

**TSURUHA
HOLDINGS**

**ツルハ
グループ**

**Oasis's additional material following
“Explanatory Material for the Board of Directors’ Opinion on the
Shareholder Proposal”
by Tsuruha Holdings, Inc.**

July 19, 2023

Summary: Oasis urges Tsuruha shareholders to stay informed and exercise caution against misleading and false disclosures by Tsuruha

- On June 21, 2023, Oasis launched the [“Tsuruha Corp Gov” campaign](#) highlighting governance concerns at Tsuruha. Through the campaign, we urge shareholders to support proposals that will strengthen the Company’s corporate governance, including the appointment of independent director candidates, to enhance its corporate value
- On July 7, 2023, Tsuruha’s Board of Directors announced it opposed all of Oasis’s shareholder proposals, stating that *“Oasis’s claims are misleading and an arbitrary manipulation of impression (image)”*
- **In fact, Oasis contends that Tsuruha’s “explanatory materials” are misleading and riddled with false claims to manipulate the views of its shareholders and wider stakeholders**
- Oasis maintains **its strong belief that the outside director candidates proposed by Oasis are better qualified, more independent, and more diverse compared to Tsuruha’s current outside directors. Oasis strongly urges shareholders to vote FOR the Oasis proposals.**

Don't be deceived by Tsuruha's attempts to distract from the real governance issues

Overview

- Tsuruha states that “*Oasis's claims are misleading*”. However, Oasis contends that Tsuruha’s “explanatory materials” are misleading and riddled with false claims

Dialogue with Tsuruha regarding the shareholder proposal

- Prior to submitting its shareholder proposals, Oasis notified Tsuruha that it may send a shareholder proposal and answered questions from Tsuruha. Tsuruha thus misleads its shareholders that Oasis has made its shareholder proposals “suddenly” and “without any explanation”

Tsuruha's stock price and business performance

- Tsuruha's management has remained largely unchanged over the mid-to-long term, making it crucial to evaluate their performance over the mid-to-long term. However, Tsuruha selectively highlights the announcement of its latest mid-term plan following a significant stock price decline, misleading shareholders into believing that the stock price has performed well
- Additionally, Tsuruha misleads shareholders by attributing its underperformance in profit metrics and valuations to a single-year issue, despite consistent underperformance compared to its competitors in recent years

Independence and capability of outside directors

- False disclosures regarding North Pacific Bank, claiming it was never the biggest lender to Tsuruha, while it actually was from 1998 to 2001
- Misleading argument regarding Ms. Harumi Sato's independence “standards” rather than discussion of her effective and substantial independence
- Mr. Okazaki's expertise thought to be not in corporate law, but rather, in serving as bankruptcy trustee and in traffic accident cases

Rationale for opposing Oasis's shareholder proposals

- Tsuruha's inconsistent rationale for opposing Oasis's proposals suggests opposition for the sake of opposition
- Tsuruha's management demonstrates a lack of understanding of the need and roles of outside directors

Other issues

- Misleading statements fall short of corporate governance best practices, raising further concerns

To fix the corporate governance failures at Tsuruha, Tsuruha needs new, highly qualified, truly independent, and diverse outside directors

Failures in corporate governance at Tsuruha

<p>Independence and capability of outside directors</p>	<ul style="list-style-type: none"> ▪ Non-independent outside directors, such as those who have longstanding relationships with the founding families, or those coming from former main banks ▪ Outside directors who lack key capabilities, such as retail experience, or lawyers whose expertise is not thought to be in corporate law
<p>Control by founding families</p>	<ul style="list-style-type: none"> ▪ Control of key positions by the founding families, at both the parent and subsidiary companies, and hindered appointment and utilization of non-founding family members ▪ Continued influence by the founding family members, who have not won the support of the shareholders of the parent Company, through director roles at subsidiaries, where there is no shareholder oversight ▪ Lack of synergies between subsidiaries due to the need to keep “kingdoms” for each founding family ▪ Multiple related party transactions
<p>Failure in business</p>	<ul style="list-style-type: none"> ▪ Low profitability, underperforming stock price, low valuation, low wage increases due to the above
<p>Misleading and false disclosures</p>	<ul style="list-style-type: none"> ▪ Multiple misleading and false disclosures

Proposed director candidates

<p>Company proposed outside directors</p> <p>Vote AGAINST incumbent outside directors</p>	<div data-bbox="1599 440 1732 562"></div> <p>Ms. Harumi Sato</p> <ul style="list-style-type: none"> ▪ Relationship with the Tsuruha family for more than ten years <hr/> <div data-bbox="1599 647 1732 769"></div> <p>Mr. Takuya Okazaki</p> <ul style="list-style-type: none"> ▪ Relationship with Mr. Jun Tsuruha, who has relationship spanning more than two decades with Tsuruha ▪ Expertise thought to be in bankruptcy trustees and traffic accidents, not corporate law <hr/> <div data-bbox="1599 853 1732 975"></div> <p>Mr. Fumiyo Fujii</p> <ul style="list-style-type: none"> ▪ From North Pacific Bank, the Company's former main bank ▪ False disclosures regarding relationship with North Pacific Bank ▪ Long tenure of eight years 	<div data-bbox="2399 440 2532 562"></div> <p>Ms. Wakana Tanaka</p> <hr/> <div data-bbox="2399 647 2532 769"></div> <p>Mr. Hiroshi Okuno</p> <ul style="list-style-type: none"> ▪ Believed to be nominated with the main purpose of filling vacant seats against Oasis's proposals ▪ Neither candidate has relevant retail experience
<p>Oasis proposed outside directors</p> <p>Vote FOR</p>	<div data-bbox="1599 1059 1732 1181"></div> <p>Mr. Motohiko Nakamura</p> <ul style="list-style-type: none"> ▪ Wide business and management experience in retail sector, such as at Circle K Sunkus and Uny group holdings <hr/> <div data-bbox="1599 1266 1732 1388"></div> <p>Mr. Muneto Tamagami</p> <ul style="list-style-type: none"> ▪ Wide business and management experience in retail sector, such as Nitori ▪ Expertise in finance and M&A from experience in banking and at Nitori <hr/> <div data-bbox="1599 1472 1732 1594"></div> <p>Ms. Akiko Ikeda</p> <ul style="list-style-type: none"> ▪ Wide business and management experience in retail and consumer sectors, such as Ito Yokado and multiple restaurant chains 	<div data-bbox="2399 1059 2532 1181"></div> <p>Mr. Nobuo Gohara</p> <ul style="list-style-type: none"> ▪ Japan's leading expert on compliance and crisis management, with deep knowledge on corporate governance <hr/> <div data-bbox="2399 1266 2532 1388"></div> <p>Ms. Yuko Nakahata</p> <ul style="list-style-type: none"> ▪ Business and management experience not only in Japan but also in South East Asia ▪ Substantial experience in ESG, through experience in ESG related business

Communication with Tsuruha on shareholder proposal

Tsuruha's stock price and business performance

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Rationale for opposing Oasis's shareholder proposal

Other matters

Conclusion



“Tsuruha and Oasis have met multiple times since July 2020, but the information contained in this shareholder proposal **has never been specifically pointed out to us.**”

“**A shareholder proposal was suddenly submitted**, but no detailed explanation was given by the shareholder, and it does not seem to have intentions of improving the Company's corporate value.”

- During a meeting on April 14, 2023, President Jun Tsuruha engaged in a conversation with Seth Fischer, (Chief Investment Officer of Oasis) who expressed his **belief in the potential for enhancing the current composition of the Board of Directors. Fischer indicated his potential willingness to propose candidates for the Board**, to which President Jun Tsuruha responded that such a proposal would be considered by the Nomination and Compensation Committee
- Furthermore, during routine IR meetings, Oasis specifically asked about the rationale behind recruiting individuals from the Hokkaido business community and their independence from Mr. Makoto Murakami, a member of the Nomination and Compensation Committee. In response, Mr. Makoto Murakami stated, “We choose candidates who come from the Hokkaido business community and possess a “certain level” of connection with the management team, such as attending certain conferences or sharing mutual acquaintances. However, we ensure their independence.”
 - In its disclosure material, Tsuruha states that “The Company has never considered the birthplace of its employees when considering candidates, and OASIS’ allegation is rather shocking. In fact, at this General Meeting of Shareholders, the Company appointed candidates from outside Hokkaido who would contribute to enhancing the Company’s corporate value.” As previously mentioned, Oasis raised the issue with Mr. Makoto Murakami, a member of the Nomination and Compensation Committee, regarding the appointment of a director from the Hokkaido business community. In our view, considering our prior engagement on the matter, statements by the Company that they found our claims “shocking”, which have been shared directly with them previously, is “shocking”
- **Following the submission of the shareholder proposal, an Oasis representative had a phone conversation with Mr. Makoto Murakami, a member of the Nomination and Compensation Committee and a member of the three founding families. During the call, Mr. Murakami stated, “Since you have officially submitted a shareholder proposal, we prefer to communicate solely through email, excluding phone or other means of communication.” Subsequently, Oasis has acquiesced to this request and has not engaged in any dialogue except through email**
- **In an extensive eight-page letter, we diligently and sincerely provided a detailed response to the inquiries** posed by Tsuruha’s board of directors concerning the Oasis shareholder proposal. **Additionally, we explicitly expressed our willingness to address any further queries or concerns to the best of our ability, both within the letter and on the accompanying email**

Misleading

- While Oasis does not assert that its explanation on its shareholder proposal is perfect, Oasis takes pride in providing a significant level of prior notice and explanation. **Presenting the situation as if Oasis is unwilling to clarify or participate in dialogue is misleading and manipulative, considering that it is Tsuruha that has proposed to limit communication to email**
- **Oasis is eager to continue a meaningful dialogue with the company in all formats, including in person meetings**

Misleading

Status of Dialogue with OASIS 1/2



- ❑ The Company and OASIS have met multiple times since July 2020, but nothing specific was pointed out about what was in the Shareholder Proposal.
- ❑ **Suddenly, the Shareholder Proposal was submitted, but** no detailed explanation was given by the Shareholder, suggesting that the Proposal was not intended to increase the Company's corporate value.
- ❑ OASIS' s allegation that **the Company has "rejected the voices of shareholders" is untrue**, and is nothing other than a **misleading or arbitrary distortion**.

Timing	Overview	Details
July 2020 to September 2022	Conducted IR Interviews regularly	✓ Conducted regular IR Interviews on the Company's performance and environment for multiple times
October 3, 2022	Received a letter	✓ Received allegations that the Company's lack of focus on key areas, low profit margins and poor governance make it difficult for investors to forecast long-term growth of the Company, resulting in the Company' s low TSR
November 7, 2022	Held a meeting	✓ Discussed the letter received in October at the meeting
December 27, 2022	Request for a meeting	✓ Request to meet with President Tsuruha about the contents of the letter
January 11, 2023	The Company coordinated the date and time for the meeting	✓ Fixed the meeting date (March 7)
January 26, 2023	Request for a regular IR Interview	✓ Fixed the interview date (February 14)
February 14, 2023	Conducted IR Interview	✓ The IR meeting on the Company' s business results was held , but the October 2022 letter was not mentioned
February 15, 2023	A sudden request to reschedule	✓ Received an email to reschedule as Seth Fischer' s schedule could not be accommodated (to be interviewed on April 14 after rescheduling).
March 28, 2023	Request for a regular IR Interview	✓ Fixed the interview date (April 11)
April 11, 2023	Conducted IR Interview	✓ Conducted an IR Interview regarding the Company's performance, etc., but no mention of October 2022 letter
April 14, 2023	Held a meeting	✓ Discussed the October 2022 letter for the first time ✓ No mention of Shareholder Proposal
May 2023	Questions received	✓ Received multiple questions on governance in the Company and answered appropriately
Early June 2023	Shareholder Proposal Received	✓ Suddenly Shareholder Proposal delivered to the Company without any prior consultation
Late June 2023 to present	Exchanges of questions	✓ Questions are still exchanged after the submission of the Shareholder Proposal, but no explanation of the details of the Proposal

- The letter we sent to Tsuruha was comprised of four sections – (1) Background and TSR; (2) efforts on strategic areas; (3) merger with peers and (4) corporate governance reforms
- In the material, Tsuruha intentionally leaves out our proposal on merging with peers, **to mislead and support its claims** that many of Oasis' claims are "sudden"
- The material states that in the meeting held on November 7, 2022, there was a discussion on the letter we sent, while in the meeting on April 14, 2023, the material states, "First discussion conducted regarding the letter" which is **contradictory and misleading**

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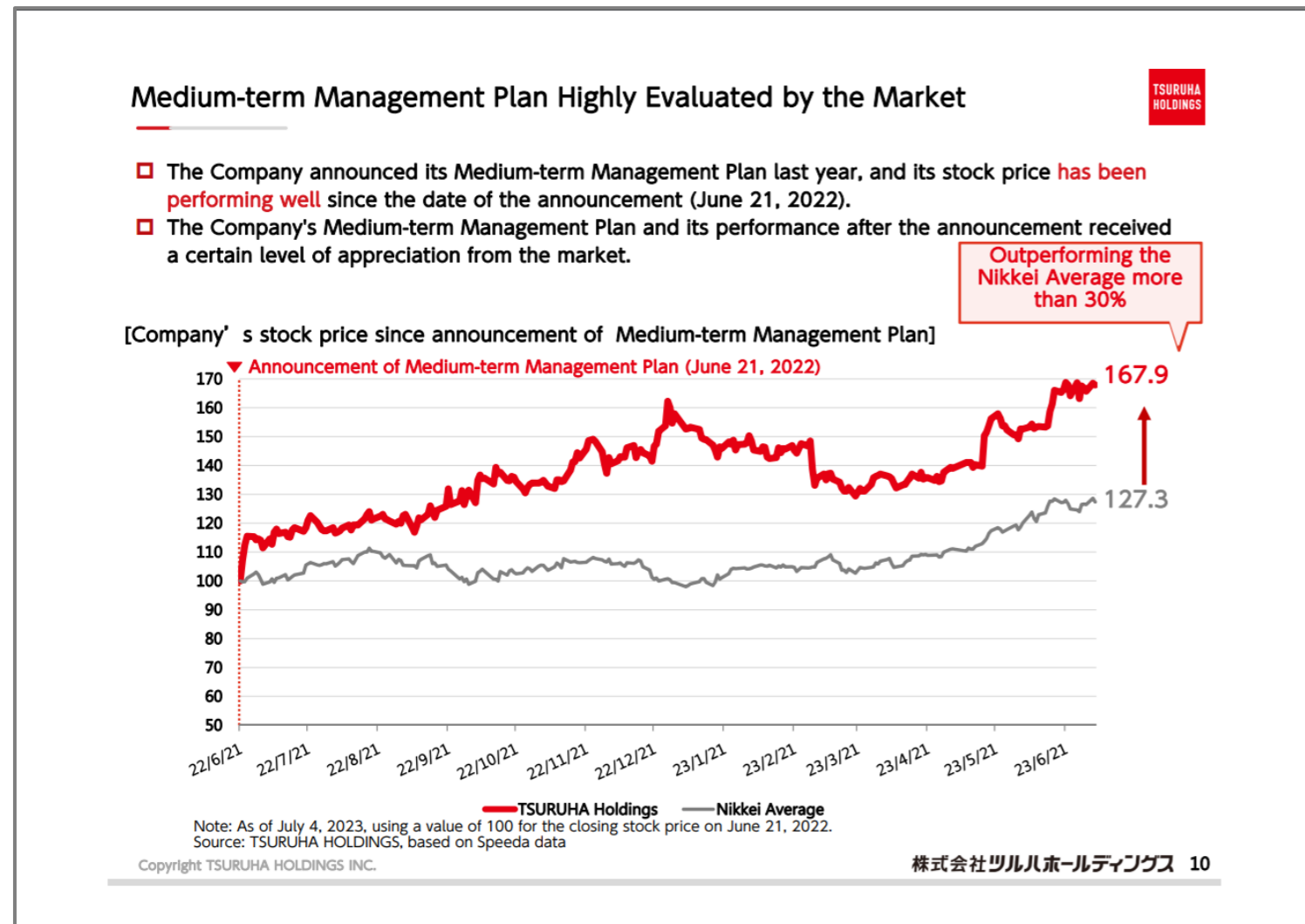
Conclusion

Tsuruha takes issue with the start date in our historical stock price chart...

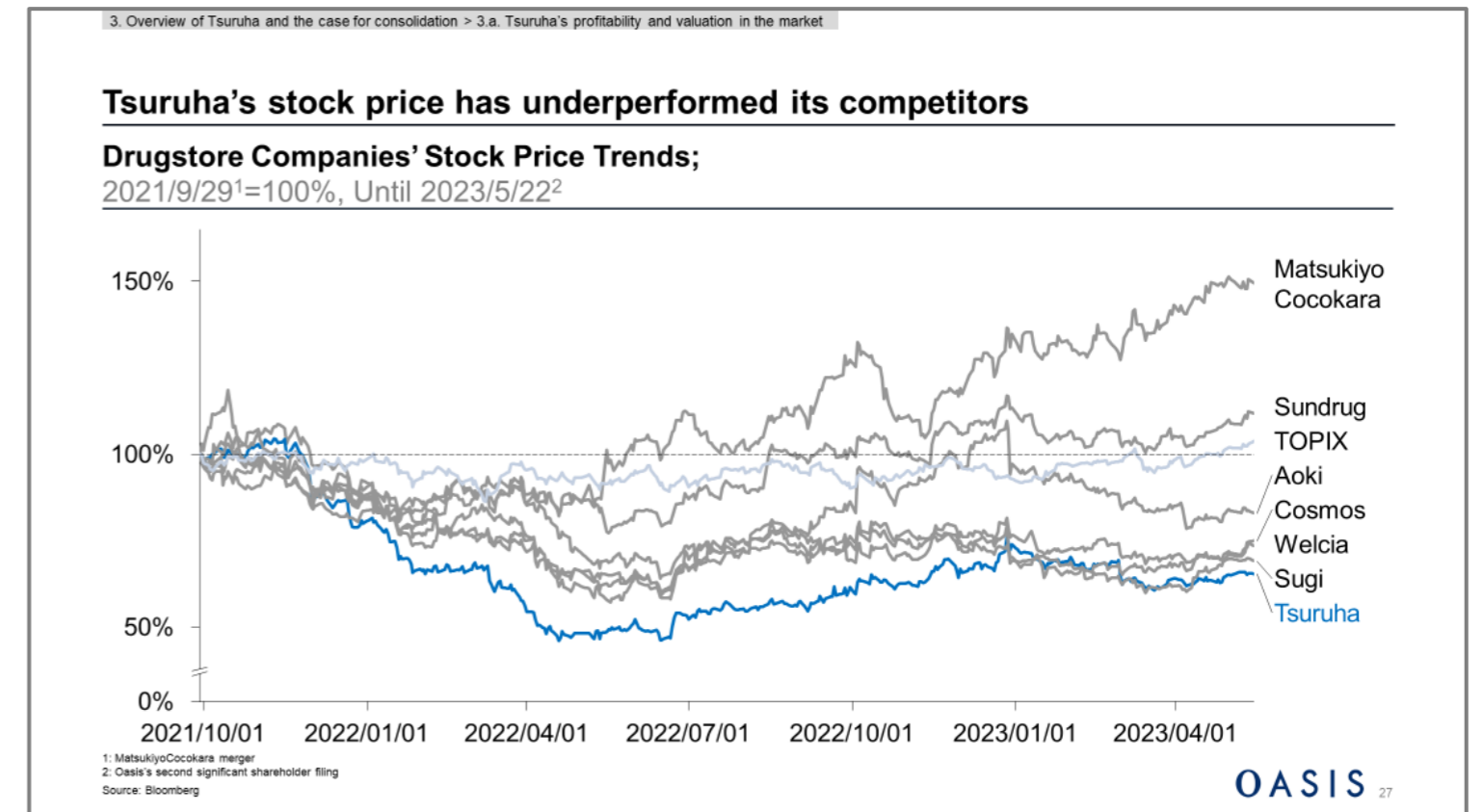
Arguments against Oasis materials in the Tsuruha disclosure documents



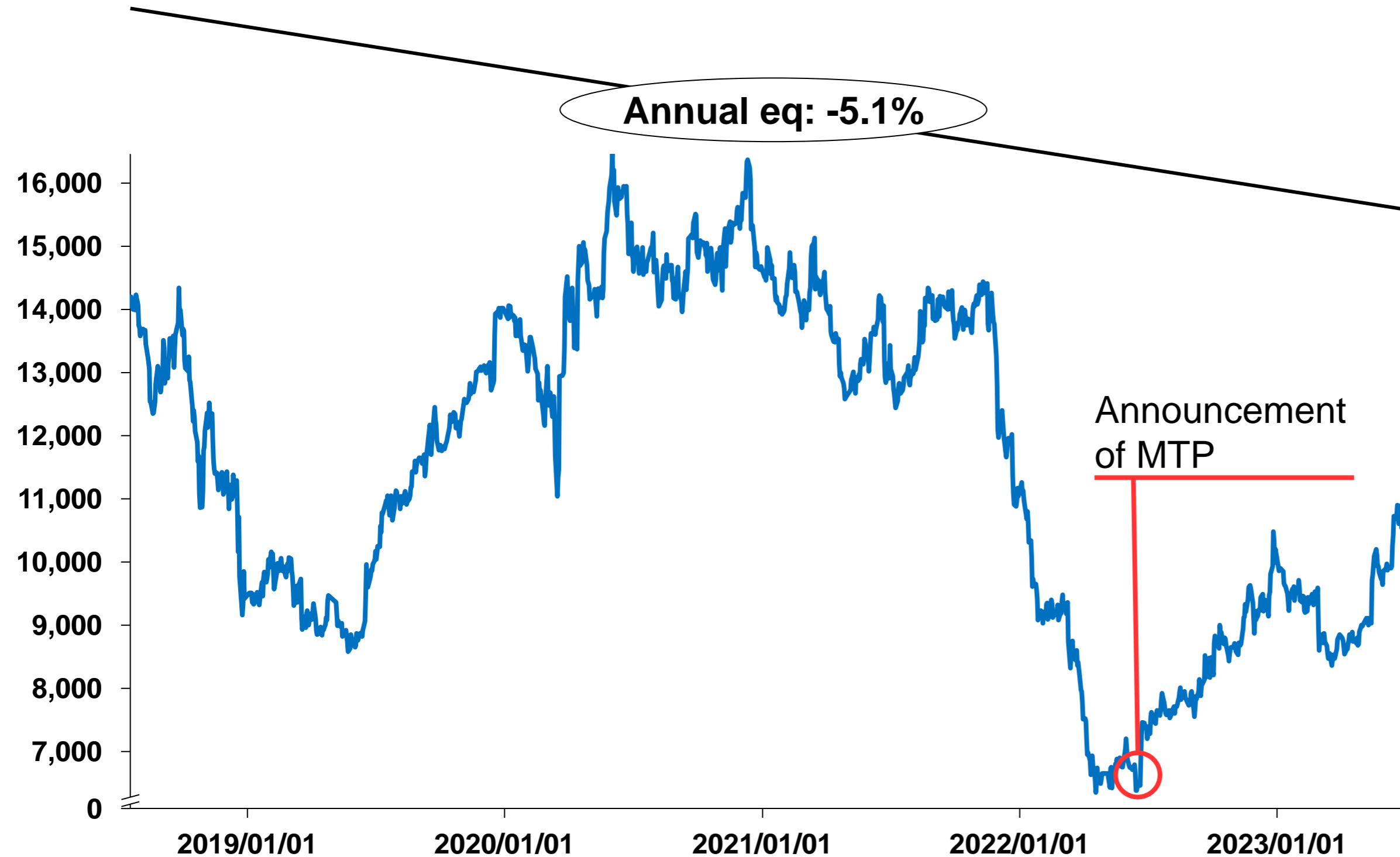
“The graph of changes in stock price uses an arbitrarily chosen and inappropriate base date (at the time of the Matsukiyo-Cocokara integration)”



Oasis material



Tsuruha's share price; JPY, from June 19, 2018 to June 17, 2023



Misleading

- In reality, Tsuruha has persistently destroyed shareholder value over the past five years. By selecting the timing of its medium-term management plan announcement as the starting point for its stock price comparison, which happened to be at the time of the lowest share price, Tsuruha is misleading its shareholders

Source: Bloomberg

Tsuruha's core management team has not changed since the beginning of the last mid-term plan

Tsuruha's current management¹

<u>Name</u>	<u>Current position</u>	<u>Position at the start of the last mid-term plan</u>	<u>Change in position since the beginning of last mid-term plan</u>
Mr. Tatsuru Tsuruha	Director Kaicho	Director Kaicho	No change in position
Mr. Jun Tsuruha	Representative director, executive officer and president	Representative director, executive officer and managing director	No change in position as the Representative Director
Mr. Hisaya Ogawa	Director and executive officer President of Kusuri No Fukutaro	Director and executive officer President of Kusuri No Fukutaro	No change in position
Mr. Shocihi Ogawa	Director and executive officer President of TGN ²	Director and executive officer President of TGN ²	No change in position
Mr. Masahiro Yahata	Director and executive officer President of Tsuruha Co. ³	Executive officer in charge of Hokkaido stores in Tsuruha Co. ³	Promoted
Mr. Masahiro Ofune	Director (audit and supervisory committee)	Auditor	No material changes in position
Mr. Makoto Murakami	Executive officer, group management	Executive officer, group management	No change in position

1: Internal directors and Mr. Makoto Murakami, who is the only non-director committee member for the nomination and compensation committee

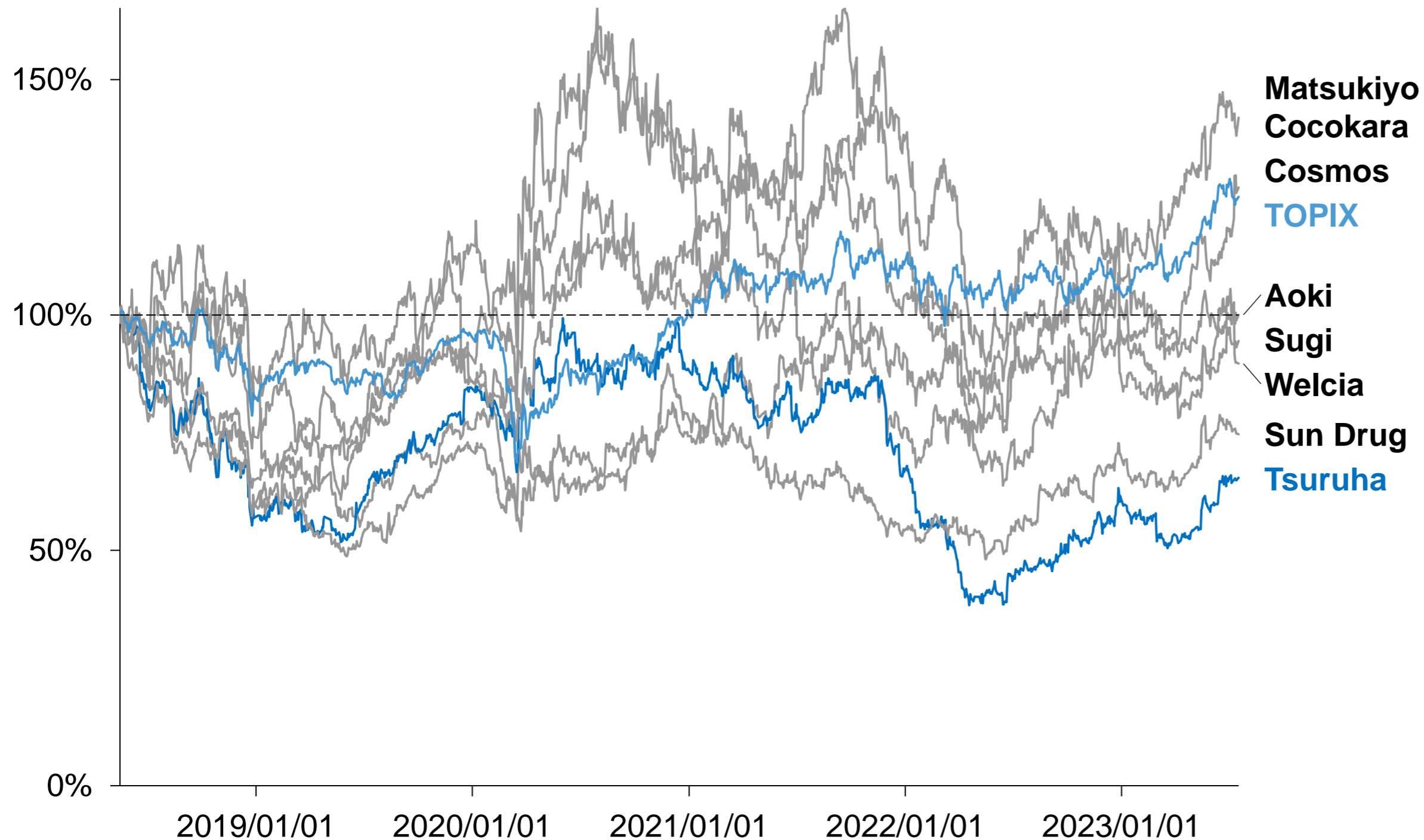
2: Tsuruha Group Drug and Pharmacy Nishi-Nihon

3: The subsidiary under the Holdings Co.

Source: Tsuruha disclosures

Misleading

Stock price performance since the beginning the last mid-term plan¹

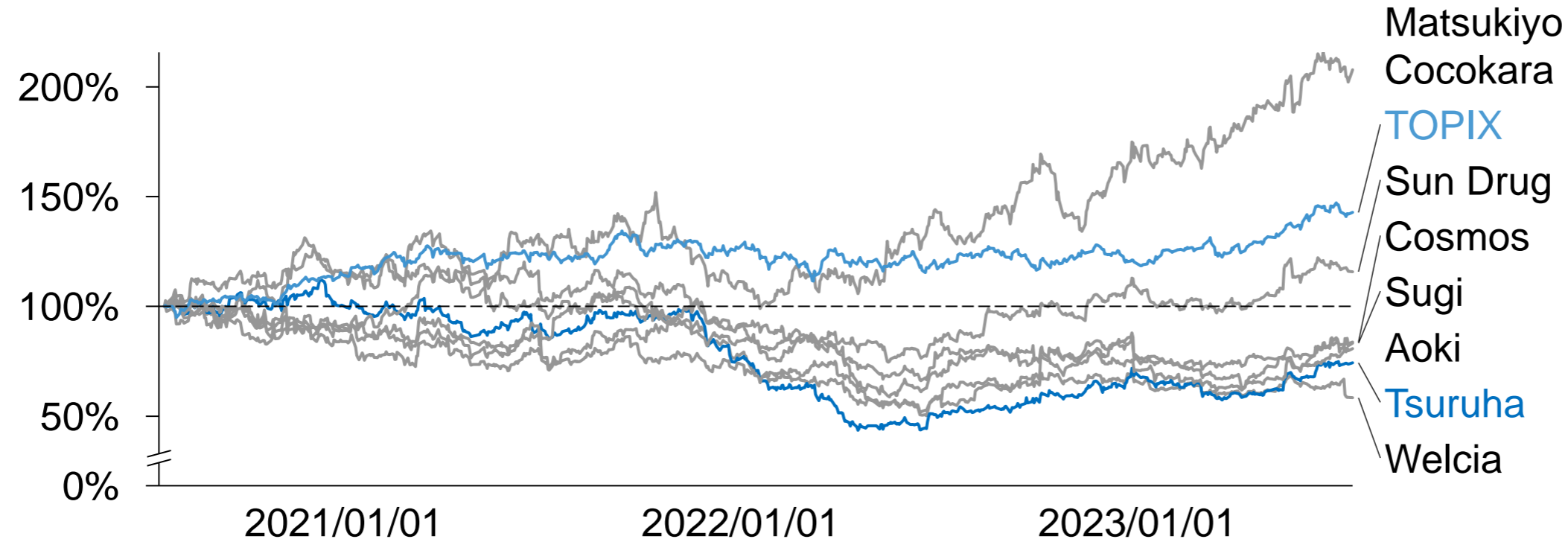


- Using the announcement date of the current mid-term plan as the start date for the comparison of stock price performance is misleading, as the core members of the existing management team have been part of the management team since the previous medium-term management plan
- Using the start of the previous medium-term management plan as the starting point, the share price of Tsuruha has significantly underperformed its competitors
- Using the announcement of the newest mid-term plan as the start date for stock price comparison is not suitable, as it has only been a year since then, and this fails to capture mid-to-long term growth

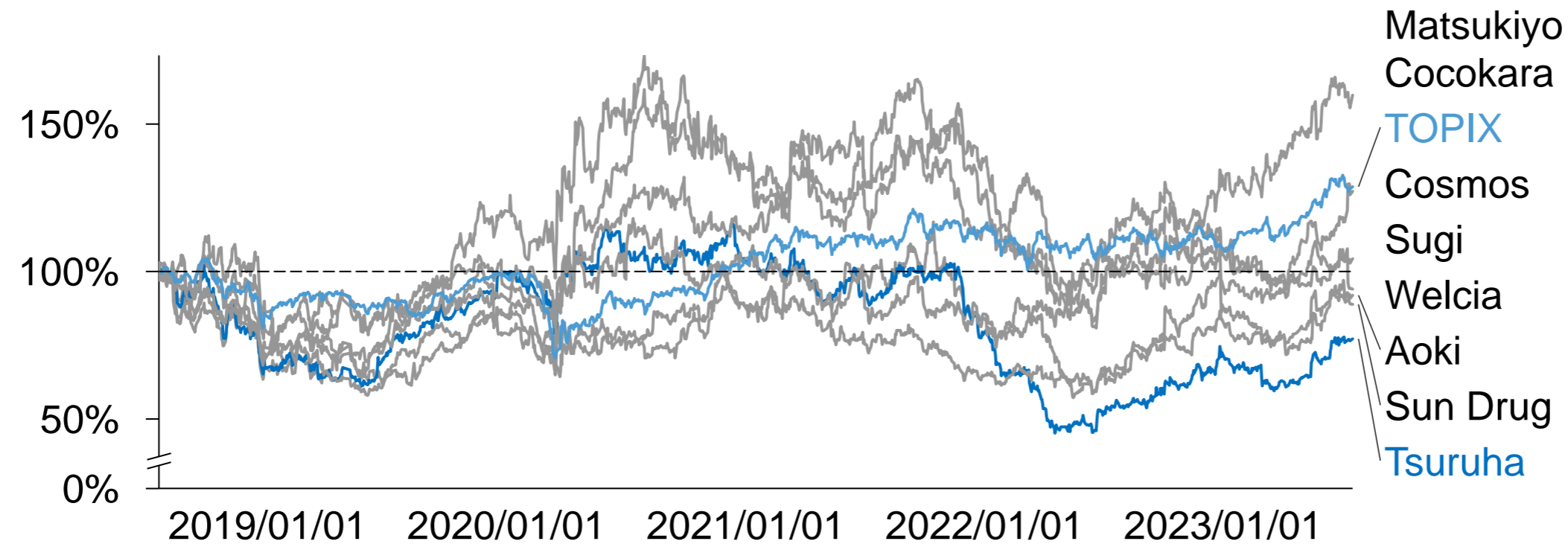
1: May 16, 2018
Source: Bloomberg

3-years and 5-year stock price movements of drug store companies

Last 3 years



Last 5 years



Misleading

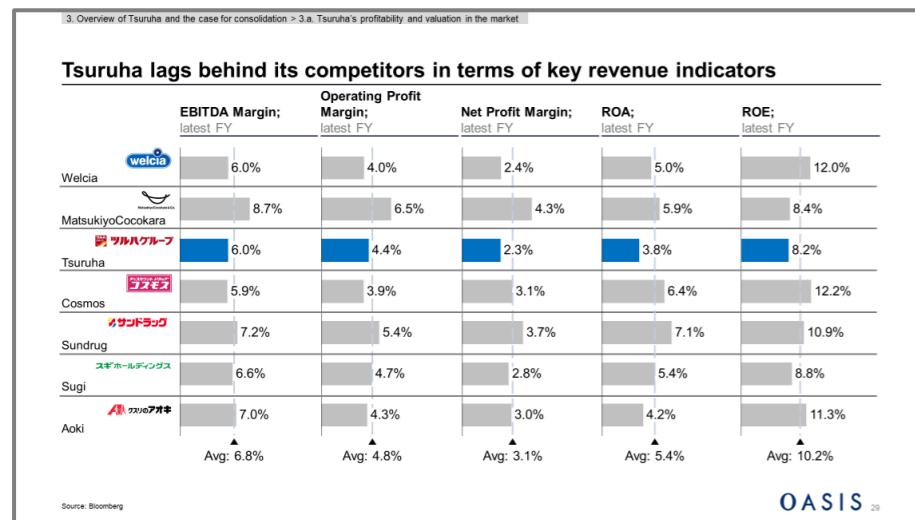
- Furthermore, to avoid any “arbitrary” timeframe setting, it is worth noting that Tsuruha's share price has consistently ranked the lowest among its competitors, using both a 3-year and 5-year comparison, periods commonly employed to gauge simple medium-term trends. **Hence Tsuruha's claims that that the Company's “stock price has been performing well” is misleading**

Source: Bloomberg

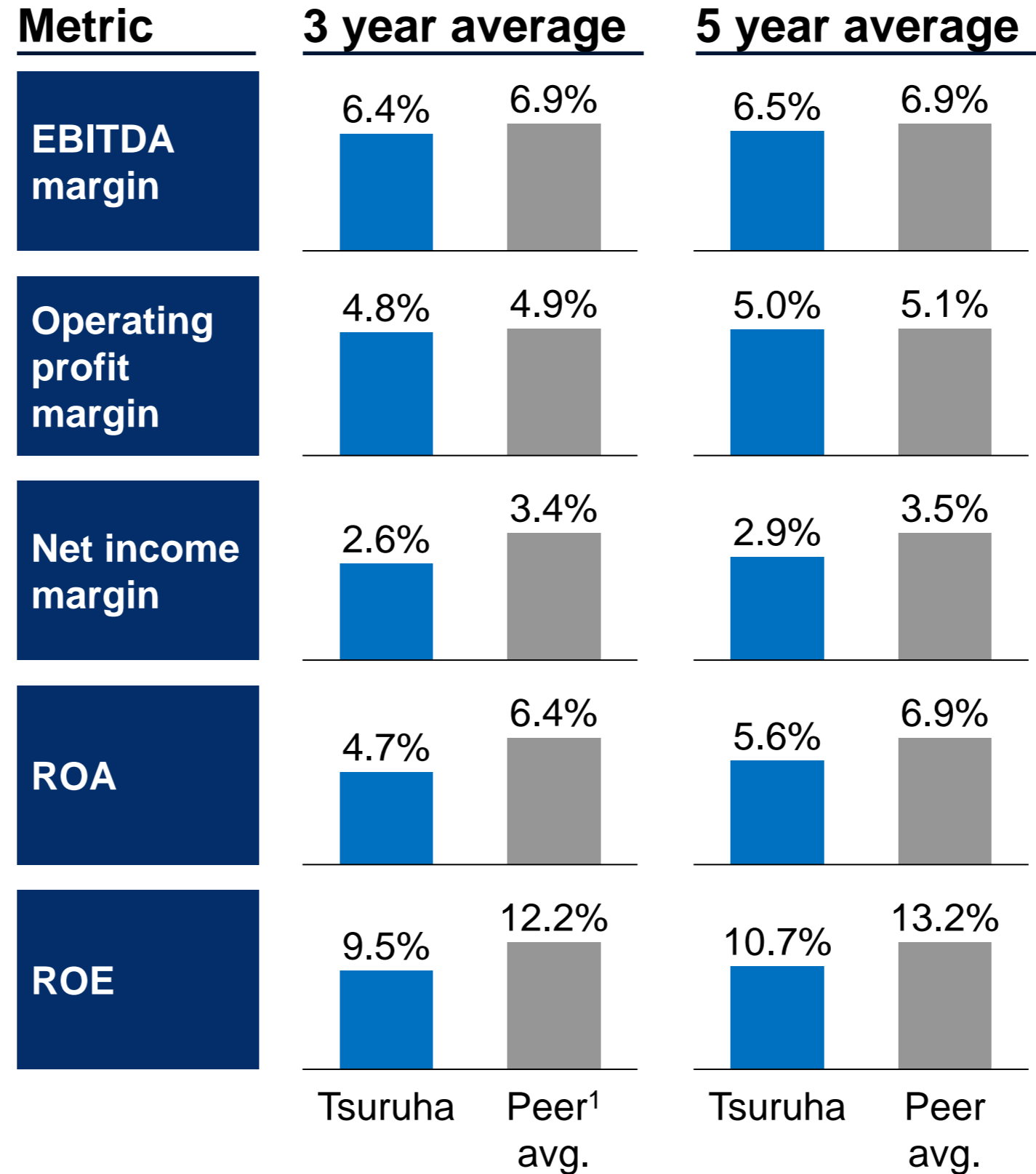
Tsuruha's claims



Regarding Oasis's analysis on profitability of different players in the industry, Tsuruha claims that *“all comparisons of major profit indicators presented in the documents are on **single-year measurements and arbitrarily truncated figures, lacking a comprehensive analysis**”*



Tsuruha's profitability metrics and peer averages



Misleading

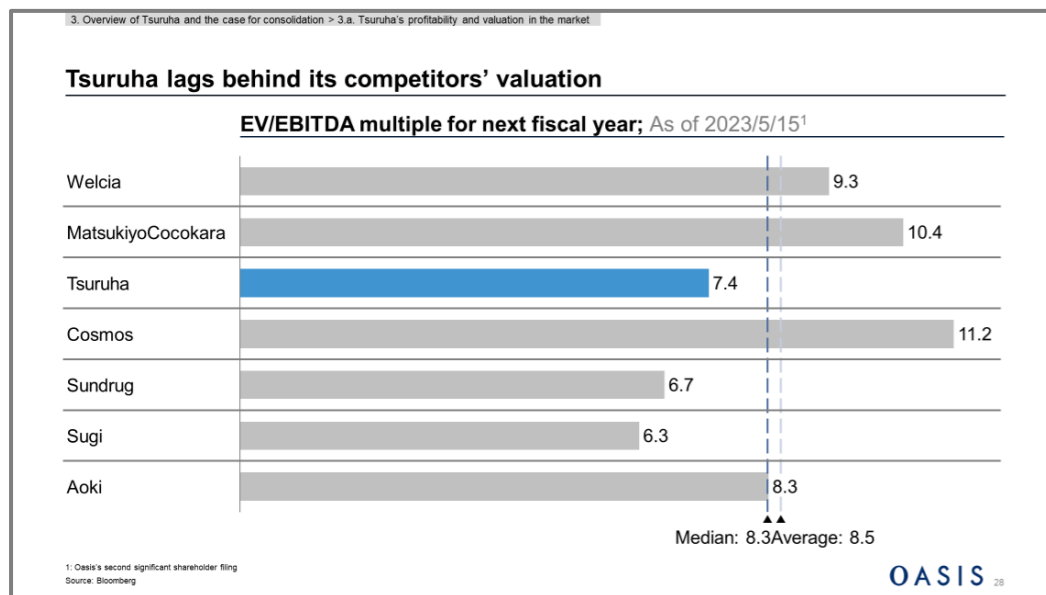
- Tsuruha is making **misleading claims that Tsuruha's poor business performance is a single-year issue, despite consistently lagging behind its peers**

1: Welcia, MatsukiyoCocokara, Cosmos, Sundrug Sugi, Aoki

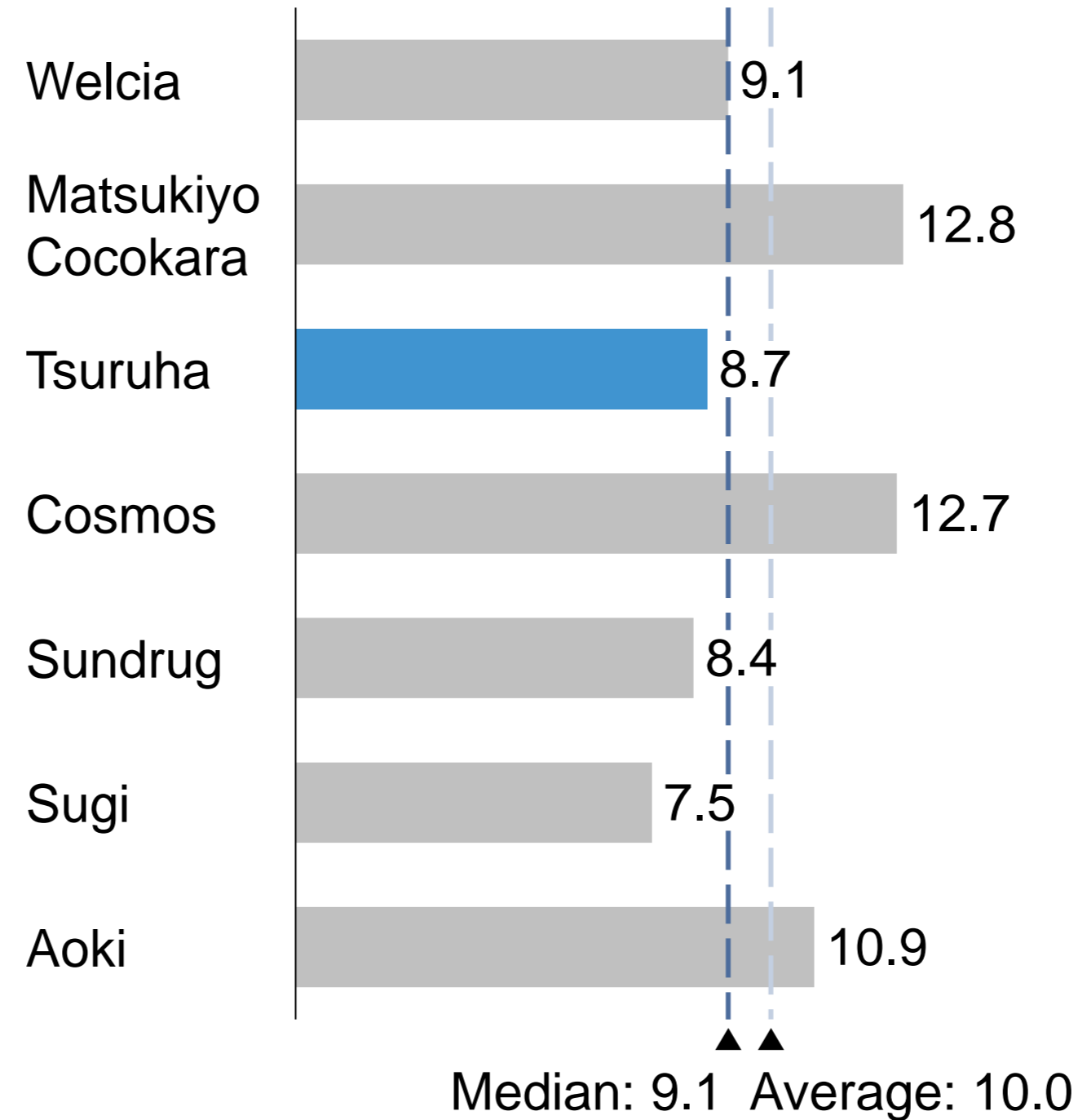
Tsuruha's claims



“The Oasis document states that “Tsuruha lags behind its competitors’ valuation” but **a forecast EV/EBITDA multiple for the next fiscal year, which is only a forecast figure, is used as a comparative index**”



EV/EBITDA(LTM); As of 2023/7/18



Misleading

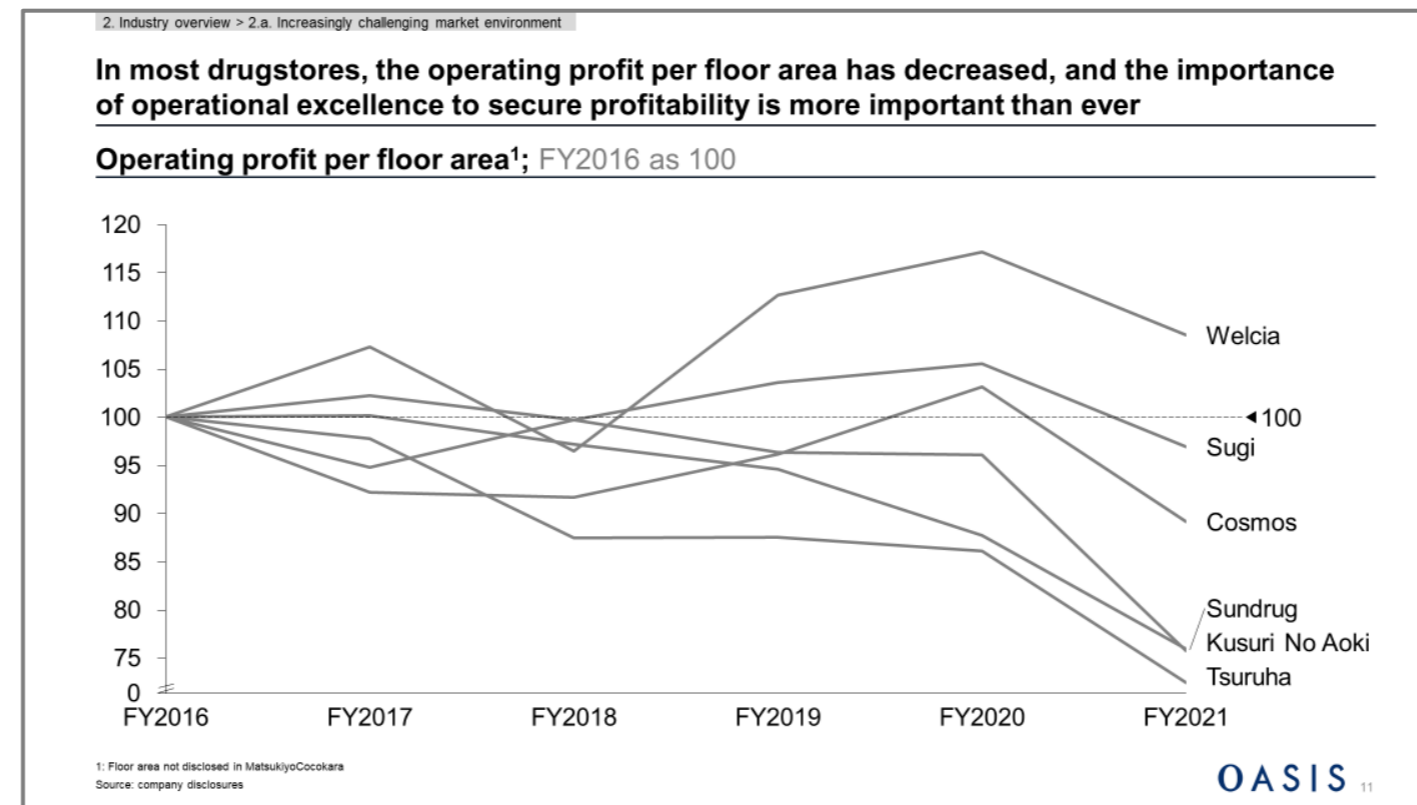
- Tsuruha is misleading its investors that the issue is in using forecast-based figures, while the Company actually lags behind its peers in actual valuation, too
- It is generally understood that the stock price considers future predictions, and hence using consensus-based forecasts for valuation is a common practice. By making claims that the use of forecast-based valuations are inappropriate, the management demonstrates their lack of understanding of capital markets

Tsuruha's claims



“Our company primarily operates local suburban stores, and compared to other companies, we have a larger sales floor area. As a result, our operating profit per sales floor area tends to be lower compared to others. Therefore, the contrast of operating profit per sales floor area presented in Oasis' materials is subjective impression manipulation.”

Oasis's material



- The Oasis analysis of operating profit per sales floor area tracks the change in relative profitability changes over time, using the FY2016 figures of each company as a base of 100. The observation regarding stores being suburban with larger sales floor areas is a valid point only when comparing operating profit per sales floor area as an absolute value. **Tsuruha does not understand the context of Oasis' analysis and is making misleading accusations**

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Tsuruha's claims



“At no point has North Pacific Bank been the biggest lender financial institution to the Company”

✗ It is false that North Pacific Bank was the main bank of the Company.
 In general a main bank is defined as the financial institution providing the largest amount of borrowings to an operating company. But from the past to the present, North Pacific Bank has never been the financial institution with the largest amount of borrowings for the Company, nor has the Bank been the Company's "main bank or similar entity" in terms of the volume of transactions or its position in the Company.

Tsuruha's past disclosures

- At least between FY ending May 1998 to FY ending May 2001, in the AGM notification materials, it is disclosed that **North Pacific Bank and Hokkaido Takushoku Bank, a predecessor of the bank, were the biggest lender to the Company**

(6) 主要な借入先 (上位5行)

借入先	借入残高 百万円	借入先が有する当社の株式	
		持株数 千株	持株比率 %
株式会社北洋銀行	249	100	1.1
株式会社三和銀行	241	80	0.9
North Pacific Bank	201	80	0.9
株式会社富士銀行	72	20	0.2
商工組合中央金庫	45	—	—

- Moreover, **Mr. Fumiyo Fujii**, who comes from North Pacific Bank, **started his career at Hokkaido Takushoku Bank** and later progressed to become a director at North Pacific Bank following the merger between the two institutions

False disclosure

- Despite the fact that **North Pacific Bank served as Tsuruha's largest lender**, Tsuruha makes evidently false claims in its materials, such as “at no point has North Pacific Bank been the financial institution with the largest lender to our company” clearly presenting a misleading narrative

False disclosure

Tsuruha's largest lenders (FY05/1998-FY05/2001)

FY ending May 1998

(6) 主要な借入先 (上位5行)

借入先	借入額	借入先が有する当社の株式	
		持株数	持株比率
株式会社北海道拓殖銀行	248 百万円	— 千株	— %
農林中央金庫	218	80	1.1
			0.3
			0.3
朝日生命保険相互会社	79	20	0.3

Hokkaido Takushoku Bank,
predecessor to North Pacific Bank

FY ending May 1999

(6) 主要な借入先 (上位5行)

借入先	借入残高	借入先が有する当社の株式	
		持株数	持株比率
	百万円	千株	%
株式会社北洋銀行	249	100	1.1
株式会社三和銀行	241	80	0.9
農林中央金庫	201	80	0.9
株式会社富士銀行	72	20	0.2
商工組合中央金庫	45	—	—

North Pacific Bank

FY ending May 2000

(6) 主要な借入先 (上位5行)

借入先	借入残高	借入先が有する当社の株式	
		持株数	持株比率
	百万円	千株	%
株式会社北洋銀行	150	200	1.1
株式会社三和銀行	141	160	0.9
North Pacific Bank	122	160	0.9
株式会社北海道銀行	70	—	—
商工組合中央金庫	35	—	—

North Pacific Bank

FY ending May 2001

(6) 主要な借入先 (上位5行)

借入先	借入残高	借入先が有する当社の株式	
		持株数	持株比率
	百万円	千株	%
株式会社北洋銀行	61	200	1.1
農林中央金庫	60	160	0.9
North Pacific Bank	40	160	0.9
商工組合中央金庫	25	—	—
株式会社北海道銀行	20	—	—

North Pacific Bank

- Tsuruha's disclosures are false, as company disclosures indicate that North Pacific Bank *has* been the largest lender to Tsuruha over multiple years
- Consideration against North Pacific Bank, where Tsuruha makes sure it is not lending more from other financial institutions than from North Pacific Bank, can be observed, an act often seen by many Japanese companies against their main bank, suggesting a deep relationship between the Company and the bank

Tsuruha's claims



- There is no factual basis to support the claim that North Pacific Bank was our main bank.
 - It is commonly understood that a main bank is defined as the financial institution with the highest amount of claims against a business corporation. However, it is important to clarify that North Pacific Bank has never held the position of the financial institution with the highest borrowing amount in our company, both in the past and present. Furthermore, when considering the transaction volume and its overall significance, there is no factual basis to support the assertion that North Pacific Bank was a “main bank” or even held a comparable role in our business operations.

Tsuruha's past disclosure

- A release on [2007/3/2](#) shows North Pacific Bank as the Company's first bank among its list of “main banks”

(14) 主要取引銀行	北洋銀行、三菱東京UFJ銀行	千葉銀行、みずほ銀行
(15) 当会社の関係	資本関係	当社はくすりの福太郎の発行済み株式総数の36.5%を

North Pacific Bank

- Yuhon released on [2020/8/10](#) discloses that the North Pacific Bank is one of “main banks” Tsuruha has business with” and that the Company has a “good relationship”

株北洋銀行	-	112,000	主要な取引銀行の一つであり、同行との良好な関係を維持するために保有しておりましたが、売却いたしました。	有
	-	27		

North Pacific Bank

False disclosure

- As stated, North Pacific Bank was the largest lender to Tsuruha in the past
- In addition, considering that in disclosures North Pacific Bank is identified as a major trading bank of Tsuruha in various documents, the claim that “there is no factual basis to support the notion that Hokuyo Bank was a “main bank” or held a similar role” is wrong

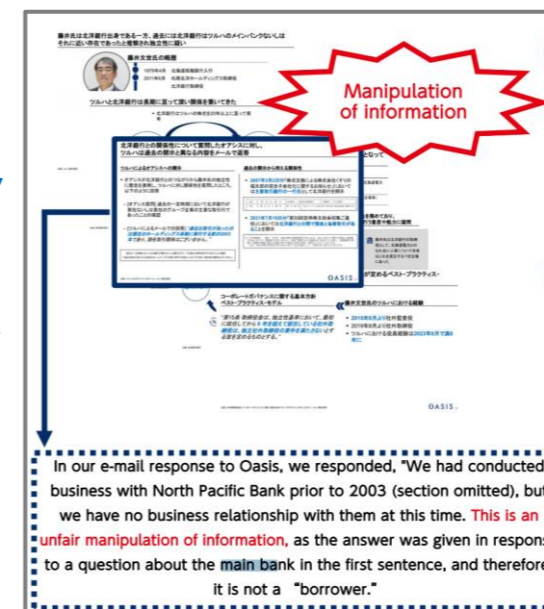
Background: Oasis's questions to Tsuruha regarding Tsuruha's relationship with North Pacific Bank

Oasis, via email, inquired for “confirmation of whether Hokuyo Bank was a major trading bank for the company or its affiliated group companies during a certain period in the past”, **without specifically limiting the question to lending.**

Mr. Makoto Murakami, Executive Officer and Head of the Administration Division, who is a member of the founding family, is responsible for IR and management departments, and serves on the Nomination and Compensation Committee, responded to this inquiry through email, stating, “The last time Tsuruha has a business relationship with the Bank was in 2003, prior to the transition to the current holding company structure, and **we currently do not have any business relations.**”

Oasis referred to documents that contain various disclosure materials after 2003 indicating transactions between Tsuruha and North Pacific Bank.

Despite the absence of any such disclaimer in the email response, Tsuruha essentially engaged in a **retrospective critique, accusing Oasis of “engaging in unfair manipulation of information”, claiming that “Tsuruha’s response was only in regards to its borrowing relationship with North Pacific Bank”**



Misleading

- **Tsuruha has claimed Oasis is conducting “manipulation of information”, despite Tsuruha conducting unclear disclosures**

Tsuruha's claims



*“Regarding North Pacific Bank, which Mr. Fumiyo Fujii is from, **there are no cross-holding of shares or any borrowing relationship.** Therefore, Oasis' claims are based on misconceptions.”*

Relationship between Tsuruha and North Pacific Bank

- To the best of Oasis's knowledge, **Tsuruha has held shares of North Pacific Bank since the fiscal year ending in May 1999.** Tsuruha continued to hold these shares **until their sale in the fiscal year ending in May 2020**
 - In addition, **Mr. Fujii has been an auditor/director of Tsuruha since August 2015, when Tsuruha still held shares in North Pacific Bank**
- Similarly, **North Pacific Bank has also continuously held shares of Tsuruha from at least August 1999 until the present**
- Furthermore, the “explanatory materials” released by the Company **completely lack** any mention of Tsuruha's ownership of North Pacific Bank shares until the fiscal year ending in May 2020, as well as the fact that the Company owned cross-holdings shares at the time of Mr. Fumiyo Fujii's appointment as an auditor

Misleading

- **By deliberately creating ambiguity around the subject and timeframe in its statement, and by hiding the relationship between Tsuruha and the bank in the past twenty years, Tsuruha is misleading investors that there is no cross-holding of shares between the companies**

Japan Association of Corporate Directors: “Basic principles for corporate governance and best practice model”

“”

*“Article 15 The board of directors shall, in their standards for independency, include that **any directors that were first elected eight years ago or before, should not be considered independent**”*

“The optimum length of outside directorship considered by outside directors” by METI materials

“”

*“Although there are different opinions about the best term length (upper limit), ranging from four years to ten years, in average, **it is thought that around six years is the most suitable.**”*

Questions by Oasis

- In addition to the relationship with North Pacific Bank, Mr. Fujii’s long tenure **raises questions about his independence**

Tsuruha's claims



*“Ms. Sato has extensive knowledge relating to nursing care and welfare, and at the request of the then-Executive Director, she served on the Board of Trustees of the Kakusho-Fukushikai Social Welfare Corporation from 2008 to 2017, in which capacity she only attended Board of Trustee meetings roughly twice annually, and she resigned as a trustee in 2017. **She therefore does not breach any standard for independence.**”*

Source: Tsuruha disclosures; Corporate Governance Code

Corporate Governance Code

Principle 4.9 Independence Standards and Qualification for Independent Directors

*Boards should establish and disclose independence standards aimed at securing **effective independence** of independent directors, taking into consideration the independence criteria set by securities exchanges. The board should endeavor to select independent director candidates who are expected to contribute to frank, active and constructive discussions at board meetings.*

Misleading

- While **substantive and effective independence** should be a matter of concern, **Tsuruha is misdirecting the discussion to “violation of independence criteria”**
- Lack of concern of true independence is a concern for corporate governance

Tsuruha's disclosure



Regarding Mr. Okazaki's expertise, Tsuruha mentions broadly that he *"has abundant business experience and expertise as a lawyer"* and **does not disclose which areas he has strengths in as a lawyer**

Mr. Okazaki's cases

- In the past 3 years, Mr. Okazaki has **served as bankruptcy trustee** and held other forms of trustees of individuals in at least 8 cases, suggesting his strength as a lawyer is in this area
- In an interview uploaded to YouTube, he mentions that **"half of my cases are traffic accident related, and the other half are miscellaneous"**
- On Sapporo Eiwa Law Firm's home page, the law office which Mr. Okazaki used to work at before starting his own law firm, the law office displays "traffic accident related cases" as its first area of services among its list, suggesting that Mr. Okazaki's experience is here
- On the Japan Federation of Bar Associations homepage, Oasis could identify only Mr. Okazaki as an employee at his firm, suggesting he is using substantive amount of time to handle these trustee cases by himself

Questions by Oasis

- Generally, in cases where lawyers take seats as outside directors in listed companies, especially those like Tsuruha with 1 Tn JPY in revenue, the area where they are expected to provide expertise, advice and oversight is usually in corporate law, such as corporate governance, risk management and intellectual property
- **It is thought that Mr. Okazaki's strength is in acting as trustee for bankruptcy and other situations for individuals, as well traffic accident cases, raising concerns over his capability**

Communication with Tsuruha on shareholder proposal

Tsuruha's stock price and business performance

Independence and capability of outside directors

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Election of new outside directors

Compensation of directors

Kaicho role

Other matters

Conclusion

Skill matrix on last year's AGM notification

氏名	専門性と経験					
	企業経営	事業戦略	財務・会計・M&A	人的資源・人材開発	法務・リスクマネジメント	ESG
鶴羽 樹	○	○	○	○		
鶴羽 順	○	○		○		○
小川 久哉	○	○	○	○		○
村上 正一	○	○		○		○
八幡 政浩	○	○		○		○
大船 正博		○	○	○	○	○
佐藤はるみ			○			○
岡崎 拓也					○	○
藤井 文世	○		○	○	○	○

Skill matrix shown on disclosures on June 7

Skill Matrix The Company Deems Important

Classification	Name	Outside/Independent	Expertise and Experience							
			Corporate Management	Business Strategy	Finance, Accounting and M&A	Human Resources & HR Development	Legal & Risk Management	ESG	DX & IT	Global
Director	Tatsuru Tsuruha		●	●	●	●		●		●
	Jun Tsuruha		●	●		●	●	●		●
	Hisaya Ogawa		●	●	●	●		●		
	Shoichi Murakami		●	●		●		●		
	Masahiro Yahata		●	●		●		●		
	Wakana Tanaka	●		●		●		●	●	●
	Hiroshi Okuno	●			●			●		●
Director and Audit and Supervisory Committee Member	Masahiro Ofuna			●	●	●	●	●		
	Harumi Sato	●		●			●			
	Takuya Okazaki	●				●	●			
	Fumiyo Fujii	●	●		●	●	●	●		

(Note) The above skill matrix does not represent all the knowledge and experience that each person has.

Questions by Oasis

- Tsuruha has failed to provide substantive responses to Oasis' inquiries regarding the definition of "expertise and experience" in various areas, including the specific meaning of terms like ESG, and the rationale behind recognizing expertise in each field. It is **unclear how each of these areas are defined** and **why the directors are considered to have expertise/experience in each area**, suggesting the **matrix has been completed arbitrarily**
- For instance, Tsuruha fails to provide any explanation on how **Mr. Tatsuru Tsuruha has acquired ESG expertise in one year, as well as how Mr. Jun Tsuruha has acquired legal affairs and risk management skills within one year**. This lack of transparency and detailed clarification significantly undermines the credibility of these claims, leaving investors questioning the validity and reliability of the information provided
- Therefore, **there are questions about the appropriateness of the two newly elected candidates, as they were selected based on this skills matrix**
- **Oasis recommends its fellow shareholders do not make their voting decisions based on this skills matrix**
- If Tsuruha's response to the above concerns is simply to requote the footnote, *"(Note) The above skill matrix does not represent all the knowledge and experience that each person has."*, then it further raises doubts about the usefulness and credibility of this skills matrix.

Oasis Questions about Tsuruha's Skills Matrix

Questions by Oasis

- What exactly does the skill “Corporate Management” mean? Doesn't “Corporate management” encompass “Business Strategy”, “Finance, Accounting and M&A”, “Human Resources & HR Development”, “Legal & Risk Management”, “ESG”, “DX & IT”?
- Why are completely different fields such as “Finance, Accounting and M&A” combined into one?
- Based on the way Mr. Okuno's reasons for recommendation are written, does “M&A” include financing in M&A? Is that a general concept that shareholders can understand from this skill matrix which lack any explanation?
- Should “Legal & Risk Management” be grouped together as a single skill?
- What exactly does “ESG” exactly mean as a skill?
- Should “DX & IT” be grouped together as a single skill?
- For “DX & IT”, the newly nominated Ms. Tanka is the only one with the skill. Is it the board's intention to make decisions based on a single point of view, rather than multiple view points?
- Until last year, was there no one on the Board of Directors with knowledge of “DX & IT”?
- Regarding “Global”, is it appropriate to create a “Global” skill class without differentiating between regions, given that Tsuruha's main overseas business domain is Southeast Asia?
- It is explained that the two skills “DX & IT” and “Global” were added based on the new mid-term plan. Why wasn't this added last year, if so?
- Regarding the new “Global” skill, does the Company need new candidates with experience mainly in the US (Ms. Tanaka) and Hong Kong (Mr. Okuno), considering that the Company's main overseas businesses are in Southeast Asia?

Tsuruha's new outside directors lack retail experience, disregarding Oasis's emphasis on the importance of industry expertise

Tsuruha disclosures

Reasons for Election of Directors Proposed by the Company 3/4

TSURUHA HOLDINGS

Outside Director (who is not Audit and Supervisory Committee Member)

Director Wakana Tanaka
New appointment

Jul 1997	Analyst of Arthur D. Little Japan Stationed in New York for Lancome USA (Make Up Product Manager), NIHON L'OREAL K.K.	May 2013	Head of Change Promotion Office, Corporate Strategy Department, President's Office of the company.	<p>Reasons for being a candidate for Director/expected role</p> <p>Ms. Wakana Tanaka has a high level of management consulting and brand marketing expertise cultivated at pharmaceutical and global IT companies, and has served as a member of a special government project. We have nominated her as a candidate for outside Director based on our judgment that she is capable of applying these wide-ranging and high-level knowledge and experience to the promotion of DX (Digital Transformation) and globalization of the Company.</p>
Jul 2003	Stationed in Tokyo for Lancome (Make Up Fragrance Group Manager) of the company.	Nov 2014	Industry Manager, Advertising Sales Division, Google Godo Kaisha Manager of Google Partner Plex Tokyo Executive Summit of the company.	
Aug 2005	Regional Brand Development Manager, Skin Category (Dove) Unilever Japan Service K.K.	Oct 2017	Head of Google Partner Plex Tokyo Industry Lead of Large Customer Sales Director of Brand & Digital Solutions Division (Executive Officer)	
May 2011	Head of International Relations (Expert Examination Member), Fukushima Nuclear Accident Independent Investigation Commission, House of Representatives	Jan 2021	Country Manager of LinkedIn Japan (current position)	
Mar 2012	Project Manager, Corporate Strategy Department, President's Office, GlaxoSmithKline Japan, Inc.	Oct 2021		
Nov 2012		Mar 2023		

Director Hiroshi Okuno
New appointment

Jan 1989	Japan Trader, Equity Portfolio Trading, Portfolio Engineering, Nomura Rosenberg Asset Management	Sep 1998	Director and Global Tech Specialist in charge of Japan Equity Sales, Merrill Lynch Japan Securities	<p>Reasons for being a candidate for Director/expected role</p> <p>Mr. Hiroshi Okuno has extensive experience working for global financial institutions, and the knowledge to add new value to the Company's financial and financing strategy, including fund procurement, from the perspective of a finance specialist. The Group intends to pursue various measures for growth going forward, including large-scale M&As, making the finance and financing strategy, including for fund procurement, even more important, and we have determined that he should become a Board member. In addition, given his abundant experience as a consultant overseas, we have determined that he will be able to provide advice and oversight to management in the increasingly important areas of globalization and business development, and have therefore nominated him as a candidate for outside Director.</p> <p>In addition, Mr. Okuno has no direct involvement with the Company's management, and for the above reasons, we have determined that he will be able to carry out the responsibilities of an outside Director appropriately.</p>
Apr 1993	Vice President in charge of International Japan Equity Sales, Smith Barney Japan, Limited.	Sep 2003	Hong Kong Director, Pan Pacific Tech Specialist Sales, Asian Stock Sales, Merrill Lynch Asia Pacific Limited	
Oct 1997	Vice President in charge of International Japan Equity Sales, Salomon Smith Barney Japan Ltd.	Sep 2005	Director in charge of International Multi-Products, and Japan Equity Sales, Bank of America Merrill Lynch	
Apr 1998	Vice President in charge of Global Equity Sales, Robertson Stephens, Inc. (Japan)	Jun 2011	Managing Director, Jefferies Group, Jefferies Japan Limited	
		Oct 2022	Founder and Managing Partner, KTSS Corporation (current position)	

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Oasis material

4. Failures in corporate governance > 4.b. The quality, independence and diversity of the outside directors > 4.b.1. Composition of the Board

The lack of retail industry experience among Tsuruha's Board of Directors violates proxy advisory firm guidelines recommendations ...

Glass Lewis Voting Advisory Criteria

"We believe that boards should have diverse backgrounds and members with a breadth and depth of relevant experience. We believe that the board or the nominating committee should consider diversity when making director nominations within the context of each specific company and its industry. In our view, shareholders are best served when boards make an effort to ensure a constituency that is not only reasonably diverse on the basis of age, race, gender and ethnicity, but also on the basis of geographic knowledge, industry experience, board tenure and culture. In addition, we believe that at least one of the outside directors should have relevant industry experience."

Source: Glass Lewis Voting Advisory Criteria

4. Failures in corporate governance > 4.b. The quality, independence and diversity of the outside directors > 4.b.1. Composition of the Board

... as well as voting guidelines of some institutional investors

Norges Bank Investment Management

"The board should have sufficient industry expertise to monitor management's implementation of corporate strategy. At least two of the independent members should have worked in the industry."

abrdn

"Effective decision making requires a mix of skills around the table and constructive debate between diverse and different-minded individuals. A range of skills, experience and perspectives should be drawn together on the board. These include industry knowledge, experience from other sectors and relevant geographical knowledge."

Source: Norges Bank Investment Management "Industry expertise on the board"; abrdn "Listed Company ESG Principles & Voting Policies"

OASIS 56



“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.**”



“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.**”

Oasis letter to Tsuruha June 5, 2023

Questions by Oasis

- As shown in ISS’s proxy voting guideline, **it is poor governance to fill all vacant seats in order to block shareholder proposals for new directors**
- Despite Oasis warning Tsuruha of this matter, and asking Tsuruha to also propose an addition of board seat if Tsuruha is to propose new candidates, **Tsuruha has submitted a shareholder proposal to fill the empty seats** without any such proposals, in direct contradiction to ISS’s recommendation

Tsuruha disclosures

“”

- ***“The Company believes that similar expertise leads to group thinking and inertia, and that it is important to have someone who can see the essential issues independent from management, especially under current circumstances, when business models and industries are undergoing changes.”***

- The statement that *“similar expertise leads to group thinking and inertia”* is not only unclear in terms of its specific meaning but also **does not justify the decision to exclude any individuals with retail industry experience from being appointed as outside directors**
- While it is mentioned that *“it is important to have someone who can see the essential issues independent from management”*, this criterion can be compatible both from the perspective of individual qualifications of outside directors and the overall composition of outside directors, even with directors who have retail experience. **Therefore, it does not justify the decision to exclude any individuals with retail industry experience from being appointed as outside directors**
- Moreover, if independence from management is considered crucial, **it is unclear why the Company would nominate directors whose independence is questioned (Ms. Harumi Sato, Mr. Fumiyo Fujii, and Mr. Takuya Okazaki)**

Reasons provided by Tsuruha for opposing the new candidates are contradictory, suggesting a lack of commitment to engaging with shareholder proposals in the first place and a lack of a culture of compliance

Questions by Oasis

Proposed Candidates	Mr. Nobuo Gohara	Ms. Yuko Nakahata	Mr. Motohiko Nakamura Mr. Muneto Tamagami Ms. Akiko Ikeda
Tsuruha's Arguments	<ul style="list-style-type: none"> Tsuruha misinterprets the reasons for nomination by focusing solely on his expertise in compliance and handling misconduct, while the reasons for Mr. Gohara's nomination is based on his broad skill set a lawyer. Tsuruha argues that the <i>"Company is not in a situation where non-compliance and misconduct issues are being addressed in the first place, and the current management framework is not considered to be lacking or relatively inferior in these elements, and thus there is no urgent need to invite a person with these expertise to serve as an outside Director."</i> 	<ul style="list-style-type: none"> Tsuruha explains that there is no need to appoint Ms. Nakahata as an outside director, because Tsuruha already possesses sufficient experience in areas where Ms. Nakahata has specific expertise. 	<ul style="list-style-type: none"> Tsuruha says the reason for its opposition to these director candidates is their lack of drugstore experience, saying that their retail experience is not directly related to Tsuruha's core business in the drugstore sector.
Questions by Oasis	<ul style="list-style-type: none"> While Tsuruha says its opposition to Mr. Gohara's nomination is because his legal experience is not urgently needed, it is stated that Mr. Takuya Okazaki has extensive professional experience and specialized knowledge as a lawyer and provides independent advice based on such expertise. It seems that no comparable evaluation of Mr. Gohara has been conducted, whose nomination as a director is also based on his experience and expertise as a lawyer <ul style="list-style-type: none"> This is especially questionable as Mr. Takuya Okazaki's area of specialty seems to be in serving bankruptcy trustees and traffic accidents cases In the "Explanatory Materials", Tsuruha claims to be <i>"continuously working to improve its compliance framework and management system for laws and ordinances throughout the Group"</i>. Mr. Gohara is a renowned expert in this field, and if Tsuruha is truly committed to enhancing compliance, it would be a once-in-a-lifetime opportunity to have him as a director 	<ul style="list-style-type: none"> Independent directors should be appointed not only for the purpose of expanding expertise but primarily for overseeing management. To ensure oversight from a substantive perspective, it is important for the directors to have a certain level of overlapping knowledge and experience with the management team in order to effectively carry out their supervisory role. It seems that Tsuruha may not fully understand this aspect Unlike Tsuruha's current directors, who have all received a tick in their ESG skillset without any material explanation as to why this is so, Ms. Yuko Nakahata has real sustainability experience based on the sustainability related service she operates 	<ul style="list-style-type: none"> None of the candidates proposed by the company have experience in the drug industry, let alone in the retail industry While the importance of having a director with industry experience is given emphasis in corporate governance and proxy advisor guidelines, the Company does not recommend any such directors, As indicated on the left, Tsuruha has shown opposition to experts in areas where they already have internal experience and industry knowledge. Considering this, we think it is highly likely that any candidate with drugstore experience would have been opposed by the Company, and they have opposed the Oasis candidates for the sake of opposing them, rather than based on any evaluative assessment of their capabilities or suitability for the Board

Tsuruha's disclosure

“”

- *“If the candidates for Directors proposed in the Shareholder Proposal become Outside Directors of the Company, there will be no Outside Directors with professional knowledge and experience in financial accounting and taxation, while there will be many Outside Directors with experience in management and business, which will seem to lack balance compared to the skill matrix of the case where the Outside Directors proposed in the Company Proposal become Directors of the Company.”*

Misleading

- Oasis's shareholder proposal explicitly states the intention to elect each candidate individually, contrary to **Tsuruha's inappropriate and misguided argument comparing the directors as a group**
- **Additionally, Mr. Tamagami has significant experience in finance and accounting, such as his experience as a banker, as well as his experience in leading M&A at Nitori**

Tsuruha's disclosure

“”

- “In connection with the selection of director candidates in the Shareholder Proposals, we asked the Proposing Shareholder about the contents of the “establishment of a strategic vision for the Company in both business activities and corporate restructuring” that the Proposing Shareholder advocates in the Shareholder Proposals and whether there are any changes in the Company’s current strategy as indicated in the Medium-term Management Plan of the Company. The Proposing Shareholder answered, **“it is not for Oasis to make definitive “assumptions” about the contents and communicate them to the Company,” “we are not in a position to answer that question.”**”
- “In addition, taking into consideration the fact that, as a result of the interviews with the candidates for directors in the Shareholder Proposals, **their stance on the Medium-term Management Plan was not consistent**, it cannot be denied that the election of the candidates for the Board of Directors which consists of the candidates for directors in the Shareholder Proposals may have an adverse effect on the continuation of the Company’s business, such as making it difficult to achieve the goals of the Medium-term Management Plan, which has been steadily implemented by the current Board of Directors which consists of the candidates for directors the Company proposals.”

Dialogue between Tsuruha and Oasis;

Underlines are where Tsuruha quoted

“”

- [Question] “In your shareholder proposal, you state that the new Board should “develop a strategic vision for the Company’s business activities and corporate restructuring”. What details do you assume at this time? We also have a question as to whether or not there will be any change in our current strategy as indicated in our mid-term business plan.”
- [Excerpt from Oasis answer] “Our proposal for the new board to “[develop] a strategic vision for the Company’s business activities and corporate restructuring” is based on the example roles in the board model shown in the CGS guidelines as “deciding on the mid to long term state of the Company, for example purpose and vision”, and “deciding on the basic principles of management and business strategy”. **The specific details of such decisions are matters to be discussed by the Board of Directors. The director candidates we recommend are independent of Oasis, and even if the outside director candidates we recommend are elected, we believe that the strategic vision is a matter to be decided by the board of directors, not by any particular shareholder. Therefore, it is not for Oasis to make definitive “assumptions” about the contents and communicate them to the Company.** (...)
“it is a matter for the board of directors to consider the new strategic vision, including whether it should be considered and renewed, and thus we are not in a position to answer this question” (...)

Questions by Oasis

Misleading

- Regarding a question on whether there could be changes to the Company’s mid-term plan, Oasis informed Tsuruha that this is something that should be decided by the board, and not by any one shareholder, including Oasis. **It is misleading to frame Oasis’s answer as not being willing to provide answers for questions which we are not in a position to answer in the first place. Additionally, our main focus is that the strategy of the Company should be decided by the Board of Directors. The way Tsuruha has quoted Oasis is misleading**
- Does Tsuruha believe that all outside directors or all directors should have **“consistent”** opinions on its medium-term management plan? Should not each director not have their own independent opinion on management?
- Moreover, mid-term plans should be open to change based on changes in business environment, and Tsuruha’s narrative on having the mid-term plan up to change itself is a risk, is **misleading**. Have the current management decided to keep the current mid-term plan in place, no matter what business environment?
- Based on the above, **is Tsuruha only willing to accept shareholder-nominated outside director candidates when the shareholder ensures the continuity of the management’s strategy?**
- The opinions shown by Tsuruha suggest that the Tsuruha’s management is not willing to listen and implement new ideas

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Tsuruha's claims

- “The payment of restricted share compensation to directors who are Audit and Supervisory Committee members and outside directors (other than directors who are Audit and Supervisory Committee members) would **provide strong incentives to them to instead only wish for a rise in the stock price without considering the risks as a means to maximize their own compensation.** Therefore, there are many opinions on the pros and cons of such payment, which has been found to require examination regarding its appropriateness. In fact, currently, even the voting standards for many of domestic institutional investors state that they would oppose stock-based compensation proposals.”
- “The Company has determined that granting restricted share compensation to outside directors and directors who are Audit and Supervisory Committee members may distort its governance system and jeopardize the enhancement of corporate value.”

METI recommendations and past Tsuruha practices

CGS Guideline

- “RSU payment can be effective for aligning the incentives of outside directors and the shareholders, while it is the role of outside directors to reflect the voices of shareholders to the management as appropriate. Especially RSU compensation **without any execution conditions**, as long as it is **not excessive compared to the fixed compensation, has little negatives, as they are similar to the outside directors buying shares by themselves**”

Past compensation in stock by Tsuruha

- Tsuruha has made stock based compensation to its auditors, including external auditors, in the past**

5. 譲渡制限付株式報酬としての新株式発行による増加であります。

発行価額	14,160円	
資本組入額	7,080円	
割当先	当社取締役	6名
	当社監査役	3名
	当社子会社の取締役	28名

Statutory auditors

Misleading Questions by Oasis

- As Tsuruha points out, there are multiple perspectives regarding RSU compensation for outside directors. However, the thinking on these issues differs greatly depending on whether these are for non-audit committee members, or those for audit committee members, and Tsuruha's argument that “domestic investors are generally against” these proposals is **oversimplification and misleading**
- Additionally, the 3 Mn JPY in RSU proposed by Oasis is modest compared to the 10 Mn JPY and has no exercising conditions, making it in line with CGS guideline recommendations. It is **misleading** to state that Oasis's proposal, which is in line with CGS guideline, will make the directors “only wish for a rise in the stock price without considering the risks as a means to maximize their own compensation” without any factual backing
- In the CGS guideline, it is stated that there is little difference between being compensated by RSU and buying and holding RSU by oneself. **Based on Tsuruha's logic, do the three directors Mr. Ofune, Ms. Sato and Mr. Fujii, who are all members of the audit committee, “only wish for a rise in the stock price without considering the risks as a means to maximize their own compensation”?**
- Company auditors were given stock-based compensation multiple time in the past, including in 2019, showing a lack of consistency in Tsuruha's policy**

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Tsuruha says the Kaicho role is responsible for monitoring management

Tsuruha disclosures

- The Company believes that the Chairman and Vice-Chairman have an important role to play on management of the Group's business, as they are providing supervision and advice on overall management at the request of President and others based on his experience and knowledge to date, regarding recent changes in the business environment and efforts to improve business performance and increase corporate value over the medium- to long-term, as well as contributing to strengthening the functions of the Board of Directors, including the efforts to invigorate discussions at the Board; and therefore, there is no need to abolish them at the moment.

Questions by Oasis

Mr. Tatsuru Tsuruha's compensation

③報酬等の総額が1億円以上である者の報酬等の総額等 有価

氏名	報酬等の総額 (百万円)	役員区分	会社区分	報酬等の種類別の額 (百万円)			
				固定報酬	業績連動報酬	譲渡制限付株式	左記のうち、 非金銭報酬等
鶴羽 樹	122	取締役	提出会社	51	61	9	—

RSU

- Mr. Tatsuru Tsuruha has a similar role to the outside directors, which is overseeing the management. Yet, he receives RSUs. Does Mr. Tatsuru Tsuruha **“only wish for a rise in the stock price without considering the risks as a means to maximize their own compensation”** as the management claims?

Mr. Tatsuhiro Tsuruha's profile

No.	Name (Date of birth)	Career summary, positions, assignments and significant concurrent positions	Number of shares of the Company held
1	Tatsuhiro Tsuruha (February 11, 1942) <u>Reelection</u>	<p>June 1976 Joined TSURUHA CO., LTD.</p> <p>July 1978 Director of TSURUHA CO., LTD.</p> <p>August 1994 Senior Managing Director of TSURUHA CO., LTD.</p> <p>August 1996 Senior Managing Director & Representative Director of TSURUHA CO., LTD.</p> <p>August 1997 President & Representative Director of TSURUHA CO., LTD.</p> <p>August 2003 Director of the Company</p> <p>August 2005 President & Representative Director of the Company</p> <p>August 2008 President & Chief Executive Officer of the Company President & Chief Executive Officer of TSURUHA CO., LTD.</p> <p>December 2011 Vice Chairman & Director of TSURUHA (Thailand) Co., Ltd</p> <p>August 2014 Chairman & Representative Director of the Company Chairman & Representative Director of TSURUHA CO., LTD.</p> <p>August 2018 Chairman of the Company (current position)</p> <p>August 2020 Chairman of TSURUHA CO., LTD. (current position)</p> <p>(Significant concurrent position) Chairman of TSURUHA CO., LTD.</p> <p>(Reasons for nomination as a candidate for Director) Mr. Tatsuhiro Tsuruha demonstrated his excellent administrative capabilities and built the foundation of the current Tsuruha Group. He has supervised the management that encompasses the entire Group as Chairman. We determined that his abundant knowledge and administrative capabilities cultivated over many years will greatly contribute to the further growth of the Group and strengthen our competitiveness, thus we have renominated him as a candidate for director.</p>	1,412,540

Questions by Oasis

- If the role of the Kaicho is to monitor the Company's management, it is thought that the Kaicho should not be deeply involved in the Company's business executions. However, Mr. Tatsuhiro Tsuruha was the representative director of Tsuruha Co. a subsidiary of Tsuruha Holdings, which accounts for approximately 50% of the Company's consolidated revenue until August 2020. This raises concerns about the effectiveness of the Kaicho role's monitoring function

Compensation decision making process at Tsuruha

- It is disclosed that “*the President is mandated with the individual compensation for all of the non-audit committee member directors*”, including that of the Kaicho. In accordance with this, **Mr. Jun Tsuruha, the President, makes decisions on the base compensation and bonus of the non-audit committee member directors, including Mr. Tatsuru Tsuruha**

Nomination process at Tsuruha

- While Mr. Tatsuru Tsuruha is not a part of the nomination and compensation committee, Mr. Jun Tatsuru, who is supposed to be monitored by Mr. Tatsuru Tsuruha, heads the compensation and nomination committee. **Thus Mr. Jun Tsuruha has significant influence over the nomination of Mr. Tatsuru Tsuruha**

Questions by Oasis

- How can Mr. Tatsuru Tsuruha provide independent oversight of Mr. Jun Tsuruha, when **Mr. Tatsuru Tsuruha does not only have limited influence over the management’s nomination and compensation process**, the most important tools for oversight, but rather, when Mr. Jun Tsuruha, who is supposed to be monitored by Mr. Tatsuru Tsuruha, has strong influence over Mr. Tatsuru Tsuruha’s nomination and compensation?
- Moreover, **governance best practices would not welcome family members to oversee family members given the inherent conflicts of interest**

Communication with Tsuruha on shareholder proposal

Tsuruha's stock price and business performance

Independence and capability of outside directors

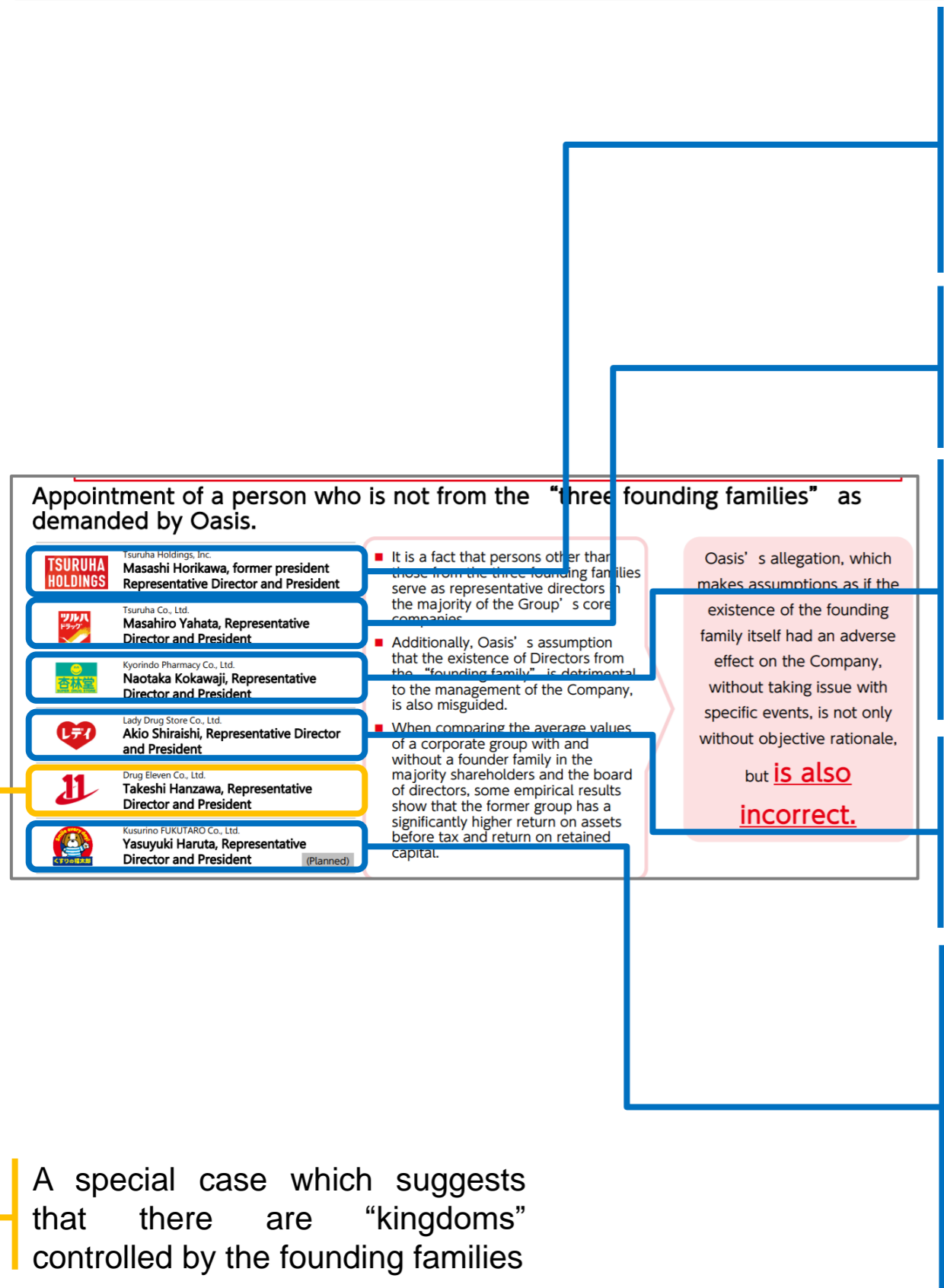
Rationale for opposing Oasis's shareholder proposal

Other matters

Conclusion

Overview of personnel appointment at Tsuruha

Misleading



While Mr. Horikawa's predecessor and successor, Mr. Tatsu Tsuruha and Mr. Jun Tsuruha, both held the representative director role as the sole representative director, **Mr. Horikawa was never the sole representative director.** He co-held this position with Mr. Tatsu Tsuruha until 2018, and with Mr. Jun Tsuruha since 2018. These facts suggest that Mr. Horikawa was never an independent executive/management, but was **rather only an "intermediate" CEO**

At Tsuruha Co. **Mr. Jun Tsuruha still holds the representative director role**, but also **Mr. Tatsu Tsuruha is still a director.** Additionally, **Mr. Hajime Tsuruha** who has not gained shareholder approval, is also a director of the Company. These leave questions on how much authority Mr. Yahata actually has in this role

Three directors, as **Director-Kaicho, Director-Vice-Kaicho, and Director-Honorary-Kaicho remain on the board from the Atsumi family, the founding family** of Kyorindo, raising questions about how much authority Mr. Kokawaji actually has. Additionally, Mr. Fumiaki Atsumi from the founding family, used to be a director of Tsuruha Holding, under which time he had the support from the shareholders, **but currently does not have any support from the shareholders**

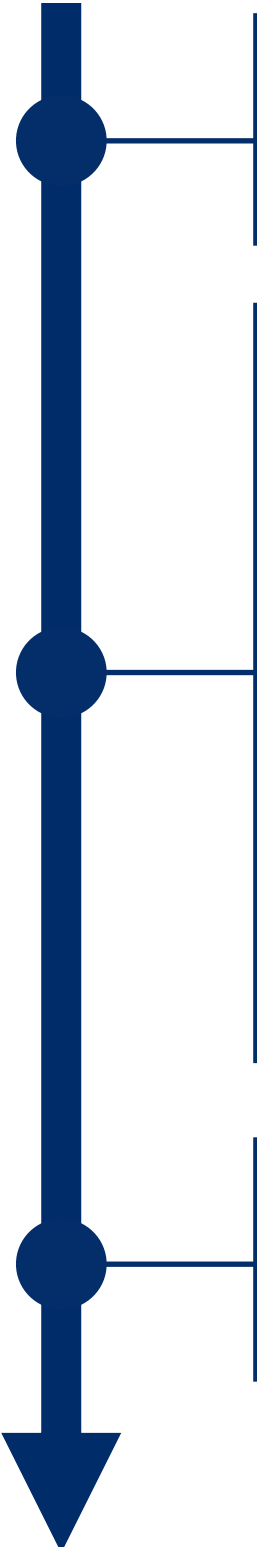
Similarly, **Mr. Shinya Mitsuhashi, from the founding family of the Lady Drug Store, still holds the Representative Director-Kaicho role.** Mr. Shinya Mitsuhashi used to be a director of Tsuruha Holding from May 2016 to May 2021, under which time he had the support from the shareholders, **but currently does not have any support from the shareholders**

It is likely that the nomination of Mr. Haruta as the representative director and president role **has been done following Oasis pointing out governance concerns in Kusuri No Fukutaro.** However, even after Mr. Haruta's appointment, **Mr. Hisaya Ogawa will remain as the Representative Director-Kaicho of Kusuri No Fukutaro, and the founder, Mr. Osamu Ogawa will also remains as a Director-Honorary Kaicho.** Also, in the past, Mr. Hisaya resigned from the representative director and president role following a wrong-doing, but returned to his role only 12 months later

- Non-founding family members being appointed to positions in the Company are **only given limited authority under the strong influence of the founding families**, and statements showing that Tsuruha is proactively utilizing non-founding family member personnel are **misleading**
- While Tsuruha often claims that it respects the management of the companies it acquires, in the case of Drug Eleven, which was bought from JR Kysushu and hence **had no founding family, the Company sent in a president (Mr. Hanzawa) from Tsuruha, not respecting the Company's original management**
- These facts suggest the so-called **strategy of giving independence to subsidiaries is only an excuse to respect the founding families' own "kingdoms"**

Source: Tsuruha disclosures

Conversation between Tsuruha and Oasis regarding Mr. Hajime Tsuruha



June 28, 2023: Oasis receives multiple questions from Tsuruha regarding Oasis's shareholder proposal, including regarding the appointment of personnel outside of the founding family to positions

July 2, 2023: Oasis provides answers to these questions. **As an example of founding family control and hindered appointment/ utilization of non-founding family member talent, Oasis points out that Mr. Hajime Tsuruha, who has not won the support of shareholders, is still a director of Tsuruha Co., a subsidiary of Tsuruha Holdings**

The last time Mr. Hajime Tsuruha won the support of shareholders was in about 2005. He has since then, **for nearly 20 years, held influence at Tsuruha Co., the most important subsidiary of the Company that accounts for close to 50% of the Company's consolidated revenue**

July 7, 2023: Without any explanation, the Company announces that Mr. Hajime Tsuruha will **retire from his role** as the Director-Honorary Kaicho of Tsuruha Co.

Questions by Oasis

- Does the retirement of Mr. Hajime Tsuruha from Tsuruha Co. mean that the Company has acknowledged Oasis's claim that there was control over Tsuruha Co. by the Tsuruha family?

Tsuruha's disclosure

“”

*“In addition, the assumption that there is a “founding family” in the first place, as if the current directors from the “founding family” is detrimental to the management of the Company, is also misguided. **For example, there are empirical results showing that**, when comparing the averages of a group of companies in which neither major shareholders nor boards of directors include members of the founding family with a group of companies in which members of the founding family serve on both major shareholders and boards of directors, **the latter group has significantly higher current interest rate before taxation of total assets (sou-shisan-zei-biki-mae-toukirieki-ritsu) and total capital retention benefit rate (sou-shihon-ryuho-rieki-ritsu) than the former group. The Proposing Shareholder's claims, which makes assumptions as if the existence of the founding family itself has an adverse effect on the Company, without taking issue with specific events, is not only without objective rationale, but is also incorrect.”***

1: Current titles

2: Those who are not from: University of Tokyo, Kyoto University, Tohoku University, Kyushu University, Hokkaido University, Keijo University, Osaka University, Nagoya University, Tokyo University of Commerce (Currently Hitotsubashi University), Kobe University of Commerce (Currently Kobe University)

Source: Tsuruha disclosures; Mr. SHIM JUNGWOOK's research “血縁主義の弊害: 日本の同族企業の長期データを用いた実証分析” (“The negatives of nepotism: an empirical study using long term data on Japanese family businesses”)

(https://www.jstage.jst.go.jp/article/soshikikagaku/48/1/48_38/_pdf)

Misleading

- Oasis views the **control by the founding family** and the **lack of independence of the outside directors who are roles are to provide oversight over them** to be problematic. Oasis's proposal solely focuses on the outside directors, and **Tsuruha's claims are misleading**
- The types of **studies quoted in Tsuruha's disclosures display vastly different results based on how the data is collected and also how the data is analyzed**, and it is **misleading to show only one side of the argument**
 - For example, according to a study by Mr. Shim, a professor of Kyoto Sangyo University¹, **when a business is succeeded by a non-elite** (defined by their alma mater) **relative, “the business sees statistically significant losses in ROA and revenue growth”**, showing the **complex nature of the argument**

Tsuruha's disclosure

“”

- *“ Since his return in 2016, Mr. Ogawa has contributed to Group's growth as a director of the Company. What's more, he has earned the high regard of shareholders, substantiated by a high approval rating every year, in the election of directors. Despite these achievements, Mr. Ogawa is targeted for censure by OASIS. Why bring up the issue of Kusurino FUKUTARO now?”*
- *“In discussions with OASIS prior to submitting its shareholder proposal, not once was a question about this ever raised, and it is hard to believe that OASIS actually believes this act to be egregious.”*

Questions by Oasis

- In the AGM notification for the AGM when Mr. Ogawa was reinstated as a director of Tsuruha Holdings, **the Company did not share any background of this issue, leaving shareholders to make their decision without the full context**
- Shareholder support for directors at AGMs is an evaluation at one specific time, considering a number of factors that are publicly available at that time. Just because shareholders gave their support before does not prevent them from forming different opinions when presented with additional information in a different context
- Is Tsuruha intentionally ignoring the fact that **Oasis has raised concerns about governance issues by comprehensively integrating various incidents**, including related-party transactions?
- Does Tsuruha not think this to be an egregious act breaching the trust against the Japanese medical insurance system and patients?

Positions held by ex-external auditors after retiring from their position in the Holdings Company

Mr. Katsuya Doi

- August 2013 ~ August 2021: External auditor for Tsuruha Holdings
 - ~August 2022: Tsuruha Co. permanent time auditor
-

Mr. Jun Sakai

- 1995 ~ August 2021: External auditor for Tsuruha Holdings
- Current position: Tsuruha Co. auditor

Questions by Oasis

- There is a possibility that it is becoming the norm for outside directors to receive compensation as auditors/directors of the subsidiary Tsuruha Co., where there is no accountability and monitoring by shareholders, after they retire from their position in the Holding Company
- If this is correct, there is a structural incentive for the current outside directors to comply with the current management in order to gain a position at the subsidiaries after their retirement from their Holding Company role
- There may be some formal or informal agreements between the current outside directors and the current management to allow the control of the Company by the three founding families, in return for posts at the subsidiary following their retirement in their role at the parent company

Tsuruha's disclosure



- *“While financial returns to employees are important, they are not dependent on “increased profitability” and Oasis’s argument is an unfair accusation”*

Questions by Oasis

- While there are multiple perspectives on how to evaluate returns to workers in corporate management, one important concept is the labor share, which suggests that a certain percentage of the value created by a company should be allocated to its workers. Based on this concept, **workers' wages are directly tied to a Company's profitability**
- Oasis finds it hard to understand how the Company plans to increase wages for their workers without increasing profitability

Kusuri No Fukutaro's HQ and some stores are owned by the Ogawa family and rented to the company, further supporting Oasis's view that the company is under the Control of the Ogawa family



Building name	Shin Kamagaya F-Tower Building	N.A.	“ディア・ヴェルジュ”	“ムワトウール”
Address	2-8-17, Shin-kamagaya, Kamagaya-city, Kamagaya-city, Chiba	1-1-24, Hatsutomi-Honcho, Kamagaya-city, Chiba	1-18-5, Shin-kamagaya, Kamagaya-city, Chiba	1-16-1, Shin-kamagaya, Kamagaya-city, Chiba
Facility	Headquarters	Store [初富本町店]	Store [新鎌ヶ谷北口店]	Store [新鎌ヶ谷店]
Owner	Mr. Osamu Ogawa	Mr. Osamu Ogawa	Mr. Osamu Ogawa	Mr. Hisaya Ogawa

Source: land registries; Kusuri No Fukutaro website, Google maps

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Questions by Oasis

- Regarding the related party transactions involving the Ogawa family:
 - How do these series of transactions contribute to the enhancement of Tsuruha's corporate value?
 - Are these transactions being conducted under appropriate conditions?
 - Is the reinstatement of Mr. Ogawa as president at Kusuri no Fukutaro, where these kind of related party transactions are taking place, merely 12 months after his departure due to misconduct, not **clear evidence of the founding family's control**?
- **Oasis requests that all details, especially the conditions of, these related party transactions be disclosed for shareholders to evaluate their appropriateness**

Tsuruha disclosure regarding related party transactions

【関連当事者との取引】
前事業年度（自 平成15年5月16日 至 平成16年5月15日）
1. 役員および個人主要株主等

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	鶴羽 肇	—	—	当社代表 取締役	(被所有) 19.19%	—	—	不動産の賃借	1,200	—	—

(注) 1. 取引金額には、消費税等を含んでおります。
2. 取引条件および取引条件の決定方針
地代家賃の決定方法は、近隣相場を参考に決定しております。

Mr. Hajime Tsuruha

- In the past, the Company used to report related party transactions between Mr. Hajime Tsuruha and the Company. **Does the Company have any related party transactions with any of the founding families or any other management, other than those pointed out by Oasis regarding the Ogawa family?** If there are any related party transactions, how do they contribute to the enhancement of Tsuruha's corporate value? Are the transactions executed under fair terms?
- Oasis **requests that the Company discloses all related party transactions** outside of those of the Ogawa family, **and all details, especially the conditions of these related party transactions, be disclosed**

Communication with Tsuruha on shareholder proposal

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Summary: Oasis urges Tsuruha shareholders to stay informed and exercise caution against misleading and false disclosures by Tsuruha

- On June 21, 2023, Oasis launched the “Tsuruha Corp Gov” campaign highlighting governance concerns at Tsuruha. Through the campaign, we urge shareholders to support proposals that will strengthen the Company’s corporate governance, including the appointment of independent director candidates, to enhance its corporate value
- On July 7, 2023, Tsuruha’s Board of Directors announced it opposed all of Oasis’s shareholder proposals, stating that *“Oasis’s claims are misleading and an arbitrary manipulation of impression (image)”*
- **In fact, Oasis contends that Tsuruha’s “explanatory materials” are misleading and riddled with false claims to manipulate the views of its shareholders and wider stakeholders**
- Oasis maintains **its strong belief that the outside director candidates proposed by Oasis are better qualified, more independent, and more diverse compared to Tsuruha’s current outside directors. Oasis strongly urges shareholders to vote FOR the Oasis proposals.**

To fix the corporate governance failures at Tsuruha, Tsuruha needs new, highly qualified, truly independent, and diverse outside directors

Failures in corporate governance at Tsuruha

<p>Independence and capability of outside directors</p>	<ul style="list-style-type: none"> ▪ Non-independent outside directors, such as those who have longstanding relationships with the founding families, or those coming from former main banks ▪ Outside directors who lack key capabilities, such as retail experience, or lawyers whose expertise is not thought to be in corporate law
<p>Control by founding families</p>	<ul style="list-style-type: none"> ▪ Control of key positions by the founding families, at both the parent and subsidiary companies, and hindered appointment and utilization of non-founding family members ▪ Continued influence by the founding family members, who have not won the support of the shareholders of the parent Company, through director roles at subsidiaries, where there is no shareholder oversight ▪ Lack of synergies between subsidiaries due to the need to keep “kingdoms” for each founding family ▪ Multiple related party transactions
<p>Failure in business</p>	<ul style="list-style-type: none"> ▪ Low profitability, underperforming stock price, low valuation, low wage increases due to the above
<p>Misleading and false disclosures</p>	<ul style="list-style-type: none"> ▪ Multiple misleading and false disclosures

Proposed director candidates

<p>Company proposed outside directors</p> <p>Vote AGAINST incumbent outside directors</p>	<div data-bbox="1599 440 1732 562"></div> <p>Ms. Harumi Sato</p> <ul style="list-style-type: none"> ▪ Relationship with the Tsuruha family for more than ten years <hr/> <div data-bbox="1599 647 1732 769"></div> <p>Mr. Takuya Okazaki</p> <ul style="list-style-type: none"> ▪ Relationship with Mr. Jun Tsuruha, who has relationship spanning more than two decades with Tsuruha ▪ Expertise thought to be in bankruptcy trustees and traffic accidents, not corporate law <hr/> <div data-bbox="1599 853 1732 975"></div> <p>Mr. Fumiyo Fujii</p> <ul style="list-style-type: none"> ▪ From North Pacific Bank, the Company's former main bank ▪ False disclosures regarding relationship with North Pacific Bank ▪ Long tenure of eight years 	<div data-bbox="2399 440 2532 562"></div> <p>Ms. Wakana Tanaka</p> <hr/> <div data-bbox="2399 647 2532 769"></div> <p>Mr. Hiroshi Okuno</p> <ul style="list-style-type: none"> ▪ Believed to be nominated with the main purpose of filling vacant seats against Oasis's proposals ▪ Neither candidate has relevant retail experience
<p>Oasis proposed outside directors</p> <p>Vote FOR</p>	<div data-bbox="1599 1059 1732 1181"></div> <p>Mr. Motohiko Nakamura</p> <ul style="list-style-type: none"> ▪ Wide business and management experience in retail sector, such as at Circle K Sunkus and Uny group holdings <hr/> <div data-bbox="1599 1266 1732 1388"></div> <p>Mr. Muneto Tamagami</p> <ul style="list-style-type: none"> ▪ Wide business and management experience in retail sector, such as Nitori ▪ Expertise in finance and M&A from experience in banking and at Nitori <hr/> <div data-bbox="1599 1472 1732 1594"></div> <p>Ms. Akiko Ikeda</p> <ul style="list-style-type: none"> ▪ Wide business and management experience in retail and consumer sectors, such as Ito Yokado and multiple restaurant chains 	<div data-bbox="2399 1059 2532 1181"></div> <p>Mr. Nobuo Gohara</p> <ul style="list-style-type: none"> ▪ Japan's leading expert on compliance and crisis management, with deep knowledge on corporate governance <hr/> <div data-bbox="2399 1266 2532 1388"></div> <p>Ms. Yuko Nakahata</p> <ul style="list-style-type: none"> ▪ Business and management experience not only in Japan but also in South East Asia ▪ Substantial experience in ESG, through experience in ESG related business

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