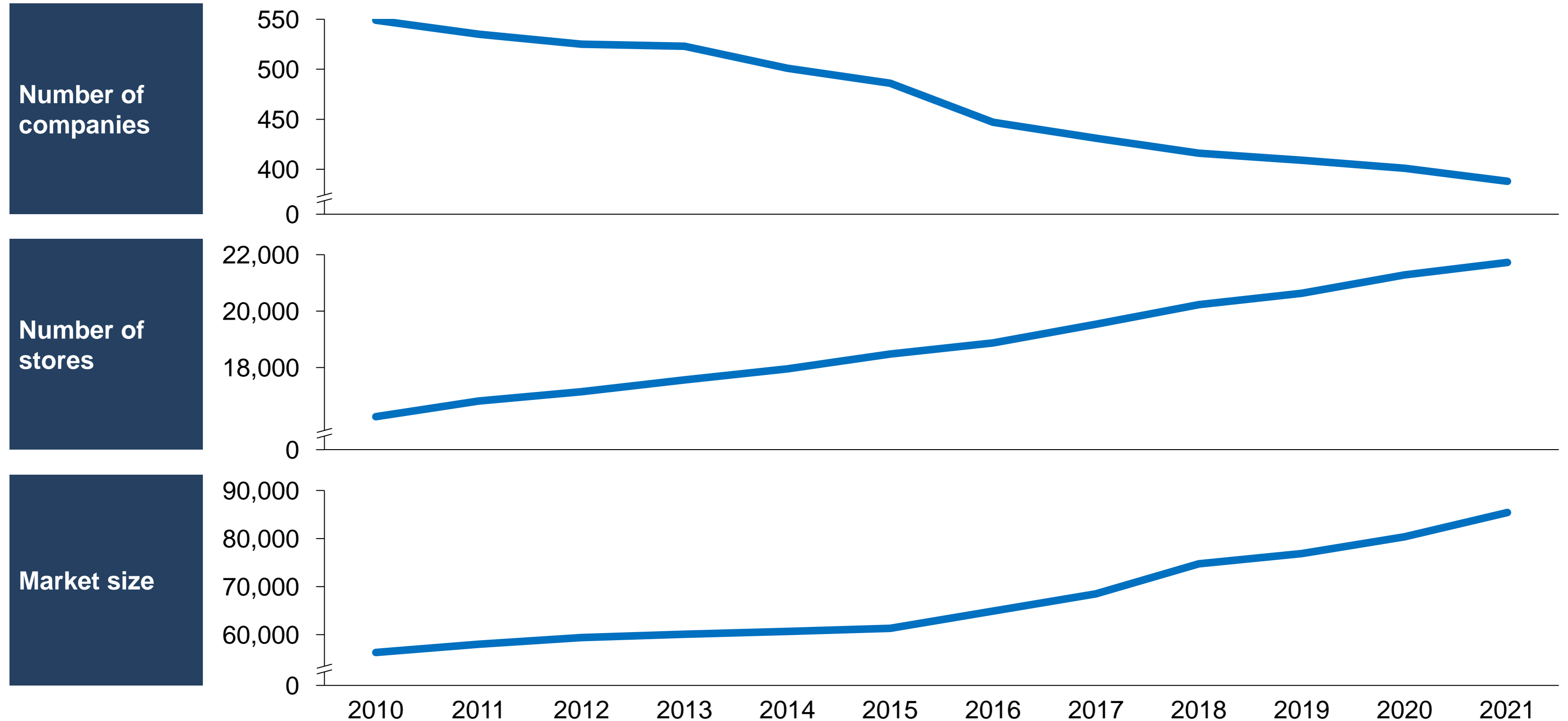
05

## Wage Increase



- Rising personnel costs and wage increase demands call for increased corporate scale and efficiency to meet these requests and adequately reward employees

# While the industry has grown significantly in the past decade, the number of companies has shrunk significant consolidation



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